

**STRICTLY CONFIDENTIAL**

**EXECUTIVE SUMMARY**

**SUBMISSION TO** : Section 80/Mayoral/Council

**DIVISION REQUESTING THE SUBMISSION** : Finance

**TITLE OF THE SUBMISSION**

**Midyear financial Report**

**1. PURPOSE**

The purpose of the report is to reflect the financial position of the Municipality for the midyear ending 31 December 2020.

**2. OBJECTIVE**

The objective of this report is to assist Council to exercise their oversight function to:

- a) Makes rational decisions about the allocation of resources;
- b) Assess the current provision of services, as well as the sustainability of future service delivery;
- c) Assess how officials have discharged their accountability responsibilities;
- d) Ensure transparency in respect of the municipality's financial position and operating results;
- e) Assess the performance of the municipality measured against preset targets and objectives;
- f) Inform Council on how cash and other liquid resources were obtained and utilized;
- g) Assess whether financial resources were administered in accordance with legislative and regulatory requirements; and
- h) Promote comparative information for prior periods and actual results against budgeted or planned results;

**3. LEGISLATIVE REQUIREMENTS:**

It is important for a municipality to report in order to comply with comprehensive legislative and contractual requirements, regulations, restriction and agreements. Effective financial reporting should therefore not only involve the presentation of bare financial facts but should also make provision for compliance issues, integration and interpretation. This will enable interested parties to readily comprehend the significant aspects of a municipality's financial operations.

#### **4. BACKGROUND**

**Section 72)(1)(a)(i)(ii)&(b) of the MFMA (Mid-year budget and performance assessment) states that:**

- (1) The accounting officer of a municipality must by 25 January of each year-
- (a) Assess the performance of the municipality during the first half of the financial year, taking into account:
    - (i) The monthly statements referred to in section 71 for the first half of the financial year;
    - (ii) The municipality's service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan
    - (iii) The past years annual report and progress on resolving problems identified in the annual report; and
    - (iv) the performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 from such entities; and
  - (b) Submit a report on such assessment to (i) the mayor; (ii) National Treasury; and Provincial Treasury.
- (2) The statement referred to in section 71(1) for the sixth month of a financial year may be incorporated into the report referred to in subsection (1)(b) of this section.
- (3) The accounting officer must, as part of the review-
- (a) Make recommendations as to whether an adjustments budget is necessary; and
  - (b) Recommend revised projections for revenue and expenditure to the extent that this may be necessary.

Financial reports are the primary means of communicating financial information to relevant stakeholders. These reports are made accessible to the Executive Managers for decision making and for them to take relevant actions if the report indicates poor spending or possible over expenditure on some votes. The report also gives the executive mayor and other political leaders information on the state of the municipality's finances in order to allow them to provide oversight.

The midyear report as at 31 DECEMBER 2020 is indicated in the different schedules as listed below.

#### **5. ATTACHMENTS:**

- Annex A – Midyear Finance report**
- Annex B – Salaries report
- Annex C – Bank reconciliation
- Annex D – Debtors age analysis
- Annex E – Creditors age analysis
- Annex F- Financial Performance
- Annex G – Capital Expenditure
- Annex H- Withdrawals report

#### **6. RECOMMENDATION**

That the midyear finance report for 2020/21 be noted.

## Annexure A

### EXECUTIVE SUMMARY

Item of Financial Position/ Performance	Actual figures ending 31 December 2020	Trend Analysis
<i>Current Assets</i>		
Debtors balance	R1,063,265,151	Increase of the debt book by a margin of R45m since the beginning of the 1 <sup>st</sup> quarter, the covid19 pandemic has further reduced the payment levels by all classes of consumers. Ntiyiso debt collection services are on the ground and credit control is ongoing in order to reduce the debt book of the municipality .
<u>Cash &amp; cash equivalents:</u>		
Current account balance	R 3,452,644.34	The call accounts comprise of both own funds as well as ring fenced grant funds. There were a lot of withdrawals made to the investment accounts due to the financial constraints that the municipality experienced in the first half of the financial year withdrawals of more than R60m were made in the first half of the financial year in order to cater for operational needs which are daily running expenses of the municipality as there was a material reduction in the municipality's consumers payment levels.
ABSA (call account balance)	R 39,413,493	
INVESTEC (Call account balance)	R 38,253,212	
<i>Current Liabilities</i>		
Creditors	R 6,952,368	At midyear, the municipality managed to pay all the bulk purchases on time and is thus current on the bulk accounts. However it must be noted that in the month of November 2020 the municipality struggled to make the rand water bulk payment on time due to reduced cashflow in the municipal coffers. This resulted in the municipality incurring fruitless and wasteful expenditure in the form of interest charged on the late payment of the rand water account. There were invoices

		amounting to R800k that were submitted late therefore were older than 30 days according to the invoice date but were paid within 30 days of receipt by the expenditure department.
<b>Actual Revenue and Expenditure</b>		
Operating Revenue	R 496,926,000	At midyear the operating revenue increased by a margin of R252m when compared to the 1 <sup>st</sup> quarter, the total operating revenue was 4% ahead of budget mainly because of the equitable share that was received in December and the property rates revenue that was also 4% ahead of budget as well as the water revenue that was 14% ahead of budget at the end of the 2 <sup>nd</sup> quarter.
Operating Expenditure	R 439,426,000	At midyear, the main expenditure items for the quarter were employee costs at R100.5m, bulk purchases at R168m and non-cash items i.e. debt impairment at R79m and depreciation at R19.9m. The R79m debt impairment represents billed revenue of which is unlikely to be recovered from the consumers due to the unwillingness or inability of the consumers to pay for consumed services. This amount also means that the municipality budget is reduced and thus the debt impairment figure directly impacts on the municipality's ability to implement effective service delivery.
Capital Expenditure	R 42,663,361	Capital expenditure was expected to be at the 40% benchmark by midyear as per National treasury guideline the actual % spending at midyear was 44% and procurement processes for other capital projects are at the final stages. The capex spending highlight is the fact that the MIG spending was recorded at 78% at midyear surpassing the benchmark by a margin of 34% this also means that municipality's MIG grant allocation will not be withheld due

		to poor spending.
Collection rate	83%	The total midyear collection rate amounts to 83%. The covid19 pandemic has really affected the municipality negatively as it resulted in all classes of consumers defaulting in the payments for services. The credit control policy has been amended to allow for soft credit control measures and also includes incentives for those consumers who continuously pay for their accounts such as having a % of their interest charges cut accordingly, credit control policy is being implemented, 3 <sup>rd</sup> party vending system has also been acquired on a pilot basis in order to make it easier and convenient for our customers to make payments towards their account and the debt collectors are on the ground with all these efforts it is expected that the collection rate will increase, the debt book will decrease and the cashflow of the municipality will increase.
<b>Distribution Losses</b>	<ul style="list-style-type: none"> <li>- At Quarter 2 Electricity losses were at 12.1% and water losses were at 25%.</li> <li>- At end of quarter 1 the electricity losses were at 40.8% and the water losses were at 35%</li> </ul>	The total midyear figures amounts to R26m in terms of electricity revenue losses due to theft and R1,3m in terms of water revenue losses due to theft, the only way to circumvent this is to conduct 100% of meter audits.

GRANTS RECONCILIATION FOR THE MONTH FOR 31 DECEMBER 2020										
Grant Funding	Main Allocation	Reversed Allocation	Opening Balance	Set Off Amount	Approved Roll-Over 19/20	20/21 Amount Received	Total received	Spent	Unspent	%Spent
Equitable Share	148 231 000.00	148 231 000.00	-	3 427 000.00	-	107 746 000.00	111 173 000.00	111 173 000.00	-	100%
COVID Equitable share Allocation	-	22 409 000.00				22 409 000.00	22 409 000.00	-	22 409 000.00	0%
MIG	26 249 000.00	26 249 000.00	6 737 525.45	2 400 460.24	4 337 064.76	12 030 000.00	16 367 065.21	12 777 662.71	3 589 402.50	78%
PMS	-	-	351 022.00	-	-	-	351 022.00	-	351 022.00	0%
INEP (Municipal)	19 000 000.00	15 000 000.00	91 880.96	91 880.96	-	15 000 000.00	15 000 000.00	15 000 000.00	-	100%
EPWP COGTA	500 000.00	500 000.00	-	-	-	500 000.00	500 000.00	306 487.72	193 512.28	61%
EPWP NT	1 367 000.00	1 367 000.00	-	-	-	957 000.00	957 000.00	737 422.94	219 577.06	77%
Cogta-Fire & Resue Services	-	-	6 000 000.00	-	5 538 524.00	-	6 000 000.00	-	6 000 000.00	0%
Libraries Plan grant	7 000 000.00	7 000 000.00	3 361 964.99	-	2 068 369.00	7 000 000.00	10 361 964.99	1 787 538.22	8 574 426.77	17%
Recapitalisation: Communication Library grant	10 000 000.00	8 800 000.00	6 803 277.20	-	4 300 000.00	8 800 000.00	15 603 277.20	2 348 112.43	13 255 164.77	15%
FMG	1 550 000.00	1 550 000.00	2 931.00	2 931.00	-	1 550 000.00	1 550 000.00	519 349.01	1 030 650.99	34%
Bontle ke Botho	-	-	26 043.29	-	26 043.29	-	26 043.29	-	26 043.29	0%
Water Services Infrastructure Grant	15 825 000.00	15 825 000.00	5 218 351.00	814 427.80	4 313 974.04	5 000 000.00	9 403 923.20	4 286 983.94	5 116 939.26	46%
Energy Efficiency and Demand Side Management Grant			117 300.00	117 300.00						0%
NLDTF - Lotto	-	-	1 327.96	-	1 327.96	-	1 327.96	-	1 327.96	0%
<b>GRAND TOTALS</b>	<b>229 722 000.00</b>	<b>246 931 000.00</b>	<b>28 711 623.85</b>	<b>0.00</b>	<b>20 585 303.05</b>	<b>180 992 000.00</b>	<b>209 703 623.85</b>	<b>148 936 556.97</b>	<b>60 767 066.88</b>	

## 6. DISCUSSIONS

The discussions below are broadly categorized under items of financial position (balance sheet), items of financial performance (income statement) and cash flow, as well as other information of key importance such as Asset Management and MFMA Compliance.

### 6.1 Financial Position

The balance sheet of Council is broadly distinguished into “Assets” (what Council owns) and “Liabilities” (what Council owes) as per Generally Accepted Accounting Principles (GRAP). The difference between assets and liabilities is referred to as the “Net Assets.”

a) Current Assets

*Debtors Management and Credit Control Status for the midyear ending 31 December 2020.*

At 31 December 2020, the debtor's book balance of the municipality as attached in annexure D is R 1,063,265,151.

The midyear collection rate performance amounted to 83% which is below the budgeted 85% this under collection may lead to the municipality having to adjust the budget in order to take into consideration the actual figures vs budgeted figures at midyear

Months	Collection %
July	77
August	82
September	74
October	119
November	73
December	70
<b>Total</b>	<b>83%</b>

As indicated above, credit control is continuously being implemented and the services of an accredited debt collection company has been acquired to assist in stabilizing the ever-increasing debt book. It is expected that these measures will assist in reducing the municipal debt book.

Debtors summary at midyear ending 31 December 2020:

Debtors Amounts owing 0-30 days	Debtors Amounts owing 31-60	Debtors Amounts owing 61-90	Debtors Amounts owing 91-120	Debtors Amounts owing 121-150	Debtors Amounts owing 151-180	Debtors Amounts owing 181-1 Yr	Debtors Amounts owing Over 1 Yr	Total Debtors amount
62,489,513	35,620,143	27,198,606	26,385,032	24,977,189	28,493,474	127,461,6683	739,756,857	1,063,265,151

b) Cash and cash Equivalents

Annexure "C" indicate the bank reconciliations at midyear ending December 2020 with the detail on the bank and cash book balances.

The Council has the following bank accounts:

- FNB Primary bank account
- ABSA bank account Current Bank account
- ABSA short term deposits account
- Investec short term deposits account

After allocation of payments by consumers, transfer is made from FNB account to ABSA account where the reconciliations are performed to the cash book which gives rise to the bank reconciliation report.

The current bank account shows a favorable balance of R3,143,102 as at 31 December 2020.

Total cash of the municipality in the current and short-term deposits accounts is made up as follows:

Total own funds	-	R19,574,179
Total grant funds	-	R60,767,067
SETA	-	R468,561

c) Current Liabilities

Creditor's Age Analysis

Annexure "E" represents the creditors' age analysis which indicates that at midyear ending 31 December 2020 the municipality had a total of R6,952,368 payable to the Trade creditors.

The municipality has maintained its "current" status for all bulk purchases such as ESKOM, Rand Water and ERWART.

There is an amount of R800k indicated as outstanding for longer than 30 days as a result of invoices being submitted late by user departments besides these all expenditure is paid within 30 days of receipt of invoice by the expenditure department.

Below is the summary of the Creditors Age Analysis at midyear ending 31 December 2020

Creditors owed for 0-30 days	Creditors owed for 31-60	Creditors owed for 61-90 days	Creditors owed for 91-120 days	Creditors owed for 121-150 days	Creditors owed for 151-180 days	Creditors owed for 181days - 1 Yr	Creditors owed for Over 1 Yr	Total
6,130,107	23,648	798,613	0	0	0	0	0	6,952,368

6.2 Financial Performance

Annexure F shows detailed financial performance.

Financial performance shows the results of operations for the given period. It lists sources of revenue and expenses. Surplus or deficit is used to measure financial performance and directly related to the measurement of revenue and expenditure for the reporting period.

Operating expenses are incurred in the course of conducting normal Council business. They are classified by function such as employee related costs, general expenses, finance charges and non cash items such as depreciation and debt impairment.

The total midyear actual revenue amounted to R496,925,556 while the year to date budget amounted to R479,995,000 resulting in the figures being ahead of budget by a margin of 4% and the total actual expenditure amounted to R439,425,738 against a year to date budget of R485,402,000 resulting in the figures being behind budget by a margin of 9% at midyear. the following are the main revenue and expenditure items at midyear.

a) Main Operating Revenue at midyear

- Electricity Revenue amounted to R165,887,000 while the year to date budget is R183,542,00 behind budget by 10% (the budget does not have to be adjusted as the figures will increase in the winter months)
- Water Revenue amounted to R74,116,000 while the year to date budget amounts to R64,991,000 this is due to the WSIG which is being used to replace old water infrastructure.
- Property rates revenue amounted to R70,638,000 against a year to date budget of R67,813,000 this is due to the valuation roll process which has increased the property rates revenue
- Grant income amounted to R130,636,000 against a year to date budget of R89m this is due to 2 tranches of equitable share as well as other grant allocations being paid to the municipality in the first half of the financial year.

b) Main Operating Expenditure at midyear

- Employee costs amounted to R100,542,000 against a year to date budget of R107,886,000 resulting in a saving of 7%.
- Bulk purchases amounted to R168,413,000 against a year to date budget amount of R181,653,000 this is not regarded as a saving as the electricity purchases will increase in the colder months of the year.
- Repairs and maintenance figures amounted to R9,117,000 against a year to date budget of R10,573,000 resulting in a variance of 14%
- Contracted services amounted to R33,442,000 against a year to date budget of R48,094,000 resulting in the figures being behind budget by a margin of 30%
- Debt impairment amounted to R79,178,000
- Depreciation amounted to R9,962,000

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6.2 Capital Expenditure at midyear ending 31 December 2020

Annexure "G" represents the capital projects of the municipality for the 2020/21 financial year.

At 31 December the capital expenditure incurred amounted to R42,663,361 which is 44% of the **total** capex budget. The MIG service providers have been appointed. The MIG capital expenditure exceeded the 40% expenditure benchmark set by National Treasury. The actual MIG expenditure at the end of December was 78% and exceeds the benchmark by a margin of 34%.

The INEP grant electrification project is currently under way, the WSIG as well as other Library grant projects are currently at the procurement stage.

A total of R8,542,468 year to date amount has been incurred for internally funded projects and a total of R34,120,892 has been spent year to date on grant capital expenditure.

a) Pro-Rata Operating Comparative Analysis (Budget vs. Actual) annexure F

The Total Performance of the municipality as per our findings and reviews are as follows:

- At midyear of the 2020/21 financial year, spending trends ought to be at 40% for capital expenditure and the actual percentage is 44% which reflects a positive variance of 4%.
- The revenue figures are 4% ahead of budget mainly due to water revenue, property rates revenue and the equitable share and other grants that were received in the first half of the financial year.
- The expenditure figures are 9% behind the pro rata budget. This figure will however increase with the implementation of the procurement plan. Intervention measures:
  - : The Supply Chain Management unit submits monthly procurement plan progress to the MM to monitor implementation of the budget.
  - : Cost Containment measures are still in place to cut down on unnecessary expenditure.

#### b) DBSA LOAN

The loans with DBSA were acquired in prior years between 2002 and 2004 in order to finance the purchase of municipal infrastructure. The municipality is required to pay an amount of R4,472,329 bi-annually in June and December for the duration of the loan agreements.

**At mid-year 2020/21 the total amount owing to DBSA amounted to R39m**