

14093

FINANCIAL REPORTING AS AT 30 JUNE 2020 (INTERIM)

*This report served before the Financial Services Portfolio Committee on 28 July 2020.
The recommendations were supported.*

PURPOSE

1. To submit to Council the financial position of the uMhlathuze Municipality for the quarter ended 30 June 2020 (interim results), as required in terms of the Municipal Finance Management Act, 2003 (Act No 56 of 2003). The monthly and quarterly requirements in terms of Section 71 and Section 52(d) respectively are also included in this report.
2. To disclose to Council the cost containment savings as required in terms of Regulation 15 of Municipal Cost Containment Regulations (MCCR).

IDP STRATEGY AND OBJECTIVES

NATIONAL KPA 5 : MUNICIPAL FINANCIAL VIABILITY AND MANAGEMENT		
GOALS	OBJECTIVES	STRATEGIES
5.1 Sound Financial and Supply Chain Management	5.1.1 Compliance with financial legislation and policies	5.1.1.1 GRAP compliance
		5.1.1.2 mSCOA compliant
		5.1.1.3 Review of all financial related policies
		5.1.1.4 Compliance with all MFMA and related local government financial legislation
	5.2.1 Sustainable Financial and supply chain Management	5.2.1.1 Provide continuous Internal Communication on Budget and Financial Management matters
		5.2.1.2 Asset Accounting Management
		5.2.1.3 Accurate and timeous billing and receipting of revenue
		5.2.1.4 Apply Adequate Internal controls
		5.2.1.5 Demand and acquisition management
		5.2.1.6 Contracts and Logistics management
		5.2.1.7 Apply adequate financial management methodologies

BACKGROUND

Section 71 of the Municipal Finance Management Act (MFMA), (Act 56 of 2003) prescribes certain conditions that need to be complied with in terms of the mentioned Act.

The Accounting Officer of the Municipality must report, by no later than 10 working days after the end of each month, to the Mayor and the relevant Provincial Treasury, a statement in the **prescribed format** on the state of the Municipality's budget.

Section 66 of the Municipal Finance Management Act further prescribes that all expenditure incurred by the Municipality on staff salaries, allowances and benefits be reported upon in a format and for the prescribed period. It is considered appropriate to report on this section of the Act on a monthly basis, to coincide with the reporting requirements of Section 71(1) of the Act.

Section 52 (d) of the Municipal Finance Management Act prescribes that the Mayor of a Municipality must within 30 days of the end of each quarter submit a report to Council on the implementation of the budget and the financial state of affairs of the Municipality.

The additional monthly reporting as required by Council is also included herein. The MFMA requires that the reporting of the budget (Annual, monthly, mid-year and adjustment) be in terms of a prescribed format.

As mentioned above, the MFMA Section 71 (1) refers to a prescribed format according to which the annual budget is required to be prepared. The National Treasury has issued MFMA Circular No 51 (**DMS 633560**) in which this prescribed format has been set out.

Furthermore, National Treasury has issued Municipal Budget and Reporting Regulations in terms of Government Gazette Number 32141 dated 17 April 2009. These regulations set out the manner in which Municipalities are required to prepare the 2010/2011 Budget as well as the in-year reporting effective from July 2010.

The objectives of the budget formats reforms in terms of these regulations are:

- ❖ To ensure that the municipal budget and financial reporting formats support the other financial management reforms introduced by the Municipal Finance Management Act (MFMA).
- ❖ To formalise the norms and standards governing municipal budget and financial reporting formats, so as to improve the credibility, sustainability, transparency, accuracy and reliability of budgets and in-year reports of Municipalities.
- ❖ To improve Council's ability to deliver basic services to all by addressing issues of financial sustainability.
- ❖ To facilitate informed policy choices by Council and medium term planning of service delivery by aligning targets to achieve backlog elimination.

The Minister of Finance has, in terms of Section 168 of the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003), and acting with the concurrence of the Minister of Cooperative Governance and Traditional Affairs issued the Municipal Regulations on Standard Chart of Accounts as set out in Government Gazette No 37577 (**DMS 974357**) dated 22 April 2014.

These Regulations apply to all Municipalities and Municipal entities and indicate its applicability and relevance to each specific Municipal environment while accommodating organisational uniqueness and structural differences. These regulations take effect on 1 July 2017.

The objective of these regulations is to provide for a national standard, uniform recording and classification of municipal budget and financial information at transactional level by prescribing a standard chart of accounts for municipalities.

Once these regulations are effective the financial reporting will be aligned (budget reporting and financial statements reporting). The regulations require that the financial system used by Municipalities must be compliant with the standard chart of accounts. This means that the financial systems of Municipalities must be capable to accurately record all financial transactions in terms of the required segments. The current financial system used by the Municipality does not provide for the recording of financial transactions as required by the regulations.

The implementation of these regulations requires that the Municipality must proactively procure a financial system solution that will be compliant with the standard chart of accounts. Of similar importance is the provision for training of responsible officials to ensure that they attend the trainings and workshops to be provided by National Treasury.

- ❖ In terms of Council Resolution 8901 dated 26 November 2013, Council was selected as a Pilot Site for the mSCOA implementation.

Section 1 of the MFMA defines the Service Delivery and Budget Implementation Plan (SDBIP) as:

“A detailed plan approved by the mayor of a municipality in terms of section 53(l)(c)(ii) for implementing the municipality's delivery of municipal services and its annual budget, and which must indicate:

- (a) *Projections for each month of:*
 - (i) *Revenue to be collected, by source; and*
 - (ii) *Operational and capital expenditure, by vote.*
- (b) *service delivery targets and performance indicators for each quarter.”*

The Service Delivery and Budget Implementation Plan (SDBIP) have been segmented into five components. These are:

- ❑ Component 1: Monthly projections of revenue (including capital grants) to be collected for each source **Annexure AA (DMS 1403322)**;
- ❑ Component 2: Monthly projections of expenditure (operating and capital) and revenue for each vote **Annexure AB (DMS 1403322)**;
- ❑ Component 3: Quarterly projections of service delivery targets and performance indicators for each vote **Annexure AC - AJ (DMS 1403322)**;
- ❑ Component 4: Ward information for expenditure and service delivery **Annexure AK and AL (DMS 1403322)**; and
- ❑ Component 5: Detailed capital works plan broken down by ward over three years **Annexure AM (DMS 1403322)**.

DISCUSSION

This report and the supporting schedules will be forwarded to National and Provincial Treasury as required in terms of Section 71 and Section 74 of the MFMA in both printed and electronic formats.

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PART 1 - IN-YEAR REPORTING

1. MAYORAL REPORT FOR THE MONTH OF JUNE 2020

In terms of the Budget Regulations, Part 1 in-year reporting, the Mayor is required to provide a report / comments on:

“(a) **a summary of whether the Municipality’s budget is being implemented in accordance with the service delivery and budget implementation plan and any service delivery agreements with municipal entities;**

The Mayor has considered the Section 71 report for the month of June 2020, and the performance of the Municipality against its budget is in line with the special adjusted budget that was approved by Council in June 2020 to address COVID 19 expenditure. A detail of all the points highlighted by the Mayor is included in the report.

Operational Budget

The monthly budget statement summary (Table C1) for the month of June 2020 (year to date actual) shows a surplus of R55,4 million. It has to be noted that in the surplus its revenue that has been billed but not yet collected. Debtors have increased and current collection rate (**see 3,7 debtors age analysis**) has decreased due to national lockdown caused by COVID-19 pandemic which made it difficult for consumers to pay their accounts. There has been an improvement in collection rate for the month of June 2020 due to the easing of lockdown and opening of municipal offices however it will take few more months before we reach the normal collection rate. See table below:

MONTHLY PAYMENT % (MONTH TO MONTH)			
SUBURBS	APRIL 20	MAY 2020	JUNE 2020
Vulindlela	22,37	10,94	117,88
Nseleni	25,81	13,87	89,96
Ngwelezane	64,29	49,10	70,36
Esikhaleni	71,43	54,83	123,34
Empangeni	72,94	70,91	156,91
Richards Bay	93,91	79,34	126,05

The performance in this area **will be monitored carefully however it's Acceptable.**

Capital Budget

Council is in the fourth quarter of the financial year and capital expenditure is fairly low at R348,8 million (56,43%). This is based on the Special Adjusted Capital Budget of R618,1 million. These are interim result which will change when all transaction for the year has been posted.

Due to the pandemic, municipality has not been able to execute projects as planned. This has led to reprioritisation of projects to cater for the current needs of the community during COVID-19 pandemic. Special adjusted budget was adopted by Council on 11 June 2020 which approved all reprioritised projects.

Cash Flow

In terms of Council's Adopted Working Capital Policy the objective is for Working Capital to be two (2) times the average monthly creditors of the municipality. This ratio currently sits at 2,27:1 (532 313/234 964). Therefore, the Municipality has a positive bank balance to defray its expenses. The performance in this area is **Acceptable**.

2. RESOLUTIONS

Refer to the recommendations contained in this report.

3. EXECUTIVE SUMMARY

This section deals with the financial status of the Municipality at executive level and highlights matters that are of particular importance from the Chief Financial Officer's perspective.

3.1 Operating Budget

The following table represents an executive summary for the financial period ended 30 June 2020:

DESCRIPTION	ADJUSTED BUDGET 2019/2020	ACTUAL JUNE 2020 (YTD)	% ADJUSTED BUDGET SPENT
	R	R	%
Revenue (Excluding Capital Grants)	3 209 306 400	3 088 077 776	96,22%
Expenditure	3 326 646 700	3 032 645 330	91,16%
Surplus/(Deficit) (Excluding Capital Grants)	(117 340 300)	55 432 446	

3.2 Cash Flow Situation

Council's Working Capital Policy:

In terms of Council's Adopted Working Capital Policy the objective is for Working Capital to be two (2) times the average monthly creditors of the municipality. This ratio currently sits at 2,27:1 (532 313/234 964).

3.3 Grants Balances

DESCRIPTION OF GRANT	ADJUSTED GRANTS BUDGET 2019/20	AMOUNT RECEIVED AS AT 30 JUNE 2020	DIFFERENCE	ACTUAL EXPENDITURE AS AT 30/06/2020	% SPENT	COMMENTS
NATIONAL TREASURY						
Equitable Share	362 965 000	362 965 000	-	362 965 000	100%	In terms of the Constitution, this allocation is to provide for an equitable sharing of National Revenue. It is primarily for the provision of Basic Services.
Intergrated Urban Development Grant-IUDG	139 988 000	139 988 000	-	114 867 065	82%	This expenditure is as per report submitted to COGTA. An amount of R7 186 012 will be release to National Treasury to assist with the fight for Covid 19 pandemic .
Financial Management Grant	2 650 000	2 650 000	-	1 469 989	55%	Spending is in accordance with the support plan submitted to National Treasury for the grant. A lot of expenditure will happen at the last quarter of this financial year.
Water services infrastructure grant	40 000 000	5 000 000	35 000 000	12 360 081	31%	An amount of R 15 000 000 will not be transferred to the Municipality as per adjustment gazette 43180 dated 30 March 2020 Stopping and reallocation of funds.
Extended Public Works Pogramme	4 492 000	4 492 000	-	4 492 000	100%	The grant is for the operatonal expenditure for EPWP.
MUNICIPAL DISATER RELIEF GRANT(COVID 19)	1 192 000	1 192 000		1 736 241	146%	The Grant is used to fund expenditure for the provision of affected basic services inurred during the covid 19 pandemic
Municipal System Improvement Grant	600 000	-	600 000	-	0%	The grant is to support the Re-dermacated municipalities on transition matters.
TOTAL NATIONAL TREASURY GRANTS	551 887 000	516 287 000	35 600 000	497 890 376	90%	

DESCRIPTION OF GRANT	ADJUSTED GRANTS BUDGET 2019/20	AMOUNT RECEIVED AS AT 30 JUNE 2020	DIFFERENCE	ACTUAL EXPENDITURE AS AT 30/06/2020	% SPENT	COMMENTS
PROVINCIAL TREASURY						
Provincialisation of Libraries	8 689 000	8 689 000	-	22 945 716	264%	Expenditure shown is the total operating cost of the Libraries for the period.
Community Library Services Grant (Cyber cadets)	2 283 000	1 688 000	595 000	1 592 074	70%	Expenditure shown is the total operating cost of the Cybercadets for the period. The payment received is per the MOA signed. The shortfall was accounted for in the adjusted budget.
Housing Operating Account	2 396 000	-	2 396 000	15 163 429	633%	Expenditure shown is the total operating cost of the Human Settlements Section excluding Hostel Operating costs.
Museum Subsidy	202 000	202 000	-	3 144 976	1557%	Expenditure shown is the total operating cost of the Museum incurred to date.
Sports and Recreation-Capital	8 243 000	8 243 000		2 280 945	28%	Sports and Recreation - Provincial Allocation for Construction of Fitness Centre at Esikhaleni
TOTAL PROVINCIAL TREASURY GRANTS	21 813 000	18 822 000	2 991 000	45 127 139	207%	
TOTAL GRANTS AND SUBSIDIES	573 700 000	535 109 000	38 591 000	543 017 515	95%	

3.4 Capital Budget Summary

The table below represents interim Capital Expenditure incurred as at 30 June 2020. Expenditure is expected to increase when all year end transactions has been recorded:

FUNCTION	ADJUSTED BUDGET 2019/2020	ACTUAL JUNE 2020 (YTD)	% OF ADJUSTED BUDGET SPENT
	R	R	%
Finance and Administration	70 292 500	28 831 268	41,02%
Community and Social Services	48 351 200	21 266 438	43,98%
Energy Sources	71 654 300	51 479 251	71,84%
Environmental Protection	1 675 000	-	0,00%
Housing	6 339 900	-	0,00%
Planning and Development	5 615 300	1 828 869	32,57%
Public Safety	420 900	19 256	4,57%
Road Transport	127 363 900	92 878 223	72,92%
Sport and Recreation	33 323 500	4 996 048	14,99%
Waste Management	3 600 000	1 821 500	50,60%
Waste Water Management	65 429 200	53 411 946	81,63%
Water	184 081 100	92 308 043	50,15%
	618 146 800	348 840 842	56,43%

The total adopted Capital Budget funding structure is as follows:

SOURCE OF FUNDING	ADJUSTED BUDGET 2019/2020	ACTUAL JUNE 2020 (YTD)	% OF ADJUSTED BUDGET SPENT
	R	R	%
Borrowing	50 608 500	30 433 579	60,14%
Capital Replacement Reserve	396 244 300	208 748 149	52,68%
Integrated Urban Development Grant	122 989 000	91 621 468	74,50%
Government Grants - National	40 062 000	15 756 701	39,33%
Government Grants - Provincial	8 243 000	2 280 945	27,67%
TOTAL	618 146 800	348 840 842	56,43%

3.5 Expenditure per Category

EXPENDITURE BY TYPE	ADJUSTED BUDGET 2019/2020	ACTUAL JUNE 2020 (YTD)	% ADJUSTED BUDGET SPENT
	R	R	%
Employee related costs	860 601 600	817 022 817	94,94%
Remuneration of Councillors	32 403 900	31 480 515	97,15%
Debt Impairment	31 453 900	31 453 900	100,00%
Depreciation and asset impairment	441 378 600	443 967 918	100,59%
Finance Charges	67 458 000	61 338 455	90,93%
Bulk Purchases - Electricity	990 263 100	936 458 396	94,57%
Bulk Purchases - Water	103 685 500	95 682 313	92,28%
Other Materials	120 699 800	71 755 319	59,45%
Contracted Services	371 026 900	297 583 101	80,21%
Transfers and grants	16 249 500	13 276 160	81,70%
Other Expenditure	291 425 900	232 626 435	79,82%
TOTAL	3 326 646 700	3 032 645 330	91,16%

The above table represents interim operating expenditure per category as at 30 June 2020. Expenditure is expected to increase when all 2019/20 financial year transactions and adjustments has been finalised. Final report will be sent to council with AFS.

It is important to note that as at 22 July 2020 expenditure amounting to R 47m has already been expensed in the General Ledger that relates to the 2019/20 financial year but is not reflected in the figures above.

3.6 Revenue by Source

The source of funding for the above comprises the following revenue categories:

REVENUE BY SOURCE	ADJUSTED BUDGET 2019/2020	ACTUAL JUNE 2020 (YTD)	% ADJUSTED BUDGET SPENT
	R	R	%
Rates	510 226 700	508 159 118	99,59%
Service Charges – Electricity revenue	1 571 924 400	1 417 313 252	90,16%
Service Charges – Water revenue	388 298 900	480 781 909	123,82%
Service Charges – Refuse revenue	105 568 000	101 606 923	96,25%
Service Charges – Sanitation revenue	110 768 300	94 066 005	84,92%
Rental of facilities and equipment	10 642 300	7 174 917	67,42%
Interest earned – external investments	58 000 000	40 369 410	69,60%
Interest earned – outstanding debtors	108 700	153 447	141,17%
Fines	7 480 600	13 696 512	183,09%
Licences and permits	3 406 700	2 634 500	77,33%
Agency services	5 970 400	5 660 351	94,81%
Operating Grants and Subsidies	401 211 000	373 544 000	93,10%
Other Revenue	35 700 400	42 917 432	120,22%
TOTAL REVENUE (EXCLUDING CAPITAL GRANTS)	3 209 306 400	3 088 077 776	96,22%

The above table represents operating revenue by source as at 30 June 2020.

Service Charges - Water revenue - variance is due to water adjustment that was done on Mhlathuze Water board account, which was for R44 million. This is the overcharge from levies that Council had to recover from Mhlathuze Water board. There was also a slight increase in consumption which contributed positively to this variance.

3.7 Debtors Age Analysis

➤ Debtors Age Analysis by Category

DEBTORS AGE ANALYSIS BY CATEGORY	0-30 DAYS	31-60 DAYS	61-90 DAYS	OVER 90 DAYS	TOTAL
Government	12 986 768	1 283 746	689 023	8 698 165	23 657 702
Business	236 168 625	25 314 928	18 329 105	157 137 774	436 950 432
Households	60 570 015	9 332 616	9 678 317	154 477 708	234 058 656
Other	5 707 685	302 137	913 889	11 391 967	18 315 678
Total	315 433 093	36 233 427	29 610 334	331 705 614	712 982 468
%	44,24%	5,08%	4,15%	46,52%	

FINANCIAL REPORTING ON INCOME / DEBT

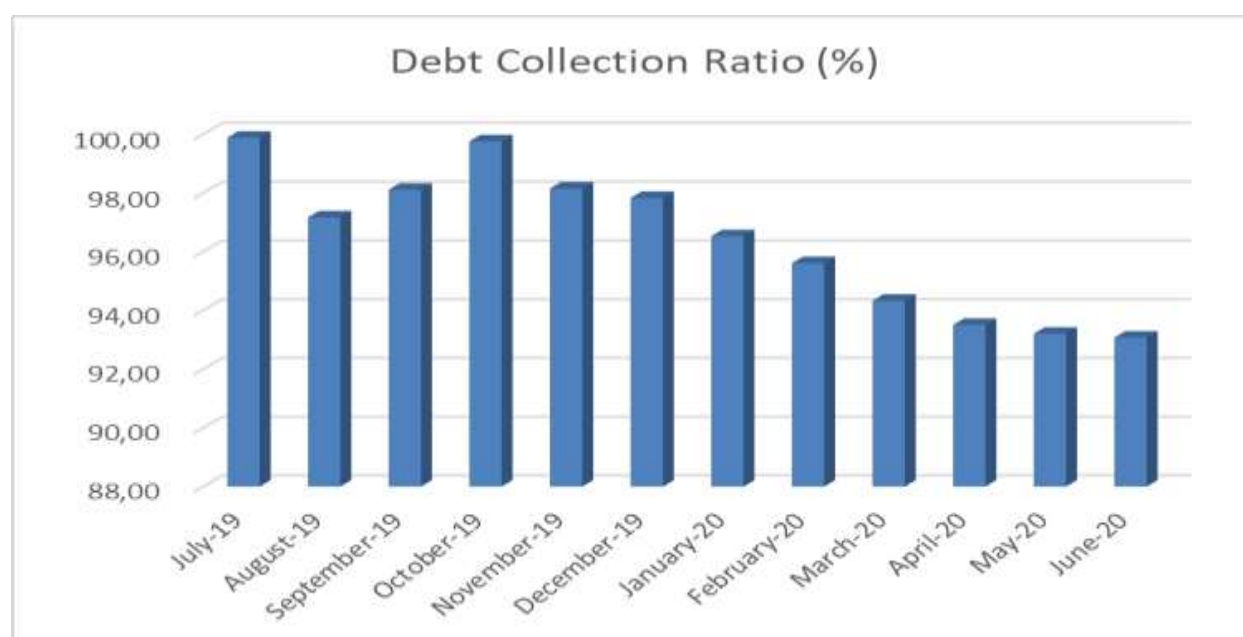
Section 216 (1)(c) of the Constitution and section 2 of the Municipal Finance Management Act (MFMA) enable National Treasury to introduce uniform treasury norms and standards to ensure sound and sustainable management of fiscal and financial affairs of municipalities and municipal entities. The National Treasury determined the formulas for every financial ratio in terms of Circular 71. These formulas will therefore be used in the reporting.

➤ **Debt Collection Rate**

The Ratio indicates the collection rate; *i.e.* level of payments. It measures increases or decreases in Debtors relative to annual billed revenue. The following formula and norm is included in the circular:

Formula (As per circular 71)	Norm
Gross Debtors Opening Balance + Billed Revenue - Gross Debtors Closing Balance - Bad Debts Written Off) / Billed Revenue x 100	The norm is 95%

Month	Debt Collection Ratio (%)
June-20	93,08
May-20	93,21
April-20	93,51
March-20	94,33
February-20	95,61
January-20	96,53
December-19	97,83
November-19	98,15
October-19	99,76
September-19	98,11
August-19	97,17
July-19	99,88



➤ **Net Debtors Days**

This ratio reflects the collection period. Net Debtor Days refers to the average number of days required for a Municipality or Municipal Entity to receive payment from its Consumers for bills/invoices issued to them for services.

The Ratio exclude balances for Debtors, which the Municipality or Municipal Entity has assessed as potentially irrecoverable, and is also a good indication of the effectiveness of credit control procedures within the Municipality as well as the extent to which the Municipality has provided for doubtful Debts:

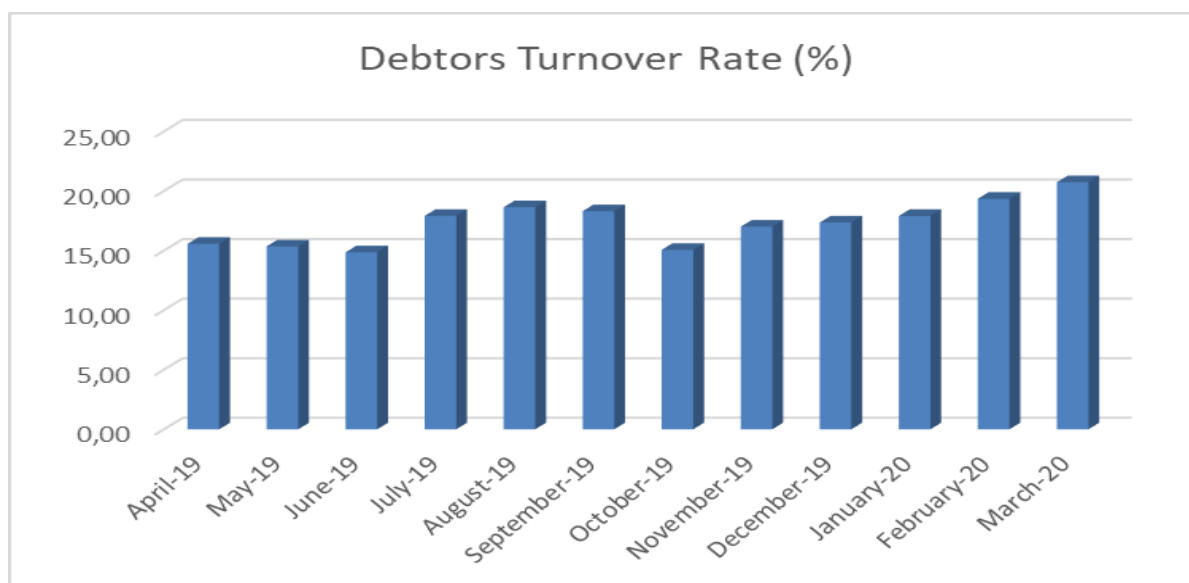
Formula (As per circular 71)	Norm
$((\text{Gross Debtors} - \text{Bad Debt Provision}) / \text{Billed Revenue}) \times 365$	The norm is 30 Days

Month	Net Debtor Days
June-20	71,77
May-20	73,63
April-20	71,71
March-20	67,88
February-20	63,87
January-20	59,28
December-19	58,14
November-19	57,17
October-19	50,55
September-19	61,71
August-19	62,60
July-19	61,69



➤ **Debtors Turnover Rate**

Month	Debtors Turnover Rate (%)
June-20	22,11
May-20	23,08
April-20	22,03
March-20	20,74
February-20	19,35
January-20	17,91
December-19	17,36
November-19	17,01
October-19	15,06
September-19	18,31
August-19	18,64
July-19	17,92



➤ **Top Ten Business Debts**

TOP 10 DEBTORS							
Debtor No	Name	Date	0-30 days	31-60 days	61-90 days	Over 90 days	Grand Total
531788	Mhlathuze Water Board	August 2019	430	215	215	51 233 003	51 233 863
501543	King Cetshwayo District Municipality	March 2018	7 152 682	7 048 027	6 861 662	22 389 446	43 451 817
1854904	Basfour 3721 (Pty) Ltd	December 2011	-	-	-	22 377 590	22 377 590
1088329	King Cetshwayo District Municipality	March 2018	5 541 136	5 299 897	5 259 583	19 396 357	35 496 973
1675831	King Cetshwayo District Municipality	March 2018	1 306 784	837 885	470 939	10 068 883	12 684 490
551583	King Cetshwayo District Municipality	March 2018	1 309 078	1 135 799	1 518 295	8 232 126	12 195 298
2289941	Panda Petroleums	September 2015	808	945	857	5 027 802	5 030 413
416383	River Rock Investments (Pty) Ltd	June 2009	65 936	65 936	65 936	3 160 943	3 358 753
1632348	King Cetshwayo District Municipality	March 2018	378 190	426 598	396 141	3 060 257	4 261 187
392020	River Rock Investments (Pty) Ltd	June 2009	158 577	157 114	208 533	1 759 153	2 283 376
TOTAL			15 913 622	14 972 416	14 782 162	146 705 560	192 373 759

Mhlathuze Water Board

The administration around this legal process is managed by the Finance Department. The debt relates to an overcharge of the Department of Water and Sanitation (DWS) abstraction levies by Mhlathuze Water. The same levies were paid directly by Council to the DWS. There has been several correspondences and meetings held in this regard. Mhlathuze Water requested extension until end February to review the charges.

Update: June 2020

No further correspondence or any payments were received. Credit Control action will follow after the lockdown.

Basfour 3721 (Pty) Ltd

The administration around this legal process is managed by the Finance Department.

Basfour 3721 (Pty) Ltd / Indlovu Dev Trust Trustees is the account for the commission in respect of the 40% on sales above the agreed threshold in respect of the Golf Estate.

The developer disputed the account. The dispute is of a contractual nature. The account was handed over to Council's attorneys. Summons was issued and the case was defended.

The setting down of the court date by the Registrar of the High Court for the claim is still awaited.

The advocate has provided a summary of the pre-trial processes that must now be completed. It includes several consultations with the relevant officials and witnesses.

Update: June 2020.

A report has been completed that will serve shortly to propose a way forward.

Panda Petroleum

This debt is in respect of rental of town land in respect of the proposed truck stop in Alton. The debtor's failure to adhere to the agreement was been reported to the DMM City Development, Property Division to give the debtor notice in terms of the agreement.

The debtor's account was handed over to Council's attorneys for collection but the file was pended under request from the legal section who advised that they will be dealing with the matter. Legal Services (Litigation sub-section) advised that it is their view that collection proceedings should proceed.

It was confirmed that the agreement between Council and Panda Petroleum was terminated on 12 October 2017 (DMS 1234550). Subsequent to the termination, Panda Petroleum requested Council to consider amendment of the lease agreement. This request was considered to be out of time.

Update: June 2020

There are negotiations underway with the debtor to settle the matter.

River Rock Investments

There are 2 accounts for River Rock Investments. The debt relates to:

- An account for rates that are levied in respect of the Caravan Park while the contract provides that the rental includes the rates.
- An account for rental in respect of the area being used by Imvubu Lodge. They are paying a portion on the rental and have declared a dispute in terms of the provisions of the contract several years back and requested that the matter referred for arbitration. River Rock are paying their monthly charges, excluding the disputed charge.
- Additional dispute relates to the cancellation of their lease agreement.

Legal Services advised that on 9 January 2018, River Rock Investments served the municipality with a summons wherein they are disputing that the lease expired on 31 May 2017 and the lease is on a month-to-month period until such time that the lease is allocated to another party. The contract made provision that it be renewed at least 12 calendar months prior to the termination date and River Rock failed to exercise that option. It has been advised that the debtor's application for the re-instatement of the lease over the Imvubu lodge area was unsuccessful in the High Court.

Update: June 2020

The dispute process regarding the lease amount and the rates being charges is continuing.

King Cetshwayo District Municipality

The accounts relates to a dispute lodged by KCDM regarding the drought water tariff being charged.

Update: June 2020

A separate report will be submitted in this regard.

Government Debt

Government Departments - Summary of ALL Debt									
Government DepartmentS	0-30 Days	31-60 Days	61-90 Days	91 - 120 Days	121 - 150 Days	151 -180 Days	181 Days-1 Year	Over 1 Year	Total
National	9 188 008	354 062	317 639	262 413	623 325	199 009	448 563	1 777 532	13 170 551
Provincial	4 812 030	1 412 415	870 636	691 101	116 389	113 661	1 671 515	3 661 174	13 348 921
Government accounts in Dispute	-	-	-	-	-	-	674 812	2 017 004	2 691 816
National Departments	0-30 Days	31-60 Days	61-90 Days	91 - 120 Days	121 - 150 Days	151 -180 Days	181 Days-1 Year	Over 1 Year	Total
Public Works	8 995 124	225 005	196 594	148 854	142 425	80 642	371 549	1 693 866	11 854 059
Rural Development & land Reform	-33 578	-	-	-8 395	351 826	-	-7 399	83 666	386 120
Department of Water Affairs and Sanitation	226 462	129 057	121 045	121 954	129 074	118 367	84 412		930 373
Provincial Departments	0-30 Days	31-60 Days	61-90 Days	91 - 120 Days	121 - 150 Days	151 -180 Days	181 Days-1 Year	Over 1 Year	Total
Public Works	-20 463	25 156	19 259	20 910	2 500	2 445	695 432	638 818	1 384 057
Education	1 296 297	1 042 773	699 210	409 156	82 220	65 008	145 140	319 976	4 059 780
Human Settlement	87 124	45 015	22 532	11 074	6 389	5 928	231 615	1 001 966	1 411 643
Department of Transport	191 111	46 206	4 863	4 846	4 235	4 805	49 613	109 230	414 909
Department of Health	3 138 043	248 227	124 766	245 110	21 039	35 381	549 339	1 590 526	5 952 433
Department of Social Welfare	111 599	5 040	-	-					116 639
Department of Agriculture	8 319	-	5	5	5	93	377	658	9 462
Other Organs of State	0-30 Days	31-60 Days	61-90 Days	91 - 120 Days	121 - 150 Days	151 -180 Days	181 Days-1 Year	Over 1 Year	Total
Transnet	5 978 785	299 494	215 260	173 701	6 545	160 610	855 942	308 532	7 998 871
ESKOM	174 479	40 905	45 007	36 516	34 833	2 766	55 794	51 592	441 893
Ingonyama Trust Board	-1	-	-	-	-	50	1 528 235	5 285 808	6 814 092
Telkom	588 583	1 076	-	-	-	-	-	-	589 659
Foskor	26 927 126	12 054	313 570	417 911	-	-	-	-	27 670 661
SA Post Office	4 539	2 889	2 908	2 899	2 933	2 897	17 461	51 008	87 535
Richards Bay IDZ	1 335 634	-	-	-	-77	-	-	-	1 335 557
Mhlathuze Water Board	215	215	215	215	215	215	215	51 232 357	51 233 863

Government Debt Comments

The main issues on Government Debt remain the lack of available budget to the relevant government departments. The debt owing by government departments appear to be a long term issue that will require constant monitoring and intervention.

A dedicated team of officials are working on the government debt to ensure that the debt remain as low as practically possible.

The matter is ongoing.

3.8 Employee Debt / Councillor Debt

At a previous Financial Services Portfolio Committee meeting, Councillors requested that Officials' and Councillors' debt be submitted to Council.

Employees' debt amounts to R385 798,93 as per **Annexure AL - DMS 1403322**.

Councillors' debt amounts to R160 867,80 as per **Annexure AM - DMS 1403322**.

3.9 Outstanding Creditors

At a previous Financial Services Portfolio Committee meeting, Councillors requested that creditors greater than R100 000 outstanding for 90 days and longer be submitted to Council:

Nil

4. EXCEPTION REPORTING

4.1 PROCEEDS FROM LAND SALES

As required in terms of the Chief Financial Officer's Performance Plan (**DMS 1308528**), the following progress on land sales that have been prepared by the Department: City Development and approved by Council for sale, the process followed by the Department Financial Services be noted:

Nil

4.2 COST CONTAINMENT POLICY

The implementation of Municipal Cost Containment Regulations (MCCR) was effective from 01 July 2019. Due to COVID 19 the Draft cost containment policy (**DMS 1407523**) has not been approved by Council however the policy has been endorsed by Acting Municipal Manager and the Chief Financial Officer.

COST CONTAINMENT ANNUAL REPORT			
COST CONTAINMENT MEASURES	ADJUSTED BUDGET 2019/20	YEAR TO DATE EXPENDITURE	SAVINGS
Consultants	49 957 800	21 751 416	28 206 384
Vehicles use for office-bearers	456 800	311 330	145 470
Travel and Subsistence	1 911 100	814 658	1 096 442
Domestic Accomodation	2 219 400	1 434 349	785 051
Domestic Air Transport	1 239 300	511 134	728 166
Domestic Car Rental	887 500	298 614	588 886
Grants in Aid - Sponsorship	15 538 900	12 846 851	2 692 049
Events and Catering	11 518 100	8 807 520	2 710 580
Communication	2 934 500	1 507 458	1 427 042
TOTAL	86 663 400	48 283 331	38 380 069

5. IN-YEAR BUDGET STATEMENT TABLES

The following monthly budget statement tables (**DMS 1411044**) respectively have been prepared in accordance with the Municipal Budgeting and Reporting Regulations:

TABLE NUMBER	DESCRIPTION	ANNEX
Table C1	Monthly Budget Statement Summary	A
Table C2	Monthly Budget Financial Performance (Standard Classification)	B
Table C2C	Monthly Budget Financial Performance (Detail) (Standard Classification)	C
Table C3	Monthly Budget Financial Performance (Revenue and Expenditure by Municipal Vote)	D
Table C3C	Monthly Budget Financial Performance (Detail) (Revenue and Expenditure by Municipal Vote)	E
Table C4	Monthly Budget Financial Performance (Revenue by source and Expenditure by Item)	F
Table C5	Monthly Budgeted Capital Expenditure Budget by vote, standard classification and funding	G
Table C5C	Monthly Budgeted Capital Expenditure Budget by vote, standard classification and funding	H
Table C6	Monthly Budgeted Financial Position	I
Table C7	Monthly Budgeted Cash Flows	J
Table SC1	Material variance explanations	K
Table SC2	Monthly Performance indicators	L
Table SC3	Aged Debtors	M
Table SC4	Aged Creditors	N
Table SC5	Investment Portfolio	O
Table SC6	Transfers and grant receipts	P
Table SC7(1)	Transfers and grant expenditure	Q
Table SC7(2)	Expenditure Against Approved Rollovers	R
Table SC8	Councillor and Staff Benefits	S
Table SC9	Monthly actuals and revised targets for cash receipts (cash flow)	T
Table SC12	Monthly capital expenditure trend	U
Table SC13a	Monthly capital expenditure on new assets by asset class	V
Table SC13b	Monthly capital expenditure on the renewal of existing assets by asset class	W
Table SC13c	Monthly repairs and maintenance expenditure by asset class	X
Table SC13d	Monthly depreciation by asset class	Y

PART 2 - SUPPORTING DOCUMENTATION

6. SUPPLY CHAIN MANAGEMENT POLICY

The report will be sent separate due to unavailability of information.

PART 3 - SUPPORTING DOCUMENTATION

7. DEBTORS ANALYSIS

Refer to supporting table SC3 - Aged Debtors (**Annexure M**) for the month ended 30 June 2020.

8. CREDITORS ANALYSIS

Refer to supporting table SC4 - Aged Creditors (**Annexure N**) for the month ended 30 June 2020.

9. INVESTMENT PORTFOLIO ANALYSIS

Refer to supporting table SC5 - Investment portfolio (**Annexure O**) for the month ended 30 June 2020.

10. ALLOCATION AND GRANT RECEIPTS AND EXPENDITURE

Refer to supporting table SC6 - Transfers and grant receipts (**Annexure P**) and supporting table SC7 - transfers and grant expenditure (**Annexure Q**) for the month ended 30 June 2020.

11. COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS

Refer to supporting table SC8 - Councillor and staff benefits (**Annexure R**) for the month ended 30 June 2020.

12. MATERIAL VARIANCES TO THE SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN (SDBIP COMPONENT 5 SUMMARISED)

The first quarter progress on the quarterly projections of Service Delivery Targets and performance indicators is indicated on **Annexures AK**.

Although the detailed Component 5 **is attached as Annexure AK**, the tables below depict a summary of the most applicable components thereof.

NB: (Please note when looking at the detailed version of Component 5 **attached as Annexure AK** each vote is illustrated in number order on the extreme left, vote detail of which is illustrated over 3 pages):

DEPARTMENT	ADJUSTED BUDGET 2019/20	VIREMENTS	VIREMENTS LERP	SYSTEM BUDGET	ACTUAL YTD AT 31/03/2020	PERCENTAGE SPENT OF ADJUSTED BUDGET (SYSTEM)
DEPUTY MUNICIPAL MANAGER: CITY DEVELOPMENT	38 530 400	-	5 213 300	43 743 700	12 481 990	29%
CITY DEVELOPMENT	38 530 400	-	5 213 300	43 743 700	12 481 990	29%
DEPUTY MUNICIPAL MANAGER: COMMUNITY SERVICES	53 038 100	(40 000)	(170 100)	56 188 000	16 844 977	30%
COMMUNITY SERVICES - HEALTH AND PUBLIC SAFETY	9 430 500	(40 000)	-	9 390 500	3 944 912	42%
COMMUNITY SERVICES - RECREATION AND ENVIRONMENTAL SERVICES	43 085 700	-	(170 100)	46 275 600	12 864 110	28%
COMMUNITY SERVICES - PROTECTION SERVICES	521 900	-	-	521 900	35 956	7%
DEPUTY MUNICIPAL MANAGER: CORPORATE SERVICES	16 223 900	40 000	(2 019 000)	14 244 900	5 519 638	39%
CORPORATE SERVICES - ADMINISTRATION	8 811 900	-	(2 003 000)	6 808 900	3 542 344	52%
CORPORATE SERVICES - ICT	7 317 000	40 000	-	7 357 000	1 977 294	27%
CORPORATE SERVICES - HUMAN RESOURCES	95 000	-	(16 000)	79 000	-	0%
CHIEF FINANCIAL OFFICER	24 317 200	-	(200 000)	24 117 200	22 257 868	92%
FINANCIAL SERVICES	24 317 200	-	(200 000)	24 117 200	22 257 868	92%
DEPUTY MUNICIPAL MANAGER: ELECTRICAL AND ENERGY SERVICES	101 374 800	-	(1 523 400)	99 851 400	58 206 738	58%
ELECTRICAL SUPPLY SERVICES	101 374 800	-	(1 523 400)	99 851 400	58 206 738	58%
DEPUTY MUNICIPAL MANAGER: INFRASTRUCTURE SERVICES	381 302 400	-	(1 300 800)	380 001 600	233 529 630	61%
ENGINEERING SUPPORT SERVICES	99 951 100	-	-	99 951 100	91 424 894	91%
TRANSPORT, ROADS AND STORMWATER	101 651 300	-	(436 400)	101 214 900	67 503 276	67%
WATER AND SANITATION	179 700 000	-	(864 400)	178 835 600	74 601 460	42%
OFFICE OF THE MUNICIPAL MANAGER	-	-	-	-	-	0%
TOTAL OFFICE OF THE MUNICIPAL MANAGER	-	-	-	-	-	0%
TOTAL CAPITAL BUDGET	614 786 800	-	-	618 146 800	348 840 841	56%

13. **CAPITAL PROGRAMME PERFORMANCE**

Refer to the following tables for the month ended 30 June 2020:

- Table C5 - Monthly Budgeted Capital Expenditure Budget by vote, standard classification and funding (**Annexure G**).
- Table C5C - Monthly Budgeted Capital Expenditure Budget by vote, standard classification and funding (**Annexure H**).
- Table SC12 - Monthly capital expenditure trend (**Annexure U**).
- Table SC13A - Monthly capital expenditure on new assets by asset class (**Annexure V**).
- Table SC13B - Monthly capital expenditure on the renewal of existing assets by asset class (**Annexure W**).
- Table SC13C - Monthly repairs and maintenance expenditure by asset class (**Annexure X**).
- Table SC13D - Monthly depreciation by asset class (**Annexure Y**).

14. **MUNICIPAL MANAGER'S QUALITY CERTIFICATION**

Refer to **DMS 1412488 (Annexure AQ)**.

PART 4 - OTHER LEGISLATION REQUIREMENTS

15. **WITHDRAWALS FROM MUNICIPAL BANK ACCOUNTS**

In accordance with Section 11(4) of the Municipal Finance Management Act 2003 (No 56 of 2003) the Accounting Officer must within 30 days after the end of each quarter table a consolidated report of all withdrawals made in terms of Sub-section (1) (b) to (j) during that quarter and submit a copy of the report to the relevant Provincial Treasury and the Auditor-General. Refer to **Annexure AP (DMS 1403322)** for Form D.

“Withdrawals from municipal bank accounts-

“(a) to defray expenditure authorised in terms of Section 26(4).”

None

“(b) to defray unforeseeable and unavoidable expenditure authorised in terms of Section 29(1).” See table below.

None

(c) in the case of a bank account opened in terms of Section 12 to make payments from the account in accordance with Sub-section (4) of that section.”

None

“(d) to pay over to a person or organ of state money received by the municipality on behalf of that person or organ of state:”

R Nil (NPA vehicle licence pay over).

“(e) to refund money incorrectly paid into a bank account.”

Nil

“(f) to refund guarantees sureties and security deposits.”

R495 590,03 (Refund of credit balances and deposits debtors accounts).

“(g) for cash management and investment purposes in accordance with Section 13.”

Refer to **Annexure O** and **Annexure S**.

ENVIRONMENTAL IMPLICATIONS

None

FINANCIAL IMPLICATIONS

This has been covered in details throughout the report.

LEGAL IMPLICATIONS

The monthly and quarterly financial report is prepared in terms of Section 71 and Section 72 of the Municipal Finance Management Act, 2003 (MFMA), (Act 56 of 2003).

COMMENTS OF THE CHIEF FINANCIAL OFFICER

Refer to the Executive summary contained in this report for comments.

DISCUSSION HELD BY THE FINANCIAL SERVICES PORTFOLIO COMMITTEE ON 28 JULY 2020

The Head of Section: Expenditure gave an overview of the report. He explained that the report was called “Interim” as the user department was still balancing the accuracy of the figures.

The Committee was informed that the rate for the payment for services was acceptable. However, it was indicated that payments from the domestic sector were deteriorating. Collection of debts has dropped between 6 and 7% due to the pandemic. However, it was noted that in the month of June there has been a great improvement. With regard to the capital budget, it was noted that spending was low at 56%. The Committee was informed that there might be an increase as the reconciliation of figures has not been finalised. With regard to the cash flow, it was reported that the spending was well controlled and within the confines of the budget.

Clarity was sought regarding the Water Services Infrastructure and Housing Operating Account grants that have not been received. Concern was also raised regarding the outstanding debts from Mhlathuze Water and King Cetshwayo District Municipality (KCDM) which remained uncollected. It was reported that KCDM has disputed the drought water tariff charges and the matter is being reviewed and the report will serve in due course. With regard to the issue of Mhlathuze Water, the Committee was enlightened that basically the account was for the Department of Water and Sanitation and Mhlathuze Water was acting as an agent on behalf of the department. However, the matter was being pursued through legal routes. Regarding the Water Services Infrastructure grant, the Committee was informed that a total amount of R5 million has been received for this year. Furthermore, Council has been gazetted to receive funds for the 2020/21 budget year and the accelerated funding would be received. The Committee was informed that due to administrative issues, the project was put on hold in the 2020/21 budget year. With regard to the Housing Operating grant, the Committee was informed that funding under this grant was dependent on the work the user department has executed.

RECOMMENDED THAT:

1. the financial position of the uMhlathuze Municipality as at 30 June 2020, as required in terms of Section 71 and Section 66 of the Municipal Finance Management Act, 2003 (Act No 56 of 2003) and as set out in the monthly budget statement tables **(DMS 1411044)** be noted; and.
2. the disclosure of the cost containment savings as required in terms of Regulation 15 of Municipal Cost Containment Regulations (MCCR), be noted.