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(5/1/1 – 2020/21)		

14296

FINANCIAL REPORTING AS AT 30 SEPTEMBER 2020

This report served before the Financial Services Portfolio Committee on 24 November 2020. The recommendations were supported.

PURPOSE

1. To submit to Council the financial position of the uMhlathuze Municipality for the quarter ended 30 September 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 1406591)**;
- ❑ Component 2: Monthly projections of expenditure (operating and capital) and revenue for each vote **Annexure AB (DMS 1406591)**;
- ❑ Component 3: Quarterly projections of service delivery targets and performance indicators for each vote **Annexure AC - AJ (DMS 1406591)**;
- ❑ Component 4: Ward information for expenditure and service delivery **Annexure AK and AL (DMS 1406591)**; and
- ❑ Component 5: Detailed capital works plan broken down by ward over three years **Annexure AM (DMS 1406591)**.

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 SEPTEMBER 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 September 2020, and the performance of the Municipality against its budget is in line with the special adjusted budget that was approved by Council in September 2020. 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 September 2020 (year to date actual) shows a surplus of R294,8 million. The surplus for the month is as a result of delays in recording of expenditure mainly contracted services and other materials. Equitable share of R178 million has been received in July 2020. The performance in this area is **Acceptable**.

Capital Budget

Council is at the end of the first quarter of the financial year and capital expenditure is very low at R21 million (2,31%). This is based on the Special Adjusted Capital Budget of R911,5 million. Expenditure is expected to rise as the year progresses. The performance in this area although is **not Acceptable proportionately, it is expected at this early stage of the new financial year**. The Project steering Committee is monitoring the capital projects to ensure that any issues are resolved promptly.

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 2,51:1 (622 425/247 975). 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 September 2020:

DESCRIPTION	ADJUSTED BUDGET 2020/2021	PRO-RATA ADJUSTED BUDGET (YTD)	ACTUAL SEPT 2020 (YTD)	% PRO-RATA ADJUSTED BUDGET SPENT
	R	R	R	%
Revenue (Excluding Capital Grants)	3 496 411 600	1 102 665 500	1 061 363 692	96,25%
Expenditure	3 594 077 400	823 737 600	766 568 702	93,06%
Surplus/(Deficit) (Excluding Capital Grants)	(97 665 800)	278 927 900	294 794 990	

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 2,51:1 (622 425/247 975).

3.3 Grants Balances

DESCRIPTION OF GRANT	ADOPTED GRANTS BUDGET 2020/21	AMOUNT RECEIVED AS AT 01/09/2020	DIFFERENCE	ACTUAL EXPENDITURE AS AT 30/09/2020	% SPENT	COMMENTS
NATIONAL TREASURY						
Equitable Share	396 870 000	178 591 000	218 279 000	99 217 500	25%	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	161 955 000	38 944 000	123 011 000	6 057 149	4%	IUDG aims to provide funding for public investment in infrastructure for the poor and to promote increased access to municipal own sources of capital finance in order to increase funding for investment in economic infrastructure,
Financial Management Grant	2 600 000	2 600 000	-	269 715	10%	FMG aims to strengthen Municipal financial management capacity. Spending is in accordance with the support plan submitted to National Treasury for the grant,
Water services infrastructure grant	25 000 000	5 000 000	20 000 000	3 139 174	13%	To facilitate the planning, acceleration and implementation of various projects that will ensure water supply to communities identified as not receiving a basic water supply service,
Extended Public Works Pogramme	4 278 000	1 070 000	3 208 000	865 279	20%	The grant is for the operational expenditure for EPWP.
Energy Efficiency and Demand Management	5 000 000	1 500 000	3 500 000	-	0%	To provide subsidies to municipalities to implement energy efficiency and demand side management initiatives within municipal infrastructure in order to reduce electricity consumption and improve energy efficiency
TOTAL NATIONAL TREASURY GRANTS	595 703 000	227 705 000	367 998 000	109 548 818	18%	

DESCRIPTION OF GRANT	ADOPTED GRANTS BUDGET 2020/21	AMOUNT RECEIVED AS AT 01/09/2020	DIFFERENCE	ACTUAL EXPENDITURE AS AT 30/09/2020	% SPENT	COMMENTS
PROVINCIAL TREASURY						
Provincialisation of Libraries	8 932 000		8 932 000	5 425 400	61%	Expenditure shown is the total operating cost of the Libraries for the period.
Community Library Services Grant (Cyber cadets)	2 445 000		2 445 000	427 875	17%	Expenditure shown is the total operating cost of the Cybercadets for the period.
Housing Operating Account	1 206 000		1 206 000	3 894 546	323%	Expenditure shown is the total operating cost of the Human Settlements Section excluding Hostel Operating costs.
Museum Subsidy	214 000		214 000	679 405	317%	Expenditure shown is the total operating cost of the Museum incurred thus far 2020.
TOTAL PROVINCIAL TREASURY GRANTS	12 797 000	-	12 797 000	10 427 226	81%	
TOTAL GRANTS AND SUBSIDIES	608 500 000	227 705 000	380 795 000	119 976 044	20%	

3.4 Capital Budget Summary

The table below represents Capital Expenditure incurred as at 30 September 2020:

FUNCTION	ADJUSTED BUDGET 2020/2021	ACTUAL SEPTEMBER 2020 (YTD)	% OF ADJUSTED BUDGET SPENT
	R	R	%
Finance and Administration	103 533 000	54 673	0,05%
Community and Social Services	49 084 600	136 000	0,28%
Energy Sources	96 644 900	2 547 979	2,64%
Executive and Council	51 000	-	0,00%
Environmental Protection	2 834 900	-	0,00%
Housing	6 339 900	-	0,00%
Planning and Development	10 852 800	-	0,00%
Public Safety	1 301 100	-	0,00%
Road Transport	213 504 800	367 413	0,17%
Sport and Recreation	49 987 900	293 223	0,59%
Waste Management	5 382 500	2 482 800	46,13%
Waste Water Management	54 246 300	-	0,00%
Water	317 748 400	15 202 714	4,78%
	911 512 100	21 084 802	2,31%

This capital budget has been significantly increased by the R186m roll-overs from 2019/20.

It is the Chief Financial Officer's view that the Administration must take very serious heed of the 2021/22 Budget Guide and this year Mid-Year Adjustments Budget and look at including doubtful 20.21 projects in the 21.22 MTREF.

The total adopted Capital Budget funding structure is as follows:

SOURCE OF FUNDING	ADJUSTED BUDGET 2020/2021	ACTUAL SEPTEMBER 2020 (YTD)	% OF ADJUSTED BUDGET SPENT
	R	R	%
Borrowing	174 011 300	2 027 516	1,17%
Capital Replacement Reserve	554 143 600	11 239 565	2,03%
Integrated Urban Development Grant	153 857 200	4 678 548	3,04%
Government Grants - National	29 500 000	3 139 173	10,64%
TOTAL	911 512 100	21 084 802	2,31%

3.5 Expenditure per Category

EXPENDITURE BY TYPE	ADJUSTED BUDGET 2020/2021	PRO-RATA ADJUSTED BUDGET (YTD)	ACTUAL SEPT 2020 (YTD)	% PRO-RATA ADJUSTED BUDGET SPENT
	R	R	R	%
Employee related costs	987 684 300	225 115 600	220 976 724	98,16%
Remuneration of Councillors	34 025 600	8 154 100	7 936 609	97,33%
Debt Impairment	90 060 600	20 330 600	9 786 411	48,14%
Depreciation and asset impairment	480 252 300	98 564 900	89 132 697	90,43%
Finance Charges	79 943 200	6 662 100	6 661 937	100,00%
Bulk Purchases - Electricity	1 027 696 400	314 055 600	318 188 006	101,32%
Bulk Purchases - Water	110 419 500	28 407 100	29 452 382	103,68%
Other Materials	144 085 500	18 014 300	14 520 536	80,61%
Contracted Services	327 958 900	43 471 200	23 533 815	54,14%
Transfers and grants	14 378 000	6 766 700	5 717 220	84,49%
Other Expenditure	297 573 100	54 195 400	40 662 365	75,03%
TOTAL	3 594 077 400	823 737 600	766 568 702	93,06%

The above table represents operating expenditure per category as at 30 September 2020.

- **Debt Impairment:** An additional amount of R55 million was provided on the 2020/21 Special Adjusted Budget to increase the Debt impairment provision. Council's ability to collect debt has been significantly impacted as consumers are not settling their accounts timeously and in some cases not at all. A monthly pro-rata journal is raised to increase the Debt Impairment provision account. This journal will be amended from October 2020 to provide for the revised budgeted figure.
- **Contracted Services and Other Materials:** There were delays in recording of invoices for contracted services and issue of stock material from stores due to system challenges on SCM module however there has been an improvement and the expenditure is expected to catch up to its estimated budget.

3.6 Revenue by Source

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

REVENUE BY SOURCE	ADJUSTED BUDGET 2020/2021	PRO-RATA ADJUSTED BUDGET (YTD)	ACTUAL SEPT 2020 (YTD)	% PRO-RATA ADJUSTED BUDGET SPENT
	R	R	R	%
Rates	540 840 000	174 831 600	177 095 154	101,29%
Service Charges – Electricity revenue	1 666 176 600	511 476 000	494 455 302	96,67%
Service Charges – Water revenue	411 574 300	137 428 700	138 447 849	100,74%
Service Charges – Refuse revenue	117 414 400	27 722 700	25 555 041	92,18%
Service Charges – Sanitation revenue	111 886 000	26 154 800	25 864 560	98,89%
Rental of facilities and equipment	11 163 700	2 114 200	1 899 961	89,87%
Interest earned – external investments	63 000 000	9 903 000	8 052 068	81,31%
Interest earned – outstanding debtors	114 000	32 200	39 160	121,61%
Fines	10 596 900	1 230 800	1 562 673	126,96%
Licences and permits	3 406 700	810 300	813 375	0,00%
Agency services	5 970 400	1 724 200	1 407 501	81,63%
Operating Grants and Subsidies	490 259 800	199 290 300	178 591 057	89,61%
Other Revenue	64 008 800	9 946 700	7 579 991	76,21%
TOTAL REVENUE (EXCLUDING CAPITAL GRANTS)	3 496 411 600	1 102 665 500	1 061 363 692	96,25%

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

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	13 179 772	25 532 753	705 118	9 313 811	48 731 454
Business	314 108 295	38 452 087	18 722 553	181 937 843	553 220 778
Households	73 236 872	11 402 200	8 267 811	173 499 074	266 405 957
Other	6 776 736	1 138 689	316 620	12 356 082	20 588 127
Total	407 301 675	76 525 729	28 012 102	377 106 810	888 946 316
%	45,82%	8,61%	3,15%	42,42%	

FINANCIAL REPORTING ON INCOME / DEBT

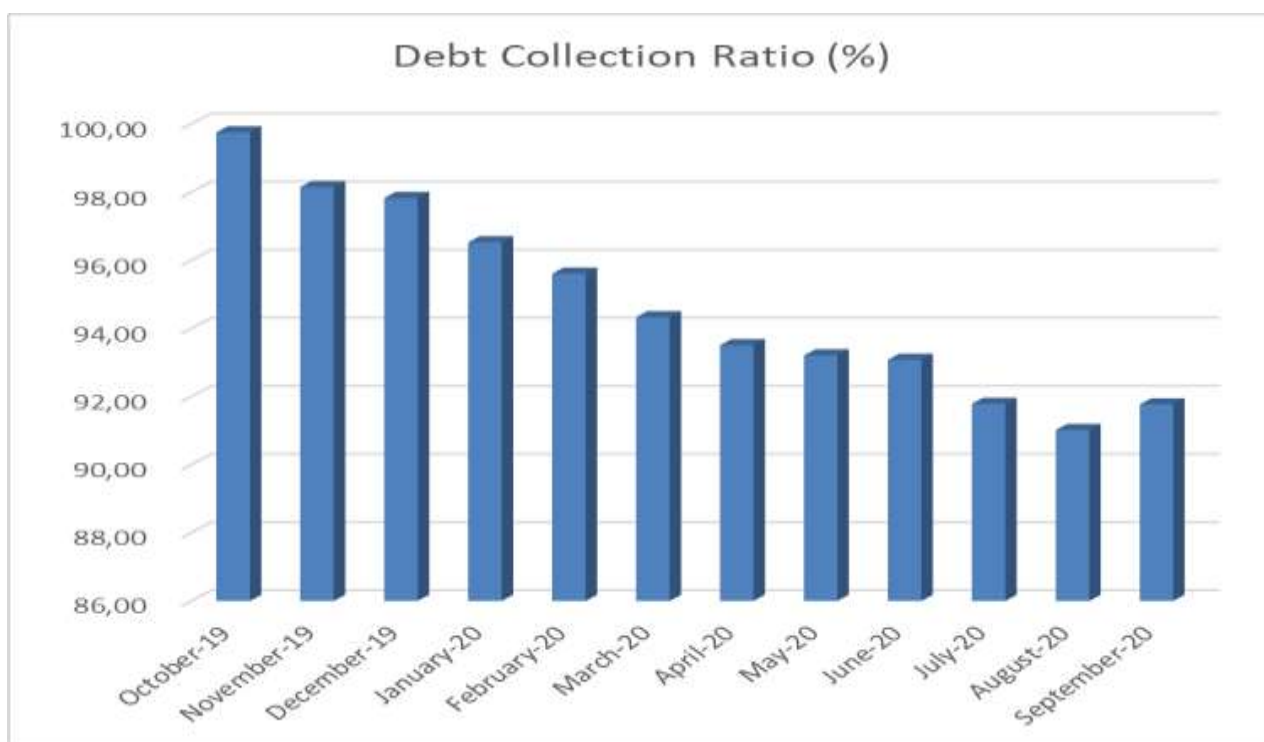
Section 216 (1)(c) of the Constitution and section 2 of the Municipal Finance Management Act (MFMA) enable National Treasury to introduce uniform treasury norms and standards to ensure sound and sustainable management of fiscal and financial affairs of municipalities and municipal entities. The National 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:

<i>Formula (As per circular 71)</i>	<i>Norm</i>
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 (%)
September-20	91,77
August-20	91,02
July-20	91,79
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



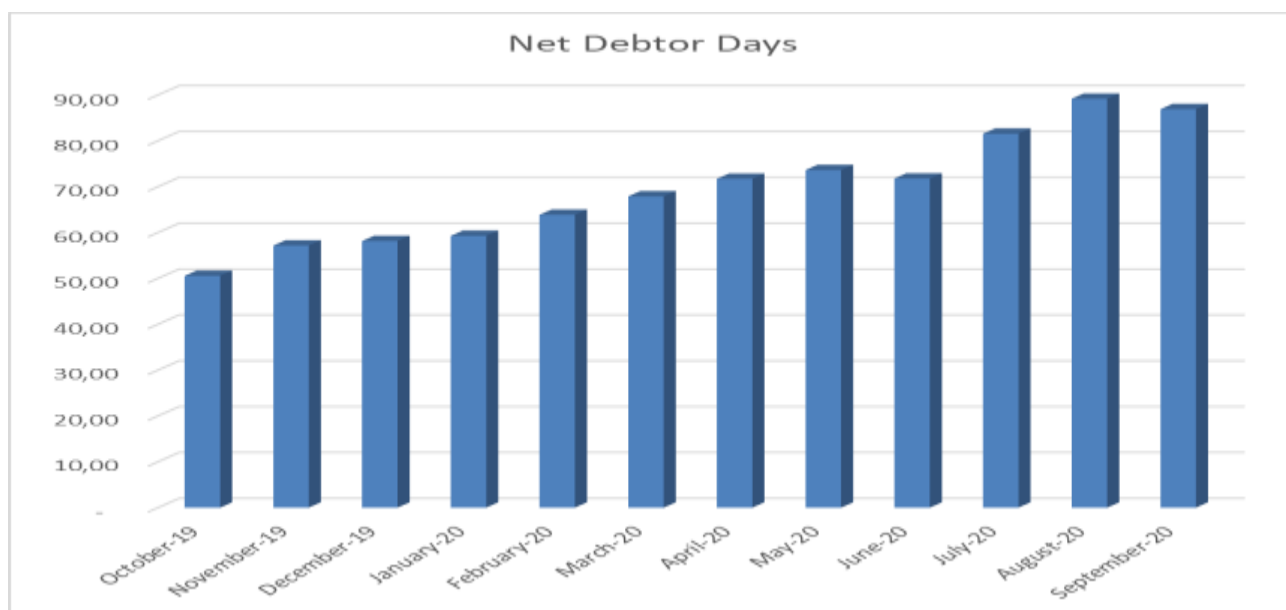
➤ **Net Debtors Days**

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:

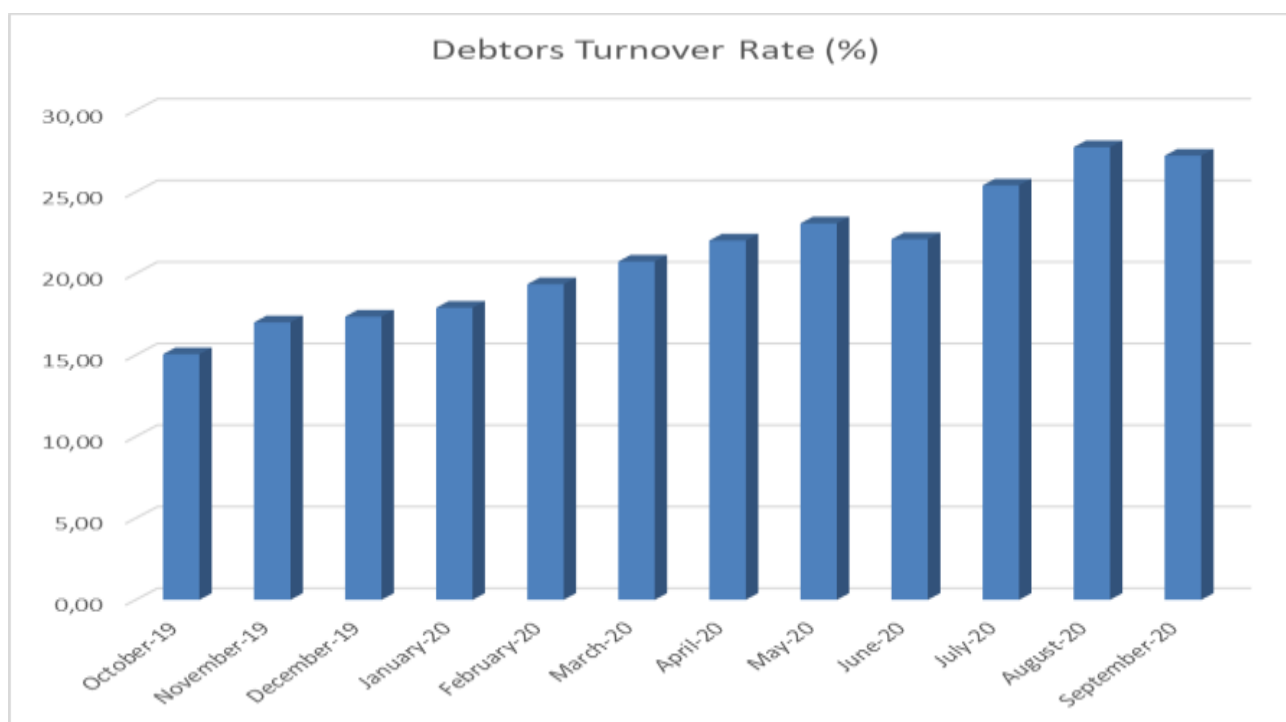
Formula (As per circular 71)	Norm
$((\text{Gross Debtors} - \text{Bad Debt Provision}) / \text{Billed Revenue}) \times 365$	The norm is 30 Days

Month	Net Debtor Days
September-20	86,91
August-20	89,18
July-20	81,55
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



➤ **Debtors Turnover Rate**

Month	Debtors Turnover Rate (%)
September-20	27,23
August-20	27,75
July-20	25,41
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



➤ **Top Ten Business Debts**

TOP 10 DEBTORS							
Debtor Nr	Debtor Name	Date	0-30 days	31-60 days	61-90 days	Over 90 Days	Grand Total
531788	MHLATUZE WATER BOARD	August 2019	228	228	228	41 233 863	41 234 547
1854904	BASFOUR 3721 (PTY) LTD	December 2011	-	-	-	22 377 590	22 377 590
1088329	KING CETSWAYO DISTRICT MUNICIPALITY	March 2018	6 857 986	6 915 321	6 198 264	27 505 518	47 477 089
1675831	KING CETSWAYO DISTRICT MUNICIPALITY	March 2018	197 314	387 330	990 006	10 618 264	12 192 915
501543	KING CETSWAYO DISTRICT MUNICIPALITY	March 2018	6 289 848	5 230 204	8 016 452	25 555 557	45 092 061
551583	KING CETSWAYO DISTRICT MUNICIPALITY	March 2018	1 654 079	1 479 058	1 565 814	9 172 087	13 871 037
1610626	TISAND (PTY) LTD	March 2009	-	-	-	5 389 604	5 389 604
2289941	PANDA PETROLEUMS	September 2015	843	784	808	5 030 413	5 032 848
416383	RIVER ROCK INVEST (PTY) LTD	June 2009	68 640	68 640	65 936	3 265 456	3 468 673
1632348	KING CETSWAYO DISTRICT MUNICIPALITY	March 2018	614 474	456 035	525 847	3 955 526	5 551 881
TOTAL			15 683 412	14 537 600	17 363 355	154 103 876	201 688 243

Mhlathuze Water Board

The administration around this legal process is managed by the Financial Services. 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.

There has been several letters from and to Mhlathuze Water in this regard. They have submitted that they dispute the amount and have now been requested to submit details regarding the amounts they dispute.

Update: September 2020

In the previous Financial Services Portfolio Committee meeting the Mayor was mandated to write to the Chairman of the Board of Mhlathuze Water in respect of the debt. The letter was duly written by the Mayor.

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: September 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 Deputy Municipal Manager: 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: September 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.

The 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 basis until such time that the lease is allocated to another party. The contract made provision that it be renewed at least 12-calendar month 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: September 2020

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

King Cetshwayo District Municipality (KCDM)

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

Update: September 2020

A separate report will be submitted in this regard.

Government Debt

Government Departments - Summary of ALL Debt									
Government Depts	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	7 718 397	12 320 661	551 411	328 560	300 934	287 522	1 285 607	1 389 360	24 182 452
Provincial	6 079 976	14 656 967	332 928	225 488	519 809	489 202	1 009 494	4 705 733	28 019 596
Government accounts in Dispute		360 160						2 579 546	2 939 706
National Depts	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 Public Works	7 461 376	11 412 453	402 807	177 113	135 082	129 683	250 810	379 254	20 348 578
Rural Development & land Reform		793 260	36 795	36 795	36 795	36 795	580 988	1 010 106	2 531 534
Dept of Water Affairs and Sanitation	257 021	114 947	111 810	114 653	129 057	121 045	453 808		1 302 341
Provincial Depts	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	-85 190	13 598 235	9 598	7 222	7 235	7 100	72 651	1 187 011	14 803 863
Education	2 909 406	579 151	195 206	136 437	457 559	367 725	280 457	371 465	5 297 406
Dept of Human Settlements	63 243	313 898	9 100	6 439	5 919	4 748	15 442	1 220 398	1 639 187
Dept of Transport	426 828	69 110	67 033	26 051	5 016	3 722	43 166	110 623	751 549
Dept of Health	2 805 751	96 568	51 992	49 339	44 080	105 901	597 500	1 815 376	5 566 506
Dept of Social Welfare	-57 145	6							-57 140
Dept of Agriculture	17 083					5	277	860	18 226
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	20 940 966	797 957	52 048	31 377	45 534	38 315	184 146	858 493	22 948 836
ESKOM	-263 863	37 135	36 055	34 620	32 324	37 174	80 203	58 377	52 025
Ingonyama Trust Board	123 480	1 412 977	429	429	429	429	2 625	6 810 075	8 350 874
Telkom	807 133	90	90	90	90	90	538	265	808 385
Foskor	25 595 780	12 940	12 054	12 054	12 054	313 570	379 976		26 338 429
SA Post Office	17 706	2 783	2 856	2 863	2 889	2 908	17 388	59 810	109 204
Richards Bay IDZ	2 468 496						-77		2 468 418
Mhlathuze Water Board	228	228	228	215	215	215	215	51 233 003	51 234 547

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.

WRITING OFF OF INDIGENT DEBTS

Background: Indigent Management Policy

- The Indigent Policy is available in DMS 1158109.
- Customers can apply at any of the Offices of Council's Financial Services. Officials from Financial Services – Customer Relations Section will assist with the completion of the document where necessary.
- The application must be supported by the following:
 - Copy of Municipal account;
 - Copy of ID;
 - Confirmation of Pension status – if applicable;
 - Copy of Proof of Income;
 - Affidavit in support of any matter above where needed;
 - Copy of Death Certificate, if owner is deceased; and
 - Letter of Authority for Beneficiary appointed to deal with estate.

Council's Indigent Management Policy provides as follows in Clause 10:

10.4 Arrears of indigent household

Directly after the registration of the household qualifying as indigent, the debt collection actions to recover the total outstanding amount will be suspended.

If the indigent customer is unable to pay the required amounts in respect of tampering and/or services consumed illegally, a minimum period of 1 year without electricity will apply for each transgression.

This total outstanding to Council in respect of the indigent household's municipal account will then immediately be written off for successful applicants and reported on to Council on a quarterly basis.

The total debt of **R1 146 410,81** in respect of Indigent households were written off during the previous quarter as detailed below in **Annexure AR – DMS 1406591**.

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 R447 924,54 as per **Annexure AL - DMS 1406591**.

Councillors' debt amounts to R157 521,46 as per **Annexure AM - DMS 1406591**.

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 1 July 2019. 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 2020/21	PRO-RATA ADJUSTED BUDGET (YTD)	ACTUAL SEPT 2020 (YTD)	(OVER) / UNDER
Advertisement&Marketing	5 977 700	1 494 425	1 025 938	468 487
Artists and Performers	314 300	78 575	9 670	68 905
Catering Services	5 936 100	1 484 025	155 423	1 328 602
Communications:SMS Bulk Message Service	3 033 300	758 325	26 671	731 654
Consultants Sevices	44 193 900	11 048 475	8 409 113	2 639 362
Contracted services - Cleaning Services	6 386 900	1 596 725	1 890 016	(293 291)
Contracted services - Security	52 037 600	13 009 400	13 643 999	(634 599)
Contracted services - Other	33 231 800	8 307 950	6 669 770	1 638 180
Legal Advice and Litigation	7 210 500	1 802 625	507 642	1 294 983
Travel and subsistence allowance	6 836 500	1 709 125	132 892	1 576 233
Vehicle hire for Public office bearers	288 700	72 175	-	72 175
TOTAL	165 447 300	41 361 825	32 471 136	8 890 689

As can be seen from above, in total costs are in order, however areas showing signs of getting out of control is cleaning services and security costs. A recommendation has been added to curb these costs going forward.

Water Purchases from Mhlathuze Water to supplement Mzingazi Water Works

	Jul-20	Aug-20	Sep-20	Total
Purified Water Supplied To Richards Bay ^{m3}	46 980	553 951	333 529	934 460
Tc Tariff Raw Water	3 547	41 823	25 181	70 552
Tc Tariff Water City	38 030	448 423	269 992	756 445
Water Use Charge	63 569	749 551	451 298	1 264 418
Water Research Charge	3 162	37 281	22 447	62 889
	108 308	1 277 079	768 918	2 154 304

The above expenditure was incurred to supplement the Mzingazi Water Works. This is a real concern as this should only arise in the event that the demand for water exceeds the supply capacity of the Mzingazi Water Treatment Works which currently is not the case.

Numerous enquiries to the Water Department from Financial Services have been made with no feedback at all. The Chief Financial Officer is therefore obliged to report on this anomaly accordingly.

5. IN-YEAR BUDGET STATEMENT TABLES

The following monthly budget statement tables (**DMS 1426736**) 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

SUPPLY CHAIN MANAGEMENT POLICY

LEGISLATIVE FRAMEWORK

- Supply Chain Management Policy.
- Contract Management Policy.

SUPPLY CHAIN MANAGEMENT POLICY

- Oversight Role of Council

Clause 6 of the Municipal Supply Chain Management Policy requires:

“6.3 The accounting officer must, within 10 days of the end of each quarter, submit a report on the implementation of the supply chain management policy to the mayor.

6.4 The reports must be made public in accordance with section 21A of the Municipal Systems Act.”

CONTRACT MANAGEMENT POLICY

- Statutory reporting and compliance

Clause 7(4) of contract management policy requires contract management unit to maintain contract register and Provincial Circular No. 2 of 2016/2017 in relation to Contract Management also required all municipalities to submit updated Contract Registers by the 7th of every month. As from 7 November 2017 the submission of this report has commenced.

- Staffing

Staffing in Supply Chain Management Unit (SCMU) remains critical. The vacant position of the Accountant Demand that became vacant due to the medical boarding will be filled in the second quarter. The other two (2) positions that are due to the dismissal will be finalised after the outcome of the appeal process.

- Internal Audit

There were three internal audits in Quarter 1 of 2012/21 financial year.

- Training and Workshops

The Supply Chain Management Policy, Clause 8, training of officials involved in implementing the Supply Chain Management Policy should be in accordance with the National Treasury Guidelines on Supply Chain Management Training.

There were no trainings attended during the first quarter.

DEMAND AND ACQUISITION MANAGEMENT

- Capturing of Vendors on Council's database.

The total number of Vendors registered during the first quarter:

MONTH	NUMBER OF VENDORS
Jul-20	11
Aug-20	20
Sep-20	27
	58

- Reporting of Supply Chain Management awards above R100 000 captured on the National Treasury Database

Sections 74(1) and 104(1)(b) of the Municipal Finance Management Act (MFMA) prescribes the following regarding general reporting obligations:

"The accounting officer of a municipality [and municipal entity] must submit to the National Treasury, the provincial treasury, the department for local government in the province or the Auditor-General such information, returns, documents, explanations and motivations as may be prescribed or as may be required."

Since 1 July 2006, in terms of National Treasury Circular MFMA Circular No 34, Municipalities and Municipal Entities are required to submit a separate report for each contract awarded (and signed) above R100 000, and which must be submitted within 15 days of the end of each month. A backlog still exists with the capturing of data, mainly due to the fact that the database is very slow during working hours.

A list of orders in excess of R100 000 is included under – Annexure AQ (DMS 1406591):

- Reporting on the Supply Chain Management Policy in terms of Section 36 (2) in which any deviation from the Supply Chain Management Policy must be approved by the Municipal Manager.

The Supply Chain Management Policy, prescribe on Clause 36(2) *The accounting officer must record the reasons for any deviations in terms of sub Clauses (1)(a) and (b) of this policy and report them to the next meeting of the council and include as a note to the annual financial statements.* The reporting is delegated to User Department to complete this task.

- The number of Deviations for Quarter 1 are 4 which amounts to R7 577 243 (**Annexure AQ – DMS 1406591**):

DEVIATIONS AS AT THE END OF QUARTER 1 ENDED 30 SEPTEMBER 2020		
	QUARTER 1	
DEPARTMENT	No.	Value
Corporate Services (CS)	4,00	7 577 243,35

Awarded Tenders for the First Quarter:

MONTH	NUMBER OF AWARDS	TOTAL
Jul-20	2	11 584 669
Aug-20	5	85 517 227
Sep-20	6	73 396 569
TOTAL	13	170 498 466

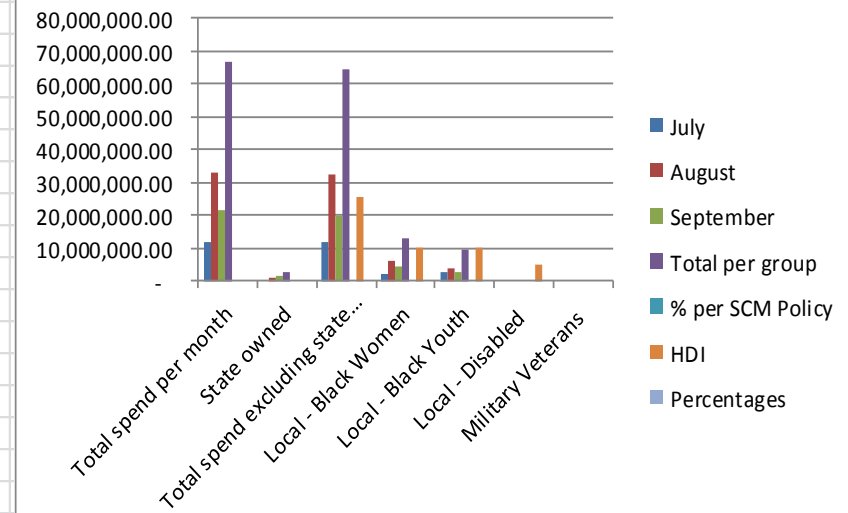
Number of tenders numbers issued to user departments	Number of tenders published	Number of tenders Cancelled	Number of Bid Committees seated and cancelled	
			Seated	Cancelled
34	9	1	BSC - 5	1
			BEC - 10	1
			BAC - 9	1

Number of Tenders where Validity Period were extended	
Number	Reasons
5	Due to the tender being referred back from the Committees for various reasons such especially related to COVID lockdown.

Number of section 32 and value			
Number	The name of the Entity that SCM Regulation 32 was sourced from.	Awarded to	Total value of tenders awarded through SCM Regulation 32.
NONE			

- Purchase Order report reflecting how SCM performed on each Category in Quarter 1:

					% per SCM		
	July	August	September	Total per group	Policy	HDI	Percentages
Total spend per month	12,053,522.92	33,241,738.88	21,387,158.39	66,682,420.19			
State owned	-	930,011.23	1,488,288.94	2,418,300.17			
Total spend excluding state owned	12,053,522.92	32,311,727.65	19,898,869.45	64,264,120.02	40%	25,705,648.01	
Local - Black Women	2,160,446.69	5,875,660.93	4,694,466.65	12,730,574.27	40%	10,282,259.20	124%
Local - Black Youth	2,695,597.00	3,948,745.01	2,814,711.00	9,459,053.01	40%	10,282,259.20	92%
Local - Disabled	-	-	-	-	20%	5,141,129.60	0%
Military Veterans	-	-	-	-		-	



CONTRACT AND LOGISTICS MANAGEMENT

- Contract Register

CONTRACT REGISTER – QUARTER 1	
Details	Number
Contracts Expiring in 6 months	28
Total Contracts Carried Over from Quarter 1	4
Total Effective Contracts 2020/21	145
Total Contracts closed in 2020/21	4
Total Captured in Quarter 1	37
Number of Contracts amended using 15% and 20 threshold	0

- Quarterly Stock Count

The stock count results for quarter 1 ending 30 September 2020 are as follows: The office did not conduct a stock take for the quarter owing to the reduced number of employees due to the National Disaster Act on COVID-19 protocol. Stores has committed to conduct two stock takes in the second Quarter.

The tables below reflect 30 June 2020 stock takes figures:

STOCK RESULTS AS AT 30 SEPTEMBER 2020	
DESCRIPTION	AMOUNT
Stock value before stocktake (29/06/2020)	22 004 874,26
Issued During Stock take - Fuel	383 931,64
Variance - stock Surplus	176 303,99
Stock value after stocktake (30/06/2020)	21 797 246,61

- Variance Analysis

DESCRIPTION	AMOUNT
Surplus – Uncollected materials and consumables	490 891,05
Deficit – Break down materials not captured on the system	314 593,06
Net Surplus	176 297,99

- **Deficit Analysis**

DESCRIPTION	AMOUNT
Deficit as per Sock Value Report	314 593,06
Break down materials issued manually and not captured on the system	313 141,66
Actual Loss	1 451,40

PART 3 - SUPPORTING DOCUMENTATION

7. DEBTORS ANALYSIS

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

8. CREDITORS ANALYSIS

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

9. INVESTMENT PORTFOLIO ANALYSIS

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

11. COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS

Refer to supporting table SC8 - Councillor and staff benefits (**Annexure R**) for the month ended 30 September 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 2020/21	ACTUAL YTD AT 30/09/2020	PERCENTAGE SPENT OF ADJUSTED BUDGET (SYSTEM)
DEPUTY MUNICIPAL MANAGER: CITY DEVELOPMENT	38 768 900	-	0%
CITY DEVELOPMENT	38 768 900	-	0%
DEPUTY MUNICIPAL MANAGER: COMMUNITY SERVICES	73 727 200	2 776 023	4%
COMMUNITY SERVICES - HEALTH AND PUBLIC SAFETY	17 691 100	2 482 800	14%
COMMUNITY SERVICES - RECREATION AND ENVIRONMENTAL SERVICES	55 245 200	293 223	1%
COMMUNITY SERVICES - PROTECTION SERVICES	790 900	-	0%
DEPUTY MUNICIPAL MANAGER: CORPORATE SERVICES	69 479 900	397 236	1%
CORPORATE SERVICES - ADMINISTRATION	2 819 200	-	0%
CORPORATE SERVICES - ICT	65 986 400	397 236	1%
CORPORATE SERVICES - HUMAN RESOURCES	674 300	-	0%
DEPUTY MUNICIPAL MANAGER: ELECTRICAL AND ENERGY SERVICES	118 665 000	2 205 416	2%
ELECTRICAL SUPPLY SERVICES	118 665 000	2 205 416	2%
DEPUTY MUNICIPAL MANAGER: INFRASTRUCTURE SERVICES	610 820 100	15 706 127	3%
ENGINEERING SUPPORT SERVICES	110 324 200	4 678 548	4%
TRANSPORT, ROADS AND STORMWATER	199 595 000	503 413	0%
WATER AND SANITATION	300 900 900	10 524 166	3%
OFFICE OF THE MUNICIPAL MANAGER	51 000	-	0%
TOTAL OFFICE OF THE MUNICIPAL MANAGER	51 000	-	0%
TOTAL CAPITAL BUDGET	911 512 100	21 084 802	2%

13. **CAPITAL PROGRAMME PERFORMANCE**

Refer to the following tables for the month ended 30 September 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 1427611 (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 1406591)** 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.”

R13 692,79.

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

R709 031,73 (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.

Given that it would be unrealistic for the Departments to spend their whole CAPEX budget this year due to the knock on effects of COVID-19, the Chief Financial Officer has added recommendation 4 for the administration to adhere to.

It also be noted that this report is circulated within the administration prior to reporting to Council, therefore allowing Departments to comment or qualify matters where necessary.

RECOMMENDED THAT:

1. the financial position of the uMhlathuze Municipality as at 30 September 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 1426736)** be noted;
2. the disclosure of the cost containment savings as required in terms of Regulation 15 of Municipal Cost Containment Regulations (MCCR) be noted;
3. the Departments who utilise both security and cleaning services investigate and implement cost reduction tactics to remain within budget; and
4. all Departments look at amending their capital budget during the preparation of this year's adjustments budget and the 2021/22 MTREF simultaneously, so as to provide Council the comfort that projects will realistically be achieved.