

14894

FINANCIAL REPORTING AS AT 31 JULY 2021

*This report served before the Financial Services Portfolio Committee on 24 August 2021.
The report was noted.*

PURPOSE

To submit for noting the financial position of the uMhlathuze Municipality as at 31 July 2021 as required in terms of the Municipal Finance Management Act, 2003 (Act No 56 of 2003).

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

DISCUSSION

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 ten (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.

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 issued MFMA Circular No 51 (**DMS 633560**) in which this prescribed format was set out.

Furthermore, the National Treasury issued Municipal Budget and Reporting Regulations in terms of Government Gazette Number 32141 dated 17 July 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 November 2010.

The objectives of the budget format 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 July 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 took effect from 1 November 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 the 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 Julyor 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.”*

Component 1, comprised of actual revenue collected by source and Component 2, comprised of actual operational and capital expenditure by vote for the month of July 2021 is included under **Annexures AA and AB (DMS 1482889)**.

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PART 1 - IN-YEAR REPORTING

1. **MAYOR'S REPORT FOR THE MONTH OF JULY 2021**

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 July 2021, and the performance of the Municipality against its budget is in line with the adopted budget that was approved by Council in May 2021. 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 July 2021 (year to date actual) shows a surplus of R31,7 million. The performance in this area is **Acceptable**.

Capital Budget

There was no capital expenditure recorded for the month of July 2021 due to the closing off of 2020/21 financial year and the late opening of new financial year. Capital expenditure is expected to accelerate in the following months.

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 3,10:1 (861 944/278 226). 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 31 July 2021:

DESCRIPTION	ADOPTED BUDGET 2021/2022	PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL JULY 2021 (YTD)	% PRO-RATA ADOPTED BUDGET SPENT
	R	R	R	%
Revenue	3 762 787 100	360 212 100	354 284 058	98,35%
Expenditure	3 913 241 800	405 920 241	322 561 390	79,46%
Operating Surplus/(Deficit)	(150 454 700)	(45 708 141)	31 722 669	

3.2 **Cash Flow Situation**

Council's Working Capital Policy:

In terms of Council's Adopted Working Capital Policy, the objective is for the Working Capital to be two (2) times the average monthly creditors of the municipality. This ratio currently sits at 3,10:1 (861 944/278 226). Although this cash coverage is also an indication of underspending on both Capital and Operating Budgets.

3.3 Grants Balances

DESCRIPTION OF GRANT	ADOPTED GRANTS BUDGET 2021/22	AMOUNT RECEIVED AS AT 31/07/2021	DIFFERENCE	ACTUAL EXPENDITURE AS AT 31/07/2021	% SPENT	COMMENTS
NATIONAL TREASURY						
Equitable Share	416 124 000	173 384 000	242 740 000	34 677 000	8%	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	134 750 000	49 392 000	85 358 000	-	0%	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. No capital expenditure has been incurred in the period under review due to the finalisation of the 2020/21 financial year.
Financial Management Grant	2 450 000	-	2 450 000	82 562	3%	Spending is in accordance with the support plan submitted to National Treasury for the grant.
Water services infrastructure grant	30 000 000	15 000 000	15 000 000	-	0%	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. No capital expenditure has been incurred in the period under review due to the finalisation of the 2020/21 financial year.
Extended Public Works Pogramme	3 417 000	-	3 417 000	430 516	13%	The grant is for the operational expenditure for EPWP.
Energy Efficiency and Demand Management	4 000 000	-	4 000 000	-	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. No capital expenditure has been incurred in the period under review due to the finalisation of the 2020/21 financial year.
TOTAL NATIONAL TREASURY GRANTS	590 741 000	237 776 000	352 965 000	35 190 078	6%	

DESCRIPTION OF GRANT	ADOPTED GRANTS BUDGET 2021/22	AMOUNT RECEIVED AS AT 31/07/2021	DIFFERENCE	ACTUAL EXPENDITURE AS AT 31/07/2021	% SPENT	COMMENTS
PROVINCIAL TREASURY						
Provincialisation of Libraries	9 136 000	-	9 136 000	2 968 039	32%	Expenditure shown is the total actual operating costs of the Libraries for the period under review.
Community Library Services Grant (Cyber cadets)	2 618 000	-	2 618 000	153 019	6%	Expenditure shown is the total actual operating costs of the Cyber cadets for the period under review.
Housing Operating Account	1 206 000	-	1 206 000	1 902 103	158%	Expenditure shown is the total actual operating cost of the Human Settlements Section excluding Hostel Operating costs for the period under review.
Museum Subsidy	225 000	-	225 000	341 850	152%	Expenditure shown is the total actual operating costs of the Museum for the period under review.
Sports and Recreation - Capital	10 943 000	-	10 943 000		0%	The receipt of this grant is dependent on a signed SLA. The user department is in the process of finalising the SLA.
TOTAL PROVINCIAL TREASURY GRANTS	24 128 000	-	24 128 000	5 365 011	22%	
TOTAL GRANTS AND SUBSIDIES	614 869 000	237 776 000	377 093 000	40 555 089	7%	

3.4 Capital Budget Summary

There was no capital expenditure recorded for the month of July 2021 due to the closing off of 2020/21 financial year and the late opening of new financial year. Capital expenditure is expected to accelerate in the subsequent months.

3.5 Expenditure per Category

The table below represents operating expenditure per category incurred as at 31 July 2021:

EXPENDITURE BY TYPE	ADOPTED BUDGET 2021/2022	PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL JULY 2021 (YTD)	% PRO-RATA ADOPTED BUDGET SPENT
	R	R	R	%
Employee related costs	1 084 038 100	87 341 600	75 803 890	86,79%
Remuneration of Councillors	35 115 900	2 926 400	2 547 746	87,06%
Debt Impairment	139 527 300	7 767 800	7 767 800	100,00%
Depreciation and asset impairment	435 000 000	36 250 600	36 250 110	100,00%
Finance Charges	69 027 500	5 752 600	5 752 600	100,00%
Bulk Purchases - Electricity	1 242 092 300	154 264 927	130 773 415	84,77%
Inventory consumed - Water	140 530 900	20 258 200	19 974 116	98,60%
Inventory consumed - Other	2 994 900	3 861 600	1 806 719	46,79%
Contracted Services	316 498 400	22 343 100	2 295 163	10,27%
Transfers and grants	14 597 400	585 700	3 015 000	514,77%
Other Expenditure	293 288 300	44 309 515	16 600 715	37,47%
Losses	140 530 800	20 258 200	19 974 116	98,60%
TOTAL	3 913 241 800	405 920 241	322 561 390	79,46%

The above table represents operating expenditure per category as at 31 July 2021.

3.6 Revenue per Category

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

REVENUE BY SOURCE	ADOPTED BUDGET 2021/2022	PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL JULY 2021 (YTD)	% PRO-RATA ADOPTED BUDGET SPENT
	R	R	R	%
Rates	617 377 500	96 899 700	75 529 653	77,95%
Service Charges – Electricity revenue	1 790 122 900	186 941 600	186 845 440	99,95%
Service Charges – Water revenue	469 985 800	15 441 100	2 672 798	17,31%
Service Charges – Sanitation revenue	107 609 700	8 356 400	9 206 310	110,17%
Service Charges – Refuse revenue	107 606 900	6 432 500	8 769 198	136,33%
Rental of facilities and equipment	23 104 900	1 192 700	332 868	27,91%
Interest earned – external investments	65 000 000	5 417 000	3 677 102	67,88%
Interest earned – outstanding debtors	118 000	8 000	17 426	217,82%
Fines	57 082 200	710 000	826 253	116,37%
Licences and permits	3 525 900	-	-	0,00%
Agency services	6 179 400	407 500	352 560	86,52%
Operating Grants and Subsidies	441 913 500	35 934 200	35 934 191	100,00%
Other Revenue	36 284 300	2 471 400	1 349 498	54,60%
Gains	36 876 100	-	28 770 760	0,00%
TOTAL OPERATING REVENUE	3 762 787 100	360 212 100	354 284 058	98,35%

The above table represents operating revenue per category as at 31 July 2021.

As previously requested, the following table contains a breakdown of the Revenue Source – Fines.

DETAILS	ADOPTED BUDGET 2021/22	PRO-RATA ADOPTED BUDGET (YTD)	ACTUALS JULY 2021 (YTD)	% PRO-RATA ADOPTED BUDGET SPENT
	R	R	R	
Fines:Illegal Connections	1 697 400	21 113	10 937	52%
Fines:Law Enforcement	2 700	34	-	0%
Fines:Overdue Books	160 000	1 990	10	0%
Fines:Pound Fees	100	1	-	0%
Fines:Traffic:Court Fines	391 500	4 870	-	0%
Fines:Traffic:Municipal	50 171 600	624 045	464 173	74%
Forfeits:Deposits	762 700	9 487	112 287	1184%
Fines, Penalties and Forfeits:Penalties:Property Rates	3 896 200	48 462	238 846	493%
TOTAL	57 082 200	710 000	826 253	116%

3.7 Creditors Age Analysis

Creditors age analysis by customer type

Creditors Age Analysis By Customer Type	0 - 30 Days	31 - 60 Days	Over 90 Days	Total
	R	R	R	R
Bulk Electricity	151 487 517	-	-	151 487 517
Bulk Water	16 450 390	-	-	16 450 390
PAYE deductions	12 162 016	-	-	12 162 016
Pensions / Retirement deductions	11 300 624	-	-	11 300 624
Trade Creditors	4 987 328	610 395	1 098 228	6 695 950
Other	3 050	-	-	3 050
Total By Customer Type	196 390 925	610 395	3 405 201	198 099 547

The above table represents the ageing of creditors outstanding as at 31 July 2021. As per the National Treasury Circular 71 uniform ratios the formula to calculate the creditors payment period is as follows - *Trade creditors outstanding/credit purchases (operating and capital) x 365*. Based on the formula, the creditors payment period as at end of July 2021 is **27 days**. It must be noted that amounts over 90 days are invoices that were accrued due to year-end cut-off however final sign off and verification still needed to be done by user departments.

3.8 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
Organs of State	30 867 072	719 844	-207 580	1 173 052	32 552 388
Business	280 689 462	21 232 565	27 574 877	175 810 855	505 307 759
Households	57 133 687	6 889 589	5 631 257	161 004 068	230 658 601
Other	4 020 566	693 606	725 589	16 809 847	22 249 608
Total	372 710 787	29 535 604	33 724 143	354 797 822	790 768 356
%	47,13%	3,74%	4,26%	44,87%	

FINANCIAL REPORTING ON INCOME / DEBT

Section 216 (1)(c) of the Constitution and Section 2 of the Municipal Finance Management Act (MFMA) enable the 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.

3.9 Employee Debt / Councillor Debt

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

Employee debt amounts to R343 122,75 as per **Annexure AC - DMS 1482889**.

Councillor's debt amounts to R136 349,60 as per **Annexure AD - DMS 1482889**.

4. IN-YEAR BUDGET STATEMENT TABLES

The following monthly budget statement tables (**DMS 1482890**) respectively have been prepared in accordance with the Municipal Budgeting and Reporting Regulations:

TABLE NUMBER	DESCRIPTION	ANNEXURE
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
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Table SC13c	Monthly repairs and maintenance expenditure by asset class	X
Table SC13d	Monthly depreciation by asset class	Y
Table SC13e	Monthly capital expenditure on upgrading of existing assets by assets class	Z

PART 2 - SUPPORTING DOCUMENTATION

5. DEBTORS ANALYSIS

Refer to supporting table SC3 - Aged Debtors (**Annexure M**) for the month ended 31 July 2021.

6. CREDITORS ANALYSIS

Refer to supporting table SC4 - Aged Creditors (**Annexure N**) for the month ended 31 July 2021.

7. INVESTMENT PORTFOLIO ANALYSIS

Refer to supporting table SC5 - Investment Portfolio (**Annexure O**) for the month ended 31 July 2021.

8. 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 31 July 2021.

9. COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS

Refer to supporting table SC8 - Councillor and staff benefits (**Annexure R**) for the month ended 31 July 2021.

10. CAPITAL PROGRAMME PERFORMANCE

Refer to the following tables for the month ended 31 July 2021:

- ❑ 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**).
- ❑ Table SC13e - Monthly capital expenditure on upgrading of existing assets by assets class (**Annexure Z**).

11. MUNICIPAL MANAGER'S QUALITY CERTIFICATION

Refer to **DMS 1477105** (**Annexure AE**).

ENVIRONMENTAL IMPLICATIONS

None

FINANCIAL IMPLICATIONS

This has been covered in details throughout the report.

LEGAL IMPLICATIONS

The monthly financial report is prepared in terms of Section 71 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.

COMMENTS OF THE MUNICIPAL MANAGER

The report is noted by the Office of the Municipal Manager.

RECOMMENDED THAT:

the financial position of the uMhlathuze Municipality as at 31 July 2021, 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 1482890)**, be noted.