

16567

FINANCIAL REPORTING AS AT 31 JULY 2023

This report is submitted directly to both the Executive Committee and Council.

PURPOSE

To submit for noting the financial position of the uMhlathuze Municipality as at 31 July 2023 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 compliant
		5.1.1.2 mSCOA compliant
		5.1.1.3 Review of all related financial policies
		5.1.1.4 Compliance with all MFMA and relevant local government financial legislation
	5.2.1 Sustainable Financial management (Expenditure and Revenue)	5.2.1.1 Provide continuous Internal Communication and support 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 Accurate and timeous payments of creditors
		5.2.1.6 Apply adequate financial management methodologies
	5.3.1 Supply Chain Management	5.3.1.1 Demand and acquisition management
		5.3.1.2 Accurate contracts and logistics management
		5.3.1.3 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 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 November 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 November 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 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.”*

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 2023 is included under **Annexures AA and AB (DMS 1616505)**.

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PART 1 - IN-YEAR REPORTING

1. MAYOR'S REPORT FOR THE MONTH OF JULY 2023

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 2023, and the performance of the Municipality against its budget is in line with the Adopted Budget that was approved by Council in May 2023. 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 2023 (year to date actual) shows a surplus of R242,9 million. The performance in this area is **Acceptable**.

Capital Budget

Council is in the first quarter of the financial year and capital expenditure is low at R12,4 million (1,12%). This is based on the Adopted Budget of R802,9 million. The performance in this area is **Acceptable**.

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 1,45:1 (Cash in Bank against average monthly liability's – R493 772 / R340 197). This is below the norm therefore the performance in this area is **Not 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 an 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 2023:

DESCRIPTION	ADOPTED BUDGET 2022/2023	PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL JULY 2023 (YTD)	% PRO-RATA ADJUSTED BUDGET SPENT
	R	R	R	%
Revenue	4 423 232 200	534 750 958	615 419 898	115,09%
Expenditure	4 428 805 100	407 620 975	372 556 105	91,40%
Operating Surplus/(Deficit)	(5 572 900)	127 129 983	242 863 793	

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 1,45:1 (693 772/340 197).

3.3 Grants Balances

DESCRIPTION OF GRANT	ADOPTED GRANTS BUDGET 2023/24	AMOUNT RECEIVED AS AT 31/07/2023	ACTUAL EXPENDITURE AS AT 31/07/2023	% EXPENDITURE TO TOTAL	COMMENTS
NATIONAL TREASURY					
Equitable Share	520 860 000	217 025 000	43 405 000	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	153 196 000	62 000 000	-	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.
Financial Management Grant	2 500 000	-	53 908	2%	The purpose of this grant is to promote and support reforms in financial management by building capacity in municipalities to implement Finamace Management Act (MFMA).
Water services infrastructure grant	55 000 000	-	-	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.
Extended Public Works Pogramme	3 089 000	-	390 546	13%	The grant is for the operational expenditure for EPWP.Expenditure shown is the total actual operating costs of the EPWP for the period under review.
Integrated National Electrification Programme Grant	14 000 000	4 000 000			The grant is to address the electrification backlog of all exisiting and planned residential dwellings and to install and relevant bulk infrastructure.
Energy Efficiency and Demand Management	5 000 000	-	-	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.
TOTAL NATIONAL TREASURY GRANTS	753 645 000	283 025 000	43 849 454	6%	

DESCRIPTION OF GRANT	ADOPTED GRANTS BUDGET 2023/24	AMOUNT RECEIVED AS AT 31/07/2023	ACTUAL EXPENDITURE AS AT 31/07/2023	% EXPENDITURE TO TOTAL	COMMENTS
PROVINCIAL TREASURY					
Provincialisation of Libraries	9 593 000	-	2 673 041	28%	Expenditure shown is the total actual operating costs of the Libraries for the period under review.
Community Library Services Grant (Cyber cadets)	2 033 000	-	225 587	11%	Expenditure shown is the total actual operating costs of the Cyber cadets for the period under review.
Housing Operating Account	4 429 000	-	1 824 917	41%	Expenditure shown is the total actual operating cost of the Human Settlements Section excluding Hostel Operating costs for the period under review.
Museum Subsidy	249 000	-	298 175	120%	Grant will only be received once an MOA has been signed. This MOA is in the process of being finalised. Expenditure shown is the total actual operating costs of the Museum for the period under review.
TOTAL PROVINCIAL TREASURY GRANTS	16 304 000	-	5 021 720	31%	
TOTAL GRANTS AND SUBSIDIES	769 949 000	283 025 000	48 871 174	6%	

3.4 Capital Budget Summary

The table below represents Capital Expenditure incurred as at 31 July 2023:

FUNCTION	ADOPTED BUDGET 2023/2024	ACTUAL JULY 2023 (YTD)	% OF ADJUSTED BUDGET SPENT
	R	R	%
Finance and Administration	68 672 500	-	0,00%
Community and Social Services	71 073 500	-	0,00%
Energy Sources	125 935 000	-	0,00%
Executive and Council	118 000	-	0,00%
Environmental Protection	1 248 000	-	0,00%
Air Transport - Air port	5 444 000	-	0,00%
Planning and Development	22 127 000	-	0,00%
Public Safety	1 785 000	-	0,00%
Road Transport	131 940 000	5 352 038	6,14%
Sport and Recreation	34 619 900	586 436	0,30%
Waste Management	12 230 000	-	0,00%
Waste Water Management	125 265 800	2 531 916	1,99%
Water	202 482 400	3 965 717	0,96%
	802 941 100	12 436 107	1,12%

SOURCE OF FUNDING	ADOPTED BUDGET 2023/2024	ACTUAL JULY 2023 (YTD)	% OF ADJUSTED BUDGET SPENT
	R	R	%
Borrowing	406 569 000	30 510	0,01%
Capital Replacement Reserve	177 535 900	8 408 062	3,24%
Integrated Urban Development Grant	145 536 200	3 997 535	1,98%
Government Grants - National	73 300 000	-	0,00%
TOTAL	802 941 100	12 436 107	1,12%

Capital Virements:

The table below represents Capital Virements / Transfers made by the respective departments during the period 1 July 2023 to 14 August 2023:

FROM					TO				
Date Received	Department	Project Number From	Project Description		Project Number To	Project Description	Comments by Departments	Amount	RPT Number
24/07/2023	ITS-Water and Sanitation	N/DHAMA1.001	Mechanical Equipment Upgrade - Mzingazi WTW	4 000 000	I/DHAM02.205	Replacement of Pumps	Matshane Pumpstation Project	4 500 000	176293
		I/DHAMA1.001	Upgrade of Nkoninga Pumpstation	500 000					
27/07/2023	Community Services	N/CTBDA1.002	Ride on Moweres (Parks)	165 000	N/AEBDA1.012	Lightning Protection - All Libraries	Provide funds for Library electrical upgrade project	165 000	176315
27/07/2023	Community Services	N/CKBDA1.034	Fire Fighting Equipment	220 000	N/CZBDA1.078	Construction of eSikhaleni Fitness Centre	Redirection to fund final payment of Phase 1 of the Esikhaleni Fitness Centre	2 900 000	176315
		N/ACBDA1.004	Phase 1 Construction Dumisane Makhaye Village Hall	500 000					
		N/CSBDA1.003	Alkanstrand: Upgrade Recreational Area	100 000					
		N/CTBD26.064	Replacement of Slashers	50 000					
		N/CTBDA1.065	Various Small Machinery (Horticulture)	100 000					
		N/CYBDA1.005	Improvement/Renications to Arboretum Pool	200 000					
		N/CYBDA1.007	Pools : Machinery and Equipment	401 000					
		N/CYBDA1.009	Renovation Aquadene Pool	200 000					
		N/CYBDA1.068	Improvement/Renovations to eSikhaleni Pool	200 000					
		N/CYBDA1.069	Lane Reels	100 000					
		N/CYBDA1.072	Improvements/Renovations to Empangeni Pool	130 000					
		N/DBBDA1.003	uMhlathuze Stadium Refurbishment	199 000					
		N/DBBDA1.001	Fencing uMhlathuze Stadium	500 000					
04/08/2023	IS-Water and Sanitation	I/DIAJA1.157	Rural Sanitation - VIP	10 000 000	I/DNAJA1.001	Construction of 5ML Package Plant and 2 X3ML Reservoirs	Construction of Package plant	10 000 000	176293
10/08/2023	IS-Storm Water	I/CNAMA1.003	North Central Arterial Doubling	5 500 000	I/COAM30.001	Sustainable Rural Roads (Ngamla Road eNiwe)	Funds needed for Sustainable Roads and CIA	12 360 000	176354
10/08/2023	IS-Storm Water	N/BFAMA1.173	Water Tanker and Jetting Machine	3 000 000					
10/08/2023	IS-Storm Water	N/BFAMA1.174	10m ³ Tipper Truck (Urban Roads)	1 000 000					
10/08/2023	IS-Storm Water	I/CNAMA1.004	Pedestrain Bridges	2 860 000					

FROM					TO				
Date Received	Department	Project Number From	Project Description		Project Number To	Project Description	Comments by Departments	Amount	RPT Number
10/08/2023	IS-Storm Water	I/COAJA1.001	Mandlazini - Phase 1B	10 000 000	I/CNAJA1.001	Design and Construction of Central Industrial Area Link Road and Services	Funds needed for Sustainable Roads and CIA	14 000 000	176354
10/08/2023	IS-Storm Water	I/CNAJA1.004	North Central Arterial Doubling	4 000 000					
10/08/2023	IS-Water and Sanitation	I/DNAO26.001	Aquaden Pipe Replacement (WSIG)	10 000 000	I/DNAO02.001	Alton North and South Water Pipe Replacement (WSIG)	Re-All of WSIG funding - Alton Pipe Replacement	40 000 000	176293
10/08/2023	IS-Water and Sanitation	I/DNAO04.001	Birdswood Pipe Repalcement (WSIG)	10 000 000					
10/08/2023	IS-Water and Sanitation	I/DNAO02.242	Veldenvei Pipe Replacement (WSIG) - Phase 1	20 000 000					
11/08/2023	Air Transport	N/ADAMA1.006	Richards Bay Civic Centre - Structural Repairs - Phase 1	1 050 000	N/BVAMA1.003	Airport Fencing	Richards Bay Airport Refurbishment Project.	1 050 000	174439
11/08/2023	IS-Support Services, Scier	N/DLBDA1.218	Water Quality Equipment	105 000	N/ADBDA1.204	Airconditioner: Scientific Services	Aircons replacement at Scientific Services	105 000	176293
14/08/2023	Electrical and Energy Ser	I/ALBDA1.023	Aries Switching Station MV Swithgears Re-Trofit	40 000	N/BKBDA1.101	New and Repalcement of IT Related Equipment	Required to purchase a new PC for drawing office.	40 000	
				85 120 000				85 120 000	

The acceleration and completion of existing projects is supported. However, it must be noted that transferring funds from budgeted projects may have a negative impact on service delivery. Departments are urged to budget correctly and ensure that they adhere to their budgeted amounts. The Virements that has been processed so far indicate that there is a new budget that has not been approved by Council. A total of R85,1 million of virements is a concern considering that it is only the first month of the new financial year.

In terms of the approved Virement Policy, user departments are required to submit a report to Council on any capital virements made during the quarter and provide explanations as why these virements were necessary.

3.5 Expenditure per Category

The table below represents operating expenditure per category incurred as at 31 July 2023:

EXPENDITURE BY TYPE	ADOPTED BUDGET 2022/2023	PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL JULY 2023 (YTD)	% PRO-RATA ADJUSTED BUDGET SPENT
	R	R	R	%
Employee related costs	1 212 559 100	96 811 800	95 598 459	98,75%
Remuneration of Councillors	35 509 700	2 959 300	2 443 519	82,57%
Bulk Purchases - Electricity	1 492 128 200	173 320 700	153 869 394	88,78%
Inventory consumed - Water	306 540 400	29 206 600	33 735 112	115,51%
Inventory consumed - Materials	154 438 600	12 869 883	10 721 013	83,30%
Debt Impairment	173 882 500	14 339 800	13 806 608	96,28%
Depreciation and asset impairment	320 159 500	26 679 958	26 679 958	100,00%
Finance Charges	130 490 500	10 874 200	14 829 891	136,38%
Contracted Services	409 217 200	21 629 700	9 711 618	44,90%
Transfers and Subsidies	14 758 700	575 600	25 000	4,34%
Irrecoverable debts written off	-	-	663 445	0,00%
Operational costs	343 729 600	28 644 133	25 159 461	87,83%
Losses - Water Inventory (note 1)	343 609 600	21 468 200	37 670 139	175,47%
Inventory consumed - Capitalisation (note 2)	(508 218 500)	(31 758 900)	(52 357 512)	164,86%
TOTAL	4 428 805 100	407 620 975	372 556 105	91,40%

The above table represents operating expenditure per category as at 31 July 2023.

Note 1 and 2 above:

In terms of Version 6.5 of the mSCOA Chart it is required that municipalities account for their water purchases, water production as well their losses in accordance with the water balance model. This model has been derived after consultation with the National Water and Sanitation Department and will ensure that water inventory is correctly reflected.

Water Inventory - in Rands						
Water Inventory	Original Budget			Year to Date Actuals		
	Total	Potable	Clarified	Total	Potable	Clarified
	R	R	R	R	R	R
Output						
Inventory consumed - Water Billed (Authorised)	300 038 800	282 415 300	17 623 500	33 401 101	31 253 451	2 147 650
Inventory consumed - Water Unbilled (Authorised)	6 501 600	6 304 900	196 700	334 011	312 535	21 477
Total - Inventory consumed - Water	306 540 400	288 720 200	17 820 200	33 735 112	31 565 985	2 169 126
Loss - Water Inventory	343 609 600	341 765 500	1 844 100	37 670 139	37 670 139	0
Total Water Inventory (Consumed plus losses)	650 150 000	630 485 700	19 664 300	71 405 251	69 236 125	2 169 126

Water Inventory - in Units (kl)						
Water Inventory	Original Budget			Year to Date Actuals		
	Total	Potable	Clarified	Total	Potable	Clarified
	kl	kl	kl	kl	kl	kl
Output						
Inventory consumed - Water Billed (Authorised)	28 981 398	24 231 398	4 750 000	2 312 176	1 977 356	334 820
Inventory consumed - Water Unbilled (Authorised)	593 960	540 960	53 000	23 122	19 774	3 348
Total - Inventory consumed - Water	29 575 358	24 772 358	4 803 000	2 335 298	1 997 129	338 168
Loss - Water Inventory	29 820 657	29 323 657	497 000	2 383 329	2 383 329	0
% Loss - Water Inventory	50,2%	54,2%	9,4%	50,5%	54,4%	0,0%
Total Water Inventory (Consumed plus losses)	59 396 015	54 096 015	5 300 000	4 718 627	4 380 459	338 168

3.6 Revenue per Category

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

REVENUE BY SOURCE	ADOPTED BUDGET 2022/2023	PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL JULY 2023 (YTD)	% PRO-RATA ADJUSTED BUDGET SPENT
	R	R	R	%
Exchange Revenue				
Service Charges – Electricity revenue	2 150 331 000	146 623 000	209 112 344	142,62%
Service Charges – Water revenue	588 970 400	43 887 800	35 813 704	81,60%
Service charges - Waste Water Management	119 676 200	10 618 500	10 247 962	96,51%
Service charges - Waste management	114 791 500	11 956 300	9 784 988	81,84%
Sale of Goods and Rendering of Services	12 365 800	275 100	830 316	301,82%
Agency services	6 364 800	530 400	30	0,01%
Interest earned from Receivables	29 400	5 200	-	0,00%
Interest from Current and Non Current Assets	64 500 000	5 375 000	4 567 605	84,98%
Rent on Land	849 900	18 900	165 258	874,38%
Rental from Fixed Assets	16 073 500	917 600	5 499 365	599,32%
Operational Revenue	8 624 600	631 800	507 347	80,30%
Non-Exchange Revenue				
Property rates	736 829 200	87 906 200	111 557 681	126,91%
Surcharges and Taxes	6 332 000	527 667	7 766 018	1471,77%
Fines, penalties and forfeits	15 753 500	1 312 792	272 302	20,74%
Licence and permits	3 631 700	302 642	79 819	26,37%
Transfers and subsidies - Operational	551 826 800	221 671 900	217 025 000	97,90%
Other Gains	26 281 900	2 190 158	2 190 158	100,00%
TOTAL OPERATING REVENUE	4 423 232 200	534 750 958	615 419 898	115%

The above table represents operating revenue per category as at 31 July 2023.

3.7 Surplus and Deficit by Function

FUNCTION	ADOPTED BUDGET 2023/24			ACTUAL AS AT 30 JULY 2023		
	REVENUE	EXPENDITURE	SURPLUS/ (DEFICIT)	REVENUE	EXPENDITURE	SURPLUS/ (DEFICIT)
	R'000	R'000	R'000	R'000	R'000	R'000
Executive and Council	934 500	39 252 700	(38 318 200)	72 575	11 596 676	(11 524 101)
Finance and Administration	1 035 106 400	217 576 000	817 530 400	204 453 292	(4 724 103)	209 177 394
Community and Social Services	19 041 000	152 465 000	(133 424 000)	257 819	8 945 898	(8 688 079)
Sport and Recreation	5 451 000	225 553 000	(220 102 000)	5 149 969	14 558 856	(9 408 887)
Public Safety	15 783 000	204 739 600	(188 956 600)	348 104	16 035 862	(15 687 758)
Housing	6 476 200	29 963 700	(23 487 500)	188 467	2 504 133	(2 315 666)
Enviromental Protection	88 600	8 546 400	(8 457 800)	6 275	670 132	(663 857)
Health	27 500	5 785 500	(5 758 000)	2 292	414 247	(411 956)
Planning and Development	14 529 300	105 936 200	(91 406 900)	460 435	6 615 406	(6 154 971)
Internal Audit	74 100	68 300	5 800	6 175	(635 106)	641 281
Road Transport	12 699 500	291 821 500	(279 122 000)	690 052	21 796 067	(21 106 015)
Other	60 900	4 570 400	(4 509 500)	12 463	1 172 181	(1 159 718)
Energy sources	2 204 429 900	1 931 199 000	273 230 900	238 678 033	183 449 800	55 228 233
Water management	1 156 968 900	1 158 368 500	(1 399 600)	110 074 890	123 804 559	(13 729 669)
Waste water management	232 580 000	332 291 300	(99 711 300)	56 136 007	26 851 597	29 284 410
Waste management	217 638 600	208 221 400	9 417 200	51 240 563	11 857 411	39 383 152
Total	4 931 450 700	4 937 023 600	(5 572 900)	668 314 582	426 015 138	242 299 444

The table above sets out the surplus and deficit for each function. It is important to note that although the trading services namely Energy Sources, Water Management, Waste Water Management and Waste Management are expected to be profitable **only Energy Sources (electricity), Waste Water Management and Waste Management are yielding surpluses on the actuals. Water Management and Waste Water Management are budgeted for a deficit which means that although Waste Water Management is making a profit at the moment due to annual increase for rates payers, it will even out as the year progresses.**

As part of Council's Revenue Enhancement Policy approved in July 2013, a considerable effort needs to be made to improve the surplus for the remaining trading services by reducing expenditure and increasing revenue.

3.8 Creditors Age Analysis

Creditors age analysis by customer type:

Creditors Age Analysis By Customer Type	0 - 30 Days	31 - 60 Days	61 - 90 Days	181 Days - 1 Year	Over 1 Year	Total
	R		R	R	R	R
Bulk Electricity	175 271 159	-		-	-	175 271 159
Bulk Water	18 249 632	-		-	-	18 249 632
PAYE deductions	16 205 190	-	-	-	-	16 205 190
Pensions / Retirement deductions	13 748 663	-	-	-	-	13 748 663
Trade Creditors	6 848 908	8 355 153	1 375 000	6 319 924	3 900 533	26 799 518
Other	3 480	14 958	-	-	-	18 438
Total By Customer Type	230 327 032	8 370 111	1 375 000	6 319 924	3 900 533	250 292 600

The above table represents the ageing of creditors outstanding as at 31 July 2023. 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 2023 is **27 days**. It must be noted that amounts over 90 days are invoices that were accrued due to year-end cut-off. However, the final signoff and verification still needs to be done by User Departments.

3.9 Debtors Report

FINANCIAL REPORTING ON INCOME / DEBT

DEBTORS AGE ANALYSIS BY CATEGORY	0-30 DAYS	31-60 DAYS	61-90 DAYS	OVER 90 DAYS	TOTAL
Organs of State	247 411 571	13 237 920	12 635 083	120 062 047	393 346 622
Business	266 904 267	7 378 392	4 892 256	26 560 796	305 735 712
Households	48 944 288	6 139 973	6 585 289	169 150 475	230 820 025
Other	1 746 697	126 787	675 014	6 136 749	8 685 248
Total	565 006 823	26 883 073	24 787 643	321 910 068	938 587 607
%	60,20%	2,86%	2,64%	34,30%	

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.

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%

PAYMENT RATIO					
RATIO	FORMULA	NORM / RANGE	INPUT DESCRIPTION	DATA INPUTS AND RESULTS	INTERPRETATION
1	Collection Rate - Rolling 12 Months	95%		102	Please refer to page 5 of MFMA Circular No. 71
			Gross Debtors closing balance July 2023	938 330 815	
			Gross Debtors opening balance Aug 2022	1 052 236 551	
			Bad debts written Off Aug 2022 to July 2023	50 580 742	
			Billed Revenue Aug 2022 - July 2023	3 064 690 074	

➤ **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 excludes 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
(Gross Debtors - Bad Debt Provision) / Billed Revenue) × 365	The norm is 30 Days

NETT DEBTORS IN DAYS					
RATIO	FORMULA	NORM / RANGE	INPUT DESCRIPTION	DATA INPUTS AND RESULTS	INTERPRETATION
2	Net Debtors Days	30 days		112 days	Please refer to page 6 of MFMA Circular No. 71
			Gross Debtors closing balance July 2023	938 330 815	
			Bad debts Provision 2023 / 2024	-	
			Billed Revenue Aug 2022 - July 2023	3 064 690 074	

➤ **Top 10 Debtors**

TOP TEN DEBTORS FROM ALL CATEGORIES							
Account No	Consumer Type	0-30 days	31-60 Days	61-90 Days	91-120 Days	121 days +	Total
1854904	PRIVATE BUSINESS	-	-	-	-	22 377 590	22 377 590
501543	STATE OWNED ENTITIES	6 467 391	-	3 239 551	7 945 746	21 526 354	39 179 043
531788	STATE OWNED ENTITIES	-	-	-	-	21 328 753	21 328 753
1088329	STATE OWNED ENTITIES	13 902 950	6 894 295	7 064 729	6 566 410	20 589 026	55 017 411
1610626	PRIVATE BUSINESS	-	-	-	-	6 106 823	6 106 823
416383	PRIVATE BUSINESS	151 776	75 888	75 888	75 888	5 517 033	5 896 473
2289941	PRIVATE BUSINESS	285	731	214	-	5 044 907	5 046 137
2328365	STATE OWNED ENTITIES	-	-	-	-	4 615 650	4 615 650
2273109	STATE OWNED ENTITIES	9 534	-	36 033	700	3 853 332	3 899 599
30000543	SUNDRIES AND OTHER	258 184	516 368	258 184	258 184	2 782 489	4 073 410
		20 790 120	7 487 282	10 674 600	14 846 929	113 741 958	167 540 888

Government Debt

Government debtors shown as follows:

GOVERNMENT DEPARTMENTS						
National Departments	0-30 days	31-60 Days	61-90 Days	91-120 Days	121 days plus	Total
National Public Works	212 881	11 154	8 204	9 491	831 640	1 073 372
Dept of Agriculture and Rural Development & land Reform	17 519	-	-	-	284 785	302 305
Department of Water Affairs and Sanitation	-	-	-	-	-1 592 131	-1 592 131
	230 401	11 154	8 204	9 491	-475 705	-216 454
Provincial Departments		31-60 Days	61-90 Days	91-120 Days	121 days plus	Total
Public Works	-120 925	30 303	-28 509	31 178	2 139 290	2 051 337
Education	1 851 601	127 334	245 542	238 317	4 048 040	6 510 833
Tvet Colleges	3 020 283	6 765	1 287	730	1 401	3 030 465
Human Settlement	76 615	7 792	18 855	4 364	609 943	717 570
Department of Transport	243 322	105 546	89 139	66 005	496 148	1 000 160
Department of Health	4 267 106	5 835	-15 004	7 684	3 868 640	8 134 262
Department of Social Welfare	65 157	-	-	-	-	65 157
	9 403 159	283 575	311 310	348 277	11 163 462	21 509 783
Other Organs of State		31-60 Days	61-90 Days	91-120 Days	121 days plus	Total
Transnet	9 506 653	66 379	68 145	36 495	-1 542 739	8 134 933
ESKOM	143 814	-122 736	1 541	2 148	84 920	109 688
Ingonyama Trust Board	726 972	365 236	365 085	368 550	15 999 522	17 825 366
Telkom	600 226	1 498	798	798	7 136	610 456
Foskor	23 809 495	-	-	-	-	23 809 495,27
SA Post Office	12 340	8 539	7 434	7 117	-3 765	31 665
Richards Bay IDZ	3 150 047	0	0	0	0	3 150 047
Mhlathuze Water Board	4 884 024	41	0	0	21 328 753	26 212 817
King Cetshwayo District Municipality	24 793 058	7 669 016	10 670 137	14 716 451	41 253 207	99 101 870
	67 626 630	7 987 974	11 113 140	15 131 559	77 127 033	178 986 336

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.

3.10 Employee Debt / Councillor Debt

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

Employees' debt amounts to R344 074,62 as per **Annexure AD - DMS 1616505**.

Councillors' debt amounts to R24 422,41 as per **Annexure AC - DMS 1616505**.

3.11 MFMA Circular number 71 Uniform Financial Ratios

MFMA Circular number 71 contained on **DMS 928606** sets out requirements for financial ratios and norms. This Circular covers various aspects of a municipality's finances, such as financial position, financial performance and budget implementation. These ratios also aid in long-term financial planning and can be used to track progress over a number of years. Norms or standards have been assigned to each financial ratio.

This template is included as **Annexure AF on DMS 1616505**.

4. IN-YEAR BUDGET STATEMENT TABLES

The following monthly budget statement tables (**DMS 1618341**) 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
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 NUMBER	DESCRIPTION	ANNEXURE
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
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**) (**DMS 1618341**) for the month ended 31 July 2023.

6. CREDITORS ANALYSIS

Refer to supporting table SC4 - Aged Creditors (**Annexure N**) (**DMS 1618341**) for the month ended 31 July 2023.

7. INVESTMENT PORTFOLIO ANALYSIS

Refer to supporting table SC5 - Investment Portfolio (**Annexure O**) (**DMS 1618341**) for the month ended 31 July 2023.

8. ALLOCATION AND GRANT RECEIPTS AND EXPENDITURE

Refer to supporting table SC6 - Transfers and grant receipts (**Annexure P**) (**DMS 1618341**) and supporting table SC7 - transfers and grant expenditure (**Annexure Q**) (**DMS 1618341**) for the month ended 31 July 2023.

9. COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS

Refer to supporting table SC8 - Councillor and staff benefits (**Annexure R**) (**DMS 1618341**) for the month ended 31 July 2023.

10. CAPITAL PROGRAMME PERFORMANCE

Refer to the following tables for the month ended 31 July 2023:

- Table C5 - Monthly Budgeted Capital Expenditure Budget by Vote, standard classification and funding (**Annexure G**) (**DMS 1618341**).

- ❑ Table C5C - Monthly Budgeted Capital Expenditure Budget by Vote, standard classification and funding **(Annexure H) (DMS 1618341)**.
- ❑ Table SC12 - Monthly capital expenditure trend **(Annexure U) (DMS 1618341)**.
- ❑ Table SC13a - Monthly capital expenditure on new assets by asset class **(Annexure V) (DMS 1618341)**.
- ❑ Table SC13b - Monthly capital expenditure on the renewal of existing assets by asset class **(Annexure W) (DMS 1618341)**.
- ❑ Table SC13c - Monthly repairs and maintenance expenditure by asset class **(Annexure X) (DMS 1618341)**.
- ❑ Table SC13d - Monthly depreciation by asset class **(Annexure Y) (DMS 1618341)**.
- ❑ Table SC13e - Monthly capital expenditure on upgrading of existing assets by assets class **(Annexure Z) (DMS 1618341)**.

11. MUNICIPAL MANAGER'S QUALITY CERTIFICATION

Refer to **DMS 1618649 (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 CITY MANAGER

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

RECOMMENDED THAT:

the financial position of the uMhlathuze Municipality as at 31 July 2023, 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 1618341)**, be noted.