Kai !Garib Municipality

KAI !GARIB
MUNISIPALITEIT-MUNICIPALITY

MID-YEAR BUDGET AND PERFORMANCE REPORT

(SECTION 72 OF MFMA)

JANUARY 2022

Glossary

Adjustment budget – Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

Allocations – Money received from Provincial or National Government or other municipalities.

Budget – The financial plan of the Municipality.

Budget related policy – Policy of the municipality affecting or affected by the budget, examples include tariff policy, rates policy, credit control and debt collection policy.

Capital expenditure - Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's balance sheet.

Cash flow statement – A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it is shown as expenditure in the month it is received, even though it may not be paid in the same period.

DORA – Division of Revenue Act. Annual legislation that shows the total allocations made by national to provincial and local government.

Equitable share – A general grant paid to municipalities. It is predominantly targeted to help with free basic services.

Fruitless and wasteful expenditure – Expenditure that was made in vain and would have been avoided had reasonable care been exercised.

Unauthorized expenditure – Generally, is spending without, or in excess of, an approved budget.

IDP – Integrated Development Plan. The main strategic planning document of the Municipality

MBRR – Local Government: Municipal Finance Management Act (56/2003): Municipal budget and reporting regulations.

MFMA – Local Government: Municipal Finance Management Act (56/2003). The principle piece of legislation relating to municipal financial management. Sometimes referred to as the Act.

MTREF – Medium Term Revenue and Expenditure Framework. A medium-term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous and current years' financial position.

Operating expenditure – Spending on the day-to-day expenses of the Municipality such as salaries and wages.

SDBIP – Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

Section 1 – Introduction

1.1 Purpose

To inform Council of progress made in the implementation of the budget and the performance outcomes in respect of the first six months of the 2021/2022 financial year, and to recommend whether an adjustments budget is necessary.

1.2 Legal requirements

In terms of Section 72 of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003):

(1) The accounting officer of a municipality must by 25 January of each year -

(a) assess the performance of the municipality during the first half of the financial year, taking into account –

(i) the monthly statements referred to in section 71 for the first half of the financial year;

(ii) the municipality's service delivery performance during the first half of the financial year, and the service delivery targets, and performance indicators set in the service delivery and budget implementation plan;

(iii) the past year's annual report, and progress on resolving problems identified in the annual report; and

(iv) the performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 from any such entities; and

(b) submit a report on such assessment to –

(i) the mayor of the municipality

(ii) the National Treasury; and

(iii) the relevant Provincial Treasury.

(2) The statement referred to in section 71(1) for the sixth month of a financial year may be incorporated into the report referred to in subsection (1)(b) of this section.

(3) The accounting officer must, as part of the review -

(a) make recommendations as to whether an adjustments budget is necessary; and

(b) Recommend revised projections for revenue and expenditure to the extent that this may be necessary.

Thereafter, the mayor must, in terms of Section 54(1):

(a) Consider the report;

(b) Check whether the municipality's approved budget is implemented in accordance with the service delivery and budget implementation plan;

(c) Consider and, if necessary, make any revisions to the service delivery and budget implementation plan, provided that revisions to the service delivery targets and performance indicators in the plan may only be made with the approval of the council following approval of an adjustments budget;

(d) Issue any appropriate instructions to the accounting officer to ensure-

   (i) That the budget is implemented in accordance with the service delivery and budget implementation plan; and

   (ii) That spending of funds and revenue collection proceed in accordance with the budget;

(e) Identify any financial problems facing the municipality, including any emerging or impending financial problems; and

(f) Submit the report to the council by 31 January of each year.

1.3 Content of this report

With the concurrence of the Chief Financial Officer, it was agreed that:

(a) The Finance Directorate prepare a report complying with the financial requirements of MFMA section 71. The mid-year budget statement for December 2021 was submitted to all legislated parties by the 10th working day of January 2022.

(b) The Performance Management Section in the Office of the Municipal Manager has reviewed the SDBIP in line with recommendations made by the Auditor General during the 2019/20 external audit process to determine whether amendments are required to the current SDBIP.

(c) The Accounting Officer (Municipal Manager) and the Chief Financial Officer (Director Finance) have reviewed the Annual Report and issues that were raised in the Audit Report and final management letter of the Auditor-General and have included these in a section in this assessment.

(d) The outcomes of the above-mentioned reports and reviews form the basis of the mid-year budget and performance assessment.

The Section 72 Report will be submitted to the Mayor on 23 February 2022 and workshop with Council, where after it will be tabled to Council on 25 February 2022.

This report was compiled from information and various reports generated from the financial system of the municipality as on 18 February 2022. The balances are unaudited.

Section 2 – Report of the Mayor

2.1 Mid-year budget and performance assessment

The beginning of 2021/2022 was a very challenging year. The reality is that the Municipality is currently faced with numerous financial problems which impact, amongst others, on its ability to meet its financial commitments and the provision of sustainable basic services. The global Covid 19 pandemic increases the financial stress of consumers that at the end of the day puts more stress on the already cash flow constrains of the municipality.

Given the urgency to ensure sustainable service delivery to communities and financial sustainability, meetings were conducted between the Municipality and Treasury, to develop and implement a Financial Recovery Plan, together with a Budget Funding Plan, as a critical way forward for the municipality. These plans have also identified certain risks that must be monitored and mitigated for successful implementation.

In respect of financial resources, the key will be restructuring of the municipality's budget, optimising the revenue resources available to the municipality, implementation of the revenue enhancement initiatives, vigorously implement the cost containment/ austerity measures and expenditure management, as well as cash-flow management, starting with an overview of the performance of the past six months.

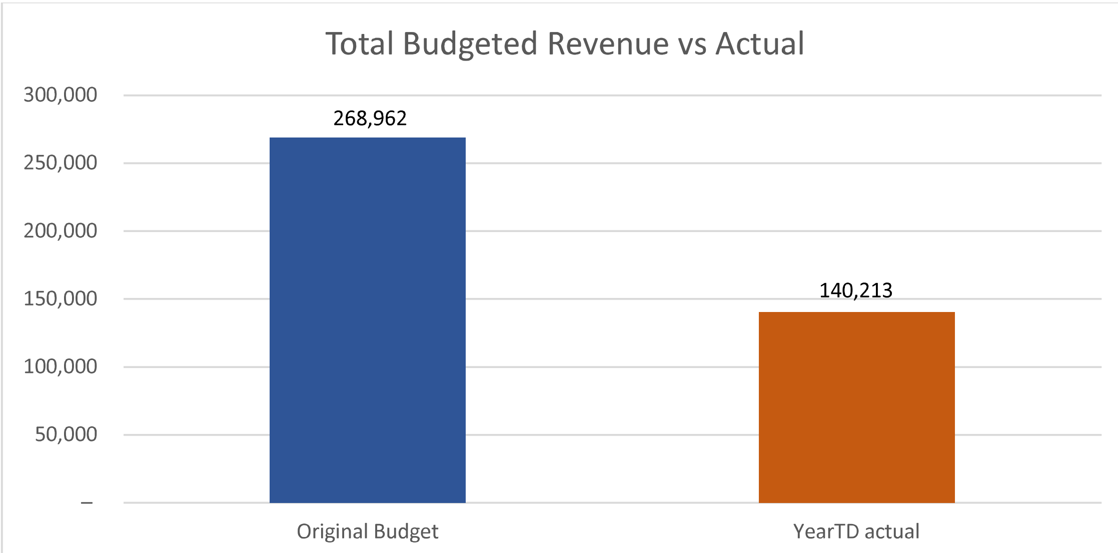
The December monthly statement serves as the mid-year budget and performance assessment report as required in terms of Section 72 of the MFMA.

Reflecting on the past 6 months of the 2021/2022 financial year, it is clear that the anticipated Annual budget did not realise, which will be the driving force for an Adjustment Budget.

Section 3 – Financial Performance

3.1 Actual Revenue per Revenue Source

The actual revenue per revenue source is set out in Table 1 below. The actual revenue raised for the current year as per December 2021 trail balance is R 140,213 million, against a budgeted figure of R 268,962 million (52.13%).



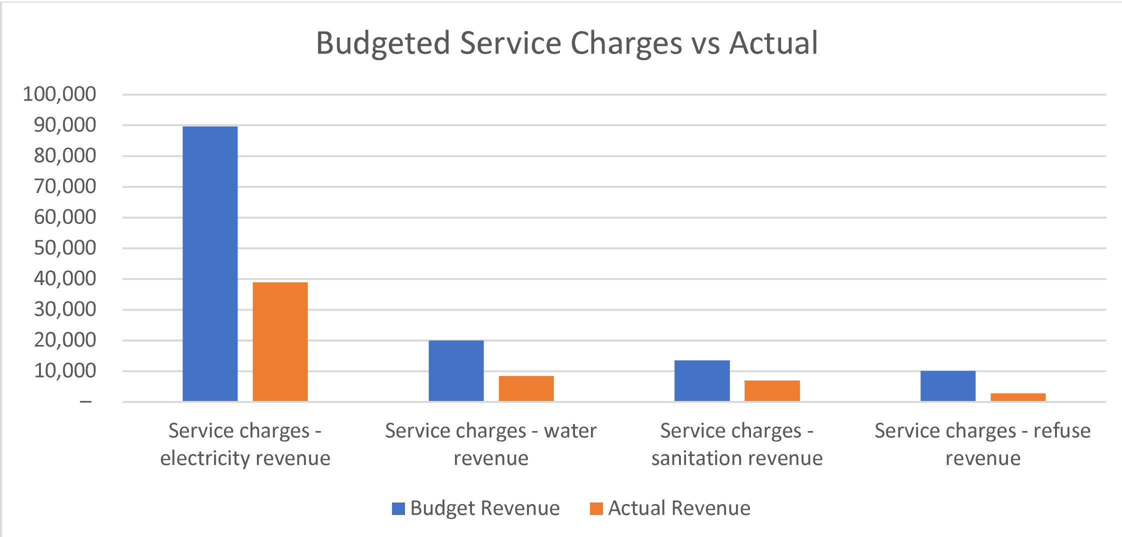
<u>Property rates</u>

- It must be noted that revenue for Property Rates is levied at the beginning of the financial year.
- Rebates and discounts are given to households and agricultural properties on the following criteria:
  - Households:
    - First R 20,000 of the property value is exempted (R 15,000 legislated + R 5,000 Council policy)
    - Indigent households receive an additional R 100,000 exemption on the property value whereon the amount payable for property rates is calculated (Council policy)
  - Agricultural properties:
    - 5% discount on the property rates payable, if the property owner provides housing to their employees
    - 5% discount on the property rates payable, if the property owner provides recreational facilities to their employees
    - 5% discount on the property rates payable, if the property owner provides clean drinkable water to their employees
    - 5% discount on the property rates payable, if the property owner provides electricity to their employees

- The variance of R 8,757 million against the budgeted amount of R 21,461 million should be investigated by the municipality's revenue manager as a matter of urgency to ensure all transactions is processed timeously and accurately on the municipality's financial system.

Service charges

In terms of the budgeted figures, the contribution of Service Charges of R 57,223 million towards total income of R 133,384 million is equal to 49.59%. The amount for service charges in Table C4 are the actual amount billed and not the amount that is received from the municipality's consumers. The amount billed for Service Charges until December 2021 is R 57,233 million.



Rental of facilities and equipment

- The actual income for the rental of municipal facilities and equipment of R 402,000 exceeds the anticipated budget of R 284,000.
- The collection rate on income from commonage increased due to arrear fees that was paid. The necessary internal controls will have to be reviewed to ensure that all rental income is collected and accounted for during each financial year.

Interest Earned - external investments

- The actual income of R 12,000 does not exceed the anticipated budget amount of R 121,000 due to no conditional grant funding nor surplus funds are invested in the financial institutions for the purpose of earning interest.

Interest Earned-outstanding debtors

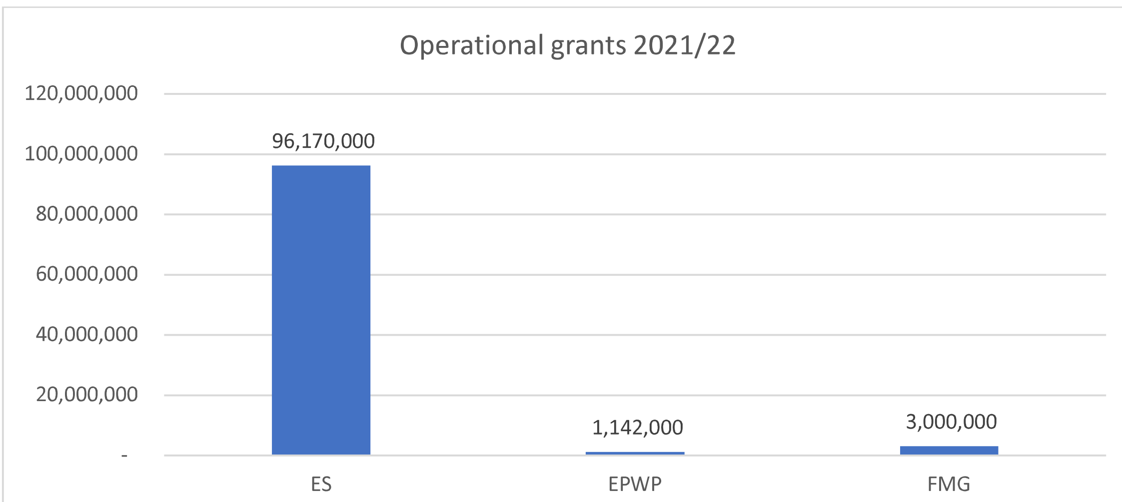
- The year-to-date amount of R 5,950 million exceeds the anticipated budget amount of R 5,679 million (104,76%).
- It is of utmost importance that the municipality keep enforcing their credit control policy and that the municipality's debt collection unit is functioning effectively monthly to ensure the payment percentage of consumers does not decrease.
- Effective internal controls will ensure there is a positive impact on the municipality's collection rate, and that will at the end, improve the municipality's cash flow situation.

Licences and permits

- The year-to-date amount of R 952,000 exceeds the anticipated budget amount of R 360,000 (264.51%).
- Money collected at the different traffic offices of the municipality should be reconciled and investigated by the municipality's revenue manager as a matter of urgency to ensure all transactions is processed timeously and accurately on the municipality's financial system and the revenue is split correctly allocated between Licences and permits and Agency fees.
- Internal controls should be reviewed and implemented where necessary at the different offices to ensure all money collected is banked daily.

Transfers and subsidies (Operational)

- The municipality received 100% of their allocated grant funding for the first halve of the financial year.
- Journals to recognise the revenue as grant conditions is being met should be reviewed and processed on the municipality's financial system to ensure the municipality reports correctly on their grant revenue for the year.



Other income

- Other income consists of revenue for photocopies, faxes, clearances, tender deposits, commission on policies, cemetery fees, building plan fees, etc.
- Management estimated income from other sources of revenue on a very conservative approach, considering the past 4 years audited figures. These revenue sources are deemed as 100% collectable.
- With the dire cash flow situation, the municipality finds itself in currently, it is very important that the municipality does not render any services without invoicing the client and receiving payment.

- All revenue projects and sources should be investigated by the municipality's revenue manager as a matter of urgency to ensure all transactions is processed timeously and accurately on the municipality's financial system.

NC082 !Kai! Garib - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M06 December											
		2021/22	Budget Year 2022/23								
Description R thousands	Ref	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
Revenue By Source										
Property rates		19,764	21,461	–	(1,677)	12,705	21,461	(8,757)	-41%	25,410
Service charges - electricity revenue		81,178	89,665	–	6,650	38,958	39,494	(536)	-1%	77,916
Service charges - water revenue		17,119	20,000	–	1,567	8,393	9,406	(1,013)	-11%	16,785
Service charges - sanitation revenue		8,802	13,639	–	1,133	6,997	6,818	180	3%	13,995
Service charges - refuse revenue		6,522	10,081	–	466	2,875	5,040	(2,166)	-43%	5,750
Rental of facilities and equipment		697	563	–	64	402	284	117	41%	803
Interest earned - external investments		140	242	–	4	12	121	(109)	-90%	24
Interest earned - outstanding debtors		10,529	11,359	–	1,069	5,950	5,679	271	5%	11,900
Dividends received		–	–	–	–	–	–	–		–
Fines, penalties and forfeits		1,033	77	–	1	6	39	(32)	-83%	13
Licences and permits		831	712	–	158	952	360	592	165%	1,905
Agency services		576	244	–	–	–	123	(123)	-100%	–
Transfers and subsidies		107,058	100,312	–	–	64,322	80,507	(16,185)	-20%	64,750
Other revenue		3,521	607	–	(2,514)	(1,360)	310	(1,670)	-539%	(2,720)
Gains		–	–	–	–	–	–	–		–
Total Revenue (excluding capital transfers and contributions)		**257,771**	**268,962**	**–**	**6,922**	**140,213**	**169,643**	**(29,430)**	**-17%**	**216,531**

3.2 Actual Operational Expenditure per Project

The actual operational expenditure per vote is set out in Table 2 below. The budgeted amount for the municipality's total operational expenditure is R 266,830 million of which R 126,114 million was utilized during the period under review. The spending of R 126,114 million is 47.26% of the planned budget.

The figures in this section represent the accrued amounts, in other words when the goods have been ordered, received or the invoice has been completed (reconciled with goods received and prices quoted) it should be captured as an expense. Shadow figures are reflected on the financial system once an order is issued. This action serves as a budgetary control mechanism.

NC082 !Kai! Garib - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M06 December										
		2021/22	Budget Year 2022/23							
Description R thousands	Ref	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
Expenditure By Type										
Employee related costs		133,826	132,203	–	10,436	67,883	69,715	(1,832)	-3%	135,765
Remuneration of councillors		7,189	8,103	–	470	3,793	4,052	(258)	-6%	7,587
Debt impairment		680	9,486	–	1	1	4,743	(4,742)	-100%	3
Depreciation & asset impairment		35,249	18,469	–	–	–	9,234	(9,234)	-100%	–
Finance charges		19,780	16,492	–	0	4	8,246	(8,242)	-100%	7
Bulk purchases - electricity		72,439	52,165	–	–	789	22,977	(22,188)	-97%	1,579
Inventory consumed		13,223	5,949	–	2,620	6,689	2,973	3,716	125%	13,379
Contracted services		40,198	16,497	–	7,672	32,086	8,253	23,833	289%	64,173
Transfers and subsidies		–	–	–	–	–	–	–		–
Other expenditure		30,864	7,466	–	1,964	14,868	3,733	11,135	298%	29,737
Losses		(7,634)	–	–	–	–	–	–		–
Total Expenditure		**345,815**	**266,830**	**–**	**23,164**	**126,114**	**133,926**	**(7,811)**	**-6%**	**252,229**

Employee related cost

- One of the biggest drivers i.t.o. expenditure is employment cost. The budgeted amount for employee related cost is R 132,203 million of which R 67,883 million (51.35%) was expensed during the period under review.
- The salary budget was based on the 426 employees employed by the municipality. It is clear that the municipality can't budget for any vacant posts, as the norm of 35% of the total budget is already exceeded.

Debt impairment and Depreciation

- The underspending reflected, is due to calculations performed on an annual basis.

Finance Charges

- Budget of R 8,246 million was anticipated up to end of December 2021. Year to date actual amounts only to R 4,000. The total budget for finance charges, for the current financial year, is understated, when we look at Kai !Garib's Creditors Aged Analysis, which reflects outstanding payments for more than 30 days.
- The expenditure manager should ensure that all expenditure is processed daily on the municipality's financial system on the accrual basis, to ensure the municipality's reporting is reliable and accurate.
- It must be noted that the in-year-reporting is only as accurate as the information that is processed on the financial system.

Bulk Purchases

- The second biggest driver is bulk purchases which represent 19.55% of the total budget. An amount of R 789,000 was made to Eskom during the period under review.
- The expenditure manager should ensure that all expenditure is processed daily on the municipality's financial system on the accrual basis, to ensure the municipality's reporting is reliable and accurate.
- As mentioned above, it must be noted that the in-year-reporting is only as accurate as the information that is processed on the financial system.
- Internal controls should be implemented to ensure all the municipality's creditors is reconciled with the financial system monthly.

Inventory consumed (repairs and maintenance)

- The actual expenditure R 6,689 million is more than the anticipated R 2,973 million, for the period under review.

Contracted services

- An overspending of R 23,833 million is reflected, against the pro-rata budget of R 8,253 million.

- Implementation of effective cost containment measures to, amongst other things, control unnecessary spending on nice-to-have items and non-essential activities as highlighted in the Municipal Cost Containment Regulations read with MFMA Circular No. 82
- Ensuring the municipality receives value for money through the procurement process
- The affordability of providing free basic services to all households and transporting of water to communities

<u>Other/General expenditure</u>

- Actual expenditure R 14,868 million, exceeds the anticipated budget of R 3,733 million, by R 11,135 million (298%)
- Proper planning plays a major role in the implementation and monitoring of any budget.

3.3 Capital expenditure

The actual capital expenditure per vote is set out in the table below. Funding for Capital projects consist mainly of Capital Grant Funding. For the period under review, a total of R 22,803 million was expensed, against the budgeted figure of R 32,596 million – an underspending of 18.27%, with regards to the year-to-date budget.

NC082 !Kai! Garib - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M06 December

Description	Ref	2021/22	Budget Year 2022/23							
R thousands		Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
Transfers and subsidies		19,865	32,596	–	–	22,803	27,899	(5,096)	(0)	45,605
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporatons, Higher Educational Institutions)		–	–	–	–	–	–	–		–
Transfers and subsidies - capital (in-kind - all)		–	–	–	–	–	–	–		–

The capital budget will comprise and funded by the following resources:

Government continues to reform the system of conditional grant transfers to local governments based on the principles set out in the 2019 Budget Review. In 2022, government will expand the scope of the *municipal infrastructure grant* to allow municipalities to use up to 5 per cent of their allocation to develop infrastructure asset management plans. This change will address poor asset management in municipalities.

The planned capital projects are registered with the relative departments and was started as soon as the grants was received in the new financial year. The capital implementation plans are discussed in the Integrated Development Plan (IDP) in more detail.

3.4 Borrowings

The municipality's position on external loans is set out below. The municipality started on 01 July 2001 with borrowing debt at the Development Bank of South Africa to acquire assets and finance infrastructure development. The outstanding balance for the 2nd quarter adds up to R 12,998,621. No payment was made to the Development Bank, for the current financial year, which as a result, increases the finance cost.

Product Number	Project Number	Capital	Interest	Fees	Other	Total
61000080	100498/1	857,902.61	928,475.38	0.00	0.00	1,786,377.99
61001016	103723/2	5,501,379.99	4,538,840.00	0.00	0.00	10,040,219.99
61001017	103723/3	0.00	17,543.77	0.00	0.00	17,543.77
61001442	11202/102	0.00	0.42	0.00	0.00	0.42
61003256	13702/101	550,888.32	603,591.21	0.00	0.00	1,154,479.53
TOTAL		**6,910,170.92**	**6,088,450.78**	**0.00**	**0.00**	**12,998,621.70**

3.5 Debtors age analysis

The municipality's debtor's age analysis as at 31 December 2021 is set out in the table below. The total outstanding debtors amounts to R 269,432,976 million and R 222,464,381 million is outstanding for more than 90 days.

DEBTOR AGE ANALYSIS BY INCOME SOURCE	0 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 - 150 Days	151 + Days	Total
Water	2,826,105	1,144,589	1,014,322	974,317	1,123,587	68,952,148	76,035,068
Electricity	5,999,069	1,024,549	755,309	560,678	705,095	20,955,358	30,000,058
Property Rates	21,630,143	638,618	6,546,921	264,813	486,038	47,237,647	76,804,180
Waste Water Management	1,409,226	501,089	507,726	759,633	438,471	30,069,644	33,685,789
Waste Management	1,117,534	448,384	451,181	440,377	406,796	31,179,592	34,043,864
Other	495,539	197,110	261,181	224,383	191,018	17,494,786	18,864,017
Total For Income Source	**33,477,616**	**3,954,339**	**9,536,640**	**3,224,201**	**3,351,005**	**215,889,175**	**269,432,976**
DEBTOR AGE ANALYSIS BY CUSTOMER GROUP	**0 - 30 Days**	**31 - 60 Days**	**61 - 90 Days**	**91 - 120 Days**	**121 - 150 Days**	**151 + Days**	**Total**
Organs of the State (Government)	11,366,127	411,554	3,530,788	176,721	238,996	21,596,508	37,320,694
Commercial	6,106,980	165,181	834,645	116,002	135,145	7,818,140	15,176,093
Households	16,004,509	3,377,604	5,171,207	2,931,478	2,976,864	186,474,527	216,936,189
Other	-	-	-	-	-	-	-
Total For Customer Group Code	**33,477,616**	**3,954,339**	**9,536,640**	**3,224,201**	**3,351,005**	**3,096,283**	**269,432,976**

As mentioned earlier, it must be noted that the in-year-reporting is only as accurate as the information that is processed on the financial system. The debt collection policy is implemented to facilitate the collection of outstanding debt. An in-house debt collection unit has been established.

3.6 Creditors age analysis

The municipality's Creditors Age Analysis as at 31 December 2021 is set out in the table below. It must be noted that not all outstanding creditors is included in the financial system.

The municipality's cash flow problems are a result of non-payment or creditor payments in excess of 30 days, which is a non-compliance in terms of Section 65 (2)(e) of the MFMA.

In terms of Section 65(2)(e) of the MFMA the Accounting Officer must take all reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement for goods or services rendered.

As mentioned earlier, it must be noted that the in-year-reporting is only as accurate as the information that is processed on the financial system.

Description	0-30 Days	30-60 Days	60-90 Days	90-120 Days	120-150 Days	Over 1 Year	Total
Bulk Electricity	-	-	-	-	-	355,850,647.64	355,850,647.64
Bulk Water	-	-	-	-	-	15,314,669.69	15,314,669.69
PAYE deductions	-	-	-	-	-	-	-
VAT (output less input)	-	-	-	-	-	-	-
Loan repayments	-	-	-	-	-	-	-
Trade Creditors	-	-	-	-	-	43,929,692.10	43,929,692.10
Auditor General	-	-	-	-	-	10,250,942.05	10,250,942.05
Other	-	-	-	-	-	2,122,465.81	2,122,465.81
TOTAL	**-**	**-**	**-**	**-**	**-**	**427,468,417.29**	**427,468,417.29**

SECTION 4 - Recommendation

That Council approve the Section 72 report as presented and recommend a Revised/Adjusted Budget that will be credible, and cash funded.