

# Bitou Municipality

## Summary of Budget and Financial Performance for the mid-year ended 31 December 2022

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### OVERVIEW OF THE FINANCIAL STATE OF AFFAIRS OF BITOU MUNICIPALITY FOR THE MID-YEAR ENDED 31 DECEMBER 2022

#### 1. FINANCIAL POSITION

##### ASSETS

Current Assets have increased from R132,2 million as at 31 July 2022 to an amount of R196,2 million which represent cash at hand, investments, and outstanding debtors, inclusive of the annual billing for property rates, refuse removal and sanitation services which are due on a monthly basis.

Cash and cash equivalents have increased from R6,4 million as at 31 July 2022 to R 104.3 million as at 31 December 2022 which mainly represent short term investments amounting to R60.7 million.

Non-current assets, which includes property plant and equipment decreased from R1.211 billion as at 31 July 2022 to R1.196 billion as at 31 December 2022 as a result of the maturing of the long-term investment in the current financial year.

In total assets have increased from R1.343 billion as at 31 July 2022 to R 1.393 billion as at 31 December 2022.

##### LIABILITIES

Current liabilities have increased from R 87.7 million as at 31 July 2022 to an amount of R97.6 million as at 31 December 2022, this increase mainly represent unspent conditional grants and creditors payments that have been invoiced but is not yet due for payment.

on-current liabilities represent outstanding borrowing (loans that were taken up for capital purchases in prior years) amounting to R77.8 million and long-term provision for employee benefits in the amount of R70.2 million.

Non-current liabilities amount to R148 million as at 31 December 2022.

##### NET ASSETS

Net assets have increased from R1.089 billion as at 31 July 2022 to R1.147 billion as at 31 December 2022.

##### CONCLUSION ON FINANCIAL POSITION

The financial position as of 31 December 2022 remains concerning, although there has been a slight improvement from the commencement of the financial year. The current ratio as at 31 December 2022 is within the best practice benchmark of 2:1 meaning current assets are 2 times more than current liabilities.

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(The best practice benchmark is between 2 and 3). The liquidity ratio is 1.07:1 meaning that liquid assets (cash and investments) are barely covering our current liabilities. It is clear that there are barely sufficient cash resources available to fund operations in the short- as well as medium term and a concerted effort is necessary to ensure a turnaround of the financial position over the next few years.

## 2. FINANCIAL PERFORMANCE

### REVENUE

#### Own revenue raised

Total revenue is underperforming by 1% compared to the budget target for the financial year with property rates reflecting a 4% year to date underperformance. Service charges are reflecting the same overall underperformance which is indicative that we were overestimating these sources of revenue for the 2022/2023 financial year. Electricity is underperforming with approximately 5% when departmental allocations are taken into account. Water revenue is 8% lower than the year-to-date budget, this is due to the continuous loadshedding we are experiencing which affects the reservoir levels and thus the supply of water coupled with lower than normal consumption over the holiday season as a result of change in the climate where more moderate temperatures and rain were experienced in the peak season. The expected increase in consumption during the summer period therefore did not happen and it may therefore be necessary to reduce this revenue source downward. Refuse revenue and Sanitation revenue is underperforming by 10% and 5% respectively as per budgetary predictions and a downward adjustment for these revenue sources may be necessary

Own Revenue performance against budget is alluded to in the table hereunder:

Revenue Source	Comment
Rates	A negative YTD variance of 4% due to the majority of ratepayers electing not to pay assessment rates on an annual basis, coupled with the supplementary valuation roll that still needs to be implemented and an under-estimation of the effect of the R350,000 valuation rebate applied to all ratepayers for the financial year. The actual billing projected over the remainder of the financial year may not be sufficient to meet the revenue targets for the year and an adjustment to this source of revenue may be necessary.
Electricity	A negative YTD variance of 5% due to continuous loadshedding and longer downtime due to the different stages. A decrease in units consumed are expected over the remainder of the financial years as the peak season has passed and the summer usually brings means less electricity usage. It is recommended to adjust revenue targets downward in the adjustments budget.

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Revenue Source	Comment
Water	A negative YTD variance of 8% due to continuous loadshedding and pump stations not being able to handle the demand during this time. An adjustment in respect of this revenue source is also necessary in the mid-year budget process.
Sewerage charges	A negative YTD variance of 5% which is also evident, it is evident that in the preparation of the original budget, adequate consideration was not given to the effect that the percentage rebates to customers based on earnings would have had, coupled with the increase in the number of indigent consumers. Consideration will be given to a downward adjustment of this category of revenue in the adjustment budget.
Refuse charges	A negative YTD variance of 10% is evident, similar reasons as stated herein above for sewerage charges needs to be considered. Through simple revenue enhancement assessments by management, it is clear that not all customers are charged correctly for the volumes of refuse generated and that there are various anomalies in respect of the level of service rendered and the associated billing that require attention. The revenue in respect of this category of income will also be considered for downward adjustment in the revised budget.
Traffic Fines	A negative YTD variance of 31% as a result of less fines revenue that was received in this period. It is anticipated that this source will gain momentum over the next few months as the service provider has been appointed in November. A determination will be made on whether it will meet the anticipated budgeted amount for the remainder of the financial year, an adjustment to the revenue budget may need to be considered.
Interest earned: Outstanding Debtors and External Investments	Interest earned on external investment and outstanding debtors' revenue as at end of December 2022 amounts to R2.4 million and R9.8 million respectively while the YTD budget amounts to R2.3 million and R7.3 million respectively. The municipality's recent investing has started to bare fruits and the result is a positive YTD variance of 5%. Although the interest on outstanding debtors is over performing, it is doubtful that the municipality would be able to collect it.
Other revenue	A positive YTD variance of 18% due to more revenue received than anticipated in the budget. The major contributor of the revenue remains building plan approval fees, development charges, town planning fees, fire services, staff and councillor recoveries etc.
Agency Services	A positive YTD variance of 11% as a result of an increase in issuing of license renewals and driving licenses. Upon a proper analysis of past revenue trends, an adjustment to this source of revenue will be considered in the adjustments budget.

### Transfer revenue - Grants

Revenue from Transfers and Subsidies amounts to R98.5 million for the month of December 2022. Revenue from Transfers and Subsidies is over performing by 20%. This over performance can be ascribed to the equitable share second tranche received in December 2022. Operational transfers are in line with budgetary predictions for the current financial year and will only be adjusted in accordance with additional revenues

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allocated in the DORA Amendments Bill or Government Gazette. An allocation through the Western Cape Financial Management Capacity building grant in the amount of R800,000 was received and the budget will be adjusted accordingly.

### 3. EXPENDITURE

#### EMPLOYEE COST

Employee related cost as at end of December 2022 amounts to R142.6 million, while the YTD budget amounts to R154 million. This translates to an under performance of 7%, however it must be pointed out that the provisions for employee benefits still needs to be debited based on the annual actuarial valuations which will only be performed during June 2022. The main factor contributing to the under-spending remains the vacant positions that have not been filled to date.

The expenditure for overtime exceeds the budgetary allocation for the year to date and a special effort will be necessary to reduce the trend of expenditure.

An effort has been made to prevent a further escalation in employee cost and to ensure that the ratio of employee cost to total expenditure is not exceeded. The new organisational structure that was approved would most probably have an impact on the total salary cost, yet positions will only be filled after careful consideration of the adequacy of the budget being available coupled to the impact on service delivery.

The EPWP funds received from the Grant has been exhausted and additional funding from departmental budgets is currently at R4.1 million. EPWP programs can successfully be completed in the current year, a re-allocation from departmental votes in the amount of approximately R 1 million will be necessary to sustain this program for the remainder of the financial year.

Considering the aforementioned, an adjustment of this expenditure item will be necessary.

Salary Item	Comment
Basic Salary	The total expenditure for this item amounts to R 82 931 million or 46% of the total budget for basic salary. A slight saving on basic salaries as at 31 December 2022 representing 4% of the budget is evident. It also must be mentioned that even though there is a slight saving in total, sections such as the office of the municipal manager, engineering services and economic development have already reached the 50% mark on spending against the budget.
Overtime	60% was spent of the total budgetary allocation which is above the norm of 50% for the year to date and considering the current trend for this item, an upwards adjustment would be recommended to prevent overspending. The result of this upwards adjustment will mean that savings need to be identified on vacant positions that were budgeted for and are not yet filled. Alternatively service delivery departments should manage the expenditure on this item downward.

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	Certain sections have already overspent and an adjustment is therefore necessary.
Standby	72% was spent of the total budgetary allocation which is also above the norm of 50% for the year to date. This line item will need to be adjusted based on the current trend with sections such as the Office of the MM and Corporate service being overspent or above 90% already.

#### BULK PURCHASES

Bulk purchases relate to payments made to Eskom for electricity, the expenditure as at end of December 2022 amounts to R75.5 million compared to R80.9 million YTD budget, thus reporting an under performance of 4%. Payment of Eskom invoices are due 30 days after the invoice was issued. The Autumn and Winter consumption increase has not been factored in and may contribute to an increase in the revenue. The continued and persistent loadshedding is however resulting in a reduction of units purchased, it may be necessary to adjust this item downward in the adjustment budget.

#### OTHER EXPENDITURE ITEMS

The table hereunder highlights a few items where the original budgeted amounts may require reconsideration as a result of current actual performance and an adjustment budget is therefore recommended and unavoidable.

Expenditure Item	Comment
Contracted Services	Expenditure as at the end of December 2022 amount to R17.6 million and is under-performing by 64% when compared to the YTD budget of R49.4 million. The under expenditure remains constant and it is still anticipated that this category of expenditure will increase towards the conclusion of the financial year, however a downward adjustment will still be considered where it is evident that funds cannot be spent.
Telephone expenses	Total monthly expenditure for this item is lower than the monthly budget and a saving at the current trend of expenditure is anticipated for the year. The year-to-date expenditure amounts to R809 453. A 20% saving is evident upon considering the recalculated mid-year expenditure amount for this item. It is recommended that this item be adjusted downwards for the remainder of the financial year.
Subsistence and travelling	The year-to-date expenditure for this item amounts to R 668 286 or 25% of the total budgeted amount which is 50% below annual budget predictions. This expenditure needs to be closely monitored to ensure that the actual expenditure remains within the budgetary allocation.
Fuel and Oil	The year-to-date expenditure for fuel and oil amounts to R 4.7 million or 78% of the total budgeted amount, which is over-spent by R1.7 million as per year-to-date budget. The budget for this item needs to be adjusted in the Mid-Year adjustment budget process to make provision for fuel price increases, and to fund the expenditure for the remainder of the

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Expenditure Item	Comment
	financial year. Attention must be given to savings and austerity measures inclusive of better planning of trips to ensure that the expenditure in respect of this item is managed within the budgetary allocation. The use of Generators and the purchase of additional generators to stay operational will have to be factored in as loadshedding continues. The budget for this item will have to adjusted upwards during the mid-year adjustments budget process.
Security cost	Security Cost compared to year-to-date budget is currently overspent by 20%. This line item should be considered for adjustment as 60% of the total budgetary allocation has been spent. The individual user departments have been tasked to perform a security needs assessment in order to manage this expenditure item downward. At the current rate of expenditure, overspending is immanent if services are not limited.

### TOTAL EXPENSES

In total, expenditure is below the year-to-date budget. Consideration will be given to adjust the expenditure in accordance with current performance as reported in the tables above, as well as to incorporate the virements processed to date. It must be taken into consideration that the allocation of provisions and reserves still needs to be done which will bring down the current year to date surplus of 15% on total expenditure, to less than 9%.

### CONCLUSION ON FINANCIAL PERFORMANCE

In total the year-to-date revenue is slightly below the year-to-date budget and expenditure is also below the year-to-date budget. Based on the current trend an operating surplus is still anticipated for the 2022/2023 financial year. Considering the aforementioned explanations, it is concluded that an adjustment budget will be necessary to adjust both revenue and expenditure projections as alluded to above.

## 4. DEBTORS MANAGEMENT

The debtors' book of the municipality reflects an amount of R 222 million outstanding for longer than 121 days and a total outstanding amount of R282.8 million with total write-offs amounting to R21.5 million for the period ended 31 December 2022.

A concerted effort has been made to reduce the debtor's book by cutting and restricting services during the peak season, yet the efforts made were not very effective in reducing the total outstanding debt. Areas of concern are the following:

- New Horizons with a debtors collection period of nearly 12 months.
- Kwanokuthula with a debtors collection period of 11.15 months.

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- Farm areas with a debtors collection period of 9.15 months.
- Kranshoek is a matter of great concern with R78.5 million being owed to the Municipality with a debt collection period of approximately 40 months.
- Kurland is also concerning with R38.2 million being outstanding and a debt collection period of nearly 42 months.
- Green valley with a debtors collection period of 33 months is also a concern.
- The remainder of Bitou suburbs owe a total of R67.1 million which translates to a debt collection period of 64 days or just over 2 months.

The contributors to this huge debts still remains the household debt which represents 95.5% of the total debt, followed by businesses with 4.3% and organs of state contributing 0.2%. It is clear from the aforementioned debtors collection days that the Eskom Electricity distribution areas remain a challenge to the municipality in respect of the collection of debt. Credit control action will be focused in these areas, especially in respect of owners letting their properties to tenants and where rates accounts are not paid.

The municipality has monthly debt collection strategies to help ensure that outstanding revenue is collected, which includes blocking prepaid electricity for users in arears and applying water restrictions in arears where Eskom is the electricity distributor. Customers are informed prior to these actions being implement by way of a disconnection notice. Disconnection notices are sent monthly out to all customers with outstanding accounts after the due date which is 7th of every month, this has also proved to be ineffective and a new credit control strategy will be presented forthwith in an attempt to reduce the outstanding debt owed to the municipality.

Incentive schemes offered to customers have also proved to have little impact and alternative measures will be explored in an attempt to increase the collection rate.

The collection rate for the month of December 2022 is 80.04% and is insufficient to sustain operations, a concerted effort is thus necessary to improve the collection of debt.

## 5. CREDITORS MANAGEMENT

Outstanding creditors amount to R35 Million which include unspent conditional grants, current commitments not yet due in respect of payments to service providers as well as other payables, accruals and unallocated deposits received in the municipal bank account. All current creditors are paid strictly in terms of the legislative requirements being 30 days from date of invoice.

## 6. CASH FLOW AND INVESTMENT MANAGEMENT



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Cash and cash equivalents have increased from R6.4 million as at 31 July 2022 to R 104.3 million as at 31 December 2022. Interest earnings have increased due to improved cash management being applied and the budget for this item will be adjusted upwards in accordance with current performance. The municipality has sufficient funds available to meet the current commitments as well as to fund operations in the short term. The cost coverage ratio equals 1.3 months indicative of the fact that insufficient liquid resources (cash and cash equivalents) are available to pay for operational expenses in the short term. The benchmark is 3 months indicating that the municipality has not yet reached required liquidity levels.

### 7. CAPITAL SPENDING

The table underneath gives the year-to-date capital expenditure excluding commitments that were raised as at 31 December 2022, per vote. Capital Expenditure for the month of December amounts to R3.7 million and YTD expenditure as at end of December 2022 amounts to R6.9 million.

It is concerning that the total year-to-date spending represents only 6% approved capital budget which means the majority of projects are under-performing, the expenditure pattern over the last number of years indicate that where departments fail to meet a 25% target in actual spending in the second quarter, it usually results in an underspending of the project and a results in a failure to complete the projects in a budget year. Where a failure to complete projects is evident in upon the mid-year assessment, consideration will be given to the budget being forfeited or adjusted to more realistic amounts.

It is noted that spending has slightly improved from the previous months report and it is further anticipated that there will be an improvement in spending over the remainder of the financial year. The commitments (shadow balances) loaded on the financial management system amounts to R44.2 mil, which translates to 41% of the total capital budget. It is crucial to prioritise spending on conditional grants as historic trends in slow spending has resulted in that departments having to apply for rollover of funds to the next financial year, this presents a risk to the municipality as these applications are at times rejected causing the municipality to use own funds in the completion of projects.



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WC047 Bitou - Table C5 Monthly Budget Statement - Capital Expenditure (municipal vote, functional classification and funding) - Mid-Year Assessment										
Vote Description	Ref	2021/22	Budget Year 2022/23							
		Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands	1								%	
<b>Multi-Year expenditure appropriation</b>	2									
Vote 3 - Community Services		-	1 400	2 230	81	81	700	(619)	-88%	2 230
Vote 4 - Corporate Services		-	1 804	1 804	43	84	902	(818)	-91%	1 804
Vote 5 - Financial Services		-	600	600	-	-	300	(300)	-100%	600
Vote 7 - Engineering Services		-	45 556	52 087	990	1 458	23 420	(21 962)	-94%	52 087
<b>Total Capital Multi-year expenditure</b>	4,7	-	<b>49 360</b>	<b>56 720</b>	<b>1 114</b>	<b>1 623</b>	<b>25 322</b>	<b>(23 699)</b>	<b>-94%</b>	<b>56 720</b>
<b>Single Year expenditure appropriation</b>	2									
Vote 3 - Community Services		-	9 026	10 136	623	1 345	4 467	(3 122)	-70%	10 136
Vote 4 - Corporate Services		-	635	635	-	1	318	(316)	-100%	635
Vote 6 - Economic Development & Planning		-	-	435	-	-	-	-		435
Vote 7 - Engineering Services		-	39 429	39 784	2 016	3 946	16 412	(12 466)	-76%	39 784
<b>Total Capital single-year expenditure</b>	4	-	<b>49 090</b>	<b>50 990</b>	<b>2 638</b>	<b>5 293</b>	<b>21 196</b>	<b>(15 904)</b>	<b>-75%</b>	<b>50 990</b>
<b>Total Capital Expenditure</b>	3	-	<b>98 450</b>	<b>107 711</b>	<b>3 752</b>	<b>6 916</b>	<b>46 519</b>	<b>(39 602)</b>	<b>-85%</b>	<b>107 711</b>

It is clear from the aforementioned that adjustments to the capital budget may be necessary in the mid-year revision of the budget.

## CONCLUSION

The financial performance outlook as at end of December 2022 has improved slightly from the commencement of the financial year, yet the current cash flow is not sufficient to sustain operations in the short, medium as well as the long term and the current ratio has only just reached the best practice norm. Cash resources remain under strain and an improvement in the liquidity position require continued attention. Management is continuously implementing action to further enhance the cash flow position through savings and austerity measures and the application of the cost containment policy. The budget and other financial reports are being monitored to ensure that financial targets are met as anticipated in the annual approved budget. It must be acknowledged that a further improvement is necessary to ensure the successful rolling out of the capital program for the financial year and that a continued effort is necessary to further increase the collection of debt owed to the municipality and to enhance existing municipal revenue streams.

Further austerity and savings measures will need to be applied to aid in the improvement of the financial performance and position of the municipality. The implementation of the voluntary financial recovery plan receives dedicated attention to ensure that the financial viability and long-term sustainability will be attained.

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***Taking into consideration all revenue and expenditure trends as well as the other financial results contained in the report, it can be concluded that a mid-year adjustments budget will be necessary.***

BITOU LOCAL MUNICIPALITY

**Municipal manager's quality certification**

***Municipal manager's quality certification***

*An in-year report must be covered by a quality certificate in the format described below:*

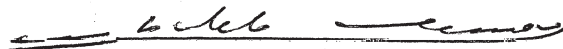
**QUALITY CERTIFICATE**

I, **Mbulelo Memani**, the Municipal Manager of Bitou Local Municipality, hereby certify that  
- (mark as appropriate)

- ☐ The monthly budget statement
- ☐ Quarterly report on the implementation of the budget and financial state of affairs of the municipality
- ☒ Mid-year budget and performance assessment

For the month ending 31 December 2022 has been prepared in accordance with the Municipal Finance Management Act and regulations made under that Act.

Signature



Print Name: Mr. M Memani

Municipal Manager of Bitou Local Municipality – WC047

Date

19/01/2023