

Section 2: Finance

ITEM M/2/102/02/23

SECTION 71 REPORT FOR THE MONTH OF APRIL 2024

Directorate: Finance & Corporate Services

File Ref: 9/1/3/4

Demarcation: All Wards

Delegation: MayCo

Attachment : Annexure “A” – Budget Report M10
: Annexure “B” – C Schedule M10

Report from : Director: Financial Services

Date : May 2024

Purpose of the report

The purpose of this report is to inform Council on the implementation of the budget and the financial state of affairs of the municipality for the month ended 30 April 2024.

Background/Discussion

This report deals with the Month ended 30 April 2024, and reflects the implementation of the budget, and the state of the municipality’s financial affairs

The in-year reports was prepared in terms of the Local Government: Municipal Finance Management Act, (Act 56 of 2003): Municipal Budget and reporting regulations, Government Gazette 32141, 17 April 2009

The monthly report to council was drafted in accordance with the budget and reporting regulations and corresponds with the monthly Section 71 reporting, Schedule “C” as submitted to Treasury as per the MFMA reporting timeline.

Summary of financial state of affairs for the month ended 30 April 2024

The report as attached hereto can be summarized as follows:

1. Financial Position

Assets

Current Assets for the month amount to R 851,929 Million, consisting of the major contributors which is Receivables from exchange and non-exchange, as well as Cash and Cash equivalents.

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Cash and cash equivalents amount to R 433,389 Million as at 30 April 2024, which is made up of cash amounting to R 298,587 Million and short term investments of R 134,794 Million. This is mainly due to the migration of the bank reconciliation to the modernised financial system.

Non-current assets, which includes Property Plant and equipment amounts to R 1,275 Billion at 30 April 2024.

In total assets, including the cash and cash equivalent anomaly, amount to R 2,127 Billion as at end April 2024.

Liabilities

Current liabilities amount to R 665,502 Million consisting of the major contributors such as the current Borrowing Costs, Provisions and Trade Creditors. Currently the same bank reconciliation modernisation issue is affecting the trade payables figure.

Non-current liabilities amount to R159,534 Million as at 30 April 2024. It consists of Long-Term Borrowing and Provisions.

Net Assets

Net assets for the month amount to R1,302 Billion as at 30 April 2024.

Conclusion on financial position

The financial position as at 30 April 2024 is below the best practice benchmark at 1.28:1 meaning current assets are 1.28 times more than current liabilities. (The best practice benchmark is between 2 and 3).

2. Financial Performance

Revenue

Total YTD revenue received equals R 738,8 million which represents 81.34% of the total operating revenue budget for the year.

The following is highlighted with regards to the variances in Revenue:

Property Rates: The YTD actual, amount to R148,7 million, compared to the YTD budget of R149,8 million that was anticipated, this indicates that the revenue source is performing adequately.

Service Charges – Revenue from electricity amounts to R193.3 million. Anticipated budgeted revenue amounted to R193.8 million, which means this revenue source is performing adequately. This revenue source has been adjusted downward to bring it in line with the trend over the past 7 months. Electricity revenue is influenced by fluctuating consumption during peak and off-peak periods. The prolonged load shedding remains a point of concern, coupled with the effect of SSEG.

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Service Charges – Water Revenue: Water revenue as at end of April 2024 amounts to R71.2 million while the YTD budget amounts to R69.1 million. This represents a 3% over-performance. This revenue source was also adjusted downward based on the trend and in anticipation of the colder months ahead where consumption generally decreases.

Service Charges – Sanitation Revenue: A positive YTD variance of 7%. The revenue item was adjusted downward and even though it is over-performing it is still being monitored to ensure its performance remains adequate through the revenue enhancement program which is underway to ensure that the revenue targets will be met.

Service Charges – Refuse Revenue: This revenue source is adequately performing after it was adjusted downward and forms part of the focus areas of the revenue enhancement programme and a concerted effort will be made in the current financial year to ensure this revenue source is performing adequately as the municipality has invested a sizeable amount of capital for improving this function.

Rental from Fixed Assets – A positive YTD variance of 16% is reported. Revenue from this source is dependent on the community's need to make use of municipality's various facilities and it can be difficult to predict.

Interest earned – outstanding debtors: A negative YTD variance of 11% is recorded. Although the interest on outstanding debtors is over performing, it is doubtful that the municipality would be able to collect it.

Fines, penalties and forfeits: A negative YTD variance of 19%. Revenue recognition is only done on the 7th of each month, which means revenue for the month of April will form part of next month's reporting.

Sale of Goods and rendering of Services: A negative YTD variance of 35%. This revenue source includes items such as building plan approval fees, town planning, fire services, staff housing etc.

Expenditure

The total YTD expenditure equates to R600,3 Million which represents 66.28% of the total operating expenditure budget for the year.

With regards to the variances in respect of expenditure the following is highlighted:

Employee cost: A negative YTD budget variance of 6% is reflected. Even though the expenditure source is adequately performing factors including vacant positions still need to be taken into consideration.

Debt Impairment: No Debt Impairment was done for the month of April 2024, this will be done as part of the year end processes.

Bulk Purchases - Electricity: Bulk purchases relate to payments made to Eskom for electricity, the expenditure as at end of April 2024 amounts to R146 million compared to R167.7 million YTD budget, thus reporting an under performance of 13%. Considering that the annual increase that came into effect on 01 April 2024, we anticipate that the item will even out over the remainder of the financial year.

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Contracted services: Expenditure as at end of April 2024 amounts to R37.2 million and is under-performing by 55% when compared to the YTD budget of R82.1 million. It is expected that this category of expenditure will increase once all contracts have been concluded, the work is executed and payments are made, which will materialise during the remainder of the financial year.

Transfers and Subsidies: Expenditure as at end of April 2024 amounts R6.8 million compared to the YTD budget of R10.8 million. An under-performance of 37% is reported for the month. Expenditure falling under this category include Grant-in-aid, payment to the Shark Spotter programme and our contribution to the regional landfill site.

Operational Cost: A negative YTD budget variance of 32% is recorded. This includes items such as the rental expenses for offices, accommodation, insurance, travel and subsistence and telephone accounts. Some of the major contributors to this expenditure category is postage cost, external audit fees, bank charges and commission on prepaid electricity. It is also anticipated that this category of expenditure will gradually increase over the remainder of the financial year as operational activities gain momentum.

Conclusion on financial performance

In total the year-to-date revenue is slightly under-performing compared to the year-to-date budget; however expenditure is well below the anticipated year-to-date budget, which is expected to increase as we near the end of the financial year. Based on the current trend an operating surplus is still anticipated for this financial year.

3. Debtors Management

The debtors' book of the municipality reflects R 333.2 million as outstanding debt older than 121 days with a total outstanding amount of R 269.2 million.

The contributors to the outstanding debt remain the household debt which represent 96.36% of total debt, followed by businesses with 3.01% and organs of state contributing 0.63%.

The municipality has monthly debt collection strategies to help ensure that outstanding revenue is collected, which includes blocking prepaid electricity for users in arrears and applying water restrictions in arrears where Eskom is the electricity distributor. Customers are informed prior to these actions being implemented 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.

The collection rate for the month of April 2024 is 87%, resulting in an average payment rate of just below 90% for the financial year to date.

4. Creditors Management

The municipality reports a total amount of R404 000 on trade creditors in April 2024.

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Financial Implications

Financial implications are attached on Annexures A and Annexures B

RELEVANT LEGISLATION

The Municipal Finance Management Act – No. 56 of 2003 Section 71 monthly budget statements.
Local Government: Municipal Finance Management Act (56/2003): Municipal budget and reporting regulations (MBRR)

RECOMMENDED BY MUNICIPAL MANAGER

That Mayco take note of Section 71 report for the month ended 30 April 2024.