

MSUKALIGWA LOCAL MUNICIPALITY

MP302



MSUKALIGWA LOCAL MUNICIPALITY MP302
Mid-year budget and performance assessment report
2022/23

MP302 MSUKALIGWA MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT REPORT FOR 2022/23 FINANCIAL YEAR

REPORT OF THE MUNICIPAL MANAGER

MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT REPORT FOR 2022/2023

1. PURPOSE

Is to table before Council a report by the Executive mayor, the mid-year budget and performance assessment report for the period starting 1 July 2022 to 31 December 2022 that must be submitted to National treasury and Provincial treasury on or before 25 January 2023.

2. BACKGROUND

In terms of Section 72 of the Municipal Finance Management Act (MFMA) the accounting officer of a municipality must assess the municipality's performance for the first half of the financial year by 25 January of each year, read with the chapter 8 of the Municipal budget and reporting regulation 32141 of 17th April 2009, refers.

RESPONSIBILITIES OF MUNICIPAL OFFICIALS

72. The accounting officer must ensure submission of a mid-year budget and performance assessment by 25 January of each year

- (a) Assess the performance of the municipality during the first half of the financial year, considering –
- (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 annual report and progress on resolving problems identified in the annual report; and
 - (iv) -----

(b) **Submit a report on such an assessment to the:**

- (i) **The mayor of the municipality**
- (ii) **The National Treasury: and**
- (iii) **The relevant Provincial Treasury**

3. EXECUTIVE SUMMARY

High level assessment of in terms of S71 of the MFMA for the Mid-year of 2022/23 financial year

The Municipality has generated revenue amounting to R 509 million against the anticipated estimate for the 6 months of R 455 million which is 12% favorable. On operating expenditure, the Municipality incurred an amount of R563 million against the Budgeted amount of R587 million translating to a favorable of 4%.

Load shedding and Load Reduction has a direct impact on revenue collection of the municipality as the municipality is not grant depended. Several engagements are done to resolve the shortcoming in the short- and medium-term framework.

The municipal debtors is above R1Billion and Creditors above R1,4Billion however the municipality is continuing to improve the billing and enforcement of Credit Control and Debt collection Policy.

The municipality is currently not financially viable as current liabilities exceed current assets. The municipality is currently utilizing the limited resources to ensure provision of basic services. Although the Municipality has embarked on various strategies to improve revenue and intervention by COGTA in terms of S139(1)(a) of the Constitution of the Republic of South Africa, Development of Financial Recovery Plan and Budget Funding Plan due to approval of unfunded budget. The implementation of the plans remains a challenge or not yielding the desired outcomes.

Spending on Capital budget remain a challenge due to late appointment of service providers, management has developed an Acceleration Plan to improve spending on all conditional grants

The picture below depicts the high-level financial performance for the 6 Months

MP302 Msukaligwa - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M06 December									
Description	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								%	
Total Revenue (excluding capital transfers and contributions)	906 577	910 645	910 645	136 199	509 286	455 322	53 964	12%	910 645
<u>Expenditure By Type</u>									
Total Expenditure	1 162 582	1 125 364	1 124 764	106 072	563 106	587 950	(24 844)	-4%	1 124 764
Surplus/(Deficit)	(256 005)	(214 719)	(214 119)	30 127	(53 820)	(132 628)	78 807	(0)	(214 119)

4. DISCUSSION

4.1 TABLE C1: Monthly budget statement summary

Based on the year-to-date figures as per the summary as depicted on the below table C1, the Mid-year operating revenue actuals was R509M and the Mid-year budgeted amount was R455M which represents a favorable performance of 12%. The year-to-date actual operating expenditure was R563M and the mid-year projections was R587M which represents an unfavorable performance by 4%

4.2 Table C 4: Monthly budget Statement-Financial performance (revenue and expenditure) – Mid-year assessment ending 31 December 2022

Revenue by Source

Current revenue is 12% above the year-to-date budget projection for December 2022.

MP302 Msukaligwa - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M06 December

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										
Revenue By Source										
Property rates		181 646	207 037	207 037	17 088	100 328	103 518	(3 190)	-3%	207 037
Service charges - electricity revenue		240 824	246 323	246 323	17 792	119 912	123 161	(3 250)	-3%	246 323
Service charges - water revenue		64 326	67 192	67 192	5 575	37 764	33 596	4 168	12%	67 192
Service charges - sanitation revenue		48 774	52 787	52 787	4 773	29 274	26 394	2 880	11%	52 787
Service charges - refuse revenue		40 181	45 048	45 048	4 072	25 071	22 524	2 547	11%	45 048
Rental of facilities and equipment		2 720	2 700	2 700	223	1 424	1 350	73	5%	2 700
Interest earned - external investments		1 098	932	932	344	1 566	466	1 100	236%	932
Interest earned - outstanding debtors		29 709	31 001	31 001	3 031	17 530	15 501	2 030	13%	31 001
Dividends received										
Fines, penalties and forfeits		4 771	5 177	5 177	8	86	2 588	(2 502)	-97%	5 177
Licences and permits		3 666	3 636	3 636	-	8	1 818	(1 810)	-100%	3 636
Agency services		8 001	8 490	8 490	-	-	4 245	(4 245)	-100%	8 490
Transfers and subsidies		207 661	231 689	231 689	82 757	171 718	115 844	55 873	48%	231 689
Other revenue		6 113	8 633	8 633	535	3 885	4 316	(432)	-10%	8 633
Gains		67 088	-	-	-	721	-	721	#DIV/0!	-
Total Revenue (excluding capital transfers and contributions)		906 577	910 645	910 645	136 199	509 286	455 322	53 964	12%	910 645

i. Property rates

The performance of property rates below by 3% against the estimated revenue of R103 million whilst the municipality continue to Valuate properties as and when required to increase Revenue Base. The Construction of Marino Mall will increase the revenue base of the municipality

ii. Electricity revenue

The actual revenue generation is 3 % below the anticipated revenue, the municipality is in a process to installed new prepaid & conventional meters to increase and convert most households to prepaid.

iii. Water revenue

Water revenue has performed above that targeted amount of R 33 million by (12%), some households and businesses are not metered. The municipality is implemented a project to change all meters.

iv. Sanitation revenue

Sanitation revenue is also above the target amount of R 26 million (11%) which is directly linked to the water consumption.

v. Refuse revenue

Refuse revenue is also above the target amount of R 26 million (11%) which is indicative of increase waste management collections

vi. Rental of facilities and equipment

Although the performance is above by 5%, the Municipality is a process to identify all Municipal properties and facilities and review all Lease agreements in line with GRAP.

vii. Interest on external investment

Funds not needed immediately such as RBIG and MIG are invested to short term investment to earn interest.

viii. Interest earned on outstanding debtors

The 13% favourable balance indicates the increase in receivables of the municipality on monthly basis.

ix. Fines, penalties, and forfeits

The performance is below by 97%, this is a result of ineffective fines collection system, it is therefore advisable that a holistic approach is undertaken to review the collection mechanism and secure a service that will improve revenue in this aspect.

X. Licence and Permits

The municipality collect revenue on behalf of the Department of Community Safety Liaison and Security on the 80: 20 basis however management took a decision to transfer 100% of the revenue to reduce the outstanding debts.

Operating expenditure by type

Current expenditure is 4% of the year-to-date budget projection for December 2022. Reasons for major over-/under expenditure on the expenditure budget:

MP302 Msukaligwa - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M06 December

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										
Expenditure By Type										
Employee related costs		248 969	276 107	276 237	22 244	132 343	138 114	(5 771)	-4%	276 237
Remuneration of councillors		15 489	18 513	18 513	1 096	6 587	9 257	(2 669)	-29%	18 513
Debt impairment		121 120	156 536	156 536	25 508	153 051	78 268	74 783	96%	156 536
Depreciation & asset impairment		141 732	140 616	140 616	11 470	68 821	70 308	(1 487)	-2%	140 616
Finance charges		87 000	-	-	2 617	12 785	25 571	(12 785)	-50%	-
Bulk purchases - electricity		321 544	319 126	319 126	26 893	129 176	159 563	(30 387)	-19%	319 126
Inventory consumed		93 946	81 522	81 387	1 387	9 151	40 704	(31 553)	-78%	81 387
Contracted services		56 663	75 718	75 048	8 859	24 387	37 530	(13 143)	-35%	75 048
Transfers and subsidies		-	-	-	-	-	-	-	-	-
Other expenditure		41 752	57 226	57 301	5 998	26 805	28 637	(1 832)	-6%	57 301
Losses		34 367	-	-	-	-	-	-	-	-
Total Expenditure		1 162 582	1 125 364	1 124 764	106 072	563 106	587 950	(24 844)	-4%	1 124 764

i. Employee related costs

The year-to-date actual expenditure is below by 4% to the budgeted amount due to strategies implemented by management to pay overtime as per the Basic Condition of Employment Act

ii. Remuneration of councillors

The year to actual expenditure spending is below by 29%

iii. Debt impairment

The municipality receivables currently is above R1Billion and all accounts not paid on due dates are charged 6,5%. Currently the municipality send municipal accounts through emails only however management resolved to implement the traditional method to send accounts through Post Office, email and SMS.

iv. Depreciation

The depreciation is below by 2% which is line with the recently audited fixed asset register, however the municipality also implemented capital Projects which will have an impact at year end.

v. Finance charges

The municipality is unable to pay Creditors within 30 days due to Cash flow challenges some Creditors charged interest.

vi. Bulk purchases

The year-to-date actual is less than the budgeted amount by 19 % however due to the recent ESKOM increases the municipality must make additional provision.

vii. Inventory consumed

The low spending is because of DWS not sending their monthly bill timeously, which result in the understatement of the Municipal operating expenditure.

viii. Contracted Services

The mid-year performance is below by 35%, the municipality has strengthened its internal systems by insourcing most of its activities.

ix. Other expenditure.

The Municipality has embarked on cost containment measure, but it affected by current economic melt-down

4.3 TABLE C5: CAPITAL EXPENDITURE

The municipality has received the following capital grants RBIG (R125 million), MIG (R33,7 million), EEDMG (R3 million) and WSIG (R40 million) and on operational grants, FMG (R3

million) and EPWP (R442 thousand). The has been a low spending on grants which has a negative impact on future allocation, the municipality came up with an acceleration plan to ensure that all project planned, and funds allocated are committed before end of March 2023. The picture below indicates the performance of each grant.

Grants performance								
CAPITAL GRANTS								
Description	Amount allocated	Amount received	Expenditure to date	Commitment	Total spending	Amount remaining	% Spending against receipts	% Spending against allocation
MIG	60 055 000.00	33 700 000.00	25 285 426.46	-	25 285 426.46	8 414 573.54	75%	42%
WSIG	60 000 000.00	40 000 000.00	16 470 071.00	-	16 470 071.00	23 529 929.00	41%	27%
EEDSM	4 000 000.00	3 000 000.00	2 593 333.53	-	2 593 333.53	406 666.47	86%	65%
RBIG	175 000 000.00	125 000 000.00	87 224 103.04	-	87 224 103.04	37 775 896.96	70%	50%
	299 055 000.00	201 700 000.00	131 572 934.03	-	131 572 934.03	70 127 065.97	65%	44%
OPERATIONAL GRANTS								
Description	Amount allocated	Amount received to date	Expenditure to date	Commitment	Total spending	Amount remaining	% Spending against receipts	% Spending against allocation
FMG	3 000 000.00	3 000 000.00	631 631.00	-	631 631.00	2 368 369.00	21%	21%
EPWP	1 766 000.00	442 000.00	280 320.00	-	280 320.00	161 680.00	63%	16%
	4 766 000.00	3 442 000.00	911 951.00	-	911 951.00	2 530 049.00	26%	19%
TOTAL	303 821 000.00	205 142 000.00	132 484 885.03	-	132 484 885.03	72 657 114.97	65%	44%

Total receipt	205 142 000.00
Total Spent	<u>132 484 885.03</u>
Unspent conditional grants	72 657 114.97
Amount in the call account	<u>84 000 000.00</u>
Savings/(Deficit)	- 11 342 885.03

4.4 TABLE C7 CASHFLOW

The Municipal's cash flow position and cash and cash equivalent outcome is shown in the table below. The Municipality has three bank accounts, namely, primary bank account used for daily operations, call account to save and secure interest on grants allocation and licencing bank accounts used for service DCSSL debt. As at 31 December 2022 the municipality had a balance of R 88 million rand.

MP302 Msukaligwa - Table C7 Monthly Budget Statement - Cash Flow - M06 December

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									
CASH FLOW FROM OPERATING ACTIVITIES										
Receipts										
Property rates		207 796	133 248	133 248	10 069	82 685	66 624	16 060	24%	133 248
Service charges		360 887	385 213	385 213	22 020	163 169	192 606	(29 438)	-15%	385 213
Other revenue		206 751	95 675	95 675	95 023	175 073	47 838	127 235	266%	95 675
Transfers and Subsidies - Oper		289 167	228 686	228 686	-	128 000	114 343	13 657	12%	228 686
Transfers and Subsidies - Cap		82 913	295 055	295 055	15 000	89 700	147 527	(57 827)	-39%	295 055
Interest		33	932	932	-	-	466	(466)	-100%	932
Dividends								-		
Payments										
Suppliers and employees		(220 481)	(838 995)	(838 995)	(47 150)	(558 289)	(419 497)	138 792	-33%	(838 995)
Finance charges		-	-	-	-	-	-	-		-
Transfers and Grants								-		
NET CASH FROM/(USED) OPE		927 066	299 815	299 815	94 963	80 337	149 907	69 571	46%	299 815
CASH FLOWS FROM INVESTING ACTIVITIES										
Receipts										
Proceeds on disposal of PPE		399	-	-	-	222	-	222	#DIV/0!	-
Decrease (increase) in non-cu		-	-	-	-	-	-	-		-
Decrease (increase) in non-cu		-	-	-	-	-	-	-		-
Payments										
Capital assets		(5 383)	(297 835)	(297 835)	(24 819)	(119 771)	(148 918)	(29 147)	20%	(297 835)
NET CASH FROM/(USED) INV		(4 984)	(297 835)	(297 835)	(24 819)	(119 549)	(148 918)	(29 369)	20%	(297 835)
CASH FLOWS FROM FINANCING ACTIVITIES										
Receipts										
Short term loans								-		
Borrowing long term/refinancing		-	-	-	-	-	-	-		-
Increase (decrease) in consumer deposits								-		
Payments										
Repayment of borrowing								-		
NET CASH FROM/(USED) FINA		-	-	-	-	-	-	-		-
NET INCREASE/ (DECREASE)		922 082	1 980	1 980	70 145	(39 212)	990			1 980
Cash/cash equivalents at begin		6 175	1 020	1 020	9 662	127 896	1 020			127 896
Cash/cash equivalents at month		928 257	3 000	3 000		88 684	2 010			129 875

4.5 TABLE SC3 Debtors age analysis

The debtor analysis provides an age analysis by revenue source and customer category, The mid year performance debtors amount to more than R1Billion and majority in on household. The municipality is currently enforcing the Credit control and Debt Collection policy however the Load Shedding and Load Reduction implemented by ESKOM has direct impact on revenue collection.

MP302 Msukaligwa - Supporting Table SC3 Monthly Budget Statement - Aged Debtors- 31 DECEMBER 2022									
Description	0-30Days	31-60Days	61-90 Days	91-120 Days	121-150 Dys	151-180 Dys	181 Dys-1 Yr	Over 1Yr	Total
R thousands									
Debtors Age Analysis By Income Source									
Trade and Other Receivables from Exchange Transactions - Water	10 687	3 515	4 052	3 678	3 291	2 799	15 350	148 858	192 230
Trade and Other Receivables from Exchange Transactions - Electricity	21 924	4 562	3 720	3 368	3 304	2 298	11 919	86 047	137 142
Receivables from Non-exchange Transactions - Property Rates	22 571	6 325	5 559	5 261	5 086	4 243	23 265	91 872	164 181
Receivables from Exchange Transactions - Waste Water Management	8 336	3 109	3 057	2 937	2 772	2 141	12 167	89 723	124 241
Receivables from Exchange Transactions - Waste Management	7 650	2 867	2 826	2 755	2 649	1 924	10 855	87 353	118 879
Receivables from Exchange Transactions - Property Rental Debtors	-	-	-	-	-	-	-	-	-
Interest on Arrear Debtor Accounts	6 125	2 942	2 879	2 807	2 768	2 706	15 202	209 496	244 923
Recoverable unauthorised, irregular, fruitless and wasteful expenditure									-
Other	1 218	311	864	477	539	701	2 317	52 374	58 799
Total By Income Source	78 510	23 630	22 957	21 284	20 408	16 810	91 074	765 722	1 040 395
Debtors Age Analysis By Customer Group									
Organs of State	6 825	2 072	1 757	1 357	1 496	1 382	6 779	30 224	51 893
Commercial	26 990	5 265	4 605	4 122	4 004	3 392	18 312	140 507	207 197
Households	41 718	15 492	15 642	14 925	14 079	11 347	61 865	568 965	744 032
Other	2 977	802	953	880	829	688	4 118	25 025	37 272
Total By Customer Group	78 510	23 630	22 957	21 284	20 408	16 810	91 074	765 722	1 040 395

4.6 TABLE SC4 AGED CREDITORS

The creditors' analysis below provides an aged analysis by customer type.

MP302 Msukaligwa Supporting table SC4 Monthly Budget Statement - Aged Creditors 30 December 2022										
Description	NT Code	Budget Year 2022/23								Total
		0 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 - 150 Days	151 - 180 Days	181 Days - 1 Year	Over 1 Year	
R thousands										
Creditors Age Analysis By Customer Type										
Bulk Electricity	0100	22 151 800.14	-	-	-	-	-	-	297 087 253.76	319 239 053.90
Bulk Water	0200	-	1 290 931.00	-	-	-	-	-	974 285 740.82	975 576 671.82
PAYE deductions	0300									-
VAT (output less input)	0400									-
Pensions / Retirement ded	0500									-
Loan repayments	0600									-
Trade Creditors	0700	-	27 096 482.21	-	-	-	-	-	82 969 923.79	110 066 106.00
Auditor-General	0800									-
Other	0900	1 712 633.35	-	-	219 754.00	-	-	-	-	1 932 387.35
Total By Customer Type	1000	23 864 433.49	28 387 113.21	-	219 754.00	-	-	-	1 354 342 915.37	1 408 814 216.07

The Municipal's creditors are not paid within 30 days especially DWS,DWA and DCSSL as stipulated in the MFMA due to low revenue collection. Council approved ESKOM repayment Plan however due to illegal connection the municipality will be unable to service the Re-payment plan.

4.7 Table C5 Monthly budget statement – Financial Position

The overall financial outlook (Going concern) of the Municipal indicates that the is not able to cover it obligation as it becomes due. The norm should be 2:1 however in the current status it is (882 755/1493374) 0.59:1.

Description	Ref	2021/22	Budget Year 2022/23			
		Audited Outcome	Original Budget	Adjusted Budget	YearTD actual	Full Year Forecast
R thousands	1					
ASSETS						
Current assets						
Cash		50 160	252 685	252 685	4 700	252 685
Call investment deposits		(49 789)	–	–	84 000	–
Consumer debtors		203 581	395 611	395 611	291 473	395 611
Other debtors		450 176	159 072	159 072	484 102	159 072
Current portion of long-term receivables		–	–	–	–	–
Inventory		13 004	(17)	(17)	18 481	(17)
Total current assets		667 132	807 352	807 352	882 755	807 352
Non current assets						
Long-term receivables		–	–	–	–	–
Investments		–	–	–	–	–
Investment property		180 113	120 037	120 037	180 113	120 037
Investments in Associate		–	–	–	–	–
Property, plant and equipment		2 537 476	2 660 807	2 944 536	2 657 247	2 944 536
Biological		–	–	–	–	–
Intangible		62	–	–	62	–
Other non-current assets		175	202	202	175	202
Total non current assets		2 717 826	2 781 046	3 064 776	2 837 597	3 064 776
TOTAL ASSETS		3 384 958	3 588 398	3 872 127	3 720 352	3 872 127
LIABILITIES						
Current liabilities						
Bank overdraft		–	–	–	–	–
Borrowing		–	–	–	–	–
Consumer deposits		19 244	3 511	3 511	19 794	3 511
Trade and other payables		1 900 403	1 648 508	1 648 508	1 406 814	1 648 508
Provisions		66 110	22 161	22 161	66 765	22 161
Total current liabilities		1 985 757	1 674 180	1 674 180	1 493 374	1 674 180
Non current liabilities						
Borrowing		1 223	2 643	2 643	1 223	2 643
Provisions		87 853	80 331	80 331	87 853	80 331
Total non current liabilities		89 077	82 974	82 974	89 077	82 974
TOTAL LIABILITIES		2 074 834	1 757 154	1 757 154	1 582 450	1 757 154
NET ASSETS	2	1 310 125	1 831 244	2 114 974	2 137 902	2 114 974

10. RECOMMENDATIONS:

1. Adjustments Budget It is recommended that an 2022/23 adjustments budget be prepared and approved by Council no later than 28 February 2023.

This adjustments budget will consider, inter alia,

- The additional funding received from Provincial Treasury to replace current water and electricity meters
- Upward and downward adjustment of revenue- and expenditure estimates based on current trends a

QUALITY CERTIFICATE

MP 302 MSUKALIGWA LOCAL MUNICIPALITY

I, **M. KUNENE**, the Municipal Manager of Msukaligwa Local Municipality, hereby certify that the **Mid- Year Budget and Performance Report**, has been prepared in accordance with the Municipal Finance Management Act and the Regulations made under the Act.

Municipal Manager of Msukaligwa Local Municipality

Name: MR. M. KUNENE

Position: Municipal Manager: MP 302 Msukaligwa Local municipality

Signature:

A handwritten signature in black ink, appearing to be 'M. Kunene', written over a horizontal line. The signature is enclosed in a large, hand-drawn oval.

Date: 25 January 2023