

MOGALAKWENA LOCAL MUNICIPALITY



MONTHLY BUDGET PERFORMANCE STATEMENTS

(SECTION 71 REPORT)

AS AT 31 DECEMBER 2022

1. PURPOSE

The purpose of this report is to present the municipality's financial performance and position report to council for noting.

2. LINK TO STRATEGIC PLAN/OBJECTIVES OF THE MUNICIPALITY

The objective of the report is to achieve municipal financial viability and sound and efficient financial management.

3. BACKGROUND

The municipality is required in terms of Section 71 of the Municipal Finance Management Act (MFMA) to prepare a budget performance report for the month and for the financial year up to the end of that month to be presented to both the Mayor and Provincial Treasury. The particulars to be included on the report should include the following:

- (a) Actual revenue, per revenue source;
- (b) Actual borrowings;
- (c) Actual expenditure, per vote;
- (d) Actual capital expenditure, per vote;
- (e) The amount of any allocations received and actual expenditure on those allocations, excluding expenditure on its share of the local government equitable share
- (f) An explanation of any material variances from the municipality's projected revenue by source, and from the municipality's expenditure projections per vote; any material variances from the service delivery and budget implementation plan; and any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget.

4. DISCUSSIONS

4.1 Revenue and debtors

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		88 001	91 500	91 500	7 724	46 644	45 750	894	2%	91 500
Service charges - electricity revenue		277 255	337 415	337 415	24 758	145 036	168 707	(23 671)	-14%	337 415
Service charges - water revenue		92 096	142 649	142 649	8 952	50 577	71 325	(20 748)	-29%	142 649
Service charges - sanitation revenue		20 275	20 511	20 511	1 719	10 199	10 256	(56)	-1%	20 511
Service charges - refuse revenue		18 822	19 511	19 511	1 658	9 937	9 756	181	2%	19 511
Rental of facilities and equipment		9 817	1 925	1 925	115	679	963	(284)	-30%	1 925
Interest earned - external investments		3 192	3 180	3 180	214	2 842	2 184	658	30%	3 180
Interest earned - outstanding debtors		63 712	46 802	46 802	6 193	36 077	23 401	12 676	54%	46 802
Dividends received		—	—	—	—	—	—	—	—	—
Fines, penalties and forfeits		808	3 803	3 803	212	444	2 536	(2 091)	-82%	3 803
Licences and permits		226	1 863	1 863	4	4	1 257	(1 253)	-100%	1 863
Agency services		13 425	9 897	9 897	1 451	1 403	6 190	(4 787)	-77%	9 897
Transfers and subsidies		498 344	552 377	552 377	114 429	323 502	409 625	(86 123)	-21%	552 377
Other revenue		2 633	4 198	4 198	109	2 660	2 516	144	6%	4 198
Gains		2 803	3 655	3 655	507	3 719	1 827	1 892	104%	3 655
Total Revenue (excluding capital transfers and contributions)		1 091 408	1 239 285	1 239 285	168 045	633 723	756 291	(122 568)	-16%	1 239 285

The municipality has during the month ended 31 December 2022 recognized revenue to an amount of R633.7m compared to the year-to-date budget of R756.2m resulting in a negative variance of 10%.

The variance is explained further below:

Property rates

The municipality's revenue from property rates is in terms of the budgeted amounts as the variance is only 2% on year to date budget performance.

Service charges – electricity revenue

Electricity billed by the municipality as at the end of 31 December 2022 amounts to R145.0m compared to the year to date budget of R168.7m. The result is a negative variance of R23.6m which is 14%. The municipality is negatively affected by the ongoing power cuts implemented by Eskom. Also, average or estimate billing is used for billing places where there is limited access to electricity meters.

Service charges – water revenue

The municipality billed water to the value of R50.5m at the end of 31 December against year to date budget of R71.3m which resulted in a 29% negative variance. The power cuts also affected reservoirs to provide water. Most of the consumers have moved to using boreholes instead of relying on provision of water by the municipality. Therefore, the municipal water is not consumed at levels anticipated.

Rental of facilities and equipment

The municipality has recognized R679 thousand in the month of September compared to the year to date budgeted amount of R963 thousand. This resulted in a negative variance of 30%. The variance is as a result of less rentals during the period.

Interest earned – External investments

The municipality recognized R2.8m is against a budgeted amount of R2.1m, resulting in a positive variance of 30%. The municipality has earned interest in line with the amount anticipated.

Interest earned – outstanding debtors

Interest Earned on Outstanding Debtors has been billed more than anticipated. The municipality recognized R36.0m against a budget of R23.4m. Due to the culture of non-payment by the consumers, the debtors' book of the municipality increases every month. Interest is then levied on the balance of debtors and it increases. The municipality encourages consumers to pay outstanding debt as there is an incentive to reduce interest charged.

Other Revenue

Total other revenue of R44.9m was recognized for the month of December against a budget of R38.6m. This resulted in a positive variance of R6.2m. Included in other revenue is Licenses and permits, Agency services and gains. The municipality realized revenue of R3.7m on gains which had a positive variance of 104%. Licenses and permits together with agency services were on negative variances of 100% and 77% respectively.

Transfers and subsidies

The municipality recognized revenue to the amount of R323.5m at the end of December compared to a year to date budget of R409.6m. This resulted in a negative of R86.1m which is 21% of the anticipated revenue. The variance is as a result of roll over applications for the 2021/2022 financial year that were not approved by national treasury.

Transfers and subsidies - capital

The municipality processes revenue on capital grants during capitalization of assets. No Capital grants have been recognized yet in the period under review. Revenue on Capital grants is recognized separate from the spending in the accounting system. The spending on grants capital expenditure as at 31 December 2022 was R68.9m which will be processed and recognized as revenue.

4.2 Operational expenditure

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		362 615	402 653	402 597	29 531	183 832	201 297	(17 464)	-9%	402 597
Remuneration of councillors		15 493	21 493	21 493	851	5 421	10 747	(5 325)	-50%	21 493
Debt impairment		424 760	127 926	127 926	-	68	63 963	(63 895)	-100%	127 926
Depreciation & asset impairment		285 994	99 461	99 461	-	-	49 730	(49 730)	-100%	99 461
Finance charges		-	719	719	-	-	359	(359)	-100%	719
Bulk purchases - electricity		243 201	296 501	281 271	19 028	146 961	141 340	5 621	4%	281 271
Inventory consumed		13 475	46 062	46 062	2 786	4 369	23 628	(19 260)	-82%	46 062
Contracted services		215 124	159 780	170 339	28 268	93 892	96 826	(2 934)	-3%	170 339
Transfers and subsidies		135	616	616	22	35	308	(273)	-89%	616
Other expenditure		47 251	77 416	119 772	11 760	36 177	49 629	(13 453)	-27%	119 772
Losses		6 544	-	-	-	-	-	-		-
Total Expenditure		1 614 592	1 232 626	1 270 255	92 246	470 755	637 827	(167 071)	-26%	1 270 255

The municipality recognized expenditure to the total of R470.7m compared to the year to date budget of R637.8m. The result thereof was a negative variance of 26%. The municipality

strives to contain the spending in order to improve on the cash flow status. Further explanations of the above variances are outline below:

Remuneration of councilors

Remuneration of councilors was budgeted for taking into account implementation of upper limits. The municipality has spent R5.4m at the end of December 2022 against a budget to date of R10.7m. The expenditure is to be monitored in the first half of the financial year. The municipality will process an adjustment on the line item if necessary during the adjustment budget process.

Debt impairment, depreciation and asset impairment

The municipality has not recognized any expenditure to date on the non-cash items. Therefore, both the line items have a negative variance of 100%. Assets of the municipality are a major part during the external audit. It is against this reason that the depreciation on assets is processed at the end of the financial year. However, the municipality is working on putting measures in place to be able to process both the debt impairment and the depreciation on a monthly basis.

Finance charges

The municipality has not incurred any finance charges at the end of December 2022. This is encouraged as fines and penalties can result into fruitless and wasteful expenditure.

Inventory consumed.

Inventory consumed includes water inventory. The municipality has to expense the water inventory as consumed by the community. Inventory consumed is recognized at R4.3m at the end of December 2022 compared to R23.6m year to date budget, which resulted in a negative variance of 82%. The amount recognized exclude water inventory consumed which has to be processed with a journal.

Transfers and subsidies

The municipality spent an amount of R35 thousand compared to an anticipated amount of R308 thousand. This resulted in a negative variance of R273 thousand.

Other expenditure

An amount of R36.1m was recognized for other expenditure at the end of the period under review. The expenditure is below the anticipated expenditure of R49.6m. Other expenditure includes operational costs on the following but not limited to: travel and subsistence, printing and publications, telephone costs, training and fleet expenditure. Therefore, the municipality strives to curb expenditure in order to improve cash flow status.

4.3 Capital Expenditure

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									%	
Capital expenditure of Transfers and Grants										
Capital Transfers and Grants		189 413	265 381	270 589	36 280	68 960	133 942	(64 982)	-48.5%	270 589
Integrated National Electrification Programme Grant		-	7 000	7 000	1 246	1 246	4 596	(3 349)	-72.9%	7 000
Municipal Infrastructure Grant		131 534	170 741	175 949	15 011	45 032	100 332	(55 300)	-55.1%	175 949
Regional Bulk Infrastructure Grant		34 215	40 000	40 000	17 496	19 285	15 226	4 058	26.7%	40 000
Water Services Infrastructure Grant		23 664	47 640	47 640	2 528	3 397	13 788	(10 391)	-75.4%	47 640
Housing Development Agency		-	-	-	-	-	-	-		-
Mining Companies		-	-	-	-	-	-	-		-
Private Enterprises		-	-	-	-	-	-	-		-
Total capital expenditure of Transfers and Grants		189 413	265 381	270 589	36 280	68 960	133 942	(64 982)	-48.5%	270 589

Integrated National Electrification Programme Grant

The municipality spent R1.2m at the end of December against a budgeted amount of R4.5m. This resulted in a negative variance of 72.9%

Municipal Infrastructure Grant

An amount of R45.0m is spent against a year to date budget of R100.3m at the end of December resulting in a variance of negative 55.1%

Regional Bulk Infrastructure Grant

The municipality has spent R19.2m compared to the year to date budget of R15.2m. This resulted in a positive variance of 26.7%

Water Services Infrastructure Grant

R3.3m was spent at the end of December compared to the budget of R13.7m. The results thereof were a negative variance of R75.4%.

4.4 Cash Balances

LIM367 Mogalakwena - Municipal Investments - M06

Primary Bank : Standard Bank

Account Type : Cheque

Opening Balance - 01 December 2022	4 066 768
Closing balance - 31 December 2022	53 591 352

INVESTMENTS : DECEMBER 2022

Name of Institution/Bank	Investment Type	Opening Balance	Deposit/ Invested during the Month	Withdrawal during the Month	Penalties	Interest Accrued	Interest Earned	Closing Balance
ABSA	Short-Term	-	-	-	-	-	-	-
FNB	Short-Term	-	-	-	-	-	-	-
NEDBANK	Sort-Term	-	-	-	-	-	-	-
STANDARD BANK	Short-Term	-	-	-	-	-	-	-
STANDARD BANK	Call Accounts 002 & 052	46 702 951	-	28 000 000	-	-	166 402	18 869 353
								-
TOTAL		46 702 951	-	28 000 000	-	-	166 402	18 869 353

Total in the Bank	72 460 705
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The municipality had a total of R72.4m in the bank accounts at 31 December 2022. The amount includes short-term investments or call accounts of R18.8m. The balance is cash backing the unspent conditional grants.

5. MUNICIPAL MANAGER'S QUALITY CERTIFICATION

QUALITY CERTIFICATE

I, **MM Maluleka**, the municipal manager of **Mogalakwena Local Municipality (LIM367)**, hereby certify that the monthly budget statement report and supporting documentation for the month ended 31 December 2022 has been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act.

MM MALULEKA
MUNICIPAL MANAGER