

# **MOGALAKWENA LOCAL MUNICIPALITY**



## **MONTHLY BUDGET PERFORMANCE STATEMENTS**

**(SECTION 71 REPORT)**

**AS AT 31 JULY 2023**

## **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	2022/23	Budget Year 2023/24							
		Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands										
Revenue										
Exchange Revenue										
Service charges - Electricity		333 671	400 511	400 511	21 147	21 147	33 376	(12 229)	-37%	400 511
Service charges - Water		107 101	204 844	204 844	(35 704)	(35 704)	17 070	(52 774)	-309%	204 844
Service charges - Waste Water Management		20 184	29 454	29 454	1 756	1 756	2 455	(698)	-28%	29 454
Service charges - Waste management		19 786	20 545	20 545	2 049	2 049	1 712	337	20%	20 545
Sale of Goods and Rendering of Services		8 474	4 084	4 084	135	135	340	(205)	-60%	4 084
Agency services		12 193	10 421	10 421	—	—	868	(868)	-100%	10 421
Interest		—	—	—	—	—	—	—	—	—
Interest earned from Receivables		56 754	35 731	35 731	4 905	4 905	2 978	1 927	65%	35 731
Interest from Current and Non Current Assets		4 885	3 348	3 348	990	990	279	—	—	3 348
Dividends		—	—	—	—	—	—	—	—	—
Rent on Land		—	—	—	—	—	—	—	—	—
Rental from Fixed Assets		4 262	2 027	2 027	132	132	169	(37)	-22%	2 027
Licence and permits		—	1 951	1 951	—	—	163	(163)	-100%	1 951
Operational Revenue		1 835	336	336	18	18	28	(10)	-34%	336
Non-Exchange Revenue										
Property rates		91 416	96 349	96 349	8 151	8 151	8 029	122	2%	96 349
Surcharges and Taxes		—	—	—	—	—	—	—	—	—
Fines, penalties and forfeits		966	4 005	4 005	2	2	334	(332)	—	4 005
Licence and permits		27	11	11	—	—	1	(1)	—	11
Transfers and subsidies - Operational		546 690	587 164	587 164	239 213	239 213	48 930	190 283	—	587 164
Interest		14 740	13 551	13 551	1 354	1 354	1 129	225	—	13 551
Fuel Levy		—	—	—	—	—	—	—	—	—
Operational Revenue		—	—	—	—	—	—	—	—	—
Gains on disposal of Assets		3 866	3 848	3 848	—	—	321	(321)	—	3 848
Other Gains		1 849	—	—	833	833	—	833	—	—
Discontinued Operations		—	—	—	—	—	—	—	—	—
Total Revenue (excluding capital transfers and contributions)		1 228 700	1 418 183	1 418 183	244 983	244 983	118 182	126 801	107%	1 418 183

The municipality has during the month ended 31 July 2023 recognized revenue to an amount of R245m compared to the year-to-date budget of R118.1m resulting in a variance of 107%.

The variance is explained further below:

### Property rates

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

### Service charges

Total service charges to the amount of -R10.7m is recognized which resulted in a negative variance of R65.3m, against the budgeted amount of R54.6m. The negative variance is due to the reversal of interim water readings which were reversed in July 2023 and replaced with actual water readings.

### Rental of facilities and equipment

The municipality has recognized R132 thousand in the month of July compared to the year-to-date budgeted amount of R169 thousand. This resulted in a negative variance of 22%.

### **Interest earned – External investments**

R990 thousand is recognized against a budgeted amount of R279 thousand, resulting in a positive variance of R711 thousand. The municipality has earned interest on call accounts from equitable share funds invested in the month of July.

### **Interest earned – outstanding debtors**

Interest Earned on Outstanding Debtors has been billed more than anticipated. The municipality recognized R4.9m against a budget of R3m. Due to the culture of non-payment by the consumers, interest is levied and it increases. The municipality encourages consumers to pay outstanding debt and have implemented an incentive scheme to reduce interest charged. This is to assist in reducing the municipality's debtors' book and to be able to fund projects from internal funds.

### **Transfers and Subsidies**

The municipality has recognized R239m on transfers and subsidies compared to a year-to-date budget of R48.9m. This resulted in a positive 388% variance. The resultant variance is due to the receipt of Equitable Shares received during July.

### **Other Revenue**

Other revenue to a total of R2.3m is recognized for the month of July against a budget of R2.1m. This resulted in a positive variance of R200 thousand.

### **Capital grants**

No Capital grants have been recognized yet in the first month of the financial year. Revenue on Capital grants is recognized separate from the spending in the accounting system. There was no spending on Capital Expenditure as at 31 July 2023.

### **Collection Rate**

The municipality's collection rate for the Month of July 2023 was 68%. The rate has declined compared to the previous month which was 85%. The municipality needs to maintain a favorable collection rate in order to be able to cater for the day-to-day operations.

## **4.2 Operational expenditure**

**LIM367 Mogalakwena - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M01 July**

Description	Ref	2022/23	Budget Year 2023/24							
		Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance	Full Year Forecast
<b>R thousands</b>									%	
<b>Expenditure By Type</b>										
Employee related costs		350 820	411 319	411 319	32 886	32 886	34 277	(1 390)	-4%	411 319
Remuneration of councillors		10 524	18 009	18 009	854	854	1 501	(647)	-43%	18 009
Bulk purchases - electricity		288 480	321 949	306 639	–	–	25 553	(25 553)		306 639
Inventory consumed		46 215	60 120	60 120	(12 920)	(12 920)	5 010	(17 930)		60 120
Debt impairment		–	190 574	190 574	–	–	15 881	(15 881)	-100%	190 574
Depreciation and amortisation		102 632	100 410	100 410	–	–	8 368	(8 368)	-100%	100 410
Interest		2 936	2 561	2 561	–	–	213	(213)	-100%	2 561
Contracted services		189 588	153 364	153 364	5 744	5 744	12 780	(7 036)	-55%	153 364
Transfers and subsidies		56	517	517	–	–	43	(43)	-100%	517
Irrecoverable debts written off		191 888	–	–	654	654	–	654		–
Operational costs		62 765	124 422	139 732	1 735	1 735	11 644	(9 909)	-85%	139 732
Losses on Disposal of Assets		9 250	–	–	–	–	–	–		–
Other Losses		4 820	–	–	–	–	–	–		–
<b>Total Expenditure</b>		<b>1 259 974</b>	<b>1 383 244</b>	<b>1 383 244</b>	<b>28 955</b>	<b>28 955</b>	<b>115 271</b>	<b>(86 317)</b>	<b>-75%</b>	<b>1 383 244</b>

The municipality has spent R28.9m on operational expenditure with year-to-date budget of R115.2m which shows a negative variance of 75%.

The municipality strives to contain the spending in order to improve on the cash flow status.

### Employee Related costs

Employee related cost to the amount of R32.9m has been recognized at the end of July 2023 compared to the year-to-date budget of R34.2m. The municipality has cut down on payments of overtime resulting in a negative variance of 4%

### Remuneration of councillors

The municipality has spent R854 thousand at the end of July 2023 against a budget to date of R1.5m resulting in a negative variance of 43%. This is due to the upper limits not been finalized yet.

### 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.

## Inventory Consumed

Expenditure to the amount of -R12.9m has been recognized as compared to the year-to-date budget of R5m. This resulted in a negative variance of R17.9m. The negative variance is due to the interim water readings being reversed in July 2023 and replaced with actual water readings therefore resulting in a reversal of inventory water consumed.

## Contracted Services

Expenditure to the amount of R5.7m has been recognized as compared to the year-to-date budget of R12.8m. This resulted in a negative variance of R7m. Due to financial constraints or cash flow challenges, the municipality is trying to curb expenditure in order to improve the financial status.

## Operational Costs

Expenditure to the amount of R1.7m has been recognized as compared to the year-to-date budget of R11.6m. This resulted in a negative variance of 85%. Due to financial constraints, the municipality is trying to curb expenditure in order to improve the financial status.

## 4.3 Capital Expenditure

LIM367 Mogalakwena - Supporting Table SC7(1) Monthly Budget Statement - transfers and grant expenditure - M01 July										
Description	Ref	2022/23	Budget Year 2023/24							
		Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands									%	
<b>EXPENDITURE</b>										
<b>Capital expenditure of Transfers and Grants</b>										
National Government:		240 208	311 599	311 599	-	-	25 967	(25 967)	-100.0%	311 599
Integrated National Electrification Programme Grant		4 405	-	-	-	-	-	-		-
Municipal Infrastructure Grant		155 267	186 266	186 266	-	-	15 522	(15 522)	-100.0%	186 266
Regional Bulk Infrastructure Grant		42 086	50 000	50 000	-	-	4 167	(4 167)	-100.0%	50 000
Water Services Infrastructure Grant		38 450	75 333	75 333	-	-	6 278	(6 278)	-100.0%	75 333
Provincial Government:		-	-	-	-	-	-	-		-
District Municipality:		-	-	-	-	-	-	-		-
Other grant providers:		-	-	-	-	-	-	-		-
<b>Total capital expenditure of Transfers and Grants</b>		<b>240 208</b>	<b>311 599</b>	<b>311 599</b>	<b>-</b>	<b>-</b>	<b>25 967</b>	<b>(25 967)</b>	<b>-100.0%</b>	<b>311 599</b>

- There was no spending on any capital grants at the end of July 2023.

#### 4.4 Cash Balances

The municipality had a total of R229.2m in the bank accounts at 31 July 2023. The amount includes short-term investments or call accounts of R216.8m.

The table below illustrates cash balances as at 31 July 2023.

[illegible]