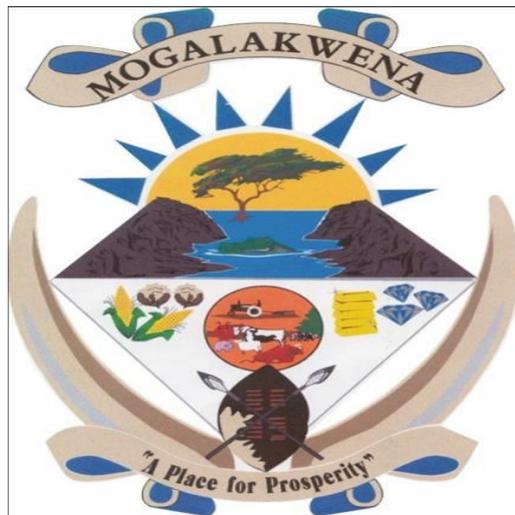


MOGALAKWENA LOCAL MUNICIPALITY



MONTHLY BUDGET PERFORMANCE STATEMENTS

(SECTION 71 REPORT)

AS AT 31 October 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		334 775	400 511	400 511	28 253	99 054	133 504	(34 450)	-26%	400 511
Service charges - Water		111 468	204 844	204 844	5 029	(5 446)	68 281	(73 727)	-108%	204 844
Service charges - Waste Water Management		20 184	29 454	29 454	1 832	7 354	9 818	(2 464)	-25%	29 454
Service charges - Waste management		19 786	20 545	20 545	6 863	13 083	6 848	6 235	91%	20 545
Sale of Goods and Rendering of Services		3 038	4 084	4 084	265	641	1 361	(720)	-53%	4 084
Agency services		12 193	10 421	10 421	2 280	4 169	3 474	696	20%	10 421
Interest		-	-	-	-	-	-	-	-	-
Interest earned from Receivables		56 754	35 731	35 731	4 646	17 919	11 910	6 008	50%	35 731
Interest from Current and Non Current Assets		4 885	3 348	3 348	322	3 803	1 116	-	-	3 348
Dividends		-	-	-	-	-	-	-	-	-
Rent on Land		-	-	-	-	-	-	-	-	-
Rental from Fixed Assets		1 555	2 027	2 027	503	894	676	219	32%	2 027
Licence and permits		-	1 951	1 951	-	-	650	(650)	-100%	1 951
Operational Revenue		1 840	336	336	62	177	112	65	58%	336
Non-Exchange Revenue										
Property rates		91 416	96 349	96 349	8 065	32 368	32 116	251	1%	96 349
Surcharges and Taxes		-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits		2 226	4 005	4 005	175	401	1 335	(934)	-	4 005
Licence and permits		27	11	11	0	2	4	(1)	-	11
Transfers and subsidies - Operational		546 507	587 164	587 164	704	241 635	195 721	45 913	-	587 164
Interest		14 740	13 551	13 551	1 313	5 284	4 517	767	-	13 551
Fuel Levy		-	-	-	-	-	-	-	-	-
Operational Revenue		-	-	-	-	-	-	-	-	-
Gains on disposal of Assets		756	3 848	3 848	-	149	1 283	(1 134)	-	3 848
Other Gains		1 849	-	-	-	833	-	833	-	-
Discontinued Operations										
Total Revenue (excluding capital transfers and contributions)		1 224 000	1 418 183	1 418 183	60 309	422 320	472 727	(50 407)	-11%	1 418 183

The municipality has during the month ended 31 October 2023 recognized revenue to an amount of R422.3m compared to the year-to-date budget of R472.7m resulting in a negative variance of 11%.

The variance is explained further below:

Service charges – Electricity

Electricity is billed at R99.0m compared to anticipated budget of R133.5m. This resulted in a negative variance of R26%. The municipality has identified that there were a number of meters which were not properly billed due to either illegal by-passing or faulty meters. Over 400 electricity meters have been installed to date in order to remedy the situation. Newly connected meters mean that additional revenue will be billed by the municipality. In addition, Municipality Initiated process to procure Services Provider who will be performing Meter audit, reconnections and disconnections. The procurement process is currently on evaluation stage and expected to be finalized 10 November 2023.

Service charges – Water

Water service charges is billed at a negative variance of 108% at the end of October 2023. The negative variance is due to the reversal of interim water readings which were reversed during July and August 2023 for Mahwelereng. The interim readings were replaced with actual water readings. The municipality has also replaced and installed +/- 1,600 water meters to

date. The replaced water meters are now included in the billing system of the municipality to avoid estimate billing. The water meter audit will also be covered in the initiated procurement of a service provider to conduct a 100%-meter audit.

Service charges – Waste Water Management

Revenue on waste water management is recognized at R7.3 compared to R9.8m year to date budget. This has resulted in a negative variance of 25%.

Service charges – Waste Management

An amount of R13.0m is billed at the end of October 2023 compared to the budgeted amount of R6.8m, resulting in a positive variance of R91%. The municipality has started with distribution of bins to the consumers. The bins are then billed against the account of consumers who have received the bins.

Sale of Goods and Service

The municipality recognized an amount of R641 thousand against a year-to-date budget of R1.3m. Thus, a negative variance of 53%. The sale of goods and rendering of services includes a budget of R1.6m for sale of tender documents. The documents are now uploaded on e-tender and that has reduced sale of tender documents.

Agency Service

Agency services collected is more than the anticipated amount by R696 thousand. The line item was appropriated for, using historical trends. The line item has to be properly allocated in terms of the mSCOA chart of accounts. It includes part of license and permits. This is part of the items to be addressed by the detailed mSCOA roadmap.

Interest earned from Receivables

Interest Earned on Receivables has been billed more than anticipated. The municipality recognized R17.9m against a budget of R11.9m. 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 the interest charged. This is to assist in reducing the municipality's debtors' book and to be able to fund projects from internal funds.

Interest earned on Current and Non-Current Assets

R3.8m is recognized against a budgeted amount of R1.1m, resulting in a positive variance. The municipality has earned interest on call accounts from equitable share funds invested in the month of July as well as grants received during the first four months of 2023/24 financial year.

Rental from Fixed Assets

The municipality has recognized R894 thousand at the end of September compared to the year-to-date budgeted amount of R676 thousand. This resulted in a positive variance of 32%.

Although this is a smaller stream of revenue, the income received has been consistent over the first three months of the year. Some of the rentals are received annually instead of monthly and this would result in the backlog being recovered during the end of the year.

License and Permits

No revenue has been recognized for license and permits. This line item will be addressed for accurate and proper allocations in the detailed mSCOA roadmap.

Operational Revenue

Operational revenue to a total of R177 thousand is recognized for the month of October against a budget of R112 thousand. This resulted in a positive variance of R65 thousand.

Property rates

The municipality's revenue from property rates is in terms of the budgeted amounts as there is a small variance of 1% on year-to-date budget performance.

Fines, penalties and forfeits

The municipality did not collect in terms of fines as anticipated in the first four months of the financial year. This is as a result of less traffic fines issued during the period. Only R401 thousand was collected compared to R1.3m year-to-date budget.

Transfers and Subsidies

The municipality has recognized R241.6m on transfers and subsidies compared to a year-to-date budget of R195.7m. This resulted in a positive variance of R45.9m. The resultant variance is due to the receipt of Equitable Shares received during July as well as conditional grants received during the first four months of the year.

Interest

The line item relates to interest charged on property rates. The municipality recognized an amount of R5.2m compared to R4.5m year-to-date budget. This is attributable to the culture of non-payment by the customers.

Transfers and subsidies - Capital

Capital grants of R187.1m have been recognized at the end of October. The amount recognized is on conditions met by the municipality in terms of capital expenditure inclusive of VAT. The municipality aims to keep improving in conditional grants capital expenditure in order to ensure that the community receives service delivery.

Collection Rate

The municipality's collection rate for the Month of October 2023 was 67%. The rate has declined compared to the previous month which was 85%. The municipality has target to have minimum of at least 85% up to 90% in debt collection rate after implementing robust credit

control. During the past month Municipality have been monitoring and ensuring the credit control enforcement is undertaken on a daily basis without limitations.

Government debt account to R141 million. Municipality have engaged CoGHSTA for intervention through the established Sector Department credit control (Upcoming meeting set for 13 November 2023).

Municipality council approved incentive scheme effective from 1 July 2023 ending 31 December 2023 with the aim to assist consumers to settle long outstanding debt which reduce burden to consumer to allow them manage the current accounts regularly. Since implementation of the incentive scheme, Municipality have received over 3000 applications. Council have committed itself to continue doing community awareness on the incentive scheme to allow consumers to take this opportunity to reduce the old debts.

4.2 Operational expenditure

Description	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									
Expenditure By Type									
Employee related costs	332 210	411 319	411 319	28 280	119 317	137 108	(17 790)	-13%	411 319
Remuneration of councillors	10 524	18 009	18 009	3 312	4 574	6 003	(1 429)	-24%	18 009
Bulk purchases - electricity	288 246	321 949	306 639	20 154	80 952	102 213	(21 261)		306 639
Inventory consumed	54 524	60 120	61 570	5 418	24 056	20 330	3 726		61 570
Debt impairment	1 446	190 574	190 574	-	-	63 525	(63 525)	-100%	190 574
Depreciation and amortisation	140 919	100 410	100 410	-	-	33 471	(33 471)	-100%	100 410
Interest	2 936	2 561	2 561	278	812	854	(41)	-5%	2 561
Contracted services	189 404	153 364	151 864	34 853	97 312	50 822	46 491	91%	151 864
Transfers and subsidies	5 730	517	517	-	78	172	(94)	-55%	517
Irrecoverable debts written off	192 813	-	-	434	116 331	-	116 331		-
Operational costs	75 517	124 422	139 827	10 247	48 197	46 593	1 604	3%	139 827
Losses on Disposal of Assets	2 361	-	-	-	-	-	-		-
Other Losses	4 820	-	-	-	-	-	-		-
Total Expenditure	1 301 451	1 383 244	1 383 290	102 976	491 630	461 090	30 540	7%	1 383 290

The municipality has spent R491.6m on operational expenditure with a year-to-date budget of R461.0m which shows a positive variance of 7%.

The variance is explained further below:

Employee Related costs

Employee related cost to the amount of R119.3m has been recognized at the end of October 2023 compared to the year-to-date budget of R137.1m. The municipality has cut down on payments of overtime to not exceed 30% of the gross salary bill resulting in a negative variance of 13%. Also, employees from Level 8 and above are not remunerated for overtime in cash payments but are given time off instead.

Remuneration of councillors

The municipality has spent R4.5m at the end of October 2023 against a budget to date of R6.0m resulting in a negative variance of 24%. There is an improvement in Remuneration of councillors following implementation of the upper limits. Also, it has been picked up that some

of the remuneration to councilors was charged against Employee related costs. A correction to this effect will also be processed in the next reporting period. Payroll is also part of the items to be corrected through detailed mSCOA roadmap.

Bulk purchases Electricity

Bulk Electricity expenditure fluctuate seasonally. The period under review's bulk purchase was lower than anticipated. An amount of R80.9m has been paid to date. The payment includes an amount of R7m which is a payment arrangement that the municipality entered into with Eskom. As such, the current outstanding Eskom debt as at 31 October 2023 is reported at R14 million. The reported R14 million relate to arrangement which was entered into with Eskom from 1 July 2023 with monthly installment of R7 million. Municipality has been servicing the agreed arrangement of R7 million on monthly basis together with the current Eskom invoices without defaulting.

The municipality has further developed electricity loss reduction strategy which will assist Municipality to reduce electricity loses to loosen the cost burden.

Inventory Consumed

Expenditure to the amount of R24.0m has been recognized as compared to the year-to-date budget of R20.3m. This resulted in a positive variance of R3.7m. The line item includes consumable inventory and water consumed by the customers for the quarter under review. The municipality reversed interim (estimate) billing and processed actual readings. This resulted in the actual water consumed to be higher than budgeted for.

The municipality has been servicing the bulk water services on monthly basis and as result as at 31 October 2023 the Municipality had zero outstanding debt which is due and unpaid to Lepelle Northern Water.

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 detailed mSCOA roadmap is aimed at finding ways to process the items on a monthly basis.

Interest

R812 thousand has been paid compared to the anticipated amount of R854 thousand. This is interest that has been charged on overdue accounts as a result of cash flow challenges. The municipality is in an arrangement with Eskom which will be paid off in the month of December 2023. Minimal interest has been charged by Lepelle Northern Water as the municipality is keeping the accounts up to date.

Contracted Services

Expenditure to the amount of R97.3m has been recognized as compared to the year-to-date budget of R80.8m. This resulted in a positive variance of R46.4m. Municipality has experienced capacity issues especial in the finance department due to number of key positions such as Deputy CFO and Divisional Heads among other which were vacant due to

suspension pending SIU investigations on irregularities found. The municipality appointed consultants to perform external review of financial statements in order to improve on the quality of Annual Financial Statements submitted to the Auditor General of South Africa for audit. This has increased spending on consultancy fees. Also, the municipality appointed an external investigator in assisting with investigation of R7 billion historic Unauthorized, Irregular, Fruitless and Wasteful expenditure. Most of the balance has been written off and reported in the Annual Financial Statements.

As part of the plans to reduce reliance on consultants, Municipality have reviewed the organizational structure and revised the structure with emphasis to reduce reliance on use of consultants. As part of the reviewed structure, position of Divisional Head AFS was created and appointment made effective from 1 November 2023. The position will be responsible among other things, reporting and the compilation of AFS.

Irrecoverable debts written off

An amount of R116.3m has been written off consumers accounts as per the council resolution in August 2023. Also, the incentive scheme offered since July 2023 has also contributed marginally to the write-offs as well as the indigent consumers accounts that were written off. As consumers pay the municipality according to the incentive, the discount and interest is written off.

Operational Costs

Expenditure to the amount of R48.1m has been recognized as compared to the year-to-date budget of R46.5m. This resulted in a positive variance of 3%. Due to financial constraints, the municipality is trying to curb non-core expenditure in order to improve the financial status. However, the expenditure is closely observed so that service delivery is not negatively affected.

4.3 Capital Expenditure

Description	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									
Capital expenditure of Transfers and Grants									
National Government:	240 208	311 599	311 599	56 033	120 408	103 866	16 542	15.9%	311 599
Integrated National Electrification Programme Grant	4 405	-	-	-	-	-	-		-
Municipal Infrastructure Grant	155 267	186 266	186 266	19 907	42 733	62 089	(19 356)	-31.2%	186 266
Regional Bulk Infrastructure Grant	42 086	50 000	50 000	22 805	58 954	16 667	42 287	253.7%	50 000
Water Services Infrastructure Grant	38 450	75 333	75 333	13 321	18 722	25 111	(6 389)	-25.4%	75 333
Provincial Government:	-	-	-	-	-	-	-		-
District Municipality:	-	-	-	-	-	-	-		-
Other grant providers:	-	-	-	-	-	-	-		-
Housing Development Agency	-	-	-	-	-	-	-		-
Mining Companies	-	-	-	-	-	-	-		-
Private Enterprises	-	-	-	-	-	-	-		-
Unspecified	-	-	-	-	-	-	-		-
Total capital expenditure of Transfers and Grants	240 208	311 599	311 599	56 033	120 408	103 866	16 542	15.9%	311 599

- Spending on capital grants at the end of October 2023 amounted to R120.4m.

5. Cash Balances

The municipality had a total of R62.7m in the bank accounts at 31 October 2023. The amount includes short-term investments or call accounts of R37.7m.

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

LIM367 Mogalakwena - Municipal Investments - M04

Primary Bank : Standard Bank

Account Type : Cheque

Opening Balance - 01 October 2023	17 749 359
Closing balance - 31 October 2023	25 717 501

INVESTMENTS : OCTOBER 2023

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	42 796 320	-	6 000 000	-	-	256 325	37 052 646
								-
TOTAL		42 796 320	-	6 000 000	-	-	256 325	37 052 646

Total in the Bank

62 770 146

6. Financial Position

As at 31 June 2023 Annual Financial Statement, Municipality reported trade payable was at R272 million. Included in the trade payable was R193 million relating to year end accrued expenses and the remaining R79 million related to suspense accounts and stale cheque balances. The reported R193 millions was settled just after year end during month of July/August 2023.

During the month of May/June 2023, Eskom account was the highest, due to winter season while the Municipal billed revenue on electricity services to consumer remained lower (electricity tariff rate doesn't fluctuate with winter season and remained fixed).

Year-end invoices R13 874 700.80

Sundry payments made R 77 792 677.12

Journals for accrued expenses at year end R101 336 370.68

Immediately after year end processes, Municipality paid R90 million from the reported R101 million accrued expenses. As at 31 October 2023, Municipality trade creditor relate only to normal current trade payables without any bulk purchase's debt (except the Eskom arrangement as eluded above)

The municipality therefore will include Trade Payables as part of the detailed mSCOA roadmap in order to correct reporting.

The table below depicts a Summary of the municipality's financial position as at 31 October 2023.

LIM367 Mogalakwena - Table C1 Monthly Budget Statement Summary - M04 October									
Description	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									
Financial position									
Total current assets	690 651	826 417	826 417		534 438				826 417
Total non current assets	4 491 355	5 639 661	5 639 661		4 611 763				5 639 661
Total current liabilities	582 568	339 934	339 934		429 649				339 934
Total non current liabilities	124 092	123 053	123 053		124 092				123 053
Community wealth/Equity	4 624 249	5 656 554	5 656 554		4 485 427				5 656 554

7. 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 October 2023 has been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act.

MM MALULEKA
MUNICIPAL MANAGER