

MOGALAKWENA LOCAL MUNICIPALITY



MONTHLY BUDGET PERFORMANCE STATEMENTS

(SECTION 71 REPORT)

AS AT 30 November 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	26 196	125 250	166 880	(41 630)	-25%	400 511
Service charges - Water		111 468	204 844	204 844	1 948	(3 497)	85 352	(88 849)	-104%	204 844
Service charges - Waste Water Management		20 184	29 454	29 454	1 867	9 221	12 273	(3 052)	-25%	29 454
Service charges - Waste management		19 786	20 545	20 545	4 610	17 693	8 561	9 132	107%	20 545
Sale of Goods and Rendering of Services		3 038	4 084	4 084	151	792	1 702	(909)	-53%	4 084
Agency services		12 193	10 421	10 421	–	4 169	4 342	(173)	-4%	10 421
Interest		–	–	–	–	–	–	–	–	–
Interest earned from Receivables		56 754	35 731	35 731	4 645	22 564	14 888	7 676	52%	35 731
Interest from Current and Non Current Assets		4 885	3 348	3 348	376	4 179	1 395	–	–	3 348
Dividends		–	–	–	–	–	–	–	–	–
Rent on Land		–	–	–	–	–	–	–	–	–
Rental from Fixed Assets		661	2 027	2 027	359	1 253	845	408	48%	2 027
Licence and permits		–	1 951	1 951	–	–	813	(813)	-100%	1 951
Operational Revenue		1 840	336	336	352	529	140	389	278%	336
Non-Exchange Revenue								–	–	–
Property rates		91 416	96 349	96 349	8 070	40 438	40 145	292	1%	96 349
Surcharges and Taxes		–	–	–	–	–	–	–	–	–
Fines, penalties and forfeits		2 226	4 005	4 005	18	419	1 669	(1 250)	–	4 005
Licence and permits		27	11	11	–	2	4	(2)	–	11
Transfers and subsidies - Operational		546 728	587 164	587 164	798	242 433	244 652	(2 219)	–	587 164
Interest		14 740	13 551	13 551	1 315	6 599	5 646	953	–	13 551
Fuel Levy		–	–	–	–	–	–	–	–	–
Operational Revenue		–	–	–	–	–	–	–	–	–
Gains on disposal of Assets		756	3 848	3 848	–	149	1 603	(1 455)	–	3 848
Other Gains		1 849	–	–	–	833	–	833	–	–
Discontinued Operations		–	–	–	–	–	–	–	–	–
Total Revenue (excluding capital transfers and contributions)		1 223 327	1 418 183	1 418 183	50 706	473 026	590 909	(117 883)	-20%	1 418 183

The municipality has during the month ended 30 November 2023 recognized revenue to an amount of R473.0m compared to the year-to-date budget of R590.9m resulting in a negative variance of 20%.

The variance is explained further below:

Service charges – Electricity

Electricity is billed at R125.2m compared to anticipated budget of R166.8m. This resulted in a negative variance of R25%. 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, the municipality has sourced a Services Provider to perform Meter audit, reconnections and disconnections.

Service charges – Water

Water service charges is billed at a negative variance of 104% at the end of November 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. Also, the line item has been included in the detailed mSCOA road-map in order to process corrections identified.

Service charges – Waste Water Management

Revenue on waste water management is recognized at R9.2m compared to R12.2m year to date budget. This has resulted in a negative variance of 25%. The negative variance is consistent throughout the first half of the financial year, this may be an indication that the line item was over-budgeted. Billing will be observed at the end of December to determine if an adjustment budget would be necessary.

Service charges – Waste Management

An amount of R17.6m is billed at the end of November 2023 compared to the budgeted amount of R8.5m, resulting in a positive variance of 107%. 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 R792 thousand against a year-to-date budget of R1.7m. 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 slightly less than the anticipated amount by R4.3m. The line item was appropriated for, using historical trends. 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 R22.5m against a budget of R14.8m. 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

R4.1m is recognized against a budgeted amount of R1.3m, 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 R1.2m at the end of November compared to the year-to-date budgeted amount of R845 thousand. This resulted in a positive variance of 48%. Although this is a smaller stream of revenue, the income received has been consistent over the first five 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. This will be corrected during the adjustment budget process.

Operational Revenue

Operational revenue to a total of R529 thousand is recognized for the month of November against a budget of R140 thousand. This resulted in a positive variance of R389 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 five months of the financial year. This is as a result of less traffic fines issued during the period. Only R419 thousand was collected compared to R1.6m year-to-date budget.

Transfers and Subsidies

The municipality has recognized R242.4m on transfers and subsidies compared to a year-to-date budget of R244.6m. This resulted in a positive variance of R2.2m. The resultant variance is due to the receipt of Equitable Shares received during July as well as conditional grants received during the year.

Interest

The line item relates to interest charged on property rates. The municipality recognized an amount of R6.5m compared to R5.6m year-to-date budget. This is attributable to the culture of non-payment by the customers.

Transfers and subsidies - Capital

Capital grants of R194.6m have been recognized at the end of November. The amount recognized is on conditions met by the municipality in terms of capital expenditure.

Collection Rate

The municipality's collection rate for the Month of November 2023 was 79%. The rate has increased compared to the previous month which was 67%. 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 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	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										
Expenditure By Type										
Employee related costs		330 346	411 319	411 319	29 630	148 947	171 384	(22 438)	-13%	411 319
Remuneration of councillors		10 524	18 009	18 009	3 406	7 980	7 504	476	6%	18 009
Bulk purchases - electricity		288 246	321 949	306 639	67 778	148 730	127 766	20 964		306 639
Inventory consumed		54 524	60 120	61 550	7 722	31 778	25 485	6 293		61 550
Debt impairment		1 446	190 574	190 574	-	-	79 406	(79 406)	-100%	190 574
Depreciation and amortisation		141 791	100 410	100 410	-	-	41 838	(41 838)	-100%	100 410
Interest		2 936	2 561	2 561	186	999	1 067	(68)	-6%	2 561
Contracted services		189 404	153 364	150 949	9 767	107 079	63 452	43 627	69%	150 949
Transfers and subsidies		5 951	517	517	-	78	215	(137)	-64%	517
Irrecoverable debts written off		203 695	-	-	5 603	121 934	-	121 934		-
Operational costs		75 517	124 422	140 763	7 040	55 238	58 248	(3 010)	-5%	140 763
Losses on Disposal of Assets		2 361	-	-	-	-	-	-		-
Other Losses		4 820	-	-	-	-	-	-		-
Total Expenditure		1 311 563	1 383 244	1 383 290	131 132	622 762	576 366	46 396	8%	1 383 290

The municipality has spent R622.7m in operational expenditure with a year-to-date budget of R576.3m which shows a positive variance of 8%.

The variance is explained further below:

Employee Related costs

Employee related cost to the amount of R148.9m has been recognized at the end of November 2023 compared to the year-to-date budget of R171.3m. 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 post 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 R7.9m at the end of November 2023 against a budget to date of R7.5m resulting in a positive variance of 6%. There is an improvement in Remuneration of councilors 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 has been processed. Payroll is also part of the items to be corrected through detailed mSCOA roadmap.

Bulk purchases Electricity

Bulk Electricity expenditure fluctuate seasonally. An amount of R148.7m 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 30 November 2023 is reported at R7 million. The reported R7 million relates 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 losses to loosen the cost burden.

Inventory Consumed

Expenditure to the amount of R31.7m has been recognized as compared to the year-to-date budget of R25.4m. This resulted in a positive variance of R6.2m. The line item includes consumable inventory and water consumed by the customers for the period 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 30 November 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

R999 thousand has been paid compared to the anticipated amount of R1.06m. 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 R107.0m has been recognized as compared to the year-to-date budget of R63.4m. This resulted in a positive variance of R43.6m. Municipality has experienced capacity issues especially 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 in 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 November 2023. The position will be responsible among other things, reporting and the compilation of AFS.

Irrecoverable debts written off

An amount of R121.9m 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 R55.2m has been recognized as compared to the year-to-date budget of R58.2m. This resulted in a negative variance of 5%. 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

LIM367 Mogalakwena - Supporting Table SC7(1) Monthly Budget Statement - transfers and grant expenditure - M05 November

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										
EXPENDITURE										
Capital expenditure of Transfers and Grants										
National Government:		240 208	311 599	311 599	60 268	180 676	129 833	50 843	39.2%	311 599
Integrated National Electrification Programme Grant		4 405	-	-	-	-	-	-		-
Municipal Infrastructure Grant		155 267	186 266	186 266	33 067	75 799	77 611	(1 812)	-2.3%	186 266
Regional Bulk Infrastructure Grant		42 086	50 000	50 000	25 036	83 990	20 833	63 156	303.1%	50 000
Water Services Infrastructure Grant		38 450	75 333	75 333	2 165	20 887	31 389	(10 501)	-33.5%	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	60 268	180 676	129 833	50 843	39.2%	311 599
TOTAL EXPENDITURE OF TRANSFERS AND GRANTS		558 647	689 582	689 577	89 788	349 724	287 327	62 397	21.7%	689 577

- Spending on capital grants at the end of November 2023 amounted to R180.6m.

5. Cash Balances

The municipality had a total of R19.1m in the bank accounts at 30 November 2023. The amount includes short-term investments or call accounts of R6.2m.

The table below illustrates cash balances as at 30 November 2023.

LIM367 Mogalakwena - Municipal Investments - M05

Primary Bank : Standard Bank

Account Type : Cheque

Opening Balance - 01 November 2023	25 717 501
Closing balance - 30 November 2023	12 831 211

INVESTMENTS : NOVEMBER 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	37 052 646	-	31 000 000	-	-	244 548	6 297 194
							-	-
TOTAL		37 052 646	-	31 000 000	-	-	244 548	6 297 194

Total in the Bank

19 128 404

6. Financial Position

Annual Financial Statement ss at 30 June 2023, 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 30 November 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 30 November 2023.

LIM367 Mogalakwena - Table C6 Monthly Budget Statement - Financial Position - M05 November

Description	Ref	2022/23	Budget Year 2023/24			
		Audited Outcome	Original Budget	Adjusted Budget	YearTD actual	Full Year Forecast
R thousands	1					
ASSETS						
Current assets						
Cash and cash equivalents		40 344	83 261	83 261	15 983	83 261
Trade and other receivables from exchange transactions		131 118	266 182	266 182	40 931	266 182
Receivables from non-exchange transactions		40 683	96 377	96 377	20 832	96 377
Current portion of non-current receivables		–	–	–	–	–
Inventory		396 599	380 596	380 596	374 760	380 596
VAT		54 619	–	–	58 917	–
Other current assets		14 423	–	–	14 381	–
Total current assets		677 786	826 417	826 417	525 804	826 417
Non current assets						
Investments						
Investment property		193 792	137 121	137 121	193 792	137 121
Property, plant and equipment		4 238 341	4 537 112	4 537 112	4 419 017	4 537 112
Biological assets						
Living and non-living resources						
Heritage assets		5 868	5 868	5 868	5 868	5 868
Intangible assets		1 762	943 423	943 423	1 762	943 423
Trade and other receivables from exchange transactions		(2)	16 137	16 137	(2)	16 137
Non-current receivables from non-exchange transactions		15 617	–	–	15 617	–
Other non-current assets						
Total non current assets		4 455 378	5 639 661	5 639 661	4 636 054	5 639 661
TOTAL ASSETS		5 133 164	6 466 078	6 466 078	5 161 858	6 466 078
LIABILITIES						
Current liabilities						
Bank overdraft		–	–	–	–	–
Financial liabilities		420	–	–	420	–
Consumer deposits		(16 779)	28 084	28 084	(15 976)	28 084
Trade and other payables from exchange transactions		428 273	210 463	210 463	350 147	210 463
Trade and other payables from non-exchange transactions		5 495	–	–	66 476	–
Provision		16 190	12 748	12 748	15 004	12 748
VAT		161 015	88 638	88 638	161 136	88 638
Other current liabilities		1 019	–	–	1 019	–
Total current liabilities		595 634	339 934	339 934	578 224	339 934
Non current liabilities						
Financial liabilities		–	–	–	–	–
Provision		110 789	123 053	123 053	110 789	123 053
Long term portion of trade payables		–	–	–	–	–
Other non-current liabilities		–	–	–	–	–
Total non current liabilities		110 789	123 053	123 053	110 789	123 053
TOTAL LIABILITIES		706 422	462 987	462 987	689 013	462 987
NET ASSETS	2	4 426 741	6 003 091	6 003 091	4 472 845	6 003 091
COMMUNITY WEALTH/EQUITY						
Accumulated surplus/(deficit)		6 245 877	5 656 554	5 656 554	6 130 429	5 656 554
Reserves and funds		(1 657 584)	–	–	(1 657 584)	–
Other		–	–	–	–	–
TOTAL COMMUNITY WEALTH/EQUITY	2	4 588 293	5 656 554	5 656 554	4 472 845	5 656 554