

MOGALAKWENA LOCAL MUNICIPALITY



MONTHLY BUDGET PERFORMANCE STATEMENTS

(SECTION 71 REPORT)

AS AT 30 SEPTEMBER 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

LIM367 Mogalakwena - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M03 September

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								%	
Revenue									
Exchange Revenue									
Service charges - Electricity	334 775	400 511	400 511	23 942	70 801	100 128	(29 327)	-29%	400 511
Service charges - Water	111 468	204 844	204 844	3 082	(10 475)	51 211	(61 686)	-120%	204 844
Service charges - Waste Water Management	20 184	29 454	29 454	1 866	5 522	7 364	(1 841)	-25%	29 454
Service charges - Waste management	19 786	20 545	20 545	2 098	6 220	5 136	1 083	21%	20 545
Sale of Goods and Rendering of Services	3 038	4 084	4 084	126	376	1 021	(645)	-63%	4 084
Agency services	12 193	10 421	10 421	1 027	1 890	2 605	(716)	-27%	10 421
Interest	-	-	-	-	-	-	-	-	-
Interest earned from Receivables	56 754	35 731	35 731	4 185	13 273	8 933	4 340	49%	35 731
Interest from Current and Non Current Assets	4 885	3 348	3 348	753	3 482	837	-	-	3 348
Dividends	-	-	-	-	-	-	-	-	-
Rent on Land	-	-	-	-	-	-	-	-	-
Rental from Fixed Assets	1 555	2 027	2 027	123	391	507	(115)	-23%	2 027
Licence and permits	-	1 951	1 951	-	-	488	(488)	-100%	1 951
Operational Revenue	1 840	336	336	67	115	84	31	37%	336
Non-Exchange Revenue									
Property rates	91 416	96 349	96 349	8 093	24 303	24 087	216	1%	96 349
Surcharges and Taxes	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits	2 226	4 005	4 005	217	226	1 001	(775)	-	4 005
Licence and permits	27	11	11	2	2	3	(1)	-	11
Transfers and subsidies - Operational	546 507	587 164	587 164	1 718	240 931	146 791	94 140	-	587 164
Interest	14 740	13 551	13 551	1 310	3 971	3 388	584	-	13 551
Fuel Levy	-	-	-	-	-	-	-	-	-
Operational Revenue	-	-	-	-	-	-	-	-	-
Gains on disposal of Assets	756	3 848	3 848	149	149	962	(814)	-	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	48 757	362 011	354 545	7 466	2%	1 418 183

The municipality has during the month ended 30 September 2023 recognized revenue to an amount of R362m compared to the year-to-date budget of R355m resulting in a positive variance of 2%.

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 1% on year-to-date budget performance.

Service charges

Total service charges to the amount of R72.1m is recognized which resulted in a negative variance of R91.7m, against the budgeted amount of R163.8m. The negative variance is due to the reversal of interim water readings which were reversed during July and August 2023. The interim readings were replaced with actual water readings.

The municipality is running an incentive scheme to attract the consumers to pay outstanding debts. The incentive was to provide a discount of 50% on the third months billing if the first two months bills were paid in full and timeously. This scheme has been fruitful in drawing consumers in but has also had the effect of reducing the revenue billed on all service charges during the month of September.

The municipality has also replaced and installed +/- 1,000 water meters at Mahwelereng. The replaced water meters are now included in the billing system of the municipality to avoid

estimate billing. The municipality is in a process of implementing meter audit to ensure that all meters with faults are identified. A debt collector has been appointed to assist with collecting old debt.

Rental of facilities and equipment

The municipality has recognized R391 thousand in the month of September compared to the year-to-date budgeted amount of R507 thousand. This resulted in a negative variance of 23%. 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.

Interest earned – External investments

R3.5m is recognized against a budgeted amount of R837 thousand, resulting in a positive variance of R2.6m. 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 quarter of 2023.

Interest earned – outstanding debtors

Interest Earned on Outstanding Debtors has been billed more than anticipated. The municipality recognized R13.3m against a budget of R8.9m. 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.

Transfers and Subsidies

The municipality has recognized R240.9m on transfers and subsidies compared to a year-to-date budget of R146.8m. This resulted in a positive 64% variance. The resultant variance is due to the receipt of Equitable Shares received during July as well as conditional grants received during the first quarter of the year.

Other Revenue

Other revenue to a total of R7.4m is recognized for the month of September against a budget of R8.6m. This resulted in a negative variance of R1.2m.

Capital grants

Capital grants of R57.8m have been recognized for the month of September against a budget of R77.9m. Spending on Capital Expenditure as at 30 September 2023 amounted to R64.3m compared to year-to-date budget of R77.9m. This resulted in a negative variance of 17%. This is a huge improvement from the previous months' negative variance of 71%. Contractors have started work on the projects and has thus improved the expenditure on capital grants drastically.

Collection Rate

The municipality's collection rate for the Month of September 2023 was 85%. The rate has improved remarkably compared to the previous month which was 72%. This is due to the incentive strategy offered to the consumers since the start of this financial year. The incentive scheme has been extended to the end of October 2023. 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) - M03 September									
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	30 275	91 037	102 831	(11 794)	-11%	411 319
Remuneration of councillors	10 524	18 009	18 009	204	1 261	4 502	(3 241)	-72%	18 009
Bulk purchases - electricity	288 246	321 949	306 639	27 918	60 798	76 660	(15 862)		306 639
Inventory consumed	54 524	60 120	61 570	3 359	18 638	15 175	3 463		61 570
Debt impairment	1 446	190 574	190 574	–	–	47 643	(47 643)	-100%	190 574
Depreciation and amortisation	140 919	100 410	100 410	–	–	25 103	(25 103)	-100%	100 410
Interest	2 936	2 561	2 561	58	534	640	(106)	-17%	2 561
Contracted services	189 404	153 364	151 864	28 210	62 460	38 191	24 268	64%	151 864
Transfers and subsidies	5 730	517	517	63	78	129	(51)	-39%	517
Irrecoverable debts written off	192 813	–	–	3 611	115 897	–	115 897		–
Operational costs	75 517	124 422	139 782	22 886	37 950	34 938	3 012	9%	139 782
Losses on Disposal of Assets	2 361	–	–	–	–	–	–		–
Other Losses	4 820	–	–	–	–	–	–		–
Total Expenditure	1 301 451	1 383 244	1 383 244	116 583	388 654	345 813	42 841	12%	1 383 244

The municipality has spent R388.6m on operational expenditure with a year-to-date budget of R345.8m which shows a positive variance of 12%.

The variance is explained further below:

Employee Related costs

Employee related cost to the amount of R91m has been recognized at the end of September 2023 compared to the year-to-date budget of R102.8m. The municipality has cut down on payments of overtime to not exceed 30% of the gross salary bill resulting in a negative variance of 11%. 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 R1.3m at the end of September 2023 against a budget to date of R4.5m resulting in a negative variance of 72%. This is due to the upper limits not been finalized yet. Once they are finalized, back payments will have to be made from 01 July 2022.

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 R18.6m has been recognized as compared to the year-to-date budget of R15.2m. This resulted in a positive variance of R3.5m. The positive variance is due to more inventories being issued at the start of the financial year to the various departments to enable day to day running of the municipality.

Contracted Services

Expenditure to the amount of R62.5m has been recognized as compared to the year-to-date budget of R38.2m. This resulted in a positive variance of R24.3m. 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.

Operational Costs

Expenditure to the amount of R38m has been recognized as compared to the year-to-date budget of R34.9m. This resulted in a positive variance of 8%. 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.

Irrecoverable debts written off

An amount of R115.9m 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.

4.3 Capital Expenditure

