

Mafube Local Municipality



2023/2024 MID – YEAR BUDGET AND PERFORMANCE ASSESSMENT REPORT IN TERMS OF 72 OF MFMA

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CHAPTER 1: INTRODUCTION

1. INTRODUCTION

In terms of Section 72 (1) of the MFMA, the accounting officer of a Municipality must by 25 January of each year;

Assess the performance of the municipality during the first half of the financial year, taking into account-

- a. the monthly statements referred to in section 71 for the first half of the financial year;
- b. the municipality's service delivery performance during the first half of the financial year, and the service delivery targets and the performance indicators set in the service delivery and budget implementation plan;
- c. the past year's annual report, and progress on resolving problems identified in the annual report; and
- d. the performance of every municipal entity under the sole and shared control of the municipality, taking into account report in terms of section 88 from any such entity; and

Submit a report on such assessment to-

- a. the Mayor of the municipality
- b. the National Treasury; and
- c. the relevant Provincial Treasury

1.2. The Accounting Officer must, as part of the review-

- a. Make recommendations as to whether an adjustment budget is necessary, and
- b. Recommend revised projections for revenue and expenditure to the extent that this may be necessary.

The main challenges experienced during the compilation of the 2023/2024 Mid-Year Report, can be summarised as follows:

Infrastructure and capital items

- Ageing and poorly maintained water and roads infrastructure;
- A lack of proper maintenance master plans;
- Limited capital projects that can be funded from own funds;
- The need to reprioritise projects and expenditure within the existing limited resources given the cash flow realities;
- Plant hire on a regular basis is costly and alternatives need to be explored – purchasing of own equipment and yellow fleet (subject to affordability).

Increased costs and decreasing margins on trading activities

- Increased prices of goods and services above the inflation rate;
- The increased cost of bulk water (due to tariff increases from DWS), which places constant upward pressure on service tariffs to the community;
- Tariffs are not cost reflective;
- Some private developments and industries receive services direct from Rural maintenance with no direct benefit to the municipality.

Irregular expenditure

- Expired tenders need to be regularised to avoid recurring irregular expenditure.

Staffing and personnel costs

- Organisational review – the process was concluded and the reviewed organisational structure has been approved by Council;
- Job evaluation to address disparities on job and post levels;

- Overtime costs in the service delivery departments have sky-rocketed – this requires requires a minimisation strategy which includes strengthening of internal controls by Heads of Departments;

Distribution losses

- Distribution losses - water and electricity require a minimisation strategy that is practical and implementable;
- Illegal water connections to be addressed and eliminated altogether.

Fleet management

- Fleet management (Cost of hire vs repairs) - needs to be addressed;

Recovery Plan

- National Treasury as part of the intervention assisted the Municipality by appointing a service provider to assist with the compilation of the FRP. The delay in the finalisation and adoption of the FRP was as a result of the challenged by Mafube Business Forum.

The scourge of the off-set of unspent funds on the Equitable Share

- This has a negative bearing on funding of operations and the is a hindrance in the municipality's ability to meet its financial obligations, further delays capital projects and increases service delivery backlogs.

Non-priority spending

- The municipality needs to move to more community-needs oriented budget and spending and rid itself of unnecessary expenditure that adds no value to service delivery.

If the municipality is to witness positive change, a lot of selfless sacrifices, particularly in terms of spending, have to be made.

Cost containment

- One other dominating factor is the lack of internal controls to curb the wastage that is caused by municipal employees through line items deemed to be necessary for the pursuance of service delivery.
- These items include:
 - Theft of vehicle parts as well as tools and equipment;
 - Unregulated overtime costs;
 - Exceeding of cellphone limits;
 - Fleet rental;
 - Fuel consumption;
 - Events which carry exorbitant catering costs (non-priority);
 - Travelling and accommodation;
 - Personal use of municipal vehicles;
 - Late coming, absconding and absenteeism;
 - Sale of personal protective clothing;
- It is probable that the municipality bleeds a lot of money on the hands of its own employees.

CHAPTER 2: FINANCIAL HEALTH ASSESSMENT

2. FINANCIAL HEALTH ASSESSMENT

2.1. Debtors and Revenue Management

Debtors are made up of a combination of businesses (Shops, guest houses and others), consumers (households of other individuals, indigents and pensioners), Government debtors and SARS (VAT);

The outstanding debtors balance as at 31 December 2023 equals R 1 090 618 000, compared to the previous financial during this period which amounted to R 928million. This means that the debtors book has increased by R 162 million year-on-year.

The drastic increase in the debtor's book is a huge concern as it results in cash flow problems for the municipality with specific reference to service charges and rates and taxes, this simply means that credit control measures have to be implemented to ensure that maximum revenue is collected to sustain the operations while also considering write-off of irrecoverable debt.

The debtor's age analysis will continue to grow if the debtors' payment level remains below 100%, in addition interest is charged on the outstanding balances which also contributes to the growth of the debtors' book.

FS205 Mafube - Supporting Table SC3 Monthly Budget Statement - aged debtors - M06 December

Description	Budget Year 2023/24									Total over 90 days
	0-30 Days	31-60 Days	61-90 Days	91-120 Days	121-150 Dys	151-180 Dys	181 Dys-1 Yr	Over 1Yr	Total	
R thousands										
Debtors Age Analysis By Income Source										
Trade and Other Receivables from Exchange Transactions - Water	8 555	5 219	5 607	7 494	4 171	3 585	42 279	244 719	321 629	302 249
Trade and Other Receivables from Exchange Transactions - Electricity	12	7	11	-	3	-	11	2 615	2 660	2 630
Receivables from Non-exchange Transactions - Property Rates	(1 646)	1 912	1 839	1 790	1 851	1 462	8 289	65 827	81 324	79 219
Receivables from Exchange Transactions - Waste Water Management	4 709	2 611	2 577	2 548	2 580	2 049	12 172	176 209	205 457	195 559
Receivables from Exchange Transactions - Waste Management	3 618	2 001	1 976	1 958	1 980	1 579	9 767	110 978	133 855	126 261
Receivables from Exchange Transactions - Property Rental Debtors	-	-	-	-	-	-	-	-	-	-
Interest on Arrear Debtor Accounts	13 951	6 859	6 706	6 617	3 463	5 811	32 338	249 870	325 617	298 100
Recoverable unauthorised, irregular, fruitless and wasteful expenditure	-	-	-	-	-	-	-	-	-	-
Other	492	249	698	241	575	215	1 278	16 330	20 076	18 638
Total By Income Source	29 691	18 857	19 413	20 649	14 624	14 701	106 134	866 547	1 090 618	1 022 655
2022/23 - totals only									-	-
Debtors Age Analysis By Customer Group										
Organs of State	393	651	361	676	349	326	2 177	9 557	14 491	13 085
Commercial	1 607	1 872	2 184	1 960	1 633	1 513	12 193	68 381	91 344	85 681
Households	27 691	16 334	16 868	18 014	12 642	12 862	91 764	788 608	984 783	923 890
Other	-	-	-	-	-	-	-	-	-	-
Total By Customer Group	29 691	18 857	19 413	20 649	14 624	14 701	106 134	866 547	1 090 618	1 022 655

Analysis of the debtors' age by customer grouping indicated:

- A total of R 14.4million is owed to the Municipality by Organs of state, the amount is up by R 3.6million in comparison with December 2022. 90% of this debt is owing for more than 90 days. In December 2022, 97% of the debt was owing for a period exceeding 90days. There is a slight improvement in the government's debt payment days.

The Municipality conducted meetings with the Section 21 schools on 4 October- and 28 November 2023 (Refeng- Thabo and Retshedisitswe Secondary Schools) to discuss debt owed by these schools in an effort to encourage them to make arrangements.

- Commercial debt amounts to R 91 344million of the total debt owing and comprises 8.3%.

A majority of business establishments do not honour their accounts, particularly the ones in townships.

90% of the total debt is attributed to the households, expressed in rands, this percentage amounts to R 984million. The households debt is up from the previous financial period by R 149million. Of the total debt outstanding, R 928million is owed by residents for more than 90 days.

- There is a constant increase in the debtors' age analysis, contributing factors include, consumers defaulting on their payment arrangements and consumers not paying their accounts because of faulty meters thus finding it impossible for the municipality to bill them.

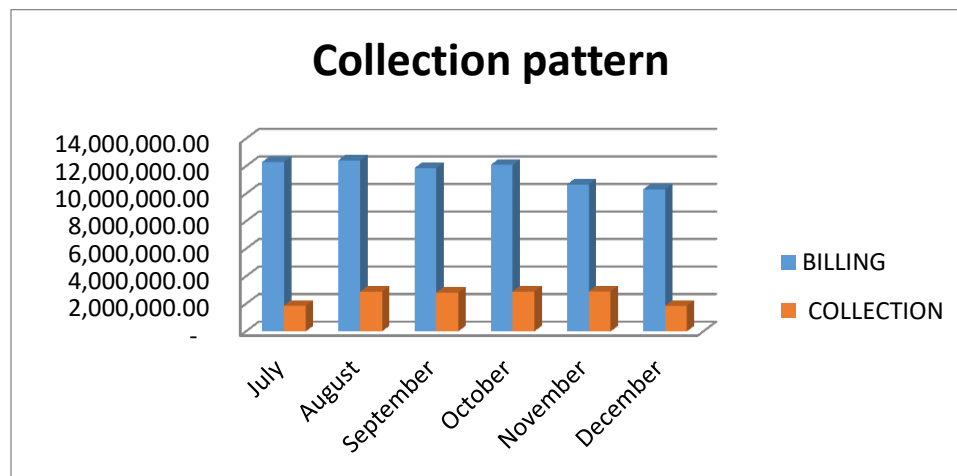
Analysis of the debtors' age by income source indicated:

- The most dominant debt in this category is the one for the water service charge which, at the end of the semester was valued at R 321,6million. This is up by R 41.3million from the R 280.3million that was recorded for the same period in the 2022 / 2023 financial year. 93% of this debt is owing for a period exceeding 90 days.
- Waste water is recorded at R 205,4million for the period to the end December 2023. Of this debt, 95% is due for more than 90 days.
- An amount of R 133,8 has been recorded as owing to the Municipality as at 31 December 2023, amount of which 94% is over the 90-day period.

Summarised collection rate for the first semester is as follows:

MONTH	BILLING	COLLECTION	RATE
July	12,315,642.91	1,867,288.75	15%
August	12,442,575.66	2,881,681.74	23%
September	11,876,088.53	2,821,755.19	24%
October	12,107,872.11	2,901,757.43	24%
November	10,686,742.44	2,915,636.52	27%
December	10,333,608.13	1,859,449.04	18%
Total	69,762,529.78	15,247,568.67	22%

- The total billing for the semester to the end December 2023 amounts to R 69,7million, this is up by R 6.47million from the R63.2million recorded for the same period in 2022 / 2023.
- The receipts recorded for the 6-month period amount to R 15.247million which is an increase from R 15.224million recorded for December 2022. There is a slight increase of R 23 298.84.
- The average collection rate for the six month period ended December 2023 is 22%, while 24% was recorded as at the end of December 2022.



As can be seen above, the municipality barely collected an average monthly quarter of what was billed on a monthly basis, this is indicative of the fact that revenue collection requires some serious attention, thus:

- Credit control measures must be applied strictly throughout the municipality, regardless of the customer type, whether it is businesses, schools, hospitals, households or government departments. This process has not been fully intensified;
- The municipality has in place a detailed Revenue Enhancement Strategy which must be strictly and thoroughly implement;
- The debt management department needs to be further capacitated to improve the quality of credit controls and revenue management.

Factors for under-collection

The total number of accounts billed is more than 20 000, with more than 15 000 meters which include approximately 4 360 meters that are in unacceptable conditions as some:

- Are invisible due to steam and no readings can be taken;
- Cannot be accessed due to being covered by soil and some situated deep under-ground which makes it risky and difficult for meter readers to access;
- Are damaged while others are not moving at all;
- Are leaking, caused by old infrastructure pipes;
- In some areas, there are customers whose properties are without water meters.

The municipality has appointed Inzalo EMS to assist with installation of pre- paid water meters. The process of installation of prepaid meters commenced in November 2020 and it is still in progress.

Collection rate for prepaid water meters

Month	Total KL Sold	Total tendered
July	7399.3	R108 512.00
August	7848.8	R115 540.00
September	9051.3	R134 349.00
October	9737.1	R146 459.00
November	8395.1	R123 920.00
December	7300.0	R106 162.00
TOTAL		R734 942.00

Proceeds from sale of assets

- On the 9th of November 2023, the Municipality conducted an auction in an attempt to rid the Municipality of redundant and dysfunctional assets with a view to raising funds for payment of Pension Funds.
- At the time of the auction, the Municipal trade payables were at a R 1billion mark, majority of whom are at litigation stage.
- In an attempt to ensure that payment of creditors takes place, the municipality had to sell most of its own assets.
- The municipality performed a conditional assessment of all the assets through the bi-annual assets verification process that is performed by consultants.

- The conditional assessment revealed that most of these assets are old and would be expensive to repair, some have been idle for long periods of time, some legally attached.
- Due to the above, a lot of creditors opted to legally attach the bank account as a last resort.
- This process was duly authorised by means of a Council resolution.
- The proceeds from this process amounted to R 1 022 160 and of this amount, R 500 000.00 was transferred into the Municipal bank account.

526 ATTERBURY ROAD MENLO PARK, PRETORIA P.O. BOX 11246 MAROELEANA 0161 TEL: (012) 348 7777 FAX: (012) 348 7776 E-MAIL: bianca@rootx.co.za Reg. No. 2007/180369/23		ROOT·X AUCTIONEERS VALUATORS ESTATE AGENTS	
		Our Ref /Oms Verw:	L11474
		Our VAT No/Oms BTW No.:	4860223058
MAFUBE LOCAL MUNICIPALITY			
21/11/2023		Your Ref /U Verw:	Maleshwane Ngozo
		Estate VAT No./Boedel BTW No.:	
SETTLEMENT STATEMENT PRO-RATA: MAFUBE LOCAL MUNICIPALITY SALE OF ASSETS			
SUMMARY SALE			
SALE OF ASSETS			1 022 160,00
SALE AMOUNT		1 022 160,00	1 022 160,00
SETTLEMENT STATEMENT			1 022 160,00
Amount Received			
Auctioneers Commission 5.5%	56 218,80		
Advertisement costs	24 620,00		
Registration fee & admin costs	-		
Pro-Rata Payment made 21/11/2023	500 000,00		
AMOUNT DUE BY ROOT-X	441 321,20		
		1 022 160,00	1 022 160,00

- The remainders of the funds are pending the delivery of the last vehicle documentation from the Department of Police, Roads and Transport, subsequent to which the balance will be transferred into the Municipal account.

Consumer debt payment Incentive Scheme

The objectives of the scheme are to:

- Provide a uniform credit control and debt collection and indigent policy

throughout the municipality.

- Facilitate implementation of this policy throughout the municipality.
- Promote the culture of payment amongst customers and instill a sense of responsibility towards the payment of municipal accounts and reduction of municipal debt.
- The Council approved the Bad Debt policy (incentive scheme) on the 21st of September 2023.

Incentive scheme is structured as follows:

1. There will be incentives attended to in line with write off limitation. The incentive will be considered and a once-off discount will be given to the account holders settling their accounts which are older than 90 days as follows:
 - 1.1 For consumers who buy electricity and water from prepaid vending machines, the municipality shall limit the amount of vending for consumers with outstanding accounts and/or take 20% (percent) of the amount vended to settle the arrears.
 - 1.2 Municipality will also use electricity as the credit control mechanism whereby electricity will be disconnected if other services are in arrears.
 - 1.3 The schemes offer a rebate on the balance if only a customer requested for an arrangement of not more than six months to settle the balance excluding the current account as follows:

Group of Debtors	Method of Debt incentive scheme - Cash basis (Full settlement)	Method of Debt incentive scheme – Arrangement basis
Residential consumers	For all residential consumers, a discount of 50% will be given	For all residential consumers, a discount of 50% will be given in

	with respect to all debt accumulated older than 90 days. Interest charged on the account will be written off. A prepaid water meter may be installed after concluding agreement.	respect to all debt accumulated older than 90 days. The consumer will pay 30% at the time of the agreement in order to qualify for a 50% discount. A prepaid water meter may be installed after concluding agreement.
Schools	For all schools, a 50% discount will be given for all debt accumulated older than 90 days. Interest charged on the account will be written off. A prepaid water meter may be installed after concluding agreement.	For all schools, a discount of 50% will be given with respect to all debt accumulated older than 90 days. The school will pay 30% at the time of the agreement in order to qualify for a 50% discount. Interest charged on the account will be written off. A prepaid water meter may be installed after concluding agreement.
Churches and other NGO's (Notfor-profit entities)	For all these entities, a discount of 50% will also be given with respect to all debt accumulated, older than 90. Interest charged on the account will be written off. Interest charged on the account will be written off. A prepaid water meter may be installed after concluding agreement.	For all these entities, a discount of 50% will also be given with respect to all debt, older than 90. The school will pay 30% at the time of the agreement in order to qualify for a 50% discount. A prepaid water meter may be installed after concluding agreement.
Businesses	For small medium enterprises, a discount of 50% will only be given in respect to all debt accumulated, older than 90. Interest charged on the account	For all SMEs, a discount of 50% will also be given with respect to all debt accumulated, older than 90. SME's will pay 30% at the time of the agreement in order to qualify

	will be written off. For big businesses a discount of 40% will be given in respect of the debt accumulated, older than 90. Interest charged on the account will be written off. A prepaid water meter may be installed after concluding agreement.	for a 50% discount. For big businesses discount 40% discount will be deducted on all debt, older than 90. Businesses will pay 20% at the time of the agreement in order to qualify for a 40% discount. Prepaid water meter may be installed after concluding agreement.
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Billing

- Billing is performed on a monthly basis. The Municipality currently sends accounts to customers through emails, statements are then sent through post office for those with no access to e-mails. The Customer Care Unit is also used for assistance with account statement queries.

Valuation roll

- The valuation roll was received from Manna Holdings in January 2020. Public inspections were advertised in local newspaper and provincial gazette for two consecutive weeks (28 February 2020 and 06 March 2020.)
- All Section 49 notices were delivered to all consumers through ward Councillors.
- Furthermore, the municipality extended the date for public inspection in June 2020 due to Covid-19. The valuation roll was advertised on 05 June 2020 and 12 June 2020 in the local newspaper and Provincial Gazette.
- The valuation roll was uploaded on the financial system in September 2020.

Tariffs

- Council approved the Annual Budget together with the Municipal tariffs On the 31st of May 2023;

- Subsequent to the approval of tariffs, the municipality processed a payment amounting to R1 275 for the Gazetting of tariffs.
- The payment was processed on the 3rd of July 2023. It was later discovered that the municipality had made the payment towards the Department's Standard Bank account as known but it was later discovered that the Department had changed its primary bank account to that of Nedbank.
- The Gazette was promulgated on the **8th September 2023**

Indigents

- **indigent**” means any household or category of households, including a child headed household, earning a combined gross income, as determined by the municipality annually in terms of a social and economic analysis of its area, which qualifies for rebates/remissions,
- Support or a services subsidy; provided that the child support grants are not included when calculating such household income;
- In order for a household to qualify for indigent household income must be R4000.00.
- The total number of indigent for the whole municipality is 1998, the registration process is ongoing.
- Per ward: Ward 1: 223
 Ward 2: 216
 Ward 3: 300
 Ward 4: 96
 Ward 5: 109
 Ward 6: 300
 Ward 7: 213
 Ward 8: 162
 Ward 9: 379

Customer care

- Municipality has developed a customer care complaint register.
- All complains are recorded in complaint register.
- Queries are attended as when we receive them or within 48 hours depending on the nature of the complaint.

2.2. Creditors Management

The Municipal creditors book is at R 1 092billion compared to the R 847million recorded for December 2022. R 245million is the amount by which the creditors book grew since the last semester of the 2022 / 2023 financial period.

The following creditors have been carried over from the previous financial years and as a result, this creates huge cash flow constraints for the municipality in the current year:

FS205 Mafube - Supporting Table SC4 Monthly Budget Statement - aged creditors - M06 December						
Description	NT Code	Budget Year 2023/24				Total
		0 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 120 Days	
R thousands						
Creditors Age Analysis By Customer Type						
Bulk Electricity	0100	–	–	12,099	186,540	198,639
Bulk Water	0200	–	3,342	23,292	441,057	467,691
PAYE deductions	0300	2,778	1,247	–	1,541	5,565
VAT (output less input)	0400					–
Pensions / Retirement deductions	0500	1,274	23	1,294	215,461	218,052
Loan repay ments	0600					–
Trade Creditors	0700	6,205	5,046	4,410	173,418	189,080
Auditor General	0800	126	125	124	12,414	12,789
Other	0900	819	1	1	47	868
Total By Customer Type	1000	11,202	9,784	41,221	1,030,478	1,092,686

- The municipality owes 94% of its creditors for more than 90 days, 61% of the debt is dominated by the bulk water and electricity which also makes up 57% of the total debt, the percentage dominance is up by 2% compared to 2022 / 2023 this time.

- Creditors Payment Period (Trade Creditors)
 - Trade Creditors Outstanding / Credit Purchases (we have included all monthly commitments) × 365
 - R 1 092 686 000 / R 62 207 000 * 365
 - 6 411 days 4 522 days
- From the above table it is evident that the municipality unable to fulfill its monthly commitments thereby failing to adhere to the provisions of the Section 65 of Local Government: Municipal Finance Management Act, 56 of 2003 which requires municipalities to pay creditors within 30 after the receipt of invoices.
- It takes 1 889 more days in the current financial period to pay creditors compared to the 2022 / 2023 financial year's 4 522 days.
- A creditor settlement period which exceeds 30days is indicative of the municipality's poor state of finances in terms of cash flow.

2.3. Asset Management –capital expenditure performance

FS205 Mafube - Table C5 Monthly Budget Statement - Capital Expenditure (municipal vote, functional classification and funding) - M06 December									
Vote 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 - Functional Classification									
<i>Governance and administration</i>	10,155	6,900	6,900	–	16	3,450	(3,435)	-100%	6,900
Finance and administration	10,155	6,900	6,900	–	16	3,450	(3,435)	-100%	6,900
<i>Community and public safety</i>	–	1,250	1,250	–	–	625	(625)	-100%	1,250
Community and social services	–	1,250	1,250	–	–	625	(625)	-100%	1,250
<i>Economic and environmental services</i>	3,432	9,067	9,067	1,171	1,788	4,533	(2,745)	-61%	9,067
Road transport	3,432	5,222	5,222	1,171	1,788	2,611	(823)	-32%	5,222
Environmental protection	(0)	3,844	3,844	–	–	1,922	(1,922)	-100%	3,844
<i>Trading services</i>	32,274	40,690	40,690	2,048	3,883	20,345	(16,462)	-81%	40,690
Energy sources	3,950	2,420	2,420	–	151	1,210	(1,059)	-88%	2,420
Water management	28,324	38,270	38,270	2,048	3,733	19,135	(15,402)	-80%	38,270
<i>Other</i>							–		
Total Capital Expenditure - Functional Classification	45,861	57,907	57,907	3,219	5,687	28,953	(23,266)	-80%	57,907
Funded by:									
National Government	35,706	47,206	47,206	3,219	5,672	23,603	(17,931)	-76%	47,206
Transfers recognised - capital	35,706	47,206	47,206	3,219	5,672	23,603	(17,931)	-76%	47,206
Internally generated funds	10,155	10,700	10,700	–	16	5,350	(5,335)	-100%	10,700
Total Capital Funding	45,861	57,907	57,907	3,219	5,687	28,953	(23,266)	-80%	57,907

- Capital expenditure for the semester to the end December 2023 amounts to R 5.6million, there is a significant decline in the implementation of capital projects as compared to the previous financial year during this time whose spending was recorded at R 12million.
- R 1.7million was spent in respect of road infrastructure development whose budget for this financial period amounts to R 5.2million;
- Spending amounting to R 151 000 was recorded in relation to Electrification projects in comparison with a budget of R 2.4million. This is made up of R 2 000 000.00 set aside for installation of high mast lights as well as R 420 000.00 for electrification.
- The Municipality further recorded spending amounting to R 3.7million in respect of water and sanitation projects as compared to a total budget of R38.2million.

2.4. Liability Management

Loans:

The municipality did not incur any long term financial obligations with any financial institution at the end of the 2023 / 2024 semester.

Conditional Grant Performance – 2023 / 2024

All capital grants that have been allocated to the municipality are conditional and are geared towards alleviation of basic services and infrastructure backlogs. These have been determined as per the Division of Revenue Act.

CONDITIONAL GRANT DISCRIPTION	OPENING BALANCE	GRANTS RECEIVED	SPENDING	CLOSING BALANCE
Municipal Infrastructure Grant (MIG)	2,781,207.73	5,859,000.00	(3,019,344.79)	5,620,862.94
Integrated National Electrification Programme (INEP)	3,618,792.29	420,000.00	(173,539.81)	3,865,252.48
Financial Management Grant (FMG)	-	3,100,000.00	(308,059.69)	2,791,940.31
Water Services Infrastructure Grants (WSIG)	6,535,543.33	5,000,000.00	(1,632,954.30)	9,902,589.03
Expanded Public Works Programme (EPWP)				-
GRANT TOTAL	12,935,543.35	14,379,000.00	(5,133,898.59)	22,180,644.76

- The Municipal Infrastructure Grant (MIG) allocation of **R26.1 million** has been set aside for the budget period with R 27- and R28 million projected over the medium term.

The Municipality has spent R 3million in comparison with grant received amounting to R 5.8million.

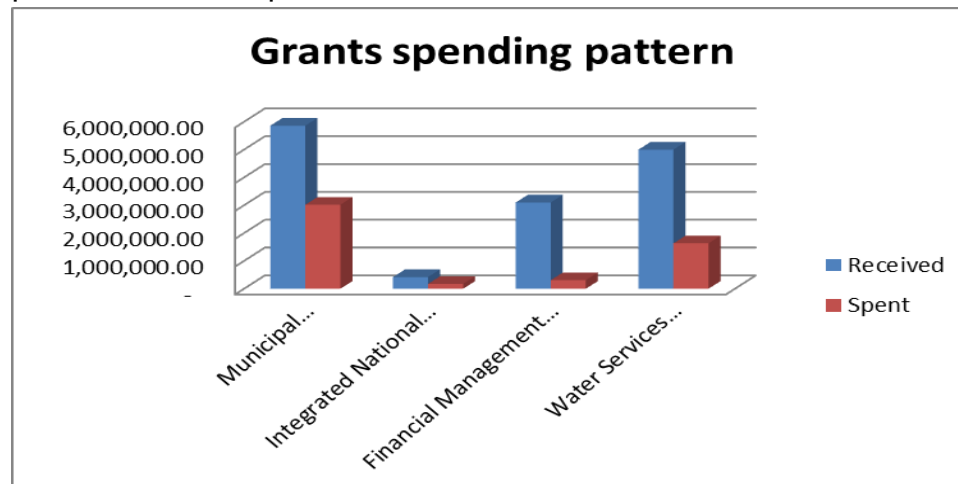
- The Water Service Infrastructure Grant (WSIG) allocation of **R22 million** has mainly been earmarked for the construction of a new reservoir in Namahadi which seeks to address a decade-long water access backlog. The grant is estimated at R10- and R 13.4million year-on-year for the two outer years of the MTREF.

The Municipality received R 5million in respect of this grant and R 1.6million is recorded as the amount spent come end of December 2023.

- The Integrated National Energy Grant (INEG) allocation of **R 420 000.00** is earmarked for the provision of electricity within the wards of the municipality. Further allocations of R5.4- and R5.3 million have been made for the 2024 / 2025 and 2025 / 2026 financial periods respectively.

R 173 539 has been spent in connection with electrification on a budget amounting to R 420 000.00.

- There is a significant decline which amounts to R 12.7million in grants spending for the period under review compared to the same time in the previous financial period.



- This graphical comparison is a clear indication that the grant spending is not on par with the receipts and the municipality has to commit itself in ensuring that come year-end, all the allocations for this financial period have been duly spent.
- The underspending, if not attended to, will form part of the unspent conditional grants for this financial period and is likely to be offset against the Equitable Share scheduled to be transferred in the next budget year.
- This further contributes to the Municipal infrastructural backlogs particularly those of water and sanitation as they are the main contributors on the capital budget.

CHAPTER 3: MID – YEAR BUDGET STATEMENT

3. MID - YEAR BUDGET STATEMENT

3.1. Summary

- Anticipated operating revenue for 2023 / 2024 is estimated at R283.1 million.
- Operating expenditure for 2023 / 2024 has been projected at R 276 million.

Operating revenue

- The municipality has accrued R 185million in total operating revenue compared to a budget of R 283million, this constitutes 65%. There is, however, a variance that has been recorded in relation to this as the year-to-date actual figure has exceeded the year-to-date budget which amounts to R 141million.

Operating expenditure

- Total operating expenditure of R72.8million against the budget of R 276million at mid-year, this constitutes 26%.
- The main factor to this is payment of creditors accrued for the financial period which does not directly reflect on the face of the statement of financial performance as it reduces trade and other payables.

3.2. Operating Revenue

The municipality's performance in the first half of 2023 / 2024 financial period has been fairly stable given the challenges in our cash flow.

FS205 Mafube - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M06 December

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		1	0	0	–	4	0	4	3156%	0
Service charges - Water		47,253	40,616	40,616	3,198	21,752	20,308	1,444	7%	40,616
Service charges - Waste Water Management		16,055	15,089	15,089	1,762	12,716	7,544	5,172	69%	15,089
Service charges - Waste management		17,219	14,855	14,855	1,590	10,269	7,427	2,842	38%	14,855
Sale of Goods and Rendering of Services		2,886	2,854	2,854	223	1,918	1,427	492	34%	2,854
Agency services								–		
Interest								–		
Interest earned from Receivables		54,639	45,233	45,233	6,166	33,320	22,616	10,703	47%	45,233
Interest from Current and Non Current Assets		558	72	72	2	62	36			72
Dividends		–	–	–	–	–	–	–		–
Rent on Land		2,252	6,580	6,580	–	–	3,290	(3,290)		6,580
Rental from Fixed Assets		628	312	312	27	285	156	129	83%	312
Licence and permits		–	–	–	–	–	–	–		–
Operational Revenue		1	0	0	0	0	0	(0)	-69%	0
Non-Exchange Revenue								–		
Property rates		23,248	25,078	25,078	2,508	15,169	12,539	2,630	21%	25,078
Surcharges and Taxes								–		
Fines, penalties and forfeits		143	131	131	–	2	65	(64)		131
Licence and permits								–		
Transfers and subsidies - Operational		117,083	132,281	132,281	38,285	85,044	66,141	18,903		132,281
Interest		6,900	–	–	861	4,399	–	4,399		–
Fuel Levy								–		
Operational Revenue		–	–	–	–	–	–	–		–
Gains on disposal of Assets		–	–	–	–	–	–	–		–
Other Gains		(22)	–	–	–	–	–	–		–
Discontinued Operations								–		
Total Revenue (excluding capital transfers and contributions)		288,843	283,101	283,101	54,623	184,941	141,550	43,391	31%	283,101

Property Rates

This budget item spent 60% of its budget allocation as at the end of December 2023, on a year to date basis, there is an increase in property rates billing of 15%. Property rates make up 8.8% of the total operating revenue.

Service charges

Service charges consist of sanitation and refuse removal. Both these line items each contribute 5% towards operating revenue.

Conclusion:

An upward adjustment may be necessary in terms of the sanitation and refuse service charges due to the fact that the billing recorded is more than what was predicted on year to date basis.

Interest earned on external investments

There were reduced investments during the financial year due to available cash being committed to day to day operational activities of the municipality. The efficiency in the Investment portfolio and implementation of the cash management policy will still be improved by investing in more fixed term portfolios to earn more interest on grants received but not utilised immediately.

The municipality did not manage to invest more funds in the first six months of the financial period, therefore, this does have an impact on the reduced interest earned from investments

Conclusion: The cash flow analysis will be performed for the whole financial year reflecting the expected revenue and expenditure commitments, this will be used to determine the need for adjustment. The plan is to ensure that available cash is invested to ensure increased revenue from investments as required by the municipality's investment policy.

Interest earned on outstanding debtors

- The positive variance of 47% was as a result of interest charged on defaulting debtors.
- The growing debtors book results in the debtors accruing more interest on overdue accounts.

Conclusion: Adjustment will be made to accommodate the increased interest charged for non-payments as it was evidenced in the first half of the financial year, however revenue collection needs to be intensified since this will subsequently result in reduced interest on overdue accounts.

Operating grants

- A decline by the National Treasury of the Municipality's application for rollover of unspent conditional grants as at 30 June 2023 citing non submission of the Annual Financial Statements resulted in the Municipality forfeiting funds to the tune of R 20million.
- During the month of December 2023, the National Treasury has an amount of R 6million offset against the scheduled December 2023 tranche of the Equitable Share due to unspent conditional grants of the previous financial year.
- The off-set against the Equitable Share does not necessarily mean that the projects that were funded by the conditional grant would be discontinued, it simply means there is limited funding, delayed projects and increased backlogs.
- Despite the above, the municipality continues to make strides to fund the projects.
- The municipality has managed to negotiate an unspent conditional grants repayment arrangement in the following manner:
 - December 2023 – R 6 000 000.00
 - March 2024 - R 6 000 000.00
 - July 2024 - R 8 000 000.00

Poor performance on conditional grants remains a huge challenge as it stems from a number of factors.

3.3. Operating expenditure

The table below provides a summary of the actual operating expenditure by main type for 2023 / 2024 financial year compared to the midyear budget.

FS205 Mafube - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M06 December										
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		103,652	117,873	115,471	9,226	52,920	57,736	(4,815)	-8%	115,471
Remuneration of councillors		6,314	6,626	6,626	530	3,422	3,313	109	3%	6,626
Bulk purchases - electricity		12,955	5,300	5,300	–	0	2,650	(2,650)		5,300
Inventory consumed		8,306	20,919	20,919	410	3,042	10,459	(7,418)		20,919
Debt impairment		–	–	–	–	–	–	–		–
Depreciation and amortisation		3,007	27,798	27,798	–	–	13,899	(13,899)	-100%	27,798
Interest		36,075	25,000	25,000	0	1	12,500	(12,499)	-100%	25,000
Contracted services		7,464	22,218	22,218	3,750	4,941	11,109	(6,168)	-56%	22,218
Transfers and subsidies		9	3,283	3,283	–	–	1,641	(1,641)	-100%	3,283
Irrecoverable debts written off		4,799	9,265	9,265	267	2,032	4,632	(2,601)		9,265
Operational costs		27,436	38,118	38,118	2,285	6,497	19,059	(12,562)	-66%	38,118
Losses on Disposal of Assets		–	–	–	–	–	–	–		–
Other Losses		70	500	500	–	–	250	(250)		500
Total Expenditure		210,087	276,899	274,497	16,469	72,855	137,249	(64,394)	-47%	274,497

Employee related costs

- R 52million has been recorded as having been accrued in relation to the employee related costs for the semester to the end December 2023. This figure is a percentage up from the R51million recorded in the previous financial period during this time.
- Councillor remuneration which amounts to R 3.3million has accrued for the first half of the financial period, on a year-to-date comparison, it is slightly higher than what was predicted for this period.
- Inefficiencies, overstaffing and uncontrolled costs such as shift allowance, stand-by allowance and overtime allowance are some of the factors that lead to the increased percentage of employees related costs.

Debt impairment

No debt was impaired as at 31 December 2023.

Explanatory notes on material differences between approved budget and actual amounts, reasons are provided for variance of more than 10%.

- Variation of 100% underspending on depreciation and assets impairment, the provision and accounting for depreciation on a monthly basis is not linked to the main financial management system. The assets register is still maintained and updated outside the financial management system, therefore, the expenditure is recorded at year end.
- Variation of 100% underspending on financial charges, interest paid on borrowing, interest charged for late payment, they are allocated to the main-account where the expenditure relates to.
- Variation of 100% underspending on bulk material, the settlement agreement on Eskom is less than the budgetary provision and therefore, the difference is accumulating on trade payables.
- Variation of 66% underspending on other expenditure, insufficient cash results in goods/services been procured or committed on credit, therefore, the expenditure on line item will reflect underspending variance. The effect of the credit procurement is that trade payables increase.

Unauthorised, Irregular Fruitless & Wasteful Expenditure identified.

- The Municipality has recorded R 0.00 in respect of unauthorised expenditure for the semester to the end December 2023.
- Irregular expenditure for the first semester of 2023 / 2024 financial year amounts to R 12.4million. This figure is up by R 4.8million compared to the R 7.6million recorded for the same period in the preceding financial year.

- The figure is dominated by amongst others, water chemicals, fuel and cellphone contracts.
- An amount of R 20.9million has been recorded as fruitless and wasteful expenditure as at 31 December 2023, this figure is up by R 13million and is informed by the growing creditors book which gives effect to interest on overdue supplier's accounts.

3.4. Cash – Flow analysis

Investments play a crucial role in a municipality's financial management, as they enable the municipality to be able to meet its short term liabilities, bridge shortfalls and earn interest on surplus cash.

Despite what has been said above the municipality does not have adequate investments available and cash management still proves to be a challenge in the municipality, this is as a result of a higher rate of current creditors and low collection which decreases the inflow of cash and the marginal propensity to save.

The balances on investments of the municipality are as follows:

Detail / Description	Opening balance	Deposits	Withdrawals	Interest	Charges	Balance
ABSA - Call account	2,250.54	-	-	60.22	-	2,310.76
ABSA - Operation Hlasela	2,771.32		-	74.16	-	2,845.48
ABSA - Friends of the poor	1,993,482.66	-	1,969,081.51	5,175.17	-	29,576.32
FNB - 6285-0214-778	4,640,625.11	-	4,768,597.51	145,020.67	-	17,048.27
FNB - 6281-7394-901	879,973.78	-	-	36,436.12	4,789.98	911,619.92
TOTAL	7,519,103.41	-	6,737,679.02	186,766.34	4,789.98	963,400.75

Summary on financial sustainability

- The municipality is continuously experiencing tight cash flow positions as a result of committed contractual obligations resulting with accelerated

operational expenditures and therefore there is a critical need to cut on operational expenditures in order to sustain the municipality financially;

- Strategies are in place to enhance the revenue collection of council by encouraging consumers to pay their municipal services and we are in discussion with Rural Maintenance to implement the electricity cut off on consumers that are arrears;
- A debt collection strategy will be put in place of which the primary focus will be to put strict credit control measures on debtors that can afford to pay but do not pay their outstanding debt;

3.5. Budget supporting tables

Progress on mSCOA implementation

- The core system that is used by the municipality is not fully mSCOA compliant due seamless integration constraints;
- The municipality still generates some of its Budgeting reports outside the system precisely due to incapacity of our IT infrastructure;
- The municipality has signed an agreement with the service provider regarding migration from the current system to SOLAR, which is fully mSCOA compliant.

Data-strings

The municipality has successfully submitted monthly data strings to National Treasury except audit data strings as the 2022 / 2023 financial year audit has only just begun.

Budget implementation

- The 2022 / 2023 Adjustment Budget is to be tabled to Council by the 28th of February 2023 after having taken into account the contents of this report;

- The municipality has thus far managed to submit most of the outstanding data strings except the ones relating to audit which has just started.

CHAPTER 4: OUTCOME OF BUDGET ASSESSMENT

4. OUTCOME OF BUDGET ASSESSMENT

An adjustment budget must be performed for the following reasons in line with Section 28 of the Municipal Finance Management Act:

- Adjustment of operational income and expenditure reports as per the assessment performed in this report based on the first half of the financial year;
- Inputs received from the departments with regard to their day to day operations and changes to be executed in the remaining six months of the financial year.
- Inputs received from the departments on changes on capital projects to be executed during the year based on the SDBIP progress reports.
- Reallocation of votes to ensure that each funding source is correctly aligned to the relevant expenditure line item especially on capital budget.

CHAPTER 5: RECOMMENDATIONS

5. RECOMMENDATIONS

- a. That the mid-year budget and performance assessment as tabled be noted by Council;
- b. That the 2023 / 2024 annual budget be adjusted in February 2024 in terms of Section 28 of the MFMA;
- c. That the mid-year budget and performance assessment report be submitted to CoGTA and both National and Provincial Treasuries as required by Section 72 of MFMA.

- d. That the mid-year budget and performance report be placed on the municipal website within five working days after it is approved.
- e. That all directorates be urged to submit a report on the expected changes to be made on operational and capital adjustment budget.
- f. That Council approve the proceeds from sale of assets to be utilised towards payment of creditors, particularly pension funds.