

# Mid-Year Budget and Performance Assessment Report December 2024



Steve Tshwete  
Local Municipality

## **AGENDA ITEM FOR MAYORAL COMMITTEE MEETING**

### **FINANCES: MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT: 2023/2024 FINANCIAL YEAR**

Town Clerk Number: None  
Town Secretary Reference Number: 5/1/4  
Contact Person: A.N Magangane

**ITEM TRANSFERRED TO:** File: 0000R0001.EDCS  
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Date: 15 January 2024

### **REMARKS:**

#### **Report by the Executive Director Financial Services**

#### **1. PURPOSE**

- 1.1 The purpose of the report is for Council to assess the performance of the municipality during the first half of the financial year and the accounting officer must make recommendations as to whether an adjustment budget is necessary and recommend revised projections for revenue and expenditure where applicable.
- 1.2 In terms of section 28 of the MFMA, the purpose of an adjustment budget is to correct errors, utilize projected savings in one vote towards spending under another vote and to authorize unforeseeable and unavoidable expenditure which was recommended by the mayor, and not to create new projects. Therefore, existing projects may be increased but new projects cannot be created. If the full loan amount will not be utilized in this financial year, the remaining amount can be utilized in the next financial year.

#### **2. BACKGROUND**

- 2.1 In terms of section 72(1) of the Municipal Finance Management Act, Act 56 of 2003, the accounting officer must, by 25 January of each year, assess the performance of the municipality during the first half of the financial year.
- 2.2 Section 72(3) further stipulates that as part of the assessment, recommendations must be made whether an adjustment budget is necessary, taking into consideration the revised projections for revenue and expenditure to the extent that this may be necessary.
- 2.3 The mid-year budget and performance assessment report must be consistent with the monthly budget statements on the implementation of the annual budget in accordance with the service delivery budget implementation plan (SDBIP) for the first half of the financial year and be submitted to the Executive Mayor, National Treasury and the relevant Provincial Treasury.
- 2.4 The format of the report is specified in the Municipal Budget and Reporting Regulation (Section 33) under schedule C and includes all the required tables, charts and explanatory information.

- 2.5 It further prescribes in section 34 of the Municipal Budget and Reporting Regulation that the mid-year budget and performance assessment report be made public by placing it on the municipal website within five working days of 25 January of each year.
- 2.6 The mid-year budget and performance assessment, taking into account the stipulations of the MFMA, section 72(1) and the Municipal Budget and Reporting Regulations as at 31 December 2023
- 2.7 The overall operating results for the first six months ending 31 December 2023 indicates a YTD surplus of R52,9-million compared with the SDBIP surplus of R129,2-million. The deviation is the net result of less revenue received to the amount of R76, 3-million, less expenditure incurred of R51, 9-million and less capital transfers and contributions recognized than planned of R51, 9-million.

#### 2.7.1 HIGH LEVEL OPERATING BUDGET ASSESSMENT

2.7.1.1 Operating Revenue per Category The high-level budget assessment of operating revenue per category is set out in the table below. Total operating revenue projects a negative difference of R76, 3-million based on actual revenue patterns for the first six months of the 2023/2024 financial year.

From the adjusted revenue budget of R2,4-billion excluding capital transfer 47% has realized, which is R76,3-million less than the six-month planned projection, such decreases are projected to realize under: Service charges - electricity, Service charges – water, Agency services interest from current and non-current Assets fines, penalties & forfeits operational revenue agency services.

MP313-Steve Tshwete - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M06 - December									
Description	2022/23	Budget Year 2023/24							
	Audited Outcome	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	Actual Spend as a % of the budget	YTD variance	Full Year Forecast
R thousands								%	
<b>Revenue</b>									
Exchange Revenue	1,128,427	1,486,944	98,921	596,070	744,224	(148,154)	40%	80%	1,192,139
Service charges - Electricity	713,603	920,000	63,010	402,589	460,000	(57,411)	44%	88%	805,178
Service charges - Water	112,408	135,184	9,762	46,993	68,041	(21,048)	35%	69%	93,986
Service charges - Waste Water Management	98,211	91,013	8,518	51,249	45,809	5,440	56%	112%	102,498
Service charges - Waste management	109,634	112,886	9,783	59,038	56,443	2,595	52%	105%	118,077
Sale of Goods and Rendering of Services	7,378	8,289	423	4,508	4,145	364	54%	109%	9,017
Agency services	22,547	29,726	-	-	14,863	(14,863)	0%	0%	25,000
Interest earned from Receivables	6,851	7,465	989	5,667	3,733	1,934	76%	152%	11,334
Interest from Current and Non Current Assets	17,913	42,910	3,008	5,631	21,455	(15,824)	13%	26%	11,263
Rent on Land	17,762	18,811	1,578	10,223	9,406	817	54%	109%	20,446
Rental from Fixed Assets	1,924	1,503	125	1,095	751	343	73%	146%	2,189
Licence and permits	6,457	8,401	498	3,229	4,200	(972)	38%	77%	6,457
Operational Revenue	13,740	110,755	1,227	5,848	55,378	(49,530)	5%	11%	11,695
<b>Non-Exchange Revenue</b>	<b>826,210</b>	<b>874,481</b>	<b>154,040</b>	<b>514,720</b>	<b>442,825</b>	<b>71,895</b>	<b>59%</b>	<b>116%</b>	<b>1,029,440</b>
Property rates	474,243	485,662	41,976	250,367	242,831	7,536	52%	103%	500,734
Fines, penalties and forfeits	27,497	20,064	304	6,066	10,032	(3,966)	30%	60%	12,133
Transfers and subsidies - Operational	294,426	339,267	110,916	249,184	175,218	73,966	73%	142%	339,267
Interest	7,083	6,171	844	4,847	3,085	1,762	79%	157%	9,694
Gains on disposal of Assets	(4,384)	7,703	-	4,256	3,851	404	55%	110%	8,511
Other Gains	27,344	15,615	-	-	7,808	(7,808)	0%	0%	-
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>1,954,638</b>	<b>2,361,424</b>	<b>252,961</b>	<b>1,110,790</b>	<b>1,187,049</b>	<b>(76,259)</b>	<b>47%</b>	<b>94%</b>	<b>2,221,580</b>

### 2.7.1.2 Notable variances are as follows:

- Service charge - Electricity (R57,4-million less than YTD Budget)
  - Less revenue collected for service charge - Electricity than budgeted for.
- Service Charge - Water (R21, 0-million less than YTD budget).
  - Less revenue collected for Service charges-water than budgeted for.
- Agency Services (R14, 8-million less than YTD budget).
  - Journal will be passed for the commission collected by the Municipality of behalf of province.
- Interest from current and non-current assets (R15,8-million less than YTD budget)
  - Less interest earned on current and non-current assets, than planned, due to less investment made.
- Operational Revenue (R49,5-million less than planned)
  - The sale of stands has not yet started, leading to less revenue collection for operational revenue.
- Fines, penalties and forfeits (R3,9-million less than planned)
  - Revenue collected for fines, is less than planned.

2.7.1.3 Operating Expenditure per Category The high-level budget assessment of operating expenditure per category is set out in the table below. Total operating expenditure projects a negative variance of R51, 9-million based on actual expenditure patterns for the first six months of the 2023/2024 financial year.

MP313-Steve Tshwete - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M06 - December									
Description	2022/23	Budget Year 2023/24							
	Audited Outcome	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	Actual Spend as a % of the budget	YTD variance	Full Year Forecast
R thousands								%	
<b>Expenditure By Type</b>									
Employee related costs	752,357	770,918	62,908	381,236	385,459	(4,223)	49%	-1%	762,472
Remuneration of councillors	28,538	29,910	2,430	15,723	14,955	768	53%	5%	31,446
Bulk purchases - electricity	595,731	670,449	52,947	350,108	330,225	19,883	52%	6%	700,216
Inventory consumed	92,018	83,117	12,571	44,211	36,895	7,316	53%	20%	88,422
Debt impairment	30,748	31,133	-	-	15,567	(15,567)	0%	-100%	31,133
Depreciation and amortisation	215,606	254,773	19,052	114,312	127,386	(13,075)	45%	-10%	228,623
Interest	87,608	62,526	-	24	26,153	(26,129)	0%	-100%	62,526
Contracted services	233,486	287,658	27,172	122,730	133,249	(10,518)	43%	-8%	245,461
Transfers and subsidies	5,498	7,929	72	1,228	7,020	(5,792)	15%	-83%	7,929
Irrecoverable debts written off	13,559	22,345	-	(35)	11,173	(11,207)	0%	-100%	15,000
Operational costs	125,492	178,088	13,443	92,509	83,301	9,209	52%	11%	185,018
Losses on Disposal of Assets	4,921	-	-	-	-	-	0%		-
Other Losses	1,885	5,205	-	-	2,603	(2,603)	0%	-100%	5,205
<b>Total Expenditure</b>	<b>2,194,754</b>	<b>2,404,053</b>	<b>190,595</b>	<b>1,122,046</b>	<b>1,173,984</b>	<b>(51,938)</b>	<b>47%</b>	<b>-4%</b>	<b>2,363,453</b>

From the adjusted expenditure budget of R2,40-billion, 47% has realized, which is R51,9million less than the six-month planned projection, such decreases are projected to realize under employee related cost debt impairment, Depreciation, Finance Charges, contracted services, irrecoverable debts and operational costs, this is a total decrease of 4%.

2.7.1.4 Notable variances are as follows:

- Inventory consumed (R7,3-million more than YTD)
  - More payment made on inventory consumed than planned.
- Debt Impairment (R15, 5-million less than planned YTD budget)
  - Debt will be impaired at the end of the financial year, the SDBIP for Debt impairment; will be amended in the February adjustment.
- Finance charges (R26, 1-million less than YTD Budget).
  - During the month of December Interest on borrowings was paid, a journal will be passed to allocate the payment to the correct vote.
- Contracted services (R10, 5- million, less than YTD budget).
  - Payments made on contracted services were less than planned.

- 2.8 Capital expenditure per Category, the high-level budget assessment of capex spending per category is set out in the table below. Total capital spent projects a negative difference of R64, 7-million based on actual expenditure patterns for the first six months of the 2023/2024 financial year.

MP313 Steve Tshwete - Table C5 Monthly Budget Statement - Capital Expenditure (municipal vote, functional classification and funding) -									
Vote Description	2022/2023	Budget Year 2023/24							
	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance	Full Year Forecast
R thousands								%	
<b>Capital Expenditure - Functional Classification</b>									
<i>Governance and administration</i>	26,276	-	11,739	-	3,756	11,739	(7,983)	-68%	11,739
Executive and council	177	-	-	-	-	-	-		-
Finance and administration	26,099	-	11,739	-	3,756	11,739	(7,983)	-68%	11,739
Internal audit	-	-	-	-	-	-	-		-
<i>Community and public safety</i>	21,275	10,200	13,630	131	131	9,630	(9,498)	(0)	13,630
Community and social services	12,653	8,000	11,430	131	131	7,430	(7,298)	-98%	11,430
Sport and recreation	7,402	2,200	2,200	-	-	2,200	(2,200)	-100%	2,200
Public safety	708	-	-	-	-	-	-		-
Housing	512	-	-	-	-	-	-		-
Health	-	-	-	-	-	-	-		-
<i>Economic and environmental services</i>	97,722	34,231	34,564	7,678	16,670	17,448	(778)	(0)	34,564
Planning and development	-	-	-	-	-	-	-		-
Road transport	97,540	34,231	34,064	7,678	16,240	16,948	(708)	-4%	34,064
Environmental protection	182	-	500	-	431	500	(70)	-14%	500
<i>Trading services</i>	512,082	190,309	218,266	31,638	73,966	120,427	(46,461)	(0)	218,266
Energy sources	127,895	57,206	63,106	16,111	26,552	31,819	(5,267)	-17%	63,106
Water management	324,074	118,952	138,301	11,478	41,099	78,825	(37,726)	-48%	138,301
Waste water management	45,492	14,152	15,969	4,101	5,492	8,893	(3,401)	-38%	15,969
Waste management	13,382	-	890	(53)	823	890	(67)	-8%	890
<i>Other</i>	1,239	-	-	-	-	-	-		-
<b>Total Capital Expenditure - Functional Classification</b>	657,355	234,741	278,198	39,447	94,523	159,244	(64,721)	-41%	278,198

The total capital expenditure for the first six months' amounts to R94, 5-million (31 December 2023: R248, 8-million, on a total budget of R678, 5-million) which is R154, 3-million lesser compared to the previous financial year. This is a negative difference of 41% against the SDBIP figure of R159, 2- million.

- 2.9 The total outstanding external loans as at 31 December 2023 amounts to R877, 8-million (30 December 2022: R784, 2-million). R69, 4-million were redeemed inclusive of interest, taking the payment of loan to R69, 4-million during the first six months of the financial year.

#### Capital Expenditure by Funding - December 2023

<u>Funded by:</u>	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	Year TD actual	Year TD budget	YTD variance	YTD variance	Full Year Forecast
National Government	272,265	205,584	206,109	27,236	65,075	105,642	(40,567)	-38%	205,584
Transfers recognized - capital	272,653	205,584	205,584	27,236	65,075	105,642	(40,567)	-38%	205,584
Borrowing	192,921	-	20,616	6,092	13,574	20,616	(7,042)	-34%	20,616
Internally generated funds	170,384	29,156	51,473	6,119	15,875	32,986	(17,111)	-52%	51,998
<b>Total Capital Funding</b>	635,570	234,741	278,198	39,447	94,523	159,244	(64,721)	-41%	278,198

- 2.10 Council approved that other capital project be financed from external borrowings to the amount of R641-million over a period of 3 years. The first drawdown was spent in June 2021 for R238, 9-million and the second drawdown was spent in June 2022 for R186, 5-million. The last drawdown was in June 2023, where by R20, 6-million was rolled over to 2024, since projects were not completed.

- 2.11 Total debtor's outstanding as at 31 December 2023 amounts to R424,5-million after provision for bad debts are taken into consideration (June 2023: R369,8-million). The portion of debtors outstanding up to 120 days is 41% of the total outstanding debtors and 59% is older than 121 days.
- 2.12 Early indications are that the performance against the goals in the Service Delivery and Budget implementation plans (SDBIP'S) are under pressure on revenue with a negative variance of 6%, whilst operating expenditure is under pressure and indicates a negative variance of 4%. It should however be noted that variances from the SDBIP realize between the various sources of revenue and expenditures types. Therefore, the SDBIP targets for the next six months needs to be adjusted accordingly.
- 2.13 The projected changes in Opex and capex will result in the recalculation of the cash flow and balance sheet budget.

**Recommendations:**

1. That the 2023/2024 Mid-year Budget and Performance Assessment as tabled by the Executive Director: Financial Services, be noted.
2. In light of the financial assessment and forecasting of figures on the annual budget based on the first six months of the financial year, it is recommended that the approved budget for the 2023/2024 financial year be adjusted in line with section 72 of the Municipal Finance Management Act, Act 56 of 2003.
3. It is further recommended that revenue and expenditure for the financial year be revised for the various votes to account for the projected increases / decreases in collection or spending, and to utilize projected savings on capital or operational spending to supplement the shortfall of funds in other planned projects.
4. The proposed adjustment be tabled to Council by no later than the 28 of February 2024, in line with section 28 of the Municipal Finance Management Act, Act 56 of 2003

ACTING EXECUTIVE DIRECTOR FINANCIAL SERVICES

G Mapheto

16 January 2024