

FS1/2019

THREE MONTHS FINANCE REPORT – JULY - SEPTEMBER 2019 (CFO) (6/12/2/1)

PURPOSE

to submit to finance section 80 committee three months finance report for July - September 2019 in terms of Section 52(d) of the Municipal Finance Management Act, number 56 of 2003.

BACKGROUND

Section 52(d) of the Municipal Finance Management Act no 56 of 2003 states that the Accounting Officer must submit to the Executive Mayor a statement in a prescribed format on the state of the municipality's budget reflecting the following particulars for that quarter and for the financial year up to the end of that quarter:

- 1) Actual revenue per revenue source
- 2) Actual borrowings
- 3) Actual expenditure per vote
- 4) Actual capital expenditure per vote
- 5) The amount of any allocations received
- 6) Actual expenditure on allocations received

The compilation of the Section 52 report is as follows:

1. After the billing cycle the Income Department compile the income reports which consist of the following and submit to the Budget Department:
 - Billing and Income per month
 - Top Outstanding debtors for the month
 - Income per ward
 - Debtors age analysis per service
2. After month end the Information Communication Technology Department runs all the month end reports.
3. The Budget Department then extracts the required income and expenditure information from Solar. This is done with the GS 560 procedures. This report shows the transactions for the month VAT EXCLUSIVE.
4. The Expenditure Department provides the Budget Department with the creditor's age analysis and the top 20 outstanding creditors.
5. The Costing Section provides the Budget Department with the employee related reports and the overtime per department.
6. The Section 52(d) report is then compiled with all the information received from other sections and extracted from the Solar System.

DISCUSSIONS

*** The finance reports for July - September 2019 are **attached under Separate Cover (1)**

FINANCIAL IMPLICATIONS

TABLE 1	Budget for three months	Actual for three months (2019/2020)
Actual Revenue Received	539 867 596	311 946 099
All Grants Received	170 987 000	238 660 000
Total Income	710 854 596	550 606 099
Actual Expenditure	811 554 128	304 657 498
Salaries	204 697 424	192 708 600
Water	129 322 839	5 217 391
Electricity	127 838 000	14 647 496
Other Expenditure	349 695 866	92 084 011
Net Surplus/(Deficit) before Capital payments	(100 699 532)	245 948 601

MIG Payments	18 675 417
INEG Payments	-
WSIG Payments	4 152 284

Capital Assets procured - Equitable Share	-
Fleet & Equipment	-
Office convention/ Furniture	-

Net Surplus/(Deficit) after Capital payments	223 120 900
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Table 1: The municipality had a surplus of R223 120 900 for the quarter after capital payments, this indicates that the actual amount received is above the amount paid for the quarter. The Municipality incurred less expenditure than amount received for three months period ending September 2019.

TABLE 2	Actual for three months (2019/2020)
Total Billings	549 102 031
Less: Indigent Billings	9 157 174
Actual Billings	539 944 857
Actual Revenue Received	308 236 662
Consumer Revenue	292 979 844
Other	15 256 818
Grants & Subsidies	238 660 000

Pay rate for First quarter (Total Billings)	57%
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Total income percentage - First quarter	58%
Total income percentage – YTD	58%

The pay rate for the first quarter was 57%

The total income percentage for the first quarter was 58%.

In order for the municipality to be financially sustainable the pay rate will have to be increased to 80% monthly on the consumer services.

LEGAL IMPLICATIONS

The budget report is submitted in compliance with Section 52(d) of the MFMA no 56 of 2003. Section 52(d) stipulates that the mayor of the Municipality must, within 30 days of the end of each quarter, submit a report to council on the implementation of the budget and the financial state of the Municipality.

RECOMMENDATIONS

1. That Finance report for the quarter (July - September 2019) in terms of Section 52(D) Of The Municipal Finance Management Act, Number 56 Of 2003, be noted.
2. That Finance report for the quarter (July - September 2019) in terms of section 52(D) of the Municipal Finance Management Act, Number 56 Of 2003, be submitted to Provincial And National Treasury.

FS2/2019

SPECIAL ADJUSTMENT BUDGET 2019/20 (CFO) (6/1/1/1)

PURPOSE

To report Finance Section 80 Committee on the progress on the progress in terms of the process to move the budget from an unfunded to a funded position and to propose a Special Adjustment Budget as per directive from National Treasury.

BACKGROUND

The Matjhabeng Local Municipality Annual Budget for the 2019/20 MTREF is compiled in accordance with the prescripts of the Municipal Finance Management Act 56 of 2003, Municipal Budget and Reporting Regulations and National Treasury's MFMA Circulars.

Section 16 (2) of the Municipal Finance Management Act states that the Municipal Council must at least 90 days before the start of the budget year consider approval of the annual budget to be able to adhere to subsection 1 of section 16, which stipulates "The council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year. Section 24(1) of the same act further stipulates that a municipal council must at least 30 days before the start of the new financial year, consider approval of the annual budget.

On 28 May 2019 the Annual Budget for the 2019/2020 medium term revenue and expenditure framework (MTREF) was tabled in Council for adopting. Council resolved as follows:

COUNCIL RESOLVED: (28 MAY 2019)

1. That the Annual Budget for the year 2019/2020 MTREF **BE ADOPTED** by the Council.
2. That Council **MUST TABLE** the MTREF in terms of Circular 93 and 94 of 2019.
3. That Council **MUST HAVE** a budget funding plan for this Budget.
4. That Council **MUST ADOPT** this Budget with all relevant Budget Policies with permission to review Indigent Policy in particular application requirements.

*That the Yellow Fleet and Meters must **BE INCLUDED** in the budget*

DISCUSSIONS

The Matjhabeng Municipality's Annual Budget includes an Operational Budget that provides for the annual expenditure and revenue estimates for 2019/20 MTREF, as well as a Capital Budget that provides for the on-going investment in infrastructure necessary to provide services to the community.

The consolidated Revenue Budget for the 2019/20 financial year is R 2 843 418 385, inclusive of operating and capital transfers and R 2 672 803 385 excluding capital transfers and contributions. Total operating expenditure for the 2019/20 financial year is appropriated at R 3 246 216 513 and translates into a budgeted deficit of R 402 798 128 and subsequently a deficit for reserves and cash banking which translates into an unfunded budget.

The importance of tabling funded budgets is highlighted in previous circulars however there are cases that may warrant a plan as this is not achievable over one year. As a result, the municipality must, together with their 2019/20 MTREF budget, table a plan in council to show they will move from an unfunded position to a funded position (**MFMA Circular 93**).

The Budget Funding Plan 2019/20 (BFP) is developed in response to the Municipality's current financial situation and strategies that will be applied to ensure a funded budget for the 2019/20 medium term revenue and expenditure framework (MTREF) and an on-going financially sustainable municipality.

Progress Budget Funding Plan

The municipality has taken the following steps to ensure that we move from an unfunded to a funded position within the set period:

1. 10 July 2019 the municipality informed National Treasury of the adoption of the unfunded budget for the 2019/20 MTREF.
2. On 31 October 2019 the municipality scheduled a working/technical session with 3. Provincial Treasury to re-assess the 2019/20 budget in order to ensure that Council adopts a funded budget during November 2019

.*** **See attached under Separate Cover (2) is the 2019/20 Adjustment Budget and MTREF**

*** **See attached under Separate Cover (3) is the mscoa 2019/20**

Report on the National Treasury (NT), Provincial Treasury (PT) and Matjhabeng Municipality (MLM) working/technical session.

On 31 October 2019 the NT, PT and MLM had a working/technical session to re-asses the 2019/20 budget in order to improve our unfunded position. The methodology applied was to look at the revenue and the expenditure, the statement of financial position and the cash flow of the municipality. The 2018/19 AFS, Budget Funding Plan and the approved tariff, each line item was re-assessed and where possible the team recommended adjustments to both revenue and expenditure items. The proposed adjustments are as follow:

1. Revenue

Revenue source	Proposed adjustment
Property rates	+ R65 000 000
Electricity	- R30 000 000
Sanitation	+R3 000 000
Refuse	+ R14 000 000
Interest earned – outstanding debtors	+ R60 000 000
Total Adjustments	R 112 000 000

The revenue (excl. capital grants) will increase from R 2 672 803 385 to R 2 784 803 385. The total revenue will R 2 843 418 385 to R 2 955 418 385.

2. Expenditure

Expenditure type	Proposed adjustment
Debt Impairment	+ R65 000 000
Depreciation and Asset impairment	- R100 000 000
Finance Charges	+R50 000 000
Bulk purchases	+ R69 000 000
Other materials	- R5 765 599
Contracted services	- R8 890 936
Transfers & Subsidies	- R800 000
Other expenditure	+R 408 535
Total Adjustments	R68 952 000

The expenditure moves from R 3 246 216 513 to R 3 315 168 513.

3. Funding of Capital Expenditure

Capital Funding	Proposed adjustment
Own funding	- R30 000 000
Total Adjustments	R30 000 000

Funding of capital with own funding will decrease from R50 000 000 to R 20 000 000.

After the re-assessment we will see a slight improvement of the initial deficit of R 402 798 128 to R 359 750 128.

The budget will therefore remain unfunded in the 2019/20 financial year after the re-assessment. The proposed recommendations after the intervention from NT and PT are as follow:

1. The re-assessed budget is a true reflection of the current status.
2. It must be noted that the creditors will still increase with the deficit amount.
3. The collection rate should be improved to 95% and this effort should be viewed as a business reform and not only a finance or budget reform.
4. Strict adherence to the approved Cost Containment measures.
5. The implementation, regular review and assessing of the Budget Funding Plan.
6. Installation of pre-paid water meters to indigents.
7. Provide options to consumers to install pre-paid water meters.
8. That the matters for both Eskom and Sedibeng should be prioritized, in order to reduce payables.

POLICY POSITION

Municipal Finance Management Act
Municipal Systems Act
Municipal Budget Regulation

RECOMMENDATION

1. To table a Special Adjustment Budget during November 2019 in Council as per directive from National Treasury.

FS3/2019

INDIGENT POLICY CFO

PURPOSE

To report to Finance Section 80 Committee amendments on the Indigent Policy as per the Council Resolution.

BACKGROUND

Council during its sitting for the approval of budget related policies resolved on amending the indigent policy to accommodate all qualifying residents. Finance department visited all the promulgated by-laws in search of ways to amend the policy accordingly.

Based on the **Ward Committee By-law**, definition of the owner gives the municipality an opportunity to register and open accounts to all the residents of Matjhabeng who qualifies based on the definition. The definition is as follows:

In terms of the Ward Committee By-law, the definition of ‘**owner**’ detailed as follows:

where the Municipality is unable to determine the identity of the owner, a person who has a legal right in, or the benefit of the use of, any premises, building, or any part of a building, situated on them;

LEGAL IMPLICATIONS

Municipal Finance Management Act

Ward Committee By-Law

Credit Control By-Law

FINANCIAL IMPLICATIONS

None

RECOMMENDATION

1. That Section 80 Finance to take note of the amendments on the Indigent Policy

FS4/2019

DEBTOR'S WRITE-OFF (IRRECOVERABLE DEBTS) (CFO)

PURPOSE

To present to Finance Section 80 Committee the Proposed write off on irrecoverable debt.

BACKGROUND

The Municipal debt book has been escalating due to accounts which are irrecoverable in nature. Information submitted to National Treasury on monthly basis particularly Section 71 report under top 50 debtors owing the Municipality have been escalating with interests on irrecoverable debtors. Amongst other reasons the purpose of this item is to request approval from Council to execute data purification in a form of debt impairment on the overall debt book of the municipality to be realistic and to only reflect collectable debt. Under top 50 debtors owing Municipality the total worth **R 43 790 207.36** is deemed irrecoverable and we are requesting approval to write it off during 2018-2019 Financial year.

*** **See attached under Separate Cover (4) it is the proposed write off on irrecoverable debts spreadsheet.**

LEGAL IMPLICATIONS

Local Government Municipal Finance Act 2003
Local Municipal System Act 2000 as amended

FINANCIAL IMPLICATIONS

R 44 654 608.99

RECOMMENDATION

1. That Section 80 Finance to take note of the proposed write-off on irrecoverable debt.