

MID YEAR REPORT

MFMA Section 72 Mid-Year Report 2021/22

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MUSINA LOCAL MUNICIPALITY SECTION 72 REPORT 2021_2022

1.1. INTRODUCTION

In terms of Section 72 (1) (a) and 52 (d) of the Local Government Municipal Finance Management Act No. 56 of 2003 (MFMA) the Accounting Officer must by 25 January of each year assess the performance of the municipality during the first half of the year. A report on such assessment must in terms of Section 72 (1) (b) of the MFMA be submitted to the Mayor, Provincial Treasury and National Treasury.

Once the Mayor has considered the report, she must submit the report to Council in terms of Section 54 of the MFMA.

The mid-year performance report and supporting tables of Musina Local Municipality, prepared in accordance with MFMA Circular 13 and the Municipal Budget and Reporting Regulations, to illustrate the performance in graphical and tabular format

Even though the average vacancy rate was higher it must be kept in mind that the organogram was structured as such that it reflects the human resource needs of the organisation, however, due to budget constraints the municipality cannot fill all positions.

1.2. LEGISLATIVE FRAMEWORK

Section 72: Mid- year Budget and Performance Assessment

(1) The Accounting Officer of a municipality must by 25 January of each year –
  (a) Assess the performance of the municipality during the first half of the year, taking into account-
    (i) The monthly statements referred to in section 71 for the first half of the financial year;
    (ii) The municipality's service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery budget implementation plan;
    (iii) The past year's annual report and progress on resolving problems identified in the annual report; and
    (iv) The performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 from any such entities; and (b) Submit a report on such assessment to –
    (i) The mayor of the municipality;
    (ii) The National Treasury; and
    (iii) The relevant provincial treasury.

(2) The statement referred to in section 71 (1) for the sixth month of a financial year may be incorporated into the report referred to in subsection (1) (b) of this section.

(3) 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 that this may be necessary.

Section 54: Budgetary control and early identification of financial problems

(1) On receipt of a statement or report submitted by the accounting officer of the municipality in terms of section 71 or 72, the mayor must –

(a) Consider the statement or report;

(b) Check whether the municipality's approved budget is implemented in accordance with the service delivery budget implantation plan;

(c) Consider and, if necessary, make any revisions to service delivery and budget implementation plan, provided that the revisions to the service delivery targets and performance indicators in the plan may only be made with the approval of the council following approval of an adjustment budget;

(d) issue any appropriate instructions to the accounting officer to ensure –

(i) that the budget is implemented in accordance with the service delivery and budget implementation plan; and

(ii) that the spending of funds and revenue collection proceed in accordance with the budget;

(e) identify any financial problems facing the municipality, including any emerging or impending financial problems; and

(f) In the case of a section 72 report, submit the report to the council by 31 January of each year.

(2) If the municipality faces any serious financial problems, the mayor must-

(a) Promptly respond to and initiate any remedial or corrective steps proposed by the accounting officer to deal with such problems, which may include-

(i) Steps to reduce spending when revenue is anticipated to be less than projected in the municipality's approved budget;

(ii) The tabling of an adjustment budget ; or

(iii) Steps in terms of Chapter 13; and

(b) Alert the council and the MEC for local government in the province to those Problems.

(3) The Mayor must ensure that any revisions of the service delivery budget Implementation plan are made public promptly.

2. FINANCIAL PERFORMANCE ANALYSIS AS AT 01 JULY 2021 to 31 DECEMBER 2021

The total budget approved for the 2021-2022 financial year amounts to R429 587 million.

The total expenditure for operating activities as at 31 December 2021 amounts to R 305 828 million.

Total revenue collection as at 31 December 2021 R280 204 million

The expenditure on Capital projects as at 31 December 2021 R17 335 million.

Revenue

- The municipality generated over 64% of its budgeted revenue by the 31st of December 2021, this performance is acceptable even though there are revenue items that are still under 50 % and did not perform as expected.

- The municipality need to pay special attention to all revenue items in the second half of the financial year to ensure that it achieved its targets which are a contribution to it achieving its strategic objectives as set out in its integrated development plan:

- **Property Rates**- The municipality is doing exceptional good on the collection of revenue on Property Rates as it is currently on 58% of the budget R22.6 million.

- **Service charges**- Electricity and refuse are the biggest source of income and represents R189,1 million or R43.22% of the total income budget in 2021/22.The municipality is currently on 39.17% which largely dependent on the collection level of billed income. Collection for electricity is currently on 38%, when comparing to the audited outcome for 2020/21 financial year of R144 million and the budgeted R174 million in the 2021/22 financial year the municipality might have over budgeted for this item. The municipality performing good on the collection of refuse revenue which is currently on 58%.

- The rapid increase in the electricity tariffs also had an effect on electricity charges .The municipality will have to implement more robust credit control measures to improve on these items as there are measure source contributes of income,

- **Interest earned on external investments –** The municipality only achieved 0% of its budget of about R1, 2 million, this performance can be attributed to the poor cash flow position of the municipality that does not allow for short or long term investments that will yield interest.

- **Fines, Licences and Permits-** There is a slow pace in collection of this revenue the municipality need to apply strict credit control measures to improve this items by year end.

- **Transfers recognized – Operating–** The municipality has received all transfers as per payment schedule. The municipality has received R127 million for equitable share, R2, 8 million for FMG and R1.2 million for EPWP

Expenditure

- The municipality spent about 74% of its operating expenditure, this was achieved during a very difficult period were we have to reduce the Eskom debt, also ensuring that the monthly Eskom account is paid by the due date, salaries are also paid when they are due, and other creditors are paid for services rendered.

- **Employee Related costs-** The municipality's salary expense is currently on 46% of the budgeted amount with 38% for Remuneration of councillors. The municipality is still applying the system of paying employees not more than 40 hours of overtime worked to reduce the salary bill.

- **Finance charges –** The DBSA loan has been paid up.

- **Bulk purchases –** The municipality payment plan with Eskom to pay R10 million in 3 instalments as and when we received Equitable Share is been honoured. At the beginning of the financial year the Eskom debt was R76, 9 million, in the first half of the financial year, R20 million has been paid, the arrear debt is now standing at about R56, 9 million.

- **Contracted services –** The municipal contracted services which mainly consists of Security Services, Uniform Contracted, Dumping Site etc. and is currently on 57% of the budgeted amount of R37 million.

- **Transfers and Grants- The** municipality has spent 100% on EPWP grant and FMG expenditure is on 59%.

- **Other expenditure –** The municipality will also implement as cash on delivery system to ensure that the municipality is not over committed, this will also contribute towards achieving the 30 days period requirement.

The following table provides a summary of the municipality's performance for Mid-Year 2021

LIM341 Musina - Table C1 Monthly Budget Statement Summary - Mid-Year Assessment

Description	2020/21	Budget Year 2021/22							
	Audited Outcome	Original Budget	Adjusted Budget	Half Year Actuals	YearTD actual	YearTD budget	YTD variance	YTD variance	Full Year Forecast
R thousands								%	
Financial Performance									
Property rates	24,787	22,698	–	13,229	13,229	11,349	1,880	17%	22,698
Service charges	156,127	189,125	–	74,075	74,075	94,563	(20,488)	-22%	189,022
Investment revenue	186	1,244	–	–	–	622	(622)	-100%	1,244
Transfers and subsidies	196,252	174,429	–	131,849	131,849	87,215	44,635	51%	174,720
Other own revenue	20,017	50,057	–	61,051	61,051	25,029	36,022	144%	45,296
Total Revenue (excluding capital transfers and contributions)	**397,369**	**437,554**	**–**	**280,204**	**280,204**	**218,777**	**61,427**	**28%**	**432,980**
Employee costs	149,831	158,392	–	72,956	72,956	79,196	(6,240)	-8%	158,403
Remuneration of Councillors	10,526	12,822	–	4,935	4,935	6,411	(1,476)	-23%	11,339
Depreciation & asset impairment	28,488	34,265	–	8,565	8,565	17,132	(8,567)	-50%	34,265
Finance charges	276	1,777	–	15	15	888	(873)	-98%	1,777
Materials and bulk purchases	119,882	138,163	–	125,468	125,468	69,081	56,387	82%	138,162
Transfers and subsidies	4,689	6,073	–	3,641	3,641	3,036	604	20%	6,073
Other expenditure	100,922	78,096	–	90,248	90,248	39,048	51,200	131%	78,626
Total Expenditure	**414,614**	**429,587**	**–**	**305,828**	**305,828**	**214,794**	**91,034**	**42%**	**428,645**
Surplus/(Deficit)	**(17,245)**	**7,966**	**–**	**(25,624)**	**(25,624)**	**3,983**	**(29,607)**	**-743%**	**4,335**
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	37,793	36,988	–	26,943	26,943	18,494	8,449	46%	36,988
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporatons, Higher Educational Institutions) & Transfers and	–	–	–	–	–	–	–		–
Surplus/(Deficit) after capital transfers & contributions	**20,548**	**44,954**	**–**	**1,319**	**1,319**	**22,477**	**(21,158)**	**-94%**	**41,323**
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–		–
Surplus/ (Deficit) for the year	**20,548**	**44,954**	**–**	**1,319**	**1,319**	**22,477**	**(21,158)**	**-94%**	**41,323**
Capital expenditure & funds sources									
Capital expenditure	**37,793**	**44,955**	**–**	**17,335**	**17,335**	**22,478**	**(5,142)**	**-23%**	**–**
Capital transfers recognised	37,793	36,988	–	17,335	17,335	18,494	(1,159)	-6%	–
Borrowing	–	–	–	–	–	–	–		–
Internally generated funds	**–**	**7,967**	**–**	**–**	**–**	**3,984**	**(3,984)**	**-100%**	**–**
Total sources of capital funds	**37,793**	**44,955**	**–**	**17,335**	**17,335**	**22,478**	**(5,142)**	**-23%**	**–**
Financial position									
Total current assets	102,568	183,571	–	199,502	199,502				234,613
Total non current assets	562,093	367,812	–	558,020	558,020				209,993
Total current liabilities	520,764	86,492	–	510,612	510,612				426,977
Total non current liabilities	26,946	22,645	–	18,585	18,585				–
Community wealth/Equity	**116,951**	**442,246**	**–**	228,325	**228,325**				**17,629**
Cash flows									
Net cash from (used) operating	20,550	17,411	–	15,989	15,989	8,705	(7,284)	-84%	–
Net cash from (used) investing	(18,564)	(10,668)	–	(16,372)	(16,372)	(5,334)	11,038	-207%	–
Net cash from (used) financing	(2,181)	(6,185)	–	–	–	(3,093)	(3,093)	100%	–
Cash/cash equivalents at the month/year end	**12,473**	**13,225**	**–**	**1,371**	**1,371**	**12,946**	**11,575**	**89%**	**1,754**

Debtors & creditors analysis	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
Debtors Age Analysis									
Total By Income Source	5	8,884	3,720	2,452	2,828	2,765	13,095	32,821	66,571
Creditors Age Analysis									
Total Creditors	3,349	111	1	–	87,940	–	–	–	91,401

3. Operational Revenue and Expenditure by Source for Mid-Year 2021/22

LIM341 Musina - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - Mid-Year Assessment

Description	Ref	2020/21	Budget Year 2021/22							
		Audited Outcome	Original Budget	Adjusted Budget	Half Year Actuals	YearTD actual	YearTD budget	YTD variance	YTD variance	Full Year Forecast
R thousands									%	
Revenue By Source										
Property rates		24,787	22,698	–	13,229	13,229	11,349	1,880	17%	22,698
Service charges - electricity revenue		143,707	174,493	–	66,752	66,752	87,246	(20,494)	-23%	174,390
Service charges - water revenue								–		–
Service charges - sanitation revenue								–		–
Service charges - refuse revenue		12,420	14,632	–	7,323	7,323	7,316	7	0%	14,632
Rental of facilities and equipment		25	668	–	5	5	334	(329)	-99%	691
Interest earned - external investments		186	1,244	–	–	–	622	(622)	-100%	1,244
Interest earned - outstanding debtors		3,377	3,180	–	12,048	12,048	1,590	10,458	658%	3,180
Dividends received			–	–	–	–	–	–		–
Fines, penalties and forfeits		494	3,276	–	1,088	1,088	1,638	(550)	-34%	3,380
Licences and permits		4,841	5,509	–	207	207	2,754	(2,547)	-92%	5,509
Agency services			–	–	–	–	–	–		–
Transfers and subsidies		196,252	174,429	–	131,849	131,849	87,215	44,635	51%	174,720
Other revenue		9,470	13,731	–	47,703	47,703	6,865	40,837	595%	8,843
Gains		1,810	23,693	–	–	–	11,847	(11,847)	-100%	23,693
Total Revenue (excluding capital transfers and contributions)		**397,369**	**437,554**	**–**	**280,204**	**280,204**	**218,777**	**61,427**	**28%**	**432,980**

LIM341 Musina - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - Mid-Year Assessment										
Description	Ref	2020/21	Budget Year 2021/22							
		Audited Outcome	Original Budget	Adjusted Budget	Half Year Actuals	YearTD actual	YearTD budget	YTD variance	YTD variance	Full Year Forecast
R thousands									%	
Expenditure By Type										
Employee related costs		149,831	158,392	–	72,956	72,956	79,196	(6,240)	-8%	158,403
Remuneration of councillors		10,526	12,822	–	4,935	4,935	6,411	(1,476)	-23%	11,339
Debt impairment		36,833	8,325	–	1,389	1,389	4,163	(2,774)	-67%	8,325
Depreciation & asset impairment		28,488	34,265	–	8,565	8,565	17,132	(8,567)	-50%	34,265
Finance charges		276	1,777	–	15	15	888	(873)	-98%	1,777
Bulk purchases		116,844	129,748	–	123,542	123,542	64,874	58,668	90%	129,748
Other materials		3,038	8,414	–	1,926	1,926	4,207	(2,281)	-54%	8,414
Contracted services		29,600	37,238	–	21,365	21,365	18,619	2,746	15%	37,767
Transfers and subsidies		4,689	6,073	–	3,641	3,641	3,036	604	20%	6,073
Other expenditure		34,489	32,533	–	67,495	67,495	16,267	51,228	315%	32,534
Losses			–	–	–	–	–	–		
Total Expenditure		**414,614**	**429,587**	**–**	**305,828**	**305,828**	**214,794**	**91,034**	**42%**	**428,645**

4. Capital Expenditure

LIM341 Musina - Table C5 Monthly Budget Statement - Capital Expenditure (municipal vote, functional classification and funding) - Mid-Year Assessment

Vote Description	Ref	2020/21	Budget Year 2021/22							
		Audited Outcome	Original Budget	Adjusted Budget	Half Year Actuals	YearTD actual	YearTD budget	YTD variance	YTD variance	Full Year Forecast
R thousands	1								%	
Capital Expenditure - Functional Classification										
Governance and administration		–	**7,967**	–	–	–	**3,984**	(3,984)	-100%	–
Executive and council								–		
Finance and administration			7,967				3,984	(3,984)	-100%	
Internal audit								–		
Community and public safety		–	**2,500**	–	**1,873**	**1,873**	**1,250**	623	50%	–
Community and social services			2,500		1,873	1,873	1,250	623	50%	
Sport and recreation						–	–	–		
Public safety								–		
Housing								–		
Health								–		
Economic and environmental services		**37,793**	**34,488**	–	**15,462**	**15,462**	**17,244**	(1,782)	-10%	–
Planning and development		37,793	17,538		2,063	2,063	8,769	(6,706)	-76%	
Road transport			16,950		13,399	13,399	8,475	4,924	58%	
Environmental protection								–		
Trading services		–	–	–	–	–	–	–		–
Energy sources								–		
Water management								–		
Waste water management								–		
Waste management								–		
Other								–		
Total Capital Expenditure - Functional	3	**37,793**	**44,955**	–	**17,335**	**17,335**	**22,478**	**(5,142)**	**-23%**	–
Funded by:										
National Government		37,793	36,988		17,335	17,335	18,494	(1,159)	-6%	
Provincial Government								–		
District Municipality								–		
Transfers recognised - capital		**37,793**	**36,988**	–	**17,335**	**17,335**	**18,494**	**(1,159)**	**-6%**	–
Borrowing	6							–		
Internally generated funds			7,967			–	3,984	(3,984)	-100%	
Total Capital Funding		**37,793**	**44,955**	–	**17,335**	**17,335**	**22,478**	**(5,142)**	**-23%**	–

- The total capital budget is R44.9 million for 2021/22 current year, and we have received R26.9 million of the MIG grant allocation so far, and spend R 17.3 million of the grant in the last half of the financial year. The municipality is confident that by year end the grant will be on 100%.

5. Cash flow management

LIM341 Musina - Table C7 Monthly Budget Statement - Cash Flow - Mid-Year Assessment

Description	Ref	2020/21	Budget Year 2021/22						
		Audited Outcome	Original Budget	Adjusted Budget	Half Year Actuals	YearTD budget	YTD variance	YTD variance	Full Year Forecast
R thousands	1							%	
CASH FLOW FROM OPERATING ACTIVITIES									
Receipts									
Property rates		24,787	22,192	–	11,898	11,096	802	7%	
Service charges		156,276	152,813	–	60,683	76,407	(15,724)	-21%	
Other revenue		17,729	21,340		47,767	10,670	37,097	348%	
Transfers and Subsidies - Operational		195,305	174,429		131,078	87,215	43,864	50%	
Transfers and Subsidies - Capital		37,793	36,988		21,837	18,494	3,343	18%	
Interest		3,273	3,809		11,074	1,905	9,170	481%	
Dividends							–		
Payments									
Suppliers and employees		(409,999)	(388,311)		(264,798)	(194,156)	70,643	-36%	
Finance charges		(276)	(1,777)		(218)	(888)	(670)	75%	
Transfers and Grants		(4,339)	(4,073)		(3,331)	(2,036)	1,295	-64%	
NET CASH FROM/(USED) OPERATING ACTIVITIES		**20,550**	**17,411**	**–**	**15,989**	**8,705**	**(7,284)**	**-84%**	**–**
CASH FLOWS FROM INVESTING ACTIVITIES									
Receipts									
Proceeds on disposal of PPE		19,967	26,320			13,160	(13,160)	-100%	
Decrease (increase) in non-current receivables							–		
Decrease (increase) in non-current investments							–		
Payments									
Capital assets		(38,530)	(36,988)		(16,372)	(18,494)	(2,122)	11%	
NET CASH FROM/(USED) INVESTING ACTIVITIES		**(18,564)**	**(10,668)**	**–**	**(16,372)**	**(5,334)**	**11,038**	**-207%**	**–**
CASH FLOWS FROM FINANCING ACTIVITIES									
Receipts									
Short term loans			(351)			(176)	176	-100%	
Borrowing long term/refinancing		(194)	(2,785)			(1,393)	1,393	-100%	
Increase (decrease) in consumer deposits			(49)			(25)	25	-100%	
Payments									
Repayment of borrowing		(1,987)	(3,000)		–	(1,500)	(1,500)	100%	
NET CASH FROM/(USED) FINANCING ACTIVITIES		**(2,181)**	**(6,185)**	**–**	**–**	**(3,093)**	**(3,093)**	**100%**	**–**
NET INCREASE/ (DECREASE) IN CASH HELD		**(195)**	**558**	**–**	**(383)**	**279**			**–**
Cash/cash equivalents at beginning:		12,667	12,667		1,754	12,667			1,754
Cash/cash equivalents at month/year end:		12,473	13,225	–	1,371	12,946			1,754

- The municipality's cash flow position is still fragile, and proper prioritization of commitments and payments will be vital if the municipality is to reduce the risk of going concern.

- Measures such as cash on delivery will be implemented to mitigate the risk stated above.

- The next 12 months will be difficult for the municipality, once the Eskom arrear debt is fully paid, the municipality will start seeing visible improvement in its cash flow position.

6. Financial Position

LIM341 Musina - Table C6 Monthly Budget Statement - Financial Position - Mid-Year Assessment						
Description	Ref	2019/20	Budget Year 2020/21			
		Audited Outcome	Original Budget	Adjusted Budget	YearTD actual	Full Year Forecast
R thousands	1					
ASSETS						
Current assets						
Cash		12,473	13,225	–	1,371	28,590
Call investment deposits			–		10,731	–
Consumer debtors		24,136	80,489	–	54,675	200,928
Other debtors		19,198	–	–	100,712	5,095
Current portion of long-term receivables		14,745	52,551	–	–	
Inventory		32,017	37,306	–	32,013	–
Total current assets		**102,568**	**183,571**	**–**	**199,502**	**234,613**
Non current assets						
Long-term receivables			–	–	–	–
Investments		10,731	11,203	–	–	–
Investment property		173,984	179,750	–	173,984	209,993
Investments in Associate			–	–	–	–
Property, plant and equipment		377,304	176,846	–	383,963	–
Biological		65				
Intangible		8	13	–	8	–
Other non-current assets			–	–	65	–
Total non current assets		**562,093**	**367,812**	**–**	**558,020**	**209,993**
TOTAL ASSETS		**664,661**	**551,383**	**–**	**757,522**	**444,606**
LIABILITIES						
Current liabilities						
Bank overdraft			–	–	338	–
Borrowing		711	3,339	–	594	–
Consumer deposits		4,781	497	–	4,626	
Trade and other payables		514,813	73,808		463,190	392,712
Provisions		459	8,848		41,864	34,265
Total current liabilities		**520,764**	**86,492**	**–**	**510,612**	**426,977**
Non current liabilities						
Borrowing		19,595	6,692	–	7,871	–
Provisions		7,351	15,953	–	10,714	
Total non current liabilities		**26,946**	**22,645**	**–**	**18,585**	**–**
TOTAL LIABILITIES		**547,710**	**109,137**	**–**	**529,197**	**426,977**
NET ASSETS	2	**116,951**	**442,246**	**–**	**228,325**	**17,629**
COMMUNITY WEALTH/EQUITY						
Accumulated Surplus/(Deficit)		116,951	442,246	–	228,246	17,629
Reserves			–		79	
TOTAL COMMUNITY WEALTH/EQUITY	2	**116,951**	**442,246**	**–**	**228,325**	**17,629**

- The municipality showed a positive bank balance of R1.3 million at the end of 31 December 2021