

Bergrivier Municipality

Summary of Budget and Financial Performance for the mid-year ended 31 December 2020

OVERVIEW OF THE FINANCIAL STATE OF AFFAIRS FOR THE MID-YEAR ENDED 31 DECEMBER 2020

1. FINANCIAL POSITION

ASSETS

Current Assets have increased from R193.9 million as at 30 June 2020 to an amount of R219.5 million which represent cash at hand, investments and outstanding debtors, inclusive of the annual billing for property rates, refuse removal and sanitation services which are due on a monthly basis.

Cash and cash equivalents have increased from R101.8 million as at 30 June 2020 to R 138.7 million as at 31 December 2020 which mainly represent short term investments.

Non-current assets, which includes property plant and equipment increased from R411.9 million as at 30 June 2020 to R424.9 million as at 31 December 2020 as a result of capital purchases done in the current financial year.

In total assets have increased from R605.7 million as at 30 June 2020 to R 644.5 Million as at 31 December 2020.

LIABILITIES

Current liabilities have increased from R 59.3 million as at 30 June 2020 to an amount of R70.7 million as at 31 December 2020, this increase mainly represent unspent conditional grants and creditors payments that have been invoiced but is not yet due for payment.

Non-current liabilities represent outstanding borrowing (loans that were taken up for capital purchases in prior years) amounting to R50.1 million and long term provision for employee benefits in the amount of R102.6 million.

Non-current liabilities amount to R152.6 million as at 31 December 2020.

NET ASSETS

Net assets have increased from R396.5 million as at 30 June 2020 to R421.1 million as at 31 December 2020.

CONCLUSION ON FINANCIAL POSITION

The financial position as at 31 December 2020 is sound with a healthy net asset position and a current ratio of 3.10:1 meaning current assets are 3.10 times more than current liabilities. The liquidity ratio is 3.08:1 meaning that liquid assets (cash and investments) are 2 times more than current liabilities.

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2. FINANCIAL PERFORMANCE

REVENUE

Own revenue raised

Own revenue sources are slightly below the budget targets for the financial year with property rates being on target with the budgetary predictions. Service Charges in respect of electricity is under performing with approximately 3% and water revenue is 2% lower than the year-to-date budget, yet the increase in consumption during the summer period as well as the holiday season will in all probability ensure that revenue targets are met for the year. Sanitation revenue as well as revenue from refuse charges are 7% above budgetary predictions and an upward adjustment for this revenue sources may therefore be necessary.

Investment revenue is below target as a result of a reduction in the prime interest rate and subsequent lowering of investment rates. The increase in cash held can be ascribed to improved cash management strategies coupled with more conditional grants being held on investment and a slower than anticipated spending of own funds on capital allocations. It is predicted that cash reserves will be maintained at the current level therefore an adjustment of the revenue target for investment revenue is necessary. Other own revenue is within the year-to-date budget targets and it is anticipated that revenue targets as a whole will be met upon the conclusion of the financial year. Where anomalies are identified on individual items of revenue the responsible departments are alerted and are tasked to remedy the situation. In total the year to date revenue is slightly above the year to date budget and it is therefore concluded that revenue targets will be met upon the conclusion of the current financial year with a small possible variance.

Own Revenue performance against budget is alluded to in the table hereunder:

Revenue Source	Comment
Rates	The actual revenue from assessment rates for the 2020/21 Mid-Year was R44.019 million, which is R7.409 million (or 20%) more than the budgeted income of R36.610 million.
Electricity	Electricity revenue is 3% lower than the year to date budget as at 31 December 2020. The actual revenue for electricity is 49.69% of the total budget for the financial year. The full budget for free basic electricity is used as indigent numbers have grown in the first half of the financial year.
Water	Water revenue is 2% lower than the year-to-date budget, yet the increase in consumption during the summer period as well as the holiday season will in all probability ensure that revenue targets are met for the year.
Sewerage charges	The actual income from sewerage fees for the 2020/21 mid-year is R7.215 million (or 7%) more than the budgeted amount of R6.721 million. The increase in septic tank removals is the main contributor to the positive deviation.

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Revenue Source	Comment
Refuse charges	Refuse revenue has a positive variance of 7%. The actual revenue is more than 50% of the amount budgeted for the financial year. An adjustment to the revenue prediction may be necessary.
Traffic Fines	The positive YTD variance of 37%, is due to the increase in fines revenue after the appointment of a new service provider. It must be pointed out that the iGrap1 consideration still needs to be done where all fines issued need to be recognised as revenue, this will only be done upon the closing of the books at the end of June 2021 and may influence the actual performance at year-end.
Investment revenue	A negative YTD variance of 6% is recorded. The under-performance can directly be ascribed to the reduction in interest rates which is 2.5% lower than the rate applied in the budgetary predictions. It is predicted that cash reserves will be maintained at the current level and a downward adjustment to the revenue target for this item is therefore necessary.
Other revenue	A positive YTD variance of 67% is reflected. The variance is mainly due to camping fees, clearance certificates, building plan fees, sale of land and revenue from insurance claims exceeding the budgetary predictions. Since lockdown level 2 there has been an increase in the booking of municipal facilities for the festive period. It is anticipated that the revenue targets for this category of revenue will be met for the financial year.
Agency Services	A positive YTD variance of 49%. The over-recovery is due to an increase in the roadworthy and driver license tests after lifting of some of the lockdown restrictions, it is however less than 50% of the total budgeted revenue which is concerning and an adjustment may be necessary.

Transfer revenue - Grants

Operational transfers are in line with budgetary predictions for the current financial year, and will only be adjusted if there is additional revenue allocated in the DORA Amendments Bill or Government Gazette.

3. EXPENDITURE

EMPLOYEE COST

The actual expenditure for Employee Related Costs for the mid-year is R3.818 million more than the budgeted expenditure, which represents a deviation of 6% on the year to date budget. This is largely as a result of the payment of bonuses during November 2020. The negative variance on the YTD budget of 6% is therefore in line with budgetary predictions, it must be pointed out that the provisions for employee benefits still needs to be debited based on the annual actuarial valuations which will only be performed during June 2021, this may influence the total employee cost over the 12 month period. The amount spent on overtime and standby is a major concern. The overall spending on overtime and standby as at 2020/21 mid-year is R2.439 million and R1.932 million respectively. The expenditure for both overtime and standby exceed the

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budgetary allocation for the year to date and a special effort will be necessary to reduce the trend of expenditure. An effort has been made to prevent a further escalation in employee cost and to ensure that the ratio of employee cost to total expenditure is not exceeded.

The actual spending on EPWP funds are 61% of the allocated amount.

Salary Item	Comment
Basic Salary	The total expenditure for this item amounts to R 40 431 million or 50.05% of the total budget for basic salary. This do however also include bonuses that were paid during November 2020, if this is taken into account there is no savings on basic salaries as at 31 December 2020.
Overtime	90% was spent of the total budgetary allocation which is above the norm of 50% for the year to date and considering the current trend for this item, an upwards adjustment would be recommended to prevent overspending. The result of this upwards adjustment will mean that savings need to be identified on vacant positions that were budgeted for and are not yet filled. Alternatively service delivery departments should manage the expenditure on this item downward.
Standby	75% was spent of the total budgetary allocation which is above the norm of 50% for the year to date and considering the current trend for this item, an upwards adjustment would be recommended to prevent overspending.

BULK PURCHASES

Bulk purchases are 2% above the budget for the year to date. The actual expenditure is only for five month as the payment of the bulk electricity account is a month after measurement of consumption. The seasonal consumption increase has not been factored in and a slight upward adjustment in this item may be necessary for the remainder of the financial year.

OTHER EXPENDITURE ITEMS

The table hereunder highlights a few items where the original budgeted amounts may require reconsideration as a result of current actual performance and an adjustment budget is therefore recommended and unavoidable.

Expenditure Item	Comment
Contracted Services	The budget for Contracted Services for the 2020/21 Mid-Year was R23.032 million whilst the actual expenditure amounted to R7.971 million (34.61% budget spent). Contracted services are R2.482 million or 24% below the year to date as a result of slower than anticipated commencement of contracts in the first part of the financial year coupled to scheduled services that are only to be provided in the latter half of the financial year. It is anticipated that the expenditure for this category will increase over the remainder of the financial year. The year to date budget need to be adjusted during the mid-year adjustments budget

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Expenditure Item	Comment
	process to reflect the actual spending trends where contacts will not be executed as planned.
Telephone expenses	Total monthly expenditure for this item is in line with the monthly budget and no savings at the current trend of expenditure is anticipated for the year. The year to date expenditure amounts to R759 804 but represents only 6 months' worth of expenditure. The expenditure is 50.98% of the total budgeted amount.
Subsistence and Travelling	The year to date expenditure for this item amounts to R 166 958 or 23.72% of the total budgeted amount. This is a direct result of meetings being held virtually instead of face to face due to the Covid pandemic. An adjustment of this item will be done in the mid-year adjustment budget.
Fuel and Oil	The year to date expenditure for fuel and oil amounts to R 1.469 million or 44.71% of the total budgeted amount. The expenditure for this item needs to be monitored by the respective departments to ensure that spending remains within the budgetary allocations. Attention must be given to savings and austerity measures inclusive of better planning of trips to ensure that the expenditure in respect of this item is appropriately managed.

TOTAL EXPENSES

The Total Expenditure budgeted for the 2020/21 Mid-Year was R 182.32 million. The actual expenditure was R175.47 million which is R6.913 million (4%) less than budgeted. In total expenditure is below the year to date budget. Consideration will be given to adjust the expenditure in accordance with current performance as reported in the tables above, as well as to incorporate the virements processed to date. It must be taken into consideration that the allocation of provisions and reserves as well as depreciation charges still needs to be accurately determined upon the year-end which may slightly influence the actual expenditure upon conclusion of the financial year.

CONCLUSION ON FINANCIAL PERFORMANCE

Revenue is slightly above the year-to-date budget and expenditure is below the year to date budget, an operating surplus for the 2020/2021 financial year is anticipated. It is concluded that an adjustment budget may be necessary to adjust both revenue and expenditure projections as alluded to above.

4. DEBTORS MANAGEMENT

Total debtors outstanding amounts to R 122.6 million before taking into account provision for irrecoverable deb, 78.34% of debt is outstanding for longer than 90 days and 44.54% of debt has aged beyond 365 days which makes it doubtful to collect. The debtor amount represents the annual billing of which a portion was

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due at the end of September and the remainder will be due on a monthly basis over the remainder of the financial year. All debtors in arrears are subjected to credit control measures as a failure to collect all debt owed to the municipality will lead to financial distress and impact negatively on service delivery. The current debtor's collection rate equals 92.4% which is slightly above the annual target, a concerted effort will be necessary to increase the collection rate towards the conclusion of the financial year. The Covid 19 Pandemic has had a negative impact on the revenue of households and subsequently the municipality implemented measures to assist households to get back on their feet, credit control was suspended for a few months yet has once again been implemented to ensure that revenue targets will be met and to ensure that the municipality remains financially viable and service delivery can be sustained.

5. CREDITORS MANAGEMENT

Outstanding creditors amount to R47.587 Million and it includes unspent conditional grants of R 25,009 million, the remainder represents current commitments not yet due in respect of payments to service providers as well as other payables and accruals and unallocated deposits received in the municipal bank account. All current creditors are paid strictly in terms of the legislative requirements being 30 days from invoice date.

6. CASH FLOW AND INVESTMENT MANAGEMENT

Cash and cash equivalents have increased from R101.8 million as at 30 June 2020 to R 138.7 million as at 31 December 2020. The municipality has sufficient funds available to meet the current commitments as well as to fund operations in the short term. The cost coverage ratio exceed 90 days which is indicative of the fact that sufficient liquid resources (cash and cash equivalents) are available to pay for operational expenses in the short term.

7. CAPITAL SPENDING

The actual Capital Expenditure for the 2020/21 Mid-Year is R13.3 million which represents a spending of 28.4% of the total capital budget of R46.8 million. Outstanding commitments at the end of December 2020 amounted to R7.2million.

The actual expenditure plus commitments, where supply chain processes have been finalized for the Mid-Year amounted to R20.5 million, which represents 43.7% of the Capital Budget.

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Vote Description	Ref	2019/20	Budget Year 2020/21							
		Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands	1									
Multi-Year expenditure appropriation	2									
Vote 1 - Municipal Manager		-	-	-	-	-	-	-		-
Vote 2 - Finance		-	-	-	-	-	-	-		-
Vote 3 - Corporate Services		4,041	50	50	-	-	(25)	25	-100%	50
Vote 4 - Technical Services		6,768	10,857	9,988	485	531	5,033	(4,502)	-89%	10,857
Vote 5 - Community Services		229	1,605	1,843	87	147	886	(739)	-83%	1,605
Total Capital Multi-year expenditure	4,7	11,037	12,512	11,881	572	678	5,894	(5,216)	-88%	12,512
Single Year expenditure appropriation	2									
Vote 1 - Municipal Manager		161	200	200	1	31	100	(69)	-69%	200
Vote 2 - Finance		220	240	240	-	3	120	(117)	-98%	240
Vote 3 - Corporate Services		1,411	2,405	2,864	492	1,274	1,461	(187)	-13%	2,405
Vote 4 - Technical Services		22,671	23,169	25,838	3,674	10,033	12,798	(2,765)	-22%	23,169
Vote 5 - Community Services		5,439	4,810	5,774	201	1,270	2,868	(1,598)	-56%	4,810
Total Capital single-year expenditure	4	29,901	30,824	34,916	4,369	12,611	17,347	(4,736)	-27%	30,824
Total Capital Expenditure		40,938	43,336	46,797	4,941	13,289	23,241	(9,952)	-43%	43,336

It must be pointed out that procurement processes for projects to the value of R 13.3 Million have not yet been finalized and an urgent intervention in this regard is required. Where procurement processes for capital projects from own sources have not commenced by 31 January 2020, it needs to be reconsidered and may need to be held in abeyance until the ensuing financial year for execution.

CONCLUSION

The municipality is currently in a sound financial position, it can meet its current commitments in the short and medium term, however cash resources remain under strain. Management is continuously implementing actions to further enhance the cash flow position through savings and austerity measures and the application of the cost containment policy. The budget and other financial reports are being monitored to ensure that financial targets are met as anticipated in the annual approved budget. It must be acknowledged that a further improvement is necessary to ensure the successful rolling out of the capital program for the financial year and that a continued effort is necessary to further increase the collection of debt owed to the municipality and to enhance existing municipal revenue streams. Further austerity and savings measures will be applied to aid in the improvement of the financial performance and position of the municipality and to ensure the long term financial sustainability of the municipality.

Taking into consideration all revenue and expenditure trends as well as the other financial results contained in the report, it can be concluded that a mid-year adjustments budget will be necessary.