**1st Quarter Financial Report 2020/2021**

2020/2021 FINANCIAL YEAR



**MKHAMBATHINI MUNICIPALITY**

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**INTRODUCTION**

**REPORT OF THE MAYOR**

In my capacity as the Mayor, it is an honor to present this Mid-Year Budget and Performance Assessment for the six months ended 31 December 2019. Primarily let me take this opportunity to thank the community of Mkhambathini Municipality for the unstinting support they have given to the Councilors and Administration of our municipality under different political and economic situations.

**Purpose**

The purpose of this report is to comply with Sections 72 (1) (a) and 52 (d) of the Municipal Finance Management Act (MFMA) and the requirements as promulgated in the Government Gazette No. 32141 of 17 April 2009 regarding Municipal Budget and Reporting Regulations, which requires that specific financial particulars be reported on and in the formats prescribed.

**Background**

Section 52 (d) of the Municipal Finance Management Act (MFMA) states that:

“The Mayor of a 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”.

**Recommendation by the Mayor**

* **THAT** this report which is submitted in compliance with Section 72 (1) (a) and 52 (d) of the MFMA and in terms of Government Gazette 32141 dated 17 April 2009, relating to the “Local Government: Municipal Finance Management Act, Municipal Budget and Reporting Regulations”, and the financial results and supporting documentation (Schedule C) as at 30 September2020 be considered by the Council.

Their contributions will always be cherished.

I thank you



The table above summarizes the income and expenditure for the first quarter. The Municipality received R46 235 million which is equal to 34% of the budgeted revenue and expenditure of R28 496 million which is equal to 24% of the budgeted expenditure and The employee related cost of 9.3 million which equal to 33% of the total expenditure for the quarter.

The financial performance of the municipality for the first quarter has been stable and favorable. Revenue raised amounts to R 46 235 million compared to expenditure incurred of R28 496million.



During the first quarter the municipality have spent R8.4 million equivalent to 52% of the total budget of R15.9 million for the 2020/2021 financial year.

From the table above R9 millions of conditional Capital grant has been received from the anticipated annual grant of R 15.9 million. We have spent R8.4 million which is 93% of the total received from MIG. The reconciliations of expenditure are checked by the General Manager for Technical Services and General Manager for Finance department to ensure that amounts outstanding on projects are correct.



The municipality have received R3 million which is equal to 60% of the total allocation of R5 million. Expenditure on electrification grant is nil equivalent to 0% in the first quarter



The bank statement for the main account shows a closing balance of R5 164 656.76 with no outstanding payments and no outstanding deposits.



Cash balance of R80.8million is made up of funds from call account (R45.6), fixed deposit (R30 million) and main account (R5.1 million)



The gross outstanding debt from consumer debtors amount to R31.3 million as at the end of the first quarter. The highest debtor is Ingonyama trust with the outstanding amount of R10.6 million.



All creditors were paid on time within 30 days of the receipt of invoice.

**Table G: Investment Portfolio Analysis**

The investments of the municipality as at 30 September 2020, were as follows:

|  |  |  |
| --- | --- | --- |
| **Investments** | | |
| **Institution** | **Account Number** | **Balance** |
|  | | |
| FNB (Call Account) | 62831920766 | R45 623 779 |
| Standard Bank (Fixed Deposit) | 358478994 | R30 000 000 |
|  |  |  |
|  |  | **R75 623 779** |
|  |  |  |

Interest rates from other financial institutions are also being sourced to ensure that the maximum amount of interest is realized on these investments. All Municipal grants are cashed-back

**Part 2**

1. **In-Year Budget Tables**

Table 1: C1 Monthly Budget Statement Summary

Table 2: C2 Monthly Budget Statement – Financial Performance (Standard Classification)



Table 3: C3 Monthly Budget Statement – Financial Performance (Revenue and Expenditure by Vote)



Table 4: C4 Monthly Budget Statement – Financial Performance (Revenue and Expenditure)



Table 5: C5 Monthly Budget Statement Capital Expenditure



Table 6: C6 Monthly Budget Statement Financial Position

Table 7: C7 Monthly Budget Statement Cash Flow



3. FINANCIAL RATIOS

3.1 Personnel costs to total expenditure = employee related costs/ total expenditure x 100

= R 9 284 964.22/28 500 322.17x 100

= 33%

This ratio measures the extent of Remuneration to Total Operating Expenditure. If the ratio exceeds the norm it could indicate inefficiencies, overstaffing or even the incorrect focus due to misdirected expenditure to non-service delivery related expenditure. The norm ranges between 25% and 40%.

3.2 Cost coverage ratio = Cash and Cash Equivalent – unspent grant / Current liabilities

= R80 758 635 – R3 440 000/ R7 985 244.00

= 10 months

The ratio indicates the municipality’s ability to meet at least its monthly fixed operating commitments from cash and short-term investment without collecting any additional revenue, during that month. The norm ranges between 1 month to 3 months.

3.3 Creditors payment period = Trade creditors outstanding / Trade creditors Purchases X 365

There were no outstanding creditors as at the end of first quarter.

Creditors Payment Period (Trade Creditors)

This ratio indicates the average number of days taken for trade creditors to be paid and the norm is 30 days.

A period of longer than 30 days to settle creditors is normally an indication that the municipality may be experiencing cash flow problems, however in certain instances this may be as result of disputes, processing of payments, etc.

3.4 Net Debtors Days = ((Gross Debtors- Bad Debt Provision)/Billed Revenue)) X 365

= R31 306 21/ R4 932 338 X 365

= 2317 Days

This ratio reflects the collection period. Net Debtor Days refers to the average number of days required for a Municipality to receive payment from its consumers for bills issued to them for services rendered.

3.5 Collection Rate= Gross Debtors Opening Balance + Billed Revenue – Gross Debtors Closing Balance- Bad Debts Written Off)/Billed Revenue x 100

= 31 024 754+1 650 655 – 31 306 216x100

1 650 655

= 83%

The ratio indicates the collection rate, i.e. level of payments. It measures increases or decreases in debtors relative to annual billed revenue. To determine the real collection rate bad debts written-off is taken into consideration. The norm is 95%.

3.6 Current Ratio = Current Assets /Current Liabilities

= R86 750 942 / R7 985 244

= 1: 11

The ratio is used to assess the municipality’s ability to pay back its short-term liabilities (debt and payables) with its short-term assets (cash, inventory, receivables). The norm ranges between 1.5 to 2.1. The higher the current ratio, the more capable the municipality will be able to pay its current or short-term obligations and provide for a risk cover to enable it to continue operations at desired level.

3.7 Capital Expenditure to Total Expenditure = Total Capital Expenditure/Total Expenditure x 100

= R8 366 768/ R28 496 263 X 100

= 29%

The norm ranges between 10% and 20%. A ratio less than 10% reflects lower spending by the municipality in infrastructure and holds potential risks to service delivery. A ratio of more than 20% reflects higher spending on infrastructure and acceleration in service delivery but could also hold financial sustainability risks if the infrastructure does not include both economic (revenue generating) and social type infrastructure.

3.8 Capital Expenditure Budget Implementation Indicator= Actual Capital Expenditure/Budget Capital Expenditure x 100

= R 8 366 768 / 15 966 000 X 100

= 52%

This ratio measures the extent to which Budgeted Capital Expenditure has been spent during the financial year, under review. Further, this ratio measures the municipality’s ability to implement capital projects and monitor the risks associated with non-implementation. The ratio also assesses whether the municipality has effective controls in place to ensure that expenditure is incurred in accordance with an approved budget.

3.11 Operating Expenditure Budget Implementation Indicator= Actual Operating Expenditure/Budgeted Operating Expenditure X 100

= R28 496 263/ R121 536 897 X 100

= 23%

This ratio measures the extent to which Budgeted Operating Expenditure has been spent during the financial year, under review. The ratio also assesses whether the municipality has effective controls in place to ensure that expenditure is incurred in accordance with an approved budget. The norm ranges between 95% and 100%.

3.12 Operating Revenue Budget Implementation Indicator= Actual Operating Revenue/Budgeted Operating Revenue x 100

= R46 235 411 / R136 627 455 X 100

= 34%

This ratio measures the extent of Actual Operating Revenue (excl. Capital Grant Revenue) received in relation to Budgeted Operating Revenue during the financial year, under review. The norm ranges between 95% and 100%.

The ratio measures the extent to which Total Capital Expenditure of the Municipality is funded through Internally Generated Funds. No norm at this stage. The funding mix for capital expenditure is dependent on the municipal policy and ability to raise revenue from different sources. Increased capacity for internally generated funding is required in some circumstances, which could also improve the balance in funding sources.

**4. Municipal Manager’s Quality Certificate**

I, Mr. S Mngwengwe, Municipal Manager of Mkhambathini Municipality, hereby certify that the 1st quarter financial report on the implementation of the budget and financial state of affairs of the municipality for the first three Months/1st Quarter of the financial year ending June 2021 has been prepared in accordance with the Municipal Finance Management Act and regulations made under that Act.

**Mr. S Mngwengwe**

**MUNICIPAL MANAGER: MKHAMBATHINI MUNICIPALITY, KZN226**

**SIGNATURE\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**DATE\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**