

Bergrivier Municipality

Summary of Budget and Financial Performance for the mid-year ended 31 December 2022

OVERVIEW OF THE FINANCIAL STATE OF AFFAIRS FOR THE MID-YEAR ENDED 31 DECEMBER 2022

1. FINANCIAL POSITION

ASSETS

Current Assets have increased from R236.1 million as at 30 June 2022 to an amount of R241.9 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 R143.5 million as at 30 June 2022 to R 164.8 million as at 31 December 2022 which mainly represent short term investments.

Non-current assets, which includes property plant and equipment increased from R507.8 million as of 30 June 2022 to R522.9 million as at 31 December 2022 as a result of capital purchases done in the current financial year.

In total assets have increased from R743.9 million as of 30 June 2022 to R 764.9 million as at 31 December 2022.

LIABILITIES

Current liabilities have decreased from R 68.1 million as of 30 June 2022 to an amount of R48.2 million as at 31 December 2022, this decrease 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 R76.8 million and long-term provision for employee benefits in the amount of R150.4 million.

Non-current liabilities amount to R227.3 million as of 31 December 2022.

NET ASSETS

Net assets have increased from R467.2 million as of 30 June 2022 to R489.4 million as at 31 December 2022.

CONCLUSION ON FINANCIAL POSITION

The financial position as of 31 December 2022 is sound with a healthy net asset position and a current ratio of 5.02:1 meaning current assets are 5.02 times more than current liabilities. The liquidity ratio is 4.99:1 meaning that liquid assets (cash and investments) are 4 times more than current liabilities.

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2. FINANCIAL PERFORMANCE

REVENUE

Total revenue received to date was R237,417,447.80 which represents 50.13% of the total operating revenue budget for the year.

Own revenue raised.

Own revenue sources are slightly above the budget targets for the financial year with property rates being on target with the budgetary predictions. Service Charges in respect of electricity is underperforming with approximately 13% and water revenue is 1% more than the year-to-date budget. Sanitation revenue as well as revenue from refuse charges are 1% and 2% above budgetary predictions and an upward adjustment for this revenue sources may therefore be necessary.

Investment revenue is above target as a result of better cash management measures. 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 below the year to date budget but revenue targets will still 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 2022/23 Mid-Year was R51.534 million, which is R4.183 million (or 9%) more than the budgeted income of R47.351 million.
Electricity	Electricity revenue is 13% less than the year to date budget as at 31 December 2022. The actual revenue for electricity is R69.989 million or 43.59% of the total budget for the financial year.
Water	Water revenue is 1% above the year-to-date budget due to the increase in water consumption during the summer months, an adjustment to the YTD budget figures is also necessary to predict the revenue trend more accurately. The year-to-date total represents 50.29% of total budgeted revenue for this revenue source.
Sewerage charges	A positive YTD variance of 1% which is slightly above the budgeted annual target, an adjustment will be considered as the revenue enhancement

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Revenue Source	Comment
	program gains momentum.
Refuse charges	A positive YTD variance of 2% due to more accurate billing, and more revenue raised in respect of refuse received at the transfer stations than anticipated in the original budget, this figure may also need to be adjusted as the revenue enhancement program gains momentum.
Traffic Fines	The Negative YTD variance is as a result of the fact that the iGRAP 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 2023 and may influence the actual performance at year-end.
Investment revenue	A positive YTD variance of 161% is recorded as a result of more cash being held on investments than anticipated during the budget, coupled with better cash management measures. An adjustment may be done to the budget after considering the mid-year financial results.
Other revenue	A positive YTD variance of 50%. The variance is a combination of over-/under recovery on the following revenue elements: <ul style="list-style-type: none"> Camping Fees (over) – higher than planned fees income. Building plan Fees (over) – higher than planned fees income Sale of land
Agency Services	A negative YTD variance of 35%, due to the income recognize journal processed after month end. An adjustment may be necessary in the mid-year adjustments budget.

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

The total expenditure to date is R222,392,001.19 which represents 45.46% of the total operating expenditure budget for the year.

EMPLOYEE COST

The actual expenditure for Employee Related Costs for the mid-year is R5.934 million less than the budgeted expenditure, which represents a deviation of 7% on the year to date budget. This is largely because of budgeted vacancies not filled. 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 2023, 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 2022/23 mid-year is R3.289 million and R2.237 million respectively. The expenditure for both overtime and standby exceed the budgetary allocation for the year to date and a special effort will be

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necessary to reduce the trend of this expenditure category. An effort has been made to prevent a further escalation in employee cost and to ensure that the prescribed ratio of employee cost to total expenditure is not exceeded. Considering the annual salary adjustment that was not initially budgeted for, coupled to the budgeted vacancies that still needs to be filled, an adjustment of this expenditure item will be necessary.

Salary Item	Comment
Basic Salary	The total expenditure for this item amounts to R 79.225 million or 47.86% of the total budget for basic salary. This do however also include bonuses that were paid during November 2022, if this is taken into account there is no savings on basic salaries as at 31 December 2022.
Overtime	68.78% 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	60.22% 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 16% below the budget for the year to date. The actual expenditure is only for five months 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 because of current actual performance and an adjustment budget is therefore recommended and unavoidable.

Expenditure Item	Comment
Contracted Services	The year to date budget for Contracted Services for the 2022/23 Mid-Year was R18.119 million whilst the actual expenditure amounted to R13.324 million (33.66% budget spent). Contracted services are R4.795 million or 26% below the year to date because 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 process to reflect the actual spending trends where contacts will not be executed as planned.

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Expenditure Item	Comment
Subsistence and Travelling	The year to date expenditure for this item amounts to R 669 830 or 72.35% of the total budgeted amount. 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 4.296 million or 85.22% 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. An adjustment of this Item will be done in the mid-year adjustment budget.

TOTAL EXPENSES

The Total Expenditure budgeted for the 2022/23 Mid-Year was R 245.759 million. The actual expenditure was R222.392 million which is R23.367 million (10%) 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 below the year-to-date budget and expenditure is below the year to date budget, an operating surplus for the 2022/2023 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 amount to R 122.6 million before considering provision for irrecoverable debt, 74.97% of debt is outstanding for longer than 90 days and 54.49% (57.85% 2021/2022) 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 due at the end of September and the remainder will be due monthly 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 96.12% 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.

CREDITORS MANAGEMENT

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Outstanding creditors amount to R33.460 million and it includes unspent conditional grants of R 5,955 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.

5. CASH FLOW AND INVESTMENT MANAGEMENT

Cash and cash equivalents have increased from R143.588 million as at 30 June 2022 to R 164.799 million as at 31 December 2022. 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 exceeds 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.

6. CAPITAL SPENDING

The actual Capital Expenditure for the 2022/23 Mid-Year is R22.857 million which represents a spending of 28.61% of the total capital budget of R79.903 million. Outstanding commitments at the end of December 2022 amounted to R12.368 million.

The actual expenditure plus commitments, where supply chain processes have been finalized for the Mid-Year amounted to R35.226 million, which represents 44.09% of the Capital Budget.

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Vote Description	Budget Year 2022/23					
	Original Budget	Adjusted Budget	YearTD actual	YearTD budget	YTD variance	YTD variance %
R thousands						
Multi-Year expenditure appropriation						
Vote 1 - Municipal Manager	-	-	-	-	-	
Vote 2 - Finance	-	-	-	-	-	
Vote 3 - Corporate Services	120	120	44	-	44	#DIV/0!
Vote 4 - Technical Services	27,321	21,440	4,537	8,188	(3,651)	-45%
Vote 5 - Community Services	160	145	35	145	(110)	-76%
Total Capital Multi-year expenditure	27,601	21,705	4,615	8,333	(3,718)	-45%
Single Year expenditure appropriation						
Vote 1 - Municipal Manager	450	2,033	31	306	(275)	-90%
Vote 2 - Finance	960	960	275	620	(345)	-56%
Vote 3 - Corporate Services	2,145	2,145	1,296	585	711	122%
Vote 4 - Technical Services	43,248	44,023	14,430	25,269	(10,839)	-43%
Vote 5 - Community Services	8,750	9,039	2,210	4,207	(1,996)	-47%
Total Capital single-year expenditure	55,553	58,199	18,242	30,987	(12,745)	-41%
Total Capital Expenditure	83,155	79,903	22,857	39,320	(16,462)	-42%

It must be pointed out that procurement processes for projects to the value of R 20.780 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 2023, it needs to be reconsidered.

The slow spending is exposing the municipality to the risk of losing conditional grant allocations as spending targets in accordance with the grant frameworks are not being met. It is of utmost importance that capital expenditure receives the highest priority and is expedited over the remainder of the financial year.

It is clear from the aforementioned that adjustments to the capital budget may be necessary in the mid-year revision of the budget.

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

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capital program for the financial year and to mitigate the risk of losing conditional grant funding. A concerted 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.