

**MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT REPORT FOR**

**DR NKOSAZANA DLAMINI ZUMA LOCAL MUNICIPALITY**

**2021/22 FINANCIAL YEAR**

**Table of Content Page No.**

**1. PART 1 – IN YEAR REPORT**

1.1 Purpose of the Report………………………………………………………..…….3

1.2 Mayors Report……………………………………………………………………3 - 5

2. Resolution……………………………………………………………………………………..6

3. Executive Summary……………………………………………………………………….6 -7

4. In Year Budget Statement Tables………………………………………………………7 -19

**2. PART 2 – SUPPORTING DOCUMENTS**

2.1 Debtors Age Analysis…………………………………………………………19 - 21

2.2 Creditors Age Analysis……………………………………………………………..22

2.3 Investment Portfolio Analysis……………………………………………..… 22 - 23

2.4 Allocation for Grant Receipts and Expenditure……………………………24 - 25

2.5 Councilor and Staff Benefits………………………………………………...26 - 27

2.6 Material Variances to SDBIP………………………………………………...27 - 28

2.6.1 Table SC1 Material Variances Explanations……………………...…29 - 30

2.7 Municipality Financial Performance………………………………………….31 - 32

2.8 Municipal Entity’s Financial Performances………………………………………32

2.9 Capital Programme Performance……………………………………………32 - 33

2.10 Other Supporting Documents………………………………………………..33 – 35

2.11 Municipal Managers Quality Certificate…………………………………………36

2.11 Schedule C Report V6.5 – Attached

1. **PART 1 – IN YEAR REPORT**
   1. **Purpose**

To inform the Council about the progress made in the implementation of the budget and the performance outcomes for the past first six months of the 2021/22 financial year, and to recommend whether an adjustments budget is necessary or not.

* 1. **Mayors Report**

Dr Nkosazana Dlamini Zuma Local Municipality is pleased to officially present the Mid-Year Budget and performance assessment for 2021/22 financial year where we report on how the municipality has performed during the past six months. We also report on how the municipality anticipates to fulfill its Constitutional mandate and to ensure that Service delivery priorities, as identified in the Integrated Development Plan (IDP) are funded and implemented. In terms of Section 71 read with Section 72 of the MFMA, the Accounting Officer of a municipality must by the 25 January of each year-

1. Assess the performance of the municipality during the first half of the financial year,

taking into account-

1. The monthly budget statements referred to in section 71 for the first half of the financial year;
2. 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 and budget implementation plan,
3. The past year’s annual report, and progress on resolving problems identified in the annual report;

It is for the above motivation that the Accounting Officer submits and presents this report to Council. There have been no major changes on anticipated revenue, however there would be a need for adjustment budget as there are capital items that were supposed to be procured 2020/21 budget year but got delayed as a result of National Lockdown levels effects. There would also be a need to revise the SDBIP priorities.

Honorable Speaker, the drastic effects of the Covid-19 pandemic continue across the South African economy, with the government scrambling across to divide for financial resources, to alleviate these rare circumstances caused by the pandemic. the economic impacts of Covid-19 are already shaped up to be significant, [yet uneven](https://www.brookings.edu/blog/the-avenue/2020/03/17/the-places-a-covid-19-recession-will-likely-hit-hardest/), across the country. Not only are workers and businesses affected, but so too is the fiscal capacity of governments that rely on a healthy economy for their revenue. As the crisis unfolds, the impact on municipalities’ bottom line will be driven not only by overall economic conditions but specifically the parts of the economy where revenue is generated: retail sales, tourism and holidays, income and wages, and real estate. Dr Nkosazana Dlamini Zuma local municipality is one of the municipalities that have been be impacted negatively due to a loss of revenue streams as businesses, households and communities reel from the economic fallout caused by Covid-19.

Many budgeted community programmes were affected by lockdown rules. For example, Arts and Culture, Sport Development, Operation Sukuma Sakhe and many more could take place. The heavy rains have also affected many of our infrastructure projects, especially our road networks. Shifting of funds from non-essential activities to infrastructure maintenance must be considered as well

Essential service delivery, which is the core function of any municipality, has continued unabated throughout the lockdown period and I would like to salute the essential services officials for their heroic work during this time. Our safety measures have been put in place. The lockdown has caused a backlog at certain departments, especially community services and PWBS and I want to assure you that we are working hard to clear this backlog. The municipality have implemented strict measures to ensure the safety of officials, councillors and residents who visit our municipal offices. These include:

* Thermometers and sanitizers at the entrances to municipal buildings;
* Screening forms to be completed by staff and visitors daily;
* Protective gear such as face shields and masks are available to all councillors and officials;
* Workspaces, bathrooms, kitchens and vehicles are cleaned and sanitized continuously;
* Ward rooms, libraries remain closed to prevent face-to-face contact.

Our focus now is therefore driving efficiencies and doing more with less. Our core purpose remains service delivery and therefore the majority of our capital budget is invested in the maintenance, upgrading and expanding of our infrastructure to ensure quality service delivery to all our residents. The municipality have expanded its scope of basic services and free basic services to respond directly to the socio-economic impacts of the pandemic and prevent the transmission of communicable diseases i.e., cleaning of public places and so on.

We would not forget our main objective as the municipality which is to ensure that the communities of Dr Nkosazana Dlamini Zuma Municipality get access to basic services. We are confident that, with the support from all stakeholders the Adjustment Budget would be complied in a manner that required by MFMA. Dr Nkosazana Dlamini Zuma Municipality therefore pledges its commitment to effective and efficient Service Delivery as outlined in the 2021/22 IDP and Budget.

Considering the above explanation, I hereby recommend that the council may approve the 2021/22 Mid-Year Budget and Performance Assessment.

I thank you.

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Honourable Mayor**

**Councillor S.P Msomi**

1. **Resolutions**

It is recommended that the Mayor note:

* The quarterly report on the implementation of the budget in terms of s52 (d) of the MFMA
* The Mid-Year Budget & Performance Assessment in terms of s72 of the MFMA
* The Preparation of the Adjustments Budget for Tabling to Council on or before the 28th February 2021
* The Revision of the projections for Revenue & Expenditure in the SDBIP

**3. Executive Summary**

* **Purpose**

The discussion that follows, in terms of MFMA Section 71 and Section 52(d), intends to inform Council on the progress made thus far in terms of implementing the 2021/2022 budget for the period ending 31 December 2021.

* **Legislative Requirements**

In terms of Section 72 of the MFMA, the Accounting Officer of the Municipality is required to submit a report in the prescribed format to the Mayor by the 25 January of each year, reviewing the financial performance of the municipality for the past first six months of the year. This mid-year report is a critical stage in the in-year reporting cycle. As part of the review, in terms of Section 72(3), the accounting officer needs to make recommendations as to whether an Adjustment Budget is necessary and recommend revised projections for revenue and expenditure to the extent that this may be necessary. Furthermore, Section 54(e)&(f) of the MFMA requires the Mayor identify any financial problems facing the municipality, including any emerging or impending financial problems and to consider and submit a report to Council by 31 January.

* **Midyear Budget & Performance Assessment**

The municipality’s Performance of the approved budget is best summarised in table C1 under the heading “In Year Budget statement Tables”. While the operational budget expenditure has not been good due to the postponement of many programmes in the first and second quarter due to national lockdown, accelerated implementation of the Capital projects would have to be sought in order to increase the provision of basic services to the communities the capital budget spending is far less than the 50% anticipated due to the delays caused by the national lockdown. Piling outstanding consumer debts is continuing to be a challenge to the municipality and pose a threat to the municipality’s liquidity position. The municipality is busy with strategies to try and deal with this challenge.

**4. In -Year Budget Statement Tables**

Budget Statement Tables Version 6.3 of the C Schedule is attached; the tables provide overall performance of the municipality in the past six months.

**PERFORMANCE HIGHLIGHTS**

|  |  |
| --- | --- |
| **SUMMARY OF FINANCIAL PERFOMAMCE** | |
| Actual Revenue to Budgeted Revenue (Billed) | 67% |
| Actual Revenue to Budgeted Revenue (Receipts) | 42% |
| Actual Opex to Budgeted Opex | 38% |
| Actual Capex to Budgeted Capex | 25% |
| Employee related cost | 44% |
| Councillors Remuneration | 47% |
| Conditional Grants Expenditure | 41% |
| Cash Coverage Ratio | 9:1 |
| Creditors Age Analysis | 100% creditors paid |
| Debt Collection rate | 94% |

**Monthly Budget Statements Summary**

Table C1 below provides a summary of the overall performance in the Municipality and is unpacked in the sections that follow.



**Financial Performance**

Table C2 provides the statement of financial performance by standard classification



The table is assessing the mid-year revenue by department followed by an expenditure analysis. The actual year to date revenue as at end December 2021 was R 151 ,5million against a year-to-date budget of R 120 ,6million.

Table C3 presents the same information as the table above, the difference being that it’s by Municipal vote.



Summary of financial performance report for the period ending 31 December 2021. The SFP Table C4, is prepared on a similar basis to the prescribed budget format, detailing revenue by source, type and expenditure. The summary report indicates the following:



The total revenue raised including operational grants as at 31 December 2021 was R 137 ,037 million against a total budget of R 204 ,7million for the year and the YTD budget is R 102 ,3 Million as at 31 December 2021. This reflects a revenue rate of 67% against the total budget for the year.

The operating expenditure as at 31 December 2021 totals to R 90 ,8million against a total budget of R 239 ,2million and that is reflecting an expenditure rate of 38**%**. This suggests that operating

Expenditure is down by 12**%** when comparing with 50% that was projected to be spent as at the end of the first half of the year.

***Operating revenue material variances were in the following areas;***

* **Rental on Facilities and Equipment:** (18%) Rental of facilities and equipment - Underestimation of revenue from ad-hoc rentals due to unpredicted changes on lockdown levels which has an effect on hire and use of municipal properties.
* **Interest on Investment:** (-23) negative varianceas a result of low interest rates offered by financial institutions
* **Licenses and Permits**:(-30) Low turn up rate than anticipated.
* **Fines, Penalties, Forfeits:** (220%) more traffic fines were issued than anticipated.
* **Agency Services:** (-56) due to delays by DOT in processing the cheque for the municipality for the agency fees.
* **Transfers and Subsidies: (**50%) reflects positive variance on transfers recognised due to the receipts of first and second allocation of grants as some grants are received as a once off lump sum.
* **Other Revenue:**(-80%) Decrease in the sale of tender documents because tender briefing sessions were suspended as a result of Corvid 19 pandemic and service providers are encouraged to download from municipal website free of charge
* **Gains and disposal on PPE:** (-100) The auction has not yet taken place; it will take place during the cause of the financial year.

**Operating Revenue Analysis**

The key revenue drivers of the budget were operational grants, property rates and service charges as well as Interest on investments:

* Operational grants contributed 72% of the total operation revenue budget
* Property rates contributed 18% of the total operational revenue budget
* Interest earned from investments contributed 3% of the total operational revenue budget
* Service charges contributed 2% of the total operational revenue budget.
* Other revenue Items contributed 5% of the total operating revenue budget.

**Equitable Share**

The Municipality had received a total allocation of R 104 ,6million or 75% of the total allocation of R 139 ,4 million for the 2021/22 financial year. The third trench of the Equitable share totalling to R 34 869 million is scheduled to be received by 15 March 2022.

**Interest from Investments**

The Municipality had R 206 ,4 million investments as at 31 December 2021. The municipality has generated a total interest revenue of R2 ,4million, which translate to 77% against YTD budget of R 3 ,2million.

The YTD revenue recognised under National Capital Grants is R14, 4million against the original budget of R 36 ,5million.

**Operating Expenditure analysis**

The YTD Operating Expenditure for the 2021/22 financial year is R 90,8million against YTD budget of R 119,6million which implies that the municipality has a negative variance of R -29,247 million in expenditure arising from different line items.



The operating expenditure underperformed by 24% against the year-to-date.

However, there are material variances that have been reported against expenditure types such as contracted services, other materials, other expenditure and depreciation & asset impairment. The most of the operating expenditure projections were not within the normal range of projections

posting a variance of less than 10%.

***Operating expenditure material variances were in the following areas.***

* **Employee related cost:** (-11%%) the variance is a result of the timing of filing of vacant positions.
* **Remuneration of councillors:** (-5) reflect negative variance for the month of December
* **Debt impairment:** (-97%) expenditure will be recognised at the end of the financial year. Debt impairment relates to long overdue customer accounts over 90 days. It is a non-cash item and is budgeted at a rate being the difference of the cash the municipality intends to collect and what is not collectable from customers.
* Items included in this category are bad debts written off which at the time of compiling report, there were no provisions recorded on the financial system resulting in this variance
* **Depreciation and Asset Impairment:**(-22%) Variance is due to delays in completion of the prior year projects which effect the capitalisation and subsequent depreciation of the assets.
* It is therefore the sooner the prior year projects are completed; the sooner the variance will be eliminated.
* **Finance charges:** (94%) Incorrect interest projections
* **Inventory Consumed:** (-30%) maintenance and repairing of assets is going according to the adopted maintenance plan, hence the variance.
* **Contracted Services:(**-30%) Reduction on a number of operational costs due to covid-19 restrictions, the expenditure will improve as the year progresses.
* **Transfers and Subsidies**: (-46%) This is the expenditure incurred in providing free basic services to the community, the year-to-date actual is below the projected as it is depended on the number of indigents buying electricity.
* **Other Expenditure:** (-10%) reflects a variance which is below the budgeted amount. This is due to cost containment regulations.
* We must be cautious to not automatically view this underspending as savings.
* Historically, a large number of programmes commerce in the third quarter.

**Capital Expenditure – Table A**

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**Table A** above presents similar information as table C5, the difference is that table A includes Electrification projects that is not included on table C5 because the municipality acts as an agent in the Energy provision transaction.

The total capital budget for the 2021/2022 financial year is R 105 ,5 million inclusive of INEP and MIG allocation of R 36 ,5 million. The cumulative capital expenditure for the period amounts to R 27 ,1Million. or 29% to the total budget. The municipality anticipated to spend 50% of the total capital budget during the second quarter but the spending is sitting at 29% at the second quarter because of the delays caused by national lockdown.

Therefore, the spending is sitting at 29% as at 31 December 2021 because of the delays caused by national lockdown and the delays on SCM processes and in some instance suitable service provider were not found which has led to the re-advertisement.

On the internal funding, the municipality has only spent 26% of its overall internal budget. The overall percentage of capital expenditure is 25% as at the end of December 2021(Incl. INEP.

Table C5 below presents capital expenditure for Dr Nkosazana Dlamini Zuma municipality that does not include electrification projects as the municipality act as an agent in the electrification projects.

**Table C5** below reports on the capital expenditure by departments (municipal vote) and by standard classification. The bottom part of the schedule looks at the funding sources of the capital

projects. The overall expenditure on capital expenditure is sitting at R 27 ,1million against a total budget of R92 ,8million as at the end of 31 December 2021 and that is 29% of the total capital

budget excluding INEP Projects, and that is 58% against YTD budget, this shows a very low performance on the capital projects on the total capital budget for the year.



* **Statement of Financial Position**

The table C6 below displays the statement financial position of the municipality as at 31 December 2021.



* **Cash Flow Statement**

Table C7 below display the Municipality’s Cash Flow Statement for the Period ending 31 December 2021

The municipality had a closing balance of R 84 ,9million as at the end of December 2021 and that is favourable to the municipality



**PART 2 – SUPPORTING DOCUMENTS**

* 1. **Debtors Age Analysis**

The table SC3 Monthly Budget Statement below provides information and summarises the Debtors Age Analysis as at 31 December 2021.



Table SC3 above reflects that the outstanding debt continues to grow due to non-payment by our customers. Between the months of July to December 2021, the increase in debtors was almost R73 ,1million.

The debtors book value amounted to R 79 080million while the outstanding amount including account with credit balances amount to R 73 ,1million as at 31 December 2021, and the debtor’s collection is 94%. The debt is made up of the following:

* Government: R 21,813,291.76
* Business: R 7,690,099.34
* Households: R 31,702,861.38
* Agriculture: R 16,313,382.17
* Other: R 1,560,876.52

Consumer debtors amount to R 70 ,2million as at the end of December 2021.

The majority of debtors under this category is over 120 days and above. This has resulted in legal processes being undertaken by the municipality on defaulting customers. The estate late matters pose a legal challenge during the debt collection process. There are also certain accounts which are under scrutiny for various reasons, namely verification of government accounts prior to payment. The most significant debtors are reported to MANCO and Finance Portfolio Committee. The credit control measures are implemented especially for old debt.

The municipality appointed Attorneys and Conveyancers to assist with the collection of long outstanding debt.

The municipality introduced an incentive scheme from July 2021 as part of revenue improvement plans. The municipality is also participating in the Provincial Revenue Forum that assist municipalities with the recovery of government debt.

* 1. **Creditors Age Analysis**

Table SC4 Monthly budget statement below provides information of the Aged Creditors as at 31 December 2021. The municipality pays its creditors within 30 days from the date of receiving fully completed invoice.



* 1. **Investment Portfolio Analysis**

The table SC5 below indicate the municipality’s investment portfolio is sitting at R206 ,5million. No account was pledge as security in past six (6) months of the financial year. Investment portfolio has been diversified to reduce the investment risk across four major banks i.e. First National Bank, Ned Bank, Investec bank and STD bank.

The municipality does not have long-term investments, most of these investments are grants that the municipality received to spend in the budget year therefore cannot be invested for longer periods.

Interest received on investment at the end of December is R 2, 4 million, an amount of R372 857 was accrued in the of month December 2021. The cash at bank was R 4, 2million and was R 206 ,5million with a total cash and cash equivalents of R 210,7million. The average interest rate on investment is 4.525%. The cash coverage ratio as at 31 December 2021 is 9.1 based on average fixed operating costs. The norm as set out in the uniform financial ratios and norms circular 71 is 1 to 3 months. See below extract from SC 5.



* 1. **Allocation / Grant Receipts and Expenditure**

***Grants receipts***

Table SC6 monthly budget statement below provides information relating to transfers and grant receipts. A total of R 143 ,5million has been received by the municipality as the 31 December 2021 and the last trenche is expected by the month of March 2021 for all the grants that were gazetted for the municipality for 2021/22 financial year.



***Transfers and grant expenditure***

Table SC7(1) below provides information relating to grant expenditure, the municipality has actual spent of R 44 ,8million as at December 2021 on operational transfers and grants and 14 ,5million on capital grants. 

* 1. **Councillors and Board Members Allowances and Employee Benefits**

The table SC8 below for monthly budget statement Councillor and staff Benefit shows the detailed spending of staff salaries and wages and Councillors remuneration.



**Remuneration of Councillor’s**

Remuneration of Councillors expenditure as at 31 December 2021 is sitting at R5,5million against a year to date budget of R5,9 million and that means 46% of the councillor’s allowances budget that was spent as at end of December 2021.

**Employee related costs**

Expenditure as at 31 December 2021 is R 38 ,3million against a year to date budget of R 43, 2million and that means 44% was spent against employee related costs whilst the remuneration of councillors is sitting at 46% as the end of December 2021. The overall Employee related costs and Remuneration of councillor’s represented 44% of YTD operating expenditure for the period.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Original Budget 2021/2021** | **Month Budget December 2021** | **YTD Budget** | **YTD Actual** | **YTD % Spent** |  |
| Employee Related Costs | 86 452 888 | 7 204 407 | 43 225 944 | 38 337 331 | 44% |  |
| Remuneration of Councillors | 11 901 110 | 991 759 | 5 950 555 | 5 510 595 | 46% |  |
| Total | 98 353 998 | 8 196 166 | 49 176 499 | 43 847 926 | 44% |  |
|  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |

* 1. **Material Variances in the SDBIP**

The performance of the Municipality, is discussed in detail in the Performance Report. Material Variances in the SDBIP, shows that the Municipality has managed to achieve some of the objectives of the planned target as at midyear. It be stated that the performance of the municipality at midyear is satisfactory as according to the attached mid-year performance report the overall performance is 80% in terms of the achieved targets; however, there is still more room for improvement.

The section also assesses the material variances between the planned operational, capital and revenue targets an analysis which is crucial to give direction to the second half of the final year.

The revenue, Expenditure and performance targets in terms of planned indicators of the municipality would have to be reviewed for adjustments of underperformance as well as over performance.

The following section analyse material variances between the actual targets against the budget as at the Mid-Year of the 2021/22 financial year. This report analyses each major component under following headings:

* Revenue;
* Operational Expenditure;
* Capital Expenditure;
* Financial Position and
* Cash Flows

The analysis also provides a brief on the impact of this report on the adjustments budget.

The last section under this heading analyses the actual targets against the planned targets as at 31 December 2021.

* **Table SC1 Material Variances Explanation**

TableSC1 below of the Schedule C provides the explanations on the material variances





* 1. **Municipality Financial Performance**



|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Description** | **Original Budget 2021/2022** | **Month Budget December 2021** | **YTD Budget** | **YTD Actuals** | **Varience** |
| Operating Revenue By Source (Excluding Capital Transfers) | 204 780 | 17 065 | 102 390 | 137 037 | -34 655 |
| Total Operating Expenditure | 239 227 | 19 935 | 119 613 | 90 862 | 28 751 |
| **Surplus/( Deficit)** | **-34 447** | **-2 870** | **-17 223** | **31 778** | **14 555** |

The total revenue raised including operational grants as at 31 December 2021 was R 137 ,037 million against a total budget of R 204 ,7million for the year and the YTD budget is R 102 ,3 Million as at 31 December 2021. This reflects a revenue rate of 67% against the total budget for the year.

The operating expenditure as at 31 December 2021 totals to R 90 ,8million against a total budget of R 239 ,2million and that is reflecting an expenditure rate of 38**%**. This suggests that operating

Expenditure is down by 12**%** when comparing with 50% that was projected to be spent as at the end of the first half of the year.

* 1. **Municipality Entity financial performance**

The municipality does not have an entity.

* 1. **Capital Programme Performance**

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The total capital budget for the 2021/2022 financial year is R 105 ,5 million inclusive of INEP and the MIG allocation is R 36 ,5 million. The cumulative capital expenditure for the period amounts to R 27 ,1Million. or 29% to the total budget. The municipality anticipated to spend 50% of the total capital budget as at the second quarter but the spending is sitting at 29% as at the second quarter because of the delays caused by national lockdown.

Therefore, the spending is sitting at 29% as at 31 December 2021 because of the delays caused by national lockdown and the delays on SCM processes and in some instance suitable service provider were not found as that would lead up the project being re-advertised but the expenditure will increase at the end of Quarter 3.

* 1. **. Other Supporting Documents**

**2.10.1 Progress on Capital Projects**









**2.10.2 Capital expenditure Trend – Month 06**



* 1. **Municipal Managers Quality Certificates**

I, N.C Vezi Municipal Manager of Dr Nkosazana Dlamini Zuma Municipality hereby certify that the Mid-Year Budget and Performance Assessment, Monthly budget statement and Quarterly Report on the implementation of budget and financial state affairs of the Municipality for the month ended 31 December 2021 of the 2021/22 financial year and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the act.

Print Name: N.C Vezi

Municipal Manager of Dr Nkosazana Dlamini Zuma Municipality, KZN436

Signature: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_