

KGATELOPELE LOCAL MUNICIPALITY



2024 / 25 MID-YEAR BUDGET & PERFORMANCE ASSESSMENT REPORT MFMA Section 72 JANUARY 2025

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Glossary

Adjustment’s budget – Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

Allocations – Money received from Provincial or National Government or other municipalities.

Budget – The three-year financial plan of the Municipality.

Budget related policy – Policy of a municipality affecting or affected by the budget, examples include tariff policy, rates policy and credit control and debt collection policy.

Capital expenditure (Capex) - Spending on assets such as land, buildings, and machinery. Any capital expenditure must be reflected as an asset on the Municipality’s balance sheet.

Cash flow statement – A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it is shown as expenditure in the month it is received, even though it may not be paid in the same period.

DoRA – Division of Revenue Act. Annual legislation that shows the total allocations made by national to provincial and local government.

Equitable share – A general grant paid to municipalities. It is predominantly targeted to help with free basic services.

Fruitless and wasteful expenditure – Expenditure that was made in vain and would have been avoided had reasonable care been exercised.

GFS – Government Finance Statistics. An internationally recognised classification system that facilitates comparisons between municipalities.

GRAP – Generally Recognised Accounting Practice. The new standard for municipal accounting.

IDP – Integrated Development Plan. The main strategic planning document of the Municipality

MBRR – Local Government: Municipal Finance Management Act (56/2003): Municipal budget and reporting regulations.

MFMA – The Municipal Finance Management Act – No. 53 of 2003. The principal piece of legislation relating to municipal financial management.

MIG – Municipal Infrastructure Grant.

MTREF – Medium Term Revenue and Expenditure Framework. A medium-term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous and current years' financial position.

Operating expenditure (Opex) – Spending on the day-to-day expenses of the Municipality such as salaries and wages.

Rates – Local Government tax based on the assessed value of a property. To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

SDBIP – Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

Strategic objectives – The main priorities of the Municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

Unauthorised expenditure – Generally, is spending without, or more than, an approved budget.

Virement – A transfer fund in the budget.

Virement policy - The policy that sets out the rules for budget transfers. Virements are normally allowed within a vote. Transfers between votes must be agreed by Council through an Adjustments Budget.

Vote – One of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality.

YTD – Year to date

KLM – Kgatelopele Local Municipality

KPI's – Key Performance Indicators. Measures of service output and/or outcome.

MTREF – Medium Term Revenue and Expenditure Framework. A medium-term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous and current years' financial position.

1. Introduction

The Municipal Budget and Reporting Regulations (MBRR) are designed to achieve a range of objectives, including improving the local government sphere's ability to deliver basic services by facilitating improved financial sustainability and better medium-term planning and policy choices on service delivery.

This report has been prepared in terms of the following legislative framework:

- The Municipal Finance Management Act – No. 56 of 2003, Section 72,
- and The Municipal Budget and Reporting Regulations, 35.

The MBRR highlights the format of the mid-year budget and performance assessment.

“33. A mid-year budget and performance assessment of a municipality referred to in section 72 of the Act must be in the format specified in Schedule C and include all the required tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of section 168(1) of the Act.”

The objective of these Regulations is to secure sound and sustainable management of the budgeting and reporting practices of municipalities by establishing uniform norms and standards and other requirements for ensuring transparency, accountability, and appropriate lines of responsibility in the budgeting and reporting process and other relevant matters as required by the Act.

2. Legislative Framework

In terms of section 72 (1) of the MFMA, the accounting officer of a municipality must by 25 January of each year assess the performance of the municipality during the first half of the financial year.

Take note that the Section 52, Quarterly Budget Monitoring Report will be incorporated in this report. The requirements of section 52(d) will be met in this Mid-year Budget and Performance Assessment Report.

3. Executive Summary

This report is a summary of the main budget issues arising from the monitoring process. It compares the progress of the budget to the projections contained in the Service Delivery and Budget Implementation Plan (SDBIP).

This report focuses on both the financial and service delivery performance (non-financial) assessment. The report was compiled using first and second quarter performance information of the 2024/25 financial period.

The following categories provide a consolidated overview of the implementation of the budget of the municipality:

Section 72(1) of the Municipal Finance Management Act (MFMA), Act 56 of 2003, states that 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 financial year taking into account -

- the monthly statements referred to in section 71 (of the MFMA) for the first half of the financial year.
- The municipality's services delivery performance during the first half of the financial year and the service delivery targets and performance indicators as set in the service delivery and budget implementation plan.
- The past years annual report and progress on resolving the problems identified in the annual report.

4. Table C4 – Budgeted Financial Performance

4.1. Operating Revenue

4.1.1 Revenue by Source

The following table is the operating revenue summary of the 2024/2 budget (classified by main revenue source) in comparisons to the year-to-date actuals

Figure 4.1.1 – Schedule C4 – Revenue & Expenditure by Source

| NC086 Kgatelopele - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M06 December | | | | | | | | | | |
|--|-----|-----------------|-----------------|---------------------|----------------|---------------|---------------|--------------|----------------|--------------------|
| Description | Ref | 2022/23 | | Budget Year 2023/24 | | | | | | |
| | | Audited Outcome | Original Budget | Adjusted Budget | Monthly actual | YearTD actual | YearTD budget | YTD variance | YTD variance % | Full Year Forecast |
| R thousands | | | | | | | | | | |
| Revenue | | | | | | | | | | |
| Exchange Revenue | | | | | | | | | | |
| Service charges - Electricity | | 14,174 | 29,628 | – | 2,996 | 17,469 | 14,814 | 2,655 | 18% | 29,628 |
| Service charges - Water | | 8,344 | 12,036 | – | 859 | 5,219 | 6,018 | (799) | -13% | 12,036 |
| Service charges - Waste Water Management | | 4,460 | 6,890 | – | 440 | 2,749 | 3,445 | (697) | -20% | 6,890 |
| Service charges - Waste management | | 7,873 | 14,715 | – | 677 | 4,230 | 7,358 | (3,128) | -43% | 14,715 |
| Sale of Goods and Rendering of Services | | 106 | 126 | – | 4 | 19 | 63 | (44) | -70% | 126 |
| Agency services | | – | 50 | – | – | – | 25 | (25) | -100% | 50 |
| Interest | | – | – | – | – | – | – | – | – | – |
| Interest earned from Receivables | | 1,507 | 1,701 | – | – | 465 | 851 | (386) | -45% | 1,701 |
| Interest from Current and Non Current Assets | | 3,444 | 3,888 | – | – | 469 | 1,944 | – | – | 3,888 |
| Dividends | | – | – | – | – | – | – | – | – | – |
| Rent on Land | | – | – | – | – | – | – | – | – | – |
| Rental from Fixed Assets | | 135 | 214 | – | 19 | 190 | 107 | 82 | 77% | 214 |
| Licence and permits | | 383 | 1,049 | – | 33 | 349 | 525 | (176) | -34% | 1,049 |
| Operational Revenue | | – | 20 | – | 2 | 2 | 10 | (8) | -79% | 20 |
| Non-Exchange Revenue | | | | | | | | | | |
| Property rates | | 15,742 | 21,910 | – | 1,592 | 9,831 | 10,955 | (1,124) | -10% | 21,910 |
| Surcharges and Taxes | | – | 9,000 | – | – | – | 4,500 | (4,500) | – | 9,000 |
| Fines, penalties and forfeits | | – | 66 | – | – | – | 33 | (33) | – | 66 |
| Licence and permits | | – | – | – | – | – | – | – | – | – |
| Transfers and subsidies - Operational | | 38,448 | 40,635 | – | 13,708 | 30,407 | 20,318 | 10,090 | – | 40,635 |
| Interest | | 559 | 670 | – | – | 176 | 335 | (159) | – | 670 |
| Fuel Levy | | – | – | – | – | – | – | – | – | – |
| Operational Revenue | | – | – | – | – | – | – | – | – | – |
| Gains on disposal of Assets | | (760) | – | – | – | (291) | – | (291) | – | – |
| Other Gains | | (76) | – | – | – | – | – | – | – | – |
| Discontinued Operations | | – | – | – | – | – | – | – | – | – |
| Total Revenue (excluding capital transfers and contributions) | | 94,339 | 142,600 | – | 20,329 | 71,284 | 71,300 | (16) | 0% | 142,600 |

Summarised Sources overall revenue performance to date.

Total actual operating revenue to date is **R 71 298 000 (Figure 4.1.1)** which is more by 49.99% from the budgeted target of **R142 600 000.00**. This generally means that the municipality has generated half of what it anticipated from the council approved budget as of 31 December 2024, even though it is a positive variance, its materiality necessitates the consideration for adjustment to align the anticipated revenue with actual revenue.

The attribution to this favourable variance by mid-year can be directed to electricity revenue with 18% positive variance to expected budget figures. Similarly, the actual figures per audit outcome is understate as it only represents a total electricity income of R 14 174 million. A GRAP 3 error adjustment of R 9 184 026 million will be made and while all other source negatively performed against expectation. This ultimately give an overall performance to a negative variance (2%)

4.1.2 Revenue Sources Contribution

Figure 4.1.2 Source Contribution to Total Revenue

| R thousands | YTD Actual | YTD Budget | YTD variance | YTD variance % |
|--|----------------------|----------------------|---------------------|-----------------------|
| Property Rates | 9,832,232.00 | 10,954,944.00 | -1,122,712.00 | -10% |
| Service charges | 29,679,863.00 | 31,634,933.16 | -1,955,070.16 | -6% |
| Other Income | 1,378,598.00 | 8,392,428.00 | -7,013,830.00 | -84% |
| Transfers and subsidies - Operating Grants | 30,407,255.00 | 20,317,500.00 | 10,089,755.00 | 50% |
| Total Revenue | 71,297,948.00 | 71,299,805.16 | -1,857.16 | -0.003% |

The above [figure 4.1.2](#) reflects how individual sources of revenue performed from the total actual revenue of **R 71 298 000** generated. As seen above, an indication is that:

- The main revenue was generated from:
 - Services Charges = 42%
 - Transfers & Subsidies (Grants) = 43%
 - Property Rates = 14%
 - Other income = 2%
- The other 2% revenue generation came primarily from License and permits, interest from banks and customers.

4.1.4 Revenue Year-to-Date Variances

Figure 4.1.4 Revenue YTD Variances

| NC086 Kgatelopele - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M06 December | | | | | | | | | | |
|--|-----|-----------------|---------------------|-----------------|----------------|---------------|---------------|--------------|----------------|--------------------|
| Description | Ref | 2022/23 | Budget Year 2023/24 | | | | | | | |
| | | Audited Outcome | Original Budget | Adjusted Budget | Monthly actual | YearTD actual | YearTD budget | YTD variance | YTD variance % | Full Year Forecast |
| R thousands | | | | | | | | | | |
| Revenue | | | | | | | | | | |
| Exchange Revenue | | | | | | | | | | |
| Service charges - Electricity | | 14,174 | 29,628 | — | 2,996 | 17,469 | 14,814 | 2,655 | 18% | 29,628 |
| Service charges - Water | | 8,344 | 12,036 | — | 871 | 5,232 | 6,018 | (786) | -13% | 12,036 |
| Service charges - Waste Water Management | | 4,460 | 6,890 | — | 440 | 2,749 | 3,445 | (697) | -20% | 6,890 |
| Service charges - Waste management | | 7,873 | 14,715 | — | 677 | 4,230 | 7,358 | (3,128) | -43% | 14,715 |
| Sale of Goods and Rendering of Services | | 106 | 126 | — | 4 | 19 | 63 | (44) | -70% | 126 |
| Agency services | | — | 50 | — | — | — | 25 | (25) | -100% | 50 |
| Interest | | — | — | — | — | — | — | — | — | — |
| Interest earned from Receivables | | 1,507 | 1,701 | — | — | 465 | 851 | (386) | -45% | 1,701 |
| Interest from Current and Non Current Assets | | 3,444 | 3,888 | — | — | 469 | 1,944 | — | — | 3,888 |
| Dividends | | — | — | — | — | — | — | — | — | — |
| Rent on Land | | — | — | — | — | — | — | — | — | — |
| Rental from Fixed Assets | | 135 | 214 | — | 19 | 190 | 107 | 82 | 77% | 214 |
| Licence and permits | | 383 | 1,049 | — | 33 | 349 | 525 | (176) | -34% | 1,049 |
| Operational Revenue | | — | 20 | — | 2 | 2 | 10 | (8) | -79% | 20 |
| Non-Exchange Revenue | | | | | | | | | | |
| Property rates | | 15,742 | 21,910 | — | 1,592 | 9,832 | 10,955 | (1,123) | -10% | 21,910 |
| Surcharges and Taxes | | — | 9,000 | — | — | — | 4,500 | (4,500) | — | 9,000 |
| Fines, penalties and forfeits | | — | 66 | — | — | — | 33 | (33) | — | 66 |
| Licence and permits | | — | — | — | — | — | — | — | — | — |
| Transfers and subsidies - Operational | | 38,448 | 40,635 | — | 13,708 | 30,407 | 20,318 | 10,090 | — | 40,635 |
| Interest | | 559 | 670 | — | — | 176 | 335 | (159) | — | 670 |
| Fuel Levy | | — | — | — | — | — | — | — | — | — |
| Operational Revenue | | — | — | — | — | — | — | — | — | — |
| Gains on disposal of Assets | | (760) | — | — | — | (291) | — | (291) | — | — |
| Other Gains | | (76) | — | — | — | — | — | — | — | — |
| Discontinued Operations | | | | | | | | | | |
| Total Revenue (excluding capital transfers and contributions) | | 94,339 | 142,600 | — | 20,342 | 71,298 | 71,300 | (2) | 0% | 142,600 |

The **year-to-date actual variances** will focus primarily on two key sources of municipality's revenue generators, which are Services and Rates:

- Property Rates

- The property rate variance is negative but not necessarily material deviation from budget **(-10%)**. This indicates the slight alignment of the budget with the actual results by December 2024. The new valuation roll might come with consolidated erf that might not bill in the new valuation roll cycle. Mitigating control here is to complete the valuation roll reconciliation and monitor exception per quarter/monthly and to ensure regular supplementary roll is prepared and implemented.

- Service Charges

- The aggregate YTD variance on service charges is unfavourable variance of -6%. The adjustment won't be considered due to low materiality. However other service like water services, waste water and waste management (refuse) each has negative variance above 10% individually, with the worse service being negative 43% relating to waste management.
- In depth analysis actually show the **waste management** a variance of 30%, due to free basic rebate for the 6 month of R 1 382,689 in the actuals, only if the budget figure also considered budget free basic services in the estimated budget revenue to be collected.
- Similar, effect is seen on **waste water management** free basic rebate for the 6 month of R 1 417,936 actual positive, variance only if the budget figure also considered budget free basic services in the estimated budget revenue to be collected.
- **other income** has seen an unfavourable variance of almost **100% of line items except for rental form fixed property**, which warrant for consideration for adjustment.

- Interest earned from Receivables

- Unfavourable variance of 45% which is way below expected also the interest received on non-exchange receivables (rates and taxes) and will be considered for possible downwards adjustment to prior year actuals.

- Transfers and Subsidies

- Grants have performed well with the positive variance of YTD budget figures. To date the municipality has generated a revenue grant to the total of **R30.4 million** from the YTD budget of **R20.3 million** for the first half of the financial year. This variance is mainly due to anticipated allocation spread over 12 months, while actual receipts are in batches of 3 allocated tranches.

4.1.5 Debtors' Ageing Analysis

Figure 4.1.5 Debtors' Ageing Analysis

Kgatelopele debt book have increased from R89.862 million by the end of 30 June 2024 to R105,126 million December 2024 in the first half the year.

NC086 Kgatelopele - Supporting Table SC3 Monthly Budget Statement - aged debtors - M06 December

| Description | NT Code | Budget Year 2024/25 | | | | | | | | | | Actual Bad Debts Written Off against Debtors | Impairment - Bad Debts i.t.o Council Policy |
|---|-------------|---------------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|----------------|--------------------|--|---|
| | | 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 | Total over 90 days | | |
| R thousands | | | | | | | | | | | | | |
| Debtors Age Analysis By Income Source | | | | | | | | | | | | | |
| Trade and Other Receivables from Exchange Transactions - Water | 1200 | 1,001 | 926 | 916 | 712 | 916 | 985 | 5,955 | 19,115 | 30,526 | 27,683 | - | - |
| Trade and Other Receivables from Exchange Transactions - Electricity | 1300 | 1,135 | 862 | 1,007 | 680 | 497 | 299 | (4,071) | 4,432 | 4,841 | 1,836 | - | - |
| Receivables from Non-exchange Transactions - Property Rates | 1400 | 1,592 | 1,328 | 1,202 | 895 | 699 | 629 | 2,880 | 10,564 | 19,788 | 15,666 | - | - |
| Receivables from Exchange Transactions - Waste Water Management | 1500 | 506 | 392 | 358 | 344 | 273 | 249 | 1,458 | 8,692 | 12,270 | 11,015 | - | - |
| Receivables from Exchange Transactions - Waste Management | 1600 | 778 | 675 | 634 | 337 | 343 | 294 | 1,751 | 8,232 | 13,045 | 10,958 | - | - |
| Receivables from Exchange Transactions - Property Rental Debtors | 1700 | 22 | 18 | 15 | 14 | 13 | 10 | 108 | 58 | 257 | 203 | - | - |
| Interest on Arrear Debtor Accounts | 1810 | - | 233 | - | - | 194 | 187 | 1,049 | 8,402 | 10,065 | 9,832 | - | - |
| Recoverable unauthorised, irregular, fruitless and wasteful expenditure | 1820 | - | - | - | - | - | - | - | - | - | - | - | - |
| Other | 1900 | (148) | (159) | (76) | (207) | (74) | (35) | 8,454 | 6,578 | 14,334 | 14,716 | - | - |
| Total By Income Source | 2000 | 4,885 | 4,275 | 4,057 | 2,775 | 2,860 | 2,619 | 17,584 | 66,071 | 105,126 | 91,909 | - | - |
| 2023/24 - totals only | | | | | | | | | | | | | |
| Debtors Age Analysis By Customer Group | | | | | | | | | | | | | |
| Organs of State | 2200 | 163 | 104 | 81 | 74 | 98 | 65 | (5,095) | 102 | (4,409) | (4,756) | - | - |
| Commercial | 2300 | 1,319 | 1,165 | 1,061 | 465 | 311 | 223 | 797 | 3,584 | 8,925 | 5,381 | - | - |
| Households | 2400 | 2,806 | 2,487 | 2,443 | 1,796 | 2,112 | 2,026 | 20,399 | 50,305 | 84,372 | 76,637 | - | - |
| Other | 2500 | 598 | 520 | 473 | 440 | 339 | 304 | 1,483 | 12,080 | 16,238 | 14,647 | - | - |
| Total By Customer Group | 2600 | 4,885 | 4,275 | 4,057 | 2,775 | 2,860 | 2,619 | 17,584 | 66,071 | 105,126 | 91,909 | - | - |

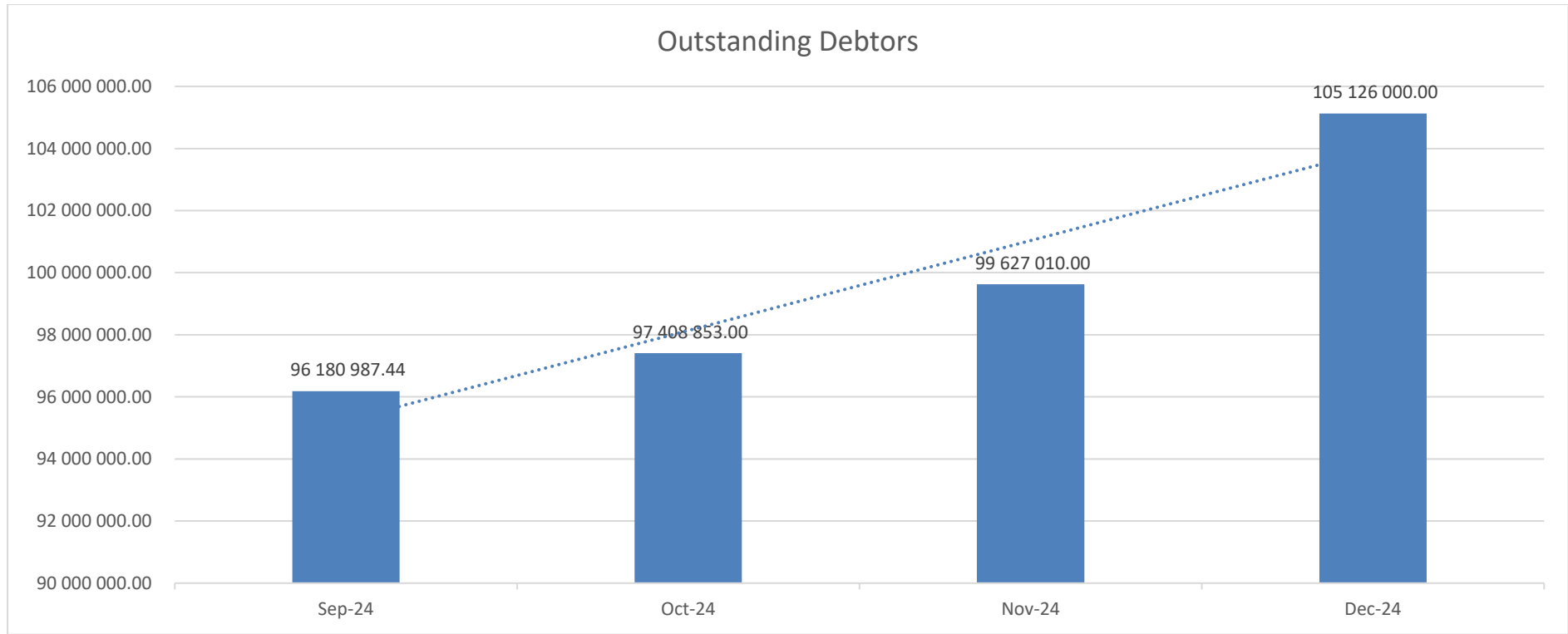
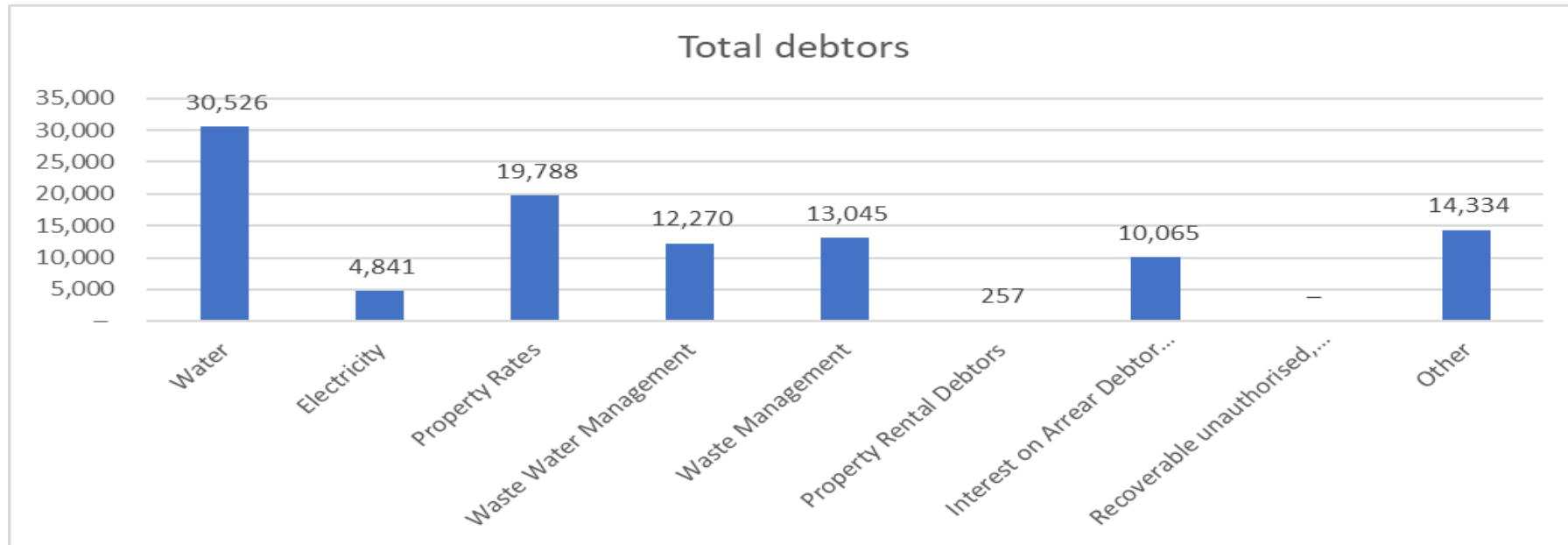


Figure 4.1.5.1 Debtors Ageing by Source

Kgatelopele debt book have increased from R89.862 million by the end of 30 June 2024 to R105,126 million December 2024 in the first half the year.



Water and Property rates fees is the highest component over the total debt with weighted per cent of 29% or R30.5 million. 18% of property rates or R 19,7million.

Other comes in 3th and need to be investigate and breakdown and aligned to the main income sources.

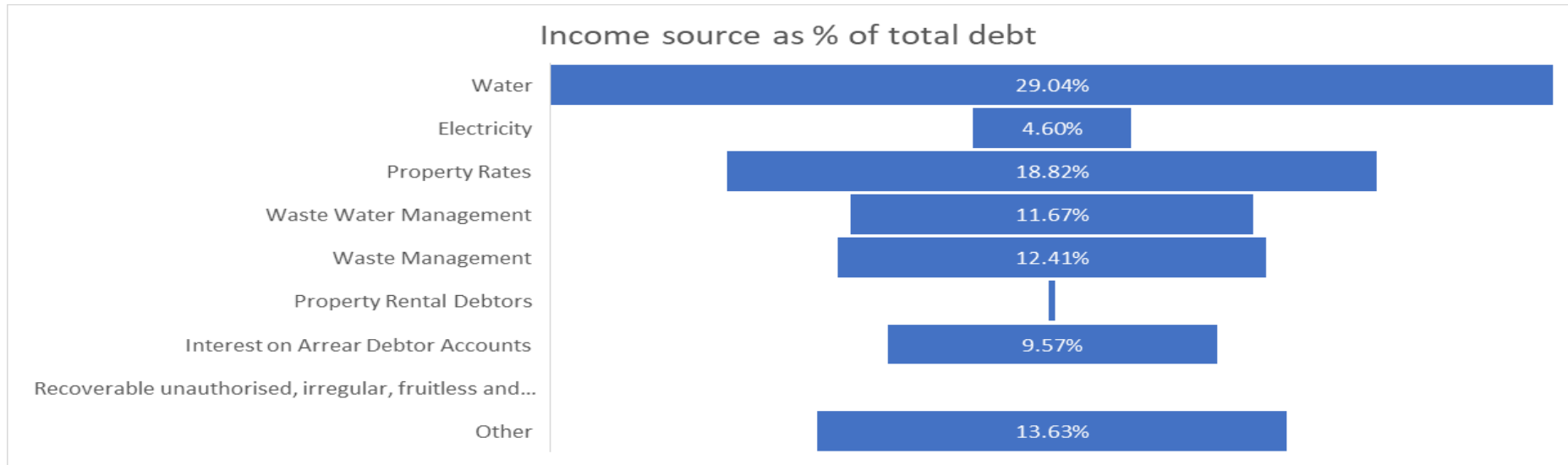


Figure 4.1.5.2 Debtors Ageing by Customer Classification

| Debtors Age Analysis By Customer Group | | | | | | | | | | | |
|--|-------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|----------------|---------------|
| Organs of State | 2200 | 163 | 104 | 81 | 74 | 98 | 65 | (5,095) | 102 | (4,409) | (4,756) |
| Commercial | 2300 | 1,319 | 1,165 | 1,061 | 465 | 311 | 223 | 797 | 3,584 | 8,925 | 5,381 |
| Households | 2400 | 2,806 | 2,487 | 2,443 | 1,796 | 2,112 | 2,026 | 20,399 | 50,305 | 84,372 | 76,637 |
| Other | 2500 | 598 | 520 | 473 | 440 | 339 | 304 | 1,483 | 12,080 | 16,238 | 14,647 |
| Total By Customer Group | 2600 | 4,885 | 4,275 | 4,057 | 2,775 | 2,860 | 2,619 | 17,584 | 66,071 | 105,126 | 91,909 |

4.1.6 Mitigation Intervention

Community engagement and desired strategy to improve cashflow and address historical areas that has a low paying culture to incentive through debt write off scheme along with the introduction of a **new smart prepaid water meter project**.

- Write off the total debt owed by indigent households of R17,000,000. which represents 20% of the total debt over a period of three years at about R6,000,000.00 a year.
- For the municipality to source funds and roll out prepaid water metering specifically for households that apply for indigency. This will assist in stopping such accounts from falling into arrear.

The indigent debt has increased by about R3,000,000 over the financial year. This should not be the case as there are 100% rebates offered, meaning that indigents are consuming more water than it is allocated at 6 kilolitres per month. A new prepaid meter project will curb against over usage by indigent customer beyond the allowable 6KI per month

4.1.7 Collection Rate

Figure 4.1.7 Collection Rate

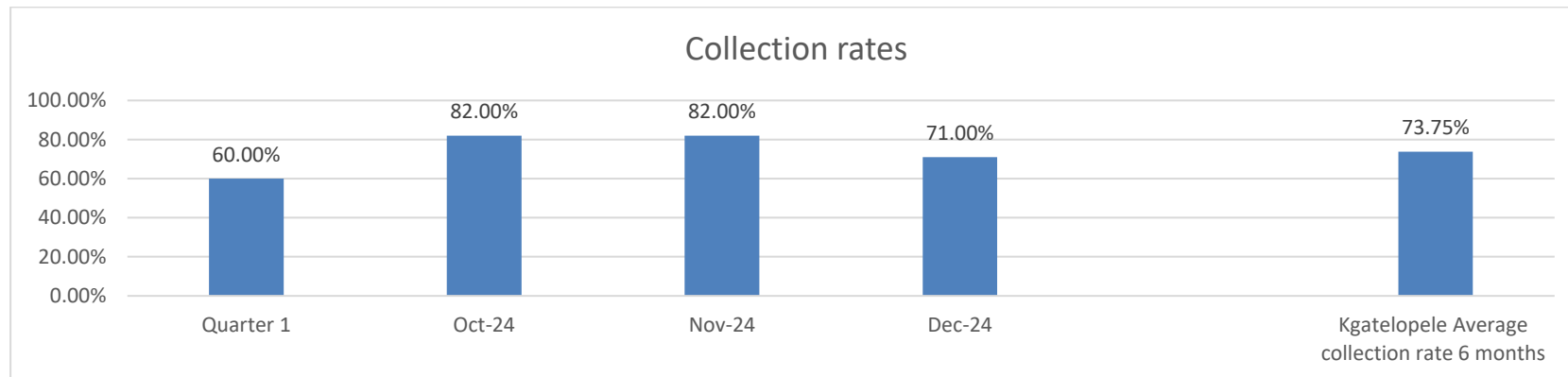


Table above indicates a increased of collection rate from 60.00 per cent by the end of September 2024 to 71 per cent by 31 December 2024 and was at 60% per cent by the end of first quarter for the sixth months of the budget year.

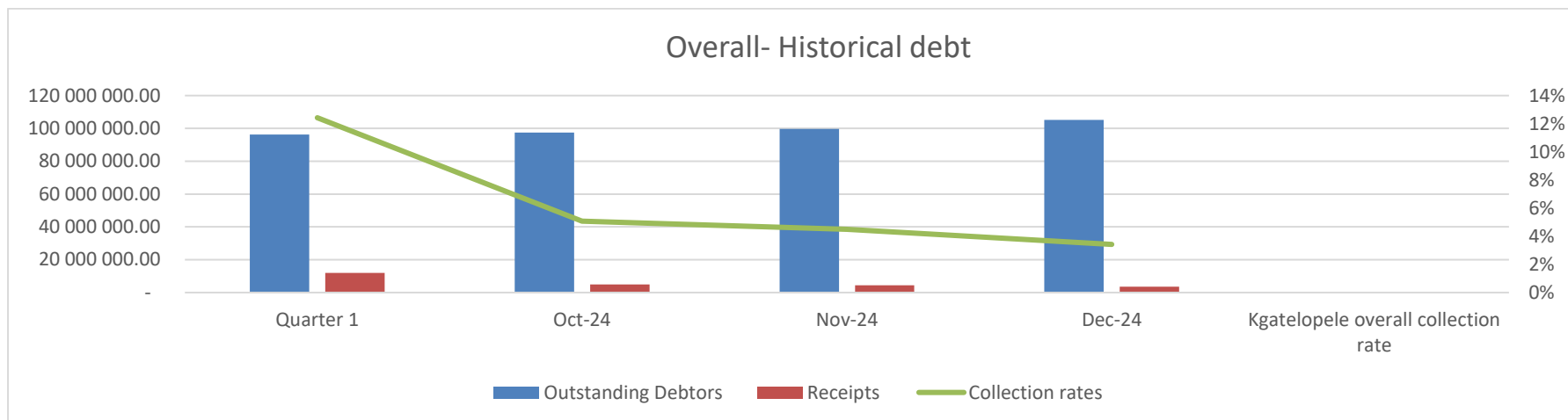


Figure above:

6% per cent weighted rates was collected over a gross debtor of R105,126million, it should be noted that, most of debtors are irrecoverable/ bad debts and needs to be written-off.

Figure 4.1.6.1 Collection Rate per Income Source

| Service | Total Billing | Receipts Billi | Prepaid Recei | Total Receipts | Receipts Percentage |
|--------------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------------|
| Electricity Basic | 120,247.12 | 18,728.58 | - | 18,728.58 | 16% |
| Property Rates | 1,591,821.36 | 753,355.18 | - | 753,355.18 | 47% |
| Water Basic | 456,052.09 | 77,075.05 | - | 77,075.05 | 17% |
| Elec Cons - KVA | 157,678.24 | 12,149.87 | - | 12,149.87 | 8% |
| Refuse Removal | 724,868.54 | 176,400.31 | - | 176,400.31 | 24% |
| Water Cons | 544,507.29 | 217,173.93 | 1,100.00 | 218,273.93 | 40% |
| Electricity Availability | 52,447.91 | 2,961.71 | - | 2,961.71 | 6% |
| Interest | - | 659.01 | - | 659.01 | 100% |
| Elec Cons - KWH | 804,836.91 | 219,664.55 | 1,984,571.00 | 2,204,235.55 | 274% |
| Sewerage Basic | 505,027.99 | 129,927.38 | - | 129,927.38 | 26% |
| Refuse Availability | 53,369.58 | 3,323.80 | - | 3,323.80 | 6% |
| Rent | 21,547.10 | 500.00 | - | 500.00 | 2% |
| Grand Total | 5,032,404.13 | 1,611,919.37 | 1,985,671.00 | 3,597,590.37 | 71% |

The table above indicates Debts and payment per Income source as of 31 December 2024. The table also indicates the highest cash received was from prepaid electricity which is the significant contributor to the collection rate of 71%. Other economic service like water need to be on the pre-pay system to increase cashflow and irradiated possible bad debts provisions.

Sewerage & Refuse collection rates is very low and is possibility due to the payment priority ration for customer deposits, where the priority list is firstly to property rates,

4.2. Operating Expenditure

4.2.1 Operating Expenditure by Type

Operating Expenditure by Type

The following C4 table is the operating expenditure summary of the 2024/25 budget (classified by main revenue source) in comparisons to the year-to-date actuals as of 31 December 2024.

Figure 4.2.1 Expenditure by Type

The above is the reflection of municipality's operating expenditure, ranging from the original budget amounts, year-to-date actuals, and budgeted amounts. Below further analysis on the performance of operating expenditure amounts is discussed.

| <u>Expenditure By Type</u> | Audited Outcome | Original Budget | Adjusted Budget | Monthly actual | YearTD actual | YearTD budget | YTD variance | YTD variance | Actual % of total expenditure | Full Year Forecast |
|---------------------------------|-----------------|-----------------|-----------------|----------------|---------------|---------------|--------------|--------------|-------------------------------|--------------------|
| Employee related costs | 43,543 | 49,994 | - | 4,127 | 25,418 | 24,997 | 421 | 2% | 37% | 49,994 |
| Remuneration of councillors | 5,030 | 4,811 | - | 623 | 2,690 | 2,406 | 284 | 12% | 4% | 4,811 |
| Bulk purchases - electricity | 28,874 | 28,886 | - | 2,350 | 18,349 | 14,443 | 3,906 | 27% | 27% | 28,886 |
| Inventory consumed | 1,736 | 1,353 | - | 3 | 580 | 677 | (96) | -14% | 1% | 1,353 |
| Debt impairment | - | 4,350 | - | - | - | 2,175 | (2,175) | -100% | 0% | 4,350 |
| Depreciation and amortisation | 24,611 | 14,991 | - | - | - | 7,496 | (7,496) | -100% | 0% | 14,991 |
| Interest | 3,388 | 1,209 | - | 288 | 2,373 | 605 | 1,768 | 292% | 3% | 1,209 |
| Contracted services | 16,056 | 17,910 | - | 1,494 | 9,922 | 8,955 | 967 | 11% | 15% | 17,910 |
| Transfers and subsidies | - | - | - | - | - | - | - | | 0% | - |
| Irrecoverable debts written off | 4,154 | - | - | - | (331) | - | (331) | | 0% | - |
| Operational costs | 14,021 | 13,411 | - | 1,842 | 9,035 | 6,705 | 2,330 | 35% | 13% | 13,411 |
| Losses on Disposal of Assets | - | - | - | - | - | - | - | | 0% | - |
| Other Losses | - | - | - | - | - | - | - | | 0% | - |
| Total Expenditure | 141,413 | 136,916 | - | 10,727 | 68,036 | 68,458 | (422) | -1% | | 136,916 |

4.2.2 Contribution Type to Total Expenditure

Figure 4.2.2 Contribution to Total Expenditure

| <u>Expenditure By Type</u> | Audited Outcome | Original Budget | Adjusted Budget | Monthly actual | YearTD actual | YearTD budget | YTD variance | YTD variance | Actual % of total expenditure | Full Year Forecast |
|---------------------------------|-----------------|-----------------|-----------------|----------------|---------------|---------------|--------------|--------------|-------------------------------|--------------------|
| Employee related costs | 43,543 | 49,994 | – | 4,127 | 25,418 | 24,997 | 421 | 2% | 37% | 49,994 |
| Remuneration of councillors | 5,030 | 4,811 | – | 623 | 2,690 | 2,406 | 284 | 12% | 4% | 4,811 |
| Bulk purchases - electricity | 28,874 | 28,886 | – | 2,350 | 18,349 | 14,443 | 3,906 | 27% | 27% | 28,886 |
| Inventory consumed | 1,736 | 1,353 | – | 3 | 580 | 677 | (96) | -14% | 1% | 1,353 |
| Debt impairment | – | 4,350 | – | – | – | 2,175 | (2,175) | -100% | 0% | 4,350 |
| Depreciation and amortisation | 24,611 | 14,991 | – | – | – | 7,496 | (7,496) | -100% | 0% | 14,991 |
| Interest | 3,388 | 1,209 | – | 288 | 2,373 | 605 | 1,768 | 292% | 3% | 1,209 |
| Contracted services | 16,056 | 17,910 | – | 1,494 | 9,922 | 8,955 | 967 | 11% | 15% | 17,910 |
| Transfers and subsidies | – | – | – | – | – | – | – | – | 0% | – |
| Irrecoverable debts written off | 4,154 | – | – | – | (331) | – | (331) | – | 0% | – |
| Operational costs | 14,021 | 13,411 | – | 1,842 | 9,035 | 6,705 | 2,330 | 35% | 13% | 13,411 |
| Losses on Disposal of Assets | – | – | – | – | – | – | – | – | 0% | – |
| Other Losses | – | – | – | – | – | – | – | – | 0% | – |
| Total Expenditure | 141,413 | 136,916 | – | 10,727 | 68,036 | 68,458 | (422) | -1% | | 136,916 |

Below let us look at the key types of expenditure which have contributed significantly to the total spending by the end of December 2024.

- **Employee costs**
 - Employee related cost during the first half of the financial year has contributed **37%** of the total cost the municipality incurred.
- **Bulk Purchases**
 - The bulk purchase electricity comes second by contributing **27%** of the total expenditure.
- **Contracted Services & Other Expenditure**
 - Contracted Services and Other Expenditure have contributed **15%** and **13%** respectively.

4.2.4 Expenditure Year-to-Date Variances

Figure 4.2.4 YTD Variances

| Expenditure By Type | Audited Outcome | Original Budget | Adjusted Budget | Monthly actual | YearTD actual | YearTD budget | YTD variance | YTD variance | Actual % of total expenditure | Full Year Forecast |
|---------------------------------|-----------------|-----------------|-----------------|----------------|---------------|---------------|--------------|--------------|-------------------------------|--------------------|
| Employee related costs | 43,543 | 49,994 | – | 4,127 | 25,418 | 24,997 | 421 | 2% | 37% | 49,994 |
| Remuneration of councillors | 5,030 | 4,811 | – | 623 | 2,690 | 2,406 | 284 | 12% | 4% | 4,811 |
| Bulk purchases - electricity | 28,874 | 28,886 | – | 2,350 | 18,349 | 14,443 | 3,906 | 27% | 27% | 28,886 |
| Inventory consumed | 1,736 | 1,353 | – | 3 | 580 | 677 | (96) | -14% | 1% | 1,353 |
| Debt impairment | – | 4,350 | – | – | – | 2,175 | (2,175) | -100% | 0% | 4,350 |
| Depreciation and amortisation | 24,611 | 14,991 | – | – | – | 7,496 | (7,496) | -100% | 0% | 14,991 |
| Interest | 3,388 | 1,209 | – | 288 | 2,373 | 605 | 1,768 | 292% | 3% | 1,209 |
| Contracted services | 16,056 | 17,910 | – | 1,494 | 9,922 | 8,955 | 967 | 11% | 15% | 17,910 |
| Transfers and subsidies | – | – | – | – | – | – | – | – | 0% | – |
| Irrecoverable debts written off | 4,154 | – | – | – | (331) | – | (331) | – | 0% | – |
| Operational costs | 14,021 | 13,411 | – | 1,842 | 9,035 | 6,705 | 2,330 | 35% | 13% | 13,411 |
| Losses on Disposal of Assets | – | – | – | – | – | – | – | – | 0% | – |
| Other Losses | – | – | – | – | – | – | – | – | 0% | – |
| Total Expenditure | 141,413 | 136,916 | – | 10,727 | 68,036 | 68,458 | (422) | -1% | | 136,916 |

The year-to-date actual variances will focus primarily on three key YTD variances of municipality's expenditure, which are:

- **Employee Related Costs**

- No adjustment will be considered during the adjustment process due to 2 % variance.
- All significant appointment has been budgeted for in the original budget and no Adjustment is needed for this .Performance bonuses to senior management also played a role in the increase in employee related cost. Al of these transaction did not occur in the previous year.
- **Remuneration of councillor's** variance is mainly due to a 2-year upper limited adjustment. This warrants an adjustment as the variance exceeded 10% for fixed cost items like council remuneration. As councillors' remuneration is fixed, an adjustment must be done to align councillors' remuneration with the above Gazettes.

- **Bulk Purchases - Electricity**

- The expected budgeted spending for bulk electricity is **R18.3 million**, but the municipality spent more than the expected figure, which is **R14.4 million**, having a variance of 27%. The distribution loss is often the key contributing factor, but the budget was also understated, consideration will be given during adjustment.

- **Contracted Services**

Contracted services have a variance of R 967 000. This is in line with the expected Norm of 5 - 10%. No adjustment will be done

- **Debt Impairment**

- The final calculation of debt impairment usually happens at the end of the financial year during Annual Financial Statement preparation process. Based on our final AFS for 2023/24, it appears that debt impairment which stood at R13 368 589, was significantly under-budgeted at R 4 350 000. An adjustment will be required.

- **Depreciation and amortisation**

- the final calculation of debt impairment usually happens at the end of the financial year during Annual Financial Statement preparation process. Based on our final AFS for 2023/24, it appears that debt impairment which stood at R13 368 589, was significantly under-budgeted at R 4 350 000. An adjustment will be required

- **Operational Expenditure/Cost**

- Operational expenditure exceeds the projected expenditure for the period by R 2,330 million, is having a variance of - (35%). Expenditure on this line item need to be monitored closely to avoid unauthorised expenditure. Commitment on this line item will be monitored to reduce spending in line with current cash flow or revenue collection.

4.2.5 Creditors

4.2.5.1 Creditors Age Analysis

Figure 4.2.5.1 Ageing Analysis

NC086 Kgatelopele - Supporting Table SC4 Monthly Budget Statement - aged creditors - M06 December

| Description | NT Code | Budget Year 2024/25 | | | | | | | | | Prior year totals for chart (same period) |
|--|-------------|---------------------|--------------|--------------|---------------|----------------|----------------|-------------------|---------------|---------------|---|
| | | 0 - 30 Days | 31 - 60 Days | 61 - 90 Days | 91 - 120 Days | 121 - 150 Days | 151 - 180 Days | 181 Days - 1 Year | Over 1 Year | Total | |
| R thousands | | | | | | | | | | | |
| Creditors Age Analysis By Customer Type | | | | | | | | | | | |
| Bulk Electricity | 0100 | – | 2,953 | 3,131 | – | – | 5,563 | 3,675 | 7,981 | 23,303 | 23,303 |
| Bulk Water | 0200 | – | – | – | – | – | – | – | – | – | – |
| PAYE deductions | 0300 | – | – | – | – | – | – | – | – | – | – |
| VAT (output less input) | 0400 | – | – | – | – | – | – | – | – | – | – |
| Pensions / Retirement deductions | 0500 | – | – | – | – | – | – | – | – | – | – |
| Loan repayments | 0600 | – | – | – | – | – | – | – | – | – | – |
| Trade Creditors | 0700 | 329 | – | (8) | (12) | (5) | (4) | 2,187 | 5,890 | 8,377 | 8,377 |
| Auditor General | 0800 | – | 104 | 324 | 1,247 | – | – | 481 | 3,525 | 5,680 | 5,680 |
| Other | 0900 | 4 | 125 | 221 | 134 | 268 | 1,169 | 245 | 251 | 2,418 | 2,418 |
| Total By Customer Type | 1000 | 333 | 3,182 | 3,668 | 1,369 | 263 | 6,728 | 6,588 | 17,647 | 39,777 | 39,777 |

The municipality's creditor's age analysis is set out in Table above. In terms of Section 65(2)(e) of the MFMA the Accounting Officer must take all reasonable steps to ensure that all money owed by the municipality be paid within 30 days of receiving the relevant invoice or statement for

goods or services rendered. Municipality had prior arrangements with Eskom, has start from July 2023 to honour the agreement, however this significant strain on the financials of the municipality to due low collection rate and culture of non-payment of communities threatening the continuation of this agreement.

Figure 4.2.5.2 Key Creditors

| Creditor | October | November | December |
|----------------------|----------------------|----------------------|----------------------|
| Department of Safety | 7 104 950.59 | 7 395 658.59 | 7 145 278.09 |
| AG | 7 414 569.15 | 4 293 435.57 | 7 407 788.68 |
| Eskom | 21 310 682.32 | 30 655 978.90 | 23 302 708.10 |
| | <u>35 830 202.14</u> | <u>35 830 202.14</u> | <u>37 855 774.87</u> |

The Municipality experiences serious cash flow problems therefore need to implement revenue enhancement and embark on different strategies to stabilise the cash-flow position e.g. (improve debt collection; install pre-paid water and electricity meters, etc.) in order to be financially sustainable. In the attempt to curb the burden on cashflow the municipality has gone into several AOD arrangement with the creditors. This will be reported as and when they are concluded with the suppliers. Creditor payment plan and agreement debt (to assist with cashflow shortage)

Eskom is Kgatelopele LM top creditor sitting at over 20million debt, representing 60% of the total operating creditors book.

Auditor General debt is being repaid on a monthly agreement of R 250,000 with larger payments in the Equitable Share months. This agreement is active and kept.

Department of Transport, Safety & Liaison being paid R 150,000 per months which is more than the agency fees currently collected.

5. Table C5 Monthly Budget Statement – Capital Expenditure (CAPEX)

The Table below depicts the Capital Expenditure per Capital grant for the period of assessment:

| Allocations | Final Budget 2024-2025 | Allocations Received for First Quarter | Actuals Expenditure - Quarter Two 2024-2025 | Unspent YTD | %Expenditure Against Allocation for Second Quarter |
|--------------------------------|------------------------|--|---|-----------------|--|
| Municipal Infrastructure Grant | R8,610,000 | R6,510,000 | R6,510,000 | R0 | 100% |
| Water services infrastructure | R30,000,000 | R24,000,000 | R24,313,902 | -R313,902 | 101% |
| Total | R43,717,000 | R34,949,500 | R34,197,677 | R751,823 | |

- The current capital budget projected projects are funded from Grant (National Treasury).
- For the quarter ended 31 December the municipality utilised 100 percent of the of the total trenches of capital grants received.
 - On the Water services infrastructure grant we exceeded the Total available funds by R 313 902. This excess was covered from own funds and will be recovered from the grant account when the last trench of our WSIG grant is received. The expenditure on grants is in line with target of maximum grant spending to avoid reallocation fund being re-allocated to other municipalities as a result of slow spending
 - The municipality submitted roll-over application for 2023/2024 unspent funds during August 2024. The application was successful and an R 8 900 000 was approved
 - For projects that are funded by Grants, Directorates are encouraged to spend on capital projects in order to avoid having to apply for roll-overs.

- National Treasury has approved the 2024-2025 Conditional Grants Roll Over application and that will be incorporated into the budget through the Adjustment Budget process.

| Description | ROLL OVER 2022-2023 |
|---------------|---------------------|
| GRANTS | |
| MIG | 8 900 000 |
| Total | 8 900 000 |

6. Table C6 Monthly Budget Statement – Financial Position

6.1 Short–Term Investments

Figure 6.1 Investment Register Summary

| DAY TO DAY | | | | | | | | |
|------------------------------------|----------------|--------------------------------|----------------------------------|-------------------------------------|-----------------------------------|------------------------------------|------------------------------------|-------------------|
| ACCOUNT NAME | ACCOUNT NUMBER | INTEREST EARNED _ JULY 2024 | INTEREST EARNED _ AUGUST 2024 | INTEREST EARNED _ SEPTEMBER 2024 | INTEREST EARNED _ OCTOBER 2024 | INTEREST EARNED _ NOVEMBER 2024 | INTEREST EARNED _ DECEMBER 2024 | TOTAL TO DATE |
| CHEQUE ACCOUNT | 52003878794 | 48,839.76 | 31,357.86 | 23,481.71 | 12,999.96 | 7,868.84 | 15,096.75 | 139,644.88 |
| TOTAL | | 48,839.76 | 31,357.86 | 23,481.71 | 12,999.96 | 7,868.84 | 15,096.75 | 139,644.88 |
| SAVINGS AND INVESTMENT | | | | | | | | |
| ACCOUNT NAME | | | | | | | | |
| WSIG | 62714846500 | 14,392.74 | 41,498.46 | 14,442.15 | 1,456.58 | 29,174.27 | 5,225.41 | 106,189.61 |
| DISASTER MANAGEMENT | 62822654530 | 28.24 | 21.77 | 7.75 | 7.82 | 7.48 | 7.50 | 80.56 |
| EPWP | 62627396915 | 156.23 | 1,202.46 | 1,682.19 | 1,425.78 | 641.26 | 477.17 | 5,585.09 |
| FMG | 62627396155 | 20.54 | 568.06 | 13,846.89 | 11,128.53 | 7,492.56 | 3,491.11 | 36,547.69 |
| ENERGY | 62289233547 | 20.55 | 21.27 | 20.48 | 20.27 | 19.53 | 19.20 | 121.30 |
| LIBRARY | 62627394498 | 58.57 | 21.31 | 21.02 | 19.54 | 1,530.18 | 1,116.28 | 2,766.90 |
| MIG | 62021476313 | 71,478.98 | 26,573.99 | 45,582.60 | 59,184.48 | 54,789.39 | 40,840.40 | 298,449.84 |
| EQUITABLE SHARE | 62627395347 | 4,739.74 | 4,562.56 | - | - | - | - | 9,302.30 |
| 7 DAYS INVESTMENT | 76200036773 | 13,241.31 | 9,667.14 | 7,087.38 | - | 6,705.79 | - | 36,701.62 |
| RETENTION | 76203316875 | 12,255.04 | 14,775.70 | 11,820.56 | - | - | - | 38,851.30 |
| TOTAL | | 116,391.94 | 98,912.72 | 94,511.02 | 73,243.00 | 108,229.30 | 51,177.07 | 542,465.05 |
| DAY TO DAY & INVESTMENT | | 165,231.70 | 130,270.58 | 117,992.73 | 86,242.96 | 116,098.14 | 66,273.82 | 682,109.93 |

The municipality's budget on Original Budget was R 3,888,000, interest from call accounts for 2024/25.

The municipality's financial records show an interest earned income of R 682 109.93 for the second quarter. This is largely due to the decline in cash and cash equivalent from R 79 756 099 in 2022/23 to R 13 221 433 in 2024/25.

The significant cash balances in the previous year that cause the significant interest was largely due to the RBIG roll-overs

7. Table C7 Monthly Budget Statement – Cash Flow

7.1 Cash Flow Statement

Figure 7.1

| NC086 Kgatelopele - Table C7 Monthly Budget Statement - Cash Flow - M06 December | | | | | | | | | | |
|--|-----|-----------------|---------------------|-----------------|----------------|---------------|-----------------|-----------------|----------------|--------------------|
| Description | Ref | 2022/23 | Budget Year 2023/24 | | | | | | | |
| | | Audited Outcome | Original Budget | Adjusted Budget | Monthly actual | YearTD actual | YearTD budget | YTD variance | YTD variance % | Full Year Forecast |
| R thousands | | | | | | | | | | |
| CASH FLOW FROM OPERATING ACTIVITIES | | | | | | | | | | |
| Receipts | | | | | | | | | | |
| Property rates | | – | 17,528 | – | – | – | 8,764 | (8,764) | -100% | 17,528 |
| Service charges | | (22,770) | 59,407 | – | 901 | 9,502 | 29,704 | (20,202) | -68% | 59,407 |
| Other revenue | | 624 | 8,784 | – | 58 | 559 | 4,392 | (3,833) | -87% | 8,784 |
| Transfers and Subsidies - Operational | | 47,427 | 44,272 | – | 550 | 15,710 | 22,136 | (6,426) | -29% | 44,272 |
| Transfers and Subsidies - Capital | | (121,594) | 38,610 | – | 3,600 | 11,600 | 19,305 | (7,705) | -40% | 38,610 |
| Interest | | 5,509 | 3,888 | – | – | 1,110 | 1,944 | (834) | -43% | 3,888 |
| Dividends | | – | – | – | – | – | – | – | – | – |
| Payments | | | | | | | | | | |
| Suppliers and employees | | 195 | (123,426) | – | 3,288 | (28,542) | (56,902) | (28,360) | 50% | (123,426) |
| Finance charges | | 11 | (1,200) | – | – | – | (600) | (600) | 100% | (1,200) |
| Transfers and Subsidies | | – | – | – | – | – | – | – | – | – |
| NET CASH FROM/(USED) OPERATING ACTIVITIES | | (90,597) | 47,864 | – | 8,397 | 9,939 | 28,743 | 18,804 | 65% | 47,864 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | | | | | |
| Receipts | | | | | | | | | | |
| Proceeds on disposal of PPE | | – | – | – | – | – | – | – | – | – |
| Decrease (increase) in non-current receivables | | – | – | – | – | – | – | – | – | – |
| Decrease (increase) in non-current investments | | – | – | – | – | – | – | – | – | – |
| Payments | | | | | | | | | | |
| Capital assets | | 243,573 | (45,713) | – | (3,288) | 28,542 | (22,856) | (51,398) | 225% | (45,713) |
| NET CASH FROM/(USED) INVESTING ACTIVITIES | | 243,573 | (45,713) | – | (3,288) | 28,542 | (22,856) | (51,398) | 225% | (45,713) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | | | | | | |
| Receipts | | | | | | | | | | |
| Short term loans | | – | – | – | – | – | – | – | – | – |
| Borrowing long term/refinancing | | – | – | – | – | – | – | – | – | – |
| Increase (decrease) in consumer deposits | | – | – | – | – | – | – | – | – | – |
| Payments | | | | | | | | | | |
| Repayment of borrowing | | – | – | – | – | – | – | – | – | – |
| NET CASH FROM/(USED) FINANCING ACTIVITIES | | – | – | – | – | – | – | – | – | – |
| NET INCREASE/ (DECREASE) IN CASH HELD | | 152,976 | 2,152 | – | 5,109 | 38,481 | 5,887 | | | – |
| Cash/cash equivalents at beginning: | | 4,857 | (79,756) | – | – | 11,461 | (79,756) | | | 11,461 |
| Cash/cash equivalents at month/year end: | | 157,833 | (77,604) | – | – | 49,942 | (73,869) | | | – |
| References | | | | | | | | | | |
| 1. Material variances to be explained in Table SC1 | | | | | | | | | | |

8. Conclusion

Even though the overall expenditure variance is -1%, the individual expenditure items warrant for adjustments. The employee costs, bulk and other expenditure. Revenue line items will be adjusted base on their actual performance and consistency of the 6 months collection rate.

The implementation of vending of prepaid water which possible could start from the months of March/April 2025. This will change the convention collection of services from waiting to pay on accounts to instant cash collection and possible see a significant reduction in distribution losses.

Revenue Section:

Revenue from electricity sales warrants a adjust upwards due the positive 18%, R 2,655 million. This is due to new smart meter replacement project, TID Rollover and new installation to the electricity business.

Other services have been budget based on the net amount after free basic service and this has given a downwards distortion on our revenue from other services. An adjustment will be done to adjust the budget revenue upwards to account for the gross revenue and a corresponding adjustment to transfers and subsidies to account for the free basic services as a subsidy expense. This is to align the budget with the GRAP.

Other income has seen an unfavourable variance of almost **100% of line items except for rental form fixed property**, which warrant for consideration for adjustment

Expenditure Section:

Remuneration of councillor's

- As councillors' remuneration is fixed, an adjustment must be done to align councillors' remuneration with the above Gazettes.

Bulk Purchases - Electricity

- Budget was understated and based on projected actual of the previous year, consideration will be given during adjustment to increase bulk purchase with the margin increased gain from the electricity revenue and increase in consumption due intervention implemented.

9. Municipal Manager’s Quality Certification

I, **Adv. W Blundin**, Accounting Officer of Kgatelopele Local Municipality, hereby certify that the contents of the report on the assessment of the municipality’s budget and its performance, reflect the financial state of affairs of the municipality for the sixth month of the financial year ending 31 December 2024 and have been prepared in accordance with the Municipal Finance Management Act and regulations made under that Act.

Adv. W Blundin



.....
MUNICIPAL MANAGER

24 January 2025

.....
DATE

11. Supporting Documents

11.1 Appendix 1 – Service Delivery and Budget Implementation Plan (SDBIP)

11.2 Appendix 2 – Key Performance Indicators (KPIs)

11.3 Appendix 3 – Annual Financial Statements 2023/24

11.4 Appendix 4 – Detailed Capital Expenditure Report

11.5 Appendix 5 – Draft Annual Report 2023/24

11.6 Appendix 6 – Draft Management Report 2023/24

11.7 Appendix 7 – Draft Audit Action Plan 2024/25