



FINANCIAL MANAGEMENT WITH EMPHASIS ON (i) REVENUE, (ii) BUDGETING PROCESSES & (iii) CASH MANAGEMENT



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SAQA Recognised Professional Body

Presentation Overview



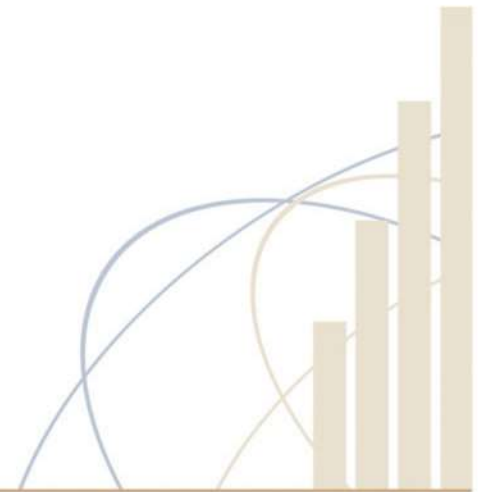
- 1. INTRODUCTORY COMMENTS***
- 2. BUDGETING & REVENUE (THE BASIC PRINCIPLES)***
- 3. HOW IS OPERATING EXPENDITURE FUNDED***
- 4. FUNDED & CREDIBLE BUDGET***
- 5. DEBT COLLECTION***
- 6. INVESTING THE LIMITED RESOURCES***



1. Introductory comments



INTRODUCTORY COMMENTS - BUDGETING IN LOCAL GOVERNMENT – *“A PROCESS NOT AN EVENT”*



1.1. Introductory comments



(a) Overview

*The Municipal fiscal environment is **influenced** by, amongst others, the following:*

- National Treasury guidelines with regard to the Budget (i.e. **Budget Circulars – latest is 126 dated 7th December 2023**);
- National Electricity Regulator (NERSA) regulates bulk electricity tariff increases;
- Department of Water Affairs (DWA) regulates bulk water tariff increases;
- SALGBC regulates salary increases;
- Government Departments (i.e. **Nationally and Provincially**) affect service delivery through the level of grants and subsidies;
- The Division of Revenue Act / Bill (DORA) for allocations**
- NB: Importantly is the political direction / vision the municipality is facing (Where do we want to be in the next Five Years, etc.).**



1.1. Introductory comments



(a) There must be **Budgeting Principles** (when planning a budget for the future years)

The Budget principles adopted may inter-alia include the following: -

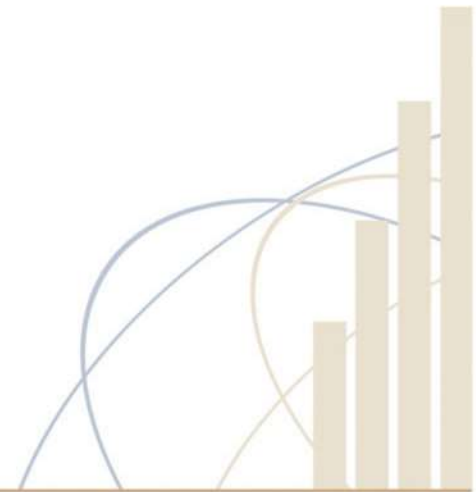
- The budgeted Collection Rate that must be realistic and achievable (**See Section 18(1)(a) of the MFMA**);
- Level of Property Rates and Tariff increases to provide for maintenance and replacement of infrastructure, including expansion of services (**Remember what happens during an Election Year (National or Local)**);
- Tariff increases to ensure financially sustainable service delivery **NB: Must be Cost reflective**),
- The implementation of the new General Valuation in line with the MPRA (**Only if applicable**),
- Compliance with the requirements of MSCOA (Municipal Standard Chart of Accounts); and
- NB: The Municipal Budget Circular must be clear about the demands, available revenue & time-frames.**



2. Budgeting & revenue principles



WHAT ARE SOME BUDGETING PRINCIPLES, BUDGETORY LIMITS & FUNDING SOURCES



2.1. The following budgeting principles

- ❑ **Complies with National Treasury guiding Budget Circulars**
- ❑ **Budget be credible / funded (it gets assessed by National / Provincial Treasuries)**
- ❑ **Complies with the MSCOA requirements**
- ❑ **Be split between Operating & Capital + be Multi-Years**



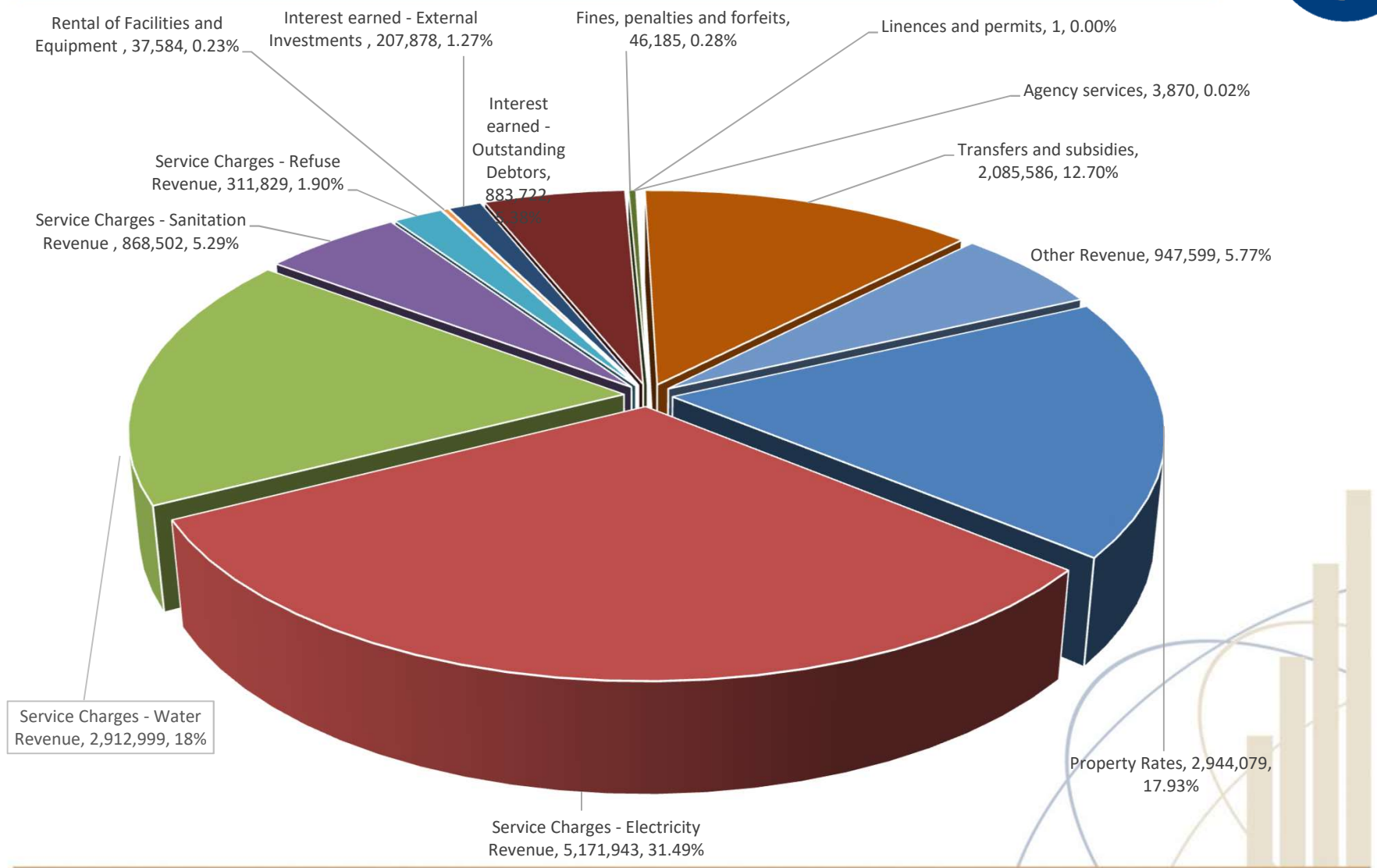
2.2. Operating Revenue sources to fund the budget



Category	2023/24 Budget	2023/24 Adjustments Budget	Variance
Property Rates	2,980,757	2,944,079	(36,678)
Service Charges - Electricity Revenue	5,159,121	5,171,943	12,822
Service Charges - Water Revenue	2,943,776	2,912,999	(30,777)
Service Charges - Sanitation Revenue	837,553	868,502	30,949
Service Charges - Refuse Revenue	311,829	311,829	0
Rental of Facilities and Equipment	31,021	37,584	6,563
Interest earned - External Investments	208,088	207,878	(210)
Interest earned - Outstanding Debtors	573,984	883,722	309,738
Fines, penalties and forfeits	82,843	46,185	(36,658)
Licences and permits	1	1	0
Agency services	3,716	3,870	154
Transfers and subsidies	1,964,652	2,085,586	120,934
Other Revenue	957,938	947,599	(10,339)
Gains	0	0	0
Total Revenue (Excluding capital transfers and contributions)	16,055,279	16,421,777	366,498



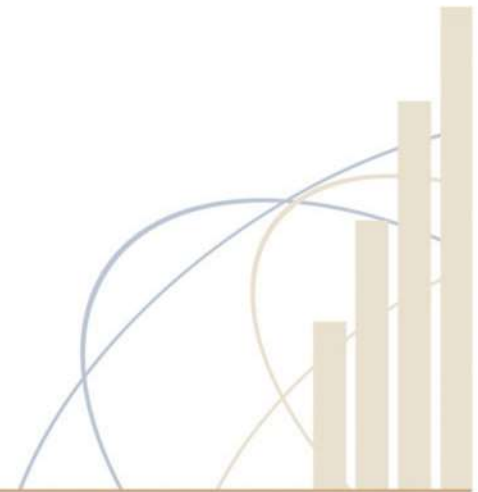
2.3. Revenue sources – Graphically



3. Operating Revenue finances the Expenditure



WHAT ARE DIFFERENT EXPENDITURE CATEGORIES THAT ARE FUNDED FROM REVENUE (THE NMBM EXAMPLE)



3.1. Operating Revenue finances the Expenditure

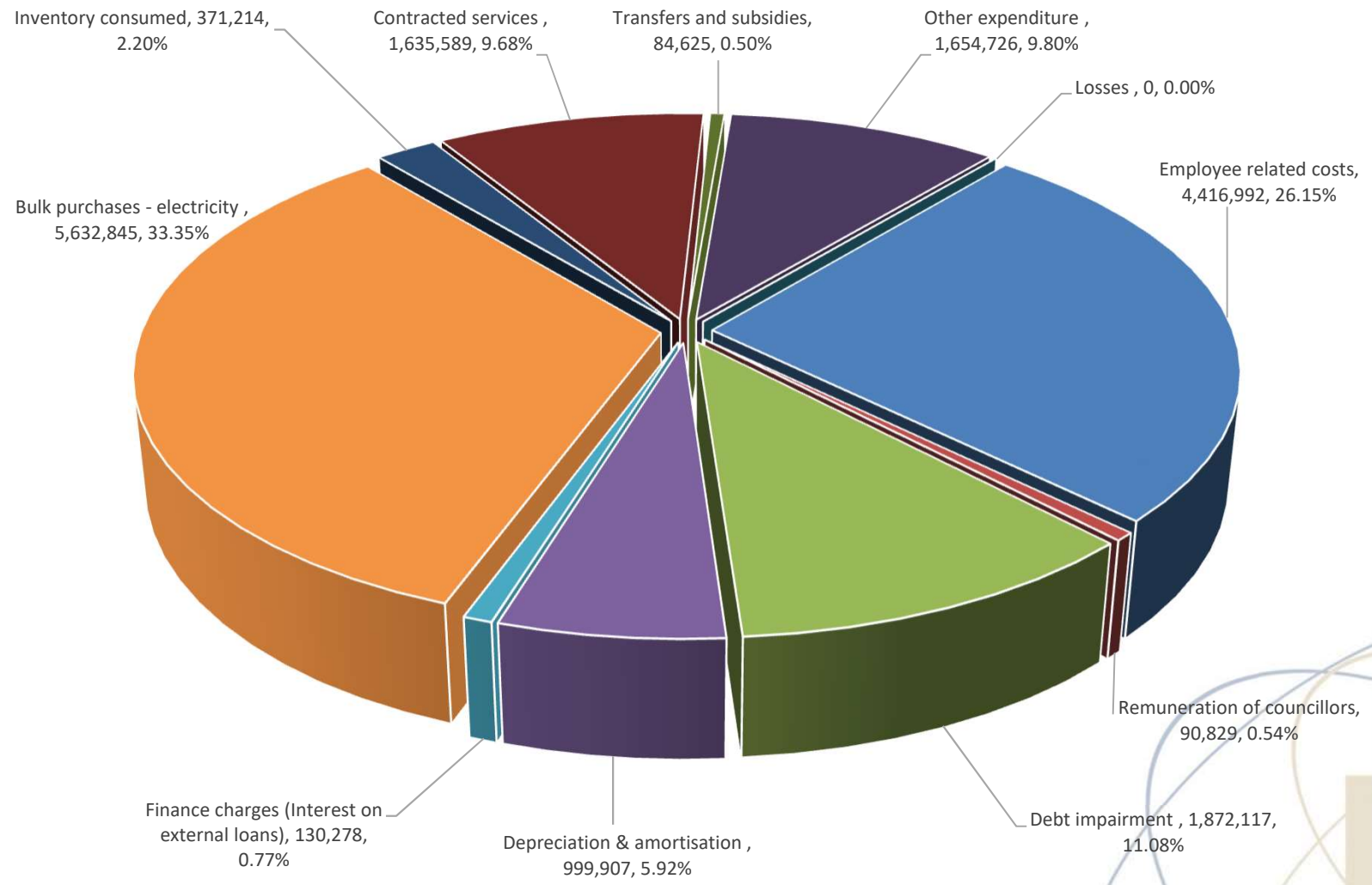


Category	2023/24 Budget	2023/24 Adjustments Budget	Variance
Employee related costs	4,558,182	4,416,992	(141,190)
Remuneration of councillors	91,089	90,829	(260)
Debt impairment	1,874,177	1,872,117	(2,060)
Depreciation & amortisation	1,334,327	999,907	(334,420)
Finance charges (Interest on external loans)	128,228	130,278	2,050
Bulk purchases - electricity	5,632,329	5,632,845	516
Inventory consumed	359,733	371,214	11,481
Contracted services	1,564,811	1,635,589	70,778
Transfers and subsidies	62,687	84,625	21,938
Other expenditure	1,666,978	1,654,726	(12,252)
Losses	0	0	0
Total Expenditure	17,272,541	16,889,122	(383,419)

NB: Highest Operating Costs drivers = Employee Related Costs + Bulk Purchases at 26.2% and 33.4% respectively



3.2. Operating Revenue finances the Expenditure



3.3. Funding Sources for Capital Budget

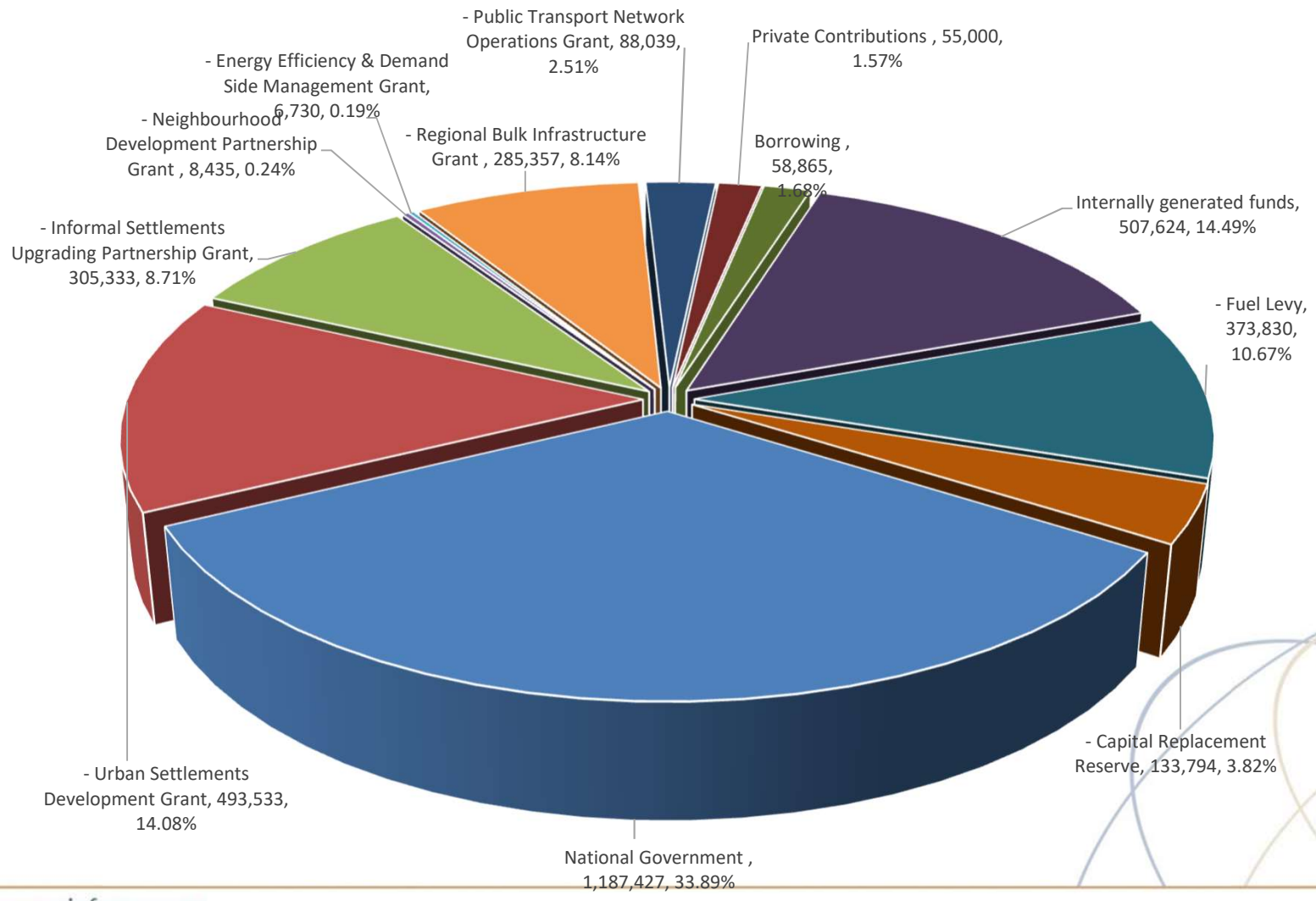


FUNDING SOURCE	2023/24 Budget	2023/24 Adjustments Budget	Variance
National Government	1,307,960	1,187,427	(120,532)
- Urban Settlements Development Grant	526,677	493,533	(33,144)
- Informal Settlements Upgrading Partnership Grant	294,465	305,333	10,868
- Neighbourhood Development Partnership Grant	8,435	8,435	-
- Energy Efficiency & Demand Side Management Grant	7,826	6,730	(1,096)
- Regional Bulk Infrastructure Grant	285,357	285,357	-
- Public Transport Network Operations Grant	185,200	88,039	(97,161)
Private Contributions	40,000	55,000	15,000
Borrowing	76,338	58,865	(17,473)
Internally generated funds	571,660	507,624	(64,036)
- Fuel Levy	391,052	373,830	(17,222)
- Capital Replacement Reserve	180,608	133,794	(46,814)
- European Union	-	-	-
Total Capital Funding	1,995,957	1,808,917	(187,041)

NB: Based on the above it can be seen that the municipality is heavily relying on “conditional grants” by about 66% whilst about 34% are the internal funding sources.



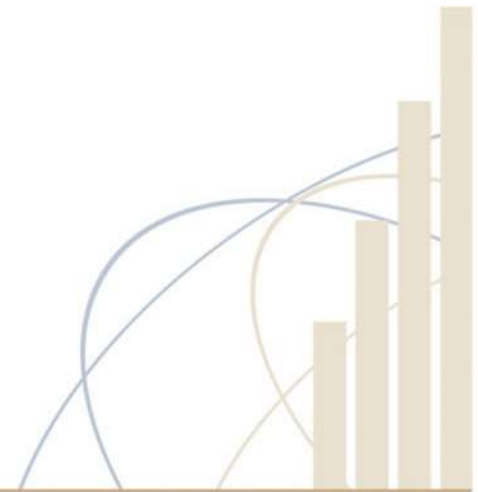
3.4. Funding Sources for Capital Budget (Graph)



4. A Funded & Credible Budget



MEASUREMENT TOOLS TO ASCERTAIN WHETHER THE BUDGET IS FUNDED & CREDIBLE



4.1. The anticipated Cashflow



Description	Budget Year 2023/2024		
	Original Budget	Adjustments	Adjustment Budget
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts			
Property rates	2,652,874	(25,000)	2,627,874
Service charges	7,144,625	8,000	7,152,625
Other revenue	2,410,416	(1,589,354)	821,062
Transfers and Subsidies - Operational	1,964,652	(196,183)	1,768,469
Transfers and Subsidies - Capital	1,387,960	(145,533)	1,242,427
Interest	208,088	(210)	207,878
Dividends	-	-	-
Payments			
Suppliers and employees	(14,133,263)	2,398,843	(11,734,420)
Finance charges	(128,228)	(2,050)	(130,278)
Transfers and Subsidies	(62,687)	(21,938)	(84,625)
NET CASH FROM/(USED) OPERATING ACTIVITIES	1,444,436	426,576	1,871,012
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts			
Proceeds on disposal of PPE	-	-	-
Decrease (Increase) in non-current debtors (not used)	-	-	-
Decrease (increase) in non-current receivables	-	(16,572)	(16,572)
Decrease (increase) in non-current investments	-	-	-
Payments			
Capital assets	(1,822,952)	(78,275)	(1,901,227)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(1,822,952)	(94,847)	(1,917,799)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts			
Short term loans	-	-	-
Borrowing long term/refinancing	-	281,943	281,943
Increase (decrease) in consumer deposits	-	-	-
Payments			
Repayment of borrowing	(139,993)	(52,382)	(192,376)
NET CASH FROM/(USED) FINANCING ACTIVITIES	(139,993)	229,560	89,567
NET INCREASE/ (DECREASE) IN CASH HELD	(518,509)	561,289	42,780
Cash/cash equivalents at the year begin:	4,797,650	(14,292)	4,783,358
Cash/cash equivalents at the year end:	4,279,141	546,997	4,826,138

4.2. Cash backing of the Budget

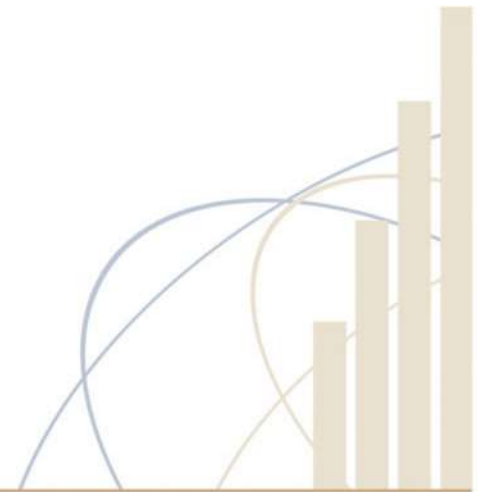


Description	Budget Year 2023/2024			
	Original Budget	Other Adjusts.	Total Adjusts.	Adjusted Budget
Cash and investments available				
Cash/cash equivalents at the year end	4,279,141	(546,997)	(546,997)	4,826,138
Other current investments > 90 days	413,054			
Non-current assets - Investments	–	–	–	–
Cash and investments available:	4,692,195	(546,997)	(546,997)	4,826,138
Applications of cash and investments				
Unspent conditional transfers	55,600	326,361	326,361	270,761
Unspent borrowing	–	–	–	–
Statutory requirements	613,872	–	–	–
Other working capital requirements	(1,241,068)	(254,157)	(254,157)	(986,911)
Other provisions	229,572	(679,491)	(679,491)	909,063
Long term investments committed	–	–	–	–
Reserves to be backed by cash/investments	907,030	322,442	322,442	584,588
Total Application of cash and investments:	565,006	(284,845)	(284,845)	777,501
Surplus(shortfall)	4,127,189	(262,152)	(262,152)	4,048,636

5. Debt Collection



NB: MUNICIPALITIES ARE EQUALLY EXPECTED TO COLLECT WHAT IS DUE TO THEM FOR THEIR SURVIVAL





5.1. Collecting Arrear Debt (the Tools)

- ❑ Chapter 9 – Municipal Systems Act (Credit Control & Debt Collection)
- ❑ Credit Control & Debt Management Policy approved by Council (Including By-Laws to give effect to the Policy)
- ❑ Other Policies – e.g. Tariff / Assistance to the Poor / Rates, etc.)



5.2. Arrear Debt picture



OVERDUE AMOUNTS

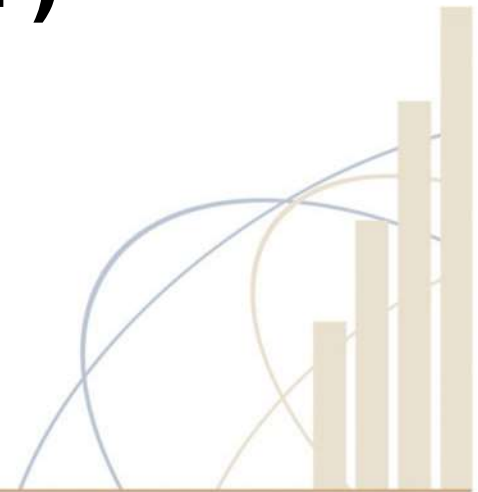
Detail	June 2023	January 2024	Difference
Debtors Age Analysis by Revenue Source			
Trade and Other Receivables from Exchange Transactions - Water	R 8,136,133,033	R 6,477,550,038	-R 1,658,582,995
Trade and Other Receivables from Exchange Transactions - Electricity	R 653,630,400	R 732,223,473	R 78,593,073
Receivables from Non-exchange Transactions - Property Rates	R 1,335,540,279	R 1,612,440,029	R 276,899,750
Receivables from Exchange Transactions - Waste Water Management	R 1,163,788,465	R 1,129,070,176	-R 34,718,289
Receivables from Exchange Transactions - Waste Management	R 661,209,036	R 576,038,059	-R 85,170,977
Receivables from Exchange Transactions - Property Rental Debtors	R 40,177,773	R 44,378,017	R 4,200,244
Interest on Arrear Debtor Accounts	R 1,947,366,721	R 2,213,913,709	R 266,546,988
Other	R 399,930,189	R 387,489,706	-R 12,440,483
Total By Income Source	R 14,337,775,896	R 13,173,103,207	R -1,164,672,689
Debtors Age Analysis By Customer Group			
Government	R 180,626,258	R 275,047,389	R 94,421,131
Business	R 1,693,956,774	R 1,969,061,504	R 275,104,730
Households	R 12,418,048,260	R 10,877,700,438	-R 1,540,347,822
Other (NMBM)	R 45,144,604	R 51,293,876	R 6,149,272
Total By Customer Group	R 14,337,775,896	R 13,173,103,207	R -1,164,672,689

NB: A failure to collect arrear debt and implement the relevant Council approved Policies will result to accumulation of arrears, which may hinder service delivery. In this example the NMBM is owed in the region of R13.2 bln as at end January 2024. (A challenge to service delivery).

6. Investing limited resources



**THE LAW REQUIRE US TO INVEST THE
LITTLE WE GENERATE (IT IS BY THE
WAY PUBLIC FUNDS THAT WE MUST
TAKE GOOD CARE OF)**





6.1. The basis for investing public funds

□ The Municipal Investment Regulations dated 1 April 2005.



□ Council approved Cash Management & Investment Policy (which must be in line with the Investment Regulations)



Adoption of investment policies

3. (1) The investment policy to be established by a municipality in terms of section 13 (2) of the Act, must be –
 - (a) adopted by the council of the municipality; and
 - (b) consistent with the Act and these regulations.





6.2. Comparative Investment Portfolio (NMBM)

	INVESTMENT PORTFOLIO: NMBM			
	31-Dec-22		31-Dec-23	
Financial Institution	Amount	Exposure %	Amount	Exposure %
ABSA	930 310 000	24%	627 676 969	15%
First National Bank	930 000 000	24%	1 115 000 000	27%
Investec	163 663 762	4%	176 652 722	4%
Nedbank	930 500 000	24%	980 500 000	24%
Standard Bank	936 700 000	24%	1 261 700 000	30%
Stanlib	259 657	0	259 657	0
TOTAL	3 891 433 419	100%	4 161 789 348	100%

Don't throw all your EGGS into one basket (diversify the Investment Portfolio).

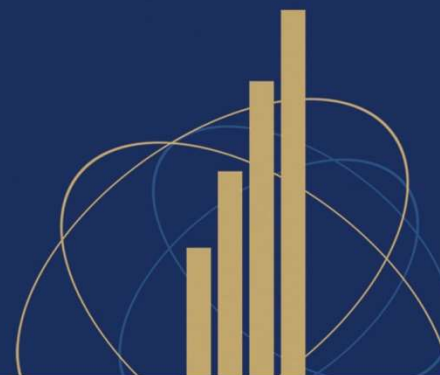


6.3. Comparative Investment Income (NMBM)

FINANCIAL YEAR	INTEREST ON INVESTMENTS
2022/23 Adjusted Budget	R 192 254 470...
2022/23 Actuals	R 338 553 599...
2023/24 Adjusted Budget	R 203 778 000...
2023/24 Actuals (As at 31 January 2024)	R 112 516 463 ...



Thank You!



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