

**SUBJECT: MID YEAR BUDGET & PERFORMANCE ASSESSMENT - 2021/2022  
FINANCIAL YEAR**

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**1. Purpose**

To present the 2020/2021 mid-term budget and performance assessment for the period covering 1 July 2021 to 31 December 2021 in terms of section 88 of the Municipal Finance Management Act of 2003.

**2. Deliberations**

In terms of Section 88 of the Municipal Finance Management Act,

- (1) the Accounting Officer of a Municipal Entity must by 20 January of each year,
  - a) assess the performance of the Entity during the first half of the financial year, considering—
    - (i) the monthly statements referred to in section 87 for the first half of the financial year and the targets set in the service delivery, business plan or other agreement with the Entity's Parent Municipality; and
    - (ii) the Entity's annual report for the past year, and progress on resolving problems identified in the annual report; and
  - b) submit a report on such assessment to—
    - (i) the Board of directors of the Entity; and
    - (ii) the Parent Municipality of the Entity.
- (2) A report referred to in subsection (1) must be made public.

The budget assessments are aimed to provide a high-level report regarding the state of the Entity and budget implementation. The mid-term assessment is now being circulated to apprise the Board and Parent Municipality of the financial status as well as the status of operations for the Entity.

### **3. Discussion**

This review is covered under the following broad headings.

- Financial Management Review
- Mid-term Performance Review
- Annual Report

Please note that for the purposes of the discussions that follow, all amounts have been rounded off to the nearest hundred thousand rand. Exact amounts can be obtained from the budget extract that has been appended to this item.

#### **3.1 Financial Management Review**

##### **3.1.1 Summary and overview**

Umhlosinga Development Agency (UMDA) as the Local Economic Development Agency is mandated to drive economic development in the district as well as to promote trade and investment and as such the Vision of the Agency is “To be a leading economic development agency that enables the UMkhanyakude district to be a destination of choice for investment, business and tourism.”

The focus of the Entity’s resources is geared to economic upliftment of the poor areas of the district and creating better relationships and co-operation within local municipalities.

The report provides feedback on the Municipal Entity’s performance on the delegated mandate from the Shareholder and the Board of Directors.

##### **3.1.2 Finance and Budget Review**

The approved budget for the 2020/21 financial year was R27, 3 million for operational expenses. The capital budget as approved was R43.3 million for capital assets. The year-to-date Operating Revenue amounted to R14, 7 million and the year-to-date operating expenditure amounted to R8, 6 million. The year-to-date operations resulted in an operating surplus of R 6, 1 million as disclosed in table F2.

The following Table F2 – Financial Performance reflects the overall financial performance as at December 2021.

UMhlosinga Development Agency - Table F2 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M06 December

Description	2019/20	Current Year 2020/21							
	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
<b>R thousands</b>									
<b>Revenue By Source</b>									
Rental of facilities and equipment	-	1,080	-			540	(540)	-100.0%	1,080
Interest earned - external investments	520	250	-			125	(125)	-100.0%	250
Interest earned - outstanding debtors	-	-	-			-	-		
Dividends received	-	-	-			-	-		
Fines, penalties and forfeits	-	-	-			-	-		
Licences and permits	-	-	-			-	-		
Agency services	-	-	-			-	-		
Transfers and subsidies	8,194	16,869	-	1,306	14,454	8,435	6,019	71.4%	16,869
Other revenue	26	80	-	10	251	40	211	527.3%	80
Gains	-	-	-			-	-		
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>8,740</b>	<b>18,279</b>	<b>-</b>	<b>1,316</b>	<b>14,705</b>	<b>9,140</b>	<b>5,565</b>	<b>60.9%</b>	<b>18,279</b>
<b>Expenditure By Type</b>									
Employee related costs	6,247	15,327	-	833	4,955	7,664	(2,709)	-35.3%	15,327
Remuneration of Directors	-	-	-			-	-		
Debt impairment	-	-	-			-	-		
Depreciation & asset impairment	1,349	1,000	-	83	500	500	(0)	0.0%	1,000
Finance charges	8	10	-	1	7	5	2	40.0%	10
Bulk purchases	-	-	-			-	-		
Other materials	21	60	-	-	-	30	(30)	-100.0%	60
Contracted services	(452)	3,357	-	65	1,524	1,679	(155)	-9.2%	3,357
Transfers and subsidies	10	-	-			-	-		
Other expenditure	4,888	7,587	224	11	1,652	3,794	(2,142)	-56.5%	7,587
Losses	-	-	-			-	-		
<b>Total Expenditure</b>	<b>12,069</b>	<b>27,341</b>	<b>224</b>	<b>994</b>	<b>8,637</b>	<b>13,671</b>	<b>(5,033)</b>	<b>-36.8%</b>	<b>27,341</b>
<b>Surplus/(Deficit)</b>	<b>(3,330)</b>	<b>(9,062)</b>	<b>(224)</b>	<b>322</b>	<b>6,068</b>	<b>(4,531)</b>	<b>10,599</b>	<b>-233.9%</b>	<b>(9,062)</b>
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	-	25,000	-	-	-	12,500	(12,500)	-100.0%	25,000
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Transfers and subsidies - capital (in-kind - all))	1,821	18,396	-		20,052	9,198	10,854	118.0%	18,396
<b>Surplus/(Deficit) before taxation</b>	<b>(1,508)</b>	<b>34,334</b>	<b>(224)</b>	<b>322</b>	<b>26,120</b>	<b>17,167</b>	<b>8,953</b>	<b>52.2%</b>	<b>34,334</b>
Taxation	-	-	-			-	-		
<b>Surplus/(Deficit) for the year</b>	<b>(1,508)</b>	<b>34,334</b>	<b>(224)</b>	<b>322</b>	<b>26,120</b>	<b>17,167</b>	<b>8,953</b>		<b>34,334</b>

### Revenue by Source

The operating surplus as at the 31 December 2021 was R6 million. The Entity received R31 million from EDTEA for completion of the infrastructure Mkhuze Airport in July which had left a deficit of R10.8 million already as year-end 30 June 2021, and also IDC transferred R3 million as an operational grant for Indumo pack house in October 2021. Only R3.3 million was received in the last six months from uMkhanyakude District Municipality (Parent), since they also have not received any equitable share from Provincial Treasury, but invoices for the second and third quarter have been submitted already.

**i) Other Revenue**

An abnormal variance of above 100% is noted on this item, this is attributable to the amount of R251 thousand that was received from the Farmers Market, this amount will be reallocated correctly after an approval is sort from the Board to open a separate account for the RASSET project. Otherwise, revenue of the Entity is derived from Airport charged fees and Drag racing.

**ii) Transfers and Subsidies**

The Entity has not received its transfers for quarter two and three from the parent, only R3.3 million has been received as at the 31 December 2021. Other transfers received are from the investments and the operational grant from IDC for the Indumo Project.

**ii) Grants**

It must be noted that the Entity has continued with the implementation of projects using the allocated and received grants as at midterm of the fiscal year. Unspent grants for ILO and MTN remain in an investment account separate from the primary current account of the Entity. Funds for the Terminal Airport at Mkhuze are depleted, but R4 million is still due to the Entity from the funder all necessary processes have been initiated to ensure that those funds are paid to the Entity account before the 31 March 2022.

**Expenditure by Type**

**i) Employee related cost**

A variance of 35% under expenditure was recorded under this vote. This is due to 4 budgeted but vacant posts that have not been filled in the 1<sup>st</sup> quarter. Also, less travelling expenditure has been recorded because the parent (UKDM) has cut the Entity budget by R4 million.

**ii) Depreciation**

This none cash item amount of R500 thousand depreciation has been recorded under this category. It is an estimated amount as per the Entity Fixed Asset Register as at the end of the 2<sup>nd</sup> quarter.

### iii) Contracted Services

A variance of 9.2% under expenditure existed under this category. The expenditure will pick up when the full operating grant is paid to the Entity.

### iv) Other Expenditure

A variance of 57% under expenditure existed in this category. The reason for the none spending is due to less revenue streams available and the Entity not being in the position to honour its obligations. The budget will be appropriated during the adjustments budget process.

## b) Capital Expenditure and Funding Sources

UMhlosinga Development Agency - Table F3 Monthly Budget Statement - Capital Expenditure - M06 December

Description	2019/20	Current Year 2020/21							
	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
<b>R thousands</b>									
<b>Funded by:</b>									
National Government	-	-	-				-		
Provincial Government	-	39,876	-	6,637	37,874	19,938	(17,936)	-90.0%	39,876
Parent Municipality	-	-	-				-		
District Municipality	-	-	-				-		
Transfers recognised - capital	-	39,876	-	6,637	37,874	19,938	(17,936)	(0)	39,876
Borrowing	-	-	-				-		
Internally generated funds	41,261	-	-				-		
<b>Total Capital Funding</b>	<b>41,261</b>	<b>39,876</b>	<b>-</b>	<b>6,637</b>	<b>37,874</b>	<b>19,938</b>	<b>(17,936)</b>	<b>(0)</b>	<b>39,876</b>

### Expenditure by standard classification

Capital Expenditure shows a negative variance which is mainly as a result of the continuous implementation of projects that commenced in the previous financial year.

- 90% over expenditure on the Transfer recognised- Capital – this relates to the grant that was received from COGTA for the Airport terminal building. The project was delayed and is in the process of completeness.

## c) Cash Flows

UMhloosinga Development Agency - Table F5 Monthly Budget Statement - Cash Flows - M06 December

Description	2019/20	Current Year 2020/21								
	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast	
<b>R thousands</b>										
Other revenue		1,160		10	341	580	(239)	-41.2%	1,160	
Transfers and Subsidies - Operational		41,869		1,306	4,954	20,935	(15,981)	-76.3%	41,869	
Transfers and Subsidies - Capital		43,396				40,000	21,698	18,302	84.4%	43,396
Interest		250					125	(125)	-100.0%	250
Dividends		-					-	-	-	
<b>Payments</b>										
Suppliers and employees		(26,331)		(909)	(5,970)	(10,971)	5,001	-45.6%	(26,331)	
Finance charges		(10)		(1)	(7)	(4)	(3)	68.0%	(10)	
Dividends paid		-					-	-	-	
Transfers and Grants		-					-	-	-	
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>	<b>-</b>	<b>60,333</b>	<b>-</b>	<b>405</b>	<b>39,318</b>	<b>32,362</b>	<b>6,956</b>	<b>21.5%</b>	<b>60,333</b>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>										
<b>Receipts</b>										
Proceeds on disposal of PPE		-					-	-		
Decrease (increase) in non-current receivables		-					-	-		
Decrease (increase) in non-current investments							-	-		
<b>Payments</b>										
Capital assets		(39,876)		(6,637)	(31,237)	(19,938)	(11,299)	56.7%	(39,876)	
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>	<b>-</b>	<b>(39,876)</b>	<b>-</b>	<b>(6,637)</b>	<b>(31,237)</b>	<b>(19,938)</b>	<b>(11,299)</b>	<b>56.7%</b>	<b>(39,876)</b>	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>										
<b>Receipts</b>										
Short term loans							-	-		
Borrowing long term/refinancing							-	-		
Increase (decrease) in consumer deposits							-	-		
<b>Payments</b>										
Repayment of borrowing							-	-		
<b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>NET INCREASE/ (DECREASE) IN CASH HELD</b>	<b>-</b>	<b>20,457</b>	<b>-</b>	<b>(6,232)</b>	<b>8,081</b>	<b>12,424</b>	<b>(4,343)</b>	<b>-35.0%</b>	<b>20,457</b>	
Cash/cash equivalents at the year begin:		-							-	
Cash/cash equivalents at the year end:		20,457		(6,232)	8,081	12,424	(4,343)	-35.0%	20,457	

### Cash Flows

The Entity had a cash balance of R8 million as at 31 December 2021. The number of days of cash on hand was 95 days and the cost coverage was 3.16:1. The reason for the large cash balance is to cover the unspent grants. There is still an amount outstanding from UKDM (parent) for the 2<sup>nd</sup> quarter.

The Entity is in an unstable position and is currently not able to meet its obligations.

**The 2021/2022 review calls for the budget to be adjusted in order to cater for all the issues that have been picked up. The budget may be adjusted upwards or downwards, in terms of section 87 (6) of the Municipal Finance Management Act.**

### Financial Position

The Entity has community wealth of R20, 4 million at the reporting date and this is inclusive of assets and accumulated surpluses. At the reporting date, the current ratio was at an acceptable level at 1.2:1.