

REPORT IN TERMS OF SECTION 71 OF THE MUNICIPAL FINANCE MANAGEMENT ACT NO. 56 OF 2003: IMPLEMENTATION OF THE BUDGET AND FINANCIAL STATE OF AFFAIRS OF THE ELUNDINI MUNICIPALITY FOR THE PERIOD ENDED 31 AUGUST 2015

EXECUTIVE SUMMARY

MONTHLY BUDGET SUMMARY

The executive summary presented is aimed at providing Council with a high level overview of the trading results for the period ending 30 September 2015, as well as a comprehensive overview of the Municipality's financial management and viability, and the extent to which the Municipality is meeting and exceeding planned performance as contained within the Service Delivery and Budget implementation plan

Financial Performance

	Actual	Budget	Variance	Variance Status %
Operating revenue	79 681 000	80 434 000	(753 000)	-1% Under collected
Operating expenditure	50 920 000	80 434 000	(29 514 000)	-37% Underspent
Net operating surplus	<u>28 761 000</u>	-	<u>28 761 000</u>	

Capital Expenditure and Sources of Funding

	Actual	Budget	Variance	Variance Status %
Capital expenditure	<u>2 834 586</u>	13 622 750	10 788 164	79% Underspent

Funded as follows:

National Government	2 054 000	9 498 000
Internally generated funds	780 000	4 124 750
	<u>2 834 000</u>	<u>13 622 750</u>

A greater proportion of capital expenditure is constituted by MIG funding which can be analysed as follows:

	Actual	Budget	Variance	Variance %	Status
MIG Funded projects	1 980 049	9 023 100	7 043 051	78%	Underspent

Nonzaba Chevy chase project has been allocated a budget amount of R2 406 465.15 for the financial year under review. For the month ending Sept 2015 an amount of R198 520 has been spent towards this project.

Nkalweni access road has been allocated a budget amount of R2 550 484.37 for the financial year under review. An amount of R162 594.41 has been spent towards this project for the period ending Sept 2015.

Hopedale sports field has been allocated a budget amount of R2 440 747.82 for the financial year under review. An amount of R902 562.65 has been spent towards this project for the period ending Sept 2015.

Siqhungqwini has been allocated a budget amount of R for the financial year under review. An amount of R433 776 has been spent towards this project for the period ending Sept 2015.

Mt Fletcher taxi rank has been allocated a budget amount of R4 557 271.20. An amount of R314 092 has been spent towards this project.

Platana access road has been allocated a budget amount of R. An amount of R171 000 has been spent towards this project. This 2014/2015 financial year's project but it has been costed in this financial year.

An additional amount of R474 900 has been on PMU section personnel costs for the month ending Sept 2015.

Financial Position

The financial position of the Elundini Local Municipality is deemed sound, this is evidenced by the following financial viability ratios:

The Municipality had a positive cash flow position as at 30 Sept 2015 analysed as follows:

	Actual	Budget	Variance
Cash and cash equivalents	48 436 000	21 988 000	26 448 000
Liquidity			
Current ratio	79 459 000	35 773 000	2.221:1

The ratio is used to assess the municipality's ability to pay back its short term liabilities with its short term assets.

The norm range for this ratio is 1.5 to 2:1 as determined by National Treasury in MFMA circular 71.

As at 30 Sept 2015 the Municipality is above the norm range (2.2) in this instance. Whilst this ratio is well positioned, it should be noted that the application of debt impairment procedures on the one hand, and the complete accounting in respect of creditors/ accruals, will have the effect of reducing this ratio.

Debt Coverage Ratio

Operating revenue – operating grants/ debt service payments due within financial year

	Operating revenue	Operating grants	Debt service payments	Ratio
Debt Coverage ratio	24 636 000	55 045 000	-	#DIV/0!

This ratio indicates that Council has sufficient own revenue to cover the payment of loan obligations.

Outstanding Services to debtors Ratio

Total outstanding service debtors / total operating revenue excluding capital transfers

	Total outstanding service debtors	Operating revenue excluding capital transfers	Ratio
Debtors ratio	36 493 192	79 682 000	46%

Cost Coverage Ratio

This ratio indicates the municipality's ability to meet at least its monthly fixed operating commitments from cash and short term investments without collecting any additional revenue, during that month. The ratio is adjusted for unspent conditional grants as the cash is not available for normal municipal day to day operational expenditure but rather reserved for grant related expenditure.

Available cash + Investments – unspent conditional grants / monthly fixed operating expenditure

	Available cash	Investments	Unspent conditional grants	Monthly fixed operating expenditure	Ratio
Cost coverage ratio	2 942 000	45 493 000	15 495 536	16 074 000	2

The industry norm is 1- 3 months.

This ratio defines the number of months that the municipality based on current available resources would be able to function without any form of revenue being raised. The outcome is within the norm, however, it must be noted that the municipality is tinkering on the lower end of the ratio, which could be indicating of either high operating costs or inadequate cash management processes, or both.

Asset Management

1) Capital expenditure to Total Expenditure

This ratio is used to assess the level of capital expenditure to total expenditure, which indicates the prioritization of expenditure towards current operations versus future capacity in terms of municipal services.

(Total capital expenditure/ total expenditure X 100)

	Capital expenditure	Total expenditure	Ratio
Asset management ratio	2 835 000	50 920 000	6%

The industry norm is between 10% and 20%

The outcome is way below the norm. This is a demonstration that we are still at the beginning of the year and we have only manage to spent R2834000 at this stage which only constitute 6% of the total expenditure.

Repairs and maintenance as a % of property, plant and equipment

The ratio measures the level of repairs and maintenance to ensure adequate maintenance to prevent breakdowns and interruptions to service delivery. Repairs and maintenance of municipal assets is required to ensure the continued provision of services.

(Total repairs and maintenance expenditure /property, plant and equipment and investment property (carrying value) X 100))

	Repairs and maintenance	PPE	Ratio
Repairs and maintenance to PPE	2 401 000	359 805 000	1%

The industry norm is 8%

The outcome indicates that the municipality's has an inadequate attention to the maintenance of its existing property, plant and equipment. The budgeted ratio was 3.1%, which is still far below the required level, but the essence is that even though an inadequate budget was provided, the expenditure against that budget remain low at 1%. At this stage, it would be premature to clamour for the increase in the budget allocation to meet the stated norm, when the municipality's capacity to even spend the inadequate allocate remains a challenge.

Debtors Management

1) Collection rate

The ratio indicates the collection rate, i.e. level of payments. It measures increases or decreases in debtors relative to annual billed revenue.

(Gross debtors opening balance + billed revenue – gross debtors closing balance – bad debtors written off)/billed revenue X100

	Gross opening debtors balance	Billed revenue	Gross debtors closing	Bad debts written off	Ratio
Debtors collection rate	111 792 045	14 743 892	108 925 724	-	119%

The industry norm is 95%.

At 30 Sept 2015, this ratio stood at 119%, it is way above the norm.

Net Debtors Day

The ratio reflects the collection period. Net debtors days refers to the average number of days required for a municipality to receive payment from its consumers for bills/ invoices issued to them for services.

	Gross closing debtors balance	Bad debt provision	Actual billed revenue	Days per annum	Ratio
Net debtors days	108 925 724	-	14 743 892	365	2 696.57

The norm is 30 days.

(Gross debtors – bad debt provision /billed revenue)X 365

The ratio at 30 Sept 2015 (2696 days) shows deterioration and relating to the month of Sept 2015 when compared with Aug 2015 outcomes of (6132 days). The Deterioration is coursed by the fact that we have billed yearly rates in July which are billed once in a year, that huge billing of R10 million has resulted in a reduction in net debtor's days. In July the billing is just for normal services and rates that are billed monthly. The reduction in billing has resulted in an increase in net debtor's days to 6 231.

Statement of Financial Position

Component	Value
Investment property	35 046 000
Property, plant and equipment	324 471 000
Intangible assets	287 000
Total	<u>359 804 000</u>

Non-Current Assets, as reflected above, from which economic benefit flows to the organisation are constituted by Investment Property, PPE and Intangible assets with their corresponding values as reflected above.

Current assets

Cash	2 682 000
Call investment deposits	59 812 000
Consumer debtors	4 166 000
Other debtors	9 114 000
Inventory	512 000
Total current assets	<u>79 459 000</u>

Current liabilities

Borrowing	-
Consumer deposits	862 000
Trade and other payables	34 842 000
Provisions	69 000
	<u>35 773 000</u>

Current Assets(highly liquid assets) used to meet the short termed cash flow needs of the organisation are presented in order of liquidity as defined within schedule C6 , in contrast to current liabilities, which are primarily constituted by unspent conditional grants and provisions(staff obligations).

Non-Current Liabilities are stated at R10.4 Million and are long termed liabilities comprising deferred obligations towards long service awards and obligations associated with post retirement medical benefits associated with persons who have retired from the organisation; similarly the organisation has a defined obligation towards the rehabilitation of three landfill sites in the sum of R 5.4 Million.

Cashflow

Net cash generated by operating activities is recorded at R25.5 Million at year end; cash utilised for investing activities has resulted in an outflow of cash in the sun of R2 835 000 resulting in a net decrease in cash position to R48.4 million.

Creditors

Creditors amounted to R22000 at the end of Sept 2015. The Municipality has effective mechanisms in place that monitors the payment turnaround period to ensure that all creditors are settled within 30 days of receipt of the invoice.

Included in trade and other payables are current employee benefits, payables from exchange transactions, Unspent Conditional Grants, Taxes and current portion of long termed liabilities.

Importantly, the Municipality is 100% up to date with the payment of all obligations, including the SARS, pension funds, medical aids, bargaining Council, SALGA and audit fees. There are, however, still creditor's invoices being received for work done and completed at 30 Sept 2015.

Statement of financial performance (Government Financial Statistics)

Revenue- Standard

Description	Actual	Budget	Variance	Variance %
Governance and administration	73 272 000	40 363 250	32 908 750	-2%
Community and public safety	519 000	801500	-282 500	-26%
Economic and environmental services	39 000	20126250	-20 087 250	-55%
Trading services	5 851 000	19143250	-13 292 250	6%
Total	79 681 000	80 434 250	-753 250	-1%

Expenditure- Standard

Governance and administration	20 205 000	24 795 000	-4 590 000	-20%
Community and public safety	3 529 000	3438000	91 000	13%
Economic and environmental services	6 685 000	14429000	-7 744 000	-59%
Trading services	20 502 000	24149500	-3 647 500	-18%
Total	50 921 000	66 811 500	-15 890 500	-24%

Revenue By Source

Property rates	17 223 000	3 780 250	1 997 557	14%
Property rates - penalties & collection charges	30 000	-	12 000	100%
Service charges - electricity revenue	4 853 000	5 921 250	-1 905 626	-9%
Service charges - refuse revenue	1 101 000	1 113 500	-25 786	-1%
Rental of facilities and equipment	326 000	3 234 250	-11 114 333	-90%
Interest earned - external investments	616 000	375 000	1 118 139	132%
Interest earned - outstanding debtors	314 000	469 250	-370 617	-21%
Fines	26 000	19 000	17 200	24%
Licences and permits	502 000	596 500	-2 304 664	-51%
Agency services	-	387 500	-1 479 000	-100%
Transfers recognised - operational	55 045 000	46 116 000	-3 015 421	-3%
Other revenue	-354 000	8 923 500	-28 186 803	-85%
Gains on disposal of PPE	-	-	-162 962	-50%
	79 682 000	70 936 000	-45 420 316	-64%

Expenditure by Type

Description	Actual	Budget	Variance	Variance %
Employee related costs	16 674 000	15 712 500	-2 375 380	-4%
Remuneration of councillors	2 627 000	3 100 000	-1 353 866	-11%
Debt impairment	-	2 072 250	-7 909 787	-100%
Depreciation & asset impairment	-	8 446 750	-32 239 690	-100%
Finance charges	-	23 250	-36 137	-41%
Bulk purchases	6 914 000	5 294 500	-3 420 182	-18%
Other materials	2 401 000	2 721 250	-3 949 478	-41%
Contracted services	1 372 000	1 086 250	-1 585 602	-24%
Transfers and grants	-	-	-	
Other expenditure	20 932 000	28 354 750	-3 039 403	-6%
Loss on disposal of PPE	-	-	-	
	50 920 000	66 811 500	-55 909 525	-84%

Capital Budget by Standard Classification and Funding Source

Description	Actual	Budget	Variance	Variance %
Governance and administration	280 000	741 750	-461 750	-17%
Community and public safety	118 000	638 750	-520 750	-100%
Economic and environmental services	2 216 000	10 831 000	-8 615 000	-6%
Trading services	220 000	1 411 250	-1 191 250	-10%
Total	2 834 000	13 622 750	-10 788 750	-79%

Analysis of financial position statement

Investment property	35 046 000
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