

The cash flow situation of the municipality is also improving every year since 2013.

Description	2015/2016										
	Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved policy)	Final Budget	Actual Outcome	Unauthorised expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
R thousands	1	2	3	4	5	6	7	8	9	10	11
Financial Performance											
Service charges	407 861	55 050	462 912			462 912	316 072		146 840	68.28%	77.49%
Investment revenue	5 506	8 391	13 896			13 896	30 628		(16 732)	220.41%	556.32%
Transfers recognised - operational	381 544	(3 473)	378 071			378 071	367 873		10 198	97.30%	96.42%
Other own revenue	12 943	18 680	31 623			31 623	17 737		13 886	56.09%	137.04%
Total Revenue (excluding capital transfers and contributions)	807 854	78 648	886 502	-	-	886 502	732 310		154 192	82.61%	90.65%
Employee costs	290 324	19 442	309 766			309 766	302 658	7 108	7 108	97.71%	104.25%
Remuneration of councillors	9 916	1 151	11 067			11 067	9 544		1 523	86.24%	96.24%
Debt impairment	21 119	(50)	21 069			21 069	60 345		(39 276)	286.41%	285.74%
Depreciation & asset impairment	49 166	46 086	95 252			95 252	192 078	(96 826)	(96 826)	201.65%	390.68%
Finance charges	18 952	(6)	18 946			18 946	13 556		5 390	71.55%	71.53%
Materials and bulk purchases	78 322	-	78 322			78 322	129 257	(50 935)	(50 935)	165.03%	165.03%
Transfers and grants	95 190	(4 607)	90 583			90 583	20 327		70 256	22.44%	21.35%
Other expenditure	241 600	7 188	248 788			248 788	161 357		87 431	64.86%	66.79%
Total Expenditure	804 588	69 205	873 793	-	-	873 793	889 122	(140 653)			
Surplus/(Deficit)										-	-

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R thousands	1	2	3	4	5	6	7	8	9	10	11
it)	3 265	9 444	12 709			12 709	(156 812)		169 520	1233.88%	4802.41%
Transfers recognised - capital	354 998	9 438	364 437			364 437	370 470	(6 033)	(6 033)	101.66%	104.36%
Contributions recognised - capital & contributed assets			-			-			-		
Surplus/(Deficit) after capital transfers & contributions	358 264	18 882	377 146	-	-	377 146	213 659		163 487	56.65%	59.64%
Transfers recognised - capital	354 998	9 438	364 437			364 437	370 470	(6 033)	(6 033)	101.66%	104.36%
Public contributions & donations	-	-	-			-			-		
Borrowing Internally generated funds	-	-	-			-			-		
Total sources of capital funds	41 655	10 276	51 930			51 930			51 930		
Total sources of capital funds	396 653	19 714	416 367	-	-	416 367	370 470		45 897	88.98%	93.40%
Cash flows									-		
Net cash from (used) operating	399 635	51 667	451 301			451 301	414 773		36 528	91.91%	103.79%
Net cash from (used) investing	(337 894)	(78 473)	(416 367)			(416 367)	(364 105)		(52 263)	87.45%	107.76%
Net cash from (used) financing	(17 775)	-	(17 775)			(17 775)	(20 957)		3 183	117.91%	117.91%
Cash/cash equivalents at the year end	43 965	(26 806)	17 159	-	-	17 159	29 711		(12 552)	173.15%	67.58%

Table 5.1.1

Financial Performance of Operational Services							R '000
Description	2014/2015	2015/2016		Year 0 Variance			
	Actual	Original Budget	Adjustments Budget	Actual	Original Budget	Adjustments Budget	
Operating Cost					24.47%	17.41%	
Water	569 770	485 665	531 037	643 005			
Waste Water (Sanitation)	68 557	87 542	87 823	85 879	-1.94%	-2.26%	
Electricity	-	-	-	-	0.00%	0.00%	
Waste Management	-	-	-	-	0.00%	0.00%	
Housing	-	-	-	-	0.00%	0.00%	
					21.36%	15.09%	
Component A: sub-total	638 347	573 207	618 859	728 884			
Waste Water (Storm water Drainage)	-	-	-	-	0.00%	0.00%	
					0.00%	0.00%	
Roads	-	-	-	-			
					0.00%	0.00%	
Transport	-	-	-	-			
					0.00%	0.00%	
Component B: sub-total	-	-	-	-			
					0.00%	0.00%	
Planning	-	-	-	-			
Local Economic Development	119 970	47 624	48 562	35 946	-32.49%	-35.10%	
					-32.49%	-35.10%	
Component B: sub-total	119 970	47 624	48 562	35 946			
Planning (Strategic & Regulatory)	-	-	-	-	0.00%	0.00%	
Local Economic Development	-	-	-	-	0.00%	0.00%	
					0.00%	0.00%	
Component C: sub-total	-	-	-	-			
Community & Social Services	-	-	-	-	0.00%	0.00%	
Environmental Protection	14 487	17 267	18 172	16 207	-6.54%	-12.12%	
					0.00%	0.00%	
Health	-	-	-	-			
Security and Safety	3 323	3 736	5 346	2 515	-48.54%	-112.52%	
					100.00%	44.19%	
Sport and Recreation	919		260	466			
Corporate Policy Offices and Other	152 153	162 754	182 593	197 075	17.42%	7.35%	
					15.03%	4.57%	
Component D: sub-total	170 882	183 757	206 371	216 264			
Total Expenditure	929 199	804 588	873 793	981 094	17.99%	10.94%	

Table 5.1.2

FINANCIAL PERFORMANCE:

Some remarkable variances in the financial performance of the municipality have been identified and explained by the nature of expenditure below: -

Remuneration of Councillors – 19.06% Positive Variance

Some councillors positions became vacant through deaths or otherwise and it took longer for the by-elections to be held to fill those positions, hence there were savings in the councillors allowances.

Depreciation and Amortisation – 65% negative

The asset verification process that was conducted during the year under review resulted in some assets being written down or written off because they were either not identified or identified but assessed for impairment. This exercise resulted in the actual depreciation amounts being less than what was estimated and provided for in the budget.

Debt Impairment losses – 160.73% negative

Some old infrastructural assets were identified during the asset verification project that was conducted during the year and most of these assets were assessed and impaired as they were very old.

Lease rentals on operating leases – 115.80% negative

The municipality had taken a decision to lease the computers instead of buying. This decision was taken after the municipality's budget for the year under review had been approved and as a result, no provision was made for the computer rentals in the approved budget of the municipality.

Interest Paid – 28.45% positive

The municipality had planned to front-load some infrastructure grant through a DBSA loan. This process which was already provided for in the 2015/2016 budget for interest expense did not materialise because the municipality had later decided that it was not cost effective.

Contracted Services – 11.17% positive

Some of our internal staff have become qualified to perform the functions that were previously outsourced due to their specialised nature, hence the municipality has realised some savings on the Contracted Services budget.

Grants and Subsidies Paid – 62.30% positive

More grants funded capital expenditure was identified as misallocated to the operational expenditure during the asset verification process and moved to WIP. This exercise resulted in the operational expenditure from Transfers and Subsidies being reduced drastically.

General Expenses – 15.48% positive

The municipality implemented some cost cutting measures, especially on the non-core related expenditure.

5.2 GRANTS

GRANTS

Grant Performance						
Description	2014/2015	2015/2016		Year 0 Variance		
	Actual	Budget	Adjustments Budget	Actual	Original Budget (%)	Adjustments Budget (%)
Operating Transfers and Grants						
National Government:	325 528	376 210	370 260	362 876		
Equitable share Municipal Systems Improvement	264 748	303 885	303 885	303 885	100.00%	100.00%
Department of Water Affairs	727	1 325	1025	100	7.55%	9.76%
Levy replacement	54 816	58 891	58 891	58 891	100.00%	100.00%
Other transfers/grants [insert description]	5 237	11 809	1 596		0.00%	0.00%
Provincial Government:	–	250	25	35		
Health subsidy						
Housing						
Ambulance subsidy						
Sports and Recreation						
Development Planning						
Shared Services		250	250	35		
District Municipality:	–	5 084	7 562	–		
Hibiscus Coast Municipality - SCDA		3 484	4 100			
Other Local Municipalities - Tourism Entity		1 600	3 462			
Other grant providers:	–	–	–	–		
[insert description]						
Total Operating Transfers and Grants	325 528	381 544	378 071	362 911		

Table 5.2.1

OPERATING TRANSFERS AND GRANTS OVERALL:

The Municipality receives conditional grants and subsidies from the National Government for various projects. The total grant income for 2015/16 was R362 911 650. All grants received were utilized as per Division of Revenue Act (DORA) condition.

CONDITIONAL GRANTS AND GRANT RECEIVED FROM OTHER SOURCES:

There were no grants received from sources other than DORA during the financial year 2015/2016.

5.3 ASSET MANAGEMENT

INTRODUCTION TO ASSET MANAGEMENT

The Municipality has established an Asset Management Unit in within the Treasury departments to deal with material issues that were identified by AG in the previous audits plus the day to day operational matters. This unit is headed by the Asset manager who reports directly to the GM: Budget And Treasury Office. Some key positions have been identified to beef up the capacity of the Asset Management Unit and these positions have been included in the revised organisational structure that was adopted by Council.

The key personnel in the Asset Management unit include accountants, the technical staff and the field workers who deal with the daily operational matters including but not limited to the asset count, asset verification, and labelling.

The accountants are more involved with the fixed asset maintenance, updating the fixed asset policy, the general ledger maintenance and the asset disclosure requirements on the Annual Financial Statements.



TREATMENT OF THE THREE LARGEST ASSETS ACQUIRED 2015/2016				
Asset 1				
Name	Mhlabashane Regional Bulk Water Supply Scheme			
Description	Water Supply Scheme			
Asset Type	Infrastructure Asset			
Key Staff Involved	Project Management Unit			
Staff Responsibilities	Project Planning And Implementation			
	2012/2013	2013/2014	2014/2015	2015/2016
Asset Value	13 769 676.1	14 175 107.06	54 842 837.3	42 552 166.84
Capital Implications	Funded By Mig			
Future Purpose of Asset	Water Supply Scheme			
Describe Key Issues	None			
Policies in Place to Manage Asset	Fixed Asset Management Policy			
Asset 2				
Name	Mathulini Water Supply Phase 4-7			
Description	Water Supply Scheme			
Asset Type	Infrastructure Asset			
Key Staff Involved	Project Management Unit			
Staff Responsibilities	Project Planning And Implementation			
	2012/2013	2013/2014	2014/2015	2015/2016
Asset Value	11 804 516. 28	10 924 204. 75	3 082 691. 08	185 900
Capital Implications	Funded Through Mig			
Future Purpose of Asset	Water Supply Scheme			
Describe Key Issues	None			
Policies in Place to Manage Asset	Fixed Asset Management Policy			
Asset 3				
Name	Harding Weza Water Supply Scheme			
Description	Water Supply Scheme			
Asset Type	Infrastructure Asset			
Key Staff Involved	Project Management Unit			
Staff Responsibilities	Project Planning And Implementation			
	2012/2013	2013/2014	2014/2015	2015/2016
Asset Value			1 200 935.77	28 864.77
Capital Implications	Funded Through MIG			
Future Purpose of Asset	Sanitation			
Describe Key Issues	None			
Policies in Place to Manage	Fixed Asset Management Policy			

Table 5.3.1

ASSET MANAGEMENT:

The projects were managed and implemented by the Project Management Unit. The necessary feasibility studies were carried where the costs implications to carry out the projects, service potential and maintenance were established.

None of these assets were completed and commissioned at the end of the financial year 2015/2016 and therefore were reported as work in progress in the AFS.

Repair and Maintenance Expenditure: 2015/2016				
				R' 000
	Original Budget	Adjustment Budget	Actual	Budget variance
Repairs and Maintenance Expenditure	58 600	58 643	63 166	-8%

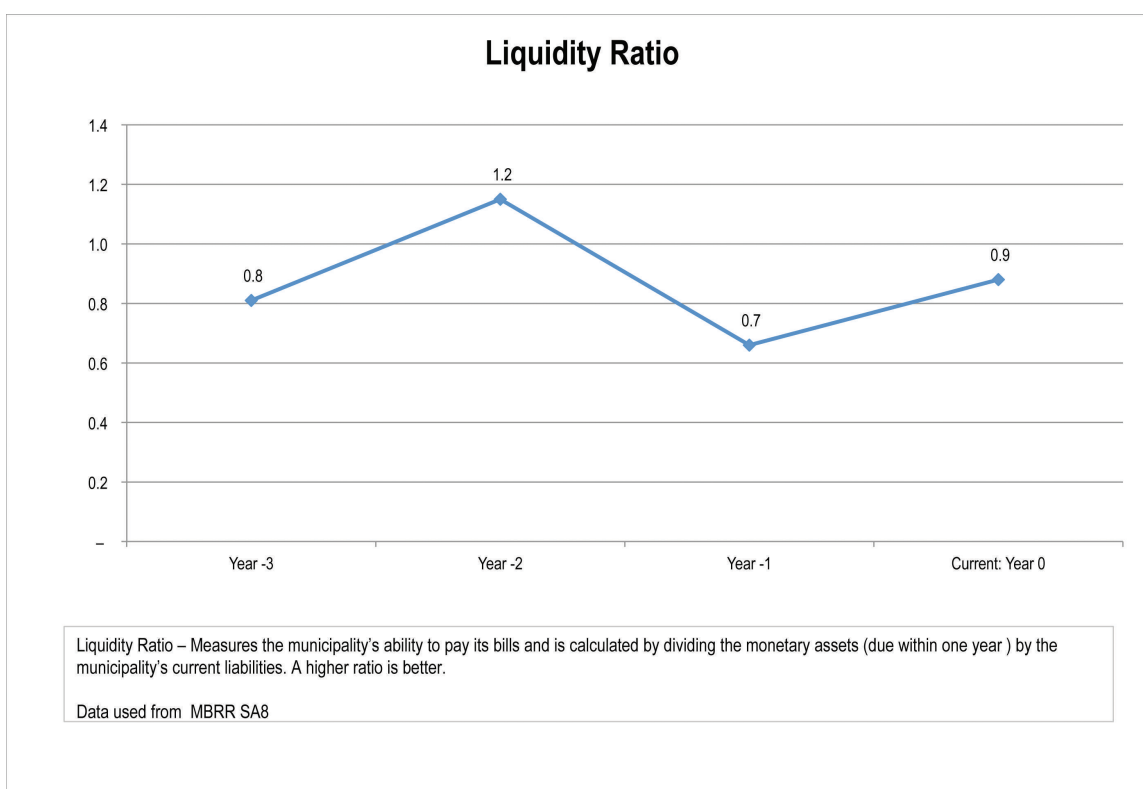
Table 5.3.2

REPAIRS AND MAINTENANCE EXPENDITURE:

Although the table above shows that the expenditure on repairs and maintenance exceeded the original budget by 8%, this expenditure is still far below the National Treasury norm of 8% of the carrying value of the depreciable assets. This shows that the municipality is investing less on the maintenance of its revenue generating assets.

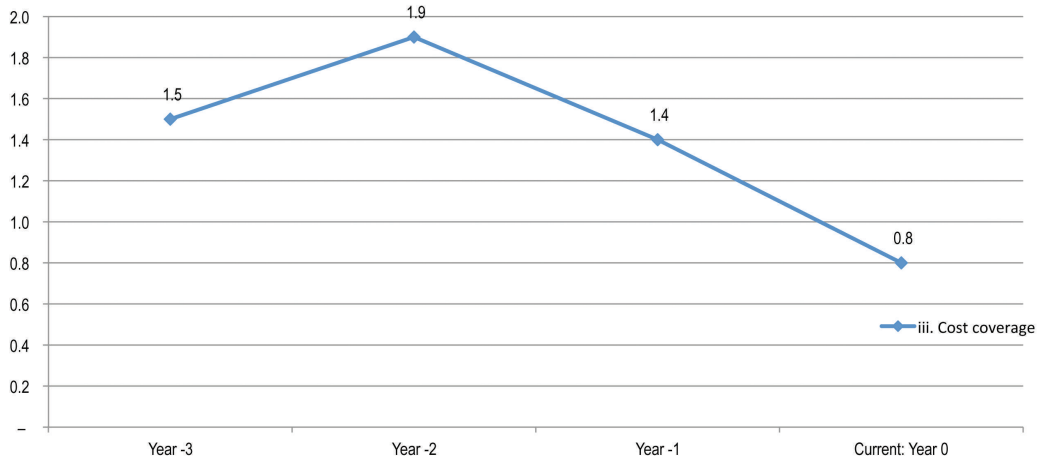
The municipality was compelled to cut its budget for repairs and maintenance during the adjustments budget to allow for the increase in the overtime budget.

5.4 FINANCIAL RATIOS BASED ON KEY PERFORMANCE INDICATORS



FINANCIAL RATIOS BASED ON KEY PERFORMANCE INDICATORS

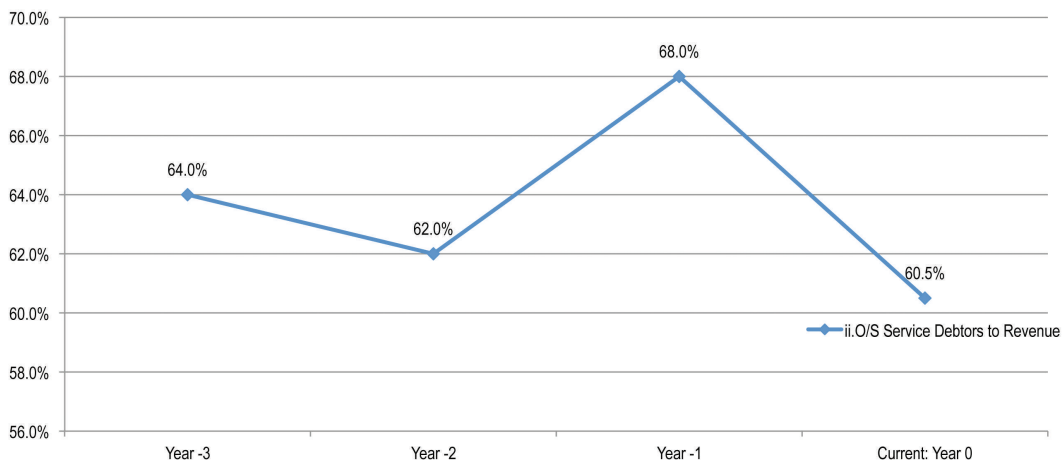
Cost Coverage



Cost Coverage– It explains how many months expenditure can be covered by the cash and other liquid assets available to the Municipality excluding utilisation of grants and is calculated

Data used from MBRR SA8

Total Outstanding Service Debtors

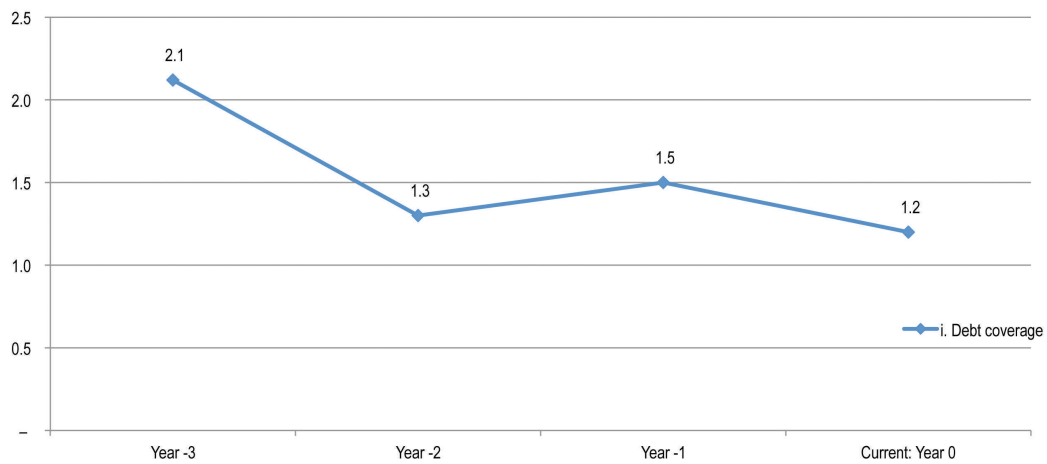


Total Outstanding Service Debtors – Measures how much money is still owed by the community for water, electricity, waste removal and sanitation compared to how much money has been paid for these services. It is calculated by dividing the total outstanding debtors by the total annual revenue. A lower score is better.

Data used from MBRR SA8

FINANCIAL RATIOS BASED ON KEY PERFORMANCE INDICATORS

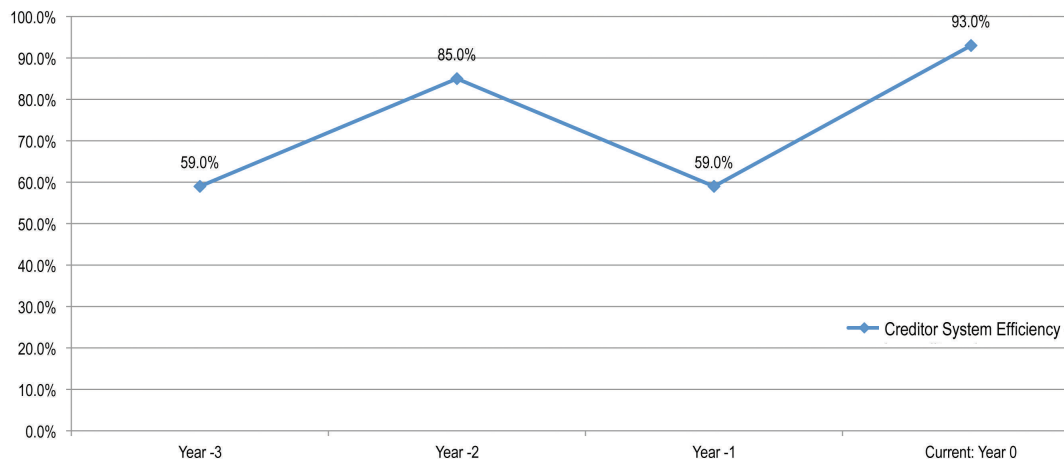
Debt Coverage



Debt Coverage– The number of times debt payments can be accommodated within Operating revenue (excluding grants) . This in turn represents the ease with which debt payments can be accommodated by the municipality

Data used from MBRR SA8

Creditors System Efficiency



Creditor System Efficiency – The proportion of creditors paid within terms (i.e. 30 days). This ratio is calculated by outstanding trade creditors divided by credit purchases

Data used from MBRR SA8