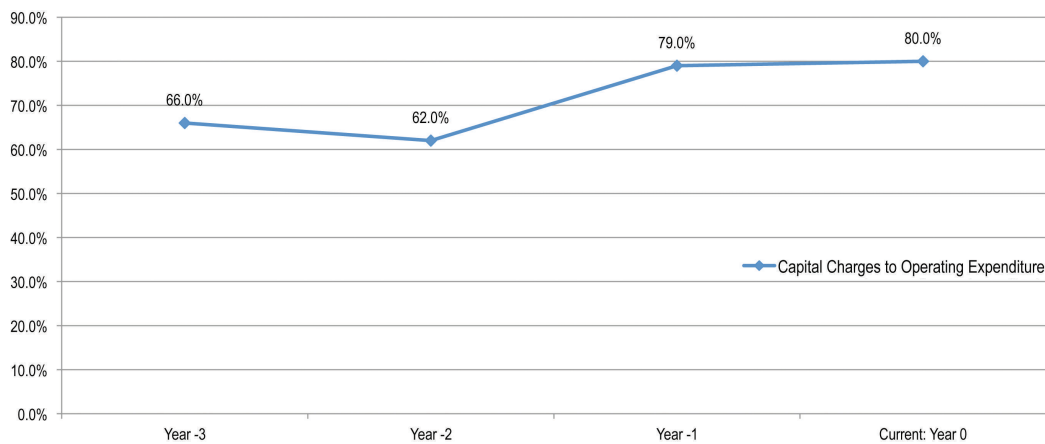


FINANCIAL RATIOS BASED ON KEY PERFORMANCE INDICATORS

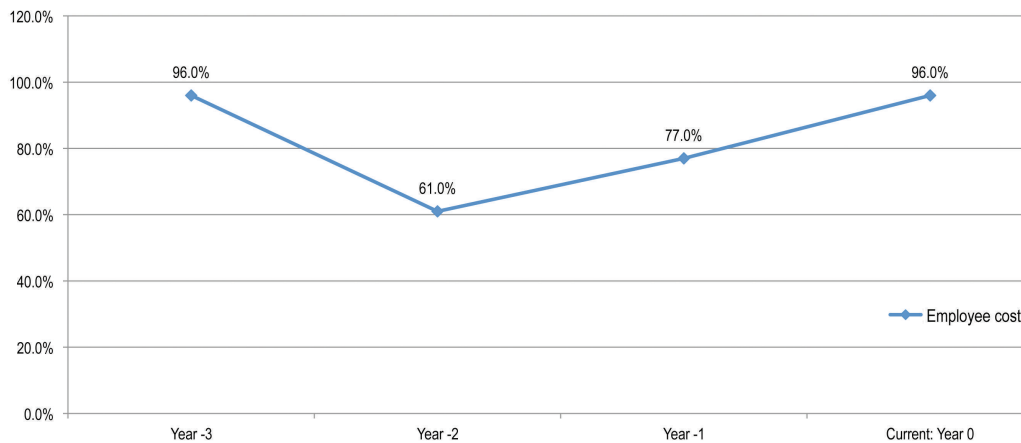
Capital Charges to Operating Expenditure



Capital Charges to Operating Expenditure ratio is calculated by dividing the sum of capital interest and principle paid by the total operating expenditure.

Data used from MBRR SA8

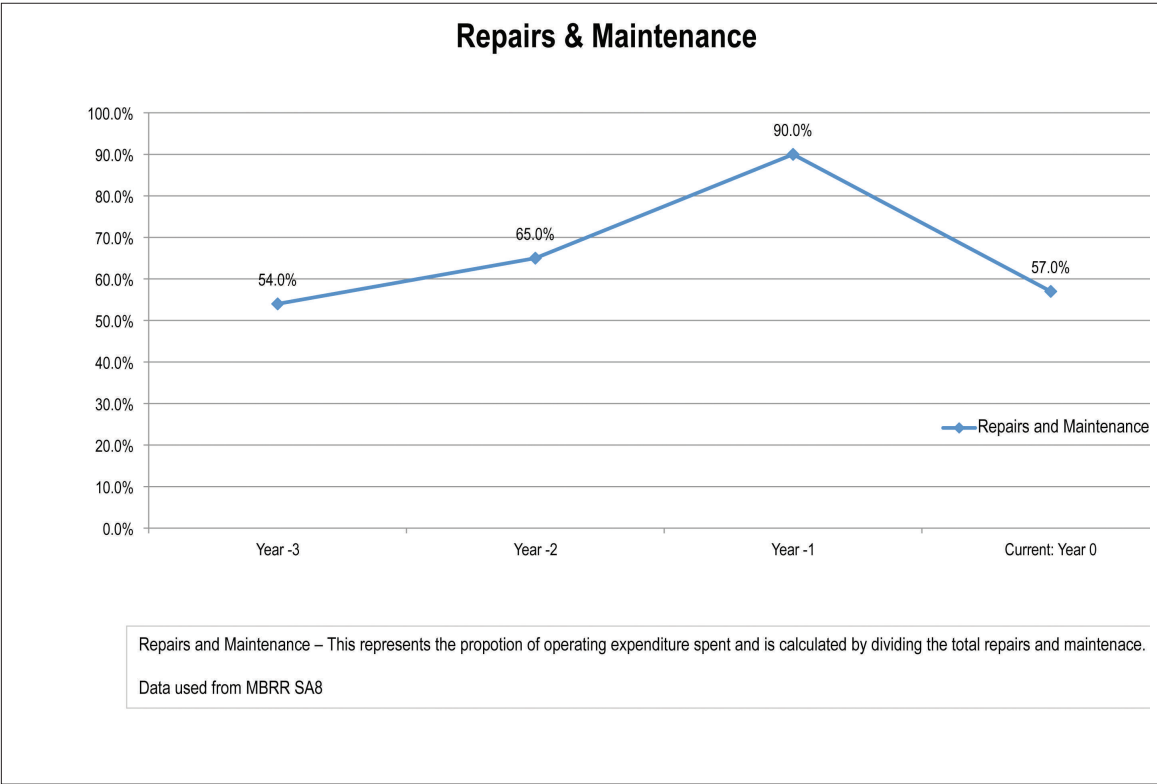
Employee Costs



Employee cost – Measures what portion of the revenue was spent on paying employee costs. It is calculated by dividing the total employee cost by the difference between total revenue and capital revenue.

Data used from MBRR SA8

FINANCIAL RATIOS BASED ON KEY PERFORMANCE INDICATORS



FINANCIAL RATIOS:

There has been an improvement in the cash flows of the municipality compared to the negative cash flows that were experienced in the previous years. The cash collection strategy that is being implemented by the municipality is beginning to reap positive results. The debt coverage has also improved as the municipality is slowly re-building its cash reserves.

The municipality has not reached its target in terms of the creditor's payment ratio, however the challenges thereon are operational in nature and are not affected by cash flows.

No new loans were taken in the reporting period and the municipality has paid off some of its financing commitments, therefore the capital charges ration of the municipality was improved in the current year.

The employee costs and the repairs and maintenance are the main operating costs that require the management's intervention and control. Although the employee cost ratio is currently below the National treasury norm, the overtime and related cost is increasing considerably. On the other hand, the municipality is failing to provide adequate funds to provide for repairs and maintenance of its ageing infrastructure in the annual budget.

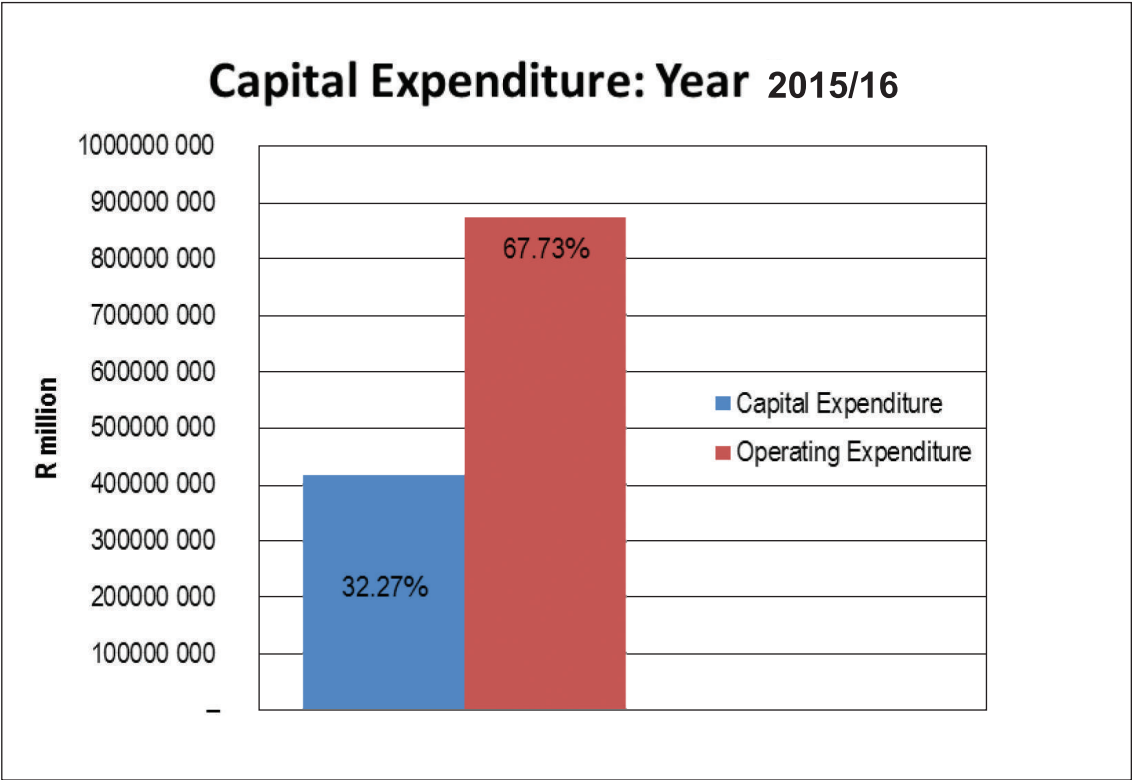
COMPONENT B: SPENDING AGAINST CAPITAL BUDGET

INTRODUCTION TO SPENDING AGAINST CAPITAL BUDGET

The three largest assets that were acquired by the municipality during the year are listed in table T5.3.2. These assets were acquired through MIG funding and are being implemented by the Project Management Unit of the municipality. These are multi-year projects, two of which were started more than three years ago. The municipality is currently overcommitted on the MIG funded projects which makes it difficult to move funds between projects even where there are identifiable challenges with the implementation of the projects on the ground.

The municipality had considered the option of frontloading with an aim sourcing additional funds to fast track the project implementation. However, upon further engagements with DBSA the municipality discovered that frontloading is not cost effective and decided not to proceed with this idea.

5.5 CAPITAL EXPENDITURE



CAPITAL EXPENDITURE

R million	Original Budget	Adjustment Budget	Un-audited Full Year Total	Original Budget variance	Adjusted Budget Variance
Capital Expenditure					
	397	416	365	7.9%	12.3%
Operating Expenditure					
	805	874	889	-10.5%	-1.8%
Total expenditure	1 201	1 290	1 254	-4.4%	2.8%
Water and sanitation	360	378	329	8.7%	13.1%
Other	37	38	37	0.3%	3.7%
	138	135	133	4.0%	1.5%
External Loans	–	–	–		
Internal contributions	–	–	–		
Grants and subsidies	360	378	329	8.7%	13.1%
Other	–	–	–		
	138	141	141	-1.8%	0.0%
External Loans	–	–	–		
Grants and subsidies	360	378	329	8.7%	13.1%
Investments Redeemed					
Statutory Receipts (including VAT)					
Other Receipts					
	1 182	1 189	1 192	-0.8%	-0.2%
Salaries, wages and allowances	312	312	312	0.0%	0.0%
Cash and creditor payments	379	379	379	0.0%	0.0%
Capital payments	364	364	364	0.0%	0.0%
Investments made	–	–	–		
External loans repaid	–	–	–		



CAPITAL EXPENDITURE

R million	Original Budget	Adjustment Budget	Un-audited Full Year Total	Original Budget variance	Adjusted Budget Variance
Statutory Payments (including VAT)	–	–	–		
Other payments	–	–	–		
	1 115	1 198	1 183	-6.1%	1.3%
	Original Budget	Adjustment Budget	Un-audited Full Year Total	Original Budget variance	Adjusted Budget Variance
Service charges: Water	408	463	316	22.5%	31.7%
Grants & subsidies: Water	363	363	363	0.0%	0.0%
Other revenue: Water	9	9	25	-187.3%	-187.3%
	779	834	704	9.7%	15.7%
Employee related costs: Water	290	305	303	-4.2%	0.7%
Provision for working capital: Water	93	139	332	-255.2%	-137.9%
Repairs and maintenance: Water	58	64	63	-8.0%	0.7%
Bulk purchases: Water	69	69	66	4.6%	4.6%
Other expenditure: Water	293	305	126	57.2%	58.8%
	805	882	889	-10.5%	-0.8%

Table 5.5.1



5.6 SOURCES OF FINANCE

Sources of Finance						
R' 000						
Details	2014/2015		2015/2016			
	Actual	Original Budget (OB)	Adjustment Budget	Actual	Adjustment to OB Variance (%)	Actual to OB Variance (%)
External loans	0	20000	0	0	-100.00%	-100.00%
Public contributions and donations	0	0	0	0	0	0
Grants and subsidies	329004	311749	409121	319541	31.23%	2.50%
Other	11803	5217	12424	31115	138.14%	496.42%
Total	340807	336966	421545	350656		
<i>Percentage of finance</i>						
	External loans	0.0%	5.9%	0.0%	0.0%	0
	Public contributions and donations	0.0%	0.0%	0.0%	0.0%	0
	Grants and subsidies	96.5%	92.5%	97.1%	91.1%	
	Other	3.5%	1.5%	2.9%	8.9%	
Capital expenditure						
	Water and sanitation	327553	311576	408128	319541	30.99%
	Other	13254	25390	13417	31115	-47.16%
Total	340807	336966	421545	350656		
<i>Percentage expenditure</i>						
	Water and sanitation	96.1%	92.5%	96.8%	91.1%	
	Other	3.9%	7.5%	3.2%	8.9%	

Table 5.6.1

SOURCES OF FUNDING:

The municipality spent 88% of its capital budget in the current financial year. The municipality failed to utilize its full budget on water infrastructure due to the challenges that were experienced with the project implementation on the ground. Some challenges relate to the disputes in the awarding of contracts. As most disputes arise after the municipality had already committed the funds, the municipality could not reallocate the funding to the fast-moving projects.

5.7 CAPITAL SPENDING ON 5 LARGEST PROJECTS

Capital Expenditure of 5 largest projects* R' 000					
Name of Project	Current: 2015/2016			Variance: Current 2015/2016	
	Original Budget	Adjustment Budget	Actual Expenditure	Original Variance (%)	Adjustment variance (%)
Mhlabashane Regional Bulk Water Supply	42 552 167	42 552 167	42 552 166	0%	0%
Mathulini Water Supply Phase 4-7	185 900	185 900	185 900	0%	0%
Harding Weza Regional Water Supply Scheme	1 200 936	1 200 936	1 200 936	0%	0%
				0%	0%
				0%	0%

Table 5.7.1

HIGHLIGHTS ON CAPITAL PROJECTS:

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.

COMPONENT C: CASH FLOW MANAGEMENT AND INVESTMENTS

INTRODUCTION TO CASH FLOW MANAGEMENT AND INVESTMENTS

The Municipality did not have any long-term investments during the year under review. Surplus funds were held in short term deposits to earn interest but could not be invested for longer periods due to operational requirements.



5.8 CASH FLOW

Cash Flow Outcomes				
				R'000
Description	2014/2015	Current: 2015/2016		
	Audited Outcome	Original Budget	Adjusted Budget	Actual
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Ratepayers and other	336 046	362 971	432 549	327 981
Government - operating	383 072	376 460	372 660	362 912
Government - capital	323 181	365 937	365 937	384 330
Interest	19 476	7 919	17 874	30 628
Dividends				
Payments				
Suppliers and employees	(569 331)	(594 335)	(625 535)	(657 194)
Finance charges	(12 813)	(18 952)	(18 946)	(13 556)
Transfers and Grants	(54 692)	(95 190)	(98 606)	(20 327)
NET CASH FROM/(USED) OPERATING ACTIVITIES	424 939	404 809	445 932	414 773
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts				
Proceeds on disposal of PPE	2 615			1 173
Decrease (Increase) in non-current debtors				
Decrease (increase) other non-current receivables	(263)			
Decrease (increase) in non-current investments				
Payments				
Capital assets	(328 882)	(337 894)	(410 862)	(365 278)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(326 530)	(337 894)	(410 862)	(364 105)
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts				
Increase (decrease) in consumer deposits		907	979	(3 064)
Payments				
Repayment of borrowing	(20 484)	(18 757)	(18 754)	(17 894)
NET CASH FROM/(USED) FINANCING ACTIVITIES	(20 484)	(17 787)	(17 775)	(20 957)
NET INCREASE/ (DECREASE) IN CASH HELD	77 925	49 127	17 295	29 711
Cash/cash equivalents at the year begin:	168 625	246 549	246 549	246 549
Cash/cash equivalents at the yearend:	246 549	295 677	263 845	276 261

Source: MBRR A7

Table 5.8.1

NARATIVE ON CASH FLOW OUTCOMES:

In terms of the Municipal Finance Management Act, Act 56 of 2003, section 13(2); each municipal council and governing body shall adopt by resolution an investment policy regarding the investment of its cash resources not immediately required. During the year under review, the Municipality adopted a cash and investment policy. The purpose of the policy is to ensure that the cash resources of the Municipality is managed effectively, efficiently and economically.

The competitive and effective management of the cash and investment will ultimately result in the long-term viability and sustainability of the municipality.

The Municipality did not have any long-term investments during the year under review. Surplus funds were held in short term deposits in order to earn interest as and were released to operations as and when required.

The cash held at the end of the year increased from R232 922 238 in 2015 to R256 456 861. This was the result of the austerity measures that were implemented by the Municipality during the year.

The collections from consumers have improved compared to the prior year's despite the challenges relating to the billing system.

5.9 BORROWING AND INVESTMENTS

INTRODUCTION TO BORROWING AND INVESTMENTS

No new loans were taken by the municipality during the 2015/2016 financial year. In the previous years, the Provincial Treasury had discouraged the municipality from taking new loans until the cash flows of the municipality have stabilized.

Actual Borrowings: Year 2013/2014 to Year 2015/2016			
	R' 000		
Instrument	2013/2014	2014/2015	2015/2016
Municipality			
Long-Term Loans (annuity/reducing balance)	180428	163447	145553
Financial Leases	6568	3064	
Municipality Total	186 996	166 511	145 553

Table 5.9.1

HIGHLIGHTS ON BORROWING AND INVESTMENTS:

During the year under review Ugu District Municipality maintained its investment in two 100% owned entities namely Ugu South Coast Tourism Agency and Ugu South Coast Development Agency. The investments held in each of the entities are 100 issued shares of R1 each

COMPONENT D: OTHER FINANCIAL MATTERS

5.10 SUPPLY CHAIN MANAGEMENT

The Supply Chain Management Policy and Standard Operating Procedures are in place and are reviewed annually with the other budget related policies.

All the contracts of the Municipality are procured through the SCM process, and they are formalised in writing and vetoed through the Municipality's Legal Compliance Office. A contracts administrator is responsible for the management of all the Municipal contracts. The Municipality maintains a contract register that is updated with all contracts that have been awarded on a regular basis.

All officials in the Supply Chain Management Unit meet the prescribed minimum competency levels as required by the Municipal Finance Management Act, Act 56 of 2003.

The demand management is managed through the procurement plan that was adopted by council as a working document of the Municipality.

There is still a great need for improvement in the following areas:

- Contracts awarded within 75 days;
- Limited or decreased irregular expenditure; and
- Skills development for the current staff in the SCM unit

5.11 GRAP COMPLIANCE

GRAP is the acronym for Generally Recognized Accounting Practice and it provides the rules by which municipalities are required to maintain their financial accounts. Successful GRAP compliance will ensure that municipal accounts are comparable and more informative for the Municipality.

It will also ensure that the Municipality is more accountable to its citizens and other stakeholders. Information on GRAP compliance is needed to enable National Treasury to assess the pace of progress and consider the implications.

The Consolidated Annual Financial Statements have been prepared in accordance with the Standard of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal

Finance Management Act, Act 56 of 2003. The Consolidated Annual Financial Statements have been prepared on an accrual basis of accounting and in accordance with the historical convention as the basis of measurement, unless specified otherwise.

In the absence of an issued and effective Standard of GRAP, the accounting policy for material transactions, events or conditions were developed in accordance with paragraphs 8,10 and 11 of GRAP3 as read with Directive 5.

Assets, liabilities revenue and expenses were not off-set, except where offsetting is either required or permitted by a Standard of GRAP.