

1.4. Financial Health Overview

1.4.1 Financial Overview: Current Situation; Opportunities and Challenges

Financial Overview: 2016/2017 R' 000			
Details	Original budget	Adjustment Budget	Actual
Income:			
Grants	408 662	421 978	391 139
Taxes, Levies and tariffs	539 115	539 165	314 126
Other	32 177	36 700	49 733
Sub Total	979 954	997 843	754 998
Less: Expenditure	912 263	995 500	1 015 062
Net Total*	67 690	2 343	-260 064
Table 1.4.1			

Ugu District Municipality's Constitutional Mandate of ensuring the provision of services to communities in a sustainable manner requires long term financial sustainability to support the service delivery objectives. Long term financial sustainability must be ensured by the application of sound financial principles, strengthening of financial management systems and promotion of transparency. The multi-year budgeting method is currently being used to ensure stability.

This method balances funding of capital expenditure with the impact on future operational budgets in the medium and long terms. Sound financial principles must be addressed by ensuring that compliance to legislation is maintained and policies, delegations, roles and responsibilities are properly monitored.

The municipality is grant dependent and cannot fund capital projects with internal funds in the short and medium term. For the last five years, the municipality

has refrained from making new commitments in terms of borrowed funds and this has improved liquidity. All the reserves of the municipality are now cash backed.

Although the municipality is still experiencing challenges with the current billing system, there has been an improvement in the cash collections from the consumers compared to the previous financial year.

The improvement in the cash collection can be attributed to the effective implementation of the Credit Control and Debt Collection policy.

The municipality has remained conservative in spending its cash resources and this practice has been influenced by the various turnaround plans which were adopted by the municipality in the previous financial years.

Operating Ratios	
Detail	%
Employee Cost	33.42%
Repairs & Maintenance	6.61%
Finance Charges & Impairment	7.84%
Table 1.4.2	

Operating Ratios

The municipality has managed to contain the expenditure on employee related costs below the National Treasury's norm of 34%. On the other hand, the municipality has spent less money on the maintenance of the existing infrastructure assets due to inadequate asset maintenance plans. The municipality has not taken any new loans for the past few years, and this decision has improved the cash flows and the liquidity status of the municipality.

Total Capital Expenditure: 2014/2015 to 2016/2017			
R'000			
Detail	2014/2015	2015/2016	2016/2017
Original Budget	336 966	395 973	369 147
Adjustment Budget	421 545	410 867	349 233
Actual	328 882	365 375	310 299
Table 1.4.3			

Variations between the Original Budget; Adjustment Budget and Actual

The decrease in the capital expenditure compared to the previous years can be attributed to the decrease in the capital funding from national government, and the efforts by the municipality to contain its borrowed funding to an affordable level.

1.5. Organisational Development Overview

The Human Resources Section renders a comprehensive integrated customer focused human resources, including the following:

Recruitment and Selection – The municipality reviewed its organisational structure during the 2014/2015 financial year, however due to the shortage of funds, the municipality could not provide for all the new positions both during 2014/2015 and 2015/2016 financial years.

Organisational Development – The municipality is currently rolling out the individual performance management system to the middle management that is reporting to the section 57 managers.

The plan is to cascade the individual performance management system down to all levels of the municipality.

The municipality implemented the policy on Incentives and Rewards during the year under review.

The best performing employees were identified for each department and were rewarded for their hard work.

The municipality developed the Workplace Skills Plan, which catered for all staff development needs during the 2015/2016 financial year.

In addition, the municipality established a job evaluation team to ensure that no employee is worse off and that training needs are directed in line with job activities of each individual employee.

1.6. Auditor General Report 2016/2017 (Highlights)

STATUTORY ANNUAL REPORT PROCESS

Information to be populated after the tabling of the AG report to Council

No.	Activity	Timeframe
1	Consideration of next financial year's Budget and IDP process plan. Except for the legislative content, the process plan should confirm in-year reporting formats to ensure that reporting and monitoring feeds seamlessly into the Annual Report process at the end of the Budget/IDP implementation period	July
2	Implementation and monitoring of approved Budget and IDP commences (In-year financial reporting).	
3	Finalise the 4th quarter Report for previous financial year	
4	Submit draft year 2016/2017 Annual Report to Internal Audit	August
5	Municipal entities submit draft annual reports to MM	
6	Audit/Performance committee considers draft Annual Report of municipality and entities (where relevant)	
7	Municipality submits draft Annual Report including consolidated annual financial statements and performance report to Auditor General	
8	Auditor General audits Annual Report including consolidated Annual Financial Statements and Performance data	September/ October/ November
9	Municipalities receive and start to address the Auditor General's comments	
10	Mayor tables the unaudited Annual Report	January
11	Annual Performance Report as submitted to Auditor General to be provided as input to the IDP Analysis Phase	
12	Mayor tables Annual Report and audited Financial Statements to Council complete with the Auditor- General's Report	
13	Audited Annual Report is made public and representation is invited	February
14	MPAC assesses Annual Report	February/ March
15	Council adopts Oversight report	March/ April
16	Oversight report is made public	
17	Oversight report is submitted to relevant provincial councils	
18	Commencement of draft Budget/ IDP finalization for next financial year. Annual Report and Oversight Reports to be used as input	April

CHAPTER 2 – GOVERNANCE

COMPONENT A: Political and Administrative Governance

2.1. Introduction to Political Governance

The Constitution of South Africa, in Section 151(3), states that a Municipality has the right to govern on its own initiative, the local government affairs of its community, subject to national and provincial legislation as provided for in the Constitution.

The Council is a legislative Political Structure which is entrusted with the oversight responsibility on matters pertaining to the developmental progress and implementation of service delivery projects. There are various Portfolio Committees as legislated through section 80 of the Municipal Structures Act 117 of 1998, that are each convened by the members of the Executive Committee who play a political oversight on various activities that are implemented by Municipal Administration Departments. All these Portfolio Committees report to the Executive Committee, whose chairperson is the Mayor, which takes decisions and resolves to recommend to Council for the implementation of service delivery matters.

The Portfolio Committees are as follows:

- Finance Portfolio Committee
- Water and Sanitation Portfolio Committee
- Local Economic Development Portfolio Committee
- Good Governance and Human Resources Portfolio Committee
- Special Programmes Portfolio Committee

2.1.1 Financial management and administration performance is further monitored and evaluated by the established section 79 of the Municipal Structures Act 117 of 1998 Committees below,

- Municipal Audit Committee
- Municipal Public Accounts Committee (MPAC)

It is a legislative requirement that an Audit Committee be established which considers the Auditor General's report and its implications for internal risk management and performance audit matters. The purpose and objective of the Audit Committee is to advise the Municipal Manager on:

The members of the Audit Committee are defined in the MFMA 166(4), 166 (5) and at Ugu District Municipality, the unit of Internal Audit which is based within the Office of the Municipal Manager provides support to this committee.

The Audit Committee has the following responsibilities;

• Financial Statements

Ensure that all financial reports are complete and consistent with the information required. Review financial reports with management and the external auditors, before filing with regulators.

• Internal Control

Ensure the effectiveness of the council's internal control over annual and interim financial reporting, including information technology security and control. Understand the scope of internal and external auditor's review of internal control, and

obtain reports on significant findings with specific reference to the safeguarding of assets, accounting records and the maintenance of effective internal control systems.

- **Internal Audit**

Review with management the charter, plans, activities, organisational structure of the internal audit activity. Ensure there are no unjustified restrictions or limitations. Review the effectiveness of the internal audit activity, including compliance with the Institute of Internal Auditor s Standards for the Professional Practice of Internal Auditing. On a regular basis, meet separately to discuss any matters that the committee or auditors believe should be discussed privately.

- **Audit Committee**

On a regular basis, the municipality meets with the Audit Committee to discuss any matters that the committee believes needs attention.

- **Compliance**

Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of investigations, follow-ups of any instances of non- compliance. Review the findings of any examinations by regulatory agencies, and any auditor observations. Review the process for communicating the code of conduct to Council personnel and for monitoring compliance therewith. Obtain regular updates from management and legal counsel regarding compliance matters. Assess the reliability of performance information reported and commission in-depth performance investigations where there is continued poor performance. Evaluate the committee s performance on a regular basis. Institute and oversee special investigations as needed.

Review and assess the adequacy of the committee s Charter annually, requesting Executive Committee approval for proposed changes. Confirm annually that all responsibilities outlined in this charter have been carried out. Section 14(4) (a) (iii) of the Local Government Municipal Planning and Performance Management Regulations requires that the Audit Committee submit a report to the Municipal Council at least twice a year, regarding the Performance Management System. In fulfilling its role and in carrying out its duties and responsibilities, the Audit Committee may conduct such investigations and seek from any employee or councillor such information as it considers necessary to enable it to fulfill its functions, and all employees and councillors are required to co-operate with any request made by the Audit Committee. The committee must consider and recommend improvements in financial control and accounting systems as well as assess extraordinary items or abnormal disclosures with specific reference to: -

- The annual financial statements;
- Accounting policies and practices;
- Specific strategic reports;
- External audit procedure;
- The annual external audit report before submission to the relevant committee;
- All Internal audit activity;
- Compliance with law, audit and accounting standards; and
- Reports of the Head: Investigations.

Audit committee members do not have any authority to make any decisions on behalf of the Council.

In terms of the Municipal Audit Committee s functionality and oversight process at Ugu District Municipality, the following is applicable;

- All reports requiring Audit Committee consideration shall first go to the Management Committee
- The reports shall then go to the Audit Committee which shall meet at least once every two months;

- After consideration by the Audit Committee, the reports shall be tabled to the Executive Committee, by the Chairperson of the Audit Committee or his/her nominee;

2.1.2 The municipal public accounts committee (MPAC) must report directly to Council through the Speaker: Any other form of reporting line will compromise its independence, authority and integrity. As MPAC performs an oversight function on behalf of Council it is not a duplication of, and must not be confused with either the Audit Committee or the Finance Portfolio Committee. The Audit Committee is an independent advisory body that advises Council and the Executive on financial and risk matters and can act as an advisory body to MPAC. The Finance Portfolio Committee deals with financial management issues such as budget, revenue and expenditure management as well as supply chain management. The primary function of a MPAC is to help Council to hold the Executive and the municipal administration to account and to ensure the efficient and effective use of municipal resources. It will do this by reviewing public accounts and exercising oversight on behalf of the Council.

The committee must examine:

- financial statements of all executive organs of Council;
- any audit reports issued on those statements;
- any reports issued by the AG on the affairs of any municipal entity;
- any other financial statements or reports referred to the committee by Council; and
- the Annual Report on behalf of Council and make recommendations to Council thereafter; and

The committee may

- report on any of those financial statements or reports to Council;
- initiate and develop the annual oversight report based on the Annual Report;
- initiate any investigation in its area of competence; and
- must perform any other function assigned by resolution of Council.

When the committee examines the financial statements and audit reports of a municipality or municipal entity, it must take into account the previous statements and reports and report on the degree to which shortcomings have been rectified; The committee must monitor the extent to which its recommendations and that of the AG are carried out. The outcomes and the resolutions of the deliberations of this committee must be reported to Council and made public; and It must enhance the accountability process by ensuring that there is objective political oversight, which allows for public involvement and comments in addition to other established governance committees, such as the Finance Portfolio Committee and the independent Audit Committee. MPAC, like other council committees, should solely be comprised of Councillors appointed by a full council meeting. The actual size should be determined by the size of a Council (i.e. number of Councillors), but care should be taken to ensure that members represent a wide range of experience and expertise available in Council as well as political representation. ranging between a minimum of 5 to a maximum of 12, mainly dependent on the size of the Council. In keeping with the tradition of oversight function, the Council may consider whether a member of an opposition party must chair a MPAC. The Mayor and members of the executive committee are not allowed to be members of a MPAC.

Reports requiring the Municipal Public Accounts Committee s Consideration follow the process as below;

- All reports requiring Municipal Public Accounts Committee s consideration shall first go to the Management Committee;
- In order for the MPAC to be able to deal with a report, the Chairperson of the relevant Portfolio Committee and the Head of Department responsible should be present at the tabling of the report;
- Reports from MPAC shall go directly to the full Council with a report from the MPAC Chair;

This committee meets at least once quarterly as per the annual council roster of meetings. There is a person deployed by the KZN Department of Cooperative Governance and Traditional Affairs, who advises, provides support and gives strategic direction on matters of public participation.

2.1.3 POLITICAL DECISION-TAKING

The executive and legislative authority of a municipality is vested in its Municipal Council. The pre-eminent roles of the Council, amongst others, are the approval of by-laws, budgets, policies, IDP, tariffs for rates and service charges. The Council consists of 35 members, seven of whom are full-time. Refer to Appendix A where a full list of Councilors can be found (including committee allocations and attendance at council meetings).

Please also refer to **Appendix B**, which sets out the municipal committees and their purpose.

MUNICIPAL COUNCIL SPEAKER: CLLR NH GUMEDE

MEMBERS: Cllrs MA Chiliza (Mayor), IM Mavundla (Exco Member), PH Mthiyane (Exco Member), LMR Ngcobo (Exco Member), SP Mthethwa (Exco Member), NT Zwane (Exco Member), SN Caluza, TB Cele, DZ Cele, TA Disane, TW Dube, JJ East, M Gcabe, GD Henderson, DMM Hlengwa, SE Khawula, M Lubanyana, BE Machi, MA Manyoni, H Mbatha, S Mngomezulu, NCP Mqwebu, ZZ Msani, NY Mweshe, L Mzimela, R Nair, PT Naude, D Nciki, SR Ngcobo, HJ Ngubelanga, DA Ngubo, B Ntusi, A Rajaram and LPM Zungu.



EXECUTIVE COMMITTEE:

Chairperson: MA Chiliza (Mayor) (ANC), IM Mavundla (ANC), SP Mthethwa (IFP), PH Mthiyane (ANC), LMR Ngcobo (DA), NT Zwane (ANC), and NH Gumede (Speaker: Ex-Officio) (ANC).

Portfolio Committee on Sound Governance & Human Resources:	Portfolio Committee on Local Economic Development:	Portfolio Committee on Water & Sanitation:	Portfolio Committee on Finance:	Portfolio Committee on Special Programmes
Chairperson: Cllr NT Zwane, ANC	Chairperson: Cllr IM Mavundla, ANC	Chairperson: Cllr PH Mthiyane, ANC	Chairperson: Cllr MA Chiliza, ANC	Chairperson: Cllr NT Zwane, ANC
Members: SE Khawula - IFP H Mbatha - ANC S Mngomezulu - ANC NY Mweshe - ANC Y Nair - ANC HJ Ngubelanga - ANC LMR Ngcobo (DA)	Members: SN Caluza - ANC TB Cele - ANC M Lubanyana – ANC ZZ Msani - ANC SP Mthethwa -IFP JJ East - DA DMM Hlengwa - ANC	Members: TA Disane - IFP H Mbatha - ANC PT Naude - DA HJ Ngubelanga - ANC SP Mthethwa - IFP MPL Zungu - ANC	Members: TW Dube - ANC GD Henderson - DA MA Manyoni - ANC B Ntusi - IFP NCP Mqwebu - ANC SR Ngcobo - ANC D Nciki - ANC	Members: SN Caluza - ANC HJ Ngubelanga - ANC BE Machi - IFP GS Mngomezulu - ANC LMR Ngcobo - DA A Rajaram – DA



Council meeting

2.1.2 Political Decision-Making

Every Municipal Council has the right to determine its internal procedures; this right is protected by S160 of the Constitution, which also allows the Municipal Council to decide what mandate or area of responsibility it assigns to political structures, office bearers and the Municipal Manager. This right is coupled with an obligation in the Municipal Systems Act 32 of 2000, which instructs each municipality to define the roles and areas of responsibility of political office-bearers and political structures. This definition process is done through the terms of reference, which seek to precisely outline the roles and responsibilities of the Councillors, political structures and officials in a municipality as identified in legislation.

The purpose of the Executive Committee is to delegate specific functions to committees as provided for in Part 5: Section 79 of the Municipal Structures Act, 1998. The Executive Committee exercises oversight responsibilities in respect of the day-to-day activities of Council. It is important to note that all resolutions taken by the Executive Committee as per delegations from the Council for the financial year 2013/2014 have been implemented.

The object of the Council Committee is to perform the following functions:

- To formulate and develop legislation and policies pertaining to the functions of the administration;
- To provide oversight in the implementation and monitoring of the approved legislation, by-laws, policies, municipal budget as well as Council's strategic plans;
- To consider any report on legislation, policies (Budget and Integrated Development Planning included), and bylaws with regard to the administration;
- To ensure that the inputs from the communities and sector forums are given due consideration and Councillor Chiliza, Mayor/Chairperson of the Executive Committee, accounts where applicable; and General Functions of the Executive Committee
- Recommends to Council after consultation with the relevant Portfolio Committee, policies where Council had reserved the power to make the policies itself
- Makes recommendations to Council in respect of Council's legislative powers
- Determines strategic approaches, guidelines and growth parameters for the draft budget including tariff structures

These Portfolio Committees continue to assist the Executive Committee in policy development and monitoring to accelerate service delivery, as well as the oversight of strategic programmes and projects.

2.1.4 Traditional Leaders

Section 81(2) of the Municipal Structures Act, Act 117 of 1998, provides for the participation of traditional leaders in municipal Councils. This piece of legislation empowers the Provincial MEC to resolve on the details of Amakhosi to participate and publish same in the provincial gazette.

This is to give an opportunity to a leader of a traditional authority directly affected by a decision to express a view on the matter before the municipal Council takes a decision. This is in line with government's values of transparency, inclusivity, and cooperation amongst its stakeholders.

In line with Section 81(5) of the same Act, the municipality's Code of Conduct for councillors and its Rules of Order will apply fully to traditional leaders participating in the meetings of Council. The following Amakhosi participated in the Ugu District Municipal Council during the FY2016/17:

Inkosi RS Shinga

Inkosi NM Machi

Inkosi BS Nzimakwe

Inkosi ZE Ngcobo

Inkosi R Qwabe

Inkosi MBW Xolo; and

Inkosi ZGB Msomi

2.2 ADMINISTRATIVE GOVERNANCE

2.2.1 Introduction to Administrative Governance

The Ugu District Municipality is committed to transparent and accountable governance. The broad range of public participation programmes and processes, especially related to its IDP and Budget, bear testimony to the institution's commitment to involve its communities in its planning and decision-making processes.

The Council of the Ugu District Municipality is the highest decision making authority in the institution. It guides and instructs the administrative component, which implements the decisions taken by the political component. The head of the administrative component is the Municipal Manager, DD Naidoo and there are 4 GMs for the various Departments within the Municipality. The administrative wing consists of structures that are put together by the Municipal Manager in order to ensure efficiency and improve service delivery within the municipality. The refereed institutional arrangements relate to Management Committee and Extended Management Committee.

Management committee consists of GMs (S56) reporting directly to the Municipal Manager as well as Senior Managers and Managers that are reporting directly to the municipal manager, but who are not S56 Managers. This committee discusses strategic issues pertaining to the provision of municipal services and deals with those matters before they can be considered by the Portfolio Committees and Executive committee.

The proceedings of Management committee are always recorded, whilst a formal agenda is followed. The Extended Management Committee consists of all GMs, Senior Managers and Managers within Ugu district municipality and is an extension of Management committee. This committee serves the same purpose as Management committee, however it considers mainly issues that directly affect the section managers and which require implementation by managers. This committee is convened by the Municipal Manager and the meeting proceedings are always recorded. Both Management and Extended management meetings take place on Mondays following a formal agenda.

In order to give effect to the implementation of Council and management resolutions, the Management Committee has formed the Resolutions committee which is comprised of all GMs of Ugu district municipality. The role of GMs is to monitor and track implementation of Council and management resolutions.

This committee has a separate agenda, and upon consideration of resolutions – those that are not implemented get followed up by the Secretariat unit. In all the above-mentioned committees, secretariat unit plays a crucial role in terms of minute taking, recording and distribution of the agenda. In the past financial year, the administrative governance within Ugu district municipality has improved considerably both in terms of attendance to issues or challenges and compliance with the implementation of resolutions.