

MONTHLY FINANCIAL MANAGEMENT REPORT AS AT END OCTOBER 2015

(9/1/3/6)

Cluster : Finance

Portfolio : Financial Management

PURPOSE

The purpose of the report is to reflect the financial position of the Municipality for the month of OCTOBER 2015.

OBJECTIVE

The objective of this report is to assist Council to exercise their oversight function to:

- Makes rational decisions about the allocation of resources;
- Assess the current provision of services, as well as the sustainability of future service delivery;
- Assess how officials have discharged their accountability responsibilities;
- Ensure transparency in respect of the municipality's financial position and operating results;
- Assess the performance of the municipality measured against preset targets and objectives;
- Inform Council on how cash and other liquid resources were obtained and utilized;
- Assess whether financial resources were administered in accordance with legislative and regulatory requirements; and
- Promote comparative information for prior periods and actual results against budgeted or planned results;

Legislative Requirements:

It is important for a municipality to report in order to comply with comprehensive legislative and contractual requirements, regulations, restriction and agreements. Effective financial reporting should therefore not only involve the presentation of bare financial facts but should also make provision for compliance issues, integration and interpretation. This will

enable interested parties to readily comprehend the significant aspects of a municipality's financial operations.

This report is compiled as per the requirements of Sections 54 and 71 of the Local Government: Municipal Finance Management Act, 56 of 2003.

BACKGROUND

With reference to section 71 above, “the accounting officer must by no later than 10 working days after the end of each month submit to National treasury and other spheres of government the OCTOBER report of the municipality a statement on the implementation of the budget and the state of the financial affairs of the municipality”.

Financial reports are the primary means of communicating financial information to other interested parties. These reports are made accessible to the Executive for additional management and financial information that helps it carries out its planning, decision-making and control responsibilities, and therefore has the ability to determine the form and content of such additional information to meet its own needs.

Governance is built around the responsibilities of accountability and oversight requiring a culture of transparency and regular reporting. More detailed financial reporting to the Council will facilitate an environment in which potential or real financial problems are reported in time and in an appropriate manner to allow the council to remedy the situation.

The financial situation of the municipality as at the end OCTOBER 2015 is indicated in the different schedules as listed below.

EXECUTIVE SUMMARY

Item of Financial Position/ Performance	Actual SEPTEMBER 2015	Actual OCTOBER 2015	Trend Analysis
<i>Current Assets</i>			
Debtors Age Analysis	R 1 115 478	R 4 446 851	Increased from previous month due to payment non-payment received for IT services from Emfuleni LM and Midvaal LM.
<u>Cash & cash equivalents:</u>			
Investments	R 237 942.22	R 238 753.83	Increased from previous month due to interest on investment withdrawn .
Cashbook balance (bank reconciliation) Primary	R 23 113 248	R 17 015 421 648 271	Decrease from previous month due to investment withdrawn operational expenses exceeding revenue for the month.
Cashbook balance (bank reconciliation) Licensing	R 19 224 609	R 3 792 282 621 051 421	
<i>Current Liabilities</i>			
Creditors Age Analysis	R 44 591 392 63 942 981	R 4 446 851 337 563 60 638 792	Decreased In Decreased in current liabilities due to decrease in decrease in trade creditors, refundable deposits and monies payable to license authorities.
<i>Cash Flow</i>			
Cash flow closing balance	R 43 082 098	R 20 923 495	Decreased from previous month due to payment done which exceeds revenue.
Cost Coverage indicator	1.5	0.73	Austerity mechanism to control expenditure implemented and ongoing.
<u>Grants received in OCTOBER 2016:</u>			
Equitable share	R 0	R 0	First tranche of the 2015/16 Equitable Share received in July 2015, second

Item of Financial Position/ Performance	Actual SEPTEMBER 2015	Actual OCTOBER 2015	Trend Analysis
			receivable in November 2015. Third trench of equitable receivable in March
MSIG	R 0	R 0	Implementation of EPMS system.
FMG	R 0	R 0	Financial Management Grant received in July 2015, to be utilized for Financial Management Interns and Financial Capacity Building
EPWP	R 0	R 0	Extended Public Works Programme managed by SPED.
NDPG	R 0	R 0	No allocation for 2015/16.
HIV/AIDS	R 0	R 0	Grant from the Department of Health for HIV and AIDS program.
Grants spent in OCTOBER 2016:			
MSIG	R 0	R 129 481.58	Implementation of EPMS system.
FMG	R 268 071.33	R 97 365	Financial Management Interns and Financial Policies expenditure.
EPWP	R 255 125.330	R 130 775.59	Expenditure on EPWP grants programs managed by SPED.
NDPG	R 959 469.27	R 353 152.30	Capital projects performed on behalf of the Local Municipality.
HIV/AIDS	R 1861	R 151 690.26	HIV/AIDS grant expenditure.
Financial Performance			
Operating Revenue for Month	R 1 161 016	R 12 342 369	3035.03 % received to date (benchmark 2533.0033 %).
Operating Expenditure for Month	R 32 442 970	R 30 183 357	2533.01 % spent to date (benchmark 2533.0033 %).
Capital Expenditure for Month	R 1 036 844.25	R 670 523	1318.23 % of total Capex budget spent to date (benchmark 2533.0033 %).
MFMA Compliance			
Monthly reports	MFMA 71,66	MFMA 71,66	Submit monthly reports on budget

Item of Financial Position/ Performance	Actual SEPTEMBER 2015	Actual OCTOBER 2015	Trend Analysis
			implementation and employee costs.
Budget	MFMA 21(1) (b) & 53 (1) (b)	MFMA 54 (1)	Review SDBIP.

DISCUSSIONS

The discussions below are broadly categorized under items of financial position (balance sheet), items of financial performance (income statement) and cash flow, as well as other information of key importance such as Asset Management and MFMA Compliance.

Financial Position

The balance sheet of Council is broadly distinguished into “Assets” (what Council owns) and “Liabilities” (what Council owes) as per Generally Accepted Accounting Principles (GRAP). The difference between assets and liabilities is referred to as the “Net Assets.”

The net assets of Council are primarily composed of reserves that Council has built up over the years. The nature of these reserves can be either ring-fenced for specific use only (non-distributable reserves), or redistributable for other use as determined by Council. It must be noted that these reserves are non-cash items and Council’s cash held as investments do not match these reserves.

a) Current Assets

Debtors Management and Credit Control Status for the month ending OCTOBER 2015

The debtor's book balance of the municipality as attached in "Annexure A" at the end of OCTOBER 2015 amounted to R 4.4 million.

The major debtors were:

- IT services rendered in the month of OCTOBER 2015:-
 - R ~~4089 02961 798~~ due from Midvaal Local Municipality whereby R ~~4089 02961 798~~ is current, R ~~933 124~~ is over 30 days, R ~~744 452~~ is over 90 days and R ~~1680 246~~ is over 120 days;
 - R ~~4 385 053~~ is due from Emfuleni Local Municipality whereby R ~~1 027 231~~ is current, ~~933 124~~ is over 30 days, ~~744 452~~ is over 60 days, R ~~1 680 246~~ is over 90 days and ~~R 4 385 851~~ is over 120 days;
 - R ~~61798~~ due from Midvaal Local Municipality whereby R ~~0~~ is current, ~~0~~ is over 30 days, R ~~0~~ is over 90 days and R ~~0~~ is over 120 days;

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Details of credit control measures implemented by Assets Management are provided in the Debtors' Management report tabled separately to the Committee.

Cash & cash equivalents

Movement on Investment Balances

Surplus cash is invested only over short-term periods of 90 days, 60 days, 32 days and all deposits in order to be able to cater for the envisaged spending within the various months. This results in a fluctuating investment balance which is reported on a monthly basis.

Annexure "B" is the investment schedule which indicates the movements of investments made and funds withdrawn during the month. The investments comprises of mostly ring-fenced committed grant monies that are not currently being utilized.

The opening investment balance at the beginning of the month of OCTOBER 2015 was R 237 942.22 There was no investment made and there was no investment withdrawn of R 238 753.83 for the month of OCTOBER 2015. No interest was accumulated and has been recorded in our book of accounts accordingly. The carrying forward balance hence equates to R 238 753.83

It must be noted that Council’s investments are comprised of monies from various sources and serve different purposes. Savings from the annual budget that have no conditional purpose are usually held in the “accumulated surplus” of Council. However, it must be noted that the “accumulated surplus” is made up of accounting book-entries and does not necessarily imply that these sums are cash-backed by physical funds in investments. The monies held in investments for Council are mostly made up of grant monies received that is not yet utilized. The following are descriptions of such funds held in our investments:

Fund Source	Purpose
Equitable share	Each municipality receives an allocation of revenue raised nationally. Note that a portion of the equitable share serves as a replacement of the repealed RSC levies.
Conditional grants	Unspent portions of the conditional grants received from National and Provincial Treasuries are held in investments until they are required for making payment as per specifications of the grant. These monies must be treated as “committed” and are not available for use other than that specified in the conditions of the grant.
Provisions backed by cash reserves	Accounting standards (GRAP 19) require contributions to provisions for leave pay and other contingent liabilities to be cash backed by being held in various assets (such as investments)

Bank reconciliation

Annexure” C1 –4” indicates the bank reconciliations prepared for the month of ~~SEPTEMBER~~ OCTOBER 2015 with the detail on the bank and cash book balances.

The Council has four operating bank accounts which need to be reported on namely:

- ~~Two Standard Bank~~ Primary bank accounts,
- ABSA Main account (Phased out)~~and~~
- ~~Two Standard Bank~~ License bank accounts
- ABSA License account (Phased out)

~~Council is operating two primary accounts while currently underway with interim process to transition banking services from one service provider to another.~~

Bank reconciliations are completed monthly within three working days after the end of each month.

The cashbook shows a favorable balance of R 20 ~~807 704~~938 446 as at the end of OCTOBER 2015.

b) Current Liabilities

Creditors' Age Analysis

Annexure "D" represents the creditors' age analysis. ~~R9 298 877~~R25,197,665 ~~R 45 337 563~~ million was due payable to the Licensing Authority in ~~OCTOBER-NOVEMBER~~ -2015 for fees collected in OCTOBER -2015 as part of the agency function. ~~R 9 298 877~~ Council serves must pay to the Provincial Authority, R130 045R146,845 held as refundable deposits, and R35,36 million payable to trade creditors.

c) Net Assets

Reserves

The balance sheet of Council is broadly distinguished into "Assets" (what Council owns) and "Liabilities" (what Council owes) as per Generally Accepted Accounting Principles (GRAP). The difference between assets and liabilities is referred to as the "Net Assets."

The net assets of Council are primarily composed of reserves that Council has built up over the years. The nature of these reserves is that they are ring-fenced for specific use only (non-distributable reserves), as determined by accounting standards. It must be noted that reserves comprise of mostly accounting book-entries and are non-cash transactions. This implies that

the reserves on the face of the financial statements do not equate to cash held as investments by Council.

As required by prescribed accounting standards (GRAP 01), only provisions are shown separately on the face of the Statement of Financial Position. All reserves are “ring-fenced” as internal reserves within the Accumulated Surplus. Ring-fenced reserves are as follows:

- a) Assets fair value reserve
- b) Government grant reserve (GGR)

These reserves not supported by cash but are only used for book entry purposes for the phasing in of increased depreciation charges as a result of the full implementation of GRAP 17.

According to GRAP standards, the GGR is created when the municipality receives government grants for the acquisition and/or construction of fixed assets. Once the conditions of the capital grant have been met, the funds are recognized as “revenue” (non-cash) on the statement of financial performance. This “revenue” recognized is then in turn transferred out of the Accumulated Surplus to the GGR on the Statement of Net Assets in order to offset the future depreciation of the property, plant and equipment in question. Hence, the reserve is committed solely for this purpose and cannot be utilized for any other purpose. This is referred to as the non-distributable portion of the reserves. Council must note that these are all non-cash entries.

The purpose of these reserves are to promote community equity and facilitate budgetary control by ensuring that sufficient funds (non-cash) are set aside on the accounting books to offset the future depreciation charges (non-cash) that will be incurred over the estimated useful life of the item of property, plant and equipment financed from government grants, public contributions or a (non-cash) surplus arising from the revaluation of property, plant and equipment.

Council must note that these are all non-cash entries performed only for compliance purposes in line with accounting standards prescribed by the Accounting Standards Board (ASB) and enforced by the Office of the Accountant-General.

A reconciliation of reserves is detailed in a separate report tabled before Council.

Cash Flow

Cash Flow Status for the Month Ending OCTOBER 2015

See Annexures “B”, “C1- 2”, “E”

Essentially, the cash flow statement is concerned with the flow of physical cash in and cash out of the municipality as we collect monies owed by debtors and pay out monies due to creditors.

Annexure “E” is Council’s cash flow statement which indicates the movements on the main bank accounts. The incoming receipts amount to R 12 million. Outgoing payments were made to the amount of R 35million. Taking into account the opening cashbook balance, this left a favorable closing balance of R ~~43-21~~ million at the close of the OCTOBER2015 period, which shows a major decrease margin from last month’s closing balance.

Cost coverage indicator

Currently Council has a sum of R 238 754 invested which represents project-related grants not yet utilized. ~~Included in this investment sum are the cash backed provisions for leave days and ring fenced grant funds.~~

~~Finance excludes these committed amounts from the cost coverage calculation to gain a true reflection of Council’s available liquidity.~~

The investments is divided into 90 days, 60 days, 32 days and call deposits in order to be able to cater for the envisage spending within the various months.

~~The cost coverage formula =
$$\frac{(\text{All available cash at the end of the period in the Cashbook}) + (\text{Investments at hand less Provisions})}{\text{Monthly fixed operating expenditure}}$$~~

~~The cost coverage formula =
$$\frac{(R\ 20\ 807\ 704\ 699\ 692) + (R\ 238\ 754 - R\ 583\ 678)}{R\ 27\ 742\ 817}$$~~

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= **0.73 TIMES**

The cost coverage of the municipality indicates that Council is not capable of covering the monthly fixed operating expenditure (**0.73 times**) and shows that the investments and cash flow of the municipality are unfavorable. The formula does not take into consideration the ~~EMS-contingent assets and liabilities scenario~~ whereby if taken into consideration this will indicate that the municipality is ~~financially liquid and could settle any outstanding debts and liabilities~~ having a liquidity problem as identified in the AG report of 2013/14 and 2014/15. ~~The unfunded mandate of EMS which amount to R13.5 million will create a more positive financial position once resolved~~

a) Cash flows from Grant Funding

Grant allocations and expenditure

Annexure "F" represents the Grants allocation and their expenditure.

- Equitable Share:
First Equitable Share trench of 2015/16 amounting to R102 400 000.00, million was received in the month of July 2015. The second tranche will be received in November 2015. The last ~~trench~~tranche in March 2016. All operational expenses are being funded against this grant.
- Finance Management Grant (FMG):
R1, 250 million was received in the month of July 2015. Of this amount, 97 365.10 was incurred in operational expenses against the Finance Management Internship Programme expenses in the month of OCTOBER 2015. The six FMG Interns were involved in the following activities during the month of OCTOBER 2015 as part of their training rotation plan:-

- Four interns in Supply Chain Management;
 - One intern in Payroll; and
 - One intern in Budgeting.
- Municipal Systems Improvement Grant:

An amount of R 930 000.00 ~~is~~was received in the month of July 2015. During the month of OCTOBER expenses of 129 481 .58 was incurred against the grant.
 - Neighborhood Development Programme Grant (NDPG):
No amount was received for the month of July 2015; currently an amount of R 353 152.30 was spend in 2015.
 - HIV/Aids:
An amount of R 4 225 800.00 million is received in month of OCTOBER and the municipality incurred expense of R 151 690
 - LED Projects:
No amount was received for the month of July 2015. Expenses was incurred during the month of OCTOBER 2015, to date there were no another commitments against the grant in the month of OCTOBER 2015.
 - EPWP Projects:
An amount of R 400 000 was received in the month of August 2015. Expenses of R 130 776_was incurred during the month of OCTOBER 2015
 - Grant payments to Local Municipalities:
No grant payments were scheduled for local municipalities for the month of OCTOBER 2015.

~~Letters of Reminder Notices were sent out to responsible Executive Directors to remind them to institute roll over processes in preparation for year end.~~

Financial Performance

Financial performance shows the results of operations for the given period. It lists sources of revenue and expenses. The statement measures the performance of Council for a given period of time. Surplus or deficit is used to measure financial performance and directly related to the measurement of revenue and expenditure for the reporting period.

Operating expenses are incurred in the course of conducting normal Council business. They are classified by function such as employee related costs, general expenses, finance charges and contributions to provisions.

“See Annexures G, H & I”

b) Actual Expenditure

Annexure “G” represents the organizational Operating Revenue and Expenditure which illustrates that R 12 million was generated in revenue. R 30 million was spent during the month of OCTOBER 2015 on the operating accounts.

Annexure “H” represents the Capital expenditure and Revenue sources. Capital expenditure amounted to R 670_523 and it was funded internally for various moveable assets such as furniture & equipment, computers & printers.

Details on performance progress on capital projects are outlined as per “Annexure I.”

c) Pro-Rata Operating Comparative Analysis (Budget vs. Actual by Cluster)

The Total Performance of the municipality as per our findings and reviews are as follows:

- As the month of OCTOBER 2015 signals the first month of the ~~first~~ second quarter of the 2015/16 financial year, spending trends ought to be around 833.33%.

- “Other Income” consists of income items such as ambulance fees, airfield fuel & fees, IT charges to LMs, profit on sale of assets; skills levy income, tender income as well as recoveries from telephone costs and commission on salaries.
- The monthly performance analysis indicates that total expenditure is at 4633% and revenue is at 3435% of the pro-rata budget.
- Interventive measures:
 - The Supply Chain Management Unit together with Financial Management both serve on the Contract Management Committee chaired by Corporate Services: Legal & Support to monitor contractual obligations and performance management of service providers.
 - Cost Containment measures are still in place to cut down on expenditure.

d) Pro-Rata Capital Comparative Analysis (Budget vs. Actual by Cluster)

The total Capital Budget approved for 2015/2016 amounts to R 13 616 000 million. Capital projects amount to R13 616 000. The total capital budget of R 13 616 000 million is funded internally from reserves (accumulated surplus) as clusters failed to gain external funds for those projects when rolling out Council’s capital intensity programme and drive to assist local municipalities.

Details on performance progress on all capital projects are outlined as per “Annexure I.”

The spending analysis on own fixed assets as at the end of the month of OCTOBER 2015 is shown in the table below:

Description	Original Budget	Current Mth Exp	Committed	YTD Movement	Available	% Spent
TOTAL						

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SUMMARY						
FURNITURE AND EQUIPMENT	1 860 601 421 000	81073	0	161 531 242 604	1 618 003 259 470	11 361 303
COMPUTERS AND PRINTERS	1 000 220 000	-246	0	335 556 335 801	884 444 664 499	33 582 750
VEHICLES	0	0	0	0	0	0
CAPITAL PROJECTS	3 435 3924 095 000	185 000	0	733 147 337 4	2 935 658 499 733	7 691 454
NETWORKS	6 400 000	368 656	0	1 227 722 859 065	5 172 278 517	13 421 918
INTERNAL NETWORKS	700 000	36 040	0	176 610 140 570	523 390	202 237
Sub-Total	13 616 000	670 524 523	0	2 482 2261 811 701.44	11 133 774 5	18.23

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The indication of the analysis for capital projects the month of AUGUST 2015 is that expenditure of R 716 874 is that all expenses is funded internally for the various moveable assets such as

Other Financial Matters

a) Asset Management

furniture & equipment, computers & printers component of assets as per the above table.

Asset Management

- The Loss Control Committee meets periodically to ascertain the responsibility of loss and advise Council accordingly. Details of proceedings and findings are tabled in a separate report.

- A scheduled year-end asset stock take took place and during this stock-take the physical condition and location of assets were verified in order to ensure completeness and accuracy of the fixed asset register.
- Assets Management and CFO have made follow-up with the Department of Health on matters outstanding EMS debt.
- No other matters of material significance to report for Asset Management.

e) Monitoring of Compliance

Policy Governance of Municipal Finance and MFMA Compliance

As part of improving Sedibeng District Municipality's MFMA reporting module, the project plan report indicates our compliance to the requirements as outlined per the MFMA for the financial year ended from 1 ~~August~~ July 2015 to 30 June 2016, which has been divided into timeframes of reporting: Annually, Quarterly, Monthly & Ad-hoc.

Finance is pleased to inform the Committee that our obligations in terms of compiling the annual financial statements within the prescripts of GRAP and the requirements of the MFMA have been duly met on time.

It must be noted that the individual Clusters are responsible to action projects and programmes based on their planned OPEX and CAPEX budgets as aligned with their overall SDBIPs. Finance facilitates and supports the Clusters in an overview capacity to ensure that required targets are met. However, without full cooperation of the Clusters in providing substantiation to the comparative reports, Finance cannot completely assure the quality and accuracy of the information disclosed in this report.

See Attached Annexures reflecting detail information:

- “A” – Debtors Age Analysis
- “B” – Investment Schedule
- “C” – Bank Reconciliations
- “D” – Creditors Age Analysis
- “E” – Cash Flow Statement
- “F” – Grants Allocation and Expenditure
- “G” – Operating Revenue and Expenditure
- “H” – Capital Expenditure and Revenue Source
- “I” – Capital Projects Progress
- “J” – MFMA Compliance

RECOMMENDED:

1. THAT the report and the contents thereof be tabled for approval at the [AUGUST](#) Mayoral Committee.

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MR. B J SCHOLTZ
CHIEF FINANCIAL OFFICER

Date

CLLR. P B TSOTETSI
MMC FOR FINANCE

Date