

## MONTHLY FINANCIAL MANAGEMENT REPORT AS AT END JANUARY 2016

(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 JANUARY 2016

### 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 JANUARY 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 JANUARY 2016 is indicated in the different schedules as listed below.

EXECUTIVE SUMMARY

<b>Item of Financial Position/ Performance</b>	<b>Actual DECEMBER 2016</b>	<b>Actual JANUARY 2015</b>	<b>Trend Analysis</b>
<i>Current Assets</i>			
Debtors Age Analysis	R 5 427 968	R 5 904 224.40	Increased from previous month due to billing for IT services from Emfuleni LM.
<u>Cash &amp; cash equivalents:</u>			
Investments	R 25 382 705.71	R 241 334	Decrease from previous month due to investment withdrawn.
Cashbook balance (bank reconciliation) Primary	R 5 780 273.41	R 9 414 735.57	Increase from previous month due to Investment withdrawn while expenditure has exceed revenue.
Cashbook balance (bank reconciliation) Licensing	R 14 760 222.84	R 21 369 735	
<i>Current Liabilities</i>			
Creditors Age Analysis	R 58 754 991	R 63 442 653	Increase in current liabilities due to increase in trade creditors, refundable deposits and monies payable to license authorities.
<i>Cash Flow</i>			
Cash flow closing balance	R 45 792 018	R 30 911 392	Decrease from previous month due to operational expenses exceeds revenue.
Cost Coverage indicator	1.6	1.1	Austerity mechanism to control expenditure implemented and ongoing.
<u>Grants received in JANUARY 2016:</u>			
Equitable share	R 0	R 0	First tranche of the 2015/16 Equitable Share received in July 2015, second tranche of R 77 279 000 received in November 2015. Third tranche of

Item of Financial Position/ Performance	Actual DECEMBER 2016	Actual JANUARY 2015	Trend Analysis
			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 300 0000	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.
<b>Grants spent in JANUARY 2016:</b>			
MSIG	R 4 234	R 0	Implementation of EPMS system.
FMG	R75 262	R74 069.16	Financial Management Interns and Financial Policies expenditure.
EPWP	R 0	R 0	Expenditure on EPWP grants programs managed by SPED.
NDPG	R 0	R 0	Capital projects performed on behalf of the Local Municipality.
HIV/AIDS	R 1 550 684.51	R 0	HIV/AIDS grant expenditure.
<b>Financial Performance</b>			
Operating Revenue for Month	R 476 929	R 7 010 412	Received to date 54% (benchmark 58.33%).
Operating Expenditure for Month	R 30 045 078	R 26 999 170	Spent to date 57 % (benchmark 58.33%).
Capital Expenditure for Month	R 841 445	R 1 283 922	37% of total Capex budget spent to date (benchmark 58.33%).
<b>MFMA Compliance</b>			
Monthly reports	MFMA 71,66	MFMA 71,66	Submit monthly reports on budget implementation and employee costs.

<b>Item of Financial Position/ Performance</b>	<b>Actual DECEMBER 2016</b>	<b>Actual JANUARY 2015</b>	<b>Trend Analysis</b>
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 JANUARY 2016

The debtor's book balance of the municipality as attached in "Annexure A" at the end of JANUARY amounted to R5,9 million.

The major debtors were:

- IT services rendered in the month of JANUARY 2016:-
  - R 61376 due from Midvaal Local Municipality whereby R 61376 is current, R 0 is over 30 days, R 0 is over 90 days and R 0 is over 120 days;
  - R 5 842 848.09 is due from Emfuleni Local Municipality whereby R 478 153.72 is current, 519 079.45 over 30 days, 460 562 is over 60 days, R 461 951 is over 90 days and 3 923 102 is over 120 days;

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 JANUARY 2016 was R 25 382 705.71. There was no investment made and there was an investment withdrawn of R-25 156 027.40 for the month of JANUARY 2016. R14 655.45 was interest which was

accumulated and has been recorded in our book of accounts accordingly. The carrying forward balance hence equates to R 241 333.76

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:

<b>Fund Source</b>	<b>Purpose</b>
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 JANUARY 2016 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 Primary bank accounts, and
- Two License bank accounts

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 30 911 392 as at the end of JANUARY 2016.

#### *b) Current Liabilities*

##### Creditors' Age Analysis

Annexure "D" represents the creditors' age analysis. 28 334 545 million was due payable to the Licensing Authority in JANUARY 2016 for fees collected in DECEMBER 2015 as part of the agency function. R 137 845 held as refundable deposits, R35 million payable to trade creditors and.

#### *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 JANUARY 2016

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 7 million. Outgoing payments were made to the amount of R 25 million. Taking into account the opening cashbook balance, this left a favorable closing balance of R 30.9 million at the close of the JANUARY 2016 period, which shows a major decrease margin from last month’s closing balance.

### Cost coverage indicator

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

$$\text{The cost coverage formula} = \frac{(\text{R } 30\,642\,388) + (\text{R } 241\,334 - \text{R } 583\,678)}{\text{R } 27\,742\,817}$$

$$= \quad \underline{\underline{\mathbf{1.1\,TIMES}}}$$

The cost coverage of the municipality indicates that Council is not capable of covering the monthly fixed operating expenditure (**1.1-times**) and shows that the investments and cash flow of the municipality are unfavorable. The formula does not take into consideration the contingent assets and liabilities whereby if taken into consideration this will indicate that the municipality is having a liquidity problem as identified in the AG reports of both 2013/14 and 2014/15.

Grant allocations and expenditure

Annexure “F” represents the Grants allocation and their expenditure.

- Equitable Share:  
First Equitable Share tranche of 2015/16 amounting to R102 400 000.00, million was received in the month of July 2015. The second tranche of R77 279 000 -was received in November 2015. The last tranche is receivable 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, R74 069.16 was incurred in operational expenses against the Finance Management Internship Programme expenses in the month of JANUARY 2016. The six FMG Interns were involved in the following activities during the month of JANUARY 2016 as part of their training rotation plan:-
  - Four interns in Supply Chain Management;
  - One intern in Payroll; and
  - One intern in Expenditure.
- Municipal Systems Improvement Grant:  
An amount of R 930 000.00 was received in the month of July 2015. During the month of JANUARY no expenses were incurred against the grant.
- Neighborhood Development Programme Grant (NDPG):  
No amount was received for the month of July 2015; currently an amount of R 0 was spend in 2015.
- HIV/Aids:

An amount of R4, 225,800.00 million is received in month of July 2015, R2, 894,159 received in November 2015 and the municipality incurred no expense in the month of January 2016

- LED Projects:

No amount was received for the month of July 2015. No expenses was incurred during the month of JANUARY 2016, to date there were no another commitments against the grant in the month of JANUARY 2016.

- EPWP Projects:

An amount of R 400 000 was received in the month of August 2015. No expenses were incurred during the month of JANUARY 2016

- Grant payments to Local Municipalities:

No grant payments were scheduled for local municipalities for the month of JANUARY 2016.

### *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 7 010 412 thousands was generated in revenue. R 26 999 170 million was spent during the month of JANUARY 2016 on the operating accounts.

Annexure “H” represents the Capital expenditure and Revenue sources. Capital expenditure amounted to R 1 283 922 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 JANUARY 2016 signals the first month of the third quarter of the 2015/16 financial year, spending trends ought to be around 1.1%.
- “Other Income” consists of income items such 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 57% and revenue is at 54% 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 JANUARY 2016 is shown in the table below:

Description	Original Budget	Current Month Expenditure	Committed	YTD Movement	Available	% Spent
<b><i>TOTAL SUMMARY</i></b>						
FURNITURE AND EQUIPMENT	1 421 000	15 788.60	0	660 506	760 494	46 %
COMPUTERS AND PRINTERS	1 000 000	174 911.40	0	559 994	440 006	56%
VEHICLES	0	0	0	0	0	0
CAPITAL PROJECTS	4 095 000	170 509.22	0	790 982	3 304 018	19%
NETWORKS	6 400 000	924 024.87	0	2 770 946	3 629 054	43%
INTERNAL NETWORKS	700 000	-1311	0	230 608	469 392	33%
<b>Sub-Total</b>	<b>13 616 000</b>	<b>1 283 923</b>	<b>0</b>	<b>5 013 036</b>	<b>8 602 964</b>	<b>37%</b>

The indication for capital projects is that all expenses is funded internally for the various components of assets as per the above table.

*a) Asset Management*

*Other Financial Matters*

## 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. Currently asset verification stock take will take place twice a year.
- 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 November 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 financial management report as at the end JANUARY 2016 as per attach annexure “A” to “J” be noted.

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MR. C STEYN  
ACTING CHIEF FINANCIAL OFFICER

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CLLR. P B TSOTETSI  
MMC FOR FINANCE

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Date

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Date