

FINANCIAL REPORT FOR THE PERIOD JULY 2015 TO DECEMBER 2015 (MONTHLY BUDGET STATEMENT) AND THE ASSESSMENT OF THE MUNICIPALITY'S FINANCIAL POSITION AS AT 31 DECEMBER 2015 (2015/16 FINANCIAL YEAR)

1.1 PURPOSE

The purpose of this report is to assess the financial performance and financial position of the Municipality and its consequential impact on the implementation of the approved 2015/16 Budget. This report presents an assessment of municipality's financial position as at 31 December 2015.

1.2 LEGISLATIVE REQUIREMENTS

The Municipality is required to assess on an ongoing basis whether it collects sufficient revenue to meet its commitments, such as paying Employees, Councillors, Eskom, Department of Water Affairs, service providers, etc. In accordance with Section 71 of the MFMA, the Accounting Officer is required to submit to the National and Provincial Treasuries a monthly statement on the state of the municipality's budget.

1.3 EXECUTIVE SUMMARY

This report provides a balanced and consolidated financial performance overview to assist the Committee in its oversight role.

An analysis of the financial position and performance was undertaken to determine the relative financial strength and liquidity of the Municipality. In order to provide a comprehensive analysis it was necessary to compare the Budget, the General Ledger and the actual cash inflows and outflows of the Municipality, thereby determining relationships and the associated spending and income trends experienced for the period July 2015 to December 2015. The aforementioned was complemented by analysing the cash flow position, the investment portfolio, ratios, the operating and capital budget performance for the period July 2015 to December 2015, so as to facilitate an informed assessment of the relative liquidity and financial position of the Municipality.

The financial performance highlights are as follows:

- Operating revenue amounted to R4.28 billion, whilst operating expenditure amounted to R4.30 billion, resulting in an operating deficit of R16.2 million.
- Capital expenditure constituted 32.14% of the approved Capital Budget.
- Overdue consumer debts increased by R68.8 million (3.1%) since June 2015, due to the arrear debt write-offs relating to high energy users.
- An amount of R143.22 million is owing to creditors, of which R135.96 million (94.9%) represents current creditors.
- The municipality's investment portfolio has increased by R246.2 million (17.03%) since June 2015 from R1.446 billion to R1.692 billion.
- The CDC Walmer Intervention Grant in the amount of approximately R49.5 million has not been received
- Bridge-funding of housing top structures, a non core municipal function, is standing at R255.68 million.

In line with the Financial Recovery Plan the following financial ratios are monitored on an ongoing basis:

Ratio	Actual as at June 2011	Actual as at June 2012	Actual as at June 2013	Actual as at June 2014	Audited Actual as at June 2015	Actual as at December 2015	Targets
Current Ratio	0.77	0.96	1.14:1	1.39:1	1.49:1	1.49:1	1.16:1
Liquidity Ratio	0.26:1	0.55:1	0.67:1	0.70:1	0.67:1	0.77:1	0.66:1
Average Debtors' Collection Rate	96.6%	94.56%	92.60%	93.71%	94.27%	92.68%	94.00%
Creditors' payment Rate	32 days	31 days	31 days	31 days	29 days	32 days	30 days
Cost Coverage (excluding unspent conditional grants)	0.49 months	1.22 months	1.98 months	2.34 months	2.09 months	2.22 months	1.55 months
Debt servicing costs to Operating Revenue Ratio	4.6%	4.4%	4.2%	4.02%	3.52%	2.77%	3.1%

1.4 STRATEGIES ADOPTED

To achieve and maintain a sound financial position, the Municipality must continue to ensure that strict financial discipline is exercised and that expenditure does not exceed the approved Budget.

In order to further strengthen the Municipality's cash position, the following strategies are being implemented:

- Ongoing implementation of the Municipality's Operational Efficiencies Work Plan
- Debt Relief Programme is being implemented
- Disposal of serviced land
- Housing Revolving Fund Management
- Cash Flow Forecasting & Cash Flow monitoring against the forecast
- Dedicated attention to managing available cash flows effectively
- Cash Management – Payment of Creditors
- Collection of traffic fines
- Leasing of municipal land and properties

On 23 May 2014, the Council approved the cost containment measures as prescribed by National Treasury. An exercise has been undertaken to incorporate the cost containment measures into the Operational Efficiency Work Plan and such report was considered by EXCO, the Mayoral Committee and MPAC.

The Human Settlements Directorate has been requested to provide the Budget and Treasury Steering committee with an updated report on the disposal of serviced land, including a cost / benefit analysis if available serviced land is not sold. The disposal of serviced land takes place in terms of Section 14 of the MFMA, read together with the Asset Transfer Regulations.

It is imperative that the Human Settlements Directorate implement the necessary control measures to ensure that bridge-funding via the Housing Revolving Fund remains within the determined threshold of R100 million. As at 31 December 2015 the net cash-outflow from the Housing Revolving Fund was **R255.86 million**. On 3 March 2015, the Acting City Manager, upon request from the ED: Human Settlements, temporarily increased the threshold to R160 million to accommodate payments to housing contractors. A further increase of R20 million was approved on 30 April 2015. Both increases were motivated by

the fact that the PDoHS was experiencing cash challenges and housing contractors had to be paid. The latter situation did not improve and the Executive Mayor and City Manager were compelled to approve further increases of R20 million on 12 June 2015; R12 million on 24 July 2015 and R10 million on 4 September 2015. On 10 December 2015 the Executive Mayor and the City Manager approved an additional R100 million to bridge finance for the payment of Housing Contractors Claims. **It is clear that the administration of claims submitted to the PDoHS and the refunding of such claims are problematic. The Municipality can ill afford to bridge-funding an agency (non-core) function to this extent. More effort should be put in place to recover the expenditure as a matter of urgency to mitigate the loss of investment revenue and create the opportunity to spend such revenue on core function service delivery.**

It is considered imperative that the NMBM maintains at least the budgeted collection rate of 94%, in order to ensure service delivery aligned to the 2015/16 Operating Budget. The average collection rate for the period July 2015 to December 2015 is 92.68%. In this regard, a Supply Chain Management process is being undertaken to secure external capacity to deal with revenue enhancement and improvement of debt recovery.

In order to ensure the ongoing financial sustainability of the Municipality as well as growth in the reserves, it is considered important that the cost coverage ratio exceeds the target of 1.5 months as set in the IDP. In this regard the municipality is required to develop a long-term financial strategy to address issues, such as the appropriate cash backing of reserves, replenishment of the Capital Replacement Reserve and long-term financial planning. This implies that the NMBM needs to exceed the budgeted collection rate of 94%. The development of the long-term financial strategy is now being pursued, as part and parcel of National Treasury's City Support Programme.

As part of the municipality's revenue enhancement initiatives all revenue sources such as fines, rentals charged for properties, etc. must be maximized to the fullest extent possible.

The cost coverage ratio (excluding unspent conditional grants) requires close monitoring, scrutiny and improvement as the available investments only cover 2.22 months' operating expenses. In this regard the 2015/16 Operating Budget has been based on a cost coverage ratio of 1.55 months, whilst National Treasury expects municipalities to move to three months over the medium term.

1.5 DETAILED REPORTS

In order to comply with Schedule C of the Municipal Budget and Reporting Regulations 2008 the following detailed schedules for the period ending 31 December 2015 are attached:

Annexure "A1" – Operating Revenue and Expenditure Performance

Annexure "A2" – Capital Budget Performance

Annexure "A3" – Projected Cash Flow Statement

Annexure "A4" – Consolidated Budget Tables (incl MBDA figures)

Annexure "A5" – Analysis of Municipalities Balance Sheet

- i. Outstanding Consumer Debtors
- ii. Overview of Creditors position
- iii. Investment portfolio
- iv. Grants receipts and Expenditure
- v. Councillor & Officials allowances & benefits
- vi. Key performance Indicators

Annexure "A6" – MBDAs Quarterly Report & Budget Tables

1.6 GENERAL

The Performance scorecards of the Budget and Treasury Directors and Assistant Directors are monitored by the CFO on an ongoing basis.

1.7 RECOMMENDATION

It is recommended that the Municipality's Consolidated December 2015 Quarterly Budget statement and supporting documentation contained in this report be noted.