

MID-TERM FINANCIAL REPORT FOR THE PERIOD JULY 2014 TO DECEMBER 2014 (MONTHLY BUDGET STATEMENT) AND THE ASSESSMENT OF THE MUNICIPALITY'S FINANCIAL POSITION AS AT 31 DECEMBER 2014 (2014/15 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 2014/15 Budget.

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 2014 to December 2014. The aforementioned was complemented by analysing the cash flow position, the investment portfolio, ratios, the operating and capital budget performance for the period July 2014 to December 2014, 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 R4.04 billion, whilst operating expenditure amounted to R3.97 billion, resulting in an operating deficit of R75.3 million.
- Capital expenditure constituted 35.9% of the approved budget.
- Overdue consumer debts increased by R135.7 million (6.9%) since June 2014.
- An amount of R106,7 million is owing to creditors, of which R77.7 million (72.8%) represents current creditors.
- The municipality's investment portfolio has decreased by R198.1 million (12.5%) since June 2014 from R1.581 billion to R1.383 billion.

During the 2013/14 financial year the Capital Budget relating to the Integrated Public Transport System was overspent by approximately R126.8 million, which constitutes unauthorised expenditure. The unauthorised expenditure on this project has resulted in a decline in the municipality's cash position and has placed the funding status of the 2014/15 Budget at risk. It also contributed to the cost coverage ratio only being 1.71 months as at the end of December 2014.

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	Actual as at Dec 2014	Targets
Current Ratio	0.77	0.96	1.14:1	1.41:1	1.21:1	1.08:1
Liquidity Ratio	0.26:1	0.55:1	0.67:1	0.71:1	0.58:1	0.55:1
Average Debtors' Collection Rate	96.6%	94.56%	92.60%	93.71%	94.89%	94.00%
Creditors' payment Rate	32 days	31 days	31 days	31 days	31 days	30 days
Cost Coverage (excluding unspent conditional grants)	0.49 months	1.22 months	1.98 months	2.35 months	1.71 months	1.5 months
Debt servicing costs to Operating Revenue Ratio	0.046:1	0.044:1	0.042:1	0.040:1	0.025:1	0.040:1

The aforementioned ratios generally reflect an increased risk to the financial sustainability since the position as at 30 June 2011, except for the Average Debtors' Collection Rate that have improved mainly due a Debtors' collection rate of 106.36% for the month of November 2014. It is however of great concern that revenue billed over the period July 2014 to December 2014 is lower than anticipated in the 2014/15 Budget which impacts directly on the fundedness of the budget and the financial sustainability of the Municipality. Upon exclusion of the unspent conditional grants, the cost coverage ratio is 1.71 months (51.4 days).

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 this 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 Sect 14 of the MFMA read together with the Asset Transfer Regulations

The following matter must also be addressed:

- The Human Settlements Directorate must 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 2014 the funding was at R149.4 million. On 8 April 2014, the City Manager temporarily increased the threshold to R145 million to accommodate payments in terms of the Missionvale project, for which funding is awaited. Once the funding has been received the threshold will revert to its original level.

The Human Settlements Directorate has been unable to maintain the bridge-funding, via the Housing Revolving Fund within the R100 million threshold.

With the concurrence of the City Manager, a meeting was held on 9 April 2014 between officials of the Human Settlements Directorate and the Budget and Treasury Directorate to establish a project steering committee to identify the exact causes of claims for expenditure incurred, that cannot be claimed back from EC Prov Govt Human Settlements Department. The committee will assess each housing project individually to identify the root causes, find the solution and then submit the claim.

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 2014/15 Budget and a percentage of 94.89% was achieved for the period July 2014 to December 2014 despite the withholding of a portion of their payment by the 14 high energy users.

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%.

In pursuit of achieving the above (i.e. long-term financial strategy) a multi- Directorate Task Team has been established, consisting of the B & T Directorate together with the Directorates from Infrastructure and Engineering, Electricity & Energy, Human Settlements and Public Health. Meetings of the Task Team have been convened where matters of strategic modelling were discussed. Baseline information has been agreed upon in order to ensure a common platform for service delivery.

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 1.71 months' operating expenses. In this regard the 2014/15 Budget has been based on a cost coverage of 2 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 30 November 2014 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