

ANALYSIS OF THE MUNICIPALITY'S BALANCE SHEET

In this section the Municipality's Debtors, Creditors and Investments will be analysed. These components have a significant impact on the Municipality's financial position.

1. Overview of Outstanding Consumer Debtors (Inclusive of VAT)

Below is an analysis of the outstanding consumer debtors as at 31 December 2016 compared to the position as at 30 June 2016.

Debtors' Age Analysis (Inclusive of VAT) as at 30 June 2016

Detail	0 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 - 150 Days	151 - 180 Days	181 Days - 1 Year	Over 1 Year	Total-
Debtors Age Analysis By Income Source									
Trade and Other Receivables from Exchange Transactions - Water	R 96,076,339	R 66,220,094	R 47,400,674	R 14,574,524	R 16,763,161	R 13,542,448	R 60,717,041	R 279,738,046	R 595,032,326
Trade and Other Receivables from Exchange Transactions - Electricity	R 223,469,252	R 61,687,063	R 41,934,267	R 23,045,789	R 14,596,272	R 11,471,922	R 36,936,277	R 210,046,852	R 623,187,695
Receivables from Non-exchange Transactions - Property Rates	R 114,772,008	R 9,307,581	R 12,257,138	R 2,732,303	R 7,387,348	R 60,838,102	R 87,693,159	R 247,837,616	R 542,825,255
Receivables from Exchange Transactions - Waste Water Management	R 60,137,748	R 21,675,700	R 14,096,896	R 7,997,613	R 9,607,287	R 8,399,229	R 38,113,536	R 155,936,295	R 315,964,304
Receivables from Exchange Transactions - Waste Management	R 26,794,273	R 5,248,081	R 8,677,658	R 3,340,054	R 5,221,353	R 6,784,536	R 25,864,272	R 130,240,120	R 212,170,348
Receivables from Exchange Transactions - Property Rental Debtors	R 1,310,985	R 103,972	R 713,969	R 88,899	R 377,797	R 652,034	R 1,899,597	R 12,454,935	R 17,602,188
Interest on Arrear Debtor Accounts	R 20,394,252	R 6,722,833	R 16,219,774	R 5,902,863	R 10,666,904	R 15,050,449	R 52,880,833	R 410,702,482	R 538,540,391
Other	R 30,025,800	R 6,771,463	R 5,884,562	R 4,371,944	R 2,998,992	R 4,019,018	R 23,986,048	R 158,315,199	R 236,373,026
Total By Income Source	R 572,980,658	R 177,736,787	R 147,184,937	R 62,053,990	R 67,619,113	R 120,757,739	R 328,090,764	R 1,605,271,544	R 3,081,695,532
Debtors Age Analysis By Customer Group									
Organs of State	R 30,557,113	R 33,599,683	R 24,645,713	R 510,349	R 1,044,349	R 1,337,864	R 11,654,194	R 4,811,066	R 108,160,331
Commercial	R 277,437,982	R 62,703,858	R 53,973,363	R 24,952,596	R 25,037,311	R 48,748,661	R 98,797,425	R 492,537,618	R 1,084,188,813
Households	R 246,714,747	R 79,496,908	R 66,765,511	R 36,284,259	R 40,597,167	R 70,009,968	R 213,279,329	R 1,090,413,301	R 1,843,561,191
Other NMBM)	R 18,270,817	R 1,936,339	R 1,800,349	R 306,786	R 940,286	R 661,246	R 4,359,816	R 17,509,559	R 45,785,198
Total By Customer Group	R 572,980,658	R 177,736,787	R 147,184,937	R 62,053,990	R 67,619,113	R 120,757,739	R 328,090,764	R 1,605,271,544	R 3,081,695,532

Debtors' Age Analysis (Inclusive of VAT) as at end of 31 December 2016**Debtors' Age Analysis (Inclusive of VAT) as at end of 31 December 2016**

Detail	0 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 - 150 Days	151 - 180 Days	181 Days - 1 Year	Over 1 Year	Total-
Debtors Age Analysis By Income Source									
Trade and Other Receivables from Exchange Transactions - Water	R 97,958,101	R 44,722,163	R 43,560,027	R 27,059,044	R 12,158,731	R 21,776,532	R 79,286,975	R 215,194,876	R 541,716,449
Trade and Other Receivables from Exchange Transactions - Electricity	R 220,361,839	R 80,101,673	R 57,168,970	R 65,775,366	R 26,776,688	R 16,158,580	R 38,737,974	R 209,955,464	R 715,036,554
Receivables from Non-exchange Transactions - Property Rates	R 914,150,775	R 42,641,790	R 14,885,592	R 36,213,073	R 4,588,491	R 11,834,034	R 47,771,221	R 239,213,898	R 1,311,298,874
Receivables from Exchange Transactions - Waste Water Management	R 62,922,852	R 27,840,824	R 23,467,921	R 10,551,836	R 7,451,498	R 8,006,616	R 26,662,539	R 123,478,800	R 290,382,885

Detail	0 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 - 150 Days	151 - 180 Days	181 Days - 1 Year	Over 1 Year	Total-
Receivables from Exchange Transactions - Waste Management	R 30,955,479	R 8,284,351	R 4,354,199	R 3,131,857	R 1,459,638	R 3,746,907	R 14,443,395	R 87,454,963	R 153,830,790
Receivables from Exchange Transactions - Property Rental Debtors	R 848,828	R 1,010,681	R 509,787	R 659,444	R 82,576	R 807,859	R 1,886,549	R 13,708,104	R 19,513,827
Interest on Arrear Debtor Accounts	R 14,719,487	R 16,228,875	R 10,312,809	R 9,881,342	R 4,729,194	R 13,392,104	R 44,726,874	R 359,917,242	R 473,907,926
Other	R 18,209,758	R 9,662,992	R 6,742,455	R 4,008,329	R 3,758,060	R 3,410,200	R 31,412,642	R 125,326,195	R 202,530,631
Total By Income Source	R 1,360,127,119	R 230,493,349	R 161,001,759	R 157,280,290	R 61,004,876	R 79,132,831	R 284,928,169	R 1,374,249,542	R 3,708,217,937
Organs of State	R 24,011,260	R 17,766,575	R 16,625,824	R 24,503,739	R 1,324,237	R 8,147,735	R 31,369,187	R 8,528,821	R 132,277,378
Commercial	R 597,125,783	R 101,502,288	R 71,754,194	R 77,401,491	R 27,948,736	R 29,521,996	R 101,546,618	R 489,928,792	R 1,496,729,899
Households	R 720,447,645	R 105,820,850	R 71,578,334	R 53,431,085	R 31,582,785	R 41,206,841	R 150,734,916	R 866,372,395	R 2,041,174,850
Other NMBM)	R 18,542,431	R 5,403,637	R 1,043,407	R 1,943,975	R 149,119	R 256,259	R 1,277,448	R 9,419,534	R 38,035,810
Total By Customer Group	R 1,360,127,119	R 230,493,349	R 161,001,759	R 157,280,290	R 61,004,876	R 79,132,831	R 284,928,169	R 1,374,249,542	R 3,708,217,937

The aforementioned analysis indicates that from 30 June 2016 to 31 December 2016 the overdue debts have decreased to R 160 million as follows:

OVERDUE AMOUNTS AS AT 31 December 2016			
Debtors Age Analysis By Income Source	30 Jun 2016	31 Dec 2016	Difference
Trade and Other Receivables from Exchange Transactions - Water	R 498,955,988	R 443,758,348	-R 55,197,640
Trade and Other Receivables from Exchange Transactions - Electricity	R 399,718,442	R 494,674,716	R 94,956,274
Receivables from Non-exchange Transactions - Property Rates	R 428,053,247	R 397,148,099	-R 30,905,148
Receivables from Exchange Transactions - Waste Water Management	R 255,826,556	R 227,460,033	-R 28,366,523
Receivables from Exchange Transactions - Waste Management	R 185,376,074	R 122,875,310	-R 62,500,764
Receivables from Exchange Transactions - Property Rental Debtors	R 16,291,203	R 18,664,999	R 2,373,796
Interest on Arrear Debtor Accounts	R 518,146,138	R 459,188,439	-R 58,957,699
Other	R 206,347,226	R 184,320,873	-R 22,026,353
Total By Income Source	R 2,508,714,874	R 2,348,090,818	R -160,624,056
Debtors Age Analysis By Customer Group			
Organs of State	R 77,603,218	R 108,266,118	R 30,662,900
Commercial	R 806,750,832	R 899,604,116	R 92,853,284
Households	R 1,596,846,443	R 1,320,727,205	-R 276,119,238
Other NMBM	R 27,514,381	R 19,493,379	-R 8,021,002
Total By Customer Group	R 2,508,714,874	R 2,348,090,818	R -160,624,056

The write-offs for the period 1 July 2016 to 31 December 2016 however also need to be taken into consideration. The total write-offs for the period were approximately R570.434 million (VAT Inclusive). Therefore the outstanding debtors' has effectively increased by R409.810 million over the same period. Further it is important to note that despite the R216.650 million write-offs in respect off high energy users during the 2015/16 financial year, the outstanding balance as at 30 November 2016 was already at R181.84 million. This trend of not paying the full account by high energy users is contribution in putting the Municipality under financial / cash flow stress. The ultimate effect is that the domestic consumer eventually will have to pay higher rates and tariffs to compensate for business failing to pay the bill.

However it would also appear that the total billing is less than anticipated and therefore despite a collection rate of 95.11% the municipality is still experiencing a shortfall of approximately R100 million in cash as at 31 December 2016. The main reason is that due to the New Indigent Policy allowing all consumers with a property value of up to R100000 to automatically qualify for ATTP subsidy (rebates) regardless of whether they are poor or not, has resulted that the good payers within the 23000 new ATTP consumers are now not paying, but are funded by the Equitable Share. Therefore a material loss of cash flow is experienced by the Municipality. Further the 90 days automatic write-off for ATTP customers are also reducing cash flow as all ATTP customers are aware of the fact that their debt are always being written off. Effectively, except for the pre-paid electricity approximately 116 000 ATTP customers are receiving all their services for free, putting the stress of financing the municipal services package on the small revenue base remaining. In conclusion the true value of free services received by the ATTP consumers far exceeds the National Policy allowances for free basic services. If the Indigent Policy is not amended immediately to be in line with the National Policy, the municipality will not be financially sustainable and will run out of cash flow within the short term.

MONTH	DEBT RELIEF WRITE-OFFS	90 DAYS ATTP WRITE-OFFS	NEW ATTP APPLICANTS WRITE-OFFS	TOTAL WRITE- OFFS
Jul-16	R 3,344,403.42	R 6,850,275.66	R 378,501,858.63	R 388,696,537.71
Aug-16	R 5,255,519.88	R 6,623,332.70	R 2,208,423.86	R 14,087,276.44
Sep-16	R 5,113,224.72	R 13,337,503.93	R 7,918,042.57	R 26,368,771.22
Oct-16	R 3,667,254.20	R 17,573,184.30	R 14,261,498.33	R 35,501,936.83
Nov-16	R 7,957,714.94	R 12,516,652.69	R 7,661,268.55	R 28,135,636.18
Dec-16	R 4,475,670.87	R 15,384,280.23	R 9,166,029.83	R 29,025,980.93
TOTAL	R 29,813,788.03	R 72,285,229.51	R 419,717,121.77	R 521,816,139.31
Average Oct to Dec 2016	R 5,366,880.00	R 15,158,039.07	R 10,362,932.24	R 30,887,851.31
Projection Jan to June 2017 based on average	R 32,201,280.02	R 90,948,234.44	R 62,177,593.42	R 185,327,107.88
Growth of 1% as ATTP applications are still being verified for approval	R 32,523,292.82	R 91,857,716.78	R 62,799,369.35	R 187,180,378.96
Total Projection	R 62,337,080.85	R 164,142,946.29	R 482,516,491.12	R 708,996,518.27

The credit control policy is being implemented to its fullest extent except for the component dealing with the sale in execution of both movable and immovable assets.

The following is a summary of the Credit control measures and additional steps are applied by the NMBM:-

Credit Control Measures

- Due date is 30 days after billing
- If consumer is registered for IVR reminder that account may be disconnected is send by SMS the day after due date if payment is not received.
- If not paid 15 working days after due date Electricity is disconnected. (Credit meters)
- If unable to disconnect after 3 attempts due to no access Service department is requested to assist.
- Prepaid meters are blocked 60 days after bill date if not paid. This will be changed to 45 days to be in line with credit meter as from 1 November 2016.

- Large accounts are handed over to panel of attorneys for legal action, however in line with the contract with the current service provider all accounts will be handed over to the service provider for collection once it reach 120 days.

The following additional steps are considered:

- Where rates and consumption is on separate accounts will be linked.
- Consumers who still have credit electricity meters will be encouraged to switch to prepaid meters.
- Special effort will be made to link pre-paid meters currently not linked to accounts .encouraged to switch to prepaid meters.
- Special effort will be made to link pre-paid meters currently not linked to accounts.

1.2 Other Debtors

The bridge-financing of the Housing function at a level of R209.87 million as at 31 December 2016 is limiting the recovery of the NMBM to become financially sustainable over the medium to long term. Both investment revenue and funding of financially viable projects are being lost due to the bridge-funding. **The Housing Revolving Fund bridge-funding level further deteriorated from R177.94 million as at 30 June 2016.** It is however critical that the current level of R209.87 million be managed back to the at least the R109 million level as per the 2015/16 Consolidated Annual Financial Statements for the Housing Revolving Fund as soon as possible.

2. Overview of Creditors position

Below is an analysis of the status of the major creditors:

Supporting Table SC4 Monthly Budget Statement - aged creditors - M06 31 December 2016

Detail R'000	0 – 30 Days	31-60 days	61 – 90 days	91 – 120 days	121– 150 days	Over 151 days	Total	%
Bulk Electricity		-	-	-			-	
Bulk Water		-	-	-			-	
PAYE deductions	25,225	-					25,225	16.79
VAT (output less input)		-						
Pensions / Retirement deductions								
Loan Repayments								
Trade Creditors	119,693	1,311	500	2,265	0	0	123,768	82.39
Auditor-General	252	952	26	0			1,230	0.82
Other	0						0	
Total	145,169	2,263	526	2,265	0	0	150,223	100.00

The above amounts represent invoices still to be paid. Creditors' payments approximate 40 days, based on the date of invoice. The target for payment days is recorded at 30 days from receiving the relevant invoice from service provider to the payment date. The 40 days excludes delayed payments as a result of irregular expenditure.

A monthly report is submitted to Management Team on the outcome of the creditors' payment process. Executive Directors are held responsible for outcomes in the following two areas: -

- Adhering to the 19 days allocated to Directorates for processing of payments – this currently forms part of the Executive Directors' scorecards; and

- Reporting on and being held accountable for irregular expenditure – this is dealt with through the MPAC sub-committee for irregular, fruitless & wasteful and unauthorised expenditure.

Payment of Service Providers

Section 65(2)(e) of the MFMA states that “all monies owing by the Municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure”.

To ensure efficient administration all reporting in relation to payment is based on using the invoice date as the baseline and not the date of receipt of the invoice. An average number of days to make payment from the date of invoice have been calculated at 35 days, by allowing 5 days for postal travel of the invoice from supplier to the municipality.

For performance measuring purpose the 35 days has been split as follows:

- Phase 1 – The Directorate has 19 days to process from date of invoice; and
- Phase 2 – Creditors, Accountants & Cash Management have 16 days to finalise the payment process.

It must be noted that the date of receipt is inserted in the payments program by the directorate who is capturing the invoice. This date is subjective as it relies on the directorate to be honest when capturing the date the invoice document was physically received by the municipality.

This reporting standard is being applied due to the fact that:

- Service Providers give discount based on the invoice date, irrespective of the invoice receipt date.
- Performance of the NMBM in relation to payment is determined by the Service Provider from the date of the invoice.
- Recording of the invoice receipt date may be subjective, impractical to manage and difficult to prove.

Table 1: Reflecting number of Days taken by Directorates to process documentation for payment by Creditors Section from Date of Invoice

DIRECTORATE	Jul	Tot No of Inv	Aug	Tot No of Inv	Sep	Tot No of Inv	Oct	Tot No of Inv	Nov	Tot No of Inv	Dec	Tot No of Inv
Budget & Treasury	9	1023	7	1060	9	1549	9	1356	21	962	17	1160
Chief Operating Officer	169	229	184	216	59	122	55	151	53	185	40	105
Corporate Services	32	4525	230	5335	19	2187	34	2590	42	2372	27	809
Economic Development, Tourism & Agriculture	16	32	168	24	40	24	484	91	36	47	24	23
Electricity & Energy	28	664	28	340	30	337	33	259	31	402	21	427
Human Settlements	32	346	36	184	93	249	62	223	40	124	29	252
Infrastructure & Engineering: Rate & General	19	1552	19	1120	18	1281	25	1494	19	1542	19	1506
Water Services	31	290	19	161	25	238	27	160	21	198	32	199
Municipal Manager	23	19	27	12	58	26	41	25	27	6	16	14
Office of the Executive Mayor	60	70	112	96	67	60	61	41	39	77	35	39
Public Health	37	410	28	216	22	273	20	298	22	437	30	480
Recreational & Cultural Services	35	581	28	267	24	215	10	129	28	417	16	258
Safety & Security	28	394	34	532	19	299	44	460	31	475	22	357

DIRECTORATE	Jul	Tot No of Inv	Aug	Tot No of Inv	Sep	Tot No of Inv	Oct	Tot No of Inv	Nov	Tot No of Inv	Dec	Tot No of Inv
Sanitation	29	587	43	147	27	101	27	103	26	311	48	223
Special Projects & Programmes	49	8	8	2	124	6	50	10	40	3	69	2
Other	0	0	24	1	0	0	0	0	0	0	0	0
Average for all Directorates	31		141		22		34		30		23	

Table 1 above illustrates by Directorate the number of days taken to process documentation from the date of the invoice. The Directorates are still lagging in efforts to meet the 19 days turnaround time assigned to them in Phase 1.

Only four (4) Directorates have met the 19 days turnaround time for the latest month (**December**):

Budget and Treasury	17 days
Municipal Manager	16 days
Infrastructure & Engineering Unit-Rate and General	19 days
Sports, arts and Recreational Services	11 days

The December 2016 payment day's result of the Special Programmes Directorate is attributed to payments made which were in excess of 55 days. The number of days taken to process documentation for payment will still impact negatively on the NMBM's compliance with Section 65(2) (e) of the MFMA. Compliance with Section 65 (2) (e) of the MFMA is dependent on all role-players within the payment value chain adhering to their respective timeframe

*The following Directorates have improved for the latest month (**December**):*

Corporate Services
Chief Operating officer

During December the number of days to process documentation has increased significantly from November for the following Directorates:

Directorate	No. of Days (December)
Sanitation	48
Special Projects and Programmes	69

Table 2: Reflecting Average number of Days taken by the NMBM to pay Service Providers from the date that the EFT is available for release

	Number of Days taken by Accountant to sign off documentation	Number of Days taken by Creditors to process & final Sign Off of EFT	Delay in release of EFT's	Total No. of days from date Directorate approves invoice
July	2	10	1	13
August	2	8	1	11
September	3	11	3	17
October	3	8	2	13
November	3	10	1	14
December	4	10	3	17

Table 2 above reflects the Phase 2 process payment cycle where the target has been set at **16 days**. The target for this phase of processing has not been met for the period of September 2016. If we combine Phase

1 and Phase 2 in the payment process then the number of days taken to pay creditors from date of invoice is as follows against the target of 35 days.

July 2016	– 44 days
August 2016	- 152 days
September 2016	– 39 days
October 2016	- 47 days
November 2016	- 44 days
December 2016	- 40 days

The National Treasury target has been set at 30 days from the date when the invoice has been received. By using the receipt date of the invoice, as recorded by the Directorate, the number of days taken to pay creditors during the half year is as follows:

July 2016	– 31 days
August 2016	– 129 days
September 2016	– 28 days
October 2016	- 32 days
November 2016	- 32 days
December 2016	- 27 days

The results above indicate that for December 2016 Creditors' payment days were within the National Treasury target. It remains the responsibility of each Directorate to ensure that Invoices are received and processed relating to service delivery within their Directorate.

Creditors' efficiency ratio:

This ratio measures the % of Creditors that was paid within Terms: (MFMA section 65(e)).

The ratio was 77% for December 2016. This ratio clearly reflects the percentage of invoices that was paid within the 30 day payment terms as required by the MFMA. It is clear that the target must be 100% in terms of the MFMA. It is also clear that Directorates for a variety of valid reasons or just poor performance do not submit invoices in time for payment purposes.

It is the responsibility of all directorates to ensure that invoices are submitted in time for payment to ensure legislative compliancy where no valid reason(s) exist not to pay in time.

3. Investment Portfolio as at 31 December 2016

Below is an analysis of the Investment Portfolio as at 31 December 2016

The increase in the investment portfolio since 30 June 2016 amounts to R32.80 million. The following analysis indicates the extent to which the investments are committed:

Financial Institution	ABSA	FNB	Investec	Nedbank	Nedbank	Stanlib	Standard Bank	MBDA Invest & Cash	ABSA	Sanlam	Total
Type of Investment	Term Deposit R'000	Term Deposit R'000	Call Deposit R'000	Term Deposit R'000	Call Deposit R'000	Call Deposit R'000	Term Deposit R'000	R'000	Current Account R'000	Shares	R'000
Value of Investment 30 June 2015	310,000	310,000	115,426	190,000	125,500	260	314,152	34,100	213,067	2,470	1,614,975
Add: Investments Made	921,000	921,000	3,303	64,000	100,000	-	850,500	-	-	-	3,409,803
Less: Investments Matured	-940,000	-940,000	-	-589,000	-125,000	-	-889,152	-	-	-	-3,483,152
Net movement in current	-	-	-	-	-	-	-	-26,389	12,539	-	106,150
Value of Investments	291,000	291,000	118,729	215,000	100,500	260	275,500	7,711	345,606	2,470	1,647,777
%Exposure Of Institution	17.66%	17.66%	7.21%	13.05%	6.10%	0.02%	16.72%	0.47%	20.97%	0.15%	100%
Actual Interest Earned (Dec 2016)	7,553	9,484	3,984	6,172	2,459	10	9,363	1,245	7,259	-	47,529

Cash backed Reserves

Bank Balances and Cash	R'000 355,788
Short-term Investment Deposits	<u>1,291,989</u>
	<u>1,647,777</u>

Application of Cash

Unspent Conditional Grants	339,071
Statutory Funds – COID	28,558
Housing Revolving Fund	109,732
Self Insurance Fund	102,981
Outstanding Creditors Liability	150,223
Internally Generated Funding	308,757
Provision for Land Fill Sites	380,586
Provision for Rehab of Swartkops river	81,618
Brookes Bequest	16,595
Current Provisions	<u>125,740</u>
	<u>1,643,861</u>

Cash and cash Equivalents in excess of Commitments **3,916**

The Cash and Cash Equivalents exceed the commitments at this stage by an amount of R3.92 million. It should be noted that revenue will be collected and operating grants will be transferred to NMBM over the remainder of the year. The excess is mainly due to Equitable Share and Fuel Levy funds received during December 2016 that will be spent over the January and February 2017 periods. The sustainability of the Municipality will remain under pressure until sufficient working capital levels have been established. The following financial strategies are being implemented to address this situation:

- Operating and Capital expenditure funded from the Municipality's own revenue sources have been reduced to the financial affordability levels established in terms of the 2015/16 Budget.
- Optimisation of all revenue streams.
- Increasing collection rates above the targeted percentage utilising the credit control policy of Council. A service provider is assisting the Budget and Treasury Directorate in collecting long outstanding debt.
- Disposal of serviced land in order to boost the depleted Capital Replacement Reserve.
- No capital projects will be funded from the Municipality's own revenue sources until such time as sufficient funds are available to cover the commitments not yet funded.

4. Allocation and Grant receipts and expenditure for the 2016/17 financial year**Supporting Table SC6 Monthly Budget Statement - transfers and grant receipts – M06 December 2016**

Description	2015/16	Budget Year 2016/17						
	Audited Outcome	Original Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands								
<u>RECEIPTS:</u>								
-								
<u>Operating Transfers and Grants</u>								
National Government:	962,323	842,969	201,860	555,425	611,228	(55,803)	-9.1%	842,969
Local Government Equitable Share	712,016	798,043	201,297	533,814	596,517	(62,703)	-10.5%	798,043
EPWP Incentive	8,664	8,496		2,123	2,123			8,496
Public Transport Network Operations	150,000							
Finance Management	1,050	1,050		1,050	1,050			1,050
Infrastructure Skills Development	9,000	14,500		6,900	6,900	-		14,500

Description	2015/16	Budget Year 2016/17						
	Audited Outcome	Original Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance	Full Year Forecast
Integrated City Development	5,708	–		9,276	4,638	4,638	100.0%	–
Urban Settlements Development	51,317	19,380		–		–		19,380
Municipal Human Settlements Capacity	9,847			–				
LGSETA	8,517	1,500	563	2,262		2,262	#DIV/0!	1,500
Other	6,204			–		–		
Provincial Government:	213,536	536,462	758	58,327	90,163	(31,998)	-35.5%	536,462
Sport and Recreation	9,752	15,624		15,000	15,000	–		15,624
Human Settlements Development	203,394	517,128	758	40,494	75,000	(34,506)	-46.0%	517,128
Housing Accreditation		3,148		–		–		3,148
DRPW(Maintenance of Roads)				2,508		2,508	#DIV/0!	
Marine Coastal	390	562		325	163			562
Other grant providers:	4,050	11,573	–	–	–	–		11,573
SALA/IDA	29							
IDC(MBDA)	–	1,000		–				1,000
KFW (MBDA)	4,021	10,573		–				10,573
Total Operating Transfers and Grants	1,179,909	1,391,004	202,618	613,751	701,391	(87,802)	-12.5%	1,391,004
Capital Transfers and Grants								
National Government:	877,291	914,654	–	478,007	259,567	–		914,654
Public Transport and Systems	36,128			–		–		
Neighbourhood Development Partnership	–	21,476		10,390	10,390			21,476
Urban Settlements Development	795,163	848,902		432,617	214,177			848,902
Integrated National Electrification	35,500	35,000		35,000	35,000			35,000
Smart Gris	10,500			–		–		
Integrated City Development		9,276		–		–		9,276
Provincial Government:	–	–	–	–	–	–		–
<i>[insert description]</i>						–		
Other grant providers:	55,000	26,053	–	–	–	–		26,053
KFW (MBDA)	–	26,053		–		–		26,053
WALMER INTERVENTION PROGRAMME	55,000							
Total Capital Transfers and Grants	932,291	940,707	–	478,007	259,567	–		940,707
TOTAL RECEIPTS OF TRANSFERS & GRANTS	2,112,200	2,331,711	202,618	1,091,758	960,958	(87,802)	-9.1%	2,331,711

Below is an analysis of the spending associated with the grants as at 31 December 2016
Supporting Table SC7(1) Monthly Budget Statement - transfers and grants expenditure – M06 December 2016

Description	Budget Year 2016/17						
	Original Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands							
EXPENDITURE							
Operating expenditure of Transfers and Grants							
National Government:	842,969	35,372	444,737	415,518	28,647	6.9%	842,969
Local Government Equitable Share	798,043		399,022	399,022	–		798,043
EPWP Incentive	8,496	111	695	695	–		8,496
Public Transport Network Operations	–	30,601	30,601	–	30,601	#DIV/0!	–
Finance Management	1,050	62	521	521	–		1,050
Infrastructure Skills Development	14,500	535	3,446	5,400	(1,954)	-36.2%	14,500
Urban Settlements Development	19,380	2,665	3,994	9,000			19,380
Municipal Human Settlements Capacity			4,179				

Description	Budget Year 2016/17						
	Original Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance	Full Year Forecast
LGSETA	1,500	1,399	2,279	880			1,500
Provincial Government:	536,462	2,758	44,788	261,465	(219,145)	-83.8%	536,462
Sport and Recreation	15,624		–		–		15,624
Human Settlements Development	517,128	2,740	39,887	260,000	(220,113)	-84.7%	517,128
Housing Accreditation	3,148	–	2,368	1,400	968	69.1%	3,148
DRPW(Maintenance of Roads)		–	2,400				
Marine Coastal	562	18	133	65			562
Other grant providers:	11,573	–	–	–	–		11,573
IDC(MBDA)	1,000		–				1,000
KFW (MBDA)	10,573		–				10,573
Total operating expenditure of Transfers and Grants:	1,391,004	38,130	489,525	676,983	(190,498)	-28.1%	1,391,004
Capital expenditure of Transfers and Grants							
National Government:	914,654	81,768	263,876	337,266	(75,850)	-22.5%	914,654
Public Transport and Systems					–		
Neighbourhood Development Partnership	21,476	1,256	3,335	6,050	(2,715)	-44.9%	21,476
Urban Settlements Development	848,902	75,310	240,959	314,094	(73,135)	-23.3%	848,902
Integrated National Electrification	35,000	5,201	19,582	17,122			35,000
Integrated City Development	9,276		–		–		9,276
Other grant providers:	26,053	–	–	–	–		26,053
'KFW (MBDA)	26,053		–				26,053
					–		
Total capital expenditure of Transfers and Grants	940,707	81,768	263,876	337,266	(75,850)	-22.5%	940,707
TOTAL EXPENDITURE OF TRANSFERS AND GRANTS	2,331,711	119,898	753,400	1,014,249	(266,348)	-26.3%	2,331,711

Supporting Table SC7(2) Monthly Budget Statement – Expenditure against approved roll-overs – M06 December 2016

Description	Budget Year 2016/17				
	Approved Rollover 2015/16	Monthly actual	YearTD actual	YTD variance	YTD variance
R thousands					%
<u>EXPENDITURE</u>					
<u>Operating expenditure of Approved Roll-overs</u>					
National Government:	94,773	30,601	30,601	64,172	67.7%
Public Transport Network Operations	93,050	30,601	30,601	62,449	67.1%
Other	1,723	–	–	1,723	100.0%
Total operating expenditure of Approved Roll-overs	94,773	30,601	30,601	64,172	67.7%
TOTAL EXPENDITURE OF APPROVED ROLL-OVERS	94,773	30,601	30,601	64,172	67.7%

Note: The equitable share allocation is utilised to fund ATP subsidies granted to qualifying households, with the remainder being used to support the Municipality's operations.

DORA Operating Grants:

Expanded Public Works Programme (EPWP)

This grant is to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery.

DORA Allocation:	R 8 496 000
Amount of Grant Received:	R 2 123 000
Expenditure to date:	R 695 427
Unspent as at 31 December 2016	R 7 800 573

As at 31 December 2016 only 8.2% of the DORA allocation was spent.

Infrastructure Skills Development

This grant is to strengthen capacity of local government, to effectively and efficiently deliver quality infrastructure, by increasing the pool of skills.

DORA Allocation:	R14 500 000
Amount of Grant Received:	R 6 900 000
Expenditure to date:	R 3 445 586
Unspent as at 31 December 2016:	R11 054 414

As at 31 December 2016, 23.76% of the DORA allocation was spent

Roll-over request to National Treasury in the amount of R576,932 was prepared for the 2015/16 unspent conditional grant. However the application for roll over was not approved due to the municipality not submitting supporting documents as evidence to prove that funds are committed. The National Treasury letter, "Application for roll over of unspent conditional grants for the 2015/16 financial year", dated 7 October 2016 refers.

Finance Management Grant

This grant is to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

DORA Allocation:	R1 050 000
Amount of Grant Received:	R1 050 000
Expenditure to date:	R 521 298
Unspent as at 31 December 2016:	R 528 702

As at 31 December 2016 49.6% of the DORA allocation was spent.

Human Settlements Development Grant

This grant is to provide funding to create sustainable human settlements that enable an improved quality of household life, improved access, integration and settlements

DORA Allocation:	R 517 128 000
Amount of Grant Received:	R 40 493 870
Expenditure to date:	R 39 886 646
Unspent as at 31 December 2016:	R 477 241 354

As at 31 December 2016 7.7% of the DORA allocation was spent.

Municipality Human Settlements Capacity Grant

This grant is to provide funding to ensure effective management of human settlements programmes at the local government level in line with the accreditation framework.

DORA Allocation:	R	0
Amount of Grant Received:	R	0
Expenditure to date:	R	4 179 112
Unspent as at 31 December 2016:	R	0

Roll-over application to National Treasury has been submitted on the 31 August 2016 for the 2015/16 unspent conditional grant which amounted to R 7 752 924. **The Roll-over application was unsuccessful. Therefore alternative funding should be sourced to fund this unauthorised expenditure.**

Urban Settlements Development Grant

This grant is to assist metropolitan municipalities to improve urban land production to the benefit of poor households, to improve spatial integration and densities by supplementing the budgets of metropolitan municipalities.

DORA Allocation:	R19 380 000
Amount of Grant Received:	R19 380 000
Expenditure to date:	R 3 993 520
Unspent as at 31 December 2016:	R15 386 480

As at 31 December 2016 20.61% of the DORA allocation was spent.

Public Transport Networks Operations

This grant is to provide supplementary operational funding to municipalities.

DORA Allocation:	R0
Amount of Grant Received:	R0
Expenditure to date:	R0
Unspent as at 31 December 2016:	R0

No allocation has been made in the 2016/17 DORA for Public Transport Networks Operations.

Roll-over application to National Treasury has been submitted on the 31 August 2016 for the 2015/16 unspent conditional grant which amounted to R 123 614 211.

DORA Roll Over:	R93 050 293
Expenditure to date:	R30 601 276
Unspent as at 31 December 2016:	R62 449 017

As at 31 December 2016 32.9% of the DORA roll-over allocation was spent.

National Treasury has only approved R93.1 million of the roll-over application. The rejected amount of R56.4 million is due to MFMA circulars 75 and 79 requiring that at least 50 per cent of the allocation per programme must be spent.

The approval of R93.1 million is for the following projects:

- PTNG: Planning, Systems Planning, Business and Financial Modeling Industry Transition (Negotiation and Compensation);
- PTNG: Infrastructure, Preventative maintenance;
- PTNG: Equipment and Systems Supply;
- PTNG: Operational Readiness Related Cost; and
- PTNG: Communication and Marketing;

Capital Grants (DORA)

Urban Settlements Development Grant

This grant is to assist metropolitan municipalities to improve urban land production to the benefit of poor households, to improve spatial integration and densities by supplementing the budgets of metropolitan municipalities.

DORA Allocation:	R848 902 000
Amount of Grant Received:	R413 237 000
Expenditure to date:	R240 958 683
Unspent as at 31 December 2016:	R607 943 317

As at 31 December 2016 28.38% of the DORA allocation was spent

Integrated National Electrification Programme

This grant is to provide funding to municipalities to address the electrification backlog of occupied residential dwellings, and the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to improve quality of supply.

DORA Allocation:	R35 000 000
Amount of Grant Received:	R35 000 000
Expenditure to date:	R19 582 076
Unspent as at 31 December 2016:	R15 417 924

As at 31 December 2016 55.9% of the DORA allocation was spent.

Neighbourhood Development Partnership

This grant is to support and facilitate the planning and development of neighbourhood development programmes and projects that provide catalytic infrastructure to leverage third party public and private sector development towards improving the quality of life of residents in targeted underserved neighbourhoods.

DORA Allocation:	R 21 476 000
Amount of Grant Received:	R 10 390 000
Expenditure to date:	R 3 335 113
Unspent as at 31 December 2016:	R 8 140 887

As at 31 December 2016 only 15.5% of the DORA allocation was spent.

The Neighbourhood Development Partnership Grant has been reduced by National treasury by R11 million due the Njoli project that has been put on hold until the Precinct Plan, which has already been commissioned, had been redone.

Public Transport Infrastructure Grant

This grant is to provide for accelerated planning, construction and improvement of public and non-motorised transport infrastructure.

DORA Allocation:	R0
Amount of Grant Received:	R0
Expenditure to date:	R0
Unspent as at 31 December 2016:	R0

Roll-over application to National Treasury has been submitted on the 31 August 2016 for the 2015/16 unspent conditional grant which amounted to R 25 836 082. Refer to Public Transport Networks Operations above.

Integrated City Development Grant

This grant is to provide a financial incentive for metropolitan municipalities to integrate and focus their use of available infrastructure investment and regulatory instruments to achieve a more compact urban spatial form.

DORA Allocation:	R9 276 000
Amount of Grant Received:	R4 638 000
Expenditure to date:	R 0
Unspent as at 31 December 2016:	R9 276 000

Roll-over application to National Treasury has been submitted on the 31 August 2016 for the 2015/16 unspent conditional grant which amounted to R 1 722 794.

DORA Roll Over:	R1 722 774
Expenditure to date:	R 0
Unspent as at 31 December 2016:	R1 722 774

As at 31 December 2016 0% of the DORA roll-over allocation was spent.

The National Treasury letter, "Application for roll over of unspent conditional grants for the 2015/16 financial year", dated 7 October 2016 refers. The application for roll over in the amount of R1,722,794 was approved. **The approval is for the Chatty Link Road**

5. Councillor and Board members' allowances and employee benefits

Below is an analysis of Councillor, Board members' allowances and employee benefits:

Supporting Table SC8 Monthly Budget Statement - Councillor and staff benefits – M06 December 2016

Summary of Employee and Councillor remuneration	2015/16	Budget Year 2016/17						
	Audited Outcome	Original Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands								
	A	B						D
Councillors (Political Office Bearers plus Other)								
Basic Salaries and Wages	59,593	64,507	5,024	29,396	30,074	(678)	-2%	64,507
Cellphone Allowance	2,541	2,747	186	1,294	1,281	14	1%	2,747
Other benefits and allowances	61	462	32	160	216	(55)	-26%	462
Sub Total - Councillors	62,196	67,716	5,242	30,851	31,570	(720)	-2%	67,716
% increase		8.9%						8.9%
Senior Managers of the Municipality								
Basic Salaries and Wages	15,280	21,353	1,578	7,374	10,214	(2,840)	-28%	21,353
Performance Bonus	(1,692)	2,991		–	1,431	(1,431)	-100%	2,991
Sub Total - Senior Managers of Municipality	13,588	24,343	1,578	7,374	11,645	(4,271)	-37%	24,343
% increase		79.2%						79.2%
Other Municipal Staff								
Basic Salaries and Wages	1,378,407	1,568,892	116,141	752,017	750,509	1,508	0%	1,568,892
Pension and UIF Contributions	228,298	270,175	21,477	130,985	129,243	1,742	1%	270,175
Medical Aid Contributions	133,430	155,346	11,508	69,137	74,313	(5,176)	-7%	155,346
Overtime	134,054	116,924	14,613	71,898	55,933	15,965	29%	116,924
Performance Bonus	30,477	33,830	3,949	18,241	16,183	2,057	13%	33,830

Summary of Employee and Councillor remuneration R thousands	2015/16	Budget Year 2016/17						
	Audited Outcome	Original Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
Motor Vehicle Allowance	71,133	90,115	6,026	35,373	43,108	(7,735)	-18%	90,115
Cellphone Allowance	15	56	1	6	27	(21)	-79%	56
Housing Allowances	10,880	12,359	934	5,609	5,912	(303)	-5%	12,359
Other benefits and allowances	81,910	65,543	6,562	35,926	31,354	4,573	15%	65,543
Payments in lieu of leave	42,944	21,868		–	10,461	(10,461)	-100%	21,868
Long service awards	40,388	82,886	5,767	45,837	39,650	6,187	16%	82,886
Post-retirement benefit obligations	163,329	39,967		–	19,119	(19,119)	-100%	39,967
Sub Total - Other Municipal Staff	2,315,263	2,457,963	186,978	1,165,029	1,175,813	(10,783)	-1%	2,457,963
% increase		6.2%						6.2%
Total Parent Municipality	2,391,048	2,550,022	193,797	1,203,254	1,219,028	(15,774)	-1%	2,550,022
		6.6%						6.6%
Unpaid salary, allowances & benefits in arrears:								
Board Members of Entities								
Basic Salaries and Wages						–		
Sub Total - Board Members of Entities	–	–	–	–	–	–		–
% increase								
Senior Managers of Entities								
Basic Salaries and Wages	5,598	6,960	471	2,038	3,329	(1,292)	-39%	6,960
Pension and UIF Contributions	686	737	91	392	353	39	11%	737
Medical Aid Contributions	394	233	38	164	111	52	47%	233
Overtime	–		1	3	–	3	#DIV/0!	
Performance Bonus	1,007	761	–	1,490	364	1,126	309%	761
Motor Vehicle Allowance	88	100	–	2	48	(46)	-96%	100
Housing Allowances			449	449	–	449	#DIV/0!	
Sub Total - Senior Managers of Entities	7,773	8,791	1,050	4,538	4,205	332	8%	8,791
% increase		13.1%						13.1%
Other Staff of Entities								
Basic Salaries and Wages	4,901	8,723	424	1,834	4,173	(2,338)	-56%	8,723
Pension and UIF Contributions	588	1,299	68	295	621	(327)	-53%	1,299
Medical Aid Contributions	641	495	87	376	237	140	59%	495
Other benefits and allowances		–	5	20	–	20	#DIV/0!	–
Sub Total - Other Staff of Entities	6,130	10,517	584	2,526	5,031	(2,505)	-50%	10,517
% increase		71.6%						71.6%
Total Municipal Entities	13,903	19,308	1,634	7,063	9,236	(2,173)	-24%	19,308
TOTAL SALARY, ALLOWANCES & BENEFITS	2,404,951	2,569,330	195,431	1,210,318	1,228,264	(17,947)	-1%	2,569,330
% increase		6.8%						6.8%
TOTAL MANAGERS AND STAFF	2,342,755	2,501,615	190,189	1,179,467	1,196,694	(17,227)	-1%	2,501,615

6. Key performance indicators

The table below reflects the key performance indicators as per the 2016/17 Budget and the associated performance to date.

Supporting Table SC2 Monthly Budget Statement - performance indicators – M06 December 2016

Description of financial indicator	Basis of calculation	Budget Year 2016/17	
		Original Budget	YearTD actual
<u>Borrowing Management</u>			
Capital Charges to Operating Expenditure	Interest & principal paid/Operating Expenditure	2.7%	2.6%
Borrowed funding of 'own' capital expenditure	Borrowings/Capital expenditure excl. transfers and grants	0.0%	0.0%
<u>Safety of Capital</u>			
Debt to Equity	Loans, Accounts Payable, Overdraft & Tax Provision/ Funds & Reserves	26.4%	24.8%
Gearing	Long Term Borrowing/ Funds & Reserves	9.7%	9.5%
<u>Liquidity</u>			
Current Ratio	Current assets/current liabilities	135.0%	154.1%
Liquidity Ratio	Monetary Assets/Current Liabilities	62.8%	71.4%
<u>Revenue Management</u>			
Annual Debtors Collection Rate (Payment Level %)	Last 12 Mths Receipts/ Last 12 Mths Billing	94.0%	93.4%
Outstanding Debtors to Revenue	Total Outstanding Debtors to Annual Revenue	17.5%	17.2%
<u>Creditors Management</u>			
Creditors System Efficiency	% of Creditors Paid Within Terms (within MFMA s 65(e))	80..0%	77.0%
<u>Other Indicators</u>			
Electricity Distribution Losses	% Volume (units purchased and generated less units sold)/units purchased and generated	10.0%	13.5%
Water Distribution Losses	% Volume (units purchased and own source less units sold)/Total units purchased and own source	46.0%	41.0%
Employee costs	Employee costs/Total Revenue - capital revenue	26.2%	25.9%
Repairs & Maintenance	R&M/Total Revenue - capital revenue	4.8%	2.8%
Interest & Depreciation	I&D/Total Revenue - capital revenue	10.8%	10.9%
<u>IDP regulation financial viability indicators</u>	-		
i. Debt coverage	(Total Operating Revenue - Operating Grants)/Debt service payments due within financial year)	32.35	15.6
ii. O/S Service Debtors to Revenue	Total outstanding service debtors/annual revenue received for services	16.8%	17.7%
iii. Cost coverage	(Available cash + Investments)/monthly fixed operational expenditure	1.94	1.95

The above table is discussed in detail below.

6.1 Borrowing Management

6.1.1 Borrowing to Asset Ratio

This ratio assesses to what extent there are adequate assets to cover the amount of outstanding long-term borrowing (refer figure 1).

The ratio is determined as follows:

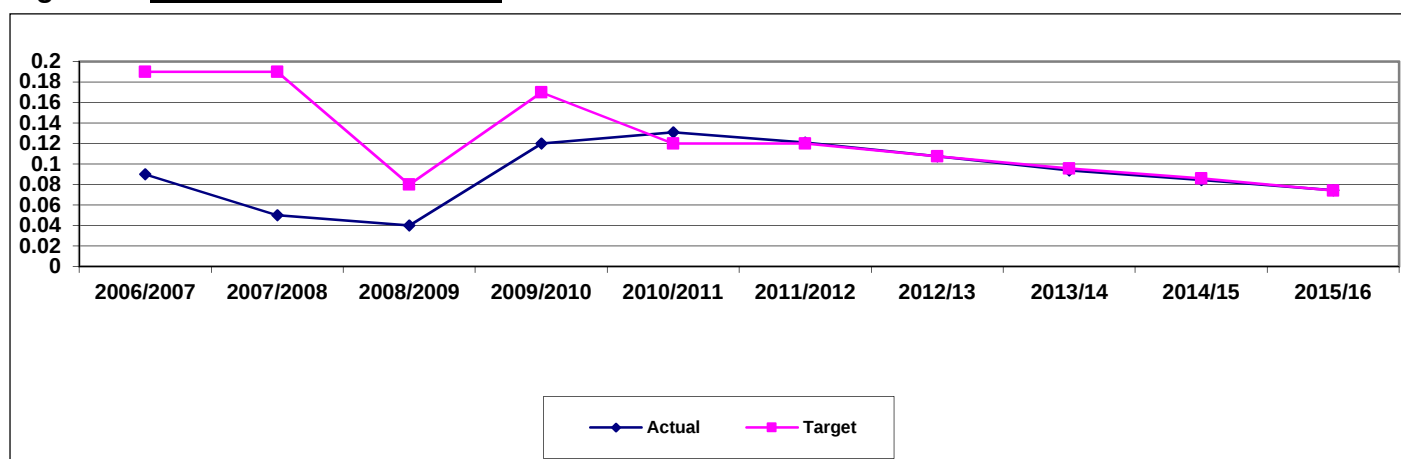
Long-Term Borrowing / Total Assets

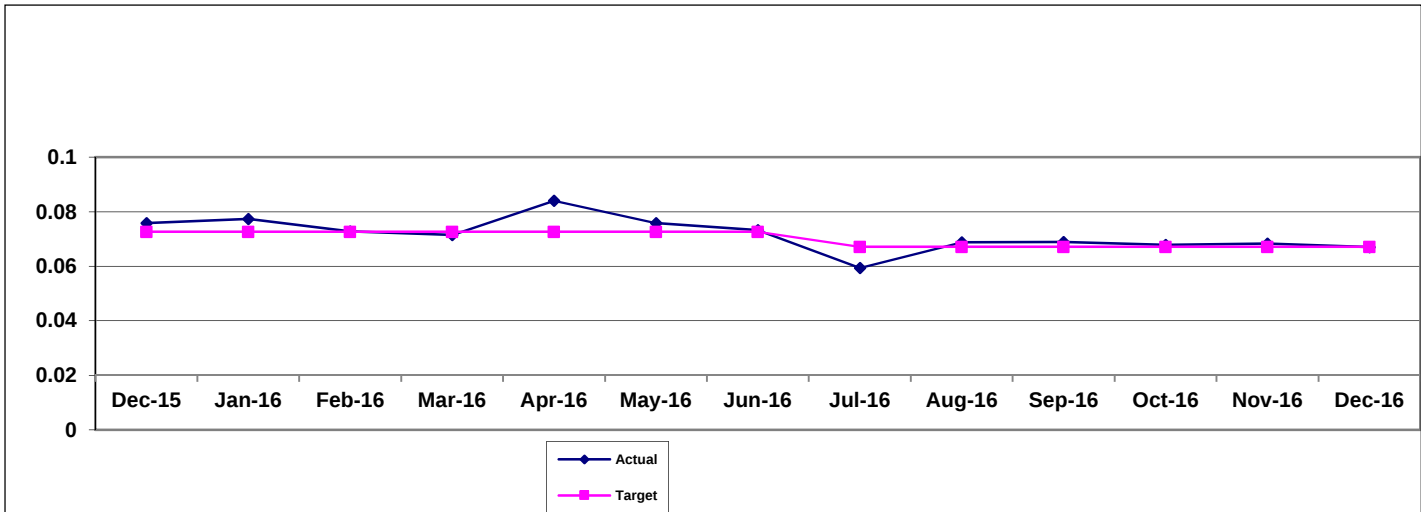
The risk that the Municipality might not be able to settle its long term borrowing becomes greater if this ratio is high. The Municipality must therefore exercise due caution, so that its assets are not overburdened by raising excessive borrowing. The careful and judicious management of borrowing is considered very critical, in order to ensure the Municipality's continued financial viability.

As at the end of December 2016, the borrowing to asset ratio was at **0.0671:1**, compared to the operating budget target of 0.0672:1. The NMBM ratio as at 31 December 2015 was 0.0759:1. The Audited ratio as at 30 June 2016 was 0.0743:1. A ratio of 0.0672:1 as reflected in the 2016/17 Approved Budget appears to be appropriate for the Municipality from a financial affordability and sustainability perspective. External borrowing should only be utilised for the creation of economic assets that will generate future revenue streams for the Municipality.

The ratio will continue to reduce annually until the NMBM are able to secure new long-term borrowing for revenue generating projects.

Figure 1: Borrowing to Asset Ratio





6.1.2 Capital Charges to Operating Expenditure

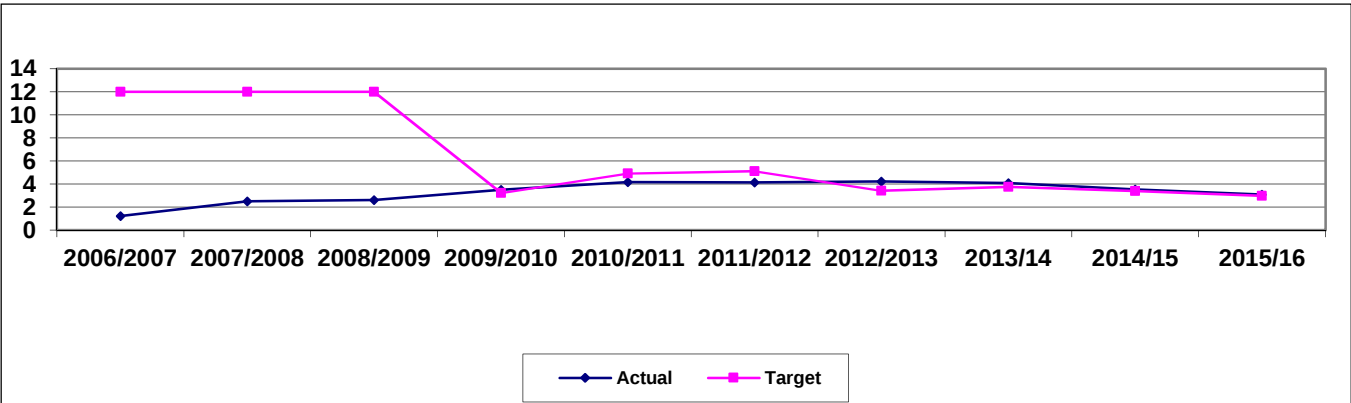
This ratio indicates the proportion of capital charges (interest and principal paid on borrowing) to actual operating expenditure to date. The ratio also provides an assurance that the proportion of capital charges to total annual operating expenditure is financially prudent. (Refer figure 2).

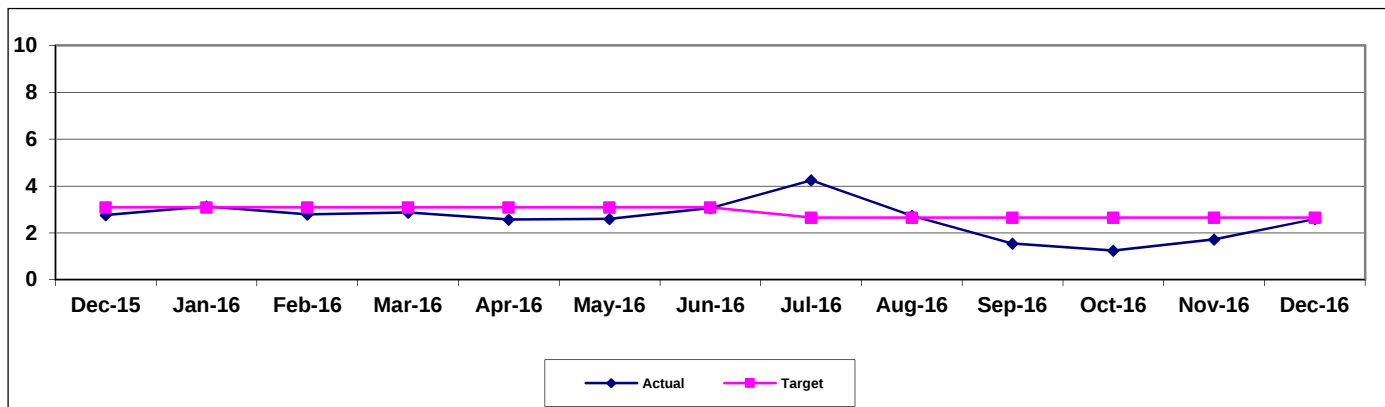
The ratio is determined as follows:

$$\text{Capital Charges / Total Operating Expenditure to date}$$

The ratio indicates that **2.60%** of the Operating Budget was utilised for capital charges, compared to the 2016/17 operating budget target of 2.65%. The ratio as at 31 December 2015 was 2.76%. The Audited ratio as at 30 June 2016 was 3.07%.. The ratio will normalise once the final accruals have been processed in accordance with the loan repayment schedules. Capital charges (Debt servicing costs) are paid at specific intervals.

Figure 2: Capital Charges to Annual Operating Expenditure





6.1.3 Borrowed funding of capital expenditure

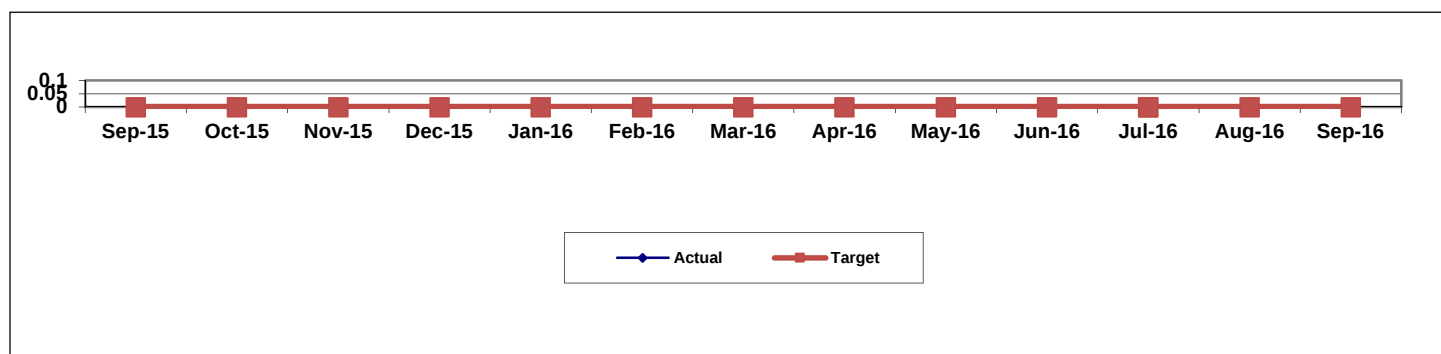
This ratio indicates the proportion of borrowed funding to actual capital expenditure to date (excluding transfers and grants). The ratio also indicates the extent of capital expenditure being financed from borrowed funding compared to own and other funding sources, excluding transfers and grant funded expenditure (refer figure 3).

The ratio is determined as follows:

Capital expenditure funded from Borrowings / Total Capital Expenditure to date (excluding transfers and grants)

The ratio was 0% (or **0.0:1**) as no capital expenditure was funded from borrowings, which is in line with the budget target as per the 2016/17 Operating Budget as no borrowing is planned for the 2016/17 to 2018/19 financial years. As indicated elsewhere in the report, the Municipality has exhausted its borrowing capacity and will therefore not take up any further loans over at least the next two financial years.

Figure 3: Borrowed funding of Capital Expenditure



6.1.4 Debt Servicing Costs to Operating Revenue Ratio

This ratio indicates the proportion of debt servicing costs (interest and principal paid on borrowing) to actual operating revenue to date. (refer figure 4).

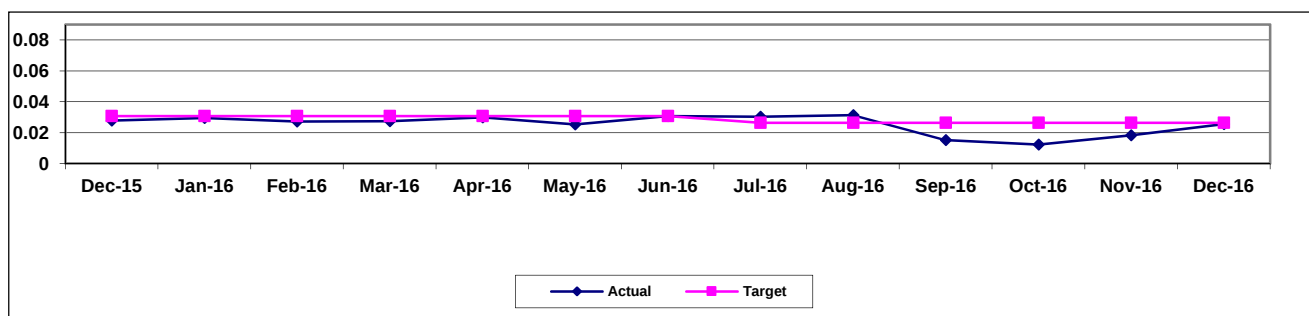
The ratio is determined as follows:

Debt Servicing Costs / Operating Revenue

The risk that the Municipality might not be able to settle its annual long term borrowing commitments becomes greater if this ratio is high. The Municipality must therefore exercise due caution, so that its operating revenues are not overburdened by the level of borrowing. The careful and judicious management of borrowing is considered very critical, in order to ensure the Municipality's continued financial viability.

As at the end of December 2016, the debt servicing costs to operating revenue ratio was at 0.0152:1, compared to the 2016/17 operating budget target of 0.0264:1. The NMBM ratio as at 31 December 2015 was 0.0277:1. The Audited ratio as at 30 June 2016 was 0.0306. A ratio of 0.03:1 appears to be the maximum borrowing level for the Municipality from a financial affordability and sustainability perspective.

Figure 4: Debt Servicing Costs to Operating Revenue Ratio



6.2 Safety of Capital

6.2.1 Gearing Ratio

The gearing ratio assesses the percentage of capital employed that is financed by long term borrowing (refer figure 5).

The ratio is determined as follows:

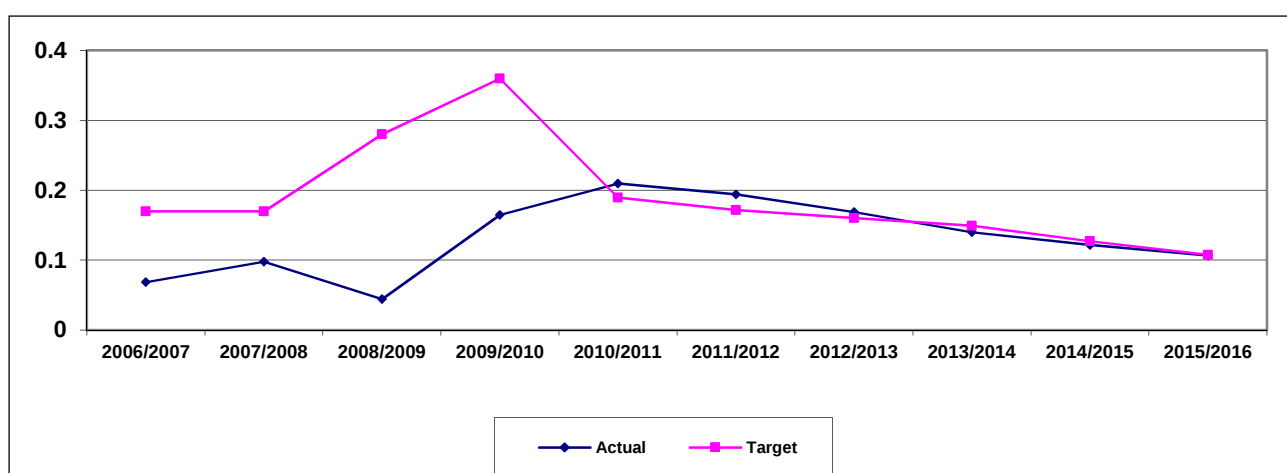
Long Term Borrowing / Funds & Reserves (Equity)

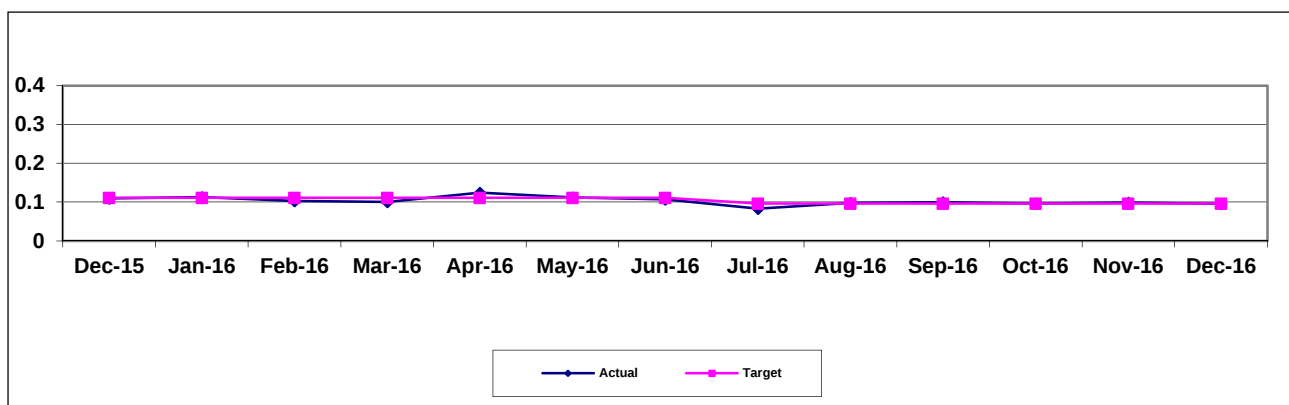
The higher the gearing ratio, the higher the dependence will be on borrowings. The lower the gearing ratio, the higher will be the dependence on the Municipality's funds and reserves.

The gearing ratio as at the end of December 2016 was **0.0950:1**, compared to the 2016/17 operating budget target of 0.0966:1. The NMBM ratio as at 31 December 2015 is 0.1095:1. The Audited ratio as at 30 June 2016 was 0.1068:1.

Should no further borrowing be taken up for the 2016/17 to 2017/18 financial years, the ratio will reduce as outstanding borrowings decrease and equity improves over the next three financial years.

Figure 5: Gearing Ratio





6.3 Liquidity

6.3.1 Current Ratio

The current ratio assesses a Municipality's ability to meet its short-term commitments (refer figure 6).

The ratio is determined as follows:

$$\text{Current assets} / \text{Current liabilities}$$

The different components of current assets and current liabilities are reflected below.

Current assets	R	%
Cash and Investments	1,647,776,554	47.92%
Consumer Debtors	1,146,503,119	33.34%
Other Debtors	440,767,267	12.82%
Current portion of long term Receivables	80	0.00%
Inventory	203,833,520	5.93%
Total	3,438,880,540	100.00%

Current liabilities	R	%
Borrowing	86,409,283	3.87%
Consumer Deposits	124,935,111	5.60%
Trade and Other Payables	1,895,166,007	84.90%
Provisions	125,739,918	5.63%
Total	2,232,250,319	100.00%

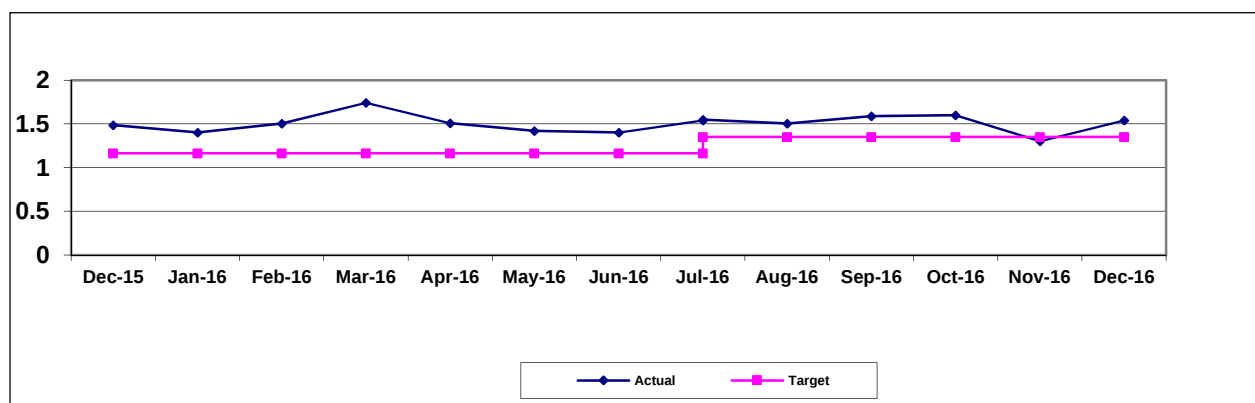
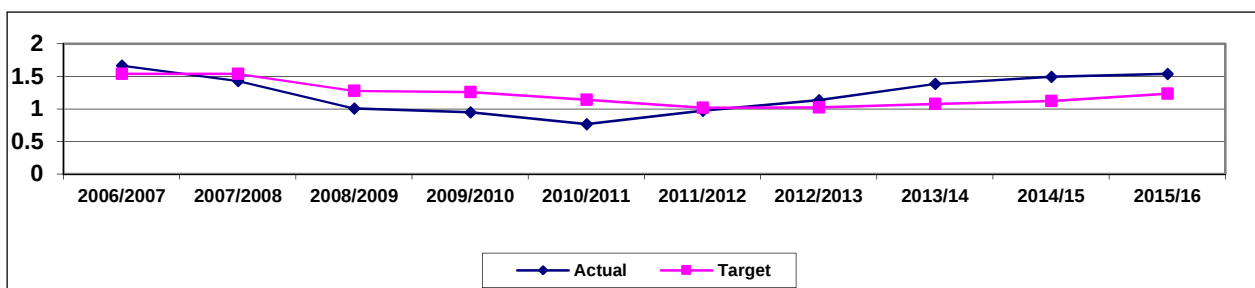
It is to be noted that cash and investments, consumer debtors and inventory comprise 47.92%, 33.34% and 5.93% respectively of total current assets. Trade and other payables constitute 84.90% of total current liabilities (refer to Sections 1.8.3, 1.8.1 and 1.8.2 of this report for a further discussion on investments, debtors and creditors).

A favourable ratio would ensure that the Municipality is able to settle its short-term commitments to its creditors. In this regard, it is important that the Municipality ensures the relative liquidity of its current assets. Non-liquid assets, such as long outstanding debtors, could negatively impact on liquidity, possibly resulting

in a situation where current assets are not liquid enough to cover current liabilities. The ratio as at 31 December was **1.54:1**. The NMBM ratio as at 31 December 2015 was 1.49:1. The Audited ratio as at 30 June 2016 was 1.54:1.

The current ratio is of utmost importance to measure the financial liquidity and sustainability of the Municipality. Although the 2016/17 operating budgeted target is 1.35:1, it does not imply that it is a satisfactory target. It is important that a ratio of at least 2:1 be achieved for medium and long term financial sustainability. In this regard a financial recovery plan has been drafted and is being implemented to ensure the ongoing financial sustainability of the Municipality.

Figure 6: Current Ratio



6.3.2 Liquidity Ratio

The liquidity ratio assesses a Municipality's ability to meet its short-term commitments from Monetary Assets (refer figure 7).

The ratio is determined as follows:

$$\text{Monetary assets} / \text{Current liabilities}$$

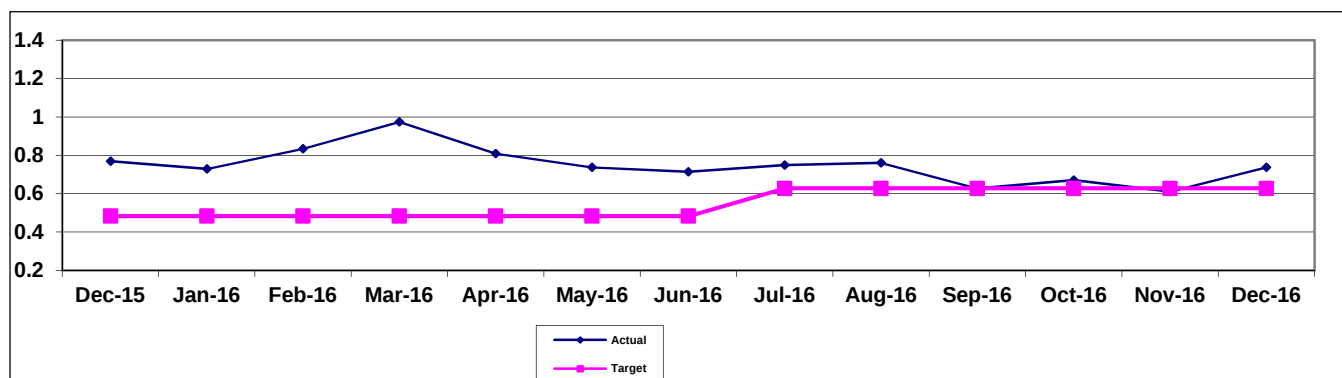
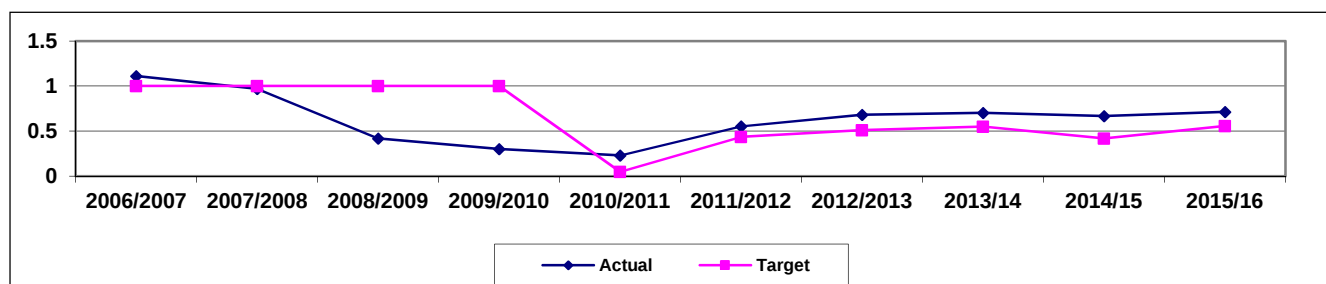
The different components of monetary assets and current liabilities are reflected below.

Monetary assets	R	%
Cash and Investments	1,647,776,554	100.00%
Total	1,647,776,554	100.00%
Current liabilities	R	%
Borrowing	86,409,283	3.87%
Consumer Deposits	124,935,111	5.60%
Trade and Other Payables	1,895,166,007	84.90%
Provisions	125,739,918	5.63%
Total	2,232,250,319	100.00%

A favourable ratio would ensure that the Municipality is able to settle its short-term commitments from monetary assets. The liquidity ratio as at 31 December 2016 was **0.74:1**. The NMBM ratio as at 31 December 2015 is 0.77:1. The Audited ratio as at 30 June 2016 was 0.071:1.

The liquidity ratio is of utmost importance to measure the financial liquidity and sustainability of the Municipality. The 2016/17 operating budget target of 0.63:1 is not a satisfactory target. The liquidity ratio of 0.74:1 indicates a risky cash flow position. It is important that a ratio of at least 1:1 be achieved for medium and long term financial sustainability.

Figure 7: Liquidity Ratio



6.4 Revenue Management

6.4.1 Annual Debtors Collection Rate

This ratio assesses the actual cash collected, compared to the monetary value of the municipal accounts rendered for municipal rates and services. The ratio is 94% as per the 2015/16 IDP and Budget. However a collection rate of 100% or more is required to decrease the provision for doubtful debts so that more funds are released for service delivery.

The ratio to determine the percentage collection rate is as follows:

$$\frac{\text{Total Payments Received in over last 12 months}}{\text{Total Value of Accounts Rendered in the Previous 12 months}} \times 100 = \text{Percentage Collection Rate}$$

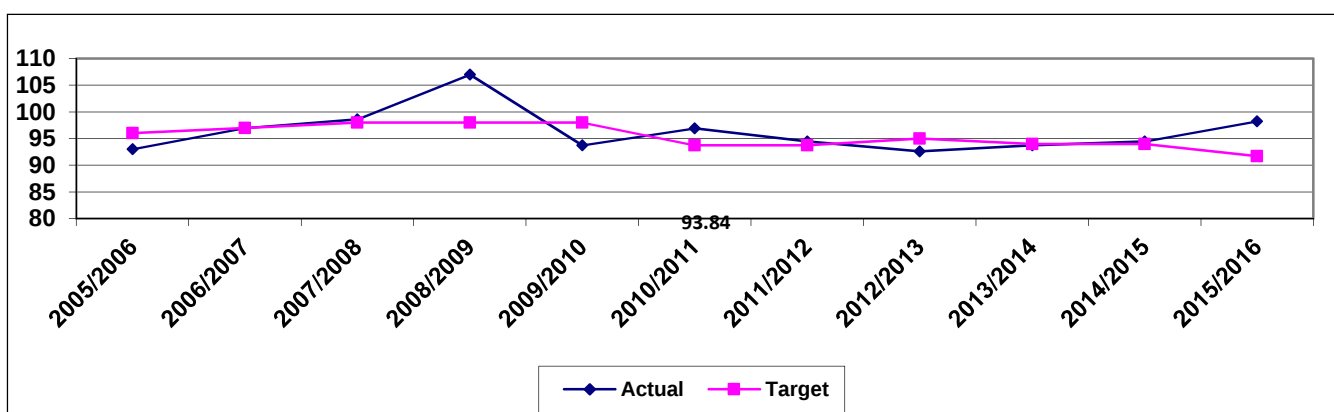
Note: The reason for using the previous month's billing is due to the accounts only being payable the following month (i.e. account-holders are given one calendar month to pay their current accounts). The ratio is calculated by eliminating the ATTP billing that is funded via the Equitable Share

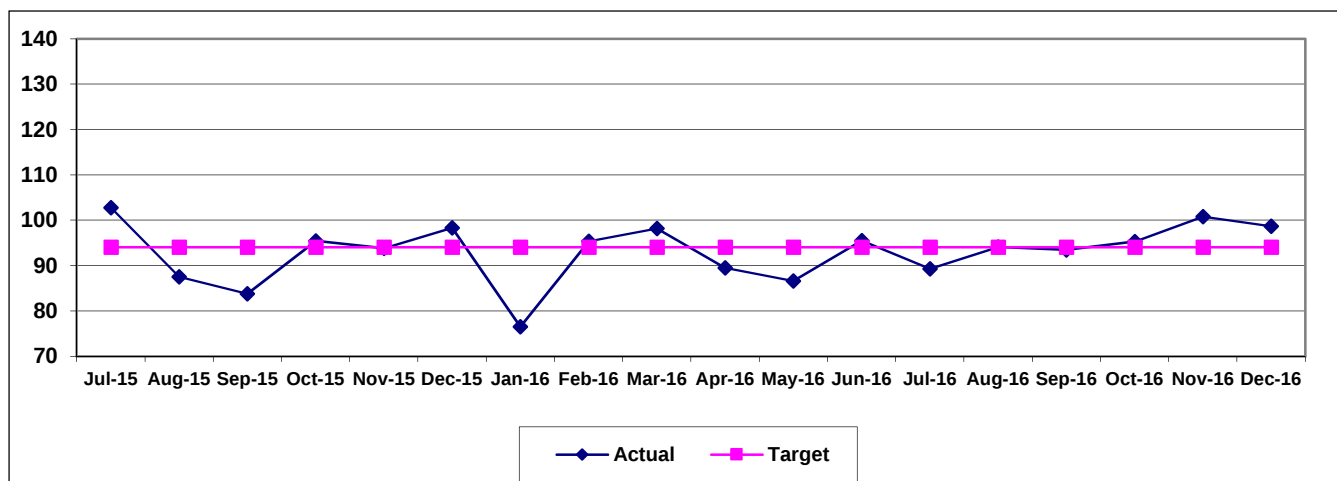
The collection rate for July 2016, August 2016, September 2016, October 2016, November 2016 and December 2016 were 89.3%, 94.1%, 93.5%, 95.3, 100.8 and 98.7% respectively, whilst the average collection rate amounted to 93.4% for the period January 2016 to December 2016. The Audited ratio as at 30 June 2016 was 91.40%. The average collection rate for the 1st half year was 95.11%. However it would appear that the total billing is less than anticipated and therefore despite a collection rate of 95.11% the municipality is still experiencing a shortfall of approximately R100 million in cash as at 31 December 2016. The main reason is that due to the New Indigent Policy allowing all consumers with a property value of up to R100000 to automatically qualify for ATTP subsidy (rebates) regardless of whether they are poor or not, has resulted that the good payers within the 23000 new ATTP consumers are now not paying, but are funded by the Equitable Share. Therefore a material loss of cash flow is experienced by the Municipality. Further the 90 days automatic write-off for ATTP customers are also reducing cash flow as all ATTP customers are aware of the fact that their debt are always being written off. Effectively, except for the pre-paid electricity approximately 116 000 ATTP customers are receiving all their services for free, putting the stress of financing the municipal services package on the small revenue base remaining. In conclusion the true value of free services received by the ATTP consumers far exceeds the National Policy allowances for free basic services. If the Indigent Policy is not amended immediately to be in line with the National Policy, the municipality will not be financially sustainable and will run out of cash flow within the short term.

The collection rate target of 94% was not achieved. The lower than anticipated raising of revenue is placing the NMBM at short to medium term financial viability and sustainability risk.

All credit control strategies should be applied to achieve collection rates materially exceeding the 94% collection level. The current ratio is putting the NMBM at risk and assessment is required as to whether the 2016/17 adjustments budget collection rate should be reduced which will require further budgetary reduction considerations.

Figure 8: Annual Debtors Collection Rate





6.4.2 Outstanding Debtors to Annual Operating Revenue

This ratio focuses on the amount owed by outstanding debtors as a percentage of the annualised operating revenue.

The ratio is determined as follows:

Outstanding Debtors / Annualised Operating Revenue

The ratio at the end of December 2016 was **17.16%** compared to the target of 17.52%. The NMBM ratio as at 31 December 2015 was 16.73%. The Audited ratio as at 30 June 2016 was 19.96%.

It is considered of the utmost importance that strict financial management is maintained, in order to decrease the outstanding debt owed to Council. A Revenue Enhancement Strategy to improve revenue collection has been drafted and is being reviewed. This strategy is monitored by the CFO on a monthly basis and reported to the Budget and Treasury Standing Committee on a quarterly basis. Amongst others, the decline in the current economic climate has had a negative impact on this ratio.

The implementation of the Debt Relief Programme has been undertaken in order to recover outstanding debtors to stabilise the cash flow situation and to ensure that the targeted collection rate of 94% is achieved.

Figure 9: Outstanding Debtors to Annual Operating Revenue



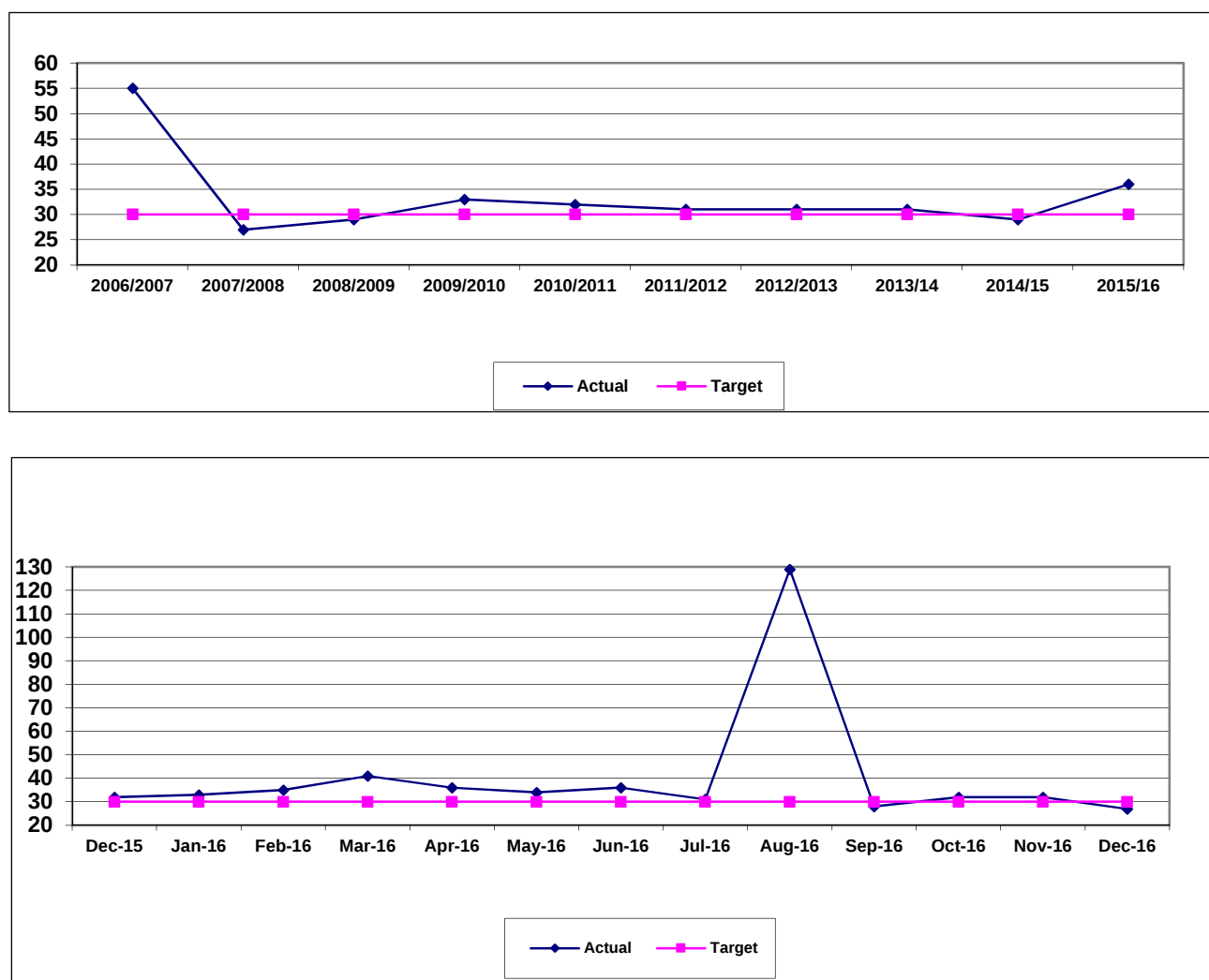
6.5 Creditor Management

6.5.1 Creditors Turnover (days)

This ratio reflects the number of days that it takes on average to pay the Municipality's suppliers. Section 65 (2) (e) of the MFMA states that all money owing by the Municipality must be paid within 30 days of receiving the relevant invoice or statement (refer figure 10).

The ratio is determined from the date of receipt of the invoice until the date of payment. The ratio as at 31 December 2016 amounted to **27 days** (also refer to Section 1.8.2 of this report). The audited ratio as at 30 June 2016 was 36 days. The 127 days as reported for August 2016 was due to over 4000 MTN PTY Ltd invoices dating as far back as the previous financial year that was only paid during August 2016.

Figure 10: Creditors Turnover (days)



6.6 Financial Viability and Sustainability

6.6.1 Operating Surplus

The ratio indicates the extent to which revenues cover operational expenses only or are also available for capital funding or debt repayments.

The ratio is determined as follows:

$$\frac{\text{Operating Result or Net Results (Excluding Capital Items)}}{\text{Total Operating Revenue (Excluding Capital Items)}} \times 100$$

The ratio as at 31 December 2016 amounted to **2.24%**.

Description R'000	Audited AFS 2014/15	Audit Restated AFS 2014/15	Audit AFS 2015/16	Operating Budget 2016/17	Dec-16
Operating surplus/(deficit)	771,458	761,749	783,176	863,041	365,829
Less: Transfers recognised Capital	784,204	784,204	777,512	830,667	263,885
Total	-12,746	-22,455	5,663	32,375	101,944
Total Operating Revenue	8,179,284	8,194,504	8,791,867	9,535,857	2,551,635
Ratio	-0.16	-0.27	0.06	0.34	2.24

The outcome is influenced by the level of cash balances mainly due to the following:

- High level of unspent conditional grants as at 31 December.
- High level of doubtful debts written off to date due to implementation of the amended Indigent Policy.

6.6.2 Cost coverage

The ratio indicates the extent to which the available cash and investments are adequate to cover monthly payments (refer figure 11).

The ratio is determined as follows:

Cash and Cash Equivalents – Unspent Conditional Grants – Overdraft + Short Term Investments /Monthly Fixed Operational Expenditure excluding (Depreciation, Amortisation, Provisions for Bad Debts, Impairment and Loss on the disposal of Assets:

Debts, Impairment and Loss on the disposal of Assets:

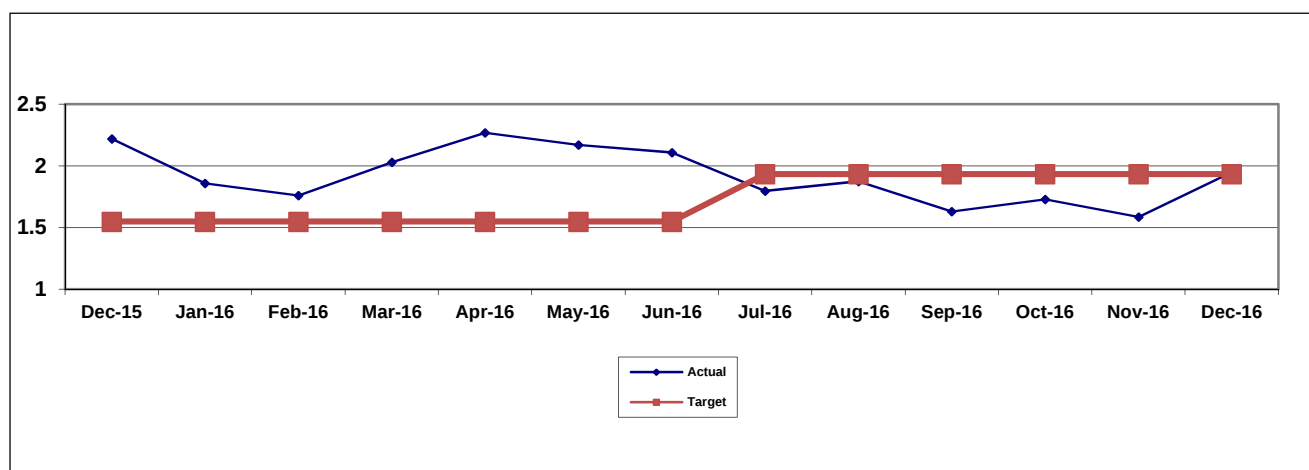
$$\frac{\text{R } 1,647,776,554 - \text{R } 339,071,488}{\text{R } 671,350,277} = \text{1.95 months (58.48 days)}$$

The cost coverage ratio of 1.95 months is above the IDP target of 1.5 months. The monthly average projected operating payments for the period July 2016 to June 2017 was used as a basis for the calculation. The budgeted ratio for 2016/17 is 1.94 months. The NMBM ratio as at 31 December 2015 was 2.22 months. The Audited ratio as at 30 June 2016 was 2.11 months.

National Treasury has indicated that the cost coverage of 3 months should be the target.

The cost coverage ratio of 1.95 months indicates that the Municipality is facing pressures on its cash flows in the medium-term. The cash levels should be carefully monitored over the short term as it is clear that the cost coverage rate is lower than in the previous year.

Figure 11: Cost Coverage (months)



6.6.3 Net Financial Liabilities

This ratio indicates the extent to which total liabilities, from which current assets are subtracted, can be serviced from operating revenues.

The ratio is determined as follows:

$$\frac{\text{Total Liabilities} - \text{Current Assets}}{\text{Total Operating Revenue (Excluding Capital Items)}} \times 100$$

The ratio as at 31 December 2016 amounts to **43.05**. The Audited ratio as at 30 June 2016 was 23.76.

Description	Audit AFS 2014/15	Audit Restated AFS 2014/15	Audit AFS 2015/16	Operating Budget 2016/17	Dec 2016
R'000					
Total Liabilities	5,337,724	5,344,364	5,574,802	5,581,086	5,398,321
Less Current Assets	3,236,700	3,243,908	3,488,660	3,279,030	3,438,881
Total	2,101,024	2,100,456	2,086,143	2,302,056	1,959,440
Operating Revenue	8,179,284	8,194,504	8,781,867	9,535,857	4,551,635
Ratio	25.69	25.63	23.76	24.14	43.05

This ratio will decrease towards year-end on a month to month basis.

6.6.4 Asset Sustainability

This ratio indicates the extent to which the infrastructure (non-financial) assets managed by the Municipality are being replaced as they reach the end of their useful lives

The ratio is determined as follows:

$$\frac{\text{Capital Expenditure in Replacement of Assets (Renewals)}}{\text{Depreciation Expenditure}} \times 100$$

The ratio as at 31 December 2016 amounts to 75.13%, The Audited ratio as at 30 June 2016 was 82.62%.

Description R'000	Audit restated AFS 2013/14	Audit AFS 2014/15	Audit Restated AFS 2014/15	Audit AFS 2015/16	Operating Budget 2016/17	Sep-16
Capital renewals	649,050	757,371	774,313	661,142	794,261	318,448
Depreciation	744,966	868,363	868,363	800,245	847,487	423,857
Ratio	87.12	87.22	89.17	82.62	93.72	75.13

Due to the lower current rate of spending in respect of the capital budget to date, the ratio indicates that capital renewals, as compared to depreciation is lower than anticipated in the 2016/17 Operating Budget.

6.6.5 Asset Preservation

This ratio indicates the extent to which repairs and maintenance expenditure is incurred in relation to the useful lives of the assets

The ratio is determined as follows:

$$\frac{\text{Operating Expenditure on Repairs \& Maintenance + Capital Expenditure on Renewals}}{\text{Depreciation Expenditure}} \times 100$$

The ratio as at 31 December 2016 amounts to **104.88**. The Audited ratio as at 30 June 2016 was 133.71.

Description R'000	Audit Restated AFS 2014/15	Audit AFS 2015/16	Operating Budget 2016/17	Dec-16
Operating Repairs and maintenance	559,523	408,906	457,648	126,107
Capital renewals	774,313	61,142	794,261	318,448
Total	1,333,836	1,070,048	1,251,909	444,555
Depreciation	868,363	841,869	847,587	212,018
Ratio	153.60	133.72	147.72	104.88

Due to the low spending in respect of the capital budget and repairs and maintenance to date the ratio indicates that capital renewals and the repairs and maintenance, as compared to depreciation are decreasing. The ratio is lower than anticipated in the 2016/17 Operating Budget.

6.7 Other Indicators

6.7.1 Employee costs as a % of Total Operating Income

This ratio assesses the extent to which the Municipality's Operating Revenue is consumed by costs associated with the employment of human resources (refer figure 12).

The ratio is determined as follows:

$$\frac{\text{Employee Costs to Date}}{\text{Total Operating Revenue to Date}}$$

The target has been set at 26.23% for the financial year. As at 31 December 2016, the actual personnel costs constituted **25.91%** of the total operating income. The NMBM ratio as at 31 December 2015 was 25.12%. The Audited ratio as at 30 June 2016 was 26.68%. This ratio will further increase as critical positions are being filled over the short term.

Figure 12: Personnel Cost as a % of Total Revenue



6.7.2 Repairs and Maintenance as a % of Total Operating Revenue

This ratio assesses the extent to which the Municipality's Operating Revenue is consumed by costs associated with the repairs and maintenance of its assets (refer figure 13).

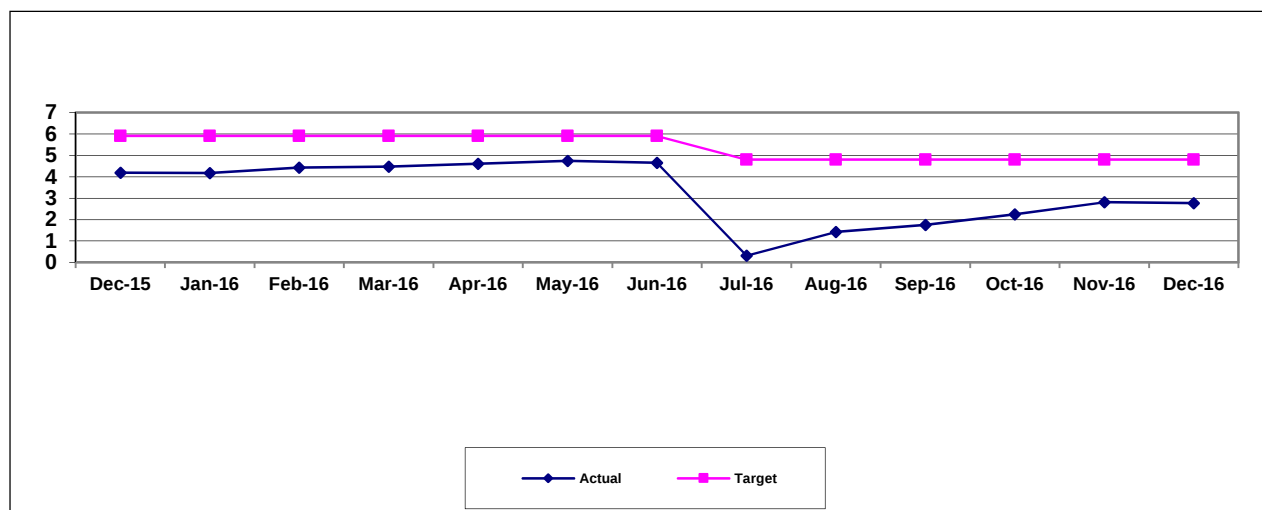
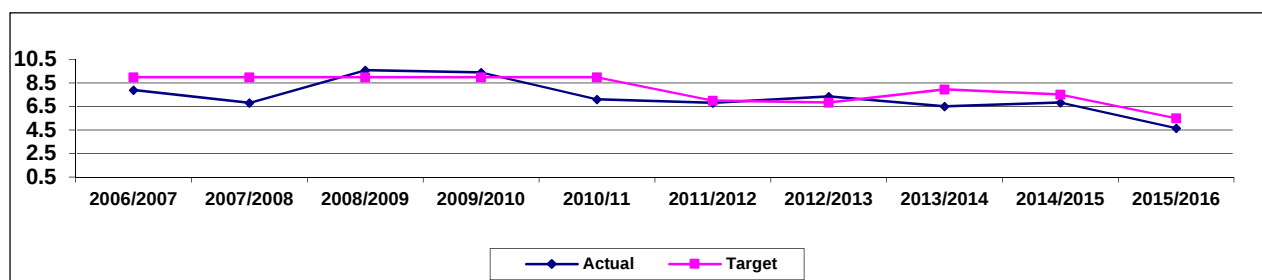
The ratio is determined as follows:

$$\text{Repairs and Maintenance expenditure to date} / \text{Total Operating Income to date}$$

The actual expenditure of 2.77% is below the operating budget target of 4.80. The NMBM ratio as at 31 December 2015 was 4.20%. The Audited ratio as at 30 June 2016 was 4.66. The unbundling of repairs and maintenance makes comparison of results to previous financial years problematic. However once the mSCOA budgeting of Repairs and Maintenance at the project level commence, it will provide management with the actual spending on repairs and maintenance. Currently repairs and maintenance represents the value of materials used in the repairs and maintenance process.

Repairs and Maintenance of assets are undertaken on an on-going basis.

Figure 13: Repairs and Maintenance as a % of Total Operating Income



6.7.3 Repairs and Maintenance as a % of the book value of Property, Plant and Equipment (PPE)

This ratio assesses the level of repairs and maintenance expenditure incurred, compared to the book value of PPE (refer figure 14).

The ratio is determined as follows:

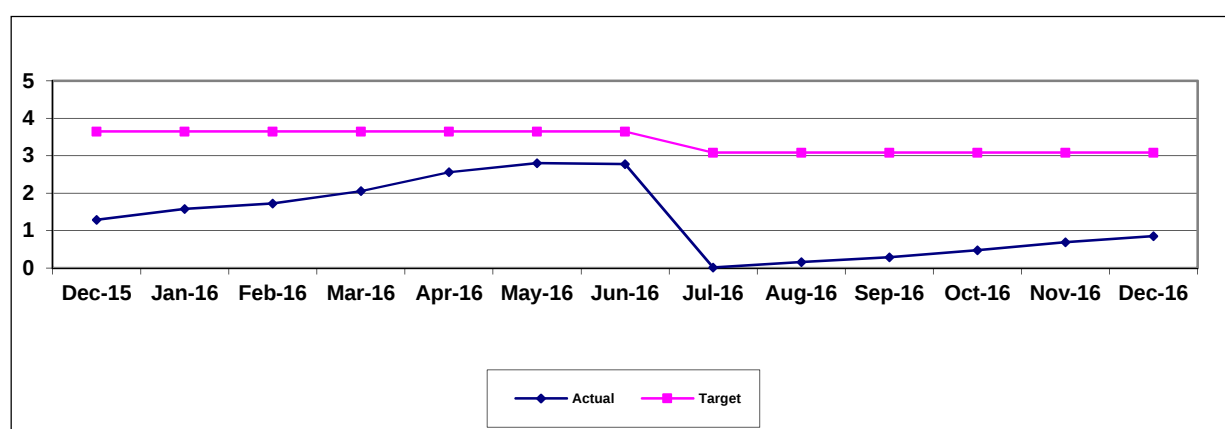
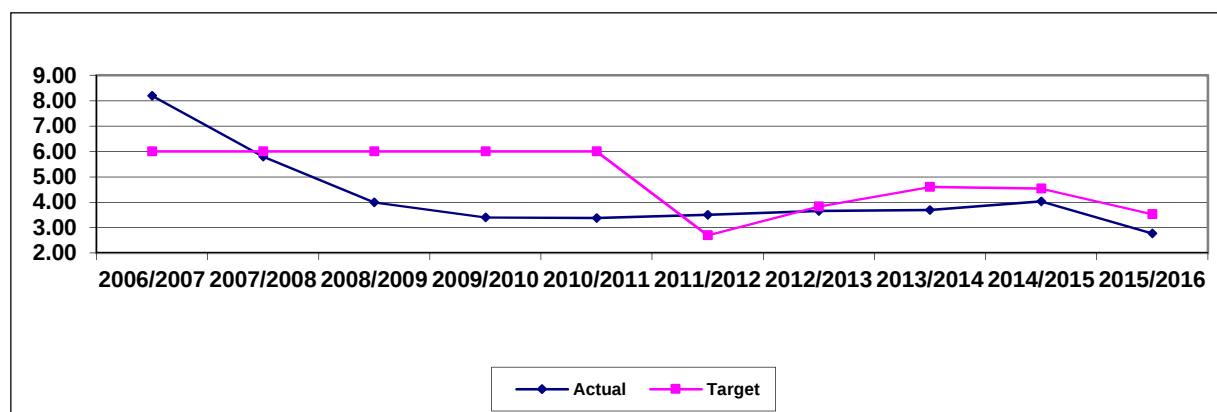
$$\text{Repairs and maintenance expenditure to date} / \text{Book value of PPE to date}$$

The repairs and maintenance expenditure incurred to date constitutes **0.85%** of the book value of PPE, as at the end of December 2016, compared to an operating budget target of 3.08%. The NMBM ratio as at 31 December 2015 was 1.29%. The Audited ratio as at 30 June 2016 was 2.77%. This indicates a relatively low level of repairs and maintenance expenditure, taking into account that significant backlogs currently exist. The expenditure levels are anticipated to increase in future as the maintenance backlogs have now been determined.

The unbundling of repairs and maintenance makes comparison of results to previous financial years problematic. However once the mSCOA budgeting of Repairs and Maintenance at the project level commence, it will provide management with the actual spending on repairs and maintenance. Currently repairs and maintenance represents the value of materials used in the repairs and maintenance process.

It should be noted that new assets will not have an immediate effect on the repairs and maintenance component as they do not generally deteriorate within the first few years.

Figure 14: Repairs and Maintenance as a % of the book value of (PPE)



6.7.4 Capital Budget Spending

This ratio assesses the level of actual capital spending compared to the budgeted capital expenditure (refer figure 15).

The ratio is determined as follows:

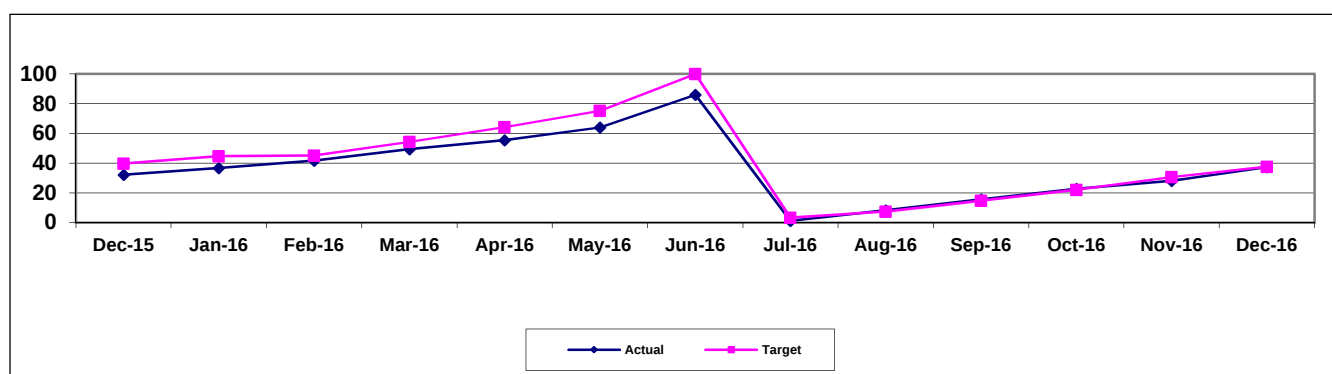
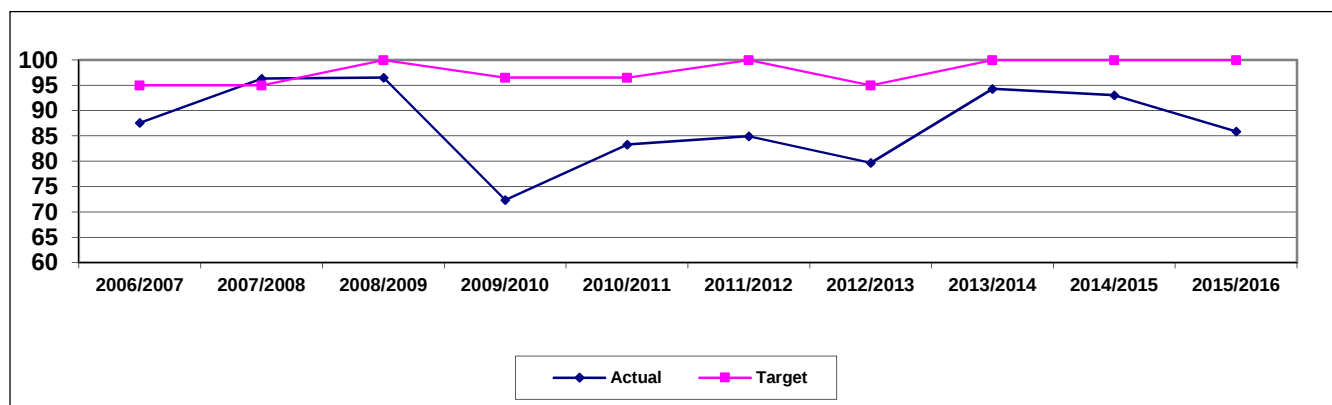
$$\text{Actual Capital spending to date} / \text{Approved Capital Budget}$$

The actual spending as at the end of December 2016 amounted to **37.40%**, compared to the 2016/17 Operating Budget level of 37.58% as at the end of December 2016. The NMBM ratio as at 31 December 2015 was 32.14%. The Audited ratio as at 30 June 2016 was 85.92%.

The Budget Performance Monitoring Forum meets every two months, as opposed to previously meeting on a quarterly basis. The Executive Directors present their capital budgets at the Forum meetings by project, with detailed explanations in the event of under/over spending.

Monthly one-on-one sessions are held with Directorates, in order to identify problem areas early on in the process. These meetings are attended by the Chairperson of the Budget and Treasury Committee, the Portfolio Councillor and the Executive Director of the Directorate concerned and representatives from the Budget and Treasury Directorate.

Figure 15: Capital Budget Spending



6.7.5 Own Revenue Generation

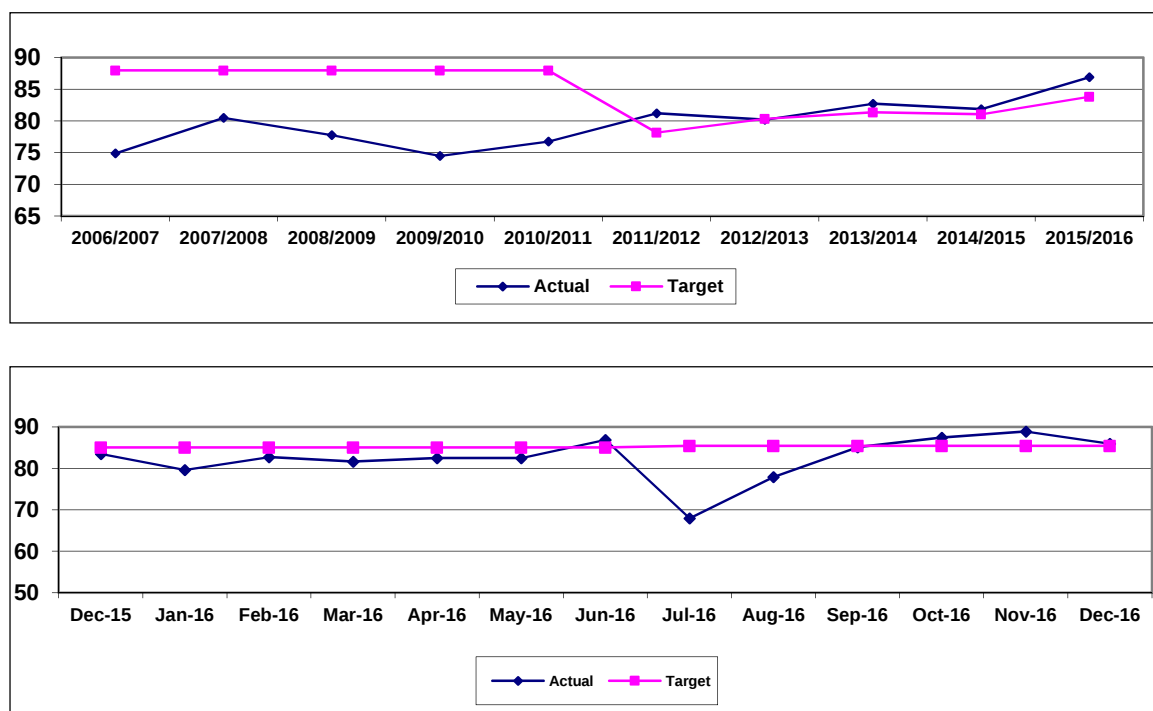
This ratio measures the extent to which the Municipality has control over its revenue sources, i.e. what percentage of its revenue is generated locally. The higher the ratio, the less reliant a Municipality is on Provincial and National Government to support its operations (refer figure 16).

The ratio is determined as follows:

$$\text{Own Revenue Sources} / \text{Total Operating Income (includes operating grants)}$$

As at the end of December 2016, the Municipality's own revenue sources constituted 86.05% of its total Operating Income compared to the 2016/17 Operating Budget target of 85.48%. The NMBM ratio as at 31 December 2015 was 83.56%. The Audited ratio as at 30 June 2016 was 86.92%. The Municipality is thus not fully reliant on the finances received from Provincial and National Government to support its day to day operations. The equitable share, for example greatly assists the Municipality to cover the ATP subsidies. Although the Municipality would like to become sufficient by not having to rely on Government support via Grants and Subsidies it has become very clear that without increased Government funding the Municipality will not be able to meet its service delivery mandate from its limited revenue base.

Figure 16: Own Revenue Generation



6.7.6 Reducing Electricity and Water Losses

6.7.6.1 Electricity Losses

This ratio indicates the percentage of electricity losses incurred in relation to the number of electricity units purchased

The ratio is determined as follows:

$$\frac{\text{Electricity units purchased} - \text{Electricity units sold}}{\text{Electricity units purchased}} \times 100$$

The estimated ratio for the month of December 2016 amounts to 12.45%. The average electricity losses for the period July 2015 to June 2016 is 12.68%. The average electricity losses for the period July 2016 to December 2016 is 13.54%. The average electricity losses for the period January 2016 to December 2016 is 12.93%. The audited outcomes for the 2013/14 and 2014/15 financial years were 11% and 12.29% respectively. It is therefore clear that drastic actions should be implemented to reduce the extreme electricity losses being experienced by the Metro. Please refer to Annex A1 – Electricity losses. The highest percentage losses are experienced during the high season tariff months July and August of each year. It appears that current strategies do not have the desired effect and requires intensive revisiting as the electricity losses continues to grow annually.

6.7.6.2 Water Losses

This ratio indicates the percentage of water losses incurred in relation to the number of water units purchased

The ratio is determined as follows:

$$\frac{\text{Water units purchased and drawn from own resources} - \text{Water units sold}}{\text{Water units purchased and drawn from own resources}} \times 100$$

The ratio for the month of December 2016 amounts to 42.8%. The average water losses for the period July 2015 to June 2016 was 41.4%. The audited outcomes for the 2013/14 and 2014/15 financial years were 36.93% and 42.7% respectively. The average water losses for the period July 2016 to December 2016 is 40.95%. The twelve month average for the period January 2016 to December 2016 is 40.4%. Please note that the reported July 2016 water losses of 21.68% has been amended to 42.64% which now exclude the adjustments that were made during July 2016 in respect of prior years' estimated readings. Adjustments made in other months will also affect the true water losses percentages. It is also clear that as unread and estimated water meter readings are dealt with the revenue raised for the Water Service will grow and the percentage losses will decrease.