

MONTHLY FINANCIAL MANAGEMENT REPORT AS AT END SEPTEMBER 2014

(9/1/3/6)

Cluster : Finance

Portfolio : Financial Management

PURPOSE

The purpose of the report is to reflect the financial position of the Municipality for the month of SEPTEMBER 2014.

OBJECTIVE

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

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

Legislative Requirements:

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

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

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

BACKGROUND

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

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

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

The financial situation of the municipality as at the end SEPTEMBER 2014 is indicated in the different schedules as listed below.

EXECUTIVE SUMMARY

Item of Financial Position/ Performance	Actual August 2014	Actual September 2014	Trend Analysis
Current Assets			
Debtors Age Analysis	R 2,027,225.63	R 2,500,687	Increased from previous month due to payment not received from IT services from Emfuleni LM.
<u>Cash & cash equivalents:</u>			
Investments	R 20,359,355	R 228,675.36	Decreased from previous month due to an amount of R 20 million investment withdrawn in the month of August 2014.
Cashbook balance (bank reconciliation) Primary	R 23,657,338	R 14,049,086	Increased from previous month due to investment made of R 10 million.
Cashbook balance (bank reconciliation) Licensing	R17,638,882	R 19,658,297.05	
Current Liabilities			
Creditors Age Analysis	R 59,419,360	R 54,316,608	Decreased in current liabilities due to decrease in trade debtors, refundable deposits and monies payable to license authorities.
Cash Flow			
Cash flow closing balance	R 23,724,48	R 38,394,245	Decreased from previous month due to investment withdrawn.
Cost Coverage indicator	2.15	1.16	Austerity mechanism to control expenditure implemented and ongoing.
<u>Grants received in SEPTEMBER 2014:</u>			
Equitable share	R0	R0	First trench of the 2014/15 Equitable Share received in July 2014.
MSIG	R 934 000	R 0	Implementation of EPMS system.
FMG	R 0	R 0	Financial Management Grant received in July 2014, to be utilized for Financial Management Interns and Financial

Item of Financial Position/ Performance	Actual August 2014	Actual September 2014	Trend Analysis
			Capacity Building
EPWP	R 400 000	R 0	Extended Public Works Programme managed by SPED.
NDPG	R 0	R 0	2014/15 NDPG grant allocation for precinct projects within the Locals.
HIV/AIDS	R 4,014,600	R 0	Grant from the Department of Health for HIV and AIDS program.
<u>Grants spent in SEPTEMBER 2014:</u>			
MSIG	R 0	R 0	Implementation of EPMS system.
FMG	R 49,879	R 72,897	Financial Management Interns and Financial Policies expenditure.
EPWP	R 145,095	R 102,212	Expenditure on EPWP grant programmes managed by SPED.
NDPG	R 75 000	R 903,535	Capital projects performed on behalf of the Local Municipality.
HIV/AIDS and EMS	R 332 458	R 2,804,150	HIV/AIDS grant expenditure.
<i>Financial Performance</i>			
Operating Revenue for Month	R 1,060,768	R 6,924,077	30.08% received to date (benchmark 25%).
Operating Expenditure for Month	R 28,205,176	R 30,503,030	23.02% spent to date (benchmark 25%).
Capital Expenditure for Month	R 1,213,351	R 920,493	12.98% of total Capex budget spent to date (benchmark 25%).
<i>MFMA Compliance</i>			
Monthly reports	MFMA 71,66	MFMA 71,66	Submit monthly reports on budget implementation and employee costs.
Budget	MFMA 21(1) (b) & 53 (1) (b)	MFMA 54 (1)	Review SDBIP.

DISCUSSIONS

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

Financial Position

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

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

a) Current Assets

Debtors Management and Credit Control Status for the month ending SEPTEMBER 2014

The debtor’s book balance of the municipality as attached in “Annexure A” at the end of September 2014 amounted to R 2 million.

The major debtors were:

- IT services rendered in the month of September 2014:-

- R97 thousand due from Midvaal Local Municipality whereby R55 thousand is current, R 0 is over 30 days, R 42thousand is over 90 days and R 0 is over 120 days;
- R 2.4 million is due from Emfuleni Local Municipality whereby R 490 thousand is current, R445 thousand is over 30 days, R 490 thousand is over 60 days, R 0 thousand is over 90 days and R 978 thousand is over 120 days;

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

Cash & cash equivalents

Movement on Investment Balances

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

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

The opening investment balance at the beginning of the month of September 2014 was R 20,359,335. There was an amount of R 20,205,562 investment withdrawn and there was no investment made for the month of September 2014. R 764.59 was accumulated as interest in the month and has been recorded in our book of accounts accordingly. The carrying forward balance hence equates to R 228,675.

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

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

Bank reconciliation

Annexure” C1 –4” indicates the bank reconciliations prepared for the month of September 2014 with the detail on the bank and cash book balances.

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

- Two Primary bank accounts, and
- Two License bank accounts

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

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

The cashbook shows a favorable balance of R 33,604,400.82 as at the end of September 2014.

b) Current Liabilities

Creditors' Age Analysis

Annexure "D" represents the creditors' age analysis. R 29 million was due payable to the Licensing Authority in September 2014 for fees collected in August 2014 as part of the agency function Council serves to the Provincial Authority, R 153,780 held as refundable deposits, R25 million payable to trade creditors.

c) Net Assets

Reserves

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

The net assets of Council are primarily composed of reserves that Council has built up over the years. The nature of these reserves is that they are ring-fenced for specific use only (non-distributable reserves), as determined by accounting standards. It must be noted that reserves comprise of mostly accounting book-entries and are non-cash transactions. This implies that the reserves on the face of the financial statements do not equate to cash held as investments by Council.

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

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

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

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

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

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

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

Cash Flow

Cash Flow Status for the Month Ending September 2014

See Annexures “B”, “C1- 2”, “E”

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

Annexure “E” is Council’s cash flow statement which indicates the movements on the main bank accounts. The incoming receipts amount to R 63 million. Outgoing payments were made to the amount of R 48 million. Taking into account the opening cashbook balance, this left a favorable closing balance of R 38 million at the close of the September 2014 period, which shows a major decrease margin from last month’s closing balance.

Cost coverage indicator

Currently Council has a sum of R 228,675.36 invested which represents project-related grants not yet utilized. Included in this investment sum are the cash-backed provisions for leave days and ring-fenced grant funds.

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

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

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

$$\text{The cost coverage formula} = \frac{(R\ 33,604,400.82) + (R\ 228,675.36 - R\ 89\ 342)}{R\ 29\ 182\ 296}$$

$$= \underline{\underline{1.16\ \text{TIMES}}}$$

The cost coverage of the municipality indicates that Council is not capable of covering the monthly fixed operating expenditure (**1.16 times**) and shows that the investments and cash flow of the municipality are not favorable. The formula does not take into consideration the EMS scenario whereby if taken into consideration this will indicate that the municipality is financially liquid and could settle any outstanding debts and liabilities. The unfunded mandate of EMS which amount to R38,5 million will create a more positive financial position once resolved.

a) Cash flows from Grant Funding

Grant allocations and expenditure

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

- Equitable Share:

First Equitable Share trench of 2014/15 amounting to R94, 817,000 million was received in the month of July 2014. All operational expenses are being funded against this grant.

- Finance Management Grant (FMG):

R1, 250 million was received in the month of July 2014. Of this amount, R 72,897 was incurred in operational expenses against the Finance Management Internship Programme expenses in the month of September 2014. The Three FMG Interns were involved in the following activities during the month of September 2014 as part of their training rotation plan:-

- o One intern in Supply Chain Management;
- o One intern in Asset Management; and
- o One interns in Budgeting.

- Municipal Systems Improvement Grant:

An amount of R934 000 is received in the month of August 2014. During the month of September no expenditure was incurred against the grant.

- Neighborhood Development Programme Grant (NDPG):

The NDPG grant allocation for the 2014/15 financial year, R1,365,000 was received in July 2014, currently an amount of R 903,535 was spend in September 2014.

- HIV/Aids:

The HIV/AIDS grant allocation for the 2013/14 financial year. R4,014,600 was received in the month of August 2014. In September 2014 an amount of R 2,804,149 was spent against the grant.

- LED Projects:

No amount was received for the month of July 2014. No expense was incurred during the month of September 2014, To date there were no another commitments against the grant in the month of September 2014.

- Technorama Exhibition & Tourism Centre:

No amount was received for the month of September 2014. No expenditure was incurred against the grant.

- EPWP Projects:

An amount of R400 000 was received in the month of August 2014. A cost incurred of R 102,212 that was incurred by SPED in September 2014.

- Grant payments to Local Municipalities:

No grant payments were scheduled for local municipalities for the month of September 2014.

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

Financial Performance

Financial performance shows the results of operations for the given period. It lists sources of revenue and expenses. The statement measures the performance of Council for a given

period of time. Surplus or deficit is used to measure financial performance and directly related to the measurement of revenue and expenditure for the reporting period.

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

“See Annexures G, H & I”

b) Actual Expenditure

Annexure “G” represents the organizational Operating Revenue and Expenditure which illustrates that R 6 million was generated in revenue. R 30 million was spent during the month of September 2014 on the operating accounts.

Annexure “H” represents the Capital expenditure and Revenue sources. Capital expenditure amounted to R 920 thousand and it was funded internally for various moveable assets such as furniture & equipment, computers & printers.

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

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

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

- As the month of September 2014 signals the third month of the first quarter of the 2014/15 financial year, spending trends ought to be around 25%.
- “Other Income” consists of income items such as ambulance fees, airfield fuel & fees, IT charges to LMs, profit on sale of assets; skills levy income, tender income as well as recoveries from telephone costs and commission on salaries.
- The monthly performance analysis indicates that total expenditure is at 23.02% and revenue is at 30.08% of the pro-rata budget.

- Interventive measures:

- o Processes for downward adjustment of budget as per MFMA sec (28) were initiated in December.
- o The Supply Chain Management Unit together with Financial Management both serve on the Contract Management Committee chaired by Corporate Services: Legal & Support to monitor contractual obligations and performance management of service providers.

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

The total Capital Budget approved for 2014/2015 amounts to R17,237,736 million. Capital projects amount to R4,047,740. The total capital budget of R 17,237 million is funded internally from reserves (accumulated surplus) as clusters failed to gain external funds for those projects when rolling out Council's capital intensity programme and drive to assist local municipalities.

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

The spending analysis on own fixed assets as at the end of the month of September 2014 is shown in the table below:

Description	Original Budget	Current Mth Exp	Commitment	YTD Movement	Available	% Spent
TOTAL SUMMARY						
FURNITURE AND EQUIPMENT	1190000	124544.4	134592.04	157932.62	1032067.38	13.27
COMPUTERS AND	2000000	24251.75	6112.99	67889.47	1932110.53	3.39

PRINTERS						
VEHICLES	126440	0	0	0	126440	0
CAPITAL PROJECTS	4047740	0	0	0	4047740	0
NETWORKS	8873560	594337.3	0	1692228.63	7181331.37	19.07
INTERNAL NETWORKS	999996	177360	19720	320550	679446	32.05
Sub-Total	17237736	920493.4 5	160425.03	2238600.72	14999135.28	12.98

The indication of the analysis for the month of September 2014 is that expenditure of R 920 493.45 funded internally for various moveable assets such as furniture & equipment, computers & printers, no amount was funded from grants for networks and the optic fibre project.

<i>Other Financial Matters</i>
<i>a) Asset Management</i>

Asset Management

- The Loss Control Committee meets periodically to ascertain the responsibility of loss and advise Council accordingly. Details of proceedings and findings are tabled in a separate report.
- A scheduled year-end asset stock take took place and during this stock-take the physical condition and location of assets were verified in order to ensure completeness and accuracy of the fixed asset register.
- Assets Management and CFO have made follow-up with the Department of Health on matters outstanding EMS debt.
- No other matters of material significance to report for Asset Management.

e) Monitoring of Compliance

Policy Governance of Municipal Finance and MFMA Compliance

As part of improving Sedibeng District Municipality's MFMA reporting module, the project plan report indicates our compliance to the requirements as outlined per the MFMA for the financial year ended from 1 July 2014 to 30 June 2015, which has been divided into timeframes of reporting: Annually, Quarterly, Monthly & Ad-hoc.

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

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

See Attached Annexures reflecting detail information:

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

RECOMMENDED:

1. THAT the report and the contents thereof be tabled for approval at the Mayoral Committee.

MR. B J SCHOLTZ
CHIEF FINANCIAL OFFICER

Date

CLLR. P B TSOTETSI
MMC FOR FINANCE

Date