

CHAPTER 6

FINANCIAL PERFORMANCE

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6.1 FINANCIAL MATTERS

COMPONENT A: STATEMENTS OF FINANCIAL PERFORMANCE

COMMENT ON FINANCIAL PERFORMANCE:

Refer to Annexure K

6.2 GRANTS

COMMENT ON OPERATING TRANSFERS AND GRANTS:

No MIG funding was received by Eden District Municipality for the 2015/16 financial year.

Refer to Annexure L for the details of grants received.

6.3 ASSET MANAGEMENT

INTRODUCTION TO ASSET MANAGEMENT

An asset management unit is established at Eden District Municipality consisting of the asset manager and an official. Annual asset verification is conducting to ensure all assets are accounted for. Missing assets must be explained by the responsible person the asset is allocated to on the reasons why the assets are missing.

When assets are transferred, an asset transfer form must be completed and submitted to the asset section to update their records.

Every personnel member assets are allocated to, are responsible for the safeguarding of their assets. Aurecon have previously been appointed to compile an asset maintenance plans for the properties.

There is an approved asset management policy approved by council in 2014 in place, this policy is reviewed annually to ensure it is aligned with GRAP requirements.

The key objectives of the asset management policy are:

- The accurate recording of essential asset information;
- The accurate recording of asset movements;
- Exercising strict physical controls over all assets;
- Treating the assets correctly in the Municipality's Financial Statements;
- Providing accurate and meaningful management information;
- Compliance with the Council's accounting policies and GRAP;
- Adequate insuring of assets;
- Maintenance of Council's assets;

- Ensuring that managers are aware of their responsibilities with regard to the assets; and
- Setting out the standards of management, recording and internal controls so as to safeguard the assets against inappropriate utilization or loss.

T5.3.1

DETAILS OF CAPITAL EXPENDITURE

Asset 1	Radio transmitter	Actual Value: R315 118
Asset 2	Biometric time & attendance system	Actual Value: R301 709

The other capital items purchased is necessary ICT equipment and minor furniture and fittings.

COMMENT ON ASSET MANAGEMENT

Refer to previous table and comments with regards to the additions for the year.

Repair and Maintenance Expenditure 2015/16 R'000				
	Original Budget	Adjustment Budget	Actual	Budget variance
Repairs and maintenance expenditure	7 970	5 768	3 900	-32.4%

COMMENT ON REPAIR AND MAINTENANCE EXPENDITURE:

There are limited funding available to allocate to repairs and maintenance. Another challenge was that there were no maintenance plans in place.

Aurecon was appointed to compile a maintenance plan for the properties, and the fleet manager compiled a fleet maintenance plan. This will be used in the future as basis for planning and budgeting purposes.

The challenge still remains of funding to source the increased maintenance. The main source of income increases 3% which is not aligned to the average CPIX.

6.4 FINANCIAL RATIOS BASED ON KEY PERFORMANCE INDICATORS

Liquidity ratios measure the municipality's ability to pay its bills and are calculated by dividing the current assets, due within one year by the municipality's current liabilities, payable within one year. The higher the ratio, the better it is for the organisation.

Due to Annual Performance Report not yet available, no accurate ratios can be provided.

COMPONENT B: SPENDING AGAINST CAPITAL BUDGET

6.5 CAPITAL EXPENDITURE

INTRODUCTION TO SPENDING AGAINST CAPITAL BUDGETS

CAPITAL BUDGET:

Total Capital Expenditure: 2013/14 to 2015/16			
Detail	2013/14	2014/15	2015/16
Original Budget	8 885	8 300	1 035
Adjustment Budget	6 935	9 414	2 291
Actual	1 225	8 720	2 017

COMMENT ON CAPITAL EXPENDITURE:

The majority of the budget includes the purchase of necessary computer equipment, radio transmitter and biometric time & attendance system.

FUNDING OF CAPITAL BUDGET: 2015/2016

The budget will be funded from own sources.

6.6 SOURCES OF FINANCE

With the current financial constraints, limited funding is available to fund capital expenditure.

6.7 CAPITAL SPENDING ON 5 LARGEST PROJECTS

The capital expenditure was spent on:

- Purchase of ICT equipment
- Purchase of Radio transmitter
- Purchase of Biometric time & attendance system

The majority of the budget includes the purchase of necessary computer equipment, radio transmitter and biometric time & attendance system.

6.8 CASH FLOW

INTRODUCTION TO CASH FLOW MANAGEMENT AND INVESTMENTS

Refer to cash flow statement included in this report.

After the abolishment of the RSC levies, district municipalities are cash strained as they are about 85% dependent on grant funding to sustain operations. The Equitable Share Grant only increases 3% annually which is not aligned to the increase in expenditure.

District Municipalities do not have any own revenue sources e.g. tariffs that can be raised. Revenue from own resources are limited, the majority own income is the administration fee received for the Roads agency function performed on behalf of Department of Transport.

Each year, it is a cumbersome task to ensure the budget prepared is cash backed. Various engagements are in process with Provincial Treasury, National Treasury to address this issue. A district municipality task team for the Western Cape has been established.

6.9 BORROWING AND INVESTMENTS

6.9.1 INVESTMENTS

Investments are invested in short term investments (32 day deposits). Excess cash not needed for the daily operations for the next month are invested.

Maximum of 25% may be invested with one institution as per the cash and investment policy.

6.9.2 BORROWINGS

No new loans have been taken up in the 2015/2016 financial year. It is not envisioned that new loans will be taken up in 2016/2017. Long term loans were fully repaid during the 2015/2016 financial year.

T5.10.1

EDEN DISTRICT MUNICIPALITY								
ANNEXURE A								
SCHEDULE OF EXTERNAL LOANS								
FOR THE YEAR ENDED 30 JUNE 2016								
EXTERNAL LOANS	Loan No.	Redeemable	Balance 30/06/2015 R	Received during the period R	Redeemed or written off R	Balance 30/06/2016 R	Carrying Value of Property, Plant and Equipment R	Other Costs in accordance with the MFMA
DBSA LOANS			691 204	-	691 204	-	-	-
Loan: 10130/102 (10% interest rate, six monthly installments of R 25 669.04 with the final payment on 30/09/2015)								
Loan: 10132/102 (10% interest rate, six monthly installments of R 184 150.24 with the final payment on 31/03/2016)								
Loan: 10129/202 (10% interest rate, six monthly installments of R 130 001.34 with the final payment on 30/09/2015)								
Loan: 10131/102 (10% interest rate, six monthly installments of R 193 023.80 with the final payment on 30/09/2015)								
			691 204	-	691 204	-	-	-
LEASE LIABILITY								
Office Equipment @ average of 12%			-	-	-	-	-	-
TOTAL EXTERNAL LOANS			691 204	-	691 204	(0)	-	-

COMMENT ON INVESTMENTS:

Investments: Money is invested in short term investments (32 day deposits). Excess cash not needed for the daily operations for the next month are invested. Maximum of 25% may be invested with one institution as per the cash and investment policy.

Investments are made in accordance with the cash and investment policy. Excess funds not needed within the next 32 days are invested to generate maximum interest. Investments are limited to 25% per financial institution to diversify risk to council.

Borrowings: No new loans have been taken up in the 2015/2016 financial year. It is not envisioned that new loans will be taken up in 2016/2017. Long term loans were fully repaid during the 2015/2016 financial year.

6.10 PUBLIC PRIVATE PARTNERSHIPS

Eden District Municipality is in the process of concluding a Public Private Partnership with regards to the establishment of the regional landfill site in Mossel Bay. The land has been purchased during 2014/2015, the erection of the landfill site will be done by concluding a Public Private Partnership. The closing date for the submission of the tenders for the Public Private Partnership was 31 July 2015, but has been extended as the relevant SCM / MFMA processes have not been concluded. A Provincial Oversight Committee has been established to oversee the process and progress. It is envisioned that the erection of the landfill site will commence on 1 July 2017. The total cost per year is estimated at R60 million per annum.

T5.11.1

COMPONENT D: OTHER FINANCIAL MATTERS

6.11 SUPPLY CHAIN MANAGEMENT

Provide a brief narrative that describes the progress made by your municipality in developing and implementing policies and practices in compliance with the guidelines set down by the SCM Regulations 2005. State whether any councilors are members of any committee handling Supply Chain processes; state the number of Supply Chain officials that have reached the prescribed levels required for their positions (See MFMA Competency Regulation Guidelines) and state the number of prescribed officials that are yet to reach the necessary competency levels; and set out any remarks made in the previous Auditor-General's report or his report for year 1 concerning the quality of Supply Chain Management and detail the remedial action taken, as necessary.

Eden District Municipality has seen in the last couple of years seen a total paradigm shift in transforming Supply Chain Management from just a procurement activity but as a tool with which total value for money becomes the essence of expending limited financial resources. Eden District Municipality has not seen its revenue source grow at the same rate as its expenditure has; therefore it has become crucial that Supply Chain Management becomes an effective management tool towards an efficient and effective way of managing limited resources.

The Organisational maturity level has seen a steady improvement on shared responsibility by all user department an understanding the need manage their budget responsibly. Some of this progress can be accredited to the transformation brought about by formal Higher Education learning initiative, Minimum Competency training. All the official are currently enrolled and with a significant number of SCM Officials in the completion stage of the Minimum Competency. This can bode only well for Eden as the level of professionalism is elevated by having capacitated staff. Other personal development initiatives have seen Eden Officials participate in a number of training initiatives on Supply Chain Management offered mainly by Provincial and National Treasury.

Eden continues to pride itself as a model of Good Governance in the region; clear separation of powers between Administration and Political sphere has seen Eden keep a clean sheet of having no political interference with Supply Chain Management. Training initiatives by Treasury aimed at Political Staff during the year, which Eden Councilors fully participated, has empowered Councilors to fully Supply Chain Management and this is visible when observing quality of the questions being asked during Finance Portfolio Committee meetings and during councilors. The level of interest to ensure an administration that is free from fraud and corruption has seen Supply Chain Report to council being meticulously interrogated to ensure that every cent can be accounted for.

As the Municipality prepares for Clean Audit Outcomes, Supply Chain Management has remained the epicenter of the clean audit outcome. Supply Chain Management endured grueling levels of Audit, first by our very own Internal Audit which was immediately followed by the Auditor General's Audit, subsequent to the Auditor General Provincial Treasury performed a detailed audit which was followed by external service providers that were contracted to perform detailed audit work characterized as audit readiness. Therefore

2013/14 has seen an immense concerted effort to transform Supply Chain Management and increase organizational maturity levels.

We trust that all the effort displayed during the course of the year would be captured in the Audit Report of 2013/14 financial year end, with fewer issues to raise if any regarding Supply Chain Management.

6.12 GRAP COMPLIANCE

With the lack of capacity in the GRAP unit, consultants are assisting with the implementation of GRAP standards.

There are two GRAP steering committees:

- One committee consists of the finance personnel, chaired by the CFO. The Deputy Managers of the finance department, their first line of supervisors, the risk officer and internal audit attends these meetings. This is where the progress by the different sections are discussed, the action plans to address previous audit findings, etc.
- The second committee, consists of the same members as above, but the municipal managers, Head of Departments and other role-players attends this bigger meeting.

T5.13.1