

Chapter 5

CHAPTER 5 – FINANCIAL PERFORMANCE

INTRODUCTION

Chapter 5 contains information regarding financial performance and highlights specific accomplishments. The chapter comprises of three components:

- Component A: Statement of Financial Performance
- Component B: Spending Against Capital Budget
- Component C: Other Financial Matters

The Annual Financial Statements reflect the continued progress being made by the Municipality to ensure a financially viable institution, which can withstand a certain degree of financial volatility and continue to operate for the benefit of its inhabitants. Revenue year-on-year continues to show improvement, the main contributor being the fuel levy revenue which increased by 86%. This increase in revenue is as a result of BCMM being entitled to a full year's allocation of the fuel levy revenue due to its becoming a metropolitan municipality. Government grants and subsidies have also contributed to the significant increase in revenue, resulting from improved capital spend occurring within the Municipality. This is particularly important as it has a direct impact on the lives BCMM's constituent community.

BCMM is exposed to continued inflationary pressures and continues to attempt to manage these pressures through cost containment initiatives. These ongoing initiatives attempt to alleviate any undue pressure being placed on the community through excessive general expenditure.

An area of particular concern is the need to increase spending on the maintenance of assets so as to enable them to achieve their full estimated useful lives. The Metro has recognised that it is imperative for additional funding to be provided within the repairs and maintenance budget to address this need.

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COMPONENT A: STATEMENTS OF FINANCIAL PERFORMANCE

INTRODUCTION TO FINANCIAL STATEMENTS

*Note: Statements of Revenue Collection Performance by vote and by source are included at **Appendix K**.*

The surplus for the year is R460m, before transfers arising from capital, which is a favourable variance of R533m in comparison to the budgeted deficit of R73m. This variance comprises

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an adverse variance of R23m in relation to the revenue received against a favourable variance of R557m in expenditure.

Total revenue did not achieve the expected budget expectations and there was a shortfall in collection of R23m. This shortfall was as a result of:

- Reduced release of funding associated with operational projects expenditure to the extent of R67m
- Rates revenue totalled R576m, which was below the budgeted amount by R8m.
- Electricity sales income totalled R1,266m, which was R17m (1%) below the budgeted revenue.
- The above was compensated by a favourable collection of water revenue totalling R271m, which was R11m above the budget.

Total expenditure totalled R3.475m in comparison to a budget of R4,032m, thus resulting in a favourable variance of R557m. The largest contributors to this variance were the savings achieved within other expenditure of R223m (19% of the budget), and savings in employee related costs totalling R98m (9% of the budget).

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5.1 STATEMENTS OF FINANCIAL PERFORMANCE

Description	2012/2013										2011/2012		
	Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved policy)	Final Budget	Actual Outcome	Unauthorized expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorized expenditure	Expenditure authorized in terms of section 32 of MFMA
R thousands	1	2	3	4	5	6	7	8	9	10	11	12	13
Financial Performance													
Property rates	585,374		585,374			585,374	580,100		-5,274	99%	99%		
Service charges	1,967,956	—	1,967,956			1,967,956	1,964,956		-3,688	100%	100%		
Investment revenue	78,314	0	78,314			78,314	106,143		27,829	136%	136%		
Transfers recognized - operational	804,866	(8,096)	796,769			796,769	719,325		-77,443	90%	89%		
Other own revenue	530,126	—	530,126			580,126	559,310		29,184	106%	106%		
Total Revenue (excluding capital transfers and contributions)	3,966,637	-8,096	3,958,540	0		3,958,540	3,929,148		-29,392	99%	99%		
Employee costs	1,053,329	-26,349	-1,079,678			1,079,678	-981,882		97,796	91%	93%		
Remuneration of councillors	-45,218	-535,003	-45,753			-45,753	-43,331		2,422	95%	96%		

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Debt impairment	-215,000	0	-215,000			-215,000	-103,656		111,343	48%	48%		
Depreciation & asset impairment	-376,527	0	-376,527			-376,527	-501,217		124,690	133%	133%		
Finance charges	-89,112	22,463	-66,649			-66,649	-67,258		-609	101%	75%		
Materials and bulk purchases	-	0	-1,049,156			-	-		9,043	99%	99%		
Transfers and grants	-30,464	-1,682	-32,147			-32,147	-116,332		-84,185	362%	382%		
Other expenditure	-	-33,340	-1,166,753			-	-		290,522	75%	77%		
Total Expenditure	-	-39,444	-4,031,666	0	0	-	-	0	-301,643	93%	93%	—	—
Surplus/(Deficit)	-25,584	-47,540	-73,125	0		-73,125	199,126		272,251	-272%	-778%		
Transfers recognized - capital	629,018	205,049	834,068			834,068	515,570		-318,497	62%	82%		
Contributions recognized - capital & contributed assets	0	2,450	2,450			2,450	0		-2,450				
Surplus/(Deficit) after capital transfers & contributions	603,434	159,959	763,393	0		763,393	714,696		-48,697	94%	118%		

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Share of surplus/ (deficit) of associate	—		—			—							
Surplus/(Deficit) for the year	603,434	159,959	763,393	0		763,393	714,696		-48,697	94%	118%		
Capital expenditure & funds sources													
Capital expenditure	749,097	229,006	978,103			978,103	604,233		-373,869	62%	81%		
Transfers recognized - capital	609,847	224,220	834,068			834,068	515,570		-318,497	62%	85%		
Public contributions & donations	19,170	-16,719	2,450			2,450	0		-2,450	0%	0%		
Borrowing	0	0	0			0	18,146		18,146	0%	0%		
Internally generated funds	120,079	21,505	141,584			141,584	70,517		-71,067	50%	59%		
Total sources of capital funds	749,097	229,006	978,103			978,103	604,233		-373,869	62%	81%		
Cash flows													
Net cash from (used) operating	942,998	161,315	1,104,313			1,104,313	1,199,620		95,306	109%	127%		

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Net cash from (used) investing	-749,097	-229,006	-978,103			-978,103	-603,550	374,553	62%	81%		
Net cash from (used) financing	-41,532	-2,448	-43,980			-43,980	-275,229	-231,248	626%	663%		
Cash/cash equivalents at the year end	848,517	-70,139	778,377			778,377	1,840,833	1,062,455	236%	217%		

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Financial Performance of Operational Services						
R '000						
Description	2011/2012	2012/2013		2012/2013 Variance		
	Actual	Original Budget	Adjustments Budget	Actual	Original Budget	Adjustments Budget
Operating Cost						
Water	390,798	359,313	366,422	240,725	-49%	-52%
Waste Water (Sanitation)	253,738	273,358	278,271	142,538	-92%	-95%
Electricity	1,070,704	1,258,367	1,258,843	819,417	-54%	-54%
Waste Management	189,159	266,305	270,756	121,784	-119%	-122%
Housing	52,479	132,124	91,593	26,301	-402%	-248%
Component A: sub-total	1,956,878	2,289,467	2,265,884	1,350,766	-69%	-68%
Waste Water (Stormwater Drainage)	79,793	96,485	97,394	63,605	-52%	-53%
Roads	154,524	143,110	143,174	100,753	-42%	-42%
Transport	20,108	23,245	23,129	11,660	-99%	-98%
Component B: sub-total	254,425	262,841	263,697	176,018	-49%	-50%
Planning	19,039	28,348	29,035	17,573	-61%	-65%
Local Economic Development	–	–	–	–	0%	0%
Component B: sub-total	19,039	28,348	29,035	17,573	-61%	-65%
Planning (Strategic & Regulatory)	127,124	151,630	150,946	91,730	-65%	-65%
Local Economic Development	38,859	37,693	40,298	26,145	-44%	-54%
Component C: sub-total	165,983	189,323	191,244	117,874	-61%	-62%
Community & Social Services	179,726	182,938	186,685	135,547	-35%	-38%
Environmental Protection	15,198	16,349	16,404	12,325	-33%	-33%
Health	48,436	15,729	16,895	7,177	-119%	-135%
Security and Safety	168,714	194,696	195,115	128,079	-52%	-52%
Sport and Recreation	52,759	51,785	52,165	40,626	-27%	-28%

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Corporate Policy Offices and Other	599,656	760,746	814,543	401,087	-90%	-103%
Component D: sub-total	1,064,488	1,222,243	1,281,806	724,841	-69%	-77%
Total Expenditure	3,460,814	3,992,222	4,031,666	2,387,072	-67%	-69%

In this table operational income is offset against operational expenditure leaving a net operational expenditure total for each service as shown in the individual net service expenditure tables in chapter 3. Variances are calculated by dividing the difference between actual and original/adjustments budget by the actual.

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COMMENT ON FINANCIAL PERFORMANCE:

REVENUE BY SOURCE

Property Rates – penalties & collection charges

A R5,3m negative variance was experienced, as the budget was overstated on penalties and collection charges for vacant and undeveloped land.

Interest earned - external investments

Investment revenue yielded R28m more than anticipated, due to interest earned on unspent grants invested.

Transfers recognised - operational

A R77m negative variance was experienced, due to under spending on operating projects, as revenue is recognised when funds are spent or when conditions of the grants are met.

Other revenue

Other revenue received was R29m more than expected, due to numerous miscellaneous revenue items, including town planning fees, market income, vehicle registration fees, cemetery fees, grave space sales, tender receipts, etc., realising more revenue than expected.

EXPENDITURE BY TYPE

Debt impairment

The debt impairment figure is calculated using the approved methodology on the debt book as at 30 June 2013. This figure allows BCMM to make a realistic provision taking into account the ageing of the outstanding debtors at year end. The budget for debt impairment is based on the 12 months' average collection rate.

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Finance charges

This budget item only relates to interest on loans and excludes finance charges on leases.

Transfers and grants

The transfers and grants budget shows a negative R84m variance, due to less payments having been made to for grant-in-aid than anticipated. It also includes the Buffalo City Development Agency grant that was budgeted for, however the institution was still not operational in 2012/13.

Other expenditure

Other expenditure was R290,5m less than budgeted, largely due to under-spending on operating projects and the adoption of an in-house approach by BCMM's refuse removal service.

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5.2 GRANTS

Grant Performance						
Description	R' 000					
	Year -1	Year 0			Year 0 Variance	
	Actual	Budget	Adjustments Budget	Actual	Original Budget (%)	Adjustments Budget (%)
Operating Transfers and Grants						
National Government:	564,238	667,160	691,630	663,739	-1%	-4%
Equitable share	557,288	651,565	651,565	651,565	0%	0%
Department of Water Affairs	1,712	1,283	1,374	1,374	7%	0%
Finance Management	1,130	1,500	1,500	1,500	0%	0%
Infrastructure Skills Development	–	3,000	2,405	1,265	-58%	-47%
Expanded Public Works Programme Inc	–	1,484	1,484	930	-37%	-37%
Urban Settlement Development	4,109	8,328	33,302	7,104	-15%	-79%
Provincial Government:	38,618	123,119	88,348	59,978	-51%	-32%
Health subsidy	–	2,522	2,522	–	-100%	-100%
Housing	20,350	111,646	70,083	47,299	-58%	-33%

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Dept of Environmental Affairs & Tourism	26	-	-	-	n/a	n/a
Roads Subsidy-Provincial Roads	-	1,871	1,871	-	-100%	-100%
Department of Water Affairs	17,220	2,375	7,775	7,730	225%	-1%
Local Govt & Traditional Affairs	1,023	-	1,082	295	n/a	-73%
Library Subsidy	-	4,329	4,329	4,329	0%	0%
Dept of Human Settlement	-	77	607	324	321%	-47%
Dept of Land Affairs	-	300	80	1	-100%	-99%
District Municipality:	-	12,216	12,216	-	-100%	-100%
<i>Health Subsidy-Environmental Health</i>	-	12,216	12,216	-	-100%	-100%
					n/a	n/a
Other grant providers:	4,536	2,370	4,576	2,793	18%	-39%
SETA-Skills Development	3,235	2,370	2,370	2,370	0%	0%
SETA-Councillor Training	10	-	-	-	n/a	n/a
Leiden	415	-	1,956	414	n/a	-79%
Salaïda/Gavle	277	-	127	9	n/a	-93%
<i>BCMET Funding</i>	281	-	-	-	n/a	n/a
<i>European Commission</i>	318	-	122	-	n/a	-100%
Total Operating Transfers and Grants	607,393	804,866	796,770	726,509	-10%	-9%
<i>Variances are calculated by dividing the difference between actual and original/adjustments budget by the actual. Full list of provincial and national grants available from published gazettes.</i>						
<i>T 5.2.1</i>						

COMMENT ON OPERATING TRANSFERS AND GRANTS:

*Note: For Municipal Infrastructure Grant (MIG) see T5.8.3. For other conditional transfers including Neighbourhood Development Partnership Grant (NDPG); Public Transport Infrastructure and Systems Grant (PITS) see **Appendix L**.*

Delete Directive note once comment is completed – Comment on the variances in the above table and other and indicate high value projects & total the remaining project.

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Grants Received From Sources Other Than Division of Revenue Act (DoRA)						
Details of Donor	Actual Grant 2011/2012	Actual Grant 2012/2013	2012/2013 Municipal Contribution	Date Grant terminates	Date Municipal contribution terminates	Nature and benefit from the grant received, include description of any contributions in kind
Parastatals						
Health Subsidy (ATTIC)	5,414	-				Prevent the spread of HIV infection and provide support to HIV positive survivors.
Health Subsidy (Environmental Health)	-	-				
Dept of Human Settlement	30,463	20,880				Provide funding for the creation of sustainable human settlements.
Dept of Environmental Affairs & Tourism	-	-				
Roads Subsidy	-	-				
Dept Water Affairs	18,345	5,831				Provide water supply services to consumers currently without, services particularly those in rural areas.
Local Govt & Traditional Affairs	-	-				
Library Subsidy	5,734	-				
Dept of Land Affairs	-	-				
Health Subsidy (Primary Health Care)	39,569	-				
SETA	2,084	3,419				Provide employees with the opportunities to acquire new skills.
Disaster Relief Fund	-	-				Immediate consequences of disasters are a mitigated
Dept of Sports, Recreation, Arts & Culture	-	-				Increasing citizens' access to sport and recreation activities
Public Funding	686	-				Development levies.
Foreign Governments/Development Aid Agencies						
Leiden	-	-				
Salaida/Gavle	236	-				An inter-governmental agreement aimed at poverty alleviation & sustained development.
						T 5.2.3

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COMMENT ON CONDITIONAL GRANTS AND GRANT RECEIVED FROM OTHER SOURCES:

Infrastructure Skills Development

BCMM is experiencing challenges with regards to attracting suitably technical skilled personnel, which has resulted in the budget not being fully utilized. The Infrastructure Skills Development Grant aims to address this issue and thus enhance service delivery.

Expanded Public Works Programme

The EPWP programme is a provincial government initiative to address the high rates of unemployment across the country. Due to the recruitment process having started later in the financial year than normal, BCMM has requested funding to be rolled over into 2013/14.

Urban Settlement Development

The Department of Human Settlement, together with National Treasury, approved 5% off the top slice of the USDG to be utilized in the establishment of the Enterprise Project Management Office. Funding was appropriated into the budget during the Mid-Year adjustment budget process. The funding is primarily utilized to identify specialized skilled personnel for the augmentation of the institution.

Housing - Human Settlement Development Grant

The grant is utilized for the construction of top structures (construction of the dwelling except for internal services infrastructure) for human settlement developments.

The execution of this grant depends predominately on bulk infrastructure being installed. The funding will be utilized over a multi year time frame

Roads Subsidy-Provincial Roads

To date the Metro has not formalized a contract with Province with regards to the provincial roads, as the funding is insignificant for material projects.

Department of Land Affairs

BCMM acts as an agent for the Department of Land Affairs with regards to land claims. Any payment from this grant needs to be requested by the Department of Land Affairs

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5.3 ASSET MANAGEMENT

INTRODUCTION TO ASSET MANAGEMENT

BCMM's Management Team has continued to ensure that a strong asset management function is implemented. The following initiatives and principles were in place during the year under review:

- Management recognised the importance of optimal investment into the Metro's asset base and of ensuring that the investment maintained in working capital is kept to a minimum.
- The credit control policy was actively implemented, so as to encourage consumers to settle amounts owing to the Institution in a timely manner.
- BCMM is currently reviewing the value of inventory held, and investing in the interface of electronic reporting systems so as to reduce the value held and inventory to a level which would allow for the institution to operate efficiently without over-committing resources to slow moving inventory items.

There is notable concern with regards to infrastructure assets under management. This concern was further emphasized in the Auditor General's report, whereby a qualification was recorded on infrastructure assets in the 2011/12 Annual Report. In an attempt to improve the quality of information and the management and reporting of infrastructure assets, South African Cities Network was approached to improve the management of infrastructure assets. This project was undertaken and culminated with the approval by Council of an Infrastructure Policy document, with the express purpose of focusing resources on BCMM's core business – i.e. providing services to the community through investing in infrastructure assets.

The need to focus on infrastructure replacement, in order to reduce electricity and water losses and in turn improve efficiency of the organization, has been recognised and a strategy to this end has been adopted and is being implemented. This process will continue in the new financial year with funds being allocated for the replacement of aging infrastructure assets.

T 5.3.1

TREATMENT OF THE THREE LARGEST ASSETS ACQUIRED 2012/2013

Asset 1				
Name	Property, Plant, Equipment			
Description	Bridle Drift Dam			
Asset Type	Dams			
Asset Value	2009/10	2010/11	2011/12	2012/13
	R139,200,000	R137,600,000	R136,000,000	R240,000,000

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Asset 2				
Name	Property, Plant, Equipment			
Description	King Williams Town Waste Disposal Site			
Asset Type	Waste Sites			
	2009/10	2010/11	2011/12	2012/13
Asset Value	R185,939,292	R181,983,137	R178,008,694	R193,752,576
Asset 3				
Name	Property, Plant, Equipment			
Description	Bridges: Braelyn 10			
Asset Type	Road Structures			
	2009/10	2010/11	2011/12	2012/13
Asset Value	R149,342,029	R123,084,000	R120,006,900	R153,855,000
T 5.3.2				

COMMENT ON ASSET MANAGEMENT:

Improving asset management continues to be a focus for BCMM, as it is the area from which services are delivered to the inhabitants of the Municipality and subsequently the primary area of revenue generation. The Metro has, therefore, engaged a service provider to prepare an Infrastructure Asset Management Policy and a Valuation Guide. The Asset Management Policy was approved by Council during the financial year and has been implemented with the preparation of the 2012/13 Annual Financial Statements.

In deciding which projects to implement, the relevant BCMM departments undertake needs analyses to establish the communities' priority needs. This information is then fed into the IDP and used to make informed decisions with regards to which assets require prioritisation.

T 5.3.3

Repair and Maintenance Expenditure: 2012/2013				
R' 000				
	Original Budget	Adjusted Budget	Actual	Budget variance
Repairs and Maintenance Expenditure	290 863	293 739	254 979	-14%

COMMENT ON REPAIR AND MAINTENANCE EXPENDITURE:

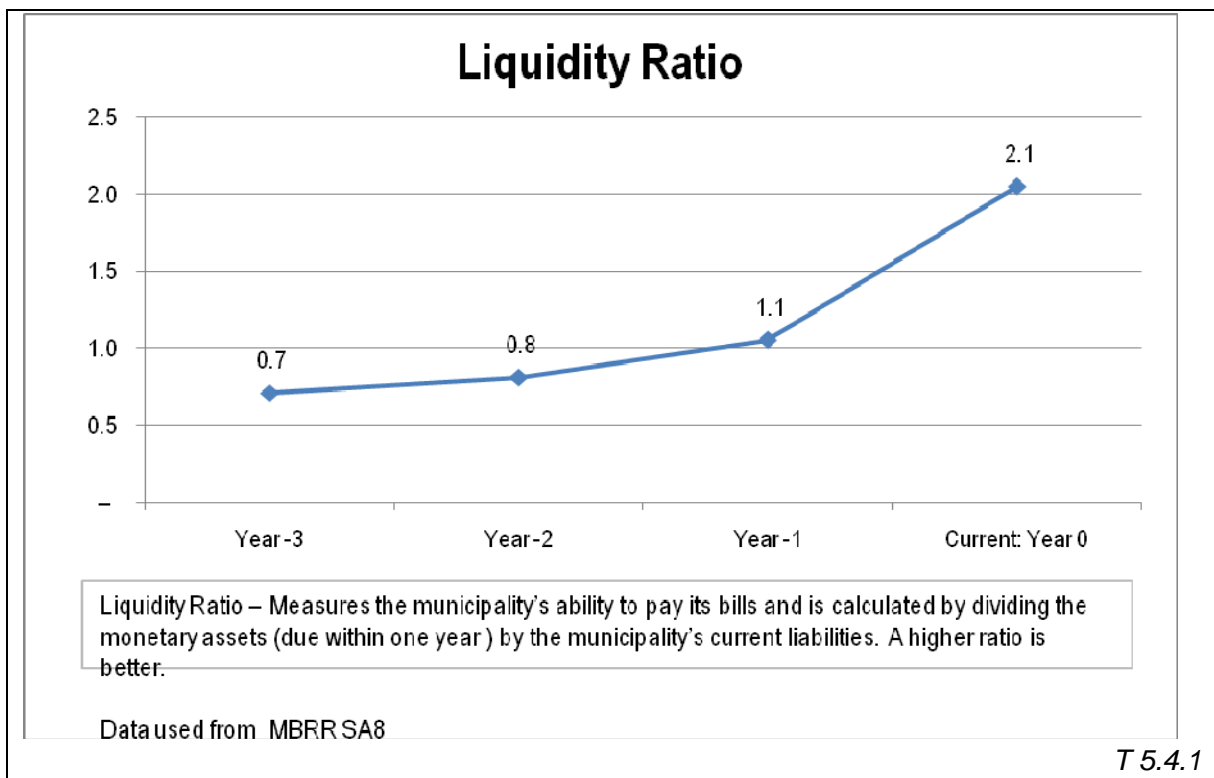
BCMM spent 86% of its repairs and maintenance budget during the year under review. This was spent primarily on infrastructure maintenance, which reflects an improvement compared to previous years. The under-spending of 14% is on the allocation for furniture, equipment and building maintenance which is spent as and when required.

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The City is budgeting, on average, 10% of its service revenue for repairs and maintenance. The allocation has increased by 20% from 2011/12 as the City's objective is to invest more into infrastructure maintenance and upgrading.

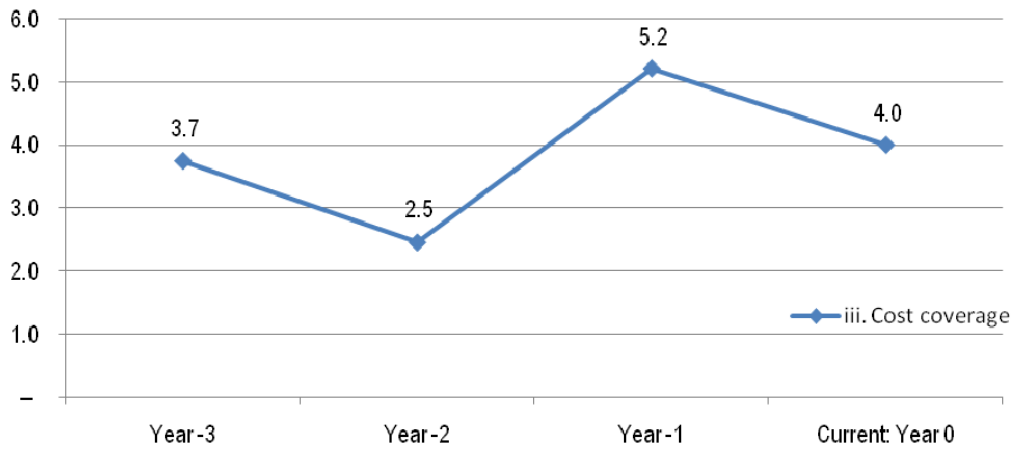
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5.4 FINANCIAL RATIOS BASED ON KEY PERFORMANCE INDICATORS



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Cost Coverage

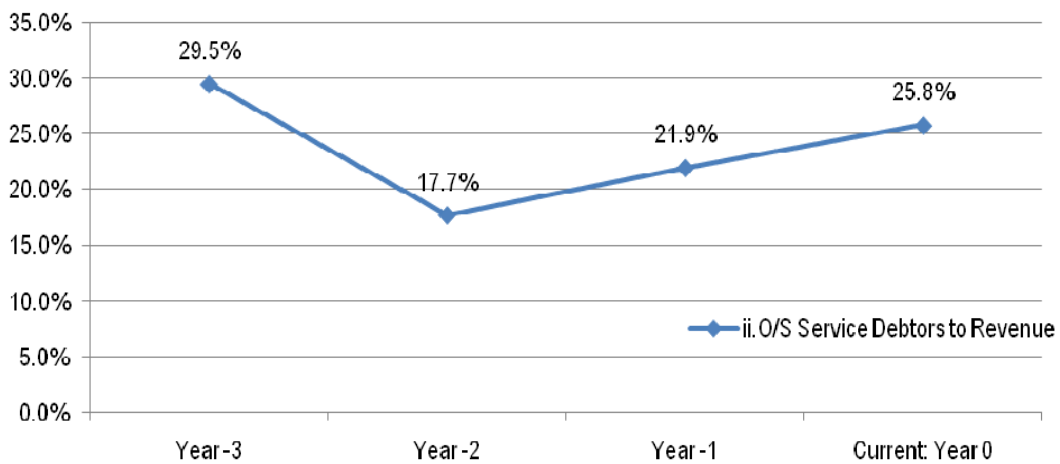


Cost Coverage—It explains how many months expenditure can be covered by the cash and other liquid assets available to the Municipality excluding utilisation of grants and is calculated

Data used from MBRR SA8

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Total Outstanding Service Debtors



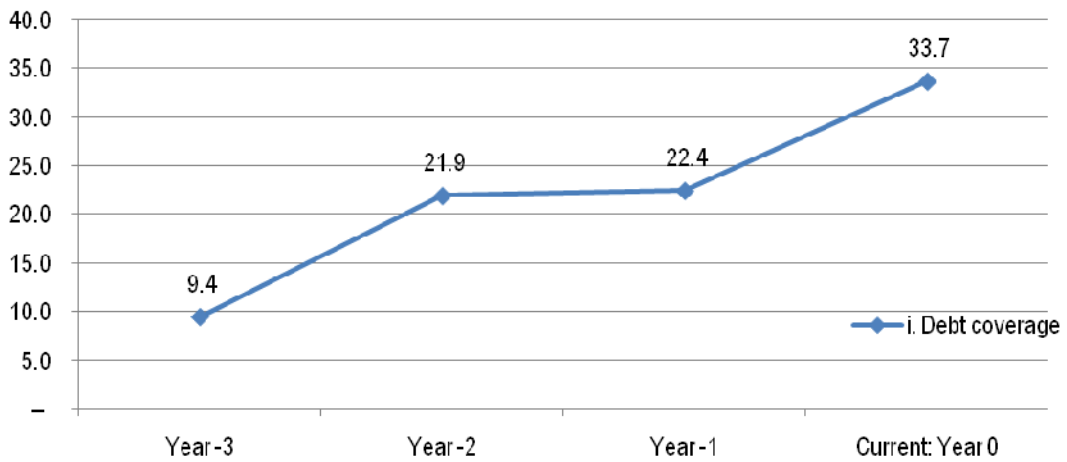
Total Outstanding Service Debtors – Measures how much money is still owed by the community for water, electricity, waste removal and sanitation compared to how much money has been paid for these services. It is calculated by dividing the total outstanding debtors by the total annual revenue. A lower score is better.

Data used from MBRR SA8

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Debt Coverage

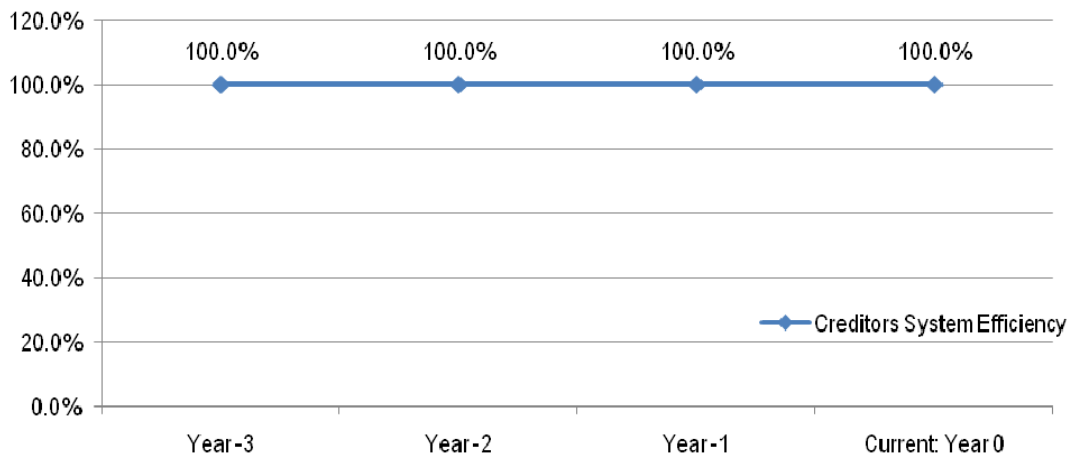


Debt Coverage– The number of times debt payments can be accommodated within Operating revenue (excluding grants). This in turn represents the ease with which debt payments can be accommodated by the municipality

Data used from MBRR SA8

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Creditors System Efficiency



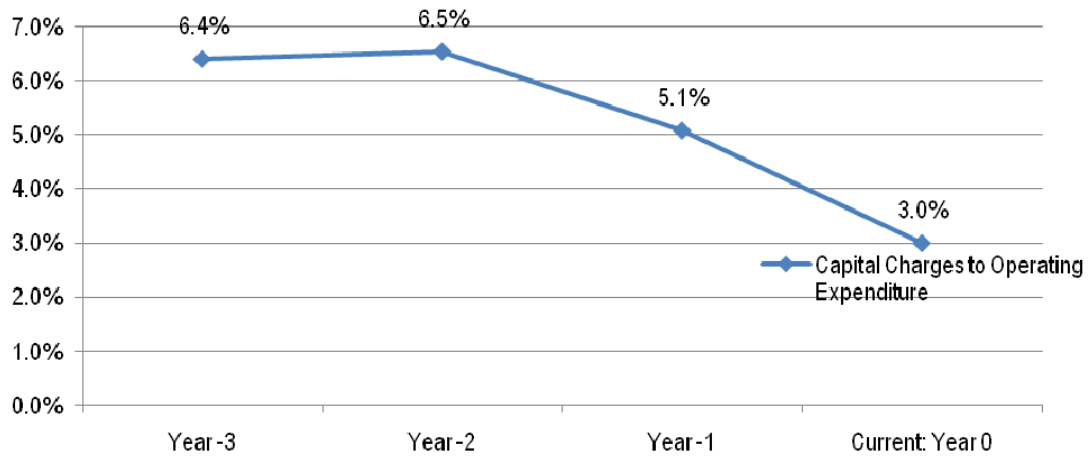
Creditor System Efficiency – The proportion of creditors paid within terms (i.e. 30 days). This ratio is calculated by outstanding trade creditors divided by credit purchases

Data used from MBRR SA8

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Capital Charges to Operating Expenditure

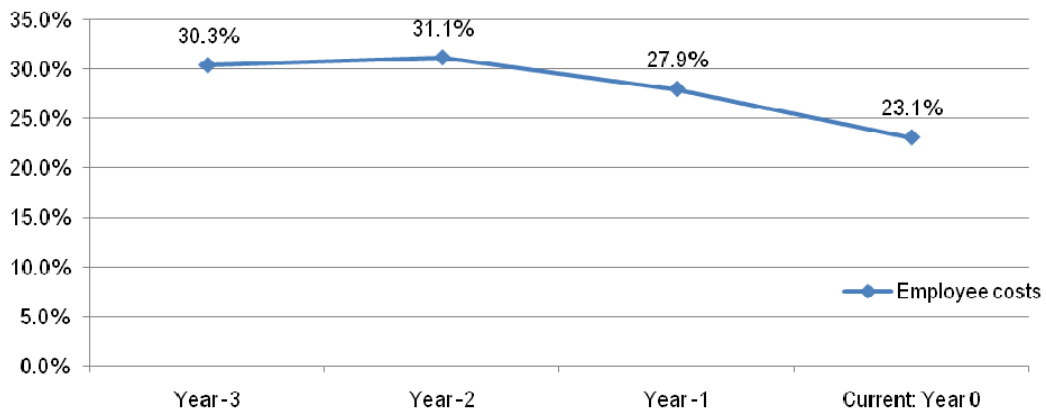


Capital Charges to Operating Expenditure ratio is calculated by dividing the sum of capital interest and principle paid by the total operating expenditure.

Data used from MBRR SA8

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Employee Costs

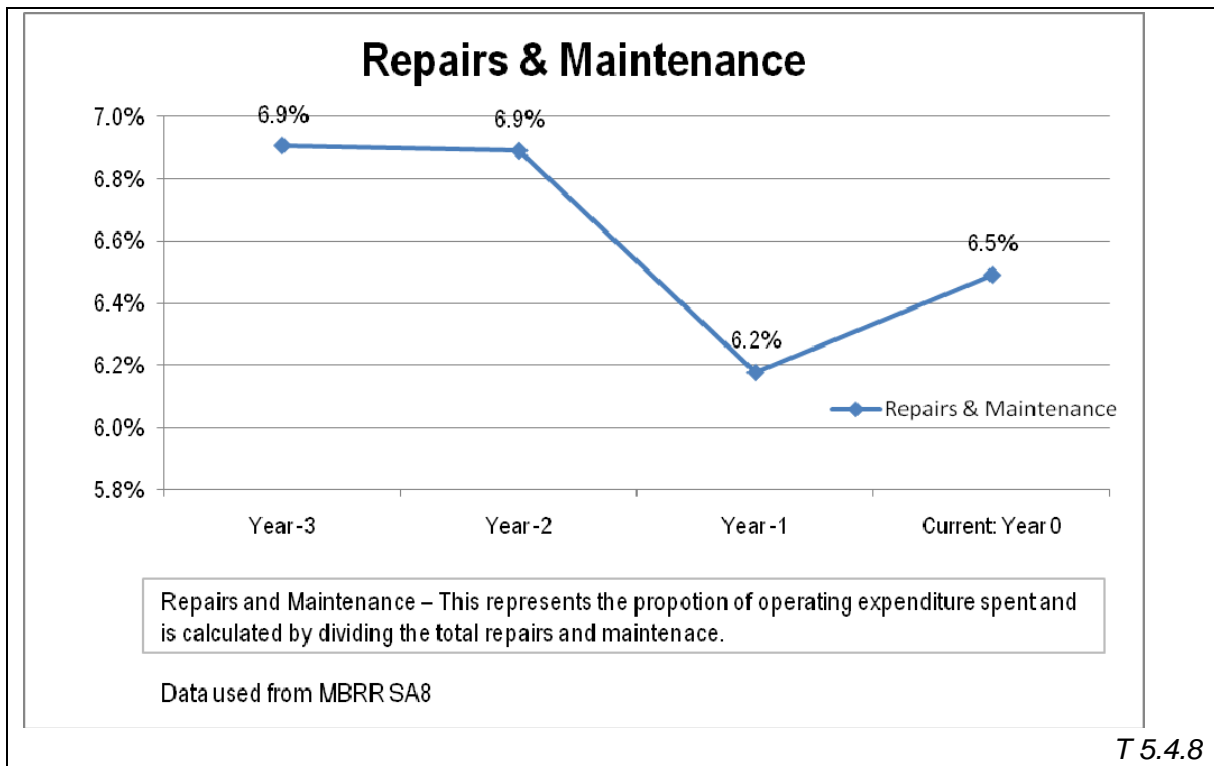


Employee cost – Measures what portion of the revenue was spent on paying employee costs. It is calculated by dividing the total employee cost by the difference between total revenue and capital revenue.

Data used from MBRR SA8

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COMMENT ON FINANCIAL RATIOS:

Liquidity ratio: The ratio of 2.05 : 1 is regarded as good and indicates the Metro's ability to pay Current Liabilities with available Current Liquid Assets. The norm is set at 1.1 : 1, the Metro's Liquidity Ratio is better than the Municipal industry norm.

Cost Coverage: This rate has fluctuated over the past four years and currently is at 4 months, representing how many months' expenditure can be covered by cash and other liquid assets available to the Metro.

Total Outstanding Service Debtors: The rate of outstanding debt is steadily increasing. It is currently 25.8%, which is a marked increase since 2011/2012, when it was 21.9%. Outstanding debtors continue to be a focus for the Metro which is continuously implementing methods to decrease this rate to within a manageable range.

Debt Coverage: This rate is steadily improving, due primarily to no additional loans having been taken on. Currently the Metro's rate is 33.7 when compared with 22.4 in the previous financial year.

Creditors System Efficiency: The Metro maintains its policy to pay its top 20 creditors within 30 days. The constant 100% payment levels to creditors highlights this achievement.

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Capital Charges to Operating Expenditure: This rate is steadily improving and is considered to be low at 3% when compared with 5.1% at 2011/12. Contributing factors include no new loans having been taken up combined with an increase in Operating Expenditure year-on-year.

Employee Costs: The rate of 23.06% is lower than the expected norm of 30%, due largely to the unfilled posts in the top echelons of the Municipality.

Repairs and Maintenance: The rate remains stable at around 6% for the past 4 years, currently 6.49%

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COMPONENT B: SPENDING AGAINST CAPITAL BUDGET

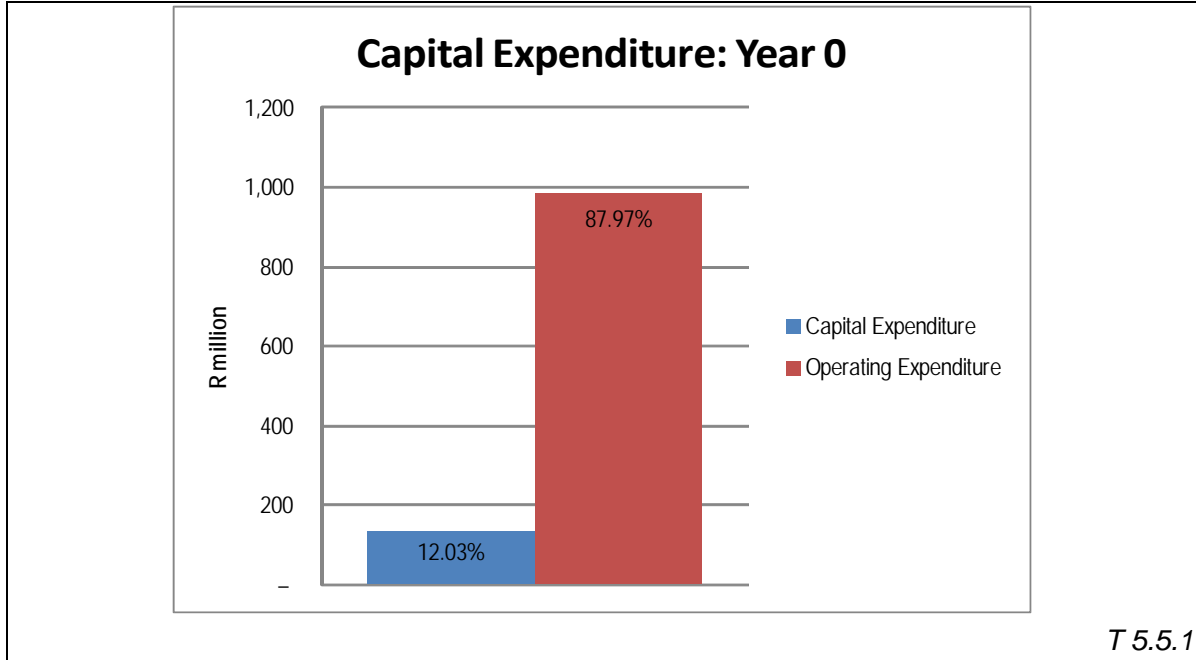
INTRODUCTION TO SPENDING AGAINST CAPITAL BUDGET

Delete Directive note once comment is completed – Capital expenditure relates mainly to construction projects that will have value lasting over many years. Capital expenditure is funded from grants, borrowings and operating expenditures and surpluses. Component B deals with capital spending indicating where the funding comes from and whether Municipalities are able to spend the available funding as planned. In this component it is important to indicate the different sources of funding as well as how these funds are spend. Highlight the 5 largest projects (see T5.7.1) and indicate what portion of the capital budget they use. In the introduction briefly refer to these key aspects of capital expenditure (usually relating to new works and renewal projects) and to **Appendices M** (relating to the new works and renewal programmes), **N** (relating to the full programme of full capital projects, and **O** (relating to the alignment of projects to wards).

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5.5 CAPITAL EXPENDITURE



5.6 SOURCES OF FINANCE

Capital Expenditure - Funding Sources: 2011/2012 to 2012/2013							
R' 000							
Details	2011/2012		2012/2013				
	Actual	Original Budget (OB)	Adjustment Budget	Actual	Adjustment to OB Variance (%)	Actual to OB Variance (%)	
Source of finance							
External loans	6,269		18,195	18,146	#DIV/0!	#DIV/0!	
Public contributions and donations	655	2,451	2,451	251	0.00%	-89.74%	
Grants and subsidies	202,991	629,018	834,068	584,850	32.60%	-7.02%	
Other	68,973	120,079	123,389	72,694	2.76%	-39.46%	
Total	278,888	751,548	978,103	675,941	30.15%	-10.06%	
Percentage of finance							
External loans	2.20%	0.00%	1.90%	2.70%	#DIV/0!	#DIV/0!	
Public contributions and donations	0.20%	0.30%	0.30%	0.00%	0.00%	892.10%	
Grants and subsidies	72.80%	83.70%	85.30%	86.50%	108.10%	69.80%	
Other	24.70%	16.00%	12.60%	10.80%	9.10%	392.30%	

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Capital Expenditure - Funding Sources: 2011/2012 to 2012/2013							
R' 000							
Details	2011/2012	2012/2013					
	Actual	Original Budget (OB)	Adjustment Budget	Actual	Adjustment to OB Variance (%)	Actual to OB Variance (%)	
Capital expenditure							
Water and sanitation	83,913	213,408	316,032	221,041	48.09%	3.58%	
Electricity	35,153	77,851	84,732	79,662	8.84%	2.33%	
Housing	14,023	62,989	56,374	40,957	-10.50%	-34.98%	
Roads & storm water	52,683	125,000	184,377	163,609	47.50%	30.89%	
Other	93,116	269,849	336,588	170,672	24.73%	-36.75%	
Total	278,888	749,097	978,103	675,941	118.66%	-34.94%	
Percentage of expenditure							
Water and sanitation	30.10%	28.50%	32.30%	32.70%	40.50%	-10.20%	
Electricity	12.60%	10.40%	8.70%	11.80%	7.40%	-6.70%	
Housing	5.00%	8.40%	5.80%	6.10%	-8.90%	100.10%	
Roads & storm water	18.90%	16.70%	18.90%	24.20%	40.00%	-88.40%	
Other	33.40%	36.00%	34.40%	25.20%	20.80%	105.20%	

T 5.6.1

COMMENT ON SOURCES OF FUNDING:

Grants and subsidies continue to comprise the most significant portion of the funding utilised for capital expenditure. The largest being the Urban Settlement Development Grant, which is focused on developing new urban areas for habitation. This Grant is utilised to ensure service infrastructure is installed in new areas so as to allow for housing developments in these strategic areas.

T 5.6.1.1

5.7 CAPITAL SPENDING ON 5 LARGEST PROJECTS

Capital Expenditure of 5 largest projects*					
R' 000					
Name of Project	Current: 2012/2013			Variance: Current 2012/2013	
	Original Budget	Adjustment Budget	Actual Expenditure	Original Variance (%)	Adjustment variance (%)
Electrification	30 000	30 000	30 000	0%	0%
Mdantsane Roads	60 000	60 000	54 297	10%	0%
Quinera Treatment		31 719	33 577	#DIV/0!	#DIV/0!

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Works					
Solid Waste Management		36 000		#DIV/0!	#DIV/0!
Gonubie Main Road	15 000	45 000	51 169	-241%	-200%
<i>* Projects with the highest capital expenditure in 2012/2013</i>					
Name of Project - A	Electrification - Installation of a bulk tertiary Substation				
Objective of Project	Augmentation of the electrical network's capacity to meet the increasing requirements for electricity from ±30,000 RDP houses over the past 12 years, as well as other ongoing needs which have increased over time				
Delays	The project has progressed well with the first phase nearing completion the second phase the installation of the main 132 kV overhead line is in the tender process.				
Future Challenges	Space has been allowed for future upgrading of the substation as the need may arise; The second phase of the projects is the installation of the overhead and underground cables				
Anticipated citizen benefits	The ongoing supply of uninterrupted electrical connections to residential, commercial and industrial concerns, so as to promote the ongoing economic development of BCMM				
Name of Project - B	Mdantsane Roads				
Objective of Project	Improve accessibility within Mdantsane and between Mdantsane and the rest of BCMM				
Anticipated citizen benefits	Improved accessibility				
Name of Project - C					
Objective of Project	Quinera Treatment Works				
Delays	Phase 2 – Mechanical Electrical on programme – Practical Completion November 2013				
Future Challenges	Increased operational cost i.e. Eskom tariff increases				
Anticipated citizen benefits	Open the catchment for housing and commercial development				
Name of Project - D	Solid Waste Management				
Objective of Project	Increase the capacity of solid waste disposal in the Metro				
Anticipated citizen benefits	Increased access to solid waste services				
Name of Project - E	Gonubie Main Road				
Objective of Project	Widening of the existing carriageway to accommodate 2 lanes of traffic in both directions with a pedestrian sidewalk on the southern side				
Delays	Initial delays in finalising the award of the contract due to budget constraints. The contract for construction was awarded in March 2013 after the adjustment budget was approved by Council in March 2013.				
Future Challenges	Firstly, the additional land required for the widening and the value of such land. Secondly ownership of land that the current road traverses.				
Anticipated citizen benefits	Firstly, increased capacity on the Gonubie main Road thereby reducing traffic congestion in both peak periods of the day. Secondly, improved pedestrians safety. Thirdly, the Quenera area between Beacon Bay and Gonubie will be opened up for development as the capacity on the Gonubie Main Road is increased.				
<i>T 5.7.1</i>					

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5.8 BASIC SERVICE AND INFRASTRUCTURE BACKLOGS – OVERVIEW

INTRODUCTION TO BASIC SERVICE AND INFRASTRUCTURE BACKLOGS

As the biggest economic hub in one of South Africa's poorest regions, BCMM experiences high rates of inward migration – permanent and temporary – resulting in the continual growth of informal settlements. In addition, there is a general trend towards the splitting of once large family units into more, smaller, units. As a result, there is an increasing demand for basic services – including housing, water, sanitation, transport infrastructure, electricity, waste management and associated social services. Given the massive need for basic infrastructure, and the growing pressure on the City, the provision of basic services is a continual challenge.

BCMM works to meet the basic service needs of the City through a range of infrastructure service delivery mechanisms. In some cases, these are addressed through holistic projects coordinated by the Office of the COO, which is responsible for housing development. In other cases, departments seek to address the needs of communities who are already in situ, through the provision of additional or augmented services.

<i>T 5.8.1</i>				
Service Backlogs as at 30 June 2012/2013				
Households (HHs)				
	*Service level above minimum standard		**Service level below minimum standard	
	No. HHs	% HHs	No. HHs	% HHs
Water	228000	98%	4000	2%
Sanitation	144000	76.7%	44000	23.3%
Electricity	104755	47%	120000	53%
Waste management	2235	44.8%	2755	55.2%
Housing			40,000	

*% HHs are the service above/below minimum standard as a proportion of total HHs. 'Housing' refers to * formal and ** informal settlements.*

T 5.8.2

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Municipal Infrastructure Grant (MIG)* Expenditure Year 0 on Service backlogs						R' 000
Details	Budget	Adjustments Budget	Actual	Variance		Major conditions applied by donor (continue below if necessary)
				Budget	Adjustments Budget	
Infrastructure - Road transport				%	%	
Roads, Pavements & Bridges				%	%	
Storm water				%	%	
Infrastructure - Electricity				%	%	
Generation				%	%	
Transmission & Reticulation				%	%	
Street Lighting				%	%	
Infrastructure - Water				%	%	
Dams & Reservoirs				%	%	
Water purification				%	%	
Reticulation				%	%	
Infrastructure - Sanitation				%	%	
Reticulation				%	%	
Sewerage purification				%	%	
Infrastructure - Other				%	%	
Waste Management				%	%	
Transportation				%	%	
Gas				%	%	
Other Specify:				%	%	
				%	%	
				%	%	
				%	%	
Total				%	%	

* MIG is a government grant program designed to fund a reduction in service backlogs, mainly: Water; Sanitation; Roads; Electricity. Expenditure on new, upgraded and renewed infrastructure is set out at Appendix M; note also the calculation of the variation. Variances are calculated by dividing the difference between actual and original/adjustments budget by the actual.

T 5.8.3

COMMENT ON BACKLOGS:

Delete Directive note once comment is completed - Comment on how MIG grants have been utilised to redress the backlogs and on the variances in T 5.8.3. If appropriate, comment that **Appendix P** contains details of schools and clinics that have been established that do not have ready access to one or more basic services and **Appendix Q** contains details of those services provided by other spheres of government (whether the municipality is involved on an agency basis or not) that carry significant backlogs. T 5.8.4

COMPONENT C: CASH FLOW MANAGEMENT AND INVESTMENTS

INTRODUCTION TO CASH FLOW MANAGEMENT AND INVESTMENTS

Managing the cash resources of BCMM remains a key requirement to ensure the liquidity of the Municipality in order to meet its financial obligations, both currently and into a sustainable future.

Cash flow is actively monitored by BCMM, with daily cash flows being prepared and reported on in order to provide a clear indication of the current cash position. This enables the Municipality to meet its obligations as they become due. Both major revenue (grants,

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equitable share and high revenue inflow periods, etc.) and expenditure (bulk purchases and loan repayments, etc.) categories have been identified and accounted for appropriately to ensure that repayments are made on time and that surplus funds are invested in order to earn a favorable return on investment.

BCMM's cash generating ability remains stable. While own funds invested have increased, there is an increase in both current and long-term debtors. The effects of the global economic crisis are also a cause of real concern to the Metro. Operations have settled and tight cash controls have ensured that cash optimization in spending occurs, rather than a focus on cash generation. The area of revenue collection requires close attention so that it can be improved. This is critical to the financial sustainability of the City.

BCMM makes payments to creditors within the terms specified by suppliers, ensuring that investments remain in place in order to maximize the interest-earning potential of any surplus funds. Investment diversification is in practice at BCMM, in an attempt to minimize risk and maximize interest earning potential.

Operating activities have not changed significantly over the past financial year; the major change has been in terms of Government Receipts of a capital nature, which have increased to R516 million from R187 million in 2011/12. Net cash used has, as a result, increased to R1,224 billion from R649 million in 2011/12.

The cash flow summary clearly indicates the increase in Cash and Cash Equivalent at the year-end: from R1.520billion in 2011/12 to R 1.840 billion in 2012/13. As mentioned above, some of the key factors that have resulted in the increase include new grants being allocated to the Metro and under spending.

Unspent conditional grants have decreased significantly to R428 million, from R740 million in 2011/2012, this is largely attributable to R249 million of the Public Transport Infrastructure Grant being returned to National Treasury.

T 5.9

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5.9 CASH FLOW

Cash Flow Outcomes				
R'000				
Description	Year -1	Current: Year 0		
	Audited Outcome	Original Budget	Adjusted Budget	Actual
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Ratepayers and other	2 402 897	2 775 111	2 466 553	2 846 115
Government - operating	720 935	804 866	763 690	719 326
Government - capital	187 581	629 018	639 227	516 462
Interest	82 609	78 314	52 228	106 144
Dividends	-	-	-	-
Payments				
Suppliers and employees	(2 673 558)	(3 224 734)	(2 900 433)	(2 896 755)
Finance charges	(70 491)	(89 112)	(93 951)	(67 259)
Transfers and Grants		(30 464)	(27 616)	
NET CASH FROM/(USED) OPERATING ACTIVITIES	649 972	942 999	899 698	1 224 032
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts				
Proceeds from sale of property, plant and equipment	1 896	-	-	706
Purchase of other intangible assets	(3 227)	-	-	(10 248)
Purchase/Write on/Donated heritage assets	(433)	-	-	-
Net movement in financial assets	12	-	-	13
Movement in non-current investments	(37)	-	-	(36)
Payments				
Capital assets	(267 120)	(749 097)	(978 103)	(596 558)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(268 909)	(749 097)	(978 103)	(606 122)
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts				
Increase in unspent conditional grants	441 524	-	-	(311 230)
Increase (decrease) in consumer deposits	3 466	-	-	8 599
Payments				
Repayment of borrowing	(45 020)	(41 533)	(43 981)	5 561
NET CASH FROM/(USED) FINANCING ACTIVITIES	399 970	(41 533)	(43 981)	(297 069)
NET INCREASE/ (DECREASE) IN CASH HELD	781 033	152 369	(122 387)	320 841
Cash/cash equivalents at the year begin:	738 960	696 159	696 159	1 519 993
Cash/cash equivalents at the year end:	1 519 993	848 527	573 772	1 840 834

Source: MBRR A7

T 5.9.1

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COMMENT ON CASH FLOW OUTCOMES:

Interest earned exceeds both the original budget and the adjustment budget due to low levels of grant expenditure having been incurred.

The finance charges budget included the Post Retirement Benefit Obligation Budget in the original budget. However, this was moved to Employee Related Costs as finance costs only relate to repayment of non-current borrowings.

As a result of the above, cash resources have been greater than budgeted, resulting in additional Interest revenue being generated by the Metro. The net increase in cash held has increased by R321 million when compared with previous year's R781 million. The Cash and Cash Equivalents position at year end has improved to R1,841 billion when compared with R1,520 billion in the previous year.

T 5.9.1.1

5.10 BORROWING AND INVESTMENTS

INTRODUCTION TO BORROWING AND INVESTMENTS

The Metro's current loans balance, including finance lease items, totalled R653 million as outstanding when compared with R647 million for 2011/12. No additional borrowings were taken up during the current year. The Metro is currently servicing its debt quarterly with two financial institutions, being Rand Merchant Bank and The Development Bank of Southern Africa.

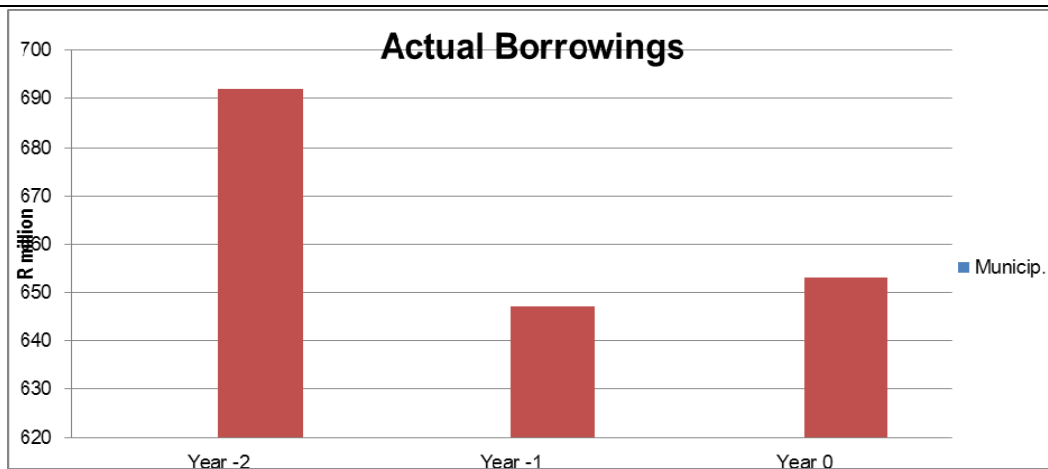
The City's investments held with financial institutions have increased to R1,697 billion, from R1,464 billion in 2011/12. Factors that have resulted in this increase relate to the City becoming a Metropolitan Municipality, thus receiving additional grants – the Fuel Levy being an example of one such grant that has resulted in an increase in investments.

T 5.10.1

Actual Borrowings: 2010 to 2013			
R' 000			
Instrument	2010/2011	2011/2012	2012/2013
Municipality			
Long-Term Loans (annuity/reducing balance)	692	647	653
Municipality Total	692	647	653

T 5.10.2

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T 5.10.3

Municipal and Entity Investments			
R' 000			
Investment* type	2010/2011	2011/2012	2012/2013
	Actual	Actual	Actual
Deposits - Bank	695	1464	1697
Entities - Other	0	0	0
Consolidated total	695	1464	1697

T 5.10.4

COMPONENT D: OTHER FINANCIAL MATTERS

5.12 SUPPLY CHAIN MANAGEMENT

SUPPLY CHAIN MANAGEMENT

The following was undertaken during the period under review:

- The SCM policy was revised and adopted by Council in June 2012
- The SCM Procedure Manual was developed and in a draft stage, to be completed by the end of 2013.
- All three bid committee systems were in place, with appointments and full delegations.
- Monthly reports, quarterly and annual SCM reports were published as per requirements.

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In addition to the above, employee training is an ongoing intervention. To this end, seven SCM officials have attended the MFMA competency course. The HoD completed the course before the end of the financial year, while the other members of staff are on track to complete by the deadline. One SCM senior official has not attended training, citing age as an issue. Other junior SCM practitioners are sent on NQF equivalent training courses as and when required.

The concern with regards to skill shortages, as cited by the Auditor General, is being addressed through the recruitment of skilled staff. This process is envisaged for completion in January 2014. A proposed new structure is expected to be implemented by the end of 2013, which will result in the unit complying with the SCM system. Three new units have been added : Demand Management, Supplier Development and Risk and Contracts Management, to address the relevant gaps.

T 5.12.1

5.13 GRAP COMPLIANCE

GRAP COMPLIANCE

GRAP is the acronym for **G**enerally **R**ecognized **A**ccounting **P**ractice and it provides the rules by which municipalities are required to maintain their financial accounts. Successful GRAP compliance will ensure that municipal accounts are comparable and more informative for the municipality. It will also ensure that the municipality is more accountable to its citizens and other stakeholders. Information on GRAP compliance is needed to enable National Treasury to assess the pace of progress and consider the implications.

BCMM is aware of the new accounting standards that have been published for implementation during the 2012/2013 financial year. These standards have been complied with in the preparation of the 2012/2013 Annual Financial Statements in all material respects. This compliance is required to improve transparency surrounding the financial information which has been prepared. The guidance provided in the new accounting statements, namely GRAP 21, 24, 26 and 103 have been utilised in the preparation of the 2012/13 Annual Financial Statements. GRAP 21 and 26 were adopted early in the 2011/12 Annual Financial Statement preparation. The budget note disclosure, as required in GRAP 24, has been included and heritage assets have been identified and disclosed in these Annual Financial Statements.

.T 5.13.1