

# 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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# Chapter 5

## 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 R483m, which is an unfavourable variance of R281m in comparison to the budgeted surplus of R763m. This variance comprises an adverse variance of R27m (excluding transfers recognized from Capital) in relation to the revenue received against a favourable variance of R67m in expenditure.

Total revenue did not achieve the expected budget expectations and there was a shortfall in of R27m. This shortfall was as a result of:

Reduced release of funding associated with operational projects expenditure to the extent of R73m.

Rates revenue totalled R580m, which was below the budgeted amount by R5m.

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 R3.96m in comparison to a budget of R4,032m, thus resulting in a favourable variance of R67m. The largest contributors to this variance were the savings achieved within other expenditure of R161m (29% of the budget), and savings in employee related costs totalling R73m (27% of the budget).

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## 5.1 STATEMENTS OF FINANCIAL PERFORMANCE

Description	Year 0							Year -1							
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
R thousands	Original Budget	Budget Adjustments (i.e. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.e. s31 of the MFMA)	Virement (i.e. Council approved policy)	Final Budget	Actual Outcome	Unauthorised expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Revised Audited Outcome
<b>Financial Performance</b>															
Property rates	585,374	0	585,374			585,374	580,100		(5,274)	99%					522,514
Service charges	1,957,956	(0)	1,957,956			1,957,956	1,956,063		(1,893)	100%					1,756,514
Investment revenue	53,986		53,986			53,986	53,980		(6)	100%					50,737
Transfers recognised - operational	804,666	(8,097)	796,569			796,569	723,457		(73,112)	91%					724,819
Other own revenue	554,454	0	554,454			554,454	578,289		23,835	104%					388,433
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>3,966,637</b>	<b>(8,097)</b>	<b>3,958,541</b>			<b>3,958,541</b>	<b>3,931,900</b>		<b>(26,641)</b>	<b>99%</b>	<b>0</b>				<b>3,430,818</b>
Employee costs	1,053,325	25,349	1,078,674			1,078,674	1,005,474		(73,200)	93%					956,956
Remuneration of councillors	45,219	535	45,754			45,754	43,331		(2,423)	95%					42,866
Debt interest	215,000	0	215,000			215,000	108,770		(106,230)	50%					58,207
Depreciation & asset impairment	376,528	(0)	376,528			376,528	699,422		(322,894)	186%					677,501
Finance charges	89,112	(22,463)	66,649			66,649	44,083		(22,566)	66%					130,769
Materials and bulk purchases	1,048,157	0	1,048,157			1,048,157	1,040,113		(8,044)	99%					915,387
Transfers and grants	30,454	1,653	32,107			32,107	21,001		(11,106)	66%					13,741
Other expenditure	1,133,412	33,341	1,166,753			1,166,753	1,004,460		(162,293)	86%					659,064
<b>Total Expenditure</b>	<b>3,992,222</b>	<b>39,444</b>	<b>4,031,666</b>			<b>4,031,666</b>	<b>3,964,666</b>		<b>(67,000)</b>	<b>98%</b>	<b>0</b>				<b>3,634,820</b>
<b>Surplus/(Deficit)</b>	<b>(25,584)</b>	<b>(47,541)</b>	<b>(73,125)</b>			<b>(73,125)</b>	<b>(32,767)</b>		<b>(63,641)</b>	<b>45%</b>	<b>0</b>				<b>(223,202)</b>
Transfers recognised - capital	629,018	205,050	834,068			834,068	515,570		(318,498)	62%					437,151
Contributions recognised - capital & contributed assets		2,451	2,451			2,451									
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>603,434</b>	<b>199,969</b>	<b>763,394</b>			<b>763,394</b>	<b>482,804</b>		<b>(93,641)</b>	<b>63%</b>	<b>0</b>				<b>(36,071)</b>
Share of surplus/ (deficit) of associates															
<b>Surplus/(Deficit) for the year</b>	<b>603,434</b>	<b>199,969</b>	<b>763,394</b>			<b>763,394</b>	<b>482,804</b>		<b>(93,641)</b>	<b>63%</b>	<b>0</b>				<b>(36,071)</b>
<b>Capital expenditure &amp; funds sources</b>															
<b>Capital expenditure</b>															
Transfers recognised - capital	749,697	229,006	978,703			978,703	672,311		(306,392)	69%					270,780
Public contributions & donations	629,018	205,050	834,068			834,068	583,947		(250,121)	70%					186,834
Borrowing		2,451	2,451			2,451									730
Internally generated funds	120,079	21,505	141,584			141,584	83,664		(57,920)	59%					17,874
<b>Total sources of capital funds</b>	<b>749,697</b>	<b>229,066</b>	<b>978,703</b>			<b>978,703</b>	<b>672,311</b>		<b>(93,641)</b>	<b>63%</b>	<b>0</b>				<b>65,542</b>
<b>Cash flows</b>															
Net cash from (used) operating	842,999	(43,241)	799,758			799,758	1,199,220		399,462	149%					849,972
Net cash from (used) investing	(749,697)	(229,006)	(978,703)			(978,703)	(603,550)		(375,153)	62%					(268,909)
Net cash from (used) financing	(41,533)	(2,451)	(43,984)			(43,984)	(275,223)		(231,239)	63%					(399,970)
<b>Cash/cash equivalents at the year end</b>	<b>849,527</b>	<b>(274,655)</b>	<b>574,872</b>			<b>574,872</b>	<b>1,842,065</b>		<b>1,267,193</b>	<b>163%</b>					<b>1,521,245</b>

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Financial Performance of Operational Services							R '000
Description	Year -1	Year 0		Year 0 Variance			
	Actual	Original Budget	Adjustments Budget	Actual	Original Budget	Adjustments Budget	
<b>Operating Cost</b>							
Water	63,355	41,411	43,029	(13,770)	400.74%	412.49%	
Waste Water (Sanitation)	(48,520)	12,740	17,653	(108,349)	111.76%	116.29%	
Electricity	(115,047)	(66,936)	(64,835)	(101,909)	34.32%	36.38%	
Waste Management	(58,824)	(11,253)	(8,311)	(65,534)	82.83%	87.32%	
Housing	8,002	25,323	25,770	902	-2706.92%	-2756.50%	
<b>Component A: Basic Services - sub-total</b>	<b>(151,034)</b>	<b>1,285</b>	<b>13,306</b>	<b>(288,659)</b>	<b>100.45%</b>	<b>104.61%</b>	
Roads	200,578	246,832	247,357	291,999	15.47%	15.29%	
Transport	7,233	8,318	8,629	5,448	-52.68%	-58.40%	
Waste Water (Stormwater Drainage)	-	-	-	-	0.00%	0.00%	
<b>Component B: Road Transport - sub-total</b>	<b>207,811</b>	<b>255,150</b>	<b>255,987</b>	<b>297,447</b>	<b>14.22%</b>	<b>13.94%</b>	
Planning	132,525	167,842	166,486	74,747	-124.55%	-122.73%	
Local Economic Development	(2,110)	(3,976)	(3,997)	(2,067)	-92.32%	-93.34%	
<b>Component C: Planning and Development - sub-total</b>	<b>130,415</b>	<b>163,866</b>	<b>162,489</b>	<b>72,680</b>	<b>-125.46%</b>	<b>-123.57%</b>	
Libraries, Archives, Museums, Galleries, Community Facilities etc	62,129	66,254	67,426	69,209	4.27%	2.58%	
Cemeteries and Crematoriums	15,516	16,719	18,150	11,847	-41.13%	-53.20%	
Child Care, Aged Care, Social Programmes	-	-	-	-	0.00%	0.00%	
<b>Component D: Community and Social Services - sub-total</b>	<b>77,645</b>	<b>82,973</b>	<b>85,575</b>	<b>81,055</b>	<b>-2.37%</b>	<b>-5.58%</b>	
Pollution Control	992	1,879	1,794	779	-141.16%	-130.28%	
Bio-Diversity, Landscape and Other	76,270	78,093	79,146	80,464	2.95%	1.64%	
<b>Component E: Environmental Protection - sub-total</b>	<b>77,262</b>	<b>79,972</b>	<b>80,940</b>	<b>81,243</b>	<b>1.56%</b>	<b>0.37%</b>	
Clinics	(39,448)	9,122	9,333	5,335	-70.97%	-74.92%	
Ambulance Service	-	-	-	-	0.00%	0.00%	
Health Inspection, Food and Abattoir Licensing and Inspection	27,938	8,201	9,210	21,188	61.30%	56.53%	
<b>Component F: Health - sub-total</b>	<b>(11,510)</b>	<b>17,322</b>	<b>18,543</b>	<b>26,524</b>	<b>34.69%</b>	<b>30.09%</b>	
Police	94,957	94,365	95,146	103,773	9.07%	8.31%	
Fire	(5,078)	8,518	8,299	(11,719)	172.68%	170.81%	
Other ( Disaster Management, Animal Licencing and Control etc	6,492	8,301	8,245	6,075	-36.64%	-35.72%	
<b>Component G: Security and Safety - sub-total</b>	<b>96,370</b>	<b>111,184</b>	<b>111,691</b>	<b>98,129</b>	<b>-13.30%</b>	<b>-13.82%</b>	
Sport and Recreation	55,796	52,206	52,633	67,607	22.78%	22.15%	
<b>Component H: Sport and Recreation - sub-total</b>	<b>55,796</b>	<b>52,206</b>	<b>52,633</b>	<b>67,607</b>	<b>22.78%</b>	<b>22.15%</b>	
Executive and Council	314,609	170,377	196,107	173,748	1.94%	-12.87%	
Financial Services	(860,608)	(1,072,822)	(1,066,022)	(1,217,175)	11.86%	12.42%	
Human Resources Services	64,074	99,751	95,142	67,336	-48.14%	-41.30%	
Information and Communication Technology	21,479	31,246	33,494	25,659	-21.77%	-30.53%	
Property, Legal, Risk Management and Procurement Services	26,097	33,072	33,240	31,627	-4.57%	-5.10%	
<b>Component I: Policy Offices and Other sub-total</b>	<b>(434,348)</b>	<b>(738,375)</b>	<b>(708,039)</b>	<b>(918,805)</b>	<b>19.64%</b>	<b>22.94%</b>	
<b>Total Expenditure</b>	<b>48,408</b>	<b>25,584</b>	<b>73,125</b>	<b>(482,779)</b>	<b>105.30%</b>	<b>115.15%</b>	

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 on penalties and collection charges for vacant and undeveloped land, as the actual revenue was unable to achieve the anticipated revenue expectations as recorded in the budget.

#### Interest earned - external investments

Investment revenue yielded R27.8m more than anticipated, due to interest earned on unspent grants invested.

#### Transfers recognised - operational

A R77.2m 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 exceeded budget expectations by R27.7m. This category of revenue includes numerous miscellaneous revenue items, including town planning fees, market income, vehicle registration fees, cemetery fees, grave space sales, tender receipts, etc.

### 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.

#### Finance charges

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

#### Other expenditure

Other expenditure was R260m 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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Grant Performance						
R' 000						
Description	2011/12	2012/13		2012/13 Variance		
	Actual	Budget	Adjustments Budget	Actual	Original Budget (%)	Adjustments Budget (%)
<b>Operating Transfers and Grants</b>						
<b>National Government:</b>	<b>564,238</b>	<b>667,160</b>	<b>691,630</b>	<b>661,669</b>	<b>-1%</b>	<b>-5%</b>
Equitable share	557,288	651,565	651,565	650,616	-0.00	0%
Department of Water Affairs	1,712	1,283	1,374	1,126	-14%	-22%
Finance Management	1,130	1,500	1,500	1,500	0%	0%
Infrastructure Skills Development	-	3,000	2,405	1,265	-137%	-90%
Expanded Public Works Programme Inc	-	1,484	1,484	930	-60%	-60%
Urban Settlement Development	4,109	8,328	33,302	6,232	-34%	-434%
<b>Provincial Government:</b>	<b>38,618</b>	<b>123,119</b>	<b>88,348</b>	<b>59,978</b>	<b>-105%</b>	<b>-47%</b>
Health subsidy	-	2,522	2,522	-	-	-
Housing	20,350	111,646	70,083	47,555	-135%	-47%
Dept of Environmental Affairs & Tourism	26	-	-	-	-	-
Roads Subsidy-Provincial Roads	-	1,871	1,871	-	-	-
Department of Water Affairs	17,220	2,375	7,775	7,730	69%	-1%
Local Govt & Traditional Affairs	1,023	-	1,082	295	100%	-266%
Library Subsidy	-	4,329	4,329	4,329	0%	0%
Dept of Human Settlement	-	77	607	68	-14%	-798%
Dept of Land Affairs	-	300	80	1	-30575%	-8080%
<b>District Municipality:</b>	<b>-</b>	<b>12,216</b>	<b>12,216</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Health Subsidy-Environmental Health</i>		12,216	12,216	-	-	-
<b>Other grant providers:</b>	<b>4,536</b>	<b>2,370</b>	<b>4,576</b>	<b>2,793</b>	<b>15%</b>	<b>-64%</b>
SETA-Skills Development	3,235	2,370	2,370	2,370	0%	0%
SETA-Councillor Training	10	-	-	-	-	-
Leiden					100%	-373%

# Chapter 5

Grant Performance						
R' 000						
Description	2011/12	2012/13		2012/13 Variance		
	Actual	Budget	Adjustments Budget	Actual	Original Budget (%)	Adjustment s Budget (%)
	415	-	1,956	414		
<i>Salaida/Gavle</i>	277	-	127	9	100%	-1349%
<i>BCMET Funding</i>	281	-	-	-	-	-
<i>European Commission</i>	318	-	122	-	-	-
<b>Total Operating Transfers and Grants</b>	<b>607,393</b>	<b>804,866</b>	<b>796,770</b>	<b>724,439</b>	<b>-11%</b>	<b>-10%</b>
						<i>T 5.2.1</i>

# Chapter 5

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
<b>Parastatals</b>						
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	24,130	23,738				
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 mitigated
Dept of Sports, Recreation, Arts & Culture	-	-				Increasing citizens' access to sport and recreation activities
Public Funding	686	272				Development levies.
<b>Foreign Governments/Development Aid Agencies</b>						
Leiden	-	50				
Salaida/Gavle	236	-				An inter-governmental agreement aimed at poverty alleviation & sustained development.
						T 5.2.3



# Chapter 5

## COMMENT ON CONDITIONAL GRANTS AND GRANT RECEIVED FROM OTHER SOURCES:

### **Infrastructure Skills Development**

BCMM is experiencing challenges with regards to attracting suitably qualified technically skilled personnel. The Infrastructure Skills Development Grant aims at addressing this challenge through the identification of personnel with the required aptitude and providing a training and development route which can be followed in order for them to become adequately and suitably qualified. The under-spending of the grant is as a result of challenges identified with identifying suitable personnel who could undertake this career growth opportunity.

### **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 unspent allocation of the USDG Funding is committed to awarded contracts and a motivation for the roll-over of unspent funding has been sent to National Treasury for approval.

### **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 spending of this grant depends predominately on bulk infrastructure being installed. The funding will be utilized over the medium term.

### **Roads Subsidy-Provincial Roads**

BCMM has as yet not finalized a formal contract with the Provincial Government Department of Roads and Transport. Unfortunately the funding that is currently being received is insufficient for the projects for which they are intended and the funding needs to be clarified with the department concerned in order to meet the required expectations.

### **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

# Chapter 5

## 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.

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# Chapter 5

TREATMENT OF THE THREE LARGEST ASSETS ACQUIRED 2012/2013				
<b>Asset 1</b>				
Name	Property, Plant, Equipment			
Description	<b>Bridle Drift Dam</b>			
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
<b>Asset 2</b>				
Name	Property, Plant, Equipment			
Description	<b>King Williams Town Waste Disposal Site</b>			
Asset Type	Waste Sites			
Asset Value	2009/10	2010/11	2011/12	2012/13
	R185,939,292	R181,983,137	R178,008,694	R193,752,576
<b>Asset 3</b>				
Name	Property, Plant, Equipment			
Description	<b>Bridges: Braelyn 10</b>			
Asset Type	Road Structures			
Asset Value	2009/10	2010/11	2011/12	2012/13
	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.

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<b>Repair and Maintenance Expenditure: Year 0</b>				
				<b>R' 000</b>
	<b>Original Budget</b>	<b>Adjustment Budget</b>	<b>Actual</b>	<b>Budget variance</b>
Repairs and Maintenance Expenditure	290,863	293,739	263,702	9%
				<i>T 5.3.4</i>

## COMMENT ON REPAIR AND MAINTENANCE EXPENDITURE:

BCMM spent 90% 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 10% is on the allocation for furniture, equipment and building maintenance which is spent as and when required.

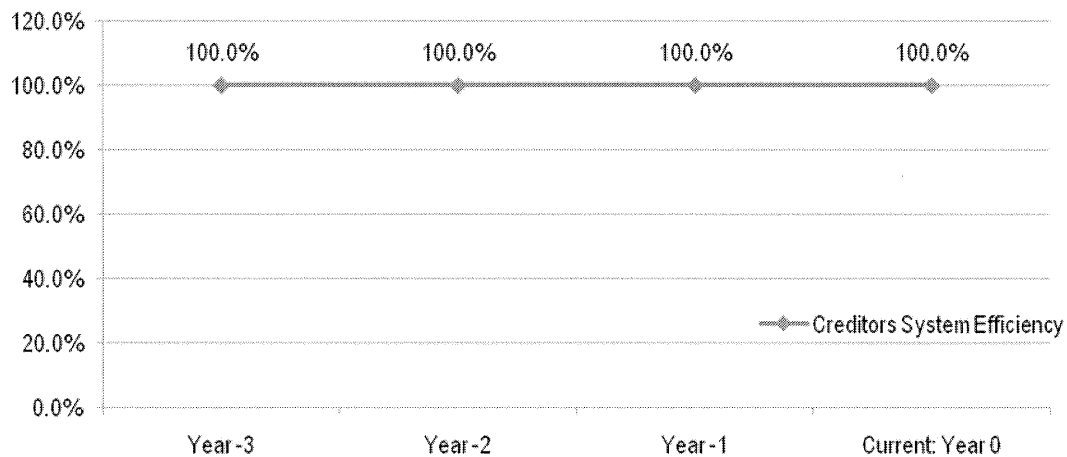
The City is budgeting, on average, 10% of its service revenue for repairs and maintenance. The allocation has increased by 20% from 2011/12 as the City's objective is to invest more into infrastructure maintenance and upgrading.

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# Chapter 5

T 5.4.4

## Creditors System Efficiency

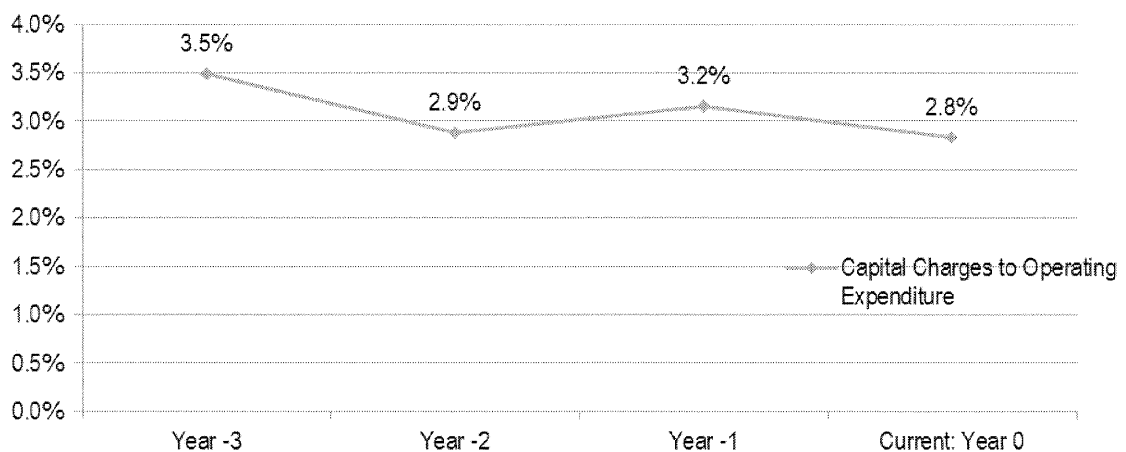


Creditor System Efficiency – The proportion of creditors paid within terms (i.e. 30 days). This ratio is calculated by outstanding trade creditors divided by credit purchases

Data used from MBRR SA8

T 5.4.5

## Capital Charges to Operating Expenditure



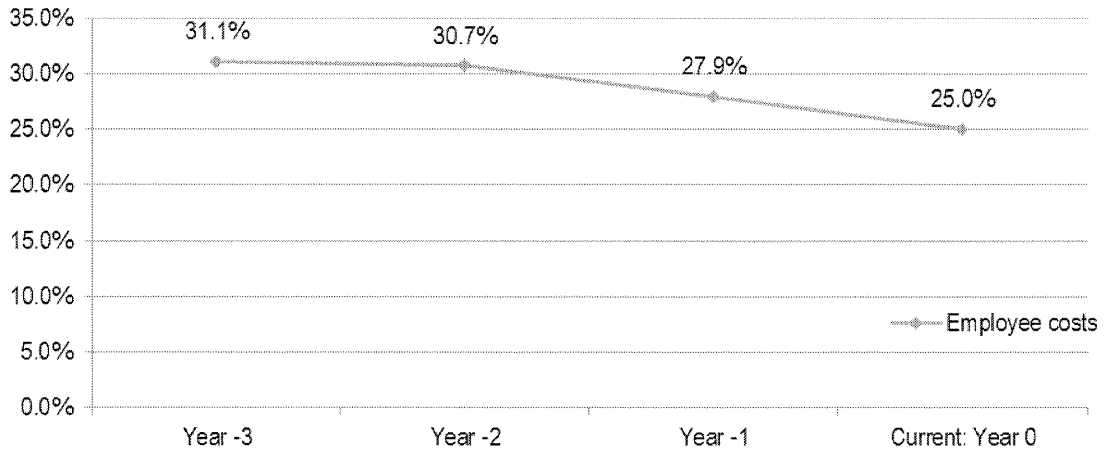
Capital Charges to Operating Expenditure ratio is calculated by dividing the sum of capital interest and principle paid by the total operating expenditure.

Data used from MBRR SA8

T 5.4.6

# Chapter 5

## Employee Costs

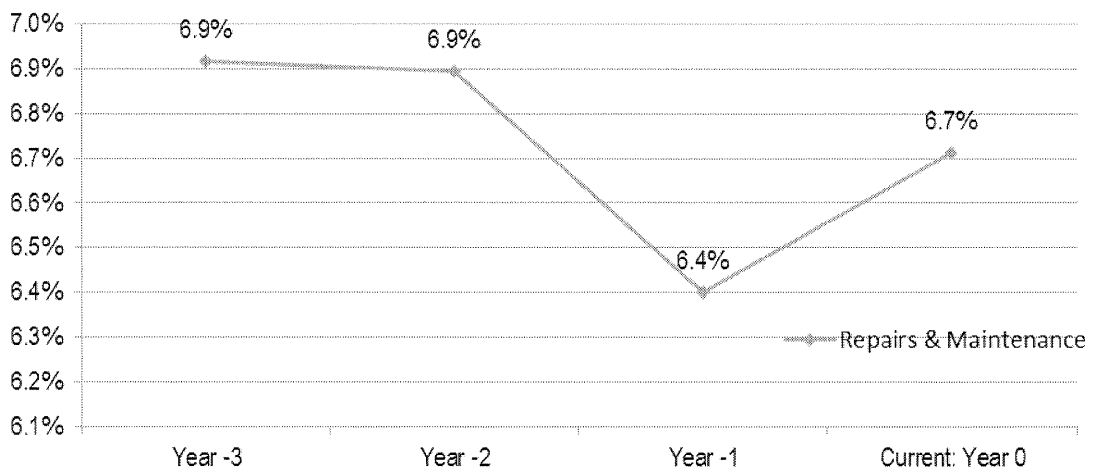


Employee cost – Measures what portion of the revenue was spent on paying employee costs. It is calculated by dividing the total employee cost by the difference between total revenue and capital revenue.

Data used from MBRR SA8

T 5.4.7

## Repairs & Maintenance

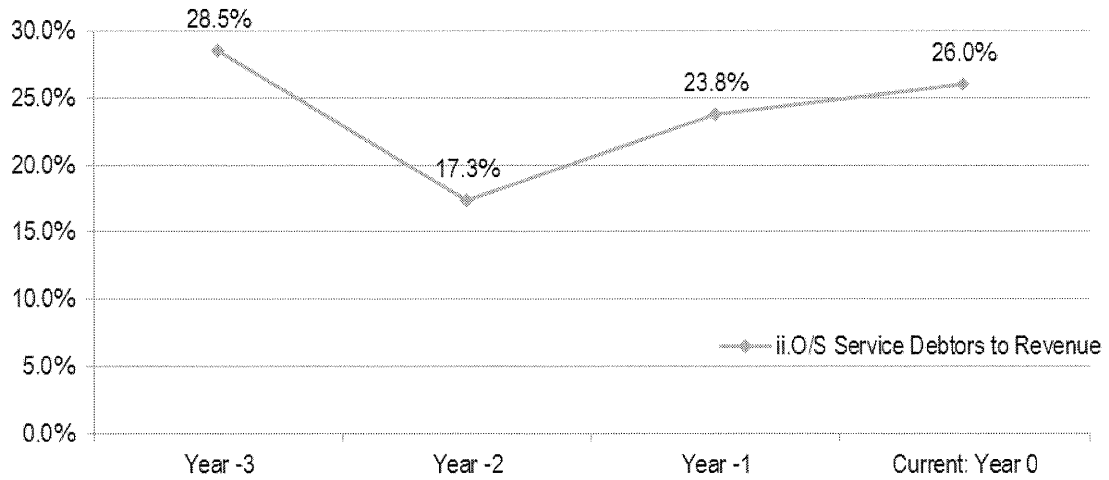


Repairs and Maintenance – This represents the proportion of operating expenditure spent and is calculated by dividing the total repairs and maintenance.

Data used from MBRR SA8

# Chapter 5

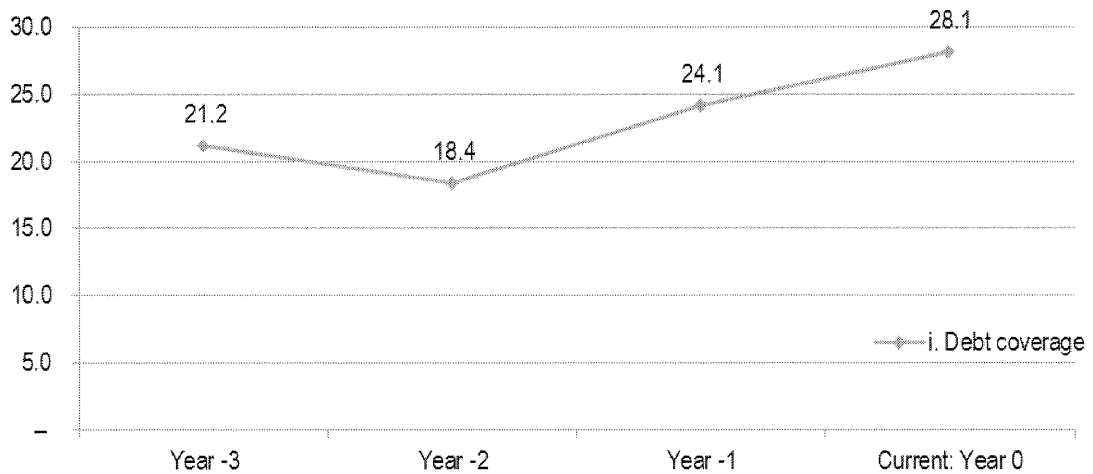
## Total Outstanding Service Debtors



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.

T 5.4.3

## Debt Coverage



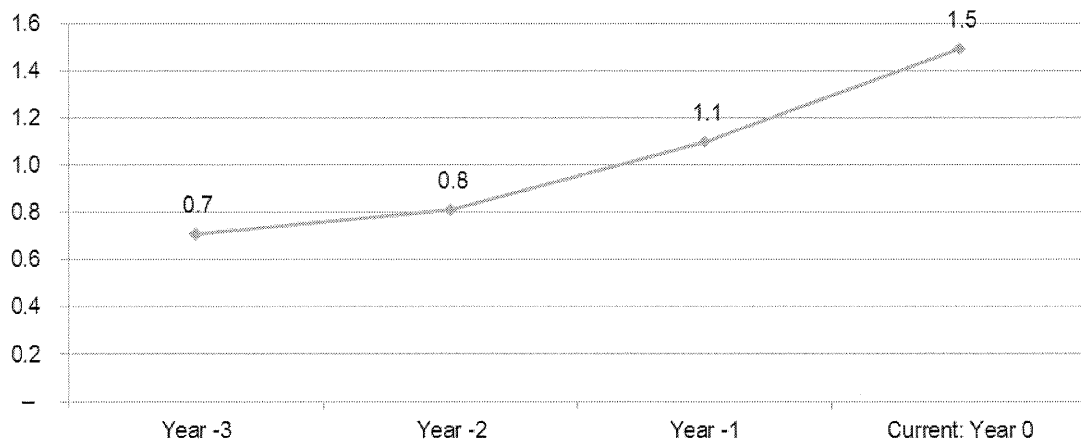
Debt Coverage– The number of times debt payments can be accommodated within Operating revenue (excluding grants) . This in turn represents the ease with which debt payments can be accommodated by the municipality

Data used from MBRR SA8

# Chapter 5

## 5.4 FINANCIAL RATIOS BASED ON KEY PERFORMANCE INDICATORS

### Liquidity Ratio

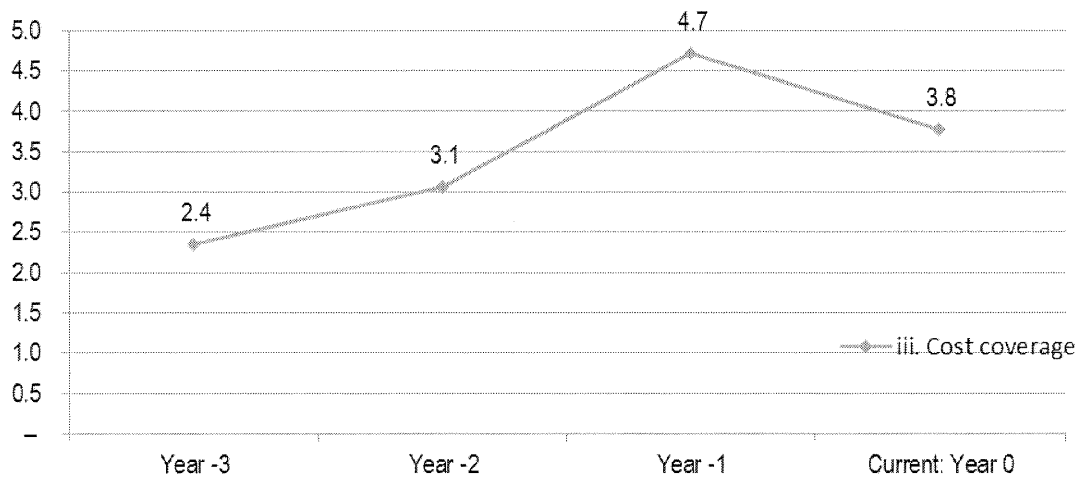


Liquidity Ratio – Measures the municipality's ability to pay its bills and is calculated by dividing the monetary assets (due within one year ) by the municipality's current liabilities. A higher ratio is better.

Data used from MBRR SA8

T 5.4.1

### 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

T 5.4.2



# Chapter 5

T 5.4.8

## COMMENT ON FINANCIAL RATIOS:

**Liquidity Ratio:** The rate of 1.50 : 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, so the Metro's Liquidity Ratio is better than the Municipal Industry norm.

**Cost Coverage:** This rate has decreased over the past year and currently is at 3.8 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 starting to increase over the past 3 financial year ends. It is currently 26.0%, which is a marked increase since 2010/2011, when it was 17.3%. 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 28.10 when compared with 24.14 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.

**Capital Charges to Operating Expenditure:** The rate continues to decrease as a result both of increases in Operating Expenditure and no new borrowings being incurred by the Metro. The rate currently is 2.8%.

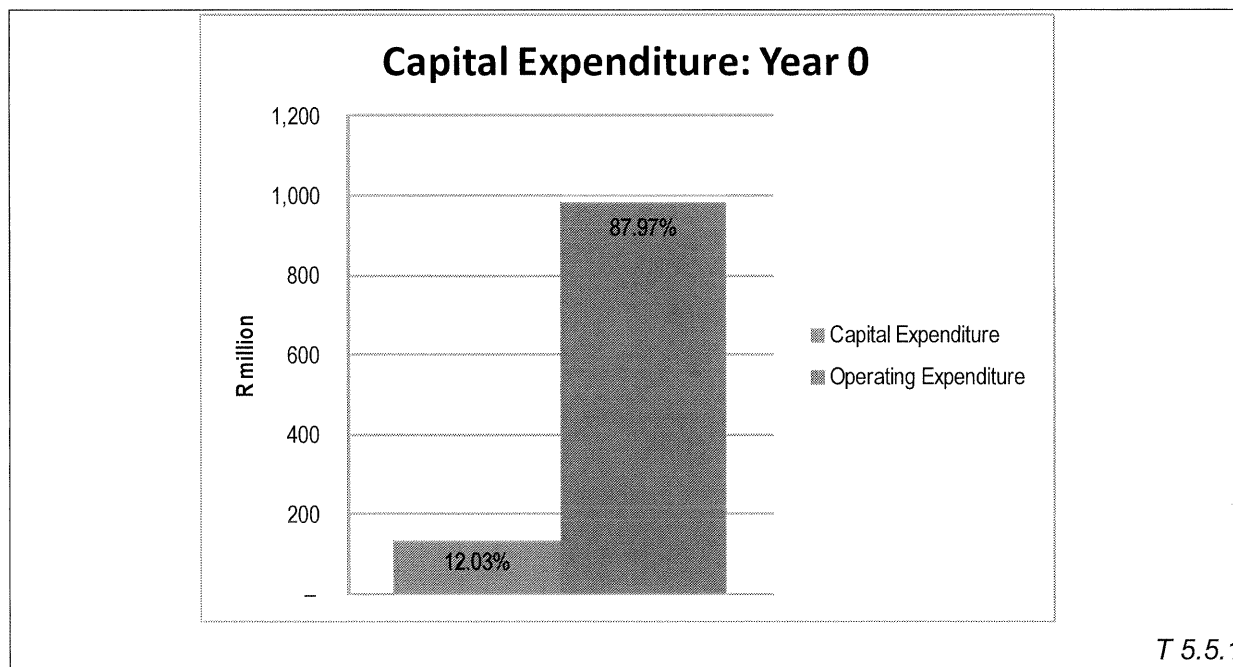
**Employee Costs as a percentage of Operating Revenue:** The rate of 25.00% is lower than the expected norm of 30% and is due largely to the unfilled posts in the top echelons of the Municipality.

**Repairs and maintenance as a percentage of Total Revenue (excl. Capital Transfers and Contributions):** The rate remains stable at around 7% for the past 4 years, currently 6.70%

COMPONENT B: SPENDING AGAINST CAPITAL BUDGET

# Chapter 5

## 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 (%)
<b>Source of finance</b>						
External loans	6,269		18,195	18,146	0	0
Public contributions and donations	655		2,451	0	0%	0.00%
Grants and subsidies	202,991	629,018	834,068	506,406	33%	-19.49%
Other	68,973	120,079	123,389	68,933	2.8%	-42.59%
<b>Total</b>	<b>278,888</b>	<b>749,097</b>	<b>978,103</b>	<b>593,485</b>	<b>30.57%</b>	<b>-20.77%</b>
<b>Percentage of finance</b>						
External loans	2.20%	0.00%	1.90%	3.1%	0%	0%
Public contributions and donations	0.20%	0.30%	0.30%	0.0%	0%	0%
Grants and subsidies	72.80%	83.70%	85.30%	85.33%	1.91%	1.95%
Other	24.70%	16.00%	12.60%	11.61%	-21.25%	-27.44%

# Chapter 5

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 (%)	
<b>Capital expenditure</b>							
Water and sanitation	83,913	213,408	314,877	192,684	47.55%	-9.71%	
Electricity	35,153	77,851	84,732	76,432	8.84%	-2.00%	
Housing	14,023	62,989	56,374	36,692	-10.50%	-34.98%	
Roads & storm water	52,683	147,764	257,234	212,213	74.08%	30.89%	
Other	93,116	226,830	247,085	75,466	8.93%	-37.47%	
<b>Total</b>	<b>278,888</b>	<b>749,097</b>	<b>978,103</b>	<b>593,485</b>	<b>30.57%</b>	<b>-20.77%</b>	
<b>Percentage of expenditure</b>							
Water and sanitation	30.10%	28.49%	32.19%	32.47%	12.99%	-13.97%	
Electricity	12.60%	10.39%	8.66%	12.88%	-16.65%	-23.97%	
Housing	5.00%	8.41%	5.76%	6.18%	-31.51%	26.52%	
Roads & storm water	18.90%	19.73%	26.30%	35.76%	33.3%	-81.3%	
Other	33.40%	30.28%	25.26%	12.72%	-16.58%	57.99%	
							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	27 024	10%	0%	
Mdantsane Roads	60 000	60 000	45 686	24%	0%	
Quinera Treatment Works		31 719	29 453	-	-	

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Solid Waste Management		36 000		-	-
Gonubie Main Road	15 000	45 000	44 885	-199%	-200%
<i>* Projects with the highest capital expenditure in 2012/2013</i>					
<b>Name of Project - A</b>	<b>Electrification - Installation of a bulk tertiary Substation</b>				
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 1 <sup>st</sup> phase nearing completion the 2 <sup>nd</sup> phase - installation of the main 132 kV overhead line is in the tender process.				
Future Challenges	Space has been allowed for future upgrading of 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				
<b>Name of Project - B</b>	<b>Mdantsane Roads</b>				
Objective of Project	Improve accessibility within Mdantsane and between Mdantsane and the rest of BCMM				
Anticipated citizen benefits	Improved accessibility				
<b>Name of Project - C</b>					
Objective of Project	<b>Quinera Treatment Works</b>				
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				
<b>Name of Project - D</b>	<b>Solid Waste Management</b>				
Objective of Project	Increase the capacity of solid waste disposal in the Metro				
Anticipated citizen benefits	Increased access to solid waste services				
<b>Name of Project - E</b>	<b>Gonubie Main Road</b>				
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 pedestrian's 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.				
T 5.7.1					

## 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

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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.

T 5.8.1

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

## 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, 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 favourable 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.

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BCMM makes payment to creditors within the terms specified by suppliers, ensuring that investments remain in place in order to maximise the interest-earning potential of any surplus funds. Investment diversification is in practice at BCMM, in an attempt to minimise risk and maximise 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 R186 million in 2011/12. Net cash used has, as a result, increased to R1,171 billion from R597 million in 2011/12.

The cash flow summary clearly indicates the increase in Cash and Cash Equivalent at the year-end: from R1.52 billion in 2011/12 to R1.843 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 R450 million, from R740 million in 2011/2012, this s largely attributable to R249 million of the Public Transport Infrastructure Grant being returned to National Treasury.

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## 5.9 CASH FLOW

<b>Cash Flow Outcomes</b>				
R'000				
Description	Year -1	Current: Year 0		
	Audited Outcome	Original Budget	Adjusted Budget	Actual
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
<b>Receipts</b>				
Ratepayers and other	2 408 347	2 775 111	2 777 562	2 832 825
Government - operating	722 264	804 866	796 769	719 567
Government - capital	186 251	629 018	834 068	515 570
Interest	82 656	78 314	78 314	106 184
Dividends	-	-	-	-
<b>Payments</b>				
Suppliers and employees	(2 619 536)	(3 224 734)	(3 283 604)	(2 819 542)
Finance charges	(70 499)	(89 112)	(66 649)	(67 259)
Transfers and Grants	(112 388)	(30 464)	(32 147)	(115 922)
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>	<b>597 097</b>	<b>942 999</b>	<b>1 104 314</b>	<b>1 171 425</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>Receipts</b>				
Proceeds on disposal of PPE	2 610	-	-	18 658
Decrease (Increase) in non-current debtors	-	-	-	-
Decrease (increase) other non-current receivables	12	-	-	13
Decrease (increase) in non-current investments	(37)	-	-	(36)
<b>Payments</b>				
Capital assets	(217 896)	(749 097)	(978 103)	(593 485)
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>	<b>(215 310)</b>	<b>(749 097)</b>	<b>(978 103)</b>	<b>(574 849)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
<b>Receipts</b>				
Short term loans	-	-	-	-
Borrowing long term/refinancing	441 524	-	-	(289 390)
Increase (decrease) in consumer deposits	3 466	-	-	8 599
<b>Payments</b>				
Repayment of borrowing	(45 020)	(41 533)	(43 981)	5 561
<b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>	<b>399 970</b>	<b>(41 533)</b>	<b>(43 981)</b>	<b>(275 229)</b>
<b>NET INCREASE/ (DECREASE) IN CASH HELD</b>	<b>781 756</b>	<b>152 369</b>	<b>82 229</b>	<b>321 347</b>
Cash/cash equivalents at the year begin:	740 212	696 159	696 159	1 521 969
Cash/cash equivalents at the year end:	1 521 969	848 527	778 388	1 843 316
Source: MBRR A7				T 5.9.1

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## 5.10 BORROWING AND INVESTMENTS

### INTRODUCTION TO BORROWING AND INVESTMENTS

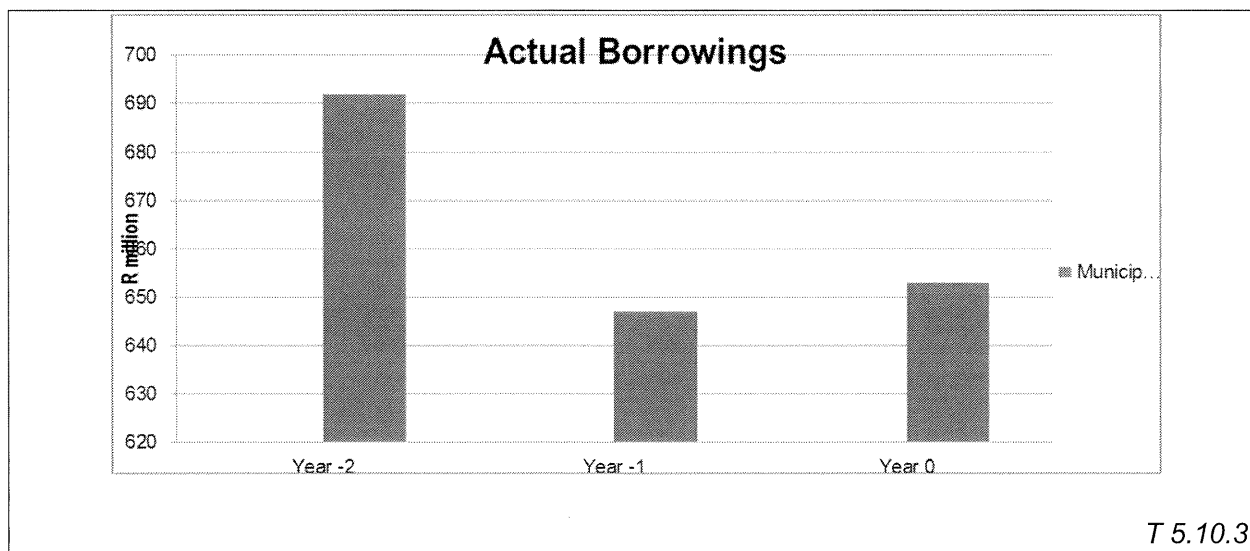
The Metro's current loans balance, including finance lease items, totalled R653 million as outstanding when compared with R647 million for 2011/12. No additional borrowings were taken up during the current year. The Metro is currently servicing its debt quarterly with two financial institutions, being 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
<b>Municipality</b>			
Long-Term Loans (annuity/reducing balance)	692	647	653
<b>Municipality Total</b>	<b>692</b>	<b>647</b>	<b>653</b>

T 5.10.2





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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
<b>Consolidated total</b>	<b>695</b>	<b>1464</b>	<b>1697</b>
			<i>T 5.10.4</i>

## 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.

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

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## 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