

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

COMPONENT A: STATEMENTS OF FINANCIAL PERFORMANCE

INTRODUCTION TO FINANCIAL STATEMENTS

The Overall Financial Performance

Maletswai Municipality recognized total revenue amounting to R122.529 million during the year under review. This amount includes revenue recognized on the utilization of both operating and capital grant of R24.849 and R14.090 million respectively. The related budgeted amount for the same period was R144.923 million after adjustment and this resulted in an unfavorable variance of approximately R22.394 million. The income raised from service charges was R54.589 million and represents about 45% of the total revenue for the year.

The total expenditure incurred for the same period under review was R128.823 million which resulted in a net deficit of R6.293 million. The total annual expenditure exceeded the budget by 9% thus representing R10.664 million in absolute terms. This also reflects an unfavorable variance which ultimately means that the municipality has incurred unauthorized expenditure. Maletswai Municipality's financial sustainability is not favorable due to the fact that its current liabilities are in excess of the current assets thus creating a liquidity problem in the short-term. The grant funding was also not cash backed as at the end of the financial year under review which is an indication of the cash-flow challenges.

Employee Related Costs and Bulk Purchases continue to have a significant contribution to the overall expenditure and amounted to R41.074 million and R36.725 million respectively. Depreciation and Amortisation charges are the major non-cash flow expense of approximately R14.936 million allocated in the annual financial performance.

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5.1 STATEMENTS OF FINANCIAL PERFORMANCE

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MALETSWAI LOCAL MUNICIPALITY

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2012 (Actual) R	2011 (Restated) R
<u>CONTINUED OPERATIONS</u>			
REVENUE			
Revenue from Non-exchange Transactions		49 782 630	52 682 800
Taxation Revenue		8 449 033	7 657 929
Property taxes	21	8 449 033	7 657 929
Transfer Revenue		40 939 174	44 380 200
Government Grants and Subsidies - Capital	22	14 090 028	22 403 129
Government Grants and Subsidies - Operating	22	26 848 646	21 977 071
Public Contributions and Donations		500	-
Other Revenue		394 422	644 671
Actuarial Gains	2	144 465	193 383
Third Party Payments		-	178 175
Fines		249 957	273 112
Revenue from Exchange Transactions		53 049 289	46 701 351
Service Charges	23	44 179 266	38 817 166

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Water service authority contribution	24	-	-
Rental of Facilities and Equipment		1 700 239	1 586 412
Interest Earned - external investments		207 331	353 007
Interest Earned - outstanding debtors		881 003	793 945
Licences and Permits		2 188 842	2 159 272
Agency Services		1 300 499	1 305 666
Other Income	25	1 654 989	1 503 898
Gain on disposal of Property, Plant & Equipment		42 320	55 709
Fair Value Adjustments	26	894 800	126 275
Total Revenue		102 831 919	99 384 151
EXPENDITURE			
Employee related costs	27	35 703 277	33 782 914
Remuneration of Councillors	28	2 575 860	2 585 696
Debt Impairment	29	3 026 970	966 456
Depreciation and Amortisation	30	14 936 127	13 355 536
Impairments	31	226 211	195 970
Repairs and Maintenance	32	4 926 992	3 369 107
Actuarial losses	2	615 102	3 559 374
Finance Charges	33	2 229 001	1 365 212
Bulk Purchases	34	36 725 368	30 732 066
Other Operating Grant Expenditure		2 203 429	1 793 868
General Expenses	35	15 553 480	13 584 169
Loss on disposal of Property, Plant and Equipment		1 536	665 194
Total Expenditure		118 723 351	105 955 562
Operating Surplus/(Deficit) from continued operations		(15 891 432)	(6 571 411)
<u>DISCONTINUED OPERATIONS</u>			
REVENUE			
Revenue from Exchange Transactions		19 697 421	14 862 807

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Service Charges	23	10 410 028	6 231 976
Water service authority contribution	24	9 234 315	8 550 292
Other Income	25	53 078	80 539
Total Revenue		19 697 421	14 862 807
EXPENDITURE			
Employee related costs	27	5 371 239	4 802 675
Debt Impairment	29	2 534 872	2 799 567
Repairs and Maintenance	32	523 070	534 618
General Expenses	35	1 671 561	3 151 509
Total Expenditure		10 100 742	11 288 369
Operating Surplus from discontinued operations		9 596 679	3 574 438
NET SURPLUS/(DEFICIT) FOR THE YEAR		(6 294 754)	(2 996 973)

BUDGET COMPARISONS

Operational	2012 R (Actual)	2012 R (Budget)	2012 R (Variance)	2012 (%)
Revenue by source				
Property Rates	8 449 033	9 000 000	(550 967)	(6%)
Government Grants and Subsidies - Operating	26 848 646	25 983 558	865 088	3%
Government Grants and Subsidies - Capital	14 090 028	23 935 407	(9 845 379)	(41%)
Public Contributions and Donations	500	-	500	100%
Fines	249 957	255 000	(5 043)	(2%)
Service Charges	54 589 295	68 606 600	(14 017 305)	(20%)
Rental of Facilities and Equipment	1 700 239	1 592 400	107 838	7%

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Interest Earned - external investments	207 331	210 000	(2 669)	(1%)
Interest Earned - outstanding debtors	881 003	900 000	(18 997)	(2%)
Licences and Permits	2 188 842	2 124 000	64 842	3%
Agency Services	1 300 499	1 290 000	10 499	1%
Other Revenue	11 981 647	10 936 365	1 045 282	10%
Gain on disposal of Property, Plant & Equipment	42 320	90 000	(47 680)	(53%)
	122 529 340	144 923 330	(22 393 990)	(15%)
Expenditure by nature				
Employee Related Costs	41 074 516	41 242 610	(168 094)	(0%)
Remuneration of Councillors	2 575 860	2 700 500	(124 640)	(5%)
Debt Impairment	5 561 842	4 739 276	822 566	17%
Depreciation and Amortisation	14 936 127	-	14 936 127	100%
Impairments	226 211	-	226 211	100%
Finance Charges	2 229 001	688 320	1 540 681	224%
Bulk Purchases	36 725 368	34 500 000	2 225 368	6%
Other Expenditure	25 493 634	34 287 674	(8 794 040)	(26%)
	128 822 558	118 158 380	10 664 178	9%
Net Surplus for the year	(6 293 218)	26 764 950	(33 058 168)	(124%)

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5.2 GRANTS

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DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003								
Grant Description	Balance 1 JULY 2011	Correction of error	Restated balance 1 JULY 2011	Grants Received	Transfers	Operating Expenditure during the year Transferred to Revenue	Capital Expenditure during the year Transferred to Revenue	Balance 30 JUNE 2012
UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS								
	R	R	R	R	R	R	R	R
National Government Grants								
Equitable Share	-	-	-	20 224 000	-	20 224 000	-	-
Skills Development Grant	-	-	-	209 230	-	209 230	-	-
Finance Management Act.	(175 932)	-	(175 932)	1 500 000	-	1 568 734	174 942	(419 609)
MSIG Funds	-	-	-	790 000	-	866 178	-	(76 178)
MIG Funds	(420 022)	-	(420 022)	12 614 000	-	2 058 523	10 199 095	(63 640)
DME Electricity Reticulation Fund	(411 337)	-	(411 337)	3 000 000	-	177 368	1 266 912	1 144 383
Expanded Public Works Program	-	-	-	604 000	-	-	-	604 000
	(1 007 291)	-	(1 007 291)	38 941 230	-	25 104 033	11 640 949	1 188 957
Provincial Government Grants								
VUNA Awards	-	-	-	45 000	-	45 000	-	-
Spatial Development Plan	400 000	-	400 000	-	-	39 000	-	361 000
1218 Link Houses	271 617	-	271 617	-	-	-	-	271 617
78 Sites Services	(18 306)	-	(18 306)	-	18 306	-	-	-
78 Sites Survey	(50)	-	(50)	-	50	-	-	-
330 Houses	199 789	-	199 789	-	-	-	-	199 789
Area 5 Services	63 514	-	63 514	-	-	-	-	63 514
Hilton 89 Houses	25 102	-	25 102	-	(18 356)	-	-	6 746
Area 13 - Fund	254 064	-	254 064	-	-	-	-	254 064

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Aliwal Noord 100 Houses Fund	(251 439)	-	(251 439)	-	-	-	-	(251 439)
318 Houses Jamestown	373 367	-	373 367	-	-	-	-	373 367
Jamestown 858 Houses Planning	6 090	-	6 090	-	-	-	-	6 090
Jamestown 858 Houses	639 778	-	639 778	-	-	-	-	639 778
838 Wonings Fonds	690 403	-	690 403	-	-	-	-	690 403
DEAT - Upgrading of Spa	2 550 368	-	2 550 368	-	-	313 203	2 237 165	-
DEAT - Waste Recycling Project	1 951 166	-	1 951 166	-	-	148 876	165 593	1 636 697
Land Survey Management	467 500	-	467 500	-	-	-	-	467 500
LED Garden Project Jamestown	115 828	-	115 828	-	-	6 991	-	108 837
	7 738 792	-	7 738 792	45 000	-	553 070	2 402 759	4 827 963
<u>District Municipality Grants</u>								
LED	-	-	-	67 180	-	67 180	-	-
Ukhahlamba Library Equipment Fund	600 270	-	600 270	566 737	-	1 115 920	46 320	4 767
	600 270	-	600 270	633 917	-	1 183 100	46 320	4 767
<u>Other Grant Providers</u>								
Van Coller Grave	8 443	-	8 443	-	-	8 443	-	-
	8 443	-	8 443	-	-	8 443	-	-
Total	7 340 216	-	7 340 216	39 620 147	-	26 848 646	14 090 028	6 021 689

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5.3 ASSET MANAGEMENT

INTRODUCTION TO ASSET MANAGEMENT

Asset Management Policy in place has been approved by council and is implemented in conjunction with the supply chain management policy. The policy was drafted in accordance with the guidelines of the Municipal Finance Management Act as the statutory framework. It points out the fact that the principal objective of the policy is to enable the Municipality to meet its service delivery objectives efficiently and effectively. The responsibilities of the accounting officer with regards to assets are noted on the policy. The policy predominantly covers the following significant areas:

Outlines the definitions or terms used in the policy, Recognition of fixed assets, Asset management system, Roles and responsibilities in respect of asset management, Format of fixed asset register, Classification of fixed assets, Safekeeping of assets, Identification of fixed assets, Capitalisation criteria, Maintenance plans, Deferred maintenance, General maintenance of fixed assets, Depreciation of fixed assets, Rate of depreciation, Method of depreciation, Amendment of asset lives and diminution in the value of fixed assets, Alternative methods of depreciation in specific instances, Carrying values of fixed assets, Revaluation of fixed assets, Verification of fixed assets, Writing off of fixed assets, Replacement norms, Insurance of fixed assets, Biological assets, Procedure in case of loss, theft, destruction, or impairment of fixed assets, etc.

TREATMENT OF THE ASSET ACQUIRED

PROPERTY, PLANT AND EQUIPMENT

Initial Recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the entity, and the cost or fair value of the item can be measured reliably. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the

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necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the assets acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Subsequent Measurement – Cost Model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual depreciation rates are based on the estimated useful lives as determined in the policy.

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment charged to the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

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An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of impairment is recognised in the Statement of Financial Performance.

De-recognition

Items of property, plant and equipment are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Land and buildings and Other Assets – application of deemed cost (Directive 7)

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Land and Buildings the fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2008. For Other Assets the depreciation cost method was used to establish the deemed cost as on 1 July 2008.

Property, plant and equipment are accounted for according to the revised Generally Recognised Accounting Practice (GRAP 17) as issued by the Accounting Standards Board (ASB).

BORROWING COSTS AND CAPITAL GRANT FUNDING

Borrowing costs and other costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The amount of borrowing costs that the Municipality capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period. The Municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. Borrowing costs incurred other than on qualifying assets are recognised as an expense in the Statement of Financial Performance when incurred.

COMMENT ON ASSET MANAGEMENT:

Sauer Park Stadium, Joe Gqabi Bus Route and Area 13 Electrification were the only projects approved and completed in the period under review. The main purpose of these projects is to facilitate the provision of service delivery to the local community and enhance the standard of living in turn. The cost of projects have been capitalised as an asset on completion date. The projects are recorded at fair value (total project costs as per the certified work) at date of initial recognition and subsequently depreciated over their estimated useful lives as determined by the accounting policy. Prior to completion of the project, a work-in-progress (wip) asset is recognised as an accumulation of all direct project costs.

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Repairs and Maintenance Expenditure

COMMENT ON REPAIR AND MAINTENANCE EXPENDITURE:

Repairs and Maintenance is a mechanism in place to restore or maintain all assets in a condition that will maximize the economic benefits arising from the use of the affected assets. However, repair and maintenance costs are directly related to the age of the assets and the care thereon. Our assets are, in the majority, classified as old and therefore would require constant repairing. An amount of R5.45 million was incurred in the 2011/12 financial year compared to R3.903 million in the previous financial year. The major areas that were repaired during the year were Buildings, Vehicles & Implements as well as the Streets and Storm-water.

5.4 FINANCIAL RATIOS BASED ON KEY PERFORMANCE INDICATORS

Performance ratios		
Total Assets	299 802 019	292 226 533
Less current liabilities	(38 498 360)	(25 634 678)
Capital Employed	299 802 019	266 591 855
Surplus before interest charges (PBIT)	(15 891 432)	(6 571 411)
ROCE	0.05	0.02
Capital Employed/Surplus before interest charges (PBIT)		
this ratio measures the return or benefit earned on the capital employed by the entity.		
Debt and Gearing Ratios		

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Debt Ratio	0.21	0.17
Total Debt	57 094 008	45 500 325
Total Assets	299 802 019	292 226 533
Gearing ratio		
Gearing ratios measures the municipal level of indebtedness in relation to the value of assets required to generate economic benefits or cash inflows that will eventually payback the debts when they fall due. This is also referred to as a long term measure of liquidity.	0.03	0.02
Efficiency Ratios		
Debt Collection Period (in days)	85.48	99.39
Trade Receivables	14 401 641	14 801 390
Revenue from exchange transactions and property taxes	61 498 322	54 359 280
Days in a year	365	365
Payment Period (in days)	114.44	132.26
Trade Payables	11 515 132	11 135 883
Purchases	36 725 368	30 732 066
Days in a year	365	365

Net income	(6 294 754)	(2 996 973)
Revenue	102 831 919	99 384 151
Return on Sales	0.06	0.10
Revenue	102 831 919	99 384 151
Total Assets	299 802 019	292 226 533
Asset Turnover	0.34	0.34

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Asset Turnover measures how well the asset of the entity is being used to generate sales. Ability to use assets to provide a satisfactory service. A higher turnover means that Assets were used more effectively and much better in the current year than in the previous year. Revenue generated is influenced by the tariff rates applicable to the consumers. The degree of the indigent population within the municipality has a major contributing factor on the revenue generated from exchange and non-exchange transactions.

ROCE (Return on Sales x Asset Turnover)	0.04	0.03
Revenue from exchange transactions and taxes	61 498 322	54 359 280
	118 723 351.00	105 955 562.00
Expenditure for trading		
less non operating expenses	(65 247 595)	(59 963 965)
	53 538 098	42 740 985

Cash flow Ratio	0.71	4.74
Net annual cash inflow (Operations)	4 577 982	24 571 427
Total debts	6 413 951	5 181 406
Measures the municipal annual net cash inflows in relation to its total debts. Indicates the municipality's position to meet its foreseeable debts and future commitments from the cash generated by its operations.		

Liquidity Ratio

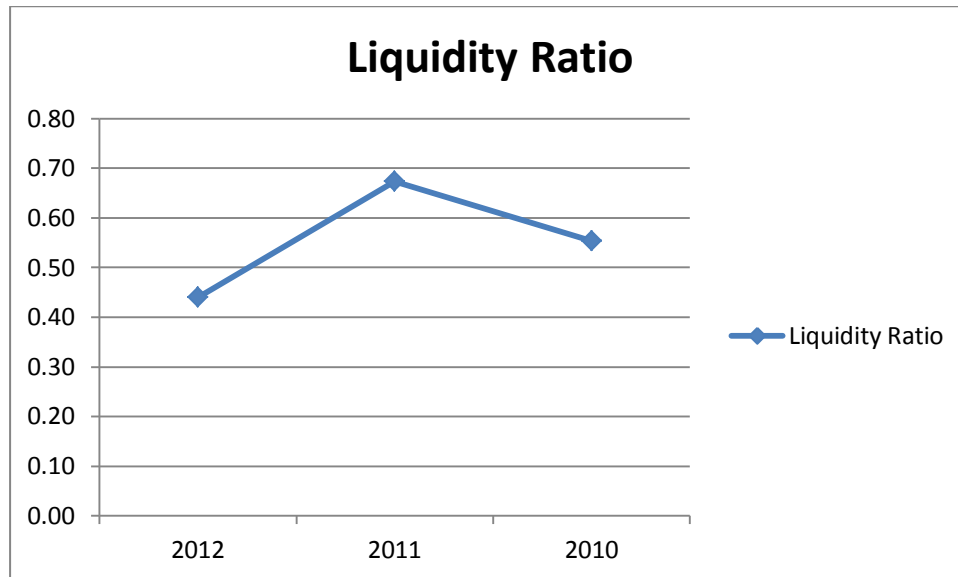
Liquidity is a reflection of the municipality's ability to meet its short-term obligations when they fall due. The municipality's ability to convert current assets into cash to meet the current liabilities that are convertible into cash within a period of twelve months or less from the end of the financial year is assessed by its liquidity ratios. These include current assets to current liabilities ratio which measures the extent to which total current assets can meet the corresponding total current liability.

This ratio was 1:0.44 as at 30 June 2012 indicating that there the value of total current assets at year end is not adequate to settle the total outstanding debts for the same period.

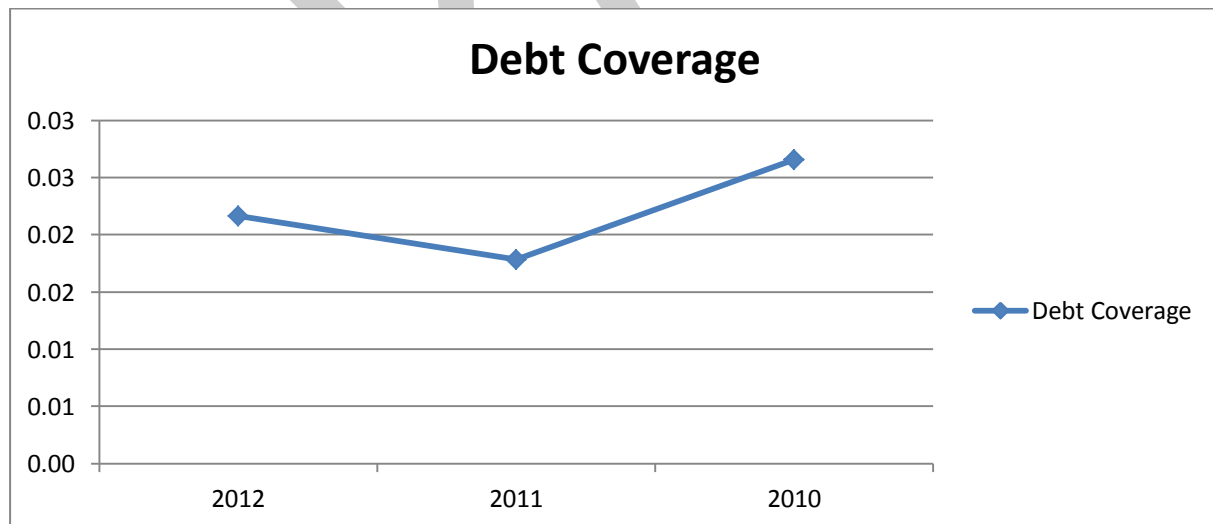
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This means that the total value of current assets could only pay up to 44% of the total value of current liabilities.

The other ratio that assesses the municipality's liquidity is the acid test ratio, which specifically excludes inventory as an asset that can be easily converted into cash. This ratio reflects that current assets to current liabilities is at 1:0.44, meaning that the total value of current assets at year end can only cover 44% of total current liabilities for the same period.

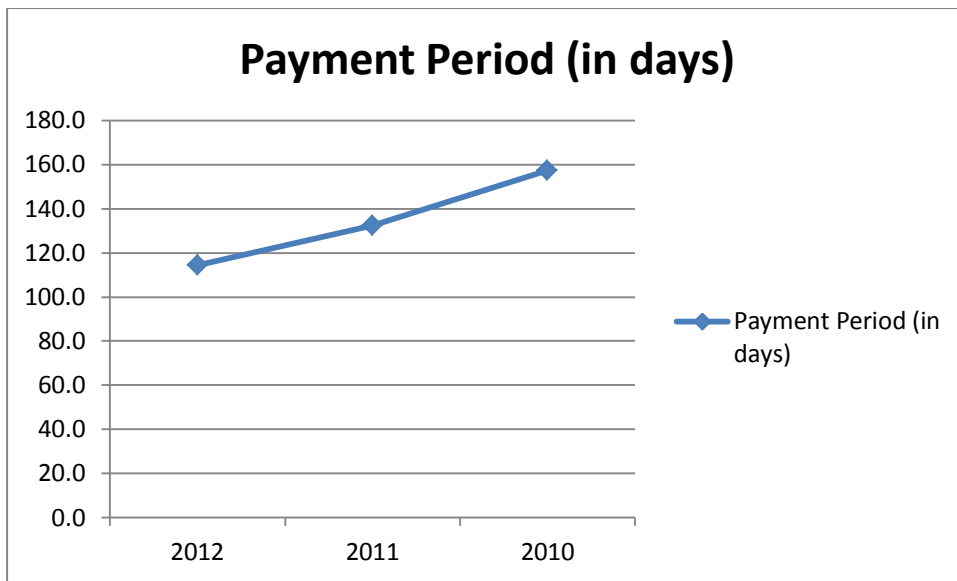


Measures the municipality's ability to pay its bills and is calculated by dividing the monetary assets by the municipality's current liabilities.

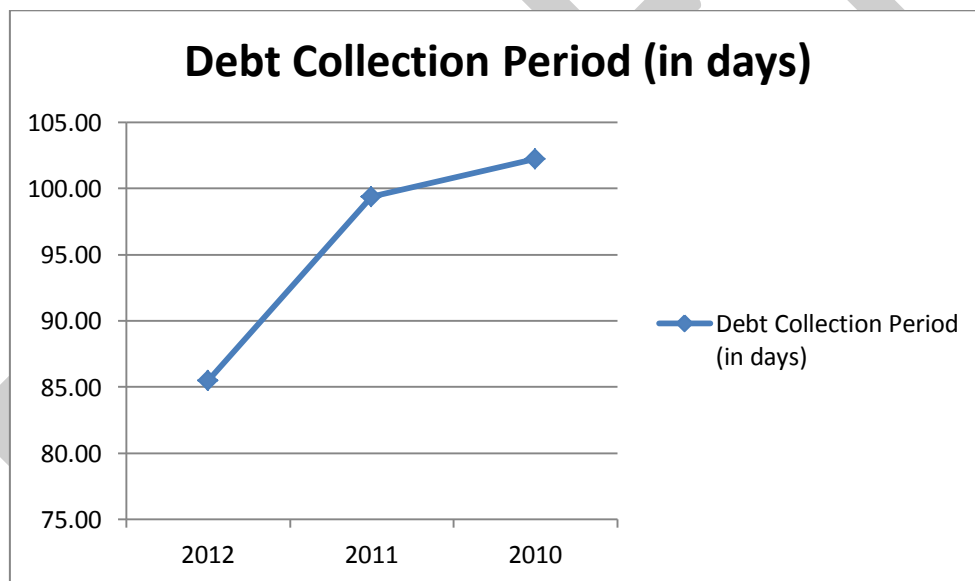


The number of times debt payments can be accommodated within operating (excluding grants). This in turn represents the ease with which debt payments can be accommodated by the municipality.

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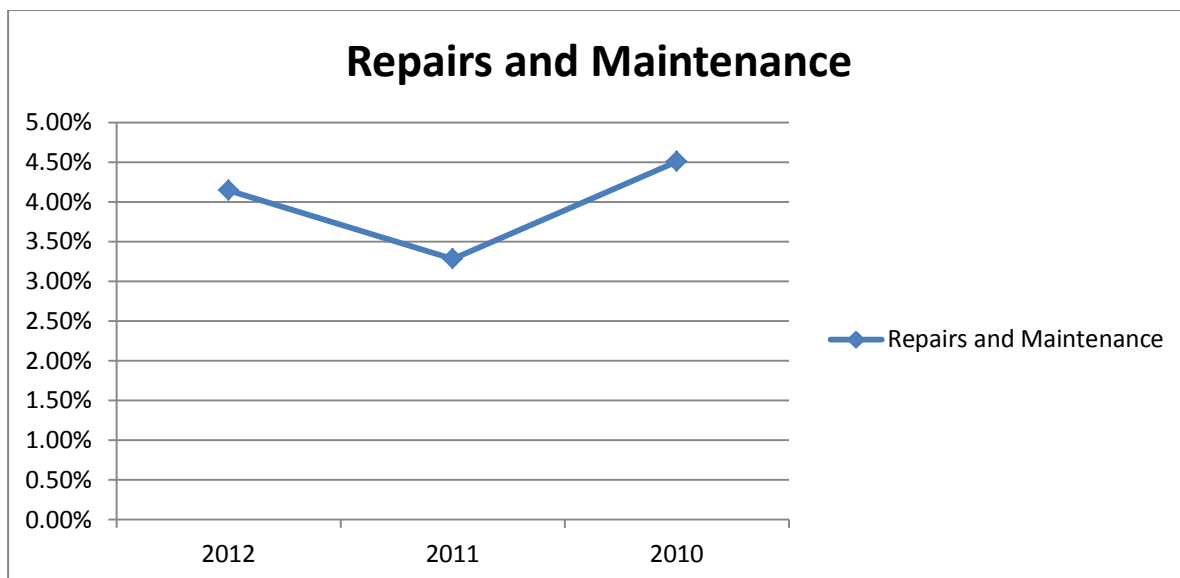


Creditor system efficiency – the proportion paid within terms (ie 30 days). this ratio is calculated by outstanding trade creditors divided by credit purchases.



Debtors' system efficiency – the proportion paid within terms (i.e. 30 days). This ratio is calculated by outstanding trade debtors divided by credit sales.

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

COMMENT ON FINANCIAL RATIOS:

Delete Directive note once comment is complete - Comment on the financial health of the municipality / municipal entities revealed by the financial ratios set out above. These ratios are derived from table SA8 of the MBRR.

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COMPONENT B: SPENDING AGAINST CAPITAL BUDGET

INTRODUCTION TO SPENDING AGAINST CAPITAL BUDGET

Equitable share

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

Health Subsidy

Health subsidy was used to fund primary health care services in the municipal area.

Finance Management Grant (FMG)

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

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Municipal Systems Improvement Grant (MSIG)

The MSIG was used for building in-house capacity to perform municipal functions and stabilise institutional and governance systems.

Municipal Infrastructure Grant (MIG)

The grant was used to construct roads and storm water infrastructure, with the main focus on the historically disadvantaged areas.

Housing Grants

Housing grants was utilised for the development of erven and the erection of top structures.

Integrated National Electrification Grant

The National Electrification Grant was used to upgrade the sub-station and electrification network.

Expanded Public Works Program (EPWP)

This program is aimed at providing poverty en income relief through the creation of temporary work opportunities.

Department of Environmental Affairs and Tourism (DEAT)

The grant is utilised to protect, conserve and enhance our environment, natural and heritage assets and resources.

Other Grants

Various grants were received from other spheres of government and includes for example the following: Spatial Development Framework, Skills Development Grant, UKhahlamba Library Equipment Fund etc.

Delete Directive note once comment's 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

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and renewal programmes), **N** (relating to the full programme of full capital projects, and **O** (relating to the alignment of projects to wards). T5.5.0

5.5 CAPITAL EXPENDITURE

	2012	2012	2012	2012
	R	R	R	
Capital expenditure by vote	(Actual)	(Budget)	(Variance)	(%)
Executive & Council	78 223	20 000	58 223	291%
Planning and Development	174 277	3 703 000	(3 528 723)	(95%)
Budget and Treasury	3 183 495	1 615 000	1 568 495	97%
Public Safety	8 500	100 000	(91 500)	(92%)
Road Transport	7 591 619	12 120 351	(4 528 732)	(37%)
Waste Management	561 229	2 720 000	(2 158 771)	(79%)
Sport and Recreation	5 701 127	9 658 777	(3 957 650)	(41%)
Community and Social Services	50 075	63 000	(12 925)	(21%)
Housing	6 098	5 000	1 098	22%
Electricity	1 250 522	3 706 580	(2 456 058)	(66%)
	18 605 165	33 711 708	(15 106 543)	(45%)

5.6 SOURCES OF FINANCE

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Equitable share			
Opening balance	-		-
Grants received	20 224 000		17 619 752
Conditions met - Operating	(20 224 000)		(17 619 752)
Conditions still to be met	-		-
The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.			
Health Subsidy			
Opening balance	-		-
Grants received	-		1 279 275
Conditions met - Operating	-		(1 279 275)
Conditions still to be met	-		-
Health subsidy was used to fund primary health care services in the municipal area.			
Finance Management Grant (FMG)			
Opening balance	(175 932)		39 041
Grants received	1 500 000		1 250 000
Transfers	-		111 687
Conditions met - Operating	(1 568 734)		(1 300 522)
Conditions met - Capital	(174 942)		(276 138)
Grant expenditure to be recovered	(419 609)		(175 932)
The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).			
Municipal Systems Improvement Grant (MSIG)			

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Opening balance	-	-
Grants received	790 000	750 000
Transfers	-	(111 687)
Conditions met - Operating	(866 178)	(638 313)
Grant expenditure to be recovered	(76 178)	-
The MSIG was used for building in-house capacity to perform municipal functions and stabilise institutional and governance systems.		
	2012	2011
	R	R
Municipal Infrastructure Grant (MIG)		
Opening balance	(420 022)	(331 777)
Grants received	12 614 000	10 487 000
Conditions met - Operating	(2 058 523)	-
Conditions met - Capital	(10 199 095)	(10 575 245)
Grant expenditure to be recovered	(63 640)	(420 022)
The grant was used to construct roads and storm water infrastructure, with the main focus on the historically disadvantaged areas.		
Housing Grants		
Opening balance	2 253 929	2 257 329
Conditions met - Operating	-	(3 400)
Conditions still to be met	2 253 929	2 253 929
Housing grants was utilised for the development of erven and the erection of top structures.		
Integrated National Electrification Grant		
Opening balance	(411 336)	(1 274 258)
Grants received	3 000 000	10 000 000
Conditions met - Operating	(177 368)	-

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Conditions met - Capital	(1 266 912)	(9 137 079)
Conditions still to be met/(Grant expenditure to be recovered)	1 144 384	(411 336)
The National Electrification Grant was used to upgrade the sub-station and electrification network.		
Expanded Public Works Program (EPWP)		
Opening balance	-	-
Grants received	604 000	-
Conditions still to be met	604 000	-
This program is aimed at providing poverty en income relief through the creation of temporary work opportunities.		
Department of Environmental Affairs and Tourism (DEAT)		
Opening balance	4 501 535	-
Grants received	-	6 905 035
Conditions met - Operating	(462 079)	(48 834)
Conditions met - Capital	(2 402 759)	(2 354 667)
Conditions still to be met	1 636 697	4 501 535
The grant is utilised to protect, conserve and enhance our environment, natural and heritage assets and resources.		
Other Grants		
Opening balance	1 592 041	1 138 170
Grants received	888 147	1 600 846
Conditions met - Operating	(1 491 765)	(1 086 975)
Conditions met - Capital	(46 320)	(60 000)
Conditions still to be met	942 103	1 592 041

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Various grants were received from other spheres of government and includes for example the following:
Spatial Development Framework, Skills Development Grant, Ukhahlamba Library Equipment Fund etc.

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5.7 CAPITAL SPENDING ON 5 LARGEST PROJECTS

	Civic Land and Buildings	Recycling Plant	Sportsfields	Investment Properties	Roads	Electricity Reticulation	Street Lighting
Planning and Development		R 165 593.38					
Budget and Treasury	R 269 300.47						
Road Transport					R 7 485 906.93		
Waste Management	R 310 678.46						
Sport and Recreation			R 3 452 535.60	R 2 237 165.23			
Electricity						R 818 919.75	R 373 290.98

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	R 579 978.93	R 165 593.38	R 3 452 535.60	R 2 237 165.23	R 7 485 906.93	
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5.8 BASIC SERVICE AND INFRASTRUCTURE BACKLOGS – OVERVIEW

Major challenges in water services and remedial actions

The Challenges that are faced by the Maletswai Municipality in Aliwal North are as follows; the old infrastructure prohibits the Municipality from growing as a results it affects the economic development of Aliwal North. In terms of the red book design standards the minimum clean water storage capacity of at least 48 hours is recommended. The current storage capacity of clean water reservoirs is about 8 hours which is way below recommended standards. Every time when major repairs are done to water treatment works interruptions of water supply is an inevitable exercise. Jamestown Water: The water chemical plant and 1mg/l storage reservoir is now functioning. Some houses in the 858 scheme are still without water connections. The complete water service is now the responsibility of Joe Gqabi District Municipality.

Major challenges in electricity and remedial actions

The major problems regarding electricity are the infrastructure upgrading and high replacements costs. The transformers services have never been done in many years, and as a result it makes the continuous supply of electricity to be unpredictable. The old underground cables must immediately be replaced because they are small and cannot cope with the increased consumer's demands.

Major challenges in sanitation services and remedial actions

Aliwal North Sanitation: in this area we experience sewer spillages in the main streets due to small size pipes. The problematic areas are well known that the ultimate solution could only be upgrading of pipe lines. The influx of people to Aliwal North contributes to growth of town and usage in sanitation services. Several areas requiring urgent attention were reported to Joe Gqabi DM regarding the upgrading of sewer system in Aliwal North. Contractor to upgrade sewer line adjacent to the river in Dukathole was appointed during the 2012/13 financial year by the Joe Gqabi DM.

Jamestown sewer: The Joe Gqabi District Municipality implemented a project destined to be full water borne sewer system. A contractor will be appointed in the 2012/13 financial year.

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Major challenges in road maintenance services and remedial actions

Major challenges are regarding funding to upgrade from gravel roads to surfaced roads. The maintenance of potholes and crocodile cracking with limited funding is also a major challenge.

Major challenges in waste management services and remedial action

The major challenges in waste management are the following:

- Damaged incinerator at the landfill site makes it impractical to burn waste in line with the permit.
- Sickly staff that are frequently booked off duty.

Major challenges in housing and town planning services and remedial actions

- Shortage of land
- Informal settlements
- Back yard dwelling
- Lack of capacity of appointed developers

Town Planning Consultants have been appointed; the spatial development framework plan is adopted by Council and has already been reviewed once. Remedial actions are done on a need as we go basis in between the bi-annual reviews.

Major challenges in spatial planning services and remedial actions

- Shortage of land for development
- Low capacity infrastructure

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COMPONENT C: CASH FLOW MANAGEMENT AND INVESTMENTS

INTRODUCTION TO CASH FLOW MANAGEMENT AND INVESTMENTS

Cash Flow Management

Liquidity, which is sometimes referred to as cash flow, is a reflection of the municipality's ability to meet its short-term obligations when they fall due. The municipality's ability to honor its current obligations is determined by its cash reserves (cash flow) and the duration required converting current assets into cash within a cycle of twelve months or less from the end of the financial year. These include current assets to current liabilities ratio which measures the extent to which total current assets can meet the corresponding total current liability.

This municipal current ratio of 1:0.44 as at 30 June 2012 indicates that the value of total current assets at year end is not adequate to settle the total outstanding debts for the same period. This means that the total value of current assets could only pay up to 44% of the total value of current liabilities.

The other ratio (acid test ratio), that assesses the municipality's liquidity which specifically excludes inventory as an asset that can be easily converted into cash, reflects that current assets to current liabilities is at 1:0.43, meaning that the total value of current assets at year end can only cover 43% of total current liabilities for the same period.

The cash inflows and outflows are monitored on a daily basis to ensure that there are adequate reserves or cash to meet the daily operational requirements.

5.9 CASH FLOWS

MALETSWAI LOCAL MUNICIPALITY

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

	Notes	30 JUNE 2012 (Actual) R	30 JUNE 2011 (Restated) R
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts			
Ratepayers and other		70 112 409	69 254 388
Government		39 620 147	49 891 909
Interest		1 088 333	1 146 952
Payments			
Suppliers		(69 528 014)	(61 564 805)
Employees		(35 522 402)	(33 498 718)

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Finance charges	33	(1 063 036)	(531 839)
Cash generated by operations	38	4 707 438	24 697 886
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	10.1	(13 463 102)	(18 763 195)
Purchase of Investment property	11	(2 237 165)	(2 065 603)
Proceeds on Disposal of Fixed Assets		75 603	62 522
Increase in Intangible Assets		(35 202)	(241 054)
Increase in Non-current Investments	13	(37 878)	(46 432)
Net Cash from Investing Activities		(15 697 744)	(21 053 762)
CASH FLOW FROM FINANCING ACTIVITIES			
Loans repaid		(1 540 127)	(982 013)
Increase in Consumer Deposits		75 275	44 809
Net Cash from Financing Activities		(1 464 852)	(937 204)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		(12 455 158)	2 706 920
Cash and Cash Equivalents at the beginning of the year		(98 586)	(2 805 506)
Cash and Cash Equivalents at the end of the year	40	(12 553 743)	(98 586)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		(12 455 158)	2 706 920

Refer to note 39 for further detail regarding the restatement of comparative figures

Cash flow Ratios

Cash flow Ratio	0.08	0.54
Net annual cash inflow (Operations)	4 707 438	24 697 886
Total debts	57 094 008	45 500 325
Measures the municipal annual net cash inflows in relation to its total debts. Indicates the municipality's position to meet its foreseeable debts and future commitments from the cash generated by its operations.		

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5.10 BORROWING AND INVESTMENTS

INTRODUCTION TO BORROWING AND INVESTMENTS

Borrowing serves as the finance bridge on any shortfall on which the municipality is funded for by either any sphere of government and is not able to generate the funds from its internal sources. Council makes use of the bank facility with ABSA to fund the purchase of capital assets as well as DBSA. There are no other loan facilities exercised by the municipality.

Debt Ratio	0.19	0.16
Total Debt	57 094 008	45 500 325
Total Assets	299 802 019	292 226 533
Gearing ratio		
Gearing ratios measures the municipal level of indebtedness in relation to the value of assets required to generate economic benefits or cash inflows that will eventually payback the debts when they fall due. This is also referred to as a long term measure of liquidity.	0.03	0.02

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EXTERNAL LOANS	Rate	Loan Number	Redeemable	Balance at 30 JUNE 2011	Received during the period	Redeemed written off during the period	Balance at 30 JUNE 2012
ANNUITY LOANS							
DBSA	5.00%	102312 Maletswai Roads Network (TIP)	30/09/2027	4 518 562	-	181 256	4 337 306
Total Annuity Loans				4 518 562	-	181 256	4 337 306
HIRE PURCHASES							
ABSA (Telephone system)	10.00%	70836411	15/05/2011	-	403 995	68 674	335 320
ABSA (Mercedes Refuse Truck)	9.03%	73442180	15/01/2012	166 573	-	166 573	-
ABSA (TATA Truck)	10.00%	81205030	05/08/2016	460 486	-	66 579	393 907
ABSA (Isuzu KB2001 LWB)	10.00%	80693198	15/02/2016	138 739	-	24 532	114 207
ABSA (2011 Rear Tipping Trailor)	10.00%	80693759	15/02/2016	72 687	-	12 852	59 834
ABSA (2010 Vibrating Roller)	10.00%	80693899	15/02/2016	130 110	-	23 006	107 104
ABSA (Isuzu KB2001 Fleetside)	10.00%	80698530	15/02/2016	176 762	-	31 255	145 507
ABSA (Sonalinka Tractor)	10.00%	80701808	15/02/2016	198 953	-	35 179	163 774
ABSA (Mazda CX 7)	10.00%	80993701	01/05/2016	353 726	-	58 568	295 158
Total Hire Purchases				1 698 036	403 995	487 220	1 614 811
LEASE LIABILITY							
ITEC Rental	21.20%		01/11/2012	772 535	-	558 663	213 873

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NRG Rental	16.67%		30/06/2016	-	2 239 490	312 987	1 926 503
Total Lease Liabilities				772 535	2 239 490	871 650	2 140 375
TOTAL EXTERNAL LOANS				6 989 133	2 643 485	1 540 126	8 092 492

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Cash and Cash Equivalents

Call Investments Deposits	106 812	535 782
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COMMENT ON BORROWING AND INVESTMENTS:

Delete Directive note once comment is complete – Make clarifying comments on the above tables as necessary. All investments whether in the form of loans (in cash or kind) made by the municipality but not to one or more of the organisations set out above and all grants (in cash or kind) made to any form of organisation **must** be set out in full at **Appendix R**.

Due to the fact that the municipality is not funded by shareholders or investors but by public funds through government grants and subsidy, accumulated surplus will therefore be regarded as employment of capital, augmented by external funding from DBSA and commercial institutions, required to meet operational requirements. As indicated by a low ratio of 3% for both years, the municipality is not heavily indebted and is therefore not at risk of failure to obtain further external funding should a need arise in the near future

5.11 PUBLIC PRIVATE PARTNERSHIPS

Maletswai Municipality does not have any public-private partnership agreements in place during the year under review.

COMPONENT D: OTHER FINANCIAL MATTERS

5.12 SUPPLY CHAIN MANAGEMENT

SUPPLY CHAIN MANAGEMENT

The municipality has developed a supply chain management policy that conforms to the requirements or guidelines of the National Treasury Regulations. The policy was revised and implemented in December 2011 after taking into consideration the changes on the revised regulations and published circulars. Although the policy was work-shopped to all councillors and management staff, the full implementation thereon remains a challenge. Due to the municipal geographical situation, which is on the far northern end of the Eastern Cape with low economic activity, significant procurement from local suppliers is always a challenge. The local suppliers and contractors are often out of stock and resources to deliver the orders requested by the municipality.

All committee membership recommended by the policy is in place and none of the councillors serves in any of the committees. Management has embarked on a drive to capacitate its staff by enrolling all qualifying staff members on accredited courses. The municipality has submitted a "Special Merit Case" application to National Treasury for extension of the competency deadline to July 2014. The auditor's remarks on the supply

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chain management are contained in the audit report; however the significant finding was in relation to irregular expenditure incurred due to non-compliance with the policy. An audit action has been developed on how to address these findings.

5.13 GRAP COMPLIANCE

GRAP COMPLIANCE

GRAP is the acronym for **G**enerally **R**ecognised **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.

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

The annual financial statements have been prepared in accordance with the Municipal Finance Management Act (MFMA) and effective standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, have been developed in accordance with paragraphs 8,10 and 11 of GRAP 3 (Revised – February 2010) and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

The audit report for 2011/12 financial year indicates that there were deviations from the accounting standards of GRAP in the preparation of the annual financial statements. These deviations resulted in a qualified audit opinion and management has developed audit action plans to address the root cause of the weaknesses identified.