

**CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)
ORDINARY COUNCIL MEETING**

2018.01.25

A-F (04-2018)

EAST RAND WATER CARE COMPANY (ERWAT): SUBMISSION OF ANNUAL REPORT INCLUSIVE OF ANNUAL FINANCIAL STATEMENTS AND REPORT OF THE AUDITOR GENERAL FOR THE 2016/2017 FINANCIAL YEAR

PURPOSE

To submit to council the East Rand Water Care Company(ERWAT): Annual Report, inclusive of the Annual Financial Statements and the Report of the Auditor-General, for the 2016/2017 financial year to Council.

STRATEGIC OBJECTIVE

Promoting good governance

WARDS AFFECTED

All wards

IDP LINKAGE

Clean Audit

EXECUTIVE SUMMARY

The Annual Financial Statements for the 2016/2017 financial year has been prepared in accordance with Section 126 of the Municipal Finance Management Act and the Annual Report for the 2016/2017 financial year in terms of Section 127 of the Municipal Finance Management Act.

Section 127 requires that the annual report must be submitted to Council within seven months after the end of the financial year (January of each year).

ERWAT has completed both the financial statements as well as the annual report within the legislative deadlines. The municipal entities have also complied with all various legislative deadlines.

The external audit has been completed and the required amendments were made to the financial statements. The Auditor General has issued his reports on the various sets of financial statements during December 2017 (EMM and Entities) and December 2017 (Consolidated). The audit outcomes were as follows:

ERWAT **Unqualified**

The final annual report with the annual financial statements and report of the Auditor General must now be approved by Council. The report should then be referred to the Municipal Public Accounts Committee (MPAC) to perform the oversight function and their report must be submitted to Council before the end of March 2018 as required

**CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)
ORDINARY COUNCIL MEETING**

2018.01.25

A-F (04-2018)

by section 129 of the MFMA. This report must include a statement whether the council –

- Has approved the annual report with or without reservations
- Has rejected the annual report; or
- Has referred the annual report back for revision of those components that can be revised.

The annual financial statements disclosed irregular, fruitless and wasteful expenditure that incurred during the 2016/2017 financial year and as such section 32 of the MFMA must be followed. The council committee referred to in section 32 of the MFMA that will investigate the irregular, fruitless and wasteful expenditure is the MPAC committee. The committee must in their report back to Council in March 2018, include recommendations regarding whether the expenditure must be –

- Recovered from the employees / service providers where it is found that the irregular, fruitless and wasteful expenditure was incurred deliberately and negligently
- Authorized in an adjustments budget (not applicable in the reported expenditure as there were no un-authorized expenditure resulting from budget overspending)
- Certified as irrecoverable and written off by Council

This item is giving an overview of the financial results of the financial year, the organizational performance results and explains the report of the Auditor General. The discussion in the report deals with the results of the municipality only and the reports of the municipal entities are attached as annexures to this report.

This submission also include a request to Council of ratification of Final Year End Transactions on the Compilation of the 2016 /2017 Financial Statements as required by the Generally Recognised Accounting Practices (GRAP).

The following Annexures are attached to this submission:

Annexure A Annual Report
Annexure B Audited Financial Statements
Annexure C Auditor General's Report

Separate reports have been submitted dealing with the municipal entities. These reports are contained in the same Council agenda.

DISCUSSION

SECTION A: ORGANISATIONAL PERFORMANCE AS CONTAINED IN THE ANNUAL REPORT

The full analysis of the municipality performance against Service Delivery Budget Implementation Plan for the 2016/17 Annual Report is contained in the Annual Report submitted or attached (Annexure A).

**CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)
ORDINARY COUNCIL MEETING**

2018.01.25

A-F (04-2018)

**SECTION B: FINANCIAL PERFORMANCE AS CONTAINED IN THE ANNUAL
FINANCIAL STATEMENTS OF ERWAT**

***Note:** The figures explained in this section relate to the ERWAT financial statements and not consolidated. In the attached consolidated financial statements, two columns are provided, one for the economic entity and one for the controlling entity. The economic entity refers to the ERWAT entity only.*

The Financial Performance of the municipality is explained for the 3 main financial statements, being the Statement of Financial Performance, the Statement of Financial Position and the Cash Flow Statement.

**CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)
ORDINARY COUNCIL MEETING**

2018.01.25

A-F (04-2018)

Statement of Financial Performance

5.1 STATEMENT OF FINANCIAL PERFORMANCE

		Financial Summary					R'000	
Description	Ref	2014/15	2015/16	Current year 2016/17			Year 2016/17 Variance	
		Actual	Actual	Original Budget	Adjusted Budget	Actual	Original Budget	Adjustments Budget
R thousands								%
Revenue By Source		1						
Service charges - sanitation revenue		525 601	575 533	645 216	645 216	645 216	100%	100%
Interest earned - external investments		4 536	13 048	1 960	1 960	16 312	832%	832%
Dividends received		91	150	80	80	555	693%	693%
Other revenue		138 380	200 077	173 808	173 808	250 363	144%	144%
Total Revenue (excluding capital transfers and contributions)		668 608	788 808	821 064	821 064	912 446	111%	111%
Expenditure By Type								
Employee related costs		209 384	227 993	279 644	279 644	257 302	92%	92%
Remuneration of Directors		1 622	2 562	2 858	2 858	2 710	95%	95%
Debt impairment		1 502	293	56	56	1 274	2283%	2283%
Depreciation & asset impairment		32 561	50 514	38 832	38 832	64 681	167%	167%
Finance charges		23 265	54 491	51 055	51 055	66 605	130%	130%
Bulk purchases	2	143 285	161 483	195 937	195 937	194 282	99%	99%
Other expenditure		148 660	176 221	202 682	202 682	176 092	87%	87%
Total Expenditure	3	560 280	673 556	771 064	771 064	762 946	99%	99%
Surplus/(Deficit)		108 328	115 252	50 000	50 000	149 500	299%	299.0%
Transfers recognised - capital		(50 000)	(50 000)	(50 000)	(50 000)	(50 000)	100%	100%
Surplus/(Deficit) before taxation		58 328	65 252	0	0	99 500		
Taxation								
Surplus/(Deficit) for the year		58 328	65 252	0	0	99 500	-	-
Capital Expenditure & funds sources	4, 6							
Capital Expenditure		308 581	242 343	336 206	336 206	288 427	86%	86%
Funded by:								
National Government		50 000	50 000	50 000	50 000	50 000	100%	100%
Transfers recognised - capital		50 000	50 000	50 000	50 000	50 000	100%	100%
To be determined				182 397	182 397			
Borrowing	1	128 786	51 996	-	-	236 333		
Internally generated funds		129 796	140 347	103 809	103 809	2 094	2%	2%
Total Capital Funding		308 581	242 343	336 206	336 206	288 427	86%	86%
Financial Position								
Total current assets		195 673	418 174	(186 151)	(186 151)	308 291	-166%	-166%
Total non current assets		1 541 838	1 733 935	2 244 143	2 244 143	1 956 641	87%	87%
Total current liabilities		86 708	174 197	107 896	107 896	181 631	168%	168%
Total non current liabilities		422 945	628 392	643 103	643 103	584 282	91%	91%
Equity		1 227 858	1 349 519	1 306 993	1 306 993	1 499 019	115%	115%
Cash flows								
Net cash from (used) operating		80 461	232 171	111 170	111 170	169 021	152%	152%
Net cash from (used) investing		(307 813)	(241 032)	(336 206)	(336 206)	(288 327)	86%	86%
Net cash from (used) financing		300 803	226 949	74 232	74 232	(28 266)	-38%	-38%
Cash/cash equivalents at the year end		87 265	305 353	154 550	154 550	157 782	102%	102%

Repair and Maintenance Expenditure: Year 2016/17				
R'000				
	Original budget	Adjustment budget	Actual	Budget variance
Repairs and maintenance expenditure	120 682	120 682	98 470	-18%

**CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)
ORDINARY COUNCIL MEETING**

2018.01.25

A-F (04-2018)

5.2 GRANTS

The parent municipality, The City Of Ekurhuleni (CoE) Metropolitan Municipality allocates a portion of the infrastructure grants that they receive toward bulk sanitation services. This amounted to R50m in the 2016/17 financial year.

COMPONENT B: - SPENDING AGAINST CAPITAL BUDGET

5.3 CAPITAL EXPENDITURE

Capital Expenditure for the year amounted to R288,4m which is 85.78% of the budget of R336,2m.

Total Capital Expenditure: Year 2014/2015 to Year 2016/2017	2014/2015	2015/2016	2016/2017
Original Budget	R396,7m	R397,4m	R336,2m
Adjustment Budget	R396,7m	R397,4m	R336,2m
Actual	R308,6m	R242,3m	R288,4m
% Capital Spent based on Original Budget	77,79%	60,97%	85,78%
% Capital Spent based on Adjustment Budget	77,79%	60,97%	85,78%

5.4 CAPITAL SPENDING ON LARGEST PROJECTS

Name of Project	Capital Expenditure of Largest Projects			Variance: Current Year	
	Original Budget	Revised Budget	Actual Expenditure	Original Budget Variance %	Revised Variance %
	A) -Hartebeestfontein 12ML/day Upgrade	1 500 000	5 844 786	4 706 870	314%
B) -Vlakplaats Emergency Dam and related works	30 000 000	26 000 000	10 131 912	34%	39%
C) -Welgedacht 50 ML/day	8 000 000	32 000 000	37 409 949	468%	117%
D) -Tsakane	3 000 000	11 656 692	12 934 161	431%	111%

1.1. Hartebeestfontein Capacity Upgrade (5 MI/day)

The budget for the financial year 2016/17 of R1 500 000 was revised to R5 844 786 to cater for the installation of a new mini substation due to insufficient power at the plant. A total of R4 706 870 have been spent on this project as at 30 June 2017.

1.2. Vlakplaats Emergency Dam and Related Works

The project awarded to Maziya General Services and award letter sent to the contractor on 11 August 2016. Work on going. Update as below:

**CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)
ORDINARY COUNCIL MEETING**

2018.01.25

A-F (04-2018)

Below is the summary of the contract;

Contractor	: Maziya General Services
Contract Amount	: R 73 727 410
Total Contract Amount Claimed	: R 10 131 912
2016/2017 budget	: R 30 000 000 (Revised to R26 000 000)
Project duration	: 27 Months
Commencement date	: 30 August 2016
Contractual completion date	: 29 November 2018
Percentage complete 2016/2017	: 39%
Total Project Completed	: 39%

1.3. Welgedacht 50MI/day Upgrade

The budget for the financial year 2016/17 of R8 000 0000 was revised to R32 000 000. The extra R24 000 000 required was moved from Vlakplaats Emergency Dam and Related Works (R4 000 000) and Intergrated Sludge Beneficiation Plant (R20 000 000). A total of R37 409 948 have been spent on this project as at 30 June 2017.

1.4. Tsakane Capacity Upgrade (10 MI/day)

The project has experienced serious setbacks on civil, mechanical and electrical works. This has since been resolved and there have been extensive progress as at 30 June 2017.

COMPONENT C: CASH FLOW AND INVESTMENTS

5.5 CASH FLOW

**CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)
ORDINARY COUNCIL MEETING**

2018.01.25

A-F (04-2018)

Cash Flow Outcomes					R'000
Description	2014/15	2015/16	Current year 2016/17		
	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	YearTD actual
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts					
Ratepayers and other	563 158	720 933	769 024	769 024	806 222
Government - capital	50 000	50 000	50 000	50 000	50 000
Interest	4 536	13 048	1 960	1 960	16 312
Dividends	91	150	80	80	555
Payments					
Suppliers and employees	(514 297)	(497 469)	(658 839)	(658 839)	(637 717)
Finance charges	(23 028)	(54 491)	(51 055)	(51 055)	(66 350)
NET CASH FROM/(USED) OPERATING ACTIVITIES	80 461	232 171	111 170	111 170	169 022
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments					
Capital assets	(307 813)	(241 032)	(336 206)	(336 206)	(288 327)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(307 813)	(241 032)	(336 206)	(336 206)	(288 327)
CASH FLOWS FROM FINANCING ACTIVITIES					
Receipts					
Borrowing long term/refinancing	300 803	226 949	169 232	169 232	(28 266)
Payments					
Repayment of borrowing					
NET CASH FROM/(USED) FINANCING ACTIVITIES	300 803	226 949	169 232	169 232	(28 266)
NET INCREASE/ (DECREASE) IN CASH HELD	73 451	218 088	(55 804)	(55 804)	(147 572)
Cash/cash equivalents at the year begin:	13 814	87 265	305 353	305 353	305 353
Cash/cash equivalents at the year end:	87 265	305 353	249 549	249 549	157 781

5.6 BORROWING AND INVESTMENTS

ERWAT has long-term loans from DBSA, INCA and Nedbank. The loans are used specifically to fund long-term infrastructure projects such as the extension of existing plants and construction of new plants.

ERWAT has a bank account with ABSA and a limited number of shares in Sanlam and Old Mutual which was received through the demutualisation process.

SECTION C: REPORT OF THE AUDITOR GENERAL

The full detailed Auditor General report of the entity for the 2016/17 year is attached as - **Annexure C**.

ORGANISATIONAL AND HUMAN RESOURCE IMPLICATIONS

None

**CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)
ORDINARY COUNCIL MEETING**

2018.01.25

A-F (04-2018)

FINANCIAL IMPLICATIONS

None

LEGAL IMPLICATIONS

None

COMMUNICATION IMPLICATION

None

OTHER DEPARTMENTS/ BODIES CONSULTED

The Finance Management Team was consulted and the recommendations are supported. HOD's commented on matters raised by the Auditor General in respect of matters under their area of responsibility.

RECOMMENDATION

1. **That** the Annual Report, inclusive of the Annual Financial Statements and the Report of the Auditor-General for the 2016/2017 financial year, **BE NOTED**.
2. **That** the report, inclusive of the reports of the Municipal Entities, **BE REFERRED** to the Municipal Public Accounts Committee (MPAC) and Water and Energy S79 Oversight Committee for the oversight process as contemplated in section 129 of the Municipal Finance Management Act.
3. **That** all instances of Irregular, Fruitless and Wasteful Expenditure as reported in the Annual Financial Statements, inclusive of the reports of the Municipal Entities, **BE REFERRED** to the Municipal Public Accounts Committee (MPAC) for investigation as contemplated in section 32 of the Municipal Finance Management Act.
4. **That** the Municipal Public Accounts Committee **REPORT BACK** to Council by no later than end March 2018 as required by sections 32 and 129 of the Municipal Finance Management Act.
5. **That** the final year end transactions for the compilation of the financial statements as described in the report, **BE APPROVED**.
6. **That** the municipal entity's Annual Report, inclusive of the Annual Financial Statements and the Report of the Auditor-General for the 2016/2017 financial year, **BE APPROVED**.