

FS1 of 2018

MONTHLY FINANCE REPORT – JANUARY 2018 (CFO) (6/12/2/1)

PURPOSE

To submit to the Section 80 Finance Committee the Monthly Finance Report for January 2018 in terms of Section 71 of the Municipal Finance Management Act, number 56 of 2003.

BACKGROUND

Section 71 of the Municipal Finance Management Act no 56 of 2003 states that the Accounting Officer must submit to the Executive Mayor a statement in a prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:

- 1) Actual revenue per revenue source
- 2) Actual borrowings
- 3) Actual expenditure per vote
- 4) Actual capital expenditure per vote
- 5) The amount of any allocations received
- 6) Actual expenditure on allocations received

The compilation of the Section 71 report is as follows:

1. After the billing cycle the Income Department compile the income reports which consist of the following and submit to the Budget Department:
 - Billing and Income per month
 - Top Outstanding debtors for the month
 - Income per ward
 - Debtors age analysis per service
2. After month end the ICT Department runs all the month end reports.
3. The Budget Department then extracts the required income and expenditure information from Solar. This is done with the GS 560 procedures. This report shows the transactions for the month VAT EXCLUSIVE.
4. The Expenditure Department provides the Budget Department with the creditor's age analysis and the top 20 outstanding creditors.
5. The Costing Section provides the Budget Department with the employee related reports and the overtime per department.
6. The Section 71 report is then compiled with all the information received from other sections and extracted from the Solar System.

DISCUSSIONS

*** The finance report for January 2018 is attached on 1 to 14 of the Annexures.

FINANCIAL IMPLICATIONS

TABLE 1	Actual For the Month (January 2018)	For Year to date (2017/2018)
All Grants Received	-	404 221 000
Actual Revenue Received	81 020 758	608 793 893
Actual Expenditure	104 538 267	1 000 787 862
Salaries	59 357 851	397 901 948
Water	15 000 000	158 859 649
Electricity	733 679	77 321 788
Other Expenditure	29 446 737	366 704 477
Sub-Total	-23 517 509	12 227 031
Loan Redemptions	-	-
Net Surplus/(Deficit) before Capital payments	-23 517 509	12 227 031
MIG Payments	1 119 840	68 939 385
INEG Payments	-	882 659
WSIG Payments	-	2 198 641
Capital Assets procured - Equitable Share	13 011	2 611 131
Fleet & Equipment	-	27 300
Office convention/ Furniture	13 011	2 583 831
Net Surplus/(Deficit) after Capital payments	-24 650 360	

Table 1: The municipality had a deficit of R24 650 360 for the month of January after capital payments, This deficit indicates that the expenditure incurred is more than the revenue received for month.

TABLE 2	Actual For the Month (January 2018)	For Year to date (2017/2018)
Total Billings	147 028 476	1 038 752 960
Less: Indigent Billings	3 411 328	24 181 522
Actual Billings	143 617 148	1 014 571 438
Actual Revenue Received	79 821 276	585 309 702
Consumer Revenue	73 379 043	529 410 381
Other	6 442 233	55 899 321
Grants & Subsidies	-	404 221 000

Pay rate for January 2018 (Total Billings)	56%
Total income percentage - January 2018	56%
Total income percentage – YTD	60%

The pay rate for January 2018 was 56%

The total income percentage January 2018 was 56%.

In order for the municipality to be financially sustainable the pay rate will have to be increased to 80% monthly on the consumer services.

LEGAL IMPLICATIONS

The Finance Report is submitted in compliance with Section 71 of the MFMA no 56 of 2003.

RECOMMENDATIONS

1. That the Finance Report for January 2018 in terms of Section 71 of the Municipal Finance Management Act, number 56 of 2003, be noted.
2. That the Finance Report for January 2018 in terms of Section 71 of the Municipal Finance Management Act, number 56 of 2003, be submitted to Provincial and National Treasury.

FS2 of 2018

FINANCIAL RECOVERY PLAN – 2018 CFO (6/1/1/1)

PURPOSE

To submit to the Finance Section 80 Committee the Finance Recovery Plan (FRP).

BACKGROUND

The municipality developed a FRP and was adopted by council on 24 April 2015 and reviewed during May 2015. It is of great importance that the current FRP be reviewed and updated in order to address the current situation.

DISCUSSIONS

The Annual Financial Statements of the Municipality for the 2016/17 financial year was prepared on the basis of a going concern with an accumulated surplus of R 2 163 694 575 and assets exceeding liabilities with R 2 163 694 575. However the ability of the municipality to continue as a going concern is dependent on a number of factors.

The municipality reported a deficit of R 870 730 391 at 30 June 2017 and the closing balance for cash and cash equivalents was (R 4 875 486) for the same period.

From the above it is evident that the municipality is not financially viable and without sufficient cash flow it will not survive. The municipality is currently experiencing cash flow challenges resulting in insufficient cash to support its current service delivery obligations.

A high level analysis was undertaken to understand the factors contributing to the cash flow challenges experienced by the municipality. The factors contributing to the negative cash flow position were as follow:

- Lack of a fully cash backed budget.
- Escalation of outstanding debtors across all customer group.
- Actions and spending that give rise to unplanned cash outflows.
- Limitation in revenue generation.
- Inadequate cash flow management.

***** The financial recovery plan 2018 is attached on page 15 to 21 of the Annexures.**

LEGISLATIVE REQUIREMENTS

The Municipal Finance Management Act provides for the criteria for a financial recovery plan in the event of a mandatory or discretionary provincial intervention. Although neither a mandatory nor discretionary intervention is currently applicable to the Municipality, the MFMA guidelines for a FRP have been utilised.

In terms of Section 142(1) (a) of the MFMA, a financial recovery plan must:

- (a) Identify the financial problems of the municipality.
- (b) Be designed to place the municipality in a sound and sustainable financial condition as soon as possible.
- (c) State the principle strategic objectives of the plan, and ways and means for achieving those objectives.
- (d) Set out a specific strategy for addressing the municipality's financial problems, including a strategy for reducing unnecessary expenditure and increasing the collection of revenue, as may be necessary.
- (e) Identify the human and financial resources needed to assist in resolving financial problems, and where resources are proposed to come from.
- (f) Describe the anticipated time-frame for financial recovery, and milestones to be achieved.
- (g) Identify what actions are necessary for the implementation of the plan, distinguishing between actions to be taken by the municipality and actions to be taken by other parties.

SUBMITTED FOR CONSIDERATION

FS3 of 2018

DRAFT MUNICIPAL ADJUSTMENT BUDGET (2017/2018) (CFO) (6/1/1/1)

PURPOSE

To submit to the Finance Section 80 Committee the Draft Municipal Adjustment Budget for the 2017/18 financial year in terms of Section 28 of the Municipal Finance Management Act no.56 of 2003 and the Municipal Budget and Reporting Regulations.

BACKGROUND

Council approved Annual Budget for the 2017/2018 financial year of R2 480 389 358 as well as the Budget Related Policies of which the Budget Policy formed part of. On 1 July 2017 all municipalities were expected to comply with mSCOA Regulations.

The proposed pay rate was based at 85%, which was informed by past collection trends and debt collection initiatives. The pay rate from consumer services for the first six (6) months of the financial year was 58%. The total income percentage for the first quarter was also at 61%.

DISCUSSIONS

Section 28 of the Municipal Finance Management Act 56 of 2003 should be read with part four (4) of the Municipal Budget and Reporting Regulations. Section 23 of the Municipal Budget and Reporting Regulations states the timeframes for tabling of adjustment budgets. Section 23(1) of the Municipal Budget and Reporting Regulations states that an adjustment budget referred to in section 28(2)(b), (d) and (f) of the Act may be tabled in the municipal council at any time after the mid-year budget and performance has been tabled in council, but not later than 28 February of the current year.

The draft adjustment budget for the 2017/18 financial year is based on the actual amounts as at 31 December 2017, which is the first six (6) months of the year. The recommendations for an adjustment budget will therefore only be submitted after the finalization of the processes stated in the Municipal Finance Management Act 56 of 2003 and the Municipal Budget and Reporting Regulations.

Cognizance must also be taken of Section 23 (2) stating that only one adjustments budget referred to in sub-regulation (1) of the Municipal Budget and Reporting regulations may be tabled in the municipal council during the a financial year, except when additional revenues contemplated in section 28(2)(b) of the Act are allocation to a municipality in a national or provincial adjustments budget. The municipality has not received any additional revenues during the first six (6) months as stated above.

It must also be noted that the mSCOA Budget data strings be corrected as well as the virements performed during the financial year should be noted.

Section 26(6) (b) of the Municipal Budget and Reporting Regulations states that a special adjustments budget must be tabled in the municipal council when the mayor tables the annual report in terms of section 127(2) of the Act, which may only deal with unauthorized expenditure from the previous financial year which the council is being requested to authorize in terms of section 32(2)(a)(i) of the Act.

The consumer pay rate and percentage total income are below the budgeted percentage of 85%. The consumer pay rate and total income collected was at 58% and 61%. The municipality is currently implementing stringent debt collection efforts and credit control measures to ensure that the pay rate of 85% is reached during the remainder of the financial year.

FINANCIAL IMPLICATIONS

The Annual Adjustment Budget 2017/18 = R 2 480 389 358

Capital Budget 2017/18 = R 181 21 000

*** The draft Municipal adjustment budget document **is attached as SEPARATE COVER 1.**

LEGAL IMPLICATIONS

Section 28(1) of the Municipal Finance Management Act no.56 of 2003 states that a municipality may revise an annual budget through an adjustment budget.

The adjustment budget –

- a) Must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year.
- b) May appropriate additional revenues that have become available over and above those anticipated in the annual budget but only to revise or accelerate spending programmes already budgeted for.
- c) May within a prescribed framework authorize unforeseeable and unavoidable expenditure recommended by the mayor of the Municipality.
- d) May authorize the utilization of projected savings in one vote towards spending under another vote.
- e) May authorize spending of funds that were unspent at the end of the past financial year where the under spending could not reasonably have been foreseen at the time to include projected rollovers when that annual budget for the current year was approved by council.
- f) May correct any error in the annual budget and
- g) May provide for any other expenditure within a prescribed framework.

Section 28(5) states that when an adjustment budget is tabled, it must be accompanied by-

- a) An explanation how the adjustments budget affects the annual budget;
- b) A motivation of any material changes to the annual budget;
- c) An explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years; and
- d) Any other supporting documentation that may be prescribed.

Municipal Budget and Reporting Regulations Part 4: Adjustment budgets of municipalities
Municipal Budget Policy Section 10.

RECOMMENDATIONS

1. That the 2017/2018 Annual Budget remains unadjusted at R 2 480 389 358.
2. That the virements between votes be approved.
3. That the mSCOA data strings be approved.