

# LOCAL GOVERNMENT IN GAUTENG

## National Council of Provinces Week

26 - 30 OCTOBER 2020



**GAUTENG**  
PROVINCIAL GOVERNMENT  
REPUBLIC OF SOUTH AFRICA

Growing Gauteng Together

## Content: Financial Summary

1. Emfuleni Local Municipality.
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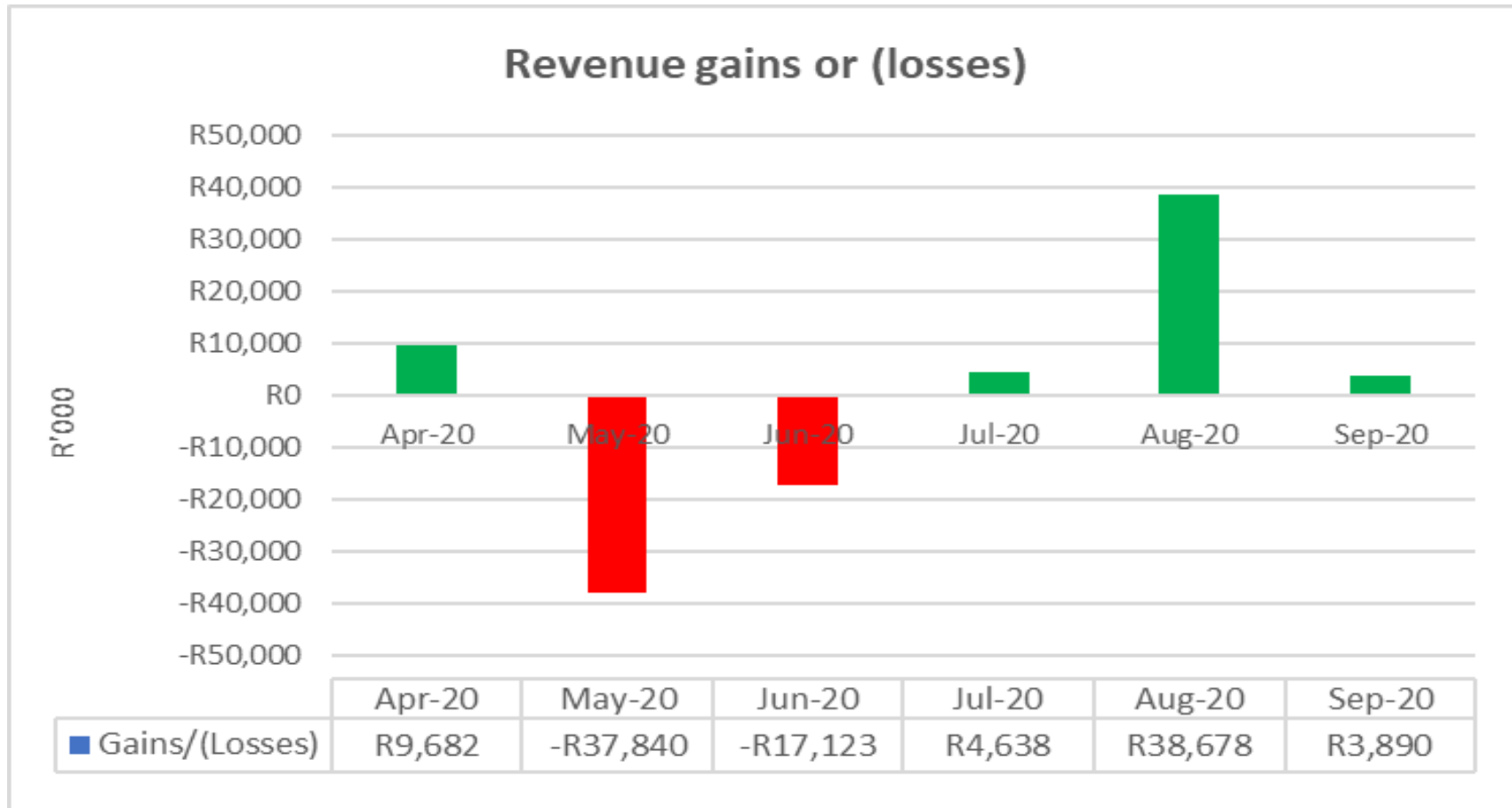
# Emfuleni Local Municipality

## Billed revenue for rates and services as at 30 September 2020

R thousands	2020/21		
	Budget	Year to Date	
	Main appropriation	Actual Revenue	Total Revenue as % of main appropriation
<b>Operating Revenue</b>	<b>6,196,143</b>	<b>1,826,566</b>	<b>29.5%</b>
Property rates	932,745	235,601	25.3%
Service charges - electricity revenue	2,664,573	817,542	30.7%
Service charges - water revenue	787,781	224,173	28.5%
Service charges - sanitation revenue	316,930	69,686	22.0%
Service charges - refuse revenue	163,644	42,408	25.9%
Rental of facilities and equipment	13,782	4,526	32.8%
Interest earned - external investments	18,460	881	4.8%
Interest earned - outstanding debtors	135,846	24,201	17.8%
Dividends received	-	-	-
Fines, penalties and forfeits	200,466	2,353	1.2%
Licences and permits	20	34	170.5%
Agency services	-	-	-
Transfers and subsidies	900,412	376,255	41.8%
Other revenue	61,484	28,907	47.0%
Gains	-	-	-

- Lower collection rates on water revenue are mainly because of consumers who are not paying for this service, evidenced by debtors for this source of almost R5 billion.

## Trends of revenue gains or (losses) since April 2020



- ELM is showing recovery as actual cash collections exceeded what was billed for the 1<sup>st</sup> Quarter of 2020/21 FY.
- ELM is implementing Single and Integrated Revenue Management Strategy that brings together all municipal departments involved in the Revenue Value Chain together with GCoGTA, GPT & SALGA.
- A Revenue War Room meets Bi-Weekly to monitor the Action Plan of the Strategy.

## Cash flow information for rates and service charges

Cash flow information	2020/21					
	Adjusted Budgeted as per Schedule C	YTD Budget as per Schedule C	1st Q as % of Adjusted Budget	YTD Collection as per Schedule C	Collection as a % of Adjusted Budget	Collection Rate based on cashflow statement
<b>R thousands</b>						
<b>Rates and Service Charges</b>	<b>3,746,984</b>	<b>936,746</b>	<b>25%</b>	<b>961,970</b>	<b>26%</b>	<b>103%</b>
Property rates	748,388	187,097	25%	146,006	20%	78%
Service charges	2,998,597	749,649	25%	815,964	27%	109%

- Overall, ELM has reported collection rate of 103% for the quarter ended on 30 September 2020 which is actual cash collected from both billed revenue and other sources
- Property rates performed lower than projected and resulted to a collection rate which was lower than the 95% norm.
- Despite better than anticipated performance on service charges, area debtors continue to grow however noting the municipal revenue measures
- COVID-19 and lockdown had seen the municipality experience challenges in terms of revenue collection and cumulative outstanding debtors accounts of almost R5 billion by end of Q1.

# Operating Expenditure

R thousands	2020/21		
	Budget	Year to Date	
	Main appropriation	Actual Expenditure	Total Expenditure as % of main
<b>Operating Expenditure</b>	<b>6,066,389</b>	<b>1,085,721</b>	<b>17.9%</b>
Employee related costs	1,315,734	278,990	21.2%
Remuneration of councillors	60,259	13,908	23.1%
Debt impairment	1,192,520	-	-
Depreciation and asset impairment	387,831	-	-
Finance charges	5,000	18,630	372.6%
Bulk purchases	2,524,236	731,368	29.0%
Other Materials	84,432	592	.7%
Contracted services	295,732	26,363	8.9%
Transfers and subsidies	2,259	759	33.6%
Other expenditure	198,386	15,110	7.6%
Losses	-	-	-
<b>Surplus/(Deficit)</b>	<b>129,754</b>	<b>740,846</b>	

- Only employee-related costs, bulk purchases and transfers and subsidies reported higher performance when comparing year-on-year performance.
- No depreciation was recorded for the quarter ended on 30 September 2020 whilst R103.72 million was already processed during the same period in 2018/19 FY.
- Although showing an exponential year-on-year growth, transfers and subsidies exceeded the projected performance by R194 000.

## Capital expenditure as at 30 September 2020

Month	R'000	2019/20	Original Budget	Adjusted Budge	Monthly actual
Jul		–	27,830	27,830	–
Aug		(20)	27,830	27,830	4,576
Sep		–	27,830	27,830	1,001
Oct		1,469	27,830	27,315	–
Nov		15,814	27,830	27,315	–
Dec		5,539	27,830	27,315	–
Jan		1,306	27,830	27,315	–
Feb		2,019	27,830	27,315	–
Mar		(243)	27,830	27,315	–
Apr		–	27,830	27,315	–
May		9,931	27,830	27,315	–
Jun		64,441	27,830	27,315	–

- The 1<sup>st</sup> Quarter performance was extremely lower than the projections but higher than the same period in the previous (2019/20) financial year.
- Of concern is that we noted that a big amount of R64.44 million was spent in the last month of the previous financial year. (quality of spending in the last month always a concern)



## Debtors as at 30 September 2020

R thousands	0 - 30 Days		31 - 60 Days		61 - 90 Days		Over 90 Days		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>Debtors Age Analysis By Income Source</b>										
Trade and Other Receivables from Exchange Transactions - Water	-	-	-	-	-	-	-	-	-	-
Trade and Other Receivables from Exchange Transactions - Electricity	-	-	-	-	-	-	-	-	-	-
Receivables from Non-exchange Transactions - Property Rates	-	-	-	-	-	-	-	-	-	-
Receivables from Exchange Transactions - Waste Water Management	-	-	-	-	-	-	-	-	-	-
Receivables from Exchange Transactions - Waste Management	-	-	-	-	-	-	-	-	-	-
Receivables from Exchange Transactions - Property Rental Debtors	-	-	-	-	-	-	-	-	-	-
Interest on Arrear Debtor Accounts	-	-	-	-	-	-	-	-	-	-
Recoverable unauthorised, irregular or fruitless and wasteful Expenditure	-	-	-	-	-	-	-	-	-	-
Other	474,763	4.8%	354,589	3.6%	312,900	3.2%	8,727,938	88.4%	9,870,189	100.0%
<b>Total By Income Source</b>	<b>474,763</b>	<b>4.8%</b>	<b>354,589</b>	<b>3.6%</b>	<b>312,900</b>	<b>3.2%</b>	<b>8,727,938</b>	<b>88.4%</b>	<b>9,870,189</b>	<b>100.0%</b>
<b>Debtors Age Analysis By Customer Group</b>										
Organs of State	18,766	7.9%	16,431	6.9%	15,046	6.3%	188,472	79.0%	238,716	2.4%
Commercial	226,138	17.8%	155,995	12.3%	133,606	10.5%	754,546	59.4%	1,270,285	12.9%
Households	229,859	2.7%	182,162	2.2%	164,248	2.0%	7,784,920	93.1%	8,361,189	84.7%
Other	-	-	-	-	-	-	-	-	-	-
<b>Total By Customer Group</b>	<b>474,763</b>	<b>4.8%</b>	<b>354,589</b>	<b>3.6%</b>	<b>312,900</b>	<b>3.2%</b>	<b>8,727,938</b>	<b>88.4%</b>	<b>9,870,189</b>	<b>100.0%</b>

- Outstanding debtors show almost R5 billion of debtors in respect of water consumption.
- Households constitute 84.7% of the total amount owed to the municipality and 93.1% was older than 90 days, reducing prospects of recoverability and less cash inflow for ELM.
- 2.4% was owed by government, mainly because of properties that are not in the asset register of Nation Dept Public Works and Gauteng Dept of Infrastructure.

## Creditors as at 30 September 2020

R thousands	0 - 30 Days		31 - 60 Days		61 - 90 Days		Over 90 Days		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>Creditor Age Analysis</b>										
Bulk Electricity	284,469	10.6%	278,515	10.4%	(2,078)	(.1%)	2,115,089	79.0%	2,675,996	70.3%
Bulk Water	-	-	150	-	57,567	6.5%	828,387	93.5%	886,105	23.3%
PAYE deductions	-	-	-	-	-	-	-	-	-	-
VAT (output less input)	-	-	-	-	-	-	-	-	-	-
Pensions / Retirement	-	-	-	-	-	-	-	-	-	-
Loan repayments	-	-	-	-	-	-	-	-	-	-
Trade Creditors	10,836	4.4%	152	.1%	4,001	1.6%	230,488	93.9%	245,477	6.4%
Auditor-General	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>295,305</b>	<b>7.8%</b>	<b>278,818</b>	<b>7.3%</b>	<b>59,490</b>	<b>1.6%</b>	<b>3,173,965</b>	<b>83.4%</b>	<b>3,807,578</b>	<b>100.0%</b>

- ELM debt to Eskom continues to rise whilst Eskom is still awaiting a response from the municipality on a new proposed payment plan for the outstanding debt. According to Eskom, the last payment was an amount of R259.25 million in August 2020. Eskom continues to receive payments from Large Power Users.
- ELM sent through a payment arrangement to Rand Water but was rejected as it did not meet the requirements.
- Absence of signed payment agreements contributes to the unfunded budget.

## Government debt as at 30 September 2020

Rands	Current Balance	30 Days	60 Days	90 Days	120 Days Plus	Sum Total
Education S20	2,675,730	520,698	252,834	100,282	157,006	3,706,550
Education S21	2,400,905	925,842	1,872,546	308,123	3,140,670	8,648,087
Housing	122,242	122,381	121,415	154,455	9,968,271	10,488,764
DID	4,928,769	4,825,856	4,734,240	1,578,210	9,481,434	25,548,509
Health	1,647,450	4,722,946	4,080,210	743,501	13,769,607	24,963,715
Transport	24,419	18,140	18,140	18,140	523,285	602,124
<b>Grand Total</b>	<b>11,799,515</b>	<b>11,135,864</b>	<b>11,079,385</b>	<b>2,902,711</b>	<b>37,040,274</b>	<b>73,957,749</b>

- S21 schools are responsible for their own accounts and GPEDU has bailed out ALL schools (S20 & S21) at the end of September and in October.
- The last invoice received by DHS was in April 2020, despite DHS migrating to a new system that allows electronic submissions.
- Overdue amount by DID is mainly as a result of government property that is not in the Asset Register of the department.
- Invoice submission remains the problem with ELM – Debt Management Committee is currently working to resolving this matter

## Conditional Grants performance as at 30 September 2020

R'000	Provincial Grants		National Grants	
	Recapitalisation of Community Libraries	Libraries Plan	MIG	INEP
Received Prior Periods	0	0		
Received This Month	6,000	7,500		
Total Grant Funds Received	6,000	7,500	7161	5571
Spent Prior Periods (Since Inception) - See Last Months Form	0	0		
Spent This Month	1,152	0		
Total Grant Funds Spent	1,152	0	1766	0
Total Grant funds Received and Not Spent	4,848	7,500	5395	5571
Percentage of Funds Spent	19.2%	0.0%	25%	0
Funds Currently Committed but Not Spent	0	0	0	0

- ELM had to spend its own funds as the transfers on Provincial Grants were only made on the 29<sup>th</sup> of September 2020 by the transferring department. The delay was mainly as a result of the COVID-19 Special Adjustments Budget as the allocations were reduced.

## Budgeting

- The Municipality has approved an unfunded budget for 2020/21.
- The total budget amount to R6.3 billion, a deficit budget.
- Total Capex budget is dependent on grants, with low internal contributions and lack of funds allocated for infrastructure development and maintenance.
- There is an NT advisor place at Emfuleni as a link for GPT support.
- There has been support provide in the technical sessions to assist in implementation of the MSCOA regulations.
- Support through MEC engagements on the unfunded budget.
- Support is being provided to Emfuleni in the implementation of the FRP process.
- The municipality has a budget plan in place supported by council to turn around its financial challenges and achieve a funded budget in the long run.

## UNAUTHORISED, IRREGULAR, FRUITLESS & WASTEFUL EXPENDITURE

2018/19  <b>R</b>	2017/18  <b>R</b>	Comment
<b>2 621 893 166</b>	<b>1 287 222 277</b>	Flagged as a material finding by AGSA

## CONSULTING SERVICES

NATURE OF CONSULTING SERVICE	2018/19 R	2017/18 R
<b>Contracted Services</b>	<b>251 821 872</b>	<b>167 302 548</b>

## Challenges Experienced by the municipality prior intervention

- The Municipality was in breach of its obligations to meet its financial commitments by failing to make payments as and when due which in aggregate is more than 2 (two) percent of the Municipality's budgeted operating expenditure in terms of Section 140 (2) (c) of the Municipal Finance Management Act (MFMA) (Act No. 56 of 2003); Status quo remains the same in 2020.
- The current ratio as per the audited AFSs continues to be bad 0,37 (0,35 2017/18). The norm is 1,5 and 2. This highlights serious financial challenges and likely liquidity problems i.e. insufficient cash to meet short-term financial obligations
- The regulatory audit of the 2018/19 financial statements was completed by the AGSA during September 2020 and the municipality regressed from unqualified to qualified. The qualification was mainly as a result of limitation of scope, or management's failure to provide audit evidence to the AGSA.



## Challenges Experienced by the municipality prior intervention

3 Year Audit Outcome Trend Analysis		
2016/17	2017/18	2018/19
Unqualified	Unqualified	Qualified

**Regression compared to previous years.**

**The basis of qualified audit opinion 2018/19 audit was:**

1. Improper Accounting and disclosure of community assets
2. Failure to assess Property Plant & Equipment for impairment
3. None submission of audit evidence to substantiate Distribution losses
4. None submission of audit evidence to substantiate Irregular expenditure.

## Challenges Experienced by the municipality prior intervention

### Poor financial management and credit control;

### The current status quo in 2020 financial year:

- Disciplinary Boards still not functional – no cases reported in the Annual Report of the municipality.
- The municipality remains unfunded and unsustainable
- The budget has been assessed as unfunded due to the municipality's outstanding creditors (Eskom and Rand water). The payment arrangement of creditors must be prioritised.
- The municipality's collection rate remains low and revenue enhancement measures must be prioritised, and cost saving measures be implemented.
- The increases in own revenue is very low at 4 percent and this is because of the deteriorating economic status in the region with increasing unemployment.
- Increased litigations leading to attachment of Primary Bank Account

## Challenges Experienced by the municipality prior intervention

### **Poor financial management and credit control;**

### **The current status quo in 2020 financial year:**

- The municipality's current ratio indicates that the municipality is unable to meet current liabilities from current assets, due to technical insolvency and is unable to meet liabilities.
- The municipality's provision for creditors is insufficient as the cash and cash equivalent at the year-end won't be adequate for the trade payables.

# SUMMARY OF SCM SUPPORT

Challenges prior implementation of the FRP	Progress on Implementation of FRP
<p>1. Decentralisation of Supply Chain Management Activities.</p>	<p>GPT advised the council to rescind the resolution to centralise Supply Chain Management.</p> <p>Confirmed that Council approved a centralised procurement approach on the 28 March 2019.</p>
<p>2. Unclear SCM – Delegation of Authority.</p>	<p>A detailed review of the alignment between financial and procurement delegations was conducted by GPT.</p> <p>A detailed report with recommendations was presented with clear separation of powers and financial responsibilities aligned to the SCM policy.</p> <p>The municipality has not yet adopted the above.</p>
<p>3. Review and Align SCM Policies.</p>	<p>Annual review of the municipal SCM policy done and recommendations provided.</p>

## SUMMARY OF SCM SUPPORT

Challenges prior implementation of the FRP	Progress on Implementation of FRP
4. Streamline unnecessary contractual commitments and terminate irregular contracts.	Not Done.
5. Assess legitimacy of the current contracts; and	Process started in June 2018 and a report declaring 13 contracts irregular was presented in Council August 2018. Irregular contracts were not terminated.
6. Consequence Management	Shared Services is busy with the Service Delivery Model and the SCM has made an input with regard to that.
7. Review and implement Standard Operating Procedures (SOP's) for all SCM related policies;	Its approved by Council.

## SUMMARY OF SCM SUPPORT

Challenges prior implementation of the FRP	Progress on Implementation of FRP
<p>8. Lack of Competence and unethical conduct from SCM practitioners and Bid committees.</p>	<p>This is an ongoing program, 4 practitioners are on a 18 months program</p>
<p>9. Un-Automated SCM environment posing a significant threat to the internal control environment.</p>	<p>Although business processes are documented, they are still vulnerable to human manipulation.</p>

# Emfuleni FRP Meetings

Emfuleni FRP	Progress
Monthly FRP Report Submission	<ul style="list-style-type: none"> <li>• Last report received on 27 February 2020. No further reports received.</li> <li>• Letters written to Premier, MEC CoGTA, Administrator and Mayor on non-submission of monthly FRP reports.</li> </ul>
MEC Finance FRP Signed Reviews	<ul style="list-style-type: none"> <li>• 1<sup>st</sup> MEC Review – 31 August 2019</li> <li>• 2<sup>nd</sup> MEC Review – 07 February 2020</li> <li>• 3<sup>rd</sup> MEC Review – 29 April 2020</li> </ul>
FRP Meetings	<ul style="list-style-type: none"> <li>• Finance Workstream:               <ul style="list-style-type: none"> <li>○ 15/09/2020; 22/09/2020; 05/10/2020; 20/10/2020</li> </ul> </li> <li>• Lead Administrator Meetings:               <ul style="list-style-type: none"> <li>○ 17/09/2020; 21/09/2020; 05/10/2020; 12/10/2020; 13/10/2020; 19/10/2020</li> </ul> </li> <li>• Administrator / MayCo Meetings:               <ul style="list-style-type: none"> <li>○ 03/09/2020; 17/09/2020; 25/09/2020; 08/10/2020</li> </ul> </li> <li>• Meeting with DBSA and Rand Water               <ul style="list-style-type: none"> <li>○ 06/10/2020;</li> </ul> </li> </ul>

## Intervention Progress Summary

- The Emfuleni municipality continue to be under severe financial pressure instead of recovery despite the interventions.
- A Lead Administrator has been appointed with exclusive full decision-making powers on Supply Chain Management, Finance and Infrastructure/Service Delivery.
- MISA was requested to assist with infrastructure projects and State attorney to assist with legal cases.
- A Financial Recovery Plan Manager and Revenue Experts have been appointed by GCoGTA to assist Emfuleni LM towards recovery.
- Work Streams have been established in Emfuleni LM and are meeting weekly.
- The MEC for GCoGTA meets with the municipality, GPT & GCoGTA officials for progress reports.
- **No formal report has been submitted to GPT as yet since March 2020. (Non compliance with the MFMA).**



# Sedibeng District Municipality

## Revenue as at 30 September 2020

R thousands	2020/21		
	Budget	Year to Date	
	Main appropriation	Actual Revenue	Total Revenue as % of main appropriation
<b>Operating Revenue</b>	<b>417,763</b>	<b>146,508</b>	<b>35.1%</b>
Property rates	-	-	-
Service charges - electricity revenue	-	-	-
Service charges - water revenue	-	-	-
Service charges - sanitation revenue	-	-	-
Service charges - refuse revenue	-	-	-
Rental of facilities and equipment	516	-	-
Interest earned - external investments	2,700	441	16.3%
Interest earned - outstanding debtors	-	-	-
Dividends received	-	-	-
Fines, penalties and forfeits	-	-	-
Licences and permits	1,575	312	19.8%
Agency services	75,630	9,719	12.9%
Transfers and subsidies	313,062	133,188	42.5%
Other revenue	24,139	2,837	11.8%
Gains	140	10	7.4%

- The district is heavily grant dependent with 75% of its budgeted revenue being transfers and subsidies followed by a costly agency function at 18% of total budget.

## Cash flow information for transfers & other revenue

Cash flow information	Adjusted Budget as per Schedule C	YTD Budget as per Schedule C	1st Quarter as a % of Adjusted Budget	YTD Receipts as per Schedule C	Receipts as a % of Adjusted Budget	Receipts as per cash flow statement
R thousands						
<b>Receipts</b>	<b>422,611</b>	<b>105,618</b>	<b>25%</b>	<b>146,498</b>	<b>35%</b>	<b>139%</b>
Property rates	-	-	-	-	-	-
Service charges	-	-	-	-	-	-
Other revenue	102,001	25,465	25%	12,869	13%	51%
Transfers and Subsidies - Operational	317,910	79,478	25%	133,188	42%	168%
Transfers and Subsidies - Capital	-	-	-	-	-	-
Interest	2,700	675	25%	441	16%	65%
Dividends	-	-	-	-	-	-

- Material underperformance was mainly as a result of COVID-19 as most of other revenue is from the licensing agency function.

# Operating Expenditure

	2020/21		
	Budget	Year to Date	
	Main appropriation	Actual Expenditure	Total Expenditure as % of main appropriation
<b>R thousands</b>			
<b>Operating Expenditure</b>	<b>417,261</b>	<b>86,083</b>	<b>20.6%</b>
Employee related costs	274,644	68,891	25.1%
Remuneration of councillors	14,018	3,428	24.5%
Debt impairment	-	-	-
Depreciation and asset impairment	11,272	-	-
Finance charges	-	-	-
Bulk purchases	-	-	-
Other Materials	6,905	411	5.9%
Contracted services	46,534	3,577	7.7%
Transfers and subsidies	27,973	990	3.5%
Other expenditure	35,875	8,787	24.5%
Losses	40	-	-
<b>Surplus/(Deficit)</b>	<b>502</b>	<b>60,425</b>	

## Capital expenditure as at 30 September 2020

Month	R'000	2019/20	Original Budget	Adjusted Budget	Monthly actual
Jul		24	179	179	65
Aug		75	179	179	42
Sep		138	179	249	68
Oct		148	179	249	—
Nov		132	179	249	—
Dec		(19)	179	249	—
Jan		13	179	249	—
Feb		21	179	249	—
Mar		90	179	249	—
Apr		51	179	249	—
May		(5)	179	249	—
Jun		34	179	249	—

- In its nature, and as per the detailed budget documents, the district has no infrastructure projects.
- Actual performance was materially below par when compared to monthly projections.

## Debtors as at 30 September 2020

R thousands	0 - 30 Days		31 - 60 Days		61 - 90 Days		Over 90 Days		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>Debtors Age Analysis By Income Source</b>										
Trade and Other Receivables from Exchange Transactions - Water	-	-	-	-	-	-	-	-	-	-
Trade and Other Receivables from Exchange Transactions - Electricity	-	-	-	-	-	-	-	-	-	-
Receivables from Non-exchange Transactions - Property Rates	-	-	-	-	-	-	-	-	-	-
Receivables from Exchange Transactions - Waste Water Management	-	-	-	-	-	-	-	-	-	-
Receivables from Exchange Transactions - Waste Management	-	-	-	-	-	-	-	-	-	-
Receivables from Exchange Transactions - Property Rental Debtors	-	-	-	-	-	-	-	-	-	-
Interest on Arrear Debtor Accounts	-	-	-	-	-	-	-	-	-	-
Recoverable unauthorised, irregular or fruitless and wasteful Expenditure	-	-	-	-	-	-	-	-	-	-
Other	1,347	29.1%	1,618	34.9%	-	-	1,666	36.0%	4,632	100.0%
<b>Total By Income Source</b>	<b>1,347</b>	<b>29.1%</b>	<b>1,618</b>	<b>34.9%</b>	<b>-</b>	<b>-</b>	<b>1,666</b>	<b>36.0%</b>	<b>4,632</b>	<b>100.0%</b>
<b>Debtors Age Analysis By Customer Group</b>										
Organs of State	1,347	29.1%	1,618	34.9%	-	-	1,666	36.0%	4,632	100.0%
Commercial	-	-	-	-	-	-	-	-	-	-
Households	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
<b>Total By Customer Group</b>	<b>1,347</b>	<b>29.1%</b>	<b>1,618</b>	<b>34.9%</b>	<b>-</b>	<b>-</b>	<b>1,666</b>	<b>36.0%</b>	<b>4,632</b>	<b>100.0%</b>

- The amount is in respect of the debt owed by Emfuleni for services that have been rendered by the district.

## Creditors as at 30 September 2020

R thousands	0 - 30 Days		31 - 60 Days		61 - 90 Days		Over 90 Days		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>Creditor Age Analysis</b>										
Bulk Electricity	-	-	-	-	-	-	-	-	-	-
Bulk Water	-	-	-	-	-	-	-	-	-	-
PAYE deductions	-	-	-	-	-	-	-	-	-	-
VAT (output less input)	323	100.0%	-	-	-	-	-	-	323	.2%
Pensions / Retirement	-	-	-	-	-	-	-	-	-	-
Loan repayments	-	-	-	-	-	-	-	-	-	-
Trade Creditors	-	-	-	-	-	-	-	-	-	-
Auditor-General	-	-	-	-	-	-	-	-	-	-
Other	31,955	17.2%	-	-	-	-	153,352	82.8%	185,307	99.8%
<b>Total</b>	<b>32,278</b>	<b>17.4%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>153,352</b>	<b>82.6%</b>	<b>185,630</b>	<b>100.0%</b>

- Other creditors are made up of license fees that the municipality is owing to the Provincial Department of Transport.
- No payment arrangement with the Department.

## Conditional Grants performance as at 30 September 2020

R'000	HIV AND AIDS GRANT	YOUTH DEVELOPMENT GRANT	RURAL ROADS ASSETS MANAGEMENT SYSTEM GRANT
Received Prior Periods	0	0	0
Received This Month	5,577	0	1,719
Total Grant Funds Received	5,577	0	1,719
Spent Prior Periods	0	0	30
Spent This Month	988	690	25
Total Grant Funds Spent	988	690	55
Total Grant funds Received and Not Spent	4,589	-690	1,664
Percentage of Funds Spent	17.72%	0.00%	3.21%
Funds Currently Committed but Not Spent	4,589	0	1,664

- SDM had to spend its own funds on HIV/AIDS and Youth Development Grant as the transfers were only made in September 2020 by the transferring departments.



## Progress on rollover on provincial allocation

Municipality Rands	Department	Grant Name	Date Received	Supporting Docs	Amount Requested	Approved
Sedibeng DM	Sports, Arts, Culture & Recreation	Boipatong monument/Youth Development	31-Jul-20	No	621,873	0
<b>TOTAL</b>					<b>621,873</b>	<b>0</b>

- The application was rejected as there was no proof of commitment.
- SDM submitted an appeal which has been referred to the transferring department for recommendation. GPT has followed up with the transferring department before a response could be provided. |

## Budgeting

- The Municipality has approved unfunded budget for 2020/21 with a total budget of R422 million. The municipality however developed a financial strategy to support its 2020/21 unfunded budget.
- GPT monitor implementation of this strategy and support where necessary.
- The municipality is fully dependent on grants, as a district, no major municipal services provision, this limits the internal funding contribution to capital projects.
- The District's major challenge remains its heavy loaded organizational structure and consequent high employee costs in the budget.
- We facilitated sessions with MEC Finance, Mayors and MMCs Finance to discuss financial turnaround strategies to achieve funded budgets.
- We also assist the municipality to fully comply with mSCOA regulations with specific focus on Covid-19 special adjustment budget process.

## AUDIT OUTCOMES

<b>Municipalities</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
Sedibeng DM	Unqualified	Unqualified	Unqualified

## UNAUTHORISED, IRREGULAR, FRUITLESS & WASTEFUL EXPENDITURE

Municipality	2018/19 R	2017/18 R	Comment
<b>Sedibeng District</b>	<b>16 072 463</b>	<b>15 934 103</b>	<b>-</b>

## CONSULTING SERVICES

NATURE OF CONSULTING SERVICE	2018/19 R	2017/18 R
<b>Business &amp; Advisory</b>		
<b>Infrastructure &amp; Planning</b>	<b>1 920 506</b>	<b>621 500</b>
<b>Legal Cost</b>	<b>1 182 003</b>	<b>1 276 624</b>

# FINANCIAL HEALTH ASSESSMENTS

Name of municipality	Reporting Period	Section 138 of MFMA				S140 (2)(c)	Vacancies	
		a	b	c	d		MM	CFO
Sedibeng DM	30-Jun-19							
	31-Mar-20							

- GPT provides quarterly reports to MEC for GCoGTA.
- **The MEC for CoGTA, together with GPT, has engaged with Mayors and the Senior Officials of the municipalities that continue to be in financial distress.**
- **Previous turn-around strategies are being reviewed** with an intention to turn the municipalities around based on assessments conducted.
- The 2 Gauteng DMs are not financially viable as AGSA also expressed a concern over the ‘going concern’ status and business continuity of the 2 organisations. The future of the DMs is however a national policy matter that is dependent on good governance, solving the powers and functions and national legislation especially on revenue-raising opportunity.

# City of Tshwane Municipality

# Governance – Sound

- Council failed to achieve consensus and address the escalating UIFW and no consequent management

<b>Irregular Expenditure</b>	<b>2015/2016</b>	<b>2016/2017</b>	<b>2017/2018</b>	<b>2018/19</b>
Opening balance	1,581,579,918	2,531,700,661	3,394,376,748	5,079,713,071
Add: Irregular expenditure for the current year	950,120,743	1,278,430,769	1,685,336,323	1,594,811,978
Add: Irregular expenditure for prior years		0	0	
Less: Amounts written-off by Council	0	-415,754,682	0	-254,506,423
Less: recoveries				-3,262,568,782
Less: Condoned by Board				-149,073,639
<b>Closing balance</b>	<b>2,531,700,661</b>	<b>3,394,376,748</b>	<b>5,079,713,071</b>	<b>3,008,376,205</b>

Qualifier: Some previous years figures have been restated in the audited AFS

<b>Unauthorised Expenditure</b>	<b>2015/2016</b>	<b>2016/2017</b>	<b>2017/2018</b>	<b>2018/2019</b>
Opening balance	785,504,172	1,657,852,172	620,032,290	1,758,293,264
Unauthorised expenditure for the year	-785,504,448	-1,657,852,172	0	3,165,876,013
Expenditure authorised in terms of section 32 of the MFMA	1,657,852,448	620,032,290	1,138,260,974	
Less: write-off and council condonation	0	0	0	-323,144,188
Less: approved and condoned by Council	0	0	0	-704,224,563
Less: write-off relating to 2016/17 (Council resolution 25 July 2019)	0	0	0	-263,044,000
Less: write-off relating to 2017/18 (Council resolution 25 July 2019)	0	0	0	-64,782,499
Less: Amount to be recovered	0	0	0	-56,560,000
Less: amount condoned by Board	0	0	0	-3,757,999
<b>Closing balance</b>	<b>1,657,852,172</b>	<b>620,032,290</b>	<b>1,758,293,264</b>	<b>3,512,414,027</b>

## Corrective measures adopted by City to address irregular expenditure

- Monthly monitoring and immediate application of corrective measures;
- Continuous purification of asset register to ensure timely capitalisation of asset in asset;
- Implementation of consequence management;
- Raise awareness to user departments regarding activities that may result in fruitless and wasteful expenditure;
- Improving the planning process and contract management (project management); and
- Conduct regular training on SCM processes.

<b>Fruitless &amp; Wasteful Expenditure</b>	<b>2015/2016</b>	<b>2016/2017</b>	<b>2017/2018</b>	<b>2018/19</b>
Opening balance	5,504,651	6,204,343	46,818,828	112,212,161
Incurred - current year	1,569,815	41,503,096	65,460,851	123,680,067
Interest charged on overdue accounts	0	0	0	0
Less: Approved or Corrdoned by Council	0	-450,000	0	-7,426,624
Less: Written Off	-870,123	-424,272	-67,518	-62,981,422
Less: Recoveries	0	-14,339	0	-584
<b>Closing balance</b>	<b>6,204,343</b>	<b>46,818,828</b>	<b>112,212,161</b>	<b>165,483,598</b>



## Governance – audit outcomes

- Unqualified audit opinions the past 4 years - with matters of emphasis.
- However, there are repeat findings in the 2018/19 management report, despite the implementation of an audit action plan to address the shortcomings

**Table 3a: TSH City of Tshwane Metro - Audit Outcome Trend**

Audit Opinion			
2015/16	2016/17	2017/18	2018/19
Unqualified - With findings	Unqualified - With findings	Unqualified - With findings	Unqualified - with findings

Source: City of Tshwane - Audit Reports

## Institutional arrangement – Fragile

- On 10 March 2020, Gauteng Provincial Government placed the City under administration - due to political stalemate .
- The appointed City Manager resigned in September 2019 - position remained vacant and been occupied on rotational basis by senior managers.
- No vacant position at the level of Divisional Heads.
- Notwithstanding the alternative mechanisms for community consultation, there are no ward committees in the Metropolitan area – non-compliance with mandatory requirement.
- On *mSCOA*, the City is far behind with implementation and not at the stage of using a core financial system that is *mSCOA* Compliant.

# Financial health – fragile

**Table 1: City of Tshwane Metro - Financial Health**

Performance Indicator ('000)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Audited Outcome	Audited Outcome	Audited Outcome	Audited Outcome	Audited Outcome	Audited Outcome
Operating revenue (before capital contribution)	18,360,152	20,038,888	21,989,654	24,323,079	25,949,883	31,906,264
Operating expenditure	22,534,049	24,747,464	26,860,524	28,017,340	29,992,672	34,701,744
Operating Surplus/(Deficit)	(4,173,897)	(4,708,576)	(4,870,870)	(3,694,261)	(4,042,788)	(2,795,480)
Capital expenditure	4,207,693	4,116,511	3,678,347	3,167,429	2,817,398	3,102,164
Conditional grants performance	1,070,691	1,259,659	998,632	1,070,978	914,002	866,998
Collection rate	95.0%	95.0%	94.0%	91.0%	90.0%	88.0%
Outstanding debtors (Nett)	3,963,026	3,898,173	4,702,553	5,612,614	5,693,633	7,034,365
Outstanding creditors (Nett)	5,538,334	5,846,618	7,571,083	7,388,212	7,195,513	7,154,645
Cash/cash equivalents at the year end	847,816	600,518	4,389,765	3,095,910	2,392,713	2,451,685
Cash/Cost coverage ratio	0	0	0	1	1	1
Debt to revenue ratio	45.0%	40.0%	33.0%	41.0%	47.0%	36.0%
Current ratio	0.71%	0.72%	0.60%	0.84%	0.82%	1.04%

- The **operational surplus** decreased from R4 billion in 2017/18 to **R2.8 billion** in 2018/19.
- The city has a positive **cash balance (R2.5 billion 2018/19 audited outcome)** which increased from 2017/18 (R2.4 billion) – the city has implemented measures to decrease expenditure to improve financial sustainability
- The **collection rate** is deteriorating from an average of 95 per cent between 2013/14 and 2015/16 to a collection rate of **88 per cent** in 2018/19. The city has implemented revenue enhancement strategies from July 2019 to improve the collection rate to 91.5 per cent.
- Outstanding **net debtors** has increased R5.6 billion from 2017/18 to **R7.0 billion in 2018/19**.
- It is remarkable that the city was able to increase the **cost coverage** (financial sustainability) from less than a month in 2015/16 to one month 2016/17 and this was maintained in 2018/19.
- For the City to reinforce its finances, it implement a **voluntary Financial Sustainability Plan** to enhance its finances.

## Financial health

# Outcome of 2020/21 Adopted Budget assessment:

- *Credibility*
  - Budget assumptions are credible
  - Operating budget is multi-year
  - Capital budget is multi-year
  - Budget is funded as per Section 18 of the MFMA
- *Relevance*
  - Budget and SDBIP is alignment to the IDP
    - Alignment of the NDP, provincial and the city's objectives
    - Evidence of alignment to the operational and capital budget.
  - Capital budget is declining due to limited funds.
- *Sustainability*
  - Cash coverage ratio less than a month (Norm 1 – 3 months)
  - Current ratio of 1.0 (norm 1.5 – 2.1)
  - Operating surpluses
  - Collection rate of 90%

# Financial Health

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## COVID-19 related challenges:

- City incurred additional expenditure linked to COVID19:
- Site access control, site medical screening, quarantine facilities on site and contact tracing:
- To do this, contractors have to obtain additional equipment (thermometers, stationery, sanitizing equipment and chemicals) and incur communication costs (cellphone/telephone costs of tracing contacts).
- Projects had to revise their OHS plans and align them to new and updated COVID-19 safety regulations and procedures.
- If a COVID-19 Case is reported on-site then work is halted construction site is closed for some time and this add to the already lost days.

# Financial Health

Impact on the metro's budget and finances:

- Business collection levels decline to 60%
- Government collection levels decline to 80%
- Residential collection levels decline to 60%
- The Expected Revenue Shortfall for Q4 is estimated to be between R3,2 billion.
- Easing of lockdown to Level 4 and 3 is expected to impact positively on this shortfall, but it is still unclear exactly how that would decrease the shortfall.
- Even with the City's reserves, the projected cash shortfall for the year calculated at R1,1bn
- It is expected that the cost coverage will be well below the one-month level.
- Actual Capital expenditure end of April amounted to R1,4bn (52% underspent YTD)
- billion (31 March R2,5 billion), with cash and cash equivalents as at the end of 31 April 2020 of R521 million (31 March R1,2 billion).

## Service Delivery

Court Ruling on Cancellation of the Glad Africa contract (Project Management) – collapsed service delivery.

Number of performance targets were not achieved due to the following:

- Cancellation of Glad Africa contract, which has set the City behind as they needed to revert to a long-protracted procurement process.
- Delays in turnaround time of concluding Supply Chain Management processes;
- Inadequate management of contracts – no punitive measures for underperforming contractors;
- Abrupt work stoppage due to illegal activities of Business Forum interruptions during the implementation of infrastructure projects;
- Delays in completion of projects due to community unrests; and
- Poor performance on several indicators e.g. water revenue, water losses, water and sanitation, informal settlement upgrading and electricity losses.
- Delivery of clean and reliable water supply had collapsed in the northern areas of Hammanskraal and surroundings.

*The End*