

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

SUBMISSION OF ANNUAL REPORT, INCLUSIVE OF ANNUAL FINANCIAL STATEMENTS AND REPORT OF THE AUDITOR-GENERAL, FOR THE 2016/2017 FINANCIAL YEAR

PURPOSE

To submit the 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 have 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).

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

The CoE completed both the financial statement, Consolidated 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 process 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 November 2017 (CoE and Entities) and December 2017 (Consolidated).

The audit outcomes are as follows:

COE Core	Unqualified audit opinion
COE Consolidated	Unqualified audit opinion
ERWAT	Unqualified audit opinion
BBC	Unqualified audit opinion
EHC	Unqualified audit opinion

The final annual report with the annual financial statements and reports 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 2017 as required by section 129 of the MFMA. This report must include a statement indicating 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.

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

The annual financial statements disclosed irregular, fruitless and wasteful expenditure that were 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 2017, 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 which must be written off by Council

This item is providing 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.

This submission also includes 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:

- A Annual Reports**
- B Audited Financial Statements and (Consolidated)**
- C 2016/2017 SDBIP PERFORMANCE (FINAL DRAFT 11 JANUARY 2018)
Auditor General's Report on the Consolidated Financial Statements (i.e. COE
and the Entities combined) Contained in Annexure "A"**

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

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

A full account of the City's performance against its commitments (targets) set in the Service Delivery Budget Implementation Plan (SDBIP) for the 2016/17 financial year is presented in the Annual Report submitted or attached (**Annexure A**).

Over the year under review, the City committed to a total of 104 targets. Of these 104 targets, 74 were achieved and 30 were not achieved. Of the 30 targets that were not achieved, 4 recorded no performance at all and 26 recorded partial achievement.

With the advent of the audit of performance information against predetermined objectives, which focuses on confirming compliance with laws and regulations, the usefulness of performance reporting and reliability of performance reporting, the City continued to get favorable audit results. However, this was not without challenges and these challenges threaten to ruin the favorable audit results obtained.

Despite some notable challenges that may impact negatively on the City's audit results and also impact negatively on the overall target achievement, the City recorded some positive strides regarding its performance against predetermined objectives and targets. These included the marginal improvement on the credibility of data that informs the reported information. This is attributed to the strengthening of data quality controls and improvements in the combined assurance processes (monitoring and internal audit) instituted by the City. The other notable area of good performance is the City's dedicated focus in delivering good quality services to the poor and previously disadvantaged areas. This includes the notable

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

progress in the electrification of informal settlements, decisive and focused implementation of the reblocking programme to improve liveability of informal settlements and the provision of a consistent and predictable supply of basic services (interim basic services) in the informal settlements while maintaining good service standards in developed areas.

The performance reported in the Annual Report is in support of a Delivering City trajectory of the Growth and Development Strategy 2055 (GDS). Against the thematic areas of the GDS, some of the results achieved included:

1. RE-GOVERN

The City made commendable strides in promoting a more effective, accountable, responsive, transparent and clean local government. In its efforts to improve good governance, the City placed a premium on legislative compliance, strengthening of management practices, broadening participation, financial governance and dedicated customer care as well as striving for effective service delivery.

Some of the results and critical milestones achieved which are indicative of a reigning good governance culture in the City included the following:

- Improved the supply chain processes thus achieving 86.67% on tenders completed within the valid period (120 days from date of close of advert) surpassing the target for the year by 1,67%
- Although the municipality regressed from clean audit results which were once achieved for two consecutive financial years (2013/14 and 2014/15), with the intensification of the audit methodology and improvement in the audit scrutiny, the City and its entities remained with or received unqualified audit results.
- Strengthened the risk management and internal audit capabilities thus achieving organisational Risk Management Maturity level of 4 (which is the top end) and achieving 91.26% on the completion of the approved Internal Audit Plan.

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

- The City recorded considerable improvements on the citizens' satisfaction rating based on the indicators explored in the 2017 Quality of Life Survey conducted by the Gauteng City Region Observatory (GCRO).
- Improved the spending on its capital budget achieving a total of 91.64% expenditure
- Strengthened the functionality of the Customer Care Centres and continued to improve the handling of customer queries using the capabilities of the Call Centre. In this regard, the response rate on resolving customer queries in accordance with customer service standards went up from 85% in the 2015/16 financial year to 87.1% in the 2016/17 financial year
- Improved the processes undertaken in finalising the applications for development plans and building plans thus impacting positively on the turnaround times for both processes.
- Commendable results in improving the functionality of the City's ICT systems. Customer facing applications were kept available 99.64% of the times over the financial year under review.
- A total of 84% of critical and prioritized posts were filled

2. RE-INDUSTRIALISE

The City's commitment to Re-Industrializing the Ekurhuleni region yielded the following results:

- Impacted positively on the growth and development objectives of the City. In this regard, the City unlocked dolomitic land for development and achieved good turnaround times in processing and finalizing development planning applications and building plans.
- Some of commendable results in the City's economic growth efforts included the provision of support to a total of 262 enterprises through giving access for participation in the incubation programme, attracted a total of 133 829 business tourists, generated R19.501.219.22 from the Springs Fresh Produce Market and as well as attracting R7.3 bn worth of investments.

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

3. RE-URBANISE

In its efforts to achieve the Re-Urbanize objectives entrenched in the GDS, the following results were achieved:

The City committed to building roads and the construction of stormwater systems adding into the existing networks to improve mobility and reduce flooding within the City while also catalyzing economic development initiatives. In this regard, a total of 79 stormwater systems were added to the existing stormwater network, a total of 61.618 kilometers of roads were built. Maintenance of roads and stormwater systems also took a center stage. In this regard, 10 576 stormwater systems and 2 881.17 kilometers of road network were maintained. Completed a total of 11.140 kilometers of pedestrian and cyclist paths and constructed a total of 1.073 kilometers of dedicated bus ways preparing for the operationalization of the BRT.

The City committed to the electrification of households, installation of PV solar lighting units in informal settlements, installation of high mast lights and streetlights. Significant strides were made and commendable results were achieved. These results included the electrification of 6 087 subsidized households, 1 293 streetlights installed and installation of 20 826 PV solar lighting units in informal settlement. Furthermore, amongst other achievements recorded, the City built 311 subsidized housing units, built a total of 256 social housing units, provided 3 885 serviced stands, refurbished 10 rental complexes (hostels) making them more habitable and upgraded 16 informal settlements to formal townships. The City provided sewer and water connections to a total of 2 392 additional households in formal dwellings.

4. RE-MOBILISE

Against the Re-Mobilise theme of the Growth and Development Strategy (GDS) 2055 of the City, the key service delivery highlights included:

- The City launched 21 chronic medication pick-up points within communities. This is viewed within the strategic context of bring medication to the doorstep of those who

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

need it the most and reducing queues at the clinics as part of the City's commitment to effective health care provision

- Opened the Khumalo, Tsietsi and Dukathole clinics which served not less than 300 000 people
- Constructed a total of 6 health facilities and one new fire station
- Initiated a total of 53 045 eligible patients on Antiretroviral Therapy
- Launched the e-verification process for the indigent households and provided free municipal basic services to a total of 16 823 new indigent households.
- Conducted rodent control activities to households affected by rodents to reduce the rate of infestation as an attempt to impact positively in the promotion of healthy communities
- The Grant-in-Aid kitty was increased from R10m to R100m a move that was intended to make a much bigger impact in supporting and promoting participation of previously disadvantaged residents and communities in social development, local economic development, sustainable job creation as well as social cohesion through sports, recreation, arts and cultural initiatives.
- Increased the bursary budget to R100 million for a much greater intake of deserving students especially catering for students from poor households
- A total of 176 ECD practitioners were trained in an accredited ECD training programme
- Implemented accredited capacity building programmes reaching out to 449 beneficiaries who participated actively.
- As part of the cognitive development programme targeting learners, the City implemented 16 schools programme to support learners. Through its accredited ECD programmes, the City reached out to a total of 10437 children aged 3-6 years
- Historical acquisition of the Chris Hani house, a house of the liberation struggle icon and freeperson of the City
- Re-opened the Selection Park swimming pool in Springs

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

- In pursuit of promoting by-law enforcement, reducing crime and promoting safer communities, a total of 84 planned by-law enforcement policing operations were implemented

5. RE-GENERATE

Against the Re-Generate theme of the Growth and Development Strategy (GDS) 2055 of the City, the key service delivery highlights included:

- As part the efforts to improve the living conditions in communities, the City cleared a number of illegal dumping and provided communities with alternatives to manage waste.
- Distributed a total of 100 713 240l bins as part of the broad waste management strategy
- Completed rehabilitation activities in 4 water bodies
- A total of 5 parks were upgraded and 6 cemeteries were also upgraded
- Opened the Actonville Community Park and completed the Vosloorus entrance beatification. It also handed over the Ususuka Park to the community.
- Intensified the implementation of regulatory actions reaching out to a number of identified companies in an effort to promote compliance with environmental legislation

Notwithstanding the service delivery achievements presented above, the City experienced many challenges that impeded the full achievement of the targeted deliverables. Amongst others, these challenges included:

- **Ageing Infrastructure**
 - Incomplete water and sewer asset register in certain areas of the City resulting in accidental damage of infrastructure, insecurity of assets, community manipulation of service continuity and negatively affecting the maintenance capabilities of the City

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

- The lack of network integration makes it difficult to optimize the available water resources and ensure service continuity in cases of break down
- Increasing incidents of sewage overflows and inadequate sewer capacity
- Need to upgrade the electricity infrastructure: electricity network refurbishment which requires sufficient budget

- **Supply Chain Related Challenges**
 - This negatively impacted on commencement of capex projects causing delays in the completion of projects thus negatively affecting the achievement of targeted deliverables
 - It also impacted negatively on the expenditure of the budget allocated to capital projects

- **Performance of Service Providers**
 - Delays in appointing service providers negatively impacted the delivery of some of the targeted services.
 - These delays in project progress has in the main been attributed to worker strikes by the employees of the service providers

- **Community Facilitation**
 - Despite the attempts to engage communities on projects or developments targeted in their areas, issues related to contestation of job opportunities by certain members of the broader community impacted negatively on the continuity of projects thus negatively affecting target achievement on affected services

Against these challenges, the City implemented a lot of mitigating plans including some interventions in the supply chain/procurement processes to ensure that there are no delays in acquiring service providers. These included the stage gate project management of targeted capital projects, appointment of panels of service providers and professional services as well as improving efficiencies of the internal bid committees. Intensive

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

monitoring of both projects and performance of service providers is one of the key interventions instituted. A dedicated focus on the Siyaqhuba Mayoral Outreach Programme proved to be a good vehicle in improving responsiveness on service blockages and it is also assisting with the broadening of community engagements and mobilisation for helpful by-ins and broadens community awareness on municipal programmes to avoid any issues of disputes and delays. The City also implemented an integrated infrastructure development, upgrading and maintenance plan to respond to the challenges posed by the ageing infrastructure particularly on electricity and water and sanitation.

SECTION B: FINANCIAL PERFORMANCE AS CONTAINED IN THE ANNUAL FINANCIAL STATEMENTS OF THE CITY OF EKURHULENI (CORE)

***Note:** The figures explained in this section relate to CoE's Core 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 entire CoE group, i.e. the CoE plus the entities, whilst the controlling entity refers to CoE 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.

Statement of Financial Performance

Explanatory notes on what the Statement of Financial Performance entails

The purpose of the Statement of Financial Performance is to give an account of the results of the municipality's operations for the year. These transactions result from the operating budget of Council. The result is expressed as being either a surplus or a deficit (being the difference between Revenue and Expenditure). A surplus is

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

indicative of Revenue being more than Expenditure and a deficit is when Expenditure being more than Revenue.

It is important to note that the financial statements are prepared on the accrual basis and not the cash basis meaning that the transactions as recorded (both revenue and expenditure) when services are rendered or received, does not relate to amounts received or paid, but to the Metro being entitled to the revenue or being liable for the expenditure. In addition, non-cash items (both revenue and expenditure) are included in the Statement of Financial Performance. Resultantly, neither the surplus nor the deficit refers to cash. To see what the cash balance is, one must refer to the Cash Flow Statement.

As examples, the following is provided:

Revenue for assessment rates and user charges for services – revenue contained in the Statement of Financial Performance is BILLED revenue and not revenue collected.

Gain on sales of assets – this amount is the “profit” made on the sale of assets being the difference between the carrying value of the asset and the selling price (or insurance recovery) received.

Depreciation – depreciation is the systematic expensing of the value of an asset as it is used up and does not relate to any cash payment made (nor is the money owed to anyone for that matter). A road can last for 40 years and every year 1/40th of the road is “used up” and that must be shown as an expenditure item called depreciation. The intention is to set these funds aside so that there is cash available at the end of the useful life of the asset to replace the asset.

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

Loss of sale of assets – the same as in gain on sale of assets, but here the selling price (or insurance recovery) is less than the carrying value of the asset.

The Ekurhuleni Metropolitan Municipality generated a surplus of R1 251 969 425 and for the 2015/16 period was R2 170 248 229. The full set of GRAP accounting standards, as approved by the Accounting Standards Board were fully complied with in the preparation of these annual financial statements.

A comparison of the actual revenue against the revenue of previous year.

Statement of Financial Performance				
	June 17	June 16	Value variance	% Variance
REVENUE				
Property rates	4 053 558 160	3 946 658 651	106 899 509	2.6%
Property rates - penalties imposed	63 725 030	100 916 675	(37 191 645)	-58.4%
Service charges	18 746 400 361	17 130 454 896	1 615 945 465	8.6%
Rental of facilities and equipment	67 521 340	59 256 123	8 265 217	12.2%
Interest earned - external investments	536 303 137	632 624 010	(96 320 873)	-18.0%
Interest earned - outstanding debtors	304 694 051	459 031 354	(154 337 303)	-50.7%
Fines	282 428 172	218 443 438	63 984 734	22.7%
Licences and permits	50 248 868	51 650 784	(1 401 916)	-2.8%
Income from agency services	282 218 826	276 375 456	5 843 370	2.1%
Government grants and subsidies	6 836 096 411	6 612 130 291	223 966 120	3.3%
Other income	157 024 350	107 259 994	49 764 356	31.7%
Public contributions and donations	-	53 457 399	(53 457 399)	-100.0%
Total Revenue	31 380 218 706	29 648 259 071	1 731 959 635	5.5%

Total revenue for the year amounted to R31 380 218 706, which is 5.5% increase from the revenue of the 2015/2016 year which was R29 648 259 071. The increased revenue is mainly resulting from the implementation of the annual inflation adjustments, as well as moderate growth and the increased in services rendered to residents and increased government grant and subsidies allocation.

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

A comparison of the actual revenue against the budget revenue shows a 2.7% deviation.

Statement of Financial Performance				
	Budget	Actual	Value variance	% Variance
REVENUE				
Property rates	4 022 231 539	4 053 558 160	(31 326 621)	-0.8%
Property rates - penalties imposed	133 973 478	63 725 030	70 248 448	52.4%
Service charges	19 666 655 394	18 746 400 361	920 255 033	4.7%
Rental of facilities and equipment	65 599 248	67 521 340	(1 922 092)	-2.9%
Interest earned - external investments	322 079 999	536 303 137	(214 223 138)	-66.5%
Interest earned - outstanding debtors	344 563 396	304 694 051	39 869 345	11.6%
Fines	289 237 150	282 428 172	6 808 978	2.4%
Licences and permits	59 052 002	50 248 868	8 803 134	14.9%
Income from agency services	304 931 570	282 218 826	22 712 744	7.4%
Government grants and subsidies	6 936 836 392	6 836 096 411	100 739 981	1.5%
Other income	90 812 010	157 024 350	(66 212 340)	-72.9%
Total Revenue	32 235 972 178	31 380 218 706	855 753 472	2.7%

A comparison of the actual expenditure against the expenditure of previous year.

The total expenditure for the year amounted to R30 136 200 761 which is 8.8% increase from the expenditure of the 2015/2016 year which was R27 478 010 842.

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

Statement of Financial Performance				
	June 17	June 16	Value variance	% Variance
EXPENDITURE				
Employee related costs	6 051 005 522	6 338 421 151	(287 415 629)	-4.7%
Remuneration of councillors	119 944 483	105 696 037	14 248 446	11.9%
Debt impairment	2 609 578 888	1 434 057 613	1 175 521 275	45.0%
Collection cost	141 193 723	116 163 244	25 030 479	17.7%
Depreciation	1 885 512 196	1 663 543 008	221 969 188	11.8%
Impairment of assets	128 284 674	281 690 611	(153 405 937)	-119.6%
Finance costs	901 847 024	848 639 400	53 207 624	5.9%
Bulk purchases	12 402 510 939	11 662 156 131	740 354 808	6.0%
Contracted Services	1 061 353 750	856 564 396	204 789 354	19.3%
Grants and subsidies paid	1 206 629 927	1 096 477 179	110 152 748	9.1%
General expenses	3 628 339 635	3 074 602 072	553 737 563	15.3%
Total Expenditure	30 136 200 761	27 478 010 842	2 658 189 919	8.8%

Significant cost increases relate to, Debt impairment as a results of adverse economic conditions, additional audit adjustment calculated in accordance with GRAP standards, increased by R1.75 bn, whereas, as collection cost increased by 18%. Contracted services increased by 9.1% due to additional work performed by consultants and the Grants paid increased by 9.1% as a result of the City increasing its subsidies services. General expenses increased by 15.3% as a result of improved spending on repairs and maintenance.

A comparison of the actual expenditure against the budget expenditure shows a 1% deviation.

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

Statement of Financial Performance				
EXPENDITURE	Budget	Actual	Value variance	% Variance
Employee related costs	6 958 890 210	6 051 005 522	907 884 688	13.0%
Remuneration of councillors	126 781 174	119 944 483	6 836 691	5.4%
Debt impairment	1 468 870 977	2 609 578 888	(1 140 707 911)	-77.7%
Collection cost	150 029 484	141 193 723	8 835 761	5.9%
Depreciation	1 805 346 054	1 885 512 196	(80 166 142)	-4.4%
Impairment of assets	-	128 284 674	(128 284 674)	100.0%
Finance costs	638 134 124	901 847 024	(263 712 900)	-41.3%
Bulk purchases	12 658 389 753	12 402 510 939	255 878 814	2.0%
Contracted Services	1 158 734 974	1 061 353 750	97 381 224	8.4%
Grants and subsidies paid	1 270 677 469	1 206 629 927	64 047 542	5.0%
General expenses	4 201 659 524	3 628 339 635	573 319 889	13.6%
Total Expenditure	30 437 513 743	30 136 200 761	301 312 982	1.0%

Operating expenditure below budget mainly less spending on employee costs at 13%, and saving on councillors remuneration of 5%. The following items increased significantly, bad debts provision increased by R1.1 bn due to audit adjustment in other to comply with the GRAP standards. Furthermore, the finance costs increased by 41% as a result of the actuarial calculation of employee benefits provision as required by the GRAP standards, no amount was budgeted for this item as there is no outflow of cash. The depreciation and assets impairment also resulted in additional R208 million over expenditure due to certain capital expenditure not meeting the subsequent capitalisation requirements as per GRAP standards, also do not have an outflow of cash. As part of the City cost containment measures savings were achieved in the following expenditure items, 8.4% in contracted services and 13,6% in the general expenses group against their budget allocation.

The financial performance for the year reflects as a positive performance. The minimal variance between the budget and actual indicates an improved level of planning being performed by departments and realisation of budgeted revenue projections, and keeping expenditure within the approved budget.

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

Statement of Financial Position

Explanatory notes on what the Statement of Financial Position entails

The purpose of the Statement of Financial Position is to give an account of the assets and liabilities of the municipality at the end of the financial year.

Net assets are shown which the difference between the assets and the liabilities is. If the municipality has a net deficit, it is indicative that the municipality has more liabilities than assets, which could be interpreted as being insolvent.

When comparing the Statement of Financial Position with that of 2016, the following variances are evident:

<u>Statement of Financial Position</u>				
	June 17	June 16	Value variance	% Variance
ASSETS				
CURRENT ASSETS	12 158 527 222	14 615 894 830	2 457 367 608	20.2%
NON-CURRENT ASSETS	51 586 260 416	48 832 354 972	(2 753 905 444)	5.3%
TOTAL ASSETS	63 744 787 638	63 448 249 802	296 537 836	0.5%
CURRENT LIABILITIES	8 527 818 777	8 600 478 087	(72 659 310)	-0.9%
NON CURRENT LIABILITIES	7 642 029 070	8 524 801 350	(882 772 280)	-11.6%
TOTAL LIABILITIES	16 169 847 847	17 125 279 437	(955 431 590)	-5.9%
NET ASSETS (NET POSITION)	47 574 939 791	46 322 970 365	1 251 969 426	2.6%

Net assets increased by 2.6% from year to year.

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

Cash Flow Statement

Explanatory notes on what the Cash Flow Statement entails

The cash flow statement shows a positive net cash inflow (money received). Here accruals are not applicable as the focus is on cash movements. Technically the statement starts with the accounting surplus as per the Statement of Financial Performance which gets adjusted for all non-cash transactions. All other cash transactions not resulting from the Statement of Financial Performance are recorded. These items can be referenced back to both the capital budget as well as the items reported as part of the quarterly Section 11 withdrawals reports submitted to Council.

There are three main categories:

Net cash resulting from operating activities – this section shows the result of the operations of Council in cash terms. It includes the rendering of municipal services, purchasing of inventory kept in stores, debtors and creditors transactions and interest paid and received.

Net cash resulting from investing activities – this section shows the result from amounts invested (either in assets through the capital budget or as cash investments) as well as investments made and/or withdrawn.

Net cash resulting from financing activities – this section shows the result from financing activities, being mainly external loans taken up or redeemed.

A healthy financial situation is one where the municipality has a net cash surplus resulting from operations as main source of revenue rather than from financing activities. A second important measure is to look for a correlation between cash generated from financing activities and investing activities which shows that funds borrowed were invested in capital infrastructure and not used for operations.

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

A very dangerous situation would be where there is a net cash deficit from operations, no or limited cash invested but cash received from financing activities. That would be indicative of a municipality utilising borrowings to fund operations instead of infrastructure assets.

Cash resources increased as follows:

<u>Cash flow Statement</u>	June 17	June 16	Value variance	% Variance
Net Cash inflow from Operating activities	3 075 219 319	4 860 358 069	1 785 138 750	58.0%
Net Cash outflow from Investing activities	(4 930 425 627)	(4 281 596 947)	648 828 680	13.2%
Net Cash inflow from Financing activities	(307 426 381)	(307 551 001)	124 620	0.0%
Net Increase in Cash and Cash equivalents	(2 162 632 689)	271 210 121	(2 433 842 810)	112.5%
Cash and Cash equivalents at Beginning of the year	7 972 586 235	7 701 376 114	271 210 121	3.4%
Cash and Cash equivalents at End of the year	5 809 953 546	7 972 586 235	(2 162 632 689)	-3722.3%

The CoE generated from its operating activities a cash of R3.1bn during the 2016/2017 financial year and last year was R4.9b. The year started with a cash balance of R7.9b and ended with cash of R5.8b. The cash on hand decreased significantly because the proceeds from new long-term borrowing for the year ended 30 June 2017, was only received after the year end closure. The cash generated is as follows:

- From operations – R3.1bn cash increase - Simply stated this means that the difference between amounts received from customers for services rendered and grants received were R4.9b more than the amounts that we paid out as operating expenditure to employee costs and suppliers in delivering services
- From investing activities – R4.9bn cash outflow – this means that City invested R4.9b of our cash. Of this, R4.673bn was spent on acquiring capital projects, and R227m invested in sinking funds for the repayment of long term borrowings.

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

- From financing activities – R307 million cash outflow – This relates to repayment of R363 million of long-term loans. No new long-term borrowing acquired in the current year. In addition, received R56 millions of consumer deposits.

Cash generated from operations is over by R2.8bn more than the cash generated from financing activities demonstrates the City’s ability to generate funds from its own operation and does not borrowing beyond prudent levels. The loan redemption profile of the existing loans is as follows:

Period	Opening Balance	New Loans	Redemption	Closing Balance	Inv Maturing	Net Redemption	Annuity Payments	Bullet Payments
2013/14	5,198,340,315	785,000,000	184,289,481	5,799,050,834		184,289,481	- 215,730,852	400,020,333
2014/15	5,799,050,834	750,000,000	284,180,372	6,264,870,463	32,620,000	251,560,372	251,423,872	32,756,500
2015/16	6,264,870,463		342,666,436	5,922,204,027		342,666,436	342,666,436	
2016/17	5,922,204,027		361,074,769	5,561,129,258		361,074,769	361,074,769	
2017/18	5,561,129,258		381,507,419	5,179,621,839		381,507,419	381,507,419	
2018/19	5,179,621,839		316,839,434	4,862,782,406		316,839,434	316,839,434	
2019/20	4,862,782,406		240,032,404	4,622,750,001		240,032,404	240,032,404	
2020/21	4,622,750,001		1,862,577,255	2,760,172,746	1,615,000,000	247,577,255	247,577,255	1,615,000,000
2021/22	2,760,172,746		255,517,250	2,504,655,496		255,517,250	255,517,250	
2022/23	2,504,655,496		264,486,590	2,240,168,906		264,486,590	264,486,590	
2023/24	2,240,168,906		1,074,554,204	1,165,614,702	800,000,000	274,554,204	274,554,204	800,000,000
2024/25	1,165,614,702		286,007,579	879,607,123		286,007,579	286,007,579	
2025/26	879,607,123		105,666,667	773,940,456		105,666,667	105,666,667	
2026/27	773,940,456		105,666,667	668,273,790		105,666,667	105,666,667	
2027/28	668,273,790		105,666,667	562,607,123		105,666,667	105,666,667	
2028/29	562,607,123							

The bullets loans will be redeemed from the sinking funds that are in place and funds are transferred annually to the reserves. The loan redemptions will not have a negative impact on the cash available for operations.

External loans increased as follows in the past two financial years:

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

Financial Institution	Closing Balance 30 June 2015	Closing Balance 30 June 2016	Closing Balance 30 June 2017	Closing Balance 30 June 2018	Closing Balance 30 June 2019
ABSA	665,295,677	627,439,953	585,048,606	537,503,780	484,175,283
Nedbank	498,300,997	374,156,951	236,140,196	82,844,270	-
Municipal Bonds	4,591,000,000	4,410,333,333	4,429,666,667	4,049,000,000	3,868,333,333
Total Liabilities	5,754,596,673	5,411,930,237	5,250,855,469	4,669,348,050	4,352,508,616

The City has a net surplus of R47.6bn.

Capital Budget Implementation

Final departmental capital budget performance:

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

Department	Sum of Adjusted Budget	Expenditure for the Year	Percentage Spent
Chief Operating Officer	180 000	174 118	96.73%
City Manager	3 240 000	2 896 137	89.39%
City Planning	31 566 000	3 586 657	11.36%
Communication and Brand Management	1 550 000	1 535 948	99.09%
Corporate Legal Services	650 000	583 438	89.76%
Council General	389 418 041	387 482 743	99.50%
Customer Relations Management	63 234 796	65 395 075	103.42%
Disaster & Emergency Management Services	198 151 320	190 415 190	96.10%
Economic Development	174 473 566	165 102 525	94.63%
EMPD	108 200 000	95 217 457	88.00%
Energy	648 829 000	628 255 934	96.83%
Environmental Resources Management	142 219 668	141 826 888	99.72%
EPMO	550 000	452 624	82.30%
Executive Office	12 900 000	8 425 661	65.32%
Finance	8 951 000	8 445 981	94.36%
Fleet Management	23 320 486	21 162 162	90.74%
Health & Social Development	82 613 484	81 790 028	99.00%
Human Resources Management & Development	1 000 000	892 966	89.30%
Human Settlements	710 359 021	659 765 222	92.88%
ICT	458 814 962	428 692 057	93.43%
Internal Audit	424 500	409 174	96.39%
Legislature	5 859 500	5 756 410	98.24%
Real Estate	113 520 000	111 213 919	97.97%
Risk Management	324 000	322 655	99.59%
Roads and Stormwater	645 638 415	598 395 208	92.68%
SRAC	125 173 112	120 782 632	96.49%
Strategy & Corporate Planning	520 000	493 566	94.92%
Transport	718 458 860	519 073 003	72.25%
Waste Management	126 210 700	125 685 781	99.58%
Water & Sanitation	334 555 269	327 803 548	97.98%
Grand Total	5 130 905 700	4 702 034 704	91.64%

Capital spending increased from R4 093 865 317 (in 2015/2016) to R4 702 034 704 in 2016/2017, the actual spending increased by R608 million. The expenditure performance against budget in the current year improved is by 3.7% from 87.9% to 91.6% in the current year.

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

SECTION C: REPORT OF THE AUDITOR GENERAL

The Auditor General (AG) report contained in the annexures A-F (01-2018) Volume 2/2. The page numbers (which refer to the pages in the annual report) will be included in the published version (glossy) of the annual report.

The MFMA, Section 126 (3) require The Auditor-General must—

- a) audit those financial statements; and
- b) submit an audit report on those statements to the accounting officer of the municipality or entity within three months of receipt of the statements.

The report of the Auditor General will include audit work performed on the following activities of the municipality:

- a) Financial Statements, whether the financial statement fairly present in all material aspect the financial results and financial position of the municipality and it cash flow
- b) Predetermined objectives, whether the information reported by the municipality on service delivery targets is usefulness and reliable as reported in the municipality's annual report
- c) Compliance with Laws and Regulations, whether the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters.
- d) Any other audit work performed on behalf of the municipality (other audit services)

SECTION D: APPROVAL OF FINAL YEAR END TRANSACTIONS FOR THE COMPILATION OF THE 2016/2017 FINANCIAL STATEMENTS

As part of the compilation of the financial statements process, and to comply with the requirements of Generally Recognized Accounting Practices (GRAP), the following transactions were processed that requires ratification from or notification to Council:

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

Council approval required:

- Other Assets to be written off: assets with a book value of R5 440 486 being derecognized by the relevant departments, as assets that are no longer in use or have reached the end of their useful lives,
- An amount of R128 284 674 had to be impaired as these Capital Expenditure did not meet the subsequent capitalization requirements as per applicable accounting standards, which have to be derecognised.
- The criteria for redundant stock are where no or little movement for the past three years occurs on the item. Stock with no movement for the last three years were identified and circulated to departments to indicate any need for the items as from January 2017. Where no comments were received, it is presumed that there is no need for the stock - Redundant Stock to be written off – R478 892.
- The annual stock taking for the year ended 30 June 2017 was conducted throughout the Council from 5 May 2017 until 31 May 2017, in a staggered manner to avoid the hampering of the Council's Operations. Damaged stock to the amount of R11 351 was found.
- During the annual stock take differences were found on stock items - Stock Shortages to be written off – R0.
- Debtors written off in terms of the CFO's delegated powers – these are reported to Council in terms of the various council resolutions taken regarding the delegations.

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

ORGANISATIONAL AND HUMAN RESOURCE IMPLICATIONS

None

FINANCIAL IMPLICATIONS

None

LEGAL IMPLICATIONS

None

COMMUNICATION IMPLICATION

None

OTHER DEPARTMENTS/ BODIES CONSULTED

The Finance Management team was consulted, and these results were reviewed by the audit committee and the recommendations were noted in preparing these reports. HOD's commented on matters raised by the Auditor General in respect of matters under their area of responsibility, and corrective action will be monitored by the OPCA, internal audit and audit committee in the 2017/17 financial year.

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (CoE)

ORDINARY COUNCIL MEETING

2018.01.25

A-F (01-2018)

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) 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 2017 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 municipality and municipalities entities Annual Reports, inclusive of the Annual Financial Statements and the Report of the Auditor-General for the 2016/2017 financial year, **BE APPROVED**.