

4. Finance & Institutional Cluster

The topics included within the Finance & Institutional Cluster are:

- Finance;
- Human Resources;
- Communication;
- Customer Care;
- Intergovernmental Relations;
- Corporate Governance;
- Information Technology (IT) & Geographical Information Systems (GIS);
- Knowledge Management;
- IDP & Performance Management; and
- Coordination & monitoring Cross-Cutting Issues.

4.1 Finance

4.1.1 Summarised Financial Statement

The Financial Statements listed below relate to the last 2 years of audited financial information viz. 2005/06 and 2004/05.

Table B.11: Income Statements for Respective Years: 1 July – 30 June

	2005/6 R m	2004/5 R m	2003/4 R m
INCOME			
Government grants	405	417	204
Assessment rates	271	255	230
Sale of electricity	410	387	351
Sale of water	144	146	119
Other service charges	375	341	281
Total income	1605	1546	1184
	2005/6 R m	2004/5 R m	2003/4 R m
EXPENDITURE			
Salaries	476	450	409
General expenses	437	557	377
Purchase of electricity	227	222	211
Purchase of water	63	57	54
Repairs and maintenance	71	72	51
Capital charges	127	117	151
Contributions	0	13	33
Amounts charged out	0	-122	-120
Total expenditure	1401	1366	1166
SURPLUS / -DEFICIT	204	180	18

(Source: Audited Financial Statements)

Table B.12: Balance Sheets as at 30 June

	2005/6 R m	2004/5 R m	2003/4 R m
CAPITAL EMPLOYED			
Statutory funds and reserves	775	598	360
Accumulated surplus / (-deficit)	289	189	9
Long term liabilities	402	400	374
Other	-	-	116
TOTAL	1466	1187	859
EMPLOYMENT OF CAPITAL			
Fixed assets	1045	873	530
Investments	11	110	88
Long term debtors / other assets	6	6	6
Current assets	814	563	438
Debtors	286	303	307
Cash and short term investments	488	225	116
Other current assets	40	35	15
Current liabilities	410	365	203
Creditors	177	166	148
Bank overdraft			-
Other current liabilities	233	199	55
TOTAL	1466	1187	859

(Source: Audited Financial Statements)

4.1.2 Financial Analysis – Selected Financial Indicators

The selected trends and financial ratios relating to Buffalo City for the period under review are listed below. These provide a platform to analyze the current financial situation of the City. The trends and ratios have been divided into the following categories:

- Income and Expenditure
- Revenue management / liquidity
- Borrowing management

TABLE B.13: Income & Expenditure

	2005/06 R m	2004/05 R m	2003/04 R m	2002/03 R m
Total income	1,605	1,546	1,184	1,024
<i>% Increase over previous year</i>	4%	31%	16%	12%
Total expenditure	1,401	1,366	1,166	1,022
<i>% Increase over previous year</i>	3%	17%	14%	12%
Surplus / Deficit	204	180	18	3
Budgeted expenditure	1,456	1,537	1,158	1,002
<i>% Increase over previous year</i>	-5%	32%	16%	11%

Salaries	475.4	449.6	409	361
<i>% Of income</i>	29.6%	29%	35%	35%
<i>% Of expenditure</i>	33.9%	33%	35%	35%
<i>% Increase over previous year</i>	6%	10%	13%	8%
Number of employees	4315	4723	3,897	3,947
<i>% Decrease over previous year</i>	9%	21%	1%	9%
Repairs and maintenance	71.5	72	51	39
<i>% Of expenditure</i>	5%	5%	4%	4%
<i>% Increase over previous year</i>	0%	41%	31%	-49%
Capital charges	70.8	59.4	151	147
<i>% Of expenditure</i>	5%	4%	13%	14%
<i>% Increase over previous year</i>	19%	-61%	3%	0%
External interest	56.2	57.4	57	56
<i>% Of expenditure</i>	4%	4%	5%	5%
<i>% Increase over previous year</i>	-2%	0.70%	2%	0%

• **Total Income versus Total Expenditure**

The net consolidated surplus for the period under review amounted to R205 million. The surplus represents a 13% portion of the total income for the City. Revenue is growing at a pleasing rate when compared to expenditure growth, but sources of growth are attributable to government grants and other income. A key factor for BCM is the existence of a diversified tax base, with potential to earn additional rates incomes.

Capital charges are replaced with depreciation and will move down as capital and interest payments on infrastructure accumulate.

• **Expenditure**

Repairs and maintenance remain relatively static at between 4% and 5%. Although this may be viewed in a positive light, because it represents a minor portion of the basic, indications from the Engineering departments are that this should be higher in the interests of infrastructure longevity.

The focus on human resource costs as a proportion of operating income has led to a drop from 35% to 29%. More precise budgeting and the capitalization of employee costs have contributed to this.

• **Capital Expenditure and Funding**

The following table compares Buffalo City’s actual capital expenditure, spanning the three years 2003/04 to 2005/06.

Capital spending has not occurred as rapidly as in the previous year, whilst the implementation of housing projects has been balanced with the rollout of new water infrastructure. The amount for housing excludes the *R21.1million that was spent on Operational Projects funded from Local Government and Housing.

Table B.14: Capital Expenditure

Capital Expenditure (Rm)	2005/06 Actual R m	2005/06 Budget R m	2004/05 Actual R m	2004/05 Budget R m	2003/04 Actual R m	2003/04 Budget R m
Housing	*6	35	37.9	77.3	44.8	74.8
Electricity	28.7	33.8	16.3	23.2	21.8	23.2
Market	0.6	0.8	0.1	0.9	0.7	0.9
Water	46.7	52.9	41.2	69.2	56.7	66.8
Total Capital Expenditure	82	122.5	95.5	170.6	124.0	165.7

• **Financial Profile**

BCM's cash generation remains strong, and investments have doubled in the 2005/06 year. Operations have settled and tight cash controls have ensured that *cash optimisation in spending* occurs rather than a focus on *cash generation*. A pleasing note is that although cash generated has tapered off, the cash generated by operating activities has increased by R51 million. This leads to the conclusion that the City has not had to borrow cash, nor rely on pressurising debtors to increase cash flow.

An area needing close monitoring will be that of bad debts, as write-offs have decreased from R80 million to R52 million.

Following a *decrease* in external interest paid of R1 million; the debt exposure and debt to equity position have both strengthened from 2004/05 to 2005/06.

Net assets remain strong and the 35.18% increase is mainly attributable to Government Grant reserves and growth in accumulated surpluses. The ability to meet short-term commitments, has remained, the key strength of the balance sheet, whilst debtors have declined by R18 million.

The following chart illustrates the days' cash on hand.

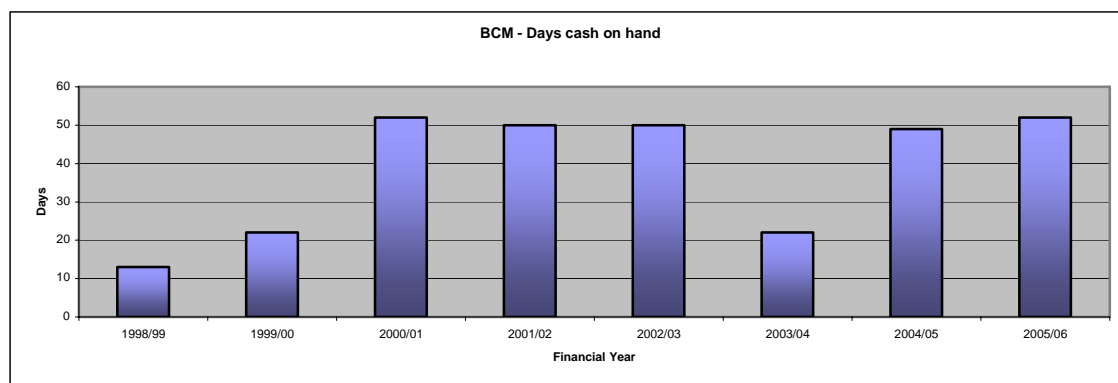


Figure B.5: BCM: Days Cash on Hand

Cash and cash investments increased significantly from the 2004/05 financial period to the 2005/06 financial year due to prudent budgeting and cash-vetting before project spending takes place. Tight controls have been placed on monitoring projects funded externally. This means project spend only occurs when Buffalo City's Treasury is certain that cash is available and bridging finance for external public sector institutions is minimised.

If the improved cash generation trend is sustained, the liquidity of Buffalo City is likely to improve in future years.

Table B.15: Revenue Management and Liquidity

REVENUE MANAGEMENT	Jun-06	Jun-05	Jun-04	Apr-03
Annual debtors collection rate	96%	91%	93%	93%
Net debtors to annual income	18%	30%	41%	26%
Days debtors outstanding	87	70	100	95
Bad debt provision %	38%	41%	35%	32%

LIQUIDITY	Jun-06	Jun-05	Jun-04	Apr-03
Current ratio	1.99	1.65	1.46	2.16
Liquid ratio	1.19	1.61	1.42	0.04

- **Revenue management**

The bad debt provision has increased marginally (8.36%) whilst debtors have displayed a sideways trend. Bad debts written off have increased substantially, but have been necessary, due to non-recoverability features. However, the due diligence on the debtor’s book reveals that the book is well-stated with minimal mis-representations.

A positive note is that the net debtors to annual income has decreased, meaning that revenue streams are growing at a faster rate than the debtor’s book. A revenue management feature that stands out, is the well-implemented credit control policy: the continued effort to manage debtors in a rehabilitation environment, rather than a command-and-control technique.

- **Financial Structure/Liquidity**

Financial gearing levels, displayed over the past four years, have improved, whilst the cash generation and liquidity exhibited strong increases over the past two years.

Structural improvements in the finances show that:

- The debt profile of the City has been smoothed by negotiating guarantees from the International Finance Corporation in place of ceded collateral, which translates to the transformation of a quarter of the debt profile from bullet payments into mortgage style loans. This resulted in cash injections to the order of approximately R116 million, alleviating the need for traditional loans to support the capital programme.
- The total debt to total income ratio to a review period low of 34.95% in 2005/06. This is in line with National Treasury targets. Debt capacity remains a strong intangible asset of the municipality to weather future capital infrastructure expenditure shocks.
- An increase in cash and cash investments, to R264 million in 2005/06 (2004/05: R128 million).
- An analysis of long-term debt maturity profile reveals no undue maturity concentrations, with the majority of long term outstanding debt spread fairly evenly between 2009/10 and 2014/15. Maturity dates of 2008/09 will require conservative operational budgets, whilst the municipality gears up for stringent debt, asset and cash management.
- Slowed capital expenditure, although not desirable, has proven to bring alleviation to the operational budget and true tariffs payable by ratepayers.

Table B.16: Borrowing Management

	2005/06	2004/05	2003/04	2002/03
Total debt to total asset ratio	22.3%	45.1%	63%	66%
Interest bearing debt / Total income	26.1%	33.6%	41%	47%
Average Interest Paid on Debt	12.5%	14.8%	14%	13%
Capital Charges to Operating Expenditure	9.1%	13.0%	13%	14%

4.1.3 Strengths & Opportunities

The key findings within the financial context can be summarized according to weaknesses, threats, strengths and opportunities.

The financial department has access to competent staff and financial expertise as well as a fully functional accounting system. Opportunities for the future lie in an increased tax base, improved debtor repayment levels, and the stimulation of an increasingly diversified commercial and industrial sector. Other opportunities that would benefit Buffalo City are increased domestic grant funding for infrastructure renewal, as well as prospects of foreign funding. Three finance reform initiatives namely, Budget Reform, GRAP Implementation and Asset Management have been identified and are currently in the process of being implemented. These initiatives as well as the introduction of

the Municipal Finance Management Act (MFMA) will result in improved financial management and control.

4.2 Institutional

4.2.1 Organizational Structure of Buffalo City

The approved compliment of staff for BCM is 4917. However, there are currently 4149 funded posts

BCM has restructured its top 2 levels i.e. from the Municipal Manager to Directors and is at present busy with phase 2 of the further organizational restructuring which involves posts below that of the Directors. This organogram will, when necessary, be amended to meet the operational and strategic requirements of BCM.

4.2.2 Powers and Functions

The powers and functions performed by local authorities in South Africa are defined primarily in sections 156 and 229 of the Constitution (Act 108 of 1996).

The Local Government Municipal Structures Act (117 of 1998), read together with the Local Government Municipal Structures Amendment Act (33 of 2000), divides the powers and functions, as set out in the Constitution, between District and Local Municipalities (section 84). The Act together with the Amendment Act, section 85(1), allows the MEC for local government to further adjust the division of certain of these functions between District and Local Municipalities, whilst section 84(3)(a) allows only the Minister for Local Government to authorise a Category B municipality to perform the following functions:

- portable water supply systems
- electricity
- domestic waste-water and sewage disposal systems
- municipal health services

Adjustments have been made by the MEC and the Minister, and in terms of these, BCM has the responsibility for all the functions detailed in the table below, except for 'municipal airports' and 'Municipal Health Services' which are the responsibility of the ADM.

Table B.17: Powers and Functions of Municipalities: Section 156 of the Constitution

o air pollution	o building regulations
o child care facilities	o electricity & gas reticulation
o fire fighting services	o local tourism
o municipal airports (ADM)	o municipal planning
o municipal health services (ADM)	o municipal public transport
o cleansing	o control of public nuisances
o storm-water management systems in built-up areas	o trading regulations
o billboards & public display of advertisements	o cemeteries, funeral parlours & crematoria
o fencing and fences	o licensing of dogs
o local sport facilities	o markets
o municipal abattoirs	o municipal parks and recreation
o municipal roads	o noise pollution
o pounds	o public places
o refuse removal	o refuse dumps and solid waste disposal
o street trading	o street lighting
o municipal public works relevant to their constitutional or legal functions	o licensing & control of undertakings that sell food to the public
o water & sanitation services limited to portable water supply systems & domestic waste-water and sewage disposal systems	o facilities for the accommodation, care & burial of animals
o control of undertakings that sell liquor to the public	o pontoons, ferries, jetties, piers and harbours
o beaches & amusement facilities	o local amenities
o traffic and parking	

Whilst the responsibility for Municipal Health Services (MHS) (Environmental Health) now rests with ADM, this function continues to be undertaken by three different institutions, Buffalo City, Eastern Cape Province and ADM. ADM Council has adopted a resolution to opt for an internal mechanism for the delivery of MHS in its area of jurisdiction after commissioning a Section 78 assessment in terms of the Municipal Systems Act. ADM sources have indicated that it will assume full responsibility for MHS in July 2007, however there are legal and logistical challenges that need to be addressed first and it is therefore not clear as to whether the time frame will be met. Issues that need to be dealt with include fully involving authorities that are presently rendering Municipal Health Services in the District in the process as well as addressing the concerns of unions and staff. Matters of a practical nature such as procedures for the transferring of staff and assets as well as the establishment of suitable mechanisms for service delivery have yet to be finalized. It is not yet clear as to whether the move will compromise existing levels of service delivery available to the BCM community.

Health services falling outside the Municipal Health Service definition are assigned to Provincial and National Health Departments. BCM is, in accordance with a Service Level Agreement with Province, providing primary health care services within the Buffalo City Area. The Eastern Cape Department of Health has reversed its decision of decentralizing Primary Health Care services to District Municipalities in favour of Provincialising PHC services in all E.C. Provincial Districts except for the Nelson Mandela Metropolitan Municipality jurisdiction area.

Buffalo City is also, on behalf of Province, running some of the libraries within the municipal area. BCM undertakes the Disaster Management Function within its area. Disaster Management is a National and Provincial Competency, with legislation providing guidance on the task of Municipalities. According to the Systems Act and the Disaster Management Act, every Municipality is required to prepare Disaster Management Plans.

4.2.3 Change Management

The new era of local government has necessitated vast changes. The change management process is about building and harnessing capacity to deal with the challenges arising out of the change to developmental local government.

At BCM, 'change management' is considered in its broadest sense and links to all training and capacity-building in the institution. Further, the focus is on ensuring integration and alignment to BCM's vision and mission, as reflected in the IDP.

4.2.4 Employment Equity Plan

The Employment Equity Act (55 of 1998) addresses the legacy of discrimination in relation to race, gender and disability. The Act is intended to ensure that workplaces are free of discrimination and that employers take active steps to promote employment equity.

Chapter 3 of the Act requires employers to take certain affirmative action measures to achieve employment equity. These are set out in an Employment Equity Plan.

An Employment Equity Plan is intended to achieve equity in the workplace, making the municipal workforce more representative and ensuring fair and equitable employment practices for all employees. It is further intended to make the administration of Buffalo City more broadly representative of the communities being served and to create an organisational culture that is non-discriminatory, values

diversity and legitimises the input of all employees. BCM has developed a 5 year Employment Equity Plan, which will expire in October 2011 and has made substantial progress with its implementation. There are visible signs of progress with regard to the appointment of members of designated groups in top and senior management positions.

In addition to the plan, an organisational audit was undertaken to assess employment policies, practices, procedures and the working environment, in order to identify barriers that could contribute to the under-representation of the designated groups and could adversely affect them. It also sought to identify practices or factors that could positively promote equity and diversity in the workplace and develop measures to remove the barriers.

The Skills Development Plan complements the Employment Equity Plan. BCM is committed to increasing the pool of qualified candidates from which it makes selections and assesses the capacities of new employees in order to provide them with appropriate training.

4.2.5 Skills Development Plan

The Skills Development Act of 1998 requires employers to plan and implement learning programmes enabling employees to acquire skills and qualifications that will enhance their performance, whilst also optimising the organisation's functioning.

BCM is committed to implementing its IDP and the key to this is ensuring that further learning programmes and skills development are informed by the Plan. BCM was acknowledged in the previous year for being the best local government workplace re skills development in the Eastern Cape. BCM also updates and submits the required Workplace Skills Plan every year re the development of its Councillors and staff.

4.2.6 Weaknesses & Threats

Challenges facing Buffalo City include:

- Achieving an unqualified audit report
- Successfully managing the implementation of job evaluation results
- implementing BCM's Employment Equity Plan;
- changing the organization's culture to a performance driven culture;
- attracting and retaining critical and technical skills;
- a serious infrastructure backlog (information, communication technology infrastructure and information systems applications);
- inefficient processes and systems ;
- general lack of cooperation and internal communication.

The importance of good governance is widely recognised internationally. Good corporate governance generates the goodwill necessary to enable sustainable value creation.

With the introduction of the King 2 Report on Corporate Governance as well as increased attention paid to compliance issues, it is necessary that Buffalo City take active measures to ensure that all its activities comply with, and take into account, all legislated provisions and best practice standards.

One of the key threats for BCM is HIV/AIDS. In 2004, BCM undertook an Employee HIV/AIDS Prevalence Study. The results show that HIV/AIDS prevalence is at 10.3% of BCM's workforce. BCM has further also implemented an Employee Wellness Programme dealing with various aspects of employee wellness such as HIV/AIDS,

substance abuse etc. At this stage, BCM has completed a further well – supported voluntary HIV testing, counselling and treatment campaign with its councillors and staff.

4.2.7 Strengths & Opportunities

Buffalo City has competent human resources, a fully functional administrative infrastructure, established policies and procedures and access to specialist knowledge and external information.

A critical opportunity for BCM is the receipt of the Restructuring Grant from National Treasury. A maximum amount of R130 million will be allocated to BCM over four financial years. The primary role of the Restructuring Grant is to support, assist and empower BCM to initiate financial and institutional restructuring initiatives and to mitigate the costs that these exercises might impose on the Municipality in the short and medium term. The Restructuring Grant will be expended by BCM in terms of its Restructuring Plan (which is aligned with BCM's IDP).

Further opportunities for the positive development of Buffalo City can be seen in the:

- CDS process with one of its focus areas being good governance;
- present integrated IDP & Budget process;
- the skills development programmes;
- knowledge management—collecting, capturing & promoting knowledge assets;
- business process re-engineering;
- the development of a cohesive organisation;
- exploitation of information and communication technology advances (including a document management systems);
- optimal usage of information resources;
- foreign aid;
- development of public-private partnerships; and
- the development of a more customer focused organisation.

One of the ways in which BCM supports the health and well-being of its employees is through the BCM Employee Wellness Programme. The Employee Wellness Programme has elements of an Employee Assistance Programme (including dealing with life skills empowerment, change management, substance abuse, disability and incapacity), a Safety, Health and Environment Programme and a HIV/AIDS Wellness Programme (including access to Voluntary Testing and Counseling, nutritional supplements and anti-retrovirals if needed).