

CHAPTER 5: FINANCIAL PERFORMANCE

5.1 OVERVIEW

The institution achieved favourable operating results during the 2012 financial year, resulting in a surplus of R123m. This is a significant improvement from the prior year where a deficit of R228m was incurred. The key liquidity metrics are deemed to be adequate, maintaining a current asset ratio of 1,48:1. In addition, cash holdings continued to cover total borrowings. The table below highlights the financial indices.

Rating History:	2012	2011
Long-term	za.A	za.A
Short-term	za.A1-	za.A1-

The credit rating was performed by an independent service provider appointed by Buffalo City Metropolitan Municipality.

Financial and Operating Statistics			
Description	Financial Years ended 30 June	2012	2011
		R'm	R'm
Net Assets		11,306	11,197
Borrowings		646	690
Investments		0,9	0,8
Net current assets		2,141	1,219
Receivables from exchange transactions		312	211
Cash and cash equivalents		1,520	739
Total revenue		3,591	3,039
Operating expenses		3,456	3,246
Operating surplus / (deficit)		123	(227)

The Annual Financial Statements was submitted to the Office of the Auditor-General on 31 August 2012. Subsequently thereafter adjustments to the Financial Statements were carried out in conjunction with the Auditor-General and the revised Annual Financial Statements were submitted to the Office of the Auditor-General on the 21 November 2012.

5.2 REVENUE AND EXPENDITURE OVERVIEW

The objective of Buffalo City Metropolitan Municipality is primarily the delivery of services to its residents. Revenue income is generated from property taxes, service charges (refuse and sanitation) and from the sale of water and electricity. A breakdown of the gross revenue per source is as follows:

Revenue Sources		
	2012	2011

	R'm	%	R'm	%
Property Rates	522,5	14,5	453,3	14,9
Grants	905,9	25,2	901,6	29,7
Electricity	1137,2	31,7	924,5	30,4
Water	239,6	6,7	200,2	6,6
Other Service Charges	377,9	10,5	338,4	11,1
Other Income	408	11,4	220,8	7,3
Total Revenue	3 591,1	100,0	3 038,8	100,0

A breakdown of operating expenses per major category is as follows:

Operating Expenses				
	2012		2011	
	R'm	%	R'm	%
Bad Debts	58,2	1,7	210,9	6,5
Electricity Purchases	787,9	22,7	634,1	19,4
Water Purchases	127,4	3,7	137,2	4,2
Depreciation	513,0	14,8	508,8	15,6
Employee Costs	952,7	27,5	860,7	26,4
Interest Paid	70,5	2,0	58,6	1,8
Other expenses	747,7	21,6	662,4	20,3
Repairs and maintenance	210,6	6,1	193,3	5,9
Total Expenditure	3468,0	100,0	3266,1	100,0

In the 2012 financial year the City received R3.5 billion in revenue. The major contributor of its revenue from its own sources was the sale of electricity which comprised 31,7% followed by property rates (14,5%) of the total revenue. Total grants received was R 905,9 million (25,2% of total revenue) which includes equitable share and provincial grants, however, this has reduced as a percentage of total revenue when compared with R 901,6m (29,6%) received in the 2011 financial year.

Buffalo City's property valuation demonstrates a well-diversified and stable tax base for future revenue generation.

Water distribution losses remain high at 47.28%. The City has set a target to reduce the distribution losses to 30% over the medium to long term.

Electricity losses for the current year is 12.61%, BCMM provides electricity to urban and semi-urban areas within its demarcated boundary area whereas Eskom is tasked with providing this service to the rural areas.

In line with National Treasury Macro policy and projected inflation target, the City adopted a conservative and prudent approach in its budgeting. The expenditure incurred by the Directorates was within the 2012 budget.

Expenditure growth increased by 6,1% and was below the revenue growth of 18,2%, which resulted in an operating surplus of R123 million for the year ending 30 June 2012.

Municipal services are labour intensive and staff remuneration normally constitutes a large proportion of the municipality's expenditure budget. The employee cost-to-expenditure ratio of Buffalo City is at 27,6% which reflects a moderate increase from the 26,5%: 2011 financial year.

Electricity purchases comprise 22,8% of total expenditure which increased by 3.3% when compared with 19,5% in 2011 financial year.

The purchase of water comprises 3,7% of expenses as Buffalo City Metro controls most of its water resources which has slightly decreased from 4,2% in the 2010/11 financial year.

Buffalo City's maintenance costs comprise 6,1% of total expenses when compared with 6,0: 2011 and 1,9% of the carrying value of its total fixed assets (1,7%: 2011). The City is striving to increase the deferred maintenance budget to ensure that the infrastructure assets are adequately maintained at a level so as to generate the desired revenue.

5.3 LIQUIDITY MANAGEMENT

Buffalo City's liquidity position is considered to be above average when compared to other Metros. The city has an active cash management system in operation to control this crucial aspect of its finances. Over the last decade municipalities have been burdened by a culture of non-payment for services, resulting in generally low collection rates and thereby increasing debt book debtor's balances.

During 2012 Buffalo City's gross debtors grew by 15,7%(11,9%; 2011) to R952,6 million(R823,3m; 2011) due to the continued non-payment for services which has resulted in BCMM having to make a contribution to the bad debt provision and by increasing its tariff to ensure a fully funded budget. The net debtors after provisions for bad debt increased from R291.4 million to R423.7 million. The average debtors' collection over a twelve month period as a percentage of total billing is 92.46%. The age analysis of Buffalo City's outstanding debtors indicates balances older than 120 days of R587.8 million however provisions totalling R528.9 million were raised against them.

Days	2012	2011	2010	2009	2008
	R'm	R'm	R'm	R'm	R'm

Current	242,9	226,3	191,5	144,7	144,6
60 Days	50,8	40,4	37,1	31,3	24,6
90 Days	42,0	29,9	23,3	21,8	20,0
120 Days	28,8	23,4	20,4	27,3	12,0
120+ Days	587,8	503,2	463,1	381,2	344,9
Gross debtors	952,6	823,3	735,4	606,3	546,1
Provisions	528,9	531,9	347,2	341,5	242,0
Net debtors	423,7	291,4	388,2	264,8	304,1

5.4 STATEMENT OF FINANCIAL PERFORMANCE (TABLE 4.2.1)

Analysis of Revenue and Expenditure

	2011/12 R' m	2010/11 R' m
Total Income	3 591	3 039
<i>% Increase over previous year</i>	18%	10%
Total Expenditure	3 468	3 266
<i>% Increase over previous year</i>	6%	18%
Surplus / (Deficit)	123	(228)
Budgeted Expenditure	3 723	3 301
<i>% Increase over previous year</i>	13%	13%
Salaries	953	861
<i>% Of income</i>	27%	28%
<i>% Of expenditure</i>	28%	27%
<i>% Increase over previous year</i>	11%	11%
Number of Employees	4 523	4 572
<i>% Increase / (Decrease) over previous year</i>	(1%)	(1%)
Repairs and Maintenance	211	193
<i>% Of expenditure</i>	6%	6%
<i>% Increase over previous year</i>	9%	10%
Depreciation	513	509
<i>% Of expenditure</i>	15%	16%
<i>% Increase over previous year</i>	1%	6%
Finance Costs	70	59

	2011/12	2010/11
	R' m	R' m
<i>% Of expenditure</i>	2%	2%
<i>% Increase / (Decrease) over previous year</i>	19%	(5%)
Grant Income	906	902
<i>% Of total income</i>	25%	30%
<i>% Increase /over previous year</i>	0,4%	12%

The net surplus for the period under review (2011/12) amounted to R123 million when compared to the deficit of R 228 million in 2010/11.

The revenue growth was higher than the expenditure growth in the past year (Revenue: 18%, Expenditure: 10%) and the major reason for this is the allocation of the Fuel Levy, which is a new revenue stream for the Metropolitan Municipalities.

(a) Revenue

In the 2011/12 financial year 25% of BCMM's total revenue comprised Government Grants (2010/11: 30%;). This has decreased in percentage from the previous two financials years implying less reliance on grant funding to provide basic services to the Community.

Increasing tariffs to improve own revenue is still a challenge as these results in an increase in the Debtors' book due to the non-affordability by Consumers. In this regard, the City has to embark on a complete review process of its tariff structures in order to ensure that each service is self-sustainable and does not rely on cross subsidization from other services.

Revenue generated must also be able to accommodate future funding for maintenance, upgrading and replacement of infrastructure assets to sustain and enable growth in the region.

(b) Expenditure

Repairs and maintenance remained stable at a rate of 6% (2010/11 6%). Repairs and Maintenance desired target is set at 10% of the total operating budget. The directorates are requested to produce detailed maintenance plans for the city in the 2012/13 MTREF budget period.

Depreciation has increased by 1% when compared to the prior year. This is due to infrastructure assets that were in the work –in- progress phase now having been capitalised.

Human resource costs as a proportion of operating income is 27% and this has decreased by 1% compared to 2010/11.

(c) Inflationary Costs

BCMM adopts a prudent approach during its budget processes by ensuring that the macro-economic inflation forecast as disclosed by National Treasury are adhered to.

In preparing the MTREF budget Directorates interact with the Budget Office in order to review the departmental expenditure budget so that its costs are reflective of its operations, to ensure that the resources are efficiently and effectively utilized and business operations are re-engineered to comply with budget constraints.

In order to contain inflationary costs the institution regularly reviews the contracts of the service providers in relation to prevailing market conditions to determine whether the best price for the service is achieved.

General expenses budget has remained static for the past two financial years except for fuel, rental and repairs and maintenance.

**BUFFALO CITY METROPOLITAN MUNICIPALITY
ACTUAL VERSUS BUDGET (REVENUE & EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2012**

	Actual 2012 R	Budget 2012 R	Variance R	Variance %	Explanation of Significant Variances greater than 10% versus Budget
REVENUE					
Property Rates	522 514 480	519 835 876	(2 678 604)	(1)	
Service Charges	1 754 709 786	1 727 532 083	(27 177 703)	(2)	
Rental of Facilities and Equipment	13 387 803	12 759 013	(628 790)	(5)	
Dividends Received	-	60 334	60 334	100	Budgeted dividends not realised
					Under collection of traffic fines can be attributed to: - cases withdrawn and or struck off the roll by the courts; - fines with a value of less than R300 are struck off the roll after 12 months; - warrants of arrest are cancelled after 2 years; - Traffic Contravention System in KWT not in operation as of January 2012, court lists and outstanding warrants of arrest cannot be generate; - camera mailers i.r.o speeding offences returned by the Post Office as undelivered; - warrants of arrests for persons outside BCMM boundaries not authorised.
Fines	5 455 740	10 656 828	5 201 088	49	
Government Grants and Subsidies	718 771 792	763 689 501	44 917 709	6	
Licences and Permits	15 707 755	15 391 120	(316 635)	(2)	
Other Income	290 848 859	346 216 103	55 367 244	16	
Interest Earned - External Investments	58 688 995	30 191 671	(28 497 324)	(94)	This consists of various items that were not fully realised
Interest Earned - Outstanding Debtors	23 919 884	22 036 058	(1 883 826)	(9)	Realised more interest from investment than anticipated
Total Revenue	3 404 005 093	3 448 368 587	44 363 494	1	
EXPENDITURE					
Executive Mayor	106 743 952	127 377 542	20 633 590	16	Under expenditure on operating projects, general expenses and repairs & maintenance
Municipal Manager	35 238 762	40 654 267	5 415 505	13	Under expenditure on operating projects, general expenses and repairs & maintenance
Chief Operations Officer	58 986 402	120 772 005	61 785 603	51	Under expenditure on operating housing projects
Finance	308 793 553	322 692 364	13 898 811	4	
Corporate Services	88 825 026	104 894 927	16 069 901	15	Under expenditure on operating projects, general expenses and repairs & maintenance
Engineering Services	1 994 270 923	2 079 821 694	85 550 761	4	
Planning & Economic Development	197 916 069	208 691 448	10 775 379	5	
Health and Public Safety	243 535 350	264 470 642	20 935 292	8	
Community Services	421 644 032	454 452 887	32 808 855	7	
Total Expenditure	3 455 954 068	3 723 827 766	267 873 698	7	
NET SURPLUS/(DEFICIT)	(51 948 975)	(275 459 179)	(223 510 204)	81	
Transfers Recognised - Capital (PPE)	187 131 453	570 538 993	383 407 540		
Transfers to offset Depreciation		310 740 544	310 740 544		
share of deficit from associate entity	(12 087 832)				
NET SURPLUS/(DEFICIT) FOR THE YEAR	123 094 645	605 820 358	470 637 881	78	
NOTES					
Revenue per the AFS includes transfers recognised	R 187 131 453				

5.5. BUDGET TO ACTUAL SPENDING ON CAPITAL PROJECTS -PER FUNDING SOURCE

5.5.1 Capital Expenditure and Funding

The following table compares Buffalo City's actual capital expenditure, spanning the two years 2010/11 to 2011/12.

Capital spending has decreased to 53% of the budget when compared to the previous year. Some of the reasons for the low expenditure is as follows:

- Tenders awarded, however appointment and implementation of projects not proceeding due to legal challenges from unsuccessful bidders.
- Procurement processes and implementation of projects delayed due to budgeting prior receipt of EIA approvals for housing projects
- Funding of multi-year projects budgeted for in one financial year
- Non development of demand management plans which should guide the planning and project management processes of each project

Table B9: Capital Expenditure

Capital Expenditure Per Service	2011/12 Budget R m	2011/12 Actual R m	2010/11 Budget R m	2010/11 Actual R m
Housing	69.8	14.0	23.5	6.3
Electricity	47.0	35.2	69.4	57.6
Market	3.0	0.5	8.3	4.4
Water	40.7	20.6	108.1	75.3
Waste Management	167.3	63.3	80.3	68.9
Roads	105.5	52.7	97.8	79.2
Other	298.2	92.6	367.1	106
Total Capital Expenditure	731.5	278.9	754.5	397.7

Table B10: Capital Expenditure per Funding Source

Capital Expenditure Funding Source	2011/12 Budget R m	2011/12 Actual R m	2010/11 Budget R m	2010/11 Actual R m
Grant Funding	576.4	187.1	434.4	228.6
Loan Funding	27.7	27.2	72.3	53.7
Own Funding	127.4	64.6	247.8	115.4
Total Capital Expenditure	731.5	278.9	754.5	397.7

The table above reflects that the capital infrastructure is currently mainly upgrading depending on grant funding.

In the 2011/12 financial year 79% of the capital budget was funded through grant funding (2010/11: 58%; 2009/10: 50%) followed by own funding of 17% (2010/11: 33%; 2009/10: 28%) and loan funding of 4% (2010/11: 9%; 2009/10: 22%).

Going forward added emphasis needs to be placed on Loan and Own Funding to finance revenue for capital projects.

5.5.2 Budget to actual spending on Capital projects - Per Dora Grant Table 4.2.5

Of the R731.5 million Capital projects budget , R576.4 million was funded from Grants. This R576.4 million included conditional grants (DoRa grants) amounting to R533. 3 million.

As at 30th June 2012, 34% of these conditional grants were spent on Capital Projects.

Table 4.2.5 Budget to Actual spending on Capital Projects (Per DoRa grant)

<u>Funding/Grant</u>	<u>2011/2012 Conditional Grants Received</u> R	<u>2011/2012 Mid-Year Adjustment Budget</u>	<u>YTD Expenditure</u> R
Electricity Demand Side Management	4 000 000	4 000 000	3 926 791
DoE(Integrated National Electrification Programme)	26 895 000	26 895 000	20 641 201
Public Transport Infrastructure Grant	180 000 000	100 000 000	1 283 135
Urban Settlement Development Grant	409 233 906	364 882 406	151 552 358
Municipal Infrastructure Grant	-	37 500 889	2 987 486
TOTAL	620 128 906	533 278 295	180 390 971

	FUNDING SOURCE	UNSPENT BALANCE 01/07/2011	CURRENT YEARS RECEIPTS	INTEREST ALLOCATED	TRANSFER TO REVENUE OPERATING EXPENDITURE	TRANSFER TO REVENUE CAPITAL EXPENDITURE	UNSPENT BALANCE 30/06/2012
NATIONAL GOVERNMENT	OTHER	124 253 142	-	6 652 640	(368 006)	-	130 537 775
	DEPT OF ENERGY	5 738 975	-	-	(150 000)	-	5 588 975
TOTAL NATIONAL GOVERNMENT		129 992 117	-	6 652 640	(368 006)	(150 000)	136 126 750
PROVINCIAL GOVERNMENT	DEPT OF HOUSING LOCAL GOVT & TRADITIONAL AFFAIRS	8 560 228	276 841	11 020	(716 772)	(108 509)	7 539 207
	DEPT OF WATER AFFAIRS	-	18 344 981	-	(18 927 832)	-	604 427
	HUMAN SETTLEMENT DEVELOPMENT GRANT	5 184 494	30 463 115	848 928	(27 857 649)	(4 100 081)	4 538 807
	DEPT OF HEALTH	6 898 084	5 413 967	-	-	(1 088 931)	11 223 120
	OTHER - PROVINCIAL GOVERNMENT	10 174 182	-	477 349	(432 579)	-	10 218 952
	LOCAL GOVT & TRADITIONAL AFFAIRS	1 287 252	-	-	-	-	1 267 252
	DEPT OF SPORTS, RECREATION, ARTS & CULTURE	11 656 254	-	-	(1 219 208)	-	10 437 046
	DEPT OF ECONOMIC AFFAIRS & TOURISM	152 936	-	-	(25 810)	-	127 126
TOTAL PROVINCIAL GOVERNMENT		43 893 430	54 498 904	1 337 297	(47 528 063)	(5 860 377)	45 955 937
TOTAL DONATIONS AND PUBLIC CONTRIBUTIONS		17 482 961	5 664 707	174 523	(2 061 099)	(730 105)	17 295 865
TOTAL		191 368 508	60 163 611	8 164 460	(49 957 168)	(6 740 482)	199 378 552

The above table reflects all grants, donations and public contributions excluding Division of Revenue Act (DoRA) allocation.

5.6 MEETING OF DONORS' REQUIREMENTS IN RESPECT OF CONDITIONAL GRANTS

All the conditions of the grants have been met. The under expenditure on grants have been caused by the delays in implementing the projects due to supply chain management challenges that were experienced during the 2010/2012 financial year.

5.7 LONG TERM CONTRACTS ENTERED INTO BY THE MUNICIPALITY

The municipality does not have any long term contracts exceeding a period of more than three years

5.8 SUPPLY CHAIN MANAGEMENT

During the financial year under review (2011/12) the Supply Chain Management unit had set the following strategy, indicators and targets under Key performance area of Financial Viability:

5.8.1 Financial Viability

Table 1: Annual performance as per key performance indicators on SCM:

Key performance area	Strategy	Indicator name	Baseline	Target set for the year 2011/12	Achievement level during the year
Financial viability	Review and implement supply chain management policy and procedures	Reduction in turnaround time for formal tenders	4 months (average)	3 months	< 3 months
		Reduction in turnaround time for informal tenders	6-8 weeks (average)	2 weeks	2.5 weeks

The above set targets were not met on the awards of informal tender and were just over 2 weeks, but were met for the formal and annual tenders at just within 90 days of validity.

5.8.2 Further breakdown of the SCM tender processes are as follows:

Type of tender	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter	Total
Informal	15	48	35	72	170
Formal	15	24	20	15	74
Annual	8	7	7	15	37
Total	38	79	62	102	281
Value	R46 484 528.73	R171 463 060.93	R516 646 845.52	R292 398 401.41	R1 026 992 836.59

The following were notable achievements for the SCM unit during the year under review

- i. Publication of awards in the Municipal website as per MFMA requirements;
- ii. Formal appointments of bid committee members by the Accounting Officer;
- iii. Installation of surveillance cameras and installation of access control to control access to main areas.
- iv. Adoption of the reviewed 2011/12 Supply Chain Management Policy by Council
- v. Development of Movable Assets Disposal Procedure
- vi. Completeness of the contracts and commitment registers
- vii. Complete archiving and safe storage of tender documentation

Challenges at supply Chain Management Unit

- i. Trade creditors section still within SCM unit;
- ii. Recruitment of competent, honest, moral staff (with integrity);
- iii. Existence of satellite stores within Metro resultant in stock inventory discrepancy;
- iv. Irregular expenditure transaction within the supply chain system;

Remedial action

- i. Centralization of Trade Creditors Section within the Finance Department;
- ii. Integration of all stores under SCM;
- iii. Continuous enhancement and systematic integration of staff through micro structure processes

5.9 ANNUAL PERFORMANCE AS PER KEY PERFORMANCE INDICATORS IN FINANCIAL VIABILITY

These financial indicators are based on the audited Annual Financial Statements for the year ended 30 June 2012 .

	FINANCIAL INDICATOR	METHODOLOGY	30 JUNE 2012	30 JUNE 2011
1	Debt to Revenue	Total debt / Annual income	24%	32%
2	Current ratio	Current assets / current liabilities	1.48:1	1.41:1
3	Liquid Ratio	Cash assets / current liabilities	1.40:1	1.25:1
4	Debtors collection rate	Year to date receipts / Year to date billing	92.5%	94.2%
5	Days Debtors Outstanding	Outstanding Debtors [net] / Total Income [annual] x 365	101	91
6	Personnel Costs To Operating Expenditure	Personnel Costs / Operating Expenditure	28.8%	27.3%
7	Debt to Assets Ratio	Total debt / Total assets	4.7	5.4
8	Cost Coverage	Cash resources / operating costs	3.3	1.6

5.10 ARREARS IN PROPERTY RATES AND SERVICE CHARGES

As at 30 June 2012 excluding provision for bad debt the arrears per service category in respect of rates and service charges is as follows:

SERVICE	TOTAL
Rates	157,614,951
Refuse	126,165,121
Electricity	44,599,370
Water	190,034,692
Sewerage	101,303,168
Housing	2,043,684
Sundries	87,866,204
Grand total	709,627,190

Over the last decade municipalities have been burdened by a culture of non-payment for services, resulting in generally low collection rates and increasing outstanding debtors' balances. The debt for the financial year increased by R78, 363,844 at a rate of R6, 530,320 per month. The arrears in respect of 30 days and more, which includes all charges, amounted to R709,627,190 as at 30 June 2012. The debtor's age analysis per service as at 30 June 2012 is as follows:

An amount of R61,264,325 in respect of Indigent rates and service charges was written off during the financial year.

AGEING	RATES	SEWERAGE	ELECTRICITY	WATER	REFUSE	SUNDRY DEBTORS	TOTAL FOR JUNE 2012
30 DAYS	11,733,179	7,041,355	6,546,083	14,223,544	7,373,244	3,896,155	50,813,560
60 DAYS	9,814,389	6,554,367	3,282,855	12,229,566	7,029,977	3,135,246	42,046,400
90 DAYS	6,708,721	4,038,096	3,028,520	8,020,442	4,735,207	2,363,303	28,894,289
120 DAYS - 360 DAYS	39,993,394	21,985,759	14,316,844	45,149,001	25,137,766	18,224,779	164,807,543
YEAR 2	27,251,765	15,170,692	6,136,421	26,877,002	16,841,811	13,944,169	106,221,861
YEAR 3	21,435,442	13,018,985	4,741,798	26,341,730	18,991,525	13,973,516	98,502,995
YEAR 4	14,259,909	10,982,042	2,044,669	17,909,064	14,040,652	10,595,470	69,831,805
YEAR 5	8,570,172	7,012,380	939,581	10,695,316	8,673,205	7,574,925	43,465,579
YEAR 5+	17,847,979	15,499,492	3,562,600	28,589,028	23,341,734	16,202,324	105,043,156
TOTAL	157,614,951	101,303,168	44,599,370	190,034,692	126,165,121	89,909,888	709,627,190

The outstanding balances by service type is as follows:

Service Debtors	Gross Balances	Arrears (30 days plus)	Provision for Bad Debts	Nett Balance
Rates	196 165 077	157 614 951	-118 762 558	77 402 519
Cleansing	139 417 302	126 165 121	-95 065 173	44 352 130
Electricity	164 575 388	44 599 370	-31 203 959	133 371 429
Water	233 338 178	190 034 692	-139 785 764	93 552 415
Sewerage	116 942 793	101 303 168	-76 331 740	40 611 054
Housing Debtors	2 126 090	2 043 684	-1 539 912	586 178
Sundries (Billing)	100 026 228	87 866 204	-66 207 014	33 819 214
	952 591 056	709 627 190	-528 896 118	423 694 938

The outstanding balance related to the water service is of great concern. Water leaks due to ageing infrastructure and wastage remain a problem. Household consumers also owed the largest portion of the debt.

The primary reason for the increase related to the debt of indigent debtors. In terms of the credit control policy, debt of indigent debtors is written off once the applicable credit control action has been implemented.

During 2011/12 the Municipality also completed an in-depth billing debt book analysis related to debt up to 30 June 2012. It was deemed that at least 40% of the debt book is irrecoverable and should be written off.

Some of the initiatives undertaken in the 2011/12 financial year are as follows:

- Development and implementation of a Revenue Enhancement Strategy – The impact of this initiative has been to focus on quick wins related to cash collection and to address bottlenecks in the system.
- Billing debt book analysis – The impact of this initiative has been to determine the recoverability of debt and to clear the debt book if irrecoverable debt. This resulted in allocating resources in the correct way.
- Data cleanup of certain aspects of the debt book – The impact of this project has resulted in more effective billing and collection action as accounts have been cleaned up
- Implementation of expanded debt management operations – The impact of this initiative has been to allocate more resources to the entire debt collection function and to perform tasks that the department was not previously able to, such as field investigations, query resolution, debt analysis etc.
- Implementation of expanded meter reading operations – The impact of this has resulted in additional meter readers being employed and the procurement of a new meter reading management system. This goal is to produce credible meter readings.
- Appointment of collection agents – The impact of this project is that over R200m has been handed over for collection and is now in the legal process.

Additional disclosure requirements

The debt in respect of rates and services charges owed by national and provincial departments was included in the 2011/12 Annual Financial Statements. The 30 day + debt owed by the departments as at 30 June 2012 amounted to R4,718,834. During the financial year, credit control action was implemented against Government Departments to recover the amounts due to the municipality. The debt of government departments is reported to National Treasury on a monthly basis. No bad debt provisions were raised against this debt as it is deemed to be 100% recoverable.

Debt Ageing Category	Residential Customers	Business Customers	Government Customers	"Other Customers"	Total Debt
Current (0-30 days)	103 385 555	114 915 186	12 511 991	12 151 131	242 963 863
31-60 Days	35 034 159	11 131 834	1 089 261	3 558 307	50 813 561
61-90 Days	32 963 225	6 206 593	193 753	2 682 830	42 046 401
91-120 Days	20 766 327	4 931 523	601 906	2 594 533	28 894 289
121-365 days	114 827 789	25 840 401	1 621 884	22 517 469	164 807 543
+365 days	307 485 833	40 547 113	1 212 030	73 820 423	423 065 399
Sub total	614 462 888	203 572 650	17 230 825	117 324 693	952 591 056
Less Provision for bad debts	(398 619 999)	(54 278 387)	0	(75 997 732)	(528 896 118)
Total Debtors by Customer Classification	215 842 889	149 294 263	17 230 825	41 326 961	423 694 938

A schedule indicating the debt by ageing category is as follows:

Component C: Cash flow Management and Investments

Cash flow Management

Managing the cash resources of Buffalo City Metropolitan Municipality is a key requirement to ensure the liquidity of the Municipality in order to meet its financial obligations.

Cash flow is actively monitored by BCMM, daily cash flows are recorded and reported in order to provide clear indication of current cash position in order to meet obligations as they become due. Major revenue (Grants, Equitable share and high revenue inflow periods etc) and expenditure (Bulk purchases and loan repayments etc) categories have been identified and accounted for appropriately to ensure that repayments are made on time and that surplus funds are invested in order to earn the best return on investments.

BCMM's cash generation remains stable. While own funds invested have increased, there is an increase in debtors both current and long-term. The effects of the global economic crisis are also a cause of real concern to the City. Operations have settled and tight cash controls have ensured that cash optimization in spending occurs rather than a focus on cash generation. An area needing close monitoring will be that of revenue collection so that it can be improved. This is critical to the financial sustainability of the City.

BCMM makes payments to creditors within terms specified by suppliers ensuring that investments remain in place in order to maximise interest earning potential of any surplus funds. Investment

diversification is in practice at BCMM in an attempt to minimise risk and maximise interest earning potential.

CASH FLOW SUMMARY		
Cash flows from operating activities	2012	2011
Receipts	3 371 639 260	2 921 637 188
Payments	(2 723 656 771)	(2 582 785 517)
Net cash flows from operating activities	647 982 489	338 851 671
Net cash flows from investing activities	(277 730 838)	(393 901 563)
Net cash flows from financing activities	410 819 544	235 791 136
Net increase in cash and cash equivalents	781 071 195	180 741 244
Cash and cash equivalents at the beginning of the year	740 212 332	559 471 133
Cash and cash equivalents at the end of the year	1 521 283 527	740 212 377
* Financial information extracted from consolidated AFS 30 June 2012		

Operating activities have not changed significantly over the past financial year with receipts ending on R 3,371 billion from R 2,922 million: 2010/11 and improvement of 15%. The payments have increased even less to R 2,724 billion from R 2,583 million which represents a 5% increase over the past financial year.

The cash flow summary clearly indicates the dramatic increase in Cash and Cash Equivalent at year end to R 1,521 billion from R 740 million: 2010/11. As mentioned above some of the key factors that have resulted in the increase is due to new grants been allocated to the Metro and under spending.

Investments

Allocation of external investments (short-term deposits)	2012	2011
Unspent conditional grants	798,515,763	346,141,548
Borrowing current repayments	24,224,397	1,948,536
Cash flow committed to operating and capital projects	111,897,042	42,876,769
BCMET	1,798,913	2,011,123
Own funding (operating account commitments)	527,774,960	302,968,806
Total short-term deposits	1,464,211,075	695,946,782
* Financial information extracted from consolidated AFS 30 June 2012		

The city's investments held with financial institutions have increased significantly to R 1,464 billion from R 696 million: 2010/11. Factors that have resulted in this increase relates to the City becoming a Metropolitan, thus receiving additional grants, the Fuel levy being an example of one such grant that has resulted in an increase in investments.

Unspent conditional grants have also increased significantly to R 798 million from R 346 million: 2010/11. Although this is seen as indicator of poor service delivery it needs to be noted that the grants have been committed and are cash backed for when the projects start.