



Province of the  
**EASTERN CAPE**  
PROVINCIAL TREASURY

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<i>Umhla</i> Date: Datum	<b>14 MARCH 2019</b>	<i>Ifonti</i> Telephone: Telefoon	<b>041 1010 830</b>
Ireferensi Ref No: Verwysings	<b>2019 MID- YEAR BUDGET AND PERFORMANCE ENGAGEMENT</b>	Ifaxi Facsimile Faksimile:	<b>041 1010 815</b>
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The Municipal Manager  
Mr Thabiso Klaas  
Blue Crane Route Municipality  
P O BOX 21  
SOMERSET EAST  
5850

## BACKGROUND

The Provincial Treasury instituted the 2019 Mid-year budget and performance assessment and visited your municipality on the 25 February 2019. The engagement is part of the Provincial Treasury's oversight role and support to municipalities in terms of MFMA section 72 read with sections 5(3)(4) to promote and fulfil object of the same Act. This process further serves to assist municipalities in the plans and preparations of the draft 2019/20 MTREF budget to be tabled in Council before the 31 March 2019. The resolutions and recommendations in this document should be presented to Council during the tabling of the 2019/20 MTREF draft budget with clear implementation plans as articulated during the engagements. The document is a summarised version of what will be covered in the main report to ensure that Council and administration have ample time to plan. The resolutions and recommendations should find expression in the 2018/19 adjustment budget where applicable.

## OBSERVATIONS:

- Attendance** – Provincial Treasury would like to acknowledge the attendance of the Mayor, Councillors, MPAC as well as the attendance of top management of the municipality, Sec 56 managers and relevant staff.  
Provincial Treasury would also like to acknowledge the attendance of Eastern Cape Cogta. Provincial Treasury were represented by the District Director, Deputy Director and Assistant Director dealing with Blue Crane Route Municipality.
- Municipal readiness** – The municipality's presentation was not adequate as per the standard template or format provided to the municipality. Furthermore, the municipality did not make the presentation available in advanced as requested. However; the municipal



officials present did display knowledge of the operations in various departments of the municipality which enabled some level of engagement. The CFO did apologise for not completing and submitting the presentation beforehand.

- **Financial management** – Audited Statement of Financial Performance 2017/18 indicated that BCRM recorded a decrease in the operating deficit from R20.1 million in 2016/17 to R2.6 million in 2017/18. The Audited Cash Flow Statement indicated that there has been a decrease of R5.7 million in net cash and cash equivalents at end of period from R6.9 million in 2016/17 to R1.2 million in 2017/18.

The cash/cost coverage is at 0 month for the past three financial years and the current ratio indicates that the municipality can only cover 85 per cent of costs. On top of this, the municipality do not have any reserves which impacts negatively on the municipality's ability to fund current and future operations and to withstand economic shocks. The municipality is faced by financial challenges and possible liquidity problems. The municipality's current collection rate is below projections at 88 per cent. The municipality urgently needs to increase the collection of outstanding debt to be within the norm of 95 per cent. The Auditor General also assessed Blue Crane Route Municipality's overall financial viability as concerning. Mid-Year operating revenue is reported at 52% and operating expenditure at 49% against the revenue and expenditure budget for 2018/19.

- **Cost containment** – There is no mention in the notes in the audited 2017/18 AFS that refers to cost containment or cost control. However; comparing the movement from 2017 (restated) to 2018, there has been a decrease in Operational Costs (general expenses) of R2.4 million from R14.3 million to R11.9 million or 20.5 per cent. Total Expenditure has been consistently higher than Total Revenue over the last couple of years; however, the annual budget for 2018/19 reflects an operating surplus of R19.5 million and in the Adjustment Budget 2018/19 this increases to a surplus of R66.5 million. This is mainly as a result of an increase in capital grants (WSIG) for the 2018/19 financial year.
- **The budget process** – The budget process plan for 2019/20 was tabled to council on the 31<sup>st</sup> of August 2018 and implemented accordingly. BCRM to provide Provincial Treasury with an update containing targets met and those that were not met with mitigating factors.
- **Service delivery performance** has decline from 83% in 2015/16, 72% in 2016/17 to 69% in 2017/18. The Auditor General gave the municipality a qualification for performance management. The performance of the 2018/19 Service delivery - SDBIP against IDP, the municipality indicated 22 targets or 78% of the 36 targets were met at the end of December 2018. Reasons for deviations or corrective actions were not provided. Awaiting an update on the 2019 Mid-Year Budget and Performance Assessment Engagements Presentation Framework.
- **Infrastructure Assets Assessment and ageing** – Blue Crane Route Municipality do not have an Asset Management Plan in place. Currently busy drafting an Asset Management Plan, to be ready mid-March 2019. Of concern is the fact that the municipality's assets are still recorded outside the financial system on Microsoft excel. The municipality indicated that they are in the process of procuring the Asset module of SAMRAS.



The municipality's expenditure on repairs and maintenance is below the 8 per cent norm at 2 per cent from 2014/15 to 2017/18, which could increase impairment of useful assets. As per the Original Budget for 2018/19, the Municipality is spending the Capital Budget on New Capital Assets at R63.841 million or 91.4 per cent and spending on the Upgrading of Existing Assets at R6.0 million or 8.6 per cent.

#### □ Game changers

Cash Flow Turnaround Strategy - As a result of the municipality's financial challenges the municipality held a Revenue Enhancement Strategy Workshop from 21 – 22 February 2019 at the Provincial Treasury office. A SWOT analysis was done and results from the exercise will be used to prepare a Cash Flow Turnaround Strategy. Implementation of the strategy will enhance revenue and also move towards a funded budget.

Valuation Roll – The new valuation roll will be implemented as from 1 July 2019, which will see an increase in property rates when property rates on Wind and Game farms will also be implemented.

#### □ Implementation of reforms

##### mSCOA

- The municipality has implemented mSCOA but are experiencing challenges:
- Although the web-based mSCOA system does generate reports and datastrings to National Treasury, the reports are not yet 100 per cent financially correct.
- Web-based system – internet not reliable.
- The municipality must still implement the following modules: Asset Register, SCM and Leave. Currently implementing bank reconciliation and implementation plan for SCM module to be up and running at the end of June 2019.

##### SCM

- SCM policy was reviewed in April 2017 and implemented accordingly. Reviewed again on 6 July 2017 with the other budget related policies.
- The municipality to embark on one Section 32 project funded by WSIG

##### SIPDM

- The municipality adopted the SCM policy on SIPDM on 6 July 2017 and was implemented accordingly with effect of 1 July 2018.

#### □ Conditional Grant performance

**Summary Conditional Grant Spending - 31 December 2018**

Description	2018/19 Budget Year					
	R Thousand	DoRA Allocation	Transferred to Municipality	Year to Date Exp	% Spent to DoRA	% Spent to Transferred
<b>Operating Grants:</b>						
LG Financial Management Grant (FMG)		1 770	1 770	879	49.6%	49.6%
EPWP Incentive		1 000	700	687	68.7%	98.1%
<b>Infrastructure/Capital Grants:</b>						
Municipal Infrastructure Grant (MIG)		14 117	5 330	6 277	44.5%	117.8%
Water Services Infrastructure Grant (WSIG)		50 000	23 740	12 948	25.9%	54.5%
INEP		6 000	4 700	2 988	49.8%	63.6%
<b>Total</b>		<b>72 887</b>	<b>36 240</b>	<b>23 779</b>	<b>32.6%</b>	<b>65.6%</b>



- ❑ The municipality did not receive their second transfer for MIG amounting to R6.3 million, which was due on 7 December 2018.

## RESOLUTIONS:

The following resolutions made were discussed with municipality during the engagement:

### Financial management

- ❑ Unfunded Budget: Provincial Treasury to list reasons for unfunded budget and BCRM to develop an action plan to address the unfunded budget.
- ❑ Provincial Treasury to assist BCRM with the long outstanding debt of SANPARKS amounting to R4.3 million.
- ❑ Pearston Water Treatment Works Project: Originally to be finalised in one year, BCRM changed it to be implemented over two years. Provincial Treasury to assist BCRM to motivate to National Treasury not to stop WSIG funding amounting to R6.3 million.
- ❑ BCRM requested Provincial Treasury to assist with the release of the 2<sup>nd</sup> transfer amounting to R6.3 million which should have been transferred on 7 December 2018.
- ❑ BCRM to concentrate on Consequence Management relating to Supply Chain Management.
- ❑ BCRM to provide an update on the implementation of the 2019/20 budget process plan, containing targets met and those that were not met with mitigating factors.
- ❑ BCRM to implement proper contract management regarding SAMRAS/mSCOA.
- ❑ BCRM to provide a list of all cost containment measures implemented in the last two years and the financial impact thereof.
- ❑ Adjustment Budget 2018/19 – additional funding received: BCRM to provide Provincial Treasury with the Council Resolution on the Draught Relief – WSIG funding to the amount of R42.3 million.
- ❑ Amended SDBIP 2018/19: BCRM to approve as soon as the Adjustment Budget 2018/19 has been tabled to Council.
- ❑ 2019 Mid-Year Budget and Performance Assessment Engagement Presentation Framework: BCRM to submit the presentation with written response by 28 February 2019.
- ❑ Cogta to assist BCRM by communicating with the departments not attending Rep. Forums including Dept of Health, Dept of Justice, Dept of Education etc.
- ❑ IDP and budget process to be adhered to until final budget is adopted;

- ❑ Aligning of budget to IDP per strategic direction of Council with corresponding budget allocation.

## RECOMMENDATIONS:

The municipality to note the following recommendations:

- ❑ Continuous implementation of cost containment measures as per MFMA Circular 82.
- ❑ The municipality to finalise the asset management plan and provide Provincial Treasury with a copy.
- ❑ The municipality advised to proactively table and adopt the procurement plan for 2019/20 as part of the draft and adopted budget process for 2019/20 and provide Provincial Treasury with a copy.
- ❑ Continuous improvement of the cash flow management by the municipality. The municipality to provide Provincial Treasury with a copy of the Cash Flow turnaround strategy on approval.
- ❑ The municipality to ensure they table a funded budget
- ❑ Ensure that the mSCOA version 6.3 A1 Schedules for 2019/20 MTREF be fully completed, tables balance and align where necessary.
- ❑ Municipality to follow trends in revenue/debtors collection rate for the past audited years. Revenue/Debtors collection calculation should be in terms of MFMA circular 71 taking into account arrear debtors. Provincial Treasury use these rates as a starting point to determine whether the budget is credible, funded and sustainable.
- ❑ Should you have any queries please contact the Director responsible for your municipality at your District Provincial Treasury.

*Ikwezi Lomso Greetings; serving with honesty, humility and integrity*



**THEMBA GWIJA**  
**DIRECTOR: MUNICIPAL FINANCIAL GOVERNANCE**  
**DATE: 14 March 2019**

**CC : MAYORS / EXECUTIVE MAYORS**  
**PORTFOLIO CHAIR FOR FINANCE**  
**EASTERN CAPE - COGTA**  
**EASTERN CAPE - SALGA**  
**EASTERN CAPE - AUDITOR GENERAL**  
**CHIEF FINANCIAL OFFICER**



