

# SOL IN CASH CRISIS

## STAFF REPORTER

THE SOL Plaatje Municipality is facing severe cash flow problems and at the end of June its bank balance was overdrawn by more than R25 million.

The municipality said yesterday that despite finding itself in a cash-strapped situation it was “working towards paying the salaries of staff” this month.

However, it might be forced to defer half of the R81 million owed to Eskom this month for later in the month.

Municipal spokesperson Sello Matsie confirmed yesterday that the local authority was in a cash-strapped situation “due to the fact that the debtors book is growing as a result of the non-payment of services”.

Fielding questions regarding the municipality’s ability to pay salaries, as well as other creditors, at the end of the month, Matsie said “for now we are working towards paying the salaries”.

He added that the Eskom account for this month was R81 million. “If we are not be able to pay, an arrangement with Eskom will need to be made to defer half of the account for later in the month,” he said, adding that many other municipalities were in the same cash-strapped situation.

He stated that up until now, the municipality was in a position where it could pay its creditors timeously.

According to Matsie, the municipality was addressing the situation by pursuing outstanding debt and applying cost-containment measures “to ensure that the municipality stays afloat”.

According to its monthly budget statement for June 2019, the local authority’s cash on hand decreased from May 2019 to June 2019 by R72.58 million – or a whopping 153%, resulting in the cash book overdraft balance of R27.273 million.

The municipality’s investments has also dropped from R257.88 million in June 2015, to R28.7 million in June this year.

The municipality’s investment portfolio has steadily declined, decreasing by R107.9 million from R201.9 million in June 2017 to R93.978 million in June 2018, a decrease of 53%.

In June, the municipality’s outstanding account to Eskom for bulk electricity (which was payable at the end of July) was R61 million.

According to the monthly budget statement, the local authority’s total costs for operating expenditure amounted to R142 million in June. This included salaries at R55.4 million, remuneration of councillors (R2.7 million), bulk purchases (R32.5 million), finance charges (R12.6 million), other materials (R18.7 million), contracted services R3.3 million) and other expenditure (R16 million).

The drop in investments as well as cash and cash reserves was attributed to various factors including the accelerated expenditure on capital with the contribution of the municipality’s own funds increasing significantly year-on-year.

Other contributing factors listed include the increase in Eskom’s bill for high-demand months and loan commitments in respect of the long-term loan

taken up by the municipality. The non-approval of the electricity tariffs for large consumers was also listed as contributing tremendously to this sharp decline.

“The decline in investments and the negative impact this has had on cash flow management is concerning and must be addressed by the management,” the report stated.

In one month, from May 2019 to June 2019, the municipality’s investments decreased by R55 million or 65.9%.

“Various commitments must be met monthly including salaries, bulk electricity, bulk water in the billing period and capital expenditure,” the report stated.

The second bi-annual commitment on the long-term loan was settled at the end of June 2019, of which the finance charges/interest amounted to R12.652 million and the capital redemption amounted to R4.873 million. This resulted in a loan repayment of R17.525 million for the period under review.

The non-charge of the basic charge for domestic consumers was also stated as having a negative impact on the income from the sale of electricity and it was pointed out that a concerted effort needed to be done to collect current and long-outstanding debts.

The collection rate has been stabilising at an average of 83%, with the total revenue for June – including rates, service charges, rental of facilities and equipment, interest earned, fines, licences, agency fees and transfers and subsidies – being R118 million.

The total outstanding debtor amount for services is R2.286 billion at the end of June, despite the municipality appointing a service provider, New Integrated Credit Solutions (NCIS), to assist with its debt recovery.

It was pointed out that the total debt over 90 days is hovering at an average of 90%.

“An analysis revealed that the catalysts for this condition are the sheer volume of account holders in arrears, the poor economic circumstances of a large number of account holders, and the increasing cost of services beyond the municipality’s control.

“This is compounded by the large number of water leaks that go unreported which causes the account holder’s account to escalate beyond their means to pay.

“In addition, there is a substantial portion of irrecoverable, stagnant debt that attracts interest every month. There is a backlog in processing this debt and submitting it to council for approval to write off.”

A slight glimmer of hope is the fact that the average collection rate is steadily improving month-on-month and the collection rate improved from 80.9% for May 2019 to 83.4% for June 2019.

It was pointed out, however, that the municipality is experiencing huge challenges in respect of funding for the Expanded Public Works Programme (EPWP) which is not sufficient and this is putting strain on the municipality’s cash flow.

“The total year-to-date expenditure (for the EPWP) is around at R18.533 million. However, it was only allocated R3.137 million which has already been fully spent. Management is in the process of reviewing this programme.”

Concern has also been expressed regarding overtime, with the current expenditure standing at 177% of the allocation already spent.

According to a report by National Treasury on the state of local government finances and financial management as at June 30, 2018, the Sol Plaatje Municipality is listed as being in financial distress for 2017/18 with “persistent capital under-spending”.

The municipal manager and CFO positions which were vacant then, are still vacant a year later.

The local authority scored 3 (defined as “poor”) for cash coverage, 3 for reliance on capital grants, 3 for debtors as a percentage of own revenue, and 3 for creditors as a percentage of cash.



CASH  
ON HAND  
DECREASED  
FROM MAY  
2019 TO JUNE  
2019 BY  
R72.58  
MILLION