

eThekweni Municipality Audit, Risk and Advisory Services
Presentation: IMFO
29 February 2016

Top 10 risks in terms of

Likelihood

- 1 Large-scale involuntary migration
- 2 Extreme weather events
- 3 Failure of climate-change mitigation and adaptation
- 4 Interstate conflict
- 5 Natural catastrophes
- 6 Failure of national governance
- 7 Unemployment or underemployment
- 8 Data fraud or theft
- 9 Water crises
- 10 Illicit trade

Top 10 risks in terms of

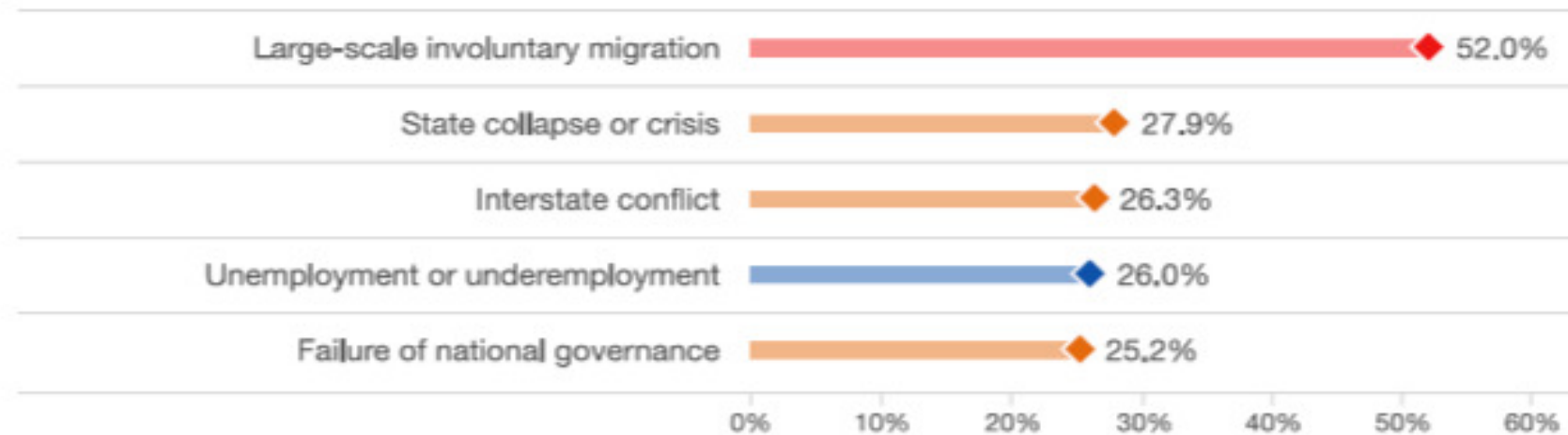
Impact

- 1 Failure of climate-change mitigation and adaptation
- 2 Weapons of mass destruction
- 3 Water crises
- 4 Large-scale involuntary migration
- 5 Energy price shock
- 6 Biodiversity loss and ecosystem collapse
- 7 Fiscal crises
- 8 Spread of infectious diseases
- 9 Asset bubble
- 10 Profound social instability

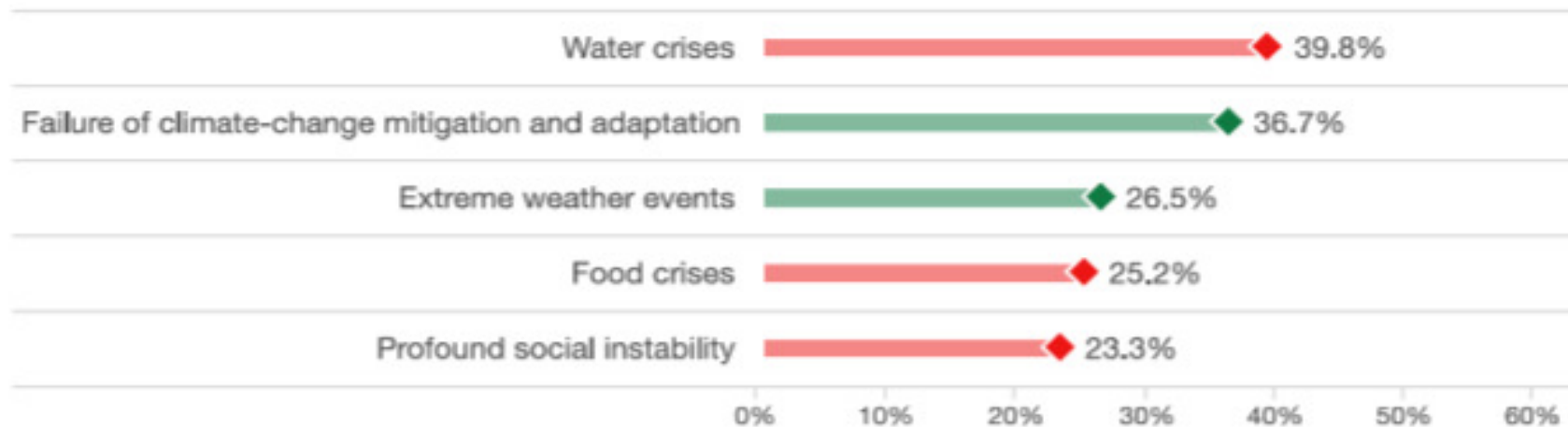
Categories

-  Economic
-  Environmental
-  Geopolitical
-  Societal
-  Technological

For the next 18 months



For the next 10 years



Global risks vs SA risks

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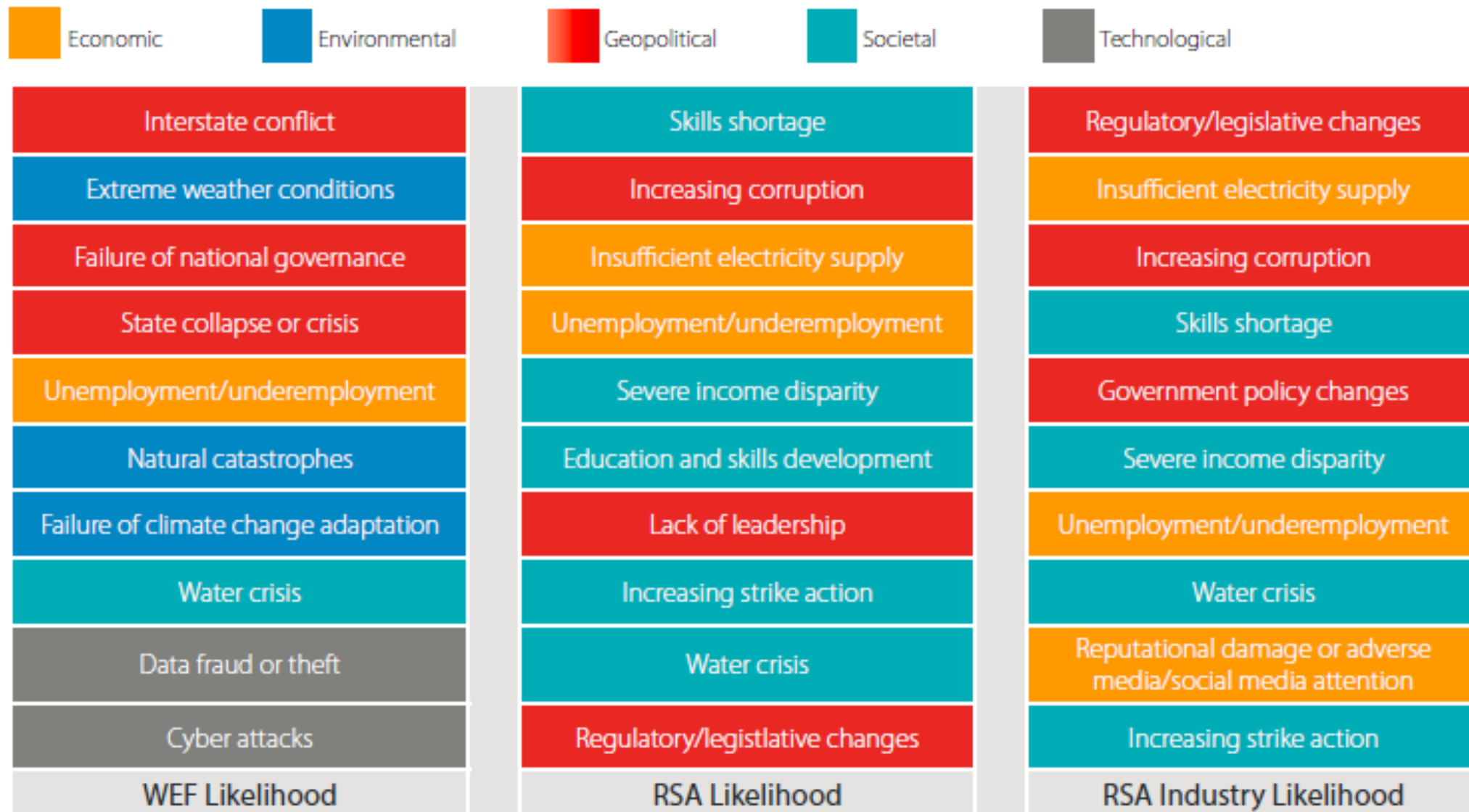


Figure 4: Comparison between Top South African (National and Industry Levels) and WEF Risks by Likelihood

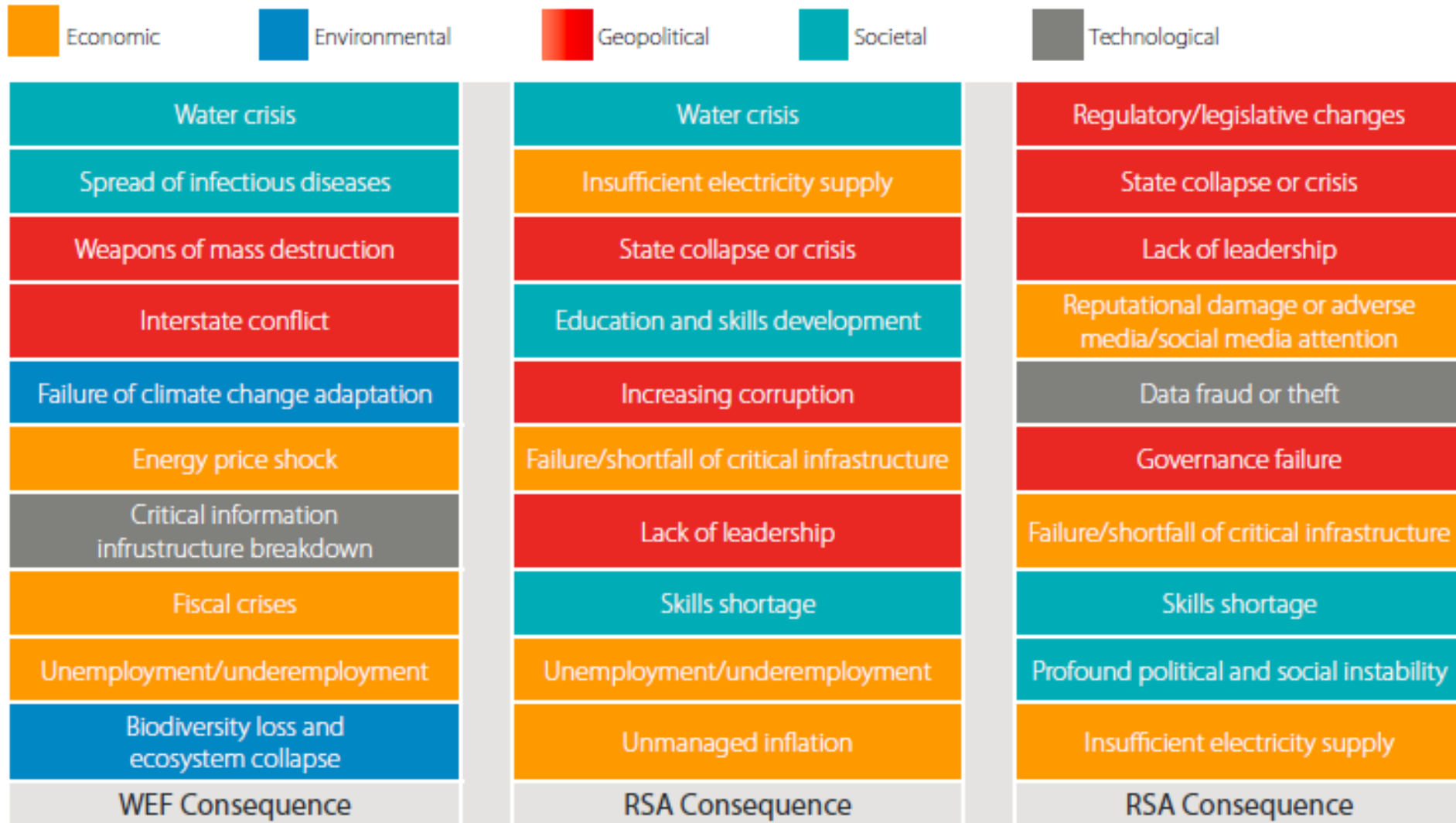


Figure 5: Comparison between Top South African (National and Industry Levels) and WEF Risks by Consequence

Top 10 SA risks

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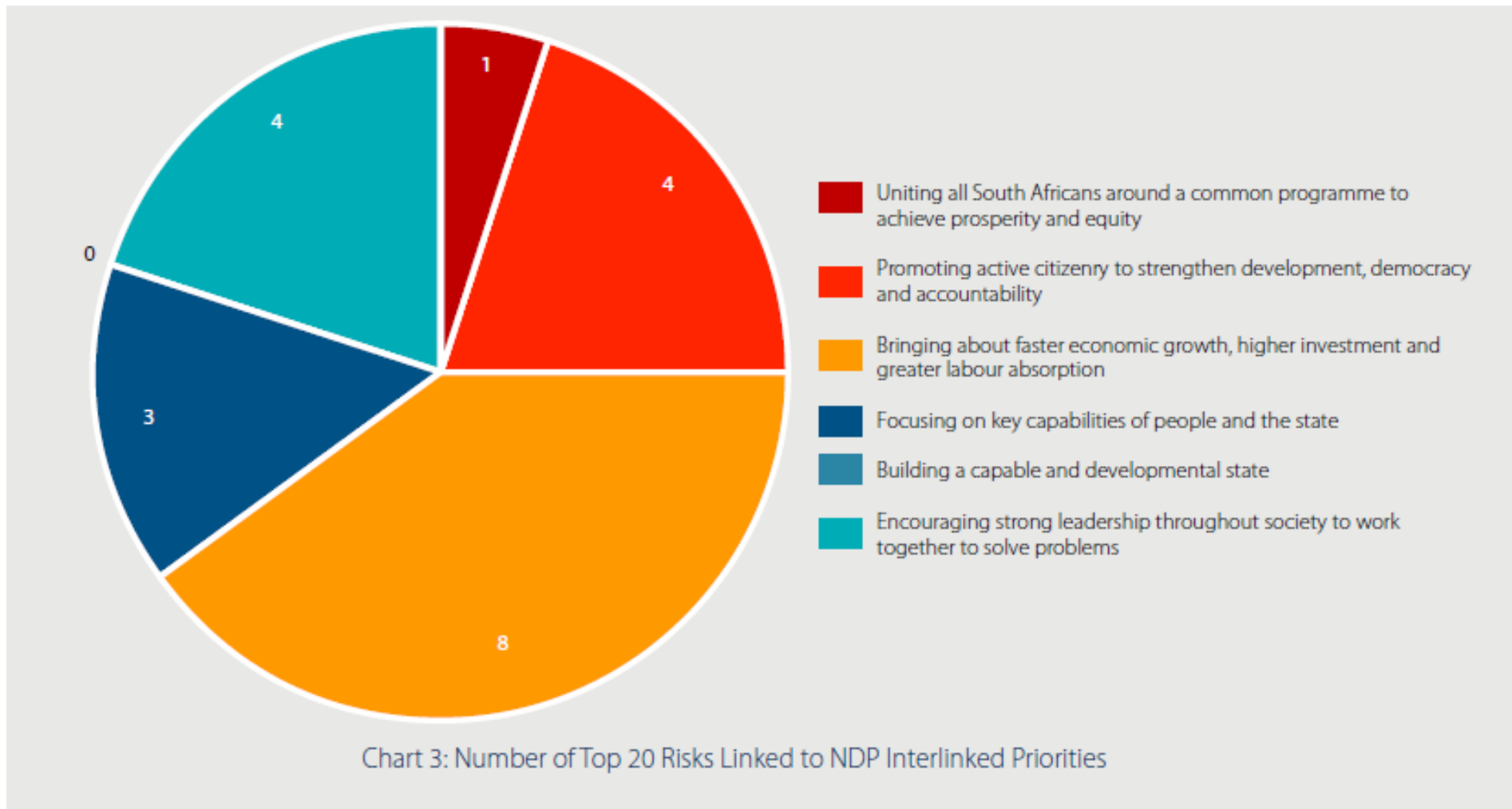


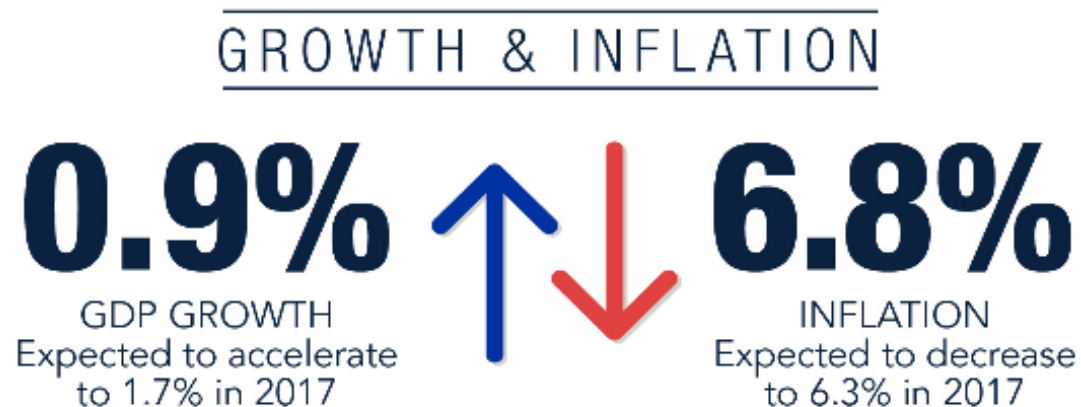
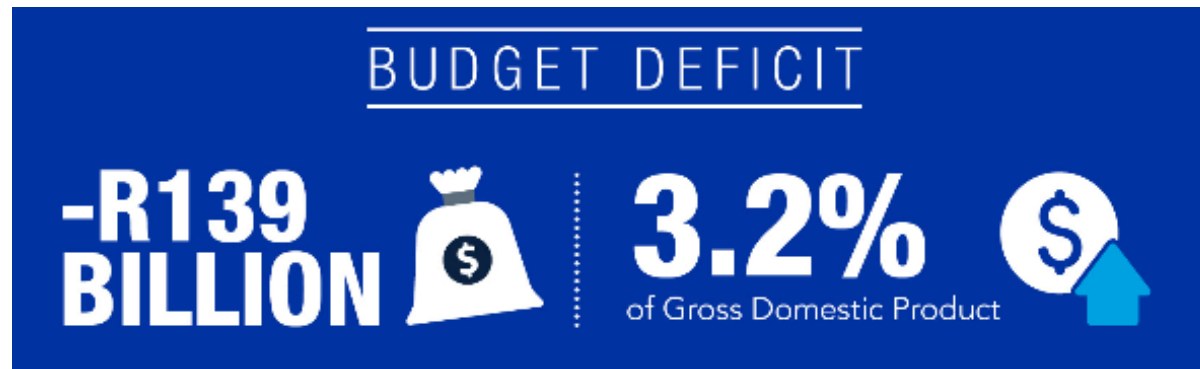
Figure 1: Top Ten South African Country Level Risks

Figure 2: Top Ten South African Industry Level Risks



The spread of NDP exposure to the top 20 SA risks, bringing about faster economic growth, higher investment and greater labour absorption is the most exposed interlinked priority and is affected by 40 percent of the top 20 risks.





Budget Deficit will fall from 3.2% in 2016/17 to 2.4% in 2018/19
(3.9% in 2015/16)

NET LOAN DEBT

2014/15 - R1 584.2 Bn

2015/16 - R1 804.4 Bn

2016/17 - R2 003.4 Bn

2017/18 - R2 194.8 Bn

2018/19 - R2 382.4 Bn

0 500 1000 1500 2000 2500

SA's net loan
debt will rise to

R2 382
BILLION
by 2018/19

As a percentage of GDP is expected to stabilise at 46.2% in 2017/18 (43.7% in 2017/18)



Budget Framework

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Government will lower the expenditure ceiling by R10bn in 2017/18 and R15bn in 2018/19 by **reducing public sector compensation budgets**.

An additional R18.1bn of tax revenue will be raised in 2016/17, with R15bn more in each of the subsequent two years.

Local government will be hardest hit by baseline reductions in expenditure.

Over the medium term, local government will see a R6.8-billion retraction in its baseline, amounting to 2.2%. Provincial and national government baselines will be docked by 0.4% and 0.8% respectively

GDP growth

- Estimated 1.3% in 2015, 0.9% in 2016, 1.7% in 2017, and 2.4% in 2018
- This is considerably lower than last year's estimates

Export growth

- Expected to grow by 9.5% in 2015, 3.0% in 2016 and 4.6% in 2017

Imports

- Grow an estimated 5.3% in 2015, 3.7% in 2017 and 4.5% in 2017

Consumer inflation

- Fall to 4.6% in 2015, accelerate to 6.8% in 2016
- Forecast to consolidate somewhat at 6.3% in 2017 and 5.9% in 2018

Capital formation

- Forecast to grow by only 1.1% of GDP in 2015, 0.3% in 2016, 1.4% in 2017 and 2.7% in 2018

Household consumption

- Grow by 1.4% in 2015, 0.7% in 2016, 1.6% in 2017 and 2.2% in 2018.

The balance of payments

- Stay in deficit (-4.1% of GDP in 2015, -4.0% in 2016, -3.9% in 2017 and 2018).



KZN - SOPA 2016

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Current economic and fiscal situation

Risks to the global outlook remain tilted towards the downside informed amongst others by:

- A generalised slowdown in emerging market economies;
- China's economic slowdown;
- Lower commodity prices; and
- The gradual exit from extraordinarily accommodative monetary policy (brakes on quantitative easing) in the United States.

Key points:

- Domestic economy under severe pressure as result of subdued global economic performance
- International Monetary Fund reduced SA's economic growth outlook for this year from 1.3% to 0.7%.
The lowest forecast on record so far.

Consensus:

- Unless we reduce public spending, we will have trouble in many fronts at different levels.
- Absorb substantial budget cuts.

KwaZulu-Natal is due for cuts totalling over R1 billion in the first year of MTEF.



Analysis of top 10 strategic risk in terms of impact

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Analysis of top 10 strategic risk in terms of likelihood

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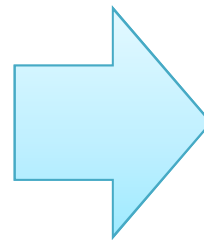


Risk

Limited finances to address the demand for services.
The municipality may not be able to sustain the cash collection rates and grow the rates base leading to the inability to meet the City's objectives

Root Cause

- Worsening of the socio economic conditions due to the increase in migration to the urban areas
- Increase in informal settlements and unemployment
- Competing demands for social and economic services and growing backlogs
- Poor economic growth
- Impact of Unfunded mandates – Health and Housing



Consequences

- Inability to fund current and future projects
- Increasing service delivery costs
- Slow increase in rates base
- Increasing service delivery backlogs

Current Economic Climate

- Country sovereign rating affects municipality credit rating
- Current rand dollar exchange affecting affordability
- Recent world bank report indicates 0.7% growth is a challenge
- Seeing that the Cities contributes 80% to country GDP, if Cities cannot get it right, the country won't get it right

Legal / Judicial decisions that sets precedence contradictory to municipal processes

- Municipality has not challenged or raised concerns on the unintended consequences of legislation (land invasion, labour brokers, debt collection)
- Collectability of debtors may be a challenge
- Limits high courts
- Two years to get high court dates
- Cannot sell primary residence in terms of constitution



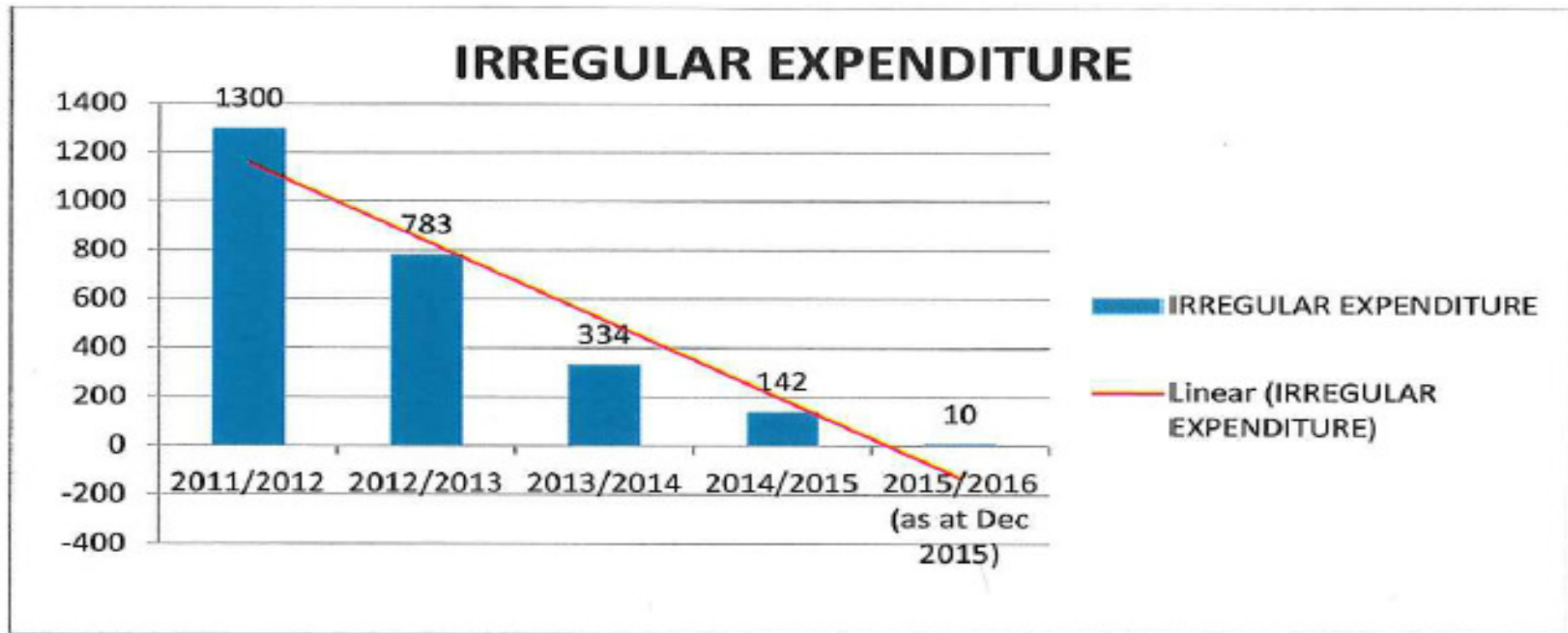
Trend Analysis & Monitoring

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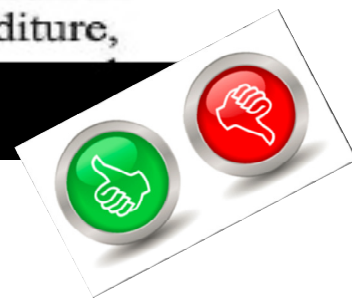


Discussion/considerations:

- In the long term how collectible is the interest on arrears and in tougher economic times this will be expected to increase.
- Interest on arrears, at 17% of the total for debtors, raises the question as to whether rates and services are becoming less affordable to the community and the collection of outstanding debt will take longer as these additional charges need to be collected as well.



Irregular expenditure totalling R10 million has been reported for 2015/16 thus far. The final 2014/15 irregular expenditure was adjusted from R107 million to R142 million. It must be noted that the downward trend with the reporting of irregular expenditure,



Global credit rating report

Credit Rating

	Rating over the last 4 Year's			
Security Class	2012	2013	2014	2015
Long-Term	AA-	AA-	AA-	AA-
Short-Term	A1	A1+	A1+	A1+

Rating Outlook for 2015: Positive and Stable



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