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# Local Government

## Final Assessment of the Tabled 2016/17 MTREF

### Emakhazeni Local Municipality

### 12 May 2016

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## 1. EXECUTIVE SUMMARY

In terms of the requirements of the Municipal Finance Management Act and as part of its oversight role over local government finances, the Provincial Treasury is responsible for reviewing and commenting on the tabled budgets of all non-delegated municipalities prior to their adoption by the respective municipal councils. The tabled budgets of these municipalities were rigorously assessed in terms of quality and compliance with the prescriptions of the MFMA and the Municipal Budget and Reporting Regulations.

***The analysis provided in this report is based on the 2016/17 tabled budget and the subsequent engagement with Emakhazeni Local Municipality on the 10<sup>th</sup> of May 2016***

From a quality perspective, the budget was assessed in accordance with three criteria, namely:

- **Credibility:** to determine if the budget is funded in terms of Section 18 of the MFMA and whether the municipality adopted a budget process with evidence of sufficient political oversight and public participation. Political oversight and guidance is crucial for the budget process as the approval of the budget is the responsibility of Council and not that of the Budget and Treasury Office. The budget brings effect to Council priorities and hence these priorities should be financially sustainable and Council must ensure that its priorities are affordable from a budgeting perspective. In assessing the credibility of the budget, the revenue planning framework and associated assumptions are interrogated to determine if they are realistic and indicative of multi-year budgeting.
- **Relevance:** to test if the budget is aligned to the reviewed Integrated Development Plan (IDP) of the municipality and the extent to which the national development plan and provincial priorities, including MFMA Circulars were considered.
- **Sustainability:** to determine whether the budget gives effect to the long-term financial and operational sustainability of the municipality. This is crucial as the budget is analysed over the MTREF.

## 2. KEY OBSERVATIONS AND FINDINGS

### Credibility

- The municipality did not complete the pre audit outcomes for 2015/16, which must be used to forecast future projections, therefore section 71 reports were used to calculate the projection;
- The draft budget was tabled on the 31 March 2016 and complied with section 16(2) of the MFMA;
- The municipality completed some of the tables on the draft budget as required by the Municipal Budget and Reporting Regulation (MBRR);
- The municipality depends mainly on grants for funding its capital budget. The municipality had no intentions of borrowing in the 2016/17 financial year.

### Relevance

- Table SA4, SA5 and SA6 of the A1 schedule, which should confirm alignment between IDP and budget and the municipality's objectives as listed on the Integrated Development Plan, were found to be completed.

### Sustainability

- The Provincial Treasury assessment reveals that the submitted 2016/17 draft budget has a cash flow deficit of R75 million (A7) and cash backed reserves surplus of R55 million (A8);
- The municipality did not budget for the renewal of existing assets for the MTREF as per MFMA Circular 75, 54, 55 and 66, which requires municipalities to allocate 40 percent of the capital budget to accelerate investment into asset renewal;
- The municipality was unable to at least budget 8 percent on repairs and maintenance. They did not budget anything in this item. Table SA1 further aggregated the repairs and maintenance budget on other expenditure.

### 3. ASSESSMENT OF THE 2016/17 MTREF BUDGET

#### 3.1 BUDGETED OPERATING REVENUE

MP314 Emakhazeni - Table A4 Budgeted Financial Performance (revenue)

Description	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium	2016/17 Medium Term Revenue & Expenditure Framework			
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Section 71 as per 29 February 2016	Pre audit outcome: section 71 month 8 projected	% increase	PT Estimate
<b>Revenue By Source</b>												
Property rates	31 288	54 239	16 928	60 321	39 671	-	-	39 647	20 031	30 046	106.60%	32 029
Property rates - penalties & collection charges	-	-	-	-	-	-	-	-	-	-	-	-
Service charges - electricity revenue	36 927	35 438	33 173	43 798	39 798	-	-	42 981	29 007	43 511	107.64%	46 835
Service charges - water revenue	10 732	11 899	13 305	12 140	13 859	-	-	14 967	8 834	13 251	106.60%	14 126
Service charges - sanitation revenue	7 255	7 702	8 136	8 770	8 770	-	-	9 471	5 786	8 679	106.60%	9 252
Service charges - refuse revenue	7 332	7 806	8 662	8 996	8 996	-	-	9 716	5 839	8 758	106.60%	9 336
Service charges - other	-	-	-	-	-	-	-	-	-	-	106.60%	-
Rental of facilities and equipment	529	435	806	437	998	-	-	1 078	616	923	-	923
Interest earned - external investments	464	218	380	216	325	-	-	351	260	390	-	390
Interest earned - outstanding debtors	-	-	-	-	-	-	-	-	-	-	-	-
Dividends received	-	-	-	-	-	-	-	-	-	-	-	-
Fines	5 483	9 207	8 874	5 556	12 101	-	-	13 069	12 111	18 166	-	18 166
Licences and permits	32	23	6	7	7	-	-	8	6	9	-	9
Agency services	2 568	2 794	3 172	2 384	2 384	-	-	2 527	2 118	3 177	106.60%	3 386
Transfers recognised - operational	38 881	41 975	44 855	52 305	52 305	-	-	55 629	39 857	55 629	-	55 629
Other revenue	1 946	17 241	10 995	4 867	22 934	-	-	1 023	648	972	106.60%	1 036
Gains on disposal of PPE	-	8	-	54	14	-	-	-	-	-	-	-
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>143 435</b>	<b>188 988</b>	<b>149 293</b>	<b>199 851</b>	<b>202 161</b>	<b>-</b>	<b>-</b>	<b>190 467</b>	<b>125 112</b>	<b>183 512</b>		<b>191 119</b>

The operating budget of the municipality for 2015/16, as adjusted, amounted to R202.161 million and the 2016/17 proposed operating revenue budget amount to R190.467 million, an decrease of R11.694 million or 9 percent. The Provincial Treasury estimate of the budget amount to R190.909 million, a difference of R442 thousand from the municipality's proposed budget.

#### Property rates

The 2016/17 property rates revenue has decreased by 0.10 per cent from R39.671 million to R39.647 million as compared to the 2015/16 adjusted budget, while the PT estimate shows R32.029 million anticipated revenue on property. It is ideal that property rates revenue be increased (phased in approach) up to 25% of total revenue as to improve the independence of National Treasury grants.

The municipality has not increased the anticipated revenue on this item as the 2015 valuation roll is not yet concluded. The municipality is required to elaborate on the progress made to conclude the valuation roll for implementation as it has an adverse impact on revenue collection.

### **Service charges: Electricity**

The revenue generation from electricity is expected to be R42.981 million, which has increased by 9 percent when compared with the 2015/16. The increase is within the 9.4 percent bulk electricity tariff increase prescribed by NERSA. However, the municipality may not be able to generate adequate revenue as the electricity tariff are not cost reflective from prior financial years.

The municipality should indicate whether there are any control measures in place to ensure that cost of electricity service charges is recovered and the mechanism to curb the tariffs that are not cost reflective due to prior years.

### **Service charges: Water**

The anticipated revenue from all other service charges such as water revenue, sanitation revenue and refuse revenue have increased by 6 percent, which are slightly less than the 6.6 CPI prescribed in Circular No. 79.

### **Service charges: Sanitation**

Sanitation revenue is predicted to increase by 9 percent from the 2015/16 adjusted budget of R8.770 million to R9.471 million in the 2016/17 MTREF. The municipality did not consider revenue forgone for the cost of free basic services as required in SA1, hence the 9 percent increase is not realistic.

### **Service charges: Refuse**

The expected revenue from refuse is set to grow by 6 percent, which is within the estimated CPI. However, revenue forgone or cost of free basic services was not considered when determining the expected refuse revenue.

### **Rental of facilities and equipment**

Projected revenue from the rental of facilities and equipment is set to increase by 9 percent in 2016/17 financial year. The audited trends and the current performance reflected on section 71 report ending 29 February 2016 indicates challenges in revenue collection from rentals.

**Interest earned on external investment**

Interest earned from external investments is projected to grow by 6 percent from the adjusted budget of R325 thousand in 2015/16 to R351 thousand in 2016/17. The municipality has been conservative in projecting revenue from interest earned as opposed to the past performance and current performance in terms of the section 71 report as at 29 February 2016.

**Transfer on Operating Grants**

Type of operational grant	Amount (R' 000)
Equitable share	R51 837
Financial management grant (FMG)	R1 825
Municipal system information grant (MSIG)	R750
EPWP	R1 217
MIG (R25 404 million x 5%)	R1 270
<b>Total operational grants as per DORA bill</b>	<b>R56 899</b>

The projected percentage growth in revenue for Transfers recognised operational is set to increase by 9 percent to R56 million in 2016/17, when compared to R52 million for the adjusted budget.

**Other revenue**

The anticipated revenue from Other revenue has declined from the 2014/15 audited outcome amount of R10,995 million to the 2015/16 adjusted budget amount of R24,934 million and the 2015/16 budget amounts of R1,023 million.

The municipality is required to motivate this drastic decline as this item appears to have potential to maximise revenue and further provide detail breakdown of this item on Table SA1.

### 3.2 BUDGETED OPERATING EXPENDITURE

MP314 Emakhazeni - Table A4 Budgeted Financial Performance (expenditure)

Description	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium	Section 71 as per 29 February 2016	2016/17 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17		Pre audit outcome: section 71 month 8 projected	% increase	PT Estimate
<b>Expenditure By Type</b>												
Employee related costs	58 653	60 499	63 291	82 500	80 375	-	-	86 115	46 614	69 922	107.20%	74 956
Remuneration of councillors	4 507	4 812	5 070	5 442	5 442			5 768	3 583	5 375	106.60%	5 729
Debt impairment	(8 742)	31 225	(32 364)	17 709	10 000			10 000	-	-		44 631
Depreciation & asset impairment	45 060	49 320	41 289	51 487	42 460	-	-	44 243	-	-		44 243
Finance charges	1 256	2 162	4 080	2 053	3 055			3 700	2 922	4 383	106.60%	4 672
Bulk purchases	29 281	34 256	39 404	46 575	46 075	-	-	50 406	25 384	38 075	9.4% & 6.6%	41 662
Other materials	6 454	4 129	2 472	6 141	6 723			6 558	3 476	5 214	106.60%	5 559
Contracted services	2 702	3 548	3 272	5 325	5 271	-	-	5 576	2 310	3 466	106.60%	3 694
Transfers and grants	-	-	-	-	-	-	-	-	-	-		-
Other expenditure	49 137	33 313	38 636	34 410	42 993	-	-	44 140	18 608	27 912	106.60%	29 754
Loss on disposal of PPE												
<b>Total Expenditure</b>	<b>188 308</b>	<b>223 265</b>	<b>165 149</b>	<b>251 643</b>	<b>242 394</b>	<b>-</b>	<b>-</b>	<b>256 507</b>	<b>102 897</b>	<b>154 346</b>		<b>254 900</b>

#### Employee related costs

The projected budget for employee related cost has increased by 6,5 percent, which is less than the 7.2 percent Salary and Wage Agreement. However, there is currently a high vacancy rate in the Budget and Treasury Office. The current vacant posts have been provided for, but no new posts for 2016/17 have been provided for.

This compliance matter should be addressed before the final A1 schedule as prescribed per the Budget and reporting regulations, (Government gazette 32141 dated April 2009) is submitted to Council for final consideration. Salaries are expected to increase by 7.2 per cent therefore the budget allocated seems to be understated.

Remunerations of Councillors is slightly increased for 2016/17 financial year.

Therefore the total employees related cost including Remuneration of Councillors constitutes 34 per cent. This is within the required norm of 25 to 40 per cent as prescribed in Circular 71 of the MFMA.

### **Debt impairment**

The provision for debt impairment has set to unchanged from the 2015/16 financial year of R10 million to 2016/17 financial year. The provision seems adequate when taking into consideration the annual collection rate. Depreciation and assets impairment is set to increase by R1,783 million in 2016/17, which seems to be realistic and should be informed by the municipal asset management policy.

### **Finance Charges**

It is noted that the budgeted expenditure for finance charges increased by 8 percent in the 2016/17 financial year. This appears to be realistic based on the section 71 actuals as at 29 February 2016.

### **Bulk Purchases**

Bulk purchases expenditure is expected to grow by 9.2 percent, which is within the norm of 9.4 bulk electricity tariff increase. Allocations for bulk purchases is one of the major expenses of operating budget and comprises of 31 percent or R50,406 million of the budgeted total operating expenditure of R256.507 million.

### **Contracted services**

Allocation for contracted services increased slightly by R305 thousand for 2016/17 when compared to the adjusted budget of R5, 271 million. The budgeted amount is per the list of the contracted services provided in the budget document.

### **Other expenditure**

The municipality is planning to spend R44 million. The budgeted amount indicates an increase of 10 percent compared to the 2015/16 adjustment budget. Based on the section 71 report as at 29 February 2016 and previous audited outcomes the amount seems to be realistic.

### 3.3 BUDGETED SURPLUS/DEFICIT

Table 3: A4 Budgeted Surplus/Deficit

Description	2012/13	2013/14	2014/15	Current Year 2015/16					2016/17 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	PT Forecast	Sec 71 Feb 2016	Budget Year 2016/17	Municipal proposed increases/decreases	PT estimates
Total Revenue (excluding capital transfers and contributions)	143435	188 988	149 293	199 851	202 161	0	0	0	190 467	10	191 119
Total Expenditure	188 308	223 265	165 149	251 643	242 394	0	0	0	256 507	9	254 900
Surplus/(Deficit)	-44873	-34277	-15856	-51792	-40233	0	0	0	-66040		-63781

The municipality tabled a deficit budget amounting to R40 233 million for 2015/16 and R66,040 million for 2016/17 on the Statement of Financial Performance and this is in contravention with the requirements of Circular 42 and 75, which encourages municipalities to generate a moderate surplus over the medium term.

However according to Provincial Treasury's calculation the deficit amounts to R63, 781 million for 2016/17.

### 3.4 TRADING SERVICES

**Table 4: Trading Services**

Standard Classification Description	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure		
				Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
<b>R thousand</b>	<b>Audited Outcome</b>	<b>Audited Outcome</b>	<b>Audited Outcome</b>						
<b>Trading services</b>									
Electricity	37 797	35 865	33 488	44 112	40 252		51 472	-	-
Water	10 746	14 005	13 314	12 163	13 882		14 993	-	-
Waste water management	7 272	7 721	8 150	8 787	8 787		9 489	-	-
Waste management	7 337	7 807	8 662	8 996	8 996		9 716	-	-
<b>Total Revenue</b>	<b>63 154</b>	<b>65 399</b>	<b>63 615</b>	<b>74 058</b>	<b>71 917</b>	<b>-</b>	<b>85 670</b>	<b>-</b>	<b>-</b>
<b>Expenditure - Standard</b>									
<b>Trading services</b>									
Electricity	35 410	38 108	43 095	52 419	51 737		56 371	-	-
Water	6 788	8 574	6 582	7 313	8 667		9 104	-	-
Waste water management	5 247	5 521	5 351	6 771	7 125		7 404	-	-
Waste management	25 139	8 765	16 327	10 741	10 696		11 185	-	-
<b>Total Expenditure</b>	<b>72 584</b>	<b>60 968</b>	<b>71 355</b>	<b>77 244</b>	<b>78 225</b>	<b>-</b>	<b>84 064</b>	<b>-</b>	<b>-</b>
<b>Surplus/(Deficit) for the year</b>	<b>(9 431)</b>	<b>4 431</b>	<b>(7 741)</b>	<b>(3 186)</b>	<b>(6 308)</b>	<b>-</b>	<b>1 606</b>	<b>-</b>	<b>-</b>
<b>Trading services</b>									
Electricity	2 387	(2 243)	(9 607)	(8 307)	(11 485)	-	(4 899)	-	-
Water	3 959	5 432	6 732	4 850	5 215		5 889	-	-
Waste water management	2 026	2 200	2 799	2 016	1 662		2 085	-	-
Waste management	(17 802)	(958)	(7 665)	(1 745)	(1 699)		(1 469)	-	-
<b>Surplus/(Deficit) for the year</b>	<b>(9 431)</b>	<b>4 431</b>	<b>(7 741)</b>	<b>(3 186)</b>	<b>(6 308)</b>	<b>-</b>	<b>1 606</b>	<b>-</b>	<b>-</b>
<b>Surplus or Losses in percentages</b>									
<b>Trading services</b>									
Electricity	6%	-6%	-29%	-19%	-29%		<b>-10%</b>	-	-
Water	0%	39%	51%	40%	38%		<b>39%</b>	-	-
Waste water management	28%	28%	34%	23%	19%		<b>22%</b>	-	-
Waste management	-243%	-12%	-88%	0%	-19%		<b>-15%</b>	-	-

The municipality has reported fewer surpluses in comparison with the previous year's trend on the trading services. The municipality provides services to the communities at a surplus except for Electricity and Waste management with -10 and -15 percent loss respectively for 2016/17 financial year.

### 3.5 CAPITAL EXPENDITURE AND FUNDING

**MP314 Emakhazeni - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding**

Vote Description R thousand	2014/15	Current Year 2015/16				2016/17 Medium	PT
	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Estimate
<b>Capital Expenditure - Standard</b>							
<b>Governance and administration</b>	<b>22 386</b>	<b>35 153</b>	<b>35 238</b>	-	-	<b>24 380</b>	
Executive and council	22 374	34 767	34 770			24 000	
Budget and treasury office	2	200	182				
Corporate services	10	186	286			380	
<b>Community and public safety</b>	<b>549</b>	<b>89</b>	<b>65</b>	-	-	<b>24</b>	
Community and social services		24				24	
Sport and recreation		30	30				
Public safety	543	35	35				
Housing		-					
Health	6	-					
<b>Economic and environmental services</b>	<b>11</b>	<b>83</b>	<b>123</b>	-	-	<b>35</b>	
Planning and development		-					
Road transport	11	83	123			35	
Environmental protection		-					
<b>Trading services</b>	<b>-</b>	<b>600</b>	<b>560</b>	-	-	<b>11 756</b>	
Electricity		200	310			8 180	
Water		200	100			251	
Waste water management		200	150			1 825	
Waste management		-				1 500	
<b>Other</b>		<b>-</b>				<b>60</b>	
<b>Total Capital Expenditure - Standard</b>	<b>22 946</b>	<b>35 925</b>	<b>35 986</b>	<b>-</b>	<b>-</b>	<b>36 255</b>	
<b>Funded by:</b>							
National Government	14 752	16 867	16 867			32 000	32 234
Provincial Government		-	-				
District Municipality	8 161	17 900	17 900				
Other transfers and grants							
<b>Transfers recognised - capital</b>	<b>22 913</b>	<b>34 767</b>	<b>34 767</b>	<b>-</b>	<b>-</b>	<b>32 000</b>	
<b>Public contributions &amp; donations</b>							
<b>Borrowing</b>							
<b>Internally generated funds</b>	<b>33</b>	<b>1 158</b>	<b>1 219</b>			<b>4 255</b>	
<b>Total Capital Funding</b>	<b>22 946</b>	<b>35 925</b>	<b>35 986</b>	<b>-</b>	<b>-</b>	<b>36 255</b>	<b>32 234</b>

**DORA ALLOCATION**

<b>MIG (25 404-5%)</b>	<b>24 134</b>
<b>INEP Municipal</b>	<b>8 000</b>
<b>TOTAL ALLOCATION</b>	<b>32 134</b>

According to the 2016/17 DORA bill allocation the municipality will receive R25 million from MIG and R8 million for INEP.

If the 5 percent for PMU operating expenditure is excluded the MIG allocation for table A5 should be R24 million totalling R32, 134 million for national grants to be allocated.

The municipality did not include capital funding and expenditure from conditional grants, hence the municipal total expenditure amounts to R4, 255 million, which is funded internally. The budgeted internally generated funds of R4, 255 million seems to be unrealistic as the municipality has an operating deficit.

### 3.6 ASSET MANAGEMENT

**MP314 Emakhazeni - Table A9 Asset Management**

Description R thousand	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year	Budget Year +1	Budget Year +2 2018/19
<b>CAPITAL EXPENDITURE</b>							
<b>Total New Assets</b>	<b>22 946</b>	<b>35 925</b>	<b>35 986</b>	<b>-</b>	<b>36 389</b>	<b>27 750</b>	<b>24 582</b>
<i>Infrastructure - Road transport</i>	4 613	6 000	6 000	-	2 729	1 910	1 891
<i>Infrastructure - Electricity</i>	3 367	200	310	-	8 000	6 989	3 000
<i>Infrastructure - Water</i>	6 314	12 585	12 485	-	7 430	5 810	6 727
<i>Infrastructure - Sanitation</i>	6 881	11 267	11 217	-	11 071	7 750	7 672
<i>Infrastructure - Other</i>	1 196	15	15	-	2 904	2 178	2 156
Infrastructure	22 370	30 067	30 027	-	32 134	24 637	21 447
	-	800	800	-	-	-	-
<i>Infrastructure</i>	-	-	-	-	-	-	-
<i>Community</i>	-	-	-	-	-	-	-
<i>Heritage assets</i>	576	5 058	5 159	-	4 255	3 113	3 135
Agricultural Assets	-	-	-	-	-	-	-
Biological assets	-	-	-	-	-	-	-
Intangibles	-	-	-	-	-	-	-
<b>Renewal of Existing Assets as % of total</b>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Renewal of Existing Assets as % of depr</b>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>R&amp;M as a % of PPE</b>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Renewal and R&amp;M as a % of PPE</b>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

As reflected in table A9 above, the municipality did not complete SA34(b) and SA34(c), hence the above table indicates zero for renewal of existing assets while the MFMA Budget Circular 75 guides towards a minimum split of 40 percent of the total capital budget for renewal of existing assets and 60 percent for new assets to ensure that current and future revenue is secured, enhanced and properly maintained.

### 3.7 BUDGETED CASH FLOW

**MP314 Emakhazeni - Table A7 Budgeted Cash Flows**

Description R thousand	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure	
	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	PT Estimate
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>							
<b>Receipts</b>							
Property rates, penalties & collection charges	16 928	60 321	58 041			24 581	19 218
Service charges	62 405	73 703	71 422			49 114	47 729
Other revenue	30 684	31 152	5 034			17 295	23 107
Government - operating	44 855	52 305	52 305			55 629	55 629
Government - capital	17 232	17 755	17 755			33 404	33 404
Interest	380	216	325			351	390
Dividends		-				-	
<b>Payments</b>							
Suppliers and employees	(151 273)	(180 370)	(184 760)			(198 564)	(198 564)
Finance charges	(4 080)	(2 053)	(3 055)			(3 700)	(3 700)
Transfers and Grants						-	-
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>	<b>17 131</b>	<b>53 029</b>	<b>17 068</b>	<b>-</b>	<b>-</b>	<b>(21 891)</b>	<b>(22 787)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
<b>Receipts</b>							
Proceeds on disposal of PPE	-	54	14			-	
Decrease (Increase) in non-current debtors	-					-	
Decrease (increase) other non-current receivables	-					-	
Decrease (increase) in non-current investments	-					-	
<b>Payments</b>							
Capital assets	(14 785)	(35 925)	(35 925)			(36 389)	(36 389)
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>	<b>(14 785)</b>	<b>(35 871)</b>	<b>(35 911)</b>	<b>-</b>	<b>-</b>	<b>(36 389)</b>	<b>(36 389)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>							
<b>Receipts</b>							
Short term loans						-	
Borrowing long term/refinancing						-	
Increase (decrease) in consumer deposits	-	55	55			-	
<b>Payments</b>							
Repayment of borrowing						-	
<b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>	<b>-</b>	<b>55</b>	<b>55</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE/ (DECREASE) IN CASH HELD</b>	<b>2 346</b>	<b>17 213</b>	<b>(18 788)</b>	<b>-</b>	<b>-</b>	<b>(58 279)</b>	<b>(59 176)</b>
Cash/cash equivalents at the year begin:	4 290	500	-	-	-	6 636	6 636
Cash/cash equivalents at the year end:	6 636	17 713	(18 788)	-	-	(51 643)	(52 540)

Table A7 above depicts what was submitted by the municipality as its cash flow position. A column was included for the re-calculation that was undertaken by the Provincial Treasury. There are differences between assumptions applied by the municipality and those applied by the Provincial Treasury as indicated in the last column.

Items and assumptions highlighted below resulted in a different outcome:

### **Property rates and Services charges**

The budgeted cash flow for property rates revenue could be overstated by R5 million. Provincial Treasury assumption was based on a 60 percent collection rate. In order to ensure that the budget is sustainable to meet expenditure, it is suggested that a conservative projection be allowed.

### **Government Grants**

Capital and Operational grants were based on the DoRA for 2015/16 financial year. MIG grant allocation was reduced by 5 per cent for PMU and was added as part of operational grants, hence, the difference.

### **Interest**

Interest calculation by Provincial Treasury was based on the average audited outcomes for the past 3 financial years.

### **Cash and cash equivalents**

The opening balance for 2015/16 was not indicated correctly and therefore it is of concern that the municipality has presented a negative cash flow status on table A7.

The table above indicate a negative cash and cash equivalents of R52 million as per Provincial Treasury estimates. The R52 million resulted from the expenditure for suppliers and employees by R198 million and the reduction of other revenue based on section 71 actuals as at 29 February 2016 and the collection rate respectively.

This shows that, should the municipality continue with the estimated expenditure, the cash and cash equivalent at year end will be more than the PT estimate.

Therefore further reduction of expenditure should be done to align with the collection of cash flow or to generate a turnaround strategy that will ensure that the estimated cash flow will be achieved.

### 3.8 CASH BACKED RESERVES

**MP314 Emakhazeni - Table A8 Cash backed reserves/accumulated surplus reconciliation**

Description	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure	
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	PT Estimate
<b>Cash and investments available</b>									
Cash/cash equivalents at the year end	(24 648)	61 694	6 636	17 713	(18 788)	-	-	(51 643)	(52 540)
Other current investments > 90 days	30 672	(57 404)	-	(11 479)	23 268	-	-	55 130	3 197
Non current assets - Investments	-	-	-	-	-	-	-	-	-
<b>Cash and investments available:</b>	<b>6 023</b>	<b>4 290</b>	<b>6 636</b>	<b>6 234</b>	<b>4 480</b>	<b>-</b>	<b>-</b>	<b>3 487</b>	<b>(49 343)</b>
<b>Application of cash and investments</b>									
Unspent conditional transfers	11 161	(0)	1 463	-	-	-	-	-	-
Unspent borrowing	-	-	-	-	-	-	-	-	-
Statutory requirements	582	-	4 489	6 894	2 712	-	-	6 894	6 894
Other working capital requirements	23 332	80 024	20 583	(42 950)	(31 075)	-	-	(63 193)	(47 189)
Other provisions	(65 944)	-	50 966	44 416	56 120	-	-	56 923	56 923
Long term investments committed	-	-	-	-	-	-	-	-	-
Reserves to be backed by cash/investments									
<b>Total Application of cash and investments:</b>	<b>(30 870)</b>	<b>80 024</b>	<b>77 501</b>	<b>8 359</b>	<b>27 756</b>	<b>-</b>	<b>-</b>	<b>624</b>	<b>16 628</b>
<b>Surplus(shortfall)</b>	<b>36 893</b>	<b>(75 734)</b>	<b>(70 864)</b>	<b>(2 125)</b>	<b>(23 277)</b>	<b>-</b>	<b>-</b>	<b>2 863</b>	<b>(32 715)</b>

Table 8 above indicates that the municipal cash backed reserves has a cash shortfall of R32 million as opposed to R2,863 million surplus as per the municipal budget schedule, only if operational expenditure is reduced as per Provincial Treasury assessment. The differences are as a result of the assessment by the Provincial Treasury, which projected a different figure to that of the municipality on the cash flow, other current investments, other working capital requirements and other provisions.

### 3. RECOMMENDATIONS

- Implement cost curtailment measures by reducing unnecessary operating expenditure as per Circular 82 and implement measures to collect outstanding debt and the revenue enhancement strategy to increase revenue base;
- The municipality should reduce the budgeted operational expenditure as per Provincial Treasury assessment;
- Consider budgeting for the renewal of existing assets to enhance assets performance and increase revenue collection;
- The budgeted internal funding for capital projects should not be considered since A4 reflect an operating deficit;

- The municipality should include allocation for repairs and maintenance to a level that would adequately fund the expenditure against the ageing infrastructure;
- The municipality must ensure that the budget document is fully completed and compliant to the budget and reporting regulation;
- The municipality must table this report to Council as required in terms of MFMA circular 75 and submit the Council resolution to Provincial and National Treasury.

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**MS NZ NKAMBA**  
**HEAD OF DEPARTMENT**  
**DATE: \_\_\_\_\_/\_\_\_\_\_/2016**