KOUGA LOCAL MUNICIPALITY

2017/18 – 2019/20

DRAFT BUDGET

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PART 1 – ANNUAL BUDGET

1.1 EXECUTIVE MAYOR'S REPORT

To be inserted upon the final submission of the Budget.

CLR E C VAN LINGEN
EXECUTIVE MAYOR

1.2 COUNCIL RESOLUTIONS

(a) The Executive Mayor recommends that the Council resolves that:

1. The draft annual budget of the Kouga Municipality for the financial year 2017/18 and the indicative allocations for the projected outer years 2018/19 and 2019/20; and the multi-year and single year capital appropriations be approved for the purpose of complying with section 16(2) of the Municipal Finance Management Act (MFMA), Act No. 56 of 2003, as set-out in the following tables:

   1.1 Consolidated Budget Summary [Page 21];
   1.2 Budgeted Financial Performance (revenue and expenditure by standard classification); [Page 23]
   1.3 Budgeted Financial Performance (revenue and expenditure by municipal vote); [Page 25]
   1.4 Budgeted Financial Performance (revenue by source and expenditure by type); [Page 26]
   1.5 and Multi-year and single year capital appropriations by municipal vote and standard classification and associated funding by source. [Page 29]

2. The budgeted financial position, budgeted cash flows, cash-backed reserves/accumulated surplus, asset management and basic service delivery targets be noted as set-out in the following tables:

   2.1 Budgeted Financial Position; [Page 31]
   2.2 Budgeted Cash Flows; [Page 33]
   2.3 Cash backed reserves and accumulated surplus reconciliation; [Page 34]
   2.4 Asset management; [Page 35]
   2.5 Basic service delivery measurement. [Page 38]

3. Tariffs be increased as follows, with effect from 1 July 2017:

Property rates	-	8%
Water	-	9.5%
Sanitation	-	9%
Refuse	-	9%
Electricity (average increase in electricity income)	-	1.88%
Environmental Management Fee	-	6%

4. Indicative tariffs for 2018/19 and 2019/20 be increased as follows:

	2018/19	2019/20
Property rates	8%	8%
Water	10.5%	11.5%
Sanitation	9%	9%
Refuse	9%	9%
Electricity	1.88%	1.88%
Environmental Management Fee	6%	6%

4. The Director: Infrastructure, Planning and Development report on the implementation of a strategy by 31 May 2017, to reduce electricity losses.

6. The Director: Infrastructure, Planning and Development report on the implementation of a strategy by 31 May 2017, to reduce water losses.

7. The Director: Social Services report on the implementation of a strategy by 31 May 2017, to collect outstanding traffic fines.

8. The Director: Administration, Monitoring and Evaluation reports on the implementation of a strategy by 31 May 2017, to contain personnel expenditure.

9. The relevant Directors submit their respective maintenance plans, in support of the 2017/18 – 2019/20 Draft Annual Budget, by not later than 21 April 2017.

10. The relevant Directors submit their respective procurement plans, in support of the 2017/18 – 2019/20 Draft Annual Budget, by not later than 28 April 2017.

1.3 EXECUTIVE SUMMARY

The key service delivery priorities, as outlined in the IDP, informed the development of the Budget, including the need to maintain and improve the Municipality's financial sustainability.
Furthermore, cost containment measures are being implemented to curb costs and to improve operational efficiency.

National Treasury's MFMA Circulars No. 48, 51, 54, 55, 58, 59, 66, 67, 70, 72, 74, 75,78,79,85 and 86 (refer to Annexures "A" and "B") were used to guide the compilation of the 2017/18 Medium Term Revenue and Expenditure Framework (MTREF).

The Municipality faced the following significant challenges during the compilation of the 2017/18 MTREF:

- Maintaining revenue collection rates at the targeted levels;
- Maintaining electricity and water losses at acceptable levels;
- Increased costs associated with bulk water purchases, placing upward pressure on municipal tariff increases;
- Fully implementing cost containment measures;
- Allocation of the required budget provision for the rehabilitation and maintenance of infrastructure; and
- Maintaining an acceptable cost coverage ratio;

The following budgeting principles and guidelines directly informed the compilation of the 2017/18 MTREF:

- The priorities and targets, relating to the key strategic focus areas, as outlined in the IDP.
- The level of property rates and tariff increases to take into account the need to address maintenance and infrastructural backlogs.
- The level of property rates and tariff increases to ensure the delivery of municipal services on a financially sustainable basis.
- The need to enhance the municipality's revenue base.
- No loan funding is available to support the Capital Budget, in view of financial affordability considerations.
- In accordance with Section 19 of the Municipal Finance Management Act, the relevant Directors must submit comprehensive reports in relation to new projects, inter alia; dealing

with the total project costs, funding sources, future operating budget implications and associated tariff implications, before Council finally approves the implementation of any new projects.

In view of the aforementioned, the following table represents an overview of the proposed 2017/18 Medium-term Revenue and Expenditure Framework:

Table 1 (Overview of the 2017/18 MTREF)

R thousands	Adjustments Budget 2016/17	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Total Operating Revenue	639,396	758 009	797 615	841 591
Total Operating Expenditure	695,540	811 469	852 058	895 615
Surplus/(Deficit)	(56,143)	(53 460)	(54 443)	(54 024)
Total Capital Expenditure	68,385	67 080	72 993	82 132

Total operating revenue has increased by 18.55% or R 118,613 million for the 2017/18 financial year, compared to the 2016/17 Adjustments Budget. The significant increase in operating revenue mainly results from the implementation of mSCOA, with the property rates rebates of R 13,999 million, cost of free basic services of R 47,293 million and interdepartmental charges of R 12,758 million having been moved to operating expenditure in the 2017/18 financial year, whilst in the 2016/17 Adjustments Budget they were offset against property rates revenue and service charges.

For the two outer years, operational revenue increases by 5.22% and 5.51% respectively, resulting in a total revenue growth of R 202,195 million over the MTREF, when compared to the 2016/17 financial year.

Total operating expenditure for the 2017/18 financial year amounts to R 811,469 million, resulting in a budgeted deficit of R 53,460 million. Compared to the 2016/17 Adjustments Budget, operational expenditure increased by 16.67% in the 2017/18 Budget. The significant increase in operating expenditure mainly results from the implementation of mSCOA, with the property rates rebates of R 13,999 million, cost of free basic services of R 47,293 million and interdepartmental charges of R 12,758 million having been moved to operating expenditure in the 2017/18 financial year, whilst in the 2016/17 Adjustments Budget they were offset against property rates revenue and service charges.

For the two outer years, operational expenditure increases by 5% and 5.11% respectively. The 2018/19 and 2019/20 budgets reflect operating deficits of R 54,443 million and R 54,024 million respectively.

The major operating expenditure items for 2017/18 are employee related costs (31.55%), bulk electricity purchases (23.07%), other expenditure (10.43%) and depreciation (10.32%).

Funding for the 2017/18 Operating Budget is obtained from various sources, the major sources being service charges such as electricity, water, sanitation, environmental management fees and refuse collection (56.4%), property rates (23.32%), grants and subsidies received from National and Provincial Governments (15.07%).

In order to fund the 2017/18 Operating Budget, the following increases in property rates and service charges have been proposed, with effect from 1 July 2017:

Property rates	-	8%
Water	-	9.5%
Sanitation	-	9%
Refuse	-	9%
Electricity (average increase in income)	-	1.88%
Environmental Management Fee	-	6%

The capital budget of R 67,080 million for 2017/18 is R 1,305 million or 1.91% less than the 2016/17 Adjustments Budget. The Capital Budget over the MTREF will be mainly funded from government grants and subsidies, as the municipality has reached its prudential borrowing limits, whilst limited internal funding is available.

1.4 OPERATING REVENUE FRAMEWORK

The continued provision and expansion of municipal services, is largely dependent on the Municipality generating sufficient revenues. Efficient and effective revenue management is thus of vital importance in ensuring the ongoing financial sustainability of the Municipality. Furthermore, in accordance with the MFMA, expenditure has to be limited to the realistically anticipated revenues.

The Municipality's revenue management strategy includes the following key components:

- National Treasury's guidelines in this regard;
- Tariff Policies;
- Property Rates Policy;
- Indigent Policy and provision of free basic services;
- The level of property rates and tariff increases must ensure financially sustainable service delivery.
- The level of property rates and tariff increases to take into account the maintenance and replacement of infrastructure, including the expansion of services;
- Determining fully cost reflective tariffs for trading services;
- Electricity bulk tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Water bulk tariff increases as approved by the Nelson Mandela Bay Metropolitan Municipality;
- Efficient revenue management, targeting a 94% annual collection rate for property rates and service charges.

The following table is a summary of the 2017/18 MTREF (classified by main revenue source):

Table 2 (Summary of main revenue sources)

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Revenue By Source				
Property rates	148 671	176 785	190 928	206 203
Service charges - electricity revenue	223 745	244 779	249 381	254 069
Service charges - water revenue	53 284	74 948	75 735	76 606
Service charges - sanitation revenue	37 217	49 848	54 335	59 225
Service charges - refuse revenue	25 149	41 330	45 050	49 105
Service charges - other	12 059	16 637	17 636	18 694
Rental of facilities and equipment	1 200	1 309	1 388	1 471
Interest earned - external investments	6 788	7 195	7 627	8 084
Interest earned - outstanding debtors	7 536	8 939	9 654	10 427
Dividends received	–	–	–	–
Fines, penalties and forfeits	3 459	3 761	3 990	4 234
Licences and permits	8 050	11 773	12 491	13 253
Agency services	–	–	–	–
Transfers and subsidies	101 004	114 219	122 520	132 921
Other revenue	11 233	6 484	6 880	7 299
Gains on disposal of PPE		–	–	–
Total Revenue (excluding capital transfers and contributions)	**639 396**	**758 009**	**797 615**	**841 591**

The following table illustrates the mix of main revenue sources, supporting the 2017/18 MTREF:

Table 3 (Mix of main revenue sources)

Description	Current Year 2016/17		2017/18 Medium Term Revenue & Expenditure Framework					
R thousand	**Adjusted Budget**	**%**	**Budget Year 2017/18**	**%**	**Budget Year 2018/19**	**%**	**Budget Year 2019/20**	**%**
Revenue By Source								
Property rates	148 671	23.25%	176 785	23.32%	190 928	23.94%	206 203	24.50%
Service charges - electricity revenue	223 745	34.99%	244 779	32.29%	249 381	31.27%	254 069	30.19%
Service charges - water revenue	53 284	8.33%	74 948	9.89%	75 735	9.50%	76 606	9.10%
Service charges - sanitation revenue	37 217	5.82%	49 848	6.58%	54 335	6.81%	59 225	7.04%
Service charges - refuse revenue	25 149	3.93%	41 330	5.45%	45 050	5.65%	49 105	5.83%
Service charges - other	12 059	1.89%	16 637	2.19%	17 636	2.21%	18 694	2.22%
Rental of facilities and equipment	1 200	0.19%	1 309	0.17%	1 388	0.17%	1 471	0.17%
Interest earned - external investments	6 788	1.06%	7 195	0.95%	7 627	0.96%	8 084	0.96%
Interest earned - outstanding debtors	7 536	1.18%	8 939	1.18%	9 654	1.21%	10 427	1.24%
Dividends received	–	0.00%	–	0.00%	–	0.00%	–	0.00%
Fines, penalties and forfeits	3 459	0.54%	3 761	0.50%	3 990	0.50%	4 234	0.50%
Licences and permits	8 050	1.26%	11 773	1.55%	12 491	1.57%	13 253	1.57%
Agency services	–	0.00%	–	0.00%	–	0.00%	–	0.00%
Transfers and subsidies	101 004	15.80%	114 219	15.07%	122 520	15.36%	132 921	15.79%
Other revenue	11 233	1.76%	6 484	0.86%	6 880	0.86%	7 299	0.87%
Gains on disposal of PPE		0.00%	–	0.00%	–	0.00%	–	0.00%
Total Revenue (excluding capital transfers and contributions)	**639 396**	**100.00%**	**758 009**	**100.00%**	**797 615**	**100.00%**	**841 591**	**100.00%**
Total Revenue from Property Rates and Service Charges	**500 126**	**78.22%**	**604 329**	**79.73%**	**633 065**	**79.37%**	**663 901**	**78.89%**

In the 2016/17 financial year, rates and service charges amounted to R 500,126 million. This increases to R 604,329 million, R 633,065 million and R 663,901 million in the 2017/18, 2018/19 and 2019/20 financial years, respectively.

The major operating revenue sources for 2017/18 are electricity (32.29%), property rates (23.32%), operating grants & subsidies (15.07%), water (9.89%) and sanitation (6.58%).

The following table provides a breakdown of the various operating grants and subsidies allocated to the Municipality over the medium term:

Table 4 (Operating Transfers and Grant Receipts)

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
RECEIPTS:				
Operating Transfers and Grants				
National Government:	**95 820**	**106 951**	**116 930**	**126 994**
Local Government Equitable Share	91 622	102 637	113 277	123 252
Finance Management	1 625	1 700	1 955	1 955
MIG - Administration Fees	1 516	1 614	1 698	1 787
EPWP Incentive	1 057	1 000		
Provincial Government:	**2 372**	**4 050**	**2 169**	**2 290**
ACIP-Water		2 000		
Sport and Recreation	2 050	2 050	2 169	2 290
Housing	322			
District Municipality:	**2 334**	**2 500**	**2 653**	**2 814**
Environmental Health Subsidy	2 334	2 500	2 653	2 814
Other grant providers:	**477**	**718**	**768**	**822**
Skills Development Grant	477	718	768	822
Total Operating Transfers and Grants	**101 004**	**114 219**	**122 520**	**132 921**

The Municipality is faced with the significant challenge of providing services with its limited financial resources. Against this background, the Municipality has undertaken the tariff determination process relating to property rates and service charges as follows:

1.4.1 Property Rates

Property rates fund the costs associated with the provision of general services, such as fire, library and roads and stormwater services.

The following provisions in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rateable value (Section 17(h) of the MPRA).
- An additional R85 000 rebate will be granted to registered indigents in terms of the Indigent Policy.
- If the usage of a property changes during a financial year, the rebate applicable will be reduced *pro rata* for the balance of the financial year.

A property rates increase of 8% is proposed as from 1 July 2017.

The proposed property rates increase is mainly influenced by the following:

- Employee related costs increased by 7.4%;
- Providing for debt impairment.

1.4.2 Sale of Water and Impact of Tariff Increases

In accordance with National Treasury's MFMA Circulars, no. 51, 55, 58, 66, 70, 74 and 85, Municipalities are encouraged to review the level and structure of their water tariffs to ensure:

- Fully cost reflective water tariffs – tariffs should include the costs associated with bulk water purchases, the maintenance and renewal of purification plants, water networks and water reticulation expansion;
- Water tariffs are structured to protect basic levels of service; and
- Water tariffs are designed to encourage efficient and sustainable consumption.

National Treasury has urged municipalities to ensure that water tariffs are fully cost reflective by 2014/15. In this regard a phased-in approach will be undertaken to ensure that tariffs are fully cost reflective over the medium term. As the charging of fully cost reflective tariffs would place an undue financial burden on customers, it will not be possible to implement it in the 2017/18 MTREF.

A tariff increase of 9.5% is proposed as from 1 July 2017. The proposed tariff increase is mainly influenced by the following:

- Employee related costs increased by 7.64%;
- The cost of bulk water purchases increased by 9%;
- Providing for debt impairment.

The water tariff structure is designed in such a manner that higher levels of water consumption are progressively charged at a higher rate.

1.4.3 Sale of Electricity and Impact of Tariff Increases

NERSA has determined that the Eskom bulk electricity tariff to municipalities would increase by 0.31% as from 1 July 2017. Considering the Eskom tariff increase, the Municipality's consumer tariffs will be increased by 1.88% on average to offset the additional electricity bulk purchase costs as from 1 July 2017.

The proposed tariff increases are mainly influenced by the following:

- Employee related costs increased by 6.38%;
- The cost of bulk electricity purchases increased by 0.31%;
- Repairs and maintenance of electricity infrastructure increased by 21.77%;
- Costs of servicing existing external borrowing to fund electricity infrastructure;
- Providing for debt impairment.

The proposed electricity tariff increases, still require approval by NERSA.

1.4.4 Sanitation and Impact of Tariff Increases

In accordance with National Treasury's MFMA Circulars, no. 51, 55, 58, 66, 70, 74 and 85, Municipalities are encouraged to review the level and structure of their sanitation tariffs to ensure:

- Fully cost reflective sanitation tariffs – tariffs should include the costs associated with maintenance and renewal of treatment plants, sanitation networks and sanitation infrastructure expansion;
- Sanitation tariffs are structured to protect basic levels of service; and
- Sanitation tariffs are designed to encourage efficient and sustainable consumption.

National Treasury has urged municipalities to ensure that sanitation tariffs are fully cost reflective by 2014/15. In this regard a phased-in approach will be undertaken to ensure that tariffs are fully cost reflective over the medium term. As the charging of fully cost reflective tariffs would place an undue financial burden on customers, it will not be possible to implement it in the 2017/18 MTREF.

Sanitation charges are determined based on the volume of water consumed, which is appropriately reduced by the percentage of water discharged into the sewer system.

A tariff increase of 9% is proposed as from 1 July 2017. The proposed tariff increase is mainly influenced by the following:

- Employee related costs increased by 3.86%;
- Providing for debt impairment.

1.4.5 Refuse Collection and Impact of Tariff Increases

National Treasury has urged municipalities to ensure that refuse tariffs are fully cost reflective by 2015. The tariffs should take into account the need to maintain a cash-backed reserve to cover the future costs of the rehabilitation of landfill sites. In this regard a phased-in approach will be undertaken to ensure that tariffs are fully cost reflective over the medium term. As the charging of fully cost reflective tariffs would place an undue financial burden on customers, it will not be possible to implement it in the 2017/18 MTREF.

A tariff increase of 9% is proposed for refuse collection, as from 1 July 2017.

The proposed tariff increase is mainly influenced by the following:

- Employee related costs increased by 7.42%;
- Providing for debt impairment

1.4.6 Environmental Management Fees and Impact of Tariff increases

A tariff increase of 6% is proposed for the environmental management fee, as from 1 July 2017.

- Employee related costs increased by 5.02%;
- Providing for debt impairment.

1.5 OPERATING EXPENDITURE FRAMEWORK

The Municipality's expenditure framework for the 2017/18 budget and MTREF is informed by the following:

- The funding of the budget over the medium-term is informed by the requirements of Section 18 and 19 of the MFMA;
- A balanced budget approach by limiting operating expenditure to the operating revenue;

The following table is a high level summary of the 2017/18 budget and MTREF (classified per main type of operating expenditure):

Table 5 (Summary of operating expenditure by standard classification item)

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Expenditure By Type				
Employee related costs	229 366	256 022	271 372	287 643
Remuneration of councillors	10 917	11 725	12 593	13 525
Debt impairment	30 008	31 657	33 466	35 454
Depreciation & asset impairment	83 123	83 730	88 754	94 079
Finance charges	4 463	3 768	3 021	2 201
Bulk purchases	221 875	225 623	229 658	234 006
Other materials	33 193	15 301	16 219	17 192
Contracted services	14 531	37 649	39 908	42 302
Transfers and subsidies	1 080	61 372	66 998	73 325
Other expenditure	66 983	84 621	90 069	95 887
Loss on disposal of PPE		–	–	–
Total Expenditure	**695 540**	**811 469**	**852 058**	**895 615**

The total operating expenditure increased by R 115,929 million (16.67%) from R 695,540 million in 2016/17 to R 811,469 million in 2017/18. Below is a discussion of the main expenditure components.

Employee related costs

The 2017/18 budget provides for a general increase of 7.4%, in line with the approved Salary and Wage Collective Agreement.

The total budget provision of R 256,022 million represents an increase of 11.62% over the 2016/17 Adjustments budget. Furthermore, in accordance with a settlement agreement an amount of R 5.1 million has been provided for the filling of 49 positions, in which certain employees have been acting for extended periods.

Employee related costs in the 2017/18 Budget, represent 31.55% of the total operating expenditure

Remuneration of Councillors

The remuneration of Councillors is determined by the Minister of Co-operative Governance and Traditional Affairs, in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in preparing the budget. As the budget provides for a 7.4% increase, Councillors' remuneration should be limited to the budget allocated for this purpose.

Debt Impairment

The provision for debt impairment was determined based on a targeted annual collection rate of 94%. For the 2017/18 financial year this amounted to R 31,657 million and increases to R 35,454 million in 2019/20. While this expenditure represents a non-cash flow item, it is taken into account in determining the total costs associated with the rendering of municipal services and the realistically anticipated revenues.

Depreciation and Asset Impairment

The provision for depreciation and asset impairment has been informed by the Municipality's Fixed Assets Register. The budget amounts to R 83,730 million for the 2017/18 financial and equates to 10.32% of the total operating expenditure.

Finance Charges

Finance charges consist primarily of the repayment of interest on existing long-term borrowing (cost of capital). Finance charges constitute 0.46% (R 3,768 million) of total operating expenditure for 2017/18.

Bulk Electricity Purchases

The bulk purchases of electricity increased by R 0,578 million (0.31%), from R 186,661 million in 2016/17 to R 187,239 million in 2017/18.

NERSA has approved a 0.31% increase in the Eskom bulk tariff for the 2017/18 financial year. The 2017/18 budget accordingly allows for a 0.31% increase for bulk electricity purchases from Eskom.

Bulk Water Purchases

The bulk purchases of water increased by R 3,169 million (9%) from R 35,215 million in 2016/17 to R 38,384 million in 2017/18. Bulk water purchases constitute 4.73% of total operating expenditure for 2017/18.

Other Materials

Other materials, comprise materials for repairs and maintenance. The budget for 2017/18 amounts to R 15,301 million and equates to 1.89% of the total operating expenditure. Due to the implementation of mSCOA, contracted services in the amount of R 37,649 million, includes an amount of R 19,782 million relating to repairs and maintenance.

Contracted Services

In the 2017/18 financial year, the budget provision amounts to R 37,649 million and equates to 4.64% of the total operating expenditure. This amount includes repairs and maintenance expenditure of R 19,782 million.

Transfers and Subsidies

In the 2017/18 financial year, the budget provision amounts to R 61,372 million and equates to 7.56% of the total operating expenditure. The amount includes property rates rebates of R 13,999 million and the cost of free basic services of R 47,293 million, which is in line with the implementation of mSCOA.

Other Expenditure

Other expenditure comprises of various line items relating to the daily operations of the municipality.

The expenditure increased by R 17,638 million or 26.33% for 2017/18 and equates to 10.43% of the total operating expenditure. The significant increase mainly results from the implementation of mSCOA, with the interdepartmental charges of R 12,758 million being moved to other expenditure in the 2017/18 financial year, whilst in the 2016/17 Adjustments Budget it was offset against service charges revenue.

The graph below reflects the expenditure components of the budgeted statement of financial performance.

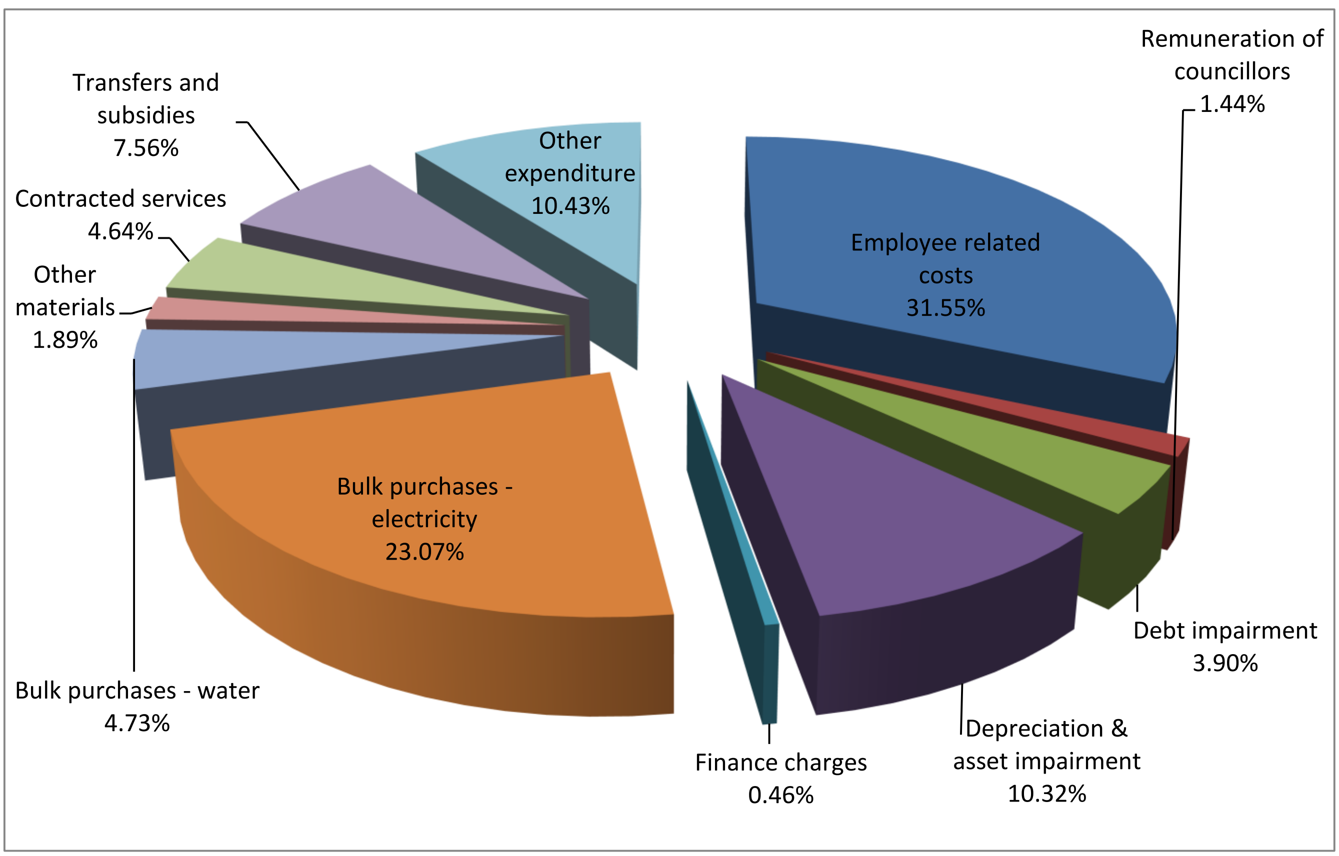


Figure 1 Main operational expenditure categories for the 2017/18 financial year

1.5.1 Priority relating to repairs and maintenance

The repairs and maintenance expenditure in the 2017/18 financial year, increased by R 1,890 million or 5.69%, compared to the 2016/17 Adjustments Budget.

The growth for the two outer years, amount 6% and 6%, respectively. In relation to the total operating expenditure, repairs and maintenance constitutes 4.32% for the 2017/18 financial year and 4.36% for the 2018/19 and 4.4% for the 2019/20 financial years, respectively.

The table below provides a breakdown of the repairs and maintenance in relation to asset class:

Table 6 (Repairs and maintenance per asset class)

Description		2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	**Adjusted Budget**	**Budget Year 2017/18**	**Budget Year 2018/19**	**Budget Year 2019/20**
Repairs and Maintenance by Asset Class	**33 193**	**35 083**	**37 188**	**39 420**
Roads Infrastructure	5 938	5 175	5 486	5 815
Storm water Infrastructure	–	266	282	299
Electrical Infrastructure	5 993	7 298	7 736	8 200
Water Supply Infrastructure	5 097	4 021	4 262	4 517
Sanitation Infrastructure	3 170	3 830	4 060	4 304
Solid Waste Infrastructure	1 471	1 004	1 064	1 128
Infrastructure	***21 669***	***21 594***	***22 889***	***24 263***
Community Facilities	536	1 940	2 056	2 179
Sport and Recreation Facilities	–	200	212	225
Community Assets	***536***	***2 140***	***2 268***	***2 404***
Operational Buildings	2 083	1 456	1 543	1 636
Other Assets	***2 083***	***1 456***	***1 543***	***1 636***
Furniture and Office Equipment	**91**	**–**	**–**	**–**
Machinery and Equipment	**960**	**974**	**1 032**	**1 094**
Transport Assets	**7 854**	**8 920**	**9 456**	**10 023**
TOTAL EXPENDITURE	**33 193**	**35 083**	**37 188**	**39 420**

For the 2017/18 financial year an amount of R 21,594 million (61.55%) of total repairs and maintenance, will be spent on infrastructure assets.

1.5.1 Free Basic Services: Indigent Support

The indigent support assists indigent households that have limited financial ability to pay for municipal services. In order to qualify for free services the households are required to register in terms of the Municipality's Indigent Policy, whilst the monthly household income may not exceed two state pensions. Detail relating to free services, cost of free basic services, as well as basic service delivery measurement is contained in Table A10 (Basic Service Delivery Measurement).

The cost of the indigent support of the registered indigent households is largely financed by national government through the local government equitable share allocation, received in terms of the annual Division of Revenue Act.

1.6 CAPITAL EXPENDITURE

The following table provides a breakdown of budgeted capital expenditure by vote:

Table 7 (2017/18 Medium-term capital budget per vote)

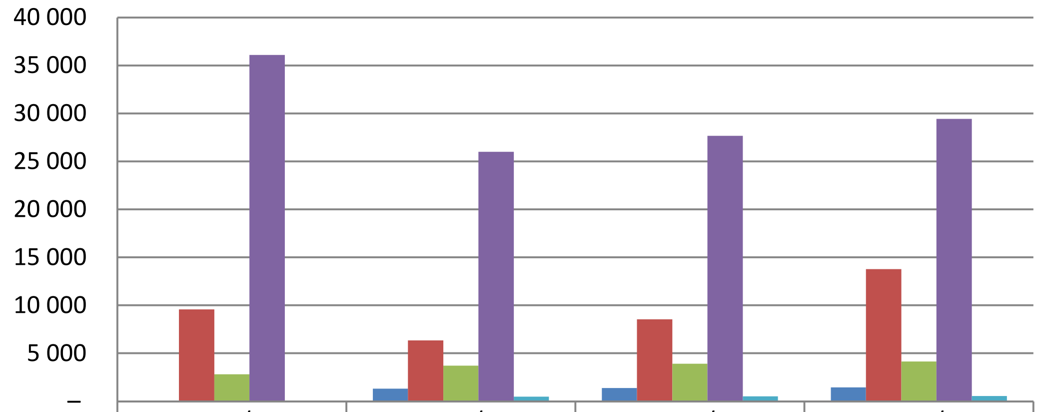
Vote Description	Current Year 2016/17		2017/18 Medium Term Revenue & Expenditure Framework					
R thousand	Adjusted Budget	%	Budget Year 2017/18	%	Budget Year 2018/19	%	Budget Year 2019/20	%
Capital expenditure - Vote								
Vote 1 - Executive & Council	30	0.04%	353	0.53%	374	0.51%	397	0.48%
Vote 2 - Financial Services	896	1.31%	4 285	6.39%	4 542	6.22%	4 815	5.86%
Vote 3 - Administration, Monitoring & Evaluation	675	0.99%	1 041	1.55%	1 103	1.51%	1 170	1.42%
Vote 4 - Led, Tourism & Creative Industries	795	1.16%	1 440	2.15%	1 516	2.08%	1 596	1.94%
Vote 5 - Infrastructure, Planning & Development	50 509	73.86%	42 494	63.35%	46 976	64.36%	54 599	66.48%
Vote 6 - Social Services	15 480	22.64%	17 466	26.04%	18 482	25.32%	19 556	23.81%
Total Capital Expenditure - Vote	**68 385**	**100.00%**	**67 080**	**100.00%**	**72 993**	**100.00%**	**82 132**	**100.00%**

Of the total amount of R 67,080 million for 2017/18, an amount of R 37,848 million has been appropriated for the development of infrastructure, which represents 56.42% of the total capital budget. In the outer years this amount totals R 42,052 million (57.61%) and R 49,379 (60.12%) respectively for each of the financial years.

Infrastructure, Planning & Development receives the highest allocation of R 42,494 million in 2017/18, which equates to 63.35%, followed by Social Services at R 17,466 million (26.04%), Financial Services at R 4,285 million (6.39%), LED, Tourism & Creative Industries at R 1,440 million (2.15%), Administration, Monitoring & Evaluation at R 1,041 million (1.55%),and Executive & Council at R 0,353 million (0.53%).

Annexure "C" provides a summary of the capital projects included in the Capital budget.

The following graph provides a breakdown of the capital budget to be spent on infrastructure related projects over the MTREF.



	2016/17	2017/18	2018/19	2019/20
Roads Infrastructure	–	1 300	1 378	1 461
Electrical Infrastructure	9 564	6 350	8 551	13 764
Water Supply Infrastructure	2 800	3 700	3 922	4 157
Sanitation Infrastructure	36 087	25 998	27 671	29 436
Solid Waste Infrastructure	–	500	530	562

Figure 2 Capital Infrastructure Programme rounded to the nearest R1000

1.7 ANNUAL BUDGET TABLES

The ten main budget tables, as required in terms of the Municipal Budget and Reporting Regulations, are included in this section. These tables set out the Municipality's 2017/18 Budget and MTREF to be considered for approval by Council. Each table is accompanied by *explanatory notes*.

Table 8 (Table A1 - Budget Summary)

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousands	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Financial Performance				
Property rates	148 671	176 785	190 928	206 203
Service charges	351 455	427 543	442 136	457 698
Investment revenue	6 788	7 195	7 627	8 084
Transfers recognised - operational	101 004	114 219	122 520	132 921
Other own revenue	31 479	32 267	34 404	36 684
Total Revenue (excluding capital transfers and contributions)	639 396	758 009	797 615	841 591
Employee costs	229 366	256 022	271 372	287 643
Remuneration of councillors	10 917	11 725	12 593	13 525
Depreciation & asset impairment	83 123	83 730	88 754	94 079
Finance charges	4 463	3 768	3 021	2 201
Materials and bulk purchases	255 068	240 924	245 877	251 198
Transfers and grants	1 080	61 372	66 998	73 325
Other expenditure	111 521	153 927	163 442	173 643
Total Expenditure	695 540	811 469	852 058	895 615
Surplus/(Deficit)	(56 143)	(53 460)	(54 443)	(54 024)
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	38 383	34 660	37 267	43 962
Contributions recognised - capital & contributed assets	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions	(17 760)	(18 799)	(17 176)	(10 062)
Share of surplus/ (deficit) of associate	–	–	–	–
Surplus/(Deficit) for the year	(17 760)	(18 799)	(17 176)	(10 062)
Capital expenditure & funds sources				
Capital expenditure	68 385	67 080	72 993	82 132
Transfers recognised - capital	38 383	34 660	37 267	43 962
Public contributions & donations	–	–	–	–
Borrowing	–	–	–	–
Internally generated funds	30 002	32 419	35 726	38 170
Total sources of capital funds	68 385	67 080	72 993	82 132

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousands	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Financial Performance				
Financial position				
Total current assets	152 993	145 241	138 358	133 117
Total non current assets	2 718 293	2 654 586	2 575 547	2 493 298
Total current liabilities	155 747	153 131	150 665	147 891
Total non current liabilities	137 395	148 939	144 133	137 344
Community wealth/Equity	2 578 144	2 497 758	2 419 107	2 341 180
Cash flows				
Net cash from (used) operating	65 363	64 931	71 578	84 017
Net cash from (used) investing	(68 385)	(67 080)	(72 993)	(82 132)
Net cash from (used) financing	(7 303)	(6 443)	(7 179)	(7 999)
Cash/cash equivalents at the year end	68 249	59 657	51 062	44 948
Cash backing/surplus reconciliation				
Cash and investments available	68 249	59 657	51 062	44 948
Application of cash and investments	37 125	29 176	23 658	18 902
Balance - surplus (shortfall)	31 124	30 481	27 404	26 046
Asset management				
Asset register summary (WDV)	2 718 128	2 654 436	2 575 394	2 493 143
Depreciation	83 123	83 730	83 730	83 730
Renewal of Existing Assets	21 719	–	–	–
Repairs and Maintenance	33 193	35 083	37 188	39 420
Free services				
Cost of Free Basic Services provided	–	–	–	–
Revenue cost of free services provided	–	–	–	–
Households below minimum service level				
Water:	–	–	–	–
Sanitation/sewerage:	4	–	–	–
Energy:	–	–	–	–
Refuse:	–	–	–	–

Explanatory notes to Table A1 - Budget Summary

The aim of the Budget Summary is to provide a concise overview of the proposed budget from all of the major financial perspectives (operating expenditure, capital expenditure, financial position, cash flow, and MFMA funding compliance). The table provides an overview of the amounts to be approved by Council within the context of operating performance, resources utilised for capital expenditure, financial position, cash and funding compliance, as well as the Municipality's commitment to eliminating basic service delivery backlogs.

Table 9 (Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification))

Functional Classification Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Revenue - Functional				
Governance and administration	**254 223**	**298 053**	**324 504**	**351 270**
Executive and council	–	34	36	38
Finance and administration	254 223	298 020	324 468	351 232
Internal audit	–	–	–	–
Community and public safety	**23 263**	**14 965**	**15 608**	**16 285**
Community and social services	8 809	2 428	2 570	2 716
Sport and recreation	4 322	9 833	10 170	10 526
Public safety	10 132	4	4	4
Housing	–	–	–	–
Health	–	2 699	2 864	3 038
Economic and environmental services	**21 186**	**33 030**	**33 865**	**35 809**
Planning and development	6 610	6 521	6 815	7 127
Road transport	–	8 408	7 859	8 339
Environmental protection	14 577	18 102	19 190	20 343
Trading services	**379 107**	**446 621**	**460 905**	**482 188**
Energy sources	237 539	253 579	259 263	269 034
Water management	55 766	76 948	75 735	76 606
Waste water management	60 638	74 747	80 840	87 425
Waste management	25 164	41 347	45 067	49 123
Other	**–**	**–**	**–**	**–**
Total Revenue - Functional	**677 779**	**792 670**	**834 882**	**885 552**
Expenditure - Functional				
Governance and administration	**127 292**	**187 942**	**198 734**	**210 184**
Executive and council	30 060	42 130	44 822	47 687
Finance and administration	97 232	145 812	153 912	162 496
Internal audit	–	–	–	–

Functional Classification Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Community and public safety	**93 659**	**81 888**	**86 801**	**92 009**
Community and social services	49 255	9 801	10 389	11 012
Sport and recreation	969	42 081	44 605	47 282
Public safety	39 527	20 985	22 244	23 579
Housing	3 909	4 369	4 631	4 909
Health	–	4 653	4 932	5 228
Economic and environmental services	**106 137**	**107 707**	**114 157**	**120 994**
Planning and development	95 213	30 268	32 072	33 984
Road transport	–	66 417	70 403	74 627
Environmental protection	10 924	11 022	11 683	12 384
Trading services	**368 451**	**430 735**	**448 977**	**468 836**
Energy sources	228 913	242 068	246 038	250 261
Water management	69 099	92 695	100 441	109 090
Waste water management	39 804	48 368	51 620	55 098
Waste management	30 636	47 604	50 878	54 386
Other	**–**	**3 197**	**3 389**	**3 592**
Total Expenditure - Functional	**695 540**	**811 469**	**852 058**	**895 615**
Surplus/(Deficit) for the year	**(17 760)**	**(18 799)**	**(17 176)**	**(10 062)**

Explanatory notes to Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

The ‘standard classification’ refers to a modified Government Finance Statistics (GFS) reporting structure. The aim of the standard classification approach is to ensure that all municipalities approve a budget in one common format, to facilitate comparison across all municipalities. It should be noted that the revenue by vote as reflected in this table, includes revenue attributable to capital grants.

Table 10 (Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote))

Vote Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Revenue by Vote				
Vote 1 - Executive & Council	–	–	–	–
Vote 2 - Financial Services	253 123	293 762	319 944	346 425
Vote 3 - Administration, Monitoring & Evaluation	508	752	804	860
Vote 4 - Led, Tourism & Creative Industries	1 440	1 440	1 440	1 440
Vote 5 - Infrastructure, Planning & Development	359 700	411 356	421 214	438 754
Vote 6 - Social Services	63 008	85 359	91 478	98 073
Total Revenue by Vote	**677 779**	**792 670**	**834 882**	**885 552**
Expenditure by Vote ***to be appropriated***				
Vote 1 - Executive & Council	30 060	33 589	35 768	38 091
Vote 2 - Financial Services	55 113	86 191	90 713	95 505
Vote 3 - Administration, Monitoring & Evaluation	34 529	41 770	44 276	46 933
Vote 4 - Led, Tourism & Creative Industries	11 081	10 865	11 517	12 208
Vote 5 - Infrastructure, Planning & Development	433 719	475 520	496 020	518 233
Vote 6 - Social Services	131 037	163 534	173 764	184 645
Total Expenditure by Vote	**695 540**	**811 469**	**852 058**	**895 615**
Surplus/(Deficit) for the year	**(17 760)**	**(18 799)**	**(17 176)**	**(10 062)**

Explanatory notes to Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

1. The purpose of the format in which the budget is presented, is to enable the Council to enforce a vote in accordance with the municipality's organisational structure, so as to assign responsibility for the revenue and expenditure recorded against these votes to the Municipal Manager and Directors concerned. Operating revenue and expenditure is thus presented by 'vote'. A 'vote' is defined as one of the main segments into which a budget of a municipality is divided into, for the appropriation of funds.

Table 11 (Table A4 - Budgeted Financial Performance (revenue and expenditure))

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Revenue By Source				
Property rates	148 671	176 785	190 928	206 203
Service charges - electricity revenue	223 745	244 779	249 381	254 069
Service charges - water revenue	53 284	74 948	75 735	76 606
Service charges - sanitation revenue	37 217	49 848	54 335	59 225
Service charges - refuse revenue	25 149	41 330	45 050	49 105
Service charges - other	12 059	16 637	17 636	18 694
Rental of facilities and equipment	1 200	1 309	1 388	1 471
Interest earned - external investments	6 788	7 195	7 627	8 084
Interest earned - outstanding debtors	7 536	8 939	9 654	10 427
Dividends received	–	–	–	–
Fines, penalties and forfeits	3 459	3 761	3 990	4 234
Licences and permits	8 050	11 773	12 491	13 253
Agency services	–	–	–	–
Transfers and subsidies	101 004	114 219	122 520	132 921
Other revenue	11 233	6 484	6 880	7 299
Gains on disposal of PPE		–	–	–
Total Revenue (excluding capital transfers and contributions)	**639 396**	**758 009**	**797 615**	**841 591**
Expenditure By Type				
Employee related costs	229 366	256 022	271 372	287 643
Remuneration of councillors	10 917	11 725	12 593	13 525
Debt impairment	30 008	31 657	33 466	35 454
Depreciation & asset impairment	83 123	83 730	88 754	94 079
Finance charges	4 463	3 768	3 021	2 201
Bulk purchases	221 875	225 623	229 658	234 006
Other materials	33 193	15 301	16 219	17 192
Contracted services	14 531	37 649	39 908	42 302
Transfers and subsidies	1 080	61 372	66 998	73 325
Other expenditure	66 983	84 621	90 069	95 887
Loss on disposal of PPE		–	–	–
Total Expenditure	**695 540**	**811 469**	**852 058**	**895 615**
Surplus/(Deficit)	**(56 143)**	**(53 460)**	**(54 443)**	**(54 024)**

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	38 383	34 660	37 267	43 962
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporatons, Higher Educational Institutions)	–	–	–	–
Transfers and subsidies - capital (in-kind - all)				
Surplus/(Deficit) after capital transfers & contributions	**(17 760)**	**(18 799)**	**(17 176)**	**(10 062)**
Taxation				
Surplus/(Deficit) after taxation	**(17 760)**	**(18 799)**	**(17 176)**	**(10 062)**
Attributable to minorities				
Surplus/(Deficit) attributable to municipality	**(17 760)**	**(18 799)**	**(17 176)**	**(10 062)**
Share of surplus/ (deficit) of associate				
Surplus/(Deficit) for the year	**(17 760)**	**(18 799)**	**(17 176)**	**(10 062)**

Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)

<u>Revenue</u>

1. The Financial Performance Budget is required to be approved concurrently by revenue source and expenditure type, so as to ensure consistency with annual reporting format requirements. A key aim is to facilitate comparison between the annual results and the original budget, so as to assess performance.

2. Total revenue amounts to R 758,009 million in 2017/18 and increases to R 841,591 million in 2019/20. This represents a year-on-year increase of 18.55% for the 2017/18 financial year, and increases of 5.22% for the 2018/19 financial year and 5.51% for the 2019/20 financial year, respectively.

3. Revenue from property rates amounts to R 176,785 million in the 2017/18 financial year and increases to R 206,203 million in 2019/20, which amounts to 24.50% of the total operating revenue base of the Municipality.

4. Services charges relating to electricity, water, sanitation, environmental management and refuse collection constitute the biggest component of the total revenue base, amounting to R 427,543 million for the 2017/18 financial year and increasing to R 457,698 million in 2019/20. For the 2017/18 financial year services charges amount to 56.4% of the total revenue base.

5. Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government. It is to be noted that the grants increased by 13.08% for 2017/18, 7.27% for 2018/19 and increased by 8.49% for 2019/20, compared to the 2016/17 Adjustments Budget.

Table 12 (Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source)

Vote Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Capital expenditure - Vote				
Single-year expenditure ***to be appropriated***				
Vote 1 - Executive & Council	30	353	374	397
Vote 2 - Financial Services	896	4 285	4 542	4 815
Vote 3 - Administration, Monitoring & Evaluation	675	1 041	1 103	1 170
Vote 4 - Led, Tourism & Creative Industries	795	1 440	1 516	1 596
Vote 5 - Infrastructure, Planning & Development	50 509	42 494	46 976	54 599
Vote 6 - Social Services	15 480	17 466	18 482	19 556
Capital single-year expenditure sub-total	**68 385**	**67 080**	**72 993**	**82 132**
Total Capital Expenditure - Vote	**68 385**	**67 080**	**72 993**	**82 132**
Capital Expenditure - Functional				
Governance and administration	**1 601**	**6 718**	**7 121**	**7 548**
Executive and council	30	317	336	356
Finance and administration	866	6 401	6 785	7 192
Internal audit	705	–	–	–
Community and public safety	**6 325**	**10 137**	**10 713**	**11 322**
Community and social services	4 450	611	648	687
Sport and recreation	–	6 481	6 837	7 214
Public safety	1 875	2 155	2 284	2 421
Housing	–	–	–	–
Health	–	890	943	1 000
Economic and environmental services	**5 058**	**6 841**	**7 240**	**7 664**
Planning and development	1 003	1 631	1 718	1 810
Road transport	–	3 290	3 487	3 697
Environmental protection	4 055	1 920	2 035	2 157

Vote Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Trading services	**55 401**	**43 383**	**47 919**	**55 599**
Energy sources	10 064	7 255	9 510	14 781
Water management	3 400	5 540	5 872	6 225
Waste water management	36 837	27 368	29 123	30 975
Waste management	5 100	3 220	3 413	3 618
Other	–	–	–	–
Total Capital Expenditure - Functional	**68 385**	**67 080**	**72 993**	**82 132**
Funded by:				
National Government	34 810	34 660	37 267	43 962
Provincial Government	2 000			
District Municipality	–			
Other transfers and grants	1 574			
Transfers recognised - capital	**38 383**	34 660	37 267	43 962
Public contributions & donations				
Borrowing				
Internally generated funds	30 002	32 420	35 726	38 170
Total Capital Funding	**68 385**	**67 080**	**72 993**	**82 132**

Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote; capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.

2. The capital programme is funded from national grants and internally generated funds. For 2017/18, capital transfers totals R 34,660 million (51.67%) and amounts to R 43,962 million for 2019/20 (53.53%). Internally generated funding amounts to R 32,420 million, R 35,726 million and R 38,170 million for each of the respective financial years of the MTREF. These funding sources are further discussed in detail in Section 2.6 (Overview of Budget Funding).

Table 13 (Table A6 - Budgeted Financial Position)

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
ASSETS				
Current assets				
Cash	15 000	17 897	15 319	13 484
Call investment deposits	53 249	41 760	35 744	31 464
Consumer debtors	55 242	55 213	56 318	56 881
Other debtors	24 649	25 677	26 191	26 453
Current portion of long-term receivables	8	3	3	3
Inventory	4 845	4 691	4 784	4 832
Total current assets	**152 993**	**145 241**	**138 358**	**133 117**
Non current assets				
Long-term receivables	165	150	153	155
Investments	–			
Investment property	63 705	84 431	83 481	82 531
Investment in Associate	–			
Property, plant and equipment	2 654 323	2 569 932	2 491 840	2 410 612
Agricultural	–			
Biological	–			
Intangible	101	73	73	
Other non-current assets	–			
Total non current assets	**2 718 293**	**2 654 586**	**2 575 547**	**2 493 298**
TOTAL ASSETS	**2 871 286**	**2 799 827**	**2 713 905**	**2 626 415**

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
LIABILITIES				
Current liabilities				
Bank overdraft				
Borrowing	7 303	6 443	7 179	7 999
Consumer deposits	9 330	8 856	9 033	9 123
Trade and other payables	109 120	106 811	102 811	98 811
Provisions	29 995	31 021	31 642	31 958
Total current liabilities	**155 747**	**153 131**	**150 665**	**147 891**
Non current liabilities				
Borrowing	36 734	30 269	23 089	15 090
Provisions	100 662	118 670	121 044	122 254
Total non current liabilities	**137 395**	**148 939**	**144 133**	**137 344**
TOTAL LIABILITIES	**293 143**	**302 070**	**294 798**	**285 235**
NET ASSETS	**2 578 144**	**2 497 758**	**2 419 107**	**2 341 180**
COMMUNITY WEALTH/EQUITY				
Accumulated Surplus/(Deficit)	2 578 144	2 497 758	2 419 107	2 341 180
Reserves	–	–	–	–
TOTAL COMMUNITY WEALTH/EQUITY	**2 578 144**	**2 497 758**	**2 419 107**	**2 341 180**

Explanatory notes to Table A6 - Budgeted Financial Position

1. The table presents Assets less Liabilities as Community Wealth. The order of items within each group is also aligned to the convention of showing items in order of liquidity; i.e. assets readily converted to cash or liabilities immediately required to be met from cash appear first.

2. Any movement on the Budgeted Financial Performance or the Capital Budget will invariably impact on the Budgeted Financial Position. For example, the collection rate assumption will impact on the cash position of the municipality and consequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption informs the budget provision for debt impairment, which in turn impacts on the provision for bad debts. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition, the funding compliance assessment is directly informed by forecasting the statement of financial position.

Table 14 (Table A7 - Budgeted cash flow statement)

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Property rates	139 751	176 785	190 928	206 203
Service charges	330 367	427 543	442 136	457 698
Other revenue	23 943	23 328	24 749	26 258
Government - operating	101 004	114 219	122 520	132 921
Government - capital	38 383	34 660	37 267	43 962
Interest	14 324	16 134	17 281	18 511
Dividends	–	–	–	–
Payments				
Suppliers and employees	(576 866)	(662 599)	(693 285)	(726 009)
Finance charges	(4 463)	(3 768)	(3 021)	(2 201)
Transfers and Grants	(1 080)	(61 372)	(66 998)	(73 325)
NET CASH FROM/(USED) OPERATING ACTIVITIES	**65 363**	**64 931**	**71 578**	**84 017**
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts				
Proceeds on disposal of PPE		–	–	–
Decrease (Increase) in non-current debtors		–	–	–
Decrease (increase) other non-current receivables		–	–	–
Decrease (increase) in non-current investments		–	–	–
Payments				
Capital assets	(68 385)	(67 080)	(72 993)	(82 132)
NET CASH FROM/(USED) INVESTING ACTIVITIES	**(68 385)**	**(67 080)**	**(72 993)**	**(82 132)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts				
Short term loans		–	–	–
Borrowing long term/refinancing		–	–	–
Increase (decrease) in consumer deposits		–	–	–
Payments				
Repayment of borrowing	(7 303)	(6 443)	(7 179)	(7 999)
NET CASH FROM/(USED) FINANCING ACTIVITIES	**(7 303)**	**(6 443)**	**(7 179)**	**(7 999)**
NET INCREASE/ (DECREASE) IN CASH HELD	**(10 325)**	**(8 592)**	**(8 595)**	**(6 114)**
Cash/cash equivalents at the year begin:	**78 573**	**68 249**	**59 657**	**51 062**
Cash/cash equivalents at the year end:	**68 249**	**59 657**	**51 062**	**44 948**

Explanatory notes to Table A7 - Budgeted Cash Flow Statement

1. The budgeted cash flow statement represents the first measurement in determining whether the budget is funded.

2. It reflects the expected cash in-flows versus cash outflows that is likely to result from the implementation of the budget.

3. The cash position of the Municipality decreased over the 2016/17 to 2019/20 period, from R 68,249 million to R 44,948 million.

4. Cash and cash equivalents amounts to R 59,657 million as at the end of the 2017/18 financial year and decreases to R 44,948 million in 2019/20.

Table 15 (Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation)

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Cash and investments available				
Cash/cash equivalents at the year end	68 249	59 657	51 062	44 948
Other current investments > 90 days	0	0	0	0
Non current assets - Investments	–	–	–	–
Cash and investments available:	**68 249**	**59 657**	**51 062**	**44 948**
Application of cash and investments				
Unspent conditional transfers	–	–	–	–
Unspent borrowing	–	–	–	–
Statutory requirements				
Other working capital requirements	34 718	26 908	21 345	16 565
Other provisions	2 407	2 268	2 313	2 336
Long term investments committed	–	–	–	–
Reserves to be backed by cash/investments				
Total Application of cash and investments:	**37 125**	**29 176**	**23 658**	**18 902**
Surplus(shortfall)	**31 124**	**30 481**	**27 404**	**26 046**

Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.

2. The table assesses the funding levels of the budget by firstly forecasting the cash and investments at year-end and secondly reconciling the available funding to the liabilities/commitments that exist.

3. As part of the budgeting and planning guidelines that informed the compilation of the 2017/18 MTREF, the end objective of the medium-term framework was to ensure the budget is funded as required in accordance with section 18 of the MFMA.

4. It is to be noted that the budget moves from a funding surplus of R 30,481 million in 2017/18 to a surplus of R 26,046 million in 2019/20.

Table 16 (Table A9 - Asset Management)

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
CAPITAL EXPENDITURE				
Total New Assets	**46 666**	**67 080**	**72 993**	**82 132**
Roads Infrastructure	–	1 300	1 378	1 461
Electrical Infrastructure	9 564	6 350	8 551	13 764
Water Supply Infrastructure	2 800	3 700	3 922	4 157
Sanitation Infrastructure	14 368	25 998	27 671	29 436
Solid Waste Infrastructure	–	500	530	562
Infrastructure	***26 731***	***37 848***	***42 052***	***49 379***
Community Facilities	8 629	3 345	3 538	3 743
Sport and Recreation Facilities	–	250	265	281
Community Assets	***8 629***	***3 595***	***3 803***	***4 023***
Operational Buildings	631	120	127	135
Other Assets	***631***	***120***	***127***	***135***
Licences and Rights	–	1 300	1 378	1 461
Intangible Assets	**–**	***1 300***	***1 378***	***1 461***
Computer Equipment	**–**	**2 703**	**2 865**	**3 037**
Furniture and Office Equipment	**1 874**	**5 738**	**6 050**	**6 379**
Machinery and Equipment	**–**	**4 300**	**4 555**	**4 825**
Transport Assets	**8 800**	**11 475**	**12 164**	**12 893**
Total Renewal of Existing Assets	**21 719**	**–**	**–**	**–**
Sanitation Infrastructure	21 719	–	–	–
Infrastructure	***21 719***	**–**	**–**	**–**
Total Capital Expenditure				
Roads Infrastructure	–	1 300	1 378	1 461
Storm water Infrastructure	–	–	–	–
Electrical Infrastructure	9 564	6 350	8 551	13 764
Water Supply Infrastructure	2 800	3 700	3 922	4 157
Sanitation Infrastructure	36 087	25 998	27 671	29 436
Solid Waste Infrastructure	–	500	530	562

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Infrastructure	***48 451***	***37 848***	***42 052***	***49 379***
Community Facilities	8 629	3 345	3 538	3 743
Sport and Recreation Facilities	–	250	265	281
Community Assets	***8 629***	***3 595***	***3 803***	***4 023***
Operational Buildings	631	120	127	135
Other Assets	***631***	***120***	***127***	***135***
Licences and Rights	–	1 300	1 378	1 461
Intangible Assets	**–**	***1 300***	***1 378***	***1 461***
Computer Equipment	**–**	**2 703**	**2 865**	**3 037**
Furniture and Office Equipment	**1 874**	**5 738**	**6 050**	**6 379**
Machinery and Equipment	**–**	**4 300**	**4 555**	**4 825**
Transport Assets	**8 800**	**11 475**	**12 164**	**12 893**
TOTAL CAPITAL EXPENDITURE - Asset class	**68 385**	**67 080**	**72 993**	**82 132**
ASSET REGISTER SUMMARY - PPE (WDV)				
Roads Infrastructure	1 215 611	1 150 265	1 115 552	1 084 047
Storm water Infrastructure	237 677			
Electrical Infrastructure	281 542	161 181	153 899	146 618
Water Supply Infrastructure	345 209	294 421	285 430	276 440
Sanitation Infrastructure	(4 321)	429 121	414 685	400 249
Infrastructure	***2 075 717***	***2 034 987***	***1 969 566***	***1 907 354***
Community Facilities	98 359	64 927	64 927	64 927
Sport and Recreation Facilities	–			
Community Assets	***98 359***	***64 927***	***64 927***	***64 927***
Heritage Assets				
Revenue Generating	63 705	84 431	83 481	82 531
Non-revenue Generating				
Investment properties	***63 705***	***84 431***	***83 481***	***82 531***
Operational Buildings	480 247	452 048	444 135	436 221
Housing				
Other Assets	***480 247***	***452 048***	***444 135***	***436 221***
Biological or Cultivated Assets				
Servitudes				
Licences and Rights	101	73	73	
Intangible Assets	***101***	***73***	***73***	**–**
Computer Equipment		**348**	**348**	**–**
Furniture and Office Equipment		**2 987**	**1 585**	**182**
Machinery and Equipment		**8 638**	**5 283**	**1 928**
Transport Assets		**5 996**	**5 996**	**–**
TOTAL ASSET REGISTER SUMMARY - PPE (WDV)	**2 718 128**	**2 654 436**	**2 575 394**	**2 493 143**

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
EXPENDITURE OTHER ITEMS				
Depreciation	83 123	83 730	83 730	83 730
Repairs and Maintenance by Asset Class	**33 193**	**35 083**	**37 188**	**39 420**
Roads Infrastructure	5 938	5 175	5 486	5 815
Storm water Infrastructure	–	266	282	299
Electrical Infrastructure	5 993	7 298	7 736	8 200
Water Supply Infrastructure	5 097	4 021	4 262	4 517
Sanitation Infrastructure	3 170	3 830	4 060	4 304
Solid Waste Infrastructure	1 471	1 004	1 064	1 128
Infrastructure	***21 669***	***21 594***	***22 889***	***24 263***
Community Facilities	536	1 940	2 056	2 179
Sport and Recreation Facilities	–	200	212	225
Community Assets	***536***	***2 140***	***2 268***	***2 404***
Operational Buildings	2 083	1 456	1 543	1 636
Other Assets	***2 083***	***1 456***	***1 543***	***1 636***
Furniture and Office Equipment	**91**	**–**	**–**	**–**
Machinery and Equipment	**960**	**974**	**1 032**	**1 094**
Transport Assets	**7 854**	**8 920**	**9 456**	**10 023**
TOTAL EXPENDITURE OTHER ITEMS	**116 316**	**118 814**	**120 919**	**123 150**
R&M as a % of PPE	*1.3%*	*1.4%*	*1.5%*	*1.6%*
Renewal and upgrading and R&M as a % of PPE	*2.0%*	*1.0%*	*1.0%*	*2.0%*

Explanatory notes to Table A9 - Asset Management

1. The table provides a summarised version of the capital programme divided into new assets and renewal of existing assets; and also reflects the relevant asset categories. The associated repairs and maintenance and depreciation is also reflected.

   It also provides an indication of the resources deployed for maintaining and renewing existing assets, as well as the extent of asset expansion.

Table 17 (Table A10 - Basic Service Delivery Measurement)

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Household service targets				
Water:				
Piped water inside dwelling	30 371	–	–	–
Piped water inside yard (but not in dwelling)	–	–	–	–
Using public tap (at least min.service level)	–	–	–	–
Other water supply (at least min.service level)	–	–	–	–
Minimum Service Level and Above sub-total	30 371	–	–	–
Using public tap (< min.service level)	–	–	–	–
Other water supply (< min.service level)	–	–	–	–
No water supply	–	–	–	–
Below Minimum Service Level sub-total	–	–	–	–
Total number of households	**30 371**	**–**	**–**	**–**
Sanitation/sewerage:				
Flush toilet (connected to sewerage)	–	–	–	–
Flush toilet (with septic tank)	129	–	–	–
Chemical toilet	–	–	–	–
Pit toilet (ventilated)	–	–	–	–
Other toilet provisions (> min.service level)	–	–	–	–
Minimum Service Level and Above sub-total	129	–	–	–
Bucket toilet	3 885	–	–	–
Other toilet provisions (< min.service level)	–	–	–	–
No toilet provisions	–	–	–	–
Below Minimum Service Level sub-total	3 885	–	–	–
Total number of households	**4 014**	**–**	**–**	**–**
Energy:				
Electricity (at least min.service level)	9 610	8 613	7 400	7 000
Electricity - prepaid (min.service level)	14 249	13 169	15 400	16 000
Minimum Service Level and Above sub-total	23 858	21 782	22 800	23 000
Electricity (< min.service level)	–	–	–	–
Electricity - prepaid (< min. service level)	–	–	–	–
Other energy sources	–	–	–	–
Below Minimum Service Level sub-total	–	–	–	–
Total number of households	**23 858**	**21 782**	**22 800**	**23 000**

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Refuse:				
Removed at least once a week	21 309	–	–	–
Minimum Service Level and Above sub-total	21 309	–	–	–
Removed less frequently than once a week	–	–	–	–
Using communal refuse dump	–	–	–	–
Using own refuse dump	–	–	–	–
Other rubbish disposal	–	–	–	–
No rubbish disposal	–	–	–	–
Below Minimum Service Level sub-total	–	–	–	–
Total number of households	**21 309**	**–**	**–**	**–**
Households receiving Free Basic Service				
Water (6 kilolitres per household per month)	152	8 000	9 000	10 000
Sanitation (free minimum level service)	96	8 000	9 000	10 000
Electricity/other energy (50kwh per household per month)	141	8 000	9 000	10 000
Refuse (removed at least once a week)	136	8 000	9 000	10 000
Cost of Free Basic Services provided - Formal Settlements (R'000)				
Water (6 kilolitres per **indigent** household per month)	–	–	–	–
Sanitation (free sanitation service to **indigent households**)	–	–	–	–
Electricity/other energy (50kwh per **indigent** household per month)	–	–	–	–
Refuse (removed once a week **for indigent households**)	–	–	–	–
Cost of Free Basic Services provided - Informal Formal Settlements (R'000)	–	–	–	–
Total cost of FBS provided	**–**	**–**	**–**	**–**
Highest level of free service provided per household				
Property rates (R value threshold)	1 336	1 443	1 558	1 683
Water (kilolitres per household per month)	12	12	12	12
Sanitation (kilolitres per household per month)	12	12	12	12
Sanitation (Rand per household per month)	96	105	114	125
Electricity (kwh per household per month)	50	50	50	50
Refuse (average litres per week)	340	371	404	440

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Revenue cost of subsidised services provided (R'000)				
Property rates **(tariff adjustment)** (**impermissable values per section 17 of MPRA**)				
Property rates exemptions, reductions and rebates **and impermissable values in excess of section 17 of MPRA)**	–	–	–	–
Water **(in excess of 6 kilolitres per indigent household per month)**	–	–	–	–
Sanitation **(in excess of free sanitation service to indigent households)**	–	–	–	–
Electricity/other energy **(in excess of 50 kwh per indigent household per month)**	–	–	–	–
Refuse **(in excess of one removal a week for indigent households)**	–	–	–	–
Municipal Housing - rental rebates				
Housing - top structure subsidies				
Other				
Total revenue cost of subsidised services provided	**–**	**–**	**–**	**–**

Explanatory notes to Table A10 - Basic Service Delivery Measurement

1. Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services.

1.8 Annual Budget Supporting Tables

The relevant supporting tables are attached as annexure "D"

PART 2 – SUPPORTING DOCUMENTATION

2.1 OVERVIEW OF ANNUAL BUDGET PROCESS

The Budget process started in September 2016 after the approval of a timetable to guide the preparation of the 2017/18 to 2019/20 Operating and Capital Budgets.

The timetable provides broad timeframes for the IDP and Budget preparation process. It allows for consultation with stakeholders, such as the elected public representatives, employees of the Municipality, Civil Society, State departments, business and labour, during April 2017. The main aim of the timetable was to ensure that a draft IDP and a balanced Budget are tabled in March 2017. The Budget will be tabled by the Executive Mayor at a Council meeting scheduled for 30 March 2017. After this meeting, it will be submitted to National and Provincial Treasury.

The budget consultation process will take the form of a series of public meetings in the various wards under the direction and leadership of the Executive Mayor and her Mayoral Committee. The inputs of the aforementioned consultations will be taken into account, whilst the Executive Mayor will table the IDP and Budget for consideration and approval at a Council meeting to be held on 31 May 2017.

The Service Delivery and Budget Implementation Plan is the mechanism that ensures that the IDP and the Budget is aligned.

2.1.1 IDP & Budget Timetable 2017/18 to 2019/20

The preparation of the 2017/18 to 2019/20 IDP and Budget is guided by the following schedule of key deadlines as approved by Council on 29 July 2016.

Activity	Date
IDP/Budget Schedule approved by Council	29 July 2016
Tabling of draft IDP and Budget in Council	30 March 2017
Public Participation	11 April to 4 May 2017
Final adoption of IDP and Budget by Council	31 May 2017
Approval of SDBIP by Executive Mayor	28 June 2017

2.2 ALIGNMENT OF ANNUAL BUDGET WITH INTEGRATED DEVELOPMENT PLAN

The Integrated Development Plan (IDP) determines and prioritises the needs of the community.

The review of the IDP, in accordance with the Municipal Systems Act, was guided and informed by the following principles:

- Achievement of the five strategic priorities of the municipality.
- Focusing on service delivery backlogs and the maintenance of infrastructure.
- Addressing community priorities (needs) as identified in the IDP.

The review of the IDP focused on establishing measurable performance indicators and targets. These targets informed the preparation of the multi-year budget, as well as the Service Delivery and Budget Implementation Plan (SDBIP).

The 2017/18 to 2019/20 Operating and Capital Budgets were prepared in accordance with the IDP. The key strategic focus areas of the IDP are as follows:

- Municipal transformation and development
- Service delivery and infrastructure development
- Local economic development
- Financial sustainability and viability
- Good governance and public participation

The budget consultation process will take the form of a series of meetings to be held throughout the municipal area with the elected public representatives, employees of the Municipality, Civil Society, business, labour, National and Provincial Governments on how the budget addresses the IDP priorities and objectives. The feedback flowing from these meetings will be referred to the relevant Directorates for their attention.

2.3 MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS

Description of financial indicator	Basis of calculation		2017/18 Medium Term Revenue & Expenditure Framework		
		Adjusted Budget 2016/17	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Borrowing Management					
Credit Rating					
Capital Charges to Operating Expenditure	Interest & Principal Paid /Operating Expenditure	1.7%	1.3%	1.2%	1.1%
Capital Charges to Own Revenue	Finance charges & Repayment of borrowing /Own Revenue	2.2%	1.6%	1.5%	1.4%
Borrowed funding of 'own' capital expenditure	Borrowing/Capital expenditure excl. transfers and grants and contributions	0.0%	0.0%	0.0%	0.0%
Safety of Capital					
Gearing	Long Term Borrowing/ Funds & Reserves	0.0%	0.0%	0.0%	0.0%
Liquidity					
Current Ratio	Current assets/current liabilities	1.0	0.9	0.9	0.9
Current Ratio adjusted for aged debtors	Current assets less debtors > 90 days/current liabilities	1.0	0.9	0.9	0.9
Liquidity Ratio	Monetary Assets/Current Liabilities	0.4	0.4	0.3	0.3

Description of financial indicator	Basis of calculation		2017/18 Medium Term Revenue & Expenditure Framework		
		Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Revenue Management					
Annual Debtors Collection Rate (Payment Level %)	Last 12 Mths Receipts/Last 12 Mths Billing	94.0%	94.0%	94.0%	94.0%
Current Debtors Collection Rate (Cash receipts % of Ratepayer & Other revenue)		94.0%	94.0%	94.0%	94.0%
Outstanding Debtors to Revenue	Total Outstanding Debtors to Annual Revenue	12.5%	10.7%	10.4%	9.9%
Creditors Management					
Creditors to Cash and Investments		159.9%	179.0%	201.3%	219.8%

Description of financial indicator	Basis of calculation		2017/18 Medium Term Revenue & Expenditure Framework		
		Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Employee costs	Employee costs/(Total Revenue - capital revenue)	35.9%	33.8%	34.0%	34.2%
Repairs & Maintenance	R&M/(Total Revenue excluding capital revenue)	5.2%	4.6%	4.7%	4.7%
Finance charges & Depreciation	FC&D/(Total Revenue - capital revenue)	13.7%	11.5%	11.5%	11.4%
IDP regulation financial viability indicators	-				
i. Debt coverage	(Total Operating Revenue - Operating Grants)/Debt service payments due within financial year)	–	26.3	25.5	26.7
ii.O/S Service Debtors to Revenue	Total outstanding service debtors/annual revenue received for services	15.9%	13.4%	13.0%	12.5%
iii. Cost coverage	(Available cash + Investments)/monthly fixed operational expenditure	1.5	1.1	0.9	0.7

2.3.1 Performance indicators and benchmarks

2.3.1.1 Borrowing Management

Capital expenditure may be funded from capital grants, internal sources and long term borrowing. The ability of a municipality to raise long term borrowing is largely dependent on its creditworthiness and financial position. The following financial performance indicators formed part of the compilation of the 2017/18 MTREF:

- *Capital charges to operating expenditure* is a measure of the cost of borrowing, compared to the total operating expenditure. The cost of borrowing is decreasing from 1.3% in 2017/18 to 1.1% in 2019/20. The decrease is attributable to no further borrowing being planned over the MTREF period.

2.3.1.2 Liquidity

- The c*urrent ratio* is a measure of the current assets divided by the current liabilities. The Municipality has set a benchmark limit of 1. For the 2017/18 MTREF, the current ratio remained constant to 0.9:1 over the MTREF period.

- *The liquidity ratio* is a measure of the municipality's ability to utilise cash and cash equivalents to meets its current liabilities. A liquidity ratio of 1 should be maintained. For the 2017/18 MTREF, the liquidity ratio decreases from 0.4:1 in 2017/18 to 0.3:1 in 2019/20. This represents a significant risk for the Municipality, as any under collection of revenue will result in financial challenges for the Municipality. As part of the medium term financial planning objectives, this ratio must be maintained at a minimum of 1.

2.3.2 Drinking Water Quality

The Municipality achieved a scoring of 51.83% (2014) in relation to its Blue Drop status for the supply of water, compared to the scoring of 60.69% (2012) achieved in the previous assessment. The decline is attributable to a lack of an annual process audit. In order to enhance its Blue Drop status in the next assessment cycle, the Municipality will have to focus specifically on the monitoring and recordkeeping of analyses results and the training and appointment of process controllers.

2.3.3 Basic social services package for indigent households

The Constitution stipulates that a municipality must structure and manage its administration, budgeting and planning so as to give priority to the basic needs of the community and to promote their social and economic development. The basic social package is an affirmation of the Municipality's commitment to push back the frontiers of poverty by providing social welfare to those residents who cannot afford to pay, as a result of adverse social and economic conditions.

The initiatives carried out by the Municipality in this regard are detailed below.

Service	Social Package	Approximate Cost R'000	Est. No. of Households
Assessment Rates	All residential property owners are exempted from paying rates on the first R15 000 of their property values. An additional R85 000 credit on property rates for indigent consumers.	2,805 2,038	28 464 8 000
Water	The first 12kl of water per month provided free to indigent consumers	15,221	8 000
Electricity	The first 50kwh of electricity provided free to indigent consumers	4,585	8 000
Refuse removal	Full credit for the monthly charge.	13,647	8 000
Sewerage	Full credit for monthly charge of sewerage to indigent consumers (For waterborne sewerage removal the maximum credit is based on 12kl per month)	8,049	8 000
EMF	Full credit for the monthly charge.	3,453	8 000
Total Operating Costs		**49,798**	

2.4 OVERVIEW OF BUDGET RELATED POLICIES

The MFMA and the Budget and Reporting Regulations require budget related policies to be reviewed, and where applicable, be updated on an annual basis.

2.4.1 Financial Management Policies

The policies were adopted by the Council in May 2014. The policies govern the financial management functions of the Municipality, such as supply chain management, budget virements, credit control and debt collection, etc.

2.4.2 Review of credit control and debt collection policies

The Credit Control and Debt Collection Policy was reviewed and approved by Council in May 2014.

The 2017/18 MTREF has been prepared on the basis of achieving an average revenue collection rate of 94% on current billings.

2.4.3 Supply Chain Management Policy

A revised Supply Chain Management Policy was adopted by Council in May 2014.

2.4.4 Property Rates Policy

A revised Property Rates Policy was adopted by Council in May 2014.

2.4.5 Funding and Reserves Policy

The Funding and Reserves Policy was adopted by Council in May 2016.

2.4.6 Cost Containment Policy

The Cost Containment Policy was adopted by Council in May 2016.

2.4.7 Cash Management and Investment Policy

The Cash Management and Investment Policy was adopted by Council in May 2016.

2.4.8 Borrowing Policy

The Borrowing Policy was adopted by Council in May 2016.

All the above policies are available on the Municipality's website, as well as the following budget related policies:

- Indigent Policy;
- Budget virement Policy.

2.5 <u>OVERVIEW OF BUDGET ASSUMPTIONS</u>

The municipal fiscal environment is influenced by a variety of macro-economic control measures. National Treasury provides guidelines on the ceiling of year-on-year increases in the total Operating Budget, whilst the National Electricity Regulator of South Africa (NERSA) regulates bulk electricity tariff increases. The Municipality's employee related costs are also influenced by collective agreements concluded in the South African Local Government Bargaining Council. Various government departments also affect municipal service delivery through the level of grants and subsidies.

The following principles and guidelines directly informed the compilation of the Budget:

- The priorities and targets, relating to the key strategic focus areas, as outlined in the IDP.
- The need to enhance the municipality's revenue base.
- The level of property rates and tariff increases to take into account the need to address maintenance and infrastructural backlogs, including the expansion of services.
- The level of property rates and tariff increases to ensure the delivery of services on a financially sustainable basis.
- No loan funding is available to support the Capital Budget, in view of financial affordability considerations.
- No growth in revenue sources has been provided for in view of current consumption trends in municipal services.
- No growth in property rates income has been provided for, in view of the depressed property market.

The Municipality faced the following significant challenges in preparing the 2017/18 – 2019/20 Budget:

- Fully implementing cost containment measures;
- Maintaining revenue collection rates at the targeted levels;
- Increased costs associated with bulk electricity and water purchases, placing upward pressure on municipal tariff increases.
- Maintaining electricity and water losses at acceptable levels;

- Allocation of the required budget provision for the rehabilitation and maintenance of infrastructure;
- Maintaining an acceptable cost coverage ratio;

The multi-year budget is therefore underpinned by the following assumptions:

	2017/18	2018/19	2019/20
Income	%	%	%
Tariff Increases for water	9	10.5	11.5
Tariff Increases for sanitation	9	9	9
Tariff Increases for refuse	9	9	9
Property rates increase	8	8	8
Electricity tariff increase	1.88	1.88	1.88
Environmental Management Fee increase	6	6	6
Revenue collection rates	94	94	94
Expenditure increases allowed	6	6	6
Salary increase	7.4	7.4	7.4
Increase in bulk purchase of electricity costs	0.31	0.31	0.31
Increase in bulk purchase of water costs	9	9	9

2.6 OVERVIEW OF BUDGET FUNDING

2.6.1 Medium-term outlook: operating revenue

The following table provides a breakdown of operating revenue over the medium-term:

Table 18 (Breakdown of the operating revenue over the medium-term)

Description	Current Year 2016/17		2017/18 Medium Term Revenue & Expenditure Framework					
R thousand	Adjusted Budget	%	Budget Year 2017/18	%	Budget Year 2018/19	%	Budget Year 2019/20	%
Revenue By Source								
Property rates	148 671	23.25%	176 785	23.32%	190 928	23.94%	206 203	24.50%
Service charges	351 455	54.97%	427 543	56.40%	442 136	55.43%	457 698	54.38%
Transfers and subsidies	101 004	15.80%	114 219	15.07%	122 520	15.36%	132 921	15.79%
Other revenue	38 267	5.98%	39 462	5.21%	42 030	5.27%	44 768	5.32%
Total Revenue (excluding capital transfers and contributions)	**639 396**	**100.00%**	**758 009**	**100.00%**	**797 615**	**100.00%**	**841 591**	**100.00%**

The following graph is a breakdown of the operational revenue per main category for the 2017/18 financial year.

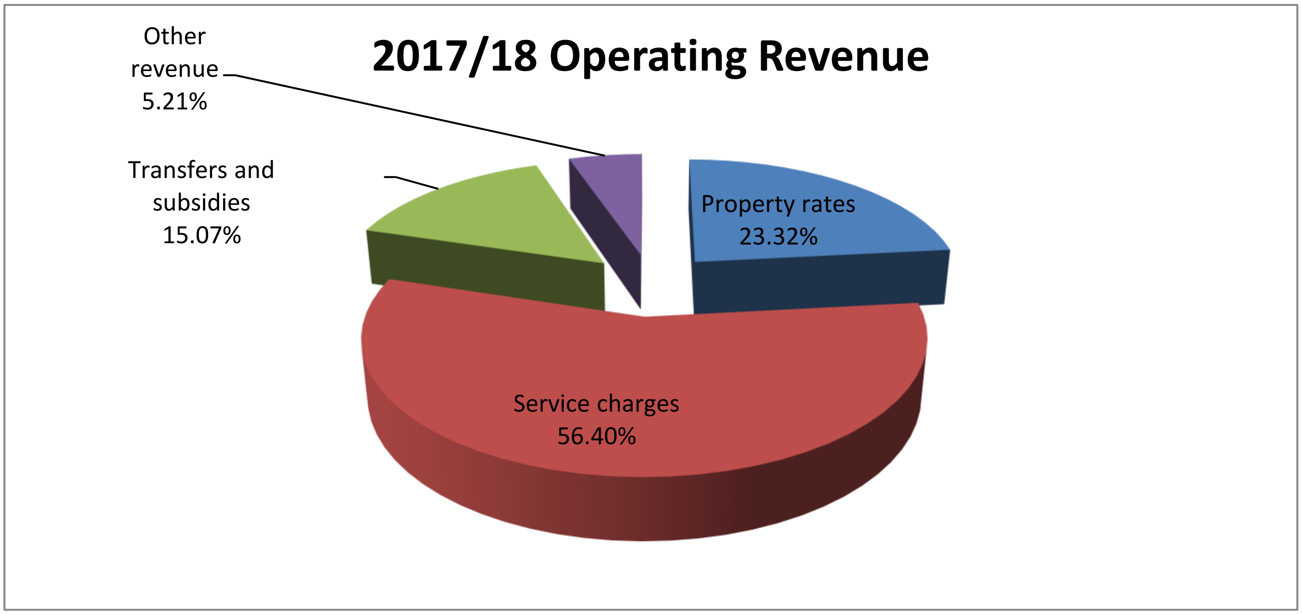


Figure 3 Breakdown of operating revenue over the 2017/18 MTREF

Tariff determination is important in ensuring appropriate levels of revenue, in order to achieve a credible and funded budget. Operating revenue is mainly derived from service charges, such as water, electricity, sanitation and refuse collection and disposal, property rates and operating grants.

The revenue management strategy includes the following key components:

- National Treasury's guidelines in this regard;
- The Property Rates Policy;
- The level of property rates and tariff increases must ensure financially sustainable service delivery.
- The level of property rates and tariff increases to take into account maintenance and replacement of infrastructure, including the expansion of services;
- Determining fully cost reflective tariffs for trading services;
- Electricity bulk tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Water bulk tariff increases as approved by the Nelson Mandela Bay Metropolitan Municipality;
- Efficient revenue management, targeting a 94% annual collection rate for property rates and service charges.
- Growth in the revenue base.

The aforementioned principles guided the annual increases in property rates and tariffs, charged to the consumer.
Property rates amounts to R 176,785 million in the 2017/18 financial year and increases to R 206,203 million in 2019/20, representing 23.32% of the total operating revenue for the 2017/18 budget.

Services charges relating to electricity, water, sanitation, environmental management and refuse collection constitute the largest component of the revenue base, amounting to R 427,543 million in the 2017/18 financial year and increasing to R 457,698 million in 2019/20. For the 2017/18 financial year, services charges amount to 56.4% of the total revenue base.

Operational grants and subsidies amount to R 114,219 million, R 122, 520 million and R 132,921 million for each of the respective financial years of the MTREF, or 15.07%, 15.36% and 15.79% of total operating revenue.

The table below provides investment particulars by type.

Table 19 (SA15 – Detail Investment Information)

Investment type	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
R thousand				
Parent municipality				
Securities - National Government				
Listed Corporate Bonds				
Deposits - Bank	53 249	41 760	35 744	31 464
Deposits - Public Investment Commissioners				
Deposits - Corporation for Public Deposits				
Bankers Acceptance Certificates				
Negotiable Certificates of Deposit - Banks				
Guaranteed Endowment Policies (sinking)				
Repurchase Agreements - Banks				
Municipal Bonds				
Municipality sub-total	**53 249**	**41 760**	**35 744**	**31 464**
Entities				
Securities - National Government				
Listed Corporate Bonds				
Deposits - Bank				
Deposits - Public Investment Commissioners				
Deposits - Corporation for Public Deposits				
Bankers Acceptance Certificates				
Negotiable Certificates of Deposit - Banks				
Guaranteed Endowment Policies (sinking)				
Repurchase Agreements - Banks				
Entities sub-total	–	–	–	–
Consolidated total:	**53 249**	**41 760**	**35 744**	**31 464**

Investments are anticipated to decrease from R 41,760 million in 2017/18 to R 31,464 million in 2019/20.

2.6.2 Medium-term outlook: capital revenue

The following table provides a breakdown of the funding components of the 2017/18 medium-term capital programme:

Table 20 (Sources of capital revenue over the MTREF)

Vote Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Funded by:				
National Government	34 810	34 660	37 267	43 962
Provincial Government	2 000			
District Municipality	–			
Other transfers and grants	1 574			
Transfers recognised - capital	**38 383**	**34 660**	**37 267**	**43 962**
Public contributions & donations				
Borrowing				
Internally generated funds	30 002	32 420	35 726	38 170
Total Capital Funding	**68 385**	**67 080**	**72 993**	**82 132**

The above table is graphically represented as follows for the 2017/18 financial year.

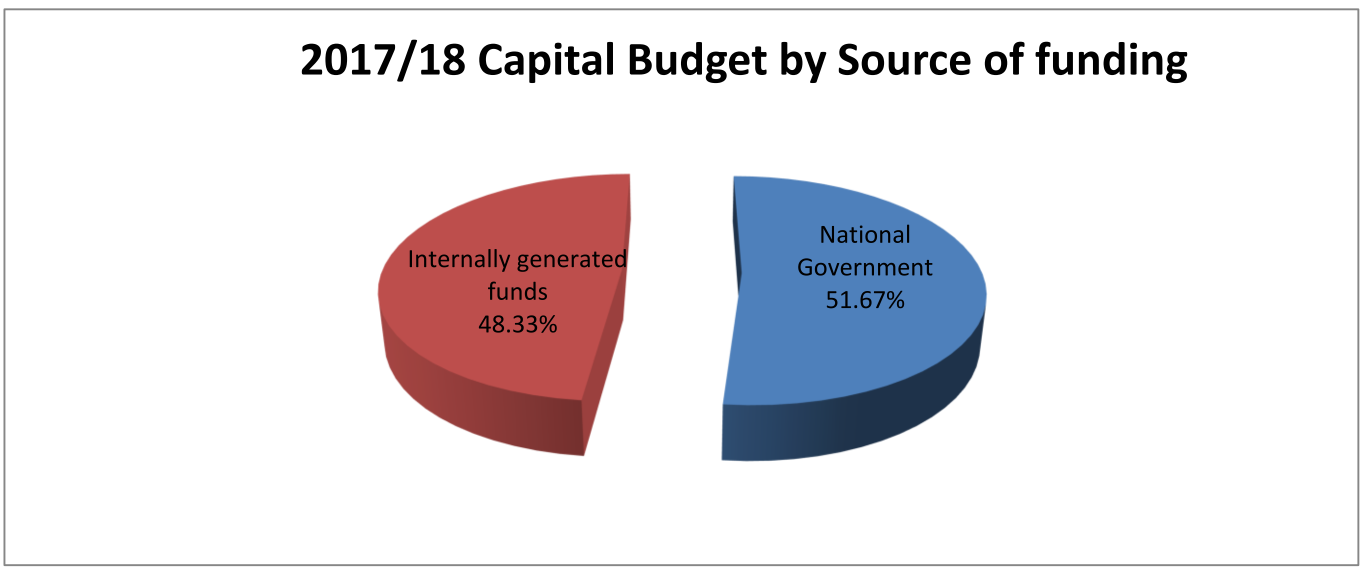


Figure 4 Sources of Capital Revenue for the 2017/18 financial year

Capital Grants constitute 51.37% of the total funding sources, amounting to R 34,460 million for the 2017/18 financial year and amounting to R 45,481 million or 55.38% in the 2019/20 financial year.
It is to be noted that no borrowing is planned for the 2017/18 MTREF, in view of financial affordability considerations.

The following table provides a detailed analysis of the Municipality's borrowings.

Table 21 (Table SA 17 - Detail of borrowings)

Borrowing - Categorised by type	Current Year 2017/18	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Parent municipality				
Annuity and Bullet Loans	36 734	30 269	23 089	15 090
Total Borrowing	**36 734**	**30 269**	**23 089**	**15 090**

The following graph illustrates the outstanding borrowing for the 2017/18 to 2019/20 period:

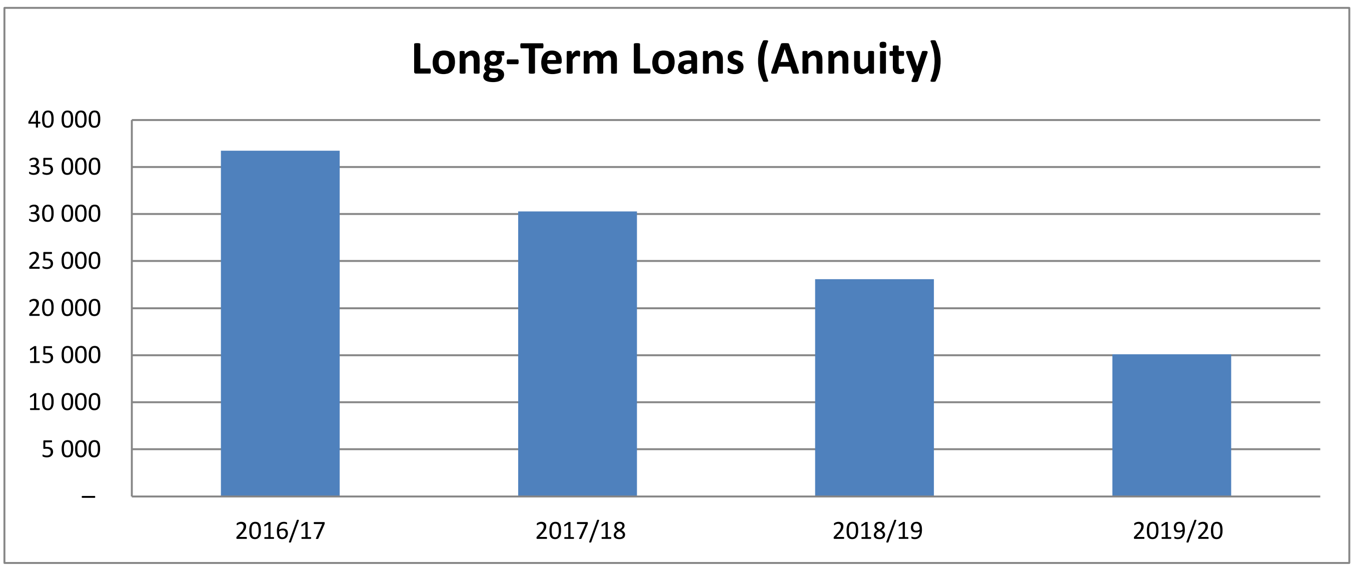


Figure 5 Growth in outstanding borrowing (long-term liabilities)

The following table indicates the capital transfers and grant receipts:

Table 22 (Table SA 18 - Transfers and grant receipts)

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
RECEIPTS:				
Operating Transfers and Grants				
National Government:	**95 820**	**106 951**	**116 930**	**126 994**
Local Government Equitable Share				
Local Government Equitable Share	91 622	102 637	113 277	123 252
Finance Management	1 625	1 700	1 955	1 955
MIG - Administration Fees	1 516	1 614	1 698	1 787
EPWP Incentive	1 057	1 000		
Provincial Government:	**2 372**	**4 050**	**2 169**	**2 290**
ACIP-Water		2 000		
Sport and Recreation	2 050	2 050	2 169	2 290
Housing	322			
District Municipality:	**2 334**	**2 500**	**2 653**	**2 814**
Environmental Health Subsidy	2 334	2 500	2 653	2 814
Other grant providers:	**477**	**718**	**768**	**822**
Skills Development Grant	477	718	768	822
Total Operating Transfers and Grants	**101 004**	**114 219**	**122 520**	**132 921**
Capital Transfers and Grants				
National Government:	**34 810**	**34 660**	**37 267**	**43 962**
Intergrated National Electrification Programme	6 000	4 000	5 000	10 000
Municipal Infrastructure Grant (MIG)	28 810	30 660	32 267	33 962
Other grant providers:	**3 574**	**–**	**–**	**–**
Eskom transfer	1 574			
Department of Water Affairs	2 000			
Total Capital Transfers and Grants	**38 383**	**34 660**	**37 267**	**43 962**
TOTAL RECEIPTS OF TRANSFERS & GRANTS	**139 387**	**148 879**	**159 787**	**176 883**

2.6.3 Cash Flow Management

Cash flow management and forecasting is a critical step in determining whether the budget is funded over the medium-term. The table includes some specific features:

- Clear separation of receipts and payments within each cash flow category;
- Clear separation of capital and operating receipts from government; and
- Separation of borrowing and loan repayments (no set-off), to assist with MFMA compliance assessment regarding the use of long term borrowing (debt).

Table 23 (Table A7 - Budgeted cash flow statement)

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Property rates	139 751	176 785	190 928	206 203
Service charges	330 367	427 543	442 136	457 698
Other revenue	23 943	23 328	24 749	26 258
Government - operating	101 004	114 219	122 520	132 921
Government - capital	38 383	34 660	37 267	43 962
Interest	14 324	16 134	17 281	18 511
Dividends	–	–	–	–
Payments				
Suppliers and employees	(576 866)	(662 599)	(693 285)	(726 009)
Finance charges	(4 463)	(3 768)	(3 021)	(2 201)
Transfers and Grants	(1 080)	(61 372)	(66 998)	(73 325)
NET CASH FROM/(USED) OPERATING ACTIVITIES	**65 363**	**64 931**	**71 578**	**84 017**
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts				
Proceeds on disposal of PPE		–	–	–
Decrease (Increase) in non-current debtors		–	–	–
Decrease (increase) other non-current receivables		–	–	–
Decrease (increase) in non-current investments		–	–	–
Payments				
Capital assets	(68 385)	(67 080)	(72 993)	(82 132)
NET CASH FROM/(USED) INVESTING ACTIVITIES	**(68 385)**	**(67 080)**	**(72 993)**	**(82 132)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts				
Short term loans		–	–	–
Borrowing long term/refinancing		–	–	–
Increase (decrease) in consumer deposits		–	–	–
Payments				
Repayment of borrowing	(7 303)	(6 443)	(7 179)	(7 999)
NET CASH FROM/(USED) FINANCING ACTIVITIES	**(7 303)**	**(6 443)**	**(7 179)**	**(7 999)**
NET INCREASE/ (DECREASE) IN CASH HELD	**(10 325)**	**(8 592)**	**(8 595)**	**(6 114)**
Cash/cash equivalents at the year begin:	**78 573**	**68 249**	**59 657**	**51 062**
Cash/cash equivalents at the year end:	**68 249**	**59 657**	**51 062**	**44 948**

For the 2017/18 MTREF, the cash and cash equivalents over the medium-term is anticipated to decrease from R 59,657 million to R 44,948 million in 2019/20.

Table 24 (Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation)

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Cash and investments available				
Cash/cash equivalents at the year end	68 249	59 657	51 062	44 948
Other current investments > 90 days	0	0	0	0
Non current assets - Investments	–	–	–	–
Cash and investments available:	**68 249**	**59 657**	**51 062**	**44 948**
Application of cash and investments				
Unspent conditional transfers	–	–	–	–
Unspent borrowing	–	–	–	–
Statutory requirements				
Other working capital requirements	34 718	26 908	21 345	16 565
Other provisions	2 407	2 268	2 313	2 336
Long term investments committed	–	–	–	–
Reserves to be backed by cash/investments				
Total Application of cash and investments:	**37 125**	**29 176**	**23 658**	**18 902**
Surplus(shortfall)	**31 124**	**30 481**	**27 404**	**26 046**

The underlying purpose of Table A8 is to reflect the predicted cash and investments that are available at the end of a particular budget year and how these funds were used. A surplus would indicate that sufficient cash and investments were available to meet commitments, whilst a shortfall would indicate inadequate cash and investments were available to meet commitments.

The available cash and investments amount to R 59,657 million in the 2017/18 financial year and decreases to R 44,948 million in 2019/20. The following is a breakdown of the application of this funding:

- Unspent conditional transfers (grants) – no unspent grant funding is anticipated over the 2017/18 MTREF.
- There is no unspent borrowing from previous financial years.
- The main purpose of the other working capital requirements is to ensure that sufficient funds are available to meet commitments as and when they fall due. A key challenge is often the mismatch between the timing of receipts from debtors and payments due to employees and creditors. High levels of non-payment by debtors will result in a greater requirement for working capital, ultimately causing cash flow challenges.
- Current provisions relating to post-retirement medical aid benefits and ex-gratia pensions have been provided for.

It is concluded that the Municipality's cash backed and accumulated surpluses reconciliation reflects surpluses of R 30,481 million, R 27,404 million and R 26,046 million for the 2017/18, 2018/19 and 2019/20 financial years, respectively.

It is to be noted that the 2017/18 MTREF is funded, when considering the funding requirements of section 18 and 19 of the MFMA. The cost coverage ratio is, however, 1.1 months, 0.9 months and 0.7 months for the 2017/18, 2018/19 and 2019/20 financial years, respectively.

2.6.5 Funding Compliance Measurement

National Treasury requires the Municipality to assess its financial sustainability against the different measures outlined below.

Description	MFMA section	Ref	Current Budget 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
			Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Funding measures	-	-				
Cash/cash equivalents at the year end - R'000	18(1)b	1	68 249	59 657	51 062	44 948
Cash + investments at the yr end less applications - R'000	18(1)b	2	31 124	30 481	27 404	26 046
Cash year end/monthly employee/supplier payments	18(1)b	3	1.5	1.1	0.9	0.7
Surplus/(Deficit) excluding depreciation offsets: R'000	18(1)	4	(17 760)	(18 799)	(17 176)	(10 062)
Service charge rev % change - macro CPIX target exclusive	18(1)a,(2)	5	(6.0%)	14.8%	(1.2%)	(1.1%)
Cash receipts % of Ratepayer & Other revenue	18(1)a,(2)	6	92.9%	98.6%	98.6%	98.5%
Debt impairment expense as a % of total billable revenue	18(1)a,(2)	7	6.0%	5.2%	5.3%	5.3%
Capital payments % of capital expenditure	18(1)c;19	8	100.0%	100.0%	100.0%	100.0%
Borrowing receipts % of capital expenditure (excl. transfers)	18(1)c	9	0.0%	0.0%	0.0%	0.0%
Grants % of Govt. legislated/gazetted allocations	18(1)a	10		0.0%	0.0%	0.0%
Current consumer debtors % change - incr(decr)	18(1)a	11	0.0%	1.2%	2.0%	1.0%
Long term receivables % change - incr(decr)	18(1)a	12	0.0%	(8.7%)	2.0%	1.0%
R&M % of Property Plant & Equipment	20(1)(vi)	13	1.3%	1.4%	1.5%	1.6%
Asset renewal % of capital budget	20(1)(vi)	14	31.8%	0.0%	0.0%	0.0%

Below is a discussion of the different measures.

2.6.5.1 Cash/cash equivalent position

The forecasted cash and cash equivalents for the 2017/18 MTREF amounts to R 59,657 million, R 51,062 million and R 44,984 million for the respective financial years.

2.6.5.2 Cash plus investments less application of funds

For the 2017/18, 2018/19 and 2019/20 budgets, the available cash and investments exceed the application of funds by an amount of R 30,481 million, R 27,404 million and R 26,046 million respectively.

2.6.5.3 Monthly average payments covered by cash or cash equivalents

As part of the 2017/18 MTREF, the projected cash position causes the ratio to decrease from 1.1 months to 0.7 months.

2.6.5.4 Surplus/deficit excluding depreciation offsets

For the 2017/18 MTREF the indicative outcome is a deficit of R 18,799 million, R 17,176 million and R 10,062 million. This is made up as follows:

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	**Adjusted Budget**	**Budget Year 2017/18**	**Budget Year 2018/19**	**Budget Year 2019/20**
Operating Budget Deficit	(56 143)	(53 460)	(54 443)	(54 024)
Capital Grants (Transfers)	38 383	34 660	37 267	43 962
Total	**(17 760)**	**(18 799)**	**(17 176)**	**(10 062)**

It needs to be noted that a surplus does not necessarily mean that the budget is funded from a cash flow perspective, and therefore the first two measures in the table are critical.

2.6.5.5 Property Rates/service charge revenue as a percentage increase less macro inflation target

This is calculated by deducting the maximum macro-economic inflation target (which is currently 3 - 6 %), so as to determine the real increase in revenue. The percentage growth totals 14.8%, -1.2% and -1.1% for the respective financial years of the 2017/18 MTREF. The real increases in revenue are below the inflation target figures.

2.6.5.6 Cash receipts as a percentage of ratepayer and other revenue

The outcome is approximately 98.6% for each of the respective financial years.

2.6.5.7 Debt impairment expense as a percentage of billable revenue

The provision has been set at 6% over the MTREF, in line with the revenue collection trends.

2.6.5.8 Capital payments percentage of capital expenditure

The purpose of this measure is to determine whether the timing of payments has been taken into account in forecasting the cash position.

2.6.5.9 Borrowing as a percentage of capital expenditure (excluding transfers, grants and contributions)

No borrowing has been planned for the 2017/18 MTREF.

2.6.5.10 Transfers/grants revenue as a percentage of Government transfers/grants available

The purpose of this measurement is mainly to ensure that all available transfers from national and provincial government have been budgeted for. All transfers are included in the budget.

2.6.5.11 Repairs and maintenance expenditure level

The expenditure constitutes 1.4%, 1.5% and 1.6% of Property, Plant and Equipment respectively, over the 2017/18 MTREF, whilst National Treasury has suggested a 8% level.

2.7 EXPENDITURE ON ALLOCATIONS AND GRANT PROGRAMMES

GRANTS RECEIVED

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
EXPENDITURE:				
Operating expenditure of Transfers and Grants				
National Government:	**95 820**	**106 951**	**116 930**	**126 994**
Local Government Equitable Share	91 622	102 637	113 277	123 252
Finance Management	1 625	1 700	1 955	1 955
MIG - Administration Fees	1 516	1 614	1 698	1 787
EPWP Incentive	1 057	1 000		
Provincial Government:	**2 372**	**4 050**	**2 169**	**2 290**
ACIP-Water		2 000		
Sport and Recreation	2 050	2 050	2 169	2 290
Housing	322			
District Municipality:	**2 334**	**2 500**	**2 653**	**2 814**
Environmental Health Subsidy	2 334	2 500	2 653	2 814
Other grant providers:	**477**	**718**	**768**	**822**
Skills Development Grant	477	718	768	822
Total operating expenditure of Transfers and Grants:	**101 004**	**114 219**	**122 520**	**132 921**
Capital expenditure of Transfers and Grants				
National Government:	**34 810**	**34 660**	**37 267**	**43 962**
Municipal Infrastructure Grant (MIG)	28 810	30 660	32 267	33 962
Intergrated National Electrification Programme	6 000	4 000	5 000	10 000
Other grant providers:	**3 574**	**–**	**–**	**–**
Eskom Transfer	1 574			
Department of Water Affairs	2 000			
Total capital expenditure of Transfers and Grants	**38 383**	**34 660**	**37 267**	**43 962**
TOTAL EXPENDITURE OF TRANSFERS AND GRANTS	**139 387**	**148 879**	**159 787**	**176 883**

GRANTS EXPENDITURE

GRANTS RECONCILIATION

Description	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Operating transfers and grants:				
National Government:				
Balance unspent at beginning of the year				
Current year receipts	95 820	106 951	116 930	126 994
Conditions met - transferred to revenue	**95 820**	**106 951**	**116 930**	**126 994**
Conditions still to be met - transferred to liabilities				
Provincial Government:				
Balance unspent at beginning of the year				
Current year receipts	2 372	4 050	2 169	2 290
Conditions met - transferred to revenue	**2 372**	**4 050**	**2 169**	**2 290**
Conditions still to be met - transferred to liabilities				
District Municipality:				
Balance unspent at beginning of the year				
Current year receipts	2 334	2 500	2 653	2 814
Conditions met - transferred to revenue	**2 334**	**2 500**	**2 653**	**2 814**
Conditions still to be met - transferred to liabilities				
Other grant providers:				
Balance unspent at beginning of the year				
Current year receipts	477	718	768	822
Conditions met - transferred to revenue	**477**	**718**	**768**	**822**
Conditions still to be met - transferred to liabilities				
Total operating transfers and grants revenue	**101 004**	**114 219**	**122 520**	**132 921**
Total operating transfers and grants - CTBM	**–**	**–**	**–**	**–**
Capital transfers and grants:				
National Government:				
Balance unspent at beginning of the year				
Current year receipts	34 810	34 660	37 267	43 962
Conditions met - transferred to revenue	**34 810**	**34 660**	**37 267**	**43 962**
Conditions still to be met - transferred to liabilities				
Other grant providers:				
Balance unspent at beginning of the year				
Current year receipts	3 574			
Conditions met - transferred to revenue	**3 574**	**–**	**–**	**–**
Conditions still to be met - transferred to liabilities				
Total capital transfers and grants revenue	**38 383**	**34 660**	**37 267**	**43 962**
TOTAL TRANSFERS AND GRANTS REVENUE	**139 387**	**148 879**	**159 787**	**176 883**

2.8 ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY

The table below reflects the grants and allocations made by the Municipality. It includes grants-in-aid made in accordance with the Municipality's grants-in-aid policy and transfers to entities and other organisations to primarily support their operational expenditure.

ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY

Description	2016/17 Medium Term Revenue & Expenditure Framework		
R thousand	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Cash Transfers to Entities/Other External Mechanisms			
MOA with Arts Council	355	376	399
MOA with Sports Council	265	281	298
MOA KLTO	1,858	1,969	2,088
Total Cash Transfers To Entities/Ems'	**2,478**	**2,626**	**2,785**
TOTAL CASH TRANSFERS AND GRANTS	**2,478**	**2,626**	**2,785**
TOTAL TRANSFERS AND GRANTS	**2,478**	**2,626**	**2,785**

2.9 COUNCILLORS AND EMPLOYEE BENEFITS

DISCLOSURE OF SALARIES, ALLOWANCES & BENEFITS

Summary of Employee and Councillor remuneration		2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Councillors (Political Office Bearers plus Other)				
Basic Salaries and Wages	7 596	8 158	8 762	9 410
Pension and UIF Contributions				
Medical Aid Contributions				
Motor Vehicle Allowance	2 562	2 751	2 955	3 174
Cellphone Allowance				
Housing Allowances				
Other benefits and allowances	759	815	876	941
Sub Total - Councillors	**10 917**	**11 725**	**12 593**	**13 525**
% increase	**–**	**–**	**7.4%**	**7.4%**
Senior Managers of the Municipality				
Basic Salaries and Wages	6 045	6 632	7 122	7 649
Motor Vehicle Allowance	723	662	711	764
Sub Total - Senior Managers of Municipality	**6 768**	**7 293**	**7 833**	**8 413**
% increase	**–**	**–**	**7.4%**	**7.4%**
Other Municipal Staff				
Basic Salaries and Wages	142 672	152 193	161 318	170 991
Pension and UIF Contributions	25 132	26 237	27 810	29 478
Medical Aid Contributions	11 968	15 143	16 051	17 014
Overtime	4 489	10 375	10 998	11 657
Performance Bonus	948	4 297	4 452	4 610
Motor Vehicle Allowance	7 214	7 231	7 662	8 120
Cellphone Allowance	–	–	–	–
Housing Allowances	584	2 301	2 439	2 585
Other benefits and allowances	28 809	29 253	31 008	32 868
Payments in lieu of leave	–	887	940	997
Long service awards	782	812	860	912
Post-retirement benefit obligations	–	–	–	–
Sub Total - Other Municipal Staff	**222 598**	**248 728**	**263 539**	**279 231**
Total Parent Municipality	**240 284**	**267 747**	**283 965**	**301 168**
TOTAL SALARY, ALLOWANCES & BENEFITS	**240 284**	**267 747**	**283 965**	**301 168**
TOTAL MANAGERS AND STAFF	**229 366**	**256 022**	**271 372**	**287 643**

DISCLOSURE OF SALARIES, ALLOWANCES & BENEFITS

Disclosure of Salaries, Allowances & Benefits	Salary	Allowances	Total Package
Rand per annum			
Councillors			
Speaker	488 464	189 100	677 564
Chief Whip			–
Executive Mayor	610 579	229 805	840 384
Deputy Executive Mayor			–
Executive Committee	2 747 612	1 073 545	3 821 157
Total for all other councillors	3 864 876	2 521 210	6 386 086
Total Councillors	**7 711 531**	**4 013 659**	**11 725 190**
Senior Managers of the Municipality			
Municipal Manager (MM)	1 154 227	165 482	1 319 709
Chief Financial Officer	1 171 734	117 066	1 288 800
Director LED	1 060 921	110 321	1 171 242
Director Infrastr/Plan & Development	1 060 921	110 321	1 171 242
Director Social Services	1 005 760	165 482	1 171 242
Director Admin, Mon & Evaluation	1 060 921	110 321	1 171 242
Total Senior Managers of the Municipality	**6 514 483**	**778 994**	**7 293 477**
TOTAL COST OF COUNCILLOR, DIRECTOR and EXECUTIVE REMUNERATION	**14 226 014**	**4 792 653**	**19 018 667**

2.10 MONTHLY TARGETS FOR REVENUE, EXPENDITURE AND CASH FLOW

MONTHLY CASH FLOWS	Budget Year 2017/18												Medium Term Revenue and Expenditure Framework
R thousand	July	August	Sept.	October	November	December	January	February	March	April	May	June	Budget Year 2017/18
Cash Receipts By Source													
Property rates	15 069	16 703	19 054	17 124	15 129	13 908	12 459	14 658	14 981	12 461	13 727	11 511	176 785
Service charges - electricity revenue	20 865	23 128	26 383	23 710	20 948	19 258	17 251	20 296	20 744	17 254	19 006	15 938	244 779
Service charges - water revenue	6 389	7 081	8 078	7 260	6 414	5 896	5 282	6 214	6 351	5 283	5 819	4 880	74 948
Service charges - sanitation revenue	4 249	4 710	5 373	4 828	4 266	3 922	3 513	4 133	4 224	3 514	3 871	3 246	49 848
Service charges - refuse revenue	4 941	5 477	6 248	5 615	4 961	4 561	4 085	4 806	4 912	4 086	4 501	3 774	57 968
Service charges - other	–	–	–	–	–	–	–	–	–	–	–	–	–
Rental of facilities and equipment	112	124	141	127	112	103	92	109	111	92	102	85	1 309
Interest earned - external investments	613	680	775	697	616	566	507	597	610	507	559	468	7 195
Interest earned - outstanding debtors	762	845	963	866	765	703	630	741	758	630	694	582	8 939
Dividends received	–	–	–	–	–	–	–	–	–	–	–	–	–
Fines, penalties and forfeits	321	355	405	364	322	296	265	312	319	265	292	245	3 761
Licences and permits	1 004	1 112	1 269	1 140	1 008	926	830	976	998	830	914	767	11 773
Agency services	–	–	–	–	–	–	–	–	–	–	–	–	–
Transfer receipts - operational		3 750	36 156	2 000	36 156				36 156			–	114 219
Other revenue	553	613	699	628	555	510	457	538	549	457	503	422	6 484
Cash Receipts by Source	**54 877**	**64 578**	**105 546**	**64 358**	**91 251**	**50 649**	**45 372**	**53 380**	**90 714**	**45 379**	**49 988**	**41 918**	**758 009**

MONTHLY CASH FLOWS	Budget Year 2017/18											Medium Term Revenue and Expenditure Framework
R thousand	July	August	Sept.	October	November	December	January	February	March	April	May	June	Budget Year 2017/18
<u>Cash Receipts By Source</u>													
Other Cash Flows by Source													
Transfer receipts - capital		4 000		10 220	10 220				10 220			–	34 660
Total Cash Receipts by Source	**54 877**	**68 578**	**105 546**	**74 578**	**101 471**	**50 649**	**45 372**	**53 380**	**100 934**	**45 379**	**49 988**	**41 918**	**792 670**
<u>Cash Payments by Type</u>													
Employee related costs	19 694	19 694	19 694	19 694	39 388	19 694	19 694	19 694	19 694	19 694	19 694	19 694	256 022
Remuneration of councillors	977	977	977	977	977	977	977	977	977	977	977	977	11 725
Finance charges	309	371	316	329	364	355	301	319	278	254	279	292	3 768
Bulk purchases - Electricity	15 370	18 438	15 699	16 368	18 098	17 648	14 974	15 829	13 809	12 624	13 876	14 505	187 239
Bulk purchases - Water & Sewer	3 151	3 780	3 218	3 355	3 710	3 618	3 070	3 245	2 831	2 588	2 845	2 974	38 384
Other materials	1 256	1 507	1 283	1 338	1 479	1 442	1 224	1 294	1 128	1 032	1 134	1 185	15 301
Contracted services	3 091	3 707	3 157	3 291	3 639	3 548	3 011	3 183	2 777	2 538	2 790	2 917	37 649
Transfers and grants - other municipalities	5 038	6 044	5 146	5 365	5 932	5 784	4 908	5 188	4 526	4 138	4 548	4 754	61 372
Transfers and grants - other	–	–	–	–	–	–	–	–	–	–	–	–	–
Other expenditure	6 947	8 333	7 095	7 397	8 179	7 976	6 768	7 154	6 241	5 705	6 271	6 556	84 621
Cash Payments by Type	**55 833**	**62 851**	**56 586**	**58 115**	**81 766**	**61 042**	**54 927**	**56 881**	**52 261**	**49 551**	**52 415**	**53 854**	**696 081**
Other Cash Flows/Payments by Type													
Capital assets		11 180		11 180		11 180	11 180		11 180		11 180	–	67 080
Repayment of borrowing	537	537	537	537	537	537	537	537	537	537	537	537	6 443
Other Cash Flows/Payments	2 638	2 638	2 638	2 638	2 638	2 638	2 638	2 638	2 638	2 638	2 638	2 638	31 657
Total Cash Payments by Type	**59 008**	**77 206**	**59 761**	**72 470**	**84 942**	**75 397**	**69 282**	**60 056**	**66 616**	**52 726**	**66 770**	**57 029**	**801 261**
NET INCREASE/(DECREASE) IN CASH HELD	**(4 131)**	**(8 628)**	**45 785**	**2 109**	**16 529**	**(24 748)**	**(23 910)**	**(6 676)**	**34 317**	**(7 347)**	**(16 782)**	**(15 111)**	**(8 592)**
Cash/cash equivalents at the month/year begin:	68 249	64 118	55 490	101 275	103 384	119 913	95 165	71 255	64 579	98 896	91 549	74 768	68 249
Cash/cash equivalents at the month/year end:	64 118	55 490	101 275	103 384	119 913	95 165	71 255	64 579	98 896	91 549	74 768	59 657	59 657

MONTHLY CASH FLOWS	Medium Term Revenue and Expenditure Framework		
R thousand	**Budget Year 2017/18**	**Budget Year +1 2018/19**	**Budget Year +2 2019/20**
Cash Receipts By Source			
Property rates	176 785	190 928	206 203
Service charges - electricity revenue	244 779	249 381	254 069
Service charges - water revenue	74 948	75 735	76 606
Service charges - sanitation revenue	49 848	54 335	59 225
Service charges - refuse revenue	57 968	62 686	67 799
Service charges - other	–	–	–
Rental of facilities and equipment	1 309	1 388	1 471
Interest earned - external investments	7 195	7 627	8 084
Interest earned - outstanding debtors	8 939	9 654	10 427
Dividends received	–	–	–
Fines, penalties and forfeits	3 761	3 990	4 234
Licences and permits	11 773	12 491	13 253
Agency services	–	–	–
Transfer receipts - operational	114 219	122 520	132 921
Other revenue	6 484	6 880	7 299
Cash Receipts by Source	**758 009**	**797 615**	**841 591**
Other Cash Flows by Source			
Transfer receipts - capital	34 660	37 267	43 962
Total Cash Receipts by Source	**792 670**	**834 882**	**885 552**

MONTHLY CASH FLOWS	Medium Term Revenue and Expenditure Framework		
R thousand	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Cash Payments by Type			
Employee related costs	256 022	271 372	287 643
Remuneration of councillors	11 725	12 593	13 525
Finance charges	3 768	3 021	2 201
Bulk purchases - Electricity	187 239	187 820	188 402
Bulk purchases - Water & Sewer	38 384	41 839	45 604
Other materials	15 301	16 219	17 192
Contracted services	37 649	39 908	42 302
Transfers and grants - other municipalities	61 372	66 998	73 325
Transfers and grants - other	–	–	–
Other expenditure	84 621	90 069	95 887
Cash Payments by Type	**696 081**	**729 838**	**766 081**
Other Cash Flows/Payments by Type			
Capital assets	67 080	72 993	82 132
Repayment of borrowing	6 443	7 179	7 999
Other Cash Flows/Payments	31 657	33 466	35 454
Total Cash Payments by Type	**801 261**	**843 477**	**891 666**
NET INCREASE/(DECREASE) IN CASH HELD	**(8 592)**	**(8 595)**	**(6 114)**
Cash/cash equivalents at the month/year begin:	68 249	59 657	51 062
Cash/cash equivalents at the month/year end:	59 657	51 062	44 948

2.11 ANNUAL BUDGETS AND SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLANS –DIRECTORATES

In terms of section 53 (1)(c)(ii) of the MFMA, the Service Delivery and Budget Implementation Plan (SDBIP) constitutes a detailed plan for implementing the Municipality's delivery of services and its annual budget, which must include the following:

(a) Monthly projections of

- Revenue to be collected, by source; and
- Operational and capital expenditure, by vote.

(b) Service delivery targets and performance indicators for each quarter.

In accordance with Section 53 of the MFMA, the Executive Mayor is required to approve the SDBIP within 28 days after the approval of the budget. Furthermore, the Executive Mayor must ensure that the revenue and expenditure projections for each month and the service delivery targets and performance indicators, as set out in the SDBIP, are made public within 14 days after the approval of the SDBIP.

The SDBIP gives effect to the IDP and Budget of the Municipality. It includes the service delivery targets and performance indicators for each quarter, which forms the basis for the performance agreements of the Directors. It therefore facilitates oversight over the financial and non-financial performance of the Municipality and allows the Municipal Manager to monitor the performance of the Directors, the Executive Mayor/Council to monitor the performance of the Municipal Manager, and the Community to monitor the performance of the Municipality.

The SDBIP relating to the 2017/18 financial year will be approved by the Executive Mayor during June 2017, following the approval of the Budget.

2.12 LEGISLATION COMPLIANCE STATUS

The following reflects the status of implementation of some of the key MFMA areas:

IDP

A revised 2017/18 IDP has been developed, which will be considered at a Council meeting scheduled for 30 March 2017. The IDP includes specific deliverables that forms the basis for the Budget and SDBIP.

Budget

The annual budget document has been developed taking the MFMA and National Treasury (NT) requirements into account. Budgets are being tabled and approved within the required legislated timeframes.

Annual Report

The Annual Report has been developed taking the MFMA and NT requirements into account. The 2015/16 Annual Report was tabled in January 2017.

Oversight Report

The Municipal Public Accounts Committee has considered the 2015/16 Annual report. Its Oversight Report was considered and approved at a Council meeting held on 27 March 2017.

In-Year Reporting

The municipality submits the various reports required to the Executive Mayor, Council, and NT on an ongoing basis, in accordance with the MFMA.

Supply Chain Management Policy (SCM)

A Supply Chain Management Policy has been adopted and implemented in accordance with the MFMA and NT requirements.

All the required committee structures are in place. Whilst the municipality is working at making these new processes operate more efficiently and effectively, it is considered that the municipality is currently complying with the MFMA and NT guidelines.

Budget and Treasury

A Budget and Treasury Office has been established in accordance with the MFMA and NT requirements, consisting of a CFO and municipal officials reporting to the CFO.

Audit Committee

An Audit Committee has been established and meets on a quarterly basis.

Internal Audit Function

The Municipality's Internal Audit Function is performed by KMPG and reports to the Municipal Manager and is operating in accordance with an audit plan.

In relation to the 2017/18 financial year and beyond, the municipality plans to focus on the following high priority areas:

- Maintaining its unqualified audit status.
- The Municipality is considering the establishment of an internal audit section and phasing out the outsourcing of this service.
- Further strengthening of the integration and linkages between the IDP, Budget, SDBIP and Annual Report.

Internship Programme

The Municipality has a total of five Interns on the Municipal Financial Management Internship programme, as approved by National Treasury.

Municipal Standard Chart of Accounts (mSCOA)

The Municipality has approved a Project Plan for the implementation of mSCOA. The governance structures are in place in terms of a Project Steering Committee and a Project Implementation Team. A terms of reference has been developed, outlining the roles and responsibilities of each committee, in order to hold the members accountable for the implementation thereof.

2.13 CAPITAL EXPENDITURE DETAILS

A summary of the budgeted capital expenditure is reflected in **Annexure "C".**

2.14 MUNICIPAL MANAGER'S QUALITY CERTIFICATION

Quality Certificate

I, SAKHEKILE SYDNEY FADI, Municipal Manager of Kouga Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the Municipality.

Print Name : SAKHEKILE SYDNEY FADI

MUNICIPAL MANAGER OF KOUGA MUNICIPALITY (EC108)

Signature : ______________________________

Date : ______________________________