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PRIVATE BAG X0029 • BHISHO • 5605 • REPUBLIC OF SOUTH AFRICA  
Tel: +27 (0) 40 101 0410 • Fax: +27 (0) 40 101 0725  
[www.ectreasury.gov.za](http://www.ectreasury.gov.za)

**LOCAL GOVERNMENT MUNICIPAL  
BUDGET ASSESSMENT OF 2018/19  
MTREF**

**EMALAHLENI LOCAL MUNICIPALITY**

**(EC 135)**

**26 APRIL 2018**

**CHRIS HANI DISTRICT**

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## 1. EXECUTIVE SUMMARY

The annual assessment of Municipal Budgets and Integrated Development Plans (IDP) are performed every year by Provincial Treasury. Such analysis are stipulated in terms of Chapter 5 of the Local Government Municipal Systems Act 32 of 2000 (MSA) and Local Government Municipal Finance Management Act 56 of 2003 (MFMA). This assessment is in accordance with the legislative requirements of the Constitution, whereby provincial governments have mandatory responsibility to exercise its monitoring and provide support to municipalities.

The municipal budget assessment encompasses three distinct criteria namely, credibility; relevance and sustainability as explained in the MBRR. The purpose of each criteria is as follows:

- **Credibility:** - to determine if the budget is funded in terms of Section 18 of the MFMA and whether the municipality adopted a budget process with evidence of sufficient political oversight and public participation. Council is responsible for approving the municipal budget hence political oversight and guidance is crucial to the budget process. The budget gives effect to Council priorities as articulated in the municipality's Integrated Development Plan (IDP); and Council must ensure that service delivery is affordable and financially sustainable. In assessing the credibility of the budget, the fiscal planning framework and associated assumptions are interrogated to determine if they are realistic and indicative of multi-year budgeting;
- **Relevance:** - to assess if the budget is aligned to the reviewed IDP of the municipality and the extent to which national and provincial priorities, including MFMA Budget Circulars, are considered and
- **Sustainability:** - to assess whether the budget supports the long-term financial planning and operational sustainability of the municipality over the Medium Term Revenue and Expenditure Framework (MTREF).

The overall assessment of the 2018/19 draft budget has taken into account a lot of variables that may not ordinarily arise. These variables are ranging from the implementation of m-SCOA as set out in the 2014 regulations to the economy that has struggled to grow as anticipated.

## **ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK: EMALAHLENI LOCAL MUNICIPALITY**

The 2018/19 draft budget assessment of Emalahleni can be summarized under the following key areas:

- A budget of R57.4 million has been allocated to fund capital programs, of this amount 66% will be spent on Community, social services and Sport and recreation allocated for R19.1 million and R18.9 million respectively;
- The funding mix to the capital budget consists of 73.5% government grants and 26.5% Borrowing;
- The municipality did not submit its budget document therefore we were unable to assess its budget assumptions;
- R5.2 million has been allocated towards repairs and maintenance for the 2018/19 financial year. This is equivalent to 0.2% of the total value of PPE;
- The municipality has tabled an operating deficit of R28.6 million for 2018/19, and an operating deficit R28.5 million and R25.7 million for 2019/20 and 2020/21 respectively;

## **2. CREDIBILITY OF THE 2018/19 MTREF**

### **2.1. EVALUATION OF THE BUDGET PROCESS**

#### **2.1.1. POLITICAL GUIDANCE AND OVERSIGHT**

Emalahleni municipal council adopted its 2018/19 IDP and Budget process plan on the 29th of August 2018. The municipality did establish a budget steering committee that sat regularly.

#### **2.1.2. PUBLIC PARTICIPATION ON THE 2018/19 BUDGET**

The municipality has conducted Mayoral Imbizos or Budget Public Hearings in all the wards within the municipal area to identify priorities from communities. In addition to the above, IDP rep forum meetings were held wherein departments and other stakeholders were afforded opportunity to present their plans for Emalahleni in respect of the 2018/19 financial year.

### **2.1.3. EVALUATION OF THE LEGAL COMPLIANCE OF THE BUDGET**

The 2018/19 budget of Emalahleni was tabled to council on 29th of March 2018 as required by the MFMA and the budget was submitted to National and Provincial Treasury on the 16th of April 2018 in breach of budget circular 91. The municipality has only submitted the A1 schedules as prescribed by the MBRR, the budget document is still outstanding.

The municipality updates its mSCOA data strings into the NT portal, however there are some errors that have not yet been rectified.

## **2.2. MUNICIPAL REVENUE AND EXPENDITURE FISCAL FRAMEWORK**

### **2.2.1. EXPECTED OUTCOME FOR THE CURRENT FINANCIAL YEAR**

The 2017/18 budget of Emalahleni municipality reflects significant variance when compared to the previous audited performance, on the following line items amongst others:

- Property Rates
- Service charges electricity revenue
- Service charges refuse revenue
- Investment revenue
- Agency services
- Debt impairment
- Other expenditure.

The capital budget has been funded from government grants as well as own revenue which is a commendable effort for the municipality. The municipality has at the end of M09 reported year to date capital expenditure of 73%, mainly for MIG. The municipality needs to pick up spending on its capital expenditure as time is nearing the end of the financial year and the municipality has already adjusted its budget once as required by the MFMA.

**ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK:  
EMALAHLENI LOCAL MUNICIPALITY**

**2.2.2. BUDGET ASSUMPTIONS**

The municipality has not submitted its budget document therefore we were unable to assess its budget assumptions.

Key to budget assumptions is the following:

- The basis of annual increases in employee related costs in line with the SALBC agreement;
- Annual increases in tariffs and cost-reflectiveness thereof and;
- The average collection rate for 2018/19.

The municipality is urged to incorporate this information in its final budget to be adopted by council.

**2.2.3. ADEQUACY OF REVENUE MANAGEMENT FRAMEWORK**

Table 1 below reflects the operating revenue projections of Emalahleni in respect of the 2018/19 MTREF including year-on-year growth.

**Table 1: Analysis of operating revenue**

EC136 - Emalahleni (Ec)	CURRENT YEAR	MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK						ASSUMPTIONS & CALCULATIONS		
Description	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2018/19	2019/20	2020/21
R thousand	Adjusted Budget	Budget Year +0	Treasury Calculation	Budget Year +1	Treasury Calculation	Budget Year +2	Treasury Calculation	% Change	% Change	% Change
<b>Revenue By Source</b>										
Property rates	4 502	3 615	3 615	3 896	3 896	4 191	4 191	-19.7%	7.8%	7.6
Service charges - electricity revenue	9 757	10 570	10 570	11 204	11 204	11 869	11 869	8.3%	6.0%	5.9
Service charges - water revenue	-	-	-	-	-	-	-	-	-	-
Service charges - sanitation revenue	-	-	-	-	-	-	-	-	-	-
Service charges - refuse revenue	3 764	3 813	3 813	4 093	4 093	4 388	4 388	1.3%	7.4%	7.2
Service charges - other	-	-	-	-	-	-	-	-	-	-
Rental of facilities and equipment	906	973	973	1 022	1 022	1 073	1 073	7.4%	5.0%	5.0
Interest earned - external investments	1 081	2 045	2 045	2 148	2 148	2 255	2 255	89.3%	5.0%	5.0
Interest earned - outstanding debtors	5 091	5 386	5 386	5 655	5 655	5 938	5 938	5.6%	5.0%	5.0
Dividends received	-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits	99	110	110	115	115	121	121	10.5%	5.0%	5.0
Licences and permits	1 690	2 145	2 145	2 252	2 252	2 364	2 364	26.9%	5.0%	5.0
Agency services	858	1 313	1 313	1 379	1 379	1 447	1 447	53.0%	5.0%	5.0
Transfers and subsidies	123 139	122 903	122 903	130 951	130 951	138 482	138 482	-0.2%	6.5%	5.8
Other revenue	890	554	554	581	581	610	610	-37.8%	5.0%	5.0
Gains on disposal of PPE	115	-	-	-	-	-	-	-100.0%	-	-
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>151 893</b>	<b>153 426</b>	<b>153 426</b>	<b>163 295</b>	<b>163 295</b>	<b>172 739</b>	<b>172 739</b>	<b>1.0%</b>	<b>6.4%</b>	<b>5.8</b>

**Source: 2018/19 budget – Emalahleni**

The total operating revenue in respect of the 2018/19 financial year is projected at R153.4 million. This revenue shows a year on year growth of 1% from R151 million projected in 2017/18.

## **ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK: EMALAHLENI LOCAL MUNICIPALITY**

The above stagnant growth is attributed to the following projected revenue items amongst others:

- Property rates revenue
- Other revenue
- Gains on disposal of PPE

The municipality is expected to comment on the above significant decreases or increases and any other increase in excess of 5.2% as required by the latest MFMA budget circulars.

Operational transfers amount to R122.9 million or 80% of the total operating revenue. This indicates a level of dependency by the municipality on government grants to fund its operations. This trend is expected to continue for the entire MTREF.

The projected decrease of 19.7% on property rates revenue seems unrealistic considering the annual changes on property values within the municipal area and the property rates annual tariff increment guided by the property rates act, policy and the latest budget circulars. However, this revenue will grow by 7.8% and 7.6% for the remainder of the MTREF.

Service charges refuse projected to grow by 1% this seems unrealistic considering the expected annual tariff increment. Also there is no alignment between refuse revenue raised of 3.8 million in A4 and the projected revenue by function in A2 of R6.9 million with a corresponding expenditure of R11.9 million resulting in a deficit of R5 million. The municipality is reminded to implement cost reflective tariffs, which will absorb the costs of providing a service. The projected revenue on the above service will grow by 7.4% and 7.2% respectively for the remainder of the MTREF.

The municipality is expected to justify on its budget book the above growth of 89.3% interest on investment as it seems unrealistic. This revenue represents interest earned on call accounts or short term investments made up of transfers from conditional grants.

### **2.2.4. ADEQUACY OF EXPENDITURE MANAGEMENT FRAMEWORK**

The total operating expenditure in respect of the 2018/19 financial year is projected at R182.1 million a year on year decline of 0.2% from R182.5 million in 2017/18 financial year. The details of operating expenditure are reflected in table 2 below.

**Table 2: Operating expenditure of Emalahleni municipality**

**ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK:  
EMALAHLENI LOCAL MUNICIPALITY**

EC136 - Emalahleni (Ec)	CURRENT YEAR		MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK					ASSUMPTIONS & CALCULATIONS		
Description	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2018/19	2019/20	2020/21
R thousand	Adjusted Budget	Budget Year +0	Treasury Calculation	Budget Year +1	Treasury Calculation	Budget Year +2	Treasury Calculation	% Change	% Change	% Change
<b>Expenditure By Type</b>										
Employee related costs	76 292	86 055	86 055	91 213	91 213	97 886	97 886	12.8%	6.0%	7.3%
Remuneration of councillors	12 688	13 703	13 703	14 799	14 799	15 983	15 983	8.0%	8.0%	8.0%
Debt impairment	3 000	6 000	17 087	6 000	18 118	6 000	19 201	100.0%	0.0%	0.0%
Depreciation & asset impairment	25 546	24 256	24 256	24 256	24 256	24 256	24 256	-5.0%	0.0%	0.0%
Finance charges	657	2 116	2 116	2 116	2 116	2 116	2 116	221.9%	0.0%	0.0%
Bulk purchases	14 920	15 070	15 070	15 070	15 070	15 070	15 070	1.0%	0.0%	0.0%
Other materials	5 094	3 296	3 296	2 496	2 496	2 496	2 496	-35.3%	-24.3%	0.0%
Contracted services	17 163	11 414	11 414	15 612	15 612	14 412	14 412	-33.5%	36.8%	-7.7%
Transfers and subsidies	1 379	290	290	290	290	290	290	-79.0%	0.0%	0.0%
Other expenditure	25 801	19 915	19 915	19 960	19 960	20 009	20 009	-22.8%	0.2%	0.2%
Loss on disposal of PPE	-	-	-	-	-	-	-	-	-	-
<b>Total Expenditure</b>	<b>182 540</b>	<b>182 114</b>	<b>193 201</b>	<b>191 812</b>	<b>203 930</b>	<b>198 518</b>	<b>211 719</b>	<b>-0.2%</b>	<b>5.3%</b>	<b>3.5%</b>

**Source: 2018/19 budget**

Employee related costs for 2018/19 have been budgeted at R86 million which reflects a year on year increase of 12.8%. The municipality must provide on its budget document reasons for the above growth and to consider wage bill as to be provided by SALGA.

Employee related costs accounts for 47% of the total operating expenditure which is above the norm of 40% as prescribed by the National Treasury.

Debt impairment has increased drastically year on year by 100% justifiably informed by the projected billed revenue in A4 against collection in A7. The municipality is urged to provide reasons and planned strategies on how to improve their collection rate on its budget document for such a significant increase. As the situation depicts minimal enforcement of credit control policies.

The municipality has allocated R5.2 million in respect of repairs and maintenance for 2018/19 and this is equivalent to 1.2% of the total value of PPE way below the norm of 8%. The municipality is advised to take into account the provision of MFMA circular 55 and subsequent circulars on budgeting for repairs and maintenance.

A failure to repair and maintain assets causes loss of economic value to the asset concerned and minimises the health of the asset, which could compromise the ability of the municipality to deliver desired services to the community.

The municipal budget and reporting regulations (MBRR) has amongst other sought to achieve transparency in the municipal budgets.



**ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK:  
EMALAHLENI LOCAL MUNICIPALITY**

**2.2.5. ADEQUACY OF CAPITAL BUDGET AND SOURCES OF FUNDING**

Emalahleni municipality is mandated to provide roads, electrification and refuse removal to the community. The municipality is commended for having completed supporting table SA36 outlining capital projects to be implemented during the 2018/19 financial year.

The details of capital expenditure are reflected on table 3 below:

**Table 3: Capital expenditure of Emalahleni municipality**

EC136 - Emalahleni (Ec)	Table A5 Budgeted Capital Expenditure by vote, standard classification and funding			CURRENT YEAR				MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK		
	2014/15	2015/16	2016/17	2017/16	2017/16	2017/16	2017/16	2018/19	2019/20	2020/21
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year +0	Budget Year +1	Budget Year +2
<b>Capital Expenditure - Functional</b>										
<b>Governance and administration</b>	10 548	10 094	6 950	5 650	6 180	-	-	15 000	-	-
Executive and council				4 100	4 000					
Finance and administration	10 548	10 094	6 950	1 550	2 180			15 000	-	-
Internal audit										
<b>Community and public safety</b>	17 654	6 912	5 064	3 258	2 608	-	-	38 149	11 918	11 674
Community and social services	12 690	5 160	5 064	2 958	2 309			19 170	8 918	11 674
Sport and recreation	4 964	1 752	-	300	300			18 879	3 000	-
Public safety										
Housing										
Health										
<b>Economic and environmental services</b>	10 324	31 890	21 875	18 925	19 244	-	-	2 733	17 130	16 809
Planning and development				1 850	1 409					
Road transport	10 324	31 890	21 875	17 075	17 835			2 733	17 130	16 809
Environmental protection										
<b>Trading services</b>	-	-	2 709	12 526	11 671	-	-	1 600	2 800	5 000
Energy services			2 709	9 664	9 889					5 000
Water management										
Waste water management				1 842	1 982			1 600	2 800	-
Waste management				1 020	-					
Other										
<b>Total Capital Expenditure - Functional</b>	38 526	48 896	36 598	40 359	39 904	-	-	57 482	31 848	33 483
<b>Funded by:</b>										
National Government	30 399	30 615	26 170	32 358	32 358			42 257	31 848	33 483
Provincial Government										
District Municipality										
Other transfers and grants										
<b>Transfers recognised - capital</b>	30 399	30 615	26 170	32 358	32 358	-	-	42 257	31 848	33 483
<b>Public contributions &amp; donations</b>										
Borrowing				8 000	7 545			15 000		
<b>Internally generated funds</b>	8 127	18 281	10 428					225		
<b>Total Capital Funding</b>	38 526	48 896	36 598	40 358	39 903	-	-	57 482	31 848	33 483

**Source: 2018/19 budget**

The capital budget expenditure is projected at R57.4 million for the budget year. The municipality will use the total capital budget for acquisition of new assets and for upgrading of existing assets.

The budget allocated for community and public safety amounts to R38.1 million and is equivalent to 66% of the total capital budget.

### **2.2.6. CAPITAL FUNDING**

The total capital funding in respect of the 2018/19 financial year is R57.4 million. The funding mix consists of Government grants (R42.2 million) constitute 73% of the total budget and Borrowings by the municipality constituting 26% and the balance of 1% funded from internally generated funding.

### **2.2.7. RECONCILIATION OF GRANTS TO THE 2018 DORA**

The total grant allocation for Emalahleni is reflected in table 4 below.

**Table 4: Grants reconciliation for Emalahleni municipality**

**ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK:  
EMALAHLENI LOCAL MUNICIPALITY**

**EC136 Emalahleni (Ec) - Supporting Table SA18 Transfers and grant receipts**

Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18			2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
<b>RECEIPTS:</b>	1, 2									
<b>Operating Transfers and Grants</b>										
<b>National Government:</b>		<b>107 817</b>	<b>142 953</b>	<b>128 929</b>	<b>121 348</b>	<b>121 348</b>	-	<b>121 856</b>	<b>129 846</b>	<b>137 372</b>
Local Government Equitable Share		92 038	116 537	114 589	115 992	115 992		115 774	120 890	129 098
Finance Management		1 800	1 875	2 010	2 345	2 345		2 415	2 880	3 312
Municipal Systems Improvement		934	930	-	-	-		-	-	-
EPWP Incentive		1 217	1 900	1 415	1 308	1 308		2 022	-	-
Integrated National Electrification Programme		11 000	21 000	9 317	-	-		-	4 400	3 200
Municipal Infrastructure Grant (MIG)		828	1 611	1 588	1 703	1 703		1 645	1 676	1 762
Waste Management										
<b>Provincial Government:</b>		<b>2 148</b>	<b>1 733</b>	<b>900</b>	<b>900</b>	<b>900</b>	-	<b>952</b>	<b>1 005</b>	<b>1 005</b>
Rural Development			930	-	-	-		-	-	-
Waste Management		1 343	-	-	-	-		-	-	-
Library		803	803	900	900	900		952	1 005	1 005
<b>District Municipality:</b>		<b>1 500</b>	<b>1 312</b>	<b>2 333</b>	<b>1 500</b>	<b>801</b>	-	-	-	-
Greenest Municipality			200	200	-	-		-	-	-
Indigent Application Project			112	-	-	-		-	-	-
Transport			-	132	-	-		-	-	-
Feedlot			-	801	500	801		-	-	-
IT Support			-	200	-	-		-	-	-
Paving		1 500	1 000	1 000	1 000	-		-	-	-
<b>Other grant providers:</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>90</b>	<b>90</b>	-	<b>95</b>	<b>100</b>	<b>105</b>
SETA					90	90		95	100	105
<b>Total Operating Transfers and Grants</b>	5	<b>111 463</b>	<b>145 998</b>	<b>132 161</b>	<b>123 838</b>	<b>123 139</b>	-	<b>122 903</b>	<b>130 951</b>	<b>138 482</b>
<b>Capital Transfers and Grants</b>										
<b>National Government:</b>		<b>30 142</b>	<b>30 615</b>	<b>23 170</b>	<b>32 358</b>	<b>32 358</b>	-	<b>42 257</b>	<b>31 848</b>	<b>33 484</b>
Municipal Infrastructure Grant (MIG)		30 142	30 615	23 170	32 358	32 358		42 257	31 848	33 484
<b>Provincial Government:</b>		<b>257</b>	<b>-</b>	<b>1 795</b>	<b>-</b>	<b>-</b>	-	<b>-</b>	<b>-</b>	<b>-</b>
Waste Management		257	-	-	-	-		-	-	-
Roads				1 795						
<b>District Municipality:</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	-	<b>-</b>	<b>-</b>	<b>-</b>
Paving										
Feedlot										
<b>Other grant providers:</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	-	<b>-</b>	<b>-</b>	<b>-</b>
SETA										
<b>Total Capital Transfers and Grants</b>	5	<b>30 399</b>	<b>30 615</b>	<b>24 965</b>	<b>32 358</b>	<b>32 358</b>	-	<b>42 257</b>	<b>31 848</b>	<b>33 484</b>
<b>TOTAL RECEIPTS OF TRANSFERS &amp; GRANTS</b>		<b>141 862</b>	<b>176 613</b>	<b>157 127</b>	<b>156 196</b>	<b>155 497</b>	-	<b>165 160</b>	<b>162 799</b>	<b>171 966</b>

**Source: 2018/19 budget**

The total direct transfers from National and Provincial government amounts to R168 million. However, according to the above table SA18, the municipality has recognized grants from provincial transfers amounting to R3.9 million. The above is attributed to the following:

- Library services amounting to R900 thousand have not been included in the above table.
- EPWP Greenest municipality competition amounting to R3 million.

The above mentioned anomalies should be rectified during the 2018/19 final budget.

**ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK:  
EMALAHLENI LOCAL MUNICIPALITY**

The municipality is advised to recognize allocations/transfer amounts that have been gazette (DoRA and Provincial Gazette).

**2.2.8. FINANCIAL POSITION**

The financial position of Emalahleni is reflected in table 5 below.

**Table 5: Financial position – Emalahleni**

EC136 - Emalahleni (Ec)	Table A6 Budgeted Financial Position				CURRENT YEAR			MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK					
	2014/15	2015/16	2016/17	2016/17	2017/16	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21
Vote Description	Audited Outcome	Audited Outcome	Audited Outcome	AFS Totals	Original Budget	Adjusted Budget	Treasury Calculation	Budget Year +0	Treasury Calculation	Budget Year +1	Treasury Calculation	Budget Year +2	Treasury Calculation
R thousand													
<b>ASSETS</b>													
<b>Current assets</b>													
Cash	3 213	2 396	2 674	2 674	1 072	16 270	-	13 154	-	5 205	-	4 309	-
Call investment deposits	28 563	26 023	10 260	10 260	-	-	-	-	-	-	-	-	-
Consumer debtors	22 582	12 747	7 340	7 350	17 906	2 097	7 350	14 881	7 350	19 534	7 350	24 854	7 350
Other debtors	2 222	6 110	13 233	13 223	-	16 366	1 770	12 490	1 770	12 114	1 770	10 114	1 770
Current portion of long-term receivables	-	-	-	-	-	-	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total current assets</b>	<b>56 580</b>	<b>47 277</b>	<b>33 707</b>	<b>33 707</b>	<b>18 978</b>	<b>36 732</b>	<b>9 120</b>	<b>40 525</b>	<b>9 120</b>	<b>36 653</b>	<b>9 120</b>	<b>39 277</b>	<b>9 120</b>
<b>Non current assets</b>													
Long-term receivables	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Investment property	6 434	4 162	4 154	4 154	3 972	3 860	4 154	3 871	4 154	3 861	4 154	3 852	4 154
Investment in Associate	-	-	-	-	-	-	-	-	-	-	-	-	-
Property, plant and equipment	388 475	397 130	412 032	412 032	436 925	426 473	426 390	443 686	459 616	450 506	467 207	458 961	476 434
Agricultural	-	-	-	-	-	-	-	-	-	-	-	-	-
Biological	-	-	-	-	-	-	-	-	-	-	-	-	-
Intangible	207	131	309	309	191	296	309	265	309	234	309	203	309
Other non-current assets	183	183	183	183	183	183	183	183	183	183	183	183	183
<b>Total non current assets</b>	<b>395 298</b>	<b>401 605</b>	<b>416 678</b>	<b>416 678</b>	<b>441 271</b>	<b>430 831</b>	<b>431 036</b>	<b>448 004</b>	<b>464 281</b>	<b>454 784</b>	<b>471 853</b>	<b>483 199</b>	<b>481 080</b>
<b>TOTAL ASSETS</b>	<b>451 878</b>	<b>448 882</b>	<b>450 384</b>	<b>450 385</b>	<b>480 249</b>	<b>467 563</b>	<b>440 156</b>	<b>488 529</b>	<b>473 382</b>	<b>491 636</b>	<b>480 974</b>	<b>502 475</b>	<b>490 200</b>
<b>LIABILITIES</b>													
<b>Current liabilities</b>													
Bank overdraft	-	-	-	-	-	-	3 015	-	34 890	-	50 953	-	65 772
Borrowing	263	353	295	295	310	-	-	1 035	-	1 139	-	1 253	-
Consumer deposits	-	-	-	-	-	-	-	-	-	-	-	-	-
Trade and other payables	20 592	22 996	20 841	20 841	26 501	27 094	19 719	26 425	18 616	25 000	18 902	27 000	18 806
Provisions	18 612	18 071	20 243	20 243	20 401	21 862	20 243	22 562	20 243	23 263	20 243	24 000	20 243
<b>Total current liabilities</b>	<b>39 467</b>	<b>41 420</b>	<b>41 379</b>	<b>41 379</b>	<b>47 212</b>	<b>48 956</b>	<b>42 976</b>	<b>50 022</b>	<b>73 719</b>	<b>49 402</b>	<b>90 097</b>	<b>52 253</b>	<b>104 821</b>
<b>Non current liabilities</b>													
Borrowing	547	295	-	-	6 283	7 545	-	13 024	-	11 885	-	10 632	-
Provisions	5 694	6 533	6 978	6 978	8 210	7 428	6 878	8 280	6 878	9 616	6 678	11 352	6 878
<b>Total non current liabilities</b>	<b>6 241</b>	<b>6 828</b>	<b>6 878</b>	<b>6 878</b>	<b>16 493</b>	<b>14 973</b>	<b>6 878</b>	<b>21 304</b>	<b>6 878</b>	<b>21 701</b>	<b>6 678</b>	<b>21 984</b>	<b>6 878</b>
<b>TOTAL LIABILITIES</b>	<b>45 708</b>	<b>48 248</b>	<b>48 257</b>	<b>48 257</b>	<b>63 705</b>	<b>63 929</b>	<b>49 853</b>	<b>71 326</b>	<b>80 596</b>	<b>71 102</b>	<b>96 775</b>	<b>74 237</b>	<b>111 698</b>
<b>NET ASSETS</b>	<b>406 170</b>	<b>400 634</b>	<b>402 127</b>	<b>402 128</b>	<b>396 544</b>	<b>403 634</b>	<b>390 303</b>	<b>417 203</b>	<b>392 785</b>	<b>420 534</b>	<b>383 999</b>	<b>428 239</b>	<b>378 502</b>
<b>COMMUNITY WEALTH/EQUITY</b>													
Accumulated Surplus/(Deficit)	406 170	400 462	402 128	402 128	396 544	403 634	390 303	417 203	392 785	420 534	383 999	428 239	378 502
Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
Minorities' interests	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL COMMUNITY WEALTH/EQUITY</b>	<b>406 170</b>	<b>400 462</b>	<b>402 128</b>	<b>402 128</b>	<b>396 544</b>	<b>403 634</b>	<b>390 303</b>	<b>417 203</b>	<b>392 785</b>	<b>420 534</b>	<b>383 999</b>	<b>428 239</b>	<b>378 502</b>

**Source: 2018/19 budget**

The municipality to take note that even though there is a provision of interest on investment for 2018/19 on A4, no corresponding provision on A6 of call investment deposits have been made to the effect of receiving government grants. This will be the case throughout the MTREF. The municipality is urged to unbundle and correctly allocate their cash balance.

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The alignment sought between Cash and investments held on A6 and cash and cash equivalents at the yearend of R3.1 million on table A7 is achieved. The municipality is commended for such an effort.

**2.2.9. LEVEL OF FUNDING OF THE 2018/19 BUDGET**

Table 6 below is a reflection of the level of funding of the 2018/19 MTREF for Emalahleni.

**Table 6: Cash position of Emalahleni**

EC136 - Emalahleni (Ec)	CURRENT YEAR		MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK					
	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21
	Adjusted Budget	Treasury Calculation	Budget Year +0	Treasury Calculation	Budget Year +1	Treasury Calculation	Budget Year +2	Treasury Calculation
<b>R thousand</b>								
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>								
<b>Receipts</b>								
Property rates	3 940	1 801	1 265	1 446	1 364	1 558	1 467	1 676
Service charges	11 832	7 445	10 848	7 907	11 516	8 381	12 218	8 878
Other revenue	4 444	1 778	4 461	2 037	4 684	2 139	4 918	2 246
Government - operating	123 139	123 139	122 903	122 903	130 951	130 951	138 482	138 482
Government - capital	32 358	32 358	42 257	42 257	31 848	31 848	33 484	33 483
Interest	5 535	1 081	3 930	2 045	4 127	2 148	4 333	2 255
Dividends	-	-	-	-	-	-	-	-
<b>Payments</b>								
Suppliers and employees	(145 961)	(153 081)	(149 452)	(150 555)	(159 150)	(158 864)	(160 771)	(165 951)
Finance charges	(657)	(657)	(2 116)	(2 116)	(2 116)	(2 116)	(2 116)	(2 116)
Transfers and Grants	(1 379)	(1 379)	(290)	(290)	(290)	(290)	(290)	(290)
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>	<b>33 251</b>	<b>12 484</b>	<b>33 807</b>	<b>25 636</b>	<b>22 934</b>	<b>15 755</b>	<b>31 726</b>	<b>18 664</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>								
<b>Receipts</b>								
Proceeds on disposal of PPE	115	115	-	-	-	-	-	-
Decrease (Increase) in non-current debbrs	-	11 452	-	-	-	-	-	-
Decrease (increase) other non-current receivables	-	-	6 500	-	2 000	-	2 000	-
Decrease (increase) in non-current investments	-	-	-	-	-	-	-	-
<b>Payments</b>								
Capital assets	(37 478)	(39 904)	(57 482)	(57 482)	(31 848)	(31 848)	(33 483)	(33 483)
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>	<b>(37 363)</b>	<b>(28 337)</b>	<b>(50 982)</b>	<b>(57 482)</b>	<b>(29 848)</b>	<b>(31 848)</b>	<b>(31 483)</b>	<b>(33 483)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>								
<b>Receipts</b>								
Short term loans	-	-	-	-	-	-	-	-
Borrowing long term/refinancing	7 545	-	15 000	-	-	-	-	-
Increase (decrease) in consumer deposits	-	-	-	-	-	-	-	-
<b>Payments</b>								
Repayment of borrowing	(295)	(295)	(941)	-	(1 035)	-	(1 139)	-
<b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>	<b>7 250</b>	<b>(295)</b>	<b>14 059</b>	<b>-</b>	<b>(1 035)</b>	<b>-</b>	<b>(1 139)</b>	<b>-</b>
<b>NET INCREASE/ (DECREASE) IN CASH HELD</b>	<b>3 138</b>	<b>(16 149)</b>	<b>(3 116)</b>	<b>(31 845)</b>	<b>(7 949)</b>	<b>(16 093)</b>	<b>(896)</b>	<b>(14 819)</b>
Cash/cash equivalents at the year begin:	13 134	13 134	16 270	(3 015)	13 154	(34 860)	5 205	(50 953)
Cash/cash equivalents at the year end:	16 272	(3 015)	13 154	(34 860)	5 205	(50 953)	4 309	(65 772)

**Source: 2018/19 budget**



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The municipality's cash flow budget reflects positive cash/cash equivalents of R13.1 million for 2018/19, R5.2 million for the 2019/20 and R4.3 million for 2020/21 financial year respectively. It is in our considered view, that the budgeted cash flow is different than depicted in table A7 of the municipality.

The recalculated cash flow however, reflects negative cash/cash equivalents throughout the MTREF and that is an indication of an unfunded budget. The Municipality must therefore ensure that the budget is funded before tabling to council. In the event that a municipality tables an unfunded budget, the municipality needs to put appropriate strategies in place to address the problem and also explain measures in its budget document to be tabled to council. Reference is made to MFMA circular 55 paragraph 4.3.

Supporting table SA30 should provide a monthly projected cash flow, which is a monthly break down of the cash flow figures as reflected and should reconcile to table A7. On review of the supporting table SA30 we have noted that the municipality has incorrectly used a straight line method, when determining their monthly projections.

**2.2.10. CASHBACKED RESERVES RECONCILIATION**

The level of funding in respect of the 2018/19 budget of Emalahleni is reflected in table 7 below.

EC136 - Emalahleni (Ec)	CURRENT YEAR		MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK					
	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21
	Adjusted Budget	Treasury Calculation	Budget Year +0	Treasury Calculation	Budget Year +1	Treasury Calculation	Budget Year +2	Treasury Calculation
<b>R thousand</b>								
<b>Cash and investments available</b>								
Cash/cash equivalents at the year end	16 272	(3 015)	13 154	(34 860)	5 205	(50 953)	4 309	(65 772)
Other current investments > 90 days	(2)	-	-	-	0	-	0	-
Non current assets - Investments	-	-	-	-	-	-	-	-
<b>Cash and Investments available:</b>	<b>16 270</b>	<b>(3 015)</b>	<b>13 154</b>	<b>(34 860)</b>	<b>5 205</b>	<b>(50 953)</b>	<b>4 309</b>	<b>(65 772)</b>
<b>Application of cash and investments</b>								
Unspent conditional transfers	-	801	-	801	-	801	-	801
Unspent borrowing	-	-	-	-	-	-	-	-
Statutory requirements	-	(1 120)	-	(1 165)	-	(903)	-	(903)
Other working capital requirements	12 083	15 272	10 495	14 170	6 592	14 455	6 672	14 360
Other provisions	-	20 243	-	20 243	-	20 243	-	20 243
Long term investments committed	-	-	-	-	-	-	-	-
Reserves to be backed by cash/investments	-	-	-	-	-	-	-	-
<b>Total Application of cash and investments:</b>	<b>12 083</b>	<b>35 195</b>	<b>10 495</b>	<b>34 047</b>	<b>6 592</b>	<b>34 596</b>	<b>6 672</b>	<b>34 500</b>
<b>Surplus(shortfall)</b>	<b>4 187</b>	<b>(38 210)</b>	<b>2 659</b>	<b>(68 907)</b>	<b>(1 387)</b>	<b>(85 549)</b>	<b>(2 363)</b>	<b>(100 272)</b>

**Source: 2018/19 budget**

The reconciliation based on the information provided by the municipality.

The municipality has not disclosed on current investment in both table A8 and SA3, whereas unbundling of cash balance is necessary.

## **ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK: EMALAHLENI LOCAL MUNICIPALITY**

The basis of working capital disclosed in table A8 seems reflects a budgeted collection rate of 58.2% over the MTREF.

The working capital is an important figure in determining if the available cash is sufficient to cover reserves to be cashed back and other financial commitments. According to cost coverage therefore, the municipality can sustain itself for a period of 1month.

### **3. RELEVANCE**

#### **3.1. BUDGET ALIGNMENT TO THE IDP**

In terms of the budget tables, there should be alignment between table A4 and supporting table SA4, table A4 and supporting table SA5 and this reflects operating revenue and expenditure. In relation to the capital budget, table A5 should align with supporting table SA6. The municipality has populated the above supporting tables indicating alignment to the IDP.

#### **3.2. BUDGET ALIGNMENT TO NATIONAL PROGRAMMES**

Approximately 66% of the capital budget has been allocated for construction community facilities and sports and recreation within the municipal area with the remainder allocated to various municipal projects.

### **4. SUSTAINABILITY**

Our assessment of the 2018/19 MTREF of Emalahleni has led us to conclude based on the information availed that this is cash funded, though it will not sustain itself over the MTREF. This conclusion is arrived at based on the following observations:

- The recalculated cash flow, despite some omissions, reflect that the municipality should realize a surplus;

## **5. FREE BASIC SERVICES (FBS)**

The municipality has not completed supporting table SA9 and SA21, however SA14 has been completed. We were therefore unable to assess the adequacy of FBS provided for 2018/19 financial year.

We have noted that in SA21 the municipality has not provided for amounts paid over to Eskom in relation to FBS on areas supplied by Eskom.

## **6. FORECASTING AND MULTI YEAR BUDGETING**

We have noted that Emalahleni has used a mechanical straight line method to project for operating revenue and expenditure with no consideration as to the timing of its occurrence. The municipality has simply divided annual amounts by 12 months without considering seasonal influences. This is evident in SA25, 26, 27, 28, 29 and 30.

## **7. KEY OBSERVATION / FINDINGS / RISK AND RECOMMENDATIONS**

### **7.1. KEY OBSERVATIONS AND FINDINGS**

- The budget was submitted very late to NT and PT;
- The has not submitted the budget document;
- R5.2 million has been allocated for repairs and maintenance and this is equivalent to only 1.2% of the total value of PPE;
- The municipality has incorrectly disclosed provincial allocations as national allocation on table SA18;
- The 2018/19 budget is funded for 2018/19, however unfunded for the rest of the MTREF;
- Municipality has not provided for FBS on electricity for areas supplied by ESKOM;
- The municipality has also applied a straight line methods in projecting operating revenue and expenditure and has not taken into account seasonal influences / timing of the occurrence;



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EMALAHLENI LOCAL MUNICIPALITY**

**8. RECOMMENDATIONS**

In view of the above assessment, it is recommended that the municipality:

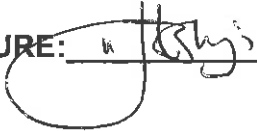
- takes note of the report and its findings;
- the municipality should comply with submission dates reflected on the latest MFMA budget circulars;
- extend invitation to Provincial Treasury for all budget related meetings and forums;
- strive to achieve alignment between the budget main tables and budget supporting tables;
- revise budget in order to ensure that it is capable of being implemented;
- increase the budget allocated for repairs and maintenance;
- reconsider adequacy of the provision made for FBS and its correct disclosure in the budget;

**COMPILED BY: T MZOLO**

**SIGNATURE:**  \_\_\_\_\_

**DATE:** 18/05/2018

**REVIEWED AND APPROVED BY: J. NTSHINGA**

**SIGNATURE:**  \_\_\_\_\_

**DATE:** 18/05/2018