



Province of the
EASTERN CAPE
PROVINCIAL TREASURY

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

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

ENGCOBO LOCAL MUNICIPALITY

(EC 137)

19 APRIL 2018

CHRIS HANI DISTRICT

**ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK:
ENGCBO**

LOCAL MUNICIPALITY

TABLE OF CONTENTS

1.	EXECUTIVE SUMMARY	3
2.	CREDIBILITY OF THE 2018/19 MTREF	4
2.1.	EVALUATION OF THE BUDGET PROCESS	4
2.1.1.	POLITICAL GUIDANCE AND OVERSIGHT	4
2.1.2.	PUBLIC PARTICIPATION ON THE 2018/19 BUDGET	4
2.1.3.	EVALUATION OF THE LEGAL COMPLIANCE OF THE BUDGET	5
2.2.	MUNICIPAL REVENUE AND EXPENDITURE FISCAL FRAMEWORK.....	5
2.2.1.	EXPECTED OUTCOME FOR THE CURRENT FINANCIAL YEAR	5
2.2.2.	BUDGET ASSUMPTIONS.....	5
2.2.3.	ADEQUACY OF REVENUE MANAGEMENT FRAMEWORK	6
2.2.4.	ADEQUACY OF EXPENDITURE MANAGEMENT FRAMEWORK.....	7
2.2.5.	ADEQUACY OF CAPITAL BUDGET AND SOURCES OF FUNDING	9
2.2.6.	CAPITAL FUNDING	10
2.2.7.	RECONCILIATION OF GRANTS TO THE 2017 DoRA.....	11
2.2.8.	FINANCIAL POSITION.....	13
2.2.9.	LEVEL OF FUNDING OF THE 2018/19 BUDGET	15
2.2.10.	CASHBACKED RESERVES RECONCILIATION.....	16
3.	RELEVANCE	17
3.1.	BUDGET ALIGNMENT TO THE IDP	17
3.2.	BUDGET ALIGNMENT TO NATIONAL PROGRAMMES	17
4.	SUSTAINABILITY.....	17
5.	FREE BASIC SERVICES (FBS).....	18
6.	FORECASTING AND MULTI YEAR BUDGETING.....	18
7.	KEY OBSERVATION / FINDINGS / RISK AND RECOMMENDATIONS.....	18
7.1.	KEY OBSERVATIONS AND FINDINGS	18
8.	RECOMMENDATIONS.....	19

LOCAL MUNICIPALITY

1. EXECUTIVE SUMMARY

The annual assessment of Municipal Budgets and Integrated Development Plans (IDP) are performed every year by Provincial Treasury. Such analysis is 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: ENGCOBO

LOCAL MUNICIPALITY

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

- The 2018/19 budget process had political oversight as evidenced by the approval of the IDP and Budget process plan. The municipality has embarked in Mayoral roadshows throughout the municipal area where communities were consulted in all wards. Furthermore, IDP Representative Forums were held where sector departments and other stakeholders were afforded an opportunity to share their plans for the 2018/19 financial year;
- The budget has been assessed to be responsive to the needs identified by communities. A budget of R49.7 million has been allocated to fund capital programs within the municipality and R39.1 million of this amount will be spent on construction of internal roads.
- The funding mix to the capital budget consists of 75.9% government grants, District allocation 8% and 15.9% own revenue. This trend continues over the MTREF;
- The 2018/19 MTREF of Engcobo municipality is funded over the MTREF, however the municipality has budgeted for an operating deficit;
- R5.5 million has been allocated towards repairs and maintenance for the 2018/19 financial year. This is equivalent to 1.6% of the total value of PPE;

The municipality has budget for an operating deficit of R37 093 million in 2018/19, R40 236 million in 2019/20 and R40 647 million in 2020/21 financial year.

2. CREDIBILITY OF THE 2018/19 MTREF

2.1. EVALUATION OF THE BUDGET PROCESS

2.1.1. POLITICAL GUIDANCE AND OVERSIGHT

Engcobo municipal council adopted its 2018/19 IDP and Budget process plan. 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 outreach or Budget Public Hearing in all the ward 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 Engcobo in respect of the 2018/19 financial year. However Provincial Treasury has not been invited to the above meetings or forums.

ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK: ENGCOBO

LOCAL MUNICIPALITY

The municipality has made plans to present the draft budget to communities during April and May 2018.

2.1.3. EVALUATION OF THE LEGAL COMPLIANCE OF THE BUDGET

The 2018/19 budget of Engcobo was tabled to council on 27 March 2018 as required by the MFMA and the budget was submitted to National Treasury on the 3rd of April 2018. The municipality has submitted both the budget document and A1 schedules as prescribed by the MBRR.

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 Engcobo municipality reflects significant variance when compared to the previous audited performance, on the following line items amongst others:

- Investment revenue
- Other income
- Finance charges
- 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 M08 reported year to date expenditure of 29%, which puts the municipality at a risks of underspending in respect of the 2017/18 current year capital budget and the municipality has already adjusted its budget once as required by the MFMA.

2.2.2. BUDGET ASSUMPTIONS

The budget document approved and submitted by the municipality is silent on budget assumptions made in respect of the 2018/19 MTREF. Key to these 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;

**ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK:
ENGCOBO**

LOCAL MUNICIPALITY

- 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 Engcobo in respect of the 2018/19 MTREF including year-on-year growth.

Table 1: Analysis of operating revenue

EC137 - Engcobo	CURRENT YEAR	MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK						ASSUMPTIONS & CALCULATIONS				
	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2017/18	2018/19	2018/19	2019/20	2020/21
	Adjusted Budget	Budget Year +0	Treasury Calculation	Budget Year +1	Treasury Calculation	Budget Year +2	Treasury Calculation	% Change	Budget Assump	% Change	% Change	% Change
Revenue By Source												
Property rates	4 079	4 079	4 079	4 304	4 304	4 540	4 540	9.6%		0.0%	5.5%	5.5%
Service charges - electricity revenue	-	-	-	-	-	-	-					
Service charges - water revenue	-	-	-	-	-	-	-					
Service charges - sanitation revenue	-	-	-	-	-	-	-					
Service charges - refuse revenue	1 038	909	909	960	960	1 012	1 012	14.7%		-12.4%	5.5%	5.5%
Service charges - other	-	-	-	-	-	-	-					
Rental of facilities and equipment	247	144	144	152	152	160	160	-13.0%		-41.8%	5.5%	5.5%
Interest earned - external investments	8 000	7 500	7 500	7 913	7 913	8 348	8 348	34.9%		-6.3%	5.5%	5.5%
Interest earned - outstanding debtors	500	-	-	-	-	-	-	16.6%		-100.0%		
Dividends received	-	-	-	-	-	-	-					
Fines, penalties and forfeits	2 000	500	500	528	528	557	557	54.3%		-75.0%	5.5%	5.5%
Licences and permits	2 920	1 800	1 800	1 889	1 889	2 003	2 003	-3.5%		-38.4%	5.5%	5.5%
Agency services	-	-	-	-	-	-	-					
Transfers and subsidies	141 049	139 991	139 991	146 589	146 589	156 453	156 453	-2.2%		-0.8%	4.7%	6.7%
Other revenue	41 028	623	623	657	657	693	693	1262.8%		-98.5%	5.4%	5.5%
Gains on disposal of PPE	-	-	-	-	-	-	-					
Total Revenue (excluding capital transfers and contributions)	200 861	155 546	155 546	162 999	162 999	173 766	173 766	23.4%		-22.6%	4.8%	6.6%

Source: 2018/19 draft budget – Engcobo

The total operating revenue of Engcobo municipality in respect of the 2018/19 financial year is projected at R155.5 million which represents a year on year drop of 22.6%. This revenue is expected to grow by 4.8% in 2019/20 and by 6.6% in 2020/21.

The above decline is attributed by the following projected revenue items amongst others:

- Interest earned outstanding debtors
- Other revenue
- Fines and penalties
- Rental of facilities and equipment

ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK: ENGCOCO

LOCAL MUNICIPALITY

Operational transfers amount to R139.9 million or 90% of the total operating revenue. This indicates the 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 zero increment on property rates revenue seems unrealistic considering 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 5.5% for the remainder of the MTREF.

Service charges refuse projected reduction of 12.5% seems unrealistic considering the expected annual tariff increment. The municipality has projected revenue of R909 thousand in table A4 for service charges refuse however, it has not provided corresponding expenditure in table A2 for this service. It has also been noted that the amount disclosed in table A4 on the same revenue item is R959 thousand. The projected revenue on the above service will grow by 5.5% for the remainder of the MTREF.

2.2.4. ADEQUACY OF EXPENDITURE MANAGEMENT FRAMEWORK

The total operating expenditure in respect of the 2018/19 financial year is projected at R192.6 million which represents a year on year decline of 4.6% however, this expenditure is expected to grow by 5.5% for the remainder of the MTREF. The details of operating expenditure are reflected in table 2 below.

Table 2: Operating expenditure of Engcobo municipality

EC137 - Engcobo	CURRENT YEAR		MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK					ASSUMPTIONS & CALCULATIONS				
Description	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2017/18	2018/19	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	Budget Assump	% Change	% Change	% Change
Revenue By Source												
Expenditure By Type												
Employee related costs	73 798	68 038	68 038	71 781	71 781	75 729	75 729	20.8%		-7.8%	5.5%	5.5%
Remuneration of councillors	14 764	15 621	15 621	16 480	16 480	17 387	17 387	9.4%		5.8%	5.5%	5.5%
Debt impairment	2 000	2 000	3 067	2 110	3 240	2 226	3 424	-73.9%		0.0%	5.5%	5.5%
Depreciation & asset impairment	40 000	45 760	45 760	48 277	48 277	50 932	50 932	-6.0%		14.4%	5.5%	5.5%
Finance charges	50	-	-	-	-	-	-	-92.3%		-100.0%	-	-
Bulk purchases	-	-	-	-	-	-	-	-		-	-	-
Other materials	3 935	5 570	5 570	5 876	5 876	6 200	6 200	-29.5%		41.5%	5.5%	5.5%
Contracted services	-	-	-	-	-	-	-	-		-	-	-
Transfers and subsidies	4 000	3 500	3 500	3 693	3 693	3 886	3 886	-		-12.5%	5.5%	5.5%
Other expenditure	63 345	52 150	52 150	55 018	55 018	58 044	58 044	-22.7%		-17.7%	5.5%	5.5%
Loss on disposal of PPE	-	-	-	-	-	-	-	-100.0%		-	-	-
Total Expenditure	201 892	192 640	193 707	203 235	204 365	214 413	215 611	-5.3%		-4.6%	5.5%	5.5%

Source: 2018/19 draft budget – Engcobo

Employee related costs for 2018/19 have been budgeted at R68 million which reflects a year on year decrease of 7.8%. This seems unrealistic considering that the municipality is expected to provide for an annual salary increment as per Bargaining council.

**ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK:
ENGCOCO**

LOCAL MUNICIPALITY

Employee related costs will account for 35% of the total operating expenditure which is within the norm as prescribed by the National Treasury.

The municipality has not projected for Finance charges; this seems unrealistic considering the line item represents interest incurred on late payments of creditors and monthly bank charges.

The projected decrease of 12.5% on Transfers and subsidies seems unrealistic considering Eskom will implement an annual tariff increase on electricity provision.

The municipality has allocated R5.5 million for 2018/19 in respect of repairs and maintenance and this is equivalent to 1.6% of the total value of PPE this is way below the norm. 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.

**ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK:
ENGCOBO**

LOCAL MUNICIPALITY

2.2.5. ADEQUACY OF CAPITAL BUDGET AND SOURCES OF FUNDING

Engcobo is mandated to provide electricity, roads and refuse removal to the community.

In terms of A5, the capital budget of Engcobo municipality is projected at R49.7 million as reflected in table 3 below.

Table 3: Capital expenditure of Engcobo municipality

EC137 - Engcobo	Table A5 Budgeted Capital Expenditure by vote, standard classification and funding			CURRENT YEAR				MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK		
	2014/15	2015/16	2016/17	2017/18	2017/18	2017/18	2017/18	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
R thousand										
Capital Expenditure - Functional										
Governance and administration	561	3 685	61 594	2 536	2 438	2 438	2 438	2 930	3 091	3 261
Executive and council	321	1 224	60 744	228	316	316	316	535	564	595
Finance and administration	240	2 461	850	2 307	2 122	2 122	2 122	2 330	2 458	2 593
Internal audit								65	69	72
Community and public safety	675	3 335	-	9 180	8 930	8 930	8 930	1 640	1 730	1 825
Community and social services	675	3 335		9 180	8 930	8 930	8 930	1 640	1 730	1 825
Sport and recreation										
Public safety										
Housing										
Health										
Economic and environmental services	42 559	65 251	-	74 702	74 153	74 153	74 153	45 029	47 506	56 296
Planning and development	945	4 337		9 123	10 315	10 315	10 315	5 875	6 198	6 539
Road transport	41 614	60 914		65 579	63 838	63 838	63 838	39 154	41 307	49 757
Environmental protection										
Trading services	-	20 000	-	21 525	21 525	21 525	21 525	150	158	167
Energy sources		20 000		21 525	21 525	21 525	21 525			
Water management										
Waste water management								150	158	167
Waste management										
Other										
Total Capital Expenditure - Functional	43 795	92 272	61 594	107 942	107 047	107 047	107 047	49 749	52 485	61 549
Funded by:										
National Government	34 664	57 304	33 701	66 084	66 084	66 084	66 084	37 794	51 325	61 549
Provincial Government								4 000	-	-
District Municipality										
Other transfers and grants										
Transfers recognised - capital	34 664	57 304	33 701	66 084	66 084	66 084	66 084	41 794	51 325	61 549
Public contributions & donations										
Borrowing										
Internally generated funds	9 131	34 968	27 893	41 858	40 963	40 963	40 963	7 955	1 160	
Total Capital Funding	43 795	92 272	61 594	107 942	107 047	107 047	107 047	49 749	52 485	61 549

Source: 2018/19 draft budget – Engcobo municipality

The municipality will use 42% of the total capital budget for acquisition of new assets and 53.9% for upgrading of existing assets. There is no alignment between table A9 and table A5 on total capital funding. The budget allocated for internal roads amounts to R39.1 million which is equivalent to 79% of the capital budget.

**ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK:
ENGCOBO**

LOCAL MUNICIPALITY

2.2.6. CAPITAL FUNDING

The total capital funding in respect of the 2018/19 financial year is R49.7 million. The funding mix consists of government grants, transfers from the district municipality and own revenue. Government grants (R37.7 million) constitute 76% of the total budget and transfers from the district municipality constitute 8% and the balance of R7.9 million or 16% coming from internally generated funding. The municipality is not planning to incur any borrowings.

**ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK:
ENGCOCO**

LOCAL MUNICIPALITY

2.2.7. RECONCILIATION OF GRANTS TO THE 2017 DoRA

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

Table 4: Grants reconciliation for Engcoco municipality

EC137 Engcoco - 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
RECEIPTS:	1, 2									
Operating Transfers and Grants										
National Government:		108 212	139 046	134 507	137 849	138 395	138 395	139 991	146 589	156 453
Local Government Equitable Share		103 995	134 844	130 882	134 108	134 108	134 108	136 131	144 889	154 753
Finance Management		1 600	1 600	1 625	1 700	1 700	1 700	1 700	1 700	1 700
EPWP Incentive		1 687	1 672	2 000	1 391	1 391	1 391	2 160		
Municipal Systems Improvement		930	930							
Library					650	1 196	1 196			
Provincial Government:		-	-	-	-	-	-	-	-	-
Library										
District Municipality: <i>[insert description]</i>		-	-	-	-	-	-	-	-	-
Other grant providers: <i>[insert description]</i>		-	-	-	-	-	-	-	-	-
Total Operating Transfers and Grants	5	108 212	139 046	134 507	137 849	138 395	138 395	139 991	146 589	156 453
Capital Transfers and Grants										
National Government:		46 804	57 304	62 503	52 156	66 084	66 084	37 794	51 325	61 549
Municipal Infrastructure Grant (MIG)		35 804	37 304	32 503	39 156	53 084	53 084	37 794	38 525	40 549
INEP		11 000	20 000	30 000	13 000	13 000	13 000	-	12 800	21 000
Provincial Government: Other capital transfers/grants <i>[insert description]</i>		-	-	-	-	-	-	-	-	-
District Municipality: CHDM		-	-	-	-	3 200	3 200	4 000	-	-
Other grant providers: <i>[insert description]</i>		-	-	-	-	-	-	-	-	-
Total Capital Transfers and Grants	5	46 804	57 304	62 503	52 156	69 284	69 284	41 794	51 325	61 549
TOTAL RECEIPTS OF TRANSFERS & GRANTS		155 016	196 350	197 010	190 005	207 680	207 680	181 785	197 914	218 002

Source: 2018/19 A-schedule

The total direct transfers from National and Provincial government amounts to R178 205 million. However, according to the above table SA18, the municipality has

**ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK:
ENGCOBO**

LOCAL MUNICIPALITY

recognized R181 785 million resulting in an overstatement of total grants and subsidies by R3 580 million. The above is attributed to the following:

- Library services amounting to R420 thousand have not been included in the above table.
- A further recognition of a district allocation or transfer amounting to R4 million which is not reflected in Table SA21 of the District's budget nor supported by an official correspondence from the district.

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

The municipality is advised to recognise allocations/ transfer amounts that have been gazetted (Dora and Provincial Gazette) and district municipalities allocations which are supported by official correspondence.

**ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK:
ENGCOBO**

LOCAL MUNICIPALITY

2.2.8. FINANCIAL POSITION

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

Table 5: Financial position – Engcobo

Vote Description	CURRENT YEAR				MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK					
	2017/18	2017/18	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21
	Adjusted Budget	Treasury Calculation	Full Year Forecast	Pre-audit outcome	Budget Year +0	Treasury Calculation	Budget Year +1	Treasury Calculation	Budget Year +2	Treasury Calculation
R thousand										
ASSETS										
Current assets										
Cash	1 507	-	1 507	-	15 555	-	16 411	6 014	17 314	15 380
Call investment deposits	14 980	40 399	14 980	108 973	181 785	39 250	191 783	39 250	202 331	39 250
Consumer debtors	2 897	(2 084)	2 897	12 113	6 989	(2 084)	7 373	(2 084)	7 779	(2 084)
Other debtors		4 688		1 716		4 688		4 688		4 688
Current portion of long-term receivables		-		-		-		-		-
Inventory		-		-		-		-		-
Total current assets	19 385	43 012	19 385	122 802	204 329	41 863	215 567	47 878	227 423	57 243
Non current assets										
Long-term receivables		-		-		-		-		-
Investments		-		-		-		-		-
Investment property	4 013	4 213	4 013	4 768	5 016	4 213	5 292	4 213	5 583	4 213
Investment in Associate		-		-		-		-		-
Property, plant and equipment	416 279	446 894	416 279	381 708	355 797	450 883	375 366	455 091	396 011	465 708
Agricultural		-		-		-		-		-
Biological		-		-		-		-		-
Intangible	1 451	1 038	1 451	1 038	1 092	1 038	1 152	1 038	1 215	1 038
Other non-current assets		6 960		-		6 960		6 960		6 960
Total non current assets	421 743	459 104	421 743	387 513	361 904	463 093	381 809	467 382	402 808	477 919
TOTAL ASSETS	441 128	502 117	441 128	510 315	566 233	504 957	597 376	515 180	630 232	535 162
LIABILITIES										
Current liabilities										
Bank overdraft		-		-		-		-		-
Borrowing		-		-		-		-		-
Consumer deposits		-		103		-		-		-
Trade and other payables		26 859		39 814	14 067	26 066	14 841	26 329	15 657	26 607
Provisions	2 800	21 863	2 800	32 329		21 863		21 863		21 863
Total current liabilities	2 800	48 722	2 800	72 246	14 067	47 929	14 841	48 192	15 657	48 470
Non current liabilities										
Borrowing		-		-		-		-		-
Provisions		-		-		-		-		-
Total non current liabilities	-	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	2 800	48 722	2 800	72 246	14 067	47 929	14 841	48 192	15 657	48 470
NET ASSETS	438 328	453 394	438 328	438 069	552 166	457 028	582 536	466 987	614 575	486 692
COMMUNITY WEALTH/EQUITY										
Accumulated Surplus/(Deficit)	438 328	453 394	438 328	438 069	552 166	457 028	582 536	466 987	614 575	486 692
Reserves		-		-		-		-		-
Minorities' interests		-		-		-		-		-
TOTAL COMMUNITY WEALTH/EQUITY	438 328	453 394	438 328	438 069	552 166	457 028	582 536	466 987	614 575	486 692

Source: 2018/19 draft budget – Engcobo

Cash combined with the balance of call investment deposits on table A6 amounting to R197 340 million does not equal to cash or cash equivalents at yearend of R2 711 million as reflected on table A7. The municipality is urged to rectify the above balances in order to achieve alignment.

**ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK:
ENGCOCO**

LOCAL MUNICIPALITY

The municipality has projected a year on year decline of 14% on PPE, this seems unrealistic considering the municipality has provided for additions on table A5 and there is no indication on table A4 whether the municipality will dispose some of its assets during the budget year.

**ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK:
ENGCOBO**

LOCAL MUNICIPALITY

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 Engcobo

Table 6: Cash position of Engcobo

EC137 - Engcobo	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
CASH FLOW FROM OPERATING ACTIVITIES								
Receipts								
Property rates	3 859	1 425	4 079	4 079	4 304	4 299	4 540	4 531
Service charges	1 038	537	909	909	960	959	1 012	1 010
Other revenue	13 201	16 136	3 066	3 067	3 226	3 231	3 395	3 406
Government - operating	137 849	141 049	139 991	139 991	146 589	146 589	156 453	156 453
Government - capital	52 156	66 084	41 794	41 794	51 325	51 325	61 549	61 549
Interest	8 500	8 000	7 500	7 500	7 913	7 913	8 348	8 348
Dividends	-	-	-	-	-	-	-	-
Payments								
Suppliers and employees	(149 962)	(157 524)	(141 380)	(142 173)	(149 348)	(148 892)	(157 755)	(157 081)
Finance charges	-	(50)	-	-	-	-	-	-
Transfers and Grants	-	(4 000)	(3 500)	(3 500)	(3 500)	(3 693)	(3 500)	(3 896)
NET CASH FROM/(USED) OPERATING ACTIVITIES	66 641	71 658	52 460	51 667	61 468	61 731	74 042	74 320
CASH FLOWS FROM INVESTING ACTIVITIES								
Receipts								
Proceeds on disposal of PPE	-	-	-	-	-	-	-	-
Decrease (increase) in non-current debtors	-	4 561	-	-	-	-	-	-
Decrease (increase) other non-current receivables	-	-	-	-	-	-	-	-
Decrease (increase) in non-current investments	-	-	-	-	-	-	-	-
Payments								
Capital assets	(66 642)	(107 047)	(49 749)	(49 749)	(52 485)	(52 485)	(55 372)	(61 549)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(66 642)	(102 486)	(49 749)	(49 749)	(52 485)	(52 485)	(55 372)	(61 549)
CASH FLOWS FROM FINANCING ACTIVITIES								
Receipts								
Short term loans	-	-	-	-	-	-	-	-
Borrowing long term/refinancing	-	-	-	-	-	-	-	-
Increase (decrease) in consumer deposits	-	-	-	-	-	-	-	-
Payments								
Repayment of borrowing	-	(35)	-	-	-	-	-	-
NET CASH FROM/(USED) FINANCING ACTIVITIES	-	(35)	-	-	-	-	-	-
NET INCREASE/ (DECREASE) IN CASH HELD	(0)	(30 863)	2 711	1 918	8 982	9 246	18 670	12 771
Cash/cash equivalents at the year begin:	113 200	87 398	-	56 535	2 711	58 453	11 694	67 699
Cash/cash equivalents at the year end:	113 200	56 535	2 711	58 453	11 694	67 699	30 364	80 470

Source: 2018/19 draft budget - Engcobo

The municipality's cash flow budget reflects positive cash/cash equivalents of R2 711 million for 2018/19, R11 694 million for the 2019/20 and R30 364 million for 2020/21

**ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK:
ENGCOBO**

LOCAL MUNICIPALITY

financial year respectively, however the municipality for 2018/19 has not included the cash and cash equivalents at the year beginning of the financial year.

The anticipated revenue as indicated in table A4 is anticipated billing, thus it cannot necessarily translate to cash inflows (receipts) as reflected in A7.

It is our considered view that the budgeted cash flow is not realistic, the situation could be different than depicted in table A7.

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 correctly used a periodic method, when determining their monthly projections. The municipality is commended for achieving such.

2.2.10. CASHBACKED RESERVES RECONCILIATION

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

EC137 - Engcobo	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
Description								
R thousand								
Cash and investments available								
Cash/cash equivalents at the year end	113 200	56 535	2 711	58 453	11 694	67 699	30 364	80 470
Other current investments > 90 days	(96 713)	-	194 629	-	196 501	-	189 281	-
Non current assets - Investments	-	-	-	-	-	-	-	-
Cash and investments available:	16 488	56 535	197 340	58 453	208 194	67 699	219 645	80 470
Application of cash and investments								
Unspent conditional transfers	-	14 475	-	14 475	-	14 475	-	14 475
Unspent borrowing	-	-	-	-	-	-	-	-
Statutory requirements	-	(1 854)	-	(1 229)	-	(1 297)	-	(1 440)
Other working capital requirements	(1 012)	11 472	7 079	8 977	7 475	9 244	7 894	9 525
Other provisions	-	21 863	-	21 863	-	21 863	-	21 863
Long term investments committed	-	-	-	-	-	-	-	-
Reserves to be backed by cash/investments	-	-	-	-	-	-	-	-
Total Application of cash and investments:	(1 012)	45 955	7 079	44 086	7 475	44 284	7 894	44 422
Surplus(shortfall)	17 500	10 580	190 262	14 368	200 720	23 415	211 751	36 048

Source: 2018/19 draft budget - Engcobo

The reconciliation based on the information provided by the municipality and shows an inaccurate R190 262 million. This is informed by the following factors;

- o The municipality has disclosed a balance of R194 629 million as current investment in table A8, however in table SA3 current investment reflects R181 785 million balance;

ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK: ENGCOBO

LOCAL MUNICIPALITY

- The basis of working capital disclosed in table A8 seems incorrect due to the unrealistic collection rate of 100% as reflected on table A8.
- 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.
- Table A8 was not properly completed and therefore not possible to provide outcomes from which a reasonable decision or conclusion could be made.

3. RELEVANCE

3.1. BUDGET ALIGNMENT TO THE IDP

In terms of the budget tables submitted by the municipality, there alignment between table A4 and supporting tables SA4 and this reflects operating revenue.

In relation to the capital budget, table A5 is aligned to both supporting table SA6 and SA36.

We commend the municipality for achieving the above alignment.

3.2. BUDGET ALIGNMENT TO NATIONAL PROGRAMMES

According to the municipal budget submitted by Engcobo municipality, the municipality has taken into account some of the key national government programmes. This is evident in the allocation of capital resources as outlined in A5 and SA36 of the budget tables.

Approximately 79% of the capital budget has been allocated for upgrade of internal roads infrastructure throughout the municipal area. These projects are expected to create employment opportunities as they are likely to be labour intensive.

4. SUSTAINABILITY

Our assessment of the 2018/19 MTREF of Engcobo has led us to conclude based on the information availed that the municipality has budgeted an operating deficit and the situation will remain for the remainder of the MTREF;

**ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK:
ENGCOCO**

LOCAL MUNICIPALITY

5. FREE BASIC SERVICES (FBS)

The municipality has provided for FBS in supporting SA21 for amounts paid over to Eskom. However, no provision for FBS has been made on SA1.

6. FORECASTING AND MULTI YEAR BUDGETING

We have noted that Engcoco used a periodic method for its monthly projections as reflected on SA25 to SA30, the municipality is commended for achieving such.

7. KEY OBSERVATION / FINDINGS / RISK AND RECOMMENDATIONS

7.1. KEY OBSERVATIONS AND FINDINGS

- The 2018/19 budget document is silent on assumptions used;
- The municipality has budgeted for an operating deficit over the MTREF;
- The 2018/19 budget is funded over the MTREF. The cash position reflects positive outlook even though the municipality has not included the amount of cash and cash equivalents at the beginning of the financial year;
- The capital budget is funded from government grants, transfers from the district municipality and own revenue.
- Government grants as reflected in SA18 are not aligned to the 2018 DoRA and Provincial Gazette;
- R5 570 million has been allocated for repairs and maintenance and this is equivalent to only 1.6% of the total value of PPE;
- The municipality has projected revenue of R909 thousand in table A4 for service charges refuse however, it has not provided corresponding expenditure in table A2 for this service. It has also been noted that the amount disclosed in table A4 on the same revenue item is R959 thousand.

**ASSESSMENT OF 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK:
ENGCOBO**

LOCAL MUNICIPALITY

8. RECOMMENDATIONS

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

- takes note of the report and its findings;
- should ensure that the 2018/19 data strings are uploaded to the NT portal as a matter of urgency;
- should include budget assumptions in its budget to be in line with MFMA circular 86;
- consider recalculating its cash flow projections taking into account the areas highlighted in the report including incorporating the 2018/19 amount for cash and cash equivalents at the beginning of the financial year;
- increase the budget allocated for repairs and maintenance;
- align SA18 on government grants with the 2018 DoRA and/ or the provincial gazette;
- The municipality must make provision for FBS in table SA1.
- Ensure audited outcomes are correctly populated in the adopted budget and are a true reflection of the audited AFS for the periods required.

COMPILED BY: T MZOLO

SIGNATURE: _____

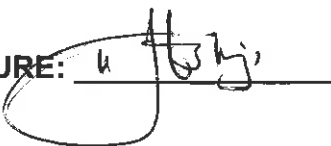


DATE: _____

23/05/2018

REVIEWED AND APPROVED BY: N NTSHINGA

SIGNATURE: _____



DATE: _____

23/05/2018