

**PHUMELELA LOCAL MUNICIPALITY (FS 195)  
ANNUAL BUDGET**



**2016/2017 TO 2018/2019  
MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK**

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## Abbreviations and Acronyms

|         |   |
|---------|---|
| BSC:    | Budget Steering Committee                         |
| CFO:    | Chief Financial Officer                           |
| MM:     | Municipal Manager                                 |
| CPI:    | Consumer Price Index                              |
| DBSA:   | Development Bank of South Africa                  |
| DoRA:   | Division of Revenue Act                           |
| DWA:    | Department of Water Affairs                       |
| FBS:    | Free basic services                               |
| FMG:    | Financial Management Grant                        |
| GRAP:   | General Recognised Accounting Practice            |
| HR:     | Human Resources                                   |
| IDP:    | Integrated Development Strategy                   |
| IT:     | Information Technology                            |
| kℓ:     | kilolitre   |
| km:     | kilometre   |
| KPA:    | Key Performance Area                              |
| KPI:    | Key Performance Indicator                         |
| kWh:    | kilowatt  |
| ℓ:      | litre   |
| LED:    | Local Economic Development                        |
| MFMA:   | Municipal Financial Management Act                |
| MIG:    | Municipal Infrastructure Grant                    |
| MPRA:   | Municipal Properties Rates Act                    |
| MSA:    | Municipal Systems Act                             |
| MSIG:   | Municipal Systems Improvement Grant               |
| MTREF:  | Medium-term Revenue and Expenditure Framework     |
| NERSA:  | National Electricity Regulator South Africa       |
| NGO:    | Non-Governmental organisations                    |
| NKPIs:  | National Key Performance Indicators               |
| NT:     | National Treasury                                 |
| OHS:    | Occupational Health and Safety                    |
| PMS:    | Performance Management System                     |
| PPE:    | Property Plant and Equipment                      |
| RBIG:   | Regional Bulk Infrastructure Grant                |
| SALGA:  | South African Local Government Association        |
| SALGBC: | South African Local Government Bargaining Council |
| SDBIP:  | Service Delivery Budget Implementation Plan       |

## **1.1 MAYOR'S REPORT**

The report by the Honourable Mayor: Cllr TJ Motaung will be included after delivering his budget speech on the 29th June 2016.

## 1.2 COUNCIL RESOLUTIONS

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ITEM :

RE: APPROVAL AND ADOPTION OF THE 2016/2017 CAPITAL AND OPERATING BUDGET AND IDP DOCUMENT

RESOLVED

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- That council adopt and approves the 2016/17 annual budget and Reviewed Integrated Development Plan
- That council adopts and approves the annual operating and capital budget of the municipality for the 2016/2017 MTREF and the two projected outer years 2017/2018 and 2018/2019 as set out in the following tables:
  - Table A1 – Budget Summary
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  - Table A7 – Budgeted Cash flows
  - Table A8 – Cash backed reserves/accumulated surplus reconciliation
  - Table A9 – Asset Management
  - Table A10 – Basic Service delivery measurement
- That Council considered the budget related policies as reviewed by administration

The reviewed policies are as follows:

- Property Rates Policy
  - Tariff Policy
  - Indigent Policy
  - Credit Control and Debt Collection Policy
  - Supply Chain Management Policy
  - Bank and Investment Policy
  - Budget and Virements Policy
  - SPLUMA Tariff Structure
  - Debt impairment Policy
  - Accounting policies
- That council adopts and approves the new tariffs for the different services and rates and taxes to be implemented as from the 1 July 2016 as outlined on Annexure A (The increases are as follows:
    - Property Rates 7.5 % (2016/17), 7.5% (2017/18), 7.5% (2018/19)
    - Water 7% (2016/17), 7% (2017/18), 7% (2018/19)
    - Sanitation 7% (2016/17), 7% (2017/18), 7% (2018/19)
    - Refuse 7% (2016/17), 7% (2017/18), 7% (2018/19)
    - Electricity 7.84% (2016/17), 7.84% (2017/18), 7.84% (2018/19)
    - The following SPLUMA tariffs:

| <b>Category 2 Applications</b>                                    |               |   |
|---|---------------|---|
| <b>Application Type</b>   |               | <b>Application Fee</b>                            |
| Township Establishment  |               |   |
| Per   | 0-500         | R 4000  |
| Number of erven   | 501-1000      | R 7000  |
|   | 1001 and more | R 9000  |
| Rezoning  |               | R 2000  |
| Removal , Amendment or suspension of restrictive title conditions |               | R 1 500   |
| Permanent closure of public place                                 |               | R 2000  |
| Amendment of General Plan   |               | R 1000  |
| Consent use   |               | R 1000  |
| Subdivision   |               | R 1000 (Basic fee)                                |
| 3 <sup>rd</sup> portion onwards per portion in addition           |               | R 200   |
| Consolidation   |               | R 1200 (Basic fee)                                |
| 3 <sup>rd</sup> portion onwards per portion in addition           |               | R200  |
| <b>Category 1 Applications</b>                                    |               |   |
| Application type  |               | Application Fee                                   |
| Subdivision   |               | R 1000 (Basic fee)                                |
| 3 <sup>rd</sup> portion onwards per portion in addition           |               | R 200   |
| Consolidation   |               | R 1200 (Basic fee)                                |
| 3 <sup>rd</sup> portion onwards per portion in addition           |               | R200  |
| Consent use   |               | R 1000  |
| Removal, Amendment or suspension of restrictive                   |               | R 1 200   |
| Rezoning (Residential to business or business to                  |               | R500  |
| Temporary closure of street or public space                       |               | R200 non refundable<br>R700 (Refundable depending |
|   |               |   |
|   |               |   |
| <b>General</b>  |               |   |
| Type  |               | Application fee                                   |
| Appeal on decision  |               | R 3000  |
| Zoning certificate  |               | R 100   |
| E-lodgement fee   |               | R0.00   |

- That council take notice that the measurable performance objectives must still be determined for the budget year 2016/2017
- That council notes that the SDBIP will be tabled within 28 days after the approval of the budget, its related schedules and annexures.

Signed by.....  
CLLR T.J. MOTAUNG (MAYOR)

.....  
DATE

## 1.3 EXECUTIVE SUMMARY

### 1.3.1 Background

This budget of Phumelela Local Municipality is compiled in accordance with prescribed legislative frameworks for the MTREF that is due to start on the 1 July 2016 to June 2019. According to section 16(2) of the MFMA, read together with section 215 of the constitution, the Mayor should at least 90 days before the beginning of every financial year table an annual budget for consultation to Council. This budget is, therefore, tabled to Council for consultation as operating and capital budget of the municipality for the financial year 2016/2017 and for the two projected outer years (2017/2018 and 2018/2019).

Section 24 of the MFMA requires that, the municipal council must at least 30 days before the start of the New Year consider the approval of the annual budget. This budget will be approved by the municipal council on/before the 29 June 2016 after incorporating public comments and inputs from the National and Provincial Treasury assessment. This document was prepared with serious consideration of the local socio-economic scene and the continuous increase in unemployment and poor standard of living in our community. The municipality must thus, in collaboration with National and Provincial Departments make initiatives to combat the challenges of poverty, unemployment and inequality through enhancement of projects that will encourage local economic development and other employment creation initiatives to improve lives of its community.

The municipality's cash flow trend is moving towards unsustainability and that it is becoming more and more difficult to honour its financial obligations; this trend is brought about by a combination of factors that include, but is not limited to the following,

- low economic base,
- high unemployment and poverty,
- poor debtors' collection and credit control.
- election calendars interfering with credit control calendar.
- spending money on unfunded mandates that are supposed to be performed by other stakeholders (e.g. Bursaries, extension of EPWP contracts).
- Tariffs that are not cost-reflective
- Absence of a cash-flow management framework

Council's strategy to turn the situation around entails the following:

- Data Cleansing
- Publishing/Blacklisting of defaulters
- Collection of arrears from employees and government employees
- Installation of split/smart electricity meters.
- Replacement of faulty water meters.
- Implementation of the financial recovery plan
- Limiting expenditure to funded mandates
- Review of the municipality's service contracts (e.g. telephone)
- Improved meter reading
- Ensure that all those who can pay for services, are paying.
- Updating the indigent register.

The community has been encouraged to come forth and register as indigents, as and if they qualify in accordance with the set criteria. This will help the municipality in cash forecasting and budget for realisable goals.

Further to addressing the current cash flow challenges as indicated above, we are striving to improve the current status of service delivery through implementation of various cost saving methods and controls.

The following are some of the most overspending expenditure votes that should be seriously controlled: telephone, travel and subsistence, overtime, print and stationery. Below find the measures recommended to bring about prudence and austerity, whilst increasing efficiency.

- Only Provincial or National Government hosted/sponsored conferences should be attended.
- Only Nationally recognised representative and professional structures conferences should be attended.
- In the case of councillors and the Municipal Manager, the Mayor must content to such attendance.
- In the case of s56 Managers, the Municipal Manager must approve attendance beforehand.
- In the case of second reporting line managers, HOD's approve in consultation with the Municipal Manager.
- Unless PLM hosts National Government Departments, no catering shall be provided.
- Introduction of itemised billing for council issued landlines, 3g cards and cell phones to curb abuse.
- Overtime to be worked on a pre-approval basis (Directors to ensure implementation of the policy)
- Implementation of the energy efficiency program

The Office of Budget and Treasury under the auspices of the CFO shall oversee the whole budgeting process, budget implementation and the monitoring thereof. All sections are advised to start saving costs in performing their duties yet maximising their performance. Every employee of the municipality shall take the ownership of this document and ensure maximum service delivery through implementation of the IDP priorities as set.

The municipality continues to provide for free basic water, electricity, sanitation and refuse-removal services but only to indigents and up-to a set benchmark. The following are subsidies provided to indigents.

|                                    |             |
|------------------------------------|-------------|
| • R45 000 rebate on property value | R20. 63 P/M |
| • 6Kl for water                    | R49. 68 P/M |
| • 50 Kwh of electricity            | R75. 17 P/M |
| • 100% Refuse                      | R77. 43 P/M |
| • 100% Sanitation                  | R87. 45 P/M |

For the 2016/2017 MTREF, the indicative allocations for 2017/18 and 2018/19 have been calculated taking into account provisions of circular 79 of the MFMA issued in March 2016. Electricity bulk price increases of 7.84 percent, CPI forecast of 6.6 percent in 2016/2017 and 6.2 percent in 2017/18 and 5.9 percent in 2018/19 as well as household growth in line with the period between 2001 and 2011. These variables will be updated in future budgets to reflect any changes in the growth in prices and/or change in affordability of our communities.

### 1.3.2 Overview

The application of sound financial management principles for the compilation of PLM's financial plan is essential and critical to ensure that PLM remains financially viable and that municipal services are provided sustainably, economically and equitably to all its communities. PLM's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on non-core and 'nice to have' items. This exercise has resulted in shift from the surplus of R579 921 to the surplus of R9 309 for the first financial year of the MTREF. The PLM has also introduced strategic measures to encourage consumers to pay their arrear debt.

National Treasury's MFMA Circular No. 78 and 79 were used to guide the compilation of the 2016/2017 MTREF. The main challenges experienced during the compilation of the 2016/2017 MTREF can be summarised as follows:

- The on-going difficulties in the national and local economy;
- Aging and poorly maintained water, sanitation, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the given income base;
- The increased cost of electricity (due to tariff increases introduced by NERSA). This is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable as there will be a point where services will no longer be affordable; and



- Salary increases for municipal staffs that continue to exceed consumer inflation, as well as the need to fill critical vacancies.

The following budget principles and guidelines directly informed the compilation of the 2016/2017 MTREF:

- The 2015/2016 Mid-year Budget Performance Report priorities and targets, as well as the base line allocations contained in the budget were adopted where applicable as the upper limits for the new baselines for the 2016/2017 annual budget;
- Current service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Where tariffs were increased, affordability and the inflation rate as measured by the CPI were considered, price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk electricity were also considered. In addition, MFMA Circular 78 and 79 were also considered. In these Circulars municipalities are urged to move towards tariffs that are cost reflective, and take into account the need to address infrastructure backlogs;
- There will be no amounts budgeted for national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;
- An upper limit was set for the following items and allocations to these items had to be supported by a list and/or motivation setting out the intention and cost of the expenditure which was used to prioritise expenditures:
  - Special Projects (bursary fund, learnership, etc.) – The budget for bursaries is limited to those already awarded and any if savings are realised will be utilised, for new students and be provided in the adjustment budget.
  - Consultant Fees – This is limited to existing contracts as well as where the municipality does not have the necessary skills.
  - Furniture and office equipment (inventory) - The budget for these is limited to the requirements for new positions and existing staff that do not have furniture
  - Special Events (disaster management, farmers' support);
  - Refreshments and entertainment;
  - Subsistence and Travelling – The budget for this has been centralised in the Municipal Managers office, and all travelling is pre-authorized by him.
  - Overtime – The budget for this item is meant for extreme cases, where no alternative is available

In view of the executive summary, the following table is a consolidated overview of the 2016/2017 Medium-Term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2016/2017 MTREF

| Description           | BUDGET<br>2015/2016 | BUDGET<br>2016/2017 | BUDGET +1<br>2017/2018 | BUDGET +2<br>2018/2019 |
|-----------------------|---------------------|---------------------|------------------------|------------------------|
| Operating Revenue     | 148 372 032         | 125 686 480         | 131 165 311            | 140 510 024            |
| Operating Expenditure | 147 333 468         | 125 635 350         | 131 111 946            | 140 411 556            |
| Surplus/(Deficit)     | 1 038 564           | 51 130              | 53 365                 | 98 467                 |
| Capital Expenditure   | 48 027 000          | 47 529 977          | 55 079 000             | 61 199 000             |

Total operating expenditure for the 2016/2017 financial year has been appropriated at R125.6m and translates into a budgeted surplus of R0,051m. When compared to the 2015/2016, operating surplus is anticipated to decline by 95 percent in the 2016/2017. The operating surplus for the two outer years slightly increases to a surplus of R0.053m in 2017/18 and a surplus of R0.098m is projected for 2018/19, which shows our commitment to service delivery.

The capital budget of R 47.5 m for 2016/2017 is 1.03 percent less when compared to the 2015/2016 Budget. The decrease is due to the slight decrease in funding from the national government for 2016/17. The capital programme slightly increases to R55.079m in the 2017/2018 financial year and then

increases in 2018/2019 to R61.199m. All of these projects (100 percent) of the capital budget will be funded from government grants namely, the Municipal Infrastructure Grant, Regional Bulk Infrastructure Grant, and the Integrated National Electrification Programme Grant. Other projects are not reflected on our budget as they fall within the scope of provincial and national government programmes

### 1.3.3 Operating revenue and expenditure framework

For PLM to continue improving the quality of services provided to its residents it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macro-economic policy;
- Growth in the PLM and continued economic development;
- Efficient revenue management, which aims to eventually achieve an 85 percent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the PLM.
- The municipality's adopted financial recovery plan.

Table 2: The following table is a summary of the 2016/2017 MTREF (classified by main revenue and expenditure source):

| Description  | Ref  | 2012/13         | 2013/14         | 2014/15         | Current Year 2015/16 |                 |                    |                   | 2016/17 Medium Term Revenue & Expenditure Framework |                        |                        |
|--|------|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|---|------------------------|------------------------|
|  |      | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2016/17                                 | Budget Year +1 2017/18 | Budget Year +2 2018/19 |
| <b>Revenue By Source</b>   |      |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Property rates   | 2    | 7,483           | 7,799           | 11,082          | 22,545               | 19,047          | 19,047             | -                 | 11,993  | 12,864                 | 14,876                 |
| Property rates - penalties & collection charges                      |      | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Service charges - electricity revenue                                | 2    | 6,797           | 7,062           | 7,593           | 9,425                | 7,477           | 7,477              | -                 | 9,209   | 9,937                  | 10,712                 |
| Service charges - water revenue                                      | 2    | 4,166           | 5,692           | 7,641           | 11,436               | 7,217           | 7,217              | -                 | 7,710   | 8,285                  | 8,765                  |
| Service charges - sanitation revenue                                 | 2    | 5,642           | 7,032           | 7,606           | 12,790               | 7,500           | 7,500              | -                 | 6,885   | 7,284                  | 7,707                  |
| Service charges - refuse revenue                                     | 2    | 5,987           | 6,869           | 7,536           | 13,057               | 7,374           | 7,374              | -                 | 6,570   | 6,951                  | 7,354                  |
| Service charges - other  |      | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Rental of facilities and equipment                                   |      | 602             | 990             | 771             | 1,915                | 4,258           | 4,258              | -                 | 4,593   | 4,859                  | 5,141                  |
| Interest earned - external investments                               |      | 672             | 546             | 474             | 222                  | 165             | 165                | -                 | 244   | 258                    | 273                    |
| Interest earned - outstanding debtors                                |      | 3,539           | 6,507           | 9,258           | 10,937               | 11,220          | 11,220             | -                 | 11,928  | 12,619                 | 13,351                 |
| Dividends received   |      | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Fines  |      | 108             | 64              | 65              | 66                   | 40              | 40                 | -                 | 75  | 79                     | 84                     |
| Licences and permits   |      | 17              | -               | -               | 18                   | 26              | 26                 | -                 | 28  | 30                     | 31                     |
| Agency services  |      | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Transfers recognised - operational                                   |      | 59,449          | 59,290          | 61,226          | 64,267               | 64,867          | 64,867             | -                 | 62,840  | 63,014                 | 67,197                 |
| Other revenue  | 2    | 490             | 738             | 4,328           | 1,696                | 1,859           | 1,859              | -                 | 3,612   | 3,822                  | 4,043                  |
| Gains on disposal of PPE   |      | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Total Revenue (excluding capital transfers and contributions)</b> |      | <b>94,951</b>   | <b>102,590</b>  | <b>117,578</b>  | <b>148,372</b>       | <b>131,049</b>  | <b>131,049</b>     | <b>-</b>          | <b>125,686</b>                                      | <b>130,002</b>         | <b>139,535</b>         |
| <b>Expenditure By Type</b>   |      |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Employee related costs   | 2    | 44,482          | 46,659          | 47,473          | 53,099               | 54,047          | 54,047             | -                 | 66,871  | 70,967                 | 75,774                 |
| Remuneration of councillors  |      | 4,447           | 4,534           | 4,473           | 4,348                | 4,696           | 4,696              | -                 | 4,805   | 5,093                  | 5,399                  |
| Debt impairment  | 3    | 16,929          | 13,944          | 24,329          | 4,814                | 2,588           | 2,588              | -                 | 1,006   | 1,064                  | 1,126                  |
| Depreciation & asset impairment                                      | 2    | 26,377          | 16,379          | 13,336          | 3,876                | 1,984           | 1,984              | -                 | 1,984   | 2,099                  | 2,221                  |
| Finance charges  |      | 2,027           | 3,225           | 5,002           | 891                  | 3,634           | 3,634              | -                 | 634   | 671                    | 710                    |
| Bulk purchases   | 2    | 17,602          | 14,911          | 17,349          | 18,801               | 23,521          | 23,521             | -                 | 17,125  | 18,392                 | 19,859                 |
| Other materials  | 8    | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Contracted services  |      | 8,176           | 9,148           | 11,815          | 3,500                | 3,500           | 3,500              | -                 | 2,900   | 3,068                  | 3,246                  |
| Transfers and grants   |      | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Other expenditure  | 4, 5 | 30,013          | 25,218          | 37,853          | 58,005               | 36,695          | 36,695             | -                 | 30,311  | 28,594                 | 31,101                 |
| Loss on disposal of PPE  |      | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Total Expenditure</b>   |      | <b>150,053</b>  | <b>134,018</b>  | <b>161,630</b>  | <b>147,333</b>       | <b>130,666</b>  | <b>130,666</b>     | <b>-</b>          | <b>125,635</b>                                      | <b>129,948</b>         | <b>139,436</b>         |
| <b>Surplus/(Deficit)</b>   |      | <b>(55,102)</b> | <b>(31,428)</b> | <b>(44,052)</b> | <b>1,039</b>         | <b>383</b>      | <b>383</b>         | <b>-</b>          | <b>51</b>   | <b>53</b>              | <b>98</b>              |
| Transfers recognised - capital                                       |      | 60,474          | 48,745          | 44,678          | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Contributions recognised - capital                                   | 6    | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Contributed assets   |      | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Surplus/(Deficit) after capital transfers &amp; contributions</b> |      | <b>5,373</b>    | <b>17,316</b>   | <b>626</b>      | <b>1,039</b>         | <b>383</b>      | <b>383</b>         | <b>-</b>          | <b>51</b>   | <b>53</b>              | <b>98</b>              |
| Taxation   |      | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Surplus/(Deficit) after taxation</b>                              |      | <b>5,373</b>    | <b>17,316</b>   | <b>626</b>      | <b>1,039</b>         | <b>383</b>      | <b>383</b>         | <b>-</b>          | <b>51</b>   | <b>53</b>              | <b>98</b>              |
| Attributable to minorities   |      | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Surplus/(Deficit) attributable to municipality</b>                |      | <b>5,373</b>    | <b>17,316</b>   | <b>626</b>      | <b>1,039</b>         | <b>383</b>      | <b>383</b>         | <b>-</b>          | <b>51</b>   | <b>53</b>              | <b>98</b>              |
| Share of surplus/ (deficit) of associate                             | 7    | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Surplus/(Deficit) for the year</b>                                |      | <b>5,373</b>    | <b>17,316</b>   | <b>626</b>      | <b>1,039</b>         | <b>383</b>      | <b>383</b>         | <b>-</b>          | <b>51</b>   | <b>53</b>              | <b>98</b>              |

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfer and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit. Revenue generated from rates and service charges forms a significant part of the revenue base of the PLM. Rates and service charge revenues comprise just above half of the total revenue mix.

In the 2016/2017 financial year, revenue from rates and services charges totalled R42, 367m or 33.36 percent of the operating revenue. This increases to R45, 320m and R49, 413m in the respective financial years of the MTREF; this will be achieved through robust implementation of debt collection and credit control policy. A notable trend of continuous increase in the total percentage revenue is envisaged to be generated from rates and services charges. This growth can be mainly attributed to an increase in the number of farms that are to be billed. The above table takes into account revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality.

The PLM's expenditure framework for the 2016/2017 budget and MTREF is informed by the following:

- Repairs and maintenance backlogs;
- Balancing the budget (operating expenditure should not exceed operating revenue unless there are existing uncommitted cash-backed reserves to fund any deficit);
- Funding of the budget over the medium term as informed by Section 18 and 19 of the MFMA;

- The capital programme and backlog eradication; and
- Funding the capital budget and other core services by operational gains and efficiencies.

The budgeted allocation for employee related costs for the 2016/2017 financial year totals R66, 871m, which equals 52.68 percent of the total operating expenditure. Based on the MFMA circular 78, salaries have been budgeted at a rate of 7 percent for the 2016/2017 and annual increase of 6.8 percent in the two outer years of the MTREF respectively. Please note that these costs are the combination of salaries, social contributions and allowances. As part of the PLM's cost reprioritization and cash management strategy, vacancies have been significantly restructured. Most vacancies of critical and strategic positions were filled and that were not filled were also taken into account when this budget was compiled. In addition, expenditure against overtime was significantly reduced, with provisions against this budget item only being provided for emergency services and other critical functions.

The cost associated with the remuneration and allowances of councillors were determined by the Minister of Cooperative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, no. 20 of 1998. This expenditure item is curbed at R4, 805m representing 4 percent of the operating budget. In compiling the salary budget for Councillors, an increase was provided based on the most recent proclamation.

Finance charges consist primarily of the repayment of interest (cost of capital) on long term annuity loans. This interest makes up 0.5 percent (R0.634m) of the operating expenditure excluding annual redemption for 2016/2017 and increases to R0.710m by 2018/2019.

Bulk purchases are directly informed by the purchase of electricity and water from Eskom and Department of Water Affairs respectively. The annual price increases have been accounted for in the budget appropriations and directly inform the revenue provisions. The expenditure includes distribution losses resulting from illegal connections, faulty meters and tempering. Bulk purchases are budgeted at R13, 603m and R3.521m for electricity and water respectively which totals to 19.9 percent of the overall operating expenditure.

Contracted services have been identified as a cost saving area for the PLM. As part of the compilation of the 2016/2017 MTREF this group of expenditure was critically evaluated and operational efficiencies were enforced. Contracted services constitute only R2.9m representing 2.3 percent of the total operating expenditure.

Other expenditure comprises of repairs and maintenance, operational provisions and various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved and is budgeted at R31, 611m or 24.9 percent of the operating budget

Operating grants and transfers totals R62, 8m in the 2016/2017 financial year, and increases to R63, 01m by 2017/18 and R67, 1m in 2018/2019.

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the PLM. National Treasury continues to encourage municipalities to ensure that rates, tariffs and other charges are cost-reflective yet keeping increases as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 6 percent upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increase of Eskom bulk tariffs is far beyond the mentioned inflation target. Given that, these tariff increases are determined by external agencies, the impact they have on the municipality's electricity tariffs are largely outside the control of the PLM. Discounting the impact of these price increases by lowering consumer tariffs is one of the factor that has led to the erosion of the PLM's future financial position and viability.

It must also be appreciated that the inflation, as measured by consumer price index (CPI), is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and

services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity, petrol, diesel, chemicals, cement etc. The current challenge facing the PLM is managing the gap between these cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions.

### 1.3.4 Capital expenditure

Table 3: Detailed capital budget per individual project

| 8<br>R thousand  | Ref<br>4 | Program/Project description                                      | IDP Goal code<br>2 | Individual<br>y<br>Approved<br>6 | Asset Class<br>3                | 2016/17 Medium Term Revenue & Expenditure Framework |                           |                           |
|--|----------|--|--------------------|----------------------------------|---------------------------------|---|---------------------------|---------------------------|
|  |          |  |                    |                                  |                                 | Budget Year<br>2016/17                              | Budget Year<br>+1 2017/18 | Budget Year<br>+2 2018/19 |
| <b>Parent municipality:</b>                                |          |  |                    |                                  |                                 |   |                           |                           |
| <i>List all capital projects grouped by Municipal Vote</i> |          |  |                    |                                  |                                 |   |                           |                           |
| Town Planning  |          | <b>PMU Allocation</b>  |                    | Yes                              | Community                       | 1,005   | 1,073                     | 1,237                     |
| Water Distribution   |          | Construction of water network in Zamani Ext 6 (Ward 1 & 8)       |                    | Yes                              | Infrastructure - Water          | 2,752   | 5,664                     | 4,600                     |
| Roads  |          | Vrede/Thembalihle Paved Road (Ward 3 and 4)                      |                    | Yes                              | Infrastructure - Road transport | 2,217   | 5,800                     | 3,200                     |
| Water Distribution   |          | 3,5MI Reservoir in Thembalihle Ext 4 (Ward 3)                    |                    | Yes                              | Infrastructure - Water          | 7,771   | -                         | -                         |
| Water Distribution   |          | Memel/Zamani Connection of bulk water to Households (Ward 1 & 8) |                    | Yes                              | Infrastructure - Water          | 800   | -                         | -                         |
| Roads  |          | Memel/ Zamani Connecting Bridge (Ward 1 & 8)                     |                    | Yes                              | Infrastructure - Road transport | -   | -                         | -                         |
| Roads  |          | Warden/Ezenzeleni Paved Road (Ward 6 and 7)                      |                    | Yes                              | Infrastructure - Road transport | 1,320   | 3,880                     | 1,796                     |
| Sports facilities  |          | Warden/Ezenzeleni Sport Facility PH2 (Ward 6 and 7)              |                    | Yes                              | Community                       | 1,204   | 1,090                     | 1,657                     |
| Sports facilities  |          | Sport Facilities (Ward 3)  |                    | Yes                              | Community                       | 1,000   | -                         | -                         |
| Town Planning  |          | High mast lights in Thembalihle Ext 4 (Ward 3)                   |                    |                                  | Community                       | 750   | -                         | -                         |
| Roads  |          | Foot Bridge in Zamani and Thembalihle (Ward 3 and 1)             |                    | Yes                              | Infrastructure - Road transport | 500   | -                         | 4,201                     |
| Roads  |          | Upgrading/Maintenance of Municipal roads (Ward 3)                |                    | Yes                              | Infrastructure - Road transport | -   | -                         | 3,000                     |
| Cemeteries   |          | Fencing Municipal cemeteries (Ward 3)                            |                    | Yes                              | Community                       | -   | 2,859                     | 2,507                     |
| Roads  |          | Retention Paved Road in Memel/ Zamani (Ward 1 and 8)             |                    | Yes                              | Infrastructure - Road transport | 254   | -                         | 287                       |
| Water Distribution   |          | 3,5MI Reservoir in Thembalihle Ext 4 (Ward 3)                    |                    | Yes                              | Infrastructure - Water          | 301   | 1,098                     | -                         |
| Sports facilities  |          | Sport Facilities (Ward 3)  |                    | Yes                              | Community                       | 216   | -                         | -                         |
| Water Distribution   |          | Construction of Dam in Warden (ward 1 and 8)                     |                    | Yes                              | Infrastructure - Water          | 27,440  | 28,616                    | 28,715                    |
| <b>Electricity Distribution</b>                            |          | Electrification (ward 6 and 7)                                   |                    | Yes                              | Infrastructure - Electricity    | -   | 5,000                     | 10,000                    |

In 2016/2017 an amount of R47.530m has been appropriated for the development of infrastructure around the three units of the municipality. An amount equal to R20.090m of the overall funding of these projects will be received from MIG and R27.4.m from RBIG. Water infrastructure receives the highest allocation of R36.561m equalling 76.92 percent of the total capital budget.

### 1.4 ANNUAL BUDGET TABLES- PARENT MUNICIPALITY

The following pages present the ten main budget tables as required in terms of regulation 8 of the Municipal Budget and Reporting Regulations-Part 2 regulation 6. These tables set out the municipality's 2016/2017 budget and MTREF as tabled to the Council. Each table is accompanied by explanatory notes.

Table 4 (Table A1) – Budget Summary

FS195 Phumelela - Table A1 Budget Summary

| Description  | 2012/13         | 2013/14         | 2014/15         | Current Year 2015/16 |                 |                    |                   | 2016/17 Medium Term Revenue & Expenditure Framework |                        |                        |
|--|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|---|------------------------|------------------------|
|  | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2016/17                                 | Budget Year +1 2017/18 | Budget Year +2 2018/19 |
| <b>R thousands</b>   |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| <b>Financial Performance</b>   |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Property rates   | 7,483           | 7,799           | 11,082          | 22,545               | 19,047          | 19,047             | -                 | 11,993  | 12,864                 | 14,876                 |
| Service charges  | 22,592          | 26,656          | 30,375          | 46,707               | 29,567          | 29,567             | -                 | 30,374  | 32,457                 | 34,537                 |
| Investment revenue   | 672             | 546             | 474             | 222                  | 165             | 165                | -                 | 244   | 258                    | 273                    |
| Transfers recognised - operational                                   | 59,449          | 59,290          | 61,226          | 64,267               | 64,867          | 64,867             | -                 | 62,840  | 63,014                 | 67,197                 |
| Other own revenue  | 4,755           | 8,299           | 14,421          | 14,632               | 17,403          | 17,403             | -                 | 20,236  | 21,409                 | 22,651                 |
| <b>Total Revenue (excluding capital transfers and contributions)</b> | <b>94,951</b>   | <b>102,590</b>  | <b>117,578</b>  | <b>148,372</b>       | <b>131,049</b>  | <b>131,049</b>     | <b>-</b>          | <b>125,686</b>                                      | <b>130,002</b>         | <b>139,535</b>         |
| Employee costs   | 44,482          | 46,659          | 47,473          | 53,099               | 54,047          | 54,047             | -                 | 66,871  | 70,967                 | 75,774                 |
| Remuneration of councillors  | 4,447           | 4,534           | 4,473           | 4,348                | 4,696           | 4,696              | -                 | 4,805   | 5,093                  | 5,399                  |
| Depreciation & asset impairment                                      | 26,377          | 16,379          | 13,336          | 3,876                | 1,984           | 1,984              | -                 | 1,984   | 2,099                  | 2,221                  |
| Finance charges  | 2,027           | 3,225           | 5,002           | 891                  | 3,634           | 3,634              | -                 | 634   | 671                    | 710                    |
| Materials and bulk purchases   | 17,602          | 14,911          | 17,349          | 18,801               | 23,521          | 23,521             | -                 | 17,125  | 18,392                 | 19,859                 |
| Transfers and grants   | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Other expenditure  | 55,118          | 48,310          | 73,997          | 66,318               | 42,783          | 42,783             | -                 | 34,217  | 32,727                 | 35,473                 |
| <b>Total Expenditure</b>   | <b>150,053</b>  | <b>134,018</b>  | <b>161,630</b>  | <b>147,333</b>       | <b>130,666</b>  | <b>130,666</b>     | <b>-</b>          | <b>125,635</b>                                      | <b>129,948</b>         | <b>139,436</b>         |
| <b>Surplus/(Deficit)</b>   | <b>(55,102)</b> | <b>(31,428)</b> | <b>(44,052)</b> | <b>1,039</b>         | <b>383</b>      | <b>383</b>         | <b>-</b>          | <b>51</b>   | <b>53</b>              | <b>98</b>              |
| Transfers recognised - capital                                       | 60,474          | 48,745          | 44,678          | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Contributions recognised - capital & contributed a                   | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Surplus/(Deficit) after capital transfers &amp; contributions</b> | <b>5,373</b>    | <b>17,316</b>   | <b>626</b>      | <b>1,039</b>         | <b>383</b>      | <b>383</b>         | <b>-</b>          | <b>51</b>   | <b>53</b>              | <b>98</b>              |
| Share of surplus/ (deficit) of associate                             | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Surplus/(Deficit) for the year</b>                                | <b>5,373</b>    | <b>17,316</b>   | <b>626</b>      | <b>1,039</b>         | <b>383</b>      | <b>383</b>         | <b>-</b>          | <b>51</b>   | <b>53</b>              | <b>98</b>              |
| <b>Capital expenditure &amp; funds sources</b>                       |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| <b>Capital expenditure</b>   | <b>86,684</b>   | <b>64,403</b>   | <b>62,782</b>   | <b>48,292</b>        | <b>33,720</b>   | <b>33,720</b>      | <b>-</b>          | <b>47,530</b>                                       | <b>55,079</b>          | <b>61,199</b>          |
| Transfers recognised - capital                                       | 86,684          | 64,403          | 62,782          | 48,027               | 33,455          | 33,455             | -                 | 47,530  | 55,079                 | 61,199                 |
| Public contributions & donations                                     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Borrowing  | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Internally generated funds   | -               | -               | -               | 265                  | 265             | 265                | -                 | -   | -                      | -                      |
| <b>Total sources of capital funds</b>                                | <b>86,684</b>   | <b>64,403</b>   | <b>62,782</b>   | <b>48,292</b>        | <b>33,720</b>   | <b>33,720</b>      | <b>-</b>          | <b>47,530</b>                                       | <b>55,079</b>          | <b>61,199</b>          |
| <b>Financial position</b>  |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Total current assets   | 3,346           | 23,158          | 15,238          | 25,272               | 15,857          | 15,857             | -                 | (7,305)   | (8,977)                | (10,325)               |
| Total non current assets   | 557,286         | 523,609         | 540,737         | 602,517              | 602,517         | 602,517            | -                 | 662,098   | 708,097                | 757,298                |
| Total current liabilities  | 62,731          | 96,689          | 106,513         | 1,739                | 1,739           | 1,739              | -                 | 944   | 945                    | 1,007                  |
| Total non current liabilities  | 19,813          | 19,238          | 18,004          | 27,913               | 27,913          | 27,913             | -                 | 31,816  | 37,844                 | 45,345                 |
| Community wealth/Equity  | 478,088         | 430,840         | 431,460         | 598,138              | 588,723         | 588,723            | -                 | 622,034   | 660,331                | 700,621                |
| <b>Cash flows</b>  |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Net cash from (used) operating                                       | 54,135          | 59,057          | 62,259          | 62,639               | 49,601          | 49,601             | -                 | 26,647  | 54,205                 | 60,704                 |
| Net cash from (used) investing                                       | (64,551)        | (64,360)        | (62,779)        | (48,292)             | (33,720)        | (33,720)           | -                 | (47,530)  | (55,079)               | (61,199)               |
| Net cash from (used) financing                                       | 2,600           | (1,725)         | (1,390)         | (9,756)              | (9,756)         | (9,756)            | -                 | (920)   | (985)                  | (1,053)                |
| <b>Cash/cash equivalents at the year end</b>                         | <b>(1,245)</b>  | <b>4,615</b>    | <b>2,706</b>    | <b>6,191</b>         | <b>(1,691)</b>  | <b>(1,691)</b>     | <b>-</b>          | <b>(25,028)</b>                                     | <b>(26,887)</b>        | <b>(28,435)</b>        |
| <b>Cash backing/surplus reconciliation</b>                           |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Cash and investments available                                       | (3,198)         | 4,615           | 2,706           | 8,191                | 309             | 309                | -                 | (22,888)  | (24,597)               | (25,985)               |
| Application of cash and investments                                  | 56,790          | 89,639          | 90,504          | (11,536)             | (11,902)        | (11,902)           | -                 | (8,991)   | (9,546)                | (9,575)                |
| <b>Balance - surplus (shortfall)</b>                                 | <b>(59,989)</b> | <b>(85,024)</b> | <b>(87,798)</b> | <b>19,727</b>        | <b>12,211</b>   | <b>12,211</b>      | <b>-</b>          | <b>(13,897)</b>                                     | <b>(15,051)</b>        | <b>(16,410)</b>        |
| <b>Asset management</b>  |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Asset register summary (WDV)   | 556,750         | 523,116         | 540,248         | 602,517              | 602,517         | 602,517            | 662,098           | 662,098   | 708,097                | 757,298                |
| Depreciation & asset impairment                                      | 26,377          | 16,379          | 13,336          | 3,876                | 1,984           | 1,984              | 1,984             | 1,984   | 2,099                  | 2,221                  |
| Renewal of Existing Assets   | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Repairs and Maintenance  | 12,630          | 7,888           | 18,711          | 8,321                | 1,984           | 1,984              | 7,580             | 7,580   | 6,394                  | 7,308                  |
| <b>Free services</b>   |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Cost of Free Basic Services provided                                 | -               | 1,553           | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Revenue cost of free services provided                               | -               | -               | (0)             | 8,615                | 5,100           | 5,100              | -                 | -   | 7,707                  | 8,061                  |
| <b>Households below minimum service level</b>                        |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Water:   | -               | -               | -               | 0                    | 0               | 0                  | 0                 | 0   | 0                      | 0                      |
| Sanitation/sewerage:   | -               | -               | -               | 0                    | 0               | 0                  | -                 | -   | -                      | -                      |
| Energy:  | -               | -               | -               | 2                    | 2               | 2                  | 2                 | 2   | 2                      | 2                      |
| Refuse:  | -               | -               | -               | 2                    | 2               | 2                  | 2                 | 2   | 2                      | 2                      |

Explanatory notes on Table A1 – Budget Summary

1. Table A1 is a budget summary and provides a concise overview of the municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flows, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.

3. Financial Management reforms emphasises the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow, as well as the capital budget. The Budget Summary provides the key information in this regard:
  - a. The operating surplus/deficit (after Total Expenditure) is positive over the MTREF
  - b. Capital expenditure is balanced by capital funding sources, of which
    - i. Transfers recognised is reflected in the Financial Performance Budget;
    - ii. Borrowing is incorporated in the net cash from financing in the Cash Flow Budget;
    - iii. Internally generated funds are financed from a combination of the current operating surplus, accumulated cash-backed surpluses from previous years and envisaged budget year revenue collection. The amount is incorporated in the Net cash from investing in the Cash Flow Budget. The fact that the municipality's cash flow remains positive, and is improving, indicates that the necessary cash resources are available to fund the Capital Budget.
4. The cash backing/surplus reconciliation shows that in previous financial years the municipality was not paying much attention to managing this aspect of its finances, and consequently many of its obligations were not cash-backed. This has placed the municipality in a very vulnerable financial position. Consequently Council has taken a deliberate decision to ensure adequate cash-backing for all material obligations. It can therefore be seen that over the MTREF there is progressive improvement in the level of cash-backing of obligations showing an ultimate surplus.
5. Even though the council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of Free Services shows that the amount spent on Free Basic Services and the revenue cost of free services provided by the municipality continues to increase. In addition, the municipality continues to make progress in addressing service delivery backlogs

Table 5 (Table A2) Budgeted Financial Performance (revenue and expenditure by standard classification)  
 FS195 Phumelela - Table A2 Budgeted Financial Performance (revenue and expenditure by standard classification)

| Standard Classification Description        | Ref | 2012/13         | 2013/14         | 2014/15         | Current Year 2015/16 |                 |                    | 2016/17 Medium Term Revenue & Expenditure Framework |                        |                        |
|--|-----|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
|  |     | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2016/17                                 | Budget Year +1 2017/18 | Budget Year +2 2018/19 |
| <b>Revenue - Standard</b>                  | 1   |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>Governance and administration</b>       |     | 106,490         | 118,221         | 114,684         | 84,788               | 84,705          | 84,705             | 76,805  | 77,930                 | 84,197                 |
| Executive and council                      |     | -               | -               | 16              | 3,378                | 3,378           | 3,378              | 3,522   | 3,699                  | 3,886                  |
| Budget and treasury office                 |     | 106,490         | 117,112         | 113,402         | 79,172               | 76,329          | 76,329             | 66,488  | 67,042                 | 72,704                 |
| Corporate services                         |     | -               | 1,110           | 1,267           | 2,239                | 4,999           | 4,999              | 6,796   | 7,190                  | 7,607                  |
| <b>Community and public safety</b>         |     | 100             | 197             | 929             | 255                  | 240             | 240                | 287   | 304                    | 321                    |
| Community and social services              |     | -               | 135             | 865             | 188                  | 200             | 200                | 212   | 225                    | 237                    |
| Sport and recreation                       |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Public safety                              |     | 100             | 62              | 64              | 66                   | 40              | 40                 | 75  | 79                     | 84                     |
| Housing                                    |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Health                                     |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| <b>Economic and environmental services</b> |     | 26,794          | 81              | 31              | 36                   | 36              | 36                 | 38  | 40                     | 42                     |
| Planning and development                   |     | 26,794          | 81              | 31              | 36                   | 36              | 36                 | 38  | 40                     | 42                     |
| Road transport                             |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Environmental protection                   |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| <b>Trading services</b>                    |     | 22,042          | 32,835          | 46,612          | 63,293               | 46,068          | 46,068             | 48,556  | 51,728                 | 54,974                 |
| Electricity                                |     | 9,863           | 7,958           | 16,047          | 13,703               | 11,672          | 11,672             | 11,679  | 12,584                 | 13,560                 |
| Water                                      |     | 5,059           | 7,265           | 9,986           | 17,500               | 13,278          | 13,278             | 12,486  | 13,338                 | 14,111                 |
| Waste water management                     |     | 7,120           | 8,833           | 10,274          | 15,936               | 10,646          | 10,646             | 12,510  | 13,235                 | 14,003                 |
| Waste management                           |     | -               | 8,779           | 10,306          | 16,155               | 10,472          | 10,472             | 11,881  | 12,570                 | 13,299                 |
| <b>Other</b>                               | 4   | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| <b>Total Revenue - Standard</b>            | 2   | 155,426         | 151,334         | 162,257         | 148,372              | 131,049         | 131,049            | 125,686   | 130,002                | 139,535                |
| <b>Expenditure - Standard</b>              |     |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>Governance and administration</b>       |     | 97,161          | 51,868          | 48,721          | 63,141               | 57,092          | 57,092             | 54,472  | 56,478                 | 60,572                 |
| Executive and council                      |     | 4,561           | 12,032          | 18,785          | 22,668               | 18,709          | 18,709             | 18,728  | 19,758                 | 20,980                 |
| Budget and treasury office                 |     | 92,601          | 31,089          | 19,538          | 30,125               | 27,385          | 27,385             | 22,390  | 22,489                 | 24,466                 |
| Corporate services                         |     | -               | 8,748           | 10,398          | 10,348               | 10,999          | 10,999             | 13,354  | 14,231                 | 15,125                 |
| <b>Community and public safety</b>         |     | 4,163           | 4,545           | 4,279           | 3,332                | 3,540           | 3,540              | 4,211   | 4,761                  | 5,330                  |
| Community and social services              |     | -               | 2,657           | 2,059           | 1,424                | 1,439           | 1,439              | 1,642   | 2,007                  | 2,384                  |
| Sport and recreation                       |     | 1,103           | 1,158           | 1,136           | 1,239                | 1,328           | 1,328              | 1,642   | 1,757                  | 1,880                  |
| Public safety                              |     | 3,040           | 690             | 1,084           | 669                  | 773             | 773                | 927   | 997                    | 1,066                  |
| Housing                                    |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Health                                     |     | 20              | 40              | -               | -                    | -               | -                  | -   | -                      | -                      |
| <b>Economic and environmental services</b> |     | 15,848          | 14,284          | 28,302          | 14,689               | 13,252          | 13,252             | 14,484  | 14,797                 | 15,666                 |
| Planning and development                   |     | 14,106          | 12,159          | 26,680          | 10,689               | 10,252          | 10,252             | 11,984  | 12,797                 | 13,666                 |
| Road transport                             |     | 1,742           | 2,125           | 1,622           | 4,000                | 3,000           | 3,000              | 2,500   | 2,000                  | 2,000                  |
| Environmental protection                   |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| <b>Trading services</b>                    |     | 32,881          | 63,321          | 80,328          | 66,172               | 56,782          | 56,782             | 52,468  | 53,913                 | 57,869                 |
| Electricity                                |     | 16,911          | 19,169          | 20,020          | 27,021               | 22,855          | 22,855             | 16,294  | 18,245                 | 19,708                 |
| Water                                      |     | 9,922           | 17,510          | 23,636          | 21,000               | 16,548          | 16,548             | 17,544  | 15,877                 | 16,975                 |
| Waste water management                     |     | 6,047           | 16,099          | 19,562          | 9,571                | 9,136           | 9,136              | 10,386  | 10,992                 | 11,792                 |
| Waste management                           |     | -               | 10,543          | 17,110          | 8,579                | 8,243           | 8,243              | 8,244   | 8,800                  | 9,393                  |
| <b>Other</b>                               | 4   | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| <b>Total Expenditure - Standard</b>        | 3   | 150,053         | 134,018         | 161,630         | 147,333              | 130,666         | 130,666            | 125,635   | 129,948                | 139,436                |
| <b>Surplus/(Deficit) for the year</b>      |     | 5,373           | 17,316          | 626             | 1,039                | 383             | 383                | 51  | 53                     | 98                     |

Explanatory notes to Table 5 (Table A2) – Budgeted Financial Performance (revenue and expenditure by standard classification)

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms of these functional areas which enables the National treasury to compile 'whole of government' reports.
2. Note the Total revenue in this table excludes capital revenues and therefore will not balance to the operating revenue which includes capital transfers shown in Table A4.
3. Note that as a general principle the revenues for the trading services should exceed their expenditures.
4. Other functions that show a deficit between revenue and expenditure are being financed from rates revenue sources reflected under the Budget and Treasury office.



Table 6 (Table A3) – Budgeted Financial Performance (revenue and expenditure by municipal vote)

FS195 Phumelela - Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)

| Vote Description                               | Ref | 2012/13         | 2013/14         | 2014/15         | Current Year 2015/16 |                 |                    | 2016/17 Medium Term Revenue & Expenditure Framework |                        |                        |
|--|-----|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
|  |     | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2016/17                                 | Budget Year +1 2017/18 | Budget Year +2 2018/19 |
| <b>Revenue by Vote</b>                         | 1   |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Vote 1 - Council And Executive                 |     | -               | -               | 16              | 3,378                | 3,378           | 3,378              | 3,522   | 3,699                  | 3,886                  |
| Vote 2 - Financial And Administration Services |     | 106,490         | 118,221         | 114,668         | 81,411               | 81,328          | 81,328             | 73,283  | 74,231                 | 80,311                 |
| Vote 3 - Planning and Development              |     | 26,794          | 81              | 31              | 36                   | 36              | 36                 | 38  | 40                     | 42                     |
| Vote 5 - Community and Social Services         |     | -               | 135             | 865             | 188                  | 200             | 200                | 212   | 225                    | 237                    |
| Vote 6 - Public Safety                         |     | 100             | 62              | 64              | 66                   | 40              | 40                 | 75  | 79                     | 84                     |
| Vote 7 - Sports and Recreation                 |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Vote 8 - Waste Management                      |     | -               | 8,779           | 10,306          | 16,155               | 10,472          | 10,472             | 11,881  | 12,570                 | 13,299                 |
| Vote 9 - Waste Water Management                |     | 7,120           | 8,833           | 10,274          | 15,936               | 10,646          | 10,646             | 12,510  | 13,235                 | 14,003                 |
| Vote 10 - Road Transport                       |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Vote 11 - Water                                |     | 5,059           | 7,265           | 9,986           | 17,500               | 13,278          | 13,278             | 12,486  | 13,338                 | 14,111                 |
| Vote 12 - Electricity                          |     | 9,863           | 7,958           | 16,047          | 13,703               | 11,672          | 11,672             | 11,679  | 12,584                 | 13,560                 |
| Vote 12 - Health                               |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Vote 13 - [NAME OF VOTE 13]                    |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Vote 14 - [NAME OF VOTE 14]                    |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Vote 15 - [NAME OF VOTE 15]                    |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| <b>Total Revenue by Vote</b>                   | 2   | <b>155,426</b>  | <b>151,334</b>  | <b>162,257</b>  | <b>148,372</b>       | <b>131,049</b>  | <b>131,049</b>     | <b>125,686</b>                                      | <b>130,002</b>         | <b>139,535</b>         |
| <b>Expenditure by Vote to be appropriated</b>  | 1   |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Vote 1 - Council And Executive                 |     | 4,561           | 12,032          | 18,785          | 26,183               | 22,291          | 22,291             | 21,614  | 22,785                 | 24,169                 |
| Vote 2 - Financial And Administration Services |     | 92,601          | 39,836          | 29,936          | 37,908               | 35,774          | 35,774             | 33,832  | 34,722                 | 37,493                 |
| Vote 3 - Planning and Development              |     | 14,106          | 12,159          | 26,680          | 9,739                | 9,279           | 9,279              | 11,010  | 11,767                 | 12,576                 |
| Vote 5 - Community and Social Services         |     | -               | 2,657           | 2,059           | 1,424                | 1,439           | 1,439              | 1,642   | 2,007                  | 2,384                  |
| Vote 6 - Public Safety                         |     | 3,040           | 690             | 1,084           | 669                  | 773             | 773                | 927   | 997                    | 1,066                  |
| Vote 7 - Sports and Recreation                 |     | 1,103           | 1,158           | 1,136           | 1,239                | 1,328           | 1,328              | 1,642   | 1,757                  | 1,880                  |
| Vote 8 - Waste Management                      |     | -               | 10,543          | 17,110          | 8,579                | 8,243           | 8,243              | 8,244   | 8,800                  | 9,393                  |
| Vote 9 - Waste Water Management                |     | 6,047           | 16,099          | 19,562          | 9,571                | 9,136           | 9,136              | 10,386  | 10,992                 | 11,792                 |
| Vote 10 - Road Transport                       |     | 1,762           | 2,125           | 1,622           | 4,000                | 3,000           | 3,000              | 2,500   | 2,000                  | 2,000                  |
| Vote 11 - Water                                |     | 9,922           | 17,510          | 23,636          | 21,000               | 16,548          | 16,548             | 17,544  | 15,877                 | 16,975                 |
| Vote 12 - Electricity                          |     | 16,911          | 19,169          | 20,020          | 27,021               | 22,855          | 22,855             | 16,294  | 18,245                 | 19,708                 |
| Vote 12 - Health                               |     | -               | 40              | -               | -                    | -               | -                  | -   | -                      | -                      |
| Vote 13 - [NAME OF VOTE 13]                    |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Vote 14 - [NAME OF VOTE 14]                    |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Vote 15 - [NAME OF VOTE 15]                    |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| <b>Total Expenditure by Vote</b>               | 2   | <b>150,053</b>  | <b>134,018</b>  | <b>161,630</b>  | <b>147,333</b>       | <b>130,666</b>  | <b>130,666</b>     | <b>125,635</b>                                      | <b>129,948</b>         | <b>139,436</b>         |
| <b>Surplus/(Deficit) for the year</b>          | 2   | <b>5,373</b>    | <b>17,316</b>   | <b>626</b>      | <b>1,039</b>         | <b>383</b>      | <b>383</b>         | <b>51</b>   | <b>53</b>              | <b>98</b>              |

Explanatory notes to Table 6 (Table A3) – Budgeted Financial Performance (revenue and expenditure by municipal vote)

1. Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of Phumelela Local Municipality. This means it is possible to present the operating surplus or deficit per a particular vote.

Table 7 (Table A4) – Budgeted Financial Performance (revenue and expenditure)

FS195 Phumelela - Table A4 Budgeted Financial Performance (revenue and expenditure)

| Description  | Ref  | 2012/13         | 2013/14         | 2014/15         | Current Year 2015/16 |                 |                    |                   | 2016/17 Medium Term Revenue & Expenditure Framework |                        |                        |
|--|------|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|---|------------------------|------------------------|
|  |      | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2016/17                                 | Budget Year +1 2017/18 | Budget Year +2 2018/19 |
| <b>Revenue By Source</b>   |      |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Property rates   | 2    | 7,483           | 7,799           | 11,082          | 22,545               | 19,047          | 19,047             | -                 | 11,993  | 12,864                 | 14,876                 |
| Property rates - penalties & collection charges                      |      | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Service charges - electricity revenue                                | 2    | 6,797           | 7,062           | 7,593           | 9,425                | 7,477           | 7,477              | -                 | 9,209   | 9,937                  | 10,712                 |
| Service charges - water revenue                                      | 2    | 4,166           | 5,692           | 7,641           | 11,436               | 7,217           | 7,217              | -                 | 7,710   | 8,285                  | 8,765                  |
| Service charges - sanitation revenue                                 | 2    | 5,642           | 7,032           | 7,606           | 12,790               | 7,500           | 7,500              | -                 | 6,885   | 7,284                  | 7,707                  |
| Service charges - refuse revenue                                     | 2    | 5,987           | 6,869           | 7,536           | 13,057               | 7,374           | 7,374              | -                 | 6,570   | 6,951                  | 7,354                  |
| Service charges - other  |      | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Rental of facilities and equipment                                   |      | 602             | 990             | 771             | 1,915                | 4,258           | 4,258              | -                 | 4,593   | 4,859                  | 5,141                  |
| Interest earned - external investments                               |      | 672             | 546             | 474             | 222                  | 165             | 165                | -                 | 244   | 258                    | 273                    |
| Interest earned - outstanding debtors                                |      | 3,539           | 6,507           | 9,258           | 10,937               | 11,220          | 11,220             | -                 | 11,928  | 12,619                 | 13,351                 |
| Dividends received   |      | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Fines  |      | 108             | 64              | 65              | 66                   | 40              | 40                 | -                 | 75  | 79                     | 84                     |
| Licences and permits   |      | 17              | -               | -               | 18                   | 26              | 26                 | -                 | 28  | 30                     | 31                     |
| Agency services  |      | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Transfers recognised - operational                                   |      | 59,449          | 59,290          | 61,226          | 64,267               | 64,867          | 64,867             | -                 | 62,840  | 63,014                 | 67,197                 |
| Other revenue  | 2    | 490             | 738             | 4,328           | 1,696                | 1,859           | 1,859              | -                 | 3,612   | 3,822                  | 4,043                  |
| Gains on disposal of PPE   |      | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Total Revenue (excluding capital transfers and contributions)</b> |      | <b>94,951</b>   | <b>102,590</b>  | <b>117,578</b>  | <b>148,372</b>       | <b>131,049</b>  | <b>131,049</b>     | <b>-</b>          | <b>125,686</b>                                      | <b>130,002</b>         | <b>139,535</b>         |
| <b>Expenditure By Type</b>   |      |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Employee related costs   | 2    | 44,482          | 46,659          | 47,473          | 53,099               | 54,047          | 54,047             | -                 | 66,871  | 70,967                 | 75,774                 |
| Remuneration of councillors  |      | 4,447           | 4,534           | 4,473           | 4,348                | 4,696           | 4,696              | -                 | 4,805   | 5,093                  | 5,399                  |
| Debt impairment  | 3    | 16,929          | 13,944          | 24,329          | 4,814                | 2,588           | 2,588              | -                 | 1,006   | 1,064                  | 1,126                  |
| Depreciation & asset impairment                                      | 2    | 26,377          | 16,379          | 13,336          | 3,876                | 1,984           | 1,984              | -                 | 1,984   | 2,099                  | 2,221                  |
| Finance charges  |      | 2,027           | 3,225           | 5,002           | 891                  | 3,634           | 3,634              | -                 | 634   | 671                    | 710                    |
| Bulk purchases   | 2    | 17,602          | 14,911          | 17,349          | 18,801               | 23,521          | 23,521             | -                 | 17,125  | 18,392                 | 19,859                 |
| Other materials  | 8    | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Contracted services  |      | 8,176           | 9,148           | 11,815          | 3,500                | 3,500           | 3,500              | -                 | 2,900   | 3,068                  | 3,246                  |
| Transfers and grants   |      | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Other expenditure  | 4, 5 | 30,013          | 25,218          | 37,853          | 58,005               | 36,695          | 36,695             | -                 | 30,311  | 28,594                 | 31,101                 |
| Loss on disposal of PPE  |      | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Total Expenditure</b>   |      | <b>150,053</b>  | <b>134,018</b>  | <b>161,630</b>  | <b>147,333</b>       | <b>130,666</b>  | <b>130,666</b>     | <b>-</b>          | <b>125,635</b>                                      | <b>129,948</b>         | <b>139,436</b>         |
| <b>Surplus/(Deficit)</b>   |      | <b>(55,102)</b> | <b>(31,428)</b> | <b>(44,052)</b> | <b>1,039</b>         | <b>383</b>      | <b>383</b>         | <b>-</b>          | <b>51</b>   | <b>53</b>              | <b>98</b>              |
| Transfers recognised - capital                                       |      | 60,474          | 48,745          | 44,678          | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Contributions recognised - capital                                   |      | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Contributed assets   |      | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Surplus/(Deficit) after capital transfers &amp; contributions</b> |      | <b>5,373</b>    | <b>17,316</b>   | <b>626</b>      | <b>1,039</b>         | <b>383</b>      | <b>383</b>         | <b>-</b>          | <b>51</b>   | <b>53</b>              | <b>98</b>              |
| Taxation   |      | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Surplus/(Deficit) after taxation</b>                              |      | <b>5,373</b>    | <b>17,316</b>   | <b>626</b>      | <b>1,039</b>         | <b>383</b>      | <b>383</b>         | <b>-</b>          | <b>51</b>   | <b>53</b>              | <b>98</b>              |
| Attributable to minorities   |      | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Surplus/(Deficit) attributable to municipality</b>                |      | <b>5,373</b>    | <b>17,316</b>   | <b>626</b>      | <b>1,039</b>         | <b>383</b>      | <b>383</b>         | <b>-</b>          | <b>51</b>   | <b>53</b>              | <b>98</b>              |
| Share of surplus/ (deficit) of associate                             | 7    | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Surplus/(Deficit) for the year</b>                                |      | <b>5,373</b>    | <b>17,316</b>   | <b>626</b>      | <b>1,039</b>         | <b>383</b>      | <b>383</b>         | <b>-</b>          | <b>51</b>   | <b>53</b>              | <b>98</b>              |

Explanatory notes to Table 7 (Table A4)

1. Total revenue is envisaged to be R125, 686m, escalates to R130, 002m in 2017/18 and R139, 535m in 2018/19.
2. Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government. It needs to be noted that in real terms the grants receipts from national government are declining steadily over the MTREF.
3. Employee related costs and bulk purchases are the main cost drivers within the municipality and alternative operational gains and efficiencies will have to be identified to lessen the impact of wage and bulk tariff increases in the future years, yet saving employment.

Table 8 (Table A5) – Budgeted Capital Expenditure by vote, standard classification and funding source  
 FS195 Phumelela - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

| Vote Description                                  | Ref | 2012/13         | 2013/14         | 2014/15         | Current Year 2015/16 |                 |                    |                   | 2016/17 Medium Term Revenue & Expenditure Framework |                        |                        |
|---|-----|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|---|------------------------|------------------------|
|   |     | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2016/17                                 | Budget Year +1 2017/18 | Budget Year +2 2018/19 |
| <b>Capital expenditure - Vote</b>                 |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| <b>Multi-year expenditure to be appropriated</b>  | 2   |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Vote 1 - Council And Executive                    |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 2 - Financial And Administration Services    |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 3 - Planning and Development                 |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 5 - Community and Social Services            |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 6 - Public Safety                            |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 7 - Sports and Recreation                    |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 8 - Waste Management                         |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 9 - Waste Water Management                   |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 10 - Road Transport                          |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 11 - Water                                   |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 12 - Electricity                             |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 12 - Health                                  |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 13 - [NAME OF VOTE 13]                       |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 14 - [NAME OF VOTE 14]                       |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 15 - [NAME OF VOTE 15]                       |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Capital multi-year expenditure sub-total</b>   | 7   | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Single-year expenditure to be appropriated</b> | 2   |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Vote 1 - Council And Executive                    |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 2 - Financial And Administration Services    |     | 2,835           | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 3 - Planning and Development                 |     | -               | 160             | 796             | 1,223                | 1,223           | 1,223              | -                 | 1,005   | 1,073                  | 1,237                  |
| Vote 5 - Community and Social Services            |     | -               | -               | -               | 65                   | 65              | 65                 | -                 | -   | 2,859                  | 2,507                  |
| Vote 6 - Public Safety                            |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 7 - Sports and Recreation                    |     | 4,042           | 3,705           | 8,823           | 3,409                | 3,409           | 3,409              | -                 | 2,421   | 1,090                  | 1,657                  |
| Vote 8 - Waste Management                         |     | 1,500           | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 9 - Waste Water Management                   |     | 20,275          | 4,527           | 14,994          | 3,500                | 3,500           | 3,500              | -                 | -   | -                      | -                      |
| Vote 10 - Road Transport                          |     | 3,907           | 6,147           | 21,743          | 6,201                | 6,201           | 6,201              | -                 | 4,291   | 15,344                 | 17,084                 |
| Vote 11 - Water                                   |     | 49,625          | 49,864          | 10,113          | 26,294               | 11,722          | 11,722             | -                 | 39,064  | 29,714                 | 28,715                 |
| Vote 12 - Electricity                             |     | 4,500           | -               | 6,314           | 7,600                | 7,600           | 7,600              | -                 | 750   | 5,000                  | 10,000                 |
| Vote 12 - Health                                  |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 13 - [NAME OF VOTE 13]                       |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 14 - [NAME OF VOTE 14]                       |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Vote 15 - [NAME OF VOTE 15]                       |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Capital single-year expenditure sub-total</b>  |     | 86,684          | 64,403          | 62,782          | 48,292               | 33,720          | 33,720             | -                 | 47,530  | 55,079                 | 61,199                 |
| <b>Total Capital Expenditure - Vote</b>           |     | 86,684          | 64,403          | 62,782          | 48,292               | 33,720          | 33,720             | -                 | 47,530  | 55,079                 | 61,199                 |
| <b>Capital Expenditure - Standard</b>             |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| <b>Governance and administration</b>              |     | 2,835           | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Executive and council                             |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Budget and treasury office                        |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Corporate services                                |     | 2,835           | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Community and public safety</b>                |     | 4,042           | 3,705           | 8,823           | 3,474                | 3,474           | 3,474              | -                 | 2,421   | 3,949                  | 4,164                  |
| Community and social services                     |     | -               | -               | -               | 65                   | 65              | 65                 | -                 | -   | 2,859                  | 2,507                  |
| Sport and recreation                              |     | 4,042           | 3,705           | 8,823           | 3,409                | 3,409           | 3,409              | -                 | 2,421   | 1,090                  | 1,657                  |
| Public safety                                     |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Housing   |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Health  |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Economic and environmental services</b>        |     | 3,907           | 6,307           | 22,539          | 7,424                | 7,424           | 7,424              | -                 | 5,296   | 16,417                 | 18,321                 |
| Planning and development                          |     | -               | 160             | 796             | 1,223                | 1,223           | 1,223              | -                 | 1,005   | 1,073                  | 1,237                  |
| Road transport                                    |     | 3,907           | 6,147           | 21,743          | 6,201                | 6,201           | 6,201              | -                 | 4,291   | 15,344                 | 17,084                 |
| Environmental protection                          |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Trading services</b>                           |     | 75,900          | 54,391          | 31,420          | 37,394               | 22,822          | 22,822             | -                 | 39,814  | 34,714                 | 38,715                 |
| Electricity                                       |     | 4,500           | -               | 6,314           | 7,600                | 7,600           | 7,600              | -                 | 750   | 5,000                  | 10,000                 |
| Water   |     | 49,625          | 49,864          | 10,113          | 26,294               | 11,722          | 11,722             | -                 | 39,064  | 29,714                 | 28,715                 |
| Waste water management                            |     | 20,275          | 4,527           | 14,994          | 3,500                | 3,500           | 3,500              | -                 | -   | -                      | -                      |
| Waste management                                  |     | 1,500           | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Other</b>                                      |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Total Capital Expenditure - Standard</b>       | 3   | 86,684          | 64,403          | 62,782          | 48,292               | 33,720          | 33,720             | -                 | 47,530  | 55,079                 | 61,199                 |
| <b>Funded by:</b>                                 |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| National Government                               |     | 26,624          | 64,403          | 62,782          | 48,027               | 33,455          | 33,455             | -                 | 47,530  | 55,079                 | 61,199                 |
| Provincial Government                             |     | 56,942          | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| District Municipality                             |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Other transfers and grants                        |     | 3,118           | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Transfers recognised - capital</b>             | 4   | 86,684          | 64,403          | 62,782          | 48,027               | 33,455          | 33,455             | -                 | 47,530  | 55,079                 | 61,199                 |
| <b>Public contributions &amp; donations</b>       | 5   | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Borrowing</b>                                  | 6   | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Internally generated funds</b>                 |     | -               | -               | -               | 265                  | 265             | 265                | -                 | -   | -                      | -                      |
| <b>Total Capital Funding</b>                      | 7   | 86,684          | 64,403          | 62,782          | 48,292               | 33,720          | 33,720             | -                 | 47,530  | 55,079                 | 61,199                 |

Explanatory notes to Table 8 (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 (multi-year and single year appropriations); 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.

- The MFMA provides that a municipality may approve multi-year or single-year budget appropriations. A total of R47.530m has been allocated for the 2016/17 financial year, R55.079m for the 2017/18 financial year and flattens out to R61.199m in the 2018/19 financial year.
- The capital programme is funded from capital transfers from national and provincial government.

Table 9 (Table A6) – Budgeted Financial Position

| FS 195 Phumelela - Table A6 Budgeted Financial Position |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
|---|-----|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|---|------------------------|------------------------|
| Description   | Ref | 2012/13         | 2013/14         | 2014/15         | Current Year 2015/16 |                 |                    |                   | 2016/17 Medium Term Revenue & Expenditure Framework |                        |                        |
|   |     | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2016/17                                 | Budget Year +1 2017/18 | Budget Year +2 2018/19 |
| <b>ASSETS</b>   |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| <b>Current assets</b>                                   |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Cash  |     | (1,245)         | 4,615           | 2,706           | 6,191                | (1,691)         | (1,691)            | -                 | (25,028)  | (26,887)               | (28,435)               |
| Call investment deposits                                | 1   | -               | -               | -               | 2,000                | 2,000           | 2,000              | -                 | 2,140   | 2,290                  | 2,450                  |
| Consumer debtors  | 1   | 1,190           | 6,164           | 9,400           | 16,582               | 15,048          | 15,048             | -                 | 15,048  | 15,048                 | 15,048                 |
| Other debtors   |     | 2,708           | 2,986           | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Current portion of long-term receivables                |     | -               | 8,781           | 1,070           | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Inventory   | 2   | 693             | 612             | 2,062           | 500                  | 500             | 500                | -                 | 535   | 572                    | 613                    |
| <b>Total current assets</b>                             |     | <b>3,346</b>    | <b>23,158</b>   | <b>15,238</b>   | <b>25,272</b>        | <b>15,857</b>   | <b>15,857</b>      | <b>-</b>          | <b>(7,305)</b>                                      | <b>(8,977)</b>         | <b>(10,325)</b>        |
| <b>Non current assets</b>                               |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Long-term receivables                                   |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Investments   |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Investment property                                     |     | 19,975          | 17,955          | 17,528          | -                    | -               | -                  | -                 | 17,405  | 18,275                 | 19,189                 |
| Investment in Associate                                 |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Property, plant and equipment                           | 3   | 536,728         | 505,161         | 522,720         | 602,517              | 602,517         | 602,517            | -                 | 644,694   | 689,822                | 738,110                |
| Agricultural  |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Biological  |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Intangible  |     | 48              | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Other non-current assets                                |     | 536             | 493             | 489             | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Total non current assets</b>                         |     | <b>557,286</b>  | <b>523,609</b>  | <b>540,737</b>  | <b>602,517</b>       | <b>602,517</b>  | <b>602,517</b>     | <b>-</b>          | <b>662,098</b>                                      | <b>708,097</b>         | <b>757,298</b>         |
| <b>TOTAL ASSETS</b>                                     |     | <b>560,632</b>  | <b>546,767</b>  | <b>555,976</b>  | <b>627,790</b>       | <b>618,374</b>  | <b>618,374</b>     | <b>-</b>          | <b>654,793</b>                                      | <b>699,120</b>         | <b>746,973</b>         |
| <b>LIABILITIES</b>                                      |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| <b>Current liabilities</b>                              |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Bank overdraft  | 1   | 1,953           | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Borrowing   | 4   | -               | 1,332           | 1,251           | 917                  | 917             | 917                | -                 | 64  | 4                      | 0                      |
| Consumer deposits                                       |     | 232             | 233             | 242             | 822                  | 822             | 822                | -                 | 879   | 941                    | 1,007                  |
| Trade and other payables                                | 4   | 60,545          | 93,863          | 103,646         | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Provisions  |     | -               | 1,260           | 1,374           | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Total current liabilities</b>                        |     | <b>62,731</b>   | <b>96,689</b>   | <b>106,513</b>  | <b>1,739</b>         | <b>1,739</b>    | <b>1,739</b>       | <b>-</b>          | <b>944</b>  | <b>945</b>             | <b>1,007</b>           |
| <b>Non current liabilities</b>                          |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Borrowing   |     | -               | 302             | -               | 3,559                | 3,559           | 3,559              | -                 | 2,591   | 2,774                  | 3,261                  |
| Provisions  |     | 19,813          | 18,937          | 18,004          | 24,354               | 24,354          | 24,354             | -                 | 29,225  | 35,070                 | 42,084                 |
| <b>Total non current liabilities</b>                    |     | <b>19,813</b>   | <b>19,238</b>   | <b>18,004</b>   | <b>27,913</b>        | <b>27,913</b>   | <b>27,913</b>      | <b>-</b>          | <b>31,816</b>                                       | <b>37,844</b>          | <b>45,345</b>          |
| <b>TOTAL LIABILITIES</b>                                |     | <b>82,544</b>   | <b>115,927</b>  | <b>124,516</b>  | <b>29,651</b>        | <b>29,651</b>   | <b>29,651</b>      | <b>-</b>          | <b>32,760</b>                                       | <b>38,789</b>          | <b>46,352</b>          |
| <b>NET ASSETS</b>                                       | 5   | <b>478,088</b>  | <b>430,840</b>  | <b>431,460</b>  | <b>598,138</b>       | <b>588,723</b>  | <b>588,723</b>     | <b>-</b>          | <b>622,034</b>                                      | <b>660,331</b>         | <b>700,621</b>         |
| <b>COMMUNITY WEALTH/EQUITY</b>                          |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Accumulated Surplus/(Deficit)                           |     | 478,088         | 430,840         | 431,460         | 598,138              | 588,723         | 588,723            | -                 | 622,034   | 660,331                | 700,621                |
| Reserves  | 4   | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>TOTAL COMMUNITY WEALTH/EQUITY</b>                    | 5   | <b>478,088</b>  | <b>430,840</b>  | <b>431,460</b>  | <b>598,138</b>       | <b>588,723</b>  | <b>588,723</b>     | <b>-</b>          | <b>622,034</b>                                      | <b>660,331</b>         | <b>700,621</b>         |

Explanatory notes to table 9 (Table A6) – Budget Financial Position

- Table A6 is consistent with international standards of good financial management practice, and improves understanding for councillors and management of the impact of the budget on the statement of financial position (balance sheet).
- This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets and Liabilities as “accounting” Community Wealth or Equity. The order of items within each group illustrates requirements to be met from cash, and appears first.
- Table A6 provides a detailed analysis of the major components of a number of items, including:
  - Call investments deposits;
  - Consumer debtors;
  - Property, plant and equipment;
  - Trade and other payables;
  - Non-current Provisions;
  - Changes in net assets; and
  - Reserves
- The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.

5. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalent at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. 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 informed directly by forecasting the statement of financial position.

Table 10 (Table A7) – Budgeted Cash Flow Statement

| FS195 Phumelela - Table A7 Budgeted Cash Flows    |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
|---|-----|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|---|------------------------|------------------------|
| Description                                       | Ref | 2012/13         | 2013/14         | 2014/15         | Current Year 2015/16 |                 |                    |                   | 2016/17 Medium Term Revenue & Expenditure Framework |                        |                        |
|   |     | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2016/17                                 | Budget Year +1 2017/18 | Budget Year +2 2018/19 |
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>        |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| <b>Receipts</b>                                   |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Property rates, penalties & collection charges    |     | 7,799           | 6,683           | 7,520           | 18,036               | 17,083          | 17,083             | –                 | 9,594   | 11,396                 | 12,976                 |
| Service charges                                   |     | 25,030          | 11,982          | 44,282          | 37,365               | 29,567          | 29,567             | –                 | 24,162  | 24,342                 | 25,903                 |
| Other revenue                                     |     | 727             | 1,071           | 12,693          | 2,956                | 5,565           | 5,565              | –                 | 3,648   | 6,592                  | 6,975                  |
| Government - operating                            | 1   | 61,339          | 65,059          | 62,964          | 64,267               | 64,867          | 64,867             | –                 | 62,840  | 63,014                 | 67,197                 |
| Government - capital                              | 1   | 57,656          | 43,372          | 41,976          | 48,027               | 33,027          | 33,027             | –                 | 47,530  | 55,079                 | 61,199                 |
| Interest  |     | 672             | 7,052           | 9,731           | 8,927                | 10,247          | 10,247             | –                 | 9,129   | 9,658                  | 10,219                 |
| Dividends   |     | –               | –               | –               | –                    | –               | –                  | –                 | –   | –                      | –                      |
| <b>Payments</b>                                   |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Suppliers and employees                           |     | (97,061)        | (72,938)        | (111,905)       | (116,048)            | (106,230)       | (106,230)          | –                 | (129,621)   | (115,206)              | (123,055)              |
| Finance charges                                   |     | (2,027)         | (3,225)         | (5,002)         | (891)                | (4,525)         | (4,525)            | –                 | (634)   | (671)                  | (710)                  |
| Transfers and Grants                              | 1   | –               | –               | –               | –                    | –               | –                  | –                 | –   | –                      | –                      |
| <b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>  |     | <b>54,135</b>   | <b>59,057</b>   | <b>62,259</b>   | <b>62,639</b>        | <b>49,601</b>   | <b>49,601</b>      | <b>–</b>          | <b>26,647</b>                                       | <b>54,205</b>          | <b>60,704</b>          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>       |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| <b>Receipts</b>                                   |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Proceeds on disposal of PPE                       |     | –               | 43              | 4               | –                    | –               | –                  | –                 | –   | –                      | –                      |
| Decrease (Increase) in non-current debtors        |     | –               | –               | –               | –                    | –               | –                  | –                 | –   | –                      | –                      |
| Decrease (increase) other non-current receivables |     | –               | –               | –               | –                    | –               | –                  | –                 | –   | –                      | –                      |
| Decrease (increase) in non-current investments    |     | –               | –               | –               | –                    | –               | –                  | –                 | –   | –                      | –                      |
| <b>Payments</b>                                   |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Capital assets                                    |     | (64,551)        | (64,403)        | (62,782)        | (48,292)             | (33,720)        | (33,720)           | –                 | (47,530)  | (55,079)               | (61,199)               |
| <b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>  |     | <b>(64,551)</b> | <b>(64,360)</b> | <b>(62,779)</b> | <b>(48,292)</b>      | <b>(33,720)</b> | <b>(33,720)</b>    | <b>–</b>          | <b>(47,530)</b>                                     | <b>(55,079)</b>        | <b>(61,199)</b>        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>       |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| <b>Receipts</b>                                   |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Short term loans                                  |     | –               | –               | –               | –                    | –               | –                  | –                 | –   | –                      | –                      |
| Borrowing long term/refinancing                   |     | –               | –               | –               | –                    | –               | –                  | –                 | –   | –                      | –                      |
| Increase (decrease) in consumer deposits          |     | –               | –               | –               | –                    | –               | –                  | –                 | –   | –                      | –                      |
| <b>Payments</b>                                   |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Repayment of borrowing                            |     | 2,600           | (1,725)         | (1,390)         | (9,756)              | (9,756)         | (9,756)            | –                 | (920)   | (985)                  | (1,053)                |
| <b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>  |     | <b>2,600</b>    | <b>(1,725)</b>  | <b>(1,390)</b>  | <b>(9,756)</b>       | <b>(9,756)</b>  | <b>(9,756)</b>     | <b>–</b>          | <b>(920)</b>  | <b>(985)</b>           | <b>(1,053)</b>         |
| <b>NET INCREASE/ (DECREASE) IN CASH HELD</b>      |     | <b>(7,816)</b>  | <b>(7,029)</b>  | <b>(1,910)</b>  | <b>4,590</b>         | <b>6,125</b>    | <b>6,125</b>       | <b>–</b>          | <b>(21,803)</b>                                     | <b>(1,859)</b>         | <b>(1,549)</b>         |
| Cash/cash equivalents at the year begin:          | 2   | 6,571           | 11,644          | 4,615           | 1,600                | (7,815)         | (7,815)            | –                 | (3,225)   | (25,028)               | (26,887)               |
| Cash/cash equivalents at the year end:            | 2   | (1,245)         | 4,615           | 2,706           | 6,191                | (1,691)         | (1,691)            | –                 | (25,028)  | (26,887)               | (28,435)               |

Explanatory notes to Table 10 (Table A7) - Budgeted Cash Flow Statement

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
3. The 2016/17 MTREF has been informed by the planning principle of ensuring adequate cash reserves over the medium-term

Table 11 (Table A8) – Cash Backed Reserves/Accumulated Surplus Reconciliation

FS195 Phumelela - Table A8 Cash backed reserves/accumulated surplus reconciliation

| Description                                       | Ref | 2012/13         | 2013/14         | 2014/15         | Current Year 2015/16 |                 |                    |                   | 2016/17 Medium Term Revenue & Expenditure Framework |                        |                        |
|---|-----|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|---|------------------------|------------------------|
|   |     | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2016/17                                 | Budget Year +1 2017/18 | Budget Year +2 2018/19 |
| <b>Cash and investments available</b>             |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Cash/cash equivalents at the year end             | 1   | (1,245)         | 4,615           | 2,706           | 6,191                | (1,691)         | (1,691)            | -                 | (25,028)  | (26,887)               | (28,435)               |
| Other current investments > 90 days               |     | (1,953)         | -               | -               | 2,000                | 2,000           | 2,000              | -                 | 2,140   | 2,290                  | 2,450                  |
| Non current assets - Investments                  | 1   | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Cash and investments available:</b>            |     | <b>(3,198)</b>  | <b>4,615</b>    | <b>2,706</b>    | <b>8,191</b>         | <b>309</b>      | <b>309</b>         | <b>-</b>          | <b>(22,888)</b>                                     | <b>(24,597)</b>        | <b>(25,985)</b>        |
| <b>Application of cash and investments</b>        |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Unspent conditional transfers                     |     | 907             | 3,244           | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Unspent borrowing                                 |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Statutory requirements                            | 2   | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Other working capital requirements                | 3   | 55,884          | 86,396          | 90,504          | (11,536)             | (11,902)        | (11,902)           | -                 | (8,991)   | (9,546)                | (9,575)                |
| Other provisions                                  |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Long term investments committed                   | 4   | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Reserves to be backed by cash/investments         | 5   | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Total Application of cash and investments:</b> |     | <b>56,790</b>   | <b>89,639</b>   | <b>90,504</b>   | <b>(11,536)</b>      | <b>(11,902)</b> | <b>(11,902)</b>    | <b>-</b>          | <b>(8,991)</b>                                      | <b>(9,546)</b>         | <b>(9,575)</b>         |
| <b>Surplus(shortfall)</b>                         |     | <b>(59,989)</b> | <b>(85,024)</b> | <b>(87,798)</b> | <b>19,727</b>        | <b>12,211</b>   | <b>12,211</b>      | <b>-</b>          | <b>(13,897)</b>                                     | <b>(15,051)</b>        | <b>(16,410)</b>        |

Explanatory notes to Table 11 (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. In essence the table evaluates 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. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality’s budget must be “funded”.
4. Compliance with section 18 of the MFMA is assumed because a surplus indirectly indicates that the annual budget is appropriately funded.
5. As part of the budgeting and planning guidelines that informed the compilation of the 2016/17 MTREF the end objective of the medium-term framework was to ensure the budget is funded in alignment to section 18 of the MFMA.

Table 12 (Table A9) – Asset Management

FS195 Phumelela - Table A9 Asset Management

| Description   | Ref  | 2012/13         | 2013/14         | 2014/15         | Current Year 2015/16 |                 |                    | 2016/17 Medium Term Revenue & Expenditure Framework |                        |                        |
|---|------|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
|   |      | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2016/17                                 | Budget Year +1 2017/18 | Budget Year +2 2018/19 |
| <b>R thousand</b>                                     |      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>CAPITAL EXPENDITURE</b>                            |      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>Total New Assets</b>                               | 1    | 86,684          | 64,403          | 62,782          | 48,292               | 33,720          | 33,720             | 47,530  | 55,079                 | 61,199                 |
| Infrastructure - Road transport                       |      | 3,907           | 6,147           | 21,743          | 6,201                | 6,201           | 6,201              | 4,291   | 15,344                 | 17,084                 |
| Infrastructure - Electricity                          |      | 4,500           | -               | 6,314           | 7,600                | 7,600           | 7,600              | 500   | 5,000                  | 10,000                 |
| Infrastructure - Water                                |      | 49,625          | 49,864          | 10,113          | 26,294               | 11,722          | 11,722             | 39,314  | 29,714                 | 28,715                 |
| Infrastructure - Sanitation                           |      | 20,275          | 4,527           | 14,994          | 3,500                | 3,500           | 3,500              | -   | -                      | -                      |
| Infrastructure - Other                                |      | 1,500           | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Infrastructure  |      | 79,807          | 60,538          | 53,164          | 43,595               | 29,022          | 29,022             | 44,105  | 50,057                 | 55,799                 |
| Community   |      | 4,042           | 3,866           | 9,619           | 3,409                | 3,409           | 3,409              | 2,421   | 3,949                  | 4,164                  |
| Heritage assets                                       |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Investment properties                                 |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Other assets  | 6    | 2,835           | -               | -               | 1,288                | 1,288           | 1,288              | 1,004   | 1,073                  | 1,237                  |
| Agricultural Assets                                   |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Biological assets                                     |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Intangibles   |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| <b>Total Renewal of Existing Assets</b>               | 2    | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Infrastructure - Road transport                       |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Infrastructure - Electricity                          |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Infrastructure - Water                                |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Infrastructure - Sanitation                           |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Infrastructure - Other                                |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Infrastructure  |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Community   |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Heritage assets                                       |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Investment properties                                 |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Other assets  | 6    | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Agricultural Assets                                   |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Biological assets                                     |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Intangibles   |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| <b>Total Capital Expenditure</b>                      | 4    | 86,684          | 64,403          | 62,782          | 48,292               | 33,720          | 33,720             | 47,530  | 55,079                 | 61,199                 |
| Infrastructure - Road transport                       |      | 3,907           | 6,147           | 21,743          | 6,201                | 6,201           | 6,201              | 4,291   | 15,344                 | 17,084                 |
| Infrastructure - Electricity                          |      | 4,500           | -               | 6,314           | 7,600                | 7,600           | 7,600              | 500   | 5,000                  | 10,000                 |
| Infrastructure - Water                                |      | 49,625          | 49,864          | 10,113          | 26,294               | 11,722          | 11,722             | 39,314  | 29,714                 | 28,715                 |
| Infrastructure - Sanitation                           |      | 20,275          | 4,527           | 14,994          | 3,500                | 3,500           | 3,500              | -   | -                      | -                      |
| Infrastructure - Other                                |      | 1,500           | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Infrastructure  |      | 79,807          | 60,538          | 53,164          | 43,595               | 29,022          | 29,022             | 44,105  | 50,057                 | 55,799                 |
| Community   |      | 4,042           | 3,866           | 9,619           | 3,409                | 3,409           | 3,409              | 2,421   | 3,949                  | 4,164                  |
| Heritage assets                                       |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Investment properties                                 |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Other assets  | 6    | 2,835           | -               | -               | 1,288                | 1,288           | 1,288              | 1,004   | 1,073                  | 1,237                  |
| Agricultural Assets                                   |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Biological assets                                     |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Intangibles   |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| <b>TOTAL CAPITAL EXPENDITURE - Asset class</b>        | 2    | 86,684          | 64,403          | 62,782          | 48,292               | 33,720          | 33,720             | 47,530  | 55,079                 | 61,199                 |
| <b>ASSET REGISTER SUMMARY - PPE (WDV)</b>             |      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Infrastructure - Road transport                       | 5    | 190,320         | 40,598          | 51,191          | 161,509              | 161,509         | 161,509            | 165,800   | 181,144                | 198,228                |
| Infrastructure - Electricity                          |      | 9,427           | 2,930           | 2,747           | 37,967               | 37,967          | 37,967             | 38,467  | 43,467                 | 53,467                 |
| Infrastructure - Water                                |      | 205,019         | 84,996          | 81,599          | 177,856              | 177,856         | 177,856            | 217,170   | 246,883                | 275,598                |
| Infrastructure - Sanitation                           |      | 87,490          | 48,587          | 46,578          | 198,557              | 198,557         | 198,557            | 198,557   | 198,557                | 198,557                |
| Infrastructure - Other                                |      | 41,638          | 2,924           | 2,924           | 26,628               | 26,628          | 26,628             | 23,695  | 15,839                 | 8,517                  |
| Infrastructure  |      | 533,893         | 180,035         | 185,039         | 602,517              | 602,517         | 602,517            | 643,689   | 685,890                | 734,366                |
| Community   |      | -               | 325,126         | 337,681         | -                    | -               | -                  | -   | -                      | -                      |
| Heritage assets                                       |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Investment properties                                 |      | 19,975          | 17,955          | 17,528          | -                    | -               | -                  | 17,405  | 18,275                 | 19,189                 |
| Other assets  |      | 2,835           | -               | -               | -                    | -               | -                  | 1,005   | 3,932                  | 3,743                  |
| Agricultural Assets                                   |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Biological assets                                     |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Intangibles   |      | 48              | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| <b>TOTAL ASSET REGISTER SUMMARY - PPE (WDV)</b>       | 5    | 556,750         | 523,116         | 540,248         | 602,517              | 602,517         | 602,517            | 662,098   | 708,097                | 757,298                |
| <b>EXPENDITURE OTHER ITEMS</b>                        |      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Depreciation & asset impairment                       |      | 26,377          | 16,379          | 13,336          | 3,876                | 1,984           | 1,984              | 1,984   | 2,099                  | 2,221                  |
| Repairs and Maintenance by Asset Class                | 3    | 12,630          | 7,888           | 18,711          | 8,321                | 1,984           | 1,984              | 7,580   | 6,394                  | 7,308                  |
| Infrastructure - Road transport                       |      | 5,981           | 3,735           | 8,860           | 3,940                | -               | -                  | 2,500   | 2,000                  | 2,000                  |
| Infrastructure - Electricity                          |      | 1,189           | 742             | 1,761           | 783                  | 184             | 184                | 500   | 529                    | 560                    |
| Infrastructure - Water                                |      | 1,901           | 1,187           | 2,816           | 1,252                | 800             | 800                | 2,347   | 1,596                  | 2,289                  |
| Infrastructure - Sanitation                           |      | 1,392           | 869             | 2,062           | 917                  | 500             | 500                | 1,150   | 1,123                  | 1,248                  |
| Infrastructure - Other                                |      | 352             | 220             | 522             | 232                  | 500             | 500                | 620   | 656                    | 694                    |
| Infrastructure  |      | 10,814          | 6,754           | 16,021          | 7,124                | 1,984           | 1,984              | 7,117   | 5,904                  | 6,790                  |
| Community   |      | 1,816           | 1,134           | 2,690           | -                    | -               | -                  | -   | -                      | -                      |
| Heritage assets                                       |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Investment properties                                 |      | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Other assets  | 6, 7 | -               | -               | -               | 1,196                | -               | -                  | 463   | 490                    | 518                    |
| <b>TOTAL EXPENDITURE OTHER ITEMS</b>                  |      | 39,007          | 24,268          | 32,047          | 12,197               | 3,967           | 3,967              | 9,563   | 8,493                  | 9,529                  |
| <b>Renewal of Existing Assets as % of total capex</b> |      | 0.0%            | 0.0%            | 0.0%            | 0.0%                 | 0.0%            | 0.0%               | 0.0%  | 0.0%                   | 0.0%                   |
| <b>Renewal of Existing Assets as % of deprecn"</b>    |      | 0.0%            | 0.0%            | 0.0%            | 0.0%                 | 0.0%            | 0.0%               | 0.0%  | 0.0%                   | 0.0%                   |
| <b>R&amp;M as a % of PPE</b>                          |      | 2.4%            | 1.6%            | 3.6%            | 1.4%                 | 0.3%            | 0.3%               | 1.2%  | 0.9%                   | 1.0%                   |
| <b>Renewal and R&amp;M as a % of PPE</b>              |      | 2.0%            | 2.0%            | 3.0%            | 1.0%                 | 0.0%            | 0.0%               | 1.0%  | 1.0%                   | 1.0%                   |

## Explanatory notes to Table 12 (Table A9) – Asset Management

1. Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.
2. National Treasury has recommended that municipalities should allocate at least 40 percent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be at least 10% of PPE. Phumelela Local Municipality does not meet any of these recommendations. The reason for this is that the capital budget of the municipality is funded in the form of conditional grants, and these can only be used for new assets as opposed to being used for the renewal of existing assets.

## Part 2 – Supporting Documentation

### 2.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition, Chapter 2 regulation 4 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and Senior Managers, Budget Manager, IDP Manager of the municipality meeting under the chairpersonship of the Council Committee for Finance.

The primary aim of the Budget Steering Committee is to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the PLM's IDP and the budget, taking into account the need to protect the financial sustainability of the municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- That the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

#### 2.1.1 IDP, Service Delivery and Budget Implementation Plan

This is the fifth review of the IDP as adopted by council in May 2011. It started in September 2015 after the tabling of the IDP Process Plan and the Budget Time Schedule for the 2016/17 MTREF in August 2015.

The PLM's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly informs the Service Delivery and Budget Implementation Plan. The Process Plan applicable to the fifth revision cycle included the following Key IDP Processes and deliverables:

- Registration of community needs;
- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring process.

The IDP has been taken into a business and financial planning process leading up to the 2016/17 MTREF, based on the approved 2015/16 MTREF and the Mid-year review. The business planning process has



subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2016/2017 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the Mid-year performance against the 2015/2016 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detailed operating budget appropriations and three-year capital programme.

### 2.1.2 Financial Modelling and Key Planning Drivers

As part of the compilation of the 2016/2017 MTREF, an extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of this MTREF:

- Municipality growth
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e. inflation)
- Performance trends
- The approved 2015/2016 budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 78 and 79 has been taken into consideration in the planning and prioritisation process.

### 2.1.3 Community Consultation

The Budget 2016/2017 MTREF as will be tabled before Council on 30 March 2016 for community consultation will be published on the municipality's website, and hard copies made available at municipal offices and other community centres. In addition budget road shows will be held in different municipal clusters. Inputs will also be collected via e-mails.

All documents in the appropriate format (electronic and printed) will be provided to National Treasury, and other national and provincial departments in accordance with section 23 of the MFMA, to provide an opportunity for them to make inputs.

Submissions received during the community consultation process and additional information regarding revenue and expenditure and individual capital projects will be addressed, and where relevant considered as part of the finalisation of the 2016/2017 MTREF.

## 2.2 Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in

the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the Municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the Municipality strategically complies with the key national and provincial priorities.

The aim of this revision cycle was to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the Municipality’s response to these requirements.

The national and provincial priorities, policies and strategies of importance include amongst others:

- Green Paper on National Strategic Planning of 2009;
- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (PGDS);
- National and Provincial spatial development perspectives;
- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPIs);
- Accelerated and Shared Growth Initiative of South Africa (ASGISA);
- National 2014 Vision;
- National Spatial Development Perspective (NSDP);
- The National Priority Outcomes; and
- National Development Plan

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP. The following table highlights the IDP’s six strategic objectives for the 2016/2017 MTREF and further planning refinements that have directly informed the compilation of the budget:

Table 16 – IDP Strategic Objectives

| 2016/17 Financial Year   |
|--|
| 1. Provision of quality basic services and infrastructure<br>2. Economic growth and development that leads to sustainable job creation<br>3.1 Fight poverty and build clean, healthy, safe and sustainable communities<br>3.2 Integrated Social Services for empowered and sustainable communities<br>4. Foster participatory democracy and Batho-Pele principles through a caring, accessible and accountable service<br>5.1 Promote sound governance<br>5.2 Ensure financial sustainability<br>5.3 Optimal institutional transformation to ensure capacity to achieve set objectives |

In order to ensure integrated and focused service delivery between all spheres of government it was important for the PLM to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

Local priorities were identified as part of the IDP review process which is directly aligned to that of the national and provincial priorities. The key performance areas can be summarised as follows against the five strategic objectives:

1. Provision of quality basic services and infrastructure which includes, amongst others:
  - Provide electricity;
  - Provide water;
  - Provide sanitation;
  - Provide waste removal;
  - Provide housing;
  - Provide roads and storm water;
  - Provide planning services (Town Planning); and
  - Maintaining the infrastructure of the PLM.
2. Economic growth and development that leads to sustainable job creation by:
  - Ensuring there is a clear structural plan for the PLM;
  - Ensuring planning processes function in accordance with set timeframes;
  - Facilitating the use of labour intensive approaches in the delivery of services and the building of infrastructure.
3. Fight poverty and build clean, healthy, safe and sustainable communities:
  - Effective implementation of the Indigent Policy;
  - Working with the provincial department of health to provide primary health care services;
  - Extending waste removal services and ensuring effective PLM cleansing;
  - Ensuring all waste water treatment works are operating optimally;
  - Working with strategic partners such as SAPS to address crime;
  - Ensuring safe working environments by effective enforcement of building and health regulations;
  - Promote viable, sustainable communities through proper zoning; and
  - Promote environmental sustainability by protecting wetlands and key open spaces.
4. Integrated Social Services for empowered and sustainable communities
  - Work with provincial departments to ensure the development of community infrastructure such as schools and clinics is properly co-ordinated with the informal settlements upgrade programme
5. Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service by:
  - Optimising effective community participation in the ward committee system; and
  - Implementing Batho Pele in the revenue management strategy.
6. Promote sound governance through:
  - Publishing the outcomes of all tender processes on the municipal website
7. Ensure financial sustainability through:
  - Reviewing the use of contracted services
  - Continuing to implement the infrastructure renewal strategy and the repairs and maintenance plan
8. Optimal institutional transformation to ensure capacity to achieve set objectives
  - Review of the organizational structure to optimize the use of personnel;

In line with the MSA, the IDP constitutes a single, inclusive strategic plan for the PLM. The five-year programme responds to the development challenges and opportunities faced by the PLM by identifying the key performance areas to achieve the five strategic objectives mentioned above.

In addition to the five-year IDP, the PLM undertakes an extensive planning and developmental strategy which primarily focuses on a longer term horizon; 15 to 20 years. This process is aimed at influencing the development path by proposing a substantial programme of public-led investment to restructure current patterns of settlement, activity and access to resources in the PLM so as to promote greater equity and enhanced opportunity. The strategy specifically targets future developmental opportunities in traditional dormitory settlements. It provides direction to the PLM's IDP, associated sectorial plans and strategies, and the allocation of resources of the PLM and other service delivery partners.

This development strategy introduces important policy shifts which have further been translated into seven strategic focus areas/objectives as outlined below:

- Developing dormant areas;
- Enforcing hard development lines – so as to direct private investment;
- Maintaining existing urban areas;
- Strengthening key economic clusters;
- Building social cohesion;
- Strong developmental initiatives in relation to the municipal institution as a whole; and
- Sound financial fundamentals.

Lessons learned with previous IDP revision and planning cycles as well as changing environments were taken into consideration in the compilation of the fifth revised IDP, including:

- Strengthening the analysis and strategic planning processes of the PLM;
- Initiating zone planning processes that involve the communities in the analysis and planning processes. More emphasis was placed on area based interventions, within the overall holistic framework;
- Ensuring better coordination through a programmatic approach and attempting to focus the budgeting process through planning interventions; and
- Strengthening performance management and monitoring systems in ensuring the objectives and deliverables are achieved.

The 2016/17 MTREF has therefore been directly informed by the IDP revision process and the following tables provide a reconciliation between the IDP strategic objectives and operating revenue, operating expenditure and capital expenditure.

Table 17 (Table SA4) – Reconciliation between the IDP strategic objectives and the budget revenue

FS195 Phumelela - Supporting Table SA4 Reconciliation of IDP strategic objectives and budget (revenue)

| Strategic Objective  | Goal  | Goal Code | Ref | 2012/13         | 2013/14         | 2014/15         | Current Year 2015/16 |                 |                    | 2016/17 Medium Term Revenue & Expenditure Framework |                        |                        |
|--|---|-----------|-----|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
|  |   |           |     | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2016/17                                 | Budget Year +1 2017/18 | Budget Year +2 2018/19 |
| <b>R thousand</b>  |   |           |     |                 |                 |                 |                      |                 |                    |   |                        |                        |
| 100% Households in formal settlement have access to basic level of water   | Proper water distribution and management  |           |     | 5,059           | 8,496           | 9,986           | 17,500               | 13,278          | 13,278             | 12,486  | 13,338                 | 14,111                 |
| 100% Households in formal settlement have access to basic level of sanitation  | Proper sewerage and sanitation management   |           |     | 7,120           | 8,833           | 10,274          | 15,936               | 10,646          | 10,646             | 12,510  | 13,235                 | 14,003                 |
| To ensure that identified internal roads in the Phumelela municipal area are maintained and upgraded to facilitate economic & social activity required for the sustainable development of municipality; considering the capacity limitations facing the municipality | To maintain and upgrade internal roads in order to facility economic and social activity  |           |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| To create employment opportunities in the Phumelela municipal area; resulting from programmes and projects of this IDP   | To create employment opportunities in local and rural areas   |           |     |                 | 1,409           | 47              | 5,616                | 8,377           | 8,377              | 38  | 40                     | 42                     |
| To facilitate the financial viability of the Phumelela local municipality as measured in terms of the key indicators of the Municipal Planning and Performance Management Regulations, 2001  | To ensure financial viability in terms of budget and treasury & assessment rates  |           |     | 106,490         | 115,833         | 113,402         | 79,172               | 76,329          | 76,329             | 66,488  | 67,042                 | 72,704                 |
| To facilitate institutional transformation and development in the Phumelela local municipality   | To ensure institutional transformation and development in terms of Corporate services, Property services and Property services: Commonage |           |     | 26,794          | 20              | 1,267           | 36                   | 36              | 36                 | 6,796   | 7,190                  | 7,607                  |
| To ensure good governance in the Phumelela local municipality  | Ensure good governance in the office of the mayor, council, municipal manager & town planning   |           |     | -               | -               | -               | -                    | -               | -                  | 3,522   | 3,699                  | 3,886                  |
| To ensure good waste management in the Phumelela municipal area  | Ensure good solid waste management  |           |     | -               | 8,779           | 10,306          | 16,155               | 10,472          | 10,472             | 11,881  | 12,570                 | 13,299                 |
| To ensure good that 100% of households in the Phumelela municipal area have access to electricity  | To ensure proper electricity distribution   |           |     | 9,863           | 7,769           | 16,047          | 13,703               | 11,672          | 11,672             | 11,679  | 12,584                 | 13,560                 |
| To ensure effective management of graveyards and cemeteries in the Phumelela municipal area  | To ensure proper management of cemetery and parks   |           |     | -               | 133             | 173             | 188                  | 200             | 200                | 212   | 225                    | 237                    |
| To ensure access to quality sport and recreational in the Phumelela municipal area   | To ensure proper management of the library, sport and recreational facilities   |           |     | -               | -               | 692             | -                    | -               | -                  | -   | -                      | -                      |
| To ensure effective traffic management and parking in the Phumelela municipal area   | To ensure proper traffic control  |           |     | 100             | 62              | 64              | 66                   | 40              | 40                 | 75  | 79                     | 84                     |
| To ensure effective firefighting in the Phumelela municipal area   | To ensure proper fire fighting  |           |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| <b>Allocations to other priorities</b>   |   |           | 2   |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>Total Revenue (excluding capital transfers and contributions)</b>   |   |           | 1   | 155,426         | 151,334         | 162,257         | 148,372              | 131,049         | 131,049            | 125,666   | 130,002                | 139,535                |

Table 18 (Table SA5) – Reconciliation between the IDP strategic objectives and budgeted operating expenditure

FS195 Phumelela - Supporting Table SA5 Reconciliation of IDP strategic objectives and budget (operating expenditure)

| Strategic Objective  | Goal  | Goal Code | Ref | 2012/13         | 2013/14         | 2014/15         | Current Year 2015/16 |                 |                    | 2016/17 Medium Term Revenue & Expenditure Framework |                        |                        |         |
|--|---|-----------|-----|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|---------|
|  |   |           |     | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2016/17                                 | Budget Year +1 2017/18 | Budget Year +2 2018/19 |         |
| 100% Households in formal settlement have access to basic level of water                       | Proper water distribution and management  |           |     | 9,922           | 20,865          | 23,636          | 21,000               | 16,548          | 16,548             | 17,544  | 15,877                 | 16,975                 |         |
| 100% Households in formal settlement have access to basic level of sanitation                  | Proper sewerage and sanitation management   |           |     | 6,047           | 11,728          | 19,562          | 9,571                | 9,136           | 9,136              | 10,386  | 10,992                 | 11,792                 |         |
| To ensure that identified internal roads in the Phumelela municipal area are maintained        | To maintain and upgrade internal roads in order to facility economic and social                                       |           |     | 1,742           | 2,125           | 1,622           | 4,000                | 3,000           | 3,000              | 2,500   | 2,000                  | 2,000                  |         |
| To create employment opportunities in the Phumelela municipal area; resulting from             | To create employment opportunities in local and rural areas   |           |     | 22,218          | 10,216          | 27,816          | 18,575               | 18,515          | 18,515             | 14,302  | 15,277                 | 16,319                 |         |
| To facilitate the financial viability of the Phumelela local municipality as measured in       | To ensure financial viability in terms of budget and treasury & assessment rates                                      |           |     | 92,601          | 41,388          | 19,538          | 30,125               | 27,385          | 27,385             | 22,390  | 22,489                 | 24,466                 |         |
| To facilitate institutional transformation and development in the Phumelela local municipality | To ensure institutional transformation and development in terms of Corporate services, Property services and Property |           |     | -               | 6,789           | 10,398          | 10,348               | 10,999          | 10,999             | 13,404  | 14,231                 | 15,125                 |         |
| To ensure good governance in the Phumelela local municipality                                  | Ensure good governance in the office of the mayor, council, municipal manager &                                       |           |     | 4,561           | 11,533          | 18,785          | 22,668               | 18,709          | 18,709             | 18,628  | 19,758                 | 20,980                 |         |
| To ensure good waste management in the Phumelela municipal area                                | Ensure good solid waste management  |           |     | -               | 6,365           | 17,110          | 8,579                | 8,243           | 8,243              | 8,244   | 8,800                  | 9,393                  |         |
| To ensure good that 100% of households in the Phumelela municipal area have access             | To ensure proper electricity distribution   |           |     | 9,922           | 20,865          | 20,020          | 21,000               | 16,548          | 16,548             | 16,294  | 18,245                 | 19,708                 |         |
| To ensure effective management of grave yards and cemeteries in the                            | To ensure proper management of cemetery and parks   |           |     | -               | 1,456           | 765             | 797                  | 812             | 812                | 1,016   | 1,284                  | 1,610                  |         |
| To ensure access to quality sport and recreational in the Phumelela municipal area             | To ensure proper management of the library, sport and recreational facilities   |           |     | -               | -               | 1,294           | -                    | -               | -                  | -   | -                      | -                      |         |
| To ensure effective traffic management and parking in the Phumelela municipal area             | To ensure proper traffic control  |           |     | 3,040           | 690             | 1,084           | 669                  | 773             | 773                | 927   | 997                    | 1,066                  |         |
| <b>Allocations to other priorities</b>   |   |           |     |                 |                 |                 |                      |                 |                    |   |                        |                        |         |
| <b>Total Expenditure</b>   |   |           |     | 1               | 150,053         | 134,018         | 161,630              | 147,333         | 130,666            | 130,666   | 125,635                | 129,948                | 139,436 |

Table 19 (Table SA6) – Reconciliation between the IDP strategic objectives and the budgeted capital expenditure

FS195 Phumelela - Supporting Table SA6 Reconciliation of IDP strategic objectives and budget (capital expenditure)

| Strategic Objective  | Goal  | Goal Code | Ref | 2012/13         | 2013/14         | 2014/15         | Current Year 2015/16 |                 |                    | 2016/17 Medium Term Revenue & Expenditure Framework |                        |                        |
|--|---|-----------|-----|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
|  |   |           |     | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2016/17                                 | Budget Year +1 2017/18 | Budget Year +2 2018/19 |
| 100% Households in formal settlement have access to basic level of water   | Proper water distribution and management  | A         |     | 49,625          | 49,864          | 339             | 26,294               | 11,722          | 11,722             | 39,064  | 29,714                 | 28,715                 |
| 100% Households in formal settlement have access to basic level of sanitation  | Proper sewerage and sanitation management   | B         |     | 20,275          | 4,527           | -               | 3,500                | 3,500           | 3,500              | -   | -                      | -                      |
| To ensure that identified internal roads in the Phumelela municipal area are maintained and upgraded to facilitate economic & social activity required for the sustainable development of municipality: To create employment opportunities in the Phumelela municipal area; resulting from | To maintain and upgrade internal roads in order to facilitate economic and social activity  | C         |     | 3,907           | 6,307           | 13,012          | 6,201                | 6,201           | 6,201              | 4,291   | 15,344                 | 17,084                 |
| To facilitate the financial viability of the Phumelela local municipality as measured in   | To create employment opportunities in local and rural areas   | D         |     | 4,042           | -               | 49,431          | 4,632                | 4,632           | 4,632              | 1,005   | 2,163                  | 2,894                  |
| To facilitate institutional transformation and development in the Phumelela local municipality   | To ensure financial viability in terms of budget and treasury & assessment rates  | E         |     | 2,835           | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| To ensure good governance in the Phumelela local municipality  | To ensure institutional transformation and development in terms of Corporate services, Property services and Property services: Commonage | F         |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| To ensure good waste management in the Phumelela municipal area  | Ensure good governance in the office of the mayor, council, municipal manager &   | G         |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| To ensure good that 100% of households in the Phumelela municipal area have access   | Ensure good solid waste management  | H         |     | 1,500           | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| To ensure effective management of grave yards and cemeteries in the  | To ensure proper electricity distribution   | I         |     | 4,500           | -               | -               | 7,600                | 7,600           | 7,600              | 750   | 5,000                  | 10,000                 |
| To ensure access to quality sport and recreational in the Phumelela municipal area   | To ensure proper management of cemetery and parks   | J         |     | -               | 3,705           | -               | 65                   | 65              | 65                 | -   | 2,859                  | 2,507                  |
| To ensure effective traffic management and parking in the Phumelela municipal area   | To ensure proper management of the library, sport and recreational facilities   | K         |     | -               | -               | -               | -                    | -               | -                  | 2,421   | -                      | -                      |
| To ensure effective firefighting in the Phumelela municipal area   | To ensure proper traffic control  | L         |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| No strategic Objective in IDP  | To ensure proper fire fighting  | M         |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Other  | Health  | N         |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
|  | Other   | O         |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
|  |   | P         |     | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Allocations to other priorities  |   |           | 3   |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>Total Capital Expenditure</b>   |   |           | 1   | <b>86,684</b>   | <b>64,403</b>   | <b>62,782</b>   | <b>48,292</b>        | <b>33,720</b>   | <b>33,720</b>      | <b>47,530</b>                                       | <b>55,079</b>          | <b>61,199</b>          |

### 2.3 Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the PLM has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assess and reviews organisational performance which in turn is directly linked to individual employee's performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly during the last stage, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages.

The performance of the Municipality relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The Municipality therefore has adopted one integrated performance management system which encompasses:

- Planning (setting goals, objectives, targets and benchmarks);
- Monitoring (regular monitoring and checking on the progress against plan);
- Measurement (indicators of success);
- Review (identifying areas requiring change and improvement);
- Reporting (what information, to whom, from whom, how often and for what purpose); and
- Improvement (making changes where necessary).

The performance information concepts used by the Municipality in its integrated performance management system are aligned to the Framework of Managing Programme Performance Information issued by the National Treasury:



The following table sets out the municipalities main performance objectives and benchmarks for the 2016/2017 MTREF.

Table 20 (Table SA8) – Performance indicators and benchmarks

FS195 Phumelela - Supporting Table SA8 Performance indicators and benchmarks

| Description of financial indicator   | Basis of calculation  | 2012/13         | 2013/14         | 2014/15         | Current Year 2015/16 |                 |                    |                   | 2016/17 Medium Term Revenue & Expenditure Framework |                        |                        |
|--|---|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|---|------------------------|------------------------|
|  |   | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2016/17                                 | Budget Year +1 2017/18 | Budget Year +2 2018/19 |
| <b>Borrowing Management</b>  |   |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Credit Rating  |   |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Capital Charges to Operating Expenditure                                       | Interest & Principal Paid /Operating Expenditure  | -0.4%           | 3.7%            | 4.0%            | 7.2%                 | 10.2%           | 10.2%              | 0.0%              | 1.2%  | 1.3%                   | 1.3%                   |
| Capital Charges to Own Revenue   | Finance charges & Repayment of borrowing /Own Revenue   | -1.6%           | 11.4%           | 11.3%           | 12.7%                | 20.2%           | 20.2%              | 0.0%              | 2.5%  | 2.5%                   | 2.4%                   |
| Borrowed funding of 'own' capital expenditure                                  | Borrowing/Capital expenditure ex cl. transfers and grants and contributions                   | 0.0%            | 0.0%            | 0.0%            | 0.0%                 | 0.0%            | 0.0%               | 0.0%              | 0.0%  | 0.0%                   | 0.0%                   |
| <b>Safety of Capital</b>   |   |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Gearing  | Long Term Borrowing/ Funds & Reserves   | 0.0%            | 0.0%            | 0.0%            | 0.0%                 | 0.0%            | 0.0%               | 0.0%              | 0.0%  | 0.0%                   | 0.0%                   |
| <b>Liquidity</b>   |   |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Current Ratio  | Current assets/current liabilities  | 0.1             | 0.2             | 0.1             | 14.5                 | 9.1             | 9.1                | -                 | (7.7)   | (9.5)                  | (10.3)                 |
| Current Ratio adjusted for aged debtors  | Current assets less debtors > 90 days/current liabilities                                     | 0.1             | 0.2             | 0.1             | 14.5                 | 9.1             | 9.1                | -                 | (7.7)   | (9.5)                  | (10.3)                 |
| Liquidity Ratio  | Monetary Assets/Current Liabilities   | (0.0)           | 0.0             | 0.0             | 4.7                  | 0.2             | 0.2                | -                 | (24.3)  | (26.0)                 | (25.8)                 |
| <b>Revenue Management</b>  |   |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Annual Debtors Collection Rate (Payment Level %)                               | Last 12 Mths Receipts/Last 12 Mths Billing  |                 | 109.2%          | 54.2%           | 125.0%               | 80.0%           | 96.0%              | 96.0%             | 0.0%  | 79.7%                  | 78.9%                  |
| Current Debtors Collection Rate (Cash receipts % of Ratepayer & Other revenue) |   | 109.2%          | 54.2%           | 125.0%          | 80.0%                | 96.0%           | 96.0%              | 0.0%              | 79.7%   | 78.9%                  | 78.7%                  |
| Outstanding Debtors to Revenue   | Total Outstanding Debtors to Annual Revenue   | 4.1%            | 17.5%           | 8.9%            | 11.2%                | 11.5%           | 11.5%              | 0.0%              | 12.0%   | 11.6%                  | 10.8%                  |
| Longstanding Debtors Recovered   | Debtors > 12 Mths Recovered/Total Debtors > 12 Months Old                                     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| <b>Creditors Management</b>  |   |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Creditors System Efficiency  | % of Creditors Paid Within Terms (within 'MFMA' s 65(e))                                      |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Creditors to Cash and Investments  |   | -4789.2%        | 1963.6%         | 3746.2%         | 0.0%                 | 0.0%            | 0.0%               | 0.0%              | 0.0%  | 0.0%                   | 0.0%                   |
| <b>Other Indicators</b>  |   |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Electricity Distribution Losses (2)  | Total Volume Losses (kW)  |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
|  | Total Cost of Losses (Rand '000)  |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
|  | % Volume (units purchased and generated less units sold)/units purchased and generated        |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Water Distribution Losses (2)  | Total Volume Losses (kft)   |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
|  | Total Cost of Losses (Rand '000)  |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
|  | % Volume (units purchased and generated less units sold)/units purchased and generated        |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Employee costs   | Employee costs/(Total Revenue - capital revenue)  | 46.8%           | 45.5%           | 40.4%           | 35.8%                | 41.2%           | 41.2%              | 0.0%              | 53.2%   | 54.6%                  | 54.3%                  |
| Remuneration   | Total remuneration/(Total Revenue - capital revenue)  | 47.3%           | 49.1%           | 44.2%           | 38.7%                | 43.8%           | 43.8%              |                   | 49.8%   | 58.6%                  | 58.2%                  |
| Repairs & Maintenance  | R&M/(Total Revenue excluding capital revenue)   | 13.3%           | 7.7%            | 15.9%           | 5.6%                 | 1.5%            | 1.5%               |                   | 6.0%  | 4.9%                   | 5.2%                   |
| Finance charges & Depreciation   | FC&D/(Total Revenue - capital revenue)  | 29.9%           | 19.1%           | 15.6%           | 3.2%                 | 4.3%            | 4.3%               | 0.0%              | 2.1%  | 2.1%                   | 2.1%                   |
| <b>IDP regulation financial viability indicators</b>                           |   |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| i. Debt coverage   | (Total Operating Revenue - Operating Grants)/Debt service payments due within financial year) | 4.0             | 3.9             | 3.0             | 4.2                  | 4.2             | 4.2                | -                 | 5.9   | 5.9                    | 6.4                    |
| ii. O/S Service Debtors to Revenue   | Total outstanding service debtors/annual revenue received for services                        | 12.7%           | 50.6%           | 24.8%           | 23.3%                | 28.5%           | 28.5%              | 0.0%              | 32.0%   | 30.0%                  | 27.6%                  |
| iii. Cost coverage   | (Available cash + Investments)/monthly fixed operational expenditure                          | (0.1)           | 0.5             | 0.3             | 0.8                  | (0.2)           | (0.2)              | -                 | (2.9)   | (2.9)                  | (2.9)                  |

## 2.4 Overview of budget related-policies

The PLM's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

### 2.4.1 Review of credit control and debt collection procedures/policies

The Credit Control and Debt Collection Policy as approved by Council on 25 March 2008, has been reviewed. While the adopted policy is credible, sustainable, manageable and informed by affordability and value for money there has been a need to review certain components to achieve a higher collection

rate. Some of the possible revisions will include the lowering of the credit periods for the down payment of debt. In addition emphasis will be placed on speeding up the indigent registration process to ensure that credit control and debt collection efforts are not fruitlessly wasted on these debtors.

As most of the indigents within the municipal area are unable to pay for municipal services because they are unemployed, the SETA training institution aims to also train indigent households. In line with the national government's initiative to create a million jobs, all role players are actively involved in the reduction of the number of registered indigent households.

The 2016/17 MTREF has been prepared on the basis of achieving an average debtors' collection rate of 75 percent on current billings. In addition the collection of debt in excess of 90 days has been prioritised as a pertinent strategy in increasing the PLM's cash levels. In addition, PLM has already embarked on encouraging the community to pay for services and those who cannot afford to pay, be registered as indigents.

#### 2.4.2 Asset Management, Infrastructure Investment and Funding Policy

The Municipality has recently reviewed and adopted a Fixed Assets Management policy which provides all the information relating to the funding and investment related to the Infrastructure.

#### 2.4.3 Supply Chain Management Policy

The Supply Chain Management Policy was adopted by Council in 25 March 2008. The SCM policy was reviewed during the Annual Budget for 2016/17 MTREF and this policy will be adopted by council when the Annual Budget is adopted on the 27 May 2016.

#### 2.4.4 Other Reviewed Policies

The following policies were also reviewed when the Annual Budget for 2016/17 MTREF was prepared:

- Tariffs Policy
- Credit and Debt Collection Policy
- Indigent Policy
- Write-off Policy
- Petty Cash Policy
- Banking and Investment Policy
- Budget and Virements Policy
- Fixed Asset Management Policy
- Accounting Policy
- Borrowing Policy
- Funds and Reserves Policy
- Property Rates Policy
- Contingent Liabilities Policy
- Commitments Policy
- Unauthorised, Irregular and Fruitless Expenditure Policy

## 2.5 OVERVIEW OF THE BUDGET ASSUMPTIONS

### 2.5.1 External Factors

The Budget Review 2016 notes that the global economic crisis has deepened, exposing the depth of South Africa's external vulnerabilities and the internal constraints that limit its potential for growth. Global conditions have exposed South Africa's own economic weaknesses, with projected GDP growth revised down to 0.9 per cent for 2016 improving gradually to 1.7 per cent in 2017 and 2.4 per cent in 2018.

The weaker outlook is as a result of lower commodity prices, higher borrowing costs, drought and diminished business and consumer confidence. Constrained electricity supply continues to limit growth and deter fixed investment. Exchange rate depreciation is contributing to a higher inflation outlook during 2016.

These factors are expected to ease over the medium term. An upturn in global trade and investment, improved policy certainty, recovering consumer and business confidence, and greater availability and reliability of electricity in the outer years should support stronger growth.

Higher inflation and weaker employment growth will impact on the ability of municipalities to generate and collect revenue on services, to keep expenditures within the budgeted allocations, and to borrow to fund capital expenditure programmes at affordable rates. Therefore it is critical for municipalities to review how they conduct their business to ensure value for money is obtained in all their expenditures, that revenue administration systems are operating effectively, that borrowing programmes are realistic, and that creditors (including bulk service providers) continue to be paid timeously and in full.

#### 2.5.2 General inflation outlook and its impact on the municipal activities

There are four key factors that have been taken into consideration in the compilation of the 2016/17 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in the cost of remuneration.

CPI inflation rate is above the 6 percent parameter set by the South African Reserve Bank.

#### 2.5.3 Collection rate for revenue services

Cash flow is assumed to be 75 percent of billings due to corrective measures that have been implemented. The performance of arrears collection will only be considered as a source of additional cash in-flow once the performance has been carefully monitored.

The achievement of the budgeted revenue is premised on the following assumptions.

- Data cleansing to achieve correct billings
- Reduction of electricity losses as a result of line losses.
- Installation of smart/split meters to prevent tempering
- Cleaning and replacing of broken water meters
- Install new meters in Zamani and Ezenzeleni to abolish the flat rate that is currently being used as a form of billing.
- Appointment of the revenue manager to improve revenue management.
- Subsidising indigents only, as opposed subsidising every household
- Billing consumers correctly for each service consumed.

#### 2.5.4 Salary increases

The South African Local Government Bargaining Council recently entered into a three year Salary and Wage collective agreement for the period 01 July 2015 to 30 June 2018. The agreement reached is as follows:

- 2015/16 Financial Year – 7 Percent
- 2016/17 Financial Year – average CPI + 1 percent
- 2017/18 Financial Year – average CPI + 1 percent

PLM has used this guide in the preparation of its budget for the MTREF.

#### 2.5.5 Growth or decline in tax base of the municipality

Debtors' revenue is assumed to increase at a rate that is influenced by the consumer debtors' collection rate, tariff/rate pricing, real growth rate of the PLM, household formation growth rate and the poor household change rate.

Household formation is the key factor in measuring municipal revenue and expenditure growth, as servicing 'households' is a greater municipal service factor than servicing individuals. Household formation rates are assumed to convert to household dwellings. In addition the change in the number of poor households influences the net revenue benefit derived from household formation growth, as it assumes that the costs incurred for servicing the household is the same whether it is poor or not, but that no consumer revenue is derived as the 'poor household' limits consumption to the level of free basic services.

#### 2.5.6 Impact of National, Provincial and Local policies

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and, in this regard, various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. As thus, the following national priorities form the basis of all integration initiatives:

- Creating jobs;
- Infrastructure development;
- Enhancing education and skill development;
- Improving Health services;
- Rural development and agriculture; and
- Fighting crime and corruption.

To achieve these priorities integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure, thereby ensuring the achievement of the national, provincial and local objectives.

#### 2.5.7 Ability of the municipality to spend and deliver on the programmes

It is estimated that a spending rate of almost 100 percent is achieved on operating expenditure and a total of 100 percent on the capital programme for the 2016/17 MTREF. If the municipality could exhaust all its funds to ensure service delivery to the community, that is a committed municipality.

### 2.6 Overview of budget funding

#### 2.6.1 Medium-term outlook: operating revenue

Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. The municipality derives a reasonable part of its operational revenue from the provision of services such as water, electricity, sanitation and solid waste removal. Property rates, operating and capital grants from organs of state and other minor charges (such as building fees, licences and permits, etc.) make up the rest of the pie.

The revenue strategy is a function of key components such as:

- Growth in the PLM and economic development;
- Revenue management and enhancement;
- Achievement of a 75 percent collection rate for consumer revenue;
- National Treasury guidelines;
- Electricity tariff increases within the National Electricity Regulator of South Africa (NERSA) guideline;

- Achievement of full cost recovery of specific user charges;
- Determining tariff escalation rate by establishing/calculating revenue requirements;
- The Property Rates Policy in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA), and
- The ability to extend new services and obtain cost recovery levels.

The above principles guide the annual increase in the tariffs charged to the consumers and the ratepayers aligned to the economic forecasts.

#### 2.6.2 Medium-term outlook: Capital Revenue

Grant receipts still remain a significant funding source for the capital programme over the medium-term. The borrowing capacity of PLM has essentially reached its limits and going forward borrowing limits will remain constant.

Internally generated funds consist of a mixture between surpluses generated on the operating statement of financial performance and cash backed reserves. In determining the credibility of this funding source it becomes necessary to review the cash flow budget as well as the cash backed reserves and accumulated funds reconciliation, as discussed below. The main contributing factor to the escalation of 100 percent spending is owing to the fact that PLM budget for capital spending on a year to year basis is funded by conditional grants.

#### 2.6.3 Cash Flow Management

Cash flow management and forecasting is a critical step in determining if the budget is funded over the medium-term. The table below is consistent with international standards of good financial management practice and also improves understanding for councillors and management. Some specific features include:

Clear separation of capital and operating receipts from government also enables cash from 'Ratepayers and other' to be provide for as cash inflow based on actual performance. In other words the actual collection rate of billed revenue; 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 20 (Table A7) – Budgeted Cash flow statement

FS195 Phumelela - Table A7 Budgeted Cash Flows

| Description                                       | Ref | 2012/13         | 2013/14         | 2014/15         | Current Year 2015/16 |                 |                    |                   | 2016/17 Medium Term Revenue & Expenditure Framework |                        |                        |
|---|-----|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|---|------------------------|------------------------|
|   |     | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2016/17                                 | Budget Year +1 2017/18 | Budget Year +2 2018/19 |
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>        |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| <b>Receipts</b>                                   |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Property rates, penalties & collection charges    |     | 7,799           | 6,683           | 7,520           | 18,036               | 17,083          | 17,083             | -                 | 9,594   | 11,396                 | 12,976                 |
| Service charges                                   |     | 25,030          | 11,982          | 44,282          | 37,365               | 29,567          | 29,567             | -                 | 24,162  | 24,342                 | 25,903                 |
| Other revenue                                     |     | 727             | 1,071           | 12,693          | 2,966                | 5,565           | 5,565              | -                 | 3,648   | 6,592                  | 6,975                  |
| Government - operating                            | 1   | 61,339          | 65,059          | 62,964          | 64,267               | 64,867          | 64,867             | -                 | 62,840  | 63,014                 | 67,197                 |
| Government - capital                              | 1   | 57,656          | 43,372          | 41,976          | 48,027               | 33,027          | 33,027             | -                 | 47,530  | 55,079                 | 61,199                 |
| Interest  |     | 672             | 7,052           | 9,731           | 8,927                | 10,247          | 10,247             | -                 | 9,129   | 9,658                  | 10,219                 |
| Dividends   |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Payments</b>                                   |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Suppliers and employees                           |     | (97,061)        | (72,938)        | (111,905)       | (116,048)            | (106,230)       | (106,230)          | -                 | (129,621)   | (115,206)              | (123,055)              |
| Finance charges                                   |     | (2,027)         | (3,225)         | (5,002)         | (891)                | (4,525)         | (4,525)            | -                 | (634)   | (671)                  | (710)                  |
| Transfers and Grants                              | 1   | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>  |     | <b>54,135</b>   | <b>59,057</b>   | <b>62,259</b>   | <b>62,639</b>        | <b>49,601</b>   | <b>49,601</b>      | <b>-</b>          | <b>26,647</b>                                       | <b>54,205</b>          | <b>60,704</b>          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>       |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| <b>Receipts</b>                                   |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Proceeds on disposal of PPE                       |     | -               | 43              | 4               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Decrease (increase) in non-current debtors        |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Decrease (increase) other non-current receivables |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Decrease (increase) in non-current investments    |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Payments</b>                                   |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Capital assets                                    |     | (64,551)        | (64,403)        | (62,782)        | (48,292)             | (33,720)        | (33,720)           | -                 | (47,530)  | (55,079)               | (61,199)               |
| <b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>  |     | <b>(64,551)</b> | <b>(64,360)</b> | <b>(62,779)</b> | <b>(48,292)</b>      | <b>(33,720)</b> | <b>(33,720)</b>    | <b>-</b>          | <b>(47,530)</b>                                     | <b>(55,079)</b>        | <b>(61,199)</b>        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>       |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| <b>Receipts</b>                                   |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Short term loans                                  |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Borrowing long term/refinancing                   |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| Increase (decrease) in consumer deposits          |     | -               | -               | -               | -                    | -               | -                  | -                 | -   | -                      | -                      |
| <b>Payments</b>                                   |     |                 |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Repayment of borrowing                            |     | 2,600           | (1,725)         | (1,390)         | (9,756)              | (9,756)         | (9,756)            | -                 | (920)   | (985)                  | (1,053)                |
| <b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>  |     | <b>2,600</b>    | <b>(1,725)</b>  | <b>(1,390)</b>  | <b>(9,756)</b>       | <b>(9,756)</b>  | <b>(9,756)</b>     | <b>-</b>          | <b>(920)</b>  | <b>(985)</b>           | <b>(1,053)</b>         |
| <b>NET INCREASE/ (DECREASE) IN CASH HELD</b>      |     | <b>(7,816)</b>  | <b>(7,029)</b>  | <b>(1,910)</b>  | <b>4,590</b>         | <b>6,125</b>    | <b>6,125</b>       | <b>-</b>          | <b>(21,803)</b>                                     | <b>(1,859)</b>         | <b>(1,549)</b>         |
| Cash/cash equivalents at the year begin:          | 2   | 6,571           | 11,644          | 4,615           | 1,600                | (7,815)         | (7,815)            | -                 | (3,225)   | (25,028)               | (26,887)               |
| Cash/cash equivalents at the year end:            | 2   | (1,245)         | 4,615           | 2,706           | 6,191                | (1,691)         | (1,691)            | -                 | (25,028)  | (26,887)               | (28,435)               |

- The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA circular 42 – Funding a Municipal Budget.
- In essence the table evaluates 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.
- The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality’s budget must be “funded”.
- Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.
- Considering the requirements of section 18 of the MFMA, it can be concluded that the tabled 2015/2016 MTREF is funded owing to the realised surplus.
- As part of the budgeting and planning guidelines that informed the compilation of the 2016/17 MTREF the end objective of the medium-term framework was to ensure the budget is funded in alignment to section 18 of the MFMA.

## 2.6.5 Funding compliance measurement

National Treasury requires that the municipality assess its financial sustainability against fourteen different measures that look at various aspects of the financial health of the municipality. These measures are contained in the following table. All the information comes directly from the annual budgeted statements of financial performance, financial position and cash flows. The funding compliance measurement table essentially measures the degree to which the proposed budget complies with the funding requirements of the MFMA.

Table 22 – Funding compliance measurement

FS195 Phumelela Supporting Table SA10 Funding measurement

| Description   | MFMA section | Ref | 2012/13   | 2013/14         | 2014/15         | Current Year 2015/16 |                 |                    |                   | 2016/17 Medium Term Revenue & Expenditure Framework |                        |                        |
|---|--------------|-----|---|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|---|------------------------|------------------------|
|   |              |     | Audited Outcome                                 | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2016/17                                 | Budget Year +1 2017/18 | Budget Year +2 2018/19 |
|   |              |     | <b>High Level Outcome of Funding Compliance</b> |                 |                 |                      |                 |                    |                   |   |                        |                        |
| Total Operating Revenue                                 |              |     | 94,951  | 102,690         | 117,578         | 148,372              | 131,049         | 131,049            | –                 | 125,686   | 130,002                | 139,535                |
| Total Operating Expenditure                             |              |     | 150,053   | 134,018         | 161,630         | 147,333              | 130,666         | 130,666            | –                 | 125,635   | 129,948                | 139,436                |
| Surplus/(Deficit) Budgeted Operating Statement          |              |     | (55,102)  | (31,428)        | (44,052)        | 1,039                | 383             | 383                | –                 | 51  | 53                     | 98                     |
| Surplus/(Deficit) Considering Reserves and Cash Backing |              |     | (59,989)  | (85,024)        | (87,798)        | 19,727               | 12,211          | 12,211             | –                 | (13,897)  | (15,051)               | (16,410)               |
| MTREF Funded (1) / Unfunded (0)                         |              | 15  | 0   | 0               | 0               | 1                    | 1               | 1                  | 1                 | 0   | 0                      | 0                      |
| MTREF Funded ✓ / Unfunded ✖                             |              | 15  | ✖   | ✖               | ✖               | ✓                    | ✓               | ✓                  | ✓                 | ✖   | ✖                      | ✖                      |

## 2.7 Annual budgets and SDBIPs – internal departments

The SDBIPs for the different departments will in terms of section 53(1)(c)(ii) of the MFMA be tabled and approved by the mayor within 28 days after the approval of the annual budget. Therefore, at the time when this budget was adopted the SDBIP was yet to be approved.

## 2.8 Contracts having future budgetary implications

In terms of the PLM’s Supply Chain Management Policy, no contracts are awarded beyond the medium term revenue and expenditure framework (three years). In ensuring adherence to this contractual time frame limitation, all reports submitted to either the Bid Evaluation and Adjudication Committees must obtain formal financial comments from the Financial Management Division of the Treasury Department.

## PART 2 : SUPPORTING DOCUMENTATION

### 2.9 Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

#### 2.9.1 In-year reporting

Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the PLM’s website.

#### 2.9.2 Internship programme

The PLM is participating in the Municipal Financial Management Internship programme and has employed eight interns undergoing training in various divisions of the Financial Services Department. 5 of the interns previously trained by the municipality were appointed on permanent basis as of 4<sup>th</sup> May 2015. Since the introduction of the Internship programme the PLM has successfully employed and trained eighteen interns through this programme and a majority of them were appointed either in the PLM and other institutions such as KPMG, Anglo American and municipalities such as Lekwa Local Municipality and Thabo Mofutsanyana District municipality.

Five new interns will be appointed by the municipality during the 2016-17 financial year.

#### 2.9.3 Budget and Treasury Office

The Budget and Treasury Office has been established in accordance with the MFMA.

#### 2.9.4 Audit Committee

PLM is currently using a shared district Audit Committee.

#### 2.9.5 Service Delivery and Budget Implementation Plan

The detailed SDBIP document is at a draft stage and will be finalised after approval of the 2016/17 MTREF in May 2016 directly aligned and informed by the 2015/16 MTREF.

#### 2.9.6 Annual Report

Annual report is compiled in terms of the MFMA and National Treasury requirements.

#### 2.9.7 MFMA Training

Current Interns are busy undergoing the MFMA training module in electronic format, and have been registered for the Municipal Finance Management Programme. Nine officials of the municipality have undergone the Municipal Finance Management Programme and are awaiting certification.

#### 2.9.8 Policies

All Phumelela Local Municipality's developed and reviewed policies are aligned to government legislations and regulations as gazetted. Any amendments to our policies will not deviate from gazetted legislations and regulations.



2.10 Municipal manager's quality certificate

I **B.W Kannemeyer** municipal manager of Phumelela Local 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 **Bruce Kannemeyer**

Municipal manager of Phumelela Local Municipality (FS195)

Signature 

Date **24/06/2016**