## DRAFT ANNUAL BUDGET OF

# MOQHAKA LOCAL MUNICIPALITY

"People's power in action"

## 2018/19 TO 2020/21

# MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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# Part 1 – Annual Budget

## 1.1 Council Resolutions

The Council of Moqhaka Local Municipality, acting in terms of section 16 of the Local Government: Municipal Financial Management Act (Act 56 of 2003) tables the budget for the 2018/19 MTREF.

## 1.2 Executive Summary

The National Treasury's MFMA Circular No.89 and 91 were used to guide the compilation of the 2018/19 MTREF.

The compilation of the MTREF remains a huge challenge to balance the budget between the limited revenue resources available and the immense need to provide quality service delivery to our community. Tariff increases must be limited to be within the affordability levels of our community and must still promote economic growth to ensure financial sustainability.

**<u>The following budget principles and guidelines directly informed the compilation of the 2018/19 MTREF:</u>**

- The 2017/18 Adjustment Budget priorities and targets, as well as the base line allocations contained in that Adjustment Budget were adopted as the upper limits for the new baselines for the 2018/19 annual budget;
- Zero rated budgeting was used on Capital Budget;
- Tariffs and Property Rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality;
- **Tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;**
- 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.

**<u>Tariff Setting</u>**

There are several tools available and methodologies employed to determine the appropriate tariffs. Municipalities may favour different approaches but the principles of tariff setting should be consistently applied. Municipalities should consider the following practicalities when setting tariffs:

- Costs of bulk purchases (Electricity & Water) and the fluctuation in the seasonal cost {time-of-use-tariffs} thereof;
- Consumption patterns to enable better demand planning and management; and
- In the event that municipalities have been under recovering costs, embark on a process to correct their tariff structures over a reasonable time period so that cost reflective tariffs are achieved.

The tariff setting process is reliant on sound baseline information such as the number of properties within the municipal area of jurisdiction, the values of these properties, the number of households identified as indigent or poor, the consumption patterns in respect of basic services and the growth patterns within the various geographic areas.

The inflation rate forecasts as per the MFMA Circular no. 89 & 91 issued by National Treasury has been used on the MTREF. The maximum of 6% growth rate was stipulated on the Revenue tariffs increases. However, some tariffs are based on cost of recovery and in most instances will be above this proposed percentage increase.

**The following are the proposed tariff increases after taking into consideration the guidelines from National Treasury and the cost to the municipality to deliver these services in order to achieve financial sustainability. Average increases:**

- Assessment Rates: 6%
- Electricity: 7%
- Water: 14%
- Sewerage: 12%
- Refuse: 11%

- Other Income: 6%

**<u>The main challenges experienced during the compilation of the 2018/19 MTREF can be summarised as follows:</u>**

- The ongoing difficulties in the national and local economy;
- Aging and insufficient maintained water, roads, sewer and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource basket given the cash flow realities and declining cash position of the municipality coupled with the ongoing increase of the municipality's debtors book;
- Salary increases for municipal staff;
- The increased cost of electricity (due to tariff increases from Eskom);
- Wage increases for municipal staff that continues to exceed consumer inflation, as well as the need to fill critical vacancies to augment service delivery;
- Availability of affordable capital/borrowing;
- Alignment of the Budget to mSCOA Regulations.

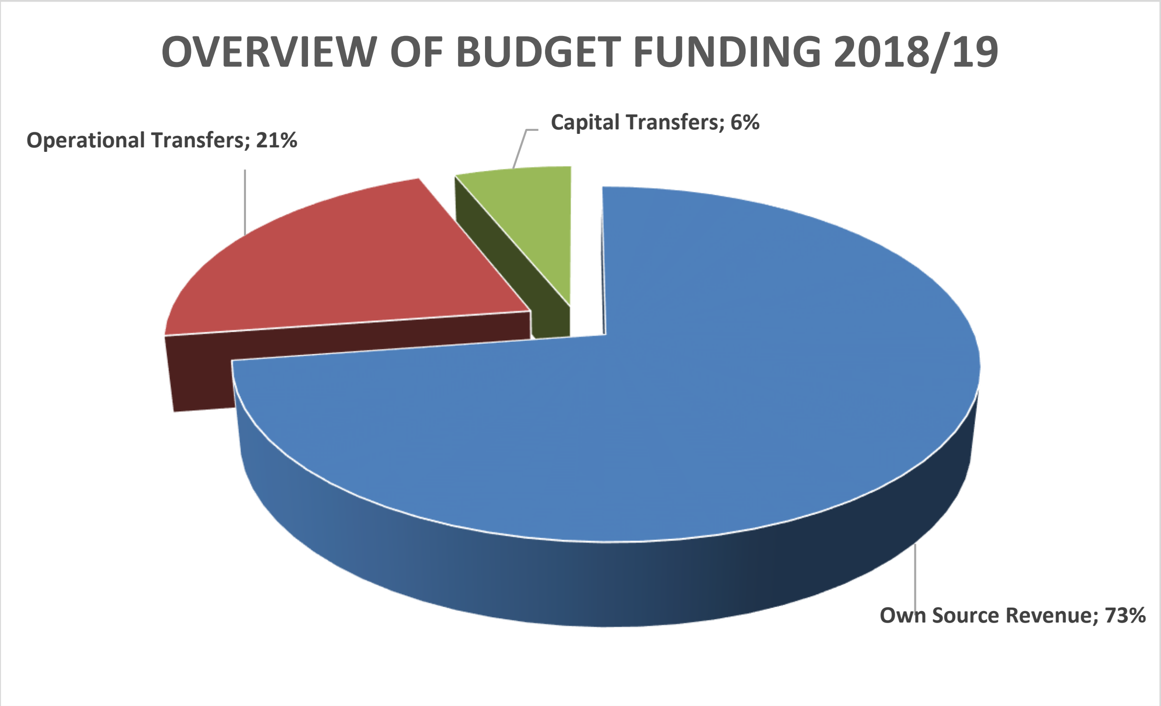
**Overview of Budget Funding**

Section 18 (1) of the MFMA states that an annual budget may only be funded from;

- ✓ Realistically anticipated revenues to be collected,
- ✓ Cash backed accumulated funds from the previous years' surpluses not committed for other purposes; and
- ✓ Borrowed funds, but only for the capital budget referred to in section 17.

**The importance of tabling funded budgets is highlighted in MFMA Circular No. 74.**

The achievement of this requirement in totality effectively means that a Council has "Balanced" its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows. Refer to Table A8: Cash backed reserves/accumulated surplus reconciliation' and supporting Table SA10: Funding measurement.




## 1.3 Operating Revenue Framework

For Moqhaka Local Municipality to continue improving the quality of services provided to its citizens 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 high poverty & unemployment rate.

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 macroeconomic policy;
- Improving the effectiveness of revenue management processes and procedures,
- Efficient revenue management, which aims to ensure a **95%** 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;
- Paying special attention to cost containment measures by, amongst other things, controlling unnecessary spending on nice-to-have items and non-essential activities as was highlighted in MFMA Circular No.82;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service in order to achieve cost reflective tariffs;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- The municipality's Indigent Policy and rendering of free basic services; and
- Curbing consumption of water and electricity by indigents to ensure that they do not exceed their allocation;
- Tariff policies of the Municipality.

The financial sustainability of the 2018/19 MTREF is largely dependent on the collection level of billed revenue. Provision is made in the budget for a **collection level of 87%**. To achieve this collection, Moqhaka Local Municipality is looking to implement more robust credit control measures, which will ensure that all consumers who can afford to pay for services rendered do pay for those services and those who cannot afford to pay for the services are registered as indigent in terms of the municipality's indigent policy. This rate is in relation to the 2018/19 financial year revenue collection, and does not take into account the collection efforts of the municipality with regards to its outstanding consumer debt.

In terms of Council's social commitment to assist the poorer communities in Moqhaka the supply of free basic services and social contributions to identified structures in Moqhaka remains a priority in order to ensure service delivery.

In view of the aforementioned, the following table is a consolidated overview of the proposed 2018/19 Medium-term Revenue and Expenditure Framework:

**Table 1 Consolidated Overview of the 2018/19 MTREF**

| R thousand | Adjustment Budget 2017/18 | Budget Year +1 2018/19 | Budget Year +2 2019/20 | Budget Year +3 2020/21 |
|---|---|---|---|---|
| Total Operating Revenue | 737 042 | 818 359 | 863 369 | 910 854 |
| Total Operating Expenditure | 722 537 | 773 276 | 815 806 | 860 676 |
| *(Surplus)*/Deficit for the year | 14 505 | 45 043 | 47 563 | 50 178 |
| **Total Capital Expenditure** | **79 188** | **53 410** | **56 348** | **59 447** |

Total operating revenue has grown by **11%** for the 2018/19 financial year when compared to the 2017/18 Adjustment Budget. This is mainly due to the increase in the municipal equitable share, the increase in the service charges which is aimed at improving the service to be cost reflective and achieve financial sustainability. For the two outer years, operational revenue will increase by 5.5% and 5.5% respectively.

Total operating expenditure for the 2018/19 financial year has been appropriated at R 773 million. When compared to the 2017/18 Adjustments Budget, operational expenditure has grown by 7% in the 2018/19 budget and by 5.5% and 5.5% for each of the respective outer years of the MTREF. The raised surpluses will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

The capital budget amounts to R53 million for 2018/19 which is a R26 million decrease from 2017/18 Adjustment Budget. This is mainly due to the reduced Water Services Infrastructure Grant and the decline with regards to the Own Funding Capital. The capital budget will be funded from grant funding over MTREF with gazetted grants of R50 million as per the Division of Revenue bill 2018/19 and R3 million from the municipal own funding.

The following table is a summary of the 2018/19 MTREF (classified by main revenue source):

**Table 2 Summary of revenue classified by main revenue source (A4)**

| Revenue types | | | |
|---|---|---|---|
| **R thousand** | **Adjustment Budget Year 2017/18** | **Budget Year 2018/19** | **%** |
| Property rates | 66 502 | 85 755 | **29%** |
| Service Charges:Electricity | 286 501 | 303 792 | **6%** |
| Service Charges: Water | 102 644 | 120 885 | **18%** |
| Service Charges: Sanitation | 38 756 | 41 922 | **8%** |
| Service Charges: Refuse | 31 132 | 35 315 | **13%** |
| Rental of Facilities | 8 557 | 9 003 | **5%** |
| Interest : External Investments | 1 350 | 1 420 | **5%** |
| Interest: Outstanding Debtors | 18 236 | 19 214 | **5%** |
| Fines | 5 625 | 5 938 | **6%** |
| Transfers Recognised operational | 166 741 | 184 893 | **11%** |
| Other Revenue | 10 013 | 10 222 | **2%** |
| **Total Revenue (Excluding capital grants)** | **736 057** | **818 359** | **11%** |

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

The municipalities were required to comply with the mSCOA Regulations as from 01 July 2017. The implementation of the mSCOA came with challenges for Moqhaka Municipality. One of the main challenges was to migrate from the old 13 digits vote number to a 20-digits function segment as per the regulations. This has led to some changes in the known item descriptions and reclassification of certain expenditure and the related disclosure for these items.

Revenue generated from **rates and service charges** forms a significant percentage of the revenue basket for the Municipality. Rates and service charge revenues comprise more than two thirds of the total revenue mix. In the 2018/19 financial year, revenue from rates and services charges totalled R588 million.

**REMARKS**

**WATER**

The municipality is currently stable in terms of supply of water services to the community. The supply of water is a core function for the municipality, as a result a lot is required from the municipality as a Water Service Authority. Amongst other things, the maintenance of the water network and water purification plants within the 3 towns of Moqhaka Local Municipality. This also necessitates sufficient budget provision for the construction of water reservoirs in all the three towns to ensure sustainable water supply. The acquisition of a new fleet to improve service delivery and to duly respond to consumers' queries lodged. This has resulted in the water revenue increasing on average by **14%.**

**SANITATION**

The municipality is faced with a number of challenges with regards to delivering an effective sewer system (network & purification plant). The continuous collapsing sewer lines is putting a strain on the municipality's budget in relation to rendering the sewer services. The continuous growth/demand for water borne sewer system, also results in expansion/upgrading of the outfall sewer lines. The high maintenance costs for the sewer network, pump stations and the treatment plant are mainly as a result of the disposal of foreign objects (e.g; stones & steel) into the sewer lines. **This calls mainly for Community awareness in terms of the role and objective of the sewer services in general.** The untreated effluent from the industries which leads to increased operational treatment costs (e.g; pulp, oil, grease & raw blood). All of these issues has led to an increase budget with regards to the sanitation services of an average of **12%**.

**REFUSE**

Revenues from Solid Waste Management increased on average by **11%**. Although this is above the inflation rate, the tariff is based on the costs of delivering the service. This is a progressive increase in ensuring that the tariffs are cost reflective, and that the unit is ultimately financially sustainable.

**OTHER INCOME**

Other revenue consists of various items such as income received from building plan fees, connection fees, and advertisement fees. Departments have been urged to review the tariffs of these items on an annual basis to ensure they are cost reflective, market related and financially sustainable.

## OPERATING GRANTS

Operating grants and transfers totals R167 million in the 2017/18 financial year and the grants increase to R185 million during 2018/19. This is mainly because of the increase in the municipal equitable share that has increased by R21 million.

### Table 3 Summary of revenue classified by municipal votes (A3)

| Revenue by Municipal Vote | | | | |
|---|---|---|---|---|
| Vote Description | | 2018/19 MTREF | | |
| R thousand | Adjustment Budget 2017/18 | Budget year 2018/19 | Budget year 2019/20 | Budget Year 2020/21 |
| Revenue by Vote | | | | |
| Vote 1 - Councillors | 118 934 | 137 607 | 145 175 | 153 160 |
| Vote 2 - Office of the municipal manager | – | – | – | – |
| Vote 3 - Corporate Services | 763 | 804 | 848 | 895 |
| Vote 4 - Finance | 422 071 | 448 196 | 472 847 | 498 853 |
| Vote 5 - Technical Services | 200 379 | 188 465 | 198 831 | 209 766 |
| Vote 6 - Community and Emergency Services | 47 231 | 51 980 | 54 839 | 57 855 |
| Vote 7 - Local Economic Development and Planning | 13 504 | 14 207 | 14 988 | 15 813 |
| **Total Revenue by Vote** | **802 882** | **841 259** | **887 528** | **936 342** |



### Table 4 Operating Transfers and Grant Receipts (SA18)

| DESCRIPTION | REF | Budget Year 2017/18 | Budget Year +2018/19 | Budget Year +2019/20 | Budget Year +20/21 |
|---|---|---|---|---|---|
| | | Adjusted Budget | | | |
| R thousands | | | | | |
| RECEIPTS: | 1, 2 | | | | |
| | | | | | |
| Operating Transfers and Grants | | | | | |
| **National Government:** | | **166 741** | **190 751** | **201 242** | **202 651** |
| Local Government Equitable Share | | 164 092 | 187 893 | 198 227 | 200 251 |
| LG Seta | 3 | 504 | 543 | 573 | – |
| Finance Management | | 2 145 | 2 315 | 2 442 | 2 400 |
| **EPWP Incentive** | | **1 000** | **1 000** | **1 055** | 1 113 |
| EPWP Incentive | 5 | 1 000 | 1 000 | 1 055 | 1 113 |
| **District Municipality:** | | – | – | | – |
| | | | | | |
| **Other grant providers:** | | – | – | | – |
| | | | | | |
| **Total Operating Transfers and Grants** | 6 | **167 741** | **191 751** | **202 297** | **203 764** |

### Table 5: Capital Grants (SA18)

| DESCRIPTION | REF | Budget Year 2017/18 | Budget Year +2018/19 | Budget Year +2019/20 | Budget Year +20/21 |
|---|---|---|---|---|---|
| | | Adjusted Budget | | | |
| **R thousands** | | | | | |
| **Capital Transfers and Grants** | | | | | |
| **National Government:** | | **65 840** | **49 410** | **52 128** | **54 995** |
| Municipal Infrastructure Grant (MIG) | | 40 840 | 39 410 | 41 578 | 43 864 |
| Regional Bulk Infrastructure | | 20 000 | 10 000 | 10 550 | 11 130 |
| EPWP | | – | – | – | – |
| DOE | | 5 000 | – | – | – |
| **EPWP Incentive** | | – | – | – | – |
| | | | | | |
| **District Municipality:** | | – | – | – | – |
| *[insert description]* | | | | | |
| **Other grant providers:** | | – | – | – | – |
| *[insert description]* | | | | | |
| **Total Capital Transfers and Grants** | 6 | **65 840** | **49 410** | **52 128** | **54 995** |

The Capital grants for the 2017/18 financial year have decreased from R66 million to R 49 million in the 2018/19 Budget year, this is mainly because the decrease in the Water Services Infrastructure Grant by R10 million.

| PROJECT DESCRIPTION | TOWN/AREA | WARD | FUNDING | GRANT | OWN FUNDING | BORROWINGS |
|---|---|---|---|---|---|---|
| Moqhaka: Installation of sewer for 4000 new erven in Rammulotsi (northleigh) | Rammulotsi | 21 | R 5 364 570 | ✓ | | |
| Rammulotsi: Development and fencing of new landfill site - phase 2 (MIS:215370) | Rammulotsi | 21 | R 9 033 209 | ✓ | | |
| Maokeng/Nyakallong: Upgrading of Community and Sports Facility (MIS:249771) | Maokeng | 18 | R 1 950 000 | ✓ | | |
| Brentpark: Construction of 0.96km paved road and storm water channel to Brentpark Stadium (MIS:269933) | Brentpark | 13 | R 4 529 648 | ✓ | | |
| Gelukwaarts: Construction of 0,395km tarred road and stormwater crossing (MIS:270279) | Maokeng | 8,10,12-14 | R 7 646 184 | ✓ | | |
| Matlwangtlwang: Construction of 0.62km brick Paved road with V-Channels storm water drainage (1800-1722)(MIS:270047) | Matlwangtlwang | 2 | R 4 639 755 | ✓ | | |
| Seisoville: Construction of 0.750km paved road and storm water drainage at Ntanga street (MIS:272675) | Maokeng | 15 | R 3 186 865 | ✓ | | |
| | | | | | | |
| | | | | | | |

## 1.5 Operating Expenditure Framework

The Municipality's expenditure framework for the 2018/19 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (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 is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of no project plans no budget. If there is no business plan no funding allocation can be made.

## Table 6 Summary of operating expenditure by municipal votes (A3)

| Expenditure by Municipal Vote | | | | |
|---|---|---|---|---|
| Vote Description | | 2018/19 MTREF | | |
| R thousand | Annual Budget 2017/18 | Budget year 2018/19 | Budget year 2019/20 | Budget Year 2020/21 |
| Expenditure by Vote *to be appropriated* | | | | |
| Vote 1 - Councillors | 61 779 | 67 499 | 71 211 | 75 128 |
| Vote 2 - Office of the municipal manager | 12 343 | 15 558 | 16 414 | 17 316 |
| Vote 3 - Corporate Services | 36 417 | 33 250 | 35 079 | 37 008 |
| Vote 4 - Finance | 333 148 | 378 972 | 399 815 | 421 805 |
| Vote 5 - Technical Services | 98 643 | 106 320 | 112 168 | 118 337 |
| Vote 6 - Community and Emergency Services | 133 299 | 148 702 | 156 881 | 165 509 |
| Vote 7 - Local Economic Development and Planning | 26 473 | 30 658 | 32 344 | 34 123 |
| **Total Expenditure by Vote** | **702 103** | **780 959** | **823 912** | **869 227** |

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

### Table 7: Summary of operating expenditure by standard classification (A4)

| OPERATING EXPENSES | | | |
|---|---|---|---|
| **Description<br>R thousand** | **Adjustment Budget Year 2017/18** | **Budget Year 2018/19** | **%** |
| Employee Related Cost | 248 870 | 267 671 | **8%** |
| Remuneration of Councillors | 17 340 | 20 610 | **19%** |
| Bulk Purchases | 234 142 | 250 138 | **7%** |
| Contracted Services | 97 829 | 105 811 | **8%** |
| Other Materials | 10 061 | 10 706 | **6%** |
| Depreciation | 15 109 | 17 142 | **13%** |
| Finance charges | 2 985 | 3 140 | **5%** |
| Contribution to bad debts | 7 303 | 7 683 | **5%** |
| General Expenses | 88 897 | 90 375 | **2%** |
| **Total Expenditure** | **722 536** | **773 276** | **7%** |

**REMARKS**

The budgeted allocation for employee related costs for the 2018/19 financial year totals R268 million, which equates to 35% of the total operating expenditure. A provisional increase of 8% has been provided for. salary increases have been factored into this budget at a percentage increase of 6% (Average CPI) plus 1% for the 2018/19 financial year and an additional 1% to cover the salary notches increases as well as some of the critical vacancies to be filled by the municipality in the 2018/19 financial year.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the Municipality's budget.

Bulk purchases are directly informed by the purchase of electricity from Eskom. The annual price increases as approved by NERSA (National Energy Regulator of South Africa) have been factored (7,32) into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years. Due to organisational constraints and the minimal increases in revenues, the municipality has increased the depreciation amount **mainly** in terms of the inflation rates guided by the National Treasury budget circulars, on the basis of the item being a non-cash item.

The provision of debt impairment was determined based on an annual collection rate of 85%. While this expenditure is considered to be a non-cash flow item, it informs the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). The municipality is currently servicing the DBSA loan.

# 1.6 Capital expenditure

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

### Table A5 Budgeted Capital Expenditure by Vote, Standard Classification and funding

| Vote Description | 2018/19 MTREF | | | |
|---|---|---|---|---|
| R thousand | Adjustment Budget 2017/18 | Budget Year 2018/19 | Budget Year 2019/20 | Budget Year 2020/21 |
| **Capital expenditure - Vote** | | | | |
| | | | | |
| Vote 1 - Councillors | 200 | – | – | – |
| Vote 2 - Office of the municipal manager | 50 | – | – | – |
| Vote 3 - Corporate Services | 1 315 | – | – | – |
| Vote 4 - Finance | 18 857 | 700 | – | – |
| Vote 5 - Technical Services | 45 440 | 49 726 | – | – |
| Vote 6 - Community and Emergency Services | 12 476 | 2 357 | – | – |
| Vote 7 -LED | 850 | – | – | – |
| | **79 188** | **52 783** | **–** | **–** |
| **Capital Expenditure - Functional** | | | | |
| ***Governance and administration*** | **3 691** | **857** | **–** | **–** |
| Executive and council | 397 | – | – | – |
| Budget and treasury office | 3 294 | 857 | – | – |
| Internal Audit | – | – | – | – |
| ***Community and public safety*** | **5 563** | **51 610** | **–** | **–** |
| Community and social services | 388 | – | – | – |
| Sport and recreation | 1 120 | – | – | – |
| Public safety | 4 000 | 51 610 | – | – |
| Housing | 55 | – | – | – |
| Health | – | – | – | – |
| ***Economic and environmental services*** | **11 601** | **–** | **–** | **–** |
| Planning and development | 77 | – | – | – |
| Road transport | 11 424 | – | – | – |
| Environmental protection | 100 | – | – | – |
| ***Trading services*** | **55 298** | **316** | **–** | **–** |
| Energy sources | 5 661 | – | – | – |
| Water Management | 21 767 | 158 | – | – |
| Waste water management | 19 762 | 158 | – | – |
| Waste management | 8 108 | – | – | – |
| ***Other*** | | | | – |
| **Total Capital Expenditure - Standard** | **76 153** | **52 783** | **–** | **–** |
| | | | | |
| **Funded by:** | | | | |
| National Government | 63 798 | 49 410 | – | – |
| Provincial Government | | | | |
| District Municipality | | | | |
| Internally generated funds | 12 355 | 3 373 | – | – |
| **Total Capital Funding** | **76 153** | **52 783** | **–** | **–** |

The following table is a breakdown of the own funding on capital expenditure:

| CAPITAL BUDGET (Own Funds) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| R thousand | Political Offices | Municipal Manager | Finance Services | Corporate Services | Technical Services | Community & Social Services | LED | TOTAL |
| Furniture, Equipment & Heavy | - | - | 700 000 | - | - | 2 358 000 | - | 3 058 000 |
| | | | | | | | | |
| **Total** | **-** | **-** | **700 000** | **-** | **-** | **2 358 000** | **-** | **3 058 000** |

# 1.7 Cash flow Statement

## Table A7 Budget Cash Flows

To replace this table

**FS201 Moqhaka - Table A7 Budget Cash Flows**

| Description | | 2017/18 MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK | | |
|---|---|---|---|---|
| **R thousand** | **Adjustment Budget 2016/17** | **Budget Year 2017/18** | **Budget Year +18/19** | **Budget Year +19/20** |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | | |
| **Receipts** | | | | |
| Property rates, penalties & collection charges | 67,069 | 60,487 | 63,935 | 67,515 |
| Service charges | 403,769 | 428,972 | 453,423 | 478,815 |
| Other revenue | 15,947 | 21,911 | 23,160 | 24,457 |
| Government - operating | 160,968 | 166,741 | 176,245 | 186,115 |
| Government - capital | 48,349 | 66,840 | 58,061 | 69,406 |
| Interest | 14,567 | 14,517 | 15,344 | 16,234 |
| Dividends | – | | | |
| **Payments** | | | | |
| Suppliers and employees | (633,440) | (683,358) | (722,309) | (762,759) |
| Finance charges | (2,354) | (2,498) | (2,640) | (2,788) |
| Transfers and Grants | – | | | |
| **NET CASH FROM/(USED) OPERATING ACTIVITIES** | 74,875 | **73,612** | **65,219** | **76,996** |
| | | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| **Receipts** | | | | |
| Proceeds on disposal of PPE | 0 | | | |
| Decrease (Increase) in non-current debtors | 0 | | | |
| Decrease (increase) other non-current receivables | 0 | | | |
| Decrease (increase) in non-current investments | 0 | | | |
| **Payments** | | | | |
| Capital assets | (72,094) | (76,153) | (58,061) | (69,406) |
| **NET CASH FROM/(USED) INVESTING ACTIVITIES** | (72,094) | **(76,153)** | **(58,061)** | **(69,406)** |
| | | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| **Receipts** | | | | |
| Short term loans | – | | | |
| Borrowing long term/refinancing | – | | | |
| Increase (decrease) in consumer deposits | – | | | |
| **Payments** | | | | |
| Repayment of borrowing | (3,200) | (3,200) | (3,382) | (3,572) |
| **NET CASH FROM/(USED) FINANCING ACTIVITIES** | (3,200) | **(3,200)** | **(3,382)** | **(3,572)** |
| | | | | |
| **NET INCREASE/ (DECREASE) IN CASH HELD** | (419) | **(5,741)** | **3,776** | **4,018** |
| Cash/cash equivalents at the year begin: | 11,846 | **11,427** | **5,686** | **9,461** |
| Cash/cash equivalents at the year end: | 11,427 | **5,686** | **9,461** | **13,479** |

**REMARKS ON THE CASHFLOW**

The cash flows have been projected on the various revenue streams based on the actual collection rate the revenue streams as follows;

| Revenue Description | Collection Rate |
|---|---|
| Property Rates | 90% |
| Electricity revenue | 95% |
| Water revenue | 80% |
| Sanitation revenue | 71% |
| Refuse revenue | 74% |
| Operating & Capital grants | 100% |
| **Average Collection** | **85%** |

The municipality has also made provision to meet **90%** of its overall Operational obligations, this provision is to be reviewed during the adjustment budget process depending on the availability of revenue and 100% of the Capital commitments.

**Collections from arrear debtors**

The municipality's debtors book amounted to **R547m** as at 28 February 2018. The municipality plans to collect at least **20% (R109m)** of its arrear debt in order to fund the outstanding creditors and other operational requirements during the financial year 2018/19.

The municipality owed Eskom **R249m** as at the preparation of the Annual Budget. The municipality did meet with Eskom with regards to the outstanding debt and an arrangement was reached, which extends to 31 January 2019 in terms of the municipality servicing its current account and maintaining the arrears at an outstanding of **R226m** as at the date of the arrangement. The repayments relating to the current account are provided for within the current budget and also the 2018/19 budget. The review of the arrangement is prior to the municipality preparing the 20108/19 adjustment budget and as such we will be in a position to incorporate any adjustment to the Eskom arrangement into our adjustment budget.

The municipality has finalised the compilation of a Revenue Enhancement Strategy, and amongst other things, the municipality is also prioritising the reduction/elimination of the **reticulation losses** (Water **R7.5m** & Electricity **R38.5m** – as per the Audited Annual Financial Statements of 30 June 2017) through the its continuous program of water & electricity meter replacements. To effectively carry out this task, the municipality appointed a panel of service providers to replace both the water & electricity meters.