

Management Plan is in place and will be reviewed by the end of the municipal Financial year (June 2015), it does mention the need to consider climate change, but this is not fully extracted out in the document. The Water Services Development Plan has highlighted climate change, including the need to adapt to climate change in terms of water supply for the municipality. They highlight the need for the identification of robust and alternative sources of supply as well as a conservation approach to the management of water sources. The Plan has stresses the need to understand the implications of water sources for new developments.

**Municipal Response:**

- *Climate change adaptation was considered in our coastal setback lines that is in process of being determined by the ODM.*
- *Overstrand Municipality diversifies its water resources to be more resilient to water scarcity.*

**4.7.2 Coastal management**

Final draft for the Coastal Management Plan (CMP) was due for end of February 2015; this draft will now go out for public participation. This draft addressed the need for an assessment of municipal capacity to be implemented in the CMP. No projects are implemented in the CMP, as projects can only commence when budget is available. Projects must therefore be provided for in IDP

Access strips have been designated in terms of the municipal zoning schemes. Designation of these strips in terms of Integrated Coastal Management Act (ICMA) will be addressed in the Coastal Management Plan. The Department of Environmental Affairs and Development Planning (DEA&DP) will assist Overstrand Municipality with designation of the coastal access land in terms of ICMA where required. Delineation of the Coastal Management Line (CML) was initiated by the DEA&DP, which is now facilitating this process to ensure alignment between ICMA, LUPA and SPLUMA. The National Coastal Management Programme has just been launched on 14 March 2015, however the Provincial Coastal management programme are still in draft. Public launch sites are identified and submitted to DEA&DP for consideration. Public Participation process followed, notices and public meetings held and draft Public launch sites list is submitted to MEC for approval. Most estuaries have draft EMP's in place. These draft EMP's need to be aligned with the National Estuarine Management Protocol and the Estuarine Management Framework. Currently no EMP's have been finalised and adopted.

### 4.7.3 Air quality management

Overstrand Municipality has an Air Quality Management Plan (AQMP) which was approved by their council in 2013. The municipality also does not have an air pollution by-law; however an air quality officer was designated and appointed to attend to air quality management issues. Through coordination by the Overberg District Municipality, the Overstrand Municipality provides input into the Western Cape State of Air Report. Ambient Air Quality Monitoring is not conducted by the municipality, nor any awareness raising campaigns in terms of their AQMP have been implemented.

#### **Municipal Response:**

- *The Act states you may, not must have an air pollution by-law. Overstrand Municipality **doesn't** have an air pollution problem.*
- *Overstrand Municipality has an AQ monitoring station in Mount Pleasant.*

### 4.7.4 Waste management

#### **Waste Management Planning**

The municipality provides services to all households in urban areas including informal settlements and they have access to a weekly refuse removal service. The municipality provides free basic service to 6 879 indigent household with support via the Municipality's Indigent Policy. The municipality has not submitted an Annual Report as per section 13(3) of the Waste Act hence the Directorate: Waste Management (D: WM) is unaware of the status regarding the implementation of their Integrated Waste Management Plan (IWMP). The D: WM has provided feedback to the municipality on the assessment of their IWMP. Their plan does not meet the content requirement of the Waste Act; therefore the MEC has not yet endorsed it. The D: WM is waiting the Council resolution for approval of their 2<sup>nd</sup> generation IWMP. The review IDP does specify the waste management targets and indicators, and they have only indicated budget of R10 000 in the SDBIP for the year 2015/16.

#### **Municipal Response:**

- *Previous IWMP (3<sup>rd</sup> generation) was not compliant, therefor developed the 4<sup>th</sup> generation plan, included as Annexure 2 in draft IDP review (pg.188-191).*

## **Waste Compliance and Licensing**

Overstrand Municipality has various licenced closed Waste Disposal Facilities (WDF) and one fully operational disposal facility. The Karwyderskraal WDF is in the process of being reopened for the disposal as well as the availability of various drop-off facilities and transfer stations. The current overall operational compliance is moderate where surface water management needs to improve; cover material and windblown litter have been identified as common non-compliances. Internal and external auditing from the municipality is lacking recently.

## **Information Management**

All operational waste management facilities need to be registered on the Integrated Pollutant and Waste Information System (IPWIS). The following landfill facilities need to continue capturing their Waste Calculator data on the IPWIS from January 2014 up until the current date:

- Overstrand Municipality
- Gansbaai Landfill
- Hermanus Transfer Station
- Kleinmond Transfer Station
- Betty's Bay Drop Off
- Hawston Drop Off
- Voelklip Drop Off
- Pearly Beach Drop Off
- Stanford drop off

Drop off facilities must be registered as a recycling/recovery activity on IPWIS. All municipal waste facilities that do not have weighbridges must use the Waste Calculator and submit the Waste Calculator spreadsheet to the D: WM by the 7<sup>th</sup> of the new month for the previous month. Municipal waste facilities that make use of service providers for waste recycling and recovery must ensure that the service providers are registered on IPWIS, as the municipalities need to select the service providers when reporting on IPWIS.

## **Waste Minimisation and Policy**

The municipality has a well-developed waste recovery system. They have a Material Recovery Facility (MRF) and a two bag separation programme that has been rolled out extensively to all communities in all their towns. They also have drop-off facilities

and support community based recycling programmes in the form of a swop shop. The municipality has an updated waste bylaw published in 2013 which is aligned to the National Environmental Management: Waste Act (NEMWA), Act 59 of 2008.

### **Recommendations**

- i. Moving forward a key focus area of the SDF must be the strengthening of the performance in terms of Spatial Justice, Spatial Sustainability, Efficiency and Spatial Resilience.
- ii. It is acknowledged that the described spatial proposals for each town provide valuable and detailed information, however the inclusion of a composite map would provide an overall view.
- iii. While more detail in the form of a spatial depiction of its expenditure overlaid on top of the approved SDF maps (to illustrate the degree to which the IDP aligns with the SDF) can still be provided, the inherent constraints experienced by medium sized municipalities to produce these maps are acknowledged.
- iv. The SDF should be updated to incorporate CBA's and ESA's as Core 1 areas.
- v. The optimisation of resource-use efficiency and the mainstreaming of sustainability should be incorporated into the SDF. This section must indicate how the municipality proposes to incorporate these issues into development planning with comparable significance to economic and social factors.
- vi. Greater emphasis on spatial resilience (ability to recover from uncertain environmental and possibly economic changing circumstances) and the incorporation of these concepts into the spatial plans is recommended.

### **Municipal Response:**

- *A review of the SDF is planned in the 2015/16 financial year and we endeavour to include recommendations 4-6 in the review process*

## SECTION 5: ASSESSMENT OF THE BUDGET RESPONSIVENESS

### 5.1 SOCIO-ECONOMIC IMPACT & ALLOCATIVE EFFICIENCY

#### 5.1.1 Introduction

This section examines if the tabled 2015/16 MTREF Budget is responsive from an economic and socio-economic perspective and whether the municipality is able from its limited resources to meet the legitimate expectations of the community for services. It further aims to test the allocative efficiency of the budget which in essence means that "expenditures should be based on [government] priorities and on effectiveness of (public) programmes. The budget system should spur reallocation from less to higher priorities and from less to more effective programmes".

#### 5.1.2 Socio-economic context of Municipality

<sup>1</sup>Current projections of global and national growth for 2015 suggest that slow economic growth is expected to persist. The Western Cape economy is forecast to grow at 2.1 per cent in 2015, and on average 2.7 per cent over the 2014 – 2019 period. Key recent economic developments at a macro level include the decline in oil prices, depreciation in the exchange rate and the recent moderation of the inflation rate which impact on national and regional growth prospects.

Key risks include energy supply constraints, and the resultant impact of lower investor confidence. The implication of the weak economic environment is a more constrained fiscal outlook, which has translated into expenditure reductions and tax proposals as highlighted in the National budget which requires a strong emphasis on balancing public finances while also targeting initiatives to support inclusive economic growth and job creation.

**Table 1 Socio-economic indicators**

Municipality	Population size				Unemployment Rate (%)		Youth Unemployment (%)		GDP (2013)			Human Development Index		Gini coefficient	
	2001	2011	2013	Average Annual Growth	2001	2011	2001	2011	GDP (R in Millions)	GDP Per capita 2013	Real GDP-R Growth (2000-2013)	2011	2012	2011	2012
Overberg District	203 520	258 176	265 858	2.3%	17.5	17.0	22.4	21.4	8083	30403	5.2%	0.69	0.69	0.58	0.59
Theewaterskloof	93 276	108 790	111 814	1.5%	18.6	14.9	18.6	19.8	2873	25692	4.0%	0.66	0.66	0.58	0.59
Overstrand	55 735	80 432	83 602	3.4%	22.0	23.3	29.3	31.1	2766	33082	6.6%	0.73	0.73	0.58	0.58
Cape Agulhas	26 183	33 038	33 710	2.1%	13.6	13.8	19.5	19.5	1400	41536	5.8%	0.70	0.70	0.57	0.57
Swellendam	28 077	35 916	36 731	2.3%	15.7	11.4	22.1	15.0	1021	27785	5.1%	0.67	0.68	0.58	0.59

Source: STATS SA, Global Insight, Department of Social Development

<sup>1</sup> Western Cape Government Budget Overview of the Provincial Revenue and Expenditure 2015

Overstrand Municipality has the second largest population (2013: 83 602), following after Theewaterskloof (2013: 111 814). According to the population estimates by the Department of Social Development, Overstrand's population is expected to grow by 1.78 per cent on average per annum from 83 602 in 2013 to 89 726 in 2017.

Overstrand had the highest unemployment rate in 2011 (23.3 per cent). Although Overstrand's HDI measured relatively high at 0.73 in 2012, there is still room for improvement in terms of human development (education, health, nutrition, gender, etc.). In terms of the Gini coefficient, Overstrand measures high levels of inequality (0.58). The municipality has indicated that they will work with the private sector and other spheres of government to improve income levels through quality jobs, education and entrepreneurship.

### Basic Services

All South Africans have a right to access basic services such as housing, water, electricity, sanitation, and waste removal in line with the Bill of Rights.

**Table 2 Access to minimum basic services in Overberg District**

Regional area	Water		Sanitation		Housing		Energy		Refuse removal	
	2011	2013	2011	2013	2011	2013	2011	2013	2011	2013
Overberg	97.4%	97.4%	89.5%	89.4%	91.2%	91.1%	79.7%	79.7%	83.2%	82.9%
Theewaterskloof	96.9%	96.8%	86.6%	86.4%	89.0%	88.8%	79.7%	79.7%	82.0%	81.7%
Overstrand	98.5%	98.5%	93.6%	93.5%	90.4%	90.3%	91.4%	91.4%	81.3%	81.0%
Cape Agulhas	97.5%	97.4%	90.2%	90.1%	97.1%	97.0%	80.0%	80.1%	86.2%	85.9%
Swellendam	96.0%	95.9%	85.7%	85.5%	93.9%	93.9%	73.9%	74.0%	88.9%	88.7%

Water: Piped water on community stand less than 200 m from dwelling

Sanitation: Flush toilet with septic tank

Energy: Electricity

Refuse removal: Removed by local authority at least once a week

Housing: Formal dwelling

Source: Quantec, 2014

Table 2 shows the type of basic service that is accessed the most by households in Overstrand is; water (98.5 per cent), followed by sanitation (93.5 per cent), refuse removal (91.4 per cent), energy (90.3 per cent) and housing (81.0 per cent). All services except housing compare favourably across the Overberg District.

### Current Economic Reality

Real economic growth for the Western Cape is expected to be 3.1 per cent in 2015 and 3.0 per cent in 2016. Although this is higher than the average 2.9 per cent maintained during the expansion phase (2010 – 2013) it is still considerably lower than the average growth trend (2000 – 2013) of 3.9 per cent.

The Overstrand Municipality maintained an impressive average year-on-year growth rate of 6.3 per cent for the period 2000 – 2013, which is a whole percentage point higher than the Overberg district rate of 5.2 per cent.

From a total value added perspective, the Overstrand Municipality, with 34.6 per cent, contributed the second highest percentage to the total 2013 Overberg GDP. Theewaterskloof Municipality made a slightly higher contribution of 35.0 per cent.

The largest sector contributions to the Overstrand GDP in 2013 were finance, insurance, real estate and business services (28.6 per cent), wholesale and retail trade, catering and accommodation (20.8 per cent) and manufacturing (12.8 per cent).

The municipal area is an attractive tourist destination and a wide array of offerings such as wine routes and pristine beaches annual attracts local and foreign visitors which stimulates the retail and accommodation industries. Its close proximity to Cape Town makes it an ideal weekend break-away destination which boosts local property developments.

**Table 3 Social indicators: education, health and crime**

Municipality	Education*			Health**			Crime***		
	Literacy (2011)	Matric pass rate (2014)	Average drop out rate (2012)	Full immunisation rate (2014)	Delivery rate to women under 18 years (2014)	ART patient load (2014)	Burglaries at residential properties (2013/14)	Drug related crime (2013/14)	Murder (2013/14)
Western Cape	87.2%	82.2%	38.9%	80.3%	6.3	159581	846	1430	49
Overberg District	81.1%	88.1%		81.6%	8.2	6182	1104	1403	36
Theewaterskloof	78.4%	88.8%	40.8%	79.9%	9.5	2757	849	1595	51
Overstrand	87.5%	86.8%	49.5%	80.3%	6.1	2506	1715	1269	28
Cape Agulhas	81.1%	87.8%	37.9%	85.3%	9.1	372	759	810	18
Swellendam	74.2%	88.7%	34.7%	78.2%	9.4	547	806	1672	30

Source: \*WCED, \*\*Department of Health, \*\*\* Stats SA

Education and training improves access to employment opportunities and helps to sustain and accelerate overall development. Overstrand residents' literacy rate is the highest among the municipalities in the Overberg District. The largest problem however among the indicators discussed is the dropout rate. Health indicators show Overstrand doing quite well compared to its fellow municipalities. Overstrand's full immunisation rate is at (80.3 per cent). The delivery rate to women under 18 years is below the Provincial average and also the lowest in the District.

Personal impressions, as well as official statistics on safety and crime issues mould perceptions of areas as living spaces as well as places in which to establish

businesses. In this way, crime can also have a significant impact on the economy. Burglaries at residential premises appear to be a particular challenge within the Overstrand municipal area being higher than the Province and the District. Drug-related crimes are also of concern. The relatively high levels indicate that substance abuse may be prevalent in the area. The Overstrand's murder rate is relatively low when compared to that of the District and Province.

### 5.1.3 Key priorities in terms of IDP Strategic Objectives

Alignment of the Overstrand municipal Strategic priorities to the national priorities, provincial and local priorities is addressed on pages 113 - 117 of the reviewed IDP. Reference is made to National Outcomes (2010), National Development Plan (2013), One Cape (2040) and the Western Cape Strategic Plan (2014 - 2019). Furthermore, the budget and The IDP correspond to the National Key Performance Areas. Back to Basics is also addressed in page 118 - 119 of the Municipality's IDP.

### IDP/Budget Assessment

**Table 4 Medium Term Revenue and Expenditure Framework: Capital Budget**

		Medium Term Revenue and Expenditure Framework			Percentage share of Capital Budget		
		Budget Year	Budget Year	Budget Year			
		2015/16	2016/17	2017/18	2015/16	2016/17	2017/18
		Budget R'000	Budget R'000	Budget R'000			
IDP Alignment	<b>Function</b>						
	Provision of Democratic and Accountable Governance	2648	3730	0	3%	4%	0%
	Provision and Maintenance of Municipal Services	45355	41326	44387	53%	44%	43%
	The encouragement of structured community	25 315	45 550	55 174	30%	48%	53%
	The creation and maintainance of a safe and healthy	100	0	0	0%	0%	0%
	Promotion of Tourism, Economic and social	12 098	4 000	4 000	14%	4%	4%
<b>TOTAL CAPITAL EXPENDITURE</b>		85 515	94 606	103 561	100%	100%	100%

Source: Overstrand Municipality 2015/16 Draft Budget

It is noted that the municipality completed the required Budget A-Schedules (SA6) which agrees to the main budget schedules (A5).

Table 4 depicts the priority that in 2015/16 the provision and maintenance of municipal services (53 per cent) and the encouragement of structured community (30 per cent) have the biggest percentage share of the budget over the MTREF period. In year 2 and 3 of the MTREF the capital budget shifts in favour of encouragement of structured community.

The capital expenditure budget respond to the following challenges which have been highlighted in the IDP regarding municipal services; ageing infrastructure, ever aging water, roads, sewage and electricity infrastructure, backlog in infrastructure; housing backlog and densely populated informal settlements

**Table 5 Medium Term Revenue and Expenditure Framework: Operating Budget**

OPERATING BUDGET		Medium Term Revenue and Expenditure Framework			Percentage share of Operating Budget		
		Budget Year 2015/16	Budget Year 2016/17	Budget Year 2017/18	2015/16	2016/17	2017/18
		Budget R'000	Budget R'000	Budget R'000			
Alignment to IDP	<b>Municipal Functions</b>						
	Provision of Democratic and Accountable Governance	237218	248313	267049	24%	24%	24%
	Provision and Maintenance Services	448031	492997	539058	46%	48%	49%
	The encouragement of structured community participation in the matters of the municipality	90760	85957	70997	9%	8%	6%
	The creation and maintainance of a safe and healthy enviro	76405	79497	82921	8%	8%	8%
	Provision of Democratic and Accountable Governance						
	Promotion of Tourism, Economic and social Development	125094	130729	138267	13%	13%	13%
<b>TOTAL</b>		<b>977508</b>	<b>1037493</b>	<b>1098292</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Overstrand Municipality 2016/17Draft Budget

It is noted that the municipality completed the required Budget A-Schedules (SA5) which agrees to the main budget schedules (A2).

The operating budget prioritises the Provision and Maintenance of municipal services which amounts to 46 per cent of the operating expenditure budget in the 2015/16 financial year. The allocation for Democratic and Accountable Governance accounts to 24.0 per cent of the operating budget over the MTEF period. The Promotion of Tourism Economic and social Development amount to 13 per cent of the operating budget of the MTREF period. The Creation and Maintenance of a safe and healthy environment amounts to 8 per cent of the operation budget for 2015/16.

### 5.1.4 Key priorities in terms of Allocation

**Table 6 Municipal Priorities as per Vote**

Vote Description R thousand	Capital Expenditure - Standard			Operating Expenditure - Standard			Total Expenditure - Standard			Total Budget			Total Budget
	2015/16	2016/17	2017/18	2015/16	2016/17	2017/18	2015/16	2016/17	2017/18	Composition			Change
<b>Governance and administration</b>	2 648	3 730	-	237 218	248 313	267 049	239 866	252 043	267 049	22.6%	22.3%	22.2%	5.5%
Executive and council				92 505	98 337	108 547	188 464	98 337	108 547	17.7%	8.7%	9.0%	-24.1%
Budget and treasury office				69 750	71 154	75 197	5 328	71 154	75 197	0.5%	6.3%	6.3%	275.7%
Corporal services	2 648	3 730		74 963	78 822	83 305	77 611	82 552	83 305	7.3%	7.3%	6.93%	3.6%
<b>Community and public safety</b>	25 415	45 550	55 174	154 971	158 237	146 267	180 386	203 787	201 441	17.0%	18.0%	16.8%	5.7%
Community and social services	3 901	4 000	4 000	31 322	33 034	35 198	35 223	37 034	39 198	3.3%	3.3%	3.3%	5.9%
Sport and recreation	4 526	6 900	6 900	18 220	19 390	20 550	22 746	26 190	27 330	2.1%	2.3%	2.3%	9.7%
Public safety	100			69 453	72 280	75 270	69 553	72 280	75 270	6.5%	6.4%	6.3%	4.0%
Housing	16 868	34 750	44 374	35 976	33 533	15 249	52 864	68 283	59 624	5.0%	6.0%	4.96%	6.2%
Health				-	-	-	-	-	-	0.0%	0.0%	0.0%	#DIV/0!
<b>Economic and environmental services</b>	12 098	4 000	4 000	132 046	137 946	145 918	144 143	141 946	149 918	13.6%	12.5%	12.5%	2.0%
Planning and development	25			40 308	40 867	43 282	40 333	40 867	43 282	3.8%	3.6%	3.6%	3.6%
Road transport	12 073	4 000	4 000	84 766	89 863	94 966	96 859	93 863	99 966	9.1%	8.3%	8.2%	1.1%
Environmental protection				6 952	7 217	7 651	6 952	7 217	7 651	0.7%	0.8%	0.6%	4.9%
<b>Trading services</b>	45 355	41 326	44 387	453 273	492 997	539 058	498 626	534 323	583 445	46.9%	47.2%	48.5%	8.2%
Electricity	17 775	14 000	16 000	257 278	287 386	322 086	275 053	301 386	338 086	25.9%	26.6%	28.1%	10.9%
Water	16 326	14 726	15 787	78 375	81 294	85 130	94 701	96 020	100 917	8.9%	8.5%	8.4%	3.2%
Waste water management	11 244	12 600	12 600	63 357	67 214	71 597	74 600	79 614	84 197	7.0%	7.1%	7.0%	6.2%
Waste management	10			54 264	57 103	60 245	54 274	57 103	60 245	5.1%	5.0%	5.0%	5.4%
Other				-	-	-	-	-	-	0.0%	0.0%	0.0%	#DIV/0!
<b>Total Capital Expenditure - Standard</b>	<b>85 515</b>	<b>94 606</b>	<b>103 561</b>	<b>977 508</b>	<b>1 037 493</b>	<b>1 098 292</b>	<b>1 063 023</b>	<b>1 132 099</b>	<b>1 201 853</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>#DIV/0!</b>

Source: 2015/16 Overstrand budget

The total budget is biased towards trading services which account for 46.9 per cent of the total expenditure in 2015/16 increasing to 48 per in 2017/18 MTREF.

Governance and administration is allocated 22.6 per cent of the total budget in 2015/16 and remaining within that range over the MTREF.

Community and Public Safety is allocated 17.0 per cent of the total budget in 2015/16 decreasing to 16.8 per cent in 2017/18.

Economic and Environmental services are allocated 13.6 per cent of the total budget in 2015/16 decreasing to 12.5 per cent in 2017/18.

## **Municipal Services**

Electricity services alone accounts for 25.9 per cent of the total budget in 2015/16. For the infrastructure the municipality budgeted for the Electrification of low cost housing areas (INEP), Franskraal, Kleinbaai & Birkenhead, and Gansbaai MV/LV upgrade, and Electricity transformers (cap) etc.

Water services receive 8.9 per cent of the total expenditure. For the infrastructure the municipality budgeted for budget; mainly to replace the aging infrastructure from the capital expenditure budget and to maintain the water distribution network from the operating expenditure budget.

Waste water management is allocated 7 per cent of the total expenditure budget.

Waste Management is allocated 5.1 per cent of the total expenditure budget. Problems with waste include the deteriorating airspace and the reality that location of the regional landfill sites

Roads infrastructure accounts for 9.1 per cent of the expenditure budget in 2015/16. Capital projects include the rehabilitation of existing pave roads, rehabilitate of roads and upgrade storm water etc.

Housing is allocated 5 per cent of the total expenditure in 2015/16.

Economic infrastructure (roads and electricity) programme receives priority to promote infrastructure-led growth in 2015/16 budget year.

## 5.1.5 Socio-economic impact of Main Priorities

Table 7 Basic service delivery measurement

WC032 Overstrand - Table A10 Basic service delivery measurement

Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
		Outcome	Outcome	Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
<b>Household service targets</b>	1									
<b>Water:</b>										
Piped water inside dwelling		27 203	27 295	32 032	28 100	28 100	28 100	29 366	30 350	31 300
Piped water inside yard (but not in dwelling)		-	-	-	-	-	-	-	-	-
Using public tap (at least min. service level)	2	3 449	3 436	3 334	3 350	3 350	3 350	3 320	3 270	3 200
Other water supply (at least min. service level)	4	199	199	155	-	-	-	-	-	-
<i>Minimum Service Level and Above sub-total</i>		30 851	30 930	35 521	31 450	31 450	31 450	32 686	33 620	34 500
Using public tap (< min. service level)	3	-	-	-	-	-	-	-	-	-
Other water supply (< min. service level)	4	-	-	-	-	-	-	-	-	-
No water supply		-	-	-	-	-	-	-	-	-
<i>Below Minimum Service Level sub-total</i>		-	-	-	-	-	-	-	-	-
<b>Total number of households</b>	5	30 851	30 930	35 521	31 450	31 450	31 450	32 686	33 620	34 500
<b>Sanitation/sewerage:</b>										
Flush toilet (connected to sewerage)		21 205	21 284	21 632	20 030	20 030	20 030	20 818	21 413	21 973
Flush toilet (with septic tank)		9 646	9 646	9 799	11 420	11 420	11 420	11 868	12 207	12 527
Chemical toilet		-	-	-	-	-	-	-	-	-
Pit toilet (ventilated)		-	-	-	-	-	-	-	-	-
Other toilet provisions (> min. service level)		-	-	-	-	-	-	-	-	-
<i>Minimum Service Level and Above sub-total</i>		30 851	30 930	31 431	31 450	31 450	31 450	32 686	33 620	34 500
Bucket toilet		-	-	-	-	-	-	-	-	-
Other toilet provisions (< min. service level)		-	-	-	-	-	-	-	-	-
No toilet provisions		-	-	-	-	-	-	-	-	-
<i>Below Minimum Service Level sub-total</i>		-	-	-	-	-	-	-	-	-
<b>Total number of households</b>	5	30 851	30 930	31 431	31 450	31 450	31 450	32 686	33 620	34 500
<b>Energy:</b>										
Electricity (at least min. service level)		8 420	7 918	7 136	8 700	6 625	6 625	6 114	5 603	5 092
Electricity - prepaid (min. service level)		13 478	14 080	16 458	17 700	18 379	18 379	19 240	20 132	21 024
<i>Minimum Service Level and Above sub-total</i>		21 898	21 998	23 594	26 400	25 004	25 004	25 354	25 735	26 116
Electricity (< min. service level)		-	-	-	-	-	-	-	-	-
Electricity - prepaid (< min. service level)		-	-	-	1 000	1 000	1 000	-	-	-
Other energy sources		-	-	-	-	-	-	-	-	-
<i>Below Minimum Service Level sub-total</i>		-	-	-	1 000	1 000	1 000	-	-	-
<b>Total number of households</b>	5	21 898	21 998	23 594	27 400	26 004	26 004	25 354	25 735	26 116
<b>Refuse:</b>										
Removed at least once a week		31 373	31 739	31 829	32 691	32 691	32 691	33 023	34 014	35 034
<i>Minimum Service Level and Above sub-total</i>		31 373	31 739	31 829	32 691	32 691	32 691	33 023	34 014	35 034
Removed less frequently than once a week		-	-	-	-	-	-	-	-	-
Using communal refuse dump		-	-	-	-	-	-	-	-	-
Using own refuse dump		-	-	-	-	-	-	-	-	-
Other rubbish disposal		-	-	-	-	-	-	-	-	-
No rubbish disposal		-	-	-	-	-	-	-	-	-
<i>Below Minimum Service Level sub-total</i>		-	-	-	-	-	-	-	-	-
<b>Total number of households</b>	5	31 373	31 739	31 829	32 691	32 691	32 691	33 023	34 014	35 034
<b>Households receiving Free Basic Service</b>	7									
Water (6 kilolitres per household per month)		25 310	25 406	6 543	6 700	6 700	6 700	6 900	7 000	7 100
Sanitation (free minimum level service)		5 852	6 423	6 543	6 700	6 700	6 700	6 900	7 000	7 100
Electricity/other energy (50kwh per household per month)		5 852	6 423	6 543	4 785	4 785	4 785	6 900	7 000	7 100
Refuse (removed at least once a week)		5 852	6 423	6 543	6 700	6 700	6 700	6 900	7 000	7 100
<b>Cost of Free Basic Services provided (R'000)</b>	8									
Water (6 kilolitres per household per month)		5 470	6 020	6 502	7 723	7 723	7 723	9 231	9 926	10 672
Sanitation (free sanitation service)		5 046	5 349	5 670	6 010	6 010	6 010	6 370	6 753	7 158
Electricity/other energy (50kwh per household per month)		11 665	13 482	14 562	18 809	18 809	18 809	21 104	23 214	25 536
Refuse (removed once a week)		5 903	7 198	7 775	9 174	9 174	9 174	11 591	12 465	13 401
<b>Total cost of FBS provided (minimum social package)</b>		28 084	32 049	34 509	41 716	41 716	41 716	48 296	52 358	56 767

It is noted that the municipality has a service standard charter for municipal services with the communities; this is documented in the IDP review.

Table A10 only report on access levels to areas where the municipality is actually providing a service.

### **Water**

Table 2 which deals with access to basic services indicates that 98.5 per cent of the households have access to water. Table A10, highlights that the Municipality does not have any households below the minimum service level for water. The Municipality is forecasted to provide water to 32 686 households in 2015/16, which is expected to rise to 34 500 households in 2017/18.

There are differences between the number of households in Table A10 for all services and Table SA7 and SDBIP. However, SA7 and the SDBIP are aligned. The total number of households to be serviced are reflected as 31 483.

For example, the municipality report on 31 483 households (both formal 28 077 and informal households 3 406) in the SDBIP and supporting Table SA7 for water, compared to 32 686 in Table A10.

### **Sanitation**

Table A10 highlights that the Municipality does not have any households below the minimum service level.

The SDBIP reflects a target of 32 697 formal households and 3 406 for informal households. This number is also not aligned to the number reported in Table A10.

### **Electricity**

Table A10, highlights that the Municipality does not have any households below the minimum service level.

Table A10 reflects that the municipality target to supply energy to 25 345 households in 2015/16, this number excludes the household supplied by Eskom.

The 2015/16 draft SDBIP and supporting Table SA7 reflect the target of 21 998 households for provision of electricity to formal households. This number differs from the targets reported in Table A10; in addition the baseline information in the SDBIP is reflected as 25 751 which is above the targets for 2015/16. The annual report of 2013/14 reports on 23 594 households.

Also noted is the different number of households to receive free basic electricity as in reported in Table A10, SA7 and the SDBIP. In Table A10 its 6 900 households (50 kWh) in Table A10 compared to 6 800 in Table SA7 and the SDBIP for 2015/16.

### Refuse/Waste Management

Table A10, highlights that the Municipality does not have any households below the minimum service level.

The Municipality is forecasted to provide refuse to 33 023 households in 2015/16, which is expected to rise to 35 034 households in 2017/18.

This number is also different from the targets in SA7 and the SDBIP (36 103). This could affect the audit of PDOs regarding the usefulness of the PDOs.

### 5.1.6 Areas of interface (MFMA and PFMA)

The National Development Plan (NDP) aims to eliminate poverty and reduce inequality over the medium to long term. Each sphere of government and has a role to play in supporting these objectives. The Western Cape Province and municipalities have embarked on a Joint Planning Initiative to improve coordination and integration of strategic planning, budgeting and implementation to join efforts to achieve the long term objectives of the NDP. The table below aims to illustrate the efforts of the Western Cape Province and the municipalities to address these objectives.

**Table 8 Provincial-Municipal Interface**

Indicator	NDP Goals	Provincial Status Quo	Municipal Status Quo	PSG Note	Municipal KPA/KFA/SO	Provincial Interventions	Municipal Interventions
<b>Poverty</b>	For zero households to be below the R418 monthly income poverty line		525 households have no income	1, 2, 3	The promotion of tourism, economic and social development	Provincial interventions come through the Departments of Social Development, agriculture, economic development, transport and public works.	Implement municipal capital projects through EPWP principles and facilitate an environment that will attract sectors with high value and support industries that yield employment opportunities and are prevalent in the area.

Indicator	NDP Goals	Provincial Status Quo	Municipal Status Quo	PSG Note	Municipal KPA/KFA/SO	Provincial Interventions	Municipal Interventions
<b>Per Capita Income</b>	Per capita income of R110 000	R9 601 – R153 600 per annum (PERO 2014)	Per capita income R32 052 in 2011 to R33 082 in 2013.	1, 2, 3	The promotion of tourism, economic and social development	Creating an enabling environment to attract investment, grow the economy and create jobs by supporting high growth economic sectors.	Implement municipal capital projects through EPWP principles and facilitate an environment that will attract sectors with high value and support industries that yield employment opportunities and are prevalent in the area.
<b>Inequality</b>	Gini-coefficient of 0.6	0.58 in 2011 (PERO 2014)	Gini-coefficient of 0.58 (2012)	1, 2, 3	The promotion of tourism, economic and social development	Creating an enabling environment to attract investment, grow the economy and create jobs by supporting high growth economic sectors.	Work with the private sector and other spheres of government to improve income levels through quality jobs, education and entrepreneurship.
<b>Economic Growth</b>	5.4 per cent per annum	2.4 per cent in 2013 (OPRE, 2015)	6.3 per cent on average per annum from 2000 to 2013	1	The Promotion of Tourism Economic and social Development	Creating an enabling environment to attract investment, grow the economy and create jobs by supporting high growth economic sectors.	Support economic sectors with potential to grow and create employment opportunities. Promote tourism growth that does not compromise the environment.
<b>Education</b>	All children to have at least 2 years of pre-school education; 80 per cent of learners to get 50 per cent for grades 3, 6 and 9 literacy, mathematics and science. A learner retention ratio of 90 per cent	Learner retention rate of 64 per cent in 2014 for Gr 10-12 (PERO 2014)	Average dropout rate of 49.5(2012)	2		Intergovernmental support	New crèches to be established and functioning ECD centres established.

Indicator	NDP Goals	Provincial Status Quo	Municipal Status Quo	PSG Note	Municipal KPA/KFA/SO	Provincial Interventions	Municipal Interventions
<b>Health</b>	Maternal mortality to fall from 500 to 100 per 100 000 live births	78.64 per 100 000 live births for 2011-2012 (DoH 2015 Strategic Plan)		3		Intergovernmental support	
<b>Unemployment</b>	6 per cent	22.8 per cent (Narrow, OPRE 2015)	Unemployment rate in 2011 (23.3 per cent).	1,2,3		Creating an enabling environment to attract investment, grow the economy and create jobs by supporting high growth economic sectors.	Provide opportunities for new entrants to the labour market to gain work experience; Support economic sectors with potential to grow and create employment opportunities;
<b>Access to Basic Services</b>	Access to Electricity at 95 per cent. Expansion of the renewable energy sources including a national target of 5 million solar water heaters by 2030.	Access to energy – 93.3 per cent in 2013 (Quantec, 2013)	energy (90.3 per cent)	1, 4, 5	Basic services	Intergovernmental support	Effective Development of Municipal Infrastructure

Source: PERO, MERO, Overstrand IDP review

Note: See Provincial Strategic Goals listed hereunder.

Provincial Strategic Plan 2014 - 2019	
<b>Provincial Strategic Goal 1</b> <b>Create opportunities for growth and jobs</b>	<b>Provincial Strategic Goal 2</b> <b>Improve education outcomes and opportunities for youth development</b>
<ul style="list-style-type: none"> <li>● Building an appropriately skilled workforce</li> <li>● Red Tape Reduction</li> <li>● Strategic Catalytic Infrastructure and initiatives</li> <li>● Green Economy</li> </ul>	<ul style="list-style-type: none"> <li>● Improve the level of language and mathematics in all schools</li> <li>● Increase the number and quality of passes in the National Senior Certificate and equivalent qualifications</li> <li>● Increase the quality of education provision in poorer communities</li> <li>● Provide more social and economic opportunities for our youth</li> <li>● Improve family support to children and youth, and facilitate development</li> <li>● Improve literacy levels from Grade R-3</li> </ul>
<b>Provincial Strategic Goal 3</b> <b>Increase wellness, safety and tackle social ills</b>	<b>Provincial Strategic Goal 4</b> <b>Enable a resilient, quality and inclusive living environment</b>
<ul style="list-style-type: none"> <li>● Healthy, Inclusive and Safe Communities</li> <li>● Healthy workforce</li> <li>● Healthy families</li> <li>● Healthy youth</li> <li>● Healthy children</li> <li>● Wellness cluster</li> </ul>	<ul style="list-style-type: none"> <li>● Enhanced management of the ecological and agricultural resource base</li> <li>● The Western Cape Sustainable Water Management Plan</li> <li>● Air quality and climate change</li> <li>● Western Cape climate change implementation framework</li> </ul>
<b>Provincial Strategic Goal 5</b> <b>Embed good governance and integrated service delivery through partnerships and spatial alignment</b>	
<ul style="list-style-type: none"> <li>● Enhanced Governance</li> <li>● Integrated Management</li> </ul>	<ul style="list-style-type: none"> <li>● Inclusive Society</li> </ul>
<b>Game changers</b>	
<ul style="list-style-type: none"> <li>● Growth and jobs through tourism, Agri-processing and Oil and Gas</li> <li>● Energy Security</li> <li>● e-Learning</li> <li>● After School programmes for our youth</li> </ul>	<ul style="list-style-type: none"> <li>● Reducing the impact of alcohol abuse on the population</li> <li>● Water and Sanitation for all</li> <li>● Integrated Better living model (Live-Work-Play)</li> <li>● Broadband Infrastructure</li> </ul>

- It is promising to note that there are already a number of areas of work that overlap. Further work in reconciling information and as well as future joint planning can still be strengthened.
- Areas where improvement is required to meet the NDP goals, these include reducing the number of households with no income, increasing per capita levels and reduce unemployment levels in the municipal area.

### Provincial Payments and Estimates

In addition to direct grant transfers to the local municipalities, the Western Cape Government also invest/spend in the municipal areas.

**Table 9 Summary of provincial payments to Overstrand Municipality for the period from 2014/15 to 2017/18**

Row Labels	Annual budget 2014/15	Adjusted budget 2014/15	Revised Estimate 2014/15	2015/16	2016/17	2017/18
<b>Overstrand</b>	<b>486 492</b>	<b>552 654</b>	<b>551 462</b>	<b>490 042</b>	<b>400 550</b>	<b>440 693</b>
01. Department of the Premier	-	-	-	-	-	-
02. Provincial Parliament	-	-	-	-	-	-
03. Provincial Treasury	-	-	-	-	-	-
04. Community Safety	60	57	56	58	62	65
05. Education	167 755	189 686	189 686	199 785	203 193	211 257
06. Health	93 792	124 164	122 973	105 197	109 020	114 460
07. Social Development	3 775	3 775	3 775	4 030	4 275	4 489
08. Human Settlements	10 529	24 373	24 373	47 114	62 230	53 250
09. Environmental Affairs and Development Planning	-	-	-	-	-	-
10. Transport and Public Works	205 097	205 097	205 097	125 404	16 004	50 996
11. Agriculture	-	-	-	-	-	-
12. Economic Development and	-	-	-	-	-	-
13. Cultural Affairs and Sport	5 432	5 432	5 432	8 322	5 557	5 890
14. Local Government	52	70	70	132	209	286

A total of R1.33 billion will be spent by the provincial government in Overstrand municipal area over the 2015/16 MTREF.

The bulk of the provincial spending flows from the Education Department followed by Health Department with a total investment of R614.2 million and R328.68 million respectively over the 2015/16 MTREF. Thereafter followed by the Department of Transport and Public Works, and the Department of Human settlement at R192.404 million and R162.594 million over the 2015/16 MTREF period respectively.

### 5.1.7 Conclusion

Overstrand Municipality's planning and strategies are aligned within the Municipal and broader Provincial context, National Development Plan.

The Municipality has successfully completed SA5 and SA6 and demonstrated that its budget is aligned to the strategic objectives as identified in the IDP review of 2015/16.

In terms of KPAs, the provision of infrastructure and municipal services receives priority in the draft IDP/Budget 2015/16 both in capital and operating spending.

Economic infrastructure (roads and electricity) is prioritised in the budget to promote infrastructure-led growth.

There are slight differences in household targets reported in Table A10 with the household targets reported in supporting Table SA7 and the SDBIP. This could affect the audit of PDOs regarding the usefulness of the PDOs.

The municipality is still faced with low per capita income compared to the NDP goal of R110 000 per Capita incomes. Overstrand Municipality's per capita income is growing marginally from R32 052 in 2011 to R33 082 in 2013. The municipality should continue to apply its LED strategy to promote economic growth and development. Unemployment is still relatively high in the municipality.

It is clear that the draft budget of the Municipality is responsive to enhancing economic growth and takes cognisance of the socio-economic reality of Overstrand.

#### **Municipal Response:**

- *These slight differences will be corrected in the final budget document.*

## SECTION 6: CREDIBILITY AND SUSTAINABILITY

### 6.1 REVIEW OF THE PREVIOUS YEAR'S BUDGET

#### PART 6.1(1): THE BUDGET PERFORMANCE AS PER THE AUDITED ANNUAL FINANCIAL STATEMENTS

##### Findings:

1. As per the Appropriation Statement of 30 June 2014, the municipality reported an operating deficit growth of 72.4 per cent from June 2013. At 30 June 2014 the Investment revenue was 8 per cent below the adjusted budget and 15 per cent below the original budget. Other variances related to the adjustment in revenue due to recognition of iGrap 1. Based on prior years, the trend indicates over performance in respect of Other own revenue and Property Rates (2.78 per cent).

##### Municipal Response:

- *Table A1 is aligned to the 2014 AFS relating to Financial Position, Financial Performance and Cash Flows.*
  - *The over performance of 2.78% on property rates is not considered significant. The variance in other revenue relates to conservative estimates as to not unnecessarily inflate the budget.*
2. The comparison of the current original budget with the adjusted budget of February 2015 reflected immaterial adjustments in operating revenue of 3.3 per cent and operating expenditure of 7.2 per cent.
  3. Final outcomes for 2014/15 could be similar to prior years, with possible variances expected between the adjusted budget and audited actual outcomes, in respect of Other own revenue and Investment revenue.

##### Municipal Response:

- *Noted. The reference to large variances of Borrowings is unfounded.*

**PART 6.1(2): THE FINANCIAL PERFORMANCE AS PER THE AUDITED ANNUAL FINANCIAL STATEMENTS**

**6.1.1 Financial Position**

**Table 10 Financial Ratios**

Financial ratios and norms		2010 Audited	2011 Audited	2012 Audited	2013 Audited	2014 Audited	COMMENTS
<b>Debt Management</b>							
1.	Net debtors days: <b>≤ 30 days</b>	52 days	34 days	36 days	32 days	28 days	The debtors collection period averaged <b>36 days</b> over the period under review & is within the norm in the 2013/14 financial year.
<b>Distribution Losses</b>							
2.	Electricity Distribution Losses (Percentage): <b>7% - 10%</b>	9.30%	8.37%	7.12%	6.91%	0.95%	The ratio result is improving year-on-year
3.	Water Distribution Losses (Percentage): <b>15% - 30%</b>	27.43%	24.24%	20.01%	20.01%	21.47%	The ratio result is within the acceptable norm for the years under review.
<b>Grant Dependency</b>							
4.	Own Source Revenue to Total Operating Revenue(Including Agency Revenue): <b>None</b>	92.56	89.27	92.29	92.68	89.25	Municipal own source of revenue averaged at about 91 per cent over the period under review, indicating that the municipality not dependent on grants for its operations.
<b>Debt Management (Debt Impairment)</b>							
5.	Bad Debts Written-off as % of Provision for Bad Debt: <b>100%</b>	?	5.92%	9.85%	33.15%	0.00%	The municipality did not write off bad debt in the 2013/14 financial year.
<b>Expenditure Management</b>							
6.	Irregular, Fruitless and Wasteful and Unauthorised Expenditure / Total Operating Expenditure: <b>0%</b>	0.03%	0.05%	2.69%	4.61%	2.85%	The ratio result improved in 2013/14.
7.	Remuneration as % of Total Operating Expenditure: <b>25% - 40%</b>	29.58%	29.88%	29.20%	31.82%	32.75%	The ratio result is within the acceptable norm for the period under review.
8.	Contracted Services % of Total Operating Expenditure: <b>2% - 5%</b>	2.60%	3.15%	3.27%	9.02%	8.87%	The ratio result averaged <b>5.38%</b> over the period under review, which is not within the norm.
<b>Asset Management</b>							
9.	Capital Expenditure to Total Expenditure: <b>10% - 20%</b>	18.65%	18.95%	18.09%	15.87%	13.57%	The ratio result is within the acceptable norm for the period under review.
10.	Impairment of Property, Plant and Equipment, Investment Property and Intangible Assets (Carrying Value): <b>0%</b>	0.00%	0.11%	0.10%	0.30%	0.00%	The ratio result is acceptable .
11.	Repairs and Maintenance as a % of Property, Plant and Equipment, Investment Property (Carrying Value): <b>8%</b>	1.50%	1.87%	2.11%	0.00%	0.00%	The ratio result is below the norm. Repairs and maintenance are not disclosed as a separate line item in the AFS.
12.	Depreciation/(Total Operating Revenue - Capital Grant)	19.92%	18.24%	16.76%	15.41%	14.44%	The ratio result averaged <b>16.95%</b> over the period under review.

Financial ratios and norms		2010 Audited	2011 Audited	2012 Audited	2013 Audited	2014 Audited	COMMENTS
<b>Liquidity Management</b>							
13.	Cash/Cost Coverage Ratio (Excluding Unspent Conditional Grants): <b>1 - 3 months.</b>	0 month	1 month	1 month	1 month	2 months	The municipality has sufficient cash coverage.
14.	Current Ratio: <b>1.5 - 2 : 1</b>	1.12:1	1.63:1	1.67:1	1.28:1	1.18:1	The ratio result averaged <b>1.38:1</b> over the period under review, which is below the norm set by NT.
<b>Liquidity Management</b>							
15.	Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure: <b>6% - 8%</b>	6.94%	6.02%	9.37%	9.93%	9.73%	The municipality appears to be highly geared. The ratio result averaged <b>8.4%</b> over the period under review.
16.	Debt (Total Borrowings) / Revenue: <b>45%</b>	39.61%	48.85%	54.90%	57.01%	56.86%	The municipality appears to be highly geared.
<b>Budget Implementation</b>							
17.	Operating Revenue Budget: <b>95% - 100%</b>	98.81%	101.23%	103.01%	97.98%	101.01%	The ratio result is acceptable.
18.	Service Charges and Property Rates Revenue Budget: <b>95% - 100%</b>	99.99%	101.92%	99.43%	97.88%	98.25%	The ratio result is acceptable.
19.	Operating Expenditure Budget: <b>95% - 100%</b>	94.96%	102.23%	104.79%	98.18%	99.10%	The ratio result is acceptable.
20.	Capital Expenditure Budget: <b>95% - 100%</b>	94.33%	100.68%	87.63%	85.83%	92.50%	The actual capital expenditure falls 7% short of estimate. The ratio result is not within the acceptable norm.

#### a. Asset Management/Utilisation

**Repairs and Maintenance as a % of Property, Plant and Equipment and Investment Property (Carrying Value):** Repairs and Maintenance is not disclosed in the AFS.

#### b. Debtors Management

**Bad Debts Written-off as % of Provision for Bad Debt:** The provision for bad debts at 30 June 2013 was R16.92 million, however, no bad debt was written off in the 2013/14 financial year. In the 2013/14 financial year, the debtors book decreased by 3.20 per cent (R2.13 million) from R65.94 million to R63.81 million, largely due to a decrease in electricity debtors.

#### c. Liquidity Management

**Current Ratio:** The ratio result averaged 1.38:1 over the period under review, which is below the norm set by NT. In the 2013/14 financial year Current Liabilities decreased by 10.0 per cent (R11.53 million) from R160.33 million to R148.80 million mainly as a result of a decrease in the following notable items:

Unspent conditional grants and receipt: (R4.36 million) from R7.79 million to R3.43 million.

Provisions: (R2.15 million) from R25.66 to R23.49 million.

In the 2013/14 financial year Current Assets decrease by 14.66 per cent from R205.69 million to R175.47 million mainly as a result of a decrease in the following notable items:

Cash and cash equivalents by 20.99 million from R84.15 million to R63.16 million.

Inventory by 7.12 per cent from R20.26 million to R13.14 million.

#### **d. Liability Management**

**Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure:** The 5-year trend indicates capital cost averages 8.4 per cent of total operating expenditure over the period under review. The Finance costs have increased by R2.60 million from R37.33 million to R39.93 million.

**Debt (Total Borrowings)/Total Operating Revenue:** The table indicates that the municipality is highly geared. In the 2013/14 financial year the ratio improved from 57.01 per cent to 56.86 per cent, however, remains outside the prescribed norm of maximum 45 per cent. In 2013/14 financial year the Total Debt increased by R26.02 million (6.80 per cent) from R382.87 million to R412.89 million. Appendix A of the 2013/14 AFS reflects that the municipality took up external loans of R41.3 million in 2013/14.

### **6.1.2 Financial Performance**

#### **Expenditure Management**

- **Irregular, Fruitless and Wasteful and Unauthorised Expenditure/Total Operating Expenditure:** The ratio result improved in 2013/14 by 1.76 percentage point from 4.61 per cent to 2.85 per cent. The major factor in the improvement was Irregular expenditure which improved from R34.42 million to R5.15 million in the 2013/14 financial year.
- **Contracted Services as a % of Total Operating Expenditure:** The ratio result averaged 5.38 per cent over the period under review, which is marginally above the norm.

### 6.1.3 Budget Implementation

Capital Expenditure Budget Implementation Indicator: Table 10 indicates a year-on-year fluctuations over the five years of assessment. In the 2013/14 financial year the municipality under spent its capital budget, mainly due to under-spending on:

Housing: Under spent by 38.10 per cent (R3.96 million).

Electricity/Electric Distribution: Under spent by 6.80 per cent (R2.49 million).

Waste Water: Under spent by R2.15 million (21.10 per cent).

### Recommendations

- The municipality should put measures in place to ensure that sufficient funds are set aside for internally generated funds to be utilised for the replacement of capital assets.
- The municipality should continue to ensure that the repairs and maintenance is performed as per programme, to minimise impairment of useful assets.
- The municipality should continue to maintain efforts and success in effective implementation of the credible credit collection policy for the successful collection of debtors.

## 6.2 REVIEW OF THE NEW (2015/16) MTREF

### PART 6.2(1): REVIEW OF THE BUDGET ASSUMPTIONS

#### Objective:

The assessment is based on the budget assumptions as per page 48 of the budget document of the municipality. The budget assumptions are reviewed for completeness, credibility and reasonableness as they form the basis upon which the new MTREF is prepared.

**Findings:****Table 11 Budget Assumptions**

No.	Description of the Budget Assumptions
1.	The forecasted CPIX is estimated at 4.8 per cent for 2015/16, 5.9 per cent for 2016/17 and 5.6 per cent for the 2017/18 financial years.
2	The 2015/16 budget was prepared on a projected revenue collection rate of 99.5 per cent annually.
3	<p>The following principles and tariff increases, based on the cost reflectiveness of the tariffs are proposed:</p> <ul style="list-style-type: none"> <li>- Property Rates = 7%.</li> <li>- Electricity = basic charge increases by 6% and consumption by 12.2%. (with a free 50 kWh per month to indigent households only, to be financed from the Equitable share).</li> <li>- Water = Basic charge increase by 6% and consumption 15% (with 6 kilolitres plus the basic levy for water free of charge to indigent households).</li> <li>- Refuse = 6%; Sewerage = 6%.</li> </ul>
4.	Costs of free basic services are covered by the Equitable Share provided by National Government. Any costs over and above the allocation must be paid by the consumer.
5.	Cost containment measures were provided for in the budget.
6.	Employment related costs for the entire MTREF period were budgeted at an annual increase of 6.1% (inclusive of annual notch increases). The bargaining council is currently in negotiation on salary increases for 2015/2016.
7.	The municipality projected to achieve performance of 99% on the operational expenditure and 95% for capital expenditure.
8.	Bulk electricity purchases are projected to increase by 14.2% in 2015/16.
9.	Debtors' revenue is assumed to increase at a rate that is influenced by the consumer debtors' collection rate, tariff/rate pricing, real growth rate, household growth rate and the poor household change rate.

**Findings:**

The overall budget assumptions are credible and reasonable. It is noted for the 2014/15 financial period that the adjusted collection rate is 99.6 per cent. The municipality is commended for its efficient revenue management strategies.

**PART 6.2(2): REVIEW OF TARIFFS FOR TRADING SERVICES AND FREE BASIC SERVICES****Table 12 Revenue and Expenditure link – Trading and Economic Services**

Standard Classification	Operating Revenue			Operating Expenditure			Net Results (Surplus or Deficit)		
	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
<i>Trading services</i>	581 518	625 966	677 315	453 273	492 997	539 058	128 245	132 969	138 257
Electricity	346 361	375 057	413 102	257 278	287 386	322 086	89 083	87 671	91 016
Water	106 213	113 026	120 078	79 325	81 294	85 130	27 836	31 732	34 948
Waste water management	69 402	74 765	77 229	63 357	67 214	71 597	6 046	7 551	5 632
Waste management	59 544	63 118	66 906	54 264	57 103	60 245	5 280	6 015	6 661
<b>Net Results</b>	<b>1 163 037</b>	<b>1 251 931</b>	<b>1 354 629</b>	<b>906 547</b>	<b>985 994</b>	<b>1 078 116</b>	<b>256 490</b>	<b>265 937</b>	<b>276 514</b>

Source: 2015/16 Budget Schedule A2

**Findings:**

1. The comparisons of revenue and expenditure on Table A2 indicate that the four (4) trading services generate a surplus over the MTREF period which suggests that tariffs might be fully cost reflective.
2. Cognisance is taken of the fact that the municipality does not allocate all other overheads and indirect costs to these services which consequently distorts the results.
3. As per budget Table A10, the subsidisation of indigent households includes 6 kl water, 50 kWh electricity and weekly refuse removal in a monthly cycle. The anticipated costs of these Free Basic Services are projected a R48.30 million in 2015/16 which will be covered by the municipality's equitable share allocation.
4. As indicated in the municipality's budget assumptions, all costs over and above the Equitable Share allocation must be paid by the consumer.

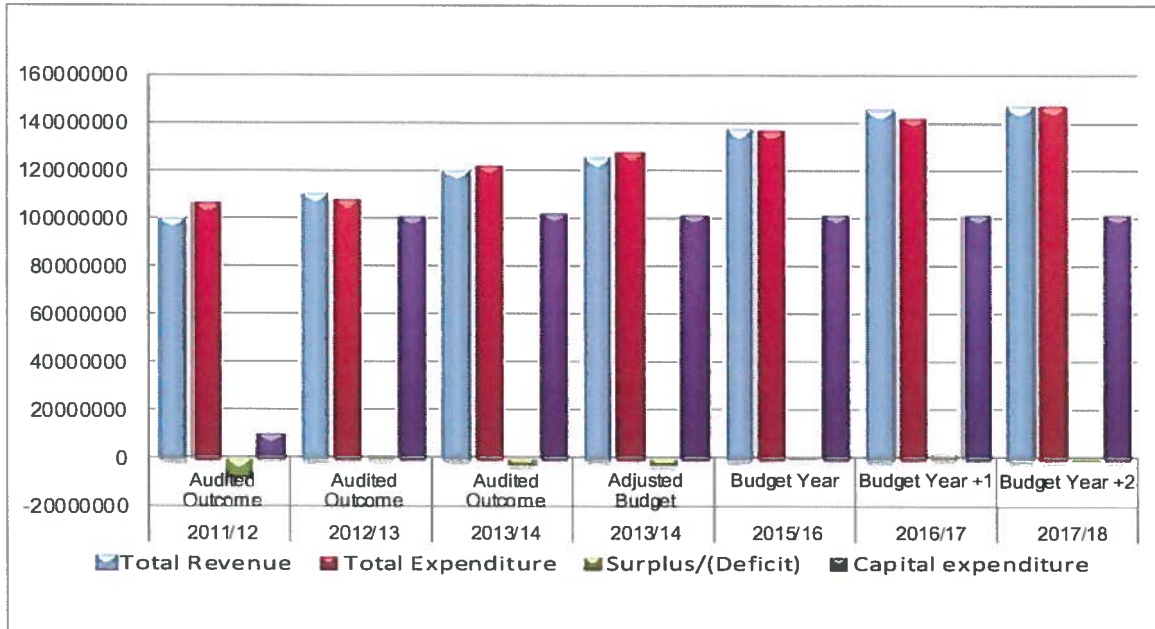
**Municipal Response:**

*The Refuse Removal service does indicate a slight deficit as can be seen in Table 5 on page 8 of the budget report.*

## PART 6.2(3): THE CREDIBILITY AND SUSTAINABILITY OF THE BUDGET

### A. THE BUDGET OVERVIEW

Figure 1 Budget Summary



Source: PT generated based on A1 - Budget Schedules

#### Findings:

1. The Municipality has tabled deficit budgets for the MTREF period, caused primarily by the non-cash item depreciation.
2. These respective non-cash items amount to R111.63 million, R118.04 million and R125.13 million over the MTREF period and if discounted from the total budget deficit, result in a restated budget surplus of R88.96 million, R100.71 million and R102.68 million.
3. It should however be noted that depreciation is an expenditure which should be supported by cash surpluses to make provision for the replacement of assets in the future. The cash surplus projected in Table A8 reflects that there are adequate reserves budgeted to cash-back non-cash items over the MTREF.
4. The projected 2015/16 capital budget has decreased from 2014/15 by 27.3 per cent and the largest decrease is noted in Municipal Strategic Objective 1: The provision of Democratic, Accountable and Ethical Governance.

**Municipal Response:**

- Depreciation is the main non-cash item. The amount for impairment is insignificant.
- Noted. This further supports the cash funded budget.

**Risks:**

The operating deficit budget is not in accordance with MFMA Budget Circular 72, indicating that "all municipalities are required to adopt a surplus position on the statement of financial performance with the 2014/15 MTREF budget."

**Recommendation:**

The municipality should strive to adopt a surplus position in accordance with the guideline as per the MFMA Budget Circular 72.

**B. REVIEW OF THE OPERATING REVENUE BUDGET****Table 13 Operating Revenue**

Description	2014/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework			% Growth rates: MTREF Budget			
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	YTD Actual (Feb 2015)	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18	2014/15-2015/16 (YOY)	2015/16-2016/17 (YOY)	2016/17-2017/18 (YOY)	2014/15-2017/18 (AVE)
<b>Revenue By Source</b>													
Property rates	108 913	120 799	134 813	148 640	153 509	102 527	162 730	173 308	184 573	6%	6%	7%	-6%
Property rates - penalties & collection charges	925	772	821	1 050	1 050	514	891	980	1 078	-15%	-10%	-10%	-9%
Service charges - electricity revenue	224 950	247 663	268 362	310 085	310 085	195 931	338 877	371 635	407 747	9%	10%	10%	-9%
Service charges - water revenue	83 755	85 243	95 136	95 897	95 897	71 496	102 045	107 700	113 691	6%	6%	6%	-5%
Service charges - sanitation revenue	57 212	56 895	62 798	63 455	63 455	45 643	66 375	70 081	74 010	5%	5%	6%	-5%
Service charges - refuse revenue	39 498	46 637	52 957	56 130	56 130	37 740	59 488	63 061	66 849	6%	6%	6%	-6%
Service charges - other													
Rental of facilities and equipment	6 743	7 212	7 591	7 966	7 966	6 790	11 859	12 953	14 176	49%	9%	9%	-6%
Interest earned - external investments	6 881	7 555	6 352	6 166	6 166	4 641	6 348	6 348	6 348	3%	0%	0%	0%
Interest earned - outstanding debtors	2 331	2 199	2 118	2 288	2 288	1 474	2 437	2 680	2 948	6%	10%	10%	-9%
Dividends received													
Fines	5 278	14 244	22 739	7 965	30 875	5 846	31 859	32 766	33 763	3%	3%	3%	-3%
Licences and permits	1 786	1 968	1 956	2 229	2 229	1 319	2 190	2 408	2 649	-2%	10%	10%	-9%
Agency services	1 912	2 025	2 395	2 480	2 480	1 899	2 970	3 267	3 594	20%	10%	10%	-9%
Transfers recognised - operational	38 005	41 680	67 835	58 407	62 032	43 917	103 363	107 886	97 173	67%	4%	-10%	-4%
Other revenue	17 375	68 978	10 504	21 717	16 387	13 918	16 781	18 301	19 972	2%	9%	9%	-6%
Gains on disposal of PPE	1 920												
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>597 482</b>	<b>703 871</b>	<b>736 376</b>	<b>784 474</b>	<b>810 548</b>	<b>533 654</b>	<b>908 211</b>	<b>973 373</b>	<b>1 028 569</b>	<b>12%</b>	<b>7%</b>	<b>6%</b>	<b>-2%</b>

Source: 2015/16 Budget Schedules A4

**Findings:*****Property Rates***

1. Total property rates revenue growth is conservatively set at 6.1 per cent which is in line with the upper boundary of the inflation target as provided by National Treasury. The projected collection rate of 99 per cent is in line with the budget assumptions and is realistic based on current and past performances.
2. The municipality has managed the debtors collection process well and as at 28 February 2015 reported a year-on-year increase in the outstanding property rates debt of R193 000 or 1.2 per cent.

***Service Charges: Electricity***

1. The municipality has projected for a slower growth in the total electricity revenue of 9.3 per cent compared to the 16 per cent year-on-year growth for the previous year. This is based on the assumption that demand will shrink due to the 12.2 per cent tariff increase set by NERSA's tariff guide line for 2015/16.
2. The budget is silent on budgeting for contingency plans in respect of prolonged power outages. The Municipality is required to advise how it intends to deal with the impact of interruptions to electricity supply lasting for more than 2 hours.
3. The outstanding electricity debtors have increased by 2 per cent year- on-year indicating the municipality has implemented efficient revenue management.

***Service Charges: Water***

1. Water sales are expected to increase by 6.4 per cent from 2014/15 which is based on inclining tariff increases in excess of the 6 per cent National Treasury guideline. The municipality has motivated for the higher tariff increase due to the recovery of the minimum cost for the production of water.
2. Of concern however is that consumer debtors related to water increased year-on-year by 16.6 per cent.
3. Water distribution losses (20.2 per cent) are within acceptable norms per MFMA Circular 71. The municipality is advised to continue exercising caution in this regard as Overstrand is declared a water scarce area.

**Service Charges: Sewerage**

The tariff increase of 6.0 per cent is in line with the inflation target recommended by National Treasury and is considered realistic given the low increase in outstanding debtors of 3.6 per cent and past collection rates of 103 per cent.

**Service charges: Refuse Removal**

1. The tariff increase of 6.0 per cent is considered conservative against the backdrop of the solid waste removal operating marginally below breakeven.
2. The municipality has not projected for any additional revenue and indicated this position will be reviewed during the 2015/16 mid-year assessment after the anticipated participation of Theewaterskloof municipality with the waste disposal site has been taken into account. This approach would provide more realistic performance information and inform a better review.

**Fines**

The projected increase of 3 per cent in fines revenue over the 2015/16 MTREF is deemed reasonable and realistic based on prior year trends.

**Transfers recognised – Operational**

1. The operational grants show significant growth of 66.6 per cent from the 2014/15 adjusted budget. The increase is informed by the phase in of the Equitable share increase of 53 per cent which is due to population growth in the Overstrand area.
2. The Supporting A-schedule (SA18) reconciles to the Provincial Gazette and the Division of Revenue Bill.

**Risks:**

1. Loss of revenue due to lack of contingencies during prolonged power outages.
2. Growth in outstanding water debtors in relation to the current year trends.

**Recommendations:**

1. Budget for contingency plans in respect of prolonged power outages such as the acquisition of generators and to support possible requests to National Treasury in this regard.

- The municipality to continuously review the payment collection strategies to ensure sufficient revenue is raised to meet the demands and challenges of ageing infrastructure.

### C. REVIEW OF THE OPERATING EXPENDITURE BUDGET

Table 14 Operating Expenditure

Description	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework			% Growth rates: MTREF Budget			
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	YTD Actual (Feb 2015)	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18	2014/15-2015/16 (YOY)	2015/16-2016/17 (YOY)	2016/17-2017/18 (YOY)	2017/18-2014/15 (AVE)
<b>Expenditure By Type</b>													
Employee related costs	207 938	231 642	260 645	280 066	276 217	178 697	291 593	305 408	323 583	6%	5%	6%	5%
Remuneration of councillors	6 717	7 084	7 933	8 516	8 516	5 106	8 674	9 192	9 741	2%	6%	6%	5%
Debt impairment	28	6 688	12 526		22 792	-	22 792	22 792	22 792	0%	0%	0%	0%
Depreciation & asset impairment	104 041	104 408	99 361	109 265	105 461	70 307	111 362	118 043	125 126	6%	6%	6%	6%
Finance charges	31 727	37 331	39 927	45 162	44 480	17 250	46 895	46 780	47 279	5%	0%	1%	2%
Bulk purchases	126 669	145 022	157 055	169 444	169 444	103 100	193 573	221 138	252 628	14%	14%	14%	14%
Other materials	54 582	12 441	13 595	17 295	17 315	10 018	70 885	69 631	53 593	309%	-2%	-23%	96%
Contracted services	24 079	67 697	72 754	81 062	81 875	39 030	126 986	129 953	137 384	55%	2%	8%	21%
Transfers and grants	28 454	35 856	38 749	41 370	41 668	28 175	48 497	54 667	62 244	16%	13%	14%	14%
Other expenditure	158 290	102 146	117 460	117 407	164 357	94 754	56 251	59 890	63 924	-66%	6%	7%	-18%
Loss on disposal of PPE	-	1 756	12 017	-	-	-	-	-	-				
<b>Total Expenditure</b>	<b>742 525</b>	<b>752 070</b>	<b>832 022</b>	<b>869 588</b>	<b>932 125</b>	<b>546 438</b>	<b>977 508</b>	<b>1 037 493</b>	<b>1 098 292</b>	<b>5%</b>	<b>7%</b>	<b>3%</b>	<b>5%</b>

Source: 2015/16 Budget Schedules A4

#### a) Employee Related Costs

- Total budgeted Employee related costs of R291.59 million constitute 29.8 per cent of the total 2015/16 operating expenditure budget and are within the National Treasury's norm of 25 – 40 per cent per MFMA Circular No. 71.
- The budgeted Employee related costs will increase by 6.1 per cent when compared to the adjusted budget of 2015/16. The increase takes into account that salary negotiations have yet to be concluded. The year-on-year increase is above the 4.4 per cent cost-of-living increase as specified in MFMA Budget Circular 75. It is envisaged that the anticipated Employee related costs will add pressure on the limited revenue sources of the municipality. In this regard careful consideration needs to be given to the efficiency of the staff establishment and all associated costs.

#### b) Remuneration of Councillors

Remuneration of councillors increased on average by 5 per cent across the 2015/16 MTREF which is in accordance with the determination of upper limits, salaries and benefits published in Government Gazette No. 37281.

**c) Depreciation and Asset Impairment**

Depreciation and asset impairment is projected to increase by 5.5 per cent from 2014/15 adjusted budget.

**d) Contracted Services**

1. It is noted that the municipality identified Contracted services as a cost saving area and implemented operational efficiencies.
2. The projected increase of 55.1 per cent in 2015/16 is as a result of mSCOA reclassification causing a shift in the expenditure which was previously classified under general expenses. Allocations made towards the basket of contract services are clearly disclosed in Table SA1.
3. The total budget of Contracted services is 13 per cent of the total expenditure budget which is above the 5 per cent threshold advised by National Treasury.

**e) Other Expenditure**

1. Other expenditure constitutes 5.8 per cent of the total operating expenditure budget. The municipality is commended for the low proportion allocated towards General expenses as this is in line with National Treasury guidelines.
2. However, cognisance should be taken of certain expenditure items such as Insurance and Prepaid Electricity where the projected decreases are not consistent with the past trends.
3. The municipality is cautioned on the continual decrease in training expenditure and is to ensure adequate provision is made for improving skills and for legal compliance of municipal finance officials relating to the requirements of the minimum competency regulations.

**f) Repairs and Maintenance**

1. The budgeted Repairs and maintenance constitutes an average 4.3 per cent of PPE which is below the National Treasury guideline, which could indicate that insufficient monies are being spent on repairs and maintenance.
2. The municipality is cautioned on the low allocation toward repairs and maintenance, and is hereby reminded of section 2.2 of MFMA Budget Circular 75, relating to the MIG transfers available for renewal and maintenance of assets which will be allocated to those municipalities demonstrating adequate maintenance of assets.

**Risks:**

1. Contracted services are budgeted above the National Treasury norm.
2. Insurance and Prepaid electricity could be under budgeted.

**Recommendations:**

1. The municipality to reflect on strategic business decisions relating to the use of contracted services.
2. Review past trends of actual expenditure for insurance and prepaid electricity to support assumptions.

**D. THE CAPITAL EXPENDITURE BUDGET****Table 15 Capital Expenditure**

Vote Description	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework			% Growth rates: MTREF Budget			
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	YTD Actual (Feb 2015)	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18	2014/15-2015/16 (YOY)	2015/16-2016/17 (YOY)	2016/17-2017/18 (YOY)	2014/15-2017/18 (AVE)
<b>Capital Expenditure - Standard</b>													
<b>Governance and administration</b>	24 047	7 154	21 308	16 815	17 776	1 924	2 648	3 730	-	85%	41%	-100%	-48%
Executive and council													0%
Budget and treasury office													0%
Corporate services	24 047	7 154	21 308	16 815	17 776	1 924	2 648	3 730		85%	41%	-100%	-48%
<b>Community and public safety</b>	3 319	7 268	19 582	21 205	37 425	16 260	25 415	45 550	55 174	-32%	79%	21%	23%
Community and social services	327	4 666	3 482	5 635	5 595	1 439	3 901	4 000	4 000	30%	3%	0%	-9%
Sport and recreation	1 531	2 601	5 696	3 090	2 616	639	4 526	6 800	6 800	73%	50%	0%	41%
Public safety	645	-					100				-100%		-35%
Housing	817	-	10 404	12 480	29 213	14 182	16 888	34 750	44 374	42%	106%	28%	35%
Health													0%
<b>Economic and environmental services</b>	8 340	25 552	16 051	5 400	6 300	3 841	12 098	4 000	4 000	92%	-67%	0%	8%
Planning and development	2 863	945					25				-100%		-33%
Road transport	5 477	24 607	16 051	5 400	6 300	3 841	12 073	4 000	4 000	92%	-67%	0%	8%
Environmental protection													0%
<b>Trading services</b>	127 569	103 790	73 989	54 300	56 087	25 279	45 355	41 326	44 387	-19%	-9%	7%	-7%
Electricity	30 061	26 768	37 115	17 000	17 000	3 009	17 775	14 000	16 000	5%	-21%	14%	-1%
Water	57 384	50 766	23 631	12 800	16 384	11 593	16 326	14 726	15 787	0%	-10%	7%	-1%
Waste water management	39 927	20 728	10 202	14 300	13 403	5 370	11 244	12 600	12 600	-16%	12%	0%	-1%
Waste management	196	5 528	3 041	10 200	9 300	5 307	10			-100%	-100%		-67%
<b>Other</b>													0%
<b>Total Capital Expenditure - Standard</b>	<b>163 275</b>	<b>143 764</b>	<b>130 930</b>	<b>97 721</b>	<b>117 588</b>	<b>47 303</b>	<b>85 515</b>	<b>94 606</b>	<b>103 561</b>	<b>-27%</b>	<b>-100%</b>	<b>21%</b>	<b>-100%</b>

Source: 2015/16 Budget Schedules A5

**Findings:**

1. The projected capital budget for 2015/16 has declined by 27 per cent from the 2014/15 adjusted budget. The municipality opted to exclude projects that are dependent on the sale of land until those proceeds are realised.

- The capital budget placed emphasis on single-year projects at 67.3 per cent. This is not recommended as the more prudent approach is for projects to be implemented over multi-year periods. The municipality is encouraged to implement the practice prescribed by National Treasury.
- Furthermore, the municipality intends to use R64.76 million (75.7 per cent) in 2015/16 for new infrastructure needs of the town and the balance towards the renewal of existing properties. This ratio is not in accordance with National Treasury guidelines.
- The major part (96.9 per cent) of the capital budget is appropriated towards infrastructure, basic needs of the community and addressing backlogs which is in line with the Back to Basics approach.

#### Risks:

The municipality placed emphasis on the single-year projects.

#### Recommendations

The municipality is encouraged implement the practice prescribed by National to place emphasis on multi-year projects.

### E. THE CAPITAL FUNDING BUDGET

**Table 16 Capital Funding**

Vote Description	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework			% Growth rates - MTREF Budget			
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	YTD Actual (Feb 2015)	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18	2014/15-2015/16 (YOY)	2015/16-2016/17 (YOY)	2016/17-2017/18 (YOY)	2017/18 (AVE)
<b>Funded by:</b>													
National Government	40 212	36 911	6 339	24 174	23 608	10 072	30 347	26 126	29 187	29%	-14%	12%	9%
Provincial Government	14 621	16 898	31 751	10 060	26 693	14 050	19 968	34 750	44 374	-25%	74%	28%	26%
District Municipality					-								
Other transfers and grants				2 134	2 051	1 000				-100%			-100%
Transfers recognised - capital	54 833	53 809	38 090	36 368	52 352	25 122	50 315	60 876	73 561	-4%	21%	21%	13%
Public contributions & donations	14 300	5 067	7 985	-	885	55				-100%			
Borrowing	73 964	67 544	70 634	46 923	48 770	18 664	30 000	30 000	30 000	-38%	0%	0%	-13%
Internally generated funds	20 178	17 345	14 222	14 430	15 582	3 463	5 200	3 730		-67%	-28%	-100%	-65%
<b>Total Capital Funding</b>	<b>163 275</b>	<b>143 764</b>	<b>130 930</b>	<b>97 721</b>	<b>117 588</b>	<b>47 303</b>	<b>85 515</b>	<b>94 606</b>	<b>103 561</b>	<b>-2%</b>	<b>11%</b>	<b>9%</b>	<b>-2%</b>

Source: 2015/16 Budget Schedules A5

**Findings:****External Funding: Capital Grants**

1. The municipality has budgeted for 58.8 per cent funding from grants showing a higher reliance on capital grants for 2015/16. The trend increases across the MTREF.
2. The municipality maintained a good spending pattern on conditional grants and as such spent 100 per cent of the capital allocations for 2013/14.
3. The unspent projections for 2015/16 align to the past trends and unspent grants reported in budget Table A8 aligns to supporting tables SA3 and SA20.

**External Funding: Borrowings**

The municipality intends to acquire external borrowing of R30 million per year over the MTREF as a strategy for funding of infrastructure as the necessary infrastructure upgrades can not only be funded through increases in the tariffs.

**Internal Funding: Own Contributions from Cash Reserves**

1. Internally generated funds for funding capital expenditure constitute R5.20 million or 6.1 per cent of the total capital budget and decreased by 66.7 per cent from the 2014/15 adjustment budget.
2. Although substantial increases in cash and cash equivalents are reported over the MTREF. The municipality should ensure that future capital replacements are adequate and secured.

**Risks:**

The high reliance on capital grants poses a risk especially against the backdrop that municipalities are required to be reliant on own revenue due to their revenue raising capabilities.

**Recommendations:**

The municipality needs to focus on efforts and initiatives to improve the generation of own revenues that can contribute towards cash surpluses to be utilised for future capital expenditure and better secure the long term financial health and sustainability of the municipality.

**PART 6.2(4): THE FINANCIAL SUSTAINABILITY ASSESSMENT****A. OVERVIEW OF THE CURRENT CASH POSITION OF THE MUNICIPALITY – as at 28 February 2015****Findings:**

1. The cash coverage as at 28 February 2015 reports is 1.88 times and year-to-date at 1.21 times respectively, indicating that the available cash for the period is sufficient to meet more than 1 month's obligations.
2. Investments as at 28 February 2015 are R120.81 million and interest for the year to date amounts to R2.16 million or 35.1 per cent of the budgeted R6.16 million.
3. The closing balance for loans as at 28 February 2015 is R401.86 million.

**B. REVIEW OF THE BORROWINGS****Findings:**

The municipality forecast that the loans balances will be in the amounts of R415.99 million, R415.26 million, R410.50 million during the 2015/16, 2016/17 and 2017/18 years. During the 2014/15 the budgeted loan balance will be R412.83 million. Loans to the amount of R30 million per year were budgeted to fund Capital expenditure during the MTREF period.

**C. REVIEW OF INVESTMENTS****Findings:**

1. Investments over the medium term consist of Guaranteed Endowment Policies (sinking)/investments which increase over the MTREF period in the quest to strengthen and sustain good municipal financial management.
2. Furthermore, the above projections are cashed back as the amounts are allocated against the available cash for the 2014/15 year and the MTREF 2015/16 to 2017/18 years as per Table A8.

## D. CASH FLOWS AGAINST BUDGETED REVENUES AND EXPENDITURE

### Findings:

1. Over the 2015/16 MTREF the municipality is projecting average cash and cash equivalents of R133.85 million compared to the average audit outcomes of R91.33 million during 2011/12 to 2013/14.
2. The tabled budget for 2014/15 indicates that Overstrand Municipality will be generating sufficient cash inflow from the operating activities to finance cash outflow from operations. This trend is followed through the 2015/16 to 2017/18 financial years.
3. The cash flow from investing activities is negative over the medium term which is mainly as a result of the spending on capital assets. The cash outflow from capital assets reduces the net cash available from operating activities.
4. The municipality is budgeting R30 million per year in external financing on their cash flow budget over the MTREF. The net cash available after taking the financing activities into account gives rise to increases in cash held, which in turn leads to surplus closing balances at the end of the year for Cash and Cash Equivalents.

## E. THE APPLICATION OF CASH & INVESTMENTS

**Table 17 Cash backed reserves/accumulated surplus reconciliation**

Description	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework			% Growth rates: MTREF Budget			
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Yr 2015/16	Budget Yr +1 2016/17	Budget Yr +2 2017/18	2014/15- 2015/16 (YOY)	2015/16- 2016/17 (YOY)	2016/17- 2017/18 (YOY)	2014/15 - 2017/18 (AVE)
<b>Cash and Investments available</b>														
Cash/cash equivalents at the year end	126 699	84 147	63 158	88 050	90 815	90 815	-	99 079	128 754	173 717	9%	30%	35%	25%
Other current investments > 90 days	0	-	0	-	-	-	-	-	-	-	-	-	-	-
Non current assets - Investments	5 691	11 597	16 965	22 207	22 207	22 207	-	23 455	34 384	40 409	28%	21%	18%	-100%
<b>Cash and Investments available:</b>	<b>132 391</b>	<b>95 744</b>	<b>80 123</b>	<b>110 257</b>	<b>113 022</b>	<b>113 022</b>	<b>-</b>	<b>127 533</b>	<b>163 138</b>	<b>214 126</b>	<b>13%</b>	<b>28%</b>	<b>31%</b>	<b>24%</b>
<b>Application of cash and investments</b>														
Unspent conditional transfers	4 555	7 783	3 425	-	-	-	-	-	-	-	-	-	-	-
Unspent borrowing	18 255	6 133	1 847	-	-	-	-	-	-	-	-	-	-	-
Statutory requirements														
Other working capital requirements	(28 049)	(21 016)	(40 826)	(40 803)	(61 683)	(61 683)	-	(22 359)	(23 728)	(13 036)	-63%	4%	-45%	-35%
Other provisions														
Long term investments committed	5 691	11 597	16 965	22 207	22 207	22 207	-	23 455	34 384	40 409	28%	21%	18%	-
Reserves to be backed by cash/investments	1 920	1 891	2 565	1 934	2 573	2 573	-	2 537	2 703	2 757	2%	2%	2%	2%
<b>Total Application of cash and investments:</b>	<b>2 373</b>	<b>6 388</b>	<b>(16 024)</b>	<b>(16 663)</b>	<b>(36 904)</b>	<b>(36 904)</b>	<b>-</b>	<b>8 224</b>	<b>13 360</b>	<b>30 131</b>	<b>-12%</b>	<b>6%</b>	<b>12%</b>	<b>22%</b>
<b>Surplus(shortfall)</b>	<b>130 018</b>	<b>89 356</b>	<b>96 147</b>	<b>126 920</b>	<b>149 926</b>	<b>149 926</b>	<b>-</b>	<b>119 309</b>	<b>149 778</b>	<b>183 996</b>	<b>20%</b>	<b>26%</b>	<b>23%</b>	<b>9%</b>

Source: 2015/16 Budget Schedule

## Findings:

The municipality forecasts a positive balance over the MTREF after all budgeted commitments are taken into account. Investments over the medium term consist of Guaranteed Endowment Policies (sinking)/investments which increase over the MTREF period in the quest to strengthen and sustain good municipal financial management.

## Risks:

The reported Cash Flow information indicates no liquidity risk as the municipality is meeting its short term obligations.

## F. THE FUNDING COMPLIANCE ASSESSMENT

### Funding Compliance Measures

Table 18 Funding Compliance

Description	MFMA section	Current Year	2015/16 Medium Term Revenue & Expenditure Framework			Comments
		2014/15	Budget Year	Budget Year	Budget Year	
		Full Year Forecast	2015/16	+1 2016/17	+2 2017/18	
<b>Funding measures</b>						
Cash/cash equivalents at the year end - R'000	18(1)b	90 815	99 079	128 754	173 717	Positive, but is before the outstanding cash commitments.
Cash + investments at the yr end less applications - R'000	18(1)b	149 926	119 309	149 778	183 996	Reconciliation yields a positive result.
Cash year end/monthly employee/supplier payments	18(1)b	1.6	1.6	1.9	2.4	Although higher than 1, it seems low and risky
Surplus/(Deficit) excluding depreciation offsets: R'000	18(1)	(69 225)	(18 981)	(3 244)	3 838	Requires discussion on policy strategy to fund depreciation.
Service charge rev % change - macro CPIX target exclusive	18(1)a,(2)	(5.3%)	1.4%	1.7%	1.8%	Outcome lower than CPIX.
Cash receipts % of Ratepayer & Other revenue	18(1)a,(2)	103.9%	101.2%	99.9%	99.3%	Acceptable and in-line with the current collection rate.
Debt impairment expense as a % of total billable revenue	18(1)a,(2)	3.4%	3.1%	2.9%	2.7%	The ratio seems low, but given the municipality collection rate the risk is
Capital payments % of capital expenditure	18(1)c,19	100.0%	100.0%	100.0%	100.0%	Timing difference of payments are not factored in.
Borrowing receipts % of capital expenditure (excl. transfers)	18(1)c	61.3%	85.2%	88.9%	100.0%	Significantly high reliance.
Grants % of Govt. legislated/gazetted allocations	18(1)a		0.0%	0.0%	0.0%	Measurement incomplete.
Current consumer debtors % change - incr(decr)	18(1)a	11.3%	(11.2%)	(1.4%)	4.3%	Low ratio due to provision of debt impairment
Long term receivables % change - incr(decr)	18(1)a	0.0%	(28.3%)	(26.0%)	(33.9%)	Decline consistent with past trends.
R&M % of Property Plant & Equipment	20(1)(vi)	5.2%	3.9%	4.1%	4.9%	Very low but challenges noted with cost allocations
Asset renewal % of capital budget	20(1)(vi)	27.9%	24.3%	22.2%	6.3%	Below the NT guidelines

Source: 2015/16 Budget Schedules SA10

## Findings:

### 1. Cash at year end/monthly employee supplier payments

The rate for 2015/16 is slightly above the norm of 1 and needs to be monitored during budget implementation to ensure the municipality meets its current obligations.

## **2. Surplus/(deficit) excluding depreciation offsets**

The deficit projected in 2015/16 could be an indication that the revenue levels are insufficient against the economic benefits the community is consuming.

## **3. Service charge revenue% change-macro CPIX target exclusive.**

The measure indicated the real revenue growth is projected at 1.4 per cent for 2015/16 reflecting the conservative approach taken to keep tariffs affordable as far as possible.

## **4. Capital payments percentage of capital expenditure**

The municipality projected 100 per cent capital payment percentage and although on par with the National Treasury norm of 95 per cent, the municipality should take into consideration the timing of payments made.

## **5. Borrowing as a percentage of capital expenditure (excluding transfers, grants and contributions)**

Borrowing constitutes 85.2, 88.9 and 100 per cent of own funded capital over the MTREF period. Given the declining trend on internally generated funding, the municipality is increasing reliant on borrowing to finance its own funded capital. This is a concern given that the municipality has reached its prudent limit for borrowings.

## **6. Grants% of Govt. legislated/gazette allocations**

The measure is not presented, due to the incomplete section on supporting Table SA10. The municipality should review the budget schedule and ensure the completion thereof.

## **7. Current consumer debtor's % change**

Current consumer debtors reflect an average decrease of 2.8 per cent over the 2015/16 MTREF and indicate the efficient revenue management strategies that the municipality is implementing based on past and current trend of decline in outstanding debtors.

## **8. Repairs and Maintenance (R&M) expenditure level**

The MTREF ratios are significantly lower than the 8 per cent norm, which could indicate that insufficient funds are spent on repairs and maintenance.

**9. Asset renewal % of the capital budget**

Overstrand Municipality's asset renewal as a percentage of the capital budget is on average 17.6 per cent over the MTREF; however it is noted that it shows a declining trend over the MTREF period. The ratio indicates that the municipality places undue pressure on the revenue base as fewer resources are deployed for the renewal and maintenance of assets relative to the acquisition or construction of new assets.

## SECTION 7: MAIN POINTS & RISKS/RECOMMENDATIONS

Based on the LG MTEC 3 assessment, a set of recommendation are proposed. This will ensure that the Overstrand Municipality implements key observation and provides the necessary focus to these.

An observation made is that there are **slight differences in the reporting of household targets** in Table A10 and in supporting Table SA7 and the SDBIP. This could affect the audit of PDOs regarding its usefulness.

Overstrand Municipality's planning and **strategies are aligned** within the Municipal and broader Provincial context as well as with the National Development Plan. The municipality is still faced with **low per capita income compared to the NDP goal** of R110 000. The per capita income is growing marginally from R32 052 in 2011 to R33 082 in 2013. The municipality should **continue to apply its LED strategy** to promote economic growth and development; unemployment is still relatively high.

The municipality should put measures in place to ensure that sufficient funds are set aside for internally generated funds to be utilised for the replacement of capital assets. Consideration should be given to review the Funding and Reserves policy to address how future cash surpluses will be utilised to this end. Additionally, contracted services are budgeted above the National Treasury norm and the municipality to reflect on the strategic business decisions relating to the use of contracted services.

The Municipality has successfully completed SA5 and SA6 and demonstrated that its budget is aligned to the strategic objectives as identified in the IDP review of 2015/16. Notwithstanding the tabled deficit budget reported on the statement of financial performance, **the municipality is commended for its co-ordinated efforts to table a funded budget**. The municipality has demonstrated good technical proficiency in the compilation of the budget as required by the Municipal Budget Reporting Regulations and can easily progress to full compliance. Furthermore, Economic infrastructure (roads and electricity) is prioritised in the budget to promote infrastructure-led growth.

In terms of KPAs, the **provision for infrastructure and municipal services** receives priority in the draft IDP/Budget 2015/16 both in terms of capital and operating spending. Further, the **operating budget deficit is not in accordance with MFMA Budget Circular 72** which states that "all municipalities are required to adopt a surplus position on the statement of financial performance with the 2014/15 MTREF budget". The municipality did however table a surplus budget for cash and cash equivalents over the 2015 MTREF period.

The budget allocation towards New Assets, which is driven by infrastructure relating to Housing projects and the MIG allocation for infrastructure towards housing projects, places undue pressure on the revenue base as **fewer resources are being deployed for the renewal and maintenance** of assets. It is clear that the draft budget of the Municipality is responsive to enhancing economic growth and takes cognisance of the socio-economic reality of Overstrand. The detailed budget breakdown per human settlement/housing project, particularly in respect of the outer years, **has to be updated to accurately reflect and align with the final Business Plan for 2015/16.**

The municipality should continue to maintain efforts and success achieved in effective implementation of the credit collection policy for the successful collection of debtors. In terms of the repairs and maintenance, the municipality should perform this as per programme, to **minimise impairment of useful assets.**

In closing, it is recommended that the **environmental health issues linked to the Burden of Disease should be highlighted** along with the inter-sectoral plans. Also, it is recommended that the **Performance Management System be cascaded down** to all levels in the organisation.