



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



**2019/2020 TO 2021/2022
MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK**

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Abbreviations and Acronyms

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

1.1 MAYOR'S REPORT

1.2 COUNCIL RESOLUTIONS

ITEM :

RE: APPROVAL OF THE 2019/20 – 2021/22 CAPITAL AND OPERATING BUDGET AND IDP DOCUMENT

RESOLVED

RECOMMENDATIONS

- That Council note the content of the report on this item
- That council approves the Annual Operating Budget and Capital Budget of the Municipality for the 2019/2020 MTREF and the two projected outer years 2020/2021 and 2021/2022 as set out in the following tables:
 - Table A1 – Budget Summary
 - Table A2 – Budgeted Financial Performance (revenue and expenditure by standard classification)
 - Table A3 – Budgeted Financial Performance (revenue and expenditure by municipal vote)
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 - Table A8 – Cash backed reserves/accumulated surplus reconciliation
 - Table A9 – Asset Management
 - Table A10 – Basic Service delivery measurement
- That Council approves and adopt the budget related policies as reviewed
The reviewed policies are as follows:
 - Property Rates Policy
 - Infrastructure Procurement and Delivery Management Policy
 - Tariff and Services Policy
 - Indigent Policy (Amended)
 - Credit Control and Debt Collection Policy
 - Supply Chain Management Policy
 - Bank and Investment Policy
 - Budget and Virements Policy
 - Debt impairment Policy
 - SPLUMA Tariffs
 - Accounting policies
 - Travel and Subsistence Policy
- That council approves and adopt the new tariffs for the different services and rates and taxes to be implemented as from the 1 July 2019 as outlined on Annexure A (The increases are as follows:
 - Property Rates 5.6 % (2019/20), 5.4% (2020/21), 5.4% (2021/22)
 - Water 5.6% (2019/20), 5.4% (2020/21), 5.4% (2021/20)
 - Sanitation 5.6% (2019/20), 5.4% (2020/21), 5.4% (2021/2020)
 - Refuse 5.6% (2019/20), 5.4% (2020/21), 5.4% (2021/22)
 - Electricity 13,07% (2019/20), 5.4% (2020/21), 5.4% (2021/22)
- That council take notice that the measurable performance objectives must still be determined for the budget year 2019/2020

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

.....
DATE

1.3 EXECUTIVE SUMMARY

1.3.1 Background

This Original budget of Phumelela Local Municipality is compiled in accordance with prescribed legislative frameworks for the MTREF that is due to start on the 1 July 2019 to June 2022. According to section 16(2) of the MFMA, read together with section 215 of the constitution, the Mayor should at least 90 days before the beginning of every financial year table an annual budget for consultation to Council. This budget is, therefore, tabled to Council for consultation as operating and capital budget of the municipality for the financial year 2019/2020 and for the two projected outer years (2020/2021 and 2021/2022).

Section 24 of the MFMA requires that, the municipal council must at least 30 days before the start of the New Year consider the approval of the annual budget. This budget will be approved by the municipal council on the 31st May 2019. This document was prepared with serious consideration of the local socio-economic scene and the continuous increase in unemployment and poor standard of living within our community. The municipality must thus, make initiatives to combat the challenges of poverty, unemployment and inequality through enhancement of projects that will encourage local economic development and other employment creation initiatives to improve lives of its community.

The municipality's cash flow trend is not good; this is due to poor debtors' collection and creditors' control. The community has been encouraged to come forth and register as indigents, as and when they qualify in accordance with the set criteria. This will help the municipality in cash forecasting and budget for realisable goals. Despite the current cash flow challenges, we are striving to improve the current status of service delivery through implementation of various cost saving measures and controls.

The Office of Budget and Treasury under the auspices of the CFO shall oversee the whole budgeting process, budget implementation and the monitoring thereof. All sections are advised to start saving costs in performing their duties yet maximising their performance. The following are some of the most overspending expenditure votes that should be seriously controlled: telephone, travel and subsistence, overtime, print and stationery. Every employee of the municipality shall take the ownership of this document and ensure maximum service delivery through implementation of the IDP priorities as set.

The municipality continues to provide for free basic water, electricity, sanitation and refuse-removal services but only to indigents and up-to a set benchmark. For the 2019/2020 MTREF, the indicative allocations for 2020/21 and 2021/22 have been calculated taking into account provisions of circular 93 and 94 of the MFMA issued in December 2018 and March 2019. Electricity bulk price increases of 13,07 percent, CPI forecast of 5.6 percent in 2019/2020 and 5.4 percent in 2020/21 and 5.4 percent in 2021/22 as well as household growth in line with the period between 2001 and 2011. These variables will be updated in future budgets to reflect any changes in the growth in prices and/or change in affordability of our communities.

1.3.2 Overview

The application of sound financial management principles for the compilation of PLM's financial plan is essential and critical to ensure that PLM remains financially viable and that municipal services are provided sustainably, economically and equitably to all its communities. PLM's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on non-core and 'nice to have' items. This exercise has resulted in a surplus of R0,056m for the first financial year of the MTREF. The PLM has also introduced strategic measures to encourage consumers to pay their arrear debt.

National Treasury's MFMA Circular No. 93 and 94 were used to guide the compilation of the 2019/2020 MTREF. The main challenges experienced during the compilation of the 2019/2020 MTREF can be summarised as follows:

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

The following budget principles and guidelines directly informed the compilation of the 2019/2020 MTREF:

- The 2018/2019 Mid-year Budget Performance Report priorities and targets, as well as the base line allocations contained in the budget were adopted where applicable as the upper limits for the new baselines for the 2019/2020 annual budget;
- Current service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Where tariffs were increased, affordability and the inflation rate as measured by the CPI were considered, price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk electricity were also considered. In addition, MFMA Circular 93 and 94 were also considered. In these Circulars municipalities are urged to move towards tariffs that are cost reflective, and take into account the need to address infrastructure backlogs;
- There will be no amounts budgeted for national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;
- An upper limit was set for the following items and allocations to these items had to be supported by a list and/or motivation setting out the intention and cost of the expenditure which was used to prioritise expenditures:
 - Special Projects (bursary fund, learnership, etc.) – The budget for bursaries is limited to those already awarded
 - Consultant Fees – This is limited to existing contracts as well as where the municipality does not have the necessary skills.
 - Furniture and office equipment (inventory) - The budget for these is limited to the requirements for new positions and existing staff that do not have furniture
 - Special Events (disaster management, farmers' support);
 - Refreshments and entertainment;
 - Subsistence and Travelling – The budget for this has been centralised in the Municipal Managers office, and all travelling is pre-authorised by him.
 - Overtime – The budget for this item is meant for extreme cases, where no alternative is available

In view of the executive summary, the following table is a consolidated overview of the 2019/2020 Medium-Term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2019/2020 MTREF

Description	BUDGET 2019/2020 R'000	BUDGET +1 2020/2021 R'000	BUDGET +2 2021/2022 R'000
Operating Revenue	154 638	161 596	172 237
Operating Expenditure	154 546	161 494	172 126
Surplus/(Deficit)	92	102	111
Capital Expenditure	51 208	49 517	52 423

Total operating expenditure for the 2019/2020 financial year has been appropriated at R154,546m and translates into a budgeted operating surplus of R92k. When compared to the 2018/2019, operating surplus is anticipated to increase by 11 percent in the 2019/2020. The operating surplus for the two outer years increases to of R102k in 2020/21 and a surplus of R111k is projected for 2021/22.

However, when the non-cash entries are deducted, a higher cash surplus is realised. Therefore, the budget is cash backed.

The capital budget of R 51,208m for 2019/2020 is 49 percent less when compared to the 2018/2019 Budget. The decrease is due to the slight decrease in funding from the national government for 2019/20. The capital programme slightly decreases to R49,517m in the 2020/2021 financial year and then slightly increases in 2021/2022 to R52,423m. All of these projects (100 percent) of the capital budget will be funded from government grants namely, the Municipal Infrastructure Grant, Regional Bulk Infrastructure Grant, Integrated National Electrification Programme Grant and Water Service Infrastructure Grant. Other projects are not reflected on our budget as they fall within the scope of provincial and national government programmes

1.3.3 Operating revenue and expenditure framework

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

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

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

Table 2: The following table is a summary of the 2019/2020 MTREF (classified by main revenue and expenditure source):

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

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year	Budget Year +1	Budget Year +2
Revenue By Source											
Property rates	2	11 897	11 871	13 480	12 557	14 886	14 886	14 886	13 232	13 946	14 699
Service charges - electricity revenue	2	7 809	7 765	6 396	4 614	1 659	1 659	1 659	9 133	9 633	10 153
Service charges - water revenue	2	7 948	9 276	9 566	10 787	9 714	9 714	9 714	13 203	13 919	14 723
Service charges - sanitation revenue	2	7 099	7 152	10 458	4 762	5 141	5 141	5 141	10 642	11 220	11 872
Service charges - refuse revenue	2	6 695	6 662	10 085	7 312	7 820	7 820	7 820	10 095	10 643	11 258
Rental of facilities and equipment		950	392	1 290	316	919	919	919	4 465	4 707	4 961
Interest earned - external investments		299	222	454	220	220	220	220	220	232	244
Interest earned - outstanding debtors		9 601	9 272	9 215	10 623	13 436	13 436	13 436	12 648	11 436	12 181
Dividends received		-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits		146	239	51	54	54	54	54	57	60	64
Licences and permits		-	-	-	27	26	26	26	26	27	28
Agency services		-	-	-	-	-	-	-	-	-	-
Transfers and subsidies		64 571	62 935	74 004	70 498	74 698	74 698	74 698	79 331	84 145	90 378
Other revenue	2	2 575	6 604	50 893	4 622	4 760	4 760	4 760	1 584	1 629	1 675
Gains on disposal of PPE		-	-	-	-	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contributions)		119 590	122 389	185 892	126 391	133 331	133 331	133 331	154 638	161 596	172 237
Expenditure By Type											
Employee related costs	2	57 505	55 743	59 010	64 563	63 777	63 777	63 777	75 450	80 615	85 659
Remuneration of councillors		4 891	5 282	6 011	6 268	6 458	6 458	6 458	6 477	6 930	7 305
Debt impairment	3	23 300	35 985	30 939	4 369	4 369	4 369	4 369	10 709	9 354	11 125
Depreciation & asset impairment	2	17 292	19 655	19 487	2 203	2 203	2 203	2 203	2 300	2 424	2 555
Finance charges		14 297	30 268	23 818	1 644	1 644	1 644	1 644	1 718	1 811	1 909
Bulk purchases	2	24 741	30 543	32 700	16 283	14 373	14 373	14 373	15 162	15 981	16 843
Other materials	8	-	-	-	-	-	-	-	-	-	-
Contracted services		8 181	7 962	7 739	2 382	4 266	4 266	4 266	4 522	4 666	5 018
Transfers and subsidies		-	-	-	-	-	-	-	-	-	-
Other expenditure	4, 5	28 982	25 086	24 950	28 625	36 227	36 227	36 227	38 207	39 712	41 713
Loss on disposal of PPE		-	-	-	-	-	-	-	-	-	-
Total Expenditure		179 188	210 523	204 653	126 337	133 316	133 316	133 316	154 546	161 494	172 126
Surplus/(Deficit)											
Transfers and subsidies - capital (monetary allocations) (National / transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public	6	(59 598)	(88 134)	(18 761)	55	15	15	15	92	102	111
Transfers and subsidies - capital (in-kind - all)		32 121	64 481	88 535	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & Taxation		(27 477)	(23 653)	69 774	55	15	15	15	92	102	111
Surplus/(Deficit) after taxation		(27 477)	(23 653)	69 774	55	15	15	15	92	102	111
Attributable to minorities		-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) attributable to Share of surplus/ (deficit) of associate	7	(27 477)	(23 653)	69 774	55	15	15	15	92	102	111
Surplus/(Deficit) for the year		(27 477)	(23 653)	69 774	55	15	15	15	92	102	111

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

In the 2019/2020 financial year, revenue from rates and services charges totalled R59,168m or 36 percent of the operating revenue. This increases to R62,363m and R65,730m in the respective financial years of the MTREF; this will be achieved through robust implementation of debt collection and credit control policy. A notable trend of continuous increase in the total percentage revenue is envisaged to be generated from rates and services charges. This growth can be mainly attributed to an increase in the number of farms that are to be billed as well as the inclusion of new settlements in

our billing records. The above table takes into account revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality.

The PLM's expenditure framework for the 2019/2020 budget and MTREF is informed by the following:

- Repairs and maintenance backlogs;
- Balancing the budget (operating expenditure should not exceed operating revenue unless there are existing uncommitted cash-backed reserves to fund any deficit);
- Funding of the budget over the medium term as informed by Section 18 and 19 of the MFMA;
- The capital programme and backlog eradication; and
- Funding the capital budget and other core services by operational gains and efficiencies.

The budgeted allocation for employee related costs for the 2019/2020 financial year totals R75,450m, which equals 43,9 percent of the total operating expenditure. Based on the MFMA circular 56, salaries have been budgeted at a rate of 7 percent for the 2019/2020 and annual increase of 5.4 percent in the two outer years of the MTREF respectively. Please note that these costs are the combination of salaries, social contributions and allowances. As part of the PLM's cost reprioritization and cash management strategy, vacancies have been significantly restructured. Most vacancies of critical and strategic positions were filled and that were not filled were also taken into account when this budget was compiled. In addition, expenditure against overtime was significantly reduced, with provisions against this budget item only being provided for emergency services and other critical functions.

The cost associated with the remuneration and allowances of councillors were determined by the Minister of Cooperative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, no. 20 of 1998. This expenditure item is curbed at R6,477m representing 3,8 percent of the operating budget. In compiling the salary budget for Councillors, an increase was provided based on the most recent proclamation.

Finance charges consist primarily of the repayment of interest (cost of capital) on long term loans. This interest makes up 1 percent R1,718m of the operating expenditure excluding annual redemption for 2019/2020 and increases to R1,811m by 2020/2021 and further increase to R1,909m in 2021/2022.

Bulk purchases are directly informed by the purchase of electricity from Eskom and Department of Water Affairs. The annual price increases have been accounted for in the budget appropriations and directly inform the revenue provisions. The expenditure includes distribution losses resulting from illegal connections, faulty meters and tempering. Bulk purchases are budgeted at R13 042m and R2 234m for electricity and water respectively which totals to 9,8 percent of the overall operating expenditure.

Contracted services have been identified as a cost saving area for the PLM. As part of the compilation of the 2019/2020 MTREF this group of expenditure was critically evaluated and operational efficiencies were enforced. Contracted services constitute only R4 522m representing 2.9 percent of the total operating expenditure.

Other expenditure comprises of repairs and maintenance, operational provisions and various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved and is budgeted at R31,908m or 20,6 percent of the operating budget

Operating grants and transfers totals R78 471m in the 2019/2020 financial year, and increases to R78 471m by 2020/21 and R90 469m in 2021/2022.

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

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

It must also be appreciated that the inflation, as measured by consumer price index (CPI), is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity, petrol, diesel, chemicals, cement etc. The current challenge facing the PLM is managing the gap between these cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions.

1.3.5 Capital expenditure

Table 3: Detailed capital budget per individual project

Vote Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year	Budget Year +1	Budget Year +2
R thousand	1										
Single-year expenditure to be appropriated	2										
Vote 1 - Council And Executive		-	-	-	-	-	-	-	-	-	-
Vote 2 - Financial And Administration Services		199	268	206	-	-	-	-	-	-	-
Vote 3 - Planning and Development		-	-	-	1 034	1 034	1 034	1 034	1 052	1 101	1 149
Vote 4 - Community and Social Services		-	-	-	2 416	893	893	893	2 936	-	2 936
Vote 5 - Public Safety		-	-	-	-	-	-	-	-	-	-
Vote 6 - Sports and Recreation		4 841	4 052	9 645	1 200	1 656	1 656	1 656	1 797	-	-
Vote 7 - Waste Management		-	-	-	-	-	-	-	-	-	-
Vote 8 - Waste Water Management		136	-	-	14 600	14 600	14 600	14 600	13 718	12 139	5 109
Vote 9 - Road Transport		5 644	6 173	8 221	7 197	12 931	12 931	12 931	-	-	6 100
Vote 10 - Water		10 461	64 693	63 438	39 798	41 990	41 990	41 990	23 345	29 877	30 377
Vote 11 - Electricity		5 091	664	2 731	2 453	3 610	3 610	3 610	8 360	6 400	6 752
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-	-
Capital single-year expenditure sub-total		26 373	75 851	84 241	68 698	76 714	76 714	76 714	51 208	49 517	52 423
Total Capital Expenditure - Vote		26 373	75 851	84 241	68 698	76 714	76 714	76 714	51 208	49 517	52 423
Capital Expenditure - Functional											
Governance and administration		199	268	206	-	-	-	-	-	-	-
Executive and council		-	-	-	-	-	-	-	-	-	-
Finance and administration		199	268	206	-	-	-	-	-	-	-
Internal audit		-	-	-	-	-	-	-	-	-	-
Community and public safety		4 841	4 052	9 645	3 616	2 549	2 549	2 549	4 733	-	2 936
Community and social services		-	-	-	2 416	893	893	893	2 936	-	2 936
Sport and recreation		4 841	4 052	9 645	1 200	1 656	1 656	1 656	1 797	-	-
Public safety		-	-	-	-	-	-	-	-	-	-
Housing		-	-	-	-	-	-	-	-	-	-
Health		-	-	-	-	-	-	-	-	-	-
Economic and environmental services		5 644	6 173	8 221	8 231	13 965	13 965	13 965	1 052	1 101	7 249
Planning and development		-	-	-	1 034	1 034	1 034	1 034	1 052	1 101	1 149
Road transport		5 644	6 173	8 221	7 197	12 931	12 931	12 931	-	-	6 100
Environmental protection		-	-	-	-	-	-	-	-	-	-
Trading services		15 688	65 357	66 169	56 851	60 200	60 200	60 200	45 423	48 416	42 238
Energy sources		5 091	664	2 731	2 453	3 610	3 610	3 610	8 360	6 400	6 752
Water management		10 461	64 693	63 438	39 798	41 990	41 990	41 990	23 345	29 877	30 377
Waste water management		136	-	-	14 600	14 600	14 600	14 600	13 718	12 139	5 109
Waste management		-	-	-	-	-	-	-	-	-	-
Other		-	-	-	-	-	-	-	-	-	-
Total Capital Expenditure - Functional	3	26 373	75 851	84 241	68 698	76 714	76 714	76 714	51 208	49 517	52 423
Funded by:											
National Government		26 038	75 851	84 241	68 698	76 714	76 714	76 714	51 208	49 517	52 423
Provincial Government		-	-	-	-	-	-	-	-	-	-
District Municipality		-	-	-	-	-	-	-	-	-	-
Other transfers and grants		-	-	-	-	-	-	-	-	-	-
Transfers recognised - capital	4	26 038	75 851	84 241	68 698	76 714	76 714	76 714	51 208	49 517	52 423
Borrowing	6	-	-	-	-	-	-	-	-	-	-
Internally generated funds		335	-	-	-	-	-	-	-	-	-
Total Capital Funding	7	26 373	75 851	84 241	68 698	76 714	76 714	76 714	51 208	49 517	52 423

In 2019/2020 an amount of R51 208m has been appropriated for the development of infrastructure around the three units of the municipality. An amount equal to R21 048m of the overall funding of these projects will be received from MIG and R5 000.m from RBIG, R20 000m will be from Water Service Infrastructure Grant and R5 160 From Integrated National Electrification Programme Grant. MIG receives the highest allocation of R21 048m equalling 41 percent of the total capital budget.

1.4 ANNUAL BUDGET TABLES- PARENT MUNICIPALITY

The following pages present the ten main budget tables as required in terms of regulation 8 of the Municipal Budget and Reporting Regulations-Part 2 regulation 6. These tables set out the municipality's 2019/2020 budget and MTREF as tabled to the Council. Each table is accompanied by explanatory notes.

Table 4 (Table A1) – Budget Summary

FS195 Phumelela - Table A1 Budget Summary

Description	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousands										
Financial Performance										
Property rates	11 897	11 871	13 480	12 557	14 886	14 886	14 886	13 232	13 946	14 699
Service charges	29 551	30 855	36 505	27 475	24 333	24 333	24 333	43 074	45 414	48 007
Investment revenue	299	222	454	220	220	220	220	220	232	244
Transfers recognised - operational	64 571	62 935	74 004	70 498	74 698	74 698	74 698	79 331	84 145	90 378
Other own revenue	13 272	16 507	61 449	15 642	19 194	19 194	19 194	18 781	17 858	18 909
Total Revenue (excluding capital transfers and contributions)	119 590	122 389	185 892	126 391	133 331	133 331	133 331	154 638	161 596	172 237
Employee costs	57 505	55 743	59 010	64 563	63 777	63 777	63 777	75 450	80 615	85 659
Remuneration of councillors	4 891	5 282	6 011	6 268	6 458	6 458	6 458	6 477	6 930	7 305
Depreciation & asset impairment	17 292	19 655	19 487	2 203	2 203	2 203	2 203	2 300	2 424	2 555
Finance charges	14 297	30 268	23 818	1 644	1 644	1 644	1 644	1 718	1 811	1 909
Materials and bulk purchases	24 741	30 543	32 700	16 283	14 373	14 373	14 373	15 162	15 981	16 843
Transfers and grants	-	-	-	-	-	-	-	-	-	-
Other expenditure	60 463	69 032	63 627	35 376	44 861	44 861	44 861	53 439	53 732	57 855
Total Expenditure	179 188	210 523	204 653	126 337	133 316	133 316	133 316	154 546	161 494	172 126
Surplus/(Deficit)	(59 598)	(88 134)	(18 761)	55	15	15	15	92	102	111
Transfers and subsidies - capital (monetary allocations) (National Government)	32 121	64 481	88 535	-	-	-	-	-	-	-
Contributions recognised - capital & contributed assets	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions	(27 477)	(23 653)	69 774	55	15	15	15	92	102	111
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) for the year	(27 477)	(23 653)	69 774	55	15	15	15	92	102	111
Capital expenditure & funds sources										
Capital expenditure	26 373	75 851	84 241	68 698	76 714	76 714	76 714	51 208	49 517	52 423
Transfers recognised - capital	26 038	75 851	84 241	68 698	76 714	76 714	76 714	51 208	49 517	52 423
Borrowing	-	-	-	-	-	-	-	-	-	-
Internally generated funds	335	-	-	-	-	-	-	-	-	-
Total sources of capital funds	26 373	75 851	84 241	68 698	76 714	76 714	76 714	51 208	49 517	52 423
Financial position										
Total current assets	14 671	14 898	34 944	195 710	400 144	400 144	400 144	111 698	149 669	191 774
Total non current assets	653 121	762 916	826 944	890 153	890 136	889 666	889 666	932 625	981 041	1 032 315
Total current liabilities	136 454	210 930	253 121	123 945	123 945	123 945	123 945	77 027	81 341	85 896
Total non current liabilities	729	70 873	47 238	35 104	35 104	35 104	35 104	37 211	39 294	41 495
Community wealth/Equity	530 608	496 011	561 529	926 815	1 131 232	1 130 761	1 130 761	930 085	1 010 075	1 096 698
Cash flows										
Net cash from (used) operating	27 475	77 603	91 315	67 831	68 864	68 864	68 864	51 408	78 376	83 660
Net cash from (used) investing	(26 373)	-	-	(68 698)	(76 714)	(76 714)	(76 714)	(51 208)	(49 517)	(52 423)
Net cash from (used) financing	(1 221)	(1 042)	(385)	(168)	(168)	(168)	(168)	(168)	(177)	(187)
Cash/cash equivalents at the year end	471	77 032	92 112	(564)	32	32	32	64	28 746	59 797
Cash backing/surplus reconciliation										
Cash and investments available	471	1 182	7 882	(564)	(564)	(564)	(564)	64	28 746	59 797
Application of cash and investments	125 133	191 339	238 567	(12 569)	(178 090)	(178 090)	(178 090)	(770)	(22 185)	(26 891)
Balance - surplus (shortfall)	(124 662)	(190 157)	(230 685)	12 005	177 526	177 526	177 526	834	50 931	86 687
Asset management										
Asset register summary (WDV)	653 135	745 336	810 549	889 666	889 666	889 666	889 666	932 625	981 041	1 032 315
Depreciation	17 292	17 191	3 460	2 203	2 203	2 203	2 203	2 203	2 300	2 424
Renewal and Upgrading of Existing Assets	-	-	-	-	-	-	-	-	-	-
Repairs and Maintenance	7 279	5 676	2 487	2 689	2 689	2 689	2 689	9 310	9 613	10 343
Free services										
Cost of Free Basic Services provided	-	-	-	9 535	-	-	-	-	-	-
Revenue cost of free services provided	1 883	-	-	-	9 535	9 535	2 862	2 862	3 002	3 024
Households below minimum service level										
Water:	0	0	0	0	0	0	0	0	0	0
Sanitation/sewerage:	-	-	-	-	-	-	-	-	-	-
Energy:	2	2	2	2	2	2	2	2	2	2
Refuse:	2	2	2	2	2	2	2	2	2	2

Explanatory notes on Table A1 – Budget Summary

- Table A1 is a budget summary and provides a concise overview of the municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flows, and MFMA funding compliance).
- The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
- Financial Management reforms emphasise the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow, as well as the capital budget. The Budget Summary provides the key information in this regard:
 - The operating surplus/deficit (after Total Expenditure) is positive over the MTREF
 - Capital expenditure is balanced by capital funding sources, of which
 - Transfers recognised is reflected in the Financial Performance Budget;
 - Borrowing is incorporated in the net cash from financing in the Cash Flow Budget;
 - Internally generated funds are financed from a combination of the current operating surplus, accumulated cash-backed surpluses from previous years and

envisaged budget year revenue collection. The amount is incorporated in the Net cash from investing in the Cash Flow Budget. The fact that the municipality's cash flow remains positive, and is improving, indicates that the necessary cash resources are available to fund the Capital Budget.

4. The cash backing/surplus reconciliation shows that in previous financial years the municipality was not paying much attention to managing this aspect of its finances, and consequently many of its obligations were not cash-backed. This has placed the municipality in a very vulnerable financial position. Consequently, Council has taken a deliberate decision to ensure adequate cash-backing for all material obligations. It can therefore be seen that over the MTREF there is progressive improvement in the level of cash-backing of obligations showing an ultimate surplus.
5. Even though the council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of Free Services shows that the amount spent on Free Basic Services and the revenue cost of free services provided by the municipality continues to increase. In addition, the municipality continues to make progress in addressing service delivery backlogs

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

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

Functional Classification Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Revenue - Functional	1									
<i>Governance and administration</i>		112 786	155 987	229 846	77 999	82 254	82 254	97 868	103 678	110 960
Executive and council		216	—	1 500	3 310	3 310	3 310	3 423	3 585	3 756
Finance and administration		112 569	155 987	228 346	74 689	78 944	78 944	94 445	100 093	107 204
Internal audit		—	—	—	—	—	—	—	—	—
<i>Community and public safety</i>		172	—	113	159	200	200	204	215	226
Community and social services		172	—	113	159	200	200	204	215	226
Sport and recreation		—	—	—	—	—	—	—	—	—
Public safety		—	—	—	—	—	—	—	—	—
Housing		—	—	—	—	—	—	—	—	—
Health		—	—	—	—	—	—	—	—	—
<i>Economic and environmental services</i>		610	—	67	742	714	714	727	731	734
Planning and development		463	—	16	685	657	657	670	670	670
Road transport		146	—	51	57	57	57	57	60	64
Environmental protection		—	—	—	—	—	—	—	—	—
<i>Trading services</i>		38 143	30 883	44 402	47 492	50 164	50 164	55 838	56 973	60 317
Energy sources		8 632	3 651	6 674	10 270	13 129	13 129	14 444	14 830	16 052
Water management		10 252	10 160	11 813	13 257	12 184	12 184	15 513	16 074	16 920
Waste water management		9 767	8 758	13 091	10 320	10 699	10 699	13 313	13 403	14 006
Waste management		9 492	8 314	12 824	13 645	14 152	14 152	12 568	12 665	13 339
Other	4	—	—	—	—	—	—	—	—	—
Total Revenue - Functional	2	151 711	186 870	274 427	126 391	133 331	133 331	154 638	161 596	172 237
Expenditure - Functional										
<i>Governance and administration</i>		81 308	56 828	76 913	59 487	63 503	63 503	70 049	73 948	78 195
Executive and council		17 733	19 922	19 942	18 093	20 990	20 990	22 097	23 805	25 089
Finance and administration		63 575	36 905	56 971	40 273	41 419	41 419	46 875	48 993	51 893
Internal audit		—	—	—	1 120	1 093	1 093	1 077	1 150	1 212
<i>Community and public safety</i>		2 411	2 519	1 515	3 317	3 326	3 326	3 658	3 886	4 098
Community and social services		953	997	1 515	906	885	885	1 011	1 056	1 115
Sport and recreation		1 458	1 522	—	2 410	2 442	2 442	2 647	2 831	2 984
Public safety		—	—	—	—	—	—	—	—	—
Housing		—	—	—	—	—	—	—	—	—
Health		—	—	—	—	—	—	—	—	—
<i>Economic and environmental services</i>		28 187	31 999	64 917	17 086	19 431	19 431	23 142	24 434	25 653
Planning and development		25 402	29 557	60 692	12 147	12 609	12 609	15 892	16 992	18 032
Road transport		2 784	2 442	4 225	4 939	6 821	6 821	7 250	7 442	7 621
Environmental protection		—	—	—	—	—	—	—	—	—
<i>Trading services</i>		67 283	119 178	61 307	46 448	47 057	47 057	57 698	59 226	64 180
Energy sources		26 577	64 117	30 153	16 006	15 961	15 961	17 459	18 302	19 391
Water management		15 998	20 514	14 570	13 431	15 065	15 065	17 221	17 613	19 831
Waste water management		16 259	26 735	8 396	9 191	10 132	10 132	12 208	12 380	13 049
Waste management		8 450	7 812	8 188	7 820	5 899	5 899	10 809	10 930	11 909
Other	4	—	—	—	—	—	—	—	—	—
Total Expenditure - Functional	3	179 188	210 523	204 653	126 337	133 316	133 316	154 546	161 494	172 126
Surplus/(Deficit) for the year		(27 477)	(23 653)	69 774	55	15	15	92	102	111

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

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

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

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

Vote Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year	Budget Year +1	Budget Year +2
Revenue by Vote										
Vote 1 - Council And Executive	1	216	-	1 500	3 310	3 310	3 310	3 423	3 585	3 756
Vote 2 - Financial And Administration Services		112 569	155 987	228 346	74 689	78 944	78 944	94 445	100 093	107 204
Vote 3 - Planning and Development		463	-	16	685	657	657	670	670	670
Vote 4 - Community and Social Services		172	-	113	159	200	200	204	215	226
Vote 5 - Public Safety		146	-	51	57	57	57	57	60	64
Vote 6 - Sports and Recreation		-	-	-	-	-	-	-	-	-
Vote 7 - Waste Management		9 492	8 314	12 824	13 645	14 152	14 152	12 668	12 665	13 339
Vote 8 - Waste Water Management		9 767	8 758	13 091	10 320	10 699	10 699	13 313	13 403	14 006
Vote 9 - Road Transport		-	-	-	-	-	-	-	-	-
Vote 10 - Water		10 252	10 160	11 813	13 257	12 184	12 184	15 513	16 074	16 920
Vote 11 - Electricity		8 632	3 651	6 674	10 270	13 129	13 129	14 444	14 830	16 052
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-
Total Revenue by Vote	2	151 711	186 870	274 427	126 391	133 331	133 331	154 638	161 596	172 237
Expenditure by Vote to be appropriated										
Vote 1 - Council And Executive	1	17 733	19 922	19 942	19 915	22 757	22 757	23 772	25 593	26 975
Vote 2 - Financial And Administration Services		63 575	36 905	56 971	39 572	40 746	40 746	46 277	48 355	51 221
Vote 3 - Planning and Development		25 402	29 557	60 692	12 147	12 609	12 609	15 892	16 992	18 032
Vote 4 - Community and Social Services		953	997	1 515	906	885	885	1 011	1 056	1 115
Vote 5 - Public Safety		1 685	1 063	2 838	939	939	939	1 261	1 349	1 422
Vote 6 - Sports and Recreation		1 458	1 522	-	2 410	2 442	2 442	2 647	2 831	2 984
Vote 7 - Waste Management		8 450	7 812	8 188	7 820	5 899	5 899	10 809	10 930	11 909
Vote 8 - Waste Water Management		16 259	26 735	8 396	9 191	10 132	10 132	12 208	12 380	13 049
Vote 9 - Road Transport		1 099	1 379	1 388	4 000	5 883	5 883	5 990	6 093	6 199
Vote 10 - Water		15 998	20 514	14 570	13 431	15 065	15 065	17 221	17 613	19 831
Vote 11 - Electricity		26 577	64 117	30 153	16 006	15 961	15 961	17 459	18 302	19 391
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-
Total Expenditure by Vote	2	179 188	210 523	204 653	126 337	133 316	133 316	154 546	161 494	172 126
Surplus/(Deficit) for the year	2	(27 477)	(23 653)	69 774	55	15	15	92	102	111

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

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

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

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

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year	Budget Year +1	Budget Year +2
Revenue By Source											
Property rates	2	11 897	11 871	13 480	12 557	14 886	14 886	14 886	13 232	13 946	14 699
Service charges - electricity revenue	2	7 809	7 765	6 396	4 614	1 659	1 659	1 659	9 133	9 633	10 153
Service charges - water revenue	2	7 948	9 276	9 566	10 787	9 714	9 714	9 714	13 203	13 919	14 723
Service charges - sanitation revenue	2	7 099	7 152	10 458	4 762	5 141	5 141	5 141	10 642	11 220	11 872
Service charges - refuse revenue	2	6 695	6 662	10 085	7 312	7 820	7 820	7 820	10 095	10 643	11 258
Rental of facilities and equipment		950	392	1 290	316	919	919	919	4 465	4 707	4 961
Interest earned - external investments		299	222	454	220	220	220	220	220	232	244
Interest earned - outstanding debtors		9 601	9 272	9 215	10 623	13 436	13 436	13 436	12 648	11 436	12 181
Dividends received		-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits		146	239	51	54	54	54	54	57	60	64
Licences and permits		-	-	-	27	26	26	26	26	27	28
Agency services		-	-	-	-	-	-	-	-	-	-
Transfers and subsidies		64 571	62 935	74 004	70 498	74 698	74 698	74 698	79 331	84 145	90 378
Other revenue	2	2 575	6 604	50 893	4 622	4 760	4 760	4 760	1 584	1 629	1 675
Gains on disposal of PPE		-	-	-	-	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contributions)		119 590	122 389	185 892	126 391	133 331	133 331	133 331	154 638	161 596	172 237
Expenditure By Type											
Employee related costs	2	57 505	55 743	59 010	64 563	63 777	63 777	63 777	75 450	80 615	85 659
Remuneration of councillors		4 891	5 282	6 011	6 268	6 458	6 458	6 458	6 477	6 930	7 305
Debt impairment	3	23 300	35 985	30 939	4 369	4 369	4 369	4 369	10 709	9 354	11 125
Depreciation & asset impairment	2	17 292	19 655	19 487	2 203	2 203	2 203	2 203	2 300	2 424	2 555
Finance charges		14 297	30 268	23 818	1 644	1 644	1 644	1 644	1 718	1 811	1 909
Bulk purchases	2	24 741	30 543	32 700	16 283	14 373	14 373	14 373	15 162	15 981	16 843
Other materials	8	-	-	-	-	-	-	-	-	-	-
Contracted services		8 181	7 962	7 739	2 382	4 266	4 266	4 266	4 522	4 666	5 018
Transfers and subsidies		-	-	-	-	-	-	-	-	-	-
Other expenditure	4, 5	28 982	25 086	24 950	28 625	36 227	36 227	36 227	38 207	39 712	41 713
Loss on disposal of PPE		-	-	-	-	-	-	-	-	-	-
Total Expenditure		179 188	210 523	204 653	126 337	133 316	133 316	133 316	154 546	161 494	172 126
Surplus/(Deficit)											
Transfers and subsidies - capital (monetary allocations) (National / transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public	6	(59 598)	(88 134)	(18 761)	55	15	15	15	92	102	111
Transfers and subsidies - capital (in-kind - all)		32 121	64 481	88 535	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & taxation		(27 477)	(23 653)	69 774	55	15	15	15	92	102	111
Surplus/(Deficit) after taxation		(27 477)	(23 653)	69 774	55	15	15	15	92	102	111
Attributable to minorities		-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) attributable to Share of surplus/ (deficit) of associate	7	(27 477)	(23 653)	69 774	55	15	15	15	92	102	111
Surplus/(Deficit) for the year		(27 477)	(23 653)	69 774	55	15	15	15	92	102	111

Explanatory notes to Table 7 (Table A4)

1. Total revenue is envisaged to be R154,638m, escalates to R161,596m in 2020/21 and 172,237m in 2021/22.
2. Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government. It needs to be noted that in real terms the grants receipts from national government are increasing steadily over the MTREF.
3. Employee related costs and bulk purchases are the main cost drivers within the municipality and alternative operational gains and efficiencies will have to be identified to lessen the impact of wage and bulk tariff increases in the future years, yet saving employment.

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

Vote Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year	Budget Year +1	Budget Year +2
R thousand	1										
Single-year expenditure to be appropriated	2										
Vote 1 - Council And Executive		-	-	-	-	-	-	-	-	-	-
Vote 2 - Financial And Administration Services		199	268	206	-	-	-	-	-	-	-
Vote 3 - Planning and Development		-	-	-	1 034	1 034	1 034	1 034	1 052	1 101	1 149
Vote 4 - Community and Social Services		-	-	-	2 416	893	893	893	2 936	-	2 936
Vote 5 - Public Safety		-	-	-	-	-	-	-	-	-	-
Vote 6 - Sports and Recreation		4 841	4 052	9 645	1 200	1 656	1 656	1 656	1 797	-	-
Vote 7 - Waste Management		-	-	-	-	-	-	-	-	-	-
Vote 8 - Waste Water Management		136	-	-	14 600	14 600	14 600	14 600	13 718	12 139	5 109
Vote 9 - Road Transport		5 644	6 173	8 221	7 197	12 931	12 931	12 931	-	-	6 100
Vote 10 - Water		10 461	64 693	63 438	39 798	41 990	41 990	41 990	23 345	29 877	30 377
Vote 11 - Electricity		5 091	664	2 731	2 453	3 610	3 610	3 610	8 360	6 400	6 752
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-	-
Capital single-year expenditure sub-total		26 373	75 851	84 241	68 698	76 714	76 714	76 714	51 208	49 517	52 423
Total Capital Expenditure - Vote		26 373	75 851	84 241	68 698	76 714	76 714	76 714	51 208	49 517	52 423
Capital Expenditure - Functional											
Governance and administration		199	268	206	-	-	-	-	-	-	-
Executive and council		-	-	-	-	-	-	-	-	-	-
Finance and administration		199	268	206	-	-	-	-	-	-	-
Internal audit		-	-	-	-	-	-	-	-	-	-
Community and public safety		4 841	4 052	9 645	3 616	2 549	2 549	2 549	4 733	-	2 936
Community and social services		-	-	-	2 416	893	893	893	2 936	-	2 936
Sport and recreation		4 841	4 052	9 645	1 200	1 656	1 656	1 656	1 797	-	-
Public safety		-	-	-	-	-	-	-	-	-	-
Housing		-	-	-	-	-	-	-	-	-	-
Health		-	-	-	-	-	-	-	-	-	-
Economic and environmental services		5 644	6 173	8 221	8 231	13 965	13 965	13 965	1 052	1 101	7 249
Planning and development		-	-	-	1 034	1 034	1 034	1 034	1 052	1 101	1 149
Road transport		5 644	6 173	8 221	7 197	12 931	12 931	12 931	-	-	6 100
Environmental protection		-	-	-	-	-	-	-	-	-	-
Trading services		15 688	65 357	66 169	56 851	60 200	60 200	60 200	45 423	48 416	42 238
Energy sources		5 091	664	2 731	2 453	3 610	3 610	3 610	8 360	6 400	6 752
Water management		10 461	64 693	63 438	39 798	41 990	41 990	41 990	23 345	29 877	30 377
Waste water management		136	-	-	14 600	14 600	14 600	14 600	13 718	12 139	5 109
Waste management		-	-	-	-	-	-	-	-	-	-
Other		-	-	-	-	-	-	-	-	-	-
Total Capital Expenditure - Functional	3	26 373	75 851	84 241	68 698	76 714	76 714	76 714	51 208	49 517	52 423
Funded by:											
National Government		26 038	75 851	84 241	68 698	76 714	76 714	76 714	51 208	49 517	52 423
Provincial Government		-	-	-	-	-	-	-	-	-	-
District Municipality		-	-	-	-	-	-	-	-	-	-
Other transfers and grants		-	-	-	-	-	-	-	-	-	-
Transfers recognised - capital	4	26 038	75 851	84 241	68 698	76 714	76 714	76 714	51 208	49 517	52 423
Borrowing	6	-	-	-	-	-	-	-	-	-	-
Internally generated funds		335	-	-	-	-	-	-	-	-	-
Total Capital Funding	7	26 373	75 851	84 241	68 698	76 714	76 714	76 714	51 208	49 517	52 423

Explanatory notes to Table 8 (Table A5) – Budgeted Capital Expenditure by vote, standard classification and funding source

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
2. The MFMA provides that a municipality may approve multi-year or single-year budget appropriations. A total of R51 208m has been allocated for the 2019/20 financial year, R49 517m for the 2020/21 financial year and flattens out to R52 423m in the 2021/22 financial year.
3. The capital programme is funded from capital transfers from national and provincial government.

Table 9 (Table A6) – Budgeted Financial Position

FS195 Phumelela - Table A6 Budgeted Financial Position

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework			
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousand											
ASSETS											
Current assets											
Cash		471	1 182	7 882	(564)	(564)	(564)	(564)	64	28 746	59 797
Call investment deposits	1	-	-	-	-	-	-	-	-	-	-
Consumer debtors	1	11 226	5 017	11 851	195 672	400 106	400 106	400 106	110 996	120 248	131 266
Other debtors		-	8 123	14 276	-	-	-	-	-	-	-
Current portion of long-term receivables		1 882	-	-	-	-	-	-	-	-	-
Inventory	2	1 092	576	935	602	602	602	602	638	674	712
Total current assets		14 671	14 898	34 944	195 710	400 144	400 144	400 144	111 698	149 669	191 774
Non current assets											
Long-term receivables		-	-	-	-	-	-	-	-	-	-
Investments		-	-	-	-	-	-	-	-	-	-
Investment property		17 110	17 580	15 905	-	-	-	-	-	-	-
Investment in Associate		-	-	-	-	-	-	-	-	-	-
Property, plant and equipment	3	636 011	745 336	810 549	889 666	889 666	889 666	889 666	932 625	981 041	1 032 315
Biological		-	-	-	-	-	-	-	-	-	-
Intangible		-	-	-	-	-	-	-	-	-	-
Other non-current assets		491	487	470	-	-	-	-	-	-	-
Total non current assets		653 121	762 916	826 944	890 153	890 136	889 666	889 666	932 625	981 041	1 032 315
TOTAL ASSETS		667 792	777 814	861 888	1 085 864	1 290 280	1 289 810	1 289 810	1 044 323	1 130 710	1 224 089
LIABILITIES											
Current liabilities											
Bank overdraft	1	-	-	-	-	-	-	-	-	-	-
Borrowing	4	1 882	473	414	72	72	72	72	76	80	85
Consumer deposits		240	239	234	-	-	-	-	-	-	-
Trade and other payables	4	133 603	200 739	249 096	123 873	123 873	123 873	123 873	76 951	81 261	85 811
Provisions		729	9 479	3 377	-	-	-	-	-	-	-
Total current liabilities		136 454	210 930	253 121	123 945	123 945	123 945	123 945	77 027	81 341	85 896
Non current liabilities											
Borrowing		-	326	4 758	2 515	2 515	2 515	2 515	2 666	2 815	2 973
Provisions		729	70 547	42 480	32 589	32 589	32 589	32 589	34 545	36 479	38 522
Total non current liabilities		729	70 873	47 238	35 104	35 104	35 104	35 104	37 211	39 294	41 495
TOTAL LIABILITIES		137 184	281 803	300 359	159 049	159 049	159 049	159 049	114 238	120 635	127 391
NET ASSETS	5	530 608	496 011	561 529	926 815	1 131 232	1 130 761	1 130 761	930 085	1 010 075	1 096 698
COMMUNITY WEALTH/EQUITY											
Accumulated Surplus/(Deficit)		530 608	496 011	561 529	926 815	1 131 232	1 130 761	1 130 761	930 085	1 010 075	1 096 698
Reserves	4	-	-	-	-	-	-	-	-	-	-
TOTAL COMMUNITY WEALTH/EQUITY	5	530 608	496 011	561 529	926 815	1 131 232	1 130 761	1 130 761	930 085	1 010 075	1 096 698

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

- Table A6 is consistent with international standards of good financial management practice, and improves understanding for councillors and management of the impact of the budget on the statement of financial position (balance sheet).
- This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets and Liabilities as “accounting” Community Wealth or Equity. The order of items within each group illustrates requirements to be met from cash, and appears first.
- Table A6 provides a detailed analysis of the major components of a number of items, including:
 - Call investments deposits;
 - Consumer debtors;
 - Property, plant and equipment;
 - Trade and other payables;
 - Non-current Provisions;
 - Changes in net assets; and
 - Reserves
- The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.
- Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalent at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition, the funding compliance assessment is informed directly by forecasting the statement of financial position.

Table 10 (Table A7) – Budgeted Cash Flow Statement

FS195 Phumelela - Table A7 Budgeted Cash Flows

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year	Budget Year +1	Budget Year +2
CASH FLOW FROM OPERATING ACTIVITIES											
Receipts											
Property rates		11 897	11 871	13 480	10 046	10 420	10 420	10 420	10 585	13 946	14 699
Service charges		29 387	30 506	31 427	21 980	23 707	23 707	23 707	34 459	44 737	47 293
Other revenue		-	-	-	6 272	9 689	9 689	9 689	6 213	6 422	6 728
Government - operating	1	99 651	133 214	178 223	70 498	74 698	74 698	74 698	79 331	84 145	90 378
Government - capital	1	-	-	-	68 698	76 714	76 714	76 714	51 208	49 517	52 423
Interest		9 900	9 494	50 341	9 674	9 406	9 406	9 406	8 067	13 848	14 595
Dividends		-	-	-	-	-	-	-	-	-	-
Payments											
Suppliers and employees		(109 063)	(77 215)	(158 338)	(116 948)	(132 782)	(132 782)	(132 782)	(125 737)	(132 427)	(140 547)
Finance charges		(14 297)	(30 268)	(23 818)	(2 388)	(2 988)	(2 988)	(2 988)	(12 718)	(1 811)	(1 909)
Transfers and Grants	1	-	-	-	-	-	-	-	-	-	-
NET CASH FROM/(USED) OPERATING ACTIVITIES		27 475	77 603	91 315	67 831	68 864	68 864	68 864	51 408	78 376	83 660
CASH FLOWS FROM INVESTING ACTIVITIES											
Receipts											
Proceeds on disposal of PPE		-	-	12	-	-	-	-	-	-	-
Decrease (Increase) in non-current debtors		-	-	-	-	-	-	-	-	-	-
Decrease (increase) other non-current receivables		-	-	-	-	-	-	-	-	-	-
Decrease (increase) in non-current investments		-	-	-	-	-	-	-	-	-	-
Payments											
Capital assets		(26 373)	(75 851)	(84 241)	(68 698)	(76 714)	(76 714)	(76 714)	(51 208)	(49 517)	(52 423)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(26 373)	-	-	(68 698)	(76 714)	(76 714)	(76 714)	(51 208)	(49 517)	(52 423)
CASH FLOWS FROM FINANCING ACTIVITIES											
Receipts											
Short term loans		-	-	-	-	-	-	-	-	-	-
Borrowing long term/refinancing		28	3	-	-	-	-	-	-	-	-
Increase (decrease) in consumer deposits		-	-	-	-	-	-	-	-	-	-
Payments											
Repayment of borrowing		(1 248)	(1 045)	(385)	(168)	(168)	(168)	(168)	(168)	(177)	(187)
NET CASH FROM/(USED) FINANCING ACTIVITIES		(1 221)	(1 042)	(385)	(168)	(168)	(168)	(168)	(168)	(177)	(187)
NET INCREASE/ (DECREASE) IN CASH HELD		(118)	76 561	90 930	(1 035)	(8 018)	(8 018)	(8 018)	32	28 682	31 050
Cash/cash equivalents at the year begin:	2	589	471	1 182	471	8 050	8 050	8 050	32	64	28 746
Cash/cash equivalents at the year end:	2	471	77 032	92 112	(564)	32	32	32	64	28 746	59 797

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

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
3. The 2019/20 MTREF has been informed by the planning principle of ensuring adequate cash reserves over the medium-term

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

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

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year	Budget Year +1	Budget Year +2
Cash and investments available											
Cash/cash equivalents at the year end	1	471	77 032	92 112	(564)	32	32	32	64	28 746	59 797
Other current investments > 90 days		(0)	(75 850)	(84 229)	-	(596)	(596)	(596)	-	-	-
Non current assets - Investments	1	-	-	-	-	-	-	-	-	-	-
Cash and investments available:		471	1 182	7 882	(564)	(564)	(564)	(564)	64	28 746	59 797
Application of cash and investments											
Unspent conditional transfers		-	-	-	-	-	-	-	-	-	-
Unspent borrowing		-	-	-	-	-	-	-	-	-	-
Statutory requirements	2	-	-	-	-	-	-	-	-	-	-
Other working capital requirements	3	125 133	191 339	238 567	(12 569)	(178 090)	(178 090)	(178 090)	(770)	(22 185)	(26 891)
Other provisions		-	-	-	-	-	-	-	-	-	-
Long term investments committed	4	-	-	-	-	-	-	-	-	-	-
Reserves to be backed by cash/investments	5	-	-	-	-	-	-	-	-	-	-
Total Application of cash and investments:		125 133	191 339	238 567	(12 569)	(178 090)	(178 090)	(178 090)	(770)	(22 185)	(26 891)
Surplus(shortfall)		(124 662)	(190 157)	(230 685)	12 005	177 526	177 526	177 526	834	50 931	86 687

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

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality’s budget must be “funded”.
4. Compliance with section 18 of the MFMA is assumed because a surplus indirectly indicates that the annual budget is appropriately funded.
5. As part of the budgeting and planning guidelines that informed the compilation of the 2019/20 MTREF the end objective of the medium-term framework was to ensure the budget is funded in alignment to section 18 of the MFMA.

Table 12 (Table A9) – Asset Management

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

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

Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

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

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

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

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

2.1.1 IDP, Service Delivery and Budget Implementation Plan

This is the 2nd year of the fourth generation of the IDP and will be adopted by council on or before the 30 of May 2019.

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

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

The IDP has been taken into a business and financial planning process leading up to the 2019/20 MTREF, based on the approved 2018/19 MTREF and the Mid-year review. The business planning

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

With the compilation of the 2019/2020 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the Mid-year performance against the 2018/2019 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detailed operating budget appropriations and three-year capital programme.

2.1.2 Financial Modelling and Key Planning Drivers

As part of the compilation of the 2019/2020 MTREF, an extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of this MTREF:

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

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 93 and 94 has been taken into consideration in the planning and prioritisation process.

2.1.3 Community Consultation

The Original 2019/2020 MTREF as tabled by Council on 26 March 2019 for community consultation was published on the municipality's website, and hard copies made available at municipal offices and other community centres. In addition budget road shows were held in different municipal clusters. Inputs were also collected via e-mails.

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

Submissions received during the community consultation process and additional information regarding revenue and expenditure and individual capital projects were addressed, and where relevant considered as part of the finalisation of the 2019/2020 MTREF.

2.2 Overview of alignment of annual budget with IDP

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

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

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

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

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

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

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

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP. The following table highlights the IDP's six strategic objectives for the 2019/2020 MTREF and further planning refinements that have directly informed the compilation of the budget:

Table 16 – IDP Strategic Objectives

Priority	Objectives	Outcomes
1. Revenue	Increase own revenue from trading services and other revenue streams	Ensure that every consumer who is provided with a service is billed correctly and pay for the service by performing: <ul style="list-style-type: none"> ➤ Data cleansing ➤ Constant follow up on outstanding accounts. ➤ Collaboration with Eskom for the installation of split meters in Warden and Ezenzeleni to curb electricity losses which will increase revenue and reduce bulk purchases. ➤ Annually maintain indigent register ➤ Perform supplementary

		<p>valuation rolls</p> <p>➤ Implementation of traffic management</p>
2. SCM Management	To procure goods and services in line with sec 217 of the constitution and chapter 11 of the MFMA no.56 of 2003	Eliminate irregular, fruitless and wasteful expenditure. Value for money without compromising quality through competition, transparency and equity
3. Asset Management	To ensure that assets of the municipality are accounted for in terms of GRAP standards	Development of asset policy Develop and maintain GRAP 17 asset register Ensure that assets are comprehensively ensured
4. Budget reporting	Prepare and implement the budget in the terms of budget reforms	Ensure that the budget is approved by council before the start of the new financial year Ensure that monthly, quarterly and yearly reports are prepared and submitted to council on time.
5. Expenditure management	Ensure that expenditure incurred provided for in the approved budget	Reduction of unauthorised expenditure
6. Review of LED strategy	To have an updated LED strategy	Updated LED strategy
7. Exploiting and pursuing new investment opportunities	To attract new investors in around Phumelela	<ul style="list-style-type: none"> - Agriculture/ Dairy farm - Gas exploration - Smart technology factory - Tourism opportunities
8. Tourism	To promote tourism opportunities around Phumelela	To increase tourism opportunities
9. Cemeteries and Parks	To ensure effective management of graveyards and cemeteries in the Phumelela municipal area	Adequate provision for, safe and well maintained graveyards and cemeteries.
10. Sport and recreation facilities	To ensure access to sports and recreation in the Phumelela municipal area	Adequate provision, for safe and well maintain sport and recreational facilities, as measured in terms of the target set for the programs and projects in the 5 year IDP
11. Traffic and parking	To ensure effective and traffic management and parking in the Phumelela area	Adequate provision for traffic management and parking, as measured in terms of the targets set for programmes and project in the IDP
12. Waste management	To ensure effective and efficient waste management in the area from storage to disposal	Environmental clean waste disposal site
13. Energy and Electricity	To ensure effective and	Sufficient provision of electricity

management	efficient electricity supply	
14. Municipal roads and storm water	To provide the mobility and enhance economic development in the Municipal environment	Improved access and enhancement of economic development
15. Sanitation	To ensure provision of reliable sanitation and related effluent	Healthy environment in the Phumelela area
16. Water	To ensure provision of clean potable water	Increased access to clean potable water
17. Alignment of Organizational Structure with IDP	To ensure that the structure is reviewed and linked to IDP Alignment of Organizational Structure with Powers & Functions Establish proper reporting lines	Structure reviewed and approved by Council
18. Filling of critical vacancies	To ensure that recruitment campaign is conducted in line with recruitment policy. To appoint / attract possible competent and skilled personnel	Clear job descriptions linked to KPA's and KPI's and deliverables. Ensure compliance with minimum competencies
19. Development and review appropriate policies and by-laws	To have a policy driven and regulated environment	Policies adopted by Council including the Bylaws
20. Skill Audit to evaluate competencies & address shortcomings	To identify the skills gaps. Training to be in line with the WSP and approved by Council	Training plan in line with WSP approved by Council
21. Organizational Performance Management	Cascading Performance Management System to staff below Section 57. To ensure that a Culture of performance is installed	Clear job description
22. Improvement of Government/ governance Structures/ functionality of Council Committees	To ensure functionality of Section 80 Committee, ward committees, Oversight Committee and LLF. Adopt organization wide schedule of meetings and comply with it	Section 80 resuscitated LLF properly constituted Audit committee established Schedule of dates adopted by Council
23. Legislative compliance	Report monthly, quarterly, mid-year and annually. Reporting on the	Ensure compliance in terms of reporting (MFMA guidelines)

	LGTAS (Monitoring and evaluation)	
24. Communication strategy	Better use of Municipal Web-site Improve way of communication with public and stakeholders	Ensure functional website Convene Quarterly engagement with stakeholders
25. Spatial Development Framework	Review of the Spatial Development Framework	Reviewed Spatial Development Framework
26. Disaster Management	Development of a disaster management plan	Disaster management plan Developed
27. Sector Plans	FA: 9.1 Development of Sector plans for basic services; Water, Waste, Sanitation, Electricity/Energy and Roads & Pavement	

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

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

1. Provision of quality basic services and infrastructure which includes, amongst others:
 - Provide electricity;
 - Provide water;
 - Provide sanitation;
 - Provide waste removal;
 - Provide housing;
 - Provide roads and storm water;
 - Provide planning services (Town Planning); and
 - Maintaining the infrastructure of the PLM.
2. Economic growth and development that leads to sustainable job creation by:
 - Ensuring there is a clear structural plan for the PLM;
 - Ensuring planning processes function in accordance with set timeframes;
 - Facilitating the use of labour intensive approaches in the delivery of services and the building of infrastructure.
3. Fight poverty and build clean, healthy, safe and sustainable communities:
 - Effective implementation of the Indigent Policy;
 - Working with the provincial department of health to provide primary health care services;
 - Extending waste removal services and ensuring effective PLM cleansing;
 - Ensuring all waste water treatment works are operating optimally;
 - Working with strategic partners such as SAPS to address crime;
 - Ensuring safe working environments by effective enforcement of building and health regulations;
 - Promote viable, sustainable communities through proper zoning; and
 - Promote environmental sustainability by protecting wetlands and key open spaces.
4. Integrated Social Services for empowered and sustainable communities

- Work with provincial departments to ensure the development of community infrastructure such as schools and clinics is properly co-ordinated with the informal settlements upgrade programme
5. Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service by:
 - Optimising effective community participation in the ward committee system; and
 - Implementing Batho Pele in the revenue management strategy.
 6. Promote sound governance through:
 - Publishing the outcomes of all tender processes on the municipal website
 7. Ensure financial sustainability through:
 - Reviewing the use of contracted services
 - Continuing to implement the infrastructure renewal strategy and the repairs and maintenance plan
 8. Optimal institutional transformation to ensure capacity to achieve set objectives
 - Review of the organizational structure to optimize the use of personnel;

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

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

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

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

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

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

The 2019/20 MTREF has therefore been directly informed by the IDP revision process and the following tables provide a reconciliation between the IDP strategic objectives and operating revenue, operating expenditure and capital expenditure.

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

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

Strategic Objective	Goal	Goal Code	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework			
				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year	Budget Year +1	Budget Year +2	
R thousand													
To ensure provision of clean potable water	100% of households in formal settlements have access to basic level of water infrastructure required to enable achievement of the strategic objective as measured in terms of The percentage of households earning less than R3 200 per month				10 160	11 813	13 257	12 184	12 184	15 513	16 074	16 920	
To ensure provision of reliable sanitation and	Increase in access to sanitation Sanitation infrastructure required to enable achievement of the strategic objective as measured in terms of				8 758	13 091	10 320	10 699	10 699	13 313	13 403	14 006	
To ensure that identified internal roads in the Phumelela municipal area are maintained and/or upgraded to facilitate economic and social activity required for the sustainable development of the	Repair and paving of roads according to the targets and projects indicated in the 5-year IDP				-	-	-	-	-	-	-	-	
To ensure good waste management in the Phumelela municipal area, as measured in	Registration and establishment of landfill sites. Development of a waste management plan				8 314	12 824	13 645	14 152	14 152	12 568	12 665	13 339	
To ensure increase in access to electricity for	Sufficient provision of electricity.				3 651	6 674	10 270	13 129	13 129	14 444	14 830	16 052	
To ensure effective management of graveyards and cemeteries in the Phumelela municipal	Formulate and implement a schedule for the regular maintenance of parks, by providing adequate				-	113	159	200	200	204	215	226	
To ensure access to quality sport and recreational in the Phumelela municipal area, as measured in	Adequate provision for, safe and well maintained sport and recreational facilities, as measured in terms of				-	-	-	-	-	-	-	-	
To create employment opportunities in the Phumelela municipal area; resulting from	(Number of) employment opportunities created through targeted IDP (Number of) employment opportunities created				155 987	1 567	6 613	7 192	7 192	8 633	9 040	9 369	
To facilitate institutional transformation and development in the Phumelela local municipality as measured in terms of	The number of people from employment equity target groups employed in the three highest levels of management in compliance with a Targets in the review of organizational structure in line with the IDP and powers and function; Skills development targets in the municipal				-	225 799	71 837	75 405	75 405	89 778	95 179	102 130	
To facilitate the financial viability of the Phumelela local municipality as measured in terms of the key indicators of the	To facilitate the financial viability of the Phumelela local municipality as measured in terms of the key indicators of the				151 711	-	2 546	290	370	370	185	190	
Allocations to other priorities			2										
Total Revenue (excluding capital transfers and contributions)				1	151 711	186 870	274 427	126 391	133 331	133 331	154 638	161 596	172 237

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

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

Strategic Objective	Goal	Goal Code	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework			
				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year	Budget Year +1	Budget Year +2	
R thousand													
To ensure provision of clean potable water	100% of households in formal settlements have access to basic level of water Water infrastructure required to enable achievement of the strategic objective as			15 998	20 514	14 570	13 431	15 065	15 065	17 191	17 350	19 552	
To ensure provision of reliable sanitation and related effluent	The percentage of households earning less than R3 200 per month with access to free basic sanitation Sanitation infrastructure required to enable achievement of the strategic objective as			16 259	26 735	8 396	9 191	10 132	10 132	12 208	12 380	13 049	
To ensure that identified internal roads in the Phumelela municipal area are maintained	Repair and paving of roads according to the targets and projects indicated in the 5-year			1 099	1 379	1 388	4 000	5 883	5 883	5 990	6 093	6 199	
To ensure good waste management in the Phumelela municipal area, as measured in	Registration and establishment of landfill sites. Development of a waste management plan			8 450	7 812	8 188	7 820	5 899	5 899	10 809	10 930	11 909	
To ensure increase in access to electricity for the Phumelela area	Sufficient provision of electricity.			26 577	64 117	30 153	16 006	15 961	15 961	17 459	18 302	19 391	
To ensure effective management of graveyards and cemeteries in the Phumelela municipal area	Formulate and implement a schedule for the regular maintenance of parks, safe and well maintained sport and recreational facilities, as			953	997	1 515	906	885	885	1 011	1 056	1 115	
To create employment opportunities in the Phumelela municipal area, resulting from	Adequate provision for, (Number of) employment opportunities created through targeted IDP (Number of) employment opportunities created through EPWP			1 458	50 542	83 472	2 410	38 354	38 354	2 647	47 142	49 810	
To facilitate institutional transformation and development in the Phumelela local	Targets in the review of organizational structure in line with the IDP and powers and function; Skills development targets in the municipal Skills Development Plan.			52 238	11 278	18 486	11 741	12 505	12 505	13 660	14 404	15 361	
To facilitate the financial viability of the Phumelela local municipality as	To facilitate the financial viability of the Phumelela local municipality as			53 661	25 627	38 485	26 120	26 191	26 191	29 854	31 007	32 757	
Allocations to other priorities													
Total Expenditure				1	176 693	210 523	204 653	126 337	133 316	133 316	154 546	161 494	172 126

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

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

Strategic Objective	Goal	Goal Code	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year	Budget Year +1	Budget Year +2
R thousand												
To ensure provision of clean potable water	100% of households in formal settlements have access to basic level of water Water infrastructure required to enable achievement of the strategic objective as	A		10 461	64 693	63 438	39 798	41 990	41 990	23 345	29 877	30 377
		B										
		C										
To ensure provision of reliable sanitation and related effluent	The percentage of households earning less than R3 200 per month with access to free basic Increase in access to sanitation Sanitation infrastructure required to enable achievement of the strategic objective as	D										
		E		136	-	-	14 600	14 600	14 600	13 718	12 139	5 109
To ensure that identified internal roads in the Phumelela municipal area are maintained	Repair and paving of roads according to the targets and projects indicated in the 5-year	F										
		G		5 644	6 173	8 221	7 197	12 931	12 931	-	-	6 100
To ensure good waste management in the Phumelela municipal area, as measured in	Registration and establishment of landfill sites. Development of a waste management plan	H										
		I		-	-	-	-	-	-	-	-	-
		J										
To ensure increase in access to electricity for the Phumelela area	Sufficient provision of electricity.	K										
		L		5 091	664	2 731	2 453	3 610	3 610	8 360	6 400	6 752
To ensure effective management of graveyards and cemeteries in the Phumelela municipal area; To ensure access to quality sport and recreational in the Phumelela municipal area; To create employment opportunities in the Phumelela municipal area; resulting from	Formulate and implement a schedule for the regular maintenance of parks, Adequate provision for, safe and well maintained sport and recreational facilities, as (Number of) employment opportunities created through targeted IDP (Number of) employment opportunities created through EPWP	M		199	268	206	2 416	893	893	2 936	-	2 936
		N		4 841	4 052	9 645	1 200	1 656	1 656	1 797	-	-
To facilitate institutional transformation and development in the Phumelela local	The number of people from employment equity target groups employed in the three highest Targets in the review of organizational structure in line with the IDP and powers and function; Skills development targets in the municipal Skills Development Plan.	O		-	-	-	1 034	1 034	1 034	1 052	1 101	1 149
To facilitate the financial viability of the Phumelela local municipality as	To facilitate the financial viability of the Phumelela local municipality as	P										
Allocations to other priorities			3									
Total Capital Expenditure			1	26 373	75 851	84 241	68 698	76 714	76 714	51 208	49 517	52 423

2.3 Measurable performance objectives and indicators

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

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

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

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

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

The following table sets out the municipalities main performance objectives and benchmarks for the 2019/2020 MTREF.

Table 20 (Table SA8) – Performance indicators and benchmarks

FS195 Phumelela - Supporting Table SA8 Performance indicators and benchmarks											
Description of financial indicator	Basis of calculation	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Borrowing Management											
Credit Rating											
Capital Charges to Operating Expenditure	Interest & Principal Paid /Operating Expenditure	8.7%	14.9%	11.8%	1.4%	1.4%	1.4%	1.4%	1.2%	1.2%	1.2%
Capital Charges to Own Revenue	Finance charges & Repayment of borrowing /Own Revenue	28.3%	52.7%	21.6%	3.2%	3.1%	3.1%	3.1%	2.5%	2.6%	2.6%
Borrowed funding of 'own' capital expenditure	Borrowing/Capital expenditure excl. transfers and grants and contributions	8.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Safety of Capital											
Gearing	Long Term Borrowing/ Funds & Reserves	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Liquidity											
Current Ratio	Current assets/current liabilities	0,1	0,1	0,1	1,6	3,2	3,2	3,2	1,5	1,8	2,2
Current Ratio adjusted for aged debtors	Current assets less debtors > 90 days/current liabilities	0,1	0,1	0,1	1,6	3,2	3,2	3,2	1,5	1,8	2,2
Liquidity Ratio	Monetary Assets/Current Liabilities	0,0	0,0	0,0	(0,0)	(0,0)	(0,0)	(0,0)	0,0	0,4	0,7
Revenue Management											
Annual Debtors Collection Rate (Payment Level %)	Last 12 Mths Receipts/Last 12 Mths Billing	99,6%	99,6%	99,2%	89,8%	80,0%	87,0%	87,0%	87,0%	80,0%	98,9%
Current Debtors Collection Rate (Cash receipts % of Ratepayer & Other revenue)		99,6%	99,2%	89,8%	80,0%	87,0%	87,0%	87,0%	80,0%	98,9%	98,9%
Outstanding Debtors to Revenue	Total Outstanding Debtors to Annual Revenue	11,0%	10,7%	14,1%	154,8%	300,1%	300,1%	300,1%	71,8%	74,4%	76,2%
Longstanding Debtors Recovered	Debtors > 12 Mths Recovered/Total Debtors > 12 Months Old										
Creditors Management											
Creditors System Efficiency	% of Creditors Paid Within Terms (within 'MFMA' s 65(e))										
Creditors to Cash and Investments		28366,2%	260,6%	270,4%	-21639,6%	381223,5%	381223,5%	381223,5%	117119,6%	275,5%	139,9%
Other Indicators											
Electricity Distribution Losses (2)	Total Volume Losses (kW)										
	Total Cost of Losses (Rand '000)										
Water Distribution Losses (2)	% Volume (units purchased and generated less units sold)/units purchased and generated										
	Total Cost of Losses (Rand '000)										
Employee costs Remuneration	Employee costs/(Total Revenue - capital revenue)	48,1%	45,5%	31,7%	51,1%	47,8%	47,8%	47,8%	48,8%	49,9%	49,7%
	Total remuneration/(Total Revenue - capital revenue)	48,1%	49,9%	35,0%	56,0%	52,7%	52,7%		53,0%	54,2%	54,0%
Repairs & Maintenance	R&M/(Total Revenue excluding capital revenue)	6,1%	4,6%	1,3%	2,1%	2,0%	2,0%		6,0%	5,9%	6,0%
Finance charges & Depreciation	FC&D/(Total Revenue - capital revenue)	26,4%	40,8%	23,3%	3,0%	2,9%	2,9%	2,9%	2,6%	2,6%	2,6%
IDP regulation financial viability indicators											
i. Debt coverage	(Total Operating Revenue - Operating Grants)/Debt service payments due within financial year	5,2	1,2	11,4	5,8	5,8	5,8	7,1	5,4	5,2	5,5
ii. O/S Service Debtors to Revenue	Total outstanding service debtors/annual revenue received for services	30,9%	30,5%	51,0%	485,0%	996,8%	996,8%	996,8%	182,6%	187,7%	194,0%
iii. Cost coverage	(Available cash + Investments)/monthly fixed operational expenditure	0,0	5,3	6,5	(0,1)	0,0	0,0	0,0	0,0	2,6	5,0

2.4 Overview of budget related-policies

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

2.4.1 Review of credit control and debt collection procedures/policies

The Credit Control and Debt Collection Policy as approved by Council on 25 March 2008, has been reviewed and the following amendments took place:

- Section 4 Subsection 4.1 (The Municipality will only enter into a contract agreement with the Owner of the property) This item is added to the policy to get rid of tenants accounts
- In the case of tenants, a written approval by the owner must accompany the agreement. (This item has been removed from a reviewed policy. No tenants accounts allowed anymore.)
- The Chief Financial Officer shall authorise the reconnection of services or reinstatement of service delivery within twenty-four hours after satisfactory payment and/or arrangement for payment, together with reconnection fees, has been made according to the municipality's Credit Control Policy (Turnaround time has been added.)

While the adopted policy is credible, sustainable, manageable and informed by affordability and value for money there has been a need to review certain components to achieve a higher collection rate. Some of the possible revisions will include the lowering of the credit periods for the down payment of debt. In addition, emphasis will be placed on speeding up the indigent registration process to ensure that credit control and debt collection efforts are not fruitlessly wasted on these debtors.

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

The 2019/20 MTREF has been prepared on the basis of achieving an average debtors' collection rate of 85 percent on current billings. In addition, the collection of debt in excess of 90 days has been prioritised as a pertinent strategy in increasing the PLM's cash levels. In addition, PLM has already embarked on encouraging the community to pay for services and those who cannot afford to pay, be registered as indigents.

2.4.2 Asset Management, Infrastructure Investment and Funding Policy

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

2.4.3 Supply Chain Management Policy

The Supply Chain Management Policy was adopted by Council in 25 March 2008. The SCM policy was reviewed during the Annual Budget for 2019/20

These policies will be adopted by council when the Annual Budget is adopted on the 30 May 2019.

2.4.4 Other Reviewed and New Policies

The following policies were also reviewed when the Annual Budget for 2019/20 MTREF was prepared:

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

Travel and Subsistence Policy

- Amendments are as follows:
 - Clause 3.12 (Calculation on the fixed monthly travelling allowance);
 - Clause 4.2.2 (R75.00 has been taken out of the policy were staff is required to travel out sight the derestriction of the municipality.
 - Clause 9 (To be included to read the "Policy will be implemented annually in line with the salary and wage collective agreement".

2.5 OVERVIEW OF THE BUDGET ASSUMPTIONS

2.5.1 External Factors

The Budget Review 2018 notes that the global economic crisis has deepened, exposing the depth of South Africa's external vulnerabilities and the internal constraints that limit its potential for growth. Global conditions have exposed South Africa's own economic weaknesses, with projected GDP growth revised down to 5.6 per cent for 2019 improving gradually to 5.4 per cent in 2020 and 5.4 per cent in 2020.

The weaker outlook is as a result of lower commodity prices, higher borrowing costs, drought and diminished business and consumer confidence. Constrained electricity supply continues to limit growth and deter fixed investment. Exchange rate depreciation is contributing to a higher inflation outlook during 2018.

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

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

2.5.2 General inflation outlook and its impact on the municipal activities

There are four key factors that have been taken into consideration in the compilation of the 2019/20 MTREF:

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

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

2.5.3 Collection rate for revenue services

Cash flow is assumed to be 85 percent of billings due to corrective measures that have been implemented. The performance of arrears collection will only be considered as a source of additional cash in-flow once the performance has been carefully monitored.

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

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

2.5.4 Salary increases

The South African Local Government Bargaining Council recently entered into a three-year Salary and Wage collective agreement for the period 01 July 2018 to 30 June 2021. The agreement reached is as follows:

- 2019/20 Financial Year – 7 Percent
- 2020/21 Financial Year – average CPI + 1 percent
- 2021/22 Financial Year – average CPI + 1 percent

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

2.5.5 Growth or decline in tax base of the municipality

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

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

2.5.6 Impact of National, Provincial and Local policies

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

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

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

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

It is estimated that a spending rate of almost 100 percent is achieved on operating expenditure and a total of 100 percent on the capital programme for the 2019/20 MTREF. If the municipality could exhaust all its funds to ensure service delivery to the community, that is a committed municipality.

2.6 Overview of budget funding

2.6.1 Medium-term outlook: operating revenue

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

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

- Growth in the PLM and economic development;
- Revenue management and enhancement;
- Achievement of an 80 percent collection rate for consumer revenue;
- National Treasury guidelines;
- Electricity tariff increases within the National Electricity Regulator of South Africa (NERSA) guideline;
- Achievement of full cost recovery of specific user charges;
- Determining tariff escalation rate by establishing/calculating revenue requirements;
- The Property Rates Policy in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA), and
- The ability to extend new services and obtain cost recovery levels.

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

2.6.2 Medium-term outlook: Capital Revenue

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

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

2.6.3 Cash Flow Management

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

Clear separation of capital and operating receipts from government also enables cash from 'Ratepayers and other' to be provide for as cash inflow based on actual performance. In other words, the actual collection rate of billed revenue; and
Separation of borrowing and loan repayments (no set-off), to assist with MFMA compliance assessment regarding the use of long term borrowing (debt).

Table 20 (Table A7) – Budgeted Cash flow statement

FS195 Phumelela - Table A7 Budgeted Cash Flows

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year	Budget Year +1	Budget Year +2
CASH FLOW FROM OPERATING ACTIVITIES											
Receipts											
Property rates		11 897	11 871	13 480	10 046	10 420	10 420	10 420	10 585	13 946	14 699
Service charges		29 387	30 506	31 427	21 980	23 707	23 707	23 707	34 459	44 737	47 293
Other revenue		–	–	–	6 272	9 689	9 689	9 689	6 213	6 422	6 728
Government - operating	1	99 651	133 214	178 223	70 498	74 698	74 698	74 698	79 331	84 145	90 378
Government - capital	1	–	–	–	68 698	76 714	76 714	76 714	51 208	49 517	52 423
Interest		9 900	9 494	50 341	9 674	9 406	9 406	9 406	8 067	13 848	14 595
Dividends		–	–	–	–	–	–	–	–	–	–
Payments											
Suppliers and employees		(109 063)	(77 215)	(158 338)	(116 948)	(132 782)	(132 782)	(132 782)	(125 737)	(132 427)	(140 547)
Finance charges		(14 297)	(30 266)	(23 818)	(2 388)	(2 988)	(2 988)	(2 988)	(12 718)	(1 811)	(1 909)
Transfers and Grants	1	–	–	–	–	–	–	–	–	–	–
NET CASH FROM/(USED) OPERATING ACTIVITIES		27 475	77 603	91 315	67 831	68 864	68 864	68 864	51 408	78 376	83 660
CASH FLOWS FROM INVESTING ACTIVITIES											
Receipts											
Proceeds on disposal of PPE		–	–	12	–	–	–	–	–	–	–
Decrease (Increase) in non-current debtors		–	–	–	–	–	–	–	–	–	–
Decrease (increase) other non-current receivables		–	–	–	–	–	–	–	–	–	–
Decrease (increase) in non-current investments		–	–	–	–	–	–	–	–	–	–
Payments											
Capital assets		(26 373)	(75 851)	(84 241)	(68 698)	(76 714)	(76 714)	(76 714)	(51 208)	(49 517)	(52 423)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(26 373)	–	–	(68 698)	(76 714)	(76 714)	(76 714)	(51 208)	(49 517)	(52 423)
CASH FLOWS FROM FINANCING ACTIVITIES											
Receipts											
Short term loans		–	–	–	–	–	–	–	–	–	–
Borrowing long term/refinancing		28	3	–	–	–	–	–	–	–	–
Increase (decrease) in consumer deposits		–	–	–	–	–	–	–	–	–	–
Payments											
Repayment of borrowing		(1 248)	(1 045)	(385)	(168)	(168)	(168)	(168)	(168)	(177)	(187)
NET CASH FROM/(USED) FINANCING ACTIVITIES		(1 221)	(1 042)	(385)	(168)	(168)	(168)	(168)	(168)	(177)	(187)
NET INCREASE/ (DECREASE) IN CASH HELD											
Cash/cash equivalents at the year begin:	2	589	471	1 182	471	8 050	8 050	8 050	32	64	28 746
Cash/cash equivalents at the year end:	2	471	77 032	92 112	(564)	32	32	32	64	28 746	59 797

- The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA circular 94 – Funding a Municipal Budget.
- In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
- The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality’s budget must be “funded”.
- Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.
- Considering the requirements of section 18 of the MFMA, it can be concluded that the tabled 2019/2020 MTREF is funded owing to the realised surplus.
- As part of the budgeting and planning guidelines that informed the compilation of the 2019/20 MTREF the end objective of the medium-term framework was to ensure the budget is funded in alignment to section 18 of the MFMA.

2.6.5 Funding compliance measurement

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

Table 22 – Funding compliance measurement

FS195 Phumelela Supporting Table SA10 Funding measurement

Description	MFMA section	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
			Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year	Budget Year +1	Budget Year +2
High Level Outcome of Funding Compliance												
Total Operating Revenue			119 590	122 389	185 892	126 391	133 331	133 331	133 331	154 638	161 596	172 237
Total Operating Expenditure			179 188	210 523	204 653	126 337	133 316	133 316	133 316	154 546	161 494	172 126
Surplus/(Deficit) Budgeted Operating Statement			(59 598)	(88 134)	(18 761)	55	15	15	15	92	102	111
Surplus/(Deficit) Considering Reserves and Cash Backing			(124 662)	(190 157)	(230 685)	12 005	177 526	177 526	177 526	834	50 931	86 687
MTREF Funded (1) / Unfunded (0)		15	0	0	0	1	1	1	1	1	1	1
MTREF Funded ✓ / Unfunded ✗		15	✗	✗	✗	✓	✓	✓	✓	✓	✓	✓

2.7 Annual budgets and SDBIPs – internal departments

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

2.8 Contracts having future budgetary implications

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

PART 2: SUPPORTING DOCUMENTATION

2.9 Legislation compliance status

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

2.9.1 In-year reporting

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

2.9.2 Internship programme

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

The contracts of the Five interns appointed by the municipality during the 2017-18 financial year have been extended with a further one year in order to allow them to complete the MFMP programme and attain the required competency.

2.9.3 Budget and Treasury Office

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

2.9.4 Audit Committee

PLM is currently using a shared district Audit Committee.

2.9.5 Service Delivery and Budget Implementation Plan

The detailed SDBIP document is at draft stage and will be finalised after approval of the 2019/20 MTREF on or before the 30 May 2019 directly aligned and informed by the 2019/20 MTREF.

2.9.6 Annual Report

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

2.9.7 MFMA Training

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

2.9.8 Policies

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

2.10 TARIFFS

PHUMELELA LOCAL MUNICIPALITY					
2019 - 2022 TARIFFS					
		Mid-Term Revenue and Expenditure Framework			
		2018/2019	2019/2020	2020/2021	2021/2022
SEWERAGE		2018/2019	2019/2020	2020/2021	2021/2022
% Increase		5,3%	5,6%	5,4%	5,4%
Residential		102,24	107,97	113,49	114,10
Businesses/Government		342,75	361,94	380,45	382,48
Blockages		346,10	365,48	384,17	386,23
Septic Tank		346,10	365,48	384,17	386,23
Septic Tank 100-200 L		69,22	73,10	76,83	77,25
Hotels & Hostels		1 026,51	1 083,99	1 139,42	1 145,52
Retirement Homes		101,10	106,76	112,22	112,82
REFUSE		2018/2019	2019/2020	2020/2021	2021/2022
% Increase		5,3%	5,6%	5,4%	5,4%
Residential		90,54	95,61	100,50	101,04
Businesses/Government		209,97	221,73	233,07	234,32
Flats		90,54	95,61	100,50	101,04
Garden Refuse /sq.m		529,88	559,55	588,17	591,32
Building Refuses /cub.m		794,82	839,33	882,25	886,97
Churches		90,54	95,61	100,50	101,04
				-	-
				-	-
WATER		2018/2019	2019/2020	2020/2021	2021/2022
% Increase		5,3%	5,6%	5,4%	5,4%
Residential/per KI		9,68	10,23	10,75	10,81
Vrede Marina/per KI		9,68	10,23	10,75	10,81
Departmental/per KI		6,63	7,00	7,36	7,40
Flat rate		67,78	71,58	75,24	75,64
Business/Government		12,23	12,92	13,58	13,65

PROPERTY RATES		2018/2019	2019/2020	2020/2021	2021/2022
% Increase		5,30%	5,60%	5,40%	5,40%
Residential- (Total less R 45 000)		0,00663	0,00701	0,00736	0,00740
Business/Government (Total less R 45 000)		0,00950	0,01003	0,01010	0,01057
Government- Rebate 30%		-	-	-	-
Schools- (Total less R 45 000) Rebate 30%		0,00171	0,00181	0,00181	0,00190
*Farms		0,00097	0,00102	0,00103	0,00108
Admin Fees Vrede Marina		88,6787	0,00656	0,00690	0,00693
ELECTRICITY - WARDEN/EZENZELENI					
		2018/2019	2019/2020	2020/2021	2021/2022
% Increase		6,84%	13,07%	5,40%	5,40%
Residential / Dwellings / Flat					
	Basic	105,80	119,63	111,51	126,09
	Conventional: Energy cost per kWh	1,46	1,65	1,54	1,74
	Prepaid: Energy cost per kWh	1,46	1,65	1,54	1,74
	Winter : Energy cost per kwh	1,51	1,70	1,59	1,80
Businesses		2018/2019	2018/2019	2019/2020	2020/2021
	Basic				
	Conventional: Energy cost 1 - 25 kVA	389,86	440,81	410,91	464,62
	Conventional: Energy cost 26 - 50 kVA	356,18	402,73	375,41	424,48
	Conventional: Energy cost 51 - 100 kVA	578,90	654,56	610,16	689,91
		-	-	0	0
	Conventional: Energy cost per kWh	1,57	1,78	1,65	1,87
	Prepaid: Energy cost per kWh	1,57	1,78	1,65	1,87
	Winter : Energy cost per kwh	1,82	2,06	1,92	2,17
Industrial & Other		2018/2019	2018/2019	2019/2020	2020/2021
	Basic	730,31	825,76	769,75	870,35
	Conventional: Energy cost per kWh	0,75	0,84	0,79	0,89
	Conventional: Energy cost per kVA	241,34	272,88	254,37	287,62
Non Residential		2018/2019	2018/2019	2019/2020	2020/2021
	Basic				
	Conventional: Energy cost 1 - 25 kVA	389,86	440,81	410,91	464,62
	Conventional: Energy cost 26 - 50 kVA	485,44	548,89	511,65	578,53
	Conventional: Energy cost 51 - 100 kVA	680,69	769,66	717,45	811,22
	Conventional: Energy cost thereafter per kVA	2,07	2,34	2,19	2,47
	Conventional: Winter Energy cost thereafter per kVA	2,07	2,34	2,19	2,47
Hostels / Schools		2018/2019	2018/2019	2019/2020	2020/2021
	Basic	373,98	422,86	394,17	445,69
	Conventional: Energy cost per kWh	1,41	1,60	1,49	1,68
	Conventional: Winter energy cost per kwh	1,46	1,65	1,54	1,74
Departmental		2018/2019	2018/2019	2019/2020	2020/2021
	Conventional: Energy cost per kWh	1,53	1,73	1,61	1,82
	Conventional: Winter Energy cost per kWh	1,53	1,73	1,61	1,82
Vacant Erven					
	Basic	116,58	131,82	122,88	138,94
ELECTRICITY - BLOCK TARIFFS					
		2018/2019	2018/2019	2019/2020	2020/2021
% Increase		6,84%	13,07%	6,84%	6,84%
RESIDENTIAL	Block 1				
	0-100	0,91	1,03	0,96	1,09
	0-100 : Winter	0,91	1,03	0,96	1,09
	Block 2				
	101-350	1,18	1,33	1,24	1,40
	101-350 : Winter	1,18	1,33	1,24	1,40
	Block 3				
	351-600	1,66	1,87	1,75	1,98
	>351 kWh : Winter	1,66	1,87	1,75	1,98
	Block 4				
	>600	1,95	2,20	2,05	2,32
	>600	1,95	2,20	2,05	2,32



2.10 Municipal Manager's Quality Certificate

I, Municipal Manager of Phumelela Local Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name _____

Municipal Manager of Phumelela Local Municipality (FS195)

Signature _____

Date _____