DRAKENSTEIN
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Annexure A

WRITTEN COMMENTS RECEIVED ON THE 2018/2019 TABLED BUDGET

Public Participation Written Comments Received on 2018/2019 Draft Budget						
Considered by the Budget Steering Committee on Thursday 17 May 2018						
Serial No	**Date**	**Comment Received From**	**Local Community / Other Stakeholders Comments**	**Amount**	**Senior Management / Budget Steering Committee Comments**	**Resolved to Recommend to the Executive Mayor and to Council**
1	25/04/2018	Andri de Jager (Appendix A)	Enforcing the speed limit safety problem at the entrance into Courtrai from Main Road. Linked to Paarl Gateway Project	R 2,750,000	A main road enterance plan has been developed for Main Road from the N1 to De Poort's turn off including the turn off into Courtrai urban area (robot included) to address speeding and other safety issues on that portion of Main Road on the community's request. However, all of the community do not accept the planning layout and the implementation of the project in 2016/2017 was stopped as part of the Paarl Gateway Project.	1. That a meeting be arranged between the ward councillor, ward committee members, complainants, relevant MMC members and officials of Council to discuss the speeding and safety issues with regard to the entrance to the Courtrai urban area. 2. That the Courtrai entrance project be placed on the capital programme as a separate project for consideration for funding in future outer financial years (2019/2020 and onwards).
2	30/04/2019	Radio KC (Appendix B)	Proposals from Radio KC regarding Public Participation and Communication.	R 1,230,000	The proposal from Radio KC to broadcast and/or market Drakenstein over the local radio station be referred to the Communication Department for discussion with the City Manager and political leadership.	That the proposal from Radio KC to broadcast and/or market Drakenstein over the local radio station be referred to the Communication Department for discussion with the City Manager and political leadership.
3			Investment into a know your ward councillor and enhanced ward participation programme @ R30,000 per annum per ward for 33 wards.	R 990,000		
4			Investment in broadcasting monthly council meetings (R120,000,000 typing error).	R 120,000		
5			Investment in information civic society in local government legislation, policy and governance (R120,000,000 typing error).	R 120,000		
6	20/04/2018	Die Paarl Afrikaanse Skakel Forum (Appendix C)	Comment on the high and above inflation rate salary increases and the projected increase of the wage bill over the MTREF as a percentage of the total operating budget.	N/A	It is true that the Wage Agreement between SALGA (the employer) and IMATU / SAMWU (the labour unions) makes provision for a higher than cost-of-living increase.	That the Paarl Afrikaanse Skakel Forum in writing be informed of the wage agreement/s between SALGA (the employer) and IMATU / SAMWU (the labour unions) that usually makes provision for a higher than cost-of-living increase and by collective agreement Council is bound to the content of such wage agreement/s.
7	08/04/2018 to 30/04/2018	Local public and user departments (Appendix D)	Various verbal requests from the local public at the budget road shows and user departments affecting capital and operational budget changes.	N/A	Based on all inputs received from the local public management at the Budget Steering Committee made some alterations to the capital and operating budget (Appendix D attached hereto).	That the amendments to the capital and operating budgets attached hereto as Appendix D be accepted by Council.
8	4/05/2018	Provincial Treasury (Appendix E and F)	Comments from Provincial Government on the Draft IDP and Tabled Budget (Appendix E)	N/A	Management's response on Provincial Government's comments are attached hereto as a PowerPoint presentation made to Provincial Government (Appendix F).	That the comments received from Provincial Treasury on the 2018/2019 Tabled Budget and management's response be noted.

APPENDIX A

CFO

From: Andri de Jager <andridejager@gmail.com>
Sent: 25 April 2018 08:54 AM
To: Steve Turner; Loekie Niehaus
Cc: JeanVRooyen-Zandwijk van Rooyen; Courtrai-CraigMcMillan; Mike Knoetze; Courtrai-LouwVenter; Courtrai-StadlerVanzyl; Courtrai-DanieOppermanCosterton; Courtrai-NielDuPlessis; Japie Cornelissen; vernon.peterson@drakenstein.gov.za; Alexia Booysen; Rean Smuts; Koos le Roux; Stadler van Zyl (Stadlervanzyl@gmail.com); Courtrai-LouwVenter (ljventer72@gmail.com) (ljventer72@gmail.com); CFO
Subject: Re: Enforcing the speed limit....

Goeie more almal

Eerstens, dankie vir die organisering van gisteraand se vergadering. Dit was interessant en konstruktief.

Ek wil graag opvolg i.v.m. die 'veiligheids probleem' wat ons by die Courtrai ingang het. Ek het met meneer Cornelissen gesels na die vergadering en dit wil my voorkom dat ons baie meer effektief kan wees as die relevante mense om n tafel kan sit (dit was egter n voorstelling van mr Cornelissen).

Loekie, ek was gevra om die versoek deur jou te maak, en jy dan die relevante mense (beide Drakenstein en n paar committee lede) bymekaar kan bring sodat ons kan werk tot n oplossing.

Kan ek asb. vra dat julle kennis dra van die email en die versoek, en dat ons die vergadering binnekort kan laat gebeur? Dankie almal.

Vriendelike groete

Andri

-------- Original message --------
From: Gary Boshoff <Gary.Boshoff@drakenstein.gov.za>
Date: 2018/04/12 10:23 (GMT+02:00)
To: Jean van Rooyen <vRooyenJ@capegate.co.za>, Japie Cornelissen <Japie@drakenstein.gov.za>, vernon.peterson@drakenstein.gov.za, Alexia Booysen <AlexiaB@drakenstein.gov.za>, Rean Smuts <R.Smuts@drakenstein.gov.za>, Loekie Niehaus <loekie@drakenstein.gov.za>, Koos le Roux <Koos.leRoux@drakenstein.gov.za>
Cc: Steve Turner <steve@corefruit.com>, "Stadler van Zyl (Stadlervanzyl@gmail.com)" <Stadlervanzyl@gmail.com>, "Courtrai-StadlerVanzyl (StadlervanZyl@capitecbank.co.za)" <StadlervanZyl@capitecbank.co.za>, "Mike Knoetze (mike.knoetze@gmail.com)" <mike.knoetze@gmail.com>, "Courtrai-LouwVenter (ljventer72@gmail.com) (ljventer72@gmail.com)" <ljventer72@gmail.com>
Subject: RE: Enforcing the speed limit....

Dear Mr. Van Rooyen

"A1"

APPENDIX B

IDP input

chair@radiokc.org.za

Sent: 30 April 2018 01:56 PM
To: IDP IDP
Attachments: IDP 201819 input Drakenst~1.pdf (263 KB)

Please find attached for your kind attention.

Sincerely

Dr Harlan CA Cloete
Chairman
t: +27 21 872 9499
m: +27 82 925 5212
e: chair@radiokc.org.za
w: www.radiokc.org.za

"B1"

the sound that sets you free

INPUT INTO THE 2018/2019 IDP PROPOSAL

Abantu Bayazenzela – Die mense doen dit huiself – The people are doing it themselves

APRIL 2018

"B2"

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2. Problem Statement 2
3.1 Know your Ward Councillor and enhanced ward participation 2
4. Broadcasting of Monthly Council meetings 3
5. Civic Education Program 3
6. Municipal Public Notices 4

"B3"

1. Background

The Drakenstein Municipality has a developmental mandate as defined by the objectives of local government in the IDP.

2. Background

The Constitution of the Republic states that the 5 objectives of local government are:

The objects of local government are:				
(1) To provide democratic and accountable government for local communities;	(2) To ensure the provision of services to communities in a sustainable manner;	(3) To promote social and economic development;	(4) To promote a safe and healthy environment; and	**(5) To encourage the involvement of communities and community organisations in the matters of local government.**

We note the municipality has progressive Communication and Public Participation policies. The municipality has a bi-weekly program on radio. Research indicates that Radio KC has a weekly listenership of 72 000. This proposal is in line with the Public Participation and Communication Policy of the Drakenstein municipality.

3. Problem Statement:

The Drakenstein municipality underutilise Radio to effectively communicate with targeted communities.

The following proposals are made:

3.1 Know your Ward Councillor and enhanced Ward participation:

"B4"

Problem Statement: The Ward Councillor is not effectively communicating with the community, the Ward Committee is not known to the community.
Objective: Produce monthly programs that will focus on the Ward Councillor and the Ward Committee that will include:

a) Training of the Ward Councillor in the use of community radio to reach the community.
b) Profile the geographic map of the Ward (Ward boundaries).
c) Profile the role of the Ward Councillor and the PR Councillor.
d) Profile the role of the Ward Committee.
e) Identify the interesting people in the Ward that can be profiled and so build an oral history bank.
f) Identify events in the Ward that can be broadcasted as "Ward News".
g) Special day messages, e.g. Youth-, Woman's-, Heritage Day.
h) Profiling Ward-based organizations, churches and schools in your Ward and the services they render.

Outcome: Enhanced awareness about the Ward Councillor and the Ward Committee.

Investment: R 30 000 per annum per Ward.

4. Broadcasting of Monthly Council Meetings:

Problem Statement: Communities are poorly attending monthly council meetings due to limited seating available and other constraints preventing attendance. (In terms of Section 20 of the Municipal Systems Act, meetings of a municipal council, sub-council and any other council committees must be open to the public and the media).

Objective: Broadcast monthly council meetings to expand and open new avenues for wider public participation within the affairs of local government.

Outcome: A move in this direction will immediately give greater voice to communities; will help communities to understand the local government sphere in general and municipalities. It will therefore help to demystify local government and make the council chambers accessible to ordinary citizens. In this way communities can keep track of developments and progress about the IDP processes, budgetary processes, performance and changes and deviations and what caused those deviations.

Investment: R 120 000 000 per annum.

5. Civic Education Program:

Problem Statement: Communities are not well versed in local government legislation, policy and governance.

Objective: In partnership with the municipal officials produce a weekly civic education program to educate specifically the youth about local government in terms of the different role players and municipal actors.

Outcome: A better informed citizenry that understands their roles and responsibilities as co-governors of the city and increased awareness.

"85"

Investment: R 120 000 000 per annum.

6. Municipal Public Notices:

Problem statement: Despite the communication policy and public participation policies specifying the desire to utilise community radio as one of the means to communicate with the public, line managers are not effectively using community radio to increase public awareness and or allow for community inputs e.g. Planned power outage notices are placed in print media only, the same for inviting communities to comment on policy documents. In the process we are excluding the public to access the information on a free platform, namely community radio.

Objective: Ensure that senior managers and line managers are educated to do media planning better.

Outcome: Measured increased spend on community radio as means to communicate and to enhance public participation.

Investment: Radio KC will provide a once off free workshop for managers.

7. Conclusion:

We trust that our input will be favourably considered.

Dr Harlan CA Cloete
Chairman for and on behalf of Radio KC

"B6"

APPENDIX C

Hanlie Jacobs

From: Melany Brown on behalf of Johan Leibbrandt
Sent: Thursday, May 3, 2018 4:49 PM
To: Records
Subject: FW: Hierby brief van die Paarl Afrikaanse Skakel Forum Bls.2, vir u verdere aandag asb Groete Carel Stander
Attachments: Brief aan Dr J Leibrandt insake GOP (bls.2)_0001.pdf

Regards

Mrs Melany Brown
Personal Assistant – City Manager

T: +27 21 807 4615
C: +27 76 7900 981
F: +27 21 872 3757
E: Melany@drakenstein.gov.za
A: Civic Centre, Berg River Boulevard, Paarl 7646

DRAKENSTEIN

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SAVE WATER / BESPAAR WATER

From: Carel Stander [mailto:standerc@telkomsa.net]
Sent: Thursday, May 3, 2018 3:30 PM
To: Johan Leibbrandt <Johan.Leibbrandt@drakenstein.gov.za>
Subject: FW: Hierby brief van die Paarl Afrikaanse Skakel Forum Bls.2, vir u verdere aandag asb Groete Carel Stander

From: Carel Stander [mailto:standerc@telkomsa.net]
Sent: 03 May 2018 03:28 PM
To: 'Johan Leibbrandt' <Johan.Leibbrandt@drakenstein.gov.za>
Cc: 'Johan Miller' <Johan.Miller@drakenstein.gov.za>; 'Anre Koegelenberg' <A.Koegelenberg@drakenstein.gov.za>
Subject: Hierby brief van die Paarl Afrikaanse Skakel Forum Bls.2, vir u verdere aandag asb Groete Carel Stander

Virus-free. www.avast.com

"C1"

SAKE ADVISEUR/BUSINESS ADVISER

DIE PAARL AFRIKAANSE SKAKEL FORUM

HOOFSTRAAT 206
PAARL
7646

20 April 2018
Die Stadsbestuurder
Drakenstein Stad
Burgersentrum
PAARL

E-pos: johan.leibrandt@drakenstein.gov.za

Geagte Dr. Leibrandt

GOP VERGADERING WYK 4 GEHOU OP 9 APRIL 2017

Die Blitsbeeld aanbieding gedateer 4/9/2018 soos aan die vergadering voorgelê verwys.

Tydens die bovermelde vergadering was daar in die algemeen waardering vir die dienste wat Drakenstein Stad aan sy inwoners lewer maar is daar tog 'n paar sake waaroor daar vrae geopper is en wat die lede van die Paarl Afrikaanse Skakel Forum (PASF) my versoek het om aan u te rig.

Verwys asb. skuifie 9. op bls. 11, "Main Budget Projections: Employee Related Costs"

Die lewenskoste (inflasie) verhogings van die personeelsalarisse word gemiddeld met 6.44% p.j. vir die volgende 5 jaar geprojekteer. Die kerf verhogings word vir 1.25% p.j. geprojekteer. Dit beteken personeelkostes verhogings word met 7.69%p.j vir die volgende 5 jaar geprojekteer. Volgens die Sirkelkaart op bls. 15 is personeelkoste 27% van uitgawes die tweede hoogste uitgawe item naas elektrisiteit wat 29% beloop.

Teen voormelde agtergrond moet die volgende realiteite in gedagte gehou word nl.

- Die inflasiekoers beloop tans 3.8%.
- Volgens die SA Reserwebank het die inflasiekoers 4% aan die einde van Februarie 2018 beloop.
- Die privaatsektor het gemiddeld slegs 5% salarisverhogings toegestaan.
- Die 30 ekonome wat aan Naspers se kompetisie deelneem beraam 'n inflasiekoers van 4.8% vir 2018.

Na ek verneem onderhandel Salga met die vakunies oor salarisaanpassings en word 'n kollektiewe ooreenkoms tussen hulle bereik oor die persentasie aanpassings wat in salarisprojeksies gebruik moet word en dit word ook deur die Nasionale Tesourie Departement goedgekeur.

Dit is gemeen saak dat hierdie verhogings doodgewoon na die belastingbetalers deurgegee word.

"C2"

Graag verneem ons tot watter mate die Drakenstein Stad verplig is om hierdie verhogings sondermeer te aanvaar of kan daar met Salga in gesprek getree word indien, teen die agtergrond van die bogemelde feite, dit blyk dat hul projeksies heeltemal uit lyn is met die ekonomiese indikators van Land en te hoog gestel is?
Indien die Privaatsektor wat ook met die vakunies onderhandel oor salarisverhogings daarin slaag om 'n 5% verhoging te beding, wil dit voorkom of die Salga en Nersa onderhandelings met die vakunies en Eskom, onderskeidelik, nie baie geslaag is nie.

Volgens die skuifie op bladsy 14, Operasionele Uitgawes, word vir personeelkostes van R 625.4 miljoen vir 2018/2019 begroot. Indien dit teen die bogemelde jaarlikse koersverhoging van 7.69% vir 5 jaar geprojekteer word beloop dit R 905.8 miljoen in 2022/2023. Die beginsel van saamgestelde rente geld ook hier, hoe hoër die begin basis hoe hoër die toekomstige waarde.
Verwys skuifies op bladsye 13 en 14: Soos reeds verlede jaar versoek behoort die onderskeie begrotings vir die betrokke jare teenoor die geouditeerde syfers vir beide die Operasionele Inkomste en Operasionele Uitgawes, vir voor die handliggende redes, getoon te word.

Verwys die 4 skuifies op bladsye 16 en 17 van die Huishoudelike Mandjies van tariewe waar die verhoging in water tariewe tussen 15% tot 30% aangetoon word, vergeleke met die ooreenstemmende tariewe wat in Die Paarl Post van 5 April as slegs 7% aangetoon word? Dit is misleidend en behoort reggestel te word.

Die ondergetekende lede van die PASF verteenwoordig nagenoeg 339 belastingbetalers van die Stad.

	LEDE:	NAAM	HANDTEKENING
1.	Drakenstein Sakekamer	D Breytenbach	
2.	Hugenote Gedenkskool Trust	R de la Bat	
3.	Anglo Boere-Oorlog Monument	A W Eksteen	
4.	Afrikanerbond Paarl	A Domburg	
5.	Voortrekkers Paarl	J F Kotze	J F Kotze
6.	Dameskring Paarl	F Stofberg	F S Stofberg
7.	J M C Horn	Cathmar	
8.	Mentorvennoot Drakenstein Vereniging	J M C Horn	
9.	C H Stander		C H Stander

CHS/-

"C3"

APPENDIX D

REVISED OPERATING BUDGET ALLOCATIONS BY BUDGET STEERING COMMITTEE

Serial Number	Operational Line Item	Draft Budget 2018/2019	Department's Additional Requests	BTO Recommend Additional Allocations	BSC Final Additional Allocations
1	Paint My Story	R 1,500,000	R 5,488,288	R 3,988,288	R 3,988,288
2	Skills Development (staff members)	R 4,100,000	R -	R -	R -
3	De Poort	R -	R 750,000	R 750,000	R 750,000
4	Hero Adventures	R -	R 900,000	R 900,000	R 900,000
5	World Cycling Centre Africe (WCCA) (Donation)	R -	R 400,000	R 400,000	R 400,000
6	Crypts	R -	R 6,000,000	R 6,000,000	R 6,000,000
7	Swimming Pools Maintenance	R 2,561,655	R -	R -	R -
8	Review of Human Settlement Plan	R -	R -	R -	R 500,000
9	Electronic Survey of Informal Settlements	R -	R -	R -	R 500,000
10	Mediation in Projects	R -	R -	R -	R 100,000
11	Farm Eviction	R -	R -	R -	R 200,000
12	Greywater Project	R -	R -	R -	R 200,000
13	Bursaries	R -	R -	R -	R 200,000
14	Small Scale Farmers	R -	R -	R -	R 500,000
15	Drivers Licence Project	R -	R -	R -	R 120,000
16	Training Rural Development	R -	R -	R -	R 100,000
17	Blueberry	R -	R -	R -	R 250,000
18	Consultancy Fees	R 750,000	R -	R -	R -750,000
19	Bulk Water Purchases	R 36,325,849	R -	R -11,000,000	R -13,670,000
20		**Total =**	**R 13,538,288**	**R 1,038,288**	**R 288,288**

21	Approved Draft Operating Expenditure Budget =	R 2,391,378,050
22	Additional Operating Allocations From Budget Steering Committee (BSC) =	R 288,288
23	**Final Operating Expenditure Budget =**	**R 2,391,666,338**

"D1"

REVISED CAPITAL BUDGET ALLOCATIONS BY BUDGET STEERING COMMITTEE

Serial Number	Capital Project Description	Draft Budget 2018/2019	Department's Additional Requests	BTO Recommend Additional Allocations	BSC Final Additional Allocations
1	Speedbumps (100 x R17,000)	R -	R -	R 1,700,000	R 1,700,000
2	Ramps for Disabled	R -	R -	R 100,000	R 100,000
3	Upgrading of Parks	R -	R 1,500,000	R 1,500,000	R 1,500,000
4	Upgrade Sidewalks (Tar)	R -	R -	R 10,000,000	R 7,000,000
5	Aprons around flats (Tar)	R -	R -	R 10,000,000	R 5,000,000
6	Electrification of Informal Settlements (INEP)	R 4,989,565	R -	R -	R -
7	Electrification of Informal Settlements (CRR)	R 1,380,777	R -	R -	R -
8	Electrification of Informal Settlements (Loans) (Estimated 1,620 households)	R -	R -	R 10,000,000	R 20,000,000
9	Tennis Courts (Huguenot)	R -	R 2,000,000	R -	R -
10	Tennis Courts and Clubhouse (Boy Louw)	R -	R 3,900,000	R 3,900,000	R 3,900,000
11	World Cycling Centre Africe (WCCA) (BMX track)	R -	R 700,000	R 700,000	R 700,000
12	Paarl Gateway Project (Main Entrances)	R -	R 3,000,000	R 3,000,000	R -
13	Swimming Pools	R 3,000,000	R -	R -	R -
14	Parys Substation to Carolina switch room	R -	R 36,750,000	R 18,375,000	R 20,000,000
15	N1 substation (80MVA)	R 4,000,000	R 4,000,000	R 4,000,000	R 3,400,000
16	Upgrade bulk sewerage South Paarl (Phase 4 & 5)	R -	R 20,000,000	R 10,000,000	R 20,000,000
17	Van der Stel Street	R -	R 9,500,000	R 6,600,000	R 6,496,160
18	Strawberry King Water Pipeline	R 36,058,718	R 50,000,000	R -	R -
19	Vehicles and Equipment	R 8,846,431	R 7,500,000	R -	R -
20	Prepaid Water Meters (1,400)	R -	R -	R 3,080,000	R 3,080,000
21	Weapons (Law Enforcement)	R -	R -	R -	R 285,000
22	Disaster Control Room	R -	R -	R -	R 1,200,000
23	Smoke Alarm Detectors	R -	R -	R -	R 100,000
24	Paarl Town Hall	R -	R -	R -	R 1,000,000
25	Drakenstein Halls	R 2,773,000	R -	R -	R -1,000,000

"D2"

Serial Number	Capital Project Description	Draft Budget 2018/2019	Department's Additional Requests	BTO Recommend Additional Allocations	BSC Final Additional Allocations
26	Wall at Champagne Street Cemetery	R -	R -	R -	R 200,000
27	Faure Street Upgrade	R -	R -	R -	R 200,000
28	Intangible Assets (HR System)	R -	R 750,000	R -	R 750,000
29			**Total =**	**R 82,955,000**	**R 95,611,160**
30			Less: Ward Capital Projects Allocations =	R -3,300,000	R -3,300,000
31			Less: Reallocation of Operational Expenditure to Capital Expenditure =	R -	R -750,000
32			**Additional External Loans =**	**R 79,655,000**	**R 91,561,160**
33			Estimated Gearing Ratio Increase to =	67.4%	67.9%

34	Approved Draft Capital Budget =	R 361,729,206
35	Additional External Loans Capital Allocations From Budget Steering Committee (BSC) =	R 91,561,160
36	Additional CRR Capital Allocations From Budget Steering Committee (BSC) =	R 750,000
37	**Final Capital Budget =**	**R 454,040,366**

Serial Number	Funding Source	Draft Budget 2018/2019	Department's Additional Requests	BTO Recommend Additional Allocations	Final Capital Budget
38	Capital Replacement Reserve (CRR)	R 47,698,618	R 750,000	R 750,000	R 48,448,618
39	Grants	R 74,506,956	R -	R -	R 74,506,956
40	External Loans	R 239,523,632	R 91,561,160	R 91,561,160	R 331,084,792
41	**Totals**	**R 361,729,206**	**R 92,311,160**	**R 92,311,160**	**R 454,040,366**

"D3"

APPENDIX E

Western Cape Government

BETTER TOGETHER.

DRAKENSTEIN MUNICIPALITY

LG MTEC INTEGRATED PLANNING AND BUDGETING ASSESSMENT: ANALYSIS OF MUNICIPAL IDP, SDF AND BUDGET

Western Cape Government

MAY 2018

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"E2"

LIST OF ACRONYMS

AQMP	Air Quality Management Plan
BESP	Built Environment Support Programme
CBD	Central Business District
CBA	Critical Biodiversity Areas
CMP	Coastal Management Programme
CSIR	Council for Scientific and Industrial Research
DCAS	Department of Cultural Affairs and Sport
DEA&DP	Department of Environmental Affairs and Development Planning
DHS/DOHS	Department of Human Settlements
DM	District Municipality
DLG	Department of Local Government
DWS	Department of Water and Sanitation
EPWP	Expanded Public Works Programme
FBE	Free Basic Electricity
HSP	Human Settlement Plan
IDP	Integrated Development Plan
IGP	Infrastructure Growth Plan
IIAMP	Integrated Infrastructure Asset Management Plan
IIF	Infrastructure Investment Framework
ITP	Integrated Transport Plan
ISDF	Integrated Strategic Development Framework
IYM	In-year Monitoring
IWMP	Integrated Waste Management Plan
JOC	Joint Operations Centre
kl	kilolitre
KPA	Key Performance Area

KPI	Key Performance Indicator
kWh	kilowatt hour (1000 watt hours)
LED	Local Economic Development
LUPO	Land Use Planning Ordinance
MBRR	Municipal Budget and Reporting Regulations
MDG	Millennium Development Goal
MI	Municipal Infrastructure
MIG	Municipal Infrastructure Grant
MIP	Municipal Infrastructure Plan
MMP	Maintenance Management Plan
MVA	Megavolt Amperes (1 Million volt amperes)
MWh	Megawatt hour (1 Million watt hours)
NRW	Non-revenue Water
NDHS	National Department of Human Settlements
O&M	Operations and Maintenance
PMS	Performance Management Systems
RMP	Road Management Plan
SDBIP	Service Delivery and Budget Implementation Plan
SDF	Spatial Development Framework
SOP	Standard Operating Procedure
SWMP	Stormwater Management Plan
WC	Water Conservation
WDM	Water Demand Management
WSDP	Water Service Development Plan
WTW	Water Treatment Works
WWTW	Wastewater Treatment Works

SECTION 1: INTRODUCTION

The annual assessment of municipal budgets and Integrated Development Plans (IDPs) by provincial governments is essential. The importance of this assessment is stipulated in Chapter 5 of the Local Government Municipal Systems Act 32 of 2000 (MSA), the MSA Regulations and the Local Government Municipal Finance Management Act 56 of 2003 (MFMA). Provincial assessments afford the provincial sphere of government an opportunity to exercise its monitoring and support role to municipalities as stipulated by the Constitution. In addition, the assessments provide an indication of the ability and readiness of municipalities to deliver on their legislative and Constitutional mandates.

This report encapsulates comments by the Western Cape Provincial Government on the tabled 2018/19 MTREF Budget, reviewed 2018/19 Integrated Development Plan (IDP) and Spatial Development Framework (SDF).

The assessment covers the following key areas:

- Outstanding findings from previous LG MTEC engagements;
- Conformance with the MFMA, MSA & Municipal Budget and Reporting Regulations (MBRR);
- Responsiveness of draft budget, IDP and SDF; and
- Credibility and sustainability of the Budget.

The MBRR A-Schedules, budget documentation, IDP and SDF submitted by the Municipality are the primary sources for the analysis. The quality of this assessment report therefore depends on the credibility of the information contained in the documents submitted by the Municipality.

The Provincial Government plans to meet the executives of your Municipality on **4 May 2018** where the key findings and recommendations of this report will be presented and deliberated upon. The planned engagement will contextualise the Municipality's challenges and responses as taken up in the draft budget, IDP, LED, SDF and various other strategies and plans.

All the information related to the assessment and analysis of the annual budget, IDP and SDF are found in the report below.

SECTION 2: SOCIO-ECONOMIC OVERVIEW OF THE MUNICIPALITY

2.1 SOCIO-ECONOMIC OVERVIEW

A municipal budget is informed and influenced by a wide range of national, provincial and local socio-economic variables and assumptions that influence strategic allocations. These assumptions form the baseline from which a municipality makes projections and allocations across the three years of the MTREF.

Municipal sustainability requires successful socio-economic development and spatial transformation. The best way to grow and sustain a municipal revenue base, deliver basic services, and reduce the number of poor households, is by growing the economy in an inclusive way.

Table 1: Socio-Economic Indicators

Indicator	NDP Goals	Western Cape Provincial Data	Municipal Status Quo
Population Growth Rate	0.5% - 1% per annum by 2030 (Nationally)	1.5% per annum (Census 2011, 2016 Community Survey)	2.48% (2017 – 2022 IDP Review)
Poverty	For zero households to be below the R418 monthly income poverty line	516 321 (households below the poverty line) (DLG, 2017)	As per the IDP Review, 2.5% of the 71 686 households in 2016 were living in poverty. This equates to 1 792 households.
Per capita income	Per capita income of R110 000	R61 199 (Stats SA, own calculations 2017)	R52 413 (GDPR per capita) (MERO 2017)
Unemployment	14% by 2020	19.5% (2017) (Western Cape Government, Overview of Provincial Revenue and Expenditure, 2018)	14.9% (MERO 2017)
Education	A learner retention ratio of 90 per cent	Learner retention ratio – 65.6% (SEP-LG 2017)	Learner retention ratio – 74.0% (Municipal data in the 2017 IDP as per SEP-LG 2017)
Health	Maternal mortality to fall from 500 to 100 per 100 000 live births	Maternal Mortality was 0.1 per 100 000 live births in 2016. (SEP-LG 2017)	Maternal Mortality was 0.0 per 100 000 live births in 2016. (Municipal data in the 2017 IDP as per SEP-LG 2017)

Indicator	NDP Goals	Western Cape Provincial Data	Municipal Status Quo
Access to Basic Services	Access to Electricity at 95 per cent. Expansion of the renewable energy sources including a national target of 5 million solar water heaters by 2030.	Western Cape average access to electricity in 2016: 96.5% (Stats SA)	Above service level: 70 519 (households) Below service level: 0 (households) Access level: 100% (A10 and own calculation)
	100 per cent access to clean potable water	Western Cape average access to water in 2016: 99.0% (Stats SA)	Above service level: 70 222 (households) Below service level: 297 (households) Access level: 99.6% (A10 and own calculation)
	All South Africans will have affordable, reliable access to sufficient safe water and hygienic sanitation by 2030	Western Cape average access to sanitation in 2016: 94.6% (Stats SA)	Above service level: 69 336 (households) Below service level: 1 183 (households) Access level: 98.3 (A10 and own calculation)
	Housing	Western Cape average access to electricity in 2016: 82.4% (Stats SA)	Households: Formal: 66 755 Informal: 7 171 Access level: 90.3% (SA9 and own calculation)

Comments:

- The renewed confidence of developed countries, coupled with optimistic commodity-driven prospects within emerging and developing markets, are driving global growth upwards in 2018 and 2019. Economic growth in South Africa however remains sluggish and appears unable to keep pace with the expansion of the global economy.

- Increased economic hardship at national level is expected to impact on poorer households and their ability to afford quality services. The burden will in turn be passed to local municipalities who must strain their revenue streams to extend services to indigents.

- Despite government making significant progress to extend access to basic services to all households, access to sanitation and refuse removal remains a major concern. Backlogs are particularly profound within rural and informal residential areas as opposed to more affluent suburbs within urban environments that enjoy access to services far above the minimum service level standard set by National Government.

- Although access to primary schooling has improved significantly since 1994, the overall quality of education has deteriorated, evident from a 2015 OECD report which ranked South Africa 75th out of 76 in a ranking table of education systems. A recent study that placed South Africa near the bottom of several categories measuring international schooling trends in mathematics and science. This does not bode well to improve access to higher education opportunities. The South African schooling system is also plagued by excessively high learner-teacher ratios and high school drop-outs.

- The number of high school drop-outs are expected to increase the unemployment rate amidst a labour market that is demanding more semi- and skilled workers.

- Life-expectancy within South Africa is lower than in any other African country, largely as a result of the prevalence of HIV/AIDS. Mortality in South Africa therefore stands in stark contrast to the global trend which is expecting a boom in older populations.

SECTION 3: INTEGRATED PLANNING

The IDP is the principal strategic planning instrument which guides and informs all planning and development, and all decisions with regard to planning, management and development, in the Municipality. Each municipal council must annually review and may amend the IDP of the Municipality.

The 2018/19 IDP review is the first of the 2017 - 2022 Adopted IDP. An IDP provides the strategic direction for all the activities of the Municipality over the five years and is linked to the council term of office. The 2018/19 IDP review approach takes into consideration the assessment of its performance measurements and to the extent that changing circumstances demands. Should the review process determine an amendment is required, municipalities are to follow the process as stipulated in the MSA Regulation 3.

3.1 INTRODUCTION

Drakenstein Municipality (the Municipality) adopted in August 2016 and subsequently in August 2017, a Process Plan and Time Schedule that guides the drafting and the review of the 2017 - 2022 IDP which details the mechanisms to be utilised for stakeholder engagement in the IDP process. The Process Plan further outlines the mechanisms established to ensure the community is adequately involved in the Municipality's strategic planning process. The 2018/19 Draft Reviewed IDP marks the first review of the Municipality's 2017 - 2022 IDP. The 2017 - 2022 IDP was reviewed in accordance with section 34(a) of the MSA and MSA Regulations.

The 2018/19 Draft Reviewed IDP provides the Municipality an opportunity to reflect on changing circumstances that may impact on the 5-year municipal strategic narrative and the review process enables the Municipality to gauge the level of implementation of the 2017 - 2022 IDP. The review process followed by the Municipality complied with legislation and aligns with the planning and budgeting cycles of other spheres of government.

The review of the 2017 - 2022 IDP shows no significant adjustments and was based on monitoring and evaluation of the Municipality's performance. However, it is noted that some performance targets for some of the Key Performance Areas linked to Strategic Objectives have decreased for the 2018/19 financial year. Should the targets not be adjusted accordingly either in the 2018/19 financial or the outer years to achieve Council's original set targets, this review could be viewed as an amendment to the 2017 - 2022 IDP.

The 2018/19 Draft Reviewed IDP provides the Council's strategic direction by outlining its vision, mission, strategic objectives and its alignment to national and provincial priorities. This embodies the strategic thrust of the Municipality to deliver basic services; create an enabling environment for economic growth and decent employment; and improve the living conditions of all households.

3.2 MUNICIPAL INFRASTRUCTURE

3.2.1 Basic Service Provision

The Municipality's 2018/19 Draft Reviewed IDP indicates the status, challenges as well as the backlogs per infrastructure service. According to the 2018/19 Draft Reviewed IDP, there are no backlogs within the urban areas but service delivery backlogs are still prevalent in the rural areas. Sewage tanker services are provided to rural schools and clinics that are not connected to the municipal gravitation system. The Municipality indicates that its current strategies contributed to improved access to basic municipal services.

The 2018/19 Draft Reviewed IDP notes that all persons registered as indigents in terms of Council's policy receives free basic services. It is noted that the Municipality has made great strides to extend refuse removal services to all households, as well as progressed well with the Waste to Energy Project. The 2018/19 Draft Reviewed IDP indicates that pending the Environmental Impact Assessment process, the Municipality intends to enter into a Public Private Partnership with a private partner to construct and manage the Waste to Energy plant.

3.2.2 Municipal Infrastructure Planning

The 2018/19 Draft Reviewed IDP provides a comprehensive analysis about the level of access to basic service provision for formal and informal households drawing on data from Census 2011 and the 2016 Community Survey. A comparison of access to basic services is presented between the Municipality and the broader Cape Winelands District for access and provision of each basic service to highlight the Municipality's performance against the overall performance for the District between 2011 and 2016.

The Municipality currently prioritised basic infrastructure through allocating 60 per cent of its capital budget. Social services infrastructure and operational infrastructure each receive 10 per cent of the prioritised funds and local economic infrastructure (such as business development or labour intensive capital projects) receives 20 per cent of the prioritised capital funds.

In terms of water provision, the 2018/19 Draft Reviewed IDP refers to the planned upgrading of existing reticulation as per the Water Master Plan. However, the main challenge in this regard is to obtain sufficient funding to upgrade the existing water networks in Paarl and Wellington. Water provision projects in progress include the construction of the 5 Mℓ reservoir at Welvanpas; the first of two 8 Mℓ Courtrai reservoirs and replacement of the existing bulk water pipe at Courtrai; the construction of the new 10 Mℓ/day Welvanpas Water Treatment Works with a total value of R62 million; and seven phases of the Strawberry King Pipeline with a total value of R120 million.

The "Big Moves" planned by the Municipality for identified catalytic zones to promote the Drakenstein area as destination for tourists as well as new businesses, industries and residents will require significant infrastructure investment. The 2018/19 Draft Reviewed IDP continues to promote the development of the N1 Corridor, South City Corridor, Paarl East/West Integration Corridor, North City Integration Corridor Hinterland. According to the Municipality, the visions of the IDP and SDF are in alignment strategically and spatially to achieve its long term objectives.

3.2.3 Transport and Roads

The Municipality's Integrated Transport Plan was reviewed in conjunction with that of the Cape Winelands District Municipality in 2016. The Integrated Transport Plan informs all development of infrastructure and travel modes in the municipal area.

3.3 HUMAN SETTLEMENTS

The 2018/19 Draft Reviewed IDP provides a detailed analysis of the settlements, their linkages and corridors created as well as how the core and hinterland relates to each other. The 2018/19 Draft Reviewed IDP reflects that the Municipality's 2011 Integrated Sustainable Human Settlement Plan was reviewed and approved in March 2016.

The 2018/19 Draft Reviewed IDP presents a discussion on Key Focus Area 52 on Sustainable Human Settlements which provides some analysis of the dwelling/housing provision as well as the Medium Term Expenditure Framework commitments. Similarly, a range of projects have been identified in line with the provincial business plan for the 2018/19 financial year.

A detailed breakdown of the housing accommodation situation within the Municipality is reflected in the 2018/19 Draft Reviewed IDP as well as a clear housing demand for the municipal area. However, the housing demand is not disaggregated per settlement, income category or housing typology.

The 2018/19 Draft Reviewed IDP places great emphasis on rural development and provides a clear link between this objective and human settlement development, specifically in the Vlakkeland informal settlement.

Recommendation

The housing demand should be disaggregated per settlement, income category or housing typology.

3.4 DISASTER MANAGEMENT

The Municipality is in a process of establishing a Disaster Management Unit for which vacancies will be advertised once tasks associated with such a unit have been finalised.

The Municipality does not have an established Municipal Advisory Forum but participates in the Cape Winelands District Advisory Forum. However, as with the current drought, disaster stakeholder involvement and coordination is crucial for the management of any disasters. It is therefore clear that the establishment of a Municipal Advisory Forum for disaster management is advisable to mitigate the impact of disasters.

There is no indication in the 2018/19 Draft Reviewed IDP that the Municipality has conducted a Disaster Risk Assessment, however, the Municipality has reflected a number of risk reduction initiatives which form part of its Disaster Management KFA 42.

The Municipality is commended for the plans put in place to deal with drought. It is further noted that the Municipality envisages to establish a Combined Response and Control Centre by June 2018, which would comply with the legislative requirement for a city to establish a Disaster Management Centre. The Municipality is classified as high to medium risk in terms of a hydrological drought, while it is also experiencing an agricultural drought. As evident with the current agricultural drought, institutional arrangements around disaster management are pivotal while disaster stakeholder involvement and coordination is crucial for the management of the disasters.

Recommendations

- The Municipality is encouraged to assign a dedicated disaster management official, the responsibilities to ensure proper coordination and focussed advocacy of disaster management.
- The Municipality should reflect in the 2018/19 Final Adopted IDP the status of its Disaster Risk Assessment, the main identified disaster risks for its area and the status of the associated contingency plans.

- The Municipality should reflect in the 2018/19 Final Adopted IDP, the status of the Disaster Management Plan.

3.5 AGRICULTURE

The 2018/19 Draft Reviewed IDP is not clear on the challenges within the municipal area facing the agricultural sector. Although reference is made to agri-processing on various sections in the 2018/19 Draft Reviewed IDP, it does not adequately identify specific interventions which could be explored to stimulate the agri-processing industry.

Information about the Agri-Worker Household Survey conducted by the Department of Agriculture is well reflected on the socio-economic profile.

Recommendation

- The Municipality should reflect the challenges within the municipal area facing the agricultural sector in the 2018/19 Final Adopted IDP.

- The Municipality is encouraged to strengthen the agricultural sub-component of the sector by including clear proposals on potential agri-processing interventions and highlighting agri-processing as a catalyst for economic growth. To this extent, the Municipality should attempt to make a clearer link to the Provincial Project Khulisa.

3.6 SOCIAL SERVICES (HEALTH, EDUCATION, SAFETY AND SECURITY, CULTURAL AFFAIRS AND SPORT, SOCIAL DEVELOPMENT, THUSONG, EPWP, CWP)

3.6.1 Community Safety

The Department of Community Safety (DOCS) acknowledges strategies, programmes and projects and the use of crime statistics analysis in determining crime prevention strategies in this area.

The 2018/19 Draft Reviewed IDP considers the basket of services inclusive of programmes relating to the establishment of Neighbourhood Watches, partnerships with the Violence Prevention through Urban Upgrading Project and Community Safety Kiosks.

3.6.2 Cultural Affairs and Sport

The 2018/19 Draft Reviewed IDP indicates that the Municipality provides and maintains a number of sports facilities ranging from rugby to cycling track and that 10 per cent of the Municipality's capital expenditure is allocated for sport and

recreation. The Municipality aims to focus on marketing the area as a sports tourism destination. To this end, a number of facilities are earmarked for upgrades over the MTEF period while serious challenges including vandalism, lack of facilities and a lack of a sports facility management policy are being addressed. The Municipality plans to increase the promotion of arts, crafts and culture and to this end, an Arts and Culture Forum will be established by 30 June 2018.

The Municipality is in the process of establishing a new library in Groenheuwel with funding from the VPUU Project. The 2018/19 Draft Reviewed IDP reflects that all libraries have access to internet. However, there are challenges relating to permanent appointment of staff and space at some libraries.

The 2018/19 Draft Reviewed IDP further reflects that the Municipality will enhance its tourism activities through amongst others, the showcasing and promotion of its cultural heritage. The Municipality could benefit from the Department of Cultural Affairs and Sport to capitalise on its heritage resources for further economic growth and development as well as support on the development of a Sports Development Strategy.

3.7 INSTITUTIONAL DEVELOPMENT AND TRANSFORMATION

The 2018/19 Draft Reviewed IDP indicates that the Municipality regularly review its organisational structure to ensure that it is aligned and ready to respond to the strategic vision. The current macro structure represents the strategic management team of the Municipality and is currently filled to capacity.

The occupational categories representing the most vacancies are semi-skilled and discretionary decision making as well as unskilled which amounts to 74 per cent of the total amount of vacancies. According to the 2018/19 Draft Reviewed IDP, funding in order to secure the required staff capacity, is being made available subject to affordability and whether posts are of critical nature.

The 2018/19 Draft Reviewed IDP notes that the Municipality has an approved Performance Management System which is implemented. Performance is being measured, evaluated and reviewed regularly, while action plans are being developed to address poor performance. However, there is still a challenge in mainstreaming of the performance management framework to all employees.

3.8 PUBLIC PARTICIPATION

The Municipality has a Public Participation Policy which was adopted by Council in 2015 and will be reviewed during the 2018/19 financial year. The implementation of the adopted Public Participation Policy remains ongoing.

"EM"

The 2018/19 Draft Reviewed IDP includes key municipal wide needs, challenges and priorities emanating from a series of public consultations. Furthermore, the community needs and priorities are aligned to each of the Municipality's seven strategic objectives.

According to the 2018/19 Draft Reviewed IDP, various stakeholders and sector departments were involved during September and October 2017 in the development of the 2018/19 Draft Reviewed IDP development process. Ward Committees are established and functional and remain one of the primary vehicles through which various meetings with the community.

SECTION 4: ENVIRONMENTAL AND DEVELOPMENT PLANNING ANALYSIS

4.1 STRATEGIC OVERVIEW AND IMPORTANT MATTERS

- The 2017 SDF was adopted by the Council. Numerous amendments have been proposed for the 2018 IDP Review, to the SDF. DEA&DP has until the 9th of April 2018 to comment on these proposed amendments. The SDF does not contain a Capital Investment Framework as envisaged in the legislation. There is an "Implementation Framework" in the SDF, but as was stated last year, for the most part it speaks to additional plans that need to be undertaken. It is recommended that the SDF be amended to include a Capital Investment Framework as envisaged in the legislation.

- Stellenbosch and Drakenstein Municipalities must work closely together around the development of the Klapmuts node as well as the potential Simondium/Groot Drakenstein Node. Neither Municipality can plan for the development of its node without consulting the other.

- It is recommended that the Municipality develops and tables an Alien Invasive Management Plan in terms of the provision of NEM: BA. It is further recommended that the Municipality uses the new WC Biodiversity Spatial Plan - 2017 (as it is the best available science for Critical Biodiversity Area assessment) in the future when reviewing the SDF.

- Climate change impacts are being experienced now and additional future impacts are unavoidable. The current drought is but one example of a climate change manifestation. Climate change response is therefore required as everyday risk reduction management, and equally as environmental, economic and social responses. Understanding of reduction of emissions, and risk reduction and management needs to be integrated in general across all sector inputs into the IDP. The ten-page Climate Change Advisory developed for Drakenstein Municipality in 2016 is still relevant and should be checked against by the Municipality for guidance on enhancing climate change responses from sectors within their IDP implementation.

- The DEA&DP is in process of finalising the endorsement letter for the 3rd generation IWMP as per NEM: WA.

- The Drakenstein Municipality is currently decommissioning the Hermon and Gouda Waste Disposal Facilities and in process of the process of establishing a waste-to-energy programme.

"E16"

- The Provincial Government has taken a position to institute a 50 per cent ban on organic waste to landfill by 2023 and a total ban by 2028. The diversion of organic waste can divert as much as 38 per cent of waste to landfill if effective strategies are implemented. Municipalities are required to plan accordingly.

- To note, in accordance with the National Environmental Management: Waste Act 59 of 2008: National Waste Information Regulations, all municipalities are required to submit actual quantities of waste for the different activities they are registered for on the Integrated Pollutant and Waste Information System (IPWIS) as of 2018. It is therefore imperative that municipalities allocate funding and make provision for the acquiring waste quantification equipment in their budgets for the financial year 2017/18 and 2018/19. Additionally, municipalities who currently make use of a waste estimation system, will have to make provision for the acquiring of equipment to obtain actual weights and phase out the use of waste estimation techniques.

- The Municipality partially complies regarding the Section 30 (Control of Incidents) function of the National Environmental Management Act. However, the sub-directorate Remediation and Emergency Incident Management is able to refer Section 30 cases to the Municipality for administration. However, it is imperative that the Municipal Manager formally submit to the Department the name of an official in the Municipality who will be responsible for this function.

- The Drakenstein Municipality is fully compliant to the NEM: AQA.

4.2 CURRENT WORK UNDERTAKEN (E.G. SUPPORT/PROGRAMMES/PROJECTS)

- The initial climate change municipal support programme run by DEA&DP has come to a conclusion with development of climate change response strategies for each of the five districts in the Western Cape. Ongoing municipal inputs will be driven through sector departments by mainstreaming of climate change responses within provincial government departments.

- Ad hoc support to municipalities from DEA&DP Climate Change Directorate may occur on a one to one basis, at the request of a municipality, and if capacity allows.

"E17"

- The Department has subsequently produced guidelines on the management of abattoir and green waste respectively, and hosts workshops on organic waste. The aim of the workshops is to share information on best practice and to create opportunities for partnerships between municipalities and the private sector. Support is also provided through the following:

  - The DEA&DP has provided waste characterisation training to the Drakenstein Municipality so they can conduct waste characterisation studies.

  - A waste characterisation guideline was drafted by the DEA&DP in the 2016/17 financial year and this was workshopped within the Cape Winelands municipal area in February 2018.

  - The DEA&DP drafted a Construction and Demolition Waste (C&DW) Guideline as well as a Status Quo Report on E-waste during March 2018.

  - The Department is currently busy with the Waste Management Licence Amendment Project (WMLAP).

  - Audits are performed regularly at the Waste Disposal Facilities.

  - Ongoing communication and assistance with regards to waste data recording and reporting to the IPWIS. Meeting with the Municipality on 29 August 2017 to discuss compliance with reference to waste reporting.

SECTION 5: ASSESSMENT OF THE BUDGET RESPONSIVENESS

5.1 ECONOMIC SUSTAINABILITY

5.1.1 Introduction

Although global risk factors remain elevated, the world economy continues to provide a supportive platform for South Africa to expand trade and investment. Global economic growth is at its highest since 2014 and continues to gather pace with Gross Domestic Product (GDP) growth increasing across all major economies.

Nationally, growth has remained stagnant at less than 2 per cent and unemployment remains high at 26.7 per cent. The prerequisites for increased revenue and expanded service delivery are more rapid growth, investment and job creation.[1]

The GDP growth rate is forecast at 1.5 per cent in 2018, 1.8 per cent in 2019 and 2.1 per cent in 2020. As the outlook of the National economy improves, the adverse impact of the current drought, particularly on the agricultural sector, continues to weigh on the Western Cape's economic performance and outlook. Growth in the Western Cape is expected to have remained largely flat in 2017, in contrast to a projected growth acceleration for the national economy.[2]

The drought and the water crisis, disasters as well as other issues relating to climate change (particularly fire, water shortages and floods) continue to be major risks in the Western Cape which will pose severe challenges to local government authorities.

Local government sustainability continues to be the overarching theme against which municipal budgets are assessed. Cognisance should be taken of recent political developments and the associated change in national priorities which will subsequently impact upon the short term municipal planning and budgeting efforts as well as the medium term growth and development outlook of local government.

This section examines if the tabled 2018/19 MTREF Budget is responsive from an economic and socio-economic perspective and the Municipality's ability to meet the legitimate expectations of the community for services from its limited resources in order to effect inclusive growth and contribute to the economic sustainability over the long term.

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[1] National Treasury, MFMA Circular No. 91 (2018)

[2] Western Cape Government, Budget Overview (2018)

"E19"

5.1.2 Overview of the Key Priorities in terms of IDP Strategic Objectives

Table 2: Strategic Objectives for the 2018/19 Medium Term Revenue & Expenditure Framework

Drakenstein - Supporting Table SA5 & SA6 Reconciliation of IDP Strategic Objectives and Budget (Operating and Capital Expenditure)						
Strategic Objective	2018/19 Medium Term Revenue & Expenditure Framework OPEX			2018/19 Medium Term Revenue & Expenditure Framework CAPEX		
R thousand	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
To promote proper governance and public participation	85 079	90 302	95 894	3 300	–	–
To ensure the financial sustainability of the Municipality in order to fulfil the statutory requirements	96 725	275 082	289 259	1 000	–	–
To provide an effective and efficient workforce by aligning our institutional arrangements to our overall strategy in order to deliver quality services	247 804	284 060	315 051	15 188	18 754	23 894
To ensure efficient infrastructure and energy supply that will contribute to the improvement of quality of life for all citizens within Drakenstein and to improve our public relations thereby pledging that our customers are serviced with dignity and care.	1 418 858	1 396 261	1 499 657	270 938	208 544	250 499
To facilitate sustainable economic empowerment for all communities within Drakenstein and enabling a viable and conducive economic environment through the development of related initiatives including job creation and skills development	45 983	48 836	51 923	4 600	1 100	8 200
To contribute to the health and safety of communities in Drakenstein through the pro-active identification, prevention, mitigation and management of health including environmental health, fire and disaster risks.	149 771	156 193	163 315	8 340	4 050	969
To assist and facilitate with the development and empowerment of the poor and the most vulnerable. These include the elderly, youth and disabled.	290 185	330 118	269 071	58 364	47 588	44 100
Total Expenditure	2 334 404	2 580 854	2 684 171	361 729	280 037	327 662

Source: Drakenstein Municipality 2018/19 tabled budget

All of the budget allocations in support Schedules SA4, SA5 and SA6 were made according to the Municipality's strategic objectives detailed within the 2018 IDP Review.

The majority of the operating budget will in 2018/19 be directed towards ensuring efficient infrastructure development which will in turn contribute to the improvement of the quality of life of all citizens. More specifically, the operating budget is directed towards essential basic service delivery which will allow the Municipality to maintain its high service level standards and to respond to the demand for new services arising from household growth. It is unclear why the allocation towards financial sustainability decrease so dramatically towards 2019/20.

Fittingly, the capital budget will also be directed towards infrastructure development and basic service delivery. This allocation will be applied towards addressing the most pressing service delivery challenges, namely ageing infrastructure, the expansion of current bulk infrastructure networks to new housing developments, the reduction of backlogs and the roll-out of services to informal settlements.

"E20"

5.2 BUDGET RESPONSIVENESS ASSESSMENT

5.2.1 Infrastructure Development

- An ageing infrastructure network is arguable the single largest risk threatening the Municipality's proven basic service delivery track record. Large sections of the water, sanitation and electricity network is in dire need of repairs and maintenance and in certain cases, complete replacement or refurbishment.

- The immediate capital funding needs highlighted in the IDP far exceed the Municipality's limited resources. By pooling all available funding sources together (capital reserves, external loans, own funding, grants), the Municipality can only assemble R361.7 million as a total capital budget for 2018/19, a 54.1 per cent decrease from 2017/18. This decrease can be attributed to a significant reduction in borrowings that in the past funded capital expansion. The Municipality must subsequently prioritise the most pressing capital requirements in terms of the Prioritisation Model for Capital Asset Investment.

- As per the budget report, the total capital budget will in 2018/19 be directed to fund basic services and road infrastructure (71.1 per cent), social and economic infrastructure (18.7 per cent) as well as operational equipment (9.6 per cent).

- Population growth and the subsequent increase in new housing developments increase the demand for basic services which will necessitate the expansion of the bulk infrastructure network. Such expansions are however extremely capital intensive, meaning that less money will be available to maintain the current infrastructure network and to reduce backlogs. Less money will in turn be available to progressively roll-out services to informal settlements.

- The prioritisation of essential basic service delivery infrastructure projects envisaged above, will have to be trade off against investments into sustainable service delivery practices and scarce resource utilisation such as waste minimisation, alternative power supplies and green infrastructure initiatives.

- The drop in capital allocations towards the various functional trading services illustrate the fact that past capital expansion through high borrowing couldn't be sustained going forward, especially if such investments are directed towards non-revenue generated assets.

5.2.2 Economic Development and Job Creation

- The Municipality's local economic development (LED) function is funded through a R34.8 million operating budget allocation towards planning and development as part of KPA 5: Planning and Economic Development. This allocation will be split between three functional areas, namely corporate wide strategic planning (R8.6 million), economic development and planning (R12.5 million) and town planning (R13.7 million).

- The operating allocation towards building control increased by 12.7 per cent in 2018/19 which bodes well to strengthen the Municipality's operational capacity to process building plans which will in turn contribute towards accelerate growth within the building and construction industry.

- It is clear from the IDP and the SDF that the Municipality has a magnitude of catalyst projects in place that, should it successfully be implemented, will establish Drakenstein as a true investment destination of choice. The capital budget allocation towards KPA 5: Planning and Economic Development (and its key focus areas) however appears insufficient to give effect to a wide variety of associated game changing initiatives such as red-tape reduction, the creation of integrated development zones, informal trading sectors, improved opportunities for previously disadvantaged communities, urban renewal, to name but a few.

- Budget Schedule A5 indicates that the Municipality does not make any capital allocations towards planning and development. This function received a R162 000 allocation in 2017/18. Schedule A5A however reveals that an allocation of R16.4 million will be directed towards Vote 4: Planning and Economic Development – R4.6 million will be allocated towards local economic development and tourism and R11.8 million towards housing. It is assumed that most of this R11.8 million was mistakenly attributed towards the housing function - as per SA36, R1.8 million has rightfully been attributed towards the upgrading of rental stock. An amount of R10.0 million was however allocated to fund new office buildings.

- The IDP Review is clear that the Municipality has placed a renewed focus on mainstreaming job creation through the Expanded Public Works Programme (EPWP) across its various directorates, as opposed to placing this responsibility on a single department. The Municipality will consequently strive to create EPWP jobs through the execution of its daily operational activities and the implementation of capital projects, essentially institutionalising EPWP job creation through all functional areas of the Municipality. More importantly, this will allow for the creation of a wide variety of jobs across the skills spectrum. EPWP beneficiaries can therefore more easily be absorbed within the labour market on a permanent basis.

The IDP Review indicates that the Municipality will specifically target skills development within the tourism value chain.

- The Municipality is in the process of adopting a Rural Development Strategy which will prioritise skills development of the youth, woman and the development of Early Childhood Development centres in rural areas. More specifically, this Strategy will assist learners in rural areas to gain access to financial assistance to further their studies. In addition to these youth initiatives, the Municipality runs a skills development project that focusses on vocational training.

- Other than the inclusion of indicators in the SDBIP relating to job creation (NKPI) and a skills development survey, neither the budget report nor the IDP Review provides any clarity as to specific budget allocations towards the skills development or job creation functions detailed above.

5.2.3 Quality of Life

The increased demand for basic services, coupled with a sharp increase in costs associated with the provision of such services (notably scarce water and electricity bulk purchases), is expected to severely strain the Municipality's operating budget. This will necessitate the Municipality to in the short- to medium term commit larger operating allocations towards trading services to maintain its service delivery standards. Although the operating expenditure budget does increase by 10.0 per cent between 2017/18 and 2018/19 (and continues to increase by 7.2 per cent year-on-year across the MTREF), allocations towards trading services, as a percentage of the total operating budget, decrease from 60.6 per cent in 2017/18 to 53.0 per cent in 2018/19 and again to 46.8 per cent in 2019/20.

Water

- Water scarcity is widespread across the Province and as such, many municipalities will experience a decrease in water consumption levels which will in turn result in significant revenue losses. To off-set these losses, the Municipality will increase its water tariffs by 7.0 per cent for 2018/19.

- The budget report indicates that a decrease in consumption levels will result in less bulk water purchases and in turn, lower costs associated with the provision of water services. Operating costs do however not always decrease proportionately to a decrease in consumption. In fact, reduced consumption and subsequent lower water pressure, more often than not, increase maintenance costs. As such, the Municipality increased its operating expenditure towards the water services function by 13.8 per cent for 2018/19. It is contended that this increase will allow the Municipality to maintain service level standards and ensure that such services

can be rolled out to new households as per the estimates contained in budget Schedule A10.

- A total of 60.2 per cent of the total capital budget will be allocated towards trading services in 2018/19, of which the single largest allocation (R102.2 million) will go towards water management. This allocation is welcomed, given the extent of repairs, maintenance and upgrades to the current bulk pipe network. The capital budget will also significantly contribute towards water security amidst the current drought, specifically to fund capacity augmentation projects such as the construction of a new reservoir at Welvanpas in Wellington.

- Capital expenditure towards the water function however decreased by 31.8 per cent from 2017/18 affecting an extensive array of water service projects in SA36 i.e. of the 46 bulk water infrastructure projects listed in the capital schedule, only 12 are funded in 2018/19, the remainder being funded in the outer years of the MTREF.

Electricity

- The budget report indicates that the Municipality increased its electricity tariff charges by 6.84 per cent due to changes in NERSA base prices (bulk purchases). This increase is factored into the budget, evident from the 8.0 per cent increase in operating expenditure towards the energy function.

- As per budget Schedule A10, the Municipality will in 2018/19 provide 70 519 households with access to energy. This equates to a 38.0 per cent increase from 2017/18. It is however unclear what attributed for this large growth (more than double the previous year's figures) and how the Municipality plans to provide so much households with access to energy with only an 8.0 per cent increase in operating expenditure.

- The significant drop in the capital allocation towards the energy function in 2018/19 (43.6 per cent) will affect efforts to upgrade the ageing electricity network and to proactively invest in sustainable energy initiatives.

Sanitation

- The Municipality has in recent years made considerable progress in providing sanitation services – as per Stats SA, access to a flush or chemical toilet improved from 93.7 per cent in 2011 to 98.4 per cent in 2016. The 2016/17 Annual Report indicates that the sanitation backlog was 1.7 per cent (1 183 households) and specify that this figure includes households in informal settlements.

- The budget report indicates that the sanitation service function is running at a loss and that tariffs will therefore increase notably in 2018/19 (15.0 per cent) to ensure a break-even point is reached by 2019/20. The operating expenditure budget towards sanitation in turn increase by 7.7 per cent to fund efforts to reduce the current backlog but it is not sustained as evident by 28.0 per cent drop towards 2019/20.

- Budget Schedule A10 indicates that 1 183 households will in 2018/19 receive sanitation services below the minimum service level standard. The number remains unchanged across the MTREF and is also the same as the backlog in 2016/17. It therefore appears that, the Municipality won't be able to eliminate the backlog in the current MTREF.

- Capital expenditure towards the sanitation function decreased by 89.4 per cent from 2017/18 to 2018/19.

Refuse Removal

- The Municipality indicates in the IDP Review and the budget document that tariffs will be increased by 9.7 per cent to partially fund sustainable waste processing initiatives, notably the waste-to-energy project at the Wellington Waste Disposal Site.

- Operating expenditure towards the refuse removal function decrease by 6.1 per cent in 2018/19 which is unexpected, given the Municipality's efforts to provide services to informal settlements.

- It can be argued that the completion of the waste-to-energy project will result in operational efficiencies going forward. The project is however still in the developmental phase and is not envisaged to be completed in the 2018/19 MTREF.

- Capital expenditure towards the refuse removal function decrease by 82.1 per cent. In fact, no capital funding has been directed towards the refuse removal function in the outer years of the MTREF.

Indigent Support

- Increased economic hardship is expected to increase the number of indigent households within the municipal area. The demand for free basic services will subsequently increase which will in turn strain the Municipality's operating budget even further.

- The Municipality did not fully complete Budget Schedule A10, omitting service delivery targets for the provision of free basic service delivery targets. Budget Schedule A10 does however indicate that the cost of providing free basic services will increase by 13.8 per cent towards 2018/19 and will continue to grow at 9.6 per cent year-on-year across the MTREF. Although it is not clear how many households the Municipality intends to provide with free basic services, the costing estimate do appear to factor in the expected growth in indigents.

Housing

- The Municipality received R125.5 million from the Provincial Government for the implementation human settlements projects, as guided by the Municipality's own 5-year housing plan. A total of R64.4 million of this amount will in 2018/19 be directed towards the Vlakkeland development area to establish 554 service sites and to construct 240 housing units.

- The Vlakkeland area has been identified as a Big Move initiative that will contribute towards unlocking the development potential of the North City Integration Corridor, as envisaged within the Municipality's long term vision, Vision 2032. Accordingly, this development will contribute towards addressing spatial inequalities of the past by creating residential hub that will afford its residents equal access to central business nodes and therefore economic opportunities.

- Such a development will however necessitate targeted capital spend to establish economic and social infrastructure that will in time allow for the provision of basic services. The decrease in capital funding mentioned above is expected to delay progress in this regard.

SECTION 6: CREDIBILITY AND SUSTAINABILITY

6.1 REVIEW OF THE NEW (2018/19) MTREF

6.1.1 Expected Outcome for Current Financial Year

Table 3: Audited and Budget Performance

Description	2015/16				2016/17				2017/18			
R thousands	Adjusted Budget	Audited Outcome	Difference	Diff %	Adjusted Budget	Audited Outcome	Difference	Diff %	Original Budget	Adjusted Budget	Difference	Diff %
Financial Performance												
Property rates	213 056	209 109	(3 947)	-1.9%	225 046	226 129	1 083	0.5%	248 066	246 447	(1 619)	-0.7%
Service charges	1 293 754	1 163 137	(130 618)	-10.1%	1 404 527	1 256 864	(147 663)	-10.5%	1 477 404	1 376 008	(101 396)	-6.9%
Investment revenue	13 985	19 255	5 270	37.7%	19 385	22 063	2 678	13.8%	21 340	21 340	–	0.0%
Transfers recognised - operational	205 721	130 962	(74 758)	-36.3%	177 382	153 789	(23 594)	-13.3%	219 262	213 057	(6 205)	-2.8%
Other own revenue	118 384	140 782	22 398	18.9%	150 779	169 806	19 027	12.6%	141 035	123 973	(17 062)	-12.1%
Total Revenue (excluding capital transfers and contributions)	1 844 900	1 663 245	(181 656)	-9.8%	1 977 119	1 828 851	(148 469)	-7.5%	2 107 107	1 980 824	(126 282)	-6.0%
Employee costs	440 175	428 697	(11 478)	-2.6%	482 976	458 603	(4 373)	-0.9%	543 309	531 751	(11 558)	-2.1%
Remuneration of councillors	21 348	21 054	(292)	-1.4%	27 188	26 343	(845)	-3.1%	29 391	29 462	370	1.3%
Depreciation & asset impairment	178 721	172 647	(6 073)	-3.4%	190 506	176 926	(13 581)	-7.1%	190 506	190 506	–	0.0%
Finance charges	78 968	76 580	(2 388)	-3.0%	95 729	93 990	(1 739)	-1.8%	119 636	125 733	6 097	5.1%
Materials and bulk purchases	590 632	626 598	35 766	6.1%	629 717	686 978	57 261	10.7%	674 838	719 089	44 251	6.6%
Transfers and grants	695	4 875	4 181	502.0%	738	5 469	4 753	645.6%	6 891	11 445	4 555	66.1%
Other expenditure	638 194	359 151	(279 043)	-43.7%	655 989	355 114	(300 874)	-45.9%	618 422	510 435	(107 986)	-17.5%
Total Expenditure	1 948 931	1 689 602	(259 329)	-13.3%	2 082 841	1 813 743	(269 098)	-12.1%	2 182 693	2 118 421	(64 272)	-2.9%
Surplus/(Deficit)	(104 031)	(26 358)	77 673	-74.7%	(85 722)	14 908	100 629	-117.4%	(75 587)	(137 596)	(62 010)	82.0%
Transfers recognised - capital	74 333	73 708	(624)	-0.8%	66 417	65 440	(977)	-1.5%	94 756	120 282	25 526	26.9%
Contributions recognised - capital & contributed assets	–	–	–		–	–	–		–	–	–	
Surplus/(Deficit) after capital transfers & contributions	(29 698)	47 351	77 049	-259.4%	(19 304)	80 348	99 652	-516.2%	19 169	(17 315)	(36 484)	-190.3%
Share of surplus/ (deficit) of associate	–	–			–	–			–	–		
Surplus/(Deficit) for the year	(29 698)	47 351	77 049	-259.4%	(19 304)	80 348	99 652	-516.2%	19 169	(17 315)	(36 484)	-190.3%
Capital expenditure & funds sources												
Capital expenditure	321 066	317 052	(4 013)	-1.3%	728 066	544 360	(183 706)	-25.2%	633 142	788 869	155 726	24.6%
Transfers recognised - capital	74 404	73 797	(607)	-0.8%	66 417	65 440	(977)	-1.5%	84 347	110 520	26 173	31.0%
Public contributions & donations	–	–			–	–			–	–		
Borrowing	228 078	226 356	(1 720)	-0.8%	608 197	453 019	(155 178)	-25.5%	528 794	612 988	194 194	20.5%
Internally generated funds	18 584	16 898	(1 686)	-9.1%	53 452	26 900	(27 552)	-51.5%	40 000	65 361	25 361	63.4%
Total sources of capital funds	321 066	317 052	(4 013)	-1.3%	728 066	544 360	(183 706)	-25.2%	633 142	788 869	155 726	24.3%

Source: 2018/19 MTREF Budget and 2015/16 and 2016/17 Annual Financial Statements

Findings:

The Municipality for the past two years realised against the total operating revenue budget less than the 95 per cent which is a national budget norm as set per MFMA Circular 71. The underperformance for the current and the two most recent audit outcomes are in main due to transfers recognised – operational and service charges. The Municipality further materially adjusted the service charges namely electricity (R72.47 million), waste management (R28.44 million) and sanitation (R17.51 million) which affects the credibility of the budget projections of service charges. In addition, a key risk to consider when assessing the historic revenue budget performance is the retention or reduction of grant funding against the background of fiscal constraints to persist over the MTREF.

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The operating expenditure in aggregate for 2015/16 as well as 2016/17 reflected underperformances of 13.3 per cent and 12.1 per cent respectively. The material underspending was due to depreciation as well as other expenditure. It should be noted that although depreciation is a non-cash item, this expenditure item is a measurement of the rate of asset consumption and an important element of the lifecycle asset management and hence should be based on an updated, GRAP compliant and complete asset register.

The spending of the capital budget remains a concern as the Municipality achieved material underspending against the main adjustment budgets and materially adjusted the budget in the current financial year due to roll-overs from the 2016/17 financial year.

In view of the above findings it is recommended that the Municipality consider current and past spending trends which set the baseline and therefore have an impact on future budgetary provisions as well as the credibility of the tabled budget.

6.1.2 Review of the Budget Assumptions

No.	Description of the Budget Assumptions
1.	The forecasted CPIX is estimated at 5.3% for 2018/19, 5.4% for 2019/20 and 5.5% for the 2020/21 financial years.
2.	The 2018/19 budget was prepared on a projected revenue collection rate of 97.8% of annual billing. Cash flow is assumed to be 98% of billings from an increased collection of arrear debt which is in line with current collection rates.
3.	The following principles and tariff increases, based on the cost reflectiveness of the tariffs are proposed: - Property Rates = 8.3%. - Electricity = basic levy increases by 6.8% and consumption by 6.8% (with a free 50 kWh per month to indigent households only, to be taken from the Equitable share). - Water = Basic levy increase by 40% and consumption by 32.6% (with 6 kilolitres plus the basic levy for water free of charge to indigent households). - Refuse and Wastewater = 9.7%.
4.	Cost containment measures were not provided for in the budget documentation.
5.	Employment related costs for the 2018/19 period was budgeted at an annual increase of 6.3% (exclusive of annual notch increases). The average notch increment is budgeted at 1.25% over the MTREF.
6.	Bulk electricity purchases are projected to increase by 7.32% and Bulk water purchases are projected to increase by 10% in the 2018/19.
7.	The Municipality projected to achieve performance of 96% on the operational expenditure and 96% for capital expenditure.
8.	Debtors' revenue is assumed to increase at a rate that is influenced by the consumer debtors' collection rate, tariff/rate pricing, real growth rate, household growth rate and the poor household change rate.

Findings:

The overall budget assumptions on page 15 of the budget narrative are credible, reasonable and aligned to National Treasury guidelines however the following needs to be considered with the finalisation of the annual budget for adoption:

- Trends in population and household growth are not included in the budget assumptions and the related and the impact on the financial resources of the Municipality.

- The implication of major future events such as major developments, water and other service requirements impact on the budget planning.

- The Municipality budgeted for a 97.8 per cent collection rate for property rates and service charges and upon finalisation of the annual budget should consider revaluating it as a prudent measure. The revaluation of the budgeted collection rate must be weighed against the background of above inflation tariff adjustments especially water where the first step (0 - 6 kl) will no longer be free; the second step tariff will be increased by 148.4 per cent coupled with a steep basic fee increase (40 per cent). The above inflationary adjustment of service charges and 1 per cent VAT increase could have an impact on the collection rate in terms of affordability.

Table 4: Budget overview

Description	2014/15	2015/16	2016/17	Current Year 2017/18		2018/19 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Total Revenue (excluding capital transfers and contributions)	1 524 069	1 663 245	1 828 651	2 107 107	1 980 824	2 249 326	2 504 117	2 646 102
Total Expenditure	1 619 689	1 689 602	1 813 743	2 182 693	2 118 421	2 334 404	2 580 854	2 684 171
Surplus/(Deficit)	**(95 620)**	**(26 358)**	**14 908**	**(75 587)**	**(137 596)**	**(85 078)**	**(76 737)**	**(38 069)**
Non-Cash Items								
Depreciation & asset impairment	163 831	172 647	176 926	190 506	190 506	201 673	208 139	220 095
Restated Result	**68 211**	**146 290**	**191 834**	**114 920**	**52 910**	**116 595**	**131 402**	**182 026**
Capital expenditure & funds sources								
Capital expenditure	**215 404**	317 052	544 360	633 142	786 869	361 729	280 037	327 662
Transfers recognised - capital	64 886	73 797	65 440	84 347	110 520	74 507	50 037	92 662
Public contributions & donations	-	-	-	-	-	-	-	-
Borrowing	132 020	226 358	453 019	538 794	612 988	239 524	180 000	180 000
Internally generated funds	18 498	16 698	25 900	40 000	65 361	47 699	50 000	55 000
Total sources of capital funds	**215 404**	**317 052**	**544 360**	**633 142**	**788 869**	**361 729**	**280 037**	**327 662**
Cash flows								
Cash/cash equivalents at the year end	259 526	324 705	289 281	408 859	241 088	184 009	197 798	245 459

Source: 2018/19 MTREF Budget

The Municipality has tabled deficit budgets which are mainly caused by non-cash items such as depreciation and asset impairment. Depreciation is an expenditure which should be supported by cash surpluses to make provision for the replacement of assets in the future and a deficit can be an indication that revenue in aggregate is less than what is to require for the full cost of rendering municipal services. By cash-backing depreciation the Municipality would be able to contribute to a capital replacement reserve which is important in light of increased infrastructure pressure over the medium- to long term.

The deficit budget is not an indication of an unfunded budget however the cash surplus as reported by the Municipality in the budget narrative is very low at R1.31 million after discounted for non-cash item. It should however be noted as prescribed by the Council approved funding and reserve policy the capital replacement reserve and the short term portion of the landfill rehabilitation provision contributions, must be cash-backed which exceed the aforementioned reported cash surplus.

The operating revenue is anticipated to increase by 13.6 per cent and the operating expenditure by 10.2 per cent which indicates marginal growth in real terms in the revenue base with limited scope to increase tariffs beyond current levels as continuous increases outside the parameters of inflation targets are not sustainable. Hence the Municipality needs to embed strategic intent in terms of a long term financial plan in order to address financial imbalances, over the medium to long term.

6.1.3 Adequacy of Revenue Management Framework

Main & Supporting Tables: A2, A4, SA1, SA12 (a)&(b) SA13 (a)&(b) and SA25 - SA27

Drakenstein Municipality anticipates to realise an increase in total operating revenue of 13.6 per cent for the 2018/19 budget year and an average increase of 10.2 per cent over the MTREF. The major operating revenue sources is service charges – electricity (47.4 per cent), property rates (13.6 per cent) and service charges- water (10.9 per cent).

Total **property rates** revenue has been projected to increase by 24.1 per cent for 2018/19 and by 17.8 per cent on average over the MTREF. Supporting Schedule 11 indicate a year-on-year increase in the market value of the rates base from R55.356 million in the current year to a projected R58.677 million in 2018/19 and a marginal increase in the number of properties, which does not align to the projections for this revenue source. As per the guidance of MFMA Circular 89 the budget narrative should outline the basis for the increase of property rates tariff, the value of the rate base and how it aligns to revenue forecasts. Hence the Municipality is hereby urged to update the budget narrative as well as complete the supporting tables in full

relating to property rates in order to provide further explanation on the tariff adjustment and revenue projections.

The outstanding debt for property rates has increased by 11.2 per cent from February 2017 to February 2018 which might be an indication that the 96.3 per cent expected collection rate might be reconsider as a prudent measure upon finalising the annual budget.

The Municipality is self-supporting with no significant reliance (11.8 per cent) on **grants and subsidies** to fund its daily operations.

Cost reflectiveness of Trading Services

Table 5: Cost Reflectiveness of Trading Services

Description	2014/15	2015/16	2016/17	Current Year 2017/18			2018/19 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Revenue - Standard									
Trading services	**1 071 285**	**1 163 102**	**1 256 825**	**1 477 358**	**1 376 008**	**1 376 008**	**1 531 918**	**1 680 204**	**1 836 031**
Electricity	785 829	882 311	963 809	1 041 774	969 309	969 309	1 066 321	1 159 210	1 255 546
Water	152 748	143 743	146 905	206 578	223 641	223 641	246 100	264 619	283 442
Waste water management	60 886	64 477	70 696	108 066	90 558	90 558	108 044	128 526	151 723
Waste management	71 823	72 572	75 415	120 940	92 499	92 499	111 452	127 849	145 319
Expenditure - Standard									
Trading services	**991 255**	**1 105 941**	**1 179 507**	**1 322 395**	**1 155 031**	**1 155 031**	**1 237 838**	**1 206 991**	**1 290 672**
Electricity	667 097	775 943	848 967	881 873	835 899	836 899	903 955	909 047	973 698
Water	105 200	124 377	117 489	144 106	107 716	107 716	122 562	121 977	131 145
Waste water management	87 543	110 514	115 590	150 938	98 975	98 975	106 625	76 816	81 867
Waste management	131 415	95 108	97 562	145 478	111 441	111 441	104 686	99 151	103 962
Surplus/ (Deficit) on Main Service									
Trading services	**80 030**	**57 161**	**77 318**	**154 963**	**220 977**	**220 977**	**294 079**	**473 213**	**545 359**
Electricity	118 732	106 368	114 943	159 901	132 410	132 410	162 366	250 164	281 848
Water	47 547	19 366	29 415	62 472	115 926	115 926	123 539	142 641	152 297
Waste water management	(26 657)	(46 037)	(44 893)	(42 872)	(8 417)	(8 417)	1 419	51 710	69 856
Waste management	(59 592)	(22 536)	(22 147)	(24 538)	(18 941)	(18 941)	6 767	28 698	41 358

Source: Revenue A4 (excluding grants) and Expenditure A2

The table above indicates that all four of the trading services will generate a surplus suggesting that the tariffs are cost reflective after discounted for conditional grants.

Electricity will be increasing by 10.0 per cent from the 2017/18 financial year and the tariff increase for 2018/19 will amount to 6.8 per cent which is in line with the nominal allowable tariff adjustment based on the consultation paper issued by NERSA. The Municipality reported a surplus margin of 19.8 per cent on average over the MTREF however due consideration should be given to the sensitivity of consumer demand in response to price increases as the Municipality had to adjust the original budget materially (R72.47 million or 7 per cent) in the current financial year for electricity. In addition to the price pressure on demand, green energy utilisation by energy intensive industries and projected above inflation increases of bulk purchases are a key risk for the main revenue source of the Municipality as the current economic conditions will exert pressure on surplus margins.

Water amounts to 10.7 per cent on average over MTREF as a component in the operating revenue budget and will increased by 10 per cent which indicates a positive real growth. The projected tariff increase is well above the upper limit of inflation. The water surplus margins on average amount to 52.6 per cent over the MTREF and are being utilised to cross-subsidise other services. The Water Service Development Plan (WSDP: 2017 - 2022) of the Municipality indicate that approximately 68 per cent or R630.24 million of the water infrastructure is older than 20 years and infrastructure to the value of R287.26 million have a remaining useful life of 10 years or shorter. Aging infrastructure will hence result in an increase in capital outlay for supply side water infrastructure over the medium to long term. The Municipality is therefore urged to ring-fenced a portion of the surpluses as leverage in relation to the prevailing drought and water infrastructure pressures to ensure the sustainability of the service over the medium to long term.

The Water losses were calculated at 10.1 per cent in the most recent audit outcome which is within the national norm however in the context of the current drought conditions the Municipality is hereby urged to continue stringently implementing the water losses policy.

Notwithstanding the cost pressure resulting from the increased capital investment the Municipality must the take into consideration an optimal balance between the economy, social and environment factors as the basic levy increase is steep (40 per cent). A too high basic levy might burden the lower income households which might lead to increase long overdue debt and even mute water conservation.

The outstanding debt as at February 2018 for water is currently the largest portion of all the service charge categories at 30.9 per cent and has increased by 61.5 per cent when comparing it to the same period in the previous financial period. The Municipality is cautioned in terms of the growth in outstanding debtors, as further increase in tariffs could lead to further growth in the outstanding debtors.

The **sewerage revenue** amounts to 5.2 per cent on average over the 2018/19 MTREF in relation to the total operating revenue budget and shows an increase of 19.3 per cent resulting in positive real growth. The tariff increase by 15 per cent which is well above the CPIX and the Municipality will realise a nominal surplus however in the outer years the surplus will increase to a significant surplus in excess of 40 per cent.

Waste management amounts to 5.2 per cent on average over MTREF of the operating budget and is projected to increase by 20.5 per cent. The Municipality increased the refuse tariff by 9.7 per cent for the 2018/19 budget year which is above the CPIX projection of 5.3 per cent. In the 2018/19 MTREF the service is anticipated to operate at an overall surplus of R76.8 million. An investment of R3 million is allocated to solid waste infrastructure over the MTREF which is a concern, considering the need and challenges faced by the Municipality in terms of capacity constraints in respect of landfill airspace. It is further noted from the funds and reserve policy perspective the Municipality has no cash-backed reserve for the rehabilitation of the landfill sites. In addition, it is noted the remaining airspace for the Wellington waste disposal site has reach critical levels and the alternative solution for the Municipality, namely the waste-to-energy public private partnership has not yet realised which raise a possible risk in terms of the sustainability of the waste management service.

6.1.4 Adequacy of Expenditure Management Framework

Main & Supporting Tables: A2, A4, SA1, SA18, SA21, SA23 - SA27

Drakenstein Municipality anticipates to realise an increase in operating expenditure at an average of 8.3 per cent over the MTREF and year-on-year a 10.2 per cent increase is envisage for 2018/19. The most significant components of the operating expenditure budget are employee related cost (33.5 per cent) and bulk purchases (22.7 per cent).

Employee related costs amount to 26.8 per cent of the operating budget in aggregate, indicating inflationary increases as per the most recent collective agreement. The wage bill is within National norms of 25 - 40 per cent as per MFMA Circular 71 however this expenditure item is growing in excess of CPIX with an increase of 17.6 per cent in the 2018/19 period which include the filing of vacant posts amounting to R55 million, which will put pressure on available resources. The Municipality further budget for an increase in the number of employees amounting to 112 as per Support Schedule SA24. In view of the current revenue projections and economic outlook, the Municipality is hereby encouraged to manage effectively the human resource requirements to deliver on its mandate by prioritising only critical vacancies, avoid excessive overtime and optimising existing staff complement by limiting use of consultants.

Contracted services constitute an average of 11.3 per cent of operating expenditure which is above the NT norm of 2 - 5 per cent. A year-on-year increase of 16.9 per cent is noted from 2017/18 to 2018/19. A ratio in excess of the norm could indicate that many functions are being outsourced to consultants, or that contracted services are not effectively utilised. Upon taking into consideration the employee related cost being the main cost driver of the operating budget along with bulk purchases, it would be recommended the Municipality weigh the cost benefit of building capacity in-house versus the increasing budget allocation to the outsourcing of certain functions to contractors, when reviewing the employee strategy in the long term financial plan.

Repairs and maintenance as a percentage of the book value of property, plant and equipment amounts to an average of 4.5 per cent over the MTREF which is well below the 8 per cent as recommended by National Treasury. Due consideration is given to the implementation of GRAP 17 and the subsequent unbundling process however as per the guidance of MFMA Circular 55 when the municipal is below the norm they are required to provide detailed explanation and assurance that the budgeted amount is adequate to secure the ongoing health of the Municipality asset base which must be supported by an assets management plan.

The municipal Water Service Development Plan makes mention of maintenance activities have been increasingly focused on reactive maintenance as a result of the progressive deterioration and failure of old infrastructure. Provincial Treasury encourage the strategy of the Municipality to establish a maintenance management system which include a risk-based maintenance plan in view of the Municipality spending less than 3 per cent on repairs and maintenance for water infrastructure which becomes critical with water scarcity conditions.

Finance charges show an average increase of 12.9 per cent over the MTREF and a year-on-year increase of 15 per cent due to a new loan of R239.52 million which will be taken up during 2018/19. Debt service cost (interest paid and redemption) to total operating expenditure will amount to 14 per cent over the MTREF which is above the national norm of 6 - 8 per cent and as a result will steadily erode the resources available for the delivery of services if the Municipality does not generate adequate revenue from the increased capital investment.

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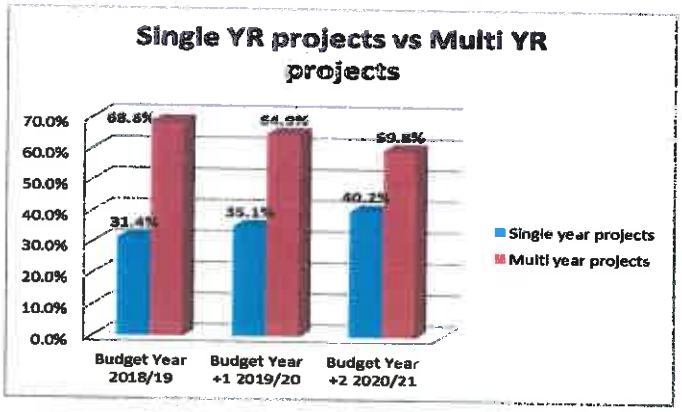
6.1.5 Adequacy of Capital Budget

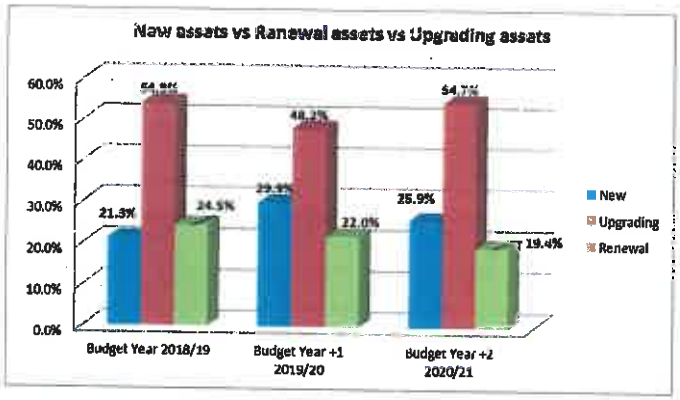
Main & Supporting Tables: IDP, A5, A5A, SA18 - SA20, SA28, SA36 & 37

Figure 1: Single year projects vs multi-year projects



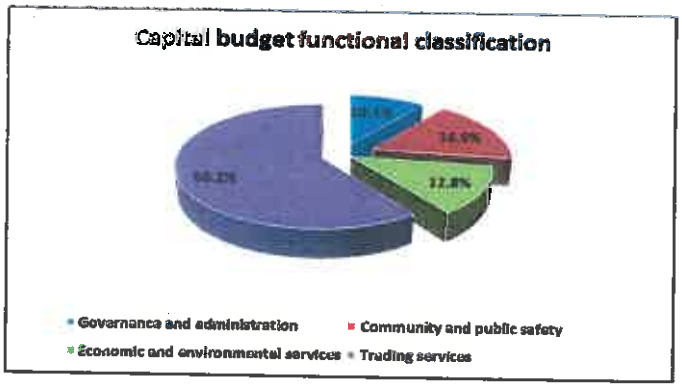
The Municipality does incorporate section 16(3) of the MFMA into the budgeting process, which allows a municipality to appropriate large capital budgets for three financial years. Hence enabling municipalities to improve planning and initiate procurement processes earlier for capital projects in the two outer years of the MTREF.

Figure 2: New assets vs Renewal assets vs Upgrading assets



The budgeted amount reflects an average of 21.3 per cent for renewal of assets and 52.4 per cent for the upgrade of existing infrastructure over the MTREF which exceeds the national guideline of 40 per cent. This measurement indicates the adequacy in terms of the safeguarding of the existing asset base.

Figure 3: Capital budget functional classification



Trading services constitute 60.2 per cent of the total capital budget and it is thus evident that the capital budget of Drakenstein Municipality is largely vested in trading services, of which 28.3 per cent or R102.20 million thereof is appropriated for water management and only 1.4 per cent or R3 million for waste management.

The historic spending of the capital budget measured against the main mid-year adjusted budget remained historically for the past three years low and amount to an average of 65 per cent. On average the Municipality rolled-over projects to the value of R177.68 million to the consecutive budget year over the past three years. The

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current spending for the period ending 28 February 2018 amount to 44.6 per cent. Credibility of the capital budget is affected by the ability of the Municipality to implement the planned capital program as historic trends and delays indicate an underspending at year-end which would have a spilled over affect into the 2018/19 MTREF.

Table 6: Historic Capital Spending

Financial Year	Original Budget	Mid-Year Adjustment Budget	Final capital spending	Actual % of mid-year adjustment budget spent	August Roll Over Budget	Total capital projects rolled over
	R'000	R'000	R'000	%	R'000	R'000
2014/15	284 821	348 689	215 404	61.8	218 191	130 498
2015/16	375 837	541 613	317 052	58.5	321 065	220 548
2016/17	592 474	728 066	544 360	74.8	546 072	181 994
Average				65.0		177 680
Spent as at 28 February 2018						
2017/18	633 142	788 869	351 447	44.6		

Source: 2014/15-2017/18 A Schedules; 2014/15 – 2017/18 B Schedules

Capital Funding Model:

Grant funding amounts to an average of 22.2 per cent over the MTREF which shows that the Municipality is not grant dependent to fund the capital budget. The year-to-date spending for the current year show low grant spending against in-year targets hence the Municipality is hereby urged to put measures in place to fully spend the budget of grant funded capital projects in order to avoid the risk of retention or reduced allocations in future years.

The Municipality has a very high reliance on external borrowings to fund the capital budget as 66.2 per cent or R239.52 million of the capital program is funded from this source. Drakenstein Municipality has a high gearing ratio which will amount to 72.6 per cent in 2018/19 and by the end of the MTREF totalling 59.6 per cent which is above the national norm as set in MFMA Circular 71 however the downward trajectory towards a more sustainable level is a positive.

Table 7: Gearing Ratio

MFMA Circular 71 Gearing Ratio Calculation	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Current Borrowing	178 704	194 446	209 482
Long Term Borrowings	1 362 417	1 348 091	1 318 735
Total borrowings	1 541 121	1 542 537	1 528 217
Operating Revenue less conditional grants	2 121 732	2 348 281	2 563 799
Gearing ratio	72.6%	65.7%	59.6%

Source: 2018/19 A Schedule A6; A4; A18

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Capital budget funded from internally generated funds amounts to R152.70 million over the MTREF and constitutes an average of 15.9 per cent for the same period. In context of very low cash surpluses and no ring-fenced Capital Replacement Reserve (as per A8), it is unclear how the Municipality would maintain the affordability and sustainability thereof.

The Municipality is therefore encouraged when reviewing its existing long term financial plan to optimise the use of external funding and utilising internally generated funding, given the severity of the drought and future developments that will require a high capital outlay, to absorb the related infrastructure pressures which has a concomitant effect on the municipal bill. The Municipality should endeavor to balance the funding options to its disposal and build a capital replacement reserve for smoothing over the medium and long term given the changing nature of the infrastructure demands and cash flow projections of the capital budget.

6.1.6 Core Systems for Municipal Infrastructure Delivery

A 2002 study by Government on the delivery of infrastructure identified a shortfall in effective and systematic delivery systems as well as a skills deficit as impediments to effective delivery, hence the establishment of the Infrastructure Delivery Improvement Programme (IDIP) in 2004. It was within this Programme that the concept of an Infrastructure Delivery Management System (IDMS) was established and informed by the answers to questions posed to projects, namely: Is it suitable, is it feasible, is it credible, does it deliver value for money and does it add to public value? In 2010 the IDIP Toolkit was released, providing a documented body of knowledge and set of processes, representing good practices in the delivery management of infrastructure.

A number of developments have taken place since the publication of the 2010 Toolkit, namely:

- A Medium Term Expenditure Framework (MTEF): Budgeting for infrastructure and capital planning guidelines (2010);
- A Model Supply Chain Management (SCM) Policy for Infrastructure Procurement and Delivery Management in terms of section 168 of the Municipal Finance Management Act of 2003 (Act 56 of 2003) (MFMA) during November 2015 in support of the MFMA SCM Regulation 3(2);
- MFMA Circular No. 80: Municipal Financial Systems and Processes requirements in support of the Municipal Standard Chart of Accounts (mSCOA) issued in terms of the Municipal Finance Management Act No. 56 of 2003;

- The publication of several South African national standards by the South African Bureau of Standards covering areas such as construction procurement, project management, maintenance and asset management; and

- The development of a Cities IDMS aimed at metropolitan councils. The IDMS is designed to be linked to multi-year budgeting with a strong focus on outcomes, value for money and the effective and efficient functioning of the entire value chain of infrastructure delivery.

Provincial Treasury would like to do assessments on the implementation of the Standard for Infrastructure Procurement and Delivery Management (SIPDM) on a few selected municipalities to get an understanding of the progress made in this regard, any challenges experienced, etc. The intention with these assessments is to provide feedback to National Treasury as well as to get an understanding of the kind of assistance that might be required by municipalities to comply with the SIPDM. It will be appreciated if municipalities could indicate their willingness to be assessed.

6.2 ESTABLISH THE LEVEL OF FUNDING THE BUDGET

6.2.1 Expected Outcome for the Current Financial Year

For the reporting period ended February 2018, the Municipality reported a low current ratio of 1.31:1 which is below the national treasury norm range. At present although the Municipality is meeting its short term obligations, the liquidity is of a concern over the medium- to long term.

6.2.2 Table A4 – Surplus/Deficit

The purpose of this measure is to assess the overall credibility of the budget in terms of surplus/deficit. Based on a comparison between the A4 (Financial Performance) and the A7 (Cash Flow Statement) (supporting Schedule SA30) the Municipality reported a deficit for the 2018/19, 2019/20 and a surplus for the 2020/21 years. The budgeted cash Flow on the other hand reported a surplus over the MTREF period.

6.2.3 Table A6 – Financial Position

The Financial Position of the Municipality as per the A6 indicated that the Municipality is budgeting for current ratios of 1.3:1, 1.0:1 and 1.0:1 for the 2018/19, 2019/20 and the 2020/21 years respectively. This is of a concern as the national treasury norm range is 1.5:1 - 2:1.

The liquidity ratio (cash/current liabilities) is 0.4:1, 0.3:1 and 0.5:1 for the 2018/19, 2019/20 and 2020/21 years, respectively. It should be noted that the Municipality is

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dependent on converting its outstanding debtors to cash in order for the Municipality to be liquid in respect of available cash and cash equivalents.

6.2.4 Table A7 – Cash Flow

The A7 Budgeted Cash Flow and the SA30 Supporting Table to the Budgeted Cash Flow Reconciles. When comparing the SA30 budgeted cash flows and the A4 budgeted financial performance schedules, it is noted that the Municipality is budgeting to collect 96 per cent of the budgeted debtors.

6.2.5 Table A8 - Application of Cash and Investments

Table 8: Application of Cash and Investments

Description	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Cash and investments available										
Cash/cash equivalents at the year end	259 526	324 705	289 281	408 859	241 088	241 088	241 088	184 009	197 798	245 459
Other current investments > 90 days	–	(12)	(12)	–	–	–	–	–	–	–
Non current assets - Investments	430	393	133	146	133	133	133	133	133	133
Cash and Investments available:	259 956	325 087	289 401	409 006	241 221	241 221	241 221	184 142	197 931	245 592
Application of cash and investments										
Unspent conditional transfers	54 152	43 946	50 601	–	36 692	36 692	36 692	34 858	33 115	31 459
Unspent borrowing	1 127	–	–	–	–	–		–	–	–
Statutory requirements	–	–	–	–	–	–	–	–	–	–
Other working capital requirements	(53 017)	(28 217)	(58 216)	43 528	(159 914)	(159 914)	(159 914)	(176 275)	(101 147)	(23 130)
Other provisions	–	–	–	27 103	–	–	–			
Long term investments committed	–	–	–	–	–	–	–	–	–	–
Reserves to be backed by cash/investments	–	–	–	57 457	69 139	69 139	69 139	28 745	31 619	34 781
Total Application of cash and investments:	2 263	15 729	(7 615)	128 088	(54 082)	(54 082)	(54 082)	(112 673)	(36 413)	43 110
Surplus(shortfall)	257 693	309 358	297 017	280 918	295 303	295 303	295 303	296 815	234 344	202 482

Source: 2018/19 A-Schedules

The analysis of the A8 (Application of Cash and Investments) indicates that the Municipality is reporting a surplus over the MTREF period.

A number of variances were with the analysis of Budget Table A8 were observed which can impact the determination on whether the budget is funded:

- The Municipality did not report any unspent borrowings and grants whilst past trends show significant roll-overs;
- The working capital is negative; and
- As per the funding and reserve policy the Municipality should cash-backed the short term portion of rehabilitation of landfill sites and Capital Replacement Reserves which have not been included in A8.

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The Municipality must update Schedule A8 upon finalisation of the annual budget in May 2018 as any omission would distort the net surplus position of the Municipality.

Funding Measurement

Table 9: Schedule SA10: Funding Measurement

Description	MFMA section	Ref	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
			Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Funding measures												
Cash/cash equivalents at the year end - R'000	18(1)b	1	259 526	324 705	289 281	408 859	241 088	241 088	241 088	184 009	197 798	245 459
Cash + investments at the yr end less applications - R'000	18(1)b	2	257 693	309 358	297 017	280 918	295 303	295 303	295 303	296 815	234 344	202 492
Cash year end/monthly employee/supplier payments	18(1)b	3	2.6	3.0	2.4	3.0	1.7	1.7	1.7	1.2	1.1	1.4
Surplus/(Deficit) excluding depreciation offsets: R'000	18(1)	4	(13 490)	72 327	105 169	19 169	(17 315)	(17 315)	(17 315)	(145)	(19 195)	68 492
Service charge rev % change - macro CPIX target exclusive	18(1)a,(2)	5	N.A.	2.3%	2.1%	10.4%	(12.0%)	(6.0%)	(6.0%)	7.3%	5.2%	3.5%
Cash receipts % of Ratepayer & Other revenue	18(1)a,(2)	6	98.4%	89.7%	89.3%	93.2%	92.6%	92.6%	92.6%	94.2%	94.4%	94.7%
Debt impairment expense as a % of total billable revenue	18(1)a,(2)	7	5.7%	6.2%	6.9%	4.5%	5.8%	5.8%	5.8%	5.5%	5.0%	4.7%
Capital payments % of capital expenditure	18(1)c;19	8	100.0%	103.9%	96.5%	97.0%	97.6%	97.6%	97.6%	90.0%	90.0%	90.0%
Borrowing receipts % of capital expenditure (excl. transfers)	18(1)c	9	136.2%	122.3%	87.1%	92.7%	87.5%	87.5%	87.5%	80.8%	78.3%	76.8%
Grants % of Govt. legislated/gazetted allocations	18(1)a	10								100.5%	100.5%	100.5%
Current consumer debtors % change - incr(decr)	18(1)a	11	N.A.	10.9%	23.5%	(19.3%)	43.6%	0.0%	0.0%	0.9%	(21.5%)	(28.2%)
Long term receivables % change - incr(decr)	18(1)a	12	N.A.	(15.4%)	(22.7%)	19.3%	(21.7%)	0.0%	0.0%	0.0%	0.0%	0.0%
R&M % of Property Plant & Equipment	20(1)(vi)	13	1.4%	3.6%	3.9%	3.3%	4.0%	4.0%	4.3%	4.2%	4.4%	4.6%
Asset renewal % of capital budget	20(1)(vi)	14	33.6%	37.8%	33.3%	11.5%	15.2%	15.2%	0.0%	24.5%	22.0%	19.4%

Source: 2018/19 A-Schedules

Findings:

(1) Cash and Cash equivalents

A positive cash and cash equivalents has been reflected for each year over the medium term.

(2) Cash plus investments less application of funds

The cashless applications are positive over the 2018/19 MTREF period.

(3) Cash at year end/monthly employee supplier payments

The cash at year end versus employee and supplier payments is 1.2 times in 2018/19 and will increase marginally to 1.4 times in 2020/21. The purpose of this ratio is to measure if the Municipality is able to meet its monthly payments when they fall due or an unexpected disaster threatens revenue collection. The ratio indicates the Municipality only have one monthly payments which raise a probability of a liquidity risk for a municipality the size of Drakenstein.

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(4) **Surplus/(Deficit) excluding depreciation offsets**

Drakenstein projected a deficit over the entire 2018/19 MTREF period, an indication that the revenue income might not be sufficient to sustain the Municipality. It should however be noted that a deficit is not an indication that the budget is not funded.

(5) **Capital payments % of capital expenditure**

This ratio assessed the extent to which budgeted capital expenditure will be spent during the budget year and the Municipality projected a 90.0 per cent capital payment percentage which is below the national norm of 95 per cent as per the MFMA Circular 71. This is however a prudent approach based on past trends and recent audit outcomes.

(6) **Borrowing as a % of capital expenditure (less transfers, grants and contributions)**

This indicates the Municipality's high reliance on borrowing and Drakenstein has indicated in the budget documentation that external borrowings will be taken up over the MTREF.

(7) **Current consumer debtors % of change**

The Municipality outstanding debtors are projected to grow at 0.9 per cent for 2018/19 and a decrease were recorded of 21.5 and 28.2 per cent in the outer years. This is due to increase provision for debt impairment.

(8) **Long Term Receivables' % change**

No change is anticipated for long term receivables.

(9) **Repairs & maintenance (R&M) expenditure level**

This measure indicates that the allocations towards repairs and maintenance is well below national norms and standards.

(10) **Asset renewal % of capital budget**

This measure as calculated in the supporting table is below the norm as set by NT but calculation only takes into account renewal of existing assets and not upgrading of existing assets as well. Should the latter be taken into account as well, the outcomes will be above 40 per cent.

SECTION 7: KEY FINDINGS, RISKS AND RECOMMENDATIONS

Integrated Planning

- It is noted that some performance targets for some of the Key Performance Areas linked to Strategic Objectives have decreased for the 2018/19 financial year.
- The Municipality has a well-defined strategy that is informed by a comprehensive situational analysis which informs the Municipality's developmental agenda.
- There are no service delivery backlogs in urban areas as the Municipality has managed to ensure that the basic service delivery national targets have been met, however, service delivery backlogs are prevalent in the rural areas and informal settlements.
- The "Big Moves" planned by the Municipality for identified catalytic zones to promote the Drakenstein area as destination for tourists as well as new businesses, industries and residents will require significant infrastructure investment and will have significant economic spin-off potential.
- The Municipality is classified as high to medium risk in terms of a hydrological drought while it is also experiencing an agricultural drought.
- The Municipality is encouraged to assign a dedicated disaster management official the responsibilities to ensure proper coordination and focused advocacy of disaster management.
- The Municipality is encouraged to strengthen the agricultural sub-component of the sector by including clear proposals on potential agri-processing interventions and highlighting agri-processing as a catalyst for economic growth. To this extent, the Municipality should attempt to make a clearer link to the Provincial Project Khulisa.

Environmental and Development Planning Analysis

- It is recommended that the SDF be amended to include a Capital Investment Framework as envisaged in the legislation.
- Stellenbosch and Drakenstein Municipalities must work closely together around the development of the Klapmuts node as well as the potential Simondium/Groot Drakenstein Node. Neither Municipality can plan for the development of its node without consulting the other.

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- It is recommended that municipality develops and tables an Alien Invasive Management Plan in terms of the provision of NEM: BA. It is further recommended that the Municipality uses the new WC Biodiversity Spatial Plan - 2017 (as it is the best available science for Critical Biodiversity Area assessment) in the future when reviewing the SDF.

- It is imperative that the Municipality formally submit to the Department the name of an official in the Municipality who will be responsible for Section 30 (Control of Incidents) function of the National Environmental Management Act.

- It is recommended that the ten-page Climate Change Advisory developed for Drakenstein Municipality in 2016 be used by the Municipality to guide the enhancement of climate change responses from the sectors within their IDP implementation.

Budget Responsiveness

- All of the budget allocations in support Schedules SA4, 5 and 6 were made according to the Municipality's strategic objectives detailed within the 2018 IDP Review.

- The capital budget also decreases across the MTREF as a percentage of total expenditure. This could have implications for various capital related programmes i.e.

- Repairs, maintenance and upgrade of key bulk infrastructure, roll-out of services to informal settlements, reduction of service delivery backlogs nor the proactive investment in sustainable and renewable service delivery practices.

- With the limited capital budget allocation towards KPA 5: Planning and Economic Development (and its key focus areas) it will be challenging to support a wide variety of associated game changing initiatives such as red-tape reduction, the creation of integrated development zones, informal trading sectors, improved opportunities for previously disadvantaged communities, urban renewal etc.

- Other than the inclusion of indicators in the SDBIP relating to job creation (NKPI) and a skills development survey, neither the budget report nor the IDP Review provides any clarity as to specific budget allocations towards the skills development or job creation functions detailed above.

- With reduced trading services as a percentage of total operating budget it will be challenging to sustain existing service delivery or expand service delivery.

- Budget Schedule A10 indicates that 1 183 households will in 2018/19 receive sanitation services below the minimum service level standard. The number remains unchanged across the MTREF and is also the same as the backlog in 2016/17. It therefore appears that, despite the increase in tariffs and operating expenditure, the Municipality is not intending to eliminate the backlog in the current MTREF.

Credibility and Sustainability of the Budget

The tabled municipal Budget is credible, sustainable and funded with risks hence the following should be considered with the finalisation of the annual budget for adoption:

The increased cost of water and bulk electricity purchase and other infrastructure demands are placing upward pressure on tariffs and continuous increases outside the parameters of inflation targets are not sustainable. The financial outlook is further exacerbated by the fiscal constraints that will be persist over the MTREF. Hence the Municipality is encouraged to employ strategic coping methods which might include the following:

- Driving efficiencies and innovation;
- Reduce non-core expenditure;
- Taking a long term approach for infrastructure investments and revenue forecasting taking into consideration demand and future development;
- Tariff setting that strikes a balance between social, environment and economic factors;
- Emphasis on water conservation, curbing of water losses, demand management and meter reading;
- expedite return on infrastructure investments;
- Effective debtors and indigent management; and
- Implement effective measures to address the high gearing ratio and the deteriorating liquidity position.

In view of operating expenditure outstripping the growth revenue, low cash surplus and current economic conditions, Provincial Treasury hereby recommend that the Municipality develop a cost containment policy which align to the draft regulations which will ensure value for money, curbing non-essential activities and wastages.

The reported current and historic spending is sluggish hence against that backdrop the capital budget at its current monetary levels might exceeds the municipal capacity to implement and affects the credibility of the tabled budget.

The Municipality is highly indebted and the debt key indicators (both in term of the balance sheet and income sheet) are outside the national sustainable norms and standards. However, Provincial Treasury acknowledge the cap the Municipality placed on borrowings in order to bring debt down to sustainable levels.

Repairs and maintenance as a percentage of the asset value of property plant and equipment is below the 8 per cent as recommended by National Treasury. The Municipality are encouraged to implement a formal risk-based maintenance plan in order to identify and prevent repeat or systemic failures.

The remaining airspace for the Wellington waste disposal site has reach critical levels and the alternative solution namely the waste-to-energy public private partnership has not yet realised which raise a possible risk in terms of the sustainability of the service. The Municipality has no cash-backed reserves for the rehabilitation of landfill sites as required by the funding and reserve policy.

In addition, slow economic growth, current drought as well as fiscal constraints is expected to persist over the medium term that is premised by a range of adverse global and domestic factors which continue to weaken South African's economic outlook. The Municipality should therefore continue to apply fiscal discipline and practice prudent financial management in order to ensure long term financial sustainability and resilience.

APPENDIX F

DRAKENSTEIN
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Integrated Municipal Engagement: LG MTEC 2018

4 May 2018

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Contents

1. **Integrated Development Planning**
2. **Planning & Environmental Management Issues**
3. **MTREF Budget**
4. **Areas of Support Required**
5. **Partnering for Development**
6. **Concluding Remarks**

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2017 – 2022 Integrated Development Plan

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IDP Process

Time Frames	IDP Phases	Participation Mechanisms	Date
April 2018	**Approval Phase:** Provide opportunity to communities and stakeholders to propose amendments to Draft IDP, Budget and SDBIP.	33 Ward-based IDP Consultative Engagements with stakeholders	8 – 25 April
		Public Comments received	30 April
May 2018	**Approval Phase:** Adoption by Council.	IDP Representative Forum	3 May
		LG-MTEC 3 Engagement with Provincial Government	4 May
		IDP and Budget Steering Committees to consider and make technical recommendations on public submissions	17 May
		MAYCO and Council consider community and stakeholder inputs and adopt Draft (Revised) IDP, Budget	23 & 30 May

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IDP Process

1. ±70 IDP Specific consultative meetings held during the course of the Review.

2. Logistical arrangements and coordinating remain challenging with 33 wards to cover, however a revised stakeholder model and intervention plans are being refined to capitalize on the efficient functioning of current stakeholder structures, in particular the 33 Ward Committees.

3. Risks have been minimal during this phase, however, next year being an election year will in all probability be more challenging.

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Integrated Development Planning

Basic service provision – Page 10 of the report:

1. There is a renewed focus on the upgrading of informal settlements which will be incorporated in the final IDP. This includes planning for 12 UISP sites, as well as an application for Access to Basic Services.

Municipal infrastructure planning – Page 10 of the report:

2. Percentage allocations referred to in the last paragraph is incorrect. Policy wise basic services and roads infrastructure receives 70% of available funding, social and economical infrastructure 20% and operational infrastructure 10%.
3. The information above speaks to the content of the 3rd bullet point under paragraph 5.2.1 on page 21 of the report.

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Integrated Development Planning

Human Settlements – Page 11 of the report:

4. The initial grant allocation of R125.5 million was decreased by DoHS in February to R101.81 million.
5. The disaggregation of current projects (primarily Vlakkeland) will be added to the final IDP. The new Human Settlement Strategy will include the details per proposed and pipeline project.

Disaster Management – Page 12 to 13 of the report:

6. Disaster Management Officer post will be advertised upon the finalisation of the Task grading of the post. The Human Resource Section is busy with the benchmarking process after which the municipality will advertise the post. The remaining posts of the Disaster Management Unit (as per the organogram) will then be filled as priority funding is allocated.
7. The abbreviated version of the 2018/19 revised Municipal Disaster Management Plan has been included in the 2018/19 Draft IDP.

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Integrated Development Planning

Disaster Management – Page 12 to 13 of the report:

8. The municipality established the Drakenstein Smart Safety Network (DSSN) as a partnership between the municipality, the private sector and civil society organisations to work more effectively and efficiently together to deal with community safety and potential disaster situations.
9. The DSSN will incorporate the establishment of a Municipal Control Centre of which the initial control room will be operational by 30 June 2018. The further operationalisation and expansion of the DSSN will include the establishment of a fully-fledged Drakenstein Disaster Management Centre and the Drakenstein Disaster Management Advisory Forum.
10. The municipality further continues with the roll-out of ward-based risk assessments with the objective of completing the process during the next 5 year IDP cycle or as soon as funding becomes available to expedite the process.

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Integrated Development Planning

Disaster Management – Page 12 to 13 of the report:

11. These processes together with the annual assessment and amendment (where necessary) of the municipality's ten major strategic risks directs municipal resources towards projects and initiatives to manage and deal with the major disaster risk areas and safety threats facing the communities of Drakenstein.

Agriculture – Page 13 of the report:

12. Comments noted.
13. The Department of Agriculture is encouraged to partner with DM with regard to the management of the outcomes of eviction matters. There is a dismal failure on the part of the responsible department to proactively and strategically engage.

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Finalisation of IDP

1. MAYCO will consider comments received from the local communities and other stakeholders on 23 May 2018 and make recommendations to Council.
2. Council will approve final IDP on 30 May 2018.

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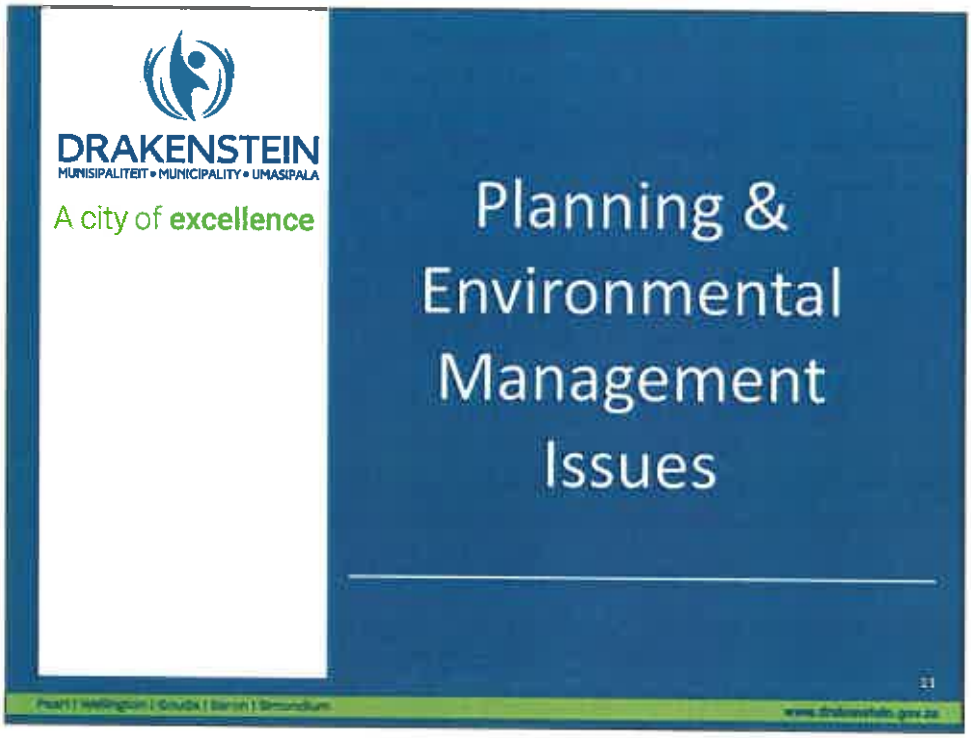
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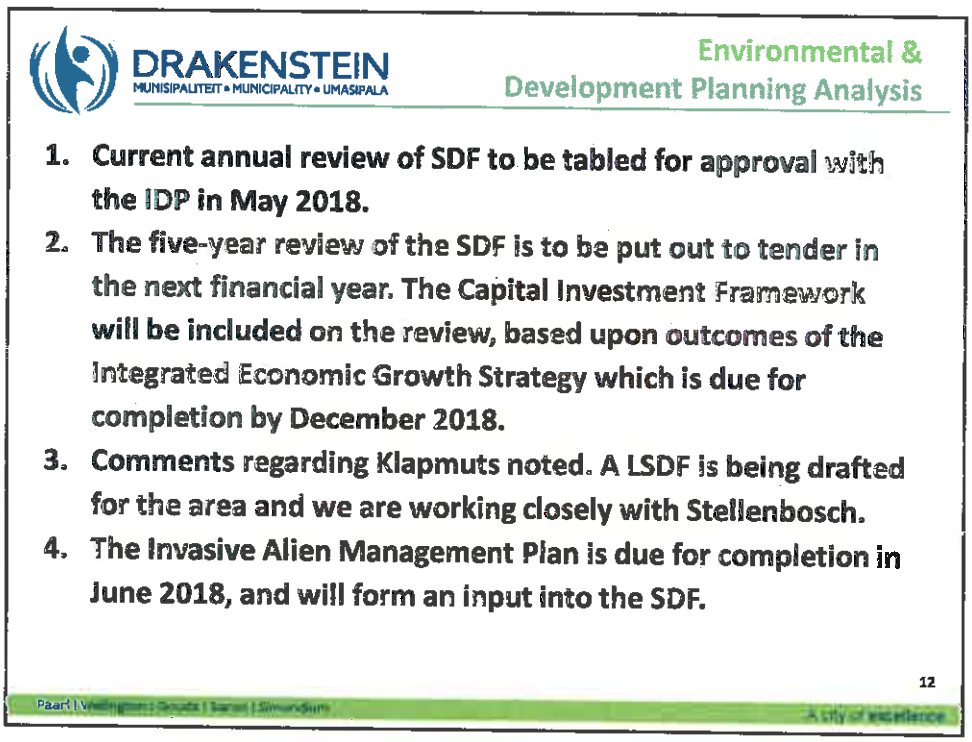
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Environmental & Development Planning Analysis
1. Current annual review of SDF to be tabled for approval with the IDP in May 2018.
2. The five-year review of the SDF is to be put out to tender in the next financial year. The Capital Investment Framework will be included on the review, based upon outcomes of the Integrated Economic Growth Strategy which is due for completion by December 2018.
3. Comments regarding Klapmuts noted. A LSDF is being drafted for the area and we are working closely with Stellenbosch.
4. The Invasive Alien Management Plan is due for completion in June 2018, and will form an input into the SDF.
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"F6"

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Environmental & Development Planning analysis

5. The Climate Change Adaptation Plan is currently under development and uses the Climate Change Advisory (2016) as an input.
6. Comment on endorsement letter is noted.
7. The Municipality will submit the details of the officials in order for Section 30 of NEMA administration.
8. An announcement by the Executive Mayor followed by a Council resolution on the Waste-to-Energy project will take place on 30 May 2018.

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"F7"

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Budget Process

1. Budget Steering Committee (BSC) met on 26 July 2017 to discuss the budget process plan and budget assumptions for the compilation of the 2018/19 budget.
2. Council on 24 August 2017 approved the Budget Process Plan.
3. During Sep / Oct 2017 consulted with the local communities on their needs – 33 wards.
4. Various BSC meetings held to finalise capital and operational budgets.
5. Reviewed all budget related policies.
6. Council approved the draft budget, draft tariffs and reviewed budget related policies on 28 March 2018.
7. From 8 to 25 April 2018 had another round of IDP / budget road shows with local communities in all 33 wards.
8. Closing date for comments was 30 April 2018. Did receive written comments.
9. No major challenges experienced during the budget process.

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Budget Assumptions

TABLE 2: 2018/2023 MTREF KEY BUDGET PROJECTIONS

LINE NO.	DESCRIPTION	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
1	GROWTH PARAMETERS					
2	Growth (GDP)	1.50%	1.80%	2.10%	2.10%	2.10%
3	Headline inflation rates	5.30%	5.40%	5.50%	5.50%	5.50%
4	TARIFF INCREASES					
5	Property rates revenue increase (HIR + 3%)	8.20%	8.50%	8.50%	8.50%	8.50%
11	Refuse removal services revenue increase (Waste to energy project)	9.70%	9.70%	9.70%	9.70%	9.70%
13	Sanitation services revenue increase	15.00%	11.00%	11.00%	11.00%	11.00%
14	Water services revenue increase	7.00%	6.00%	6.00%	6.00%	6.00%
15	Electricity life line consumers	6.84%	6.84%	6.84%	6.84%	6.84%
16	Electricity other consumers	6.84%	6.84%	6.84%	6.84%	6.84%

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"F8"

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Budget Assumptions

TABLE 2: 2018/2023 MTREF KEY BUDGET PROJECTIONS

LINE NO.	DESCRIPTION	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
23	GEARING					
24	Gearing Ratio	65.00%	60.00%	55.00%	50.00%	45.00%
25	EMPLOYEE RELATED COSTS					
26	Wage bill cost-of-living increases	6.30%	6.40%	6.50%	6.50%	6.50%
27	Average notch increase	1.25%	1.25%	1.25%	1.25%	1.25%
28	Prioritised vacant positions	R55.0 M	R96.25 M	R115.0 M	R138.6 M	R166.32 M
29	Salary Bill as a percentage of total operating budget expenditure	26.15%	26.72%	28.08%	29.13%	29.91%
30	BULK PURCHASES					
31	Bulk Purchases - Electricity	7.32%	7.32%	7.32%	7.32%	7.32%
32	Bulk Purchases - Water	10.00%	10.00%	10.00%	10.00%	10.00%

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Budget Assumptions

TABLE 2: 2018/2023 MTREF KEY BUDGET PROJECTIONS

LINE NO	DESCRIPTION	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
33	GRANTS: NATIONAL DEPARTMENTS					
34	Equitable share	R 137 518 000	R 150 601 000	R 165 045 000	R 180 872 816	R 198 218 519
38	Municipal Infrastructure Grant (MIG)	R 34 484 000	R 35 142 000	R 36 961 000	R 38 875 580	R 40 889 335
40	Integrated National Electrification Programme (INEP)	R 5 738 000	R 6 400 000	R 9 600 000	R 9 600 000	R 9 600 000
43	Expanded Public Works Programme	R 4 433 000	R -	R -	R -	R -
45	GRANTS: PROVINCIAL DEPARTMENTS					
46	Human Settlements Development Grant	R 101 810 000	R 134 020 000	R 60 160 000	R 60 160 000	R 60 160 000
47	Library Services Conditional Grant	R 21 736 000	R 17 639 000	R 18 609 000	R 18 609 000	R 18 609 000
49	Maintenance and Construction of Transport Grant (BRB North)	R 38 647 000	R 16 000 000	R 60 000 000	R -	R -
58	MONETARY CONTRIBUTIONS					
59	Upgrading of R301	R 7 000 000	R 30 000 000	R 40 000 000	R -	R -
60	Boland Cricket	R 3 000 000	R 3 000 000	R 3 000 000	R -	R -

"F9"

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Budget Assumptions

1. Trends in population and household growth will be included in the final budget assumptions and final budget documentation.
2. Major developments impacting on infrastructure services and planning were taken into account but not listed in the budget assumptions. This will be included in the final budget assumptions as part of the final budget documentation.
3. Basic water charges increases to cover for water sales losses due to gated estates (Val de Vie, Pearl Valley and etcetera) going of the water grid.
4. Table 4 (Cash Flows) on page 29 of the report has a major flaw in its calculations. Cash and cash equivalents at year end is materially overstated due to depreciation counted back – but redemption on loans to be repaid not taken into account.

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Budget Assumptions

5. Table 6.1.2 (Review of the Budget Assumptions), point 4 on page 28 of the report referring to cost containment measures not addressed: Drakenstein has tested itself against the Draft Cost Containment Regulations and are satisfied that we are not wasting valuable financial resources.
6. <u>QUESTIONS</u>: How will municipalities measure cost containment "savings" and in what format (formula wise) will it be done and reported on if and when the Draft Regulations are enforced on municipalities?

"F10"

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Budget Responsiveness: Strategic Objectives & Budget Priorities

The network of interventions required to respond to our challenges and attain our vision have been ordered into seven Key Performance Areas (KPAs), namely:

Activities in support of the 7 KPAs are arranged in 57 Key Focus Areas (KFAs) that are, in turn, aligned to the Performance Management System through the development of Key Performance Indicators (KPIs) and Targets which are assigned to officials in their annual performance agreements.

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Budget Responsiveness: Strategic Objectives & Budget Priorities

KPA 2: Financial Sustainability	
KFA 08	Revenue Management
KFA 09	Expenditure and Cost Management
KFA 10	Budgeting / Funding
KFA 11	Capital Expenditure
KFA 12	Asset Management
KFA 13	Financial Viability
KFA 14	Supply Chain Management
KFA 15	Financial Reporting

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"F11"

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Budget Responsiveness: Strategic Objectives & Budget Priorities

KFA 8: Revenue Management

Issues / Challenges		Action plan
To budget for and to install prepaid water meters.	😐	IM 021 - **Project:** Replacing all conventional water meters with prepaid water meters.
To accurately bill and collect revenue due to the Municipality.	😐	IM 022 - **Programme:** Filling of critical vacant positions of Revenue Enhancement Unit, Credit Control Unit and Customer Care Unit.
To collect revenue due to the Municipality due to a lack of payment methods.	😐	IM 023 - **Programme:** Communication on payment of accounts and payment methods (Inserts in newsletter and presence on social media).
To collect fines revenue due to the Municipality.	☹	IM 024 - **Big move:** Establishment of Municipal Court.

Table 1: KFA8 - Challenges and Action Plan

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Budget Responsiveness: Strategic Objectives & Budget Priorities

IDP Strategic Objectives and Budget Alignment - Table 2 Page 20 of Report				
Row No.	Strategic Objectives	2018/2019 Draft Budget (R'000)	2019/2020 Indicative Budget (R'000)	2020/2021 Indicative Budget (R'000)
1	KPA1: Governance and Stakeholder Participation	85,079	90,302	95,894
2	KPA2: Financial Sustainability	96,725	~~275,082~~	~~289,259~~
3			102,990	109,533
4	KPA3: Institutional Transformation	247,804	~~284,060~~	~~315,051~~
5			284,310	315,310
6	KPA4: Physical Infrastructure and Services	1,418,858	~~1,396,261~~	~~1,489,557~~
7			1,557,886	1,668,452
8	KPA 5: Planning and Economic Development	45,983	48,838	51,923
9	KPA 6: Safety and Environmental Management	149,771	~~156,193~~	~~163,315~~
10			166,410	173,986
11	KPA 7: Social and Community Development	290,185	330,118	269,071
12	Total Operating Expenditure	2,334,404	2,580,854	2,684,171

The statement in the last sentence of the second last paragraph on page 20 of the report is incorrect. Financial sustainability do not decrease dramatically but instead increase dramatically.

"F12"

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Budget Responsiveness: Strategic Objectives & Budget Priorities

Cost Reflectiveness of Trading Services (Electricity) - Table 5 Page 31 of Report				
Row No.	Description	2018/2019 Draft Budget (R'000)	2019/2020 Indicative Budget (R'000)	2020/2021 Indicative Budget (R'000)
1	Revenue	1,066,321	1,159,210	1,255,546
2	Less: Expenditure	903,965	~~909,047~~	~~972,698~~
3	Less: Revised Expenditure		973,332	1,040,835
4	Surplus	162,356	~~250,164~~	~~281,949~~
5	Revised Surplus		185,878	~~214,711~~
6	% Surplus / (Deficit)	15.2%	~~21.6%~~	~~22.4%~~
7	Revised % Surplus / (Deficit)		16.0%	17.1%
8	Surpluses used to subsidise rates and community services			

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Budget Responsiveness: Strategic Objectives & Budget Priorities

Cost Reflectiveness of Trading Services (Water) - Table 5 Page 31 of Report				
Row No.	Description	2018/2019 Draft Budget (R'000)	2019/2020 Indicative Budget (R'000)	2020/2021 Indicative Budget (R'000)
1	Revenue	246,100	264,619	283,442
2	Less: Expenditure	122,562	~~121,977~~	~~131,145~~
3	Less: Revised Expenditure		132,194	141,815
4	Surplus	123,539	~~142,641~~	~~152,297~~
5	Revised Surplus		132,425	141,627
6	% Surplus / (Deficit)	50.1%	~~53.9%~~	~~53.7%~~
7	Revised % Surplus / (Deficit)		50.0%	50.0%
8	Surpluses used to subsidise rates and community services			

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"F13"

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Budget Responsiveness: Strategic Objectives & Budget Priorities

Cost Reflectiveness of Trading Services (Waste Water) - Table 5 Page 31 of Report				
Row No.	Description	2018/2019 Draft Budget (R'000)	2019/2020 Indicative Budget (R'000)	2020/2021 Indicative Budget (R'000)
1	Revenue	108,044	128,526	151,723
2	Less: Expenditure	106,626	~~76,816~~	~~81,867~~
3	Less: Revised Expenditure		117,292	141,815
4	Surplus	1,419	~~51,710~~	~~69,856~~
5	Revised Surplus		11,234	9,908
6	% Surplus / (Deficit)	1.3%	~~40.2%~~	~~46.0%~~
7	Revised % Surplus / (Deficit)		8.7%	6.5%
8	Surpluses used to subsidise rates and community services			

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Budget Responsiveness: Strategic Objectives & Budget Priorities

Cost Reflectiveness of Trading Services (Waste Management) - Table 5 Page 31 of Report				
Row No.	Description	2018/2019 Draft Budget (R'000)	2019/2020 Indicative Budget (R'000)	2020/2021 Indicative Budget (R'000)
1	Revenue	111,452	127,849	145,319
2	Less: Expenditure	104,686	~~99,151~~	~~103,962~~
3	Less: Revised Expenditure		105,659	110,759
4	Surplus	6,767	~~22,698~~	~~41,358~~
5	Revised Surplus		22,190	34,560
6	% Surplus / (Deficit)	6.1%	~~22.4%~~	~~28.5%~~
7	Revised % Surplus / (Deficit)		17.3%	23.8%
8	Surpluses needed for Provision for Landfill Rehabilitation disclosed (R144 million)			

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"F14"

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Budget Responsiveness: Socio-economic Context & impact

With regard to the comments on KPA 5: Planning and Economic Development – bullet point 4 on page 22 of the report the following:

1. **The Department of Planning and Development's operating and capital expenditure is linked to the Municipal Vote 4 (Planning and Economic Development) and KPA 5 (Planning and Economic Development).**
2. **Housing falls under the Department of Planning and Development but housing operating and capital expenditure in Schedule A5 is linked to the Housing GFS vote structure.**
3. **Local economic development also falls under the Department of Planning and Development but local economic development operating and capital expenditure in Schedule A5 is linked to the Finance and Administration GFS vote structure.**
4. **The Department of Planning and Development's operating and capital expenditure in Schedule A5 is linked to the Planning and Development GFS vote structure.**
5. **The National Treasury requires from municipalities to report in the A-Schedules allocations to the Municipal Votes (KPA's) and GFS functions that will not correlate with one another.**

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Budget Responsiveness: Socio-economic Context & impact

With regard to the comments on KPA 5: Planning and Economic Development – bullet point 2 on page 23 of the report, the following:

6. **The EPWP salary budget for 2018/19 amounts to R4.4 million through the EPWP grant and R11.5 million from our own rate payer funds.**
7. **The skills development budget for 2018/2019 amounts to R4.1 million.**

With regard to the incorrect comment on water sales losses – bullet point 1 under the heading water on page 23 of the report, the following:

8. **Drakenstein's punitive tariffs make up for the decrease in water consumption and water sales due to the water restrictions in force. Our water restrictions tariff structure resulted in an increase in water sales of R27.6 million for the year which was corrected with the adjustments budget approved in February 2018.**
9. **However this also led to an increase in water debtors and therefore the provision for bad debt impairment was also increased through the adjustments budget.**
10. **The net amount (additional revenue) of R18.0 million was allocated to our borehole capital project programme.**

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"F15"

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Budget Responsiveness: Socio-economic Context & impact

With regard to the comment on households with access to energy – bullet point 2 under the heading electricity on page 24 of the report, the following:

11. It is clear from the households' statistics for the 2014/15 to 2016/17 and the 2018/19 to 2020/21 financial years that the 2017/18 financial year statistics is incorrect.
12. These statistics will be corrected with the submission of the final budget in May 2018.

With regard to the comment on households with access to sanitation below the minimum service level standard – bullet point 2 on page 25 of the report, the following:

13. Drakenstein Municipality do not have control over these services rendered by farmers to their farm workers.
14. The MPAC commented on this issue when they compiled their comments in the Oversight Report on the 2016/17 Annual Report.
15. Council also noted this backlog and the City Manager undertook to address this matter.

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Budget Responsiveness: Socio-economic Context & impact

With regard to the comment on the human settlement grant received from Provincial Government – bullet point 1 under the heading housing on page 26 of the report, the following:

16. Drakenstein Municipality will receive only R101.8 million in the 2018/19 financial year and not the amount of R125.5 million quoted.
17. A total of R86.7 million will be directed to the Vlakkeland development project and not the amount of R64.4 million quoted in the report.

"F16"

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Credibility & Sustainability

1. The finding on page 27 of the report that Drakenstein Municipality realised less than 95% of total operating revenue is factually incorrect. Provincial Treasury base this on the information in the Statement of Financial Performance (SFP) which do not reflect the real picture as budgeted for as per the mSCOA charts. The mSCOA charts – as indicated by municipalities on various occasions – do not align with the GRAP Accounting Standards requirements for the compilation of annual financial statements.
2. To prove the statement above you need to analyse the Statement of Comparison of Budget and Actual Amounts (SCBAA) in the annual financial statements – page 256 in the AR.
3. Actual operating revenue for 2016/2017 = R2,009,415,236 as reflected in the SCBAA (R1,828,651,000 in the SFP) compared with the budgeted revenue of R1,977,119,494 realised a surplus of R32,295,742 or 101.63% of budgeted operating revenue.

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Credibility & Sustainability

4. Actual operating expenditure for 2016/2017 = R2,002,500,560 as reflected in the SCBAA (R1,813,743,000 in the SFP) compared with the budgeted expenditure of R2,062,841,034 realised a saving of R60,340,474 or 97.07% of budgeted operating expenditure.
5. Indigent subsidy was classified as "expenditure" in mSCOA chart 5.3 and had to be offset against revenue. It is now rectified in mSCOA chart 6.1.
6. The same principle had to be applied with housing grant expenditure that had to be offset.

"F17"

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Credibility & Sustainability

Indigent Subsidies - Revenue Forgone					
Row No.	Free Basic Services	2017/2018 Adjustments Budget (R'000)	2018/2019 Draft Budget (R'000)	2019/2020 Indicative Budget (R'000)	2020/2021 Indicative Budget (R'000)
1	Electricity	38 800	44 157	48 358	52 996
2	Water	10 500	11 950	13 087	14 342
3	Sanitation	13 908	15 828	17 334	18 997
4	Refuse Removal	34 092	38 808	42 499	45 576
5	Property Rates / Flats Rentals	23 521	26 775	29 322	32 134
6	Total Indigent Subsidies	120 821	137 518	150 600	165 045

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Credibility & Sustainability

7. Actual capital expenditure in 2015/16 = R317 million.
8. Actual capital expenditure in 2016/17 = R544 million.
9. **Budgeted capital expenditure in 2017/18 = R838 million.**
10. **Draft capital expenditure for 2018/19 = R361 million.**
11. Indicative capital expenditure for 2019/20 = R280 million.
12. Indicative capital expenditure for 2020/21 = R327 million.
13. Indicative capital expenditure for 2021/22 = R280 million.
14. Indicative capital expenditure for 2022/23 = R288 million.
15. **Unmet needs from 2023/24 and onwards = R5.188 billion.**

16. Main reason for the reduction in capital expenditure in 2018/19 is that Drakenstein has reached its external borrowing limits.

17. Drakenstein can in future only borrow money that we repay in the previous financial year plus 50% in revenue growth.

"F18"

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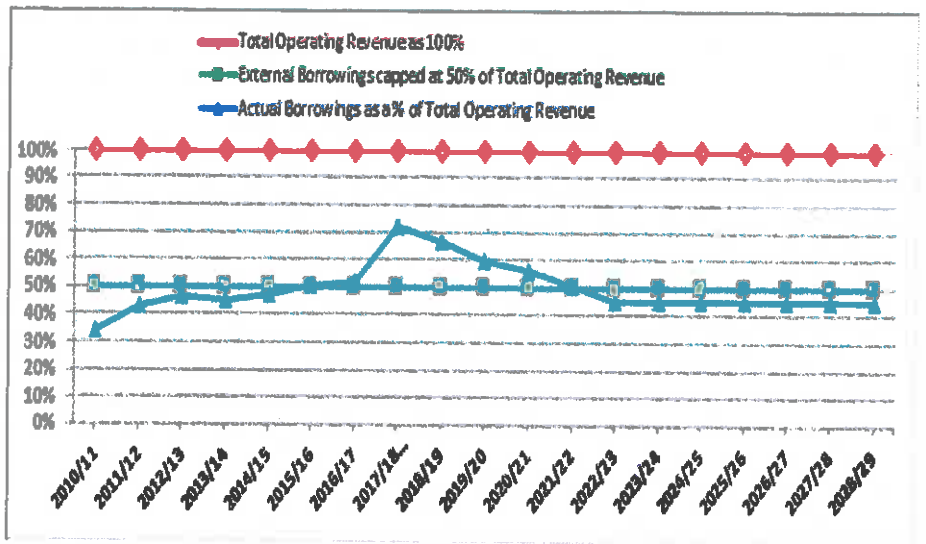
Credibility & Sustainability



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Credibility & Sustainability

Estimated Additional Revenue due to Growth

Row No.	Revenue Source	2018/2019 Draft Budget	2019/2020 Indicative Budget	2020/2021 Indicative Budget	2021/2022 Indicative Budget	2022/2023 Indicative Budget
1	Property Rates	36 420 181	53 037 357	66 000 832	78 193 974	89 450 951
2	Water	7 519 152	12 143 039	16 287 869	20 278 853	23 942 690
3	Sanitation	3 736 769	7 703 742	11 840 335	16 407 846	19 827 630
4	Refuse Removal	5 995 453	12 090 416	18 285 668	24 605 398	28 560 769
5	Electricity	33 414 252	56 833 555	79 096 874	100 774 181	119 149 145
6	Total	87 085 807	141 808 109	191 511 578	240 260 252	280 931 185

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"F19"

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Credibility & Sustainability

TABLE 4.3 : TABLED 2018/2023 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF) RECONCILIATION OF SURPLUS/DEFICIT

Serial Nr		2018/2019 Indicative Operating Budget	2019/2020 Indicative Operating Budget	2020/2021 Indicative Operating Budget	2021/2022 Indicative Operating Budget	2022/2023 Indicative Operating Budget
1	Deficit / (Surplus) Capital Grants Included =	145 234	19 194 882	(68 491 707)	(85 251 372)	(130 458 080)
2	Plus: Transfers Recognised: Capital =	74 506 957	50 036 522	92 661 739	40 366 957	43 903 770
3	**Deficit / (Surplus) Capital Grants Excluded =**	74 652 191	69 231 404	24 170 032	(44 884 415)	(86 554 310)
4	Plus: Redemption on External Loans =	179 726 243	178 703 911	194 446 019	209 481 845	221 395 653
5	Less: Depreciation =	(199 673 156)	(199 673 156)	(199 673 156)	(199 673 156)	(199 673 156)
6	Less: Expenced Housing Inventory =	-	-	-	-	-
7	Less: Provision for Interest on External Borrowings =	-	-	-	-	-
8	Less: Losses on Sale of Assets =	(1 750 000)	(1 750 000)	(1 750 000)	(1 750 000)	(1 750 000)
9	Less: Impairment on Assets =	(2 000 000)	(2 000 000)	(2 000 000)	(2 000 000)	(2 000 000)
10	Less: Actuarial Losses: Employe Benefits (Medical) =	-	-	-	-	-
11	Less: Contribution to Employee Benefits (Leave) Provision =	(4 339 238)	(4 675 529)	(5 037 883)	(5 428 319)	(5 849 013)
12	Less: Contr. to Emp. Benefits (Ex Gratia Pen.) Provision =	(235 000)	(235 000)	(235 000)	(235 000)	(235 000)
13	Less: Contribution to Employee Benefits (Medical) Provision =	(16 170 000)	(17 545 000)	(19 036 922)	(20 655 708)	(22 412 145)
14	Less: Cont. to Emp. Benefits (Long Service Awards) Provision =	(6 349 356)	(6 704 586)	(7 079 691)	(7 475 781)	(7 894 031)
15	Less: Provision for Landfill Site Rehabilitation =	(25 169 404)	(25 169 404)	(25 169 404)	(25 169 404)	(25 169 404)
16	**Revised Cash Deficit / (Surplus) =**	(1 307 720)	(9 817 360)	(41 366 005)	(97 789 938)	(130 141 406)

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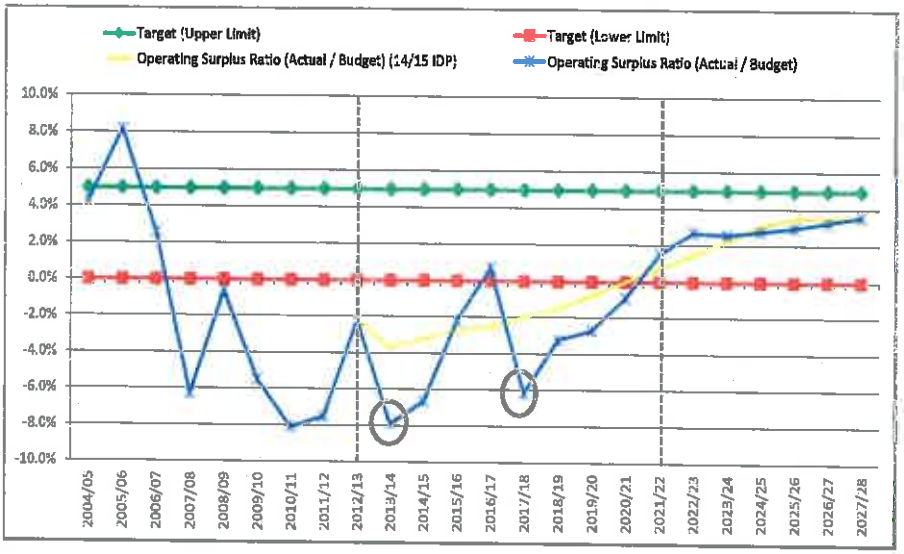
Credibility & Sustainability



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Credibility & Sustainability

Expenditure Management Framework Adequacy – Page 33 to 34:

18. It is true that our employee related costs amount to 26.2% (not 33.5% - bulk electricity) of the 2018/19 operating expenditure budget and will increase to 26.9% in the 2022/23 financial year compared with the norm of 25% to 40%.
19. Repairs and maintenance on average over the MTREF amounts to 4.5% of the carry value of PPE compared with the NT norm of 8%. To increase it to 8% of the carrying value of PPE another R195 million is needed and therefore all tariffs (NERSA regulated electricity tariffs excluded) must increase with another 25.3% over and above the current tariff increases.
20. Repairs and maintenance operating expenditure of R251 million for 2018/19 amounts to 10.5% of total operating expenditure for 2018/19. The NT do not have a norm on this.

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Credibility & Sustainability

Expenditure Management Framework Adequacy – Page 33 to 34:

21. With regard to finance charges we have reached our borrowing limits and will not exceed the agreed gearing ratio of 70% (Standard Bank) and interest and redemption payments ratio of 15% of total operating expenditure (DBSA).
22. Library services rendered on behalf of Provincial Government is still an underfunded mandate of R6.569 million notwithstanding the library grant of R21.736 million for the 2018/19 financial year.
23. Housing services which is an area of concurrent National and Provincial legislative competence in terms of Schedule 4 of the Constitution of the Republic of South Africa is also an underfunded mandate of R48.2 million notwithstanding the human settlement grant of R101.8 million for the 2018/19 financial year.
24. Contracted services amounts to 12.0% of the 2018/19 operating expenditure budget compared with the NT norm of 2% to 5%. Breakup of expenditure on the next slide.

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Credibility & Sustainability

Breakup of Contracted Services

Row No.	Description	2018/2019 Draft Budget (R'000)	% of Total Contracted Services	% of Total Operating Expenditure	2019/2020 Indicative Budget	2020/2021 Indicative Budget
1	Human Settlement Contractors	101 810	36.3%	4.4%	134 020	60 160
2	Engineering Services Contractors	69 591	24.8%	3.0%	73 209	77 016
3	Community Services Contractors	16 188	5.8%	0.7%	17 030	17 915
4	Other Contractors	33 140	11.8%	1.4%	34 864	36 678
5	Total Contracted Services	220 729	78.8%	9.5%	259 123	191 769
6	Outsourced Services	19 154	6.8%	0.8%	20 149	21 197
7	Consultants and Professional Services	40 255	14.4%	1.7%	41 387	43 225
8	Grand Totals of Contracted Services	280 138	100.0%	12.0%	320 659	256 191
9	Total Operating Expenditure Budget	2 334 404	N/A	100.0%	2 580 854	2 684 170
10	The NT norm is 2% to 5% of total operating expenditure					

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Breakup of Consultants and Professional Services

Row No.	Description	2018/2019 Draft Budget	%
1	City Manager	R 257 833	0.6%
2	Department of the Chief Audit Executive	R 1 006 942	2.5%
3	Department of Risk and Compliance	R 642 402	1.6%
4	Department of IDP/PMS	R 1 222 691	3.0%
5	Department of Communication	R 302 156	0.8%
6	Department of Financial Services	R 4 591 279	11.4%
7	Department of Corporate Services	R 6 808 584	16.9%
8	Department of Community Services	R 147 319	0.4%
9	Department of Planning and Development	R 11 250 986	27.9%
10	Department of Engineering Services	R 14 025 127	34.8%
11	Totals	R 40 255 319	100.0%

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Credibility & Sustainability

25. Drakenstein Municipality had to provide R80 million from their operating budget to trigger the upgrade of the R301 to allow for developments along the R301. Drakenstein will recover some of this operating expenditure through bulk infrastructure levies over the next 10 to 20 years.
26. All of the above put additional pressures on the tax payers in Drakenstein Municipality and affect our cash flows.

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Finalisation of Budget

1. Closing date for comments on the Draft 2018/19 Operating and Capital Budget was 30 April 2018. Various written comments were received.
2. Budget Steering Committee will consider written comments on 10 May 2018 and make recommendations to the Executive Mayor.
3. MAYCO will consider comments from the Budget Steering Committee on 16 May 2018 and make recommendations to Council.
4. Council will approve final budget, tariffs and budget related policies on 30 May 2018.

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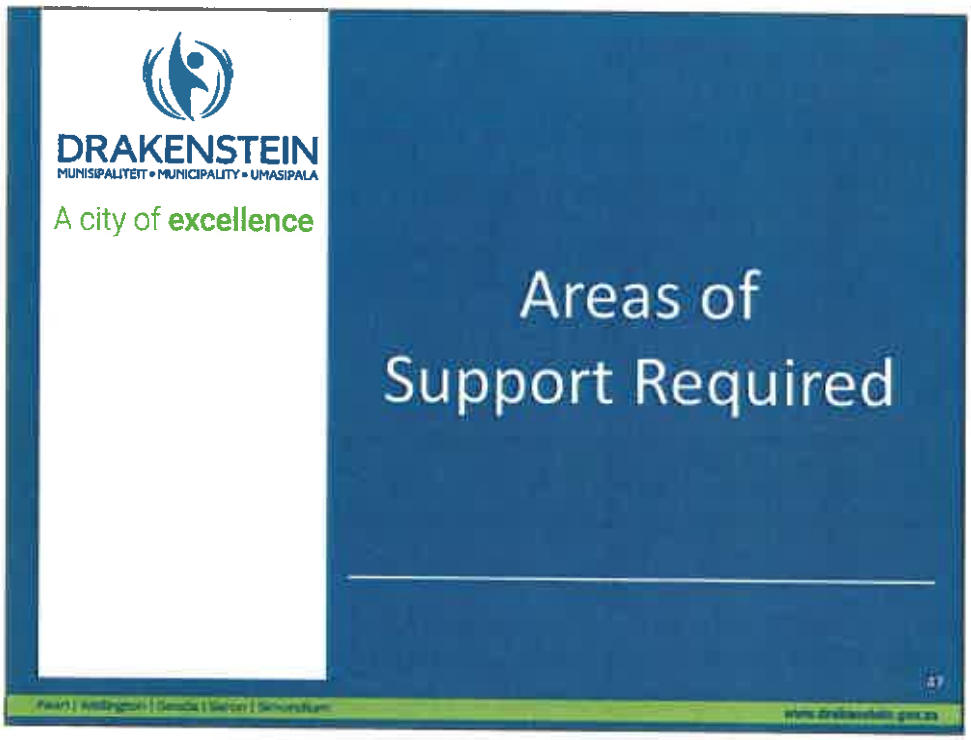

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Areas of Support Required

1. PT's assistance to do an assessment on the implementation of the Standard for Infrastructure Procurement and Delivery Management (SIPDM) in Drakenstein Municipality.
2. PT's assistance through the NT to convince the SARS that they must change our banking details – moved from Nedbank to FNB from 1 July 2017 – so that VAT due to Drakenstein Municipality can be paid.
3. Interventions from Department of Local Government for regional waste solutions within the Western Cape.
4. Information on lessons learned from the Knysna fire disaster.
5. Support for information of Provincial Government contact details to enhance the Whole of Society Approach (WOSA) initiative.

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Areas of Support Required

6. Any further drought relief funding for borehole programme to ensure that Drakenstein Municipality secure their own potable water at a level of 50kl per person per day to become independent from Cape Town's water controlled resources.
7. Additional MIG funding for the Vlakkeland catalytic housing project – alternatively USDG funding.
8. Additional Human Settlement Grant funding for serviced sites to allow households to erect their own top structure (formal or informal) on a site where electricity, water and sanitation would be available – there is an outcry for land and electricity.
9. Assistance from the Departments of Agriculture, Human Settlements and Local Government to solve the threatening eviction crisis that can explode like a time bomb.

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Partnering for Development

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Partnering for Development

1. **WOSA initiative.**
2. **VPUU initiative.**
3. **Klapmuts precinct development – Stellenbosch Municipality.**
4. **Social investment initiative with big business.**
5. **Drakenstein Smart Safety Network (DSSN) partnership between the municipality, the private sector and civil society organisations.**

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mSCOA

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mSCOA

1. Drakenstein Municipality as a pilot site implemented mSCOA on 1 July 2015 and has since focused on catching up to the (radical) ever changing mSCOA charts (versions 5.3, 5.4, 6.1 and now 6.2) and the subsequent requirements after pilot site implementation.
2. Little guidance was available for pilot sites. Subsequent to Drakenstein's implementation, various mSCOA circulars and other requirements were issued, to which piloting municipalities now also have to adhere to. Drakenstein now have to comply to what was not required at initial implementation.
3. For this reason Drakenstein is not at a place where mSCOA has fully facilitated the alignment of the planning process, projects and funding as what the vision of mSCOA is. Although projects start with the IDP, the allocation of mSCOA vote numbers and classifications is still a process controlled by the Budget Section and not by the user department through a budget allocation dropdown menu function – a serious risk.
4. The Western Cape Finance Management Support Grant of R255,000 allocated for integrating systems mSCOA wise will be fully utilised towards June 2018.

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Concluding Remarks

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Concluding Remarks

1. Housing (concurrent National and Provincial legislative competence) and library (Provincial legislative competence) functions performed by municipalities is still an underfunded mandate effecting the cash flows of municipalities.
2. Due to strict environmental legislation, landfill disposal sites is becoming a national and provincial crisis like the water supply crisis that cannot be ignored anymore.
3. Farm evictions is already a crisis threatening to explode like a time bomb.
4. The National Treasury's ratio on maintenance of assets needs to be reviewed. The repair and maintenance costs ratio of 8% of the carrying value of PPE for various reasons is not achievable. Two appropriate ratio's needs to be developed for monitoring purposes.
5. Cost containment "savings" to be reported on in terms of the Draft Costs Containment Regulations to be implemented from 1 July 2018 is not clearly defined in the Draft Regulations. No guidelines or formulas in the Draft Regulations speaks to this issue. No draft policy and draft standard operating procedures are developed to be implemented uniformly in SA.

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