THEEWATERSKLOOF MUNICIPALITY

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

Western Cape Government

MAY 2017

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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
DWA	Department of Water Affairs
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 Budget Implementation Plan
SDF	Spatial Development Framework
SOP	Standard Operating Procedure
SWMP	Stormwater Management Plan
VPUU	Violence Prevention through Urban Upgrading
WC	Water Conservation
WDM	Water Demand Management
WSDP	Water Service Development Plan
WTW	Water Treatment Works
WWTW	Wastewater Treatment Works

SECTION 1: EXECUTIVE SUMMARY

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, oversight and support role to municipalities as stipulated in 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 draft 2017/18 MTREF Budget, draft 2017 – 2022 Integrated Development Plan (IDP) and Spatial Development Framework (SDF).

The assessment covers the following key areas:

- 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 **10 May 2017** 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, SDF and various other strategies and plans.

An overview of the detailed assessment set out below provides the Municipality with a synopsis from each of the main sections of the report.

Outstanding findings from previous LG MTEC engagements

The low collection rate impacts on the Municipality's ability to generate own revenue.

The Municipality has set up a task team that will oversee Revenue Management to achieve a 90 per cent target collection rate.

Provincial Treasury provided funding to the Municipality to implement a Revenue Enhancement Project and the scope included strategies to improve the Municipality's collection rate. Most of the funding was spent in Grabouw and the payment % increase from 69 in Des 2015 to 73 in Des 2016

The payment % in Genadendal was 34% at the end of March 2017, due to the unresolved transformation.

Conformance with the MFMA, MSA and Municipal Budget and Reporting Regulations (MBRR)

The level of compliance with regards to the preparation and submission of the draft IDP, Draft SDBIP and Annual Budget details can be found in the Appendix that was issued to the Municipality on 6 April 2017.

Responsiveness of IDP, SDF and Budget

The Municipality's operating and capital allocations in the 2017/18 tabled budget respond well to the current service delivery reality. Operating allocations gradually increases across the MTREF as the Municipality anticipates increasing the number of households that receive basic services above the minimum service level. Significant capital allocations are further reflective of a proactive commitment to ensure the provision of new infrastructure and the longevity of the current bulk infrastructure over the MTREF.

Credibility and Sustainability of the Budget

The deficit budget is on an increasing trend coupled with a stagnating revenue base, low collection rate of 90 per cent which can be exacerbated by the current economic outlook, growth in indigent households, housing challenges caused by growth in informal settlements, infrastructure and maintenance pressures raises the financial sustainability risk.

SECTION 2: PREVIOUS UNRESOLVED LG MTEC FINDINGS

The table below provides a summary of the previous LG MTEC findings, the response from the Municipality and the progress to date.

Table 1: Previous unresolved LG MTEC Findings

Critical Focus Area	Way Forward/Comment	Progress
Local Government Finance		
The low collection rate impacts on the Municipality's ability to generate own revenue.	The Municipality has set up a task team that will oversee Revenue Management to achieve a 90 per cent target collection rate.	**Ongoing.** As per the Management report 2015/16, the debtors' collection period has slightly regressed from 38.3 days (2014/15) to 39.2 days (2015/16) and furthermore the collection period (after impairment) was above the norm of 30 days. As at 28 February 2017, Overdue debtors (over 90 days) constitute 83.2 per cent of the total outstanding debtors and it indicates a month-on-month increase of 2.4 per cent but a significant year-on-year increase of 18.7 per cent. Based on the 2016/17 LG MTEC outcomes, Provincial Treasury provided funding to the Municipality to implement a Revenue Enhancement Project and the scope included strategies to improve the Municipality's collection rate.

SECTION 3: COMPLIANCE REVIEW

This section outlines the level of compliance with the preparation and submission of the draft IDP, Draft SDBIP and Annual Budget. The detail can be found in the Appendix that was issued to the Municipality on 6 April 2017.

Table 2: Level of compliance

No.	Document description	Level of Compliance	Comments	Response
1.	Draft IDP	The Theewaterskloof Municipality's 2017 - 2022 Draft IDP was tabled and approved by Council on 31 March 2017. The 2017 - 2022 Draft IDP complies with all of the requirements in terms of the Municipal Systems Act (Act 32 of 2000).	• It is recommended that the Final Adopted 2017 - 2022 IDP should reflect the basic land use management guidelines and the Theewaterskloof Municipality to take cognisance of the provisions of Regulation 2 of the LG: Municipal Planning and Performance Regulations that gives detail to the Spatial Development Framework component of the IDP. • It is recommended that the Final Adopted 2017 - 2022 IDP should include the budget projections for the next 3 years. • It is recommended that the Final Adopted 2017 - 2022 IDP should include the Disaster Risk Assessment.	We take note of the comment regarding land use management guidelines. A section will be compiled for the final IDP that contains the principles of the Spatial Planning and Land Use Management Act, as well as the Western Cape Land Use Planning Act, that guide land use management.
2.	Budget related policies: Budget Management implementation and management policy	Not compliant.	No Budget Management implementation and management policy was presented as required by the MBRR in relation to budget related policy.	A Budget Management Policy will be develop during the 2017/2018 financial year and implemented for the 2018/2019 budget year

SECTION 4: INTEGRATED PLANNING

4.1 INTRODUCTION

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, within a prescribed period after the start of its elected term, adopt a single, inclusive and strategic plan for the development of the Municipality.

The 2017 - 2022 IDP provides strategic direction for all the activities of the Municipality over the next five years and is linked to the council term of office. The 2017 - 2018 approach takes into consideration the integration of social, economic and environmental concerns through an analysis of environmental and socio-economic issues, the formulation of strategic development objectives, and the development of assessment and prioritisation criteria, the setting of indicators, targets and performance assessment.

4.1.1 Strategic Overview of the IDP (4th Generation IDP)

The Theewaterskloof Municipality adopted a Process Plan that guides the drafting of the 2017 - 2022 IDP on 24 August 2016 that details specific timeframes, the structures involved in the 2017 - 2022 IDP drafting and reviewing process. It also notes the mechanisms and procedures established for public consultation.

The Municipality has a clear developmental vision that takes cognisance of the Municipality's long-term development and internal transformation needs. The 2017 - 2022 Draft IDP reflects a detailed situational analysis of the internal and external environment that indicates the Municipality's demographic profile and the development challenges that the Municipality faces.

The Theewaterskloof Municipality 2017 - 2022 Draft IDP indicates an analysis of the socio-economic profile and service delivery backlogs within the municipal jurisdiction. The Municipality reflects adequate strategic alignment with national and provincial plans and policies and in terms of relevant legislation. The 2017 - 2022 Draft IDP reflects a Spatial Development Framework and a Financial Plan, however, the 2017 - 2022 Draft IDP does not include the basic land use management guidelines and budget projections for the next three years respectively. The 2017 - 2022 Draft IDP has indicated alignment of the council's sectoral operational strategies in the 2017 - 2022 Draft IDP. The 2017 - 2022 Draft IDP reflects a Top Layer Service Delivery and Budget Implementation Plan (SDBIP) that highlights the key performance indicators and service delivery targets for the next 5 years.

4.2 MUNICIPAL INFRASTRUCTURE

4.2.1 Basic Service Provision

The 2017 - 2022 Draft IDP reflects that certain infrastructure and bulk service operations have already exceeded its design capacity, this poses a challenge to the Municipality in terms of fulfilling its long-term development needs and the backlog infrastructure is estimated at R473 969 409.00. The Municipality's strategic objectives indicate the Municipality's commitment to ensure a continuous, sustainable and upgrading of municipal infrastructure.

The 2017 - 2022 Draft IDP make reference to the priority list of projects to address the municipal backlogs. The Municipality indicates a list of sector plans which must be aligned to the SDF and furthermore, the 2017 - 2022 Draft IDP emphasises that the council's strategies must be aligned with national or provincial sector plans and planning requirements must be binding to the Municipality in terms of the legislation. The 2017 - 2022 Draft IDP indicates that the Municipality remains committed to support the private landowners with regards to addressing the basic water services backlog that still exist on the farms in the rural areas

4.2.2 Municipal Infrastructure Planning

The Municipality provides a detailed overview regarding the status quo of the existing infrastructure and the infrastructure needs per town. The 2017 - 2022 Draft IDP indicates that the growth needs of the Municipality are addressed by looking at Local Economic Development initiatives such as job creation and skills development by means of capacity building. The Municipality mentions that part of its strategic objectives are to ensure the alignment of financial viability, local economic development and infrastructure development. The 2017 - 2022 Draft IDP makes reference to forward planning initiatives that focus on the integration with Human Settlements in relation to basic services such as water, sanitation and electricity.

4.3 TRANSPORT AND ROADS

The 2017 - 2022 Draft IDP indicates that the development and adoption of the Integrated Transport Plan (ITP) was facilitated through the Overberg District Municipality. The Municipality's Pavement Management System (PMS) was completed in 2007 and was last updated during the 2013/14 financial year. The Municipality has indicated that due to the ageing of current infrastructure, the focus has shifted from only upgrading of roads from gravel to paved, and now also includes rehabilitation, resealing and maintenance projects funded out of capital funding and roads are being upgraded on a contract basis. A five-year maintenance programme with priorities and budget allocation is available in the PMS as well as the ITP.

4.4 HUMAN SETTLEMENTS

The 2017 - 2022 Draft IDP demonstrates a policy shift towards incremental upgrading rather than focusing primarily on green field developments where top structure projects are prioritised.

With the assistance of the National Upgrading Support Programme interventions have been identified to promote right of tenure and prioritise the provision basic services in informal settlements. This approach aligns with the Department of Human Settlements (DHS) Strategic Goals to shift more resources towards the incremental upgrading. The 2017 - 2022 Draft IDP acknowledges the importance of exploring other housing programmes such as affordable and rental options, which could positively contribute towards the financial viability of this Municipality where assistance is considered for ratepayers in the lower end of the housing market.

The 2017 - 2022 Draft IDP provides a comprehensive breakdown of all housing backlogs and projects envisaged for funding in 2017/18 and the outer years. This aligns to the business plan which supports the DHS strategy to priorities informal settlements upgrading. The projects envisaged also allow an opportunity for sector Departments to collaborate and synchronise funding so that scarce public resources are strategically invested where it will generate the highest socio-economic returns.

4.5 DISASTER MANAGEMENT

The 2017 - 2022 Draft IDP reflects that the Municipality has a Disaster Management Plan in place, however, the Municipality makes no mention or prioritisation for 'Disaster Risk Reduction' initiatives as well as to a Disaster Risk Assessment.

Recommendations:

- It is recommended that the Municipality makes provision for Disaster Risk Reduction as part of pro-active response in the Final Adopted 2017 - 2022 IDP.

  It is recommendation is noted and will be included with the final IDP.

- The Final Adopted 2017 - 2022 IDP should include/utilise the Disaster Risk Register template for capturing developmental risk (high risk planned developments) that may require disaster mitigation.

  It is recommendation is noted and will be included with the final IDP.

4.6 LOCAL ECONOMIC DEVELOPMENT

The 2017 - 2022 Draft IDP states that the priority of the Municipality is to create an enabling environment, which allows existing businesses to be maintained, whilst attracting new investment into the area through various interventions like SMME Development, the rollout of the Municipality's land disposal strategy and also, the implementation of a youth development strategy to ensure adequate skills are available for the labour market.

The 2017 - 2022 Draft IDP offers a sector break-down of the primary (agriculture, forestry and fishing), secondary (manufacturing and construction) and tertiary (commercial services). The secondary sector is considered to be the fastest growing sector, compared to the primary sector, the slowest growing sector. Part of the Municipality's strategic LED objective is the commitment to the empowerment of Small, Medium and Micro-Enterprises through the provision of LED training.

As part of the Municipality's LED's vision, strategy and action plan the cooperation and collaboration consisting of support and learning from different sectors, including the private and public sector. This also includes the cooperation of neighbouring communities and municipalities which are essential to successful implementation of the LED strategy.

The 2017 - 2022 Draft IDP indicates that the Municipality is committed to eliminating poverty through job creation. This can be accomplished by the implementation of different programmes focusing on job creation such as the 2030 Agenda for Sustainable Development, the Expanded Public Works Programme and the Youth Development Strategy.

4.7 AGRICULTURE

The 2017 - 2022 Draft IDP provides some basic information on the Gross Domestic Product and employment in the agricultural sector, however given Theewaterskloof having a strong agricultural component, the Municipality is encouraged to expand on the information relating to agriculture in the Final Adopted 2017 - 2022 IDP especially in relation to the growth in population, linked to employment, food security, housing and basic service provision on farms.

The 2017 - 2022 Draft IDP does not provide information on the agricultural land use potential or any other relevant agricultural economic information. The 2017 - 2022 Draft IDP does identify agri-processing as an opportunity in the Municipal SWOT analysis, but does not expand on this aspect.

The Municipality is encouraged to align to the Provincial Project Khulisa and the proposed agri-processing interventions contained in this programme, thereby contributing and aligning to the Provincial PSG 1 Strategy to create opportunities for growth and jobs.

The Municipality reflects a comprehensive demographic profile of the population, however, the socio economic conditions of the rural population specifically agri-workers on farms cannot be analysed from this profile.

Recommendations:

- The Municipality is encouraged to include the agricultural database information provided by the DoA and include crop, agri-Infrastructure; land use and agri-tourism information in the Final Adopted 2017 - 2022 IDP.

  It is recommendation is noted and will be included with the final IDP.

- The Municipality is encouraged to take note of and to incorporate some relevant information documented in the report from the Farm Worker Household Census conducted by the DoA during 2015/16 in the Overberg region, in the Final Adopted 2017 - 2022 IDP.

  It is recommendation is noted and will be included with the final IDP.

4.8 SOCIAL SERVICES (EDUCATION, SAFETY AND SECURITY, CULTURAL AFFAIRS AND SPORT, SOCIAL DEVELOPMENT)

4.8.1 Safety and Security

The programmes, projects and the use of crime statistics analysis data in determining crime prevention strategies in the area in the 2017 - 2022 Draft IDP is noted. The importance of communities and promotion of safety with the linkage to the National Development Plan, the Provincial Strategic Plan, specifically PSGs is noted. The 2017 - 2022 Draft IDP reflects explicitly the basket of services offered by the Department of Community Safety including Chrysallis and Wolwekloof Youth programmes, safety kiosks, Youth and Safety Religious programme, Community Police forum training, Community Safety Plans. The establishment of Community Safety Forums and Public Safety Workgroups in improving partnerships is recognised.

The need for electrification of certain areas and the partnership with the Violence Prevention through Urban Upgrading (VPUU) impacting on open spaces is significant for community safety as noted in 2017 - 2022 Draft IDP. The Municipality mentions the development of by-laws to increase issues of safety.

4.8.2 Cultural Affairs and Sport

The 2017 - 2022 Draft IDP indicates that the Municipality's priorities include partnering with the private sector to promote its LED and social development projects with amongst functions such as Arts and Culture. The 2017 - 2022 Draft IDP further reflects that the Riviersonderend Turnaround Strategy should include the encouragement of performing arts through strengthening its partnership with Department of Cultural Affairs and Sport.

The 2017 - 2022 Draft IDP indicates that the Municipality has established a proper, functional and efficient Record Management System. The 2017 - 2022 Draft IDP reflects the need for upgrading or new sports facilities in almost all the wards.

4.9 INSTITUTIONAL DEVELOPMENT AND TRANSFORMATION

The 2017 - 2022 Draft IDP illustrates the Municipality's Macro Structure with functional areas responsible by each director. However, there is no indication as to whether or not the Macro Structure shown has recently been reviewed and adopted by council. There is no indication whether all senior management posts are filled to show that there is leadership stability to implement the IDP.

The 2017 - 2022 Draft IDP shows that the vacancy rate is at 3 per cent which is very low and a positive sign of achieving the strategic objectives as set out in their IDP. The 2017 - 2022 Draft IDP reflects that there is a culture of performance management and the sense of accountability both at an organisational and individual level. The Service Delivery and Budget Implementation Plan (SDBIP) is highlighted as a performance management instrument tool and the individual performance management system is implemented up to the section 56 level. However, there is no clear indication of the plan to roll out individual performance management to all employees in the Municipality.

Recommendations:

- The Municipality to indicate as to whether or not the Macro Structure has been reviewed and adopted by council in the Final adopted 2017 - 2022 IDP.
- The Final Adopted 2017 - 2022 to reflect the status of appointment of all senior manager posts which is required for the implementation of the 2017 - 2022 IDP.
- That the Municipality develop/draft a plan to cascade performance management down to all employees.

4.10 JOINT PLANNING INITIATIVES

The 2017 - 2022 Draft IDP makes no specific reference to the Joint Planning Initiatives (JPIs).

Recommendations:

- The Municipality should provide a list of all JPI projects being implemented in the Final Adopted 2017 - 2022 IDP.
- It is recommended that the 2017 - 2022 Final Adopted IDP and all subsequent IDP Reviews provide the status of JPIs as well as a High Level Action Plan for the implementation of the JPIs within the Municipality.

SECTION 5: ENVIRONMENTAL AND DEVELOPMENT PLANNING ANALYSIS

5.1 SPATIAL DEVELOPMENT ANALYSIS

5.1.1 Planning Intelligence, Management & Research

The IDP is clear on its strategic intent and the strategic objectives of the Municipality, and the 2017 - 2022 Theewaterskloof Draft IDP provides a firm foundation towards achieving an IDP that will serve as a cohesive integrated strategic plan to enable growth and development, and bring about transformation within the Municipality.

The IDP is the principle plan to coordinate an integrated response to the current realties of Theewaterskloof, taking development, policy and transformation objectives and imperatives into account. The SDF (being a core component of the IDP) ought to give effect, inter alia to the spatial governance matters of coordination, spatial targeting, alignment and sequencing of interventions in accordance with sequenced implementation and action plans and strategies in the IDP and SDF. The importance of having planning instruments that are aligned and up to date in place for Theewaterskloof Municipality is paramount in this, the Land Use Planning Act (LUPA) 2014 and Spatial Planning and Land Use Management Act (SPLUMA) 2013 dispensation, and given the dynamic context of Theewaterskloof.

In order to fully reflect on the current reality, and to become outcomes focussed and performance oriented, it is recommended that both the IDP and SDF reflect on the most recent relevant and up to date information and data, inclusive of legislative imperatives, key frameworks and policy imperatives at provincial, national and even international level in an integrated and cohesive manner. It is also recommended that the findings in the situational analysis are explicitly linked with the respective strategies.

The SDF 2012 in particular does not reflect the most recent current situation and policy linkages which detracts from the ability of the IDP to establish the linkages and achieve the alignment required between the IDP and the SDF (as a core component of the IDP), including alignment between the IDP and the SDF implementation plans.

Whilst the IDP makes a deliberate effort to incorporate some of government's strategies and plans but it is recommended that the most recent information on provincial and national investments over the MTEF be incorporated to enhance the responsiveness of the IDP in support of a culture of integrated and joint planning.

5.1.2 Spatial Planning

It has been noted that the Theewaterskloof SDF does not contain a capital investment framework. A proposed (unfunded) Local Area Plan for Tesselaarsdal is mentioned in the IDP, but as there is no capital investment framework to consider its alignment.

Having looked at the Theewaterskloof IDP it is not evident that the IDP budget contains any other programmes or projects related to spatial planning.

There is some confusion with respect to the IDP budget as projects are captured as 'funded' and others as 'unfunded'? In addition, the Tesselaarsdal and Riviersonderend Turnaround Strategies' projects appear separate from the IDP budget and with varying levels of information, i.e. budgets are indicated for Tesselaarsdal projects but not Riviersonderend projects. The Violence Prevention through Urban Upgrade VPUU projects also appear separately and it is not clear whether the funding for the proposed VPUU projects have been confirmed as they are indicated as 'estimated budgets' but also as 2017/18 priorities. Collectively these things have made the assessment of the implementation of the (SPLUMA) principles difficult.

5.2 BIODIVERSITY MANAGEMENT

Theewaterskloof SDF considers the Critical Biodiversity Areas (CBAs) and Ecological Support Areas (ESAs) in Spatial Planning Categories, and protected areas are mentioned, see Plan 10.1 and 10.2 of the SDF. The Municipality has a budget allocation for environmental protection, although there is no line item for Biodiversity conservation initiatives or alien clearing effort. The Municipality is thus encouraged to set aside budget to develop the Alien Invasive Control management plan in compliance with the provision of National Environmental Management: Biodiversity Act (NEM: BA).

5.3 CLIMATE CHANGE

Climate change is a transversal issue and will impact on all line departments in the Municipality. As such, climate change responses need to be fully integrated into project design, planning and budgeting phases of all projects in order for the Municipality to respond to climate change as well as to enhance its decision-making.

Unless specifically stated, a review of the tabled budget cannot indicate whether climate change considerations have been included in these projects and budget development; it is however not the intention for climate change to be a line item in the municipal budget. A much greater level of sector engagement and understanding is required in order to assess the extent of climate change mainstreaming into budgets.

The Municipality is encouraged to review the Climate Change Advisory document sent in September 2016 providing information on how climate change can be mainstreamed into budgets and project planning.

5.4 AIR QUALITY MANAGEMENT

A budget allocation for Air Quality Management needs to be secured in the IDP. Funds should ideally cover the following: air quality monitoring (passive or continuous monitoring of air pollutants), staff training and implementing air quality intervention strategies. Further, where Air Quality Management By-laws are not developed, funds must be secured for such development and adoption by their Council.

Monitoring of ambient air quality and point, non-point and mobile source emissions enables municipalities to report on its compliance with ambient air quality standards.

Awareness raising promotes community well-being and empowerment, and emphasises the adverse impacts of air pollution, climate change and ozone layer protection, human health and the environment; and the benefits of clean air.

5.5 WASTE MANAGEMENT

5.5.1 Waste Management Licensing

The Theewaterskloof Local Municipality has eight (8) operational facilities, including five (5) Waste Disposal Facilities (WDFs), one (1) Drop-off Facility, and two (2) Refuse Transfer Stations (RTSs). Material Recovery Facilities at Caledon and Villiersdorp are required to achieve the diversion target of 20 per cent by 2019. In addition, a Transfer Station at Riviersonderend, and Public Drop-off for Greyton or Genadendal are required to remain compliant by 2030.

The Caledon WDF was last audited on 1 June 2016 and received a Departmental Compliance Audit score of 54.41 per cent. The total cost of required infrastructure to enable the Caledon WDF to comply with conditions of their permit/waste management licence will be approximately R25 090 679.48.

The Genadendal WDF was not audited in the last year. The total cost of required infrastructure to enable the Genadendal WDF to comply with conditions of their permit/waste management licence will be approximately R8.869 million.

The Greyton WDF was not audited in the last year. The total cost of required infrastructure to enable the Greyton WDF to comply with conditions of their permit/waste management licence will be approximately R9.130 million.

The Riviersonderend WDF was last audited on 3 February 2016 and received a Departmental Compliance Audit score of 25.61 per cent. The total cost of required infrastructure to enable the Riviersonderend WDF to comply with conditions of their permit/waste management licence will be approximately R8.780 million.

The Villiersdorp WDF was last audited on 21 May 2016 and received a Departmental Compliance Audit score of 31.8 per cent. The total cost of required infrastructure to enable the Wellington WDF to comply with conditions of their permit/waste management licence will be approximately R10.809 million.

The Botrivier Drop-off Facility was not audited in the last year. No costs necessary for compliance.

The Grabouw RTS was not audited in the last year. Upgrade construction will take place in 2016 that will simultaneously provide infrastructure to be compliant. The total cost is estimated at R5.290 million.

The Villiersdorp RTS was not audited in the last year. The total cost of required infrastructure to enable the Villiersdorp RTS to comply with conditions of their permit/waste management licence will be approximately R200 904.

5.5.2 Waste Management Planning

Theewaterskloof Municipality must budget for the development and implementation of their 3rd Generation Integrated Waste Management Plan within their 4th Generation IDP.

5.5.3 Waste Information Management

In accordance with the National Environmental Management: Waste Act (59/2008): National Waste Information Regulations all municipalities with be required to submit actual quantities of waste for the different activities they are registered for on IPWIS from 2018. It is therefore imperative that municipalities are therefore required to allocate funding and make provision for the acquiring of such equipment in their municipal budgets for the financial year 2017/18.

Municipalities who currently make use of a waste estimation system, will have to make provision for the acquiring of equipment to obtain actual weights.

They following waste management facilities are required to register on IPWIS and reporting is currently **Partially Compliant**:

- Caledon Landfill;
- Genadendal Landfill;
- Riviersonderend Landfill; and
- Greyton Landfill

The following landfill facilities are not required to register on IPWIS but must continue capturing and reporting on the data from these facilities to the department on a monthly basis:

- Grabouw Drop-off;
- Botrivier Drop-off; and
- Villiersdorp Transfer Station

5.5.4 Waste Policy & Minimisation

The Municipality has made budget allocations for waste for 2017/18, 2018/19, and 2019/20. They have indicated a budget for Waste Systems as well as Waste Initiatives. The IDP mentions that waste avoidance through education and public awareness is a top priority and the IWMP report of September 2014 has a dedicated section on public awareness and education. This section however states that *costs are to be determined*. Thus, due to the fact that the IWMP Report was drafted in September 2014, further enquiry is required to find the associated costs.

5.6 POLLUTION AND CHEMICALS MANAGEMENT

Concerns related to Theewaterskloof - While the majority of the WWTW in Theewaterskloof has achieved GreenDrop status (last recorded 2013), two WWTW remain concerning namely Greyton and Riviersonderend. No upgrades are planned for these Works as per the IDP and budgetary information. Both these Works have been identified by both the DWS and the DEA&DP as environmental and human health concerns; where numerous site visits and meetings conducted with municipal officials in an effort to bring about change. No budget allocations and/or RBIG/MIG funding has been applied for to upgrade these two WWTWs.

SECTION 6: ASSESSMENT OF THE BUDGET RESPONSIVENESS

6.1 SOCIO-ECONOMIC RESPONSIVENESS AND IMPACT

6.1.1 Introduction

This section examines if the tabled 2017/18 MTREF Budget is responsive from an economic and socio-economic perspective and whether the Municipality is able from its limited resources to meet the legitimate expectations of the community for services.

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.

After a bleak performance in 2016, the National Treasury forecasts anticipates growth to accelerate by 1.3 per cent in 2017 and further by 2 per cent in 2018.[1] The recovery is anticipated to be driven by higher consumer spending and, in 2018, an improvement in fixed investment. From the production side, higher output in the agricultural sector could filter through to other sectors of the economy, including manufacturing.

However, apart from the challenges brought about by subdued commodity prices, a number of other challenges are having an impact on the economy, such as the drought (causing increases in domestic food prices) and the currency depreciation, high inflation, and uncertainty in international markets (due to Brexit and the slowing down of the Chinese economy).

The recent downgrading of South Africa's sovereign credit rating to sub-investment grade ("junk status") by Standard & Poor and Fitch rating agencies also may have further economic and fiscal implications. A country with a junk status rating is seen as being a risk for defaulting on its debt. Possible consequences of the downgrade to sub-investment grade ("junk status") may result in higher borrowing costs and debt services costs, a weaker exchange rate and lower investment potential and therefore lower economic growth. Increasing inflationary pressures as a result of depreciating exchange rate and any potential increase in the interest rate will put further pressure on government departments, municipalities, households and businesses. As a result, the already constrained fiscal framework may be negatively affected by the recent credit downgrade.

[1] Western Cape Government, 2017 Budget Summary

6.1.2 Overview of the socio-economic context/environment

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.

Table 3: Municipal Overview

Area	Population size			GDP	
	2011	2015	Average Annual Growth	GDP (R in Million) 2015	GDP Per capita
Western Cape	5 822 734	6 125 538	1.3%	391 573	63 925
Overberg District	258 176	273 395	1.4%	13 331	48 761
Theewaterskloof	108 790	114 780	1.3%	5 401	47 055

Source: SEP-LG 2016 and own calculations

Comments[2]

- Theewaterskloof's economy (R5.401 billion in 2015) grew by an average of 4.5 per cent between 2004 and 2015, this is above the District average of 3.96 per cent. Average post-recession growth (2009 - 2015) was a weaker 3.3 per cent.

- Theewaterskloof's population growth was at an average annual rate of 1.3 per cent between 2011 and 2015 which is slightly lower than the District and on par with the average for the Western Cape.

- The country's unemployment challenge, which goes hand in hand with poverty, also affects the Theewaterskloof area. The Province's unemployment rate only fell slightly between 2011 (21.6 per cent) and 2016 (20.5 per cent). This affects the GDP per capita for the area which is well below the average for the province. Supporting Schedule SA9 in the budget subsequently outlines the social, economic and demographic statistics that informed the current 2017/18 MTREF budget allocations.

[2] Provincial Treasury – SEP-LG 2016

Table 4: Social and economic statistics and assumptions (SA9 information)

	Municipal information, SA9	Comment (Compare to 2016 MERO/ SEP-LG information)
Household numbers		
Number of households in municipal area	28 884	33 097
Definition of poor household (R per month)	No data provided.	< R4 200
Housing		
Formal	23 194	25 649
Informal	5 690	7 144
Total	28 884	32 793
Monthly household income		
No income	3 408 (11.8%)	11.8%
< R3 200 per month	16 658 (57.7%)	13.8% (approx.)

Comments/Risks

- The numbers used in the SA9-Schedule differs from the data provided in the Municipality's draft 2017 - 2022 IDP. Wherever possible, these numbers should align.

  The 2011 census data was used in the SA9 schedule, and the 2016 Stats SA Community Survey was used in the IDP. The 2016 Stats SA Community Survey could not be used in the SA9 schedule, as it does not contain all the information as required in the SA9 schedule.

- Demographics and household data provided in SA9 reflects Stats SA 2011 Census data. More recent data is available in the Stats SA Community Survey 2016 especially with regards to current household data as this has budgetary implications for the calculating of the provision of services for the MTREF.

  The 2016 Stats SA Community Survey does not contain all the information as required in the SA9 schedule.

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

The 2017/18 MTREF budget breakdown in terms of the strategic objectives is indicated in the table below. Theewaterskloof Municipality budgeted for a total operating expenditure of R498.831 million and a total capital budget of R89.557 million in the 2017/18 financial year.

Table 5: Strategic Objectives for the 2017/18 Medium Term Revenue & Expenditure Framework

Strategic Objective	2017/18 Medium Term Revenue & Expenditure Framework OPEX			2017/18 Medium Term Revenue & Expenditure Framework CAPEX			2017/18 Medium Term Revenue & Expenditure Framework TOTAL		
R thousand	**Budget Year 2017/18**	**Budget Year 2018/19**	**Budget Year 2019/20**	**Budget Year 2017/18**	**Budget Year 2018/19**	**Budget Year 2019/20**	**Budget Year 2017/18**	**Budget Year 2018/19**	**Budget Year 2019/20**
Financial Viability	36 948	39 175	41 528	42	0	0	36 990	39 175	41 528
Good Governance	33 784	35 795	37 926	0	0	0	33 784	35 795	37 926
Institutional Development	40 292	42 660	45 164	1 090	0	0	41 382	42 660	45 164
Basic Service Delivery	381 556	417 509	448 149	88 425	38 440	43 938	469 981	419 996	492 087
Local Economic Development	6 251	6 625	7 021	0	0	0	6 251	6 625	7 021
Total Expenditure	**498 831**	**541 764**	**579 788**	**89557**	**38440**	**43938**	**588 388**	**544 251**	**582 198**

Source: Theewaterskloof Municipality 2017/18 tabled budget

Comments

Theewaterskloof Municipality's new five-year IDP clearly defines the strategies and plans of the Municipality to deliver their vision of developing a sustainable environment and an economy with the ability to create working and wealth opportunities for all.[3]

The strategic objectives noted in Budget Tables SA5 and SA6 for the 2017/18 MTREF are mostly aligned to the new draft IDP's strategic objectives. There is one strategic goal, namely SO13 that is reflected in the IDP but not in the budget. This should be corrected.

For each strategic goal it has shown specific alignment to national and provincial plans and policies sections, including the National Development Plan (national), the Medium Term Strategic Framework 2014 - 2019 (national) and the Western Cape Provincial Strategic Plan 2014 - 2019 (provincial).

The majority of the 2017/18 total budget spending is allocated to the strategic objective 'Basic Service Delivery'. The bulk of this allocation is for the provision of new bulk infrastructure to service the new low cost housing developments planned for the municipal area as well as the upgrading of aged and deteriorated bulk infrastructure. Strategic objective, 'Institutional Development' has the second biggest allocation at R41.382 million or 7.0 per cent of the total budget.

[3] Theewaterskloof Municipality draft IDP 2017 - 2022

6.2 BUDGET RESPONSIVENESS ASSESSMENT

The assessment of local government sustainability will analyse the use of various levers, (namely; infrastructure, LED, skills development and provision of basic services) within the Municipality's control that support economic growth, employment and improvements in the quality of life and how the Municipality optimally allocates the existing resources within its budget in order to effect inclusive growth and therefore contributing to economic sustainability over the long term.

6.2.1 Economic growth

(1) Current reality[4]

- Theewaterskloof grew at an average of 4.5 per cent between 2004 and 2015. This is above average for the district, although post-recession growth (2009 - 2015) was weaker at 3.2 per cent.

- The largest sectors within Theewaterskloof in 2015 were Finance, insurance, real estate and business services (21.7 per cent), Wholesale and retail trade (19.8), and Manufacturing (14.9 per cent).

- The fasting performing sectors from 2004 - 2015 were Construction (9.5 per cent), Finance, insurance, real estate and business services (8.8 per cent) and Manufacturing (6.0 per cent).

(2) Budget Implications and Conclusions

Infrastructure development:

- Whilst Theewaterskloof Municipality faces significant pressure from its increasing population placing demands on the Municipality's infrastructure and capacity to deliver services, the Municipality is also challenged with old infrastructure which is in need of constant maintenance or replacement. In 2017/18, the Municipality has a total capital budget of R89.557 million (R38.440 million in 2018/19 and R43.938 million in 2019/20). Of this total, R50.961 million or 56.9 per cent is allocated to the provision and maintenance of basic infrastructure in 2017/18.

- The top ten capital projects for 2017/18 make up 48.8 per cent of the total capital budget. These include projects the upgrade of stormwater infrastructure, water supply infrastructure, waste water treatment works, outfall sewer and electrical network upgrades and the development of a new access road for Destiny.

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[4] MERO 2016 Theewaterskloof

- Major capital projects for the MTREF outer years include the upgrade of the WWTW for Caledon and the development of new water supply infrastructure for Villiersdorp amongst others.

- A large proportion of the capital budget in 2017/18 is allocated to the provision of bulk infrastructure to service the five new housing developments. The remaining allocation mainly focusses on the upgrading of rapidly deteriorating infrastructure. It is therefore clear from the manner in which the budget is allocated that the focus of the Municipality for the MTREF will be on repairing, maintaining and upgrading its infrastructure. This has twofold implications as it allows the Municipality to deliver on its mandate of delivering basic services but also improves the potential for the Municipality to increase its revenue collection from the ability to deliver consistent services.

- Due to the new housing developments, it is clear from the MTREF budget that the capital budget allocations will be required to fund the infrastructure needed to support the housing developments. However, the Municipality should be cautioned that the beneficiaries of the new housing developments will most likely qualify for indigent support which will place extra pressure on the municipal resources without any revenue generation from the provision of these services. This could have an effect on the sustainability of the Municipality in the long term.

Local Economic Development:

- The draft 4th Generation IDP indicates that the Municipality has a comprehensive Strategy called 'Theewaterskloof 2030' in place. One of the key goals of the strategy is to 'To create a vibrant and productive economy that attracts entrepreneurs and investors and is able to meet the needs of workers and work seekers'.

- The Municipality intends to stimulate economic growth and development through various programmes such as - encouraging investors to invest in Theewaterskloof (Labour intensive work opportunities in textile industry and agri-processing), the roll out of Land Disposal Strategy, develop entrepreneurs, the review of the tourism structure and SMME/contractor development linked to capital projects. This is a good mix of initiatives to facilitate economic development in the area.

- Another major focus will be the supporting of the informal economy through developing a strategy on township economy, a 'Box Park' Development, creating opportunities for trade within the residential areas and making make regulations more informal economy friendly.

- The 2017/18 budget has two strategic goals dedicated to local economic development with a total budget allocation of R6.251 million in 2017/18, R6.625 million in 2018/19 and R7.021 million in 2019/20. This will be spent on social and economic development, tourism promotion and destination marketing and SMME development and support initiatives.

- There is no mention in the IDP or the budget narrative of the Municipality's consideration of regional economic development and its linkages to surrounding areas. While local initiatives are commendable, economic development should have a holistic approach that includes regional development strategies and partnerships.

6.2.2 Employment

(1) Current reality

- In 2015, 48 022 people were employed in Theewaterskloof. The economic sectors that employed the largest proportion of workers were Wholesale and retail trade, catering and accommodation (12 375 or 25.8 per cent), Finance, insurance, real estate and business services (8 569 or 17.8 per cent) and Community, social and personal services (7 455 or 15.5 per cent).

- When considering the skill level of the formally employed (2015) in Theewaterskloof, 37.6 per cent of the employed were low skilled and 47.3 per cent semi-skilled; the skilled segment made up only 15.1 per cent. Growth in skilled employment (2004 - 2015) grew by approximately 2.4 per cent, while semi-skilled employment grew by 1.9 per cent and low skilled employment levels shrunk by 3.8 per cent.

(2) Budget Implications and conclusions

One of the biggest challenges in South Africa, high unemployment levels, is also the reality for Theewaterskloof. The Municipality is faced with challenges such as the seasonality of the employment opportunities available through agriculture and an influx of low-skilled migrants. The Municipality has committed through its IDP to create an environment conducive to business development and job creation.

- The Municipality intends to explore opportunities to mainstream labour intensive approaches to delivering services through its substantial capital budget particularly through the Grabouw Sustainable Development initiative. This initiative is expected to generate in excess of R500 million in revenue for the town and thereby create significant temporary employment from the construction sector and a number of permanent job opportunities as well.

- In the 2017/18 budget, the Municipality has been allocated a total of R1.621 million for the EPWP project which is an increase from the R1.104 million budget in 2016/17. This allocation will contribute to poverty alleviation by providing contract employment to those in need over the short term. There is no indication in the draft IDP or the SDBIP how many opportunities will be created with this allocation.

- Whilst job creation is not exclusively the mandate of the local municipality, it is clear from Theewaterskloof's draft 5-year IDP that the Municipality is making a conscientious effort to address one of the biggest challenges in the municipal area, namely, unemployment through strategies aimed at creating an enabling environment for businesses to thrive thereby reducing unemployment as well as increasing the revenue base of the Municipality over the long term.

6.2.3 Quality of Life

(1) Current reality

- One of Theewaterskloof's biggest challenges relates to high levels of population growth, the expansion of informal settlements and land invasions. It should be noted that 21.6 per cent of households in Theewaterskloof are informal. Theewaterskloof Municipality intends to ensure integrated sustainable human settlements and access to housing for those in need in an incremental manner over the next 10 years and this is addressed in the current 2017/18 budget with 5 new housing developments planned.[5]

- Theewaterskloof Municipality has made significant improvements with regard to the provision of basic services between 2011 and 2016 (Census and Community Survey information) with the most significant progress being made in the provision of sanitation services. Water provision services did show a slight decline and the completion of the new housing developments will significantly increase demand for these services.

- Municipal resources and ageing infrastructure remains a major challenge in achieving service delivery demands.

[5] Theewaterskloof Municipality Draft IDP 2017 - 2022

(2) Budget Implications and conclusions

- The Municipality's operating and capital allocations in the 2017/18 tabled budget respond well to the current service delivery reality. Operating allocations gradually increases across the MTREF as the Municipality anticipates increasing the number of households that receive basic above the minimum service level. Significant capital allocations are further reflective of a proactive commitment to ensure the provision of new infrastructure and the longevity of the current bulk infrastructure over the MTREF.

- In summary, 40.3 per cent of the total budget for 2017/18 is allocated towards trading services, 38.0 per cent in 2018/19 and 37.3 per cent in 2019/20. This lower than average percentage could be attributed to the fact that the Municipality only supplies electricity to 20.0 per cent of the area. Only four of the nine towns in the area buy electricity directly from the Municipality.

- In completion of A10 (basic service delivery measurements), the Municipality indicates its intention to provide free basic services to 4 000 households each year over the MTREF period. It is recommended that the Municipality take into account that due to the current strained economic climate as well as the completion of the new housing developments, the number of the indigent population will most likely increase over the MTREF and it is recommended that the number be reflected accordingly.

- Although the provision of these free services is funded from equitable share allocations, the Municipality is cautioned to closely monitor the free basic services revenue/expenditure ratio.

6.3 PARTNERING AND PARTNERSHIPS

Partnerships give effect to policy imperatives in a more resource efficient manner. Due to increasing constraints on local government funding, municipal programmes will be increasingly required to leverage resources, mandates and decision-making processes outside their direct control in order to effectively deliver on the IDPs and municipal spatial development frameworks. With key issues and geographies in mind, municipalities are requested to identify key partnerships and partnering solutions which the Municipality is involved in or plans according to the categories below and possible areas where partnerships may be strengthened or new partnerships may be required.

- *Transversal partnering* (between line-function Departments within the Municipality and with municipal entities)
- *Inter-governmental partnering* (between the Municipality and other spheres of Government, public entities and state-owned companies)
- *Cross-boundary partnering* (partnerships with other municipalities across municipal boundaries, within a functional region)
- *Cross-sector partnering* (partnering with external role-players such as business or civil society)

Key recommendations

The Municipality need to indicate some of the key partnering arrangements in place to support service delivery initiatives in creating public value.

SECTION 7: CREDIBILITY AND SUSTAINABILITY

PART 7.1: REVIEW OF THE NEW (2017/18) MTREF

PART 7.1(1): EXPECTED OUTCOME FOR CURRENT FINANCIAL YEAR

Purpose: To consider current year and past revenue streams and spending trends that may have an impact on future on budgetary provisions.

Table 6: Audited and Budget Performance

Description	2014/15				2015/16				2016/17			
R thousands	Adjusted Budget	Audited Outcome	Difference	Diff %	Adjusted Budget	Audited Outcome	Difference	Diff %	Original Budget	Adjusted Budget	Difference	Diff %
Financial Performance												
Property rates	66 085	68 637	2 553	4%	72 247	76 025	3 778	5%	83 766	83 267	(498)	-1%
Service charges	156 284	153 817	(2 467)	-2%	176 566	176 654	88	0%	179 739	191 144	11 405	6%
Investment revenue	3 000	5 134	2 134	71%	4 500	7 323	2 823	63%	5 000	5 500	500	10%
Transfers recognised - operational	122 945	109 805	(13 140)	-11%	160 323	128 047	(32 276)	-20%	130 563	127 306	(3 257)	-2%
Other own revenue	44 399	45 263	864	2%	50 430	63 312	12 881	26%	47 237	43 063	(4 174)	-9%
Total Revenue (excluding capital transfers and contributions)	392 712	382 656	(10 056)	-3%	464 066	451 361	(12 705)	-3%	446 305	450 280	3 976	1%
Employee costs	140 981	138 725	(2 256)	-2%	155 367	154 659	(708)	0%	171 730	170 177	(1 553)	-1%
Remuneration of councillors	9 277	8 573	(704)	-8%	9 679	8 939	(740)	-8%	10 990	10 416	(574)	-5%
Depreciation & asset impairment	27 081	10 941	(16 140)	-60%	32 763	24 598	(8 164)	-25%	27 263	31 252	3 989	15%
Finance charges	12 733	13 237	504	4%	13 496	14 705	1 209	9%	12 762	15 462	2 700	21%
Materials and bulk purchases	55 091	54 670	(422)	-1%	61 253	62 105	852	1%	67 129	67 129	–	0%
Transfers and grants	1 000	1 351	351		1 500	1 214	(286)		1 500	2 300	800	
Other expenditure	164 532	140 802	(23 729)	-14%	214 891	173 209	(41 682)	-19%	177 074	179 331	2 257	1%
Total Expenditure	410 694	368 298	(42 396)	-10%	488 949	439 430	(49 519)	-10%	468 448	476 067	7 619	2%
Surplus/(Deficit)	(17 982)	14 358	32 340	-180%	(24 883)	11 931	36 814	-148%	(22 143)	(25 787)	(3 643)	16%
Transfers recognised - capital	61 638	59 671	(1 967)	-3%	41 044	33 353	(7 691)	-19%	34 366	45 837	11 472	33%
Contributions recognised - capital & contributed assets	–	–	–		–	–	–		–	–	–	
Surplus/(Deficit) after capital transfers & contributions	43 656	74 029	30 373	70%	16 161	45 283	29 122	180%	12 222	20 050	7 828	64%
Share of surplus/ (deficit) of associate	–	–			–	–			–	–		
Surplus/(Deficit) for the year	43 656	74 029	30 373	70%	16 161	45 283	29 122	180%	12 222	20 050	7 828	64%
Capital expenditure & funds sources												
Capital expenditure	85 177	73 372	(11 805)	-14%	79 791	65 231	(14 560)	-18%	58 031	79 336	21 305	37%
Transfers recognised - capital	63 081	59 838	(3 243)	-5%	41 544	36 710	(4 834)	-12%	34 366	47 504	13 139	38%
Public contributions & donations	–	–			–	–			–	–		
Borrowing	10 978	6 687	(4 291)	-39%	12 313	7 456	(4 857)	-39%	11 359	13 789	2 430	21%
Internally generated funds	11 118	6 847	(4 271)	-38%	25 934	21 065	(4 869)	-19%	12 307	18 043	5 736	47%
Total sources of capital funds	85 177	73 372	(11 805)	-14%	79 791	65 231	(14 560)	-18%	58 031	79 336	21 305	37%

Source: 2017 MTREF Budget

The Municipality has for two years in succession budgeted for an operational deficit of R17.9 million and R24.8 million respectively however realised a surplus. While frugal financial management is commended, however the Municipality is encouraged to budget for a surplus. The Municipality performed well with the realisation of the operating revenue budget for the two historic audit years in aggregate however, Theewaterskloof spend less than the national norm of 95 per cent for operational expenditure.

The operating deficit is attributable to non cash operating expenditure items such as provisions and depreciation which could not be cash backed due to affordability considerations.

A buoyant performance of the investment revenue in 2014/15 and 2015/16 is noted. However, this indicates that the Municipality has been overly conservative with investment revenue projections.

Furthermore, the Municipality reported a material under-spending for transfers recognised-operational which is of concern as the Municipality runs the risk of the retention and/or reduction of grants and subsidies.

The final operating expenditure for 2014/15 and 2015/16 showed an underspending of 10 per cent against the final budget respectively. The highest underspending is in relation to depreciation and asset impairment amounting to a negative variance of above 60 per cent for 2014/15 and 25 per cent for 2015/16, although it's a non-cash item, this expenditure item is widely considered a proxy for measurement of the rate of asset consumption. Notable underspending was also reported for other expenditure which is in main due to the spending on top structures.

In terms of capital budget performance, the Municipality has underspent by 14.1 per cent for 2014/15 and 18 per cent for 2015/16 financial year. Which is a concern as it is below the 95 per cent NT guideline as per MFMA Circular 71. For 2016/17, the capital expenditure year-to-date actual is low at 35.7 per cent of the adjusted budget as at 28 February 2017.

In view of the above findings it is recommended that the Municipality considers current and past spending trends which set the baseline and therefor have an impact on future budgetary provisions and put measures in place to expedite spending on capital and especially grants to avoid the retention thereof.

PART 7.1(2): REVIEW OF THE BUDGET ASSUMPTIONS

Objective:

No.	Description of the Budget Assumptions
1.	The forecasted CPIX is estimated at 6.4 per cent for 2017/18, 5.7 per cent for 2018/19 and 5.6 per cent for the 2019/20 financial years.
2.	The target for collection rate is 90% for 2017/18 MTREF.
3.	The following principles and tariff increases, based on the cost reflectiveness of the tariffs are proposed: - Property Rates = 13.5% - Electricity =1.9% (with 70 kWh per month free to indigent households, to be financed from the Equitable share) - Water = 9% (with 6 kilolitres plus the basic levy for water free of charge to indigent households only) - Refuse = 7% (one free waste removal per week) - Sewerage = 9.1% (free sanitation for indigents)
4.	Employee related costs are based on a cost of living increase of 9.85% and Councillors Remuneration at 6% in accordance with the Remuneration of Public Office Bearers Act.
5.	Increase in bulk electricity purchases at 2.2% in 2017/18 however in terms of bulk water no indication was provided about the intended increase by the Water Board.
6.	Financial modelling and Key Planning Drivers such as: ❖ CPI ❖ Interest Rates ❖ Economic Growth ❖ Economic Recession/Job Losses ❖ Tariff Adjustment ❖ Indigent Increase ❖ Informal Settlement Control ❖ Migration/Population Increase ❖ Equitable Share ❖ Bulk Purchase Tariff Increase

The overall budget assumptions are credible, reasonable and aligned to National Treasury guidelines except for the following:

- The Municipality cited no indication was provided in terms of the increase in bulk purchase tariff from the Water Board. In view of the ongoing dispute in this regard it would be recommended that the Municipality consult with the Overberg Water Board before the finalisation of the final budget.

THE BUDGET OVERVIEW

Table 7: Budget Overview

Description	2013/14	2014/15	2015/16	Current Year 2016/17			2017/18 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	28 February 2017	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Total Revenue (excluding capital transfers and contributions)	389 683	382 656	451 361	446 305	450 280	450 280	479 381	533 188	576 148
Total Expenditure	380 722	368 298	439 430	468 448	476 067	476 067	498 831	541 764	579 788
Surplus/(Deficit)	**(4 038)**	**(13 092)**	**42 502**	**(80 872)**	**(68 027)**	**70 925**	**(77 761)**	**(85 737)**	**(95 607)**
Non-Cash Items									
Debt impairment	47 240	36 926	48 811	43 654	50 091	50 091	50 265	53 281	56 478
Depreciation & asset impairment	32 816	10 941	24 598	27 263	31 252	31 252	136 124	144 291	152 949
Restated Result	**76 017**	**34 775**	**115 911**	**(9 955)**	**13 316**	**152 268**	**108 627**	**111 835**	**113 819**
Capital expenditure & funds sources									
Capital expenditure	62 947	73 372	65 231	58 031	79 336	79 336	89 557	38 440	43 938
Transfers recognised - capital	46 802	59 838	36 710	34 366	47 504	47 504	61 805	19 646	25 145
Public contributions & donations	–	–	–	–	–	–	–	–	–
Borrowing	8 509	6 687	7 456	11 359	13 789	13 789	13 433	–	–
Internally generated funds	7 635	6 847	21 065	12 307	18 043	18 043	14 320	18 794	18 793
Total sources of capital funds	62 947	73 372	65 231	58 031	79 336	79 336	89 557	38 440	43 938
Cash flows									
Cash/cash equivalents at the year end	**38 028**	68 463	56 442	24 556	46 489	46 489	43 274	47 733	54 700

Source: 2017 MTREF Budget

The Municipality has tabled deficit budgets for the MTREF period, which is caused mainly by non-cash items like debt impairment and depreciation. The operating deficit show an increasing trend which is undesirable, indicating that less resources will become available to build reserves.

These respective non-cash items amount to R186.39 million, R197.57 million and R209.43 million over the MTREF period and if discounted from the total budget deficit, result in a restated budget surplus of R108.63 million, R111.54 million and R113.82 million. Depreciation and Debt impairment are expenditures which should be supported by cash surpluses to make provision for the written offs of irrecoverable debt and replacement of assets in the future. The Municipality is hereby encouraged to start at least partially cash-backing depreciation by contributing to the capital replacement reserve for the future replacement of infrastructure.

One of the key challenges for Theewaterskloof as indicated in the IDP is the increased demand for services which is in main due to a rapid growth in population, housing backlogs and informal settlements which can steadily erode available resources.

The deficit budget is on an increasing trend coupled with a stagnating revenue base, low collection rate of 90 per cent which can be exacerbated by the current economic outlook, growth in indigent households, housing challenges caused by growth in informal settlements, infrastructure and maintenance pressures raises the financial sustainability risk. Hence, it would be recommended that the Municipality proactively pursues unlocking its balance sheet by investigating the potential of investment properties to promote development and build LED partnership with neigbouring municipalities like Overstrand, City of Cape Town, Swellendam and the District Municipality in order to expand the existing revenue base.

PART 7.1(3): ADEQUACY OF REVENUE MANAGEMENT FRAMEWORK

The revenue in aggregate show an increase of 6.5 per cent which indicate a marginal real growth after discounted with inflation although all tariffs except for electricity increased above inflation hence the Municipality must be mindful of the affordability of the municipal bill and consider the impact on the collection rate which are already under pressure at 90 per cent.

Total property rates revenue growth is projected at 13.2 per cent indicating the increase is due the tariff increase of 13.5 per cent only and not an expansion of the rate base (non-indigent households and business growth). Theewaterskloof did not complete Schedules 12(a) and 12(b) hence the rate base could not be assessed adequately in terms of the valuation of thereof.

The Municipality is significantly reliant (27%) on grants and subsidies to fund its daily operations. Furthermore, over the past two historic years the Municipality reported material underspending on conditional grants which raised the risk of retention and or reduction of grant allocations.

Cost Reflectiveness of Trading Services

Table 8: Revenue and Expenditure link – Trading and Economic Services

Description	2013/14 Audited Outcome	2014/15 Audited Outcome	2015/16 Audited Outcome	Current Year 2016/17 Original Budget	Adjusted Budget	Full Year Forecast	2017/18 Medium Term Revenue & Expenditure Framework Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Revenue - Standard									
Trading services	**142 532**	**153 817**	**176 654**	**179 739**	**191 144**	**191 144**	**198 007**	**209 888**	**222 481**
Electricity	64 594	67 147	73 608	78 184	79 248	79 248	82 544	87 497	92 747
Water	37 087	43 869	50 307	49 219	59 743	59 743	55 916	59 271	62 827
Waste water management	19 983	21 395	24 978	24 572	24 572	24 572	29 771	31 557	33 451
Waste management	20 723	21 199	25 222	27 394	27 212	27 212	29 776	31 563	33 457
Other	**145**	**206**	**2 540**	**369**	**369**	**369**	–	–	–
Expenditure - Standard									
Trading services	**138 058**	**143 644**	**178 555**	**173 824**	**198 318**	**198 318**	**201 226**	**205 673**	**216 018**
Electricity	52 878	53 175	64 006	69 341	70 004	70 004	73 346	77 363	81 586
Water	38 860	37 927	42 023	46 032	49 752	49 752	49 742	51 881	54 174
Waste water management	21 436	25 834	28 515	28 352	31 262	31 262	32 101	34 167	35 686
Waste management	24 884	26 708	44 010	30 099	47 300	47 300	46 037	42 261	44 572
Other	–	–	–	–	–	–	**248**	**262**	**278**
Surplus/ (Deficit) on Main Service									
Trading services	**4 474**	**10 172**	**(1 900)**	**5 915**	**(7 173)**	**(7 173)**	**(3 466)**	**3 952**	**6 185**
Electricity	11 716	13 972	9 602	8 844	9 244	9 244	9 198	10 133	11 160
Water	(1 773)	5 942	8 283	3 188	9 991	9 991	6 174	7 389	8 652
Waste water management	(1 453)	(4 439)	(3 537)	(3 781)	(6 690)	(6 690)	(2 330)	(2 610)	(2 235)
Waste management	(4 162)	(5 508)	(18 788)	(2 705)	(20 088)	(20 088)	(16 261)	(10 698)	(11 115)
Other	145	206	2 540	369	369	369	(248)	(262)	(278)

Source: A4: Trading revenue (excl. capital grants) and A2: Trading Expenditure

In aggregate trading service show a deficit and he comparisons indicate that the two (2) trading services generate a deficit, waste water and waste management for 2017/18 MTREF budget, which may suggest that these tariffs might not be fully cost reflective. Cognisance is taken to the cost reflective rates and tariffs the Municipality is moving towards and the need to address infrastructure backlogs; hence the Municipality is encouraged to develop a strategy to address the sustainability of waste and waste water management which take into account the impact of the following:

- Integrated asset management that includes the state of infrastructure, replacement cost and clear prioritisation of future new or replacement infrastructure needs for these services;
- The population growth increasing the service demand;
- Contributing to a cash backed reserve to cover the cost of the future rehabilitation of existing landfill sites;
- Development and maintenance pressures;
- Partnerships with private sector;
- Level of service;

- Increasing trend in outstanding debtors and synergy with the affordability of the services;

- Shared services with neighbouring municipalities including a district solution in relation to the Karwyderskraal landfill site;

- Investigating the potential for implementing new and/or innovative systems for waste minimisation, collection, recycling, waste to energy, treatment, and possible revision of the related tariff structure; and

- Service improvement study to identify possible inefficiencies in relation to cost within the business processes of delivering these services.

Electricity is the second most significant component of the operating revenue budget amounting to 17.2 per cent, however due to a low tariff increase as per the NERSA guidelines, the revenue projection increased by less than inflation resulting in a negative real growth in surplus margins which could be exacerbated by green initiatives in households and high energy consumption industries. Electricity distribution losses amount 4.9 per cent for the 2015/16 financial year which are below the national norm of 7 – 10 per cent however showing an increasing trajectory from the previous year (2014/15: 4.7%).

Water service reported a negative revenue growth of 6.4 per cent tariff increase of 9 per cent which is in excess of the upper limits of CPIX. Non-technical water losses of R5.20 million or 25 per cent (2015: 24%) which is within the national norm as per MFMA Circular 71 however the loss percentage is edging towards to the upper boundary of the norm. Reasons for the water losses can include aging pipeline infrastructure, old reticulation networks, burst pipes and other leakages. Hence it is of concern that the Municipality does not ring-fenced any of these surpluses for future expansion or renewing of aging infrastructure.

PART 7.1(4): ADEQUACY OF EXPENDITURE MANAGEMENT FRAMEWORK

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

The operating expenditure in aggregate increase of 4.8 per cent with employee related costs and bulk purchases being the main expenditure drivers.

The total budgeted Employee related costs constitutes a significant 36.5 per cent of the total operating expenditure budget on average over the 2017/18 MTREF which is within the national norm of between 25 – 40 per cent however on the high end. Overtime amounts to 2.9 per cent of the total remuneration (excluding senior managers' remuneration) which is within the norm of 5 per cent. Employee related cost is growing by 9.9 per cent which is above inflation which include an increase of positions and as result will put pressure on available resources. Hence it is recommended that employee related cost be managed effectively in line with revenue growth and can be identified as an area whereby the Municipality explore possible savings (e.g. overtime) and put measures in place to increase productivity and efficiency with existing staff complement.

A projected increase of 62.5 per cent is envisage for Contracted services which will bring the budget for this expenditure item to 7.4 per cent of the total expenditure which is above the 5 per cent threshold advised by National Treasury. Against the backdrop of employee-related cost being the main cost driver it would be recommended the Municipality weight 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.

Depreciation and asset impairment is projected to decrease by the average amount of 10.1 per cent for the 2017/18 MTREF budget year, although the Municipality is expanding its infrastructure annually, a decline to the non-infrastructure assets over the MTREF as per Schedule A9 is noted.

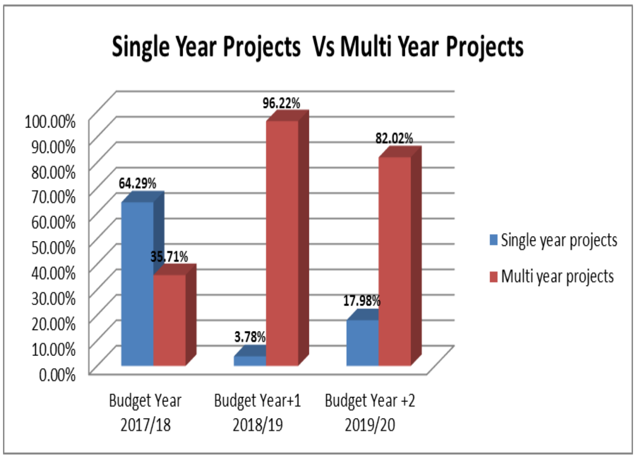
Repairs and maintenance amount on average to 12.1 per cent of property, plant and equipment which is above the national norm of 8 per cent. The Municipality is hereby encouraged to continue the increasing trajectory, factoring in the budget the cost of prioritising current repairs versus the future replacement costs and move towards an integrated asset management system that will facilitate pro-active maintenance versus reactive maintenance which will have an impact on future service delivery.

PART 7.1(5): ADEQUACY OF CAPITAL BUDGET

Main & Supporting Tables: IDP, A5, A5A, SA18 - SA20, SA28, SA36 & SA37

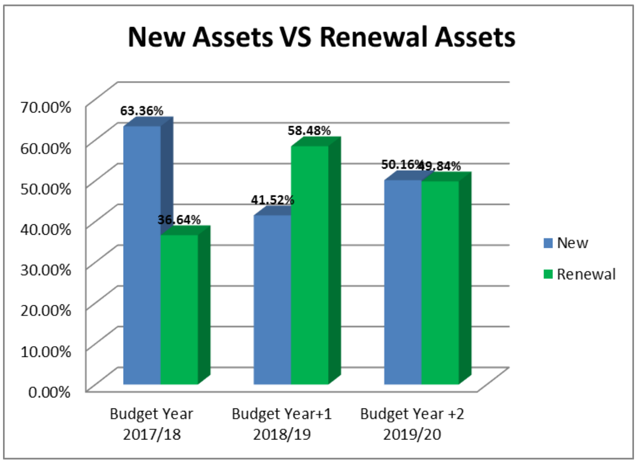
Capital Spending:

Figure 1: Single Year Projects vs Multi-year Projects



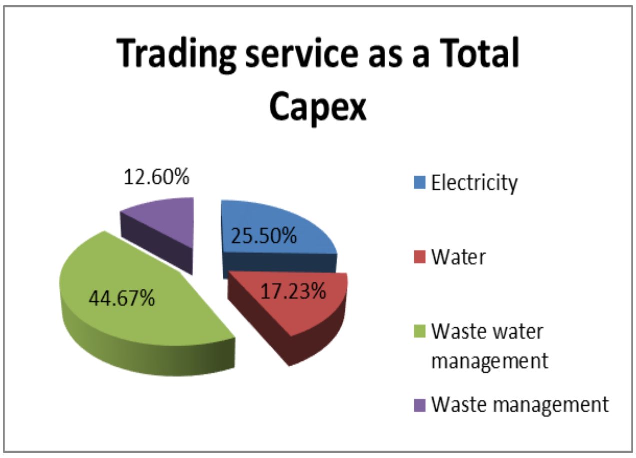
The 2017/18 capital budget indicates that the Municipality did not incorporate section 16(3) of the MFMA into the budgeting process as they allocated only 35.7 per cent of budget allocation for multi-year projects for 2017/18. However for outer years the Municipality allocated 96.2 per cent for 2018/19 and 82.0 per cent for 2019/20, which is commendable as that allows a municipality to appropriate large capital budgets for three financial years, thus enabling municipalities to improve planning and initiate procurement processes earlier for capital projects in the two outer years of the MTREF. In the view of low spending for the past years the Municipality must consider appropriate larger projects over multi-years for 2017/18 financial year.

Figure 2: New Assets vs Renewal Assets



Furthermore, the Municipality intends to use R32.82 million (38.4 per cent) of the total capital budget for the renewal of existing assets which is below the national guideline of 40 per cent as per MFMA Circular 55. However, repairs and maintenance ratio for the Municipality is at the acceptable level (8%) as per NT Circular 71 guide line. Acceptable spending to repairs and maintenance improve a safeguarding of asset base and the sustainable service delivery.

Figure 3: Trading service as a Total Capex



The Municipality allocated 40 per cent of the capital budget towards trading services or revenue generating assets, however the Municipality is encouraged to spend more in the trading service as that bodes well in terms of increasing the revenue base of the Municipality.

Capital Funding:

Capital grants amounts to 59.1 per cent for 2017/18 Capital budgets indicating the Municipality dependency on grants and subsidies as a funding source. The Municipality spent 88 per cent of its capital grants for the 2015/16 financial year. For 2016/17 the Municipality spent 32.7 per cent of its grants at the end of February 2017. The Municipality is cautioned against a slow spending rate as it will result in either rollover grants or the repayment of grants should they not be fully spent by 30 June 2017. The high reliance on capital grants is a concern against the backdrop that fiscal constraints will persist over the MTREF due the prevailing economic environment.

The Municipality intends to take up external borrowings of R13.43 million, which is 15 per cent of the capital budget for 2017/18 and no borrowings for outer years. The gearing ratio (borrowing over operating revenue less conditional grants) amounts to 26.9 per cent for the 2017/18 financial year, which is less than the 45 per cent norm as prescribed by National Treasury in Circular 71 and below the prudence level as set in the long-term financial plan.

Capital spending funded from internally generated funds amounts to R14.32 million and constitutes 16 per cent of the total capital budget. The Municipality has not reported on any ring-fenced capital replacement reserve (A8, A6 or AFS) or any planned contribution hence it is unclear how the Municipality intends to sustain the level of capital investment from internal funding.

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. An IDMS – enriched public sector is characterised by a standardised and uniform approach to infrastructure delivery, supporting effective and efficient delivery, stronger public institutions through the appointment of appropriate personnel in infrastructure, using the IDMS human resources capacitation framework, improved infrastructure planning, budgeting, management, operations and management, adherence to relevant legislation, better infrastructure procurement, enhanced intergovernmental relations and improved reporting, monitoring and evaluation.

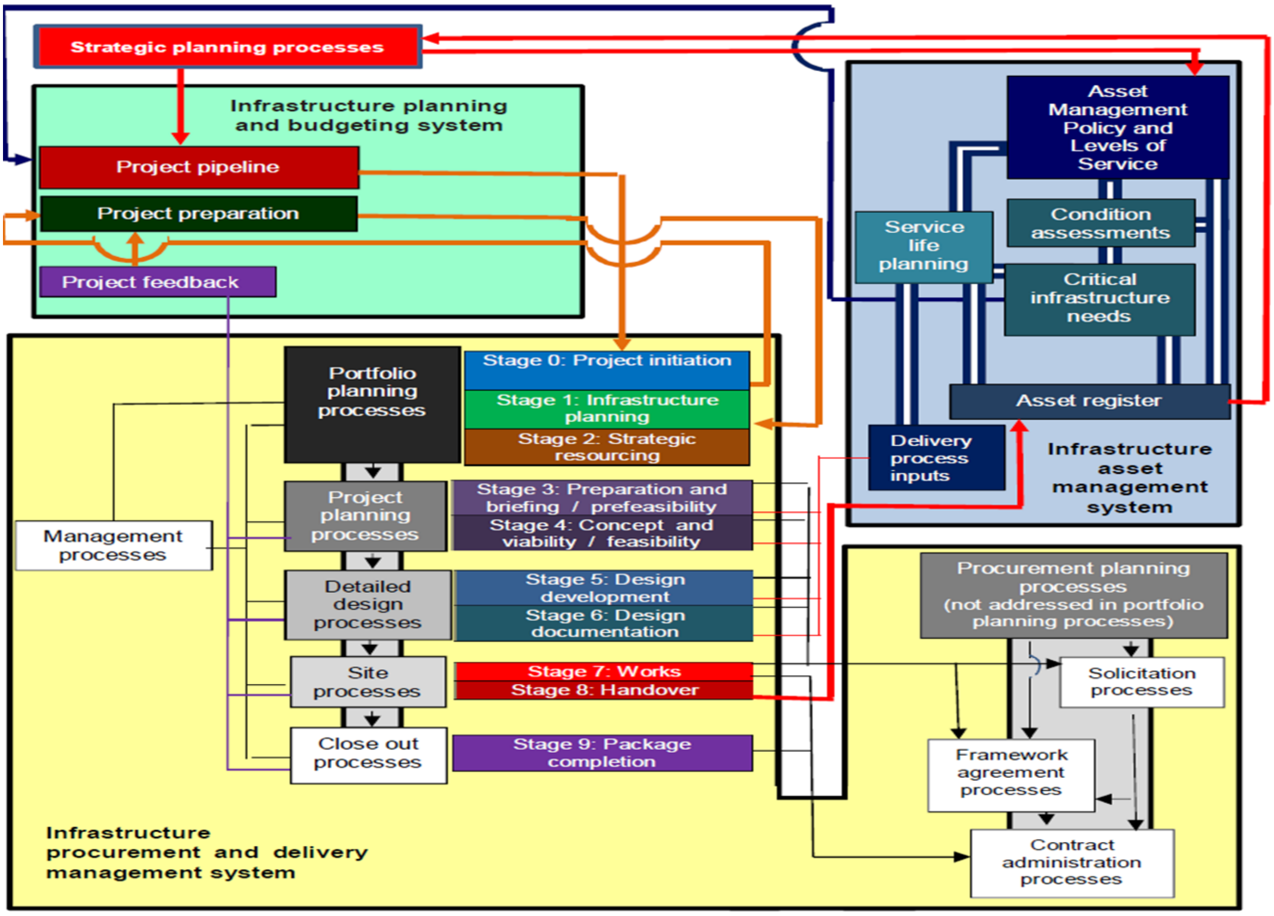
The delivery and maintenance of social and economic infrastructure is central to Government's mandate to deliver services to its people. Such infrastructure is delivered and maintained in the public sector through the IDMS. The IDMS has 3 core systems, namely an infrastructure planning and budgeting system, infrastructure procurement and delivery management system (supply chain management system) and an infrastructure asset management system, all of which have forward and backward linkages.

These core systems are located within portfolio, programme and project management, operation and maintenance and institutional processes.

Collectively these systems and processes create an organ of state's institutional system for infrastructure delivery.

The forward and backward linkages between the three core systems are indicated in Figure 4 below. The backbone to the delivery of infrastructure projects is the 9 stages which are described in the National Treasury Standard for Infrastructure Delivery Management (SIPDM), which is linked to the Municipal Finance Management Act of 2003. This standard is required to be implemented by all organs of state.

Figure 4: Infrastructure Procurement and Delivery Management System



PART 7.2: ESTABLISH THE LEVEL OF FUNDING THE BUDGET

Purpose - To assess the Municipality's application of available cash and investments (reference to Circular 42 & Table A8).

Table 9: Cash and Investments

Description R thousand	2017/18 Medium Term Revenue & Expenditure Framework		
	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Cash and investments available			
Cash/cash equivalents at the year end	43 274	47 733	54 700
Other current investments > 90 days	–	–	–
Non current assets - Investments	10 726	10 726	10 726
Cash and investments available:	**54 000**	**58 459**	**65 426**
Application of cash and investments			
Unspent conditional transfers	2 946	2 946	2 946
Unspent borrowing	–	–	–
Statutory requirements			
Other working capital requirements	10 201	14 075	14 094
Other provisions			
Long term investments committed	–	–	–
Reserves to be backed by cash/investments	4 868	4 868	4 868
Total Application of cash and investments:	**18 015**	**21 889**	**21 908**
Surplus (shortfall)	**35 985**	**36 570**	**43 518**

Source: A8-Schedule

The table depicts a positive balance over the MTREF however, the Municipality did not provide for the following application of funds:

- Cash portion of statutory requirements funds;
- Short term portion of provisions e.g. employee benefits; and
- Capital replacement reserve.

The Municipality reported a cash surplus however the under provision could create a funding risk.

SA10: FUNDING MEASUREMENT

Table 10: Funding measures

Description	MFMA section	Ref	2017/18 Medium Term Revenue & Expenditure Framework		
			Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Funding measures					
Cash/cash equivalents at the year end - R'000	18(1)b	1	43 274	47 733	54 700
Cash + investments at the yr end less applications - R'000	18(1)b	2	35 985	36 570	43 518
Cash year end/monthly employee/supplier payments	18(1)b	3	1.3	1.3	1.4
Surplus/(Deficit) excluding depreciation offsets: R'000	18(1)	4	42 355	11 070	21 505
Service charge rev % change - macro CPIX target exclusive	18(1)a,(2)	5	(6.0%)	(0.0%)	0.0%
Cash receipts % of Ratepayer & Other revenue	18(1)a,(2)	6	82.3%	82.3%	82.3%
Debt impairment expense as a % of total billable revenue	18(1)a,(2)	7	17.2%	17.2%	17.2%
Capital payments % of capital expenditure	18(1)c;19	8	100.0%	100.0%	100.0%
Borrowing receipts % of capital expenditure (excl. transfers)	18(1)c	9	48.4%	0.0%	0.0%
Grants % of Govt. legislated/gazetted allocations	18(1)a	10	100.0%	100.0%	100.0%
Current consumer debtors % change - incr(decr)	18(1)a	11	0.0%	13.0%	12.2%
Long term receivables % change - incr(decr)	18(1)a	12	0.0%	(35.1%)	(54.1%)
R&M % of Property Plant & Equipment	20(1)(vi)	13	11.7%	12.1%	12.5%
Asset renewal % of capital budget	20(1)(vi)	14	3.8%	7.4%	9.4%

Source: SA10-Schedule

Main Findings:

Service charge revenue % change - macro CPIX target exclusive

Negative growth is noted for the entire MTREF in respect of service charges.

Grants % of Govt. legislated/gazette allocations

SA18 is not aligning to the gazette/legislated allocation.

Asset renewal % of the capital budget

Asset renewal as a percentage of the capital budget is significantly low as is below the national guideline of 40 per cent as per MFMA Circular 55.

This part of the assessment verifies that the closing balance of the previous financial year has been carried forward accurately to the new financial year.

The Audited Financial Statements as at 30 June 2016 indicates that the Municipality ended the financial year with a closing balance of R56.44 million which agreed to the opening balance of the Adjusted Budget on the Cash Flow Actual as at 1 July 2016.

OVERVIEW OF THE CURRENT CASH POSITION OF THE MUNICIPALITY

The available cash as per the Cash Flow Actual as at the 28 February 2017 is R88.03 million and the commitments reported against the available cash for the month is R24.44 million. The Municipality reported a Current Ratio of 2.08:1 and a Cash Ratio 1.38 times as at 28 February 2017. The Current Ratio at present is above the National Treasury norm of 1.5 and 2 is to 1 and the Cash Ratio indicates that the Municipality has the available cash to settle all Current Liabilities immediately.

Risk

No liquidity risk was identified as at the 28 February 2017.

CASH FLOW SUMMARY 2017/18

Objective

This part of the assessment reviews the annual cash flow budget of the Municipality against the principles of completeness, reasonability, credibility and reliability and conclude if the cash projections are realistic or not.

The annual cash flow budget does reconcile when comparing the A7 to the SA30. The closing cash balances increases over the MTREF period R43.27 million (2017/18), R47.73 million (2018/19) and R54.70 million (2019/20), however this is questionable as the Municipality is struggling to convert the outstanding Debtors to Cash. The Municipality is dependent on grant funding for sustainable service delivery as the A4 which indicates the financial performance of the Municipality indicated that the Municipality will have an operating deficit over the MTREF period in the amounts of R19.45 million, R8.57 million and R3.64 million for the 2017/18, 2019/19 and 2019/20 financial years respectively.

Risk

The services charges which the Municipality are budgeting for as consumer debtors are not be collected timeously in order to absorb the operating costs incurred by the Municipality over the MTREF period. This affects the working capital of the Municipality.

APPLICATION OF CASH AND INVESTMENTS

This part of the assessment reviews the projected net cash position of the Municipality to determine if the annual budget is cash funded or not.

The Municipality reported a cash surplus. The available cash balances as per the A8 is increasing over the MTREF from R35.98 million (2017/18), R36.57 million (2018/19) and R43.51 million (2019/20). The Municipality do budget for Reserves which is to be cash backed, however it is in respect of the Housing Development fund and the amount remains constant over the MTREF period. After taking the Depreciation and Asset Impairment and Provisions which are for Retirement Benefits and the Refuse Rehabilitation landfill site the Municipality tabled a draft unfunded budget.

Risk

The Municipality is faced with a liquidity risk as the non-cash items would have to be cashed back. This is mainly due to historical Provisions which are being provided for at present.

Based on the findings above:

- The Municipality is dependent on converting the outstanding Debtors to cash.
- The Municipality is unable to finance the non-cash line items which should be cash backed, which affects the maintenance and upgrade of infrastructure assets.
- The Municipality is dependent on grant funding for sustainable service delivery.

PART 7.3: SUSTAINABILITY OVER 2017/18 MTREF

PART 7.3(1): FORECASTING & MULTI-YEAR BUDGETING

Main & Supporting Tables: A4, A5, SA25 - SA30

The quality of forecasting for billing of revenue, payment of expenditure (SA25) and cash collection (SA30) of the Municipality considers seasonal fluctuation, periodical payment of grants and subsidies (e.g. tranche payment of equitable share) and policy influences.

Baseline increases indicate multi-year budgeting for both the operating and capital budget. However, the Municipality did not budget for tariff increases in the outer years.

SECTION 8: MAIN POINTS AND RISKS/RECOMMENDATIONS

This section outlines the main points and risks/recommendations based of the LG MTEC Assessment.

INTEGRATED PLANNING

- It is recommended that the Municipality to makes provision for Disaster Risk Reduction as part of pro-active response in the Final Adopted 2017 - 2022 IDP. The Final Adopted 2017 - 2022 IDP should include/utilise the Disaster Risk Register template for capturing developmental risk (high risk planned developments) that may require disaster mitigation.

- The Municipality is encouraged to include the agricultural database information provided by the DoA and include crop, agri-Infrastructure; land use and agri-tourism information in the Final Adopted 2017 - 2022 IDP.

- The Municipality is encouraged to take note of and to incorporate some relevant information documented in the report from the Farm Worker Household Census conducted by the DoA during 2015/16 in the Overberg region, in the Final Adopted 2017 - 2022 IDP.

ENVIRONMENTAL AND DEVELOPMENT PLANNING ANALYSIS

- Risks associated with Bulk water supply have been clearly identified and the Theewaterskloof Municipality is working on correcting these. Capacity building, which has been identified as one of the main reasons for poor performance, sees a considerable amount allocated thereto increasing over the next three years. (1.08 million over 3 years). No indication whether process controllers/WWTW/WTW staff will be upskilled with this money.

  At this moment in time PC's were still busy being trained in NOF 3 and 4. More info from SDF hoe many PC's were trained.
  7 currently training-Level 4
  7 Currently Level 3
  1 Level 2
  NQF Training
  Already 2 in level 2

- Operations and maintenance budgets have been highlighted for water and waste water assets. Is any money allocated to water demand management? What is the % of non-revenue and % unaccounted for water in the Municipality?

  No direct budget for WDM. Operational Budgets is used for this purpose. Unaccounted is 23% and Non-Revenue is 27%.

- While there are no stormwater management plans identified in the IDP, stormwater management has been budgeted for.

  SWMP (master plan) will be included. SWMP needs to be updated but no funding available.No Capital Funding for storm water upgrades. Operational Budget for maintenance only.

- Not much detail is given with regards to Disaster Management Plans.

  Noted will be looked into and added into the final IDP.

BUDGET RESPONSIVENESS

- The majority of the 2017/18 total budget spending is allocated to the strategic objective 'Basic Service Delivery'. The bulk of this allocation is for the provision of new bulk infrastructure to service the new low cost housing developments planned for the municipal area as well as the upgrading of aged and deteriorated bulk infrastructure. Strategic objective, 'Institutional Development' has the second biggest allocation at R41.382 million or 7.0 per cent of the total budget.

- The Municipality's budget assumptions are mostly aligned to its socio-economic environment, however an opportunity exists to strengthen the alignment of the budgeted numbers between the MTREF budget, draft IDP and SDBIP as well as to use more current data as is available in the Stats SA Community Survey 2016.

- The Municipality's operating and capital allocations in the 2017/18 tabled budget respond well to the current service delivery reality. Operating allocations gradually increases across the MTREF as the Municipality anticipates increasing the number of households that receive basic above the minimum service level. Significant capital allocations are further reflective of a proactive commitment to ensure the provision of new infrastructure and the longevity of the current bulk infrastructure over the MTREF.

CREDIBILITY AND SUSTAINABILITY

The Municipal budget is credible and sustainable however, the Municipality must take note of the following risk areas:

- The Municipality reported that waste management and wastewater management is operating at a deficit after the allocation of overheads which is not sustainable.

- The deficit budget is on an increasing trend coupled with a stagnating revenue base, low collection rate of 90 per cent which can be exacerbated by the current economic outlook, growth in indigent households, housing challenges caused by growth in informal settlements, infrastructure and maintenance pressures raises the financial sustainability risk.

- Although employee related costs are within the national norm it is growing close to the upper limit thereof and will place pressure on available resources at the Municipality.

- Contract services is above the national norm and increased in excess of inflation hence the Municipality should consider a cost benefit analysis on all services outsourced and weight in line with internal capacity and productivity.

- Historical and current spending of capital is low and remains a concern.

- Concern is expressed in terms of the near depletion of Reserves to be backed by cash/investments and the Municipality is heavily reliant on grants to fund the capital budget.