PRINCE ALBERT MUNICIPALITY

LONG TERM FINANCIAL PLAN

PERIOD 2017 -2026

Draft Budget 2024/2025

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1.Purpose and Objective

The purpose of this Long-term Financial Plan is *inter alia* to outline a comprehensive multi-year financial plan with the objective to ensure long-term financial sustainability and to limit risks on all levels.

The Long-term Financial Plan is essential to ensure that Prince Albert Municipality could sustainably implement and execute its constitutional competencies and mandate effectively without the risk to impair its capital base.

Furthermore, the Long-term Financial Plan must also serve the purpose to assist and inform the municipality to compile more effective and accurate future budgets to empower the municipality to meet the ever-growing demands of reliable Service Delivery.

2.Introduction

Municipalities are confronted with massive challenges to deliver sustainable and effective services. The largest contributing factor to this phenomenon is the uncontrolled increase in poverty and the associated increasing in outstanding debt.

As Municipalities are constrained to very limited revenue resources, they are more and more depended on Government subsidies to balance their budgets.

Municipal expenditure is relatively more inflation sensitive than other sectors in the economy due to the nature of services municipalities must deliver.

However, Councils have a constitutional responsibility to manage the affairs of the municipalities to not only serve the wellbeing of the present communities but also those of future generations with the result that very responsible and thoughtful financial planning need to be done and put into practice to secure future service delivery and to remain a going concern. The majority of the

services rendered by municipalities are essential services which involve very expensive investment in providing the infrastructure to deliver the services.

At present the projected Current Replacement Value of the Municipalities infra- structure assets amounted to approximately R164 million and approximately R237 million to replace all the assets. A recent analysis of the infrastructure assets revealed that assets amounted to R5.1782 million (book value) are in a very poor condition or would have reached the end of its useful live periods which need to be replace over the next 10 years at a projected Replacement Value of R9.72 million, with further progressive demands in this regard for the medium to longer term. From this study, it is evident that the municipality inevitably need to carefully accumulate cash reserves and or determine alternative funds to replace assets when needed and formulating intensive comprehensive maintenance plans to extent the useful lives of its assets.

To achieve this all, Council has to formulate transparent attainable, but most important, affordable long-term plans and strategies, and put it in practice in order to plan in advance for future demands. Furthermore, the municipality also has to reach a balance between providing high quality basic services and eradicating service backlogs versus the availability of funding

Council has embarked now on a process to compile a long-term financial plan for the next 10 years to early identify financial risks and determine and maximize all possible revenue streams, determine the future operational and capital expenditure responsibilities and ultimately do an approximate determination of the future dependency on Government grants and external

borrowing, within the parameters of affordability levels of the current and future rate payers to honour their responsibility to the municipality.

The French statesman Colbert suggested the following, "the *art of taxation is the art of plucking the goose so as to get the largest possible number of feathers with the least possible squealing"*

3.Role and responsibilities

As the sphere of Government who is the closest to the people and who directly influence the lives of its community, Municipalities have a constitutional obligation to structure and manage its administration, budgeting and planning processes, to give priority to the basic needs of the community within its financial and administrative capacity, in a manner which **must provide for**:

- democratic and **accountable** government for the local community;
- the provision of services to community in a **sustainable** manner;
- promote social and economic **development**;
- promote a safe and healthy environment;
- encourage the involvement of communities and community organisations in the matters of local government.

In order for the municipality to fulfil its constitutional responsibility to remain a sustainable and viable going concern, the undermentioned role

players need to collectively collaborate and embark on strategies to successfully achieve this by setting goals and plans for the longer term.

3.1 The Council

It's their duty to make bylaws, **set the municipalities' overall strategic direction** and approve budgets, policies and plans aimed at achieving that direction. Part of their role is to listen and take the pulse of the community before making decisions.

3.2 The Mayor

The mayor of a municipality **mus**t—

- provide general political guidance over the budget process and the priorities that must guide the preparation of a budget;
- co-ordinate the annual revision of the integrated development plan and the preparation of the annual budget, and determine how the

integrated development plan is to be taken into account or revised for the purposes of the budget

- promote **sound financial management**;

3.3 The Municipal Manager

As the accounting officer of the municipality the Municipal Manager must—

- act in the **best interests** of the municipality in managing its financial affairs;
- disclose **material facts** which are available which might **influence the decisions** or actions of the council or the mayor;
- managing the financial administration of the municipality, and must ensure that the resources of the municipality are used **effectively, efficiently and economically**;

4.Long-Term Financial Planning-What and Why

A financial plan is a tool to assist and inform the budget process and do not replace the budget

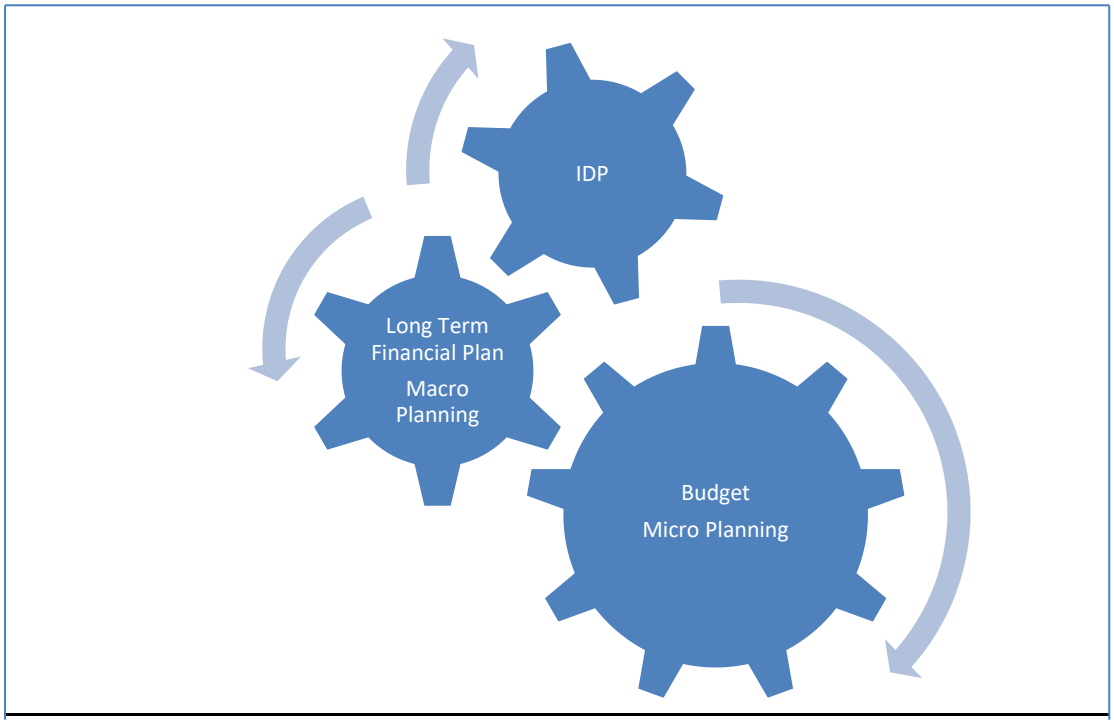

Figure 1 – Planning Phases

- Financial planning uses forecasts to provide insight into future financial capacity so that strategies can be developed to **achieve long-term sustainability** in light of the municipalities' service objectives and financial challenges.

- Long-term financial planning **combines financial forecasting with strategizing**. It is a highly collaborative process that considers future scenarios and helps to **navigate challenges**. Long-term financial planning works best as **part of an overall strategic plan**.

- Financial forecasting is the process of **projecting revenues and expenditures over a long-term period, using assumptions about economic conditions, future spending scenarios, and other variables.**

- Long-term financial planning is the process of aligning financial capacity with long-term service objectives.

- A comprehensive long-term financial plan stimulates discussion and engenders a long-range perspective for decision makers. **It can be used as a tool to prevent financial challenges; it stimulates long-term and strategic thinking;** it can give consensus on long-term financial direction;

and it is useful for communications with internal and external stakeholders.

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5.What should be included in a Long Term Financial Plan?

Time Horizon

A plan should look at least five to ten years into the future. The municipality may elect to extend their planning horizon further if conditions warrant.

Scope

A plan should consider all appropriated funds, but especially those funds that are used to account for the issues of top concern.

Frequency

The municipality should update long-term planning activities as needed in order to provide direction to the budget process, though not every element of the long-range plan must be repeated.

Content

A plan should include an analysis of the financial environment, revenue and expenditure forecasts, debt position and affordability analysis, strategies for achieving and maintaining financial balance.

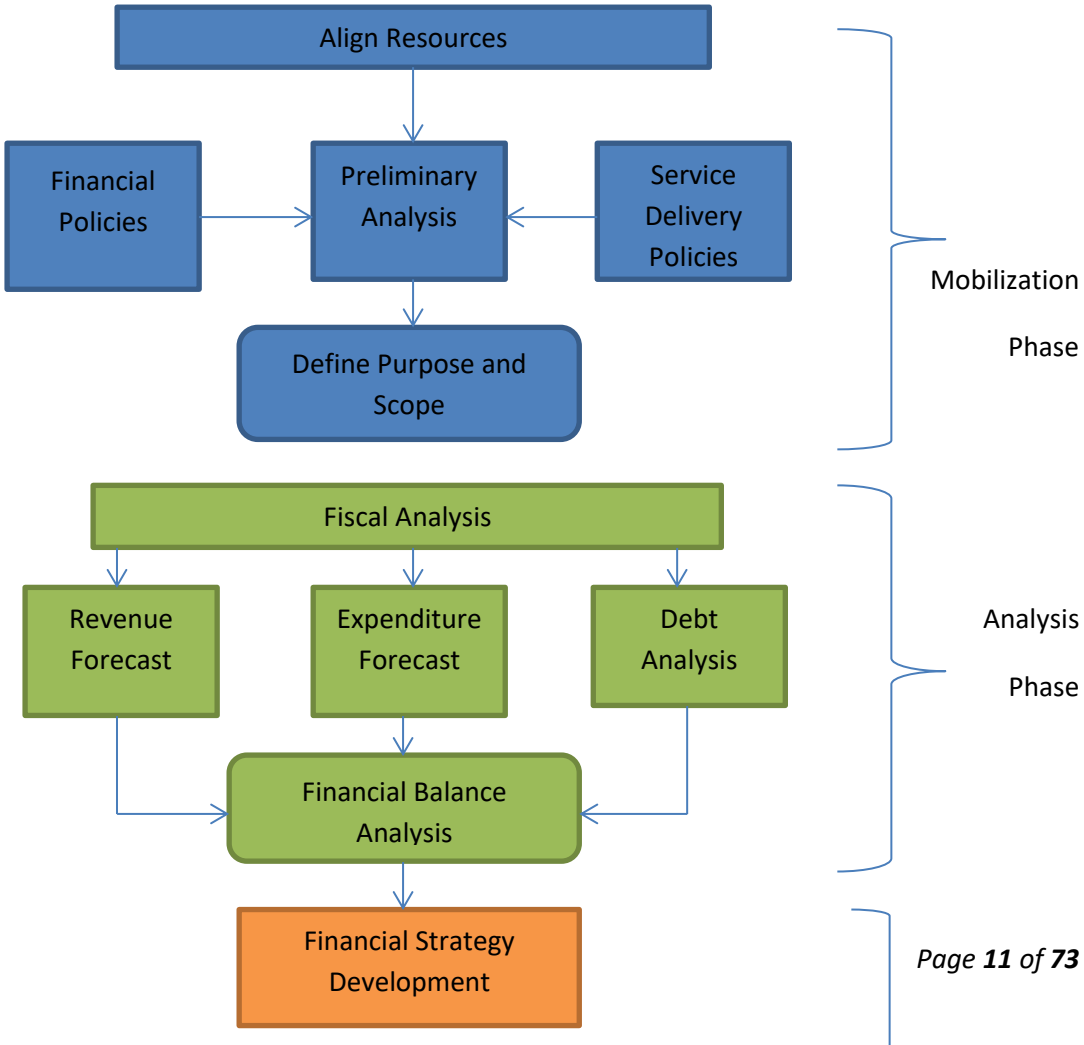
Visibility

The public and officials should be able to easily learn about the long-term financial prospects of the municipality and strategies for financial balance.

Hence, the municipality should devise an effective means for communicating this information, through either separate plan documents or by integrating it with existing communication devices.

6.Long Term Financial Plan Phases

The following diagram (figure 1) highlights the various long-term financial planning phases:



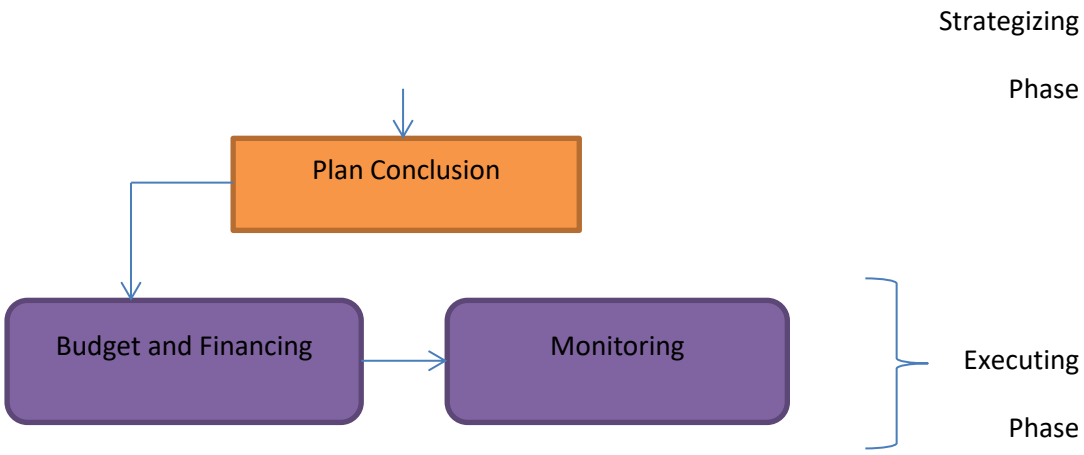


Figure 2 – Planning Phases

Mobilization Phase

The mobilization phase prepares the organization for long-term planning by creating consensus on what the purpose and results of the planning process should be.

Analysis Phase

The analysis phase is designed to produce information that supports planning and strategizing. The analysis phase includes the projections and financial analysis commonly associated with long-term financial planning. The analysis phase involves information gathering and trend projections.

Decision Phase

After the analysis phase is completed, the municipality must decide how to use the information provided. Key to the decision phase is a highly participative process that involves officials, staff, and the public. The decision phase also includes a culminating event where the stakeholders can assess the planning process to evaluate whether the purposes for the plan described in the mobilization phase were fulfilled and where a sense of closure and

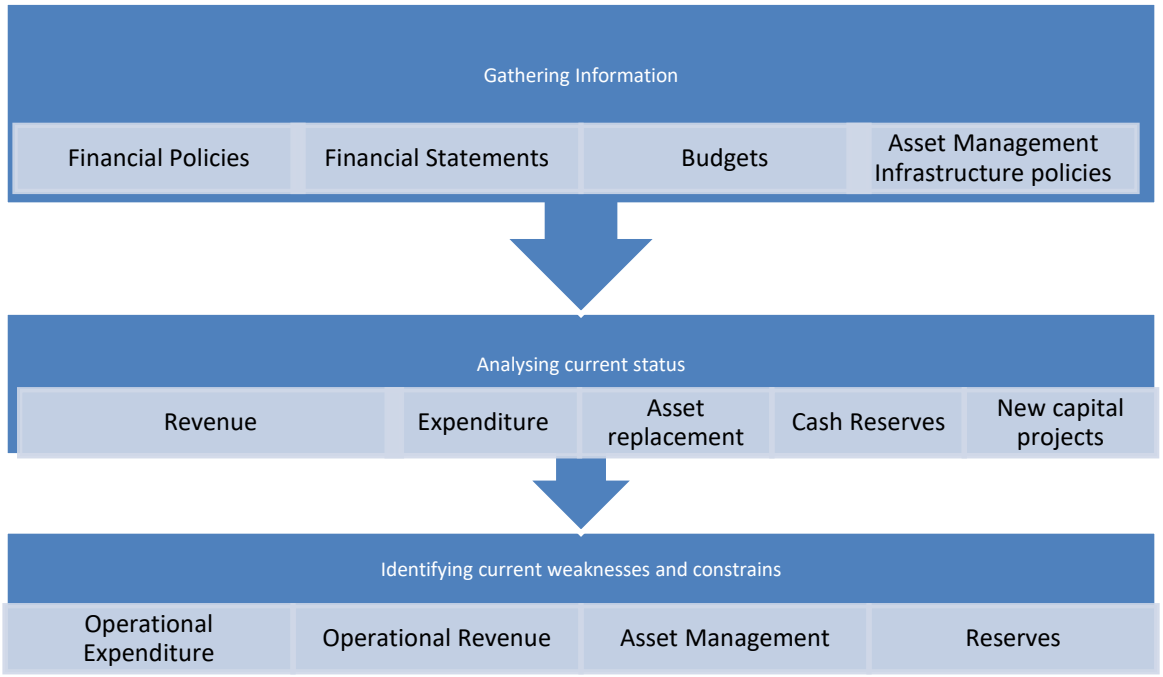
accomplishment can be generated. Finally, the decision phase should address the processes for executing the plan to ensure tangible results are realized.

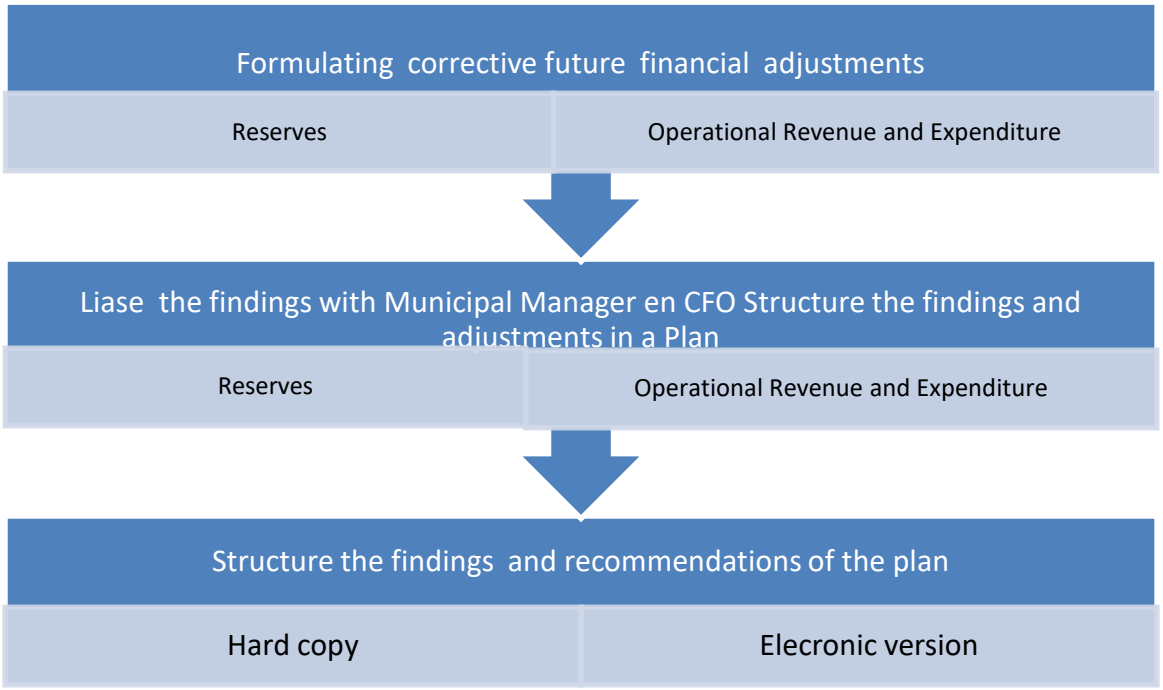
Execution Phase

After the plan is officially adopted, strategies must be put into action (e.g. funding required in achieving goals). The execution phase is where the

strategies become operational through the **budget, financial performance measures, and action plans**. Regular monitoring should be part of this phase.

7.Methodology followed compiling the Long Term Financial Plan





Information was gathered from the following documents:

- Financial Statements 2016
- Medium Term Revenue and Expenditure Framework for 2015/16
- Integrated Development Plan
- Spatial Development Plan
- Infrastructure Master Plans
- Infrastructure Development Plans
- Asset Management Policy

The following Policies have been inspected **and may need some future adjustments to support the Long Term Financial Plan** effectiveness:

- Tariff policy
- Rates policy
- Indigent policy
- Budget policy
- Asset Management policy
- Credit Control policy
- Investment policy
- Borrowing policy

The asset registers of the municipality have been analysed in an attempt to determine future asset replacement costs and maintenance requirements, reviewed the IDP and relevant sector master plans and conducted interviews with the executive management of the municipality to identify material matters with a financial impact and determine the capital investment requirements of the municipality.

The cash needs of the municipality's needs against the revenues it can expect to generate based on the economy and population of the

sub-region was modelled, in an attempt to determine the affordability of future capital expenses.

8.Long-Term Financial Plan Framework

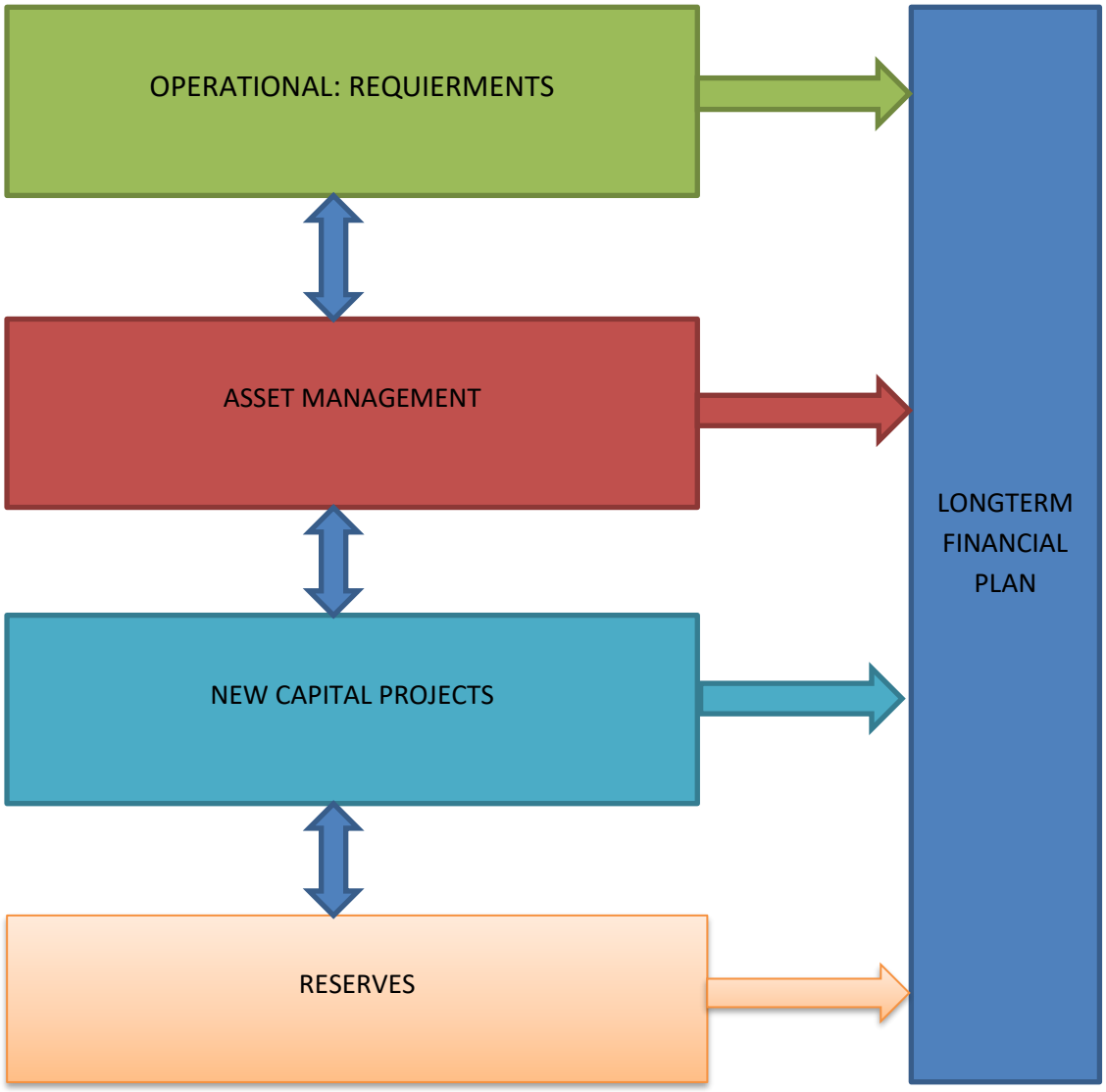
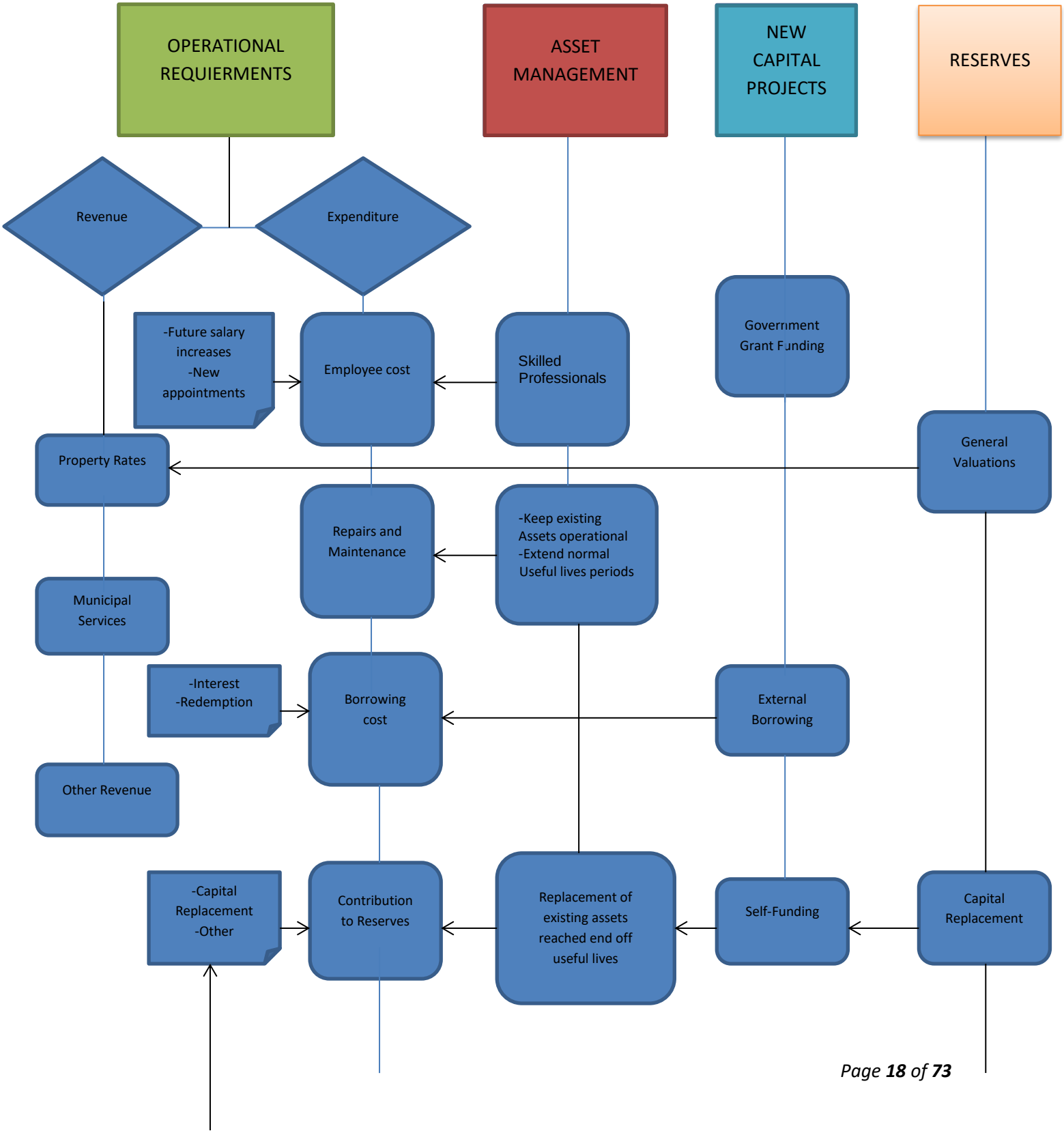


Figure 3- Financial Plan Elements

The elements as illustrated in figure 3 above are the fundamental building blocks which inform and guide the content of the long term financial plan. These elements individually and collectively impact the long-term need for capital and revenue and the strategies that will be followed to ultimately formulating the financial plan based on the information derived from analysing of it.



9.Anallysing the Current Status

Prince Albert: At a Glance

Demographics, 2017

POPULATION

13 960

HOUSEHOLDS

3 877

Education

LITERACY RATE 2011

69.9%

Poverty

HOUSEHOLDS EARNING <THAN R400 PM -2011

9.6%

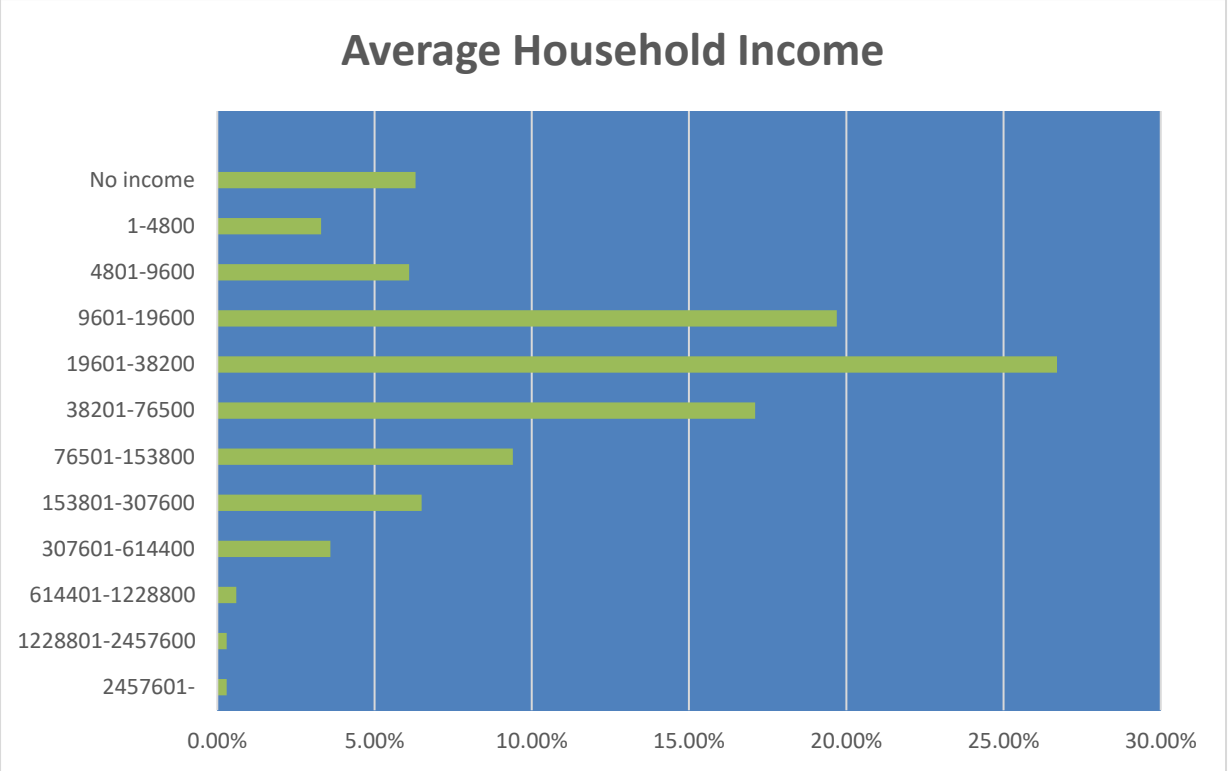
Access to Basic Service Delivery, 2014 Minimum service level

98.4% 73.8% 86.8% 81.4%

Economy

GDP Growth 2005 – 2013

4.5%



Largest Economic Sectors

Industry	%
Agriculture	12.6
Construction	14.5
Finance ,Insurance and Business Services	33.4

	Statistics SA 2011	WC Socio Economic Profile 2015	Projected 2017 [1]
Total population	13 136	13 684	13 960
Working age 64% of population	8 407	8 758	9 214
Number of households	3 578	3 887	3 877
Average number of persons per household	3.6		3.2
Unemployment rate	19.4%		20%

Percentage growth	**2.23%**	**4.51%**	**1%**
Number of unemployed persons			**1 843**
Number of households unemployed			**512**
Number of households employed			**3 365**

[1]Projected statistics 2017			
Total population: (13 684*1%) 2 years			**13 960**
Working age 66%: (13960*66%)			**9 214**
Number of households: (13960/3.6)			**3 877**
Average number of persons per household:			**3.6**
Unemployment rate			**20%**
Number of unemployed persons (9214*20%)			**1 843**
Number of households unemployed (1843/3.6)			**512**
Number of households employed (3877-512)			**3 365**

The profile reflects the socio-economic reality of the municipality. As such, valuable insight can be gained as to the developmental challenges faced by communities residing within the municipality's geographical area.

This profile primarily uses data sourced from the 2011 Census - Statistics South Africa, and administrative data from the 2015 Western Cape Socio Economic Profile for Prince Albert Municipality. This available information was used to determine projected information as anticipated for the current socio economic statistics for 2017, and shall be applied to assist in the projections and planning through the course of the planning process**.**

At present 870 households are receiving Indigent subsidies from the municipality. Only households with a combined monthly income of R3 500 pm qualify for this benefit. 9.6% Of the household's annual earnings are R400 and less, which is a clear indicator of an immense poverty rate that prevails in the municipal area.

The projected 3877 households are representing residential and rural areas. The latest statistics derived from the municipality's financial system indicating that 2549 accounts are processed monthly.

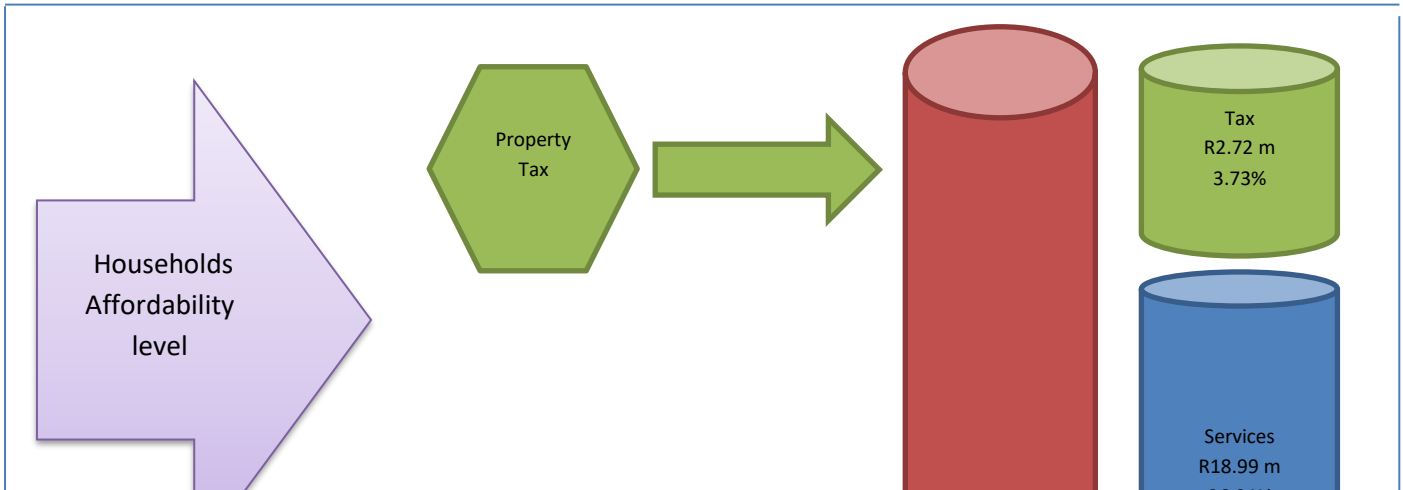
The current growing rate of the local economy of 1% ties with the National economic growth rate and there is no indication that the three-main local economic sectors will grow beyond that. For planning purposes a growing rate of only .5 % is anticipated.

In terms of National Governments fiscal policy, inflation is set to be in a band ranging between 3 and maximum 6 %. The current relatively high inflation rate seems too slowed down and economists are of the opinion that the inflation rate could be expected to decline soon. For projection purposes an inflation rate of 5% over the next 10 years is anticipated.

For calculation of projected future revenue, the following will be use as assumptions:	
Number of Farms accounts for property rates in rural area	1024
Number of households in residential areas	2549
Number of indigent households	870
% Growth p.a. of households	0.5%
Projected future inflation	5%

The revenue resources of the municipality are graphically set out in figure 4 below and individually analysed as such.

10.Current Cash Generating Revenue Resources



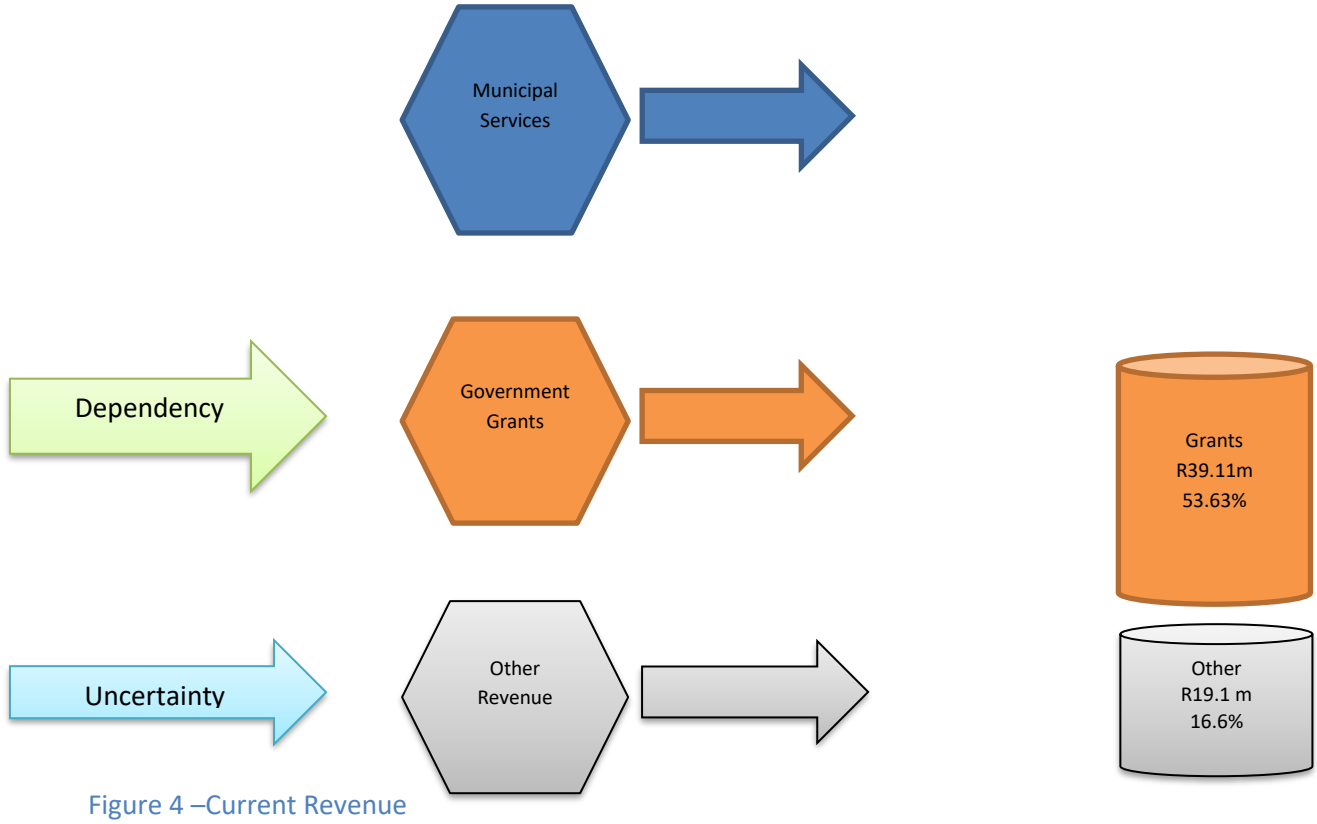


Figure 4 –Current Revenue

10.1 Property tax

Property tax currently contributes R2.72 million (3.73%) of the municipalities total cash generated revenue.

In perfect or rather normal circumstances, rates are theoretically supposed to be the balancing number in the budget to not only balance the budget but also to include sufficient amounts to contribute to reserves which must be cash backed. The ideal process to determine revenue from rates is illustrated as follows;

Total Operating Expenditure including contribution to reserves

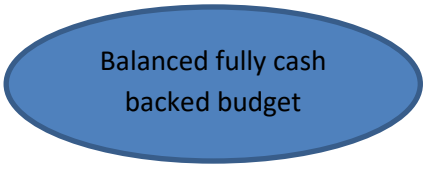
Less

All the revenue resources except rates

Plus

Property Rates The balancing factor

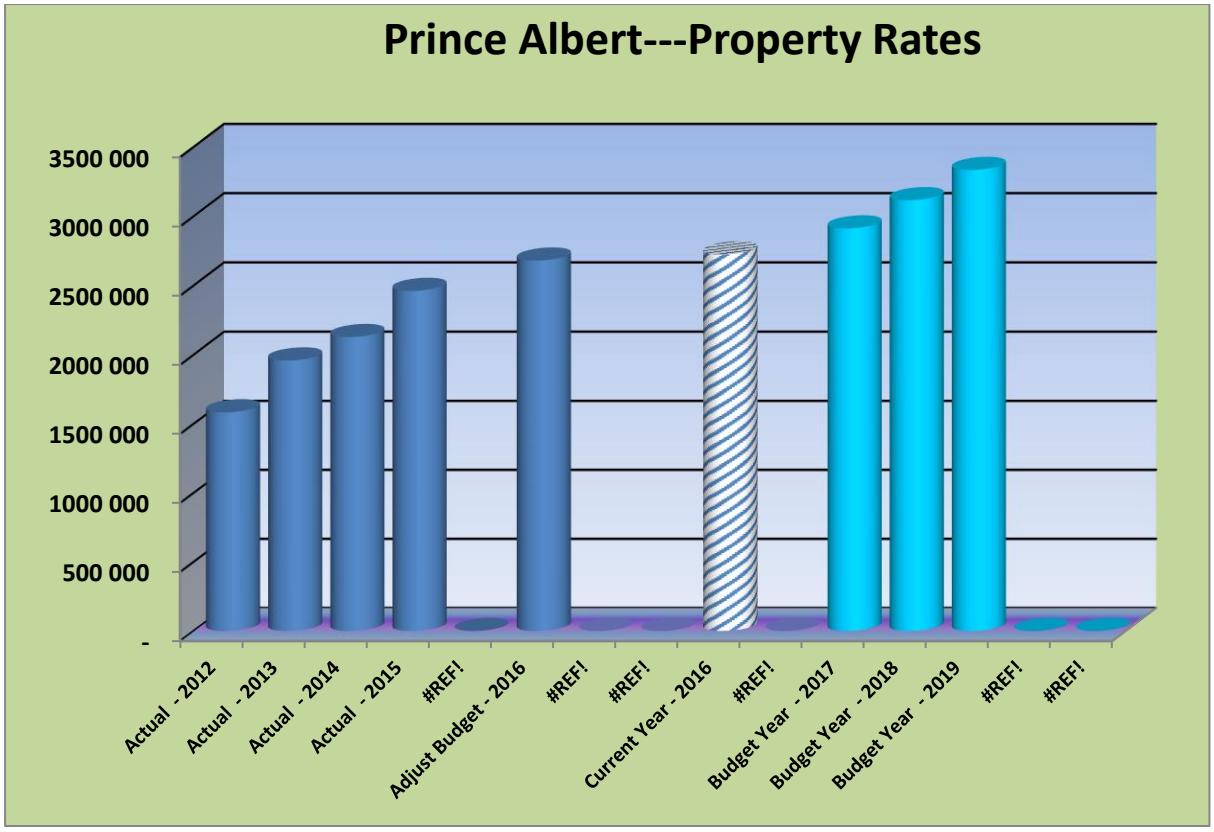
Equals



However, in South Africa, Municipalities don't function in normal ideal circumstances due to a massive poverty problem and are municipalities confronted with affordability problems. Therefore, municipalities are forced to deviate from the ideal model and have to rely on alternative models where municipalities are more dependent on external Government Grants to balance the budget.

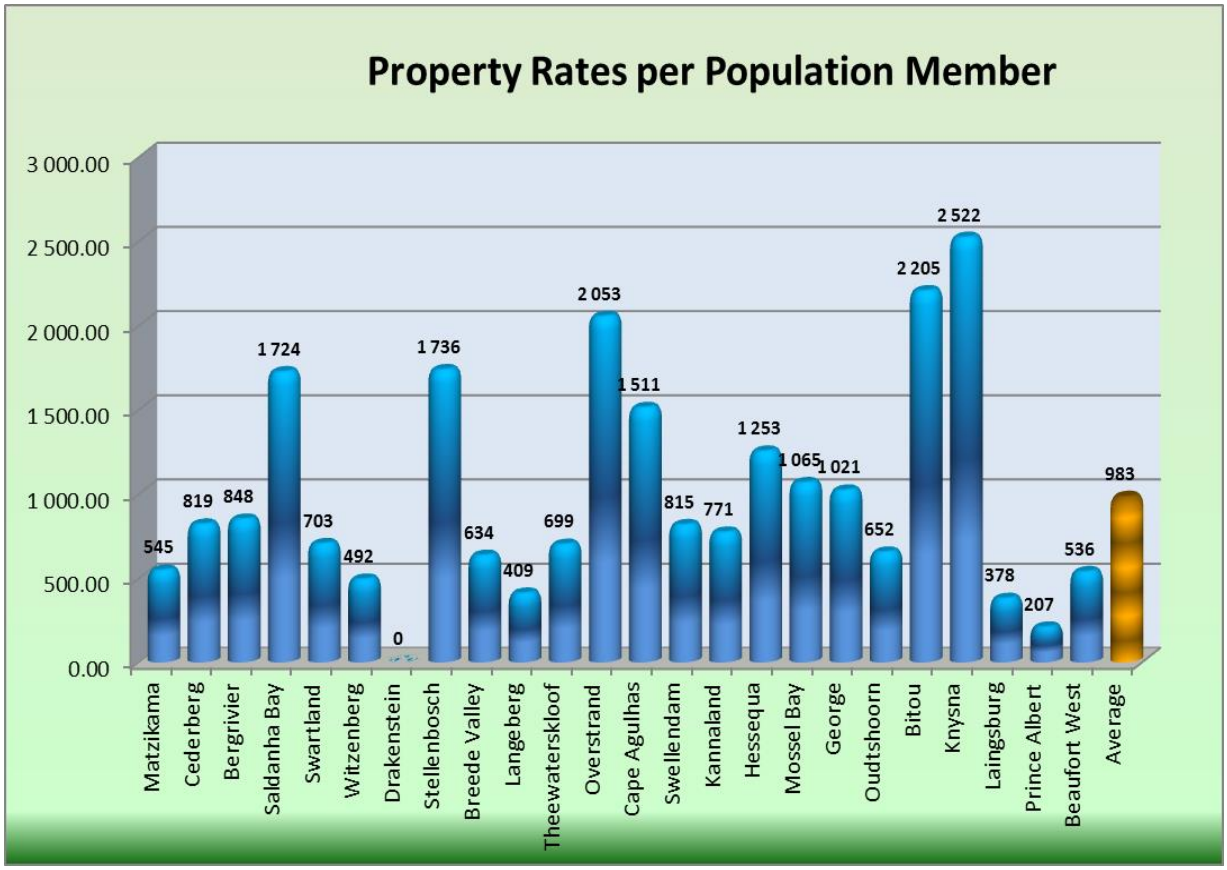
The focus with property tax has thus changed from the balancing factor to a more conservative approach, with emphasis on affordability.

To test for affordability, it will be meaningful to have a look at past tendencies and analyse if the past increases in property rates have been within the limits of the prevailing inflation rates. In the graph below, it is indicated that the total property rates revenue has increased with R1 225 000 (82%) since 2012 to 2016. The past five years increases representing an average increase of approximately 16 % per annum, this is close to double the average actual inflation rate of 5.75%.



(**Where information was not available all the graphs are indicated with #REF)**

Although the average increases were much higher than inflation it could be justified due to the fact that the property rates levied per capita and per household was much lower than the average of property rates levied of all the Western Cape Municipalities. The graph below is an indication of property rates levied per capita during 2016, and is it clear that the municipality has still an advantage to levy future taxes above the forecasted inflation rates. In 2016, the per capita property rates (R207) is still 79% lower as the average of R983.This is an indication that the municipality still has the scope and opportunity to increase future property rates above inflation without influencing affordability.



(Drakenstein's information was not available)

Calculation of future property taxes is now derived from the above background information.

Projected future Property Rates (period 2017-2020)

	2017	2018	2019	2020

Residential properties (.5% growth pa)	2562	2575	2587	2600
Less Indigent properties (growing with 1% pa)	-879	-887	-896	-905
Farms-(constant)	1040	1040	1040	1040
Total properties	2723	2727	2731	2735
Population plus 1% growth	14100	14241	14383	14527
Rates per capita-10% increase pa	R 214.33	R 235.76	R259.34	R 285.27
Rates per capita* Total properties)	R 2.8 (m)	R 3.06 (m)	R 3.37 (m)	R3.7 (m)

The projected total revenue generated from rates as reflected in the 2016 MTREF Budget are R2.913 m (2017), R3.117m (2018) and R3.335 m (2019) respectively. This is an indication that the historical budgeting forecast applied is very close to the projections based on the assumptions applied in this model on the one hand and on the other hand that the projected future property rates until 2026 is fairly reliable.

Projected future Property Rates (period 2021-2026)

	2021	2022	2023	2024	2025	**2026**
Residential properties (.5% growth pa)	2613	2626	2640	2653	2666	2679
Less Indigent properties (growing with 1% pa)	-914	-924	-933	-942	-952	-961
Farms-(constant)	1040	1040	1040	1040	1040	1040
Total properties	2739	2743	2747	2751	2755	2758
Population (plus 1% growth)	14672	14819	14967	15117	15268	15421
Rates per capita-(10% increase pa)	R 313.80	R 345.18	R 379.69	R 417.66	R 459.43	R505.37
Rates per capita* Total properties	R4.07 (m)	R 4.48 (m)	R 4.93 (m)	R 5.4 (m)	R5.96 (m)	R6.56 (m)

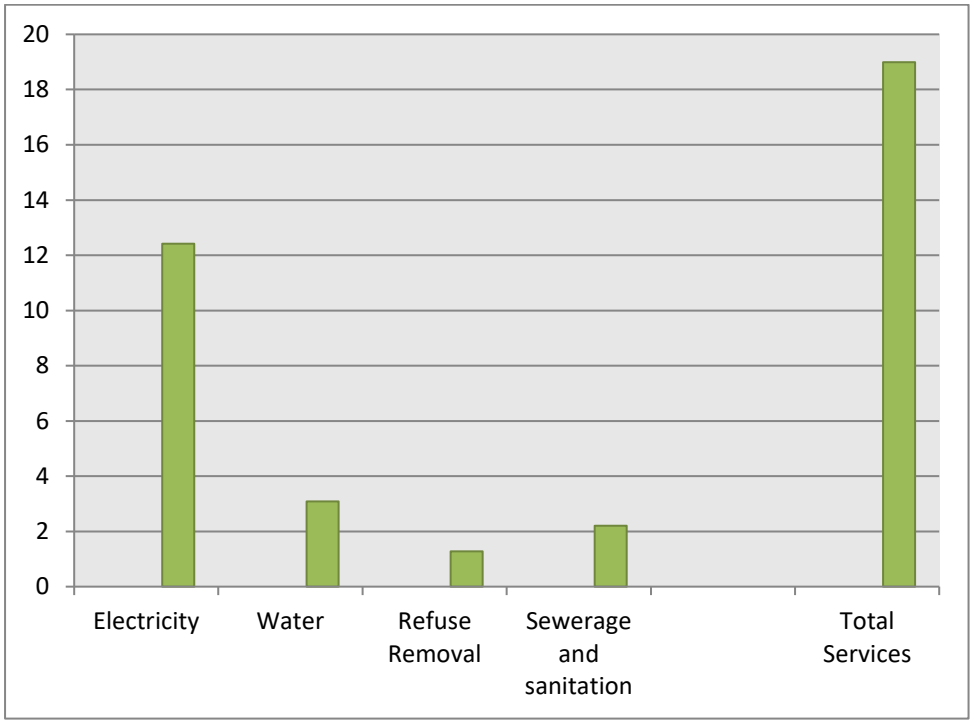
Conclusion

Based on the assumptions applied in the model, the expected total revenue generated from property taxes over the next 10 years, amounted to a total of

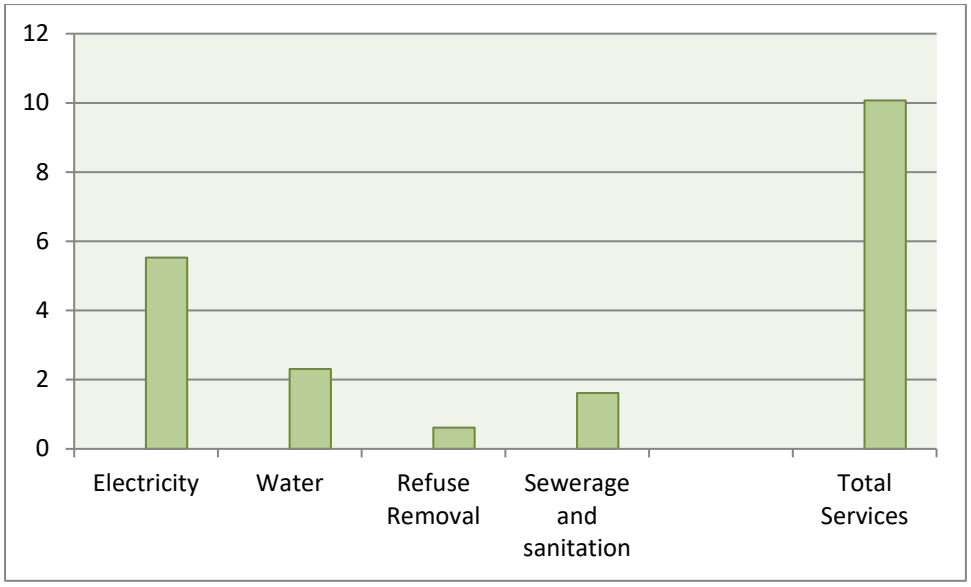
R44.356 million. This amount is calculated to maintain the affordability of the rates and to also maintain a position where the property tax is cheaper relatively to the average property tax of the other municipalities in the Western Cape in an effort to attract potential developers to Prince Albert to broaden the rate base**.**

10.2 Service Charges

Total revenue per service (R million)



Surplus per service (R million)



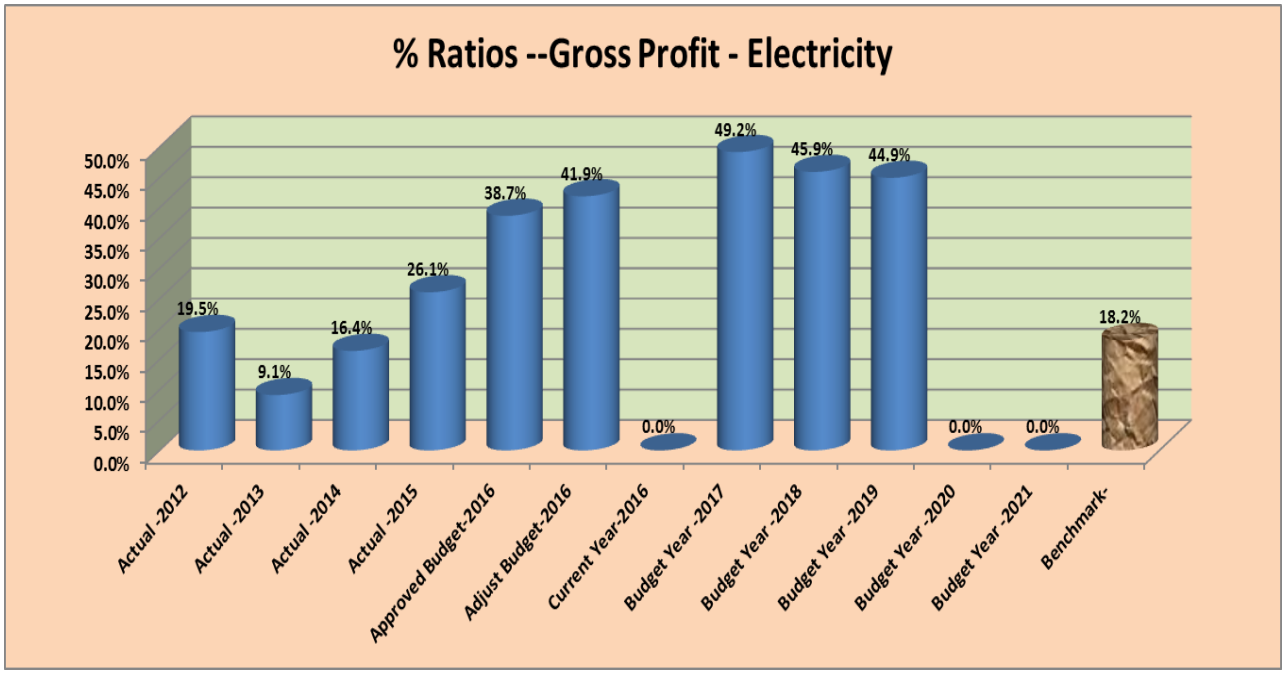
Service charges currently contribute R18.989 million (27.15%) of the municipalities total cash generated revenue.

Service charges include Electricity-, Water-, Sewerage- and Refuse Revenue.

10.2.1 Electricity

Electricity Service charges currently contribute R12.42 million (65.4%) of the service charges.

Electricity service charges is a “profit making” service and generated surpluses is utilised to cross-subsidise other functions of the municipality. For this reason, it is very important to ensure the margins derived on Electricity services are maintained at a certain level. However, due to sharp increases in bulk service charges, the municipality is compelled to transfer all cost increases to the consumers, and therefore future electricity margins came under pressure as illustrated below. This tendency is alarming and calls for more intensive planning to improve on this.



The current MTRF budget indicating an increase in the gross profit margin for 2017 followed with a relative sharp decrease in the two outer years. It appears however that the gross profit projections seem to be too optimistic.

The municipalities are recently “price takers and not price setters” due to the fact that the National Electricity Regulator (NER) largely influence the tariffs of the municipalities. Thus, as the municipality has almost no control over prices, as well as bulk purchase prices, it is very difficult to improve on current gross profit margins.

The only control the municipality has to influence the revenue is to safe on the operating cost in an effort to yield an overall improved net profit.

For the purpose of long term planning, a more realistic increase in future tariff increases of 5.5% will be maintained.

	2017 R (m)	2018 R(m)	2019 R(m)	2020 R(m)	2021 R(m)	2022 R(m)	2023 R(m)	2024 R(m)	2025 R(m)	2026 R(m)

.5% Increase in consumers	0.06	0.06	0.07	0.07	0..08	0.08	0.09	0.09	0.10	0.10
5.5% increase in tariffs	.68	.59	.74	.79	.84	.89	.94	1.00	1.06	1.12
Total revenue R(million)	12.82	13.47	14.29	15.15	16.06	17.03	18.05	19.14	20.30	21.52

Conclusion

Based on the assumptions applied in the model, the expected total revenue generated from electricity over the next 10 years, amounted to a total of R167.82 million. This amount is calculated to maintain the affordability of the electricity tariffs to the residents and to secure sustainable and reliable electricity supply.

10.2.2 Water

Water Service charges currently contribute R3.083 million (16.24%) of the service charges.

The municipality is self-sustaining in bulk water supply for distribution and is selling the water at a profit.

With the analysing process it was found that the gross profit on water sales has decreased with 41.4% during 2016 from R682 982 the previous year to only R399 658, with the result that the water department is currently operating at a very marginal profit. Water sales has decreased from R3.300 million to R3.082 million and the operating cost has increase from R2.618 million to R2.683 million. This is a classic result of water restrictions, where the savings result in a decrease in revenue and the resources to deliver the service remains the same and even increase due to the effect of inflation.

It appears that water restrictions will remain and will continue in future.

As an economic service the water department could not continue to operate at such a marginal profit. This situation is not sustainable and must be rectified in future budgets.

For the long-term plan model, the following assumptions are applicable:

- A once of increase of 6.7 % to obtain an improved gross profit margin,

- Provision for a .5% economic growth,
- A 10% annual increase at least over the next 10 years.

The increases recommended are not punitive in nature but rather precautionary measures to secure sustainable potable water for the future.

Water

	2017 R (m)	2018 R(m)	2019 R(m)	2020 R(m)	2021 R(m)	2022 R(m)	2023 R(m)	2024 R(m)	2025 R(m)	2026 R(m)
Increase to cover backlog loss 6.7%		0.22								
Economic growth		0.02	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.04
Price increases 10%		0.33	0.38	0.43	0.47	0.52	0.57	0.63	0.70	0.77
Total Revenue for water	3.28	3.85	4.25	4.70	5.19	5.74	6.34	7.0	7.74	8.55

Conclusion

Based on the assumptions applied in the model, the expected total revenue generated from water over the next 10 years, amounted to a total of R56.64 million. This amount is calculated to maintain the affordability of the water tariffs to the residents but foremost to secure sustainable and reliable potable water for the current and future generations.

10.2.3 Refuse removal and Sewerage

Refuse removal and Sewerage charges currently contribute R1.845 million (9.7%) and R3.104 million (16.35%) respectively of the service charges.

Unlike as with water and electricity which are expected and supposed to operate with the purpose and intent to deliver surpluses, the objective with refuse removal and sewerage services are to operate at least at an even breaking point.

Currently refuse removal is running at a marginal profit and sewerage services are operating very satisfactory and deliver a surplus of R0.596 million.

It is recommended to continue with future increases in tariffs which equal at least inflation rate expectations for sewerage services and institute a once off additional increase of 6% to the refuse removal tariff.

For the long-term plan model, the following assumptions are applicable:

- Provision for a .5% economic growth,
- A 6% annual increase at least over the next 10 years.

Refuse removal

	2017 R (m)	2018 R(m)	2019 R(m)	2020 R(m)	2021 R(m)	2022 R(m)	2023 R(m)	2024 R(m)	2025 R(m)	2026 R(m)
Increase to cover backlog loss 6%		0.080								
Economic growth		0.007	0.007	0.008	0.008	0.009	0.009	0.010	0.011	0.011
Price increases 10%		0.073	0.082	0.087	0.092	0.098	0.104	0.110	0.116	0.123
Total Revenue for Refuse removals	1.332	1.492	1.581	1.676	1.777	1.883	1.996	2.116	2.243	2.378

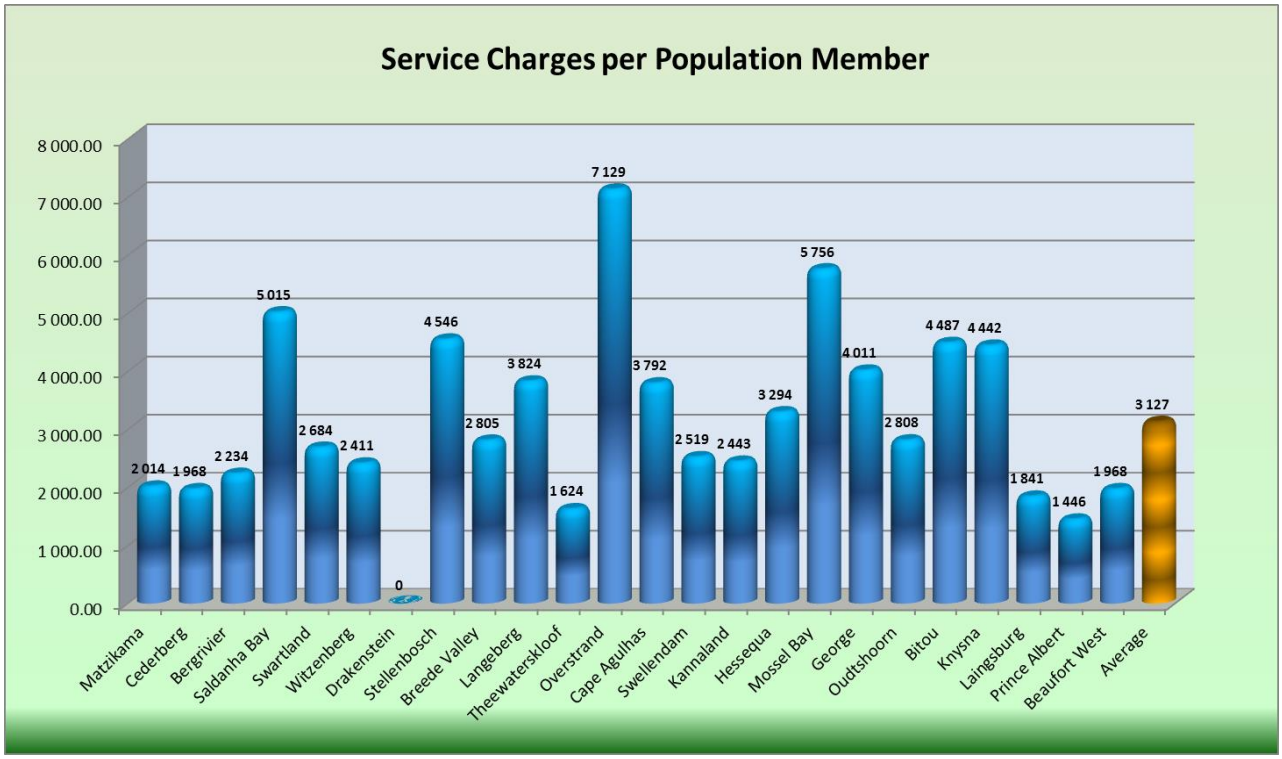
Sewerage

	2017 R (m)	2018 R(m)	2019 R(m)	2020 R(m)	2021 R(m)	2022 R(m)	2023 R(m)	2024 R(m)	2025 R(m)	2026 R(m)
Economic growth .5%		0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.02
Price increases 6%		0.13	0.13	0.14	0.15	0.16	0.17	0.19	0.20	0.21
Total Revenue for refuse removal	2.10	2.24	2.38	2.54	2.70	2.88	3.07	3.27	3.48	3.71

Conclusion

Based on the assumptions applied in the model, the expected total revenue generated from refuse and sewerage services over the next 10 years, amounted to a total of R18.475 million and R28.38 million respectively. These amounts are calculated to maintain the affordability of the tariffs but foremost to secure sustainable and reliable refuse removal and sewerage service delivery to the current and future generations.

10.2.4 Conclusion – Total Services



(Drakenstein Municipality's information was not available)

The graph above is an illustration of all the municipalities in the Western Cape Province service charges per population member per annum, for 2016.

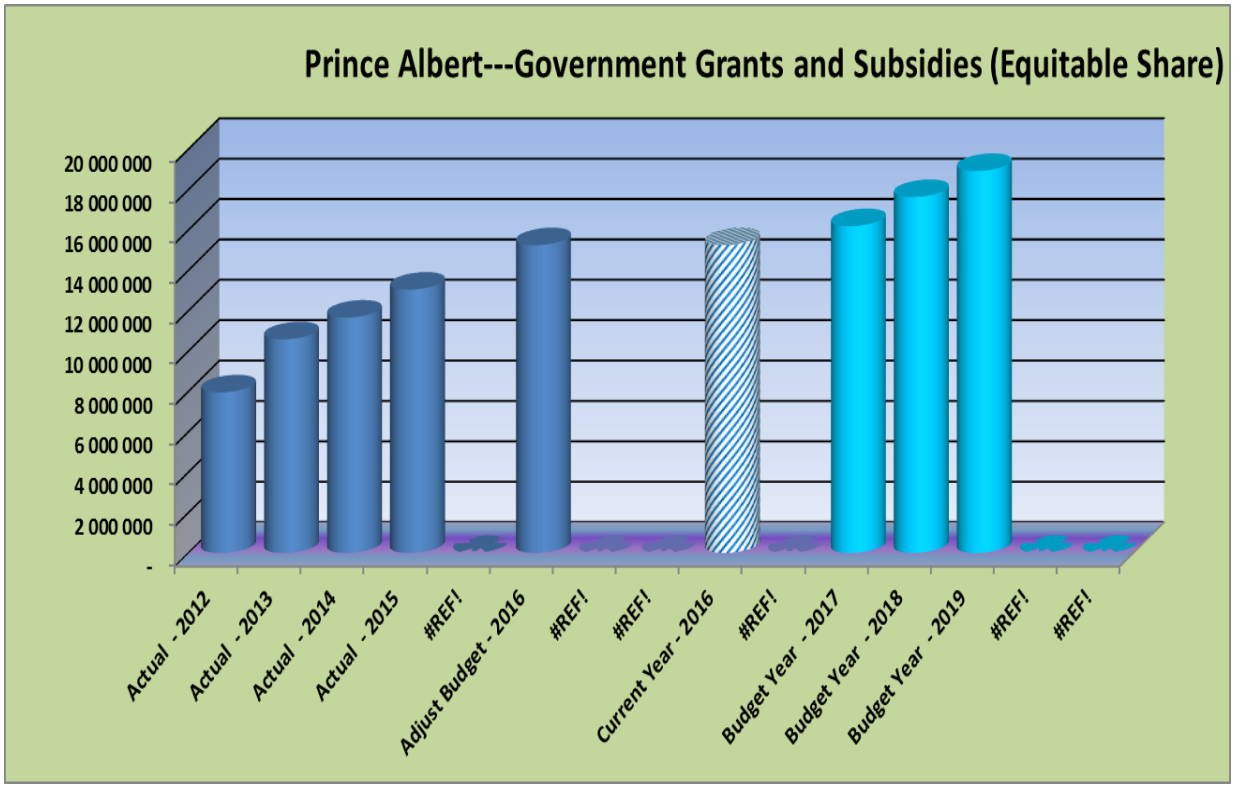
A very important conclusion from it is that Prince Albert's total amount of R1446 per member of the population per annum, for service fees, is 53.76% below the average of R3 127 and 24% below the average of the 2 neighbouring municipalities.

This is a clear indication that Prince Albert municipality has a comparative advantage which could justify future increases in tariffs over and above inflation adjustments without influencing affordability. The Prince Albert consumers have benefited in the past from relatively cheap lower than average tariffs, and would future increases, even above inflation rates, be fair and appropriate.

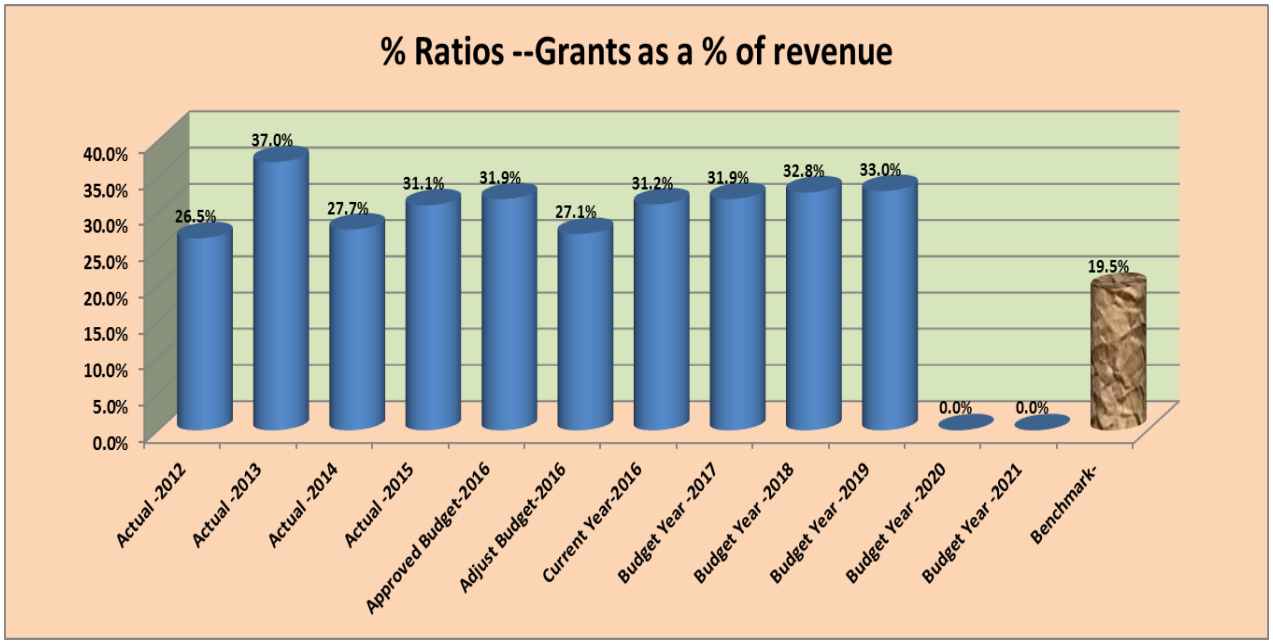
10.3 Government Grants

Government Grants received currently contribute R39.112 million (53.63%) of total revenue.

The equitable share contribution is the only applicable un-conditional grant of significance and for the long-term planning purpose it is isolated and forecast future expected contributions payable to Prince Albert municipality, is based only on it.



The graph above is an illustration of the current budget forecast for equitable share revenue.

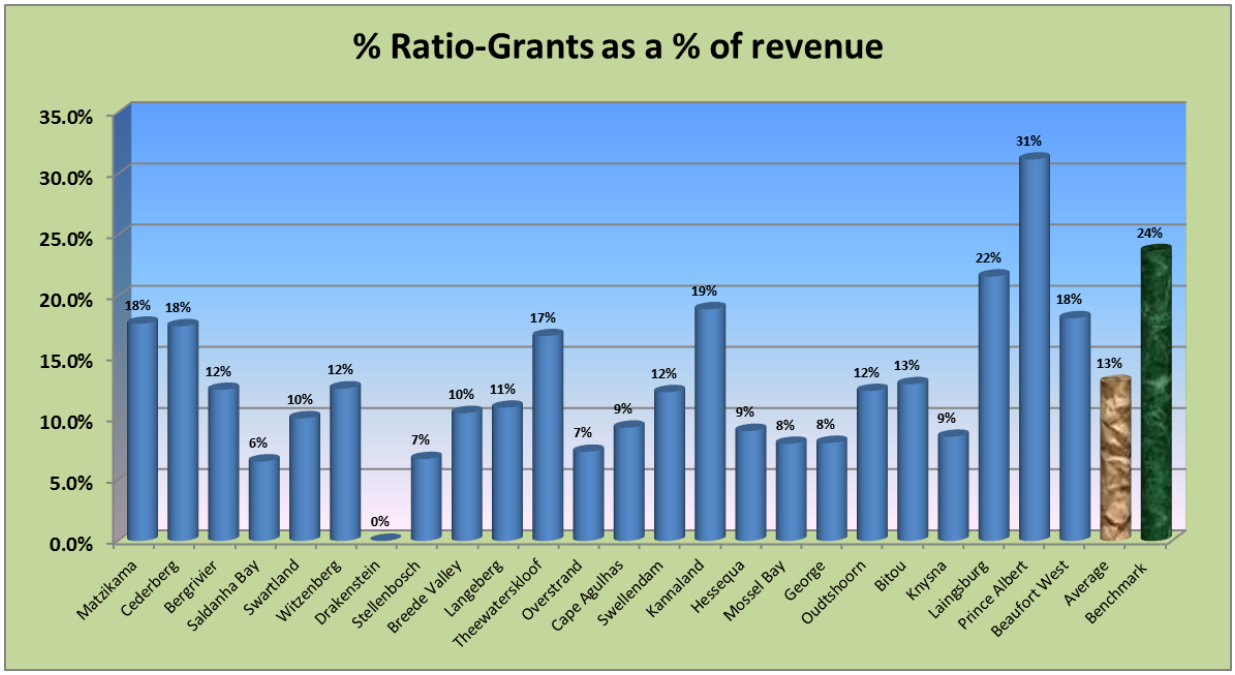


The above graph is an illustration of the equitable share as a percentage of total revenue.

This information is an indication that the municipality does not has a relatively strong revenue base and is very much depended on grant funding to balance the budget relatively to other municipalities in the Western Cape Province due to the fact that current, past and future forecasts are approximately 70% above the benchmark of 19.5%.

This trend is also illustrated and evident in the below graph , which indicating that the municipality is at present the municipality which is the most

dependant on government grants of all the municipalities in the Western Cape.



There is no indication that any future improvement to the equitable share dependency could realize.

Based on the past 3 years' actual amounts received and the amounts of the outer 3 years as published in the Division of Revenue Act (DORA) the amounts have been projected to forecast the expected future equitable share grants.

	2017 R (m)	2018 R(m)	2019 R(m)	2020 R(m)	2021 R(m)	2022 R(m)	2023 R(m)	2024 R(m)	2025 R(m)	2026 R(m)
Equitable share	16.192	17.633	18.922	20.408	22.011	23.74	25.60	27.62	29.78	32.12

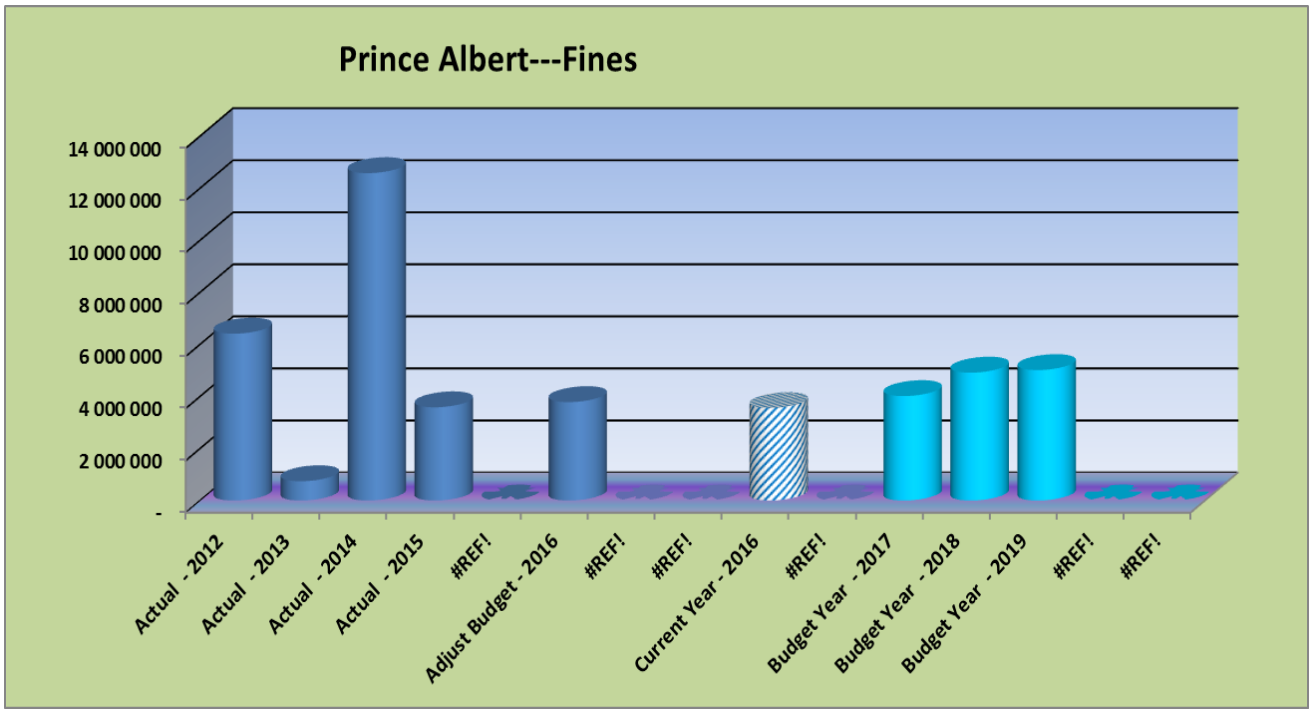
Conclusion

The amounts in the current budget are a fair reflection of the expected forecasted grants allocations as it correlated well with the long-term planning model.

From the model, it is forecast that an amount of R234.03 million in total is expected to be allocated as equitable grants for the next 10 years.

10.4 Fines

Fines revenue went through relatively unnoticed on most Statements of Financial Performance in South Africa up to 30 June 2013. During 2010 to 2012, fines revenue accounted for an insignificant portion of the total revenue mix of Municipalities. This low percentage could mainly be attributed to the accounting treatment of fines before the introduction of the revised iGRAP on 1 July 2013. Up to this date, fines revenue was predominantly accounted for on a cash basis. With the revisions of iGRAP 1, fines revenue is currently accounted for on the accrual basis, implying that fine revenue should be recognised irrespective whether it is collected or not (also note that the municipality now provides for the uncollectable portion of fines under debt impairment). Although it is recognised that fines revenue does not necessarily translate into cash, the graph below, and specifically the significant jump in revenue between 2012/2013 and 2013/2014, should remind all Councils of the potential cash that can be generated when improving collection procedures specifically targeted at fines.



(Where information was not available all the graphs are indicated with #REF)

During the 2015, financial year the traffic fines issued were impaired with R2.965 million and during 2016 with R2.789 million which constitutes impairments of 82.8% and 78.5% respectively. These impairments compare not favourable with the average of 75% impairment rate of the Western Cape Municipalities, and is there scope to improve on the collection rate in order to raise additional cash to increase the collection rate and speed traps activities.

A 15% increase in speed trap activities and 10% increase in the collection rate could realize additional revenue as illustrated in the graph below.

	2017 R (m)	2018 R(m)	2019 R(m)	2020 R(m)	2021 R(m)	2022 R(m)	2023 R(m)	2024 R(m)	2025 R(m)	2026 R(m)
Fines	3.552	4.10	4.31	4.52	4.75	4.99	5.24	5.50	5.77	6.06
Increase in speed traps 5% pa	0.18	0.21	0.22	0.23	0.24	0.25	0.26	0.28	0.29	0.30
Increase in collection rate (10%)	0.373									
Revenue	4.10	4.31	4.52	4.75	4.99	5.24	5.50	5.77	6.06	6.36
Impairment 75 %	3.08	3.23	3.39	3.56	3.74	3.93	4.12	4.33	4.55	4.77
Total net fines revenue	1.03	1.08	1.13	1.18	1.25	1.31	1.38	1.44	1.52	1.59

Conclusion

If the assumptions are applied as suggested, the revenue from fines could increase from R763 844 to R1.59 million over the next 10 years, which constitutes an additional R5.26 million as revenue.

10.5 Other Revenue

For the purpose of the long term financial plan model, the effect of other revenue is considered as immaterial to raise additional revenue. Apart from the normal annual inflation linked increases of 5.5% pa no other appropriate measures are foreseen.

11. Current Cash Operating Expenditure

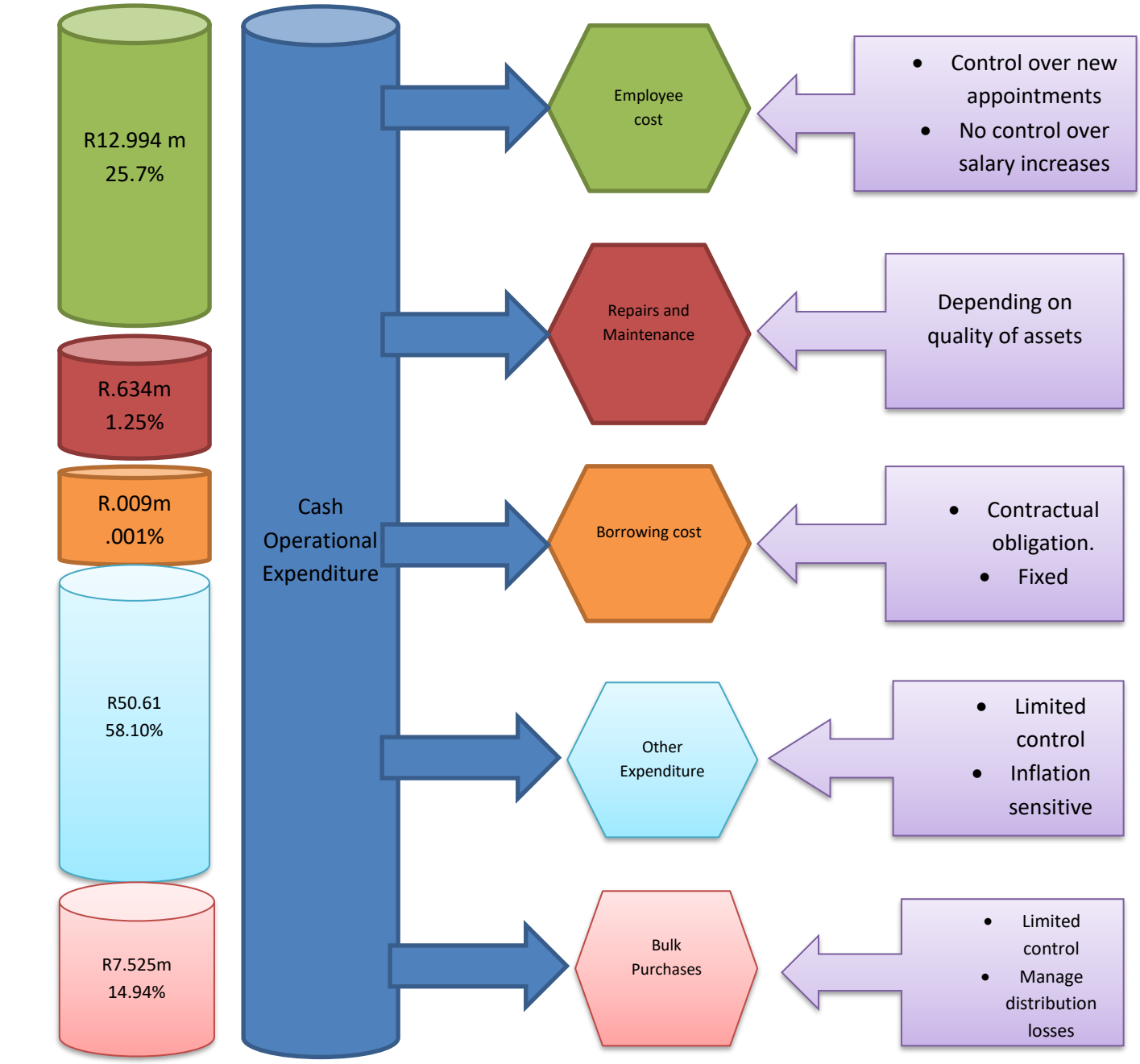


Figure 6 –Current Cash Expenditure

"Building on cost containment guidelines approved by Cabinet in October 2013, government at all levels will need to identify opportunities to **increase efficiency and reduce waste**. These economic challenges will continue to pressurise municipal revenue generation and collection hence a conservative approach is advised for projecting revenue**. Municipalities will have to improve their efforts to limit non-priority spending and to implement stringent cost-containment measures.** At a national level, the 2017 budget will

pay particular attention to reducing line items that are not critical to service delivery to reinforce cost containment. Municipalities are still urged to implement the cost containment measures…" *National Treasury Circular 84 - Municipal Budget Circular for the 2017/18 MTREF*

In the municipal environment, the following line items are considered to be the main cost drivers, as it represents 90% of the total operating expenditure of Prince Albert Municipality:

- Employee Related Costs
- Debt Impairment
- Depreciation and Asset Impairment
- Bulk Purchases
- Repairs and Maintenance
- Finance charges

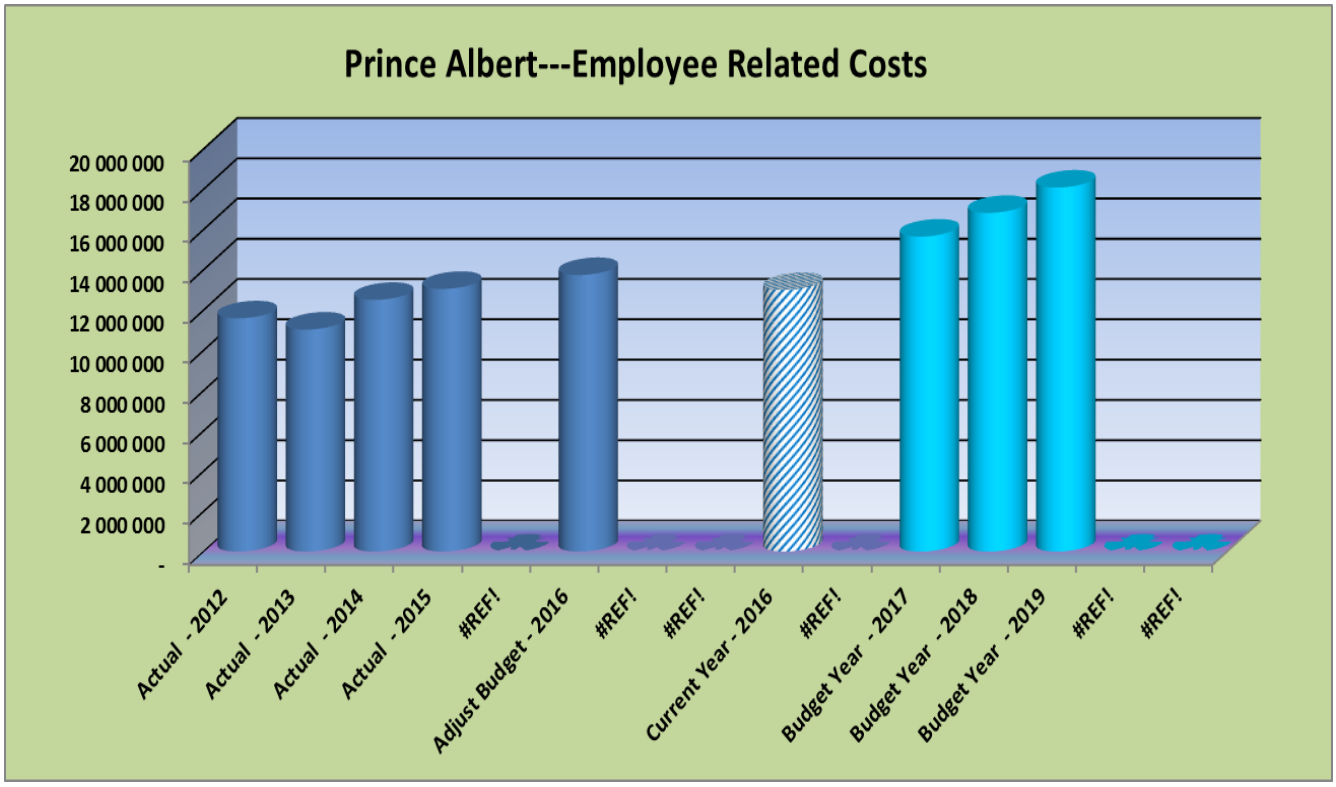
Total operating expenditure (excluding expenditure directly related to conditional grant funding) amounted to R 8.826 million in 2015/2016.

These major line items are analysed in detail below.

11.1 Employee Related Costs

Employee related costs make up approximately a quarter of the total operating expenditure of the municipality. Thus, it is of the utmost importance to monitor this line item on a regular basis to ensure that it is within set limits. Excessive increases, without the corresponding increase in revenue, could negatively impact on the long-term sustainability of the municipality.

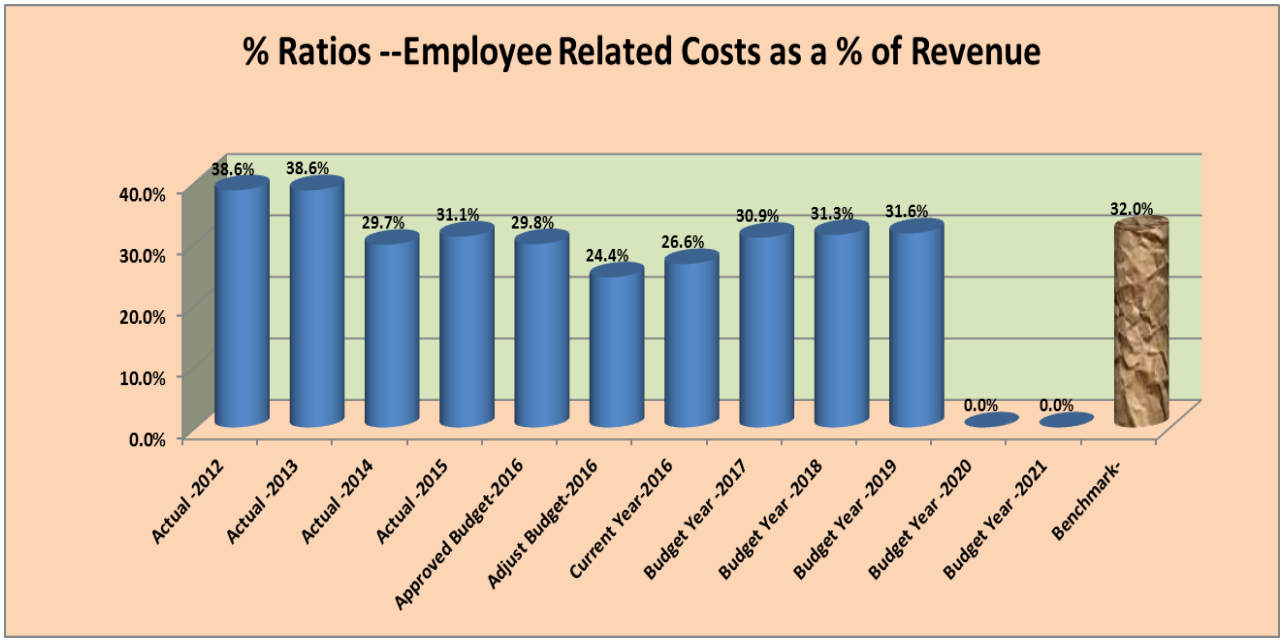
The employee related cost is set to increase from R 13.738 million in 2015/2016 to R18.081 million in 2018/2019. This increase, which factors in proposed annual increases per Circular's of the National Treasury, amounts to an average annual increase of 10.54% over the 3-year period. The increases are illustrated below:



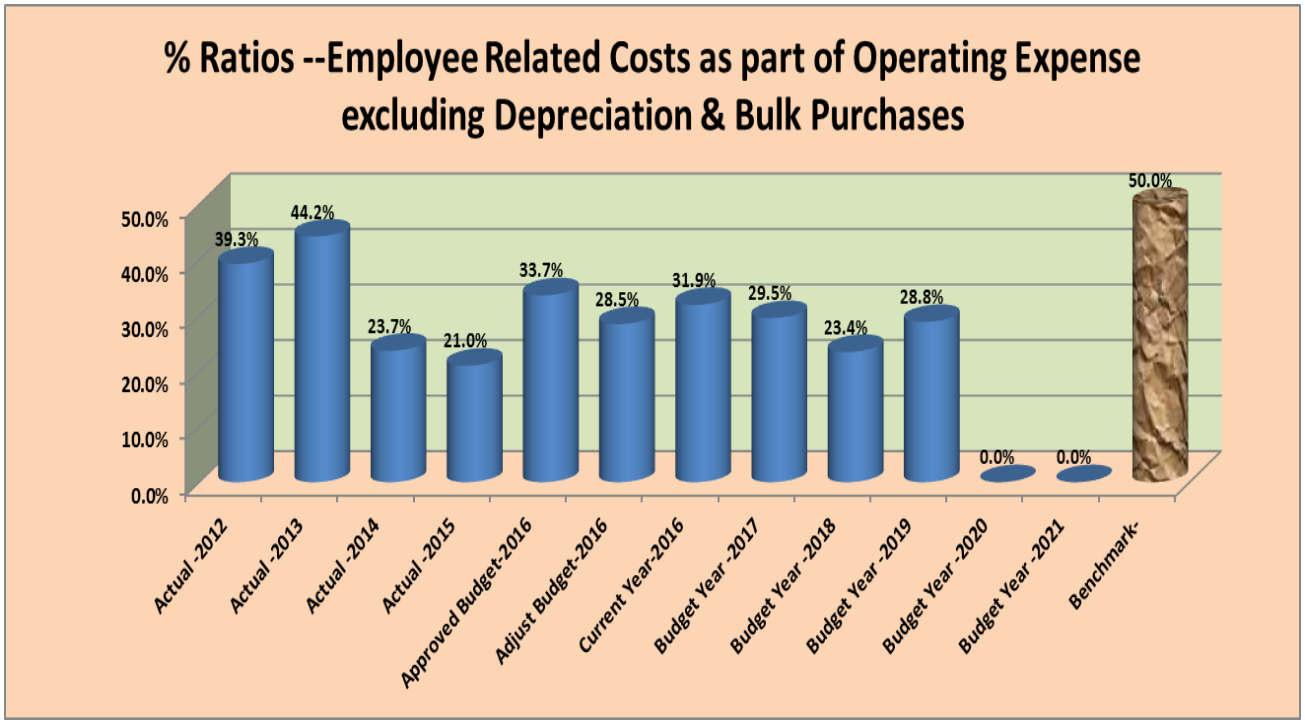
(Where information was not available all the graphs are indicated with #REF)

To evaluate the projected employee related cost figure, it is compared to certain benchmarks established in the Western Cape in recent years. Employee related cost is benchmarked against both revenue and expenditure to evaluate the appropriateness of the projected figures.

Firstly, Employee Related Costs is benchmarked against revenue. As indicated below, the employee related costs are constantly in line with the set benchmark of 32%.

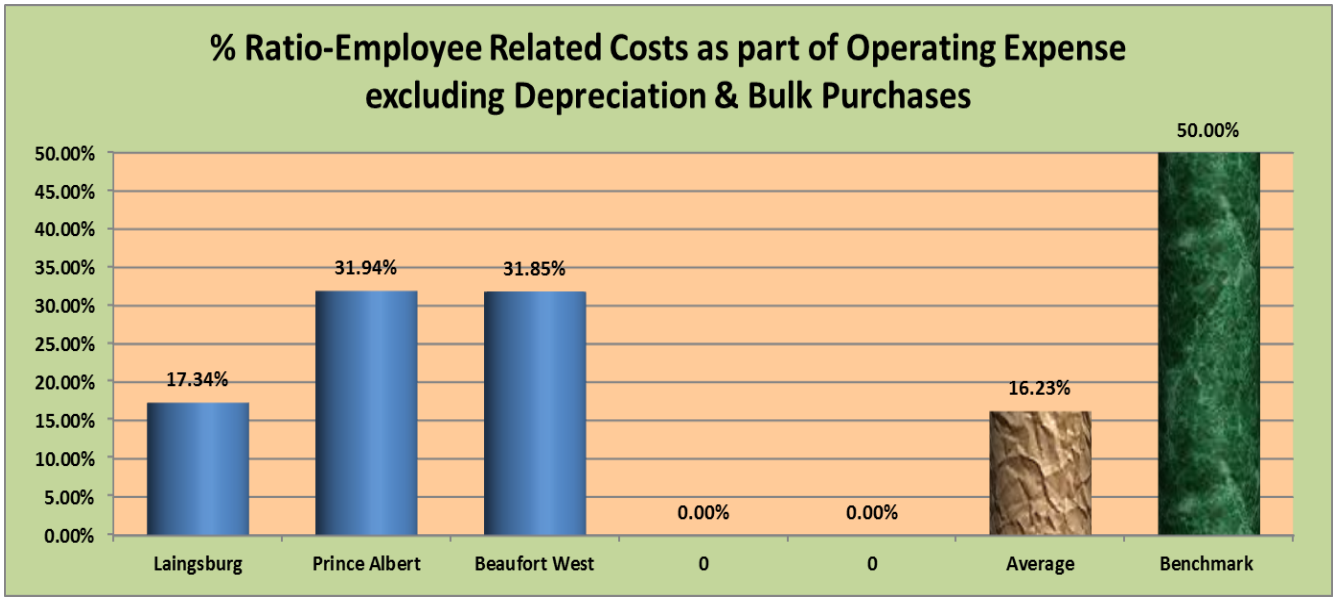


Secondly, Employee Related Costs is benchmarked against an operating expense indicator.



Based on this indicator, the municipality is projected to be close to 22% below the limits of the norm throughout the projected period from 2015/2016 as indicated above.

The Municipality also compares favourably with the neighbouring municipalities as indicated in the below graph.



Conclusion

The total employee cost is very favourable in comparison with the set norms. Annual salary increases are set at a National Bargaining Council level and has the municipality little or no control over it. Thus, it is evident that the municipality has no structural problems in terms of employment of too many incumbents to perform equally tasks in comparison with their neighbouring municipalities. The appointment of new incumbents is limited to only essential vacancies and not new posts. With an average salary increase of 6 % per annum, the following total employee cost is predicted

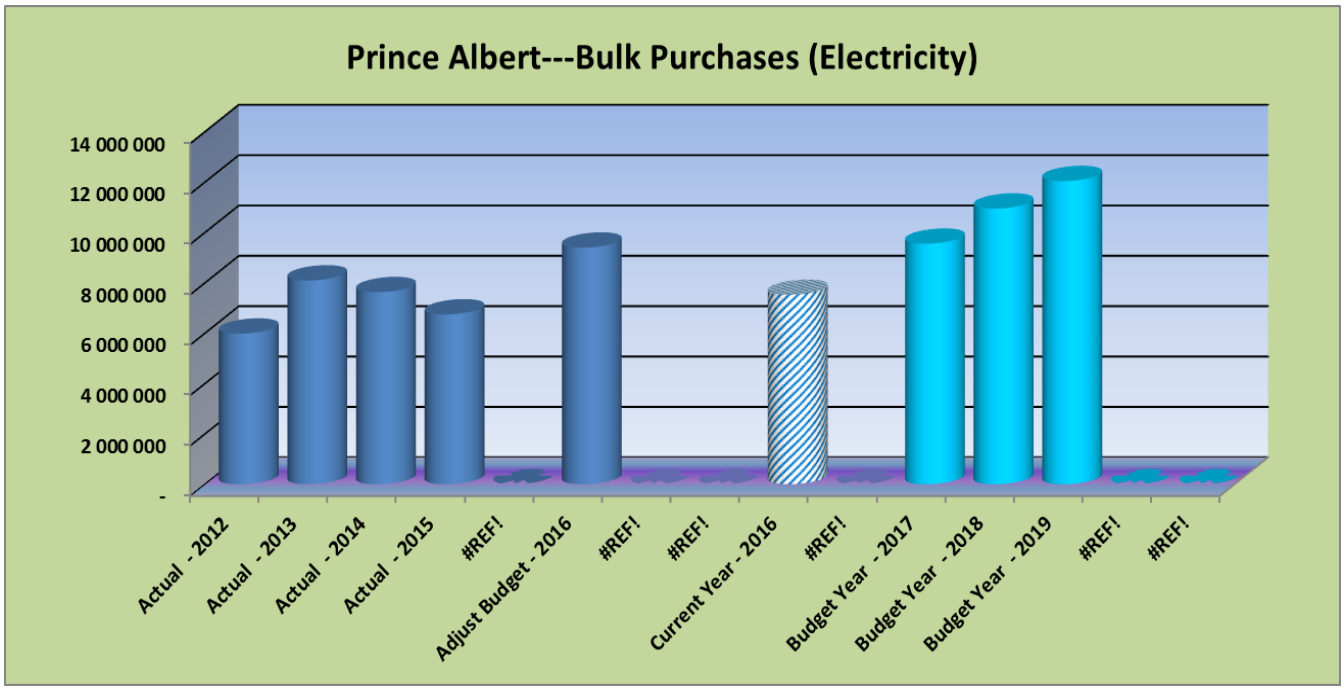
	2017 R (m)	2018 R(m)	2019 R(m)	2020 R(m)	2021 R(m)	2022 R(m)	2023 R(m)	2024 R(m)	2025 R(m)	2026 R(m)
Employment cost	12.99	14.51	17.77	18.84	19.97	21.17	22.43	23.78	25.21	26.72
Annual increase 6%	.78	.87	1.07	1.13	1.20	1.27	1.35	1.43	1.51	1.60
New incumbents	.74	2.39	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total	14.51	17.77	18.84	19.97	21.17	22.43	23.78	25.21	26.72	28.32

11.2 Bulk Purchases

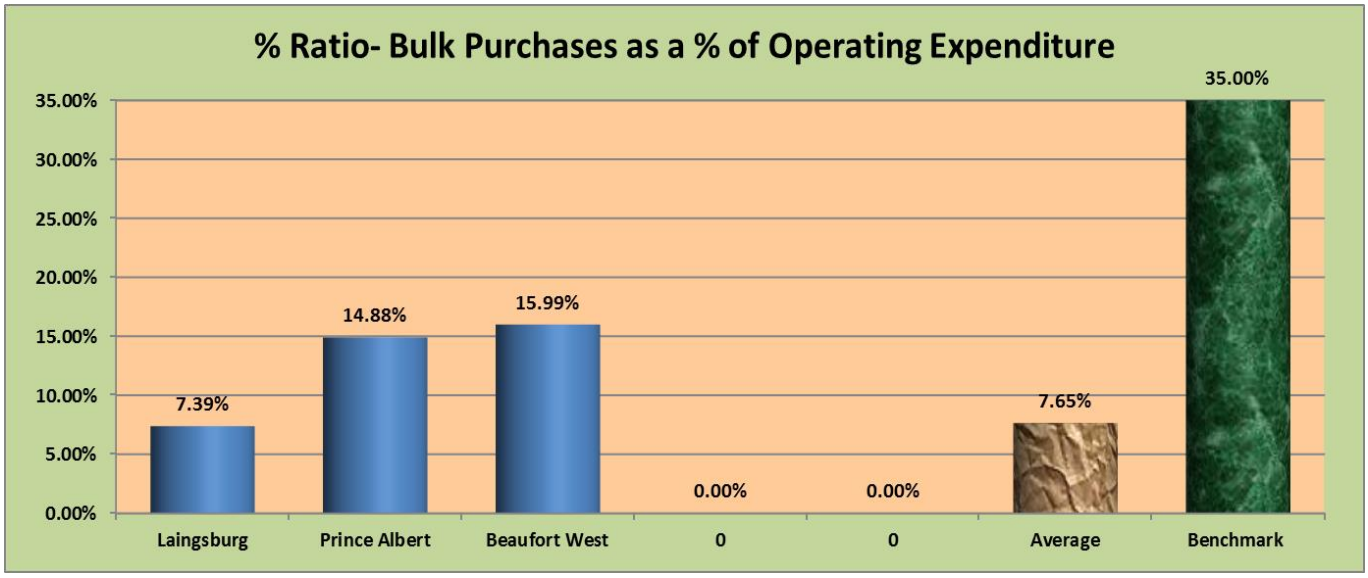
Bulk purchases currently amounted to R7.53 million and constitute 14.94 % of the total operating expenditure budget.

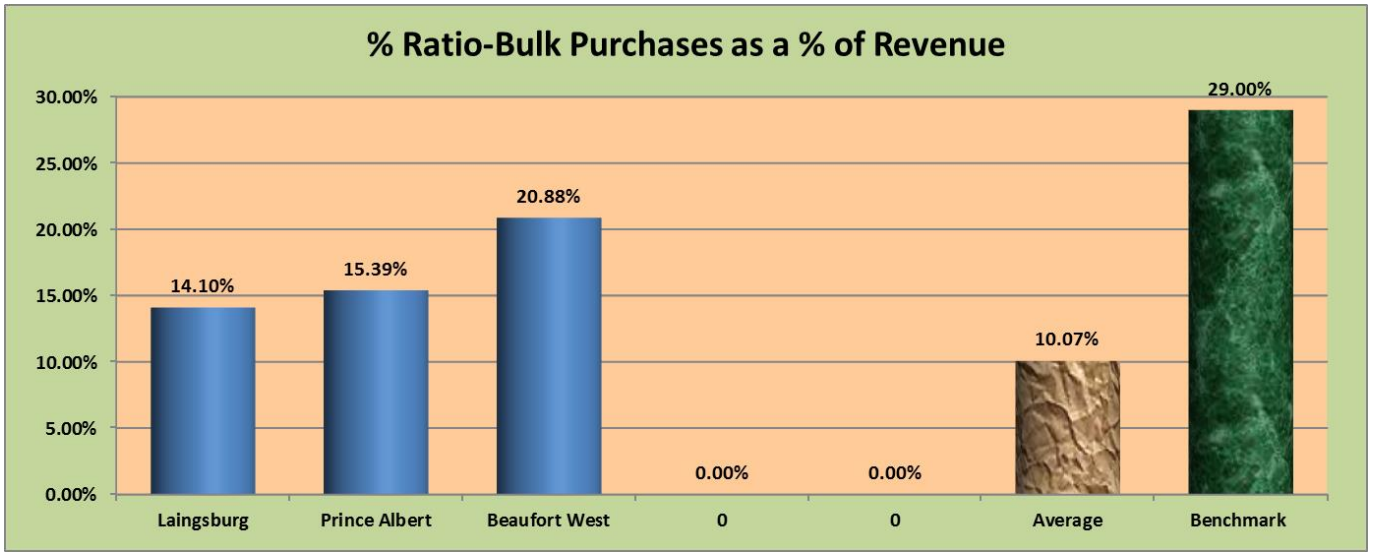
The increase in bulk purchases is largely beyond the control of the municipality, as this expenditure line item is linked to the level of consumption by consumers as well as increases passed onto the municipality by Eskom (bulk electricity).

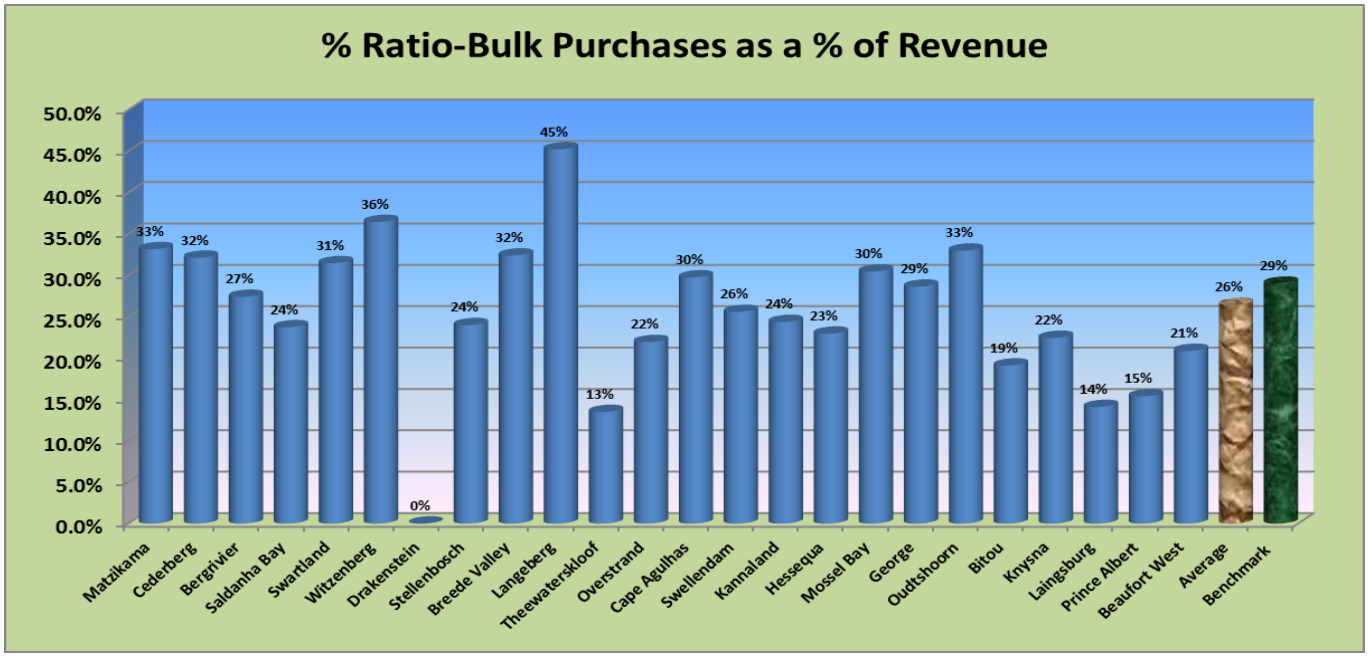
According to the 2016/17 budget, Bulk Purchases for Electricity is set to increase from R 9.471 million in 2015/2016 to R12.069 million in 2018/2019. These increases represent an average annual increase of an average of 20% pa over the 3-year forecast as indicated below.



(Where information was not available all the graphs are indicated with #REF)


% Ratio- Bulk Purchases as a % of Operating Expenditure
35.00%
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
7.39%
14.88%
15.99%
0.00%
0.00%
7.65%
35.00%
Laingsburg
Prince Albert
Beaufort West
0
0
Average
Benchmark


% Ratio-Bulk Purchases as a % of Revenue
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
14.10%
15.39%
20.88%
0.00%
0.00%
10.07%
29.00%
Laingsburg
Prince Albert
Beaufort West
0
0
Average
Benchmark



Bulk purchases as a percentage of the total expenditure is currently within an acceptable level on approximately 14.88%, which is 20% better as the bench mark which is set at 35%.In comparison with the neighbouring municipalities, the municipality is also performing well. Further-more does the municipality also has an comparative advantage of an average 11% of the ratio between cost and revenue in comparison with all the municipalities in the Western Cape, which again is an indication that the current total revenue from services is positively impacted due to lower than average cost. However, it must also be taken in consideration of the impact of the grant revenue which could influence this.

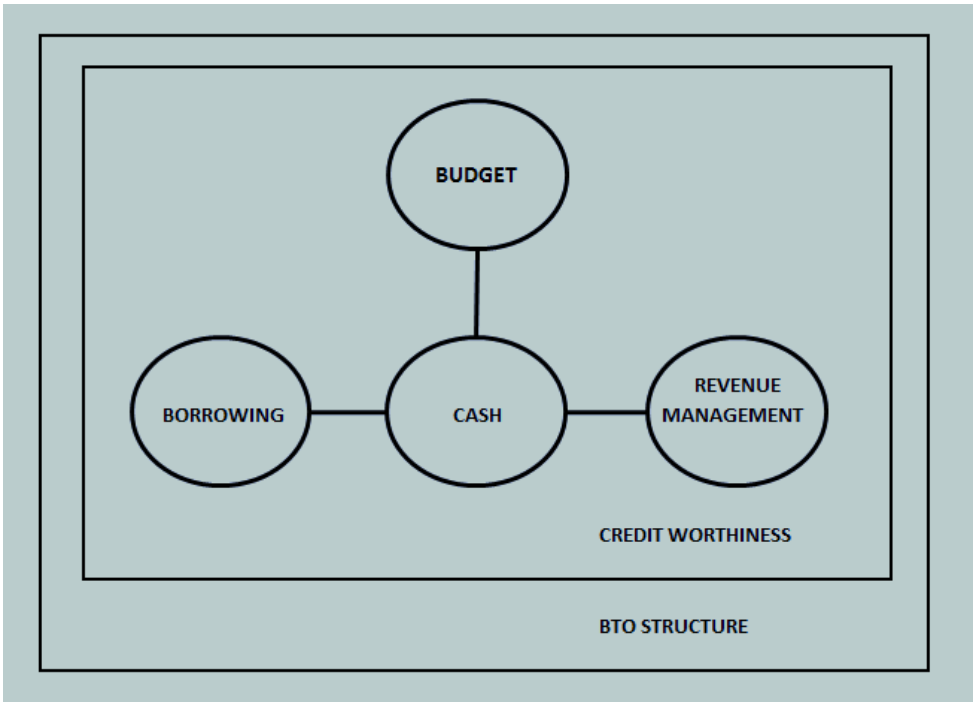
The municipality could improve on the cost to institute measures to control distribution losses to a certain extent by ensuring that infrastructure assets are well maintained, all consumers are billed accurately for water and electricity consumption and by implementing strict controls to limit illegal connections. The municipality's electricity current distribution losses of 12.44% are 3.4% above the acceptable range of 9% and should be investigated. The losses amounted at present to R1.108 million per annum.

Conclusion

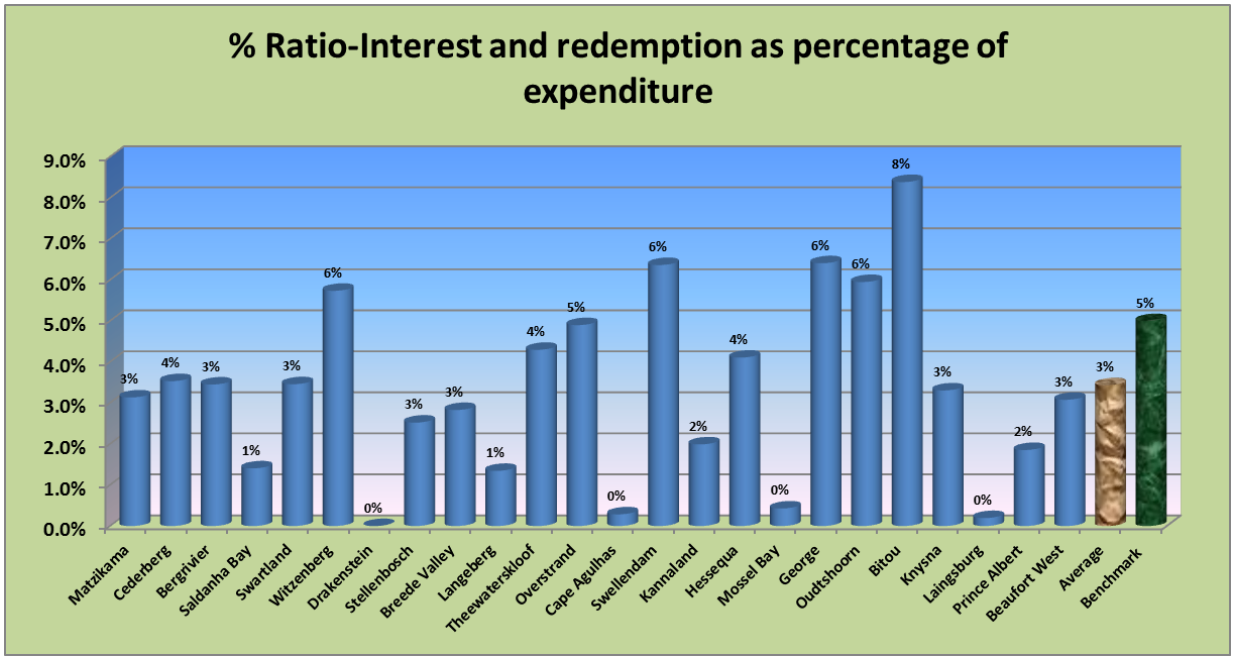
If the distribution losses could be contained and limited to at least the set bench mark of 9%, it could contribute to a saving in cost of R3.252 million as indicated in the illustration below. In the modelling provision was made for a .5% growth and an average of 6% increase in the purchase price.

	2017 R (m)	2018 R(m)	2019 R(m)	2020 R(m)	2021 R(m)	2022 R(m)	2023 R(m)	2024 R(m)	2025 R(m)	2026 R(m)
Bulk purchases 2016	7.47	7.96	8.48	9.03	9.62	10.25	10.92	11.63	12.39	13.20
Increase in consumption (.5%) growth	0.037	0.040	0.045	0.048	0.051	0.055	0.0582	0.062	0.061	0.066
Increase in purchases price	.45	.48	.51	.54	.58	.62	.66	.70	.75	.80
Total bulk purchases	7.96	8.477	9.03	9.62	10.25	10.92	11.63	12.39	13.19	14.07

11.3 Borrowing



Since 2013 the Municipality has finance their capital projects mainly with National Government Grants and relatively very small contributions towards capital expenditure were made from own resources.



(Drakenstein's information was not available)

From the above graph it is evident that it was the municipality's intention to not embark on dependency on borrowing, and is the municipality one of only a few municipalities with almost 0% borrowing cost liabilities.

This favourable position opens a window of opportunity and will assist the municipality with the implementation of this long-term plan (more detail in summarized long term plan – financing)

Borrowing is not necessarily a "bad" option , and is borrowing permitted in terms of section 18(1)'(c) of the MFMA, **but only for financing budgeted capital projects** .
Borrowing allows the costs of the infrastructure to be shared with future beneficiaries of that infrastructure. Infrastructure investment is generally `lumpy' in the sense that the project costs must be incurred in one or a few financial years. However, if the infrastructure is well maintained, its benefits can continue to be incurred for up to twenty or even thirty years into the future. Relying only on current surpluses to finance infrastructure development therefore imposes undue costs on current beneficiaries of the infrastructure, and gives undue benefits to future beneficiaries.
Borrowing therefore allows a better matching of costs paid and benefits derived across time. Spreading costs over time through borrowing is therefore

more equitable, and also conforms more closely to standard cost- recovery principles. It should also strengthen the sense of community ownership over inherited municipal infrastructure.

The benefits of borrowing are broadly explained as follows:

- Firstly and most obviously, borrowing allows the municipality to deliver more infrastructure services within in a shorter timeframe than it could if it invested only its own annual operating surpluses (`savings') each year. The demand for infrastructure is generally urgent, and legal and political mandates are such that governments all over the world incur debt because this demand far exceeds their ability to fund it from surpluses on current budgets.

- Like a householder borrowing to fund his or her house, a long-term loan allows the benefits of the infrastructure to be gained before its costs have been fully paid.

- Borrowing effectively blends commercial funding with public resources, which are scarce and insufficient to meet the demand for infrastructure, and therefore permits an accelerated investment programme. This has enormous quality of life implications for urban households as well as productivity implications for all economic activity. Such acceleration benefits are often so obvious and tangible that borrowing also becomes a means of relieving community and political pressures on municipal governments.

- Many large infrastructure projects only become affordable if financed through borrowing, as their scale is such that they cannot be afforded if they must be paid for only from current surpluses.

- Borrowing can mean saving on infrastructure costs. In Southern Africa the rate of building inflation (the rate of increase of building costs) has often exceeded the interest rate that a municipality might pay on borrowed funds. In such circumstances, borrowing means that overall

infrastructure costs will be lower than if the project is postponed until sufficient own savings have been generate to pay for the project. By that stage, project costs will have increased by more than the total interest cost of the loan. This is an important consideration and an appropriate loan can permit substantial real savings in overall infrastructure costs.

- Borrowing can increase the municipal management focus on financial sustainability due to a borrower-lender relationship that develops. This is because the lender is entitled to be kept informed about the financial results of the borrower, and the borrower has a real interest in ensuring that the lender retains confidence in the ability of the municipality to service the debt. A lender concerned about deteriorating creditworthiness can therefore prompt management action within a municipality to correct any deterioration and to remain operationally and financially effective. While most municipalities are of course under some form of financial supervision by their national government, the attention paid by a lender to the financial results of a borrowing municipality provides a complementary form of financial accountability. A municipality with infrastructure loans has a financial incentive to promote transparency, good governance and reform. Under the best circumstances, public entities that borrow will find themselves being scrutinised regularly and rigorously by private lenders. This can have a substantial impact, improving financial discipline, encouraging management reforms, and promoting good management generally. Since a better managed municipality will achieve more than one which is poorly managed, such scrutiny indirectly further improves effectiveness and reduces unit costs, and makes higher capital spending possible.

- Borrowing builds a credit history because a municipality which borrows regularly and services its debts establishes relationships with lenders and builds up a credit history. This tends to reduce future borrowing costs and improve access to future loans, which can be invaluable if there is ever a definite and urgent need for an infrastructure loan and all other options are closed. By contrast, a municipality without a credit history is an unknown entity to lenders and will tend to find it both

harder and more expensive to raise infrastructure finance. A good credit history will also tend to attract general investment within the municipal area due the confidence and benefits those investors and businesses derive from operating in a well-managed municipality which provides the required services and at a reasonable cost.

Conclusion

Looking at the benefits of borrowing, it is highly recommended and unavoidable, that the municipality has to raise loans in the very near future to meets the required spending and expenditure on capital projects and in particular spending on replacing assets.

11.4 Other Expenditure

For the determination and calculation of the Contract fees and General Expenditure, the grant expenditure was excluded as in the case with the grant revenue where only the equitable share is recognised.

For this reason contracted services and general expenditure were add together and is the grant expenditure as recognised in the 2026 Financial Statements deducted. The total amount was then appreciated at a rate of 5.5% pa

12. Current Non –Cash Operating Expenditure

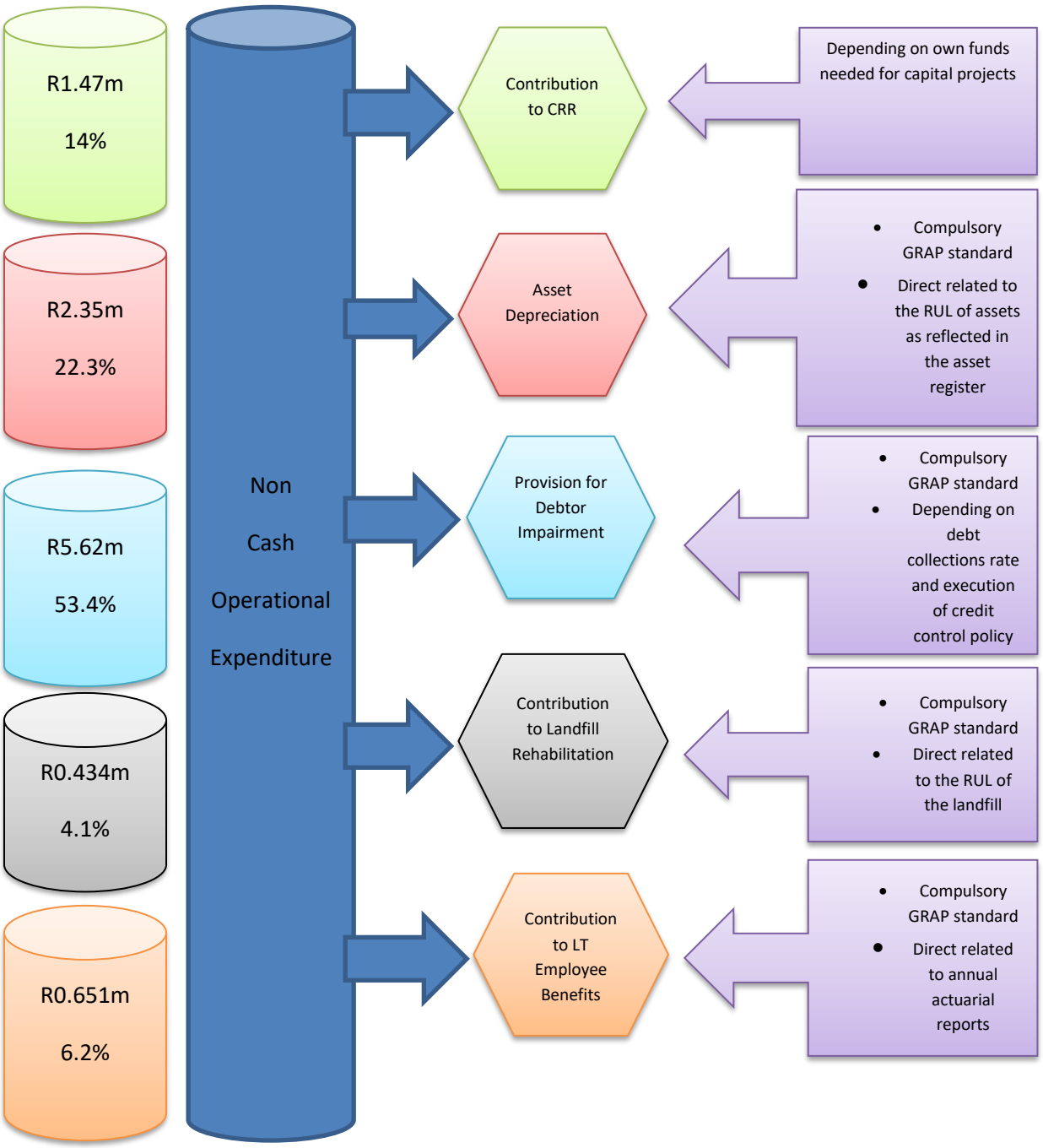


Figure 7 – Non-Current Cash Expenditure

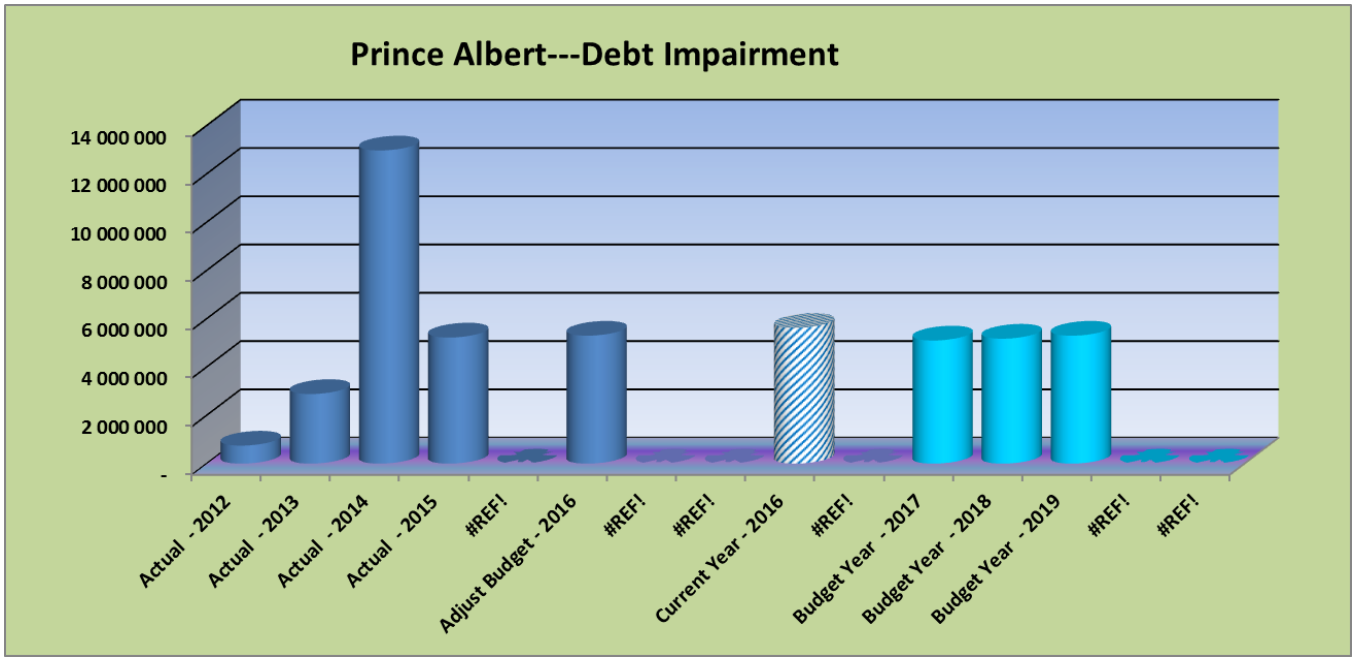
12.1 Debt Impairment

Although debt impairment is a non-cash item and not very important to include in the operating budget, it is very important to accurately budget for debt impairment to reduce the gross receivable balance to the net recoverable amount. It is also very important to factor any potential non- payment of debtors into the tariff structure of the municipality.

The debt impairment figure consists out of 2 significant items, namely the impairment charge relating to consumer debtors (including rates receivables) as well as the impairment charge relating to fines.

The debtors' recovery rates on Consumer Debtors and Property Rates are approximately 87% and 93% respectively, which is not acceptable at all when it is compared with a payment ratio of 95% and more of the bench mark norm.

The below graph indicates a relatively flat curve for future provision for impairments, which is evident of the municipalities intent to improve on their collection rate.



(Where information was not available all the graphs are indicated with #REF)

A conservative approach to budget for a debt impairment "buffer" of approximately 25% between the projected and actual collection rates should

be an advantage to the municipality in future years. By collecting these "additional" revenues, the municipality can manage to beat financial cash forecasts while also providing for any possible negative economic set-backs. By applying this conservative approach to debt collections, the municipality will be better geared towards the scenario where the collection rates are negatively impacted due to circumstances beyond their control (i.e. in the event of financial "shocks/set-backs").

Conclusion

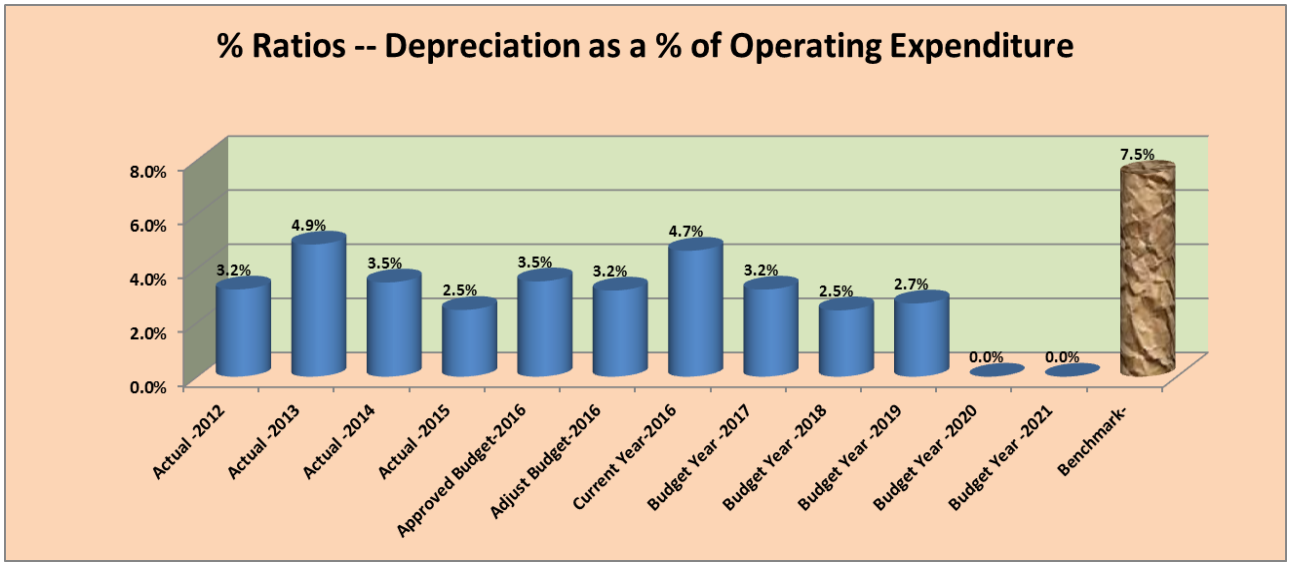
The municipality has to embark upon a more pragmatic approach in an effort to improve on the current poor payment ratio. To achieve this, the politicians and management have to collaborate and apply a much stricter and rigid credit control approach.

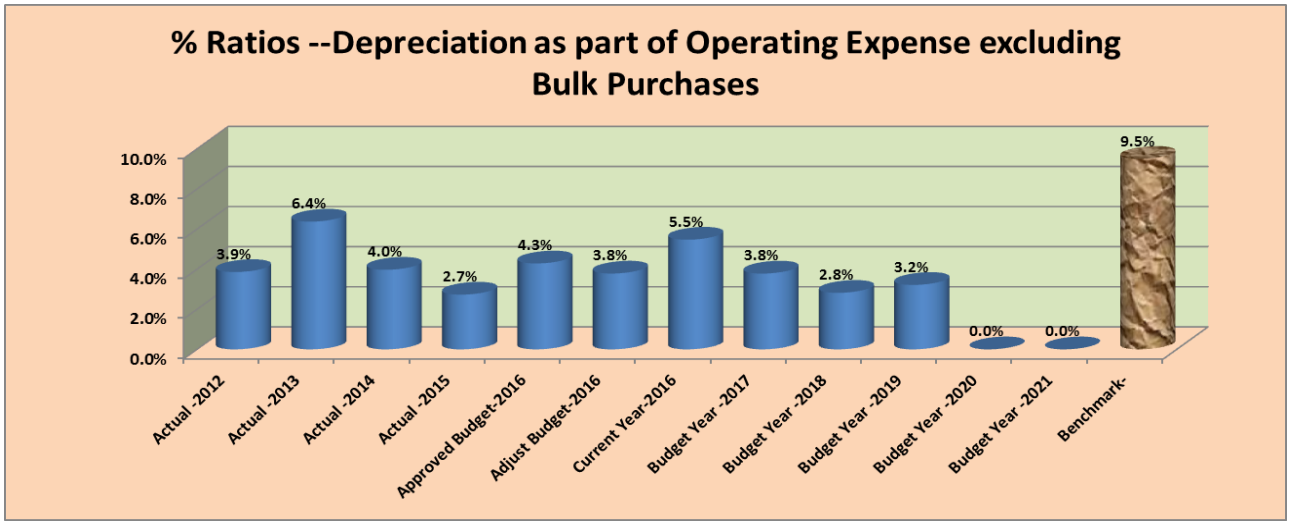
12.2 Depreciation and Asset Impairment

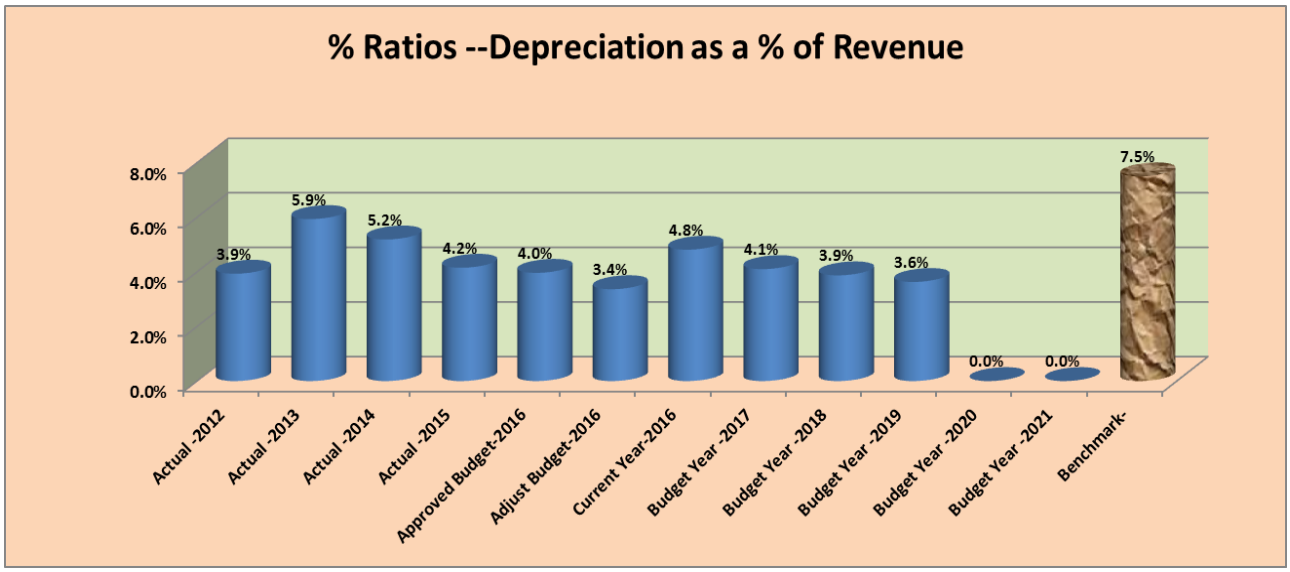
Depreciation is widely considered a proxy for the measurement of the rate of asset consumption. Although depreciation is a non-cash item, the expense should still be factored into the tariffs and rates charged by the municipality to ensure that sufficient resources are available when assets needs to be replaced.

Relative to benchmarks set for depreciation in the Western Cape (revenue and expenditure benchmarks), the municipality's depreciation charge is far below set norms. This could be the result of assets that are relatively old or that particular asset useful lives periods are for longer periods as the norm.

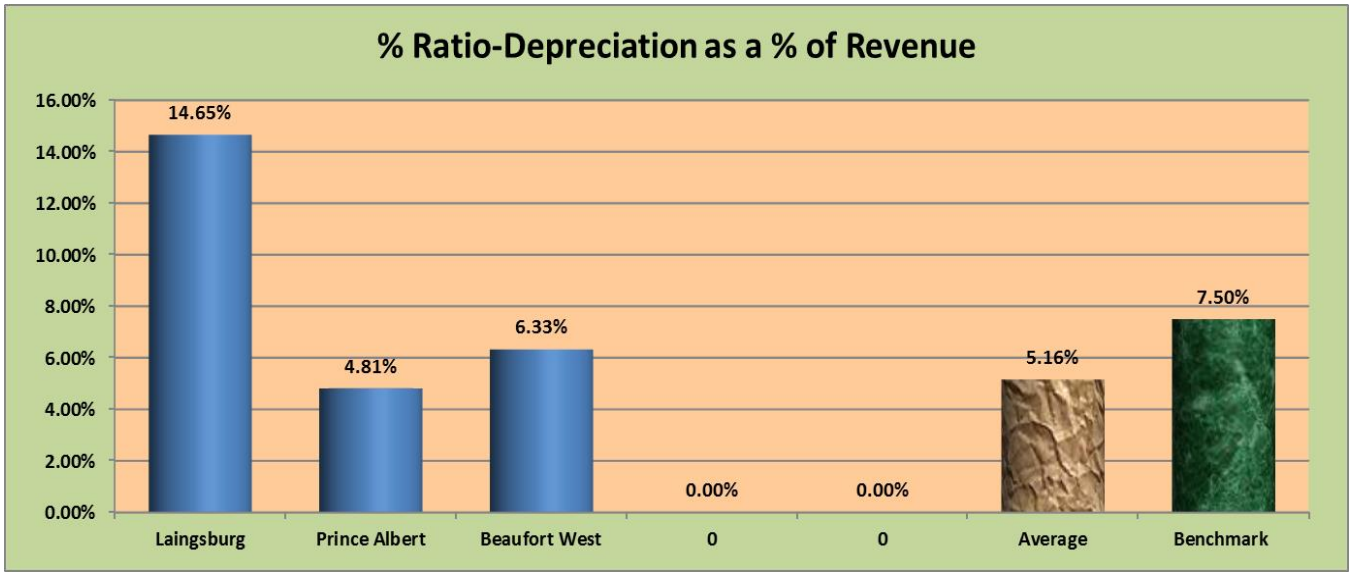
The deviation from the Provincial average and norms need further investigation.


% Ratios -- Depreciation as a % of Operating Expenditure
8.0%
6.0%
4.0%
2.0%
0.0%
3.2%
4.9%
3.5%
2.5%
3.5%
3.2%
4.7%
3.2%
2.5%
2.7%
0.0%
0.0%
7.5%
Actual -2012
Actual -2013
Actual -2014
Actual -2015
Approved Budget-2016
Adjust Budget-2016
Current Year-2016
Budget Year -2017
Budget Year -2018
Budget Year -2019
Budget Year -2020
Budget Year -2021
Benchmark-


% Ratios --Depreciation as part of Operating Expense excluding Bulk Purchases
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
3.9%
6.4%
4.0%
2.7%
4.3%
3.8%
5.5%
3.8%
2.8%
3.2%
0.0%
0.0%
9.5%
Actual -2012
Actual -2013
Actual -2014
Actual -2015
Approved Budget-2016
Adjust Budget-2016
Current Year-2016
Budget Year -2017
Budget Year -2018
Budget Year -2019
Budget Year -2020
Budget Year -2021
Benchmark-


% Ratios --Depreciation as a % of Revenue
8.0%
6.0%
4.0%
2.0%
0.0%
3.9%
5.9%
5.2%
4.2%
4.0%
3.4%
4.8%
4.1%
3.9%
3.6%
0.0%
0.0%
7.5%
Actual -2012
Actual -2013
Actual -2014
Actual -2015
Approved Budget-2016
Adjust Budget-2016
Current Year-2016
Budget Year -2017
Budget Year -2018
Budget Year -2019
Budget Year -2020
Budget Year -2021
Benchmark-

When the depreciation charge recognised is compared to the neighbouring municipalities as a benchmark group, the municipality is lower than average and the set bench mark. This indicates that the municipality's infrastructure and other assets are in a slightly worse condition in comparison with the other municipalities.



Conclusion

A slight improvement in depreciation provision seems to be necessary. A more comprehensive forecast of future depreciation contributions is reflected under Asset Management

13. Asset Management

Asset management constitutes surely the vast majority of municipality's current and future challenges to find a balance between responsible and sound financial practices versus affordability .The capital program and the maintenance of existing assets should never be compromise because the long term sustainability of the municipality is totally depending on it. When the financial sustainability of the municipality is compromised, it will inevitably result in a negative outcome due to the fact that the municipality will not be in a position to meet the service delivery responsibilities and expectations of the present and future generations. This scenario is however, very common at a number of municipalities in South Africa and is poor asset management the common denominator with failing municipalities.

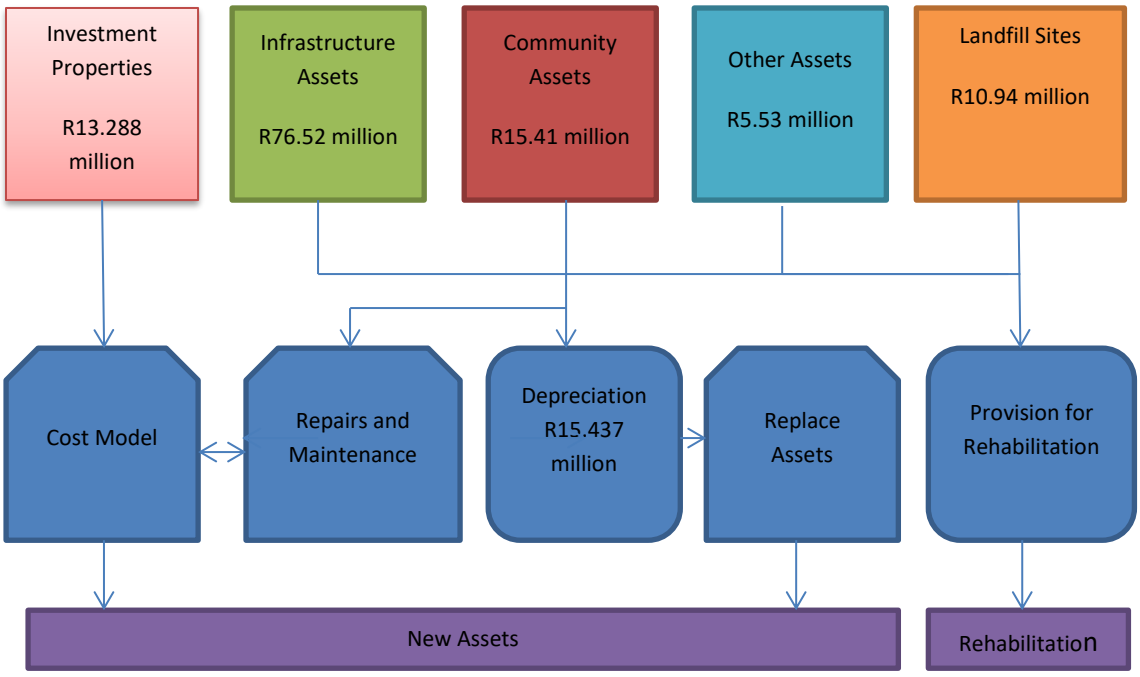


Figure 8 – Assets Management

13.1 Property Plant and Equipment

The Municipality has a large investment in property, plant and equipment (PPE). The carrying value of PPE is increasing substantially over the period as the capital expenditure significantly exceeds the level of depreciation charges per year.

This large investment in PPE is basically the result of continued capital programs to employ to ensure that basic services are delivered at all times and service delivery backlogs are addressed**. The municipality should however be conscious of the fact that a significant capital program if not financed through a well-balanced mix (grants, borrowing and accumulated internal funds); can have a negative effect on the financial sustainability of the municipality.**

Borrowing and self-financing from own funds and the subsequent maintenance of the assets have a significant impact on the future outflow of cash and constitutes a potential negative impact on the financial viability of the municipality if not properly planned and managed for, and this

contributing to the biggest financial challenge the municipality has to face in the long-term planning proses.

To ensure that the above structure (figure 8) is affordable, the program should be evaluated against the municipality's ability to generate cash to meet the demand of the program.

As at 30 June 2016 the book value of the municipalities assets, as reflected in the Annual Financial Statements, are as follows:

Asset Type	Cost prices	Accumulated Depreciation	Book Value
PPE	R126.082 million	R15.437 million	R108.402 million
Investment Properties	R14.439 million	R1.144 million	R13.288 million

A recent analysis of the infrastructure assets revealed that assets amounted to R5.1782 million (book value) are in a very poor condition or would have reached the end of its useful live periods which need to be replace over the next 10 years at a projected Replacement Value of R9.72 million, with further progressive demands in this regard for the medium to longer term. From this study, it is evident that the municipality inevitably need to carefully accumulate cash reserves and or determine alternative funds to replace assets when needed and formulating intensive comprehensive maintenance plans to extent the useful lives of its assets.

For this model the Land and Buildings, Investment Properties and Community Assets are not included. Unlike PPE, these assets are not depreciated. These assets are distinguished from the other assets due to the fact that it rather appreciates in value, and in the case with Community assets which are largely consist of also Land and Buildings, depreciation is not material.

It is also evident that the assets with poor and very poor conditions are infrastructure assets which are largely concentrated in electricity and roads which are both essential service delivery components and that the other assets are mainly vehicles and office equipment. If not replaced, the municipality could be at serious risk to not be able to deliver services. Thus, it appears that it is imperative that these assets have to be replaced within the short- term.

Ideally, it will be meaningful if the amount for asset depreciation is equally contributed in the Capital Replacement Reserve (CRR) and not just make a provision which is not cash backed.

Unfortunately, the current balance in the CRR is totally underfunded as it only has R1.469 million as at 30 June 2016. (This issue is dealt with in more detail under Reserves)
From the above it is very clear that the municipality is strangled in a serious predicament in terms of an enormous shortage in cash reserves which would require very careful planning to rectify.

13.2 Landfill Sites

The table below is a reflection of the future cost to rehabilitate the landfill sites. The cost was determined by professional experts in this engineering field and it represent the Present Value of the future cost when the landfill sites reach the end of its useful lives.

Landfill Sites	Closure Date	Present Value of Future cost	Future cost 2018/19	Future cost 2035
Prince Albert	2018	R 9. 24 million	R10.38 million	
Leeu Gamka	2019	R 6.543 million	R7.79 million	
Klaarstroom	2035	R3.237 million		R 9.79 million
Total		**R 19.017 million**		

Years	Discounted Provision R(million)	Annual contribution R(million)	Total R(million)
2017	**R 19.016**	R 1.141	**R 20.16**
2018	**R 20.16**	R 1.21	**R 21.36**
2019	**R 21.36**	R .66	**R 11.64**
2020	**R 11.64**	R.23	**R 4.09**
2021	**R 4.09**	R .25	**R 4.33**
2022	**R 4.33**	R .26	**R 4.59**
2023	**R 4.59**	R.28	**R 4.87**
2024	**R 4.87**	R .29	**R 5.16**
2025	**R 5.16**	R .31	**R 5.47**

From the above information, it is evident that Council has a responsibility to make provision for rehabilitation cost of R 10.38 million in 2018, R7.79 million in 2019 and a final amount of R9.79 million in 2035.

Although the total amount of the provision as at 30 June 2016 is accurately disclosed in the Financial Statements, it must be emphasize that it only represents book entries with no counter cash reserves. Although it is not compulsory in terms of legislation and neither a GRAP standard prescription to transfer cash towards a reserve fund (which is in terms of GRAP compulsory to be cash backed), it is a financial irresponsible act by ignoring it. With the annual budgets, provision is made to make annual contributions to the provision (which is compulsory) and the cost is then discounted in the applicable tariffs. The fact of the matter is however, that the revenue raised with applicable tariffs, is utilized to subsidize other cost. This action can have a severe future impact of no funds available when the rehabilitation of landfill sites are due. **This unfortunate situation is regrettably prevailing at Prince Albert where no reserves have been made and which have to be rectified in future budgets and it will extremely influence and impact the long-term financial process.**

13.3 Repairs and Maintenance

Repairs and maintenance is a necessity relating to asset management. Repairs and maintenance is very important to ensure that full benefits are derived from assets over the initial expected life time of the assets. Insufficient allocations to repairs and maintenance could result in shortened useful lives of assets and the contrary where assets useful lives could be considerably extended when the assets are properly maintained.

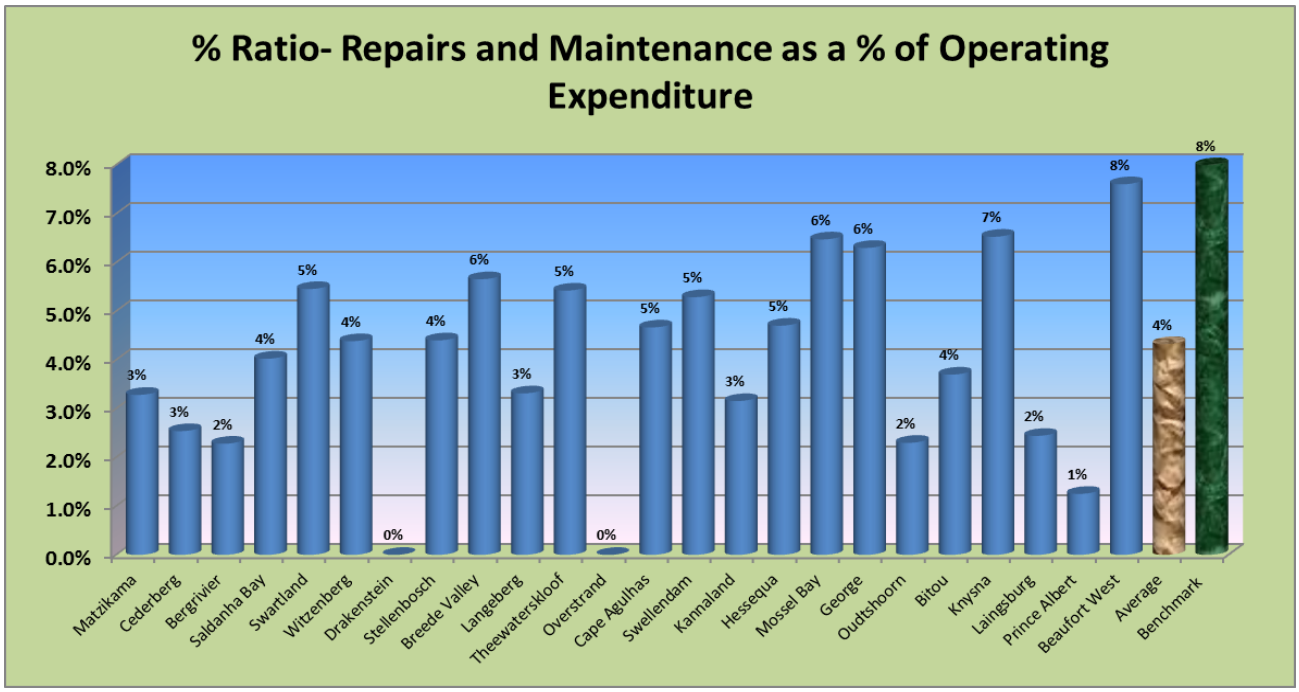
Maintenance is necessary to ensure the expected live time of the assets to remain operational and repairs are to recover and rectify faulty and broken assets to re instate its operational functionality as soon as possible.

Well and proper maintained assets could also result in future saving in repair cost.

The municipalities historical spending on repairs and maintenance for the past 4 years was as follows;

Year	2013 R (m)	2014 R (m)	2015 R (m)	2016 R (m)
Repairs & Maintenance	.701	.835	1.174	.634
Total Operating cost	39.518	66.519	69.531	50.635
%	1.78	1.3	1.7	1.3

The average spending on repairs and maintenance is R.836 million. The spending on repairs and maintenance is far below the norm. The below graph is an illustration of spending on repairs and maintenance of all the municipalities in the Western Cape.



(Drakenstein and Overstrand information were not available)

The municipality underperforming to maintain assets, and it was clear during discussions and deliberations with senior officials of the municipality that the municipality must improve in this regard to be more in line with the set norms in this regard.

Therefor for the purpose of the long-term planning, the below annual spending will be used as a baseline which includes annual appreciation of 6 %.

Year	2017 R (m)	2018 R(m)	2019 R(m)	2020 R(m)	2021 R(m)	2022 R(m)	2023 R(m)	2024 R(m)	2025 R(m)	2026 R(m)

Repairs and Maintenance	1.77	1.94	2,06	2.18	2.31	2.45	2.60	2.76	2.92	3.1

13.4 Depreciation and Asset Impairment

Depreciation is widely considered a proxy for the measurement of the rate of asset consumption. Although depreciation is a non-cash item, the expense should still be factored into the tariffs and rates charged by the municipality to ensure that sufficient resources are available when assets needs to be replaced.

The municipalities historical spending on Depreciation and Asset Impairment for the past 4 years was as follows;

Year	2013	2014	2015	2016
Depreciation and Impairments	R1.693 million	R6.048 million	R1.744 million	R2.354 million
Book value of Assets	R60.114 million	R75.662 million	R86.442 million	R108.402 million
%	2.8	7.8	2.05	2.17

The average spending on Depreciation and Impairment is 2.34 % of the total book value of Assets .For the purpose of the long-term planning; this average will be used as a baseline with an annual appreciation rate of 6 % of asset book values.

Year	2017 R (m)	2018 R(m)	2019 R(m)	2020 R(m)	2021 R(m)	2022 R(m)	2023 R(m)	2024 R(m)	2025 R(m)	2026 R(m)

Depreciation escalating (2.34%)	2.69	2.86	3.02	3.21	3.39	3.67	3.88	4.12	4.38	4.63
Book value of Assets Escalating annually (6%)	115	122	129	137	145	157	166	176	187	198

Conclusion

Below is a summary of Anticipating Funds needed based on the assumptions and calculations as set out above.

13.5 Capital spending on asset replacement and rehabilitation

The total replacement value of assets over the 10-year period is calculated at R9.72 million. The replacement of assets which have reached the end of their use full lives period could be delayed by extending their use full lives with changing in estimates in terms of GRAP 17 principles. This principal could be applied to save cost but must be carefully managed and monitored with regular calculations to make sure if it will not be more cost effective to rather replace assets.

If alternative sources to fund the replacement of assets are not available, then borrowing is the only viable option.

Predicted need for capital

Year	2017 R (m)	2018 R(m)	2019 R(m)	2020 R(m)	2021 R(m)	2022 R(m)	2023 R(m)	2024 R(m)	2025 R(m)	2026 R(m)

Infrastructure replacement		**3**	**3**							**4**
Landfill Sites Rehabilitation		**10.38**	**7.79**							
Total		**13.38**	**10.79**							**4**

14. Reserves

In order to maintain any form of reserve, the municipality needs to ensure that sufficient cash resources are available to back the reserve. With the downward trend in cash as identified, the municipality will not be able to maintain, let alone increase, any of the current reserves that is being utilised.

Apart from the Capital Replacement Reserve, that is utilised to provide funding for internally funded projects, the municipality also recognised the need for other reserves to be created by way of the municipality's Funding and Reserves Policy in terms of the Municipal Budget and Reporting Regulations. With reference to the statement of financial position, the municipality has material non-current provisions in the form of Employee Benefit Provisions (Long term awards and Post-retirement medical benefits) and Rehabilitation Costs. There is currently no legal requirement to ensure that these provisions are cash-backed. However, the municipality should implement strategies that will enable the cash-backing of reserves to ensure that these provisions are cash funded when it becomes due and payable.

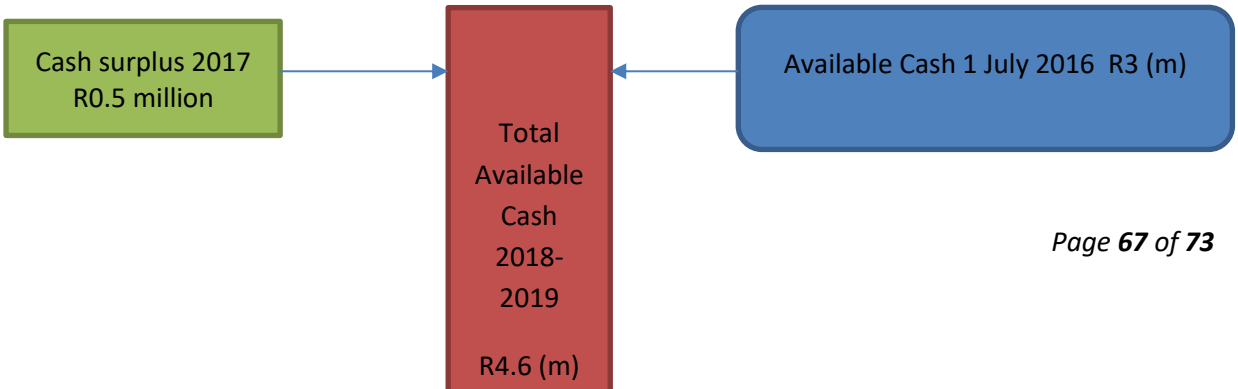
The Capital Reserve Fund is currently R1.47 million which is totally underfunded to serve the purpose for which it was instituted. For this reason, it is recommended to transfer the annual provision for asset depreciation to the Capital Reserve Fund for future appropriation to fund the replacement of assets.

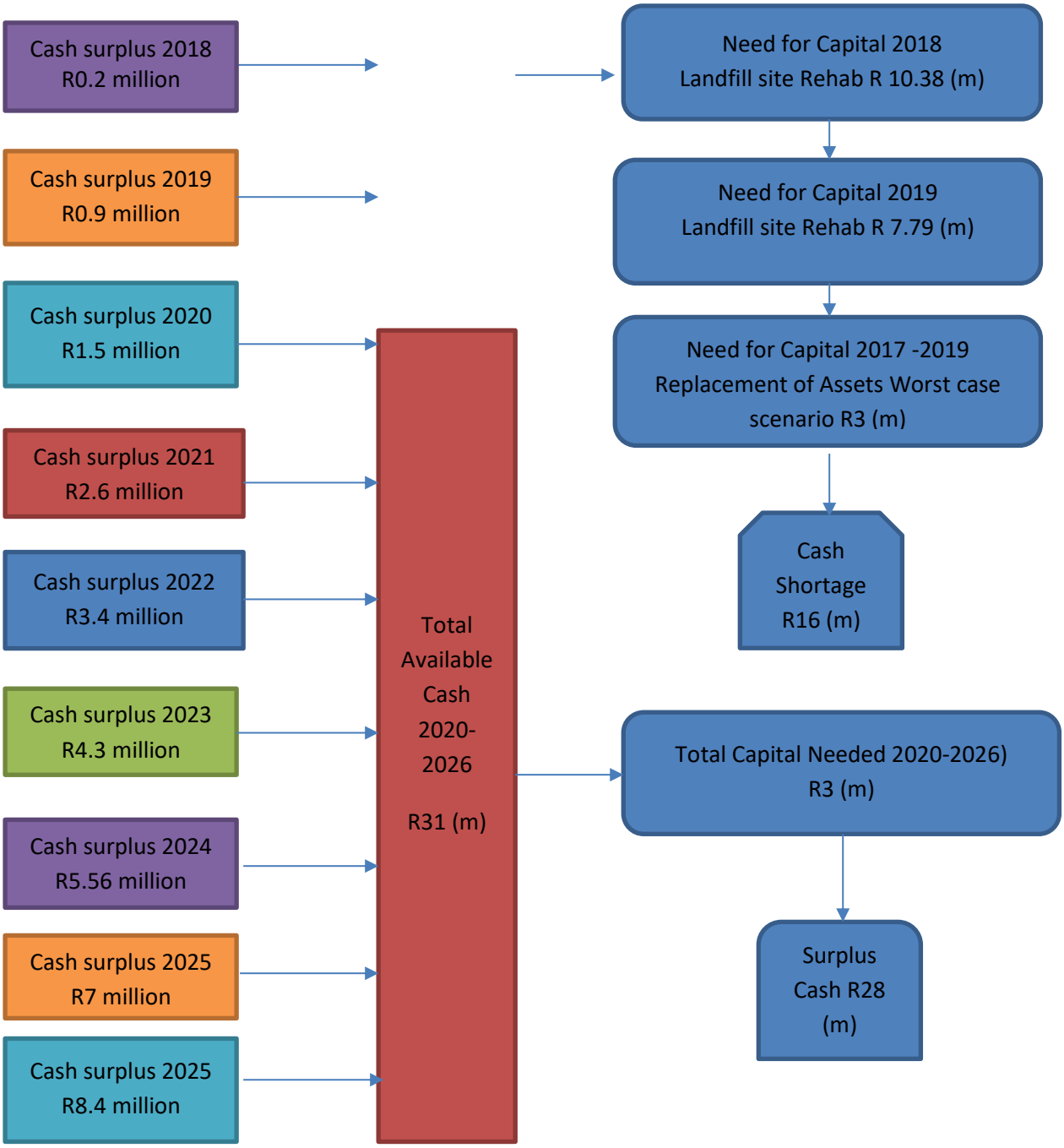
It must also be emphasized that the rehabilitation of the land fill sites is not capital expenditure and for this reason borrowing is in terms of the MFMA not permitted. It is also doubtful if MIG funds would be available for this

liability because the MIG funds would be necessary to establish new landfill site facilities.

Thus, cash reserves must be available to do the rehabilitation when needed.

From the summarised Projected Revenue and Expenditure in paragraph 15.1 below, it is predicted that very marginal annual cash surpluses will realistically realize. The predicted projected cash reserves balance is as follows:





Conclusion

From the above illustration it is clearly evident that a cash shortfall amounted to R16 million is inevitable during the period between 2018 to 2020,followed by a period of cash surpluses .This is a classic illustration of a period where the municipality has to embarked on classic cash management principles and skills to "delay" capital programs to the period where capital is more affordable by the utilization of grants to fund the compulsory legal

requirements as (rehabilitation of landfill sites) and or borrowing funds at the end of 2020 due to the fact that the borrowing cost is then possibly more affordable.

15. Long Term Financial Plan

15.1 Summarised Projected Revenue and Expenditure

Revenue	2017 R (m)	2018 R (m)	2019 R (m)	2020 R(m)	2021 R(m)	2022 R(m)	2023 R(m)	2024 R(m)	2025 R(m)	2026 R(m)
Property Rates 90% recovered	2.52	2.75	3.03	3.33	3.67	4.03	4.43	4.88	5.37	5.90
Electricity fees 90% recovered	11.5	12.1	12.9	13.6	14.5	15.3	16.2	17.2	18.3	19.40
Water Fees 85% recovered	2.79	3.27	3.61	3.99	4.41	4.88	5.39	5.95	6.58	7.27
Refuse removal fees 85% recovered	1.32	1.27	1.34	1.43	1.51	1.60	1.70	1.80	1.91	2.02
Sanitation fees 85% recovered	1.79	1.90	2.03	2.16	2.30	2.45	2.61	2.78	2.96	3.15
Equitable Share	16.2	17.6	18.9	20.41	22.01	23.7	25.6	27.6	29.8	32.12
Fines net of provision	1.03	1.08	1.13	1.18	1.25	1.31	1.38	1.44	1.52	1.59
Rental of Facilities	0.41	0.44	0.46	0.49	0.52	0.55	0.58	0.62	0.65	0.69
Interest on Investments	1.6	1.06	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Interest on debtors 85% recovered	0.52	0.66	.76	.86	1.13	1.19	1.25	1.32	1.40	1.47
Licences and permits	0.18	0.18	0.19	0.20	0.21	0.22	0.23	0.24	0.25	0.26
Other Income	.46	.17	.19	.23	.25	.27	.3	.35	.4	.45
Total Cash Revenue	40.3	42.5	45.6	48.9	52.8	56.5	60.7	65.2	70.1	75.3
Expenditure	2017 R (m)	2018 R (m)	2019 R (m)	2020 R(m)	2021 R(m)	2022 R(m)	2023 R(m)	2024 R(m)	2025 R(m)	2026 R(m)
Employee cost	14.5	17.8	18.8	20.0	21.2	22.4	23.8	25.2	26.7	28.32
Councillors Remuneration	2.64	2.92	3.04	3.20	3.38	3.57	3.76	3.97	4.19	4.42

Repairs and maintenance	1.77	1.94	2.06	2.18	2.31	2.45	2.60	2.76	2.92	3.10
Bulk Purchases	7.96	8.45	9.03	9.62	10.25	10.9	11.6	12.3	13.1	14.07
Contracted Services and General Expenses	12.9	11.2	11.8	12.4	13.1	13.8	14.6	15.4	16.2	17
Total Expenditure	39.8	42.3	44.7	47.4	50.2	53.1	56.4	59.6	63.1	66.9
Total cash surplus	0.5	0.2	0.9	1.5	2.6	3.4	4.3	5.6	7.0	8.4

15.2 Recommendations

- **Explore further avenues to obtain more grants funding (keeping in mind the additional maintenance expenditure that will still be the liability of the municipality even though the additional acquisition is financed from external sources).**

- **The sale of investment property and/or other assets is necessary to generate cash for the period where cash shortage is evident. Weigh up the need for new assets against the need for replacing existing assets**

- **If no further grants could be obtained and/or MIG funds are not enough and/or the selling of assets are not possible, then loans to fund asset replacements must be considered.**

- **Repairs and maintenance is also considered to be one of the major line items relating to asset management. it would be meaningful to increase future spending on repairs and maintenance.**

- **Elevate the tourism marketing and facilitation activities (but avoid an implementation role)**

- **Put strategies in place for reducing water and electricity distribution losses.**

- **Apply more strict credit control measurements to increase the debtor recovery rate.**

- **The condition of asset components should be accurately assessed**

- **Migrate asset registers to become decision tools for integrated asset management**

- **Assess quantum and timing of future revenues that an investment in infrastructure can generate before making that investment**

- **Revisit the rental policy to ensure that actual costs are recovered**

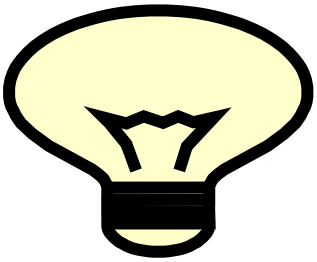
- **Implement a detail maintenance cost accounting system**

- **Annually review all financial assumptions relating to financial policies**

Property tax

Annual increases of at least 10% per annum

Electricity



Annual increases in tariffs of at least 5.5% per annum

Improvement in limiting distribution losses

Water

A once of additional 6.7% increase in 2018 tariffs plus a minimum of 10 % increases per annum

Improvement in limiting distribution losses

Consideration to limited free basic water to only indigent households

Refuse removal

A once of additional 6% increase in 2018 tariffs plus a minimum of 10 % increases per annum

Sewerage

Annual increases in tariffs of at least 6% per annum

Traffic Fines

An improvement in the collection rate of traffic fines of at least 8%

An increase in issuing of traffic fines of at least 15%

Prepared by:

MUBESKO AFRICA (PTY) LTD.