



# PROVINCIAL TREASURY

Provincial Government of the Western Cape

**Budget Management: Local Government**

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## 2012/13 DRAFT LG MTEC 3 FRAMEWORK

1. The Western Cape Provincial Treasury has revised the LG MTEC 3 Framework for 2012/13 in fulfilment of the obligations under section 22 and 23 of the MFMA to assess the draft annual budgets of municipalities.
2. The aim of this circular is to notify you about the draft LG MTEC 3 Framework for 2012/13 that will be discussed at the CFO Lekgotla on the 5<sup>th</sup> and 6<sup>th</sup> December 2011.
3. We would like you to peruse the document and provide feedback during the CFO Forum Lekgotla.
4. The LG MTEC 3 framework is attached as Appendix A.
5. Any enquiries with regards to the contents of this circular may be directed to:

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**M BOOYSEN**

**SENIOR MANAGER: BUDGET MANAGEMENT: LOCAL GOVERNMENT**

**DATE:** 23 November 2011



PROVINCIAL  
TREASURY

Provincial Government of the Western Cape

**XYZ MUNICIPALITY**

**2012/13 MTREF BUDGET**

**LG MTEC 3 ASSESSMENT REPORT**

**XX APRIL 2012**

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## **GLOSSARY**

[Definitions of key concepts used in the assessment report will be listed here]

## **Section 1: Introduction and Purpose of the LGMTEC Assessment**

1. Interaction between the Provincial sphere and municipalities on planning, budgetary and implementation issues has become practice. Relationships since the introduction of the Municipal Finance Management Act, Act 56 of 2003, have taken on a life of its own and even though originally focussed on compliance to legislation, the relationship has moved beyond and is now considered a collective endeavour to improve the quality of life of our citizens through service delivery.
2. The Municipal Finance Management Act (section 22) requires the Accounting Officer (Municipal Manager) submit the draft budget to, amongst others, the Provincial Treasury immediately after tabling the draft budget in Council. In turn, the Provincial Treasury must provide views and comments on the draft budget and any budget-related policies and documentation, which must then be considered by Council when tabling the annual budget (section 23). The LG MTEC 3 engagements have been designed to give effect to these legislative requirements.
3. This assessment report encapsulates our comments on the draft 2012/13 MTERF Budget of XXXXXXXXXXXX Municipality. Observations are made from the available documentation and it is envisaged that the planned engagement would contextualise your municipality's challenges and responses as taken up in the draft Budget, IDP, LED and various other strategies and plans.
4. In preparing this report, the Provincial Government has developed a framework for considering the draft municipal 2012/13 MTREF Budgets. This assessment report of the table budget is mainly focused on the following key areas:
  - Previous Unresolved LG MTEC 3 Issues;
  - Performance Assessment of the previous and current budget based on the Annual Report, SDBIP and the Mid-year report;
  - Assessment of the draft IDP, Budget and its Worthwhile-ness;
  - A test on the Credibility and Sustainability of the budget which aims to determine whether the municipality can execute and deliver on this budget and if it is a realistic budget.
5. The Provincial Treasury is using the Municipal Budget and Reporting Regulations (MBRR) A-Schedules and the budget documentation submitted by the municipality as the primary source for the analysis and information contained in the assessment report and accordingly the quality of the report depends on the credibility of the information contained in the documents submitted by the municipalities.
6. The Provincial Treasury will meet with the executives of your municipality during April/ May 2012 where the key findings and recommendations as per this report will be presented and deliberated upon.









## **Section 4: Responsiveness: Performance assessment and Assessment of the draft IDP & Budget and its Worthwhile-ness**

This section provides an overview of the socio-economic advantages and challenges of the municipality, highlighting key areas of concern (indicators that deviate from the norm) and potential. It further evaluates whether the municipality has a clear understanding of their socio-economic reality and conducted a needs analysis by means of the public participation process and how this translates into strategic priorities and policy objectives. Identifies whether credible data sources was used to inform municipal policy directives. Assesses the extent to which the IDP priorities are reflected in the proposed budget and if the methodology used in developing the plan and budget can be considered worthwhile.

? Socio Economic Reality → Captured in IDP → Appropriate Strategy Dev → Appropriate Budgeted Priority → Planning in the SDBIP → Methodology supports a call on whether it is worthwhile → Summary of findings and Implications

It further assumes that resource planning and allocation is informed by methodologies which will ensure that best value for money. It attempts to identify these strategies and the extent to which these have been used by the municipality. In doing so it will attempt to ask how the planning and implementation of the IDP and budget will ensure Value for Money?

### **4.1 Socio-economic reality**

- Outline the socio-economic challenges facing the municipality
- Analyse the level of progress that the municipality has made in responding to the socio-economic situation and service delivery environment within which it operates
- Refer to special reports of significance
  - DWAF Water report; Blue drop status; contemporary issues in the muni, etc
  - SEP-LG
  - PER&O
  - Growth Town Study

### **4.2 Budget & IDP Review Process**

- Outline the budget & idp review process
- Outline key events/ key stages
- Outline stakeholders consulted
- Outline level of participation by various stakeholders
- Outline methods – communication through media etc
- Outline the roll of the mayor, budget committee and different structures

### 4.3 Service Delivery Performance and Implementation

**Table 2: Service Delivery Performance (Category A and B municipalities)**

WC000 City of Cape Town - Table A10 Basic service delivery measurement									
Description	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
	Outcome	Outcome	Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
<b>Household service targets (000)</b>									
<b>Water:</b>									
Piped water inside dwelling	732	733	757	714	714	714	728	742	757
Piped water inside yard (but not in dwelling)	-	-	-	-	-	-	-	-	-
Using public tap (at least min.service level)	115	142	146	190	190	190	194	198	202
Other water supply (at least min.service level)	-	-	-	-	-	-	-	-	-
<i>Minimum Service Level and Above sub-total</i>	847	875	903	904	904	904	922	940	959
Using public tap (< min.service level)	-	-	-	-	-	-	-	-	-
Other water supply (< min.service level)	-	-	-	-	-	-	-	-	-
No water supply	-	-	-	-	-	-	-	-	-
<i>Below Minimum Service Level sub-total</i>	-	-	-	-	-	-	-	-	-
<b>Total number of households</b>	<b>847</b>	<b>875</b>	<b>903</b>	<b>904</b>	<b>904</b>	<b>904</b>	<b>922</b>	<b>940</b>	<b>959</b>
<b>Sanitation/sewerage:</b>									
Flush toilet (connected to sewerage)	754	779	811	812	812	812	828	846	867
Flush toilet (with septic tank)	-	-	-	-	-	-	-	-	-
Chemical toilet	13	4	16	16	16	16	17	17	17
Pit toilet (ventilated)	2	2	2	2	2	2	2	2	2
Other toilet provisions (> min.service level)	42	40	50	50	50	50	51	52	53
<i>Minimum Service Level and Above sub-total</i>	811	825	879	880	880	880	898	917	939
Bucket toilet	1	5	4	4	4	4	4	4	0
Other toilet provisions (< min.service level)	-	-	-	-	-	-	-	-	-
No toilet provisions	35	45	2	20	20	20	20	20	20
<i>Below Minimum Service Level sub-total</i>	36	50	6	24	24	24	24	24	20
<b>Total number of households</b>	<b>847</b>	<b>875</b>	<b>885</b>	<b>25</b>	<b>25</b>	<b>25</b>	<b>922</b>	<b>941</b>	<b>959</b>
<b>Energy:</b>									
Electricity (at least min.service level)	784	764	731	738	738	738	745	752	758
Electricity - prepaid (min.service level)	-	-	-	-	-	-	-	-	-
<i>Minimum Service Level and Above sub-total</i>	784	764	731	738	738	738	745	752	758
Electricity (< min.service level)	63	88	90	86	86	86	82	79	75
Electricity - prepaid (< min.service level)	-	-	-	-	-	-	-	-	-
Other energy sources	-	-	-	-	-	-	-	-	-
<i>Below Minimum Service Level sub-total</i>	63	88	90	86	86	86	82	79	75
<b>Total number of households</b>	<b>847</b>	<b>852</b>	<b>821</b>	<b>823</b>	<b>823</b>	<b>823</b>	<b>827</b>	<b>830</b>	<b>834</b>
<b>Refuse:</b>									
Removed at least once a week	819	983	955	926	926	926	945	963	983
<i>Minimum Service Level and Above sub-total</i>	819	983	955	926	926	926	945	963	983
Removed less frequently than once a week	-	-	-	-	-	-	-	-	-
Using communal refuse dump	-	-	-	-	-	-	-	-	-
Using own refuse dump	-	-	-	-	-	-	-	-	-
Other rubbish disposal	-	-	-	-	-	-	-	-	-
No rubbish disposal	-	-	-	-	-	-	-	-	-
<i>Below Minimum Service Level sub-total</i>	-	-	-	-	-	-	-	-	-
<b>Total number of households</b>	<b>819</b>	<b>983</b>	<b>955</b>	<b>926</b>	<b>926</b>	<b>926</b>	<b>945</b>	<b>963</b>	<b>983</b>
<b>Households receiving Free Basic Service</b>									
Water (6 kilolitres per household per month)	847	901	903	904	904	904	922	940	959
Sanitation (free minimum level service)	811	825	879	881	881	881	898	916	934
Electricity/other energy (50kwh per household per month)	412	419	424	449	449	449	429	442	455
Refuse (removed at least once a week)	476	465	475	481	481	481	484	494	504
<b>Cost of Free Basic Services provided (R'000)</b>									
Water (6 kilolitres per household per month)	218 278	331 346	365 140	407 102	427 195	427 195	462 011	513 294	570 270
Sanitation (free sanitation service)	137 070	169 902	188 119	219 151	274 789	274 789	309 301	338 585	370 816
Electricity/other energy (50kwh per household per month)	92 088	128 473	142 483	180 955	180 955	180 955	206 319	251 366	311 103
Refuse (removed once a week)	201 056	234 225	258 125	275 019	275 019	275 019	280 520	286 130	291 853
<b>Total cost of FBS provided (minimum social package)</b>	<b>648 492</b>	<b>863 946</b>	<b>951 867</b>	<b>1 082 227</b>	<b>1 157 958</b>	<b>1 157 958</b>	<b>1 258 151</b>	<b>1 389 375</b>	<b>1 544 042</b>
<b>Highest level of free service provided</b>									
Property rates (R value threshold)	-	-	-	-	-	-	-	-	-
Water (kilolitres per household per month)	6	6	6	6	6	6	6	6	6
Sanitation (kilolitres per household per month)	4	4	4	4	4	4	4	4	4
Sanitation (Rand per household per month)	20	30	30	38	38	38	41	45	49
Electricity (kwh per household per month)	50	50	50	50	50	50	50	50	50
Refuse (average litres per week)	240L	240L	240L	240L	240L	240L	240L	240L	240L
<b>Revenue cost of free services provided (R'000)</b>									
Property rates (R15 000 threshold rebate)	40 825	54 048	39 297	49 188	49 188	49 188	52 533	58 312	62 044
Property rates (other exemptions, reductions and rebates)	308 253	344 447	398 820	887 466	887 466	887 466	906 730	1 006 470	1 070 884
Water	218 278	331 346	365 140	382 073	387 743	387 743	387 743	419 694	461 663
Sanitation	137 070	34 613	38 074	182 890	184 838	184 838	184 838	210 234	231 257
Electricity/other energy	73 000	86 469	100 641	96 947	96 947	96 947	105 847	115 564	143 336
Refuse	163 000	178 000	207 500	240 813	240 813	240 813	262 648	267 901	273 259
Municipal Housing - rental rebates	27 290	29 732	29 289	34 668	34 668	31 500	33 617	35 200	36 900
Housing - top structure subsidies	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
<b>Total revenue cost of free services provided (total social package)</b>	<b>967 716</b>	<b>1 058 655</b>	<b>1 178 761</b>	<b>1 874 045</b>	<b>1 881 663</b>	<b>1 878 495</b>	<b>1 933 956</b>	<b>2 113 375</b>	<b>2 279 343</b>

Source: Table A10, draft Budget

The analysis in Table 2 is based to Category A (Metropolitan municipality) municipality and Category B (local municipalities).

**Table 3: Service Delivery Performance (Category C municipalities) [Illustrative]**

THE CORE FUNCTIONS OF THE DISTRICT MUNICIPALITY AS PER LEGISLATED MANDATES					
No	Function(s) required by legislation	Source	Source Ref.	Currently by the DM (Y/N)	Comments
1	Integrated Development Planning for the district municipality as a whole including a Framework for Integrated Development Plans of all municipalities in the area.	Municipal Structures Act	Sect. 83(a) & 84(a)		
2	Promote Bulk Infrastructure Development and Services.	Municipal Structures Act	Sect. 83(b)		
3	Building the capacity of local municipalities in its area to perform their functions and exercise their powers where such capacity is lacking.	Municipal Structures Act	Sect. 83(c)		
4	Promote the equitable distribution of resources between the local municipalities in its area to ensure appropriate levels of municipal services within the area.	Municipal Structures Act	Sect. 83(d)		
5	Potable water supply systems.	Municipal Structures Act	Sect. 84(b)		
6	Bulk supply of electricity.	Municipal Structures Act	Sect. 84(c)		
7	Domestic waste-water and sewage disposal systems.	Municipal Structures Act	Sect. 84(d)		
8	Solid waste disposal sites, management, control and regulation.	Municipal Structures Act	Sect. 84(e)		
9	Municipal roads which form an integral part of a road transport system for the area of the district municipality as a whole.	Municipal Structures Act	Sect. 84(f)		
10	Regulation of passenger transport services.	Municipal Structures Act	Sect. 84(g)		
11	Municipal airports serving the area of the district municipality as a whole.	Municipal Structures Act	Sect. 84(h)		
12	Municipal health services.	Municipal Structures Act National Health Act	Sect. 84(i) Section 1		
13	Fire-fighting services serving the area of the district municipality as a whole.	Municipal Structures Act	Sect. 84(j)		
14	The establishment, conduct and control of fresh produce markets and abattoirs.	Municipal Structures Act	Sect. 84(k)		
15	The establishment, conduct and control of cemeteries and crematoria serving the area of a major proportion of municipalities in the district.	Municipal Structures Act	Sect. 84(l)		
16	Promotion of local tourism.	Municipal Structures Act	Sect. 84(m)		
17	Municipal Public Works relating to any of the above functions or any other functions assigned to the district municipality.	Municipal Structures Act	Sect. 84(n)		
18	The receipt, allocation and, if applicable, the distribution of grants made to the district municipality.	Municipal Structures Act	Sect. 84(o)		
19	The imposition and collection of taxes, levies and duties as related to the above functions or as may be assigned to the district municipality in terms of national legislation.	Municipal Structures Act	Sect. 84(p)		
20	Must have (establish) District Intergovernmental Forums	IGR Act	Sect. 24 - 27		
21	Establish a Municipal (District) Disaster Management Centre	Disaster Management Act	Sect. 44, 47, 48, 49		

Source: PT generated report based on information in the Annual Report of 2009/10

**For Category C municipalities – focus should be on powers and functions as set out in sec 83 (3)(a) and sec 84 (1) (a-p) of the Municipal Structures Act**

### **4.3.1 Performance Management Policy Compliance**

- Outline whether key performance documents are in place i.e Annual Report, SDBIP & Mid-year and Outline quality of documents.
- Indicate the extent to which targets are set and aligned from IDP, Budget, SDBIP, mid-year Report, Annual Report.
- Indicate if performance report in Annual Report, SDBIP and mid-year correspond to performance as captured in Table A10 (MBRR-A schedules)
- Assess whether the performance indicators are an adequate and reliable measure of municipal performance.
- Does the performance demonstrate evidence of credible municipal planning and alignment to national, provincial and local priorities?

### **4.3.2 Previous & Current Budget: Performance Review of the Municipality**

Performance recorded in the Annual Report and SDBIP/ Mid-year Report & Table A10 will be assessed by focusing on the following Key Performance Areas:

- Compare SDBIP targets against the annual report targets and actuals
- Analyse the level of progress that the municipality has made in responding to the socio economic situation and service delivery environment within which it operates,
- Analyse how the municipality has performed in achieving its stated objectives as per its outputs, indicators and earmarked allocations;
- What did the municipality get back given the performance and expenditure;
- Review specific performance issues relevant to each municipality;
- Factors impacting on performance;
- Plans to be implemented to improve the level of performance;
- Future plans to improve level of performance.

#### 4.4 Responsiveness of draft budget

- Comment whether the draft budget is appropriately responsive to economic growth objectives and the socio-economic needs, as well as national and provincial priorities as articulated by the 12 national outcomes and 12 provincial strategic objectives.

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

CAPITAL BUDGET		Medium Term Revenue and Expenditure Framework			Percentage share of Capital Budget		
		Budget Year 2010/11	Budget Year 2011/12	Budget Year 2012/13			
		Budget R'000	Budget R'000	Budget R'000	2010/11	2011/12	2012/13
IDP Alignment	<b>Function</b>						
	Good Governance and Regulatory Reform	240 501	189 333	184 357	7%	4%	5%
	Health, Social and Community Development	71 820	70 662	78 293	2%	2%	2%
	Integrated Human Settlements	639 202	613 612	628 950	18%	14%	17%
	Public Transport Systems	479 598	1 281 950	796 867	14%	30%	21%
	Safety and Security	37 616	16 216	16 916	1%	0%	0%
	Shared Economic Growth and Development	333 871	227 860	39 985	9%	5%	1%
	Sustainable Urban Infrastructure and Services	1 737 073	1 891 345	1 992 156	49%	44%	53%
Energy Efficiency for a Sustainable Future	10 000	10 000		0%	0%	0%	
<b>TOTAL CAPITAL EXPENDITURE</b>		<b>3 549 681</b>	<b>4 300 978</b>	<b>3 737 525</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Xxxx municipality 2012/13 Draft Budget

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

OPERATING BUDGET		Medium Term Revenue and Expenditure Framework			Percentage share of Capital Budget		
		Budget Year 2010/11	Budget Year 2011/12	Budget Year 2012/13			
		Budget R'000	Budget R'000	Budget R'000	2010/11	2011/12	2012/13
Alignment to IDP	<b>Municipal Functions</b>						
	Good Governance and Regulatory Reform	3 962 562	4 410 069	4 827 355	21%	20%	19%
	Health, Social and Community Development	2 039 025	2 106 924	2 279 443	11%	10%	9%
	Integrated Human Settlements	629 444	817 519	951 618	3%	4%	4%
	Public Transport Systems	1 101 385	1 266 113	1 328 321	6%	6%	5%
	Safety and Security	1 276 360	1 390 147	1 515 811	7%	6%	6%
	Shared Economic Growth and Development	483 289	515 275	556 457	3%	2%	2%
	Sustainable Urban Infrastructure and Services	9 795 911	11 669 848	14 092 957	51%	53%	55%
<b>TOTAL</b>		<b>19 287 976</b>	<b>22 175 895</b>	<b>25 551 961</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Xxxx municipality 2012/13 Draft Budget

#### 4.4.1 Draft Budget: Responsiveness Assessment

- Comment on the extent to which the socio-economic reality informs the planning, strategies and priorities.
- Is it clear to determine how the budget translates into outputs and outcomes.
- What do the budgets over the MTREF set out to buy/deliver.
- Do these deliverables make sense relative to IDP, socio-economic characteristics, competitive advantage/disadvantage, local and provincial challenges, national and provincial priority frameworks.
- Is the municipal budget allocating funds in line with development priorities? How do these stack up against each other?
- Whether there is proper administration and appropriately aligned implementation of spending and performance plans (including risk management) and that proper costing has been applied?
- The link between funding provided in previous MTREF periods and the outcomes (financial and non-financial) achieved.
- Any improvements compared to the previous budget?
- What are risks?

#### 4.4.2 Economic Growth and Development

- Assess the SDF
  - The SDF has been *updated* in 20yy.
  - Highlight progress on most recent update.
  - Highlight key features of the SDF.
- Analyse the sectors that contribute to the economic growth of the municipality
- What actually drive /stimulate the economy of municipality?
- What is the probable backward and forward linkages and the possible constraints
- Opportunities and practical steps to advance the economy of the municipality
- Assess whether the planned and actual capex addresses economic growth
  - Comment on capital infrastructure on new assets, repairs and maintenance and general asset management by asset class (tables A9, SA34a & SA34c)
- Assess whether the IDP and budget attempt to stimulate the economy through its LED strategy via:
  - Municipal infrastructure development linked to the LED strategy
  - Municipal operations – strategies, partnerships aimed at job creation, entrepreneurship

- Skills development initiatives linked to the LED
- Smme support services established
- Development and implementation of revitalisation programs pertaining to LED

**4.5 Worthwhileness of the Budget should be informed by addressing some of the questions captured below:**

This section assumes that resource planning and allocation is informed by methodologies which will ensure that best value for money. This section will attempt to identify these strategies and the extent to which these have been used by the municipality. In doing so it will attempt to ask how the planning and implementation of the IDP and budget ensure Value for Money? Is there evidence of the following?

- Data which informs needs identification and prioritisation:
  - Community Survey; administrative data; own capacity
  - Prioritising whole community needs
- Taking into account municipal context (neighbouring municipalities):
  - Surrounding municipalities; competitive advantage; complementary nature
- Effective planning:
  - Does the planning respond adequately to the backlog?
  - Integrated across municipal departments
  - Well-Managed communication (all IGR Fora e.g. IDP indaba; DCF etc)
  - Coherent strategy for implementation of projects (benefit of energy of all three spheres)
  - Adherence to project management and budget principles (short-term to medium and long objectives)
  - Economies of scale (shared services)
- Credibility of public participation processes:
  - Frequency of consultation of communities and other stakeholders
  - Informs the planning, prioritisation and budgetary allocation
  - The municipality captures resolutions and monitor the manner in which these influence the municipal priorities
  - Do the priorities speak to the socio-economic reality prevalent in the municipality
  - Minimum standards are being developed and communicated.
  - Customer satisfaction surveys provide the muni with feedback for monitoring improvements



- Internalise monitoring and evaluating progress (indicators developed and targets are SMART compliant):
  - Feedback cycle provides opportunity for monitoring performance and improvement
- Environmental context:
  - Environmental Sustainability (needs of the economy + people + environment)
  - Responding to the identification of environmental risk and effective management:
    - ✓ Water
    - ✓ Land
    - ✓ Air
- Extending basic services in a sustainable manner:
  - Water (e.g. Jojo tank, recycling)
  - Electricity (solar panels)
  - Sewage
  - Refuse removal (recycling to reduce landfill space and environmental pressure)
  - Roads:
    - ✓ Methodology used
    - ✓ Sustainability

#### 4.6 Key Issues and Recommendations for Responsiveness Sections

Key Issue (s)	Recommendation

## **Section 5: Credibility and Sustainability**

### **5.1 QUALITY OF THE BUDGET DOCUMENTS AND COMPLIANCE WITH REFORMS**

#### **i) IYM REPORTS SUBMITTED BY MUNICIPALITIES IN THE PRESCRIBED FORMATS**

- a. Prescribed S71 monthly budget statements submitted to the Provincial and National Treasury timeously.
- b. Quality certificate signed by the Municipal Manager
- c. Prescribed S71 monthly budget statements are tables in the Municipal Council in the required manner

***Tool : 2011/12 IYM Assessment Reports***

#### **ii) BUDGET DOCUMENTS ARE PREPARED IN PRESCRIBED FORMATS:**

- a. Prescribed documents are tabled in council in the required manner
  - Quality certificate signed by the Municipal Manager
  - Compliance Review – Budget Assumption, Budget Related Policies
  - Quality Review in respect of the credibility of numbers presented.

***Tool: 2012/13 NT Compliance Checklist Review***

### **5.2 ASSESSMENT OF THE 2012/13 MTREF BUDGET**

#### **5.2.1 OPERATING BUDGET**

##### **A) OPERATING REVENUE BUDGET**

###### **i) ANALYSIS AND ASSESSMENT**

- Assessment of the 2010/11 Audit report and management letter in respect of matters raised by the AGSA in respect of operating revenue including individual items listed in the below mentioned table eg. Transfers recognised (Grants and Subsidies), corrective and remedial measures instituted by the Municipality and Provincial Treasury
- Assessment on the Property Rates revenue and Service charges revenue - 2012/13 Medium Term Revenue & Expenditure Framework:

**Table 7: Analysis of past performance versus proposed budget appropriations**

Description	2007/8	2008/9	2009/10	Current Year 2010/11				2011/12 Medium Term Revenue & Expenditure Framework			% Growth rates: Estimated actual						
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14	2007/08 - 2008/09 (Year on Year)	2008/09 - 2009/10 (Year on Year)	2009/10 - 2010/11 (Year on Year)	2007/08 - 2010/11 (Nominal) (For the Period)	2010/11 - 2011/12 (Year on Year)	2011/12 - 2012/13 (Year on Year)	2012/13 - 2013/14 (Year on Year)
<b>Revenue By Source</b>																	
Property rates	1,703,877	1,778,467	2,131,999	2,527,358	2,527,358	2,510,810	-	2,709,893	2,959,204	3,237,369	4%	20%	18%	14%	8%	9%	9%
Property rates - penalties & collection charges	38,037	108,132	71,208	100,346	100,346	75,836		107,835	114,845	122,539	184%	-34%	7%	26%	42%	6%	7%
Service charges - electricity revenue	3,291,695	4,048,670	5,617,639	7,493,919	7,493,919	7,493,919	-	9,151,547	11,022,123	13,281,658	23%	39%	33%	32%	22%	20%	20%
Service charges - water revenue	1,294,621	1,180,942	1,414,368	2,290,334	2,106,890	1,837,192	-	2,243,276	2,472,090	2,729,188	-9%	20%	30%	12%	22%	10%	10%
Service charges - sanitation revenue	506,761	458,599	454,099	481,776	665,238	665,054	-	798,765	932,157	1,087,826	-9%	-1%	46%	10%	20%	17%	17%
Service charges - refuse revenue	404,660	463,108	564,339	643,243	643,243	601,625	-	721,582	842,086	982,714	14%	22%	7%	14%	20%	17%	17%
Service charges - other	37,486	48,655	49,858	54,708	54,708	53,098		57,595	61,339	65,448	30%	2%	7%	12%	8%	7%	7%
Rental of facilities and equipment	44,580	51,047	48,719	41,871	41,871	52,617		57,009	61,661	66,883	15%	-5%	8%	6%	8%	8%	8%
Interest earned - external investments	351,157	117,505	54,454	56,373	56,373	76,236		70,000	110,241	191,489	-67%	-54%	40%	-40%	-8%	57%	74%
Interest earned - outstanding debtors	446,172	422,541	270,959	338,678	338,678	278,168		302,630	348,024	400,228	-5%	-36%	3%	-15%	9%	15%	15%
Dividends received	-	-	-	-	-	-		-	-	-	-	-	-	-	-	-	-
Fines	77,794	92,721	97,679	178,362	184,939	123,395		145,005	156,931	170,233	19%	5%	26%	17%	18%	8%	8%
Licences and permits	23,420	25,457	27,663	25,704	25,704	25,704		25,807	27,484	29,326	-13%	9%	-7%	-4%	0%	7%	7%
Agency services	143,093	142,254	156,773	149,362	149,362	149,362		190,468	202,848	216,439	-1%	10%	-5%	1%	28%	7%	7%
Transfers recognised - operational	2,062,158	1,971,772	2,352,858	2,805,411	1,751,991	2,811,634		1,944,866	2,092,429	2,219,797	-4%	19%	19%	11%	-31%	8%	6%
Other revenue	34,992	66,898	92,012	96,056	1,212,871	96,106		1,298,529	1,410,414	1,412,884	91%	38%	4%	40%	1251%	9%	0%
Gains on disposal of PPE	6,497	86,472	70,554	-	-	-		-	-	-	1231%	-18%	-100%	-100%	-	-	-
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>10,472,000</b>	<b>11,063,239</b>	<b>13,475,181</b>	<b>17,283,500</b>	<b>17,353,490</b>	<b>16,850,756</b>	<b>-</b>	<b>19,824,807</b>	<b>22,813,875</b>	<b>26,214,021</b>	<b>6%</b>	<b>22%</b>	<b>25%</b>	<b>17%</b>	<b>18%</b>	<b>15%</b>	<b>15%</b>

**Table 8: Trend analysis of revenue by source as a % of Total Revenue**

Revenue By Source as a % of Total Revenue										
<b>Revenue By Source</b>										
Property rates	16%	16%	16%	15%	15%	15%	14%	13%	12%	
Property rates - penalties & collection charges	0%	1%	1%	1%	1%	0%	1%	1%	0%	
Service charges - electricity revenue	31%	37%	42%	43%	43%	44%	46%	48%	51%	
Service charges - water revenue	12%	11%	10%	13%	12%	11%	11%	11%	10%	
Service charges - sanitation revenue	5%	4.1%	3.4%	2.8%	3.8%	3.9%	4%	4%	4%	
Service charges - refuse revenue	4%	4%	4%	4%	4%	4%	4%	4%	4%	
Service charges - other	0%	0%	0%	0%	0%	0%	0%	0%	0%	
Rental of facilities and equipment	0%	0%	0%	0%	0%	0%	0%	0%	0%	
Interest earned - external investments	3%	1%	0%	0%	0%	0%	0%	0%	1%	
Interest earned - outstanding debtors	4%	4%	2%	2%	2%	2%	2%	2%	2%	
Dividends received	0%	0%	0%	0%	0%	0%	0%	0%	0%	
Fines	1%	1%	1%	1%	1%	1%	1%	1%	1%	
Licences and permits	0%	0%	0%	0%	0%	0%	0%	0%	0%	
Agency services	1%	1%	1%	1%	1%	1%	1%	1%	1%	
Transfers recognised - operational	20%	18%	17%	16%	10%	17%	10%	9%	8%	
Other revenue	0%	1%	1%	1%	7%	1%	7%	6%	5%	
Gains on disposal of PPE	0%	1%	1%	0%	0%	0%	0%	0%	0%	
<b>Total (Check)</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	

**a) Property Rates Revenue :**

- A Breakdown of the rate in the rand for different categories e.g. residential, industrial, business and commercial, farms and state-owned properties.
- Growth year-on-year relating to the rate in the rand and the growth in income as well as the growth in rateable properties.
- Growth in rateable properties: New developments, Structural changes or Policy Changes?
- Underlying structural changes: Informed by tariff, better efficiency, personnel, etc.
- Rebates and exemptions in relation to rates including indigents.
- Method and time of payment: Monthly or Annually, Municipal owned building
- Outstanding debtors trend in relation to property rates

**b) Service charges Revenue:**

- **Electricity**
  - A breakdown of the Electricity Tariffs: tariff (flat, two-part, block or stepped), low, medium and high end users,

- Growth year-on-year relating to the tariff and the growth in income as well as the growth in the base.
  - Growth in base: More “households”, greater population
  - Rebates and exemptions in relation to electricity consumption including indigents.
  - Underlying structural changes: Informed by tariff, better efficiency, personnel, etc.
  - Tariffs – Cost recovery
  - Method and time of payment : Pre-paid meters, Municipal consumption
  - Outstanding debtors trend in relation to Electricity – Better collection rates / greater control over expenditure
- **Water**
    - A breakdown of the Water Tariffs : tariff (flat, two-part, block or stepped), low, medium and high end users,
    - Growth year-on-year relating to the tariff and the growth in income as well as the growth in the base.
    - Growth in base: More “households”, greater population
    - Rebates and exemptions in relation to water consumption including indigents.
    - Underlying structural changes: Informed by tariff, better efficiency, personnel, etc.
    - Tariffs – Cost recovery
    - Method and time of payment : Pre-paid meters, Municipal consumption
    - Outstanding debtors trend in relation to Electricity – Better collection rates / greater control over expenditure
- **Sewerage**
    - A breakdown of Sewerage Tariffs : Tariff related to the size of the property, number of toilets or as a percentage of monthly water consumptions.
    - Different tariffs i.e. flat, stepped.
    - Growth year-on-year relating to the tariff and the growth in income as well as the growth in the base.
    - Growth in base: More “households”, greater population
    - Rebates and exemptions in relation to water consumption including indigents.
    - Underlying structural changes: Informed by tariff, better efficiency, personnel, etc.
    - Tariffs cost recovery
    - Method and time of payment : Septic Tanks, Municipal consumption
    - Outstanding debtors trend in relation to Sewerage – Better collection rates / greater control over expenditure
- **Refuse removal**
    - A breakdown of Refuse Removal Tariffs : domestic and business users, charge vis-à-vis the size of the bins, is it a fixed charge, is billed on a monthly basis together with rates and sewerage charges as part of a monthly consolidated account.
    - Growth year-on-year relating to the tariff and the growth in income as well as the growth in the base.
    - Growth in base: More “households”, greater population
    - Rebates and exemptions in relation to water consumption including indigents.
    - Underlying structural changes: Informed by tariff, better efficiency, personnel, etc.

- Tariffs – cost recovery
- Method and time of payment : Municipal consumption
- Outstanding debtors trend in relation to Refuse Removal – Better collection rates / greater control over expenditure

**c) Government and other grants**

- Assessment of unspent conditional grants – Compliance to DORA and application for the retainment of unspent conditional grants
- Dependency on grant funding versus activities funded from grants.

**ii) Key Findings**

- Need to present findings relating to amongst others:
  - Affordability and sustainability of Tariff Increases
  - Cost recovery of Trading Services (Water and Electricity) – Profit scenario versus cross subsidisation)
  - Cost recovery of Economical Services: Refuse Removal and Sewerage. (Break even scenario versus cross subsidisation)
  - Increase / Decrease of outstanding debtors as per table 9:

**Table 9: Outstanding Debtors**

CATEGORY	January '2011		Month-on-Month		December '2010		Year-on-Year		January '2010	
	Amount R'000	%	Amount R'000	%	Amount R'000	%	Amount R'000	%	Amount R'000	%
Overstrand	55,633	100.0%	932	100.0%	54,701	100.0%	(518)	-0.9%	56,151	100.0%
0-30 days	32,477	58.4%	846	2.7%	31,631	57.8%	4,859	17.6%	27,618	49.2%
31-60 days	4,864	8.7%	353	7.8%	4,511	8.2%	(1,050)	-3.8%	5,914	10.5%
61-90 days	1,847	3.3%	14	0.8%	1,833	3.4%	(307)	-1.1%	2,154	3.8%
>90 days	16,445	29.6%	(281)	-1.7%	16,726	30.6%	(4,020)	-14.6%	20,465	36.4%
<b>Debtors Age Analysis By Income Source</b>										
Water Tariffs	10,933	19.7%	(36)	-0.3%	10,969	20.1%	(2,517)	-9.1%	13,450	24.0%
Electricity Tariffs	16,201	29.1%	(605)	-3.6%	16,806	30.7%	2,523	9.1%	13,678	24.4%
Rates (Property Rates)	15,712	28.2%	(266)	-1.7%	15,978	29.2%	1,035	3.7%	14,677	26.1%
Sewerage / Sanitation Tariffs	7,347	13.2%	75	1.0%	7,272	13.3%	730	2.6%	6,617	11.8%
Refuse Removal Tariffs	5,155	9.3%	(45)	-0.9%	5,200	9.5%	(1,020)	-3.7%	6,175	11.0%
Housing (Rental Income)	328	0.6%	(5)	-1.5%	333	0.6%	(1)	0.0%	329	0.6%
RSC Levies	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Other	(43)	-0.1%	1,813	-97.7%	(1,856)	-3.4%	(678)	-2.5%	635	1.1%
<b>Debtors Age Analysis By Customer Group</b>										
Government	1,917	3.4%	(433)	-18.4%	2,350	4.3%	166	0.6%	1,751	3.1%
Business	9,341	16.8%	591	6.8%	8,750	16.0%	(577)	-2.1%	9,918	17.7%
Households	43,652	78.5%	809	1.9%	42,843	78.3%	(793)	-2.9%	44,445	79.2%
Other	723	1.3%	(36)	-4.7%	759	1.4%	686	2.5%	37	0.1%
<b>TOTAL</b>	<b>55,633</b>	<b>100.0%</b>	<b>931</b>	<b>100.0%</b>	<b>54,702</b>	<b>100.0%</b>	<b>(518)</b>	<b>-1.9%</b>	<b>56,151</b>	<b>100.0%</b>

- Grant dependency and ability to spend grant funding.
- Stabilising cash flow decline?
  - Alternative revenue sources (Land sales to balance operating budget)?
  - Alternative cost saving options?
- Acknowledgement of good initiatives, business processes and practices
- Major risks identified that could impact on the implementation and the executionability of the new budget
- Items that need to be resolved before the Budget and its related policy documents are implemented.

**iii) Root causes**

- Linked to key findings

**iv) Recommendations**

- Linked to key findings – however linked to the strategic objective : “**Promote ongoing improvements in revenue accounting and management**”

**B) OPERATING EXPENDITURE BUDGET**  
**i) ANALYSIS AND ASSESSMENT**

- Assessment of the 2010/11 Audit report and management letter in respect of matters raised by the AGSA in respect of operating expenditure including individual items listed in the below mentioned table eg. Debt impairment, corrective and remedial measures instituted by the Municipality and Provincial Treasury.
- Assessment on the operating expenses by type - 2012/13 Medium Term Revenue & Expenditure Framework:

**Table 10: Analysis of past performance versus proposed budget appropriations**

Description	2007/8	2008/9	2009/10	Current Year 2010/11				2011/12 Medium Term Revenue & Expenditure Framework			% Growth rates: Estimated actual (Nominal)								
				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14	2007/08 - 2008/09 (Year on Year)	2008/09 - 2009/10 (Year on Year)	2009/10 - 2010/11 (Year on Year)	2007/08 - 2010/11 (For the Period)	2010/11 - 2011/12 (Year on Year)	2011/12 - 2012/13 (Year on Year)
<b>Expenditure By Type</b>																			
Employee related costs	2,728,392	3,355,807	3,864,225	4,624,898	4,581,069	4,582,072	-	4,333,687	4,695,804	5,098,185	23%	15%	19%	19%	-5%	8%	9%		
Remuneration of councillors	53,388	58,717	62,513	69,740	69,740	69,740		78,572	84,072	90,126	10%	6%	12%	9%	13%	7%	7%		
Debt impairment	1,328,567	1,453,566	1,417,263	1,372,737	1,658,089	1,667,474		1,536,306	1,763,136	2,034,647	9%	-2%	18%	8%	-8%	15%	15%		
Depreciation & asset impairment	402,734	1,907,231	2,081,909	1,951,840	1,951,840	1,951,840	-	2,101,119	2,156,645	1,930,804	374%	9%	-6%	69%	8%	3%	-10%		
Finance charges	180,080	181,818	307,458	469,833	438,409	438,304		488,227	576,019	640,648	1%	6%	43%	35%	11%	18%	11%		
Bulk purchases	3,298,074	4,122,010	5,150,063	6,608,760	6,608,684	6,608,760	-	7,945,554	9,780,405	12,076,861	25%	25%	28%	26%	20%	23%	23%		
Other materials	789,229	1,059,875	1,004,887	1,419,268	1,182,876	1,119,579		2,215,461	2,448,076	2,714,923	34%	-5%	11%	12%	98%	10%	11%		
Contracted services	494,996	561,560	563,520	710,186	658,365	603,200	-	701,952	712,482	748,106	13%	0%	7%	7%	16%	1%	5%		
Transfers and grants	51,566	53,831	57,093	139,785	139,903	166,903		231,250	237,216	277,149	4%	6%	192%	48%	39%	3%	17%		
Other expenditure	952,759	873,964	916,734	1,155,737	1,303,799	1,143,394	-	1,276,512	1,286,967	1,373,608	-8%	5%	25%	6%	12%	1%	7%		
Loss on disposal of PPE	31,652	8,360	926	-	-	-		-	-	-	-74%	-89%	-100%	-100%	-	-	-		
<b>Total Expenditure</b>	<b>10,311,437</b>	<b>13,636,740</b>	<b>15,426,592</b>	<b>18,522,785</b>	<b>18,592,775</b>	<b>18,351,265</b>	<b>-</b>	<b>20,908,641</b>	<b>23,740,821</b>	<b>26,985,057</b>	<b>32%</b>	<b>13%</b>	<b>19%</b>	<b>21%</b>	<b>14%</b>	<b>14%</b>	<b>14%</b>		
<b>Surplus/(Deficit)</b>	<b>160,563</b>	<b>(2,573,501)</b>	<b>(1,951,411)</b>	<b>(1,239,285)</b>	<b>(1,239,285)</b>	<b>(1,500,510)</b>	<b>-</b>	<b>(1,083,834)</b>	<b>(926,946)</b>	<b>(771,037)</b>	<b>-1703%</b>	<b>-24%</b>	<b>-23%</b>	<b>-311%</b>	<b>-28%</b>	<b>-14%</b>	<b>-17%</b>		
Transfers recognised - capital	-	-	-	-	-	-		-	-	-	-	-	-	-	-	-	-		
Contributions recognised - capital	-	505,267	523,968	686,704	792,321	690,315	-	1,327,042	1,435,140	1,608,621	-	4%	32%	-	92%	8%	12%		
Contributed assets	-	-	-	-	-	-		-	-	-	-	-	-	-	-	-	-		
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>160,563</b>	<b>(2,068,234)</b>	<b>(1,427,443)</b>	<b>(552,581)</b>	<b>(446,964)</b>	<b>(810,195)</b>	<b>-</b>	<b>243,208</b>	<b>508,194</b>	<b>837,584</b>	<b>-1388%</b>	<b>-31%</b>	<b>-43%</b>	<b>-272%</b>	<b>-130%</b>	<b>109%</b>	<b>65%</b>		
Taxation	-	-	-	-	-	-		-	-	-	-	-	-	-	-	-	-		
<b>Surplus/(Deficit) after taxation</b>	<b>160,563</b>	<b>(2,068,234)</b>	<b>(1,427,443)</b>	<b>(552,581)</b>	<b>(446,964)</b>	<b>(810,195)</b>	<b>-</b>	<b>243,208</b>	<b>508,194</b>	<b>837,584</b>	<b>-1388%</b>	<b>-31%</b>	<b>-43%</b>	<b>-272%</b>	<b>-130%</b>	<b>109%</b>	<b>65%</b>		
Attributable to minorities	-	-	-	-	-	-		-	-	-	-	-	-	-	-	-	-		
<b>Surplus/(Deficit) attributable to municipality</b>	<b>160,563</b>	<b>(2,068,234)</b>	<b>(1,427,443)</b>	<b>(552,581)</b>	<b>(446,964)</b>	<b>(810,195)</b>	<b>-</b>	<b>243,208</b>	<b>508,194</b>	<b>837,584</b>	<b>-1388%</b>	<b>-31%</b>	<b>-43%</b>	<b>-272%</b>	<b>-130%</b>	<b>109%</b>	<b>65%</b>		
Share of surplus/ (deficit) of associate	-	-	-	-	-	-		-	-	-	-	-	-	-	-	-	-		
<b>Surplus/(Deficit) for the year</b>	<b>160,563</b>	<b>(2,068,234)</b>	<b>(1,427,443)</b>	<b>(552,581)</b>	<b>(446,964)</b>	<b>(810,195)</b>	<b>-</b>	<b>243,208</b>	<b>508,194</b>	<b>837,584</b>	<b>-1388%</b>	<b>-31%</b>	<b>-43%</b>	<b>-272%</b>	<b>-130%</b>	<b>109%</b>	<b>65%</b>		

**Table 11: Trend analysis of expenses by type as a % of Total Expenditure**

<b>Expenditure By Type</b>										
Employee related costs	26%	25%	25%	25%	25%	25%		21%	20%	19%
<i>Employee related costs (Excl Bulk Purchases)</i>	39%	35%	38%	39%	38%	39%		33%	34%	34%
Remuneration of councillors	1%	0%	0%	0%	0%	0%		0%	0%	0%
Debt impairment	13%	11%	9%	7%	9%	9%		7%	7%	8%
Depreciation & asset impairment	4%	14%	13%	11%	10%	11%		10%	9%	7%
Finance charges	2%	1%	2%	3%	2%	2%		2%	2%	2%
Bulk purchases	32%	30%	33%	36%	36%	36%		38%	41%	45%
Other materials	8%	8%	7%	8%	6%	6%		11%	10%	10%
Contracted services	5%	4%	4%	4%	4%	3%		3%	3%	3%
Transfers and grants	1%	0%	0%	1%	1%	1%		1%	1%	1%
Other expenditure	9%	6%	6%	6%	7%	6%		6%	5%	5%
Loss on disposal of PPE	0%	0%	0%	0%	0%	0%		0%	0%	0%
<b>Total (Check)</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>		<b>100%</b>	<b>100%</b>	<b>100%</b>

**a) Employee related Costs**

- Growth year-on-year relating to the operating expense
- Organisational Structural changes
- Greater control over expenditure?
- Accounting changes?
- Population changes and more households?
- Labour relations – Wage agreement – salary increases, TASK implementation,

**b) Remuneration of Councillors**

- Growth year-on-year relating to the operating expense
- Organisational Structural changes – LG Elections
- Increase – new upper limits – Councillor Remuneration

**c) Finance charges**

- Growth year-on-year relating to the operating expense
- Existing borrowing commitments
- New borrowing commitments
- Greater control over capital expenditure?
- Accounting changes?

**d) Bulk purchases**

- Growth year-on-year relating to the operating expense
- Volume changes - Population changes and more households?
- Price changes?
- Greater control over expenditure?
- Accounting changes?



**e) Debt impairment**

- Growth year-on-year relating to the operating expense
- Outstanding debtors trends – Better collection rates, more households?
- Working capital provision and utilization thereof
- Greater control over expenditure?
- Accounting changes?

**f) Contracted Services**

- Growth year-on-year relating to the operating expense
- What types of contracted services are budgeted for?
- Organisational Structural changes?
- Increase in Employee related services versus contracted services?
- Greater control over expenditure?
- Accounting changes?
- Population changes and more households?

**g) Other expenditure**

- Growth year-on-year relating to the operating expense
- What these items constitute?
- Organisational Structural changes?
- Greater control over expenditure?
- Accounting changes?
- Population changes and more households?

**h) Assessment of in-year creditors' position:**

- Month-on-month increase/decrease
- Year-on-year increase / decrease
- Analysis of significant growth per category and / or top ten outstanding creditors
- Compliance with S65 of the MFMA - Outstanding creditors longer than 30 days

## ii) Key Findings

- Need to present findings relating to amongst others:
  - Operating Surplus/(Deficit).
    - Is the Financial Performance Budget result in 'balance' (revenue equals expenditure)?
    - Is the Financial Performance Budget result in 'deficit' (revenue is less than expenditure)?
    - Is the Financial Performance Budget result in 'surplus' (revenue is greater than expenditure)?

(Note: Financial performance budget surplus/deficit is not an indication of a "funded" budget due to capital grants, provisions and depreciation. Revenue in the Financial Performance budget-raised/billed? Provision for doubtful and bad debt).
  - Applicability of budget provisions in respect of expenditure items such as depreciation, asset impairment, debt impairment, growth of expenditure groups,
  - Contracted services and other expenditure. Has the budget been compiled considering transparency or has expenditure been grouped against other expenditure Analysis of past performance versus proposed budget appropriations,
  - Remuneration and salary increases. Need to consider the actual salary increases,
  - Bulk purchases and impact of increases. Has this informed the budget appropriations against these items,
  - Creditors payment.
- Acknowledgement of good initiatives, business processes and practices
- Major risks identified that could impact on the implementation and the executionability of the new budget
- Items that need to be resolved before the Budget and its related policy documents are implemented.

## iii) Root causes

- Linked to key findings

## iv) Recommendations

- Linked to key findings – however linked to the strategic objective : **“Maintain an effective expenditure control system”**

## 5.2.2 CAPITAL BUDGET

### i) ANALYSIS AND ASSESSMENT

- Assessment of the 2010/11 Audit report and management letter in respect of matters raised by the AGSA in respect of sources of finance, spending capacity of the capital budget including corrective and remedial measures instituted by the Municipality and Provincial Treasury.
- Assessment of the individual sources of finance and per vote analysis of capital expenditure:

Vote Description	2007/8	2008/9	2009/10	Current Year 2010/11				2011/12 Medium Term Revenue & Expenditure Framework			% Growth rates: Estimated actual (Nominal)								
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14	2007/08 - 2008/09 (Year on Year)	2008/09 - 2009/10 (Year on Year)	2009/10 - 2010/11 (Year on Year)	2007/08 - 2010/11 (For the Period)	2010/11 - 2011/12 (Year on Year)	2011/12 - 2012/13 (Year on Year)	2012/13 - 2013/14 (Year on Year)	2010/11 - 2013/14 (For the Period)	
<b>Capital Expenditure - Standard</b>																			
<b>Governance and administration</b>	371,917	241,131	146,124	260,525	191,924	191,924	191,924	272,764	278,358	296,491	-35%	-39%	31%	-20%	42%	2%	7%	16%	
Executive and council	20,463	12,731	87,349	8,555	17,699	17,699	17,699	5,510	6,313	5,897	-38%	586%	-80%	-5%	-69%	15%	-7%	-31%	
Budget and treasury office	5,019	228,400	58,775	251,971	95,546	95,546	95,546	190,081	171,740	183,782	4450%	-74%	63%	167%	99%	-10%	7%	24%	
Corporate services	346,435	-	-	-	78,679	78,679	78,679	77,174	100,305	106,812	-100%	-	-	-39%	-2%	30%	6%	11%	
<b>Community and public safety</b>	369,996	642,235	564,810	625,589	683,266	683,266	683,266	636,446	692,178	664,034	74%	-12%	21%	23%	-7%	9%	-4%	-1%	
Community and social services	99,099	14,441	19,850	110,435	125,797	125,797	125,797	61,981	58,500	110,675	-85%	37%	534%	8%	-51%	-6%	89%	-4%	
Sport and recreation	65,868	145,448	111,332	28,700	49,711	49,711	49,711	43,850	62,180	43,000	121%	-23%	-55%	-9%	-12%	42%	-31%	-5%	
Public safety	-	132,900	63,886	64,861	64,861	64,861	64,861	103,382	111,194	107,288	-	-52%	2%	-	59%	8%	-4%	18%	
Housing	171,638	268,511	284,546	304,228	333,154	333,154	333,154	292,991	314,646	301,626	56%	6%	17%	25%	-12%	7%	-4%	-3%	
Health	33,391	80,936	85,197	117,365	109,743	109,743	109,743	134,242	145,658	101,445	142%	5%	29%	49%	22%	9%	-30%	-3%	
<b>Economic and environmental services</b>	406,143	1,026,024	610,611	518,953	605,284	605,284	605,284	382,367	408,054	375,497	153%	-40%	-1%	14%	-37%	7%	-8%	-15%	
Planning and development	15,795	11,634	25,292	35,350	39,887	39,887	39,887	19,500	20,440	19,070	-26%	117%	58%	36%	-51%	5%	-7%	-22%	
Road transport	390,347	953,851	575,628	479,030	554,729	554,729	554,729	359,356	384,914	349,125	144%	-40%	-4%	12%	-35%	7%	-9%	-14%	
Environmental protection	-	60,539	9,691	4,573	10,667	10,667	10,667	3,511	2,700	7,302	-	-84%	10%	-	-67%	-23%	170%	-12%	
<b>Trading services</b>	321,800	614,859	554,370	699,414	706,059	706,059	706,059	793,351	721,350	668,458	91%	-10%	27%	30%	12%	-9%	-7%	-2%	
Electricity	196,018	410,281	380,478	343,040	328,397	328,397	328,397	388,254	298,675	263,464	109%	-7%	-14%	19%	18%	-23%	-12%	-7%	
Water	44,280	58,299	65,227	185,644	163,773	163,773	163,773	137,033	180,650	164,150	32%	12%	151%	55%	-16%	32%	-9%	0%	
Waste water management	-	21,546	26,620	-	45,990	45,990	45,990	-	-	-	-	24%	73%	-	-100%	-	-	-100%	
Waste management	81,502	124,733	82,045	170,730	167,900	167,900	167,900	268,064	242,025	240,845	53%	-34%	105%	27%	60%	-10%	0%	13%	
Other	-	2,351	633	55,610	44,000	44,000	44,000	121,181	122,370	98,240	-	-73%	6854%	-	175%	1%	-20%	31%	
<b>Total Capital Expenditure - Standard</b>	<b>1,469,856</b>	<b>2,526,600</b>	<b>1,876,548</b>	<b>2,160,091</b>	<b>2,230,533</b>	<b>2,230,533</b>	<b>2,230,533</b>	<b>2,206,109</b>	<b>2,222,311</b>	<b>2,102,720</b>	<b>72%</b>	<b>-26%</b>	<b>19%</b>	<b>15%</b>	<b>-1%</b>	<b>1%</b>	<b>-5%</b>	<b>-2%</b>	
<b>Funded by:</b>																			
National Government	504,586	453,314	452,184	627,914	658,725	658,725	658,725	1,090,552	1,295,880	1,303,192	-10%	0%	46%	9%	66%	19%	1%	26%	
Provincial Government	254	49,281	26,297	54,484	90,623	90,623	90,623	45,500	45,780	-	19322%	-47%	245%	609%	-50%	1%	-100%	-100%	
District Municipality	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other transfers and grants	-	16,557	204	-	-	-	-	-	-	-	-	-99%	-100%	-	-	-	-	-	
<b>Transfers recognised - capital</b>	<b>504,840</b>	<b>519,152</b>	<b>478,685</b>	<b>682,398</b>	<b>749,348</b>	<b>749,348</b>	<b>749,348</b>	<b>1,136,052</b>	<b>1,341,660</b>	<b>1,303,192</b>	<b>3%</b>	<b>-8%</b>	<b>57%</b>	<b>14%</b>	<b>52%</b>	<b>18%</b>	<b>-3%</b>	<b>20%</b>	
<b>Public contributions &amp; donations</b>	-	-	9,489	19,506	22,641	22,641	22,641	21,500	26,500	26,500	-	-	-139%	-	-5%	23%	0%	5%	
<b>Borrowing</b>	2,718	1,100,000	1,299,037	1,100,002	1,100,841	1,100,841	1,100,841	800,166	800,073	715,003	40372%	18%	-15%	640%	-27%	0%	-11%	-13%	
<b>Internally generated funds</b>	962,298	907,448	150,081	358,186	357,703	357,703	357,703	248,391	54,077	58,025	-6%	-83%	138%	-28%	-31%	-78%	7%	-45%	
<b>Total Capital Funding</b>	<b>1,469,856</b>	<b>2,526,600</b>	<b>1,937,292</b>	<b>2,160,091</b>	<b>2,230,533</b>	<b>2,230,533</b>	<b>2,230,533</b>	<b>2,206,109</b>	<b>2,222,311</b>	<b>2,102,720</b>	<b>72%</b>	<b>-23%</b>	<b>15%</b>	<b>15%</b>	<b>-1%</b>	<b>1%</b>	<b>-5%</b>	<b>-2%</b>	

#### a) Individual sources of finance:

- Transfers recognised – Capital**
  - Growth year-on-year relating to the source of finance?
  - Funding secured?
  - Unspent conditional grants eg MIG?
- Public Contribution and Donations**
  - Growth year-on-year relating to the source of finance?
  - Funding secured?
- Borrowing**
  - Growth year-on-year relating to the source of finance?
  - Funding secured?
  - Affordability?
  - Credit rating – Financial position?
  - Financing of projects – Generate additional revenue?
- Internally generated funds**
  - Growth year-on-year relating to the source of finance?

- Funding streams - Capital Replacement Reserve?
- Affordability – funding streams?
- Funding secured?

**b) Per vote analysis:**

- **Housing:**
  - Growth year-on-year
  - Planned versus actual performance
  - Infrastructure spending performance, also focussing on project specific issues
    - Past performance and readiness to deliver
- **Public Safety:**
  - Growth year-on-year
  - Planned versus actual performance
  - Infrastructure spending performance, also focussing on project specific issues
    - Past performance and readiness to deliver
- **Road Transport:**
  - Growth year-on-year
  - Planned versus actual performance
  - Infrastructure spending performance, also focussing on project specific issues
    - Past performance and readiness to deliver
- **Electricity:**
  - Growth year-on-year
  - Planned versus actual performance
  - Infrastructure spending performance, also focussing on project specific issues
    - Past performance and readiness to deliver
- **Waste Water Management:**
  - Growth year-on-year
  - Planned versus actual performance
  - Infrastructure spending performance, also focussing on project specific issues
    - Past performance and readiness to deliver
- **Waste Management:**
  - Growth year-on-year
  - Planned versus actual performance
  - Infrastructure spending performance, also focussing on project specific issues
    - Past performance and readiness to deliver

**c) Asset Management**

- Appropriation of repairs and maintenance (operational),
- Asset renewal in terms of the capital budget,
- Does a repair and maintenance strategy exist, and if so has it informed the budget, etc.

**ii) Key Findings**

- Need to present findings relating to amongst others:
  - Capital requirements versus Affordability
  - Funding secured
  - Sustainability of the capital revenue streams eg, i.r.o CRR.
  - Applicability of capital funding mix.
  - Growth in capital budget versus capacity to spend based on past trends.
  - Planning of capital requirements: - “What is the level of service delivery the Council requires?”
    - How is Council informed of the cost and effect on tariffs over the life?
    - How is evaluation of priorities done?
    - How are alternatives decided upon?
    - Is the level affordable and sustainable and how measured for these?
    - Which can't you control and why?
    - Council Strategy of dealing with each of the afore-mentioned
- Acknowledgement of good initiatives, business processes and practices
- Major risks identified that could impact on the implementation and the executionability of the new budget
- Items that need to be resolved before the Budget and its related policy documents are implemented.

**iii) Root causes**

- linked to key findings

**iv) Recommendations**

- Linked to key findings – however linked to the strategic objectives : “**Promote ongoing improvements in revenue management**” and “**Maintain an effective expenditure control system**”

## 5.2.3 FUNDING COMPLIANCE ASSESSMENT

### WC000 Cape Town Supporting Table SA10 Funding measurement

Description	MFMA section	Ref	2006/7	2007/8	2008/9	Current Year 2009/10			2010/11 Medium Term Revenue & Expenditure Framework		
			Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
<b>Funding measures</b>											
Cash/cash equivalents at the year end - R'000	18(1)b	1	437,356	1,158,826	2,631,950	2,730,149	2,693,039	2,544,952	2,891,284	3,600,941	4,430,623
Cash + investments at the yr end less applications - R'000	18(1)b	2	32,510	412,256	292,822	133,776	33,075	(568,562)	917	61,927	550,652
Cash year end/monthly employees/supplier payments	18(1)b	3	0.8	1.7	3.3	2.8	2.8	2.6	2.3	2.5	2.6
Surplus/(Deficit) excluding depreciation offsets: R'000	18(1)	4	855,147	1,105,413	2,774,488	1,689,846	1,347,698	1,347,698	1,239,615	2,199,641	1,775,633
Service charge rev % change - macro CPIX target exclusive	18(1)a,(2)	5	N.A.	11.3%	6.6%	17.8%	17.7%	17.0%	12.6%	11.9%	11.4%
Cash receipts % of Ratepayer & Other revenue	18(1)a,(2)	6	93.2%	102.3%	86.8%	96.1%	95.6%	99.2%	98.9%	98.5%	98.1%
Debt impairment expense as a % of total billable revenue	18(1)a,(2)	7	5.0%	7.7%	7.4%	5.2%	5.9%	5.9%	6.4%	6.1%	5.8%
Capital payments % of capital expenditure	18(1)c;19	8	100.8%	100.6%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Borrowing receipts % of capital expenditure (excl. transfers)	18(1)c	9	2.0%	76.5%	57.5%	51.6%	55.7%	55.7%	55.9%	54.1%	63.7%
Grants % of Govt. legislated/gazetted allocations	18(1)a	10	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	88.3%	94.2%	97.0%
Current consumer debtors % change - incr(decr)	18(1)a	11	N.A.	28.8%	28.4%	4.4%	9.3%	(1.5%)	3.1%	4.6%	6.4%
Long term receivables % change - incr(decr)	18(1)a	12	N.A.	(29.1%)	(20.3%)	13.3%	(16.2%)	0.0%	(5.0%)	(5.0%)	(5.0%)
R&M % of Property Plant & Equipment	20(1)(vi)	13	9.8%	9.8%	8.4%	7.1%	7.2%	7.2%	6.8%	6.6%	6.5%
Asset renewal % of capital budget	20(1)(vi)	14	45.3%	33.2%	24.9%	30.7%	30.7%	30.7%	32.4%	34.1%	30.6%

#### i) Cash/cash equivalent position acceptable

- Positive cash position for each year of the MTREF.

Note: A 'negative' cash position would likely be an immediate indicator of financial difficulties about to occur

#### ii) Cash plus investments less application of funds

- Applications
  - Unspent conditional transfers/grants and receipts
  - Unspent long term borrowing
  - Value added tax
  - Other working capital requirements (timing mismatch of days between revenue receipts and payments)
  - Other provisions of funds – annual amount required must be cash backed
  - Long term investments committed
  - Reserve fund
- The 'negative' cash position (less commitments) indicates non-compliance with the MFMA (s18). Negative = expenditure not funded by revenue or cash backing

#### iii) Cash year end/monthly employees/suppliers payments(cash coverage)

- Number of times average monthly payments are covered with available cash
- Assess ability to meet obligations
- Worthy ratio-3 (depending on circumstances)

**iv) Surplus/deficit (result) excluding depreciation offsets**

- Is the Financial Performance result (surplus/deficit), adjusted for 'offset depreciation', a deficit for any or all of the years of the medium term budget?
- Is the community making a sufficient contribution to the municipal resources?

**v) Property Rates/service charge revenue increase acceptable?**

- Is the percentage increase in property rates and service charge revenue greater than the forecast CPIX for the budget year?
- Is the amount by which the percentage increase in property rates and service charge revenue greater than the forecast CPIX for the budget year?
- Is the percentage increase in property rates and service charge revenue outside macro-economic targets (refer MFMA Circular for target) for the budget year?

**vi) Cash receipts % of ratepayer and other revenue**

- Compare projected collection rate with overall year to date outcome of the current year
- Compare projected collection rate with the outcome of for the prior financial year
- Non-compliance in terms of S18 if greater than-motivation required

**vii) Debt impairment expense % of billable revenue**

- Measure whether the provision for debt impairment is adequately funded
- Check total of collection percentage and debt impairment = 100%

**viii) Capital payments % of capital expenditure acceptable?**

- Is the timing of payments being taken into consideration when forecasting the cash flow position?

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

- Is the % of budgeted long term borrowing greater than 100% of the capital expenditure budget (less external funding such as transfers, grants and developer contributions)?
- Does the municipality have a prudential borrowing limit policy that borrowing be limited to a specified percentage, and if so, is the borrowing ratio greater than the limit?

**x) Transfers/grants as a % of Government transfers/grants**

- Is the % of Government transfers/grants (including District transfers if applicable) greater than 100% of the gazetted or approved transfers/grants?
- Is the % of Government transfers/grants (including District transfers if applicable) less than 100% of the gazetted or approved transfers/grants?

**xi) Current consumer debtors % of change**

- Assess consistency between debt collection rate assumptions and changes in consumer debtor balances budgeted for.

**xii) Long term receivables as a percentage of change**

- Assess if long term arrear debtor collection targets are realistic.

**xiii) Repairs and Maintenance % of property plant and equipment**

- Assess if sufficient provision was made for repair and maintenance on assets.

**xiv) Asset renewal as % of capital budget**

- Analyse credibility of asset renewal plans.
- High levels of investments might not be sustainable in future.



**Section 6: Summary of Key Issues & recommendations**

<b>Key Issues</b>	<b>Recommendation</b>	<b>Timeframe</b>	<b>Responsibility</b>

## **Section 7: Conclusion**

### **Example [will differ based on issues raised]**

The Provincial Treasury acknowledged that the Xxx municipality managed to compile a budget under extreme difficult circumstances.

The budget assumptions appear to be realistic based on past performance. Concern is however, expressed regarding the collection assumption versus collection rate populated in the funding compliance (SA10). In addition, there is also an increasing trend in the outstanding debtors owed to the Xxx.

The cash flow budget appears to be sustainable over the MTREF. Observations are also made there is an increase in long-term borrowings.

Among the areas of risks covered in this assessment which requires further attention is ensuring that the planning and resource allocation of the Xxx is increasingly informed by the spatial reality of the Xxx; that investment in economic infrastructure and growth coincides with the areas of greatest need; that greater attention be given to the drafting and planning of the projects included in the capital budget; and concerns around the sustainability of increases in funding the operating budget given the long-term impact of the global recession and resultant unemployment.