

**AN ASSESSMENT OF CAPITAL BUDGET PLANNING AND  
MUNICIPAL BORROWING AS FUNDING SOURCE IN THE  
OVERSTRAND MUNICIPALITY IN THE WESTERN CAPE**

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MCom in Development Finance**

**by  
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## DECLARATION

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## **ABSTRACT**

The major challenges confronting municipalities in South Africa are poor governance, lack of effective performance, backlogs in service delivery, over- and in most cases under-spending on capital infrastructure, and poor audit outcomes. It is therefore very important for municipalities to deliver on the constitutional mandate as enshrined in the South African Constitution in terms of Section 153. Municipalities need to structure and manage the organisation's budgeting, administration and planning processes effectively in terms of their strategic five-year Integrated Development Plan (IDP).

The research problem of this study encompasses the assessment of the capital budget planning processes and expenditure patterns in relation to capital infrastructure to determine whether the planning processes followed are in alignment with the IDP and the relevant legislation. The core objective of the research was to investigate the extent to which the Overstrand Municipality funded their capital budget with external borrowing in terms of the budget planning process in relation to capital infrastructure spending over a three year period in compliance with the relevant legislation.

A qualitative research approach with in-depth interviews was conducted with purposely selected individuals employed in the Municipality responsible for the IDP, Capital Budget Planning and Funding. This was supported by semi-structured questionnaires based on open- and closed-ended questions.

The study found that the Overstrand Municipality complied with the funding of the capital budget year on year in accordance with its approved Budget and Borrowing Policies as well as all other relevant legislation and prescripts. The long-term capital infrastructure budget is supported by master plans, compiled by fully capacitated staff; however a comprehensive consolidated plan and creditworthiness assessment is still lacking. The study also revealed that despite the fact that the Municipality's exposure to borrowing is well maintained, there could be scope to increase borrowing for the future, depending on a more informed consolidated infrastructure plan and credit rating assessment.

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The word of God declares in **Isaiah 54:17**:

“No weapon that is formed against thee shall prosper; and every tongue that shall rise against thee in judgment thou shalt condemn. This is the heritage of the servants of the LORD, and their righteousness is of me, saith the LORD.”

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# CHAPTER 1

## 1. Introduction

### 1.1 Background to research

It is imperative that South Africa needs to invest in a strong economic infrastructure designed to support the country's medium- and long-term economic and social objectives. This economic infrastructure is a precondition for providing basic services such as electricity, water, sanitation, telecommunications and public transport, and it needs to be robust and extensive enough to meet industrial, commercial and household needs (National Planning Commission, 2011; South Africa, Department of the Presidency, 2013).

The challenge is to maintain and expand infrastructure development to address the demands of the growing economy. In the transport and energy sectors dominated by state-owned enterprises the economy has already been constrained by inadequate investment and ineffective operation and maintenance of existing infrastructure. In the telecommunications field, policy and regulatory uncertainty and lack of capability remain barriers to infrastructure investment and to achieving affordable, quality services, especially for the poor. In the water sector, delaying critical investment may result in water shortages during a drought period (National Planning Commission, 2011; South Africa, Department of the Presidency, 2013).

The current situation indicates that investment levels are insufficient and maintenance programmes are lagging. The government needs to better coordinate collaborative investment by means of involving interested parties, businesses, provincial and local government into key infrastructure projects to enable better outcomes. The presidential infrastructure coordinating committee would go a long way towards achieving these goals. It is important that priority should be given to infrastructure programmes that would contribute towards regional integration. These include the African Union's north-south corridor and the sector-specific projects such as the enhancement of facilities, improving energy access, information and communications

technology (ICT) connectivity, as well as revising transport links (National Planning Commission, 2011; South Africa, Department of the Presidency, 2013).

Investment spending in South Africa fell from an average of almost 30 percent of gross domestic product in the early 1980s to about 16 percent by the early 2000s. Similarly, public infrastructure spending is at low levels. South Africa has therefore missed a generation of capital investment in roads, rail, ports, electricity, water, sanitation, public transport and housing. The country would need a higher level of capital spending in general and public investment. Gross fixed capital formation needs to reach about 30 percent of GDP by 2030 to ensure sustained impact on growth and household services (National Planning Commission, 2011; South Africa, Department of the Presidency, 2013).

Municipalities demonstrate little ability to accurately plan and spend their budgets (i.e. credible budgets). A credible budget is regarded as one with a variance of less than 20 percent. Thirty-five municipalities overspent their total adjusted budgets to the total of R2.6 billion, while 182 municipalities underspent to the amount of R19.1 billion. When analysing the capital adjusted budget spending, a 177 municipalities underspent to the amount of R7.3 billion and 32 municipalities overspent to the amount of R350 million (Department of Co-operative Governance and Traditional Affairs, 2009).

## **1.2 The state of local government finance**

A central challenge for new institutions of local government has been their viability and ability to build strong organisations capable of delivering on the principles of Section 153 of the Constitution, which states that:

a municipality must structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community, and participate in national and provincial development programmes (Republic of South Africa, 1996).

Furthermore, in a policy context, the Constitution, the White Paper on Local Government, and the legislative framework for local government provide municipalities with a structure to manage their administration. They also outline political decision-making systems, and define principles for structuring administrations.

Therefore, the current policy and legislative requirements affecting local governance are primarily contained in the Constitution, the Local Government White Paper, the Local Government Municipal Demarcation Act, the Local Government Municipal Structures Act, the Local Government Municipal Systems Act, the Disaster Management Act, the Local Government Municipal Finance Management Act, and the Local Government Municipal Property Rates Act. The amounts for intergovernmental fiscal transfers are published yearly in the Division of Revenue Act (Department of Co-operative Governance and Traditional Affairs, 2009).

It follows that some of these municipalities are seriously challenged to fulfil their obligations. They may be financially non-viable, articulate distress via heightened levels of community protests, and be particularly vulnerable to political control and poor institutional management and compliance. Many of these challenges relate to the external environment, among others:

- National policies that impact on local government
- The intergovernmental fiscal system for local government
- The legislative and governance framework for local government
- Monitoring and oversight of local government
- Capacity-building policies
- Spatial legacies

Internal factors impacting on municipal poor performance relate to:

- Sound political leadership
- Strong organisational capacity

- Good governance practices
- Relevant policies and programmes to be implemented
- Adequate staffing and systems
- Workable plans and budgets

The impact of the combination of these internal and external factors is reflected in the varying external and internal findings provincially, namely scarce skills, which imply municipalities find it difficult to attract qualified and experienced technical and management professionals. Service delivery challenges faced by municipalities include the reality of managing complex infrastructure projects and responding to the various powers and functions assigned to this sphere, which became clear in respect of the findings (Department of Co-operative Governance and Traditional Affairs, 2009).

Roux (2008) suggests that economic growth, education and training are crucial to a long-term solution. There should be high and sustained economic growth to create demand for labour. A growth rate of 6% should be achieved over a number of years to create jobs for those entering the labour market. In terms of global competition, production costs need to be minimised and efficiencies need to be maximised. This is not possible if the labour force cannot read or write and would therefore not be in a position to master basic technological skills.

Each province has its region-specific challenges and variations in service delivery strengths and weaknesses. These include water service delivery in parts of the Eastern Cape owing to severe drought in the province during 2009; this means that expanding sanitation and water connections is untenable. There are areas without sewerage systems because there is no water to enable the system to function, and inevitably, available water quality suffers, leading to a risk of disease and even death, as from cholera. In the Free State, for example, some municipalities rely on boreholes and underground water to supply communities (Department of Co-operative Governance and Traditional Affairs, 2009).

Other factors relates to the following:

- Insufficient funds to eradicate infrastructure backlogs or complete infrastructure projects, for example, houses, roads, electricity and water.
- Fast-growing informal settlements caused by the booming mining industry put pressure on the municipality to provide more services with scarce resources.
- The non-availability of land for township development, especially for evicted farm dwellers, impacts negatively on service delivery.

With some justification, many municipalities complain that there are insufficient funds to eradicate infrastructure backlogs on water, sanitation and road services, resulting in incomplete infrastructure projects such as RDP houses, roads, electricity and water. However, individual assessments have also demonstrated examples of underspending, a degree of wastage, inappropriate usage of funds, and poor oversight (Department of Co-operative Governance and Traditional Affairs, 2009).

### **1.3 Way forward**

The way forward when analysing the many challenges and constraints faced by municipalities would be to include the introduction of uniform accounting standards and compliance with Generally Accepted Municipal Accounting Practices (GAMAP), according to Black et al. (2008). Financial reporting should be improved, and should include early warning systems and effective monitoring and evaluation of financial service delivery performance. Improved credit control, debt collection and other forms of financial management would also contribute to the sustainability of poor municipalities. Lastly, the Municipal Finance Management Act of 2003 and the Property Rates Act of 2004 that introduced a uniform valuation system would provide a legal framework to enhance the financial viability of municipalities as stated by Black et al. (2008).

## **1.4 Research question and objectives**

**The research question is:**

**To what extent do municipalities borrow to fund and spend on their capital budgets in compliance with the relevant legislation?**

The objectives of the research are:

- to ascertain the external loans that were made for infrastructure spending over a three-year Medium-Term Revenue and Expenditure Framework (MTREF) horizon in terms of the municipality's IDP and capital budget planning process;
- to investigate the spending on external borrowing over a three-year MTREF horizon;
- to identify key reasons for the capacity constraints faced by municipalities to deliver on their infrastructure delivery mandates; and
- to establish and identify the link between infrastructure spending and the integrated development plan, as well as performance of these municipalities.

## **1.5 Importance and focus of the study**

The Western Cape's Growth and Development Strategy (GDS), (2007), states that by 2014 the Province would have made great progress towards a sustainable home for all. *iKapa Elihlumayo*, which means 'growing and sharing the Cape' in isiXhosa, is in essence the cornerstone concept to ensure that the Western Cape becomes 'A Home for All'. It is within this context that the Western Cape Provincial Government is embarking on a new economic pathway to ensure a dynamic future of shared growth and integrated sustainable development.

The iKapa GDS strategy aims to build this home by shifting the development path of the Western Cape towards a future of shared growth and integrated sustainable development. Government is leading this process but its success depends on strong partnerships with labour, civil society and business to achieve the vision of 'A Home

for All' in the Western Cape. The iKapa GDS provides the Provincial Government of the Western Cape (PGWC) with a clear strategic framework for accelerated and shared economic growth by means of a thorough development intervention in the Western Cape in favour of all the residents, in particular the poor, and at the same time restoring the ecosystems and resources important to sustain economic growth within a coherent spatial development framework (Provincial Government of the Western Cape, 2007).

On a national level and a few years after the development and adoption of the Western Cape's GDS, the National Government's new National Development Plan (NDP) provides a strategic direction for all spheres of government, especially sector departments, as well as local government to follow for the improvement of the long-term infrastructure plans. Co-ordination between the various government departments must be enhanced to ensure the effective implementation of the objectives of the National Development Plan.

The focus of this study is to assess the infrastructure spending of the Overstrand Municipality as one of the high-capacity municipalities in the Western Cape in terms of its Integrated Development Plans (IDPs) against its budget for capital expenditure with the focus on the borrowing component of the capital budget over a three-year MTREF. The provision of finance to ensure that the capital budget is effectively spent depends hugely on the financial credibility and sustainability of municipalities; the borrowing portion is therefore an important component of the capital budget that must comply with budget policies and regulations in terms of the Municipal Finance Management Act (MFMA) and Municipal Regulations. Failure to adhere to these legislative prescripts could render a budget non-compliant with legislation and also non-credible and non-sustainable from a financial analysis or assessment point of view.

## **1.6 Research design & methodology**

This study is **qualitative** in nature and was conducted in the form of an ethnographic case study. Leedy and Ormrod (2005) state that qualitative research provides new insights into a particular phenomenon or can evaluate the effectiveness of existing

practices. Welman et al. (2005) postulate that qualitative research can, theoretically, be described as an approach rather than a particular design or set of techniques. The effectiveness of the sources of capital budget financing is important to ensure that municipal budgets are credible, sustainable and responsive to the needs of the people in the country. A literature review was therefore used as a point of departure to ensure a deductive approach was followed to draw inferences from the requirements in respect of government legislation, regulations in respect of capital budgeting, and in particular, local government capital budgeting, as well as monthly compliance reports, mid-year reports, quarterly borrowing monitoring reports, annual financial reports and approved budget submissions.

Primary and secondary data were collected in the form of semi-structured interviews with the senior management responsible for Integrated Development Planning and Capital Budget Planning and Funding of the Capital Budget in the Overstrand Municipality.

## **1.7 Outline of chapters**

The following chapter outlines act as a guide to the content of the different chapters in the research report. A broad overview is provided.

**Chapter 2:** Literature review.

**Chapter 3:** Policy review.

**Chapter 4:** Reviews all the relevant legislative prescripts, practices and guidelines in respect of municipal finance in the South African context.

**Chapter 5:** Methodology encompasses interviews conducted with senior managers responsible for the Integrated Development Planning & Budget Planning. Analysis of annual financial statements, annual draft/final budgets, IYM reports, mid-year reports, quarterly borrowing monitoring reports (QBMR), Service Delivery Budget Implementation Plans (SDBPs) and annual reports were also consulted.

**Chapter 6:** Data analysis contains a description of the data-gathering procedure as well as an analysis of the interview results. The research findings and conclusions are also covered in this chapter.

**Chapter 7:** Presents the summary, conclusions and recommendations based on the completed research. Areas identified for future research are discussed and conclusions are drawn.

## **CHAPTER 2**

### **2. Literature Review**

In order to address the research problem, various literature resources were obtained to gain a comprehensive overview of integrated development plans of municipalities, the long-term budget planning processes required for effective capital budgeting, and revenue trends. It was also essential to ascertain the importance and sources (external funding) of capital budget financing required for capital infrastructure spending in local government. To give effect to all of this, capacity in local government is a key factor to ensure that capital infrastructure spending is achieved to meet annual budget objectives.

#### **2.1 Integrated Development Plans (IDPs)**

Local municipalities in South Africa have to use ‘integrated development planning’ as a method to plan future development in their areas.

The legacies of apartheid planning left us with cities and towns that:

- have racially divided business and residential areas;
- are badly planned to cater for the poor, with long travelling distances to work and poor access to business and other services;
- have great differences in level of services between rich and poor areas; and
- have sprawling informal settlements and spread-out residential areas that make cheap service delivery difficult.

An Integrated Development Plan is a super plan for an area that gives an overall framework for development. It aims to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in an area. It should take into account the existing conditions, problems and resources available for development. The plan should look at economic and social development for the area as a whole. It must set a framework for how land should be

used, what infrastructure and services are needed, and how the environment should be protected.

All municipalities have to produce an IDP that should take between six to nine months to develop. The IDP has a lifespan of five years and is directly linked to the term of office for local councillors. The council can adopt the existing IDP or develop a new IDP that takes into consideration the existing plan.

Integrated Development Planning is also construed to be a key instrument which municipalities can adopt to provide vision, leadership and direction for all those that have a role to play in the development of a municipal area. Municipalities must play a role in ensuring integration and co-ordination between the various sectors and cross-sectoral dimensions of development, to achieve social, economic and ecological sustainability (IDP Guidepack, 2000).

### **2.1.1 *The importance of an IDP***

There are six main reasons why a municipality should have an IDP:

- **Effective use of scarce resources**

The IDP will help the local municipality to focus on the most important needs of local communities, taking into account the resources available at local level.

- **It helps to speed up delivery**

The IDP identifies the least serviced and most impoverished areas and points to where municipal funds should be spent. Implementation is made easier because the relevant stakeholders have been part of the process. It provides deadlock-breaking mechanisms to ensure that projects and programmes are efficiently implemented. The IDP helps to develop realistic project proposals based on the availability of resources.

- **It helps to attract additional funds**

Government departments and private investors are willing to invest where municipalities have clear development plans.

- **It strengthens democracy**

Through the active participation of all the important stakeholders, decisions are made in a democratic and transparent manner.

- **It helps to overcome the legacy of apartheid**

Municipal resources are used to integrate rural and urban areas and to extend services to the poor.

- **It promotes co-ordination between local, provincial and national government**

The different spheres of government are encouraged to work in a co-ordinated manner to tackle the development needs in a local area (IDP Guidepack, 2000).

## **2.2 Budgeting**

According to Visser and Erasmus (2002), a budget is essentially a framework linking particular spending objectives with their associated costs, and is therefore applicable to any situation where spending objectives need to be determined. Budgets therefore form an integral part of public financial management in the public sector, but cannot be likened to financial management, and as such, cannot be used as a replacement or substitute for financial management.

Public financial management represents a process, while budgets are a mechanism. Pauw et al. (2002) state that government formulates budgets to ensure that public expenditure is focused on social and economic priorities such as transformation. The competing needs, in the view of Pauw et al. (2002), are that resources will be balanced against the budget constraints determined by the economic environment, and by macroeconomic policies which entail enhancement of economic growth, job

creation, equity and social development, and strengthening the safety and justice sector.

According to Visser and Erasmus (2002) the government would have to obtain most of its money from the taxpayer to implement policies. It is further stated that the budget serves specific purposes in the public sector and is characterised according to specific elements. It contains information such as (i) policy objectives by means of identifying and describing votes; (ii) monetary or financial implications associated with the objectives; and (iii) implied taxation measures linked to the financial implications. A budget will reflect financial implications regarding the political objectives that are stated as votes. The aspects that should be considered in relation to these implications are taxation, budget deficit and loans.

The budget as a working document contains the votes identifying the various programmes that the departments and other constitutional institutions will undertake. Visser and Erasmus (2002), postulate that the budget as a working document contains too little detailed information for exact financial control and management purposes. Programme information in relation to votes also comprises too little information to be of relevance to monitor progress, ascertain performance levels, or rating and auditing.

This budget information could, however, provide a valuable oversight of the financial activities of government for politicians and role-players such as non-government organisations (NGOs). The budget as a control instrument further provides the framework against which performance and financial management results are determined. The budget system, according to the *Manual on the Financial Planning and Budgeting System of the State*, seeks to achieve the following:

- Identify the aims and objectives of spending agencies.
- Identify the executive programmes whereby these objectives are pursued or intended to be pursued.
- Emphasise policy priorities and consider alternative possibilities for the allocation of means.
- Integrate objectives and their executive programmes into the budget – directly connecting specific policy aims with their financing.

- Strive for multi-term financial planning of executive programmes to achieve certain objectives.
- Use and facilitate the development simultaneously of evaluation and analytical techniques to determine whether spending is affected economically.

### **2.2.1 Financing sources**

According to Atrill (2009), the major external sources of financing are:

- ordinary shares
- preference shares
- borrowings
- finance leases, including sale-and leaseback arrangements
- hire purchase
- securitisation of assets

Short-term financing sources constitute:

- bank overdraft
- debt factoring
- bills of exchange
- invoice discounting

According to Devas et al. (2008), the sources of capital investment consist of:

- charges for services
- budget surplus (i.e. recurrent revenues less recurrent expenditures)
- government grants
- sale of assets
- borrowing
- bond issues
- community contributions/self-help
- private investment and public private partnerships (PPP)

Correia et al. (1993) state that loans simply involve the lending of money by one party to another, who sets the terms and conditions to suit the requirements and preferences of the parties concerned,. The common terms and conditions, according to Correia et al. (1993), found in loan agreements concern:

- Security – the loan may be secured or unsecured
- Return – the interest rate may be fixed or variable
- Period – the loan may be for any agreed period

Restrictive covenants are sometimes also included to protect the lender according to Atrill (2009). Loan covenants are obligations or restrictions on the business that form part of the loan contract and may impose the following:

- the right of lenders to receive regular reports concerning the business;
- an obligation to insure the assets that are offered as security;
- a restriction on the right to issue further loan capital without prior permission of the existing lenders;
- a restriction on the ability of the managers of the business to sell certain assets held;
- a restriction on the level of dividend payments, or level of payments made to directors; and
- minimum acceptable levels of liquidity or maximum levels of gearing.

### **2.2.2 *Municipal capital budgeting***

According to Pauw et al. (2002), a municipal budget can be defined as a financial programme of a municipality for a specified period, usually one year; it consists of two equally important parts, namely the municipality's expenditure plan and plan for the funding of the expenditure–revenue plan.

Pauw et al. (2002) postulate that although the revenue and expenditure budgets are considered separately, they are not compiled in isolation, but integrated in one budget of expenditure and revenue. In this manner managers can determine the impact of the expenditure on revenue and vice versa during the planning process. Pauw et al. (2002)

further state that according to Gildenhuis (1997), an outstanding feature of the budget system of a municipality is that the operating budget and capital budget are drafted separately and it is for this reason that the provisions of the Local Government Transition Act (LGTA) 209 of 1993 and the Municipal Finance Management Bill seem to support this view or concept.

In terms of Section 160 (20) of the Constitution, a municipal council has the following functions that may not be delegated:

- Approving budgets
- Imposing rates and other taxes, levies and duties
- Raising loans

The Constitution, in terms of Section 215, according to Pauw et al. (2002), states that municipal budgets and budgetary processes must promote transparency, accountability and the effective financial management of the economy, debt and the public sector. It is also further stipulated in Section 215 that national legislation must prescribe the form of municipal budgets. This provision ensures that municipal budgets indicate the sources of revenue and the manner in which proposed expenditure will comply with national legislation. They should therefore:

- contain estimates of revenue and expenditure;
- differentiate between capital and current expenditure;
- include proposals for the financing of anticipated deficits; and
- indicate anticipated borrowing and other forms of public liability that would increase the public debt during the ensuing financial year.

According to Gildenhuis (1997), capital expenditure is made for obtaining and creating assets which may be utilised futuristically for a number of years and would act as instruments to achieve service delivery in the public sector. The impact therefore goes beyond the current financial year. Owing to the high cost, decisions in relation to capital budgeting must be taken very carefully. It is mainly due to this that governments often separate their capital budgets from their operating budgets as they focus on alternative choices and the determination of priorities facilitates financial programming that ensures regular provision of essential capital assets.

Gildenhuis (2001) further states that a separate capital budget is an effective instrument for the efficient utilisation of resources, provided that the local government remains within its fiscal limitations.

Gildenhuis (2001) goes further by stating that a separate capital budget is a meaningful instrument for capital financing programming and regulation of the tax base, tax rates, rates of user charges and consumer tariffs. A separate capital budget also contributes towards financial solvency and ensures the necessary improvements to infrastructure and the provision of essential new infrastructure in line with the real needs and means of the community.

### **2.2.3 *Rationale for separate capital budgets***

According to Gildenhuis (2001), a separate budget may increase both the affectivity and the equity of the provision and financing of non-repetitive capital projects with long-term service delivery; the manner of financing capital projects will also affect their equity. Gildenhuis (2001) further states that if the capital budget is financed from loans, then everyone who benefits from them pay for their utilisation over their exploitable life span. This is therefore considered an equitable form of financing. Doss (1987) similarly contends that large municipalities tend to be more sophisticated.

As populations increase, municipalities more often adopt separate capital budgets and make formal use of budget decision models. According to Gildenhuis (2001), it should however be noted that the financing of capital projects by means of external financing or loans must be considered with the consequences of high interest rates. The high rates of interest could place a heavy burden on the cost of financing capital projects and must be an important factor for government when determining capital financing policy.

According to Devas et al. (2008), there are three key roles for financial planning and budgeting in local government. Devas et al. (2008) mention that policy making firstly involves setting expenditure priorities in line with policies and plans, and thereafter allocating resources in line with those priorities. Secondly, financial planning can be utilised as a management tool as a way to provide financial

information for the managers of services and programmes to ensure that the expenditure programmes deliver value for money, as well as to monitor revenue and expenditure performance during the year.

Devas et al. (2008), further state that annual budgets should reflect longer term development plans and policies as well as any medium-term financial plans such as a medium-term expenditure framework (MTEF), which would provide a framework for the annual budget. Long- and medium-term plans would have to identify broad strategies, whereas annual budgets need to be detailed for purposes of financial control.

Devas et al. (2008) contend that capital expenditure involves the creation or acquisition of new assets which last for more than one year ('lumpiness'), which can be financed from capital receipts (borrowing, asset sales or capital grants) and from recurrent income. Chan (2004) claims that the *Municipal Capital Budget Handbook* published by the Ontario Provincial Government in Canada recommends that capital projects should be evaluated on the basis of five criteria: (i) health and safety issues; (ii) cash saving/payback; (iii) asset maintenance/replacement; (iv) growth related needs; and (v) service enhancement.

This chapter discussed the Integrated Development Plan (IDP) as the strategic plan of municipalities which provides a basis for capital planning over a five-year period. This plan also informs the overall budget planning process that was discussed in this chapter as well as the purpose and rationale for municipal budgeting. The next chapter examines capital budgeting, borrowing policies, processes and frameworks, sources of funding, creditworthiness and capacity challenges in terms of legislation and existing practices in the Overstrand Municipality.

## **CHAPTER 3**

### **3. Policy Review**

The Municipal Finance Management Act (Act 56 of 2003) aim to secure sound and sustainable management of the financial processes and affairs of municipalities as well as of other institutions forming part of the local sphere of government. It also establishes treasury norms and standards for local government and provides for matters connected therewith.

The Overstrand Municipality therefore ensured that the Budget Policy was approved by Council on 28 May 2014 with implementation date 1 July 2014.

This policy sets out the budgeting principles that the Municipality follows in preparing each annual budget. A Budget Steering Committee guides the budget process of the Municipality. The Capital Budget refers to the allocations made to specific infrastructural projects and the purchase of equipment and other forms of assets having a lifespan of more than one year and a cost value of more than R2000 (Overstrand Municipality, 2015c).

#### **3.1 Capital budget process**

The capital budget compilation process starts with the Chief Financial Officer (CFO), in conjunction with the Senior Manager: Financial Services and the Manager: Budget Office. After consultation with the Budget Steering Committee, they set a reasonable growth level of the capital budget to be financed out of own revenue and external sources. Secondly, the draft capital budget is then compiled based on the projects that emanated from engagement with the various stakeholders. Then, the CFO, together with the Senior Manager: Financial Services and the Manager: Budget Office, engage with the Directors and the Senior Manager: Strategic Services to determine the priorities for a particular financial year and the ranking of projects based on these priorities (Overstrand Municipality, 2015c).

The draft capital budget is then submitted to the Budget Steering Committee for perusal and suggestions. The draft capital budget is tabled in Council at least 90 days (31 March) before the start of the new financial year. After the draft budget is tabled in Council, it is advertised for public comment for a period of 30 days. Once the comments from the public have been received, noted and considered, any amendments and the final budget are tabled in Council for final approval, at least 30 days (31 May) before the start of the financial year (Overstrand Municipality, 2015c).

## **3.2 Financing the municipal budget**

### **3.2.1 *Own financing sources***

Own financing consists of the following sources:

- Unappropriated cash-backed surpluses from previous financial years, to the extent that such surpluses are not required for operational purposes and cash resources are adequate for cost coverage and liquidity ratio.
- Borrowing (external loans).
- Proceeds on the sale of fixed assets, less cost to sell, in terms of the Asset Management, Administration of Immovable Property and Accounting Policies (Overstrand Municipality, 2015c).

### **3.2.2 *Other financing sources (external)***

The external funded capital budget is financed from external sources:

- Grants and subsidies as allocated in the annual Division of Revenue Act.
- Grants and subsidies as allocated by Provincial Government.
- Public contributions and donations.
- Any other external financing source secured by the local authority (Overstrand Municipality, 2015c).

### **3.2.3 Budget and schedule submission**

Section 22(b) (i) of the MFMA requires that **immediately** after an annual budget is tabled in a municipal council it must be submitted to the National Treasury and the relevant provincial treasury in both printed and electronic formats. Section 24(3) of the MFMA, read together with regulation 20(1), requires that the approved annual budget must be submitted **within ten working days** after the council has approved the annual budget.

The municipal manager must submit the budget documentation as set out in Schedule A of the Municipal Budget and Reporting Regulations, including the main Tables (A1–A10) and all the supporting tables (SA1–SA37) and prescribed minimum narrative information in both printed and electronic format. The draft service delivery and budget implementation plan must be in both printed and electronic format and in the case of approved budgets, the council resolution (Overstrand Municipality, 2015c).

### **3.2.4 Implementation**

After the approval of the budget, the Service Delivery and Budget Implementation Plan (SDBIP) is finalised. The SDBIP must be submitted to the Mayor within 14 days after aforementioned approval, for approval within a further 14 days. It is imperative that each director indicates the intended spending for both capital and operating budgets. The cash flows are also included in the Service Delivery and Budget Implementation Plan of the organisation. The SDBIP is monitored on a monthly basis and each project manager uses the respective vote numbers as indicated on the capital budget (Overstrand Municipality, 2015c).

## **3.3 Medium-Term Revenue Expenditure Framework Budget (MTREF)**

The current three-year MTREF budget, based on that of the Overstrand Municipality, is the departure point in preparing the subsequent annual capital budget and is based on realistically anticipated revenue that should be equivalent to the anticipated capital expenditure to ensure a balanced budget. The impact of the capital budget on the current and future operating budgets in terms of finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets and any other operating expenditure to be incurred

resulting directly from the capital expenditure, should be carefully analysed when the annual capital budget is being compiled. In addition, the council shall consider the likely impact of such operational expenses, net of any revenues expected to be generated by such items on future property rates and service tariffs.

The budget submissions for the seven-year horizon period 2010/12–2014/15 are depicted in Table 1 describing both budgeted capital expenditure and actual expenditure by vote, standard classification and funding source. It clearly indicates how the multi-year (seven-year horizon) from 2010/11 to 2013/14 (actual audited expenditure) and the 2014/15 to 2016/17 (budgeted MTREF) capital expenditure is spread between the various votes (management services, community services, local economic development, infrastructure planning and protection services) as well as standard classification (governance & administration, community & public safety, economic & environment services and trading services). The funding sources of the capital budget identified as “transfers recognised” consist of funds from National Government, Provincial Government and other transfers and grants. The remaining sources of funding consist of public contributions and donations, internally generated funds (own revenue) and lastly, external borrowings (Overstrand Municipality, 2015c).

**Table 1: Overstrand Municipality 2014/15 Capital Budget**

WC032 Overstrand - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding										
Vote Description	Ref	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>Capital expenditure - Vote</b>										
<b>Multi-year expenditure to be appropriated</b>	2									
Vote 3 - Management Services		1 748	928	1 274	1 439	1 869	1 869	2 548	-	-
Vote 5 - Community Services		90 266	119 308	110 111	68 764	83 280	83 280	76 938	66 662	57 618
Vote 6 - Local Economic Development		6 973	-	945	-	-	-	-	-	-
Vote 7 - Infrastructure & Planning		55 111	42 394	31 434	39 694	41 333	41 333	18 235	19 500	22 500
Vote 8 - Protection Services		19	645	-	-	-	-	-	-	-
<b>Capital multi-year expenditure sub-total</b>	7	<b>154 117</b>	<b>163 275</b>	<b>143 764</b>	<b>109 897</b>	<b>126 482</b>	<b>126 482</b>	<b>97 721</b>	<b>86 162</b>	<b>80 118</b>
<b>Total Capital Expenditure - Vote</b>		<b>154 117</b>	<b>163 275</b>	<b>143 764</b>	<b>109 897</b>	<b>126 482</b>	<b>126 482</b>	<b>97 721</b>	<b>86 162</b>	<b>80 118</b>
<b>Capital Expenditure - Standard</b>										
<b>Governance and administration</b>		<b>28 713</b>	<b>24 047</b>	<b>7 154</b>	<b>9 977</b>	<b>11 301</b>	<b>11 301</b>	<b>16 815</b>	<b>2 675</b>	<b>7 730</b>
Corporate services		28 713	24 047	7 154	9 977	11 301	11 301	16 815	2 675	7 730
<b>Community and public safety</b>		<b>8 880</b>	<b>3 319</b>	<b>7 268</b>	<b>16 405</b>	<b>20 498</b>	<b>20 498</b>	<b>21 205</b>	<b>18 839</b>	<b>13 800</b>
Community and social services			327	4 666		3 652	3 652	5 635		
Sport and recreation		1 743	1 531	2 601	5 225	5 696	5 696	3 090	2 939	6 800
Public safety		19	645	-	-	-	-	-	-	-
Housing		7 118	817	-	11 180	11 150	11 150	12 480	15 900	7 000
<b>Economic and environmental services</b>		<b>27 896</b>	<b>8 340</b>	<b>25 552</b>	<b>17 870</b>	<b>16 228</b>	<b>16 228</b>	<b>5 400</b>	<b>4 900</b>	<b>4 000</b>
Planning and development		6 973	2 864	945						
Road transport		20 923	5 477	24 607	17 870	16 228	16 228	5 400	4 900	4 000
<b>Trading services</b>		<b>88 628</b>	<b>127 569</b>	<b>103 790</b>	<b>65 644</b>	<b>78 455</b>	<b>78 455</b>	<b>54 300</b>	<b>59 748</b>	<b>54 588</b>
Electricity		32 411	30 061	26 768	37 194	39 229	39 229	17 000	18 500	18 500
Water		34 053	57 384	50 766	15 900	23 832	23 832	12 800	26 594	26 488
Waste water management		20 304	39 927	20 728	11 150	12 353	12 353	14 300	14 654	9 600
Waste management		1 859	196	5 528	1 400	3 041	3 041	10 200		
<b>Total Capital Expenditure - Standard</b>	3	<b>154 117</b>	<b>163 275</b>	<b>143 764</b>	<b>109 897</b>	<b>126 482</b>	<b>126 482</b>	<b>97 721</b>	<b>86 162</b>	<b>80 118</b>
<b>Funded by:</b>										
National Government		17 443	40 212	36 911	22 355	22 105	22 105	24 174	23 587	24 388
Provincial Government		6 348	14 621	16 898	13 673	13 742	13 742	10 060	15 900	7 000
Other transfers and grants						187	187	1 000		
<b>Transfers recognised - capital</b>	4	<b>23 791</b>	<b>54 833</b>	<b>53 809</b>	<b>36 028</b>	<b>36 034</b>	<b>36 034</b>	<b>35 234</b>	<b>39 487</b>	<b>31 388</b>
<b>Public contributions &amp; donations</b>	5	<b>4 966</b>	<b>14 300</b>	<b>5 067</b>	<b>3 583</b>	<b>2 083</b>	<b>2 083</b>	<b>1 134</b>		
<b>Borrowing</b>	6	<b>86 942</b>	<b>73 964</b>	<b>67 544</b>	<b>59 861</b>	<b>73 427</b>	<b>73 427</b>	<b>46 923</b>	<b>45 000</b>	<b>45 000</b>
<b>Internally generated funds</b>	7	<b>38 418</b>	<b>20 178</b>	<b>17 345</b>	<b>10 425</b>	<b>14 939</b>	<b>14 939</b>	<b>14 430</b>	<b>1 675</b>	<b>3 730</b>
<b>Total Capital Funding</b>	7	<b>154 117</b>	<b>163 275</b>	<b>143 764</b>	<b>109 897</b>	<b>126 482</b>	<b>126 482</b>	<b>97 721</b>	<b>86 162</b>	<b>80 118</b>

Source: Overstrand Municipality (2015a)

### 3.4 Borrowing as a source of financing

According to Atrill (2009), businesses depend on external loans or borrowing to finance operations. A contract is entered into with lenders in which the interest rate dates of interest payments, capital repayments and security for the loan are clearly stated. Gildenhuis (1997) states that capital budgets form a large part of the total budget (operational budget plus capital budget). The capital budget amounts to almost 50 percent or more of the total budget and local governments are not able to finance the requisite infrastructure supply needed for local social and economic activity from current or own revenue, therefore the need to borrow money.

Pauw et al. (2002) refer to debt management as the obligation municipalities have to pay debt on time and in accordance with agreements with other parties that deliver goods and services. The debt referred to by Pauw et al. (2002) is in terms of loans and interest on loans that a municipality acquires and that have to be paid back over a certain period of time. Pauw et al. (2002) further contend that it is for this reason that the cash flow management of the municipality must be aligned to the debt management programme, ensuring that money is available to pay for goods and services or the repayment of instalments on the loan. The overall debt of the municipality would in this way be properly managed and kept within the means of the municipality.

#### ***3.4.1 Rationale for borrowing policy***

According to Gildenhuis (1997), a municipality, in adopting a borrowing policy, should consider two approaches, namely the “pay-as-you-use” approach and the “pay-as-you-go” approach. The “pay-as-you-use” approach presupposes that the capital cost of infrastructure should be financed from loan money and entails that all users of infrastructure should make a contribution of their share of the capital cost that is spread over the lifetime of the infrastructure and not just pay their share of the operational cost. In this case the term of the loan should match the lifespan of the infrastructure.

The “pay-as-you-go” approach, on the other hand, means that the cost of all infrastructure and other capital expenditure is paid in cash. Assets are obtained and infrastructure constructed as and when current revenue becomes available. This means that everything is paid in cash and nothing is financed from loan money, which forces a municipality to operate within its financial means. This form of financing could cause instability in the tax system and be detrimental to economic stability. This instability is caused by the fluctuating demand for infrastructure, which could cause the yearly capital investment to vary. According to Gildenhuis (1997), borrowing and loan financing are necessary, and for local authorities to maintain a high standard of discipline would entail adhering to the classical approach and complying with six key conditions:

- Separation of the revenue account from the loans account.
- Loan money should only be utilised for capital expenditure and operating revenue should not be financed from borrowing.
- Borrowing should only be used for development of productive assets (income generating assets) that are used to repay debt, where possible.
- Existing loans should not be repaid with new loans.
- Borrowed money must be solely used for capital projects.
- Operational and capital budgets must be kept separate.

### **3.4.2 The Borrowing Policy**

#### 3.4.2.1 Purpose

The purpose of the Borrowing Policy for the Overstrand Municipality is to establish a borrowing framework policy for the Municipality and set out the objectives, policies, statutory requirements and guidelines for the borrowing of funds. The objectives of the Policy are to manage interest rates and credit risk exposure, maintain debt within specified limits, and ensure adequate provision for the repayment of debt and compliance with all legislation and Council policy governing borrowing of funds. The primary goal in the borrowing of funds is to ensure that the funds are obtained at the lowest possible interest rates at minimal risk, within the parameters of authorised borrowing. The Municipality aims to manage interest rate risk, credit risk exposure and to maintain debt within specified limits, which is the foremost objective of the Borrowing Policy. To enable the Municipality to attain this objective, diversification is required to ensure that the Chief Financial Officer prudently manages interest rates and credit risk exposure (Overstrand Municipality, 2015c).

#### 3.4.2.2 Cost of borrowing

The Municipality endeavours to ensure that borrowing should be structured to obtain the lowest possible interest rate on the most advantageous terms and conditions. Cognisance should also be taken of borrowing risk constraints, infrastructure needs and the borrowing limits determined by legislation. The Municipality should ensure that borrowing is done with care, skill and due diligence. The Municipality is further governed by the relevant legislation

in terms of which borrowing decisions are governed by the Local Government Municipal Finance Management Act, 56 of 2003 (Republic of South Africa, 2003) and the Municipal Regulations on Debt Disclosure as promulgated in the *Government Gazette* no. 29966, 15 June 2007 (Republic of South Africa. National Treasury. 2007), which has been effective since 1 July 2007 (Overstrand Municipality, 2015c).

#### 3.4.2.3 Type of loans

The Municipality refers to annuity loans, which are fairly straightforward and uncomplicated. The loan amount interest and repayment period offered by financial institutions are fixed and therefore the calculation of the instalment payable on an annuity/fixed redemption basis is simple and straightforward. The instalment of the loan is repaid in equal six monthly instalments over the term of the loan. Where the interest rate offered by financial institutions is on a variable basis, the Municipality would take out an interest rate swap (IRS). This IRS agreement must comply with the terms set out by the International Swap Dealers Association (ISDA).

The budget policy also refers to the bullet payment redemption methods where the capital is usually repaid at the end of the term and interest on the total amount borrowed is paid annually or semi-annually. Other types of financing are bonds and internal funds that could be utilised to fund the capital budget. The Municipality would normally consider a range of factors when a decision is taken to borrow, but would seek to limit the dependence on borrowing to minimise future revenue committed to debt servicing and redemption charges (Overstrand Municipality, 2015b).

**Table 2: Quarterly Borrowing Monitoring Return**

BM - EXTERNAL DEBT CREATED, REPAYED OR REDEEMED AND EXPECTED BORROWING																			
Municipal	Year End	Quarter	Loans																
WC032	2014	Q4 Apr-June	Yes			Principal	Council										Balance	Debt Repaid	Balance
Loan	Municipality	Planned	Loan Term	Term	Debt raised	Resolution	Loan	Loan	Loan	Loan	Loan	Loan	Type of	Timing of	Interest	at Began	or redeemed	at End	
Instrument	Loan	Start Date	End Date	Year/Month/	Value	at the Inception	Date	Type	Raised for	Security	Source	Institution	Purpose	interest	of Quarter	This Quarter	of Quarter	of Quarter	
No	Reference No	(ccyy/mm/dd)	(ccyy/mm/dd)	Day	(no)	(Rand)	(ccyy/mm/dd)					(max 40 chars)		payment	(Rand)	(Rand)	(Rand)		
1	13535/102	2000/07/01	2020/06/30	Y	20	5 967 849	2000/03/14	LT - Long-Term Loans (07)	New Borrowing (04)	None (06)	Development Bank of SA (03)	DBSA	Provision of Infrastructure (01)	Variable (02)	Semi-annually (02)	2 041 633	157 049	1 884 584	
2	13543/101	1999/07/01	2020/06/30	Y	21	5 432 000		LT - Long-Term Loans (07)	New Borrowing (04)	None (06)	Development Bank of SA (03)	DBSA	Provision of Infrastructure (01)	Variable (02)	Semi-annually (02)	1 778 496	136 807	1 641 689	
3	13761/101	2001/07/01	2020/12/31	Y	20	4 954 139		LT - Long-Term Loans (07)	New Borrowing (04)	None (06)	Development Bank of SA (03)	DBSA	Provision of Infrastructure (01)	Variable (02)	Semi-annually (02)	1 825 210	130 372	1 694 838	
4	10450/102	1997/07/01	2017/03/31	Y	20	1 207 638		LT - Long-Term Loans (07)	New Borrowing (04)	None (06)	Development Bank of SA (03)	DBSA	Provision of Infrastructure (01)	Fixed (01)	Semi-annually (02)	400 169		400 169	
5	102169/1	2007/07/01	2022/06/30	Y	15	16 996 175		LT - Long-Term Loans (07)	New Borrowing (04)	None (06)	Development Bank of SA (03)	DBSA	Provision of Infrastructure (01)	Fixed (01)	Semi-annually (02)	12 438 640	489 517	11 949 123	
6	20030226	2003/07/01	2012/06/30	Y	9	20 000 000		LT - Long-Term Loans (07)	New Borrowing (04)	None (06)	Banks (02)	INCA	Provision of Infrastructure (01)	Fixed (01)	Semi-annually (02)	0		0	
7	4073054262	2009/01/14	2024/01/14	Y	15	40 000 000	2008/11/06	LT - Long-Term Loans (07)	New Borrowing (04)	None (06)	Banks (02)	ABSA	Provision of Infrastructure (01)	Fixed (01)	Semi-annually (02)	32 634 995		32 634 995	
8	4073923493	2009/04/20	2024/04/24	Y	15	42 000 000	2008/11/06	LT - Long-Term Loans (07)	New Borrowing (04)	None (06)	Banks (02)	ABSA	Provision of Infrastructure (01)	Fixed (01)	Semi-annually (02)	35 402 346	952 360	34 449 986	
9	3029589816	2009/10/01	2024/10/01	Y	15	70 000 000	2009/09/23	LT - Long-Term Loans (07)	New Borrowing (04)	None (06)	Banks (02)	ABSA	Provision of Infrastructure (01)	Fixed (01)	Semi-annually (02)	59 915 542	1 530 951	58 384 591	
10	103946/1	2011/03/30	2026/06/30	Y	15	60 000 000	2010/09/29	LT - Long-Term Loans (07)	New Borrowing (04)	None (06)	Development Bank of SA (03)	DBSA	Provision of Infrastructure (01)	Fixed (01)	Semi-annually (02)	50 000 000	2 000 000	48 000 000	
11	103946/2	2011/06/30	2026/06/30	Y	15	100 000 000	2010/09/29	LT - Long-Term Loans (07)	New Borrowing (04)	Other Securities (05)	Development Bank of SA (03)	DBSA	Provision of Infrastructure (01)	Fixed (01)	Semi-annually (02)	100 000 000		100 000 000	
12	INCA / SANLAM	2012/04/20	2022/04/30	Y	10	50 000 000	2012/03/28	LT - Long-Term Loans (07)	New Borrowing (04)	None (06)	Infrastructure Finance Corporation (04)	INCA	Provision of Infrastructure (01)	Fixed (01)	Semi-annually (02)	45 389 865	1 768 208	43 621 657	
13	2879000653	2013/05/24	2020/05/24	Y	7	7 000 000	2013/04/24	LT - Long-Term Loans (07)	New Borrowing (04)	None (06)	Banks (02)	ABSA	Provision of Infrastructure (01)	Fixed (01)	Semi-annually (02)	6 618 352	401 194	6 217 158	
14	2879000652	2013/05/24	2028/05/24	Y	15	31 700 000	2013/04/24	LT - Long-Term Loans (07)	New Borrowing (04)	None (06)	Banks (02)	ABSA	Provision of Infrastructure (01)	Fixed (01)	Semi-annually (02)	31 196 103	550 397	30 645 706	
15	387230984	2014/03/31	2029/03/31	Y	15	39 900 000	2013/04/24	LT - Long-Term Loans (07)	New Borrowing (04)	None (06)	Banks (02)	ABSA	Provision of Infrastructure (01)	Fixed (01)	Semi-annually (02)	39 900 000		39 900 000	
16	387230985	2014/03/31	2021/03/31	Y	7	1 400 000	2013/04/24	LT - Long-Term Loans (07)	New Borrowing (04)	None (06)	Banks (02)	ABSA	Provision of Infrastructure (01)	Fixed (01)	Semi-annually (02)	1 400 000		1 400 000	
<b>TOTAL</b>																<b>420 941 351</b>	<b>8 116 855</b>	<b>412 824 496</b>	

Source: Overstrand Municipality, 2015b

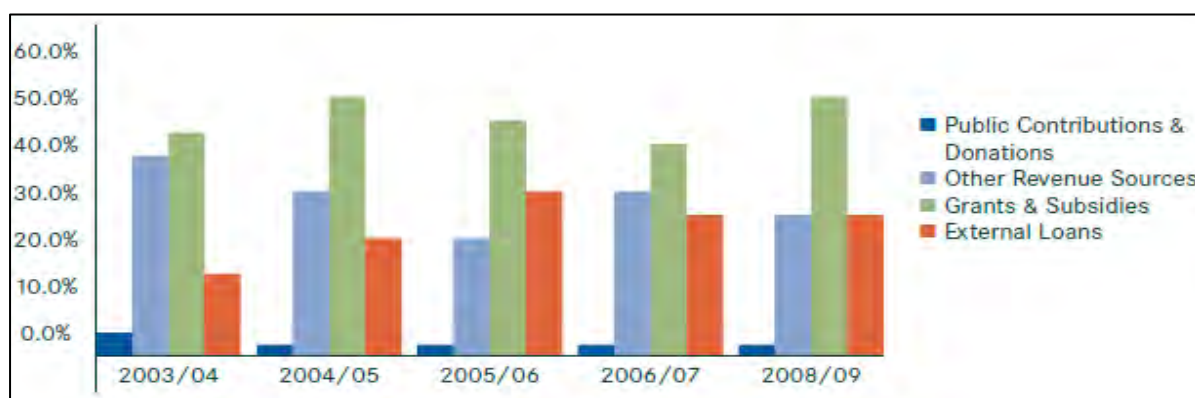
### 3.4.2.4 Loan approval, implementation and review

The Overstrand Municipality applies Section 46 of the MFMA for long-term debt approval and also refers to prohibited borrowing practices (investment purposes). Foreign borrowing, according to the Borrowing Policy, is permitted in terms of Section 47 of the MFMA and pertinently states that the debt must be denominated in rands (ZAR) and not indexed to, or affected by, fluctuations in the value of the rand against any foreign currency. The

Municipality also undertakes to submit returns to National Treasury on a quarterly (Quarterly Borrowing Monitoring Return – QBMR) as depicted in Table 2 and Annual Report) basis as well as submissions to Council. The policy is also subjected to annual review by way of a council resolution and came into effect on 1 July 2014 (Overstrand Municipality, 2015b).

### 3.5 The main sources of capital revenue for municipalities: 2003/04–2008/09

Figure 1 below illustrates the contribution of the various revenue sources to aggregate municipal capital revenue. The contribution of grants and subsidies to capital revenue is significant across all municipal categories but is most pronounced for districts with major powers, and rural and medium to smaller municipalities. In 2008/09 government grants and subsidies contributed 86.0 percent, 70.2 percent and 57.7 percent respectively to total capital revenue in these municipal categories. On the other hand, metros are increasingly making use of the borrowing powers at their disposal. Over the period under review, external loans contributed on average 33% to total capital revenue in metros. The ‘other’ component constitutes own income of municipalities and contributes a significant portion to total municipal capital revenues across all municipal categories. As with municipal own revenue, municipalities need to be more transparent as to what the term ‘other’ entails (Republic of South Africa. Financial and Fiscal Commission, 2011).



**Figure 1: Contribution of the various sources of revenue to aggregate municipal capital revenue**

Source: Financial and Fiscal Commission, 2011. Calculations based on National Treasury Local Government Database, 2010/11

### **3.6 Creditworthiness**

According to Peterson (1998), the municipal credit markets have been slow to develop in emerging countries because the risks of municipal lending have been difficult to identify, and even more difficult to limit in reliable fashion except through central-government guarantees. Numerous municipal development funds sponsored by multi-lateral institutions have experienced unacceptably high loan loss rates that frightened away potential private-sector lenders. The financial markets have also found it difficult to use municipal budgets and municipal financial reports to gauge underlying financial conditions to assess the credit risks involved in municipal lending (Peterson, 1998).

Owing to changing circumstances, municipal borrowing in recent years has grown rapidly and is likely to accelerate in view of the immense investment backlogs that local government's face and the continuing decentralisation of service responsibilities. Specific developing countries have been able to involve the private sector in direct municipal lending. Other countries have created specialised financial intermediaries to ensure that financial resources are sourced from the private sector to lend to local authorities. The credit experience of these arrangements differs widely. Within World Bank programmes alone, default rates on municipal loan projects have ranged from 0 to more than 90 percent. This deviation provides a good basis for assessing the factors that contribute to municipal credit risk and creditworthiness (Peterson, 1998).

### **3.7 Municipal rating categories**

According to Peterson (1998), independent bond-rating agencies customarily use a specific letter or numerical scale to summarise risk assessments. Banks, on the other hand, lending to municipalities, have comparable scales that are used for internal risk evaluation. Examples of municipal rating categories of Standard and Poor are depicted in Table 3 (Peterson, 1998).

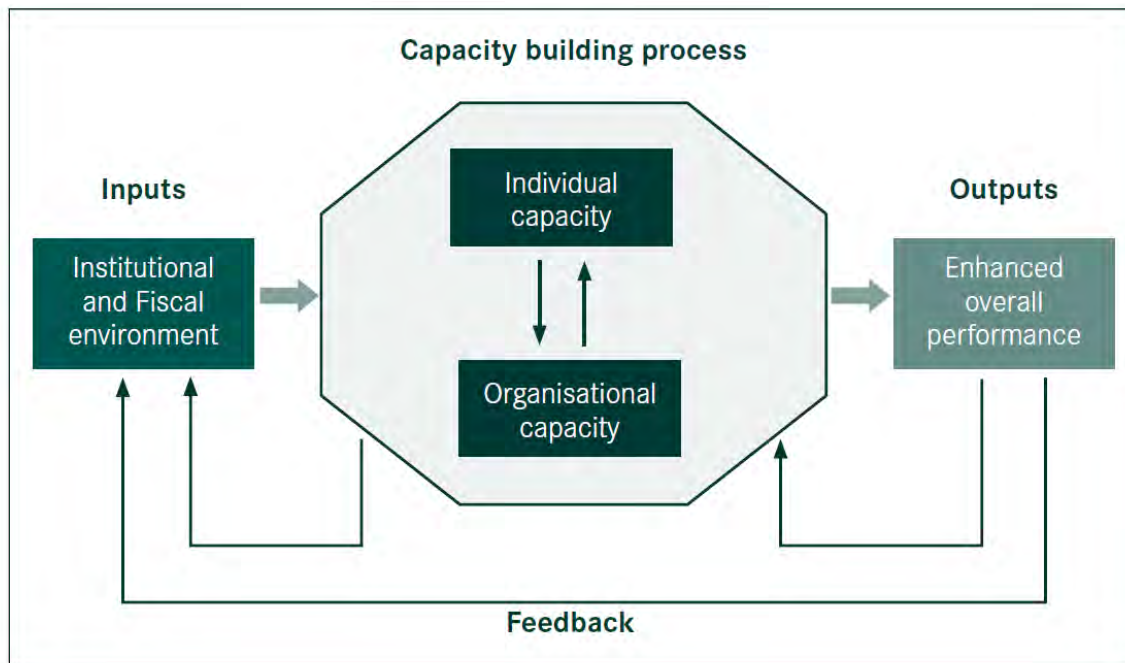
**Table 3: Municipal Rating Categories**

<b>Rating: AAA</b>	<b>Rating: BBB</b>	<b>Rating: B</b>
“Capacity to repay interest and principal is extremely strong.”	“Adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal.”	“Currently has the capacity to meet interest payments and principal repayments. Adverse business, financial, or economic conditions likely will impair capacity or willingness to pay.”

Source: Peterson, 1998

### **3.8 Defining capacity building**

To understand the capacity challenges in local government, it is essential to develop a clear definition of capacity according to Peters and Van Nieuwenhuyzen (2012). According to Peters and Van Nieuwenhuyzen (2012), the *National Capacity Building Framework for Local Government* defines capacity as “the potential for something to happen”. Furthermore the framework distinguishes three types of capacity: individual, institutional and environmental. The difficulty in defining capacity is not just evident in the South African public sector, but also among a myriad of international organisations. The term ‘capacity building’ was introduced at least partially to improve on the practice of providing technical assistance. Public sector capacity is a multi-dimensional issue, consisting of human capacity, organisational capacity and institutional capacity. This is further refined in the capacity model (Figure 2) according to Peters and Van Nieuwenhuyzen (2012).



**Figure 2: Capacity-building process**

Source: Peters and Van Nieuwenhuyzen, 2012

### ***3.8.1 Capacity building challenges in local government***

According to Peters and Van Nieuwenhuyzen (2012), the lack of success with previous capacity-building initiatives according to the National Treasury can be attributed mainly to:

- Uncertainty surrounding the roles and responsibilities of municipalities (changing powers and functions).
- The assumption that a lack of capacity is the root cause of all municipal performance failures.
- A lack of clear articulation of national, provincial and other role-players' roles and responsibilities in local government.
- A lack of capacity in provinces and district municipalities to support local municipalities.
- A lack of performance incentives for municipalities to address performance failures.
- Perverse incentives inherent in the hands-on support approach.
- A lack of prioritisation of municipal needs.

- A lack of performance monitoring

### **3.8.2 Budget & Treasury Office (BTO)**

The Provincial Treasury (PT) as required in the Municipal Finance Management Act (MFMA), Act 56 of 2003, must monitor, assist and support municipalities in complying with the MFMA and its related regulations.

In terms of Section 5(3) of the Municipal Finance Management Act (No 56 of 2003) [MFMA], Provincial Treasuries are responsible to assist, guide and monitor municipalities in terms of compliance with the MFMA and its related regulations. The MFMA, Section 80, requires municipalities to establish a Budget and Treasury Office (BTO). The core function of the BTO is to ensure sound financial management and to assist the Municipal Manager and other Senior Managers to control their budgets and ensure the efficient application of financial resources in the rendering of services to the community (Western Cape Provincial Treasury, 2013).

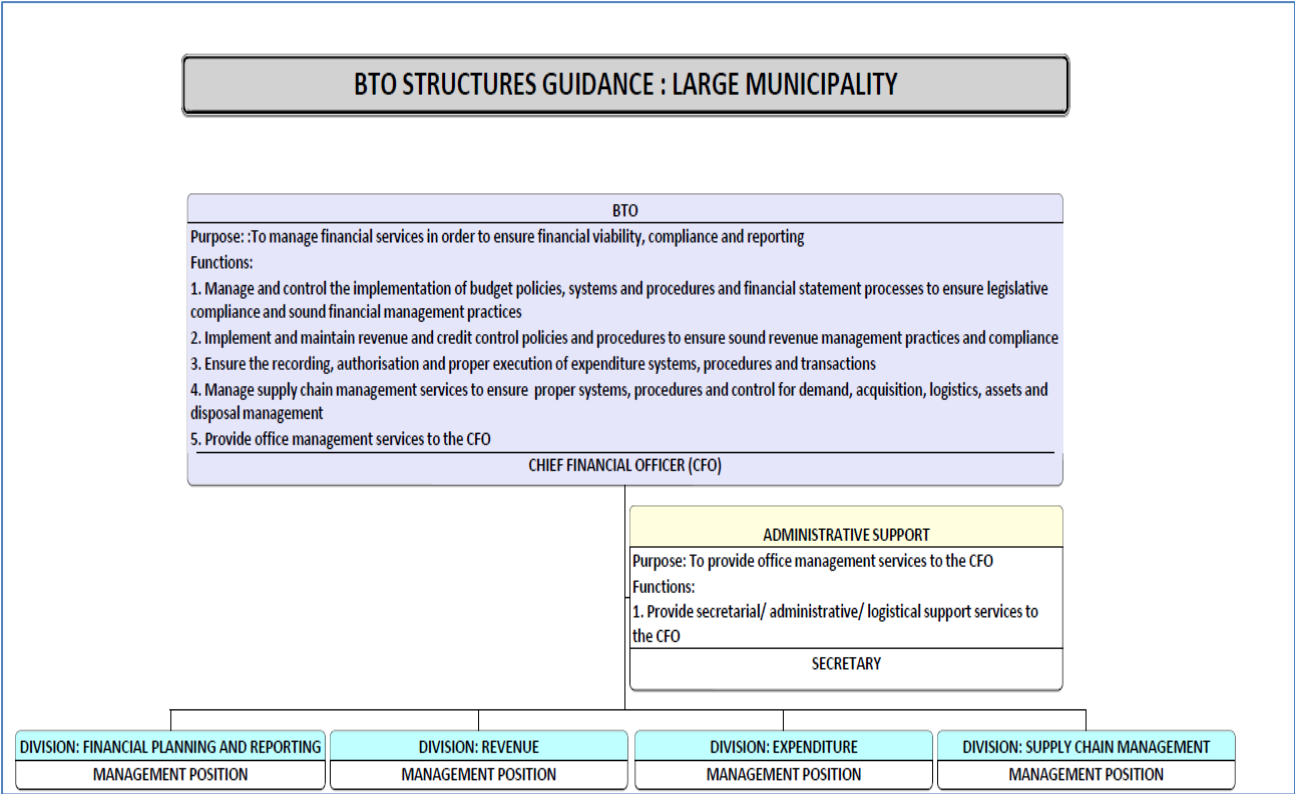
Section 34 of the MFMA further requires a Provincial Treasury to:

- Monitor, assist and support municipalities in building the capacity of municipalities for effective, efficient and transparent financial management.
- Support the municipality's efforts to identify and resolve its financial problems.
- Share with the municipality its results of its monitoring to the extent that those results might assist the municipality in improving its financial management.
- Inform the municipality of emerging or impending financial problems.
- Assist the municipality to avert or resolve financial problems.

The MFMA, Section 81(1) (e) indicates that a BTO should perform the functions of:

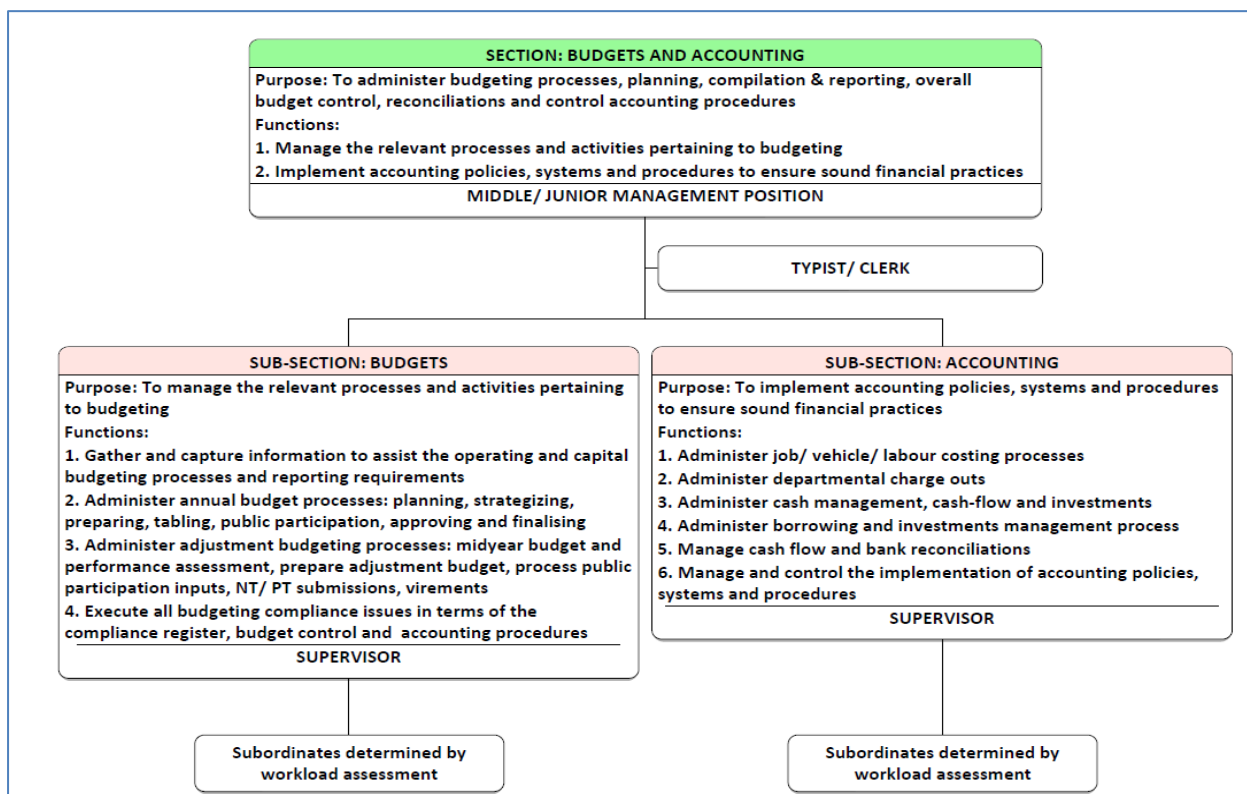
- Budgeting
- Accounting
- Analysis
- Financial reporting
- Cash management
- Debt management
- Supply chain management
- Financial management

The Western Cape Provincial Treasury has therefore issued a BTO Guidance document (2013) and a Treasury Circular (41/2013) that give effect to the MFMA legislation in respect of the BTO. Overstrand Municipality as a high-capacity municipality should also conform to the following BTO Structures Guidance document as depicted in Figure 3 & 4 (Western Cape Provincial Treasury, 2013).



**Figure 3: BTO Structures Guidance: Large Municipality**

Source: Western Cape Provincial Treasury, 2013



**Figure 4: BTO Structures Guidance: Budgets and Accounting Section**

Source: Western Cape Provincial Treasury, 2013

This chapter discussed the capital budgeting, borrowing policies, processes and frameworks, sources of funding, creditworthiness and capacity challenges in terms of legislation inherent in the Overstrand Municipality. The next chapter examines the legislative and policy guidelines which inform the capital budget processes and frameworks in the South African context.

## **CHAPTER 4**

### **4. Legislation, Guidelines and Practices**

#### **4.1 Legislation**

The local sphere of government is enshrined in Chapter 3 of the Constitution of the Republic of South Africa (Act 108 of 1996) (South Africa, 1996) and deals specifically with cooperative government. The three spheres of government should be viewed as distinctive, interdependent and interrelated. Section 195 (1) of Chapter 10 of the Constitution deals with public administration and this section emphasises the following principles on which public administration and municipal finance should be based:

The promotion and maintenance of a high standard of professional ethics, according to Pauw et al. (2002), require the following:

- The promotion of efficient, economic and effective use of resources.
- Public administration and municipal administration must be development orientated.
- Municipal services should be provided impartially, equitably, fairly and without bias.
- There should be responsiveness to the needs of the people and public participation should be ensured.
- There should be accountable public administration.
- There should be transparency, to ensure that the public is provided with timely, accessible and accurate information.

According to Pauw et al. (2002), Section 214 and 227 in Chapter 13 of the Constitution states that an Act of Parliament must provide for the equitable division of revenue raised nationally among the three spheres of government. This equitable division must take into account any other allocations to provinces, local government or municipalities from the national share of that revenue. The Act must provide the conditions on which these allocations may be made and also at the same time they may not be enacted before the provincial governments, organised local government and the Financial and Fiscal Commission (FFC) have been

consulted. The recommendation of the FFC must be considered and taken into account in respect of the following issues:

- The financial position of municipalities to provide basic services and perform their legislative mandate.
- The fiscal capacity and efficiency of municipalities.
- The developmental and other needs of local government.
- The obligations of municipalities in terms of national legislation.

The Municipal Finance Management Bill (No. 1 of 2002), later enacted as the Municipal Finance Management Act (Act 56 of 2003) provides the foundation for sound financial management principles and practices in the local sphere of government, according to Pauw et al. (2002). Pauw et al. (2002), further state that the Municipal Finance Management Act (MFMA) provides norms and standards for financial management and is the most important piece of legislation for financial management in the local sphere of government. The functions of the Municipal Finance Management Bill and the MFMA are:

- to regulate municipal financial management;
- to set requirements for the efficient and effective management of the revenue, expenditure, assets and liabilities of municipal entities;
- to define responsibilities with regard to municipal financial management;
- to determine a financial management governance framework for municipal entities; and
- to put a municipal borrowing framework in place.

## **4.2 Guidelines & practices in accordance with the MFMA (Act 56 of 2003)**

### ***4.2.1 Budget preparation process***

The mayor of a municipality, in terms of Section 21 (1)(a) of the MFMA, must coordinate the processes for preparing the annual budget of municipalities as well as reviewing the IDP and budget-related policies to ensure that the tabled budget and any revisions of the IDP and budget-related policies are mutually consistent and credible. The mayor must also, at least ten months before the start of the budget year, table in the municipal council a time schedule that outlines key deadlines for (i) the preparation, tabling and approval of the annual budget; (ii)

the annual review of the (aa) integrated development plan in terms of Section 34 of the MSA, and (bb) the budget-related policies; (iii) the tabling and adoption of any amendments to the integrated development plan and budget-related policies; and (iv) any consultative processes forming part of processes referred to in (i), (ii) and (iii) (Republic of South Africa, 2003).

#### **4.2.2 Publication and approval of the annual budget**

According to Section 22 of the MFMA, the accounting officer of a municipality must immediately after an annual budget is tabled in a municipal council, (a) in accordance with Chapter 4 of the MSA, (i) make public the annual budget and the documents referred to in Section 17(3); and (ii) invite the local community to submit representation in connection with the budget, and (b) submit the annual budget in (i) both printed and electronic formats to the National Treasury and the relevant provincial treasury; and (ii) in either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget (Republic of South Africa, 2003).

Section 24 of the MFMA implies that (1) the municipal council consider the approval of the annual budget at least 30 days before the start of the budget year. An annual budget (a) must be approved before the start of the budget year; (b) approved by the adoption by council of a resolution referred to in Section 17 (3) (a) (i); and (c) approved together with the adoption of resolutions as may be necessary, (i) imposing any municipal tax for the budget year; (ii) setting any municipal tariffs for the budget year; (iii) approving measurable performance objectives for the revenue from each source and for each vote in the budget; (iv) approving any changes to the municipality's IDP; and (v) approving any changes to the municipality's budget related policies and (2) the accounting officer of a municipality must submit the approved annual budget to the National Treasury and the relevant Provincial Treasury (Republic of South Africa, 2003).

#### **4.2.3 Long-term debt management and administration**

According to Section 230 of the Constitution, a municipality may raise loans for capital or current expenditure in accordance with reasonable conditions determined by national legislation. It should however be noted that loans for current expenditure may only be raised for bridging finance purposes when necessary and be repaid within twelve months (Pauw et al. 2002). Gildenhuis (1997) further states that local government may not budget for a deficit and then borrow money to finance the deficit in accordance with Section 10G (3) of the Local

Government Transition Act Second Amendment Act, 1996 (Act 97 of 1996), stating that a local authority shall not budget for a year-end deficit on its operating account

Section 46 of the MFMA indicates that a municipality may incur long-term debt only in accordance with and subject to any applicable provisions of this Act, including Section 19 of the MFMA and only for the purpose of (a) capital expenditure on property, plant or equipment to be used for achieving the objectives of local government in terms of Section 152 of the Constitution, including costs referred to in subsection (4); (b) re-financing existing long-term debt only if, (a) a resolution of the municipal council, signed by the mayor, has approved the debt agreement; and (b) the accounting officer has signed the agreement or other document which creates or acknowledges the debt (Republic of South Africa, 2003).

In terms of Section 46, subsection 5, a municipality may also borrow money for the purpose of refinancing existing long-term debt provided that (a) the existing debt is lawfully incurred; (b) the re-financing does not extend the term of the debt beyond the useful life of the property, plant or equipment for which the money was originally borrowed; (c) the net present value of projected future payments (including principal and interest payments) after re-financing is less than the present value of projected future payments before re-financing; and (d) the discount rate used in projecting net present value, referred to in paragraph (c) and any assumptions in connection with the calculations, must be reasonable and in accordance with criteria set out in a framework that may be prescribed. In terms of subsection (6) a municipality's long-term debt must be consistent with its capital budget referred to in Section 17 (2) (Republic of South Africa, 2003).

### **4.3 Policy Framework for Municipal Borrowing and Financial Emergencies**

The Policy Framework for Municipal Borrowing and Financial Emergencies was issued by National Treasury in 2000. As a follow-up to the White Paper on the Framework for Municipal Finance it focuses on the design of the regulatory framework for local government borrowing. The framework also deals with the related matter of central government's response to the financial and fiscal difficulties faced by the municipal sector. The two-fold objectives of the Policy Framework are as follows, according to Pauw et al. (2002).

- To provide the policy framework for the overall financial structure of the local sphere and the borrowing powers of municipalities.
- To outline the government's main initiative in respect of municipalities that faces a financial crisis.

In the main, the policy framework in respect of the borrowing powers and procedures of municipalities gives municipalities equal borrowing powers. It also allows municipal entities to borrow, while the extent of the borrowing remains a decision of the municipality itself. It also requires that borrowing be authorised by municipal councils on the recommendation of the chief executive, without the requirement for national or provincial approval of such borrowing other than to provide comment. It also prohibits the borrowing of money in foreign currencies and lastly limits long-term borrowing of funding for capital investment in property, plant and equipment (PPE), according to Pauw et al. (2002).

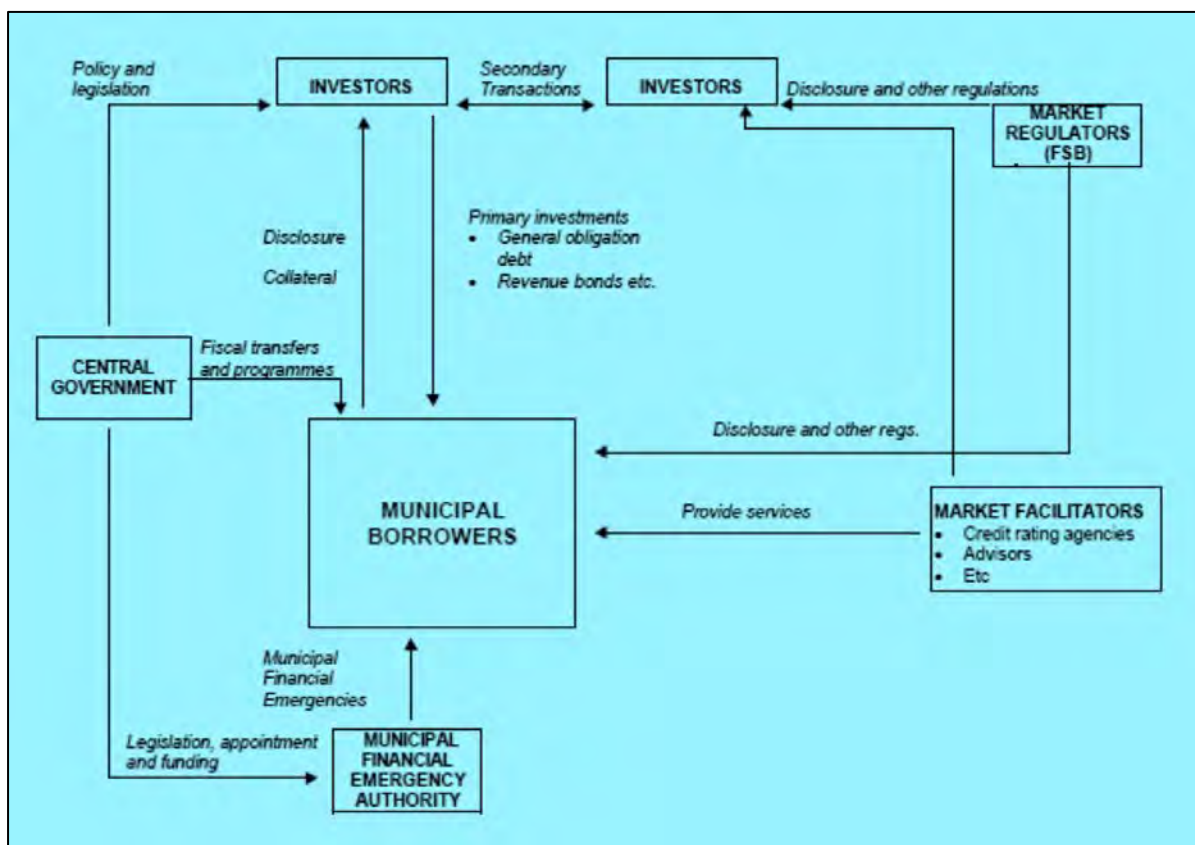


Figure 5: Main Elements of Municipal Debt Market

Source: Republic of South Africa. Department of Finance, 1999

The main elements of this system are simply described in Figure 5, stating how important it is to recognise that the existing residual municipal debt market in South Africa is largely intermediated.

Most loans originate in and are held by banks and other financial intermediaries. In the long term, and because it has the potential to lower the cost of capital to the municipal sector, government wishes to see this market supplemented by the development and expansion of a securities market, where municipalities, in particularly the larger ones, issue debt in the form of bonds which may then be traded in the secondary market. The framework outlined above is specifically designed to encourage this. It is also meant to promote the growth of a market for other forms of debt (i.e. bank lending), which, from a practical perspective, is where much of the growth in the municipal debt market is likely to lie in the short and medium term (Republic of South Africa. Department of Finance, 1999).

This chapter discussed the legislative and policy guidelines which inform the capital budget processes and frameworks in the South African context. The next chapter examines the research methodology used in the empirical section of this research report. It also evaluates the criteria for the selection of interviewees, analysis of the data, and discussion of data validity and reliability.

## **CHAPTER 5**

### **5. Methodology**

This chapter examines the research methodology used in the empirical part of this research report. It also evaluates the criteria for the selection of interviewees, analysis of the data, and discussion of data validity and reliability. In addition, general information about the Overstrand Municipality under examination is introduced.

#### **5.1 Interviews**

The research data material was collected from three interviews. The first interview was with the Senior Manager (Mr B King) responsible for Investments and Borrowing (Financial Services). The second and third interviews were with the Senior Manager responsible for Integrated Development Planning (Mrs R Louw) and the Senior Manager (Mr S Muller) responsible for Capital Infrastructure Planning and Development. Another interview was conducted with a Financial Analyst (Mr W Baatjies) in the Western Cape Provincial Treasury, and responsible for monitoring and evaluation of Cash Management and Borrowing in terms of the MFMA. The interviews could be described as semi-structured interviews, that is, the interviewees were asked the same previously determined questions. The interviews were intended to be open, implying that new ideas and thoughts could emerge during the interviews, resulting from what the interviewees said. The questions were mainly directional and stressed the interviewees' interpretations and personal experiences. More specific questions were also asked when the need arose.

#### **5.2 Selection and introduction of the interviewees**

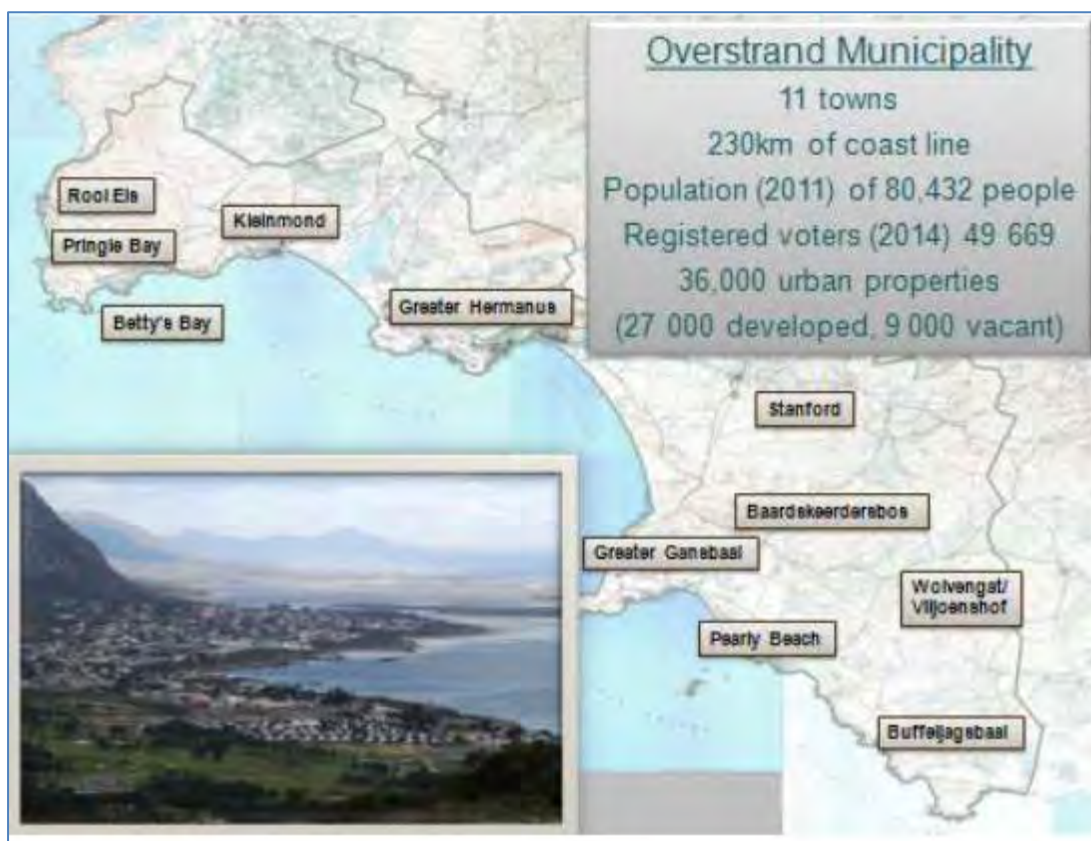
The criteria used when selecting the interviewees were based on a high professional outlook on the topic covered. The Overstrand Municipality was selected, as it is a high-capacity municipality in the Western Cape. The other reason for the choice is that the Municipality is located close to Cape Town and all its Section 56 and 57 managers occupy their current posts in the Municipality.

Figure 6 illustrates the location of the interviews. Overstrand Municipality is located along the south-western coastline of the Overberg District Municipal area bordering the City of Cape Town in the west and Cape Agulhas Municipality in the east. Its northern neighbour is

Theewaterskloof Municipality. Overstrand is a dynamic unity combining great potential and a beautiful setting (Overstrand Municipality, 2015d).

The task of the Municipality is to effect growth and development to the benefit of all our people, in their different communities, while maintaining a balance with nature.

The Overstrand Municipality covers a land area of approximately 1 708km<sup>2</sup>, with a population of 80 432 people (2011 Census) and covers the areas of Hangklip/Kleinmond, Greater Hermanus, Stanford and Greater Gansbaai. The municipal area has a coastline of approximately 230km, stretching from Rooi Els in the west to Quinn Point in the east (Overstrand Municipality, 2015d).



**Figure 6: Location of the interviews in Greater Hermanus**

Source: Overstrand Municipality (2015d)

This chapter also introduces the interview questions used in the interviews. This chapter demonstrates the link between the research questions and interview questions, showing how

the chosen questions assisted in answering the research questions of the research report. The questions were selected in respect of the research questions of this study. The questionnaire is provided in Appendix 1. Questions 1–10 were chosen to assist in answering the first and last sub-questions of the research report (to ascertain the external loans that were made for infrastructure spending over a three-year Medium-Term Revenue and Expenditure Framework (MTREF) horizon in terms of the Municipality’s IDP and capital budget planning process, and to establish and identify the link between infrastructure spending, the integrated development plan and performance of these municipalities. Questions 11–23 were chosen to answer the second and third sub-questions of the research report (to investigate the spending on external borrowing over a three-year MTREF horizon and to identify key reasons for the capacity constraints faced by municipalities to deliver on their infrastructure delivery mandates). The main research question of the study (to what extent do municipalities borrow to fund their capital budgets?) was answered after summing up and analysing the interviews in general.

According to Sekaran (2003), purposive sampling states that instead of obtaining information from those who are most readily or conveniently available, it might sometimes be necessary to obtain information from specific target groups. The sampling here was confined to specific types of people who could provide the desired information, because they were the only ones who possessed it, and they conformed to the criteria set by the researcher.

In line with this, the researcher conducted in-depth interviews with purposely selected IDP management, engineering and finance professionals within the Overstrand Municipality.

The selected participants were first contacted by e-mail and telephonically to request their consent to participate in an interview. The intention of the interviews was to obtain their professional opinions and for them to answer the research questions, in addition to and separate from the literature review. The interviewees selected were from the various directorates in the Overstrand Municipality, namely Management Services (Senior Manager), Infrastructure & Planning (Director), and Finance (Senior Manager). The interviewee from the Western Cape Provincial Treasury in the Cash Management & Liabilities sub-directorate was a financial analyst responsible for monitoring & evaluation in terms of the MFMA. Table 4 illustrates the justification for the interview questions.

**Table 4: Interview questions' interaction with research questions**

<b>Interview sources (concepts)</b>	<b>Codes</b>	<b>Themes</b>
IDP importance and implementation (5 year span linked to office of local councillors-Needs of community and transparency linked to legislation	Planning infrastructure development. Speed up delivery and assist to attract investment.. Promotion of co-ordination between spheres of government	IDP process
Infrastructure planning/, spending against the IDP and long term consolidated infrastructure plan	Consolidation of Long-Term Plan or separate/single planning. –	Linkage to IDP
Capital Budget Policy-. Compilation and Process in compliance with relevant legislation	Municipal Capital Budgeting (compliance) planning over a specified period-(MTREF). Separation between Capital and operating budgets i.t.o. legislation	Capital Budget Planning Framework and compliance. Debt Markets
Capital budget analysis over the MTREF	Balancing the Budget. Capital budgeting over the MTREF	Budget submission and reporting (legislative requirements)
Capital spending against external borrowing in line with Borrowing Policy over the MTREF	Borrowing Policy (compliance)-. Pay as you use or pay as you go approach to borrowing.	Actual Monthly/ Quarterly and Annual reporting
Capacity constraints faced by the municipality i.t.o. BTO	BTO structure is in place with all posts filled on senior and lower levels. Impact on service delivery and performance very low	BTO structure and capacity constraints
Credit Ratings-Credit Rating Agencies	Sustainability/Credibility/Affordability	Ratings by rating agencies/institutions

### 5.3 Data analysis

Since there is a paucity of research on the topic, this research provides an insight into whether the integrated development planning, capital budgeting, and borrowing planning processes, as well as the capacity issues, were effectively implemented. This is to determine whether the extent of borrowing as a source of capital budgeting was to ensure effectiveness, sufficiency and sustainable infrastructure spending over the MTREF.

### 5.4 Reliability and validity

In a qualitative study, the systematic analysis and the soundness of the interpretation are very important when it comes to reliability. It is also important, according to Mouton (2001) that the researcher refrains from common errors in questionnaire construction by avoiding ambiguous or vague items, double-barrelled questions, fictitious constructs and leading questions. The validity of the research was also enhanced as the interviewees were informed of the theoretical background of the study prior to the interviews.

This chapter discussed the research methodology used in the empirical part of this research report. It also evaluated the criteria for the selection of interviewees. The next chapter contains the empirical section of the research, an analysis of the interviews, and their interpretation.

## CHAPTER 6

### 6. Data Analysis

This chapter therefore contains the empirical section of the research report. These themes are also presented in this chapter, together with the themes identified during the literature review, and are systematically presented in a narrative structure.

#### 6.1 Integrated Development Planning (2<sup>nd</sup> Review Process for 2014/15)

The budget is very closely aligned with objectives of the IDP over the MTREF, has a 5 year lifespan of 5 years and is directly linked to the term of office for local councillors (Louw (2015), Muller (2015), and King (2015)).<sup>1</sup>

According to Louw (2015), Muller (2015) and King (2015), the Integrated Development Plan (IDP) of the Overstrand Municipality is a five-year plan from 2012–2017 and the second review of this policy was conducted in the 2014/15 financial year in terms of Section 34 of the Municipal Systems Act, Act 32 of 2000, and was approved on 28 May 2015 by Council. The IDP also has a lifespan of five years and is linked to the terms of office of local councillors. The time schedule for the 2014/15 IDP review and budget process was approved by Council on 28 August 2013. During the preparation phase between July–October 2013, the District IDP Managers' Forum was held to ensure activity alignment and was coordinated by the Overberg District Municipality (ODM) and the IDP Manager. During this period the budget was tabled and an IDP time schedule of key deadlines was published (at least 10 months before the start of the new budget year).

The time schedule was then finally submitted to ODM and the Provincial Government. It was also provided as a public notice to indicate the IDP/Budget time schedule approval for the 2014/15 financial year was finalised on 6 September 2013. This was then taken through the analysis, strategy and project phase from 31 July 2013, with many role-players and the key responsibility taken by the Budget Office of the Municipality. Ward-based planning sessions with ward committees and registered organisations were held in this phase, as well as the provincial IDP Indaba 1 coordinated by the Department of Local Government. The key responsibilities during this phase, other than those of the Budget Office, reside with the Strategic Office, senior managers for the respective administrations, directors, the Budget

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<sup>1</sup> References to Baatjies, King, Louw and Muller (2015) refer to interviews, listed after the References.

Steering Committee and the Mayor of the Municipality. This phase was finalised by 31 October 2013.

From 1 November to 31 March 2013, the integration phase commenced with the Budget Office distributing ward-specific projects to senior managers of the respective administrations for Ward Committee final verification. The key engagements in this process comprised top management meetings (TMM) with the Municipal Manager, directors, senior managers of the respective administrations, and the Budget Office, to discuss budget proposals and budget affordability. During the same phase all the other operating units within the Municipality, which include HR, Fleet Management, Salaries Office, Asset Management, Costing Section, and the Cash Management Section provided draft inputs to enable the Budget Office to distribute all mid-year reviews on the capital and operating budget.

The compilation of the mid-year review report of 2013/14 was followed by the review of budget-related policies in the Municipality, before the finalisation of the draft capital and operating budget working papers by 14 March 2014. The Budget Office compiled the draft budget reports and schedules, and forwarded the financial information to the Strategic Office of the Municipality for the Draft IDP Review and Service Delivery Budget Implementation Plan (SDBIP). After the review process, the Budget Office did the final review of the Draft Budget Report and Schedules before it was tabled in Council and advertised for public comment as a Draft IDP & Budget on 27 March 2014.

The consultation and approval phase during April and May 2014 started with the preparation, distribution and presentation of the Draft Capital & Operational Budget, Tariff Proposals and IDP Review. The key role-players responsible in this phase are the Strategic Office, Budget Office, Community (Public Participation), and Provincial Treasury (LGMTEC 3 Engagements). The process, which started on 3 April 2014, concluded with the distribution of the final Budget Report, approval of the IDP and the budget by the Budget Council, with the Budget Office taking responsibility for the final review of the Budget Report and schedules, and printing and binding of the final Budget Report on 28 May 2014. The final implementation phase started on 4 June 2014 with the placement of the final budget documents on the website and in the media. The SDBIP was approved by the Executive Mayor of the Municipality on 25 June 2014 and final submission of budget-related

documents and locking certificates were sent to Provincial and National Treasury respectively on 30 June 2014 and 15 July 2014.

## 6.2 Integrated Development Planning (3<sup>rd</sup> Review Process for 2015/16)

Two processes are identified during the compilation of the IDP. Drafting of the master plan, as the first process, refers to the compilation of a long-term strategic plan for the municipal area (2012–2017) as prescribed in Section 25 of the MSA. This master plan is not amended annually, since it is a long-term plan and not an operational plan.

The Overstrand Municipality adopted the five-year IDP for 2012/2017 in May 2012 as its single inclusive and strategic plan to guide and inform the development of the Municipality. Annual Planning, as the second plan, and refers to the review of the IDP as referred to in Section 34 of the MSA. The phased processes as in the second review process were similarly followed in this process, with a few adaptations to meet the stringent needs of the communities as well as compliance with the relevant legislative requirements and Budget Circulars for the 2015/16 financial year. Figure 7 illustrates the five-year IDP cycle and the four (4) annual reviews within the five-year cycle. It also represents the third IDP review of the five-year IDP cycle of the 2015/16 review.

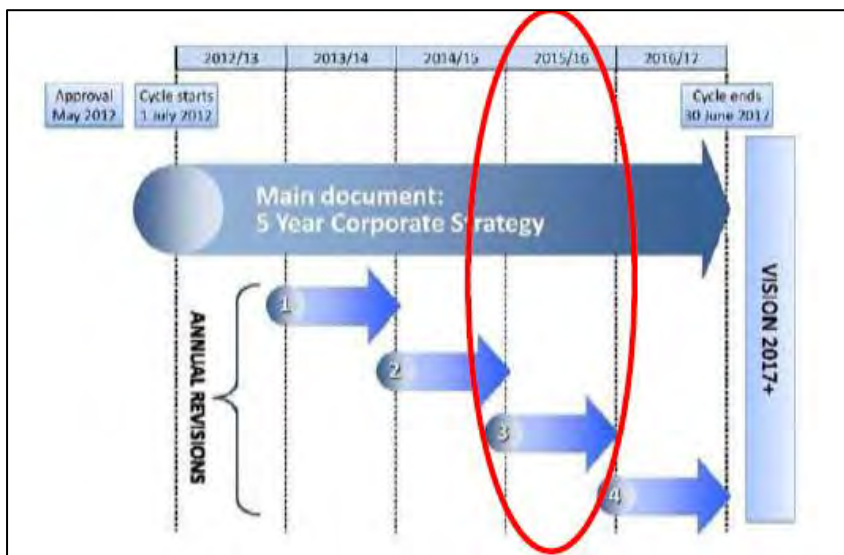


Figure 7: Overstrand Municipality five-year IDP cycle

Source: Overstrand Municipality (2015d)

The IDP, according to Louw (2015), Muller (2015), and King (2015), does address the important needs of the community, taking account of the available resources at local level. The IDP therefore indicates the vision of the Municipality to be a centre of excellence for the community, while according to the mission statement, the Municipality believes in the creation of sustainable communities by means of delivering optimal services to support economic, social and environmental goals in a politically stable environment.

### **6.3 Transparency, accountability and compliance in respect of infrastructure planning in line with the IDP to ensure effective service delivery**

The budget process is transparent, accountable and in compliance with the relevant prescripts of the MFMA and Budget Circulars on an annual basis to ensure effective and speedy service delivery to all and especially the impoverished areas (Muller, 2015).

According to Muller (2015), the Budget Steering Committee provides the political guidance to ensure that the needs of communities are addressed in the budget. The final draft budget is also presented to all the wards in the Municipality before final approval of the budget, normally in the latter part of May in the current financial year of the budget process. Muller (2015) also alluded to the fact that the budget process is a complex process and that communities' input, although relevant and pointing to the basic service delivery issues, **fails to make a more meaningful input on the technical aspects** of the budget and much more needs to be done by community-based organisations, NGOs and political role-players to capacitate the community about the technical aspects and processes that inform the compilation of the IDP and the budget.

All the development plans are disaggregated in the IDP as master plans, which include the Water Services Development Plan, consisting of the main planning documents: (i) the Water Services Development Plan (2014/15); (ii) the Water Master Plan revised with the development of the Growth Management Strategy (GMS) (2012); (iii) the Comprehensive Bulk Infrastructure Master Plan (Water & Sanitation) (2010); (iv) Water Services Asset Register and the Water Services Audit Report 2013/14. The Sanitation Services Plan's main planning documents are The Water Services Development Plan 2014/15; the Sewerage Master Plan as revised with the development of the GMS (2012); the Comprehensive Bulk

Infrastructure Master Plan–Water & Sanitation (2010); the Sewerage Asset Register and Water Services Audit Report.

Based on these documents, an assessment was made of the water and sewerage infrastructure master plan requirements for the next 20 years and the total cost estimate amounts to R267 million and R 217 million respectively as depicted in Table 5 & 6.<sup>2</sup>

**Table 5: Long-Term Water Master Plan**

Cost to implement the 20 year Water Master Plan (Rm)				
Area	Sources	Treatment	Reticulation (Pipes, pumps and	Total (Rm)
Buffels River System	3.0	5.0	9.3	17.0
Kleinmond	0.0	0.0	3.0	3.0
Greater Hermanus	0.0	110.0	45.8	155.8
Stanford	0.0	0.0	2.4	2.4
Greater Gansbaai	0.0	50.0	37.0	87.0
Pearly Beach	0.0	3.0	1.0	4.0
<b>Total</b>	<b>3</b>	<b>165</b>	<b>99</b>	<b>267</b>

**Table 6: Long-Term Sewerage Master Plan**

Cost to implement the 20 year Sewerage Master Plan (Rm)			
Area	Reticulation (Pipes and pumps)	Treatment	Total (Rm)
Buffels River	57.1	0.0	57.1
Kleinmond	12.4	8.0	20.4
Greater Hermanus	29.8	15.0	44.8
Stanford	5.3	7.0	12.3
Greater Gansbaai	50.9	12.0	62.9
Pearly Beach	9.2	10.0	19.2
<b>Total</b>	<b>165</b>	<b>52</b>	<b>217</b>

The main planning documents for Electrical Services are the **Electricity Master Plan** and the Electricity Asset Register. Based on these documents, an assessment was made of electrical infrastructural requirements for the next 25 years (master plan period). This was based on bulk and internal requirements and replacement of current infrastructure that is in a very poor

<sup>2</sup>As contained in the Overstrand Municipality, 2014.

condition. The total cost estimate amounts to R370.4 million over a projected 20-year period, as depicted in Table 7& 8.<sup>3</sup>

**Table 7: Long-Term Electricity Master Plan**

Cost to implement Electricity Master Plans (Rm)		
Area	Master Plan period	Projected 20 years
Greater Gansbaai	10 year	156.4
Greater Hermanus	15 year	163.9

**Table 8: Long-Term Electricity Master Plan**

Cost to implement Electricity Master Plans (Rm)		
Area	Master Plan period	Projected 20 years
Kleinmond	5 year	50.1
<b>Total</b>		<b>370.4</b>

The **Integrated Transport Plan (ITP)** reviewed in March 2013 will be developed in the 2015/16 financial year and will serve along with the Overstrand Transport Plan that was developed by the Department of Transport and Public Works as the overall **Road Transport Plan** for the . The main planning documents for roads are the Integrated Transport Plan, the Pavement Management System (PMS), the Roads Asset Register, and Parking Policy. Based on these documents, an assessment was made of the roads infrastructure requirements for the next 20 years. The assessment is based on the upgrading of gravel roads to surfaced roads. Only municipal streets and municipal road projects are included, while projects of the Provincial Department of Transport are excluded. The total cost estimate amounts to R155 million over a projected 20-year period as depicted in Table 9.<sup>4</sup>

<sup>3</sup>As contained in the Overstrand Municipality, 2014.

<sup>4</sup>As contained in the Overstrand Municipality, 2014.

**Table 9: Long-term Road Infrastructure Plan**

Road Infrastructure							
Area	Paved roads		Gravel roads		Total		% gravel
	km	%	km	%	Km	%	
Hangklip/ Kleinmond	92	20%	88	57%	180	29%	49%
Hermanus	233	50%	33	21%	266	43%	12%
Stanford	17	4%	6	4%	23	4%	26%
Gansbaai	122	26%	28	18%	150	24%	19%
<b>Total</b>	<b>464</b>	<b>100%</b>	<b>155</b>	<b>100%</b>	<b>618</b>	<b>100%</b>	<b>25%</b>
155km @ R1,000,000/km = R155m							

All the long-term infrastructure master plans were reviewed and realigned to support the Growth Management Strategy (GMS), and therefore the Spatial Development Framework (SDF), according to Muller (2015) and Louw (2015). The combined requirements for the four basic infrastructure services (water, sanitation, electricity and roads) for the next 20 years are summarised as depicted in Table 10<sup>5</sup>. The total requirement for infrastructure over the next 25 years is R2 012 billion (2010 prices). This equates to an average of R101m per year.

**Table 10: The combined requirements for the four basic infrastructure services**

Service	New infrastructure	Replace (75% of VP & P)	Total (Rm)	Per year
Water	267	598	865	43
Sewerage	217	151	368	18
Electrical	354	95	449	22
Roads	255	76	331	17
<b>Total</b>	<b>1,093</b>	<b>919</b>	<b>2,012</b>	<b>101</b>

According to Louw (2015) and King (2015), the budget is 100 percent aligned with the Budget circular on an annual basis in line with the annual review of the IDP of 2012/2017 and complies with the budget formats and A-schedules (A1–A10) as well as supporting tables (SA 4, SA 5 and SA6) applicable to the capital budget which ensures that the budget is fully funded as per the SA10 funding compliance schedule of the budget requirements on an annual basis.

<sup>5</sup>As contained in the Overstrand Municipality, 2014.

Despite the alignment and compliance, according to Muller (2015), the Overstrand Municipality has until now not yet developed a consolidated infrastructure plan, but has for the past five-year IDP cycle ensured that the Master Plans are reviewed and updated according to the needs and priorities of the community. However, a comprehensive infrastructure framework plan is being developed by the Local Government Department to assist the Municipality over the medium to long term. According to Louw (2015), Muller (2015), and King (2015), the capital budget of the Municipality is considered as a separate budget of capital revenue and expenditure which is monitored in the Service Delivery Budget Implementation Plan (Legislative Compliance Monitoring Tool).

This is in essence the cash flows containing both financial and non-financial indicators on an annual basis, with a draft 14 days after the budget is approved and the final Service Delivery Budget Implementation Plan (SDBIP) 28 days after the budget is approved. The master plans therefore, according to Louw (2015), are a means to ensure that infrastructure backlogs are averted. Muller (2015), in response to this, alluded to the fact that all people in urban areas have access to water, electricity, refuse removal and sanitation, and that the target date for all informal areas to have full access to these services is 2016.

#### **6.4 Capital budgeting policy and practices**

The Municipality has a budget policy in place, subject to annual review, in line with the legislative requirements, to ensure that the IDP Review and Budget Time Schedules are approved by Council on an annual basis (Louw, 2015).

According to Louw (2015), the Council approved the Budget Policy on 28 May 2014 and it was implemented on 1 July 2014. The budget process is a comprehensive, transparent and all-inclusive process, with the compilation process spearheaded by the Chief Financial Officer (CFO) working with senior management, specifically the senior managers in Financial Services and the Budget Office, in consultation with the Budget Steering Committee. It is clear from the responses to these questions in relation to the budget policy and processes that the Municipality does follow the letter and the spirit of the IDP and budget process in compliance with the Budget Policy and Capital Budget process and requirements of the National Treasury Budget Regulations. The budget submission and schedules are also clearly aligned with the MFMA legislative requirements and Budget Regulations, submitted in both

printed and electronic formats to National Treasury and the relevant Provincial Treasury after approval by Council as depicted in Appendix 2, 3 & 4.

## **6.5 Borrowing policy and practices**

We do have an approved Borrowing Policy in place and capital budgeting and spending against borrowing is in line with the policy (King, 2015).

According to King (2015), the Overstrand Municipality's Borrowing Policy was approved on 27 June 2012, and reviewed and updated on 28 May 2014. The Municipality, according to King (2015), seeks to limit its dependence on borrowing to minimise future revenue to be committed to debt servicing and redemption charges. In accordance with legislation (MFMA), the Policy is clear that the Municipality may only borrow funds, in terms of the Municipal Finance Management Act (MFMA), for the purpose of acquiring assets, and improving facilities or infrastructure to provide service delivery. The Municipality, by definition, supports the "pay as you use" approach as proposed by Gildenhuys (1997).

Overstrand Municipality may incur long-term debt only for the purpose of capital expenditure on infrastructure, property, plant or equipment to be used for the purpose of achieving the objects of Local Government as set out in Section 152 of the Constitution. The Municipality, according to King (2015), has over the MTREF 2012/13–2014/15 taken on external borrowing of on average R40–R45 million per annum. In response to capital grant funding support, the Municipality considers National Government support as moderate on a scale of 1–5. This according to King (2015) would not be able to address the backlogs and National Government consideration of grant funding increases need to be informed by a more objective needs analysis and challenges faced by the individual municipalities.

According to Muller (2015), private investors are also seeking investment opportunities in the municipalities from time to time and a public private partnership (PPP) has resulted in making land available for LED investment, where the rezoned available land for a shopping mall close to public rail transport created job opportunities for the people in the Municipality. Another PPP agreement has also ensured the development of a waste disposal site that is in full operation and is also creating job opportunities for the locals in the area. King (2015)

also alluded to the fact that no securities are provided on outstanding loans on the loan book of the Municipality.

The borrowing costs of obtaining the loans were at the lowest possible at the time of obtaining the loans. All the loans issued are annuity loans held with development banks, DBSA (Development Bank of Southern Africa), INCA (Infrastructure Finance Corporation Limited) and Absa, based on the submission of the last quarter of the QBMR to National Treasury and Provincial Treasury of the Western Cape. The balance of external borrowing at the beginning of the third quarter of the 2013/14 financial year was R420.94 million, while debt repaid/redeemed during the fourth quarter was R8.116 million, leaving the Municipality with an outstanding debt of R412.82 million at the end of the 2013/14 financial year.

The capital budget disaggregation over the MTREF 2012–2015 and MTREF 2013–2016 as depicted in Appendix 5 & 6 illustrates the various revenue sources to aggregate capital revenue and the capital budget for each project, as well as the responsible person (project manager) for each project under the various capital programmes (votes) or service. The response from interviewee King (2015) in relation to the questionnaire indicates that the Municipality pursues the objective to utilise external borrowing on the renewal of capital infrastructure as well as new infrastructure in line with policy objectives. The own funding source is used to the extent that when it is exhausted, the Municipality then goes into the market to take the draw-downs on approved loans.

This, however, is kept to a minimum and only done in exceptional circumstances, as the “pay as you go” principle remains in force. The debt ratio/gearing (borrowing as a percentage of total capital budget/expenditure) over the MTREF for 2012/2015 and 2013/2016 indicate an average level of 51.50 percent (a low-risk exposure), meeting the funding compliance requirement that external borrowing be lower than 100 percent of the total capital budget/expenditure.

King (2015) also stated that borrowing levels over the MTREF remain constant, notwithstanding that proposed borrowing of R30 million per annum is envisaged. This, he claims, is due to a reduction in borrowing from previous levels of the previous years and the cycle of borrowing and repayments reaching equalisation. In view of this, the Municipality

has also never failed to comply with all the required reporting requirements of the MFMA in respect of in-year, half yearly and annual reporting, therefore meeting the reporting requirements of National Treasury and Provincial Treasury, implying that the budget is fully funded, credible and sustainable (SA 10 Funding Compliance) as depicted in Appendix 7.

#### **6.6 Monitoring and evaluation by National Treasury & Western Cape Provincial Treasury**

According to King (2015), the Municipality has complied with Section 46 of the Municipal Finance Management Act stipulating that the Municipality may incur long-term debt only if a resolution of the Council, signed by the mayor, has approved the debt agreement and the Accounting Officer has signed the agreement or other document which acknowledges the debt and has at least 21 days prior to the meeting of the Council at which approval for the debt is to be considered, made public an information statement setting out particulars of the proposed debt, including the amount of the proposed debt, the purposes for which the debt is to be incurred and particulars of any security to be provided.

According to King (2015), the Public, the National Treasury and Provincial Treasury were invited to make comments and submit written comments or representations to the Council in respect of the proposed debt. King (2015) stated that the comments provided by National Treasury and Provincial Treasury were fair, despite being general in nature and that the full written comments or representations are presented to Council for consideration before approval of the external loans. According to Baatjies (2015), the Municipality has thus far provided Provincial Treasury with all the required documentation in respect of Section 46 of the MFMA and has over the MTREF 2012/2016 period provided a full report to the Municipality in respect of external borrowing, meeting the required timeline coinciding with Council submission for approval.

#### **6.7 BTO structure and capacity constraints**

According to King (2015) and Louw (2015), all management, senior management, and top management posts are filled and all section 56 and 57 managers have completed the minimum competency requirements as per the legislation. King (2015) stated that all staff members are fully competent and qualified to perform their tasks and 120 staff members in total have completed the minimum competency course with success. He reports directly to

the Chief Financial Officer (CFO) of the Municipality. King (2015) further indicated that he is personally responsible for all external borrowing and investments as the Senior Manager Financial Services.

## **6.8 Creditworthiness**

The Municipality was not subjected to a credit rating assessment by a reputable credit rating agency over the last five years (King, 2015).

According to King (2015), no credit rating by any credit rating agency was conducted over this period and the Municipality was fully reliant on the respective financial institutions for assessing the Municipality whenever an application was made for external borrowing. The reliance on these financial institutions was based on the financial standing of the Municipality and the relationship forged with them over the years. The Municipality has therefore built a good reputation that has minimised their reputational risk. The positive audit performance (outcomes) reported in the Auditor-General Reports on an annual basis are further considerations. Lastly, King (2015) also alludes to the fact that credit rating assessments are very expensive and not financially viable.

The chapter discussed the empirical part of the research and an analysis of the interviews and their interpretation. The next chapter provides the final discussion, conclusion, limitation of the study and suggestions for further research.

## CHAPTER 7

### 7. Discussion and Conclusions

This thesis sheds light on external borrowing as a source of funding for the capital budget of the Overstrand Municipality and the planning of spending on infrastructure against the borrowing over the MTREF 2012–2016. Furthermore, the research report aimed to establish whether the extent to which the municipalities borrow is sufficient to fund the capital budget effectively over the MTREF in compliance with the relevant legislation and other prescripts. This chapter summarises the results and findings of this research report. Firstly, conclusions are summarised with respect to the interrelatedness of the research questions and themes of this study, prior to the discussion on the limitations of the study and suggestions for further research.

#### 7.1 Conclusions

The main research question of this study and the objectives of the research are congruent with the results of the research report.

The main research question was:

To what extent do municipalities borrow to fund their capital budgets?

- IDP process and implementation

The interview suggests that the IDP process, review and implementation as a five-year plan are important to ensuring that the budget is aligned with the needs of the community. This is achieved by means of the IDP process going through four important phases as a single inclusive and strategic plan that is aimed at both providing guidance and ensuring the development of the Municipality. Despite the fact that the process is managed by the Municipality, the coordinated approach adopted by the Overberg District Municipality and the District IDP Managers, ensures activity alignment, thereby guaranteeing that the IDP time schedule of key deadlines is met.

- Capital budget process and compliance

The capital budget compilation process starts with the Chief Financial Officer (CFO), in conjunction with the Senior Manager: Financial Services and the Manager: Budget Office, and after consultation with the Budget Steering Committee sets the reasonable growth level

of the capital budget to be financed out of own revenue and external sources. Secondly, the draft capital budget is then compiled based on the projects that emanated from the engagements with the various stakeholders. The budget process is a comprehensive, transparent and all-inclusive process, with the compilation process spearheaded by the CFO in unison with senior management, specifically the senior managers in Financial Services and the Budget Office in consultation with the Budget Steering Committee. The budget preparation process is fully managed and co-ordinated by the Executive Mayor. The Municipality complies on an annual basis without fail with the Budget regulations as well as Section 22 (b) (i) of the MFMA and Section 24(3) of the MFMA, ensuring the timeous submission to National Treasury and Provincial Treasury.

- External borrowing and funding

The Municipality, according to King (2015), seeks to limit its dependence on borrowing in order to minimise future revenue to be committed to debt servicing and redemption charges. Borrowing as funding source of the capital budget is with the development banks (DBSA & INCA) and Absa, funded primarily with annuity loans. The Municipality has funded the budget with external borrowing over the MTREF 2012–2016 on a constant basis, however reducing it over MTREF for 2015/16–2017/18 to R30 million per annum, which is less than previous levels of previous years as the cycle of borrowing and repayment of borrowing is reaching equalisation. The levels of borrowing declined from R 73.96 million (audited) in 2011/12 to R 48.77 million (audited) in 2014/15.

The borrowing capacity is also limiting the Municipality to the extent that the budget must adhere to funding compliance measures (see Appendix 7) in terms of budget regulations, meaning that risk aversion sets in to ensure that the gearing ratio or debt exposure remains at acceptable levels year on year. To this extent, the Municipality is maintaining constant borrowing levels at an average rate of 50.50 percent of total capital expenditure. Own funding of the Capital Budget is kept at acceptable low levels to ensure that all operating expenditures are effectively managed on a month-to-month basis and positive cash flow is maintained to service debt when it is due. The fact that the capital budget is financed from loans creates a benefit for all who pay for the life of the asset and is therefore an equitable form of financing based on the “pay as you go” principle adopted by the Municipality.

The interviews further suggest that the Municipality has fully complied with Section 46 of the MFMA by incurring long-term debt only if resolved by Council. This is signed by the Mayor who approves the debt agreement and by the accounting Officer who counter-signs the document, acknowledging the debt at least 21 days prior to the meeting of Council. It was also established that National Treasury responds positively to the invitation to make written comments or representations to Council in respect of the proposed debt. This was verified by the official responsible for monitoring and evaluation in Provincial Treasury.

## **7.2 Capital Infrastructure Planning**

Although indicated by the interviewees that interest rates would be well managed, there is always the consequence of high interest rates and therefore the market risk must be assessed and managed on a constant basis. The Municipality, by means of its long-term infrastructure planning, is guided by the Budget Steering Committee where all Master Plans in the main are disaggregated for water, sanitation, sewerage, electricity and road infrastructure. The long-term requirements to fund the projected infrastructure are well captured in these plans per annum and over the long-term 20-year period. This enables the Municipality to plan sufficiently for external borrowing as grant funding from National Government is moderate and mostly for specific purposes (Conditional Grants), while the equitable share is based on a pre-determined formula from National Government.

No mention was made in the interviews of a comprehensive borrowing strategy in the District that would ensure integration at a broader district or regional level for infrastructure development when considering the major challenges mentioned in the IDP. The basic service delivery challenges relate to water and sewerage, with aging infrastructure at the core. Basic services in the area are also subject to vandalism, sewerage is subject to blockages, high water loss is incurred, and refuse collection is challenging with obsolete equipment and vehicles. Other major concerns relate to the electrification of informal settlements which are continually growing in all areas in the country and specifically in coastal areas such as Overstrand that depend to a large extent on tourism for revenue.

A shortage of external and internal funds to expedite the electrification to all informal homes remains a major challenge, as the lack of this service leads to illegal electrical connections and electricity losses that impact negatively on the operating as well as capital budgets. Roads infrastructure remains a challenge, and according to Muller (2015), the lack of

sufficient funding means that infrastructure backlogs, as well as the deterioration of gravel roads and the regular price increase in bitumen products for road construction, cannot be addressed. Muller (2015) also alluded to the fact that a consolidated infrastructure plan would be a much better plan to manage and that such a plan was a very cumbersome and complex issue, which would involve all the relevant stakeholders. It was, however, stated that the Department of Local Government in the Western Cape was working on a consolidated plan and hoped to finish it by 2016.

- Capacity challenges and constraints

The interviews suggest that the budget process promotes transparency and accountability, and is fully informed by the process of public participation in all areas in the Municipality. The IDP does help to assist with the effective use of resources to speed up service delivery in impoverished areas. The Municipality does not have any backlogs in bulk service delivery and the major master plans ensure that no backlogs are created in service delivery in the main. All senior managers (section 56 & 57 managers) have completed the minimum competency requirements as per legislation. The competency of all staff to fulfil their duties leads to more effective service delivery and 120 staff members in total have completed the minimum competency requirements. It is also clear that the BTO structure complies with the BTO guidance document issued by the Western Cape Provincial Government as a high-capacity Municipality. The BTO structure therefore assists the Municipality to perform its functions in terms of Section 81(1) (e) of the MFMA. It is also evident that the Municipality has not experienced any major challenges in respect of capacity building – therefore its success in performance and clear identification of roles and responsibilities.

- Creditworthiness & rating

The interviews suggest that no credit rating assessment was done over a five-year period and the Municipality was fully reliant on the respective financial institutions that lent money to them over the long term. The reliance on the Municipality to do its own assessment was based on the financial standing of the Municipality and the long-term relationship that the Municipality has with its financiers. The Municipality's reputational risk was therefore minimised, and based on the year-on-year positive audit outcomes, has in all probability given the financial institutions sufficient reason to assess the Municipality's financial position as favourable to advance long-term financing for capital infrastructure renewal or new infrastructure.

### **7.3 Limitations of study and suggestions for further research**

The most significant limitation of this research report is the lack of previous research on capital budgeting decisions and the funding mechanisms in municipalities in a South African context. There was no benchmark to follow, especially in the South African context, where the comprehensive legislation in respect of local government finance refers to frameworks that need to be in place. Given the paucity of research on a topic where the research focus needs to assess the alignment of external borrowing to capital budget planning and spending, as well as whether the Municipality has the capacity to borrow, made this research engaging, and the researcher was reliant on the interviewees to assist with the reliability and validity of the data crucial to the analysis.

Further research on the topic is needed. One interesting area would be a comparative capital budget funding analysis of the municipalities in a specific municipal district and a comparison of the extent of their borrowing with that of a metro, for example, the City of Cape Town. Based on the overall borrowing requirements of municipalities in a district, this could provide more leverage, allowing the financial institutions to grant higher external loan funding, based on greater financial stability and more informed, integrated capital planning on a district or regional level. This in essence would mean that a consolidated and integrated infrastructure plan is of utmost importance for all municipalities to give effect to their IDPs as well as the overall National Development Plan.

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## Appendix 1

### Interview Questions:

1. On a scale of one to five, in terms of Section 215 of the Constitution, does your Municipality's budget process promote transparency, accountability and the effective financial management of the economy, debt and the public sector (1 = not at all, 2 = slightly close, 3 = moderately close, 4 = somewhat close, 5 = very close)?
2. What is the capital budget process year on year used in the Municipality when compiling the budget?
3. On a scale of one to five, is the budget decision making of the Municipality fully informed by the process of public participation (1 = not at all, 2 = slightly close, 3 = moderately close, 4 = somewhat close, 5 = very close)?
4. Does the Municipality comply with the annual requirements of the MFMA Budget Circulars and how would the Municipality rate itself in terms of this compliance on a scale of one to three (1 = low, 2 = high, 3 = very high)?
5. Is the capital budget aligned with the objectives of the IDP over the MTREF (2012/13–2014/15 (1 = not at all, 5 = very closely)?
6. Does your IDP have a lifespan of 5 years and is your IDP directly linked to the term of office for local councillors? If so/or not so, please specify the duration of the link of local councillors to the term of office.
7. As a high-capacity Municipality do you have a long-term approved infrastructure development and delivery plan in place?
8. If this plan is in place, is it linked to the IDP objectives of the Municipality over the long-term or medium term?
9. Would the IDP ensure effective use of resources to help speed up service delivery to impoverished areas?
10. Does the Municipality have any backlogs in infrastructure spending and how does this impact on service delivery?
11. How many external loans (borrowing) were made, approved over the MTREF (2012/13–2014/15) and how many draw-downs were taken over the same period?
12. Are private investors willing to invest in your Municipality? If so or not so, specify why.

13. On a scale of one to five, does the Municipality get sufficient support from national government in the form of grants for capital expenditure (1 = not at all, 2 = slightly close, 3 = moderately close, 4= somewhat close, 5= very close)?
14. Do you fund the budget with own revenue before the funding from borrowing becomes available, and if so, why?
15. Does the Municipality have an approved borrowing policy in place and when was this policy adopted by Council?
16. How often is this policy reviewed, taking account of changes in both legislation and the markets on a regular basis?
17. Does the Municipality comply with all the reporting requirements of the MFMA in view of in-year, half-yearly and annual performance?
18. What does the Municipality consider as the main reasons or purpose for borrowing money?
19. Do the Provincial Treasury and National Treasury provide comment on borrowing in terms of Section 46 of the MFMA (compliance) when required by the Municipality, meeting the deadlines before Council submission?
20. Are these comments or representations submitted by the Provincial Treasury and National Treasury to the Municipality, submitted to Council as an original (full report) before the external loan/borrowing is approved? If not, please specify why.
21. In the last five years, was the Municipality subjected to a credit rating assessment by any reputable credit rating agency? How was the Municipality rated in terms of its creditworthiness?
22. Who is responsible for long-term borrowing proposals and reporting and on what level of competence (meeting the minimum competency level) is this person in the Municipality?
23. Has the Municipality ever considered loan consolidation in the past ten years to minimise the cost of capital on outstanding loans and is the level of borrowing exposure on an acceptable level in line with your policy?

## Appendix 2

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**MINUTES : ORDINARY MEETING OF THE COUNCIL**

**30 MAY 2012**

### **5.13**

**FINAL BUDGET FOR OVERSTRAND MUNICIPALITY 2012/2013**

**(ITEM 10, PAGE 500 : MAYORAL COMMITTEE MEETING : 30 MAY 2012)**

**THE SPEAKER REQUESTED THAT IT BE MINUTED  
THAT HE AFFORDED THE EXECUTIVE MAYOR  
TO DELIVER HER BUDGET SPEECH**

**THE EXECUTIVE MAYOR DELIVERED HER BUDGET  
SPEECH, A COPY OF WHICH IS ATTACHED AS  
ANNEXURE A TO THE MINUTES**

### **RESOLVED**

1. that the annual budget of the Municipality for the 2012/13 to 2013/2014 MTREF (Medium Term Revenue and Expenditure Framework) period **be approved** as set out in the following schedules:
  - Schedule 1:** Budgeted financial performance (revenue & expenditure by municipal vote) **(page 509)**
  - Schedule 2:** Budgeted financial performance (revenue by source & expenditure by type) **(page 510)**
  - Schedule 3:** Budgeted multi-year capital appropriations by standard classification (vote) and associated funding by source **(page 511)**
  - Schedule 4:** Budgeted financial position **(page 512)**
  - Schedule 5:** Budgeted cash flow **(page 513)**
2. that the property rates reflected in **Annexure A, pages 514-516, be imposed** for the budget year 2012/13;
3. that tariffs and charges reflected in **Annexure A, pages 517-536, be approved** for the budget year 2012/13;
4. that Council notes the following schedules:
  - Schedule 6:** Budgeted financial performance (revenue & expenditure by standard classification) **(page 537)**
  - Schedule 7:** Budgeted capital expenditure by municipal vote **(page 538)**
5. that the municipality be permitted to enter into a long-term loan for the funding of the capital programme in respect of the 2012/13 financial year amounting to R40 million for general capital infrastructure in terms of Section 46 of the Municipal Finance Management Act;

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**MINUTES : ORDINARY MEETING OF THE COUNCIL**

**30 MAY 2012**

6. that the Municipal Manager be authorised to sign all necessary agreements and documents to give effect to the above borrowing programme;
7. that Council **takes cognisance** of the letters of comment received from the public and the responses thereto, and
8. that Council **takes cognisance** of the Overview Report of the 2012/13 Budget.

**RESPONSIBLE OFFICIAL :**

**B KING**

**TARGET DATE FOR IMPLEMENTATION :**

**1 JULY 2012**

## Appendix 3

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**MINUTES : ORDINARY MEETING OF THE COUNCIL**

**29 MAY 2013**

**5.9**

**FINAL BUDGET FOR OVERSTRAND MUNICIPALITY : 2013/2014**

**(ITEM 9, PAGE 347 : MAYORAL COMMITTEE MEETING : 29 MAY 2013)**

**THE SPEAKER REQUESTED THAT IT BE MINUTED THAT HE AFFORDED THE EXECUTIVE MAYOR TIME TO DELIVER HER BUDGET SPEECH IN ACCORDANCE WITH RULE 30**

**THE EXECUTIVE MAYOR DELIVERED HER BUDGET SPEECH, A COPY OF WHICH IS ATTACHED AS ANNEXURE A TO THE MINUTES**

**COUNCILLORS M GILLION, N NQINATA, V MACOTHA, C MANDINDI, P MAY, M PIE, M PONOANE, N SAPEPA AND J JANUARIE ABSTAINED FROM TAKING PART IN THE CONSIDERATION OF THIS ITEM.**

**RESOLVED**

1. that the annual budget of the Municipality for the 2013/2014 to 2015/2016 MTREF (Medium Term Revenue and Expenditure Framework) period **be approved** as set out in the following schedules:
  - Schedule 1:** Budgeted financial performance (revenue & expenditure by municipal vote) (**page 354**)
  - Schedule 2:** Budgeted financial performance (revenue by source & expenditure by type) (**page 355**)
  - Schedule 3:** Budgeted multi-year capital appropriations by standard classification (vote) and associated funding by source (**page 356**)
  - Schedule 4:** Budgeted financial position (**page 357**)
  - Schedule 5:** Budgeted cash flow (**page 358**)
2. that the property rates reflected in **Annexure A, pages 361-364, be imposed** for the budget year 2013/2014;
3. that tariffs and charges reflected in **Annexure A, pages 365-394, be approved** for the budget year 2013/2014;

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**MINUTES : ORDINARY MEETING OF THE COUNCIL**

**29 MAY 2013**

4. that Council notes the following schedules:
  - Schedule 6:** Budgeted financial performance (revenue & expenditure by standard classification) (**page 359**)
  - Schedule 7:** Budgeted capital expenditure by municipal vote (**page 360**)
5. that Council **takes cognisance** of the letters of comment received from the public, and
6. that Council **takes cognisance** of the 2013/2014 Budget Report.

**RESPONSIBLE OFFICIAL :**

**B KING**

**TARGET DATE FOR IMPLEMENTATION :**

**1 JULY 2013**

## Appendix 4

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**MINUTES : ORDINARY MEETING OF THE COUNCIL**

**28 MAY 2014**

**5.15**

**FINAL BUDGET FOR OVERSTRAND MUNICIPALITY : 2014/2015**

**(ITEM 8, PAGE 242 : MAYORAL COMMITTEE MEETING : 28 MAY 2014)**

**THE EXECUTIVE MAYOR DELIVERED HER BUDGET SPEECH, A COPY OF WHICH IS ATTACHED AS ANNEXURE A TO THE MINUTES**

**CLLR MSHENXISWA, ON BEHALF OF THE ANC, REQUESTED THE MEETING TO ADJOURN FOR A CAUCUS WITH THE MUNICIPAL MANAGER AT 12:40**

**THE MEETING RECONVENED AT 12:55**

**RESOLVED (UNANIMOUSLY):**

1. that, in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003), the annual budget of the Municipality for the 2014/15 to 2016/2017 MTREF (Medium Term Revenue and Expenditure Framework) period **be approved** as set out in the following schedules:
  - Schedule 1:** Budgeted financial performance (revenue & expenditure by municipal vote) **(page 250 of the agenda)**
  - Schedule 2:** Budgeted financial performance (revenue by source & expenditure by type) **(page 251 of the agenda)**
  - Schedule 3:** Budgeted multi-year capital appropriations by standard classification (vote) and associated funding by source **(page 252 of the agenda)**
  - Schedule 4:** Budgeted financial position **(page 253 of the agenda)**
  - Schedule 5:** Budgeted cash flow **(page 254 of the agenda)**
  - Schedule 6:** Cash backed reserves and acc. surplus reconciliation **(page 255 of the agenda)**
  - Schedule 7:** Asset management **(page 256 of the agenda)**
  - Schedule 8:** Basic service delivery measurement **(page 257 of the agenda)**  
Asset management **(page 256 of the agenda)**  
Basic service delivery measurement **(page 257 of the agenda)**
2. that the property rates reflected in **Annexure A, pages 260-263 of the agenda, be imposed** for the budget year 2014/15;
3. that tariffs and charges reflected in **Annexure A, pages 264-291 of the agenda, be approved** for the budget year 2014/15;

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**MINUTES : ORDINARY MEETING OF THE COUNCIL**

**28 MAY 2014**

4. that the Municipal Manager be authorised to sign all necessary agreements and documents to give effect to the third year of the approved lending programme for an external loan of R40 million;
5. that the following schedules **be noted**:
  - Schedule 9:** Budgeted financial performance (revenue & expenditure by standard classification) **(page 258 of the agenda)**
  - Schedule 10:** Budgeted capital appropriations by municipal vote **(page 259 of the agenda)**
6. that **cognisance be taken** of the letters of comment received from the community and the LG MTEC 3 Assessment Report by Provincial Treasury and the Provincial Department of Local Government, included in Annexures G and H respectively of the budget report; and
7. that **cognisance be taken** of the 2014/2015 Budget Report.

**RESPONSIBLE OFFICIAL :**

**BA KING**

**TARGET DATE FOR IMPLEMENTATION :**

**1 JULY 2014**

# Appendix 5

Area	Local Area	Ward	Project Description	Project Manager	Funding Source	2012/13			2013/14			2014/15		
						COUNCIL FUNDED	EXTERNAL (GRANTS)	TOTAL	COUNCIL FUNDED	EXTERNAL (GRANTS)	TOTAL	COUNCIL FUNDED	EXTERNAL (GRANTS)	TOTAL
<b>300 - INFORMATION &amp; COMMUNICATION TECHNOLOGY</b>						<b>844 680</b>	<b>0</b>	<b>844 680</b>	<b>838 737</b>	<b>0</b>	<b>838 737</b>	<b>668 700</b>	<b>0</b>	<b>668 700</b>
Overstrand	Overstrand	Overstrand	Intangible assets - Microsoft licenses	J Van Stad	Surplus	672 958		672 958	838 737		838 737	668 700		668 700
Overstrand	Overstrand	Overstrand	Intangible assets - Microsoft licenses	J Van Stad	Surplus	171 722		171 722						
<b>300 - PROPERTY SERVICES</b>						<b>0</b>	<b>6 600 000</b>	<b>6 600 000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Kleinmond	Kleinmond	Ward 09	KM Harbour Development	R Kuchar	Pub.Don.		6 600 000	6 600 000						
<b>400 - COMMUNITY BUILDINGS</b>						<b>1 300 000</b>	<b>0</b>	<b>1 300 000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Overstrand	Overstrand	Overstrand	Karwyderskraal Cemetery	R Kuchar	Surplus	1 300 000		1 300 000						
<b>500 - SPORT &amp; RECREATION</b>						<b>0</b>	<b>1 697 973</b>	<b>1 697 973</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Stanford	Stanford	Ward 11	Change room & upgrade of toilet facilities	F Myburgh	Lotto		500 000	500 000						
Hermanus	Zweithle	Ward 06	Swimming Pool Zweithle/Mount Pleasant	D Hendriks	MIG		1 197 973	1 197 973						
<b>600 - PUBLIC SAFETY</b>						<b>296 934</b>	<b>0</b>	<b>296 934</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Overstrand	Overstrand	Overstrand	Municipal Pound	N Michals	PROV-Gr		296 934	296 934						
<b>700 - HOUSING</b>						<b>0</b>	<b>13 580 000</b>	<b>13 580 000</b>	<b>0</b>	<b>29 243 000</b>	<b>29 243 000</b>	<b>0</b>	<b>30 705 000</b>	<b>30 705 000</b>
Gansbaai	Eluokolweni	Ward 11	Eluokolweni: 211 sites - USIP(Pearly Beach)	B Louw	PROV-H		5 779 276	5 779 276						
Hermanus	Hermanus	Ward 03	Ewardswaagweg project - IS & GAP	B Louw	PROV-H		201 721	201 721						
Hermanus	Hawston	Ward 08	Hawston project - IRDP	B Louw	PROV-H		500 000	500 000						
Gansbaai	Gansbaai	Ward 02	Gansbaai project -IRDP/GAP	B Louw	PROV-H		500 000	500 000						
Hermanus	Zweithle	Ward 06	Zweithle project -USIP	B Louw	PROV-H		1 199 003	1 199 003						
Overstrand	Overstrand	Overstrand	Basic Services Project	B Louw	PROV-BSG		3 000 000	3 000 000						
Gansbaai	Masakhane	Ward 01	Masakhane project -UIPS	B Louw	PROV-H		2 043 750	2 043 750						
Gansbaai	Beverly Hill	Ward 02	Beverly Hills project -USIP	B Louw	PROV-H		1 687 500	1 687 500						
Stanford	Stanford	Ward 11	Stanford project - IRDP	B Louw	PROV-H		2 400 000	2 400 000						
Kleinmond	Kleinmond	Ward 09	Kleinmond project - IRDP	B Louw	PROV-H									
<b>900 - LOCAL ECONOMIC DEVELOPMENT</b>						<b>0</b>	<b>2 418 000</b>	<b>2 418 000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Overstrand	Overstrand	Overstrand	Local Economic Development Projects	S Madikane	NDPG		2 418 000	2 418 000						
<b>1000 - ROADS</b>						<b>0</b>	<b>11 719 798</b>	<b>11 719 798</b>	<b>0</b>	<b>759 773</b>	<b>759 773</b>	<b>0</b>	<b>3 500 000</b>	<b>3 500 000</b>
Hermanus	Hermanus	Ward 03,04	Hermanus parallel road	D Hendriks	MIG		10 219 798	10 219 798						
Hermanus	Hermanus	Ward 03	Hermanus parallel road(Cycling& pedestrian ways)	D Hendriks	PROV-MS		1 500 000	1 500 000						
Hermanus	Hawston	Ward 08	Hawston: 227 RDP Evenen rehabilitatigravel roads	D Hendriks	MIG								3 500 000	3 500 000
<b>1200 - ELECTRICITY</b>						<b>47 400 000</b>	<b>2 883 088</b>	<b>50 283 088</b>	<b>14 550 000</b>	<b>0</b>	<b>14 550 000</b>	<b>15 000 000</b>	<b>3 000 000</b>	<b>18 000 000</b>
Hermanus	Hermanus	Ward 03,04	NEW 60kVA S/S	K d Plessis	EL2		34 000 000	34 000 000						
Kleinmond	Kleinmond	Ward 09	Kleinmond: Replace Main Substation Switchgear	K d Plessis	EL		4 000 000	4 000 000						
Hermanus	Hermanus	Ward 03	Hermanus: LV Upgrade/Replacement	K d Plessis	EL		3 050 000	3 050 000					2 100 000	2 100 000
Hermanus	Hawston	Ward 08	Hawston: Supply upgrade	K d Plessis	EL		2 000 000	2 000 000						
Stanford	Stanford	Ward 11	Stanford: MV and LV upgrading in Industrial area	D Maree	EL		1 950 000	1 950 000	1 800 000		1 800 000			
Gansbaai	Franskrail	Ward 01	Franskrail: LV Upgrading in Sea View Drive and surrounding areas	D Maree	Surplus		950 000	950 000						
Gansbaai	Kleinbaai	Ward 01	Kleinbaai: New MV feeder from Aple Le Roux to Bester/Van Dyk streets	D Maree	Surplus		900 000	900 000						
Kleinmond	Kleinmond	Ward 09	Kleinmond: MV Network Upgrading	K d Plessis	Surplus		300 000	300 000					500 000	500 000
Hermanus	Onrus	Ward 13	Onrus: office at electrical depot	K d Plessis	Surplus		250 000	250 000						
Overstrand	Overstrand	Overstrand	Overstrand Housing Projects (INEP)	K d Plessis	INEP		1 800 000	1 800 000					3 000 000	3 000 000
Gansbaai	Eluokolweni	Ward 11	Eluokolweni -Housing electrical infrastructure	D Maree	Solar Rebate		1 083 088	1 083 088						
Hermanus	Sandbaai	Ward 07	New 120mm CU cable from Sandbaai substation to Bergsig Sectionalizer	K d Plessis	EL				3 200 000		3 200 000			
Hermanus	Hermanus	Ward 11	Install 3rd GOLF Course - Kwaalwater feeder	K d Plessis	EL				3 000 000		3 000 000			
Gansbaai	Franskrail	Ward 01	Aple Le Roux -Franskrail upgrade	D Maree	EL		2 500 000	2 500 000						
Gansbaai	Gansbaai	Ward 02	Gansbaai: Miniature substation upgrading	D Maree	EL		1 150 000	1 150 000				1 000 000		1 000 000
Hermanus	Hermanus	Ward 03	Main Road Overhead line replacement and streetlight replacement: Circle to Spar	K d Plessis	EL		1 000 000	1 000 000						
Gansbaai	Blompark	Ward 02	BP Upgrading of Low voltage network	D Maree	EL		950 000	950 000						
Gansbaai	Franskrail	Ward 01	FK Upgrading of LV network Meyerstreet	D Maree	EL		850 000	850 000						
Kleinmond	Kleinmond	Ward 09	Streetlights	K d Plessis	EL		100 000	100 000						
Hermanus	Sandbaai	Ward 07	Sandbaai: LV Upgrade/Replacement	K d Plessis	EL							500 000		500 000
Stanford	Stanford	Ward 11	New 70mm <sup>2</sup> MV cable in Langmark Street	D Maree	EL							600 000		600 000
Hermanus	Sandbaai	Ward 07	Sandbaai: MV Upgrade/Replacement	K d Plessis	EL							1 000 000		1 000 000
Hermanus	Hawston	Ward 08	Hawston: LV Upgrade/Replacement	K d Plessis	EL							1 000 000		1 000 000
Gansbaai	Franskrail	Ward 01	Miniature substation upgrading in Franskrail	D Maree	EL							1 000 000		1 000 000
Gansbaai	Blompark	Ward 02	Blompark: Low Voltage upgrading in Rook Street	D Maree	EL							1 400 000		1 400 000
Gansbaai	Kleinbaai	Ward 01	New MV feeder from Aple Le Roux to Steenbok Street	D Maree	EL							1 400 000		1 400 000
Kleinmond	Kleinmond	Ward 09	Kleinmond: LV Network Upgrading	K d Plessis	EL							2 000 000		2 000 000
Gansbaai	Kleinbaai	Ward 01	Aple Le Roux Switchgear upgrading	D Maree	EL							2 500 000		2 500 000
<b>1300 - WATER</b>						<b>29 401 290</b>	<b>20 726 506</b>	<b>50 127 796</b>	<b>12 900 000</b>	<b>4 425 337</b>	<b>17 325 337</b>	<b>20 500 000</b>	<b>4 611 000</b>	<b>25 111 000</b>
Hermanus	Hermanus	Ward 03,04	Preekstoel WTW Upgrade	H Blignaut	EL2/RBIG		9 901 290	20 162 081						
Overstrand	Overstrand	Overstrand	Replacement of Overstrand water pipes	H Blignaut	EL		13 500 000	13 500 000	8 400 000		8 400 000	13 200 000		13 200 000
Gansbaai	Baardskewer	Ward 11	Baardskewer: Bulk water supply upgrade	H Blignaut	EL		3 000 000	3 000 000	4 500 000		4 500 000			
Kleinmond	Rooi Els	Ward 10	New Bulk Water Reservoir - Rooi Els	H Blignaut	EL		2 800 000	2 800 000						
Stanford	Stanford	Ward 11	Upgrading of 'Die Oog' pump station	D Crafford	Surplus		200 000	200 000						
Gansbaai	Eluokolweni	Ward 11	Eluokolweni: Bulk water upgrade for housing project	D Hendriks	MIG		564 425	564 425						
Hermanus	Hawston	Ward 08	Hawston: Bulk water upgrade for housing project	D Hendriks	MIG								3 611 000	3 611 000
Hermanus	Sandbaai	Ward 07	New Bulk Reservoir - Sandbaai	H Blignaut	EL				4 425 337		4 425 337			
Hermanus	Mount Plesant	Ward 04	Mt Plesant/Zweithle: Bulk water upgrade for housing project	D Hendriks	MIG							7 300 000		7 300 000
<b>1400 - SEWERAGE</b>						<b>6 800 000</b>	<b>6 254 842</b>	<b>13 054 842</b>	<b>8 500 000</b>	<b>12 691 890</b>	<b>21 191 890</b>	<b>4 500 000</b>	<b>10 000 000</b>	<b>14 500 000</b>
Hermanus	Hermanus	Ward 03,04	Hermanus WWTW Upgrading	H Blignaut	RBIG		5 754 842	5 754 842						
Kleinmond	Kleinmond	Ward 09	Kleinmond and Gansbaai WWTW Sludge Handling	H Blignaut	Surplus		3 800 000	3 800 000	2 000 000		2 000 000			
Overstrand	Overstrand	Overstrand	Upgrading of pump stations	P Burger	EL		1 500 000	1 500 000	2 000 000		2 000 000			
Stanford	Stanford	Ward 11	Sewer Network Extension - Stanford	H Blignaut	EL		1 500 000	1 500 000						
Gansbaai	Eluokolweni	Ward 11	Eluokolweni - Bulk sewerage for housing project	H Blignaut	MIG		500 000	500 000						
Stanford	Stanford	Ward 11	WWTW Upgrade	H Blignaut	EL/MIG				4 500 000		4 500 000	4 500 000		9 500 000
Hermanus	Hawston	Ward 08	Hawston: Bulk sewerage for housing project	D Hendriks	MIG									
Hermanus	Hawston	Ward 08	Hawston WWTW upgrade	D Hendriks	MIG				2 123 000		2 123 000			
<b>1400 - STORM WATER</b>						<b>0</b>	<b>4 464 804</b>	<b>4 464 804</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>800 000</b>	<b>800 000</b>
Gansbaai	Masakhane	Ward 01	GB Storm water (MIG) - Bulk stormwater Infrastructure	D Hendriks	MIG		4 464 804	4 464 804						
Gansbaai	Blompark	Ward 02	Blompark: Bulk stormwater upgrade for housing project	D Hendriks	MIG								800 000	800 000
<b>1500- WASTE MANAGEMENT</b>						<b>7 000 000</b>	<b>0</b>	<b>7 000 000</b>	<b>4 000 000</b>	<b>0</b>	<b>4 000 000</b>	<b>0</b>	<b>0</b>	<b>0</b>
Overstrand	Overstrand	Overstrand	Gansbaai Landfill New Cell	J van Taak	EL		7 000 000	7 000 000	4 000 000		4 000 000			
<b>300 - VEHICLES</b>						<b>3 924 000</b>	<b>0</b>	<b>3 924 000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Overstrand	Overstrand	Overstrand	11 000 Litre Sewer Tank trailer	K Arendse	Surplus		450 000	450 000						
Overstrand	Overstrand	Overstrand	3 Ton Tip Truck (for Recycling)	K Arendse	Surplus		400 000	400 000						
Overstrand	Overstrand	Overstrand	1 Tonner - LDV LWB	K Arendse	Surplus		180 000	180 000						
Overstrand	Overstrand	Overstrand	1 Tonner - LDV LWB	K Arendse	Surplus		180 000	180 000						
Overstrand	Overstrand	Overstrand	1 Tonner - LDV LWB	K Arendse	Surplus		180 000	180 000						

# Appendix 6

CAPITAL BUDGET 2013-2016 MTRF															
Area	Local Area	Ward	Project Description	N / R	Project Manager	Funding Source	2013/14 BUDGET			2014/15 BUDGET			2015/16 BUDGET		
							COUNCIL FUNDED	EXTERNAL (GRANTS)	TOTAL	COUNCIL FUNDED	EXTERNAL (GRANTS)	TOTAL	COUNCIL FUNDED	EXTERNAL (GRANTS)	TOTAL
<b>300 - INFORMATION &amp; COMMUNICATION TECHNOLOGY</b>							<b>839 000</b>	<b>600 000</b>	<b>1 439 000</b>	<b>668 700</b>	<b>0</b>	<b>668 700</b>	<b>702 135</b>	<b>0</b>	<b>702 135</b>
Overstrand	Overstrand	Overstrand	Intangible assets - Microsoft licenses	R	J Van Staden	Surplus	839 000		839 000	668 700		668 700	702 135		702 135
Overstrand	Overstrand	Overstrand	Time and attendance system	N	J Van Aspere	FMG Gr.		600 000	600 000						
<b>300 - PROPERTY SERVICES</b>							<b>2 500 000</b>	<b>2 500 000</b>							
Kleinmond	Betty's Bay	Ward 10	Stoney Point Eco Centre	N	N Green	Pub.Don.		2 500 000	2 500 000						
<b>500 - SPORT &amp; RECREATION</b>							<b>225 000</b>	<b>5 000 000</b>	<b>5 225 000</b>	<b>0</b>	<b>6 620 039</b>	<b>6 620 039</b>	<b>0</b>	<b>5 269 182</b>	<b>5 269 182</b>
Kleinmond	Kleinmond	Ward 09	Overhills:Kleinmond Soccer Field	N	D Hendriks	MIG		5 000 000	5 000 000		6 620 039	6 620 039		4 069 182	4 069 182
Hermanus	Zwelihle	Ward 05	Zwelihle -Community Soccerfield	N	D Hendriks	MIG								1 000 000	1 000 000
Hermanus	Hawston	Ward 06	Expanding changerooms -Hawston sportsgrounds	R	D Kearney	Surplus	225 000		225 000						
Kleinmond	Kleinmond	Ward 09	Floodlights	N	D Hendriks	MIG								200 000	200 000
<b>700 - HOUSING</b>							<b>0</b>	<b>11 180 493</b>	<b>11 180 493</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Gansbaai	Gansbaai	Ward 02	Gansbaai project- 155 SITES	R	B Low	PROV-HR-OVER		5 029 380	5 029 380						
Gansbaai	Eluxolweni	Ward 11	Eluxolweni- 211 sites - USIP(Pearly Beach)	R	B Low	PROV-HR-OVER		1 717 525	1 717 525						
Overstrand	Overstrand	Overstrand	Access to Basic Services Project	R	B Low	PROV-ABS-R/OVER		1 560 152	1 560 152						
Gansbaai	Masakhane	Ward 01	Masakhane project-126 SITES	N	B Low	PROV-H		126 000	126 000						
Gansbaai	Blompark	Ward 02	Blompark - 450 SITES	N	B Low	PROV-H		450 000	450 000						
Gansbaai	Beverly Hills	Ward 02	Beverly Hills project-190 SITES	N	B Low	PROV-H		190 000	190 000						
Hermanus	Hermanus	Ward 03	Hermanus Swartdamweg Institutional -320 SITES	N	B Low	PROV-H		320 000	320 000						
Hermanus	Hermanus	Ward 03	Hermanus Swartdamweg -146 SITES	N	B Low	PROV-H		146 000	146 000						
Hermanus	Zwelihle	Ward 06	Zwelihle Garden site -77 SITES	N	B Low	PROV-H		77 000	77 000						
Hermanus	Zwelihle	Ward 06	Zwelihle Mandela Square -180 SITES	N	B Low	PROV-H		180 000	180 000						
Hermanus	Zwelihle	Ward 06	Zwelihle project -USP	R	B Low	PROV-HR-OVER		553 238	553 238						
Hermanus	Hawston	Ward 08	Hawston project - IRDP	R	B Low	PROV-HR-OVER		831 198	831 198						
<b>1000 - ROADS</b>							<b>3 133 000</b>	<b>14 737 000</b>	<b>17 870 000</b>	<b>0</b>	<b>13 155 329</b>	<b>13 155 329</b>	<b>0</b>	<b>1 719 270</b>	<b>1 719 270</b>
Hermanus	Hermanus	Ward 03	Hermanus parallel road	R	D Hendriks	SURPLUS/	3 133 000	3 095 373	6 228 373						
Hermanus	Hermanus	Ward 03	Hermanus parallel road(Cycling& pedestrian ways)	R	D Hendriks	PROV-MS		2 482 000	2 482 000						
Hermanus	Hawston	Ward 08	Hawston: Upgrade roads	N	D Hendriks	MIG		6 034 120	6 034 120					1 719 270	1 719 270
Hermanus	Mount Pleasant	Ward 04	Rehabilitate Roads & upgrade stormwater	N	D Hendriks	MIG					6 675 528	6 675 528			
Hermanus	Zwelihle	Ward 05	Upgrade roads	N	D Hendriks	MIG		3 125 507	3 125 507		6 479 801	6 479 801			
<b>1200 - ELECTRICITY</b>							<b>33 111 348</b>	<b>4 083 088</b>	<b>37 194 436</b>	<b>15 000 000</b>	<b>3 000 000</b>	<b>18 000 000</b>	<b>16 500 000</b>	<b>2 000 000</b>	<b>18 500 000</b>
Hermanus	Hermanus	Ward 03	New 66kVA S/S	N	K d Plessis	EL2C	14 261 348		14 261 348						
Kleinmond	Kleinmond	Ward 09	Kleinmond: Replace Main Substation Switchgear	R	K d Plessis	EL1-R/OVE	4 300 000		4 300 000						
Hermanus	Hermanus	Ward 03	Hermanus: LV Upgrade/Replacement	R	K d Plessis	EL5/6				2 100 000		2 100 000	6 000 000		6 000 000
Stanford	Stanford	Ward 11	Stanford: MV and LV upgrading in Industrial area	R	D Maree	EL4	1 800 000		1 800 000						
Gansbaai	Kleinbaai	Ward 01	Kleinbaai: New MV feeder from Apie Le Roux to Bester/Van Dyk	N	D Maree	EL6					500 000	500 000	1 400 000		1 400 000
Kleinmond	Franskraal	Ward 01	Apie Le Roux -Franskraal upgrade	N	D Maree	EL5/6	2 500 000		2 500 000				500 000		500 000
Gansbaai	Franskraal	Ward 01	FK Upgrading of LV network Meyerstreet	N	D Maree	EL4	850 000		850 000						
Gansbaai	Franskraal	Ward 02	Gansbaai: Miniature substation upgrading	N	D Maree	EL4/5	1 150 000		1 150 000	1 000 000		1 000 000			
Gansbaai	Blompark	Ward 02	BP Upgrading of Low voltage network	N	D Maree	EL4	950 000		950 000						
Hermanus	Hermanus	Ward 03	Upgrade Kwasaaiwater Feeder Cables	R	K d Plessis	EL4	3 000 000		3 000 000						
Hermanus	Hermanus	Ward 03	Main Road Overhead line replacement and streetlight replacement	R	K d Plessis	EL4	1 000 000		1 000 000						
Hermanus	Hawston	Ward 08	Hawston S/S Upgrade	R	K d Plessis	EL4	3 200 000		3 200 000						
Kleinmond	Kleinmond	Ward 09	Streetslights	N	K d Plessis	EL4	100 000		100 000						
Gansbaai	Franskraal	Ward 01	Miniature substation upgrading in Franskraal	N	D Maree	EL5/6				1 000 000		1 000 000	1 200 000		1 200 000
Gansbaai	Franskraal	Ward 01	New MV feeder from Apie Le Roux to Steenbok Street	N	D Maree	EL5				1 400 000		1 400 000			
Gansbaai	Franskraal	Ward 01	Apie Le Roux switchgear upgrading	N	D Maree	EL5				2 500 000		2 500 000			
Gansbaai	Blompark	Ward 02	Blompark: Low Voltage upgrading in Roos Street	N	D Maree	EL5/6				1 400 000		1 400 000	1 000 000		1 000 000
Hermanus	Sandbaai	Ward 07	Sandbaai: LV Upgrade/Replacement	R	K d Plessis	EL5				500 000		500 000			
Hermanus	Sandbaai	Ward 07	Sandbaai: MV Upgrade/Replacement	R	K d Plessis	EL5				1 000 000		1 000 000			
Hermanus	Hawston	Ward 08	Hawston: LV Upgrade/Replacement	R	K d Plessis	EL5/6				1 000 000		1 000 000	1 000 000		1 000 000
Kleinmond	Kleinmond	Ward 09	Kleinmond: LV Network Upgrading	R	K d Plessis	EL5/6				2 000 000		2 000 000	1 500 000		1 500 000
Stanford	Stanford	Ward 11	New 70mm2 MV cable in Langmark Street	N	D Maree	EL5				600 000		600 000			
Gansbaai	Franskraal	Ward 02	Gansbaai Main SS Replace Oil Breakers	N	D Maree	EL6							2 700 000		2 700 000
Stanford	Stanford	Ward 11	Stanford 11kV Network Upgrade Dreyer Str	N	D Maree	INEP							1 200 000		1 200 000
Hermanus	Zwelihle	Ward 06	Eluxolweni Electrification -Part 1 (INEP)	N	K d Plessis	INEP	3 000 000		3 000 000		3 000 000	3 000 000			
Gansbaai	Eluxolweni	Ward 11	Eluxolweni Housing electrification	N	D Maree	Solar rebate		1 083 088	1 083 088						
Gansbaai	Masakhane	Ward 01	Masakhane Electrification (INEP)	N	D Low	INEP							2 000 000		2 000 000
<b>1300 - WATER</b>							<b>15 900 000</b>	<b>0</b>	<b>15 900 000</b>	<b>20 500 000</b>	<b>911 632</b>	<b>21 411 632</b>	<b>21 500 000</b>	<b>5 669 299</b>	<b>27 169 299</b>
Overstrand	Overstrand	Overstrand	Replacement of Overstrand water pipes	R	H Blignaut	EL4/5/6	8 400 000		8 400 000	13 200 000		13 200 000	10 000 000		10 000 000
Gansbaai	Bibos	Ward 11	Bardskeerdersbos Bulk water supply upgrade	N	H Blignaut	EL4	5 800 000		5 800 000						
Kleinmond	Rooi Els	Ward 10	New Bulk Water Reservoir -Rooi Els	N	H Blignaut	EL4	1 500 000		1 500 000						
Stanford	Stanford	Ward 11	Upgrading of "Die Oog" pump station	R	D Crawford	Surplus-R/C	200 000		200 000						
Hermanus	Hawston	Ward 08	Hawston: Bulk water upgrade for housing project	N	D Hendriks	MIG							3 611 000		3 611 000
Hermanus	Sandbaai	Ward 07	New Bulk Water Reservoir -Sandbaai	N	H Blignaut	EL5				7 300 000		7 300 000			
Hermanus	Mount Pleasant	Ward 04	Mt Pleasant/Zwelihle: Bulk water upgrade for housing project	N	D Hendriks	MIG					911 632	911 632			
Hermanus	Hawston	Ward 08	New Bulk Reservoir Hawston	N	H Blignaut	EL6							11 500 000		11 500 000
Hermanus	Hawston	Ward 08	New 500 mm dia Water pipe line	N	D Hendriks	MIG							2 058 299		2 058 299
<b>1400 - SEWERAGE</b>							<b>9 650 000</b>	<b>1 500 000</b>	<b>11 150 000</b>	<b>4 500 000</b>	<b>0</b>	<b>4 500 000</b>	<b>7 000 000</b>	<b>8 548 249</b>	<b>15 548 249</b>
Kleinmond	Kleinmond	Ward 09	Kleinmond and Gansbaai WWTW Sludge Handling	N	H Blignaut	EL4	4 575 000		4 575 000						
Overstrand	Overstrand	Overstrand	Opradering van Pompstasies	R	P Burger	EL4	2 000 000		2 000 000						
Stanford	Stanford	Ward 11	Sewer network extension -Stanford	N	H Blignaut	EL4/5	3 075 000		3 075 000	2 000 000		2 000 000			
Kleinmond	Kleinmond	Ward 09	Kleinmond Sewer Network Extension	N	H Blignaut	EL6							2 000 000		2 000 000
Kleinmond	Kleinmond	Ward 10	Hanklip Sewer Network Extension	N	H Blignaut	EL6							5 000 000		5 000 000
Gansbaai	Eluxolweni	Ward 11	Eluxolweni - Bulk sewerage for housing project	N	H Blignaut	MIG	1 500 000		1 500 000						
Stanford	Stanford	Ward 11	WWTW Upgrade - Stanford	R	H Blignaut	EL5/MIG				2 500 000		2 500 000	2 200 000		2 200 000
Hermanus	Hawston	Ward 08	Hawston: Bulk sewerage for housing project	N	D Hendriks	MIG								2 123 000	2 123 000
Hermanus	Hawston	Ward 08	Hawston -New 160 mm dia outfall sewer	N	D Hendriks	MIG								1 725 249	1 725 249
Hermanus	Hawston	Ward 08	Hawston -WWTW Upgrade	N	H Blignaut	MIG						0			2 500 000
<b>1400 - STORM WATER</b>							<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>800 000</b>	<b>800 000</b>
Gansbaai	Blompark	Ward 02	Blompark -Bulk stormwater upgrade for housing project	N	D Hendriks	MIG								800 000	800 000
<b>1500 - WASTE MANAGEMENT</b>							<b>1 400 000</b>	<b>0</b>	<b>1 400 000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Gansbaai	Gansbaai	Ward 02	Gansbaai Landfill New Cell	N	J van Taak	EL4	1 400 000		1 400 000						
<b>300 - VEHICLES</b>							<b>4 695 000</b>	<b>0</b>	<b>4 695 000</b>	<b>4 000 000</b>	<b>0</b>	<b>4 000 000</b>	<b>4 000 000</b>	<b>0</b>	<b>4 000 000</b>

# Appendix 7

WC032 Overstrand Supporting Table SA10 Funding measurement											
Description	MFMA section	Ref	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
			Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
<b>Funding measures</b>											
Cash/cash equivalents at the year end - R'000	18(1)b	1	126 699	84 147	63 158	88 050	89 421	89 421	97 547	127 071	171 875
Cash + investments at the yr end less applications - R'000	18(1)b	2	130 018	89 356	96 147	126 920	144 149	144 149	117 777	148 095	182 152
Cash year end/monthly employee/supplier payments	18(1)b	3	3.1	1.8	1.2	1.6	1.5	1.5	1.5	1.9	2.4
Surplus/(Deficit) excluding depreciation offsets, R'000	18(1)	4	(81 607)	10 899	(45 015)	(48 747)	(65 423)	(65 423)	(5 140)	(3 395)	3 679
Service charge rev % change + macro CPIIX target exclusive	18(1)a,(2)	5	N/A	2.3%	4.2%	3.8%	(5.3%)	(6.0%)	1.4%	1.7%	1.8%
Cash receipts % of Ratepayer & Other revenue:	18(1)a,(2)	6	104.9%	91.5%	103.1%	99.6%	99.8%	99.8%	101.2%	99.9%	99.3%
Debt impairment expense as a % of total billable revenue:	18(1)a,(2)	7	0.0%	1.2%	2.0%	0.0%	3.4%	3.4%	3.1%	2.9%	2.7%
Capital payments % of capital expenditure	18(1)c,(18)	8	100.0%	100.0%	100.0%	100.0%	104.4%	104.4%	100.0%	100.0%	100.0%
Borrowing receipts % of capital expenditure (excl. transfers)	18(1)c	9	101.4%	43.0%	55.3%	65.2%	65.5%	65.5%	75.8%	88.9%	100.0%
Grants % of Govt. legislated/gazetted allocations	18(1)a	10							100.0%	100.0%	100.0%
Current consumer debtors % change - mcr(decr)	18(1)a	11	N/A	16.5%	(2.1%)	(2.2%)	11.3%	0.0%	(11.2%)	(1.4%)	4.3%
Long term receivables % change - mcr(decr)	18(1)a	12	N/A	(33.7%)	(18.4%)	(16.1%)	0.0%	0.0%	(28.3%)	(26.0%)	(33.9%)
R&M % of Property Plant & Equipment	20(1)(v)	13	2.1%	3.7%	4.8%	5.3%	5.2%	5.2%	3.9%	4.1%	4.9%
Asset renewal % of capital budget	20(1)(v)	14	0.0%	2.9%	35.9%	28.8%	27.9%	27.9%	20.0%	22.2%	6.3%
<b>Total Operating Revenue</b>			597 482	703 871	736 376	784 474	810 351	810 351	895 035	973 222	1 028 409
<b>Total Operating Expenditure</b>			742 525	752 070	832 022	869 588	933 322	933 322	964 529	1 037 493	1 098 292
<b>Operating Performance Surplus/(Deficit)</b>			(145 043)	(48 199)	(95 646)	(85 115)	(122 971)	(122 971)	(69 494)	(64 271)	(69 883)
<b>Cash and Cash Equivalents (30 June 2012)</b>			126 699	84 147	63 158	88 050	89 421	89 421	97 547	127 071	171 875
<b>Revenue</b>											
% Increase in Total Operating Revenue				17.8%	4.6%	6.5%	3.3%	0.0%	10.5%	8.7%	5.7%
% Increase in Property Rates Revenue				10.9%	11.6%	10.3%	3.3%	0.0%	6.0%	6.5%	6.5%
% Increase in Electricity Revenue				10.1%	8.4%	15.5%	0.0%	0.0%	9.3%	9.7%	9.7%
% Increase in Property Rates & Services Charges				8.3%	10.2%	9.8%	0.7%	0.0%	7.4%	7.7%	7.8%
<b>Expenditure</b>											
% Increase in Total Operating Expenditure				1.3%	10.6%	4.5%	7.3%	0.0%	3.3%	7.6%	5.9%
% Increase in Employee Costs				11.4%	12.5%	7.5%	(1.4%)	0.0%	5.6%	4.7%	8.0%
% Increase in Electricity Bulk Purchases				14.5%	8.3%	7.9%	0.0%	0.0%	14.2%	14.2%	14.2%
Average Cost Per Budgeted Employee Position (Remuneration)					256036.1847	253913.1877			248375.8279		
Average Cost Per Councillor (Remuneration)					317300.44	340621.28			346979.92		
R&M % of PPE			2.1%	3.7%	4.8%	5.3%	5.2%	5.2%	3.9%	4.1%	4.9%
Asset Renewal and R&M as a % of PPE			2.0%	4.0%	6.0%	6.0%	6.0%	6.0%	4.0%	5.0%	5.0%
Debt Impairment % of Total Billable Revenue			0.0%	1.2%	2.0%	0.0%	3.4%	3.4%	3.1%	2.9%	2.7%
<b>Capital Revenue</b>											
Internally Funded & Other (R'000)			34 478	22 412	22 207	14 430	17 517	17 517	7 215	3 730	-
Borrowing (R'000)			73 964	67 544	70 634	46 923	48 770	48 770	32 346	30 000	30 000
Grant Funding and Other (R'000)			54 833	53 809	38 090	36 368	56 498	56 498	64 354	60 876	73 561
Internally Generated funds % of Non Grant Funding			31.8%	24.9%	23.9%	23.5%	26.4%	26.4%	18.2%	11.1%	0.0%
Borrowing % of Non Grant Funding			68.2%	75.1%	76.1%	76.5%	73.6%	73.6%	81.8%	88.9%	100.0%
Grant Funding % of Total Funding			33.6%	37.4%	29.1%	37.2%	46.0%	46.0%	61.9%	64.3%	71.0%
<b>Capital Expenditure</b>											
Total Capital Programme (R'000)			163 275	143 764	130 930	97 721	122 785	122 785	103 914	94 606	103 561
Asset Renewal			-	4 147	47 032	28 139	32 838	32 838	20 758	21 000	6 500
Asset Renewal % of Total Capital Expenditure			0.0%	2.9%	35.9%	28.8%	26.7%	26.7%	20.0%	22.2%	6.3%
<b>Cash</b>											
Cash Receipts % of Rate Payer & Other			104.9%	91.5%	103.1%	99.6%	99.8%	99.8%	101.2%	99.9%	99.3%
Cash Coverage Ratio			3.1	1.8	1.2	1.6	1.5	1.5	1.5	1.9	2.4
<b>Borrowing</b>											
Credit Rating (2009/10)									0		
Capital Charges to Operating			6.2%	6.8%	7.3%	7.6%	7.0%	7.0%	7.3%	7.1%	7.0%
Borrowing Receipts % of Capital Expenditure			101.4%	43.0%	55.3%	65.2%	65.5%	65.5%	75.8%	88.9%	100.0%
<b>Reserves</b>											
Surplus/(Deficit)			130 018	89 356	96 147	126 920	144 149	144 149	117 777	148 095	182 152
<b>Free Services</b>											
Free Basic Services as a % of Equitable Share			90.1%	88.7%	82.3%	80.2%	80.2%	80.2%	74.8%	72.4%	71.3%
Free Services as a % of Operating Revenue (excl. operational transfers)			14.8%	11.7%	11.2%	10.4%	10.0%	10.0%	11.0%	11.1%	11.1%
<b>High Level Outcome of Funding Compliance</b>											
Total Operating Revenue			597 482	703 871	736 376	784 474	810 351	810 351	895 035	973 222	1 028 409
Total Operating Expenditure			742 525	752 070	832 022	869 588	933 322	933 322	964 529	1 037 493	1 098 292
Surplus/(Deficit) Budgeted Operating Statement			(145 043)	(48 199)	(95 646)	(85 115)	(122 971)	(122 971)	(69 494)	(64 271)	(69 883)
Surplus/(Deficit) Considering Reserves and Cash Backing			130 018	89 356	96 147	126 920	144 149	144 149	117 777	148 095	182 152
<b>MTREF Funded (1) / Unfunded (0)</b>		15	1	1	1	1	1	1	1	1	1
<b>MTREF Funded ✓ / Unfunded ✗</b>		15	✓	✓	✓	✓	✓	✓	✓	✓	✓

## Appendix 8

44 Opperman Street

Mandalay

7785

The Chief Financial Officer

Overstrand Municipality

P O Box 20

Hermanus

7200

### **Request to use the Overstrand Municipality as object of study**

I am an MCom student at the GSB (UCT) in Cape Town and is in the process to complete my thesis by latest 30 March 2015 on external borrowing to fund capital infrastructure in your municipality. My research topic is: “**AN ASSESSMENT OF CAPITAL BUDGET PLANNING AND MUNICIPAL BORROWING AS FUNDING SOURCE IN THE OVERSTRAND MUNICIPALITY IN THE WESTERN CAPE.**” Information on the IDP, capital budget process, infrastructure spending and borrowing status of the Overstrand Municipality will be used in compliance with all relevant local government prescripts, in particular the Finance Management act (Act 56 of 2003) and relevant Treasury Regulations and policies of the Municipality.

Permission is therefore requested to conduct this study which will include interviews with at least six Senior (BTO) Officials involved with the IDP, Budget, Borrowing and Compliance Reporting to National Treasury and Provincial Treasury.

It would be appreciated that a letter of approval to conduct this research is forwarded to me. The Overstrand Municipality is also one of the 30 municipalities in the Western Cape I engage with on a regular basis in respect of cash flow, investments and borrowing.

Hope that you would assist me in this regard.

Regards

Donovan Alexander

## Appendix 9



Navrae: S. Reyneke-Naude  
Enquiries:

Lêerverwysing:  
File Reference:

Datum: 20 February 2015  
Date:

KANTOOR VAN DIE DIREKTEUR: FINANSIES / OFFICE  
OF THE DIRECTOR: FINANCE

Mr Donovan Alexander  
Cash & Liabilities Management  
Provincial Treasury  
Western Cape Government

E-mail: [Donovan.Alexander@westerncape.gov.za](mailto:Donovan.Alexander@westerncape.gov.za)

Dear Mr Alexander

**THESIS: ASSESSING MUNICIPAL BORROWING AND SPENDING ON CAPITAL INFRASTRUCTURE  
IN THE OVERSTRAND MUNICIPALITY IN THE WESTERN CAPE**

Your request to conduct your study which will include interviews with Senior Officials at Overstrand Municipality, dated 17 February 2015, has been approved.

Kindly liaise with the following officials:

Ms Rochelle Louw, [rlouw@overstrand.gov.za](mailto:rlouw@overstrand.gov.za), (Tel. No. 028 313 8071), for the IDP, and  
Mr Bernard King, [bking@overstrand.gov.za](mailto:bking@overstrand.gov.za), (Tel No. 028 313 8154 and [smuller@overstrand.gov.za](mailto:smuller@overstrand.gov.za)), for  
Budget, Borrowing and Financial Compliance Reporting to National Treasury and Provincial Treasury.

Yours sincerely

**SANTIE REYNEKE-NAUDE  
DIRECTOR FINANCE**

Tel: (028) 313-8043  
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E-mail: [cfo@overstrand.gov.za](mailto:cfo@overstrand.gov.za)

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