

## **10 MFMA Circular 42 - Funding Measurement**

### Introduction

Council is required by the MFMA to test the credibility of the budget before approval. The credibility of the budget is evaluated by testing of funding of the budget. The guidance about the credibility is captured in MFMA circular 42 as informed by MFMA in s18 on funding of expenditure. The s18 (1) of the MFMA requires that “an annual budget may only be funded from:

- (a) realistically anticipated revenues to be collected
- (b) cash-backed accumulated funds from previous years’ surpluses not committed for other purposes; and
- (c) borrowed funds, but only for the capital budget referred to in section 17(2)”.

Section 18(2) of the MFMA also requires that revenue projections in the budget must be realistic, taking into account—

- (a) projected revenue for the current year based on collection levels to date; and
- (b) actual revenue collected in previous financial years.

### ***Analysis - The test***

#### ***Financial year 2006 - 2007***

In the financial year 2006 - 2007 the Table 9 (c) (page 84) as attached showed that there is a short fall in the funding of the reserves and commitment. The document shows that Accumulated reserves and Capital commitment at R291,598,550 were only funded by Cash and investments of R196,264,702. The short fall in funding is R95,333,848.

#### ***Financial year 2007 - 2008***

In the compilation of the budget for 2007 - 2008, the MFMA Circular 42 test of the funding compliance was not undertaken. The MFMA circular 42 was issued by National Treasury only after March 2007. The implications of MFMA circular 42 were therefore planned to be incorporated in the MTREF budget 2008/09.

Currently as at March 2008 the cash and cash equivalent investments are recorded at R420,085,031. Uncommitted portion of the on demand investments is R158,486,304. It

is difficult to project the amount of expenditure that will be incurred from this uncommitted short term investments. The observed history is that there is always a run in at year end where a significant number of payments have to be made by the user departments.

The municipality still shows positive cash flows as reflected by the s71 of the MFMA report which is submitted to the Mayor and National Treasury.

As indicated in the audited financial statements of 2006/07 the long term liability of council is less than 8% of the total assets and no default on payment has taken place in the current financial year.

#### *Financial year 2008 - 2009*

We have been careful to attempt to incorporate the implications of MFMA circular 42 into account as required, albeit with little input information:

- ☺ Capital expenditure has been included in the budget on the basis that financing is certain and secured. The allocation of capital expenditure from internally generated sources has been conservative and based on the expenditure patterns of the municipality. In respect of the external capital expenditure funding, allocations are only budgeted when documentary proof of income is received.
- ☺ Revenue collection has been projected on the basis of the actual cash collected as at the end of January 2008. This is the best available information. The municipality is in the process of undertaking a number of initiatives aimed at improving the revenue collection rates. The initiatives include data cleansing aimed at ensuring that customer accounts are billed as correct as possible and raising of the payment levels.
- ☺ Provision for bad debts has been budgeted at R242 million in 2008/09 to cover the possible under collection. This we believe is prudent and is based on the currently available data.
- ☺ A reading of the approved accounting policies shows that Capitalization Reserve, Government Grants Reserve and Revaluation Reserve should be excluded from the determination of reserves to be fully funded. The reason is that they are secured by the assets for which the reserve was created in the first place.

- ☺ The problem of reserves that are not fully funded will continue to bedevil Emfuleni in the short to medium term due to competing priorities for the resources of the municipality to ensure service delivery. Thus setting aside cash to fund the reserves has to be carefully considered.
- ☺ Credibility of information for decision making purposes has been inadequate and the municipality is in the process of addressing this challenge. Credible historical information is being accumulated for this purpose.
- ☺ Expenditure estimation for budget purposes is the process of being realistic. Operational plans submitted by the departments assumes a zero based budgeting method. This is the second year of implementing the operational plans based on the strategic budget policy and therefore teething problems are still being ironed out. The operational plans as an example are aligned to the SDBIP and IDP.

#### Conclusion

- ☞ There are still budget credibility challenges relating to the funding of the budget. Based on the audited financial statements of 2006/07 the deficit in funding is R95,333,848; R173,894,450 (2007/08); R223,027,278 (2008/09); R284,077,078 (2009/10) and R396,356,460 (2010/11) as captured in reconciliation of reserves and commitments backed by cash/investments, Table 9( c) (page 84). This assumes the assumptions and projections made are correct.
- ☞ The budget credibility determination is mitigated by the fact that only capital expenditure of close to R164 million is funded from projected cash-backed accumulated funds from previous years' surpluses not committed for other purposes.
- ☞ In the short term, the municipality as at March is able to meet all of its financial obligations and has not defaulted where appropriate payment documentation has been submitted for payment
- ☞ A detailed long term financial plan will be undertaken. The process of the compilation of the plan will commence this year (08/09) and is envisaged to be completed in early 2008/2009 financial year.
- ☞ The result of the long term financial plan will be used to determine how much should council set aside as part of long term rehabilitation of cash backing of the accumulated surplus

- ☞ Once again, in the short term the financial viability of the municipality is not threatened from the possibility of not paying creditors as they become due. The long term position is not satisfactory as evidenced by Table 9( c) (page 85)
- ☞ Going forward this MTREF budget for 2008 - 2009 presents the basis for Council to address the credibility of the budget. As advised in the circular 42 of the MFMA, Emfuleni must provide National Treasury with an action plan with a time table containing details of what remedial action will be taken to address these short comings.

**Emfuleni Local Municipality  
MTREF Budget 2008/09**

SCHEDULE 1 REVENUE BY SOURCE	Preceding Year 2006/07		Current Year 2007/08			Medium Term Revenue and Expenditure Framework		
	Audited Actual R	Approved Budget R	Adjusted Budget R	Full Year Forecast R	Budget Year	Budget Year +1	Budget Year +2	
					2008/09	2009/10	2010/11	
					Budget R	Budget R	Budget R	
<u>Operating Revenue by Source</u>								
Property rates	-229,197,251	-239,675,914	-239,675,914	-245,655,709	-254,535,821	-271,844,256	-290,057,822	
Property rates - penalties imposed and collection charges	-52,094,850	-	-	-	-	-	-	
Service charges - electricity revenue from tariff billings	-521,177,803	-474,459,078	-499,178,718	-530,061,460	-570,883,163	-605,136,183	-641,439,712	
Service charges - water revenue from tariff billings	-285,441,546	-299,583,193	-232,699,369	-381,308,792	-408,000,406	-436,503,171	-466,998,265	
Service charges - sanitation revenue from tariff billings	-137,540,232	-152,814,855	-152,814,855	-149,217,064	-125,642,027	-186,531,832	-198,096,806	
Service charges - refuse removal from tariff billings	-66,634,512	-64,637,787	-64,637,787	-71,443,402	-72,115,500	-75,642,525	-79,424,651	
Service charges - other		-97,471,750	-102,328,194	-98,020,370	-112,624,127	-121,545,818	-126,616,140	
Regional Service Levies - turnover								
Regional Service Levies - remuneration								
Rental of facilities and equipment	-3,750,231	-4,959,827	-5,006,827	-8,290,266	-7,426,187	-7,889,458	-8,381,705	
Interest earned - external investments	-19,887,817	-12,000,000	-12,000,000	-23,539,928	-12,000,000	-12,000,000	-12,000,000	
Interest earned - outstanding debtors	-135,279,257	-47,455,971	-47,456,271	-55,715,992	-83,748,662	-88,957,964	-94,491,340	
Dividends received								
Fines	-11,942,588	-15,012,905	-15,012,905	-14,578,563	-18,016,250	-20,016,832	-21,017,540	
Licenses and permits	-2,822	-5,205	-5,205	-1,850	-5,569	-5,942	-6,364	
Income for agency services								
Government grants & subsidies	-284,768,380	-384,567,316	-464,539,427	-464,539,427	-494,355,066	-579,971,818	-686,516,305	
Public contributions & donated or contributed PPE								
Gain on disposal of property plant and equipment	-3,973,301	-90,000	-90,000	-	-	-	-	
Other Revenue	20,783,897	-26,943,274	-30,497,054	-96,633,332	-13,000,479	-13,626,386	-14,589,712	
<b>Total Revenue By Source</b>	<b>-1,730,906,693</b>	<b>-1,819,677,075</b>	<b>-1,865,942,526</b>	<b>-2,139,006,194</b>	<b>-2,172,353,256</b>	<b>-2,419,672,186</b>	<b>-2,639,636,360</b>	

**Emfuleni Local Municipality  
MTREF Budget 2008/09**

SCHEDULE 2  OPERATING EXPENDITURE BY VOTE	Preceding Year 2006/07		Current Year 2007/08			Medium Term Revenue and Expenditure Framework		
	Audited Actual R	Approved Budget R	Adjusted Budget R	Full Year Forecast R	Budget Year +1 2009/10		Budget Year +2 2010/11	
					Budget R	Budget R	Budget R	Budget R
Mayor	-226,153,225	173,322,784	224,412,611	38,867,731	88,293,859	94,268,562	100,294,356	
Municipal Manager	7,135,761	18,554,678	18,381,288	14,720,273	24,229,857	24,731,062	26,261,984	
Financial Services	244,582,585	264,457,140	198,926,043	190,017,137	272,453,534	267,776,359	307,947,598	
Corporate Services	33,387,338	38,180,875	38,293,477	31,143,315	55,239,512	60,381,724	65,247,903	
Engineering Services	712,429,238	690,860,698	739,534,643	599,661,937	1,024,073,398	1,200,465,546	1,324,408,995	
Metsi A Leikoa	734,473,142	412,258,685	409,271,966	282,934,713	459,845,733	516,457,385	541,982,559	
Development Planning	25,089,717	29,874,234	34,863,812	26,532,644	44,068,402	40,499,363	43,297,309	
Public Safety	142,931,576	192,167,981	202,258,686	146,701,073	204,148,960	215,092,185	230,195,657	
<b>OPERATING EXPENDITURE BY VOTE</b>	<b>1,673,876,131</b>	<b>1,819,677,075</b>	<b>1,865,942,526</b>	<b>1,330,578,824</b>	<b>2,172,353,256</b>	<b>2,419,672,186</b>	<b>2,639,636,360</b>	

**Efmuleni Local Municipality  
MTREF Budget 2008/09**

SCHEDULE 2(a) OPERATING EXPENDITURE BY GFS	Preceding Year 2006/07		Current Year 2007/08			Medium Term Revenue and Expenditure Framework		
	Audited Actual R	Approved Budget R	Adjusted Budget R	Full Year Forecast R	Budget Year +1 2009/10		Budget Year +2 2010/11	
					Budget R	Budget R	Budget R	Budget R
Executive & Council	-139,800,384	282,017,782	282,017,782	44,847,793	99,156,192	105,975,194	112,732,692	
Finance & Admin	314,484,145	372,003,290	439,899,397	208,251,054	321,241,254	320,681,170	364,521,621	
Planning & Development	25,089,717	2,556,420	2,178,178	11,498,844	49,904,778	45,041,545	48,046,875	
Health	29,833,850	25,235,000	28,540,517	25,369,262	37,721,643	39,825,491	42,611,090	
Community & Social Services	29,224,333	149,296	3,445,596	14,494,604	33,418,061	26,299,291	28,101,931	
Housing	10,840,450	5,006,027	3,006,027	15,033,800	17,013,121	18,250,856	19,507,296	
Public Safety	54,854,575	15,428,000	15,428,000	66,244,167	93,244,131	96,583,064	103,501,767	
Sport and Recreation	17,379,763	518,800	518,800	34,634,690	49,672,462	53,395,585	56,962,023	
Environmental Protection	8,451,868	5,205	5,479,392	2,338,547	5,983,800	6,441,079	6,892,798	
Waste Management	133,029,647	79,862,787	83,806,672	61,867,342	250,996,730	267,215,298	283,694,638	
Waste Water Management	-	-	-	18,148,515	21,766,658	25,911,570	27,663,229	
Road Transport	32,285,921	-	-	36,667,259	189,314,139	210,644,347	269,068,112	
Water	643,295,899	470,461,914	403,706,330	282,934,713	459,845,733	516,457,385	541,982,559	
Electricity	441,314,497	564,320,554	595,803,835	468,638,041	532,942,047	578,381,439	617,033,108	
Other	73,591,851	2,112,000	2,112,000	39,610,192	10,132,507	108,568,871	117,316,622	
<b>OPERATING EXPENDITURE BY VOTE</b>	<b>1,673,876,131</b>	<b>1,819,677,075</b>	<b>1,865,942,526</b>	<b>1,330,578,824</b>	<b>2,172,353,256</b>	<b>2,419,672,186</b>	<b>2,639,636,360</b>	

**Emfuleni Local Municipality  
MTREF Budget 2008/09**

SCHEDULE 3 CAPITAL EXPENDITURE BY VOTE	Preceding Year 2006/07		Current Year 2007/08			Medium Term Revenue and Expenditure Framework				
	Audited Actual R	Approved Budget R	Adjusted Budget R	Full Year Forecast R	Budget Year 2008/09		Budget Year +1 2009/10		Budget Year +2 2010/11	
					Budget R	Budget R	Budget R	Budget R	Budget R	Budget R
Mayor	101,825,580	-	-	-	43,000,000	-	-	-	-	-
Municipal Manager	2,952,792	500,000	500,000	-	14,100,000	-	-	-	-	-
Financial Services	5,348,192	6,460,000	6,460,000	31,419	13,550,000	-	-	-	-	-
Corporate Services	66,572	4,195,363	4,197,100	-	1,680,000	-	136,483	-	-	-
Engineering Services	35,700,576	63,784,212	152,639,429	18,713,377	64,442,000	-	163,014,801	-	175,242,217	-
Metsi A Lekoa	21,173,045	75,239,996	113,255,119	69,692,853	91,951,190	-	114,338,469	-	130,113,884	-
Development Planning	878,250	800,000	800,000	255,128	51,000,000	-	6,846,887	-	7,414,204	-
Public Safety	5,739,005	16,055,000	12,632,195	724,485	13,367,280	-	-	-	-	-
<b>CAPITAL EXPENDITURE BY VOTE</b>	<b>173,684,013</b>	<b>161,334,571</b>	<b>290,483,843</b>	<b>89,417,262</b>	<b>293,090,470</b>	<b>284,336,640</b>	<b>312,770,305</b>			

**Emfuleni Local Municipality  
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SCHEDULE 3(a) CAPITAL EXPENDITURE BY GFS	Preceding Year 2006/07		Current Year 2007/08			Medium Term Revenue and Expenditure Framework				
	Audited Actual R	Approved Budget R	Adjusted Budget R	Full Year Forecast R	Budget Year 2008/09		Budget Year +1 2009/10		Budget Year +2 2010/11	
					Budget R	Budget R	Budget R	Budget R	Budget R	Budget R
Executive & Council	101,825,580	-	-	-	-	56,500,000	-	-	-	-
Finance & Admin	5,348,192	4,955,363	10,657,100	31,419	136,483	15,230,000	136,483	-	-	-
Planning & Development	193,572	2,300,000	-	-	-	53,225,000	-	-	-	-
Health	518,083	1,320,000	19,950,000	255,128	-	2,820,000	-	-	-	-
Community & Social Services	952,736	2,810,000	4,920,060	601	-	7,614,280	2,286,087	-	-	-
Housing	-	-	2,810,000	-	-	-	-	-	-	-
Public Safety	4,428,477	6,730,000	-	-	-	3,583,000	-	-	-	7,414,204
Sport and Recreation	312,033	2,600,000	4,994,533	89,825	6,846,887	-	-	-	-	-
Environmental Protection	2,044,821	-	2,100,000	634,657	-	-	-	-	-	-
Waste Management	1,124,742	8,139,077	212,600	-	-	8,760,000	-	-	-	-
Waste Water Management	-	9,605,600	13,527,500	744,142	-	-	-	-	-	-
Road Transport/Stormwater	18,674,305	9,633,403	32,946,616	9,341,435	75,404,113	26,623,500	75,404,113	-	-	139,206,145
Water	27,411,173	75,239,997	6,636,000	1,259,918	114,338,469	91,951,190	114,338,469	-	-	130,113,884
Electricity	15,859,489	38,001,132	113,255,119	69,692,853	28,430,551	26,783,500	28,430,551	-	-	15,130,174
Other	50,119,732	-	78,474,315	7,367,283	-	-	-	-	-	-
<b>CAPITAL EXPENDITURE BY VOTE</b>	<b>228,812,935</b>	<b>161,334,572</b>	<b>290,483,843</b>	<b>89,417,262</b>	<b>284,336,640</b>	<b>293,090,470</b>	<b>284,336,640</b>	<b>312,770,305</b>	<b>312,770,305</b>	<b>312,770,305</b>

**Emfuleni Local Municipality  
MTREF Budget 2008/09**

SCHEDULE 4 CAPITAL FUNDING BY SOURCE	Preceding Year 2006/07 Audited Actual R	Current Year 2007/08			Medium Term Revenue and Expenditure Framework		
		Approved Budget R	Adjusted Budget R	Full Year Forecast R	Budget Year	Budget Year +1	Budget Year +2
					2008/09 Budget R	2009/10 Budget R	2010/11 Budget R
<b>National Government</b>							
Amounts allocated / gazetted for that year	127,839,992	93,898,000	95,053,953	95,053,953	166,848,000	177,575,000	177,575,000
Amounts carried over from previous years		61,960,234	61,960,234	61,960,234			
<b>Total Grants &amp; Subsidies - National Government</b>	<b>127,839,992</b>	<b>93,898,000</b>	<b>157,014,187</b>	<b>157,014,187</b>	<b>166,848,000</b>	<b>177,575,000</b>	<b>177,575,000</b>
<b>Provincial Government</b>							
Amounts allocated / gazetted for that year	-	-	-	-	5,721,000	5,721,000	5,721,000
Amounts carried over from previous years	-	-	-	-	-	-	-
<b>Total Grants &amp; Subsidies - Provincial Government</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,721,000</b>	<b>5,721,000</b>	<b>5,721,000</b>
<b>District Municipality</b>							
Amounts allocated for that year	-	-	-	-	-	-	-
Amounts carried over from previous years	-	-	-	-	-	-	-
<b>Total Grants &amp; Subsidies - District Municipalities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Government Grants &amp; Subsidies</b>	<b>127,839,992</b>	<b>93,898,000</b>	<b>157,014,187</b>	<b>157,014,187</b>	<b>172,569,000</b>	<b>183,296,000</b>	<b>183,296,000</b>
<b>Public Contributions &amp; Donations</b>							
Accumulated Surplus (Own Funds)	100,972,944	67,436,572	133,469,656	133,469,656	111,767,640	129,474,305	129,474,305
External Loans							
<b>TOTAL FUNDING OF CAPITAL EXPENDITURE<sup>3</sup></b>	<b>228,812,936</b>	<b>161,334,572</b>	<b>290,483,843</b>	<b>290,483,843</b>	<b>284,336,640</b>	<b>312,770,305</b>	<b>312,770,305</b>

**Emfuleni Local Municipality  
MTREF Budget 2008/09**

TABLE 1 REVENUE BY SOURCE	Preceding Year 2006/07		Current Year 2007/08			Medium Term Revenue and Expenditure Framework					
	Audited Actual R	Approved Budget R	Adjusted Budget R	Full Year Forecast R	Budget Year 2008/09		Budget Year +1 2009/10		Budget Year +2 2010/11		
					Budget R	Budget R	Budget R	Budget R	Budget R	Budget R	
<u>Revenue by Source</u>											
Property rates	-229,197,251	-239,675,914	-239,675,914	-245,655,709	-254,535,821	-271,844,256	-290,057,822				
Property rates - penalties imposed and collection charges	-52,094,850	-	-	-	-	-	-				
Service charges - electricity revenue from tariff billings	-521,177,803	-474,459,078	-499,178,718	-530,061,460	-570,883,163	-605,136,183	-641,439,712				
Service charges - water revenue from tariff billings	-285,441,546	-299,583,193	-232,699,369	-381,308,792	-408,000,406	-436,503,171	-466,998,265				
Service charges - sanitation revenue from tariff billings	-137,540,232	-152,814,855	-152,814,855	-149,217,064	-125,642,027	-186,531,832	-198,096,806				
Service charges - refuse removal from tariff billings	-66,634,512	-64,637,787	-64,637,787	-71,443,402	-72,115,500	-75,642,525	-79,424,651				
Service charges - other		-97,471,750	-102,328,194	-98,020,370	-112,624,127	-121,545,818	-126,616,140				
Regional Service Levies											
Rental of facilities and equipment	-3,750,231	-4,959,827	-5,006,827	-8,290,286	-7,426,187	-7,889,458	-8,381,705				
Interest earned - external investments	-19,887,817	-12,000,000	-12,000,000	-23,539,928	-12,000,000	-12,000,000	-12,000,000				
Interest earned - outstanding debtors	-135,279,257	-47,455,971	-47,456,271	-55,715,992	-83,748,662	-88,957,964	-94,491,340				
Fines	-11,942,588	-15,012,905	-15,012,905	-14,578,583	-18,016,250	-20,016,832	-21,017,540				
Licenses and permits	-2,822	-5,205	-5,205	-1,850	-5,569	-5,942	-6,364				
Government grants & subsidies	-284,768,380	-384,567,316	-464,539,427	-464,539,427	-494,355,066	-579,971,818	-686,516,305				
Gains on disposal of PPE	-3,973,301	-90,000	-90,000	-	-	-	-				
Other Revenue	20,783,897	-26,943,274	-30,497,054	-96,633,332	-13,000,479	-13,626,386	-14,589,712				
<b>Total Revenue By Source</b>	<b>-1,730,906,693</b>	<b>-1,819,677,075</b>	<b>-1,865,942,526</b>	<b>-2,139,006,194</b>	<b>-2,172,353,256</b>	<b>-2,419,672,186</b>	<b>-2,639,636,360</b>				

**Emfuleni Local Municipality  
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**Revenue by Major Source - T 1(a)**

