

Budget Speech by the Mayor of Ugu District Municipality, on the occasion of the presentation of the IDP and Budget for the financial year 2011/2012, at a Municipal Council Meeting held on the 21st April 2011, Port Shepstone.

Speaker of Council: Cllr Mondli Chiliza

Mayors of our Local Municipalities

Members of the Executive Committee

Honourable Councillors

People of Ugu

The management and all staff members

Distinguished guests

The Media

Ladies and Gentlemen

Mr Speaker, it is a great privilege and an honour to address this sitting of our Council on this important meeting – the presentation of the reviewed & revised Integrated Development Plan (IDP) and the Budget for the financial year 2011/2012. These strategic and policy documents are now presented for consideration and approval. Mr Speaker, in this municipality we see the budget as an instrument through which we manage and use public funds to improve the quality of life of the people we serve.

Local government elections

Mr Speaker, today we left with only 26 days before the local government elections. I wish to emphatically ask and thank the political parties represented in this Council for the orderly and tolerant manner they have so far campaigned for the upcoming elections. I am certain that on the 18th May we shall have once again, enjoy **Free and Fair Elections** in this district and the country. We have a collective responsibility of ensuring that the voters do cast their votes on the elections day. The elections are a constitutional right and major strengthening point for our national democracy. I wish you and the ANC all of the best during these elections. "God Bless the Elections, Nkosi Sikelela Olukhetho".

Our term of office

Mr Speaker, it true that we are also left with 25 days before end of our constitutional extended term of office.

I wish to extend my appreciation and that of the governing party the ANC for the hard work done during this term. We worked as a collective and we succeeded as a collective of public representatives. I salute you for the good work done, I request you to continue to serve the community of Ugu, your life is that service, we still have a huge development challenges ahead. Therefore, continue to serve. I find it necessary to highlight to you that during this term of office we built the Bhobhoyi Dam, Built the Ugu Sports & Leisure Centre, hosted the Algeria football team during the FIFA World Cup, and may more. These are just a few amongst many service provision highlights of our term. We have used public funds well during our term of office. The Auditor-General reported on strengths and weakness.

Mr Speaker, we worked hard and we provided services to our people. For that achievement and commitment to service, **I say Thank You**. For us to serve well, we must continue to **“Building Powerful Partnerships for growth and development”**. We must work together to build better communities. Yes, Working together we can build better communities.

2011/2012 Integrated Development Plan

Mr Speaker, the year 2011 is significant in many respects. Our IDPs' as a family of municipalities in the district are still significantly amongst the top in the province of KwaZulu-Natal. We wish to develop this attainment and be counted among the best the country. We worked well with the IDP Representative Forum as capable led by Cllr Ian Mavundla, for this we thankful to all of you.

We conducted community consultation meetings/road-shows during the month of November 2010 and again in March & April 2011. These meeting were meant to get community inputs on the draft IDP and Budget, this was achieved well. Mr Speaker, all those inputs were accurately recorded and considered. Hence, we are now ready to recommend the approval of this IDP by Council.

2011/2012 BUDGET

In terms of Chapter 57 of the Municipal Finance Management Act, Act no 56 of 2003, I wish to table before this house, our 2011/2012 budget for approval.

Mr Speaker, we see the budget as an instrument through which we manage public funds in a way that ensures that we improve the quality of life of our people. We see the budget as an instrument of development. We do this through planning, budget allocation, control and proper accounting for every cent entrusted to this municipality.

The total budget we are presenting here before this house amounts to **R1,061,449,923** with a **R 366,519,235 capital and a R 694,930,688 operational budget**. Indeed, this budget has been growing steadily, in line with our developmental mandate.

Mr Speaker, the people of Ugu gave this Council, alongside our local municipalities a clear mandate to deliver services, grow the economy and to help build a better life. I stand before you to present critical highlight our budget we have made since then and to outline our programme of action for 2011/2012 under the theme: **Working together to ensure effective & efficient service delivery.**

In our District address we stated clearly that our District was not immune to economic crisis hence we experienced job losses with some businesses closing down. We also mentioned that countrywide there some relief indicators that we may be recovering from the effects of the global economic crisis but we are cautioned that whatever relief, is envisaged, may be temporal.

Mr Speaker, we are however, encouraged by the efforts of the national government at reducing the effect of job losses, amongst other things, and we need to compliment such efforts through our programmes at the district level.

Water and Sanitation

Water continues to be our most essential core function. As we noted in the State of the District earlier this year, rural communities, as per government's mandate, will continue to have our dedicated attention, so that they too, can have access to clean, portable water.

From the Municipal Infrastructure Grant (MIG) allocation of R 239 million, the municipality has set aside R 197 million for water infrastructure programme. An additional R 27,8 million

from Equitable Share will be spent to ensure that we continue to provide our people with free basic water from the communal standpipes.

Also, from the National Government equitable share grant of R 193,4 million, we will spend R15,4 million towards the cost of supplying free basic metered water. An additional R48,6 million to subsidise the water tariff, this in the face of the difficult economic conditions facing our people.

Mr Speaker, we will also continue with our responsibility to look after our senior citizens, this as part of our African culture of respecting the elderly. The project is running very smooth.

An allocation of R 26,9 million has been made for rolling out the rural VIP toilets, a programme that will see us advancing with work to eradicate backlogs in Eziqoleni Municipality, amongst others.

Local Economic Development has been increasingly becoming our area of focus, for obvious and correct reasons. Difficult economic conditions demand that we look for innovative and creative ways of ensuring that people keep their jobs and that those who have lost their jobs are able to be part of a growing number of people who are self employed.

Our comprehensive LED strategy will continue to give us direction in this regard. We have therefore allocated R 6,3 million towards LED projects across the District.

Tourism

In compliance with the provisions of Section 87(3) Municipal Finance Management Act, we have included the budget of the Tourism Entity, which has been approved by the Board, as part of this budget we are tabling here today.

The total operating revenue for the year commencing in July 01 is R12, 8 million, with a corresponding expenditure of R12, 8 million.

As part of our ongoing commitment to growing our tourism industry, we have, as a district municipality, made an allocation of R 9,4 million towards tourism marketing and development.

We reiterate our commitment to the Board to execute its mandate and manage any operational challenges it may face. We will always be available to lend support because ours is about building a better district.

Relief for the poor

Difficult economic conditions means people will find it difficult to make ends meet. Within the provisions of our Indigent Support Policy, we will continue to provide those who qualify for indigent support with rebates.

In respect of sanitation, indigent customers will receive a full monthly subsidy on sanitation, both in respect of waterborne sewer and conservancy tanks, except for additional draw requests, which must be paid for separately by the customer

In respect of water, an allocation of R 16 million has been set aside to provide 12kl of water to deserving and qualifying households, whose gross monthly income is less than R2000.

Organizations that continue to work with our communities in self help projects will again this year benefit from the R315 000.00 grants in aid fund.

The belt tightening measures we introduced in the previous budgets have been slowly providing positive results. We have indeed ripped fruits from our going concern and cash flow challenges plan and we will continue to bring down the cost of doing our business and to this end, management will work towards realising savings in respect of our operational costs including amongst other things : overtime; transport costs; electricity and salaries and wages.

We will continue to provide our workforce with better and improved working conditions in order for them to best serve our people. We have completed our Oslo Beach and Workshop facelift and this is a moral boost for our employees.

We have made provision for the Ugu Disaster Management Centre; Phase I amounting to R16,5 million which will be funded through government grants.

Other critical budget allocations considered

We have also made allocation of R 3,6 million for the categorisation and job evaluation curves.

The budget we are presenting here today needs to be seen within the national imperative of accelerating service delivery and development. Our staff should be the critical drivers of this paradigm shift and to this end as the President of the Republic stated categorically that " 2010 is the Year of Action".

Special Programmes

We have been making good progress with regards to addressing the plight of our special interest groups within our district. The establishment of the new Ministry for Youth, Women Children and the Disabled presents us an opportunity of establishing strategic partnerships that yield positive results.

We will also pursue other funding avenues presented by the establishment of the National Youth Development Agency, so that we can ensure our youth is capacitated to the extent that it is able to establish viable and sustainable businesses, amongst other things.

Allocations in respect of the Special Programmes are as follows:

- Youth : R1 200 000
- Women : R550 000
- Elderly : R550 000
- HIV/AIDS : R550 000
- Rights of the Child : R200 000
- Crime Prevention Initiatives : R105 000
- Heritage : R450 000
- Disability : R320 000
- Ward Committees : R55 000
- Mayor's Bursary Fund : R84 000
- Farm Workers : R50 000
- Public Participation : R1,8 million
- Masakhane Campaign : R145 355

We have taken a conscious decision to do away with the Mayor's Fund in its current title. This is in line with the National Treasury Circular No. 51 which advised municipalities not to

use votes such as this. However, we have kept the policy principles and ensured that such are provided for through other votes within the Mayoralty. The IGR Act makes it mandatory on us to design practical mechanisms of ensuring that the institution of traditional leadership is supported and strengthened so that it adds value to the realisation of a better life for the rural people of our country and district.

In compliance with the National Treasury we have allocated R 3 million for the following services by the Mayors' Office and it is therefore divided as follows:

- 50% for the Indigent Burial Fund = R 1, 5 million
- 40 % for Education Support Fund = R 1,2 million
- 10% for Community initiatives = R 300 000.00

Tariff of Charges

During the recently held Budget Roadshows between March and April 2011, Ugu District Municipality consulted the community on the 2011/2012 draft budget where the inputs made by the communities were considered.

It is against this background that Ugu District Municipality finds it significantly necessary that the community served by this organisation is informed about the changes soon to be effected.

The municipality considered the Municipal Finance Management Act, Circular No. 54 which gives guidelines to municipalities on the preparation of 2011/2012 Municipal budgets. On Page 9 of the mentioned National Treasury, Circular No.54 with specific reference to clause 5.2 titled: Water tariffs must be cost-reflective, it reads as follows:

Municipalities are, therefore, encouraged to review the level and structure of their water tariffs carefully, with a view to ensuring:

- **Water tariffs are fully cost-effective – including the cost of maintenance and renewal of purification plants and water networks, and the cost of new infrastructure;**
- **Water tariffs are structured to protect basic levels of service; and**
- **Water tariffs are designed to encourage efficient and sustainable consumption (e.g through increasing block tariffs).**

The municipality considered all the input costs being used in producing quality potable water, the input costs include the costs of electricity, fuel, chemicals for treating raw water and waste water, labour costs, and many more. We wish to put the following facts for information purposes. The local Authority tariffs as per the tariff adjustment by NERSA

MYPD 2 which include the environmental levy impact will see a 25.34% annual average price increase which will swing into action from 1 July 2011.

Due to numerous multimillion rand projects at various implementation stages while others still remain in the pipeline, the demand of infrastructure improvement increases. Ugu serves water to larger parts of the district, therefore acquiring tons of electricity for water dispensation.

At present SAMWU and Imatu (the two labour unions in the local government sector) have placed a Wage/Salary demand of 18% for the 2011/2012 financial year. The negotiations on salary increases are only due to start on the 28/29 April 2011.

In view of all the above factors, last week, the Executive Committee (EXCO) of the Ugu District Municipality took a decision to retain the 9.9% tariff increase. The meeting also noted that if it was not for the decision of the municipality to continue with the subsidisation of the tariffs, the increases would have been much higher. The municipality has made a budget provision of R52.9 million to subsidise both water and sanitation tariffs for 2011/2012.

The 9.9% average increases are in terms of the Sanitation Charges Policy and are coupled with a generous capital injection programme.

Conclusion

Mr Speaker, Ugu District municipality will continue to strive towards higher and quality standards of service delivery. I think you will agree with me when I say that the roadmap is clear. This Budget is in line with our vision and the commitment that we have made to the citizens of this district.

We have demonstrated that the path to the attainment of better communities All remains within reach. Me Speaker, please let me reiterate that Ugu is more than ready to serve all our people.

Together working to ensure effective and efficient service delivery.

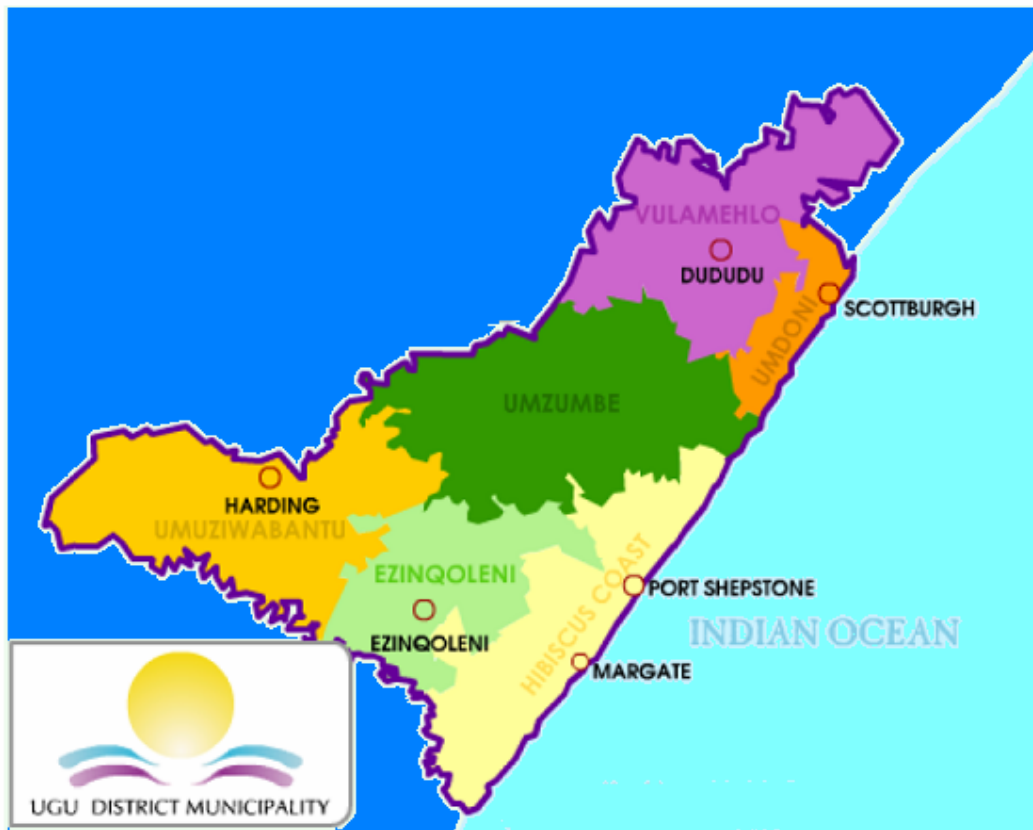
I thank you,

Cllr SB Cele

Mayor

EXECUTIVE SUMMARY

1. BACKGROUND



Source: <http://www.ugu.org.za/council/municipalities.asp>

Ugu District municipality consists of eighty one (81) municipal wards in its (06) Local Municipalities, namely, Hibiscus Coast, Umzambe, Vulamehlo, Umdoni, Ezingoleni and Umuziwabantu. It is 5866km² in extent and is home to over 700,000 residents with 84% population residing in rural areas (Household Survey Data, Statistics SA (2007)). About 49% of the population is aged between 15 and 40 years, which calls for government interventions and support relating to infrastructure for human development such as education, health and employment (State of the population of KZN (2009)).

In total Ugu had over 159 000 households – with Hibiscus Coast and Umzambe having the largest number of households of all the local municipalities – 52 900 and 42 000 respectively. The average household size in Ugu is 4.6 persons per household. (State of the Population of KZN (2009). There is a rising HIV sero prevalence rate from 37% to 40.6%, which is the 2nd highest in the 11 districts of the province.

The unemployment rate is estimates at 23% and 75% of the households earn less than R1, 600 a month. Most of the rural households rely solely on state grants. Ugu was identified during President Thabo Mbeki's State of the Nation address in 2001 as a poverty nodal area that would be targeted for rural development programs.

Ugu's main function is Water and Sanitation as well as the maintenance of water infrastructure. As at the end of January 2010 Ugu had a 34% backlog in water provision and the revised sanitation backlog was estimated at 37% being 56,765 households.

MEDIUM TERM STRATEGIC PRIORITIES OF THE DISTRICT (2009-2014)

STRATEGIC PRIORITY NO.	STRATEGIC PRIORITY
1	Speeding up growth and transforming the economy to create decent work and sustainable livelihoods
2	Massive programme to build economic and social infrastructure
3	Comprehensive rural development strategy linked to land and agrarian reform and food security
4	Strengthen the skills and human resource base
5	Improve the health profile of all South Africans
6	Intensify the fight against crime and corruption
7	Build cohesive, caring and sustainable communities
8	Pursuing African advancement and enhanced international cooperation
9	Sustainable Resource Management and use
10	Building a developmental state including improvement of public services and strengthening democratic institutions

NATIONAL OUTCOMES

In January 2010, Cabinet adopted the 12 outcomes within which to frame public-service delivery priorities and targets. The following table is a summary of outcomes/priorities which were considered in the compilation of the 2011/2012 Annual Budget.

NATIONAL OUTCOME/OUTPUT	ROLE OF LOCAL GOVERNMENT
1. Improve the quality of basic education	- Facilitate the eradication of municipal service backlogs in schools by extending appropriate bulk infrastructure and installing connections.
2. Improve Health and life expectancy	- Improve community health by providing clean water and sanitation. - TB and HIV and AIDS awareness, prevention and treatment programmes.
3. All people in South Africa protected and feel safe	- Improving collaborations with the SAPS and ensuring rapid response to crime. - Reduce level of crime in the municipality.
4. Decent employment through inclusive economic growth	- Ensure proper implementation of the EPWP. - Design service level processes to be labour-intensive. - Eliminate corruption in procurement processes to ensure value for money
5. A skilled and capable workforce to support inclusive growth	- Develop and extend intern and work experience programmes. - Link procurement to skills development initiatives.
6. An efficient, competitive and responsive economic infrastructure network	- Ring-fence water and electricity functions so as to facilitate cost-reflecting pricing of these services. - Maintain and expand water purification and waste water treatment works in line with growing demand.
7. Vibrant, equitable and sustainable rural communities and food security	- Facilitate the development of local markets for agricultural produce. - Ensure effective spending of grants for funding extensions of access to basic services. - Improve transport links with urban centres to ensure economic integration.
8. Sustainable human settlements and improved quality of household life	- Ensure capital budgets are appropriately prioritised to maintain existing services and extend services.
9. A response and accountable, effective and efficient local	- Ensure ward committees are representative and fully involved in community consultation processes around IDP, Budget and other

government system	<p>strategic service delivery issues.</p> <ul style="list-style-type: none"> - Improve municipal financial administrative capacity by implementing competency norms and standards and acting against incompetence and corruption.
10. Protection and enhancement of environmental assets and natural resources	<ul style="list-style-type: none"> - Develop and implement water management plans to reduce water losses. - Ensure effective maintenance and rehabilitation of infrastructure. - Run water saving awareness campaigns - Ensure development does not take place on wetlands.
11. A better South Africa, a better and safer Africa and World	<ul style="list-style-type: none"> - Create an enabling environment for investment. - Ensure basic infrastructure is in place and properly maintained.
12. A development-orientated public service and inclusive citizenship	<ul style="list-style-type: none"> - Continue to develop performance monitoring and management systems. - Comply with legal financial reporting requirements. - Review municipal expenditure to eliminate wastage. - Ensure councils behave in ways to restore community trust in local government.

STATE OF THE NATION ADDRESS

In his 2011, State of the Nation Address, the President signalled that government is primarily concerned about the continuing high levels of unemployment and poverty in the country. 2011 has since been declared a '*year of job creation*'.

In drafting the 2011/2012 Council has considered the municipality's contribution to job creation by:

1. Ensuring that service delivery and capital projects are labour intensive.
2. Ensuring that service providers use labour intensive approaches.
3. Supporting labour intensive LED projects.
4. Participating fully in the EPWP and
5. Implementing intern programmes to provide young people with on-the-job training.

The following priorities were identified as the 5 priorities for Government which have been aligned to the 2012 IDP review and the Annual Budget.

1. Education
2. Health
3. Rural Development
4. Crime
5. Creating decent work

2011 BUDGET SPEECH

The Minister of finance in his speech set out a path for all public servants to follow in the long walk to economic freedom. In his words this path is neither easy nor uncontested since hard work lie and difficult choices lie ahead.

Ugu District Municipality also aspires to this economic freedom and the people of Ugu also aspire to these freedoms:-

1. Freedom from poverty
2. Freedom from need
3. Freedom to exercise talents and thrive as individuals.

4. Freedom to work together as communities, as organised social formations, as business enterprises, as a proud and forward looking nation.

In drafting the 2011/2012 Budget, the administration has set out to lead the communities on this long journey to economic freedom. It recognises the challenges that lie ahead and there is full commitment to doing things differently and to working smarter and harder to ensure that all resources allocated are effectively utilised in the realisation of their dreams of the Ugu community at large.

OVERVIEW OF THE 2011/2012 BUDGET PROCESS

Schedule of key deadlines

The Budget Process began when the Mayor tabled the schedule of key deadlines for the review of the IDP as well as the preparation and approval of the 2011/12 Budget on the 26th August 2010. The plan was shared with all role players to ensure that there is a common understanding and commitment by all stakeholders.

Budget Instructions and templates were sent out to all Head of Departments (HOD's) on the 22nd of December 2010. These were aimed at giving guidance to the HODs on the available resources and also highlighted some challenges which were currently experienced in the implementation of the current budget. Compilation began in January, after which a number of internal workshops were held with HOD's and Section Managers to examine budget requests and also discuss the proposed changes to the budget related policies.

Stakeholder consultative process

The Draft Budget was submitted to the Top Management, Finance Portfolio / Budget Steering Committee, the Executive Committee and approved by Council on February 2010 for public consultation.

A total of nineteen (19) IDP, Budget and PMS Roadshows were held jointly with the six local municipalities. Public Comments were discussed at the Joint Exco and Finance Committee meeting of 14 April 2011, where recommendations for changes in the Draft Budget were received and effected before tabling Council to Council for Approval. The Final Draft Budget 2011/2012 was then tabled by the Mayor to Council on 21st April 2012 where it was approved for implementation in the 2011/2012 financial year.

Summary of IDP/Budget & PMS Consultative Meetings per Local Municipality

MUNICIPALITY	DATES	NO. OF MEETINGS
Ezinqoleni	28, 29 & 30 March 2011	03
Hibiscus Coast	12, 13 & 14 April 2011	03
Umzumbe	09, 10, 11 & 14 March 2011	04
Umdoni	16, & 17 March 2011 (two sessions each)	04
Vulamehlo	04 & 05 April 2011	02
Umuziwabantu	11 & 12 April 2011 (two sessions)	03
	TOTAL	19

Annual Review of policies

The administration annually reviews all budget related policies during the budget process and these are tabled to Council for Approval with the Annual Budget. For the 2011/2012 budget year, reviewed policies will only be submitted to the new council for approval. The policies approved with the Draft Budget by the current Council carry the same contents as those approved with the 2011 budget.

ALIGNMENT OF INTEGRATED DEVELOPMENT PLAN AND BUDGET

Over and above compliance with the MFMA and other legislation, the aim of the Budget is to enable the municipality to achieve its vision and mission through the implementation of all projects and programmes as contained in its Integrated Development Plan. The Integrated Development Plan (IDP) formed basis of the prioritisation of resources as it contains programmed informed by the community needs. All resources have been allocated to priority projects as identified in the IDP.

CHALLENGES IN THE BUDGET 2011/2012

In terms of Section 16 of the MFMA, Council must approve the annual budget before the start of the financial year. The Local Government elections to be held on the 18th May meant that the municipality had to carefully consider the time schedule for the public consultation meetings and approval of the budget to ensure that the budget is approved before the start of the financial year.

The dates for the public consultation meetings were revised to ensure that they do not coincide with the election campaigning period.

The dates for the tabling of the Draft Budget were revised from the 31st March to the 24th of February 2011. The dates for the final approval were revised from 26 May 2011 to the 21st April 2011, to ensure that the current Council approve annual budget before the election date. This arrangement will ensure that the municipality continues to function effectively should there be delays in the declaration of election results (in case they are legally contested) or if the Local Municipalities delay constituting their Councils which will further delay the sitting of the first Council of the District.

The election period puts municipalities on a risk of adopting budgets with unrealistically low tariff increases which may hamper the functioning of the municipality during the year. The MFMA limits the scope of the Adjustments budget by stating that the tariffs may not be increased during the financial year.

FINANCIAL IMPLICATIONS OF THE DERMACATION PROCESS

The National Treasury allocates grants and subsidies based on a formula which takes into account the number of households and people in the municipality. Changes to boundaries of the municipality therefore result in changes in its share of the Equitable Share and other conditional grants based on the population size.

For 2011/2012 Budget year, Ugu District Municipality gazetted allocations were in line with the 2011 indicatives and these were used for the 2011/2012 Draft Budget.

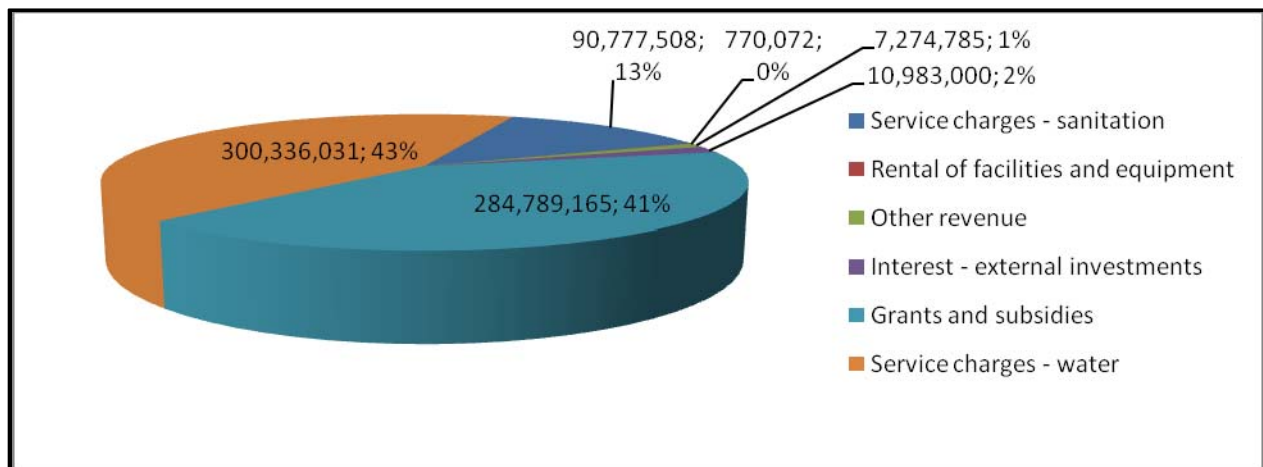
BUDGET ASSUMPTIONS

OPERATING REVENUE

The following are Ugu's main revenue sources:-

1. Service charges for water
2. Service charges for sanitation
3. Grants and subsidies
4. Interest on external investments
5. Rental of facilities and equipment, and
6. Other income

The graph below shows a % contribution of each of these sources to total revenue for the 2011/2012 financial year.



Service charges for water and sanitation

The cost of water and sanitation is determined by three factors:

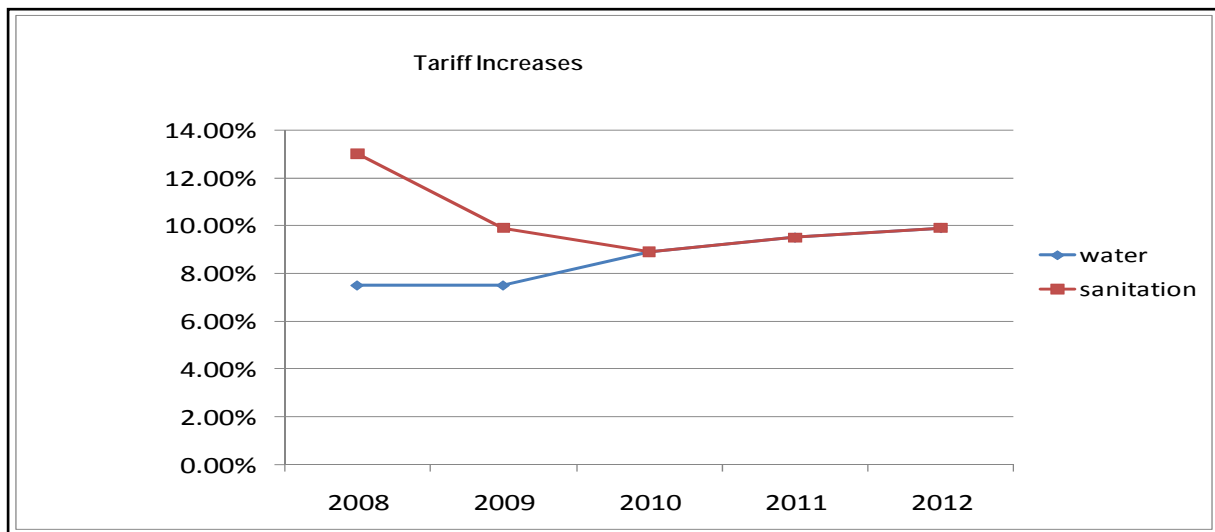
1. The cost of bulk water
2. The capital cost of infrastructure, and
3. The cost of operating and maintaining the infrastructure

For the 2010/2011 Budget, Council approved a **9, 9%** (8, 2% in 2011) increase for water and sanitation charges effective from 01 July 2011 to 30 June 2012. The 9, 9 % increase was determined after careful consideration of the following:-

1. the wage agreement with unions
2. increases in electricity costs
3. increases in the cost of bulk water
4. Realistically anticipated sales volumes

5. local economic conditions and affordability level
6. the need to ensure sustainability in the provision of services

The graph below shows increases in water and sanitation tariffs over the past 3 years up to 2012.



See, *Annexure A: Tariffs of Charges* – gives a detailed list of all Council tariffs and the proposed increases.

Free and Subsidised Services

Distribution of water is done via more than 38 000 private household connections and over 4 500 communal stand taps which mainly service the inland rural areas. All households that have access to water receive 6kl a month as *free basic water* which has necessitated an allocation of R15,491,909 to be made in the 2011/12 Annual Budget to be funded from *Equitable Share*. A further R27, 819,571 allocation has been made from *Equitable Share* for water provided through *standpipes*.

A total of 5196 beneficiaries were recorded on the **Indigent Register** as at 30 April 2010. The municipality has set aside R16, 000,000 from *Equitable Share* for Indigent Support. Indigent households will continue to receive 12kl free every month for the 2011/2012 financial year.

Interest on Investments

The municipality's total investments were R56m as at the end of February 2011. The budgeted interest of R10, 98m is based on the expected average interest return of 13%p.a and a further R50m being invested during the year as the cash flow position of the municipality improves.

See, *Supporting Table SA16 – Investment particulars by maturity*

Other Revenue

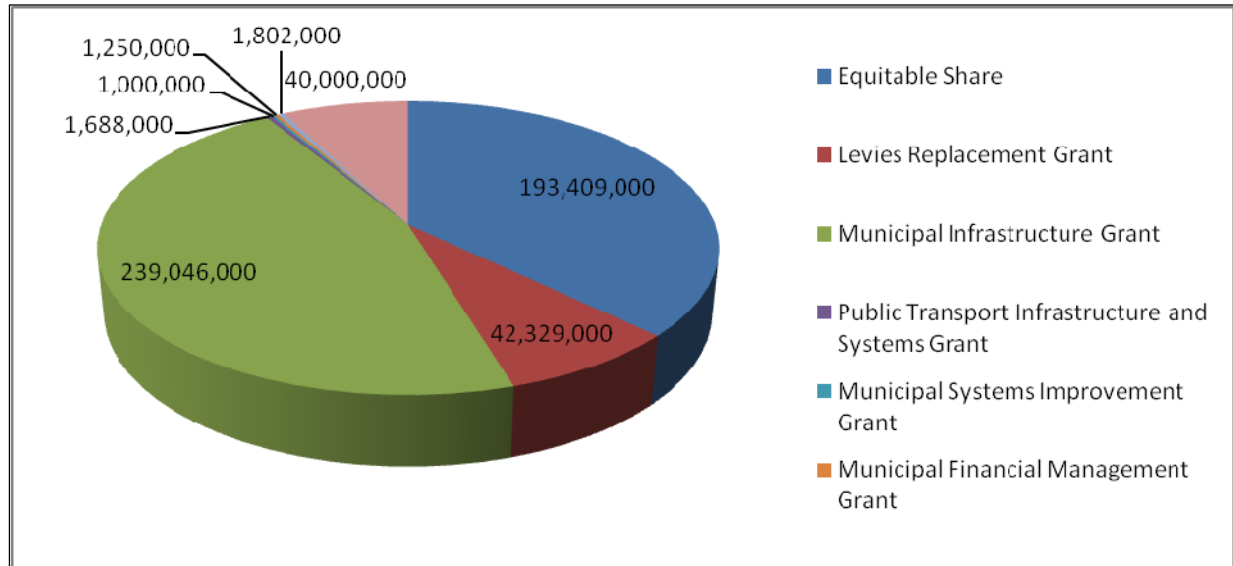
Other revenue consists of Plans Approval fees, disconnection and reconnection fees, new connection fees, tender deposits, rates certificate fees, rental of facilities and other sundry services provided

See, *Annexure A: Tariffs of Charges - detailed list of all council tariffs and the proposed increases.*

Grants and subsidies

The municipality will receive a total of R520, 523,000 from the National Equitable distribution of revenues in the 2011/2012 financial year. This consists of both operating and capital grants.

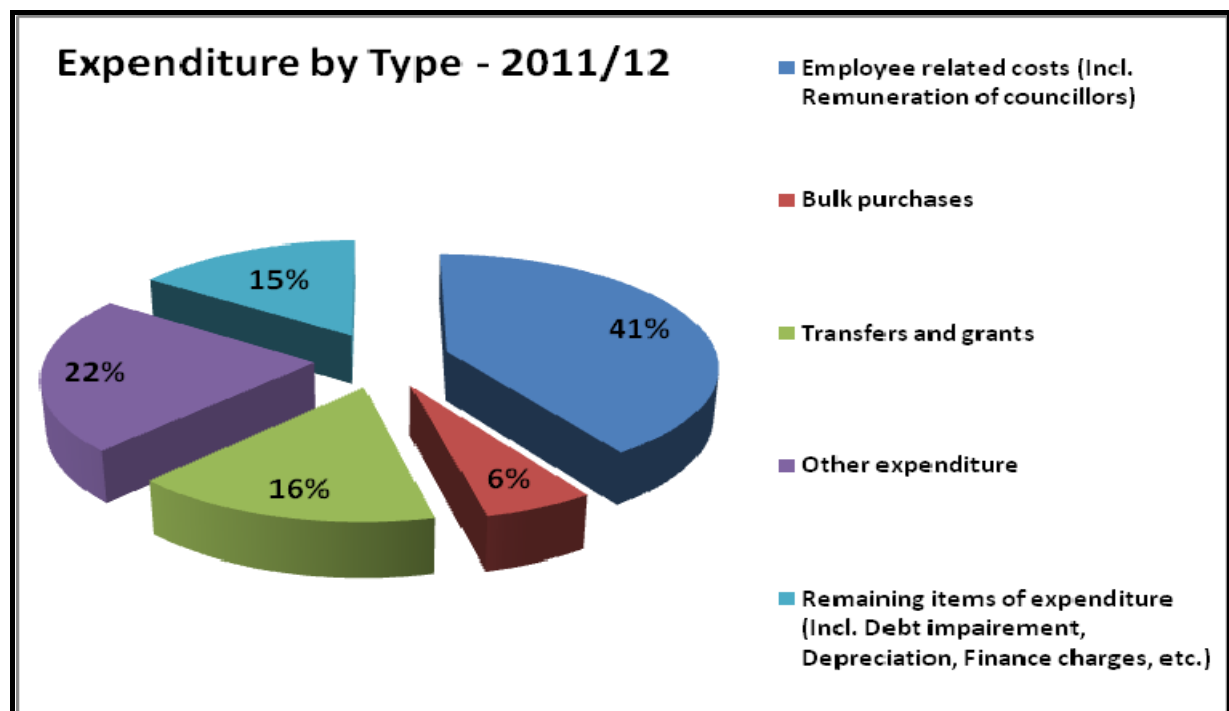
The gazetted transfers for 2011/2012 are summarised in the chart below.



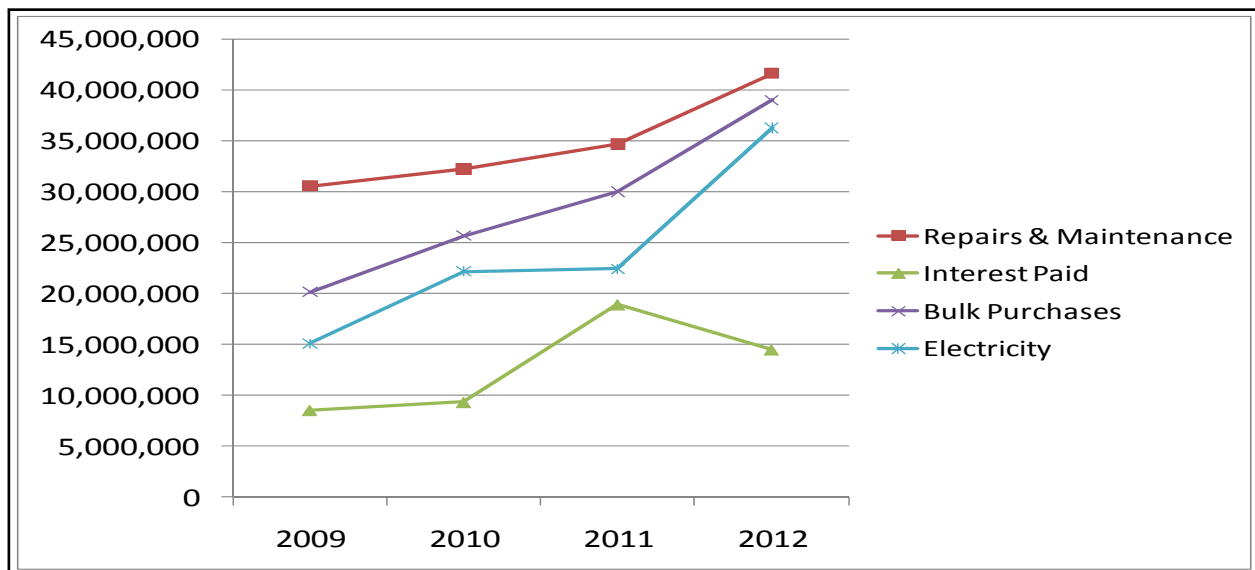
OPERATING EXPENDITURE

The operating expenditure budget has been prepared in line with the municipalities 30 Point Plan as adopted by the Executive Committee during the implementation of the 2010/11 budget, which contains strategies of curbing administrative expenditure to improve the cash flow position of the municipality.

The graph below shows operating expenditure by type.

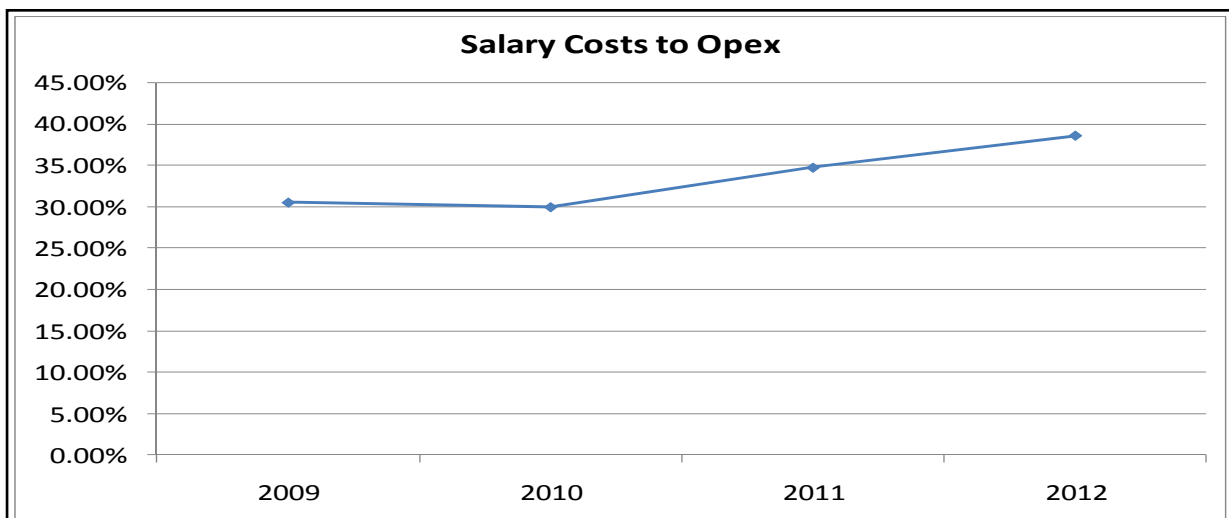


The graph below shows a year to year increase on the municipality's highest cost drivers from 2009 up to 2012 financial years.



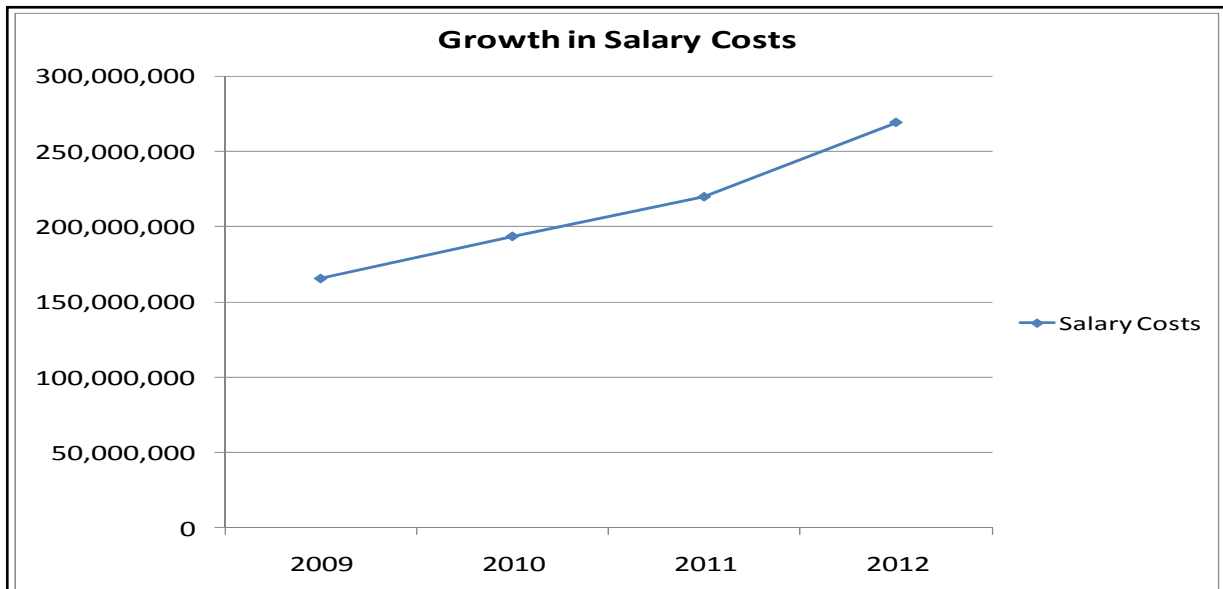
Salaries & Allowances

The total salary cost as a % of total direct operating expenditure is 38,6% in 2011/2012. The graph below shows an increase from 2009 financial year.

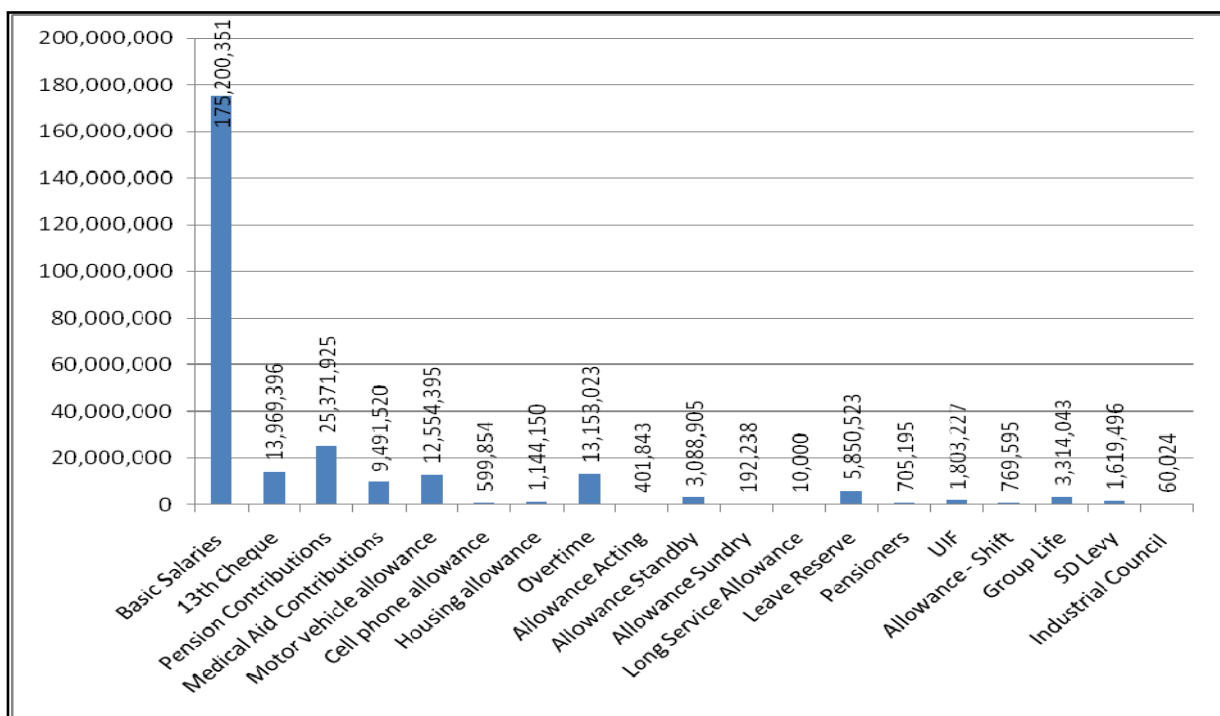


Provision has been made for a 6, 08% increase in line with the South African Local Government Bargaining Council salary and wage collective agreement. An allocation of R19, 321,940 has been made for overtime and a R3, 61 million provisions for the implementation of the job evaluation and categorisation outcomes. A provision of 6, 08% increase has been made in the 2010/11 Budget for increases in Councillor Allowances.

The graph below shows an increase in total salary costs from 2009 up to 2012 financial years.



The graph below shows allocations for each category of allowances and social contributions for employees.



Depreciation and Asset Impairment

Depreciation and amortisation has been calculated based on the straight line method and the useful life of the assets as per the approved Asset Management Policy. It amounts to R47, 8m in 2011/2012.

Bulk Water Purchases

The water supplied by the District is derived from dams, rivers, ground water and bulk purchases from eThekweni / Umgeni Water. The northern coastal strip (i.e. Craighburn, Umzinto and Umtwalume) is

serviced by potable water purchased in bulk from Umgeni Water. The cost per kiloliter is R4, 18 which necessitated an allocation of R39 million for the 2011/2012 financial year.

CAPITAL EXPENDITURE

Zero-based budgeting method has been used in compiling the capital budget. Council has approved to total capital budget of R366, 519,235 to be used in 2011/2012 which is a 16, 1% increase from the adjusted capital budget of R315, 702,681 in 2010/2011. The projects to be implemented in 2011/2012 include amongst others:

Umzimkulu Augmentation – R48,3 m

Bhobhoyi to Port Shepstone Upgrade – R10m

KwaXolo Water Supply – R10m

Uvongo Waterborne Sanitation – R10m

Greater Vulamehlo Water Scheme – R27m

Harding Waterborne Sanitation – R10m

Mains Upgrade Ageing Pipes – R15m

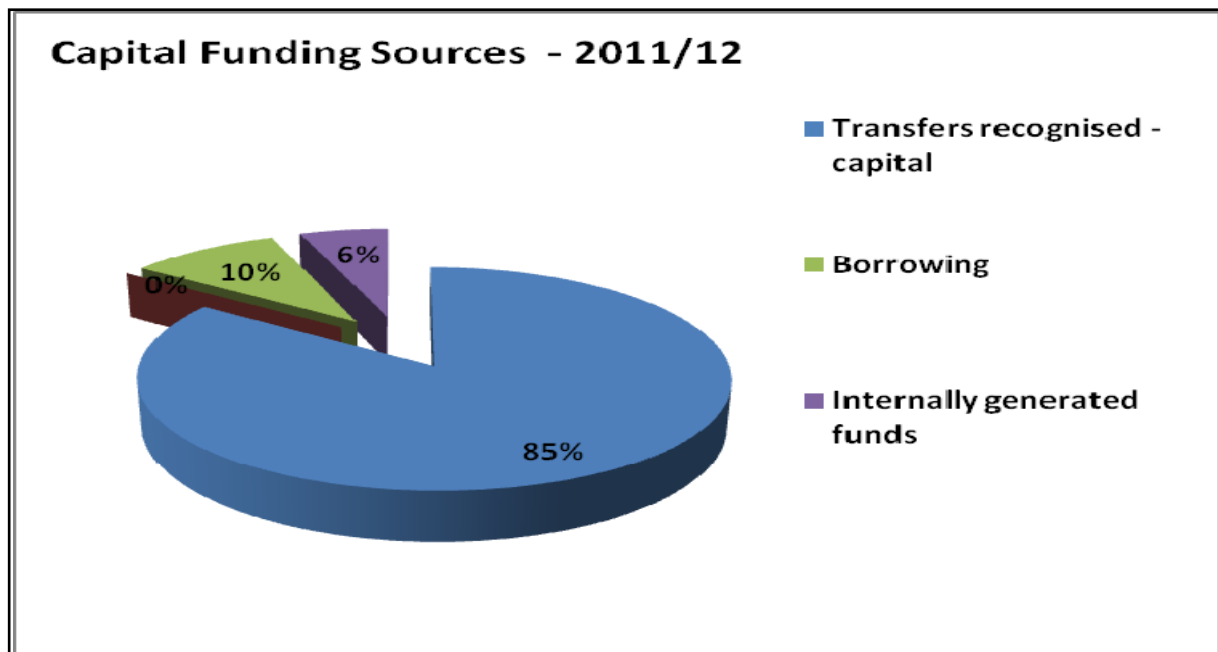
Council has embarked on a number of initiatives in order to fast track capital projects. These include:-

- Explore leveraging MIG funding using private sector funds (loans) to bring projects forward, i.e. bridge funding;
- Target quick wins to eradicate backlog in selected municipalities;
- Masakhane pipe extension programme-voluntary labour by communities to undertake extension of mains in areas with spare capacity;
- Increase capacity of the Project Management Unit (PMU);
- Mobilising additional funding from DWAF to address bulk systems;
- Strategic partnerships with other water utilities, e.g. Umngeni water.
- BOT options are also being considered.

The following sources will be used to fund capital expenditure in the 2011/2012 financial year.

1. Grants and subsidies
2. Borrowings
3. Internal funds

The graph below shows a contribution of each of these sources to the financing of total capital budget.



UGU SOUTH COAST TOURISM ENTITY

Ugu established the Ugu South Coast Tourism Entity. This Board is entrusted with delivering innovative and cost effective strategies that will ensure a growing, quality tourism economy that creates sustainable jobs and alleviates poverty. Its core functions are Tourism Development and Tourism Marketing, for which Ugu District Municipality has allocated R4, 200,000 and R5, 250,000 respectively. Other Local Municipalities also make grant allocations to the Entity.

The Board has adopted to a total budget of R12, 979,774 for the 2011/2012 financial year which is made up of an operating budget of R12, 826,774 and a capital budget of R150, 000.

SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN

The Service Delivery and Budget Implementation plan is currently being reviewed to include changes made to the Draft Budget after the consultation process, and its Draft will be submitted to the Mayor 14 days from the date of the approval of the Budget.

DRINKING WATER QUALITY AND WASTE WATER MANAGEMENT

Water Service Authority: Ugu District Municipality
Water Service Provider: Ugu District Municipality (*with bulk purchases from Umgeni Water and eThekweni Sisonke District Metro in the northern part of the district. Bulk water is also sold to Municipality*)

Blue Drop Ratings

The municipality water supply systems were awarded a 93.5% score in May 2009, which means that it has very good Drinking Water Quality Management (DWQM) and effectively manages the quality of drinking water in its supply zone. Applications have been for the year 2010 and we are awaiting the results from DWA. With respect to the 2009 classification the following are the challenges that led to the non - award of the Blue Drop Classification

Criteria	Requirement	Management Response
Process Controlling	Registration of process controllers (Operators)	Applications for all operators were submitted to DWAF in Feb 2009 and DWA is still working on them. It is anticipated that these will be available by the next review
Credibility of Sample Analysis	Proof that analyses results are used to improve process controlling	The analysis failed to capture that the municipality has an Incident Management Protocol and Register that are used to address and record all deviations and improvements. In addition, the monthly submissions to DWAF have functionality of reporting on what has been done to attend to deviations, which has always been done consistently. It is hoped this will be addressed by the next review.

As part of the Drinking Water Quality Management initiatives, the municipality developed and adopted a **Water Safety Plan** in July 2009, which has guided the management of water services in general. As part of the Safety Plan the following are some of the activities that are already in progress or due for implementation within the next three years;

- Online drinking water monitoring for all water treatment plants and the associated reporting at the operation, tactical and strategic levels
- Establishment of a Control Centre that will drive operations and assist in moving from reactive maintenance to proactive maintenance and to be the key business reporting centre
- Establishment of ISO based quality management systems in a phased manner for water and sanitation services
- Establishing an Asset Management Plan that will drive all maintenance work within the municipality
- Contracting professional and independent persons to undertake process audits for all treatment plants
- Establishing a treatment/process section within the municipality to ensure that the right level of attention and staffing is in place for all treatment plants
- Establishment of a scarce skills allowance to be able to attract and retain suitably qualified personnel

Green Drop Rating

Applications have also been made for all treatment systems within the district and are awaiting the classification results.

Challenges in the management of drinking water and sewerage:

The following are some of the challenges faced in the provision of water and sanitation services in the district and the proposed solution for each challenge.

Issue	Challenge	Recommendation
Pipeline Replacement Program	Majority of pipelines in the urban areas are old AC pipes. Current budget provisions of R10m/yr are inadequate	Allocated funding for a massive AC renewal program and also apply for grant funding
Non Revenue Water Programme	Budget provisions limit the current program to part of the network at a time which is inadequate.	Seek grant funding to fast track the implementation of the NRW Programmes
Supply and Treatment Constraints	A number of WTW and WWTW are functioning at capacity and certain areas do not have the required 48hr storage	Update Water and Sanitation Master Plans; Upgrade of WTW and WWTW and implementation of Phase 2 of the South Coast Bulk Pipeline
Supply to higher lying areas and consumers along bulk mains	Majority of higher lying areas are connected on bulk mains which do not offer the necessary buffer for maintenance purposes and adequate pressures during high demand periods	Planning and design of supply alternatives to higher lying areas such as elevated towers and network modifications
Telemetry	The telemetry system outdated	SCADA System Review and Master Planning in progress
Rural WTW monitoring	There are currently no staff to man remote rural plants	Online Drinking Water Quality Monitoring and Automation Project in progress
Skills Development	The majority of plumbing staff is not suitable qualified while others are illiterate. This has a great effect on operations.	Conclude the RPL process and establish routine training program for all staff
Utility Mapping	The majority of the pipelines and other drawings for the municipality are old and outdated and in certain places are none existent.	Develop a GIS Strategy to influence utility mapping as a whole and then implement map update and utility books for the different operational areas
Dedicated maintenance crews	With current staffing levels most of the work done is reactive in nature with limited proactive maintenance	Implementation of Shift System and build maintenance crews from the day teams

2011/12 budget and MTREF allocations proposed

The projects above are key to our operations, however lack of funds has limited the budget provision to only a few listed in the table below.

Issue	FY 2010/11	FY 2011/12
Pipeline Replacement Program	20,000,000	15,000,000
Non Revenue Water Programme	7,235,000	7,235,000
Training of Process Controllers	Nil	116,000
Refurbishment of Filters	4,000,000	Nil
UMzimkhulu Off-Channel Storage Dam	-	2,000,000
Quantity and quality ground water testing of existing borehole in Ugu District Municipality	-	5,000,000

UGU DISTRICT MUNICIPALITY
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2010

Details	Original Loan Amount	Interest Rate	Loan Number	Redeemable	Balance at 30 June 2009	Received during the Period	Redeemed/ Written Off during Period	Balance at 30 June 2010
	R				R	R	R	R
LOCAL REGISTERED STOCK								
INCA	18,500,000	16.80%	A162	30/06/2011	18,500,000	-	-	18,500,000
INCA	1,800,000	15.60%	91, 92 & 93	30/06/2011	1,800,000	-	-	1,800,000
Total Local Registered Stock	20,300,000				20,300,000	-	-	20,300,000
ANNUITY LOANS								
ABSA	102,000,000	11.51%	-	30/06/2020	-	102,000,000	-	102,000,000
DBSA	3,194,261	10.00%	-	31/03/2013	1,219,715	-	261,938	957,777
DBSA	5,000,000	2.65%	-	30/06/2015	5,000,000	-	659,189	4,340,811
DBSA	25,000,000	5.00%	101980/001	31/03/2022	25,000,000	-	1,406,428	23,593,572
DBSA	25,000,000	5.00%	101980/002	30/06/2023	24,710,373	289,627	-	25,000,000
DBSA	62,000,000	5.00%	102756/001	30/06/2029	13,751,110	40,027,872	-	53,778,982
DBSA (Ex Hibiscus Coast)	18,573,441	Various	Various	Various	14,886,093	-	492,481	14,393,612
DBSA (Ex Umdoni)	2,500,000	Various	Various	Various	1,584,175	-	378,735	1,205,440
DBSA (Ex Umuziwabantu)	1,850,000	Various	Various	Various	846,067	-	-	846,067
Total Annuity Loans	245,117,702				86,997,533	142,317,498	3,198,771	226,116,260