

ITEM NO.	SUBJECT	REF
	MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK(MTREF) 2011/2012 – 2013/2014	

REPORT TO : THE EXECUTIVE COMMITTEE
DATE : 28 APRIL 2011
DIRECTORATE : BUDGET AND TREASURY OFFICE
AUTHOR : ACTING MANAGER – BUDGETS & COMPLIANCE

1. PURPOSE

To table before the Council the Mid-Term Revenue and Expenditure Framework for 2011/2012 as well as 2012/2013 and 2013/2014 in terms of section 16 of the Municipal Finance Management Act, No 56 of 2003.

2. MAYOR'S REPORT

In his Budget Speech to parliament in February 2010, the Minister of Finance said: ***"We cannot expect to do the same old things and expect different results"***. As we are all aware, the national economic recession that started in the first quarter of 2009 and officially ended during the third quarter of the same year. While this phenomenon was short-lived, its impact on the economic performance was very striking and ferocious.

Although South Africa's financial markets were for the most part insulated, the reality is that our economy suffered. Our GDP shrunk by 1.68% on average in 2009. Ultimate consumption recorded negative growth of 3.1%, drastically down from the 8.3% positive growth recorded in 2006 financial year. Signals are that the recovery is still fragile and many commentators caution that the current positive economic trends may be short-lived and that the world economy may yet experience a second recessionary wave.

iLembe District was in no way immune to the harsh economic realities associated with the recession. Some of the impacts are cash flow challenges that are being experienced by the municipality due to, amongst other things, loss of jobs which caused an unstable collection rate, historic expenditure patterns. Management, within the local government has a considerable role to play in re-enforcing the tie between the citizen and government's overall priorities and spending plans.

The objective should be to do more with the available resources to enhance service delivery aimed at improving the quality of life for all people within the iLembe District. As a result, budgeting is essentially about choices that the municipality has to make between competing priorities and fiscal realities. As a District we need to remain focused on the effective and efficient delivery of core municipal services. The application of sound financial management principles is critical, to ensure that the District remains financially viable, and that sustainable municipal services are provided to all communities.

2. MAYOR'S REPORT (*Continued*)

In January 2009, we adopted a District Wide Turnaround Strategy to improve service delivery. This strategy includes:

- financial viability and sustainability,
- transformation of aged infrastructure,
- organisational review and change management,
- reinforcement of public participation on matters of governance,
- good corporate governance.

Significant progress has been made on the above-listed areas; however there is still a room for improvement.

In January 2010, Cabinet adopted twelve outcomes within which to frame public-service delivery priorities and targets. A detailed delivery agreement has since been developed to extend targets and responsibilities to national and provincial departments, agencies and municipalities. iLembe District municipality's financial plan must take these twelve outcomes into consideration when developing its MTREF for 2011/2012 fiscal period. In line with these outcomes, iLembe District must perform the following;

- Develop and implement water management plans to reduce water losses;
- Ensure effective maintenance and rehabilitation of infrastructure;
- Create an enabling environment for investments;
- Continue to develop performance monitoring and management systems;
- Review municipal expenditures to eliminate wastage;
- Ensure councillors behave in ways to restore community trust in the District;
- Facilitate the development of local markets for agricultural produce;
- Ensure effective spending of grants for funding extension of access to basic services;
- Promote home production to enhance food security;
- Ensure capital budgets are appropriately prioritised to maintain existing services and extend services;
- Ensure ward committees are represented and fully involved in community consultation processes around IDP, budget and other strategic service delivery issues;
- Improve municipal financial and administrative capacity by implementing competency norms and standards and acting against incompetence and corruption; and
- Ensure proper implementation of the EPWP on the ground and creating employment through internship programs.

The government has announced the election date to be the 18th of May 2011. As a result of this, the final approval of 2011/2012 MTREF will be early May 2011 in line with circular 54 of the Municipal Finance Management Act.

3. EXECUTIVE SUMMARY

In terms of chapter 4, section 24 of the Municipal Finance Management Act, No 56 of 2003 an annual budget must be approved before the start of the budget year. The Mayor of the District must at a council meeting, table the operating and capital budget at least 30 days before the start of the budget year. The municipal council must accordingly consider approval of the municipal annual budget.

The budget report is set out under the following broad headings:

- Budgets:
 - Operational budgets
 - Budget assumptions
 - Capital budget
- Proposed tariff structures
- Measurable performance objectives for revenue
- Municipal entity
- Service agreements
- New budget regulations
- Budget related policies
- Public input
- Publication of budgets
- Budget resolutions

The budget and IDP process plan adopted by the Council in August 2010 ensured that the said process was highly interactive and consultative in nature as this is a requirement of the MFMA 56, of 2003 and MSA 32 of 2000.

During the month of January 2011, the Mid Term Budget Assessment was conducted and a report was presented by the Accounting Officer to the Mayor of the District, who then submitted the performance assessment report to Council for consideration on the 31st of January 2011 as well as to the National Treasury and the relevant Provincial Treasury in line with section 54(1) (f) of the MFMA.

That report included recommendations that an adjustment budget be prepared for the 2010/2011 financial year for the iLembe District and for the Enterprise iLembe. The adjustments budget was then prepared and tabled by the Mayor to Council on the 24th of February 2011 in line with section 28 of the MFMA.

During this process and where appropriate, funds were transferred from low-to high priority programs so as to maintain sound financial stewardship. A critical review was also undertaken of expenditure on non-core and nice to have items.

As mentioned above, the annual budget of the municipality must be tabled by the Mayor of the District 30 days before the start of the budget year. In compliance with the Act, the Medium Term Revenue and Expenditure Framework are hereby tabled to Council.

It should be noted that the annual budget was discussed in detail with management/Municipal Manager and the Mayor, before being tabled to the full Council for consideration, adoption and approval.

3.1 Operating Budget Summary

The operational budget is annexed hereto, marked as annexure A, and contains detailed information for the 2011/2012 financial year and the 2012/2013 and 2013/2014 financial years and is summarised and compared with the adjustments budget figures as follows:

Description	2010/2011 Adjustments Budget	2011/2012 Approved Budget
	R	R
Income	(360 450 453)	(364 357 262)
Expenditure		
Salaries and Allowances	90 397 619	103 803 473
General Expenses (See A 2)	144 298 294	118 975 939
Repairs & Maintenance	19 808 472	29 189 940
Loan Charges	10 677 960	11 320 455
Provisions	26 856 824	29 265 756
Depreciation	16 000 000	18 000 000
Bulk Purchases	48 844 252	52 019 129
Management Contract	7 900 000	8 551 750
Recharges	(6 663 972)	(7 097 131)
Total Expenditure	358 119 449	364 029 311
Net (Surplus)/Deficit	(2 331 003)	(327 951)

The 2011/2012 Medium Term Revenue and Expenditure Framework focuses on the long and short term objectives and priorities of the District as well as outcomes and outputs, based on the following IDP Priorities:

- Basic Service Delivery;
- Municipal Institutional Development and Transformation;
- Local Economic Development;
- Municipal Financial Viability and Management;
- Good Governance and Public Participation;
- Safe and Secure environment;
- Spatial Development Framework Analysis; and
- Environmental Management.

National treasury's MFMA Circular No 51 and 54 were used to guide the compilation of the 2011/2012 MTREF.

The main challenges experienced during the compilation of the 2011/2012 MTREF can be summarised as follows:

- The need to re-prioritise projects and expenditure within the existing resources envelope given the cash flow realities;
- Ageing infrastructure, quality and quantity of drinkable water;
- The increased cost of bulk water which is pushing the tariffs upwards;
- Wage increases for municipal staff in excess of consumer inflation as well as the need to fill critical vacancies;
- Affordability of Capital Projects;
- The ongoing difficulties in the National and Local economy;
- Availability of affordable capital or borrowing; and
- Rising and unpredictable fuel, oil and energy prices.

3.1 Operating Budget Summary (Continued)

The following budget principles and guidelines directly informed the compilation of the 2011/2012 MTREF:

- The 2010/2011 Adjustment Budget priorities and targets, as well as the base line allocations contained in that adjustment budget were adopted as the upper limits for the new baseline for the 2011/2012 draft budget;
- Service level standards were used to inform the measurable performance objectives, targets and backlog eradication;
- That tariff increases must be affordable and be measured against the cost of bulk water. In addition, tariffs need to remain or move towards being cost reflective and should take into account the need to address infrastructure backlogs and maintenance thereof; and
- That all grant funded projects will only be implemented provided that a written confirmation in the form of Division of Revenue Act ("DORA") or otherwise is available and gazetted.

In view of the aforementioned, the following table is a consolidated overview of the proposed 2011/2012 Medium Term Revenue and Expenditure Framework:

By category	Adjustment Budget 2010/2011	Budget Year 2011/2012	Budget Year +1 2012/2013	Budget Year+2 2013/2014
	R	R	R	R
Total operating revenue	360 450 453	364 457 262	391 970 330	422 723 701
Total Operating Expenditure	358,119,449	363 029 310	391 743 617	422 606 304
(Surplus)/Deficit	(2,331,003)	(327 951)	(226 714)	(117 397)
Total Capital Expenditure	262,933,303	254 825 200	219 067 000	228 465 000

Budget Assumptions

In the compilation of the budget, the following influencing factors were considered:

- Normal inflationary increases and pressures;
- That the budget is both zero based and incremental;
- Inflation is 6,5% increase for the 2012/2013 and 6,8% increase for the 2013/2014 financial year;
- 8,5% and 7,5% for salary increases respectively;
- That there will be no changes to the powers and functions of the District during 2011/2012 financial year;
- That more than 85% of revenue budgeted will be collected;
- That all DORA allocation will be received during the year.

3.1 Operating Budget Summary (Continued)

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the District and continued economic development;
- Efficient revenue management, which aims to ensure 85% annual collection rate for key service charges;
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing /calculating the revenue requirement of each service; and
- The iLembe District municipality's Indigent Policy and rendering of free basic service; and tariff policies of the District.

3.2 Capital Expenditure

The proposed capital budget is annexed hereto and is marked as annexure B, it reflects the globular sum per capital expenditure category identified as priority areas for capital expenditure during the review of the 2011/2012 IDP and amounts to R 254,825,200.

The proposed capital budget relates to projects for which the District will be securing funding through, internal capital funds, grants and other sources of funding. Should the funding not materialise, then the capital projects cannot proceed, as prescribed by the MFMA.

Council of the District is referred to the attached capital budget which gives a breakdown of all projects to be undertaken during the 2011/2012 financial year.

Grant funded projects amounts to R 188,657,000 and VAT and internal funded projects amounts to R 39, 446,000 and R 17, 722,200 respectively. Should the funding for internally and VAT funded projects not materialising, these projects cannot proceed as mentioned above.

3.3 Proposed Tariff Structure and Operating Revenue

Tariff-setting is a pivotal and strategic part of the compilation of any municipal budget. When tariffs and other charges were revised, local economic conditions, input costs and affordability of services were taken into account to ensure financial sustainability of the District.

National Treasury continues to encourage municipalities to keep increases in tariffs and other charges as low as possible. However, municipalities must justify in their budget documentation all increases in excess of the 6% upper boundary of the South African Reserve Bank's inflation target. The percentage increase of Umgeni Water is far beyond the mentioned target. In 2010/2011 financial year, Umgeni Water tariff was 6.2% and the District tariff was set at 5.7%. As a result of this, the District under-recovered by 0.5% for the year. Given that these tariffs are determined by external agencies, the impacts they have on the municipality's water and sanitation service delivery are largely outside the control of the District. Discounting the impact of these

price increases in lower consumer tariffs will negatively impact the District's future financial position and viability.

It must also be appreciated that the consumer price index "CPI", is **not a good measure of the cost increases of goods and services relevant to municipalities**. The basket of goods and services utilised for the calculation of the CPI consists of items such as food, petrol, and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of water and electricity, petrol, diesel, chemicals etc.

The current challenge facing the District is to manage the gap between cost drivers and tariffs levied. Any shortfall must be made up by either operational efficiencies or service level reductions. Within this framework, the District has undertaken the tariff setting process relating to service charges as follows:

3.3.1 Sale of Water and Impact of Tariff Increases

All municipalities are facing similar challenges with regard to water supply as was the case with the electricity. As a result of that, the National Treasury is encouraging municipalities to carefully review the level and structure of their water tariffs. This will ensure that:

- Water tariffs are cost reflective and they include the cost of maintaining and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor;
- That water tariffs are designed to encourage efficient and sustainable consumption;
- That water supplied is clean and drinkable.

In addition National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective by 2014. Better maintenance of infrastructure, new reservoirs construction, expanded reticulation and cost reflective tariffs will ensure that the supply of water challenges are managed in future to ensure sustainability.

3.3 Proposed Tariff Structure and Operating Revenue (*Continued*)

3.3.2 Sale of Water and Impact of Tariff Increases (*Continued*)

Furthermore, Eskom has announced a 28.9 per cent in bulk electricity supply. This has got an impact on the supply of water as water purification plants, reservoirs, water networks and water distribution relies heavily on electricity.

Umgeni Water has undertaken a critical assessment of its capital infrastructure requirements. In that regard, Umgeni Water indicative bulk water supply tariff increase is set 7 per cent from 1 July 2011. Tongaat Hulett and WSSA have set a tariff of 9.38% and 8.5% respectively.

In view of the above and other outlined challenges, a 7% water tariff increase is proposed, effective from the 1st of July 2011.

3.3.3 Sanitation and Impact of Tariff Increases

A tariff of 7% for sanitation effective from 1 July 2011 is proposed. This is based on the input cost assumptions related to water. It should be noted that electricity costs contribute approximately 11% of waste water treatment input costs, therefore the higher than the CPI. The following factors also contribute to the proposed tariff increase:

- Sanitation charges are calculated according to the percentage water discharged.
- Free sanitation will be applicable to registered indigents and the total revenue anticipated in rendering this service amounts to R 16, 2 million.

By and large, and in view of the above assumptions, deliberations and observations, it is proposed that the District's tariff of charges be increase as follows and be advertised to the general public for implementation with effect from 1 July 2011:

Type of Service	Proposed Tariff Increase
Water charges	7%
Sewer charges	7 %
Miscellaneous tariffs	Various

Details of the amended tariffs are annexed hereto and marked as annexure E.

3.3.4 Operating Transfers and Grant Receipts

The operating grants and transfers amount to R210, 9 million in the 2011/2012 financial year and steadily increases to R230, 3 million by 2012/2013.

3.4 Operating Expenditure Framework

In preparing the MTREF, we considered the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constrains which means that operating expenditure should not exceed operating revenue unless there are existing uncommitted cash-backed reserves to fund any shortfall or deficit;
- Funding of the budget over the medium-term as informed by section 18 and 19 of the MFMA;
- The capital programme is aligned to the renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of no project plans no budget. If there is no business plan no funding allocation can be made.

The proposed budget allocation for employee related cost totals to R 103,8million for 2011/2012 MTREF. About 18 new posts have been budgeted for and they amount to R 6, 7 million.

Councillor allowance and management salaries provision are set at 7.5 per cent and council employees are set at 8.5 per cent conservatively, the overall increase in salaries including councillor allowances amounts to R 6.9 million.

It be noted that this is a preliminary and a middle-of-the-road allocation as the applicable municipal wage curve has not been finalised. As a result, the salaries budget will be revised as soon as the municipal wage curve agreement is finalised and that this situation will be addressed through the adjustment budget during the year in question. For 2011/12 financial year, the salaries budget is set at 28 per cent and is within the National Treasury threshold.

The proposed budget allocation for general expenses amounts to R 118, 9 million for the 2011/2012 financial year.

Repairs and maintenance is budgeted at R29.1million is for 2011/2012. In terms of Municipal Budgeting and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver, but an outcome of other expenditures such as remuneration, purchases of materials and contracted services.

A proposed provision for bad debts totals to R 24, 9 million. Whilst this expenditure is a non cash flow item, it informs the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenue.

Provision for depreciation and asset impairment of about R18 million is informed by the Fixed Asset Register Policy of the District. It should be noted that the implementation of GRAP 17 accounting standard has brought in assets that were not previously included in the asset register. This has resulted to a significant increase in depreciation relative to previous year.

Finance charges consists primarily the repayment of interest in long-term borrowings. Finance charges make up 3.11% (R11, 3 million) of operating expenditure.

The budget for bulk purchases is set at R52, million, which increased by 6.5% from prior year.

3.5 Measurable Performance Objectives

The performance objectives of the significant revenue streams of the District are recommended as follows:

Area	Performance Target
Water sales	Collection ratio in excess of 85%
Sewer charges	Collection ratio in excess of 85%
Miscellaneous tariffs	Collection ratio in excess of 85%

3.6 Municipal Entity

iLembe District municipality has one municipal entity, Enterprise iLembe. The budget for the municipal entity for the 2011/2012 financial year is attached hereto and marked as Annexure C.

3.7 Service Agreements

Budget Office also expresses its appreciation to the Directorate of Corporate Services, Corporate Governance, Technical Services and Office of the Accounting Officer, National and Provincial Treasury, as well as to the general management of the District for their enormous contribution in the budgeting process for 2011/12 financial year.

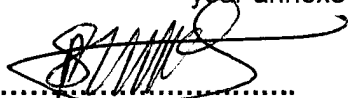
4 RECOMMENDATIONS

It is recommended **THAT**

- The annual operational budget for the 2011/2012 and ensuing budget for 2012/2013 and 2013/2014 financial years and also the capital budget for 2011/2012 financial year and ensuing years, copies of which are attached hereto, in terms of chapter 4, section 24 of the Municipal Finance Management Act No 56 of 2003 be adopted, considered and be approved.
- That the final tariffs for 2011/2012 annexed hereto and marked as annexure E be approved and that they will be effective as of the 1st of July 2011.

It be noted that in respect of Capital Expenditure Estimates:

- In instances where information has been provided in terms of Section 19(2) (b) of the Municipal Finance Management Act No.56 of 2003, the consideration and adoption of capital budget constitutes projects consideration for the specific projects as reflected in the detailed capital budget. Where information in terms of section 19(2) (b) is not provided, specific project approval be sought from council during the course of the year.
- That the final draft policies attached hereto be noted and approval be subjected to the policies being taken to the relevant portfolio committees.
- That the annual budget for Enterprise iLembe for 2011/12 financial year annexed hereto marked as annexure C be adopted.



.....
SIGNATURE OF AUTHOR

SUPPORTED / NOT SUPPORTED at KwaDukuza on the of 2011.

.....
ACTING CHIEF FINANCIAL OFFICER'S SIGNATURE

.....
ACCOUNTING OFFICER'S SIGNATURE

Quality certificate

I, **M D NEWTON**, municipal manager of **ILEMBE DISTRICT MUNICIPALITY** (name of municipality), hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name **MIKE NEWTON**

Municipal manager of **ILEMBE DISTRICT MUNICIPALITY (DC29)** (name and demarcation code of municipality)

Signature



Date 28/04/2011

CERTIFIED EXTRACT FROM THE MINUTES OF A MEETING OF THE COUNCIL OF THE ILEMBE DISTRICT MUNICIPALITY HELD ON TUESDAY, 10 MAY 2011

- Present:** Councillors J B Nzuzza (Speaker), S W Mdabe (Mayor), A Badul (Deputy Mayor), K Anamalay, M P Busani, R M Cele, Z F Khuzwayo, E M L Maphumulo, C R Marsh, G N Mbonambi, S P C Mdletshe, T M Mhlaba, P P Mngayi, B Z Ndlovu, M R Ntetha, A R Panday, J L T Sibiya, M S Sing, T J Zondo and M P P Zungu.
- Absent:** Councillors M T Hlatshwayo (with apologies), N J Khuzwayo, M A Maphumulo, S Ndlovu, C P Ngidi, N J Nkwanyana, N P Nxumalo, L R Shembe and N Vilakazi,
- Officials:** Mr. M D Newton, Mr. A Makhanya, Mr. E W Shozi, Mr. C M Harris, Mr. A G Horton, Mr. P Mema, Mrs. Z Mkhize, Mrs. S N Mthembu and Mrs N Ntshembeni
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C181 Draft Medium Term Revenue and Expenditure Framework : 2011/2012 – 2013/2014 : Council Circular 18 of 2011, schedule of the special tariff for Industrial Waste Effluent, laid on the table, amended Annexure A to the medium term revenue and expenditure framework, laid on the table, and Addendum Report dated 28 April 2011 by the Acting Manager : Budget and Compliance (Pages 1 - 64 of the agenda for the meeting of the Executive Committee held on 10 May 2011).

RESOLVED:

1. That the operating budget for the 2011/2012 financial year and the ensuing budgets for the 2012/2013 and 2013/2014 financial years, as well as the capital budget for the 2010/2011 and ensuing financial years, circulated under cover of Council Circular 17 of 2011 dated 28 April 2011 and as amended by the revised Annexure A to the operating budget, laid on the table, be approved and adopted in terms of section 16 of the Local Government : Municipal Finance Management Act, 2003 (Act 56 of 2003).
2. That the tariffs of the iLembe District Municipality for 2011/2012 circulated under cover of Council Circular 18 of 2011 be amended in section B dealing with a bulk meter at a residential complex by the substitution for the words and figures "the 2010/11 >20kl tariffs" of the words and figures "the 2011/12 >20kl tariffs" and, thereafter, the tariffs, and the industrial effluent charges laid on the table, be approved and adopted.
3. That the Enterprise iLembe budget for the 2011/2012 financial year, circulated under cover of Council Circular 17 of 2011 dated 28 April 2011, be approved and adopted in terms of section 16 of the Local Government : Municipal Finance Management Act, 2003 (Act 56 of 2003).
4. That it be noted that in respect of Capital Expenditure estimates:-
 - (i) in those instances where information has been provided in terms of section 19(2)(b) of the Local Government : Municipal Finance Management Act, 2003, the consideration and adoption of the capital budget constitutes project approval for the specific projects as reflected in the detailed capital budget; and
 - (ii) in those instances where information has not been provided in

Cons.

terms of section 19(2)(b) of the Local Government : Municipal Finance Management Act, 2003, specific project approval must be sought during the course of the financial year.

5. That the draft policies circulated under cover of Council Circulars 17 of 2011 and 18 of 2011 be noted and approved, subject to:-
 - (i) the draft Credit Control and Debt Collection Policy being amended:-
 - A. in clause 11.2 by the substitution for the name "Chief Financial Officer" of the name "Executive Committee"; and
 - B. by the renumbering of clause 15.5 to 15.5.1 and by the insertion of the following additional clause:-

"15.5.2 In the event of the removal of a Water Meter in accordance with Clause 15.1.1 above, the Council shall nevertheless be obliged, in accordance with it's Constitutional obligations to supply water to Consumers, to make satisfactory arrangements for a temporary supply to such Consumer"
 - (ii) the draft Indigent Policy being amended in clause 2.1 by the substitution for the words "in the annual municipal approved tariff of charges" of the words "as determined annually by the Executive Committee as to who"; and
 - (iii) the policies being processed through the normal Council processes.
6. That in compliance with section 22 of the Local Government : Municipal Finance Management Act, 2003 the budgets be published in the local press, it being noted that the Corporate Governance Department of the Municipality will attend to those aspects.
7. That in compliance with section 24 of the Local Government : Municipal Finance Management Act, 2003 (Act 56 of 2003) the Accounting Officer submit the approved budgets to the National and Provincial Treasury in the prescribed formats as attached to the Addendum Report dated 28 April 2011 by the Acting Manager : Budget and Compliance and referred to as the "A Schedules 2.3v (Municipal annual budget and MTREF and supporting tables version 2.3)"

CERTIFIED CORRECT



C M HARRIS
MANAGER : SUPPORT SERVICES
23 May 2011