ETHEKWINI MUNICIPALITY

MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK

2013/2014 TO 2015/2016

Table of Contents

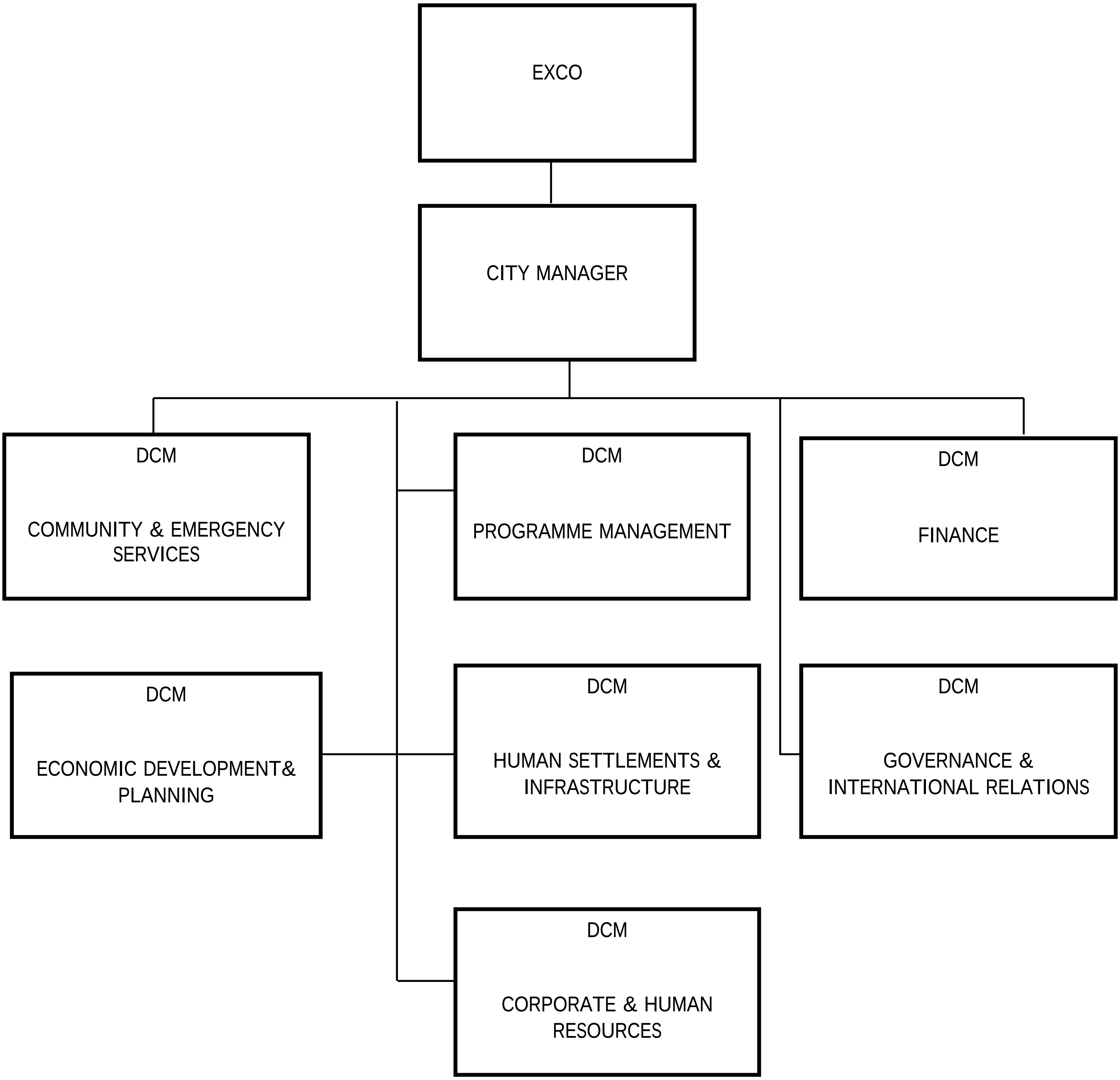
Abbreviations and Acronyms

CPIX	Consumer Price Index
DCM	Deputy City Manager
DoRA	Division of Revenue Act
DOHS	Department of Human Settlements
DPLG	Department of Provincial and Local Government
DTPC	Dube Tradeport Corporation
EMA	EThekwini Municipal Area
EXCO	Executive Committee
GDP	Gross Domestic Product
GRAP	Generally Recognised Accounting Practice
IDP	Integrated Development Plan
IRPTN	Integrated Rapid Public Transport Network
IT	Information Technology
Kl	Kilolitre
Km	Kilometre
kWh	Kilo watt hours
KZNPA	KwaZulu-Natal Provincial Administration
MFMA	Municipal Finance Management Act
MPRA	Municipal Property Rates Act
MSFM	Municipal Services Financial Model
MTREF	Medium-term Revenue and Expenditure Framework
MW	Megawatt
NERSA	National Electricity Regulator South Africa
NT	National Treasury
PPP	Private Public Partnership
SALGA	South African Local Government Association
SDBIP	Service Delivery and Budget Implementation Plan
TEU	Twenty-foot Equivalent Unit
TIKZN	Trade and Investment KwaZulu-Natal

Map of Ethekwini Area

Organisational Structure

ETHEKWINI MUNICIPALITY



4. MAYORS REPORT (BUDGET SPEECH)

Honourable Speaker, Cllr Logie Naidoo
Deputy Mayor and Members of EXCO
Chief Whip Cllr Stanley Xulu
City Manager S'busiso Sithole
Councillors
Senior Management and Officials
Members of the Public
Members of the Media
All protocol observed,
Ladies and Gentlemen - Sanibonani

It is indeed an honour and a privilege for me to stand here to once again to table our draft budget for the 2013/2014 financial year. We are tabling this budget at the back of yet another great achievement for our City after we successfully hosted the 5^{th} BRICS Summit at the ICC this week.

I think it is important that I should thank our National and Provincial Governments for entrusting our City with hosting this Summit; and as expected we did not disappoint. In that regard, let me take this opportunity to congratulate our Councillors and Officials alike, for a job well done. You have made Durban, South Africa and the Continent proud.

Honourable Speaker,

South Africa and our Municipality have come a long way to be where we are today. We have successfully laid a foundation for a world class municipality and for a caring and liveable City. Despite the effects of the global recession on the economy, the Municipality has managed to achieve a collection rate of 97.5% which is the best in the country. Due mainly to a strong balance sheet, the Municipality has maintained its credit rating, the best in the Municipal sector.

Our City is speedily aligning itself with the objectives of the National Development Plan. The NDP states clearly that (I quote): "To accelerate progress, deepen democracy and build a more inclusive society, South Africa must translate political emancipation into economic wellbeing for all."

The 2013/2014 Medium Term budget proposes a total consolidated budget of R 34.1 billion which has been developed with an overall planning framework and includes programmes and projects to achieve the City's strategic objectives, comprises of a R 5.4 billion capital budget that continues to reflect consistent efforts to address backlogs in basic services and the renewal of the infrastructure in the City and an operating budget of R 28.3 billion that will make provision for the continuation of the services provided by the Municipality. This includes the provision of costs to address service delivery backlogs, bulk purchases of water and electricity accounting for 29.6% of the operating expenditure, repairs and maintenance of infrastructure, employee related costs as a result of filling of vacancies and provision for salary increases and the impact of capital spending on the operating expenditure.

The provisions in this budget continue to support Government's commitment to broadening service delivery and expanding investment in infrastructure, while taking into account the constrained fiscal environment. This budget has been developed to contribute to the Municipality achieving the strategic objectives of the IDP. We have ensured that over 75 % of residents have access to basic services; eThekwini has one of the best service delivery programmes in Africa. Nationally, our Municipality is used as a financial model for financial governance and we are making great strides environmentally.

Our service delivery achievements include (amongst others) the following:

- 125 669 housing units built (2002-2012)
- 67 946 new electricity connections (2008-2012)
- Solid waste services to 945 910 formal and 687 000 informal houses (100 % coverage)
- Water Supply to 730 650 formal customers

- 253 000 houses with free basic sanitation
- 518 200 houses with free basic water
- Provision of 106 lane km of new roads and 110 lane km of gravel to 'black-top' roads
- Construction of 305 km of sidewalks
- And Construction of 46 pedestrian bridges

The Municipality has identified the following priority areas to be addressed during the 2013/14 financial year.

- Service delivery backlogs;
- Economic development;
- Financial sustainability;
- Mitigation and adaption of the municipality for climate change;
- Water crisis;
- Access to public transport;
- Human capital development;
- Energy crisis;
- Health of society;
- Food security;
- Sustainable spatial form;
- Rural development;
- Infrastructure degradation;
- Undermining natural capital;
- Safer city;
- And Human settlements.

Mr Speaker;

In a highly global economy where competition for investment has intensified our Municipality continues to place a high level of importance on achieving value for money from its investments, measured in terms of its strategic priorities.

There are currently a number of programmes and projects being undertaken as part of the City's priorities in a range of sectors most of which align with National Governments focus on infrastructure development and job creation. Several major infrastructure projects that form part of the Strategic Infrastructure Projects (SIP's) announced by Government, include the second phase of the 55 km Western aqueduct pipeline is underway and will be rolled out over a seven year period.

It is expected to significantly strengthen the capacity of bulk water supply to the Western regions, ultimately boosting water supply to the north of the city, the Aerotropolis, Dube Trade Port, King Shaka International Airport, dig-out port, logistics hub development, dedicated rail and links, Durban to Gauteng rail upgrades-all multibillion – rand projects, which are key infrastructure developments of the Provincial Growth and Development Strategy.

The second phase of the flagship Cornubia housing development project is estimated to accommodate about 25 000 units and house about 100 000 people. Strategically located, Cornubia also presents an opportunity to deal with informal settlement eradication, local economic development, job creation and poverty eradication all in a totally integrated and innovative manner.

In addition, the Municipality has maintained its proud record of always receiving unqualified audit reports which strengthens our vision of receiving clean audit reports ahead of National Government's clean audit target. EThekwini continues to review and develop sound policies, procedures and systems.

I must also mention that eThekwini continues to be one of the biggest employers in the province thereby playing a pivotal role in dealing with unemployment, poverty reduction and inequalities. We have recently converted 1149 temporary employees into permanent contract employees. This number includes 926 Metro Police officers, young people and those who were under labour brokers. We will be employing more people especially the youth and women and plan to increase the intake of youth in our skills programme from 200 learners to 2000 learners.

Speaker,

I must say that we have been bold enough to make such a decision in the fifth year after the outbreak of the global financial crisis. Our City is not immune to these global challenges but, we are expecting recovery as some economic commentators and expects have said.

The rollout of National Governments large infrastructure package augurs well for a positive investment climate in years to come. Locally, some major private and public sector projects may assist greatly in boosting eThekwini's growth trajectory above the usual 3% and also help to reduce the burden on unemployment.

Before I conclude, I wish to state clearly that this draft budget tabled today is to be presented to 17 regional public hearings for intensive consultation with our communities and all affected stakeholders in the coming weeks. Every effort will be made to ensure that the people of eThekwini are informed timeously of the dates and venues for the public consultations so that they may have their say.

Fellow Councillors, let us ensure that this budget for the 2013/2014 financial year makes strides in achieving our vision towards Africa's most caring and liveable City.

Honourable Speaker,

It is my pleasure to table this budget before this house and part with the words of the National Development Plan, (I quote) "South Africa has the means, the goodwill, the people and the resources to eliminate poverty and reduce inequality. It is within our grasp." (end quote)

I thank you.

5. ETHEKWINI MUNICIPALITY PROFILE

Rich in cultural diversity, Durban is a fast growing metropolitan city with many kilometres of pristine beaches, iconic buildings, vibrant cultures, exceptional creativity and famous hospitality. Durban is a world-class tourist destination offering a wide range of experiences both within the city and in the surrounding countryside. It has a magnificent beachfront along the Indian Ocean with a promenade which stretches for several kilometres.

5.1 VISION OF THE MUNICIPALITY

By 2030, eThekwini Municipality will be Africa's most caring and liveable city.

5.2 MISSION

The purpose of the eThekwini Municipality is to facilitate and ensure the provision of infrastructure, services and support, thereby creating an enabling environment for all citizens to utilise their full potential and access opportunities, which will enable them to contribute towards a vibrant and sustainable economy with full employment, therefore creating a better quality of life for all.

5.3 LOCAL ECONOMY

The eThekwini Municipal Area is home to Africa's first multi-model logistics platform and international passenger airport, boasting the largest port in Africa, a global conferencing, sporting and tourist destination. It is the central engine of the regional economy, and plays a major role in the South African economy. It ranks as the third largest economic centre and a very promising global competitor.

5.4 CLIMATE

The eThekwini metropolitan has mild sub-tropical climate with sunshine for the most of the year.

5.5 LAND USE

The municipality is unique amongst major urban centres in that only 35% of the metropolitan area is predominantly urban, with over 60 000 households living in traditional rural style dwellings.

5.6 STATE OF THE ECONOMY

5.6.1 OVERVIEW

In the fifth year after the outbreak of the global financial crisis, global growth has decelerated and unemployment has started to increase again. Over the medium term, the global economy is expected to recover, but growth will not be strong enough to bring down unemployment quickly. The South African Reserve Bank has downgraded its growth forecasts on the back of the weak global demand and production disruptions indicating that economic prospects may not be as strong as was thought previously. Inflation could break the top end of its official target range next year based on new calculations of price data. The household sector continues to be negatively impacted by high unemployment, low savings and high level of debt, resulting in a low level of consumer confidence. Household Consumption Expenditure (HCE) growth should remain moderate this year, at 3.3% year on year. The labour market has deteriorated with the unemployment rate rising to about 25 per cent in the third quarter of 2012. However, National governments large infrastructure package as part of the National Development Plan which sets out an integrated strategy for accelerating growth and eliminating poverty will augur well for a positive investment climate in years to come. Locally, some major private and public sector projects may assist greatly in boosting eThekwini's growth trajectory above the usual 3% and also help to reduce the burden on unemployment.

5.6.2 ETHEKWINI GDP PERFORMANCE

The region's estimated GDP of R 208, 6 billion during 2012 represents a 2.7% increase over the previous year. This lower increase may be in line with the negative impacts resulting from the global crisis still affecting the national economy with the national projection having being adjusted downward.

5.6.3 PORT OF DURBAN

Import activity relating to containerised- and dry bulk cargo decreased between 2011 and 2012. Vehicle movement showed annual increases of 4.1% for imports and 12.5% for exports. This confirms the automotive sector as one of the country's strong globally competitive sectors. The decrease in exports for containerised, dry, and break-bulk cargo is indicative of the global drop in demand for goods and other commodities, especially from South Africa's key trading partners such as the Eurozone.

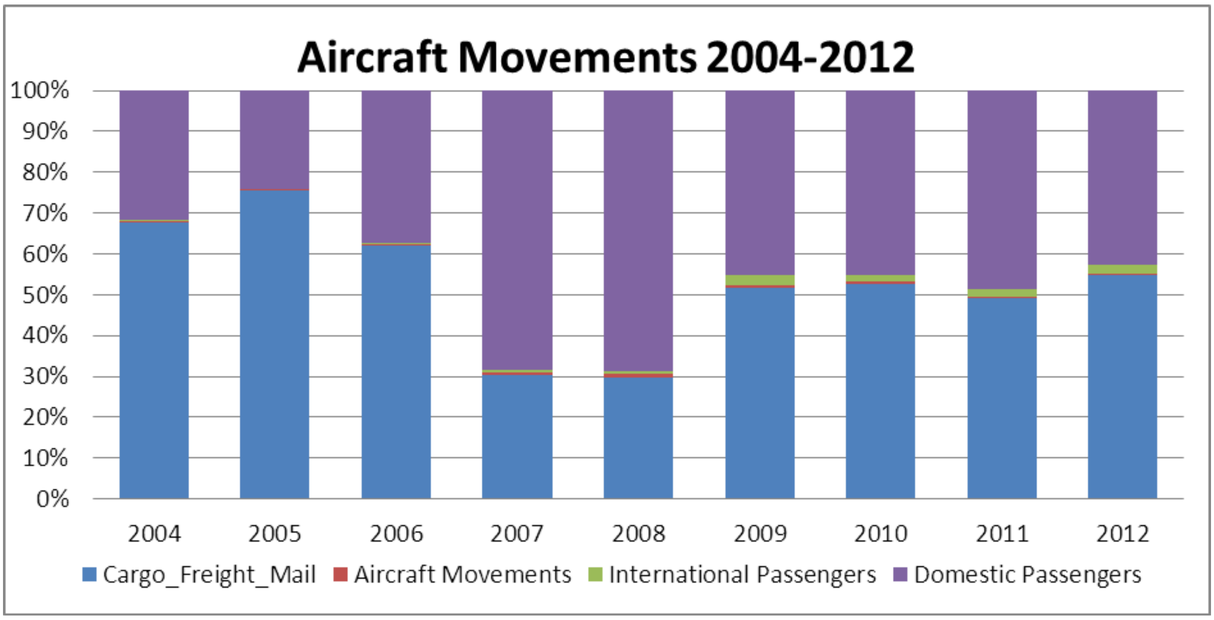
Table 2: Cargo Handling Imports

Cargo	2011	2012	Percentage Change
Containerised cargo	1,378,238	1,301,790	-5.5%
Dry bulk cargo	4,325,350.5	3,959,290.3	-8.5%
Liquid bulk cargo	24,172,200.5	25,460,976.9	5.3%
Break-bulk cargo	1,552,506.8	1,556,156.1	0.2%
Vehicles	280,284	291,838	4.1%

Table 3: Cargo Handling Exports*

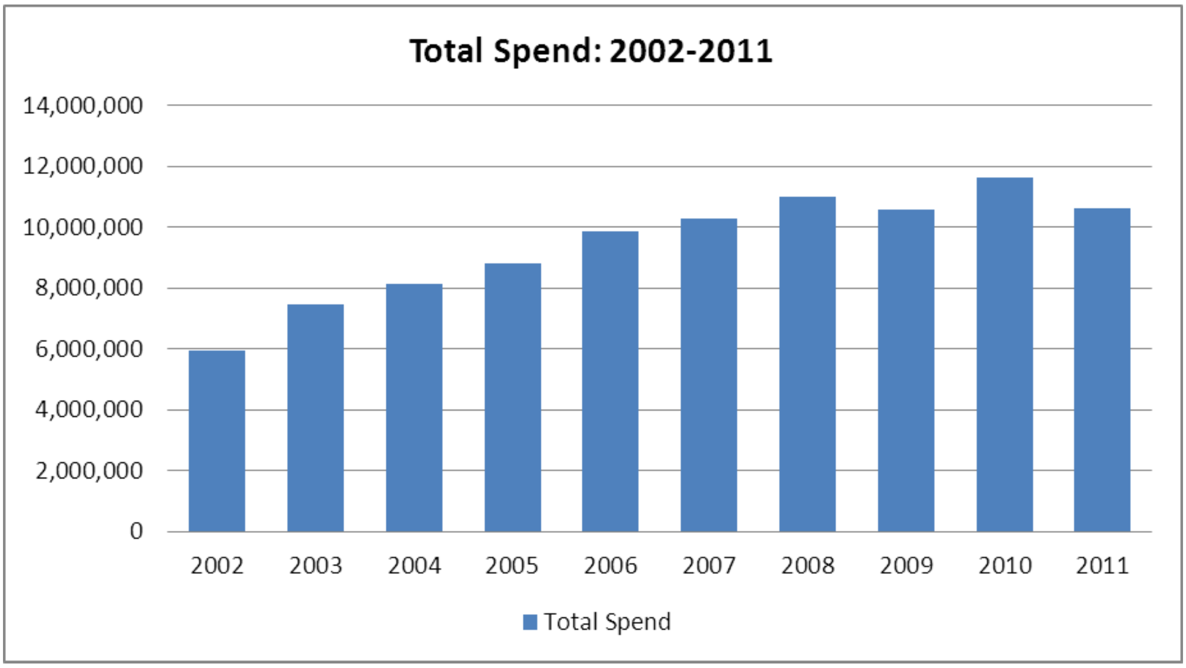
Cargo	2011	2012	Percentage Change
Containerised cargo	1,342,677	1,266,334	-5.7%
Dry bulk cargo	6,179,186.1	5,534,430.4	-10.4%
Liquid bulk cargo	2,675,732.1	3,097,189.0	15.8%
Break-bulk cargo	1,543,305.4	1,200,147.5	-22.2%
Vehicles	146,545	164,865	12.5%

5.6.4 AIRCRAFT MOVEMENT

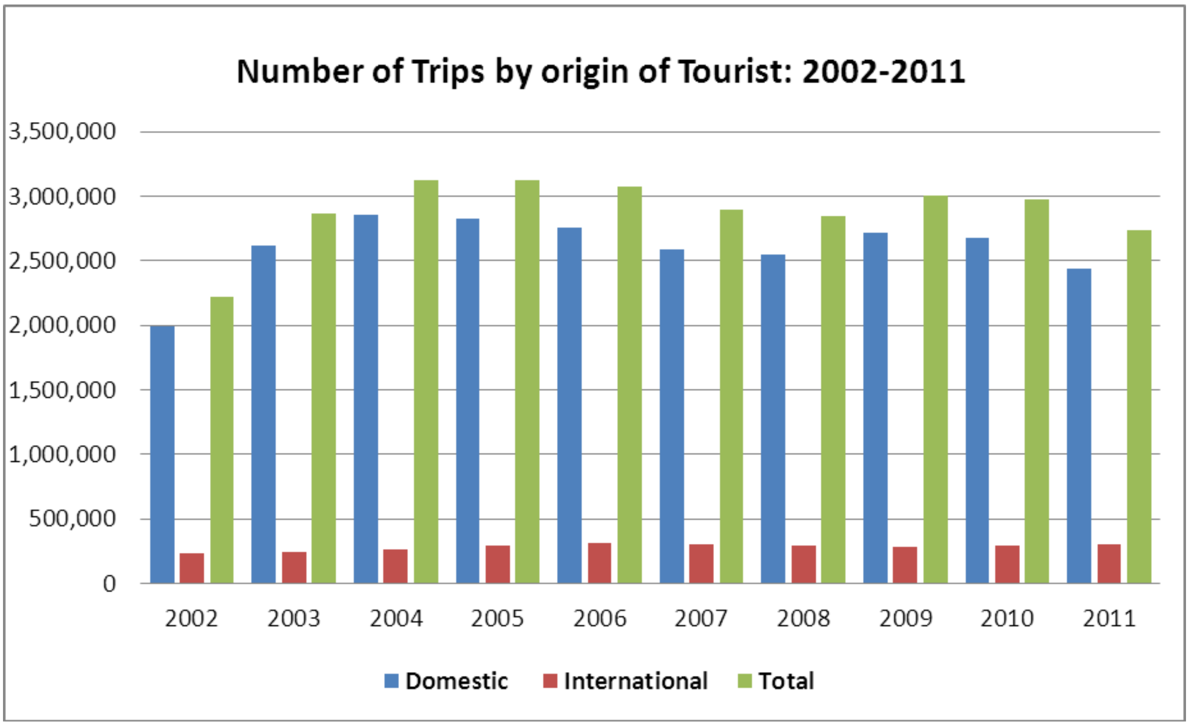


The King Shaka International Airport is currently handling in excess of five million passengers annually. The general trend in terms of visitor numbers tends to mirror the city's tourism profile viz. more domestic than international visitors. Major international events at the City's International Conference Centre have continued to show an increase in international passengers in 2012. However passenger volumes to the beginning of this year have shrunk and the airports company puts this down mainly to the decrease in leisure travel. In the 3rd quarter of 2012, the terminal processed 1,447,543 kg of import- and 410,798 kg of export cargo.

5.6.5 TOURISM



Tourism spend in recent years still appears to mirror the impact of the recent financial crisis and the corresponding impact on consumers for both international and domestic tourists. The graph shows a dip in 2011 following an increase between 2009 and 2010.



Tourist activity is still dominated by domestic visits to the city. There was a decrease in the number of trips for domestic tourists between 2010 and 2011, and this may be due to the high cost of living where consumers are prioritising on budgeting for food, debt-financing and other necessities to shoulder the effects still being felt by the global financial crisis. There was a slight increase of 0.42% of international tourists over the same period.

5.6.6 BUILDING PLANS PASSED

The graph below shows the building plans completed for office, retail and industrial space in the eThekwini region during the years 2006 to 2012.

There were steady increases in building plans completed for office, retail and industrial space since 2006 up until 2008/09 and the effects of the global crisis can be evidenced from the performance of all three sectors since. However, there were slight recoveries in the office and industrial sectors.

In terms of the residential component, according to the ABSA Housing price index, the average nominal house prices in KwaZulu-Natal fell by 11.3% during the second quarter of 2012 year-on-year. Economic growth, employment, inflation, interest rates, household income and debt and consumer confidence is expected to remain key factors to the housing market.

5.7 ECONOMIC / SOCIAL DEVELOPMENT

In a highly global economy where competition for investment has intensified, only those economies that continuously improve their comparative and competitive advantages will weather the economic storm. The city has several comparative and competitive advantages and has in recent years enhanced these in a bid to stay ahead of the competition for investment. The municipality is on the expansion trail, with a number of strategic areas earmarked for rapid development to fit in with the city's aim of becoming a regional power house. The second phase of the 55 km Western aqueduct pipeline is underway and will be rolled out over a seven year period. It is expected to significantly strengthen the capacity of bulk water supply to the Western regions, ultimately boosting water supply to the north of the city. There are currently a number of programmes and projects being undertaken as part of the city's priorities in a range of sectors most of which align with national governments focus on infrastructure development and job creation. Further enhancing the provinces comparative and competitive advantages are several major infrastructure projects that form part of the Strategic Infrastructure Projects (SIP's) announced by government. Aerotropolis, Dube Trade Port, King Shaka International Airport, dig-out port, logistics hub development, dedicated rail and links, Durban to Gauteng rail upgrades-all multibillion–rand projects, which are key infrastructure developments of the Provincial Growth and Development Strategy.

There are plans for the creation of a 'new city' around King Shaka Airport and Dube Tradeport. This new airport city will create a world class physical and operational environment geared towards attracting trade, investment and infrastructure to the local economy. Dube Trade Port, with air cargo handling capability, adds a critical element to the provinces collection of logistics platforms and provides it with an important head start over other economies, thus improving its global competitiveness. The long-term strategic objective of the Dube Trade Port project, including the King Shaka International Airport, is the establishment of an Aerotropolis-the first purpose-built Aerotropolis in Africa. This Aerotropolis will create a world-class physical and operational environment geared towards attracting trade, investment and infrastructure.

Dube Aerotropolis is set to change the face of the northern area of the city as a major aerotropolis development. Land development opportunities are set to be developed in such a way to maximise connectivity to the Trade Port, airport and other transport corridors. Business opportunities will be abound with provision for logistics, offices, business, parks, warehouses, industrial, retail, tourist resort as well as housing for residential activities. Durban's bustling harbour, one of the busiest in the world which has contributed to the growth of the city and the province is expected to reach capacity by 2019. Hence a multibillion rand dig-out port has been approved on the old airport site. This will serve as a major catalyst for growth and development in the province with work on the new port estimated to commence by 2015. This project would not only change the face of Durban but will also change the economic and social landscape of the country. Furthermore, a new deal has recently been reached to develop a revised multibillion waterfront development next to Vetch's Pier. This allows for a new iconic hotel and waterfront development at the mouth of the Durban harbour.

Government has announced a massive infrastructure development drive which includes improving the movement of goods and economic integration through Durban-Free State-Gauteng logistics and industrial corridor. The intention is to connect the major economic centres of Gauteng and Durban/Pinetown and at the same time, connect these centres with improved export capacity through sea-ports. Accordingly, Transnet's long-term framework plan includes the phasing in of major upgrade and expansions including major digging out and expansion of the existing port southwards at Bay Head. Furthermore, a 2050 vision for the Durban-Free State-Gauteng freight corridor has been developed as part of the National Investment and Implementation Plan which allows for confirmed developments of freight rail up to 2050. These developments include a number of projects within the Bay Head, Clairwood, Re-onion, Cato Ridge and other areas. In support of the expansion the municipality has developed a Draft Back of Port Local Area Plan which proposes changes to the future land use and zoning in areas/precincts around the extended Port. The bridge City Rail Link, the largest rail infrastructure development project in the Durban area is on schedule and should be completed by April 2013. One other area is Cato Ridge for its strategic importance on the borders of the N3 transport artery. The Cato Ridge Local Area Plan which includes a Cato Ridge Industrial Precinct Plan and a Cato Ridge Village Precinct Plan was recently approved by Council. Cato Ridge will be developed as a support location for the Dube Trade Port and Durban Harbour. Over the next three years the municipality will be investing in the upgrade of bulk infrastructure in Hammarsdale. This is to improve capacity to accommodate the inflow of recent interest shown in both industrial and business developments in the area. Construction of the Hammarsdale Junction, a retail shopping centre is currently underway.

With regard to housing development, work on the first phase of the flagship Cornubia housing development is in progress and is scheduled for completion in June with the building of 486 housing units. The second phase of the project has gone to tender. Cornubia is a public-private partnership with an estimated value of R 25 billion. It will accommodate about 25 000 units and house about 100 000 people. Strategically located, Cornubia also presents an opportunity to deal with informal settlement eradication, local economic development, job creation and poverty eradication all in a totally integrated and innovative manner.

The construction of the state of the art information hub, the central library will further position Durban as an international city and it will regenerate the inner city. This new building will be a landmark civic and design icon that embodies eThekwini's commitment to the future. As a major anchor in the city, the Central Library will leverage the value of other properties and private and public investment in the area. Furthermore, it will also serve to help retain public and private investment already made in the area.

TOWN CENTRE RENEWALS

There are programmes aimed to revitalizing the secondary CBDs as well as projects aimed at developing tourism nodes and corridors. These include Umhlanga, Inanda Heritage Route, Hazelmere Dam, Umgababa, Kingsway Tourism Corridor as well as many others. There are number of town centres within eThekwini which form part of this programme. Initiatives have been identified in each of these for implementation. The Ushukela Drive (Watson Highway) corridor in Tongaat has been planned for upgrade as key entrance into the CBD and to ensure that traffic can be accommodated for current and future developments. In Verulam the planning for the rationalisation of the public transport node is currently underway. A land acquisition and alienation process is underway in Umhlanga Rocks to upgrade roads. In Isipingo the first phase of the road upgrades is programmed to start soon.

Other developments in and around the city includes:

- The development of the adjacent Clairwood Racecourse into an industrial zone.
- Development of greenfields cited in the eThekwini central business district.
- Strategic investments to boost manufacturing, tourism and agriculture.
- Rural Development projects.
- Agriculture and green energy space.

EVENTS

Mega-eventing has become a natural outcome of the huge infrastructure spend, with the city hosting several national and international events. Hosting of events is a trend that is used by the cities of the world to stimulate the local economy through sport and tourism events. During the last year the city successfully hosted the Top Gear festival which was a spectacle par excellence. Being a host city for the recent 2013 Orange African Cup of Nations Tournament has had major spin-offs for the city. In line with the city's aim to be the country's sports and events capital, the city has won hosting rights to the Sports and Events Tourism Exchange convention for the next three years. In addition, the City will be the new home for Soccerex African Forum for the next three years. Engagements are also underway for the Tourism Indaba to be a permanent event in Durban.

TOURISM

With Durban being the domestic tourism capital, the visitor industry hosts some 1.7m people per annum and contributes approximately R 5.2 billion per annum to the city's economy. According to the Global Destination Cities Index, Durban is predicted to be the fastest growing tourism City in Africa for 2012, and one of the fastest growing tourist destinations in the world. This news coincides with the City embarking on its first Digital International Marketing Campaign on Global television, having struck an international television marketing deal with National Geographic. In addition, government is on a mission to get more international airlines to fly directly to King Shaka International Airport with the KZN government in negotiations with a number of airlines to get direct flights between Durban and India as well as the possibility of Air Seychelles flying directly to Durban.

In its endeavour to continue being the leader in holiday destinations, eThekwini has fast tracked the refurbishment of its beaches for the residents and visitors to enjoy. In this regard, work on the second phase of the beachfront facelift is well underway with some sections already completed and opened to the public for the December holiday season, with the remainder to be completed by May this year. The upgrade is said to give the skyline a picturesque face lift. A world class cruise ship terminal, as part of the Point Waterfront development is on the cards. The terminal would improve boarding for cruise tourism passengers and have a multiplier effect in the tourism sector.

6. BUDGET OVERVIEW: EXECUTIVE SUMMARY

6.1 INTRODUCTION

The 2013/2014 Medium Term budget proposes a total consolidated budget of R 34.1 billion which has been developed with an overall planning framework and includes programmes and projects to achieve the city's strategic objectives. Provisions in this medium term budget continues to support government's commitment to broadening service delivery and expanding investment in infrastructure, while taking into account the constrained fiscal environment. This budget has been developed to contribute to the municipality achieving the strategic objectives of the IDP. The 2013/2014 MTREF is informed by the municipality's long-term financial strategy with emphasis on affordability and long-term sustainability. National Treasury's MFMA Circular No's 66 and 67 were used to guide the compilation of the 2013/14 MTREF. In addition, this budget format and content incorporates the requirements of the Municipal Budget and Reporting Regulations.

Given the economic realities, a conservative approach has been adopted in projections. Spending plans had to be revised and funds reprioritised to ensure key objectives are achieved. The revenue side of municipal budgets continue to be strained and some very tough decisions had to be made. The main challenges experienced during the compilation of the 2013/14 MTREF can be summarised as follows:

- The on-going difficulties in the national and local economy.
- The increased cost of bulk purchases which is placing upward pressure on service tariffs.
- Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year's capital investments needed to be factored into the budget.
- Major strain on capital budget due to increased demand and eradication of backlogs.
- Reduction in equitable share and fuel levy grant arising from a change in the formula as well as the impact of new population census.
- Provincial Subsidy for Hostels being stopped
- Above inflationary salary increase of 6.85% negotiated by the Central Bargaining Council

6.2 STRATEGIC PRIORITIES FOR THE 2013/2014 YEAR

The municipality has identified the following priority areas to be addressed during the 2013/14 financial year.

• Service delivery backlogs;
• Human settlements;
• Economic development
• Financial sustainability;
• Mitigation and adaption of the municipality for climate change;
• Water crisis;
• Access to public transport;
• Human capital development;
• Energy crisis;
• Health of society;
• Food security;
• Sustainable spatial form;
• Rural development;
• Infrastructure degradation;
• Undermining natural capital;
• Safer city

6.3 PAST AND CURRENT PERFORMANCE, ACHIEVEMENTS AND CHALLENGES

6.3.1 SERVICE DELIVERY

The City places a high level of importance on achieving value for money from its investments, measured in terms of its strategic priorities. Key outputs delivered show significant progress in the eradication of household backlogs by the city. With over 75 % of residents having access to basic services, the municipality has one of the best service delivery programmes in Africa. Nationally, our municipality is used as a financial model for financial governance and we are making great strides environmentally.

The municipality has maintained its proud record of always receiving unqualified audit reports which strengthens the municipality's vision of receiving clean audit reports ahead of government's clean audit target. eThekwini continues to review and develop sound policies, procedures and systems.

Our service delivery achievements include (amongst others) the following:

- 125 669 housing units built (2002-2012)
- 67 946 new electricity connections (2008-2012)
- Solid waste services to 945 910 formal and 687 000 informal houses (100 % coverage)
- Water Supply to 730 650 formal customers
- 253 000 houses with free basic sanitation
- 518 200 houses with free basic water
- Provision of 106 lane km of new roads and 110 lane km of gravel to 'black-top' roads
- Construction of 305 km of sidewalks
- Construction of 46 pedestrian bridges

In recognition of the service delivery progress, the municipality has received the following awards:

- SALGA awards for the following :
    - Human Settlement award – best delivery of houses
    - Blue Drop Status- clean water category
- COGTA Awards for the following :
    - Best Integrated Development Programme
    - Best own Metro in the District Municipality Category
    - Best Innovative Infrastructure

- Top Business Portfolio Award
    - Winner for Promotion of Sustained economic growth

- Govan Mbeki Human Settlement Awards
    - Recognition for delivering of houses
    - South Africa's "Greenest " City Award

Notwithstanding that National Treasury has indicated that the municipality is financially sound, the following challenges need to be acknowledged:

- Sustainability of housing provision from current financing sources
- Infrastructure and service delivery backlogs
- Minimal level of growth and costs to unblock development
- Costs of bulk purchases
- Unaccounted for Water and theft of Electricity
- Impact of bringing Durban Transport back under the City's control

6.3.2 INSTITUTIONAL TRANSFORMATION

As part of the Institutional transformation and in an endeavour to strengthen and build an efficient administration, alternate delivery mechanisms are reviewed in order to ensure improved services to communities. In order to enhance operational efficiency, an organisational structure review was undertaken and in line with the municipality's Institutional Review Framework, high level organograms have been developed. These entail change of names of various clusters, creation of a new cluster ie. Programme Management, expansion of the Office of the City Manager and the streamlining of functions throughout the council. One of the proposals of the new framework is the establishment of a City Planning Commission to align the long-term City Growth and Development Strategy with National and Provincial Government

The Priority Zone Facility Management and the visible streetscape maintenance and urban management has been a success. The principle herein is integrated service delivery whereby contracted urban management or facilities companies provide top-up and management services to a prioritised urban precinct. These programs will be rolled out to other focus areas.

6.3.3 SERVICE DELIVERY STANDARDS, LEVELS OF SERVICES, OUTCOMES, TIMETABLE FOR ACHIEVEMENT AND FINANCIAL IMPLICATIONS

The municipality has been robustly tackling service delivery backlogs and great strides have been made in recent years. The City is justifiably proud of its excellence in infrastructure delivery and the exceptional expenditure performance record. This record has been achieved through careful, dedicated management of its project pipeline. This ensures that projects are identified early, designed effectively, approved expeditiously and is ready to proceed by the time funds are approved in the annual budget. eThekwini is performing better than the national average for all household infrastructure indicators, with refuse removal being particularly impressive. In the area of current water delivery, 91% of households have water available within 200m of their dwelling.

The backlogs in local government are huge. Limited funding and exponential growth in the municipality has increased the level of backlogs. Eradicating backlogs in basic services and housing as well as improving the provision of services by local government are government's most important goals. The city faces development pressures emanating from backlogs in access to basic services and housing, the need to rehabilitate or replace existing infrastructure, and the need to expand infrastructure services to support economic growth. Urbanisation trends are also pushing the addressing of backlogs even further.

The municipality has as part of its infrastructure planning, documented the nature and extent of backlogs in service delivery across the metropolitan area. The following table is a summary of the current backlogs of the municipality together with the timeframes for addressing same:

Basic Service	Existing Backlog (households)	Timeframe to address based on current funding levels
Housing	406 734	81 Years
Water	73 281	37 Years
Sanitation	224 536	15 Years
Electricity	294 228	25 Years
Roads	1 122 (km's)	94 Years

Vast strides have been made by the municipality to address the service delivery backlogs and specific strategies been put in place. The municipality is committed to ensuring that all backlogs in the provision of infrastructure are removed and as such has embarked on a Municipal Infrastructure Investment Framework. Emphasis is given to the eradication of rural basic service backlogs especially water and sanitation. In urban areas, the primary intervention is the eradication of informal settlements through the provision of housing and a package of household services as well as the provision of interim services to improve living conditions in the settlements.

Whilst the city can pride itself on a successful and large scale mass housing delivery program, not all settlements can be provided with full services and low income housing in the short term due to funding and other constraints. The Informal Settlement Programme is the major focus of eThekwini Housing. The principle intention is to upgrade informal settlements wherever possible and to only relocate residents if upgrading is impossible for health, safety or technical reasons. In order to fast track the general housing backlog within the city a pilot project is being introduced using alternate building technology. The Urban Settlements Development Grant is a key city human settlements funding source and provides for the funding of, inter alia, bulk infrastructure, housing development projects, land acquisition and community facilities all with the targeted view to upgrading the informal settlements across the city in an affordable manner. As informal settlements face a range of basic challenges such as access to services, a pro-active and broad-based programme aimed at providing a range of basic interim services to a number of prioritised informal settlements within the municipality has been developed with a view to addressing these basic issues. In a bid to speed service delivery, the municipality is working with the Department of Energy to provide electricity to about 300 000 informal dwellings in eThekwini as part of the Integrated National Electrification Programme (INEP). The municipality has recently approved plans to roll out the electrification of several informal settlements as part of the programme to provide interim services for people. The programme was aimed at informal settlements where the Department of Human Settlements did not have a plan to build low-cost houses within five years. There are 16 informal settlements earmarked for the programme.

In order to address backlogs in community facilities, an innovative model, termed the Social Facilities Accessibility Model, has been developed to match the demand for facilities, based on population numbers and income and age profiles, with the supply and capacity of facilities geographically. This assessment shows the nature and extent of facility backlogs across the municipality and all requests for the construction of new facilities are currently being assessed within this context.

6.3.4 FINANCIAL PERFORMANCE (2011/12 AND 2012/13): PARENT MUNICIPALITY

The 2011/2012 year has been challenging and demanding but due to the emphasis on fiscal prudence and the introduction of austerity measures, this enabled the municipality to weather the financial storm and the slow economic recovery. Revenue and cash streams are effectively managed in assessing the financial affairs of the municipality, and spending decisions are carefully evaluated. The municipality was able to deliver on key objectives set. Despite the effects of the global recession on the economy, the municipality has managed to achieve a collection rate of 97.5% which is the best in the country. Due mainly to a strong balance sheet, the municipality has maintained its credit rating, the best in the municipal sector.

The Kwa-Zulu Natal Portfolio Committee on Finance and the Co-operative Governance and Traditional Affairs praised the municipality for the excellent use of its finances. The financial performance for 2011/2012 is recorded in greater detail in the municipality's Annual Report. The municipality achieved an unqualified audit report continuing the trend of previous years.

The municipality's financial performance and position is sound mainly due to the following factors:

- Budgets are balanced, being financed from the current financial year's revenues from all sources.
- The municipality operates within its annual budget, as approved by council.
- The municipality maintains a positive cash and investments position.
- Consistently high revenue collection rates are being achieved.
- The municipality has maintained a favourable credit rating.

OPERATING BUDGET

In respect of the 2011/12 financial year, expenditure in the amount of R 21.1 billion was fully funded from the municipality's revenues and grants and subsidies from National and Provincial Government.

Operating Budget Performance (Current Year)

The financial performance for the eight month period ending **February 2013** is summarised in the table below:

Summary Statement of Financial Performance (Parent Municipality)				
Description	2012/13 Budget R'000	February YTD Budget R'000	February YTD Actual R'000	Forecast R'000
Total Revenue By Source (Excluding Capital Transfers)	**(23 352 488)**	**(15 568 325)**	**(15 609 941)**	**(23 208 889)**
Total Operating Expenditure	**23 352 488**	**15 568 325**	**14 373 331**	**23 208 889**
SURPLUS	**0**	**0**	**(1 236 610)**	**0**

Operational Expenditure and Income Performance (2012/13)

Expenditure

The year to date results indicates a spend of 62% of the budgeted operating expenditure of R 23 billion. Current spending levels indicate that there will be a 99.1% spend on the operating budget by year end.

The expenditure on employee related costs is at 62.4% of the salaries budget, which is deemed reasonable. Employee related cost is currently 27.3% of the total operating costs, which is slightly lower than in previous years. Repairs and maintenance reflect a slightly lower spending for the eight months (51.3%), when compared to the same period last year (51.8%). The repairs and maintenance expenditure is approximately 9% of the total operating expenditure to date and this is expected to increase to between 10-11 % by year end.

Income:

- The proportionate increase in Property Rates income to date (R 218m) is mainly attributable to payments made by annual ratepayers.
- A R 144m year to date decrease in the Water-Service Charges is mainly attributable to the illegal connections.
- The police fine income to date is lower than anticipated by R 18 million. This is mainly due to the culture of non-payment and adverse economic conditions. However, this is expected to improve in the ensuing months, with the introduction on 1 December 2012 of the fine payment incentive scheme where a 50% reduction is given to those who pay their outstanding fines within 30 days. The municipality's metropolitan police have collected about R 8.7 million since the commencement of the amnesty period.
- The year to date increase in Operating Grants (R 78m), is mainly attributable to the Equitable Share grant received in advance.

CAPITAL BUDGET

The capital budget totalled R 5.3 billion in 2011/12. This was funded by National and Provincial grants in the amount of R 2.4 billion and R 1.9 billion being funded from Council's internal sources, with the balance of R 1.0 billion from external funding.

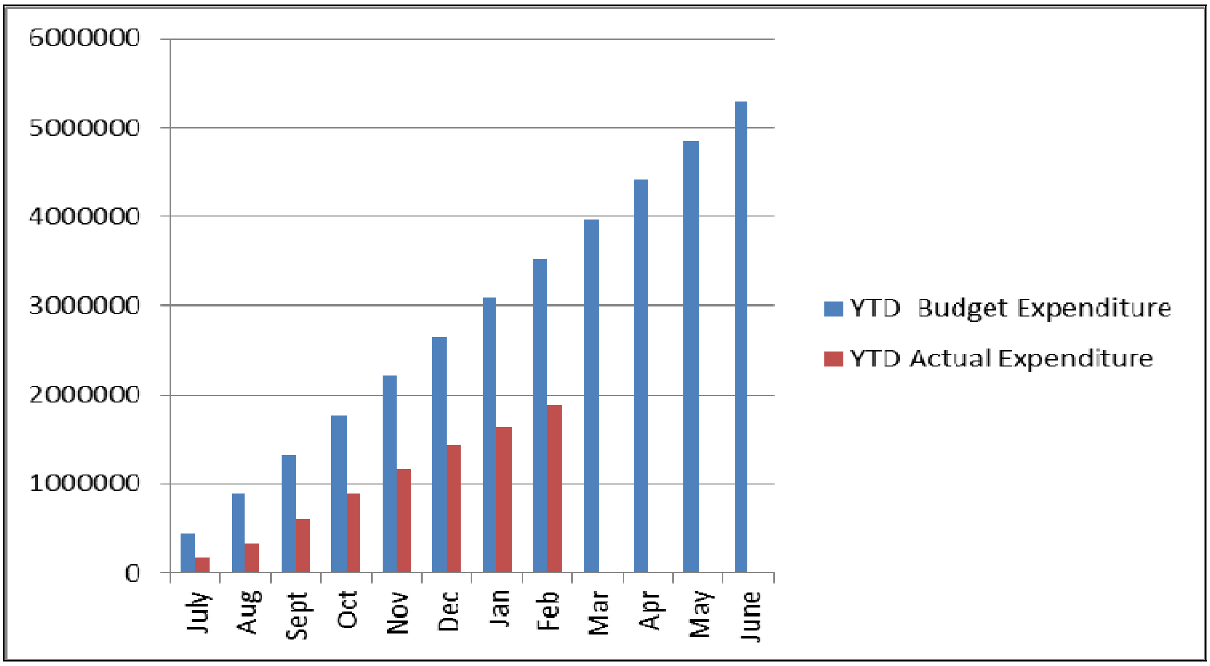
Capital Budget Performance (Current Year)

The capital performance for the eight month period ending **February 2013** is summarised in the table below:

Summary Statement of Capital Expenditure : February 2013				
Description	**2012/13 Budget (R'000)**	**YTD Budget (R'000)**	**YTD Actual (R'000)**	**Forecast (R'000)**
Total Capital Expenditure	**5,285,263**	**3 523 509**	**1 875 382**	**5 384 242**
Total Capital Financing	**5,285,263**	**3 523 509**	**1 875 382**	**5 384 242**

Progressive Capital Budget vs Actual

The following chart compares the year to date capital budget to the year to date actual expenditure over the eight months ending February 2013.



The capital expenditure as at the end of February 2013 is approximately R 1.9 billion, which is 35% of the budgeted amount. This is a 2% reduction when compared to the previous year figure of 37%. However, a spend of 101.9% is forecasted for the year.

Conditional Grants

Approximately R 2.8 billion from all sources have been received to date which represents 57.5% of the amount budgeted for. Grants totalling R 300 million is a rollover from the previous financial year and is expected to be spent by year end.

6.4. BACKGROUND TO THE BUDGET PROCESS

The adoption of the 2012/13 Medium Term Budget for the eThekwini Municipality on 30 May 2012 laid the foundation by which strategic functions within the municipality could apply sound financial planning and management over the medium to long term. It facilitated the critical alignment of planning, budgeting and sustainable service delivery in line with eThekwini's vision of being Africa's most caring and liveable city.

The purpose of the 2013/14 Medium Term Budget is to comply with the Municipal Finance Management Act (No. 56 of 2003) and is a financial plan to enable the municipality to achieve its vision and mission through the IDP which is informed by our five year programme and community/stakeholder inputs. The draft budget is the start of a journey towards the final budget for approval. It will include many processes both politically and administratively, amongst others, consultations with communities in the municipal area.

6.5 BUDGET SUMMARY

6.5.1 MID TERM OUTLOOK: 2013/14 - 2015/16

CAPITAL BUDGET

Municipalities play a critical role in creating an enabling environment for investments and other activities that lead to job creation. Investment in urban infrastructure is important for the development of the local economy, combating poverty and the provision of universal access to municipal services.

Rapid inward population migration, declining household sizes and greater economic activity places pressure on existing municipal infrastructure and requires larger investments in the periods ahead.

The capital budget is directly informed by the needs submitted by the community through the IDP process.
In view of borrowings being maximised and the present economic climate, the high levels of capital expenditure cannot be sustained. The capital budget continues to reflect consistent efforts to address backlogs in basic services and the renewal of the infrastructure of existing network services.To meet the demand for infrastructure; the projected capital expenditure budget for the 2013/14 period is R 5.4 billion. In line with strategic priorities, the major capital investments made by the city have been in Water services and Housing

Over the next three financial years, 2013/14 to 2015/16, capital spending is projected to increase slightly to be R 17.6 billion

The following are some of the MAJOR Capital programmes, which have been included in the MEDIUM Term Capital budget:

PROJECT / ITEM	**R' m**
Water Loss intervention programme	150.0
Electricity Infrastructure	1 864.9
Low cost Housing and Infrastructure	1 963.4
Northern Aqueduct – Water	380.0
Western Aqueduct – Water	924.0
Solid Waste fleet replacement	134.1
Roads Rehabilitation and Reconstruction, and new access road	1 925.9
Wastewater Treatment Works: Upgrades/Expansion	2 148.6
New Central Library	321.1
Economic Development Projects	440.5
Ablution Blocks-Upgrade: Informal Settlement	703.0

OPERATING BUDGET

The operating budget, which funds the continued provision of services provided by the municipality, increased from R 26.2 billion in 2012/13 to R 28.3 billion in 2013/14, R 30.5 billion in 2014/15 and R 33.1 billion in 2015/16 respectively. The growth is mainly in the following areas:

- Cost of addressing service delivery backlogs
- Cost of bulk purchases (Water and Electricity)
- Repairs and maintenance of infrastructure
- Employee related costs as a result of filling of vacancies and provision for salary increase
- Impact of capital spending on the operating expenditure

6.5.2. BUDGET ANALYSIS

EXPENDITURE

Bulk purchases take almost 30% of the operating budget. Given projected increases in the bulk prices of both electricity and water, expenditure on this item is likely to grow more rapidly. Expenditure on repairs and maintenance amounts to R 2.9 billion for the 2013/14 year, representing 10.2% of the total operating budget, which is above the national average and above that of most metros in the country. The municipality acknowledges its obligation to optimally preserve its extended asset base as under spending in maintenance can shorten the life of assets, increase long-term maintenance and refurbishment costs and cause a deterioration in the reliability of services. Aligned to the priority being given to preserving and maintaining the city's current infrastructure and in line with the approach of recent financial years, 2013/14 again provides for significant and above-CPI level increases to this cost component.

Personnel costs account for a large component of operating expenditure, comprising 24.8% of the operating budget. The multi-year Salary and Wage Collective Agreement for the period 1 July 2012 to 30 June 2015 was taken into consideration. Budget appropriations for depreciation amount to R 1.8 billion, comprising 6.3 % of the operating budget. Finance charges consist primarily of the repayment of interest on long-term borrowings (cost of capital) and equate to 4.1% of the operating expenditure.

Some of the major items of operating expenditure are:

DETAILS	2013/014 (R'm)	% OF TOTAL BUDGET
Bulk Purchases	8 380.7	29.5
Salaries and Allowances	6 933.9	24.4
Repairs and Maintenance	2 906.8	10.2
Depreciation	1 799.4	6.3
Interest on Loans	1 159.4	4.1

REVENUE

Revenue generated from rates and services charges form a significant portion of the revenue basket for the city comprising 68.9% of the total revenue. Electricity charges are the largest revenue source totalling 36.5% or R 10.3 billion and are projected to increase to R 12.2 billion by 2015/16. Operating grants and transfers total R 2.4 billion in the 2013/14 year and increase to R 2.5 billion by 2015/16.

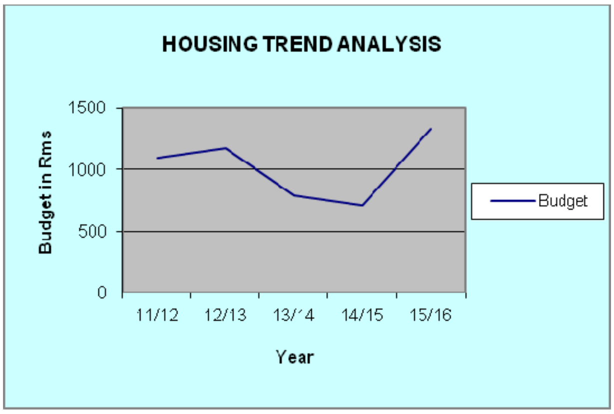
Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariff and other changes were revised local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the city. The proposed tariff increases for the medium term are as follows:

SERVICE	2013/2014	2014/2015	2015/2016
Assessment Rates	6.9 %	6.9%	6.9%
Water			
- Residential	9.5 %	7%	6.5%
- Business	12.5 %	9%	7.5%
Electricity	8 %	8%	7.5%
Sanitation	6.9 %	9%	8.6%
Refuse	6.9 %	5.7%	6.2%

The percentage increases of both Eskom and Umgeni Waters' bulk tariffs are above the inflation rate. Given that these tariff increases are determined by the external bodies, the impact they have on the municipalities tariff are largely outside the control of the City.

6.5.3 INFRASTRUCTURE EXPENDITURE TRENDS

CAPITAL

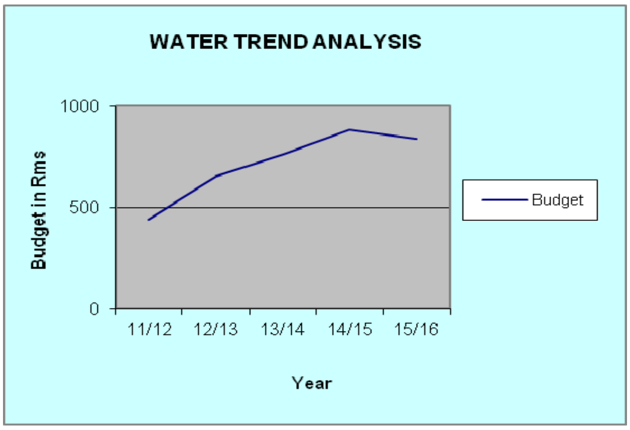


- Budget of R 1.9 bn over three years
- Reduction of the housing delivery program in view of reduced subsidies and land availability
- The construction of houses is dependent on National / Provincial subsidies
- 8 500 new housing units – 2013/14 year, targeting a total of 32 000 units by 2016/17
- Interim services rollout to prioritised informal settlement dwellings

OPERATING

- New development budget increased to R 101.9m
- Upgrading of housing rental stock : R 60m
- Hostels budget: R 299m

CAPITAL

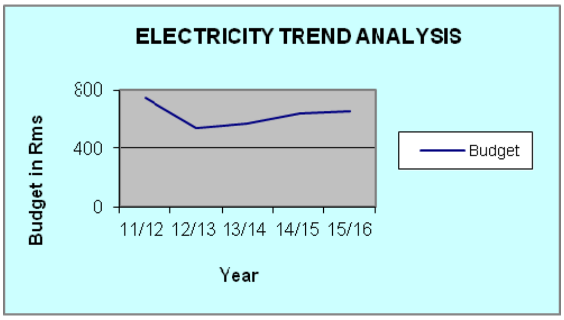


- Budget of R 2.4bn over three years
- Upward trend due to investment in infrastructure and addressing of backlogs
- Provision of R 244m and R 190m has been made for the Western and Northern Aqueduct projects respectively.
- Mini Hydro Power Stations- R 40m
- Continuation of Water Loss Programme

OPERATING

- Additional operating expenditure of 464.8m
- Bulk water Purchases: 8% average increase
- Additional 7 300 water connections
- Increase in maintenance: R 65.6.1m
- Water loss in distribution reduction from 35.5% to 34.5%
- Collection rate of 92.2% mainly due to economic downturn
- Theft of water and illegal connections – major challenge

CAPITAL

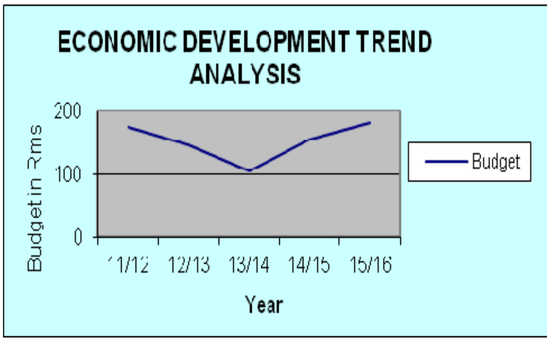


OPERATING

- Maintenance budget increased to R 809.9m
- Provision of new staff: R 38m
- Eskom tariff increase 8%
- Loss in distribution: 5.8%
- Collection rate: 97%
- Theft of cable and electricity- major challenge

- Capital budget of R 1.8bn over next 3 years.
- Ongoing extension and reinforcements of existing networks
- R 150m replacement of 11kv distribution switchgear for Metro area over the next 3 years
- In excess of 10 Major new substations to be commissioned or refurbished

CAPITAL

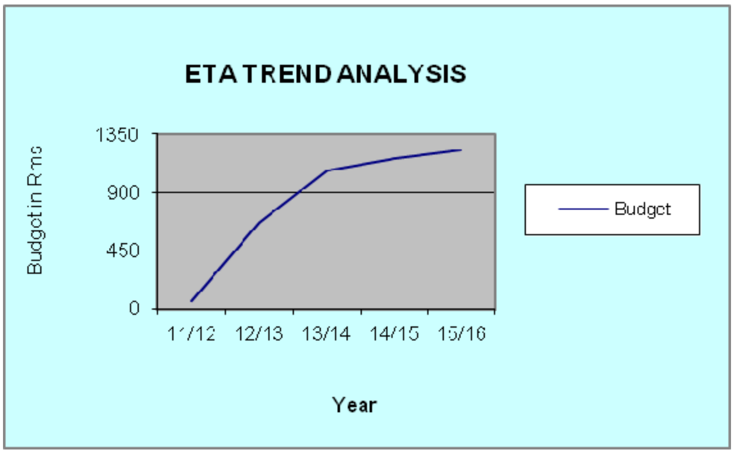


OPERATING

- Economic Development Programmes: R 24m
- Durban Film Office: R 4.6m
- Three Cities International marketing strategy: R 14.1m
- Reforestation projects - Buffelsdraai & Inanda Dam : R 10.9m
- Business Support operational projects: R 10.9m
- Travel and Tourism Trade Show (Tourism Indaba) : R 17.4m

- Budget of R 440m over three years
- Focus on strategic township development, town centre renewals, Industrial renewals, upgrading of tourism nodes and corridors, sector support programmes and LED projects
- Neighbourhood Development Partnership Grant used to create economic infrastructure in undeveloped areas that attracts private sector investment. Grant has been reduced over the next three years.

CAPITAL

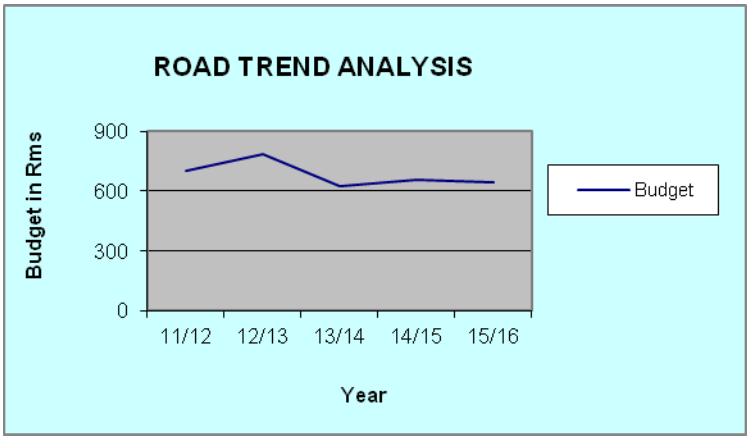


- Capital budget: R 3.5bn over three years
- An increase in budget is due to an increase in PTIS grant to fund Transport infrastructure for the implementation of the IRPTN
- Major projects include:
  - Public Transport Fundamental Restructuring
  - PT holding areas
  - IRPTN
  - Bayhead-Edwin Swales link
  - Freight Management Infrastructure

OPERATING

- ACSA Bus subsidy : R 5,m
- IRPTN Planning: R 51.4m
- People mover: R 30.1m
- Public Conveniences: R 10.5m
- Public Transport Ranks maintenance: R 2.7m
- Institutional arrangements for buses being reviewed

CAPITAL

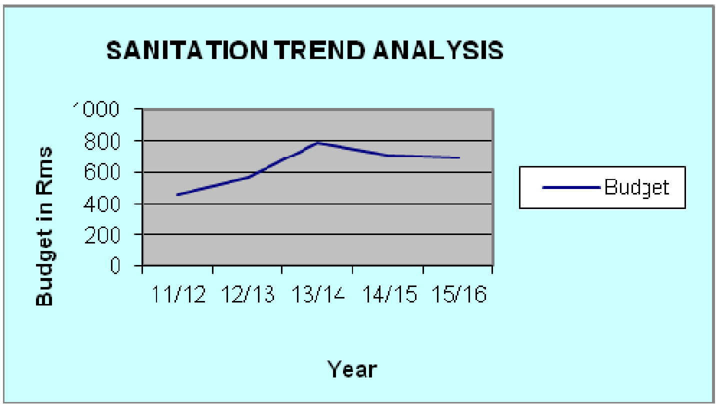


- Capital budget: R 1.9 bn over three years
- Increase due to the focus on improvement of road network and infrastructure
- Focus on refurbishment and maintenance of existing road networks
- Constructed 295 Lane km of new roads, 493 km sidewalks, built 80 pedestrian bridges, resurfaced 1 478 lane km of existing roads and converted 297 lane km of gravel to asphalt roads.

OPERATING

- Operating budget: R 1.3bn
- Zibambele Poverty Alleviation: R 75m
- Public realm and priority zone maintenance: R 88m

CAPITAL

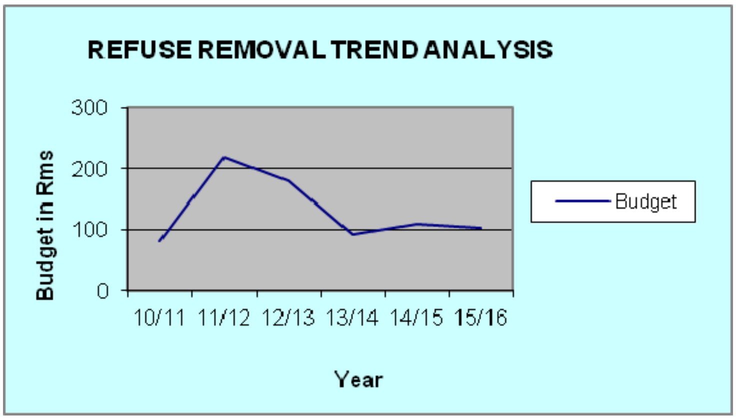


- Budget of R 2.2bn over three years
- Focus on eradication of sanitation backlogs.
- Expansion of Phoenix Waste Water Treatment Works: R 80m
- Kwa Mashu Waste Water Treatment Works upgrade: R 50m
- Provision of Ablution Blocks in Informal settlements: R 233m

OPERATING

- Additional net operating expenditure: R 423.9m
- Provision for maintenance expenditure: R 269.3m
- Sludge disposal initiatives: R 48.4m
- Security costs for the protection of assets: R 36.5m
- Provision for 5 years VIP pit latrine clearance: R 46.5m

CAPITAL



- Budget of R 259m over three years
- Commissioning of Electron Rd transfer station and gradual Closure of The Bisasar Rd landfill site R 120m
- Buffelsdraai container Gantry R 15m
- Provision for replacement of ageing Solid Waste Fleet R 48m

OPERATING

- Achieving nearly 100% coverage in the municipal areas by utilizing community based contractors to provide refuse removal services to all the informal areas R 243.5m
- Waste minimization projects: R 11.8m
- Gas to electricity – Expenditure: R 32.9m, Income: R 67.5m
- Additional operating costs: Electron Rd transfer station R 7.9m

6.6 MAJOR ITEMS OF EXPENDITURE

ITEM/DESCRIPTION	R' m
6.6.1 HUMAN SETTLEMENTS AND INFRASTRUCTURE	
• Point pump station upgrade	16.0
• Tongaat Central waste water treatment works expansion	50.0
• Kwa Mashu waste water treatment works upgrade	50.0
• Addressing of sanitation backlogs	40.0
• Expansion of Phoenix water treatment works	80.0
• Providing ablution facilities in informal settlement sites	275.0
• Western Aqueduct project and Northern Aqueduct improvements	434.0
• Water loss management project	50.0
• Water Reuse Project	50.0
• Mini Hydro Power Stations	40.0
• Buffelsdraai Container Gantry	15.0
• Zibambele poverty alleviation project: roads/verge maintenance	80.0
• Housing delivery programme: 8 500 units	789.0
• Rehabilitation and upgrading of housing rental stock	6.0
• Upgrading and conversion of hostels into family units	165.0
• Roads rehabilitation and maintenance	199.0
• Gravel roads maintenance	371.9
• Electricity network maintenance	21.7
• Strategic Roads Assets management	712.8
• Drains cleaning and maintenance	156.0
• Maintenance of priority routes	46.0
• Rivers and stream cleaning	56.0
• Stormwater Infrastructure	20.0
• Structural maintenance – bridges etc	17.5
• People mover- Interim	12.4
• Durban Transport bus service	30.0
	152.8
6.6.2 CORPORATE AND HUMAN RESOURCES	
• Continual roll out of employee wellness interventions	2.9
• A Talent Management Framework and strategy implementation	2.3
• Medical Surveillance: detection and management of occupational diseases	1.3
• HIV and AIDS counselling and testing services for employees	1.3
• Management Development Programmes: development of the municipality's leadership	5.4
• Adult Basic Education & Training (ABET): general level of education	5.0
• Learnerships/Skills/Apprenticeships Programmes: Learnerships will be implemented / continued for targeted units	8.3
• Scarce Skills interventions for maths, science and technology and other technical areas	1.3
6.6.3 SUSTAINABLE DEVELOPMENT AND CITY ENTERPRISES	
• Cato Manor ABM operational projects	2.7
• Umlazi operational projects	4.2
• Economic programmes, improve and grow the economic base of the city	24.0
• Durban Film Office programmes	4.6
• Reforestation project (Buffelsdraai and Inanda)	10.9
• Durban Tourism bid support and presentations - attraction of major national sporting events	5.0
• Three Cities international marketing strategy	14.1
• Tourism Indaba-Travel and Tourism Trade Show	17.4
• Durban Tourism brand advertising and domestic marketing	8.5
• Durban Tourism Events	5.3
• Business Support operational projects	10.9
• Durban Business Fair-Create platforms for interactions and networking amongst business	8.0
• Best Practice City Commission	3.1

• Sector Development and Creative Industries	16.3
• Town Centre Renewal	77.0
• Neighbourhood Development Programme-Kwa Mashu	10.0
• Tourism Development	17.4

6.6.4 GOVERNANCE

• Food Aid Programme: 18 soup kitchens	13.1
• Senior Citizens Programme: special events recognising our senior citizens	12.9
• Community based planning & implementation	3.8
• Regeneration and upgrade of City Hall	15.0
• Printing and distribution of Municipal Gazette: eZasegagasini	9.7
• Ward Committees training	2.5
• Renovations to regional centres/administration buildings	10.3
• Mayoral Imbizo	4.00
• Security services for councillors and regional centres buildings in the municipal area	36.5

6.6.5 OFFICE OF THE CITY MANAGER

• Legislative Compliance: rationalisation of the municipalities by-laws	2.6
• Legal Fees: Litigation	14.7
• Sale of broadband: Income	22.6
• Maintenance, management and monitoring of the municipality's IT network	32.4
• Programming: Applications and systems software	26.6
• Special events: special and ad hoc events, conventions / international conferences	82.6
• Long Term Development Framework (LTDF)	3.6

6.6.6 COMMUNITY AND EMERGENCY SERVICES

• Fleet maintenance for Fire & Emergency unit	6.5
• Specialised fire fighting support vehicles	3.0
• Public/Private partnership for effective policing of the parking meter system in the city	3.9
• Electronic traffic enforcement	3.7
• Disaster risk assessment	4.7
• CCTV camera repairs	5.5
• Installation and maintenance of the Emergency Services System	2.7
• Implementation of Safer Cities Plan	2.7
• ITRUMP operational projects	4.0
• External security for safeguarding of council assets	360.0
• Providing library facilities	16.0
• Water Safety Awareness: learn to swim programme - approximately 5 000 learners	0.5
• Use of cooperatives / emerging contractors for maintenance of facilities	5.6
• Grass cutting and weed control: contractors	49.4
• Provision of pool chemicals at swimming pools: Water quality	4.3
• Youth sports development and football league	2.6
• Celebrate Durban Sport Programme: 100 wards	1.6
• Participation in Kwanaloga Games	2.5
• Arts and culture interventions	6.9

6.6.7 TREASURY

• Centralisation of Mechanical Plant Workshops	10.0
• Land and property rights acquisitions	5.7
• Fleet replacement	35.0
• Maintenance of vehicle and bus fleet (Grant funded)	156.0
• Energy saving marketing projects	3.9

6.7 CHALLENGES FACING THE MUNICIPALITY

6.7.1 CLIMATE CHANGE

Climate change is likely to cause a number of challenges for eThekwini Municipality, linked to global impacts such as extreme weather events (e.g. flooding and drought), sea level rise and rainfall variability. Temperatures in Durban are likely to increase and projected annual rainfall changes are likely to include a general wetting and an increase in rainfall. These changes in temperature and rainfall may lead to numerous impacts on water availability, agricultural productivity and food security particularly in subsistence farming areas. Temperature increases will also likely cause the spread of water and vector borne diseases to previously unaffected areas in Durban. Water availability is a key climate change related vulnerability and negative impacts on the availability of water will be felt by people, ecosystems and the economy.

The municipality is leading the climate change revolution in local government and has been for a number of years with the most recent programme being the development of the "Durban Climate Change Strategy (DCCS)". Furthermore, the KZN Provincial Government has announced new Green Industry Projects which includes the installation of 30 000 Solar Water Heaters on eThekwini home rooftops before 2015. A KZN Climate Change Council has been formed as part of a plan to reduce the impact of climate change.

6.7.2 THEFT OF ELECTRICITY

Many outages are experienced on the electrical network during the year due to theft of electrical infrastructure, causing the majority of temporary blackouts around the city. The Municipality is losing about R40 million a year in illegal electricity connections and is also concerned about the number of deaths caused by electrocution due to dangerous connections. Anti-theft campaigns and mitigation strategies continue to restrain this endemic. As a means to clamp down on this practice the Municipality conducted covert operations in informal settlements. The municipality has also used protective structures to secure its electricity meters to prevent unauthorized access to the meters. A Cable Theft Task Team has been established and works with the South African Police Services, with the team purely concentrating on curbing cable theft. Although many areas within the municipality experience cable theft causing electricity supply disruption, hotspots have been identified by the task team. A total of 44 sub-stations in the city have been identified as 'hot spots' for copper theft and the security features of the sub-stations were enhanced with pepper-gas systems being installed. A cable theft hotline number is operational for the residents to report any incidents or suspicious activities.

6.7.3 UNFUNDED MANDATES AND FUNDING REALITIES

Certain non-core functions and services which in terms of the constitution fall under the responsibility of National or Provincial Authorities are being provided by the municipality. These functions include the provision of Health Services, Libraries, Museums, and Housing. The reduction or non – payment of subsidies for these services require the municipality to allocate its own resources to make up the shortfall. Although we have done much to address the development challenges of our city, meeting targets will continue to depend on financial support from Provincial and to a larger extent National Government. We believe that given adequate levels of funding, our city could meet the huge challenges we still face.

It is pleasing to note that in order to address their constitutional mandate, the Provincial Department of Arts and Culture has indicated that phasing in of specific funding allocations will continue in respect of the library service (subsidy towards staffing costs). Regarding the Health Service, the ongoing engagement with Province has yielded some positive results in that the level of subsidy is increasing annually towards this function. The transfer of these subsidies is subject to terms and conditions, with reporting requirements, which are agreed upon by both parties under signed Service Level Agreements.

The unfunded mandates for 2013/14 are as follows:

	R'm
Libraries	220.4
Health – Other municipal health services	325.4
Museums and Heritage	46.2
Housing: New development and Hostels	247.1
Formal Housing	24.3
	863.4

6.7.4 SALARIES AND ALLOWANCES

In order to ensure effective utilisation of available budgetary provisions and contain personnel costs, this expenditure is continually being reviewed and the filling of all vacancies currently has to be authorised prior to the recruitment process. As a result the percentage Salaries and Allowances of the total Operating Budget has declined steadily over the years to a level of 24.7%. Whilst this percentage reflects a decreasing trend (mainly due to the bulk electricity purchases increasing at a fast rate thereby driving the relative share of all other expenditure categories down) there has been an increase in the number of posts and positions filled in the past three years. Furthermore, as a result of a review of the temporary council contract staff being undertaken it was resolved to do a further conversion exercise to convert qualifying contract temporary staff to permanent employment with effect from 1 December 2012, subject to criteria.

6.7.5 UNACCOUNTED FOR WATER (LOSS IN DISTRIBUTION)

In view of the substantial investment in the water pipe replacement program, the water loss is still a cause for concern. Water loss management is an ongoing project aimed at reducing the real water losses in the municipal area. Initiatives to reduce the water loss are continuing and based on the intervention plan established, a system of performance monitoring and reporting for each of the identified interventions has been established. The municipality has also implemented the water amnesty project whereby citizens using water illegally could come clean and disclose their illegal water connections.

Every possible measure will be taken to curb the water loss as this has an impact on the setting of an affordable water tariff. It is estimated that for the 2013/14 year the targeted loss in distribution will be a reduction to 34.5%. The effectiveness of the measures put into place will be reviewed on an ongoing basis.

The following interventions are being instituted to reduce the water loss:
- Lowering of supply pressure standards to reduce average zone pressure
- Conducting of active leak detection to 4000 km of network annually
- Rehabilitation and replacement of ageing infrastructure
- Replacement of meters in line with the Asset Management Plan

6.7.6 DURBAN TRANSPORT

A review of the institutional arrangements of Durban Transport including the existing operator model has recently been undertaken. Various proposals were considered in order to determine the best way forward. A company was commissioned by the municipality to determine on the most appropriate option for the city's transport system looking at feasibility, funding and financial implications. The decision on whether to operate Durban's Transport service as a council unit, a trading service or a municipal entity was guided by the findings of the company. Currently, the City transport system is managed on a month-by-month basis by Transnet Africa. With the assessment having being completed, Council can decide on an institutional mechanism to provide a Durban Transport service with implementation being effected within 12 months. Furthermore an interim contract of 12 months be negotiated with current operator. The Proposed assignment of the transport function to municipalities will impact on the costs to the City as the PRASA and bus subsidies are not adequate and this could severely impact on Local Government Finance.

In order to address the challenge of a faster, more effective public transport for eThekwini residents, the municipality will, in four phases over the next ten years develop an Integrated Rapid Public Transport Network (IRPTN). This will indeed be a milestone for the city in the endeavour to be on par with other global cities in respect of public transport.

6.7.7 HOUSING / HOSTELS

The continued urbanization trends are severally impacting on the City and increases the housing backlogs. In addition the development of affordable, well located housing opportunity is a challenge for the municipality. A number of constraints to land acquisition is adversely impacting on the delivery of low cost housing and needs to be acknowledged. These include amongst others, poor geo-technical conditions high land value, competing land uses, environmental restrictions and the cost of densification etc. The key to the future development is the availability and, where required the acquisition of appropriate land for all formats of housing delivery. Limited funding and increasing development costs as well as long processes of project approval are causing the program to slow down. The assignment of the housing functions with full housing accreditation to the municipality with direct capital flow would help to alleviate the situation. In addition, delays in the awarding of tenders and contracts being deferred have also impacted in the housing delivery program with a significant drop in the number of units being delivered. Furthermore, the cost of servicing housing sites (infrastructure) has increased substantially. Necessary measures on the transfer from rental to ownership will need to be taken to ensure that those tenants that do not wish to transfer be provided with alternate accommodation. The increasing deficit anticipated for the operation of the hostels is cause for serious concern.

6.8 ALIGNMENT WITH NATIONAL AND PROVINCIAL PRIORITIES

The Constitution of South Africa recognises that the national, provincial and local government spheres cannot work independently of each other. It provides for co-operatives governance and that all three spheres of government align their functions, responsibility, policies, strategies and programmes. This includes natural co-operation and support to facilitate the delivery of services, overall development and growth. In local government, as much as there is a specific mandate given to the municipality, we have to endeavour at all times to align our efforts with that of National and Provincial government to bring about a better life for all. In developing this budget, the 12 National Outcomes as adopted by Government, have been taken into consideration. The budget addresses those challenges from a policy perspective and implementation is at an advanced stage in all areas. The municipality is confident that this budget is structured to give effect to the strategic priorities and to support long-term sustained growth and development, in line with National and Provincial objectives and with the key objectives identified in the National Development Plan. Local Government has a crucial role to play in the new growth path and the realisation of many of government's outcomes. All spheres of government place a high priority on expanding the economy, infrastructure development, job creation, efficient service delivery and poverty alleviation. Local priorities were identified which are mainly in line with the national and provincial priorities.

LOCAL PRIORITIES

- Growing the economy and job creation
- Expanding and improving municipal infrastructure
- Accelerated and improved service delivery to communities
- Fighting poverty, and building safe, secure and sustainable communities
- Improving skills development to raise productivity

6.9 FINANCIAL STRATEGY, ONGOING VIABILITY AND SUSTAINABILITY

The application of sound financial management principles for the compilation of the city's financial plan is essential and critical to ensure that the city remains financially viable and that sustainable municipal services are provided economically and equitably to all communities. In terms of its financial strategy, the municipality continues to display a robust financial profile characterised by strong cash generation and high liquidity levels.

The vision of the city will be achieved by growing its economy and meeting people's needs so that all citizens enjoy a high quality of life with equal opportunities in a city that they are truly proud of. The needs of the community and the high levels of poverty and unemployment places excessive demands on the municipality's existing financial resources and threatens to constrain the organization financially if these resources are not properly managed.

6.9.1 FINANCIAL STRATEGY

These challenges require the development and implementation of a financial strategy that will generate adequate cash resources, on a sustainable basis:

- To provide basic infrastructure and services to the community,
- To enable the Municipality to achieve its vision of a high quality of life for all citizens in the city,
- To create an environment for business growth and investments conducive to economic development, and
- To ensure financial sustainability of the municipality into the future.

Financial sustainability and viability remain the key principles in the financial planning process and, to ensure compliance with the Municipal Finance Management Act, a Financial Strategy for the municipality was developed and adopted by Council. The municipality's response to addressing its priorities from a financial perspective is as follows:

COMPILE A BALANCED AND REALISTIC BUDGET WITH CASH FLOW TO MATCH

The municipality's budget must set out realistically anticipated revenue from each revenue source.

The following steps will be carried out in respect of expenditure and revenue items, viz.

- All Operating Income and Expenditure increases are to be maintained in line with inflation, as far as practicable. Further, annual salary increases are subject to National Bargaining Council negotiations, but every effort shall be made to keep them within the band of inflation proposed by the National Government.

- Overall expenditure has been reduced to around 7%

- An Asset Management Plan be implemented that will result in programmed maintenance of the municipality's assets, to enable the optimal use of such assets and to ensure their replacement.

- Depreciation Policy

  - The Municipality's depreciation policy is in accordance with the requirements of the Standards of Generally Recognised Accounting Practice (GRAP).
  - Assets are depreciated on a straight line basis over their estimated useful lives.
  - The remaining useful lives of assets will be reviewed annually and amended in accordance with the conditional assessment of the asset.
  - The annual depreciation charge will be amended accordingly.

- A programe be implemented to reduce the water losses to 25% over a period of five years.

- In order to contribute funds for future capital expenditure and to reduce dependence on borrowed funds, a Capital Replacement Reserve has been established, and funded from the following sources:-

  - Any betterment achieved from budgeted Water and Electricity operating results, including savings achieved through reductions in losses in distribution
  - Any betterment in Rate and General operating results
  - Dependant on the impact of tariffs, an additional contribution will be considered

- To maximize additional revenue sources, the following will be pursued:-

  - Maximize investment rates, especially on call account
  - Development charge
  - Business Tax
  - Grant income to be maximized

- Surplus Policy

  - The surplus generated annually will be reviewed and a cash backed element will be ring-fenced to finance the provision of future infrastructure and other capital projects.

CAPITAL EXPENDITURE

The 10 year financial model is informed by the IDP and the current service delivery backlogs. At this stage, capital expenditure is projected for the MTREF period. The capital budget is split appropriately between economic, social and rehabilitation , environmental and administration expenditure.

FINANCIAL INDICATORS

The key indicators below form the parameters within which the municipality aims to operate in order to achieve the objectives set out in this document.

- Balance Sheet Ratios:

  - Gearing Ratio:-

  Calculated as Borrowings over Income. Currently the industry norm is 40% but National Treasury has indicated some years ago that 50% is acceptable for municipalities. We are currently at 39% with curtailed borrowings.

  - Current Ratio:-

Calculated as Current Assets over Current Liabilities will be maintained at 1.2:1

- No. of Days Cash and Investment on hand:

The accepted norm is 90 days. The strategy is to build the municipality's cash reserves to meet this requirement. The days cash on hand is anticipated to be 89 days by year end, amounting to R 5 billion.

- Revenue Ratios:

- Debtors days:-

  In respect of key services this will be closely monitored. With the municipality strictly implementing a council approved comprehensive Debt Collection and Credit Control Policy, conservative approach to collection practices, the number of debtor days outstanding is projected to be maintained at around the current average levels of approximately 130 days.

  - Bad Debts Provision:

  Will be prudent into consideration the actual collection rate and impairment. Any debt over 120 days will be provided for.

FREE BASIC SERVICES

The municipality is required to make available free basic services to a large component of poor households. The cost of free basic services impacts on the city's finances and therefore there is a need to ensure adequate growth in the rates base by promoting economic development as this impacts on the city's ability to cross-subsidise. This also impacts on the extent that higher-end consumers subsidise indigent consumers and hence the level of tariff increases (Item 8.2 refers).

The implementation of this strategy will contribute considerably towards ensuring financial viability and sustainability of the organisation into the future. The budget of the municipality is funded in accordance with the requirements set out in the MFMA, thereby ensuring the municipality remains as a going concern and is able to sustain existing services and progressively extend services.

6.9.2 THE MUNICIPAL INFRASTRUCTURE INVESTMENT FRAMEWORK

The municipality has embarked on a Municipal Infrastructure Investment Framework for the city. The municipality is committed to ensuring that all backlogs in the provision of infrastructure are removed. However, this must be done in such a way so as to ensure that the municipality, which is at the forefront of infrastructure delivery, remains financially viable and have the capacity to operate and maintain this infrastructure.

The Municipal Infrastructure Investment Framework (MIIF) thus aims to establish:

- The extent of infrastructure to be provided;
- The capital expenditure required to provide this infrastructure;
- The extent to which financing is available for this capital expenditure;
- The operating expenditure required to ensure that the infrastructure provided is properly operated and maintained;
- The extent to which revenue can be raised to cover this operating expenditure, within the provisions of the Municipal Fiscal Framework.

The framework also considers the monitoring systems required to assess progress with respect to infrastructure delivery as well as processes to ensure that systems and management capacity are in place in municipalities to manage the infrastructure, with the emphasis on a municipal infrastructure asset management strategy.

6.9.3 MUNICIPAL SERVICE FINANCIAL MODELLING FOR ETHEKWINI

In order to determine the overall sustainability of eThekwini finances, a Municipal Services Financial Model (MSFM) has been completed for the municipality. The MSFM calculates the capital expenditure required over ten years to meet service delivery targets and assesses the capital finance sources available. It also calculates the operating expenditure required to operate and maintain infrastructure adequately and determines whether operating revenue available will be sufficient to cover this expenditure.

The model has provided valuable insights into the overall functioning of the municipality. Maintaining financial viability is obviously critical to the achievement of all other objectives and hence the results of the MSFM must be used to align the capital and operating budget spend in order to achieve this long term financial sustainability.

The model has been applied to the 2014/15 and 2015/16 capital budget allowing us to prioritise more effectively.

6.9.4 INFRASTRUCTURE DELIVERY MANAGEMENT SYSTEMS (IDMS)

In order to customise the Infrastructure Delivery Management System (IDMS) for local government, the municipality is participating as a pilot in the programme. The IDMS is described as the process that makes up public sector infrastructure/construction delivery and directly related procurement management, and is seen by National Treasury and other stake holders as the model for the best practice infrastructure delivery. National Treasury credits eThekwini Municipality as being well ahead with most of the infrastructure delivery process especially regarding infrastructure planning and construction procurement.

The Engineering Unit will manage the process within the city through collaboration with National Treasury, CIDB and other stakeholders, both internal and external, ensuring technical cohesion and aligned support service. Our alignment as a city with the principle of IDMS as outlined by National Treasury is envisaged as an opportunity to:

- improve multi-year portfolio, programme and project management principles both within and well beyond the current MTEF cycle.
- improve project strategy, planning and prioritisation through improved alignment with IDP and other objective driven strategies
- consolidate related input, processing output to a single source system leading to improved reporting, visibility and accessibility.

In doing so will improve infrastructure delivery, be fully aligned to National Treasury's infrastructure alignment model developed through their infrastructure Delivery Improvement Programme and additionally have the benefit of the assistance of National Treasury resources.

6.10 MUNICIPAL ENTITIES

Inkosi Albert Luthuli International Convention Centre (ICC)

Developed as a catalyst for economic growth for Durban and KZN, the Centre has contributed significantly to the sustainability of the hotel, restaurant, transport, retail and logistics sectors. Opened in 1997 and with the addition of the arena in 2007, the ICC has been transformed into the largest flat floor, column free exhibition/conference space in Africa. The ICC has made tremendous contribution to the economic prosperity of the city and the province and reflects its success as a municipal entity. It has contributed to putting the city on the global conferencing map and has become a vital catalyst for economic growth, for the City, KZN, and South Africa. During the 2012 financial year the ICC has managed to achieve excellent results, setting a new revenue record and achieved a positive net profit. The revenue generated for 2012 has been the highest since the establishment of the ICC. Tight controls over costs contributed to increasing the operating profit which is an extremely positive return in investment to the stakeholders. One of the first of its kind in South Africa, ICC has recently celebrated its 15th anniversary. Having contributed R 3 .11 billion in the last year to the GDP, the ICC has further demonstrated the important role that it plays in the South African Economy. 2012 has been a record year with the ICC being the best performing convention centre in the country.

The ICC will continue to focus on growing its core business and retaining the status as Africa's Leading Meetings and Conference Centre. Having hosted some of the biggest most high profile conferences in the world, the multi-award-winning ICC was this year named Africa's Meeting and Conference Centre by the World Travel Awards for the 11th time in 12 years.

Durban Marine Theme Park (Ushaka Marine World)

uShaka Marine World is the largest marine theme park in Africa and consists of four divisions covering 16 hectares.

Paid footfall into the two main components of the park came in at 1 315 018 visitors. A number of projects were completed during the past year including the addition of a wet area to Ushaka Kids World, an energy saving project, various new animals exhibits and a new slide for 'Wet ' and Wild which opened in December 2012. The growth in footfall has continued and Ushaka remains a key destination within KZN and Durban for both tourists and locals. The park is a strategic asset for the City in terms of both tourism and urban renewal in the Point Precinct. In the 9 years of its existence, uShaka has contributed approximately R 2 billion towards the local GDP and created around 12 000 jobs(direct and indirect). In the short term (i.e. 2/3 years), a consolidation approach will be adopted with an emphasis on utilizing scarce funds for priority maintenance projects, as well as quick revenue enhancing opportunities.

The operating company management contract is due to expire on 31 March 2013 and the municipality has resolved not to renew the contract. Accordingly the Board of the Durban Marine Theme Park will manage the organisation with its own staff complement, expertise and resources. All staff employed by the Management company will be transferred to the Theme Park and it is anticipated that there will be a minimal disruption to operations.

The medium term will move towards the re-capitalisation phase with more significant upgrades required to ensure the longevity of the park and continued footfall growth. It is envisaged that with the park being able to generate savings in management fees under the new structure, these funds could be deployed in introducing new attractions and keeping the park "fresh". UShaka is entering an exciting next phase of its life cycle with the opportunity to introduce an iconic new attraction or two for Durban. This idea will form a key part of the strategy going forward in the era without a management company involved and together with the City, various options will be explored in terms of enhancing uShaka as a major draw card for Durban.

In compliance with the Municipal Finance Management Act, both the municipal entities have submitted their budgets and business plans for consideration by the Municipality.

7. BUDGET PROCESS

7.1 OVERVIEW

Budgeting is primarily about the choices that the municipality has to make between competing priorities and fiscal realities. The budget process is an effective process that every local government must undertake to ensure good governance and accountability. The process outlines the current and future direction that the city would follow in order to meet legislative stipulations. The budget process enables the city to optimally involve residents and other stakeholders in the budgeting process.

The budget preparation process is guided by the following legislative requirements:

- Municipal Budget and Reporting Regulations
- Municipal Finance Management Act
- Municipal Systems Act and
- Municipal Structures Act

Section 21 of the MFMA requires that a time schedule setting out the process to draft the IDP and prepare the budget be tabled ten months before the financial year. In compliance with this requirement the IDP and budget time schedule was tabled before council in August 2012. The main aim of the timetable is to ensure integration between the Integrated Development Plan, the budget and allied process towards tabling a balanced budget.

In October 2012, a budget workshop was held as a prelude to the commencement of the budget process to review the 2012/13 budget and to enable strategic discussions pertaining to the budget process. The workshop dealt with past performance trends of operating and capital budgets, identified budget realities going forward and set the criteria and basis to be used in the appropriation of financial resources amongst city functions during the budget cycle. Thereafter budget instructions (broad expenditure parameters) were issued to departments by the Budget Office.

Budget meetings were also held with various clusters. At these meetings, budget strategy, budget policies and the alignment of the operating budget with the IDP were discussed. The IDP's strategic focus areas informed the development of the budget, in addition to assessing the relative capacity to implement the budget, taking affordability considerations into account.

During February 2013, further deliberations were held on the budget with the various Cluster Heads and their teams with a view to assessing the budget and reducing the deficit in order to ensure that the increase in rates and tariffs to balance the budget was restricted to an acceptable level. Furthermore, the City Manager hosted a ' BUDGET LEKGOTLA' in February with senior municipal officials and councillors. The workshop was an information sharing session and covered a wide range of national, provincial and local government initiatives. Budget consultations and presentations were made to the Durban Chamber of Commerce and Industry during November 2012 and March 2013.

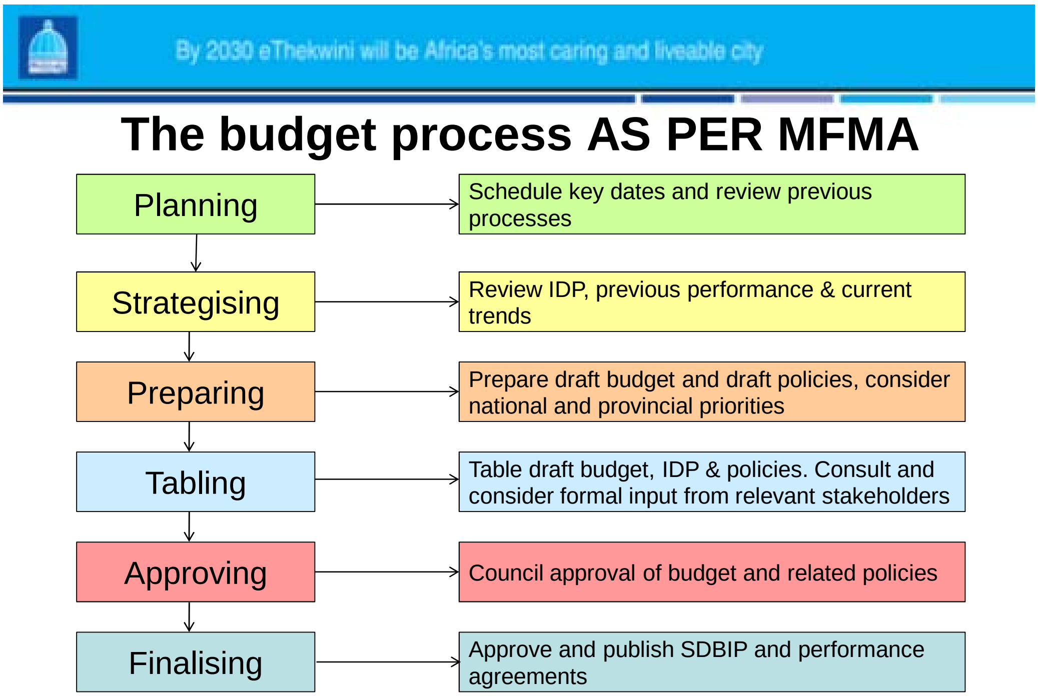
The mechanism through which the needs of the municipality are identified and priorities set is the Integrated Development Plan (IDP). The capital budget is then accordingly allocated to cover the higher priority projects in the IDP. The first draft of the capital budget for the MTEF commencing 2013/14 reflected an over subscription. A series of meetings were held to ensure that the budget is prioritised, balanced and aligned to Councils IDP. A review of the capital borrowings and capital spending took place as the trend in borrowings is not sustainable in view of the increased financial charges and the impacts on tariffs.

The following principles were applied in formulating the medium term capital budget:

- Access modelling used when considering requests for community facilities
- The 2012/13 capital budget as approved in the previous years MTEF has been used as a base
- Budget must be aligned to the IDP
- All grant funding had to be verified
- Borrowing to be kept to a minimum

A strategic approach with regards to the prioritization of the capital budget has been undertaken using the Municipal Services Financial Model (MSFM) as well as the access modelling tools. The intention was to align our budgeting with the priorities that stem from the IDP and National and Provincial priorities with a view to overall sustainability. The 2012/13 MTEF was utilized as a base for the 2013/14 MTEF. Additional project requests by the departments as a result of changes in priorities were considered. A review of projects was done in order to determine that contract commitment for multi-year projects that commenced in 2012/13 were given priority.

During the prioritization process of the capital budget, the impact of capital projects on future operating budgets was assessed and considered prior to these projects being approved. Both the operating and capital budgets have been evaluated through a prioritisation mechanism that ensures alignment to the development strategy of the municipality.



7.2 POLITICAL OVERSIGHT OF THE BUDGET PROCESS

The key to strengthening the link between priorities and spending plans lies in enhancing political oversight of the budget process. Strengthening the link between Government's priorities and spending plans is not an end in itself, but the goal should be enhanced service delivery aimed at improving the quality of life for all people within the City. The Strategic Management Team has a significant role to play in the financial planning process.

Section 53(1)(a) of the MFMA states that the mayor of a municipality must provide political guidance over the budget process and the priorities that must guide the preparation of the budget. The Strategic Management Team and the Executive Committee advise Council accordingly. Political oversight of the budget process allows Government, and in particular, the municipality to manage the tension between competing policy priorities and fiscal realities.

7.3 PROCESS FOR CONSULTATIONS WITH EACH GROUP OF STAKEHOLDERS AND OUTCOMES

Section 22 of the MFMA requires that after tabling of the annual budget in Council, the municipality must make public the annual budget and also invite the local community to submit representations thereon. Management within the local government has a significant role to play in strengthening the link between the citizen and governments overall priorities and spending plans. The municipality prides itself of enjoying the reputation of actively engaging many of its citizens as possible in its planning, budgeting, implementation and monitoring processes. In order to strength public participation, the municipality has been rolling out its outreach programme in all 17 zones during the year.

Accordingly, the tabling of the draft Budget in council will be followed by extensive publication of the budget documentation in the council's newspaper, Metro eZasegagasini. Copies of the tabled budget in both electronic and printed formats will be submitted to National Treasury as well as the Kwazulu-Natal Provincial Treasury and the Provincial Department of Co-operative Governance and Traditional Affairs. The tabled budget will also be published on the council's website. In terms of the Municipal Systems Act and in conjunction with the Municipal Finance Management Act, hearings on the budgets will be held during April 2013 in 17 zones in the eThekwini region with each zone comprising of between five to seven wards. Other key target groups for the budget hearing would include:

- Durban Chamber of Commerce and Industry
- Civic Bodies
- Religious Organisations
- National Treasury

7.4 SCHEDULE OF KEY DEADLINES RELATING TO BUDGET PROCESS

The budget time schedule for the compilation of the 2013/14 budget cycle was approved in August 2012, well before the start of the budget year and in compliance with the MFMA.

The table below provides an extract of the key deadlines relating to the budget process:

DETAILS	DATE
Tabling of Annual Budget: Council	28 March 2013
Regional Hearings on the Budget	April-May 2013
Approval of Final Budget	29 May 2013
Approval of SDBIP by the Mayor	28 June 2013
Submission of Approved budget to National Treasury/ DPLG/Provincial Treasury	13 June 2013

8. BUDGET ASSUMPTIONS

8.1 KEY FINANCIAL ASSUMPTIONS

Budget assumptions and parameters are determined in advance of the budget process to allow budgets to be constructed to support the achievement of the longer-term financial and strategic targets. The assumptions and principles applied in the development of this budget are mainly based upon guidelines from National Treasury (expenditure growth) and other external bodies such as the National Electricity Regulator of South Africa (NERSA), Umgeni Water and other major service providers. The municipal fiscal environment is influenced by a variety of macro economic control measures. National Treasury determines the ceiling of year-on-year increases in the total operating budget, whilst the National Electricity Regulator (NER) regulates electricity tariff increases. Various government departments also affect municipal service delivery through the level of grants and subsidies.

The following key assumptions underpinned the preparation of the medium-term budget:

Description	2013/14	2014/15	2015/16
	%	%	%
CPI-Inflation	5.9	5.6	5.4
Remuneration Increase	6.85	6	6
Telephones	5	6	6
Fuel and Oil	12	10	10
Postage & Revenue Stamps	6	6	6
Printing & Stationery	6	6	6

8.2 CREDIT RATING OUTLOOK

A credit rating is an independent opinion on the ability of an entity to pay its financial obligations, in full and on time. The Global Credit Rating Company (GCR) reviewed the credit ratings for eThekwini Municipality, following a detailed analysis of the municipality's 2011/12 financial statements and medium-term expenditure budgets and have accorded the following:

- Long term: The rating of AA- has been maintained in the 'double A band'. The rating is defined as having a very high credit quality.
- Short term: The rating of A1 has been maintained. The rating is defined as having a very high certainty of timely payment.

Despite the sovereign credit rating dropping, the municipality has once again maintained its excellent, investment grade credit rating. The rating panel were of the opinion that eThekwini continues to reflect a healthy credit rating profile. The rating has been at this highest attainable level in the South African municipal sector for the past ten years. A rating of this nature is crucial for borrowings undertaken and extremely important for the capital expenditure programme.

8.3 BORROWING AND INVESTMENT OF FUNDS

BORROWINGS

The Municipal Finance Management Act No. 56 of 2003 permits long term borrowing by municipalities only to finance capital expenditure, property, plant and equipment.

The eThekwini Municipality's Infrastructure Financing Strategy is to:

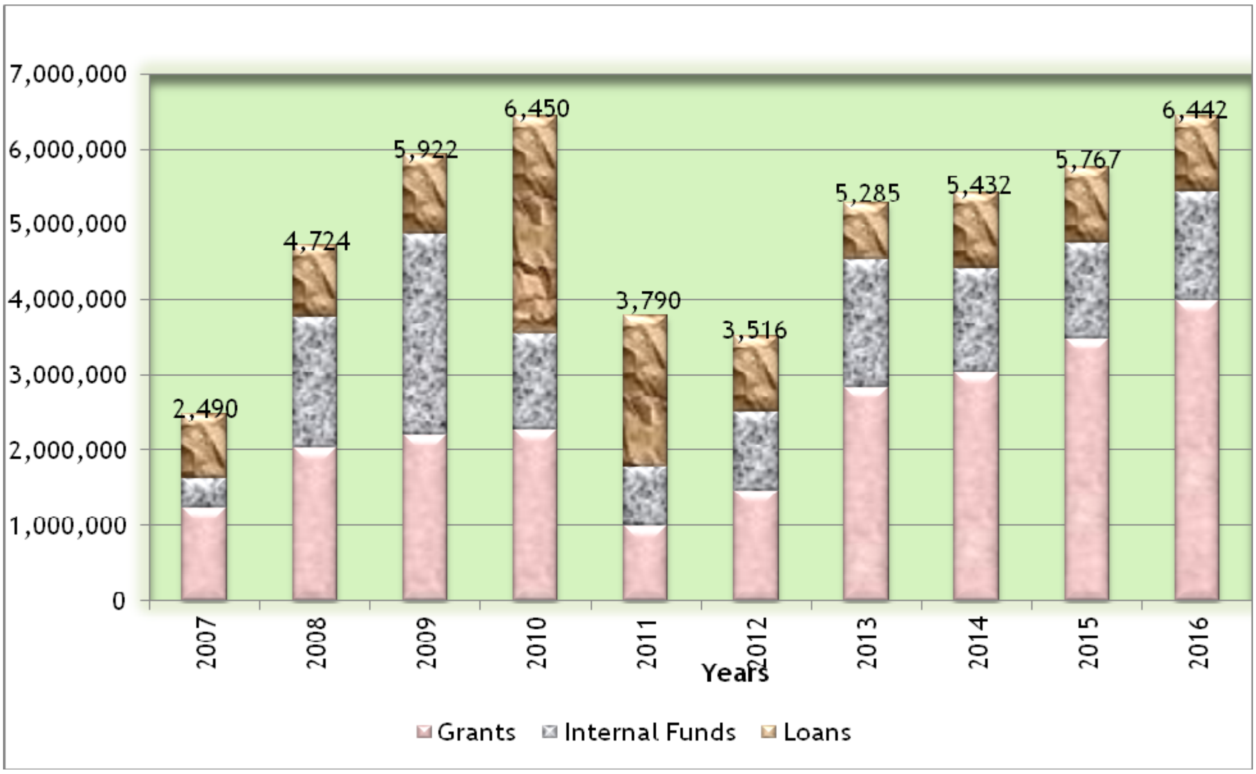
- Maximise internally generated funds and national transfers from other spheres of government.
- Minimize borrowings.
- Pursue alternate funding sources e.g. Development charges, and public private partnerships.

CAPITAL EXPENDITURE

The City's capital expenditure has been funded from a mix of government transfers, internally generated funds and external loans. The 2012/13 Capital Budget of R5,3 billion is being financed by R2,8 billion from government grants, R1,7 billion of internally generated funds and R750 million in external loans.

The graph below shows the Total Capital Budget since 2007 and indicates its funding sources. The figures in the 10 bars are in billions.

Funding of Capex 2007 – 2016



*Loans comprise, on average, only 20% of the funding mix.
2007 – 2012 are Actuals. 2013 to 2016 are Forecasts.

It will be observed that Loans comprise the smallest portion of the funding mix for Capital Expenditure, with Grants being the largest contributor.

BASIC SERVICE DELIVERY

The table below indicates the Capital spend on 'Basic Service Delivery' items over the past three years. One will observe that the bulk of the Capital is spent on 'Basic Service Delivery' infrastructure. This pattern of expenditure is expected to be maintained for the foreseeable future.

Capital utilised for Infrastructure

	2010		2011		2012	
Procurement and Infrastructure	**R'000**	**%**	**R'000**	**%**	**R'000**	**%**
Housing & Hostels	136,177		41,917		213,850	
Roads & Storm water	1,405,087		994,021		884,789	
Transport	0		13,698		120,461	
Procurement	239		534		1,093	
Sanitation	448,043		350,677		426,008	
Solid Waste	118,190		66,177		159,435	
Water	1,709,154		1,094,962		483,294	
Electricity Services	683,238		585,308		567,382	
	4,500,128	69	**3,147,294**	83	**2,856,312**	83
Total Capital Expenditure	**6,493,670**		**3,776,253**		**3,443,694**	

The table below indicates the actual borrowings and the future loans to be taken to continue the service delivery programme.

	Actual	Forecast		
	2012 R'm	2013 R'm	2014 R'm	2015 R'm
Total debt	**10,679.0**	**10,590.0**	**10,663.0**	**10,500.0**
Loans Raised	**1,000,0**	**750,0**	**1,000,0**	**1,000,0**

It should be noted that the net loan book over the MTEF period reduces by R 179m and the gearing reduces to 39%.

FUTURE CAPITAL PROGRAMME FOCUS

Following a sharp reduction in 2012 (R3,5 billion) the eThekwini's capital programme is expected to regain momentum going forward, rising by a significant R2 billion to R5,3 billion in 2012/13. It will average an annual R5,8 billion from 2012/13 to 2014/2015. The primary focus of the City's capex programme of R 17.6 billion over the next 3 years remains road transport, at 31% of annual aggregate capital spend. In view of the delegation of housing infrastructural responsibilities from provincial government to eThekwini, this is expected to represent an average annual 15% of the capital budget. In terms of the MSFM model, the major portion (40%) of the capital budget is allocated towards social development projects, 30% each towards rehabilitation projects and economic development.

An aggressive focus will also be placed on rolling out sanitation facilities, which has generally lagged other key services. The bulk of the remaining projects will focus on erecting new, as well as replacing dilapidated electricity and water assets. Overall, expansionary capex is expected to represent approximately 70% of total infrastructure spend from 2012/13 to 2014/15 with the balance allocated to uplifting existing assets.

LONG TERM BORROWING

APPROACH

Long term borrowings in eThekwini have risen gradually between 2007 and 2012 and have been mainly in the form of annuity loans, with a significant proportion borrowed from the Development Bank of South Africa. The dominance of annuity loans within eThekwini's borrowing portfolio is largely due to the ability of the City to source competitive interest rates from commercial banks. While a bond issuance is a viable option for eThekwini, in part due to an excellent credit rating of AA - issued by the Global Credit Rating Company, annuity loans are preferred.

This is because they are a cheaper source of finance and are less risky for the City, as the principal is paid over the duration of the loan instead of a bullet payment at the end of the term. The City has in the past preferred fixed interest rate annuity loans as they eliminate interest risk associated with variable rate loans.

The eThekwini Municipality new loan profile for 2012/13 is as follows:

INSTITUTION	Fixed Interest Rate*	Duration in Years	R m	Status
ABSA	8.69%	15	750	Draw Down by 28/06/2013

*It is anticipated that the R750m loan will be drawn down on the 28 June 2013.

The above mentioned loan is unsecured which is an acknowledgement by lenders of the municipality's sound financial standing and reputation to meet its loan obligations.

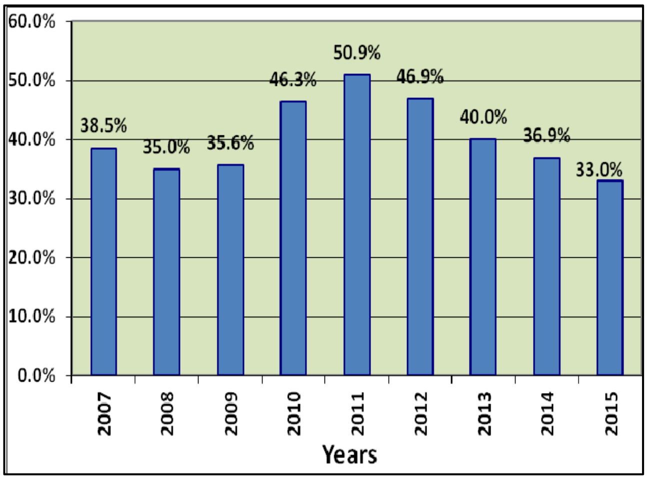
DEBT CAPACITY INDICATORS

The City tracks a number of key debt capacity indicators, with the prudential limits for each of these ratios being summarised below:

- Gearing should preferably be maintained at 40 per cent of total revenues.
- Debt service costs should not exceed 10 per cent of total operating revenues.

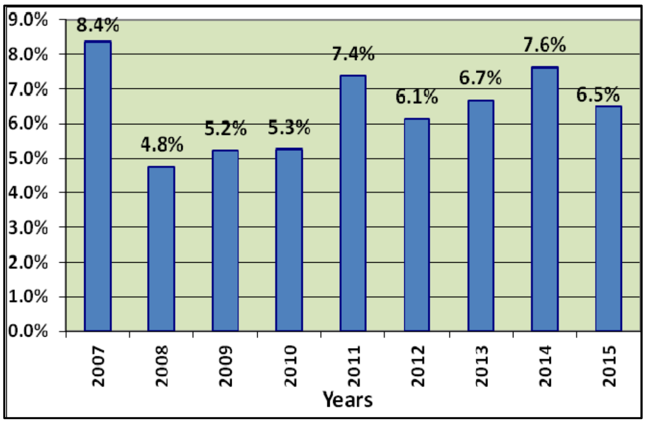
The tables below indicates the status of the indicators mentioned above:

Gearing Ratio 2007 - 2015



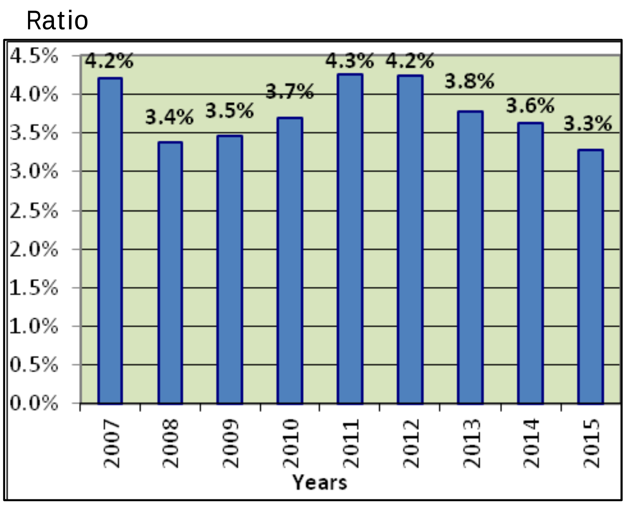
Gearing = Total Debt as a % of Total Operating Income
2007 – 2012 = Actual. 2013 – 2015 = Forecast

Debt Coverage Ratio 2007 - 2015



Ratio = Debt Services Cost as a % of Total Operating Income
2007 – 2012 = Actual. 2013 – 2015 = Forecast

Interest Paid as a % of Total Operating Income



2007 - 2012 = Actual. 2013 - 2015 = Forecast
Interest Expense not more than 4% (Average) of Total Budget

The graphs shown above indicate that the City has not breached any of the prudential ratios set, except the Gearing Ratio for three years, including the World Cup event. At that time National Treasury was also advocating a more aggressive capital spend. The borrowings are therefore sustainable and affordable.

FUTURE TREND

Government grants are budgeted to fund the bulk of capex spend annually (2013: 54%; 2014: 55%; 2015: 61%), underpinned by the recent introduction of the urban development settlement grant. The City has revised medium term borrowing forecasts significantly downward.

During the previous Budget review, the City expected to source around R 2 billion in new loans annually from 2012 to 2014. However, only R 1 billion was raised in 2012, while for 2013 a R 750 million loan (compared to a budget of R1,5 billion), and a further R1 billion in each of 2014 and 2015 is contemplated.

In view of the sustained strong growth in income, gearing is forecast to fall to 40% in 2013 (2012: 47%), and further to 37% in 2014 and 33% in 2015. Furthermore, liquidity metrics are expected to remain sound, with days cash on hand forecast to be maintained above 85 days over the next 3 years.

Forecast Balance Sheet (Rm)	Actual	Forecast		
	2012	2013	2014	2015
Short term debt	772.3	1,156.8	1,021	1,010.0
Long term debt	9,906.7	9,433.2	9,642.0	9,490.0
Total debt	**10,679.0**	**10,590.0**	**10,663.0**	**10,500.0**
Cash & cash investments*	4,804.1	5,000	5,200	5,300
Key ratios				
Total debt: income (%)	47.4	40.0	36.9	33.0
Cash cover S/T debt (x)	6.2	4.3	5.1	5.2
Cash on hand (days)*	92	89	87	85

**Includes unspent conditional grants*

INVESTMENTS

Investments made with the various financial institutions are strictly in compliance with Municipal Finance Management Act and the Investment Regulations.

The investment returns achieved are as follows: -

	30 June 2012 %	30 June 2013 %
Average rate of return on investments	5.8	5.4 *

Cash which is surplus to immediate requirements is invested in short term money market instruments in terms of a stringent investment policy which specifies that cash holdings only be placed across 'the big 4' South African banks and Investec. Cash and investments are expected to be around R5 billion at the end of the current financial year.

However, it must be remembered that not all of this amount represents 'unrestricted' cash. The following amounts are ring fenced, viz. Self-Insurance Fund R1 billion; Unspent Grants presently R0,5 billion and the Durban Pension Fund R60 million. A Cash holding of R5 billion represents 89 Days Cash on Hand. The National Treasury norm is 90 days Cash on Hand so there is consequently no further leeway to utilise internally generated funds for the Capital Budget.

**-indicative rate*
**-forecast*

RISKS ASSOCIATED WITH AGGRESSIVE CAPITAL BUDGET

The following risks need to be acknowledged before any consideration can be given to increasing the utilisation of internally generated funds for the financing of the Capital Budget, viz:

- Whilst the City presently enjoys a healthy debtors collection rate, sustained high tariff increases being passed onto consumers may present a challenge in terms of sustaining these levels in the future.
- Depreciation provisions every year have to be 'cash backed', after providing for the National Treasury norm for Days Cash on Hand of 90 days. This places a significant higher demand on cash resources.

8.4 PRICE MOVEMENTS ON SPECIFICS

The tariff for 2012/2013 bulk water purchases from Umgeni Water is R 4.28 per kl. Umgeni Water has advised that there will be an 8% average increase, inclusive of the capital unit charge for the construction of the Springrove Dam, in the tariff for the 2013/2014 financial year. The increase is above the current inflation rate to fund future infrastructure development projects. A dispute has been declared regarding this tariff increase and Council will be updated on the progress. A provision of R 1.45 billion has been made in respect of bulk purchases of water.

Purchase of bulk electricity from Eskom amounts to R 6.9 billion. This budget provision includes an estimated 8% increase in the Eskom price of bulk electricity supplied to municipalities as approved by NERSA.

8.5 TIMING OF REVENUE COLLECTION

Consumers are billed monthly in respect of services in the form of a consolidated bill. All annual residential and commercial ratepayers have been converted to monthly ratepayers. However, government departments and companies with more than 150 accounts are allowed to pay annually (by October).

8.6 AVERAGE SALARY INCREASES

The budgeted salary increase is 6.85% for the fiscal year. This takes into account the multi-year Salary and Wage Collective Agreement for the period 1 July 2012 to 30 June 2015. The agreement provides for a wage increase based on the average CPI for the period 1 February 2012 until 31 January 2013, plus 1.25% for the 2013/14 financial year. Provision has been made for actual positions and vacancies together with notch increases. As a result of the annualised effect of vacancies filled during 2012/2013, the conversion of temporary staff, the year on year increase on employee related costs is 10.5%.

8.7 CHANGING DEMAND CHARACTERISTICS (DEMAND FOR SERVICES)

South African cities continue to face significant development challenges despite progress in expanding access to basic services. Rapid urbanisation has brought about greatly increased demands for land, housing, water and sanitation, electricity and transport in large cities. Infrastructure and service delivery functions need to interact effectively to promote efficiency, employment and integrated development. The current pace of urban population growth is outstripping economic growth, presenting major challenges to municipalities. Cities are seen as havens for jobs, better livelihood, access to superior infrastructure and business opportunities by rural communities. eThekwini finds itself in a difficult situation since its good track record of service delivery is attracting further in-migration.

8.8 ABILITY OF THE MUNICIPALITY TO SPEND AND DELIVER ON THE PROGRAMS

Municipalities play a critical role in creating an enabling environment for investments and other activities that lead to job creation. In this regard the 2012/13 capital project spending is estimated to progress to a rate of 101.9% of the capital budget. The achievements and rate of spending during the first half of 2012/13 provide some confidence that this level of spending can be achieved. The municipality has demonstrated over a number of years that it has the ability to spend and deliver on its programmes in its area of jurisdiction. It is anticipated that 99% of the operating budget will be spent in the 2012/13 financial year. Indications are that there might be a slight under spending on employee related costs due to delays in filling of vacancies.

8.9 COST OF SERVICE DELIVERY VS AFFORDABILITY

Over the past few years the functions the eThekwini Municipality has been expected to perform increased according to the needs of the community. Poverty and unemployment is also prevalent in the municipal area. In order to provide assistance to the poorest of the poor the municipality has developed a social welfare package to assist those residents who cannot afford to pay for Services *(Refer to Section 9.2 for details).*

9. MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS

9.1 KEY FINANCIAL RATIOS / INDICATORS

The benchmarks reflected in the table below are based on actual audited results in the 2011/12 financial year:

Financial Benchmarks	Basis of Calculation	2011/2012
Debt to Asset Ratio	Total Debt / Total Assets	0.46:1
Debt to Revenue	Total Debt / Annual Income	0.95:1
Average Interest Paid on Debt	Interest Paid / Total Interest Bearing Debt	0.08:1
Capital Charges to Operating Expenditure	Interest and Principal Paid / Operating Expenditure	0.06:1
Interest as a % of Operating Expenditure	Interest Paid / Operating Expenditure	4.06%
Credit Rating	Calculated by Global Credit Rating Company	Short term: A1 Long term: AA-
Current Ratio	Current Assets / Current Liabilities	1.38:1
Creditors System Efficiency	% of Creditors paid within terms	100%
Electricity Distribution Losses	Total units purchased less total units sold / Total units purchased	5.8%
Water Distribution Losses	Total units purchased less total units sold / Total units purchased	35.2%

The financial benchmarks reflected in the table above indicate that the municipality continues to maintain its financially healthy status.

9.2 FREE AND SUBSIDISED BASIC SERVICES

One of the objectives of a local authority is to ensure the provision of services to communities in a sustainable manner. The constitution stipulates that a municipality must structure and manage its administration, budgeting and planning to give priority to the basic needs of the community and to promote their social and economic development.

To cater for the indigent, the municipality as part of its welfare package provides a basket of free basic services in accordance with a defined level of service. The basic social package is an affirmation of the municipality's commitment to push back the frontiers of poverty by providing a social welfare to those residents who cannot afford to pay, because of adverse social and economic realities.

The estimated cost of the social package (i.e. income foregone) amounts to approximately R 2.7 billion for the 2013/14 budget year. Details of the initiatives proposed to be carried out by the council in this regard are detailed below.

There has been a revision to the sanitation \ sewerage fuel basic services as indicated in the above table. Previously the first 9kl of effluent disposal was free to all households.

SERVICE	SOCIAL PACKAGE	APPROX. COST R'M	EST.NO. OF HOUSEHOLDS
Assessment Rates	Residential Properties valued up to R 185 000 will be exempt from paying rates. All other properties valued above R 185 000, the first R 120 000 no rates charged		369 670
	Pensioners, child-headed households, disability grantees and the medically boarded are exempt from paying rates on the first R 460 000 of their property value (This amount is inclusive of the R 120 000 mentioned above). Rebate increases from R 259 per month to R 278 per month.		52 505
	No rates levied on first R 30 000 value of vacant land		28 553
		1 585.4	450 728
Water	The first 9kl of water is free to households with property values under R 250 000.	582.0	518 200
Electricity	The first 50kwh of electricity is free to residents using less than 150kwh per month in Eskom reticulated areas	1.1	2 320
	The first 65kwh of electricity is free to residents using less than 150kwh per month in eThekwini reticulated areas	74.4	82 546
Refuse Removal	Residential property valued up to R 250 000 exempt from domestic refuse removal tariff	352.8	763 153
Sewerage/ Sanitation	The first 9kl of effluent disposal is exempt for all properties with values under R 250 000 (Revised).	178.5	218 368
Total		2 774.6	

***-** There has been a revision to the sanitation\sewerage free basic services as indicated in the above table. Previously the first 9kl of effluent disposal was free to all households.

The assistance to the qualifying households are regulated by council's budget related policies which are reviewed annually based on modelling the impacts of the tariffs on all residential properties. The cost of this social package is partially funded from the equitable share of R 1.8 billion provided by National Government.

9.3 DRINKING WATER QUALITY AND WASTE WATER MANAGEMENT

eThekwini Water Services performs the role of the water service authority whilst Umgeni Water is the water service provider for the municipal area. eThekwini Water and Sanitation Unit is committed to providing safe drinking water of the highest quality as well as treating waste water responsibility so that it does not negatively impact on human health or our environment.

BLUE DROP CERTIFICATION

The municipality continues to manage drinking water within its area of jurisdiction with distinction. This is evidenced by the municipality improving on the Blue Drop status scoring 98.8% in 2012 and coming fourth in the country. This prestigious award is only granted if 95% compliance with certification standards is met.

GREEN DROP RATINGS

Waste water treatment works operated by the City are authorised to discharge treatment effluent to rivers and the marine environment. The water and sanitation unit of the municipality was awarded a Green Drop award in recognition of excellence in the management of waste water in 2011/12. The Green Drop regulation programme was established by the Department of Water Affairs to certify the waste water systems of all municipalities and water service providers. The unit was recognised for the best Green Drop performance in the province with a score of 90.6%. Budgetary provision for the upgrades and maintenance of water reticulation and sewerage treatment works is made in the MTREF to ensure that systems are capacitated to deliver at acceptable standards.

10. BUDGET RELATED POLICIES: OVERVIEW AND AMENDMENTS

The MFMA and the Municipal Budget and Reporting Regulations require budget related policies to be reviewed, and where applicable, to be updated on an annual basis. The main purpose of budget related policies is to govern and guide the budget process and inform the projections of the medium term.

The following are budget related policies which have been approved by Council, or have been reviewed /amended and / or are currently being reviewed / amended in line with National Guidelines and other legislation.

10.1 ASSESSMENT RATES POLICY

As required in terms of section 5 of the MPRA, the Rates Policy has been reviewed for the 2013/14 financial year and the amended policy will adopted by Council on 2013/02/27 for public comment.

The applicable assessment rate tariffs are reflected in the Resolutions to Council on the budget.

10.2 CREDIT CONTROL AND DEBT COLLECTION POLICY

As required in terms of section 97 of the Municipal Systems Act, the new credit control and debt collection policy was approved by council on 2010-06-03. The primary objective of this policy is to ensure that all monies due and payable to the municipality in respect of services are collected efficiently and promptly. The policy is being reviewed for the 2013/14 financial year.

10.3 TARIFF POLICY

The Municipal Systems Act requires a municipality to have a tariff determination policy. Accordingly, council adopted a tariff policy on 2013-02-27. The objective of the policy which is consistently applied to all tariffs is to ensure that:

- The tariffs of the municipality comply with the legislation prevailing at the time of implementation
- The municipal services are financially sustainable, affordable, and equitable
- The needs of the indigent, aged and physically challenged are taken into consideration

The policy is drawn in line with the principles as outlined in the Municipal Systems Act.

10.4 WATER POLICY

The initial water policy was approved by council on 2005-06-22 which has subsequently been amended and provides for amongst others things: level of services, provision of water services, payment for services etc.

The Council's tariffs are affected by the following factors:

- Bulk purchase cost: Umgeni Water
- Unaccounted for water
- Debtors collection rate
- Cost of free basic water

10.5 SUPPLY CHAIN MANAGEMENT POLICIES

The current policy reflects and represents the context of a specific government policy that finds expressions within the provisions of the Municipal Finance Management Act 56 of 2003. The principal objectives of the policy are to provide, promote, and implement theoretical guidelines, governing processes and procedures within the supply chain management.

The SCM Policy was adopted by council on 2005-09-22 for implementation. This policy is used in conjunction with the Targeted Procurement Policy, originally approved in July 2003, and amended in December 2011 (in keeping with the new Preferential Procurement Regulations of June 2011).

Late in 2008, the Supply Chain Management Unit began a Category Management process to ensure alignment with the creation of an SCM Centre of Excellence which the municipality is currently implementing. This SCM Centre of Excellence will usher in a New Procurement Policy Application and approach in line with International Best Practices, practices that will for the first time harness the municipality spending power and give the municipality much greater flexibility to buy locally.

SCM Policy Review Project

As all SCM processes are required to adhere to the SCM policy, a review of the SCM Policy is required. The review of the SCM policy is currently being undertaken in a phased approach.

Phase 1: Updating the current policy to bring the policy in line with current legislation and policies.

Phase 2: The phase will involve a review of the structure and format of the policy, and develop a new policy which is ground breaking in both format and application. This will also involve the development of guidelines, tools, templates and procedures to support the effective implementation of the policy.

10.6 INVESTMENT / CASH MANAGEMENT AND BORROWING POLICIES

As required by the Municipal Finance Management Act, and in conformity with the Municipal Cash Management Regulations an Investment Framework policy and Guidelines has been adopted by Council on 2004-11-30.

The main objectives of the policy are to:

- Maximise returns from authorised investments consistent with minimising risk
- Maintain adequate liquidity to meet cash flow needs.
- Undertake the investment of funds not immediately required for operational purposes
- Ensure diversification of permitted investments
- Ensure compliance with all legislation governing the investment of funds.

The Municipality has also prepared a borrowing policy in compliance with the Municipal Finance Management Act and the Municipal Regulations on Debt Disclosure.

10.7 VIREMENTS BUDGET POLICY

In order to give departmental heads greater flexibility in managing their budgets, Virements budget procedures are in place for the revision of budgets (within votes – i.e. Output Unit) via a Virements budget. These procedures provide guidance to managers of when they may shift funds within votes.

To ensure compliance with Section 28 of the MFMA, and the Municipal Budget and Reporting Regulations, procedures were formulated with regards to the transfer of funds and the adjustment budget reporting.

10.8 ASSET MANAGEMENT PLAN

The goal of infrastructure asset management is to meet a required level of service in the most cost effective manner, which is achieved through the management of assets' life cycle, for present and future generations. National Government has legislated (MFMA), the need for local government to formulate active asset management programmes.

An infrastructure asset management plan technically analyses the life cycle of an asset, and predicts when maintenance needs to be done to the asset before it deteriorates to such an extent that it no longer meets the community's needs.

The municipality is on a drive to introduce good asset management practices in all units and has embarked on the development of a whole of City Infrastructure Asset Management Plan. The purpose of the Asset Management Plan is to improve the management of the city's assets, predict future asset problems and identify future maintenance costs of all the infrastructure assets. The City has utilized a computerized system to carry out Phase 1 and Phase 2 of this exercise. The program covered problematic areas, and High Level Strategic Areas. Findings from Phase 1 & 2 have allowed the various Departments to improve the Asset Register and provide a high confidence level of services in the area covered. In addition maintenance programs were formulated based on the location and condition of the infrastructure. The future program will complete all assets owned by the eThekwini Municipality to an acceptable level of componentization thereby enabling us to undertake more advanced asset management techniques to be undertaken on those assets that represent the greatest risk to the municipality. Early indicators are that we will require to spend a lot more in maintenance and rehabilitation of assets.

10.9 ACCOUNTING POLICY

In order to ensure that the financial statements are compliant with GRAP, the accounting policies were realigned and approved by council on 2006-06-29. The latest amendments to the accounting policies were approved by council on 2012-07-24.

10.10 FUNDING AND RESERVES POLICY

A funding and reserves policy has been formulated and was approved by the council at its meeting on 2010-05-03. The policy is aimed at ensuring that the Municipality procures sufficient and cost effective funding in order to achieve its capital expenditure objectives in an optimum manner.

10.11 BUDGET POLICY

The Budget Policy was approved by council on 23 February 2011.

11. ALIGNMENT OF BUDGET WITH INTEGRATED DEVELOPMENT PLAN

Integrated developmental planning in the South African context is (amongst others) an approach to planning aimed at involving the municipality, stakeholders and the community to jointly find the best solutions towards sustainable development. The integrated development planning further provides a strategic environment for managing and guiding all planning, development and decision making in the municipality. The IDP is the result of the planning processes and comprises of a five year period which correlates with the term of the political incumbents.

11.1 THE IDP STRATEGIC FOCUS AREAS

To ensure that the municipality is a more responsive, efficient, effective and accountable local government we will outline, precisely how we intend to translate our Long Term 2030 Municipality Vision into an effective plan that aligns the municipal budgets, monitoring and evaluating mechanisms as well as timeframes for delivery. The municipality has taken the strategic direction to achieve closer alignment between the Long Term Development objectives and the IDP (in context of International, National, Provincial and Local development policies). The development of the strategic approach for the Municipality is guided by – but not limited to – the following;
Millennium Development Goals (MDGs)
The aim of the MDGs is to encourage development by improving social and economic conditions. It provides a framework for the entire international community to work together towards a common end i.e. making sure that human development reaches everyone, everywhere.

National Development Plan (Vision 2030)

The intention of this plan is to improve service delivery for citizens of South Africa, whilst integrating national, provincial and local policies and programmes into a single, target orientated and long term based plan. In this plan a collective approach of improving the lives of the citizens is applied, and communities themselves have a role to play in this regard.

National Government Programme of Action 2009-2014

The government has identified 10 priority areas in its programme of action, with an intention to turn around the global economic slowdown, whilst at the same time ensuring that the needs of all its citizens are met.

National Priorities (State of the Nations Address 2013)

Highlights have been identified on relative progress made with regards to health, education, the fight against crime, human settlements, energy, water provision and rural development. Challenges are, however, still identified in unemployment, poverty and inequality, women and youth development. Cooperation between government departments and parastatals has seen the city engaging strongly in an effort to improve infrastructure, corridor development, industrial development, skills, education, human settlement, access to basic services, economic development, job creation, governance, social cohesion and crime prevention,

Provincial Priorities (State of the Province Address 2013)

In response to the State of the Province Address, the municipality has made a tremendous contribution towards the provision of infrastructure and infrastructure revolution, especially roads, freight and harbour, skills enhancement, economic development, poverty alleviation, provision of housing and adequate human settlement pattern, improving health and healthy lifestyle, mitigation against climate change, supporting informal traders, and employment creation. The municipality also responds to youth development and further ensures rural development in eThekwini.

Provincial Growth and Development Strategy

In line with the National vision 2030, the Provincial Growth and developmental Strategy will ensure economic growth and improved quality of life in KwaZulu-Natal. An integrated service delivery mechanisms will be applied by various stakeholders in an effort to create employment opportunities, skills enhancement, effective and efficient governance, human and community development, improved infrastructure and adequate utilization of spatial form.

National Spatial Development Perspective (NSDP)

The NSDP represents a key instrument in the State's drive towards ensuring greater economic growth, buoyant and sustained job creation and the eradication of poverty. It provides a framework for deliberating the future development of the national space economy and recommends mechanisms to bring about optimum alignment between infrastructure investment and development programmes within localities.

Provincial Spatial Economic Development Strategy (PSEDS)

The objectives of the PGDS are: eradication of extreme poverty and hunger, achievement of universal primary education, promotion of gender equality & empowerment of women, reduction in child mortality, improvement of maternal health, combating HIV-AIDS, malaria and other diseases, developing a global partnership for development, as well as ensuring environmental sustainability.

Long Term Development Framework

Many cities around the world are competing with one another on the global open market to become economically competitive and in doing so, are inadvertently creating unsustainable environments. Against this background then, it is clear that the municipality has indeed a direct role to play in the facilitation and management of long-term planning and development processes that consider the issue of sustainability. The municipality has reviewed its Long Term Development Framework (LTDF) to ensure that sustainability in all its facets is embedded into the Municipality and influences the IDP.

11.2 DEVELOPMENT CHALLENGES

Significant strides have been made to address the key development challenges in the municipality. While significant progress has been made in all areas, there is still some distance to go towards addressing the following challenges:

- High rates of unemployment and low economic growth;
- High levels of poverty;
- Low levels of skills development and literacy;
- Limited access to basic household and community services;
- Increased incidents of HIV/AIDS and communicable diseases;
- Loss of natural capital;
- Unsustainable developmental practises;
- High levels of crime and risk;
- Ensuring adequate energy and water supply;
- Ensuring food security;
- Infrastructure degradation;
- Climate change;
- Ensuring financial sustainability;
- Ineffectiveness and inefficiency of inward-looking local government still prevalent in the municipality.

The essence of our IDP is to achieve a balance between meeting basic needs, strengthening the economy and developing people skills and a technology base for the future. In an effort to achieve our 2030 vision, these three Strategic Focus Areas of intervention for the next five years need to be balanced and integrated. Given the strategic framework that has been outlined it is clear that the city's budget must be a pro-growth budget that meets basic needs and builds on existing skills and technology.

The city's delivery plan is organised into eight separate but related plans. They are interrelated because:

- All the programmes and projects are filtered through the common set of filters described above.
- The plans, programmes and projects are supportive of each other, to ensure greater impact in delivery.
- Where contradictions or overlaps are found to exist, these will duly be brought into alignment.

The eight plans are:

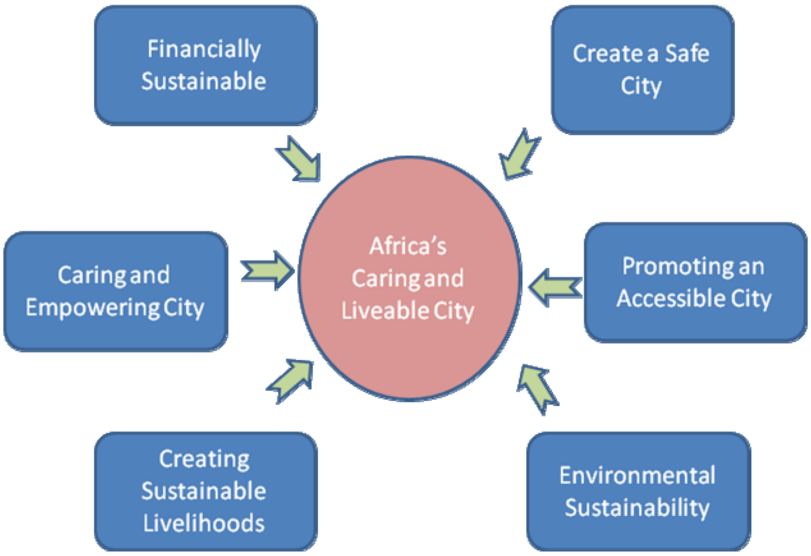
- Developing and Sustaining our Spatial, Natural and Built Environment.
- Creating a Prosperous, Diverse Economy and Generate Employment Opportunities.
- Creating a Quality Living Environment.
- Fostering a Socially Equitable Environment.
- Creating a Platform for Growth, Empowerment and Skills Development
- Embracing our cultural diversity, arts and heritage.
- Engendering a more Responsive Local Government.
- Financially Accountable and Sustainable City.

The delivery of these plans should ensure that the people of eThekwini are able to:

- Live in harmony
- Be proud of the city
- Feel protected
- Feel that the basic needs are being met

11.3 MUNICIPAL KEY DEVELOPMENT DIALOGUES

In an attempt to give life and meaning to our city's set of principles and development dialogues that were adopted as part of our IDP, we have instituted a process that systematically filters every programme, project and initiative in terms of key development dialogues that the city have chosen.



11.4 POLITICAL PRIORITIES AND LINKAGES TO THE IDP

The IDP is an all-encompassing plan which provides the framework for development within a municipality. It aims to co-ordinate the work of local and other spheres of government in coherent plans to improve the quality of life for all the people living in the area.

All operating and capital programs in the 2013/14 medium-term budget have been assessed through a prioritisation mechanism that was developed to ensure that there is alignment to the development strategy of the municipality. The IDP formed the basis of the priorities identified in the strategic plan and all resources are focused on the achievement of the priorities.

11.5 IDP OVERVIEW AND KEY AMENDMENTS

The Municipal Systems Act requires that each Municipality prepare an Integrated Development Plan to serve as a tool for transforming local governments towards facilitation and management of development within their areas of jurisdiction. The IDP is a five year plan whose principal purpose is to ensure the development of the local community in an integrated manner which involves strategic business units within the municipality, relevant strategic stakeholders and the community.

In the five year review, the Eight Point Plan of action will continue to guide the municipality, but has once again been refined and refocused our strategic programmes, so as to respond more effectively to key challenges.

11.6 IDP REVIEW PROCESS AND STAKEHOLDER PARTICPATION

The IDP is reviewed yearly to inculcate a democratic approach to local governance by ensuring all stakeholders get an opportunity to voice their opinions in influencing the shape, form, direction and pace of development in their localities. The municipality is committed to addressing the needs of the people and values the inputs from communities and stakeholders.

The third generation of eThekwini's Integrated Development Plan (IDP) is now undergoing its final review and focuses on translating our City Vision into action. As set out in the Municipal Systems Act (2000), in the review of the five year IDP, a stakeholder consultation process is necessary. Of critical importance is for the municipality to ensure that there is thorough consultation with the community and strategic stakeholders.

As part of the of the municipality's five year IDP as prescribed by the Municipal Systems Act, the council has embarked on an extensive process to engage with stakeholders and elicit comments which will feed into the 2013/14 IDP. Following these, a final draft will be prepared for adoption by council.

As is the case every year, once the draft IDP is completed, the following mechanisms will be used to ensure effective participation and consultation of the plan:

- The draft IDP will be placed on the council website for perusal and comment
- Every council library, regional centre and municipal office will be issued with copies for comment
- The summarised document and a dedicated supplement will be published in our Metro newspaper
- Local media (including community newspapers) will be informed of the IDP review and the need for civil society organisations to comment on the document

11.7 LINK BETWEEN THE IDP AND THE BUDGET

In compliance with the Municipal Structures Act (1998) and Municipal Financial Management Act (2003), our city budget is informed and aligned to the IDP objectives. The IDP determines and prioritises the needs of the community. The budgetary allocations for both the capital and operating expenditure are undertaken in a manner that will not only ensure that our IDP outcomes are achieved but also to ensure that our city's 2030 vision is realised.

We have come a long way in capital budgeting – away from departmental budgeting. Based on such models as the Multi Criteria Dimension Model (MCDM) and Capital Investment Management System (CIMS), the city is able to link its budget with its programmes, and is able to adequately spread its capital budget geographically as well in accordance with the IDP eight-point plan. In terms of the operating budget we have made excellent progress but are now more committed than ever to ensure that critical operating budget resources are prioritised in terms of stated IDP outcomes.

More importantly, the Performance Management System (PMS) allows the municipality an opportunity to monitor and evaluate individual and organisational performance in meeting our IDP outcomes and vision. As with previous year's, our IDP remains the strategic driver of both our budget and performance management system.

12. OVERVIEW OF BUDGET FUNDING

FISCAL OVERVIEW

The Municipality continues to display a sound financial profile and high liquidity levels, which is mainly attributable to:

- Balanced budgets being funded from current financial year's revenue. Prior year's surpluses have not been used to support the operating budget.
- The municipality operates within its annual budget, as approved by council.
- The municipality maintains a positive cash and investments position.

In compliance with relevant statutory requirements, the Financial Plan (Medium Term Revenue and Expenditure Framework-MTREF) is reviewed and updated annually.

FUNDING OF CAPITAL BUDGET

The Capital budget is funded by the allocations made to the city by National and Provincial Government in the form of grants, as well as public contributions and donations, borrowings and internally generated funds.

12.1 LOAN DEBT AND INVESTMENTS

In terms of funding the capital budget, the municipality is in a fortunate position to undertake much needed service delivery programmes from both internally generated reserves and long term external funding. In the latter case, the municipality with its sound financial credentials has financing options available that are in line with the MFMA and the Municipal Borrowing Framework. Section 45 of the MFMA guides short term borrowing in the city. In line with the anticipated budget performance, and taking into account the National and Provincial grant allocations, the municipality will continue to fund each financial year's operating budget from current revenues.

Investments for the municipality are done in accordance and adherence with the Municipal Investment Regulation of the MFMA, Councils Investment Policy and other relevant legislation. Cash flow forecasts and cash needs by the city provide guidance for the type of investments employed. The investments are made with primary regard to the risk profile, liquidity needs of the city and the return on investments. In so far as the investment and borrowing activities are concerned, all the requirements of the MFMA have been complied with.

The ability of the Municipality **(Parent)** to deliver on progress depends a lot on its funding sources which are summarised as follows:

	2013/2014 RM	2014/2015 RM	2015/2016 RM
Total Capital Budget	5, 432	5, 767	6, 442
Funded as follows:			
Grant Funding	3, 122	3, 577	4, 079
Internal Funding	1, 310	1, 190	1, 363
External Funding	1, 000	1, 000	1, 000
	5, 432	5, 767	6, 442

Funding of Operating Budget

Funding is obtained from various sources, the major sources being service charges such as electricity, water, sanitation, and refuse collection, property rates, grants and subsidies received from National and Provincial governments.

The table below identifies the sources of funding for the 2012/13 financial year (parent municipality):

INCOME	R'm	%
Assessment Rates	5 007.9	17.6
Service Charges	14 544.0	51.2
Fines, Licences and permits	144.6	0.5
Grant and Subsidies	5 547.9	19.6
Rental of Facilities and Equipment	393.7	1.4
Interest on Investments	366.9	1.3
Penalties and Collection Charges	129.1	0.5
Fuel Levy	1 822.8	6.4
Other Income	432.2	1.5
TOTAL	**28 389.2**	**100**

68.8%of the Operating Budget is funded from assessment rates and services charges (tariffs)

12.2 SOURCES OF FUNDING

The major own Revenue sources of the municipality are service charges and property taxes. Together with grants from government, these make up the total revenue. This high level of independent and relative stable income sources of revenue is one of the key factors that support the sound financial position of the municipality. In addition to the obvious need to grow the city's revenue by increasing its tax base, other means for securing funding for council projects must be explored in a variety of ways.

The city faces invidious choices in attempting to finance the projected levels of investment in infrastructure. Sources of capital finance are already stretched with limited scope for further borrowing, consumer pressure to restrict tariff and tax increases, and little likelihood of a structural upward adjustment in grant allocations.

Further, efficiencies in the borrowing programme will continue to be sought to lock in lower cost and longer term borrowing, plus the introduction of new revenue sources such as development charges.

In the case of eThekwini, a basket of differential tariff increases determines the most acceptable and equitable funding regime taking into consideration the actual cost of delivering services, budget priorities and national legislation, regulations and policy guidelines.

12.3 SAVINGS AND EFFICIENCIES

In order to monitor and improve efficiencies the Treasury: Special Projects and Cost Savings Department in conjunction with the Organizational Development Unit will be gathering key productivity measures from line Managers relevant to their departments across the municipality. Amongst other reasons, the key objective is to look more critically at service delivery, eliminate backlogs and constantly improve processes.

The ISO9001 standards will be introduced within the SCM unit and will later be rolled out to all other clusters in a phased approach. This will ensure that all key processes and standard operating practices (SOPs) are well documented for smoother operations, training staff and keeping customers abreast off what service levels to expect. A centralized program office has been approved and is being setup to ensure that projects are not done in silos and to avoid duplicated effort amongst the various Clusters in the Municipality.

In order to leverage the purchasing decisions within the municipality the Category Management of goods and services will be fully explored to reduce costs and ensure added value. This ensures that commonly used goods and services are not separately purchased by the various units but are sourced through a single process to maximize leverage in the market, by focusing on the supplier base for the relevant category. This is in conjunction with the national price referencing system and the appointment of the " Chief Procurement Officer" by National Treasury, as proposed by the Minister of Finance in his 2013 Budget Speech.

A Contracts Register Database is in place for all contracts above R 200 000, and this will be fully automated in the near future to track the various stages of the procurement request, contract award, contract payment control to budget and having procurement plans in place for expiring renewable contracts for the 2 subsequent financial years. In order to get to the automated tracking of contracts a few sub projects have been initiated to get the historical orders and contract details cleaned up. The automated contract tracking, monitoring and control on the JDE System, will be piloted within the City Fleet Unit by 30 June 2013 and thereafter rolled to the other clusters within the Municipality. The second phase of the contracts register will look at all contracts below R200 000 on a similar automated tracking process.

With salaries and wages being a major expenditure of the operating budget, overtime will continue to be monitored closely. Staff that work overtime on a regular basis or work excessive overtime will be closely scrutinized with departmental heads who will be held accountable. This will ensure that overtime worked is absolutely essential and that the same employees are not called on continually to work overtime where staff rotation is possible or employing additional staff would be more cost effective. Managers will also carry out monthly verification of active employees to certify that employees processed on the payroll have indeed been on duty and to ensure that terminated employees are timeously and correctly processed on the payroll.

All sections will be updating procedure manuals. Business processes are to be critically analyzed to effect process improvements, to eliminate any bottlenecks and to implement innovative ideas to improve productivity. The Quality Circles program previously introduced within all departments of the Treasury Cluster will be revitalized. The team based approach to measure at operational level its Quality, Costs, Delivery or Speed of services provided with the aim of continuously improving processes within their sections, reducing costs and delivering a more efficient service to customers both externally and internally.

The interfaces between the payroll system – DRL, the Revenue and Expenditure systems will be completed so that the integration will provide better control of staff resigning, being transferred, retiring and deceased and to ensure that salary overpayments are avoided and systems accesses are terminated timeously and is automated as far as possible. In addition user access authorizations and access to programs and functions within the various financial systems are being reviewed with access tightly controlled in relation to the staff duty schedule and job designation.

Strategic Approach to SCM

Six key-enablers to SCM excellence have been adopted, as follows:

- Organisation & Structure - Focused teams with clearly defined responsibility, authority & accountability for sourcing activities
- Procurement Processes - Best-in-class strategic sourcing, measurement, approvals, conditioning, negotiation and supplier relationship management processes
- Learning / Skills - Strategic Sourcing team using deconstructing price methodologies, use of purchase to pay, and educated key stakeholders
- Strategic Sourcing - Significant savings resulting from lower supplier prices.
- People - Right people in the right position, empowered and driven by accountability
- Technology - Use of best-in-class spend analysis, e-sourcing & e-procurement tools

These are further broken down into parallel projects that will support the SCM Unit in moving forward whilst aspiring towards a state of excellence.

ISO 9001 Project

The ISO 9001 Quality Management System was identified as a suitable framework around which a Quality Management System to be developed for Supply Chain Management (SCM). The underlying principle of the Quality Management System is to ensure all processes are documented and continually reviewed for continued compliance and effectiveness.

ISO 9001 set of standards is used to implement a Quality Management System. The purpose of a quality management system is to ensure:

- Inefficiencies and non-compliance with formal processes and procedures is highlighted.
- Standardised method of working.
- In short "Document what you do and show that you have done this".

P2P (Procure-To-Pay)

The P2P project falls within the ISO 9001 projects and aims to document the "as-is" processes for all procurement (procure to pay) processes. The ISO project requires that all business processes within SCM are documented.

Business Process Improvement Initiatives - BPI^2

Through the review and analysis of the processes within SCM has allowed for problem areas to be highlighted and/or identified. Initiatives are then put in place to address the problem/inefficiency. The following initiatives have (to date) been identified as BPI^2 initiatives:

- Procurement Schedule – initiative aims to assist with procurement planning.
- Contracts Register – addresses the absence of a concise and reliable register of contracts.
- Supplier Address Book Consolidation – addresses the situation where suppliers have more than one account number.
- Invoice logging and tracking – involves scanning supplier invoice on receipt, and tracking the invoice until payment.
- Reviewing processes where purchase orders are not placed with Suppliers by SCM officials.

Contract/Tender Request Tracking System

The purpose of the system is to track a new contract/tender through the various bid committees. The system will also provide data for key management and monitoring reports, efficiently and effectively.

Procurement Scheduling and Contract Register

This initiative addresses the requirement for preparation of a procurement schedule, the linking of the procurement schedule to the Contract/Tender tracking system, and finally monitoring the contract in a contract register. This initiative aims to implement a single system to manage the procurement schedule (procurement demand), procurement process, and the monitoring the contract within a contract register.

Assuring SCM effectiveness and efficiency

The projects being undertaken in SCM aim to improve the compliance, efficiency and image of SCM. In order to measure the operations (and improvements thereof) the following key indicators are also to be developed, monitored and reported on:

- Percentage of the value of contracts awarded that commence in accordance with procurement plans.
- Percentage of spend through corporate contracts and framework agreements, as opposed to quotations or other procurement methods.
- SCM Process Predictability – average time from tender advert to on-site, including time to process through bid committees, appeals etc.
- The percentage of corporate spend placed with targeted enterprises.
- Internal client satisfaction with the SCM function.
- Supplier satisfaction with the municipality.

12.4 INVESTMENTS – CASH BACKED

Adequate provision has been made by way of external investments to ensure that cash is available on the maturity of investments. Investment income is utilized to fund the budget. The permissible reserves are cash backed in terms of the MFMA.

12.5 GRANT ALLOCATIONS

Municipalities play a critical role in furthering government's objective of providing services to all while facilitating local economic development. Local Government conditional grants are being reformed to provide targeted support to different types of municipalities. The human settlements and public transport functions are being devolved to urban municipalities. The Local government equitable share formula has been reviewed with data from the 2011 census. The formula also includes specific funding for the maintenance of basic services. The following projected grant allocations to the municipality in terms of the 2013 Division of Revenue Bill have been included in this medium term budget:

GRANT	2013/14 R m	2014/15 R m	2015/16 R m
Electricity Demand Side Management Grant	10.0	5.0	0
Financial Management Grant	1.3	1.3	1.3
Public Transport Infrastructure and Systems Grant	707.4	884.8	937.3
Equitable Share	1 869.8	1 990.9	2 101.1
Urban Settlements Development Grant	1 581.0	1 800.1	1 863.7
General Fuel Levy	1 822.8	1 932.3	2 021.1
Infrastructure Skills Development Grant	33.0	55.5	74.3
Neighbourhood Development Partnership Grant	3.5	70.0	75.0
Integrated National Electrification Programme Grant	35.0	35.0	40.0
Expanded Public Works Programme Integrated Grant	47.4	0	0
Public Transport Network Operations Grant	71.4	110.8	162.7
Integrated City Development Grant	9.5	0	0

12.6 COLLECTION RATES FOR EACH REVENUE SOURCE

In accordance with relevant legislation and national directives, the municipality's projected revenue collection rates are based on realistic and sustainable trends. The rate of revenue collection is the cash collected from consumers expressed as a percentage of the amount billed. The average monthly collection rate and projections for the year are as follows:

REVENUE SOURCE	Average 2011/12	Average 2012/13
Rates	98.9	98.1
Electricity	95.2	98.2
Water	92.2	92.5

The total average collection rate is projected at an average of 96.2% and is based on a combination of actual collection rates achieved to date, and the estimated outcomes for the current financial period.

Electricity

Despite the slowdown in the economy and the effects on both business and residential consumers, projections indicate a higher collection rate. The disconnection policy is being applied for non-payment and the largest debts are being targeted in order to yield a higher collection rate.
Water

The programme put in place to encourage customers to pay their current accounts in return for a reduction in the debt they have incurred should yield an improvement in the collection rate.

DEBTORS AGE ANALYSIS AS AT 28 February 2013 (PARENT MUNICIPALITY)

	0 - 30 Days		31 - 60 Days		61 - 90 Days		Over 90 Days		Total
	R'000	%	R'000	%	R'000	%	R'000	%	R'000
Debtors at 28.02.2013	832.202	14.8	211 428	3.7	174 031	3.1	4 412 964	78.4	5 630 625

The total amount outstanding of approximately R5,63 billion is exclusive of provision for bad debts amounting to R2,59 billion and represents an increase of approximately R98.4 million when compared to February 2012. The table indicates that approximately R1,82 billion of debt over 90 days is considered recoverable. The provision for bad debt is not going to be written off. It will be pursued until it is not feasible to recover.

Government debt of R187.2 million includes unconfirmed accounts of R43.5 million which is being investigated by the Real Estate Department. The unconfirmed accounts will be recovered once all the property ownerships are confirmed and this confirmation process is expected to be concluded by the end of the year. Business debt of R138,6 million is subjected to litigation and has been handed over to the Council's panel of attorneys. Residential debt amounting to R1,5 billion includes properties valued at less than R250 000 that qualify for Debt Relief Programme and individual properties in the Ingonyama Trust area amounting to approximately R302.4 million.

All debt will be pursed until it is not feasible to recover where after it will be written off. Several reports are currently before the Finance and Procurement Committee of Council to consider the write off of arrear debt on various account grouping, which includes, water debtors, Ingonyama rates debtors, housing rental stock debtors and debt accrued for services where there is no legal contract in place.

Notwithstanding the identification of irrecoverable debt and the current reports before council is there a strong belief that the change in the credit control and control and debt collection policy that was introduced in the 2012/13 financial year will yield the desired results. Council has maintained an average monthly collection rate of 104%. Results as per the midyear review by National Treasury shows a decrease in debt on a year on year basis of R 31 million rand.

Furthermore, Council has supported the notion to contest the ruling of the Appeal Court, that Ingonyama land is State land for period 2005 to 2008 and as such not rateable, by taking the matter to the Constitutional Court.

Active credit control and debt collection activities are undertaken all the time. In January 2013 the following activities were undertaken:

- 26 170 customers were disconnected for electricity and water
- 1 648 final demands were issued
- 449 customers were red-lined with the credit bureau
- 253 customers were handed over to legal to issue summons

DEBTORS AS AT 28 February 2013

	TOTAL (R'000)
TOTAL GROSS CONSUMER DEBTORS	5,630,625
PROVISION FOR BAD DEBTS (Estimated)	2,591,214
NET CONSUMER DEBTORS	3,039,411
CURRENT (0 – 90 DAYS)	1,217,662
COLLECTABLE DEBT MORE THAN 90 DAYS	**1,821,749**
BREAKDOWN OF COLLECTABLE DEBT OF MORE THAN 90 DAYS:	
GOVERNMENT (Refer details below)	187,178
BUSINESSES	138,606
RESIDENTIAL	1,495,965
TOTAL	**1,821,749**

12.7 LEVELS OF RATES, SERVICE CHARGES AND OTHER FEES AND CHARGES

The City's revenue quantum is determined by setting a package of tariffs which are not only affordable to the rate payers and the users of its services but deemed to be at fair and realistic levels when viewed in context of its programmes to assist those who do not have the means to pay. To maintain an effective, efficient and well-run city, tariff increases are inevitable. Tariff-setting plays a major role in ensuring desired levels of revenue by assisting in the compilation of a credible and balanced budget to accommodate the acceleration of basic services. The setting of tariffs for the 2013/14 financial year continues to be guided by a tariff policy, which provides a framework within which the eThekwini municipality can implement fair, transparent and affordable charges for the provision of services.

The tariff level setting process was largely influenced by the considerable increase on bulk electricity purchases and the disproportionate increase above CPI levels. This has distorted the city's average tariff and charges increases.

The following principles and guidelines have been considered in the draft 2013/14 MTREF:

- Realistic revenue estimates through a conservative, objective and analytical process.
- Identification and pursuance of grants from national, provincial and other agencies.
- The impact of inflation and other cost drivers.
- Credible collection rates.
- The ability of the community to pay for services rendered.
- Local economic conditions.

As in the past, the above principles dictate the annual increase in the tariffs charged to the consumers and the ratepayers.

RATES

Property tax represents the second most substantial tax revenue for the municipality. It is a well founded tax with a long and sustained history. This source of revenue is a relative stable source as it is not substantially affected by economic cycles, as is the case with other tariffs. Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process. The municipality is currently levying rates on The General Valuation Roll 2012 and relative supplementary valuation rolls. The implementation date for the General Valuation Roll 2012 was 1 July 2012. The levying of rates in terms of the Municipal Property Rates Act whereby properties are valued based on market value as at the date of valuation, is being applied for this Medium Term Budget. A 1% growth in the rate base is anticipated mainly due to new developments.

Valuation Roll

In compliance with the Municipal Property Rates Act, the municipality has released its second general valuation roll, GV 2012 on 2012-02-10. A valuation date of 1 July 2011 has been determined, with implementation of the valuation roll being with effect from 1 July 2012. The valuation roll was open for inspection to the public until the end of March 2012 during which time owners could lodge an objection against any entry in the valuation roll. Approximately 10 600 objections were received (compared to 50 000 in 2008 i.e. less than 1.5%) with the review of objections still underway.

ELECTRICITY AND WATER

The increase in water and electricity tariffs is consistent with National Policy on the provision of free basic services, Council's Indigent relief measures and tariff policies. The tariff increases are necessary due to the increase in the cost of bulk purchases, maintenance of existing infrastructure, new infrastructure provision and to ensure the financial sustainability of the services.

In the review of the tariffs for water and electricity , the municipality ensures that the level of tariffs are cost – reflective including the cost of maintenance and renewal of networks and the cost associated with reticulation expansion and that the associated structure of the tariffs encourage efficient and sustainable consumption.

SEWERAGE

With effect from the 2011/12 year, a new volume based sewage disposal charge system was introduced based on the percentage of water consumption. A flat tariff is charged to Non-Domestic Consumers and a stepped tariff to Domestic Consumers in line with the consumption bands for water. The progressive nature of the existing domestic stepped tariff structure for the both water and sanitation allows for the needs of the indigent. It is also designed to discourage high water consumption levels which have an impact in on the size of both the water and sanitation portions of a consumer's bill. It enables all consumers to adjust their consumption level to ensure availability.

REFUSE REMOVAL

The increase in the domestic refuse removal tariff for the 2013/14 year is mainly due to salary increases, conversion of agency staff to permanent and the increased cost of the purchase of refuse bags.

DEVELOPMENT CHARGES

The city has been actively participating in national deliberations to enhance the performance of municipal development charges. Levying some limited development charges in certain sub-regions of the municipal area have been recognised as insufficient, inefficient and a constraint to the ability of the city to roll out a more extensive infrastructure plan in support of property development. A Draft policy has been issued and the enabling by-laws are being revised. National Treasury's framework that will set norms and standards to ensure that these charges facilitate, and not stifle, new property developments are awaited. The revised approach will support the recovery of the costs of bulk infrastructure provision across all sub-regions. However, in the interim, bulk infrastructure charges at cost effective rates will be phased in.

GENERAL

The following are other general contributory factors for the increase in levels of rates and service charges:

- The cost of bulk purchases
- The impact of capital spend on the operating budget
- Salary increase with effect from 1 July 2013
- Provision for the filling of critical vacancies
- Rollout of infrastructure and the provision of basic services
- Increased maintenance of network and structures

The tariffs and charges for the 2013/14 year are reflected on a separate document for approval together with the budget.

13. DISCLOSURE ON IMPLEMENTATION OF MFMA AND OTHER LEGISLATION

Compliance with the MFMA implementation requirements has been substantially adhered to through the following activities:

BUDGET

This annual budget has been developed taking the MFMA, Municipal Budget and Reporting Regulations, and National Treasury requirements into account. Budgets are being tabled and approved within the required legislative timeframes.

IDP

The 2013/14 review process is underway, with community consultation being undertaken as required by legislation.

ANNUAL REPORT

The 2011/12 Annual Report has been developed taking into account the MFMA and National Treasury requirements. The report was noted by council at its meeting held on 25 January 2013 and has entered the public participation phase.

IN-YEAR REPORTING

100% compliance with regards to monthly, quarterly and annual reports to Council, Provincial and National treasury.

BUDGET AND TREASURY OFFICES

A Budget and Treasury Office has been established in accordance with the MFMA and National Treasury requirements

AUDIT COMMITTEE

The Audit Committee, an independent external committee established since 1 July 2005, provides an oversight function over the financial management and performance of the municipality.

MUNICIPAL PUBLIC ACCOUNTS COMMITTEE

This committee ensures that the administration, municipal agencies and entities are held accountable for their management of municipal funds and assets, and to ensure the efficient and effective utilisation of council resources.

ETHICS COMMITTEE

Council, on 2012-02-29, approved the establishment of the Ethics Committee to ensure compliance with the Code of Conduct and to investigate and make a finding in any alleged breach.

14. SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN (SDBIP)

The SDBIP is a key management, implementation and monitoring tool, which provides operational content to the end-of-year service delivery targets, set in the budget and IDP. It is the mechanism that ensures that the IDP and Budget are aligned. The focus of the SDBIP is both financial and non-financial measurable performance objectives in the form of service delivery targets and other performance indicators.

The SDBIP of eThekwini Municipality is developed according to the eight point plan as set out in the Municipal IDP. It contains the Strategic Focus Areas, Programmes, projects and sub-projects as well as annual and quarterly targets. The project achievement is reported on in the SDBIP at the end of each quarter in the quarterly actuals.

The electronic capturing of SDBIP data commenced during the 2009/10 financial year. There have since been several enhancements on the system, to add value to the SDBIP reporting process. Some of the functions on this web based system include email reminders to stakeholders, reports reflecting projects that have under-achieved and linkages to the Organisational Scorecard and Individual Performance Management System. Evidence to support the actual achievements, can be uploaded into the system and several validation rules have been built in to ensure, reasons for under performance, and measures to improve on targets not achieved are submitted.

15. STATISTICAL INFORMATION

COMMUNITY AND EMERGENCY SERVICES

HEALTH

Environmental Health:	
Number of air pollution monitoring stations	16
Number of industries with scheduled trade permits	3 137
Number of informal settlements with ablution blocks	61
Number of Environmental Impact assessments commented on	55
Number of building plans commented on	270
Number of Major Hazard installations inspected	43
Clinical Services:	
Number of clinics	59
Number of mobile clinic services and health posts	39
Number of children under 1 year fully immunized	27 417
Number of patients screened and treated for chronic medical conditions	294 433
Number of women screened for cervical cancer	33 200
Number of vaccinations undertaken	368 268
Social Development:	
Number of clinics with food gardens	12
Number of schools with food gardens	12
Number of TB awareness sessions	65

PARKS RECREATION AND CULTURE

Number of Swimming Pools	52
Number of Soccer Fields	328
Number of Cricket Wickets	57
Number of Hockey Fields	5
Number of Rugby Fields	8
Number of Bowling Greens	6
Number of Netball Courts	36
Number of Volley Ball Courts/Combi-Courts	51
Number of Stadia	10

Number of Community Halls	163
Number of Golf Courses	2
Number of Cemeteries	50
Number of Crematoria	2
Number of Developed Horticultural Parks	238
Number of Nurseries (ha)	9
Number of Developed Playground sites	540
Number of burials (excluding paupers)	4 500
Number of cremations	1 100
Number of graveyards maintained	6 921
Number of Public Conveniences	129
Number of Natural Resource Areas maintained	10
Number of libraries	86
Number of library membership	307 663
Number of books issued	432 196
Number of museums	10
Number of museum visitors – Durban Art Gallery	70 000
Number of museum visitors – Natural Science Museums	150 000
Number of museum visitors – Local History Museums	100 000
Area of Developed Horticultural Parks	2 142
Area of verges maintained (ha)	515

METRO POLICE

Police stations	14
Satellite stations	11
Total number of staff	2 314
Number of motor vehicles	480
Number of motor bikes	79
Number of firearms	2 044
Number of fines prosecuted - annually	750 000

EMERGENCY SERVICES

Number of fire stations	19
Number of staff	666
Number of vehicles	152
Number of fires attended to	9 834
Number of special services attended to	5 251

Emergency Management and Control Centre:

Number of staff	117
Number of vehicles	24
Number of calls attended to annually	209 000

OFFICE OF THE CITY MANAGER

INFORMATION TECHNOLOGY

Number of bills printed per month	750 000
Number of payslips for staff	20 000
Number of letters and notices	600 000
Number of fines processed per month	80 000
Number of online mainframe transactions	650 000

LEGAL SERVICES

Number of prosecutions	63 028
Number of pages translated	3 710
Number of meetings where translation service was provided	692
Number of trade licences issued	510
Number of premises inspected	50 310

INTERNAL AUDIT

General Audits	133
Systems Review	68
Special Investigations	10

OMBUDSPERSON AND HEAD:INVESTIGATIONS

Investigative Services:	
Metro Police Cases	140
Loss Control Cases	130
Investigation Cases	100
Number of calls received from Whistle Blowers per month	108

SUSTAINABLE DEVELOPMENT AND CITY ENTERPRISES

BUSINESS SUPPORT AND MARKETS

Business Support:	
Number of permit holders	48 000
SMMEs showcasing at Main Fair	538
Visitors to SMME Fairs	13 223
Number of traders at container parks	131

Retail Markets:	
Number of Retail Markets Managed	16
Number of Flea Markets Managed	8
Number of traders at Central Market	256

Durban National Fresh Produce Market (Bulk Market):

Projected turnover 13/14 (R'm)	1 050
National market share (%)	10.45
Number of buyers as at January 2013	1 879
Number of suppliers as at January 2013	2 207
Number of Transactions	1 034 058
Ripening Rooms capacity (pallets)	810
Cold Rooms capacity (pallets)	804

DURBAN TOURISM

Events:	67
Direct Financial Impact (R'm)	7 600
Number of part-time jobs created – days worked	15 396
Number of permanent jobs created	7
Direct socio-economic impact (R'bn)	50
Media Exposure value (R'm)	4
New Event Co-ordinators trained	

Tourism :

Number of domestic visitors (million)	8.8
Number of International Visitors (million)	1
Visitors to the Durban Tourism offices:	
Walk –in	89 500
Telephone	60 346
Indaba – May 2012:	
Number of Exhibitors	1 458
Number of visitors	10 790
Socio – economic impact (R'm)	240

ECONOMIC DEVELOPMENT

SECTOR SUPPORT:

Number of Strategic Township Development Projects	4
Number of Town Centre Renewal Projects	6
Number of Upgrade of Tourism Nodes and Corridors Projects	5

DURBAN FILM OFFICE:

Commercials	15
Feature Films	13
Documentaries	44
Stills	40
Music Videos	10
Series	26

DEVELOPMENT PLANNING, ENVIRONMENT & MANAGEMENT

Number of building applications approved	5 056
Number of building and land use contraventions served	2 133
Number of summonses served	1 824
Number of signage applications received (Jan – Dec 2011)	500
Number of unauthorised signs removed (Jan – Dec 2011)	70 000
Number of unauthorised trailers removed	10
Estimated value of approved applications (R'bn)	5.7

HUMAN SETTLEMENTS AND INFRASTRUCTURE

ENGINEERING

Length of surface roads and streets (km's)	6 411
Length of maintained unsurfaced roads and streets (km's)	1 180
Number of Stormwater complaints attended to	1 362
Total length of flood lines calculated (km's)	1 487

ETHEKWINI TRANSPORT AUTHORITY

Number of traffic signals to be installed in the current year	19
Number of traffic signals converted to LED's by June 2012/2013	510
Number of traffic signals to be converted to LED's in 2012/2013	250
Number of new traffic signals to be installed in 2013/2014	12
Number of bus shelters	30
Number of taxi ranks	2
Number of bus ranks	7

WATER

Total length of pipelines (km)	11 500
Number of Consumers	945 910
Units purchased/purified (ml/d)	860
Storage Facilities	474
Pump Stations	44
Purification Works	5

SANITATION

Number of wastewater treatment works	31
Number of Wastewater Pump Station	300
Number of UD Toilets installed	80 000
Effluent flows into the Treatment Works (kl/d)	560 000
Total Length of Sewer Pipelines (km's)	7 697

SOLID WASTE

Number of depots	14
Number of fleet workshop	4
Number of community based contractors	372
Job creation through community based contractors	3 772
Number of skips (business, permanent and casual)	879
Number of landfill sites	4
Number of transfer stations	7
Number of garden refuse sites	13
Vehicle fleet complement	536
Number of recycling drop off centres	20
Number of recycling buy-back centres	5
Number of tons removed & disposed	973 121
Number of houses serviced	1 001 000
Number of refuse bags distributed (black) (million)	98
Street litter bags (million)	1.4
Orange bags – recycling (million)	9.5

ELECTRICITY

Number of customer base	665 430
Number of reticulation faults attended to	283 097
Number of FBE beneficiaries	82 546

HOUSING

Housing stock (Rental / Selling):	11
Hostels	7 015
Rental Stock	8 500
New houses to be constructed	

CORPORATE HUMAN RESOURCES

OCCUPATIONAL HEALTH

Number of Clinics	7
Attendance at clinics	23 000
Primary medical care	9 000
Medical surveillance employees	10 000
Wellness and sick leave management	4 000

SKILLS DEVELOPMENT UNIT

Number of In-Service	257
Number of Apprenticeships	32
Economic Sectoral Programmes	395
Management Development Programmes	85
Support to EPWP (ABET programmes)	155

MANAGEMENT SERVICES

Summary of Projects	
Productivity Interventions	2
Business Process Re-engineering	8
Wastage Elimination	30
Organisational Development	4

HUMAN RESOURCES

Arbitration awards	129
Appointments	1 896

GOVERNANCE

CITY HALL

Number of City Hall bookings for the year (up to end Jan 2013)	240
Number of Printing jobs and duplicating jobs	11 604
Number of Council meetings	12
Number of Events and Special Programmes	145

COMMUNITY PARTICIPATION

Number of soup kitchens	18
Number of indigent people fed per month	156 400
Number of grant-in-aid beneficiaries	150
Co –operatives recruitment and administration	50

REGIONAL CENTRES

Number of Customers Accessing One Stop Shops	674 515
Number of services accessed at Regional One Stop Shops	55 206
Number of Buildings maintained	65

COMMUNICATIONS

Number of copies of eZasegagasini printed and distributed fortnightly	400 000
Number of copies of the Workplace printed and distributed monthly	15 000
Number of alternative reading material of the eZasegagasini Metro – per issue	172

INTERNATIONAL GOVERNANCE

Unit specific, special and adhoc events	223
Sister City agreements through 45 active projects.	13
Inter-municipal co-operation projects	10
Incoming international delegates	35

TREASURY

REAL ESTATE

Number of leases/ tenancies administered p.a	1 354
Value of leases/ tenancies (R'm)	168.2
Number of properties sold	75
Value of properties sold (R'm)	65.3
Number of properties on valuation roll	503 366
Value of properties on valuation roll (R'bn)	426.1

FINANCE

Number of billed monthly customers	750 000
Average number of queries handled by counter staff in a month	144 400
Average revenue clearance certificates issued per month	3 700
Average number of calls received per month – Call Centre	53 200
Average number of correspondence received per month -letters	39 710

CITY FLEET

Total fleet (Vehicle and Plant)	6 045
Average age of light vehicles reduced from 13 to (years)	5
Vehicle availability (%)	97
Workshop productivity increased from 40% to approx. (%)	98

DURBAN TRANSPORT

Total Bus Fleet	537
Bus Availability (%)	95
Total Replacement Value of buses (R'm)	913

SUPPLY CHAIN MANAGEMENT

Total number of tenders awarded	1 531
Value of tenders awarded (R'bn)	5.2
Number of tenders awarded to PBE's	580
Number of tenders awarded to BBE's	868
Number of tenders awarded to WBE's	412
Number of tenders awarded to DPBE's	1
Number of tenders awarded to SMME's	1 135
Number of tenders awarded to unregistered companies/suppliers	249
Value of tenders awarded to unregistered companies/ suppliers (R'm)	397

Vendors:	37 664
Black business enterprise	25 572
Priority business enterprise	18 835
Women owned business enterprise	6 168
Disable person owned business enterprise	50
Small medium micro enterprise	27 889
Fully accredited vendors	17 571
Desktop accredited vendors	17 794