

ITEM NO.	SUBJECT	REF
	MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK(MTREF) 2013/2014 – 2015/2016	

REPORT TO : COUNCIL

DATE : 15 MARCH 2013

DIRECTORATE : BUDGET AND TREASURY OFFICE
EDIU

AUTHOR : MANAGER – BUDGETS & COMPLIANCE

1. PURPOSE

To table for consideration before Council the draft Medium Term Revenue and Expenditure Framework for 2013/2014, 2014/2015 and 2015/2016 in terms of section 16 of the Municipal Finance Management Act, No 56 of 2003.

2. MAYOR’S REPORT

It is an honour to present the seventh draft annual budget for the District since we took office in March 2006. We have travelled a long road to come where we are today. We were aware of the challenges that were faced by the general populace of the entire District even before we took office. These challenges were that our people had long yearned for reliable basic services to be delivered by a capable state with strong institutional capacity and well-coordinated structures. Our immediate responsibility was to position the District to be a local government that is responsive to the needs of the people. Before everything else, institutional capacity became the priority amongst other competing priorities. This does not in any way mean that other priorities were to be ignored.

In strengthening the institutional capacity, we had to first deal with documenting all challenges, gaps and potentials of the District as a whole. As a result of this, the first Integrated Development Plan by the administration was introduced in 2007 with a vision 2027. In that vision, we began by accelerating the provisioning of basic services mainly water and sanitation. Our vision was to consolidate these advances by year 2012 and advance our determinations by year 2017. By 2017, we are targeting to excel in the provisioning of services and other transformational matters. It was in this regard that our Integrated Development Plans since then captures the aspirations of the public we are privilege to serve. Indeed we are now at a level of consolidating the determinations made previously. It must be said; however, that because of the global economic challenges that befell not only our District and the country, these economic

slowdowns had a negative impact on the aspirations we have set for ourselves as a District. To this end, we are doing our utmost best to realise the vision of the District.

Going forward, to achieve this vision, we must be passionate, have positive attitude, and be disciplined and teachable. We must also have problem solving skills and have servant hood so that we are able to put others first. As leaders and as a community we must see farthest than others do, see first before others do and see the most than others do. As leaders we must encourage others, many people will go farther than they thought they would if they are encouraged by someone else. Conversely, even those who could go far will not go very far if others keep pulling them down!

Again, to achieve the District's vision, a strong character is needed, commitment, courage, focus, initiative and faith. To faith we must add virtue, to virtue we must add knowledge, to knowledge we add self-control, and to self-control we must add perseverance. Management is just as important as leadership because it covers everything to do with getting things done. As we all know, management is the efficient and effective use of another's resources with the intention to give an account of your use, to the one who entrusted those resources to you, including self.

Indeed JC Maxwell had this say, *"it is not the size of the budget or the project that determines the success of a project, but rather the size of its leader"*. It goes without saying therefore, that in order for us to achieve our strategic objectives as envisaged in the IDP, strong leadership and management goes beyond emphasis. It is the rock with which we must all build upon.

The 2013/14 draft annual budget is informed by the District's Integrated Development Plan. All budgeted programmes and projects are correctly captured in the IDP. We are now facing a task of aligning our IDP's against the National Development Plan, supported by the New Growth Path and other programmes. This invites us to look beyond the constraints of the present to the transformation imperatives of the next twenty and thirty years. These imperatives are rapid urbanising society which means that demand for water and sanitation is increasing. Also because of economic competitiveness, as a District we need to invest more in infrastructure, diversify our economy in order to create jobs and raise living standards.

While our draft annual budget is mainly informed by the IDP, most of the aspirations outlined in the National Development Plan have found expression in the District's IDP as well as in the draft annual budget. We are privilege to have a strong Planning Unit, Budget and Treasury Office. I say this because, from the Planning perspective, the District's IDP's have over the years been regarded as number one and the best in the Province. Likewise, our Budget Office has been regarded as the most complying office by both National and Provincial Treasuries. Furthermore, our Budget Office has been producing reliable budgetary information within which to base decisions. It be understood that they could not have achieved these results, indeed without the support of other departments.

Let me highlight some of the programmes we are tabling in this budget. In July 2012 and in partnership with Department of Education, we have identified community gardens projects through Enterprise iLembe that will serve as primary producers of vegetables for the National School Nutrition Programme. In part, the aim of the National School Nutrition Programme is to help alleviate poverty in local communities. This intervention is also aimed at creating jobs and training particularly in agricultural sector. In this budget, we are extending the provisioning of water and sanitation services to the communities that had never had these services before. It is in this budget that a grant has been allocated to deal with poverty alleviation and rural development strategy initiatives. We are continuing with our efforts to position the District as a prime tourist attraction corridor.

We are also advancing our efforts to mitigate the risks associated with disasters as we are prone to these in our District and a significant amount has been allocated to this work. An allocation has been made to install intelligent meters that will ensure effective collection of revenues due. We are investing much on the repairs and maintenance of infrastructure networks to enhance the life of infrastructure. The Information Technology section is currently busy with programmes that will ensure that information systems are integrated thus providing reliable, timeous and accurate information within which to base our decisions.

In this budget and previous budgets gender and other vulnerable groups programmes have been allocated quite significant amounts to address the challenges they face and we are advancing on the gains that have been made thus far. Also, institutional capacity of the District is constantly being strengthened to position the District as a capable local government ready to deliver on its mandate. In this draft budget, we are

continuing with our efforts to fight the menace of HIV and AIDS as well as other communicable diseases.

The 2013/14 draft annual budget is based on sound budgeting principles, assumptions and guidelines. It complies with stipulated National Treasury guidelines, presentation formats and complies with budgeting regulations. Our budget compliance checklist indicates greater compliance, transparency, inclusivity, reliability and greater involvement by all stakeholders. Also, all our budget related policies have been refined and improved to give effect on the implementation of the budget as well as the Integrated Development Plan.

I would like to urge all departments to implement the Expanded Public Works Programme. All programmes that we have as a District must have a component of job creation. It is not Technical Services department alone that must implement this programme. I'm informed that at least one thousand job opportunities will be created in 2013/14 budget year and this will be from Technical Services department alone. Other departments must also indicate as to how many job opportunities will be created by their programmes. Accordingly, innovative ways must be found so that this becomes a reality and success. Therefore management is tasked with taking correct decisions and these correct decisions are precursors of any logical actions.

3. EXECUTIVE SUMMARY

In terms of chapter 4, section 16 of the Municipal Finance Management Act, No 56 of 2003, the **DRAFT** operational and capital budgets must be tabled by the Mayor at a council meeting on or before 31 March of each financial year to give effect to the public participation process as envisaged in the Municipal Systems Act and the MFMA of 2003.

Section 24 of the MFMA further requires that the municipal council must at least 30 days before the start of the budget year consider approval of the annual budget, as the budget must be approved before the start of the financial year. It is in compliance with these sections (step by step process) that the budget is hereby tabled.

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

- Draft budgets:
 - Operating budget summary
 - Budget assumptions
 - Capital budget
- Proposed tariff structures
- Measurable performance objectives for revenue
- Municipal entity – Enterprise iLembe
- Service agreements
- New budget regulations
- Budget related policies
- Public input
- Publication of budgets
- Draft resolutions

The budget and IDP process plan adopted by the Council in August 2012 ensured that the said process was highly interactive and consultative in nature as this is a requirement of the MFMA 56, of 2003 and MSA 32 of 2000.

During the month of January 2013, the Mid Term Budget and Performance Assessment was conducted and a report was presented by the Accounting Officer to the Mayor of the District, who then submitted the performance assessment report to Council for consideration in January 2013 and to the National Treasury and the relevant Provincial Treasury in line with section 54(1) (f) of the MFMA.

That report included recommendations that a consolidated adjusted budget be prepared for the 2012/2013 financial year for the iLembe District and its entity. The adjustments budget was then prepared and tabled by the Mayor to Council in February 2013 in line with section 28 of the MFMA. During this process and where appropriate, funds were transferred from low-to high priority programs so as to maintain sound financial stewardship. A critical review was also undertaken of expenditure on non-core items.

As the 2013/14 draft budget is presented, it was discussed in detail with all relevant stakeholders including the Municipal Manager as well as the Mayor, before being tabled to the Budget and Audit Steering Committee for discussion. In terms of the Regulations this must be done before tabling the draft budget to full council for

consideration in order to kick start the public participation process. The budget is now therefore being tabled at full Council in terms of the MFMA.

The following annual budget tables have been populated and are annexed to this item as Annexure A

Table A2: Budgeted Financial Performance (Revenue and Expenditure by standard classification)
Table A3: Budgeted Financial Performance (Revenue and Expenditure by municipal vote)
Table A4: Budgeted Financial Performance (Revenue and Expenditure)
Table A5: Budgeted Capital Expenditure by Vote, Standard Classification & Funding Source)
Table A6: Budgeted Financial Position
Table A7: Budgeted Cash Flow
Table A8: Cash backed reserves/accumulated surplus reconciliation
Table A9: Asset Management
Table A10: Basic service delivery measurement

4. Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality as well as the chair of the Finance Portfolio Committee, meeting under the chairpersonship of the Mayor.

The primary aims of the Budget Steering Committee are to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in IDM's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and

- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

5. Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Local priorities were identified as part of the IDP review process which is directly aligned to that of the national and provincial priorities. The key performance areas can be summarised as follows against the five strategic objectives:

- Provision of quality basic services and infrastructure,
- Economic growth and development that leads to sustainable job creation
- Fight poverty and build clean, healthy, safe and sustainable communities
- Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service
- Promote sound governance

6. Operating Budget Summary

The proposed operational budget contains detailed information for the 2013/2014 budget year as the 2014/2015 and 2015/2016 indicative financial years and is summarised and compared with the adjustments budget figures as follows:

Description	2012/2013 Adjustments Budget	2013/2014 Proposed Draft Budget
	R	R
Income	(443 318)	(441 794)
Expenditure		
Employee Related Costs	114 763	124 998
Remuneration of Councillors	6 888	7 188
Debt Impairment	25 373	19 346
Other Expenditure	103 727	108 236
Other Materials	34 921	21 930
Finance Charges	11 000	12 100
Transfers and Grants	40 131	24 820
Depreciation and Assets Impairment	34 060	31 600
Bulk Purchases	52 019	55 689
Contracted Services	54 951	59 933
Total Expenditure	478 851	462 341
Net (Surplus)/Deficit	35 533	20 547

The 2013/2014 Medium Term Revenue and Expenditure Framework focuses on the long and short term objectives and priorities of the District as well as outcomes and outputs, based on the following IDP Priorities:

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

National treasury's MFMA Circular No 10, 13, 19, 42, 48, 51, 54, 58, 59 and 66 were used to guide the compilation of the 2013/2014 MTREF.

The main challenges experienced during the compilation of the 2013/2014 MTREF can be summarised as follows:

- The need to re-prioritise projects and expenditure within the existing resources envelope given the cash flow realities;
- Ageing infrastructure, quality and quantity of drinkable water;
- The increased cost of bulk water which is pushing the tariffs upwards;

- Wage increases for municipal staff in excess of consumer inflation as well as the need to fill critical vacancies;
- Affordability of Capital Projects;
- The on-going difficulties in the National and Local economy;
- Availability of affordable capital or borrowing; and
- Rising and unpredictable fuel, oil and energy prices.

The following budget principles and guidelines directly informed the compilation of the 2013/2014 MTREF:

- The 2012/2013 Adjustment Budget priorities and targets, as well as the base line allocations contained in that adjustment budget were adopted as the upper limits for the new baseline for the 2013/2014 draft budget;
- Service level standards were used to inform the measurable performance objectives, targets and backlog eradication;
- That tariff increases must be affordable and be measured against the cost of bulk water. In addition, tariffs need to remain or move towards being cost reflective and should take into account the need to address infrastructure backlogs and maintenance thereof; and
- That all grant funded projects will only be implemented provided that a written confirmation in the form of Division of Revenue Act (“DORA”) or otherwise is available and gazetted.

In view of the aforementioned, the following table is a consolidated overview of the proposed draft 2013/2014 Medium Term Revenue and Expenditure Framework:

By category	Adjustment Budget 2012/2013	Budget Year 2013/2014	Budget Year +1 2014/2015	Budget Year+2 2015/2016
	R'000	R'000	R'000	R'000
Total operating revenue	443 318	441 794	453 577	513 686
Total Operating Expenditure	478 851	462 341	475 055	505 109
(Surplus)/Deficit	35 533	20 547	21 478	(8 578)
Total Capital Expenditure	299 435	328 618	472 022	702 418

7. Overview of Budget Funding

The table below looks at the reconciliation of the (surplus)/deficit, considering the non-cash items budgeted for. Over and above that, it looks at the budget schedules to ascertain if the municipality is funded for the MTREF.

Adjustment for non-cash items	Amount R'000
(Surplus) /Deficit before non-cash items	20 547
Add: Adjust for non-cash items	
Depreciation and Asset Impairment	31 600
Debt Impairment	19 346
(Surplus)/Deficit for the year before Capex	(30 399)
Internally Funded Capex	30 939
Vat Refunds not committed	(52 239)
(Surplus)/Deficit for the year	(51 699)

The 2013/2014 budget is fully funded, more details can be viewed from Table A8 and supporting Table SA10.

8. Budget Assumptions

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

- Normal inflationary increases and pressures;
- That the budget is both zero based, incremental and programme based;
- Inflation is 5.1% for the 2013/2014,
- A 7.5% increase as per the current wage agreement;
- That there will be no changes to the powers and functions of the District during 2013/2014 financial year;
- That more than 85 % of revenue budgeted for will be collected;
- That all DORA allocations will be received during the 2013/2014 budget year.

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

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

9. Contracts having future budgetary implications

The municipality currently has a contract with Siza Water, which is a 30 year agreement. This has been reflected accordingly on supporting table SA33.

10. Capital Expenditure

The proposed capital budget reflects the globular sum per capital expenditure category identified as priority areas for capital expenditure during the review of the 2013/2014 IDP and amounts to R 328 618 013 (excluding VAT).

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

An amount of R 297 678 680 will be secured through grant funding from National Department and an amount of R 30 939 333 will be secured through internally generated revenues as well as vat refunds. However a request has been made to COGTA to fund the installation of intelligent meters (R17m), which is part of the revenue enhancement strategy. If this funding suffices, the municipality will be able to build cash reserves through VAT refunds.

The following table shows Capital Grants allocation and expenditure thereof for the year 2014:

Name of Grant	Amount	Purpose/ Expenditure
Municipal Infrastructure Grant	129, 430	For the provisioning of water and sanitation projects in line with the IDP
Rural Transport Service Grant	1, 554	Provisioning of rural transport related services in line with the MOA
Regional Bulk Infrastructure Grant	111, 800	Provisioning of bulk water infrastructure
Massification Grant	1, 720	New technology on water infrastructure services
Municipal Water Infrastructure Grant	42, 735	For the provisioning of water infrastructure
Expanded Public Works Programme	860	For the implementation of EPWP
Water Service Operating Subsidy	9, 579	For Infrastructure related projects

The above grants have been budgeted for excluding VAT and the vat refunds have also been budgeted for accordingly. These grants will be expended on providing infrastructure for basic services in the 2013/2014 financial year in line with the conditions of DoRA, Memorandum of Agreements and applicable agreements by allocating Sector Departments.

11. Proposed Tariff Structure and Operating Revenue

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

National Treasury continues to encourage municipalities to keep increases in tariffs and other charges as low as possible. However, municipalities must justify in their budget documentation all increases in excess of the 6% upper boundary of the South African Reserve Bank's inflation target. The percentage increase of Umgeni Water is far beyond the mentioned target. In 2010/2011 financial year, Umgeni Water tariff was 6.2% and the District tariff was set at 5.7%. As a result of this, the District under-recovered by 0.5% for the 2010/2011 financial year. In 2011/12 financial year, the District's tariffs were set at 7 per cent while Umngeni tariffs were set at 6.5 per cent. Again in 2012/13 financial year our tariffs were set at 8 per cent while Umngeni and other water authority were in par with the District's tariffs. Given that these tariffs are determined by external agencies, the impact they have on the municipality's water and sanitation service delivery are largely outside the control of the District.

For 2013/2014 financial year, Umngeni water tariffs are not yet available as they are waiting for March CPIX. Discounting the impact of these price increases in lower consumer tariffs will negatively impact the District's future financial position and viability.

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

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

11.1 Sale of Water and Impact of Tariff Increases

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

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

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

Furthermore, Eskom has announced an 8 per cent in bulk electricity supply. This has got an impact on the supply of water as water purification plants, reservoirs, water networks and water distribution relies heavily on electricity.

Umgeni Water is currently undertaking a critical assessment of its capital infrastructure requirements. In that regard, Umgeni Water bulk water supply tariff increase was set at 6.5 per cent in year 2011/2012. Tongaat Hulett and WSSA had set a tariff of 9.38% and 8.5% respectively in year 2011/2012. It be noted that the District under-collected in 2010/2011 financial year as the water and sanitation tariff was set at 5.7 per cent.

In view of the above and other outlined challenges, a 9 per cent water tariff increase is proposed, effective from the 1st of July 2013.

11.2 Sanitation and Impact of Tariff Increases

A tariff of 9 per cent for sanitation effective from 1 July 2013 is proposed. This is based on the input cost assumptions related to water. It should be noted that electricity costs contribute significant portion of waste water treatment input costs, therefore the higher than the CPI. The following factors also contribute to the proposed tariff increase:

- Sanitation charges are calculated according to the percentage of water discharged.
- Free sanitation will be applicable to registered indigents and the total revenue anticipated in rendering this service amounts to R 17, 2 million.

Mostly, and in view of the above assumptions, deliberations and observations, it is proposed that the District's tariff and other charges be increased as follows and be advertised to the general public for implementation with effect from 1 July 2013:

Type of Service	Proposed Tariff Increase
Water charges	9%
Sewer charges	9%
Miscellaneous tariffs	Various

Details of the amended tariffs are annexed thereto.

12. Operating Transfers and Grant Receipts

The operating grants and transfers amount to R300 101 in the 2013/2014 financial year. Below is the table of grant allocations and expenditure:

Expenditure on Grant Transfers and Grant Programme for 2013/14 year

Name of Grant	Amount	Expenditure Purpose
Equitable Share	253 386	Provisioning of basic services including indigents
Finance Management Grant	1,250	Provision of Internship program and other institutional expenses
Municipal Systems Improvement Grant	890	Provision of institutional capacity related programs in order to enhance service delivery
MIG Grant Operational	23 220	This grant will fund operational requirements of infrastructure

LG SETA Grant	700	For Skills Development
Schools Nutrition Grant- Enterprise	19 855	For school nutrition- iLembe Enterprise

The above grants will be spent this financial for the purposes outlined in the memorandum of agreements and as set out in DoRA. More details can be obtained on budgetary line items as disclosed in budget supporting documentation for 2013/14.

The grant from LG Seta is as per the skills plan that the municipality submits for funding to Seta in order to develop municipal staff. This amount will only be available when the plan is approved.

13. Operating Expenditure Framework

In preparing the 2013/14 MTREF, the following were considered:

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

Councilor and board member allowances and employee benefits

The proposed budget allocation for employee related costs for both the Enterprise and the District including Councillor Allowance is R132, 1 million for 2013/2014 MTREF. This amount includes posts as per the current organogram, critical vacant positions, notch increases as well as the current wage agreement.

Contracted Services

An amount for contracted services of about R59, 9 million is proposed. This amount includes the following:

- R27, 4 million in respect of the security costs,
- R4 million in relation to SALGA games,

- R10 million for the WSSA contract,
- R4, 3 million in respect of plant hire,
- R2, 7 million for disconnections and reconnections, and
- Other miscellaneous votes

Other Expenditure

The proposed budget allocation for other expenses amounts to R104, 7 million for the 2013/2014 financial year, which includes grant funded expenditure to the amount of R14, 4 million. A detailed breakdown of this cost can be viewed from the supporting Table SA1.

Other Materials

Other materials are budgeted at R21, 9 million for 2013/2014. In terms of Municipal Budgeting and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver, but an outcome of other expenditures such as remuneration, purchases of materials and contracted services. The decrease in the budget of repairs and maintenance is as a result of the replacement/refurbishment costs that have been budgeted for on the capital budget to replace/refurbish depleted pipelines and pumps.

Debt Impairment

A proposed provision for bad debts totals to R 19, 3 million. Whilst this expenditure is a non-cash flow item, it informs the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenue. This is in compliance with GRAP requirements. The bad debt provision has been calculated based on the 85% revenue collection rate that is budgeted for the 2013/2014 financial year.

Depreciation & Asset Impairment

A proposed provision for depreciation, amortisation and asset impairment of about R31, 6 million is informed by the Fixed Asset Policy of the District. It should be noted that the implementation of GRAP 17 accounting standard has brought in assets that were not previously included in the asset register.

Finance Charges

Finance charges consists primarily the repayment of interest in long-term borrowings and interest charged on vehicles that are leased and is set at R12, 1 million.

Bulk Purchases

The budget for bulk purchases is set at R55.6 million, an increase of R 2 million from prior year. (5% increase)

The following supporting schedules have been populated (where applicable) and are annexed hereto:

SA1: Supporting Detail to Budgeted Financial Performance
SA2: Matrix Financial Performance Budget (revenue source/expenditure type and department)
SA3: Supporting detail to Budgeted Financial Position
SA4: Reconciliation of IDP, Strategic Objectives and Budget (Revenue)
SA5: Reconciliation of IDP, Strategic Objectives and Budget (Operating Expenditure)
SA6: Reconciliation of IDP, Strategic Objectives and Budget (Capital Expenditure)
SA7: Measurable Performance Objectives
SA8: Performance Indicators and Benchmarks
SA9: Social, Economic and Demographic Statistics and Assumptions
SA10: Funding Measurement
SA11: Property Rates Summary
SA12a: Property Rates by category (current year)
SA12b: Property Rates by category (budget year)
SA13: Property Rates by Category
SA14: Household Bills
SA15: Investment Particulars by Type
SA16: Investment Particulars by Type
SA17: Borrowing
SA18: Transfers and Grant Receipts
SA19: Expenditure on Transfers and Grant Programme
SA20: Reconciliation of Transfers, Grant Receipts and Unspent Funds
SA21: Transfers and Grants made by the Municipality
SA22: Summary Councillor and Staff Benefits
SA23: Salaries, Allowances and Benefits (political office bearers/councillors/senior managers)
SA24: Summary of Personnel Numbers
SA25: Budgeted Monthly Revenue and Expenditure
SA26: Budgeted Monthly Revenue and Expenditure (Municipal Vote)
SA27: Budgeted Monthly Revenue and Expenditure (Standard Classification)
SA28: Budgeted Monthly Capital Expenditure (Municipal Vote)

SA29: Budgeted Monthly Capital Expenditure (Standard Classification)
SA30: Budgeted Monthly Cash Flow
SA32: List of External Mechanisms
SA33: Contracts having Future Budgetary Implications
SA34a: Capital Expenditure on New Assets by Asset Class
SA34b: Capital Expenditure on the Renewal of Existing Assets by Asset Class
SA34c: Repairs and Maintenance Expenditure by Asset Class
SA34d: Depreciation by Asset Class
SA35: Future Financial Implications of the Capital Budget
SA36: Detail Capital Budget
SA37: Projects Delayed from Previous Financial Years

14. Measurable Performance Objectives

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

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

15. Municipal Entity – Enterprise iLembe

iLembe District municipality has one municipal entity, Enterprise iLembe which focuses mostly on the local economic development within the district. The budget for the municipal entity for the 2013/2014 financial year is R 29, 7 million. It must be noted that the municipality has to submit a consolidated budget together with the entity.

16. Service Agreements

Adequate provision has been made on the operational budget to meet the expected expenditure for the following significant service providers:

Supplier	Nature of Service
CICS (Pty) Ltd	Software maintenance contract
Indwe Risk Services	Short-term insurance
KwaDukuza Municipality	Electricity
Telkom	Tele-communication
Siza Water	Water and sewer
Umgeni Water	Water

Debis Fleet Management	Lease of vehicle
Isidingo Security Services	Provision of security for municipal buildings and infrastructure
WSSA	Water
Tempest Hire	Hire of vehicles

17. Budget Related Policies

The following proposed budget related policies annexed hereto (Annexure) are being tabled, as consideration has been given to them in the preparation of the budget. These policies will have to be work-shopped at full Council. These policies will have to be adopted for the 2013/14 financial year:

- Tariff policy
- Fixed Assets Management Policy
- Banking, Cash Management & Investments Policy
- Inventory Management Policy
- Indigent Management Policy
- Petty Cash Policy
- Credit Control & Debt Collection Policy
- Supply Chain Management Policy
- Virement Policy
- Unauthorized, Irregular, Fruitless & Wasteful Expenditure Policy
- Budget Policy
- Customer Care and Management Policy
- Borrowing Policy
- Funding and Reserves Policy
- Long Term Financial Planning
- Infrastructure, Investments and Capital Projects

17.1 Overview of Budget Related Policies

Listed below is a brief description of the budget-related policies. The policies are attached as Annexure D.

17.1.1 Supply Chain Management Policy

The comprehensive Supply Chain Management Policy governs, inter alia, the procurement of goods and services; disposal of goods and selecting contractors to aid the Municipality in

service delivery. This policy sets out the procedures that must be followed for the above activities in order to comply with all relevant legislation effectively.

17.1.2 Fixed Asset Management Policy

The Fixed Asset Management Policy governs the acquisition, utilisation, control, maintenance and disposal of assets of IDM. This policy ensures that assets are managed in an economical, effective and efficient manner throughout their life cycles, to achieve the maximum level of service.

17.1.3. Credit Control & Debt Collection Policy

The Credit Control & Debt Collection Policy, adopted by Council, focuses on all outstanding debt and aims to promote a culture of good payment habits amongst debtors. Debtors have a responsibility towards the payment of their accounts. This policy implements an appropriate, innovative system of debt collection, which is also cost-effective. The aim of this policy is to ensure that debt is collected in the shortest possible time, without any interference in the process, thereby reducing all municipal debt.

The Credit Control & Debt Collection Policy ensures a sensitive, transparent and equitable approach to debt recovery. It prescribes methods to effectively and efficiently deal with those who default on payments, whilst taking indigent consumers into consideration and keeping costs to a minimum.

17.1.4 Funding & Reserves Policy

The Funding & Reserves Policy is aimed at ensuring that the IDM procures sufficient and cost-effective funding to achieve its capital expenditure objectives in an optimum manner. This policy must be adhered to in the procurement of funding, whilst considering the maturity profile of IDM's assets and liabilities.

This policy sets out the assumptions and methodology for estimating:

- Revenue;
- Revenue that will not be collected;
- Proceeds from the disposal of assets;
- Proceeds from borrowings; and
- Funds to be set aside in Reserves (excluding Reserves held in order to comply with

GRAP standards)

17.1.5 Cash Management & Investment Policy

The Investment & Cash Management Policy ensures that all investments are made in an effective and efficient manner and generate the best return for IDM. This policy ensures that all investments made take into account the preservation and safety of the principal and appropriate liquidity.

17.1.6 Virement Policy

The Virement Policy is in place to ensure good budgeting practice, effective financial management and improved budgetary controls. This policy establishes a framework for managers to administer their budgets successfully and remain within limitations.

17.1.7 Long Term Financial Planning

A policy has been developed on the Long term financial planning of the Municipality to achieve IDM's 2027 vision. Council reviews all budget-related policies annually. These policies are in compliance with all relevant legislation.

17.1.8 Indigent Management Policy

The Indigent Policy ensures that basic services are provided by IDM to all indigent members of its community in a sustainable manner, within the Council's financial capacity. Indigent households, in terms of this policy, qualify for

- free basic water (10kl) and sewer

All conditions stated in this policy must be met before a household may be registered as "Indigent". Households are required to formally apply for relief and must register each year for indigent support. The prescribed documentation is available from IDM Offices. IDM currently has revenue desks to also assist with the process of registration; this is also done at municipal offices.

17.1.9 Tariff Policy

The Tariff Policy is the policy for levying fees; rates or taxes for the municipal services provided by IDM. Tariff calculations are based on the nature of the service provided and treat all users of municipal services equally, by ensuring that consumers pay in proportion to the amount of services consumed. This policy covers the Tariff Determination Process and also the Classification and Pricing Strategies of Services. It highlights the fact that all proposed

tariffs are presented to the community of during the Council's consultation process in respect of the MTREF. The aims of this policy are:

- to promote local economic development' growth and competitiveness
- to cater for the indigent households whilst keeping rates affordable
- to ensure financial sustainability of service delivery

This Policy complies with the MSA.

17.1.10 Borrowing Policy

The Borrowings Policy establishes a framework for incurring debt. It must be noted, however, that IDM does not raise any short-term debt. The guidelines provided in this policy ensure that IDM adheres to all statutory requirements regarding long-term debt. This policy aims to obtain funds at the lowest possible interest rates, and with minimum risk.

17.1.11 Budget Policy

The Budget Policy sets out the principles followed by IDM in drafting the MTREF. This policy covers the responsibilities of the Mayor; the MM; the CFO and other senior managers in preparing the MTREF. The operating and capital budget; budget funding; budget transfers; unavoidable expenditure and the budget preparation process are covered extensively.

17.1.12 Infrastructure, Investments & Capital Projects

This policy deals with investments in Infrastructure and Capital Projects to address the backlogs in service delivery as well as to promote economic growth within iLembe and surroundings.

17.1.13 Inventory Management Policy

The policy aims to achieve the following objectives which are to:-

- a) Provide guidelines that employees of the Municipality must follow in the management and control of inventory, including safeguarding and disposal of inventory.
- b) Procure inventory in line with the established procurement principles contained in the Municipality's Supply Chain Management Policy.
- c) Eliminate any potential misuse of inventory and possible theft.

17.1.14 Petty Cash Policy

This policy aims to regulate the use of Petty Cash Float within IDM and to ensure that in disbursing petty cash funds the Municipality is within the ambit of Municipal Finance Management Act (MFMA).

17.1.15 Unauthorised, Irregular, Fruitless & Wasteful Expenditure Policy

The objectives of this policy includes amongst other things:

- (a) Emphasising the accountability of employees ;
- (b) Ensuring that employees have a clear and comprehensive understanding of the procedures they must follow when dealing with unauthorised, irregular or fruitless and wasteful expenditure;
- (c) Ensuring that resources made available to employees are utilised efficiently, effectively, economically and for authorised official purposes;
- (d) Ensuring that the Municipality's resources are managed in compliance with the MFMA, the Municipal Regulations and other relevant legislation,
- (e) Ensure that irregular, unauthorised or fruitless and wasteful expenditure is detected, processed, recorded, and reported timeously.

17.1.16 Customer Care & Management Policy

Through this policy the municipality's aim is to ensure that a customer will be able to contact the municipality conveniently and will be treated courteously, promptly and fairly. The customer will receive a clear response to any service request or enquiry within a stated period of time.

18. Service Delivery & Budget Implementation Plan (SDBIP)

The SDBIP is tabled as a separate item at this meeting and details the draft targets per departments. The SDBIP can only be finalized once the budget is approved and adopted by Council.

19. Public Consultation and Publication of 2013/14 Proposed Budget

In terms of section 22 of the MFMA and in accordance with chapter 4 of the Municipal Systems Act, the Accounting Officer of the municipality must make public the draft annual budget, invite local community to submit representations in connection with the budget.

After the budget is tabled in March, public participation meetings must be set in order to allow the communities and other stakeholders to comment on the draft budget and to allow the Mayor of the District the opportunity to respond to such inputs. As the public meetings take place in April or May, various stakeholders will be invited to make contributions on the draft budget.

The budget will also be submitted to National and Provincial Treasury as per the requirements of the MFMA. The municipality will then receive comments from the Provincial Treasury regarding the entire draft budget for 2013/14 and these comments will test the compliance and other matters as required by the MFMA

20. CONSULTATIONS

- Chief Financial Officer
- The Accounting Officer
- His Worship, the Mayor, Cllr S.W Mdabe
- All Directorates
- The National Treasury
- The Provincial Treasury

21. RESOLUTIONS/RECOMMENDATIONS

It is recommended **THAT**

- Council consider and adopt the DRAFT operational budget for the 2013/2014 and ensuing budget for 2014/2015 and 2016/2017 financial years, copies of which are attached hereto, in terms of chapter 4, section 16 of the Municipal Finance Management Act No 56 of 2003.

It should be noted that in respect of Capital Expenditure Estimates:

- In instances where information has been provided in terms of Section 19(2) (b) of the Municipal Finance Management Act No.56 of 2003, the consideration and adoption of capital budget constitutes projects consideration for the specific projects as reflected in the detailed capital budget. Where information in terms of section 19(2) (b) is not provided, specific project approval be sought from council during the course of the year.

- That Council consider and adopt the amendments to its Tariffs of Charges as depicted on the schedule annexed hereto and marked as annexure C and that these tariffs come into operation on 1 July 2013.
- That the draft policies attached hereto and marked as Annexure D, be noted and approval be subjected to the policies being taken to the relevant portfolio committees.
- That in compliance with section 22 of the MFMA, the budgets be published in the local press, it being noted that Council's department of Corporate Governance will attend to these aspects.
- It be noted that the Accounting Officer of the municipality will submit the draft SDBIP for 2013/2014 MTREF no later than fourteen days after the final approval of the District budget for 2013/2014 financial year.

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SIGNATURE OF AUTHOR (S.N MTHEMBU)

SUPPORTED / NOT SUPPORTED at KwaDukuza on the of 2013.

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CHIEF FINANCIAL OFFICER'S SIGNATURE

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ACCOUNTING OFFICER'S SIGNATURE