ANNUAL BUDGET OF

UMKHANYAKUDE DISTRICT MUNICIPALITY

2013-2014 TO 2015-2016

MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK

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Abbreviations and Acronyms

AMR Automated Meter Reading
ASGISA Accelerated and Shared Growth Initiative
BPC Budget Planning Committee
CBD Central Business District
CFO Chief Financial Officer
CM City Manager
CPI Consumer Price Index
CRRF Capital Replacement Reserve Fund
DBSA Development Bank of South Africa
DoRA Division of Revenue Act
DWA Department of Water Affairs
EE Employment Equity
EEDSM Energy Efficiency Demand Side Management
EM Executive Mayor
FBS Free basic services
GAMAP Generally Accepted Municipal Accounting Practice
GDP Gross domestic product
GDS Gauteng Growth and Development Strategy
GFS Government Financial Statistics
GRAP General Recognised Accounting Practice
HR Human Resources
HSRC Human Science Research Council
IDP Integrated Development Strategy
IT Information Technology
kℓ kilolitre
km kilometre
KPA Key Performance Area
KPI Key Performance Indicator
kWh kilowatt
ℓ litre
LED Local Economic Development
MEC Member of the Executive Committee
MFMA Municipal Financial Management Act
Programme
MIG Municipal Infrastructure Grant
MMC Member of Mayoral Committee
MPRA Municipal Properties Rates Act
MSA Municipal Systems Act
MTEF Medium-term Expenditure Framework
MTREF Medium-term Revenue and Expenditure Framework
NERSA National Electricity Regulator South Africa
NGO Non-Governmental organisations
NKPIs National Key Performance Indicators
OHS Occupational Health and Safety
OP Operational Plan
PBO Public Benefit Organisations
PHC Provincial Health Care
PMS Performance Management System
PPE Property Plant and Equipment
PPP Public Private Partnership
PTIS Public Transport Infrastructure System
RG Restructuring Grant
RSC Regional Services Council
SALGA South African Local Government Association
SAPS South African Police Service
SDBIP Service Delivery Budget Implementation Plan
SMME Small Micro and Medium Enterprise

PART 1 – ANNUAL DRAFT BUDGET

1.1 Mayor's Report

1.2 Council Resolution

1.3 EXECUTIVE SUMMARY

1.3.1 Introduction

The 2013/2014 draft budget proposed a total consolidated budget of R549 million which has been developed with an overall planning framework and includes programme and projects to achieve the municipality's strategic objectives. This draft budget is working towards appearing to the reality of the need of water in the community, addressing issues of unemployment, poverty, inequality and ensuring of rendering the sustainable services delivery to UMkhanyakude District.

An amount of R310.5 million has been allocated to the operational budget and the capital budget for the infrastructure is R 238.5 million. The projection for the service charges and other income is R 92 million.

The draft Medium-Term Revenue and Expenditure Frame Work is released for the consultation of the community, business, internal and external stakeholders, so they can have the influence in the area of UMkhanyakude. The budget enables the implementation of our goals as set out on the Integrated Development Plan and translated to 2030 vision and mission.

1.3.2 Strategic priorities for 2013/2014

This budget will be considering the Government key priorities area in general, which are:

- Creation of decent work and sustainable livelihood
- Education
- Health
- Rural Development, food security and land reform
- The fight against crime and corruption
- Local government

The municipality has identified all of the above priorities and these other priorities that needs to be addressed:

- Service delivery backlogs
- Water crisis
- Youth and women development
- Poverty alleviation programme

Creation of decent work and sustainable livelihood

The Municipality has set aside the projection of R500 000for the Tourism Development and marketing programme. This projection will cover all Local Municipalities within UMkhanyakude District family of Municipalities. An estimated of 100 job opportunities will be created during the development of these projects. R300 000 is budgeted for the Local Economic Development.

Education

The municipality has budgeted for bursaries an amount of R300 000 that will assist the youth of UMkhanyakude that cannot afford to further their studies. It is in municipality's attentiveness to train the students on the courses that will assist them to work for the municipality. The bursary will be given for the courses such as artisan, plumbing etc.Other allocation is for youth development R500 000, women R500 000 and senior citizen R500 000.

Health

The municipality has budget for the municipal health an amount of R8.4million which will accommodate the staff that will be absorbed by the municipality from Department of health. This staff will be dealing with promoting good health to the community. The HIV/AIDS programme has an allocation of R2.5 million. Disability allocation is R1 million.

Rural Development, food security and land reform

An amount of R2.9 million has been set aside for the Mkuze town upgrade, and R1 million for the District Development, Land use management R 350 000, R1 million for business development. During these developments there will be job opportunities created.

The fight against crime and corruption

The budget for the community participation of R 300 000 will be used for the awareness campaign in the community.

The main basic service for UMkhanyakude is to render water to the community. The municipality budgeted R 6.1 million for the free basic services. The provision for water is R 168.7 and sanitation for R52 million

National Treasury's MFMA Circular No. 66 and 67 was used to guide the compilation of the 2013/14 draft MTREF.

1.3.3 Challenges

The main challenges experienced during the compilation of the 2013/14 draft MTREF can be summarised as follows:

- The on-going difficulties in the national and local economy;
- The high rate of unemployment within UMkhanyakude
- The high rate of indigent within UMkhanyakude
- Aging and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;

The increased cost of bulk water and electricity (due to tariff increases from Rand Water and Eskom), which is placing upward pressure on service tariffs to residents.

Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;

Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies; and

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 as part of the 2013/14 MTREF process

1.3.4 Budget principles and guidelines that directly informed the compilation of the 2013/14 draft MTREF

The 2012/13 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2013/14 annual budget;

Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;

Tariff increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;

There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

The following table is a consolidated overview of the proposed 2013/14 Medium-term Revenue and Expenditure Framework:

Table 1: Consolidated Overview of the 2013/14 MTREF

R'000	Adjustment Budget 2012-2013	Budget Year 2013-2014	Budget Year 2014-2015	Budget Year 2015 2016
Total Operating Revenue	292 226 000	310 268 000	340 800 000	381 942 000
Total Operating Expenditure	292 226 000	310 268 000	340 800 000	381 942 000
Surplus/Deficit	-	-	-	-
Total Capital Expenditure	367 336 000	238 505 000	229 334 000	268 424 000

Total operating revenue has increase with 5.8 per cent or R18million for the 2013/14 financial year when compared to the 2012/13 Adjustments Budget. For the two outer years, operational revenue will increase by 8.9 per cent and 10.7per cent respectively, equating to a total revenue growth of R 30.5 million and R41.1 respectively over the MTREF

Total operating expenditure for the 2013/14 financial year has been appropriated at 5.8per centincrease when compared to the 2012/13 Adjustments Budget and by 8.9 per cent and 10.7per cent for each of the respective outer years of the MTREF.

The capital budget of R238.5 million for 2013/14 is R 128.8 million less when compared to the 2012/13 Adjustment Budget. The reduction is due to various projects being finalised in the previous financial year as well as affordability constraints in the light of current economic circumstances. During the adjustment budget the municipality internal funded the infrastructure program with R 67.5 million. The capital programme decreases to R9.1 million in the 2014/15 financial year and then increased in 2015/16 withR39 million.

1.4 Operating Revenue Framework

In order for UMkhanyakude District municipality to continue improving the quality of services provided to the citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

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

- National Treasury's guidelines and macroeconomic policy;
- Growth in the municipality and continued economic development;
- Efficient revenue management
- 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;
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the municipality.

The following table is a summary of the 2013/14 MTREF (classified by main revenue source):

Table 2: Summary of revenue classified by main revenue source

Description	2009/10	2010/11	2011/12	Current Year 2012/13				2013/14 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Financial Performance										
Property rates	744	–	–	–	–	–	–	–	–	–
Service charges	31 618	44 627	45 793	48 226	19 618	19 618	19 618	42 434	44 790	47 270
Investment revenue	809	4 799	11 155	2 300	5 143	5 143	5 143	12 870	13 565	14 396
Transfers recognised - operational	111 265	144 876	201 496	195 360	205 100	205 100	205 100	218 530	243 988	279 794
Other own revenue	703	597	6 264	5 426	62 365	62 365	62 365	36 435	38 458	40 481
Total Revenue (excluding capital transfers and contributions)	145 141	194 898	264 708	251 312	292 226	292 226	292 226	310 268	340 801	381 942

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from services charges forms a significant percentage of the revenue basket for the municipality. Service charge revenues comprise of 14 per cent of the total revenue mix 2013/14. In the 2012/13 financial year, revenue fromservices charges totalled R19.6 million after the adjustment budget. In 2013/14 budget it increases to R42 million, R44 million and R47 million in the respective financial years of the MTREF. A notable trend is the increase in the total percentage revenue generated from services charges which increases with 46 per cent in 2013/14 after the adjustment budget that was because during the adjustment budget the municipality calculated the adjustment figure based on the actual during that period. Now the municipality has increased it actual revenue and conventional revenue budget increased. The outer year's percentage is 5.3 per cent in 2014/15 and 5.3 per cent in 2015/16. This growth can be mainly attributed to the increased share that the sale of electricity contributes to the total revenue mix, which in turn is due to rapid increases in the Eskom tariffs for bulk electricity.

Operating grants and transfers totals R218.5 million in the 2013/14 financial year and steadily increases to R243.9 million by 2014/15 and R279.7 million by 2015/16. Note that the year-on-year growth for the 2014/15 financial year is 10 per cent and then flattens out to 13 per cent in 2015/16 years. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 3: Operating Transfers and Grant Receipts

Operating Transfer and Grants Receipts			
	2013-2014	**2014-2015**	**2015-2016**
Equitable Share	196 603 000	225 596 000	260 529 000
FMG	1 250 000	1 250 000	1 250 000
MSIG	890 000	934 000	967 000
Water services operating subsidy	9 022 000	5 900 000	5 000 000
Project Management Unit	10 764 850	10 307 800	10 948 150
	218 529 850	**243 987 800**	**278 694 150**

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When charges willbe revised, local economic conditions, input costs and the affordability of services will be taken into account to ensure the financial sustainability of the UMkhanyakude.

National Treasury continues to encourage municipalities to keep increases in tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 8 per cent upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

It must also be appreciated that the consumer price index, as measured by CPI, is 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 consist 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 electricity and water, petrol, diesel, chemicals, cement etc.

Table 4: Proposed Water Tariffs

Proposed Water Tariffs for 2013-2014			
Area	**Description**	**Current Tariffs 2012/2013**	**Proposed Tarrifs 2013/2014**
	Water		
All area in DC27	**RESIDENTIAL**		
	0-6kl	Free	Free
	7-20kl	6.04	6.34
	21-30kl	9.36	9.83
	31-40kl	11.33	11.90
	40-50kl	13.89	14.58
	<51kl	18.02	18.92
	COMMERCIAL		
	0-20kl	10.53	11.12
	0-30kl	12.81	13.53
	0-40kl	13.57	14.33
	0-50kl	15.08	15.92
	<51kl	18.1	19.11
	GOVERNMENT		
	0-20kl	10.53	11.12
	0-30kl	12.81	13.53
	0-40kl	13.57	14.33
	0-50kl	15.08	15.92
	<51kl	18.1	19.11

1.4.1 Sale of water and impact on tariff increases

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance 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 (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

In addition National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective by 2014. Better maintenance of infrastructure will ensure that the supply challenges are managed in future to ensure sustainability. A tariff increase of 5 per cent from 1 July 2013 for water is proposed for the residential and 5.6 per cent. This is based on the CPI inflation rate of 5.6 per cent for 2013/2014. In addition 6 kℓ water per 30-day period will again be granted free of charge to all residents.

A summary of the proposed tariffs for households (residential) and non-residential are as follows:

1.4.2 Sale of electricity and impact on tariff increases

NERSA has announced the revised bulk electricity pricing structure. An 8 per cent increase in the Eskom bulk electricity tariff to municipalities will be effective from 1 July 2013.

It should be noted that given the magnitude of the tariff increase, it is expected to depress growth in electricity consumption, which will have a negative impact on the municipality's revenue from electricity.

The annual budget for the Electricity purchases can only be utilised for certain committed upgrade projects and to strengthen critical infrastructure (e.g. water schemes without back-up supply). It is estimated that special funding for electricity bulk infrastructure to the amount of R 25 million for 2013/14 financial year.

1.4.2 Sanitation and impact on tariff increases

A tariff increase of 5 per cent for sanitation from 1 July 2013 is proposed. This is based on the input cost assumptions related to water. It should be noted that electricity costs contributes approximately 20 per cent of waste water treatment input costs, therefore the higher than CPI increase of 5.6 per cent for sanitation tariffs. The following factors also contribute to the proposed tariff increase:

- Sanitation charges are calculated according to the percentage water discharged as indicated in the table below;
- The total revenue expected to be generated from rendering this service amounts to R1.2 million for the 2013/14 financial year.

The following table compares the current and proposed tariffs:

Table 5: Comparison between current sanitation charges and increases

Proposed Sanitation Tariffs for 2013/2014			
Area	**Description**	**Current Tariffs 2012/2013**	**Proposed Tariffs 2013/2014 (R)**
All Area on sewer mains	per flat/Dwelling	R1.43kl	1.5015
	Conservancy tanks where service available	R 358	R 375.38
	Conservancy tanks weekends/PH	539	R 565.95
Discharges of sewer By tanker into sewer system	Per kl	R22	R 23.10

1.4.5 Overall impact tariff increases on the household

The following table shows the overall expected impact of the tariff increases on a large and small household, as well as an indigent household receiving free basic services.

Table 6: Comparison between water charges and increases (domestic)

DC27 Umkhanyakude - Supporting Table SA14 Household bills

Description	Ref	2009/10	2010/11	2011/12	Current Year 2012/13			2013/14 Medium Term Revenue & Expenditure Framework			
Rand/cent		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2013/14 % incr.	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Monthly Account for Household - 'Middle Income Range'	1										
Rates and services charges:											
Property rates											
Electricity: Basic levy											
Electricity: Consumption											
Water: Basic levy											
Water: Consumption											
Sanitation											
Refuse removal											
Other											
sub-total		–	–	–	–	–	–	–	–	–	–
VAT on Services											
Total large household bill:		–	–	–	–	–	–	–	–	–	–
% increase/-decrease			–	–	–	–	–		–	–	–
Monthly Account for Household - 'Affordable Range'	2										
Rates and services charges:											
Property rates											
Electricity: Basic levy											
Electricity: Consumption											
Water: Basic levy											
Water: Consumption											
Sanitation											
Refuse removal											
Other											
sub-total		–	–	–	–	–	–	–	–	–	–
VAT on Services											
Total small household bill:		–	–	–	–	–	–	–	–	–	–
% increase/-decrease			–	–	–	–	–		–	–	–
Monthly Account for Household - 'Indigent' Household receiving free basic services	3										
Rates and services charges:											
Property rates		–									
Electricity: Basic levy											
Electricity: Consumption											
Water: Basic levy											
Water: Consumption									6 100 000.00	6 200 000.00	6 300 000.00
Sanitation											
Refuse removal											
Other											
sub-total		–	–	–	–	–	–	–	6 100 000.00	6 200 000.00	6 300 000.00
VAT on Services											
Total small household bill:		–	–	–	–	–	–	–	6 100 000.00	6 200 000.00	6 300 000.00
% increase/-decrease			–	–	–	–	–		–	1.6%	1.6%

Note that in all instances the overall impact of the tariff increases on household's bills has been kept to 1.6 per cent, with the increase for indigent households closer.

1.5 Operating Expenditure Framework

The municipality's expenditure framework for the 2013/14 budget and MTREF is informed by the following:

- The asset replacement strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any 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 asset management strategy
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and

The following table is a high level summary of the 2011/12 budget and MTREF (classified per main type of operating expenditure):

Table 7: Summary of operating expenditure by standard classification item

DC27 Umkhanyakude - Table A1 Consolidated Budget Summary

Description	2009/10	2010/11	2011/12	Current Year 2012/13				2013/14 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Employee costs	49 258	60 481	66 380	72 427	87 656	87 656	87 656	118 630	126 301	134 384
Remuneration of councillors	2 471	3 419	2 556	4 966	5 239	5 239	5 239	10 354	10 923	11 524
Depreciation & asset impairment	47 999	28	47 673	2 408	30 000	30 000	30 000	33 414	32 797	59 163
Finance charges	2 009	1 159	1 283	1 771	843	843	843	–	–	–
Materials and bulk purchases	57 323	47 926	63 134	63 321	42 826	42 826	42 826	77 481	83 379	87 226
Transfers and grants	–	–	–	–	–	–	–	3 169	3 200	3 300
Other expenditure	80 923	25 211	77 371	106 419	125 659	125 659	125 659	67 221	84 201	86 345
Total Expenditure	239 983	138 224	258 397	251 312	292 223	292 223	292 223	310 268	340 801	381 942

The budgeted allocation for employee related costs for the 2013/14 financial year totals R118.6 million, which equals 38 per cent of the total operating expenditure. The municipality has been correcting salary disparities that have been affecting employees for a long time. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 6.85 per cent for the 2013/14 financial year. An annual increase of 6.4 per cent has been included in the two outer years of the MTREF. As part of the UMkhanyakude cost reprioritization and cash management strategy vacancies have been significantly rationalized downwards. As part of the planning assumptions and interventions all critical vacancies have been budgeted.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the UMkhanyakude district budget.

The provision of debt impairment was determined based on an annual collection rate of 95 per cent. For the 2013/14 financial year this amount equates to R18 million. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R33 million for the 2013/14 financial and equates to 10 per cent of the total operating expenditure. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). The municipality was in a process of settling the long-term loan in 2012/13 and is not intending to have a long-term borrowing in 2013/14.

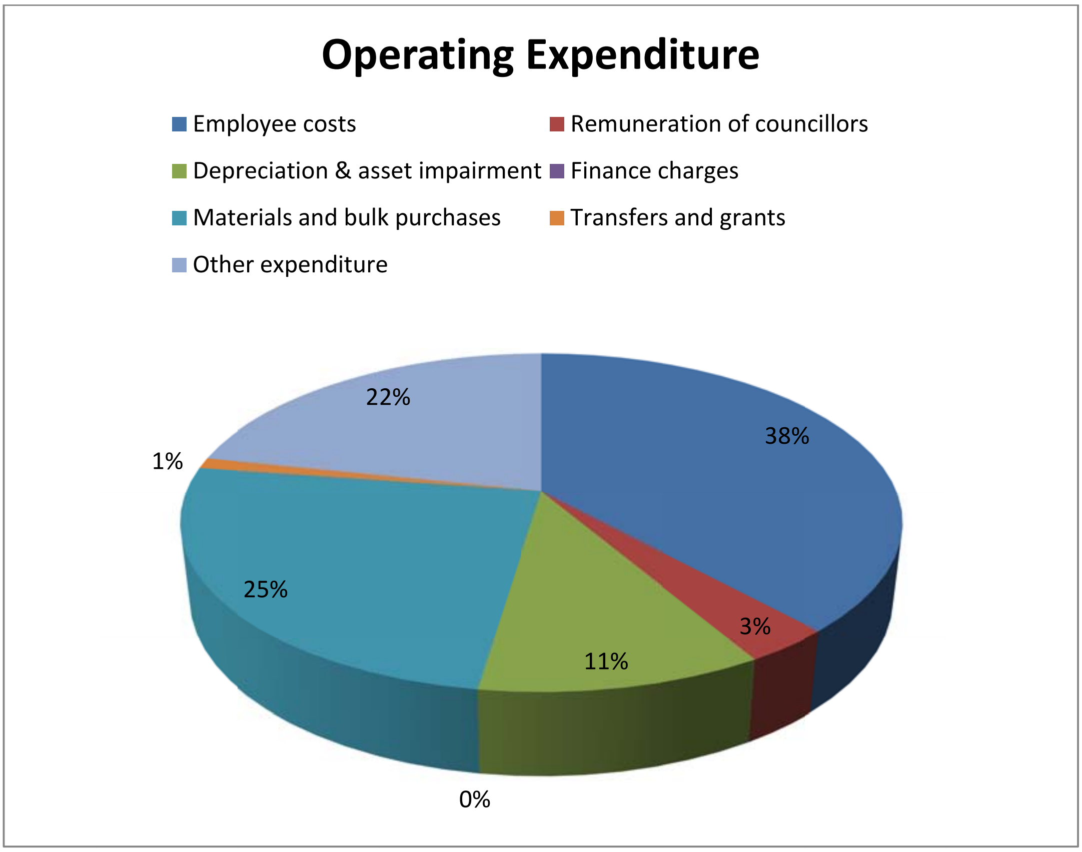
Bulk purchases are directly informed by the purchase of electricity from Eskom and water from DWA. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.

Other materials comprise of amongst others the purchase of fuel, diesel, materials for maintenance, cleaning materials and chemicals. In line with the municipality repairs and maintenance plan this group of expenditure has been prioritised to ensure sustainability of the UMkhanyakude's infrastructure. For 2013/14 the appropriation against this group of expenditure is R26 million.

Contracted services have been identified as a cost saving area for the municipality. As part of the compilation of the 2013/14 MTREF this group of expenditure was critically evaluated and operational efficiencies were enforced. In the 2013/14 financial year, this group of expenditure totals R21.6 million which equates 6 per cent, clearly demonstrating the application of cost efficiencies.

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. Growth has been limited to 10 per cent for 2013/14

Figure 1: Main operational expenditure categories for the 2013/14 financial year



1.6 Capital expenditure

The following table provides a breakdown of budgeted capital expenditure by vote:

Table 8: Capital budget per vote

[redacted]

For 2013/14 an amount of R238 .5 million has been appropriated for the development of infrastructure which is the total capital budget. In the outer years this amount totals R229.3 million, and R268 425 million respectively for each of the financial years. Water receives the highest allocation

1.7 Annual Budget tables

Table 9: Consolidated Annual Budget Summary

[redacted]

Table 10: Consolidated budget financial performance (Revenue and expenditure by standard classification)

[redacted]

Table 11: Consolidated Budget Financial Performance (revenue and expenditure by municipal vote)

[redacted]

Table 12: Consolidated budgeted financial performance and revenue expenditure

[redacted]

Table 13: Consolidated capital expenditure by vote standard classification and funding

[redacted]

Table 14: Consolidated budgeted financial position

[redacted]

Table 15: Consolidated budgeted cash flow

[redacted]

Table 16: Consolidated cash backed reserves/accumulated surplus reconciliation

[redacted]

Table 17: Consolidated assets management

[redacted]

Table 18: Consolidated basic service delivery measurement

[redacted]

PART 2 – Supporting Documentation

2.1 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 process followed to compile the budget complies with legislation and good budget practices. There is proper alignment between the policy and service delivery priorities set out in the municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;

The municipality's revenue and tariff setting strategies are to ensure that the cash resources needed to deliver services are available; and the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.1.1 Budget Process overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required the budget time schedule on August 2012. Key dates applicable to the process were

Table 19: Schedule of key deadline for budget

SCHEDULE OF KEY DEADLINE FOR BUDGET		
Description	**Submission date**	**Legislature**
Submit adjustment budget 2012-2013 to Mayor, Provincial Treasury and National Treasury	25-Jan-13	MFMA Section 72
Table annual budget & supporting documents to council	29-Mar-13	MFMA Section 16 and 17
Public hearings on thebudget	20-24 May 2013	MFMA Section 23
Approval of the annual budget	30-May-13	MFMA Section 24(1)
Approval of the SDBIP by the Mayor	28-Jun-13	MFMA Section 53(1)
Submit approved budget to Cogta, Provincial Treasury and National T	13-Jun-13	MFMA Section 24

The budget together with the IDP is reviewed annually as per Section 21 of the Municipal Finance Management Act no 56 of 2003 and S34 of the Municipal Systems Act no.32 of 2000.The Municipality has resolved in eliminating unnecessary expenditure, paying off creditors and maximizing debt recovery. This annual review is as a result of the relevant regulations and priorities which are reviewed from year to year.

The municipality's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan.

The IDP/Budget Process Plan was also formulated and adopted on August 2012 together with the District IDP Framework. The IDP/Budget Process Plan outlines in detail, the way in which the municipality embarked on its IDP and Budget processes from its commencement in July 2012 to its completion in June 2013. The IDP/Budget Process Plan outlines the time frames of scheduled events, structures involved and their respective roles and responsibilities. All these plans were adopted in accordance with the relevant legal prescripts and have dictated the process to be followed for developing the IDP.

2.1.2 Key IDP Processes and Deliverables

- Setting the scene to manage the planning process and legal requirements in planning for the implementation of the integrated planning system;
- A programme specifying time schedule that guide IDP and budget planning processes and various planning steps;
- Outlining appropriate mechanisms, processes and procedures on how the public, stakeholders, state organs can participate in the drafting of the IDP and formulation of the budget structures that will be used to ensure this participation;
- Indicate necessary organizational arrangements to ensure the successful implementation of the integrated development planning process;
- Binding plans and planning requirements, i.e. policy and legislation; and
- A programme specifying how the process will be monitored in order to manage the progress of the IDP and budget processes.

The IDP has been taken into a business and financial planning process leading up to the 2012/13 MTREF, based on the approved 2011/12 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections

2.1.3 Financial Modeling and Key Planning Drivers

During the compilation of the 2013/14 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2013/14 MTREF:

- Growth within the municipality
- Priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2012/13 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Loan and investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 66 and 67 has been taken into consideration in the planning and prioritisation process.

2.1.4 Community Consultation

The draft 2013/14 MTREF as tabled before Council on 27 March 2013 for community consultation was published on the municipality's notice board, and hard copies were made available Local Municipality's offices, and advertised on the newspaper.
All documents in the appropriate format (electronic and printed) were provided to National Treasury, and other national and provincial departments in accordance with section 23 of the MFMA, to provide an opportunity for them to make inputs.

Ward Committees will utilise to facilitate the community consultation process from 07 to 10 May 2013, and included public briefing sessions. The applicable dates and venues will publish in all the newspapers and on average attendance of 200 was recorded per meeting. This is based on the previous year's process. This can be attributes to the additional initiatives that will be launch during the consultation process, including the specific targeting of our service charges payer. Individual sessions are scheduled with organised business and imbizo's will be held to further ensure transparency and interaction. Other stakeholders that will be involved in the consultation are churches, non-governmental institutions and community-based organisations.

2.2 Overview of alignment of annual budget with Integrated Development Plan

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.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the municipality strategically complies with the key national and provincial priorities.

The aim of this revision cycle was to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the municipality's response to these requirements.

The IDP document has also been informed and is aligned to the following strategic documents and National and Provincial strategic objectives:

- The National Spatial Development Framework (NSDP);
- Millennium Development Goals;
- Medium Term Strategic Framework;
- Provincial Growth and Development Strategy;
- Municipal Turnaround Strategy; and
- National Delivery Outcome Agreements

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP.

The following KPAs will inform the strategic direction of the Municipality 2013/14:

- Good Governance and Community Participation
- Service Delivery and Infrastructure Investment
- Local Economic Development
- Municipal Transformation and Institutional Development
- Municipal Financial Viability and Management
- Spatial Planning and Environmental Management

2.2.1 Strategic objectives

- To ensure adherence to Chapter 4 of the Municipal Systems Act no 32 of 2000 as amended
- To ensure effective intergovernmental relations
- To develop an indigent policy
- To develop a credible indigent register
- To ensure compliance with Municipal Governance
- To strive towards achieving a clean audit by 2014
- To fight and eliminate corruption
- To safeguard the interest of the Municipality legally and legislatively
- To improve the livelihoods of the poor, vulnerable groups and support initiatives to reduce vulnerability of infectious diseases, especially reduce the impact of HIV/AIDS on communities

Only a member or committee of a municipal council may introduce a proposal for amending the municipality's integrated development plan in the council. Any proposal for amending a municipality's integrated development plan must be accompanied by a memorandum setting out the reasons for the proposal.

An amendment to a municipality's integrated development plan would be adopted by a decision taken by a municipal council in accordance with the rules and orders of the Council. No amendment to a municipality's integrated development plan may be adopted by the municipal council unless:

- All the members of the council have been given reasonable notice;
- The proposed amendment has been published for public comment for a period of at least 21 days in a manner that allows the public an opportunity to make representations with regard to the proposed amendment

Should the intention to amendment the IDP emanate from the district, the municipality must:

- Consult all the five local municipalities in the area of the district municipality on the proposed amendment; and
- Take all comments submitted to it by the local municipalities in that area into account before it takes a final decision on the proposed amendment.

In case where a local municipality considers an amendment to its integrated development plan; such municipality must:

- Consult the UMkhanyakude District municipality on the proposed amendment; and
- Take all comments submitted to it by the district municipality into account before it takes a final decision on the proposed amendment.

Lessons learned with previous IDP revision and planning cycles as well as changing environments were taken into consideration in the compilation of the revised IDP, including:

- Strengthening the analysis and strategic planning processes of the municipality;
- Initiating the planning processes that involve the communities in the analysis and planning. More emphasis was placed on area based interventions, within the overall holistic framework;
- Ensuring better coordination through a programmatic approach and attempting to focus the budgeting process through planning interventions; and
- Strengthening performance management and monitoring systems in ensuring the objectives and deliverables are achieved.

The 2013/14 MTREF has therefore been directly informed by the IDP revision process and the following tables provide a reconciliation between the IDP strategic objectives and operating revenue, operating expenditure and capital expenditure.

Table 20: MBRR Table SA4 - Reconciliation between the IDP strategic objectives and budgeted revenue

[redacted]

Table 21: MBRR Table SA5 - Reconciliation between the IDP strategic objectives and budgeted operating expenditure

[redacted]

Table 22: MBRR Table SA6 - Reconciliation between the IDP strategic objectives and budgeted capital expenditure

2.3 Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the municipality has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assess and reviews organisational performance which in turn is directly linked to individual employee's performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly during the last stage, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages. The planning, budgeting and reporting cycle can be graphically illustrated as follows

Oversight by the council

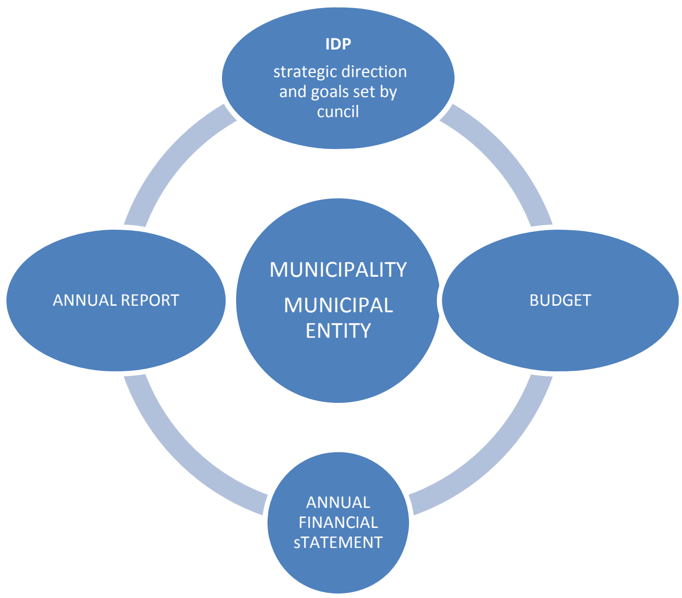


Figure 2: Planning, budgeting and reporting cycle

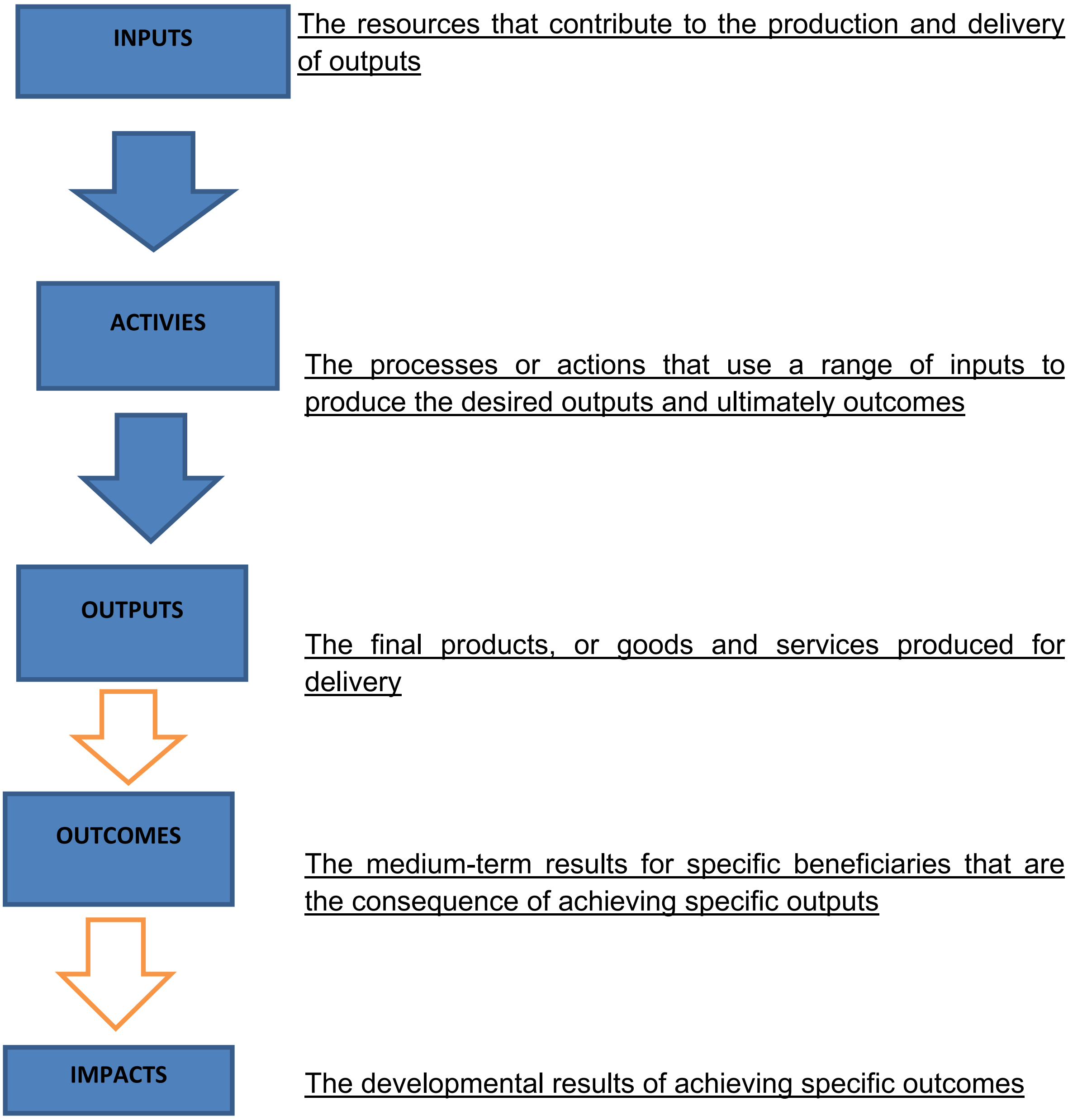
A performance management model can be defined as the grouping together of performance indicators, sometimes based on the type of indicator, into logical categories or groups (often called perspectives), as a means to enhance the ability of an organization to manage and analyse its performance. As such a model provides a common framework for what aspects of performance is going to be measured and managed. It further ensures that a balanced set of measures are employed that are not relying on only one facet of performance and therefore not presenting a holistic assessment of the performance of an organisation.

The performance of the municipality relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The municipality therefore has adopted one integrated performance management system which encompasses:

- Planning (setting goals, objectives, targets and benchmarks);
- Monitoring (regular monitoring and checking on the progress against plan);
- Measurement (indicators of success);
- Review (identifying areas requiring change and improvement);
- Reporting (what information, to whom, from whom, how often and for what purpose); and
- Improvement (making changes where necessary).

The performance information concepts used by the municipality in its integrated performance management system are aligned to the *Framework of Managing Programme Performance Information* issued by the National Treasury:

Figure 3: Definition of performance information concepts



The following table provides the main measurable performance objectives the municipality undertakes to achieve this financial year.

Table 23: MBRR Table SA7 - Measurable performance objectives

[redacted]

The following table sets out the municipalities main performance objectives and benchmarks for the 2013/14 MTREF.

Table 24:MBRR Table SA8 - Performance indicators and benchmarks

[redacted]

2.3.1 Performance indicators and benchmarks

Borrowing Management

Capital expenditure in local government can be funded by capital grants, own-source revenue and long term borrowing. The ability of a municipality to raise long term borrowing is largely dependent on its creditworthiness and financial position. As with all other municipalities, UMkhanyakude District's borrowing strategy is primarily informed by the affordability of debt repayments.

Safety of Capital

The debt-to-equity ratio is a financial ratio indicating the relative proportion of equity and debt used in financing the municipality's assets. The indicator is based on the total of loans, creditors, and overdraft and tax provisions as a percentage of funds and reserves. During the 2011/12 financial year the ratio there is no movement in the municipality

Liquidity

Current ratio is a measure of the current assets divided by the current liabilities and as a benchmark the municipality has set a limit of 1, hence at no point in time should this ratio be less than The liquidity ratio is a measure of the ability of the municipality to utilize cash and cash equivalents to extinguish or retire its current liabilities immediately. Ideally the municipality should have the equivalent cash and cash equivalents on hand to meet at least the current liabilities, which should translate into a liquidity ratio of 1. Anything below 1 indicates a shortage in cash to meet creditor obligations.

Revenue Management

As part of the financial sustainability strategy, an aggressive revenue management framework has been implemented to increase cash inflow, not only from current billings but also from debtors that are in arrears in excess of 90 days. The intention of the strategy is to streamline the revenue value chain by ensuring accurate billing, customer service, credit control and debt collection.

Creditors Management

The municipality has managed to ensure that creditors are settled within the legislated 30 days of invoice. While the liquidity ratio is of concern, by applying daily cash flow management the municipality has managed to ensure the compliance to this legislative obligation. This has had a favourable impact on suppliers' perceptions of risk of doing business with the municipality, which is expected to benefit the municipality in the form of more competitive pricing of tenders, as suppliers compete for the municipality's business.

2.3.2 Free Basic Services: basic social services package for indigent households

The social package assists residents that have difficulty paying for services. The municipality is working on the implementation of the Indigent Policy of the municipality. With the exception of water, only registered indigents qualify for the free basic services.

In terms of the Municipality's indigent policy registered households are entitled to 6kℓ fee water.Further detail relating to the number of households receiving free basic services, the cost of free basic services, highest level of free basic services as well as the revenue cost associated with the free basic services is contained in Table 27 MBRR A10 (Basic Service Delivery Measurement)Note that the number of households in informal areas that receive free services and the cost of these services (e.g. the provision of water through stand pipes, water tankers, etc) are not taken into account in the table noted above.

Providing clean water and managing waste water

The municipality is the Water Services Authority for the entire municipality in terms of the Water Services Act, 1997 and acts as water services provider. The Department of Water Affairs conducts an annual performance rating of water treatment works, presenting a Blue Drop or Green Drop award respectively to potable water treatment works and waste water treatment works that meet certain criteria of excellence.

The municipality were awarded Blue Drop status in 2011/12, indicating that the municipality's drinking water is of exceptional quality.

The following is briefly the main challenges facing the municipality in this regard:

- The infrastructure at most of the waste water treatment works is old and insufficient to treat the increased volumes of waste water to the necessary compliance standard;
- Shortage of skilled personnel makes proper operations and maintenance difficult;
- Electrical power supply to some of the plants is often interrupted which hampers the purification processes; and

The following are some of the steps that have been taken to address these challenges:

- Infrastructure shortcomings are being addressed through the capital budget in terms of an upgrade plan;
- The filling of vacancies has commenced and the Water Division will embark on training programme, especially for operational personnel;
- The Electricity Division is to install dedicated power supply lines to the plants.

2.4 Overview of budget related-policies

The municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies. The following policies were tabled and approved by the council of UMkhanyakude District Municipality.

2.4.1 Asset Management Policy

The objectives of this policy are to:

- Safeguard the assets of UMkhanyakude District Municipality and to ensure the effective and optimal use of its assets;
- Enhance a culture of accountability over assets;
- Ensure that effective internal controls are communicated to management and staff through clear and comprehensive written documentation; and
- To provide a formal set of financial procedures that can be implemented to ensure that UMkhanyakude District Municipality's fixed asset policies are achieved and are in compliance with generally recognised accounting practise (GRAP 17).
- A proxy for asset consumption can be considered the level of depreciation each asset incurs on an annual basis. Preserving the investment in existing infrastructure needs to be considered a significant strategy in ensuring the future sustainability of infrastructure and the municipality's revenue base. Within the framework, the need for asset renewal was considered a priority and hence the capital programme was determined based on renewal of current assets versus new asset construction.
- Further, continued improvements in technology generally allows many assets to be renewed at a lesser 'real' cost than the original construction cost. Therefore, it is considered prudent to allow for a slightly lesser continual level of annual renewal than the average annual depreciation. The Asset Management policy, is therefore considered a strategic guide in ensuring a sustainable approach to asset renewal, repairs and maintenance and is utilised as a guide to the selection and prioritisation of individual capital projects. In addition the policy prescribes the accounting and administrative policies and procedures relating to property, plant and equipment (fixed assets).

2.4.2 Supply Chain Management Policy

The Supply Chain Management Policy is under the review process by the council. The UMkhanyakude Municipality resolved in terms of section 111 of the Municipal Finance Management Act, No 56 of 2003, to have and implement a Supply Chain Management Policy that gives effect to section 217 of the Constitution; and Part 1 of Chapter 11 and other applicable provisions of the Act is fair, equitable, transparent, competitive and cost effective; complies with the Regulations; and any minimum norms and standards that may be prescribed in terms of section 168 of the Act, is consistent with other applicable legislation e.g. Broad Based Black Economic Empowerment (BBBEE), does not undermine the objective for uniformity in Supply Chain Management Systems between organs of state in all spheres; and is consistent with national economic policy concerning the promotion of investments and doing business with the public sector, assign responsibility for the implementation of the policy to the Accounting Officer of the Municipality.

2.4.3 Expenditure management policy

In terms of section 65 of the MFMA, the accounting officer of each municipality is required to take all reasonable steps to ensure that the expenditure including the payments and financial documents thereof are properly controlled and managed.It is therefore against this background that expenditure, payments and financial documents management policy is developed and approved by the council.

2.4.4 Risk management framework and risk management policy

Risk management is recognised as an integral part of responsible management and the Institution therefore adopts a comprehensive approach to the management of risk. The features of this process are outlined in the Institution's Risk Management Framework. It is expected that all departments / sections, operations and processes will be subject to the risk management framework. It is the intention that these departments / sections will work together in a consistent and integrated manner, with the overall objective of reducing risk, as far as reasonably practicable.

Effective risk management is imperative to the Institution to fulfil its mandate, the service delivery expectations of the public and the performance expectations within the Institution.

2.4.5 Indigent policy

The provision of basic services to the community is in a sustainable manner, within the financial means of Council and to provide procedures and guidelines for the subsidisation of service charges and rates to its indigent households, using a portion or the whole of the Equitable Share for this purpose.

Council also recognises that many of the residents can simply not afford to pay the required service charges and rates, and Council will endeavour to ensure affordability through. Setting rates and tariffs which will balance the economic viability of continued service delivery and determine appropriate service levels.

The following policies were approved in prior years

- Budget preparation and Implementation policy
- Cash Management and Investment Policy

- Tariff Policies
- Borrowing policy
- Funding and reserves policy
- Infrastructure Investment and Capital Project Policy
- Long term financial planning policy;
- Credit Control and Debts Collection policy; and
- Virements policy.

2.5 Overview of budget assumptions

External factors

The economic slowdown, financial resources are limited due to reduced payment levels by consumers. This has resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the municipality's finances.

General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2013/14 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity with 8 per cent and water with 5 per cent; and
- The increase in the cost of remuneration. Employee related costs comprise 38 per cent of total operating expenditure in the 2013/14 MTREF and therefore this increase above inflation places a disproportionate upward pressure on the expenditure

Interest rates for borrowing and investment of funds

The MFMA specifies that borrowing can only be utilised to fund capital or refinancing of borrowing in certain conditions. The municipality engages in a number of financing arrangements to minimise its interest rate costs and risk. However, for simplicity the 2013/14 MTREF is based on the assumption that all borrowings are undertaken using fixed interest rates for amortisation-style loans requiring both regular principal and interest payments.

Collection rate for revenue services

The base assumption is that tariff and rating increases will increase at a rate of the CPI over the long term. It is also assumed that current economic conditions, and relatively controlled inflationary conditions, will continue for the forecasted term.

The rate of revenue collection is currently very low since the community of UMkhanyakude have a high rate of unemployment and indigent, but an increased collection of arrear debt from the revised collection and credit control policy. The performance of arrear collections will however only be considered a source of additional cash in-flow once the performance has been carefully monitored.

Growth or decline in tax base of the municipality

Debtor's revenue is assumed to increase at a rate that is influenced by the consumer debtor's collection rate, tariff/rate pricing, real growth rate of the municipality, household formation growth rate and the poor household change rate.

Household formation is the key factor in measuring municipal revenue and expenditure growth, as servicing 'households' is a greater municipal service factor than servicing individuals. Household formation rates are assumed to convert to household dwellings. In addition the change in the number of poor households influences the net revenue benefit derived from household formation growth, as it assumes that the same costs incurred for servicing the household exist, but that no consumer revenue is derived as the 'poor household' limits consumption to the level of free basic services.

Salary increases

The increase on salaries for 2013/2014 is 6.85 per cent and for indicative years is 6.4 per cent the circular 67 guideline has been used.

Impact of national, provincial and local policies

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:

- Creating jobs;
- Enhancing education and skill development;
- Improving Health services;
- Rural development and agriculture; and
- Fighting crime and corruption.

To achieve these priorities integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

Ability of the municipality to spend and deliver on the programmes

It is estimated that a spending rate of at least 100 per cent is achieved on operating expenditure and 100 per cent on the capital programme for the 2013/14 MTREF of which performance has been factored into the cash flow budget.

2.6 Overview of budget funding

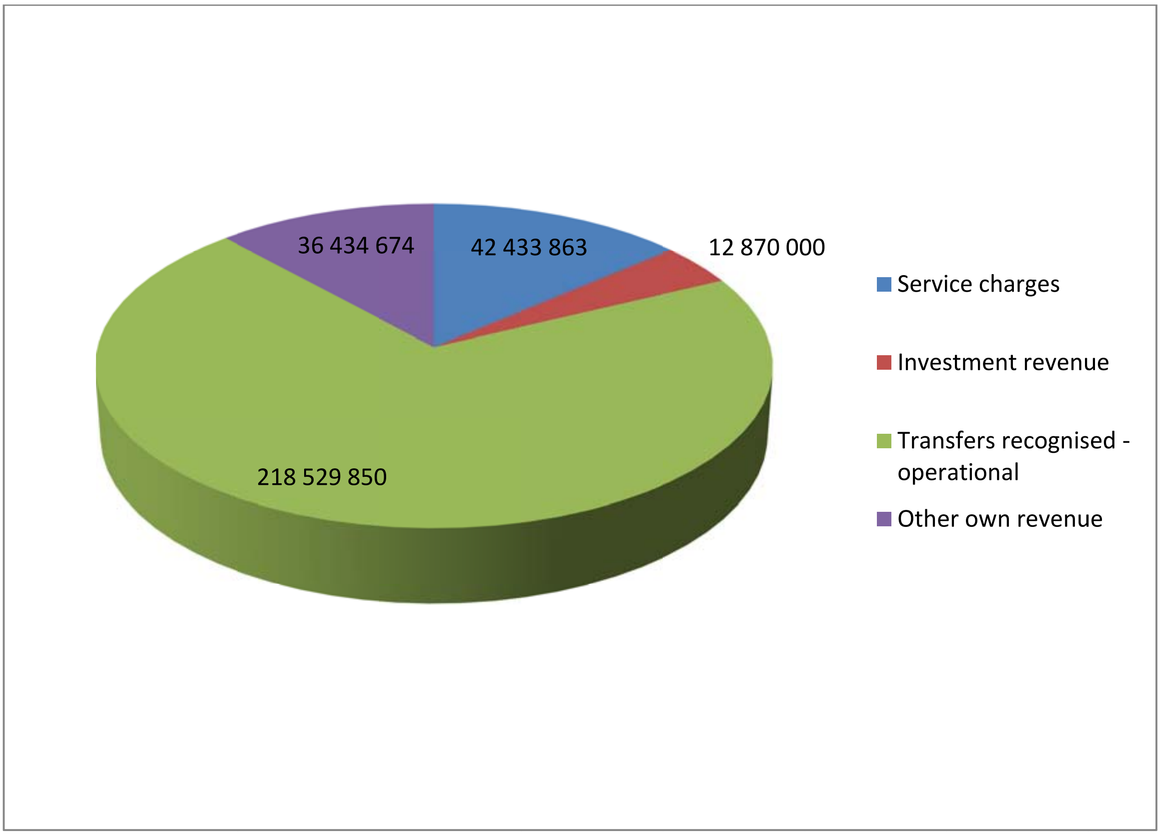
Table 25: Medium-term outlook: operating revenue

The following table is a breakdown of the operating revenue over the medium-term:

[redacted]

The following graph is a breakdown of the operational revenue per main category for the 2013/14 financial year.

Figure 4: Breakdown of operating revenue over the 2013/14 MTREF



Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. The municipality derives most of its operational revenue from the provision of goods and services such as water, electricity and sanitation. Operating and capital grants from organs of state and other minor charges (such as new connection fees etc.)

The revenue strategy is a function of key components such as:

- Growth in the UMkhanyakude and economic development;
- Revenue management and enhancement;
- Improvement in collection rate for consumer revenue;
- National Treasury guidelines;
- Achievement of full cost recovery of specific user charges;
- And the ability to extend new services and obtain cost recovery levels.

The above principles guide the annual increase in the tariffs charged to the consumers aligned to the economic forecasts.

The proposed tariff increases for the 2013/14 MTREF on the different revenue categories are:

Table 26: Proposed tariff increases over the medium-term

[redacted]

Services charges relating to electricity, water and sanitation constitutes the revenue totalling R42.4 million for the 2013/14 financial year and increasing to R44.7 million by 2014/15. The 2013/14 financial year services charges amount to 14 per cent of the total revenue.

Operational grants and subsidies amount to R 218.5 million (2013/14), R243.9 million (2014/15) and R279.7 million (2015/16) for each of the respective financial years of the MTREF operating revenue. It needs to be noted that in real terms the grants receipts from national government are growing rapidly over the MTREF for two outer years. The percentage of the total operational grants and transfers in relation to the total operating revenue is distorted owing to the high increases in revenue relating to services charges.

Investment revenue contributes marginally to the revenue base of the municipality with a budget allocation of R220 million, R230 million and R240 million for the respective three financial years of the 2013/14 MTREF. It needs to be noted that these allocations have been conservatively estimated and as part of the cash backing of reserves and provisions. The actual performance against budget will be carefully monitored. Any variances in this regard will be addressed as part of the mid-year review and adjustments budget.

The tables below provide detail investment information and investment particulars by maturity

Table 27: MBRR SA 15 Investment particular by type

[redacted]

Table 28: MBRR SA16 Investment particular maturity

[redacted]

For the medium-term, the funding strategy has been informed directly by ensuring financial sustainability and continuity

Table 29: Medium-term outlook: capital revenue

The following table is a breakdown of the funding composition of the 2013/14 medium-term capital programme:

[redacted]

The above table is graphically represented as follows for the 2013/14 financial year.

Figure 5: Medium-term outlook: capital revenue

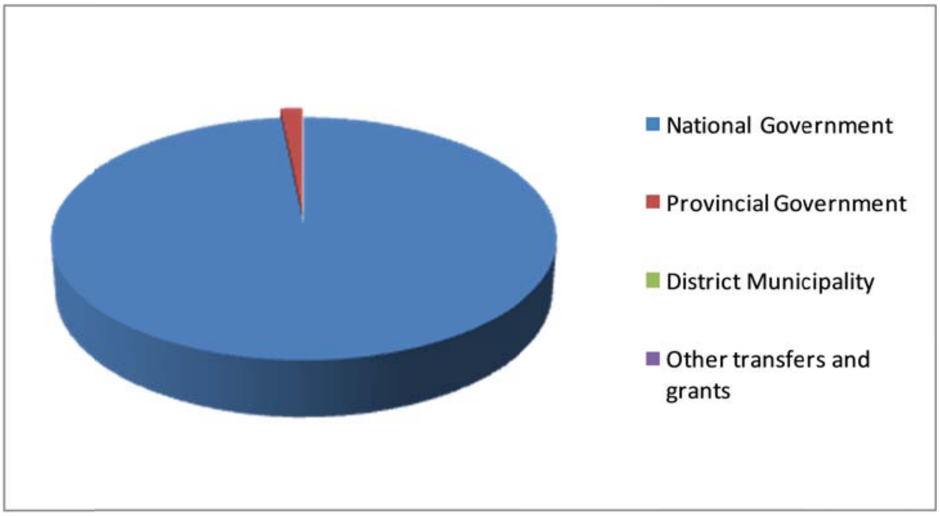


Table 30: MBRR SA 17 - Detail of borrowings

The municipality budgeted for 2013/14 the outstanding loan which will be settled in budget year

[redacted]

Figure 6: Growth in outstanding borrowings (long-term liabilities)

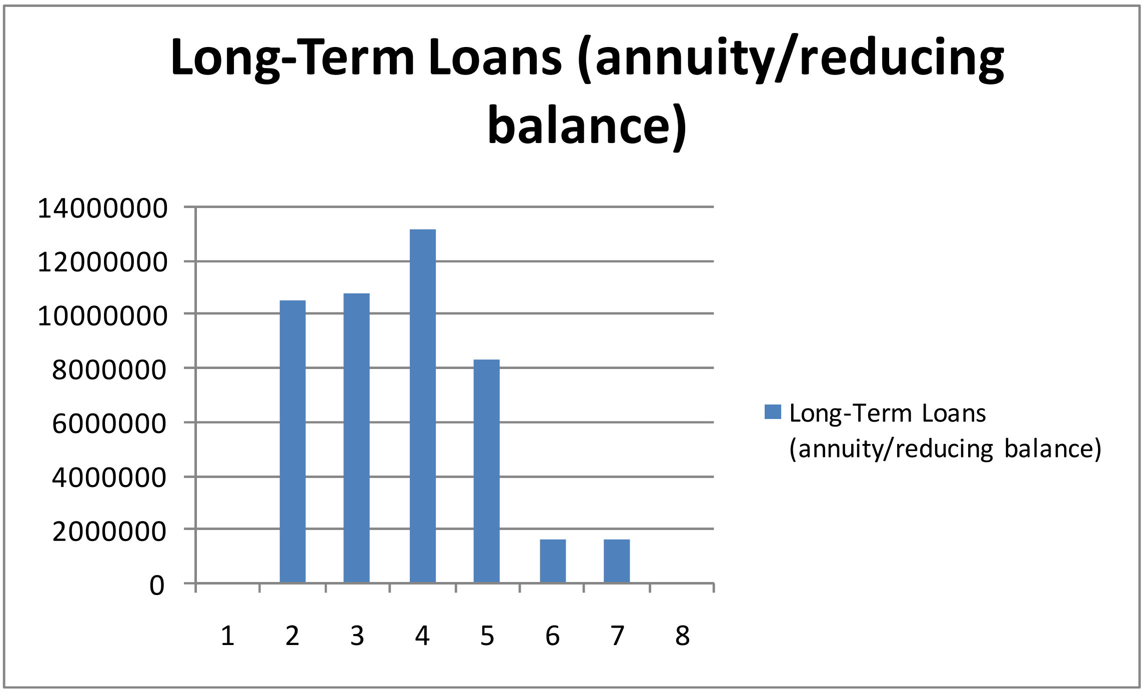


Table 31: MBRR SA 18 - Capital transfers and grant receipt

[redacted]

Cash Flow Management

Cash flow management and forecasting is a critical step in determining if the budget is funded over the medium-term. The table below is consistent with international standards of good financial management practice and also improves understanding ability for councillors and management. Some specific features include:

- Clear separation of receipts and payments within each cash flow category;
- Clear separation of capital and operating receipts from government, which also enables cash from 'Ratepayers and other' to be provide for as cash inflow based on actual performance. In other words the *actual collection rate* of billed revenue., and

Table 32: MBRR A7 - Budget cash flow statement

[redacted]

The above table shows that cash and cash equivalents of the municipality were largely depleted between the 2011/12 and 2012/13 financial year moving positively cash balance of R58 million to R290 million with the approved 2012/13 MTREF. With the 2012/13 adjustments budget various cost efficiencies and savings had to be realised to ensure the municipality could meet its operational expenditure commitments. In addition the municipality undertook an extensive debt collection process to boost cash levels but due to unemployment and indigent community of UMkhanyakude we did not succeed in increasing cash collection. These initiatives and interventions have translated into a positive cash position for the municipality and it is projected that cash and cash equivalents on hand will decrease to R170 million by the financial year end.

Cash Backed Reserves/Accumulated Surplus Reconciliation

This following table meets the requirements of MFMA Circular 42 which deals with the funding of a municipal budget in accordance with sections 18 and 19 of the MFMA. The table seeks to answer three key questions regarding the use and availability of cash:

- What are the predicted cash and investments that are available at the end of the budget year?
- How are those funds used?
- What is the net funds available or funding shortfall?

A surplus would indicate the cash-backed accumulated surplus that was/is available. A shortfall (applications > cash and investments) is indicative of non-compliance with section 18 of the MFMA requirement that the municipality's budget must be 'funded'. Non-compliance with section 18 is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded (budgeted spending is greater than funds available or to be collected). It is also important to analyse trends to understand the consequences, e.g. the budget year might indicate a small surplus situation, which in itself is an appropriate outcome, but if in prior years there were much larger surpluses then this negative trend may be a concern that requires closer examination.

Table 33: MBRR A8 - Cash backed reserves/accumulated surplus reconciliation

[redacted]

From the above table it can be seen that the cash and investments available total R810 million in the 2013/14 financial year and progressively increase to R860 million by 2014/15, including the projected cash and cash equivalents as determined in the cash flow forecast. The following is a breakdown of the application of this funding:

Unspent conditional transfers (grants) are automatically assumed to be an obligation as the municipality has received government transfers in advance of meeting the conditions. Ordinarily, unless there are special circumstances, the municipality is obligated to return unspent conditional grant funds to the national revenue fund at the end of the financial year.

The main purpose of other working capital is to ensure that sufficient funds are available to meet obligations as they fall due. A key challenge is often the mismatch between the timing of receipts of funds from debtors and payments due to employees and creditors. High levels of debtor non-payment and receipt delays will have a greater requirement for working capital.

Any underperformance in relation to collections could place upward pressure on the ability of the municipality to meet its creditor obligations.

Long term investments consist primarily of the sinking funds for the repayment of future borrowings. The sinking fund value is held within long term investments and must be 'held to maturity' and is not available for spending.

The following graph supplies an analysis of the trends relating cash and cash equivalents and the cash backed reserves/accumulated funds reconciliation over a seven year perspective.

Figure 7: Cash and cash equivalents/cash backed reserves and accumulated funds

Cash and cash equivalents / Cash backed reserves and accumulated funds

Funding compliance measurement

National Treasury requires that the municipality assess its financial sustainability against fourteen different measures that look at various aspects of the financial health of the municipality. These measures are contained in the following table. All the information comes directly from the annual budgeted statements of financial performance, financial position and cash flows. The funding compliance measurement table essentially measures the degree to which the proposed budget complies with the funding requirements of the MFMA. Each of the measures is discussed below.

Table 34: MBRR SA10 – Funding compliance measurement

[redacted]

Cash/cash equivalent position

The municipality's forecast cash position was discussed as part of the budgeted cash flow statement. A 'positive' cash position, for each year of the MTREF would generally be a minimum requirement, subject to the planned application of these funds such as cash-backing of reserves and working capital requirements.

If the municipality's forecast cash position is negative, for any year of the medium term budget, the budget is very unlikely to meet MFMA requirements or be sustainable and could indicate a risk of non-compliance with section 45 of the MFMA which deals with the repayment of short term debt at the end of the financial year.

Cash plus investments less application of funds

The purpose of this measure is to understand how the municipality has applied the available cash and investments as identified in the budgeted cash flow statement. The reconciliation is intended to be a relatively simple methodology for understanding the budgeted amount of cash and investments available with any planned or required applications to be made. This has been extensively discussed above.

Monthly average payments covered by cash or cash equivalents

The purpose of this measure is to understand the level of financial risk should the municipality be under stress from a collection and cash in-flow perspective. Regardless of the annual cash position an evaluation should be made of the ability of the municipality to meet monthly payments as and when they fall due. It is especially important to consider the position should the municipality be faced with an unexpected disaster that threatens revenue collection such as rate boycotts.

Surplus/deficit excluding depreciation offsets

The main purpose of this measure is to understand if the revenue levels are sufficient to conclude that the community is making a sufficient contribution for the municipal resources consumed each year. An 'adjusted' surplus/deficit is achieved by offsetting the amount of depreciation related to externally funded assets. Municipalities need to assess the result of this calculation taking into consideration its own circumstances and levels of backlogs. If the outcome is a deficit, it may indicate that rates and service charges are insufficient to ensure that the community is making a sufficient contribution toward the economic benefits they are consuming over the medium term.

Service charge revenue as a percentage increase less macro inflation target

The purpose of this measure is to understand whether the municipality is contributing appropriately to the achievement of national inflation targets. This measure is based on the increase in 'revenue', which will include both the change in the tariff as well as any assumption about real growth such as new property development, services consumption growth etc. The outcome is lower than it might be due to the slowdown in the economy and a reduction in consumption patterns. This trend will have to be carefully monitored and managed with the implementation of the budget.

Cash receipts as a percentage of ratepayer and other revenue

This factor is a macro measure of the rate at which funds are 'collected'. This measure is intended to analyse the underlying assumed collection rate for the MTREF to determine the relevance and credibility of the budget assumptions contained in the budget. This measure and performance objective will have to be meticulously managed. Should performance with the mid-year review and adjustments be positive in relation to actual collections of billed revenue, the adjustments budget will be amended accordingly.

Capital payments of capital expenditure

The purpose of this measure is to determine whether the timing of payments has been taken into consideration when forecasting the cash position. It can be seen that a no per cent timing discount has been factored into the cash position forecasted over the entire financial year. The municipality aims to keep this as low as possible through strict compliance with the legislative requirement that debtors be paid within 30 days.

Borrowing as a percentage of capital expenditure (excluding transfersand contributions)

The purpose of this measurement is to determine the proportion of a municipality's 'own-funded' capital expenditure budget that is being funded from borrowed funds to confirm MFMA compliance. Externally funded expenditure (by transfers/grants and contributions) has been be excluded.

Transfers/grants revenue of Government transfers/grants available

The purpose of this measurement is mainly to ensure that all available transfers from national and provincial government have been budgeted for. A percentage less than 100 per cent could indicate that not all grants as contained in the Division of Revenue Act (DORA) have been budgeted for. The municipality has budgeted for all transfers.

Repairs and maintenance expenditure level

This measure must be considered important within the context of the funding measures criteria because a trend that indicates insufficient funds are being committed to asset repair could also indicate that the overall budget is not credible and/or sustainable in the medium to long term because the revenue budget is not being protected.

Asset renewal/rehabilitation expenditure level

This measure has a similar objective to aforementioned objective relating to repairs and maintenance. A requirement of the detailed capital budget (since MFMA Circular 28 which was issued in December 2005) is to categorise each capital project as a new asset or a renewal/rehabilitation project.

2.6 Expenditure on grants and reconciliations of unspent funds

Table 35: MBRR SA19 - Expenditure on transfers and grant programmes

Table 36: MBRR SA 20 - Reconciliation between of transfers, grant receipts and unspent funds

[redacted]

2.7 Councillor and employee benefits

Table 37:MBRR SA22 - Summary of councillor and staff benefits

[redacted]

Table 38: MBRR SA23 - Salaries, allowances and benefits (political office bearers/councillors/ senior managers)

[redacted]

Table 39: MBRR SA24 – Summary of personnel numbers

[redacted]

2.9 Monthly targets for revenue, expenditure and cash flow

Table 40: MBRR SA25 - Budgeted monthly revenue and expenditure

[redacted]

Table 41: MBRR SA26 - Budgeted monthly revenue and expenditure (municipal vote)

[redacted]

Table 42: MBRR SA27 - Budgeted monthly revenue and expenditure (standard classification)

[redacted]

Table 43: MBRR SA28 - Budgeted monthly capital expenditure (municipal vote)

[redacted]

Table 44: MBRR SA29 - Budgeted monthly capital expenditure (standard classification)

[redacted]

Table 45: MBRR SA30 - Budgeted monthly cash flow

[redacted]

2.10 Annual budgets and SDBIPs – internal departments

Water Services Department – Vote 9

The department is primarily responsible for the distribution of potable water within the municipal boundary, which includes the purification of raw water, maintenance of the reticulation network and implementation of the departmental capital programme.

Table 46: Water Services Department - operating revenue by source, expenditure by type and total capital expenditure

[redacted]

- There are currently no unfilled positions in the top management structure of the Water Services Department. As part of the performance objectives for the 2013/14 financial year, the expansion of the functional water demand management unit will require an amendment to the departmental organogram and the subsequent filling of vacancies.
- Significant capital projects to be undertaken over the medium term includes, amongst others:
- Expansion of the bulk reservoir supply
- Replacement and upgrading of deficient reticulation infrastructure; and
- Purification plant upgrades.

The departmental strategy is ensuring the economic value and useful life of the water reticulation network and infrastructure is maintained. To this end, the medium-term expenditure framework provides for operational repairs and maintenance.

2.11 Contracts having future budgetary implications

In terms of the municipality's Supply Chain Management Policy, The accounting officer may procure consulting services provided that any Treasury guidelines in respect of consulting services are taken into account when such procurements are made. Consultancy services must be procured through competitive bids if the value of the contract exceeds R 200 000 (VAT included); or the duration period of the contract exceeds one year. In addition to any requirements prescribed by this policy for competitive bids, bidders must furnish particulars of all consultancy services provided to an organ of state in the last five years; and any similar consultancy services provided to an organ of state in the last five years.

2.12 Capital expenditure details

The following three tables present details of the municipality's capital expenditure programme, firstly on new assets, then the renewal of assets and finally on the repair and maintenance of assets.

The following three tables present details of the municipality's capital expenditure programme, firstly on new assets, then the repairs and maintenance

Table 47: MBRR SA34a – Capital expenditure on new assets by assets class

[redacted]

Table 48 MBRR SA34b - Capital expenditure on the renewal of existing assets by asset class

[redacted]

Table 49: MBRR SA35 - Future financial implications of the capital budget

[redacted]

Table 50: MBRR SA36 - Detailed capital budget per municipal vote

[redacted]

Table 51: MBRR SA37 - Projects delayed from previous financial year

[redacted]

2.13 Legislation compliance status

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

- In year reporting
- Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively improved and includes monthly published financial performance.
- Internship programme. The municipality is participating in the Municipal Financial Management Internship programme and has employed five interns undergoing training in various divisions of the Financial Services Department. Of the five interns one has been appointed permanently from December 2012. The remaining four have completed their two year contract on 30 January 2012, and extension for six months has been granted to the current interns.
- Budget and Treasury Office. The Budget and Treasury Office has been established in accordance with the MFMA.
- Audit Committee. An Audit Committee has been established and is fully functional.
- Service Delivery and Implementation Plan. The detail SDBIP document is at a draft stage and will be finalised after approval of the 2013/14 MTREF in May 2013.
- Annual Report. Annual report is compiled in terms of the MFMA and National Treasury requirements.

2.14 Other supporting documents

Table 52: MBRR Table SA1 - Supporting detail to budgeted financial performance

[redacted]

Table 53: MBRR Table SA2 – Matrix financial performance budget (revenue source/expenditure type and department)

[redacted]

Table 54: MBRR Table SA3 – Supporting detail to Statement of Financial Position

[redacted]

Table 55: MBRR SA9 – Social, economic and demographic statistics and assumptions

[redacted]

Table 56: MBRR SA32 – List of external mechanisms

[redacted]

2.18 Municipal manager's quality certificate

Municipal manager's quality certificate

I **Sipho Nicholus Dubazana** acting municipal manager of UMkhanyakude District Municipality, hereby certify that the draft budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the draft budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name: _Sipho Nicholus Dubazana________________________

Acting: Municipal Manager of UMkhanyakude District Municipality (DC27)

Signature: ____

Date : ______________________________

Print Name: _Mkhululeni Simon Dlamini__________________________

Chief Financial Officer of UMkhanyakude District Municipality (DC27)

Signature: ____

Date : ______________________________