

201415

2014/15 MTREF
DRAFT BUDGET



[SCHEDULE A: AN ANNUAL
BUDGET AND SUPPORTING
DOCUMENTATION OF THE HARRY
GWALA DISTRICT MUNICIPALITY]

SCHEDULE A

AN ANNUAL BUDGET AND
SUPPORTING DOCUMENTATION
OF A MUNICIPALITY

ANNUAL BUDGET OF

HARRY GWALA

DISTRICT

MUNICIPALITY

2014/15 TO 2016/17
MEDIUM TERM REVENUE AND
EXPENDITURE FORECASTS

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Abbreviations and Acronyms

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

Part 1 – Annual Budget

Mayor's Report

PURPOSE

To table to Council the 2014/15 Medium Term Revenue and Expenditure Framework draft budget for noting.

BACKGROUND

In terms of section 16 (1) of the Municipal Finance Management Act the Council of a Municipality must for each financial year approve an annual budget for the Municipality before the start of that financial year.

Discussion:

In order for a Municipality to comply with section (i) section 16 (2) prescribes that the Mayor of the Municipality must table the annual Budget at a Council meeting at least 90 days before the start of the budget year.

In terms of section 17 of the MFMA;

An annual budget of a Municipality must set out realistically anticipated revenue for the budget year and appropriate expenditure for the budget year under the different votes of the Municipality.

BUDGET SUMMARY:

The 2014/2015 Total Revenue is R 552m broken down as follows;

- Government Grants and Subsidies – Capital R 245m
- Government Grants and Subsidies – Operational R 249m
- Own Revenue R 57m

Allocated as follows;

- Operational budget R 293m
- Capital budget R 258m

The staff salaries budget has been budgeted at R102m, representing 35% of the operational budget. Councilor's allowances have been budgeted at R6, 6m.

Local government equitable share

The equitable share for 2014/2015 financial year as gazetted from the Division of Revenue Bill is as follows:

Equitable share	R 230 622 000
Total Equitable Share	R 230 622 000

Over the last years several adjustments have been made to the equitable share formula resulting to increased allocations to poor rural municipalities. We have to provide further input in this respect and support the National Government to review the formula. Further work will be done to review the formula, with revisions making use of the data from the Census, due to be released in March 2013. We expect the revised formula to be introduced from 2014/15 financial year.

For 2014/15 Draft Budget capital projects amounting to R 258 760 826 have been planned under the following categories;

- Water R 198 931 076,
 - Sanitation R 36 177 952,
 - Electrification R 3 415 000 and
 - Other Assets R 20 236 793.
- TOTAL R 258 760 826**

In accordance with the MIG formula for allocating this funding to municipalities

Budget or breakdown allocation per local Municipality is as follows:

• Umzimkhulu	R 66 362 857	26%	Has a huge number of stand alone water schemes
• Ingwe	R 54 117 608	21%	Huge Backlogs
• Ubuhlebezwe	R 46 526 422	18%	Backlogs has been reduced
• Kokstad	R 15 930 493	6%	Few backlogs in outlying areas
• Kwasani	R 5 580 053 and	2%	No Backlogs
• HGDM & Wide	R 70 243 393	27%	
• Ingwe RBIG	R 28 200 000	9%	Bulwer Dam

1. Local Economic Development and Tourism

Harry Gwala District Municipality has developed a number of local development related strategies and plans that seek to enhance its economic growth. These plans and strategies were circulated to councilors. The Harry Gwala District Municipality has allocated R 15m towards LED projects in 2014/15 and a total of R35million in the MTREF in line with this National priority. We are hopeful that our partners, the first and second sphere of Government, in economic development will support in this Endeavour. We also intend to attract private sector investment to our district through the strengthening of our Sisonke Development Agency (SDA). The Board of directors are now in place. Our LED unit will now seconded to be part of the SDA. We are also engage through the Mayoral forum to drive towards having one LED vehicle for the district including LMs being the SDA.

2. Promoting efficient revenue and expenditure management in local government

The minister said municipalities, just like national and provincial governments, needed to closely examine their budgets to ensure they are using their available resources to maximise service delivery and this was centred on both;

- i. Cost-effective spending, and
- ii. Revenue collection.

Looking at this budget it will be noticed that we were very conservative on the expenditure but we will also explore all possible means to recover as much potential revenue as we could collect.

While we have to focus on our mandate and uplifting skills related to our mandate but we cannot overlook the development of youth towards scarce skills in our area as they have a negative impact on the quality of life for our people. Without supporting and building of these skills like health and education, we cannot fully claim to have contributed to sustainable communities.

Harry Gwala Municipality is committed in developing community and youth residing within the District in the above mentioned skills. A number of projects have been budgeted for in the special programmes unit to ensure that the special groups existing in the Harry Gwala community are sufficiently catered for.

DESCRIPTION	2014/15	2015/16	2016/17
SPORT DEVELOPMENT	R 4 750 000	R 5 006 500	R 5 276 851
ICT HUB	R 850 000	R 900 150	R 949 658
RURAL HORSE RIDING - GAMES (SUMMER CUP)	R 445 000	R 471 255	R 497 174
DISABLED PROGRAMMES	R 357 680	R 378 783	R 399 616
YOUTH DEV EMPOWERMENT PLAN	R 300 000	R 317 700	R 335 174
BURSARIES-COMMUNITY	R 300 000	R 317 700	R 335 174
CUBA BURSARIES	R 200 000	R 211 800	R 223 449
WOMENS DAY CELEBRATION	R 200 000	R 211 800	R 223 449
MENS FORUM AND CAPACITY BUILDING	R 200 000	R 211 800	R 223 449
GOLDEN GAMES	R 200 000	R 211 800	R 223 449
BACK TO SCHOOL CAMPAIGN	R 100 000	R 105 900	R 111 725
TO ATTEND UMKHOSI WOMHLANGA	R 50 000	R 52 950	R 55 862

ELDERLY FORUM MEETING	R 10 000	R 10 590	R 11 172
TOTAL	R 7 962 680	R 8 408 728	R 8 866 202

In relation to the above stated points, the Local Government Budgets and Expenditure Review, published by the National Treasury in September 2011, highlights 5 important considerations:

1. **Revenue management** – To ensure the collection of revenues, the municipality should maintain accurate billing systems; timeously send out accounts to residents and strive to collect as much revenues owed as we can.
2. **Collecting outstanding debts** – This requires political commitment, sufficient administrative capacity, and pricing policies that ensure that bills are accurate and affordable, especially for poor households. In this regard, Harry Gwala Municipality has recently completed a data cleansing exercise and is reviewing its Indigent Policy.
3. **Pricing services correctly** – The full cost of services should be reflected in the price charged to residents who can afford to pay. Many municipalities offer overly generous subsidies and rebates that result in services being run at a loss, resulting in funds being diverted away from other priorities. This is a major area in which should pull our socks. Running services at a loss affects the extension of services to other areas and impact negatively on operations and maintenance.
4. **Under spending on repairs and maintenance** – Often seen as a way to reduce spending in the short-term, under spending on maintenance can shorten the life of assets, increase long-term maintenance and refurbishment costs, and cause a deterioration in the reliability of services. This lack of Operations and maintenance also causes uprising by communities due to inadequate supply of services and the questing of democracy.
5. **Spending on non-priorities** – Many municipalities spend significant amounts on non-priority items including unnecessary travel, luxury furnishings, excessive catering and unwarranted public relations projects. Consultants are often used to perform routine tasks. Major attempts would be made to reduce use of consultants. A number of capacity building programmes have been undertaken to improve the capacity which has to result to improved quality of work
6. **Funding local government** -The functions performed by local government rely largely on self-financing. The minister noted that Substantial progress has been made in overcoming the service disparities of the past through transfers from the national fiscus, but large backlogs remain. The major need is to provide municipal infrastructure to poor households and, increasingly, to pay for the institutional and governance needs of poor municipalities. This situation requires us to put more emphasis on job creation and economic development in order to create more opportunities for self-income.
7. Other strategies documents to be linked with the budget are

- Integrated Development Plan (IDP)
- Budget
- Strategic Development Budget Implementation Plan (SDBIP)
- Performance Management System (PMS)
- Policies and By-Laws

Council Resolutions

On 28 March 2014 the Council of Harry Gwala District Municipality met in the Council Chambers of Harry Gwala District Municipality council chamber to consider the draft budget of the municipality for the financial year 2014/15. The Council notes the following resolutions:

1. The Council, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) notes:
 - 1.1. The draft budget of the municipality for the financial year 2014/15 and the multi-year capital appropriations as set out in the following tables:
 - 1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table 18;
 - 1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table 19;
 - 1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table 21; and
 - 1.1.4. Multi-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table A5.
 - 1.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets noted as set out in the following tables:
 - 1.2.1. Budgeted Financial Position as contained in Table A6;
 - 1.2.2. Budgeted Cash Flows as contained in Table A7;
 - 1.2.3. Cash backed reserves and accumulated surplus reconciliation as contained in Table A8;
 - 1.2.4. Asset management as contained in Table A9; and
 - 1.2.5. Basic service delivery measurement as contained in Table A10.
2. The Council, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) notes with effect from 1 July 2014:
 - 2.1. the tariffs for the supply of water – Refer to the tariffs policy in Annexure B
 - 2.2. the tariffs for sanitation services – refer to the tariffs policy in Annexure B

3. The Council, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) notes with effect from 1 July 2014 the tariffs for other services, as set out in tariffs policy.
4. The council, acting in terms of section 24 of the Municipal Finance Management Act, notes with effect from 01 July 2014 the draft budget related policies as discussed above.
5. To give proper effect to the municipality's annual budget, the Council notes:
 - 5.1. That cash backing is implemented through the utilisation of a portion of the revenue generated from water and sanitation to ensure that all capital reserves and provisions, and unspent conditional grants are cash backed as required in terms of the municipality's funding and reserves policy as prescribed by section 8 of the Municipal Budget and Reporting Regulations.
 - 5.2. That the Municipal Manager be authorised to sign all necessary agreements and documents to give effect to the budget.

1.1 Executive Summary

The application of sound financial management principles for the compilation of the Harry Gwala District Municipality financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

District business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items and stern control measures expenditures such as telephone, internet usage, printing, workshops, accommodation, and catering.

The District has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the District has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 51 and 54, 58, 59, 66, 70 and 72 were used to guide the compilation of the 2014/15 MTREF.

The main challenges experienced during the compilation of the 2014/15 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained water and sanitation 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 (due to tariff increases from Umngeni 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. However, with this in mind the municipality has planned to engage on an extensive costing exercise with a view to review.
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- 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 2014/15 MTREF process; and

The following budget principles and guidelines directly informed the compilation of the 2014/15 MTREF:

- The 2013/14 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 2014/15 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 the operational cost of District expense for the water pumps. 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, except to the provincial projects that are awaiting rollover approval;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2014/15 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2014/15 MTREF

R thousand	Adjustments Budget 2013/14	Budget 2014/15	Year	Budget Year + 1 2015/16	Budget Year +2 2016/17
Total Operating Revenue	R 336 931 634	R 306 692 691		R 314 650 885	R 331 098 838
Total Operating Expenditure	R 336 931 634	R 293 458 297		R 303 571 252	R 317 848 548
(Surplus)/ Deficit for the year	R 0	R 13 234 394		R 11 079 633	R 13 250 029
Total Capital Expenditure	R 210 496 000	R 258 760 826		R 279 037 360	R 425 982 134

Total operating revenue has decreased by 10% per cent or R30million for the 2014/15 financial year when compared to the 2013/14 Adjustments Budget. For the two outer years, operational revenue will increase by 3 % and 5 % per cent respectively, equating to a total revenue growth of R24, 4m over the MTREF when compared to the 2014/15 financial year.

Total operating expenditure for the 2014/15 financial year has been appropriated at R293 million and translates into a budgeted surplus of R13million. When compared to the 2013/14 Adjustments Budget, operational expenditure has decreased by 15% per cent in the 2014/15 budget. The operating surplus for the 2015/16 has decreased by R 2,1m and then 2016/17 increase by R2 million. These surpluses will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

The capital budget of R258 million for 2014/15 is 19% per cent more when compared to the 2013/14 Adjustment Budget. The increase is due to various grants gazzetted or received for the 2014/15 financial year to improve the backlog of water and sanitation within the district. The capital programme increases to R285million in the 2015/16 financial year and peaks out in 2016/17 at R428 million. The capital budget is largely funded from the Government Grants and Subsidies in the MTREF.

1.2 Operating Revenue Framework

For Harry Gwala District Municipality to continue improving the quality of services provided to its 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 District and continued economic development;
- Efficient revenue management, which aims to ensure a 80 per cent annual collection rate for water and sanitation service charges;
- Achievement in the medium term 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 district.

The following table is a summary of the 2014/15 MTREF (classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source

DC43 Sisonke - Table A4 Consolidated Budgeted Financial Performance (revenue and expenditure)										
Description	2010/11	2011/12	2012/13	Current Year 2013/14				2014/15 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
Revenue By Source										
Property rates	194	–	–	–	–	–	–	–	–	–
Service charges - water revenue	16 887	25 333	27 906	30 697	30 697	30 697	–	33 152	35 805	36 017
Service charges - sanitation revenue	14 705	11 237	11 960	12 052	12 052	12 052	–	13 016	14 057	15 182
Rental of facilities and equipment	82	48								
Interest earned - external investments	5 655	2 202	2 988	2 000	2 500	2 500		2 600	2 000	2 000
Interest earned - outstanding debtors					5 179	5 179		5 179	5 593	6 041
Transfers recognised - operational	165 685	208 257	281 470	220 563	220 607	220 607		249 246	256 696	270 860
Other revenue	1 595	27 717	2 210	500	24 543	24 543	–	3 500	500	1 000
Gains on disposal of PPE										
Total Revenue (excluding capital transfers and contributions)	204 803	274 794	326 532	265 811	295 577	295 577	–	306 693	314 651	331 099

Table 3 Percentage growth in revenue by main revenue source

DC43 Sisonke - Table A4 Consolidated Budgeted Financial Performance (revenue and expenditure)								
Description	CURRENT YEAR 201314		2014/15 Medium Term Revenue & Expenditure Framework					
	Adjusted Budget	%	Budget Year 2014/15	%	Budget Year +1 2015/16	%	Budget Year +2 2016/17	%
Revenue By Source								
Property rates	-		-		-		-	
Service charges - water revenue	30 697	10%	33 152	11%	35 805	11%	36 017	11%
Service charges - sanitation revenue	12 052	4%	13 016	4%	14 057	4%	15 182	5%
Interest earned - external investments	2 500	1%	2 600	-1%	2 000	1%	2 000	1%
Interest earned - outstanding debtors	5 179	2%	5 179	2%	5 593	2%	6 041	2%
Transfers recognised - operational	220 607	75%	249 246	81%	256 696	82%	270 860	82%
Other revenue	24 543	8%	3 500	1%	500	0%	1 000	0%
Gains on disposal of PPE								
Total Revenue (excluding capital transfers and contributions)	295 577	100%	306 693	100%	314 651	100%	331 099	100%
TOTAL REVENUE FROM RATES AND SERVICE CHARGES	42 748	14%	46 168	15%	49 862	16%	51 198	15%

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 small percentage of the revenue basket for the District. Service charges revenue comprises a mere 11% of the total revenue mix. In the 2013/14 financial year, revenue from service charges totaled R 30,6m or 7% per cent. This increases to R33, 1m, R35, 8m and to R36m in the respective financial years of the MTREF. A notable trend is the increase in the total percentage revenue generated from services charges which averaging 11% in the MTREF. The above table excludes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality. Details in this regard are contained in Table 64 MBRR SA1

Operating grants and transfers totals R249 m in the 2014/15 financial year and steadily increases to R256m 2015/16 and R270m in 2016/17. Note that the year-on-year growth for the 2014/15 financial year is 19% per cent and then flattens out to 18 % and 18 % per cent in the two outer years. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 4 Operating Transfers and Grant Receipts

DC43 Sisonke - Supporting Table SA18 Transfers and grant receipts									
Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
RECEIPTS:									
Operating Transfers and Grants									
National Government:	-	186 931	217 200	220 310	220 310	220 310	237 996	252 596	267 460
Local Government Equitable Share		182 881	203 556	216 056	216 056	216 056	230 622	245 003	259 532
Finance Management		1 250	1 250	1 250	1 250	1 250	1 250	1 250	1 300
Municipal Systems Improvement		790	1 000	890	890	890	934	967	1 018
Water Services Operating Subsidy		322	9 618	-	-	-			
Water Services Operating Subsidy		-	-	300	300	300			
							3 146	3 292	3 447
Rural Transport Services & Infrastructure		1 688	1 776	1 814	1 814	1 814	2 044	2 084	2 163
Provincial Government:	4 100	-	400	253	253	253	11 250	4 100	3 400
Lg seta	500								
In-Service Training - Salaries	300								
Community Development Project				-	-	-		3 000	3 000
ICT Shared Services Grant (cogla)	3 000								
District Growth Development Summit			400						
Infrastructure Sport Facilities				253	253	253			
Experiential Learning	300								
							250	1 100	400
							11 000		
Total Operating Transfers and Grants	4 100	186 931	217 600	220 563	-	-	249 246	256 696	270 860

DC43 Sisonke - Supporting Table SA18 Transfers and grant receipts									
Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
RECEIPTS:									
Capital Transfers and Grants									
National Government:	-	138 585	185 311	210 486	183 268	183 268	245 526	243 163	274 050
Municipal Infrastructure Grant (MIG)		136 610	165 717	173 618	146 400	146 400	183 882	187 163	200 550
Regional Bulk Infrastructure			15 000	15 429	15 429	15 429	28 200	33 200	30 000
Rural Households Infrastructure				-	-	-	4 500	-	-
				5 000	5 000	5 000	3 415	-	-
				13 700	13 700	13 700	22 800	22 800	43 500
EPWP		1 975	4 594	2 739	2 739	2 739	2 729	-	-
Provincial Government:	-	-	20 800	-	3 617	3 617	-	-	-
Other capital transfers/grants [insert description]			12 800						
Other capital transfers/grants [insert description]			8 000		3 617	3 617			
District Municipality:	-	8 000	-	-	24 702	24 702	-	-	-
[insert description]									
Other grant providers:	-	-	-	-	-	-	-	-	-
[insert description]									
Total Capital Transfers and Grants	-	146 585	206 111	210 486	215 204	215 204	245 526	243 163	274 050
TOTAL RECEIPTS OF TRANSFERS & GRANTS	4 100	333 516	423 711	431 049	431 049	431 049	494 772	499 859	544 910

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

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increases of Umngeni Water bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's rates and in these tariffs are largely outside the control of the District. Discounting the impact of these price increases in lower consumer tariffs will erode the District future financial position and viability.

It must also be appreciated that the consumer price index, as measured by 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 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 water, petrol, diesel, chemicals etc. The current challenge facing the District is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the District has undertaken the tariff setting process relating to service charges as follows.

1.2.1 Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it did with District, 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 2015.

Better maintenance of infrastructure, new construction of Bulwer dam and cost-reflective tariffs will ensure that the supply challenges are managed in future to ensure sustainability. Umngeni Water has increased its bulk tariffs by a higher than the CPIX increase from 1 July 2014, which increases the District's water input cost tremendously.

Umngeni Water has undertaken a critical assessment of its capital infrastructure requirements. The assessment indicates that Umngeni Water’s current infrastructure is unlikely to sustain its long-term ability to supply water and they had no other choice but to enter capital markets to raise on multi million for infrastructure upgrades, hence the significant increase in the bulk cost of water.

A tariff increase of 6 per cent from 1 July 2014 for water is proposed. This is based on input cost assumptions of 12.1 per cent increase in the cost of bulk water (Umngeni Water), the cost of other inputs increasing by 6 per cent and a surplus generated on the water service of a minimum 15 per cent. 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:

Consumption Increments in R per Kl	0-6	7-20	21-40	41-100	101-200	201 +	Unmetered / flat rate per month
	Domestic (Metered)	N/C	R 6.37	R 10.62	R 12.38	R 20.52	
Umzimkhulu							62.51
Fairview							62.51

Consumption Increments in R per Kl	0-100	101-200	201-300	301-400	401-500	500 +	Unmetered / flat rate per month
	Commercial & Industrial	R 9.20	R 12.38	R 20.52	R 21.94	R 23.35	

Consumption Increments in R per Kl	0-6	7-100	101-200	201-300	301-400	401-500	501 +
	Public Service & Government institutions	R 9.20	R 9.20	R 12.38	R 20.52	R 21.94	R 23.35
Educational Institutions	R 9.20	R 9.20	R 12.38				

Agricultural Geriatric Institutions, Religious organizations, NGOs and recreational facilities	R 9.20	R 9.20	R 12.38	R 20.52	R 21.94	R 23.35	R 24.77
	N/C	R 9.20	R 12.38	R 20.52	R 21.94	R 23.35	R 23.35

Road Tanker delivery of water & Static tank hire in the capacity of the road tanker / tank	2500 l.	5000l.	7500 l.	10000 l	Del. charge		
	R 1 556.95	R 2 123.12	R 2 476.97	R 2 972.37	R 283.08	(Payable in advance)	
	R 141.54	R 353.85	R 495.39	R 707.71	R 283.08	(Payable in advance)	

Misc. Water related tariffs given in service pipe diameter	15 mm	20 mm	50 mm	110 mm	+100 mm		
	R 849.25	R 1 061.56	R 1 415.41	R 2 123.12	R 2 830.82		
	R 849.25	R 1 203.10	R 1 486.18	R 2 476.97	R 3 538.53		
	R 424.62	R 566.16	R 1 061.56	R 1 415.41	R 1 769.27		
	R 424.62	R 566.16	R 1 061.56	R 1 415.41	R 1 769.27		
	R 141.54	R 212.31	R 283.08	R 353.85	R 424.62	(Refundable if faulty)	

Penalty i.r.o.Tampering & illegal connections						
	R 2 193.89	R 3 043.14	R 4 033.93	R 5 661.65	R 7 784.77	

Property development costs i.r.o. water and sanitation delivery reticulation given in number of sub- divisions Per Sub- Division Clearance certificate						
	1 Site	2-5 Sites	5-10 Sites	11-20+ sites		
	R 8 209.39	R 4 953.94	R 2 830.82	R 1 698.49	(Payable in advance)	
					R 131.06	

Sanitation costs given in terms of water consumption Water borne systems Shayamoya Bongweni & Fairview						
	0-200	201 +	Unmetered / flat rate per month			
	R 4.95	R 6.37				
			R 48.62			

Static sanitation systems given per load		
	Per Load	Transport per Km

Conservancy tank clearance on site	R 297.24	R 9.20	(Payable in advance)				
	R 920.02	R 9.20	(Payable in advance)				
	R 297.24		(Payable in advance)				
Septic tank clearance on site							
Disposal into municipal reticulation system							
Misc. sanitation related tariffs given in service pipe diameter	Up to 600 mm	Up to 1200 mm	1200 mm +				
	New connections			(Payable in advance)			
	R 2 830.82	R 3 538.53	R 4 953.94				
Disconnect / Reconnection				(Payable in advance)			
	R 707.71	R 1 061.56	R 1 415.41				

The tariff structure of the 2014/15 financial year has not been changed. The tariff structure is designed to charge higher levels of consumption a higher rate, steadily increasing to a rate of R20.40 per kilolitre for consumption in excess of 201kℓ per 30 day period.

1.2.2 Sanitation and Impact of Tariff Increases

A tariff increase of 6 per cent for sanitation from 1 July 14 is proposed. This is based on the input cost assumptions related to water. It should be noted that District costs contributes approximately 20 per cent of waste water treatment input costs, therefore the higher than CPI increase of 8 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 R13 million for the 2014/15 financial year.

The following table compares the current and proposed tariffs:

Table 5 Comparison between current sanitation charges and increases

Static sanitation systems given per load	Conservancy tank clearance on site			Septic tank clearance on site			Disposal into municipal reticulation system		
	2013/14	2014/15	Increase	2013/14	2014/15	Increase	2013/14	2014/15	Increase
Per Load	R 259.64	R 280.41	R 20.77	R 803.65	R 867.94	R 64.29	R 259.64	R 280.41	R 20.77
Transport per km	R 8.04	R 8.68	R 0.64	R 8.04	R 8.68	R 0.64	R 8.04	R 8.68	R 0.64

	New connections			Disconnect/Reconnection IRO credit control		
	2013/14	2014/15	Increase	2013/14	2014/15	Increase
Misc. sanitation related tariffs given in service pipe diameter						
Up to 600 mm	R 2 472.77	R 2 670.59	R 197.82	R 618.19	R 667.65	R 49.46
600 mm -1200 mm	R 3 090.96	R 3 338.24	R 247.28	R 927.29	R 1 001.47	R 74.18
1200 mm +	R 4 327.34	R 4 673.53	R 346.19	R 1 236.38	R 1 335.29	R 98.91

The following table shows the impact of the proposed increases in sanitation tariffs on the sanitation charges for a single dwelling-house:

Table 6 Comparison between current sanitation charges and increases, single dwelling- houses

Sanitation costs given in terms of water consumption	2013/14	2014/15	Increase
0-200	R 4.33	R 4.68	R 0.35
201 +	R 5.56	R 6.00	R 0.44
Unmetered/flat rate per month	R 42.47	R 45.87	R 3.40

1.2.3 Overall impact of tariff increases on households

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.

Note that in all instances the overall impact of the tariff increases on household's bills has been kept at an average of 8 per cent, with the same increase for indigent households.

Table 7 MBRR Table SA14 – Household bills

DC43 Sisonke - Supporting Table SA14 Household bills										
Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework			
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
Rand/cent							% incr.			
<u>Monthly Account for Household - 'Middle Income Range'</u>										
Rates and services charges:										
Water: Basic levy	2.43	2.58	2.79	2.79	2.79	0.08	301.3%	3.25	3.49	3.60
Water: Consumption	194.72	206.41	222.92	222.92	222.92	0.08	24 075.4%	260.01	279.27	340.10
Sanitation	87.48	92.73	100.15	100.15	100.15	0.08	10 816.2%	116.81	125.46	170.10
Other										
sub-total	284.63	301.72	325.86	325.86	325.86	0.24	16.6%	380.07	408.22	513.80
VAT on Services										
Total large household bill:	284.63	301.72	325.86	325.86	325.86	0.24	16.6%	380.07	408.22	513.80
% increase/-decrease		6.0%	8.0%	-	-	(99.9%)		158 264.0%	7.4%	25.9%
<u>Monthly Account for Household - 'Affordable Range'</u>										
Rates and services charges:										
Water: Basic levy	2.43	2.58	2.79	2.79	2.79	0.08	301.0%	3.25	3.49	3.60
Water: Consumption	162.27	172.01	185.77	185.77	185.77	0.08	20 063.0%	216.68	232.73	245.16
Sanitation	72.90	77.27	83.45	83.45	83.45	0.08	9 013.0%	97.34	104.55	130.30
Other										
sub-total	237.60	251.86	272.01	272.01	272.01	0.24	16.6%	317.27	340.77	379.06
VAT on Services										
Total small household bill:	237.60	251.86	272.01	272.01	272.01	0.24	16.6%	317.27	340.77	379.06
% increase/-decrease		6.0%	8.0%	-	-	(99.9%)		132 095.8%	7.4%	11.2%
			0.33	-1.00	-	-				

1.3 Operating Expenditure Framework

Harry Gwala District Municipality's expenditure framework for the 2014/15 budget and MTREF is informed by the following:

- The asset renewal 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 renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plans no budget*. If there is no business plan no funding allocation can be made.

The following table is a high level summary of the 2014/15 budget and MTREF (classified per main type of operating expenditure):

Table 8 Summary of operating expenditure by standard classification item

DC43 Sisonke - Table A4 Consolidated Budgeted Financial Performance (revenue and expenditure)										
Description	2010/11	2011/12	2012/13	Current Year 2013/14				2014/15 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
Expenditure By Type										
Employee related costs	56 108	71 975	79 228	90 434	94 837	94 837	-	102 424	110 063	119 813
Remuneration of councillors	4 051	4 413	4 622	6 181	6 162	6 162		6 655	7 081	7 534
Debt impairment	6 303	15 508	15 023	12 000	12 000	12 000		10 000	10 000	10 000
Depreciation & asset impairment	19 812	17 859	28 992	20 000	25 000	25 000	-	20 000	21 180	22 345
Finance charges	843	3 972	3 792	3 500	3 521	3 521		2 500	2 648	2 793
Bulk purchases	6 998	7 713	9 710	7 800	9 598	9 598	-	5 000	5 295	5 586
Contracted services	27 717	41 283	18 825	36 317	34 999	34 999	-	39 503	40 757	42 165
Transfers and grants	-	-	7 490	12 000	13 768	13 768	-	15 000	15 000	20 000
Other expenditure	190 963	151 117	172 400	66 763	137 045	137 045	-	92 377	91 547	99 462
Loss on disposal of PPE		33 465	138							
Total Expenditure	312 794	347 305	340 218	254 996	336 932	336 932	-	293 459	303 571	329 698

The budgeted allocation for employee related costs for the 2014/15 financial year totals R102, 4 m, which equals 35% per cent of the total operating expenditure. The period of the salary wage collective agreement has started from 2012/13 and end to 2014/15. In the absence of other information from the South African Local Government Bargaining Council, National Treasury issued Circular 72 advising municipalities to budget for a 6,79 per cent increase. An annual increase of 5, 4 per cent has been included in the next 2015/16 MTREF. As part of the district's cost reprioritization and cash management strategy vacancies have been significantly rationalized downwards. As part of the planning assumptions and interventions all vacancies were originally removed from the budget and a report was compiled by the Corporate Services Department relating to the prioritization of critical vacancies within the Municipality. The outcome of this exercise was the inclusion of the critical and strategically important vacancies as well as the inclusion of the staff to be transferred to the Municipality by the Provincial Health Department. In addition expenditure against overtime was significantly reduced, with provisions against this budget item only being provided for emergency services and other critical functions.

The cost associated with the remuneration of councilors 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 Municipality's budget.

The provision of debt impairment was determined based on an annual collection rate of 65 per cent and the Debt Write-off Policy of the Municipality. For the 2014/15 financial year this amount equates to R10m and increase to R12, 5m by 2015/16. 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.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R20m for the 2014/15 financial and equates to 7% 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). Finance charges make up 1% per cent of operating expenditure. As previously noted, the District has reached its prudential limits for borrowing – hence the planned borrowing to finance the capital budget does not result in finance charges as a percentage of operational expenditure increasing.

Bulk purchases are directly informed by the purchase of water from Umngeni Water in the Ubuhlebezwe area. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.

Contracted services have been identified as a cost saving area for the Municipality. As part of the compilation of the 2014/15 MTREF this group of expenditure was critically evaluated and operational efficiencies were enforced. In the 2014/15 financial year, this group of expenditure totals R39, 5 million showing an increase of 11 %, clearly demonstrating the application of cost efficiencies. For the two outer years growth has been limited to 5 % and 3 per cent. As part of the process of identifying further cost efficiencies, a business process reengineering project will commence in the 2014/15 financial year to identify alternative practices and procedures, including building in-house capacity for certain activities that are currently being contracted out. The outcome of this exercise will be factored into the next budget cycle and it is envisaged that additional cost savings will be implemented. Further details relating to contracted services can be seen in Table 64 MBRR SA1.

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 decreased by 18% per cent from the adjusted budget for 2014/15 and curbed at 1% and 8 per cent for the two outer years, indicating that significant cost savings have been already realised. Further details relating to contracted services can be seen in Table MBRR SA1.

The following table gives a breakdown of the main expenditure categories for the 2014/15 financial year.

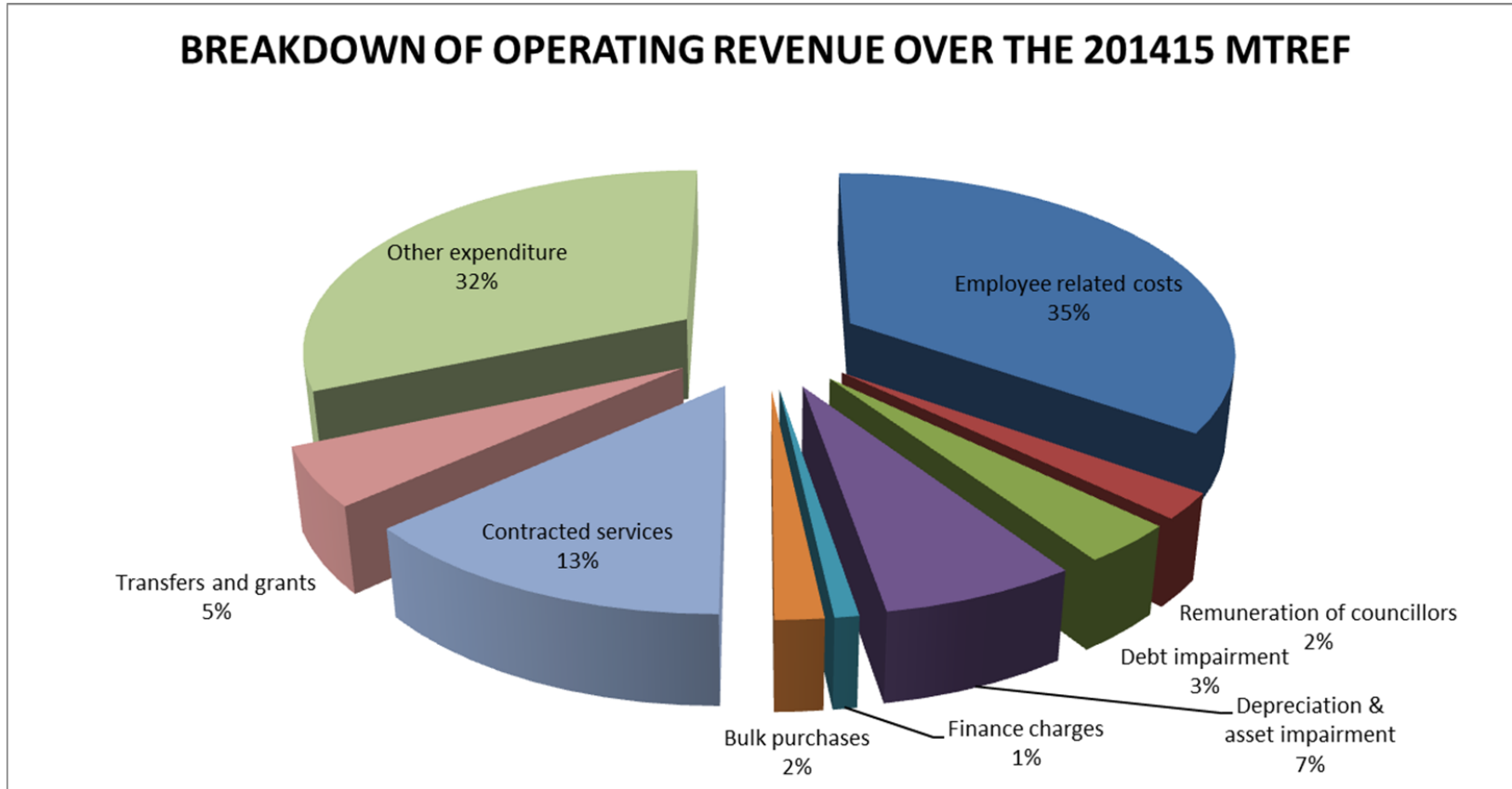


Figure 1 Main operational expenditure categories for the 2014/15 financial year

1.3.1 Priority given to repairs and maintenance

Aligned to the priority being given to preserving and maintaining the district's current infrastructure, the 2014/15 budget and MTREF provide for extensive growth in the area of asset maintenance, as informed by the asset renewal strategy and repairs and maintenance plan of the district. In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services. Considering these cost drivers, the following table is a consolidation of all the expenditures associated with repairs and maintenance:

Table 9 Operational repairs and maintenance

DC43 Sisonke - Supporting Table SA1 Supporting detail to 'Budgeted Financial Performance'										
Description	2010/11	2011/12	2012/13	Current Year 2013/14				2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
R thousand										
Repairs and Maintenance by Expenditure Item										
Employee related costs	32 917	29 493	31 263	30 998	30 998		33 139	35 127	36 801	38 475
Other materials	23 042	20 645	21 884	21 699	21 699		23 197	24 589	25 761	27 434
Contracted Services	6 583	5 899	6 253	6 200	6 200		6 628	7 025	7 360	9 034
Other Expenditure	3 292	2 949	3 126	3 100	3 100		3 314	3 513	3 680	5 354
Total Repairs and Maintenance Expenditure	65 834	58 987	62 526	61 996	61 996	-	66 278	70 254	73 602	80 297

During the compilation of the 2014/15 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the aging of the district infrastructure and historic deferred maintenance. To this end, repairs and maintenance was substantially increased by 6 per cent in the 2014/15 financial year, from R61, 9 million to R70, 2 million. During the 2013 Adjustment Budget this allocation was not adjusted it was still the same as original amounted to R61, 9 million taking into account the cash flow challenges faced by the Municipality. Notwithstanding this reduction, as part of the 2014/15 MTREF this strategic imperative remains a priority as can be seen by the budget appropriations over the MTREF. The total allocation for 2014/15 equates to R70, 2 million a growth of 6 per cent in relation to the Adjustment Budget and continues to 6 in the following year and 8 per cent in 2015/16 over the MTREF. In relation to the total operating expenditure, repairs and maintenance comprises of 6 per cent for the respective financial years of the MTREF.

The table below provides a breakdown of the repairs and maintenance in relation to asset class:

Table 10 Repairs and maintenance per asset class

DC43 Sisonke - Table A9 Asset Management									
Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
EXPENDITURE OTHER ITEMS									
<u>Depreciation & asset impairment</u>	19 812	17 859	23 000	20 000	20 000	20 000	20 000	21 000	22 345
<u>Repairs and Maintenance by Asset Class</u>	65 834	58 987	62 526	61 996	61 996	66 278	70 254	73 602	76 949
<i>Infrastructure - Water</i>	38 206	34 186	36 237	36 237	36 237	38 412	40 716	43 021	45 326
<i>Infrastructure - Sanitation</i>	26 202	23 501	24 911	24 911	24 911	26 405	27 990	29 574	31 158
Infrastructure	64 408	57 687	61 148	61 148	61 148	64 817	68 706	72 595	76 484
Other assets	1 425	1 300	1 378	848	848	1 461	1 548	1 007	1 400
TOTAL EXPENDITURE OTHER ITEMS	85 645	76 846	85 526	81 996	81 996	86 278	90 254	94 602	99 294

For the 2014/15 financial year, 97 per cent of total repairs and maintenance will be spent on infrastructure assets. This signifies the implementation of the municipality's plans of maintaining its infrastructure levels high to ensure uninterrupted service delivery.

1.3.2 Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the district Indigent Policy. The target is to register 20 000 or more indigent households during the 2014/15 financial year, a process reviewed annually. Detail relating to free services, cost of free basis services, revenue lost owing to free basic services as well as basic service delivery measurement is contained in Table 27 MBRR A10 (Basic Service Delivery Measurement).

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

1.4 Capital expenditure

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

Table 11 2014/15 Medium-term capital budget per vote

DC43 Sisonke - Table A5 Consolidated Budgeted Capital Expenditure by vote, standard classification and funding										
Vote Description	2010/11	2011/12	2012/13	Current Year 2013/14				2014/15 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
Capital expenditure - Vote										
<i>Multi-year expenditure to be appropriated</i>										
Vote 2 - Municipal Manager	-	200	-	-	-	-	-	-	-	-
Vote 3 - Finance	-	-	72	-	200	200	-	100	-	-
Vote 4 - Corporate Services	9 563	1 753	1 567	1 100	2 433	2 433	-	3 609	2 022	2 133
Vote 5 - Social & Development Planning	15 777	-	3 200	-	409	409	-	2 325	-	-
Vote 6 - Infrastructure Services	125 176	155 061	202 323	208 275	205 332	205 332	-	5 200	4 517	4 517
Vote 7 - Water Services	1 487	-	695	-	2 122	2 122	-	247 526	272 499	419 332
Capital multi-year expenditure sub-total	152 003	157 014	207 857	209 375	210 496	210 496	-	258 761	279 037	425 982
Total Capital Expenditure - Vote	152 003	157 014	207 857	209 375	210 496	210 496	-	258 761	279 037	425 982

For 2014/15 an amount of R258 million has been appropriated for the development of infrastructure which represents 99 per cent of the total capital budget. In the outer years this amount totals R279 million, 99 per cent and R425 million, 99 per cent respectively for each of the financial years.

Total new assets represent 99 per cent or R224million of the total capital budget while asset renewal equates to 1% per cent or R5, 1million. Further detail relating to asset classes and proposed capital expenditure is contained in Table MBRR A9 (Asset Management). In addition to the MBRR Tables SA34a, b, c provides a detailed breakdown of the capital programme relating to new asset construction, capital asset renewal as well as operational repairs and maintenance by asset class. Refer to table MBRR SA36 for the detailed listing of the capital projects.

The following graph provides a breakdown of the capital budget to be spent on infrastructure related projects over the MTREF.

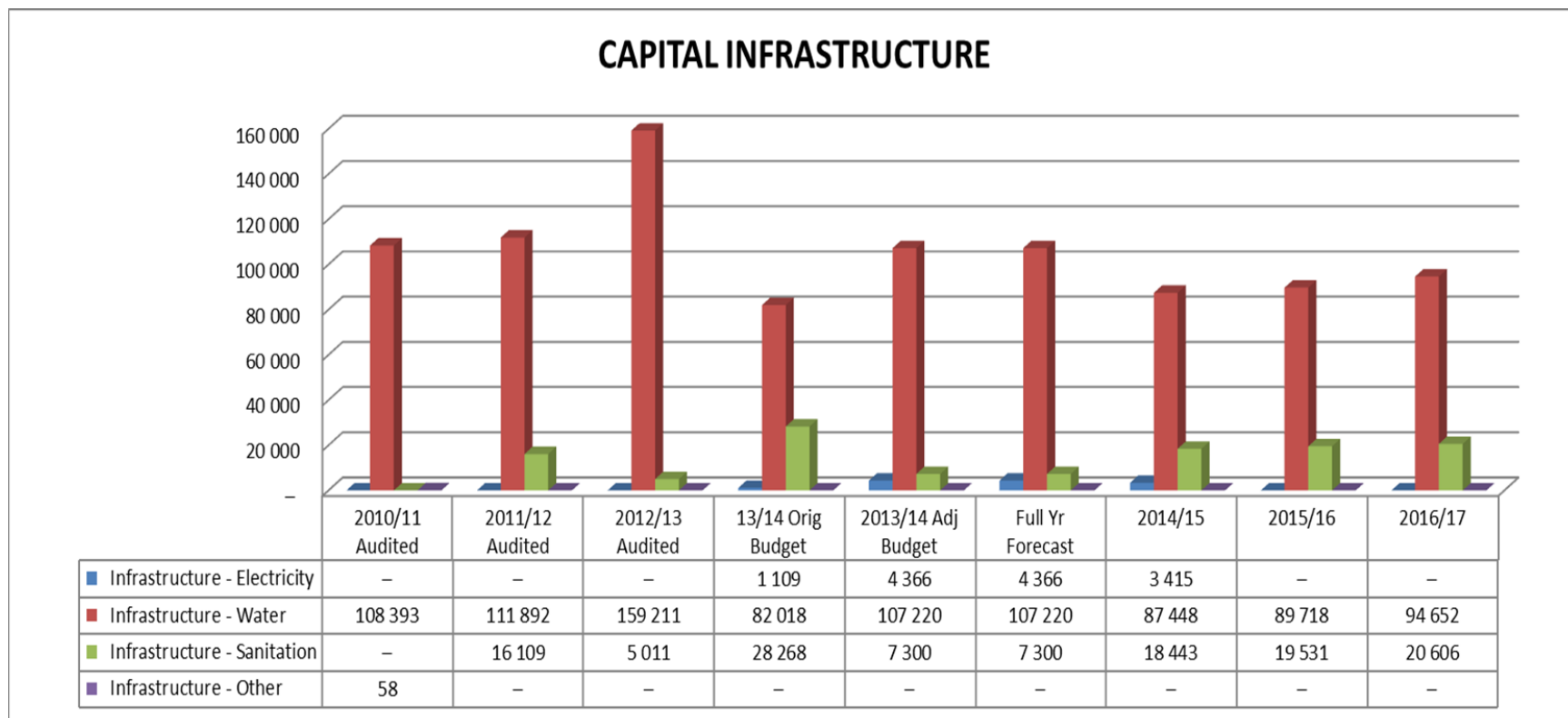


Figure 2 Capital Infrastructure Programme

1.4.1 Future operational cost of new infrastructure

The future operational costs and revenues associated with the capital programme have been included in Table MBRR SA35. This table shows that future operational costs associated with the capital programme totals R109 million in 2014/15 and escalates to R190 million by 2015/16. This concomitant operational expenditure is expected to escalate to R115 million by 2016/17. It needs to be noted that as part of the 2014/15 MTREF, this expenditure has been factored into the two outer years of the operational budget.

1.5 Annual Budget Tables - Parent Municipality

The following pages present the ten main budget tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2014/15 budget and MTREF as approved by the Council. Each table is accompanied by *explanatory notes* on the facing page.

Table 12 MBRR Table A1 - Budget Summary

DC43 Sisonke - Table A1 Consolidated Budget Summary										
Description	2010/11	2011/12	2012/13	Current Year 2013/14				2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
R thousands										
Financial Performance										
Property rates	194	-	-	-	-	-	-	-	-	-
Service charges	31 592	36 570	39 865	42 748	42 748	42 748	-	46 168	49 862	51 198
Investment revenue	5 655	2 202	2 988	2 000	2 500	2 500	-	2 600	2 000	2 000
Transfers recognised - operational	165 685	208 257	281 470	220 563	220 607	220 607	-	249 246	256 696	270 860
Other own revenue	1 678	27 765	2 210	500	29 722	29 722	-	8 679	6 093	7 041
Total Revenue (excluding capital transfers and contributions)	204 803	274 794	326 532	265 811	295 577	295 577	-	306 693	314 651	331 099
Employee costs	56 108	71 975	79 228	90 434	94 837	94 837	-	102 424	110 063	119 813
Remuneration of councillors	4 051	4 413	4 622	6 181	6 162	6 162	-	6 655	7 081	7 534
Depreciation & asset impairment	19 812	17 859	28 992	20 000	25 000	25 000	-	20 000	21 180	22 345
Finance charges	843	3 972	3 792	3 500	3 521	3 521	-	2 500	2 648	2 793
Materials and bulk purchases	6 998	7 713	9 710	7 800	9 598	9 598	-	5 000	5 295	5 586
Transfers and grants	-	-	7 490	12 000	13 768	13 768	-	15 000	15 000	20 000
Other expenditure	224 983	241 373	206 385	115 081	184 045	184 045	-	141 879	142 304	151 626
Total Expenditure	312 794	347 305	340 218	254 996	336 932	336 932	-	293 459	303 571	329 698
Surplus/(Deficit)	(107 990)	(72 511)	(13 686)	10 816	(41 355)	(41 355)	-	13 234	11 080	1 401
Transfers recognised - capital	141 454	177 773	173 960	210 486	236 103	236 103	-	245 526	273 942	415 606
Contributions recognised - capital & contributed	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions	33 464	105 263	160 274	221 302	194 748	194 748	-	258 760	285 022	417 007
Surplus/(Deficit) for the year	33 464	105 263	160 274	221 302	194 748	194 748	-	258 760	285 022	417 007

DC43 Sisonke - Table A1 Consolidated Budget Summary										
Description	2010/11	2011/12	2012/13	Current Year 2013/14				2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
R thousands										
Capital expenditure & funds sources										
Capital expenditure	152 003	157 014	207 857	209 375	210 496	210 496	-	258 761	285 022	417 007
Transfers recognised - capital	135 412	157 014	206 928	209 375	186 885	186 885	-	245 776	273 942	415 606
Public contributions & donations	-	-	-	-	-	-	-	-	-	-
Borrowing	16 591	-	-	-	-	-	-	-	-	-
Internally generated funds	-	-	929	-	23 611	23 611	-	12 984	11 080	1 401
Total sources of capital funds	152 003	157 014	207 857	209 375	210 496	210 496	-	258 761	285 022	417 007
Financial position										
Total current assets	46 966	17 124	81 401	52 828	57 598	57 598	-	104 375	149 701	195 234
Total non current assets	864 881	978 157	1 125 311	1 319 593	1 336 519	1 336 519	-	1 460 478	1 532 379	1 615 247
Total current liabilities	108 028	89 331	129 436	30 183	39 863	39 863	-	74 384	85 150	96 507
Total non current liabilities	42 681	39 549	37 053	31 973	33 101	33 101	-	32 853	30 928	29 640
Community wealth/Equity	761 138	866 401	1 040 223	1 310 265	1 321 153	1 321 153	-	1 457 616	1 566 002	1 684 335
Cash flows										
Net cash from (used) operating	98 602	119 672	184 742	247 695	210 347	210 347	-	290 827	301 131	439 608
Net cash from (used) investing	(104 289)	(142 420)	(163 035)	(214 375)	(168 236)	(168 236)	-	(245 823)	(265 085)	(404 683)
Net cash from (used) financing	1 435	25 942	(5 060)	(3 765)	(5 337)	(5 337)	-	(3 222)	(3 478)	(2 858)
Cash/cash equivalents at the year end	346	3 540	20 186	31 055	56 960	56 960	20 186	51 782	84 350	116 417

DC43 Sisonke - Table A1 Consolidated Budget Summary										
Description	2010/11	2011/12	2012/13	Current Year 2013/14				2014/15 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 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
Cash backing/surplus reconciliation										
Cash and investments available	7 058	3 539	20 186	34 236	56 960	56 960	-	51 782	84 350	116 417
Application of cash and investments	75 820	77 150	72 303	4 669	36 320	35 974	-	32 614	34 570	36 434
Balance - surplus (shortfall)	(68 762)	(73 611)	(52 117)	29 566	20 639	20 985	-	19 168	49 780	79 983
Asset management										
Asset register summary (WDV)	864 881	978 157	1 125 311	1 319 593	1 269 528	1 269 528	1 460 478	1 460 478	1 532 379	1 615 247
Depreciation & asset impairment	19 812	17 859	28 992	20 000	25 000	25 000	20 000	20 000	21 180	22 345
Renewal of Existing Assets	-	-	-	-	-	-	-	-	-	-
Repairs and Maintenance	-	-	-	-	-	-	70 254	70 254	73 602	76 949
Free services										
Cost of Free Basic Services provided	5 980	6 924	6 998	7 868	8 812	8 812	9 756	9 756	10 700	11 556
Revenue cost of free services provided	65 863	69 814	71 211	73 766	77 718	77 718	81 670	81 670	85 621	93 327
Households below minimum service level										
Water:	34	32	33	31	31	31	32	32	16	6
Sanitation/sewage:	-	-	-	-	-	-	-	-	-	-
Energy:	-	-	-	-	-	-	-	-	-	-
Refuse:	-	-	-	-	-	-	-	-	-	-

Explanatory notes to MBRR Table A1 - Budget Summary

1. Table A1 is a budget summary and provides a concise overview of the Harry Gwala district municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
3. Financial management reforms emphasizes the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
 - a) The operating surplus/deficit (after Total Expenditure) is positive over the MTREF
 - b) Capital expenditure is balanced by capital funding sources, of which
 - i. Transfers recognised is reflected on the Financial Performance Budget;
 - ii. Internally generated funds is financed from a combination of the current operating surplus and VAT refunds on Conditional Grants. The amount is incorporated in the Net cash from investing on the Cash Flow Budget. The fact that the municipality's cash flow remains positive, and is improving indicates that the necessary cash resources are available to fund the Capital Budget.
4. The Cash backing/surplus reconciliation shows that in previous financial years the municipality was not paying much attention to managing this aspect of its finances, and consequently many of its obligations are not cash-backed. This places the municipality in a very vulnerable financial position, as the recent slow-down in revenue collections highlighted. Consequently Council has taken a deliberate decision to ensure adequate cash-backing for all material obligations in accordance with the recently adopted Funding and Reserves Policy. This cannot be achieved in one financial year. But over the MTREF there is progressive improvement in the level of cash-backing of obligations. It is anticipated that the goal of having all obligations cash-back will be achieved by 2014/15, when a small surplus is reflected.
5. Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of Free Services shows that the amount spent on Free Basic Services and the revenue cost of free services provided by the municipality continues to increase. In addition, the municipality continues to make progress in addressing service delivery backlogs. It is anticipated that by 2014/15 the water backlog will have been very nearly eliminated.

Table 13 MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

DC43 Sisonke - Table A2 Consolidated Budgeted Financial Performance (revenue and expenditure by standard classification)									
Standard Classification Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
Revenue - Standard									
<i>Governance and administration</i>	169 185	233 596	210 829	220 696	221 867	221 867	249 906	249 720	264 850
Executive and council	511	142	-	-	-	-	-	-	-
Budget and treasury office	168 581	233 190	210 347	220 696	220 898	220 898	249 906	249 720	264 850
Corporate services	93	264	481	-	969	969	-	-	-
<i>Economic and environmental services</i>	13 160	3 074	9 433	-	6 831	6 831	250	4 100	3 400
Planning and development	13 160	3 074	9 433	-	6 831	6 831	250	4 100	3 400
<i>Trading services</i>	163 913	215 898	280 230	255 601	302 982	302 982	302 063	334 773	478 455
Water	32 050	179 004	40 521	56 748	48 957	48 957	51 347	55 455	57 239
Waste water management	131 863	36 894	239 709	198 853	254 025	254 025	250 716	279 318	421 216
<i>Other</i>	-	-	-	-	-	-	-	-	-
Total Revenue - Standard	346 258	452 567	500 492	476 297	531 680	531 680	552 219	588 593	746 705
Expenditure - Standard									
<i>Governance and administration</i>	133 355	120 896	98 509	121 481	130 147	130 147	127 961	137 748	145 840
Executive and council	45 704	35 894	12 760	18 956	18 718	18 718	22 373	22 540	24 024
Budget and treasury office	53 688	47 556	45 752	63 431	66 283	66 283	60 868	65 196	68 365
Corporate services	33 962	37 446	39 997	39 094	45 146	45 146	44 720	50 011	53 451
<i>Economic and environmental services</i>	23 571	60 385	36 438	45 047	48 030	48 030	43 387	44 359	51 562
Planning and development	23 571	60 385	36 438	33 047	48 030	48 030	43 387	44 359	51 562
Road transport	-	-	-	12 000	-	-	-	-	-
<i>Trading services</i>	155 867	166 023	205 270	88 467	158 754	158 754	122 110	121 464	132 296
Water	86 718	53 204	129 878	78 651	101 232	101 232	96 875	103 157	112 209
Waste water management	69 150	112 820	75 392	9 816	57 522	57 522	25 235	18 308	20 087
Total Expenditure - Standard	312 794	347 305	340 218	254 996	336 932	336 932	293 458	303 571	329 698
Surplus/(Deficit) for the year	33 464	105 263	160 274	221 302	194 748	194 748	258 761	285 022	417 007

Explanatory notes to MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms of each of these functional areas which enables the National Treasury to compile 'whole of government' reports.
2. Note the Total Revenue on this table includes capital revenues (Transfers recognised – capital) and so does not balance to the operating revenue shown on Table A4.
3. Note that as a general principle the revenues for the Trading Services should exceed their expenditures. The table highlights that this is the case for District, Water and Waste water functions, but not the Waste management function. As already noted above, the municipality will be undertaking a detailed study of this function to explore ways of improving efficiencies and provide a basis for re-evaluating the function's tariff structure.
4. Other functions show a deficit between revenue and expenditure are being financed from equitable share and other revenue sources reflected under the Budget and Treasury vote.

Table 14 MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

DC43 Sisonke - Table A3 Consolidated Budgeted Financial Performance (revenue and expenditure by municipal vote)									
Vote Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
Revenue by Vote									
Vote 2 - Municipal Manager	511	142	210 347	-	-	-	-	-	-
Vote 3 - Finance	168 581	233 190	-	220 696	220 898	220 898	249 906	249 720	264 850
Vote 4 - Corporate Services	93	264	481	-	969	969	-	-	-
Vote 5 - Social & Development Planning	13 160	3 074	9 433	-	6 831	6 831	250	4 100	3 400
Vote 6 - Infrastructure Services	131 863	179 004	239 709	198 853	254 025	254 025	250 716	279 318	421 216
Vote 7 - Water Services	32 050	36 894	40 521	56 748	48 957	48 957	51 347	55 455	57 239
Total Revenue by Vote	346 258	452 567	500 492	476 297	531 680	531 680	552 219	588 593	746 705
Expenditure by Vote to be appropriated									
Vote 1 - Council	6 419	6 391	7 363	8 617	8 617	8 617	-	-	-
Vote 2 - Municipal Manager	39 285	29 503	5 398	10 339	10 101	10 101	22 373	22 540	24 024
Vote 3 - Finance	53 688	47 556	45 752	63 431	66 283	66 283	60 868	65 196	68 365
Vote 4 - Corporate Services	33 962	37 446	39 997	39 094	45 146	45 146	44 720	50 011	53 451
Vote 5 - Social & Development Planning	23 571	60 385	36 438	45 047	48 030	48 030	43 387	44 359	51 562
Vote 6 - Infrastructure Services	69 150	53 204	75 392	9 816	57 522	57 522	25 235	18 308	20 087
Vote 7 - Water Services	86 718	112 820	129 878	78 651	101 232	101 232	96 875	103 157	112 209
Total Expenditure by Vote	312 794	347 305	340 218	254 996	336 932	336 932	293 458	303 571	329 698
Surplus/(Deficit) for the year	33 464	105 263	160 274	221 302	194 748	194 748	258 761	285 022	417 007

Explanatory notes to MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

- Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organizational structure of Harry Gwala Municipality. This means it is possible to present the operating surplus or deficit of a vote. The following table is an analysis of the surplus or deficit for water trading services.

Table 15 Surplus/ (Deficit) calculations for the trading services

DC43 Sisonke - Table A3 Consolidated Budgeted Financial Performance (revenue and expenditure by municipal vote)									
Vote Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
Total Revenue by Vote	346 258	452 567	500 492	476 297	531 680	531 680	552 219	588 593	746 705
Total Expenditure by Vote	312 794	347 305	340 218	254 996	336 932	336 932	293 458	303 571	329 698
Surplus/(Deficit) for the year	33 464	105 263	160 274	221 302	194 748	194 748	258 761	285 022	417 007
Percentage Surplus	10%	23%	32%	46%	37%	37%	47%	48%	56%

2. The municipality currently operates on a surplus in its trading services. The municipality is currently reviewing the costing of the tariff structure with a view to recovering the cost of providing these services and also ensuring financial sustainability.

Table 16 MBRR Table A4 - Budgeted Financial Performance (revenue and expenditure)

DC43 Sisonke - Table A4 Consolidated Budgeted Financial Performance (revenue and expenditure)									
Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
Revenue By Source									
Property rates	194	-	-	-	-	-	-	-	-
Service charges - water revenue	16 887	25 333	27 906	30 697	30 697	30 697	33 152	35 805	36 017
Service charges - sanitation revenue	14 705	11 237	11 960	12 052	12 052	12 052	13 016	14 057	15 182
Rental of facilities and equipment	82	48							
Interest earned - external investments	5 655	2 202	2 988	2 000	2 500	2 500	2 600	2 000	2 000
Interest earned - outstanding debtors					5 179	5 179	5 179	5 593	6 041
Transfers recognised - operational	165 685	208 257	281 470	220 563	220 607	220 607	249 246	256 696	270 860
Other revenue	1 595	27 717	2 210	500	24 543	24 543	3 500	500	1 000
Total Revenue (excluding capital transfers and contributions)	204 803	274 794	326 532	265 811	295 577	295 577	306 693	314 651	331 099
Expenditure By Type									
Employee related costs	56 108	71 975	79 228	90 434	94 837	94 837	102 424	110 063	119 813
Remuneration of councillors	4 051	4 413	4 622	6 181	6 162	6 162	6 655	7 081	7 534
Debt impairment	6 303	15 508	15 023	12 000	12 000	12 000	10 000	10 000	10 000
Depreciation & asset impairment	19 812	17 859	28 992	20 000	25 000	25 000	20 000	21 180	22 345
Finance charges	843	3 972	3 792	3 500	3 521	3 521	2 500	2 648	2 793
Bulk purchases	6 998	7 713	9 710	7 800	9 598	9 598	5 000	5 295	5 586
Contracted services	27 717	41 283	18 825	36 317	34 999	34 999	39 503	40 757	42 165
Transfers and grants	-	-	7 490	12 000	13 768	13 768	15 000	15 000	20 000
Other expenditure	190 963	151 117	172 400	66 763	137 045	137 045	92 377	91 547	99 462
Loss on disposal of PPE		33 465	138						
Total Expenditure	312 794	347 305	340 218	254 996	336 932	336 932	293 459	303 571	329 698

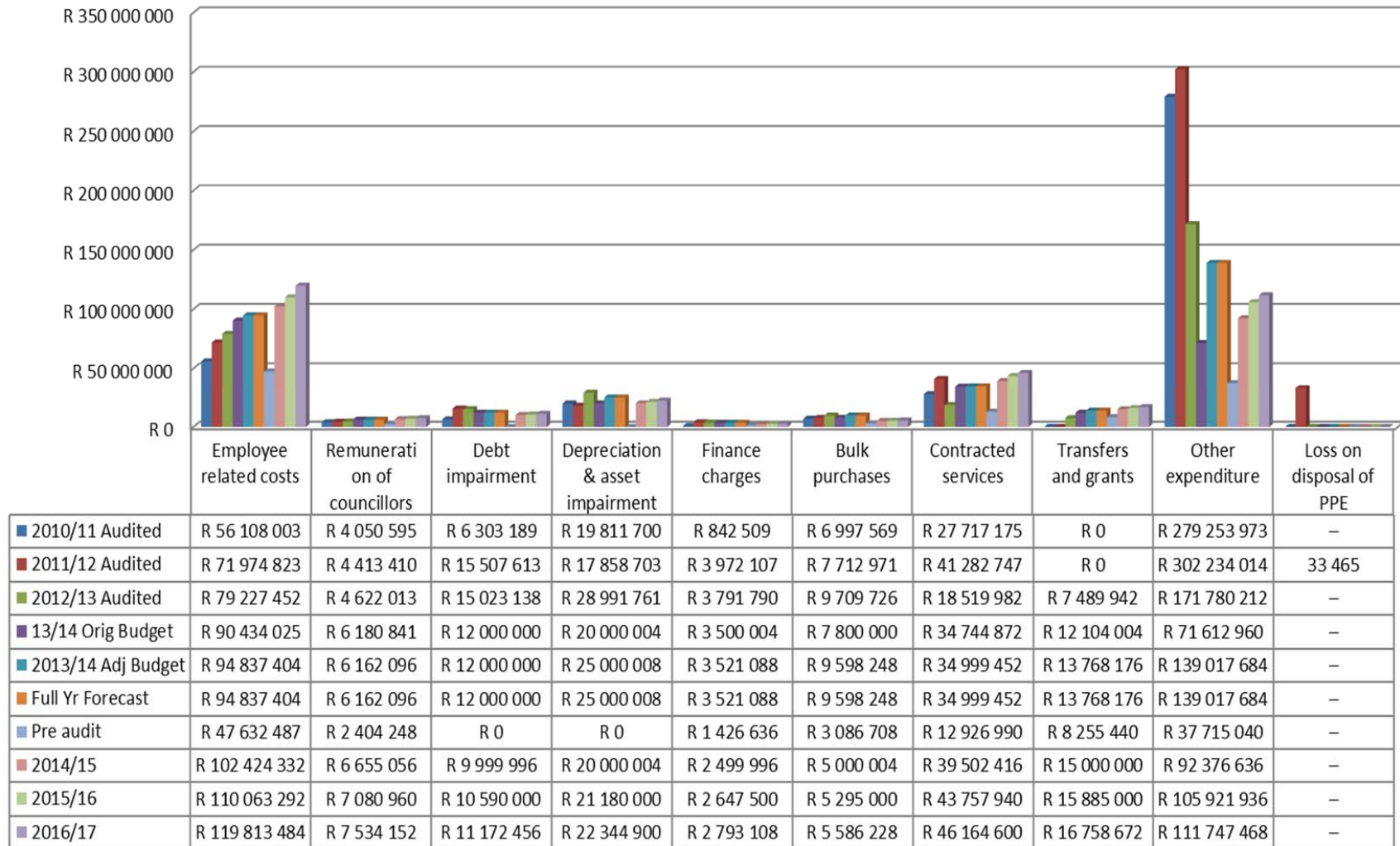
DC43 Sisonke - Table A4 Consolidated Budgeted Financial Performance (revenue and expenditure)									
Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
Surplus/(Deficit)	(107 990)	(72 511)	(13 686)	10 816	(41 355)	(41 355)	13 234	11 080	1 401
Transfers recognised - capital	141 454	177 773	173 960	210 486	236 103	236 103	245 526	273 942	415 606
Surplus/(Deficit) after capital transfers & contributions	33 464	105 263	160 274	221 302	194 748	194 748	258 760	285 022	417 007
Surplus/(Deficit) after taxation	33 464	105 263	160 274	221 302	194 748	194 748	258 760	285 022	417 007
Surplus/(Deficit) attributable to municipality	33 464	105 263	160 274	221 302	194 748	194 748	258 760	285 022	417 007
Surplus/(Deficit) for the year	33 464	105 263	160 274	221 302	194 748	194 748	258 760	285 022	417 007

Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)

1. Total revenue is R306 million in 2014/15 and escalates to R331 million by 2016/17. This represents a year-on-year increase of 10 per cent for the 2014/15 financial year and 3 per cent for the 2015/16 and 5 % in 2016/17 financial year.
2. Services charges relating to water and sanitation constitutes the biggest component of the own revenue basket of the district totaling R46million for the 2014/15 financial year and increasing to R49, 8 million by 2015/16. For the 2014/15 financial year services charges amount to 16 per cent of the total revenue and also over the medium-term. This growth can mainly be attributed to the increase in the bulk prices of water.
3. Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government. It needs to be noted that in real terms the grants receipts from national government are growing rapidly over the MTREF to 10 per cent and 14 per cent for the two outer years.
4. The following graph illustrates the major expenditure items per type.

Figure 3 Expenditure by major type

EXPENDITURE BY TYPE



5. Bulk purchases have significantly increased over the 2010/11 to 2016/17 period escalating from R6.9 Million to R9.6 Million. These increases can be attributed to the substantial increase in the cost of water from Umngeni Water.
6. Employee related costs and bulk purchases are the main cost drivers within the municipality and alternative operational gains and efficiencies will have to be identified to lessen the impact of wage and bulk tariff increases in future years.

Table 17 MBRR Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

DC43 Sisonke - Table A5 Consolidated Budgeted Capital Expenditure by vote, standard classification and funding									
Vote Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
Capital expenditure - Vote									
Multi-year expenditure to be appropriated									
Vote 2 - Municipal Manager	-	200	-	-	-	-	-	-	-
Vote 3 - Finance	-	-	72	-	200	200	100	1 490	-
Vote 4 - Corporate Services	9 563	1 753	1 567	1 100	2 433	2 433	3 609	2 022	2 133
Vote 5 - Social & Development Planning	15 777	-	3 200	-	409	409	2 325	5 700	-
Vote 6 - Infrastructure Services	125 176	155 061	202 323	208 275	205 332	205 332	5 200	5 620	5 621
Vote 7 - Water Services	1 487	-	695	-	2 122	2 122	247 526	270 190	409 253
Capital multi-year expenditure sub-total	152 003	157 014	207 857	209 375	210 496	210 496	258 761	285 022	417 007
Total Capital Expenditure - Vote	152 003	157 014	207 857	209 375	210 496	210 496	258 761	285 022	417 007
Capital Expenditure - Standard									
Governance and administration	9 563	1 952	1 640	1 100	2 633	2 633	3 709	3 512	2 133
Executive and council		200							
Budget and treasury office			72		200	200	100	1 490	
Corporate services	9 563	1 753	1 567	1 100	2 433	2 433	3 609	2 022	2 133
Economic and environmental services	15 777	-	3 200	-	409	409	2 325	5 700	-
Planning and development	15 777	-	3 200	-	409	409	2 325	5 700	-
Trading services	126 663	155 061	203 017	208 275	207 454	207 454	252 726	275 810	414 874
Water	1 487	-	695	-	2 122	2 122	5 200	5 620	5 621
Waste water management	125 176	155 061	202 323	208 275	205 332	205 332	247 526	270 190	409 253
Total Capital Expenditure - Standard	152 003	157 014	207 857	209 375	210 496	210 496	258 761	285 022	417 007

Vote Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
R thousand									
Funded by:									
National Government	100 655	136 500	164 126	192 736	183 268	183 268	245 776	273 942	415 606
Provincial Government	34 757	20 514	42 802	16 638	3 617	3 617			
Transfers recognised - capital	135 412	157 014	206 928	209 375	186 885	186 885	245 776	273 942	415 606
Public contributions & donations									
Borrowing	16 591								
Internally generated funds			929		23 611	23 611	12 984	11 080	1 401
Total Capital Funding	152 003	157 014	207 857	209 375	210 496	210 496	258 761	285 022	417 007

Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year appropriation); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
2. The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations. In relation to multi-year appropriations, for 2014/15 R247 million has been allocated of the total R252 million infrastructural budget, which totals 99 per cent. This capital budget allocation escalates to R275 million in 2015/16 and then flattens out to R414 million in 2016/17 owing primarily to the fact that various projects reach completion in 2014/15 hence the spike in expenditure in year two.
3. Unlike multi-year capital appropriations, single-year appropriations relate to expenditure that will be incurred in the specific budget year such as the procurement of vehicles and specialized tools and equipment. The budget appropriations for the two outer years are indicative allocations based on the departmental business plans as informed by the IDP and will be reviewed on an annual basis to assess the relevance of the expenditure in relation to the strategic objectives and service delivery imperatives of

the District. For the purpose of funding assessment of the MTREF, these appropriations have been included but no commitments will be incurred against single-year appropriations for the two outer-years.

4. The capital programme is funded mainly from national and provincial grants and subsidies. For 2014/15, capital transfers totals R210 million and escalates to R252 million by 2016/17. No borrowing applications are expected to result in the MTREF. These funding sources are further discussed in detail in 2.6 (Overview of Budget Funding).

Table 18 MBRR Table A6 - Budgeted Financial Position

DC43 Sisonke - Table A6 Consolidated Budgeted Financial Position									
Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
ASSETS									
Current assets									
Cash	346	3 539	20 186	24 236	56 960	56 960	51 782	84 350	116 417
Call investment deposits	6 712	-	-	10 000	-	-	-	-	-
Consumer debtors	-	-	-	10 242	(5 872)	(5 872)	13 307	23 897	35 070
Other debtors	39 853	13 469	55 212	8 350	6 510	6 510	38 968	41 072	43 290
Current portion of long-term receivables			5 738				-	-	-
Inventory	54	116	265				318	381	457
Total current assets	46 966	17 124	81 401	52 828	57 598	57 598	104 375	149 701	195 234
Non current assets									
Property, plant and equipment	864 148	977 662	1 124 539	1 319 593	1 335 034	1 335 034	1 459 093	1 531 083	1 614 028
Intangible	734	495	772		1 484	1 484	1 384	1 296	1 220
Total non current assets	864 881	978 157	1 125 311	1 319 593	1 336 519	1 336 519	1 460 478	1 532 379	1 615 247
TOTAL ASSETS	911 847	995 281	1 206 712	1 372 420	1 394 117	1 394 117	1 564 853	1 682 080	1 810 481

DC43 Sisonke - Table A6 Consolidated Budgeted Financial Position									
Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
LIABILITIES									
Current liabilities									
Bank overdraft									
Borrowing	4 191	4 911	4 995	3 774	3 174	3 174	2 697	3 000	3 330
Consumer deposits	787	881	1 010	857	1 135	1 135	1 265	1 401	1 543
Trade and other payables	98 071	77 661	116 165	20 555	35 555	35 555	63 128	73 062	83 532
Provisions	4 978	5 878	7 266	4 997			7 293	7 687	8 102
Total current liabilities	108 028	89 331	129 436	30 183	39 863	39 863	74 384	85 150	96 507
Non current liabilities									
Borrowing	37 140	32 122	27 685	25 878	25 384	25 384	19 600	15 683	12 353
Provisions	5 541	7 427	9 369	6 095	7 717	7 717	13 253	15 245	17 287
Total non current liabilities	42 681	39 549	37 053	31 973	33 101	33 101	32 853	30 928	29 640
TOTAL LIABILITIES	150 709	128 880	166 489	62 156	72 964	72 964	107 237	116 078	126 147
NET ASSETS	761 138	866 401	1 040 223	1 310 265	1 321 153	1 321 153	1 457 616	1 566 002	1 684 334
COMMUNITY WEALTH/EQUITY									
Accumulated Surplus/(Deficit)	761 138	866 401	1 040 223	1 310 265	1 321 153	1 321 153	1 457 616	1 566 002	1 684 335
Reserves	-	-	-	-	-	-	-	-	-
Minorities' interests									
TOTAL COMMUNITY WEALTH/EQUITY	761 138	866 401	1 040 223	1 310 265	1 321 153	1 321 153	1 457 616	1 566 002	1 684 335

Explanatory notes to Table A6 - Budgeted Financial Position

1. Table A6 is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).
2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as “accounting” Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.
3. Table 63 is supported by an extensive table of notes providing a detailed analysis of the major components of a number of items, including:
 - Call investments deposits;
 - Consumer debtors;
 - Property, plant and equipment;
 - Trade and other payables;
 - Provisions non-current;
 - Changes in net assets; and
 - Reserves
4. The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.
5. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition the funding compliance assessment is informed directly by forecasting the statement of financial position.

Table 19 MBRR Table A7 - Budgeted Cash Flow Statement

DC43 Sisonke - Table A7 Consolidated Budgeted Cash Flows										
Description	2010/11	2011/12	2012/13	Current Year 2013/14				2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
R thousand										
CASH FLOW FROM OPERATING ACTIVITIES										
Receipts										
Ratepayers and other	22 864	30 518	33 426	48 579	30 424	30 424		39 668	39 772	41 026
Government - operating	166 200	186 786	218 281	217 600	220 607	220 607		249 246	256 696	270 860
Government - capital	120 498	184 132	196 780	183 745	236 103	236 103		245 526	273 942	415 606
Interest	5 655	2 202	2 988	3 345	2 500	2 500		6 657	6 405	6 723
Payments										
Suppliers and employees	(215 771)	(279 994)	(255 451)	(202 531)	(261 997)	(261 997)		(232 771)	(257 151)	(275 055)
Finance charges	(843)	(3 972)	(3 792)	(3 042)	(3 521)	(3 521)		(2 500)	(2 648)	(2 793)
Transfers and Grants			(7 490)		(13 768)	(13 768)		(15 000)	(15 885)	(16 759)
NET CASH FROM/(USED) OPERATING ACTIVITIES	98 602	119 672	184 742	247 695	210 347	210 347	-	290 827	301 131	439 608
CASH FLOWS FROM INVESTING ACTIVITIES										
NET CASH FROM/(USED) INVESTING ACTIVITIES	(104 289)	(142 420)	(163 035)	(214 375)	(168 236)	(168 236)	-	(245 823)	(265 085)	(404 683)
CASH FLOWS FROM FINANCING ACTIVITIES										
Receipts										
Short term loans	3 318	-								
Borrowing long term/refinancing	113	-								
Increase (decrease) in consumer deposits		30 449		9	125	125		130	136	142
Payments										
Repayment of borrowing	(1 996)	(4 507)	(5 060)	(3 774)	(5 462)	(5 462)		(3 352)	(3 614)	(3 000)
NET CASH FROM/(USED) FINANCING ACTIVITIES	1 435	25 942	(5 060)	(3 765)	(5 337)	(5 337)	-	(3 222)	(3 478)	(2 858)
NET INCREASE/ (DECREASE) IN CASH HELD	(4 251)	3 193	16 647	29 555	36 774	36 774	-	41 782	32 568	32 067
Cash/cash equivalents at the year begin:	4 597	346	3 540	1 500	20 186	20 186	20 186	10 000	51 782	84 350
Cash/cash equivalents at the year end:	346	3 540	20 186	31 055	56 960	56 960	20 186	51 782	84 350	116 417

Explanatory notes to Table A7 - Budgeted Cash Flow Statement

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
3. It can be seen that the cash levels of Harry Gwala fell significantly over the 2010/11 to 2011/12 period owing directly to a net decrease in cash for the 2010/11 financial year.
4. As part of the 2013/14 mid-year review and Adjustments Budget this unsustainable cash position had to be addressed as a matter of urgency and various interventions were implemented such as the reduction of expenditure allocations and rationalisation of spending priorities.
5. The 2014/15 MTREF has been informed by the planning principle of ensuring adequate cash reserves over the medium-term.
6. Cash and cash equivalents totals R31 million as at the end of the 2014/15 financial year and escalates to R131 million by 2016/17.

Table 20 MBRR Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

DC43 Sisonke - Table A8 Consolidated Cash backed reserves/accumulated surplus reconciliation										
Description	2010/11	2011/12	2012/13	Current Year 2013/14				2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
R thousand										
Cash and investments available										
Cash/cash equivalents at the year end	346	3 540	20 186	31 055	56 960	56 960	20 186	51 782	84 350	116 417
Other current investments > 90 days	6 712	(0)	(0)	3 180	-	-	(20 186)	-	-	-
Cash and investments available:	7 058	3 539	20 186	34 236	56 960	56 960	-	51 782	84 350	116 417
Application of cash and investments										
Unspent conditional transfers	47 640	32 528	30 551	-	-	-	-	25 865	20 737	15 333
Statutory requirements					346					
Other working capital requirements	23 202	38 745	41 752	(328)	35 287	35 287	-	(545)	6 146	12 999
Other provisions	4 978	5 878		4 997	687	687		7 293	7 687	8 102
Total Application of cash and investments:	75 820	77 150	72 303	4 669	36 320	35 974	-	32 614	34 570	36 434
Surplus(shortfall)	(68 762)	(73 611)	(52 117)	29 566	20 639	20 985	-	19 168	49 780	79 983

Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".
4. Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.
5. From the table it can be seen that for the period 2014/15 to 2016/17 the surplus escalates from R19 million to R79 million again in 2016/17.
6. Considering the requirements of section 18 of the MFMA, it can be concluded that the adopted 2011/12 Draft Budget MTREF was not funded owing to the significant deficit.
7. As part of the budgeting and planning guidelines that informed the compilation of the 2014/15 MTREF the end objective of the medium-term framework was to ensure the budget is funded aligned to section 18 of the MFMA.
8. According to this schedule, The 2014/15 draft budget is funded.

Table 21 MBRR Table A9 - Asset Management

DC43 Sisonke - Table A9 Consolidated Asset Management									
Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
CAPITAL EXPENDITURE									
Total New Assets	-	-	-	113 157	125 277	124 868	254 181	279 037	425 982
<i>Infrastructure - Electricity</i>	108 393	111 892	159 211	1 109	4 366	4 366	3 415	-	-
<i>Infrastructure - Water</i>	-	16 109	5 011	82 018	107 220	107 220	194 351	207 722	352 734
<i>Infrastructure - Sanitation</i>	58	-	-	28 268	7 300	7 300	36 178	55 709	56 784
Infrastructure	15 777	3 600	55 892	111 396	118 885	118 885	233 944	263 431	409 518
Community	11 051	1 952	34 514	409	409	-	-	-	-
Other assets	16 725	16 283	55 892	1 345	5 325	5 325	20 037	15 394	16 241
Intangibles	-	-	-	6	658	658	200	212	223
Total Capital Expenditure									
<i>Infrastructure - Road transport</i>	-	-	-	-	-	-	-	-	-
<i>Infrastructure - Electricity</i>	-	-	-	1 109	4 366	4 366	3 415	-	-
<i>Infrastructure - Water</i>	125 118	128 175	159 211	82 018	107 220	107 220	194 351	207 722	352 734
<i>Infrastructure - Sanitation</i>	-	23 286	5 011	28 268	7 300	7 300	36 178	55 709	56 784
Infrastructure	15 777	3 600	55 851	111 396	118 885	118 885	233 944	263 431	409 518
Community	-	-	-	409	409	-	-	-	-
Other assets	11 051	1 952	34 514	1 345	5 325	5 325	20 037	15 394	16 241
Intangibles	-	-	449	6	658	658	200	212	223
TOTAL CAPITAL EXPENDITURE - Asset class	-	-	-	113 157	125 277	124 868	254 181	279 037	425 982

DC43 Sisonke - Table A9 Consolidated Asset Management									
Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
EXPENDITURE OTHER ITEMS									
<u>Depreciation & asset impairment</u>	19 812	17 859	28 992	20 000	25 000	25 000	20 000	21 180	22 345
<u>Repairs and Maintenance by Asset Class</u>	65 834	58 987	61 996	66 275	-	-	70 254	73 602	76 949
<i>Infrastructure - Water</i>	38 206	34 186	36 237	38 412	-	-	40 716	43 021	43 465
<i>Infrastructure - Sanitation</i>	26 202	32 501	24 911	26 405	-	-	27 990	29 574	32 531
<i>Infrastructure - Other</i>	-	-	-	-	-	-	-	-	-
Infrastructure	64 408	57 687	51 148	64 817	-	-	68 706	72 595	75 996
Other assets	1 425	1 300	848	1 461	-	-	1 548	1 007	953
TOTAL EXPENDITURE OTHER ITEMS	19 812	17 859	28 992	20 000	25 000	25 000	90 254	94 782	99 294
<i>Renewal of Existing Assets as % of total capex</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<i>Renewal of Existing Assets as % of deprecn"</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<i>R&M as a % of PPE</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.8%	4.8%	4.8%
<i>Renewal and R&M as a % of PPE</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.0%	5.0%	5.0%

Explanatory notes to Table A9 - Asset Management

1. Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.
2. National Treasury has recommended that municipalities should allocate at least 40 per cent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8 per cent of PPE. Due to the extremely high infrastructure backlogs that exists in our district a huge allocation of the conditional funding arising from prior years multi-year capital budget appropriations has been committed towards new water and sanitation infrastructure. However the revised infrastructure plan will see a shift of more funds being allocated towards the refurbishment of assets as advised by National Treasury.
3. The following graph provides an analysis between depreciation and operational repairs and maintenance over the MTREF. It highlights the district strategy to address the maintenance backlog.

Figure 4 Depreciation in relation to repairs and maintenance over the MTREF

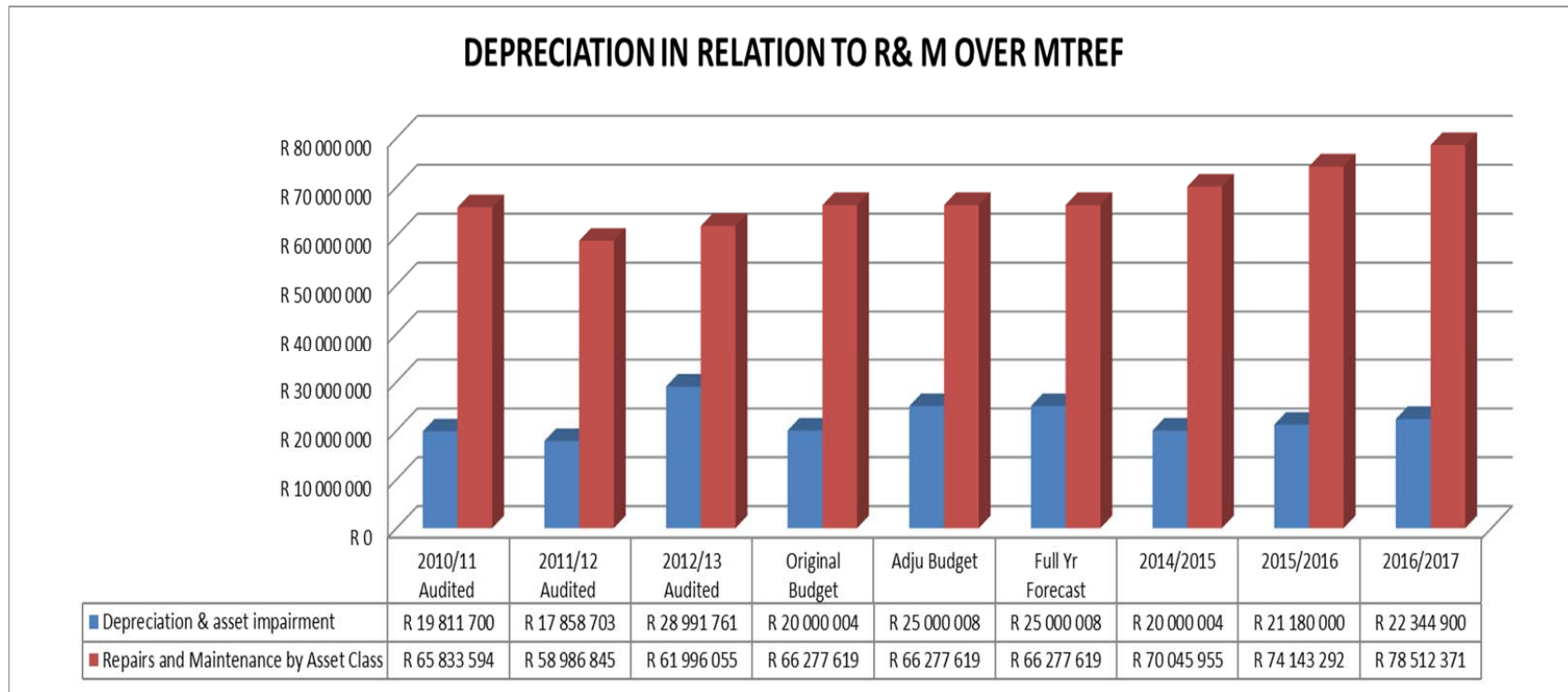


Table 22 MBRR Table A10 - Basic Service Delivery Measurement

DC43 Sisonke - Table A10 Consolidated basic service delivery measurement									
Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
	Outcome	Outcome	Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
Household service targets									
<u>Water:</u>									
Piped water inside dwelling	38 431	42 517	43 367	40 927	41 595	41 595	41 985	42 607	43 348
Piped water inside yard (but not in dwelling)	17 226	19 471	19 860	18 743	19 048	19 048	19 227	34 329	43 563
Using public tap (at least min.service level)	21 308	23 170	23 633	22 304	22 667	22 667	22 880	23 093	23 370
<i>Minimum Service Level and Above sub-total</i>	76 965	85 158	86 861	81 974	83 311	83 311	84 093	100 030	110 282
No water supply	33 817	32 127	32 769	30 926	31 430	31 430	31 725	16 020	6 000
<i>Below Minimum Service Level sub-total</i>	33 817	32 127	32 769	30 926	31 430	31 430	31 725	16 020	6 000
Total number of households	110 782	117 284	119 630	112 900	114 741	114 741	115 818	116 049	116 282
<u>Sanitation/sewerage:</u>									
Flush toilet (connected to sewerage)	54 628	60 753	61 968	63 791	66 981	66 981	70 330	73 679	75 152
Flush toilet (with septic tank)	11 526	12 631	12 883	13 262	13 926	13 926	14 622	15 318	15 624
Pit toilet (ventilated)	44 502	51 003	52 023	53 553	56 231	56 231	59 042	61 854	63 091
<i>Minimum Service Level and Above sub-total</i>	110 656	124 387	126 875	130 606	137 137	137 137	143 993	150 850	153 867
<i>Below Minimum Service Level sub-total</i>	-	-	-	-	-	-	-	-	-
Total number of households	110 656	124 387	126 875	130 606	137 137	137 137	143 993	150 850	153 867

DC43 Sisonke - Table A10 Consolidated basic service delivery measurement									
Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
	Outcome	Outcome	Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
Households receiving Free Basic Service									
Water (6 kilolitres per household per month)	8 580	9 796	9 992	11 013	12 229	12 229	13 446	14 662	14 955
Cost of Free Basic Services provided (R'000)	-	-		-			-	-	-
Water (6 kilolitres per household per month)	3 186	3 689	3 763	4 192	4 695	4 695	5 198	5 701	6 157
Sanitation (free sanitation service)	2 794	3 235	3 235	3 676	4 117	4 117	4 558	5 000	5 400
Total cost of FBS provided (minimum social	5 980	6 924	6 998	7 868	8 812	8 812	9 756	10 700	11 556
Highest level of free service provided									
Water (kilolitres per household per month)	6	6	6	6	6	6	6	6	6
Revenue cost of free services provided (R'000)									
Water	51 992	55 111	56 214	58 231	61 350	61 350	64 470	67 589	73 672
Sanitation	13 871	14 703	14 997	15 535	16 367	16 367	17 200	18 032	19 655
Total revenue cost of free services provided (total social package)	65 863	69 814	71 211	73 766	77 718	77 718	81 670	85 621	93 327

Explanatory notes to Table A10 - Basic Service Delivery Measurement

1. Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services.
2. The district continues to make good progress with the eradication of backlogs:
 - a. Water services – The table shows an increase in the number of household accessing water in the MTREF. These households are largely found in ‘reception areas’ and will need to be moved to formal areas so that they can receive services.
 - b. Sanitation services – backlog will be reduced greatly in the MTREF.
3. The budget provides for 9796 households to be registered as indigent in 2012/13, and therefore entitled to receiving Free Basic Services.
4. It is anticipated that these Free Basic Services will cost the municipality R7.5 million in the MTREF. This is covered by the municipality’s equitable share allocation from national government.

HARRY GWALA DISTRICT MUNICIPALITY

2014/15 DRAFT MTREF BUDGET

2.15 Municipal Manager's quality certificate

I, Adelaide Nomanandi Dlamini, Municipal Manager of Harry Gwala District Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name Adelaide Nomnandi Dlamini

Municipal Manager of Harry Gwala District Municipality (DC43)

Signature Adelaide Nomanandi Dlamini

Date 28 / 03 / 2014

