

uMgungundlovu District Municipality



ANNUAL BUDGET OF

uMgungundlovu

District Municipality

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

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Abbreviations and Acronyms

BPC	Budget Planning Committee		Programme
CBD	Central Business District	MIG	Municipal Infrastructure Grant
CFO	Chief Financial Officer	MMC	Member of Mayoral Committee
CM	City Manager	MSA	Municipal Systems Act
CPI	Consumer Price Index	MTEF	Medium-term Expenditure Framework
CRRF	Capital Replacement Reserve Fund	MTREF	Medium-term Revenue and Expenditure Framework
DBSA	Development Bank of South Africa	NERSA	National Electricity Regulator South Africa
DoRA	Division of Revenue Act		
DWA	Department of Water Affairs	NGO	Non-Governmental organisations
EE	Employment Equity	NKPIs	National Key Performance Indicators
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
IDP	Integrated Development Strategy	RG	Restructuring Grant
IT	Information Technology	RSC	Regional Services Council
kℓ	kilolitre	SALGA	South African Local Government Association
KPA	Key Performance Area	SDBIP	Service Delivery Budget Implementation Plan
KPI	Key Performance Indicator	SMME	Small Micro and Medium Enterprises
ℓ	litre		
LED	Local Economic Development	uMDM	uMgungundlovu District Municipality
MEC	Member of the Executive Committee		
MFMA	Municipal Financial Management Act		

Annual Budget

1.1 MAYOR'S FOREWORD

As Mayor of this significant and strategically located District, the second largest municipality in KwaZulu-Natal, the Capital District of the Province, with a rich tapestry of different communities, it gives us pleasure to contribute towards taking South Africa forward and changing for the better the lives of the people that we proudly serve. Like the rest of the country, we also have a good story to tell, following 20 years of democracy, peace and prosperity.

The recent peaceful national election on 07 May 2014 is further testimony of a nation at peace with itself. Indeed, our National Father, the iconic Nelson Mandela would be proud to observe how we have conducted this significant milestone.

We have made significant strides towards ensuring universal access to basic services in the next few years. We have provided 93% of water services and 96% sanitation, our core services. Our district population grew by 2.2% (Stats SA 2011), while the province's increased by 7%.

However, the triple challenges of poverty, unemployment and inequality still high on our list of priorities as we enter into the second decade of democracy. The focus begins to shift from basic services to economic development. Our newly installed State President, Jacob Zuma, has emphasized this critical point during his recent inauguration address on 24 May 2014 at the Union Buildings.

As a result, our corporate strategy has shifted from water centric to citizen centric. This translates to offering further services to over 1 million citizens within uMgungundlovu District Municipality. These services include environmental health services which we take over from Provincial Health over from 01 July 2014 as well as economic development. During the next financial year, Council will establish the new Economic Development. Agency as a municipal entity, signifying our grand entrance into the economic space.

While this budget, just shy of R1 billion, is earmarked to eliminate the water and sanitation backlogs in the main, it also has a dedicated focus on projects and programmes aimed at making our people's lives better and taking South Africa forward, as espoused in the National Development Plan.

We are aware that we have not reached all areas of the District. These are some of the challenges that give us sleepless nights. Ageing infrastructure, natural disasters and population growth contribute in further burdening the already depressed water system.

We are partly relieved though that one of the projects that will ensure consistent water supply is the uMshwathi Bulk Water Supply project. The first phase of the project commenced January 2014. In 18 months from now, community members will see the fruits of the project.

Indeed, we have a good story to tell. The stakeholder relations established with international donor agencies like the United Nations sponsored Adaptation Fund and also the DBSA as the funding agency that will assist in an effort to leverage additional resources to fulfil our statutory obligations.

Projects like the District Growth and Development Plan, the iconic Mandela Day Marathon and Climate Change Response Strategy are our contribution towards making a better life for our beloved Citizens. At the moment, the Municipality has major plans in investing in our youth to respond to skill shortages and unemployment.

We have pleasure to advise that this Municipality has been selected by the National Treasury as the pilot Municipality in KZN for the introduction and implementation of the Standard Chart of Accounts (SCOA)

Indeed, like the rest of the country, we also have a good story to tell....

1.2 Council Resolutions

In terms of section 16 of the Municipal Finance Management Act, (Act 56 of 2003) consider for tabling of the annual budget of the municipality for the financial year 2014/ 2015; the Indicative estimates for the two projected outer years 2015/2016 and 2016/ 2017 and the multi-year capital appropriations:

1.2.1 The Council , acting in terms of Chapter 4 of the Municipal Finance Management Act, (Act 56 of 2003) recommends to Council for approval the annual budget of the municipality for the financial year 2014 / 2015 and the multi-year and single-year capital appropriations as set out as follows:

1.2.1.1 Budgeted Financial Performance (revenue and expenditure by standard classification) of R 732.6 million and R 563.7 million respectively.

1.2.1.2 Budgeted Financial Performance (revenue and expenditure by municipal vote) Table A2

1.2.1.3 Budgeted Financial Performance (revenue by source and expenditure by type) Table A4

1.2.1.4 Budgeted Capital Expenditure Table A5

1.2.2 The Executive Committee, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) recommends for approval and adoption with effect from 1 July 2014:

1.2.2.1 the tariffs increases of 7.505 % for the supply of water

1.2.2.2 the tariffs increases of 7.505 % for sanitation services

1.2.3 To give proper effect to the municipality's annual budget, the Executive Committee recommends for approval:

1.2.3.1 The use of cash reserves of the Municipality to finance operational assets, provide basic services and operational activities amounting to R 20 million.

1.2.3 The Council notes comments from Treasury and also notes rectifications in line with the recommendation from Provincial Treasury.

1.3 Executive Summary

Table 1 Consolidated Overview of the 2014 / 2015 MTREF

	Adjustments Budget	Budget Year	Budget Year	Budget Year
	2013/2014	2014/2015	2015/2016	2016/2017
	<i>R million</i>	<i>R million</i>	<i>R million</i>	<i>R million</i>
Total Revenue	673 969	732 590*	867 524	901 622
Total Operating Expenditure	565 443	563 718	645 241	683 955
<i>(Surplus)/Deficit for the year</i>	108 525	168 872	222 283	217 667
Total Capital Expenditure	253 401	246 108	310 050	310 283
Loan Funding	100 000	155 000	120 000	120 000

*Capital Grants R 227 465 149, Operational Grants R 5 755 000, Water & Sanitation Income R107 283 897, Equitable Share R366 806 000, Interest Earned R 15 310 000, Interest Charged R 8 000 000, Other Income R 1 970 000.

The total revenue increased by a total of R58 621 million or 8.7 % from the 2013 /2014 adjusted budget. Due to anticipated improved operational efficiencies, the Municipality projects to reduce its operational expenditure by R1.7 million or 03 %. This is an achievement on the side of cost controlling as the expenditure was anticipated to grow at least by the inflation percentage.

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

National Treasury's MFMA Circulars No.72 & 70 issued on 17 March 2014 and 04 December 2013 respectively and previous budget circulars were used to guide the compilation of the 2014 / 2015 MTREF.

The main challenges experienced during the compilation of the 2014 / 2015 MTREF can be summarized as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained infrastructure assets;
- The need to re prioritize projects and expenditure within the existing resource given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk water and electricity (due to tariff increases from uMgeni Water and Local Municipalities / 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;

- Salary increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Affordability of capital projects – funding of the capital borrowings.
- Non - revenue water due to losses and theft.
- Low collection rate.

The following budget principles and guidelines directly informed the compilation of the 2014 / 2015 MTREF:

- The 2013 /2014 Adjustments Budget priorities and targets,
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Water Tariff increases taking into account that the Municipal services must be able to sustain themselves by covering the future costs of repairs and maintenance related to the infrastructure that facilitate the service, need to address infrastructure backlogs, and promotes conservative consumption by introducing the Inclining block tariff and cost of bulk purchases.
- Increase in inflation marginally to 5, 7 % in 2013/2014 from 5,6 % in 2012. This change is evident in the January 2014 decision by the Reserve bank to increase its Repo rate by half a percent to increase to 5,5%.

1.4 Operating Revenue Framework

For uMgungundlovu District Municipality to continue improving the quality of services provided to its citizens it needs to generate required revenue to sustain the services. In these tough economic times, strong revenue management and cost controlling measures becomes fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty.

As a municipality, we have come a long way with our efforts to generate own revenues. The Municipality continues to rely on grants to fund both its operational expenditure and capital expenditure as the income generated from trading services is not sufficient to facilitate profits and growth of the service.

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, expenditure prioritization and balancing against realistically anticipated revenues.

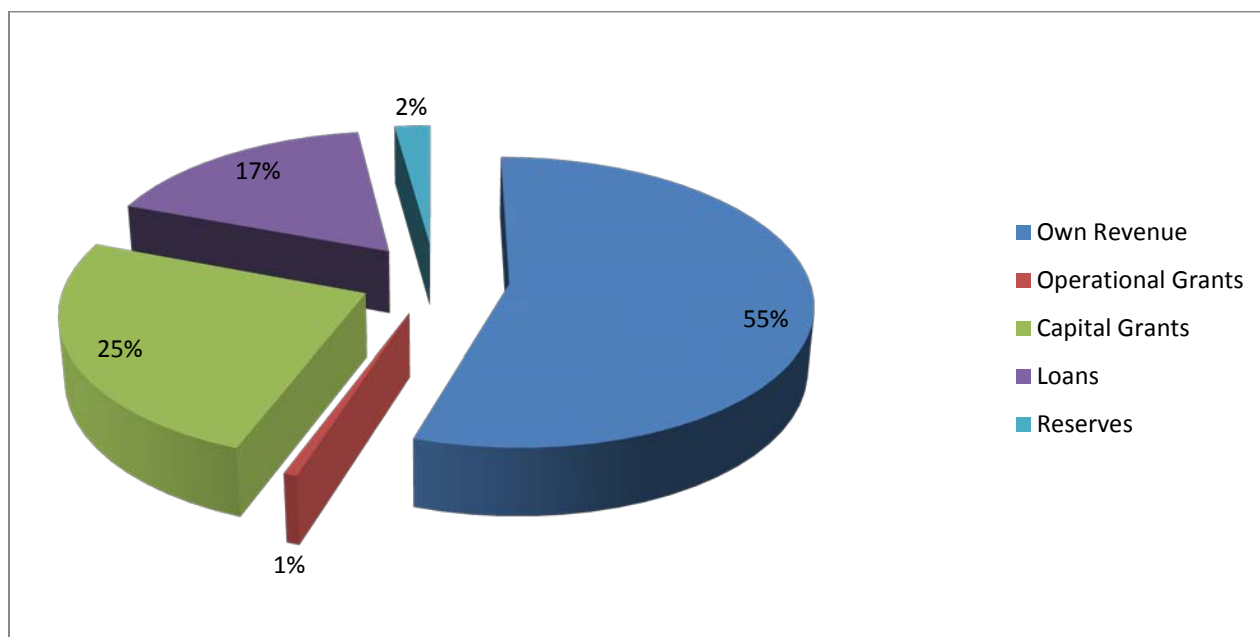
The main sources of funding for the municipality are own revenues and operational grants which consists of:

- a) Equitable share inclusive of RSC Levy Replacement Grant
- b) Revenues generated from trading services : - water and sanitation services
- c) Other own income sources
 - c.1. Interest received from investments
 - c.2. Interest received from late payments
 - c.3. Grants received in the previous years.
 - c.4. Reserves

1.4.1 Sources of funding / Funding available to fund the budget.

Table 2

Sources of Funding	
Own Revenue	499,369,897
Operational Grants	5,755,000
Capital Grants	227,465,149
Loans	155,000,000
Reserves	20,000,000
Total	907,590,046

Graph 1

As a Municipality we strive to take into consideration the recommendations of the National Treasury and balance them with the affordability of our consumers take into account the continuing financial crisis that has engulfed the world.

In efforts to offer best service our consumers, the Municipality had to review its band structure and as a result, the tariff structure during the 2013/2014 financial year.

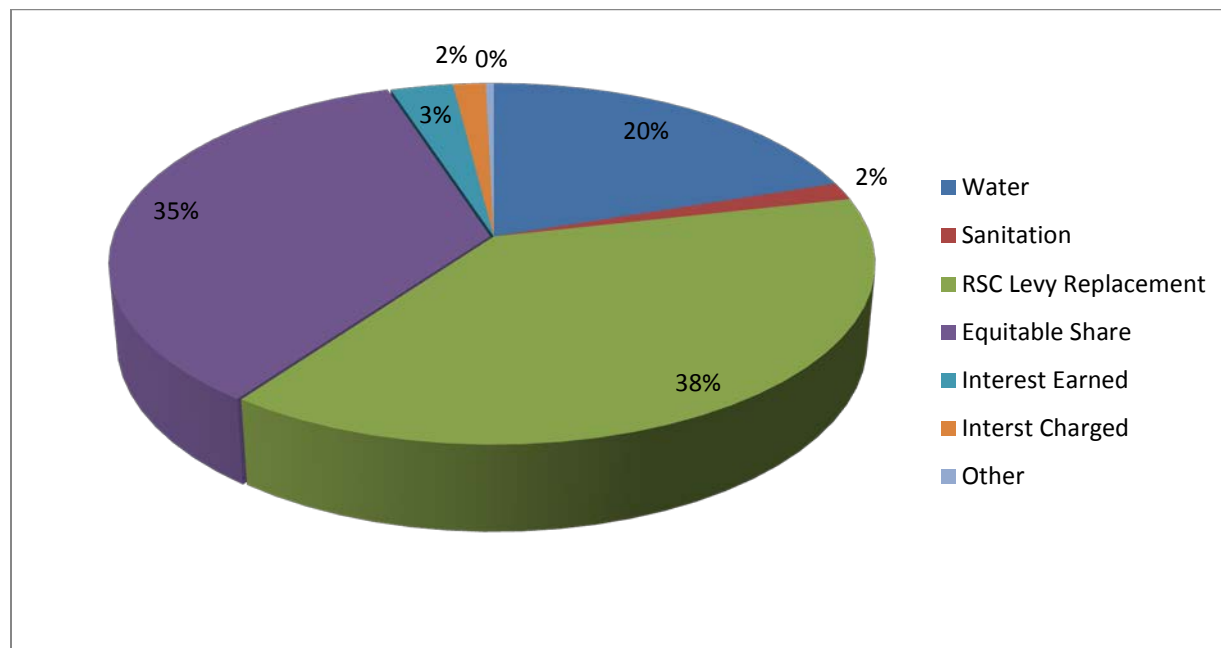
Although the Municipality shows a strong 55% own revenue, it should be noted that the figure includes the national Treasury Grants – Equitable Share and the RSC Levy Replacement. Those taken away, or accounted for as grants, the Municipality is categorized as grant reliant.

TABLE 3

Own Revenue Split	
Water	99,459,224
Sanitation	7,824,673
RSC Levy Replacement	192,306,000
Equitable Share	174,500,000
Interest Earned	15,310,000
Interest Charged	8,000,000
Other	1,962,905

Total	499,369,897
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Graph 2



There is a need for the Municipality to strengthen its revenue generation strategies and grow the services of the Municipality. Table 4 below depicts the average consumption per block tariff as revised in 2013/2014 financial year.

Table 4

Band Structure	Average water Consumption	% of Consumption
0- 6	173,502	2.84
7-15	694,989	11.37
16 -25	503,360	8.23
26 -35	425,177	6.95
36 -60	635,135	10.39
61 +	2,133,189	34.88
Businesses & Government	1,549,697	25.34
Total Consumption	6,115,049	100.00

What can be observed is that customers who consume above 61kl per month are on average consuming 35% of our purchases. This category consumes 10% more than

businesses. To encourage efficiency use and incentivize conservative consumption, the 0-6 kl/pm band structure pays 28% of what this (61kl +) category is paying.

As National Treasury recommends, Municipalities are expected to have cost reflective tariffs for the 2014/2015 MTEF. As the uMgungundlovu District Municipality we are unable to charge a cost reflective tariff to enable us to break even or even make profit from our trading services due to affordability of our consumers.

During the determination of the proposed tariff increase, the following were taken into account:

- | | | |
|------|-------------------------------------|------|
| i. | Bulk water tariff increase | 7.2% |
| ii. | Salary increase | 6.8% |
| iii. | Nersa Recommendation for ESKOM | 7.3% |
| iv. | O&M Guide for Infrastructure Assets | 8.0% |

The above factors were considered into the tariff determination and were incorporated as follows:

Table 5

Increase Considerations	Percentage	Weight as a tariff	Proposed Tariff %
Bulk Water Tariff Increase	7.20%	0.50	3.60
Salary Increase	6.80%	0.05	0.34
Electricity Increase - NERSA	7.30%	0.05	0.36
O/M Guide for infrastructure	8.00%	0.40	3.20
		1	7.50

After the above factors were taken into consideration, the proposed tariff increase for both water and sanitation tariffs is 7.50 %.

SA continue to face economic and fiscal constraints and this requires government to be more efficient and effective in its use of public resources in order to meet its service delivery targets and objectives.

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 Municipality.

1.4.2 Water and Sanitation Income

With the proposed tariff increases for both water and sanitation services, the Municipality will raise its revenues as follows:

Water
Table 6

Band Structure	Av Cons.	Curr tariff	Prpsed Tariff	Sales Current tariff	Sales Proposed Tariff	% Consu mption	% Revenue
0- 6	173,502	6.17	6.63	1,070,507	1,150,849	2.84	1.16
7-15	694,989	9.22	9.91	6,407,799	6,888,704	11.37	6.93
16 -25	503,360	10.12	10.88	5,094,003	5,476,308	8.23	5.51
26 -35	425,177	12.38	13.31	5,263,691	5,658,731	6.95	5.69
36 -60	635,135	18.57	19.96	11,794,457	12,679,631	10.39	12.75
61 +	2,133,189	21.67	23.30	46,226,206	49,695,482	34.88	49.97
Total Domestic				75,856,663	81,549,706	0.00	81.99
Businesses & Government	1,549,697	10.75	11.56	16,659,243	17,909,519	25.34	18.01
Total Consumption	6,115,049			92,515,906	99,459,224		

Sanitation:

Table 7

Band Structure	Average Consumption	Curr ent tariff	Propose d Tariff	Sales Current Tariff	Sales Proposed Tariff	% of Consumption	% of Revenue
0- 6	49,881	3.5	3.76	174,584	187,686	2.38	2.40
7-15	295,246	5.2	5.59	1,535,279	1,650,502	14.12	21.09
16 -25	150,403	5.75	6.18	864,817	929,722	7.19	11.88
26 +	387,866	6.6	7.10	2,559,916	2,752,037	18.54	35.17
Domestic Total	883,396			5,134,596	5,519,947	42.24	70.55
Businesses & Government	324,823	6.6	7.10	2,143,832	2,304,726	15.53	29.45
Sanitation Income	2,091,615			7,278,427	7,831,768	100.00	100.00

For the purposes of approving the 2014 / 2015 budget, the Municipality will not revise its tariff band structures, but will remain as approved during the midterm review in 2013/ 2014.

As a result, the increase in both water and sanitation income is equivalent to a 7.505 % as the increase is affected by the tariff only.

Although the consumer price index is an acceptable measure of cost of living, it must also be appreciated that the CPI, may not best suit as measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilized 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, tanker hiring, petrol, diesel, chemicals, etc.

The current challenge facing the uMgungundlovu District is managing the gap between cost drivers, tariffs levied, non- revenue generating services, aging infrastructure and credit control measures. Failure to balance the gap will result in service level reductions and for it to be rectified operational efficiency becomes key.

1.4.3 Reserves

The municipality anticipates to invest R 20 million of savings from the previous years to fund some operational assets, infrastructure assets and water related expenditure. The funding is available in a form of investments with various banks. The investments are used to cash back grants received but not used and cash backed reserves. Table 8 below gives detail of investments held with the various banks.

Table 8

Bank Name	Capital Investment
ABSA	R 30,000,000.00
INVESTEC	R 30,000,000.00
FNB	R 3,750,000.00
NEDBANK	R 30,000,000.00
STATE BANK OF INDIA	R 5,000,000.00
STD BANK	R 30,000,000.00
TOTAL	R 128,750,000.00

Cash Reserves Available

Investments	R 128,750,000.00
<u>Less:</u> Unspent Grants Received	R 58,648,034.90

Funding Available	R	70,101,965.10
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The following table (Table 9) is a summary of the 2014 / 2015 MTREF (classified by main revenue source):

Table 9 Summary of revenue classified by main revenue source

Description	Ref	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
Revenue By Source											
Property rates	2	-	-	-	-	-	-	-	-	-	-
Property rates - penalties & collection charges		-	-	-	-	-	-	-	-	-	-
Service charges - electricity revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - water revenue	2	39,968	44,282	103,438	95,391	87,890	87,890	87,890	99,459	104,830	110,491
Service charges - sanitation revenue	2	-	-	23,748	4,762	4,626	4,626	4,626	7,832	8,255	8,700
Service charges - refuse revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - other						6	6	6			
Rental of facilities and equipment						-	-	-			
Interest earned - external investments		7,147	4,802	20,835	12,000	12,000	12,000	12,000	15,310	16,137	17,008
Interest earned - outstanding debtors		-	-	-	-	16,343	16,343	16,343	8,000	8,432	8,887
Dividends received		-	-	-	-	-	-	-			
Fines		-	-	-	-	-	-	-			
Licences and permits		-	-	-	-	-	-	-			
Agency services		-	-	-	-	-	-	-			
Transfers recognised - operational		249,460	264,612	458,581	381,416	380,350	380,350	380,350	390,746	402,241	435,428
Other revenue	2	9,097	68,537	-	22,057	-	-	-	27,132	2,076	2,189
Gains on disposal of PPE				427					-	-	-
Total Revenue (excluding capital transfers and contributions)		305,673	382,233	607,030	515,626	501,214	501,214	501,214	548,480	541,971	582,703

The table above reflect as a total operating income of R 548 480 753 . This income table excludes all the capital grants which are used for capital expenditure. The figure is made up as follows:

Table 10

Service Charges- Water	99 459 224
Service Charges- Sanitation	7 831 768
Interest Earned	15 310 000
Interest Charged	8 000 000
Grants Operational	390 746 280
<i>Equitable Share</i>	<i>366 806 000</i>
<i>Finance Management Grant</i>	<i>1 250 000</i>
<i>Municipal Systems Improvement</i>	<i>934 000</i>
<i>Extended Public Works</i>	<i>3 321 000</i>
<i>Development Planning Grant</i>	<i>250 000</i>
<i>MIG Portion Expenses for Sanitation</i>	<i>15 882 280</i>
<i>Rural Roads Grant</i>	<i>2 303 000</i>
Other Income	27 133 481
<i>Tender Sale</i>	<i>150 000</i>
<i>Rental</i>	<i>320 000</i>
<i>Sundry Income</i>	<i>1 500 000</i>
<i>Roll Over Grants</i>	<i>25 163 481</i>
Total	548 480 753

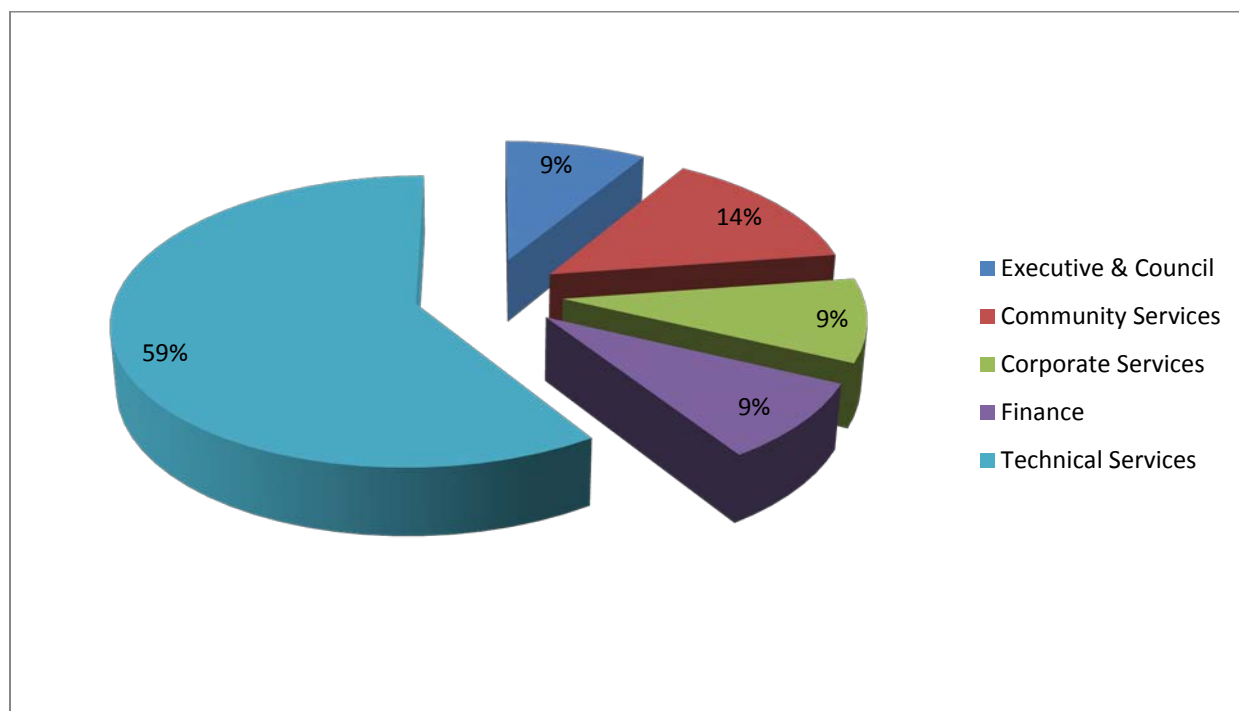
1.5 Operating Expenditure Framework

The core business of the Municipality is to provide water and sanitation services, as a result, the Technical services department is allocated with 59 % (R 360.4 million) of the budget. The balance of the allocations are as follows:

Table 11 – Operating Expenditure

Department	Amount R' millions	%
Executive & Council	50 913 300	9.00
Community Services	79 874 893	14.20
Corporate Services	51 795 187	9.20
Finance	53 264 940	9.50
Technical Services	327 869 336	58.10
TOTAL	563 717 656	100

Graph 3: Departmental Operation Budget Split



Although the provision of water and sanitation services is the core business of the municipality, the service continues to run at a loss. The rate in which the operational expenditure is growing in relation growth and sustainability of the service is faster. This leads to financial distress as the service continues to spend far more than the capacity of the service.

The ageing infrastructure, increase in petrol prices and general inflation rate continues to erode the value of money whilst the municipality strives to provide quality services at affordable prices and comply with the requirements as stipulated by DWA and adherence to safety measures.

Besides being a water centric municipality, we have adopted and aligned our strategies and financial resources in line with the NDP's integrated approach which priorities the allocation of public resources within a sustainable framework for economic and social transformation.

The plan aims to accelerate growth, eliminate poverty and reduce inequalities by 2030. Broad-based economic growth remains the cornerstone of government's approach to job creation, public employment programs which contribute directly to reducing joblessness especially amongst our youth. These initiatives play an important role in promoting economic activity among the unemployed, and fulfill a wide range of social, economic and environmental objectives. Unemployment is the most pressing challenge facing the country and the compensation for employees has grown faster than the inflation rate and faster than almost all kinds of expenditure, this is evident with the salaries budget constituting 35.96 % of the operational budget. The economy has created 5, 9 million jobs since 1996 at an average annual growth rate of 2.9%. As the UMDM, our LED programs and labour intensive capital projects contribute towards the reduction of unemployment and poverty in our communities.

As a municipality, we are investing 14 % of our operational budget to Community Services as this department deals with communities and social welfare of our communities.

MFMA Circular no 72, talks to 'Service Standards such as Administrative service standards as an integral part of the service delivery value chain. Amongst other measures that needs to be put in place by Municipalities that support faster growth is the implementation of steps to professionalize the public service. As uMDM, almost 10% of the operational budget is allocated towards Corporate Services as the institutional development component.

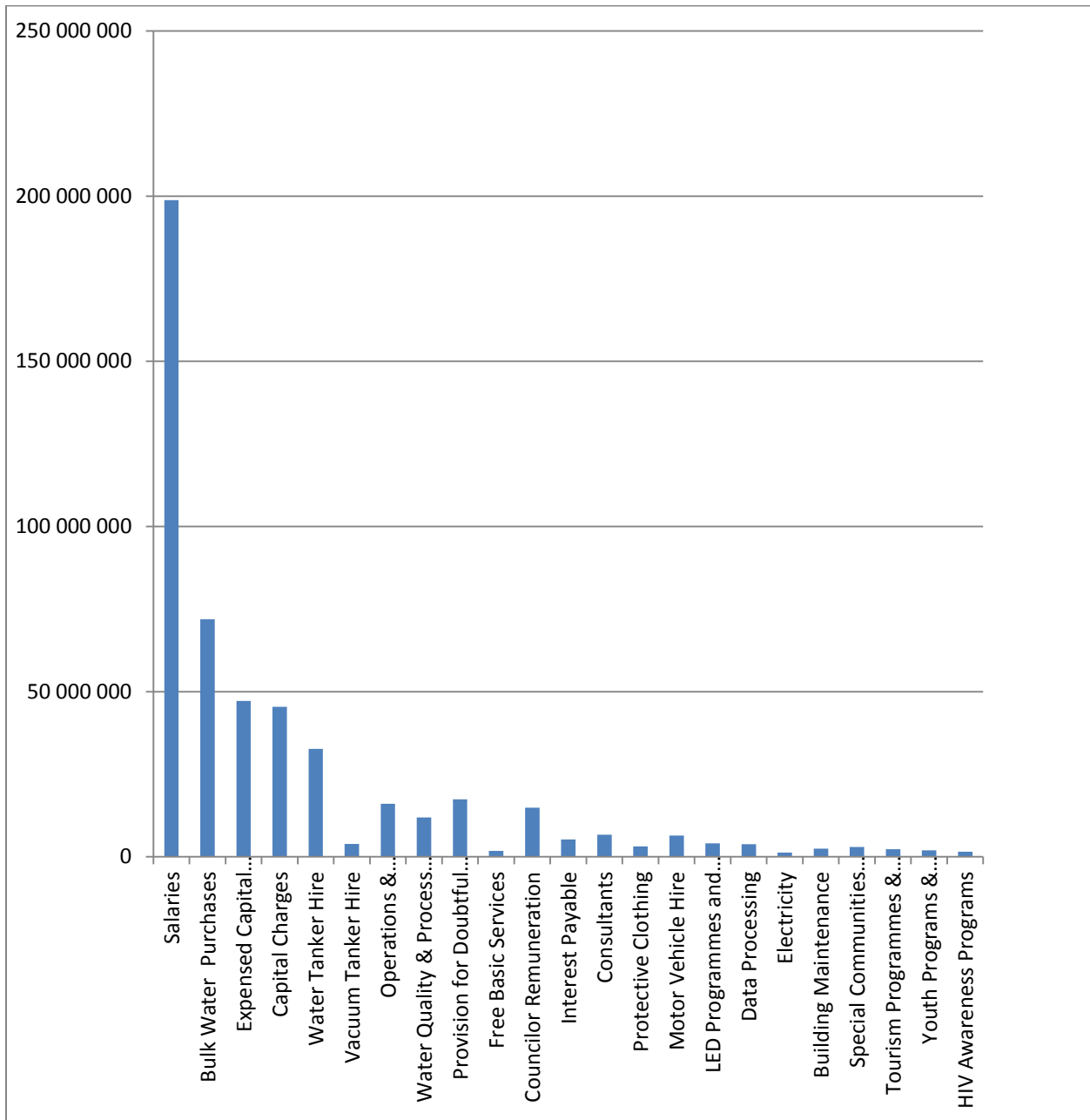
Table 12**DC22 uMgungundlovu -Budgeted Financial Performance
(revenue and expenditure)**

Description	Ref	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
Expenditure By Type	-										
Employee related costs	2	102,890	130,261	151,411	149,697	149,697	149,697	149,697	198,840	210,770	223,416
Remuneration of councillors		7,852	7,201	9,466	15,579	13,300	13,300	13,300	14,878	15,771	16,717
Debt impairment	3	54,404	29,130	57,373	30,929	30,929	30,929	30,929	17,414	18,459	19,566
Depreciation & asset impairment	2	47,318	78,453	80,075	58,725	58,725	58,725	58,725	45,391	48,115	51,002
Finance charges		3,024	1,460	1,919	2,000	2,000	2,000	2,000	5,300	5,618	5,955
Bulk purchases	2	39,680	43,385	63,346	61,800	65,300	65,300	65,300	71,925	76,241	80,815
Other materials	8				28,689	26,050	26,050	26,050	1,200	1,272	1,348
Contracted services		50,661	39,373	152,157	38,395	57,246	57,246	57,246	51,865	54,977	58,275
Transfers and grants		-	-	-	9,232	9,232	-	-	48,992	51,931	55,047
Other expenditure	4, 5	49,273	131,045	-	148,856	152,965	152,965	152,965	107,912	114,387	121,250
Loss on disposal of PPE		(2,205)		926							
Total Expenditure		352,897	460,307	516,674	543,901	565,444	556,212	556,212	563,718	597,541	633,393

Table 13

Operational Expenditure	Amount	% of the Budget
Salaries	198 839 075	35.27
Bulk Water Purchases	71 925 460	12.76
Expensed Capital Spending	47 231 845	8.38
Capital Charges	45 391 264	8.05
Water Tanker Hire	32 665 000	5.79
Vacuum Tanker Hire	3 926 000	0.70
Operations & Maintenance	16 095 932	2.86
Water Quality & Process Management	11 944 000	2.12
Provision for Doubtful Debt	17 413 930	3.09
Free Basic Services	1 760 000	0.31
Councillor Remuneration	14 878 383	2.64
Interest Payable	5 300 000	0.94
Consultants	6 710 000	1.19
Protective Clothing	3 112 000	0.55
Motor Vehicle Hire	6 445 952	1.14
LED Programmes and Promotion	4 096 309	0.73
Data Processing	3 850 000	0.68
Electricity	1 258 150	0.22
Building Maintenance	2 500 000	0.44
Special Communities Programmes	2 940 000	0.52
Tourism Programmes & Promotion	2 320 000	0.41
Youth Programs & Promotion	2 000 000	0.35
HIV Awareness Programs	1 580 000	0.28
Other Expenditure	59 534 356	10.56
TOTAL	563 717 656	100.00

Graph 4



To address losses that are experienced by the municipality, the municipality needs to invest more on day to day operational maintenance, infrastructure assets revitalization and revenue raising strategies. As a result, in total, the municipality has invested about 4.98 % of its operational expenditure on operations and maintenance, water quality and process management.

1.6 Trading Services

Table 14

Trading Service	
Income	180,521,112
Equitable Share Funding Salaries	65,237,215
Water Sales	99,459,224
Sanitation Sales	7,824,673
Interest - Late Payments	8,000,000
Expenditure	247,894,297
<i>Deficit with Equitable Share</i>	<i>-67,373,185</i>
<i>Deficit without Equitable Share</i>	<i>-132,610,400</i>

As can be seen from Table 12 above, the Water and Sanitation function trades at a loss. When taking into account an allocation of the equitable share to fund salaries for the water and sanitation function, a deficit of R67.4 million exist, the gap widens if the equitable share is isolated. Further challenges to cost controlling in the function, the Municipality experiences a large percentage of non-recoveries.

Non-revenue water remains the biggest spender for bulk purchases. As can be seen from Table 13 below, losses in the 2013 / 2014 financial year, are anticipated to average 13.6 million kl, costing the Municipality more than R42 million, whilst the Municipality anticipate to raise revenues to a total of R 99.8 million from the provision of water.

Water losses is the major expenditure item that has been targeted to be addressed in the 2014 / 2015 financial year through improving our operations efficiencies.

Table 15

Water Loses Calculation	Per Month kl	Per Annum kl	R' Cost
WATER PURCHASES			
Average Number of Kilo litre's purchased per month	1,203,415.00	14,440,980.00	
Approved Indigent households	169.00		
First 6kl of water is free	6.00		
Average Kilo litres of water free for 1 month	1,014.00	12,168.00	
Average Kilo litres of water available for sale	1,202,401.00	14,428,812.00	
Units Sold	39,906.00	478,872.00	
Kilo litres lost	1,162,495.00	13,949,940.00	
<i>Cost per kl</i>	<i>2.91</i>		42,023,252
Band	Consumption		
<i>0 - 6</i>	<i>8,952.00</i>		
<i>7 - 15</i>	<i>50,787.00</i>		
<i>16 - 25</i>	<i>34,098.00</i>		
<i>26 and above</i>	<i>276,069.00</i>		
	369,906.00		

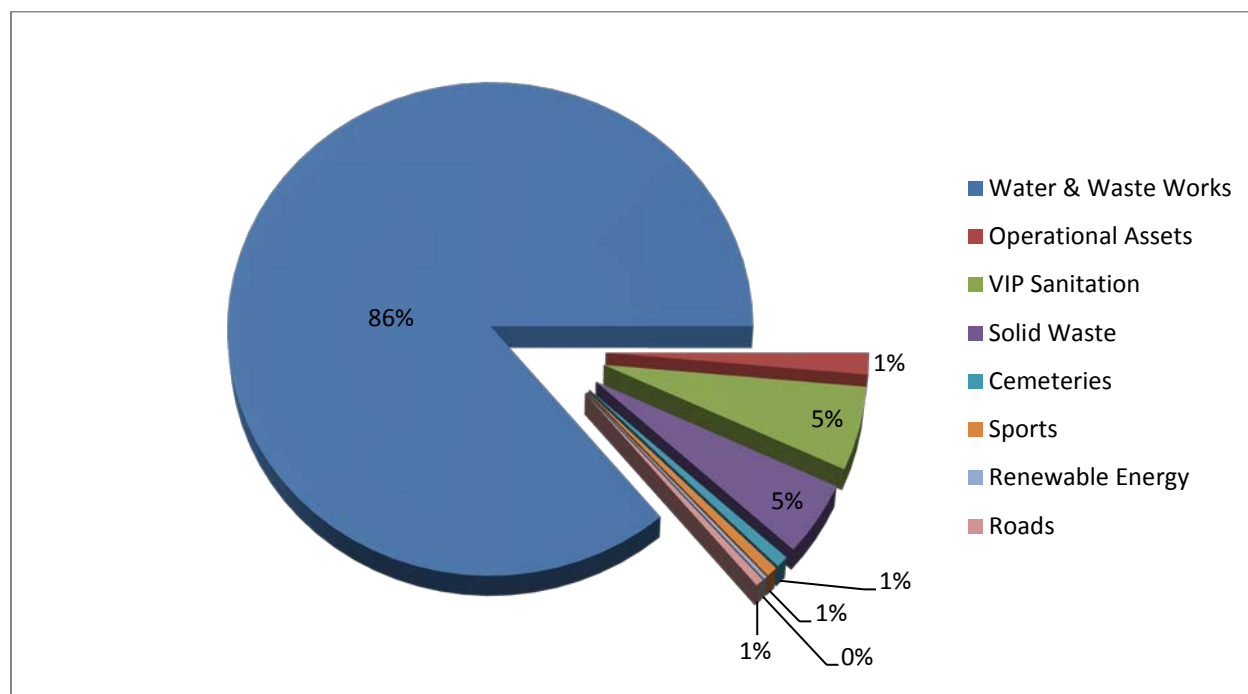
1.7 **Capital Budget**

Spending on capital projects implementation is a priority for the uMgungundlovu District Municipality as part of efforts to addressing infrastructure backlogs and improving quality of life for our communities.

The municipality plans to spend a **total of R 293.3 million on capital spending**. The capital spending is spilt as follows:

Table 16

FUNCTION	AMOUNT
Water & Waste Works	241,808,390
Operational Assets	4,300,000
VIP Sanitation	15,882,280
Solid Waste	22,553,972
Cemeteries	3,400,000
Sports	633,776
Renewable Energy	1,150,000
Roads	3,611,817

TOTAL**293,340,235****Graph 5**

The National Government has put measures to support faster growth including public infrastructure development, new spatial plans for cities, improved public transport, upgrading of informal settlements, etc. Through the implementation of the NDP, the government has created a framework to accelerate economic growth, eliminate poverty and reduce inequality. MFMA Circular 72 requires municipalities to supplement their capital expenditure from own funds through the application of the Capital Replacement Reserve which is considered prudent.

Due to improved projects implementation, the Municipality has had to apply for a loan of R 225 million which was approved by DBSA to front load the MIG allocation. As a result, an amount of R 70 million was received during the 2013/ 2014 financial year as the first tranche for the municipality to implement the revitalization of infrastructure networks (AC Pipes) in various local municipalities.

The yearly MIG allocation will be used to finance the loan from DBSA, as a result, there will be no allocated expenditure to be funded by MIG.

The agreement between the municipality and DBSA is that the municipality will pay an interest rate equal to six monthly Johannesburg Interbank Agreed Rate (JIBAR) plus 186 basis points which is estimated to be 7.4% as at 28 February 2014. This rate, is in fact part

of the cost of providing water and should be taken into consideration when determining the tariff increase.

Table 17

DC22 uMgungundlovu - Budgeted Capital Expenditure by vote, standard classification and funding

Vote Description R thousand	Ref	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
Capital Expenditure - Standard											
<i>Governance and administration</i>		-	-	-	-	-	-	-	-	-	-
Executive and council											
Corporate services											
<i>Community and public safety</i>		-	-	-	-	-	-	-	-	-	-
Community and social services											
Sport and recreation											
Health											
<i>Economic and environmental services</i>		-	-	-	-	-	-	-	-	-	-
Planning and development											
Road transport											
Environmental protection									-	-	-
<i>Trading services</i>		-	-	131,493	324,305	324,305	324,305	324,305	241,808	193,784	176,029
Water				131,493	324,305	324,305	324,305	324,305	241,808	193,784	176,029
Waste water management					-	-					
Waste management					10,200	10,200	10,200	10,200	4,300		
<i>Other</i>		-	-	131,493	334,505	334,505	334,505	334,505	246,108	193,784	176,029
Total Capital Expenditure - Standard	3										
Funded by:		43,463	101,771	131,493	77,449	71,149	71,149	71,149	109,993	171,284	145,598
National Government					2,469	46,365	46,365	46,365	29,104	22,500	30,431
Provincial Government											
District Municipality					-				-	-	-
Other transfers and grants		43,463	101,771	131,493	79,918	117,514	117,514	117,514	139,097	193,784	176,029
Transfers recognised - capital	4										
Public contributions & donations	5				225,000	125,000	125,000	125,000	57,736	120,000	120,000
Borrowing	6				29,587	29,587	29,587	29,587	49,276		
Internally generated funds		43,463	101,771	131,493	334,505	272,101	272,101	272,101	246,108	313,784	296,029
Total Capital Funding	7										

2 Public Participation

Section 22 of the MFMA, states that: immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must

- (a) In accordance with Chapter 4 of the Municipal Systems Act make public the annual connection with the budget.

Part 2 of this report gives details of the public participation meeting as they occurred around the District Municipal Area.

Comments received from Provincial Treasury – First Draft Budget

ANNEXURE B: COMMENTS ON THE 2014/15 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF) BUDGET OF UMGUNGUNDLOVU DISTRICT MUNICIPALITY

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1. KEY OBSERVATIONS AND FINDINGS

1.1. Compliance with Municipal Budget Reporting Regulations (MBRR)

Provincial Treasury has undertaken an assessment of your draft budget that was tabled to Council on 26 March 2013 and submitted to Provincial Treasury in both electronic and hard copy format. The municipality has also not submitted additional documentation as required by the Municipal Budget and Reporting Regulations (MBRR). Furthermore, it must be noted that where budget tables that contained incomplete information and Provincial Treasury was unable to perform a comprehensive analysis on your budget.

Management Response:

Findings are noted, the Municipality will submit with the final draft budget the completed budget tables.

1.2. Credibility of figures

There were discrepancies noted in the Audited outcome figures populated in the A Schedules and the Annual Financial Statements figures for 2010/11 to 2012/13. Furthermore, there were also discrepancies between the Adjustments budget figures populated in the A Schedules and the B schedules for 2013/14. The inconsistency in the information presented in the budget tables' raises uncertainty about the credibility and reliance of the figures.

While Provincial Treasury highlighted a few of the discrepancies and inconsistencies, the onus is on the municipality to revise the entire 2014/15 budget before the adoption of the final budget by Council.

Management Response:

Findings are noted. The discrepancies have been reconciled between the A Schedule and the Audited AFS.

1.3. Sustainability of the municipality

Revenue and expenditure management is fundamental to the sustainability of the municipality. The municipality has budgeted for an operating surplus over the Medium Term Revenue and Expenditure Framework (MTREF). The sustainability of the municipality is highly dependent on grants as grants contribute 61 percent to the total revenue. The municipality is encouraged to investigate other sources of revenue in order to decrease their grant dependency and at the same time ensure that their current revenue stream is adequately managed.

Management Response:

Findings are noted. Table 3 above displays the grant reliability to the equitable share and the levy replacement grant by the Municipality.

1.4. Funding of budget

In order for the municipality to continue to provide services and extend its services to the community, the budget of the municipality should be funded in accordance with the legal requirements of the Municipal Finance Management Act (MFMA).

Tables A7 and A8 were poorly populated by the municipality. Consequently, Provincial Treasury could not assess whether the 2014/15 budget is funded or not. **In its current cash flow position, Provincial Treasury cannot support the municipality's budget.** The municipality is required to revise the budget and ensure that it is appropriately funded.

Management Response:

Tables A7 and A8 have been populated correctly. Table A7 shows projected cash equivalent of R15.4 million at the end of the 2014 /2015 financial year after factoring a repayment of R 97.4 million to DBSA.

1.5. Operating budget

The main contributor to the total revenue is the *Transfers recognized - operational* (61 percent) to fund operations. Revenue generated from *Service charges – water revenue* forms an insignificant percentage (16 percent) of the total own revenue for the municipality. Tariff increases have been budgeted to increase by 7.5 percent for *Service charges – water and Service charges - sanitation revenue* to ensure that tariffs are cost reflective.

The municipality has budgeted for an *Operating surplus* of R160 million for 2014/15. *Operating surpluses* are also projected over the outer years of the MTREF. Furthermore, Provincial Treasury was unable to determine whether the municipality budgeted for non-priority expenditure items as *General expenses* were not broken down to be approximately 10 percent of *Other expenditure* as required by MFMA Circular No. 58.

Management Response

Findings are noted, the Municipality is crafting a strategy as to how to improve its revenue collection and strengthen revenue raising measures.

1.6. Asset Management

The Asset management Table A9 was incorrectly and incompletely populated. The audit outcome figures for 2010/11 to 2012/13, Adjusted budget and the MTREF budget figures for 2014/15 to 2016/17 were not populated. The values of municipality's assets as per the Assets Register figures were also not reflected. Therefore, Provincial Treasury was unable to conclude on the reasonableness of the *Depreciation* provided and could not determine whether the amount allocated for *Repairs and Maintenance* will be sufficient to secure the ongoing health of the municipality's infrastructure.

The municipality is advised to provide a detailed explanation and assurance that adequate provision would be made for *Renewal of existing assets* and *Repairs and Maintenance* to ensure the ongoing health of the municipality's infrastructure and also aligned to their Asset Management Plan.

Management Response

TABLE A9 has been corrected. The Municipality has budget R45.4 million for depreciation and impairment of assets and considered fair as it amount to 7 % of the book value of assets as at 30 June 2013.

1.7. Service Delivery

The Integrated Development Plan (IDP) strategic objectives as outlined in Tables SA4, SA5 and SA6 are aligned with local government key priorities. MFMA Circular No. 66 describes key local government priorities as the provision of basic services, human settlements development, local government infrastructure as well as decent employment opportunities. The municipality has also appropriately reflected infrastructure expenditure as the main driver of capital expenditure. The municipality has not submitted the Service Delivery and Budget Implementation Plan (hereafter referred to as SDBIP). The Basic service delivery measurement Table A10 has not been populated by the municipality. Therefore, Provincial Treasury could not determine whether the budget is aligned to SDBIP.

Management Response.

Table SA4, SA 5 and SA 6 have been populated.

2. OPERATING BUDGET

2.1. Operating Revenue Framework

Service Charges-refuse

- The *Service charges – sanitation revenue* increased by 792.9 percent from 2013/14 to 2014/15, which is not consistent with past performance. The budgeted *Sanitation revenue* of R41.3 million for 2014/15 was not based on the 2013/14 Adjusted budget of R4.6 million for *Service charges – sanitation revenue* nor was it based on the 2013/14 year to date actual of R1.5 million. The municipality should provide explanations for this significant increase.

Management Response

Sanitation, the figure has been corrected from an amount of R 41. 3 million to R7.8 million. The initial mistake was due to incorrect estimated consumption figures for Sanitation

- The municipality has budgeted for a deficit of R3 million for *Waste water management (Sanitation)* in 2014/15 as well as R3.4 million in 2015/16 and R3.9 million in 2016/17. This is in contravention of the MFMA Circular No. 66, which requires municipalities to have appropriately structured, cost – reflective water and sanitation tariffs in place by 2014. The municipality should provide explanations and/or remedial measures to ensure that water and sanitation tariffs are appropriately structured and cost – reflective.

Management Response.

The municipality is at the not charging a cost reflective tariff. As a result, the trading services are not profitable and running at a loss.

The sanitation function is trading at a loss, the Municipality is to devise a strategy as to how to reduce costs and how to implement a cost reflective tariff.

- The municipality has incorrectly captured R1 million under *Trading services – Electricity* in Table A2. The municipality does not deal in Electricity and the expenditure should be reallocated to the correct classification.

Management Response

Incorrect capturing of Electricity as a trading service has been rectified to be realized as a grant and internally funded projects.

- The Basic service delivery measurement Table A10 has not been populated by the municipality. MFMA Circular No. 58 requires that the total number of households for each service must be the same as the total number of households that should have been reflected on Table SA9. Therefore, Provincial Treasury was unable to determine whether the increase in *Service Charges – water revenue* was as a result of the increase in the number of households or other factors.

Management Response

Table A10 has been populated.

• Transfers Recognized-operational

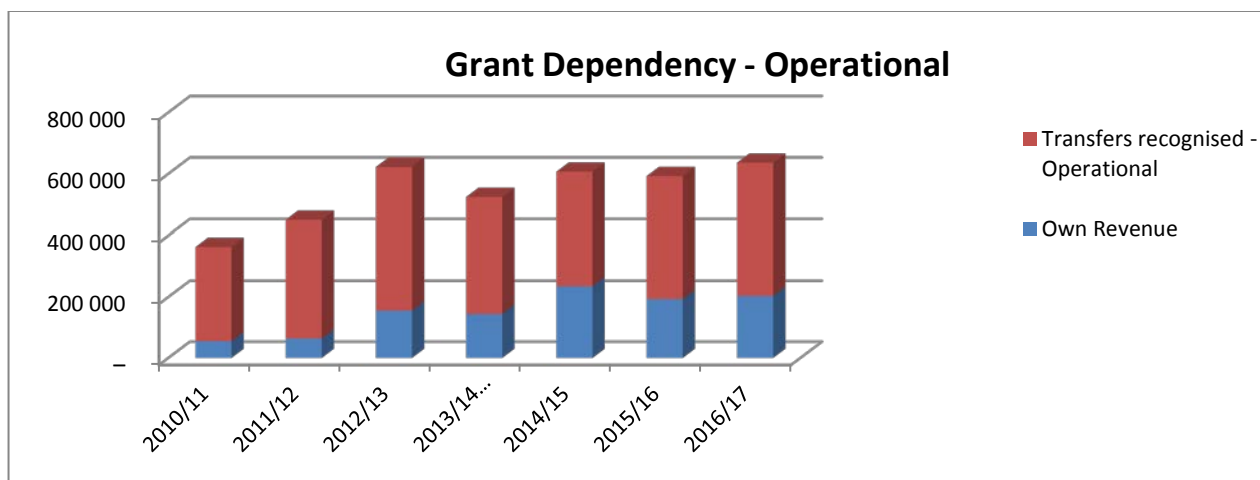
- The municipality did not include the Development Planning and Shared Services grant of R250 000 as per the Provincial Gazette number 1115 issued on 18 March 2014. This has resulted in the understatement of *Transfers recognized – operational* in Table A4.

Management Response

The DPSS grant has been included as a grant to be received.

- Figure 1 below depicts the municipality's continued dependence on operating grants over the MTREF period. The municipality is encouraged to maximize current revenue streams and investigate other sources of revenue in order to decrease - grant dependency and ensure future sustainability.

Figure 1: Grant Dependency-operational



Other sources of revenue

- The municipality did not budget for *Rental of facilities and equipment* in 2014/15, 2015/16 and 2016/17. This is not in line with the municipality's past performance, which indicates that the municipality has recognized income from *Rental of facilities and equipment* of R289 000 in 2012/13, R335 000 in 2011/12 and R238 000 in 2010/11 as per the audited Annual financial statements.

Management Response

Rental of facilities amount has been included at a total of R 320 000.

- As per Table SA1 under Other revenue by source, the municipality has budgeted for Cash reserves of R65 million. Provincial Treasury would like get clarity on this figure.

Management Response

The Municipality is investing R 20 million cash reserves to supplement its budget as recommended by MFMA circular 72, paragraph 5.2.

2.2 Operating Expenditure Framework

Employee related costs

- The municipality has budgeted *Employee related costs* to increase by 49.7 percent for *senior managers* and 11 percent for *other municipal staff* in the 2014/15 budget year and as per Table SA24, the number of employees is expected to remain unchanged from previous year. This is not in line with the Bargaining Chamber Agreement from SALGA of 6.79 percent increase as per MFMA Circular No. 72.
- Overtime* for Other municipal staff was budgeted to increase by 1548 percent from R1.7 million in 2013/14 to R28.2 million in the 2014/15 budget year and as a result, *Overtime* as a percentage of total *Employee related cost* was 14 percent. Provincial Treasury would like to draw the municipality's attention to the MFMA Circular No. 70, which states that a percentage above 5 percent would require further investigation. Furthermore, should excessive *Overtime* be found to be legitimate it could be an

indication that the organizational structure is insufficiently funded and hence would require funds being rather appropriated against vacant positions.

Management Response.

Findings are noted and have been rectified. As a Water Services Authority, the Municipality is a labor intensive, however, the Municipality is also reviewing its organizational structure to accommodate the change in structure as a result of growth in service provision.

- The municipality did not provide a break down on the *senior manager's* remuneration in Table SA22 and hence we could not determine the reasonableness of increases in the *Performance bonuses, Motor vehicle allowances and Other benefits and allowances*. The municipality is advised to accurately populate Table SA22 as required by MFMA Circular No. 70.

Management Response.

Findings are noted and have been rectified on SA 22.

Depreciation

- Provincial Treasury was unable to assess whether sufficient provision for *Depreciation* has been made in relation to total asset value as the municipality did not populate the information on total asset values under Table A9.

Management Response

Depreciation figure is considered correct, where impairment occur, the Municipality will rectify during the budget review and with fixed assets register amendments

Finance charges

- The municipality has not budgeted for *Finance charges* in the 2014/15 MTREF. This does not appear to be reasonable since the municipality has budgeted for *Borrowings* of R335 million in Table A5 and R13.6 million at the end of 2012/13 per the Audited Annual Financial Statements. The municipality is advised to revise its budget to include *Finance charges*.

Management Response

Finance charges have been rectified. It should be noted however that the agreement between DBSA and uMDM is to make payments in the year equivalent to the MIG allocation, as a result, the interest portion payable is low

Other expenditure

- The budgeted *General expenses* constitute 62 percent of total *Other expenditure* in 2014/15. Hence, Provincial Treasury was unable to determine whether the municipality budgeted for non-priority expenditure items since *General expenses* were

not broken down to be approximately 10 percent of *Other expenditure* as required by MFMA Circular No. 58.

Management Response

Other expenditure has been split and reduced to 10.5 %. The initial amount included an amount of R 47.2 million which is capital expenditure that has to be expenses as a result of not meeting the definition of an asset.

2.3. Operating Budget Surplus/Deficit

- The municipality has budgeted for an Operating deficit of R41.4 million in 2014/15, R94.5 million in 2015/16 and R92.4 million in 2016/17. This is not in line with the MFMA Circular No. 72, which requires all municipalities to adopt a surplus position on the statement of financial performance with the 2014/15 MTREF. The municipality should investigate the main cause for the deficit and put in place appropriate strategies to address the problem and explain these measures in the budget document.

Management Response

Table A1 summary, reflects that the Municipality will have an operating deficit of R 15.3 million. However, the deficit will be rectified by the use of R 20 million reserve funding. The major contributor is the capital expenditure that will be funded by Council funding that needs to be expensed. These items include but not limited to R1 million towards renewable energy projects, R 3.4 million towards the upgrade to Cemeteries etc.

3. CAPITAL BUDGET

3.1. Capital sources of funding

Borrowings

- The municipality has budgeted for *Borrowings* of R335 million to fund Capital expenditure in 2014/15. This is not in line with the loan agreements which indicated an amount of R330 million leaving an unexplained difference of R5 million. The municipality should ensure that it only budget for approved *Borrowings*. Furthermore, the municipality did not populate *Borrowings* amount in Table A6 and this raises concerns with regards to the credibility of the municipal budget.
- The projections of Borrowing in Table A5 does not reconcile with the Borrowing reflected in Table SA17. The municipality should rectify the error in the final budget.

Management Response

The amount has been reduced to R 155 million as an amount of R 70 million has been drawn down during the 2013 /2014 financial year. Table A5 has been rectified.

3.2. Capital Expenditure

New assets and renewal of assets

- As per Table A5, the municipality has budgeted for a Total capital expenditure of R391.7 million, which does not reconcile to Total capital funding of R530.6 million leaving an unexplained difference of R138.9 million. The municipality is hereby advised that the Sources of funding should equal the Total capital expenditure and that the error should be rectified in the final budget.

Management Response

Table A5 has been populated and corrected. The Capital Budget amounts to R 246.1 million.

- The municipality did not populate Table A9 and as a result Provincial Treasury could not determine how much of the Total capital expenditure was allocated to *New assets and Renewal of existing assets*. Furthermore, the municipality did not populate information on *Repairs and maintenance* and as a result Provincial Treasury could not determine whether they were 8 percent of total assets value as required by MFMA Circular No. 55. The municipality must ensure that Table A9 is properly and completely populated so as to ensure the ability of the municipality to proactively manage their infrastructure.

Management Response

Findings are noted.

4. CASH FLOW MANAGEMENT

Acceptability of cash/cash equivalent position

- The Adjustments Budget and Audited Outcomes columns in Table A7 were incorrectly populated; resulting in incorrect opening balances being carried over into the 2014/15 MTREF. As per Table B5 in the 2013/14 B schedule, the municipality decreased the sources of finance by R62.4 million and no corresponding decrease was captured under capital expenditure, resulting in *Payments – Capital assets* being overstated. The municipality reported R341.9 million for *Government – operating* and R162.3 million for *Government – Capital*, which did not agree to the Adjusted Division of Revenue Act and Adjusted Provincial Estimates of R381.4 million for *Government – operating* and R95.1 million for *Government – Capital*. These errors resulted in the incorrect closing balances for 2013/14. Therefore cash flow projections for 2014/15 were based on inaccurate trends and Provincial Treasury could not comment on the acceptability of the *Cash and cash equivalent* position.

Management Response

Tables A7 has been rectified.

Cash from Operating Activity

- The municipality budgeted an amount of R84 million for *Ratepayers and other*. The collection rate of 80 percent used by the municipality appears too high when compared to the historic trend and the municipality should consider reducing it in

order to be conservative or indicate the reasons in the budget document for the higher rate being used. Provincial Treasury recalculated the *Ratepayers and other* using the recalculated 40 percent collection rate and resulted to an amount of R58.9 million indicating a difference of R25.1 million. The municipality should revise this line item and ensure that the cash flows budgeted are accurate and reflects the realistic revenue to be collected.

Management Response

Findings are noted. However, the Municipality is implementing revenue raising strategies and are anticipated to make a contribution towards increases collections

- *Service charges - Sanitation revenue* was budgeted to increase by more than 100 percent and this appears high in relation to prior years. This will overstate the expected receipts for *Ratepayers and other*. The municipality needs to project a more realistic, conservative figure.

- **Management Response:**

Corrected

- The budgeted Interest in Table A7 does not agree to *Interest earned – External investments* in Table A4. Furthermore, *Interest earned – External investments* as a percentage of total investments is 12 percent, which is higher than the historic trend of 9 percent on average. In order to be conservative, the municipality should reduce the *Interest earned – external investments* to be at least 9 percent of total investments.

Management Response

The amount budget is based on the current year's interest earned.

- The municipality budgeted an amount of R372.3 million for *Government – Operational*, whereas the recalculated amount by Provincial Treasury was R372.6 million resulting in the difference of R250 000. The difference was caused as the municipality did not budget for *Development Planning and Shared Services grant* of R250 000 resulting in understatement of *Government – Operating*.

Management Response:

Rectified

- Furthermore, Provincial Treasury recalculated *Government – Capital* using the Division of Revenue Bill (DoRB) and Provincial Gazette and noted the following:
 - The budget for *Municipal Water Infrastructure grant* was reflected as R27.5 million instead of R28.6 million leaving a difference of R1.1 million.
 - The allocation for *Massification Programme grant* of R6.1 million was not budgeted for.
 - The allocation for *Corridor Development grant* of R23 million was not budgeted for.
 - The municipality included a grant of R73.9 million for *Water Demand Management*, but no supporting documentation was provided to substantiate this grant as it was not gazetted in the DoRB and Provincial Gazette.

Consequently *Government – Capital* was overstated by R43.7 million as a result of the above errors. The municipality should correct these errors in the final budget to ensure that the correct amounts are reflected in Table A7, Table A4 and Table A5.

Management Response

Findings are noted and have been corrected. The Provincial Gazette was published after the first draft budget was tabled.

- The amount projected in table A7 is 100 percent of the related expenditure in Table A4, excluding noncash and separately disclosable items. It was however noted that *Employee costs* and *Project expenditure* appear high and these expenditure and related outflows need to be reviewed as they will negatively impact the final cash position. The municipality should consider revising these expenditure items before tabling the final budget in Council.

Management Response

Employee costs have been reviewed. The Municipality will fill critical positions only in the 2014/2015 financial year.

- The municipality has not budgeted for *Finance charges* in the 2014/15 MTREF. This does not appear to be reasonable since the municipality has budgeted for *Borrowings* of R335 million in the Capital budget and had *Borrowings* of R13.6 million at the end of 2012/13 as per the Audited Annual Financial Statements. As per the Audited outcomes for the past three years, the Average finance charges as a percentage of total borrowings was calculated to be 12.5 percent and given the budgeted *Borrowings* of R338 million, the municipality should have at least budgeted for *Finance charges* of R42.4 million. The municipality is advised to revise its budget to include *Finance charges* in the final budget.

Management Response

Noted, amount of R 5.3 million is budgeted for Finance charges. This amount may be considered low, but it is justifiable considering that the Municipality will finance the loan with the MIG allocation which amount to R 97.2 million.

Cash from Financing Activity

- The municipality did not budget for *Repayment of borrowings* in the 2014/15 MTREF, yet *Borrowings* were budgeted for in Table A5. As per the signed agreements, the municipality must repay the loans in 30 (thirty) half yearly instalments. Based on the *Borrowings* of R330 million, the municipality would have to at least repay R22 million annually. A minimum of R22 million in *Repayment of borrowings* should have been budgeted for in the 2014/15 budget year. Furthermore the municipality had an existing DBSA loan of R13.6 million as at the end of 2012/13 and as per the historic trends, the repayment amount for this loan is R4 million annually. Therefore, the total *Repayment of borrowings* of R26 million should have at least been budgeted for in 2014/15. The municipality should consider revising the *Repayment of borrowings* before tabling the final budget in Council.

Management Response

An amount of R 97.2 million is to be used to finance the DBSA as the loan was utilized to bridge finance the MIG allocation

Application of cash and investments

- The figures for the *Unspent conditional grants, statutory requirements and Other provisions* were not reflected in Table A8 for the Adjustments budget, Audited outcomes, 2014/15 budget year and the two outer years. Furthermore, due to errors on Table A7 and Table A6, incorrect amounts were reflected on *Other current investments greater than 90 days, Non-current assets – investments and Other working capital requirements* in Table A8, which are formula driven. The municipality has failed to project *statutory requirements* such as *VAT payable*. Based on historic trends, *VAT Payable* should have been projected in Table A8. Due to the errors identified in the Audited outcomes, the Adjustments budget and 2014/15 budget in Table A7 as mentioned above, incorrect balances were being brought forward and this needs to be reviewed by the municipality. In addition the actual Adjustment budget contains errors or inefficiencies and needs to be reviewed and corrected before populating Table A7 to establish what the true cash position is. Hence, Provincial Treasury was unable to conduct a meaningful assessment on the application of cash and investments and as a result could not determine whether the budget is funded or not.

5. SERVICE DELIVERY MEASURES

Alignment of IDP strategic objectives to budget

- The '*Total Operating Revenue*' as per Table A4 does not reconcile to '*Total Revenue*' budgeted for IDP strategic objectives as outlined in Tables SA4.

Management Response

Rectified

Service Delivery Implementation Plan (SDBIP)

- The municipality has not submitted a draft Service Delivery and Budget Implementation Plan (SDBIP). Therefore, Provincial Treasury could not determine whether the budget is aligned to the strategic objectives of the IDP and the draft budget.
- The municipality did not populate the Basic service delivery measurement in Table A10. MFMA Circular No. 58 requires municipalities to account for the service levels for all the households with the municipality area, including services that are not provided by the municipality. It should be noted that the total households for each service must be the same as the total number of households in the municipality.

Management Response

Table 10 has been populated and rectified.

3 Municipal manager's quality certificate

I TLS Khuzwayo..., municipal manager of uMgungundlovu 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 _____

Signature _____

Date _____

PART 2

REPORT ON THE 2014/2015 IDP/BUDGET IZIMBIZO (PUBLIC PARTICIPATION CAMPAIGN) BY THE uMGUNGUNDLOVU DISTRICT MUNICIPALITY – APRIL 2014

1 Notes:

During April 2014, the uMgungundlovu embarked on a mass public participation campaign by way of conducting the annual mayoral IDP/Budget Izimbizo. The following local municipalities were covered within the ambit of available financial resources and in partnership with local municipalities: uMshwathi, Mkhambathini and Impendle respectively. The other Izimbizo at Richmond, Msunduzi, Mpofana and uMngeni municipalities were not convened by the uMDM but the District participated through the Local Municipalities' public participation processes. Furthermore, the Izimbizo report below is supplemented by Annexure **A: An Extract from the Oversight report conducted by the District Municipality: covering non-Izimbizo areas - Richmond, uMngeni and Mpofana municipalities**. In addition, the information collected from the public participation processes will be analysed **in conjunction with data from previous Censuses and Surveys conducted by StatsSA and the Quality of Life Survey (2014) commissioned by the uMDM in collaboration with the University of KwaZulu-Natal. Also BESS collected needs from municipal wards, which still need to be presented through ward councillors.**

The drafts 2014/2015 IDP and Budget and subsequent IDPs and Budgets will respond to ALL these issues raised in seeking sustainable solutions whether short, medium or long-term. This can be achieved through an integrated development ethos, and utilizing to name a few, initiatives such as Municipal Infrastructure Grant and its front-loading, re-ploughing of water-generated revenue and service charges into water and sanitation projects, partnerships with organizations such as Umgeni Water, DWA on leveraging further funding and ALL other sector departments and service providers, SoEs, DFIs, Operation Sukumasakhe in implementing the poverty-response package. Lastly, the District is working towards finalizing the District Growth and Development Plan to be mainly implemented by the uMgungundlovu Economic Development Agency that is going to be established before the end of 2014/2015 financial year.

All internal Council Departments need to respond by aligning the above needs per their respective KPAs and by entering into working partnerships.

The following Table 1 is the summary of the issues and needs that have been raised by the community members during Izimbizo in April 2014.

2 Table 2 Summary of issues / needs raised directly by the community members during Izimbizo:

uMSHWATHI LOCAL MUNICIPALITY ON 12 APRIL 2014, AT MPOLWENI SPORTS GROUND: IMBIZO FOR ALL WARDS

MUNICIPALITY	DATE	VENUE	ISSUES	RESPONSE
Political leadership present: Hon Mayor, Deputy Mayor, Hon Speaker, Chief Whip, Exco members and Local Mayor and local Councillors; Traditional leaders				
uMshwathi	10 April 2014	Mpolweni Sports Ground	<ul style="list-style-type: none"> Ward 10 do not have a Post Office for water invoicing Some houses at New Hanover Location do not have toilets Ward 03 complained about water Ward 07 is having a problem of water: direct supplies and billing inadequacies. Also they need to be informed as to when the water tankers will be delivering water to them as most of the time it comes when they are not available. Ward 12 – need a road 	<p>The issue will be addressed but they can use Thusong offices</p> <p>The Ward Councillor will address the issue as he is not aware of that.</p> <p>MrBheki Mbambo addressed the issue of water, their challenges and assured the community that the issue of water at uMshwathi is known and the big reservoir will be built to tackle the problem of water in uMshwathi.</p> <p>It is a challenge, but Sbu Ndumo will look at the issue and try to resolve it.</p>
MKHAMBATHINI LOCAL MUNICIPALITY ON 12 APRIL 2014, AT ESIDADENI SPORTS GROUND: IMBIZO FOR ALL WARDS				
Mkhambathini	12 April 2014	Esidadeni Sports Ground	<ul style="list-style-type: none"> Ward 03 Housing Project is incomplete. 08 household did not receive houses Ward 03 – pipes are installed with no water coming from them. Youth need to be assisted in terms of education and also on Health issues Nkanyezini need Water and Sanitation. Youth – 	<p>The Local Municipality will intervene with the Department of Human Settlements towards a solution to the problem.</p> <p>The District to follow-up.</p>

MUNICIPALITY	DATE	VENUE	ISSUES	RESPONSE
Political leadership present: Hon Mayor, Deputy Mayor, Hon Speaker, Chief Whip, Exco members and Local Mayor and local Councillors; Traditional leaders				
			<p>need Skills Development.</p> <ul style="list-style-type: none"> • Ward 03 at Mpushini lacks service delivery, no water, sanitation, electricity and there is nothing for youth development. • Ward 07 – Amakhosi and Izinduna delayed service delivery. They do not cooperate with Councillors, they requested UMDM to intervene. • Ward 02 – KwaNyavu do not have water from pipes. Some have and some do not have. • One community members complained that development or service delivery is delivered along partisan politics. He alleged that since he is a member of a political party other than that of the Ward Councillor-he has been discriminated against. • At ward 03 at some stage their houses were burnt and they were given tents which are not in good state to live on. • Ward 03 – need the Municipality to employ a disabled person to deal with their issues as 	<p>uMDM to assist towards resolution with Amakhosi and Councillors concerned</p> <p>UMDM to follow-up, isolate the problems and resolve or give time-frame</p> <p>Ward Councillor responded by denying the allegations of “service delivery along partisan politics” and he invited the complainant to meet him afterwards to resolve the genuine service delivery matters. Ward Councillor will attend the issue</p> <p>Local Municipality to respond</p> <p>Both Mkhambathini and uMDM will allocate the issues to relevant officials for appropriate responses</p> <p>uMDM to investigate the allegations and resolve it sooner</p>

MUNICIPALITY	DATE	VENUE	ISSUES	RESPONSE
Political leadership present: Hon Mayor, Deputy Mayor, Hon Speaker, Chief Whip, Exco members and Local Mayor and local Councillors; Traditional leaders				
			<p>he/she will know better as he/she is disabled too.</p> <ul style="list-style-type: none"> Ward 03 lacks service delivery, like sports ground, community halls, they rely on other wards. Their concern is that it's only Ward 1 at Maqongqo area that has all services. Ward 02 – Manzamnyama community are buying water from water tankers from uMDM. 	
IMPENDLE LOCAL MUNICIPALITY ON 15 APRIL 2014, KWANOVUKA SPORTS GROUND: IMBIZO FOR ALL WARDS				
Impendle	15 April 2014	Kwanovuka Sports Ground	<ul style="list-style-type: none"> Ward 04 – water not available all the time. How are people earning more than R3500 going to benefit on free water as they are also citizens? Ward 02 – Need RDP houses. Ekukhanyeni – not enough water. No Road Some citizens have their grants deducted for “airtime”, which they do not know about. Ward 03, Novuka – no water from the reservoir 	<p>uMDM Customer Care will address the issue</p> <p>The Mayor of Impendle responded that RDP houses are in process of being built. uMDM will attend to the issue of water.</p> <p>Ward Councillor will address the issue with SASSA.</p> <p>The uMDM responded that there was a problem with ESKOM; there was no electricity to pump the boreholes. As the electricity is now available,</p>

MUNICIPALITY	DATE	VENUE	ISSUES	RESPONSE
Political leadership present: Hon Mayor, Deputy Mayor, Hon Speaker, Chief Whip, Exco members and Local Mayor and local Councillors; Traditional leaders				
			<ul style="list-style-type: none"> Ward 03, Come and See area – do not have water, they get water from the river. They are also requesting a cell phone network. 	<p>UMDM are now checking and fixing the pipes thereafter the water will be available</p> <p>Also there have been incidents of theft and the community is requested to assist.</p> <p>The Impendle Mayor responded that Cell C agreed to put aerial for network.</p>

Table 2: Summary Matrix categorizing the issues

<p>INFRASTRUCTURAL</p> <ul style="list-style-type: none"> Water interruptions Water inadequate supply Sanitation filling-up of VIPs A need to cover all areas Housing: a need to cover the remaining backlogs Roads Electricity-in-fills and new connections Reduce EIA delays Sports fields, community halls 	<p>ECONOMIC</p> <ul style="list-style-type: none"> Job opportunities Prioritize women and youth employment Fast-track rural development Indigent registers
<p>SOCIAL</p> <ul style="list-style-type: none"> Insufficient budget for Youth, HIV/AIDS, Women and People with Disabilities Crime Social ills Poverty Social grants 	<p>CROSS-CUTTING</p> <ul style="list-style-type: none"> Relationship with Traditional leadership need to improve on the ground Communication between Ward Councilors , Ward Committees and the uMDM needs to improve Need Operation Sukuma Sakhe to address most of the cross-cutting socio-economic issues

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4 Annexure A: An Extract from the Oversight report conducted by the District Municipality: covering non-Izimbizo areas -Richmond, uMngeni and Mpofana municipalities (2014).

“7.2 Richmond Local Municipality

- a) Sanitation in Hopewell (Ward 3) is still not complete
- b) There is resistance in Ward 3, because some Community Members want to see progress with installing toilets while others try to put obstacles in the way of eradicating service delivery backlogs
- c) Nhlazuka water supply is still delayed due to a lack of electricity
- d) In Embuthweni there are also delays caused by ESKOM that results the infrastructure being vandalized
- e) The District was commended for the completion of the Phatheni Water Supply Scheme and on having sufficient standpipes in the area
- f) Water and sanitation tariffs are too high for the Consumers
- g) Inadequate numbers and quality of toilets in certain areas poses a challenge
- h) Water tariffs in the Byrne Valley is still a challenge that is being addressed jointly by the District Municipality and Community Organisations in a phased approach
- i) There is no water at all in Ward 7, but this was disputed by the Technical Department – to be investigated

7.3 Mpofana Local Municipality

- a) The circulation of the Annual Report for public comment was inadequate. Community Members felt that the document should be published, also in isiZulu
- b) Environmental Impact Assessments (EIAs) are causing delays in various projects
- c) Eradicating water and sanitation backlogs is hampered by the postponement of certain projects due to the shortage of funds
- d) The project in Muden (Ward 4) is a challenge with the involvement of uMzinyathi District Municipality relative to the water supply. This is currently the subject of a business plan that is aimed at addressing this challenge in conjunction with all stakeholders, including the Human Settlement Department.
- e) The Councillor for Ward 2 said that:
 - That one cannot adequately assess the progress being made with a project by simply reading the Annual Report
 - The water supply in the Ward is inadequate
 - Many of the projects are started, but not completed
 - The Phofini area is still a challenge in regard to service delivery backlogs due to the inaccessible terrain and a solution to this is required.
- f) There was not clarity as to who benefits from the Spring Grove Dam
- g) The uMDM was thanked for the roll out of the Sanitation Programme in the Ebuhoehleni area
- h) Turnaround time for reported leaks leads to extensive water losses

- i) There is a shortage of water in Ward 3 (Rocky Drift), but at the same time there are people who waste water in the same Ward.
- j) There seems to be very little development in Ward 3

7.5 uMngeni Local Municipality

- a) Incomplete projects are a major concern e. g. Lions River Housing Project
- b) The land fill site at Lions River cannot be used due to the weigh bridge not being completed
- c) EIAs have been approved for projects in Ward 9, namely Hhaza, Mashingeni and Nguga which means that these projects can now commence without delay
- d) Septic tanks and bigger water tanks are requested at Lions River
- e) No response is forthcoming from the uMDM Call Centre
- f) Aging water infrastructure is causing excessive leaks in the Lidgeton and Lions River areas
- g) In Ward 9 the reservoir overflows due to a malfunctioning valve. The Community Members are concerned about the resultant waste of water
- h) In Ward 10 there is no water supply in the day, but it comes on at night
- i) Customer Care Centres need to improve on their level of Service.”