

DRAFT MEDIUM TERM REVENUE  
AND EXPENDITURE FORECAST  
2015/ 2016 TO 2017/2018



# MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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## Table of Contents

### PART 1

1. Mayor's Report
2. Resolutions
3. Executive Summary
4. Operating Budget Framework
  - 4.1 Operating Revenue Framework
  - 4.2 Operating Expenditure Framework
5. Capital Expenditure

### PART 2

6. Budget Assumptions
7. Overview of the Annual Budget Process
8. Budget Process Overview
9. Financial Modelling & Key Planning Drivers
10. Community Consultation
11. IDP Strategic Objectives
12. Measurable Performance Objectives &  
Indicators
13. Quality Certificate

## **PART 1**

### **1. MAYOR'S REPORT**

In order to fulfil the mandate, the uMgungundlovu District Municipality (u MDM) needs to be able to continuously provide uninterrupted and deliver improved high quality of life and services to our citizens. uMgungundlovu District Municipality (u MDM) needs to generate the required revenues in order to sustain the services and strive to overcome grant dependency.

Our municipal plans and strategies are supported by this budget. Our budget is informed by the IDP process that allows for input from our citizens. In compiling this draft budget, as a Municipality, we had to consider the electricity increase, inflation, water tariffs, and other factors that largely contribute to our budget and the provision of our services.

In these tough economic times, strong revenue management and cost controlling measures becomes fundamental to the financial sustainability of every municipality. The reality our municipality like majority of other municipalities nationwide is, we are faced with challenges such as frail and ageing infrastructure; past and current development backlogs; social ills poverty, etc. However we continue to strive, forge ahead, regardless of the socio-economic challenges, and deliver our core services through, and reach all four corners in the District for a better life for all our citizens.

We are experiencing a steady incline in revenue generation and collection. We will also embark on programs and road shows that will encourage a culture of paying to our citizens. These roadshows will be hosted in all the Local Municipalities we service. However, we continue to rely on grants to fund both our operational and capital expenditure. Our income generated from trading services is still insufficient to facilitate profits and growth of the services. The amount required to address the injustices of the past, continues exceed available funding; hence difficult choices are made between the tariff increases, expenditure prioritization and balancing against realistically anticipated revenues.

We continue to strive by educating qualifying customers to register their indigent status. This will assist the municipality to budget better and make better income projections. This exercise is conducted in collaboration with other Locals within the District.

Although the municipality is grant reliant, it is making efforts to improve on revenue raising and collection strategies to remedy the situation, and in efforts to improve our profitability, a lot of work has been done to reduce unnecessary expenditure. This is evident from the fact that the municipality has had a positive bank balance and an average cash coverage ratio of 3 months which has been improving over the last 3 years.

Despite rising costs of goods and services and weak economic growth the municipality has managed over the years to keep a linear trend in operating costs through the reprioritisation of expenditure. The average increase in operating costs between 2013/2014 to the proposed 2015/2016 budget has been 0.7% against an inflation average of 5.6%. The 0.7% increase in the proposed operating expenditure budget is R4, 2 million from a prior year adjusted operating expenditure budget of R566,781 million.

In addition the capital budget for 2014/15 year was sitting at R 293.3 million and has increased to R 383.4 million for the 2015/2016 budget year.

As a municipality we endeavour to contain and limit our expenditure and fund core service provision. The Technical Services Unit responsible for water provision and sanitation services receives close to 60% of our operational budget.

Our capital projects implementation is one of the best performing areas of the municipality. We have managed as a municipality to utilise the full National Treasury allocation of the Municipal Infrastructure Grant. The municipality has, whilst finalising the loan agreement with DBSA, been funding its capital projects from its own funding. The draw down schedule for the loan withdrawals is expected to resume before the end of the 2014 /2015 financial year.

Once more uMDM has done well in practicing sound financial management by acquiring a clean audit from the Auditor General for the 2013/2014 audit. This of course wouldn't have been possible without the commitment of political and administration leadership and the staff.

As a citizen centric Municipality we continue to promote social programmes that contribute towards nation building and social cohesion which is meant to be strengthened by some of our projects and programs in the 2015/2016 financial year being funded amongst other programs by the Extended Public Works Program which is an initiative by the National Treasury implemented through the Municipalities. uMDM has recently hosted another successful Mandela Day Marathon, with over 10 000 participants, and associated with AIMS (Association of International Marathon and Road Running) and Nelson Mandela Foundation.

## **2. RESOLUTIONS**

It is recommended that the Full Council:

- 2.1. Approves the proposed Tariff increases, acting in terms of section 75A of the Local Government Municipal Systems Act ( Act 32 of 2000 with effect from 01 July 2015:
  - 2.1.1 The tariffs for the supply of water
  - 2.1.2 The tariffs for the sanitation services
  
- 2.2. Approves the First Draft multi year 2015 2016 – 2017 / 2018 annual budget and single capital appropriations for the 2015 / 2016 annual budget as follows:
  - 2.2.1 The Total Operating Revenue of R 579 million.
  - 2.2.2 The Total Funding of R955 million
  - 2.2.3 The Total Operating Expenditure of R 571 million.
  - 2.2.4 Total Capital Expenditure of R383.4 million.
  - 2.2.5 The Operating Surplus of R 8 million
  
- 2.3 Approves the public participation meetings for the Budget and Integrated Development Plan to be conducted in the month of April 2015.

### 3. EXECUTIVE SUMMARY

**TABLE 1** Consolidated Overview of the 2015 /2016 MTREF

R	Adjustment Budget 2014 /2015	Budget Year 2015 / 2016	Budget Year +1 2016/ 2017	Budget Year +2 2017/ 2018
Total Operating Revenue	532 539	579 001	611 512	655 736
Total Operating Expenditure	(566 781)	(571 001)	(602 977)	(631 919)
Surplus/ ( Deficit) for the year	(34 242)	8 000	8 535	23 817
Total Capital Expenditure	(209 159)	(376 020)	(140 647)	(169 947)

The operating revenue has increased by **R 46.5 million** from R 532.5 million as approved during the Adjustment Budget to R 579 million which represents a **8%** increase. For the outer years, the revenue is anticipated to increase by 5.6% and 7.2% respectively. Despite expected increase in costs by 5,6% expenditure managed to only grow by under 1% as costs were cut lean on other operating costs in order to begin to prepare space for the finance costs on loans as the municipality continues to embark on accelerated implementation of water and sanitation infrastructure.

In response to tough economic times and in efforts to improve the profitability of the municipality, the municipality has embarked on an expenditure prioritisation exercise, cut out spending on frills and implemented revenue collection strategies. Further to the revenue collection strategies, the municipality is improving in its investment in the revenue generation strategies such as new capital projects implementation, meter verifications and customer data cleansing.

As can be witnessed from Table 1 above, the investment in capital projects is to increase by **R 166.9 million (79%)** in the 2015 /2016 financial year. This increase is expected to bring out a reduction in contracted operation and maintenance cost and further reduce the costs of water tankers and in turn contribute towards increased revenue generation. Key to this strategy is the need to realise immediately the new consumers onto the billing system so that revenue growth can also be attained.

As a citizen centric municipality, the municipality has a 24 hour customer care line and a functional customer care / Batho Pele unit that promotes customer involvement, accountability by the municipality.

The Table 2 below depict that the Municipality is to turn around from an anticipated operating deficit of R 34.2 million in 2014 /2015 financial to an operating surplus of R8 million in the 2015 /2016 financial year. This is to allow the municipality to rebuild it's depleting reserves for future financing of capital infrastructure.

**TABLE 2****DC 22 uMgungundlovu – Table A1 Budget Summary**

Description	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
<b>Financial Performance</b>										
Property rates	–	–	–	–	–	–	–	–	–	–
Service charges	44 282	118 136	132 685	107 291	107 291	107 291	75 169	153 031	161 601	169 358
Investment revenue	8 040	7 979	10 413	15 311	9 360	9 360	6 524	8 960	9 462	9 916
Transfers recognised - operational	295 926	327 088	348 651	390 746	390 746	390 746	285 489	405 737	437 416	473 283
Other own revenue	11 255	28 620	22 371	35 132	25 142	25 142	11 038	11 272	3 033	3 179
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>359 504</b>	<b>481 824</b>	<b>514 120</b>	<b>548 480</b>	<b>532 539</b>	<b>532 539</b>	<b>378 220</b>	<b>579 001</b>	<b>611 512</b>	<b>655 736</b>
Employee costs	130 233	151 411	157 176	198 840	195 549	195 549	115 000	218 052	230 263	241 315
Remuneration of councillors	7 201	9 466	9 944	14 878	11 684	11 684	6 625	12 327	13 017	13 642
Depreciation & asset impairment	78 453	80 989	56 330	45 391	45 391	45 391	27 812	30 000	31 680	33 201
Finance charges	1 460	1 919	2 976	5 300	1 200	1 200	8 749	13 284	14 028	14 701
Materials and bulk purchases	43 385	63 346	71 336	73 125	77 096	77 096	51 042	97 093	102 530	107 451
Transfers and grants	–	–	–	48 992	28 690	28 690	16 060	3 000	–	–
Other expenditure	133 283	295 639	249 096	177 192	207 170	207 170	110 251	197 245	208 291	218 288
<b>Total Expenditure</b>	<b>394 014</b>	<b>602 770</b>	<b>546 858</b>	<b>563 718</b>	<b>566 781</b>	<b>566 781</b>	<b>335 539</b>	<b>571 001</b>	<b>599 809</b>	<b>628 599</b>
<b>Surplus/(Deficit)</b>	<b>(34 511)</b>	<b>(120 946)</b>	<b>(32 738)</b>	<b>(15 238)</b>	<b>(34 242)</b>	<b>(34 242)</b>	<b>42 681</b>	<b>8 000</b>	<b>11 703</b>	<b>27 137</b>

The budget is compiled taking into account previous National Treasury's budget circulars, including Circular 74 (issued 12 December 2014) & 75 (issued 9 March 2015).

During the compilation of the 2015 /2016 MTREF the following summarised challenges were experienced:

- The persistent slow economic growth and general affordability of our customers.
- The water and sanitation aged infrastructure and the limited resources available to address the shortcoming.
- The increase of bulk cost of water and the anticipated increases of electricity by ESKOM and servicing Local Municipalities.
- The gap between the employer offer and the union offer for the salary negotiations.
- The affordability of servicing the debt to be incurred as long term borrowings to revitalize water and sanitation infrastructure.
- The prioritization of fixed costs to facilitate quality and stable services.

## 4. OPERATING BUDGET FRAMEWORK

### 4.1 OPERATING REVENUE FRAMEWORK

The municipality has allocated a total of R 955 million worth of funding for the 2015/2016 financial year as tabled below in table 3 below.

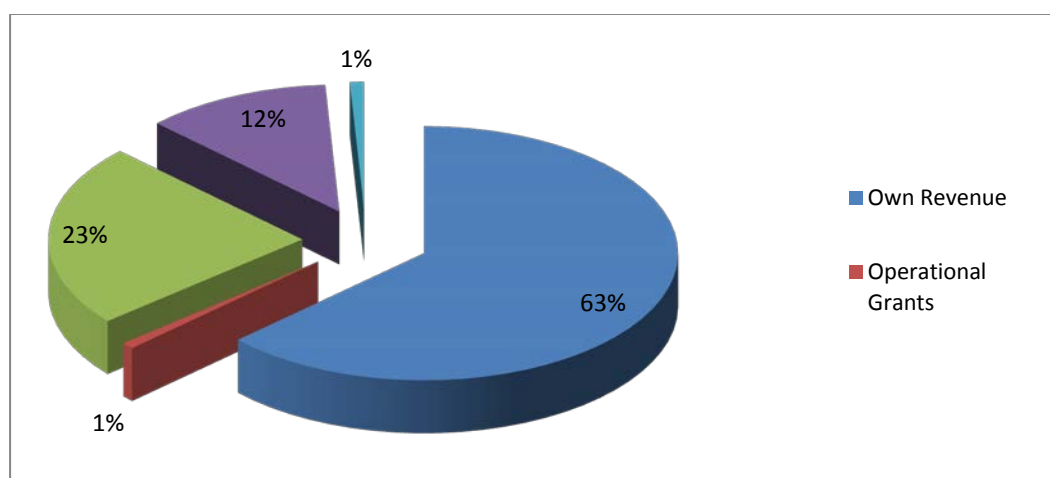
In total, the operating revenue amounts to R 579 million or **59 %** of the funding sources of which **71%** is contributed from equitable share and RSC levy replacement grant which confirms the municipalities continued reliance on grants. The demands against the municipality's resources still outweigh the municipality's ability to generate sufficient revenue to fund operations and also make contributions to capital investment. The growth in revenue of **9%** from R 532.5 million to R 579 million has been attributed to the increase in tariffs in line with the overall increase in costs of providing the services and the realisation of new customers from completed projects. The growth in operational grant drew mainly from marginal growth in equitable share and RSC levy replacement grant.

**TABLE 3**

Sources of Funding		%
<b>Own Revenue</b>	563 732 580	<b>59.00</b>
<b>Operational Grants</b>	7 268 000	0.76
<b>Capital Grants</b>	208 732 000	<b>21.86</b>
<b>Loans</b>	167 288 000	17.52
<b>Roll Over Funding</b>	8 000 000	0.84
<b>TOTAL</b>	<b>955 020 580</b>	100

**GRAPH 1**

Illustration of contributions to the total funding sources



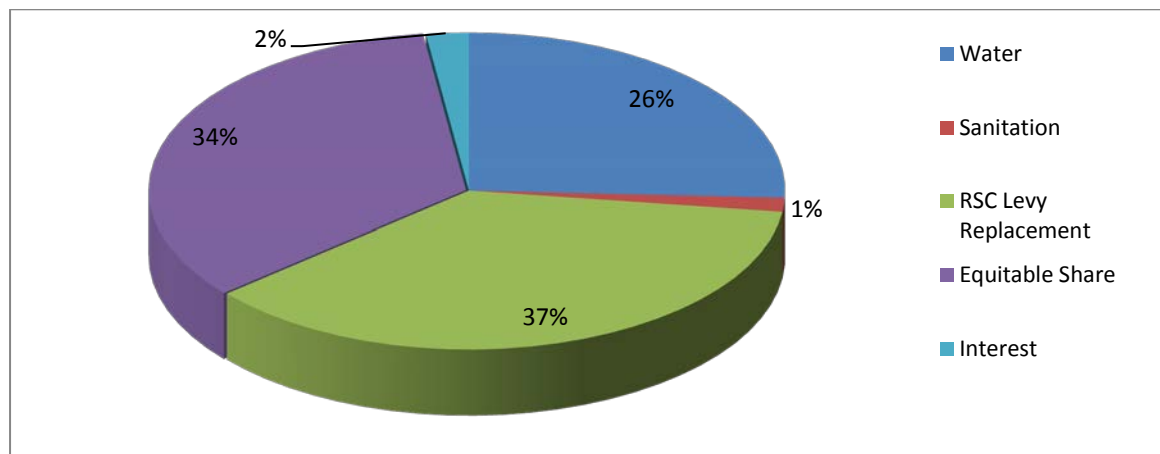
Although the funding sources reflects that the own funding category is the main funder of the budget, a closer look at the categories reveals that the municipality is grant reliant. Table 4 below reflects the splits of the own revenue source and the contribution of each source.

**TABLE 4**

<b>Own Revenue Split</b>	<b>Amount</b>	<b>Contribution</b>
<b>Water</b>	145 048 185	25.73
<b>Sanitation</b>	7 983 158	1.42
<b>RSC Levy Replacement</b>	206 602 000	36.65
<b>Equitable Share</b>	191 867 000	34.04
<b>Interest</b>	12 232 237	2.17
	<b>563 732 580</b>	

Put together, the RSC Levy Replacement and the Equitable share amount to R 398.5 million ( 70.69 %) which confirms grant reliance.

**GRAPH 2**



#### **4.1.1 SALE OF WATER AND IMPACT ON TARIFF INCREASES**

The National Treasury encourages Municipalities to charge a cost reflective tariff to be able to recover its costs of providing the service, taking into account the cost of bulk services, cost of renewing assets, funding new assets to allow for the growth of the service and a tariff that promotes conservative consumption.

As part of the revenue raising strategy, the Municipality had to revisit its tariff structure, and finalise the reconciliation of existing customers in billing information to actual existing customers.

National Treasury further encourages municipalities to charge a tariff that promotes conservative patterns of consumption. The proposed increase on the tariff structure, is based on the inclining block tariff model, which suggests steeper tariffs being charged to high consumption customers. The increases are also informed by an eased introduction of cost reflective tariffs and avoid a drastic increase in tariffs.

The proposed tariff structure is as follows:



**TABLE 5. PROPOSED WATER TARIFF INCREASES, DOMESTIC AND BUSINESS**

Consumption KL/PM	2014/2015	Increase	2015/2016
<b>DOMESTIC</b>			
0 - 6	6.63	10%	7.30
7 – 15	9.91	10%	10.90
16 - 25	10.88	10%	12.00
26 - 35	13.31	12%	16.50
36 – 60	19.96	12%	22.00
60 +	23.3	15%	26.80
Basic charge			16.5
<b>BUSINESSES</b>			
0 – 999999	11.56	15%	13.29

As can be seen, the lesser the consumption, the lesser the proposed tariff increase.

**TABLE 6. PRIOR YEAR TARIFF COMPARISON**

Consumption	2014/2015 Tariff	2014/2015 Consumption	2014 /2015 Rand Value	2015 /2016 Tariff	2015 /2016 Consumption	2015 /2016 Rand Value	Difference Consumption	Difference Rand Value
0 - 6	6.63	173 502	1 150 318	7.30	157 981.00	1 153 261.30	-15 521	2 943.04
7 - 15	9.91	694 989	6 887 341	10.90	932 641.00	10 165 786.90	237 652	3 278 445.91
16 - 25	10.88	503 360	5 476 557	12.00	590 106.00	7 081 272.00	86 746	1 604 715.20
26 - 35	13.31	425 177	5 659 106	16.50	549 391.00	9 067 368.82	124 214	3 408 262.95
36 - 60	19.96	635 135	12 677 295	22.00	926 614.00	20 385 508.00	291 479	7 708 213.40
60 +	23.3	2 133 189	49 703 304	26.80	1 883 902.00	50 479 154.09	-249 287	775 850.39
Basic charge	16.5							
Flat rate	100							
Businesses / Commercial								
0 - 999999	11.56	1 549 697	17 914 497	13.29	3 514 054.00	46 715 833.88	1 964 357	28 801 336.56
Basic charge	27.5							
<b>TOTAL WATER</b>		6 115 049	99 468 418		8 554 689.00	145 048 184.99	2 439 640	45 579 767

MFMA Circular No. 74 requires municipalities who proposes above 6% increases to their tariffs to justify the proposed increases.

For this municipality, the water income represent an increase of 45.8 % from R99.5 million to R145 million. The increase in only due to the inflation increase but from the following reasons:

- i. The average consumption of our commercial customers increased by 126.7 %
- ii. High consumption customers ( 36- 60 kl) increased by 45.89%
- iii. Average consumption customers increased on average by 26.88%

The increase is from the reduction of non revenue water, through illegal connections, bypassed meters and completion of bulk services lines that the municipality anticipate to collect revenues from such sources and customers.

Further to the increase in consumption, the municipality is providing the water and sanitation function at a loss. The Technical Services department, which mainly is dealing with water provision, is allocated an amount of R 336.8 million for operational reasons (see Table 9) whilst, the municipality is only able to generate a total of R153 million from the water and sanitation functions.

**TABLE 7 PROPOSED SANITATION TARIFF INCREASES, DOMESTIC AND BUSINESS**

<b>Household/Domestic</b>			
<b>Consumption</b>	<b>2014/2015</b>	<b>Increase</b>	<b>2015/2015</b>
0 - 6	3.76	9.04%	4.10
7 – 15	5.59	9.12%	6.10
16 - 25	6.18	13.26%	7.00
26+	7.1	15.07%	8.17
<b>Business /Commercial</b>			
0 - 9999999999	7.1	15.07%	8.17

**TABLE 8 SUMMARY OF REVENUE CLASSIFIED BY MAIN REVENUE SOURCE**

Description	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
<b>Revenue By Source</b>										
Property rates	-	-	-	-	-	-	-	-	-	-
Service charges - electricity revenue	-	-	-	-	-	-	-	-	-	-
Service charges - water revenue	37 241	94 293	125 072	99 459	99 459	99 459	67 939	145 048	153 171	160 523
Service charges - sanitation revenue	6 870	23 748	7 604	7 832	7 832	7 832	7 078	7 983	8 430	8 835
Service charges - refuse revenue	-	-	-	-	-	-	-	-	-	-
Service charges - other	172	95	9	-	-	-	152	-	-	-
Rental of facilities and equipment	335	289	405	320	320	320	189	-	-	-
Interest earned - external investments	16 688	20 835	29 904	15 311	9 360	9 360	6 524	8 960	9 462	9 916
Interest earned - outstanding debtors	-	-	-	8 000	4 800	4 800	9 393	2 872	3 033	3 179
Dividends received	-	-	-	-	-	-	-	-	-	-
Agency services	-	-	-	-	-	-	-	-	-	-
Transfers recognised - operational	299 071	329 082	359 213	390 746	390 746	390 746	285 489	405 737	437 416	473 283
Other revenue	68 583	15 063	19 022	26 812	20 022	20 022	1 456	8 400	-	-
Gains on disposal of PPE	(1 155)	-513	-	-	-	-	-	-	-	-
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>427 805</b>	<b>482 891</b>	<b>541 229</b>	<b>548 480</b>	<b>532 539</b>	<b>532 539</b>	<b>378 220</b>	<b>579 001</b>	<b>611 512</b>	<b>655 736</b>

## 4.2 OPERATING EXPENDITURE FRAMEWORK

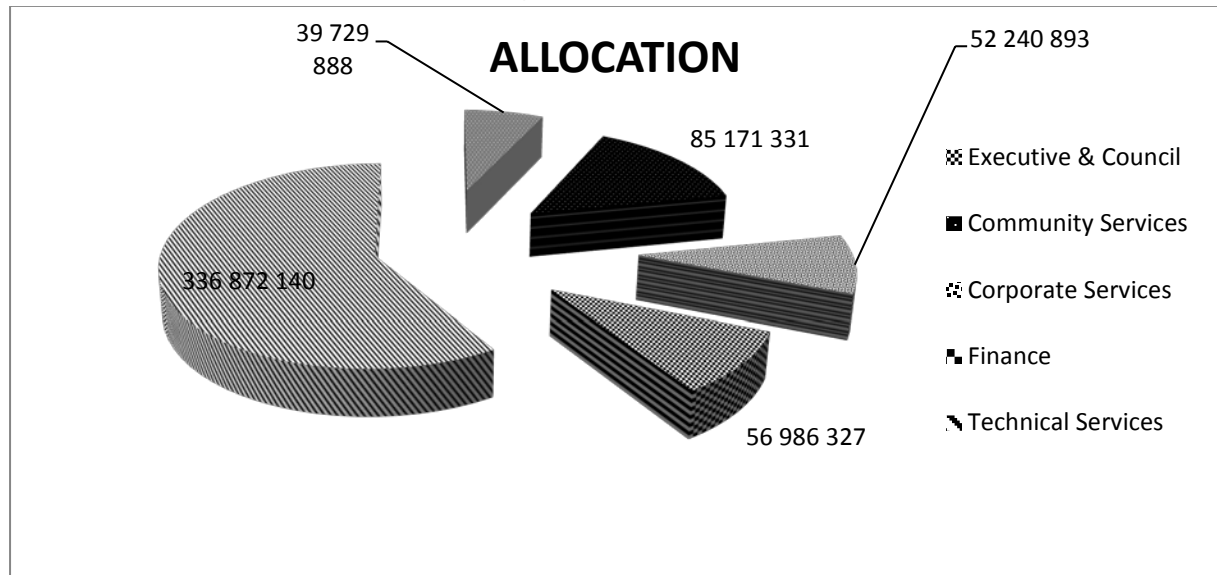
The core business for the municipality is to provide sustainable and quality drinking water and decent sanitation services. This is evident on the allocation of funds to the Technical Services Department. Table 9 below reflects an allocation of R 336 .8 million allocated. The Technical Services Department was allocated with close to **60 %** of the operational budget followed by Community Services at almost **15%** which reflects the municipalities commitment to the core business of local government.

**TABLE 9**

Department	ALLOCATION	%
Executive & Council	39 729 888	6.96
Community Services	85 171 331	<b>14.92</b>
Corporate Services	52 240 893	9.15
Finance	56 986 327	9.98
Technical Services	336 872 140	<b>60</b>
	<b>571 000 580</b>	

**GRAPH 3**

Illustration of distribution of operating expenditure



**TABLE 10**

<b>Comparison: Mid Term and Proposed Budget</b>					
<b>Department</b>	<b>Adjustment Budget</b>	<b>Proposed Budget</b>	<b>Amount Change</b>	<b>% Change</b>	<b>% Contribution to Budget</b>
Executive & Council	57,280,377	39,729,888	-17,550,489	-30.64	6.96
Community Services	77,651,535	85,171,331	7,519,796	9.68	14.92
Corporate Services	55,377,771	52,240,893	-3,136,878	-5.66	9.15
Finance	58,341,010	56,986,327	-1,354,683	-2.32	9.98
Technical Services	318,129,470	336,872,140	18,742,670	5.89	59.00
<b>TOTAL</b>	<b>566,780,163</b>	<b>571,000,580</b>	<b>4,220,417</b>	<b>0.74</b>	

Due to the introduction of expenditure prioritisation strategies, the municipality has managed to marginally increase expenditure by 0.7% from **R 566.7 million** at mid-term to **R 571 million**. The significant core business units being technical services and community services have gained increases of **5.89%** and **9.68%** respectively. When comparing the allocation of the operational budget for the Technical Services, and the amount raised in relation to the water and sanitation services, the difference is about R 183.8 million. This puts pressure on the municipality, for the future outer years to start complying with the recommendations of the National Treasury on charging of a cost reflective tariff to our customers.

**TABLE 11. MAIN OPERATIONAL EXPENDITURE ITEMS**

<b>Operational Expenditure</b>	<b>Budget</b>	<b>% of the Budget</b>
Salaries	218 051 937	38.19
Bulk Water Purchases	95 592 800	16.74
Capital Charges	30 000 000	5.25
Water Tanker Hire	33 620 000	5.89
Vacuum Tanker Hire	5 400 000	0.95
Operations & Maintenance	47 471 798	8.31
Water Quality & Process Management	8 034 695	1.41
Provision for Doubtful Debt	32 008 381	5.61
Councillor Remuneration	12 326 793	2.16
Interest Payable	13 644 198	2.39
Consultants	4 024 000	0.70
Protective Clothing	3 000 000	0.53
Motor Vehicle Hire	4 359 000	0.76
LED Programmes and Promotion	4 915 465	0.86
Data Processing	3 283 264	0.58
Electricity	1 550 000	0.27
Building Maintenance	1 000 000	0.18

Operational Expenditure	Budget	% of the Budget
Special Communities Programmes	7 550 000	1.32
Tourism Programmes & Promotion	3 000 000	0.53
Security	3 000 000	0.53
Communication	770 000	0.13
Capital Expenditure Expensed	2 329 000	0.41
Office Expenses & Refreshments	3 000 000	0.53
Conferences	100 000	0.02
Sports Promotion	3 500 000	0.61
Arts Promotion	1 250 000	0.22
Culture Promotion	450 000	0.08
Mandela Day Marathon	2 000 000	0.35
Agency Fees	2 500 000	0.44
Bursaries	1 000 000	0.18
Emergency Response Centres and Tools	3 212 106	0.56
Environmental Health	1 130 000	0.20
Printing & Stationery	2 622 000	0.46
Research, Legal & Publications	1 600 000	0.28
Other Expenditure	13 705 143	2.40
	<b>571 000 580</b>	<b>100.00</b>

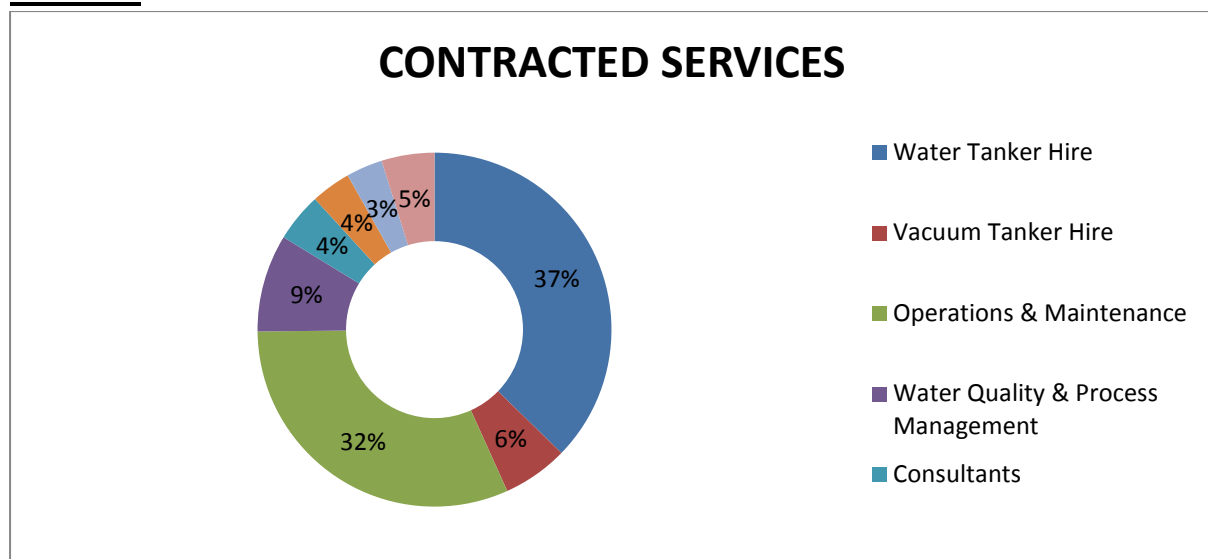
The main expenditure drivers remain the bulk services (**17%**), employee costs (**38%**), water tankers (**5.9%**), and operations and maintenance (**8%**). The categories for the operational expenditure are outlined in table 12 below. The Municipality is exploring other avenues on reducing its contracted services in efforts to find cost effective ways of providing the services to the community and possibly relieve the budget to further invest in the infrastructure investment. The salary cost (**38%**) still remains within the norm of 35%-40% as determined by the National Treasury and is justifiably a significant overhead in the labour intensive service of the functions of a district municipality. The total cost of employee related costs to total operating revenue and inclusive of councilor allowances is 40.35 %.

Table 12, reflects the categories of contracted services that the municipality has for the 2015 /2016 financial year. The contracted services will contribute **16%** of operating costs in the 2015/2016 financial year at **R90 million**. Although the contracted services are above the norm of 5% most of them are relating to operations and maintenance and water tinkering which are unavoidable overheads in the business of providing water and sanitation services. The contracts are being reviewed even before the expiry date to ensure tighter cost control of the significant cost drivers. On the latter the operation and maintenance costs have remained at the desired **8%** of operating expenditure as directed by the National Treasury.

**TABLE 12. CONTRACTED SERVICES**

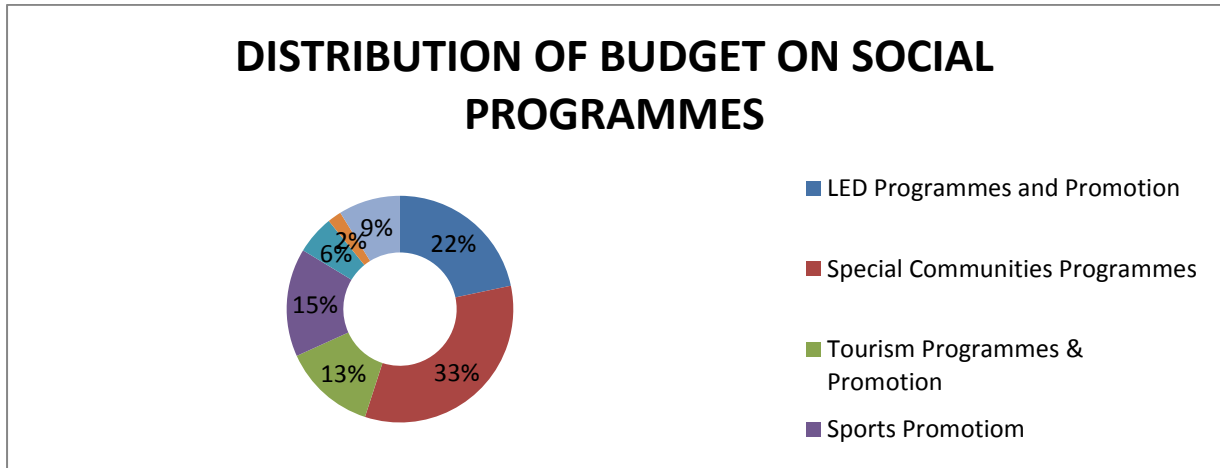
<b>Contracted Services</b>	<b>Budget</b>	<b>% Contribution</b>
Water Tanker Hire	33 620 000	<b>37%</b>
Vacuum Tanker Hire	5 400 000	6%
Operations & Maintenance	28 483 079	<b>32%</b>
Water Quality & Process Management	8 034 695	9%
Consultants	4 024 000	4.5%
Data Processing	3 283 264	3.6%
Security	3 000 000	3.3%
Motor Vehicle Hire	4 359 000	4.8%
	<b>90 204 038</b>	

**GRAPH 4**

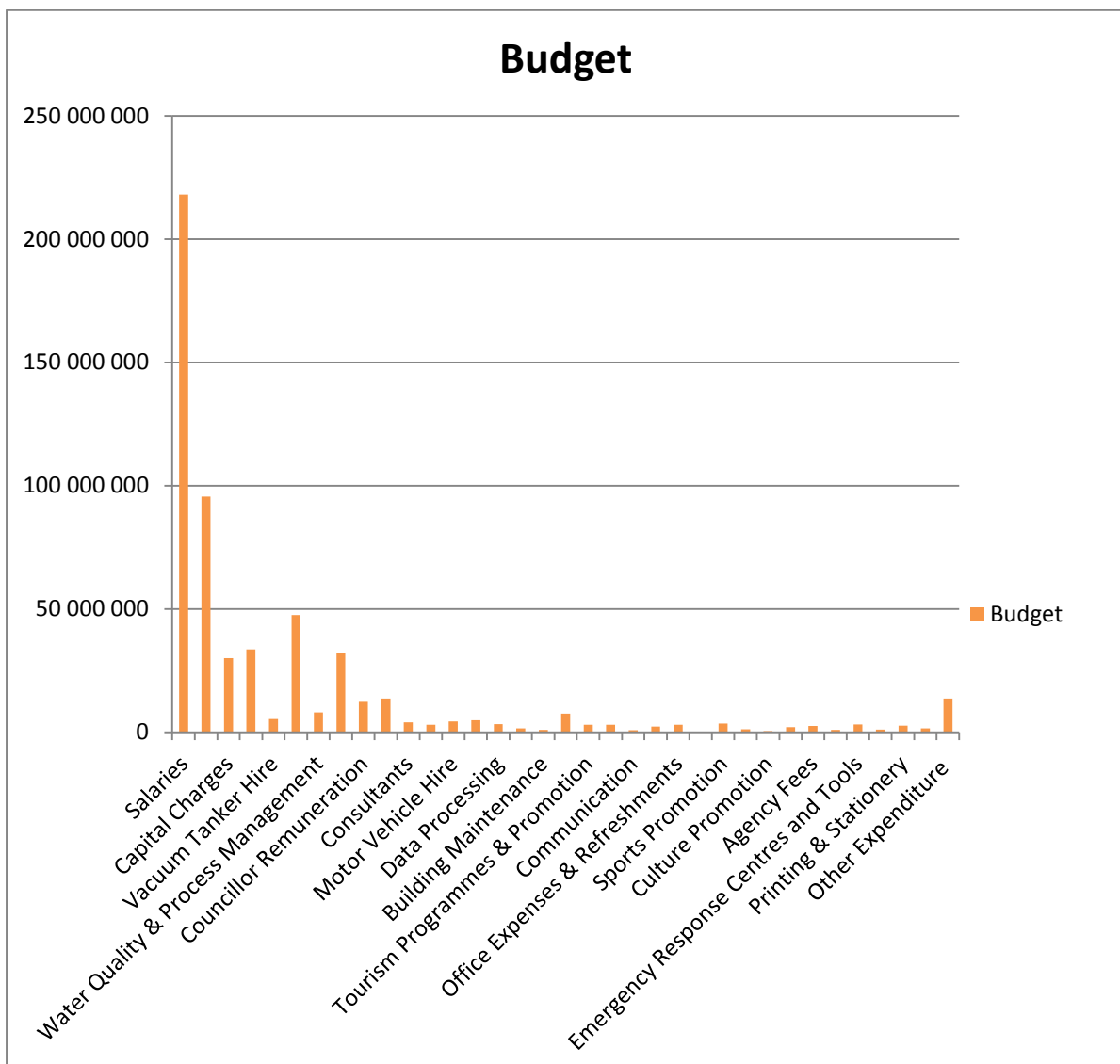


While water and sanitation remains our core business of the R571 million budget **R22,7 million** will further be invested in social programmes under the community services vote with the following direct contributions. **33%** of the R22,7 million will go towards programmes relating to Women, children, persons with disabilities and senior citizens. Whilst **22%** will be allocated to LED initiatives which are aimed at cultivating the economy of uMgungundlovu District, 3<sup>rd</sup> largest slice will be directed to Sports promotion initiatives at **15%** of the social programmes budget.

**GRAPH 5**



**GRAPH 6**



## 5. CAPITAL EXPENDITURE

The commitment by the municipality to invest in the provision of quality services can be identified by the allocation of funds to the essential service.

Almost **95%** of the capital budget is allocated to the water function, which is aimed to advance the implementation of projects and ensure limited service interruptions.

Although water and sanitation services are operating at a deficit, the municipality has committed to acquire a loan from DBSA to the value of R 230 million which is targeted for fast tracking the implementation of new projects and major revitalization of ageing infrastructure in some of the areas of the district which leads to service interruptions and costing the municipality through water losses.

**TABLE 11. CAPITAL EXPENDITURE**

<b>Function</b>	<b>Amount</b>	<b>% of Budget</b>
Water	368 419 883.66	94.25
Sports Grounds	3 000 000.00	1.16
Roads	4 329 000.00	1.67
Operational Assets	7 600 000.00	2.93
<b>TOTAL</b>	<b>383 348 883.66</b>	

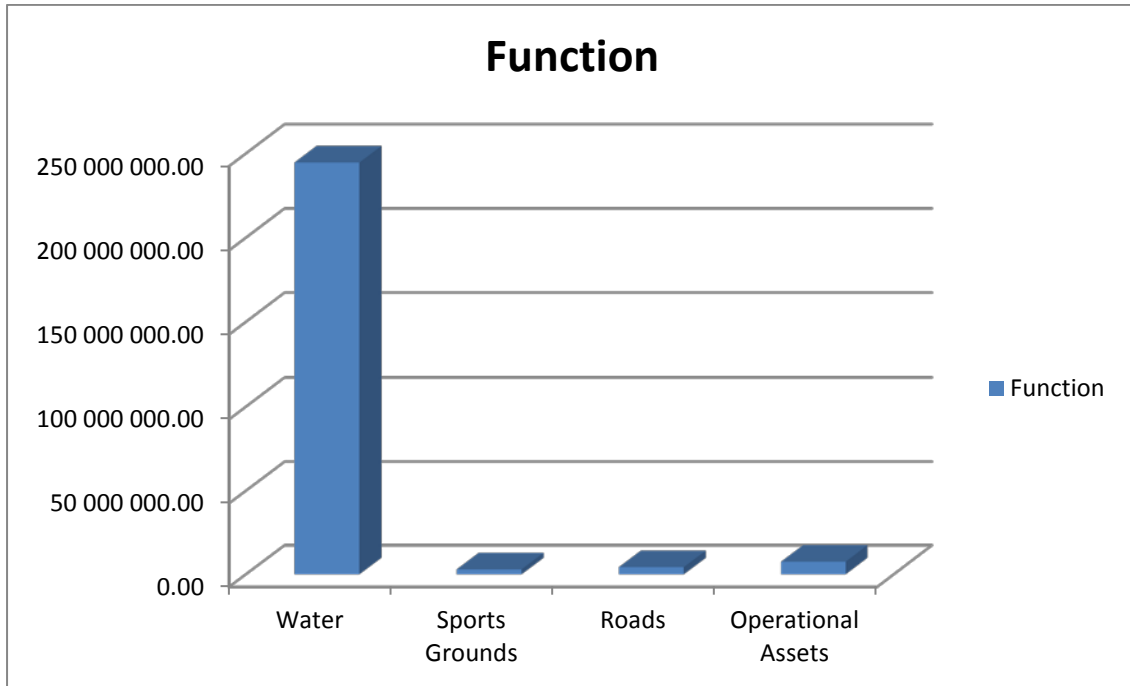
Except for the DBSA loan, the municipality is through the capital grants afforded by the national and provincial treasuries, be investing as well in the water and sanitation infrastructure.

An amount of R 3 million is invested in sports function as co funding that the municipality should contribute towards the completions of sports facilities that are under construction within the district.

Further, the municipality is investing an amount of R 7.6 million in capital assets that will be acquired using funding from the municipality to enhance the efficiency of the Technical Services Department such as the telemetry system, jetting machine and TLB.



**GRAPH 7**



## **PART 2**

### **6. BUDGET ASSUMPTIONS :**

The following were budget assumptions that were made during the compilation of the 2015 /2016 budget:

1. Inflation will increase costs by 5.6 % for the 2015/2016 year and 4.8 % for the outer years 2016 – 2017 respectively.
2. The bulk cost of uMgeni water will increase by 8.43 %
3. NERSA has determined an electricity increase of 12.69%
4. Eskom proposed a tariff hike of 9.58%
5. Average increase of salaries of 7.43 % which is average CPI +1.5% although SALGA has declared 4.4%.
6. There will be no increase in the water tanker hire.
7. The collection rate will be a minimum of 70 %
8. Completed projects to translate to billable customers to improve revenue and release pressure over water tinkering
9. Operation and maintenance costs to be gradually reduced through the year
10. Of the R 230 million proposed balance sheet loan, a maximum of R 107 million will be drawn for the implementation of Capital projects in the 2015/2016 budget year.

## 7. Overview of the annual budget process

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

The municipal Finance Committee is the Budget Steering Committee and it consists of the Municipal Manager, senior officials, and seven councillors of the municipality meeting under the chairpersonship of the Mayor .

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

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

## 8. Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2014) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required the IDP and budget time schedule on 28 August 2014. Key dates applicable to the process were:

- **July - August 2014** – Joint strategic planning session of the Mayoral Committee and Executive Management. Aim: to review past performance trends of the capital and operating budgets, the economic realities and to set the prioritisation criteria for the compilation of the 2011/12 MTREF;
- **November – December 2014** – Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
- **January – February 2014** - Review of the financial strategy and key economic and financial planning assumptions by the Budget Steering Committee. This included financial forecasting and scenario considerations;
- **30 January 2015** - Council considers the 2014/2015 Budget Implementation Assessment
- **27 February 2015** - Approval of the Mid-year Adjustments Budget;
- **February 2015** – Finalisation of the departmental inputs of the IDP Review and the Budget Estimates;
- **27 March 2015** - Tabling in Council of the draft 2015/ 2016 IDP and 2015 /2016 MTREF for public consultation;
- **April 2015** – Public consultation;

- **6 May 2011** - Closing date for written comments;
- **29 April – 08 May 2015** – finalisation of the 2015/ 2016 IDP and 2015/ 2016 MTREF, taking into consideration comments received from the public, comments from National Treasury, and updated information from the most recent Division of Revenue Bill and financial framework; and
- **29 May 2015** - Tabling of the 2011/12 MTREF before Council for consideration and approval.

There were no anticipated deviations from the key dates set out in the Budget Time Schedule tabled in Council.

## **9. Financial Modelling and Key Planning Drivers**

As part of the compilation of the 2015 /2016 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2015/2016 MTREF:

- Growth of the District
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2014 /2015 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Loan and investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

## **10. Community Consultation**

The community participation will be conducted during the month of April. The consultation meetings will be held together with those of the Local Municipalities within the District.

## 11. IDP Strategic Objectives

2014/15 Financial Year	2015/16 MTREF
1. The provision of quality basic services and infrastructure	1. Provision of quality basic services and infrastructure
2. Acceleration of higher and shared economic growth and development	2. Economic growth and development that leads to sustainable job creation
3. Fighting of poverty, building clean, healthy, safe and sustainable communities	3.1 Fight poverty and build clean, healthy, safe and sustainable communities
	3.2 Integrated Social Services for empowered and sustainable communities
4. Fostering participatory democracy and adherence to Batho Pele principles through a caring, accessible and accountable service	4. Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service
5. Good governance, Financial viability and institutional governance	5.1 Promote sound governance
	5.2 Ensure financial sustainability
	5.3 Optimal institutional transformation to ensure capacity to achieve set objectives
	5.4 Financial Sustainability

In order to ensure integrated and focused service delivery between all spheres of government it was important for the municipality to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

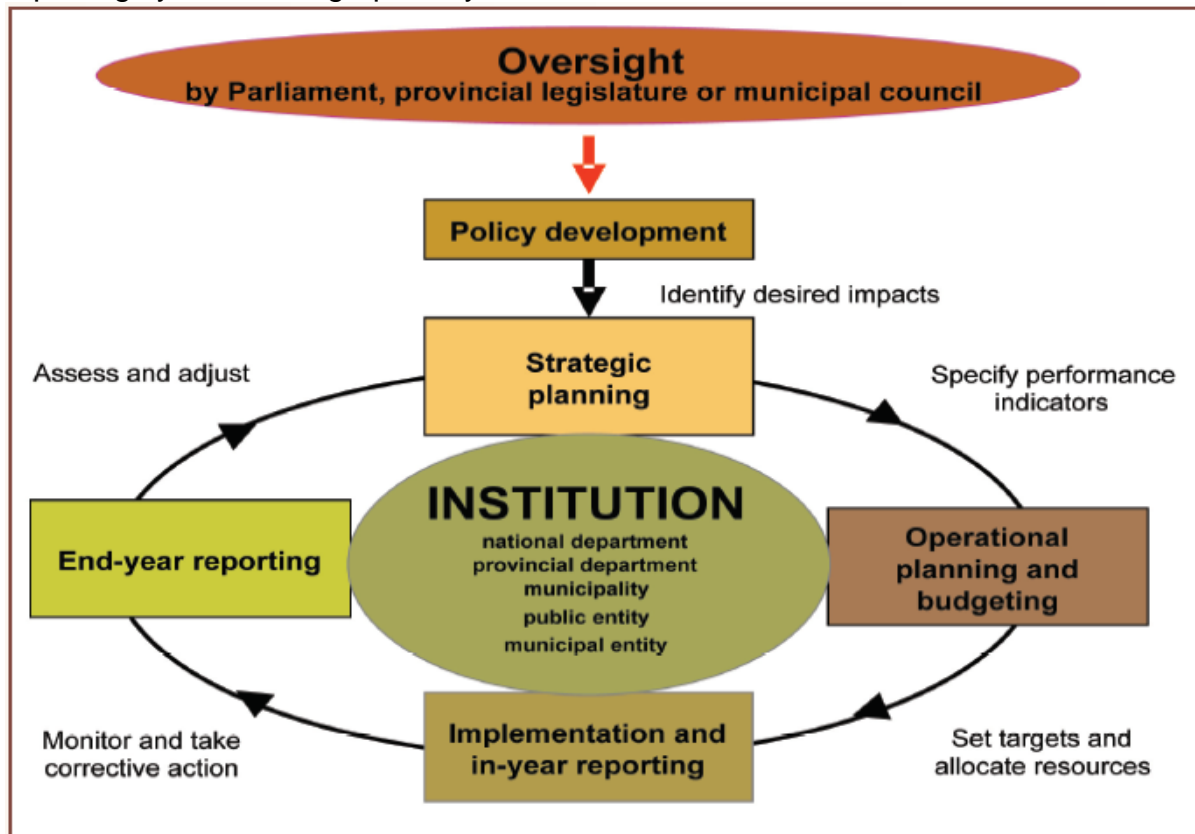
Within the uMgungundlovu District, the priorities of providing sustainable, good quality water and decent sanitation services quality were identified as part of the IDP review process which is directly aligned to that of the national and provincial priorities. Further the municipality identified the following priorities:

- Fight poverty and build clean, healthy, safe and sustainable communities
- Integrated Social Services for empowered and sustainable communities
- Promote sound governance and transparency
- Ensure financial sustainability through reviewing the use of contracted services and continuing to implement the infrastructure renewal strategy and the repairs and maintenance plan

## 12. Measurable performance objectives and indicators

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

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



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

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

### **13. Municipal manager's quality certificate**

I, TLS Khuzwayo, municipal manager of uMgungundlovu District Municipality, hereby certify that the medium term revenue and expenditure forecasts and documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act.

Print Name Terrence Lancelot Sibusiso Khuzwayo

Signature \_\_\_\_\_

Date 23 March 2015