

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



uMGUNGUNDLOVU
U M A S I P A L A W E S I F U N D A
D I S T R I C T M U N I C I P A L I T Y
D I S T R I K M U N I S I P A L I T E I T

MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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PART 1

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.

The capital budget for the 2015/2016 financial year is R 260 224 million.

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% (59.81 %) 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. During the 2014/ 2015 financial year the municipality has, been funding its capital projects from its own funding whilst finalising the loan agreement with DBSA. The draw down schedule for the loan withdrawals resumed in March 2015 to avoid interruptions in the implementation of projects.

Once again, 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.

1.2 RESOLUTIONS

It is recommended that the Executive Committee:

- 2.1. Approves and recommends to Full Council 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 and recommends to Full Council the Final Draft multi year 2015 2016 – 2017 / 2018 annual budget and single capital appropriations for the 2015 / 2016 annual budget as follows:
 - 1.2.1 The Total Operating Revenue of R 579 001 million.
 - 1.2.2 The Total Funding of R894 632 million.
 - 1.2.3 The Total Operating Expenditure of R 576 918 million.
 - 1.2.4 Total Capital Expenditure of R252 895 million.
 - 1.2.5 The Operating Surplus of R 2 082 million
3. That the Full Council notes the comments received from the Provincial Treasury on the First Draft Budget.

1.3 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)	(576 919)	(602 977)	(631 919)
Surplus/ (Deficit) for the year	(34 242)	2 082	8 535	23 817
Total Capital Expenditure	(209 159)	(252 896)	(140 647)	(169 947)

The operating revenue has increased by **R 46 462 million** from R 532 539 million as approved during the Adjustment Budget to R 579 million which represents a **8.7%** increase. For the outer years, the revenue is anticipated to increase by 5.6% and 7.2% respectively. Although National Treasury has recommended that municipalities should expect increases in costs by 5, 6% , the uMDM has managed to limit the increase in operational expenditure by under 1%.

Various factors were taken into consideration when the budget was drafted such as costs cutting measures in other operational costs in order to begin to allow for "space" for the finance costs to service 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 its investment in the revenue generation strategies such as implementation of credit control policy (restrictions) , 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 43 737 million (20.9%)** in the 2015 /2016 financial year. This increase is expected to bring out a reduction in contracted operations and maintenance costs, reduce non revenue water and reduce the costs of water tankers and in turn contribute towards increased revenue generation. Key to this strategy is the need to efficiently add 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 just over R2 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 R thousands	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
Financial Performance										
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
Total Revenue (excluding capital transfers and contributions)	359 504	481 824	514 120	548 480	532 539	532 539	378 220	579 001	611 512	655 736
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	3 168	3 320
Other expenditure	133 283	295 639	249 096	177 192	207 170	207 170	110 251	203 163	214 540	224 837
Total Expenditure	394 014	602 770	546 858	563 718	566 781	566 781	335 539	576 919	609 226	638 468
Surplus/(Deficit)	(34 511)	(120 946)	(32 738)	(15 238)	(34 242)	(34 242)	42 681	2 082	2 286	17 268

The trend of the operational surplus is in the steady incline for the outer years as well.

OPERATING BUDGET FRAMEWORK

1.4 OPERATING REVENUE FRAMEWORK

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

The municipality has allocated a total of R 894 632 million worth of funding for the 2015/2016 financial year as tabled below in table 3 below.

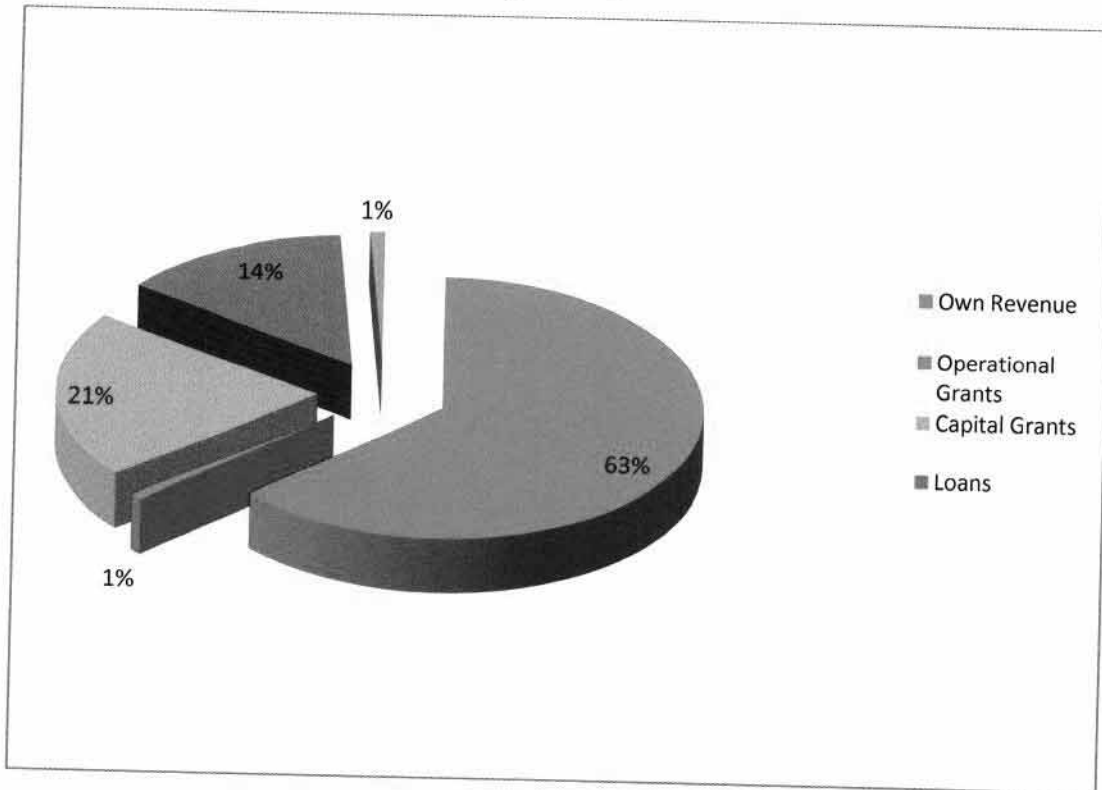
In total, the operating revenue amounts to R 571 million or **63.82 %** of the funding sources of which **67.8%** is contributed from equitable share and RSC levy replacement grant (R398 469 million) which confirms the municipalities continued reliance on grants. The demands against the municipality's 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 **8.7%** 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		
Own Revenue	563 732 580	63.01
Operational Grants	7 268 000	0.81
Capital Grants	186 132 000	20.81
Loans	129 500 000	14.48
Roll Over Funding	8 000 000	0.89
TOTAL	894 632 580	

GRAPH 1

Illustration of contributions to the total funding sources



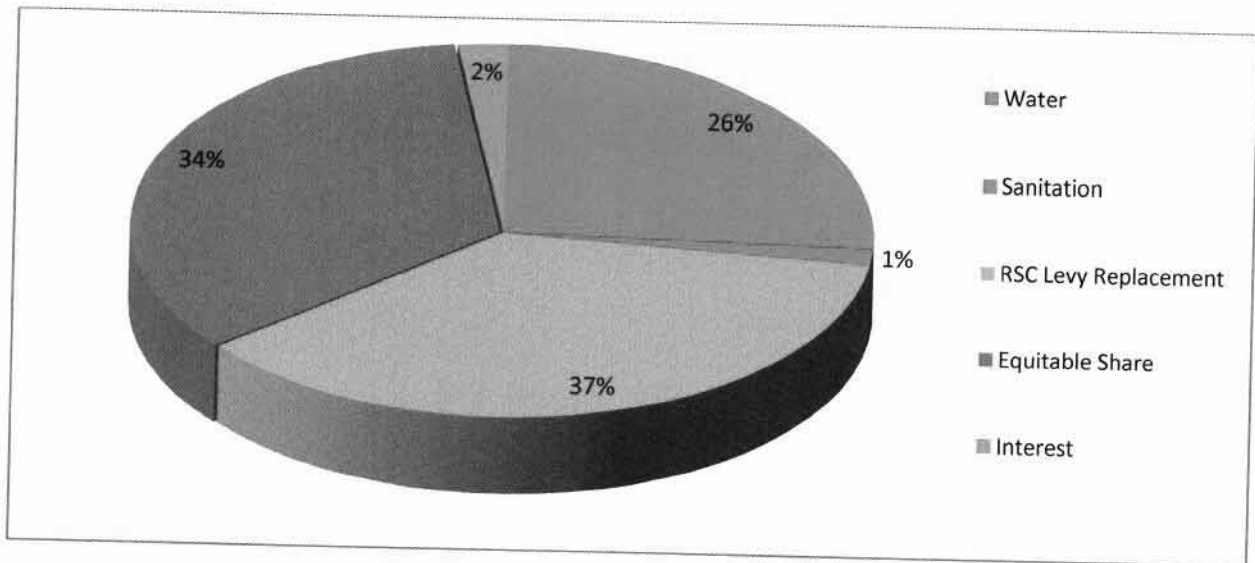
Although the funding sources reflects that the own funding category is the main funder of the budget, a closer look at the categories reveals that the municipality is grant reliant. Table 4 below reflects the splits of the own revenue source and the contribution of each source.

TABLE 4

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

Put together, the RSC Levy Replacement and the Equitable share amount to R 398.469 million (70.69 %) which confirms grant reliance.

GRAPH 2



1.5 OPERATING EXPENDITURE FRAMEWORK

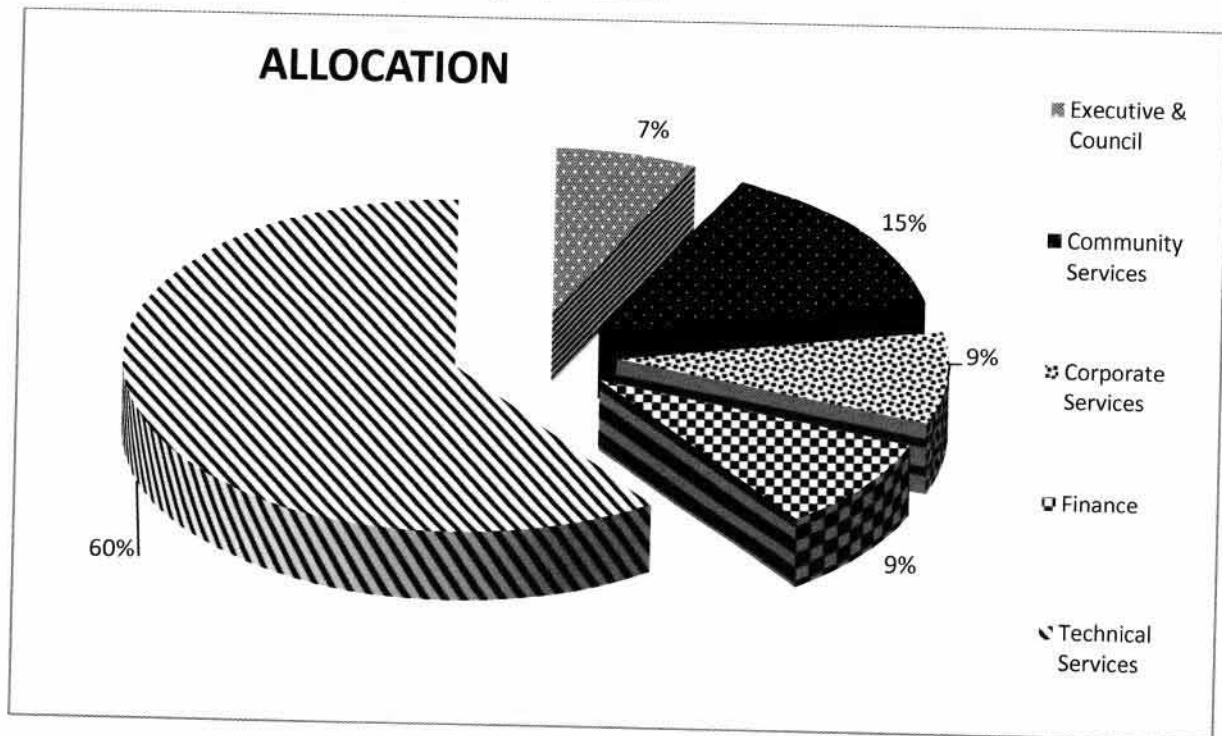
The core business for the municipality is to provide sustainable and quality drinking water and decent sanitation services. This is evident on the allocation of funds to the Technical Services Department. Table 5 below reflects an allocation of R 336 .8 million allocated. The Technical Services Department was allocated with close to **60 %** of the operational budget followed by Community Services at almost **15%** which reflects the municipality's commitment to the core business of local government and being citizen centric.

TABLE 5

Department	Amount	%
Executive & Council	39 729 888	6.89
Community Services	85 171 331	14.76
Corporate Services	52 240 893	9.06
Finance	52 346 327	9.07
Technical Services	347 429 760	60.22
TOTAL	576 918 200	100.00

GRAPH 3

Illustration of distribution of operating expenditure



Although the provision of water and sanitation services is the core business of the municipality and the Technical Services department which is a water provision department receives the major portion of the municipality's budget, the service continues to run at a loss. When comparing what is expected to be raised from trading services – Water and Sanitation, the amount totals to R153 031million (26%) and the allocation to the Technical Services Department is allocated an operational budget of R 347 423 million which is a deficit of R 194 398 million.

1.5.1 Employee related cost

The employee related cost were increased by 11.5% or R22.5 million from the 2014/15 budget year to the 2015/16 budget year. The increase is mainly due to notch increases, additional new appointments in the service department, the Community Services Department and the budget assumption of a 7.43 % salary increase to be finalised by the bargaining unit.

1.5.2 Debt impairment

The debt impairment as a percentage of total billable revenue was 24% for the 2015/16 budget. Furthermore, the municipality has budgeted a collection rate of 70% resulting in the collection shortfall of 30%. The municipality is confident that the provisions for doubtful debt is sufficient based on the revenue raising strategies that have been implemented during the 2014 /2015 financial year which seems to bear fruits. The implementation of a revised credit control policy and the incentives proposed to encourage a culture of payment in our communities is also anticipated to improve both the revenue generation and debt collection.

The rate of growth for the operational expenditure in relation to the growth and sustainability of the service is, faster and not sustainable over a period of time. If this trend persist, it will lead to financial distress for the municipality and will in the future put pressure on the municipality, to start complying with the recommendations of the National Treasury by charging cost reflective tariffs to our customers to ensure profitability and sustainability of the service.

The ageing infrastructure, increase in petrol prices, increase in bulk services and electricity tariffs and general inflation, continues to erode the value of money which exerts pressure to the municipality as it strives to provide quality and sustainable services at affordable prices, in compliance with the requirements and safety standards as stipulated by DWA .

Besides being a water centric municipality, as a municipality 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 fulfil a wide range of social, economic and environmental objectives. Unemployment is the most pressing challenge facing the country and our district.

With programmes like the Extended Public Works Programme, the National Government redressing the challenges of unemployment by creating equivalent to permanent job opportunities and eradicate poverty and joblessness.

TABLE 6

Comparison: Mid Term and Proposed Budget						
Department	Adjustment Budget	% of Adjustment Budget	Proposed Budget	Amount Change	% Change	% Contribution to Budget
Executive & Council	57 280 377	10.11	39 729 888	-17 550 489	-30.64	6.89
Community Services	77 651 535	13.70	85 171 331	7 519 796	9.68	14.76
Corporate Services	55 377 771	9.77	52 240 893	-3 136 878	-5.66	9.06
Finance	58 341 010	10.29	52 346 327	-5 994 683	-10.28	9.07
Technical Services	318 129 470	56.13	347 429 760	29 300 290	9.21	60.22
TOTAL	566 780 163	100	576 918 200	10 138 037	1.79	100

Due to the introduction of expenditure prioritisation strategies, the municipality has managed to marginally increase its operational expenditure by 1.79 % from **R 566 780 million** at mid-term to **R 576 918 million**. The significant core business units being Technical services and community services with 56.13% and 13.70 of the budget.

The main expenditure drivers remain the bulk services (**167%**), employee costs (**37.8%**), water tankers (**5.83%**), and operations and maintenance (**8.23%**) **excluding operations**

and maintenance salaries. The categories for the operational expenditure are outlined in table 7 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 employee salary cost is a little above 38%, however when combined with councilor allowances, the rate increases to 40.3 % which is 0.03% above the National Treasury norm of 25 – 40 % of the total operational budget.

Table 8, reflects the categories of contracted services that the municipality has for the 2015 /2016 financial year. The contracted services will contribute **18.29%** of operating costs in the 2015/2016 financial year at **R104 445 million**. Although the contracted services are above the norm of 5% most of them are relating to operations and maintenance and water tanker hire which are unavoidable overheads for the providing 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.

TABLE 7

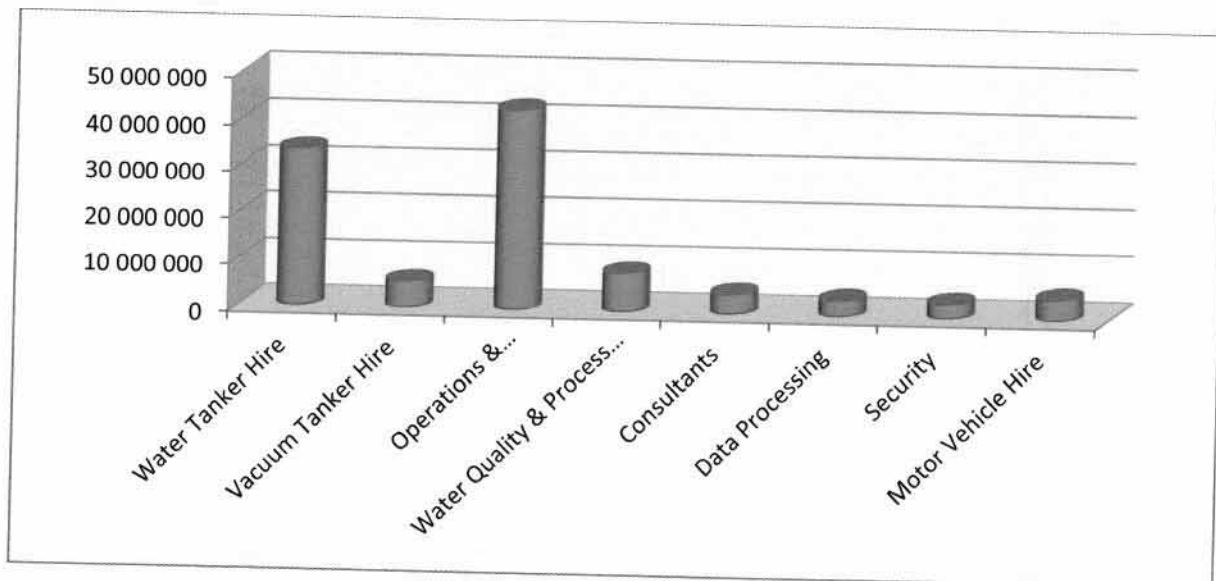
Operational Expenditure	Budget	% of the Budget
Salaries	218 051 937	37.80
Bulk Water Purchases	95 592 800	16.57
Other Materials	1 500 000	0.26
Capital Charges	30 000 000	5.20
Water Tanker Hire	33 620 000	5.83
Vacuum Tanker Hire	5 400 000	0.94
Operations & Maintenance (Excluding Salaries)	47 471 798	8.23
Water Quality & Process Management	8 034 695	1.39
Provision for Doubtful Debt	37 926 001	6.57
Free Basic Services	3 000 000	0.52
Councillor Remuneration	12 326 793	2.14
Interest Payable	13 284 198	2.30
Consultants	4 024 000	0.70
Protective Clothing	3 000 000	0.52
Motor Vehicle Hire	4 359 000	0.76
LED Programmes and Promotion	4 915 465	0.85
Data Processing	3 283 264	0.57
Electricity	1 550 000	0.27
Building Maintenance	1 000 000	0.17
Special Communities Programmes	7 550 000	1.31
Tourism Programmes & Promotion	3 000 000	0.52
Security	3 000 000	0.52
Communication	770 000	0.13
Capital Expenditure Expensed	4 329 000	0.75
Office Expenses & Refreshments	3 000 000	0.52
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
Maintenance Buildings	1 000 000	0.17
Other Expenditure	18 629 249	3.23
	576 918 200	100.00

TABLE 8

Contracted Services	104 445 577
Water Tanker Hire	33 620 000
Vacuum Tanker Hire	5 400 000
Operations & Maintenance	42 724 618
Water Quality & Process Management	8 034 695
Consultants	4 024 000
Data Processing	3 283 264
Security	3 000 000
Motor Vehicle Hire	4 359 000

GRAPH 4



While water and sanitation remains our core business of the municipality, **R22 665 million (26.61%** of the Community Services Department) will further be invested in social programmes with the following direct contributions:

- **8.86%** of the R22,7 million will go towards programmes relating to Women, children, persons with disabilities and senior citizens.
- **9.29%** will be allocated to Tourism and LED initiatives which are aimed at cultivating the economy of uMgungundlovu District,
- **8.45%** will be directed to Sports promotion initiatives.

1.6 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.

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.

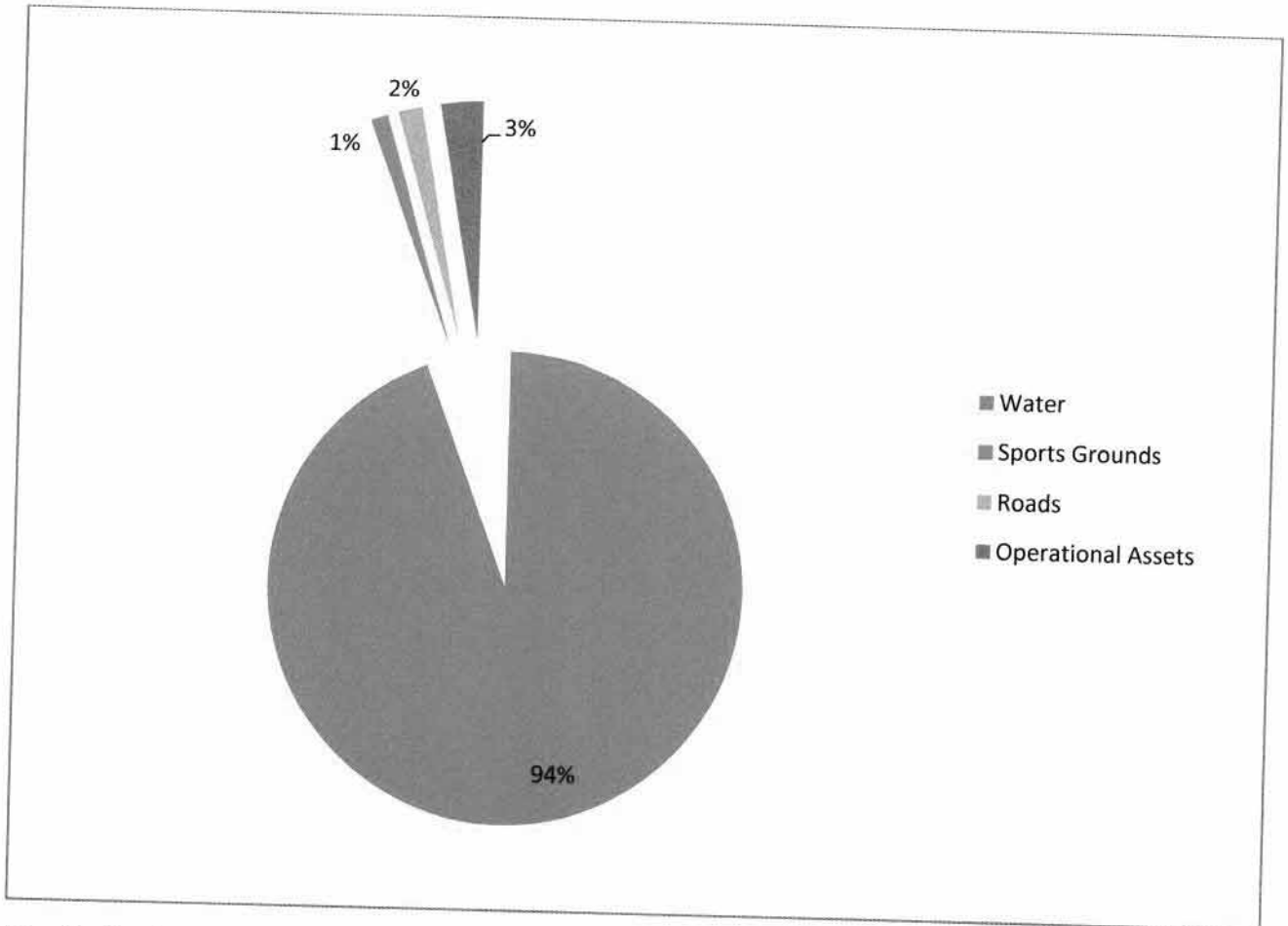
Almost **95%** of the capital budget is allocated to the water function, which is aimed to advance the implementation of projects and ensure limited service interruptions.

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 to be spent over 24 months targeting at fast tracking the implementation of new projects, major revitalization of ageing infrastructure in some of the areas of the district which has been hit with service interruptions, cutting down on non revenue water as a result of water losses.

TABLE 9

Function	Amount	% of Budget
Water	245 295 932.42	94.26
Sports Grounds	3 000 000.00	1.15
Roads	4 329 000.00	1.66
Operational Assets	7 600 000.00	2.92
TOTAL	260 224 932.42	

GRAPH 5



Due to the high pace of projects implementation during the 2014 /2015 financial year, the Municipality has overspent on its MIG allocation. As a result, it is expected that by the end of the financial year, the municipality would have expended more than 70% of its 2015 /2016 MIG allocation in the 2014 /2015 financial year. As a result, the draw downs from the R230 million DBSA loan are expected to rise to up to R 129 million in the 2015 /2016 financial year.

National Treasury has also allocated an amount in excess of R 80 million as a Municipal Water Infrastructure Grant to assist the municipality with the implementation of bulk 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.

1.7 ANNUAL BUDGET TABLES : REFER TO SCHEDULE A1

DC22 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
Financial Performance										
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
Total Revenue (excluding capital transfers and contributions)	359 504	481 824	514 120	548 480	532 539	532 539	378 220	579 001	611 512	655 736
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	3 168	3 320
Other expenditure	133 283	295 639	249 096	177 192	207 170	207 170	110 251	203 163	214 540	224 837
Total Expenditure	394 014	602 770	546 858	563 718	566 781	566 781	335 539	576 919	609 226	638 468
Surplus/(Deficit)	(34 511)	(120 946)	(32 738)	(15 238)	(34 242)	(34 242)	42 681	2 082	2 286	17 268
Transfers recognised - capital	90 609	140 324	184 442	139 097	116 097	116 097	164 610	186 132	140 647	169 947
Contributions recognised - capital & contributed assets	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions	56 099	19 378	151 704	123 859	81 855	81 855	207 291	188 214	142 933	187 215
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) for the year	56 099	19 378	151 704	123 859	81 855	81 855	207 291	188 214	142 933	187 215
Capital expenditure & funds sources										
Capital expenditure	132 312	77 953	143 850	244 608	207 659	207 659	207 659	252 896	140 647	169 947
Transfers recognised - capital	132 312	77 953	143 850	244 608	207 659	207 659	207 659	186 132	140 647	169 947
Public contributions & donations	-	-	-	-	-	-	-	-	-	-
Borrowing	-	-	-	-	-	-	-	51 164	-	-
Internally generated funds	-	-	-	-	-	-	-	15 600	-	-
Total sources of capital funds	132 312	77 953	143 850	244 608	207 659	207 659	207 659	252 896	140 647	169 947

Financial position										
Total current assets	194 091	262 973	408 090	523 041	424 037	424 037	424 037	682 685	723 705	761 783
Total non current assets	688 135	680 709	793 856	062 293	940 566	940 566	940 566	116 828	257 475	456 722
Total current liabilities	95 680	146 225	247 109	165 571	210 360	210 360	210 360	229 383	140 699	147 452
Total non current liabilities	13 993	9 954	6 021	136 886	6 035	6 035	6 035	148 688	-	-
Community wealth/Equity	772 553	787 503	948 816	24 356	24 356	24 356	24 356	946 958	999 988	047 988
Cash flows										
Net cash from (used) operating	181 569	86 785	139 921	90 950	85 863	85 863	85 863	240 929	220 047	268 030
Net cash from (used) investing	(131 033)	(77 540)	(160 396)	(246 108)	(209 159)	(209 159)	(209 159)	(252 896)	(140 647)	(169 947)
Net cash from (used) financing	(3 243)	(3 407)	88 760	47 717	70 450	70 450	70 450	50 794	(8 417)	(8 821)
Cash/cash equivalents at the year end	131 158	136 999	205 283	11 800	148 687	148 687	148 687	187 513	258 496	347 758
Cash backing/surplus reconciliation										
Cash and investments available	131 160	136 999	205 283	141 800	152 437	152 437	152 437	187 513	200 804	213 782
Application of cash and investments	78 935	112 667	143 523	91 234	62 081	62 081	62 081	101 104	57 570	60 333
Balance - surplus (shortfall)	52 225	24 331	61 760	50 566	90 356	90 356	90 356	86 409	143 234	153 449
Asset management										
Asset register summary (WDV)	688 135	680 709	793 856	058 543	731 454	731 454	054 352	054 352	313 493	515 429
Depreciation & asset impairment	78 453	80 989	56 330	45 391	45 391	45 391	30 000	30 000	31 680	33 201
Renewal of Existing Assets	132 312	77 953	143 850	240 308	204 859	203 359	203 359	368 420	140 647	169 947
Repairs and Maintenance	-	-	-	66 437	66 437	66 437	85 022	85 022	50 130	52 536
Free services										
Cost of Free Basic Services provided	-	-	-	-	-	-	3 000	3 000	3 319	3 668
Revenue cost of free services provided	-	-	-	-	-	-	4 991	4 991	-	-
Households below minimum service level										
Water:	-	-	-	2	2	2	0	0	-	-
Sanitation/sewerage:	-	-	-	-	-	-	-	-	-	-
Energy:	-	-	-	-	-	-	-	-	-	-
Refuse:	-	-	-	204	-	-	214	214	222	233

DC22 uMgungundlovu - Table A4 Budgeted Financial Performance
(revenue and expenditure)

Description	Ref	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
Revenue By Source											
Property rates	2	-	-	-	-	-	-	-	-	-	-
Property rates - penalties & collection charges		-	-	-	-	-	-	-	-	-	-
Service charges - electricity revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - water revenue	2	37 241	94 293	125 072	99 459	99 459	99 459	67 939	145 048	153 171	160 523
Service charges - sanitation revenue	2	6 870	23 748	7 604	7 832	7 832	7 832	7 078	7 983	8 430	8 835
Service charges - refuse revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - other		172	95	9	-	-	-	152	-	-	-
Rental of facilities and equipment		335	289	405	320	320	320	189	-	-	-
Interest earned - external investments		8 040	7 979	10 413	15 311	9 360	9 360	6 524	8 960	9 462	9 916
Interest earned - outstanding debtors		8 648	12 856	19 491	8 000	4 800	4 800	9 393	2 872	3 033	3 179
Dividends received		-	-	-	-	-	-	-	-	-	-
Fines		-	-	-	-	-	-	-	-	-	-
Licences and permits		-	-	-	-	-	-	-	-	-	-
Agency services		-	-	-	-	-	-	-	-	-	-
Transfers recognised - operational		295 926	327 088	348 651	390 746	390 746	390 746	285 489	405 737	437 416	473 283
Other revenue	2	2 138	15 063	2 475	26 812	20 022	20 022	1 456	8 400	-	-
Gains on disposal of PPE		134	413	-	-	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contributions)		359 504	481 824	514 120	548 480	532 539	532 539	378 220	579 001	611 512	655 736
Expenditure By Type											
Employee related costs	2	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
Debt impairment	3	29 130	57 373	39 455	17 414	35 784	35 784	8 707	37 926	40 050	41 972
Depreciation & asset impairment	2	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
Bulk purchases	2	43 385	63 346	71 336	71 925	76 424	76 424	50 696	95 593	100 946	105 791
Other materials	8	-	-	-	1 200	672	672	346	1 500	1 584	1 660
Contracted services		103 836	152 157	143 853	51 865	61 863	61 863	51 020	90 204	95 255	99 828
Transfers and grants	4,	-	-	-	48 992	28 690	28 690	16 060	3 000	3 168	3 320
Other expenditure	5	(972)	85 183	65 788	107 913	109 523	109 523	50 524	75 033	79 235	83 037
Loss on disposal of											

PPE		1 289	926	-	-	-	-	-	-	-	-
Total Expenditure		394 014	602 770	546 858	563 718	566 781	566 781	335 539	576 919	609 226	638 468
Surplus/(Deficit)		(34 511)	(120 946)	(32 738)	(15 238)	(34 242)	(34 242)	42 681	2 082	2 286	17 268
Transfers recognised - capital		90 609	140 324	184 442	139 097	116 097	116 097	164 610	186 132	140 647	169 947
Contributions recognised - capital	6	-	-	-	-	-	-	-	-	-	-
Contributed assets		-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions		56 099	19 378	151 704	123 859	81 855	81 855	207 291	188 214	142 933	187 215
Taxation		-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after taxation		56 099	19 378	151 704	123 859	81 855	81 855	207 291	188 214	142 933	187 215
Attributable to minorities		-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) attributable to municipality		56 099	19 378	151 704	123 859	81 855	81 855	207 291	188 214	142 933	187 215
Share of surplus/ (deficit) of associate	7	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) for the year		56 099	19 378	151 704	123 859	81 855	81 855	207 291	188 214	142 933	187 215

PART 2

2.1 OVERVIEW OF THE ANNUAL BUDGET PROCESS

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

The municipality's 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.

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) the 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.

During April 2015, the uMgungundlovu Municipality 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:

- Mpofana,
- uMngeni,
- Richmond and
- Impendle.

The District also attended the Izimbizo and IDP Forums that were hosted by the Local Municipalities at Mkhambathini, uMshwathi and Msunduzi. Furthermore, the Izimbizo report below is supplemented by an extract from the Oversight report conducted by the District Municipality, covering areas not covered by a District Imbizo

- Mkhambathini and
- uMshwathi 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, the Quality of Life Survey (2014) commissioned by the uMDM in collaboration with the University of KwaZulu-Natal and the community survey conducted by BESG..

The drafts 2015/2016 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 approach, 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 during 2015. Ward Councillors with their Ward Committees have been identified as the most effecting vehicle to continuously monitor and evaluate the municipalities' responses to the concerns and needs that have been raised by the communities.

All internal Council Departments need to respond by aligning the above needs per their respective KPAs and by entering into working partnerships. In fact, the following issues from Izimbizo are to inform the prioritization for 2015/2016 and beyond.

In this way, the uMDM is complying with the Back to Basics call, by consulting communities on service delivery standards and on addressing the issues and needs raised by communities.

The following Table 10 is the summary of the issues and needs that have been raised by the community members during Izimbizo in April 2015.

MUNICIPALITY	DATE	VENUE	ISSUES	RESPONSE
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Political leadership present: Hon Mayor, Deputy Mayor, Hon Speaker, Exco members and Local Mayor and local Councillors; Traditional leaders. The Hon Mayor of Mpofana Cllr Magubane opened and gave a welcoming address. She also presented the highlights of the Mpofana draft IDP and Budget. Although the current Mpofana Municipality have only a few months after being reconstituted, the communities showed appreciation of the planning that was presented by the Mayor. However, the appreciation was also presented with some service delivery concerns. To summarize the issues in their categories they came from: **INFRASTRUCTURE:** water, sanitation, housing, electricity and roads. **SOCIO-ECONOMIC:** unemployment especially for the youth, bursaries



Figure 1 Customer Care Coordinator doing Consumer Education at Mpofana Imbizo with leadership seating and observing

MUNICIPALITY	DATE	VENUE	ISSUES	RESPONSE
Mpofana	14 April 2015	Bruntville	<ul style="list-style-type: none"> Houses collapsing House too small Muden water Water interruptions Electrification Mr Dladla thanked government for the road that was recently constructed at Nkomba area. He raised that there is a general problem of access roads in ward 4 as government vehicles cannot access the area & they are compelled to hire private bakkies when someone is sick. He requested that bursary program offered by the local municipality should be open to everyone. A concern from a pensioner about his child that was offered a municipal bursary. Along the way the municipality stopped paying university fees and he had to pay from his pocket. Request for water and irrigation system for community farming projects. Need clarity about project that is currently taking place on Bruntville roads Another resident complained that the municipality is spending money of infrastructure projects outside the town instead of developing town. He said that could assist Mooi Mpofana to generate revenue. Persons living with disabilities, who stay on farms have no proper housing 	<p>Mr Mbambo responded that there is work on Muden water. Communities were urged to use water sparingly and to avoid wastage.</p> <p>The Mpofana municipality only provides registration fee and students have to apply for NFSAS. Marketing of the bursaries to all wards will be improved.</p> <p>uMDM will provide small water (for domestic use) schemes to areas that are difficult to access.</p> <p>Application for housing is underway. But the project involves stormwater upgrades along the road.</p> <p>Mpofana Municipality and relevant Departments to follow-up and intervene.</p>

MUNICIPALITY	DATE	VENUE	ISSUES	RESPONSE
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uMNGENI LOCAL MUNICIPALITY ON 17 APRIL 2015, AT HOWICK INDOOR SPORTS CENTRE: IMBIZO FOR ALL WARDS

The Local Mayor gave a welcoming address. She highlighted the importance of municipalities to visit communities. The Hon Mayor of the District presented the highlights and then asked MrMbambo to present the projects details. The Inkosi MZ Mthuli, the Chair of the House of Traditional Leaders at uMgungundlovu gave a message of support.



Figure 2 leadership listening to community issues at uMngeni Municipality Imbizo, 17/4/2015

uMngeni	17 April 2015	Howick Indoor Sports Centre	<ul style="list-style-type: none"> a. Agnes Zuma, Ward 9 - No service delivery, elders are not taken care of. b. Khumba, Ward 12 – There is interruption were they pay water, no deference after they paid. c. Mazola, ward 9 – they are satisfied with water. d. Gugu, ward 1 – Sewerage are always full, water meters are hardly seen (they are buried under ground) but customers are billed. e. Xolani, ward 9 – no opportunities for youth and disabled people. f. Mpophomeni, ward 8 –houses don't have meters but they are having high bills. g. Hhaza – main pipe burst, therefore they don't have water. h. Gugu, ward 10 – opportunities for disabled as the grant they are receiving isn't enough. i. Mr Buthelezi – there is nothing for elderly people. 	<p>The Deputy Mayor committed to assist the elderly</p> <p>uMDM to follow-up on an alleged corruption where consumers pay for services.</p> <p>Other issues other than water and sanitation to be followed up by the uMngeni Municipality. However the UMDM has also in its IDP-BUDGET-SDBIP socio-economic projects that it implements with LMs. Other concerns to be presented at IDP Forums that also involve sector departments and SOEs like Eskom.</p>
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MUNICIPALITY	DATE	VENUE	ISSUES	RESPONSE
			<p>j. Mr Chakuza, Ward 1 – not cleaning of the site after they fix pipes, they leave them leaking.</p> <p>k. Thoko, ward 4 –don't have support on their handwork, need gymnasium for elderly people.</p> <p>l. Mr Mabuza, ward 7 – no service delivery, no street lights.</p> <p>m. Mr Zondi, ward 11 – water leakage.</p> <p>n. Zandile, ward 8 – Sewerage/toilet is full and affect her shop with bad smells.</p> <p>o. Phileni Buthelezi, ward 4 – bad road, also need hall.</p> <p>p. Mrs Mchunu, ward 11 – Houses were badly built.</p> <p>q. Bongiwane Zwane, Mpophomeni – Sewerage burst to her house.</p> <p>r. Thandiwe Zuma, ward 12 – 2 meters under her name and don't have even a house.</p> <p>s. Lindiwe Zuma, ward 9 – leakage on meters.</p> <p>t. Thenjiwe , ward 4 – leakage on meters Mr Zuma , ward 8 – not happy about employment on the site for water projects</p> <p>u. Gugu, ward 1 – Stormwater are always full, water meters are hardly seen (they are buried under ground) but are billed.</p> <p>v. Xolani, ward 9 – no opportunities for youth and disabled people.</p> <p>w. Mpophomeni, ward 8 –houses don't have meters but they are having high bills.</p> <p>x. Hhaza – main pipe burst, therefore they don't have water.</p> <p>y. Gugu, ward 10 – opportunities for disabled as the grant they are receiving isn't enough.</p> <p>z. Mr Buthelezi – there is nothing for elderly people.</p> <p>aa. Mr Chakuza, Ward 1 – not cleaning the site after thy fixed pipes, they leave them leaking.</p> <p>bb. Thoko, ward 4 –don't have support on their hand work, need gymnasium for elderly people.</p> <p>cc. Mr Mabuza, ward 7 – no service delivery, no street lights.</p> <p>dd. Mr Zondi, ward 11 – water</p>	

MUNICIPALITY	DATE	VENUE	ISSUES	RESPONSE
			<p>leakage.</p> <p>ee. Zandile, ward 8 – Storm water is full and affects her shop with bad smell.</p> <p>ff. Phileni Buthelezi, ward 4 – bad road, need hall.</p> <p>gg. Mrs Mchunu, ward 11 – Houses were badly built.</p> <p>hh. Bongiwane Zwane, Mpophomeni – Sewerage burst to her house.</p> <p>ii. Thandiwe Zuma, ward 12 – 2 meters under her name and don't have even a house.</p> <p>jj. Lindiwe Zuma, ward 9 – leakage on meters.</p> <p>kk. Thenjiwe , ward 4 – leakage on meters</p> <p>Mr Zuma , ward 8 – not happy about employment on the site for water projects</p>	

RICHMOND LOCAL MUNICIPALITY ON 21 APRIL 2015, SILAHLA SPORTS GROUND: IMBIZO FOR ALL WARDS
DATE: 21 APRIL 2015, 10h00-13:50

MUNICIPALITY	DATE	VENUE	ISSUES	RESPONSE
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Figure 3 Community members participating at Imbizo in Richmond on 21 April 2014

The official programme of the Imbizo started later than planned. However, as from 09h00 the District officials started with consumer education on water and sanitation services, especially on how to access the services and to pay for their usage. Community members that packed the marquee participated well by answering questions and also posing questions. Furthermore, the Department of Home Affairs with their mobile unit were on site assisting community members with satellite services like issuing of birth certificates, late birth registrations, IDs, etc.

All speakers started by condemning the xenophobic attacks.

Inkosi MZ Mthuli thanked the District for coming to Richmond with the draft IDP and Budget for 2015/2016. He also congratulated the Local Municipality for the end of violence in the area that use to engulf the area in the late 80s and 90s. The inkosi also echoed his Majesty's call that all the people of South Africa, especially those of KZN to end the xenophobic attacks.

The Mayor

His worship the Mayor of uMgungundlovu District Municipality, Cllr YS Bhamjee addressed the community members by presenting the draft IDP and Budget for 2015/2016. The Mayor focused on the salient points on the IDP. 15 years of developmental local government. As the District more focus on water and sanitation provision. He also thanked his majesty for condemning xenophobia. The Mayor also condemned xenophobia. He also thanked the people of Richmond for overcoming violence of the past and said there is a need to refocus our energies to fighting the triple challenges of unemployment, inequalities and poverty. He highlighted eMbutweni where District has spent R33 M bulk water, reticulation and community standpipes. He also highlighted that the project will be linked with the greater Eston bulk water project. The Mayor also asked

MUNICIPALITY	DATE	VENUE	ISSUES	RESPONSE
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the community to pay for the services despite the challenges, as the collected funds are ploughed back for the continuity of projects. The Hon Mayor at this stage called upon Mr Bheki Mbambo to give projects details. Mr Mbambo presented the projects details. He started by explaining the problems at Ward 5: eMbuthweni and Nhlazuka-so that the people at Ward 5 can drink clean water. At Nhlazuka pipes were installed and due to no electricity for 2 years, the pipes and other infrastructure were vandalized. At Nhlazuka there are plans to at least supply jojo tanks. Ward 4 Phatheni into 4 phases, phase 2 it's a reservoir-the EIA delayed the project however it has been advertised. Phase 4 is to install a pump station to be submitted for approval. Ward 6 at Gengeshe-submitted to DWA hoped to be approved by end of March. Where there have been flooding water was dirty-the pipe from Pietermaritzburg to Richmond, now purchased from farm called Beleu dam. Now to have sustainable water for those human settlement areas, to be augmented by a big reservoir. The bill to be paid to Umgeni Water will increase, hence a need to pay for the services. So to ensure 24 hours water supply sustainability. He also highlighted the challenges per each Ward. Water 'tankering' a need to report corruption like where community members would pay drivers to deliver water at households. Cable theft is also a problem and disruption of continuous electricity supply. Illegal connections are a problem like where community members collect illegally, there are unseen leaks underground. Categorized the issues into new connections due to increase in population numbers especially on sanitation, replacement of old pipes, theft of cables
After this

Richmond	21 April 2015	Silahla Sports Ground	<p>Ward 2 Mrs Mhlakwane-esigackini-toilets were built but she never benefited at the area. They reported at 'wolamanzi?' –they still walk a kilometre to fetch water. Bheki Jili: asked on Mayor's speech on the purpose-he doesn't see why the community is called-on budget-as he knows he need to know how much on budget to serve how many households. A sanitation project divided the community as some didn't get toilets and some didn't get the toilets. He requested u mama representing Richmond at District on youth maters like bursaries, etc. Nhlakanipho Sithole –the pipe was installed promised to serve Ward 2 but ended up only benefiting Ward 3. He also asked for time-frames, when to drink water like in Pietermaritzburg. Sanitation: Gogo maKunene from Ward 2-esihlaheni house burnt-got tent and a house built by wood- Ward 2</p> <ul style="list-style-type: none"> Sanitation- some of the community members were not provided with toilets. Water- some taps are not working and water is needed in homes. Shelter- there is a need of 	<p>Response to community questions-Mr Mbambo Sanitation</p> <ul style="list-style-type: none"> Regular meetings on toilet provision are held during weekends. Funds were received from Public Works for sanitation. Those who have never been provided with toilets will be a priority. <p>Water</p> <ul style="list-style-type: none"> The community will have to pay connection fees to assist the District to provide potable water. <p>Maintenance The challenge is that there are a few plumbers to maintain the infrastructure.</p>
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MUNICIPALITY	DATE	VENUE	ISSUES	RESPONSE
			<p>house provision.</p> <p>Ward 4</p> <ul style="list-style-type: none"> • Electricity is needed. <p>Ward 5</p> <ul style="list-style-type: none"> • Temporary jobs are to be sustained. • The maintenance of municipal infrastructure is very poor. <p>Ward 7</p> <ul style="list-style-type: none"> • There is dissatisfaction with the toilet provision. • The water connection fee is too expensive. • Taps are too far from homes. • A solid waste removal system is needed. • Youth development programmes are needed 	

IMPENDLE LOCAL MUNICIPALITY IMBIZO, ON 29 APRIL 2015, GOMANE AREA

The Programme Director: Cllr E Dladla welcomed all present and stated the purpose as that all municipalities need to visit communities-likewise the District visits all its Local Municipalities. The uMDM primarily presents the projects on water and sanitation but also implements other programmes in socio-economic sectors.

Also welcoming as Ward 4 Councillor-from Boston, Everglates. Welcome all from Ward 1-Ward 4-he pledged community to cooperate with all. He acknowledged the current delivery by uMDM so far in terms of water and toilets. He also commended the work of Nonsikelelo Mthethwa for assisting with the funding for building crèche and skills training centre.

Welcoming speech by Local Mayor: Ndlela

As Impendle Municipality: as from July 2015 have about R73 million only he is stating this since the District has larger budget. Nevertheless Impendle Municipality implements projects as well. Impendle only gets R32 million from equitable share, only R12 million for infrastructure, electricity is only R6 million as some households don't have electricity-however this is for those who reside in areas that have never been electrified. Impendle Municipality have already approached Eskom for electrification. only R16 million as own revenue. In 2015/2016 R1.2 million for job creation: EPWP, below R592 000 to train youth on skills and experiential learning, R420 000 for registration at institutions of higher learning, increased from R300 000 the previous year. Already over 500 leaners have already benefited. R60 000 to assist those at Matric CAO in order to apply using R170 to apply. R40 000 for writers/publishers as there are already publications in stores in. R180 000 for youth-Youth Council, conference and Lotheni youth and small businesses. Other projects. ECD Indaba, take a girl child to work, etc. R200 000 for the elderly-each Ward to have R25 000 each for elderly programmes, etc. People with disabilities, to train parents with children with disabilities – have about R30 000.

Tourism: R160 000-to

Presentation by the Deputy Mayor

Acknowledged change as looking back from 2008 as there was minimal development back then but now all can see development. She emphasized the importance of water. Also that uMDM will increase the levels of water supply from rudimentary levels to the level of Impendle Bulk Supply. She also encouraged the community to apply for new water and sanitation connections-like to register as indigents to get water supply as Local Mayor was saying that the community are also getting free basic water.

Presentation by EM: Technical Services

Mr Bheki Mbambo presented the project that the uMDM is implementing at Impendle. Over R100 million already under ground. KwaNovuka, Khetha, Swamp and other areas. He acknowledged that some toilets are already filling up. Sources: boreholes

MUNICIPALITY	DATE	VENUE	ISSUES	RESPONSE
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and streams like at Nzinga, Makhuzeni and other areas. Where we are there are Gomane. Stepmore water works where water will be treated and Lotheni there will be reservoirs-Makhuzeni, Enguga-reservoirs will be connected. Gomane reservoir will also be fed. July 2015 there will be advertising-Nkangala, Nhlambamasoka, Khathikhathi-to upgrade from communal standpipes-estimated at R200 million-on completion., now estimating R160 million. The District will work with Umgeni Water.

Sanitation

New toilets like at Gomane-considered at Council and DWS- to upgrade from water tinkering. Since have infrastructure –there is a problem of vandalism and community are urged to assist. EPWP is also being implemented; it's to be planned with local Councillors. WWTP is also planned-there is a new site identified.



Figure 4 Community members expressing their views during the Impendle Imbizo

Impendle	29 April 2015	<p>Ward 1 Mlungisi Dlamini-On uMgungundlovu-e Mahluthshini water scheme-now 3 years not completed –e.g. Sinethemba company would come a few days and disappear</p> <p>Mbelu-Ward 1 eNtwasahlobo Hall-need chairs and roads-need O&M</p> <p>Ward 2:</p>	<p>Community can also take their issues through Ward Committees and Ward Councillors.</p> <p>Mbelu's request was noted.</p> <p>Ward 2 Phathani's request noted at Nzinga, Memela: not sure whether it's for Impendle or uMgungundlovu –on how people get jobs. Both municipalities will work together. Thobeka Ndlovu</p>
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MUNICIPALITY	DATE	VENUE	ISSUES	RESPONSE
			<p>Ms Phathini Dindi eNzinga-request toilets—and also request hall and also the road is not fine. Sandile Memela-Swamp-commended uMDM but youth are not employed-they don't have people who are employed-as they see people from other areas to work here as if there are no skills at Impendle. Thobeka eNguga-road at Sawonga-people are not safe as taxis don't take people near their dwellings</p> <p>Ward 3: Thandiwe Mlaba kwaKhetha ophezulu-they requested a crèche long time ago-still they don't have a crèche there. Mr Mthlale kwaKhetha-emphasises iThunjwana –emphasized on kwaKhetha. One of Cllrs have a slap of RDP house-image of Municipality is tinted. Nxamala Library and the main one vacancies have been made internal to employ certain people or allege 'jobs for pals'. Nomthandazo Mzobe: kwaKhetha-pupils have problem going to schools-road towards Mthlale-storm damaged roads-need storm water upgrades.</p> <p>Ward 4 Mr M Mkhize from Gomane Commendation of Impendle Municipality with development although there are still areas that still need attention. Appreciate Budget as clearly presented by Local Mayor he wish Mayor to be reappointed and he said they will ask the Mayor in five years to come. He also asked Mayor to continue to consult the community. As a pensioner he appreciates that the Government subsidizes him on water and electricity. Mr Joseph Msiya eNhlabamkhosi-ask the bridge / causeway to cross the stream. Also the road to Nhlabamkhosi needs attention. Mrs Lindeni Duma-Nhlabamkhosi-commendation of municipality she went to report on a water issue-the</p>	<p>of Ward 2 about roads doesn't go up to eNguga-that road it's in the plans. Yesterday had a meeting with DoT – as Impendle, also kwaKhetha road to be constructed. Library of Nzinga and Impendle-are watching for adverts to apply for vacancies-to be on newspapers. All will compete for jobs and on other posts the community to wait for internal processes.</p> <p>Causeway to Nhlabamkhosi-its true there is a letter to DoT. Also road showing stones –they will ask DoT to maintain. Mom u Mhlongo-the bulk water supply will assist so that the shopping centre can be realized. Also to build the WWTP. The problem is with the site at Lindokuhle as there was no agreement on the site since the one that was identified is privately owned. Now there are negotiations with the Traditional Authority to resolve the land problems. There will be an advert of the shopping centre-for the developer. Ward 1-eMahlutshinin there was a borehole-requested COGTA there is a machine written Intaka-due to electricity problems-did an application. That was a challenge, the contractor was appointed by CoGTA-uMDM won't wait for bulk but will do some interim measures from that machine eNzinga toilets-as stated that they are now filling-up-community urged not to throw rubbish into toilet pits. Nhlabamkhosi-some tanks – break pressure tanks-concrete-community vandalized and that causes water to jam. Now it's been repaired and there are</p>

MUNICIPALITY	DATE	VENUE	ISSUES	RESPONSE
			<p>workers have courtesy towards community. To uMDM –at Nhlabamkhosi some water is stopped –they get water when some people like or is there a shortage of water. Why there is water interruption?</p> <p>Mrs Mhlongo Ward 4 Nhlabamkhosi- she wants to represent all wards- request shopping centre at Impendle village.</p>	<p>chains. Besides that taps are broken, Nonsikelelo will have to close the water.</p> <p>Posts: as uMDM there is an open way to advertise at Ilanga and Natal Witness- they work through Ward Councillor and uMDM does not work through external for EPWP. All working on O&M are from local, Nontuthuko Shelembe of Ward 2 and Nonsikelelo Mthethwa. Customer Care also is from local, some at office O&M based at Mkhambathini and one senior manager of infrastructure is from Impendle.</p>

Summary Matrix categorising the issues

TABLE 11

<p>INFRASTRUCTURAL</p> <ul style="list-style-type: none"> ▪ Incomplete water schemes ▪ Employment at projects ▪ Poor roads ▪ Poor housing ▪ Electricity backlogs and need for infills ▪ Interruptions in water supply ▪ VIP toilets filling-up ▪ Community halls 	<p>ECONOMIC</p> <ul style="list-style-type: none"> • Job opportunities • Prioritize women and youth employment • Fast-track rural development • Indigent registers • Illegal connections to services • Bursaries for learners and students
<p>SOCIAL</p> <ul style="list-style-type: none"> • Programmes for the elderly to be prioritized and budgeted for • Insufficient budget for Youth, HIV/AIDS, Women and People with Disabilities • Need for social cohesion • Fight Social ills • Reduce Poverty 	<p>CROSS-CUTTING</p> <ul style="list-style-type: none"> • Communication between Ward Councillors , Ward Committees and the uMDM needs to improve • Ward Councillors requested to hold regular meetings with communities and take issues up to the District • Need Operation Sukuma Sakhe to address most of the cross-cutting socio-economic issues

2.2 OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH IDP

As part of the compilation of the 2015 /2016 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability and aligned to the IDP. 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

IDP Strategic Objectives / Budget Priority Areas

TABLE 12

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 and budget allocation which is directly aligned to that of the national and provincial priorities.

Further the municipality identified the following priorities:

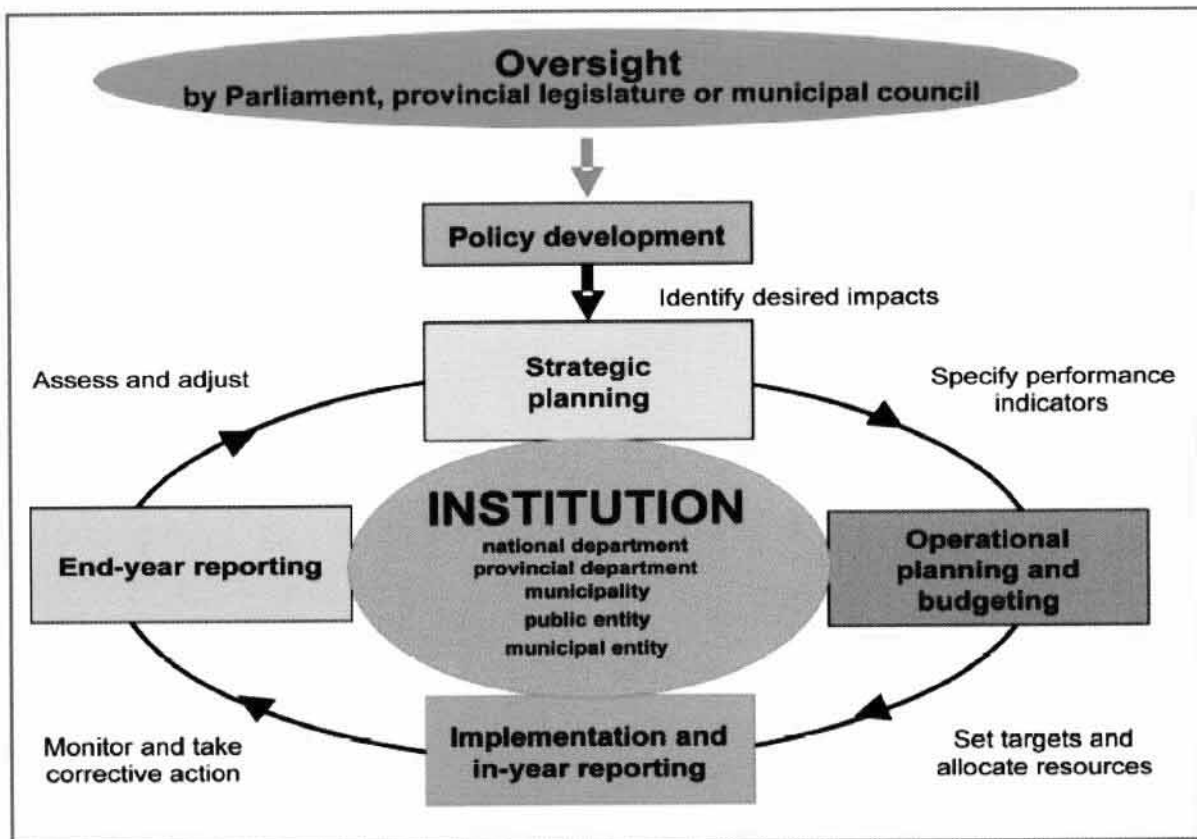
- Fight poverty and build clean, healthy, safe and sustainable communities – Allocation for Environmental Health and Environmental Services.
- Integrated Social Services for empowered and sustainable communities -,Special Communities such as Children, Elderly, People with Disabilities etc.
- Promote 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

2.3 Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the municipality has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, 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 through the oversight report 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:

Figure 5



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).

2.4 OVERVIEW OF BUDGET RELATED POLICIES

The following budget related policies were reviewed during the budget period:

- I. Budget Policy
- II. Supply Chain Management Policy
- III. Credit and Debt Control Policy

2.5 OVERVIEW OF 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 for service charges will be a minimum of 70 %. The Municipality has embarked on a data cleansing exercise to improve the quality of the billing information. Also, the Municipality is proposing to Council to implement an incentive program to encourage customers to pay for the services and the old outstanding debt.
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.

2.6 OVERVIEW OF BUDGET FUNDING

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:

TABLE13

PROPOSED WATER TARIFF INCREASES, DOMESTIC AND BUSINESS

Consumption KL/PM	2014/2015	Increase	2015/2016
DOMESTIC			
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
BUSINESSES			
0 - 999999	11.56	15%	13.29

As can be seen, the lesser the consumption, the lesser the proposed tariff increase and a display of the inclining block tariff structure.

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 341.5 ,million for operational reasons(see Table 6) whilst, the municipality is only able to generate a total of R153 million from the water and sanitation functions.

Table 14 below is included to reflect and isolate the changes and trends that affected the increase in the water income determination.

TABLE 14 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
<i>Basic charge</i>	16.5							
<i>Flat rate</i>	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
<i>Basic charge</i>	27.5							
TOTAL WATER		6 115 049	99 468 418		8 554 689.00	145 048 184.99	2 439 640	45 579 767

Table 14 below also gives a detailed increase for the Sanitation income. For this service as well, the lesser the consumption, the lesser the proposed increase. The 0 -6 kl category has the least increase of 9.04% which is 6.03% cheaper than the more than 26kl usage.

TABLE 14 PROPOSED SANITATION TARIFF INCREASES, DOMESTIC AND BUSINESS

Household/Domestic			
Consumption	2014/2015	Increase	2015/2015
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
Business /Commercial			
0 - 9999999999	7.1	15.07%	8.17

2.7 EXPENDITURE ON GRANTS AND RECONCILIATIONS OF UNSPENT GRANTS

	Amount	Explanation
Operational Grants		
Equitable Share	398 469 000	Grant used to finance municipal operations
Local Government Financial Management Grant	1 250 000	The municipality is a pilot for the implementation of mSCOA. A portion of this funding is earmarked to facilitate the implementation of this project that has to be completed by 1 July 2017
Municipal Systems Improvement Grant	940 000	These funds are earmarked for the review of policies, improve on public participation and improve on Ward Committees
Expanded Public Works Grant	2 499 000	An initiation by the National Treasury to eradicate poverty and create employment. The Municipality has a functional office that looks after the smooth implementation of this office and make sure the required targets are met.
Rural Roads Assets Management Grant	2 329 000	
TOTAL	405 487 000	
CAPITAL GRANTS		
Municipal Infrastructure Grant	106 052 000	Grants made available by the National Treasury in eradicating infrastructure backlogs. The projects to be financed and contractors to utilise these funds have been appointed
Municipal Water Infrastructure Grant	80 080 000	
TOTAL	186 132 000	
ROLL OVER GRANTS		
New Waste Works & Bulk Sewer Line	4 000 000	Roll Over grants made available form the Provincial Cogta to fast track the implementation of projects as identified a priority to improve on service delivery
Camperdown Waste Water Works	4 000 000	

2.8 COUNCILLOR AND EMPLOYEE BENEFITS

MFMA Circular No 75 recommends that the municipalities must provide for 4.4% increase for salaries as according to the Salga press release on 03 March 2015.

However based on the revised offer by Salga to 5.4 % which was rejected by the employees who in turn requests 11%, the municipality budget for a 7.43 % increase which is average CPI in March +1.5 %

The compensation for employees is assumed to grow faster than the inflation rate and faster than almost all kinds of expenditure. The similar 7.43 % was calculated on the results as issued in March, backdated to 1 July 2014 for councillor remuneration in accordance to the Remuneration of Public Office Bearers Act : Determination of Upper limits of Salaries , Allowances and Benefits .

3 COMMENTS RECEIVED FROM THE PROVINCIAL TREASURY – FIRST DRAFT BUDGET

ANNEXURE B: COMMENTS ON THE 2015/16 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 and Reporting Regulations (MBRR)

Provincial Treasury has undertaken an assessment of your Draft Budget that was tabled to Council on 27 March 2015 and submitted to Provincial Treasury in both electronic and hard copy formats. The municipality's 2015/16 Draft Budget has been prepared in the required format as stipulated in Regulation 9 of the MBRR. Furthermore, it must be noted that there were budget tables (Table A10, SA8, SA9, SA13a and SA14) that contained incomplete information and Provincial Treasury was unable to perform a comprehensive analysis of your budget.

Management Response:

Findings are noted. The completed tables will be submitted with the Final Draft.

1.2. Credibility of figures

There were discrepancies noted in the information contained in the Budget Document and the electronic copy of the A Schedule. There were line items which were not budgeted according to the requirements of the MFMA Budget Circulars. The inconsistency in the information presented in the budget tables' raises uncertainty about the credibility and reliability of the figures.

While Provincial Treasury highlighted a few of the discrepancies and inconsistencies, the onus is on the municipality to revise the entire 2015/16 budget before the adoption of the Final Budget by Council.

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 in 2015/16 MTREF. The sustainability of the municipality is highly dependent on grants as grants contribute 70 percent to the total operating 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 to maximise revenue collection.

Management Response

Findings as noted. The Municipality is reviewing its operations and its revenue raising strategies.

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 MFMA. The sum of the *Debt impairment as a percentage of total billable revenue* in Table SA10 and the *Collection rate* in the Budget Document was 90.9 percent, which is below the norm of 100 percent as stated in the MFMA Funding Compliance Guidelines.

There were errors and omissions noted in Table A7. However, Provincial Treasury recalculated the municipality's cash position and noted that the 2015/16 budget appeared to be funded. The municipality is required to revise Table A7 to ensure that all errors and omissions identified below are corrected in the Final Budget. The municipality is encouraged to make use of Tables A7 and A8 to assist them to determine the funding of its budget.

Management Response:

Findings are noted.

1.5. Operating budget

The main contributor to the total operating revenue of the municipality is the *Transfers recognised - operational* amounting to 70 percent. *Service charges – water revenue* and *Service charges – sanitation revenue* both contribute 26 percent to total operating revenue.

The municipality has budgeted for an *Operating surplus* of R8 million for 2015/16, R11.7 million for 2016/17 and R27.1 million for 2017/18. Furthermore, Provincial Treasury was unable to determine whether the municipality budgeted for non-priority expenditure items as *General expenses* was not broken down to be approximately 10 percent of *Other expenditure* as required by MFMA Circular No. 58.

Management Response

Findings are noted. The Other Expenditure has been split to 3% and will be submitted with the Final Draft Budget.

1.6. Asset Management

The 2015/16 budgeted *Repairs and Maintenance* expenditure expressed as a percentage of the audited *Property Plant and Equipment* value for 2013/14 is six percent, which is below the norm of eight percent as required by MFMA Circular No. 55. This indicates that insufficient monies are being budgeted for *Repairs and maintenance* to the extent that it could increase the impairment of assets.

Management Response:

The allocation has been revised to 14.7% including the salaries related to operations and maintenance and is 8% when excluding salaries.

1.7. Service Delivery

The Integrated Development Plan's (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. However, Provincial Treasury was unable to determine whether this was consistent with the eradication of backlogs as Table A10 was poorly populated. The draft Service Delivery and Budget Implementation Plan (SDBIP) was not submitted together with the Draft Budget.

Management Response:

Table A10 has been corrected and the updated table to be submitted with the final draft budget.

2. OPERATING BUDGET

2.1. Operating Revenue Framework

Service Charges - Water and Sanitation

- The tariffs for *Service charges - Water* and *Service charges - Sanitation* were increased by more than six percent in the 2015/16 budget year and no justification was provided in the Budget Document. The municipality is advised to justify all the tariff increases above six percent as required by the MFMA Circular No. 75.

Management Response:

The motivation and the tariff model has been included in the final draft document.

- The municipality has indicated in Table A2 that the *Water* and *Waste water management* trading services are operating at a surplus of R213.7 million and R4.1 million respectively, as per Table A2. This does not appear reasonable for the *Water* trading service when the historic trend indicates a trading deficit for the past three years as per the Audited Outcomes and the 2014/15 Adjustments Budget. The municipality even indicated in the Budget Document that these trading services are running at a loss.

Management Response

Table A2 has been corrected, the misallocation of expenditure has been rectified.

- Furthermore, the municipality indicated that the operational expenditure allocated for *Water* and *Sanitation* functions was R152 million as per Table A2, which does not agree to R336.8 million indicated in the Budget Document. This raises serious concerns regarding the credibility of the municipal budget and whether the budgeted figures are realistic. The municipality should ensure that the budgeted amounts are realistic and that the figures in the Budget Document reconciles to those in the approved A Schedule.

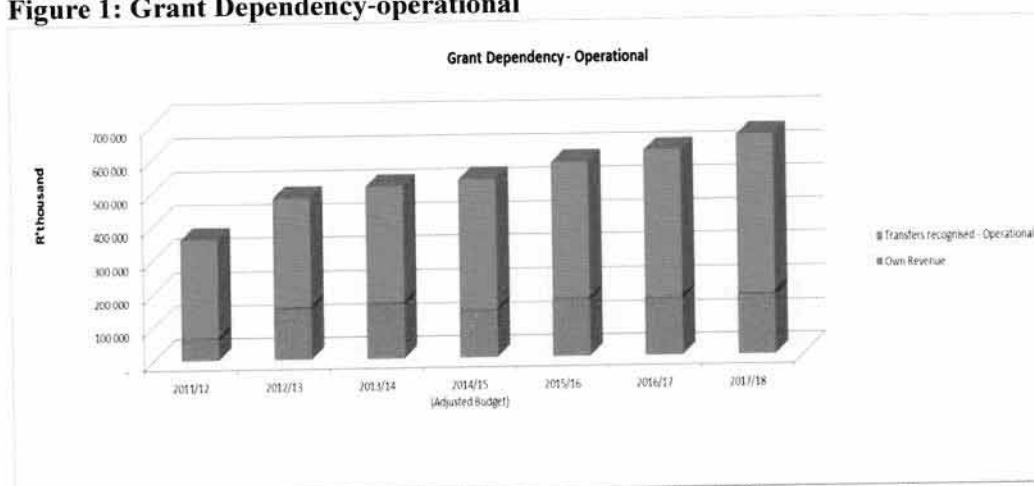
Management Response

Table A2 has been corrected, the misallocation of expenditure has been rectified.

Transfers Recognised - operational

- *Transfers recognised – operational* contributes 70 percent or R405.7 million to the total revenue of R579 million during the 2015/16 budget year. 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 to maximise collection.

Figure 1: Grant Dependency-operational



Other sources of revenue

- The municipality budgeted R400 000 for *Interest on current account* under *Other revenue* as per Table SA1. The municipality should re-allocate this revenue to the correct line item, which is *Interest earned – external investments*.

Management Response:

Table SA1 - Rectified

2.2 Operating Expenditure Framework

Employee related costs

- The *Employee related cost* increased by 11.5 percent or R22.5 million from the 2014/15 budget year to the 2015/16 budget year and no explanation for this increase was provided in the Budget Document. This is not in line with MFMA Circular No. 75, which recommends an increase of 4.4 percent as proposed by the South African Local Government Association (SALGA). The municipality should revise the budget for

Employee related cost to be in line with SALGA's proposal and/or provide a detailed explanation for deviating from the recommended increase.

Management Response:

Findings are Noted. The motivation for the increased percentage is motivated in the budget document. It being noted that the increase is NOT only based on the proposed percentage increase but also on new appointments that have been identified as critical positions.

- The municipality has budgeted R2.6 million for *Performance bonuses* of Senior Managers, which is R1.7 million or 190 percent more than the Adjustments Budget of R886 000 and no explanation was provided in the Budget Document. The municipality should provide detailed explanations for this huge increase in the Budget Document.

Management Response:

The amount has been corrected

- The municipality budgeted for *Other benefits and allowances* to increase by R6.2 million or 1223 percent in the 2015/16 budget year and for *Overtime* to increase by R7.5 million or 4068 percent when compared to the 2014/15 Adjustments Budget. The municipality should provide detailed explanations in the Budget Documents regarding these substantial increases.

Management Response:

The amount has been corrected

Debt impairment

- The sum of the *Debt impairment as percentage of total billable revenue* reflected in Table SA10 and *Collection rate* reflected in the Budget Document was 90.9 percent, which is below the norm of 100 percent as stated in the MFMA Funding Compliance Guidelines. The increase in the *Provision for debt impairment* is inconsistent with the under-collection rate, which indicates that the municipal budget may be unrealistic, not credible or sustainable. The municipality should correct this error to ensure that the Final Budget is realistic, credible and sustainable.

Management Response:

The amount has been corrected.

Depreciation and Asset impairment

- The municipality revalued its assets in 2013/14 as per the audited Annual Financial Statements (AFS). However, the municipality did not populate the depreciation relating to revalued assets as required in Table SA1. The municipality should populate *Depreciation* relating to revalued assets in Table SA1 to ensure the accuracy of the municipal budget. The municipalities accounting policy for Property, Plant and Equipment (PPE) state that "PPE is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses".

Management Response:

The amount has been corrected

Other expenditure

- The budgeted *General expenses* constitutes 58 percent of total *Other expenditure* in 2015/16. Provincial Treasury was unable to determine whether the municipality budgeted for non-priority expenditure items or mSCOA trainings since *General expenses* were not broken down to be approximately 10 percent of *Other expenditure* as required by MFMA Circular No. 58.

Management Response:

The amount has been corrected and has been reduced to approximately 3 %

- The municipality did not provide a breakdown of the amounts that will be spent on *Repairs and Maintenance* in Table SA1. The municipality must ensure that this breakdown is provided in the Final Budget in order to facilitate transparency.

Management Response:

The amount has been corrected

- The municipality did not budget for *Contributions to 'other' provisions* in Table SA1 and Table SA3. This does not appear reasonable since there was an increase in *Provisions* from R35.2 million to R49.6 million as per Table A6. The municipality should consider correcting this inconsistency in the Final Budget to ensure credibility of budgeted amounts.

Management Response:

The amount has been corrected

- The Municipal Regulation on the Standard Chart of Accounts is the biggest reform to be implemented in local government since the introduction of the MFMA. Municipalities therefore need to plan extensively for this reform and determine the necessary level of budgeting required for any hardware, software as well as any training requirements. MFMA Circular No. 72 encouraged municipalities to prioritise the preparation for implementation as a focus area for the 2015/16 and 2016/17 budgeting period to ensure that sufficient resources are available for this critical project. National Treasury has indicated that funding can be used from the following 2015/16 grants to fund this project:

- Local Government Financial Management Grant where R1.25 million was allocated;
- Municipal Systems Improvement Grant where R940 000 was allocated.

Even though this funding is available for the municipality, the 2015/16 Budget Documents did not reflect any detailed expenditure plans to implement this project which is a notable concern since the municipality is a pilot site for mSCOA.

Management Response:

The details have been included in budget document.

3. CAPITAL BUDGET

3.1. Capital revenue

Transfers recognised - capital

- The municipality has budgeted R12.6 million for *Other transfers and grants* in Table A5. Upon inquiry from the municipality, we were informed that these funds relate to the Orio grant from the Netherlands Enterprise Agency. However, the municipality did not provide Provincial Treasury with the signed Memorandum of Understanding (MOU) indicating the funds to be transferred and the conditions of the grant. The municipality should not budget for revenue, expenditure or funding that cannot be substantiated. During the engagement, the municipality indicated that these funds will be received in the current year and have been excluded from the 2015/16 budgeted allocations.

Management Response:

The amount has been removed as it has been included in the 2014 /2015 Budget Adjustment.

- The municipality budgeted R10 million for *Massification grant* based on the letter dated 10 March 2015 from the KwaZulu-Natal department of Co-operative Governance and Traditional affairs (Cogta). The letter states that Cogta has approved grant funding to the amount of R10 million for the 2014/15 financial year to the uMgungundlovu District municipality for the Muden Emakhuzeni Rural Water Supply project. This amount should not have been budgeted under the 2015/16 allocations as it relates to 2014/15 financial year. The municipality should revise the budget for *Transfers recognised-capital* or provide reasons to substantiate the amount in the Budget Document. During the engagement, the municipality indicated that this amount will be reversed and included in the 2014/15 allocations.

Management Response:

The amount has been removed as it has been included in the 2014 /2015 Budget Adjustment.

Borrowings

- The municipality has budgeted R148.7 million for *Borrowings* as per Table A5 and Table SA17. The following issues were noted during the assessment of the municipality's debt management:
 - The *Net debtors* days of the municipality were on average 246 days for 2013/14 and 133 days for 2012/13, which is above the norm of 30 days.

Management Response

The municipality has high debtors days because of the inherent problem of incorrect opening balances which were taken on from the local municipalities when the water services were taken over by the District. The opening balances taken on were to the value of R184 414 743.01 of the current debt book of R431 million as at 31 March 2015. The collection rate on billings has improved from an average (50%) June 2014 to (64%) 31 March 2015. The debt write off of the opening balances together with an incentive based debt write off of the old debt is to be submitted to council for consideration. The improvement in the debt collection due to the implementation of the credit control and

debt collection policy together with the incentivized debt write off should improve the number of days it takes our customers to pay their debts

- The *Collection rate on billed revenue* is 35 percent, which is substantially below the norm of 95 percent as indicated in the MFMA Circular No. 71. This indicates that quality of credit control is questionable and therefore urgent attention and corrective measures are required to address this. In addition, 86 percent of *Debtors* are greater than 121 days which further indicates that the municipality has significant difficulties in collecting historical debt.

Management Response

The average collection rate has improved from an average 50% as at 30 June 2015 to an average 64% as at 31 March 2015. There has been an improvement in the credit control function through consistent disconnection and restriction of non-paying consumers with outstanding balances. Whilst there remains a high percentage of debtors older than 121 days, a submission for the write off of opening balances taken on from local municipalities to the value of R184 414 743 is submitted to council for consideration. A proposal to improve capacity of the service providers performing disconnections, restrictions and reconnections is currently being reviewed. The impact of consistent credit control application and the write off of the irrecoverable take on balances should reduce the percentage of debt which is older than 121 days.

- It was noted that the municipality had R149.2 million net cash reserves as at 30 June 2014 and R157.6 million as at 31 December 2014. The *cash coverage ratio* at 30 June 2014 was 4 months and 4.2 months as at 31 December 2014, indicating that the municipality has reserves to fund operating expenditure for 4 months.

Management Response

Findings are noted

- The *Debt/Revenue ratio* has increased from 10 percent in the 2012/13 financial year to 52 percent in 2013/14 and is budgeted to further increase to 57 percent in 2014/15 and to 78 percent in 2015/16, which is significantly above the norm of 45 percent as indicated in MFMA Circular No. 71.

Management Response:

The increase in debt to revenue ratio is due to the front loading loan of R70 million which is not funded through operating revenue but by MIG. Excluding the Front loading loan the debt to revenue ratio can be recalculated to 8.91% in the 2013/2014 financial year. In the 2015/2016 budget an allocation of R130 million again is projected for front loading. In addition the R230 million will increase the debt to revenue ratio beyond 45% but will be balanced with an increase in revenue through growth in service provision in addition to a realization of a higher collection rate on billed revenue which can be demonstrated through the increasing collection rate from 50% in the prior financial year to an average 64% as at 31 March 2014.

The municipality should consider the financial impact of the additional loan and increased capital expenditure on the future operating performance of the municipality which includes additional finance costs, depreciation and repairs and maintenance.

3.2. Capital Expenditure

Repairs and Maintenance

- The 2015/16 budgeted *Repairs and Maintenance* expenditure expressed as a percentage of *Property Plant and Equipment* value for 2013/14 is six percent, which is below the norm of eight percent. This indicates that insufficient monies are being spent on *Repairs and maintenance* to the extent that it could increase the impairment of assets. The municipality should review the budget or ensure that the funding level is substantiated in the Budget Document.

Management Response

The figures have been amended in the budget document.

4. CASH FLOW MANAGEMENT

Acceptability of cash/cash equivalent position

- The R201.5 million opening balance for the *Cash and cash equivalents* for 2014/15 does not reconcile to the *Cash and cash equivalents* closing balance R205.3 million as per the audited 2013/14 AFS, creating an unexplained difference of R3,8 million which is carried forward into the MTREF.

Management Response:

The tables have been amended.

Cash from Operating Activity

- The municipality budgeted an amount of R101.5 million for *Service charges – water revenue*. The collection rate of 70 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. Provincial Treasury recalculated the collection rate to be 31 percent, which is substantially below the norm of 95 percent as indicated in the MFMA Circular No. 71. The recalculated collection rate was applied to *Service charges – water revenue* and resulted in an estimated cash inflow of R45 million, creating an unexplained difference of R56.5 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

The municipality has as a strategy to write off historic debt and offer settlement incentives to our customers to reduce the debtors book. With the exercise, the Municipality plans to update its records and data cleansing.

- The municipality budgeted to receive R11.8 million for *Interest* in 2015/16. This amount includes 100 percent of the *Interest – outstanding debtors* of R2.9 million as per Table A4. The municipality is advised to exclude *Interest – outstanding debtors* in order to be

conservative or to provide an explanation in the Budget Document for the budget assumption of 100 percent collection rate for *Interest – outstanding debtors*.

Management Response:

The cash flow projections have been corrected and the amount has been removed.

- The municipality budgeted an amount of R495.7 million for *Suppliers and employees*. However, Provincial Treasury's recalculated amount based on paying 100 percent of the expenditure, was R492.7 million resulting in an unexplained difference of R3 million. The municipality should revise this line item and ensure that the cash flows budgeted are accurate and complete.

Management Response:

The amount has been rectified.

- The municipality has budgeted R5.3 million for *Finance charges* in Table A7, which does not reconcile to R13.3 million reflected in Table A4. The municipality should ensure that *Finance charges* in Table A7 reconcile to the *Finance Charges* in Table A4.

Management Response:

The amount has been rectified.

Cash flow from financing activities

- The municipality did not budget for *Increase (decrease) in consumer deposits* in the 2015/16 budget year. This does not seem reasonable when considering that there was a decrease of R65 000 in *Consumer deposits* as per Table A6. The municipality should correct this error in the Final Budget.

Management Fee

The municipality is reviewing its credit control policy which includes the amount to be charged for a deposit. Currently, there is no resolution as to whether the new customers will be charged a deposit nor a connection fee.

- The municipality budgeted R7.8 million for *Repayment of borrowings*. In the absence of the approved loan repayment schedule, Provincial Treasury considered the historic trends of *Repayment of borrowings*. The *Repayment of borrowings* expressed as a percentage of *Borrowings* was nine percent on average for Audited Outcomes and when we applied this rate to the budgeted *Borrowings* we arrived at an amount of R20.9 million, leaving an unexplained difference of R12.9 million. The municipality should review the budget for this line item or substantiate the budgeted amount in the Budget Document.

5. SERVICE DELIVERY MEASURES

Service Delivery Implementation Plan (SDBIP)

- The municipality has not submitted a draft SDBIP. Therefore, Provincial Treasury could not determine whether the budget is aligned to the strategic objectives of the IDP and the draft budget.

Management Response:

- *The document will be tabled to Council in June 2015 however the draft document will be made available with the final Budget document.*

- The municipality did not populate information for the *Highest level of free basic services provided* in Table A10. The municipality should fully populate the budget tables in order to ensure credibility of the budget.
- The municipality did not include a section on “**Drinking water quality and waste water management**” in the Budget Document. The municipality should include this information as required by MFMA Circular No. 54.

Management Response

Tables have been populated.

4. 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

15 MAY 2015



INTERNAL MEMORANDUM

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TO : Municipal Manager
Cc : CFO and Manager: Sound and Governance
FROM : Nozipho Roberts
Committee Officer
DATE : 01 June 2015
REF NO :

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

At a meeting of the Full Council held on 29 May 2015, it was

RESOLVED

It is recommended that:

1. the Full Council 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. the Full Council approves the Final Draft multi-year 2015 2016 – 2017 / 2018 annual budget and single capital appropriations for the 2015 / 2016 annual budget as follows:
 - 2.1.1 The Total Operating Revenue of R 579 001 million.
 - 2.1.2 The Total Funding of R894 632 million.
 - 2.1.3 The Total Operating Expenditure of R 576 918 million.
 - 2.1.4 Total Capital Expenditure of R252 895 million.
 - 2.1.5 The Operating Surplus of R 2 082 million.
3. That the Full Council notes comments received from the Provincial Treasury on the first Draft Budget.

This matter is accordingly drawn to your attention to enable you to take the necessary action hereon.