

MEDIUM TERM REVENUE AND  
EXPENDITURE FORECAST  
2016/ 2017 TO 2018/2019



# 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 leaner trend in operating costs through the reprioritisation of expenditure. The average increase in operating costs between 2015/2016 adjustment budget to the proposed 2016/2017 budget is 6% which is in line with the average inflation to 31 December 2015. The operating expenditure for the municipality has increased by R 7.5 (1.25% ) million from the approved Adjustment Budget, even though the Municipality has absorbed the 6.013% Bulk Water purchase increase by the Bulk Service Provider.

The total capital budget for the 2016/2017 financial year amounts to R203.6 million. However, due to the nature of some assets to be financed through this category, an amount of R 2.4 million will be expensed as it is related to the collection of data and information in relation to rural roads infrastructure and network.

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 62% 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 2015/ 2016 financial year the municipality has, been funding some of the capital projects from its own funding as the front loading allocation has been exhausted during the year due to high and fast tracked projects implementation by our infrastructure development department, which is Technical Services. The draw down schedule for the balance sheet loan and withdrawals resumed in September 2015 to avoid interruptions in the implementation of projects. As at 30 March 2016, a total of R 90.6 million had been received as a balance sheet load draw downs from the Development Bank of Southern Africa. This amount is expected to reach a total of R 130 317 million by 30 June 2016, leaving a balance of R 99.7 million for projects implementation for the 2016 /2017 financial year. Due to the limited funding sources available for the implementation of the capital projects and taking into account the urgent need for the implementation of some of the projects, the Municipality will be using R 40 million of its own reserves to implement some projects as detailed in the Capital Projects section of this document.

Once again, uMDM has done well in practicing sound financial management by acquiring a clean audit from the Auditor General for the 2014/2015 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 2016/2017 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 hosted yet 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.

## **COMMENTS OF THE EXECUTIVE COMMITTEE**

At the meeting of the Executive Committee held on 18 May 2016, the budget was supported with the exception of the Democratic Alliance who indicated that they will not support the budget unless the following issues are addressed:

1. Alignment of the Mandela Day Marathon budget.
2. The reduction of certain line items in the budget such as the water tanker hire and security budget.

The following concerns were also raised:

1. The Municipality's tariff increase is less than that being implemented by uMgeni Water – the effects of that on revenue generation.
2. What constitutes "Other Revenue" needs to be disclosed.
3. Fire Services
  - New appointments have been made whilst other are still in progress
  - CoGTA have been approached for funding assistance to purchase equipment / machinery.
  - Tenders were invited on certain machinery / equipment and process is underway.
4. The location of the budget for public participation as well as the amount allocated needs to be disclosed .
5. Possible upgrading of the Municipality.

## RESOLUTIONS

1. That the Full Council Approves the proposed 6 % (six percent ) Tariff increases, acting in terms of section 75A of the Local Government Municipal Systems Act ( Act 32 of 2000 with effect from 01 July 2016):
  - 1.1 The tariffs for the supply of water.
  - 1.2 The tariffs for the sanitation services
2. That the Full Council approves the Final Draft multi year 2016/ 2017 – 2018 / 2019 annual budget and single capital appropriations for the 2016 / 2017 annual budget as follows:
  - 2.1 The Total Operating Revenue of R 644 093 million.
  - 2.2 The Total Funding of R893 641 million.
  - 2.3 The Total Operating Expenditure of R 612 246 million.
  - 2.4 Total Capital Expenditure of R203 652 million.
  - 2.5 The Operating Surplus of R 31 847 million.
  - 2.6 The Surplus for the year of R 181 712 million.
3. That the Full Council notes the comments received from the Provincial Treasury on the First Draft Budget.

## 1. 2 EXECUTIVE SUMMARY

### TABLE 1

Consolidated Overview of the 2016 /2017 MTREF

<b>R</b>	<b>Adjustment Budget 2015 /2016</b>	<b>Budget Year 2016 / 2017</b>	<b>Budget Year +1 2017/ 2018</b>	<b>Budget Year +2 2018/ 2019</b>
Total Operating Revenue	639 693	644 093	651 603	698 052
Total Operating Expenditure	602 169	612 246	646 532	685 324
Surplus/ ( Deficit) for the year	37 524	31 847	5 072	12 729
Total Capital Expenditure	277 045	201 268	170 187	236 273

The operating revenue has increased from R639.7 million to R 644.1 million for the 2016 /2017 financial year compared to the 2015 /2016 Adjustment Budget. The increase in rand value is R4.4 million which is below a percent.

The contributing factor amongst others is the decline in the Equitable share. Although the municipality is water services authority and strives to a charge cost reflective tariff, the municipality remains grant reliant. There are efforts during the 2015 /2016 financial year, that the Municipality has embarked upon in efforts to enhance its revenue raising and collection. These efforts are bearing fruits at a slow pace, however the strategy for the 2016 /2017 financial year, is to intensify these and promote these programs.

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 in line with the recommendations of MFMA Circular 82 .

Further to the revenue collection strategies, the municipality is improving in its investment in the revenue generation strategies such as the implementation of credit control policy (restrictions), new capital projects implementation, meter verifications and customer data cleansing.

Although the capital transfers have come down by R 36.3 million, as a result of amongst others the reduction of the Municipal Infrastructure Grant allocation, the municipality plans to invest R 40 million of its own reserves to fund a 3 part water scheme capital project that will improve basic service delivery, reduce costs of water tanker hire and show a slight increase in revenues.

**TABLE 2**

**DC22 uMgungundlovu - Table A1 Budget Summary**

Description	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
<b>Financial Performance</b>										
Property rates	-	-	-	-	-	-	-	-	-	-
Service charges	118 136	132 685	116 303	153 031	153 031	153 031	153 031	159 650	169 280	179 437
Investment revenue	7 979	10 413	12 260	9 360	9 360	9 360	9 360	7 080	7 000	7 000
Transfers recognised - operational	327 088	349 953	376 281	405 737	435 237	435 237	405 737	434 490	472 223	508 865
Other own revenue	28 620	38 918	22 888	10 872	42 065	42 065	42 065	42 872	3 100	2 750
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>481 824</b>	<b>531 969</b>	<b>527 733</b>	<b>579 001</b>	<b>639 693</b>	<b>639 693</b>	<b>610 193</b>	<b>644 093</b>	<b>651 603</b>	<b>698 052</b>
Employee costs	151 411	157 176	176 152	218 052	208 052	208 052	208 052	191 692	202 427	214 572
Remuneration of councillors	9 466	9 944	10 836	12 327	12 327	12 327	12 327	13 189	13 928	14 764
Depreciation & asset impairment	80 989	56 330	83 433	30 000	30 000	30 000	30 000	31 800	33 581	35 596
Finance charges	1 919	2 976	2 433	13 284	5 784	5 784	5 784	14 081	14 870	15 762
Materials and bulk purchases	63 346	71 336	76 619	97 093	97 093	97 093	97 093	102 828	108 587	115 102
Transfers and grants	-	-	-	3 000	3 000	3 000	3 000	16 733	17 670	18 731
Other expenditure	295 639	265 642	288 002	203 163	245 913	245 913	245 913	241 922	255 469	270 798
<b>Total Expenditure</b>	<b>602 770</b>	<b>563 404</b>	<b>637 476</b>	<b>576 919</b>	<b>602 169</b>	<b>602 169</b>	<b>602 169</b>	<b>612 246</b>	<b>646 532</b>	<b>685 324</b>
<b>Surplus/(Deficit)</b>	<b>(120 946)</b>	<b>(31 435)</b>	<b>(109 743)</b>	<b>2 082</b>	<b>37 524</b>	<b>37 524</b>	<b>8 024</b>	<b>31 847</b>	<b>5 072</b>	<b>12 729</b>
Transfers recognised - capital	140 324	183 140	228 862	186 132	186 132	186 132	186 132	149 865	170 187	236 223
Contributions recognised - capital & contributed assets	-	-	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>19 378</b>	<b>151 705</b>	<b>119 119</b>	<b>188 214</b>	<b>223 656</b>	<b>223 656</b>	<b>194 156</b>	<b>181 712</b>	<b>175 259</b>	<b>248 952</b>
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) for the year</b>	<b>19 378</b>	<b>151 705</b>	<b>119 119</b>	<b>188 214</b>	<b>223 656</b>	<b>223 656</b>	<b>194 156</b>	<b>181 712</b>	<b>175 259</b>	<b>248 952</b>
<b>Capital expenditure &amp; funds sources</b>										
<b>Capital expenditure</b>	<b>77 953</b>	<b>143 850</b>	<b>210 443</b>	<b>260 496</b>	<b>277 045</b>	<b>277 045</b>	<b>260 496</b>	<b>201 268</b>	<b>170 187</b>	<b>236 223</b>
Transfers recognised - capital	77 276	142 774	169 345	186 132	186 132	186 132	186 132	149 865	170 187	236 223
Public contributions & donations	-	-	-	-	-	-	-	-	-	-
Borrowing	-	-	-	58 764	58 764	58 764	58 764	40 053	-	-
Internally generated funds	677	1 076	41 098	15 600	32 149	32 149	15 600	11 350	-	-
<b>Total sources of capital funds</b>	<b>77 953</b>	<b>143 850</b>	<b>210 443</b>	<b>260 496</b>	<b>277 045</b>	<b>277 045</b>	<b>260 496</b>	<b>201 268</b>	<b>170 187</b>	<b>236 223</b>
<b>Financial position</b>										



Total current assets	262 973	408 090	452 340	594 081 1	648 281 1	697 839 1	697 839 1	542 381 1	561 033 1	585 241 1
Total non current assets	680 709	794 437	883 148	116 828	116 828	116 828	116 828	190 918	262 373	333 066
Total current liabilities	146 225	247 109	264 578	119 697	119 697	172 869	203 044	460 797	280 402	296 105
Total non current liabilities	9 954	6 021	2 394 1	59 737 1	59 737 1	59 737	4 404	4 404 1	– 1	– 1
Community wealth/Equity	787 503	949 397	068 516	531 475	585 675	946 958	946 958	268 098	543 003	622 202
<b>Cash flows</b>										
Net cash from (used) operating	86 785	139 921	133 343	218 329	279 021	279 021	279 021	207 378	242 890	320 641
Net cash from (used) investing	(77 540)	(160 396)	(170 982)	(260 496)	(277 045)	(277 045)	(277 045)	(161 268)	(170 187)	(236 223)
Net cash from (used) financing	(3 407)	88 760	(5 149)	50 794	38 198	38 198	38 198	25 972	(14 870)	(15 762)
Cash/cash equivalents at the year end	136 999	205 283	162 494	157 313	202 667	202 667	202 667	234 576	292 409	361 065
<b>Cash backing/surplus reconciliation</b>										
Cash and investments available	136 999	205 283	162 494	148 467	202 667	202 667	202 667	234 576	234 760	240 696
Application of cash and investments	77 404	106 278	(100 560)	(254 008)	(275 067)	(312 233)	(312 233)	(61 656)	(126 035)	(133 782)
Balance - surplus (shortfall)	59 594	99 005	263 054	402 475	477 734	514 900	514 900	296 232	360 795	374 478
<b>Asset management</b>										
Asset register summary (WDV)	713 625	793 659	44 027	116 828 1	197 725 1	197 725 1	735 569	735 569	–	–
Depreciation & asset impairment	80 989	56 330	83 433	30 000	30 000	30 000	31 800	31 800	33 581	35 596
Renewal of Existing Assets	43 711	44 670	43 535	–	–	40 902	40 902	–	–	–
Repairs and Maintenance	529 538	550 914	510 844	139 356	140 156	140 156	149 935	149 935	158 331	167 831
<b>Free services</b>										
Cost of Free Basic Services provided	–	–	–	–	–	–	–	–	–	–
Revenue cost of free services provided	–	–	–	–	–	–	–	–	–	–
<b>Households below minimum service level</b>										
Water:	3	3	1	1	1	1	1	1	–	–
Sanitation/sewerage:	–	–	–	–	–	–	–	–	–	–
Energy:	–	–	–	–	–	–	–	–	–	–
Refuse:	–	–	–	–	–	–	–	–	–	–

## OPERATING BUDGET FRAMEWORK

### 1.4 OPERATING REVENUE FRAMEWORK

The budget is compiled taking into account previous National Treasury's budget circulars, including Circular 78 and 82.

During the compilation of the 2016 /2017 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 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

**TABLE 3**

Sources of Funding		
Own Revenue	637 964 708	71.39
Operational Grants	6 128 000	0.69
Capital Grants	149 865 000	16.77
Loans	99 683 000	11.15
Roll Over		0.00
<b>TOTAL</b>	<b>893 640 708</b>	

The municipality has a total of R 893 641million worth of funding for the 2016/2017 financial year as tabled below in table 3 above, which is drop by R 61.9 million resulting from the reduction in the Capital grants, rollover and loan funding sources.

**TABLE4**

Sources of Funding	2016 /2017 Proposed Budget	% of the Budget	2015 /2016 Adjustment Budget	% of the Adjustment Budget
Own Revenue	637 964 708	71.39	563 732 580	58.99
Operational Grants	6 128 000	0.69	12 018 000	1.26
Capital Grants	149 865 000	16.77	211 132 000	22.09
Loans	99 683 000	11.15	129 500 000	13.55
Roll Over Funding		0.00	39 192 381	4.10
<b>TOTAL</b>	<b>893 640 708</b>	<b>100.00</b>	<b>955 574 961</b>	<b>100.00</b>

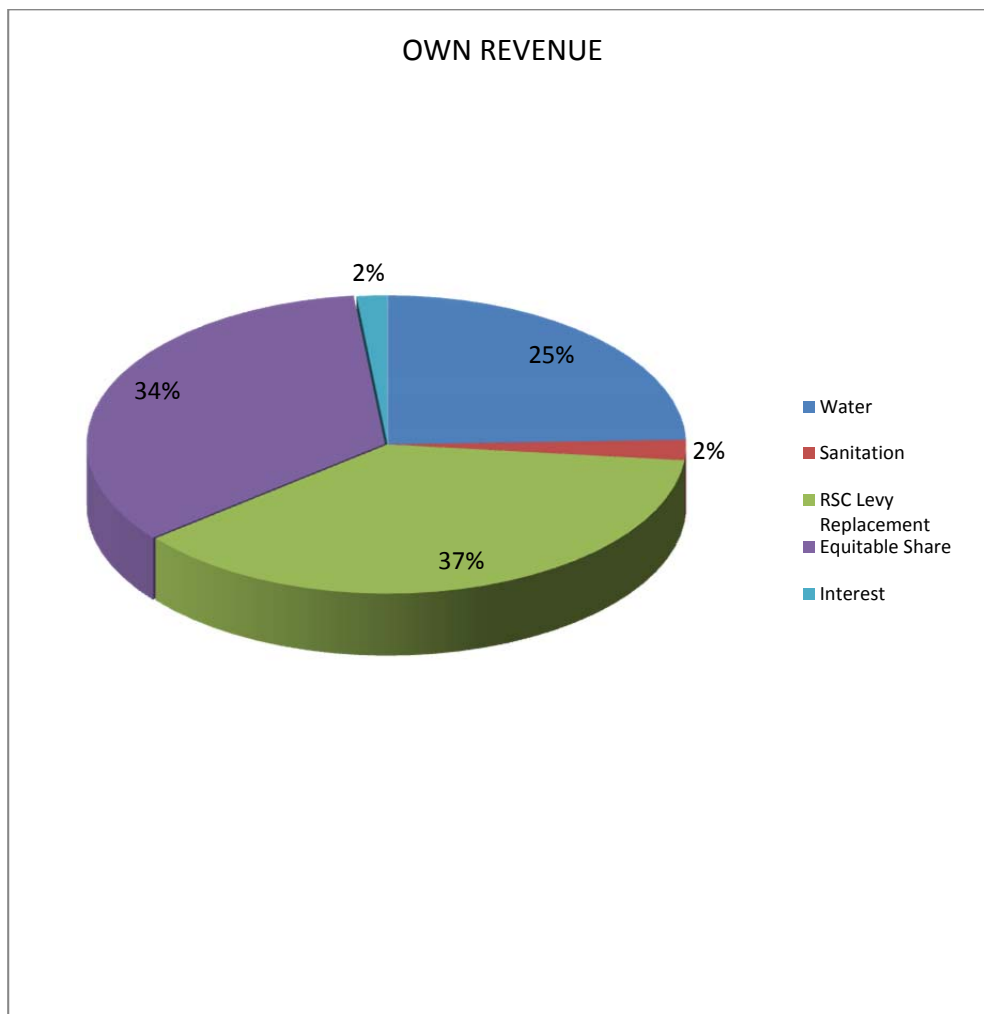
Table 4, reflects that for 2016 2017 financial year , the municipality has 71.39 % of its total sources of funding as own funding compared to 58.99 % in the previous financial year which translate to 12.47% increase. However, if this category is split further, as reflected in Table 5, it reflects that 67.14 %, is made up of the Equitable Share and RSC Levy Replacement Grants and the balance of 32.86% is made out of sales from the water and sanitation services, interest and reserves. Overtime, with the introduction of a cost reflective tariff , improvement in billing, increased connection and full accountability for our customer base, the grant reliance is expected to reduce and eventually put the municipality to a self sustaining mode.

Table 5

<b>Own Revenue Split</b>	<b>2016/ 2017 Budget</b>	<b>Contribution</b>	<b>2015 /2016 Adjustment Budget</b>	<b>Change in Rand Value</b>
<b>Water</b>	146 440 928	22.95	145 048 185	1 392 743
<b>Sanitation</b>	13 209 543	2.07	7 983 158	5 226 385
<b>RSC Levy Replacement</b>	224 080 000	35.12	206 602 000	17 478 000
<b>Equitable Share</b>	204 282 000	32.02	191 867 000	12 415 000
<b>Interest</b>	9 952 237	1.56	12 232 237	-2 280 000
<b>Capital Reserve Fund</b>	40 000 000	6.27		40 000 000
<b>TOTAL</b>	<b>637 964 708</b>		<b>563 732 580</b>	<b>74 232 128</b>

**GRAPH 1**

Illustration of contributions to the own funding sources



**WATER AND SANITATION TARIFFS**

The municipality purchases its water from the uMgeni Water Board. The board has issued a correspondence indicating an increase of the bulk tariff to R6.013 per kilolitre from R4.9510 per kilolitre .

Ideally, the municipality is to transfer the bulk cost to the customers, however, a 100% bulk cost transfer is projected to lead to increased non payments of account which will worsen the collect rate as the tariff is regarded as not affordable to our customer.

The municipality is proposing a 6% increase on tariffs across board, for both customers and business. The increase of 6% or below the tariff increase by the bulk service provider for businesses is to attract more investment in our district as this translates to reduced overheads for business, in return, the district will experience increased employment for its citizens.

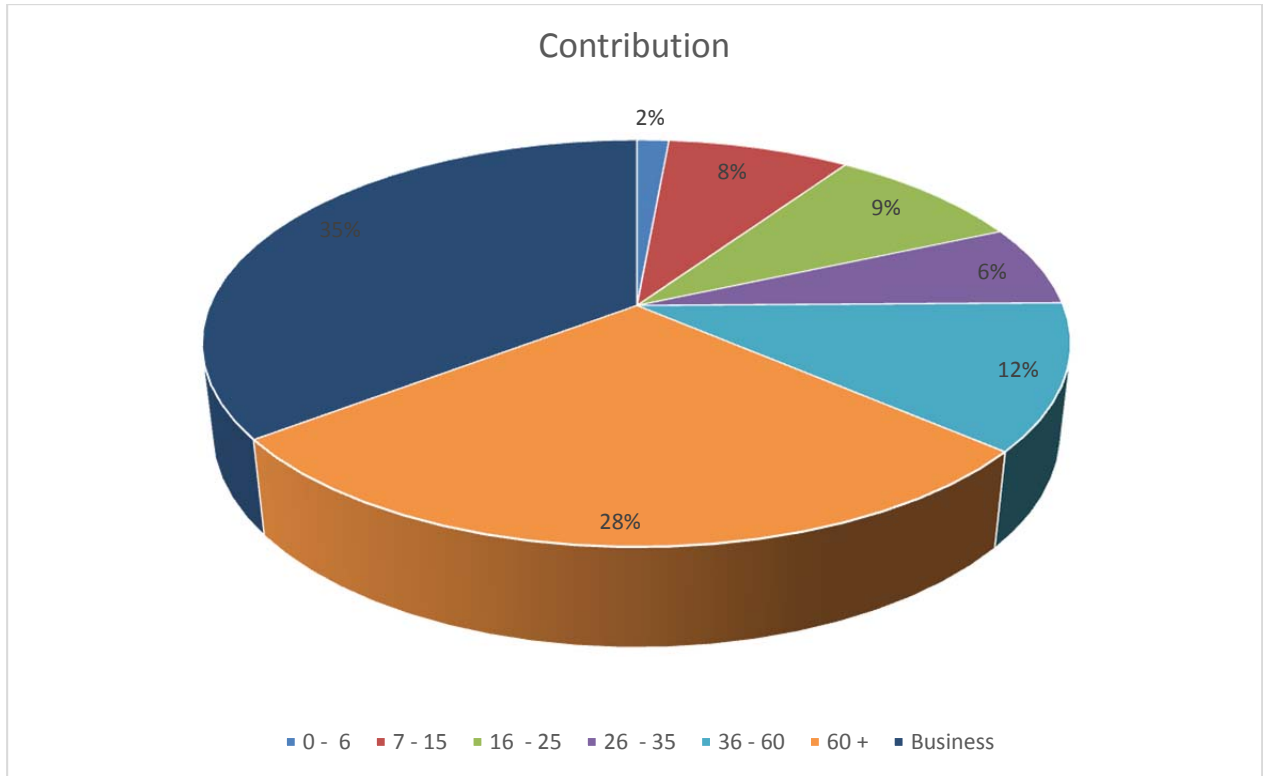
Table 6 below, indicates the proposed tariff structure based on the consumption bands and split between businesses and households.

**TABLE 6**

<b>UMGUNGUNDLOVU DISTRICT MUNICIPALITY TARIFF STRUCTURE 2016/2017</b>							
<b>Water Supply Tariffs</b>							
<i>Household/Domestic</i>							
<i>Consumption</i>	<i>2015/2016</i>	<i>Average Consumption 2015/2016</i>	<i>Average Consumption 2016/2017</i>	<i>Changes in Consumption</i>	<i>Rand Value 2015/2016</i>	<i>Proposed Tariff</i>	<i>Rand Value 2016/2017</i>
0 - 6	7.30	157 981	263 683	105 702	1 153 261	7.74	2 040 376
7 - 15	10.90	932 641	1 009 853	77 212	10 165 787	11.55	11 667 845
16 - 25	12.00	590 106	1 003 083	412 977	7 081 272	12.72	12 759 212
26 - 35	16.50	549 391	528 108	-21 283	9 067 369	17.49	9 239 072
36 - 60	22.00	926 614	714 981	-211 633	20 385 508	23.32	16 673 365
60 +	26.80	1 883 902	1 434 324	-449 578	50 479 154	28.40	40 738 674
		<b>5 040 635</b>	<b>4 954 032</b>	<b>-86 603</b>	<b>98 332 351</b>		<b>93 118 544</b>
<b>Basic charge</b>							
Flat rate			971			100.00	97 100
New Connections:			1 450			745.00	1 080 250
Water Tanker Hire			220			1300.00	286 000
Household Income							<b>94 581 894</b>
<b>Business /Commercial</b>							
0 - 999999	13.29	3 514 054	3 616 260		46 715 834	14.09	50 959 034
New Connections			600			1500.00	900 000
<b>TOTAL WATER</b>					<b>145 048 185</b>		<b>146 440 928</b>

## **GRAPH 2**

### Consumption contribution



Graph 2 reflects that businesses contributes 35 % of water sales, followed by high consumer customers. National Treasury encourages the introduction of an inclining block tariff (IBT) structure which promotes amongst others, the conservative use of services. As can be seen on Table 5, the municipality is charging a high rate to household consumers than businesses. This, during the 2015 /2016 financial year has reflected a trend of reduced consumption amongst high consumption customers.

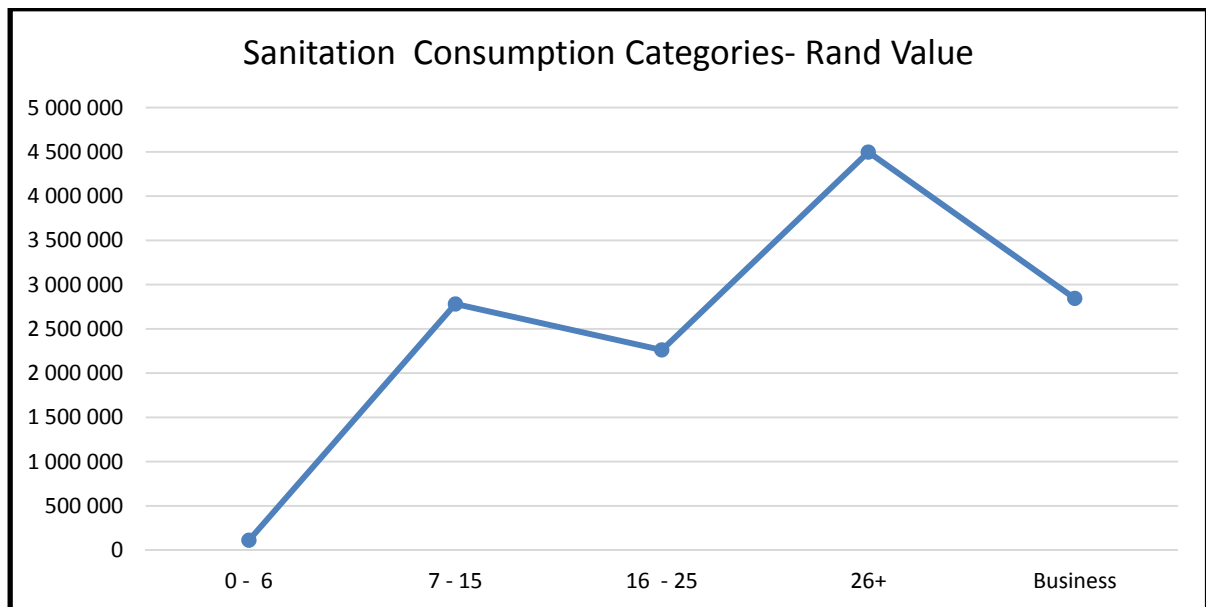
With the projects that the municipality has completed and with the data cleansing exercise, the municipality expect to make new connections of at least 1450 household customers.

Table 7 below, are the proposed increases to the Sanitation Tariff, tabled per consumption category.

**TABLE 7**

<i>UMGUNGUNDLOVU DISTRICT MUNICIPALITY TARIFF STRUCTURE 2016/2017</i>							
<b>Sanitation Tariff 2016/2017</b>							
Household / Domestic							
Consumption kl	2015 /2016	Consumption 2015 / 2016	Consumption 2016 /2017	Change in use	Rand Value 2015/2016	Proposed Increased tariff	Rand Value 2016/2017
0 - 6	4.10	14 650	25 728	11 078	60 065	4.35	111 814
7 - 15	6.10	173 215	430 089	256 874	1 056 612	6.47	2 780 958
16 - 25	7.00	95 182	304 809	209 627	666 274	7.42	2 261 685
26+	8.17	436 436	519 652	83 216	3 563 500	8.65	4 497 536
					5 346 450		9 651 993
Honey sucker hire			550			350.00	192 500
New Connections			700			745.00	521 500
							<b>10 365 993</b>
Business /Commercial							
0 - 9999999999	8.17	322 928	328 548	5 620	2 636 707	8.65	<b>2 843 550</b>
<b>TOTAL SANITATION</b>					<b>7 983 158</b>		<b>13 209 543</b>

**GRAPH 3**



Through the equitable share, the National Treasury has made available to municipalities a subsidy of R 334.97 per household living under the affordability threshold of R 2300 per month as a contribution towards the provision of basic service. The municipality has 272 666 households according to 2011 census. This means that of the R 204.2 million allocated as the equitable share, the municipality must allocate R 91.3 million towards the

provision of water and sanitation basic services, if ALL the households in the uMgungundlovu District were to be regarded as living below the threshold. The distribution of this subsidy is elaborated upon under the Operational Expenditure Framework below.

## 1.5 OPERATING EXPENDITURE FRAMEWORK

### 1.5.1 Cost Containment Measures

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 8 below reflects an allocation of R 3776.5 million allocated to Technical Services Department which is a little above **61%** of the operational budget followed by Community Services above **15%** which reflects the municipality's commitment to the core business of local government and being citizen centric.

**TABLE 8**

Comparison: Mid Term and Proposed Budget						
Department	Proposed Adjustment Budget	% of Adjustment Budget	Proposed Budget	Amount Change	% Change	% Contribution to Budget
Executive & Council	41 679 888	6.92	47 618 299	5 938 411	14.25	7.78
Community Services	87 721 331	14.57	93 129 757	5 408 426	6.17	15.21
Corporate Services	57 740 893	9.59	59 238 528	1 497 635	2.59	9.68
Finance	42 346 327	7.03	35 755 340	-6 590 987	-15.56	5.84
Technical Services	372 679 760	61.89	376 504 164	3 824 404	1.03	61.50
<b>TOTAL</b>	<b>602 168 199</b>	<b>100</b>	<b>612 246 088</b>	<b>10 077 889</b>	<b>1.67</b>	<b>100</b>

This trend of financial resource allocation is consistent with the mid term budget adjustment trend where emphasis of financial resources allocation is with Technical Services.

All departments had an increase of financial resources from the adjustment budget except for financial services. This is due to the proposed post retirement benefit provision policy which recommends a 30% provision for the post retirement benefit as evaluated by actuaries for the previous audited financial year.

As a result, the salaries budget will reduce as the post retirement benefit was budget for at the finance department under salaries budget.

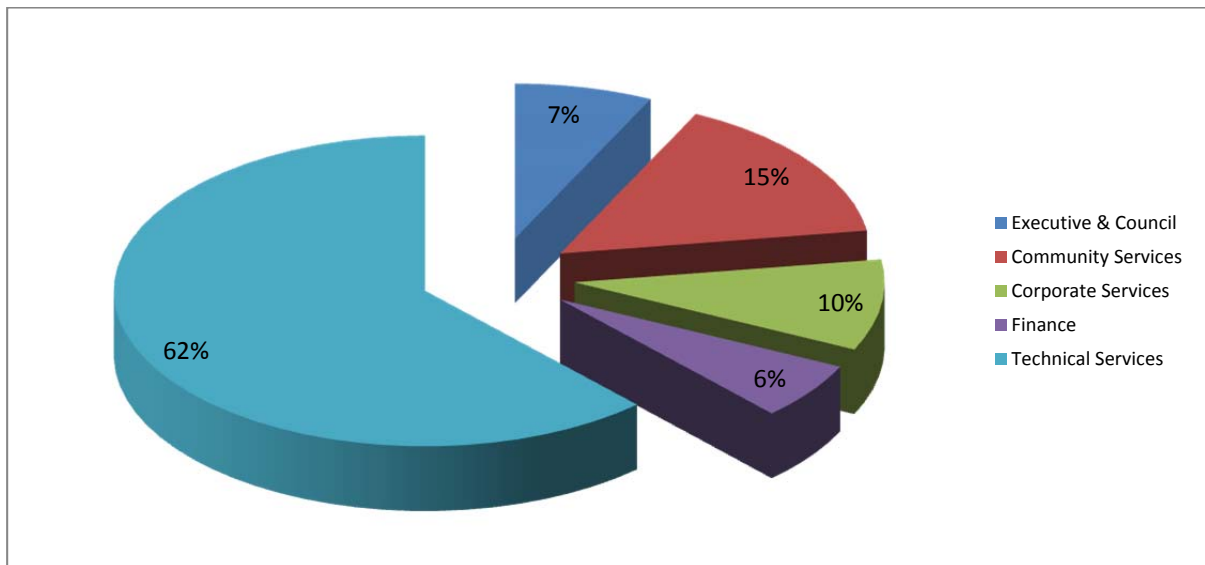
Two of the priorities of the National Treasury amongst others is to extend the HIV/ AIDS intervention spending which includes TB and extending access to early childhood development centres.

These priorities are catered for in the Community Services Department.



#### GRAPH 4

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 available as funding for the water and sanitation function which totals R 250 985 401 [R 91 334 930 subsidy if all households are declared as living below the threshold and R 159 650 471 sales] and the budget allocation of R 376 504 164, the trading service is running at an operational loss of R 125 518 763.

#### 1.5.2 Drinking Water and Waste Water Quality

The blue and green drop full assessments are conducted every 2 year. For the green drop, the full assessment covers the evaluation of the process control, waste water quality monitoring, submission of waste water quality results , effluent quality compliance , waste water quality risk management, by laws, waste treatment capacity and waste water assets management.

The Water Services Act, Act 108 of 1997 requires that the Water Services Authority must monitor the water drinking quality supplied to its consumers which must be in compliance with the requirements of SANS 241: Drinking Water.

The evaluation of the blue and green drop statuses is based on the following:

- a) The green drop is based on the cumulative risk ratio where a score below 50% is regarded as low risk by the Department of Water and Sanitation.
- b) The blue drop status on the other side is awarded to water supply systems that reaches a bench mark score of 95 % against the blue drop criteria.

For the last assessment occurred in 2014 for the green drop status, it only focused on the following areas:

- i. Operational Capacity of waste water treatment plant.
- ii. Process Control Skills.
- iii. Waste water quality compliance and availability.
- iv. Implementation of waste water risk abatement plan

The outcomes for the schemes varied between 24% and 65% which is regarded as low to moderate risk position.

The blue drop status dropped from 92.42% to 89.94% and this score requires the following corrections:

- 1) The development and implementation of the water safety plan – which carries 35% score towards a blue drop score.
- 2) Investment in the filling of critical water care positions that looks after the treatment process management.

To improve on our systems and enhance our Blue / Green Drop status, the Municipality has entered into a service level agreement with uMgeni Water to service and maintain our Waster Water plants and to evaluate, and monitor the drinking water quality on daily basis.

This contract is budgeted for as part of contracted services, operations and maintenance. On average a month , the municipality spends R 1.3 million for the waste water plants service level agreements and R 311 000 for the water quality monitoring.

In total the Municipality has budget R 20 million for the Memorandum of Agreement , R16 million for Sanitation and R 4 million for water quality monitoring.

### **1.5.3 Employee related cost**

The employee related cost were decreased by an amount of R 16.4 or by 7.9 % from the 2015/16 adjustment budget year for the 2016/17 budget year.

This movement is the net effect of the changes due to cost containment measures with the reprioritisation of filling of positions, and the proposed policy on the reduction of 70% on the post retirement provision.

As at 30 April 2016, the expenditure to date for employee related costs amounted to R 146.4 million compared to the R 208 million annual budget or R 191.7 year to date budget.

According to the South African Local Government Collective Bargaining Agreement : Salary and Wage Collective Agreement, the municipality is to budget for a 6% increase.

### **1.5.4 Municipal Standard Chart of Accounts Readiness and Budget Allocation**

The municipality has been a pilot site for the implementation of Municipal Standard Chart of Accounts working with the National and Provincial Treasuries. Since the beginning of the

pilot, the municipality has had to engage on various programs as per the approved project plan.

Awareness and change management programs were successfully implemented so are the other related tasks for the project.

The municipality has had to invest in its Information Technology infrastructure after the assess result that the then capacity was not able to accommodate the data and information which is m SCOA related.

The project continues even though the municipality is live with 7 m SCOA segments.

For the 2016 /2017 budget, the municipality has made available R 800 000 on system improvement and other m SCOA operational expenditure related. Further, the municipality is to complete its desktop infrastructure upgrade such as laptops and all in one computers for all finance employees and m SCOA users within the municipality. The budget for computers, laptops and server upgrades is R 600 000.

### 1.5.5. Debt impairment

**TABLE 9**

Anticipated Revenue		Anticipated Collection Rate	Amount Projected to be Written Off
Water	146 440 928	0.70	43 932 279
Sanitation	13 209 543	0.85	1 981 431
Total	159 650 471		45 913 710
			29

The debt impairment as a percentage of total billable revenue was 29% for the 2016/17 budget as reflected by Table 9 above. 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 from 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.

#### **1.5 .6 OTHER OPERATIONAL EXPENDITURE**

Due to the introduction of expenditure prioritisation strategies and cost containment measures , the municipality has managed to marginally increase its operational expenditure by 1.25 % from **R 602.2 million** at mid-term to **R 612.3 million**.

The main expenditure drivers remain the bulk services (**16.6%**), employee costs (**31.3%**), water tankers (**5.85%**), and operations and maintenance (**8%**) **excluding operations and maintenance salaries**. The categories for the operational expenditure are outlined in Table 10 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 within the National Treasury norm, and when combined with councilor allowances, the rate increases to **33.6 %** which is still within the National Treasury norm of 25 – 40 % of the total operational budget.

Table 11, reflects the categories of contracted services that the municipality has for the 2016 /2017 financial year. The contracted services will contribute **20%** of operating costs in the 2016/2017 financial year at **R122 915 million**. Although the contracted services are above the norm of 5% most of them are relating to operations (waste water treatment plants), 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.

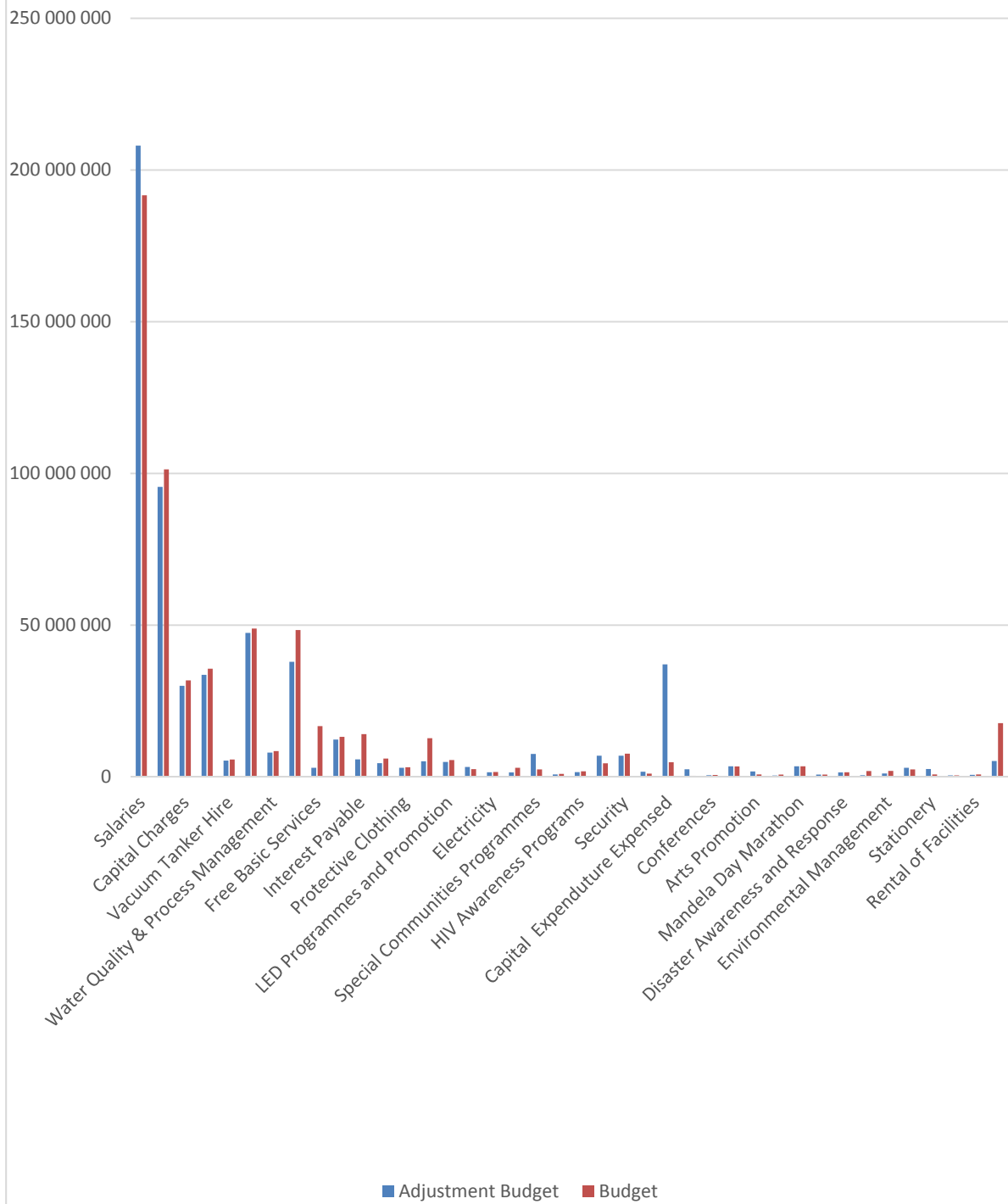
**TABLE 10**

	<b>Adjustment Budget</b>	<b>Budget</b>	<b>% of the Budget</b>
Salaries	208 051 937	191 690 534	31.31
Bulk Water Purchases	95 592 800	101 328 368	16.55
Capital Charges	30 000 000	31 800 000	5.19
Water Tanker Hire	33 620 000	35 637 200	5.82
Vacuum Tanker Hire	5 400 000	5 724 000	0.93
Operations & Maintenance (Excluding Salaries)	47 471 798	48 906 106	7.99
Water Quality & Process Management	8 034 695	8 516 777	1.39
Provision for Doubtful Debt	37 926 001	48 400 778	7.91
Free Basic Services	3 000 000	16 733 259	2.73
Councillor Remuneration	12 326 793	13 189 402	2.15
Interest Payable	5 784 198	14 081 250	2.30
Consultants	4 524 000	6 065 440	0.99
Protective Clothing	3 000 000	3 180 000	0.52
Motor Vehicle Hire	5 159 000	12 757 850	2.08
LED Programmes and Promotion	4 915 465	5 535 393	0.90
Data Processing	3 283 264	2 547 900	0.42
Electricity	1 550 000	1 643 000	0.27
Building Maintenance	1 500 000	3 000 000	0.49
Special Communities Programmes	7 550 000	2 490 000	0.41
Youth Development	800 000	1 000 000	0.16
HIV Awareness Programs	1 580 000	1 851 800	
Tourism Programmes & Promotion	7 000 000	4 484 853	0.73
Security	7 000 000	7 650 000	1.25
Communication	1 720 000	1 100 000	0.18
Capital Expenditure Expensed	37 079 000	4 852 740	0.79
Office Expenses & Refreshments	2 500 000	350 000	0.06
Conferences	550 000	646 484	0.11
Sports Promotion	3 500 000	3 460 000	0.57
Arts Promotion	1 800 000	800 000	0.13
Culture Promotion	450 000	787 000	0.13
Mandela Day Marathon	3 500 000	3 500 000	0.57
Legal Fees	750 000	750 000	0.12
Disaster Awareness and Response	1 502 106	1 540 800	0.25
Environmental Health	567 918	1 949 793	0.32
Environmental Management	1 130 000	2 000 000	0.33
Telephones	3 000 000	2 469 600	0.40
Stationery	2 622 000	800 000	0.13
Research & Development	500 000	500 000	0.08
Rental of Facilities	700 000	800 000	0.13

Other Expenditure	5 227 225	17 725 763	2.90
	<b>602 168 200</b>	<b>612 246 088</b>	99.70

**GRAPH 5**

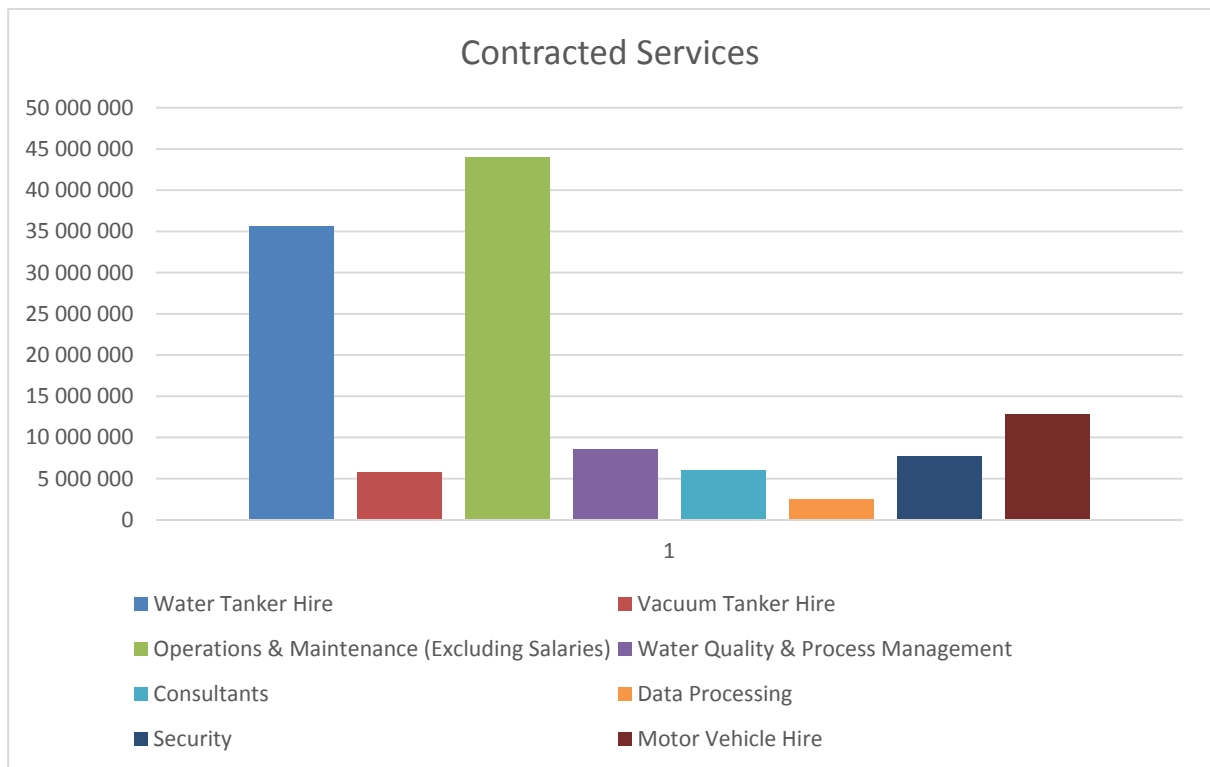
## Major Expenditure Items



**TABLE 11**

<b>Contracted Services</b>	<b>122 914 662</b>
Water Tanker Hire	35 637 200
Vacuum Tanker Hire	5 724 000
Operations & Maintenance (Excluding Salaries)	44 015 495
Water Quality & Process Management	8 516 777
Consultants	6 065 440
Data Processing	2 547 900
Security	7 650 000
Motor Vehicle Hire	12 757 850

**Graph 6**





### 1.5.7 Trading Service – Water and Sanitation

The National Treasury has made a subsidy allocation of R 334.97 as a basic service component to assist the municipalities to cover the cost of providing basic services for households that are living below the affordability threshold.

**TABLE 12**

Purchased :KL		18 108 722
Sold:		8 570 292
Households	4 954 032	
Businesses	3 616 260	
<b>Balance Water Available kl</b>	<b>-</b>	<b>9 538 430</b>
Free water:		<b>2 782 847</b>
Through billing 6 kl	198 473	
Stand pipes	1 890 144	
Water Tankers	694 230	
<b>Unaccounted for water kl</b>		<b>6 755 583</b>
Average Tariff	16.47	
<b>Revenue Foregone</b>	<b>(Average tariff x Unaccounted Water)</b>	<b>111 264 457</b>
<b>Fruitless Expenditure: Water Purchased but not Accounted For</b>	<b>6.013</b>	<b>40 621 322</b>
<b>Free Basic Water *</b>	<b>6.013</b>	<b>16 733 259</b>
<b>Funding For Water &amp; Sanitation Function</b>		
<i>Number of Poor Households with a 2011 Census baseline and SA 9 Projection</i>		237 274
Subsidy per Household		334.97
Total Subsidy for the year **		<b>79 479 672</b>
Water		146 440 928
Sanitation		13 209 543
		<b>239 130 143</b>
Operational Expenditure		353 056 777
Water		324 404 399
Sanitation		28 652 378
<b>Operational Deficit for the Trading Service</b>	<b>-</b>	<b>-113 926 633</b>

The municipality purchases 18.1 million kilo litres of water per annum. Of that only 8.5 million is sold.

In excess of 2.7 KL are provided to our households as free basic water either through stand pipes, water tankers and or metered facilities.

Looking at Table 12 above, the tariff for the 2016 /2017 financial year will be 6.013 and free water is 2 782 847 kl, this translate to R16 733 259\* basic water excluding all other related costs such as water tanker hire, salaries , chemicals and general maintenance of infrastructure.

According to the budget assumption and table SA 9 using the 2011 census as a baseline, the number of poor households that lives below the affordability threshold of R2300 per month is 237 274. This will mean that the subsidy from the Equitable Share will be R 79 479 672. The total available to fund the water and sanitation function, including the expected sales, totals to R 239 130 143. This amount is still R137 374 021 below the R376 504 164 operational expenditure that is related to the provision of water and sanitation function.

While water and sanitation remains our core business of the municipality, the Municipality also strives to a citizen centric municipality .

The municipality will spend on the following programs:

- R 5.3 million for Special Communities, including Children , Elderly and People living with special needs.
- R 3.5 million for Sports Promotion.
- R 3.5 million for the prestigious Mandela Day Marathon which contributes towards Tourism in the District.
- R 4.5 million for other Tourism initiatives.
- R800 000 for Arts Promotion.
- R3.9 million for Environmental Health and Management.
- R 5.5 million for Local Economic Development and the establishment of the Development Agency.

## 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.

A little above **93%** of the capital budget is allocated to the water function, which is aimed to advance the implementation of projects and ensure limited service interruptions.

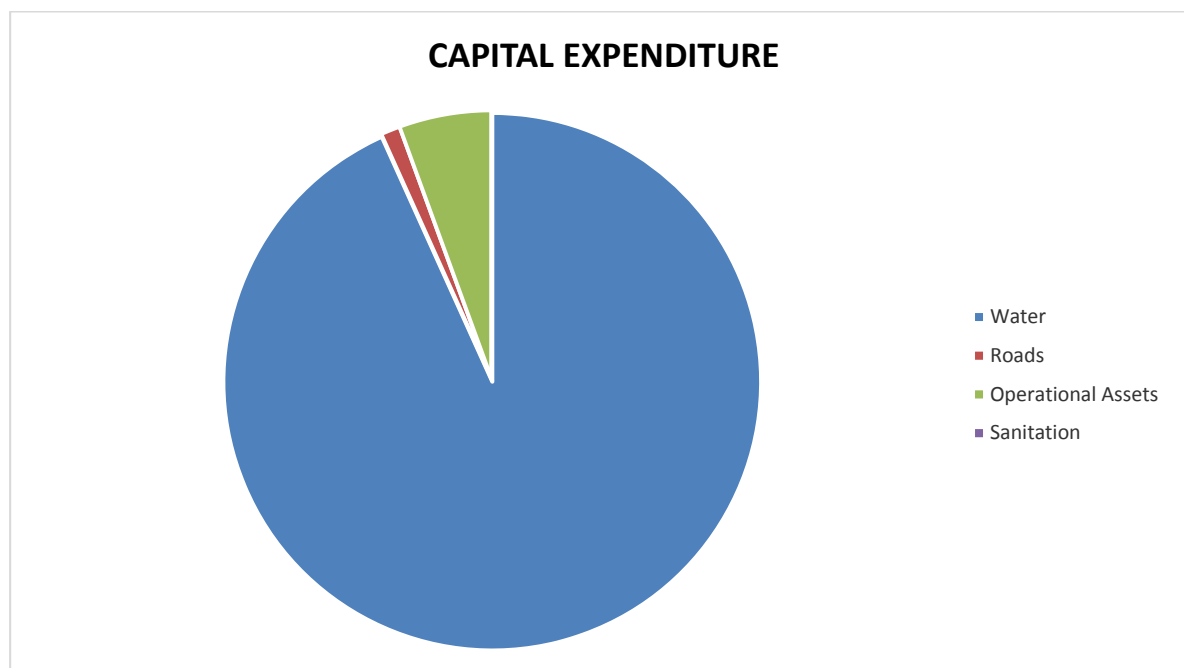
Although water and sanitation services are operating at a deficit, the municipality has acquired a loan from DBSA to the value of R 230 million which has been spent or drawn down since September 2015 aiming at fast tracking the implementation of new projects , major revitalization of ageing infrastructure 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.

As the balance sheet loan has been drawn down, there is an amount of R 99.6 available for the implementation of projects for the 2016 /2017 financial year.

Due to pressing service provision requirements and needs, the municipality is investing R 40 million of its own funds according to the proposed funding and reserve policy.

**TABLE 13**

<b>FUNCTION</b>	<b>ALLOCATION</b>	<b>% BUDGET</b>
Water	189 918 000.00	93.26
Roads	2 384 000.00	1.17
Operational Assets	11 350 000.00	5.57
Sanitation	0.00	0.00
<b>TOTAL</b>	<b>203 652 000.00</b>	<b>100.00</b>
Items to be expended	2 384 000.00	

**GRAPH 7****TABLE 14**

Project Name	Municipality	Funding Source	Amount	Capital Asset
Asbestos Cement Pipe Replacement : Hilton	<i>uMngeni</i>	<i>Balance Sheet Loan</i>	49 841 500	Y
Asbestos Cement Pipe Replacement : Merrivale & Merrivale Heights	<i>uMngeni</i>		49 841 500	Y
Nkanyezi, Manyavu , Manzamnyama Water Supply Scheme	<i>uMkhambathini</i>	<i>Reserves</i>	40 000 000	Y
uMshwathi Regional Bulk Water	<i>uMshwathi</i>	<i>Water Services Infrastructure Grant</i>	50 235 000	Y
<b>Water Infrastructure Assets</b>			<b>189 918 000</b>	
Rural Roads Assets Management	<i>District</i>	<i>Rural Roads Asstes Management Systems Grant</i>	2 384 000	N
<b>Operational Assets</b>				
TLB			1 000 000	Y
Truck Mounted Jetting Machines			3 000 000	Y
Water Pumps Replacements			3 000 000	Y
Telemetry			3 000 000	Y
Tipper Truck			600 000	Y
Office Furniture			150 000	Y
Computers Equipment			600 000	Y
<b>Total Operational Assets</b>			<b>11 350 000</b>	
<b>TOTAL CAPITAL BUDGET</b>			<b>201 268 000</b>	

## 1.7 ANNUAL BUDGET TABLES : REFER TO SCHEDULE A1

DC22 uMgungundlovu - Table A1 Budget Summary

Description	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
<b>Financial Performance</b>										
Property rates	-	-	-	-	-	-	-	-	-	-
Service charges	118 136	132 685	116 303	153 031	153 031	153 031	153 031	159 650	169 280	179 437
Investment revenue	7 979	10 413	12 260	9 360	9 360	9 360	9 360	7 080	7 000	7 000
Transfers recognised - operational	327 088	349 953	376 281	405 737	435 237	435 237	405 737	434 490	472 223	508 865
Other own revenue	28 620	38 918	22 888	10 872	42 065	42 065	42 065	42 872	3 100	2 750
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>481 824</b>	<b>531 969</b>	<b>527 733</b>	<b>579 001</b>	<b>639 693</b>	<b>639 693</b>	<b>610 193</b>	<b>644 093</b>	<b>651 603</b>	<b>698 052</b>
Employee costs	151 411	157 176	176 152	218 052	208 052	208 052	208 052	191 692	202 427	214 572
Remuneration of councillors	9 466	9 944	10 836	12 327	12 327	12 327	12 327	13 189	13 928	14 764
Depreciation & asset impairment	80 989	56 330	83 433	30 000	30 000	30 000	30 000	31 800	33 581	35 596
Finance charges	1 919	2 976	2 433	13 284	5 784	5 784	5 784	14 081	14 870	15 762
Materials and bulk purchases	63 346	71 336	76 619	97 093	97 093	97 093	97 093	102 828	108 587	115 102
Transfers and grants	-	-	-	3 000	3 000	3 000	3 000	16 733	17 670	18 731
Other expenditure	295 639	265 642	288 002	203 163	245 913	245 913	245 913	241 922	255 469	270 798
<b>Total Expenditure</b>	<b>602 770</b>	<b>563 404</b>	<b>637 476</b>	<b>576 919</b>	<b>602 169</b>	<b>602 169</b>	<b>602 169</b>	<b>612 246</b>	<b>646 532</b>	<b>685 324</b>
<b>Surplus/(Deficit)</b>	<b>(120 946)</b>	<b>(31 435)</b>	<b>(109 743)</b>	<b>2 082</b>	<b>37 524</b>	<b>37 524</b>	<b>8 024</b>	<b>31 847</b>	<b>5 072</b>	<b>12 729</b>
Transfers recognised - capital	140 324	183 140	228 862	186 132	186 132	186 132	186 132	149 865	170 187	236 223
Contributions recognised - capital & contributed assets	-	-	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>19 378</b>	<b>151 705</b>	<b>119 119</b>	<b>188 214</b>	<b>223 656</b>	<b>223 656</b>	<b>194 156</b>	<b>181 712</b>	<b>175 259</b>	<b>248 952</b>
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) for the year</b>	<b>19 378</b>	<b>151 705</b>	<b>119 119</b>	<b>188 214</b>	<b>223 656</b>	<b>223 656</b>	<b>194 156</b>	<b>181 712</b>	<b>175 259</b>	<b>248 952</b>
<b>Capital expenditure &amp; funds sources</b>										
<b>Capital expenditure</b>	<b>77 953</b>	<b>143 850</b>	<b>210 443</b>	<b>260 496</b>	<b>277 045</b>	<b>277 045</b>	<b>260 496</b>	<b>201 268</b>	<b>170 187</b>	<b>236 223</b>
Transfers recognised - capital	77 276	142 774	169 345	186 132	186 132	186 132	186 132	149 865	170 187	236 223
Public contributions & donations	-	-	-	-	-	-	-	-	-	-
Borrowing	-	-	-	58 764	58 764	58 764	58 764	40 053	-	-
Internally generated funds	677	1 076	41 098	15 600	32 149	32 149	15 600	11 350	-	-
<b>Total sources of capital funds</b>	<b>77 953</b>	<b>143 850</b>	<b>210 443</b>	<b>260 496</b>	<b>277 045</b>	<b>277 045</b>	<b>260 496</b>	<b>201 268</b>	<b>170 187</b>	<b>236 223</b>
<b>Financial position</b>										

Total current assets	262 973	408 090	452 340	594 081 1	648 281 1	697 839 1	697 839 1	542 381 1	561 033 1	585 241 1
Total non current assets	680 709	794 437	883 148	116 828	116 828	116 828	116 828	190 918	262 373	333 066
Total current liabilities	146 225	247 109	264 578	119 697	119 697	172 869	203 044	460 797	280 402	296 105
Total non current liabilities	9 954	6 021	2 394 1	59 737 1	59 737 1	59 737	4 404	4 404 1	– 1	– 1
Community wealth/Equity	787 503	949 397	068 516	531 475	585 675	946 958	946 958	268 098	543 003	622 202
<b>Cash flows</b>										
Net cash from (used) operating	86 785	139 921	133 343	218 329	279 021	279 021	279 021	207 378	242 890	320 641
Net cash from (used) investing	(77 540)	(160 396)	(170 982)	(260 496)	(277 045)	(277 045)	(277 045)	(161 268)	(170 187)	(236 223)
Net cash from (used) financing	(3 407)	88 760	(5 149)	50 794	38 198	38 198	38 198	25 972	(14 870)	(15 762)
Cash/cash equivalents at the year end	136 999	205 283	162 494	157 313	202 667	202 667	202 667	234 576	292 409	361 065
<b>Cash backing/surplus reconciliation</b>										
Cash and investments available	136 999	205 283	162 494	148 467	202 667	202 667	202 667	234 576	234 760	240 696
Application of cash and investments	77 404	106 278	(100 560)	(254 008)	(275 067)	(312 233)	(312 233)	(61 656)	(126 035)	(133 782)
Balance - surplus (shortfall)	59 594	99 005	263 054	402 475	477 734	514 900	514 900	296 232	360 795	374 478
<b>Asset management</b>										
Asset register summary (WDV)	713 625	793 659	44 027	116 828 1	197 725 1	197 725 1	735 569	735 569	–	–
Depreciation & asset impairment	80 989	56 330	83 433	30 000	30 000	30 000	31 800	31 800	33 581	35 596
Renewal of Existing Assets	43 711	44 670	43 535	–	–	40 902	40 902	–	–	–
Repairs and Maintenance	529 538	550 914	510 844	139 356	140 156	140 156	149 935	149 935	158 331	167 831
<b>Free services</b>										
Cost of Free Basic Services provided	–	–	–	–	–	–	–	–	–	–
Revenue cost of free services provided	–	–	–	–	–	–	–	–	–	–
<b>Households below minimum service level</b>										
Water:	3	3	1	1	1	1	1	1	–	–
Sanitation/sewerage:	–	–	–	–	–	–	–	–	–	–
Energy:	–	–	–	–	–	–	–	–	–	–
Refuse:	–	–	–	–	–	–	–	–	–	–

## (revenue and expenditure)

Description	R ef	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcom e	Audited Outcom e	Audited Outcom e	Original Budget	Adjuste d Budget	Full Year Forecas t	Pre- audit outcom e	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousand	1										
<b>Revenue By Source</b>											
Property rates	2	-	-	-	-	-	-	-	-	-	-
Property rates - penalties & collection charges											
Service charges - electricity revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - water revenue	2	94 293	125 072	104 494	145 048	145 048	145 048	145 048	146 441	155 278	164 595
Service charges - sanitation revenue	2	23 748	7 604	10 552	7 983	7 983	7 983	7 983	13 210	14 002	14 842
Service charges - refuse revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - other		95	9	1 258	-	-	-	-			
Rental of facilities and equipment		289	405	296	-	-	-	-			
Interest earned - external investments		7 979	10 413	12 260	9 360	9 360	9 360	9 360	7 080	7 000	7 000
Interest earned - outstanding debtors		12 856	19 491	17 218	2 872	2 872	2 872	2 872	2 872	3 100	2 750
Dividends received		-	-	-	-	-	-	-	-	-	-
Fines		-	-	-	-	-	-	-	-	-	-
Licences and permits		-	-	-	-	-	-	-	-	-	-
Agency services		-	-	-	-	-	-	-	-	-	-
Transfers recognised - operational		327 088	349 953	376 281	405 737	435 237	435 237	405 737	434 490	472 223	508 865
Other revenue	2	15 049	19 022	5 373	8 000	39 192	39 192	39 192	-	-	-
Gains on disposal of PPE		427							40 000		
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>481 824</b>	<b>531 969</b>	<b>527 733</b>	<b>579 001</b>	<b>639 693</b>	<b>639 693</b>	<b>610 193</b>	<b>644 093</b>	<b>651 603</b>	<b>698 052</b>
<b>Expenditure By Type</b>											
Employee related costs	2	151 411	157 176	176 152	218 052	208 052	208 052	208 052	191 692	202 427	214 572
Remuneration of councillors		9 466	9 944	10 836	12 327	12 327	12 327	12 327	13 189	13 928	14 764
Debt impairment	3	57 414	40 243	66 034	37 926	37 926	37 926	37 926	48 401	51 111	54 178
Depreciation & asset impairment	2	80 989	56 330	83 433	30 000	30 000	30 000	30 000	31 800	33 581	35 596
Finance charges		1 919	2 976	2 433	13 284	5 784	5 784	5 784	14 081	14 870	15 762
Bulk purchases	2	63 346	71 336	76 619	95 593	95 593	95 593	95 593	101 328	107 003	113 423
Other materials	8				1 500	1 500	1 500	1 500	1 500	1 584	1 679
Contracted services		152 157	143 853	131 937	90 204	95 004	95 004	95 004	122 915	129 798	137 586
Transfers and grants		-	-	-	3 000	3 000	3 000	3 000	16 733	17 670	18 731
Other expenditure	4, 5	85 142	81 546	89 841	75 033	112 983	112 983	112 983	70 606	74 560	79 034
Loss on disposal of PPE		926	-	190							

Total Expenditure		602 770	563 404	637 476	576 919	602 169	602 169	602 169	612 246	646 532	685 324
Surplus/(Deficit)		(120 946)	(31 435)	(109 743)	2 082	37 524	37 524	8 024	31 847	5 072	12 729
Transfers recognised - capital		140 324	183 140	228 862	186 132	186 132	186 132	186 132	149 865	170 187	236 223
Contributions recognised - capital	6	-	-	-	-	-	-	-	-	-	-
Contributed assets											
Surplus/(Deficit) after capital transfers & contributions		19 378	151 705	119 119	188 214	223 656	223 656	194 156	181 712	175 259	248 952
Taxation											
Surplus/(Deficit) after taxation		19 378	151 705	119 119	188 214	223 656	223 656	194 156	181 712	175 259	248 952
Attributable to minorities											
Surplus/(Deficit) attributable to municipality		19 378	151 705	119 119	188 214	223 656	223 656	194 156	181 712	175 259	248 952
Share of surplus/(deficit) of associate	7										
Surplus/(Deficit) for the year		19 378	151 705	119 119	188 214	223 656	223 656	194 156	181 712	175 259	248 952

## 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 2015) 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 26 August 2015. Key dates applicable to the process were:

- **July - August 2015**— 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 2015** – 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 2015** - Review of the financial strategy and key economic and financial planning assumptions by the Budget Steering Committee. This included financial forecasting and scenario considerations;
- **29 January 2016** - Council considers the 2015/2016 Budget Implementation Assessment
- **26 February 2016** - Approval of the Mid-year Adjustments Budget;
- **February 2016** – Finalisation of the departmental inputs of the IDP Review and the Budget Estimates;

- **26 February 2016** - Tabling in Council of the draft 2016/ 2017 IDP and 2016 /2017 MTREF for public consultation;
- **April 2016** – Public consultation;
- **April 2016** - Closing date for written comments;
- **29 April – 08 May 2016**– finalisation of the 2016/ 2017 IDP and 2016/ 2017 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
- **27 May 2016** - Tabling of the 2016/17 MTREF before Council for consideration and approval.

There were no 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 Izimbizo

- 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 2016/2017 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 2016. 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 2016/2017 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 2016.

NO.	MUNICIPALITY	DATE	VENUE	ISSUES	REPOSE
<b>uMshwathi Municipality Imbizo</b>					
	uMshwathi Local Municipality	22 March 2016	FET College Hall	<p>The community were given an opportunity to make inputs and ask questions:</p> <p><b>Ward 11-buyisile</b> Thusi-they can see development, although not all is happening at same time-want a hospital as they all go to Sawayimane-2. Higher education centres as they have matrics , centre for application where they paid R200- 3) road –tar road at the bridge more than 200 children at the crèche</p> <p><b>Ward 5-hlathikhulu-Jabulile</b> Msomi-electricity problem, road-at Bhamshela-vehicles don't go there due to bad road condition. They rely on fire-wood for cooking.</p> <p><b>Ward 9-Nontuthuko</b> a Transfeed – they see development- about human settlements, problem of a reservoir at Transfeed-reported to the councillor-ubabu Skheshe –roads damaged by the reservoir that is leaking is even damaging the road</p> <p><b>Ward 6-Nombuyiseli-kwa Janokwe-</b> electricity +has electricity –some didn't get it and also request houses and jojo tanks</p> <p><b>Ward 14-Mr T Cele</b> R164-Greengate-need humps, expand road to hospital-road-safety-no pavement-need street lights on the same busy</p>	

NO.	MUNICIPALITY	DATE	VENUE	ISSUES	REPOSE
<b>uMshwathi Municipality Imbizo</b>					
				<p>road to hospital and TVET college to prevent crime at Appelsboch.</p> <p><b>Ward 4</b>-Mbalenhle Ntombifuthi Zondi-electricity is there but need infills-lightining destroyed at her house-they need lightning conductors</p> <p><b>Ward 4</b>-Toboti Rev Myeza-ask for follow-ups on water pipes, some not to households. Road and gravel</p> <p><b>Ward 3</b>-Zama Gabela-problem of water-ask for</p>	

NO.	MUNICIPALITY	DATE	VENUE	ISSUES	REPOSE
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## uMngeni Municipality Imbizo

	uMngeni Local Municipality	01 April 2016	Indoor Sports Ground	<p><b>Ward 8-Thandanani –</b></p> <ul style="list-style-type: none"> <li>• The old houses have a problem of rusty pipes. The plumbers say they do not have enough tools to fix the pipes.</li> <li>• The pipes at Mpophomeni are damaged and water is being wasted.</li> <li>• Many people do not have meters.</li> </ul> <p><b>Hleksile Mugwebo</b></p> <p><b>Mpophomeni-</b></p> <ul style="list-style-type: none"> <li>• I have a crèche and there is no water and electricity, therefore we cannot work under these circumstances.</li> <li>• The river is full of dirt, please assist us with that issue.</li> <li>• Mrs Dlamini ward 5- at ward five nobody informed us of this meeting, therefore, we urge you to recognize us.</li> <li>• We do not even know who our councillor is up till date.</li> <li>• We do not have sewerage in our community.</li> <li>• We have wrote so many letters and no response.</li> <li>• We do not have streetlights in our area.</li> <li>• There are so many potholes on our roads, please assist us with roads.</li> <li>• Xolani Zungu (ward 11) I request for the people working as temporary</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Response from uMngeni Municipality.</b></li> <li>• We assure you that in every area where development has not been done, we will reach out to those places.</li> <li>• The issue with potholes is everywhere and we are starting with the worse areas.</li> <li>• There must be procedures to follow in order to build houses at Khayelisha.</li> <li>• In response to the sports ground, phase one is done and phase two is yet to be done. A company has been hired and they will start with phase two soon.</li> <li>• We will speak to the YMDA to come back</li> </ul>
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				<p>employees to be permanent, we need development to continue in our community.</p> <ul style="list-style-type: none"> <li>• Nomusa (ward 12) - We have a problem with our taps. Water goes over the strong water pipes and it is difficult to take a taxi by the rank.</li> <li>• Mr Mkhize (Ward ten) Mpophomeni- I have a question for the Mayor, the 4.5 million was it for the grass that she planted in our area? I ask this because that is all we have seen so far.</li> <li>• Mthandeni Zondi (Ward twelve) I speak on behalf of the youth that is addicted to drugs, we request a youth centre in order to protect our youth from sugar daddies.</li> <li>• Toni Mbense (Ward nine) I came here to hear the good news but I am unhappy because we have had problems with our tanks, dogs die inside the tanks. We request for help in sorting out the problems pertaining toilets, our town is filthy</li> </ul> <p>Khethy Ndlovu (Ward nine)</p> <ul style="list-style-type: none"> <li>• In our area we have Mbonsi road and this road causes problems, when it rains heavily the water floods, affects peoples houses.</li> <li>• We were told that</li> </ul>	<p>with the project in order to keep the youth away from substance abuse and sugar daddies.</p> <ul style="list-style-type: none"> <li>• We do have a counsellor even though he is not from the ruling party.</li> <li>• We cannot build houses where there is no water, we must follow the rules.</li> </ul> <p>Mr Mbambo : With the issue about the lack of tools, I am sure the plumbers will let you know that the tools are now available.</p> <ul style="list-style-type: none"> <li>• The request of people getting permanent jobs from temporary ones, there are rules to follow. Nonetheless, some people are already permanent.</li> </ul>
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				<p>pipes were going to be installed but till date they have not been installed.</p> <ul style="list-style-type: none"> <li>• Somon Mhlangu (Ward twelve) We have water leakages on Mpempe road. We need a programme that will assist in teaching children on what we do not put into the toilet because children are blocking toilets.</li> <li>• Nongwa Mtshali (Ward 3) We have so many teenagers with talents but nobody assists them in moving forward. Mostly we urge you to assist us with the toilet problems. We need street lights as well because there is a high rate of robbery.</li> <li>• Bongiwe Mthlane ward one-</li> <li>• We have a problem with our sewerage.</li> <li>• We need help with the meters since we do not have meters</li> <li>• We have many young people involved in substance abuse, therefore we request for jobs to prevent them from such matters.</li> </ul> <p>Ward one Shiyas-</p> <ul style="list-style-type: none"> <li>• We do not have houses, rather we have road works causing mud for us.</li> <li>• Phumlani Mtshali ward 11- Water is opened around 11pm while we are sleeping and closed again at 4am, this is not a fair act</li> </ul>	
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				<ul style="list-style-type: none"> <li>• Could you please stop electing councillors for us, the people must elect their own councillors and please work for the people who elected you.</li> <li>• Ward 1- We request a bridge and to develop the crèche for the children.</li> <li>• We request for new pipes and shelters on the road, it is difficult to wait for transport on the road because we get wet.</li> <li>• Xolisile ward one- I thank the District for delivering water to us.</li> </ul>	
NO.	MUNICIPALITY	DATE	VENUE	ISSUES	REPOSE
<b>Mpofana Municipality Imbizo</b>					
	Mpofana Local Municipality	12 April 2016	CHC Bruntville Ward 3	<p><b>Ward 1-Sizwe Nene:</b> Thanks on funding-on labour intensive projects, thanked since they received some job opportunities-50/50 on incoming (use word used by President on SoNA). Water leakages a problem. Thanked madam Mayor, 3rdly request when coming with their Certificates –don't appoint people from external of the local. Why send people to check if they pay for electricity Female: Zandile Ndlovu-town view-on CWP to also clean for elderly –old age home-Mooi River-since some people are left alone behind at their homes.</p> <p><b>Ward 2:</b> <b>Ward 3:</b> commented –Mr E Vilakazi-eShiyabazali-asked community to slow down a bit and look back as to where we come from, "izimbuzi zemchilo"-community suffered-where are we coming from? –there is also a need to commend</p> <p><b>Ward 4:</b> Mr Msawenkosi Mahlangu from Zwelisha-they don't have development-no water, no water tanker, no electricity, poor road-they tried but due to stormwater, school children's transport-they only see the municipality thrice a year-even voting stations are about 25 KMs Jojo tanks –they commend, but the</p>	<p>On water wastage-mainly from households –there was an intervention.</p> <p>Technical Services will intervene-the project on replacement of old water pipes / infrastructure. Water tanker not coming-will fix the bridge</p> <p>Middelrus- to install boreholes-at least it is better there Water from Craigieburn to Greytown-that project is implemented with uMzinyathi –Ward 4 water-R500m business plan-DWS didn't approve it. Like Ebuhleni-but the big project like houses are sparsely scattered. Mpofana municipality also assisted with roads.</p> <p>On Education, DoT- we do work with other Departments to respond, ...</p> <p>Mr Moyo: as the LM- Ward 4 was mainly, the Mpofana LM coordinates all other development-agree on use of local general labour, Mpofana LM ensures-that</p>



			<p>leaders don't frequent the area. Some schools still need transport for school going children. War room at Middelrus is not functional. Also electricity.</p> <p>Mr Freeman Chamane Ward 5? (to be installed after LG Elections 2016)-since there is a dam Springrove Dam-but the locals don't have water</p> <p>What is left behind-mentioned 71 houses at Phumlas-Cllr was fighting with Townview residents for more than 71 houses-they went to the Legislature-they wanted over 400 houses.</p> <p>Responses</p> <p>On water wastage-mainly from households -there was an intervention, Technical Services will intervene-the project on replacement of old water pipes / infrastructure. Water tanker not coming-will fix the bridge</p> <p>Middelrus- to install boreholes-at least it is better there</p> <p>Water from Craigieburn to Greytown-that project is implemented with uMzinyathi -Ward 4 water-R500m business plan-DWS didn't approve it. Like Ebuhleni-but the big project like houses are sparsely scattered. Mpofana municipality also assisted with roads.</p> <p>On Education, DoT- we do work with other Departments to respond, ...</p> <p>Mr Moyo: as the LM- Ward 4 was mainly, the Mpofana LM coordinates all other development-agree on use of local general labour, Mpofana LM ensures-that construction cos. CWP and EPWP-Ward 4-farms on farming equipment -they try their best. Electrical contractor is on 3<sup>rd</sup> year - ward 4 and 2 -R4m project-want to finish by June 2016. Scholar transport-have tried to organize buses-want that local people need to be contracted. Ward 4 war room-a follow-up will be made-Phumlas houses-only mentioned those done as phase 1, the total is 400 since the program continues.</p> <p>uNdlunkulu /inkosi's wife- June 16-wemulisa izintombi ezihlolwayo / reed dance maidens, regiments, inkosi asks for donations-to curb HIV/AIDS, ask for marquee, a bridge. Inkosi Mchunu participates as per Section 81 disabled persons-asbestos, also due to frost/snow: destroys their houses</p>	<p>construction cos. CWP and EPWP-Ward 4-farms on farming equipment -they try their best. Electrical contractor is on 3<sup>rd</sup> year - ward 4 and 2 -R4m project-want to finish by June 2016. Scholar transport-have tried to organize buses-want that local people need to be contracted. Ward 4 war room-a follow-up will be made-Phumlas houses-only mentioned those done as phase 1, the total is 400 since the program continues.</p> <p>uNdlunkulu- June 16-wemulisa izintombi ezihlolwayo, regiments, inkosi asks for donations-to curb HIV/AIDS, ask for marquee, a bridge. Inkosi Mchunu participates as per Section 81 disabled persons-asbestos, also due to frost/snow: destroys their houses</p>
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NO.	MUNICIPALITY	DATE	VENUE	ISSUES	REPOSE
Mkhambathin Municipality Imbizo					

<p>Mkhambathini Local Municipality</p>	<p>18 April 2016</p>	<p>Camperdown Open area near Municipality</p>	<p><b>Ward 1</b> Mbhongeni Gcabashe: eMaqingqo- Uhlange company –did not finish and workers were not paid? Skhanyiso Madlala-e Cabazini- message –problem with water meters, not covered and are damaged.</p> <p><b>Ward 2</b> Smangaye Mdluli-ward 2 inkosi Mdluli’s induna- problem with houses-ward s 1, 3 have but not in Ward 2. Water is problematic –cuts and not informed of water cuts</p> <p><b>Ward 3</b> Sbotho Ngubane-commendation and then ask-the municipalities do attend to the disabled communities’ education that is still a problem / deficiencies and challenges. A need to cater for the educational needs of the disabled leaners. Skhumbuzo Phetha-they live on a farm-water come by a water tanker, tanks are low to collect water, no electricity-as they say it’s a private property-</p> <p><b>Ward 4</b> Ntabeleng Mofoken- e mandalay they registered for RDP houses, at Mandalay-no toilets Ms Ngubane-Eston area- can see some development like community hall, wish to have toilets, need</p> <p><b>Ward 5</b> Fane Ngcobo: thanks for houses, ground and clinic- Nonhlanhla Shezi-as above commendation, toilets, water</p> <p><b>Ward 6</b> Sbo Mkhize under inkosi Mkhize, Cllr Ngongo-thanked Cllr, electricity, Cllr assist Commendation of Cllr, have a community hall</p> <p><b>Ward 7</b> Msholoji Zuma: thanked development, although water tanker-phoned Cllr Magubane-TLB started to dig trenches. Road damaged by storm Mnguni-thanked LM and DM for bringing development-they can see development, except for a few things. Water by contractor called –water interruptions, jikafohla, -water committee not effective. Electricity-the contractor skips</p>	<p>Mkhambathini MM Responded –budget is not sufficient to cover all needs, Ward 5 taken to Ethekekwini-reduced ES and MIG –worked with CFO, Managers and Cllrs Ward 7 electricity got the complaint -43 households-due to Eskom’s budget and electrical designs-working on the project-on the infills. Those mainly affected Will meet Eskom manager on Monday- on Ward 7 infills Ward 2 housing: premiers’ coordinating forum- shown by DHS, which Wards- next month on the meeting by Ward Cllr. Farm /private land-there is a challenge- Technical Services to respond to water and sanitation questions Some got toilets –now full, last year’s business plan-those who received toilets-R300 mil. Not much sanitation projects, ward 1 Co. Uhlanga terminated-as some say they were never paid-with the new contractor-will try Meters covered-had 03 contractors, 1 worked well, 02 terminated-filling reservoirs , current company operating illegally</p> <p><b>Ward 2 and 3-</b> Nkaneyzini, Manzamnyama-there is a pipe with Umgeni water bulk-Sibiya hh – went to Court- court interdict ward 2 and 3 not complete , reservoir –need bulk to reach them in 02 weeks’ time-tenders closed-it’s on the Budget. Kwa Mdaphuna farm-ward 3 need to explain it well.</p> <p><b>Ward 4:</b> sanitation <b>Ward 5:</b> commendation, illegal connections by some plumbers-community to assist</p>
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				the people on the list-requests follow-ups as contractors disregard even ward committees.	<b>Ward 7:</b> Icon Company- did work on reservoir- at pump-station –pumping water to the reservoir. Bayeni clinic near Ngilanyoni- not yet completed –cannot terminate .as water pass on main road to Mbumbulu-there is water reduction-the main reservoir at shopping centre – reported by Ward Committees Esmonti , kwa Dwengu- no water Way-forward –Cllr Diadla, those who didn't get an opportunity to talk-can come forward to ward councillors. And made a vote of thanks.
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NO.	MUNICIPALITY	DATE	VENUE	ISSUES
<b>Richmond Municipality Imbizo</b>				

Richmond Local Municipality	20 April 2016	Ago si Hall	<ul style="list-style-type: none"> <li>• Sthembiso Nqayi – Ward 4 I would like to know where do I enquire if I am faced with problems, in which office do I report to?</li> <li>• Kwazi Mkhize – Ward 4 My concern is that water is getting wasted, and when I ask</li> </ul>	<p><b>Councilor Shange :</b></p> <ul style="list-style-type: none"> <li>• I would like to acknowledge our government for the job well done.</li> <li>• We are aware of the RDP houses that are not in good conditions and the houses shall be rebuilt.</li> <li>• I agree that it is a big issue indeed that there is no clinic, either way Environmental Health is going to deal with that issue and the clinic will be built.</li> </ul>
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			<p>the people to stop misusing water, I become an enemy. I totally agree that people should start paying for water in order to learn responsibility.</p> <ul style="list-style-type: none"> <li>• Nde Nxele – Ward 4 I want to raise a problem that we are facing in our ward, our meters are leaking. Where do we pay for water and how?</li> <li>• Mandla –Ward 4 I would like to thank all the leadership for the services provided. We are all for development and change. However, I am thankful of the government for the supporting grant that we</li> </ul>	<ul style="list-style-type: none"> <li>• As for ward 3, the road is getting built and I am sure those who stay in Iraq have seen that we have started.</li> <li>• When it comes to sports in our community, we took twenty young people for training on different sport sessions and this was for a duration of two weeks.</li> </ul> <p><b>Councilor Mkhize(uMDM):</b></p> <p>I humbly ask the youth to take part in development.</p> <ul style="list-style-type: none"> <li>• It is important as the youth to be under a specific party so that they can assist you.</li> <li>• Involve yourself so that we also can speak to the SETAs on your behalf so that you can get learner ships the same way that we have a fixed programme for interns at uMDM.</li> <li>• We have attended to the</li> </ul>
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			<p>receive.</p> <ul style="list-style-type: none"> <li>• Smanga Phetha – Ward 4 I request that you provide us with a clinic.</li> </ul> <p>Petrose – Ward 4</p> <p>My request is for you to help us with safety, RDP houses and a place to burry our beloved.</p> <ul style="list-style-type: none"> <li>• Sphamandla – ward 3 I would like to give appreciation and thanks to uMgungundlovu District Municipality and the Richmond Local Municipality for good service delivery.</li> </ul> <p>I would also like to raise an issue about projects brought into the community but</p>	<p>issue of the graveyard and we are working in progress.</p>
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				<p>these projects do not benefit us because people from other places are recruited instead of us.</p> <p>Please hire the local unemployed people.</p> <ul style="list-style-type: none"> <li>• Sthembiso Nqayi <ul style="list-style-type: none"> <li>Firstly I would like to give thanks for the speech delivered by the Deputy mayor</li> <li>My point is based on the environmental and infrastructural development. <ul style="list-style-type: none"> <li>➤ Building of the Clinic</li> <li>➤ The issue of the road in ward 3</li> <li>➤ Building of the youth office which will cater for all the young</li> </ul> </li> </ul> </li> </ul>	
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				<p>people.</p> <ul style="list-style-type: none"> <li>➤ Sports creation to avoid the youth from drug abuse and sugar daddies.</li> <li>➤ Limited job opportunities.</li> </ul>	
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NO.	MUNICIPALITY	DATE	VENUE	ISSUES	REPOSE
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**Impendle Municipality Imbizo**

	Impendle Local Municipality	26 April 2016	Mbaliyezwe Sports Ground	<p>Mr. Cele – Ward 4</p> <ul style="list-style-type: none"> <li>• I would like to thank the Impendle municipality, we see development and I hope it does not end here. We appreciate the service you deliver to us.</li> </ul> <p>Mr. Shangase – Ward 2</p> <ul style="list-style-type: none"> <li>• We are thankful to Impendle Local Municipality together with uMgungundlovu District Municipality for development and service delivery.</li> <li>• However, we are faced with water problems and this is a continuous</li> </ul>	<p>Mayor – Impendle</p> <ul style="list-style-type: none"> <li>• Thank you for encouraging us community of Impendle.</li> <li>• I note that some of you did not get assisted with light bulbs.</li> <li>• The Eskom team is working on a new project, and will send their people to continue with the installation of light bulbs. The dates are not as yet confirmed but</li> </ul>
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				<p>problem. We would appreciate it if the municipality fix the stand pipes.</p> <ul style="list-style-type: none"> <li>I kindly request uMDM to provide us with new toilets since the old ones are no longer in a good condition.</li> </ul> <p>Mr. Thulasizwe – Ward 2</p> <ul style="list-style-type: none"> <li>There was a Programme of installing light bulbs in 2015, where a number of houses were left out. Please make means to install light bulbs in every house as an approach to save electricity.</li> </ul> <p>Mr. Slabo – Ward 2</p> <ul style="list-style-type: none"> <li>In our area we can see development and we appreciate your effort. I would like to raise to you that I am part of a soccer team in this community and there has been an increase in soccer teams, the only problem is our soccer fields. We request you to fix the grounds of Mbungasi.</li> <li>There is a problem with the bridge and it is difficult for cars to go through. Please adhere to this problem.</li> </ul>	<p>they are on duty as we speak, dealing with those who use electricity in illegal way.</p> <ul style="list-style-type: none"> <li>For Ward 1 RDP houses, we are still on phase 1 but we are working on phase 2.</li> <li>At Nzinga phase 1 and phase 2 are complete.</li> </ul> <p>Mr Bheki Mbambo</p> <ul style="list-style-type: none"> <li>Khethi community at ward 3, we aware of your issue on receives water and not receiving it at times. This happens due to the drought session that we are facing right now.</li> <li>We also have borehole problem because of the drought.</li> <li>On the toilet issue, we are aware of some community members who have not</li> </ul>
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				<ul style="list-style-type: none"> <li>• Mr. Sphephelo Dlamini</li> <li>• I thank both uMDM and Impendle Municipality for giving us hope. The budget intended for sports and the youth makes me happy. I recommend R150 000 to go towards SMMEs for the young people to make a living.</li> <li>• Let me thank the mayor for mentioning the issue of bad roads that will be resolved soon.</li> <li>• We would be grateful if you build a community library.</li> </ul> <p>Ms. Phindile Dlamini – Ward 1</p> <ul style="list-style-type: none"> <li>• I need clarity on how far is uMDM with the building of houses since a number of people were promised houses but till date some of us do not have houses. Notwithstanding the minor hiccups, I thank uMDM and Impendle municipality for development.</li> </ul>	<p>received toilet, but the majority has.</p> <ul style="list-style-type: none"> <li>• We are working on it and those who have not received toilets will get toilets soon.</li> <li>• We are working on purifying water at Makhuzeni.</li> </ul>
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## Summary Matrix categorising the issues

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

## 2.2 OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH IDP

As part of the compilation of the 2016 /2017 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 2016 /2017 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 2015 /2016 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**

<b>2015/16 Financial Year</b>	<b>2016/17 MTREF</b>
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.

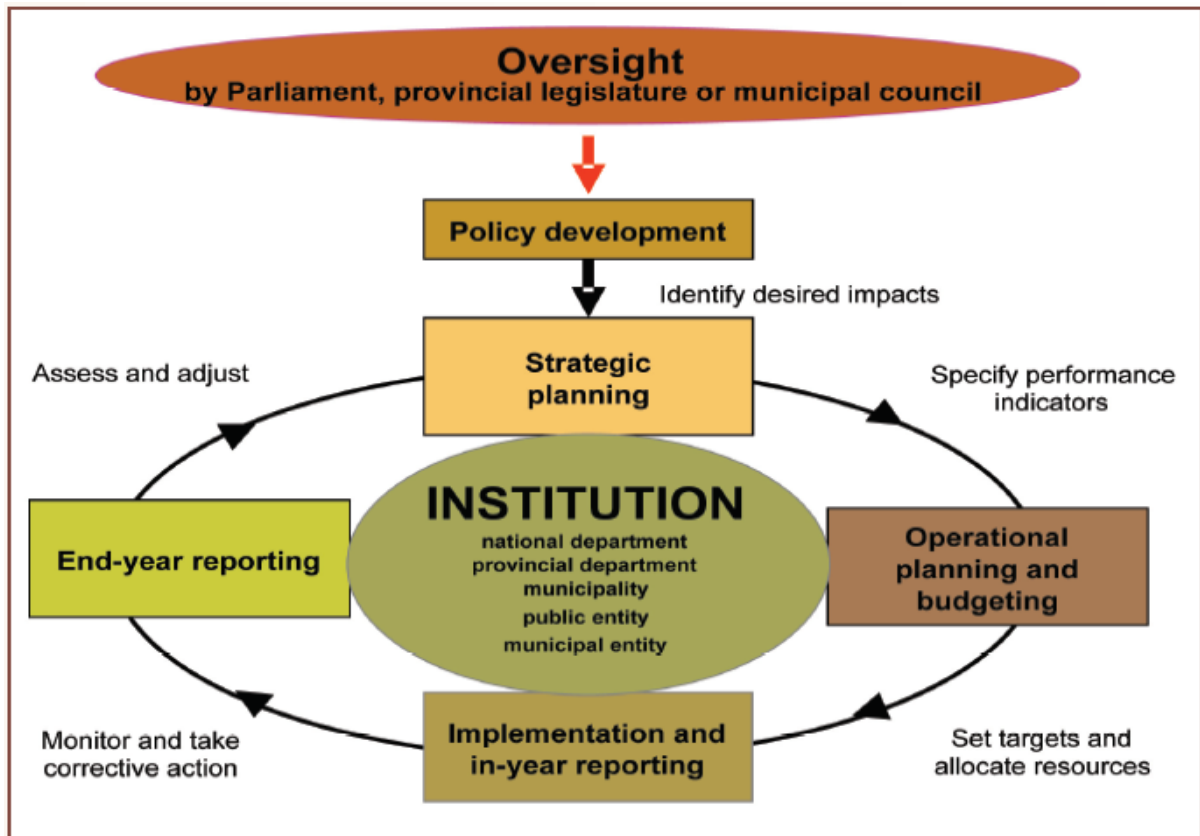
- Integrated Social Services for empowered and sustainable communities -,Special Communities such as Children, Elderly, People with Disabilities etc.
- Promote sound governance and transparency
- Ensure financial sustainability through reviewing the use of contracted services and continuing to implement 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. Borrowing Policy
- IV. Funding and Reserve Policy
- V. Post Retirement Provision Policy

## **2.5 OVERVIEW OF BUDGET ASSUMPTIONS**

The following were budget assumptions that were made during the compilation of the 2016 / 2017 budget:

1. Inflation will increase costs by 6 % for the 2016 /2017 year, 5.6, and 6% % for the outer years 2017 – 2018 respectively.
2. The bulk cost of uMgeni water will increase by 6.013%
3. Average increase of salaries of 6 % which is average CPI +1%
4. There will be no increase in the water tanker hire.
5. 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.
6. Completed projects to translate to billable customers to improve revenue and release pressure over water tinkering
7. Operation and maintenance costs to be gradually reduced through the year
8. The balance of R 99.6 million DBSA will be used to fund projects

## **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.

**3. COMMENTS RECEIVED FROM THE PROVINCIAL TREASURY – FIRST DRAFT BUDGET**

**ANNEXURE B: COMMENTS ON THE 2016/17 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF) BUDGET OF UMGUNGUNDLOVU DISTRICT MUNICIPALITY**

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## 1. KEY OBSERVATIONS AND FINDINGS

### 1.1. Compliance with Municipal Budget Reporting Regulations (MBRR)

Provincial Treasury has undertaken an assessment of your Tabled Budget that was taken to Council on 26 February 2016 and submitted to Provincial Treasury in both electronic and hard copy formats. The municipality's 2016/17 Tabled Budget has been prepared in the required format as stipulated in Regulation 9 of the MBRR. The attached Annexure A: *Check List of Compliance to the MBRR* presents a summary of the completed and incomplete tables.

Based on the outcome of the compliance check, there were tables (Tables A9, A10 and Supporting Tables SA7, SA8, SA9, SA13a, SA13b, SA14, SA33, SA34b, SA34c, SA34d, SA35 and SA37) that contained incomplete information and Provincial Treasury was therefore unable to perform a comprehensive analysis of your budget.

The municipality did not submit the budget related policies as required by the Provincial Treasury Circular TC/RM7 of 2015/16. The schedule of tariffs and the Indigent register was also not submitted by the municipality. This has resulted in Provincial Treasury not being able to comprehensively assess your municipality's 2016/17 Tabled Budget. The following budget related policies were not submitted by your municipality:

- Credit control and Debt policy
- Cash management and Investments policy
- Borrowing policy
- Funding and Reserve policy
- Policy related to long-term financial planning
- Supply chain management policy
- Policy related to management of and Disposal of Assets
- Policy relating to dealing with infrastructure and capital projects
- Indigent policy
- Budget Implementation and Management policy.

Provincial Treasury would like to draw your municipality's attention to the MFMA Circular No. 74, which states that municipalities must ensure that Table A10 is complete and accurate in order to reflect the latest service delivery information. The information on the household service targets, cost of free basic services and revenue cost of subsidised services must be accurately completed. The municipality must ensure that Table A10 together with Supporting Table SA9 is fully and accurately completed prior to the finalisation of the Approved Budget.

#### **Management Response:**



Budget Related Policies are under review and finalisation.

## 1.2. Credibility of figures

There were discrepancies noted between the Audited Outcome figures populated in the A Schedule (*Service charges – Water revenue, Service charges – Sanitation revenue, Other expenditure and Total Asset register summary - PPE*) and the Annual Financial Statements (AFS) figures for the 2012/13 to 2014/15 financial years.

Provincial Treasury also noted that some of the supporting tables did not agree to the relevant main tables. Major discrepancies were noted between Tables A5, A9 and Supporting Tables SA5, SA34a, SA34b, SA34d and SA36. The inconsistencies noted in the information presented in the budget tables raise uncertainty about the credibility and reliability of the figures provided.

While Provincial Treasury highlighted a few of the discrepancies and inconsistencies, the onus is on the municipality to revise the entire 2016/17 budget before the adoption of the Approved Budget by Council.

### **Management Response:**

The figures have been corrected.

## 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 the 2016/17 Medium Term Revenue and Expenditure Framework (MTREF). This is in line with MFMA Circular No. 72 which requires all municipalities to adopt a surplus position on the Statement of financial performance. However, the sustainability of the municipality is highly dependent on grants which 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.

Provincial Treasury has noted with concern that the collection rate of *Consumer debtors* is very low as it amounts to an average of 55 percent as per Provincial Treasury's recalculation. Failure to improve the collection rate of this significant portion of own revenue will place an increasing strain on the municipality's cash position and the municipality should therefore work towards improving the collection rate to avoid serious cash flow problems in the future.

In order to improve its sustainability, the municipality should adopt routine business practices in the day to day running of the municipality and also implement cost containment measures to eliminate wastage during the provision of services. The municipality should only budget for expenditure on revenue that will be realistically earned as revenue and expenditure management is fundamental to the sustainability of the municipality.

### **Management Response:**

The finding is noted. The Municipality has implemented cost containment measures and has programs that are under way with the revenue enhancement.

## 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 Provincial Treasury recalculated the municipality's cash position and noted that the 2016/17 Tabled Budget **appeared to be funded**. The municipality is encouraged to make use of Tables A7 and A8 to assist them to determine the funding of its budget.

### 1.5. Operating budget

The *Service charges – Water revenue* and *Service charges – Sanitation revenue* together contribute 20 percent to total *Operating revenue*.

The municipality has budgeted for *Operating surplus* over the MTREF amounting to R11.1 million for the 2016/17 budget year, R12.2 million for the 2017/18 outer year and R13 million for the 2018/19 outer year. However, Provincial Treasury was unable to determine whether the municipality budgeted for non-priority expenditure items as the amount of R33.1 million for *General expenses* was not broken down to be approximately 10 percent of *Other expenditure* as required by MFMA Circular No. 58.

#### Management Response

Noted. The split is further explained on the budget document due to the limitation of space to populate on the A schedule

### 1.6. Asset Management

Table A9 was poorly populated as the information relating to *New assets* and *Renewal of existing assets* was not reflected. The total *Capital expenditure* in Table A9 does not agree to the total *Capital expenditure* in Table A5, which is not in line with the requirements of the MFMA Circular No. 74.

The 2016/17 budgeted *Repairs and Maintenance* expenditure expressed as a percentage of the audited *Property Plant and Equipment* value for the 2014/15 financial year is 1.3 percent, which is below the norm of 8 percent as required by MFMA Circular No. 55. This indicates that insufficient monies are being spent on *Repairs and maintenance* to the extent that it could increase the impairment of useful assets.

The municipality should provide narrative information in its Budget Document on how it is planning, managing and financing *Repairs and maintenance* and *Asset renewal*, with particular reference to what the municipality has done to assess its *Repairs and maintenance* backlog and the strategy it has put in place to progressively deal with the backlog. Furthermore, the municipality is advised to provide a detailed explanation and assurance that adequate provision would be made for *Renewal of existing assets* and *Repairs and maintenance* to secure the ongoing health of the municipality's infrastructure that is also aligned to its Asset Management Plan.

The municipality reported in the 2014/15 audited Annual Financial Statements (AFS) that the water losses were approximately 46 percent for the 2014/15 financial year and 55 percent for the 2013/14 financial year. This could indicate ageing water infrastructure or poor asset management. The municipality should investigate the root cause for water losses and ensure that it is addressed.

#### Management Response

Table 9 has been populated and corrected.

This situation was inherited with the transfer of function but the municipality has started with the revitalisation of infrastructure, the example is that of Hilton and Hilton Merivalle project. Overtime and with increased funding, the municipality will correct the situation.

### 1.7. mSCOA Budgeting

With regards to any mSCOA related training, municipalities are required to liaise with National and Provincial Treasuries for further guidance as per MFMA Circular No.75. Municipalities are requested not to appoint any consultants for mSCOA related training since there are currently no accredited service providers from National Treasury, otherwise the expenditure will be regarded as fruitless and wasteful. The municipality's Tabled Budget did not include an annexure containing the mSCOA project plan and progress to date as required by MFMA Circular No. 78. The municipality must ensure that the Approved Budget complies with MFMA Circular No. 78 and MFMA Circular No. 80 relating to the procurement of systems of financial management and internal control, as may be applicable.

**Management Response**

Noted. The municipality was a pilot site for National Treasury. The m SCOA budget is explained in the budget document of item 1.5.4

**1.8. Cost containment measures**

The Council resolution submitted by the municipality does not indicate that the cost containment measures were tabled to Council. The municipality is required to table the cost containment measures to Council and to submit evidence thereof to National Treasury and Provincial Treasury together with budget documentation as required by MFMA Circular No. 82.

**Management Response**

The municipality has embarked on this exercise and this item is deliberated upon on item 1.5.1

**1.9. Service Delivery**

The total *Capital expenditure* amount of R296.9 million for the IDP strategic objectives stated in Table SA6 does not reconcile to total *Capital expenditure* amount of R308.3 million reflected in Table A5. The draft Service Delivery and Budget Implementation Plan (SDBIP) was not submitted together with the Draft Budget.

The municipality did not table to Council and submit to National and Provincial Treasuries its Service level standards. This is not in line with MFMA Circular No. 78 that requires all municipalities to formulate their own Service level standards and table and submit them together with the 2016/17 budget documentation. The municipality must ensure that this document is tabled to Council and submitted to National and Provincial Treasuries together with the Approved Budget documentation.

The municipality did not include a section on “**Drinking water quality and waste water management**” in their Budget Document. The municipality is advised to include this information in its 2016/17 Approved Budget documentation as required by MFMA Circular No. 54.

**Management Response**

The findings are noted. The SA 6 table is corrected and the figures have changed according to the available funding.

The drinking water quality and waste water management section is included on the budget document, item 1.5.2

## **2. OPERATING BUDGET**

### **2.1. Operating Revenue Framework**

Table 1 shows the actual Operating Revenue Generated as per the 2014/15 Audit Outcome, the 2015/16 Current Year Budget, the 2016/17 Medium Term Revenue and Expenditure Framework (MTREF) as well as the Nominal Growth Rate.

Table 1: Analysis: Table A4 - Budgeted Financial Performance (Operating Revenue)

Description	2014/15	Current Year 2015/16		2016/17 Medium Term Revenue & Expenditure Framework			Increase/ (Decrease) variance - Rand Value	% Growth Rate (Nominal)		
	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19		2015/16* to 2016/17	2016/17 to 2017/18	2017/18 to 2018/19
<b>Revenue By Source</b>										
Property rates	-	-	-	-	-	-	-	-	-	-
Property rates - penalties & collection charges	-	-	-	-	-	-	-	-	-	-
Service charges - electricity revenue	-	-	-	-	-	-	-	-	-	-
Service charges - water revenue	104 494	145 048	145 048	153 770	162 381	172 124	8 722	6.0%	5.6%	6.0%
Service charges - sanitation revenue	10 552	7 983	7 983	8 462	8 936	9 472	479	6.0%	5.6%	6.0%
Service charges - refuse revenue	-	-	-	-	-	-	-	-	-	-
Service charges - other	1 258	-	-	-	-	-	-	-	-	-
Rental of facilities and equipment	296	-	-	-	-	-	-	-	-	-
Interest earned - external investments	12 260	9 360	9 360	9 360	9 884	10 477	-	0.0%	5.6%	6.0%
Interest earned - outstanding debtors	17 218	2 872	2 872	2 872	3 033	3 215	-	0.0%	5.6%	6.0%
Dividends received	-	-	-	-	-	-	-	-	-	-
Fines	-	-	-	-	-	-	-	-	-	-
Licences and permits	-	-	-	-	-	-	-	-	-	-
Agency services	-	-	-	-	-	-	-	-	-	-
Transfers recognised - operational	376 281	405 737	435 237	437 396	473 283	501 680	2 159	0.5%	8.2%	6.0%
Other revenue	5 373	8 000	39 192	10 245	-	-	(28 948)	-73.9%	-100.0%	-
Gains on disposal of PPE	-	-	-	-	-	-	-	-	-	-
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>527 733</b>	<b>579 001</b>	<b>639 693</b>	<b>622 105</b>	<b>657 517</b>	<b>696 968</b>	<b>(17 588)</b>	<b>-2.7%</b>	<b>5.7%</b>	<b>6.0%</b>

\*2015/16 Adjusted Budget

### Service Charges – Water and Sanitation revenue

- The municipality did not submit the approved Schedule of tariffs, Indigent Policy and Indigent register to Provincial Treasury. Hence, Provincial Treasury could not determine whether *Revenue foregone* has been taken into consideration in terms of the municipality's approved policies. The municipality is advised to ensure that rebates in excess of the minimum *Free basic services* to consumers are correctly accounted for as *Revenue foregone*. During the engagement on 20 April 2016, the municipality indicated that it provides 6 kilolitres of water per poor household per month for free and that this will be correctly reflected in the Approved Budget.
- The workings for *Service charges – Water revenue* and *Service charges – Sanitation revenue* in the Budget Document do not provide for the *Free basic services* to households that fall below an affordability monthly threshold of R2 300 per household. The basic services component provides a subsidy of R334.97 per month in the 2016/17 budget year for the cost of providing basic services to each of these households as per the Division of Revenue Bill 2016 (DoRB) dated 18 February 2016. The subsidy includes funding for the provision of free basic *Water* (six kilolitres per poor household per month) and *Sanitation* (based on service levels defined by national policy). Therefore an amount of R153.8 million budgeted for *Service charges – Water revenue* and an amount of R8.5 million budgeted for *Service charges – Sanitation revenue* appears to have been overstated. This will further indicate that the municipality chose to provide fewer households with free basic services than it is funded for through the local government *Equitable Share*. The municipality must clearly state in the Budget Document as to why it has made this choice and how it has consulted with its community during the budget process.
- The tariffs for *Service charges – Water revenue* are budgeted to increase by 6 percent in the 2016/17 budget year. This does not appear reasonable as the municipality indicated in the Budget Document that the cost of Bulk water from uMngeni water board will increase by 6.013 percent. This raises concerns as to whether the municipality's tariffs will be sufficient to cover *Bulk Purchases* and whether they are cost-reflective as required by the MFMA Circular No. 66. The municipality should ensure that the tariffs are cost-reflective and must ensure that water used by its own operations is charged to the relevant service, and not simply attributed to *Water losses*.

- The municipality indicated in the Budget Document that the average consumption for *Service charges – Water revenue* and *Service Charges – Sanitation revenue* will remain unchanged from the prior year, which does not appear reasonable when considering the fact that the number of households has increased as per Table A10. The municipality should ensure that the budgeted new connections are correctly considered when budgeting for related revenue in the Approved Budget. During the engagement, the municipality indicated that the new connections were for public taps and as a result there was no increase in the billing.

### **Management Response**

Findings are noted. The Tariff structure is discussed on the budget document. Although the Bulk Service provider is to increase its tariff to R6.013 or 9.5 %, the Council is considering increasing its tariff by 6 percent. This strategy is aimed making sure that the services remain affordable and at encouraging customers to pay for the services they receive.

The free basic water and revenue forgone calculation is discussed on the budget document under the Trading Service - item 1.5.7.

### **Transfers recognised – operational**

- The municipality reflected R432.4 million for *Local Government Equitable Share* in Table A4 and Supporting Table SA18, which does not agree to the gazetted amount of R428.4 million as per the DoRB. This has resulted in the overstatement of *Operating revenue* by R4.1 million in the 2016/17 budget year.
- The gazetted amount of R2.1 million for *Expanded Public Works Programme Grant (EPWP)* was not budgeted for in Table A4 and Supporting Table SA18, resulting in *Transfers recognised - operational* being understated by R2.1 million. Furthermore, the municipality budgeted for an amount of R940 000 for *Municipal Systems Improvement Grant (MSIG)*, which was not gazetted in the DoRB. The municipality must correct these errors in order to ensure that the amount reflected under *Transfers recognised – operational* is realistic and accurate. The municipality should also ensure that the amount for total *Operating Transfers and Grants* as per Supporting Table SA18 is correctly carried through to *Transfers recognised – operational* in Table A4.
- The following grants were incorrectly budgeted for in the outer years:
  - *Local Government Equitable Share* is incorrectly reflected as R468.5 million instead of R468 million in 2017/18 and R496.6 million instead of R512.3 million in 2018/19.
  - *Local Government Financial Management Grant* is incorrectly reflected as R1.3 million instead of R1 million in 2018/19.
  - *Municipal Systems Improvement Grant* is incorrectly reflected as R1.3 million in 2017/18 instead of Nil and R1.1 million instead of Nil in 2018/19.
  - *Municipal Infrastructure Grant* is incorrectly reflected as R116.9 million instead of R107.2 million in 2017/18 and R124 million instead of R113.5 million in 2018/19.
  - *Water Services Infrastructure Grant* is incorrectly reflected as R53 million instead of R63 million in 2017/18 and R36.2 million instead of R122.7 million in 2018/19.

Furthermore, as per Supporting Table SA18 the description of the *Rural Roads Asset Management System Grant* was incorrectly captured as *Rural Transport Services and Infrastructure* and the *Water Services Infrastructure Grant* was incorrectly captured as *MWIG*. The municipality should ensure that these errors are corrected prior to the

finalisation of the Approved Budget. Notwithstanding the errors noted above, the municipality indicated during the engagement that the budget was tabled on 26 February 2016, which was before the DoRB became available, and the indicative figures in the Division of Revenue Act 2015 were used in the Tabled Budget. The municipality also indicated that these errors will be corrected in the Approved Budget.

**Management Response**

Noted. The matter was resolved during the engagement meeting and has been corrected on the final budget.

- The *Transfers recognised – operational* contributes R437.4 million or 70 percent to the total revenue of R622.1 million during the 2016/17 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.

**Management Response**

The municipality has recognised the need, urgency and the importance of revenue raising strategies.

**Other revenue**

- The municipality budgeted R4 million for *Waste water and New line Bulk*, R2.2 million for *Wataka Grant* and R4 million for *Camperdown Waste Water Works* under the *Other revenue* line item in Supporting Table SA1 for the 2016/17 budget year. The municipality indicated that these amounts relate to grant rollover amounts from the KwaZulu Natal Department of Co-operative Governance and Traditional Affairs (CoGTA) which were received in prior years. The municipality is advised to exclude these amounts until it gets approval from CoGTA to utilise these amounts in the 2016/17 budget year. The municipality has only provided an approval letter from CoGTA dated 16 February 2016 for the *Wataka Grant* of R2.2 million.

**Management Response**

Findings are noted. The municipality has removed the grants and is the process of applying for roll over certificates / letters from the sponsoring departments

- The municipality indicated in the Budget Document that the 2016/17 budget will be funded by R1 billion sources of finance. This does not appear accurate as this amount includes R30.2 million for Rollover funding, which should not be included until the municipality receives approval for the grant rollover funding. Furthermore, the amount of R1 billion also includes an amount of R230 million for loan funding, which does not agree to the budgeted *Borrowing* of R136.3 million as per Table A5. The municipality should ensure that these errors are corrected prior to the finalisation of the Approved Budget.

**Management Response**

Findings are noted and the borrowings figure has been amended .

**2.2 Operating Expenditure Framework**

Table 2 shows the actual Operating Expenditure as per the 2014/15 Audit Outcome, the 2015/16 Current Year Budget, the 2016/17 Medium Term Revenue and Expenditure Framework (MTREF) as well as the Nominal Growth Rate.

Table 2: Analysis: Table A4 - Budgeted Financial Performance (Operating Expenditure)

Description	2014/15	Current Year 2015/16		2016/17 Medium Term Revenue & Expenditure Framework			Increase/ (Decrease) - Rand Value	% Growth Rate (Nominal)		
	R thousand	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2016/17	Budget Year +1 2017/18		Budget Year +2 2018/19	2015/16* to 2016/17	2016/17 to 2017/18
<b>Expenditure By Type</b>										
Employee related costs	176 152	218 052	208 052	219 156	231 429	245 314	11 104	5.3%	5.6%	6.0%
Remuneration of councillors	10 836	12 327	12 327	13 189	13 928	14 764	863	7.0%	5.6%	6.0%
Debt impairment	66 034	37 926	37 926	43 104	45 518	48 249	5 178	13.7%	5.6%	6.0%
Depreciation & asset impairment	83 433	30 000	30 000	31 800	33 581	35 596	1 800	6.0%	5.6%	6.0%
Finance charges	2 433	13 284	5 784	14 081	14 870	15 762	8 297	143.4%	5.6%	6.0%
Bulk purchases	76 619	95 593	95 593	101 328	107 003	113 423	5 736	6.0%	5.6%	6.0%
Other materials	-	1 500	1 500	1 500	1 584	1 679	-	0.0%	5.6%	6.0%
Contracted services	131 937	90 204	95 004	111 812	118 074	125 158	16 808	17.7%	5.6%	6.0%
Transfers and grants	-	3 000	3 000	3 180	3 358	3 560	180	6.0%	5.6%	6.0%
Other expenditure	89 841	75 033	112 983	71 903	75 929	80 485	(41 080)	-36.4%	5.6%	6.0%
Loss on disposal of PPE	190	-	-	-	-	-	-	-	-	-
<b>Total Operating Expenditure</b>	<b>637 476</b>	<b>576 919</b>	<b>602 169</b>	<b>611 054</b>	<b>645 273</b>	<b>683 989</b>	<b>8 885</b>	<b>1.5%</b>	<b>5.6%</b>	<b>6.0%</b>
General expenses (SA1)	59 703	43 618	44 818	33 134	34 990	37 089	(11 684)	-26.1%	5.6%	6.0%
Other expenditure	89 841	75 033	112 983	71 903	75 929	80 485	(41 080)	-36.4%	5.6%	6.0%
<b>General expenses as a % of Other expenditure</b>	<b>66%</b>	<b>58%</b>	<b>40%</b>	<b>46%</b>	<b>46%</b>	<b>46%</b>	<b>28%</b>			
Total loan amount outstanding (A6)	85 491	80 303	80 303	140 670	-	-	60 367	75.2%	-100.0%	-
Finance charges	2 433	13 284	5 784	14 081	14 870	15 762	8 297	143.4%	5.6%	6.0%
<b>Finance charges as a % of Total Borrowing</b>	<b>2.8%</b>	<b>16.5%</b>	<b>7.2%</b>	<b>10.0%</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>13.7%</b>			

\*2015/16 Adjusted Budget

### Employee related costs

- *Employee related costs* in Table A4 increased by R11.1 million or 5.3 percent from the 2015/16 financial year to the 2016/17 budget year whereas the personnel numbers increased by 463 or 108.2 percent from 428 to 891. This does not appear reasonable that the personnel numbers increased by more than 100 percent and the *Salaries* were budgeted to increase by 6 percent but the overall increase was only 5.3 percent. This is furthermore not in line with the MFMA Circular No. 79, in which municipalities were advised to budget for a 7.6 percent increase in *Salaries*. The municipality indicated during the engagement that *Salaries* were budgeted to increase by 6 percent as per the South African Local Government Bargaining Council Circular No. 08/2015: *Salary and Wage Collective Agreement*. The municipality also indicated that the increase in personnel numbers as per Supporting Table SA24 was an error and that it will be corrected in the Approved Budget.

#### Management Response

### Debt impairment

- The municipality budgeted for *Consumer debtors* to decrease significantly from R385.3 million in the 2015/16 financial year to R81.2 million in the 2016/17 budget year, which does not appear reasonable. Furthermore, the municipality did not budget for *Provisions for debt impairment* in Table SA3. This does not appear reasonable as the municipality has budgeted for *Provisions for debt impairment* to increase to R43.1 million in the 2016/17 budget year as per the *Debt impairment* in Table A4. The municipality should correct this error prior to the finalisation of the Approved Budget.

#### Management Response



Findings are noted. The SA Tables are corrected . During the financial year, and in compliance to the Credit Control Policy, the Municipality proposes to write off debt for some customers who qualify for the write off

### **Depreciation & asset impairment**

- The municipality budgeted an amount of R31.8 million for *Depreciation & asset impairment*, which is a R51.6 million or 61.9 percent decrease from the 2014/15 audited amount of R83.4 million. This does not appear reasonable when considering the fact that the municipality's *Assets* have been budgeted to increase by R277 million in the current year and by R308.3 million in 2016/17 budget year. The municipality should consider revising the budget for this line item in order to ensure a realistic and credible amount is reflected. The municipality indicated during the engagement that it is currently embarking on the exercise to review the useful lives of its assets, which will result in lesser *Depreciation & asset impairment*.

#### **Management Response**

The municipality has an approved budget policy that makes recommendations for the useful lives of assets according to its type and category. Further the policy makes provision for the municipality to take into account the evaluation of assets by a sworn appraiser and or a practicing engineer for deviations on the useful lives of the assets.

Further, the policy determines as to when does the assets begin to depreciate, infrastructure assets, in particular, start depreciating at completion phase. The addition of infrastructure assets does not necessary equate completion but can be additions to the asset work in progress).

### **Remuneration of councillors**

- The municipality budgeted an amount of R1 million for the remuneration of the Executive Mayor in Table SA23 which is above the upper limit of R921 912 for a Grade 5 municipality as per the Government Gazette No. 39548 dated 21 December 2015, for Determination of upper limits of salaries, allowances and benefits of different members of municipal council. The municipality also budgeted an amount of R808 406 for the remuneration of the Speaker, which is above the upper limit of R737 529 and also budgeted an amount of R759 503 for the Chief whip, which is above the upper limit of R691 433 for a Grade 5 municipality as per the Government Gazette No. 39548. The municipality should ensure that the *Remuneration of councillors* is budgeted as per the Government Gazette No. 39548 in the Approved Budget.

#### **Management Response.**

Findings are noted and will be corrected.

### **Other expenditure**

- *Other expenditure* decreased by R41.1 million or 36.4 percent from R113 million in the 2015/16 financial year to R71.9 million in the 2016/17 budget year. The municipality did not provide an explanation in the Budget Document for this significant decrease in *Other expenditure*.
- The budgeted *General expenses* constitute 46 percent of total *Other expenditure* in the 2016/17 budget year. The Provincial Treasury was therefore unable to determine whether the municipality budgeted for non-priority expenditure items since *General expenses* were

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

- 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 Supporting Table SA1 and agrees to Table A9 prior to the finalisation of the Approved Budget in order to facilitate transparency.
- The municipality did not budget for *Contributions to 'other' provisions* in Supporting Tables SA1 and SA3. This does not appear reasonable since there was a R116.3 million or 311.7 percent increase in *Provisions* from R37.3 million to R153.6 million as per Table A6. The municipality should provide explanations for this and consider correcting this inconsistency in the Approved Budget to ensure the credibility of the budgeted amounts.

#### **Management Response**

Findings are noted and have been corrected.

#### **mSCOA Budget**

- 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 and software. MFMA Circular No. 72 encourages municipalities to prioritise the preparation for implementation as a focus area for the 2015/16 and 2016/17 budgeting periods to ensure that sufficient resources are available for this critical project.
- However, there is no indication in the municipality's Budget Document that expenditure relating to mSCOA has been considered in the 2016/17 budget. Furthermore, the municipality's Tabled Budget did not include an annexure containing the mSCOA project plan and progress to date as required by MFMA Circular No. 78. The municipality must ensure that the Approved Budget complies with MFMA Circular No. 78 and MFMA Circular No. 80 relating to the procurement of systems of financial management and internal control.

#### **Management Response**

Ref item 1.5.4

#### **Cost containment measures**

- The Council resolution submitted by the municipality does not indicate that the cost containment measures were tabled in Council. The municipality is required to table the cost containment measures in Council and to submit evidence thereof to National Treasury and Provincial Treasury together with the budget documentation as required by MFMA Circular No. 82. Municipalities were advised in MFMA Circular No. 70 to align their budgeting policies to the cost containment measures to the extent possible as approved by cabinet in 2013. Cost containment measures include eliminating non-priority expenditure items such as:
  - Excessive sponsorship of music festivals, beauty pageants and sporting events;
  - Public relations projects and activities that are not centred on actual service delivery or are not a municipal function such as celebrations, gala dinners and commemorations;

- Excessive catering for meetings and other events, including the use of public funds to buy alcoholic beverages;
- Arranging workshops and events at expensive private venues, especially ones outside the municipality (as opposed to using the municipality's own venues);
- The use of consultants to perform routine management tasks, and the payment of excessive fees to consultants;
- Excessive overtime; etc.

## 2.3 Operating Surplus/Deficit

Table 3 shows the Operating Surplus (Deficit) as per the 2014/15 Audit Outcome, the 2015/16 Current Year Budget, the 2016/17 Medium Term Revenue and Expenditure Framework (MTREF) as well as the Nominal Growth Rate.

Table 3: Analysis: Table A4 - Budgeted Financial Performance (Operating Surplus/Deficit)

Description	2014/15	Current Year 2015/16		2016/17 Medium Term Revenue & Expenditure Framework			Increase/ (Decrease) variance - Rand Value	% Growth Rate (Nominal)		
	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19		2015/16* to 2016/17	2016/17 to 2017/18	2017/18 to 2018/19
Total Revenue (excluding capital transfers and contributions)	527 733	579 001	639 693	622 105	657 517	696 968	(17 588)	-2.7%	5.7%	6.0%
Total Operating Expenditure	637 476	576 919	602 169	611 054	645 273	683 989	8 885	1.5%	5.6%	6.0%
<b>Operating Surplus/(Deficit)</b>	<b>(109 743)</b>	<b>2 082</b>	<b>37 524</b>	<b>11 051</b>	<b>12 244</b>	<b>12 979</b>	<b>(26 473)</b>	<b>-70.5%</b>	<b>10.8%</b>	<b>6.0%</b>

\*2015/16 Adjusted Budget

- The municipality has budgeted for an *Operating surplus* in the 2016/17 Medium Term Revenue and Expenditure Framework (MTREF). This is in line with MFMA Circular No. 72 which requires all municipalities to adopt a surplus position on the Statement of financial performance. However it must be noted that if all the errors noted are corrected, the municipality may end up in a deficit position. Therefore the municipality should consider the comments provided by Provincial Treasury and reassess its operating budget and ensure that it budgets for an *Operating surplus* in the 2016/17 Approved Budget.

### Management Response

Noted.

## 2.4 Trading Services

Table 4 shows the Trading Services as per the 2014/15 Audit Outcome, the 2015/16 Current Year Budget, the 2016/17 Medium Term Revenue and Expenditure Framework (MTEF) Budget as well as the Nominal Growth Rate.

Table 4: Analysis: Table A2 -Budgeted Financial Performance (revenue and expenditure by standard classification)

Description	2014/15	Current Year 2015/16		2016/17 Medium Term Revenue & Expenditure Framework			Increase/ (Decrease) variance - Rand Value	% Growth Rate (Nominal)		
	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19		2015/16* to 2016/17	2016/17 to 2017/18	2017/18 to 2018/19
<b>Trading Services</b>										
Electricity - Revenue	-	-	-	-	-	-	-	-	-	-
Electricity - Expenditure	-	-	-	-	-	-	-	-	-	-
Surplus/Deficit	-	-	-	-	-	-	-	-	-	-
Water - Revenue	225 516	339 180	400 123	304 662	332 328	332 268	(95 461)	-23.9%	9.1%	0.0%
Water - Expenditure	317 784	316 070	341 320	325 049	343 252	363 847	(16 271)	-4.8%	5.6%	6.0%
Surplus/Deficit	(92 269)	23 110	58 802	(20 387)	(10 924)	(31 579)	(79 189)			
Waste water management (Sanitation) - Revenue	-	7 983	7 983	8 462	8 936	9 472	479	6.0%	5.6%	6.0%
Waste water management (Sanitation) - Expenditure	3 358	33 201	34 701	35 193	37 164	39 394	492	1.4%	5.6%	6.0%
Surplus/Deficit	(3 358)	(25 218)	(26 718)	(26 731)	(28 228)	(29 922)	(13)			
Waste Management (Refuse) - Revenue	-	-	-	-	-	-	-	-	-	-
Waste Management (Refuse)- Expenditure	-	-	-	-	-	-	-	-	-	-
Surplus/Deficit	-	-	-	-	-	-	-	-	-	-

\*2015/16 Adjusted Budget

- The municipality has indicated in Table A2 that the *Water* trading service is operating at a deficit of R20.4 million in the 2016/17 budget year, R10.9 million in the 2017/18 outer year and R31.6 million in the 2018/19 outer year. This is not in line with MFMA Circular No. 58 that requires all municipalities to have appropriately structured, cost-reflective *Water* tariffs in place by 2014. The municipality should develop a pricing strategy to phase-in the necessary tariff increases in a manner that spreads the impact on consumers over the period of time.
- The municipality has indicated in Table A2 that the *Waste water management* trading service is operating at a deficit of R26.7 million in the 2016/17 budget year, R28.2 million in the 2017/18 outer year and R29.9 million in the 2018/19 outer year. This is not in line with MFMA Circular No. 58 that requires all municipalities to have appropriately structured, cost-reflective *Sanitation* tariffs in place by 2014. The municipality should develop a pricing strategy to phase-in the necessary tariff increases in a manner that spreads the impact on consumers over a period of time.
- The municipality indicated in the 2014/15 audited AFS that the water losses were approximately 46 percent for the 2014/15 financial year and 55 percent for the 2013/14 financial year. This could indicate ageing water infrastructure or poor asset management. The municipality should investigate the root cause for water losses and ensure that it is addressed.

### 3. CAPITAL BUDGET

#### 3.1. Capital Revenue

Table 5 shows the Budget for Capital Funding as per the 2014/15 Audit Outcome, the current 2015/16 Year Budget, the 2016/17 Medium Term Revenue and Expenditure Framework (MTREF) Budget as well as the Nominal Growth Rate.

Table 5: Analysis: Table A5 - Budgeted Capital Funding

Description	2014/15	Current Year 2015/16		2016/17 Medium Term Revenue & Expenditure Framework			Increase/ (Decrease) variance - Rand Value	% Growth Rate (Nominal)		
	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19		2015/16* to 2016/17	2016/17 to 2017/18	2017/18 to 2018/19
<b>Funded by</b>										
National Government	169 345	186 132	186 132	140 647	169 947	160 144	(45 485)	-24.4%	20.8%	-5.8%
Provincial Government	-	-	-	-	-	-	-	-	-	-
District Municipality	-	-	-	-	-	-	-	-	-	-
Other transfers and grants	-	-	-	-	-	-	-	-	-	-
Transfers recognised - capital	169 345	186 132	186 132	140 647	169 947	160 144	(45 485)	-24.4%	20.8%	-5.8%
Public contributions & donations	-	-	-	-	-	-	-	-	-	-
Borrowing	-	58 764	58 764	136 266	-	-	77 502	131.9%	-100.0%	-
Internally generated funds	41 098	15 600	32 149	31 350	-	-	(799)	-2.5%	-100.0%	-
<b>Total sources of capital funds</b>	<b>210 443</b>	<b>260 496</b>	<b>277 045</b>	<b>308 263</b>	<b>169 947</b>	<b>160 144</b>	<b>31 218</b>	<b>11.3%</b>	<b>-44.9%</b>	<b>-5.8%</b>
Transfers recognised - capital	169 345	186 132	186 132	140 647	169 947	160 144	(45 485)			
Total sources of capital funds	210 443	260 496	277 045	308 263	169 947	160 144	31 218			
Transfers recognised as a % of Total sources of capital funds	80%	71%	67%	46%	100%	100%	-146%			

\*2015/16 Adjusted Budget

### Transfers Recognised - Capital

- The municipality budgeted R110.4 million for *Municipal Infrastructure Grant (MIG)*, which does not agree to the amount of R99.6 million gazetted in the DoRB. This has resulted in the *Capital transfers and grants* being overstated by R10.8 million in the Supporting Table SA18. The municipality should correct this error in order to reflect accurate grants allocated to the municipality.
- Furthermore, the 2016/17 allocation for *MIG* was spent in the current financial year (2015/16) through front loading from the Development Bank of Southern Africa (DBSA). The entire 2016/17 allocation of R99.6 million for *MIG* will be paid to DBSA in the 2016/17 financial year and therefore should not be included in the capital sources of finance in Table A5. This has resulted in the *Capital expenditure* and *Capital sources of finance* being overstated by R110.4 million in Table A5. The municipality should revise its *Capital expenditure* budget and ensure that it reflects realistic sources of capital funding.

### Borrowing

- The municipality budgeted R136.3 million for *Borrowing* as per Table A5, which does not agree to the budgeted *Borrowing* of R121.8 million as per Supporting Table SA17 resulting in an unexplained difference of R14.4 million. The municipality should ensure that the projections for *Borrowing* in Table A5 reconciles to the *Borrowing* reflected in Supporting Table SA17 prior to the finalisation of the Approved Budget.
- Ratio 9 in Supporting Table SA10, the *Borrowing receipts as a percentage of Capital expenditure (excluding Transfers recognised – capital and Contributions)* is 81.3 percent in the 2016/17 budget year. This indicates that the municipality significantly relies on *Borrowing* and this should be reviewed and monitored closely.

## 3.2. Capital Expenditure

### New assets and renewal of existing assets

- The budgeted total *Capital expenditure* of R308.3 million as per Table A5 does not agree to the R11.5 million total *Capital expenditure* in Table A9 and to the R296.9 million total *Capital expenditure* in Supporting Table SA36. The municipality should correct these errors and ensure that these tables reconcile in the Approved Budget.
- The municipality did not properly populate Table SA36 as project information relating to *GPS co-ordinates, Ward allocation and New or renewal* was not populated. Furthermore,

Supporting Table SA35 was not completed which suggests that Council did not consider the future operational costs and revenue on the approved projects. The municipality should correct these errors prior to the finalisation of the Approved Budget.

- The municipality poorly populated Table A9 and as a result Provincial Treasury could not determine how much of the R308.3 million total *Capital expenditure* was allocated to *Infrastructure, New assets* and *Renewal of existing assets*. The municipality should ensure that Table A9 is accurately populated so that Provincial Treasury can perform a comprehensive and meaningful assessment of the municipality's Asset management. Furthermore, the municipality is advised to provide a detailed explanation and assurance that adequate provision would be made for *Renewal of existing assets* to ensure the ongoing health of the municipality's infrastructure that is also aligned to their Asset Management Plan. Infrastructure is required to be the main driver of the Asset Management Plan.
- The municipality must ensure that Table A9 is fully and accurately completed prior to the finalisation of the Approved Budget.

#### **Repairs and maintenance**

- The 2016/17 budgeted *Repairs and Maintenance* expenditure expressed as a percentage of the audited *Property Plant and Equipment* (PPE) value for 2014/15 is 1.3 percent, which is below the norm of 8 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 in order to ensure the ongoing health of the municipality's infrastructure or substantiate the funding level for *Repairs and maintenance* in the Budget Document.

#### **Management Response**

SA Tables have been corrected.

#### **4. CASH FLOW MANAGEMENT**

Table 7 shows the Consolidated Budgeted Cash Flows as per the 2014/15 Audited Outcome, 2015/16 Current Year Budget, and the 2016/17 financial year. The recalculated amount by Provincial Treasury is also shown.

**Table 7: Analysis: Table A7 Consolidated Budgeted Cash Flows**

Description	2014/15	Current Year 2015/16		2016/17		
	Audited Outcome	Adjusted Budget	Full Year Forecast	Budget Year	Recalculated	Difference
<b>R thousand</b>						
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>						
<b>Receipts</b>						
Property Rates, penalties and collection charges	-	-	-	-	-	-
Service Charges	116 303	107 122	107 122	108 696	89 228	19 468
Other revenue	362	39 192	39 192	10 245	-	10 245
Government - operating <sup>1</sup>	376 281	435 237	435 237	437 396	434 490	2 906
Government - capital <sup>1</sup>	228 862	186 132	186 132	140 647	149 865	(9 218)
Interest	12 260	9 360	9 360	12 232	10 940	1 293
Dividends	-	-	-	-	-	-
<b>Payments</b>						
Suppliers and employees	(598 293)	(492 709)	(492 709)	(593 793)	(518 889)	(74 904)
Finance charges	(2 433)	(5 314)	(5 314)	-	(14 081)	14 081
Transfers and Grants <sup>1</sup>	-	-	-	(3 180)	(3 180)	-
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>	<b>133 343</b>	<b>279 021</b>	<b>279 021</b>	<b>112 243</b>	<b>148 372</b>	<b>(36 129)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
<b>Receipts</b>						
Proceeds on disposal of PPE	639	-	-	-	-	-
Decrease (Increase) in non-current debtors	-	-	-	-	-	-
Decrease (increase) other non-current receivables	-	-	-	-	-	-
Decrease (increase) in non-current investments	-	-	-	-	-	-
<b>Payments</b>						
Capital assets	(171 621)	(277 045)	(277 045)	(296 913)	(308 263)	11 350
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>	<b>(170 982)</b>	<b>(277 045)</b>	<b>(277 045)</b>	<b>(296 913)</b>	<b>(308 263)</b>	<b>11 350</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
<b>Receipts</b>						
Short term loans	-	-	-	-	-	-
Borrowing long term/refinancing	79 539	58 764	58 764	136 266	136 266	-
Increase (decrease) in consumer deposits	-	-	-	-	5 554	(5 554)
<b>Payments</b>						
Repayment of borrowing	(84 688)	(20 566)	(20 566)	(14 081)	(113 711)	99 630
<b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>	<b>(5 149)</b>	<b>38 198</b>	<b>38 198</b>	<b>122 185</b>	<b>28 109</b>	<b>94 076</b>
<b>NET INCREASE/ (DECREASE) IN CASH HELD</b>	<b>(42 789)</b>	<b>40 173</b>	<b>40 173</b>	<b>(62 485)</b>	<b>(131 781)</b>	<b>69 297</b>
Cash/cash equivalents at the year begin <sup>2</sup> :	205 283	162 494	162 494	162 494	202 667	(40 173)
Cash/cash equivalents at the year end <sup>2</sup> :	162 494	202 667	202 667	100 009	70 886	29 123

**Acceptability of cash/cash equivalent position**

- The Audited Outcome figures for the 2012/13, 2013/14 and 2014/15 financial years in Table A7 do not agree to the audited figures in the latest AFS. The municipality must ensure that the Audited Outcome figures agree to the audited AFS prior to the finalisation of the Approved Budget.
- The opening balance of R162.5 million for *Cash and cash equivalents* for the 2016/17 budget year in Table A7 does not reconcile to the adjusted *Cash and cash equivalents* closing balance of R202.7 million for the 2015/16 financial year.

**Management Response**

Corrected.

**Cash flow from Operating Activity**

- The municipality budgeted for an amount of R108.7 million for *Service Charges*. The collection rate of 70 percent used by the municipality appears to be too high when compared to the historic trend and the municipality should consider reducing it in order to be realistic or provide the reasons in the Budget Document for the higher rate being used. Provincial Treasury recalculated the *Service Charges* using the recalculated 55 percent collection rate which resulted in an amount of R89.2 million indicating a difference of R19.5 million. The municipality should revise this line item and ensure that the cash flows budgeted are accurate and reflect realistic revenue to be collected.
- The municipality budgeted an amount of R437.4 million for the *Government – Operational* line item, whereas the recalculated amount by Provincial Treasury was R434.5 million resulting in the overstatement of R2.9 million. The difference is as a result of the municipality not budgeting for *EPWP* grant of R2.1 million, the inclusion of the R940 000 for *MSIG* and the overstatement of the Equitable share by R4.1 million.
- The municipality budgeted R110.4 million for *MIG*, which does not agree to the gazetted amount of R99.6 million resulting in the *Government – capital* line item being overstated by R10.8 million.
- The budgeted amount of R12.2 million for *Interest* in Table A7 does not agree to the Provincial Treasury’s recalculated amount of R10.9 million based on the 100 percent of the *Interest earned – External investments* in Table A4 and 55 percent of the *Interest earned – outstanding debtors* in Table A4.
- The municipality budgeted to pay R593.8 million for *Suppliers and employees* as per Table A7, which does not agree to the R518.9 million budget for *Suppliers and employees* as per Table A4, resulting in this line item being overstated by R74.9 million.
- The municipality did not budget for *Finance charges* in Table A7, which does not agree to an amount of R14.1 million budgeted for *Finance charges* as per Table A4, resulting in this line item being understated by R14.1 million.
- The municipality budgeted to pay R3.2 million for *Transfers and grants* in Table A7, which agrees to the Supporting Table SA21. However, Provincial Treasury could not assess whether this amount is correctly budgeted for under *Transfers and grants* or it should be budgeted under *Free basic services* in Supporting Table SA1 as no explanation was provided in the Budget Document. The municipality must provide supporting workings or an explanation for this amount in the Budget Document.
- The municipality should correct these errors in the Approved Budget to ensure that the correct amounts are reflected in Table A7, Table A4 and Table A5.

#### **Cash flow from Investing Activity**

- The municipality budgeted to pay R296.9 million for *Capital assets* as per Table A7, which does not agree to the R308.3 million budget for *Capital expenditure* as per Table A5, leaving an unexplained difference of R11.4 million. The payments for *Capital assets* appear to be understated by R11.4 million.

#### **Cash flow from Financing Activity**

- The municipality did not budget for *Increase (decrease) in consumer deposits* in Table A7. This does not appear reasonable as the *Consumer deposits* increased from R5 million in the 2015/16 financial year to R10.5 million in the 2016/17 budget year. The municipality should consider whether the budget for *Consumer deposits* in Table A6 is realistic prior to the finalisation of the Approved Budget.



- The municipality budgeted R14.1 million for *Repayment of borrowing*, which does not agree to an amount of R113.7 million recalculated by Provincial Treasury. The difference was caused by the amount of R99.6 million for *MIG*, which will be utilised to repay DBSA at the beginning of the 2016/17 financial year. The municipality should correct this error in order to ensure a realistic and credible budget.

### Increase in cash held and closing balance

- The 2016/17 budget for *Net increase/decrease in cash held* is a negative R62.5 million, indicating a decreasing trend. This does not appear reasonable and should be investigated further and explanations must be provided in the Budget Document.
- The closing balance of R100 million for *Cash and cash equivalents* for the 2016/17 budget year in Table A7 does not agree to *Cash plus Call investments* of R228.8 million in Table A6, creating a difference of R128.8 million. Furthermore, the Provincial Treasury's recalculated closing balance for *Cash and cash equivalents* at year end was R70 million for the 2016/17 budget year, which is R30 million or 30 percent below the amount reflected in Table A7. The municipality should correct this error in the Approved Budget to ensure the credibility of budgeted figures.

### Application of cash and investments

Table 8 shows the Cash backed Reserves and accumulated surplus reconciliation as per the 2014/15 Audited Outcome, the 2015/16 Current Financial Year and the 2016/17 Budget. The Re-calculated amount by Provincial Treasury is also shown.

**Table 8: Analysis: Table A8 Cash backed reserves/accumulated surplus reconciliation**

Description	2014/15	Current Year 2015/16		2016/17		
	Audited Outcome	Adjusted Budget	Full Year Forecast	Budget Year	Recalculated	Difference
<b>R thousand</b>						
<b>Cash and investments available</b>						
Cash/cash equivalents at the year end <sup>1</sup>	162 494	202 667	202 667	100 009	70 886	29 123
Other current investments > 90 days				128 750	-	128 750
Non current assets - Investments						-
<b>Cash and investments available:</b>	<b>162 494</b>	<b>202 667</b>	<b>202 667</b>	<b>228 759</b>	<b>70 886</b>	<b>157 873</b>
<b>Application of cash and investments</b>						
Unspent conditional transfers	55 288			60 000	60 000	-
Unspent borrowing	-				-	-
Statutory requirements <sup>2</sup>					10 412	(10 412)
Other working capital requirements <sup>3</sup>	(158 417)	56 846	(311 478)	(118 786)	(118 786)	-
Other provisions	26 946				26 946	(26 946)
Long term investments committed <sup>4</sup>					-	-
Reserves to be backed by cash/investments <sup>5</sup>					-	-
<b>Total Application of cash and investments:</b>	<b>(76 183)</b>	<b>56 846</b>	<b>(311 478)</b>	<b>(58 786)</b>	<b>(21 428)</b>	<b>(37 358)</b>
<b>Surplus(shortfall)</b>	<b>238 677</b>	<b>145 821</b>	<b>514 145</b>	<b>287 545</b>	<b>92 313</b>	<b>195 232</b>

- The *Other current investments* amount of R128.8 million reflected in Table A8 does not appear reasonable as the 2015/16 opening balance for *Cash and cash equivalents* of R162.5 million includes R33.7 million for *Bank balances and cash* and R128.8 million for *Call investments deposits*, which indicates that *Other current investments* are already included in the Cash flow statement. The municipality should correct this error in order to reflect a realistic cash position.
- The municipality budgeted for an amount of R60 million for *Unspent conditional transfers* in the 2016/17 budget year and no explanation was provided for this in the Budget Document. This does not agree to Table SA20, which indicates that the grants will be

fully spent. The municipality must correct Table SA 20 to reflect the *Unspent conditional transfers* prior to the finalisation of the Approved Budget.

- The municipality did not budget for *Other provisions* to be backed by cash. This does not appear reasonable since the current *Employee benefits provisions* in the audited 2014/15 AFS amounts to R26.9 million. The municipality should correct this inconsistency in the Approved Budget to ensure the credibility of the budgeted amounts.

## 5. SERVICE DELIVERY MEASURES

### Service Delivery Implementation Plan (SDBIP)

- The municipality did not submit a Draft SDBIP together with the 2016/17 Tabled Budget. Provincial Treasury therefore could not determine whether the budget is aligned to the strategic objectives of the IDP.
- The total *Capital expenditure* amount of R296.9 million for the IDP strategic objectives stated in Table SA6 does not reconcile to the total *Capital expenditure* amount of R308.3 million reflected in Table A5.

### Free basic services

- The municipality did not properly populate the Basic service delivery measurement in Table A10. MFMA Circular No. 58 requires municipalities to account for the service levels for all households within the municipal area, including services that are not provided by the municipality. It should be noted that the total households for each service must be the same as the total number of households in the municipality.

### Service level standard

- Local government is mostly classified in the service delivery and governance categories and as such needs to be clear on what the public at large can expect as a service delivery standard. Predetermined standards assist in measuring the service outputs against the predetermined service standards and also serve as a performance rating instrument at an organisational and individual level. The municipality did not table and submit its Service level standards. This is not in line with the MFMA Circular No. 78 that requires all municipalities to formulate their own Service level standards and table to Council and submit them to National and Provincial Treasuries together with the 2016/17 budget.

### Providing clean water and managing waste water

- The municipality did not include a section on “**Drinking water quality and waste water management**” in their Budget Document. The municipality is advised to include this information in its 2016/17 Approved Budget documentation as required by MFMA Circular No. 54.
- The municipality indicated during the engagement that there is a latest Blue Drop report, which will be submitted to Provincial Treasury. The municipality also indicated that the latest information will be included in the Budget Document.

#### **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            23 MAY 2016