

ITEM NO.	SUBJECT	REF
	MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF) 2017/2018 – 2019/2020	

REPORT TO: COUNCIL

DATE: 30 MAY 2017

DIRECTORATE: FINANCE

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A. PURPOSE

To table before Council for approval, the Medium Term Revenue and Expenditure Framework for 2017/2018, 2018/2019 and 2019/2020 in terms of Section 16 of the Municipal Finance Management Act, No 56 of 2003.

PART 1 – ANNUAL BUDGET

1.1 MAYOR'S REPORT

In terms of Section 16 of the Municipal Finance Management Act, No 56 of 2003, the Mayor must table before Council for approval, the Medium Term Revenue and Expenditure Framework.

Tabling of the IDP and Budget is one of the most important processes in local government. We thank you all for having taken time to attend this important meeting. We do not refer to ourselves as a “ New Council “ anymore but , still look back at all the priorities we had set ourselves and promised our people prior to the 3 August 2016 elections.

As the 4th Council of Ilembe District Municipality, the 2017/18 to 2019/2020 marks the first Medium Term Revenue and Expenditure Framework, and which an essential driver to the development of the region as envisaged on the Integrated Development Plan.

The priorities and strategic interventions of this Council, that will guide this IDP and subsequent reviews, were formulated during the municipal strategic planning session that was held from 24 to 27 October 2017.

Our objectives as envisaged on the IDP are aligned to the National and Provincial objectives. As a sphere of government and a District, we have to comply with National Outcomes and specifically outcome 9 that calls upon us to be a responsive and accountable, effective and efficient local government. Our strategies are guided by the KZN Provincial Growth and Development Plan and the National Development Plan “Vision 2030” which is our roadmap to a South Africa where all will have water,

electricity, sanitation, jobs, housing, public transport, adequate nutrition, education, social protection, quality healthcare, recreation and a clean environment.

Honourable speaker, we take public participation seriously and committed in delivering on our promises. Allow me to therefore reflect on what we had set out as our priorities:

- Acceleration of water and sanitation provision in rural communities (Ndwedwe & Maphumulo) ,
- Upgrading and replacement of ageing infrastructure,
- Improve revenue collection and diversification of income
- Further engage communities on the sewer tariff
- Effective use of Enterprise iLembe to stimulate rural economic development
- Promotion of the Save Water Campaign
- Enhancing our capacity to respond to natural disasters across the district
- Strengthen and improve IGR
- Facilitation and strengthening of relationships with Amakhosi

Our vision for Ilembe District Municipality is (for it to be) “By 2030 iLembe District Municipality will be a sustainable people centered economic hub providing excellent services and quality of life”. Our journey to becoming a Sustainable Region is broken into the following pillars:

- Living Region: the citizens of a region live within environments that provide amenity, convenience and choice to range of facilities and activities.
- Living in Harmony with Nature where Human settlement co-exists in mutual harmony with natural resources of a place.
- Promote social wellbeing: The development of secure, stable and healthy local communities.
- Equity of access: where citizen of a region have improved access to range of urban and economic opportunities.

BASIC SERVICE DELIVERY

Development challenges and key issues that need to be addressed in the iLembe context revolve around the fact that the communities residing in the rural areas are more severely affected by poverty and service backlogs than the urban community.

- The provision of basic infrastructure is hampered by the topographic constraints, low densities and low affordability levels, particularly in rural and traditional areas.
- Service infrastructure in iLembe's urban areas needs upgrading and maintenance.
- Rural areas are severely affected by a lack of basic services and continued service delivery backlogs.
- Bulk water supply is a major constraint that effects the entire District and in urgent need of attention.
- 22% of the population still do not have access to clean water and obtain water from rivers and streams. This poses a health risk with further implications regarding the provision of social services

To ensure we deliver on the promise of providing excellent services and quality of life, our people are placed at the centre of service delivery as our mandate remains providing access to clean water and drinkable water in a seamless and cost effective manner.

Through it all, service delivery should be our focus, backlogs be eradicated, job opportunities must be created, poverty alleviated and investments be promoted to all in ensuring a better life for all.

The District has been experiencing rapid growth over the past 15 years and in most cases infrastructure delivery has legged significantly behind this growth. The intensification of residential, commercial and industrial Greenfield developments have necessitated a structured infrastructure response, especially for water and sanitation. To this end, the iLembe Water and Sanitation Master plan was developed and adopted by Council in 2017.

The municipality relies on grants and mostly for the eradication of backlogs through development of infrastructure and basic service projects such as bulk water infrastructure, sanitation, refurbishment of aging infrastructure, as capacitation of the budget and treasury office as well as job creation through the expanded public works programme (EPWP).

The total budget allocated to this objective is:

- Capital Infrastructure R 338.7 million
- Operational Expenditure – R 354.1 million.

LOCAL ECONOMIC DEVELOPMENT

The District's Local Economic Development (LED) function is being performed by our development agency Enterprise iLembe. The agency was established and mandated by the previous Council to perform the following functions:

- Develop, review and strengthen the local economic development strategy on behalf of the district and family of municipalities;
- Champion a wide range of activities which emerge as important from the family of IDPs and LED Strategies;
- Co-ordinate LED activities to ensure alignment and integration;
- District marketing and promotion of tourism and investment promotion;
- Facilitate the identification, packaging and implementation of catalytic projects in the four key sectors and new sectors;
- Provide professional and multi-skilled support and networking services to major investors who wish to invest in the region;
- Work with local government to facilitate a business enabling environment; and
- Implement business, retention and expansion (BR&E) programmes in partnership with local business
- Linked to its functions and Mandate, the key strategic goals of enterprise iLEMBE are therefore as follows:
 - Facilitate the packaging & implementation of projects in existing and new sectors;
 - Market and promote the iLembe District as an Investment, Tourism & Business Destination
 - Research other potential growth sectors in addition to the current four sectors of main focus
 - Identify, build and co-ordinate partnerships among socio economic stakeholders/

- Facilitate research that assists with Policy Development and formulation that impacts the mandate of the Agency
- Influence policy and the regulatory environment for socio economic development and investment
- To ensure sound financial management and viability of the entity.

In terms of delivery, enterprise iLEMBE has delivered, amongst others, the following projects:

- National Schools Nutrition Programme (NSNP) that supply vegetables for more than 400 schools within the District Municipality;
- Open Farms Projects: Planting for the NSNP

Further to the Economic development service, the District is aligned to the radical economic transformation. In this regard we are constantly gearing up to speed toward the National and provincial transformation of the procurement system and the Supply chain management.

The total expenditure in ensuring development in or region is sustainable R 38 million is provided for the year 2017/18. We have also provided a budget allocation of R500 000 for the development of SMMEs.

BACK TO BASICS

The Back to Basics programme as was launched by the President of the Republic and the Premier of the Province of KwaZulu Natal, states that in the context of a Development Local Government, "Local Government is where most citizens' interface with government, and as results, its foundational ethos must be about serving people". The guide goes further to call for the change in the manner in which we do things if we want different (and better) results. A performing municipality is postulated as being the one that:

- Puts people and their concerns first and ensure constant contact with communities;
- Creates conditions for decent living by consistently delivering municipal services to the right quality and standard;
- Is well government and demonstrates good governance and administration;

- Ensures sound financial management and accounting , and prudently manage resources so as to sustainably deliver services and bring development to communities; and
- Build and maintain sound institutional and administrative capabilities, administered and managed by dedicated and skilled personnel.

As a District we shall continue aiming for a consistent functional status, in the endeavour to ensuring that we put our people first on delivery of quality services.

MUNICIPAL TRANSFORMATION AND INSTITUTIONAL DEVELOPMENT

In our mission statement as iLembe, we express our commitment to invest in our people because, they are our valuable assets. We have clear Human Resource Development Policies and are compliant in terms of the establishment of the Training and Development Committee that has the responsibility to approve the Workplace Skills Plan, monitor its implementation and endorse the Annual Training Report. Will strive to maintain a healthy relationship between the district as the employer and organized labour, as such we have set official platforms such as the LPA and the LLF to discuss matters and / or raise concerns.

In the MTREF we will continue supporting our employees through the Assistance programme. The EAP Programme also extends to cover the issues such as alcohol abuse, debt counselling and related matters using a referral system.

To ensure that our people's environmental rights as enshrined in the constitution are not violated, the Environmental Management Team working with the Environmental Health Teams continue to deal with all issues that pertain to the environment.

In this MTREF, the 2018 provision aligned to Municipal Transformations and institutional Development pertaining to Governance and Administration amounts to R 203 million.

FINANCIAL VIABILITY AND MANAGEMENT

Sound financial management is integral to the success of the local government. We are obliged to be efficient, effective and prudent in the manner in which we deal with

the state resources. Quality service delivery is dependent on systems that revolves on value for money principles. It should remain our focused objective:

- To ensure sound budgeting and compliance principles
- To ensure sound expenditure management
- To procure quality goods and services in a cost effective, transparent, competitive, equitable and efficient manner within the policy framework.
- To maintain a clean audit opinion
- To ensure sound and effective asset management

Although the global economic outlook remains subdued, and our province being one of the affected provinces. There is a risk of socio economic instability and increased pressure to deliver services on time and expected quality. Further to the low revenue patterns, the impact of the drought can still be sensed through high consumer debt and slow growth on collection rate. For the forthcoming medium term our collection is estimated to sit at 75%. Knowing the economic situations, we as Council we will continue maintaining a balance between the consumer price index to guarantee affordable services at the same right reflecting cost recovery as to continue maintaining our infrastructure to minimise water losses. The increase on tariff of charges are set at 10%. This increase is 5% below that which our bulk services are estimated to increase. Moreover, the methodology of determining the sewer tariff will , having followed due consideration of iLembe district dynamics, be based on the valuation roll in this MTERF. Furthermore we have increase the provision of free basic services by R 10 million to R 24 million.

During the course of 2016/17, COGTA has been engaged to assist in aligning the District's register with the LM's. Furthermore the below is to be noted:

- Economic profiling and risk analysis of households has been done,
- This analysis will also be used to identify people who are possibly indigent and those targeted households will be visited in order to ascertain whether those people are really indigent (they will be requested to fill the application forms and submit all relevant documentation and will be assessed according to the criteria of being indigent),

- Indigent registers from the family of municipalities within the district has also been compared to identify consumers that are registered as indigents by locals but not registered by the district. An indigent registration campaign will also be conducted with the assistance of ward councillors to encourage the identified consumers to apply for indigent status.

The total 2017/2018 Budget operational and capital expenditure amounts to R 996.6 million, while the total MTREF 2018 -2020 final budget amounts to R 3.2 billion.

Honourable Speaker of Council, I hereby table the Medium term revenue and Expenditure framework for the period 2017/18 to 2019/20 for approval.

1.2 RESOLUTIONS

THAT

- The Council consider in terms of Section 24 of the Municipal Finance Act, 56 of 2003, the Annual Budget of the Municipality for the Financial year 2017/2018; and indicative allocations for the two projected outer years 2018/2019 and 2019/2020; as set out in the A Schedules annexured hereto as follows:

Table A2: Budgeted Financial Performance (Revenue and Expenditure by standard classification)
Table A3: Budgeted Financial Performance (Revenue and Expenditure by municipal vote)
Table A4: Budgeted Financial Performance (Revenue and Expenditure)
Table A5: Budgeted Capital Expenditure by Vote, Standard Classification & Funding Source)
Table A6: Budgeted Financial Position
Table A7: Budgeted Cash Flow
Table A8: Cash backed reserves/accumulated surplus reconciliation
Table A9: Asset Management
Table A10: Basic service delivery measurement

It should be noted that in respect of Capital Expenditure Estimates:

- Instances where information has been provided in terms of Section 19(2) (b) of the Municipal Finance Management Act No.56 of 2003, the consideration of capital budget constitutes projects consideration for the specific projects as reflected in the detailed capital budget. Where information in terms of section 19(2) (b) is not provided, specific project approval be sought from council during the course of the year.

- That Council consider amendments to its **Tariffs of Charges** as depicted on the schedule annexed hereto and marked as **annexured B**.

- That Council consider amendments to its **Tariffs of Charges** as depicted on the schedule annexed hereto and marked as **annexure E** for the Siza Water Concession Areas.

- That the Budget related policies be adopted;
 - Fixed Assets Management Policy
 - Inventory Management Policy
 - Unauthorized, Irregular, Fruitless & Wasteful Expenditure Policy
 - Borrowing Policy
 - Funding and Reserves Policy
 - Long Term Financial Planning
 - Infrastructure, Investments and Capital Projects
 - Petty Cash Policy
 - Austerity measures policy

- That the Budget related policies with the respective amendments be adopted.
 - Banking, Cash Management & Investments Policy
 - Accounts payables policy
 - Budget Policy
 - Credit Control & Debt Collection Policy
 - Indigent Management Policy
 - Supply Chain Management Policy
 - Virement Policy

- Tariff Policy

- That the tariff of charges for 2017/18 financial year be increased by 10% effective from 1 July 2017.
- That in compliance with section 22 of the MFMA, the final budgets be published in the local press and municipal website, it being noted that Council's department of Corporate Governance will attend to this aspect.
- That the Sewer Tariff be calculated on the market value of the property reflected in the KwaDukuza & Mandeni Municipality's valuation roll (excluding the Siza Water Concession Area) as follows:

2017/18	Type of Property
0.00561 cents in the rand on the market value	In respect of agricultural properties.
0.00451 cents in the rand on the market value	In respect of residential properties including sectional title units.
0.01507 cents in the rand on the market value	In respect of industrial, business and commercial properties.
0.18667 cents in the rand on the market value	In respect of vacant properties.
0.2794 cents in the rand on the market value	In respect of state owned properties and public service infrastructure properties.
0.2794 cents in the rand on the market value	In respect of any other property not mentioned above.

- That where there is no valuation roll; the following be applicable:
 - 50% of the water consumption and water charge levied on a monthly basis.
- That Council approves the proposed 10% tariff increase from Siza Water.
- That Council notes that the draft service delivery and budget implementation plan for the 2017/2018 financial year will be tabled 28 days after the budget has been adopted.

1.3 EXECUTIVE SUMMARY

In terms of Chapter 4, Section 16 of the Municipal Finance Management Act, No 56 of 2003, the final Annual operational and capital budgets must be tabled by the Mayor at a council meeting on or before 31 March of each financial year to give effect to the public participation process as envisaged in the Municipal Systems Act and the MFMA of 2003. The annual draft budget was tabled at Council as per the requirements of the act, and the public was afforded an opportunity to comment on the budget through the media advert and public participation meetings.

Section 24 of the MFMA further requires that the municipal council must at least 30 days before the start of the budget year consider approval of the annual budget, as the budget must be approved before the start of each financial year. It is in compliance with these sections that the budget is hereby tabled 90 days prior to the new financial year 2017/2018.

The executive summary report is set out under the following main broad headings:

- Annual budgets:
 - Operating budget summary
 - Capital budget
- Proposed tariff structures
- Measurable performance objectives for revenue
- Municipal entity – Enterprise iLembe
- Service agreements
- New budget regulations and circulars
- Budget related policies
- Public input
- Publication of budgets

As a requirement of the MFMA 56, of 2003 and MSA 32 of 2000, the budget and IDP process plan adopted by the Council in August 2016 has been guiding path and has made possible a highly interactive and consultative process.

The Mid-Year Budget and Performance Assessment report was conducted and presented by the Accounting Officer to the Mayor of the District, who then submitted

the performance assessment report to Council for consideration at the end of January 2017 and to the National Treasury and the relevant Provincial Treasury in line with section 54(1) (f) of the MFMA.

The report resolved a preparation of the consolidated adjusted budget for the year 2016/17 financial year for both iLembe District and its entity. The adjustment was prepared mainly to align the spending with the currently implemented Financial Recovery Plan, as a result, some internally funded projects were to be delayed while District is address matters and for consideration of rolled-over conditional grants. The adjustments budget was tabled to Council by His worship, Mayor of Ilembe District Municipality on 28 February 2017 in line with section 28 of the MFMA. During this process and where appropriate, funds were transferred from low-to high priority programs so as to maintain sound financial stewardship. A critical review was further undertaken to limit spending on non-core items to align the budget with the District's austerity measures. Approaching the adjustments budget process, a constant consultation between the District and Provincial Treasury was maintained following their High Level Assessment on the 2017 approved budget. Comments on the adjusted budget have not been received.

Various challenges were encountered during the course of the financial year. These were broadly presented before various committees for deliberation and tabled during the adjustments budget process. Some of these are of a great concern and have been considered during the 2017/2018 budget preparation process. On a high level, these included the following:

- Revenue growth patterns which impacts on the implementation of the budget as expenditure further relies on what is collected at the end of the month.
- Implementation of the outcome of the meter audit.
- A difficulty arising from a slow recovery from the drought that had previously affected the whole province and particular our district.
- Due to the delay on the payment of invoices, the National School's Nutrition Programme was temporarily suspended, the adjustments budget needed revision to rectify the challenge.
- A roll over of unspent conditional grants approved in terms of the Division of Revenue Act as per the municipality's application in August 2016.

- The annual budget shall be adjusted to accommodate the Division of Revenue Act Amendment and or other amendment by the funders of our programmes.
- The budget on multi-year funded projects will be adjusted as a result of variance on between planning cashflow projections versus and implementation cashflow.
- Community out rest arising from labour and other consumer related matters within the District, with some resulting in interruption of water supply.
- Constrained cash flow position whereby there was a risk of other services being temporarily suspended.

The aforementioned challenges are reviewed from time to time through deliberations at various levels and strategies are in place to deal with same. Implementation is monitored at the various council portfolio committees.

The directive on the 2017/18 final annual budget and finalisation of the budget was presented to management, including the Municipal Manager before being tabled for discussion at the Budget and Steering Committee. In terms of the Regulations this must be done before tabling the annual budget to full council for consideration and also considering the public participation process. The after considering all these, the final budget is now being presented at full Council for adoption.

The 2017/2018 Medium Term Revenue and Expenditure Framework focuses on the long and short term objectives and priorities of the District as well as outcomes and outputs, based on the following IDP Priorities:

- Basic Service Delivery;
- Municipal Institutional Development and Transformation;
- Local Economic Development;
- Municipal Financial Viability and Management;
- Good Governance and Public Participation;
- Safe and Secure environment;
- Spatial Development Framework Analysis; and
- Environmental Management.

National Treasury's MFMA Circular No 10, 13, 19, 42, 48, 51, 54, 58, 59 , 66, 74, 75 and 78, 79, 82, 85 and 86 as well as the Municipal Budget & Reporting Regulations and the Municipal Finance Management Act were used to guide the compilation of the 2016/2017 MTREF.

The main challenges experienced during the compilation of the 2016/2017 MTREF can be summarised as follows:

- The need to re-prioritise projects and expenditure within the existing resources envelope given the cash flow realities;
- Ageing infrastructure, quality and quantity of drinkable water;
- The increased cost of bulk water which is pushing the tariffs upwards;
- Affordability of Capital Projects;
- Disruptions on water schemes arising from protests.
- Revenue growth patterns which impacts on the implementation of the budget.
- The downturn in the National and Local economy;
- Availability of affordable capital or borrowings; and
- Rising and unpredictable fuel, oil and energy prices resulting in challenges on revenue recoveries.
- Extreme bulk tariff increases that impact water tariff.
- Debts based on the current tariff structure calculated on water consumption.

The main areas that affected how this budget should be structured;

- ✓ The affordability of the cost-reflective tariff per kilo litre calculation (cost based tariffs);
- ✓ Reinstatement of the old sewer tariff structure (property value based tariffs) compared to the current sewer tariff structure (cost reflective tariff/ water consumption based tariffs) and see benefit and the impact on collection patterns;
- ✓ Review of revenue generation calculation projections to ensure that all contributing factors are taken into account;
- ✓ Proposal of 10% tariff increase and revision of the consumption based charge for sanitation revenue to be calculated on the market value of the property reflected in the KwaDukuza & Mandeni Municipality's valuation roll.
- ✓ It must be noted that the engineers guide book proposes that 90% of the water consumption goes to sewer, however, due to affordability assessment results, the municipality reduced this to 50% to respond to the needs of the people of Ilembe District Municipality established during public participation meetings/engagements;

- ✓ Furthermore, a reduction of various variable operating expenditure items was kept at a minimum to match with the low tariff increase of 10% and the consumer price index as per the National Treasury's MFMA budget Circular.
- ✓ During the adjustments budget process, the Municipal Entity, Enterprise iLembe's grant allocation was reduced in order to align its expenditure to the current austerity measures in place in the District. The grant allocation was reduced by R 2.5 million. However, with a decision that from 1 July 2017, employees will be employed on a permanent basis, hence an additional R 2, 5 million was requested to provide for pension contribution and medical aid.

Operating Budget Summary

The proposed operational budget contains detailed information for the 2017/2018, 2018/2019 and 2019/2020 indicative financial years and is summarised below:

DC29 iLembe - Table A4 Consolidated Budgeted Financial Performance (revenue

Description	Ref	2017/18 Medium Term Revenue & Expenditure Framework		
		Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand	1			
Revenue By Source				
Property rates	2	–	–	–
Service charges - electricity revenue	2	–	–	–
Service charges - water revenue	2	98,973	107,068	118,243
Service charges - sanitation revenue	2	57,122	62,834	74,067
Service charges - refuse revenue	2	–	–	–
Service charges - other		2,942	3,118	3,430
Rental of facilities and equipment		156	163	174
Interest earned - external investments		1,944	2,063	2,212
Interest earned - outstanding debtors		19,323	21,255	23,381
Agency services		1,483	1,567	1,657
Transfers and subsidies		441,250	489,367	538,378
Other revenue	2	22,642	24,109	25,642
Gains on disposal of PPE				
Total Revenue (excluding capital transfers and contributions)		645,833	711,544	787,184
Expenditure By Type				
Employee related costs	2	204,889	218,554	233,607
Remuneration of councillors		11,809	12,627	13,501
Debt impairment	3	44,232	63,566	73,199
Depreciation & asset impairment	2	76,970	80,903	92,825
Finance charges		10,906	11,868	12,552
Bulk purchases	2	84,466	93,160	102,762
Other materials	8	54,377	65,756	80,677
Contracted services		42,160	44,234	47,113
Transfers and subsidies		15,789	13,158	13,158
Other expenditure	4, 5	96,347	103,980	109,308
Loss on disposal of PPE				
Total Expenditure		641,947	707,805	778,701
Surplus/(Deficit)		3,887	3,739	8,483
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		392,626	387,473	383,582
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)	6	–	–	–
Transfers and subsidies - capital (in-kind - all)				
Surplus/(Deficit) after capital transfers & contributions		396,513	391,212	392,065
Taxation				
Surplus/(Deficit) after taxation		396,513	391,212	392,065
Attributable to minorities				
Surplus/(Deficit) attributable to municipality		396,513	391,212	392,065
Share of surplus/ (deficit) of associate	7			
Surplus/(Deficit) for the year		396,513	391,212	392,065

The overall operational revenue budget in the 2017/18 amounts to R 645.8 million and the operational expenditure amounting to R 641.9 million.

Operations are thereby budgeted to achieve a net surplus of R3.8 million for 2017/18; R 3.7 million and R 8.4 million for 2018/19 and 2019/20 respectively.

The total surplus including capital transfers and contributions for 2016/17 amounts to R 396.5 million; and the two indicative years amount to R 391.2 million and R 392 million for 2018/19 and 2019/20 respectively.

Comparison of the draft budget and the final budget.

Description	2017/18 Medium Term Revenue & Expenditure Framework			2017/18 Medium Term Revenue & Expenditure Framework			2017/18 Medium Term Revenue & Expenditure Framework		
	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousands									
Financial Performance	Final Budget			Draft Budget			Amendments		
Property rates	-	-	-	-	-	-	-	-	-
Service charges	159,036	173,020	195,740	164,143	178,638	201,920	(5,107)	(5,618)	(6,180)
Investment revenue	1,944	2,063	2,212	3,755	3,978	4,321	(1,811)	(1,914)	(2,109)
Transfers recognised - operational	441,250	489,367	538,378	439,250	488,567	537,378	2,000	800	1,000
Other own revenue	43,604	47,094	50,853	43,484	47,769	51,740	120	(674)	(887)
transfers and contributions)	645,833	711,544	787,184	650,632	718,951	795,359	(4,798)	(7,407)	(8,175)
Employee costs	204,889	218,554	233,607	196,692	209,839	224,429	8,197	8,715	9,177
Remuneration of councillors	11,809	12,627	13,501	11,809	12,643	13,524	-	(16)	(23)
Depreciation & asset impairment	76,970	80,903	92,825	76,970	80,901	92,818	-	2	6
Finance charges	10,906	11,868	12,552	12,906	13,412	14,185	(2,000)	(1,544)	(1,632)
Materials and bulk purchases	138,843	158,916	183,439	140,005	160,188	184,830	(1,162)	(1,271)	(1,391)
Transfers and grants	15,789	13,158	13,158	13,158	13,158	13,158	2,632	-	-
Other expenditure	182,739	211,779	229,619	184,042	210,971	231,343	(1,303)	808	(1,724)
Total Expenditure	641,947	707,805	778,701	635,583	701,111	774,288	6,364	6,694	4,413
Surplus/(Deficit)	3,887	3,739	8,483	15,049	17,840	21,071	(11,162)	(14,101)	(12,588)
Transfers and subsidies - capital (moneta	392,626	387,473	383,582	395,626	387,473	383,582	(3,000)	-	-
Contributions recognised - capital & contri	-	-	-	-	-	-	-	-	-
& contributions	396,513	391,212	392,065	410,675	405,313	404,653	(14,162)	(14,101)	(12,588)
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) for the year	396,513	391,212	392,065	410,675	405,313	404,653	(14,162)	(14,101)	(12,588)

Considering the public consultation and further engagements at various Council structures, the tabled operational budget was amended to as per the above table. Revenue was adjusted downwards by R 4.7 million, expenditure had a net increase by R 6.3 million. The proposed operational budget surplus amounts to R 3.8 million from R 15 million. The following are attributable to amendments:

- A decrease on sewer service charges by R 5.1 million to align the calculation of sewer charges to the Local Municipality's valuation roll whereby rebates should be factored into the cost of property when applying the tariff.
- Investment has decreased by R1.8 million due to the cession of the zero coupon long term investment from ABSA. Furthermore, the finance charges decrease is attributable to the loan from ABSA amounting to R 30 million.
- Employee related costs was increased to cater for a process which the District is still investigating concerning introducing a shift system, vacant posts and prioritised posts as per the staff establishment review.
- The net decrease on other expenditure is due to various items to align the expenditure to the District's financial recovery plan targets in order to cap expenditure.
- Transfers and grant was increased by R2.6 million in order to increase the number of VIP toilets funded though the MIG where requests were received through the public consultation process.

Operating Revenue Framework

The following budget principles and guidelines directly informed the compilation of the 2017/2018 MTREF:

- The 2016/2017 Adjustment Budget priorities and targets, as well as the base line allocations contained in that adjustment budget were adopted as the upper limits for the new baseline for the 2016/2017 budget;
- Service level standards were used to inform the measurable performance objectives, targets and backlog eradication;
- That tariff increases must be affordable and be measured against the cost of bulk water. It must be noted however that the proposed tariff is lower than the bulk water increase. Although tariffs need to remain or move towards being cost reflective a balance should be created for affordable services to consumers at the same it should take into account the need to address infrastructure backlogs and maintenance thereof; and
- That all grant funded projects will only be implemented provided that a written confirmation in the form of Division of Revenue Act ("DORA") or otherwise is available and gazetted.

Service charges tariffs are increased by 10%. Sewer water consumption base charge will no longer be applicable from 1 July 2017. Currently it is based on 50% water consumption. An assessment of the consumer affordability of tariffs was also considered. The sewer charge will now be based on property valuation.

Operating income

a) Service Charges Revenue – Water

This budget relates to billing of consumers for water. The proposed budget on water service charges amounts to a net of R98.9 million (2016/17: R101.5 million). Although it appears as this items has decreased compared to 2017/17, the cost of providing free basic services has increased to R 10 million of which is netted off from water service charges revenue. The basis of this calculation is the increase on tariff of charges by 10%. Furthermore, there are new areas that the District started billing consumers beginning of 2017 year, with an estimated 1000 consumers. This number is estimated to increase during the 2017/18 financial year. The R 98.9 million is a net after adjusting for free basic water services from operating expenditure classification to revenue classification, so as to off-set the revenue as required by MFMA Circular 79; see below for as per the budget tables;

Description	2017/18 Medium Term Revenue & Expenditure Framework		
	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand			
REVENUE ITEMS:			
Service charges - water revenue			
Total Service charges - water revenue	109,060	117,730	129,503
<i>less Cost of Free Basis Services (6 kilolitres per indigent household per month)</i>	10,088	10,663	11,260
Net Service charges - water revenue	98,973	107,068	118,243

This budget is fairly achievable, considering the 2015/16 audited AFS closed with a billing amounting to R 95.8 million. The data cleansing process gradually reap results from an improved billing, however the District continues cleaning its debt book through various mechanism, others which involves working with LM's.

b) Service Charges Revenue - Sanitation

The sewer service charges is budgeted to be R62.2 million (2016/17: R 46.7m).

Description	Ref	2017/18 Medium Term Revenue & Expenditure Framework		
		Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand				
Service charges - sanitation revenue				
Total Service charges - sanitation revenue		72,028	79,231	87,154
<i>less Revenue Foregone (in excess of free sanitation service to indigent households)</i>				
<i>less Cost of Free Basis Services (free sanitation service to indigent households)</i>		14,907	16,397	13,087
Net Service charges - sanitation revenue		57,122	62,834	74,067

When compared to the 2016/17 budget year, this category will increase by R 10.4 million and is attributable to the following:

- The 10% tariff increase on sewer charges.
- This amount is a net of free basic sewer services from operating expenditure classification to Revenue classification to comply with the MFMA circular.
- Reinstatement of the old sewer tariff structure (property value based tariffs) compared to the current sewer tariff structure (cost reflective tariff/ water consumption based tariffs) as per **Annexure G**.

c) Service Charges Revenue – Other

Other service charges are budgeted at R2.9 million. This change resulted from increased revised service charges revenue generation calculation, and also factoring in the 10%. This category is made up of the following main items, enclosed on the supporting A schedules:

- Clearance certificates
- Developer's Demand Contribution
- The National Schools' Nutrition Programme implemented through the Municipal entity.
- Other minor revenue.

d) Rental of facilities and equipment

This item relates to hiring of the District's Auditorium to the public. Although low revenue was previously recorded. The municipality has considered doing minor renovations to attract hiring fees. The Municipal Entity has been engaging one of the companies utilising their tunnels and has come to agreement to start charging rental fees hence the total provision amounts to R 156 thousand.

e) Interest Earned on external Investments

Interest in investments are budgeted at R 1.9 million (2016:17: R3.6m). This refers to the combination of monies invested by the municipality as well as its entity on various financial institutions both on call and fixed investments deposit accounts as well as interest on outstanding debtors.

The municipality currently has a fifteen (15) year loan commitment with ABSA amounting to R30million which expires in May 2020. After having done a due diligence exercise, which is primarily based on achieving cost savings, the municipality is of the view that settling this loan commitment during course of 2017/18 financial year will be more prudent than waiting for the original expiry date of the term of this loan, which is May 2020. The loan is secured by a sinking fund investment with ABSA currently valued at R24million which will be utilized as part payment against the loan capital amount. The purpose of this investment is to accumulate sufficient funds to enable settling the capital amount of the loan at settlement date. As a result, the municipality is only currently servicing interest on the loan and not paying any redemption costs.

Due to the fact that the investment is currently valued R24million against the loan balance of R30million, at the time of settling there will be a balance of approximately R6million which the municipality will have to fund from its coffers. In addition to this amount, ABSA will levy R1.2 million being early termination charges which will bring the balance due to ABSA to R7.2 million. Had the municipality not taken this option and proceeded servicing interest costs until May 2020, over the remaining period, it would have paid approximately R9.3 million as opposed to R7.2 million if settled during the course of 2017/18 financial year. Should the proposed settlement proceed according to the terms and conditions proposed to ABSA, the municipality will be

settling the outstanding R7,2million balance in 12 equal instalments of approximately R600 000.00 a month.

f) Interest Earned on outstanding debtors

Considering the 10% tariff increase and the current levels, the interest on outstanding debtors are budget to be R19.3 million (2016/17: R18.5m).

g) Agency Services

Revenue from agency budget amounts to R1.4 million. This category of item is in relation to the fees collected from concession fees.

h) Transfers Recognised – Operational

The transfers' recognised Operational budget amounts to R441.2 million (2016/17: R 390.5m). The budget on this item is in line with the Division of Revenue Act No. 3 of 2018:

- Equitable share
- Financial Management Grant
- Rural Road Asset Management
- MIG Operational Grant

i) Other Revenue

Other revenue budget amounts to R22.6 million (2016/17: R19.6m). The main items as per supporting tables (SA1) tables are:

- Clearance certificate - R2.1 million
- The National School's Nutrition Programme under the Municipal Entity - R 16.7m
- Developer's Contribution at R 2.7 million.

Operating Expenditure Framework

In preparation of the 2016/17 MTREF, the following were considered:

- Balanced budget constrains which means that operating expenditure should not exceed operating revenue unless there are existing uncommitted cash-backed reserves to fund any shortfall or deficit;

- Funding of the budget over the medium-term as informed by section 18 and 19 of the MFMA;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services;
- Strict adherence to the principle of “no project plans no budget”. If there is no business plan thus no funding allocation can be made; and
- The implementation of austerity measures on municipal operational expenditure.
- No new items in the budget but to base it from the adjustments budget amounts and only effect the CPI where applicable.

When compared to the adjusted budget, the increase on operational budget is R57 million, and this reflects an 8% increase overall. This increase is mainly due to the inflationary increase of 6.4% as per the MFMA Budget Circular no. 86 and the bulk purchases increase which was above the

a) Employee related cost

Employee related cost is budget at R 204.9 million (2017: R 183.5). Employee costs are within the threshold as required on Circular 71, sitting at 32%. The rate increase applied is 7.3% as per the Wage Collective Agreement. Furthermore the budget included a provision for vacant posts due to replacements as well as prioritised critical costs representing only 11% from the posts identified during the staff establishment review. This budget also factored financial implication if the currently assessed process of introducing a shift system at Technical Services succeeds.

b) Remuneration of councillors.

This item is budgeted at R 11.8 million including R 674 million for board fee at the Municipal Entity. The increase is aligned to the consideration of determination of upper limits for councillors and Office Bearers.

c) Other Materials

Other materials are budgeted at R 54.5 million (2016/2017: R51.2). In terms of Municipal Budgeting and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver, but an outcome of other expenditures such as remuneration, purchases of materials and contracted services. Repairs and maintenance provision should at least amount to 8 percent of the municipality's

Property Plant and Equipment. The provision is currently below norm. Considering the aforementioned financial challenges, hence only R 54.3 million could be afforded on the operational budget, however when the capital expenditure on renewal of existing assets is considered the percentage comes to 5% whereby the replacement/refurbishment costs are to replace/refurbish aged pipelines and pumps. Table A9, the budget provision for the renewal of assets may seem low compared to that required on MFMA circular No. 55, however the capital budget also addresses the refurbishment of old water infrastructure.

d) Debt Impairment

A proposed provision for bad debts totals to R 44.2 million. Whilst this expenditure is a non-cash flow item, it informs the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenue. This is in compliance with GRAP requirements. The bad debt provision has been calculated based on the 75% revenue collection rate that is budgeted for in the 2017/18 financial year.

e) Depreciation & Asset Impairment

A proposed provision for depreciation, amortisation and asset impairment of about R76.9 million is informed by the Fixed Asset Policy of the District. The provision on this item is as per the implementation of GRAP 17 accounting standard which must be complied with. It should also be noted that this item is provisional amount.

f) Finance Charges

Finance charges consists primarily the repayment of interest on long-term borrowings and interest charged on vehicles that are leased and is set at R10.9 million. This refers to the interest paid on loans in line with loan agreements that exist, as well as the lease agreement that the municipality has entered into and which has to be accounted as finance leases as per GRAP standards.

The municipality currently has a fifteen (15) year loan commitment with ABSA amounting to R30million which expires in May 2020. After having done a due diligence exercise, which is primarily based on achieving cost savings, the municipality is of the view that settling this loan commitment during course of 2017/18 financial year will be more prudent than waiting for the original expiry date of the term of this loan, which is May 2020. The loan is secured by a sinking fund investment with

ABSA currently valued at R24million which will be utilized as part payment against the loan capital amount. The purpose of this investment is to accumulate sufficient funds to enable settling the capital amount of the loan at settlement date. As a result, the municipality is only currently servicing interest on the loan and not paying any redemption costs.

Due to the fact that the investment is currently valued R24million against the loan balance of R30million, at the time of settling there will be a balance of approximately R6million which the municipality will have to fund from its coffers. In addition to this amount, ABSA will levy R1.2 million being early termination charges which will bring the balance due to ABSA to R7.2 million. Had the municipality not taken this option and proceeded servicing interest costs until May 2020, over the remaining period, it would have paid approximately R9.3 million as opposed to R7.2 million if settled during the course of 2017/18 financial year. Should the proposed settlement proceed according to the terms and conditions proposed to ABSA, the municipality will be settling the outstanding R7,2million balance in 12 equal instalments of approximately R600 000.00 a month.

g) Bulk Purchases

The budget for bulk purchases is set at R84.4 million. When compared with the adjusted budget 2016/17, this shows an R 10.1 million increase.

The bulk purchase budget provision is based on the proposed tariff increase of 15% from Umngeni Water. This has had a negative impact in the cost of bulk water supply, particularly the purchasing of water from Umngeni Water is escalating.

With this high bulk purchases, the municipality is required to maintain affordability to municipal services while keeping the tariffs reflective of costs. The municipalities has to adopt a tariff setting methodology that achieves an appropriate balance between the interests of poor households and other customers while ensuring financial sustainability of the municipality.

h) Contracted Services

This item is budgeted at R 42.1 million. All existing contracts have been provided for on the budget. Table SA1 provides a list of all contracted services i.e. security services, plant hire, vehicle hire, printing rentals, etc.

i) Transfers and Grants

This refers to the various transfers, both cash and non-cash, which the municipality will transfer to various organizations as well as certain groups. This item has been budgeted at R15.8 million funded through MIG and it relates to the VIP toilets which do not form part of the municipal asset register.

j) General expenses

The proposed budget allocation for other expenses amounts to R 96, 3 million. The increase is mainly attributable to the inflationary increase and Enterprise iLembe's operating expenditure. A detailed breakdown of this cost can be viewed from the supporting Table SA1. The main items on this category are:

Other Expenditure By Type				
Collection costs				
Contributions to 'other' provisions				
Consultant fees		3,174	2,865	3,025
Audit fees		2,724	2,880	3,053
General expenses	3	6,693	5,801	4,846
ELECTRICITY AND WATER		19,302	20,832	23,437
GENDER/ PWD, YOUTH PROGRAMME, HIV AND AIDS, POVERTY ALL		1,475	1,559	1,646
SPORT & RECREATION		504	533	563
GRANT EXPENDITURE		2,988	4,161	4,532
CONFERENCES & WORKSHOPS		50	53	56
FUEL AND OIL		10,266	11,292	11,970
SIZA WATER AUDIT FEE		2,298	2,429	2,565
REFRESHMENTS		33	35	28
TELECOMMUNICATION		1,836	2,425	2,564
PROTECTIVE CLOTHING		2,095	2,214	2,338
MEMBERSHIP FEES		2,167	2,291	2,419
PUBLIC PARTICIPATION		840	888	938
PRINTING AND STATIONERY		394	416	440
POSTAL SERVICES		1,756	1,856	1,960
LEGAL, TOURISM, SAN MASTERPLAN, SIZA WATER 5 YR REV, ORG		1,907	2,017	2,130
LED - ENTERPRISE ILEMBE		24,646	27,655	28,381
TRAVEL AND ACCOMMODATION		239	252	266
COMMUNICATION AND ADVERTISING		1,784	1,870	1,976
Disaster Management		1,870	1,976	2,087
TRAINING		2,615	2,706	2,837
Shared Services Expenditure		2,690	2,843	3,002
BANK CHARGES & COMMISSIONS		2,003	2,129	2,249
Total 'Other' Expenditure	1	96,347	103,980	109,308

k) Surplus/Deficit

The adjusted budget shows a surplus of R 3.8 million. Furthermore, the operational expenditure includes non-cash items to the amount of R 121 million, which leaves a surplus of R 125 million when these items are added back. The non-cash items pertains to:

- Depreciation and asset impairment
- Doubtful debt
- Free basic services, which is treated as revenue forgone.

Although this may seem to be available surplus it does not consider creditors from prior year, but will however cater to funding internally generated capital budget.

It must be noted that, the surplus do not resolve the cashflow and liquidity position challenges that the municipality is currently facing. It will take the municipality approximately 2 years to recover from this epidemic. The municipality must continue to strive for an increase in the operating surplus in the next coming 2 financial years, so to ensure financial and service delivery sustainability.

It must be noted though, that to achieve same will not be easy in these challenging economic times mostly caused by external uncontrollable factors. This truly calls for Council to closely look into the manner which operations are conducted including implementation of austerity measures, growth in revenue. With the stance taken by the Management Committee, it is envisaged that results will be yielded.

Municipal Standard Chart of Accounts (mSCOA)

There is a standing item at the MANCO meetings, and the mSCOA Steering Committee plays an oversight role in ensuring compliance by 1 July 2017. Due to the importance of ensuring the deadline is met on this project, a secondment of a project manager was appointed and started on 1 February 2017. Although there are challenges within the project, there is a significant progress to meet the deadline. A budget provision for this project was factored during the adjustments budget to cater for project management, system upgrade and the municipal entity's data migration to IDM.

The Existing Tariff Structure and Operating Revenue

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

National Treasury continues to encourage municipalities to keep increases in tariffs for trading services and charges for other municipal own revenue sources within the parameters of the country's inflation rate. However, municipalities must justify in their budget documentation all increases in excess of the upper boundary of the South African Reserve Bank's inflation target. The municipality will base its tariff from the proposed tariff increases of 15% from Umgeni Water.

It must also be noted that the consumer price index "CPI", ***is not a good measure of the cost increases of goods and services relevant to municipalities***. The basket of goods and services utilised for the calculation of the CPI consists of items such as food, petrol, and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of water and electricity, plumbing/construction material, chemicals etc.

The current challenge facing the District is to manage the gap between cost drivers and tariffs levied. Any shortfall must be made up by either operational efficiencies or service level reductions. Within this framework, the District has undertaken the tariff setting process relating to service charges as follows:

Sale of Water and Impact of Tariff Increases

From time to time, the country faces water shortages and unstable electricity. All municipalities face challenges with regard to water supply and electricity. As a result of that, the National Treasury encourage municipalities to carefully review the level and structure of their water tariffs. This will ensure that:

- Water tariffs are cost reflective and they include the cost of maintaining and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor;

- That water tariffs are designed to encourage efficient and sustainable consumption;
- That water supplied is clean and drinkable.

National Treasury previously urged all municipalities to ensure that water tariff structures are cost reflective by 2014/15 financial year. Better maintenance of infrastructure, new reservoirs construction, expanded reticulation and cost reflective tariffs to ensure that the supply of water challenges are managed in future to ensure sustainability.

Eskom has announced an increase of 0.31% for the 2017/18 financial year in bulk electricity supply. Although not significant, Eskom has been increasing their bulk tariff in the range of 8% average. That has and continue to impose a negative impact on the supply of water as water purification plants, reservoirs, water networks and distribution relies heavily on electricity.

Furthermore National Treasury advised, municipalities must adopt a tariff setting methodology that achieves an appropriate balance between the interests of poor households and other customers while ensuring financial sustainability of the municipality.

In view of the above and other outlined challenges the municipality is proposing a 0% normal increase and a cost reflective increase of 10%, effective from the 1st of July 2017 to June 2018.

Cost Reflective Tariffs

Circular 70 requires municipalities to use cost reflective tariffs in billing their customers. The District complied with the said circular from which the year of its first implementation was 2014/15. During the process a meeting was held with National Treasury to discuss various revenue management matters. The calculation and application of cost reflective tariffs introduced in the 2014/2015 financial year as required by the circular is similarly used in the calculation of the final budget 2017/2018.

In terms of sec 75A (1) of the Municipal Systems Act:

1 A municipality may – (a) levy and recover fees, charges or tariffs in respect of any function or service of the municipality and (b) recover collection charges and interest on any outstanding amount.

In order to give effect to the above the municipality had introduced a 17% increase to the tariff of charges which is aimed at recovering costs of rendering the service or providing water to its communities. Water and sanitation tariffs must be on aggregate fully cost-reflective – inclusive of bulk cost of water, the cost of maintenance and renewal of purification/treatment plants and network infrastructure, and the cost of new infrastructure; Water and sanitation tariffs are structured to protect basic levels of service; and are designed to encourage efficient and sustainable consumption (e.g. through inclining block tariffs).

The increase was mainly informed by the calculation of the total costs of providing water to the communities and the comparison with other municipalities (attached thereto) with cost reflective tariffs. In its introduction the results revealed clearly that ILembe District Municipality was the cheapest of the comparisons but also not recovering costs of services they produced. The comparison was done with Msunduzi Municipality, eThekweni Municipality, Umhlatuze Municipality and Sembcorp Siza Water – a water service provider.

The water tariff structure has also changed from a 6 tier structure to a 3 tier structure, this was also in line with the implementation of circular 70 from National Treasury and also Section 75 A of the Municipal Systems Act. Consideration of indigent consumers was also taken into account.

Sanitation and Impact of Tariff Increases

A tariff of 10 per cent for sanitation effective from 1 July 2017 is proposed. This is based on property valuation from local municipalities. It should be noted that electricity costs contribute significant portion of waste water treatment input costs, therefore higher than the CPI. Additional factors also contribute to the proposed tariff increase:

- Based on property valuation from local municipalities

- Free sanitation will be applicable to registered indigents and the total revenue anticipated in rendering this service amounts to R 14.9 million.

Although the District Municipality does not have control over the valuation as the document is maintained and implemented by local municipalities, it was resolved that this basis of calculation should be on property valuation.

In view of the above assumptions, deliberations and observations, it is proposed that the District's tariff and other charges be increased as follows and be advertised to the general public for comments:

Type of Service	Proposed Tariff Increase
Water charges	0%
Sewer charges	0%
Miscellaneous tariffs	Various (not exceeding 10%)
Cost Reflective portion of the tariff increase	10%

1.4 The following annual budget tables have been populated and are annexed to this item as Annexure A

Table A2: Budgeted Financial Performance (Revenue and Expenditure by standard classification)
Table A3: Budgeted Financial Performance (Revenue and Expenditure by municipal vote)
Table A4: Budgeted Financial Performance (Revenue and Expenditure)
Table A5: Budgeted Capital Expenditure by Vote, Standard Classification & Funding Source)
Table A6: Budgeted Financial Position
Table A7: Budgeted Cash Flow
Table A8: Cash backed reserves/accumulated surplus reconciliation
Table A9: Asset Management
Table A10: Basic service delivery measurement

PART 2 – SUPPORTING DOCUMENTS

2.1 Overview of the annual budget process with Integrated Development Plan

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 Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality as well as the chair of the Finance Portfolio Committee, meeting under the chairpersonship of the Mayor.

The primary aims of the Budget Steering Committee are 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 IDM'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 valued and prioritised in the allocation of resources.

2.2 Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year

strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Local priorities were identified as part of the IDP review process which is directly aligned to that of the national and provincial priorities. The key performance areas can be summarised as follows against the five strategic objectives:

- Provision of quality basic services and infrastructure,
- Economic growth and development that leads to sustainable job creation
- Fight poverty and build clean, healthy, safe and sustainable communities
- Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service
- Promote sound governance

The 2017/18 budget is linked to the IDP as the review was an aligned process of the budget as per the budget timetable as approved by Council in August 2016. This has then been translated to the plan of the municipality for the year, i.e. the service delivery and budget implementation plan.

An amendment of the Municipal Property Rates Regulations as published in Government Notice 363 of 27 March 2009, was announced in Government Gazette 33016 on 12 March 2010. The ratios as prescribed in the Regulations have been complied with.

2.3 Measurable Performance Objectives

The performance objectives of the significant revenue streams of the District are recommended as follows:

Area	Performance Target
Water sales	Collection ratio in excess of 75%
Sewer charges	Collection ratio in excess of 75%
Miscellaneous tariffs	Collection ratio in excess of 75%

2.4 Overview of the Budget Related Policies

The following budget related policies are applicable to the 2017/18 budget process. Policies were reviewed during the 2016/17 budget process, however after tabling of the draft budget, the policies were circulated for deliberation. The policies applicable for the 2017/1 financial year are as follows:

- Tariff policy
- Fixed Assets Management Policy
- Banking, Cash Management & Investments Policy
- Inventory Management Policy
- Indigent Management Policy
- Petty Cash Policy
- Credit Control & Debt Collection Policy
- Supply Chain Management Policy
- Virement Policy
- Unauthorized, Irregular, Fruitless & Wasteful Expenditure Policy
- Budget Policy
- Customer Care and Management Policy
- Borrowing Policy
- Funding and Reserves Policy
- Long Term Financial Planning
- Infrastructure, Investments and Capital Projects
- Austerity Measures Policy
- Accounts Payable Policy

Listed below is a brief description of the budget-related policies. The policies are attached thereto.

2.4.1 Supply Chain Management Policy

The comprehensive Supply Chain Management Policy governs, inter alia, the procurement of goods and services; disposal of goods and selecting contractors to aid the Municipality in service delivery. This policy sets out the procedures that must be followed for the above activities in order to comply with all relevant legislation effectively.

2.4.2 Fixed Asset Management Policy

The Fixed Asset Management Policy governs the acquisition, utilisation, control, maintenance and disposal of assets of IDM. This policy ensures that assets are managed in an economical, effective and efficient manner throughout their life cycles, to achieve the maximum level of service.

2.4.3. Credit Control & Debt Collection Policy

The Credit Control & Debt Collection Policy, adopted by Council, focuses on all outstanding debt and aims to promote a culture of good payment habits amongst debtors. Debtors have a responsibility towards the payment of their accounts. This policy implements an appropriate, innovative system of debt collection, which is also cost-effective. The aim of this policy is to ensure that debt is collected in the shortest possible time, without any interference in the process, thereby reducing all municipal debt.

The Credit Control & Debt Collection Policy ensures a sensitive, transparent and equitable approach to debt recovery. It prescribes methods to effectively and efficiently deal with those who default on payments, whilst taking indigent consumers into consideration and keeping costs to a minimum.

2.4.4 Funding & Reserves Policy

The Funding & Reserves Policy is aimed at ensuring that the IDM procures sufficient and cost-effective funding to achieve its capital expenditure objectives in an optimum manner. This policy must be adhered to in the procurement of funding, whilst considering the maturity profile of IDM's assets and liabilities.

This policy sets out the assumptions and methodology for estimating:

- Revenue;
- Revenue that will not be collected;
- Proceeds from the disposal of assets;
- Proceeds from borrowings; and
- Funds to be set aside in Reserves (excluding Reserves held in order to comply with GRAP standards)

2.4.5 Cash Management & Investment Policy

The Investment & Cash Management Policy ensures that all investments are made in an effective and efficient manner and generate the best return for IDM. This policy ensures that all investments made take into account the preservation and safety of the principal and appropriate liquidity.

2.4.6 Virement Policy

The Virement Policy is in place to ensure good budgeting practice, effective financial management and improved budgetary controls. This policy establishes a framework for managers to administer their budgets successfully and remain within limitations.

2.4.7 Long Term Financial Planning

A policy has been developed on the Long term financial planning of the Municipality to achieve IDM's 2027 vision. Council reviews all budget-related policies annually. These policies are in compliance with all relevant legislation.

2.4.8 Indigent Management Policy

The Indigent Policy ensures that basic services are provided by IDM to all indigent members of its community in a sustainable manner, within the Council's financial capacity. Indigent households, in terms of this policy, qualify for free basic water (10kl) and sewer. All conditions stated in this policy must be met before a household may be registered as "Indigent". Households are required to formally apply for relief and must register each year for indigent support. The prescribed documentation is available from IDM Offices. IDM currently has revenue desks to also assist with the process of registration; this is also done at municipal offices.

2.4.9 Tariff Policy

The Tariff Policy is the policy for levying fees; rates or taxes for the municipal services provided by IDM. Tariff calculations are based on the nature of the service provided and treat all users of municipal services equally, by ensuring that consumers pay in proportion to the amount of services consumed. This policy covers the Tariff Determination Process and also the Classification and Pricing Strategies of Services. It highlights the fact that all proposed tariffs are presented to the community of during

the Council's consultation process in respect of the MTREF. The aims of this policy are:

- To promote local economic development' growth and competitiveness
- to cater for the indigent households whilst keeping rates affordable
- to ensure financial sustainability of service delivery

This Policy complies with the MSA.

2.4.10 Borrowing Policy

The Borrowings Policy establishes a framework for incurring debt. It must be noted, however, that IDM does not raise any short-term debt. The guidelines provided in this policy ensure that IDM adheres to all statutory requirements regarding long-term debt. This policy aims to obtain funds at the lowest possible interest rates, and with minimum risk.

2.4.11 Budget Policy

The Budget Policy sets out the principles followed by IDM in drafting the MTREF. This policy covers the responsibilities of the Mayor; the MM; the CFO and other senior managers in preparing the MTREF. The operating and capital budget; budget funding; budget transfers; unavoidable expenditure and the budget preparation process are covered extensively.

2.4.12 Infrastructure, Investments & Capital Projects

This policy deals with investments in Infrastructure and Capital Projects to address the backlogs in service delivery as well as to promote economic growth within iLembe and surroundings.

2.4.13 Inventory Management Policy

The policy aims to achieve the following objectives which are to:-

- a) Provide guidelines that employees of the Municipality must follow in the management and control of inventory, including safeguarding and disposal of inventory.
- b) Procure inventory in line with the established procurement principles contained in the Municipality's Supply Chain Management Policy.
- c) Eliminate any potential misuse of inventory and possible theft.

2.4.14 Petty Cash Policy

This policy aims to regulate the use of Petty Cash Float within IDM and to ensure that in disbursing petty cash funds the Municipality is within the ambit of Municipal Finance Management Act (MFMA).

2.4.15 Unauthorized, Irregular, Fruitless & Wasteful Expenditure Policy

The objectives of this policy includes amongst other things:

- (a) Emphasising the accountability of employees ;
- (b) Ensuring that employees have a clear and comprehensive understanding of the procedures they must follow when dealing with unauthorised, irregular or fruitless and wasteful expenditure;
- (c) Ensuring that resources made available to employees are utilised efficiently, effectively, economically and for authorised official purposes;
- (d) Ensuring that the Municipality's resources are managed in compliance with the MFMA, the Municipal Regulations and other relevant legislation,
- (e) Ensure that irregular, unauthorised or fruitless and wasteful expenditure is detected, processed, recorded, and reported timeously.

2.4.16 Customer Care & Management Policy

Through this policy the municipality's aim is to ensure that a customer will be able to contact the municipality conveniently and will be treated courteously, promptly and fairly. The customer will receive a clear response to any service request or enquiry within a stated period of time.

2.4.17 Austerity Measures Policy

The aim of this policy is to prescribe cost containment measures for iLembe District Municipality in line with Treasury Instruction 01 of 2013.

2.4.18 Accounts Payables Policy

This policy is aimed at prescribing a process to be followed for the control and processing of all payments in terms of the Municipal Finance Management Act, Act no 56 of 2003.

2.5 Budget Assumptions

In the compilation of the budget, the following influencing factors were considered:

- Normal inflationary increases and pressures;
- That the budget is zero based, incremental and programme based;
- Inflation is 6.4% for the 2017/2018, 5.7% and 5.6% for 2018/18 and 2019/2020 respectively.
- An estimated as average CPI + 1 per cent salary increase as per circular 79 from Treasury.
- That there will be no changes to the powers and functions of the District during 2017/2018 financial year;
- That more than 75 % of revenue budgeted for will be collected;
- That all DORA allocations will be received during the 2017/2018 budget year.
- Increase to Tariff of charges by 10%

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the District and continued economic development;
- Efficient revenue management, which aims to ensure over 75% annual collection rate for key service charges;
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing /calculating the revenue requirement of each service; and
- Calculation and determination of cost reflective tariffs.
- The iLembe District municipality's Indigent Policy and rendering of free basic service; and tariff policies of the District.

2.6 Overview of Budget Funding

DC29 iLembe - Table A7 Consolidated Budgeted Cash Flows

Description	2017/18 Medium Term Revenue & Expenditure Framework		
	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand			
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts			
Property rates	–	–	–
Service charges	119,277	131,205	144,325
Other revenue	88,515	95,443	102,167
Government - operating	441,250	473,567	522,378
Government - capital	392,626	402,473	398,582
Interest	10,639	11,703	12,873
Dividends	–	–	–
Payments			
Suppliers and employees	(609,705)	(629,838)	(637,810)
Finance charges	(10,906)	(6,178)	(4,942)
Transfers and Grants	(15,789)	(13,158)	(13,158)
NET CASH FROM/(USED) OPERATING ACTIVITIES	415,907	465,217	524,416
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts			
Decrease (increase) in non-current investments	24,129	–	–
Payments			
Capital assets	(357,720)	(353,289)	(350,700)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(333,591)	(353,289)	(350,700)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts			
Short term loans	–	–	–
Borrowing long term/refinancing	–	–	–
Increase (decrease) in consumer deposits	–	–	–
Payments			
Repayment of borrowing	(41,737)	(12,633)	(13,707)
NET CASH FROM/(USED) FINANCING ACTIVITIES	(41,737)	(12,633)	(13,707)
NET INCREASE/ (DECREASE) IN CASH HELD	40,578	99,295	160,008
Cash/cash equivalents at the year begin:	2,028	42,607	141,902
Cash/cash equivalents at the year end:	42,607	141,902	301,910

The budget is funded out of a number of revenue sources, which includes grants, water and sanitation service charges, investment income and other miscellaneous revenue. This can be viewed in more detail on table A4.

Section 17 and 18 of the MFMA legislates how a municipal budget should be funded. Additionally, MFMA Circular 42 – Funding a Municipal budget requires an alignment of the budget and cash backed reserves/ accumulated surplus to ensure that the budget is appropriately funded.

It should be noted that the District highly reliant on grant funding. The capital budget will be funded through three funding sources:

- Own Funding
- Grant Funding
- Public contributions & donations

Funding of the tabled budget has taken into account the requirements of section 18 of the MFMA Act no. 53 of 2003. The capital budget is however not funded through the cash backed reserves.

The revenue generation projection was re-calculated using the 10% increase on tariffs and the actual service charges revenue as at 31 January 2017 which is the latest actual revenue in the current financial year.

It must be noted that, the changes affected into the budget does not yet place the municipality in a sound cash-flow position but moves the municipality towards such in 2 years to come. However, based on the provided A schedules the District's budget is funded. Further details can also be viewed from Table A8 and supporting Table SA10.

As a measure to the severe cash strain, the municipality will continue to implement its Revenue enhancement strategy in place to improve the revenue collection. The assumption of 75% collection rate is based on the 3 year average as per the audited outcome, the current trend as well as the engaged debt collector for the district

Cash Flow

The tabled budget year end cash balance is estimated at R 42.6 million by the end of the 2017/2018 financial year. As mentioned above, the current cash further cashflow analysis could be obtained from table A7.

2.7 Expenditure on Grants and Reconciliations of Unspent Funds

An amount of R 392.6 million will be secured through grant funding from National inclusive of MIG and WSIG, and includes R 145 million funded through public contributions. Grants allocated as per the DoRA can be viewed on SA19.

DC29 iLembe - Supporting Table SA19 Expenditure on transfers and grant progr

Description	Ref	2017/18 Medium Term Revenue & Expenditure Framework		
		Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand				
EXPENDITURE:				
<u>Operating expenditure of Transfers and Grants</u>				
National Government:		441,250	488,567	537,378
Local Government Equitable Share		419,734	469,828	518,484
Water Services Operating Subsidy				
Finance Management		1,250	1,000	1,000
Rural Transport Services and Infrastructure		2,266	2,739	2,894
MIG Funded		18,000	15,000	15,000
Provincial Government:		-	800	1,000
Development Planning Shared Services - COGTA		-	800	1,000
Other transfers/grants [insert description]				
District Municipality:		-	-	-
[insert description]				
Other grant providers:		-	-	-
IDC				
Total operating expenditure of Transfers and Grants:		441,250	489,367	538,378
<u>Capital expenditure of Transfers and Grants</u>				
National Government:		392,626	387,473	383,582
Municipal Infrastructure Grant (MIG)		178,126	192,973	205,477
Regional Bulk Infrastructure		145,000	90,000	65,000
EPWP		1,000	-	-
WSIG		62,500	99,500	107,105
Energy Efficiency and Demand Side Management Grant		6,000	5,000	6,000
Total capital expenditure of Transfers and Grants		392,626	387,473	383,582
TOTAL EXPENDITURE OF TRANSFERS AND GRANTS		833,876	876,840	921,960

These grant will be spent this financial year for the purposes outlined in the memorandum of agreements and as set out in DoRA and includes DoRA allocations. Further details can be obtained on budgetary line items as disclosed in budget supporting documentation supporting table SA18, 19, and 20.

2.8 Allocations of grants made by the Municipality

The budget related to funds made by the municipality amounts to R 18 million. Projects funded through this relate to the construction of VIP toilets in the Maphumulo, Mandeni and Ndwedwe areas whereas each LM is allocated R 6 million.

2.9 Councilor and board member allowances and employee benefits

Employee related cost is budget at R 204.9 million (2017: R 183.5). Employee costs are within the threshold as required on Circular 71, sitting at 32%. The rate increase applied is 7.3% as per the Wage Collective Agreement. Furthermore the budget included a provision for vacant posts due to replacements as well as prioritised critical costs representing only 11% from the posts identified during the staff establishment review. This budget also factored financial implication if the currently assessed process of introducing a shift system at Technical Services succeeds.

2.10 Service Delivery & Budget Implementation Plan (SDBIP)

The Draft Service Delivery and Budget Implementation will be tabled at Council 28 days after the budget has been tabled, in accordance with the requirements of the Municipal Finance Management Act.

2.11 Capital Expenditure Details

The proposed capital budget reflects a total amount of R 354, 7 million in the 2016/17 financial year; R 353,3 million and R 350.7 million for 2017/18 and 2018/18 respectively (excluding VAT) representing all categories identified as priority areas for capital expenditure during the review of the 2016/2017 IDP.

The Total capital budget for the entire MTREF amounts to R 1 058 709 000.

DC29 iLembe - Table A5 Consolidated Budgeted Capital Expenditure by vote, functional clas

Capital Expenditure - Functional					
Governance and administration		-	16,013	17,786	19,488
Executive and council					
Finance and administration			16,013	17,786	19,488
Internal audit					
Community and public safety		-	-	-	-
Economic and environmental services		-	-	-	-
Planning and development					
Road transport					
Environmental protection					
Trading services		-	338,707	335,503	331,212
Energy sources					
Water management			272,751	201,292	200,969
Waste water management			65,956	134,211	130,243
Waste management					
Other					
Total Capital Expenditure - Functional	3	-	354,720	353,289	350,700
Funded by:					
National Government			343,970	339,889	336,475
Provincial Government					
District Municipality					
Other transfers and grants					
Transfers recognised - capital	4	-	343,970	339,889	336,475
Public contributions & donations	5				
Borrowing	6				
Internally generated funds			10,750	13,400	14,225
Total Capital Funding	7	-	354,720	353,289	350,700

The proposed budget focuses on the expansion and refurbishment of infrastructure in order to ensure the District is able to deliver services in a timely manner while creating job opportunities. Ninety five percent (95%) of the capital budget is set aside for service delivery objective under trading services amounting to R 338 million. The Governance and Admin has been allocated 5% of the total capital budget.

Trading Services Projects are divided into the following categories:

Water Services

A total of R 272 million has been budgeted for the construction of new as well as refurbishment of water services assets. Table A9 provides a breakdown of how the expenditure towards the refurbishment of the existing assets and new assets is allocated. All local municipal areas will benefit from this provision.

Water Waste Management

A total of R 65.9 million has been provided on the capital budget to refurbish the existing assets as well as construction of new waste water assets.

A detailed breakdown of capital projects could be viewed on SA 35. Supporting schedules SA6 provides a breakdown of an alignment to the District's IDP strategic objectives against the proposed budget.

Capital Budget Funding

National Grant Funding

The movement on this funding from the tabled draft budget amounted to an R 219 million. There is a new grant related to energy efficiency amounting to R 6 m and this is factored on the capital budget. There were no change on RBIG, it remains at R127 million as per the tabled Draft Budget 2017-18. This is a multiyear project funded as the Regional Bulk Infrastructure grant.

Internally generated Funding

The projects on this funding amounts to R 10.7 from R6.6 million on the draft budget as previously mentioned in order to ensure the budget is funded while also ensuring sustained service delivery. The increase is attributable to the ICT compulsory projects, call centre upgrades. These project have been deliberated as being necessary to run the ICT infrastructure.

The total expenditure for 2018 is as follows:

	R '000
OPERATIONAL EXPENDITURE	641,947
CAPITAL EXPENDITURE	354,720
TOTAL	996 667

2.13 Contracts having future budgetary implications

The municipality currently has a contract with Siza Water, which is a 30 year agreement. This has been reflected accordingly on supporting table SA33.

Contracted Services

An amount for contracted services of about R 42.1 million is proposed. The budget for this item has resulted in a decrease that forms part of the intervention to contain costs in order to respond to the current financial challenges. A breakdown of all the contracted services can be viewed on the supporting table SA1.

2.14 Other Supporting Documents

The following supporting schedules have been populated (where applicable) and are annexed hereto:

SA1: Supporting Detail to Budgeted Financial Performance
SA2: Matrix Financial Performance Budget (revenue source/expenditure type and dept.)
SA3: Supporting detail to Budgeted Financial Position
SA4: Reconciliation of IDP, Strategic Objectives and Budget (Revenue)
SA5: Reconciliation of IDP, Strategic Objectives and Budget (Operating Expenditure)
SA6: Reconciliation of IDP, Strategic Objectives and Budget (Capital Expenditure)
SA7: Measurable Performance Objectives
SA8: Performance Indicators and Benchmarks
SA9: Social, Economic and Demographic Statistics and Assumptions
SA10: Funding Measurement
SA11: Property Rates Summary
SA12a: Property Rates by category (current year)
SA12b: Property Rates by category (budget year)
SA13: Property Rates by Category
SA14: Household Bills
SA15: Investment Particulars by Type
SA16: Investment Particulars by Type
SA17: Borrowing
SA18: Transfers and Grant Receipts
SA19: Expenditure on Transfers and Grant Programme
SA20: Reconciliation of Transfers, Grant Receipts and Unspent Funds
SA21: Transfers and Grants made by the Municipality
SA22: Summary Councillor and Staff Benefits
SA23: Salaries, Allowances and Benefits (political office bearers/councillors/senior managers)

SA24: Summary of Personnel Numbers
SA25: Budgeted Monthly Revenue and Expenditure
SA26: Budgeted Monthly Revenue and Expenditure (Municipal Vote)
SA27: Budgeted Monthly Revenue and Expenditure (Standard Classification)
SA28: Budgeted Monthly Capital Expenditure (Municipal Vote)
SA29: Budgeted Monthly Capital Expenditure (Standard Classification)
SA30: Budgeted Monthly Cash Flow
SA32: List of External Mechanisms
SA33: Contracts having Future Budgetary Implications
SA34a: Capital Expenditure on New Assets by Asset Class
SA34b: Capital Expenditure on the Renewal of Existing Assets by Asset Class
SA34c: Repairs and Maintenance Expenditure by Asset Class
SA34d: Depreciation by Asset Class
SA35: Future Financial Implications of the Capital Budget
SA36: Detail Capital Budget
SA37: Projects Delayed from Previous Financial Years
SA38 - Supporting Table Consolidated detailed operational projects

2.14.1 Revenue collection

There have been an improvement on the month to month collection rate compared to the 2015/16 mid-year budget assessment. As reported at mid-year, the year to date average collection rate achieved positive results, sitting at 70% at mid-year ending 31 December 2016 and March 2017.

The municipality is aware of the current financial challenges, as a result a Financial Recovery Plan was established to turn the situation around. A task team was formed in October 2016 to effectively implement the plan mainly consisting of revenue enhancement and protection, debt collection and cost containment strategies as well as how modern strategies can be maximised in the course of conducting municipal business in order to enhance operational efficiencies.

Implementation of prepaid intelligent meters

This project is continuous, it was implemented to increase revenue collection and to reduce outstanding debtors and bad debts. Prepaid meters are installed with a smart device and consumers buy prepaid water as they do with electricity.

Project was initiated towards the end of 2012/2013 financial year and has not been completed. Prepaid meters are installed in different wards in KwaDukuza, Mandeni, Ndwedwe and Maphumulo. The municipality had installed 21 246 prepaid meters in the district as at December. The project has currently been put on hold while implementing the financial recovery plan. It will resume in due course.

Implementation of the credit control policy

The credit control is being enforced in the following manner:

- Businesses are being restricted/disconnected when payment is not received,
- Restrictions are also being done for residential consumers
- Outstanding debt is also being handed over to a debt collector,
- For government debt, National and provincial Treasury is assisting with collection; the revenue section is also liaising with Provincial Treasury in terms of amounts outstanding.

Data Cleansing

- The consumer data that the district has, is compared to that of the family of municipalities within the district in order to check consistency in information and billing.
- Where there are discrepancies, a physical verification is performed,
- Water and sewer accounts have been consolidated, which allows the district to disconnect or restrict when payment is not received, as well as allocation of payments to both sewer and water accounts.
- The cleansing of data will assist in improving the quality of billing information.

Indigent Support

During the course of 2016/17, Cogta has been engaged to assist in aligning the District's register with the LM's. Furthermore the below is to be noted:

- Economic profiling and risk analysis of households has been done,
- This analysis will also be used to identify people who are possibly indigent and those targeted households will be visited in order to ascertain whether those people are really indigent (they will be requested to fill the application forms and submit all relevant documentation and will be assessed according to the criteria of being indigent),
- Indigent registers from the family of municipalities within the district has also been compared to identify consumers that are registered as indigents by locals but not registered by the district. An indigent registration campaign will also be conducted with the assistance of ward councillors to encourage the identified consumers to apply for indigent status.

2.15 Municipal Entity – Enterprise iLembe

iLembe District municipality has one municipal entity, Enterprise iLembe which focuses mostly on the local economic development within the district. The budget for the municipal entity for the 2017/2018 financial year is R 42.1 million, however the District will transfer a total of R 24.8 million. It must be noted that the municipality has to submit a consolidated budget together with the entity. The Entity budget could be further viewed on SA31.

2.16 Service Agreements

Adequate provision has been made on the operational budget to meet the expected expenditure for the following significant service providers:

Supplier	Nature of Service
CICS (Pty) Ltd	Software maintenance contract
KwaDukuza Municipality	Electricity
Telkom	Tele-communication
Siza Water	Water and sewer
Umgeni Water	Water
Wesbank Fleet Management	Lease of vehicle
Capital Office Automation	Lease of printers and photocopiers

2.17 Public Consultation and Publication of 2016/17 Draft Budget

In terms of section 22 of the MFMA and in accordance with chapter 4 of the Municipal Systems Act, the Accounting Officer of the municipality must make public the draft annual budget, invite local community to submit representations in connection with the budget.

After the budget is tabled, public participation meetings were held as combined with all the Local Municipalities to allow the communities and other stakeholders to comment on the draft budget.

Comments and objections were received from various stakeholders. These comments are attached as **Annexure F** and responses on **Annexure G**.

Furthermore, Provincial Treasury conducted a High Level Assessment on the tabled budget and budget engagement meeting took place at their Offices in Pietermaritzburg. Responses were provided during the meetings whereby some needed further information to be submitted. Information was submitted and a Letter is annexured as D.

The budget will be submitted to National and Provincial Treasury as per the requirements of the MFMA.

2.18 Cost Containment Measures

iLembe District Municipal Council adopted a policy on cost containment in May 2015. The municipality thereafter started implementing the policy with effect from 1st of July 2015. The municipality has reprioritised its expenditure in line with the policy and this is reviewed by management on a monthly basis. Amongst the measures implemented thus far is the cutting down on travel, printing and telephone costs, overtime and putting a moratorium in the filling of newly created posts that are currently vacant. The municipality has further taken a vigorous step in phasing out usage of consultants and insourcing most of services that were previously outsourced to consultants more particularly from engineering services function. A comprehensive cost reduction strategy to map out future plans to deal with the issue of containing costs within affordable levels is currently being developed as well.

3. CONSULTATIONS

- Chief Financial Officer & The Accounting Officer
- His Worship, the Mayor, Cllr S Gumede
- All Directorates
- The National Treasury & The Provincial Treasury
- The Budget Steering Committee

4. RESOLUTIONS/RECOMMENDATIONS

Recommends **THAT**

- The Council consider in terms of Section 24 of the Municipal Finance Act, 56 of 2003, the Annual Budget of the Municipality for the Financial year 2017/2018; and indicative allocations for the two projected outer years 2018/2019 and 2019/2020; as set out in the A Schedules annexured hereto as follows:

Table A2: Budgeted Financial Performance (Revenue and Expenditure by standard classification)
Table A3: Budgeted Financial Performance (Revenue and Expenditure by municipal vote)
Table A4: Budgeted Financial Performance (Revenue and Expenditure)
Table A5: Budgeted Capital Expenditure by Vote, Standard Classification & Funding Source)
Table A6: Budgeted Financial Position
Table A7: Budgeted Cash Flow
Table A8: Cash backed reserves/accumulated surplus reconciliation
Table A9: Asset Management
Table A10: Basic service delivery measurement

It should be noted that in respect of Capital Expenditure Estimates:

- Instances where information has been provided in terms of Section 19(2) (b) of the Municipal Finance Management Act No.56 of 2003, the consideration of capital budget constitutes projects consideration for the specific projects as reflected in the detailed capital budget. Where information in terms of section

19(2) (b) is not provided, specific project approval be sought from council during the course of the year.

- That Council consider the amendments to its Tariffs of Charges as depicted on the schedule annexed hereto and marked as annexure B.
- That Council consider amendments to its **Tariffs of Charges** as depicted on the schedule annexed hereto and marked as **annexure E** for the Siza Water Concession Areas.
- That the Budget related policies be adopted;
 - Fixed Assets Management Policy
 - Inventory Management Policy
 - Unauthorized, Irregular, Fruitless & Wasteful Expenditure Policy
 - Borrowing Policy
 - Funding and Reserves Policy
 - Long Term Financial Planning
 - Infrastructure, Investments and Capital Projects
 - Petty Cash Policy
 - Austerity measures policy
- That the Budget related policies with the respective amendments be adopted.
 - Banking, Cash Management & Investments Policy
 - Accounts payables policy
 - Budget Policy
 - Credit Control & Debt Collection Policy
 - Indigent Management Policy
 - Supply Chain Management Policy
 - Virement Policy
 - Tariff Policy
- That the tariff of charges for 2017/18 financial year be increased by 10% effective from 1 July 2017.

- That in compliance with section 22 of the MFMA, the final budgets be published in the local press and municipal website, it being noted that Council's department of Corporate Governance will attend to these aspects.
- That the Sewer Tariff to be calculated on the market value of the property reflected in the KwaDukuza & Mandeni Municipality's valuation roll (excluding the Siza Water Concession Area) as follows:

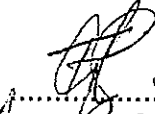
2017/18	Type of Property
0.00561 cents in the rand on the market value	In respect of agricultural properties.
0.00451 cents in the rand on the market value	In respect of residential properties including sectional title units.
0.01507 cents in the rand on the market value	In respect of industrial, business and commercial properties.
0.18667 cents in the rand on the market value	In respect of vacant properties.
0.2794 cents in the rand on the market value	In respect of state owned properties and public service infrastructure properties.
0.2794 cents in the rand on the market value	In respect of any other property not mentioned above.

- That where there is no valuation roll; the following be applicable:


2017/18
50% of the water consumption and water charge levied on a monthly basis.

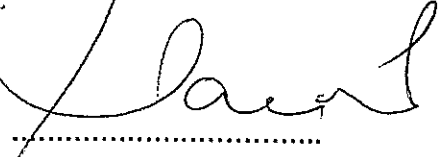
- That Council approves the proposed 10% tariff increase from Siza Water.
- That Council notes that the service delivery and budget implementation plan for the 2017/2018 financial year will be tabled 28 days after the budget has been adopted.

SIGNATURE OF AUTHOR


.....
MANAGER BUDGET & COMPLIANCE
S CHONGUENE

SUPPORTED / NOT SUPPORTED


.....
ACTING: CHIEF FINANCIAL OFFICER
E NGCOBO


.....

MUNICIPAL MANAGER
PN GAMEDE