

ITEM NO.	SUBJECT	REF
	DRAFT MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF) 2019/2020 - 2021/2022	

REPORT TO: COUNCIL

DATE: 27 MARCH 2019

DIRECTORATE: FINANCE

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A. PURPOSE

To table before Council for consideration, the Draft Medium Term Revenue and Expenditure Framework for 2019/2020, 2020/2021 and 2021/2022 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.

This budget is aligned to the IDP which marks the second review of the five year plan adopted by Council of iLembe Municipality in May 2017. The approved budget is as a financial plan incorporated into these strategies to sustain communities through improved service delivery.

This draft budget is as our IDP geared towards securing the well-being and dignity of the communities we serve through providing water, decent sanitation services and access to economic opportunities within the District. Council's commitment to this cause is encapsulated in the IDP Vision:

“By 2030 iLembe District Municipality will be a sustainable people-centred economic hub providing excellent services and quality of life”

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. They have been clustered in terms of the 5 key performance areas i.e.

The main challenges experienced during the compilation of the 2019/2020 MTREF can be summarised as follows:

- The need to prioritise projects and expenditure within the existing resources envelope given the cash flow which is available;
- Ageing infrastructure, quality and quantity of drinkable water;
- The increased cost of bulk water which impacts tariffs charged ;
- Affordability of Capital Projects and funding thereof;
- Revenue growth patterns and collectability thereof which impacts on the funding and implementation of the budget;
- The current constraints within the National and Local economies;
- Availability of affordable capital or borrowings; and
- Rising and unpredictable fuel, oil and energy prices resulting in challenges on revenue recoveries.

Our objectives as envisaged in 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 within the resources available;
- Improve revenue collection and diversification of income by trying to identifying additional sources of revenue to place less reliance on grants;
- Enterprise iLembe to stimulate rural economic development and local economic development;

- Promotion of the Save Water Campaign and encouraging consumers to pay for services through campaigns;
- Enhancing our capacity to respond to natural disasters across the district ;
- To strengthen and improve IGR ;
- Facilitation and strengthening of relationships with Amakhosi ;

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 affected by a lack of certain basic services and continued service delivery backlogs.
- Bulk water supply is sometimes a constraint that effects the entire District and is being attended to with schemes being constructed and maintained.
- 22% of the population 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.

Service delivery should be our focus, backlogs be eradicated, job opportunities must be created, poverty alleviated and investment promoted to ensure a better life for the communities we serve. The District has been experiencing rapid growth over the past 15 years and in most cases infrastructure delivery has lagged 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, 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 300,9 million
- Operational Expenditure – R 856, 5 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 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 has aligned its policies to the radical economic transformation reforms in terms of the PPPFA regulations of April 2018.

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 functional municipality is portrayed as being 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;
- 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 is 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.

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 strive to obtain and maintain a clean audit opinion;
- To ensure sound and effective asset management;

The global economic outlook remains unpredictable, and our Province and District is not immune from such forces. 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 felt through high consumer debt and slow growth on collection rate. For the forthcoming

medium term our collection is estimated to be at 85%, we must work very hard to reach this level of collection. Given the economic situation, Council will continue maintaining a balance between the macro economic indicators to guarantee affordable services at the same right reflecting cost recovery in order to continue maintaining infrastructure and reduce water losses. The increase on tariff of charges are at 9.6%. We have made provision for free basic services of R 6,3 million an encourage consumers who qualify for indigent to register for relief. As part of the Vuthela LED programme, there is also an activity to aligning the District's indigent register with those of the Local Municipalities.

The total 2019/2020 Budget operational and capital expenditure amounts to R 1.1 billion, while the total MTREF 2020 -2022final budget amounts to R 3.6 billion.

Honourable Speaker of Council, I hereby table the draft medium term revenue and expenditure framework for the period 2019/20 to 2021/22 for consideration. After tabling the draft MTREF at Council the public participation process be initiated.

1.2 RESOLUTIONS

THAT

- The Council consider in terms of Section 24 of the Municipal Finance Act, 56 of 2003, the **Draft Annual Budget** of the Municipality for the Financial year 2019/2020; and indicative allocations for the two projected outer years 2020/2021 and 2021/2022; 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 draft amendments to its **Tariffs of Charges** as depicted on the schedule annexed hereto and marked as **Annexure B**.
- That the Draft Budget related policies be noted with the respective amendments.
 - 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
 - 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
 - Payroll Policy

- That the draft tariff of charges for 2018/19 financial year be increased by 9.6% effective from 1 July 2019.
- That in compliance with section 22 of the MFMA, the final budgets be published in the local press and municipal website.
- That Council note that the draft service delivery and budget implementation plan for the 2018/2019 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 is tabled at Council as per the requirements of the act, and the public will be 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 2019/2020.

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 2019 and to the National Treasury and the relevant Provincial Treasury in line with section 54(1) (f) of the MFMA.

Council resolved that a consolidated adjusted budget process should be initiated and tabled for the year 2018/19 financial year for both iLembe District and its entity. The adjustments budget was prepared and this impacted most services where cost containment had to be applied to ensure the budget is balanced and funded. The adjustments budget was tabled to Council by His worship, Mayor of iLembe District Municipality on 27 February 2019 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 with all departments was maintained while considering the Provincial treasury's High Level Assessment on the 2019 Mid-Year budget assessment.

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. Majority of these are of a great concern and have been considered during the 2019/2020 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.
- Sustainability of the prepaid meters.

- The budget on multi-year funded projects will be adjusted as a result of variance between planning cashflow projections versus and implementation cashflow.
- Delays in the implementation of projects arising from various project management challenges issues; and
- Constrained cash flow position whereby there was a risk of other services being temporarily suspended.
- Increase on debtors consumer debtors arising from increased billing

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

The directive on the 2019/20 draft annual budget was discussed with all Directorates, including the Municipal Manager before being tabled for discussion at the Budget and Steering Committee held on two occasions in March. In terms of the Regulations this must be done before tabling the annual budget to full council for consideration and allowing for public participation process. The draft budget is now therefore being tabled to full Council.

The 2019/2020 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, 86, 89, 91, 93 and 94 as well as the Municipal Budget & Reporting Regulations and the Municipal Finance Management Act were used to guide the compilation of the 2019/2020 MTREF.

The main challenges experienced during the compilation of the 2019/2020 MTREF can be summarised as follows:

- The increased cost of bulk water which is pushing the tariffs upwards;
- The downturn in the National and Local economy;
- Ageing infrastructure, quality and quantity of drinkable water;
- The need to re-prioritise projects and expenditure within the existing resources envelope given the cash flow realities while maintaining a good level of service;
- Affordability of Capital Projects;
- Revenue growth patterns which impacts on the implementation of the budget.
- Availability of affordable capital or borrowings; and
- Rising and unpredictable fuel, oil and energy prices resulting in challenges on revenue recoveries.
- The need to fill vacant posts to eliminate inefficiencies and improve delivery of services.

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) which is not passed on to the consumers;
- ✓ The effects comprising of benefits and challenges on reinstatement of the sewer tariff structure, property value based tariffs, compared to the cost reflective tariff/ water consumption based tariffs, and 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 9.6 % tariff increase.
- ✓ Furthermore, a reduction of various variable operating expenditure items was kept at a minimum to match with the low tariff increase of 9.6 % 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 slightly reduced in order to align its expenditure to the current austerity measures in place in the District.
- ✓ The fleet lease agreement was at a bidding process, bringing in a material impact into the financial state of the District.
- ✓ The reinstatement of the Regional Bulk Infrastructure Grant allocation after non provision in the previous year for the current MTREF.
- ✓ The finalisation of the security contract currently in the bidding process.

Operating Budget Summary

The proposed operational budget contains detailed information for the 2019/2020, 2020/2021 and 2021/2022 indicative financial years and is summarised below:

Description	2015/16	2016/17	2017/18	Current Year 2018/19		2019/20 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Revenue By Source								
Service charges - water revenue	86,044	90,225	94,062	113,912	124,312	138,196	151,463	166,004
Service charges - sanitation revenue	59,104	46,413	36,189	31,591	36,402	40,646	44,548	48,825
Rental of facilities and equipment	14	85	76	251	120	128	136	145
Interest earned - external investment	4,937	3,108	8,360	7,250	10,183	4,722	4,702	5,733
Interest earned - outstanding debtors	18,196	18,998	15,452	30,879	32,579	35,706	39,134	42,891
Fines, penalties and forfeits			380	659	659	723	792	868
Licences and permits				70	17	19	21	23
Agency services	1,531			1,624	1,782	1,953	2,141	2,346
Transfers and subsidies	386,612	386,351	455,636	509,101	520,232	606,955	610,769	665,190
Other revenue	26,111	17,696	26,364	27,606	29,848	28,593	30,529	32,606
Gains on disposal of PPE								
Total Revenue (excluding capital transfers and contributions)	582,549	562,875	636,520	722,943	756,133	857,642	884,235	964,631
Expenditure By Type								
Employee related costs	171,705	185,750	201,322	238,042	229,062	265,163	283,724	303,585
Remuneration of councillors	10,269	8,584	8,957	9,952	9,320	9,291	9,941	10,637
Debt impairment	97,678	40,241	41,676	21,826	19,223	26,421	19,305	10,579
Depreciation & asset impairment	73,494	90,431	82,953	82,285	81,507	85,912	110,551	125,441
Finance charges	8,448	9,977	10,566	9,928	7,704	12,405	7,822	4,664
Bulk purchases	62,752	75,803	86,506	99,546	120,006	129,057	139,135	166,649
Other materials	61,566	64,100	59,513	50,153	14,640	22,315	25,575	26,956
Contracted services	69,857	54,143	78,725	76,532	152,520	146,412	160,381	179,512
Transfers and subsidies	32,584	7,363	28,532	26,087	-	-	-	-
Other expenditure	92,842	71,980	79,438	105,742	116,147	159,530	120,953	130,026
Loss on disposal of PPE	1,128	824	391					
Total Expenditure	682,323	609,195	678,579	720,092	750,130	856,506	877,388	958,049
Surplus/(Deficit)	(99,774)	(46,320)	(42,059)	2,852	6,003	1,136	6,847	6,582
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	147,495	376,564	353,637	336,720	366,079	300,944	283,918	342,707
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Transfers and subsidies - capital (in-kind - all)	374,763	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions	422,484	330,244	311,578	339,572	372,082	302,079	290,765	349,289
Taxation								
Surplus/(Deficit) after taxation	422,484	330,244	311,578	339,572	372,082	302,079	290,765	349,289
Attributable to minorities								
Surplus/(Deficit) attributable to municipality	422,484	330,244	311,578	339,572	372,082	302,079	290,765	349,289
Surplus/(Deficit) for the year	422,484	330,244	311,578	339,572	372,082	302,079	290,765	349,289

The overall operational revenue budget in the 2019/20 amounts to R 857.6 million and the operational expenditure amounting to R 856.5 million.

Operations are thereby budgeted to achieve a net surplus of R 1.1 million for 2019/20; R 6.8 million and R 6.5 million for 2020/21 and 2021/22 respectively.

The total surplus including capital transfers and contributions for 2019/20 amounts to R 302 million; and the two indicative years amount to R 290.7 million and R 349.2 million for 2020/21 and 2021/22 respectively.

Operating Revenue Framework

The following budget principles and guidelines directly informed the compilation of the 2019/2020 MTREF:

- As a base, for incremental budget items, the 2018/2019 Adjustment budget estimates 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 2019/2020 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 even with 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.
- The District will primarily make use of conventional metering system.

With the downturn on the economy resulting in a burden to consumers, Service charges tariffs are proposed to increase by 9.6%. An assessment of the consumer affordability of tariffs was also considered.

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 R 138.1 million (2018/19: R124.3 million). The cost of providing free basic services is budgeted at R 1.9 million netted off from water service charges revenue. The basis of this calculation is the increase on tariff of charges by 9.6% and various strategies in place to improve billing. The R 138.1 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	2019/20 Medium Term Revenue & Expenditure		
	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousand			
Total Service charges - water revenue	140,114	153,565	168,306
less Revenue Forgone (in excess of 8 kilolitres per indigent household per month)			
less Cost of Free Basic Services (6 kilolitres per indigent household per month)	1,918	2,102	2,804
Net Service charges - water revenue	138,196	151,463	165,502

This budget is fairly achievable, considering the 2017/18 audited AFS closed with a billing amounting to R 130.2 million. Amongst various factors contributing to an improved billing is data cleansing, performed on a continuous basis and has reaped great result. The District cleaning its debt book through various mechanism, others which involves working with LM's. This item will be further improved by the different mechanism of reading meter in an advanced technological manner which increases efficiency and effectiveness while enhance revenue.

b) Service Charges Revenue - Sanitation

The sewer service charges is budgeted to be R 40.6 million (2018/19: R 36.4m).

Description	Current Year 2018/19		2019/20 Medium Term Revenue & Expenditure		
	Original Budget	Adjusted Budget	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousand					
Service charges - sanitation revenue					
Total Service charges - sanitation revenue	31,591	40,402	45,030	49,353	54,091
less Revenue Forgone (in excess of free sanitation service to indigent households)					
less Cost of Free Basic Services (free sanitation service to indigent households)	--	4,000	4,094	4,505	5,266
Net Service charges - sanitation revenue	31,591	36,402	40,936	44,848	48,825

When compared to the 2018/19 budget year, the draft budget proposes comes with an increase on this category by R 13.8 million and is attributable to the following:

- The 9.6% 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.
- On this draft budget, the proposed budget is on property value based tariffs as per **Annexure B**.

c) Rental of facilities and equipment

This item relates to hiring of the District's Auditorium to the public. The municipal entity engage companies utilising their tunnels and it receives rental fees. The total provision on this item is a consolidated R 128 thousand.

d) Interest Earned on external Investments

Interest on investments are budgeted at R 4.7 million (2018/19 R 10.1m). 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 R 30 million which expires in May 2020. The loan is secured by a sinking fund investment with ABSA currently valued at R27 million 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.

e) Interest earned on outstanding debtors

Interest on outstanding debt is proposed at R 35.7 million (R 32.5 million: 2018/19). Interest on outstanding debtors is directly linked to the debtors' book. During the 2018/19 financial year, the debt book rose extremely. Considering such huge debt book mostly dominant by the old debt, interest has been increasing simultaneously. It should be stressed that, the current financial distress facing the country has negatively affected the level of collecting revenue. This has a bearing on the consumers, however the municipality continuous embarking on various plans and activities to improve the collection rate.

f) Fines and Penalties

Fines and penalties is an item related to compliance/ non-compliance, for example illegal connections, tampering fees. The provision on this item is R 723 thousand.

g) Agency Services

Revenue from agency budget amounts to R1.9 million. This category of item is in relation to fees collected from concession fees.

h) Transfers Recognised – Operational

The transfers' recognised Operational budget amounts to R 606.9 million (2018/19: R 520.2m). The budget on this item is in line with the Division of Revenue Act, Gazette of 2019:

- R 516.5 Equitable share
- R 53.4 million Department of Labour Grant
- R 21 million MIG Operation for VIP toilets
- R 2.4 million Rural asset management programme
- R 10 million for Energy Efficiency and side management grant
- R 2 million EPWP
- R 1 million FMG
- R 550 thousand for Development planning – shared service

i) Other Revenue

Other revenue budget amounts to R 28.5 million (2018/19: R 29.8m). The main items as per supporting tables (SA1) tables are:

- 19.2 million is provided for the National School's Nutrition Programme.
- R 3.9 million for Private Developers Contribution.
- R 1.8 million for clearance certificates.

Operating Expenditure Framework

In preparation of the 2019/20 – 2021/22 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.**
- **There are limited number of items in the budget, the budget was partly based from the adjustments budget amounts by effecting the CPI where applicable.**

When compared to the adjusted budget, the increase on operational budget is R 106.3 million, and this reflects a 14% increase overall. This increase is mainly due to the inflationary increase of 5.4% as per the MFMA Budget Circular no. 94, the bulk purchases increase of 9.6% which was above CPI and the salary increase at average of 7%. The 2019/20 budget is constrained, therefore cost cutting measures should be applied when during implementation.

a) Employee related cost

The consolidated employee related cost is budget at R 265.1 million (2018: R 229 million). Employee costs are within the threshold as required on Circular 71, sitting at 31%. Average estimated percentage increase applied is 6.5% as per the Signed Salary and Wage Collective Agreement. Furthermore this budget has a provision for vacant posts that were planned during the 2018/19 financial year which forms part of the last staff establishment review process.

b) Remuneration of councillors.

This item is budgeted at R 9.2 million (2018/19: R 9.9 million). This budget has already considered the Gazette on Determination of Upper Limits December 2018 and has resulted on an increase of 4% according to different salary bands of councillors. The gazette was implemented from December 2018 as per Council's approval.

c) Repairs and Maintenance (Other Materials)

Repairs and maintenance is budgeted at R 69 million (2018/19: R 36.1 million). On this budget, the scheduled maintenance will be limited and focus given to the critical maintenance. 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. The other materials amounts to R 22.3 million and forms part of the R 69.2 million split into contracted services and other materials.

The district is aware of the need to budget for repairs and maintenance according to the acceptable National Treasury guidelines of 8% of the total PPE. The provision is currently below norm (2.2%) . Considering the aforementioned financial challenges, hence only R 69 million could be afforded on the operational budget, however when the capital expenditure on renewal of existing assets is considered the percentage comes to 4% 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 26.4 million (2018/19: 19.2 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 85% revenue collection rate that is budgeted for in the 2019/20 financial year.

e) Depreciation & Asset Impairment

A proposed provision for depreciation, amortisation and asset impairment of about R 85.9 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 a provisional amount.

f) Finance Charges

Finance charges consists primarily the repayment of interest on long-term borrowings and interest charged on vehicles will be acquired through an instalment lease contract and is set

at R 12.4 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 will enter 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 R 30 million which expires in May 2020. The loan is secured by a sinking fund investment with ABSA currently valued at R26.7 million which will be utilized as part payment against the loan capital amount at the end of the contract. The purpose of this investment is to accumulate sufficient funds to enable settling the capital amount of the loan at settlement date.

g) Bulk Purchases

The budget for bulk purchases is appropriated at R 129 million (2018/19: R 120 million). When compared with the adjusted budget 2019/20 reflecting a 9.6%.

The bulk purchase budget provision is based on the proposed tariff increase of 9.6% from Umngeni Water. This has a negative impact in the cost of bulk water supply, particularly the purchasing of water from Umngeni Water is escalating beyond affordability.

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. With this consideration, the service of charges tariff increase is 9.6% which does not break even.

Capital Unit Charges

In the 2018/19 financial year iLembe District Municipality resolved to commence with repayments towards the capital unit charges towards the Spring Grove Dam and budget provision was accordingly made. The Municipality is presently waiting for the agreement from the Department of water and sanitation to conclude on the matter and commence with repayment of the capital unit charges. Payment cannot be made in the absence of a signed agreement. The matter is being regularly followed up. The provision is made in this budget and will also be provided for in future estimates to continue paying off the capital unit charges.

h) Contracted Services

This item is budgeted at R 146.4 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. This refers to all contracted services to other parties that provide services on behalf of the district and its entity. Furthermore this category includes contracted services for handling repairs and maintenance.

- Repairs and maintenance -- R 60.7 million
- Repairs and maintenance – municipal entity R 11.5 million
- Hire for Water distribution R 12.5 million
- Grant funded VIP toilets – R 18.2 million
- Security – R 27.3 million
- Energy Efficiency and Demand Side management grant programme – R 8 million
- And various contracted services.

It should be noted that the adjustment on contracted services (Table A4) appears higher than the actual adjustment, this is caused by the alignment of MSCOA, as a result the final A4 table on contracted services shows a budget amounting to R 146.5 million.

i) General expenses

The proposed budget allocation for other expenses amounts to R 159.5 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:

- R 65.9 million relating to Enterprise iLembe District Municipality other expenditure, this item includes training budget dedicated to unemployed youth, funded by the department of Labour.
- R 13 million - Fuel and oil
- R 21.9 million for electricity
- R 2 million for proper functioning of communication in the district.
- R 3.7 million for various youth and sports related items.
- R 537 thousand under special programmes
- R 5.3 million plant hire
- Other various items

j) Surplus/Deficit

The adjusted budget shows a surplus of R 1.3 million. Furthermore, the operational expenditure includes non-cash items to the amount of R 112.3 million, which leaves a surplus of R 131.3 million when these items are added back. The non-cash items pertain to:

- Depreciation and asset impairment - R 85.9 million
- Debt Impairment - R 26.4 million
- Free basic services, which is treated as revenue forgone - R 6.2 million

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. Although there has been an improvement from the past two years since the municipality went through the financial constraint. Caution should be exercised and Council should continue to striving for an increase in the operating surplus to ensure financial and service delivery sustainability.

Municipal Standard Chart of Accounts (mSCOA)

A quarterly report is submitted to Council, EXCO and Manco meetings. The District Municipality complied with the deadline set as per the Municipal Standard Chart of Accountants regulations, being 1 July 2017. There is a continuous monthly and quarterly reporting in terms of datastrings. The municipal entity successfully migrated into the same financial system the District is using as per the requirements of GRAP. Reports on progress are submitted to Council on a quarterly basis.

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 9.6% from Umngeni Water. The bulk water tariff is way beyond the CPI and this seems unaffordable to the District, this will however not be passed on to consumers. A letter was submitted to Umngeni on the draft bulk tariff increase as this unaffordable to both the District and end consumers.

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.

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.

The NERSA document proposes a 13.87% per cent guideline increase for municipal electricity tariffs for 2019/20. The tariff increase for municipalities is 15.63 per cent. That is a further increase that has and 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 9.6% normal increase and a cost reflective increase of 0%, effective from the 1st of July 2019 to June 2020.

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 up to 2016/17. In the current MTREF budget, the District has not imposed the cost reflective element on the tariff increase. This however burdens the sustainability of the municipality more on maintenance of infrastructure.

Sanitation and Impact of Tariff Increases

A tariff of 9.6 per cent for sanitation effective from 1 July 2019 is proposed. This is based on property valuation from local municipalities, namely; KwaDukuza, Mandeni, Ndwedwe & Maphumulo Municipality's valuation roll. It should be noted that bulk purchases costs contribute significant portion of input as well as electricity on waste water treatment input costs 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 4.3 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	9.6%
Sewer charges	9.6%
Miscellaneous tariffs	Various (not exceeding 9.6%)
Cost Reflective portion of the tariff increase	0%

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, 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 2018/19 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 2017. 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 85%
Sewer charges	Collection ratio in excess of 85%
Miscellaneous tariffs	Collection ratio in excess of 85%

2.4 Overview of the Budget Related Policies

The following budget related policies are applicable to the 2019/20 budget process. Policies are reviewed in the current financial year's 2018/19 budget process, however after tabling of the draft budget, the policies will be circulated for deliberation. The policies applicable for the 2019/20 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**
- **Payroll 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 (6kl) 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 this draft budget, the following influencing factors were considered:

- Normal inflationary increases and pressures;
- That the budget is zero based, incremental and programme based;
- Inflation is 5.2 % for the 2019/2020, 5.4% and 5.4% for 2020/21 and 2021/2022 respectively.
- An estimated as average for salary increase of 6.5% as per the Salary and Wage Collective Agreement.
- That there will be no changes to the powers and functions of the District during 2019/2020 financial year;
- That estimated 85 % of revenue budgeted for will be collected;
- That all DORA allocations will be received during the 2019/2020 budget year.
- Increase to Tariff of charges by 9.6%
- That the austerity measures implementation will still be in operation in the medium term.
- An annual increase of 9.6% from Umgeni Water.

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 85% 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	Current Year 2018/19		2019/20 Medium Term Revenue &		
	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousand						
CASH FLOW FROM OPERATING ACTIVITIES						
Receipts						
Property rates			-	-	-	-
Service charges	132,829	123,678	137,883	150,911	166,002	182,602
Other revenue		30,210	29,848	31,136	32,678	34,064
Government - operating	502,725	509,101	518,901	645,116	644,466	707,273
Government - capital	332,503	336,720	350,299	296,596	271,475	352,918
Interest	8,360	11,882	10,183	35,073	38,548	42,369
Dividends			-	-	-	-
Payments						
Suppliers and employees	(528,560)	(595,732)	(709,954)	(770,317)	(753,687)	(795,200)
Finance charges	(10,566)	(9,928)	(7,704)	(12,403)	(9,906)	(10,102)
Transfers and Grants		(26,087)	-	-	-	-
NET CASH FROM/(USED) OPERATING	437,291	379,844	329,456	376,113	389,576	513,923
CASH FLOWS FROM INVESTING ACTIVITIES						
Receipts						
Proceeds on disposal of PPE		-	-	-	-	-
Decrease (increase) in non-current debtors		-	-	-	-	-
Decrease (increase) other non-current receivables		67,395	67,395	80,294	85,914	91,928
Decrease (increase) in non-current inve:	(1,477)	(2,008)	(2,008)	27,146	-	-
Payments						
Capital assets	(338,963)	(301,154)	(394,023)	(329,838)	(272,062)	(388,960)
NET CASH FROM/(USED) INVESTING A	(340,440)	(235,767)	(328,636)	(222,398)	(186,148)	(297,032)
CASH FLOWS FROM FINANCING ACTIVITIES						
Receipts						
Short term loans				-	-	-
Borrowing long term/refinancing	(17,313)			-	-	-
Increase (decrease) in consumer deposits				-	-	-
Payments						
Repayment of borrowing	(10,020)	(25,283)	(4,989)	(52,851)	(24,648)	(26,576)
NET CASH FROM/(USED) FINANCING A	(27,334)	(25,283)	(4,989)	(52,851)	(24,648)	(26,576)
NET INCREASE/ (DECREASE) IN CASH	69,518	118,793	(4,170)	100,864	178,779	190,316
Cash/cash equivalents at the year begin	6,296	55,670	75,814	73,126	173,990	352,770
Cash/cash equivalents at the year end:	75,814	174,463	71,644	173,990	352,770	543,085

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 – Council
- Grant Funding (National and Provincial)
- Borrowings

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 9.6% increase on tariffs and the actual service charges revenue as at 28 February 2019 which is the latest actual revenue in the current financial year.

The current cash flow projections are a depiction of the previous two years which was estimated that the cash position will eventually pick up (in the two upcoming years). The progress to an improved funding has been positive with a trend of downslope in between, however the level of spending slightly moved from the cost containment measures and that has resulted in the extension of financial recovery. 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 85% collection rate. This calculation is based on the current strategies in place and decisions taken to align such.

Cash Flow

The tabled budget year end cash balance is estimated at R 173.9 million by the end of the 2019/2020, R 352.7 million and R 543 million. As mentioned above, the current cash further cashflow analysis could be obtained from table A7. With all assumptions above and analysis made from the current financial year and the audited outcome, the draft budget is funded.

2.7 Expenditure on Grants and Reconciliations of Unspent Funds

An amount of R 907.9 million will be secured through grant funding from National inclusive of MIG and WSIG, and Regional Bulk infrastructure Grant. Grants allocated as per the DoRA can be viewed on SA19.

DC29 iLembe - Supporting Table SA19 Expenditure on transfers and grant programme							
Description	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue &		
		Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21
R thousand							
EXPENDITURE:							
Operating expenditure of Transfers and Grants							
National Government:	441,250	508,401	518,357	518,357	606,405	610,219	664,590
Local Government Equitable Share	419,734	468,670	468,670	468,670	516,503	568,725	623,405
Finance Management	1,250	1,000	1,000	1,000	1,000	1,000	1,000
Water Services Operating Subsidy							
Rural Transport Services and Infrastructure	2,266	-	2,271	2,271	2,406	2,494	2,685
Energy Efficiency and Demand Management		7,000	7,000	7,000	10,000	15,000	10,000
EPWP OPERATING PROJECTS		1,731	1,731	1,731	2,019	-	-
WSIG OPERATING Funded (VIP TOILETS)							
MIG OPERATING Funded (VIP TOILETS)	18,000	30,000	21,150	21,150	21,000	25,000	27,500
RASET PROGRAMME - OPEX			2,800	2,800	-	-	-
SIBHUDU CAVES AND KWASHUSHU HOTSPRING			1,200	1,200	-	-	-
CORRIDOR DEVELOPMENT PROGRAMME			1,000	1,000	-	-	-
SIBHUDU CAVES AND KWASHUSHU HOTSPRING - MAP CONTRIBUTION			350	350	-	-	-
DEPT OF LABOUR UIF GRANT			1,185	1,185	53,477	-	-
KZN COGTA GRANT -Wi-Fi, Biomass, Mini Factories			10,000	10,000	-	-	-
Provincial Government:					550	550	600
Development Planning Shared Services - COGTA							
Environmental Management Framework							
Municipal Governance & Admin							
District Municipality:							
<i>[insert description]</i>							
Other grant providers:		700	700	700	-	-	-
Maphumulo Integrated Energy Grant		700	700	700	-	-	-
Total operating expenditure of Transfers and Grants:	441,250	509,101	519,057	519,057	606,955	610,769	665,190
Capital expenditure of Transfers and Grants							
National Government:	392,626	336,720	351,499	351,499	300,944	283,918	342,707
Municipal Infrastructure Grant (MIG)	178,126	158,503	167,353	167,353	171,596	178,918	192,707
Rural Transport Services and Infrastructure		2,271					
Regional Bulk Infrastructure	145,000	75,446	75,446	75,446	35,000	30,000	70,000
Energy Efficiency and Demand Side Management Grant	6,000	-					
WSIG	62,500	100,500	100,500	100,500	90,000	75,000	80,000
RASET PROGRAMME - CAPEX			2,200	2,200	-	-	-
MASSIFICATION			6,000	6,000	-	-	-
YEP GRANT PROJECT					4,348	-	-
EPWP	1,000						
Provincial Government:							
District Municipality:							
Other grant providers:							
Total capital expenditure of Transfers and Grants	392,626	336,720	351,499	351,499	300,944	283,918	342,707
TOTAL EXPENDITURE OF TRANSFERS AND GRANTS	833,876	845,821	870,556	870,556	907,898	894,687	1,007,897

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 18.2 million. Projects funded through this relate to the construction of VIP toilets in the Maphumulo, Mandeni and Ndwedwe areas.

2.9 Councillor and board member allowances and employee benefits

The consolidated employee related cost is budget at R 265.1 million (2019: R 229 million). Employee costs are within the threshold as required on Circular 71, sitting at 31%. Average estimated percentage increase applied is 6.5% as per the Salary and Wage Collective Agreement. Furthermore the budget includes provision for vacant posts due to replacements from the posts identified during the staff establishment review. As part of the financial turnaround strategy, not all vacant posts will be filled

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 343.6 million in the 2019/20 financial year; R 254.5 million and R 305.9 million for 2020/21 and 2021/22 respectively (excluding VAT) representing all categories identified as priority areas for capital expenditure during the review of the 2018-2022 IDP.

The Total capital budget for the entire MTREF amounts to **R 904 million**.

Vote Description R thousand	2015/16	2016/17	2017/18	Current Year 2018/19		2019/20 Medium Term Revenue &		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Capital Expenditure - Functional								
Governance and administration	26,104	11,558	6,216	68,764	71,294	67,563	6,653	6,904
Executive and council								
Finance and administration	21,806	11,558	6,216	68,764	71,294	67,563	6,653	6,904
Internal audit	4,298							
Community and public safety	-	-	-	1,000	180	-	-	-
Community and social services				400	180	-	-	-
Sport and recreation								
Public safety								
Housing								
Health				600				
Economic and environmental services	-	-	-	1,975	4,375	4,131	-	-
Planning and development					4,375	4,131	-	-
Road transport				1,975				
Environmental protection								
Trading services	474,610	350,812	299,941	292,564	318,173	271,910	247,885	299,006
Energy sources								
Water management	443,953	325,209	273,242	237,908	272,280	181,958	186,868	222,242
Waste water management	30,657	25,603	26,699	54,657	45,893	89,951	61,017	76,764
Waste management								
Other								
Total Capital Expenditure - Functional	500,714	362,370	306,157	364,303	394,023	343,603	254,538	305,910
Funded by:								
National Government	349,736	234,173	304,204	292,800	298,521	261,690	246,885	298,006
Provincial Government					7,130	-	-	-
District Municipality								
Other transfers and grants		4,320		-	12,678	-	-	-
Transfers recognised - capital	349,736	238,494	304,204	292,800	318,330	261,690	246,885	298,006
Borrowing	125,310	109,730		63,149	63,149	63,149	2,000	2,000
Internally generated funds	25,668	14,146	1,953	8,354	12,545	18,764	5,653	5,904
Total Capital Funding	500,714	362,370	306,157	364,303	394,023	343,603	254,538	305,910

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. Eighty percent (79%) of the capital budget is set aside for service delivery objective under trading services amounting to R 271.9 million. Governance and Admin has been allocated 20% of the total capital budget. Twenty eight percent (28.3%) is allocated to Renewal and upgrading of Existing Assets as % of total capex while seventy two (72%) is allocated towards construction of new assets. It should be noted however that majority of these infrastructure projects are multi-year.

Trading Services Projects are divided into the following categories:

Water Services

A total of R 171 million has been budgeted for the construction water infrastructure, of which R 84 million is for refurbishment of water services assets. Table A9 On budget schedules breaks down expenditure into refurbishment of the existing assets and new assets. All local municipal areas will benefit from this provision. Renewal of water infrastructure projects amount to R 87 million.

Water Waste Management

A total of R 88.8 million has been provided on the capital budget to refurbish the existing assets as well as construction of new waste water assets. As the old infrastructure ages, there is a demand for provision of more funding to renew the infrastructure in ensuring continued service delivery. This is done through repairs under operational budget and refurbishment through the capital budget.

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

Total grant allocation on the Division of Revenue Allocation for the 2019/20 MTREF capital projects amounts to R 300.9 million. The allocation provided in the Regional Bulk Infrastructure Grant amounts to R 35 million excl. vat, it remains a multiyear project. Included in the total grant allocation is (projects are on table SA37- detailed capital budget):

- Municipal Infrastructure Grant R 171.5 million
- Water Service Infrastructure Grant R 90 million,
- Youth Empowerment Programme R 4.3 million

Internally generated Funding

The projects on this funding amounts to R 18.7 million, 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 project, Technical services related to Umvoti Water works refurbishment and Sundumbili pumpstation.

Borrowings

This source of funding is allocated for the purchase of municipal fleet. The Wesbank fleet lease agreement ended in 2017/18 financial year, as a result it was resolved that an instalment sale agreement was to be entered into. An amount of R 63.1 million is hereby appropriated in the capital budget. This budget is rebudgeted in the new financial year due to the lengthy bidding process.

The Total Expenditure for 2020 is as follows:

	R '000
OPERATIONAL EXPENDITURE	856,506
CAPITAL EXPENDITURE	343,303
TOTAL	1,199,908

The District's consolidated expenditure budget amounts to R 1.2 billion in the 2019/20 budget year.

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 146.4 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

The 2018/19 collection rate was sitting at an average of 67%. Progress on the collection rate is still a standing item at various structures of management and Finance Portfolio Committee.

Revenue collection is a priority in the District, this subject is often discussed on municipal structures. Revenue collection is a priority in the District, this subject is discussed on municipal structures. There is currently a Revenue and Expenditure Management Steering committee was established to effectively discuss and implement revenue enhancement and protection, debt collection and cost containment measures as well as how modern strategies can be maximised in the course of conducting municipal business in order to enhance operational efficiencies.

With the economic volatility and increase on billing revenue collection remains static in 2018/19, in the region of 70%. The highest rate during the first six months was 71%. The year to date average collection rate achieved positive results, sitting at 71% at mid-year ended 31 December 2019.

The following are practical activities aligned to improving the collection rate:

- o There are some strategies in place that have been put that will ensure revenue growth and enhancement.
- o There are areas that the municipality has identified during the Thuma Mina programme that need to be read or prioritised as a matter of eradicating illegal connections.

- The issue of faulty prepaid meters as well is an issue and there are more conversions being and to be carried out that will ensure that meters are read and billed.
- The issue of housing projects that are taking place within the district but have not yet made applications for water services, those have been identifies and those are to be billed. IDM staff will now sit in the PSC meeting at each LM so that we don't have revenue loss when it comes to housing projects.
- There are handheld devices that will be procured and will enhance revenue as meters will now be read using advanced handheld devices. This will ensure that the meter is read and is taken on the system if there wasn't any.
- Additional meters that are picked up on the ground that had previously not been on the system are identified and will be taken on and read on a monthly basis.
- Contracted services to deal with the backlog in regards to outstanding new connections. This is being done and will ensure additional meters are now taken on and are read and billed.
- There are areas that will now have consistent water supply which will mean that meters will be read frequently and billed frequently.
- Legalizing illegal connections, by way of identifying and eradicating such and also installing corrective measures and meters and have them read consistently.

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 and Provincial Co-operative Governance and Traditional Affairs (COGTA) is assisting with collection;

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

The Indigent benefit is functional at IDM and the Register is growing steadily and the growth is low. Our policy grant us the right to use the Local Municipalities register.

- Economic profiling and risk analysis of households is done periodically,
- This analysis is also 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).
- There is an exercise done through Vuthela Programme.

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 2019/2020 financial year is R 33.8 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
Capital Office Automation	Lease of printers and photocopiers

2.17 Public Consultation and Publication of 2019/20 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 will be set in order to allow the communities and other stakeholders to comment on the draft budget and to allow the Mayor of the District the opportunity to respond to such inputs before the budget is finalised in May. The tabled budget will be submitted to national and 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 at some point filling of newly created posts were put on hold. 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 continuously reviewed.

2.19 Progress on the implementation of a Recovery Plan /Financial Turnaround Strategy

In December 2016, Council adopted the financial turnaround strategy (together with a Recovery Plan) that was set to address financial challenges that embroiled the municipality, effectively post the period of severe drought that had engulfed iLembe District and other parts of the Kwazulu Natal Province between 2014 and 2016. Given the severity of the situation, at the time of launching the Recovery Plan, it was fully understood that it would take at least three years for the Municipality to come out of the trap.

The Recovery Plan had a dedicated focus on the following four pillars:

- Revenue enhancement and protection;
- Effective credit control and debt collection;
- Cost containment / austerity measures; and
- The use of modern technologies to maximise operational efficiencies.

To date, although the municipality has not yet fully recovered, bearing in mind that this was a medium term objective. To this end, it becomes important to highlight some of the achievements as briefly outlined below:

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 **Draft Annual Budget** of the Municipality for the Financial year 2019/2020; and indicative allocations for the two projected outer years 2020/2021 and 2021/2022; 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 draft amendments to its **Tariffs of Charges** as depicted on the schedule annexed hereto and marked as **Annexure B**.
- That the Draft Budget related policies be noted with the respective amendments.
 - 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
 - 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
 - Payroll Policy

- That the draft tariff of charges for 2018/19 financial year be increased by 9.6% effective from 1 July 2019.
- That in compliance with section 22 of the MFMA, the final budgets be published in the local press and municipal website.
- That Council note that the draft service delivery and budget implementation plan for the 2018/2019 financial year will be tabled 28 days after the budget has been adopted.

SIGNATURE OF AUTHOR



.....
**MANAGER BUDGET & COMPLIANCE
S CHONGUENE**

SUPPORTED / NOT SUPPORTED



.....
**CHIEF FINANCIAL OFFICER
M CHANDULAL**



.....
**MUNICIPAL MANAGER
NG KUMALO**



**ILEMBE DISTRICT MUNICIPALITY
ILEMBE –UMASIPALA WESIFUNDA**

EXTRACT FROM THE MINUTES OF THE MEETING OF COUNCIL OF ILEMBE DISTRICT MUNICIPALITY HELD IN THE BOARDROOM, EXECUTIVE COMMITTEE SUITE, ILEMBE HOUSE, MAHATMA GHANDI STREET, KWADUKUZA ON WEDNESDAY, 27 MARCH 2019, COMMENCING AT 12H00

Present: Councillors: LR Makhathini (Speaker) (Chairperson), SS Gumede (Mayor), MD Shandu (Deputy Mayors), A Gopaul, AM Baardman, AM Gwala, MW Hubner, TS Jaff, CT Khumalo, IP Dube, MA Maphumulo, TS Ngidi, MV Mhlongo, ZM Mhlongo, HN Ngcobo, ME Ngidi, SZ Nyatikazi, MS Ntuli, SF Ntuli, S Oudhram, MV Shezi, R Singh, DM Sithole, JG Van Whye, IN Vilakazi, S Zondi and GN Zungu.

Absent: NC Nene, MD Mpofo (both with apologies), MS Singh (LOA), Inkosi SA Hlongwa, Inkosi NA Bhengu, Inkosi S Kumalo, Inkosi MW Qwabe and Inkosi DZ Gumede

Officials: Mr NG Kumalo (Municipal Manager), Mr M Chandulal (Senior Manager: Finance), Mr T Shezi (Manager: Expenditure), Mr B Shezi (Senior Manager: Technical Services), Mr T Makhoba (Senior Manager: Corporate Services), Mr S Ngubane (Acting Senior Manager: Community Services), Ms K Pillay (Manager: PMS), Ms MB Khumalo (Manager: Support Services), Mr S Chonguene (Manager: Budget and Compliance), Mr LK Mncube (Manager: Planning and IDP), Mr MD Gumede (Manager: Revenue), Mr S Mthembu (Enterprise Ilembe: CFO), Ms NP Tshembeni (Principal Admin) and MK Nxumalo (Committee Officer)

Traditional Leaders: Inkosi VT Ngcobo

Also in Attendance: Mr P Daniels and Mr N Mhlungu (Both from IEC)

Also in Attendance: Nil

**C526
DRAFT MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF) 2019/2020-2021/2022:** Report dated 27 March 2019 by Manager: Budget and Compliance

Through the Chairperson Senior Manager: Finance took members through the report which it purpose was to table before Council for consideration the Draft Medium Term Revenue and Expenditure Framework for 2019/2020 – 2021/2022 in terms of section 16 of the Municipal Finance Management Act, No 56 of 2003. It was then unanimously,

RESOLVED

1. The Council consider in terms of Section 24 of the Municipal Finance Act, 56 of 2003, the **Draft Annual Budget** of the Municipality for the Financial year 2018/2019; and indicative allocations for the two projected outer years 2019/2020 and 2020/2021; 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)

Ilembe House, 59/61 Mahatma Gandhi Street, KwaDukuza 4450, South Africa

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All correspondence to be addressed to the Municipal Manager

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:

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- That the Draft Budget related policies be noted with the respective amendments.
 - Fixed Assets Management Policy
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 - Indigent Management Policy
 - Supply Chain Management Policy
 - Virement Policy
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- That the draft tariff of charges for 2018/19 financial year be increased by 9.6% effective from 1 July 2019.

Ilembe House, 59/61 Mahatma Gandhi Street, KwaDukuza 4450, South Africa

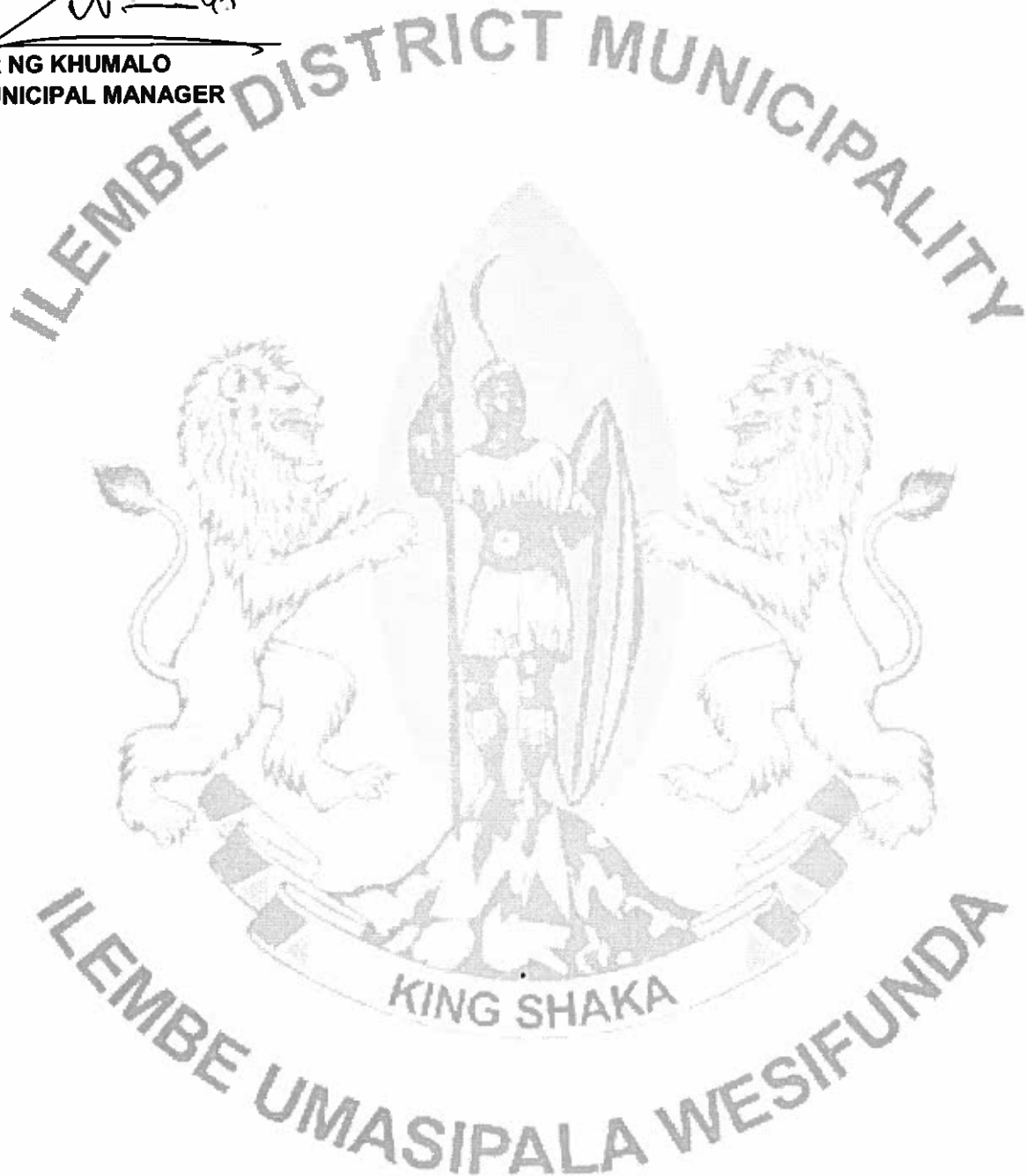
Tel:+27 32 437 9300 Fax: +27 32 437 9587

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- That in compliance with section 22 of the MFMA, the final budgets be published in the local press and municipal website.
- That Council note that the draft service delivery and budget implementation plan for the 2018/2019 financial year will be tabled 28 days after the budget has been adopted.


MR NG KHUMALO
MUNICIPAL MANAGER



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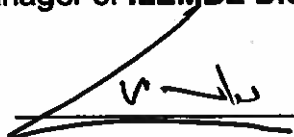
Quality certificate

I **NG KUMALO**, municipal manager of **ILEMBE DISTRICT MUNICIPALITY**, hereby certify that the **2019/2020- 2021/2022 DRAFT MTREF** budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Name: **NG KUMALO**

Municipal Manager of **ILEMBE DISTRICT MUNICIPALITY**

Signature:

A handwritten signature in black ink, appearing to be 'N. Kumalo', written over a horizontal line. The signature is slanted upwards to the right.

Date:

27-03-2019