



ANNEXURE I

ILEMBE DISTRICT MUNICIPALITY

Date: 13 April 2016

THE MEC FOR FINANCE

KwaZulu Natal Provincial Treasury

P.O Box 3613

Pietermaritzburg

3200

Ref: 11/6/13/1 (DC29>2016)

Dear MEC B F Scott

Reference is made to a correspondence from Provincial Treasury dated 31 March 2016, Re-**HIGH LEVEL ASSESSMENT OF THE ADJUSTMENTS BUDGET FOR THE 2015/16 FINANCIAL YEAR.**

Provincial Treasury has indicated in the said correspondence that the 2015/16 adjustments budget for Ilembe District Municipality appears unfunded, IDM's responses are as follows:

- The inability to establish the reasonableness of the increase in the budget for Service charges- other of R68.7 million which relates to the introduction of a drought levy to the communities affected where water is being distributed using water tankers. Considering that the municipality has only 4 months remaining before the financial year end, it appears impractical that the additional revenue of R65 million would be generated and collected in such a short period. This could be overstating the funding position of the municipality;

Response:

"The comment is noted, however, as outlined in the Mayor's report paragraph 1.1 of the Adjustments budget narrative report, the raising of the drought levy is consistent with section 3.1 of the approved 2015/16 Ilembe District Municipality Tariff Policy, section 75A of the Municipal Systems Act and section 229 (1) of the Constitution of RSA.

1. *The purpose for the raising of the drought levy by the municipality is to recover drought related expenditure which includes mainly; water tankers, fuel and oil, overtime for IDM owned water tankers and other related costs of funding the drought.*

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2. *It must be noted that although, DWS with the assistance of National Treasury has reimbursed the municipality for a portion of the 2014/15 drought operating expenditure, no drought relief funds were allocated to IDM in the 2015/16 financial year.*
 3. *Furthermore, when the municipality requested assistance with obtaining funding for the drought relief of R66 million to deal with the operating expenditure relating to the 2015/16 drought epidemic on 16 January 2016, the municipal finance section of Provincial Treasury declined the request and referred the municipality to KZN COGTA, who also offered no assistance.*
 4. *The municipality cannot afford to continue funding the drought epidemic without corresponding revenue to mitigate this and it will not borrow funds for operations hence the raising of the drought levy.*
 5. *The implementation of this levy is April 2016 and is based on the user pay principle hence the reduction of the hired water tankers as articulated on the national media briefing held on 4 April 2016 by the municipality.*
 6. *The levy does not include indigents as they are catered for in the equitable share allocation.*
 7. *The municipality cannot comment on the practicality at this stage as it is the first time implementing this levy, however, risk management processes are in place to manage the risk associated with it, taking into account that it falls under the local government election year.*
- *The possible overstatement of the budgeted Other revenue of R18.4 million which relates to grants that were moved from Transfers and grants as per the adjustments budget narrative report and yet no corresponding decrease from Transfers recognised-operational line item was noted. This could also be overstating the funding position of the municipality;*

Response

The comment is noted, however, it does not appear correct as it assumes that the amounts were reclassified from transfers and grants at consolidated level whereas they were reclassified by the entity from unspent conditional grants to other income. Also the comment does not take into account inter entity eliminations.

- *The municipality had budgeted R40 million as cash inflow in respect of VAT refunds in Table B8, where no clarity was provided in respect of whether the audit in progress by SARS has been completed and whether refunds will be released soon. If the amount is not received in the 2015/16 financial year, inclusion of the full R40 million would have overstated the net funding position;*

Response

The comment is noted; however, the municipality's budget for VAT refunds is rather understated than overstated as at the end of March 2016, the municipality has received over R41 million worth of Vat refunds from SARS, extract of the bank statement showing the receipts is attached as annexure A. It is important to note that this figure does not take into account approximately R9million still owing by SARS for the January and February 2016 returns.

- *Payments to Suppliers and employees in Table B7 exceed the operating expenses (excluding non-cash items and separately disclosed items) by R48.5 million.*

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- While this could indicate that the municipality is settling prior year creditors, however, considering the Trade creditors of R102.8 million and Other creditors of R128 million reflected in the 2014/15 audited AFS as compared to R96 million reflected as Total Trade and other payables in Table SB2, the cash outflow for Suppliers and employees appears understated and thus, the net funding position is overstated;

Response

The comment is noted, however, it does not appear correct, as outlined under paragraph 1.3.16 of the narrative report the non-cash items amount R 119 million and also it does not take into account the fact that the average actual payments to suppliers and employees for the past 2 years was R385 million and the adjustments budget is R553 million which is 43% higher.

- Possible understatement of other working capital when considering the fact that the municipality reflected the current year's contribution instead of the full Provision for debt impairment in Table SB2. Therefore, Consumer debtors appear overstated. The negative amount of R28.8 million reduces the municipality's budgeted commitments and consequently, incorrectly overstates the net funding position;

Response

The comment is noted, however, it does not appear correct, due to the following reasons:

1. It is not clear where PT obtained the negative contribution amount of R28 million, as per line K17 in SB2 the current year contribution to the full provision for debt impairment balance of R132 million is R43 million;
 2. Also as per the line K20 in SB2, the full provision for debt impairment of R132 million was included;
- While the municipality reflected Non-current assets/investment of R24,5 million in Table B8, it failed to budget for the same under Application of cash and investments against Long term investments committed, thereby overstating the net funding position,

Response

The comment is noted, however, if the municipality reduces the net funding position of R24 million by R25 million as suggested by PT, and adds approximately R9million vat refunds still owing by SARS, the municipality's net funding position will still be positive.

- As per Table B5, the net adjustments increase of R7 million against Public contributions and donation is due to a decrease in the Regional Bulk Infrastructure allocation by R20 million and an increase against the budget due to the fact that the municipality is implementing multi-year capital projects against the 2016/17 allocation as per an agreement with the transferring department. However, no formal agreement was received as part of the supporting documents from the municipality.

Response

The comment is noted and the correspondence between DWS and the municipality relating to the multi-year projects agreement is attached as annexure B.

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It is quite clear from IDM's responses that Provincial Treasury's assessment of the funding position of the municipality's budget is due mainly to incorrect assumptions and/or incorrect interpretation of the information provided to them for review.

It is also important to note that as per PT's comments on the original budget of IDM, the opening cash and cash equivalents of R26 million were said to be overstated whereas actual audited results of R37 million proved that the cash balance was actually understated by R11 million instead.

Further comments on the tables are attached as annexure "C".

Yours faithfully



Cllr SW Mdabe

His Worship Mayor

CC Minister of Finance – Pravin Gordhan, MP

National Treasury, Jan Hatting

National Treasury, TV Pillay

Head of KZN Provincial Treasury, S Magagula

The Municipal Manager, N P Gamede

Chief Financial Officer, N Mba

Audit Committee Chairperson, D Bosch

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Table 2: Adjustments Budget Financial Performance - Operating Revenue and Expenditure ■ (Table B4)							
Description R thousand	Original Budget	Adjusted Budget	Section 72 Report (YTD Actual)	Adjusted Budget	Increase/ (Decrease) (Original vs. Adjusted Budget)	Comments	IDM Response
Revenue By Source							
Property rates	-	-	-	-	-		
Property rates - penalties & collection charges	-	-	-	-	-		
Service charges - electricity revenue	-	-	-	-	-		
Service charges - water revenue	118 254	47 839	-	95 678	(22 576)	The budget for Service charges - water revenue has been adjusted downwards in the 2015/16 Adjustments Budget. As per the municipality's adjustments budget narrative report, this was due decreasing levels of billing as a result of drought.	The comment is noted.
Service charges - sanitation revenue	59 438	29 290	-	58 560	(859)	The municipality has not provided reasons for the re-classification of R2.3 million for MIG allocation for capital and operating in the adjustments budget narrative report.	The comment is noted, however, it appears irrelevant to the line item in question as it does not include the R2.3 million MIG allocation.
Service charges - refuse revenue	-	-	-	-	-		
Service charges - other	3 307	1 335	-	68 670	65 362	The budgeted revenue against Services charges-other has been adjusted upwards significantly when compared to the Original Budget. As per the municipality's adjustments budget narrative report, this increase is due to the fact that the municipality will be charging a drought levy to communities affected by drought where water is being distributed using water tankers. Provincial Treasury could not establish the reasonableness of the significant increase in the budget for Service charges-other due to the following: -The municipality has indicated that Council has already approved charging this levy, however, the implementation date was not provided. - Considering that the municipality has only 4 months remaining before the financial year end, it appears impractical that the additional revenue of R65 million would be generated in such a short period. -The municipality's adjustments budget narrative report is not clear as to which affected areas in which water were distributed through water tankers. Should the affected area majority relate to indigent areas, the likelihood of the municipality recovering the drought levy from those areas is questionable. - The municipality has not provided any clarity as to the process undertaken in approving the drought levy and whether the affected communities were consulted. - It is also not clear how far back will the municipality attempt to recover the amounts from customers as well as the impact this will have on the customer bills going forward.	The comment is noted, however, as outlined in the Mayor's report paragraph 1.1 of the Adjustments budget narrative report, the raising of the drought levy is consistent with section 3.1 of the approved 2015/16 iLembe District Municipality Tariff Policy, section 75A of the Municipal Systems Act and section 229 (1) of the Constitution of RSA. 1. The purpose for the raising of the drought levy by the municipality is to recover drought related expenditure which includes mainly; water tankers, fuel and oil, overtime for IDM owned water tankers and other related costs of funding the drought. 2. It must be noted that although, DWS with the assistance of National Treasury has reimbursed the municipality for a portion of the 2014/15 drought operating expenditure, no drought relief funds were allocated to IDM in the 2015/16 financial year. 3. The municipality can not afford to continue funding the drought epidemic without corresponding revenue to mitigate this and it will not borrow funds for operations hence the raising of the drought levy. 4. The implementation of this levy is April 2016 and is based on the user pay principle hence the reduction of the hired water tankers as articulated on the national media briefing held on 4 April 2016. 5. The levy does not include indigents as they are catered for in the equitable share allocation.

Description R thousand	Original/ Adjusted Budget	Section 72 Report (YTD Actual)	Adjusted Budget	Increase/ (Decrease) (Original vs. Adjusted Budget)	Comments	IDM Response
Rental of facilities and equipment	19	8	16	(3)		
Interest earned - external investments	4 377	1 786	3 547	(829)		
Interest earned - outstanding debtors	21 000	9 543	18 893	(2107)	As per the explanation provided in the municipality's adjustments budget narrative report, the decrease was to ensure that the budget was in line with the collection levels. It is therefore, not clear whether the budget for Interest earned-outstanding debtors is based on the municipality's approved Credit Control policy.	The raising of interest on arrears accounts is in line with the municipality's Debt Collection and Credit Control Policy so is the related budget.
Dividends received	-	-	-	-		
Fines	-	-	-	-		
Licences and permits	-	-	-	-		
Agency services	1 600	377	754	(846)		
Transfers recognised - operational	366 590	269 354	369390	2 800	The adjustment reflected against the Transfers recognised-operational includes the MIG that was reclassified from Transfers recognised-capital amounting to R2.3 million and Lotto funding of R500 000. The municipality did not provide reasons for the reclassification in the adjustments budget narrative report. Supporting documents in relation to Lotto funding were submitted to Provincial Treasury, however, there is no indication of when the funding will be transferred to the municipality as the letter dated 15 July 2015, was requesting for more information in order for the application for funding to be considered. Thus, it is not clear whether the expected funding will materialise during the 2015/16 financial year. The municipality should ensure that receipt of the Lotto funding is confirmed prior to implementation of related projects to ensure that the relevant expenditure will be funded.	The R 2,3 MIG transfer relates to the Project Management Unit operational costs that are funded through MIG. The comment on the Lotto grant is noted, however, it is not entirely correct as the municipality has already signed for the transfer of the funding into the municipal account during the 2015/16 budget year hence inclusion in the adjustment budget.
Description R thousand	Original/ Adjusted Budget *	Section 72 Report (YTD Actual)	Adjusted Budget	Increase/ (Decrease) (Original vs. Adjusted Budget)	Comments	
Other revenue	18 582	13619	48 775	30183	The budget for Other revenue has been adjusted upwards by R30.2 million in the 2015/16 Adjustments Budget. In the adjustments budget narrative report, the municipality indicated that they included an additional revenue budgeted for Schools Nutrition Programme of R4.7 million. As at February 2016, the municipal entity has raised R14.4 million for School Nutrition Programme against Department of Education. However, it was noted that no corresponding adjustment was reflected by the municipality in Table SB1 against DOE line item. Thus, it is not clear whether the adjustment was correctly accounted for. Despite being advised by Provincial Treasury, that Developer's contribution (Developer's contribution Lower Thukela) should not be included against Other revenue, an additional R3.5 million has been budgeted for against this revenue source. This budget should have been reclassified to Contributions recognised-capital below the initial operating surplus/deficit in Table B4. The basis for the increase has not been provided by the municipality and considering that only R1.2 million was recognised against the Developer's contribution as at mid-year, the budget for this revenue item appears overstated. As per the adjustments budget narrative report, an amount of R18.4 million relates to "grants moved from Transfers and grants to be reflected under Other revenue, due to its nature". However, it is noted that as per Transfers recognised - operational line item, no corresponding decrease for grants was noted. No further	The additional R4,7 million for the Schools Nutrition Programme is correctly included in the R30.2 million overall adjustments in B4. As previously indicated, the developer's contributions falls into the definition of revenue from exchange transactions in terms of GRAP 9 and not revenue from non-exchange transactions (GRAP 23) as implied by KZN PT, hence, no reclassification was made. Currently the municipality is not aware of any other legislative and/or GRAP standard that supports the reclassification advice from PT. PT is requested to provide information on the legislative requirement/accounting standard before finalisation of the 2016/17 Annual Budget to enable the municipality to do the reclassification.
Gains on disposal of PPE						
Total Revenue (excluding capital transfers and contributions)	593 167	373152	664 304	71 137		
Expenditure By Type						
Employee related costs	186176	68 233	187 057	881		
Remuneration of councillors	8 788	5 212	10 098	1310		
Debt impairment	37 714	18 857	42 708	5 085		
Depreciation & asset impairment	60 581	32170	64 817	4 237	The municipality's budget for Depreciation and asset impairment has increased by R4.2 million in the 2015/16 Adjustments Budget. As per the adjustments budget narrative report, the municipality has also provided for Depreciation against anticipated capitalisation of assets under construction. As per the 2014/15 audited AFS, a total of R351 million was reported as Assets under construction, thus considering that the municipality has not provided an estimated amount of assets which are expected to be capitalised in 2015/16 financial year, Provincial Treasury is not in a position to ascertain whether the budgeted amount will be sufficient.	The comment is noted, however, the depreciation & asset impairment budget is not only a function of additions which in this case are completed assets that are transferred from AUC to completed assets and componentised, it also takes into account the municipality's fixed asset management policy which is in line with the relevant GRAP standards eg GRAP 17, 21 and 26.
Finance charges	10 679	4 426	13 477	2 799	It is noted that the municipality has now provided for the Interest expense relating to the finance lease within the Finance charges budget as advised by Provincial Treasury.	It is encouraging to note that PT and IDM has finally reached consensus on the correct accounting treatment of leases as per GRAP 13.
Bulk purchases	40 320	30 335	68 527	28 2071	As per the municipality's adjustments budget narrative report, the increase against Bulk purchases expenditure line item is due to the bulk tariff increase of 7.8 percent when compared to the 5.6 percent as per the 2015/16 Original Budget and a takeover	The comment is noted, however as per the adjustments budget narrative report the schemes were managed by uMngeni Water not Siza Water.
Other materials	50 650	16 098	56667	6 019	The municipality has increased the budgeted expenditure against Other materials. This is despite poor performance since the beginning of the 2015/16 financial year. The municipality is advised to fast track implementation against this line item as the poor performance might negatively affect the ongoing health of the municipality's infrastructure	The comment is noted, however the main item contributing to the apparent increase is due to the reclassification of the maintenance portion of leased vehicles.
Contracted services	53153	34 279	60 040	6 867		

Description R thousand	Original/ Adjusted Budget	Section 72 Report (YTD Actual)	Adjusted Budget	Increase/ (Decrease) (Original vs. Adjusted Budget)	Comments	IDM Response
Transfers and grants	36 447	19 068	37 869	1422	During the assessment of the 2015/16 Original budget, Provincial Treasury raised concerns over the fact that the cost of free basic services relating to water and sanitation reflected in Table A10 did not reconcile to the amount reflected in Supporting Table SA21. In Table B10, no adjustment was made as the municipality still did not reflect the number of households receiving free basic electricity and refuse removal services as well as the cost of the free basic electricity and refuse removal are not reflected in Table B10 even though the municipality still reflected the revenue cost of free services relating to these services.	The comment is noted, however, as previously indicated to KZN PT team: 1) IDM is a water services authority and provider, its main function is provision of water and sanitation services not electricity and refuse. 2) The electricity and refuse function resides with the LMs and IDM relies on figures submitted by LMs to populate schedules A10 and SA21 and 3) Furthermore IDM is committed to s155 (1) (b) of the Constitution of RSA, hence, doesn't have adequate personnel and resources to verify information submitted by LMs to both PT and IDM. 4) As previously requested, the municipality will appreciate if PT can provide a resource during the budget process to verify the figures from the LMs for inclusion in the budget schedules.
Description R thousand	Original/ Adjusted Budget	Section 72 Report (YTD Actual)	Adjusted Budget	Increase/ (Decrease) (Original vs. Adjusted Budget)	Comments	IDM Response
Other expenditure	106 292	52126	121 850	15 558	The municipality still reflected Special projects in Table SB1 under Other expenditure and no breakdown was included in the adjustments budget narrative report. In the high level assessment on the municipality's 2015/16 Original Budget, the municipality was advised to re-classify expenditure relating to grants amounting to R2.3 million. As per the municipality's adjustments budget narrative report, the main adjustment against Other expenditure relates to a reclassification of grant expenditure for the entity because of the nature of expenditure. Considering the huge net increase of R15.6 million, it is not clear whether there were other reasons for this increase. Furthermore, as per the list of Other expenditure by Type in Table SB1, the main contribution to the increase against Other expenditure is budgeted expenditure for LED which has increased from R20.8 million to R35 million and no further explanation relating to this increase was provided.	As previously indicated, the item named "Special Projects" relates to Gender/PWD programme, youth programme, HIV programs and OSS-Poverty Alleviation. The FMG and the Citizen Satisfaction Survey grants were reclassified, and as a result a decrease of R1,8m is reflected on SB1. As outlined on the narrative report, the main adjustment on other expenditure is not an addition but was due to the reclassification of LED items relating to the municipal entity. Main adjustments were also mentioned on the narrative report under paragraph 1.3.13.
Loss on disposal of PPE	-	-	-	-		
Total Expenditure	590 998	301 704	663 399	72 401		
Total Revenue (excluding capital transfers and contributions)	593 167	373152	664 304	71 137		
Total Expenditure	590998	301 704	663 399	72 401		
Surplus/(Deficit)	2169	71 448	905	(1 265)	The operating surplus of R905 000 may not be realistic as some revenue line items such as Service charges - other and Other revenue appears overstated.	The comment is noted. Please refer to comments on individual items for details. It is the municipality's view that the budgeted surplus is reasonable.

Table 3: Adjustments Budget Capital Expenditure by Standard classification and funding - (Table B5) & R&M/Renewals - (Table SB1, B9 and SB18(b)(c))

Description R thousand	Original/ Adjusted Budget *	Section 72 Report (YTD Actual)	Adjusted Budget	Increase/ (Decrease) (Original vs. Adjusted Budget)	Comments	
Capital Expenditure						
Governance and administration	20 734	8201	31 455	10 721		
Executive and council						
Budget and treasury office	11 531	7 812	22 793	11 262	Significant increase has been noted against Budget and treasury office whilst no explanation has been provided in the adjustments budget narrative report.	The comment is noted, however it is not entirely correct, as the said information is included under paragraph 1.4 of the narrative report.
Corporate services	9 203	389	8 663	(540)		
Community and public safety	150	-	125	(25)		
Community and social services	30	-	15	(15)		
Sport and recreation	-	-	-	-		
Public safety	120	-	110	(10)		
Housing	-	-	-	-		
Health	-	-	-	-		
Economic and environ. services	1 856	326	1 856	-		
Planning and development	-	-	-	-		
Road transport	1856	326	1856	-		
Environmental protection	-	-	-	-		
Trading services	401 747	132 691	419 508	17 761		
Electricity	-	-	-	-		
Water	324 651	122 789	380 208	55 557	The municipality has budgeted for funds allocated for the 2016/17 financial year in the 2015/16 financial year in terms of Section 31 of the MFMA, thus increasing the budget under Water. As per the municipality's adjustments budget narrative report, this is to ensure continuity of projects funded from Regional Bulk	The comment is noted as outlined in paragraph 1.4.1.2 of the adjustments budget narrative report.
Waste water management	77 096	9 903	39 300	(37 796)	As indicated below (Total Capital Expenditure), reasons for adjustments in different departments were not provided in the adjustments budget narrative report.	The comment is noted, however it is not entirely correct, as the said information is included under paragraph 1.4 of the narrative report.
Waste management	-	-	-	-		
Other	-	0	-	-		
Total Capital Expenditure ■ Standard	424487	141 219	452 944	28 458	The municipality has not provided reasons for different adjustments against each department. However, an overall increase has been noted against capital expenditure. This is despite the poor performance (33 percent) as at mid year. During the mid-year review, the municipality had indicated that the low expenditure was as a result of projects commencing late due to budget and EIA issues. They further indicated that they had requested CoGTA to reprioritise certain projects. However, they have not indicated in the adjustments budget narrative report whether the request to CoGTA has been approved.	The comment is noted, however it is not entirely correct, as explanations for adjustments in capital expenditure has been provided under paragraph 1.4 of the narrative report. As at 31 March 2016, the municipality has spent approximately 73% of the grant funded capital budget.
Description R thousand	Original/ Adjusted Budget*	Section 72 Report (YTD Actual)	Adjusted Budget	Increase/ (Decrease) (Original vs. Adjusted Budget)	Comments	
Funded by:						
National Government	273 102	98 960	268 186	(4 916)	As per a letter dated 05 July 2015, the municipality's funding against Water Services Operating and Transfers Grant was to be withheld. However, as per the adjusted DoRA, an allocation of R4 million is still reflected as an allocation against iLEMBE District Municipality. Thus, it is not clear whether the municipality should have adjusted the funding source solely based on a notice letter from Department of Water and Sanitation. Furthermore, the municipality has reflected expenditure of R1.1 million against the Water Services Operating and Services Grants at mid-year and have not provided an explanation on how this expenditure will be funded and whether the expenditure has been reclassified to the correct funding source in the Adjustments Budget. It was also noted that the municipality did not correctly reflect the adjustments against the correct columns. For	The comment is noted, however, section 18(1)(a) of the MFMA requires that the budget be funded from realistically anticipated revenues to be collected. At the time of the preparation and approval of the adjustments budget, the municipality had in its possession information i.e. letter from DWS indicating that the municipality will not be receiving these funds. The municipality excluded these funds on that premise and also to comply with the basic fundamental requirement of prudence. The expenditure of R1.1 million is now funded internally and has been included in the capital budget allocation of R48.9 million. The adjustment has been correctly classified in this line item under column H68, it is therefore not clear what PT is referring to.

Provincial Government	-	-	-	-		
District Municipality						
Other transfers and grants	17 544		18167	623	Payments to suppliers and employees in table 7 exceed the operating expenses (excluding non-cash items and separately disclosed items) by R48.5 million. While this could indicate that the municipality is settling prior year creditors, however, considering the Trade creditors of R102.8 million and other creditors of R128.1 million as reflected in the 2014/15 audited AFS compared to R96 million reflected as Total Trade and other payables in Table SB2, the cash outflow for suppliers and employees appears	The comment is noted, however, it appears irrelevant to the line item in question.
Transfers recognised ■ capital	290 646	98 960	286 353	(4 293)		
Public contributions & donations	110 672	33 647	117 689	7 018	The net adjustments against Public contributions and donation is due to a decrease in the Regional Bulk Infrastructure allocation by R20 million and the increase against the budget due to the fact that the municipality is already in the process of implementing multi year capital projects against the 2016/17 allocation as per an agreement with the transferring department. However, no formal agreement was received as part of the supporting documents from the municipality. The municipality should have correctly disclosed the R20 million for Regional Bulk Infrastructure against National or Provincial Grants column and R27 million against Multi year capital in Table B5. Furthermore, as per Table SB7, the total adjustment reflected against Regional Bulk Infrastructure was R8 million whilst as per the adjustments budget narrative report, the net adjustment was R7	The comment is noted and the correspondence between DWS and the municipality relating to the multi year projects agreement is attached as annexure A. The comment is noted, however, it does not appear correct, due to the following reasons: 1. Table B5 relates to capital expenditure as per the Trial Balance which is vat exclusive whereas SB7 relates to total grant receipts which are inclusive of Vat. 2. The adjustments budget narrative report relates to table B5. It is therefore unclear how PT arrived at the conclusion that the allocation is not accurate whereas the comparison does not appear consistent.
Borrowing	-	-	-	-		
Internally generated funds	23169	8 612	48 902	25 733	The municipality had reflected poor performance against Internally generated funding as at mid-year. In the 2015/16 Adjustments Budget, an increase has been noted against this funding source. As per the municipality's adjustments budget narrative report, this will be funded through the current year's surplus which is only R905 000 as per Table B4. Considering issues raised in the Operating Revenue and expenditure section, the budgeted surplus might not materialise which will result in delays in the implementation of projects funded by this revenue line item. Furthermore, since the operating surplus is only R905 000, it is not clear as to how the rest of the internally generated funds will be	The comment is noted, however, it does not appear correct as this is illustrated under paragraph 1.3.16 of the narrative report.
Total Capital Funding	424 487	141 219	452 944	28 458	Although the Total Capital Expenditure reconciles to Total capital Funding, it was noted that the movements between the different columns did not reconcile, for example, the majority of adjustments under the Other adjustments budget column should have been broken down under relevant adjustments	The comment is noted, however, further clarity is required on the comment made.
Description Thousand	Original/ Adjusted Budget *	Section 72 Report (YTD Actual)	Adjusted Budget	Increase/ (Decrease) (Original vs. Adjusted)	Comments	
Repairs and maintenance (Table SB18(c))	50 850	16 998	56 867	6 016	It is noted that the municipality has increased the budget for Repairs and maintenance. The Repairs and maintenance budget represents 4 percent of the Property, plant and equipment (PPE) value reflected in the 2013/14 audited AFS and is still below National Treasury's guideline of 8 percent as stipulated in MFMA Circular 55. Considering the low expenditure reported as at mid-year, the municipality is advised to fast track implementation of the planned expenditure in order to avoid under expenditure at the	The comment is noted, however, As previously indicated in various interactions with PT, IDM is of the view that: 1) The guidelines in MFMA circular 55 are not cast and stone; 2) Repairs and maintenance of assets should be based on the municipality's maintenance plan; 3) Renewal and replacement of assets should be based on the municipality's master plan and growth plan; 4) Once the municipality has finalised its master plan and asset maintenance plan, the relevant schedules will be updated with the

Renewal of existing assets (Table B9 & SB18(b))	3 000	314	3135	135	The budget for Renewal of existing assets is still lower than a guideline of 40 percent as per National Treasury.	relevant information; and The advice on fast tracking the expenditure is noted.
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Municipality:

iLembe District Municipality

Table 4: Adjustments Budgets Cash Flow & Cash backed reserves/accumulated surplus reconciliation - (Table B7 & B8)

Description R thousand	Original/ Adjusted Budget *	Section 72 Report (YTD Actual)	Adjusted Budget	Increase/ Decrease (Original vs. Adjusted Budget)	Comments	
CASH FLOW FROM OPERATING ACTIVITIES Receipts						
Property rates, penalties & collection charges	-	-	-	-		
Service charges	132 635	45 232	183 697	51 062	Considering the low collection rate of 59.6 percent as at mid-year and only 34.1 percent of the full year cash flow Original Budget for Service charges budgeted at R132.6 million, the municipality was advised in the mid-year comments letter to review the budgeted collection rate for Service charges in the preparation of the 2015/16 Adjustments Budget. However, an increase of R51.1 million has been noted in Table B7, thus the cash flow budget for Service charges still appears overstated. While this could be due to the increase in Service charges -other as a result of the implementation of the drought levy as discussed in Table 2: Adjustments Budget Financial Performance - Operating Revenue and Expenditure, the collection rate of 75 percent as indicated in the adjustments budget narrative report is considered to be high given the municipality's challenges in revenue collection.	The comment is noted, however, it does not take into account the introduction of the drought levy and the increased debt impairment budget.
Other revenue	20 200	17 466	46 238	26038	As indicated in Table B4, the adjustments budget narrative report indicated that an amount of R18.4 million relates to "grants to be reflected under Other revenue, due to its nature". However, it is noted that as per Transfers recognised - operational line item, no corresponding decrease for grants was noted. Thus, thus the budgeted cashflow against Other revenue might be	The comment is noted, however, it does not appear relevant to this line item. Furthermore the original budget for this line item was R20mil, at midterm the actual was R17mil which clearly indicates that this item was understated and requires upward adjustment.
Government - operating	366 590	282 068	369 390	2800	The municipality has not provided reasons for the re-classification of R2.3million for MIG allocation for capital and operating in the adjustments budget narrative report	The comment is noted, the reclassification is to fund the operating costs relating to the Project Management Unit as advised by COGTA.
Government - capital interest	437 502 20,127	277 371 1 786	459912 22 246	22410 2,119	Based on Table B7 and SB15, the municipality has budgeted for a collection rate of 100 percent for interest earned-outstanding debtors. Due to challenges with collection noted in the adjustments budget narrative report, the municipality should not budget for receipts from Interest earned on outstanding debtors in order to be conservative with cash flow projections. Furthermore, no cash inflow has been recognised against Interest earned outstanding debtors in the first six months. Thus, the budgeted cash inflow for Interest earned-outstanding debtors is overstated.	The comment is noted, however, it does not take into account the introduction of the drought levy and the increased debt impairment budget.
Dividends	-	-	-	-		
Payments						

Suppliers and employees	(505 007)	(397 021)	(552 954)	(47 947)	Payments to Suppliers and employees in Table B7 exceed the operating expenses (excluding non-cash items and separately disclosed items) by R48.5 million. While this could indicate that the municipality is settling prior year creditors, however, considering the Trade creditors of R102.8 million and Other creditors of R128.1 million as reflected in the 2014/15 audited AFS compared to R96 million reflected as Total Trade and other payables in Table B2, the cash outflow for Suppliers and employees appears understated.	The comment is noted, however it does not appear correct, as outlined under paragraph 1.3.16 of the narrative report the non-cash items amount R 119 million and also it does not take into account the fact that the average actual for the past 2 years was R385 million and the adjustments budget is R553 million which is 43% higher.
Finance charges	(10 679)	(4 426)	(13 477)	(2 799)		
Transfers and Grants	(25795)	(19122)	(27 947)	(2153)		
NET CASH FROM/(USED) OPERATING ACTIVITIES	435 574	203 354	487104	51 530		
CASH FLOWS FROM INVESTING ACTIVITIES						
<i>Receipts</i>						
Proceeds on disposal of PPE	-	-	-	-		
Decrease (Increase) in non-current assets	-	-	-	-		
Decrease (increase) other non-current assets	-	-	-	-		
Decrease (increase) in non-current investments	(1 464)	(361)	(1 464)		The level at which the non-current investments have been increasing during the 2015//16 financial year is low when compared to the budgeted amount. However, no changes were made to this line item and no explanation was provided in the adjustments budget narrative report.	The comment is noted, however, it does not appear correct, as it does not take into account that the interest on long term investment and the invested amount is fixed. Also the average actual for the past 2 years is R1.4 million, therefore, there is no reason to believe that this amount will drop in the budget year.
<i>Payments</i>						
1 2 1						
Description Thousand	Original/ Adjusted Budget *	Section 72 Report (YTD Actual)	Adjusted Budget	Increase/ Decrease (Original vs. Adjusted Budget)	Comments	
Capital assets	(424 487)	(155 862)	(452944)	(28458)	The cash outflow for Capital assets in Table B7 reconciles to the budgeted capital expenditure reflected in Table B7. This might be an indication that the municipality has not taken into account prior year creditors or the creditors relating to Capital assets have been taken into account under payments to Suppliers and	The comment is noted, creditors relating to capital assets have been into account and are reflected under suppliers and payments.
NET CASH FROM/(USED) INVESTING ACTIVITIES	(425 951)	(156 223)	(454 408)	(28 458)		
CASH FLOWS FROM FINANCING ACTIVITIES						
<i>Receipts</i>						
Short term loans	-	-	-	-		
Borrowing long term/refinancing	-	-	-	-		
Increase (decrease) in consumer deposits	1365		1365		No adjustments were made against this line item. This is despite Provincial Treasury's concern over the fact that the increase in Consumer deposits reflected in the Original Budget Table A7 did not reconcile with the movement in Consumer deposits reflected in Table A6 of R2.1 million. In the 2015/16 Adjustments Budget, the increase in Consumer deposits still does not reconcile to the movement in Table B6 Furthermore, as at mid-year, no increase against	The comment is noted, however, it does not take into account that this amount is consistent with the movement between the audited outcome and the budgeted amount and the meter audit underway.
<i>Payments</i>						
Repayment of borrowing	(3 390)	(14 768)	(14 839)	(11 450)	It was noted that the Repayment of borrowing of R14.8 million reported by the municipality at mid-year exceeded the current portion of the long-term liability as reflected in the municipality's consolidated AFS for 2014/15. No explanation was provided by the municipality in respect of the	The comment is noted, however the R14,8 million is inclusive of R 8,1 million relating to lease repayments. The C schedules does not have a separate line item for the repayment of leases.
NET CASH FROM/(USED) FINANCING ACTIVITIES	(2 024)	(14 768)	(13 474)	(11 450)		

NET INCREASE/(DECREASE)	7 599	32 363	19 222	11623		
Cash/cash equivalents at begin	26 037	36 718	36 718	10681	The Cash/cash equivalents at beginning has now been corrected by the municipality in line with the closing balance as per the municipality's consolidated 2014/15 audited AFS.	The comment is noted, however, it is important to note that PT's comment was that the original budget amount of R26 million was overstated whereas the actual results prove that it was actually understated by R11 million
Cash/cash equivalents at month	33 636	69 081	55 940	22 303	As indicated above, the cash inflow reflected for Ratepayers and other and Interest appears overstated and therefore, the municipality's Cash/cash equivalents at month/year end is overstated.	The comment is noted, however, as indicated in the opening balance line item comment, PT's assessment appears incorrect/inconsistent.
Cash backed reserves/accumulated surplus reconciliation						
Cash and investments available						
Cash/cash equivalents at the	33636	69 081	55 940	22 303		
Other current investments >	-	-	(0)	(0)		
Non current assets - Investm	24 533	-	24 533	-		
Cash and investments availa	58169	69 081	80 472	22 303		
Applications of cash and investments						
Unspent conditional transfers	-	-	-	-		
Unspent borrowing	-	-	-	-		
Statutory requirements			(40 000)	(40000)	As per the municipality, the budgeted revenue against Statutory requirements relates to the VAT refunds expected to be received from SARS. As at mid-year, the majority of VAT refunds were still under audit thus it is not clear whether the audit has been completed and that the refunds will be released soon. The municipality is requested to submit their calculation of the VAT refund to Provincial Treasury in order for Provincial Treasury to ascertain the reasonability in the estimated amount of R40 million.	The comment is noted, however, the municipality's budget for VAT refunds appears understated rather than overstated as at the end of March 2016, the municipality has received over R41 million worth of Vat refunds extract of the bank statement showing the receipts is attached. It is important to note that this does not include the amount of R9 million owing by SARS for the January and February 2016 vat refunds.
Other working capital requirements	56 843		96 665	39 822	As per Table B8, a collection rate of zero was applied against Debtors when calculating Other working capital requirements, thus overstating the budgeted amount for this line item. When applying the municipality actual collection rate of 56 percent at mid-year as indicated in the adjustments budget narrative report, the budget for Other working capital requirements decreases significantly. Furthermore, when considering the fact that there is possibly understatement on the closing balance for Trade and other payables reflected in Table SB2, as indicated above, the budget for Other working capital requirements is overstated and subsequently overstating the cash position.	The comment is noted, however, it does not appear correct, due to the following reasons: 1. The municipality has already received over R41 million worth of Vat refunds and at the date of this report SARS still owe the municipality R9 million for January and February 2016 vat refunds; 2. If the municipality collects 56% of the outstanding consumer debtors balance as suggested by PT, then the revenue collection rate should be more than 100% which is not the case, hence, to be prudent the municipality budgeted not to receive any additional money from the consumer debtors as evidenced by the increase in the closing balance of consumer debtors instead of a budgeted decrease; 3. Even if the municipality increases closing creditors balance as suggested by PT, that will have a positive impact on the cash available for operations as creditors would finance the operations for the budget year, which is why the municipality reflected a lesser amount for creditors to be prudent;
Other provisions	-	-	-	-		
[JL i						
Description Thousand	Original/ Adjusted Budget*	Section 72 Report (YTD Actual)	Adjusted Budget	Increase/ Decrease (Original vs. Adjusted Budget)	Comments	
Long term investments committed					The municipality has reflected R24.5 million as Non current assets-investments above in the Cash and investments available section, however, no amount has been reflected against Long term investments committed in Table B8. As result of this, the municipality's surplus as reflected	The comment is noted, please refer to the above responses.
Reserves to be backed by cash	-	-	-	-		
Total Application of cash and	56 843	-	56 665	(178)		

Surplus(shortfall)	1 326	69 081	23 807	22 482	Although a surplus is reflected in Table B8, the municipality should note that receipts from Ratepayers and other and Interest in the Cash Flow B7 appear overstated as discussed in the Cash Flow Budget analysis above. Furthermore, should the municipality not receive the anticipated cash inflow from SARS for VAT refunds and the fact that the long term investments were not reflected in Table B8, the 2015/16 Adjustments Budget for the municipality appears	The comment is noted, please refer to the above responses.
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Table 5: Transfers and Grants Receipts - (Table SB7)

Description R thousand	Original/ Adjusted Budget *	Section 72 Report (YTD Actual)	Adjusted Budget	Increase/ (Decrease) (Original vs. Adjusted Budget)	Comments	
RECEIPTS: ODeratina expenditure						
National Government						
Local Government Equitable Share	338090	253 568	338 090	-		
Finance Management Grant (FMG)	1250	1250	1250	-		
Municipal Infrastructure Grant (MIG)	27 000	27 000	29 300	2 300	The municipality has not provided reasons for the re-classification of R2.3 million for MIG allocation for capital and operating in the adjustments budget narrative report.	The comment is noted, the reclassification is to fund the operating costs relating to the Project Management Unit as advised by COGTA.
				-		
Provincial Government						
Development Planning Shared Services COGTA	250	250	250	-		
				-		
Other grant providers						
NATIONAL LOTTERIES BOARD			500	500	The municipality has submitted the supporting document for this allocation. However, the letter stipulated conditions which had to be met before the transferring department could finalised approval of the application. The confirmation of approval has not been submitted to Provincial Treasury, thus it is not clear whether the budgeted amount would materialise.	The comment has been noted, however, the agreement between the municipality and National Lottery to transfer funds in the budget year has been signed.
				-		
Capital expenditure						
National Government						
Municipal Infrastructure Grant (MIG)	162 590	105 000	160 290	(2 300)		
Rural Transport Grant	2116	2116	2116	-		
Regional Bulk Infrastructure Grant	126166	40128	134 166	8 000	No adjustment has been reflected against the National or Provincial Government in Table SB7. As per the adjusted DoRA, grant receipt against Regional Bulk Infrastructure Grant was reduced by R20 million, from R126.2 million to R106.2 million and the municipality adjusted this line item upwards by FR27 million as a result of bringing forward capital funding from multi year capital projects. However, the net movement for Regional Bulk Infrastructure in Table B5 was R7 million whilst an amount of R8 million	The comment is noted, however, it does not appear correct, due to the fact that Table B5 relates to capital expenditure as per the Trial Balance which is vat exclusive whereas SB7 relates to total grant receipts which are inclusive of vat therefore the comparison does not appear consistent.
Water Services Operating and Transfer Subsidy Grant (Schedule 5B)	4 000			(4 000)	The municipality has removed the budget for the Water Services Operating Grant. No adjustment was reflected in the adjusted DoRA, however, the municipality had previously received a notice of "withholding" from Department of Water and Sanitation. Considering that the allocation was not adjusted in the amended DoRA, it is not clear whether the process of the withholding of the grant was finalised. As per the withholding letter this grant was allocated to iLembe in order to enable the municipality to refurbish assets transferred (scheme) in line with the transfer agreement entered into by the municipality and the department. However, the department performed the assessment on the financial assistance provided to the municipality as well as refurbishment done. The assessment revealed that the department have now fully funded all refurbishments needs identified in terms of the functional assessment as well as the residual	The comment is noted, however, section 18(1)(a) of the MFMA requires that the budget be funded from realistically anticipated revenues to be collected. At the time of the preparation and approval of the adjustments budget, the municipality had in its possession information i.e. letter from DWS indicating that the municipality will not be receiving these funds. The municipality excluded these funds on that premise and also to comply with the basic fundamental requirement of prudence.

Expanded Public Works Programme Integrated Grant (Municipality)	1536	1075	1 536	-		
Municipal Systems Improvement Grant (MSIG)	940	940	940	-		
Municipal Water Infrastructure Grant (MWIG)	140154	105115	140 154	-		
National Disaster Management Centre (Cogta): Drought		16125			As per the municipality's mid-year report, the municipality reflected a receipt of R16.1 million against National Disaster Management Centre. However, no grant has been reflected in the 2015/16 Adjustments Budget.	The receipt of R 16.1 million is an amount owed to the municipality from the 2014/15 financial and should not be regarded as a new allocation.
Provincial Government						
KwaDukuza Municipality MIG Transfer			6100	6100	Despite the municipality not reflecting an Original Budget of R17 million against KwaDukuza Municipality MIG Transfer, a decrease of R11 million is noted against this line item bringing the adjusted budget to R6.1 million.	The comment is noted, however, as previously indicated that in terms of the earlier engagements with KDM, the project budget provision was not finalised at the budget preparation. It was also mentioned that funds were going to be made available for the project. Furthermore, KDM was busy with reconciliation of expenditure on the project for them to provide for the correct amount in their budget and obtain the relevant council resolution to support it. The latest budget provision is based on the outcome of the engagements and is explained in the narrative report on paragraph 1.4.1
Ndwedwe Town Development	"	2 802	14610	14 610	An adjustments reflected against Ndwedwe Town development relates to Neighbourhood Development grant transfer from Ndwedwe Municipality.	The comment is noted, the explanation relating to this grant has been provided in the adjustments budget narrative report under paragraph 1.4.1.1
				-		

ILEMBE DISTRICT MUNICIPALITY

POLICY CHANGES 2016-17 - SUMMARY SHEET

POLICY NAME: TARIFF POLICY

NATURE OF CHANGES IN BRIEF: RESTRUCTURING OF PARAGRAPHS, REWORDING AND ADDITION OF NEW POLICY STATEMENTS

OLD POLICY DOCUMENT	OLD POLICY REFERENCE	AMENDED POLICY DOCUMENT	INCLUDED	EXCLUDED	NEW POLICY REFERENCE	COMMENT
N/A	N/A	12.1 Developers contributions are payable by all consumers with the intention to build.	✓		Page 12	Developers contribution
N/A	N/A	12.2 Developers contribution shall be calculated using a methodology as set out in the tariff of charges.	✓		Page 12	Developers contribution
N/A	N/A	12.3 Contractors and or developers are to provide the district municipality with approved plans as per submitted with the local municipality	✓		Page 12	Developers contribution

ILEMBE DISTRICT MUNICIPALITY

POLICY CHANGES 2016-17 - SUMMARY SHEET

POLICY NAME: CREDIT CONTROL AND DEBT COLLECTION POLICY

NATURE OF CHANGES IN BRIEF: RESTRUCTURING OF PARAGRAPHS, REWORDING AND ADDITION OF NEW POLICY STATEMENTS

OLD POLICY DOCUMENT	OLD POLICY REFERENCE	AMENDED POLICY DOCUMENT	INCLUDED	EXCLUDED	NEW POLICY REFERENCE	COMMENT
N/A	N/A	12.6 Municipality may use services of tracing agents in order to acquire such data in order to proceed with any applicable action necessary to collect debt.	✓		Page 12	Emphasizing that all actions necessary in order to collect debt from companies directors who tender with the Municipality.
N/A	N/A	Paragraph 4 . D Shall there be no clearance certificate rendered and the property is transferred, the municipality may implement sec 16 of this policy	✓		Page 18	Emphasizing the implementation of sec 118 of the systems act