

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 tariff increase is based on the tariff increase of 9.6% from Umgeni Water. The bulk water tariff is beyond the CPI and is unaffordable to the District. Unfortunately this will be passed on to consumers. Submission was made to Umgeni on the 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 1<sup>st</sup> 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. KZNCOGTA is assisting the Municipality with cost reflective tariffs and a pilot exercise is being undertaken to this effect. Once the exercise is complete, a decision will be taken on the implementation of such tariffs in order to remain sustainable and viable. The bulk water tariff of 9.6% passed on to consumers is not fully cost reflective. The sanitation tariff even though linked to the valuation method is also increased 9.6% with the view of working toward being cost reflective. The high input costs to treat water and sanitation is not reflected in the current tariff increase.

#### **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, the tariffs and other charges be increased as follows and be advertised as such:

Type of Service	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.

### 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 at 85%
Sewer charges	Collection ratio at 85%
Miscellaneous tariffs	Collection ratio at 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 financial year's 2019/20 budget process and will be applicable during implementation. 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 under Annexure D

#### **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 more than 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 tariff 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 over 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	2015/16	2016/17	2017/18	Current Year 2018/19		2019/20 Medium Term Revenue &		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>								
<b>Receipts</b>								
Property rates					-	-	-	-
Service charges	87,197	104,613	107,174	123,678	137,883	152,016	167,218	183,940
Other revenue	4,566	9,271	25,655	30,210	29,848	32,716	34,415	35,975
Government - operating	423,843	385,967	502,725	509,101	518,901	643,116	644,466	707,273
Government - capital	429,912	394,277	332,503	336,720	350,299	296,596	283,918	342,707
Interest	4,937	3,108	8,360	11,882	10,183	35,073	38,548	42,369
Dividends					-	-	-	-
<b>Payments</b>								
Suppliers and employees	(307,284)	(520,519)	(528,560)	(595,732)	(709,954)	(734,750)	(717,830)	(756,899)
Finance charges	(8,448)	(9,977)	(10,566)	(9,928)	(7,704)	(12,403)	(9,366)	(12,958)
Transfers and Grants	(27,947)	(7,363)		(26,087)	-	(33,814)	(35,640)	(37,564)
<b>NET CASH FROM/(USED) OPERATING</b>	<b>606,776</b>	<b>359,377</b>	<b>437,291</b>	<b>379,844</b>	<b>329,456</b>	<b>378,550</b>	<b>405,728</b>	<b>504,841</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>								
<b>Receipts</b>								
Proceeds on disposal of PPE	911	199		-	-	-	-	-
Decrease (increase) in non-current de	-			-	-	-	-	-
Decrease (increase) other non-current receivables				67,395	67,395	-	-	-
Decrease (increase) in non-current in	(1,437)	(1,390)	(1,477)	(2,008)	(2,008)	27,146	-	-
<b>Payments</b>								
Capital assets	(584,113)	(362,439)	(338,963)	(301,154)	(394,023)	(347,948)	(254,538)	(305,910)
<b>NET CASH FROM/(USED) INVESTING</b>	<b>(584,640)</b>	<b>(363,630)</b>	<b>(340,440)</b>	<b>(235,767)</b>	<b>(328,636)</b>	<b>(320,802)</b>	<b>(254,538)</b>	<b>(305,910)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>								
<b>Receipts</b>								
Short term loans						-	-	-
Borrowing long term/refinancing			(17,313)			-	-	-
Increase (decrease) in consumer deposits						-	-	-
<b>Payments</b>								
Repayment of borrowing	(22,711)	(25,594)	(10,020)	(25,283)	(4,989)	(52,851)	(24,648)	(27,470)
<b>NET CASH FROM/(USED) FINANCING</b>	<b>(22,711)</b>	<b>(25,594)</b>	<b>(27,334)</b>	<b>(25,283)</b>	<b>(4,989)</b>	<b>(52,851)</b>	<b>(24,648)</b>	<b>(27,470)</b>
<b>NET INCREASE/ (DECREASE) IN CA</b>	<b>(575)</b>	<b>(29,847)</b>	<b>69,518</b>	<b>118,793</b>	<b>(4,170)</b>	<b>4,897</b>	<b>126,542</b>	<b>171,461</b>
Cash/cash equivalents at the year be	36,718	36,143	6,296	55,670	75,814	73,126	78,023	204,565
Cash/cash equivalents at the year en	36,143	6,296	75,814	174,463	71,644	78,023	204,565	376,027

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 but instead backed by grant funding.

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 78 million by the end of the 2019/2020, R 204 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, however care should be given that the budget is monitored closely to eliminate spending on non- priority programmes.

## 2.7 Expenditure on Grants and Reconciliations of Unspent Funds

An amount of R 895.3 million (inclusive of VAT) 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 SA18 and SA19.

DC29 iLembe - Supporting Table SA18 Transfers and grant receipts									
Description	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue &		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>RECEIPTS:</b>									
<b>Operating Transfers and Grants</b>									
<b>National Government:</b>	<b>368,640</b>	<b>390,006</b>	<b>441,250</b>	<b>508,401</b>	<b>502,822</b>	<b>502,822</b>	<b>593,808</b>	<b>610,219</b>	<b>664,590</b>
Local Government Equitable Share	338,090	374,582	419,734	468,670	468,670	468,670	516,503	566,725	623,405
Finance Management	1,250	1,250	1,250	1,000	1,000	1,000	1,000	1,000	1,000
DEPT OF LABOUR UIF GRANT					1,000	1,000	40,880	-	-
WSIG OPERATING Funded (VIP TOILETS)		4,000				-			
Rural Transport Services and Infrastructure		2,174	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 GRANT				1,731	1,731	1,731	2,019	-	-
MIG OPERATING Funded (VIP TOILETS)	29,300	8,000	18,000	30,000	21,150	21,150	21,000	25,000	27,500
<b>Provincial Government:</b>	<b>250</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,000</b>	<b>15,000</b>	<b>550</b>	<b>550</b>	<b>600</b>
Development Planning Shared Services - COGTA	250						550	550	600
KZN COGTA GRANT - Wi-Fi, Biomass, Mini Factories					10,000	10,000			
SIBHUDU CAVES AND KWASHUSHU HOTSPRING					1,200	1,200			
CORRIDOR DEVELOPMENT PROGRAMME					1,000	1,000			
RASET PROGRAMME - OPEX					2,800	2,800			
District Municipality:	-	-	-	-	-	-	-	-	-
Other grant providers:	-	-	-	700	1,050	1,050	-	-	-
Maphumulo Intergrated Energy Grant				700		700	-	-	-
SIBHUDU CAVES AND KWASHUSHU HOTSPRING - MAP CONTRIBUTION					350	350	-	-	-
<b>Total Operating Transfers and Grants</b>	<b>368,890</b>	<b>390,006</b>	<b>441,250</b>	<b>509,101</b>	<b>518,872</b>	<b>518,872</b>	<b>594,358</b>	<b>610,769</b>	<b>665,190</b>
<b>Capital Transfers and Grants</b>									
<b>National Government:</b>	<b>440,809</b>	<b>366,786</b>	<b>392,626</b>	<b>336,720</b>	<b>343,299</b>	<b>343,299</b>	<b>300,944</b>	<b>283,918</b>	<b>342,707</b>
Municipal Infrastructure Grant (MIG)	160,290	178,984	178,126	158,503	167,353	167,353	171,596	178,918	192,707
Rural Transport Services and Infrastructure	2,116	-	-	-	-	-	-	-	-
Regional Bulk Infrastructure	111,594	127,452	145,000	75,446	75,446	75,446	35,000	30,000	70,000
Water Services Operating Grant	4,000								
EPWP	1,536	1,850	1,000						
MSIG	940								
MWIG	140,154								
EMERGENCY DROUGHT RELIEF GRANT (DWS)	20,179								
Rural Transport Services and Infrastructure				2,271					
Energy Efficiency and Demand Side Management Grant			6,000						
WSIG		58,500	62,500	100,500	100,500	100,500	90,000	75,000	80,000
YEP GRANT PROJECTS							4,348	-	-
<b>Provincial Government:</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,200</b>	<b>8,200</b>	<b>-</b>	<b>-</b>	<b>-</b>
RASET PROGRAMME - CAPEX					2,200	2,200			
MASSIFICATION					6,000	6,000			
District Municipality:	15,662	10,817	-	-	-	-	-	-	-
KwaDukuza Municipality MIG Transfer	5,510								
Ndwedwe Town Development - (incl rollover)	10,152	10,817							
Other grant providers:	-	-	-	-	-	-	-	-	-
<b>Total Capital Transfers and Grants</b>	<b>456,471</b>	<b>377,603</b>	<b>392,626</b>	<b>336,720</b>	<b>351,499</b>	<b>351,499</b>	<b>300,944</b>	<b>283,918</b>	<b>342,707</b>
<b>TOTAL RECEIPTS OF TRANSFERS &amp; GRANTS</b>	<b>825,361</b>	<b>767,609</b>	<b>833,876</b>	<b>845,821</b>	<b>870,371</b>	<b>870,371</b>	<b>895,302</b>	<b>894,687</b>	<b>1,007,897</b>

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 21 million (VAT Incl.). Projects funded through this relate to the construction of VIP toilets in the Maphumulo, Mandeni and Ndwedwe areas.

## **2.9 Councilor, Board member allowances and employee benefits**

The consolidated employee related cost is budgeted at R 266.1 million (2019: R 229 million) while the councillor allowances are budgeted at R 9.2 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 347.9 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 908 million**.

DC29 iLembe - Table A5 Consolidated Budgeted Capital Expenditure by vote, functional classification and funding

Vote Description	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
<b>R thousand</b>								
<b>Capital Expenditure - Functional</b>								
<b>Governance and administration</b>	26,104	11,558	6,216	68,764	71,294	68,541	6,653	6,904
Finance and administration	21,806	11,558	6,216	68,764	71,294	68,541	6,653	6,904
Internal audit	4,298							
<b>Community and public safety</b>	-	-	-	1,000	180	1,800	-	-
Community and social services				400	180	-	-	-
Health				600		1,800	-	-
<b>Economic and environmental services</b>	-	-	-	1,975	4,375	4,698	-	-
Planning and development					4,375	4,698	-	-
Road transport				1,975				
<b>Trading services</b>	474,610	350,812	299,941	292,564	318,173	272,910	247,885	299,006
Energy sources								
Water management	443,953	325,209	273,242	237,908	272,280	182,958	186,868	222,242
Waste water management	30,657	25,603	26,699	54,657	45,893	89,951	61,017	76,764
<b>Total Capital Expenditure - Functional</b>	<b>500,714</b>	<b>362,370</b>	<b>306,157</b>	<b>364,303</b>	<b>394,023</b>	<b>347,948</b>	<b>254,538</b>	<b>305,910</b>
<b>Funded by:</b>								
National Government	349,736	234,173	304,204	292,800	298,521	257,910	246,885	298,006
Provincial Government					7,130	4,348	-	-
Other transfers and grants		4,320		-	12,678	-	-	-
<b>Transfers recognised - capital</b>	<b>349,736</b>	<b>238,494</b>	<b>304,204</b>	<b>292,800</b>	<b>318,330</b>	<b>262,257</b>	<b>246,885</b>	<b>298,006</b>
<b>Borrowing</b>	125,310	109,730		63,149	63,149	63,149	2,000	2,000
<b>Internally generated funds</b>	25,668	14,146	1,953	8,354	12,545	22,543	5,653	5,904
<b>Total Capital Funding</b>	<b>500,714</b>	<b>362,370</b>	<b>306,157</b>	<b>364,303</b>	<b>394,023</b>	<b>347,948</b>	<b>254,538</b>	<b>305,910</b>

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 272.9 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 182.9 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 89.5 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 262.2 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 22.5 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 pump station.

#### **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 budgeted in the new financial year due to the lengthy bidding process.

**The Total Expenditure for 2020 is as follows:**

	<b>R '000</b>
<b>OPERATIONAL EXPENDITURE</b>	<b>855,420</b>
<b>CAPITAL EXPENDITURE</b>	<b>347,948</b>
<b>TOTAL</b>	<b>1,203,369</b>

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 144.7 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 65%. 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, while it April was year to date was 65%. The month to month collection rate for April was 75%.

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

- There are strategies in place that have been put that will ensure revenue growth and enhancement.
- 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 was initially appropriated at R 33.8 million during the draft budget, however, due to the currently financially constrained budget and the application of cost containment measures, during the Budget Steering Committee meeting held on the 24<sup>th</sup>, the entity's budget was discussed further, as a result the entity's budget was decreased by R 2 million arising from that discussion in consideration of the KZN's Provincial Treasury's High Level Assessment on the draft budget. The allocation to the municipal entity on this budget is therefore now sitting at R 31.8 million. It must be noted that the Municipality has to submit a consolidated budget together with the Entity. The Entity's budget could be further viewed on SA31.

## 2.16 Service Agreements

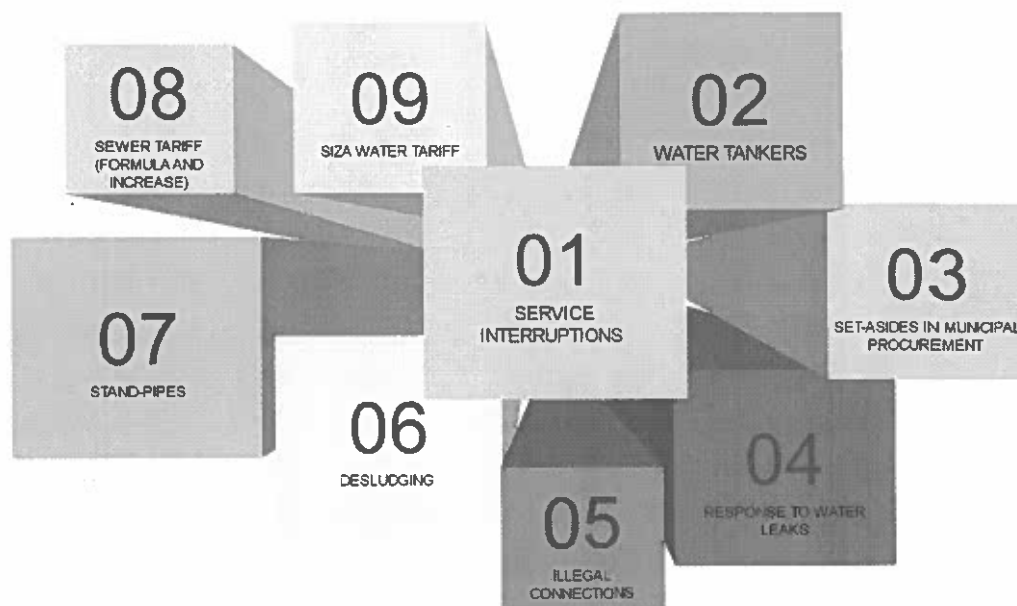
Adequate provision has been made on the operational budget to meet the expected expenditure for the following significant service providers:

Supplier	Nature of Service
CICS (Pty) Ltd	Software maintenance contract
KwaDukuza Municipality	Electricity
Telkom	Tele-communication
Siza Water	Water and sewer Concession
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.

The draft 2019/20 budget was tabled at Council on 27 March 2019, which then initiated the public participation process. The budget was published in the local newspapers and municipal website and also placed on the municipal buildings. Public participation meetings were held as per the District's meeting schedule for all local municipalities. During this process, a Council workshop was conducted to consider the budget related policies in line with the Budget & Reporting Regulations. Items that were raised by the public during these consultations were as follows:



1. Service interruptions
2. Water tankers
3. Set Asides in Municipal Procurement
4. Response to leaks
5. Illegal Connections
6. Desludging
7. Stand Pipes
8. Sewer Tariff
9. Siza Water tariff

Responses to these comments/ concerns forms part of the final budget with reference to items incorporated in the budget. Other input received was also considered in the finalisation of the budget.

## **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 see the result of implementation of the plan.

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.

## **2.10 Water and Waste Water Demand Management**

### **Waste Water Quality – Ilembe District municipality (IDM)**

The District Municipality operates 10 waste water treatment plants across all four (4) local Municipalities that vary in size and complexity. These waste water works are operated by process controllers based on site and are required to manage the process of waste water to achieve a compliant final effluent to minimize any negative impact on the surrounding environment. This is done through daily laboratory testing by the process controllers as well as weekly and monthly testing carried out by an external service providers. The ability to achieve a compliant final effluent depends on among other things the functioning and maintenance of all process units, the calibre of process controllers to effect process changes, appropriate use of chemicals as required and proper and regular record keeping.

IDM does face challenges in achieving the required effluent standards at certain waste water treatment works due to some of the reasons listed above and with correct and sufficient investment in these facilities, the effluent quality will improve in the foreseeable future.



## **Water quality – Ilembe District Municipality (IDM)**

IDM operates and manages several water treatments works throughout the district that vary from small borehole type facilities to larger treatment works. In addition, IDM also purchases bulk water from a variety of service providers, the main being Umgeni Water, and in turn manages the reticulation supply to residents within the district. Daily testing of water is carried in-house by the process controllers and weekly, monthly and annual testing of water is carried out by an external service provider. The water quality results are captured onto the Department of Water and Sanitation (DWS) website for monitoring and evaluation purposes. The water quality within the district has been negatively affected due to drought conditions in recent years, insufficient water sources (resulting in water being supplied via water tankers), as well as deteriorating infrastructure at some of our facilities . The District is making progress and provisions to address some of these limiting factors by investing in new infrastructure and sourcing more reliable water sources. These initiatives, once implemented fully, will impact positively on water quality in the future.

### **3. CONSULTATIONS**

- National Treasury & The Provincial Treasury
- His Worship, the Mayor
- The Accounting Officer
- All Directorates within the Municipality
- 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 annexures 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)

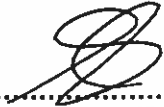
Table A5: Budgeted Capital Expenditure by Vote, Standard Classification & Funding Source)
Table A6: Budgeted Financial Position
Table A7: Budgeted Cash Flow
Table A8: Cash backed reserves/accumulated surplus reconciliation
Table A9: Asset Management
Table A10: Basic service delivery measurement

It should be noted that in respect of Capital Expenditure Estimates:**Error! Not a valid link.**

- 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

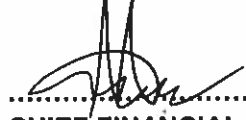
- That the draft tariff of charges for 2018/19 financial year be increased by 9.6% effective from 1 July 2019.
- That in compliance with section 22 of the MFMA, the final budgets be published in the local press and made available on the municipal website.
- That Council note that the draft service delivery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

**SIGNATURE OF AUTHOR**

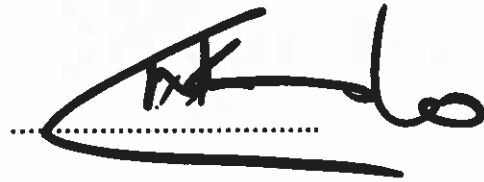


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**MANAGER BUDGET & COMPLIANCE  
S CHONGUENE**

**SUPPORTED / NOT SUPPORTED**



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



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