

| ITEM NO. | SUBJECT | REF |
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| | DRAFT MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF) 2018/2019 – 2020/2021 | |

REPORT TO: COUNCIL

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DIRECTORATE: FINANCE

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A. PURPOSE

To table before Council for consideration, the Draft Medium Term Revenue and Expenditure Framework for 2018/2019, 2019/2020 and 2020/2021 in terms of Section 16 of the Municipal Finance Management Act, No 56 of 2003.

PART 1 – ANNUAL BUDGET

1.1 MAYOR'S REPORT

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

Tabling of the IDP and Budget is one of the most important processes in local government.

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

This Financial plan is, as our IDP geared towards securing the well-being and dignity of our people though providing water, decent sanitation services and access to economic opportunities. The Council's commitment to this cause is encapsulated in the IDP Vision:

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

As a sphere of government and a District, we have to comply with National Outcomes and specifically outcome 9 that calls upon us to be a responsive and accountable, effective and efficient local government. Our strategies are guided by the KZN Provincial Growth and Development Plan and the National Development Plan “Vision 2030” which is our roadmap to a South Africa where all will have water, electricity, sanitation, jobs, housing, public transport, adequate nutrition, education, social protection, quality healthcare, recreation and a clean environment. They have been clustered in terms of the 5 key performance areas i.e.

The main challenges experienced during the compilation of the 2018/2019 MTREF can be summarised as follows:

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

Our objectives as envisaged on the IDP are aligned to the National and Provincial objectives. As a sphere of government and a District, we have to comply with National Outcomes and specifically outcome 9 that calls upon us to be a responsive and accountable, effective and efficient local government. Our strategies are guided by the KZN Provincial Growth and Development Plan and the National Development Plan “Vision 2030” which is our roadmap to a South Africa where all will have water, electricity, sanitation, jobs, housing, public transport, adequate nutrition, education, social protection, quality healthcare, recreation and a clean environment.

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

- Acceleration of water and sanitation provision in rural communities (Ndwedwe & Maphumulo),
- Upgrading and replacement of ageing infrastructure,
- Improve revenue collection and diversification of income
- Further engage communities on the sewer tariff
- Effective use of Enterprise iLembe to stimulate rural economic development
- Promotion of the Save Water Campaign

- Enhancing our capacity to respond to natural disasters across the district
- Strengthen and improve IGR
- Facilitation and strengthening of relationships with Amakhosi

BASIC SERVICE DELIVERY

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

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

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

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

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

The municipality relies on grants and mostly for the eradication of backlogs through development of infrastructure and basic service projects such as bulk water infrastructure, sanitation,

refurbishment of aging infrastructure, as capacitation of the budget and treasury office as well as job creation through the expanded public works programme (EPWP).

The total budget allocated to this objective is:

- Capital Infrastructure R 292.5 million
- Operational Expenditure – R 419.4 million.

LOCAL ECONOMIC DEVELOPMENT

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

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

- Influence policy and the regulatory environment for socio economic development and investment
- To ensure sound financial management and viability of the entity.

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

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

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

The total expenditure in ensuring development in or region is sustainable R 31.4 million is provided for the year 2018/19.

BACK TO BASICS

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

- Puts people and their concerns first and ensure constant contact with communities;
- Creates conditions for decent living by consistently delivering municipal services to the right quality and standard;
- Is well government and demonstrates good governance and administration;
- Ensures sound financial management and accounting , and prudently manage resources so as to sustainably deliver services and bring development to communities; and
- Build and maintain sound institutional and administrative capabilities, administered and managed by dedicated and skilled personnel.

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

MUNICIPAL TRANSFORMATION AND INSTITUTIONAL DEVELOPMENT

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

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

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

FINANCIAL VIABILITY AND MANAGEMENT

Sound financial management is integral to the success of the local government. We are obliged to be efficient, effective and prudent in the manner in which we deal with the state resources. Quality service delivery is dependent on systems that revolves on value for money principles. It should remain our focused objective:

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

Although the global economic outlook remains subdued, and our province being one of the affected provinces. There is a risk of socio economic instability and increased pressure to deliver services on time and expected quality. Further to the low revenue patterns, the impact of the drought can still be sensed through high consumer debt and slow growth on collection rate. For the forthcoming medium term our collection is estimated to sit at 85%. Knowing the economic situations, we as Council we will continue maintaining a balance between the consumer price index to guarantee affordable services at the same right reflecting cost recovery as to continue maintaining our infrastructure to minimise water losses. The increase on tariff of charges are set at 9.5%. This increase is 5% below that which our bulk services are estimated to increase. Moreover, the methodology of determining the sewer tariff will, having followed due consideration of iLembe district dynamics, be based on the valuation roll in this MTREF. Furthermore we have increase the provision of free basic services to R 23.1 million.

During the course the year there is a continued effort in consultation with COGTA to assist in aligning the District's register with the LM's.

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

The total 2018/2019 Budget operational and capital expenditure amounts to R 1 billion, while the total MTREF 2019 -2021 final budget amounts to R 3.2 billion.

Honourable Speaker of Council, I hereby table the Draft Medium Term Revenue and Expenditure Framework for the period 2018/18 to 2019/20 for cosnideration. That after Council consideration of the tabled draft MTREF the public participation process be initiated.

1.2 RESOLUTIONS

THAT

- The Council consider in terms of Section 24 of the Municipal Finance Act, 56 of 2003, the **Draft Annual Budget** of the Municipality for the Financial year 2018/2019; and indicative allocations for the two projected outer years 2019/2020 and 2020/2021; as set out in the A Schedules annexured hereto as follows:

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

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

- Instances where information has been provided in terms of Section 19(2) (b) of the Municipal Finance Management Act No.56 of 2003, the consideration of capital budget constitutes projects consideration for the specific projects as reflected in the detailed capital budget. Where information in terms of section 19(2) (b) is not provided, specific project approval be sought from council during the course of the year.
- That Council consider draft amendments to its **Tariffs of Charges** as depicted on the schedule annexed hereto and marked as **Annexure B**.
- That the Draft Budget related policies be noted with the respective amendments.
 - Fixed Assets Management Policy

- Inventory Management Policy
 - Unauthorized, Irregular, Fruitless & Wasteful Expenditure Policy
 - Borrowing Policy
 - Funding and Reserves Policy
 - Long Term Financial Planning
 - Infrastructure, Investments and Capital Projects
 - Petty Cash Policy
 - Austerity measures policy
 - Banking, Cash Management & Investments Policy
 - Accounts payables policy
 - Budget Policy
 - Credit Control & Debt Collection Policy
 - Indigent Management Policy
 - Supply Chain Management Policy
 - Virement Policy
 - Tariff Policy
- That the draft tariff of charges for 2018/19 financial year be increased by 9.5% effective from 1 July 2018.
 - That in compliance with section 22 of the MFMA, the final budgets be published in the local press and municipal website, it being noted that Council's department of Corporate Governance will attend to this aspect.
 - That sewer Tariff to be calculated on the market value of the property reflected in the KwaDukuza, Mandeni, Ndwedwe & Maphumulo Municipality's valuation roll as follows:

| 2018/19 | Type of Property |
|--|--|
| 0.006143 cents in the rand on the market value | In respect of agricultural properties. |
| 0.004938 cents in the rand on the market value | In respect of residential properties including sectional title units. |
| 0.016502 cents in the rand on the market value | In respect of industrial, business and commercial properties. |
| 0.204404 cents in the rand on the market value | In respect of vacant properties. |
| 0.305943 cents in the rand on the market value | In respect of state owned properties and public service infrastructure properties. |
| 0.305943 cents in the rand on the market value | In respect of any other property not mentioned above. |

- That, notwithstanding the above maximum increase over and above the tariff charged in 2018/19 will be capped at 30%. – using market value

| 2018/19 | Type of Property |
|---|---|
| Previous 12 months average (billed) sanitation levy + 30% | Sewered properties above R5 million in the valuation rolls. |
| 0.305943 cents in the rand on the market value | Sewered properties not included in the valuation rolls. |

- That Council note that the draft service delivery and budget implementation plan for the 2018/2019 financial year will be tabled 28 days after the budget has been adopted.

1.3 EXECUTIVE SUMMARY

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

Section 24 of the MFMA further requires that the municipal council must at least 30 days before the start of the budget year consider approval of the annual budget, as the budget must be approved before the start of each financial year. It is in compliance with these sections that the budget is hereby tabled 90 days prior to the new financial year 2018/2019.

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

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

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

The Mid-Year Budget and Performance Assessment report was conducted and presented by the Accounting Officer to the Mayor of the District, who then submitted the performance assessment report to Council for consideration at the end of January 2018 and to the

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

The report resolved a preparation of the consolidated adjusted budget for the year 2017/18 financial year for both iLembe District and its entity. The adjustment was prepared mainly to align the spending with the currently implemented Financial Recovery Plan, as a result, some internally funded projects were to be delayed. The adjustments budget was tabled to Council by His worship, Mayor of iLembe District Municipality on 28 February 2018 in line with section 28 of the MFMA. During this process and where appropriate, funds were transferred from low-to high priority programs so as to maintain sound financial stewardship. A critical review was further undertaken to limit spending on non-core items to align the budget with the District's austerity measures. Approaching the adjustments budget process, a constant consultation with all departments was maintained while considering the Provincial treasury's High Level Assessment on the 2018 Mid-Year budget assessment.

Various challenges were encountered during the course of the financial year. These were broadly presented before various committees for deliberation and tabled during the adjustments budget process. Some of these are of a great concern and have been considered during the 2018/2019 budget preparation process. On a high level, these included the following:

- Revenue growth patterns which impacts on the implementation of the budget as expenditure further relies on what is collected at the end of the month.
- Sustainability on the implementation of the prepaid meters.
- The budget on multi-year funded projects will be adjusted as a result of variance on between planning cashflow projections versus and implementation cashflow.
- Constrained cash flow position whereby there was a risk of other services being temporarily suspended.

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

The directive on the 2018/19 draft annual budget was discussed with all Directorates, including the Municipal Manager before being tabled for discussion at the Budget and Steering Committee. In terms of the Regulations this must be done before tabling the annual

budget to full council for consideration and allowing for public participation process. The draft budget is now therefore being tabled to full Council.

The 2018/2019 Medium Term Revenue and Expenditure Framework focuses on the long and short term objectives and priorities of the District as well as outcomes and outputs, based on the following IDP Priorities:

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

National Treasury's MFMA Circular No 10, 13, 19, 42, 48, 51, 54, 58, 59 , 66, 74, 75 and 78, 79, 82, 85, 86, 89 and 91 as well as the Municipal Budget & Reporting Regulations and the Municipal Finance Management Act were used to guide the compilation of the 2018/2019 MTREF.

The main challenges experienced during the compilation of the 2018/2019 MTREF can be summarised as follows:

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

- The need to fill vacant posts to eliminate inefficiencies and improve delivery of services.

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

- ✓ The affordability of the cost-reflective tariff per kilo litre calculation (cost based tariffs) which is not passed on to the consumers;
- ✓ The effects comprising of benefits and challenges on reinstatement of the sewer tariff structure which is now, property value based tariffs, compared to the forgone cost reflective tariff/ water consumption based tariffs, and benefit and the impact on collection patterns;
- ✓ Review of revenue generation calculation projections to ensure that all contributing factors are taken into account;
- ✓ Proposal of 9.5 % tariff increase and second year of the revised consumption based charge for sanitation revenue now calculated on the market value of the property reflected in the KwaDukuza & Mandeni Municipality's valuation roll.
- ✓ Furthermore, a reduction of various variable operating expenditure items was kept at a minimum to match with the low tariff increase of 9.5 % and the consumer price index as per the National Treasury's MFMA budget Circular.
- ✓ During the adjustments budget process, the Municipal Entity, Enterprise iLembe's grant allocation was slightly reduced in order to align its expenditure to the current austerity measures in place in the District.
- ✓ The fleet lease agreement had come to an end, arising a need to enter into a new contractual agreement for fleet.
- ✓ The grant allocation for the Regional Bulk Infrastructure Grant was gazetted for 2018/19 financial year only. No provision was made on the Division of Revenue Bill for the two outer years.

Operating Budget Summary

The proposed operational budget contains detailed information for the 2018/2019, 2019/2020 and 2020/2021 indicative financial years and is summarised below:

DC29 iLembe - Table A4 Consolidated Budgeted Financial Performance (revenue and expenditure)

| Description | 2014/15 | 2015/16 | 2016/17 | Current Year 2017/18 | | 2018/19 Medium Term Revenue & Expenditure Framework | | |
|---|-----------------|-----------------|-----------------|----------------------|-----------------|---|------------------------|------------------------|
| | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget | Adjusted Budget | Budget Year 2018/19 | Budget Year +1 2019/20 | Budget Year +2 2020/21 |
| R thousand | | | | | | | | |
| Revenue By Source | | | | | | | | |
| Property rates | – | – | – | – | – | – | – | – |
| Service charges - electricity revenue | – | – | – | – | – | – | – | – |
| Service charges - water revenue | 94,312 | 86,044 | 88,882 | 98,973 | 105,253 | 111,563 | 122,162 | 133,767 |
| Service charges - sanitation revenue | 50,689 | 59,104 | 45,800 | 57,122 | 24,254 | 31,378 | 34,359 | 37,623 |
| Service charges - refuse revenue | – | – | – | – | – | – | – | – |
| Service charges - other | – | – | 1,955 | 2,942 | 1,444 | 2,562 | 2,805 | 3,072 |
| Rental of facilities and equipment | 18 | 14 | 85 | 156 | 135 | 251 | 265 | 280 |
| Interest earned - external investments | 3,677 | 4,937 | 3,108 | 1,944 | 9,635 | 7,250 | 7,929 | 8,671 |
| Interest earned - outstanding debtors | 14,393 | 18,196 | 18,998 | 19,323 | 28,200 | 30,879 | 33,812 | 37,025 |
| Dividends received | – | – | – | – | – | – | – | – |
| Fines, penalties and forfeits | – | – | – | – | 322 | 659 | 722 | 790 |
| Licences and permits | – | – | – | – | 32 | 70 | 77 | 84 |
| Agency services | 1,464 | 1,531 | 2,028 | 1,483 | 1,483 | 1,624 | 1,778 | 1,947 |
| Transfers and subsidies | 372,903 | 386,612 | 385,967 | 441,250 | 460,250 | 503,672 | 534,473 | 600,185 |
| Other revenue | 18,223 | 26,111 | 15,668 | 22,642 | 23,452 | 26,806 | 27,438 | 29,382 |
| Gains on disposal of PPE | 9 | – | – | – | – | – | – | – |
| Total Revenue (excluding capital transfers and contributions) | 555,687 | 582,549 | 562,491 | 645,833 | 654,459 | 716,714 | 765,820 | 852,826 |
| Expenditure By Type | | | | | | | | |
| Employee related costs | 161,903 | 171,705 | 185,750 | 204,889 | 204,276 | 237,675 | 256,146 | 276,179 |
| Remuneration of councillors | 9,069 | 10,269 | 8,584 | 11,809 | 9,516 | 9,952 | 10,546 | 11,175 |
| Debt impairment | 40,409 | 97,678 | 40,241 | 44,232 | 44,232 | 21,826 | 23,899 | 26,169 |
| Depreciation & asset impairment | (136,135) | 73,494 | 90,431 | 76,970 | 77,281 | 82,285 | 89,948 | 98,372 |
| Finance charges | 11,247 | 8,448 | 9,977 | 10,906 | 9,462 | 9,928 | 9,396 | 5,458 |
| Bulk purchases | 74,441 | 62,752 | 75,803 | 84,466 | 80,500 | 99,946 | 114,937 | 128,155 |
| Other materials | 52,834 | 61,566 | 32,142 | 54,377 | 51,925 | 51,153 | 53,966 | 56,935 |
| Contracted services | 66,846 | 69,857 | 61,505 | 42,160 | 60,429 | 68,468 | 72,233 | 76,206 |
| Transfers and subsidies | 35,295 | 32,584 | 7,363 | 15,789 | 31,579 | 26,087 | 13,043 | 23,478 |
| Other expenditure | 91,287 | 92,842 | 97,320 | 96,347 | 83,800 | 105,249 | 108,249 | 113,987 |
| Loss on disposal of PPE | – | 1,128 | – | – | – | – | – | – |
| Total Expenditure | 407,196 | 682,323 | 609,116 | 641,947 | 653,000 | 712,567 | 752,364 | 816,115 |
| Surplus/(Deficit) | 148,492 | (99,774) | (46,625) | 3,887 | 1,459 | 4,147 | 13,456 | 36,711 |
| Transfers and subsidies - capital (monetary allocations) (National / Provincial and District) | 265,484 | 147,495 | 376,947 | 392,626 | 374,626 | 341,449 | 294,701 | 304,914 |
| Transfers and subsidies - capital (monetary allocations) (National / Provincial and District - all) | 75,351 | 374,763 | – | – | – | – | – | – |
| Surplus/(Deficit) after capital transfers & contributions | 489,327 | 422,484 | 330,323 | 396,513 | 376,085 | 345,596 | 308,157 | 341,625 |
| Taxation | – | – | – | – | – | – | – | – |
| Surplus/(Deficit) after taxation | 489,327 | 422,484 | 330,323 | 396,513 | 376,085 | 345,596 | 308,157 | 341,625 |
| Attributable to minorities | – | – | – | – | – | – | – | – |
| Surplus/(Deficit) attributable to municipality | 489,327 | 422,484 | 330,323 | 396,513 | 376,085 | 345,596 | 308,157 | 341,625 |
| Share of surplus/ (deficit) of associate | – | – | – | – | – | – | – | – |
| Surplus/(Deficit) for the year | 489,327 | 422,484 | 330,323 | 396,513 | 376,085 | 345,596 | 308,157 | 341,625 |

The overall operational revenue budget in the 2018/19 amounts to R 716.7 million and the operational expenditure amounting to R 712.5 million.

Operations are thereby budgeted to achieve a net surplus of R 4.1 million for 2018/19; R 13.4 million and R 36.7 million for 2019/20 and 2020/21 respectively.

The total surplus including capital transfers and contributions for 2018/19 amounts to R 345.5 million; and the two indicative years amount to R 308.1 million and R 341.6 million for 2019/20 and 2020/21 respectively.

Operating Revenue Framework

The following budget principles and guidelines directly informed the compilation of the 2018/2019 MTREF:

- The 2017/2018 Adjustment Budget priorities and targets, as well as the base line allocations contained in that adjustment budget were adopted as the upper limits for the new baseline for the 2018/2019 budget;
- Service level standards were used to inform the measurable performance objectives, targets and backlog eradication;
- That tariff increases must be affordable and be measured against the cost of bulk water. It must be noted however that the proposed tariff is lower than the bulk water increase. Although tariffs need to remain or move towards being cost reflective a balance should be created for affordable services to consumers at the same it should take into account the need to address infrastructure backlogs and maintenance thereof; and
- That all grant funded projects will only be implemented provided that a written confirmation in the form of Division of Revenue Act ("DORA") or otherwise is available and gazetted.

Service charges tariffs are proposed to increase by 9.5%. Sewer water consumption base charge will not be applicable still from 1 July 2018. An assessment of the consumer affordability of tariffs was also considered. The District Municipality will continue basing sewer charges on property valuation.

Operating Income

a) Service Charges Revenue – Water

This budget relates to billing of consumers for water. The proposed budget on water service charges amounts to a net of R 111.5 million (2017/18: R130.5 million). Although it appears as this items has decreased compared to 2018/19, the cost of providing free basic services has increased to R 10.5 million of which is netted off from water service charges revenue. The basis of this calculation is the increase on tariff of charges by 9.5%. Furthermore, there are new areas that the District expects to start billing consumers during the 2018/19 financial year. The R 111.1 million is a net after adjusting for free basic water services from operating expenditure classification to revenue classification, so as to off-set the revenue as required by MFMA Circular 79; see below for as per the budget tables;

DC29 iLembe - Supporting Table SA1 Supporting detail to 'Budgeted Financials'

| Description | 2018/19 Medium Term Revenue & Expenditure | | |
|--|---|---------------------------|---------------------------|
| | Budget Year 2018/19 | Budget Year +1 2019/20 | Budget Year +2 2020/21 |
| R thousand | | | |
| REVENUE ITEMS: | | | |
| Service charges - water revenue | | | |
| Total Service charges - water revenue | 122,063 | 133,660 | 146,357 |
| <i>less Cost of Free Basis Services (6 kilolitres per indigent household per</i> | 10,500 | 11,498 | 12,590 |
| Net Service charges - water revenue | 111,563 | 122,162 | 133,767 |

This budget is fairly achievable, considering the 2016/17 audited AFS closed with a billing amounting to R 90.7 million. The data cleansing process gradually reap results from an improved billing, however the District continues cleaning its debt book through various mechanism, others which involves working with LM's.

b) Service Charges Revenue - Sanitation

The sewer service charges is budgeted to be R 31.3 million (2017/18: R 24.2m).

| Description | 2018/19 Medium Term Revenue & Expenditure | | |
|--|---|---------------------------|---------------------------|
| | Budget Year 2018/19 | Budget Year +1 2019/20 | Budget Year +2 2020/21 |
| R thousand | | | |
| REVENUE ITEMS: | | | |
| Service charges - sanitation revenue | | | |
| Total Service charges - sanitation revenue | 43,978 | 48,156 | 52,731 |
| <i>less Cost of Free Basis Services (free sanitation service to indigent households)</i> | 12,600 | 13,797 | 15,108 |
| Net Service charges - sanitation revenue | 31,378 | 34,359 | 37,623 |

When compared to the 2017/18 budget year, the draft budget proposes an increase on this category by R 17.9 million and is attributable to the following:

- The 9.5% tariff increase on sewer charges.
- This amount is a net of free basic sewer services from operating expenditure classification to Revenue classification to comply with the MFMA circular.
- On this draft budget, the proposed budget is on property value based tariffs as opposed to the cost reflective tariff/ water consumption based tariffs as per **Annexure B**.

c) Service Charges Revenue – Other

Other service charges are budgeted at R2.5 million. This category is made up of the following main items, enclosed on the supporting A schedules:

- Water tanker availability charge;
- Connection fees
- Disconnection fees
- Sewerage disposal fees, etc.

d) Rental of facilities and equipment

This item relates to hiring of the District's Auditorium to the public. Since the 2017/18 budget, the Municipal Entity engage companies utilising their tunnels and it was agreed to start charging rental fees hence the total provision amounts to R 251 thousand.

e) Interest Earned on external Investments

Interest on investments are budgeted at R 7.2 million (2017:18: R 9.6m). This refers to the combination of monies invested by the municipality as well as its entity on various financial

institutions both on call and fixed investments deposit accounts as well as interest on outstanding debtors.

The municipality currently has a fifteen (15) year loan commitment with ABSA amounting to R 30 million which expires in May 2020. The loan is secured by a sinking fund investment with ABSA currently valued at R26.7 million which will be utilized as part payment against the loan capital amount. The purpose of this investment is to accumulate sufficient funds to enable settling the capital amount of the loan at settlement date.

f) Interest Earned on outstanding debtors

Considering the 9.5% tariff increase and the current levels, the interest on outstanding debtors are budget to be R 30.8 million (2017/18: R 28.2 million).

g) Agency Services

Revenue from agency budget amounts to R1.6 million. This category of item is in relation to fees collected from concession fees.

h) Transfers Recognised – Operational

The transfers' recognised Operational budget amounts to R 503.6 million (2017/18: R 460.2m). The budget on this item is in line with the Division of Revenue Act No. 3 of 2019:

- Equitable share
- Financial Management Grant
- Rural Road Asset Management Grant
- MIG Operational Grant
- Formalisations of Town - Maphumulo

i) Other Revenue

Other revenue budget amounts to R26.8 million (2016/17: R19.6m). The main items as per supporting tables (SA1) tables are:

- Shared Services - R2.1 million, being revenue received from local municipalities.
- The National School's Nutrition Programme under the Municipal Entity - R 18.5 million
- Developer's Contribution at R 2.5 million.
- Clearance certificate R 1.1 million

Operating Expenditure Framework

In preparation of the 2018/19 MTREF, the following were considered:

- Balanced budget constrains which means that operating expenditure should not exceed operating revenue unless there are existing uncommitted cash-backed reserves to fund any shortfall or deficit;
- Funding of the budget over the medium-term as informed by section 18 and 19 of the MFMA;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services;
- Strict adherence to the principle of “no project plans no budget”. If there is no business plan thus no funding allocation can be made; and
- The implementation of austerity measures on municipal operational expenditure.
- There are limited number of items in the budget, the budget was partly based from the adjustments budget amounts by effecting the CPI where applicable.

When compared to the adjusted budget, the increase on operational budget is R58.2 million, and this reflects a 9% increase overall. This increase is mainly due to the inflationary increase of 5.3% as per the MFMA Budget Circular no. 91 and the bulk purchases increase of 14.3% which was above CPI.

a) Employee related cost

The consolidated employee related cost is budget at R 237.6 million (2017: R 204.2 million). Employee costs are within the threshold as required on Circular 71, sitting at 33%. Average estimated percentage increase applied is 8% while we await the finalisation of the Wage Collective Agreement. Furthermore the budget included a provision for vacant posts due to replacements from the posts identified during the staff establishment review.

b) Remuneration of councillors.

This item is budgeted at R 9.9 million (2017/18: R 9.5 million) including R 631 thousand for board fee at the Municipal Entity. The increase is aligned to the consideration of determination of upper limits for councillors and Office Bearers.

c) Other Materials

Other materials are budgeted at R 51.1 million (2017/2018: R51.9m). In terms of Municipal Budgeting and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver, but an outcome of other expenditures such as remuneration, purchases of materials and contracted services. Repairs and maintenance provision should at least amount to 8 percent of the municipality's Property Plant and Equipment. The provision is currently below norm. Considering the aforementioned financial challenges, hence only R 51.1 million could be afforded on the operational budget, however when the capital expenditure on renewal of existing assets is considered the percentage comes to 4% whereby the replacement/refurbishment costs are to replace/refurbish aged pipelines and pumps. Table A9, the budget provision for the renewal of assets may seem low compared to that required on MFMA circular No. 55, however the capital budget also addresses the refurbishment of old water infrastructure.

d) Debt Impairment

A proposed provision for bad debts totals to R 21.8 million. Whilst this expenditure is a non-cash flow item, it informs the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenue. This is in compliance with GRAP requirements. The bad debt provision has been calculated based on the 85% revenue collection rate that is budgeted for in the 2018/19 financial year.

e) Depreciation & Asset Impairment

A proposed provision for depreciation, amortisation and asset impairment of about R 82.3 million is informed by the Fixed Asset Policy of the District. The provision on this item is as per the implementation of GRAP 17 accounting standard which must be complied with. It should also be noted that this item is provisional amount.

f) Finance Charges

Finance charges consists primarily the repayment of interest on long-term borrowings and interest charged on vehicles will be acquired through an instalment lease contract and is set at R 9.9 million. This refers to the interest paid on loans in line with loan agreements that exist, as well as the lease agreement that the municipality will enter into and which has to be accounted as finance leases as per GRAP standards.

The municipality currently has a fifteen (15) year loan commitment with ABSA amounting to R 30 million which expires in May 2020. The loan is secured by a sinking fund investment with ABSA currently valued at R26.7 million which will be utilized as part payment against the loan capital amount at the end of the contract. The purpose of this investment is to accumulate sufficient funds to enable settling the capital amount of the loan at settlement date.

g) Bulk Purchases

The budget for bulk purchases is appropriated at R 99.9 million. When compared with the adjusted budget 2017/18, this shows an R 19.4 million increase.

The bulk purchase budget provision is based on the proposed tariff increase of 14.3% from Umngeni Water. This has a negative impact in the cost of bulk water supply, particularly the purchasing of water from Umngeni Water is escalating beyond affordability.

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

Capital Unit Charges

iLembe District Municipality approached SALGA to act as a mediator between Umngeni Water and iLembe District Municipality based on provisions of the bulk water agreement between the two entities. SALGA acknowledged the request and instituted a mediation process. The process is based on a decision taken by a previous Council concerning contribution to construction of Spring Grove Dam in the form of capital unit charges that are recouped through monthly water bills on behalf of the department of Water and Sanitation by Umngeni Water. The outcome of the mediation was that a provision should be made on the budget as the agreement is entered into to repay the debt arising from the Spring Grove Capital Unit Charges. The provision will be made beyond the MTREF.

h) Contracted Services

This item is budgeted at R 68.4 million. All existing contracts have been provided for on the budget. Table SA1 provides a list of all contracted services i.e. security services, plant hire, vehicle hire, printing rentals, etc.

i) Transfers and Grants

This refers to the various transfers, both cash and non-cash, which the municipality will transfer to various organizations as well as certain groups. This item has been budgeted at R26 million funded through MIG and it relates to the VIP toilets which do not form part of the municipal asset register.

j) General expenses

The proposed budget allocation for other expenses amounts to R 105.2 million. The increase is mainly attributable to the inflationary increase and Enterprise iLembe's operating expenditure. A detailed breakdown of this cost can be viewed from the supporting Table SA1. The main items on this category are:

DC29 iLembe - Supporting Table SA1 Supporting detail to 'Budgeted Financial Performance

| Description | | Ref | 2018/19 Medium Term Revenue & | | |
|---|--|-----|-------------------------------|---------------------------|---------------------------|
| | | | Budget Year 2018/19 | Budget Year +1 2019/20 | Budget Year +2 2020/21 |
| R thousand | | | | | |
| Other Expenditure By Type | | | | | |
| Collection costs | | | | | |
| Contributions to 'other' provisions | | | | | |
| Consultant fees | | | 1 200 | 800 | 800 |
| Audit fees | | | 3 878 | 4 092 | 4 317 |
| General expenses | | 3 | 26 913 | 27 135 | 28 372 |
| ELECTRICITY AND WATER | | | 25 687 | 27 100 | 28 591 |
| GENDER/ PWD, YOUTH PROGRAMME, HIV AND AIDS, POVER | | | 855 | 902 | 952 |
| SPORT & RECREATION | | | 2 455 | 2 590 | 2 732 |
| DEVELOPMENT OF SMME'S | | | 1 000 | 1 055 | 1 113 |
| GRANT EXPENDITURE | | | | | |
| CONFERENCES & WORKSHOPS | | | 500 | 528 | 557 |
| FUEL AND OIL | | | 15 000 | 15 825 | 16 695 |
| SIZA WATER AUDIT FEE | | | 188 | 198 | 209 |
| REFRESHMENTS | | | | | |
| TELECOMMUNICATION | | | 290 | 306 | 323 |
| PROTECTIVE CLOTHING | | | 2 073 | 2 187 | 2 307 |
| MEMBERSHIP FEES | | | 2 428 | 2 618 | 2 823 |
| PUBLIC PARTICIPATION | | | | | |
| PRINTING AND STATIONERY | | | 710 | 727 | 767 |
| POSTAL SERVICES | | | 2 011 | 2 121 | 2 238 |
| LEGAL, TOURISM, SAN MASTERPLAN, SIZA WATER 5 YR REV | | | 1 060 | 1 119 | 1 180 |
| LED - ENTERPRISE ILEMBE | | | 5 712 | 6 026 | 6 358 |
| TRAVEL AND ACCOMMODATION | | | 761 | 803 | 847 |
| COMMUNICATION AND ADVERTISING | | | 2 889 | 3 048 | 3 216 |
| Disaster Management | | | 728 | 768 | 811 |
| TRAINING | | | 2 757 | 2 909 | 3 069 |
| Shared Services Expenditure | | | 3 949 | 3 065 | 3 233 |
| BANK CHARGES & COMMISSIONS | | | 2 205 | 2 328 | 2 478 |
| Total 'Other' Expenditure | | 1 | 105 249 | 108 249 | 113 987 |

k) Surplus/Deficit

The adjusted budget shows a surplus of R 4.1 million. Furthermore, the operational expenditure includes non-cash items to the amount of R 127.2 million, which leaves a surplus of R 131.3 million when these items are added back. The non-cash items pertains to:

- Depreciation and asset impairment - R 82.2 million
- Debt Impairment - R 21.2 million
- Free basic services, which is treated as revenue forgone - R 23.1 million

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

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

Municipal Standard Chart of Accounts (mSCOA)

There is a standing item at the MANCO meetings, and the mSCOA Steering Committee plays an oversight role. The District Municipality complied with the deadline set as per the Municipal Standard Chart of Accountants regulations, being 1 July 2017. Although there were challenges within the project, a significant progress to maintain implementation of mSCOA. The municipal entity successfully migrated into the same financial system the District is using as per the requirements of GRAP. Reports on progress are submitted to Council on a quarterly basis.

The Existing Tariff Structure and Operating Revenue

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

National Treasury continues to encourage municipalities to keep increases in tariffs for trading services and charges for other municipal own revenue sources within the parameters of the country's inflation rate. However, municipalities must justify in their budget documentation all increases in excess of the upper boundary of the South African Reserve Bank's inflation target. The municipality will base its tariff from the proposed tariff increases of 14.3% from Umgeni Water. The bulk water tariff is way beyond the CPI and this seems unaffordable to the District, this will however not be passed on to consumers. A letter was submitted to Umgeni on the draft bulk tariff increase as this unaffordable to both the District and end consumers.

It must also be noted that the consumer price index "CPI", ***is not a good measure of the cost increases of goods and services relevant to municipalities.*** The basket of goods

and services utilised for the calculation of the CPI consists of items such as food, petrol, and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of water and electricity, plumbing/construction material, chemicals etc.

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

Sale of Water and Impact of Tariff Increases

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

- Water tariffs are cost reflective and they include the cost of maintaining and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor;
- That water tariffs are designed to encourage efficient and sustainable consumption;
- That water supplied is clean and drinkable.

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

The NERSA document proposes a 6.84 per cent guideline increase for municipal electricity tariffs for 2018/19. This is based on a bulk tariff increase for municipalities of 7.32 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.