

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

**REPORT TO:** COUNCIL  
**DATE:** 27 MARCH 2019  
**DIRECTORATE:** FINANCE  
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## **A. PURPOSE**

To table before Council for consideration, the Draft Medium Term Revenue and Expenditure Framework for 2019/2020, 2020/2021 and 2021/2022 in terms of Section 16 of the Municipal Finance Management Act, No 56 of 2003.

## **PART 1 – ANNUAL BUDGET**

### **1.1 MAYOR'S REPORT**

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

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

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

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

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

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

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

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

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

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

- Acceleration of water and sanitation provision in rural communities (Ndwedwe & Maphumulo);
- Upgrading and replacement of ageing infrastructure within the resources available;
- Improve revenue collection and diversification of income by trying to identifying additional sources of revenue to place less reliance on grants;
- Enterprise iLembe to stimulate rural economic development and local economic development;

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

## **BASIC SERVICE DELIVERY**

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

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

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

Service delivery should be our focus, backlogs be eradicated, job opportunities must be created, poverty alleviated and investment promoted to ensure a better life for the communities we serve. The District has been experiencing rapid growth over the past 15 years and in most cases infrastructure delivery has lagged significantly behind this growth. The intensification of residential, commercial and industrial Greenfield developments have necessitated a structured infrastructure response, especially for water and sanitation. To this end, the iLembe Water and Sanitation Master plan was developed and adopted by Council in 2017.

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

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

The total budget allocated to this objective is:

- Capital Infrastructure R 300,9 million
- Operational Expenditure – R 856, 5 million.

## **LOCAL ECONOMIC DEVELOPMENT**

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

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

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

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

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

Further to the Economic development service, the District has aligned its policies to the radical economic transformation reforms in terms of the PPPFA regulations of April 2018.

### **BACK TO BASICS**

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

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

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

## **MUNICIPAL TRANSFORMATION AND INSTITUTIONAL DEVELOPMENT**

In our mission statement as iLembe, we express our commitment to invest in our people because, they are our valuable assets. We have clear human resource development policies and is compliant in terms of the establishment of the training and development committee that has the responsibility to approve the workplace skills plan, monitor its implementation and endorse the annual training report. Will strive to maintain a healthy relationship between the district as the employer and organized labour, as such we have set official platforms such as the LPA and the LLF to discuss matters and / or raise concerns.

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

To ensure that our people's environmental rights as enshrined in the constitution are not violated, the environmental management team working with the environmental health teams continue to deal with all issues that pertain to the environment.

## **FINANCIAL VIABILITY AND MANAGEMENT**

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

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

The global economic outlook remains unpredictable, and our Province and District is not immune from such forces. There is a risk of socio economic instability and increased pressure to deliver services on time and expected quality. Further to the low revenue patterns, the impact of the drought can still be felt through high consumer debt and slow growth on collection rate. For the forthcoming



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

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

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

## 1.2 RESOLUTIONS

### THAT

- The Council consider in terms of Section 24 of the Municipal Finance Act, 56 of 2003, the **Draft Annual Budget** of the Municipality for the Financial year 2019/2020; and indicative allocations for the two projected outer years 2020/2021 and 2021/2022; as set out in the A Schedules annexured hereto as follows:

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

Table A9: Asset Management

Table A10: Basic service delivery measurement

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

- Instances where information has been provided in terms of Section 19(2) (b) of the Municipal Finance Management Act No.56 of 2003, the consideration of capital budget constitutes projects consideration for the specific projects as reflected in the detailed capital budget. Where information in terms of section 19(2) (b) is not provided, specific project approval be sought from council during the course of the year.
- That Council consider draft amendments to its **Tariffs of Charges** as depicted on the schedule annexed hereto and marked as **Annexure B**.
- That the Draft Budget related policies be noted with the respective amendments.
  - Fixed Assets Management Policy
  - Inventory Management Policy
  - Unauthorized, Irregular, Fruitless & Wasteful Expenditure Policy
  - Borrowing Policy
  - Funding and Reserves Policy
  - Long Term Financial Planning
  - Infrastructure, Investments and Capital Projects
  - Petty Cash Policy
  - Austerity measures policy
  - Banking, Cash Management & Investments Policy
  - Accounts payables policy
  - Budget Policy
  - Credit Control & Debt Collection Policy
  - Indigent Management Policy
  - Supply Chain Management Policy
  - Virement Policy
  - Tariff Policy
  - Payroll Policy

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

### **1.3 EXECUTIVE SUMMARY**

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

Section 24 of the MFMA further requires that the municipal council must at least 30 days before the start of the budget year consider approval of the annual budget, as the budget must be approved before the start of each financial year. It is in compliance with these sections that the budget is hereby tabled 90 days prior to the new financial year 2019/2020.

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

- Annual budgets:
  - Operating budget summary
  - Capital budget
- Proposed tariff structures
- Measurable performance objectives for revenue
- Municipal entity – Enterprise iLembe
- Service agreements

- New budget regulations and circulars
- Budget related policies
- Public input
- Publication of budgets

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

The Mid-Year Budget and Performance Assessment report was conducted and presented by the Accounting Officer to the Mayor of the District, who then submitted the performance assessment report to Council for consideration at the end of January 2019 and to the National Treasury and the relevant Provincial Treasury in line with section 54(1) (f) of the MFMA.

Council resolved that a consolidated adjusted budget process should be initiated and tabled for the year 2018/19 financial year for both iLembe District and its entity. The adjustments budget was prepared and this impacted most services where cost containment had to be applied to ensure the budget is balanced and funded. The adjustments budget was tabled to Council by His worship, Mayor of iLembe District Municipality on 27 February 2019 in line with section 28 of the MFMA. During this process and where appropriate, funds were transferred from low-to high priority programs so as to maintain sound financial stewardship. A critical review was further undertaken to limit spending on non-core items to align the budget with the District's austerity measures. Approaching the adjustments budget process, a constant consultation with all departments was maintained while considering the Provincial treasury's High Level Assessment on the 2019 Mid-Year budget assessment.

Various challenges were encountered during the course of the financial year. These were broadly presented before various committees for deliberation and tabled during the adjustments budget process. Majority of these are of a great concern and have been considered during the 2019/2020 budget preparation process. On a high level, these included the following:

- Revenue growth patterns which impacts on the implementation of the budget as expenditure further relies on what is collected at the end of the month.
- Sustainability of the prepaid meters.

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

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

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

The 2019/2020 Medium Term Revenue and Expenditure Framework focuses on the long and short term objectives and priorities of the District as well as outcomes and outputs, based on the following IDP Priorities:

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

National Treasury's MFMA Circular No 10, 13, 19, 42, 48, 51, 54, 58, 59 , 66, 74, 75 and 78, 79, 82, 85, 86, 89, 91, 93 and 94 as well as the Municipal Budget & Reporting Regulations and the Municipal Finance Management Act were used to guide the compilation of the 2019/2020 MTREF.

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

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

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

- ✓ The affordability of the cost-reflective tariff per kilo litre calculation (cost based tariffs) which is not passed on to the consumers;
- ✓ The effects comprising of benefits and challenges on reinstatement of the sewer tariff structure, property value based tariffs, compared to the cost reflective tariff/ water consumption based tariffs, and benefit and the impact on collection patterns;
- ✓ Review of revenue generation calculation projections to ensure that all contributing factors are taken into account;
- ✓ Proposal of 9.6 % tariff increase.
- ✓ Furthermore, a reduction of various variable operating expenditure items was kept at a minimum to match with the low tariff increase of 9.6 % and the consumer price index as per the National Treasury's MFMA budget Circular.
- ✓ During the adjustments budget process, the Municipal Entity, Enterprise iLembe's grant allocation was slightly reduced in order to align its expenditure to the current austerity measures in place in the District.
- ✓ The fleet lease agreement was at a bidding process, bringing in a material impact into the financial state of the District.
- ✓ The reinstatement of the Regional Bulk Infrastructure Grant allocation after non provision in the previous year for the current MTREF.
- ✓ The finalisation of the security contract currently in the bidding process.

## Operating Budget Summary

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

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

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

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

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

### **Operating Revenue Framework**

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

- As a base, for incremental budget items, the 2018/2019 Adjustment budget estimates and targets, as well as the base line allocations contained in that adjustment budget were adopted as the upper limits for the new baseline for the 2019/2020 budget;
- Service level standards were used to inform the measurable performance objectives, targets and backlog eradication;
- That tariff increases must be affordable and be measured against the cost of bulk water. It must be noted however that the proposed tariff is even with the bulk water increase. Although tariffs need to remain or move towards being cost reflective a balance should be created for affordable services to consumers at the same it should take into account the need to address infrastructure backlogs and maintenance thereof; and
- That all grant funded projects will only be implemented provided that a written confirmation in the form of Division of Revenue Act ("DORA") or otherwise is available and gazetted.
- The District will primarily make use of conventional metering system.

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



## Operating Income

### a) Service Charges Revenue – Water

This budget relates to billing of consumers for water. The proposed budget on water service charges amounts to a net of R 138.1 million (2018/19: R124.3 million). The cost of providing free basic services is budgeted at R 1.9 million netted off from water service charges revenue. The basis of this calculation is the increase on tariff of charges by 9.6% and various strategies in place to improve billing. The R 138.1 million is a net after adjusting for free basic water services from operating expenditure classification to revenue classification, so as to off-set the revenue as required by MFMA Circular 79; see below for as per the budget tables;

Description	2019/20 Medium Term Revenue & Expenditure		
	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>R thousand</b>			
Total Service charges - water revenue	140,114	153,565	168,306
less Revenue Forgone (in excess of 8 kilolitres per indigent household per month)			
less Cost of Free Basic Services (6 kilolitres per indigent household per month)	1,918	2,102	2,804
<b>Net Service charges - water revenue</b>	<b>138,196</b>	<b>151,463</b>	<b>165,502</b>

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

### b) Service Charges Revenue - Sanitation

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

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

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

- The 9.6% tariff increase on sewer charges.
- This amount is a net of free basic sewer services from operating expenditure classification to Revenue classification to comply with the MFMA circular.
- On this draft budget, the proposed budget is on property value based tariffs as per **Annexure B**.

**c) Rental of facilities and equipment**

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

**d) Interest Earned on external Investments**

Interest on investments are budgeted at R 4.7 million (2018/19 R 10.1m). This refers to the combination of monies invested by the municipality as well as its entity on various financial institutions both on call and fixed investments deposit accounts as well as interest on outstanding debtors.

The municipality currently has a fifteen (15) year loan commitment with ABSA amounting to R 30 million which expires in May 2020. The loan is secured by a sinking fund investment with ABSA currently valued at R27 million which will be utilized as part payment against the loan capital amount. The purpose of this investment is to accumulate sufficient funds to enable settling the capital amount of the loan at settlement date.

**e) Interest earned on outstanding debtors**

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