

## **Cash Flow**

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

### **2.7 Expenditure on Grants and Reconciliations of Unspent Funds**

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

DC29 iLembe - Supporting Table SA19 Expenditure on transfers and grant programme							
Description	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue &		
		Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21
R thousand							
<b>EXPENDITURE:</b>							
<b>Operating expenditure of Transfers and Grants</b>							
<b>National Government:</b>	441,250	508,401	518,357	518,357	606,405	610,219	664,590
Local Government Equitable Share	419,734	468,670	468,670	468,670	516,503	568,725	623,405
Finance Management	1,250	1,000	1,000	1,000	1,000	1,000	1,000
Water Services Operating Subsidy							
Rural Transport Services and Infrastructure	2,266	-	2,271	2,271	2,406	2,494	2,685
Energy Efficiency and Demand Management		7,000	7,000	7,000	10,000	15,000	10,000
EPWP OPERATING PROJECTS		1,731	1,731	1,731	2,019	-	-
WSIG OPERATING Funded (VIP TOILETS)							
MIG OPERATING Funded (VIP TOILETS)	18,000	30,000	21,150	21,150	21,000	25,000	27,500
RASET PROGRAMME - OPEX			2,800	2,800	-	-	-
SIBHUDU CAVES AND KWASHUSHU HOTSPRING			1,200	1,200	-	-	-
CORRIDOR DEVELOPMENT PROGRAMME			1,000	1,000	-	-	-
SIBHUDU CAVES AND KWASHUSHU HOTSPRING - MAP CONTRIBUTION			350	350	-	-	-
DEPT OF LABOUR UIF GRANT			1,185	1,185	53,477	-	-
KZN COGTA GRANT -Wi-Fi, Biomass, Mini Factories			10,000	10,000	-	-	-
<b>Provincial Government:</b>					550	550	600
Development Planning Shared Services - COGTA							
Environmental Management Framework							
Municipal Governance & Admin							
<b>District Municipality:</b>							
[insert description]							
<b>Other grant providers:</b>		700	700	700	-	-	-
Maphumulo Integrated Energy Grant		700	700	700	-	-	-
<b>Total operating expenditure of Transfers and Grants:</b>	<b>441,250</b>	<b>509,101</b>	<b>519,057</b>	<b>519,057</b>	<b>606,955</b>	<b>610,769</b>	<b>665,190</b>
<b>Capital expenditure of Transfers and Grants</b>							
<b>National Government:</b>	392,626	336,720	351,499	351,499	300,944	283,918	342,707
Municipal Infrastructure Grant (MIG)	178,126	158,503	167,353	167,353	171,596	178,918	192,707
Rural Transport Services and Infrastructure		2,271					
Regional Bulk Infrastructure	145,000	75,446	75,446	75,446	35,000	30,000	70,000
Energy Efficiency and Demand Side Management Grant	6,000	-					
WSIG	62,500	100,500	100,500	100,500	90,000	75,000	80,000
RASET PROGRAMME - CAPEX			2,200	2,200	-	-	-
MASSIFICATION			6,000	6,000	-	-	-
YEP GRANT PROJECT					4,348	-	-
EPWP	1,000						
<b>Provincial Government:</b>							
<b>District Municipality:</b>							
<b>Other grant providers:</b>							
<b>Total capital expenditure of Transfers and Grants</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 EXPENDITURE OF TRANSFERS AND GRANTS</b>	<b>833,876</b>	<b>845,821</b>	<b>870,556</b>	<b>870,556</b>	<b>907,898</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 18.2 million. Projects funded through this relate to the construction of VIP toilets in the Maphumulo, Mandeni and Ndwedwe areas.

## **2.9 Councillor and board member allowances and employee benefits**

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

## **2.10 Service Delivery & Budget Implementation Plan (SDBIP)**

The Draft Service Delivery and Budget Implementation will be tabled at Council 28 days after the budget has been tabled, in accordance with the requirements of the Municipal Finance Management Act.

## **2.11 Capital Expenditure Details**

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

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

Vote Description R thousand	2015/16	2016/17	2017/18	Current Year 2018/19		2019/20 Medium Term Revenue &		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>Capital Expenditure - Functional</b>								
<b>Governance and administration</b>	26,104	11,558	6,216	68,764	71,294	67,563	6,653	6,904
Executive and council								
Finance and administration	21,806	11,558	6,216	68,764	71,294	67,563	6,653	6,904
Internal audit	4,298							
<b>Community and public safety</b>	-	-	-	1,000	180	-	-	-
Community and social services				400	180	-	-	-
Sport and recreation								
Public safety								
Housing								
Health				600				
<b>Economic and environmental services</b>	-	-	-	1,975	4,375	4,131	-	-
Planning and development					4,375	4,131	-	-
Road transport				1,975				
Environmental protection								
<b>Trading services</b>	474,610	350,812	299,941	292,564	318,173	271,910	247,885	299,006
Energy sources								
Water management	443,953	325,209	273,242	237,908	272,280	181,958	186,868	222,242
Waste water management	30,657	25,603	26,699	54,657	45,893	89,951	61,017	76,764
Waste management								
<b>Other</b>								
<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>343,603</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	261,690	246,885	298,006
Provincial Government					7,130	-	-	-
District Municipality								
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>261,690</b>	<b>246,885</b>	<b>298,006</b>
<b>Borrowing</b>	<b>125,310</b>	<b>109,730</b>		<b>63,149</b>	<b>63,149</b>	<b>63,149</b>	<b>2,000</b>	<b>2,000</b>
<b>Internally generated funds</b>	<b>25,668</b>	<b>14,146</b>	<b>1,953</b>	<b>8,354</b>	<b>12,545</b>	<b>18,764</b>	<b>5,653</b>	<b>5,904</b>
<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>343,603</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 271.9 million. Governance and Admin has been allocated 20% of the total capital budget. Twenty eight percent (28.3%) is allocated to Renewal and upgrading of Existing Assets as % of total capex while seventy two (72%) is allocated towards construction of new assets. It should be noted however that majority of these infrastructure projects are multi-year.

Trading Services Projects are divided into the following categories:

### **Water Services**

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

### **Water Waste Management**

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

A detailed breakdown of capital projects could be viewed on SA 35. Supporting schedules SA6 provides a breakdown of an alignment to the District's IDP strategic objectives against the proposed budget.

### **Capital Budget Funding**

#### **National Grant Funding**

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

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

#### **Internally generated Funding**

The projects on this funding amounts to R 18.7 million, budget as previously mentioned in order to ensure the budget is funded while also ensuring sustained service delivery. The increase is attributable to the ICT compulsory project, Technical services related to Umvoti Water works refurbishment and Sundumbili pumpstation.

### **Borrowings**

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

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

	<b>R '000</b>
<b>OPERATIONAL EXPENDITURE</b>	<b>856,506</b>
<b>CAPITAL EXPENDITURE</b>	<b>343,303</b>
<b>TOTAL</b>	<b>1,199,908</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 146.4 million is proposed. The budget for this item has resulted in a decrease that forms part of the intervention to contain costs in order to respond to the current financial challenges. A breakdown of all the contracted services can be viewed on the supporting table SA1.

## 2.14 Other Supporting Documents

The following supporting schedules have been populated (where applicable) and are annexed hereto:

SA1: Supporting Detail to Budgeted Financial Performance
SA2: Matrix Financial Performance Budget (revenue source/expenditure type and dept.)
SA3: Supporting detail to Budgeted Financial Position
SA4: Reconciliation of IDP, Strategic Objectives and Budget (Revenue)
SA5: Reconciliation of IDP, Strategic Objectives and Budget (Operating Expenditure)
SA6: Reconciliation of IDP, Strategic Objectives and Budget (Capital Expenditure)
SA7: Measurable Performance Objectives
SA8: Performance Indicators and Benchmarks
SA9: Social, Economic and Demographic Statistics and Assumptions
SA10: Funding Measurement
SA11: Property Rates Summary
SA12a: Property Rates by category (current year)
SA12b: Property Rates by category (budget year)
SA13: Property Rates by Category
SA14: Household Bills
SA15: Investment Particulars by Type
SA16: Investment Particulars by Type
SA17: Borrowing
SA18: Transfers and Grant Receipts
SA19: Expenditure on Transfers and Grant Programme
SA20: Reconciliation of Transfers, Grant Receipts and Unspent Funds
SA21: Transfers and Grants made by the Municipality
SA22: Summary Councillor and Staff Benefits
SA23: Salaries, Allowances and Benefits (political office bearers/councillors/senior managers)
SA24: Summary of Personnel Numbers
SA25: Budgeted Monthly Revenue and Expenditure
SA26: Budgeted Monthly Revenue and Expenditure (Municipal Vote)
SA27: Budgeted Monthly Revenue and Expenditure (Standard Classification)
SA28: Budgeted Monthly Capital Expenditure (Municipal Vote)
SA29: Budgeted Monthly Capital Expenditure (Standard Classification)

SA30: Budgeted Monthly Cash Flow
SA32: List of External Mechanisms
SA33: Contracts having Future Budgetary Implications
SA34a: Capital Expenditure on New Assets by Asset Class
SA34b: Capital Expenditure on the Renewal of Existing Assets by Asset Class
SA34c: Repairs and Maintenance Expenditure by Asset Class
SA34d: Depreciation by Asset Class
SA35: Future Financial Implications of the Capital Budget
SA36: Detail Capital Budget
SA37: Projects Delayed from Previous Financial Years
SA38 - Supporting Table Consolidated detailed operational projects

### 2.14.1 Revenue collection

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

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

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

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

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



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

#### **Implementation of the credit control policy**

The credit control is being enforced in the following manner:

- Businesses are being restricted/disconnected when payment is not received,
- Restrictions are also being done for residential consumers
- Outstanding debt is also being handed over to a debt collector,
- For government debt, National and Provincial Treasury and Provincial Co-operative Governance and Traditional Affairs (COGTA) is assisting with collection;

#### **Data Cleansing**

- The consumer data that the district has, is compared to that of the family of municipalities within the district in order to check consistency in information and billing.
- Where there are discrepancies, a physical verification is performed,

- Water and sewer accounts have been consolidated, which allows the district to disconnect or restrict when payment is not received, as well as allocation of payments to both sewer and water accounts.
- The cleansing of data will assist in improving the quality of billing information.

### **Indigent Support**

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

- Economic profiling and risk analysis of households is done periodically,
- This analysis is also used to identify people who are possibly indigent and those targeted households will be visited in order to ascertain whether those people are really indigent (they will be requested to fill the application forms and submit all relevant documentation and will be assessed according to the criteria of being indigent).
- There is an exercise done through Vuthela Programme.

### **2.15 Municipal Entity – Enterprise iLembe**

iLembe District municipality has one municipal entity, Enterprise iLembe which focuses mostly on the local economic development within the district. The budget for the municipal entity for the 2019/2020 financial year is R 33.8 million. It must be noted that the municipality has to submit a consolidated budget together with the entity. The Entity budget could be further viewed on SA31.

### **2.16 Service Agreements**

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

<b>Supplier</b>	<b>Nature of Service</b>
CICS (Pty) Ltd	Software maintenance contract
KwaDukuza Municipality	Electricity
Telkom	Tele-communication
Siza Water	Water and sewer
Umgeni Water	Water
Capital Office Automation	Lease of printers and photocopiers

## **2.17 Public Consultation and Publication of 2019/20 Draft Budget**

In terms of section 22 of the MFMA and in accordance with chapter 4 of the Municipal Systems Act, the Accounting Officer of the municipality must make public the draft annual budget, invite local community to submit representations in connection with the budget.

After the budget is tabled, public participation meetings will be set in order to allow the communities and other stakeholders to comment on the draft budget and to allow the Mayor of the District the opportunity to respond to such inputs before the budget is finalised in May. The tabled budget will be submitted to national and Treasury as per the requirements of the MFMA.

## **2.18 Cost Containment Measures**

iLembe District Municipal Council adopted a policy on cost containment in May 2015. The municipality thereafter started implementing the policy with effect from 1st of July 2015. The municipality has reprioritised its expenditure in line with the policy and this is reviewed by management on a monthly basis. Amongst the measures implemented thus far is the cutting down on travel, printing and telephone costs, overtime and at some point filling of newly created posts were put on hold. The municipality has further taken a vigorous step in phasing out usage of consultants and insourcing most of services that were previously outsourced to consultants more particularly from engineering services function. A comprehensive cost reduction strategy to map out future plans to deal with the issue of containing costs within affordable levels is continuously reviewed.

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

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

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

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

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

**3. CONSULTATIONS**

- Chief Financial Officer & The Accounting Officer
- His Worship, the Mayor, Cllr S Gumede
- All Directorates
- The National Treasury & The Provincial Treasury
- The Budget Steering Committee

**4. RESOLUTIONS/RECOMMENDATIONS**

Recommends **THAT**

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

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

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

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

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

**SIGNATURE OF AUTHOR**



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**MANAGER BUDGET & COMPLIANCE  
S CHONGUENE**

**SUPPORTED / NOT SUPPORTED**



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



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