

ITEM NO.	SUBJECT	REF
	DC29 - ADJUSTMENTS BUDGET FOR MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK - 2020/2021 – 2022/2023	

REPORT TO: COUNCIL

DATE: 25 FEBRUARY 2021

DIRECTORATE: FINANCE

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1. PURPOSE

To recommend to council approval in terms of section 28 of the Municipal Finance Management Act of 2003, of the 2020/2021 adjustment budget.

2. DELIBERATIONS

2.1 Background

Section 72(3) of the MFMA requires that the Accounting Officer must as part of the mid - year review make recommendations as to whether an adjustments budget is necessary and recommend revised projections for revenue and expenditure to the extent that this may be necessary. This adjustments is as a result of resolution taken on the meeting held on 28 January 2021.

PART 1 – ANNUAL BUDGET

1.1 MAYOR’S REPORT

The Municipal Finance Management Act, No. 56 of 2003 requires the assessment of the Mid-Term budget and performance of the district municipality and its entity of which should be complied with in January. During this assessment it was recommended that an adjustments budget is necessary due to matters identified during the mid-year assessment. This is no ordinary year, the country is currently dealing with the Covid-19 pandemic, impact of which has resulted in all of us having to do business in a different manner. We have had to adapt to the new normal in way we deliver services and interact with the communities we serve. To this end the District Command Council plays an important role on providing guidance in respect of managing COVID-19. The District Development Model was also launched and remains active to actively take the process and concept forward to benefit all citizens within the District.

This adjustments budget aims to achieve the objectives as set out on the District’s strategic focus in 5 key performance areas:

- Infrastructure and Basic Service delivery;
- Good Governance and Democracy;
- Socio Economic Development and Planning;
- Institutional Development and lastly
- Financial Viability and Management.

This Adjustments Budget is required to re-align and reprioritize expenditure and other service delivery programmes to ensure our objectives are met by the end of the financial year. A special adjustments budget was framed in September 2020 to reprioritize the budget in September 2020 to cater for the impact of Covid-19. This is the time where service delivery is of utmost importance and needs of the community are required to be balanced with limited and constrained resources. As government, we understand the economic situation which our communities are facing, the need to keep make a living while maintaining the high living cost. At the same time, we strive to provide the best and quality service for a better life for all, even though there are constraints from consumers in paying for services. We encourage consumers to get used to a culture of paying for services in order for provision of sustainable services.

Consumers are encouraged to apply for indigent relief should they find difficulty in meeting their payment obligations towards the Municipality. As a District, we strive to be efficient, effective and prudent in the manner in which we deal with the state and municipal resources. We continue taking serious the issues of Governance and service delivery, striving towards a clean administration and compliance with all applicable legislation.

We have in place an audit action plan adopted by Council in addressing matters raised in the 2018/19 audit, structures in place entrusted with such oversight includes the audit committee, the risk management committee and all Council structures. The audit action plan tabled at Council is monitored on through the performance management system and the Management Committee to ensure that the findings are addressed and not repeated in the 2019/2020 audit. The 2019/2020 audit is currently underway and the outcome is awaited

The main challenges experienced during the compilation of the 2019/2020 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 and funding thereof;
- Revenue growth patterns which impact on the implementation of the budget.
- The slowdown in the National, Provincial and Local economy;
- The impact of Covid-19 on the local economy;
- The impact of covid-19 on revenue patterns and concern of rising debtors.
- Availability of affordable capital or borrowings; and
- Rising and unpredictable fuel, oil and energy prices.
- Bulk tariff increases that impact water tariff set by the District.

The mid-term budget and performance assessment tabled in January 2021 at Council provided the financial status of operations within the municipality as well as its entity for the first six months. The outcome in the first half of the financial year was slightly below the desired outcome, however it showed a steady improvement on the revenue side as billing has started showing signs of increasing due to the conversion of prepaid to conventional metering system. The collection rate also showed some signs of slow recovery due to the interventions adopted by Council. On the expenditure side major cost drivers such as bulk purchases and hire of plant and machinery is also increasing due to the demand of providing water to consumers. The cost of provision of water to schools to mitigate the scourge of Covid-19 also remains a priority, but so is the debt owed by the Department of Education for the provision of water schools.

As outlined in the mid-year budget assessment sound financial management should be promoted and practised on a daily basis. Furthermore Council and its administration is doing its best to better the lives of the people through prioritising service delivery regardless of the current situation and putting in interventions to contain expenditure and deliver services within the adjusted budget.

The following were identified to be the main challenges or drivers resulting into a need to adjust the budget.

- Revenue growth patterns which impact on the implementation of the budget as expenditure further relies on what is collected at the end of the month.
- Shifting of funds from one vote to another in order to maintain the service delivery standards and eliminate significant under/over expenditure within and already constrained budget.
- The rising cost of bulk purchases and the increase in contracted services to hire water tankers and plant and equipment.
- Rehabilitation of Umvoti water works to produce more water and reduce the bulk purchases account. Verification reading with Umgeni Water to validate bulk purchases amounts being billed.
- Rising costs of fuel, oil and electricity consumed by pumps and water schemes.

Although the collection rate has started to show some increase during the first half of the financial year, increased billing the actual increase in receipts is evident from intensified collection efforts and more areas being billed. Measures have been put in place to address the liquidity challenges encountered by the District Municipality through the Revenue Department:

- An appointment of a panel of finance service providers who is predominantly focus on the old debt and ensuring that the current accounts are paid.
- The decision to convert prepaid meters into conventional meters.
- Installation of new meters in areas where no metres were installed and extend meter reading to areas not being actually read.
- A need to analyse water bulk meters to bill large consumers effectively.
- Reduction of non –revenue water loses, reduce leaks a bill areas not being billed.

The municipality adopted the MFMA Circular 82 of March 2016 which relates to Cost Containment Measures that must be implemented to eliminate wasteful expenditure. The circular was revised in November 2016. Regulations on cost containment were also promulgated in July 2019 and Council subsequently updated its cost containment policy to align with the regulations. Reporting to Council takes place quarterly to indicate savings achieved.

The following measures were among those announced;

1. Curtailment of overseas trips;
2. Institutionalization of further restrictions on conferences, catering, entertainment and social functions;
3. Limitation on acquisition of official vehicles for Political Officer Bearers;

All expenditure is kept to essential items required only for service delivery. In this light only essential and critical expenditure required is incurred.

Vuthela Programme

As a District, we believe that creating sustainable partnerships will move our district forward. The Vuthela LED Program in partnership with Swiss Government is now in the implementation stage. The Vuthela iLembe LED Programme aims to contribute to the improvement of the economic future of the iLembe District and the quality of life of its inhabitants, through sustainable growth of the local economy and the creation of higher, better and more inclusive employment and income generating opportunities. In addition to initiatives by the Vuthela Program, the District has also been selected to participate in achieving cost reflective tariffs, an initiative by the Danish Embassy. This will be a pilot study involving the District which may be implemented in phases to lessen the impact of cost reflective tariffs on the consumer.

iLembe Business Incubator

District Wide Business Incubator Project

The incubator has from inception provided business support to approximately 150 local SMMEs providing several forms of business support such as training, mentorship, coaching, access to work space, networking and access to other Enterprise development programmes.

There are currently 7 new businesses that are visiting the facility on a daily bases for various support requests - access to meeting rooms, access to computer facilities and to be assisted with compliance [SARS, CSD etc.]

Support services provided at the Incubator include but not limited to:

- General statutory compliance,
 - Industry standards,
 - Situational Analysis,
 - Opportunity awareness,
 - Testing Feasibility
 - Communication and selling skills
 - Industry specific Technical knowledge
- The following has been completed to date to ensure sustainability and best practice of the incubator;
 - Business Incubator Business Plan
 - Business Incubator Financial Projections
 - Business Incubator Feasibility Study Inception Report
 - Business Incubator Needs Analysis
 - Business Incubator Options Analysis
 - Business Incubator modelling report

- The Incubator played a crucial role during the **Covid-19 National Lockdown** assisting local businesses as well as the informal sector to with information and assistance with applications to access the various funding relief schemes. The following highlights the number of successful applications;
 - **SMME Debt Relief Scheme – 43**
 - **Tourism Relief Fund – 32**
 - **Small Scale Farmer Assistance Fund - 55**
 - **Spaza Shop Assistance - 3**

National Schools Nutrition Programme (NSNP)

The contract for the National Schools Nutrition Programme (NSNP) end in June 2020, this despite efforts by the Entity to renew the contract with the Department of Education. The Entity as part of the Economic Recovery Plan embarked on a drive to source new and alternative markets for the local farmers; these markets include Durban Fresh Produce Market, Spar, Food Lovers and Boxer.

Farmer engagement as part of the **Open Fields Project** and **RASET** is an ongoing process and the Entity continues to provide Technical support together with farming **inputs such as seeds and seedlings and the provision of tractors in order to intensify the planting process.**

Tourism & Investment

Efforts by the Entity to market and promote the district as a tourism, business and investment destination is ongoing, these sectors being hardest hit by the Covid-19 Pandemic and lockdown. Digital platforms have been prioritized to ensure the the region remains top of mind.

Other projects under the Entity includes:

- Agricultural Processing - Tunnels
- ILembe Vineyards & Winery, including the newly launched Seventeen87 Wine Cellar and Tasting Room
- Biomass Project
- Public Wifi
- RASET

Recommendation that municipal council approve the adjustments

All adjustments on the adjustment budget are in line with Section 28(2) of the MFMA which states that an Adjustments Budget;

- Revises the approved annual budget by adjusting revenue and expenditure estimates downwards if there's material under-collection of revenue during the current year;
- May appropriate additional revenues that have become available over and above those anticipated in the annual budget in order to accelerate spending programmes already budget for;
- May within a prescribed framework authorise unforeseeable and unavoidable expenditure recommended by the Mayor of the District;

- May authorise the utilisation of projected savings in one vote towards spending under another vote;
- May authorise the spending of unspent funds at the end of the past financial year where under-spending could not have been reasonably foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the Council of the District;
- May correct errors in the annual budget and
- May provide for any other expenditure within a prescribed framework

In this context, it is recommended that Council consider and approves the adjustment budget. It is also recommended that the Council approves the revised service delivery targets and performance indicators as disclosed in the Service Delivery and Budget Implementation Plan and any other information relevant to the overall performance of the District as envisaged in the Municipal Finance Management Act of 2003 and other applicable legislation.

I thank you.

1.2 RESOLUTIONS

RESOLVE TO RECOMMEND THAT

1.2.1 That the 2020/2021 consolidated adjustments budget on table B1 to B10 as per the Municipal Budget & Reporting Regulations and its supporting documentation be approved and adopted.

Table B1- Adjustment Budget Summary

Table B2- Adjustment Budget Financial Performance (standard classification)

Table B3- Adjustment Budget Financial Performance (revenue and expenditure by municipal vote)

Table B4- Adjustment Budget Financial Performance (revenue and expenditure)

Table B5- Adjustment Capital Expenditure Budget by vote and funding

Table B6- Adjustment Budget Financial Position

Table B7- Budget Cash Flows

Table B8- Cash backed reserves/ accumulated surplus reconciliation

Table B9- Asset Management

Table B10- Basic service delivery measurement

1.2.2 That the Mid-Year Budget Assessment, High Level Assessment by the KwaZulu natal provincial Treasury dated be noted.

1.2.3 It be noted that the adjustments budget is being tabled by the Mayor in terms of section 28 (2) (a) (b) and (d), as well as section 28 (4) of the MFMA.

1.2.4 It be noted that the adjustments budget is fully compliant with section 28 (6) of the MFMA in that municipal tax and tariffs will not increase as a result of the adjustments budget.

1.2.5 The monthly and quarterly service delivery targets and performance indicators in the service delivery and budget implementation plan be revised according to the tabled adjustments budget.

1.2.6 Upon approval of the adjustments budget, Manager Budgets & Compliance ensures that, in terms of section 22 (b) of the MFMA, the adjustments budget is submitted in both printed and electronic formats to the National Treasury and Provincial Treasury.

1.3 EXECUTIVE SUMMARY

In terms of section 28 (4) of the MFMA, the mayor of the District must table an adjustment budget in the municipal Council accompanied by explanations on how the adjustment budget affects the annual budget, provide supporting documentation and motivates for any material changes to the annual budget. Paragraph (6) of that section however, forbid the Mayor to adjust tariffs and taxes except where required in terms of Cost containment measures.

The district's business and service delivery priorities were reviewed as part of this year's planning and budget process. Funds are mainly prioritised for operational costs and maintaining low- to high-priority programmes so as retain sound financial stewardship.

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 2021 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 2020/2021 financial year for both iLembe District and its entity. The adjustments budget is hereby prepared and tabled in accordance with Council's resolution.

During the approval of the 2020/21 MTREF the following were highlighted and identified as some of the constraints which may impede the implementation of the budget.

- The increased cost of bulk water which is pushing the tariffs upwards;
- The downturn in the National and Local economy due to COVID-19 pandemic;
- Ageing infrastructure, quality and quantity of drinkable water;
- The need to re-prioritise projects in order to consider avoid the spread of COVID-19 pandemic, and also consider expenditure within existing resources envelope given the cash flow realities while maintaining a good level of service delivery;
- 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 the approved budget was 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.
- ✓ 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 municipal fleet was concluded during 2019/20 financial year, this budget will bear the financial impact of the new municipal fleet;
- ✓ The ceasing of the Regional Bulk Infrastructure Grant allocation which impacts on the continuation of the projects already in implementation;
- ✓ The Security contract is currently affected by objection and being dealt with in consultation with KZNPT.

The first half of the financial year had its own successes, from increase on billing to unqualified audit opinion, however there were various challenges encountered as well, amongst others includes:

- Steady growth on revenue growth collection which impacts on the implementation of the budget as expenditure further relies on what is collected throughout the financial year.
- Sustainability of the consumer water meters to consumption and billing of consumers.
- Impact on implementation of capital projects funded by conditional grants, mainly MIG, RBIG and WSIG, where these grants were recorded as unspent on 30 June 2020 and was approved for a roll over in the current financial year.
- The impact on 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, and contractual challenges; and
- Increase on debtors consumer debtors arising from increased billing due to new connections and prepaid meters which have been converted to conversional meters;
- An increase in the supply of water through water tankers above appropriated budget mainly due to the areas that do not have water reticulation stand pipes hence the municipality is in a process to acquire more water tankers to assist in those areas to ensure that they do have access to water.

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.

OPERATING BUDGET SUMMARY

The operating budget summary provides information on both income and expenditure activities in line with the approved budget and the proposed adjustment budget for the year under- review and the following will be discussed:

DC29 iLembe - Table B4 Consolidated Adjustments Budget Financial Performance (revenue and expenditure) - Mid-Year Assessment												
Description	Ref	Budget Year 2020/21									Budget Year	Budget Year
		Original	Prior	Accum.	Multi-year	Unfore.	Nat. or Prov.	Other	Total	Adjusted	Adjusted	Adjusted
		Budget	Adjusted	Funds	capital	Unavoid.	Govt	Adjusts.	Adjusts.	Budget	Budget	Budget
R thousands	1	A	A1	B	C	D	E	F	G	H		
Revenue By Source												
Property rates	2	-	-	-	-	-	-	-	-	-	-	-
Service charges - electricity revenue	2	-	-	-	-	-	-	-	-	-	-	-
Service charges - water revenue	2	167,768	161,862	-	-	-	-	22,785	22,785	184,647	177,834	188,504
Service charges - sanitation revenue	2	45,934	45,391	-	-	-	-	2,273	2,273	47,664	48,690	51,611
Service charges - refuse revenue	2	-	-	-	-	-	-	-	-	-	-	-
Rental of facilities and equipment		22	22					147	147	169	23	24
Interest earned - external investments		14,761	14,761					(5,286)	(5,286)	9,474	15,565	16,415
Interest earned - outstanding debtors		39,020	39,020					(1,322)	(1,322)	37,697	41,361	43,843
Dividends received												
Fines, penalties and forfeits		399	399					(270)	(270)	129	423	448
Licences and permits		24	24					(12)	(12)	12	25	26
Agency services		2,149	2,149					0	0	2,149	2,277	2,414
Transfers and subsidies		613,309	679,634				41,660	-	41,660	721,294	680,262	736,132
Other revenue	2	29,384	29,384	-	-	-	-	(18,144)	(18,144)	11,240	29,772	30,489
Gains								159	159	159		
Total Revenue (excluding capital transfers and contributions)		912,768	972,645	-	-	-	41,660	329	41,989	1,014,634	996,232	1,069,906
Expenditure By Type												
Employee related costs		274,983	275,983	-	-	-	-	(13,542)	(13,542)	262,441	294,078	314,131
Remuneration of councillors		9,819	9,819					16	16	9,835	10,506	11,242
Debt impairment		18,301	18,301					(0)	(0)	18,301	19,142	20,023
Depreciation & asset impairment		81,631	81,631	-	-	-	-	(119)	(119)	81,512	85,391	89,325
Finance charges		12,691	12,861					(5,043)	(5,043)	7,817	10,938	9,591
Bulk purchases		216,200	222,623	-	-	-	-	20,973	20,973	243,597	247,820	287,602
Other materials		23,668	24,950					(12,749)	(12,749)	12,202	24,254	24,868
Contracted services		152,887	166,240					28,592	28,592	194,832	173,985	178,549
Transfers and subsidies												
Other expenditure		118,949	119,722	-	-	-	-	18,027	18,027	137,749	121,154	126,729
Losses		63	63					(42)	(42)	21	66	69
Total Expenditure		909,190	932,193	-	-	-	-	36,112	36,112	968,305	987,335	1,062,129
Surplus/(Deficit)		3,578	40,452	-	-	-	41,660	(35,783)	5,877	46,329	8,897	7,777
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		225,228	225,228				12,051		12,051	237,278	228,341	244,693
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)							9,431		9,431	9,431		
Transfers and subsidies - capital (in-kind - all)												
Surplus/(Deficit) before taxation		228,806	265,680	-	-	-	63,141	(35,783)	27,358	293,038	237,238	252,470
Taxation												
Surplus/(Deficit) after taxation		228,806	265,680	-	-	-	63,141	(35,783)	27,358	293,038	237,238	252,470
Attributable to minorities												
Surplus/(Deficit) attributable to municipality		228,806	265,680	-	-	-	63,141	(35,783)	27,358	293,038	237,238	252,470
Share of surplus/ (deficit) of associate												
Surplus/ (Deficit) for the year		228,806	265,680	-	-	-	63,141	(35,783)	27,358	293,038	237,238	252,470

Approved overall Budget

The overall approved operational revenue budget in the 2020/21 amounts was R 912.7 million and the operational expenditure amounting to R 909.1 million. Operations were thereby budgeted to achieve a net surplus of R 3.5 million for 2020/21; R 8.8 million and R 7.7 million for 2021/22 and 2022/23 respectively.

Adjustments overall Budget

The overall budget has been adjusted to R 1.0 billion (Revenue), and R 968.3 million (expenditure) respectively. Operations were thereby adjusted to a net surplus of R 46.3 million for 2020/21; R 8.8 million and R 7.7 million for 2021/22 and 2022/23 respectively. The total surplus including capital transfers and contributions for 2020/21 as approved amounted to R 228.8 million; and the adjusted budget is now R293.0 million.

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 2020/21 Original budget estimates, actuals 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 were proposed to increase by 9.6% arising from 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 budget on water service charges was approved at amounts to a net of R 167.8 million (2019/20: R154.1 million), however this has been adjusted up to R 184.6 million. The 14% increase is as a result of an improved water billing as reported during the mid-year budget review.

This improvement was achieved through a continuous exercise of consumer database cleansing and conversion of prepaid meters to conventional. Furthermore, there are new connections that were done during the first six months.

The municipality has budgeted to provide free basic services for the 2020/21 financial year. The number of people accessing this service has increased as compared to prior years due to increase on unemployment equity as a result of COVID-19 pandemic. There are processes currently done under the Vuthela Programme is in progress, this will allow aligning the Local Municipality's indigent registers with the districts' register.

b) Service Charges Revenue - Sanitation

The sewer service charges was initially approved at R 45.9 million but has now been increased to R 47.7 million by 5% when compared to approved budget.

The 5% increase is as attributable to the year to date billing which was 5% above target in the first six months.

During the approval of the budget the following was highlighted that National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality. The Consumer Price Index (CPI) inflation is forecasted to be within the upper limit of the 3 to 6 per cent target band; therefore, municipalities are required to justify all increases in excess of the projected inflation target for 2020/21 in their budget narratives, and pay careful attention to the differential incidence of tariff increases across all consumer groups. In addition, municipalities should include details of their revenue growth assumptions for the different service charges in the budget narrative.

Furthermore, 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 and maintenance of infrastructure. It should be noted that electricity costs contribute significant portion of waste water treatment input costs, therefore higher than the CPI.

c) Rental of facilities and equipment

This item relates to hiring of the District's Auditorium to the public and the rental on tunnels for the Local Economic Development. The municipal entity engage companies utilising their tunnels and it receives rental fees. The total provision on this item was approved at a consolidated R 22 thousand, and it has now been adjusted to R 169 thousand. The amount is split into:

- There was no approved budget initially for the tunnels under enterprise ilembe now adjusted to R 158 thousand.
- Approved at R 22 thousand relates to iLembe for rental of auditorium, now adjusted to R 10 thousand. The auditorium is made available for hire to the public as per the tariff of charges.

The adjustment is attributable to the mid-year collection which was resulted from iLembe Entity and no collection at IDM.

d) Interest Earned on external Investments

Interest on investments were approved at R 14.7 million (2019/20 R 13.8m). 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 interest is adjusted down by 36% from the approved budget to R 14.7 million.

The decrease is as a result of a withdrawal that was made to pay ABSA loan, the decrease on investment rate due to COVID-19 pandemic as well as negative variance amounting to R 2.5 million (35%) during the mid-year budget assessment. The interest was attributable to the MIG, RBIG, EEDSMG and WSIG and other grants funds that remained unspent at end of 30 June 2020. The application for rollover was submitted to funders and it was approved for rollover.

Furthermore, the municipality had a fifteen (15) year loan commitment with ABSA amounting to R 30 million which had been fully paid in May 2020. The loan was secured by a sinking fund investment with ABSA currently valued at R27 million which was utilized as part payment against the loan capital amount. As a result the interest earned on long term investment had decrease when compared to prior years.

e) Interest earned on outstanding debtors

Interest on outstanding debt was approved R 39.0 million (R 35.6 million: 2019/20) with a decrease of R1.3 million. Interest on outstanding debtors is directly linked to the debtors' book. During the mid-year budget assessment the debt book had risen extremely due to the increase on billing arising from an improved data cleansing and various programmes to enhance billing.

It should be stressed that, the current financial distress facing the country has negatively affected the level of collecting revenue. In January 2020 Council resolved to write off R 54 million which relates to old debt. This write off will have a minor adjustment to consumer debtors and as a result the interest has been adjusted downwards to match the level of debt.

f) Fines and Penalties

Fines and penalties is an item related to compliance / non-compliance, for example illegal connections, tampering fees. The provision on this item was R 399 thousand as per approved budget. This item will be adjusted down by 68% considering the half year performance. This item is in line aligned to the enforcement of the credit control policy.

g) Agency Services

Revenue from agency budget amounts to R2.1 million. This category of item is in relation to fees collected from concession fees (Siza Water). There is no adjustment to this item.

h) Transfers Recognised – Operational

The transfers' recognised Operational was budgeted at R 613.3 million (2019/20: R 674.9 m), but has been adjusted up by 6% (R 41.2 million) to R 721.3 million. The budget on this item is in line with the Division of Revenue Act, Gazette of 2020 and is constituted by the adjustments as follows including the approved rollover:

- MIG operational R24 million (including rollover)
- WSIG R26.6 million (including rollover)
- EEDSMG R5.7 million (including rollover)
- Development Planning and shared services R364 thousand (rollover)
- District imagery Cond Met R1 million (rollover)
- Small Town formalization R1.1 million (rollover)
- Spatial Dev. Framework Cond. Met R605 thousand (rollover);

i) Other Revenue

This category includes various revenue items that were initially budgeted to a total of R 29.4.3 million (2019/20: R 27.9m), but has been adjusted down to R 11.2 million. Other revenue decreased by 62%. The decrease is mainly attributable to a decrease of the Department of Education grant funding the National School's Nutrition Programme due to contract that has been expired in June. During the mid-year assessment, a variance of 83% below target for this item was realised. When the annual budget was passed, the Entity had been in negotiating with the Department of Education (DOE), however the negotiation concluded with the resolution not to renew the contract.

Other items which had contributed to the adjustments included revenue from

- Sale of tender documents
- Clearance certificates and
- Handling fees.
- Private Developers Contribution

OPERATING EXPENDITURE FRAMEWORK

In preparation of the 2020/21 – 2022/23 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;
- The implementation of cost containment measures on municipal operational expenditure; and
- 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.
- The extreme increase in the Umgeni water tariff, currently 9%
- The high cost of fuel due to the municipal fleet that was acquired in 2019/20 financial year;
- The COVID-19 expenditure for procurement of PPE and other compliance related expenditure as per the regulations.

The summary of the adjustments to the adjustments budget:

When compared to the overall, total approved budget of R 909.1 million, the increase on operational expenditure budget by R36.1 on an adjusted budget of R 968.3 million. The main contributors to this adjustment are;

- Bulk purchases, increased by 9% to an adjusted figure of R 243 million
- Contracted services, mainly on the hire of water tankers, Water Conservation Demand increase by R 29.8 million
- VIP toilet project, with an additional expenditure R 1.3 million funded from MIG.
- Umvoti Water Scheme refurbishment moved to operational expenditure by R2.6 million
- EPWP programme increase by R2.6 million
- Fuel increase by R2.6 million;
- Maintenance of leased vehicles increased to R 7.6 million.

a) Employee related cost

This item relates to employee related costs booked in for the district and its entity. The consolidated employee related cost was originally budgeted at R 274.9 million but has now been adjusted down by R 13.5 million to R 247 million (2020: R 242.7 million).

The adjustment is mainly attributable to vacant posts arising from terminations, and those which were anticipated to be filled in the beginning of the financial year which at time they have not been filled, they will however be filled in the third quarter. The process of filling one senior post, namely Technical Services has been filled in the month of February 2021.

The municipality resolve as one of the ways to improve the cash flow status to prioritise compliance and vacant posts as this has an implication on the viability and performance of the municipality.

b) Remuneration of councillors.

This item relates to remuneration of Councillors, and was approved at R 9.8 million, the budget has been adjusted up by R16 thousand. Every year between December and January, a gazette on Determination of Upper Limits is issued as a guide on the increment of government officials. In the current year, the gazette has not yet been finalised, but has been indicated that it will be issued in March, in the interim, the budget is adjusted with a slight allowance should there be an increment to councillors' allowances.

c) Repairs and Maintenance (including Other Materials)

This item refers to the costs incurred to bring an asset back to an earlier condition or to keep the asset operating at its present condition. Repairs and maintenance are budgeted at R 54.2 million, the budget has been adjusted down to R 12.2 million. This item is separated into planned/ scheduled maintenance and unplanned maintenance. 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. As a result other material was approved at R 30.5 million but has been adjusted down to R 12.2 million. This amount is budgeted for materials used on repairs and other items related to agriculture in relation to Entity. A decrease is mainly due to NSNP contract that has expired in June 2020.

The district is aware of the need to budget for repairs and maintenance according to the acceptable National Treasury guidelines of 8% of the total PPE and the need to restore infrastructure. The provision is currently below norm, being 3.2%. Considering the aforementioned financial challenges, hence only R 53.6 million could be afforded on the operational budget, however when the capital expenditure on renewal of existing assets is considered the percentage comes to 6% 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

The approved budget provision for bad debts was R 29.4 million, the budget has however been adjusted down to R 5.7 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 75% revenue collection rate which is lower compared to the approved estimate of 85%. Council has been contributing to bad debt provision over the last 2 years without writing off any debt. A portion of bad debt to the value of R 54 million has been written off by Council in January 2020.

e) Depreciation & Asset Impairment

The provision for depreciation, amortisation and asset impairment was budgeted at R 81.6 million but had been adjusted down to R 81.5 million and informed by the Fixed Asset Policy of the District plus the additional projects to be completed in the 2020/21 budget. 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 a provisional amount, the actual depreciation and impairment is fully determined at year end.

f) Finance Charges

Finance charges consists primarily the repayment of interest on long-term borrowings and interest related to the fleet contract that has been acquired through an instalment lease agreement sale and accounted as finance leases as per GRAP standards.

The interest was approved at R 12.6 million (2020: R 11.3 million) but has however decreased to R 7.8 million, the decrease is attributable from the lower interest rate due to National Lockdown;

g) Bulk Purchases

The budget for bulk purchases was initially appropriated at R 216.2 million, but has now been adjusted up to R 243.5 million.

It was started during the approved budget process that the increase on bulk purchases is attributable to the tariff increase of 9.6% from Umngeni Water which had an 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 expected to maintain the balance between affordability municipal services while it keeps the tariff cost reflective in order to ensure that there is sustainability.

The municipalities have 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. It should be noted that the municipality does not break even with such high tariff increases, however it contains the burden not to be passed on to consumer considering the subdued economic situation in the country.

During the mid-year budget assessment, the actual expenditure was sitting at R 115.6 million (December 2019 – R 90.4 million), resulting in a 4% variance above anticipated half year expenditure. It should be noted that item is the main cost driver on provision water. The main attributable to a high expenditure on this item includes various factors such as -;

- Increase in new connections and the cost of providing water supply to consumers.
- Indirectly, water losses have an impact on this item. The municipality faces a high level of non-revenue water and real losses currently sitting at 55% and 54% respectively. There is currently a project dedicated to reduce water losses, improve service delivery and eradicate services backlogs increasing revenue while decreasing the extent of the Non-Revenue water. The total budget allocated to Water Conservation and Demand Management amounts to R 23.1 million where various activities will be performed. A 5 year- Master Plan will also be drafted from this programme. To date, 61 bulk water meters have been verified, mainly for Ndwedwe, KwaDukuza and Maphumulo.
- No new capital projects were commissioned in the first half of the financial year.

Capital Unit Charges

In the 2018/19 financial year iLembe District Municipality resolved to commence with repayments towards the capital unit charges towards the Spring Grove Dam and budget provision was accordingly made. The agreement between the Municipality and Umngeni is awaiting the outcome of the Department of water and sanitation. During 2019/20 the matter was concluded the repayments will be commenced with for a period of 12 years as per the signed agreement. This long-term liability is indicated into the non-current liability.

h) Contracted Services

This item refers to contracted services was appropriated at R 152.9 million, however this has increased to R 196.1 million. The main items contributing to this increase are as follows:

- An increase to Water Conservation Demand by R13.1 due to approved grant rollover of R10million plus shifting of funds from capital projects that are not performing well during this financial year;
- EPWP projects increase to R9.7 million funded by both grant allocation and internally funded.
- MIG reprioritisation on Umvoti water scheme to R2.6 million for the repairs and maintenance;
- There are also due projects due to grant rollover that contributed to an increase, they are as follows:
 - District Satellite Map R869 000
 - Spatial Dev. Framework 525 000

- Maphumulo Transfer And Reg Of Individual Sites Grant R1.1 million
- Eedsm Implementation - EE HVAC Retrofit at iLembe House R1.6 million
- Eedsm Implementation - Clean Energy Technologies (Fuel Cell Pilot project in Mandeni Local Municipality) R695 000.

These items include expenditure on hiring of water tankers. The projected full year expenditure on hired water tankers is around +/- R 25 million. This expenditure is mainly due to the following:

- Majority of the water tankers are old, and high on maintenance, as a result it drove cost of service high.
- There were many water outages and leaks experienced in the first half of the financial year and this resulted the demand for water through water tankers rose.
- The Umvoti water scheme which supply water in the areas of KwaDukuza has been experiencing challenges, and this called for more water supply through water tankers.

All existing contracts have been provided for on the budget. Table SB1 provides a list of all contracted services i.e. security services, plant hire, vehicle hire, printing rentals, etc. This refers to all contracted services to other parties that provide services on behalf of the district and its entity. Furthermore this category includes contracted services for handling repairs and maintenance.

i) Other Expenditure

The proposed budget allocation for other expenses amounts to R 118.9 million but has now been adjusted up to a net of R 136.4 million. The adjustment is mainly attributable to the following items:

- Electricity for the pump stations and reservoirs by R4.5 million, Electricity usage during the first six months indicates an increase in consumption costs.
- Fuel and oil by R2.6 million dues to increase in fuel price considering another anticipated petrol hike in March 2021, there may be other increases in the remaining months of the year.
- An increase on telephone by R1.5 million is due to the fact that due you alert levels in the National Lockdown which requires that employees to work a rotation, this now requires communication with employees who are working remotely. There is also addition use of 3G devices and additional mobile data costs.

j) Surplus/Deficit

The adjusted budget shows a consolidated surplus of R 46.3 million. Furthermore, the operational expenditure includes non-cash items to the amount of R 99.8 million, which leaves an operational surplus of R 146.1 million when these items are added back. The non-cash items pertain to:

- Depreciation and asset impairment - R 81.5 million
- Debt Impairment – R 18.37 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. Although there has been an improvement from the past two years since the municipality went through the financial constraint. Caution should be exercised and Council should continue to striving for an increase in the operating surplus to ensure financial and service delivery sustainability.

CAPITAL BUDGET

Capital Expenditure Details

The initially approved consolidated capital budget was R 202.8 million in the 2020/21 financial year; R 199.1 million and R 213.2 million for 2021/22 and 2022/23 respectively (excluding VAT) representing all categories identified as priority areas for capital expenditure during the review of the 2019-2023 IDP.

The Total capital adjusted budget for the entire MTREF is adjusted to be **R 670.6 million.**

DC29 iLembe - Table B5 Consolidated Adjustments Capital Expenditure Budget by vote and funding - Mid-Year Assessment

Description	Ref	Budget Year 2020/21									Budget Year +1 2021/22	Budget Year +2 2022/23
		Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
R thousands		A	A1	B	C	D	E	F	G	H		
Capital Expenditure - Functional												
Governance and administration		6,796	16,656	-	-	-	-	1,602	1,602	18,257	377	320
Executive and council										-		
Finance and administration		6,796	16,656					-	1,602	18,257	377	320
Internal audit										-		
Community and public safety		-	-	-	-	-	-	-	-	-	-	-
Community and social services										-		
Sport and recreation										-		
Public safety										-		
Housing										-		
Health										-		
Economic and environmental services		150	150	-	-	-	-	6,971	6,971	7,121	250	850
Planning and development		150	150					6,971	6,971	7,121	250	850
Road transport										-		
Environmental protection										-		
Trading services		195,850	212,386	-	-	-	11,479	9,000	20,479	232,865	198,557	212,776
Energy sources										-		
Water management		162,979	179,515					8,280	9,000	17,280	114,323	119,406
Waste water management		32,871	32,871					3,199	3,199	36,070	84,234	93,370
Waste management										-		
Other										-		
Total Capital Expenditure - Functional	3	202,796	229,191	-	-	-	11,479	17,572	29,051	258,242	199,185	213,946
Funded by:												
National Government		195,850	195,850				10,479		10,479	206,329	198,557	212,776
Provincial Government							8,200		8,200	8,200		
District Municipality										-		
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)										-		
Transfers recognised - capital	4	195,850	195,850	-	-	-	18,678	-	18,678	214,529	198,557	212,776
Borrowing		-								-		
Internally generated funds		6,946	33,341					10,373	10,373	43,714	627	1,170
Total Capital Funding		202,796	229,191	-	-	-	18,678	10,373	29,051	258,242	199,185	213,946

The consolidated capital budget was approved at R 202.8 million but due to a receipt of an additional equitable share grant from National Treasury amounting to R 66 million to cater for the COVID-19 expenses during the financial year, a special adjustment budget was tabled on 30 September 2020 and the adjusted budget amounted to R 229.1 million. The current adjustment budget processes resulted on an upward adjusted budget amounting to R 258.2 million.

The main adjustments are attributable to the following:

- Roll over of unspent conditional grant

- The district had recorded a total of R45 million as unspent at 30 June 2020. An application for a roll over was submitted to National Treasury, as a result the application for a roll over was approved for an amount of R 40.8 million, and as a result this adjustment is prepared. The rollover is utilised to fund existing projects which was the main reason of the approval to roll over.

The capital expenditure is mainly funded through grants, at main, which 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. An amount of R232.3 of the capital budget is set aside for service delivery objective under trading services. Governance and Admin has been allocated R18.2 million of the total capital budgets and R7.1 million to cater for the LED projects 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 162.9 million was submitted as an initial approved budget, however this has increased to R 196.7 million mainly due to additional projects to be funded internally amounting R26.5 and appropriation R 7.2 million roll over on grant funding budgeted for the construction water infrastructure, of which R 42.1 million is for refurbishment of water services assets. Table B9 in budget schedules breaks down expenditure into refurbishment of the existing assets and new assets. All local municipal areas will benefit from this provision.

Water Waste Management

A total of R 32.9 million was approved by Council, however this has now been adjusted down to R 36.1 million. This item is 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. The adjustment is mainly due to the shifting of the grant from capital to operation, to the value of R 4.4 million to top up the Water Conservation Demand on the income and expenditure.

A detailed breakdown of capital projects could be viewed on SB19.

Capital Budget Funding

National Grant Funding

Total grant allocation on the Division of Revenue Allocation for the 2020/21 MTREF capital projects amounts to R 195.8 million. The allocation provided in the remains a multiyear project.

- Municipal Infrastructure Grant R 149.4 million;
- Water Service Infrastructure Grant R46.5 million,

Grant rollover:

- Municipal Infrastructure Grant R 8.9 million;
- Regional Bulk Infrastructure Grant R5.9;
- Disaster Management Grant (fire vehicle) R1.7 million
- Youth Empowerment Programme R 6.4 million;

Internally generated Funding

The projects on this funding amounts to R 6.9 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 projects added to curb the spread of Corona Virus through the additional equitable share received which resulted to the increase of R36.8 million. The projects are as follows:

- Pump Replacement
- Sundumbili plaza station
- Air conditioners
- ICT projects
- Electrical supply to water pumps
- Acquisition of Water tankers, TLB and excavator

Borrowings

In this current financial year the municipality has not budgeted for any additional borrowings other than the existing borrowings indicated on B6 and B7.

TOTAL EXPENDITURE BUDGET

The Total Expenditure for 2021 is as follows:

R 'MILLION	APPROVED BUDGET	ADJUSTED BUDGET
OPERATIONAL EXPENDITURE	909,190	968,305
CAPITAL EXPENDITURE	202,796	258,242
TOTAL BUDGET	1,111,986	1,226,547

The District's consolidated expenditure budget was approved at R 1.1 billion in the 2020/21 budget year, however this has been adjusted up to R1.2 billion.

PART 2 – SUPPORTING DOCUMENTS

2.1.1 Adjustments to Budget Assumptions

In the compilation of the adjustments, the MFMA does not allow revision of municipal tariffs during the year, however assumptions can be revised. The following is a list of assumption including revision where relevant:

- Normal inflationary increases and pressures - **remains as per approved, expect adjustment for expenditure pressures**
- That the budget is zero based, incremental and programme based; **remains as per approved**
- Inflation is 3.2 % for the 2020/21, 4.1% and 4.4% for 2021/22 and 2022/2023 respectively – remains as per approved
- An estimated average for salary increase of 6.5% as per the Salary and Wage Collective Agreement – **remains as per approved**
- That there will be no changes to the powers and functions of the District during 2020/2021 financial year; - **remains as per approved**
- That more than 65 % of revenue budgeted for will be collected; - **Remains as per approved,**
- That all DORA allocations will be received during the 2019/2020 budget year.
- Increase to Tariff of charges by 9.6% - **Remains as per approved but, except where grants were received during the financial year.**
- That the cost containment measures implementation will still be in operation in the medium term – **Remains as per approved.**
- An annual tariff increase of 9.6% from Umgeni Water – **Remains as per approved, bulk.**

2.1.2 Overview of Budget Funding

The budget is funded out of a number of revenue sources, which includes grants, water and sanitation service charges, investment income and other miscellaneous revenue. This can be viewed in more detail on table B4.

Section 17 and 18 of the MFMA legislates how a municipal budget should be funded. Additionally, MFMA Circular 42 – Funding a Municipal budget requires an alignment of the budget and cash backed reserves/ accumulated surplus to ensure that the budget is appropriately funded.

It should be noted that the District highly reliant on grants funding. The capital budget will be funded through three funding sources:

- Own Funding – Council
- Grant Funding (National and Provincial)
- Borrowings

Funding of the tabled budget has considered the requirements of section 18 of the MFMA Act no. 53 of 2003. The capital budget is however not funded through the cash backed reserves.

The revenue generation projection was re-calculated using the 9.6% increase on tariffs and the actual service charges revenue as at 31 December 2020 which was the latest actual revenue in the current financial year prior to the adjusted budget preparation process.

The progress on improving the cash position was positively fair, as planned in the past two years, however considering that the budget was being trimmed as year proceed it requires that more and stricter measures are implemented to curb unnecessary expenditure. Such measures should be applied across all types of expenditure, relevant to this is the recent cost containment regulations gazetted by National Treasury which should be enforced in all spheres of government. Nevertheless, based on the NT B schedule tables, the District's budget is appears funded. Further details can also be viewed from Table B8 and supporting Table SB2 wherein it shows a positive cash R 319.1 million.

As a measure to the severe cash strain, the municipality will continue to implement its Revenue enhancement strategy in place to improve the revenue collection. The approved budget collection rate assumption of 65% has not been revised as a basis for calculation of the funding measurement. This assumption is aligned to the current strategies in place and decisions taken to align such, to mention a few:

- Relations with department of education regarding schools and offices high in debt.
- Targeting residential debt and areas that were previously not receiving water.
- Adjusting of consumer accounts in areas that do not consistently get water supply.

- Expenditure and revenue management meetings taking place.
- Implementation of an action plan.
- Council assistance and support

Cash Flow

DC29 iLembe - Table B7 Consolidated Adjustments Budget Cash Flows -

Description	Ref	Budget Year 2020/21									Budget Year	Budget Year
		Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
R thousands		A	A1	B	C	D	E	F	G	H		
CASH FLOW FROM OPERATING ACTIVITIES												
Receipts												
Property rates		-	-						-	-	-	-
Service charges		202,041	197,094					12,677	12,677	209,772	259,481	272,979
Other revenue		156,270	156,270					(13,279)	(13,279)	142,991	158,979	167,259
Transfers and Subsidies - Operational	1	644,214	710,539				(10,546)	(9,500)	(20,046)	690,493	718,054	776,381
Transfers and Subsidies - Capital	1	225,228	225,228						-	225,228	228,341	244,693
Interest		14,761	14,761					(5,286)	(5,286)	9,474	15,565	16,415
Dividends		-	-						-	-	-	-
Payments												
Suppliers and employees		(1,031,883)	(1,073,073)				(1,418)	122,471	121,053	(952,020)	(921,274)	(994,065)
Finance charges		(12,691)	(12,861)					5,783	5,783	(7,077)	(10,938)	(9,591)
Transfers and Grants	1	-	-						-	-	-	-
NET CASH FROM/(USED) OPERATING ACTIVITIES		197,939	217,957	-	-	-	(11,964)	112,867	100,903	318,859	448,208	474,069
CASH FLOWS FROM INVESTING ACTIVITIES												
Receipts												
Proceeds on disposal of PPE									-	-		
Decrease (increase) in non-current receivables		(411)	(411)					411	411	-	7	7
Decrease (increase) in non-current investments									-	-		
Payments												
Capital assets		(202,796)	(225,291)				(8,822)	(39,814)	(48,636)	(273,927)	(199,185)	(213,946)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(203,206)	(225,702)	-	-	-	(8,822)	(39,403)	(48,225)	(273,927)	(199,178)	(213,940)
CASH FLOWS FROM FINANCING ACTIVITIES												
Receipts												
Short term loans		-							-	-		
Borrowing long term/refinancing		-							-	-		
Increase (decrease) in consumer deposits		62	62						-	62	195	205
Payments												
Repayment of borrowing		(37,372)	(37,906)					(170)	(170)	(38,076)	(33,933)	(34,448)
NET CASH FROM/(USED) FINANCING ACTIVITIES		(37,310)	(37,845)	-	-	-	-	(170)	(170)	(38,014)	(33,738)	(34,243)
NET INCREASE/ (DECREASE) IN CASH HELD		(42,578)	(45,590)	-	-	-	(20,786)	73,294	52,508	6,918	215,292	225,887
Cash/cash equivalents at the year begin:	2	271,473	271,473					(124,271)	(124,271)	147,201	154,119	369,411
Cash/cash equivalents at the year end:	2	228,895	225,882				(20,786)	(50,977)	(71,763)	154,119	369,411	595,298

The tabled budget year end cash balance is estimated at R 154.1 million by year ending 30 June 2021. This has been revised down when compared to the original budget cash estimate of R 228.9 million. As mentioned above, the current cash further cashflow analysis could be obtained from table B7. With all assumptions above and analysis made from the current financial year and the audited outcome, the draft budget is funded, however there is an extreme pressure to the funding position,

care should be the pattern of expenditure, and should be monitored closely to control expenditure and eliminate spending on non- priority programmes. Furthermore, attention should be given to capital expenditure in order to avoid forfeiture of municipal grants should funds remain unspent at the end of the financial year.

The main items to be considered during the adjustments budget with direct impact on the cash flow are as follows:

- The repayment of the ABSA long terms loan which was secured by an investment coupon in the second half of the financial year. This will impact on both investments and borrowings.
- Repayment of leased vehicles acquired through a municipal lease, has starting from the current financial year after the acquisition of the new fleet.
- Payment of suppliers for capital project which are funded by the unspent grants rolled over in the current financial year.

2.1.3 Adjustments to Expenditure on allocations and grant programmes

DC29 iLembe - Supporting Table SB8 Consolidated Adjustments Budget - expenditure on transfers and grant programme -

Description	Ref	Budget Year 2020/21							Budget Year	Budget Year
		Original Budget	Prior Adjusted	Multi-year capital	Nat. or Prov. Govt	Other Adjus.	Total Adjus.	Adjusted Budget	Adjusted Budget	Adjusted Budget
		A	2 A1	3 B	4 C	5 D	6 E	7 F		
R thousands										
EXPENDITURE ON TRANSFERS AND GRANT PROGRAM:										
Operating expenditure of Transfers and Grants										
National Government:		608,846	-	-	66,325	22,314	88,639	697,485	680,262	736,132
Local Government Equitable Share		566,794			66,325		66,325	633,119	623,486	680,793
Finance Management		1,000					-	1,000	1,000	1,000
Water Services Operating Subsidy		-					-	-	-	-
Rural Transport Services and Infrastructure		2,291					-	2,291	2,417	2,557
Energy Efficiency and Demand Management		3,000				2,700	2,700	5,700	3,000	-
EPWP OPERATING PROJECTS		4,746					-	4,746	-	-
WSIG OPERATING Funded (VIP TOILETS)							-	-	-	-
WSIG OPERATING Funded (water conservation demand)		11,550				15,070	15,070	26,620	23,959	25,382
MIG OPERATING Funded (VIP TOILETS)		19,465				4,544	4,544	24,010	26,400	26,400
Rural Housing Grant							-	-	-	-
DEPT OF LABOUR UIF GRANT							-	-	-	-
DISATSER COVID 19 GRANT - OPEX							-	-	-	-
Other transfers and grants [insert description]							-	-	-	-
Provincial Government:		4,463	-	-	-	19,346	19,346	23,808	-	-
Development Planning Shared Services - COGTA						3,072	3,072	3,072		
CORRIDOR DEVELOPMENT PROGRAMME						16,274	16,274	16,274		
MICT SETA		4,463					-	4,463		
RASET PROGRAMME - OPEX							-	-		
LED							-	-		
District Municipality:		-	-	-	-	-	-	-	-	-
[insert description]							-	-		
Other grant providers:		-	-	-	-	-	-	-	-	-
[insert description]							-	-		
Total operating expenditure of Transfers and Grants:		613,309	-	-	66,325	41,660	107,985	721,294	680,262	736,132
Capital expenditure of Transfers and Grants										
National Government:		225,228	-	-	-	12,051	12,051	237,278	228,341	244,693
Municipal Infrastructure Grant (MIG)		171,778				10,328	10,328	182,106	182,300	195,075
Rural Transport Services and Infrastructure							-	-		
Regional Bulk Infrastructure						6,795	6,795	6,795	46,041	49,618
WSIG		53,450				(5,073)	(5,073)	48,377		
YEP GRANT PROJECTS							-	-		
DISASTER COVID19 CAPEX							-	-		
Provincial Government:		-	-	-	-	9,431	9,431	9,431	-	-
Other capital transfers/grants [insert description]						2,000	2,000	2,000		
YEP GRANT PROJECTS						7,431	7,431	7,431		
District Municipality:		-	-	-	-	-	-	-	-	-
[insert description]							-	-		
Other grant providers:		-	-	-	-	-	-	-	-	-
[insert description]							-	-		
Total capital expenditure of Transfers and Grants		225,228	-	-	-	21,481	21,481	246,709	228,341	244,693
Total capital expenditure of Transfers and Grants		838,537	-	-	66,325	63,141	129,466	968,003	908,603	980,825

The total expenditure on grants amount was approved at R 838.5 million, but has increased to R 968 million. Movements are on column "total adjustments" amounting to R 129.5 million mainly attributable the roll-over of grants and additional equitable share.

2.1. 4 Adjustments to allocations and grants made by the municipality

No adjustments were made to grants or allocations made by the municipality.

2.1.5 Adjustments to Councillor Allowances and employee benefits

This item relates to employee related costs booked in for the district and its entity. The consolidated employee related cost was budgeted at R 274.9 million but has now been adjusted down by R 13.5 million to R 262.4 million (2020: R 242.7 million).

The adjustment is mainly attributable to vacant posts arising from terminations, and those which were anticipated to be filled in the beginning of the financial year which at time they have not been filled, they will however be filled in the third quarter. The process of filling one senior post, namely Technical Services has been completed in February 2021.

The municipality resolve as one of the way to improve the cash flow status to prioritise compliance and vacant posts as this has an implication on the viability and performance of the municipality.

Supporting tables SB11 provides the expenditure on employee related costs. The total employee related costs plus councillors represent 28% of the total operating expenditure. This percentage is within the 30-40% threshold as required on Circular 71.

Remuneration of councillors.

This item relates to remuneration of Councillors, and was approved at R 9.8 million, the budget has been adjusted up by R16 thousand. Every year between December and January, a gazette on Determination of Upper Limits is issued as a guide on the increment of government officials. In the current year, the gazette has not yet been finalised, but has been indicated that it will be issued in March, in the interim, the budget is adjusted with a slight allowance should there be an increment to councillors' allowances.

2.1.6 Adjustments to service delivery and budget implementation plan

As a result of the adjustments budget, key performance indicators, targets, SDBIP, service level agreements have been adjusted to give effect on the adjustments made on the budget. These adjustments are either upward or downward depending on affected key performance area and details of this can be viewed on the SDBIP and on the District's balance scorecards. Furthermore, this means that quarter three and four targets will have to be revised.

2.1.7 Adjustments to Capital budget

The initially approved consolidated capital budget was R 202.8 million in the 2020/21 financial year; R 199.1 million and R 213.2 million for 2021/22 and 2022/23 respectively (excluding VAT) representing all categories identified as priority areas for capital expenditure during the review of the 2019-2023 IDP.

The Total capital adjusted budget for the entire MTREF is adjusted to be **R 670,6 million.**

DC29 iLembe - Table B5 Consolidated Adjustments Capital Expenditure Budget by vote and funding - Mid-Year Assessment															
Description	Ref	Budget Year 2020/21									Budget Year +1 2021/22	Budget Year +2 2022/23			
		Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjus.	Total Adjus.	Adjusted Budget	Adjusted Budget	Adjusted Budget			
		5	6	7	8	9	10	11	12						
R thousands		A	A1	B	C	D	E	F	G	H					
Capital Expenditure - Functional															
Governance and administration		6,796	16,656	-	-	-	-	1,602	1,602	18,257	377	320			
Executive and council															
Finance and administration		6,796	16,656					1,602	1,602	18,257	377	320			
Internal audit															
Community and public safety		-	-	-	-	-	-	-	-	-	-	-			
Community and social services															
Sport and recreation															
Public safety															
Housing															
Health															
Economic and environmental services		150	150	-	-	-	-	6,971	6,971	7,121	250	850			
Planning and development		150	150					6,971	6,971	7,121	250	850			
Road transport															
Environmental protection															
Trading services		195,850	212,386	-	-	-	11,479	9,000	20,479	232,865	198,557	212,776			
Energy sources															
Water management		162,979	179,515					9,000	17,280	196,795	114,323	119,406			
Waste water management		32,871	32,871						3,199	36,070	84,234	93,370			
Waste management															
Other															
Total Capital Expenditure - Functional	3	202,796	229,191	-	-	-	11,479	17,572	29,051	258,242	199,185	213,946			
Funded by:															
National Government		195,850	195,850				10,479		10,479	206,329	198,557	212,776			
Provincial Government							8,200		8,200	8,200					
District Municipality															
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)															
Transfers recognised - capital	4	195,850	195,850	-	-	-	18,678	-	18,678	214,529	198,557	212,776			
Borrowing															
Internally generated funds		6,946	33,341					10,373	10,373	43,714	627	1,170			
Total Capital Funding		202,796	229,191	-	-	-	18,678	10,373	29,051	258,242	199,185	213,946			

2.1.8 Other supporting documents

2.1.8.1 Revenue collection

C.1 Revenue collection

The South African economy has been experiencing slow growth accompanied by high unemployment rate due to COVID-19 pandemic which resulted to consumers lost their jobs and high increases in energy costs. As a result, this has an impact on consumers and indirectly affect revenue collection. Although there are limiting economic factors, there was a slight improvement on the month to month collection rate. The highest rate during the first six months was 68% (31 July 2019: 69%). In the month of December 2020 monthly collection rate was sitting at 58% (31 Dec 2019 - 49%), with 9% increase compared to December 2019.

There is a down slope on revenue collection rate, as well as billing there is a huge improvement on billing of consumers. The increase on billing has an implication on the debtors' book, resulting on more consumer debtors owing the municipality, and this effectively impacts negatively on the implementation of the budget as expenditure relies so much on what is collected at the end of each month. This also contributes to the huge increase in debtors annually, which is detrimental to the district. This would then mean that the municipality should decrease on expenditure on a monthly basis and concentrate on collection measures. This is mainly caused by the CIVID-19 pandemic that is economically affecting the country and worldwide. Some consumers have been retrenched from work and have no other source of employment. Businesses as well have been greatly affected.

Table A

Majority of these are of a great concern

MONTH	BILLING 2020	BILLING 2021
JULY	17 699 089	27 371 774
AUGUST	19 991 079	23 229 244
SEPTEMBER	16 952 315	30 696 555
OCTOBER	19 789 545	14 743 453
NOVEMBER	21 029 578	37 379 507
DECEMBER	21 393 380	13 181 742

This table shows a trend on billing from July 2019 to December 2019 compared to July 2020 to December 2020.

Revenue collection is a priority in the District, this subject is discussed on municipal structures. There are measures that were established to turn the situation around and effectively implement such measures mainly consisting of revenue enhancement and protection, debt collection and cost containment strategies as well as how modern strategies can be maximised in the course of conducting municipal business in order to enhance operational efficiencies.

2.1.8.2 Assessment of prepaid meters

A project of installation of intelligent meters was introduced with an aim of increasing revenue collection and to reduce outstanding debtors and bad debts. Prepaid meters were previously installed with a smart device and consumers buy prepaid water as they do with electricity. It has been a year since the district initiated an assessment to determine an advanced and effective ways to gain more value from the use of the prepaid meters. A practical exercise was embarked upon in alignment to the revenue enhancement programme and monitoring of water usage within the District. The decision has shown positive results in terms of increasing billing.

Furthermore, the Thuma Mina campaign held in the previous financial year by iLembe leadership (Councillors) and management where they visited various areas within the District to do a physical assessment of water meters has yielded results. This campaign also involved plumbers and meter readers. Who were replacing faulty immediately. The District continues to clear all faulty meters by converting them to conventional system. The municipality will continue to implement Thuma Mina campaign once the COVID regulations has been relaxed. This was greatly affected by the COVID-19 pandemic and the lockdown levels that were introduced.

2.1.8.3 Implementation of the credit control policy

The credit control is being enforced in the following manner:

- There are smses that are being sent to debtors reminding them of outstanding payments and also to effect payments.
- During September 2020 restrictions resumed and consumers in arrears were being restricted in the event that payment is not received,
- Restrictions are being enforced on all category of 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;

2.1.8.4 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.

2.1.8.5 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 were smses that are being sent to indigent consumers whose indigent support has expired and also which is about to expire.
- Consumers did heed the call and some do come to the office to renew and some get notified as to when it will be expiring and that when the new application process will be expected.
- There is a programme/project with Vuthela that is going to assist with indigent support in the district with the 4 LM's as well.

2.1.8.6 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 2020/2021 financial year was initially appropriated at R 35.3 million, during the adjustment budget process there was no adjustment. 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 SB tables.

2.1.8.7 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.

2.1.8.9 Municipal Standard Chart of Accounts (mSCOA)

A quarterly report is submitted to Council, EXCO and Manco meetings. The District Municipality complied with the deadline set as per the Municipal Standard Chart of Accountants regulations, being 1 July 2017. There is a continuous monthly and quarterly reporting in terms of data strings. 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.

We are in the fourth year of implementation of mSCOA. A report is submitted to Council on a quarterly basis.

KZN PT conducted an assessment on implementation of mSCOA on the 15 business processes. In the current financial year the following modules were rolled out by Munsoft financial system for the municipality to utilize them:

- Project Invoicing Payment Module
- Petty Cash Module
- Grant Register Module
- New enhanced Loan Register
- New enhanced Investment register
- PMS Module (third party)

The Municipality is implementing these modules on a quarterly basis. The following modules that have started have been implemented:

- Project Payment Module (utilizing)
- PMS Module (in progress with training, enhancement completed)

- New enhanced Loan Register (to be fully implemented in quarter 3)
- New enhanced Investment register (utilizing)

The municipality continues to submit monthly and quarterly returns via the mSCOA data strings as per the regulation.

Furthermore, there is a Vuthela Programme that is assisting municipalities within the District in terms of implementation of mSCOA in relation to Balance sheet and Cash Flow budgeting. The training has been attended by Finance users in order to align the budget and the transacting against budget in terms of balance sheet and cash flow.

2.1.10 Municipal Manager's Quality Certificate

The Municipal Manager's Quality Certificate has been attached on this item.

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

RESOLVE TO RECOMMEND THAT

4.1 That the 2020/2021 consolidated adjustments budget on table B1 to B10 as per the Municipal Budget & Reporting Regulations and its supporting documentation be approved and adopted.

Table B1-	Adjustment Budget Summary
Table B2-	Adjustment Budget Financial Performance (standard classification)
Table B3-	Adjustment Budget Financial Performance (revenue and expenditure by municipal vote)
Table B4-	Adjustment Budget Financial Performance (revenue and expenditure)
Table B5-	Adjustment Capital Expenditure Budget by vote and funding
Table B6-	Adjustment Budget Financial Position
Table B7-	Budget Cash Flows
Table B8-	Cash backed reserves/ accumulated surplus reconciliation
Table B9-	Asset Management
Table B10-	Basic service delivery measurement

4.2 That the Mid-Year Budget Assessment, High Level Assessment by the KwaZulu natal provincial Treasury dated be noted.

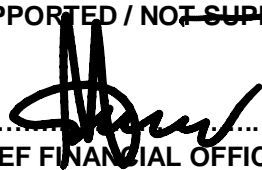
- 4.3 It be noted that the adjustments budget is being tabled by the Mayor in terms of section 28 (2) (a) (b) and (d), as well as section 28 (4) of the MFMA.
- 4.4 It be noted that the adjustments budget is fully compliant with section 28 (6) of the MFMA in that municipal tax and tariffs will not increase as a result of the adjustments budget.
- 4.5 The monthly and quarterly service delivery targets and performance indicators in the service delivery and budget implementation plan be revised according to the tabled adjustments budget.
- 4.6 Upon approval of the adjustments budget, Manager Budgets & Compliance ensures that, in terms of section 22 (b) of the MFMA, the adjustments budget is submitted in both printed and electronic formats to the National Treasury and Provincial Treasury.

SIGNATURE OF AUTHOR



.....
ACTING MANAGER BUDGET & COMPLIANCE
N KUMALO

SUPPORTED / NOT SUPPORTED _____



.....
CHIEF FINANCIAL OFFICER
M CHANDULAL



.....
MUNICIPAL MANAGER
NG KUMALO