

ITEM NO.	SUBJECT	REF
	DRAFT CONSOLIDATED MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF) 2021/2022 – 2023/2024	

REPORT TO: COUNCIL

DATE: 30 MARCH 2021

DIRECTORATE: FINANCE

AUTHOR: ACTING MANAGER – BUDGET & COMPLIANCE

TABLE OF CONTENTS

PART 1 – ANNUAL BUDGET

1.1 MAYOR’S REPORT

1.2 COUNCIL RESOLUTIONS

1.3 EXECUTIVE SUMMARY

1.4 ANNUAL BUDGET TABLES.....

PART 2 – SUPPORTING DOCUMENTATION

2.1 OVERVIEW OF THE ANNUAL BUDGET PROCESS.....

2.2 OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH IDP

2.3 MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS.....

2.4 OVERVIEW OF BUDGET RELATED-POLICIES.....

2.5 OVERVIEW OF BUDGET ASSUMPTIONS

2.6 OVERVIEW OF BUDGET FUNDING

2.7 EXPENDITURE ON GRANTS AND RECONCILIATIONS OF UNSPENT FUNDS.....

2.8 ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY.....

2.9 COUNCILLOR AND BOARD MEMBER ALLOWANCES EMPLOYEE BENEFITS.....

2.10 ANNUAL BUDGETS AND SDBIPS – INTERNAL DEPARTMENTS.....

2.11 ANNUAL budgets AND SERVICE DELIVERY AGREEMENTS – MUNICIPAL ENTITIES AND OTHER EXTERNAL MECHANISM.....

2.12 CAPITAL EXPENDITURE DETAILS.....

2.13 CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS.....

2.14 OTHER SUPPORTING DOCUMENTS.....

2.15 LEGISLATION COMPLIANCE STATUS.....

2.16 ANNUAL BUDGETS OF MUNICIPAL ENTITY ATTACHED TO THE MUNICIPALITY’S ANNUAL BUDGET.....

2.16 SERVICE LEVEL AGREEMENT.....

2.17 PUBLIC CONSULTATION.....

2.18 COST CONTAINMENT MEASURES.....

2.19 PROGRESS ON THE IMPLEMENTATION OF A RECOVERY PLAN /FINANCIAL TURNAROUND STRATEGY

2.10 WATER AND WASTE WATER DEMAND MANAGEMENT.....

MUNICIPAL MANAGER'S QUALITY CERTIFICATE.....

3. CONSULTATION.....

4. RECOMMENDATIONS.....

ANNEXURES

A – DRAFT MFMA - A1 SCHEDULE (to be tabled at Council)	E - D SCHEDULES – MUNICIPAL ENTITY (to be tabled at Council)
B – DRAFT TARIFF OF CHARGES	F – KZNPT Adjustment budget 2020/21 Feedback
C - SERVICE LEVEL STANDARDS (to be tabled at Council)	
D – DRAFT BUDGET RELATED POLICIES (to be circulated electronically due to volume of policies)	

A. PURPOSE

To table before Council for consideration, the Draft Medium Term Revenue and Expenditure Framework for 2021/2022, 2022/2023 and 2023/2024 in terms of Section 16 of the Municipal Finance Management Act, No 56 of 2003.

PART 1 – ANNUAL BUDGET

1.1 MAYOR’S REPORT

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

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

The tabled budget is aligned to table IDP which was reviewed and adopted by Council of iLembe Municipality in May 2020. The budget is a financial plan incorporated into these strategies to sustain communities through improved service delivery.

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

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

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

The 2022/2024 Medium Term Revenue and Expenditure Framework focuses on the long and short term objectives and priorities of the District as well as outcomes and outputs, based on the following IDP Priorities:

- Basic Service Delivery;
- Municipal Institutional Development and Transformation;
- Local Economic Development;

- Municipal Financial Viability and Management;
- Good Governance and Public Participation;
- Safe and Secure environment;
- Spatial Development Framework Analysis; and
- Environmental Management.

It should be noted that the current global socio-economic challenges and the impact of Covid-19 have an impact on the current budget and may result in estimates upward or downward. The main challenges experienced during the compilation of the 2021/2022 MTREF can be summarised as follows:

- The need to prioritise projects and expenditure within the existing resources envelope given the cash flow which is available;
- Ageing infrastructure, quality and quantity of drinkable water;
- The increased cost of bulk water which impacts tariffs charged ;
- Affordability of Capital Projects and funding thereof;
- Revenue growth patterns and collectability thereof which impacts on the funding and implementation of the budget;
- The current constraints within the Global, National and Local economies;
- The impact of Covid-19 on the functioning of the Municipality
- Availability of affordable capital or borrowings; and
- Rising and unpredictable fuel, oil and energy prices resulting in challenges on revenue recoveries.
- The global epidemic, coronavirus and its impact in the global community.
- The ability of consumer debtor to pay for services.
- Reduction in capital grants with regard to WSIG and RBIG

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

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

- Acceleration of water and sanitation provision in rural communities (Ndwedwe & Maphumulo); by implementing of the uMshwathi bulk pipeline in consultation with Umgeni Water over the next few years. The project is has not commenced as yet.
- Upgrading and replacement of ageing infrastructure within the resources available;
- Acquiring additional service delivery assets such as water tankers, excavator and TLB's
- Improve revenue collection and diversification of income by trying to identifying additional sources of revenue to place less reliance on grants;
- Enterprise iLembe to stimulate rural economic development and local economic development;
- Promotion of the Save Water Campaign and encouraging consumers to pay for services through campaigns;
- Enhancing our capacity to respond to natural disasters across the district ;
- To strengthen and improve IGR ;
- Facilitation and strengthening of relationships with Amakhosi ;

BASIC SERVICE DELIVERY

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

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

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

Service delivery should be our focus, backlogs be eradicated, job opportunities must be created, poverty alleviated and investment promoted to ensure a better life for the communities we serve.

The District has been experiencing rapid growth over the past 15 years and in most cases infrastructure delivery has lagged significantly behind this growth. The intensification of residential, commercial and industrial Greenfield developments have necessitated a structured infrastructure response, especially for

water and sanitation. To this end, the iLembe Water and Sanitation Master plan was developed and adopted by Council in 2017. There are strategic projects on the ground but these projects are in phases and lag between multi-years.

The municipality relies on grants and mostly for the eradication of backlogs through development of infrastructure and basic service projects such as bulk water infrastructure, sanitation, refurbishment of aging infrastructure, capacitation of the budget and treasury office as well as job creation through the expanded public works programme (EPWP). The 2021 MTEF includes reductions in planned transfers to municipalities by National Government. The implication of these reductions is that we are required to reprioritise projects.

The total budget allocated to this objective is:

- Capital Infrastructure R 213.6 million
- Operational Expenditure – R373 million.

The following are the projects which will be focused upon in the MTREF

DC29 iLembe District Municipality- Supporting Table SA36 Detailed Capital Projects

Project Description	2021/22 Medium Term Revenue & Expenditure Framework		
	Budget Year	Budget Year	Budget Year
	2021/22	+1 2022/23	+2 2023/24
Sundumbili Plaza Pump Station	2,300		
Replacement of Filter Media	746		
Sewer - Construction of Chemical storage room and Ablution facilities at Waste Water Works	910		
Replacement of Filter Media	910		
Sewerage Waste Water Sludge Removal	999		
Sundumbili Water Works Security Fence	910		
Water Pipe Replacement - internal project	475		
Sewer Pipe Replacement - Internal project	154		
Wosiyane Water Scheme Rehabilitation	1,111		
Ward 2 - Ndwedwe Water Scheme Rehabilitation	475		
PUMP REPLACEMENT	1,810		
COVID19 Spring Protection - acquisition	17,000		
MIG Reprioritisation - Umvoti Waterworks Refurbishment			
Construction of bulk pipeline at Ngcebo / Kwadukuza Zone G	1,020		
Macambini Water Supply Phase 4 - Makhwinini area			
Macambini Water Supply Phase 4 - Makhwinini area			
Macambini Water Supply Phase 5	42,457	35,333	36,500
Bulk Mains: Southern Regional BLK wtr-Sew	6,700	7,500	7,500
COVID19 Refurbishment of water schemes- Acquisition			
Macambini Water Supply Phase 4 - Makhwinini area			
Distribution: Ndulinde Phase 4D Distribution	18,700	23,734	21,250
Distribution: Inyoni Bulk Water	4,250		
Distribution: Ntunjambili Water Supply		3,894	3,600
Distribution: Lindelani Water supply refurbishment		2,550	
Distribution: Nondabula Water Supply		3,400	
Telemetry	2,000		
Distribution: Glenhills, Mbozamo and New Guilderland Reticulation	17,826	5,000	5,000
Distribution: Padianager Pumpstation and Pipeline	16,000	5,000	5,000
Distribution: Sonkombo Water Reticulation	2,000	35,000	35,000
Water Conservation/Water Demand Management	5,000	8,000	8,000
Blythedale Pipeline		4,900	4,900
Lindelani Pipeline		6,665	6,665
DARNAL WWWTW UPGRADE reticulation	16,800	4,250	
Southern Regional BLK wtr-Sew	13,500	18,000	18,000
Groutville D - Priority 5: Sewer Reticulation Network	19,550	17,000	29,750
Waste Water Treatment Works: SUNDUMBILI WASTE WATER UPGRADE	850	850	
KwaDukuza Regional Wastewater Works	850	850	
Driefontein Housing Bulk Sewer	5,100	25,500	25,500
Maphumulo Town Bulk Sewer	4,250	17,000	17,000
Mandafarm Housing Bulk Sewer	1,700	8,500	17,000
Inyoni Housing Bulk Sewer	1,809		
Upgrade of Frasers WWTW	5,100		
METER READING DEVICES	250		
OFFICE FURNITURE	500	520	541
Airconditioners	208		
Replacement of Airconditioners	120		
STORAGE BUILDING CONSTRUCTION	160		
LAN Upgrade	3,000	4,700	5,000
Network Infrastructure Internal Funded	1,500		
UPGRAD EOF DATA CENTERe	1,239		
Software Lic Microsoft	2,015	2,015	2,015
AUTOMATED PMS	1,000		
MOTOR CYCLE	2,100		
Vehicle Purchase			70,000
PARTITIONING OF DISASTER MANAGEMENT CENTER	140		
Loudhailers x2	20		
Handheld Megaphone	10		
Camera	200		
Digital Voice Recorder	5		
Tablets	15		
Branded Podium	10		
Social Media Kit with a light	5		
Furniture and Office Equipment: Furniture and Office Equipment	450	50	50
Office Renovations	1,800	-	-
Computer Equipment: Computer Equipment	100	100	100
Total Capital Projects	228,109	240,311	318,371

LOCAL ECONOMIC DEVELOPMENT

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

- Develop, review and strengthen the local economic development strategy on behalf of the district and family of municipalities;
- Champion a wide range of activities which emerge as important from the family of IDPs and LED Strategies;
- Co-ordinate LED activities to ensure alignment and integration;
- District marketing and promotion of tourism and investment promotion;
- Facilitate the identification, packaging and implementation of catalytic projects in key sectors and new sectors;
- Provide professional and multi-skilled support and networking services to major investors who wish to invest in the region;
- Work with local government to facilitate a business enabling environment; and
- Implement business, retention and expansion (BR&E) programmes in partnership with local business

Linked to its functions and Mandate, the key strategic goals of enterprise iLembe are therefore as follows:

- Facilitate the packaging & implementation of projects in existing and new sectors;
- Market and promote the iLembe District as an Investment, Tourism & Business Destination
- Research other potential growth sectors in addition to the current four sectors of main focus
- Identify, build and co-ordinate partnerships among socio economic stakeholders/
- Facilitate research that assists with Policy Development and formulation that impacts the mandate of the Agency
- Influence policy and the regulatory environment for socio economic development and investment
- To ensure sound financial management and viability of the entity.

BACK TO BASICS

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

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

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

MUNICIPAL TRANSFORMATION AND INSTITUTIONAL DEVELOPMENT

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

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

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

FINANCIAL VIABILITY AND MANAGEMENT

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

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

Global trends

Global trade volumes show signs of a recovery but the recent resurgence in Covid-19 infections and lockdowns poses a downside risk to the global economic outlook in the medium term. Global growth is expected to rebound by 5.5% in 2021 from a revised projected contraction of 3.4% in 2020 on expected vaccine-driven strengthening and additional fiscal policy support. Activity will remain well below pre-Covid, January 2020, levels. Even with the anticipated recovery in 2021 and 2022, output gaps are not expected to close until after 2022 and inflation is expected to remain subdued.

South Africa's long-term growth strategies for the economy after the Covid-19 pandemic must consider the following:

- Localising global manufacturing at consumption site through production onshoring;
 - The technological leap, which is permanent with huge benefits to economies, but the digital divide will persist;
 - The rise of the home office and the online retail market, resulting in a change in dynamics in the property market, with the residential space set to improve;
 - Reduced regional and international travel for business for multinationals; and
- Africa Free Continental Trade Area will be transformational but has a lot of hurdles, with the need for an accompanying Africa-wide air transport protocol.

(SOURCE [South Africa's economic recovery depends on these factors – including dealing with a third Covid-19 wave \(businesstech.co.za\)](#))

With all these factors, the forthcoming medium term our collection is estimated to be at 60 %, we must work very hard to reach this level of collection, although this may be impacted by the economic recovery further impacted by the current epidemic outbreak. Given the economic situation, Council will continue maintaining a balance between the macro-economic indicators to guarantee affordable services, however our approach will compromise cost recovery which helps in maintaining infrastructure and reduction of water losses. The increase on tariff of charges are at 7%. We have made provision for free basic services and hereby encourage consumers who qualify for indigent to register for relief. We have been working together in the Vuthela LED programme, which involves various activities to aligning the District's indigent register with those of the Local Municipalities. Furthermore, all local municipalise continue to work in collected effort to align the district's indigent register.

The total 2021/2022 Budget operational and capital expenditure amounts to R 1.2 billion, while the total MTREF 2022 - 2024 final budget amounts to R 3.8 billion.

Honourable Speaker of Council, I hereby table the draft medium term revenue and expenditure framework for the period 2021/22 to 2023/24 for consideration. After tabling the draft MTREF at Council the public participation process be initiated as per the Municipal Systems Act and the Municipal Finance Management Act.

1.2 RESOLUTIONS

THAT

- The Council consider in terms of Section 24 of the Municipal Finance Act, 56 of 2003, the **Draft Annual Budget** of the Municipality for the Financial year 2021/2022; and indicative allocations for the two projected outer years 2022/2023 and 2023/2024; as set out in the A Schedules annexured hereto as follows:

Table A1: Budgeted Financial Performance (Revenue and Expenditure by standard classification)
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
 - Cost Containment 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 2021/22 financial year be increased by 7% effective from 1 July 2021.
- That in compliance with section 22 of the MFMA, the final draft budgets be published in the local press and municipal website.
- That Council note that the draft service delivery and budget implementation plan for the 2021/2022 financial year will be tabled 28 days after the budget has been adopted.
- That Council note the feedback from KZNPT on the Adjustment Budget 2020/21.

1.3 EXECUTIVE SUMMARY

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

Section 24 of the MFMA further requires that the municipal council must at least 30 days before the start of the budget year consider approval of the annual budget, as the budget must be approved before the start of each financial year. It is in compliance with these sections that the budget is hereby tabled 90 days prior to the new financial year 2021/2022.

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

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

As a requirement of the MFMA 56, of 2003 and MSA 32 of 2000, the budget and IDP process plan adopted by the Council in August 2020 has been guiding path and has made possible a highly interactive and consultative process. The Mid-Year Budget and Performance Assessment report was conducted and presented by the Accounting Officer to the Mayor of the District, who then submitted the performance assessment report to Council for consideration at the end of January 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 2020/21 financial year for both iLembe District and its entity. The adjustments budget was prepared and this impacted most services where cost containment had to be applied to ensure the budget is balanced and funded. The adjustments budget was tabled to Council by His worship, Mayor of Ilembe District Municipality on 25 February 2021 in line with section 28 of the MFMA. During this process and where

appropriate, funds were transferred from low-to high priority programs so as to maintain sound financial stewardship. A critical review was further undertaken to limit spending on non-core items to align the budget with the District's austerity measures. Approaching the adjustments budget process, a constant consultation with all departments was maintained while considering the Provincial treasury's High Level Assessment on the 2020 Mid-Year budget assessment.

Various challenges were encountered during the course of the financial year. These were broadly presented before various committees for deliberation and tabled during the adjustments budget process. Majority of these are of a great concern and have been considered during the 2021/2022 budget preparation process. On a high level, these included the following:

- Revenue collection patterns which impacts on the implementation of the budget as expenditure further relies on what is collected at the end of the month.
- The budget on multi-year funded projects will be adjusted as a result of variance between planning cashflow projections versus and implementation cashflow.
- Delays in the implementation of projects arising from various project management challenges issues;
- Constrained cash flow position whereby there was a risk of other services being temporarily suspended.
- Increase on debtors consumer debtors arising from increased billing.

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

The budget will be published in the local newspapers and municipal website and also placed on the municipal buildings.

6.7 Municipal operations and governance

6.7.1 Municipalities are required to perform various legislated functions, including the passing of budgets and the adoption of integrated development plans (IDPs)

6.7.2 Municipalities are directed to; (a) Comply with the laws prescribing the IDP and budget processes aligned with COVID-19 Regulations. (b) Instead of convening contact meetings, develop electronic and alternative methods of consultation, agreements and approvals for municipal governance planning and budget processes.

The public participation process will be coordinated in accordance with directive provided by National Government considering the current COVID-19 Regulations in terms of Disaster Management Act,

2002: Regulations issued in terms of Section 27(2) of the Act. In this regard the Public Participation will be held in an alternative manner which include taking comments online or from the newspaper advert, this will be communicated in a local newspaper. Where necessary, Council workshop will be conducted to consider the budget related policies in line with the Budget & Reporting Regulations if the regulations on COVID-19 are uplifted. Prior to finalisation, changes on the budget was submitted to the Budget Steering Committee to seek technical input.

The 2020/2021 Medium Term Revenue and Expenditure Framework focuses on the long- and short-term objectives and priorities of the District as well as outcomes and outputs, based on the following IDP Priorities:

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

National Treasury's MFMA Circular No 10, 13, 19, 42, 48, 51, 54, 58, 59 , 66, 74, 75 and 78, 79, 82, 85, 86, 89, 91, 93 and 94, 98, 99,107 and 108 as well as the Municipal Budget & Reporting Regulations and the Municipal Finance Management Act were used to guide the compilation of the 2020/2021-2022/23 MTREF.

The main challenges experienced during the compilation of the 2021/2022 MTREF can be summarised as follows:

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

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

- ✓ The affordability of the cost-reflective tariff per kilo litre calculation (cost based tariffs) which is not passed on to the consumers;
- ✓ Review of revenue generation calculation projections to ensure that all contributing factors are taken into account;
- ✓ Proposal of 7 % tariff increase.
- ✓ Furthermore, a reduction of various variable operating expenditure items was kept at a minimum to match with the low tariff increase of 7 % and the consumer price index as per the National Treasury's MFMA budget Circular.
- ✓ The ceasing of the Regional Bulk Infrastructure Grant allocation which impacts on the continuation of the projects already in implementation.
- ✓ The process of the security contract currently impacted by the ongoing court case.

DC29 iLembe - Table A4 Consolidated Budget Financial Performance (revenue and expenditure) -											
Description	Ref	2017/18	2018/19	2019/20	Current Year 2020/21				2021/22 Medium Term Revenue & Expenditure Framework		
		Audit Outcome	Audit Outcome	Audit Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
R thousand	1										
Revenue By Source											
Property rates	2	-	-	-	-	-	-	-	-	-	-
Service charges - electricity revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - water revenue	2	94,769	116,359	144,113	167,768	184,647	184,647	184,647	201,572	215,683	230,780
Service charges - sanitation revenue	2	35,482	36,782	41,771	45,934	47,664	47,664	47,664	51,000	54,570	58,390
Service charges - refuse revenue	2	-	-	-	-	-	-	-	-	-	-
Rental of facilities and equipment		10	23	107	22	169	169	169	412	452	497
Interest earned - external investments		8,086	12,285	16,710	14,761	9,474	9,474	9,474	12,403	13,263	13,435
Interest earned - outstanding debtors		15,452	25,769	31,815	39,020	37,697	37,697	37,697	40,336	43,160	46,181
Dividends received		-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits		303	153	81	399	129	129	129	138	148	158
Licences and permits		78	22	45	24	12	12	12	13	13	14
Agency services		-	1,785	1,863	2,149	2,149	2,149	2,149	2,299	2,460	2,632
Transfers and subsidies		426,401	504,594	649,765	613,309	721,294	721,294	721,294	639,222	685,761	706,585
Other revenue	2	7,062	4,596	18,044	29,384	9,075	9,075	9,075	11,296	12,068	12,907
Gains		-	841	1,968	-	159	-	-	-	-	-
Total Revenue (excluding capital transfers and contributions)		587,643	703,208	906,282	912,768	1,012,468	1,012,309	1,012,309	958,689	1,027,577	1,071,580
Expenditure By Type											
Employee related costs	2	186,966	202,180	226,967	274,983	262,441	262,441	262,441	270,059	285,642	303,761
Remuneration of councillors		8,406	8,604	8,877	9,819	9,835	9,835	9,835	10,474	11,155	11,880
Debt impairment	3	41,676	65,022	79,008	18,301	18,301	18,301	18,301	19,582	20,952	22,419
Depreciation & asset impairment	2	81,790	104,330	118,103	81,631	81,512	81,512	81,512	116,457	121,731	127,208
Finance charges		10,566	8,947	9,725	12,691	7,817	7,817	7,817	6,875	3,799	7,779
Bulk purchases	2	86,506	150,578	206,635	216,200	243,597	243,597	243,597	247,355	264,670	283,197
Other materials	8	237	7,390	19,540	23,668	12,202	12,202	12,202	12,682	13,240	13,823
Contracted services		124,119	119,319	224,445	152,586	194,832	194,832	194,832	142,732	148,708	152,355
Transfers and subsidies		613	229	32,583	-	-	-	-	-	-	-
Other expenditure	4, 5	120,626	127,621	136,891	118,949	137,749	137,749	137,749	127,684	132,987	140,916
Losses		352	7,830	2,159	63	21	21	21	-	-	-
Total Expenditure		661,856	802,050	1,064,934	908,889	968,305	968,305	968,305	953,899	1,002,884	1,063,340
Surplus/(Deficit)		(74,213)	(98,842)	(158,652)	3,879	44,164	44,164	44,004	4,790	24,693	8,240
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		383,757	285,517	292,453	225,228	237,278	237,278	237,278	232,832	267,865	276,765
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)	6	-	-	-	-	-	-	-	-	-	-
Transfers and subsidies - capital (in-kind - all)		-	-	-	-	11,596	11,596	11,596	-	-	-
Surplus/(Deficit) after capital transfers & contributions		309,545	186,675	133,801	229,107	293,038	293,038	292,878	237,622	292,558	285,005
Taxation		-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after taxation		309,545	186,675	133,801	229,107	293,038	293,038	292,878	237,622	292,558	285,005
Attributable to minorities		-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) attributable to municipality		309,545	186,675	133,801	229,107	293,038	293,038	292,878	237,622	292,558	285,005
Share of surplus/ (deficit) of associate	7	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) for the year		309,545	186,675	133,801	229,107	293,038	293,038	292,878	237,622	292,558	285,005

Operating Budget Summary

The proposed operational budget contains detailed information for the 2020/2021, 2021/2022 and 2022/2023 indicative financial years and is summarised below:

The overall operational revenue budget in the 2021/22 amounts to R 958.6 million and the operational expenditure amounting to R 953.8 million.

Operations are thereby budgeted to achieve a net surplus of R 4.7 million for 2021/22; R 24.6 million and R 8.2 million for 2022/23 and 2023/24 respectively.

The total surplus including capital transfers and contributions for 2021/22 amounts to R 237.6 million; and the two indicative years amount to R 273.8 million and R 285 million for 2022/23 and 2023/24 respectively.

Operating Revenue Framework

The following budget principles and guidelines directly informed the compilation of the 2021/2022 MTREF:

- As a base, for incremental budget items, the 2020/2021 adjustment budget estimates and targets, as well as the base line allocations contained in that adjustment budget were adopted as the upper limits for the new baseline for the 2021/2022 budget then incorporating the tariffs and rates where applicable.
- 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 aligned to the bulk water tariff, which assists in bringing water into the final consumer but has not been aligned to cost reflectiveness. 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, and maintains the fact that some areas still utilise the prepaid meters which are replaced as they turn faulty.

With the downturn on the economy resulting in a burden to consumers, Service charges tariffs are proposed to increase by 7%. An assessment of the consumer affordability of tariffs was also considered.

Operating Income

a) Service Charges Revenue – Water

This budget relates to billing of consumers for water. The proposed budget on water service charges amounts to a net of R 201.5 million (2020/21: R184.6 million). The cost of providing free basic services is budgeted at R 2.3 million in the MTREF netted off from water service charges revenue. The basis of this calculation is the increase on tariff of charges by 7% and various strategies are in place to improve billing. The R 201.5 million is a net after adjusting for free basic water services from operating expenditure classification to revenue classification, so as to off-set the revenue as required by MFMA Circular 79; see below for as per the budget tables specifically;

Description	Ref	2017/18	2018/19	2019/20	Current Year 2020/21				2021/22 Medium Term Revenue & Expenditure Framework		
		Audit Outcome	Audit Outcome	Audit Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
R thousand	1										
Revenue By Source											
Property rates	2	-	-	-	-	-	-	-	-	-	-
Service charges - electricity revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - water revenue	2	94,769	116,359	144,113	167,768	184,647	184,647	184,647	201,572	215,683	230,780
Service charges - sanitation revenue	2	35,482	36,782	41,771	45,934	47,664	47,664	47,664	51,000	54,570	58,390

This budget is fairly achievable, considering the 2019/20 audited AFS closed with a billing amounting to R 145 million, when compared to previous financial year this shows a 24% increase. Amongst various factors contributing to an improved billing is data cleansing, performed on a continuous basis and has reaped great result. The District cleanse its debt book through various mechanism, others which involves working with Local Municipalities through the Vuthela program. This item will be further improved by the different mechanism of reading meters using electronic devices which started in the 2019/20 financial year, thereby increases efficiency and effectiveness while enhancing revenue.

The municipality continues to encourage people who qualify for indigent to come forward to register. The number of people accessing this service has decreased as compared to prior years. There is a process currently done under the Vuthela Programme to align the Local Municipality's indigent registers with the districts.

b) Service Charges Revenue - Sanitation

The sewer service charges is budgeted to be R 51 million (2020/21: R 47.6 million).

Description	Ref	2017/18	2018/19	2019/20	Current Year 2020/21				2021/22 Medium Term Revenue & Expenditure Framework		
		Audit Outcome	Audit Outcome	Audit Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
R thousand	1										
Revenue By Source											
Property rates	2	-	-	-	-	-	-	-	-	-	-
Service charges - electricity revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - water revenue	2	94,769	116,359	144,113	167,768	184,647	184,647	184,647	201,572	215,683	230,780
Service charges - sanitation revenue	2	35,482	36,782	41,771	45,934	47,664	47,664	47,664	51,000	54,570	58,390

When compared to the 2019/20 budget year, the final budget proposes comes with an increase of R 5 million and is attributable to the following:

- The 7% tariff increase on sewer charges.
- This amount is a net of free basic sewer services from operating expenditure classification to Revenue classification to comply with the MFMA circular.
- On this draft budget, the proposed budget is on property value-based tariffs as per **Annexure B**.

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 2021/22 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. NERSA has approved and electricity

tariff of 6.9% for the 2021/2022 year, municipalities will use this tariff increase of 8.9 % for 2022/23 and 8.9% for 2023/24.

b) Rental of facilities and equipment

This item relates to hiring of the District's Auditorium to the public and the rental of tunnels. The total provision on this item is a consolidated R 412 thousand.

d) Interest Earned on external Investments

Interest on investments are budgeted at R 12.4 million (2020/21 R 9.5 m). 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. Interest is earned from grants received by the municipality from the DoRA allocation. The 2019/20 audited AFS had reported R 16.7 million, this hereby confirm the target on this item. However a decrease on this item is attributed from the low interest rate due to national disaster through coronavirus.

e) Interest earned on outstanding debtors

Interest on outstanding debt is proposed at R 40.3 million (R 37.6 million: 2020/21). Interest on outstanding debtors is directly linked to the debtors' book. From 2019/20 financial year to 2020/21, the debt book rose due to the increase arising from an improved billing. As of February sitting at a gross of R 492 million. Considering such huge debt book mostly dominant by the old debt, interest has been increasing simultaneously. It should be stressed that, the current financial distress facing the country will have a negative impact to the collection of revenue, this should however not be used as an excuse not to pay for services rendered. Council will look to debt that are deemed not collectable and consider such for write off before the end of the 2020/2021 financial year.

Furthermore, the municipality's billing continue to improve, arising from various activities involving billing areas which were not previously billed, investigating and replacing dysfunctional which were prepaid meters and start billing them . The increase on debtors has a bearing on the consumers, however the municipality continuous embarking on various plans and activities to improve the collection rate, and more measures will be introduced to help consumers pay for services.

f) Fines and Penalties

Fines and penalties are an item related to compliance/ non-compliance, for example illegal connections, tampering fees. The provision on this item is R 138 thousand. This is in line aligned to the enforcement of the credit control policy.

g) Agency Services

Revenue from agency budget amounts R 2.3 million (2020/22: R 2.1 million). This category of item is in relation to fees collected from concession fees (Siza Water).

h) Transfers Recognised – Operational

The transfers' recognised Operational budget amounts to R 639.2 million (2020/21: R 732.2 m). The budget on this item is in line with the Division of Revenue Act, Gazette of 2021:

DC29 iLembe - Supporting Table SA18 Transfers and grant receipts							
Description	2017/18	2018/19	Current Year 2019/20		2020/21 Medium Term Revenue &		
R thousand	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
RECEIPTS:							
Operating Transfers and Grants							
National Government:	460,250	515,603	593,808	619,927	608,846	680,262	736,132
Local Government Equitable Share	419,734	468,670	516,503	516,503	566,794	623,486	680,793
Finance Management	1,250	1,000	1,000	1,000	1,000	1,000	1,000
DEPT OF LABOUR UIF GRANT			40,880	50,297	-	-	-
WSIG OPERARING Funded (VIP TOILETS)	10,000	-		10,000	-	-	-
WSIG OPERARING Funded (VIP TOILETS)					11,550	23,959	25,382
Rural Transport Services and Infrastructure	2,266	2,271	2,406	2,406	2,291	2,417	2,557
Energy Efficiency and Demand Management	-	7,000	10,000	10,000	3,000	3,000	-
EPWP OPERATING GRANT	1,000	1,731	2,019	2,019	4,746	-	-
DEPT OF LABOUR UIF GRANT	-	13,781					
MIG OPERATING Funded (VIP TOILETS)	26,000	21,150	21,000	27,702	19,465	26,400	26,400
Provincial Government:	-	15,000	550	2,200	-	-	-
Development Planning Shared Services - COGTA			550	550			
KZN COGTA GRANT -Wi-Fi, Biomass, Mini Factories		10,000					
District imagery Grant				1,000			
Spatial Dev. Framework Grant				650			
SIBHUDU CAVES AND KWASHUSHU HOTSPRING		1,200					
CORRIDOR DEVELOPMENT PROGRAMME		1,000					
RASET PROGRAMME - OPEX		2,800					
Other grant providers:	-	700	-	-	-	-	-
Maphumulo Intergrated Energy Grant		700					
SIBHUDU CAVES AND KWASHUSHU HOTSPRING - MAP CONTR		350					
Total Operating Transfers and Grants	460,250	531,303	594,358	622,127	608,846	680,262	736,132
Capital Transfers and Grants							
National Government:	391,626	343,299	301,596	284,894	225,228	228,341	244,693
Municipal Infrastructure Grant (MIG)	178,126	167,353	171,596	164,894	171,778	182,300	195,075
Regional Bulk Infrastructure	145,000	75,446	35,000	35,000			
Energy Efficiency and Demand Side Management Gra	6,000	-					
WSIG	62,500	100,500	90,000	80,000	53,450	46,041	49,618
YEP GRANT PROJECTS			5,000	5,000			
Total Capital Transfers and Grants	391,626	343,299	301,596	284,894	225,228	228,341	244,693
TOTAL RECEIPTS OF TRANSFERS & GRANTS	851,876	874,602	895,954	907,021	834,074	908,603	980,825

Other Revenue

This category includes various revenue items and is budgeted a total of R 29.2 million (2019/20: R 30.8 m). The main items as per supporting tables (SA1) tables are as follows.

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

Description	Ref	Current Year 2020/21		2021/22 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
R thousand						
Other Revenue by source						
TENDER DOCUMENTS		661	344	368	394	422
Water: Connection/Disconnection, Commission Transaction Handling Fee		114	231	255	273	292
INSURANCE PROCEEDS & LG SETA		435	435			
CLEARANCE CERTIFICATE		1,857	3,463	3,705	3,964	4,242
Private Developer KwaDukuza		4,330	(0)	2,317	2,479	2,652
DOE		17,712	-			
Assorted Wine			71			
Rental Recoveries				734	769	819
SASA			22			
Maphumulo Wi-Fi Fee		204	211			
Incidental Revenue - EI		700	700			
Incidental Cash Surpluses			225	241	258	276
Bad Debts Recovered			39	42	45	48
155 045865 (shared services)		3,326	3,326	3,559	3,808	4,074
Administrative handling fees		25	8			
Wine Sales	3	21	-	74	78	81
Total 'Other' Revenue	1	29,384	9,075	11,296	12,068	12,907

Other revenue is mainly attributable to the clearance certificate that the municipality issue when the consumer is selling their houses.

The private developers' contribution is based on the future developments within the district. Where there new developments, such will be catered on the adjusted budget.

OPERATING EXPENDITURE FRAMEWORK

In preparation of the 2020/21 – 2022/23 MTREF, the following were considered:

- Balanced budget constraints which means that operating expenditure should not exceed operating revenue unless there are existing uncommitted cash-backed reserves to fund any shortfall or deficit;
- Funding of the budget over the medium-term as informed by section 18 and 19 of the MFMA;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services;

- Strict adherence to the principle of “no project plans no budget”. If there is no business plan thus no funding allocation can be made;
- The implementation of austerity 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.
- Increase in the Umgeni Water tariff, currently being 7%
- The high cost of fuel due to the municipal fleet acquired in the 2019/20 financial year.

When compared to the adjusted budget, the increase on operational expenditure budget was 1% overall. This increase is mainly due to the inflationary increase of 4.1% as per the MFMA Budget Circular no. 106 and 107, the bulk purchases increase of 7% which was above CPI and the salary increase at average of 6.5%. The 2020/21 budget was already constrained, and cost cutting measures were applied during implementation. In the medium term, the municipality will continue applying and monitoring cost containment to be monitored through various Council structures.

a) Employee related cost

- The consolidated (inclusive of the municipal entity) employee related cost is budgeted at R 270. Million (2021: R 262.4 million). An estimated as average for salary increase as Salary and Wage Collective Agreement for the period 01 July 2018 to 30 June 2021 dated 15 August 2018 has been expired and the negotiation are in progress. In the absence of the collective agreement, National Treasury has advised the municipalities to consider the affordability of the municipality and to use the previous collection agreement of increase based on 5% percentage for 2021/22, plus one comma five percent (1.5), resulting to an average of 6.5%. Furthermore this budget has provided for vacant posts that were to be have been filled during the 2020/21 financial year.
- Supporting tables SA22 provides the expenditure on employee related costs. The total employee related costs plus councillors represent 29% of the total operating expenditure. This percentage is within the 30-40% threshold as required on Circular 71.

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

Description	Ref	2017/18	2018/19	2019/20	Current Year 2020/21		2021/22 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
R thousand									
EXPENDITURE ITEMS:									
Employee related costs									
Basic Salaries and Wages	2	122,944	134,439	152,446	176,324	171,486	186,352	196,954	209,398
Pension and UIF Contributions		16,548	18,122	20,389	23,179	23,621	24,322	25,831	26,960
Medical Aid Contributions		9,987	10,456	11,548	13,830	12,857	13,780	14,623	15,583
Overtime		-	-	-	-	-			
Performance Bonus		9,110	10,113	10,981	13,844	12,239	11,122	11,809	12,542
Motor Vehicle Allowance		5,508	6,192	5,759	6,207	6,072	4,948	5,264	5,598
Cellphone Allowance		1,359	1,465	1,479	1,588	1,565	1,635	1,734	1,844
Housing Allowances		952	956	977	2,293	1,326	1,412	1,499	1,596
Other benefits and allowances		15,351	15,098	17,875	21,150	17,882	10,531	10,965	12,194
Payments in lieu of leave		3,340	2,685	4,002	15,473	14,312	14,886	15,847	16,855
Long service awards		734	1,079	1,601	1,095	1,081	1,071	1,117	1,191
Post-retirement benefit obligations	4	1,133	1,575	(90)	-	-			
sub-total	5	186,966	202,180	226,967	274,983	262,441	270,059	285,642	303,761
Total Employee related costs	1	186,966	202,180	226,967	274,983	262,441	270,059	285,642	303,761

b) Remuneration of councillors.

This item is budgeted at R 10.5 million (2020/21: R 9.8 million). In the absence of the Gazette on Determination of Upper Limits in 2020/21 this budget has been increased by 6.5% which is in line with the percentage used for the employee related costs.

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 is budgeted at R 61.3 million (2020/21: R 65.8 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 materials amounts to R 8 million and forms part of the total budget under this category. This amount is budgeted for materials used on repairs.

Description	Ref	2017/18	2018/19	2019/20	Current year 2020/21			2021/22 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2021/22	Budget Year 2022/23	Budget Year 2023/24
EXPENDITURE OTHER ITEMS										
<u>Repairs and Maintenance by Asset Class</u>	3	39,058	29,285	41,564	54,175	65,887	65,887	61,389	58,314	61,912
<i>Roads Infrastructure</i>										
<i>Storm water Infrastructure</i>										
<i>Electrical Infrastructure</i>										
<i>Water Supply Infrastructure</i>		28,890	17,640	28,660	35,924	41,686	41,686	35,232	31,006	32,370
<i>Sanitation Infrastructure</i>		3,589	2,718	1,891	5,680	6,018	6,018	6,495	6,781	7,086
<i>Solid Waste Infrastructure</i>										
<i>Rail Infrastructure</i>										
<i>Coastal Infrastructure</i>										
<i>Information and Communication Infrastructure</i>			2		89	89	89	88	92	97
Infrastructure		32,478	20,360	30,551	41,693	47,794	47,794	41,816	37,879	39,553
<i>Community Facilities</i>				2	49	45	45			
Community Assets		-	-	2	49	45	45	-	-	-
Investment properties		-	-	-	-	-	-	-	-	-
<i>Operational Buildings</i>		486	1,120	458	850	1,000	1,000	1,520	1,587	1,658
Other Assets		486	1,120	458	850	1,000	1,000	1,520	1,587	1,658
Biological or Cultivated Assets										
<i>Licences and Rights</i>		3,890	5,122	5,050	5,612	6,935	6,935			
Intangible Assets		3,890	5,122	5,050	5,612	6,935	6,935	6,720	7,016	7,332
Computer Equipment		320	173	216	248	30	30	241	252	263
Furniture and Office Equipment		3	12	2	20	70	70	67	69	73
Machinery and Equipment				130	225	295	295	40	41	43
Transport Assets		1,880	2,498	5,156	5,477	9,719	9,719	10,986	11,469	12,990
Land										
Zoo's, Marine and Non-biological Animals										
TOTAL EXPENDITURE OTHER ITEMS		39,058	29,285	41,564	54,175	65,887	65,887	61,389	58,314	61,912

The municipality is mindful 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 +-2%. Considering the aforementioned financial challenges, hence only R 61.4 million could be afforded on the operational budget. Table A9, the budget provision for the renewal of assets may seem low compared to that required on MFMA circular No. 55, however the capital budget also addresses the refurbishment of old water infrastructure.

d) Debt Impairment

A proposed provision for bad debts totals to R 19.5 million (2020/21: R 19.3 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 60 % revenue collection rate assumption budgeted for 2021/22 financial year and the debtors' book.

The closing balance on gross debtors as at end of February 2021 was R 492 million, while the provision for doubtful debt balance as at 31 December 2020 was R 303 million, resulting in a net of R 189 million

on debtors owing. Council will be considering an additional write off of potentially uncollectable debtors at year end 2021.

The below shows workings which estimates the 2021 net debtors with the provision for doubtful debts.

DC29 iLembe - Supporting Table SA3 Supporting detail to 'Budgeted Financial Position'

Description	Ref	2017/18	2018/19	2019/20	Current Year 2020/21			2021/22 Medium Term Revenue & Expenditure Framework			
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year +1 2021/22	Budget Year +2 2022/23	Budget Year +2 2023/24
R thousand											
Debt impairment provision											
Balance at the beginning of the year		144,859	186,560	250,342	149,384	277,978	308,469	308,469	326,770	269,483	290,435
Contributions to the provision		41,701	63,782	110,077	18,301	18,301	18,301	18,301	19,582	20,952	22,419
Bad debts written off		-	-	(51,372)	-	-	-	-	-	-	-
Balance at end of year		186,560	250,342	309,047	167,684	296,279	326,770	326,770	346,351	290,435	312,854

e) Depreciation & Asset Impairment

A proposed provision for depreciation, amortisation and asset impairment amounts to

R 116.4 million is informed by the Fixed Asset Policy of the District plus the additional projects to be completed in the 2021/22 financial year. The provision on this item is as per compliance of GRAP 17 accounting standard. It should also be noted that this item is a provisional amount, the actual depreciation and impairment is fully determined at year end.

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

Description	Ref	2017/18	2018/19	2019/20	Current Year 2020/21		2021/22 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
R thousand									
EXPENDITURE ITEMS:									
Depreciation & asset impairment									
Depreciation of Property, Plant & Equipment		80,148	95,858	111,891	73,450	73,331	111,547	116,605	121,852
Lease amortisation		1,758	2,251	1,865	2,911	2,911	1,865	1,947	2,035
Capital asset impairment		(117)	6,221	4,346	5,270	5,270	3,044	3,178	3,321
Total Depreciation & asset impairment	1	81,790	104,330	118,103	81,631	81,512	116,457	121,731	127,208

f) Finance Charges

Finance charges consists primarily the repayment of interest on long-term borrowings and interest related to the fleet contract to be acquired through an instalment lease agreement sale and accounted as finance leases as per GRAP standards. The interest budget is proposed at R 6.8 million (2021: R 7.8 million). This provision considers interest charged on the lease of municipal fleet and interest charged on borrowings. Borrowings to be maintained in the 2021 is made up of the borrowing from DBSA which appears on A6. New loans are anticipated by the municipality in the MTREF for the budget year On 2024 due the current lease that will be fully paid in 2023, with that being said, more interest will be realised.

g) Bulk Purchases (Water)

The budget for bulk purchases is appropriated at R 247.3 million (2020/21: R 243.5 million). The increase on bulk purchases is attributable to the tariff increase of 7% from Umngeni Water. The CPI stands at an average of 4.1% on the MTREF, however the Umngeni water is proposed at 7%, clearly this is more than the CPI, furthermore, the provision of our water has been set for only 7%, which means no mark-up is transferred to consumers above the cost of input form Umngeni. This does pose a negative impact in the cost of bulk water supply, particularly the purchasing of water from Umngeni Water is escalating beyond affordability. Water Bulk purchases keep growing at an enormous rate, the municipality is still expected to maintain the balance between providing affordability municipal services when charging consumers, while ensuring its keeps its tariff cost reflective in order to ensure that there is sustainability.

MFMA Circular no. 99, states, "Cost reflective tariff setting is a requirement of Section 74(2) of the Municipal Systems Act, 2000 (Act No.32 of 2000) which states that tariffs must "reflect the costs reasonably associated with rendering the service". This is meant to assist municipalities to generate sufficient revenue to fully recover their costs, deliver services to customers sustainably and invest in infrastructure that promotes local economic development.

Although municipalities are required 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.

This item refers to municipal water bulk purchases. The anticipated expenditure for the period ended 31 December 2020 was R 111.3 million, while the actual expenditure for the period amounted to R 115.5 million (December 2019 – R 90.4 million), this resulted in a 4% variance above anticipated half year expenditure. This item was adjusted during Special Adjustment Budget in September 2020 by R6.4 million. It should be noted that this item is the main cost driver on provision water. The variance is mainly attributable various factors such as -;

- Increase in new connections and the cost of providing water supply to consumers.
- Indirectly, water losses has 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 10 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 Mandeni, KwaDukuza and Maphumulo.
- No new capital projects were commissioned in the first half of the financial year.

The municipality is working on budgeting for the bulk purchases as the inventory on current assets on A6 and expense it as other material on A4. This will be incorporated in the budget that will be adopted by Council by end of May 2021 for the 2021/22 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 was however not signed by both parties, Umngeni being the creditor and the subject matter is awaiting the outcome of the Department of water and sanitation. The matter has reached consensus and Payment will commence in the 2020/21 financial year, as a result the bulk purchases budget is inclusive of the CUC costs. Provision is made in this budget and will also be provided for in future estimates to continue paying off the capital unit charges. In the 2019/2020 payment in terms of the agreement were made and kept up to date.

h) Contracted Services

This item refers to contracted services, and has been appropriated at R 142.7 million. All existing contracts have been provided for on the budget. Table SA1 provides a list of all contracted services i.e. security services, plant hire, vehicle hire, printing rentals, etc. 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.

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

Default Transactions	Ref	Budget Year 2020/21		Budget Year	Budget Year	Budget Year
		Original budget	Adjusted Budget	2021/22	+1 2022/23	+1 2023/24
Contracted services						
ENTERPRISE, AUDIT COMM, CLEANING, EXHIBITION, REPAIR		1,123	1,105	1,051	1,247	1,303
ENTERPRISE- LEGAL,INTERNAL AUDIT, & OPEN FIELDS		1,655	3,060	1,647	1,762	1,886
ENTERPRISE- MICT SETA Refreshments & ROJECT MAN FEE		1,350	597	-	-	-
ENTERPRISE - Security Expense		1,002	1,100	1,210	1,331	1,464
ENTERPRISE - Professional Fees		2,167	1,830	1,480	1,545	1,615
NSNP: Hub Workers		240	-	-	-	-
VIP TOILETS		16,926	18,261	17,850	24,225	25,500
AFS HIGH LEVEL REVIEW		150	-	200	209	209
AIR QUALITY MANAGEMENT PLAN		450	300	95	99	-
ANALYSIS OF WATER AND EFFLUEN		7,500	7,500	4,000	4,176	4,364
ANTICORRUPTION HOT LINE		200	200	190	198	208
AUDIT COMMITTEE		300	250	361	377	394
Buildings		750	900	1,425	1,488	1,555
Business Continuity Plan Testing		150	-	143	149	156
CALL CENTRE MANAGEMENT SYSTEM		1,504	(0)	1,429	1,492	1,559
Catering		1,691	922	1,545	1,613	1,675
CLEANING SERVICES & HYGIEN SERVICES		930	827	995	1,039	1,085
consulting asset management		800	400	791	826	863
CONSUMER DATA ANALYTICS		565	565	618	645	674
CONVENTIONAL METERS		1,500	2,000	2,375	2,480	2,591
COVID19 CONTRACTED SERVICES		7,010	994	752	785	820
COVID-19 NEW		-	17,579	-	-	-
DEBT COLLECTION COMMISSION		1,000	1,000	1,425	1,488	1,555
DESLUDGING OF VIP TOILETS		70	70	67	69	73
DISASTER EQUIPMENT MAINTENANCE		89	89	88	92	97
DISASTER RISK REDUCTION		61	31	61	63	66
District Sattelite Map		-	870	-	-	-
EED OPERATIONAL GRANT PROJECTS		2,609	4,957	-	-	-
Electrical Repairs		23,579	22,534	29,207	30,492	29,480
Employee Vaccine & surveillance		160	160	158	165	173
FOOD SAMPLING		100	100	99	103	108
GRASS CUTTING & EPWP		9,355	12,369	8,257	2,844	2,969
IMPLEMENTATION OF AN AUTOMATED SUPPLIER INVOICE T		100	100	100	104	104
INTERNAL AUDIT		410	660	1,473	1,537	1,606
INVESTIGATIONS		50	25	25	26	27
LED Projects		-	1,994	-	-	-
Legal Fees		1,700	1,700	1,721	1,797	1,877
LM SUPPORT		200	50	190	198	207
Maintenance of charges - Lease		3,713	7,675	8,442	8,814	10,215
MAPHUMULO TRASNFER AND REG OF INDIVIDUAL SITES GR		-	1,104	760	793	-
METER READING		1,000	4,000	3,800	3,967	4,146
MSCOA CONSULTING FEES		350	350	346	361	378
MUNSOFT CONSULTING FEES		400	400	416	435	454
MIG Reprioritisation - Umvoti Waterworks Refurbishment		-	2,617	-	-	-
PAYROLL SUPPORT		73	73	76	80	83
PLANT HIRE - JETTING MACHINE		-	-	285	298	311
PLANT HIRE - WATER TANKER		13,050	12,050	4,000	4,176	4,176
Rural Road Asset Management		1,992	1,992	2,018	2,107	2,121
SAGE VIP LICENSE SLA		150	150	148	155	162
SASA Expenditure		-	22	-	-	-
Security		31,134	31,134	32,410	33,836	35,359
Service advisory - LGSETA		300	300	285	298	311
Siza Water audit fee		83	41	42	44	46
UIF Project Management - ENTERPRISE		-	412	-	-	-
Vehicle Repairs		1,750	2,030	2,530	2,641	2,760
WATER CONSERVATION DEMAND		10,043	23,148	5,000	5,000	5,000
Other Contracted Services		-	1,135	387	248	259
YOUTH PROGRAMME		700	700	760	793	829
COMMUNITY PROGRAMMES		400	400	-	-	-
Total contracted services		152,586	194,832	142,732	148,709	152,873

It should be noted that the adjustment on contracted services (Table A4) appears higher than the actual adjustment, this is caused by the COVID -19 allocation and the grant roll over that was included in the

adjusted budget, however the budget for the COVID-19 expenses has been included to be funded internally even though the budget has been reduced.

i) General expenses

The proposed budget allocation for other expenses amounts to R 127.6 million. The decrease when compared to the adjusted budget is mainly attributable to the inflationary decrease on the Enterprise iLembe's operating expenditure.

The electricity has been increasing due to the increase on Eskom tariffs as per the NERSA annual increase of 7% as per MFMA circular 108. The community programmes that have been adjusted during adjusted budget have been revised as the country is on level 1 of the national lockdown.

DC29 iLembe - Supporting Table SA1 Consolidated Supporting detail to 'Budgeted Financial Performance' -						
	Ref	Budget Year 2020/21		Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +1 2023/24
		Original budget	Adjusted Budget			
R thousands						
Other Expenditure By Type						
Audit fees		3,190	3,600	3,748	3,912	4,089
Other Expenditure		-	-	10	10	10
Achievements and Awards		30	22	32	34	35
Advertising and signs		713	664	695	726	759
BANK CHARGES AND THIRD PARTY CHARGES		502	502	548	572	598
Caseware License		150	150	-	-	-
Computer Equipment		3,555	3,779	4,157	4,340	4,535
COMPUTER LEASE, ICT LICENSES AND PRINTER RENTALS		2,976	2,976	3,273	3,417	3,571
COVID- UNIFORM		500	650	5	5	6
COVID- UNIFORM NEW		-	335	-	-	-
Drivers licence for meter readers NEW		-	60	-	-	-
DISASTER RELIEF AID AND AWARENESS		460	610	603	630	658
ELECTRICITY AND WATER		30,069	34,465	36,857	38,479	41,941
ENERGEY EFFICIENCY GRANT EXPENDITURE		-	-	26	-	-
ENERGY EFFICIENCY GRANT EXPENDITURE		-	-	391	-	-
FREE BASIC WATER SIZA WATER		4,061	4,986	4,128	4,310	4,612
FUEL AND OIL		12,000	14,671	15,272	15,944	16,662
GIFT AND PROMOTIONAL ITEMS		1,098	540	1,233	1,260	1,317
HIRE CHARGES		1,250	1,283	1,021	1,066	1,114
IDM WEBSITE		113	50	190	198	207
INDIGENT RELIEF		100	174	172	179	187
INSURANCE WCA & INSURANCE PREMIUMS		5,778	6,600	6,677	6,970	7,312
LAUNDRY SERVICES, RE- ALLOCATION COSTS, QURTER YOUTH CO		20	10	20	20	21
LICENSING OF METER READING SYSTEM NEW		-	609	760	793	829
MEMBERSHIP FEES AND REGULATORY BODIES FEES & CONF		3,001	2,916	2,790	2,913	3,297
MOTOR VEHICLE ICENCE FEES		120	370	366	382	399
MUNICIPAL EVENTS DECORATIONS		51	10	21	22	23
MUNSOFT SUPPORT		2,172	2,172	2,500	2,610	2,727
ENTERPRISE- WATER , ELECTRICITY, TELEPHONES, TRAVEL AND A		3,170	16,415	3,662	3,971	4,151
ENTERPRISE- Leases		1,061	-	-	-	-
ENTERPRISE- Development of SMME's		676	676	704	735	768
ENTERPRISE- External Audit Fees		828	780	812	848	886
ENTERPRISE- IT & Computer Software		840	810	639	667	697
ENTERPRISE- Marketing & Investments		1,131	700	1,295	1,352	1,413
ENTERPRISE- MICT SETA - ITEMS		3,113	2,879	-	-	-
NSNP: Transportation of Vegetables		4,143	-	-	-	-
ENTERPRISE- Rental		1,146	1,146	874	912	953
other expenditure Enterprise, Munsoft Support, Membership fess - Co		-	-	-	-	-
OWN TRANSPORT AND SUBSISTANCE AND TRAVEL		3,042	2,170	2,875	3,001	3,135
POSTAL SERVICES		2,142	2,142	2,189	2,286	2,389
PRINTING AND STATIONERY		1,115	469	1,423	1,486	1,552
Property Rates		374	443	461	481	503
PUBLIC EVENTS TRANSPORT		591	248	653	682	713
RADIO AND TV INTERVIEWS		500	775	814	850	888
RENT OF OFFICES		115	95	104	109	114
SALGA GAMES		2,610	1,610	2,744	2,864	2,993
SHARED SERVICES , AIR QUALITY MANAGEMENT AND SECO,		3,826	3,826	4,134	4,315	3,991
SKILLS DEVELOPMENT LEVY		2,822	2,054	2,188	2,284	2,482
SMS Bulk Message Service & Cellphone payments		338	527	681	711	743
STAFF UNIFORMS		4,655	4,635	5,187	5,415	5,655
SUNDRIES - THIRD PARTY DAMAGES (300/322350)		35	35	-	-	-
TELECOMMUNICATION		-	-	-	-	-
TELEPHONE MANAGEMENT SYSTEM , & OTHER ICT GENERAL		3,923	5,625	4,945	5,162	5,395
Third Party Vendors		750	947	950	992	1,036
TLB HIRING		-	-	-	-	-
TRAINING AND CAPACITY BUILDING		2,591	3,578	2,440	2,548	2,915
TRAVEL AND ACCOMMODATION		951	1,366	848	885	925
Jetting Plant Hire		-	1,300	-	-	-
SALGA Panelists Travel claims		-	5	5	5	5
Virtual platforms support items		-	470	800	835	873
VEHICLE HIRING COSTS		250	350	475	496	518
WARD COMMITTEE MEETINGS		300	120	285	298	311
Total Other Expenditure	1	118,949	138,399	127,684	132,987	140,916

There is no external grant anticipated for operational expenditure as compared to the current financial year 2021/22. A detailed breakdown of this cost can be viewed from the supporting Table SA1. The main items on this category.

Other expenditure category budget is anticipated to decrease and is attributable to the UIF funding that was allocated to the entity in the 2019/20 financial year which is no longer anticipated on the proposed 2020/21 financial year.

j) Surplus/Deficit

The 2021/22 adjusted budget shows a surplus of R 44.1 million while the proposed draft budget is R 4.7 million. Furthermore, the operational expenditure includes non-cash items to the amount of R 136 million, which leaves a surplus of R 140.8 million when these items are added back. The non-cash items pertains to:

- Depreciation and asset impairment – R116.4 million
- Debt Impairment - R 19.5 million

Although this may seem to be available surplus it is not available cash, but a target before considering creditors from prior year (2020/21), but will however cater to funding internally generated capital budget and vat refunds.

The surplus/ deficit is not representative of available cash, but a net of expenditure, income and capital expenditure transfers, which should be transferred to the accumulated surplus/ deficit. A higher surplus there do not resolve the cashflow and liquidity position challenges.

When compared to previous financial years, there has been a slight improvement on the financial state, however the municipality is not at a position to make any commitments outside the main service delivery. Caution should be exercised and Council should continue to striving for an increase in the operating surplus to ensure financial and service delivery sustainability.

Municipal Standard Chart of Accounts (mSCOA)

The Minister of Finance issued a gazette on the Municipal Regulations on a Standard Chart of Accounts (mSCOA) was gazetted by on 22 April 2014. National Treasury issued Municipal Regulations on a Standard Chart of Accounts (mSCOA) to non-pilot municipalities in preparation for full mSCOA compliance by 1 July 2017. Ilembe District Municipality fall in the category of non-piloting municipalities and is therefore required to transact on the mSCOA chart by 1 July 2017.

A report on mSCOA is submitted to Council, EXCO and Manco meetings on a quarterly basis. The District Municipality complied with the deadline set as per above and continues to comply with MFMA

Circulars relating to mSCOA. There is a continuous monthly and quarterly reporting in terms of data strings which replaced the manual reports, where reports were previously submitted on a monthly basis. The municipal entity successfully migrated into the same financial system the District is using as per the requirements of GRAP. The budget has been prepared on mSCOA version 6.5. Although there are some challenges on mSCOA, however the municipality managed to implement balance sheet and cashflow budgeting on its 2020/21 Annual Budget on the system and improved the process during the Adjustments Budget Process. The tabled draft budget was prepared in terms of mSCOA including the Cashflow and balance sheet.

The Existing Tariff Structure and Operating Revenue

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

National Treasury continues to encourage municipalities to keep increases in tariffs for trading services and charges for other municipal own revenue sources within the parameters of the country's inflation rate. However, municipalities must justify in their budget documentation all increases in excess of the upper boundary of the South African Reserve Bank's inflation target. The municipality will base its tariff from the proposed tariff increases of 7% from Umgeni Water. The bulk water tariff is way beyond the CPI and this seems unaffordable to the District, this will however not be passed on to consumers. A letter was submitted to Umgeni on the draft bulk tariff increase as this unaffordable to both the District and end consumers.

It must also be noted that the consumer price index "CPI", ***is not a good measure of the cost increases of goods and services relevant to municipalities.*** The basket of goods and services utilised for the calculation of the CPI consists of items such as food, petrol, and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of water and electricity, plumbing/construction material, chemicals etc.

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

Sale of Water and Impact of Tariff Increases

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

- Water tariffs are cost reflective and they include the cost of maintaining and renewal of purification plants, water networks and the cost associated with reticulation expansion;

- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor;
- That water tariffs are designed to encourage efficient and sustainable consumption;
- That water supplied is clean and drinkable.

Better maintenance of infrastructure, new reservoirs construction, expanded reticulation and cost reflective tariffs to ensure that the supply of water challenges are managed in future to ensure sustainability.

The National Energy Regulator of South Africa (NERSA) is responsible for price determination of the bulk costs for electricity. Approved by the regulator of 6.9 per cent for 2021/22, 8.9 per cent 2022/23 and 8.9 per cent for 2023/24. Further increases will have a negative impact on the supply of water as water purification plants, reservoirs, water networks and distribution relies heavily on electricity.

Furthermore National Treasury advised, municipalities must adopt a tariff setting methodology that achieves an appropriate balance between the interests of poor households and other customers while ensuring financial sustainability of the municipality.

In view of the above and other outlined challenges the municipality is proposing a 7% normal increase and a cost reflective increase of 0%, effective from the 1st of July 2021 to June 2022.

Cost Reflective Tariffs

Circular 70 requires municipalities to use cost reflective tariffs in billing their customers. The District complied with the said circular from which the year of its first implementation was 2014/15 up to 2016/17. In the current MTREF budget, the District has not imposed the cost reflective element on the tariff increase. This however burdens the sustainability of the municipality more on maintenance of infrastructure.

Sanitation and Impact of Tariff Increases

A tariff of 7 % for sanitation effective from 1 July 2021 is proposed. This is based on property valuation from local municipalities, namely; KwaDukuza, Mandeni, Ndwedwe & Maphumulo Municipality's valuation roll. It should be noted that bulk purchases costs contribute significant portion of input as well as electricity on waste water treatment input costs than the CPI. Additional factors also contribute to the proposed tariff increase:

- Based on property valuation from local municipalities
- Free sanitation will be applicable to registered indigents and the total revenue anticipated in rendering this service.

Although the District Municipality does not have control over the valuation as the document is maintained and implemented by local municipalities, it was resolved that this basis of calculation should be on property valuation.

In view of the above assumptions, deliberations and observations, it is proposed that the District's tariff and other charges be increased as follows and be advertised to the general public for comments:

Type of Service	Proposed Tariff Increase
Water charges	7%
Sewer charges	7%
Miscellaneous tariffs	Various (not exceeding 7%)
Cost Reflective portion of the tariff increase	0%

1.4 The following annual budget tables have been populated and are annexed to this item as Annexure A

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

PART 2 – SUPPORTING DOCUMENTS

2.1 Overview of the annual budget process with Integrated Development Plan

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality as well as the chair of the Finance Portfolio Committee, under the chairpersonship of the Mayor.

The primary aims of the Budget Steering Committee are to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in IDM's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- That the various spending priorities of the different municipal departments are properly valued and prioritised in the allocation of resources.

2.2 Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Local priorities were identified as part of the IDP review process which is directly aligned to that of the national and provincial priorities. The key performance areas can be summarised as follows against the five strategic objectives:

- Provision of quality basic services and infrastructure,
- Economic growth and development that leads to sustainable job creation
- Fight poverty and build clean, healthy, safe and sustainable communities
- Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service
- Promote sound governance

The 2021/22 budget is linked to the IDP as the review was an aligned process of the budget as per the budget timetable as approved by Council in August 2020. This has then been translated to the plan of the municipality for the year, i.e. the service delivery and budget implementation plan.

An amendment of the Municipal Property Rates Regulations as published in Government Notice 363 of 27 March 2009, was announced in Government Gazette 33016 on 12 March 2010. The ratios as prescribed in the Regulations have been complied with.

2.3 Measurable Performance Objectives

The performance objectives of the significant revenue streams of the District are recommended as follows:

Area	Performance Target
Water sales	Collection ratio in excess of 60%
Sewer charges	Collection ratio in excess of 60%
Miscellaneous tariffs	Collection ratio in excess of 60%

2.4 Overview of the Budget Related Policies

The following budget related policies are applicable to the 2021/22 budget process. Policies are reviewed in the financial year's 2021/22 budget process and will be applicable during implementation, however the recommendation for amendment will be further be discussed during the public participation period prior to approval in May. The policies applicable are as follows:

- Tariff policy
- Fixed Assets Management Policy
- Banking, Cash Management & Investments Policy
- Inventory Management Policy
- Indigent Management Policy
- Petty Cash Policy
- Credit Control & Debt Collection Policy
- Supply Chain Management Policy
- Virement Policy
- Unauthorized, Irregular, Fruitless & Wasteful Expenditure Policy
- Budget Policy
- Customer Care and Management Policy
- Borrowing Policy
- Policy on Austerity Measures
- Funding and Reserves Policy
- Long Term Financial Planning
- Infrastructure, Investments and Capital Projects
- Austerity Measures Policy

- Accounts Payable Policy
- Payroll Policy
- Customer Care Policy

Listed below is a brief description of the budget-related policies. The policies are attached thereto under Annexure D

2.4.1 Supply Chain Management Policy

The comprehensive Supply Chain Management Policy governs, inter alia, the procurement of goods and services; disposal of goods and selecting contractors to aid the Municipality in service delivery. This policy sets out the procedures that must be followed for the above activities in order to comply with all relevant legislation effectively.

2.4.2 Fixed Asset Management Policy

The Fixed Asset Management Policy governs the acquisition, utilisation, control, maintenance and disposal of assets of IDM. This policy ensures that assets are managed in an economical, effective and efficient manner throughout their life cycles, to achieve the maximum level of service.

2.4.3. Credit Control & Debt Collection Policy

The Credit Control & Debt Collection Policy, adopted by Council, focuses on all outstanding debt and aims to promote a culture of good payment habits amongst debtors. Debtors have a responsibility towards the payment of their accounts. This policy implements an appropriate, innovative system of debt collection, which is also cost-effective. The aim of this policy is to ensure that debt is collected in the shortest possible time, without any interference in the process, thereby reducing all municipal debt.

The Credit Control & Debt Collection Policy ensures a sensitive, transparent and equitable approach to debt recovery. It prescribes methods to effectively and efficiently deal with those who default on payments, whilst taking indigent consumers into consideration and keeping costs to a minimum.

2.4.4 Funding & Reserves Policy

The Funding & Reserves Policy is aimed at ensuring that the IDM procures sufficient and cost-effective funding to achieve its capital expenditure objectives in an optimum manner. This policy must be adhered to in the procurement of funding, whilst considering the maturity profile of IDM's assets and liabilities.

This policy sets out the assumptions and methodology for estimating:

- Revenue;
- Revenue that will not be collected;
- Proceeds from the disposal of assets;
- Proceeds from borrowings; and

- Funds to be set aside in Reserves (excluding Reserves held in order to comply with GRAP standards)

2.4.5 Cash Management & Investment Policy

The Investment & Cash Management Policy ensures that all investments are made in an effective and efficient manner and generate the best return for IDM. This policy ensures that all investments made take into account the preservation and safety of the principal and appropriate liquidity.

2.4.6 Virement Policy

The Virement Policy is in place to ensure good budgeting practice, effective financial management and improved budgetary controls. This policy establishes a framework for managers to administer their budgets successfully and remain within limitations.

2.4.7 Long Term Financial Planning

A policy has been developed on the Long term financial planning of the Municipality to achieve IDM's 2027 vision. Council reviews all budget-related policies annually. These policies are in compliance with all relevant legislation.

2.4.8 Indigent Management Policy

The Indigent Policy ensures that basic services are provided by IDM to all indigent members of its community in a sustainable manner, within the Council's financial capacity. Indigent households, in terms of this policy, qualify for free basic water (6kl) and sewer. All conditions stated in this policy must be met before a household may be registered as "Indigent". Households are required to formally apply for relief and must register each year for indigent support. The prescribed documentation is available from IDM Offices. IDM currently has revenue desks to also assist with the process of registration; this is also done at municipal offices.

2.4.9 Tariff Policy

The Tariff Policy is the policy for levying fees; rates or taxes for the municipal services provided by IDM. Tariff calculations are based on the nature of the service provided and treat all users of municipal services equally, by ensuring that consumers pay in proportion to the amount of services consumed. This policy covers the Tariff Determination Process and also the Classification and Pricing Strategies of Services. It highlights the fact that all proposed tariffs are presented to the community of during the Council's consultation process in respect of the MTREF. The aims of this policy are:

- To promote local economic development' growth and competitiveness
- to cater for the indigent households whilst keeping rates affordable
- to ensure financial sustainability of service delivery

This Policy complies with the MSA.

2.4.10 Borrowing Policy

The Borrowings Policy establishes a framework for incurring debt. It must be noted, however, that IDM does not raise any short-term debt. The guidelines provided in this policy ensure that IDM adheres to all statutory requirements regarding long-term debt. This policy aims to obtain funds at the lowest possible interest rates, and with minimum risk.

2.4.11 Budget Policy

The Budget Policy sets out the principles followed by IDM in drafting the MTREF. This policy covers the responsibilities of the Mayor; the MM; the CFO and other senior managers in preparing the MTREF. The operating and capital budget; budget funding; budget transfers; unavoidable expenditure and the budget preparation process are covered extensively.

2.4.12 Infrastructure, Investments & Capital Projects

This policy deals with investments in Infrastructure and Capital Projects to address the backlogs in service delivery as well as to promote economic growth within iLembe and surroundings.

2.4.13 Inventory Management Policy

The policy aims to achieve the following objectives which are to:-

- a) Provide guidelines that employees of the Municipality must follow in the management and control of inventory, including safeguarding and disposal of inventory.
- b) Procure inventory in line with the established procurement principles contained in the Municipality's Supply Chain Management Policy.
- c) Eliminate any potential misuse of inventory and possible theft.

2.4.14 Petty Cash Policy

This policy aims to regulate the use of Petty Cash Float within IDM and to ensure that in disbursing petty cash funds the Municipality is within the ambit of Municipal Finance Management Act (MFMA).

2.4.15 Unauthorized, Irregular, Fruitless & Wasteful Expenditure Policy

The objectives of this policy includes amongst other things:

- (a) Emphasising the accountability of employees ;
- (b) Ensuring that employees have a clear and comprehensive understanding of the procedures they must follow when dealing with unauthorised, irregular or fruitless and wasteful expenditure;
- (c) Ensuring that resources made available to employees are utilised efficiently, effectively, economically and for authorised official purposes;
- (d) Ensuring that the Municipality's resources are managed in compliance with the MFMA, the Municipal Regulations and other relevant legislation,

- (e) Ensure that irregular, unauthorised or fruitless and wasteful expenditure is detected, processed, recorded, and reported timeously.

2.4.16 Customer Care & Management Policy

Through this policy the municipality's aim is to ensure that a customer will be able to contact the municipality conveniently and will be treated courteously, promptly and fairly. The customer will receive a clear response to any service request or enquiry within a stated period of time.

2.4.17 The Cost Containment Measures Policy

The aim of this policy is to prescribe cost containment measures for iLembe District Municipality in line with Municipal Cost Containment Regulations (MCCR).

2.4.18 Accounts Payables Policy

This policy is aimed at prescribing a process to be followed for the control and processing of all payments in terms of the Municipal Finance Management Act, Act no 56 of 2003.

Budget Assumptions

In the compilation of this draft budget, the following influencing factors were considered:

- In the compilation of this draft budget, the following influencing factors are hereby table:
- Normal inflationary increases and pressures;
- That the budget is zero based, incremental and programme based;
- Inflation is 4.1% for the 2021/2022, 4.4% and 4.5% for 2022/23 and 2023/2024 respectively.
- An estimated as average for salary increase as Salary and Wage Collective Agreement for the period 01 July 2018 to 30 June 2021 dated 15 August 2018 came to end during however the 6.5 % was used as a base to calculate an increase on salaries, increase based on 5% percentage for 2020/21, plus one comma five percent (1.5), resulting to an average of 6.5%.
- That there will be no changes to the powers and functions of the District during 2020/2021 financial year;
- That more than 60 % of revenue budgeted for will be collected;
- That all DORA allocations will be received during the 2021/2022 budget year.
- Increase to Tariff of charges for water and sewer of 7% and 7% for all tariff of charges.
- That the austerity measures implementation will still be in operation in the medium term.
- An annual increase of 7% from Umgeni Water.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the District and continued economic development;
- Efficient revenue management, which aims to ensure over 60% annual collection rate for key service charges;

- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing /calculating the revenue requirement of each service; and
- Calculation and determination of cost reflective tariffs.
- The iLembe District municipality's Indigent Policy and rendering of free basic service; and tariff policies of the District.

2.6 Overview of Budget Funding

DC29 iLembe - Table A7 Budgeted Cash Flows											
Description	Ref	2017/18	2018/19	2019/20	Current Year 2020/21				2021/22 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
CASH FLOW FROM OPERATING ACTIVITIES											
Receipts											
Property rates		-	-	-	-	-	-	-	-	-	-
Service charges		83,025	96,911	105,866	202,041	209,772	209,772	209,772	244,465	248,640	299,182
Other revenue		5,807	2,022	20,371	156,248	142,980	142,980	142,980	133,718	132,411	151,462
Transfers and Subsidies - Operational	1	1,278,656	1,022,223	391,418	613,309	725,860	725,860	725,860	675,971	724,198	746,820
Transfers and Subsidies - Capital	1	5,769,258	5,335,566	5,195,572	2,922,150	3,302,155	3,302,155	3,302,155	232,832	267,865	276,765
Interest		-	-	-	(6,336)	(6,396)	(6,396)	(6,396)	2,877	2,135	1,505
Dividends		-	-	-	-	-	-	-	-	-	-
Payments											
Suppliers and employees		1,163,573	1,157,534	628,150	(58,132)	(24,504)	(24,504)	(24,504)	(1,037,883)	(1,209,534)	(1,207,149)
Finance charges		-	-	-	-	(740)	(740)	(740)	(7,633)	(4,097)	(7,471)
Transfers and Grants	1	-	(8,731)	(79,494)	35,367	3,850	3,850	3,850	-	-	-
NET CASH FROM/(USED) OPERATING ACTIVITIES		8,300,320	7,605,525	6,261,882	3,864,647	4,352,977	4,352,977	4,352,977	244,347	161,617	261,114
CASH FLOWS FROM INVESTING ACTIVITIES											
Receipts											
Proceeds on disposal of PPE		-	-	-	-	-	-	-	-	-	-
Decrease (increase) in non-current receivables		-	-	-	411	340	340	340	340	340	340
Decrease (increase) in non-current investments		-	-	-	-	-	-	-	-	-	-
Payments											
Capital assets		-	-	(785)	(202,646)	(273,927)	(273,927)	(273,927)	(205,298)	(216,280)	(286,534)
NET CASH FROM/(USED) INVESTING ACTIVITIES		-	-	(785)	(202,235)	(273,587)	(273,587)	(273,587)	(204,958)	(215,940)	(286,193)
CASH FLOWS FROM FINANCING ACTIVITIES											
Receipts											
Short term loans		-	-	-	-	-	-	-	-	-	-
Borrowing long term/refinancing		-	(37,954)	35,964	(33,867)	(38,060)	(38,060)	(38,060)	-	-	-
Increase (decrease) in consumer deposits		-	(5,237)	(5,559)	(5,436)	(5,620)	(5,620)	(5,620)	-	-	-
Payments											
Repayment of borrowing		-	(39,295)	35,469	0	6,771	6,771	6,771	(14,809)	(4,062)	(2,608)
NET CASH FROM/(USED) FINANCING ACTIVITIES		-	(82,486)	65,875	(39,303)	(36,909)	(36,909)	(36,909)	(14,809)	(4,062)	(2,608)
NET INCREASE/ (DECREASE) IN CASH HELD		8,300,320	7,523,039	6,326,972	3,623,109	4,042,480	4,042,480	4,042,480	24,579	(58,385)	(27,687)
Cash/cash equivalents at the year begin:	2	1,455	44,309	52,890	180,748	(62,504)	(62,504)	(62,504)	248,739	273,319	214,934
Cash/cash equivalents at the year end:	2	8,301,775	7,567,348	6,379,862	3,803,858	3,979,976	3,979,976	3,979,976	273,319	214,934	187,247

The budget is funded out of a number of revenue sources, which includes grants, water and sanitation service charges, investment income and other miscellaneous revenue. This can be viewed in more detail on table A4.

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

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

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

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

The revenue generation projection was re-calculated using the 7% increase on tariffs and the actual service charges revenue as at 28 February 2021 which is the latest actual revenue in the current financial year.

The current cash flow projections are a depiction of the previous two years which was estimated that the cash position will eventually pick up (in the two upcoming years). The progress to an improved funding has been positive with a trend of downslope in between, however the level of spending slightly moved from the cost containment measures and that has resulted in the extension of financial recovery. However, based on the provided A schedules the District's budget is funded. Further details can also be viewed from Table A8 and supporting Table SA10.

As a measure to the severe cash strain, the municipality will continue to implement its Revenue enhancement strategy in place to improve the revenue collection. The assumption of 60% collection rate. This calculation is based on the current strategies in place and decisions taken to align such.

Cash Flow

The tabled budget year end cash balance is estimated at R 273 million by the end of the 2021/2022, R 214.9 million, R 187.2 million for 2022/23 and 2023/24 respectively. As mentioned above, the current cash further cashflow analysis could be obtained from table A7. With all assumptions above and analysis made from the current financial year and the audited outcome, the draft budget is funded, however care should be given that the budget is monitored closely to eliminate spending on non- priority programmes.

2.7 Expenditure on Grants and Reconciliations of Unspent Funds

An amount of R 872 million (inclusive of VAT) will be secured through grant funding from National inclusive of MIG and WSIG, and Regional Bulk infrastructure Grant. Grants allocated as per the DoRA can be viewed on SA18.

DC29 iLembe - Supporting Table SA18 Transfers and grant receipts

Default Transactions	Ref	2017/18	2018/19	2019/20	Current Year 2020/21			2021/22 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2021/22	Budget Year 2022/23	Budget Year 2023/24
RECEIPTS:	1, 2									
Operating Transfers and Grants										
National Government:		460,250	515,603	567,051	608,846	675,171	675,171	639,222	685,761	706,585
Local Government Equitable Share		419,734	468,670	516,503	566,794	633,119	633,119	600,260	648,716	668,071
Finance Management		1,250	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
DEPT OF LABOUR UIF GRANT					-	-	-	-	-	-
WSIG OPERARING Funded (VIP TOILETS)										
WSIG OPERARING Funded (VIP TOILETS)		10,000		10,000	11,550	11,550	11,550	5,750	5,750	5,750
Road Asset Management Systems Grant (Schedule 5B)										
Municipal Disaster Grant										
Public Transport Network Grant										
Rural Transport Services and Infrastructure		2,266	2,271	2,252	2,291	2,291	2,291	2,321	2,436	2,439
Energy Efficiency and Demand Management			7,000	4,632	3,000	3,000	3,000	3,000	-	-
EPWP OPERATING GRANT		1,000	1,731	2,019	4,746	4,746	4,746	6,363	-	-
DISATSER COVID 19 GRANT - OPEX			13,781							
MIG OPERATING Funded (VIP TOILETS)		26,000	21,150	30,645	19,465	19,465	19,465	20,528	27,859	29,325
Provincial Government:		-	15,000	11,352	4,463	4,463	4,463	-	-	-
Development Planning Shared Services - COGTA				186						
KZN COGTA GRANT -W. Fi, Biomass, Mini Factories			10,000	11,024						
YEP OPEX										
District imagery Grant										
MAPHUMULO TRASNFER AND REG OF INDIVIDUAL SITES				96						
Spatial Dev. Framework Grant				45						
SIBHUDU CAVES AND KWASHUSHU HOTSPRING			1,200							
CORRIDOR DEVELOPMENT PROGRAMME			1,000							
MICT SETA					4,463	4,463	4,463	-		
RASET PROGRAMME - OPEX			2,800							
LED										
District Municipality:		-	-	-	-	-	-	-	-	-
<i>[insert description]</i>										
Other grant providers:		-	700	-	-	-	-	-	-	-
Section 21 Schools: National Schools Nutrition Programme										
MICT SETA			700	-						
SIBHUDU CAVES AND KWASHUSHU HOTSPRING - MAP CONTRIBUTION			350	-						
NATIONAL LOTTERIES BOARD										
MICT SETA - ENTERPRISE ILEMBE										
Total Operating Transfers and Grants	5	460,250	531,303	578,403	613,309	679,634	679,634	639,222	685,761	706,585
Capital Transfers and Grants										
National Government:		381,626	343,299	289,000	225,228	225,228	225,228	232,832	267,865	276,765
Municipal Infrastructure Grant (MIG)		178,126	167,353	147,078	171,778	171,778	171,778	183,582	193,615	202,515
Rural Transport Services and Infrastructure		-	-	-	-	-	-	-	-	-
Regional Bulk Infrastructure		145,000	75,446	51,569						
EPWP		-	-	-						
Energy Efficiency and Demand Side Management Grant		6,000	-	-						
WSIG		52,500	100,500	90,353	53,450	53,450	53,450	49,250	74,250	74,250
YEP GRANT PROJECTS										
DISASTER COVID19 CAPEX										
Provincial Government:		-	-	831	-	-	-	-	-	-
YEP GRANT PROJECTS										
SPECIALIZED FIRE AND RESCUE VEHICLE MASSIFICATION				831						
District Municipality:		-	-	-	-	-	-	-	-	-
KweDukuza Municipality MIG Transfer										
Ndwedwe Town Development - (incl rollover)										
Other grant providers:		-	-	-	-	-	-	-	-	-
<i>[insert description]</i>										
Total Capital Transfers and Grants	5	381,626	343,299	289,831	225,228	225,228	225,228	232,832	267,865	276,765
TOTAL RECEIPTS OF TRANSFERS & GRANTS		841,876	874,602	868,234	838,537	904,862	904,862	872,053	953,626	983,350

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 17.8 million (VAT excl.) in the 2021/22 financial year while the total in the MTEF is R 67.6 million. Projects funded through this relate to the construction of VIP toilets in the Maphumulo, Mandeni and Ndwedwe areas.

2.9 Councilor and board member allowances and employee benefits

The consolidated employee related cost is budgeted at R 270 million (2021: R 262.4 million) while the councillor allowances are budgeted at R 10.5 million. Employee costs are within the threshold as required on Circular 71, sitting at 29% (2021: 28%). 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 228.1 million in the 2021/22 financial year; R 240.3 million and R 318.4 million for 2022/23 and 2023/24 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 786.7 million**.

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

Vote Description	Ref	2017/18	2018/19	2019/20	Budget Year 2020/21				2021/22 Medium Term Revenue & Expenditure		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2021/22	Budget Year 2022/23	Budget Year 2023/24
Capital Expenditure - Functional											
Governance and administration		6,216	3,995	41,718	6,796	18,257	18,257	18,257	12,092	7,235	77,556
Executive and council											
Finance and administration		6,216	3,995	41,718	6,796	18,257	18,257	18,257	12,092	7,235	77,556
Internal audit											
Community and public safety		-	296	-	-	-	-	-	405	-	-
Community and social services			296						405		
Sport and recreation											
Public safety											
Housing											
Health											
Economic and environmental services		-	-	-	150	7,121	7,121	7,121	2,350	150	150
Planning and development					150	7,121	7,121	7,121	2,350	150	150
Road transport											
Environmental protection											
Trading services		299,941	237,382	190,332	195,850	232,865	232,865	232,865	213,262	232,926	240,665
Energy sources											
Water management		273,242	183,103	145,198	162,979	196,795	196,795	196,795	143,753	140,976	133,415
Waste water management		26,699	54,279	45,134	32,871	36,070	36,070	36,070	69,509	91,950	107,250
Waste management											
Other											
Total Capital Expenditure - Functional	3	306,157	241,672	232,050	202,796	258,242	258,242	258,242	228,109	240,311	318,371
Funded by:											
National Government		304,204	234,807	186,654	195,850	206,329	206,329	206,329	202,462	232,926	240,665
Provincial Government			2,159	875		8,200	8,200	8,200	-	-	-
District Municipality											
Other transfers and grants											
Transfers recognised - capital	4	304,204	236,966	187,529	195,850	214,529	214,529	214,529	202,462	232,926	240,665
Borrowing	6		672	40,115	-	-	-	-	-	-	70,000
Internally generated funds		1,953	4,034	4,406	6,946	43,714	43,714	43,714	25,647	7,385	7,706
Total Capital Funding	7	306,157	241,672	232,050	202,796	258,242	258,242	258,242	228,109	240,311	318,371

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. Ninety three percent (93%) of the capital budget is set aside for service delivery objective under trading services amounting to R 195.8 million. Governance and Admin has been allocated 5% of the total capital budget, and one percent is set aside for the Planning and Development.

Trading Services Projects are divided into the following categories:

2.11.1 Water Services

A total of R 143.7 million has been budgeted for the construction water infrastructure, of which R 42.8 million is for refurbishment of water services assets. Table A9 0n budget schedules breaks down

expenditure into refurbishment of the existing assets and new assets. All local municipal areas will benefit from this provision.

2.11.2 Waste Water Management

A total of R 69.5 million has been provided on the capital budget to refurbish the existing assets as well as construction of new waste water assets. As the old infrastructure ages, there is a demand for provision of more funding to renew the infrastructure in ensuring continued service delivery. This is done through repairs under operational budget and refurbishment through the capital budget.

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

2.11.3 Capital Budget Funding

Vote Description	Ref	Current Year 2020/21				2020/21 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
R thousand	1							
Funded by:								
National Government		195,850	206,329	206,329	206,329	202,462	232,926	240,665
Provincial Government			8,200	8,200	8,200	-	-	-
District Municipality								
Other transfers and grants		-			-	-	-	-
Transfers received	4	195,850	214,529	214,529	214,529	202,462	232,926	240,665
Borrowing	6	-	-	-	-	-	-	70,000
Internally generated funds		6,946	43,714	43,714	43,714	25,647	7,385	7,706
Total Capital Funding	7	202,796	258,242	258,242	258,242	228,109	240,311	318,371

2.11.3.1 National Grant Funding

Total grant allocation on the Division of Revenue Allocation for the 2021/22 MTREF capital projects amounts to R 202.4 million. It remains a multiyear project. Included in the total grant allocation is **(projects are on table SA37- detailed capital budget)**:

- Municipal Infrastructure Grant R 204.1 million, while only R 183.5 million is allocated for capital projects.
- Water Service Infrastructure Grant R 55 million, however only R 49.2 million is allocated for capital budget.

The Regional Bulk Infrastructure Grant was not appropriated in the DoRA, as a result projects funded by this grant is affected.

There were no provincial grants prior to tabling this budget.

2.11.3.2 Internally generated Funding

The projects on this funding amounts to R 25.4 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 projects:

- IT Department R 8,75 million
- Finance R 250 000
- Admin and Support R 988 204
- Fleet R 2,1 million
- Disaster Management R 140 000
- Communications R 265 000
- Entity R 2 350 000
- Water R 10,6 million

2.12 The Total Expenditure for 2022 is as follows:

Total MTREF						
Description R Thousand	Current Year		2021/22 Medium Term Revenue Expenditure Framework			MTREF
	Original Budget	Adjusted Budget	Budget Year 2021/22	Budget Year + 1 2023	Budget Year + 1 2024	
Operational Expenditure	909,190	909,190	953,899	1,002,873	1,063,328	3,020,100
Capital Expenditure	202,796	258,242	228,109	240,311	318,371	786,791
Total MTREF	1,111,985	1,167,432	1,182,008	1,243,184	1,381,699	3,806,891

The 2022 total expenditure budget amounts to R 1.2 Billion, while the total Medium Term Expenditure Framework amounts R 3.8 billion.

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 budgeted for contracted services in the current financial year is R 142.7 million (2020/21: R 194.8 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. The decrease of R53.6 million when compared to the adjusted budget is derived from the Water Conservation demand which was increased by grant rollover in 2021 financial year. A decrease of R20 million on water tankers due to the fact that the municipality has budgeted to procure seven water tankers in 2021 financial year which will reduce the hiring budget. A reduction of R4.1 on grass cutting as a result of the utilization of EPWP grant, no internal funds allocated to EPWP. The grant allocation on COVID expenses has been decrease by R4 million, however the municipality has catered a budget to be utilise on sanitizers and protective clothing for the COVID 19 pandemic. A further decrease by Enterprise iLembe on their contracted services by R4.6 million. Water effluence and analysis was decrease of R3.5million the bid offer is approximately R10 million for the period of 36 months. Electrical pump and repairs has been decrease by R4.1 million due to the Umvoti refurbishment was budgeted to be repaired in 2021 financial as a result of the refurbishment that was performed and also the COVID 19 allocation that has been removed as it is not gazetted in 2022 budget year. A decrease on EEDSMG contracted expenses due to the grant rollover that was included in 2021 financial year. 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 2020/21 collection rate was sitting at an average of 53%. This has dropped from the previous collection of 64%. Progress on the collection rate is still a standing item at various structures of management and Finance Portfolio Committee. The impact of Covid-19 has seen a decrease in the collection rate as consumers and the economy is under severe pressure.

Revenue collection remains a priority in the District. The municipality has a Revenue and Expenditure Management Steering committee that 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.

The municipality target collecting 60 % of revenue in the 2021/22 financial year. This estimate is based on the average collection rate as per the previous financial years. Treasury estimates a collection above this rate, however considering the economic state, 60% is proposed.

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

- 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 newly introduced handheld meter reading devices 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.
- Use of external service provide 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. EPWP resources are also being utilised to assist with reading meters in areas not previously read.
- There are areas that will now have consistent water supply which will mean that meters will be read frequently and billed frequently.
- Furthermore, the following strategies will be implemented:
 - Development of Revenue Collection Strategies was adopted by Exco prior to finalisation of the 2022 budget and is being implemented.
 - Focus on the Water Conservation and Demand Management to curb the Water Losses including installation of pressure reducing valves.
 - The projects to be commissioned in the 2021/22 will be identified accordingly and taken on.
 - Strengthening of internal controls and strict measures to the standard operational procedures to minimise waste and inefficiencies.
 - Investigating the need to outsource meter reading and revenue collection, this is in progress.
 - Enhancement of the communications strategy in relation to revenue collection
 - To investigate developments to take place during the MTREF

2.14.2 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;

2.14.3 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 in consultation with the Vuthela Program
- 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.
- Munsoft is being tasked to look into consolidation of all consumer accounts to reduce the cost of postage and make debt collection seamless.

2.14.4 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 to align the indigent registers of the local Municipalities with that of the District. The exercise is complete with the second phase in progress to obtain an electronic system to manage the application process.
- The impact of Covid-19 has required the Municipality to encourage consumers who cannot afford to pay for services to apply for indigent support.

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 2021/2022 financial year was initially appropriated at R 38.4 million during the draft budget. 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:

Supplier	Nature of Service
CICS (Pty) Ltd	Software maintenance contract
KwaDukuza Municipality	Electricity
Telkom	Tele-communication
Siza Water	Water and sewer Concession
Umgeni Water	Water
Capital Office Automation	Lease of printers and photocopiers
Fleet Horizon	Lease of Municipal Fleet

2.17 Public Consultation and Publication of 2021/22 Draft Budget

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

The draft 2021/22 draft budget was tabled at Council, which after consideration a public participation process will be initiated. The budget will be published in the local newspapers and municipal website and also placed on the municipal buildings. The municipality will comply with Government Gazette, 25 March 2020, in line with the municipal responsibilities read together with the above S22 of the MFMA and Chapter 4 of the Municipal Systems Act.

2.18 Cost Containment Measures

iLembe District Municipality has the adopted policy on cost containment which was introduced in May 2015. This is in line with the **Local Government: Municipal Finance Management Act, 2003** **Municipal Cost Containment Regulations, 2019**. The municipality updated its policy to align with the regulations. Expenditure was reprioritized to be in line with the policy and expenditure is reported at Council on a quarterly basis and reviewed by management monthly. 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 Water and Waste Water Demand Management

Waste Water Quality – Ilembe District municipality (IDM)

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

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

Water quality – Ilembe District Municipality (IDM)

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

3. CONSULTATIONS

- 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 2021/2022; and indicative allocations for the two projected outer years 2022/2023 and 2023/2024; 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:

Vote Description	2020/21 Medium Term Revenue &		
	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
R thousand			
Total Capital Expenditure - Functional	202,796	199,185	213,946

- 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
 - Cost Containment 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
 - Customer Care Policy
- That the draft tariff of charges for 2021/22 financial year be increased by 7% effective from 1 July 2021.
 - That in compliance with section 22 of the MFMA, the final budgets be published in the local press and made available on the municipal website.
 - That Council note that the draft service delivery and budget implementation plan for the 2021/2022 financial year will be tabled 28 days after the budget has been adopted.
 - That Council note the feedback from KZNPT on the Adjustment Budget 2020/21

SIGNATURE OF AUTHOR



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

SUPPORTED / NOT SUPPORTED →



.....
CHIEF FINANCIAL OFFICER
M CHANDULAL



.....
MUNICIPAL MANAGER
NG KUMALO

Quality certificate

I **NG KUMALO**, Municipal Manager of **ILEMBE DISTRICT MUNICIPALITY**, hereby certify that the **2021/22 Draft budget** and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Name: **NG KUMALO**

Municipal Manager of **ILEMBE DISTRICT MUNICIPALITY**

Signature:



Date:

25/3/2021