

# MEDIUM TERM EXPENDITURE AND REVENUE BUDGET ADJUSTMENT REPORT 2017/2018



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## 1. MAYOR'S REPORT

As a Water Services Authority, we are mandated to provide uninterrupted water supply and access to sanitation to all our 6 Local Municipalities within our District. As new Council we have adopted the Ten Point Plan as our strategic compass that will elevate and enhance our service delivery through to our 2021 vision. As we commence in the first year of our 5 year Integrated Development Plan, we plan to implement and institutionalise the following:

Our budget for the 2017/18 financial year demonstrates the positive achievements of the past 16 years of local government transformation and continues to lay a firm foundation for the future of the District.

The 2017/18 medium term expenditure framework, consisting of a **R902 million** consolidated budget, has been developed in order to accelerate transformation towards an inclusive economy and participation by all. Through this we also aim to give hope to our youth through skills based training, provide economic opportunities and an enabling environment for businesses to flourish. Despite the tough economic times this budget will steer the district through the drought crisis and is also underpinned by cost containment measures which will allow a cost conscious spending.

As the District we have had challenges including our old and frail infrastructure thus experiencing large volumes of lost revenue. uMDM together with stakeholders such as the Department of Water Affairs & Sanitation, Umgeni Water have invested resources in ensuring 100% access to basic services is accomplished. This includes projects such as uMshwathi Bulk Water Project, which will see over 50 000 households accessing uninterrupted water supply. While the Hilton/ Merrivale Asbestos Replacement will start bearing fruits in the coming financial year. The unaccounted water loss that costs the municipality millions per annum will be significantly reduced by a large percentage.

Our plans and strategies are linked with the National Development Plan, and Vision 2030. We are forging ahead to ensure that we serve our citizens with quality, while cognisance of our external environment (such as rising costs of petrol, tariff increases, drought, unemployment, etc.).

Our focus will be to aggressively collect revenue through households, businesses who owe the Municipality. We also encourage our citizens to be responsible citizens who pay for services rendered and/ received to further re-invest to other municipal projects. We also encourage qualifying citizens to apply for indigent support through the **Indigent Register Programme**, as this tremendously assists the district in identifying households who cannot afford the services provided and thus provides relief.

Drought impact continues to be a reality for the district, which has seen diminishing revenue due to the drought conservative use and other measures. Whilst we experienced rain during the summer, citizens are still encouraged to exercise a conservative reached comfort levels.

The Mandela Day Marathon which is the champion programme of the district, has grown in leaps & bounds over the year with 2016 seeing over 10 000 participants. The race is indeed one of the fastest growing marathons in Africa drawing international attention, and the district prides itself for the social cohesion, tourism and economic impact it has on not only the district but beyond.

## 2. EXECUTIVE SUMMARY

The draft adjustment budget 2017/2018 is prepared on the same basis of B schedules as prescribed by the National Treasury and presents an adjustment budget with R847.6m in funding. This has been projected after observation and assessment of the performance on the budget in the mid-year assessment wherein the revenue and expenditure projections were re-assessed. Based on the mid-year performance assessment, total revenue has been adjusted down by R43.2m (-5%↓) and operating expenditure up by R36.1m (4.9%↑) in line with trends.

Of the R847.6m proposed funding 81% is allocated to operations and 18% to capital investment.

The net change in the capital funding is R7.7m (1%↓) due to proposed reduction of the Municipal Infrastructure grant based on the six months performance of the grant. The capital budget proposed is R200m which is 1. % below than initially approved in May 2017.

The operating activities present an operating deficit of R85.9m before non-cash items adjustment which would need to be funded by an additional reserves and translate to drastically reduced operating expenditure and strict compliance to MFMA Circular 52. The balance of the component of the deficit is due to unfunded depreciation which is non cash in nature. This demonstrates a stretch in the existing resources which has been influenced by an increase in employee costs, vehicle hire costs and administrative costs.

Table 1

	Total Budget Amount	Adjustment	Adjusted Budget
<b>OPERATING INCOME</b>			
SERVICE CHARGES-WATER	208 108 871.78	- 34 108 306.66	174 000 565.12
SERVICE CHARGES- SANITATION	17 598 786.76	1 500 000.00	19 098 786.76
SERVICES CHARGES-OTHER	3 288 600.00	-	3 288 600.00
UNCONDITIONAL GRANTS	457 680 000.00	-	457 680 000.00
CONDITIONAL GRANTS OPERATIONAL	20 104 060.00	2 413 369.00	22 517 429.00
INTEREST OF INVESTMENTS	12 000 000.00	- 8 000 000.00	4 000 000.00
INTEREST ON LATE PAYMENTS	5 000 000.00	-	5 000 000.00
OTHER	250 000.00	-	250 000.00
MANDELA DAY MARATHON	-	2 700 000.00	2 700 000.00
	<b>724 030 318.54</b>	<b>- 35 494 937.66</b>	<b>688 535 380.88</b>
<b>OPERATING EXPENSES</b>			
COMM	133 433 430.45	-8 763 083	120 528 462.63
FINA	138 494 519.99	5 633 897	159 804 985.83
TECH	357 804 368.11	26 023 813	365 383 094.82
OOMM	56 355 850.97	8 784 900	74 594 437.34
CORP	52 262 782.48	4 480 703	54 200 201.83
	<b>738 350 952</b>	<b>36 160 230</b>	<b>774 511 182</b>
<b>Surplus/deficit</b>	<b>- 14 320 633.46</b>	<b>- 71 655 167.72</b>	<b>-85 975 801.57</b>
Non cash items from depreciation			36 713 431.00
Provision for bad debt written off			78 997 680.00
			<b>-49 262 370.57</b>
			<b>29 735 309.43</b>

### 3. BUDGET ASSUMPTIONS

After the completion and the finalisation of the Budget Implementation Assessment, the Municipality concluded that the following assumptions be made when compiling the Budget Adjustment for the 2017/2018 financial year.

1. The average consumption will remain low leading to a reduction in demand of 26% which in turn reducing sales by 26%
2. At least a 56% collection rate will be maintained for the water and sanitation billings;
3. The salaries expenditure / budget to increase due to new appointments and job evaluation results;
4. Councillors allowances to be increased by 1.5% as per the gazette on upper limits;
5. The operational expenditure budget will limit and minimise increase due to cost cutting measures and as the revenue budget will be decreased.
6. Interest on investments will be reduced to cancellation of investments
7. Interest on late payments will remain unchanged whilst Council finalises its debt recovery, debt amnesty and debt write off strategy.
8. An amount of R 36.7 million will be returned to the National Reserve Fund as a penalty for the use of the Municipal Infrastructure Grant in advance.
9. Funding for the Mandela Day Marathon will be limited to **actual** receipts.

### 4. RESOLUTIONS

That Exco recommends to full council for the approval of;

1. The adjusted budget for 2017/2018
2. The budget funding of R847 601 381
3. The operating expenditure of R774 511 182
4. The operating revenue of R688 535 381
5. The capital funding of R159 066 000
6. The capital expenditure of R200 037 867
7. The surplus of R73 090 000

### 5. OPERATING REVENUE FRAMEWORK

The operating revenue proposed is R688.5 m and has been reduced by 5% from the original budget of R724m approved in May 2016. This revised projection was arrived at after consideration of the 6 month performance on the budget 2017/2018.

Summarily the operating revenue is proposed as follows.

Table2

	Original Budget	Adjustment	Budget Adjustem	% Contribution	% Change
Service Charges	228,996,259	-32,608,307	196,387,952	28.52	-14.24
Investment Revenue	12,000,000	-8,000,000	4,000,000	0.58	-66.67
Transfers recognised - Operational	477,784,060	2,413,369	480,197,429	69.74	0.51
Other Own Revenue	5,250,000	2,700,000	7,950,000	1.15	51.43
	<b>724,030,319</b>	<b>-35,494,938</b>	<b>688,535,381</b>		

The above indicates that the grants contribute 70% towards operations with only 29% coming from service charges. Service charges have been reduced by (↓)14% from original budget due to a trend of shrinking revenues resulting from the drought and also the delay in the projects which were projected to generate

revenue in the financial year. Investment revenue has reduced by (↓) 66% as the investments are cash in. Operational grants have increased by just below (↑) 1%. Other income has increased by (↑)51.4% due to the recognition of new allocations & revenue streams which were not originally budgeted for.

Below is a detailed analysis of the operating revenue sources and the changes that have been effected.

Table 3

	2017/2018	Proposed Adjustme	Adjustment	Contribution	Change
<b>Funding Source</b>					
Water	208,108,872	174,000,565	-34,108,307	25.27	-16.39
Sanitation	17,598,787	19,098,787	1,500,000	2.77	8.52
Waste Disposal	3,288,600	3,288,600	0	0.48	
Equitable Share	221,842,000	221,842,000	0	32.22	
Rsc Levy Replacement	235,838,000	235,838,000	0	34.25	
Interest from Investments	12,000,000	4,000,000	-8,000,000	0.58	-66.67
Interest from late Payments	5,000,000	5,000,000	0	0.73	
Rental of Facilities	250,000	250,000	0	0.04	
Local Government Financial Management G	1,250,000	1,250,000	0	0.18	
Rural Roads Assets Management Grant	2,526,000	2,526,000	0	0.37	
SANBI	14,900,060	14,900,060	0	2.16	
SETA Grant		2,413,369	2,413,369	0.35	100.00
Expanded Public Works Programme Integra	1,428,000	1,428,000	0	0.21	
Mandela day marathon		2,700,000	2,700,000	0.39	100.00
<b>TOTAL</b>	<b>724,030,319</b>	<b>688,535,381</b>	<b>-35,494,938</b>	<b>100</b>	

## 6. OPERATING EXPENDITURE FRAMEWORK

The municipality is a water services authority municipality that strives to reduce spending on frills but concentrate on basic service provision. National Treasury through its circular 82 encourages municipalities to adopt cost cutting measures. The emphasis for this municipality is that of provision of basic services. This can be seen from the allocation of funds for the municipal departments.

Table 4

OPERATING EXPENSES	Original Budget	Actual Expenditure	Commitments	Available Original Budget	Adjustment	Final Allocation	% Adjustment Budget
COMM	133 433 430	18 700 286	2 436 267	112 296 877	-8 763 083	120 528 463	16
FINA	138 494 520	142 774 640	0	-4 280 120	5 633 897	159 804 986	21
TECH	357 804 368	196 613 493	720 677	160 470 198	25 589 804	365 383 095	47
OOMM	56 355 851	26 708 557	539 428	29 107 866	8 784 900	74 594 437	10
CORP	52 262 782	38 307 053	1 390 727	12 565 002	4 480 703	54 200 202	7
						0	
Cnllr Allowances							
	<b>738 350 952</b>	<b>423 104 029</b>	<b>5 087 100</b>	<b>310 159 824</b>	<b>35 726 221</b>	<b>774 511 182</b>	

The table above indicates that of the R774m operating expenditure 66% is invested in core service delivery units which are Community and Technical Services. The Technical services department which is a driver of the water business has 50% of the budget as it carried most costs relating to the core business of the district which is primarily the provision of water and sanitation services. Community

Services carries 16% of the costs for other core functions of the district e.g. environmental health, LED promotion, social programmes, amongst others.

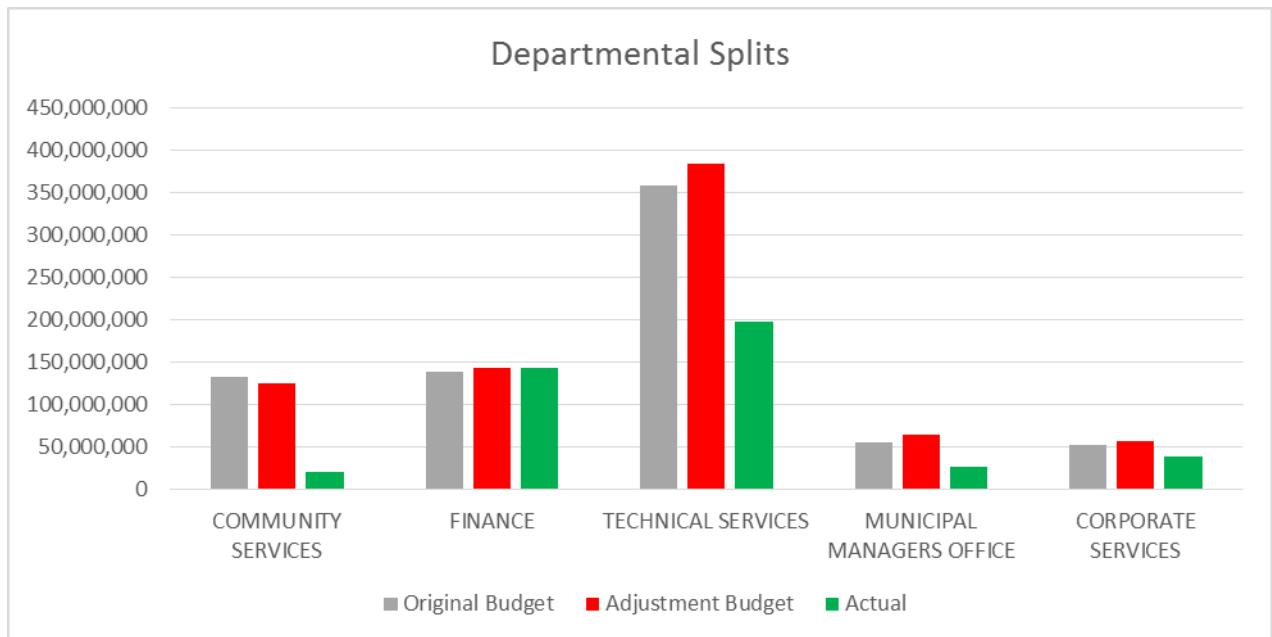
The changes that influenced that change in departments were mainly employee costs with the implementation of the job evaluation results and the increase in the administration and municipal running costs.

For Technical Services, the increase is necessitated by the increase for the bulk water purchases, interest paid for debt servicing and general running costs of the services.

Table 5

	Original Budget	Actual Expenditure	Adjustment Budget Allocation
COMM	133 433 430	21 136 553	120 528 463
FINA	138 494 520	142 774 640	159 804 986
TECH	357 804 368	197 334 170	365 383 095
OOMM	56 355 851	27 247 985	74 594 437
CORP	52 262 782	39 697 781	54 200 202
			0
	<b>738 350 952</b>	<b>428 191 128</b>	<b>774 511 182</b>

Graph 1



Below is a detailed listing of the adjustments on the operating expenses.

Table 6

Main Operational Expenditure Items	Amount	%	Adjustment	Proposed New Budget	%
Salaries	228 193 898	30.91	-6 646 387	221 547 511	32.02
Councillor Remuneration	11 085 909	1.50	1 181 000	12 266 909	1.57
Capital Charges	46 713 431	6.33		46 713 431	5.91
Provision for Doubtful Debt	78 997 680	10.70		78 997 680	9.84
Bulk Water Purchases	111 033 989	15.04	10 200 000	121 233 989	16.65
Water Tanker Hire	59 773 857	8.10	26 949 790	86 723 647	7.64
Vacuum Tanker Hire	3 223 757	0.44	0	3 223 757	0.41
Water Quality and Process Management	32 011 154	4.34	0	32 011 154	4.09
Operations and Maintenance Excluding Salaries	37 388 032	5.06	0	37 388 032	4.78
Motor Vehicle Hire and Running Costs	13 000 000	1.76	0	13 000 000	1.66
Security	6 500 000	0.88	3 000 000	9 500 000	1.21
Consultants	9 758 286	1.32	0	9 758 286	1.25
Telephones	4 725 463	0.64	0	4 725 463	0.60
Licences	2 500 000	0.34	0	2 500 000	0.32
Sports Promotion	3 320 000	0.45	0	3 320 000	0.42
Art and Culture Promotion	1 266 000	0.17	0	1 266 000	0.16
Rural Development and Heritage Alignment	1 369 500	0.19	0	1 369 500	0.18
Youth Development Programmes	2 100 000	0.28	0	2 100 000	0.27
Mandela Day Marathon	3 000 000	0.41	0	3 000 000	0.38
Development Agency	3 500 000	0.47	0	3 500 000	0.45
Protective Clothing	3 500 000	0.47	0	3 500 000	0.45
Maintenance Buildings and Equipment	3 100 000	0.42	0	3 100 000	0.40
Interest Payable	23 019 000	3.12	900 000	23 919 000	3.06
Tourism Programmes and Promotion	2 200 000	0.30	0	2 200 000	0.28
Communication Programmes	1 985 000	0.27	0	1 985 000	0.25
Intergovernmental Relations	2 898 000	0.39	0	2 898 000	0.37
Local Economic Development	2 150 000	0.29	0	2 150 000	0.27
Insurance - General	700 000	0.09	0	700 000	0.09
Insurance - GroupLife	3 100 000	0.42	0	3 100 000	0.40
Employee Wellness and Assistance Programmes	750 000	0.10	0	750 000	0.10
Staff Development and Training	1 250 000	0.17	0	1 250 000	0.16
Women Development Programmes	840 000	0.11	0	840 000	0.11
Children Programmes	220 000	0.03	0	220 000	0.03
Senior Citizens and People Living with Disabilities	802 300	0.11	0	802 300	0.10
Rural Assets Management Grant Expenditure	2 526 000	0.34	0	2 526 000	0.32
Expanded Public Works Grant Expenditure	1 428 000	0.19	0	1 428 000	0.18
HIV Programs	1 500 000	0.20	0	1 500 000	0.19
Other Expenditure	26 921 696	3.65	575 827	27 497 523	3.44
	<b>738 350 952</b>	<b>100</b>	<b>36 160 230</b>	<b>774 511 182</b>	<b>100</b>

The major expenditure drivers on the adjusted budget were salaries (32%) bulk water purchases (17%) Depreciation (6%), provision for bad debt (10%) O&M costs (9%) and water tanker hire (7%).

Councillor's allowances have been increased by R1.2 m in light of the upper limits determination.

Table 7 below reflects the allocation of salaries per department. The movements are due to job evaluation results and proposed reduction of standby allowances, acting positions and overtime.

Table 7



Department / Description	Adjustment Budget	Original Budget	Adjustment
OFFICE OF THE MUNICIPAL MANAGER	23,069,720	19,755,919	3,313,801
FINANCIAL SERVICES	28,921,120	28,409,176	511,944
POST EMPLOYMENT BENEFITS, LONG LEAVE AWARD & EX-GRATIA PENSION LIABILITY	12,000,000	9,000,000	3,000,000
CORPORATE SERVICES	17,447,162	20,453,329	-3,006,167
TECHNICAL SERVICES	57,929,491	73,543,858	-15,614,367
COMMUNITY SERVICES	82,180,018	77,031,616	5,148,402
COUNCILLORS	12,266,430	11,085,909	1,180,521
TOTAL	233,813,941	239,279,807	-5,465,866

The salaries and councillors allowances collectively represent 33% of the operating expenditure which is within the norm of 25%-40%. This is a 1% increase from the original budget.

Repairs and maintenance costs excluding salaries directly related to repairs and maintenance represent 9% of total expenditure which is above the norm of 8% as directed by National Treasury.

## 7. Capital Expenditure

The district originally approved a capital budget of R203m in May 2017 and the capital budget has been decreased by 2% to R242m to accommodate anticipated reduction of the MIG allocation. A restricting of funding sources has been conducted to ensure that maximise use of external funding is employed as the reserved are being preserved for future capital investment.

The challenge of deteriorating and unavailable infrastructure has been identified as one of the major challenges and required urgent attention. In 2015/2016 the district obtained a loan of R230m to fund its infrastructure programme in efforts to increase capacity, reduce service interruption and eradicate water losses.

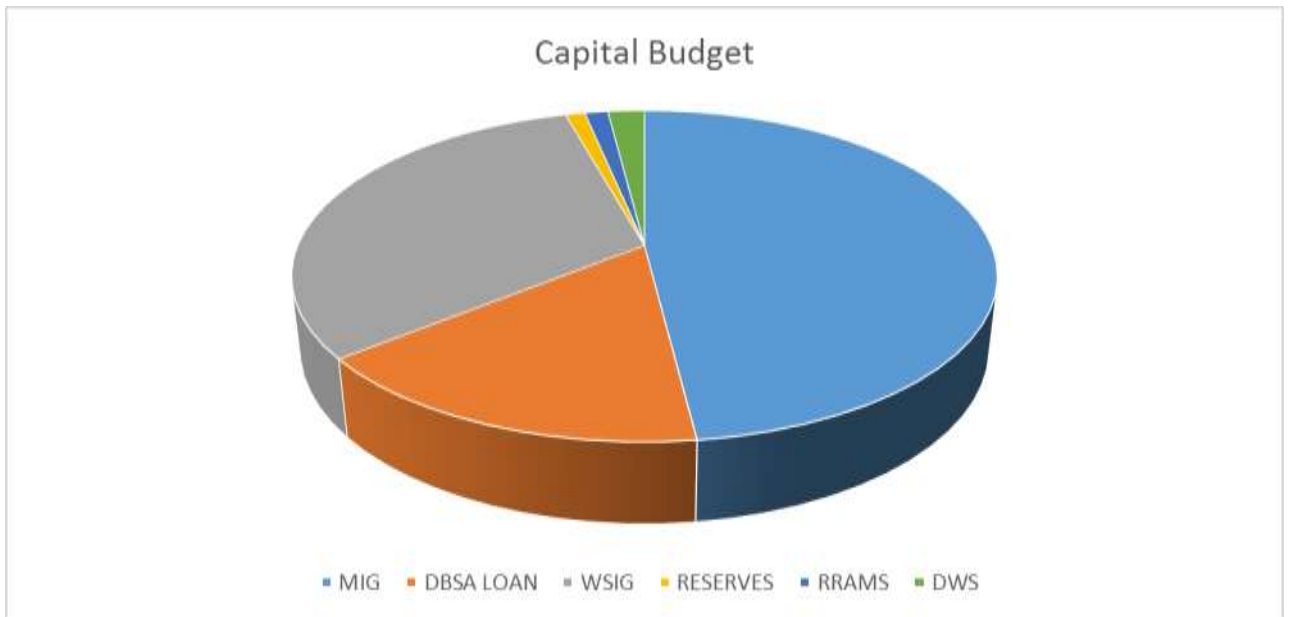
The funding sources for the capital budget are as shown in Table 8

### CAPITAL FUNDING SOURCES

Funding Source	Budget 2017 /2018	Expenditure to date	Adjustment	Proposed Adjustment Budget	% spent
MIG	103,768,000.00	33,678,212.99	-7,700,000.00	96,068,000.00	32.46
DBSA LOAN	32,327,639.00	32,327,639.00	0.00	32,327,639.00	100.00
WSIG	62,998,000.00	42,867,404.67	0.00	62,998,000.00	68.05
RESERVES	1,950,000.00	374,946.00	168,133.00	2,118,133.00	19.23
RRAMS	2,526,000.00	1,135,927.36	0.00	2,526,000.00	44.97
DWS			4,000,095.00	4,000,095.00	
	<b>203,569,639.00</b>	<b>110,384,130.02</b>	<b>-3,531,772.00</b>	<b>200,037,867.00</b>	

The total funds available to implement capital projects is R 198m with the balance of R1.9m available for operational assets other than infrastructure e.g. furniture and computers. The Municipal Infrastructure grant allocation is anticipated to be reduced to R 96.068 million, the actual expenditure for the year is R 33.6 million

## GRAPH 2



As initially indicated, the uMgungundlovu Municipality is a water centric municipality . This is also evident on the allocation of financial resurces for water infrastucture projects which is almost the entire capital budget.

Details of capital projects to be implemented are reflected below.

Table 9

Project	Funding	Approved Budget Amount	Adjustment Budget
Manvayu Water	MIG	26,272,667	17,948,037
Manzamyama Water	MIG	26,272,667	17,502,438
Nkanyezini Water	MIG	26,272,667	17,948,037
Maqongqo Water	MIG	24,950,000	17,250,000
Umshwathi Regional Bulk	WSIG	62,998,000	62,998,000
Hilton AC Pipes	DBSA/MIG	32,327,639	32,327,639
Merrivale AC Pipes	DBSA/MIG	0	19,995,880
Ephatheni Water	MIG	0	414,401
Impendle WWTW	MIG	0	63,648
Boreholes - Drought (Ex Mkhambathini WWTW)	DWS	0	4,000,095
Impendle Bulk	MIG	0	143,960
Emgobeleni Sportsfield	Reserves	0	42,000
Retentions	MIG & Reserves	0	571,732
Rural Roads Asset Management	RAMS	2,526,000	2,526,000
KwaHaza Phase 2	MIG	0	400,000
Hilton Corridor Phase 2	MIG	0	51,000
Enguga Phase 5	MIG	0	3,800,000
Mbhava Mpethu (Umshwathi Regional Bulk)	MIG	0	105,000
		750,000	750,000
		1,200,000	1,200,000
<b>TOTAL</b>		<b>203,569,639</b>	<b>200,037,867</b>

**Municipal manager's quality certificate**

I, MRB Ngcobo, municipal manager of uMgungundlovu District Municipality, hereby certify that the Adjustment Budget and documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act.

Print Name \_\_\_\_\_

Signature \_\_\_\_\_

Date \_\_\_\_\_

Print Name \_\_\_\_\_

Mayor uMgungundlovu district municipality

Signature \_\_\_\_\_

Date \_\_\_\_\_