

REPORT TO THE uMGUNGUNDLOVU DISTRICT MUNICIPAL COUNCIL



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Report Number: Designation: CHIEF FINANCIAL OFFICER

For consideration

1st Level – Budget Steering Committee : 17/02/2021
2nd Level – Finance Portfolio Committee : 17/02/2021
3rd Level – EXCO : 22/02/2021
4th Level – Council : 25/02/2021

SUBJECT: SPECIAL ADJUSTMENT BUDGET: 2020/21
DATE : 16 FEBRUARY 2021

1. STRATEGIC OBJECTIVE

To obtain Council approval of the Special Adjustment Budget estimates for the 2020/21 MTREF period in terms of Section 28 of the Local Government Municipal Finance Management Act, 56 of 2003.

2. LEGISLATIVE REQUIREMENTS

Local Government: Municipal Finance Management Act, 56 of 2003 (MFMA)
Municipal Budget & Reporting Regulations (GN 393 in GG32141 dated 17 April 2009)

3. ATTACHMENTS

1. Draft MTREF Adjustment Budget Estimates - 2020/21.

4. BACKGROUND

During the preparation and adoption of the 2020/21 MTREF budget Council adopted a budget that was unfunded. A plan to ensure that the budget was funded over the MTREF period was subsequently adopted with the implementation of the financial recovery plan.

In terms Section 28 of the MFMA, a municipality may revise its adopted budget through an adjustment budget. The adjustment budget -

- (i) must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;
- (ii) may appropriate additional revenues that have become available above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;
- (iii) may, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the Mayor of the municipality;
- (iv) may authorise the utilisation of projected savings in one vote towards spending under another vote;

- (v) may authorise the spending of funds that were unspent at the end of the part financial year where the under-spending could not reasonable have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;
- (vi) may correct any errors in the annual budget; and
- (vii) may provide for any other expenditure within a prescribed framework.

5. DISCUSSION

MFMA Circular 74 and 89 highlights the importance of municipalities tabling funded budgets or where budgets are not funded, the municipality must table to Council a plan on how and when will the budget be funded.

The 2020 /2021 first draft budget was tabled to Council in March 2018 and was submitted to both National and Provincial Treasuries and was evaluated as funded.

Due to the impact of Covid 19 pandemic the collection rate had to be assumed to reduce for the upcoming short to medium term, and taking into account the un audited annual financial statements which reflected more than R 180 million anticipated creditors, the tabled budget was re assessed in August 2020 under stress test and was found to be unfunded.

The National Treasury further allocated an amount of R 41.2 million to the municipality for the implementation of Covid Relief projects, which necessitated for the Municipality to table an adjustment budget to include the new allocation and was also an opportunity to table a recovery strategy for the municipality as required by circulars 74 and 89.

The budget estimates for the 2020/21 MTREF period have been revised and an adjustment budget is tabled to Council for consideration.

An overview of the draft adjustment budget as proposed reveals the following:

ADJUSTMENT BUDGET ESTIMATES FOR THE 2020/21 TO 2022/23 MTREF PERIOD					
	2020/21 MTREF				
	Budget 2020/21	Adjustment Budget 2020/21	Special Adjustment Budget 2021	Budget 2021/22	Budget 2022/23
Operating Revenue	935 520 586	1 004 755 586	1 032 855 586	995 678 749	1 101 717 814
Operating Expenditure	794 754 736	863 573 396	932 392 055	836 936 874	887 252 231
Operating Surplus / (Deficit)	140 765 850	141 182 191	100 463 531	158 741 875	214 465 583
Capital Transfers Recognized	183 797 000	183 797 000	183 797 000	197 959 000	205 276 000
Surplus / (Deficit) for the year	324 562 850	324 979 191	284 260 531	356 700 875	419 741 583
Capital Funding	183 797 000	183 797 000	183 797 000	197 959 000	205 276 000
LESS: Capital Expenditure	183 797 000	225 032 000	225 032 000	197 959 000	205 276 000
Budget Cash Surplus	140 765 850	141 182 191	100 463 531	158 741 875	214 465 583
ADD: Non-Cash Items	127 520 702	107 520 702	87 520 702	160 822 198	150 695 417
Net Budget Cash Position	268 286 552	248 702 892	187 984 233	319 564 073	365 160 999

Capital budget

The capital budget is 100% funded from grants with the bulk of the funding coming from the Municipal Infrastructure Grant (MIG). The capital budget is proposed to be adjusted in order to provide clean and safe drinking water to our communities during the COVID19 pandemic; some projects have been brought forward necessitating the reallocation of the funding received.

Project Name	Funding Source	2019/20 MTREF	2020/21 MTREF				Total Allocation
		Budget 2019/20	Budget 2020/21	Adjustment Budget 2020/21	Budget 2021/22	Budget 2022/23	
Water Provision							
Nkanyezini Water	MIG	4 900 000.00	23 452 449.00	23 452 449.00	33 000 000.00	20 000 000.00	76 452 449.00
Manzamyama Water	MIG	43 122 071.21	500 000.00	500 000.00	-	-	500 000.00
Mpolweni, Thokozani, Claridge	MIG	10 317 481.66	20 000 000.00	20 000 000.00	40 000 000.00	40 000 000.00	100 000 000.00
Trust Feeds Phase 1	MIG	3 400 000.00	12 000 000.00	12 000 000.00	7 000 000.00	-	19 000 000.00
Maqonqo Water	MIG	8 258 212.51	300 000.00	300 000.00	-	-	300 000.00
Manyavu Water	MIG	17 289 246.56	300 000.00	300 000.00	-	-	300 000.00
Hilton AC	MIG	4 721 354.54	-	-	-	-	-
Merrivale AC	MIG	2 035 633.52	-	-	-	-	-
Enguga Entshayabantu & Macksam CWSS Phase 5	MIG	500 000.00	6 922 951.00	6 922 951.00	3 000 000.00	20 000 000.00	29 922 951.00
Mbhava & Mpethu Swayimane Water Supply Phase 2	MIG	500 000.00	20 000 000.00	20 000 000.00	4 168 824.00	-	24 168 824.00
KwaMathwanya Water Reticulation	MIG	400 000.00	11 769 600.00	11 769 600.00	80 176.00	-	11 849 776.00
		95 444 000.00	95 245 000.00	95 245 000.00	87 249 000.00	80 000 000.00	262 494 000.00
District Wide Sanitation - Covid 19 Response	ES			6 000 000.00			
Nguga Water Supply - Covid -19 Response	ES			7 000 000.00			
Mathwanya Water Supply - Covid 19 Response	ES			15 000 000.00		210 480 000.00	
Mbhava Water Supply - Covid 19 Response	ES			13 235 000.00			
				41 235 000.00			
Water Provision							
Nadi - Efaye Phase 2(uMshwathi Regional Bulk)	WSIG	49 000 000.00	28 800 000.00	28 800 000.00	-	-	28 800 000.00
Mtluwa & Mt. Alias Phase 3A (uMshwathi Regional Bulk)	WSIG	1 200 000.00	300 000.00	300 000.00	-	-	300 000.00
Nadi to Ekhamanzi Phase 3B	WSIG	27 000 000.00	30 000 000.00	30 000 000.00	-	-	30 000 000.00
Greater Efaye	WSIG	2 800 000.00	20 900 000.00	20 900 000.00	85 000 000.00	70 560 000.00	176 460 000.00
Ozathini	WSIG					10 000 000.00	10 000 000.00
		80 000 000.00	80 000 000.00	80 000 000.00	85 000 000.00	80 560 000.00	245 560 000.00
							80 000 000.00
Sanitation Provision							
uMshwath VIP Backlog Toilets	MIG	1 500 000.00	1 000 000.00	1 000 000.00	4 920 000.00	4 920 000.00	10 840 000.00
Impendle VIP Backlog Toilets	MIG	1 000 000.00	1 000 000.00	1 000 000.00	4 000 000.00	4 920 000.00	9 920 000.00
Mkhambathini VIP Backlog Toilet	MIG	1 000 000.00	1 000 000.00	1 000 000.00	2 920 000.00	4 920 000.00	8 840 000.00
Umgeni VIP Backlog Toilets	MIG	1 000 000.00	1 000 000.00	1 000 000.00	2 000 000.00	4 920 000.00	7 920 000.00
Richmond VIP Backlog Toilets	MIG	1 000 000.00	1 000 000.00	1 000 000.00	2 000 000.00	49 210 000.00	52 210 000.00
Mpofana VIP Backlog Toilet	MIG	1 000 000.00	1 000 000.00	1 000 000.00	7 177 000.00	7 177 000.00	15 354 000.00
		6 500 000.00	6 000 000.00	6 000 000.00	23 017 000.00	76 067 000.00	105 084 000.00
Rural Roads Asset Management							
Planning of Rural Roads Maintenance	RRAMS	2 681 000.00	2 836 000.00	2 552 000.00	2 693 000.00	2 849 000.00	10 930 000.00
		2 681 000.00	2 836 000.00	2 552 000.00	2 693 000.00	2 849 000.00	10 930 000.00
CAPEX Summary							
Projects		Budget 2019/20	Budget 2020/21	Adjustment Budget 2020/21	Budget 2021/22	Budget 2022/23	
Water Provision - MIG	MIG	95 444 000.00	85 394 000.00	95 245 000.00	78 487 522.00	85 088 522.00	344 215 044.00
Water Provision - WSIG	WSIG	80 000 000.00	80 000 000.00	80 000 000.00	85 000 000.00	80 560 000.00	325 560 000.00
Sanitation Provision	MIG	6 500 000.00	15 851 000.00	6 000 000.00	31 778 478.00	31 778 478.00	85 407 956.00
Rural Roads Asset Management	RRAMS	2 681 000.00	2 552 000.00	2 552 000.00	2 693 000.00	2 849 000.00	10 646 000.00
Energy Efficiency and Demand Side Management	EEDSM		-		-	5 000 000.00	5 000 000.00
Equitable Share - Covid 19 Response Allocation - Water				35 235 000.00			
Equitable Share - Covid 19 Response Allocation - Sanitation				6 000 000.00			
		184 625 000.00	183 797 000.00	225 032 000.00	197 959 000.00	205 276 000.00	770 829 000.00
Funding							
Municipal Infrastructure Grant (MIG)		101 944 000.00	101 245 000.00	101 245 000.00	110 266 000.00	116 867 000.00	429 623 000.00
Water Services Infrastructure Grant (WSIG)		80 000 000.00	80 000 000.00	80 000 000.00	85 000 000.00	80 560 000.00	325 560 000.00
RRAMS		2 681 000.00	2 552 000.00	2 552 000.00	2 693 000.00	2 849 000.00	10 646 000.00
Energy Efficiency and Demand Side Management			-		-	5 000 000.00	5 000 000.00
Equitable Share - Covid 19 Response Allocation				41 235 000.00			
		184 625 000.00	183 797 000.00	225 032 000.00	197 959 000.00	205 276 000.00	770 829 000.00

Tariffs and Service Charges

There are no adjustments proposed on the approved tariffs and service charges.

6. FINANCIAL RECOVERY: REVENUE ENHANCEMENT, DEBT MANAGEMENT, COST CONTAINMENT AND CASH FLOW MANAGEMENT PLAN.

REVENUE RAISING STRATEGIES

The drive as reintroduced since June 2018 and has been on going ever since, as a joint initiative between all departments. The municipality engaged the Development Bank of Southern Africa as a strategic partner to fund the revenue enhancement and collection strategy. The main purpose and principal strategic objective of the joint effort is to sustain and re-engineer the processes of revenue raising, improve customer relations, collection, and effective debt management to address and reduce the risk of financial distress. The project has since been completed and the close out report has been signed between the partners. The next stage of the project which is the roll out the entire District.

The focus areas and key deliverables for the project were:

a. Effective communication and Customer Care

- Creating a sound and effective communication strategy for our customers.
- Enhance levels of customer care and increase responsiveness in addressing billing and other service delivery queries
- Improve efficiency at our customer contact points and
- Improve accessibility of customer access points
- Improve and intensify the indigent customer registration drive

b. Meter reading which involves

- Improve capacity of human capital to improve efficiency and accuracy,
- Effective management of meter readers,
- Improve data collection and data integrity.
- Identification and verification of meters.
- Meter location
- Meter replacements
- GIS Integration with the billing system.

c. Billing

- Correct customer information / details
- Ensure accuracy of billing,
- Timeous posting of statements

The consumption patterns observed during the 2018 /2019 adjustment budget per consumption category are expected to remain the same if not reduce, except for the more than 60 kl per month consumption category, which is recommended that its increased by a limited 15% resulting from the identification of new meters and including consumers on the ground but not on the debtors book. The increase of 15% is not anticipated to increase cost of bulk purchase as the customers are already receiving the service but are not billed for it.

Another strategic partner which is uMngeni Water has pledged assistance to the municipality in a form of a fixing all leaks and change of meters in the Mpophomeni area. This will reduce unaccounted for water and reduce non revenue water as the meters will be replaced and or repairs for effective and correct billing which result in reliable billing information.

REVENUE COLLECTION STRATEGIES – DEBT MANAGEMENT

The 2020 /2021 original budget assumption is that the Municipality will collect 40 % of its raised bills. The implementation of a revised revenue collection strategy which amongst other involves restrictions and disconnections is expected to yield a minimum collection rate of about 61 % in the first 2 months of the 2020 /2021 financial year.

With the implementation of the revenue raising strategies, the municipality anticipates increasing the quantity and quality of bills. The approved water and sanitation revenue budget translates to an internal revenue, but the impact of that increased revenue is being eroded by the historic increase in expenditure and delay in payments which lead to the Municipality closing off the 2019 /2020 financial year with elevated creditors. As part of the financial recovery, the municipality has considered to not revise this assumption up.

Previously, the municipality implemented a debt amnesty drive in efforts to encourage customers to pay and settle their bills and the project did bear fruit during the effective period. A need to re-introduce the debt amnesty drive has been identified, with an extension as a prerequisite that customers verify their information and be linked to a billable meter.

The municipality introduced the meter restrictions, disconnections, and meter verification during the month of July 2020 and the municipality collected

REVENUE COLLECTION PLANNED APPROACH

The municipality has established a Revenue Enhancement and Collections Committee with a specific purpose to look into and address the financial and institutional challenges faced by the municipality contributing to reduced collection rate. The Committee is constituted by members of staff from the following sections /departments:

- a. Community Services including Planning and GIS
- b. Technical Services
- c. Financial Services
- d. Municipal Manager's Office including Water Services Authority and Intergovernmental Relations.

The committee has identified challenges contributing to the reduced revenue collection and have divided a tackling strategy into three (3) phases which are:

- Short term phase which concentrates on collection from Government, Organs of State and Businesses.
- Medium term which concentrates on stabilizing and improving the billing system, improving the quality of billing data and customer care and indigent support.
- Long term phase which involves data cleansing, meter replacements and policy changes. This phase involves re verification of customers, changes to policies such as the account holder will be in the name of the property owner, flats to have bulk meters and body corporate responsible for individualized collections and the revitalization of the indigent support applications process etc.

COST CONTAINMENT MEASURES.

The municipality has committed to reducing its unnecessary operational expenditure, concentrate of core business expenditure, limit or stagger and prioritize filling of posts to those that affect statutory compliances. Further, as part of cost containment measures, the municipality is

reviewing all its contracts with an effort to reduce unnecessary services within the contract. As part of cost containment measures, and consideration that water and sanitation the core business, where minor repairs to the meter and or reticulation are identified, they are fixed on the spot to reduce unaccounted for water and eventually reduce the cost of bulk water purchase.

The following are expenditure items that are regarded as non – essentials for the municipality and should be cut:

- a) Interest charged on invoices. This line item is regarded as fruitless and wasteful. Members of staff are to take necessary care with relation to payments to suppliers and strive not to delay payments. This line expenditure, where possible must be recovered from the responsible individual if there were no valid reasons for delaying payment.
- b) Legal Costs. Resources from other organs of state must be utilized prior to the use of private legal firms.
- c) Use of council vehicles. This expenditure item should be strictly used for municipal business and business trips.
- d) Insurance Top up costs / excess. A task team to be established to follow up on all insurance claims. Where negligence can be proven, the excess fee must be recovered from the responsible individual.
- e) Stationery including print paper. As much as possible the Heads of departments must devise a strategy to control stationery, where working paperless is possible, it must be adopted.
- f) Travelling – Domestic. Unless trips are funded by the hosting department or company, and where travelling does not involve improvement improved efficiency of the individual such as changes to law or standards, travelling is not recommended.
- g) Travelling – International. This item of expenditure is not recommended unless with the discretion of Council, International trips can be approved by Council with specific special circumstances.
- h) Catering for meetings – Outside Stakeholders. Unless meetings started before 07h00 or travelling for a meeting was before 06h00, catering for other meetings will be discontinued. Meetings are recommended to be held between 08h00 -13 h00 and 14h00 – 16h 30.
- i) Catering – Municipal Meetings. This has been cancelled and will remain not available. Meetings are recommended to be held between 08h00 – 13h 00 and 14h00 – 16h30 to allow staff members to attend to their lunch.
- j) Telephones. All telephone lines are to be limited to R 200 per month and any increases required to be motivated to the Municipal Manager and cannot be more than R 500 for the month. The following land lines will have telephone limits of R 500 per month:
 - Executive Managers
 - Supply Chain Department
 - Debt Collection and Credit Control
 - Free Basic Services Department

Adopt cost containment measures in compliance to Circular 82

6. FINANCIAL IMPLICATIONS AND COMMENTS

The revised budget revenue estimates is increased by **2%** while operating expenditure increases by **8%** when compared to the 2020/21 normal adjusted budget as adopted by Council.

7. LEGAL IMPLICATIONS AND COMMENTS

The Mayor of the municipality is required in terms of Sec 28 (4) of the MFMA to table the draft adjustment budget to Council.

COMMENTS OF THE BUDGET STEERING COMMITTEE

At the meeting of the Budget Steering Committee held on 18 February 2020, it was proposed that the following items be looked at:

- **Community Services budget**
- **Organogram review**
- **Contracted employees**
- **Parking at 176**

COMMENTS OF THE FINANCE PORTFOLIO COMMITTEE

At the meeting of the Finance Portfolio Committee held on 18 February 2020, the Finance Portfolio Committee supported the recommendations to the Executive Committee.

COMMENTS OF THE EXECUTIVE COMMITTEE

At the meeting of the Executive Committee meeting held on 22 October 2021, the Committee requested that the following be incorporated as part of the recommendation to Full Council.

- How the data cleansing will be dealt with.
- The revenue enhancement strategy stating the timeframes.
- Contracted Services
- How can the short comings be dealt with?
- The Plan on how the issue of creditors will be resolved.
- How to make sure that by the fourth quarter the Grants spending will be almost 100%

8. RECOMMENDATIONS

It is recommended that the Executive Committee recommends to Council **THAT:**

1. Council considers the proposed special adjustment budget estimates for the 2020/21 MTREF period as follows:
 - a) The proposed budget funding of **R1 216 652 586** be approved to be funded from the following:

Operating Revenue	R1032 855 586
Grant Funding	R 183 797 000
 - b) The proposed expenditure appropriations of **R1 157 424 055** be approved and be allocated as follows:

Operating Expenditure	R932 392 055
Capital Programme	R225 032 000

- c) The capital expenditure programme of **R225 032 000** be approved and funded from the following sources:

MIG	R101 245 000
WSIG	R 80 000 000
RRAMS	R 2 552 000
COVID 19 RESPONSE	R 41 235 000

- d) The funding allocation for UMEDA be approved at R6 500 000 for the 2020/21 financial year;

- e) The tariff charges for water and sanitation will remain as adopted by Council in the original budget;

2. The approved special adjustment budget estimates be made public in the manner envisaged by Chapter 4 of the Local Government: Municipal Systems Act;
3. The Accounting Officer submit the special adjustment budget as well as all supporting schedules and documentation as required by Sec 17(3) of the MFMA to both the Provincial and National Treasuries.

Authored by:

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Approved By:

Dr. RMB Ngcobo
MUNICIPAL MANAGER