

# MEDIUM TERM EXPENDITURE AND REVENUE BUDGET REPORT 2019/2020



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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 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 continue with our 5-year Integrated Development Plan, we plan to implement and institutionalise the following:

Our budget for the 2019/2020 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 2019/20 medium term expenditure framework, consisting of a **R1.121 Billion** 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 water losses. The municipality together with stakeholders such as the Department of Water Affairs & Sanitation and 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.

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 services, 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 and 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 provide relief.

The past six financial year record speaks volumes. The municipality continues with the record of acquiring clean audits and practicing sound financial management. This was made possible by the past Political Leadership, Administration and staff that led diligently, transparent, with honour and accountability.

The Mandela Day Marathon which is the champion programme of the district, has grown in leaps & bounds over the year with 2018 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

Operating income is projected to increase by **23%**. The change in operating income is mainly boosted by an increase of **52%** in service charges with the continued phasing in of the cost reflective tariff structure. This has significantly influenced the sustenance of income even though there has been a significant reduction in other funding sources of the budget such as the reduction in financial management grant by R250 000 with national treasury phasing out the grant.

Of the operating revenue, **34%** will be funded from service charges which is an increase from 26% in 2017/2018. This shows a shift in grant dependency with grants contributing **66%** of operating income from 74% as per adjusted budget 2018/19.

The operating expenditure proposed is **R913.304 Million** which reflects an increase of **13.8%** from the adjusted budget 2018/2019. Capital expenditure is set to decrease by **10.0%** in the 2019/20 budget and no borrowings will be utilised to finance the capital investment programme. A total of **16.8%** of the budget will be spent on the capital investment programme which is a proposition in line with the treasury guide of at least 10%-20% of capital expenditure to total expenditure.

## TABLE 1: CONSOLIDATED BUDGET ESTIMATES: 2019/20 MTREF PERIOD

DC22 uMgungundlovu - Table A1 Consolidated Budget Summar

Description	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>R thousands</b>										
<b>Financial Performance</b>										
Property rates	-	-	-	-	-	-	-	-	-	-
Service charges	125 457	177 003	215 505	306 911	213 768	196 388	196 388	372 228	450 791	545 996
Investment revenue	17 019	3 802	242	2 500	600	4 000	4 000	500	528	557
Transfers recognised - operational	446 162	433 487	487 371	489 729	512 279	465 297	465 297	556 568	585 208	628 980
Other own revenue	21 600	36 266	27 995	25 400	34 796	5 250	5 250	6 791	10 153	12 471
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>610 239</b>	<b>650 558</b>	<b>731 114</b>	<b>824 540</b>	<b>761 443</b>	<b>670 935</b>	<b>670 935</b>	<b>936 086</b>	<b>1 046 680</b>	<b>1 188 003</b>
Employee costs	181 328	208 700	193 836	250 246	269 246	221 547	221 547	283 677	299 279	315 739
Remuneration of councillors	10 937	10 958	9 740	12 479	12 266	12 266	12 266	12 941	13 653	14 404
Depreciation & asset impairment	55 713	40 172	19 942	51 000	35 000	36 713	36 713	42 500	44 838	47 304
Finance charges	10 253	35 321	15 987	22 609	27 546	23 419	23 419	27 550	27 550	27 550
Materials and bulk purchases	106 637	132 358	132 372	139 150	139 150	121 234	121 234	142 500	150 338	158 606
Transfers and grants	-	-	-	4 000	6 300	-	-	5 084	6 500	7 000
Other expenditure	283 263	390 261	221 942	326 633	313 344	327 986	327 986	399 052	429 880	484 257
<b>Total Expenditure</b>	<b>648 132</b>	<b>817 770</b>	<b>593 818</b>	<b>806 117</b>	<b>802 852</b>	<b>743 166</b>	<b>743 166</b>	<b>913 304</b>	<b>972 037</b>	<b>1 054 860</b>
<b>Surplus/(Deficit)</b>	<b>(37 893)</b>	<b>(167 212)</b>	<b>137 295</b>	<b>18 423</b>	<b>(41 409)</b>	<b>(72 231)</b>	<b>(72 231)</b>	<b>22 782</b>	<b>74 643</b>	<b>133 143</b>
Transfers and subsidies - capital (monetary allocations)	270 672	108 740	67 607	205 059	205 059	166 766	166 766	184 625	200 631	214 204
Contributions recognised - capital & contributed assets	-	-	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>232 779</b>	<b>(58 472)</b>	<b>204 903</b>	<b>223 482</b>	<b>163 650</b>	<b>94 535</b>	<b>94 535</b>	<b>207 407</b>	<b>275 274</b>	<b>347 347</b>
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) for the year</b>	<b>232 779</b>	<b>(58 472)</b>	<b>204 903</b>	<b>223 482</b>	<b>163 650</b>	<b>94 535</b>	<b>94 535</b>	<b>207 407</b>	<b>275 274</b>	<b>347 347</b>
<b>Capital expenditure &amp; funds sources</b>										
<b>Capital expenditure</b>	<b>270 672</b>	<b>152 696</b>	<b>-</b>	<b>205 059</b>	<b>205 059</b>	<b>205 059</b>	<b>213 716</b>	<b>184 625</b>	<b>200 631</b>	<b>214 204</b>
Transfers recognised - capital	270 672	152 696	-	205 059	205 059	205 059	166 766	184 625	200 631	214 204
Public contributions & donations	-	-	-	-	-	-	-	-	-	-
Borrowing	-	-	-	-	-	-	-	-	-	-
Internally generated funds	-	-	-	-	-	-	-	-	-	-
<b>Total sources of capital funds</b>	<b>270 672</b>	<b>152 696</b>	<b>-</b>	<b>205 059</b>	<b>205 059</b>	<b>205 059</b>	<b>166 766</b>	<b>184 625</b>	<b>200 631</b>	<b>214 204</b>
<b>Financial position</b>										
Total current assets	557 978	90 506	233 482	441 299	513 158	513 158	483 158	441 110	606 045	639 378
Total non current assets	1 117 853	1 254 663	(1 031)	1 480 145	1 516 029	1 516 029	1 516 029	1 480 145	1 695 392	1 922 722
Total current liabilities	277 044	154 013	(302)	61 926	28 711	28 711	28 711	61 926	37 317	38 719
Total non current liabilities	128 854	210 700	-	206 767	206 488	206 488	206 488	206 767	182 667	159 005
Community wealth/Equity	1 269 933	184 085	-	1 841 403	1 793 987	1 793 987	1 793 987	1 841 403	2 111 453	2 394 376
<b>Cash flows</b>										
Net cash from (used) operating	230 519	115 806	-	225 347	74 239	74 239	74 239	193 167	204 602	198 026
Net cash from (used) investing	(290 479)	(215 700)	(215 700)	(213 716)	(159 066)	(159 066)	(159 066)	(207 528)	(218 942)	(230 984)
Net cash from (used) financing	75 977	15 426	-	(23 019)	(8 634)	(8 634)	(8 634)	(8 580)	(9 052)	(9 550)
<b>Cash/cash equivalents at the year end</b>	<b>178 512</b>	<b>94 043</b>	<b>(215 700)</b>	<b>167 123</b>	<b>582</b>	<b>582</b>	<b>582</b>	<b>(22 360)</b>	<b>(45 752)</b>	<b>(88 260)</b>
<b>Cash backing/surplus reconciliation</b>										
Cash and investments available	178 511	(50 227)	102 218	(46 778)	96 661	96 661	66 661	(46 778)	91 117	95 922
Application of cash and investments	21 283	78 315	-	(194 766)	(218 312)	(273 298)	(273 298)	(229 087)	(230 534)	(190 838)
<b>Balance - surplus (shortfall)</b>	<b>157 228</b>	<b>(128 542)</b>	<b>102 218</b>	<b>147 988</b>	<b>314 972</b>	<b>369 958</b>	<b>339 958</b>	<b>182 309</b>	<b>321 651</b>	<b>286 760</b>
<b>Asset management</b>										
Asset register summary (WDV)	1 117 175	1 254 580	-	1 476 395	1 475 080	1 475 200	-	1 476 395	1 691 642	1 918 972
Depreciation	55 713	61 522	-	51 000	36 713	36 713	-	51 000	53 805	56 764
Renewal of Existing Assets	-	-	-	202 528	-	-	-	202 528	211 944	223 845
Repairs and Maintenance	-	-	-	-	-	-	-	-	-	-
<b>Free services</b>										
Cost of Free Basic Services provided	-	-	-	-	-	-	-	-	-	-
Revenue cost of free services provided	-	-	-	-	-	-	-	-	-	-
<b>Households below minimum service level</b>										
Water:	-	-	-	-	-	-	-	-	-	-
Sanitation/sewerage:	-	-	-	-	-	-	-	-	-	-
Energy:	-	-	-	-	-	-	-	-	-	-
Refuse:	-	-	-	-	-	-	-	-	-	-

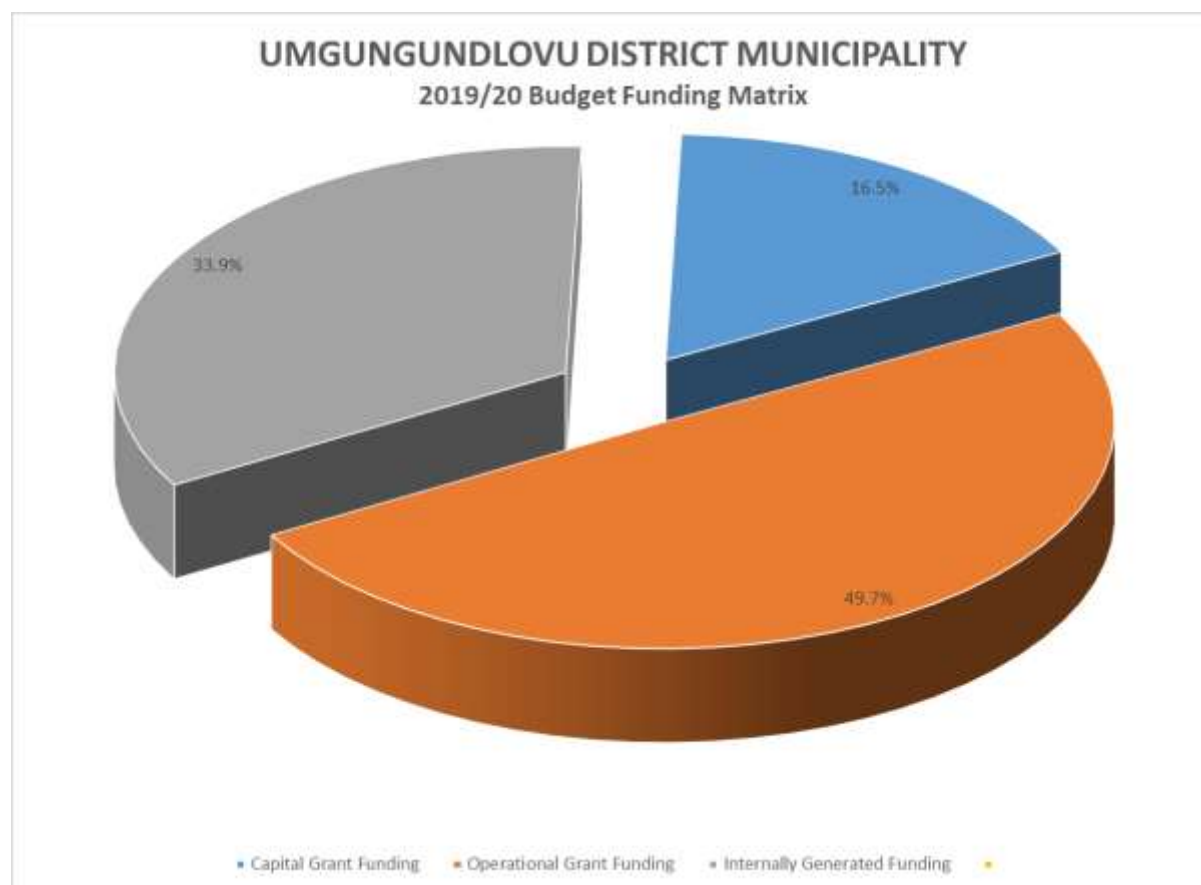
Summarily the budget can be reconciled as reflected in the below table. It must be noted that Council has in the prior years utilised reserves to fast track implementation of the capital investment programme.

The proposed budget has limited capital expenditure to **R184.625 Million** of which **100%** of capital expenditure will be funded from grants. The projection beyond 2019/20 if the cost reflective tariff increase would be a net cash position of R74 million and R118 million provided the operating costs are maintained with only CPI increases and capital expenditure being maintained within grant allocations.

**TABLE 2: EXECUTIVE SUMMARY BUDGET ESTIMATES**

<b>BUDGET ESTIMATES FOR THE 2019/20 TO 2021/22 MTREF PERIOD</b>						
	<b>2018/19 MTREF</b>		<b>2019/20 MTREF</b>			
	<u>Original Budget</u>	<u>Adjustment Budget</u>	<u>Budget 2019/20</u>	<u>Budget 2020/21</u>	<u>Budget 2021/22</u>	
Operating Revenue	824 540 000	761 442 608	936 086 078	1 046 679 982	1 173 192 915	
Operating Expenditure	806 117 000	802 851 685	913 303 867	972 036 509	1 054 859 690	
<b>Operating Surplus / (Deficit)</b>	<b>18 423 000</b>	<b>(41 409 077)</b>	<b>22 782 211</b>	<b>74 643 473</b>	<b>118 333 226</b>	
Capital Transfers Recognized	205 059 000	205 059 000	184 625 000	200 631 000	214 204 000	
Surplus / (Deficit) for the year	<b>223 482 000</b>	<b>163 649 923</b>	<b>207 407 211</b>	<b>275 274 473</b>	<b>332 537 226</b>	
<b>Capital Funding</b>	<b>205 059 000</b>	<b>205 059 000</b>	<b>184 625 000</b>	<b>200 631 000</b>	<b>214 204 000</b>	
Capital Transfers	205 059 000	205 059 000	184 625 000	200 631 000	214 204 000	
Reserves	-	-	-	-	-	
LESS: Capital Expenditure	205 059 000	205 059 000	184 625 000	200 631 000	214 204 000	
<b>Budget Cash Surplus</b>	<b>18 423 000</b>	<b>(41 409 077)</b>	<b>22 782 211</b>	<b>74 643 473</b>	<b>118 333 226</b>	
ADD: Non-Cash Items	148 543 757	92 192 000	150 089 069	173 728 968	209 844 061	
<b>Net Budget Cash Position</b>	<b>166 966 757</b>	<b>50 782 923</b>	<b>172 871 280</b>	<b>248 372 441</b>	<b>328 177 287</b>	

Below is an illustration of the funding elements to the budget which reflects 66.1% contribution from grants and 33.9% from internally generated funding.



### 3. BUDGET ASSUMPTIONS

The Municipality concluded that the following assumptions be made when compiling the Budget Estimates for the 2019/2020 MTREF period:

1. At least a 65% collection rate will be maintained for the water and sanitation billings;
2. The salaries budget increase to be limited to recruitment of operations and maintenance staff and revenue staff to aid in the improvement in service and collection;
3. Increase in staff salaries of 7,5% estimated based on the negotiations at hand;
4. Councillors allowances budget be adjusted with 5.5% to allow for a cost of living adjustment;
5. The operational expenditure budget will limit and minimise increases due to cost cutting measures and only expenditure items critical to service delivery will be provided for;
6. Contracts to be reviewed to ensure efficiency of services and costs;
7. Funding for capital programme to be limited to grants as there are no reserves to fund capital expenditure;
8. The SDBIP targets with financial implications to be deferred to after first quarter to relieve pressure on the budget and also measure performance against the first quarter before expenditure is engaged.
9. 21% increase in bulk water cost from uMgeni Water.
10. Projected 7.2% increase in electricity charges.
11. No increases in the number of water tankers to be hired.

Other factors that have been considered in the preparation of the budget are:

- The slow economic growth conditions,
- Aged infrastructure and the lack of resources to replace and maintain the infrastructure.

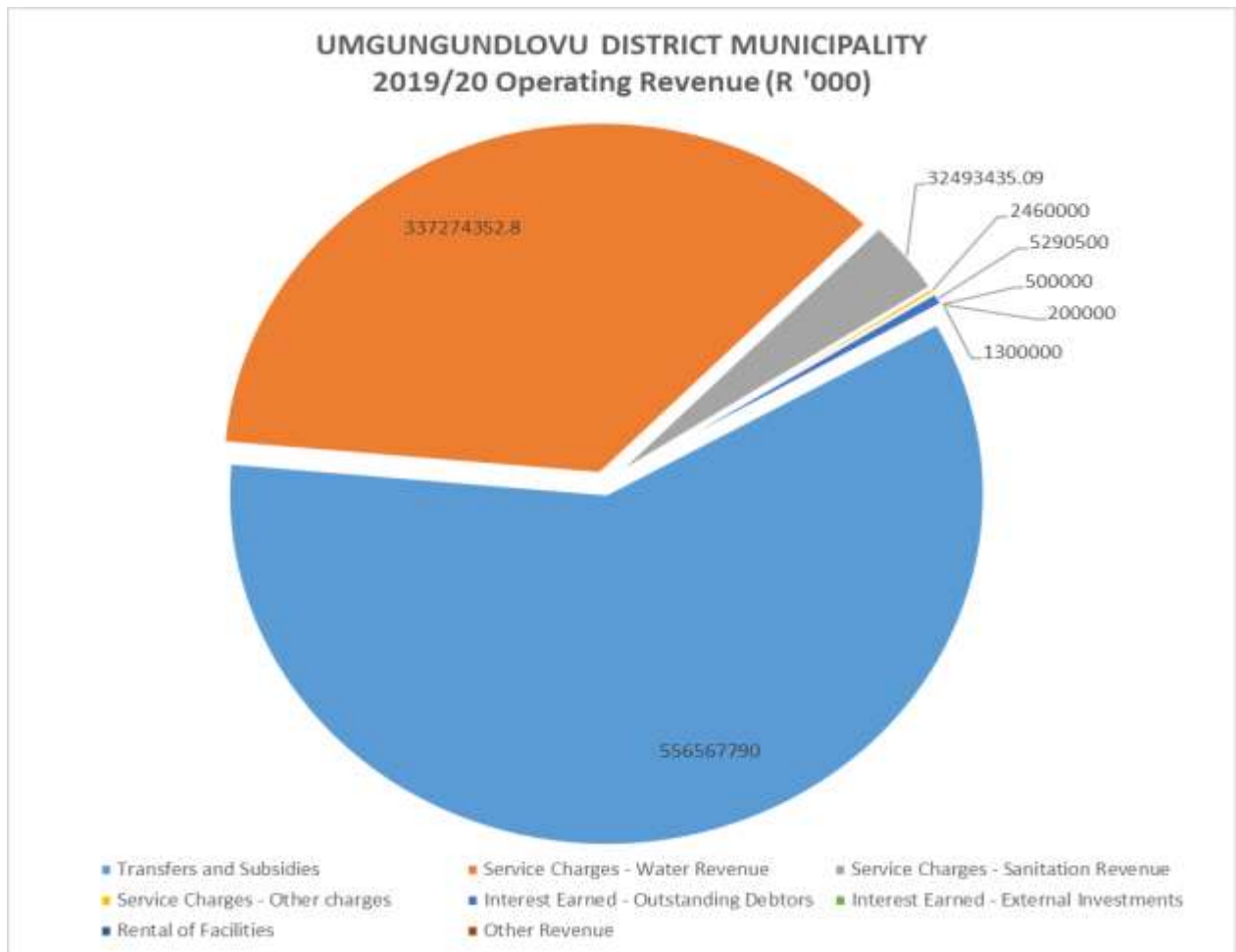
### 4. OPERATING REVENUE FRAMEWORK

The total operating revenue for the 2019/20 financial year is estimated to be **R936.086 Million** as reflected in Table 3. Internally generated revenue is expected to provide **40.5%** of operating revenue (2018/19: **40%**) with service charges representing **39.8%** of operating income. Equitable share and RSC levy replacement grant and other operating grants will contribute **59.5%** of total operating revenue (2018/19: **60%**). Other income is derived from investment income, interest on late payments, other service charges and other revenue as reflected in Table 3.

### TABLE 3: OPERATING REVENUE ESTIMATES

DC22 uMgungundlovu - Table A4 Consolidated Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
					Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome
<b>Revenue By Source</b>											
Property rates	2	-	-	-	-	-	-	-	-	-	-
Service charges - electricity revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - water revenue	2	112 952	156 195	192 083	284 070	188 911	174 001	174 001	337 274	408 810	495 519
Service charges - sanitation revenue	2	11 699	20 808	23 422	22 841	24 857	19 099	19 099	32 493	39 385	47 739
Service charges - refuse revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - other	2	806	-	-	-	-	3 289	3 289	2 460	2 595	2 738
Rental of facilities and equipment	2	202	246	246	150	186	250	250	200	211	223
Interest earned - external investments	2	17 019	3 802	242	2 500	600	4 000	4 000	500	528	557
Interest earned - outstanding debtors	2	18 153	30 072	26 982	10 000	33 090	5 000	5 000	5 291	8 571	10 801
Dividends received	2	-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits	2	-	4 960	-	-	-	-	-	-	-	-
Licences and permits	2	-	-	-	-	-	-	-	-	-	-
Agency services	2	-	-	-	-	-	-	-	-	-	-
Transfers and subsidies	2	446 162	433 487	487 371	489 729	512 279	465 297	465 297	556 568	585 208	628 980
Other revenue	2	3 246	988	767	15 250	1 520	-	-	1 300	1 372	1 447
Gains on disposal of PPE	2	-	-	-	-	-	-	-	-	-	-
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>610 239</b>	<b>650 558</b>	<b>731 114</b>	<b>824 540</b>	<b>761 443</b>	<b>670 935</b>	<b>670 935</b>	<b>936 086</b>	<b>1 046 680</b>	<b>1 188 003</b>





The municipality is in the process of implementing cost reflective tariffs for its services and strives to uplift its operations from being grant reliant to be self-funding and self-reliant.

It is prudent budgeting and financial practise to charge a cost reflective tariff for a service rendered in order to be able to recover the costs of providing the service, taking into account the all costs incurred such as the cost of bulk services, cost of asset renewal & replacement, to allow for the growth of the service and a tariff that promotes conservative consumption.

As part of the revenue enhancement strategy, the Municipality had to revisit its tariff structure and propose the phasing in of a cost reflective tariff. It is not possible to implement cost reflective tariff charges immediately as this would mean increases of as much as 69.5% and this was deemed not to be practical at the moment. We have considered the following scenarios in determining the most equitable increase in the service tariffs:

**SCENARIO 0 :** Retain the tariffs as proposed and compare to cost reflective tariffs

**SCENARIO 1 :** Increase the approved 2018/19 tariff by 5.2% and maintain the projected sales volumes

**SCENARIO 2 :** Increase the approved 2018/19 tariff by 5.2% and increase volumes by 15%

**SCENARIO 3 :** Keep the proposed tariff increase, revise the volumes and move towards cost reflective tariffs

After modelling all the scenarios and considering the effects on the budget and sustainability of the services rendered, the following scenario was recommended and the most equitable and sustainable over the MTREF period:

**RECOMMENDED  
SCENARIO :**

**Keep the proposed tariff increase, revise the volumes and move towards cost reflective tariffs**

When modelled, this scenario has the following effect on the budget over the MTEREF period:

<b>RECOMMENDED SCENARIO : Keep the proposed tariff increase, revise the volumes and move towards cost reflective tariffs</b>							
	Band	Approved	Proposed	Volumes	Sales Revenue		
		2018/2019	2019/2020		2019/20	2020/21	2021/22
Household	0 - 6	11.37	13.08	329 029	4 302 219	5 214 719	6 320 761
	7 - 15	21.78	25.26	958 614	24 219 191	29 356 081	35 582 506
	16 - 25	25.81	30.20	905 592	27 346 796	33 147 051	40 177 540
	26 - 35	35.53	41.93	383 059	16 059 902	19 466 207	23 594 989
	36 - 60	49.01	58.81	469 243	27 597 119	33 450 468	40 545 313
	60 +	59.74	72.29	1 206 610	87 220 286	105 719 709	128 142 860
					<b>186 745 513</b>	<b>226 354 236</b>	<b>274 363 970</b>
	Avg Selling Price	33.87	40.26				
			6.39				
			18.85%				
Business	0 - 999999	29.62	35.84	4 200 000	150 528 840	182 456 007	221 154 926
	<b>TOTAL WATER SERVICE CHARGES</b>				<b>337 274 353</b>	<b>408 810 243</b>	<b>495 518 896</b>
	Band	Approved	Proposed	Volumes	Sales Revenue		
		2018/2019	2019/2020		2019/20	2020/21	2021/22
Sanitation	0 - 6	6.39	7.35	29 721	218 404.77	264 728	320 877
	7 - 15	11.35	13.17	498 281	6 560 367.65	7 951 822	9 638 403
	16 - 25	14.55	17.02	385 975	6 570 645.41	7 964 279	9 653 503
	26+	18.18	21.45	639 938	13 728 205.95	16 639 958	20 169 294
					<b>27 077 624</b>	<b>32 820 788</b>	<b>39 782 077</b>
Business	0 - 999999	25.81	15.17	356 928	5 415 811	6 564 505	7 956 836
	<b>TOTAL SANITATION SERVICE CHARGES</b>				<b>32 493 435</b>	<b>39 385 293</b>	<b>47 738 913</b>
	<b>TOTAL WATER AND SANITATION REVENUE</b>				<b>369 767 788</b>	<b>448 195 536</b>	<b>543 257 809</b>

The tariff increases are structured such that they promote conservative consumption, taking into account the affordability of the service to our indigent and poor households also taking into account the sustainability of the service.

The introduction of a tariff that promotes conservation and conservative methods will assist in response to the prevailing drought calamity that the country is facing. The proposed increase on the tariff structure, is based on the inclining block tariff model, which suggests steeper tariffs being charged for high consumption.

The proposed tariff structure is as follows:

**TABLE 4. PROPOSED WATER TARIFF INCREASES, DOMESTIC AND BUSINESS**

UMGUNGUNDLOVU DISTRICT MUNICIPALITY TARIFF STRUCTURE 2019/2020						
<u>Water Supply Tariffs</u>						
<u>Household/Domestic</u>						
	2018/2019	2019/2020	Consumption	Rand Value 2019/2020	Percentage	
0 - 6	11.37	13.08	329 029	4 302 218.69	15%	
7 - 15	21.78	25.26	958 614	24 219 190.99	16%	
16 - 25	25.81	30.20	905 592	27 346 795.54	17%	
26 - 35	35.53	41.93	383 059	16 059 901.80	18%	
36 - 60	49.01	58.81	469 243	27 597 119.32	20%	
60 +	59.74	72.29	1 206 610	87 220 286.49	21%	
				<b>186 745 512.82</b>		
Basic charge	33.42	38.433	31 292	14 431 745.23	15%	
Flat rate	209.4	240.81	3 952	11 420 173.44	15%	
<u>Business /Commercial</u>	2018/2019	2019/2020		Rand Value 2019/2020		
0 - 999999	29.62	35.84	4 200 000	150 528 840.00	21%	
<u>Builder/Construction Sites</u>	53.53			-		
<u>NGO's (Public benefit)</u>	14.09	16.2035	41 292	669 074.92	15%	
<u>WSA</u>	Bulk Cost per kl plus admin fee	Bulk Cost per kl plus admin fee		-		
Basic charge	55.83	64.2	1 569	1 208 757.60	15%	
<b>Total Water</b>		Total Water Billing Revenue	8 526 300	<b>365 004 104.02</b>		
		LESS: Revenue Foregone		0.00		
		Toat Water Service Charges		<b>365 004 104.02</b>		

**TABLE 5. PROPOSED SANITATION TARIFF INCREASES, DOMESTIC AND BUSINESS**

<u>Sewerage Tariff</u>						
						Sewer
<b>Household/Domestic</b>						
		<b>2018/2019</b>		<b>2019/2020</b>	<b>Consumption</b>	<b>Rand Value 2019/2020</b>
0 - 6		6.39		7.35	29 721	218 404.77
7 - 15		11.35		13.17	498 281	6 560 367.65
16 - 25		14.55		17.02	385 975	6 570 645.41
26+		18.18		21.45	639 938	13 728 205.95
						<b>27 077 623.78</b>
<b>Business /Commercial</b>						
		<b>2018/2019</b>		<b>2019/2020</b>	<b>Consumption</b>	<b>Rand Value 2019/2020</b>
0 - 999999999		12.54		15.17	356 928	5 415 811.32
NGO's (public benefit)		5.66				
						<b>5 415 811.32</b>
<b>Total Sanitation</b>					1 553 915	<b>34 953 435.09</b>
Total Water and sanitation						<b>399 957 539.11</b>
<b>Disposal at waste water treatment plant</b>						
		<b>2018/2019</b>		<b>2019/2020</b>	<b>Rand Value 2019/2020</b>	
0 - 999999999		7.13		8.20	2 460 000.00	

As can be seen, from Table 4 and 5, the more conservative the consumption, the lesser the proposed tariff. The lowest average increase is 15% which takes into account cost recovery while ensuring a minimum increase as possible while promoting conservative consumption. The tariff charged to high domestic users as well as the business tariff is proposed to increase by 21%. The Non Profit Organisations will benefit from the increase equivalent to the low consumption customers which is 15%.

## 5. OPERATING EXPENDITURE FRAMEWORK

The total operational expenditure budget is proposed at **R913.304 Million**. This represents an increase of 71.2% from the 2018/19 operational expenditure adjusted budget. The allocation for each department is allocated as 61.2% to technical services, 17.8% to Community Services and Economic Development and Planning, 9.8% to Corporate Services, 5.5% to Financial Services and 5.8% towards the Municipal Managers office.

The core business for the municipality is to provide sustainable and quality drinking water and decent sanitation services. This is evident on the allocation of funds to the Technical Services Department. The demands for expenditure far exceeded the available resources and the

departments are to exercise cost containment within existing contracts to ensure sustainability. The cost containment measures are to ensure that the municipality tables a funded budget and equally one that is focused on the core business of the municipality.

DC22 uMgungundlovu - Table A4 Consolidated Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>Expenditure By Type</b>											
Employee related costs	2	181 328	208 700	193 836	250 246	269 246	221 547	221 547	283 677	299 279	315 739
Remuneration of councillors		10 937	10 958	9 740	12 479	12 266	12 266	12 266	12 941	13 653	14 404
Debt impairment	3	50 253	139 702	-	97 544	57 192	78 998	78 998	107 589	128 891	162 540
Depreciation & asset impairment	2	55 713	40 172	19 942	51 000	35 000	36 713	36 713	42 500	44 838	47 304
Finance charges		10 253	35 321	15 987	22 609	27 546	23 419	23 419	27 550	27 550	27 550
Bulk purchases	2	105 045	132 358	132 372	139 150	139 150	121 234	121 234	142 500	150 338	158 606
Other materials	8	1 593	-	-	-	-	-	-	-	-	-
Contracted services		172 603	202 607	190 030	165 300	180 447	177 773	177 773	204 857	211 967	215 165
Transfers and subsidies		-	-	-	4 000	6 300	-	-	5 084	6 500	7 000
Other expenditure	4, 5	60 347	47 952	31 912	63 790	75 704	71 215	71 215	86 607	89 021	106 552
Loss on disposal of PPE		60	-	-	-	-	-	-	-	-	-
<b>Total Expenditure</b>		<b>648 132</b>	<b>817 770</b>	<b>593 818</b>	<b>806 117</b>	<b>802 852</b>	<b>743 166</b>	<b>743 166</b>	<b>913 304</b>	<b>972 037</b>	<b>1 054 860</b>

Overall, the operational budget increased by 71.2% from the 2018/19 adjustment budget, a rate which is above the inflation rate due to the increase on some items above the 6.1% CPI projection such as salaries at 7.5% and the repayment of R 22 million interest due for servicing the DBSA Loan, bulk water purchases at 21% and general operational and maintenance costs. The proposed budget also addresses anomalies which were not considered when the adjustment budget was prepared.

The main expenditure categories for the operational expenditure budget are Employee costs & councilor remuneration taking an allocation of 32.5%, followed by contracted services at 22.4%, bulk water purchases at 15.6% then provision for doubtful debt and impairment at 11.8%. These costs collectively represent **82.3%** of total operational expenditure budget. The Municipality is exploring other avenues on reducing its contracted services in efforts to reduce unnecessary and over provision of some services which may lead to wastages.

### **Contracted services & operations and maintenance**

The contracted services will make up **22.4%** of the operating expenditure budget which is above the norm as set by treasury of at least 5%, however is reduced from the prior year figure of 27% contribution.

In the prior year contracted services represented 27% of the budget and this is mainly because of the nature of services provided by the district. If contracted services were converted to employee costs it would equally increase the employee costs threshold above the norm of 25%-40%.

### **Salaries and Councilors allowances**

Salaries are at **31%** of the operational budget, combined with Councilor remuneration, the salaries budget is at **32.48%** which is within the norm of 25%-40% of salaries to total operating expenditure. The salaries budget will make way for the employment of staff within Technical Services operational and maintenance support and in the Revenue office to ensure that the water business is fully supported internally with capacity to respond to its basic requirements such as meter reading, restrictions and disconnections and further responding to burst pipes and water service emergencies.

The salaries budget is split as follows:

**TABLE 9: EMPLOYEE RELATED COSTS AND COUNCILOR ALLOWANCES**

	2019/20 MTREF		
	<u>Budget 2019/20</u>	<u>Budget 2020/21</u>	<u>Budget 2021/22</u>
COUNCILOR ALLOWANCES	12 941 083.65	13 652 843.25	14 403 749.63
OFFICE OF THE MUNICIPAL MANAGER	33 259 937.00	35 089 233.54	37 019 141.38
FINANCIAL SERVICES	41 905 566.00	44 210 372.13	46 641 942.60
CORPORATE SERVICES	24 670 192.00	26 027 052.56	27 458 540.45
TECHNICAL SERVICES	81 801 062.00	86 300 120.41	91 046 627.03
COMMUNITY SERVICES	102 040 071.00	107 652 274.91	113 573 150.02
	<b>296 617 911.65</b>	<b>312 931 896.79</b>	<b>330 143 151.11</b>

## **6. CAPITAL EXPENDITURE**

The commitment by the municipality to invest in the provision of quality services can be identified by the allocation of funds to the essential service – which is water provision.

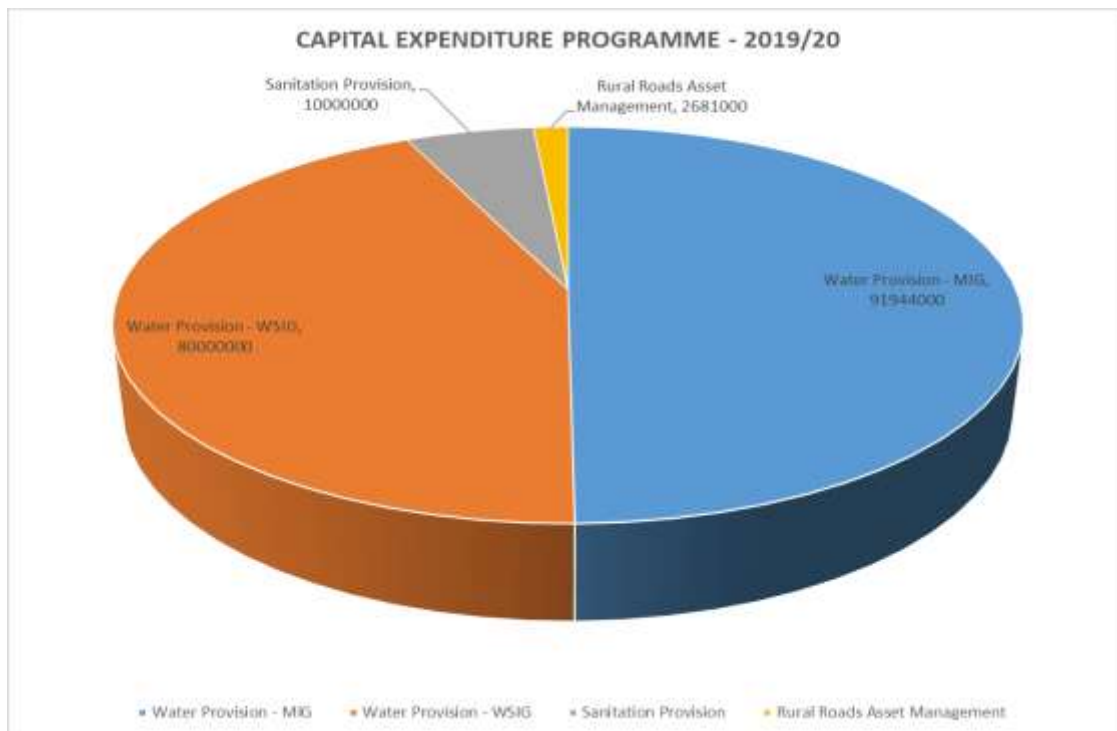
**93.1%** of the capital budget is directed to water infrastructure, **5.4%** towards sanitation, **1.5%** for rural road asset management system. The capital investment is responsive to the municipalities core functions.

**TABLE 10: CAPITAL EXPENDITURE PROGRAMME**

<u>Project Name</u>	<u>Funding Source</u>	2019/20 MTREF				<u>Total Allocation</u>	
		<u>Budget 2019/20</u>	<u>Budget 2020/21</u>	<u>Budget 2021/22</u>			
<b>CAPEX Summary</b>							
<b>Projects</b>							
Water Provision - MIG	MIG	91 944 000.00	91 944 000.00	78 487 522.00	262 375 522.00	49.8%	
Water Provision - WSIG	WSIG	80 000 000.00	90 000 000.00	95 000 000.00	265 000 000.00	43.3%	
Sanitation Provision	MIG	10 000 000.00	15 851 000.00	37 724 478.00	63 575 478.00	5.4%	
Rural Roads Asset Management	RRAMS	2 681 000.00	2 836 000.00	2 992 000.00	8 509 000.00	1.5%	
		<b>184 625 000.00</b>	<b>200 631 000.00</b>	<b>214 204 000.00</b>	<b>599 460 000.00</b>	<b>100.0%</b>	

The capital expenditure program is proposed to be allocated to the following projects over the 2019/20 MTREF period:

Project Name	Funding Source	2019/20 MTREF			
		Budget 2019/20	Budget 2020/21	Budget 2021/22	Total Allocation
<b>Water Provision</b>					
Nkanyezini Water	MIG	32 560 276.00	53 642 006.63		86 202 282.63
Manzamyama Water	MIG	34 383 724.00			34 383 724.00
Mpolweni, Thokozani, Claridge	MIG	5 000 000.00	38 301 993.37		43 301 993.37
Trust Feeds Phase 1	MIG	20 000 000.00			20 000 000.00
Gengeshe Water Supply Scheme	MIG			29 884 930.00	29 884 930.00
Upgrading of Mooi River bulk mains	MIG			5 440 513.00	5 440 513.00
Upgrading of Thendele Water supply scheme	MIG			13 923 000.00	13 923 000.00
Upgrading of Rosetta water supply	MIG			29 239 079.00	29 239 079.00
		<b>91 944 000.00</b>	<b>91 944 000.00</b>	<b>78 487 522.00</b>	<b>262 375 522.00</b>
<b>Water Provision</b>					
Nadi - Efaye Phase 2(uMshwathi Regional Bulk )	WSIG	41 878 808.80	22 180 000.00	22 500 000.00	86 558 808.80
Mtulwa & Mt. Alias Phase 3A (uMshwathi Regional Bulk )	WSIG	1 696 474.20			1 696 474.20
Nadi to Ekhamanzi Phase 3	WSIG	36 424 717.00	22 820 000.00	27 500 000.00	86 744 717.00
Montobello & Harburg			45 000 000.00	45 000 000.00	90 000 000.00
		<b>80 000 000.00</b>	<b>90 000 000.00</b>	<b>95 000 000.00</b>	<b>265 000 000.00</b>
<b>Sanitation Provision</b>					
uMshwath VIP Backlog Toilets	MIG	2 000 000.00	2 600 000.00	4 920 000.00	9 520 000.00
Impendle VIP Backlog Toilets	MIG	1 000 000.00	2 600 000.00	4 920 000.00	8 520 000.00
Mkhambathini VIP Backlog Toilet	MIG	2 000 000.00	2 600 000.00	4 920 000.00	9 520 000.00
Umgengi VIP Backlog Toilets	MIG	2 000 000.00	2 600 000.00	4 920 000.00	9 520 000.00
Richmond VIP Backlog Toilets	MIG	2 000 000.00	2 600 000.00	4 921 478.00	9 521 478.00
Mpofana VIP Backlog Toilet	MIG	1 000 000.00	2 851 000.00	13 123 000.00	16 974 000.00
		<b>10 000 000.00</b>	<b>15 851 000.00</b>	<b>37 724 478.00</b>	<b>63 575 478.00</b>
<b>Rural Roads Asset Management</b>					
Planning of Rural Roads Maintenance	RRAMS	2 681 000.00	2 836 000.00	2 992 000.00	8 509 000.00
		<b>2 681 000.00</b>	<b>2 836 000.00</b>	<b>2 992 000.00</b>	<b>8 509 000.00</b>



## 7. RESOLUTIONS

1. Council considers the proposed budget estimates for the 2019/20 – 2021/22 MTREF period as follows:

a) The proposed budget funding of **R1 120 711 078** be approved to be funded from the following:

Operating Revenue	R936 086 078
Grant Funding	R184 625 000

b) The proposed expenditure appropriations of **R1 097 928 867** be approved and be allocated as follows:

Operating Expenditure	R913 303 867
Capital Programme	R184 625 000

c) The capital expenditure programme of **R184 625 000** be approved and funded from the following sources:

MIG	R101 944 000
WSIG	R 80 000 000
RRAMS	R 2 681 000

d) The funding allocation for UMEDA be approved at R5 085 500 for the 2019/20 financial year and provisionally pegged at R6 500 000 and R7 000 000 for the 2020/21 and 2021/22 financial years respectively;

e) The tariff charges for water and sanitation be increased as follows:



**Water Supply Tariffs**

<b>Household/Domestic</b>						
	<b>2018/2019</b>	<b>2019/2020</b>	<b>Consumption</b>	<b>Rand Value 2019/2020</b>	<b>Percentage</b>	
0 - 6	11.37	13.08	329 029	4 302 218.69	15%	
7 - 15	21.78	25.26	958 614	24 219 190.99	16%	
16 - 25	25.81	30.20	905 592	27 346 795.54	17%	
26 - 35	35.53	41.93	383 059	16 059 901.80	18%	
36 - 60	49.01	58.81	469 243	27 597 119.32	20%	
60 +	59.74	72.29	1 206 610	87 220 286.49	21%	
				<b>186 745 512.82</b>		
Basic charge	33.42	38.433	31 292	14 431 745.23	15%	
Flat rate	209.4	240.81	3 952	11 420 173.44	15%	
<b>Business /Commercial</b>						
	<b>2018/2019</b>	<b>2019/2020</b>		<b>Rand Value 2019/2020</b>		
0 - 999999	29.62	35.84	4 200 000	150 528 840.00	21%	
<b>Builder/Construction Sites</b>	53.53			-		
<b>NGO's (Public benefit)</b>	14.09	16.2035	41 292	669 074.92	15%	
<b>WSA</b>	Bulk Cost per kl plus admin fee	Bulk Cost per kl plus admin fee		-		
Basic charge	55.83	64.2	1 569	1 208 757.60	15%	

**Sewerage Tariff**

<b>Household/Domestic</b>					<b>Sewer</b>
	<b>2018/2019</b>	<b>2019/2020</b>	<b>Consumption</b>	<b>Rand Value 2019/2020</b>	
0 - 6	6.39	7.35	29 721	218 404.77	15%
7 - 15	11.35	13.17	498 281	6 560 367.65	16%
16 - 25	14.55	17.02	385 975	6 570 645.41	17%
26+	18.18	21.45	639 938	13 728 205.95	18%
				<b>27 077 623.78</b>	
<b>Business /Commercial</b>					
	<b>2018/2019</b>	<b>2019/2020</b>	<b>Consumption</b>	<b>Rand Value 2019/2020</b>	
0 - 999999999	12.54	15.17	356 928	5 415 811.32	21%
NGO's (public benefit)	5.66				
				<b>5 415 811.32</b>	
<b>Disposal at waste water treatment plant</b>					
	<b>2018/2019</b>	<b>2019/2020</b>	<b>Rand Value 2019/2020</b>		
0 - 999999999	7.13	8.20	2 460 000.00		

2. The approved 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 draft 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.

## **PART 2 - SUPPORTING DOCUMENTATION**

### **2.1 BUDGET ASSUMPTIONS AND KEY BUDGET FACTORS**

The following key factors were considered in the preparation of the proposed budget:

1. At least a 65% collection rate will be maintained for the water and sanitation billings;
2. The salaries budget increase to be limited to recruitment of operations and maintenance staff and revenue staff to aid in the improvement in service and collection;
3. Increase in staff salaries of 7,5% estimated based on the negotiations at hand;
4. Councillors allowances budget be adjusted with 5.5% to allow for a cost of living adjustment;
5. The operational expenditure budget will limit and minimise increases due to cost cutting measures and only expenditure items critical to service delivery will be provided for;
6. Contracts to be reviewed to ensure efficiency of services and costs;
7. Funding for capital programme to be limited to grants as there are no reserves to fund capital expenditure;
8. The SDBIP targets with financial implications to be deferred to after first quarter to relieve pressure on the budget and also measure performance against the first quarter before expenditure is engaged.
9. 21% increase in bulk water cost from uMngeni Water.
10. Projected 7.2% increase in electricity charges.
11. No increases in the number of water tankers to be hired.

Other factors that have been considered in the preparation of the budget are:

- The slow economic growth conditions,
- Aged infrastructure and the lack of resources to replace and maintain the infrastructure.

## **2.2 LEGISLATION COMPLIANCE STATUS**

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

### **In year reporting and Statutory returns**

Reporting to National and Provincial Treasuries in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the Municipality's website. The municipality has also submitted all statutory returns as per MFMA and MSCOA and at submission of this budget for council consideration the submissions on the treasury portal were reflecting a successfully uploaded.

### **Internship programme**

The Municipality is participating in the Municipal Financial Management Internship programme. Due to resignations and contract expiry the municipality is in the process to fill the vacancies of interns. The programme is intended to empower graduates with on the job training and also build capacity for the local government sector.

### **Budget and Treasury Office**

The Budget and Treasury Office has been established in accordance with the MFMA.

### **Service Delivery and Implementation Plan**

The detail SDBIP document is at a draft stage and will be finalised after approval of the 2019/20 MTREF in May 2019.

### **Annual Report**

Annual report is compiled in terms of the MFMA and National Treasury requirements.

### **MFMA Training**

Various managers and staff have completed the MFMA training and the training will continue in line with the skills development plan. The managers who have not fully met the minimum competency requirements have signed performance agreement which includes milestones for the completion of the outstanding unit standards.

## **3 OVERVIEW OF THE ANNUAL BUDGET PROCESS**

Section 53 of the MFMA requires the Mayor of the municipality to provide 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 Executive Committee, the Finance Portfolio Committee, the senior managers and the IDP Manager together form the Budget Steering Committee. This allows for the fair representation of the different council committees which are mandated with oversight on council business. The primary aims of the Budget Steering Committee is to ensure:

- That the process followed to compile the budget complies with legislation and good budget practices;

- That there is proper alignment between the budget and service delivery priorities set out in the Municipality'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 evaluated and prioritised in the allocation of resources.

### **Budget Process Overview**

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2016) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required IDP and budget time schedule in August 2018. Key dates applicable to the process were:

- **July 2018** – Joint strategic planning session of the Mayoral Committee and Executive Management. Aim: to review past performance trends of the capital and operating budgets, the economic realities and to set the prioritization criteria for the compilation of the 2019/20 MTREF;
- **January 2019** – Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
- **January 2019** - Review of the financial strategy and key economic and financial planning assumptions by the Budget Steering Committee. This included financial forecasting and scenario considerations;
- **January 2019** – Multi-year budget proposals are submitted to the Management Committee for endorsement;
- **25 January 2019** - Council considers the 2018/19 Mid-year Review and Budget Implementation;
- **February 2019** - Council considers the 2018/19 Mid-year Adjustments Budget;
- **March 2019** - 2019/20 Recommendations of the proposed budget estimates are communicated to the Budget Steering Committee, the Executive Committee and to the respective departments;
- **29 March 2019** - Tabling in Council of the draft 2019/20 IDP and budget estimates for public consultation;
- **April 2019** – Public consultation;
- **10 May 2018** - Closing date for written comments;
- **10 to 17 May 2019** – finalization of the 2019/20 IDP and 2019/20 MTREF, taking into consideration comments received from the public, comments from National and Provincial Treasuries, and updated information from the most recent Division of Revenue Bill and financial framework; and
- **31 May 2019** - Tabling of the 2019/20 MTREF before Council for consideration and approval.

The public consultations were deferred to May in order to align with the schedule of consultations by the local municipalities. This was to ensure that the district partners with the local municipalities to ensure synergy and cost saving in the consultation programmes.

## PUBLIC CONSULTATION

### 2.4 OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH IDP

The following key factors and planning strategies have informed the compilation of the 2019/20 MTREF:

- Growth of the District
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2018/2019 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Loan and investment possibilities
- The need for tariff increases to achieve cost reflection versus the ability of the community to pay for services;
- Improved and sustainable service delivery

#### IDP Strategic Objectives / Budget Priority Areas

2018/19 MTREF	2019/20 MTREF
1. Provision of quality basic services and infrastructure	1. Provision of quality basic services and infrastructure
2. Economic growth and development that leads to sustainable job creation	2. Economic growth and development that leads to sustainable job creation
3.1 Fight poverty and build clean, healthy, safe and sustainable communities	3.1 Fight poverty and build clean, healthy, safe and sustainable communities
3.2 Integrated Social Services for empowered and sustainable communities	3.2 Integrated Social Services for empowered and sustainable communities
4. Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service	4. Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service
5.1 Promote sound governance	5.1 Promote sound governance
5.2 Ensure financial sustainability	5.2 Ensure financial sustainability
5.3 Optimal institutional transformation to ensure capacity to achieve set objectives	5.3 Optimal institutional transformation to ensure capacity to achieve set objectives
5.4 Financial Sustainability	5.4 Financial Sustainability

In order to ensure integrated and focused service delivery between all spheres of government it was important for the municipality to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

Within the uMgungundlovu District, the priorities of providing sustainable, good quality water and decent sanitation services were identified as part of the IDP review process and budget allocation which is directly aligned to that of the national and provincial priorities.

Further the municipality identified the following priorities:

- Establishment of the uMgungundlovu Economic Development Agency
- Fight poverty and build clean, healthy, safe and sustainable communities – Allocation for Environmental Health and Environmental Services.
- Integrated Social Services for empowered and sustainable communities -, Special Communities such as Children, Elderly, People with Disabilities etc.
- Promote sound governance and transparency
- Ensure financial sustainability through reviewing the use of contracted services, implementation of cost cutting measures and continuing to implement the infrastructure renewal strategy and the repairs and maintenance plan

## **2.5 OVERVIEW OF BUDGET RELATED POLICIES**

The following budget related policies were reviewed and no comments were received during the consultation process:

- I. Budget Policy
- II. Supply Chain Management Policy
- III. Tariff Policy
- IV. Banking and investment Policy

No comments were received relating to the policies and as such the policies are submitted with the budget for consideration of adoption by the council.

## **1. Municipal Manager's Quality Certificate**

I Dr RMB Ngcobo, Municipal Manager of uMgungundlovu District Municipality, hereby certify that the Medium term revenue and expenditure budget and Documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act.

Print Name    Raymond M B Ngcobo

Signature    \_\_\_\_\_

Date            31 May 2019