

MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS 2018/2019 TO 2020/2021



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1.1. 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 proposed budget for the 2018/19 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 2018/19 medium term expenditure framework, consisting of a **R1 048 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 has come to completion in the 2017/2018 financial year. These projects will ensure uninterrupted supply of water to residents and equally the Hilton and merrivale AC replacement will assist in the reduction of water losses experienced in the previously aged system. 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 continue on a cost reflective tariff, and 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 which ensures that qualifying households have access to the basic provision of water. ,

Drought impact will be reduced through the good rains experiences which have seen Midmar dam levels rising. Whilst we experienced this improvement in the rain dam resources citizens are still encouraged to exercise a conservative reached comfort levels.

The establishment of the development agency will ensure a directed effort in the economic development agenda of the district. The potential of the district to unlock development will be strengthened over time with the maturation of the agency. The agency will be embarking on its second year in existence and the district will closely monitor the objectives set for the agency to ensure that the benefits are unlocked for communities and citizens of the district.

1.2. RESOLUTIONS

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

- 2.1. The proposed Tariff increases at a sliding scale, acting in terms of section 75A of the Local Government Municipal Systems Act (Act 32 of 2000 with effect from 01 July 2018).
- 2.2. The tariffs increase for the supply of water to a minimum of R 11,37 per KL increasing on a sliding scale based on consumption to a maximum of R 34.48 per KL.
- 2.3. The tariffs increase for the sanitation services to a minimum of R 6.39 increasing at a sliding scale based on consumption to a maximum of R18.18
- 2.4. the multi- year 2018/2019 to 2020/2021 annual budget and single capital appropriations for the 2018/2019 annual budget be:
 - 2.4.1. Total Revenue of R 1,048 billion.
 - 2.4.2. Total Operating Expenditure of R 868 million.
 - 2.4.3. Total Capital Expenditure of R 224 million.
 - 2.4.4. Surplus of R 180 million

1.3. EXECUTIVE SUMMARY

The proposed budget 2018/2019 is represented by funding to the value of R1,048 billion which is split between operating revenue of R845m and R214m in capital funding. This shows an increase in funding of **27%** from the adjusted budget 2017/2018.

Operating income is projected to increase by **23%**. The change in operating income is mainly boosted by an increase of **66%** 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.

38% of the operating income will be funded from service charges which is an increase from 29% in 2017/2018. This shows a shift in grant dependency with grants contributing **58%** of operating income.

The operating expenditure proposed is R867m which reflects an increase of **12%** from the adjusted budget 2017/2018. Capital expenditure is set to increase by **6%** in the 2018/2019 budget and no borrowings will be utilised to finance the capital investment programme. **22%** of the budget will be spent on the capital investment which is a proposition better than the treasury guide of at least 10%-20% of capex to total expenditure.

Table 1

DC22 uMgungundlovu - Table A1 Budget Summary										
Description	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Financial Performance										
Property rates	-	-	-	-	-	-	-	-	-	-
Service charges	116 303	125 457	124 229	228 996	196 388	196 388	196 388	325 146	392 056	472 812
Investment revenue	12 260	17 019	15 432	12 000	4 000	4 000	4 000	2 500	2 638	2 783
Transfers recognised - operational	376 281	446 162	455 382	462 884	465 297	465 297	465 297	492 260	529 040	577 491
Other own revenue	21 426	22 380	34 554	20 150	22 850	22 850	22 850	25 400	27 608	11 297
Total Revenue (excluding capital transfers and contributions)	526 271	611 019	629 597	724 030	688 535	688 535	688 535	845 306	951 342	1 064 383
Employee costs	176 152	181 328	198 159	228 194	221 547	221 547	221 547	250 246	254 125	268 102
Remuneration of councillors	10 836	10 937	10 239	11 086	12 266	12 266	12 266	12 266	12 965	13 678
Depreciation & asset impairment	83 433	55 713	61 522	46 713	36 713	36 713	36 713	51 000	53 805	56 764
Finance charges	2 433	10 253	19 738	23 019	23 419	23 419	23 419	22 609	23 852	25 164
Materials and bulk purchases	76 619	106 637	121 186	111 034	121 234	121 234	121 234	139 150	146 803	154 877
Transfers and grants	-	-	-	-	-	-	-	-	-	-
Other expenditure	288 002	309 628	334 512	318 305	359 330	359 330	359 330	392 286	422 409	445 648
Total Expenditure	637 475	674 497	745 356	738 351	774 511	774 511	774 511	867 557	913 960	964 234
Surplus/(Deficit)	(111 204)	(63 478)	(115 759)	(14 321)	(85 975)	(85 975)	(85 975)	(22 251)	37 382	100 149
Transfers and subsidies - capital (monetary alloc	228 862	270 672	152 696	166 766	166 766	166 766	166 766	202 528	211 944	223 845
Surplus/(Deficit) for the year	117 658	207 194	36 937	152 445	80 791	80 791	80 791	180 277	249 326	323 994
Capital expenditure & funds sources										
Capital expenditure	228 862	270 672	152 696	213 716	213 716	213 716	213 716	225 928	211 944	223 845
Transfers recognised - capital	228 862	270 672	152 696	166 766	166 766	166 766	166 766	202 528	211 944	223 845
Public contributions & donations	-	-	-	-	-	-	-	-	-	-
Borrowing	-	-	-	-	-	-	-	-	-	-
Internally generated funds	-	-	-	46 950	46 950	46 950	46 950	21 400	-	-
Total sources of capital funds	228 862	270 672	152 696	213 716	213 716	213 716	213 716	223 928	211 944	223 845

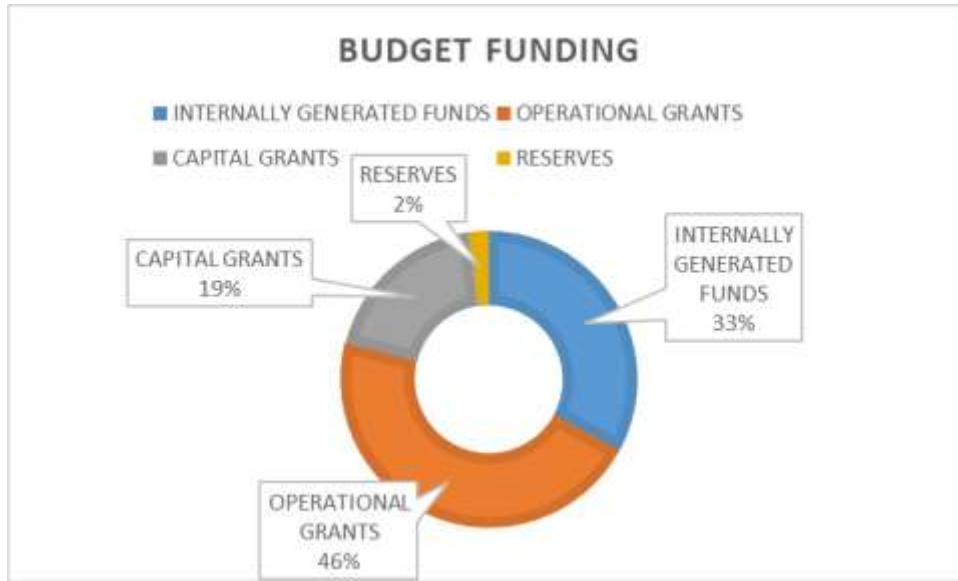
Summarily the budget can be reconciled as reflected in the below table. It must be noted that Council has in the prior years utilised reserves to fast track implementation of the capital investment programme.

The proposed budget has limited capital expenditure within R224 million of capital expenditure of which **90%** of capital being funded from grants and 10% from internally generated funding. The net cash position at the end of the period will be R7 million. The projection beyond 2018/2019 if the cost reflective tariff increase would be a net cash position of R72 million and R157 million provided the operating costs are maintained with only CPI increases and capital expenditure being maintained within grant allocations.

Table 2

DRAFT BUDGET 2018/2019			
	2018/2019	2019/2020	2020/2021
OPERATING INCOME	845 305 000,00	935 812 000,00	1 067 716 000,00
OPERATING EXPENDITURE	- 867 557 000,42	- 917 125 000,00	- 967 573 000,00
OPERATING SURPLUS/(DEFICIT)	- 22 252 000,42	18 687 000,00	100 143 000,00
CAPITAL TRANSFERS RECOGNISED	202 528 000,00	211 944 000,00	223 845 000,00
SURPLUS/(DEFICIT) FOR THE YEAR	180 275 999,58	230 631 000,00	323 988 000,00
CAPITAL FUNDING	223 928 000,00	211 944 000,00	223 845 000,00
CAPITAL TRANSFERS	202 528 000,00	211 944 000,00	223 845 000,00
RESERVES	21 400 000,00		
LESS CAPITAL EXPENDITURE	- 223 928 000,00	- 211 944 000,00	- 223 845 000,00
NET CASH DEFICIT	- 43 652 000,42	18 687 000,00	100 143 000,00
ADD: NON CASH DEPRECIATION	51 000 000,00	53 805 000,00	56 764 000,00
NET CASH POSITION	7 347 999,58	72 492 000,00	156 907 000,00

Below is an illustration of the funding elements to the budget which reflects 65% contribution from grants and 33% from internally generated funding and only 2% from reserves.

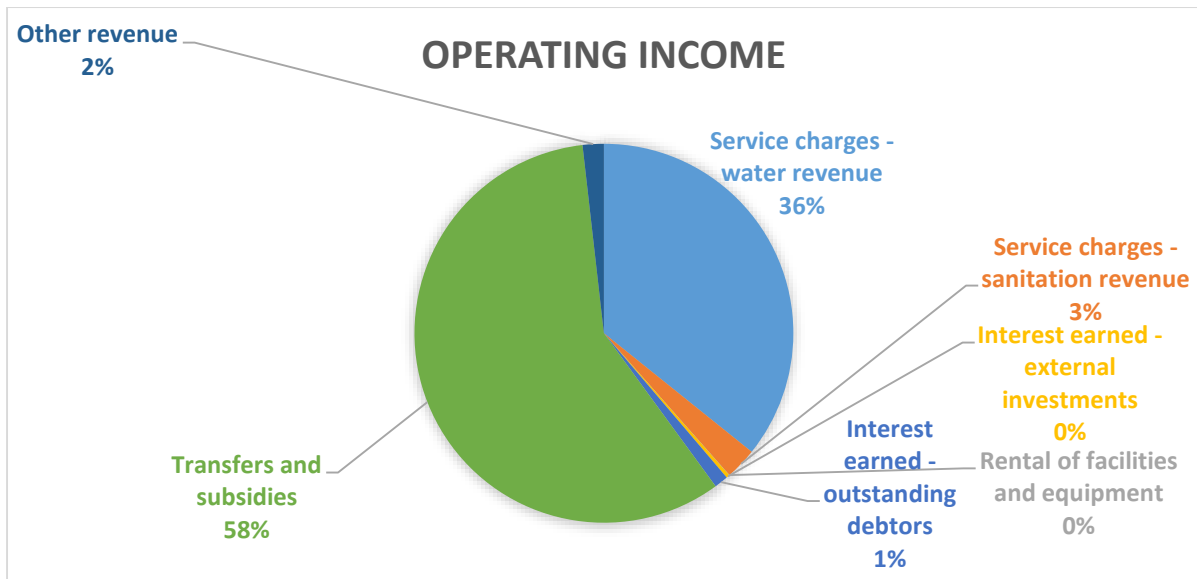


1.4. OPERATING REVENUE FRAMEWORK

The municipality has a total operating income of **R845m** derived as reflected in table 3. **42%** of operating income will be generated internally with service charges representing **38%** of operating income. Equitable share and RSC levy replacement grant and other operating grants will contribute 58% towards operations. Other income is derived from investment income, interest on late payments, other service charges and other revenue as reflected in table A4 of the budget tables.

Table 3

DC22 uMgungundlovu - Table A4 Budgeted Financial Performance (revenue and expenditure)										
Description	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year+1 2019/20	Budget Year +2 2020/21
Revenue By Source										
Service charges - water revenue	105 752	112 952	111 577	208 109	174 001	174 001	174 001	302 305	365 789	442 605
Service charges - sanitation revenue	10 552	11 699	12 329	17 599	19 099	19 099	19 099	22 841	26 267	30 207
Service charges - other		806	323	3 289	3 289	3 289	3 289			
Rental of facilities and equipment	296	202	205	250	250	250	250	150	158	167
Interest earned - external investments	12 260	17 019	15 432	12 000	4 000	4 000	4 000	2 500	2 638	2 783
Interest earned - outstanding debtors	17 218	18 153	23 308	5 000	5 000	5 000	5 000	10 000	10 550	11 130
Transfers and subsidies	376 281	446 162	455 382	462 884	465 297	465 297	465 297	492 260	529 040	577 491
Other revenue	3 911	4 026	11 041	14 900	17 600	17 600	17 600	15 250	16 900	-
Total Revenue (excluding capital transfers and contributions)	526 271	611 019	629 597	724 030	688 535	688 535	688 535	845 305	951 342	1 064 383



The municipality is in year 2 of the process of implementing a cost reflective tariff and strives to uplift its operations from being grant reliant to be self - funding and self – reliant. The proposed tariff has been structured as below.

The National Treasury encourages Municipalities to charge a cost reflective tariff to be able to recover its costs of providing the service, taking into account 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 raising strategy, the Municipality had to revisit its tariff structure and propose the phasing in of a cost reflective tariff. 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 the 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 to high consumption customers and businesses.

The proposed tariff structure is as follows:

TABLE 4. PROPOSED WATER TARIFF INCREASES, DOMESTIC AND BUSINESS

UMGUNGUNDLOVU DISTRICT MUNICIPALITY TARIFF STRUCTURE 2018/2019				
		Water tariff		
Household/Domestic	2017/2018	Consumption	21%-45%	Rand value 2018/2019
0 - 6	9,4	210 946	11,37	2 399 304
				-
7 - 15	15,02	807 882	21,78	17 594 871
				-
16 - 25	17,8	802 466	25,81	20 711 658
				-
26 - 35	24,5	422 486	35,53	15 008 829
				-
36 - 60	33,8	571 985	49,01	28 032 975
				-
60 +	41,2	1 147 459	59,74	68 549 213
				152 296 850
Basic charge	23,05	30 939	33,42	12 408 705
Flat rate	139,6	3 939	209,40	9 897 919
				174 603 474
Business /Commercial	2017/2018			Rand Value 2018/2019
0 - 999999	20,43	3 616 260	29,62	107 126 278
Builder/Construction Site	41,18		53,53	
NGO's (Public benefit)	10,84		14,09	
WSA	Bulk Cost per kl plus admin fee			
Basic charge	38,5	3 494	55,83	2 340 630,60
Total Water				284 070 382,58

TABLE 5. PROPOSED SANITATION TARIFF INCREASES, DOMESTIC AND BUSINESS

Household/Domestic	2017/2018	Consumption	Sanitation tariff	
			21%-45%	Rand value
0 - 6	5,28	25 728	6,39	164 371,05
7 - 15	8,41	430 089	11,35	4 883 015,46
16 - 25	10,39	304 809	14,55	4 433 751,71
26+	12,54	519 652	18,18	9 448 832,32
				18 929 970,54
Business /Commercial	2017/2018	Consumption		Rand value
0 - 9999999999	8,65	322 928	12,11	3 910 658,08
NGO's (public benefit)	4,35		5,66	
				3 910 658,08
Total Sanitation				22 840 628,62

As can be seen, from Table 4 and 5, the more conservative the consumption, the lesser the proposed tariff increase. The lowest average increase is 21 % which equates to the transfer of the proposed 15 % increase by the Bulk Water service provider –uMgeni and the average CPI Inflation rate of 6%. A proposed 45% increase for the high domestic users and 45% increase for businesses. The Non Profit Organisations will benefit from the increase equivalent to the low consumption customers which is 21%. With the introduction of the block inclining tariff, the Municipality has managed to raise its revenues by R128 million on average based on 2017/2018 tariffs and projected consumption patterns.

1.5. OPERATING EXPENDITURE FRAMEWORK

The total operational budget is proposed at R869 million. This represents an increase of 12% from 2017/2018 operational expenditure. The contribution towards each department is allocated as 62% to technical services, 16% to community services and economic development and planning, 8% to corporate services and 7% towards the MMs office respectively.

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. Table 6 below reflects an allocation of R 543 million to Technical Services Department which translates to 62 % of the operational budget which reflects and in line with the main focus of the municipality. Table6

Table 6 above reflect the consistent high allocation of financial resources to the core function department.

Description	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Employee costs	176 152	181 328	198 159	228 194	221 547	221 547	221 547	250 246	254 125	268 102
Remuneration of councillors	10 836	10 937	10 239	11 086	12 266	12 266	12 266	12 266	12 965	13 678
Depreciation & asset impairment	83 433	55 713	61 522	46 713	36 713	36 713	36 713	51 000	53 805	56 764
Finance charges	2 433	10 253	19 738	23 019	23 419	23 419	23 419	22 609	23 852	25 164
Materials and bulk purchases	76 619	106 637	121 186	111 034	121 234	121 234	121 234	139 150	146 803	154 877
Transfers and grants	-	-	-	-	-	-	-	-	-	-
Other expenditure	288 002	309 628	334 512	318 305	359 330	359 330	359 330	392 286	422 409	445 648
Total Expenditure	637 475	674 497	745 356	738 351	774 511	774 511	774 511	867 557	913 960	964 234

The departmental allocations is as follow;

	OPEX BUDGET 2018/2019	CAPEX BUDGET 2018/2019	TOTAL BUDGET 2018/2019
	Final Budget	Final Budget	Final Budget
HODs office	300 000		
Umgengi Resilience	11 665 608		11 665 608
Children	238 500		238 500
Women	335 500		335 500
Snr Citizens	760 300		760 300
Disability	628 000		628 000
Environmental Health	732 000		732 000
HIV/ AIDS	870 000		870 000
Culture Promotion	-		-
Disaster Management	2 000 000		2 000 000
Fire & Emergency	3 100 000		9 100 000
Sports Promotion	3 220 000		3 220 000
Arts Promotion	175 000		175 000
TOTAL COMMUNITY SERVICES	23 724 908	6 000 000	29 724 908
	3%	3%	

Community services requires R23,7 million for operations and R6 million for capital investment into fire engine and also the small water tanker truck. The operational requirements are 3% of the total budget and the capital requirements are 3% of the total capital budget.

	OPEX BUDGET 2018/2019	CAPEX BUDGET 2018/2019	TOTAL BUDGET 2018/2019
	Final Budget	Final Budget	Final Budget
HODs office	300 000		300 000
Development Planning	1 020 000		1 020 000
Local Economic Development	6 932 000		6 932 000
GIS	1 595 000		1 595 000
Tourism	6 000 000		6 000 000
Rural Development & Heritage Alignment	-		-
Youth Development	2 441 587		2 441 587
ECONOMIC DEVELOPMENT AND PLANNING	17 988 587	-	17 988 587
	2%	0%	
Employee related costs	91 586 515		91 586 515
TOTAL	133 300 010	6 000 000	139 300 010
	15%	3%	

Economic development and planning requires R17.9 million (2%) for total operations with no capital requirements. The community services and economic development and planning departments collectively require 15% including salaries. The total requirement for the department is R133 million and R139 million including capital requirements.

	OPEX BUDGET 2018/2019	CAPEX BUDGET 2018/2019	TOTAL BUDGET 2018/2019
	Final Budget	Final Budget	Final Budget
HODs office	300 000		
Human Resources	8 919 212		8 919 212
Sound Governance & Records	34 730 000	1 100 000	35 830 000
Employee Assistance	1 433 000		1 433 000
Employee related costs	21 289 427		21 289 427
CORPORATE SERVICES	66 371 639	1 100 000	67 471 639
	8%	0%	

Corporate Services requires R66 million from operational budget which makes up 8% of the total operational budget allocation. There is also a capital investment requirement of R1.1 million which is

to be directed to furniture and generator requirements. Total budget requirement for corporate services is thus R67 million.

	OPEX BUDGET 2018/2019		CAPEX BUDGET 2018/2019		TOTAL BUDGET 2018/2019
	Final Budget		Final Budget		Final Budget
Expenditure	1 785 000				1 785 000
Budget and reporting	481 000				481 000
SCM	710 000				710 000
Income	7 700 000		-		7 700 000
Customer Care Centres	-				-
CFOs office	3 833 786				3 833 786
Group Life Scheme	3 000 000				3 000 000
Employee related costs	33 226 342				33 226 342
Post Employment	8 977 230				8 977 230
FINANCIAL SERVICES	59 713 358	7%	-	0%	59 713 358

Financial services requires R59 million which represents 7% of total operational expenditure. No capital requirements have been made.

	OPEX BUDGET 2018/2019		CAPEX BUDGET 2018/2019		TOTAL BUDGET 2018/2019
	Final Budget		Final Budget		Final Budget
HOD'S Office	300 000				300 000
Rural Roads Assets Management	2 531 000				2 531 000
Water Distribution	386 850 344		213 528 000		600 378 344
Water Treatment	15 620 000				15 620 000
Sanitation Reticulation	9 426 189				9 426 189
Sanitation treatment	63 349 000				63 349 000
Employee related costs	65 143 491				65 143 491
TECHNICAL SERVICES	543 220 023	63%	213 528 000	95%	756 748 023

Technical services requires 63% of the operational budget and R213 million for capital. The capital requirements are 95% of the capital budget and collectively technical services as the core service delivery unit will take R757 million of the total budget.

	OPEX BUDGET 2018/2019		CAPEX BUDGET 2018/2019		TOTAL BUDGET 2018/2019
	Final Budget		Final Budget		Final Budget
Municipal Manager's Office	3 800 000				3 800 000
IDP	76 000				76 000
WSA	1 000 000				1 000 000
IGR	1 000 000				1 000 000
PMS	250 000				250 000
ICT	8 200 000		3 300 000		11 500 000
Communication	6 200 000				6 200 000
Internal Audit	2 018 000				2 018 000
Legal Service	2 017 500				2 017 500
Mayor's Office	315 000				315 000
Speaker's Office	1 400 000				1 400 000
Councillors remuneration	12 266 430				12 266 430
Employee related costs	26 409 040				26 409 040
OFFICE OF THE MM	64 951 970	7%	3 300 000	1%	68 251 970
TOTAL BUDGET	867 557 000		223 928 000		1 091 485 000

Office of the MM which includes council support and Speakers and Mayors offices collectively require R64 million which is 7% of the total operational budget. The capital requirements amounted to R3.3 million which is mainly the computers and software requirements from ICT. Total budget requirement for the department is R68 million.

Overall, the operational budget increased by 12% from the proposed 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 and general operational and maintenance costs bulk cost.

The main expenditure categories for the operational expenditure are outlined in Table 7 below with Employee costs & councilor remuneration taking an allocation of 29%, followed by bulk water purchases at 16% then provision for bad debt at 11% and contracted services at 25%. These costs

collectively represent **81%** of total opex. 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 **25%** of the operating budget which is above the norm as set by treasury of at least 5%, however is reduced from prior year 38% contribution.

In the prior year contracted services represented 38% 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 Councillors allowances

Salaries are at 28 % of the operational budget, combined with Councilor remuneration, the salaries budget is at 29 % which is within the norm.

The salaries budget is split as follows:

Table 9

	OPEX BUDGET 2018/2019
	Final Budget
CORPORATE SERVICES	21 289 427
COMMUNITY AND ECONOMIC DEVELOPMENT AND PLANNING	91 586 515
FINANCIAL SERVICES	45 203 572
TECHNICAL SERVICES	65 143 491
COUNCILLORS REMUNERATION	12 266 430
OFFICE OF THE MM	26 409 040
	261 898 475

Social investment programmes

1.4% of the total operating budget will be invested in social development programmes as follows;

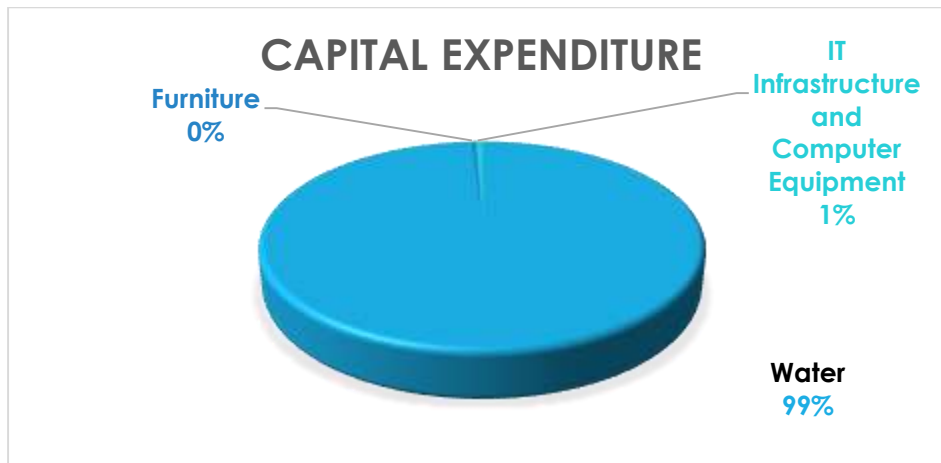
1.6. CAPITAL EXPENDITURE

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.

90% of the capital budget is directed to water infrastructure, 5% towards sanitation, 3% for fire equipment, 1, 5% towards computer equipment and 0, 5% towards to furniture and generator.

Table 10

CAPITAL ITEM	AMOUNT	%
WATER	202 528 000,00	90,4%
SANITATION	11 000 000,00	4,9%
FIRE	6 000 000,00	2,7%
FURNITURE AND GENERATOR	1 100 000,00	0,5%
COMPUTER EQUIPMENT	3 300 000,00	1,5%
	223 928 000,00	



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:

- 1.6.1 Projected inflation rate of 6.1 % for the 2018/2019 financial year, 5.5% and 5.8% for both the outer years 2019 – 2020.
- 1.6.2 15% increase in bulk water cost from uMgeni Water.
- 1.6.3 Projected 7.2% increase in electricity charges.
- 1.6.4 7.5 % increase in employee costs in line with the Bargaining Council Agreement.

- 1.6.5 No increases in the number of water tankers to be hired.
- 1.6.6 A minimum of 70% collection rate on service charges will be maintained.
- 1.6.7 Repayment of R23 million in interest charges repayable from the 2018/2019 budget year.

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

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.

Internship programme

The Municipality is participating in the Municipal Financial Management Internship programme. Due to resignations, currently the Municipality has 1 (one) intern undergoing training in various divisions of the Financial Services Department. Of the five interns four have been appointed permanently (2 x buyers, Project Finance Officer and Creditors Clerk). The Municipality is in the process of re-filing the vacant positions for the interns.

Budget and Treasury Office

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

Audit Committee

An Audit Committee has been established and is fully functional.

Service Delivery and Implementation Plan

The detail SDBIP document is at a draft stage and will be finalised after approval of the 2017/ 2018 MTREF in May 2017.

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.

2 OVERVIEW OF THE ANNUAL BUDGET PROCESS

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 Finance Committee for uMgungundlovu District Municipality is the Budget Steering Committee and it consists of the Municipal Manager, senior officials of the municipality and representations from the political leadership under the leadership of the Mayor.

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 the IDP and budget time schedule on 06 September 2016. Key dates applicable to the process were:

- **July 2017** – 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 prioritisation criteria for the compilation of the 2016/17 MTREF;
- **November 2017** – Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
- **January 2018** - 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 2018** – Multi-year budget proposals are submitted to the Management Committee for endorsement;
- **25 January 2018** - Council considers the 2017/18 Mid-year Review and Budget Implementation;
- **February 2018** - Council considers the 2017/18 Mid-year Adjustments Budget; **2017/2018** Recommendations of the proposed budget estimates are communicated to the Budget Steering Committee, and to the respective departments. ;
- **31 March 2018** - Tabling in Council of the draft 2018/19, IDP and 2018/19 MTREF for public consultation;
- **April 2018** – Public consultation;
- **8 May 2018**- Closing date for written comments;

- **8 to 15 May 2018** – finalisation of the 2018/19 IDP and 2018/19 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
- **26 May 2018** - Tabling of the 2018/19 MTREF before Council for consideration and approval.

There were no deviations from the key dates set out in the Budget Time Schedule tabled in Council.

2.4 OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH IDP

As part of the compilation of the 2018/2019 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability and aligned to the IDP. The following key factors and planning strategies have informed the compilation of the 2018/2019 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 2017/2018 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

2017/18 Financial Year	2018/19 MTREF
1. The provision of quality basic services and infrastructure	1. Provision of quality basic services and infrastructure
2. Acceleration of higher and shared economic growth and development	2. Economic growth and development that leads to sustainable job creation
3. Fighting of poverty, building 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

4. Fostering participatory democracy and adherence to 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. Good governance, Financial viability and institutional governance	5.1 Promote sound governance
	5.2 Ensure financial sustainability
	5.3 Optimal institutional transformation to ensure capacity to achieve set objectives
	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 quality 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

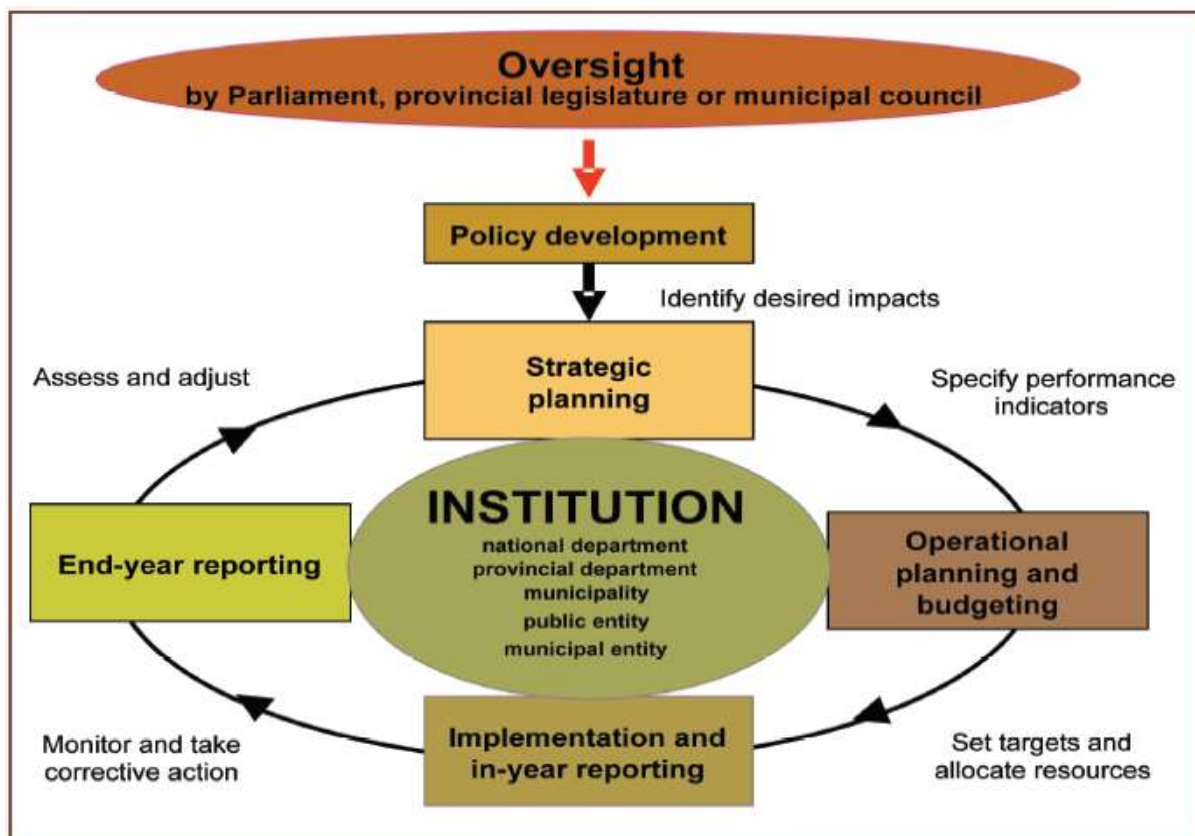
The following budget related policies were reviewed and are being used:

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

2.7 Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the municipality uses the performance management system of which system is in line with the requirements of the National Treasury and Department of Cooperative Governance and Traditional Affairs which is constantly refined as the integrated planning process unfolds and the requirements evolves. The Municipality targets, monitors, assesses and reviews organisational performance which in turn is indirectly linked to individual employee's performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly through the oversight report during the last stage, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages. The municipality has a functional oversight committee and functional war rooms. The planning, budgeting and reporting cycle can be graphically illustrated as follows:



The performance of the municipality relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting and exceeding expectations of our communities and relevant stakeholders. The municipality therefore has adopted an integrated performance management system which encompasses:

- Back to back basics reporting
- Planning (setting goals, objectives, targets and benchmarks);
- Monitoring (regular monitoring and checking on the progress against plan);

- Measurement (indicators of success);
- Review (identifying areas requiring change and improvement);
- Reporting (what information, to whom, from whom, how often and for what purpose); and
- Improvement (making changes where necessary).

2.9 Municipal manager's quality certificate

I, Dr Ray Ngcobo, Municipal Manager of uMgungundlovu District Municipality, hereby certify that the Medium Term Revenue and Expenditure Forecasts for 2018/2019 and documentation have been prepared in accordance with the Municipal Finance Management Act, the regulations made under the Act and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name DR RAY NGCOBO

Signature _____

Date _____

