

MEDIUM TERM EXPENDITURE AND REVENUE BUDGET REPORT 2020/2021



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1. MAYOR'S REPORT

At the beginning of our term of office, Council adopted the Ten Point Plan as our strategic compass that will elevate and enhance our service delivery through to our 2021 vision. As a water services authority, we are also mandated to provide water and sanitation services in 6 of the 7 local municipalities under our area of jurisdiction. One local municipality, Msunduzi Municipality, is a water services authority in its own right.

Our budget for the 2020/2021 financial year, being the last budget in our term of office, demonstrates Council desire to further the development of infrastructure to provide basic services to all our people. It further lays a firm foundation for the future development and transformation of the District going forward.

The 2020/21 medium term expenditure framework, consisting of a **R1.119 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 fact that this budget is crafted under tough economic times and the outbreak of COVID-19 throughout our communities, this adjustment budget is envisaged to steer the District through the tough economic environment we operate in and is also underpinned by cost containment measures which will allow a cost conscious spending.

As the District we have had challenges upgrading 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. The bulk of our funding has been allocated to the provision of water. There is also provision made for VIP sanitation in order to improve the quality and dignity of life for our people.

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.).

While we strive to provide services to our communities, we also need to collect revenue from those who can afford to pay for services rendered. Our focus will be to 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. This will ensure that we render services on a sustainable basis. 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. Going forward, a lot of emphasis will be placed on our revenue raising capabilities as well as the whole revenue management value chain. We need to start to steer the district away from being dependant on grants and begin to raise our own revenue in order to finance our operations.

We therefore call upon all councillors and officials of the municipality as well as citizens of the District to each play our part and make the vision of universal access to services within our District a reality.

2. EXECUTIVE SUMMARY

The Operating Revenue is estimated at **R935.520 Million** and projected to increase to **R1.101 Billion** over the MTREF period. Operating income for the 2020/21 financial year is projected to increase by **3.8%** when compared to the 2019/20 adjustment budget.

Of the operating revenue, **37.1%** will be funded from service charges which is an increase from 29% in 2019/20 adjustment budget. This shows a shift in grant dependency with grants contributing **62.9%** of operating income from 74% as per adjusted budget 2019/20. The proposed increase in tariff charges of 4.5% in line with CPIX forecast will not yield a significant increase in revenue from service charges.

Following the call by national government to control government spending, the expenditure budget has been kept to the bare necessities. The Operating Expenditure is proposed at **R794.754 Million** which reflects a decrease of **2.3%** from the adjusted budget 2019/20. Of the total operating expenditure, **R272.010 Million (34.23%)** has been allocated to Employee Related Costs. Contracted services contribute **19.45% (R154.563 Million)** of the total operating costs bill. It is expected of departments to continuously review the contracted services in an effort to reduce these. Understandably, this might mean an increase in other areas of expenditure, such as employee related costs.

Capital expenditure is set to decrease by **0.4%** from R184.625 Million in the 2019/20 adjustment budget to **R183.797 Million** in the 2020/21 budget. There are no expected borrowings to finance the capital investment programme. A total of **16.4%** of the total 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 Summary

Description	2016/17	2017/18	2018/19	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
R thousands										
Financial Performance										
Property rates	-	-	-	-	-	-	-	-	-	-
Service charges	-	253 282	193 147	372 228	335 005	335 005	335 005	332 684	350 802	410 397
Investment revenue	-	8 090	99	500	500	500	500	528	557	582
Transfers recognised - operational	-	486 777	238 164	557 118	557 568	557 568	557 568	588 039	627 451	674 049
Other own revenue	-	46 393	36 381	6 791	7 849	7 849	7 849	14 270	16 830	16 649
Total Revenue (excluding capital transfers and contributions)	-	794 541	467 791	936 636	900 921	900 921	900 921	935 521	995 639	1 101 678
Employee costs	-	241 305	171 154	283 677	252 508	252 508	252 508	272 011	288 280	326 905
Remuneration of councillors	-	11 628	7 732	12 941	12 941	12 941	12 941	13 782	14 168	14 820
Depreciation & asset impairment	-	46 642	27 007	42 500	43 500	43 500	43 500	43 774	46 135	48 257
Finance charges	-	11 502	13 426	27 550	27 550	27 550	27 550	27 550	27 550	28 817
Materials and bulk purchases	-	161 412	144 875	174 176	192 225	192 225	192 225	170 638	168 098	173 411
Transfers and grants	-	-	-	5 084	5 084	5 084	5 084	6 500	7 000	7 322
Other expenditure	-	366 685	164 272	380 678	290 305	290 305	290 305	260 500	285 933	288 231
Total Expenditure	-	839 174	528 467	926 606	824 113	824 113	824 113	794 755	837 164	887 764
Surplus/(Deficit)	-	(44 632)	(60 675)	10 030	76 808	76 808	76 808	140 766	158 475	213 914
Transfers and subsidies - capital (monetary allocations) (Na	-	217 546	110 392	184 625	184 625	184 625	184 625	183 797	197 959	205 276
Contributions recognised - capital & contributed assets	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions	-	172 914	49 717	194 655	261 433	261 433	261 433	324 563	356 434	419 190
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) for the year	-	172 914	49 717	194 655	261 433	261 433	261 433	324 563	356 434	419 190
Capital expenditure & funds sources										
Capital expenditure	120 548	208 112	84 014	171 944	171 944	171 944	171 944	181 944	181 944	173 488
Transfers recognised - capital	325 713	195 074	84 014	171 944	171 944	171 944	171 944	181 944	181 944	173 488
Borrowing	(135 040)	-	-	-	-	-	-	-	-	-
Internally generated funds	(70 124)	2 223	-	-	-	-	-	-	-	-
Total sources of capital funds	120 548	197 297	84 014	171 944	171 944	171 944	171 944	181 944	181 944	173 488
Financial position										
Total current assets	(70 675)	44 314	4 096	166 374	47 792	47 792	18 344	31 021	191 094	201 605
Total non current assets	539 001	161 928	58 775	1 053 469	171 035	171 944	171 944	181 944	184 035	173 488
Total current liabilities	(228 818)	(37 831)	(32 414)	(49 658)	(49 658)	(49 658)	(47 390)	-	(25 486)	(26 888)
Total non current liabilities	(2 596)	5 663	20 803	(219 035)	(219 035)	(219 035)	(219 035)	-	(194 498)	(170 836)
Community wealth/Equity	(291 599)	(905)	-	(758 263)	125 574	125 574	-	-	-	-
Cash flows										
Net cash from (used) operating	-	315 264	70 974	343 244	368 433	366 694	366 694	366 694	444 021	506 195
Net cash from (used) investing	120 548	208 112	84 014	171 944	171 944	171 944	171 944	(181 944)	(181 944)	(173 488)
Net cash from (used) financing	-	-	-	-	-	-	-	-	-	-
Cash/cash equivalents at the year end	120 548	523 376	154 988	515 188	540 377	538 638	538 638	184 750	446 827	779 534
Cash backing/surplus reconciliation										
Cash and investments available	(44 807)	(3 317)	(125 402)	50 528	(50 528)	(50 528)	16 506	12 531	87 367	92 172
Application of cash and investments	(217 516)	(58 812)	(113 992)	(146 268)	(145 784)	(149 514)	(50 883)	-	(120 071)	(117 470)
Balance - surplus (shortfall)	172 708	55 495	(11 410)	196 796	95 256	98 986	67 389	12 531	207 438	209 642
Asset management										
Asset register summary (WDV)	716 020	(43 392)	(25 767)	1 053 737	171 944	171 944	171 944	136 944	136 944	50 000
Depreciation	-	-	2	46 642	-	-	-	-	42 500	43 500
Renewal and Upgrading of Existing Assets	162 422	196 203	77 829	-	-	-	-	-	-	-
Repairs and Maintenance	-	4 593	385	8 419	7 518	7 518	7 518	-	6 000	5 500
Free services										
Cost of Free Basic Services provided	-	-	-	-	-	-	-	-	-	-
Revenue cost of free services provided	-	-	-	-	-	-	-	-	-	-
Households below minimum service level										
Water:	-	-	-	-	-	-	-	-	-	-
Sanitation/sewerage:	-	-	-	-	-	-	-	-	-	-
Energy:	-	-	-	-	-	-	-	-	-	-
Refuse:	-	-	-	-	-	-	-	-	-	-

Summarily the budget can be reconciled as reflected in the below table.

The proposed budget has limited capital expenditure to **R183.797 Million** of which **100%** of capital expenditure will be funded from grants.

The projection beyond 2020/21 if the cost reflective tariff increase would be a net cash position of R319.296 million and R364.609 million provided the operating costs are maintained with only CPI increases and capital expenditure being maintained within grant allocations.

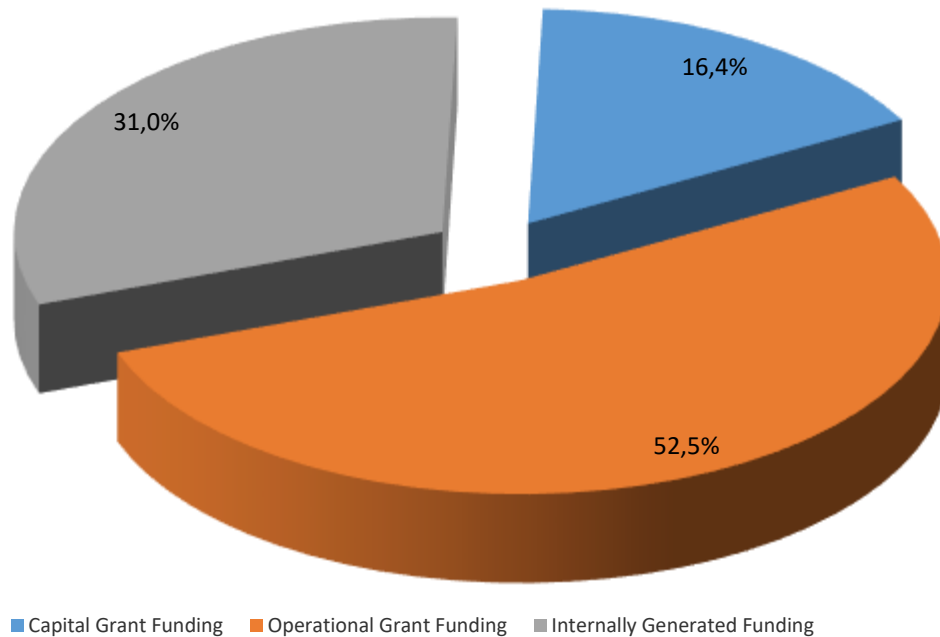
TABLE 2: EXECUTIVE SUMMARY BUDGET ESTIMATES

BUDGET ESTIMATES FOR THE 2020/21 TO 2022/23 MTREF PERIOD						
	2019/20 MTREF			2020/21 MTREF		
	<u>Original Budget 2019/20</u>	<u>Special ADJ Budget 2019/20</u>	<u>Normal ADJ Budget 2019/20</u>	<u>Budget 2020/21</u>	<u>Budget 2021/22</u>	<u>Budget 2022/23</u>
Operating Revenue	936 086 078	936 086 078	900 921 399	935 520 586	995 638 749	1 101 677 814
Operating Expenditure	913 303 867	814 753 867	813 392 918	794 754 736	837 164 123	887 764 067
Operating Surplus / (Deficit)	22 782 211	121 332 211	87 528 481	140 765 850	158 474 626	213 913 747
Capital Transfers Recognized	184 625 000	184 625 000	184 625 000	183 797 000	197 959 000	205 276 000
Surplus / (Deficit) for the year	207 407 211	305 957 211	272 153 481	324 562 850	356 433 626	419 189 747
Capital Funding	184 625 000	184 625 000	184 625 000	183 797 000	197 959 000	205 276 000
Capital Transfers	184 625 000	184 625 000	184 625 000	183 797 000	197 959 000	205 276 000
Reserves	-	-	-	-	-	-
LESS: Capital Expenditure	184 625 000	184 625 000	184 625 000	183 797 000	197 959 000	205 276 000
Budget Cash Surplus	22 782 211	121 332 211	87 528 481	140 765 850	158 474 626	213 913 747
ADD: Non-Cash Items	150 089 069	92 589 069	108 500 000	127 520 702	160 822 198	150 695 417
Net Budget Cash Position	172 871 280	213 921 280	196 028 481	268 286 552	319 296 824	364 609 163

Below is an illustration of the funding elements to the budget which reflects 69% contribution from grants and 31% from internally generated funding.

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

2020/21 Budget Funding Matrix



3. BUDGET ASSUMPTIONS

The Municipality concluded that the following assumptions be made when compiling the Budget Estimates for the 2020/2021 MTREF period:

1. At least a 40% 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 delivery and collection;
3. Increase in staff salaries of 6.25% based on the negotiated settlement currently applicable;
4. Councilors allowances budget be adjusted with 4.9% to allow for a cost of living adjustment;
5. The operational expenditure budget will limit and minimize 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. A 21% increase in bulk water cost from uMngeni Water.
10. A projected 7.2% increase in electricity charges.
11. Reduction 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.

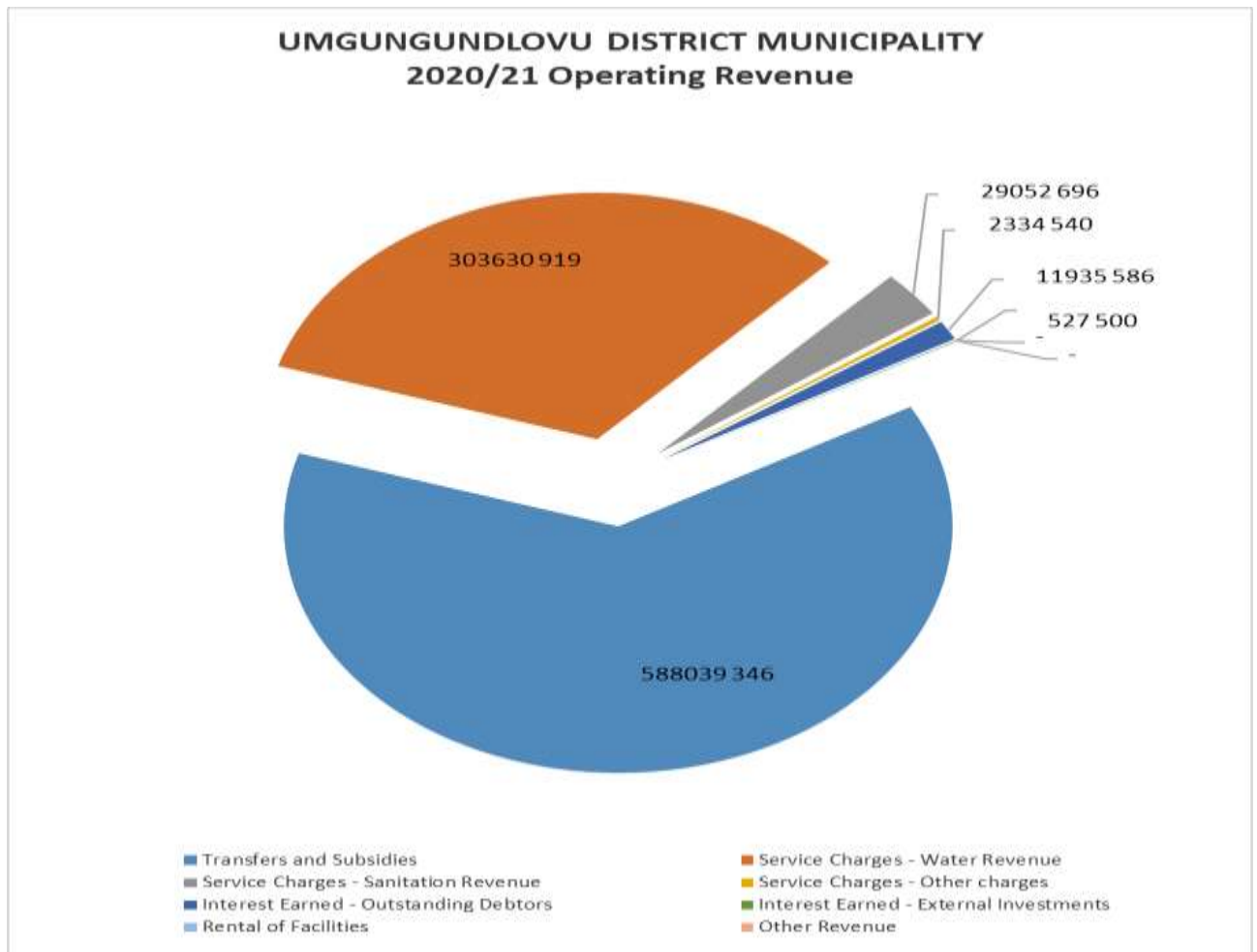
4. OPERATING REVENUE FRAMEWORK

The total operating revenue for the 2020/21 financial year is estimated to be **R935.521 Million** as reflected in Table 3. Internally generated revenue is expected to provide **31%** of operating revenue (2019/20: **29%**) with service charges representing **35.8%** of operating income. Equitable share and RSC levy replacement grant and other operating grants will contribute **62.9%** of total operating revenue (2019/20: **59.5%**). 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	2016/17	2017/18	2018/19	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
R thousand	1										
Revenue By Source											
Property rates	2	-	-	-	-	-	-	-	-	-	-
Service charges - electricity revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - water revenue	2	-	224 849	174 416	339 734	305 761	305 761	305 761	303 631	314 016	368 100
Service charges - sanitation revenue	2	-	28 433	18 731	32 493	29 244	29 244	29 244	29 053	36 786	42 297
Service charges - refuse revenue	2	-	-	-	-	-	-	-	-	-	-
Rental of facilities and equipment		-	257	11	200	200	200	200	-	-	-
Interest earned - external investments		-	8 090	99	500	500	500	500	528	557	582
Interest earned - outstanding debtors		-	39 000	31 770	5 291	6 349	6 349	6 349	11 936	14 368	13 785
Dividends received		-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits		-	-	473	-	-	-	-	-	-	-
Licences and permits		-	-	-	-	-	-	-	-	-	-
Agency services		-	-	-	-	-	-	-	-	-	-
Transfers and subsidies		-	486 777	238 164	557 118	557 568	557 568	557 568	588 039	627 451	674 049
Other revenue	2	-	7 136	4 127	1 300	1 300	1 300	1 300	2 335	2 462	2 864
Gains on disposal of PPE		-	-	-	-	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contributions)		-	794 541	467 791	936 636	900 921	900 921	900 921	935 521	995 639	1 101 678



Water and Sanitation Service Charges – Tariff Proposal

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.

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 and has been kept to the forecast inflation rate.

The proposed tariff structure is as follows:

TABLE 4. PROPOSED WATER TARIFF INCREASES, DOMESTIC AND BUSINESS

UMGUNGUNDLOVU DISTRICT MUNICIPALITY TARIFF STRUCTURE 2020/2021							
Water Supply Tariffs							
Household/Domestic							
	2019/2020	2020/2021	Consumption	Rand Value 2020/2021	Percentage		
0 - 6	13.08	13.66	319 029	4 359 179.56	4.5%		
7 - 15	25.26	26.40	858 814	22 674 163.32	4.5%		
16 - 25	30.20	31.56	715 592	22 581 648.00	4.5%		
26 - 35	41.93	43.81	363 559	15 928 262.54	4.5%		
36 - 60	58.81	61.46	429 243	26 380 648.09	4.5%		
60 +	72.29	75.54	847 810	64 042 077.80	4.5%		
				155 965 979.31			
Basic charge	38.43	42.28	31 292	1 322 909.98	10.0%		
Flat rate	240.81	251.65	3 952	994 506.77	4.5%		
Business /Commercial							
	2019/2020	2020/2021		Rand Value 2020/2021			
0 - 999999	35.84	37.81	3 887 000	146 972 954.56	5.5%		
Builder/Construction Sites							
NGO's (Public benefit)	16.20	17.09	42 292	722 968.74	5.5%		
WSA	Bulk Cost per kl plus admin fee		Bulk Cost per kl plus admin fee				
Basic charge	64.20	70.62	1 569	110 802.78	10.0%		
Total Water			Total Water Billing Revenue	7 463 339	306 090 122.13		
			LESS: Revenue Foregone		0.00		
			Total Water Service Charges		306 090 122.13		

TABLE 5. PROPOSED SANITATION TARIFF INCREASES, DOMESTIC AND BUSINESS

UMGUNGUNDLOVU DISTRICT MUNICIPALITY TARIFF STRUCTURE 2020/2021									
<u>Sewerage Tariff</u>									

As can be seen, from Table 4 and 5, the more conservative the consumption, the lesser the proposed tariff. The lowest average increase is 4.5% that takes into account the forecast inflation rate increases ensuring a minimum increase as possible while promoting conservative consumption.

Environmental Health Services – Tariff Proposal

The municipality is also responsible for environmental health matters as designated in the Municipal Structures Act.

The following aspects were considered when the tariffs for environmental health were decided upon:

- i. Users and consumers of municipal services should be treated equitable in the application of the tariffs.
- ii. The amount individual users or consumers pay for services should generally be in proportion to their use of that service.
- iii. Tariffs of charges must reflect the costs reasonably associated with rendering the service.
- iv. Tariffs of charges must be set at levels that facilitate financial sustainability of the service.

Service	Applicable Legislation	Tariffs – 2020/21
1. Issuing of health certificate for accommodation establishment	UMDM EH Bylaws, 2017 Section 90(f)	R 350
2. Issuing of health certificate for hairdressing/beauty/cosmetology	UMDM EH Bylaws, 2017 Section 107(f)	R 350
3. Issuing of health certificate for child care facility	UMDM EH Bylaws, 2017 Section 55(2)(f)	R 350
4. Offensive trade permit	UMDM EH Bylaws, 2017 Section 83(l)	R 1100
5. Issuing of a certificate for the introduction of milk and/or milk products into the municipal area for human consumption	UMDM EH Bylaws, 2017 Sect 49 (i)	R 550
6. Annual renewal of the certificate for the introduction of milk and/or milk products into the municipal area for human consumption	UMDM EH Bylaws, 2017 Section 49 (ii)	R 350
7. Re-inspection of food premises for the removal of a prohibition	Regulation 638 of 22 June 2018 Section 4	R 550
8. Issuing of an export certificate	R638 under FCD Act, 1972	R 550
9. Issuing of a destruction of food certificate	R328 under FCD Act 1972	R 250

10. Processing of certificate of acceptability for food premises	R638 under FCD Act	R350
11. Processing of Certificate of Competence	R363 of the National Health Act, 2003	R1100
12. Renewal of certificate of competence	R363 of the National Health Act, 2003	R 500
13. Processing of provisional certificate of competence	R363 of the National Health Act, 2003	R 500

Fire and Emergency Services – Tariff Proposal

The municipality is also responsible for fire and emergency services matters as designated by the Municipal Structures Act.

Except where specifically provided for, these tariffs determine the fees payable by a Controlling Authority, Governing Body or any other person in terms of Section 10 (1) of the Fire Brigade Services Act 99 of 1987 on whose behalf the Fire and Rescue Services of the uMgungundlovu District Council is applied outside or inside the area of jurisdiction of the Council:

- (a) For the attendance of services
- (b) For the use of the services and any equipment, or
- (c) For any material consumed

General Comments:

- i. Any Fire, Rescue or other emergency incident involving property or activities of the uMgungundlovu District Municipality shall not attract charges;
- ii. Any incident of a humanitarian nature or request for assistance of a humanitarian nature shall not attract charges;
- iii. Services performed in the assistance of Community projects or departmental public relations exercises and displays shall not attract charges;
- iv. The applicable attendance rate charge shall be calculated from the time that the first arriving appliance is in attendance at an incident until the last departing appliance leaves the scene at the conclusion of the incident, due allowances being made for breakdown or mishap or time occupied by relief personnel;
- v. When the time used to calculate the applicable attendance rate charge is less than 30 minutes no charge shall be raised.

Fire and Rescue Services						2019/20	2020/21	
						Incl. Vat	Incl. Vat	% Incr
Tariff of Charges for Services Rendered at Fire and Special Service Incidents								
1	For Services Rendered at Incidents Classified as Fire and Rescue:							
	per hour or part thereof							
1.1	Structural					R 1 788.18	R 1 897.26	6.10%
1.2	Transport					R 1 424.34	R 1 511.22	6.10%
1.3	Fire – Vegetation, Grass, Bush, Rubbish or Plantation					R 1 162.40	R 1 233.31	6.10%
1.4	Fire – Hazmat					R 1 788.18	R 1 897.26	6.10%
1.5	Fire – Other					R 1 112.33	R 1 180.18	6.10%
1.6	Special Service – Transport					R 891.74	R 946.14	6.10%
1.7	Special Service – Structural					R 891.74	R 946.14	6.10%
1.8	Special Service – Hazmat					R 1 788.18	R 1 897.26	6.10%
1.9	Special Service – Water					R 891.74	R 946.14	6.10%
1.10	Special Service – Other					R 891.74	R 946.14	6.10%
1.11	Out of Area							
	Applicable rate as per incident plus 50% of applicable category plus charge							
1.12	For consumables used at any incident							
	Cost of consumables used plus 15%							
2	Tariff of Charges in respect of the attendance & employment of Special Appliances and Plant to Fire & Rescue incidents							
	For the attendance and employment (per hour or part thereof) of a:							
2.1	High Rise Fire fighting Appliance					R 891.74	R 946.14	6.10%
2.2	Water Foam Carrier					R 891.74	R 946.14	6.10%
2.3	Foam Tanker and / or Foam Service Vehicle					R 891.74	R 946.14	6.10%
2.4	Mobile Lighting Unit					R 891.74	R 946.14	6.10%
3	Tariff of Charges in respect of the employment of Outside Agencies at any incident							
	For costs incurred as a result of the employment of an outside agency in:							
3.1	the mitigation of any incident					Cost incurred plus 15% of applicable charge		
4	Tariff of Charges in respect of Fire Prevention Services							
4.1	For the attendance of staff at stage/theatre performances standby duty and the like, per staff member							
	First Hour					R 178.35	R 189.23	6.10%
	Per Hour thereafter					R 95.43	R 101.25	6.10%
4.2	For scheduled inspections, consultations, inspections of safety exits & appliances in public buildings							
	First Hour					R 178.35	R 189.23	6.10%
	Per Hour thereafter					R 87.61	R 92.95	6.10%
4.3	For the monitoring of direct alarm links – per alarm p.m.					R 134.54	R 142.75	6.10%
4.4	For a certified copy of a fire report - per copy					R 178.35	R 189.23	6.10%
4.5	For issuing a certificate of Registration - per certificate					R 42.24	R 44.82	6.11%
4.6	For issuing a certificate of Competence – per certificate					R 445.87	R 473.07	6.10%
4.7	For a copy of a Fire Investigation Report - per copy					R 663.33	R 703.79	6.10%
10	Tariff of Charges in respect of Various Miscellaneous Services and Hire Charges							
	per hour or part thereof in respect of 10.1 – 10.4							
10.1	Hire of Portable Pump and related equipment					R 331.67	R 351.90	6.10%
10.2	Hire of Extension Ladder					R 331.67	R 351.90	6.10%
10.3	Gaining Access/Lock-Outs					R 331.67	R 351.90	6.10%
10.4	Miscellaneous Service – per service					R 331.67	R 351.90	6.10%
10.5	In addition to the above applicable charge, mileages for out of area call- outs are as follows - per km							
	Heavy duty vehicles					R 8.29	R 8.80	6.10%
	Light duty vehicles					R 4.98	R 5.28	6.10%

5. OPERATING EXPENDITURE FRAMEWORK

The total operational expenditure budget is proposed at **R794.754 Million**. This represents a decrease of 2.29% from the 2019/20 operational expenditure adjusted budget.

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 ensue 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.

TABLE 6: OPERATING EXPENDITURE ESTIMATES

DC22 uMgungundlovu - Table A4 Consolidated Budgeted Financial Performance (revenue and expenditure)											
Description	Ref	2016/17	2017/18	2018/19	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
Expenditure By Type											
Employee related costs	2	-	241 305	171 154	283 677	252 508	252 508	252 508	272 011	288 280	326 905
Remuneration of councillors		-	11 628	7 732	12 941	12 941	12 941	12 941	13 782	14 168	14 820
Debt impairment	3	-	111 144	-	107 589	65 000	65 000	65 000	83 747	114 687	102 438
Depreciation & asset impairment	2	-	46 642	27 007	42 500	43 500	43 500	43 500	43 774	46 135	48 257
Finance charges		-	11 502	13 426	27 550	27 550	27 550	27 550	27 550	27 550	28 817
Bulk purchases	2	-	161 412	139 789	142 500	165 325	165 325	165 325	154 532	162 752	165 902
Other materials	8	-	-	5 085	31 676	26 900	26 900	26 900	16 106	5 346	7 509
Contracted services		-	214 656	133 709	201 617	184 242	184 242	184 242	154 564	147 710	144 571
Transfers and subsidies		-	-	-	5 084	5 084	5 084	5 084	6 500	7 000	7 322
Other expenditure	4, 5	-	40 885	30 563	71 472	41 063	41 063	41 063	22 189	23 535	41 222
Loss on disposal of PPE		-	-	-	-	-	-	-	-	-	-
Total Expenditure		-	839 174	528 467	926 606	824 113	824 113	824 113	794 755	837 164	887 764

Overall, the operational budget decreased by 2.29% from the 2019/20 adjustment budget, a rate which is way below the inflation rate.

The main expenditure categories for the operational expenditure budget are Employee costs & councilor remuneration taking an allocation of 36%, followed by bulk water purchases and contracted services at 19.4% respectively, debt impairment contributions at 10.5% then depreciation and asset impairment at 5.5%. These costs collectively represent **90.9%** 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 **19.4%** 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 22.4% contribution.

In the prior year, contracted services represented 22.4% 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%.

Employee Related Costs and Councilors Allowances

Employee Related Costs are at **34.2%** of the operational budget, combined with Councilor Remuneration, the salaries budget is at **36%** 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.

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. Of the capital budget, **90%** of the capital budget is directed to water infrastructure, **8.6%** towards sanitation, **1.4%** for rural road asset management system.

The capital investment is responsive to the municipalities core functions.

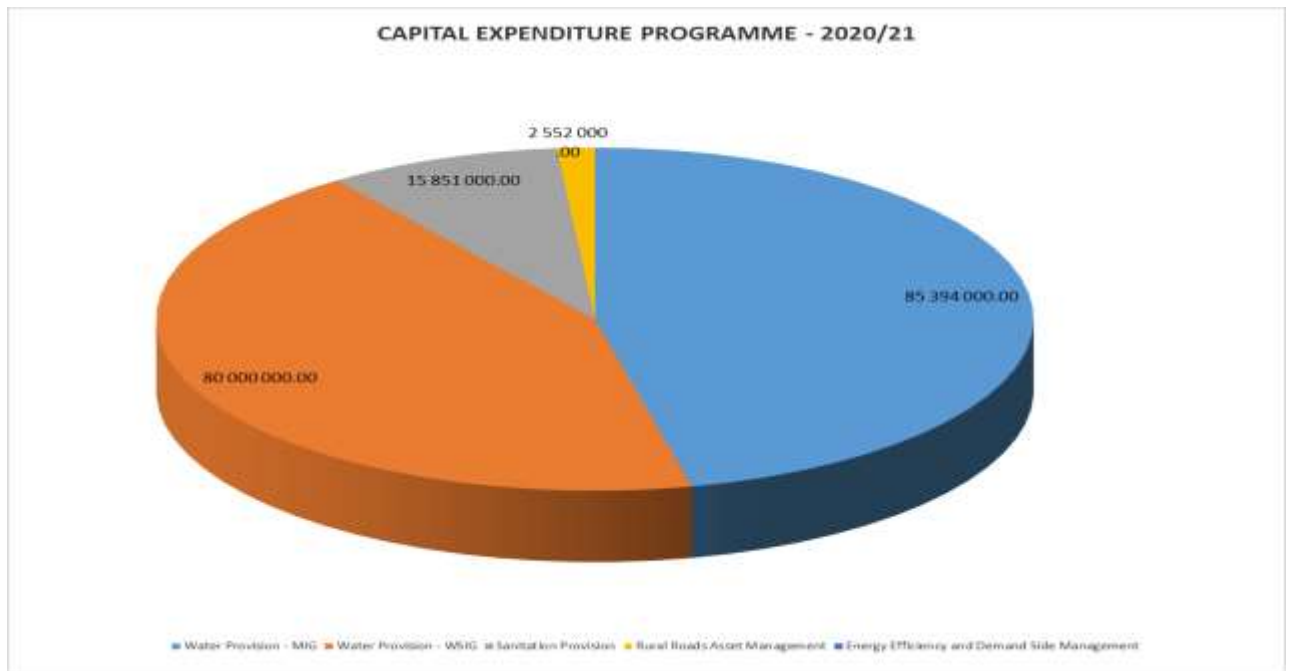
TABLE 7: CAPITAL EXPENDITURE PROGRAMME

<u>Project Name</u>	<u>Funding Source</u>	2019/20 MTREF	2020/21 MTREF				
		<u>Budget 2019/20</u>	<u>Budget 2020/21</u>	<u>Budget 2021/22</u>	<u>Budget 2022/23</u>	<u>Total Allocation</u>	
CAPEX Summary							
Projects							
Water Provision - MIG	MIG	91 944 000.00	85 394 000.00	78 487 522.00	85 088 522.00	248 970 044.00	46.5%
Water Provision - WSIG	WSIG	80 000 000.00	80 000 000.00	85 000 000.00	80 560 000.00	245 560 000.00	43.5%
Sanitation Provision	MIG	10 000 000.00	15 851 000.00	31 778 478.00	31 778 478.00	79 407 956.00	8.6%
Rural Roads Asset Management	RRAMS	2 681 000.00	2 552 000.00	2 693 000.00	2 849 000.00	8 094 000.00	1.4%
Energy Efficiency and Demand Side Management	EEDSM		-	-	5 000 000.00	5 000 000.00	0.0%
		184 625 000.00	183 797 000.00	197 959 000.00	205 276 000.00	587 032 000.00	100.0%

The capital expenditure program is proposed to be allocated to the following projects over the 2020/21 MTREF period:

TABLE 8: CAPITAL EXPENDITURE PROJECTS

Project Name	Funding Source	2019/20 MTREF	2020/21 MTREF			
		Budget 2019/20	Budget 2020/21	Budget 2021/22	Budget 2022/23	Total Allocation
Water Provision						
Nkanyezini Water	MIG	4 900 000.00	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
Mpolweni, Thokozani, Claridge	MIG	10 317 481.66	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	7 000 000.00		19 000 000.00
Maqonqo Water	MIG	8 258 212.51	300 000.00			300 000.00
Manyavu Water	MIG	17 289 246.56	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	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	4 168 824.00		24 168 824.00
KwaMathwanya Water Reticulation	MIG	400 000.00	11 769 600.00	80 176.00		11 849 776.00
		95 444 000.00	95 245 000.00	87 249 000.00	80 000 000.00	262 494 000.00
Water Provision						
Nadi - Efaye Phase 2(uMshwathi Regional Bulk)	WSIG	49 000 000.00	28 800 000.00			28 800 000.00
Mtulwa & Mt. Alias Phase 3A (uMshwathi Regional Bulk)	WSIG	1 200 000.00	300 000.00			300 000.00
Nadi to Ekhamanzi Phase 3B	WSIG	27 000 000.00	30 000 000.00	-	-	30 000 000.00
Greater Efaye	WSIG	2 800 000.00	20 900 000.00	85 000 000.00	70 560 000.00	176 460 000.00
Ozwathini	WSIG				10 000 000.00	10 000 000.00
		80 000 000.00	80 000 000.00	85 000 000.00	80 560 000.00	245 560 000.00
			-	-	-	-
Sanitation Provision						
uMshwath VIP Backlog Toilets	MIG	1 500 000.00	1 000 000.00	4 920 000.00	4 920 000.00	10 840 000.00
Impendle VIPBacklog Toilets	MIG	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	2 920 000.00	4 920 000.00	8 840 000.00
Umgengi VIP Backlog Toilets	MIG	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	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	7 177 000.00	7 177 000.00	15 354 000.00
		6 500 000.00	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	2 992 000.00	2 849 000.00	8 677 000.00
		2 681 000.00	2 836 000.00	2 992 000.00		8 677 000.00



7. RESOLUTIONS

1. Council considers the draft budget estimates for the 2020/21 – 2022/23 MTREF period as follows:

- a) The proposed draft budget funding of **R1 119 317 586** be approved for the 2020/21 financial year as well as **R1 193 597 749** and **R1 306 953 813** as estimated for the 2021/22 as well as the 2022/23 financial years, respectively, to be funded from the following:

	2020/21	2021/22	2022/23
Operating Revenue	R935 520 586	R995 638 749	R1 101 677 814
Grant Funding	R183 797 000	R197 959 000	R 205 276 000

- b) The proposed draft expenditure appropriations of **R978 551 736** be approved for the 2020/21 financial year as well as **R1 035 123 123** and **R1 1 092 870 067** as estimated for the 2021/22 as well as the 2022/23 financial years, respectively, and be allocated as follows:

	2020/21	2021/22	2022/23
Operating Expenditure	R794 754 736	R837 164 123	R887 594 067
Capital Programme	R183 797 000	R197 959 000	R205 276 000

- c) The capital expenditure programme of **R183 797 000** be approved for the 2020/21 financial year as well as **R197 959 000** and **R205 276 000** for the 2021/22 as well as the 2022/23 financial years respectively and funded from the following sources:

	2020/21	2021/22	2022/23
MIG	R101 245 000	R110 266 000	R116 867 000
WSIG	R 85 000 000	R 85 000 000	R 80 560 000
RRAMS	R 2 552 000	R 2 693 000	R 2 849 000

- d) The funding allocation for UMEDA be pegged at R6 500 000 for the 2020/21 financial year and provisionally pegged at R7 000 000 and R7 322 000 for the 2021/22 and 2022/23 financial years respectively;

2. The tariff charges for water and sanitation be increased as follows:

UMGUNGUNDLOVU DISTRICT MUNICIPALITY TARIFF STRUCTURE 2020/2021

Water Supply Tariffs

Household/Domestic							
	2019/2020		2020/2021	Consumption		Rand Value 2020/2021	Percentage
0 - 6	13.08		13.66	319 029		4 359 179.56	4.5%
7 - 15	25.26		26.40	858 814		22 674 163.32	4.5%
16 - 25	30.20		31.56	715 592		22 581 648.00	4.5%
26 - 35	41.93		43.81	363 559		15 928 262.54	4.5%
36 - 60	58.81		61.46	429 243		26 380 648.09	4.5%
60 +	72.29		75.54	847 810		64 042 077.80	4.5%
						155 965 979.31	
Basic charge	38.43		42.28	31 292		1 322 909.98	10.0%
Flat rate	240.81		251.65	3 952		994 506.77	4.5%

Business /Commercial	2019/2020		2020/2021			Rand Value 2020/2021	
0 - 999999	35.84		37.81	3 887 000		146 972 954.56	5.5%
Builder/Construction Sites							
NGO's (Public benefit)	16.20		17.09	42 292		722 968.74	5.5%
WSA	Bulk Cost per kl plus admin fee		Bulk Cost per kl plus admin fee				
Basic charge	64.20		70.62	1 569		110 802.78	10.0%

Total Water		Total Water Billing Revenue	7 463 339		306 090 122.13
		LESS: Revenue Foregone			0.00
		Toat Water Service Charges			306 090 122.13

Sewerage Tariff

Household/Domestic							Sewer
	2019/2020		2020/2021	Consumption		Rand Value 2020/2021	
0 - 6	7.35		7.68	29 721		228 232.98	4.5%
7 - 15	13.17		13.76	488 281		6 717 999.49	4.5%
16 - 25	17.02		17.79	366 975		6 528 322.86	4.5%
26+	21.45		22.42	439 958		9 862 871.97	4.5%
						23 337 427.31	

Business /Commercial	2019/2020		2020/2021	Consumption		Rand Value 2020/2021	
0 - 999999999	15.17		16.01	356 928		5 713 680.94	5.5%
NGO's (public benefit)						5 713 680.94	

Total Sanitation				1 681 863		29 051 108.25
Total Water and sanitation						335 141 230.38

Disposal at waste water treatment plant	2019/2020		2020/2021	Rand Value 2020/2021	
0 - 999999999	8.20		8.65	2 768 320.00	5.5%

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;
4. The Accounting Officer publishes the draft budget and solicits public inputs on the budget as required by Sec 22 of the MFMA as well as Chapter 4 of the Municipal Systems Act

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 40% 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 delivery and collection;
3. Increase in staff salaries of 6.25% based on the negotiated settlement currently applicable;
4. Councilors allowances budget be adjusted with 4.9% to allow for a cost of living adjustment;
5. The operational expenditure budget will limit and minimize 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. A 21% increase in bulk water cost from uMgeni Water.
10. A projected 7.2% increase in electricity charges.
11. Reduction 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 2020/21 MTREF in May 2020.

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.

2.3 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 2019) 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 2019. Key dates applicable to the process were:

- **July 2019** – 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 2020/21 MTREF;
- **January 2020** – Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
- **January 2020** - 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 2020** – Multi-year budget proposals are submitted to the Management Committee for endorsement;
- **24 January 2020** - Council considers the 2019/20 Mid-year Review and Budget Implementation;
- **February 2020** - Council considers the 2019/20 Mid-year Adjustments Budget;
- **March 2020** - 2020/21 Recommendations of the proposed budget estimates are communicated to the Budget Steering Committee, the Executive Committee and to the respective departments;
- **30 March 2020** - Tabling in Council of the draft 2020/21 IDP and budget estimates for public consultation;
- **April 2020** – Public consultation;
- **08 May 2020** - Closing date for written comments;
- **11 to 15 May 2020** – finalization of the 2020/21 IDP and 2020/21 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
- **29 May 2020** - Tabling of the 2020/21 MTREF before Council for consideration and approval.

Due to the outbreak of the COVID 19 virus and the country being put under lockdown by the President, there were drastic changes to the budget processes. Public consultations were done in smaller groups and through electronic means of communication.

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

2019/20 MTREF	2020/21 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 2020