

SECTION F: FINANCIAL PLAN

The ZDM Financial Plan to be updated in the Final IDP Review, once the budget for 2013/2014 has been finalized.

1. MUNICIPAL FINANCIAL PLANNING

The purpose of the financial plan is to set out details of the financial issues that need to be addressed in a financial year. It is meant to be a tool to highlight any financial shortcomings. Financial planning is the organization of financial data for the purpose of developing a strategic plan to constructively manage revenue, expenditure, assets and liabilities to meet short, medium and long-term goals and objectives. Roy Diliberto contends that financial planning is looking at the future and brings it back to the present while you can still do something about it. It is therefore imperative to scrutinize the state of the municipal finances with regards to possible future income sources and the areas where such income is likely to be applied given the present level of backlogs and community priorities. The Financial Plan is a tool that is generally used by municipalities to influence the contents of the IDP so as to ensure that the IDP is actually funded and that Cash is actually available to implement projects in terms of Municipal IDP objectives.

In order to ensure that projects identified in the IDP are implemented through sound financial planning, the municipality needs to ensure that:

- A financial plan is developed specifying the projects to be undertaken, the associated time frames within which they are to be completed as well as sources of funding for the projects.
- The projects are prioritized in terms of the needs of the community.

The IDP is linked to financial planning. A financial plan involves producing a medium term (five year) projection of capital and operating expenditure. The projections include an overall overview of likely future tariffs assuming that all other things remain equal. For example if Eskom increases tariffs above the general norm, then the water tariffs will have to be increased accordingly.

2. EXTRACTS FROM THE MAYOR'S REPORT ON THE PROPOSED BUDGET FOR 2013/2014**2.1 BUDGET SUMMARY**

Table 85: Budget Summary for 2013/2014

BUDGET	2012/2013	2013/2014	% INCREASE
Total operating budget	R 417,737,782	R 449,212,547	8%
Capital budget	R 420,710,152	R 384 928 401	-9%
Total budget	R 838,447,934	R 834,140,949	-1%

The Total Budget increased by R4,306,985.

2.1.1 HIGHLIGHTS OF OPERATING EXPENDITURE

Employee Related Costs

The employee related costs comprises 30% of the total operating budget. The primary reason for the increase is the pension contribution of 35%, an annual increment of 6.95% including the notch increases and Indonsa staff becoming permanent.

Remuneration of Councilors

A 6.95% increment for Councilor's remuneration is provided for.

Working Capital Reserve

This is the provision for doubtful debts as a result of a non-collection level. The 5.5% increase is based on the projected inflation level.

Depreciation

This is a non cash item budgeted for as per the stipulation of the new accounting standards and is funded from backlog depreciation. The 5.5% increase is based preliminary 2012/2013 depreciation calculation.

Collection costs

This is a provision for collection costs and legal fees by external parties. The provision has increased due to planned vigorous collection including the use of collection agents.

Repairs and Maintenance

Buildings

The budgeted amount is for the maintenance of municipal buildings.

Vehicles

The 5% increased is provided for due to the high expenditure on maintenance of the water tankers and the poor conditions of vehicles. New water tankers were budgeted for to add to the existing fleet of vehicles and this will also necessitate maintenance.

Operation Rural Water Schemes

These funds are set aside for the maintenance of rural water schemes and to ensure sustainability of such schemes. The funds set aside for Repairs and Maintenance actually increased by R 1,117,562. The 6% increase is an inflation provision.

Refurbishment and maintenance.

The 6% increase is due to inflation provision and the fact that Water and sanitation treatment plants need to be refurbished regularly to ensure sustainable and reliable water supply.

Moreover, the number of water scheme has increased.

Bulk Water Purification and Sewerage Treatment

Bulk sewerage treatment and bulk water purification is based on the existing contract and there are no major increases except for the 5.5% provision increase. In addition a budget has been set aside for the purchase of raw water from the Department of Water Affairs (DWA). Previously DWA did not charge although they are legally authorized to.

Bulk electricity has also increased by as a result of the expected above average increment by Eskom (8%) and the contribution towards the new electricity network for the Water and Waste Water Treatment plants.

Grants and Subsidies Paid

The Grants and Subsidies have been phased out as there are no more grants received as part of equitable share. The only grants that are still payable to the local municipalities are the Tourism grants to local municipalities and the Water Services Provider grant to Abaqulusi local municipality.

General Expenses

Table 86: General Expenses with a Direct Impact on Communities

General Expense Items with an impact on Communities	Budget
Disaster Portfolio Projects	1,336,896
Unallocated Projects	8,000,000
Poverty Alleviation	2,000,000
Local Economic Development (LED)	3,000,000
Community Development	2,500,000
Community Participation	2,000,000
Emergency Water	20,000,000
Budget and IDP Community Participation	6,000,000
Women's Day Celebration	633,000
Annual report back/State of the District Address	700,000
Elderly Function	2,000,000
Kids Christmas Party	650,000
Marathon	600,000
SALGA Games	3,000,000
Mayoral Cup	600,000
LED Ward Projects (R60000 per ward):	
• Abaqulusi	1,320,000
• Edumbe	480,000
• Pongola	840,000
• Nongoma	1,260,000
• Ulundi	1,440,000
Widows & Orphans	1,780,000
Tourism Portfolio Project	356,506
Youth Day Celebration	550,000
Youth Summit	280,000
Women Summit	300,000
Ingoma Dance Competition	316,500
Music Festival	1,000,000
Water Loss Reduction	3,342,240
External Bursaries	625,000
Sports Development	600,000
Indigenous Games	300,000
Gender Conference	211,000
Disability Programmes	450,000
Princess Mandisi Health Care Centre	450,000
Youth Affairs (Drivers licenses)	70,000
School Uniforms	250,000
Widows and Orphans Event	500,000
Total Community and Social Expenditure	69,741,142

Table 87: Capital Expenditure

Vehicles	3,000,000
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Furniture and Equipment	844,294
Computers	1,059,980
Software & Licenses	1,481,726
WSP STORES	2,000,000
Electronic Document Management System	669,161
New Offices	4,500 000
Meters	3,342,240
WATER TANKERS	3,000,000
COMMUNITY HALL	6,000,000
Sub Total	25,897,401

DWA-Funds <ul style="list-style-type: none"> <i>DWA Grant has decreased by R9 259 000 from R64 600 000</i> 	55 341 000
MIG Funds <ul style="list-style-type: none"> <i>MIG has decreased by R 13 942 000 from R275 487 000 to R261 545 000</i> 	261 545 000
Municipal water infrastructure Gant	37 170 000
ACIP	640 000
INFRASTRUCTURE SPORT FACILITIES	2,469,000
Rural Roads Asset Management	1 866 000
Sub Total	359,031,000

Total Capital

R 384,928,401

2.1.2 HIGHLIGHTS OF OPERATING INCOME

The sources of funding are important to ensure that the budget is actually funded and cash backed. The following items warrant specific mention:

Sale of Water and Sewerage Fees

Sale of water is based on the proposed tariff structure. The amounts budgeted for has not taken into account the payment level and as a result, an amount of R3 403 7111 has been set aside as a provision for working capital reserve (provision for non-collection).

Rent of Facilities

The income is expected from renting of pack homes by WSSA and IEC. The increase is expected to be 5%.

Interest Income

Interest Income is expected to increase as a result of interest rates, from R 12 566 926 to 13 981,389.

Equitable Share

Equitable share has been substantially increased by R18 076 from R258 854 000 to R276 930 000.

Table 88: Other Operation Income Expected

Water Service Operating Subsidy	8,821,000
Water Service Operating Subsidy (Capacity Building)	300 000
Indonsa Grant	1,639,000
EPWP	2,942,000
MSIG	890,000
FMG	1,250,000
TOTAL	15,842,000

2.1.3 HIGHLIGHTS OF CAPITAL INCOME

To be updated in the Final IDP Review.

Table 89: Capital Income

Capital Income	Budget
Own revenue	R 19 655 516
MIG	R 275 487 000
DWAF	R 81 100 000
Airport Grant	R 20 000 000
Rural Roads Asset Management	R 1 776 000
TOTAL	R 398 018 516

3. ZDM 2012/2013 BUDGET

To be included in the Final IDP Review.

Section 26(h) of the Municipal Systems Act provides that an integrated development plan must reflect a financial plan, which must include a budget projection for at least the next three years.

Table 90: Operating Expenditure 2012/2013

OPERATING CATEGORIES	2011/2012	2012/2013	PERCENTAGE
Salaries	85,554,043	98,498,909	26%
Councillor Allowance	5,466,680	5,938,643	2%
Repairs and Maintenance	40,232,314	40,646,119	10.70%
Bulk Purchases	52,428,908	71,788,590	19%
General Expenses	122,612,604	122,825,370	33%
Depreciation	33,108,000	31,573,791	8%
Grants and Subsidies	1,080,879	1,151,732	0.30%
Other	3,600,589	4,524,459	1%
Grand Total	344,084,017	376,947,613	100%

Figure 39: Operating Expenditure 2012/2013

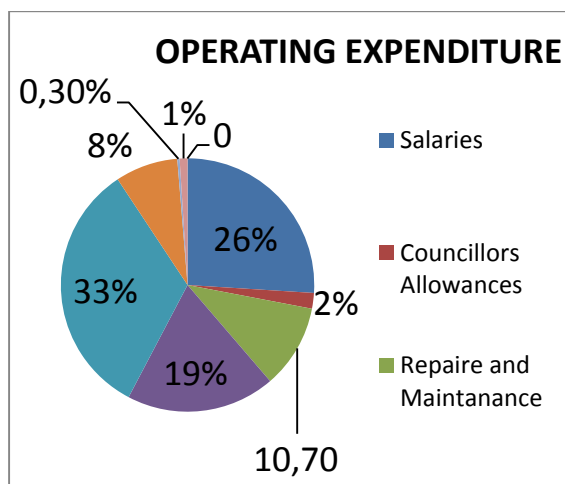


Figure 40: Operating Income 2012/2013

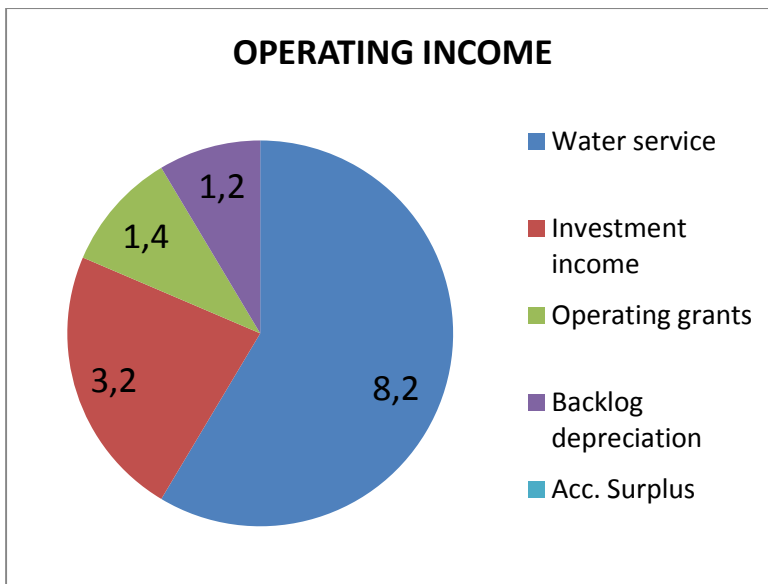
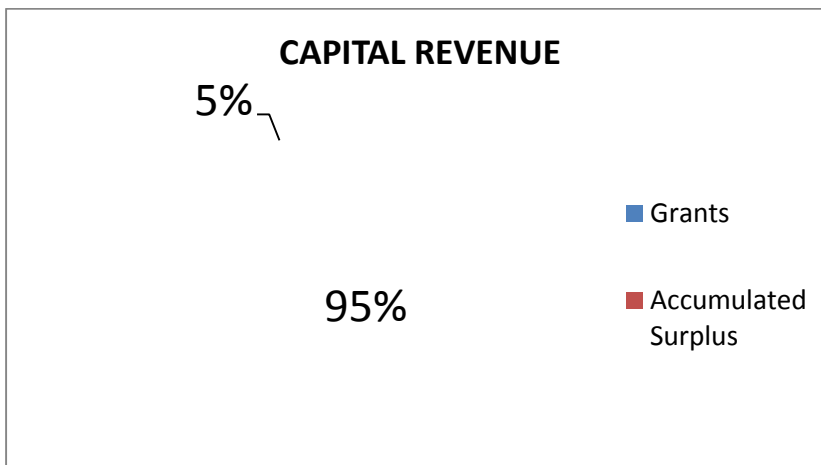


Table 91: Capital Revenue 2012/2013

CAPITAL REVENUE	2011/2012	2012/2013	PERCENTAGE
GRANTS	287,100,000	378,363,000	95%
ACCUMULATED SURPLUS	19,264,000	19,655,516	5%
TOTAL	R 306,364,000	398,018,516	100%

Figure 41: Capital Revenue 2012/2013



Operating grants represent a major portion of the Zululand District Municipality’s Operating budget because the district is predominantly rural.

Table 92: Budgeted Financial Position

Description R thousand	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
ASSETS										
Current assets										
Cash	77 663	148 170	5							
Call investment deposits	-	-	175 008	-	-	-	-	-	-	-
Consumer debtors	3 633	6 288	3 973	3 123	3 123	3 123	3 123	6 766	-	-
Other debtors	4 565	9 566	3 287							
Current portion of long-term receivables	41 878	41	22 004							
Inventory	904	3 993	1 870							
Total current assets	128 643	168 058	206 147	3 123	3 123	3 123	3 123	6 766	-	-
Non current assets										
Long-term receivables	859	1 049	2 516							
Investments										
Investment property										
Investment in Associate										
Property, plant and equipment	1 071 383	1 167 616	1 293 664	248 052	313 052	313 052	313 052	398 019	353 063	333 745
Agricultural										
Biological										
Intangible	379	265	211							
Other non-current assets										
Total non current assets	1 072 622	1 168 929	1 296 390	248 052	313 052	313 052	313 052	398 019	353 063	333 745
TOTAL ASSETS	1 201 266	1 336 988	1 502 538	251 175	316 175	316 175	316 175	404 785	353 063	333 745
LIABILITIES										
Current liabilities										
Bank overdraft			30 395							
Borrowing	1 265	1 544	34 666	-	-	-	-	-	-	-
Consumer deposits	3 265	3 263	3 279							
Trade and other payables	79 233	84 056	89 391	-	-	-	-	-	-	-
Provisions										
Total current liabilities	83 762	88 864	157 731	-	-	-	-	-	-	-
Non current liabilities										
Borrowing	4 364	3 153	1 362	1 265	1 265	1 265	1 265	-	-	-
Provisions	-	-	-	-	-	-	-	-	-	-

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Description	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 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 2012/13	Budget Year +1 2013/14
Total non current liabilities	4 364	3 153	1 362	1 265	1 265	1 265	1 265	–	–	–
TOTAL LIABILITIES	88 126	92 017	159 093	1 265	1 265	1 265	1 265	–	–	–
NET ASSETS	1 113 139	1 244 971	1 343 444	249 910	314 910	314 910	314 910	404 785	353 063	333 745
COMMUNITY WEALTH/EQUITY										
Accumulated Surplus/(Deficit)	1 113 139	1 244 971	1 343 444	249 910	314 910	314 910	314 910	404 785	353 063	333 745
Reserves	–	–	–	–	–	–	–	–	–	–
Minorities' interests	–	–	–	–	–	–	–	–	–	–
TOTAL COMMUNITY WEALTH/EQUITY	1 113 139	1 244 971	1 343 444	249 910	314 910	314 910	314 910	404 785	353 063	333 745

Table 93: Budget Summary

Description	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 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 2012/13	Budget Year +1 2013/14
Financial Performance										
Property rates	–	–	–	–	–	–	–	–	–	–
Service charges	18 322	17 692	23 686	19 901	19 901	19 901	19 901	33 163	–	–
Investment revenue	21 195	9 351	12 317	12 067	12 067	12 067	12 067	12 567	13 246	13 961
Transfers recognised - operational	–	410 015	418 603	238 063	252 063	252 063	252 063	271 333	290 097	311 448
Other own revenue	351 821	2 792	2 092	48 803	60 053	60 053	60 053	61 884	50 639	49 921
Total Revenue (excluding capital transfers and contributions)	391 338	439 851	456 698	318 834	344 084	344 084	344 084	378 948	353 982	375 330
Employee costs	59 638	74 960	84 261	85 304	85 304	85 304	85 304	98 499	105 432	115 027
Remuneration of councillors	4 934	5 039	4 792	5 467	5 717	5 717	5 717	5 939	6 479	7 069
Depreciation & asset impairment	30 029	31 979	31 574	33 108	33 108	33 108	33 108	31 574	–	–
Finance charges	833	697	618	310	310	310	310	50	53	56
Materials and bulk purchases	25 188	35 064	39 166	49 929	52 429	52 429	52 429	71 789	75 665	79 751
Transfers and grants	813	845	900	1 081	1 081	1 081	1 081	1 152	490	490
Other expenditure	145 930	160 762	165 223	103 403	125 903	125 903	125 903	129 300	123 021	127 784
Total Expenditure	267 365	309 346	326 534	278 602	303 852	303 852	303 852	338 301	311 141	330 176
Surplus/(Deficit)	123 973	130 505	130 164	40 232	40 232	40 232	40 232	40 646	42 841	45 154
Transfers recognised - capital	–	–	–	228 788	293 788	293 788	293 788	378 363	338 670	318 575

ZULULAND IDP REVIEW 2013/2014

Description	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 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 2012/13	Budget Year +1 2013/14
Contributions recognised - capital & contributed assets	-	-	-	19 264	19 264	19 264	19 264	19 656	14 393	15 170
Surplus/(Deficit) after capital transfers & contributions	123 973	130 505	130 164	288 284	353 284	353 284	353 284	438 665	395 904	378 900
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) for the year	123 973	130 505	130 164	288 284	353 284	353 284	353 284	438 665	395 904	378 900
Capital expenditure & funds sources										
Capital expenditure	1 071 383	1 167 616	1 463 068	248 052	313 052	313 052	368 052	398 019	353 063	333 745
Transfers recognised - capital	1 071 383	1 167 616	1 463 068	267 316	332 316	332 316	332 316	398 019	353 063	333 745
Public contributions & donations	-	-	-	-	-	-	-	-	-	-
Borrowing	-	-	-	-	-	-	-	-	-	-
Internally generated funds	-	-	-	-	-	-	-	-	-	-
Total sources of capital funds	1 071 383	1 167 616	1 463 068	267 316	332 316	332 316	332 316	398 019	353 063	333 745
Financial position										
Total current assets	128 643	168 058	206 147	3 123	3 123	3 123	3 123	6 766	-	-
Total non current assets	1 072 622	1 168 929	1 296 390	248 052	313 052	313 052	313 052	398 019	353 063	333 745
Total current liabilities	83 762	88 864	157 731	-	-	-	-	-	-	-
Total non current liabilities	4 364	3 153	1 362	1 265	1 265	1 265	1 265	-	-	-
Community wealth/Equity	1 113 139	1 244 971	1 343 444	249 910	314 910	314 910	314 910	404 785	353 063	333 745
Cash flows										
Net cash from (used) operating	108 037	196 602	155 853	324 212	339 215	339 215	339 215	432 819	357 134	338 186
Net cash from (used) investing	(193 658)	(124 969)	(157 685)	(248 052)	(313 052)	(313 052)	(313 052)	(398 019)	(353 063)	(333 745)
Net cash from (used) financing	(1 255)	(1 087)	(1 720)	-	-	-	-	-	-	-
Cash/cash equivalents at the year end	77 624	148 170	144 618	224 330	174 333	174 333	174 333	219 133	223 204	227 645
Cash backing/surplus reconciliation										
Cash and investments available	77 663	148 170	144 618	-	-	-	-	-	-	-
Application of cash and investments	70 937	(299 899)	(81 264)	(3 123)	(3 123)	(3 123)	(3 123)	(8 165)	-	-
Balance - surplus (shortfall)	6 725	448 069	225 882	3 123	3 123	3 123	3 123	8 165	-	-
Asset management										
Asset register summary (WDV)	379	265	211	-	-	-	-	-	-	-
Depreciation & asset impairment	30 029	31 979	31 574	33 108	33 108	33 108	31 574	31 574	-	-
Renewal of Existing Assets	1 071 383	1 167 616	-	361 364	361 364	361 364	361 364	-	-	-

Description	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 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 2012/13	Budget Year +1 2013/14
Repairs and Maintenance	19 277	26 128	27 837	40 232	40 232	40 232	40 646	40 646	42 841	45 154
Free services										
Cost of Free Basic Services provided	-	-	-	-	-	-	-	-	-	-
Revenue cost of free services provided	-	-	-	-	-	-	-	-	-	-
Households below minimum service level										
Water:	59	-	54	-	-	-	48	48	46	46
Sanitation/sewerage:	79	-	70	-	-	-	-	-	-	-
Energy:	-	-	-	-	-	-	-	-	-	-
Refuse:	-	-	-	-	-	-	-	-	-	-

Table 94: Municipal Revenue and Expenditure

Description	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 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 2012/13	Budget Year +1 2013/14
Revenue By Source										
Property rates	-	-	-	-	-	-	-	-	-	-
Property rates - penalties & collection charges	-	-	-	-	-	-	-	-	-	-
Service charges - electricity revenue	-	-	-	-	-	-	-	-	-	-
Service charges - water revenue	13 118	12 209	16 239	15 105	15 105	15 105	15 105	24 952	-	-
Service charges - sanitation revenue	5 204	5 483	7 447	4 796	4 796	4 796	4 796	7 820	-	-
Service charges - refuse revenue	-	-	-	-	-	-	-	392	-	-
Service charges - other	-	-	-	-	-	-	-	-	-	-
Rental of facilities and equipment	83	95	84	-	-	-	-	-	-	-
Interest earned - external investments	21 195	9 351	12 317	12 067	12 067	12 067	12 067	12 567	13 246	13 961
Interest earned - outstanding debtors	272	914	574	-	-	-	-	-	-	-
Dividends received	-	-	-	-	-	-	-	-	-	-
Fines	-	-	-	-	-	-	-	-	-	-
Licences and permits	-	-	-	-	-	-	-	-	-	-
Agency services	-	-	-	-	-	-	-	-	-	-

ZULULAND IDP REVIEW 2013/2014

Description	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 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 2012/13	Budget Year +1 2013/14
Transfers recognised - operational		410 015	418 603	238 063	252 063	252 063	252 063	271 333	290 097	311 448
Other revenue	351 405	1 586	1 411	48 803	60 053	60 053	60 053	61 884	50 639	49 921
Gains on disposal of PPE	61	197	23							
Total Revenue (excluding capital transfers and contributions)	391 338	439 851	456 698	318 834	344 084	344 084	344 084	378 948	353 982	375 330
Expenditure By Type										
Employee related costs	59 638	74 960	84 261	85 304	85 304	85 304	85 304	98 499	105 432	115 027
Remuneration of councillors	4 934	5 039	4 792	5 467	5 717	5 717	5 717	5 939	6 479	7 069
Debt impairment			14 996	3 055	3 055	3 055	3 055	3 226	4 071	4 441
Depreciation & asset impairment	30 029	31 979	31 574	33 108	33 108	33 108	33 108	31 574	-	-
Finance charges	833	697	618	310	310	310	310	50	53	56
Bulk purchases	25 188	35 064	39 166	49 929	52 429	52 429	52 429	71 789	75 665	79 751
Other materials										
Contracted services	3 008	3 707	4 344	10 759	10 759	10 759	10 759	13 757	14 500	15 283
Transfers and grants	813	845	900	1 081	1 081	1 081	1 081	1 152	490	490
Other expenditure	142 921	157 056	145 883	89 588	112 088	112 088	112 088	112 317	104 451	108 060
Loss on disposal of PPE										
Total Expenditure	267 365	309 346	326 534	278 602	303 852	303 852	303 852	338 301	311 141	330 176
Surplus/(Deficit)	123 973	130 505	130 164	40 232	40 232	40 232	40 232	40 646	42 841	45 154
Transfers recognised - capital				228 788	293 788	293 788	293 788	378 363	338 670	318 575
Contributions recognised - capital	-	-	-	19 264	19 264	19 264	19 264	19 656	14 393	15 170
Contributed assets										
Surplus/(Deficit) after capital transfers & contributions	123 973	130 505	130 164	288 284	353 284	353 284	353 284	438 665	395 904	378 900
Taxation										
Surplus/(Deficit) after taxation	123 973	130 505	130 164	288 284	353 284	353 284	353 284	438 665	395 904	378 900
Attributable to minorities										
Surplus/(Deficit) attributable to municipality	123 973	130 505	130 164	288 284	353 284	353 284	353 284	438 665	395 904	378 900
Share of surplus/ (deficit) of associate										
Surplus/(Deficit) for the year	123 973	130 505	130 164	288 284	353 284	353 284	353 284	438 665	395 904	

3.1 CHANGES IN OPERATING EXPENDITURE FROM PREVIOUS FINANCIAL YEAR EXPLAINED

- **The employee related cost** comprises 26% of the total operating budget. The primary reason for the 15% increase is the 15% increase in the increment of 9.1% including the notch increases and new positions of five water tanker drivers, one Fire engine driver, three firemen, two administration officers, Chief Accountant and a Customer Care Officer.
- An 9.1% increment for **Councillor's remuneration** is provided for
- **Working Capital Reserve:** This is the provision for doubtful debts as results of a non-collection level. The 6% increase is based on the projection.
- **Depreciation:** This is a non cash item budgeted for as per the stipulation of the new accounting standards and is funded from backlog depreciation. The 5% decrease is based on the on the preliminary 2012/2013 depreciation calculation.
- **Repairs and Maintenance**
 - Buildings: The budgeted amount is for the maintenance of municipal buildings. Decreased by 50%
 - Vehicles: The 29% increase is provided due to high expenditure on maintenance of water tankers and poor condition of vehicles
- **Bulk Water Purification and Sewerage Treatment:**
 - Bulk sewerage treatment and bulk water purification is based on the existing contract and there are no major increases except for the 6% inflation provision increase.
 - Bulk electricity has also increased as a result of the expected above average increment by Eskom and the contribution towards the new electricity network for the water and waste water treatment plants
- **Grants and Subsidies Paid:**
 - The Grants and Subsidies have been phased out as no more grants received as part of equitable share. The only grants that are still payable to the local municipalities are the Tourism grants to local municipalities and the Water Services Provider grant to Abaqulusi local municipality.
- **General expenses** increased by 0.17% from R122,612,604 to R122,825,370 due to the percentage change in inflation of 5.6%.

3.2 CHANGES IN OPERATING INCOME FROM PREVIOUS FINANCIAL YEAR EXPLAINED

- **User charges**
 - A tariffs increases of 6% on the tariffs applicable to the band 7-30 kl and 12% on the bands above 30kl
 - Free basic water of 6kl per household per month is provided for.
 - Sale of water is based on the proposed tariffs structure.
 - Other tariffs to increase 6%
- **Interest income**
 - Is expected to increase as a results of interest rate from R12,066,793 to R12,566,926
- **Grants Income**
 - Equitable share increased by R24,528,000 from R234,326,000 to R258,854,000.
 - Provincial Grants are based on provincial 2011/12 budget statement. The airport grant increased from R10m to R20m and the P700 grant of R14m was once off grant in 2011/2012.

4. AG REPORT FOR THE YEAR ENDING JUNE 2012 & RESPONSES AND ACTIONS THERETO

4.1 AG REPORT FOR THE YEAR ENDING JUNE 2012

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Zululand District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Zululand District Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unauthorised expenditure

8. Unauthorised expenditure totalling R6,975 million was incurred as a result of overspending on the budget in respect of employee cost, remuneration of councillors and material and bulk purchases. This amount has been disclosed in note 34 in the financial statements.

Irregular expenditure

9. As disclosed in note 34, irregular expenditure totalling R1,237 million was incurred as a result of the municipality not obtaining three quotes and due to suppliers in service of the state who were doing business with the municipality totalling R10,209 million.

Material losses

10. As disclosed in note 34 to the financial statements, the municipality suffered distribution losses to the value of R98,600 during the financial year under review.

Restatement of corresponding figures

11. As disclosed in note 37 to the financial statements, the corresponding figures for the 2010-11 financial years have been restated as a result of errors discovered during 2011-12 financial statements.

Additional

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary information

13. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
16. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information (FMPPPI)*. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
17. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Compliance with laws and regulations

18. I performed procedures to obtain evidence that the Zululand District Municipality had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Annual financial statements

19. The annual financial statements were subject to material adjustments as a result of the audit. These adjustments constitute non-compliance with sections 122(1)(a) of the MFMA.

Expenditure management

20. The accounting officer did not take reasonable steps to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.

Procurement and contract management

21. Persons in service of the state did not disclose that they were employed by the state and have been transacting with the municipality, in contravention with section 44 of the municipal supply chain regulation.
22. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written quotations from at least three different prospective providers, as required by municipal supply chain regulation 17(a) and (c).

Strategic planning and performance management

23. The approved integrated development plan (IDP) did not include a budget projection for at least the next three years, as required by section 26(h) of the Municipal Systems Act 2000 (Act No. 32 of 2000) (MSA).
24. The approved IDP does not include a set of key performance indicators, including input indicators, output indicators and outcome indicators in respect of each of the development priorities, as well as key performance targets, as required by section 26(c) of regulation 9(a)(1) of the Municipal Planning and Performance Management Regulations And section 28(i) and 41 of the MSA.

Internal control

25. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

26. Management has not exercised oversight of the financial statement preparation, compliance with supply chain management regulations

Financial and performance management

27. Management has not implemented adequate controls to ensure that the financial statements are prepared in accordance with the Standards of GRAP and are supported by accurate and reliable evidence, as material misstatements were identified in the financial statements during the audit.
28. Management did not implement adequate controls over the procurement of goods and services to ensure that they complied with the requirements of the municipal supply chain regulations.

Governance

29. The internal audit function and audit committee did not review the internal controls over financial management by evaluating controls to determine their effectiveness and efficiency, as a number of misstatements were noted in the financial statements that required adjustments.

4.2 RESPONSES AND ACTIONS TO THE AG REPORT FOR THE YEAR ENDING JUNE 2012

To be included in the Final IDP Review.