



ANNUAL BUDGET AND SUPPORTING DOCUMENTATION 2022/2023



**ZULULAND DISTRICT MUNICIPALITY
UMKHANDLU WESIFUNDA SASE ZULULAND**

EXECUTIVE SUMMARY

1. MAIN BUDGET SUMMARY

	ORIGINAL BUDGET 2021/2022	ADJUSTMENT BUDGET 2021/2022	DRAFT BUDGET Tabled 2022/2023	DRAFT BUDGET Tabled Changes 2022/2023	BUDGET FINAL 2022/2023	BUDGET YEAR 2023/2024	BUDGET YEAR 2024/2025
OPERATING REVENUE	602 842 000	603 353 124	739 434 986	24 500 000	763 934 986	806 226 986	866 200 986
CAPITAL GRANTS AND TRANSFERS	574 058 000	583 658 320	372 306 000	-	372 306 000	405 137 000	438 209 000
TOTAL BUDGET REVENUE	1 176 900 000	1 187 011 444	1 111 740 986	24 500 000	1 136 240 986	1 211 363 986	1 304 409 986
OPERATING EXPENDITURE	596 623 000	595 234 124	635 958 407	23 000 000	658 958 407	685 277 278	723 687 092
CONTRIBUTION TO CAPITAL	580 277 000	591 777 320	380 486 000	1 500 000	381 986 000	410 574 500	443 916 875
TOTAL BUDGET EXPENDITURE	1 176 900 000	1 187 011 444	1 016 444 407	24 500 000	1 040 944 407	1 095 851 778	1 167 603 967
CAPITAL EXPENDITURE - GRANTS AND TRANSFERS	574 058 000	583 658 320	372 336 000	-	372 336 000	405 137 000	438 209 000
CAPITAL EXPENDITURE - INTERNALLY FUNDED ASSETS	6 219 000	8 119 000	8 150 000	1 500 000	9 650 000	5 437 500	5 707 875
TOTAL CAPITAL EXPENDITURE	580 277 000	591 777 320	380 486 000	1 500 000	381 986 000	410 574 500	443 916 875
TOTAL BUDGET REVENUE	1 176 900 000	1 187 011 444	1 111 740 986	24 500 000	1 136 240 986	1 211 363 986	1 304 409 986
TOTAL BUDGET EXPENDITURE	1 176 900 000	1 187 011 444	1 016 444 407	24 500 000	1 040 944 407	1 095 851 778	1 167 603 967
SURPLUS/DEFICIT	-	-	95 296 579	-	95 296 579	115 512 208	136 806 019

The 2022/2023 final budget is **R1.136 billion**, which represent a decrease of **R50.7 million** from the 2021/2022 adjusted budget of **R1.18 billion**. This represents a decrease of **4%**.

This decrease is a result of a negative change on Capital Grants as per Division of Revenue Bill (DORA).

Based on the above background, it is important to highlight components of the annual budget, operating revenue, operating expenditure, capital expenditure and financing, financial position, cashflow and Cash backed reserves/accumulated surplus reconciliation.

1.1 Operating Revenue Framework

The 2022/2023 final Operating Revenue budget is **R763 million**. This represents an increase of **R160 million** or **27%** from 2021/2022 adjustment budget of **R603 million**. This increase is due to a positive change in Equitable share of **R61.7 million**, Service charges of **R101 million**, and Fines of **R100 thousand**.

The Operating Revenue amount largely comprises of equitable share and operating conditional grants in terms of Division of revenue Act. Operating revenue is explained by source in Section 1.4 Operating Revenue Framework.

1.2 Operating Expenditure Framework

The 2022/2023 final Operating Expenditure budget is **R658 million**. This represents an increase of **R63 million** or **11%** from 2021/2022 adjustment budget of **R595 million**.

The Operating Expenditure amount is explained by expenditure type in Section 1.5 Operating Expenditure Framework.

1.3 Capital Expenditure and Financing Framework

The 2022/2023 final Capital Expenditure and Financing budget is **R381.9 million Vat exclusive**. This represents a decrease of **R209 million** or **35%** from 2021/2022 adjustment budget of **R591.7 million**. This drastic decrease is a result of a negative change on Capital Grants as per Division of Revenue Bill (DORA).

The Capital expenditure budget is detailed by vote and functional classification in Section 1.6 Capital Expenditure and Funding.

The following is the list of projects to be implemented in 2022-2023

LOCAL MUNICIPALITY	PROJECT NAME	PROJECT DESCRIPTION	FUNDING SOURCE	2022/2023 BUDGET ALLOCATION
Ulundi LM	Nkonjeni Augmentation of Production Borehole Water Supply	Equipping of boreholes (Eskom connections, pumps, motors, protective housing and fittings). Earthworks for pipelines (pipe trenches), Medium pressure pipeline. Installation of air – isolating and – scour valves. Construction of new valve chambers, Float valve and fittings for existing reservoirs (where applicable). Installation of booster pump stations (where applicable). Construction of a new 100KL reservoir. Refurbishment and repairs to existing pipelines and networks and Leak detection.	MIG	5 520 508.88
	Upgrading of existing Nkonjeni WTW power supply to 22KVA	Upgrading existing WTW power supply	MIG	8 500 000.00
	Construction of Rising Main from Ulundi WTW to Mabedlane Reservoir	Installation of 750m long 800mm dia Steel Pipe, 1.2km long 800mmØ oPVC Pipe and associated chambers	MIG	17 916 419.58
	Upgrade of Ulundi Water Treatment Works: Mechanical & Electrical - Stage1A	Installation of surge protection vessels and the refurbishment of the existing 500mm dia outlet pipe in the clean water pumpstation	MIG	387 435.05
	Upgrade of Ulundi Water Treatment Works & refurbishment/upgrade of the Nkonjeni RWSS - Stage1A - Civil Works	Installation of Transformers at Raw Water Pump Station, MCC, High Lift Pump Station. Upgrade Chlorination Room and Telemetry and SCADA. Refurbishment of Old high lift pumps and blowers. Replacement of Filter Gallery Piping and existing High lift Manifold.	MIG	3 735 101.02
	Simdlangentsha Central RWSS - Phase 3 : The Construction of A 2.5 MI Reinforced Concrete Reservoir At Ombimbini Village	Construction of a 2.5ML reinforced concrete Reservoir	MIG	14 336 445.94
	Augmentation of eMakhosini Water Supply	Construction and assembly of an Inlet- and - Outlet Chambers and associated pipework	MIG	22 810 881.94
	Njomelwane Water Supply Scheme	Borehole pump station, Bulk pipeline, retic 250kl Res.	MIG	25 575 666.61
Phongolo LM	Simdlangentsha East RWSS : Internal Water Reticulation - Phase 1B (3A)	Borehole pump station, Bulk pipeline, retic 600kl and 150kl Res. Installation of various diameter reticulation pipework from 20mm to 110mm; - Installation of 445 water house connections (Ngedele and Mshushulu) - Various valve chamber (i.e. scour, isolation and pressure	MIG	9 693 452.49
	Simdlangentsha East Internal Water Reticulation - Phase 3B	The construction of a new 1ML Steel Reservoir at Ntsibila Village (S1) and Mechanical pipework and connection to the existing infrastructure	MIG	8 400 000.00
Edumbe LM	Simdlangentsha West RWSS: Construction of Rising Main From Frischgewaagd Abstraction Works To Bilanyoni Terminal Reservoir	The installation of 128m of 500mm dia oPVC, 3.5km of 630mm and 150m of 315mm oPVC PN20 pipeline and associated valves.	MIG	5 268 925.08
	Simdlangentsha West RWSS: Construction Frischgewaagd, Abstraction Works, Staff Accomodation and Bilanyoni Booster Pumpstation.	demand of 26ML/day. The abstraction works consist of inlet canal works, sedimentation tanks, pump sump, generator room, pipework electrical works and mechanical works in the pump house and Staff accommodation. 1ML reservoir with associated valves and gravel access road.	MIG	6 711 068.98
Abaqulusi LM	Ndulinde Rudimentary Water Scheme	The construction of 12km 110-20 mm diameter HDPE pipe, Borehole equipping, 50kl Elevated tank, Pipe jacking, valve chambers and associated fitting	MIG	2 727 651.02
Nongoma LM	Usuthu RWSS: Ward 14 Nongoma Ph 1	The project comprises of the installation approximately 18500m of HDPE piping ranging from 50-90mm including the installation of 346 yard connections with associated valves	MIG	2 223 973.62
	Usuthu RWSS : Ward 14 Nongoma Ph 2	The installation of approximately 32 050 m of HDPE pipes ranging from 50 mm to 90 mm. In addition, the installation of 514 No yard stand connections as well as all associated valves.	MIG	9 659 881.00
	The Installation of ± 1000 pre-cast concrete VIP toilet units at Zululand District Municipality South	The scope consists of manufacturing and Installation of ± 1000 Pre-Cast Concrete VIP toilet units around Ulundi and Nongoma	MIG	10 987 048.00
	The Installation of ± 1000 pre-cast concrete VIP toilet units at Zululand District Municipality (North)	The scope consists of manufacturing and Installation of ± 1000 Pre-Cast Concrete VIP toilet units around Abaqulusi, Edumbe and oPhongola	MIG	10 347 152.00
	Completion of Ophalule Phase 1 : Bulk Line Reticulation		MIG	2 737 670.00
	Zululand Rudimentary Programme	Sitting, Drilling, Testing and Equipping of Boreholes North	MIG	10 388 800.25
	Zululand Rudimentary Programme	Sitting, Drilling, Testing and Equipping of Boreholes South	MIG	6 287 430.12
	Zululand Rudimentary Programme	Spring protection , pipelines, plastic tanks tap tands - North	MIG	5 603 987.75
	Zululand Rudimentary Programme	Spring protection , pipelines, plastic tanks tap tands - South	MIG	4 150 581.88
	Construction of Usuthu Reticulation network Phase 3B	Construction of Usuthu Water Reticulation network (Ezilonyeni)- Nongoma	MIG	30 569 888.00
	Top Slice	Gomondo, Ezilonyeni and Matshempunzi Water Reticulation Network	MIG	12 976 500.00
	MIG Project allocation of Civil Engineering Professional Fees	Professional Consultant fees capped @ max 14% of the total project costs allocation	MIG	31 435 595.69
Nongoma LM	Mandlakazi Bulk Water Supply Scheme: Upstream Bulk Section 1A	The construction of 4km of 1m diameter PVC-O pipe, including valve chambers and associated fittings.	RBIG	15 247 000.00
Ulundi LM	Ceza SAWSS Phase 4: Nhlonga Bulk	The construction of 7,6km 200mmØ PVC-O pipeline with associated valves and chambers. 500kl Concrete Reservoir with associated valves and chambers and fittings. 1.9km access road and fencing.	WSIG	2 567 050.00
	Ceza SAWSS Phase 4: Nhlonga Reticulation and Weir	The construction of 1.44km of 160PVC-O, 30.15 km of 110 - 50mm diameter HDPE Reticulation pipelines, 365-yard connections and Concrete Weir with associated valve chambers and fittings.	WSIG	2 097 404.92
	Ceza SAWSS Phase 4: Bulk Water Supply Pipeline	Construction of new 120m 250mmØ Steel pipe, 4100m 250mmØ o-PVC pipeline, 4000m 50 & 90mmØ HDPE pipeline with associated chambers.	WSIG	12 440 661.84
	Nkonjeni Water Demand	Construction of a living area for the operator at the WTW. Enclosure of the existing steel structure at the Ceza WTW. Borehole installation and fencing.	WSIG	10 000 000.00
Abaqulusi LM	eMondlo Bulk Phase1	WCDCM	WSIG	1 644 213.60
	Mhlangeni Stand Alone Water Supply Scheme	Refurbishments and additions	WSIG	18 932 556.88
	Mhlangeni Stand Alone Water Supply Scheme	various pipe diameters ranging from 25mm to 75mm for HDPE and 75mm to 250mm for oPVC pipes. Including 570 yard tap connections, boreholes equipping and construction of 500kl reservoir including associated ancillaries fitting including all related valves within eMhlangeni and eMadwaleni.	WSIG	18 932 556.88
Nongoma LM	Mandlakazi RWSS Phase 5.1 - Zone B / B1	Construction of approximately 33.380km reticulation network with pipe diameters between 25mm to 160mm on 277 yard taps. Along with are air scour and isolating valves, valve chambers and break pressure tanks.	WSIG	18 154 351.98
	Mandlakazi RWSS Phase 5.1 - Zone C1 / D1	Construction of approximately 29.730km reticulation network with pipe diameters between 125mm to 160mm on 165 yard taps. Along with are air scour and isolating valves, valve chambers and break pressure tanks.	WSIG	16 115 353.59
	Mandlakazi RWSS Phase 5.1 - Zone H1 / H2		WSIG	21 431 024.71
	Professional Fees	Civil Engineering Services	WSIG	1 617 382.48

2 BUDGETED FINANCIAL POSITION

The budgeted financial position indicates current ratio that has improved compared to 2020/2021 Audited AFS, the municipality has budgeted for cash at year end of **R271.5 million**. The municipality has budgeted to reduce liabilities to improve going concern and liquidity position, additions to assets will amount to **R381.9 million VAT Inclusive** which is funded mostly by grants. Budgeted financial position is explained per component type in section 1.7 Annual Budget Tables MBRR Table A6.

2.1 Budgeted Cashflow

The municipality has budgeted to generate total cash of **R1.2 billion**, this receipt is comprised of capital and operating grants, service charges collection, interest on investment and other revenue. The municipality has budgeted to pay **R986 thousand**, operating expenditure payments is **R604 Inclusive of VAT million**, and capital asset payments is **R381.9 million**.

Budgeted cashflow is explained by cashflow type in section 1.7 Annual Budget Tables MBRR Table A7.

2.2 Cash backed reserves/accumulated surplus reconciliation

This is a utilization of cash available at the end as per cashflow and investments to determine whether the budget is funded or not by applying net-working capital. Net-working capital is determined by debtors less creditors. The budget appears to be funded. The budget is funded by **R170 million**. Budgeted Cash backed reserves/accumulated surplus reconciliation is explained in section 1.7 Annual Budget Tables MBRR Table A8.

3. NATIONAL POLICY KEY IMPERATIVES

After the State of the Nation Address by the President and the Budget speech by the Minister of Finance key priorities were noted and became our policy imperative. National Treasury subsequently issued MFMA Circular No. 108 to give guidance on these imperatives.

There are key factors that have been taken into consideration in the compilation of the 2022/23 MTREF:

- (i) The general **inflationary outlook** and the impact on Municipality's residents and businesses

Table 1: Macroeconomic performance and projections, 2021-2025

Fiscal Year	2021/22 Estimates	2022/23	2023/24 forecast	2024/25 Forecast
CPI Inflation	4.5%	4.8%	4.4%	4.5%

- (ii) **COVID-19** considerations

The municipality is one of those that are affected negatively by the impact of Covid-19 pandemic.

The risk exposure presented by the pandemic has been assessed which demanded a change in budget framework that affect conditional grants application for use to combat the virus, the ability of customers to sustain the affordability to pay for services, the systems of sourcing service providers with minimal impact on compliance and the need to boost IT infrastructure to allow social distancing.

(iii) Division of Revenue Act and provincial gazette

The Act allocates grants to municipalities. Allocation made towards the municipality are tabled below.

GRANTS	ORIGINAL BUDGET 2021/2022	ADJUSTED BUDGET 2021/2022	FINAL BUDGET 2022/2023	BUDGET YEAR 2023/2024	BUDGET YEAR 2024/2025
EQUITABLE SHARE		564 272 000.00	586 391 000.00	630 327 000.00	677 132 000.00
FINANCE MANAGEMENT GRANT	1 200 000.00	1 200 000.00	1 200 000.00	1 200 000.00	1 200 000.00
MUNICIPAL SYSTEMS IMPROVEMENT GRANT	4 031 000.00	4 031 000.00	2 787 000.00	2 380 000.00	2 380 000.00
AVIATION STRATEGY			500 000.00	-	-
MUNICIPAL DISASTER RELIEF			-	-	5 000 000.00
ART & CULTURE INDONSA GRANT		1 911 000.00	1 911 000.00	1 911 000.00	1 911 000.00
EXPANDED PUBLIC WORKS PROGRAMME	- 9 612 000.00	9 261 000.00	8 517 000.00	-	-
RURAL ROAD ASSET MANAGEMENT GRANT	2 416 000.00	2 416 000.00	2 529 000.00	2 539 000.00	2 631 000.00
MUNICIPAL INFRASTRUCTURE GRANT	239 111 000.00	239 111 000.00	259 530 000.00	271 718 000.00	284 684 000.00
REGIONAL BULK INFRASTRUCTURE GRANT	222 531 000.00	222 531 000.00	15 247 000.00	30 000 000.00	50 000 000.00
WATER SERVICES INFRASTRUCTURE GRANT	110 000 000.00	110 000 000.00	95 000 000.00	100 880 000.00	100 894 000.00
TOTAL GRANTS		1 154 733 000.00	973 612 000.00	1 040 955 000.00	1 125 832 000.00

(iv) The revenue budgets

An increase of **6%** is proposed to be affected on Tariffs.

Water tariffs have been determined as follows:

Kiloliters	Percentage increase
0- 6kl	Free basic water)
6- 30kl	6%
30-40kl	6%
>40kl	6%

The assumed collection rate based on the current collection level is expected to be **65%** of billable revenue.

(v) Employee related Costs

Three-year salary and wage collective agreement has been considered. The municipality has proposed 4.8% increase on salaries. The Municipality is planning to take over water/sanitation operations at Abaqulusi Municipality urban areas including their water/sanitation staff complement.

(vi) Cost containment measures

Cost containment measures continue as our resolution. Hence the budget is largely informed by this. We have reviewed existing Service Level Agreements and managed to reduce their costs for the 2022/2023 financial year. We continue to make it our practice, a call by the cost containment regulation to eliminate expenditures on the following:

Travel, Conferences, Catering, Entertainment, social functions, telephones, and wasteful expenditure

(vii) Budget related policies

The municipality in implementing this budget will rely mostly on its policies as being reviewed for the financial year. The following are policies applicable in the budget and treasury office.

- Budget Policy
- Virement Policy
- Credit control policy
- Debt write-off policy
- Banking and investment policy
- Funding and Reserve policy
- Supply Chain management policy
- Asset Management Policy
- Asset Loss control policy
- Indigent support policy
- Insurance Policy
- Tariff Policy
- Subsistence and Travelling Policy

All reviewed and new policies will be work shopped to stakeholders and Council.

4. BUDGET ASSUMPTIONS

- (i) Organogram is confirmed
- (ii) To make impact on current assessment of unfunded budget
- (iii) To provide for section 78 close out recommendations
- (iv) To identify revenue increase possibilities
- (v) To priorities compliance issues and SLA that are existing
- (vi) To consider budget Circular
- (vii) To consider the implications of RBIG grant
- (viii) To collect 45 % of current billing and 20 % of prior period
- (ix) To ringfence VAT refund for unauthorized expenditure
- (x) Management to commit on budget stringent measures (KPI)
- (xi) CPI is 4,8% on salaries
- (xii) Tariff Increase proposed is 6%

1.4 OPERATING REVENUE FRAMEWORK

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

DC26 Zululand - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2018/19	2019/20	2020/21	Current Year 2021/22				2022/23 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
Revenue By Source											
Property rates	2	-	-	-	-	-	-	-	-	-	-
Service charges - electricity revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - water revenue	2	23 258	27 255	41 251	43 000	42 186	42 186	37 655	126 000	132 300	138 915
Service charges - sanitation revenue	2	10 479	10 457	11 514	11 000	12 305	12 305	10 509	29 500	30 975	32 524
Service charges - refuse revenue	2	-	-	-	-	-	-	-	-	-	-
Rental of facilities and equipment		156	159	179	210	183	183	162	183	183	183
Interest earned - external investments		7 803	4 760	3 226	6 000	6 000	6 000	2 704	6 000	6 000	6 000
Interest earned - outstanding debtors		40	27	29	85	85	85	262	85	85	85
Dividends received											
Fines, penalties and forfeits		18	4	7 543	638	48	48	123	150	155	160
Licences and permits		-	-	10	10	10	10	-	-	-	-
Agency services											
Transfers and subsidies		434 438	485 800	577 833	541 399	542 010	542 010	536 661	601 306	635 818	687 623
Other revenue	2	1 488	1 045	662	500	625	625	496	711	711	711
Gains		11 765	-	20 175	-	-	-	40	-	-	-
Total Revenue (excluding capital transfers and contributions)		489 444	529 507	662 422	602 842	603 453	603 453	588 612	763 935	806 227	866 201

Service charges water revenue

Zululand District Municipality as a water service authority had an agreement with Abaqulusi Municipality that Abaqulusi will provide water and sanitation services to Abaqulusi Urban Areas, and Zululand District Municipality will service the Abaqulusi Rural Area. The agreement has reached its endpoint and the Municipality is considering taking over the operations as encouraged by COGTA. Therefore, the Municipality has taken a resolution to takeover Abaqulusi as of 1st of July 2022.

Service charges is the amount billed to consumers for water consumed. The Municipality budgeted an amount of **R126 million** under Service charges - water revenue, this represents an increase of **R84 million** or **200%** from an amount of **R42 million** in the **2021/22** Adjusted Budget. This amount excludes **R3 million** from free basic services. From the **2022/2023** Tabled budget, service charges have increased by **R24.4 million**.

Service charges water revenue increased by **200%** instead of **6%** as per increase in tariffs schedule. This increase is due to the recent consideration regarding Abaqulusi Municipality water and sanitation department. An amount of **R58 million**

In the council seating, it was resolved that Rural households who have unmetered tap water inside dwelling should pay a flat rate of **R50** for water usage per month while the municipality is trying to source funding to install meters. During the budget community participation, the Zululand community agreed to the flat rate fee of **R50** per month. According to WSDP, Zululand has about 75 thousand household with unmetered taps. Some are receiving water on interval basis, and some receive water throughout the month. The Municipality will start billing R50 on households that receive water throughout the month.

The Municipality increased tariffs by 6% which is above 4.8 percent guideline as per MFMA circular No. 112, this was done to gradually achieve cost reflective tariffs, whilst maintaining customer affordability. This increase will not clearly be identified as the municipality has just considered Abaqulusi water and sanitation department and will take some time to balance tariffs.

The Municipality budgeted a provision of **R3 million** for free basic water to those declared as indigent households. The Municipality is in progress with compiling the indigent register.

An amount of **R14 million** has been set aside as a provision for bad debt (provision for non-collection). The municipality is predominantly rural and there are no industries, the level of employment is very low, as a result the municipality is working on updating the indigent register. At the moment the cost of production is higher than the revenue recovered since only urban areas are billed.

Service charges sanitation revenue

Sanitation revenue is amounts billed on a fraction of customers that are connected to the sewer system since our municipality is comprised by most rural areas, Sewer charge is fixed, but businesses and government are charged an additional sewer excess if they use more than 40kl of water per month. The Municipality budgeted an amount of **R29.5 million** under Service charges - sanitation revenue, this represents an increase of **R17 million** or **140%** from an amount of **R12.3 million** in the **2021/22** Adjusted Budget. The Service charges sanitation revenue increased by 58% due to the decision by the Municipality to take over Abaqulusi municipality water and sanitation operations from the 2022/23 financial year.

The Municipality does not provide free basic service for sewer charges since sewer charge is fixed thus no revenue forgone is recognized under sanitation revenue.

The Municipality increased tariffs by 6% which is above 4,8% guideline as per MFMA circular No. 112, this was done to gradually achieve cost reflective tariffs, whilst maintaining customer affordability. This increase will not clearly be identified as the municipality has just considered Abaqulusi water and sanitation department and will take some time to balance tariffs.

Rental of facilities and equipment

The income is expected from renting of park homes and tourism hub that are used by WSSA, AVIS and Waphatha group as offices. The Municipality budgeted an amount of **R183 thousand**, excluding vat, under rental of facilities and equipment. Increase is not equivalent to 4.8% because rentals are determined by the rental agreement. The 2022/23 total amount of **R210 thousand** Vat inclusive.

Interest earned - external investments

Interest on investment is interest generated from both current and investment accounts, the municipality makes cash investment deposits which are call and 32 days investment deposits. The Municipality budgeted an amount of **R6 million** under Interest on investment with no changes compared to the 2021/22 Adjusted budget. The municipality is considering engaging in 3 or 6 months investment to increase earnings.

The municipality invest funds available from grants not immediately due for payment. The municipality does not expect to have investments at the end of the financial year since the municipality is planning to make short term investments that does not exceed 12 months thus table SA15 does not reflect any balance.

Interest earned – outstanding debtors

Interest earned on outstanding debtors is an interest charged solely on businesses at a percentage of **5.25%** as per the municipality's Credit Control Policy, to business that owe more than **60 days**. The Municipality budgeted an amount of **R85 thousand** on interest earned on outstanding debtors for the year 2022/23, which reflects no changes compared to the 2021/22 adjusted budget. The Municipality budgeted this amount based on current year trend.

Fines, penalties, and forfeits

Fines, penalties, and forfeits is amounts charged on illegal connections, deposit forfeits, health fines based on health inspections and reconnection fees on nonpaying disconnected customers. The Municipality budgeted an amount of **R150 thousand** under fines, penalties, and forfeits. This represents an increase of **R102 thousand** or **213%** from an amount of **R48 thousand** in the 2021/22 Adjusted Budget. The Municipality will train the environmental health practitioners so they can be able to fine stores that are not complying with health regulations. **R100 thousand** increase is due to the environmental health and safety fines expected. This increase is above 4.8% guideline as per MFMA circular No. 115.

Licences and permits

Licences and permits are mainly based on the licences issued by municipal health. The Municipality provides no budget for licenses and permits for the 2022/2023 financial year.

Transfer and subsidies

Transfers and subsidies budgeted amount is **R601 million** for the 2022/23 financial year. An increase of **R59 million** or **11%** is observed from the 2021/22 adjusted budget. It is assumed that the National and Provincial grants as per Division of Revenue Act (DORA) and Provincial gazette which have been included in the budget will be received during the 2022/2023 financial year. An amount of **R1.9 million** has been gazette to be received from the department of arts and culture, this grant will be used to facilitate projects in district art center (Indonsa art center). An amount of **R500 thousand** has been allocated to aviation relief as the grant.

Other revenue

Other revenue in the budget consists of the amount that will be collected during the year such as tender fees, skills development levy refunds etc. The Municipality budgeted an amount of **R711 thousands** in 2022/23 financial year. This represents an increase of **R86 thousand** or **14%** from the amount of **R625 thousand** amount on the 2021/2022 Adjustment Budget.

This amount is based on the operational revenue the municipality expects to receive.

1.5 OPERATING EXPENDITURE FRAMEWORK

DC26 Zululand - Table A4 Budgeted Financial Performance (revenue and expenditure)											
Description	Ref	2018/19	2019/20	2020/21	Current Year 2021/22				2022/23 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
Expenditure By Type											
Employee related costs	2	201 677	219 973	241 953	255 269	255 269	255 269	233 404	294 950	309 697	325 182
Remuneration of councillors		8 089	8 372	8 489	8 537	9 037	9 037	7 814	8 771	9 209	9 670
Debt impairment	3	14 807	15 905	13 689	9 000	9 000	9 000	-	14 000	14 000	14 000
Depreciation & asset impairment	2	63 780	77 826	84 156	71 620	71 620	71 620	73 662	80 000	84 000	88 200
Finance charges		-	-	-	-	-	-	-	-	-	-
Bulk purchases - electricity	2	72	(655)	-	-	-	-	-	-	-	-
Inventory consumed	8	1 620	3 027	3 332	24 194	21 285	21 285	309	33 370	35 032	36 776
Contracted services		203 115	241 433	294 507	139 336	146 237	146 237	197 160	112 423	117 418	128 188
Transfers and subsidies		962	6 292	12 891	11 950	11 396	11 396	11 295	3 070	3 224	3 385
Other expenditure	4, 5	92 680	99 255	113 097	76 716	71 717	71 717	105 050	112 375	112 697	118 286
Losses		-	37	2 416	-	-	-	-	-	-	-
Total Expenditure		586 803	671 465	774 531	596 623	595 561	595 561	628 696	658 958	685 277	723 687

Employee Related Costs

Employee related cost are amounts budgeted for employee benefits and company contribution. The Municipality budgeted an amount of **R294.95 million** under employee related costs, this represents an increase of **R39.68 million** or **15.3%** from an amount of **R255.2 million** in the 2021/22 Adjusted Budget. This drastic increase is since the Municipality will inherit Abaqulusi water and sanitation staff complement. The municipality has budgeted for a **4.8%** increase on salaries for each employee, the **4.8%** increase is based on CPI as per existing bargaining agreement and has taken into consideration the financial stability of the municipality.

Employee related costs is **46%** of the total operating budget inclusive of councilor's remuneration. The primary reason for the increase is an annual increment of **4.8%** and Abaqulusi water and sanitation employees, notch increases as per TASK grade implementation, as well as changes in other staff benefits that are percentage based to salary. This is above the norm of **25-40%** as per MFMA circular no. 71 guideline.

The implementation of Expanded public works programme has also contributed to the high level of expenditure on employee related cost. The Municipality budgeted an amount of **R8.5 million** for EPWP employees. This amount is included under employee related cost since the municipality pay this cost directly to EPWP employees. The EPWP grant funding is not sufficient to cover employees under the programme and supplemented by the municipality's own funds.

The municipality has budgeted an amount of **R12.7 million** for 13th cheque bonuses.

Remuneration of Councilor's

Remuneration of Councilors are amounts budgeted for Councilors allowances and company contribution. The Municipality budgeted an amount of **R8.77 million** which reflect a **2.7%** increase under Remuneration of Councilor's from an amount of **R8.5 million** in the 2021/22 Adjusted Budget.

A **4.8%** increment for Councilor's remuneration is provided and is equal to inflation target of **4.8%**, the budget provided is expected to cater for councilors upper limits. Remuneration of Councilor's budget is based on actual amounts paid in the current year plus **4.8%** increase.

Replacement of 100 percent serving Councilors with 40/60 percent serving Councilors has also deterred the increment.

Debt impairment

This is the provision for doubtful debts because of a non-collection level. It is based on the non-collection estimates. The Municipality budgeted an amount of **R14 million** under Debt impairment, this represents an increase of **R5 million** or **55.6%** from an amount of **R9 million** in the 2021/22 Adjusted Budget.

The municipality has increased the provision based on 2021-2022 budget collection level of **65%**. Assessment and provision for bad debts is done at year end, the municipality does not expect to impair the whole remaining 35% of billed consumers since some consumers do not meet the municipalities impairment criteria. For example, the municipality does not impair businesses and government institutions. Secondly, some consumers at least make the minimum number of payments per annum to disqualify them from being impaired.

Depreciation

This is a non-cash item budgeted for as per the stipulation of the general recognized accounting standards. The Municipality budgeted an amount of **R80 million** under Depreciation, this represents an increase of **R8.38 million** or **12%** from an amount of **R71.6 million** in the 2021/22 Adjusted Budget.

The depreciation is estimated based on the municipalities accounting policy and the new assets the municipality is expecting to acquire in 2021-2022. The depreciation calculation considers assets that are still in progress but will be completed in the following financial years (2021-2022).

The Municipality is also considering creating an asset replacement reserve to refurbish these assets and ensure continuous services delivery.

Inventory consumed

Inventory consumed includes the issues of bulk water, consumable stores, and materials and supplies. The Municipality budgeted an amount of **R33.3 million** under inventory consumed. This represents an increase of **R12.1 million** or **57%** from an amount of **R21.2 million** in the 2021/2022 Adjusted budget. The budget for water purchases has considered drought levy charge, and based on the trend, the municipality bulk purchases are only water, municipality purchases water from the likes of DWS and others raw water sources. Previously, the Municipality incorrectly budgeted meters under current assets. The increase of **R7 million** is for meters that are now correctly budgeted under inventory.

In the previous financial years, a bigger portion of the municipality's bulk water purchases budget was catered for Abaqulusi. Since the municipality is taking over the water and sanitation department from Abaqulusi, there will be a decrease in purchase of water. The Municipality considered the budget for Abaqulusi bulk water purchase for financial year 2022/23.

Contracted services

Contracted services consist of outsourced services, consultants and professional services and contractors.

The anticipated contracted services expenditure budgeted amount is **R112.43 million**, which is a decrease of **R33.77 million** or **23%** from the amount of **R146.2 million** in the 2021/2022 Adjustment Budget. It is highlighted that the Municipalities has decided to insource some contracted services. The Municipality reviewed existing Service Level Agreements and managed to reduce their costs for the 2022/2023 financial, the municipality has also engaged in some payment plan on contracted services.

Contracted services have decreased due to financial constraints, below are the highlights on the on contracted services.

Outsourced Services

This includes security, internal audit, professional fees, water tankers and others. The decrease is because the municipality did not budget for water tankers and is decreasing the use of security services.

Consultants and Professional Services`

This is provision of professional services like audit committee, project management, facilitators etc. this has increased due to the Municipal systems improvement grant allocated, municipality will need specialised experts in identified projects.

Contractors

This includes operations and maintenance contracts such contract with WSSA, maintenance and repairs of infrastructure and movable asset and municipality buildings.

Transfers and subsidies paid

Transfers and subsidies consist of Disaster relief material, and LED initiatives.

Transfers and subsidies amount is **R3.07 million**. The municipality has reduced the anticipated expenditure under this item by **R8.32 million** or **73%** when compared to an amount of **R11.39 million** reflected in the 2021/22 Adjustments Budget. This reduction is due to the Municipality not budgeting for the (COVID) economic recovery funds and poverty relief. This depends on the needs and request from the community and municipality provide budget for those needs.

The Transfers and subsidies budget is mainly for LED initiative and Disaster management initiatives.

Other expenditure

The municipality other expenditure includes all other expenditures that do not have line space in A4. This includes Operating cost, e.g., municipal services, Eskom(electricity), wet fuel, external audit fees, insurance premium, uniform and protective clothing, chemicals. etc. It is assumed that costs for services will increase in line with the CPI but others have remained the same due to municipal financial limitations. The increase in the price of electricity also have effect on the budget increase.

Other Expenditure

• Municipal Services (ESKOM)	R40 million
• Wet Fuel	R9 million
• External Audit fees	R3 million
• Insurance	R2.2 million
• Uniform	R2.8 million
• Management Fee	R5.5 million
• Municipal Services (RATES)	R4.2 million
• Advertisement and Publication	R2.9 million
• Operating Lease	R16.5 million
• Licences and Software	R2.4 million
• Bargaining Council (SALGA)	R2 million
• Worksmen Compensation	R2 million
• Legacy Cup	R5 million
• Achievement Awards	R192 thousand
• Transport	R1.2 million
• Hire Charges	R2.9 million
• Printing and publication	R768 thousand
• Subsistence and Travelling	R2.89 million
• Professional bodies	R264 thousand
• Vehicle registration	R800 thousand
• Learnership internship	R95 thousand
• Storage and files	R200 thousand
• Tools	R2.45 million
• Entertainment	R125 thousand
• Bank accounts	R250 thousand
• Communication & Telephone	R2 million
• Voluntarily workers – Honoraria	R130 thousand
• Cleaning Service	R50 thousand
• Seating Allowance	R100 thousand

Total **R112.3 million**

1.6 CAPITAL EXPENEDITURE AND FUNDING

Capital Budget Summary

	ORIGINAL BUDGET 2021/2022	ADJUSTED BUDGET 2021/2022	DRAFT BUDGET 2022/2023	DRAFT BUDGET 2022/2023 - Changes	DRAFT BUDGET 2022/2023 - Final	BUDGET YEAR 2023/2024	BUDGET YEAR 2024/2025
Grants - Capital	574 892 001.00	584 492 321.00	372 336 000.00	- 30 000.00	372 306 000.00	405 167 000.00	438 239 000.00
Internally Generated Funds	5 385 000.00	7 285 000.00	8 150 000.00	1 530 000.00	9 680 000.00	8 557 500.00	8 985 375.00
Total Capital Budget	580 277 001.00	591 777 321.00	380 486 000.00	1 500 000.00	381 956 000.00	413 724 500.00	447 224 375.00

Vote Description	Ref	2018/19	2019/20	2020/21	Current Year 2021/22				2022/23 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
Capital Expenditure - Functional											
Governance and administration		669	1 241	4 482	3 885	7 245	7 245	7 361	3 652	3 835	4 027
Executive and council		-	-	-	3 500	6 700	6 700	6 692	-	-	-
Finance and administration		669	1 241	4 482	385	545	545	668	3 652	3 835	4 027
Internal audit											
Community and public safety		-	-	547	834	834	834	357	70	72	74
Community and social services		-	-	547	834	834	834	357	70	72	74
Sport and recreation											
Public safety											
Housing											
Health											
Economic and environmental services		5 960	-	3 322	2 416	11 469	11 469	7 542	6 112	2 208	2 288
Planning and development		5 960	-	3 322	2 416	11 469	11 469	7 542	6 112	2 208	2 288
Road transport											
Environmental protection											
Trading services		374 313	417 624	333 171	573 142	497 120	497 120	398 753	322 284	350 861	379 578
Energy sources											
Water management		374 313	417 624	333 171	573 142	497 120	497 120	398 753	322 284	350 861	379 578
Waste water management		-	-	-	-	-	-	-	-	-	-
Waste management											
Other		-	-	135	-	-	-	-	43	46	48
Total Capital Expenditure - Functional	3	380 942	418 865	341 658	580 277	516 668	516 668	414 012	332 162	357 021	386 015
Funded by:											
National Government		374 313	407 237	333 171	574 058	499 181	499 181	400 179	323 744	352 293	381 051
Provincial Government		-	8 360	3 869	834	10 202	10 202	6 472	26	26	26
District Municipality											
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)											
Transfers recognised - capital	4	374 313	415 596	337 040	574 892	509 383	509 383	406 652	323 770	352 319	381 077
Borrowing	6										
Internally generated funds		6 629	3 269	4 617	5 385	7 285	7 285	7 361	8 391	4 702	4 937
Total Capital Funding	7	380 942	418 865	341 658	580 277	516 668	516 668	414 012	332 162	357 021	386 015

Capital budget is funded 98% by grants as per DORA, the above recon will clearly indicate what is happening in capital budget, the high percentage of expenditure is for water infrastructure.

Capital budget is funded 98% by grants as per DORA, a certain portion is funded by internally generated funds. 98% of capital budget is used for water infrastructure, internally generated funds will be used for the acquisition of ICT Infrastructure, Furniture ect.

The municipality has budgeted the capital expenditure exclusive of VAT as guided by mSCOA circular 13.

Grant funded Assets

GRANT CAPITAL FINANCING	ORIGINAL BUDGET 2021/2022	ADJUSTMENT BUDGET 2021/2022	DRAFT BUDGET 2022/2023	BUDGET YEAR 2023/2024	BUDGET YEAR 2024/2025
RRAMS	2 416 000.00	2 416 000.00	2 529 000.00	2 539 000.00	2 631 000.00
MIG	239 111 001.00	239 111 001.00	259 530 000.00	271 718 000.00	284 684 000.00
RBIG	222 531 000.00	222 531 000.00	15 247 000.00	30 000 000.00	50 000 000.00
WSIG	110 000 000.00	110 000 000.00	95 000 000.00	100 880 000.00	100 894 000.00
TOTAL CAPITAL FINANCING			372 306 000.00	405 137 000.00	438 209 000.00

Internally funded assets

Assets to be purchased during the financial year using the internal generated funds listed below:

- Furniture R 600 000
 - ICT Infrastructure R 3 000 000
 - Microphone & Migration R 600 000
 - Printing & Machinery R 500 000
 - Excess road R 4 500 000
 - Equipment R 30 000
 - Park homes R 450 000
- R 9 680 000**