

6. MUNICIPAL FINANCIAL VIABILITY & MANAGEMENT ANALYSIS

6.1 FINANCIAL VIABILITY & MANAGEMENT ANALYSIS

6.1.1 CAPABILITY OF THE MUNICIPALITY TO EXECUTE CAPITAL PROJECTS

6.1.1.1 CAPITAL BUDGET ANALYSIS (2008/2009 to 2014/2015)

Table 74: Capital Expenditure by Standard Classification (2008/2009 to 2014/2015)

Capital Expenditure by Standard Classification	08/09 AUD	09/10 AUD	10/11 AUD	CY 11/12 BUD	CY 11/12 ADJ	CY 11/12 FCST	CY 11/12 ACT	Budget Year 12/13	Budget Year +1 13/14	Budget Year +2 14/15
Corporate Services				4 037	14 037	14 037	14 037	20 884	932	982
Environmental Protection										
Public Safety	2 174	2 174								
Executive & Council	29 731	31 496	49 899	3 800	3 800	3 800	3 800	5 261	5 545	5 844
Health	13	13								
Sport and Recreation										
Community & Social Services	381	1 732	3 960	183	183	183	183	693	730	770
Waste Management										
Budget & Treasury Office	2 996	4 656	3 820	2 165	2 165	2 165	2 165	4 287	2 410	2 540
Waste Water Management										
Road Transport										
Electricity										
Water	1 032 301	1 123 667	1 401 587	233 116	288 116	288 116	288 116	361 884	338 173	318 043
Housing										
Planning & Development	3 789	3 878	3 789	4 751	4 751	4 751	4 751	5 010	5 273	5 565
TOTAL	1 071 383	1 167 616	1 463 056	248 052	313 052	313 052	313 052	398 019	353 063	333 745

From the above table, and the graph overleaf, it is evident that the bulk of all capital expenditure is to address the backlogs in water provision. However, it is also noted that there has been a significant drop in budget provision for this, following the 3-year period from 2008/2009 to 2010/2011.

Table 75: Capital Expenditure by Standard Classification (2008/2009 to 2014/2015)

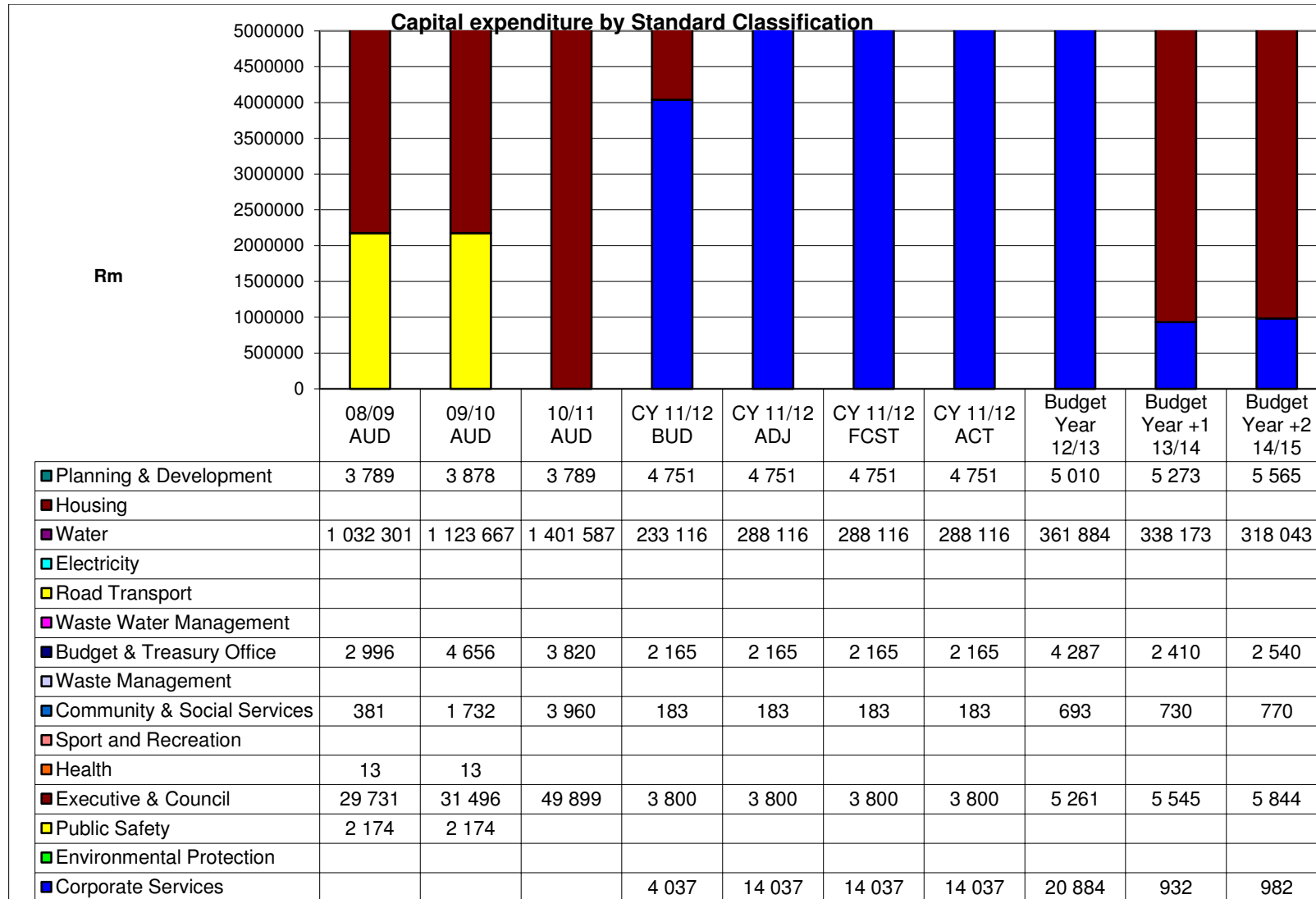


Table 76: Revenue by Major Source (2008/2009 to 2014/2015)

Revenue by Major Source	08/09 AUD	09/10 AUD	10/11 AUD	CY 11/12 BUD	CY 11/12 ADJ	CY 11/12 FCST	CY 11/12 ACT	Budget Year 12/13	Budget Year +1 13/14	Budget Year +2 14/15
Dividends received										
Agency services										
Contributions	70									
Contributed assets										
Licences and permits										
Gains on disposal of PPE	61		23							
Service charges - sanitation revenue	5 204		7 447	4 796	4 796	4 796	4 796	7 820		
Interest earned - outstanding debtors	272		574							
Service charges - other		17 692								
Rental of facilities and equipment	83		84							
Service charges - refuse								392		
Other revenue	461	2 792	1 411	48 803	60 053	60 053	60 053	81 540	65 032	65 091
Fines										
Interest earned - external investments	21 195	9 351	12 317	12 067	12 067	12 067	12 067	12 567	13 246	13 961
Transfers recognised	350 874	193 327	418 603	238 063	252 063	252 063	252 063	271 333	290 097	311 448
Service charges - water revenue	18 322		16 239	15 105	15 105	15 105	15 105	24 952		
Transfers recognised - capital		216 688	195 741	248 052	293 788	293 788	293 788	378 363	338 670	318 575
Service charges - electricity revenue										
Property rates										
TOTAL	396 472	439 851	652 439	566 886	637 872	637 872	637 872	776 966	707 045	709 075

As evident from the above table, and the graph overleaf, the bulk of Municipal Revenue is via Transfers, whilst virtually no income is derived from rates of service charges.

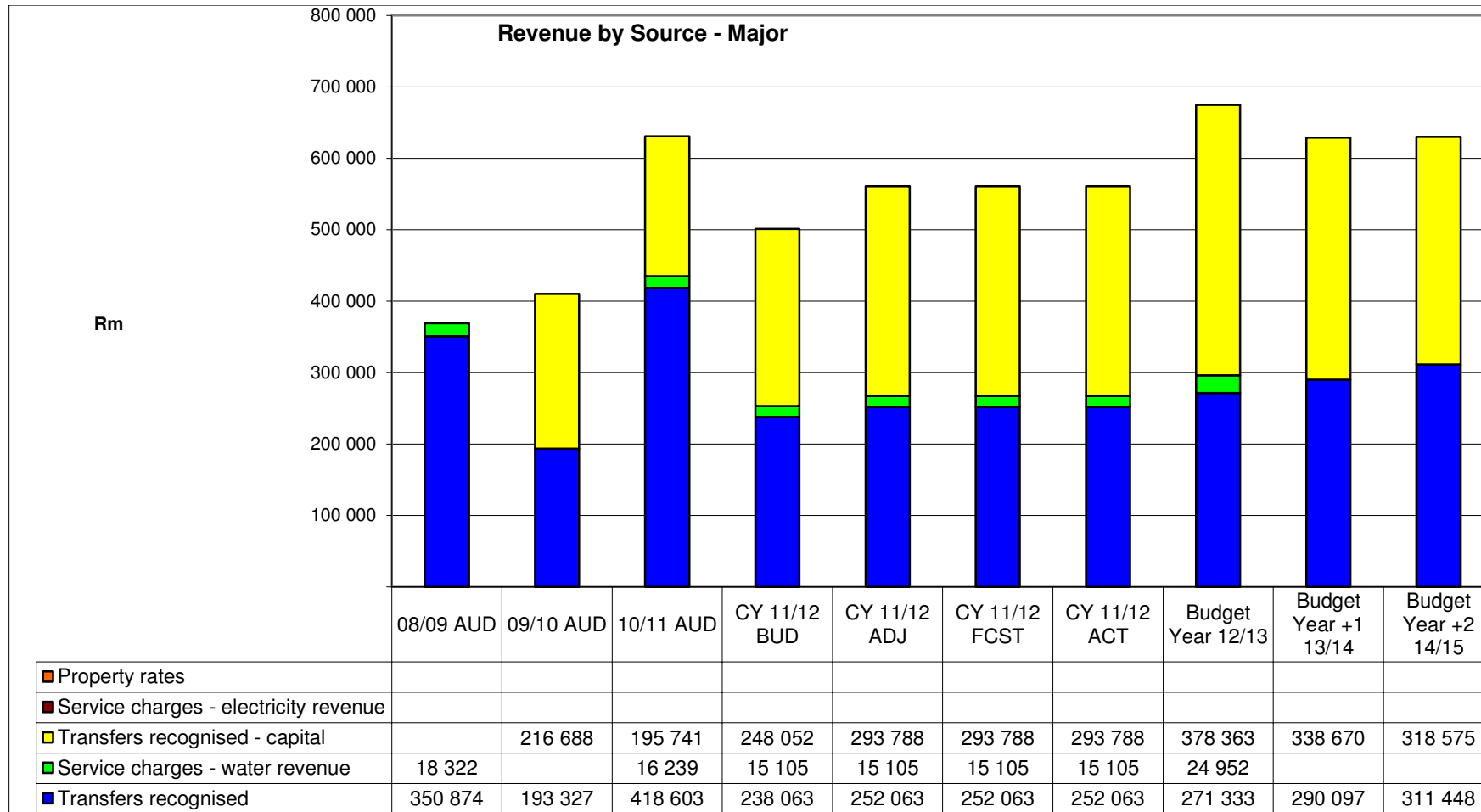


Figure 35: Revenue by Major Source (2008/2009 to 2014/2015)

Table 77: Operating Expenditure by Major & Minor Type (2008/2009 to 2014/2015)

Operating Expenditure by Major & Minor Type										
Other materials										
Loss on disposal of PPE										
Remuneration of councillors	4 934	5 039	4 792	5 467	5 717	5 717	5 717	5 939	6 479	7 069
Grants and subsidies	813	845	900	1 081	1 081	1 081	1 081	1 152	490	490
Debt impairment			14 996	3 055	3 055	3 055	3 055	3 226	4 071	4 441
Contracted services			4 344	10 759	10 759	10 759	10 759	13 757	14 500	15 283
Finance charges	833	697	618	310	310	310	310	50	53	56
Depreciation & asset impairment	30 029	31 979	31 574	33 108	33 108	33 108	33 108	31 574		
Other expenditure	145 930	160 762	145 883	89 588	112 088	112 088	112 088	112 317	104 451	108 059
Bulk purchases	25 188	35 064	39 166	49 929	52 429	52 429	52 429	71 789	75 665	79 751
Employee related costs	59 638	74 960	84 261	85 304	85 304	85 304	85 304	98 499	105 432	115 027
TOTAL	267 365	309 346	326 534	278 602	303 852	303 852	303 852	338 301	311 141	330 175

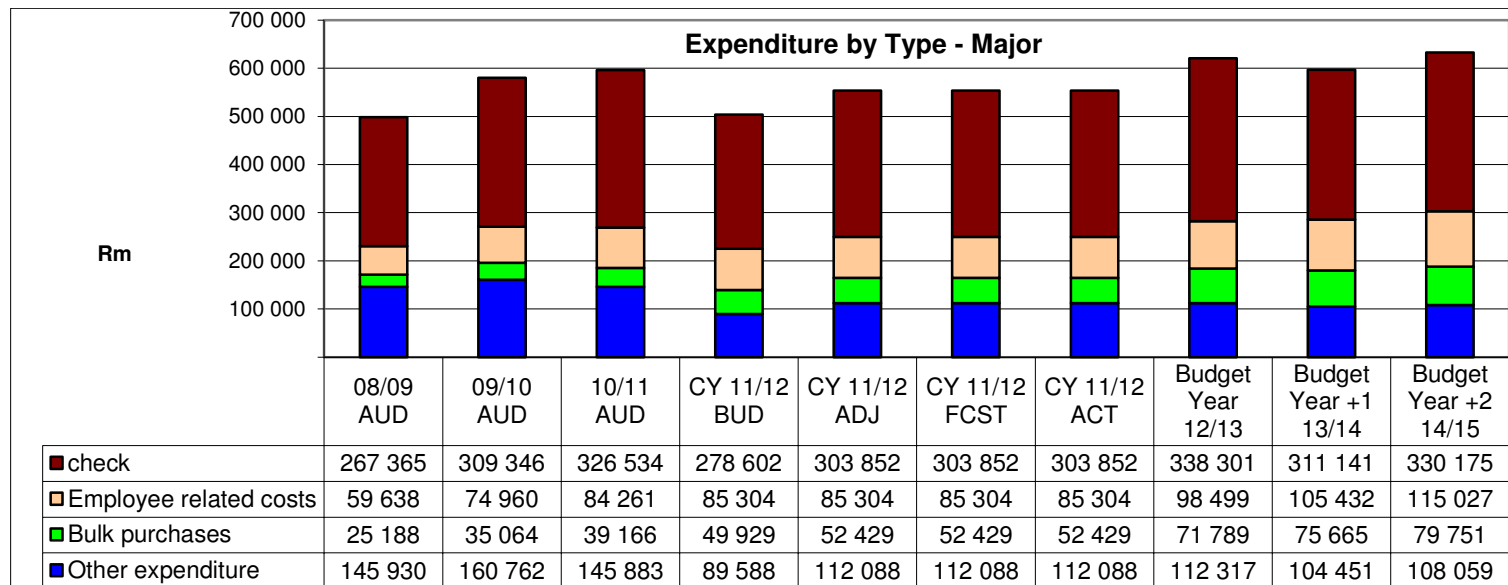


Figure 36: Operating Expenditure - Major (2008/2009 to 2014/2015)

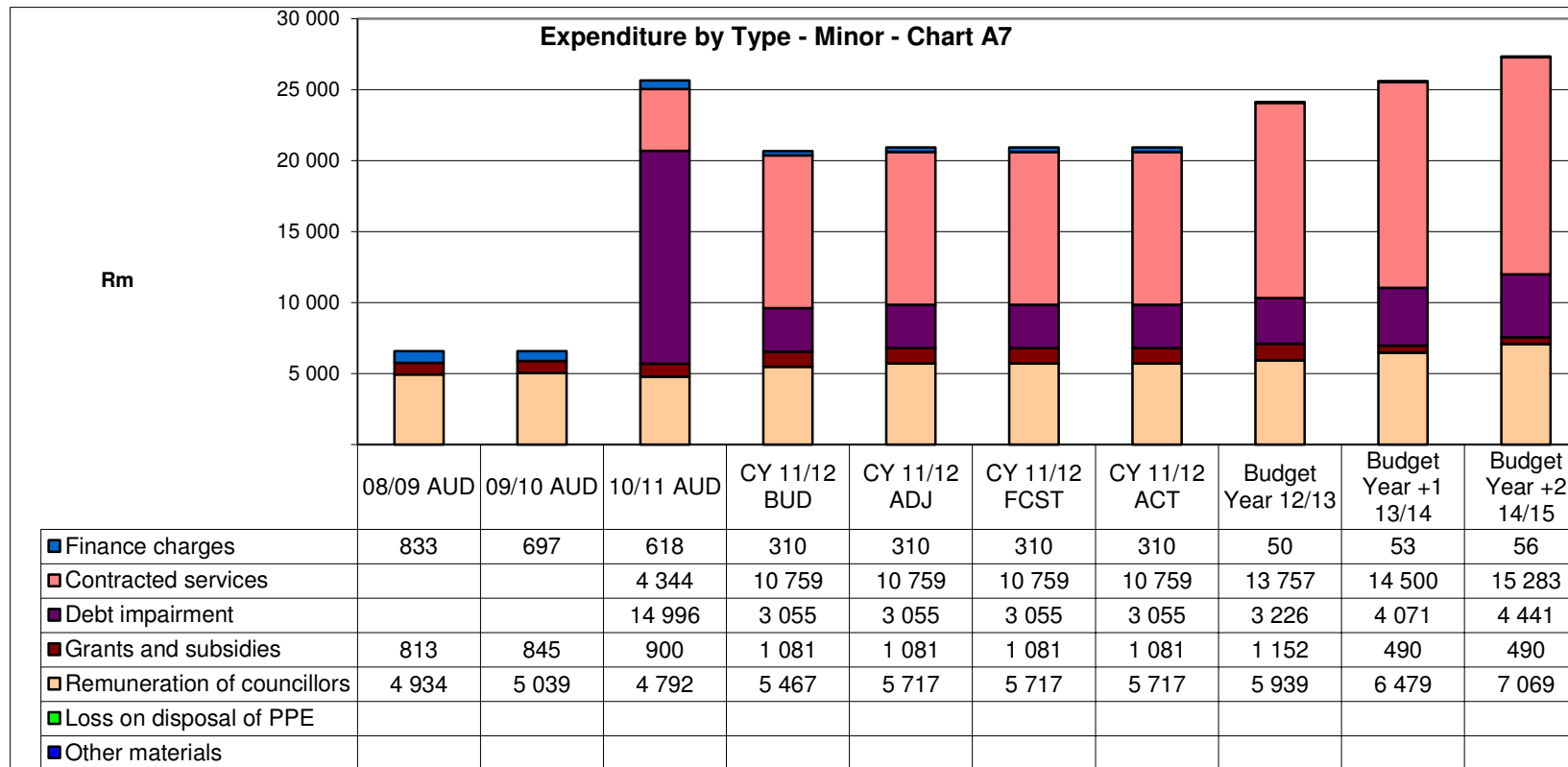


Figure 37: Operating Expenditure - Minor (2008/2009 to 2014/2015)

In terms of Major Operating Expenditure, there has been a steady increase in both bulk purchases and Employee related costs.

In terms of Minor Operating Expenditure, there has been a steady increase in contracted services and remuneration of councillors.

6.1.2 INDIGENT SUPPORT (INCLUDING FREE BASIC SERVICES)

The definition of a poor household relates to income poverty, or the lack of sufficient income to satisfy basic and essential needs such as food, clothing, energy and shelter. The **ZDM Indigent Policy** is in line with this definition which also takes into consideration the total monthly household income.

Like many other Districts, the majority of the population in the Zululand District Municipality is indigent (approximately 80%) and that means a small revenue base. Therefore a significant portion of the budget goes towards infrastructure development with very little revenue generated.

National Government Policy derives its standard for free basic water supply from that of the World Health Organisation (25l/p/p/day) which is regarded as sufficient to promote healthy living. The ZDM has an average household rate of 8 persons, meaning that the standard is equal to 6 kilolitres per household per month.

Budget figures for indigent support to be provided in the Final IDP Review.

6.1.3 REVENUE ENHANCEMENT AND PROTECTION STRATEGIES

The following are noted hereunder:

- Revision of implementation of a credit control policy
- Strengthening the Customer Services Centre
- Customer education
- All water and sewerage debtors are to be followed up and collected in terms of the credit control policy. It is imperative to collect debtors so as to be able to undertake service delivery. Writing off bad debts will be dealt with in the delegated powers.

6.1.4 MUNICIPAL CONSUMER DEBT POSITION

The nature and extent of poverty in the district is negatively affecting the ability of the majority of our residents to pay for the services rendered. As a result, the value of outstanding debtors is increasing.

To reduce this outstanding balance, council has resorted to the strict implementation of the credit control and debt collection policy by installing controlled flow meters for the indigent consumers and the restriction of water supply for the non-indigent consumers.

The Municipality's Consumer and Other Debts are reflected in the table below:

Table 78: Municipal Assets (including Debts)

Description	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	-	-

In 2012/2013 the Municipal Budget made provision for R6,766,000 consumer debt. This amounted to a year-on-year increase of 216% increase.

6.1.5 GRANTS & SUBSIDIES

The table below gives an indication of Transfer and Grants Receipts:

Table 79: Transfer and Grants Receipts

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	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
RECEIPTS:									
- <u>Operating Transfers and Grants</u>									
National Government:	-	160 532	-	242 375	236 576	236 576	269 372	288 258	309 509
Local Government Equitable Share		159 047		234 326	234 326	234 326	258 854	277 840	299 001
Finance Management		750		1 250	1 250	1 250	1 250	1 250	1 250
Municipal Systems Improvement		735		1 000	1 000	1 000	1 000	900	1 000
Water Services Operating Subsidy Grant							8 268	8 268	8 258
Other transfers/grants [insert description]				5 799					
Provincial Government:	159 877	222 956	-	1 487	15 487	15 487	1 961	1 839	1 939
DEVELOPMENT PLANNING SHARED SERVICES	159 877	222 656	-				-	200	210
DISTRICT GROWTH DEVELOPMENT SUMMIT							400	-	-
INDONSA GRANT				1 487	1 487	1 487	1 561	1 639	1 729
P700 CORRIDOR DEVELOPMENT					14 000	14 000			
Other transfers/grants [insert description]		300							
District Municipality:	-	-	-	-	-	-	-	-	-
[insert description]									
Other grant providers:	-	-	-	-	-	-	-	-	-
[insert description]									

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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	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Total Operating Transfers and Grants	159 877	383 488	–	243 862	252 063	252 063	271 333	290 097	311 448
<u>Capital Transfers and Grants</u>									
National Government:	–	–	–	–	55 000	55 000	358 363	338 670	318 575
Municipal Infrastructure Grant (MIG)							275 487	290 606	316 603
Regional Bulk Infrastructure					55 000	55 000	81 100	46 200	
Rural Roads Assets Management Grants							1 776	1 864	1 972
Other capital transfers/grants [insert desc]							–	–	–
Provincial Government:	–	–	–	–	10 000	10 000	20 000	–	–
Upgrading of airport					10 000	10 000	20 000	–	–
District Municipality: [insert description]	–	–	–	–	–	–	–	–	–
Other grant providers: [insert description]	–	–	–	–	–	–	–	–	–
Total Capital Transfers and Grants	–	–	–	–	65 000	65 000	378 363	338 670	318 575
TOTAL RECEIPTS OF TRANSFERS & GRANTS	159 877	383 488	–	243 862	317 063	317 063	649 696	628 767	630 023

A total amount of R649,767,000 was budgeted for in 2012/2013 for receipts of transfers and grants.

6.1.6 MUNICIPAL INFRASTRUCTURE ASSETS & MAINTENANCE (Q&M)

The table below gives an indication of the Expenditure on Repairs and Maintenance of Municipal Assets:

Table 80: Repairs and Maintenance Expenditure (2008/2009 to 2014/2015)

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	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Repairs and maintenance expenditure by Asset Class/Sub-class									
Infrastructure	17 496	23 240	23 280	32 080	32 080	32 080	35 436	37 350	39 367
Infrastructure - Road transport	-	-	-	-	-	-	-	-	-
<i>Roads, Pavements & Bridges</i>									
<i>Storm water</i>									
Infrastructure - Electricity	-	-	-	-	-	-	-	-	-
<i>Generation</i>									
<i>Transmission & Reticulation</i>									
<i>Street Lighting</i>									
Infrastructure - Water	17 496	23 240	23 280	32 080	32 080	32 080	35 436	37 350	39 367
<i>Dams & Reservoirs</i>									
<i>Water purification</i>									
<i>Reticulation</i>	17 496	23 240	23 280	32 080	32 080	32 080	35 436	37 350	39 367
Infrastructure - Sanitation	-	-	-	-	-	-	-	-	-
<i>Reticulation</i>									
<i>Sewerage purification</i>									
Infrastructure - Other	-	-	-	-	-	-	-	-	-
<i>Waste Management</i>									
<i>Transportation</i>									
<i>Gas</i>									
<i>Other</i>									
Community	-	587	1 715	-	-	-	-	-	-
Parks & gardens									

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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	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Sportsfields & stadia									
Swimming pools		587	1 715						
Community halls									
Libraries									
Recreational facilities									
Fire, safety & emergency									
Security and policing									
Buses									
Clinics									
Museums & Art Galleries									
Cemeteries									
Social rental housing									
Other									
Heritage assets	-	-	-	-	-	-	-	-	-
Buildings									
Other									
Investment properties	-	-	-	-	-	-	-	-	-
Housing development									
Other									
Other assets	1 781	2 301	2 842	8 152	8 152	8 152	5 210	5 491	5 788
General vehicles		1 832	2 087						
Specialised vehicles	-	-	-	-	-	-	-	-	-
Plant & equipment									
Computers - hardware/equipment		66	50						
Furniture and other office equipment		8	13						
Abattoirs									
Markets									
Civic Land and Buildings									
Other Buildings		395	693						
Other Land									
Surplus Assets - (Investment or Inventory)									
Other	1 781			8 152	8 152	8 152	5 210	5 491	5 788

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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	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
<u>Agricultural assets</u> <i>List sub-class</i>	-	-	-	-	-	-	-	-	-
<u>Biological assets</u> <i>List sub-class</i>	-	-	-	-	-	-	-	-	-
<u>Intangibles</u> Computers - software & programming Other (<i>list sub-class</i>)	-	-	-	-	-	-	-	-	-
Total Repairs and Maintenance Expenditure	19 277	26 128	27 837	40 232	40 232	40 232	40 646	42 841	45 154

The ZDM budgeted in 2012/2013 an amount of R40,646,000 for repairs and maintenance of municipal assets.

6.1.7 CURRENT & PLANNED BORROWINGS

The Municipality has no current or planned Borrowings.

6.1.8 RISK ASSESSMENT

The risk assessment has been conducted in conjunction with Provincial Treasury. A risk register has been developed and presented to the Audit Committee for approval. Internal Audit used the risk register to prioritize the areas of attention in the 2010/2011 financial year. The municipality is exposed to various risks of loss including theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, employee health and natural disasters. The municipality generally obtains insurance to mitigate the risks associated with possible losses but has chosen to retain the risks associated with underground infrastructure i.e. water and sewer pipes networks.

The Audit and Risk Management Committee will, in terms of its authority delegated by Council, facilitate the development of a formal Risk Management Framework and Strategy. The results of the risk assessments should be used to direct internal audit efforts and priorities, and to determine the skills required of managers and staff to improve controls and to manage these risks.

Management has formed an Operational Risk Management Committee (Risk Sub Committee) chaired by the Chief Financial Officer. The aim of the Risk Sub Committee is to implement the risk management strategies and give feedback to the Audit and Risk Management committee on a regular basis. The risk register will be updated regularly with identified and new emerging risks including mitigating responses and action plans.

6.1.9 MUNICIPALITY'S CREDIT RATING

The Zululand District Municipality currently does not have a Credit Rating. *(To be checked and confirmed in the Final IDP Review)*

6.1.10 EMPLOYEE RELATED COSTS (INCLUDING COUNCILOR ALLOWANCES)

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
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

6.1.11 SUPPLY CHAIN MANAGEMENT (SCM)

To be expanded upon in the Final IDP Review.

The primary objective of this section is to provide supply chain management which is fair, transparent, efficient, equitable, and competitive and which ensures best value of money for the municipality and promotes local economic development.

6.2 FINANCIAL VIABILITY & MANAGEMENT: SWOT ANALYSIS

To be completed in the Final IDP Review.

7. GOOD GOVERNANCE & PUBLIC PARTICIPATION ANALYSIS

7.1 GOOD GOVERNANCE ANALYSIS

7.1.1 NATIONAL AND PROVINCIAL PROGRAMMES ROLLED-OUT AT MUNICIPAL LEVEL

To be included in the Final IDP Review.

7.1.2 IGR

1.11.8.1 LEGAL FRAMEWORK

Intergovernmental Relations (IGR) in South African context concern the interaction of the different spheres of government. The Constitution declares that government is comprised of National, Provincial and Local spheres of government which are distinctive, interdependent and interrelated. According to the Constitution of the Republic of South Africa, Act, No.108 of 1996, Section 41 (2), an Act of Parliament must establish or provide structures and institutions to promote and facilitate Intergovernmental Relations and provide for appropriate mechanisms and procedures to facilitate settlement of Intergovernmental disputes.

1.11.8.2 DEVELOPMENT OF AN IGR STRATEGY AND FRAMEWORK

7.1.2.1.1 Background

In its endeavor to strengthen relations amongst its institutional and co-operative governance structures as well as to accelerate service delivery excellence the Zululand District Municipality (in conjunction with the Department of COGTA) is developing an IGR Strategy and Framework which will promote co-ordination, and integration of efforts, as well as monitoring and evaluating implementation. The IGR Strategy and Framework has the following targeted objectives: