

**EXECUTIVE SUMMARY**  
**2009/2010 BUDGET**

The budget processes started during September 2008. Numerous IDP meetings, Ward and Ward Committee meetings, "Council meets the People" and other meetings were conducted over the financial year.

The budget were prepared in conjunction with the MFMA circulars and other regulations.

**A. IDP AND LINKAGE OF IDP TO BUDGET (CAPITAL BUDGET)**

Council adopted the Revised IDP during March 2009 and it will be again be adopted by Council during the Budget meeting. Various community and ward needs were identified which forms part of the revised IDP document. However all needs cannot be achieved, realized or addressed in one financial year or over one MTEF period. **The current linkage of the IDP to the budget amount to R 8 993 000.**

The total R 8 993 000 are broken down as follows:

**1. Municipal Infrastructure Grant (MIG)**

- Construction of access roads in Adelaide and Bedford to the total amount of R 7 289 000-00

**2. Fixed assets will be purchased on the next financial year**

Motor Vehicles (includes R550 000 truck)	<b>R 1 010 000</b>
Plant & Equipment	R 275 000
Office Equipment	R 399 000

**3. The Financial Reforms in terms of the conversion of financial statements presentations from IMFO to GAMAP/GRAP which is being prescribed by the MFMA.**

**4. Office equipment and smaller capital assets will be procured.**

## **B. OPERATING BUDGET**

### **1. Budgeted Income**

#### **1.1 Rates Income**

- Total expected budgeted income amounts to R 2 757 152
- Rates will be levied on the new system of Municipal property rates act.
- During the 2008/2009 financial year the new the valuations has been to be finalize in order to be compliant with the Municipal Property Rates Act. Objections and all processes are completed under process to be completed.
- The total amount for rebate for farmers is totaling R4 756 301 at 85% rebate.
- The amount of rebate for the consumers at first R15000 of the value property amounts to

#### **1.2 Other Services budgeted income are almost R 52 300 600**

- 1.2.1 - Electricity amount to R 15 053 523
- 1.2.2 - Refuse removal amounts to R 3 156 168

#### **1.3 Fines will be budgeted for R 433 038**

#### **1.4 Licences and permits will be R 1 528 000**

#### **1.5 Rental of facilities and equipment expected income will be R 43 619**

#### **1.6 Equitable Share and other Operating Grants and Subsidies amount to R 25 451 218**

#### **1.7 The total budgeted income amounts to R 48 727 340. The total budgeted income consists out of**

- |   |   |              |
|---|---|--------------|
| 1.7.1 Capital Grants and Donation       | - | R 7 289 000  |
| 1.7.2 Operating Grants and Subsidies    | - | R 18 162 218 |
| 1.7.3 Own generation of budgeted income | - | R 23 276 122 |

**There is an increase in total budgeted income of 11, 2% in relation to previous year. The main reasons for the increase are:**

- (i) The increase in grants and subsidies over the past years

- (ii) The traffic fines increment
- (iii) The general increment of service tariffs and levies

## **2. EXPENDITURE**

### **2.1 Salary and Wages**

- The total salary and wages and social contributions for the year amounts R 19 093 207
- Annual increase of 10% has been budgeted for 2009/10
- The salary percentage to the total budget is  $\pm 39\%$

### **2.2 Councillor Remuneration**

- Councillor Remuneration amounts for R 3 426 274
- Provision has been made for pension fund and medical aid fund contributions
- the councillor remuneration percentage to the total budget is  $\pm 3\%$

**The total salaries, wages, social contributions and councillor remuneration is between 39 and 43% in relation to the total budget.**

### **2.3 Repair and maintenance amounts to R 1 063 100**

### **2.4 Capital Grants payments amounts to R 8 993 000. These amounts are recognized on the income side and also on the expenditure side.**

The Budgeted Expenditure for 2009/2010 are R 48 727 340 which comprise of Operating budget of R 39 734 340 and the Capital budget of R 8 993 000. This represents an increase of 11% in relation to the previous year's total budget. A total increase of 23% is expected in the Capital Budget in relation the last year budget.

## **C. TARIFF**

**All tariffs will be increased by 10% for the 2009/2010 financial year. These are**

1. Rates and taxes
2. Electricity

3. Refuse removal and also other secondary tariffs

#### **D. INDIGENT HOUSEHOLDS**

A total of almost 1300 indigent households are receiving subsidized services every month. The subsidized services include

1. 25 kwh of electricity R 24.50
2. monthly refuse removal R 39.12

**Total monthly subsidized services to Indigent Households R 63.62**

#### **E. KEY BUDGET ISSUES**

The MFMA and MFMA Circular 28 ***states it clearly that Municipal Budgets must be realistic.***

##### **1. INCOME**

**Income are being categorised under the following main sources:**

##### **1.1 RATES AND TAXES**

Rates and taxes account for

- between 10% and 13% of the total operating revenue in relation to the 2008/2009 Budget.
- Conservative increment of 10% could be considered due to the inflation rate that is currently at 10.1 and will increase due high prices currently experienced.
- Another factor that needs to be taken into consideration is the General Valuations of which the implementation date will be on the 01 July 2009 and the valuation date was the 01 July 2008.
- This will broaden the income base in relation to erven, agricultural land that were not previously taxed.
- The Minister of Provincial and Local Government has the powers to place a cap on the increase of the new tariffs that are being levied against the new market

value of properties (land and buildings). This is an attempt to control exorbitant high increments.

## **1.2 ELECTRICITY**

- Electricity is the biggest source of revenue for Municipality.
- Surpluses from the sale of electricity are being absorbed by the non income generated services.
- With Eskom's load shedding, the impact on electricity Consumption have to be taken into consideration.
- Any new developments that will contribute to a increase in demand of electricity.

## **1.3 REFUSE**

- Historical data will be adjusted accordingly to determine the revenue for the fixed cost services.
- New Developments, building of new houses will increase the revenue source.

## **1.4 FINES**

- Traffic fines are expected to increase over the next few years due to the collection efforts initiated by Council.

## **1.6 OPERATING GRANTS AND SUBSIDIES**

- Almost 22 – 25% of total operating income represent grants and subsidies received from National and Provincial Government.
- A lot can be said about the allocations that we received but no amount of money will be ever enough for the challenges experienced by the Municipality.

## **1.7 CAPITAL GRANTS AND SUBSIDIES**

- Mainly the capital infrastructural projects are being financed from grants received.
- These projects that are being executed are limited from the income sourcing provided by MIG allocations to Budget.
- Challenges are experienced with the alignment of

sectoral departments budget to our Municipal Budget.

## **1.8 OTHER INCOME**

- Other income represent also a substantial amount of the total operating income.
- Efforts are currently developed within the Municipality such as "Turn-around" strategy to aggressively increase of revenue and also to collect from the arrears of debtors.

## **2. EXPENDITURE**

### **2.1 EMPLOYEE COSTS**

- This category includes salaries and wages, as well as social employee contributions.
- This can almost be seen as "fixed costs" as salaries need be paid every month.
- This represents will be the biggest expenditure category of the budget.

### **2.2 COUNCILLOR REMUNERATION**

- As determined by the upper limits Gazette promulgated by DPLG

### **2.3 REPAIR AND MAINTENANCE**

- This is the category that needs to be adequately provided for.
- Assets are old, and almost at the end of their useful lives.
- New developments that are construction needs also to be maintained.
- A huge challenge that our Municipality experiencing is with new constructions, very little monies are received for the Repair and Maintenance of these new constructed infrastructure developments.
- Roads, Buildings, Equipment and Vehicle fleet need desperate attention.

### **2.4 BULK PURCHASES**

### **2.4.1 ELECTRICITY**

- NERSA publicly indicated the approved electricity tariff increment as from 01 April 2008.
- Historical Data in terms of the purchasing of electricity will determine the provision of bulk purchases.
- Eskom is also currently at this moment applied for an additional increase of 53% which will spill over to municipalities if approved.

### **2.6 PROVISION FOR BAD DEBTS**

- Social Economic Conditions within the Municipality needs to be taken into consideration.
- Indigent Households needs to be determined and Indigent Household Register needs to be update bi-year or annually.
- Payment ratio or the collection of income cannot be emphasized enough.

### **2.7 DEPRECIATION**

- An amount of Depreciation on all assets needs to be provided in terms of the approved Assets Policy where method of depreciation is outline.

### **2.8 GENERAL COSTS**

- Fiscal discipline needs to be adhered to by all.
- Fuel increases not to be properly provided for.
- Telephone Charges ? better internal control Mechand needs to enforced.
- Limitation or strict control over the increment of other line items as this releginary is a huge challenge for us.
- General price increases will also contribute to linkes in general costs.
- Subsistence and Travel must only be undertaken when enough funds are available on the budget.

### **2.9 CAPITAL PROJECTS**

- Capital Projects that are finance from own source remains a challenge due to availability of funds, lack of proper planning, lack of proper costing to the projects.
- Too dependent on National and Provincial

Government on funding for the execution of IDP projects.

- No real commitment from sector departments to align the Capital to our Capital program.

## F. ASSUMPTIONS

- National Treasury direction or guidelines on budget increases that must be in line with the macro economic strategy of between 3-6%
- Inflation is well above the 6% and current figures are at 10.1%.
- Interest rates increased almost with  $\pm 350$  basis points which impacts on the prices as a whole.
- Eskom tariff electrical approval from NERSA of 14.2%. The weighted average increment will be 15.02% as from 01 July 2008 which, will not only have a direct impact on the sale and procurement of electricity but to price hikes in general.
- Salary increments has been finalised this year and the new three year cycle will start next year.  
Unions have already indicated that they will accept or will not settle for less than the inflation rate. The current increase in salary stands at 8.3% from the 01 July 2008.
- Apart from the normal salary increments, Medical Aid Employers contributions increments will be between 10 and 20%. This place a heavier financial burden on the revenue sources and impacts on the tariff calculation as a whole.
- General increases in purchasing or Cost price of normal items increase on average between 10-15% as in relation to the same period last year.
- **Repair and Maintenance Costs together with labour costs of repairing municipal assets also fall victim of the huge price hikes which needs to be taken into consideration.**

## G. FORECASTING OF REVENUE AND EXPENDITURE

### 1. REVENUE

#### RATES AND TAXES

0.005 cent in a rand will be charged on properties

#### ELECTRICITY

Electricity Tariffs will increase by 25% as from 01 July 2009.

## **SECONDARY TARIFFS**

Secondary Tariffs will increase by 10% for the 2009/2010 financial year.

### **THE TOTAL BUDGETED AVERAGE INCREMENT FOR ALL REVENUE SOURCES WILL BE ±12%.**

## **2. EXPENDITURE**

### **2.1 EMPLOYEE COSTS: SALARIES AND WAGES**

Salaries and wages has been provided at an increment of 8.5%

### **2.2 EMPLOYEE COSTS: SOCIAL CONTRIBUTIONS**

A provision of an average increment of 16% will provided

### **2.3 REPAIR AND MAINTENANCE**

A provision of an average increment of 12% will provided. However Repair and Maintenance expenditure increased by almost 27% in relation to last year. This show Council's commitment to the maintenance of all assets.

### **2.4 BULK PURCHASES**

Electricity purchases will increase on a weighted average of 15.9% from 01 July 2008 and water will increase on average of 9-12%.

### **2.5 CAPITAL CHARGES**

An average increment of 6% will be provided since expectations will be that interest hikes will increase by ±400 basis points.

### **2.6 GENERAL COSTS**

A provision of an average increment of 12% will provided.

### **3. GRAPHS** **Attached the Budget information**

- 3.1 GFS Budgeted Income and Expenditure for the financial years
- 3.2 Chart on Total Income via GFS functions
- 3.3 Chart on Total Expenditure via functions
- 3.4 Chart on the Tariffs and deficit

### **H. BUDGET ANALYSIS**

- The overall increases during the 2007/2008 and 2008/2009 financial years reflects an annual increment of  $\pm 9\%$  and in 2008/2009 budget year on average increment of between 10-12% will be expected.
- The total tariff increment will be 25% which is higher than the expected norm issued by the National Treasury.
- Electricity tariffs increments are as per NERSA's guidelines.
- The general  $\pm 10\%$  tariff increment is also in line with the current economic data available.
- The budget is realistic and external or macro economic factors as well as micro economic factors were taken into consideration. However, the municipality have no control over these macro conditions that impacts very heavily on the operations of the municipality. These are interest rates, fuel prices, inflation rates, high food prices, unemployment rate, etc.
- The budgeted income will realised by the extensive efforts that will be enforced by the officialdom.
- Strict expenditure mechanisms will be enforced to ensure that the key Strategic Objectives of the municipality are executed.
- Budget is in line with the policies of Council especially directed to the poorest of the poor with the provision of Free Basic Services to all qualified Indigent Households.
- Local Economic Development opportunities has been identified in order to provide sustainable LED projects for the communities.
- The budget is also based towards the Indigent Households within the municipality.

## **I. BUDGET RELATED POLICIES**

- (i) Revised IDP
- (ii) Revised Credit Control Policy
- (iii) Revised Indigent Policy
- (iv) Tariff Policy
- (v) Investment and Cash Management policy
- (vi) Service Delivery and Budget Implementation Plan (SDBIP) – 14 days
- (vii) By-laws applicable to enforcement of financial policies.

## **J. CONCLUSION**

The 2009/2010 budget is a developmental budget which will aim to bring sustainability and improvement of service delivery. The various initiatives that Council will be undertaken will cement and concrete their mandate to improve the lives of all residents by focusing on the poor and create conducive environment for local economic development.