

# **BUDGET ASSUMPTIONS**

# KEY BUDGET ASSUMPTIONS

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 11% and 13% of the total Revenue in relation to the 2010/2011 Budget
- Conservative increment of 7.5% could be considered
- The new valuation was implemented on 1 July 2009 and the supplementary roll will be implement before 1 July 2010.

### 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.
- Any new developments that will contribute to a increase in demand of electricity.

### 1.3 WATER

- Historical data on consumption formed the trend when expected revenue was calculated.
- Provision needs to be made for new water connections i.e households, new developments.
- Weather patterns influence the consumption water immensely.

### 1.4 SEWERAGES AND 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.

## **1.5 FINES**

- Traffic fines are expected to increase over the next few years due to the collection efforts initiated by Council.
- Main sources for fines are Traffic and TVS.

## **1.6 OPERATING GRANTS AND SUBSIDIES**

- Almost 20 – 22% of total operating income represent grant 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 infrastructure 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 proper 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 Municipal 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 to 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 and pension and medical aid contributions are also budgeted for during.

## **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**

- National Treasury issued and gazette where municipalities have to make provision for electricity hikes of 22%.
- Historical Data in terms of the purchasing of electricity will determine the provision of bulk purchases.
- Nersa announced a 3 year increase for Eskom that will have huge impacts on electricity bills.

### **2.4.2 WATER PURCHASES**

- Mainly weather conditions during summer season will determine that demand of water that needs to be mine (ground bore hole water)

## **2.5 CAPITAL CHARGES / INTEREST**

- The correct provision for capital charges is of utmost importance.
- Interest rates linkages need to be considered especially with the Reserve Bank's policy on Macro Economic Strategy.

## **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 emphasised 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 relegendary is a huge challenge for us.
- General price increases will also contribute to linkages in general costs.
- Subsistence and Travel must only be undertaken when enough funds are available on the budget.

## **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 programme.

### **3. OTHER BUDGETARY ISSUES & 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 slightly above the 6% and current figures are at 6,2%.
- Interest rates are yielding currently which impacts on the prices as a whole.
- Eskom tariff electrical approval from NERSA will not only have direct impact on the sale and procurement of electricity but to price hikes in general.
- Apart from the normal salary increments, Medical Aid Employers contributions increments will be between 10 and 15%. This places 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 10-12% 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.

### **4. FORECASTING OF REVENUE AND EXPENDITURE**

#### **1. REVENUE**

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

Tariffs will be adjusted due to the period between the last valuation and current valuation.

##### **ELECTRICITY**

Electricity Basic Tariffs will increase by 8% as from 1 July 2010 and a new block tariff is propose for electricity and the principle for “more you use, the more will you pay” will be applicable

	Indigent	Non Indigent
1-50	0%	-6%
51-100	-5%	-5%
101-300	+2%	+2%
301-600	+13%	+13%
>600	+22%	+22%

## **WATER**

- Water will increase by 7.5%. All Households will be getting the first 6 000 litres of water free as it is included in the basic fee.

## **SEWERAGE AND REFUSE REMOVAL**

- Both Tariffs will increase by 7.5%

## **SECONDARY TARIFFS**

- Secondary Tariffs will be increase by 10% for 2010/2011 financial year.

## **2. EXPENDITURE**

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

- Salaries and wages has been provided at an increment of 10%.

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

- A provision of an average increment of 10% will provided.

### **2.3 REPAIR AND MAINTENANCE**

- A provision of an average increment of 6-8% will provided.

### **2.4 BULK PURCHASES**

- Electricity purchases will increase on a average of 24-28% from 1 July 2010 and water will increase on average of 8%.

## **2.5 CAPITAL CHARGES**

- An average increment of 6-9% will be provided since expectations will be that interest hikes have yielded.

## **2.6 GENERAL COSTS**

- A provision of an average increment of 8-10% will be provided.

## **2.7 PROVISION FOR BAD DEBTS**

- A provision of an average increment of 30% will be provided on all budgeted revenue.

## **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 GFS functions
- 3.4 Chart on the Tariffs and deficit

## **5. BUDGET ANALYSIS**

- The overall increases during the 2010/2011 financial years reflect an annual increment of 15%.
- The total tariff increment will be 7-15% which is higher than the expected norm issued by the National Treasury.
- Electricity tariffs increments are as per NERSA's guidelines.
- NT may issue new guidelines / Circular that can influence the electricity tariff.
- The budget is realistic and external or macro economic factors as well as micro economic factors were taken into consideration. However, the municipality has no control over these macro conditions that impact very heavily on the operations of the municipality. These are interest rates, fuel prices, inflation rates, high food prices, unemployment rate, etc. The economic recovery will influence the above-mentioned.
- The budget is very income generated driven.



- All budgeted income will be 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 have been identified in order to provide sustainable LED projects for the communities.
- The budget is also biased towards the Indigent Households within the municipality.