

Executive Summary **2011/2012 Budget**

The budget processes started during September 2010. 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 November 2010 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 19 606 000.**

The total R19 606 000 broken down as follows:

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

| | |
|---------------------------------------------|------------|
| -The establishment of Cemetry in Britstown. | R1 000 000 |
| -Stormwater in De Aar | R6 400 000 |
| -De Aar Upgrade Sewerage works | R6 000 000 |

2. **Finalising of Lotto funding projects for upgrading of Sporting facilities.**

- 3.. **Ward Project allocations for sustainable LED project (s) amounts to R2 100 000.**

4. **Resealing and construction of new streets allocation of R3 000 000 has been budgeted for the 2011/2012 financial year.**

5. **The Financial Reforms in terms of the conversion of financial statements presentations from IMFO to GAMAP/GRAP which is being prescribed by the MFMA. In order to fully comply with the MFMA, GRAP Accounting standards other legislative requirements, extensive programmes are under way to met the deadlines.**

6. **Other Office equipment and smaller capital assets will be procured.**

(Attached you'll find the detailed linkage of IDP projects to the 2011/2012 Budget)

B. OPERATING BUDGET

1. Budgeted Income

1.1. Total expected Rates Income will be R15 225 528

- Total expected budgeted income amounts to R15 320 928
- Property rates penalties imposed arrear accounts amounts to R95 400
- Rates will be levied on the market value of properties as per our municipal valuation roll.
- During the 2011/2012 financial year the supplementary valuation roll will be implemented. New valuations of the DMA area will be part of the PixleyKaSeme District will be levied as from 01 July 2011. Supplementary Valuations will be finalise in order to becompliant with the Municipal Property Rates Act. Objections and all processes need to becompleted before the tabling of the 2011/2012Final Budget.

1.2 Other Services budgeted income are almost R 71 388 943

- 1.2.1 -Electricity amount to R38 621 908
- 1.2.2 -Water amounts R14 791 147
- 1.2.3 -Sewerage amounts to R11 182 780
- 1.2.4 -Refuse removal amounts to R6 663 788
- 1.2.5 -Other service charges amounts to R129 320

1.3 Fines will be budgeted for at gross amounts of R 9 524 237

1.4 Licenses and permits will be R1 094 639

1.5 Rental of facilities and equipment expected income will be R 472 121

1.6 Interest Income will be R 1 479 760

- 1.6.1 External Investments amounts to R678 400
- 1.6.2 Interest charged on Arrear accounts amounts to R 801 360

1.7 Equitable Share and other Operating Grants and Subsidies amount to R34 349 000

1.8 The Total Budgeted Operating Income for the 2011/2012 Financial year are R144 910 420

1.9 The total budgeted income amounts to R160 176 420. The total budgeted income consists out of

- | | | |
|-----------------------------------------|---|---------------|
| 1.9.1 Capital Grants and Donations | - | R 13 566 000 |
| 1.9.2 Operating Grants and Subsidies | - | R 34 349 000 |
| 1.9.3 Own generation of budgeted income | - | R112 261 420. |

There is an increase in total budgeted income of 9.6% in relation to the previous year. The main reasons for the increase are:

- (i) The increase in grants and subsidies over the past years
- (ii) The eradication of the bucket systems will lead to an increase in sewerage income.
- (iii) The traffic fines increment
- (iv) 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 R46 643 719
- Annual increase of 7,0 % has been agreed at SALGBC
- New posts such as Electricians have been filled.
- Provision has been made for number of learnership positions for the 2011/2012 financial year.
- The salary percentage to the total capital and operating budget is +- 25 %

2.2 Councillor Remuneration

- Councillor Remuneration amounts for R3 521 347
- Councillor remuneration has been provided on the current Public Officers Bearers Act, date December 2010.
- the councillor remuneration percentage to the total capital and operating budget is +- 2.1%

The total salaries , wages, social contributions and councillor remuneration is between 29 and 30% in relation to the total capital and operating budget.

2.3 Provision for Bad Debts, working capital reserve and depreciation increase from R7 313 179 in 2010/2011 to R32 521 008 for the 2011/2012 budget year.

2.4 Repair and maintenance increase by almost R8 872 028 nominally from R8 444 790 during 2010/2011 to R17 316 818 for 2011/2012 financial year.

2.5 Collection costs are budgeted for R 177 384

2.6 Capital Charges for interest on loans amounts to R1 865 977

2.7 Bulk Purchases for Water and Electricity amounts to R33 926 267. The increase represents mainly the Eskom's tariff increment of 25,8 per annum.

2.8 Operating Grants and subsidy expenditure amounts to R11 996 228, which are mostly spent on the Indigent Households for the subsidized services provide to approved Indigent Households.

- 2.9 Capital Grants payments amounts to R 19 606 000. These amounts are mainly recognized on the income side and also on the expenditure side.**
- 2.10 Capital projects that are finance from own funds amounts to R4 340 000. These are the ward projects, etc.**
- 2.11 Other expenditure amounts to R 20 256 833 includes some of activities that will take place:**
- | | |
|-------------------------------------------------------------------|-------------|
| -Employee Wellness | R1 017 600. |
| -Audit Fees | R2 582 146 |
| -Telephone | R1 444 092 |
| -Departmental Accounts (Water, Electricity, Street lighting, etc) | R2 810 997 |
| -Fuel and Oil | R1 782 819 |
| -Insurance | R914 462 |

The Budgeted Expenditure for 2011/2012 are R164 406 697 which comprise of Operating Budget of R143 031 936 and the Capital budget of R21 374 761. This represents an increase of 6.6 % in relation to the previous year's total budget. A total increase of 18.8% is expected in the Capital Budget in relation the last year budget.

C. Tariff Increments

All tariffs except electricity will increase by 6.2% for the 2011/2012 financial year. These are

1. Rates and taxes
2. Electricity (increase on average by 16,2%)
3. Water
4. Sewerage and sanitation
5. Refuse removal and also other secondary tariffs.

D. Indigent households

A total of almost 2300 indigent households are receiving subsidized services every month. The subsidizes services include

- | | |
|--------------------------------|---------|
| 1. 50 kwh of electricity | R30.01 |
| 2. 6000 liters (6 kl) of water | R52.71 |
| 3. monthly sewerage | R127.72 |
| 4. monthly refuse removal | R79.64 |

Total monthly subsidized services to Indigent Households R238.44

All Indigent Households must re-apply for the subsidy from now to end of September 2011 in order to update our records and registers annually.

E. KEY BUDGET ISSUES

The MFMA and MFMA Circulars 28, 51 and 54 ***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 2011/2012 Budget.
- Conservative increment of 6.2% could be considered due to the inflation rate during January 2011 is currently at 3.7% and will still increase due high prices currently experienced.
- The levying of an tourism levy for guest houses will not be implemented on the 01 July 2011 and engagements with guest house owners will take place during the new financial year. This exercise will be done to address the current being 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 2012 and the valuation date will be on the 02 July 2011.
- This has relatively broaden the income base in relation to erven, agricultural land that were not previously taxed.

1.2. ELECTRICITY

- Electricity is the biggest source of revenue for Municipality.
- Surplusses from the sale of electricity are being absorbed by the non income generated services.
- With eskom's annual tariff increment , the impact on electricity Consumption have to be taken into consideration.
- Any new developments that will contribute to a increase in demand of electricity.
- An total average increment of between 13% and 15% has been applied by Nersa.

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.

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 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 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, aswell 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 Minister of COGTA

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's approval of Eskom's annual electricity tariff impacts heavily on the current resources and payment levels.
- -Historical Data in terms of the purchasing of electricity will determine the provision of bulk purchases that takes the annual increases in consideration..
- Eskom tariff is influencing our annual electricity tariff to the core or bone.

2.4.2 WATER PURCHASES

- Mainly weather conditions during summer season will determine that demand of water that needs to be mined (ground bore hole water). Due to the current wet season, the consumption levels of water is being affected.
- Interest rates linked 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 updated bi-yearly or annually
- Payment ratio or the collection of income cannot be emphasized enough.
- Promised development that takes slow to kick-off impacts negatively on the payment percentages and payment levels of debtors.

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 outlined, where applicable.

2.8. GENERAL COSTS

- -Fiscal discipline needs to be adhered to by all.
- -Fuel increases starts again to increase due to the North African and Middle East Conflict/Crisis.
- -Telephone Charges better internal control Mechanism needs to be enforced.
- -Limitation or strict control over the increment of other line items as this reargency is a huge challenge for us.

- -General price increases will also contribute to links 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 programme.

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 within the 6% and current figures are at 3.7% in January 2011.
- Eskom tariff electrical approval from NERSA of 25.8% . The weighted average increment will be 17,2 % as from 01 July 2011 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 7,0 % from the 01 July 2011.
- Apart from the normal salary increments, Medical Aid Employers contributions increments will be between 10 and 20 %.. 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 10-15 % 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.
- Various developments such as the Hospital R300m project , Shopping Mall, Smaller Franchises and the building of projects will impact on the current capacity of the infrastructure of the municipality which affects the preparation of the budget. These projects will hopefully realised during the financial year.

G. FORECASTING OF REVENUE AND EXPENDITURE

1. REVENUE

RATES AND TAXES

Tariifs will increase by 6.2 %

ELECTRICITY

Electricity Tariffs will increase on a total average of 16,6% for a consumption of 600kwh and 17,2% for a consumption of 800kwh as from 01 July 2011.

WATER

Water will increase by 6.2 %. All Households will be getting the first 6000 liters of water free as it is included in the basic fee.

SEWERAGE AND REFUSE REMOVAL

Both Tariffs will increase by 6.2 %.

SECONDARY TARIFFS

Secondary Tariffs will increase by 7.5 % for the 2011/2012 financial year.

The total budgeted average increment for all revenue sources will be ± 7 %.

2. EXPENDITURE

2.1. EMPLOYEE COSTS: SALARIES AND WAGES

Salaries and wages has been provided at an increment of 7.0%

2.2 EMPLOYEE COSTS: SOCIAL CONTRIBUTIONS

A provision of an average increment of 7.0 % 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 25,8 % from 01 July 2011 and water will increase on average of 25 %.

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 10 % will provided.

2.7 PROVISION FOR BAD DEBTS

A provision of an average increment of 12 % will 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

H. BUDGET ANALYSIS

- The overall increases during the 2010/2011 and 2011/2012 financial years reflects an annual increment of $\pm 12.5\%$ and in 2011/2012 budget year on average increment of between $6.2 - 12\%$ will be expected.
- The total tariff increment will be 7.5% . which is higher than the expected norm issued by the National Treasury.
- Electricity tariffs increments are as per NERSA's guidelines.
- The general $\pm 7.5\%$ tariff increment is also in line with the current economic data available.
- The budget is realistic and external or macro economic factors aswell 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 budget is very income generated driven.
- All 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 biased towards the Indigent Households within the municipality.

I. BUDGET RELATED POLICIES

Council will adopt the following policies that were tabled to Council on 28 February 2011 with the Draft Budget. The policies are

- (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)
- (vii) Bylaws applicable to enforcement of financial policies.
- (viii) Revised Supply Chain Management Policy

J. CONCLUSION

The 2011/2012 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

sement and concrete their mandate to improve the lives of all residents by focussing on the poor and create conducive environment for local economic development.