



Mogale City



2007/08 BUDGET REPORT

29th MAY 2007

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2. BUDGET RELATED RESOLUTIONS

1. Council resolves that the annual budget of Mogale City Local Municipality for the financial year 2007/08 and indicative estimates for the two projected outer years 2008/09 and 2009/10, as set out in the schedules listed below, be **approved**:
 - 1.1 Operating revenue by source reflected in schedule 1;
 - 1.2 Operating expenditure by vote reflected in schedule 2;
 - 1.3 Capital expenditure by vote reflected in schedule 3; and
 - 1.4 Capital funding by source reflected in schedule 4.

2. Council resolves that the increase to property rates of 6% for the budget year 2007/08 be **approved**.

3. Council resolves that the proposed tariffs and charges for the budget year 2007/08 reflected in schedule 13 be **approved**.

4. Council resolves to **approve** the amendments proposed to the policies for Credit Control and Debt Collection, as set out in section 5.3 of this report.

3. EXECUTIVE SUMMARY

3.1 2007/08 OPERATIONAL BUDGET PROPOSALS

3.1.1 The total operational expenditure budget proposed for MCLM is balanced to the total revenue forecast for 2007/08 of R727,506 million. This budget is R37,439 million (or 5.4 %) above the Original Budget for the current year (2006/07) agreed by Council on 31st May 2006 and R59,959 million (or 8.9%) above the proposed 2006/07 Adjustments Budget.

Table 1: Total Operational Budget 2005/06 to 2009/10

| | 2006/07 Original Budget R 000s | 2006/07 Proposed Adjusted Budget R 000s | 2007/08 Proposed Budget R 000s | 2008/09 Forecast R 000s | 2009/10 Forecast R 000s |
|--------------------------|---|---|---|-----------------------------------|-----------------------------------|
| Expenditure | 690,067 | 667,547 | 727,506 | 771,157 | 825,139 |
| Revenue | (690,067) | (667,547) | (727,506) | (771,157) | (825,139) |
| (surplus)/deficit | 0 | 0 | 0 | 0 | 0 |

3.1.2 Schedules 2 and 2a of this report show the proposed allocation of the total operational expenditure budget to individual Directorates of the municipality (i.e. the budget votes) as well as the total analysed per expenditure type.

3.1.3 Charts 1 and 2 illustrate how the operational expenditure budget is allocated between Directorates and between different types of expenditure for 2007/08.

Chart 1: 2007/08 Operational Expenditure Budget: vote allocations

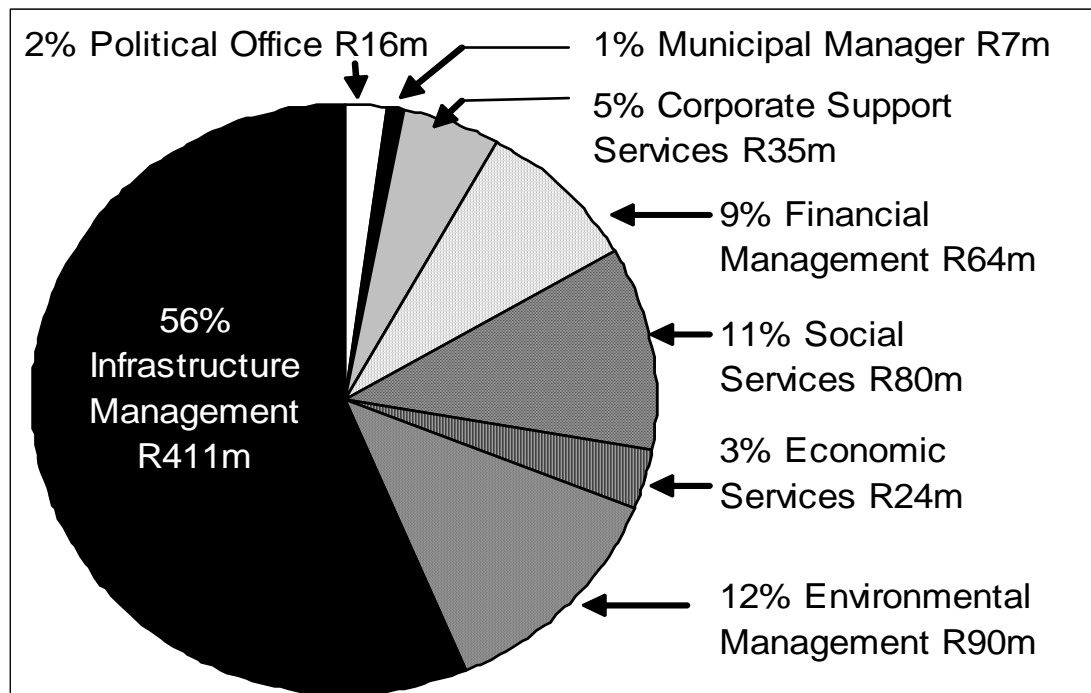
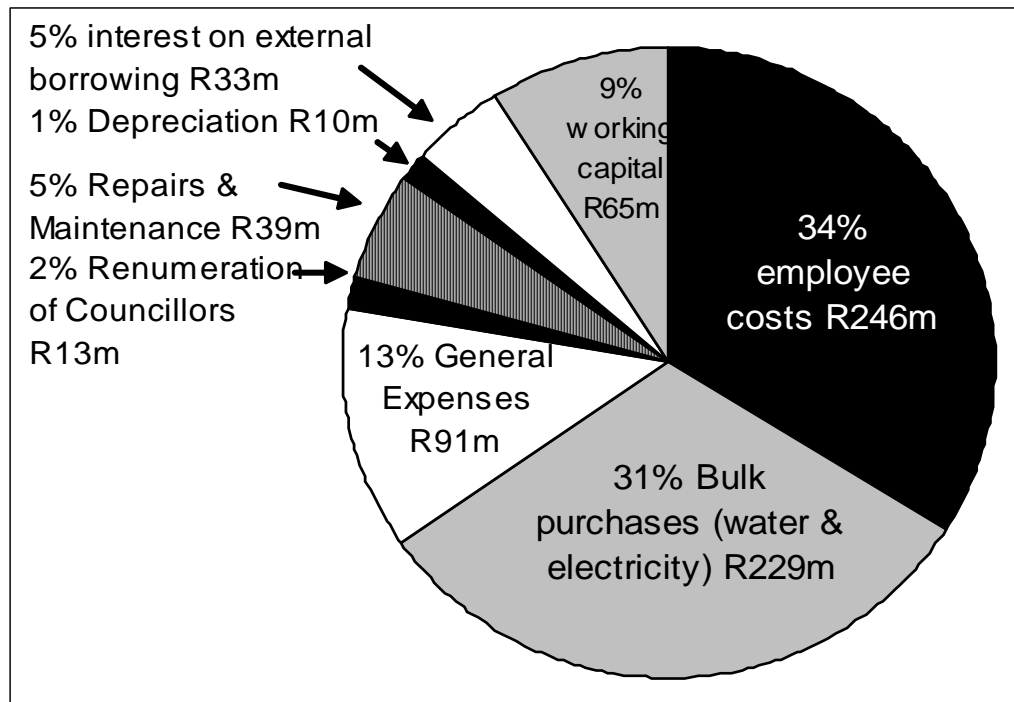
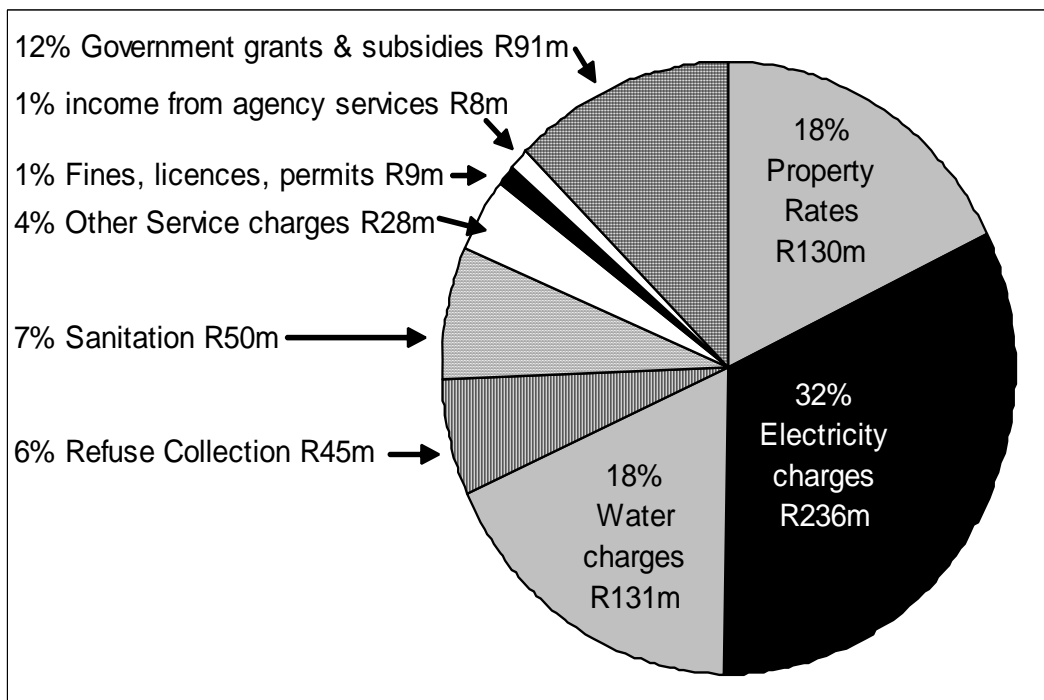


Chart 2: 2007/08 Operational Expenditure Budget: analysed by type of expenditure



3.1.4 The total operational revenue budget proposed for Mogale City Local Municipality for 2007/08 is also R727, 506 million. Schedule 1 shows the operational revenue budget by source of revenue.

Chart 3: 2007/08 Operational Revenue Budget: analysed by source of revenue



3.2 2007/08 CAPITAL BUDGET PROPOSALS

- 3.2.1 It should be noted that only capital projects with secure or confirmed funding have been included in the budget proposals at this stage. Currently, the total confirmed-to-date capital budget proposed for Mogale City Local Municipality for 2007/08 is R90,782 million this figure includes R29, 696 million projects rolled over from 2006/07 financial year. This is R8.395 million above the 2006/07 Original Budget (10% above) and R12.053 million above the current year's Adjustments Budget (15% above).
- 3.2.2 This is unlikely however to be the final capital budget figure as other funding sources may well be available to increase this amount (see 3.2.5 and 3.2.6 below). Please note that the budget forecasts for two outer years shown in table 2 below represent the amounts gazetted in DORA (Division of Revenues Act) to MCLM from national government for 2008/09 and 2009/10. Most of this is MIG (Municipal Infrastructure Grant). The 2008/09 forecast also includes R10.335 million from the Department of Housing but this amount is not yet entirely confirmed.

Table 2: Total Capital Budget 2005/06 to 2009/10

| | 2006/07 Original Budget | 2006/07 Adjusted Budget | 2007/08 confirmed to date Budget | 2008/09 Forecast | 2009/10 Forecast |
|--------------|-------------------------------|-------------------------------|--|---------------------|---------------------|
| | R 000s | R 000s | R 000s | R 000s | R 000s |
| TOTAL | 82,387 | 78,729 | 90,782 | 58,798 | 40,677 |

- 3.2.3 Details of the funding of the confirmed-to-date capital budget are given in schedule 4 of this report and shown in chart 4 below. The major sources of funding are:
- R32.287 million from MIG (Municipal Infrastructure Grant),
 - R5.717 million from Department of Water Affairs and Fishery,
 - R1.548 million SRAC (Sports, Recreation, Arts, and Culture) grant from Province (this latter is to fund the Lusaka sports complex palisade fencing and some computers for the library service),
 - R16 million from the selling of MCLM land, and
 - R5.371 for service connections arising from the recoverables income from the operational budget.
 - R29.696 million for rolled over projects from 2006/07 Financial Year.

Chart 4: Funding of the 2007/08 Capital Budget

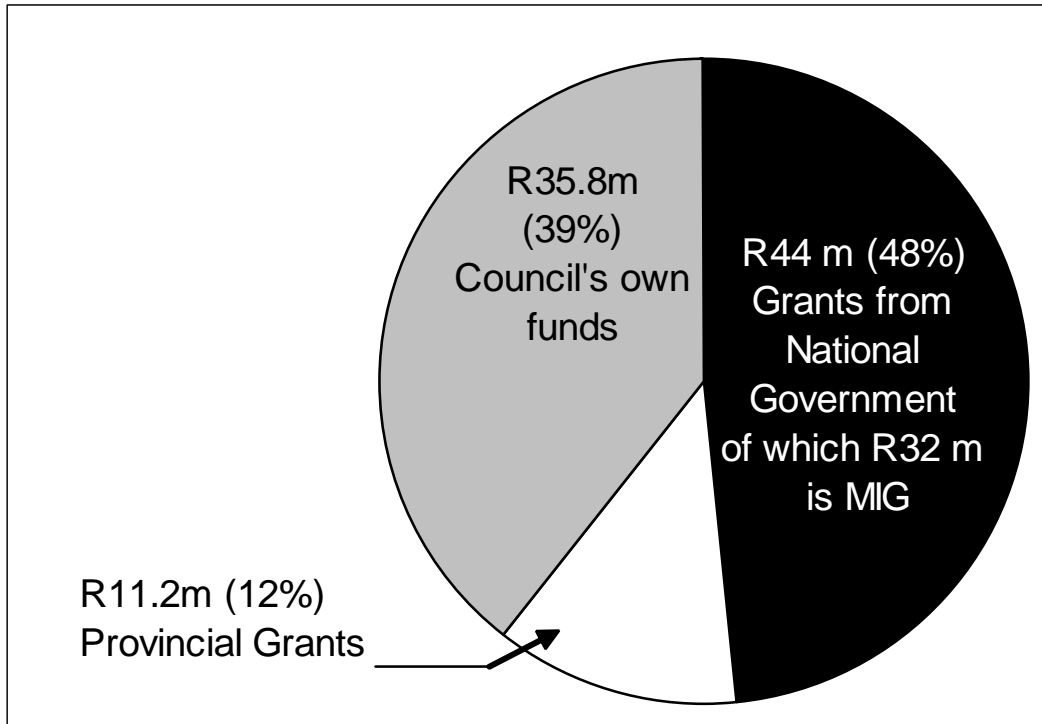
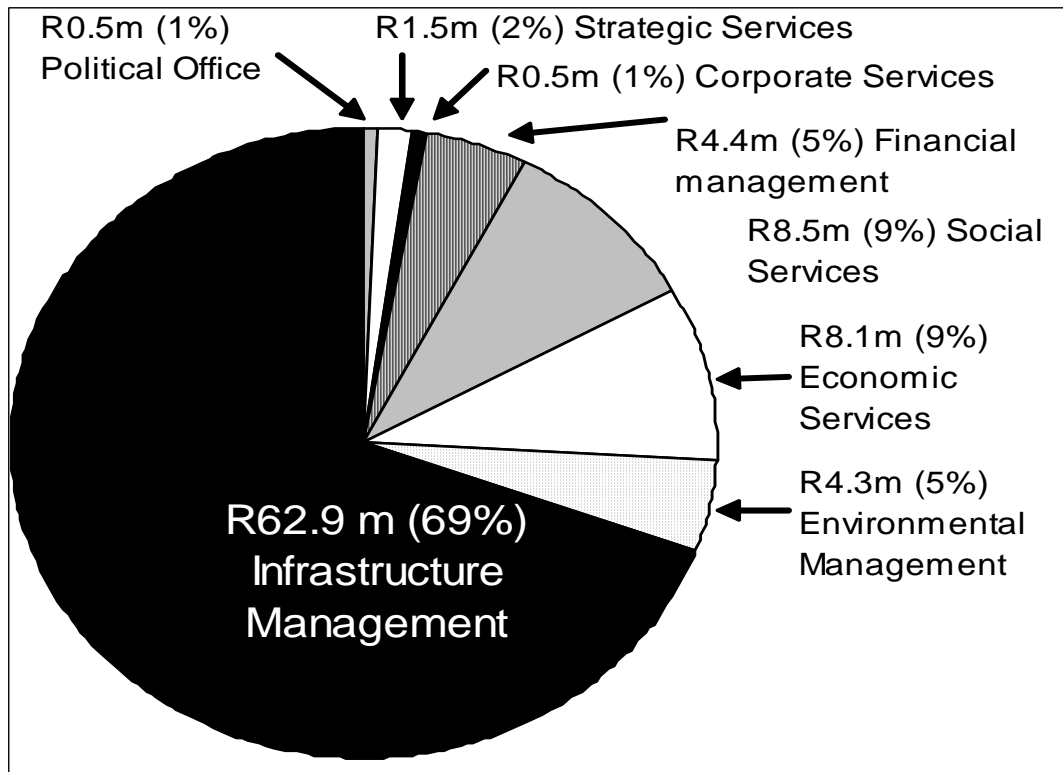


Chart 5: 2007/08 Capital Budget by vote



- 3.2.4 Schedule 3 of this report shows the proposed allocation of the total confirmed-to-date capital budget to individual Directorates of the municipality (i.e. the budget votes). This is also illustrated in chart 5 above and also includes rolled overs. A list of the individual capital projects proposed in the budget is given in schedule 3a (1) and a list of projects rolled over is given in schedule 3a (2).
- 3.2.5 Additional capital grant funding is R11.684 million, may also be available from the following sources: DWAF (Department of Water Affairs & Forestry) R3.432 million, SRAC (Sports, Recreation, Arts and Culture grant from Province) R950k, WRDM (West Rand District Municipality) 970k, and Department of Housing R6.332 million. Officials are currently trying to obtain confirmation on whether these grants will be given to MCLM for 2007/08. These grants would be used to fund specific capital projects agreed by the grant-donor organisations and will be added to the capital budget once the funds are secured through an Adjustments Budget process.
- 3.2.6 In addition to capital grant funding discussed above, the municipality is likely to be able to utilise additional land sale proceeds to the value of R81 million to fund the capital budget (see section 4.4.11 of this report for further information). Other possible funding could come from a restructuring of the existing loans from DBSA (R16 million). Section 4.4.13 of this report gives further information on this. A list of possible capital projects that could be funded from these potential funding sources is found in Schedule 3b of this Budget Report. These capital projects will be added to the capital budget once the funding sources are approved and confirmed through an Adjustments Budget process.
- 3.2.7 The Council also supports investment projects within the municipality's boundaries that are totally funded by other government sectors and/or private sector partners. These projects are termed 'out -of-books' projects since the funding for the projects does not flow through Mogale City's bank account. A list of these projects, including the Housing Development projects funded by Province, is shown in Schedule 3c of this report.

3.3 PROPOSED PROPERTY RATES, TARIFFS, AND USER CHARGES FOR 2007/08

- 3.3.1 The increases being proposed for 2007/08 are shown in table 3 below and the detailed tariff proposals can be found in schedule 13.

Table 3: Increases in rates, tariffs and charges

| | 2007/08 Proposals |
|---------------------------|------------------------------|
| Property Rates | 6 % |
| Electricity tariffs | -20.71% to 12.46% |
| Water tariffs | 6 % |
| Sanitation tariffs | 6 % |
| Refuse collection tariffs | 6 % |
| Other user charges | 6% average |

- 3.3.2 It should be noted that National Treasury's guideline growth parameters for municipal rates and tariffs is 3% to 6% for 2007/08 (MFMA Circular no. 41 – 31st January 2007). Mogale City Local Municipality's proposals for tariffs are thus within National Treasury's recommendations except for electricity and Refuse collection. The proposed electricity tariffs have varying rates of increase/decrease (but the average increase is 4.8%) as they are still being restructured to be in line with the National Electricity Regulator tariff guidelines. Other user charge increases average 6%. It should also be noted that the Property Rates will be based on the current valuation roll for 2007/08 with the implementation of the Property Rates Act taking effect for 2009/10 onwards.
- 3.3.3 At its meeting on 27th March 2007, Council requested the Chief Financial Officer to negotiate with the Electricity Department of MCLM to reduce the proposed Domestic electricity tariff increase. The proposed domestic electricity tariffs are based on a study undertaken by consultant Stewart Scott and have taken a number of factors into account, as follows:
- The need for electricity tariffs to be cost reflective. A mark-up must be placed on the Eskom tariffs in order for MCLM to fund the costs of the Electricity Service. A mark-up of 15% was recommended by the Stewart Scott Study. In addition, MCLM purchases electricity at a voltage of 33000 kWh. This carries an additional 10% extension charge cost should MCLM not consume its full voltage demand, as Eskom cannot reverse the amount made available to MCLM. Such costs also have to be absorbed by the tariff charged by MCLM.
 - The need for maintaining the electricity sales surplus in order to fund the delivery of other essential Council services.
 - Reduced Non-Residential tariffs have resulted in increases to Residential tariffs which have previously been subsidised by Non-Residential tariff payers. The National Electricity Regulator (NER) requires the charging of a fair tariff for all consumers, whether residential or commercial/industrial. Thus residential users over the last few years have seen higher increases in their tariffs compared to commercial and industrial users in order to level the field and to create a fair tariff policy. This should also help to encourage commercial and industrial investment within the municipality's area.

3.4 KEY BUDGET ISSUES

- 3.4.1 The 2007/08 IDP/Budget process followed by MCLM has not been the ideal one. A number of key personnel were only recruited late in the intended IDP/Budget process, namely, the new Municipal Manager and the new Chief Financial Officer. In addition, other key personnel left the municipality during this timeframe, namely, the Deputy Directors for Budget & Treasury and Performance Management and the Budget Specialist. All of this left a vacuum in terms of leadership and capacity for moving forward with the IDP/Budget process in an ideal and timely manner.
- 3.4.2 MCLM will, with the assistance of the International Municipal Adviser placed by National Treasury, be improving the IDP/budget process for the 2008/09 cycle to make it more timely, transparent, and participative.
- 3.4.3 The key issues in this proposed Budget can be stated to be as follows:
- The operational budget only effectively funds an 'unchanged' position and does not provide any significant growth for increased services or new initiatives.
 - The operational budget does not make any provision for the filling of vacant posts.
 - The operational budget includes the costs of the health clinics; it is not yet certain whether these will be transferred to Province at the start of 2007/08. If they are transferred then R3.1 million of operational budget savings will be realised by MCLM.
 - The capital budget proposed in this Budget report requires the sale of council land at R16 million.
 - The budget proposals assume a Collection Rate of 92% (i.e. that 92% of billed income will be received) and that the current Collection Rate (88%) will be improved upon through the CFO's Revenue Enhancement Project.
- 3.4.4 It should be noted that MCLM is currently undertaking a major restructuring exercise that will see a reduction in the number of service Directorates from thirteen to six. The operational budget for 2007/08 proposed in this Budget Report is largely based on the existing structure (i.e. the thirteen Directorates). It includes the costs of the existing Directors for a period of 10 months in the new financial year and the full-year costs of the new 6 Executive Managers. It is intended to undertake a budget restructuring exercise over the course of the first half of 2007/08 once the more detailed organisational structure is known (i.e. below Director level). It is further intended to use a zero-based budget methodology to prepare this restructured budget: this will hopefully result in some operational budget savings to MCLM. The restructured operational budget will be brought to Council for approval as a 2007/08 Adjustments Budget.

4. SUPPORTING INFORMATION ON THE BUDGET PROPOSALS

4.1 2007/08 BUDGET PROCESS OVERVIEW

4.1.1 **Legislative requirements:** The Municipal Finance Management Act (MFMA) sets out the key legislative requirements for the municipal budget process. These comprise the following:

Timing: The Mayor must table the annual budget of a municipality at a council meeting at least 90 days before the start of the budget year. The council must consider **approval** of the annual budget at least 30 days before the start of the budget year.

Contents of the budget report: Section 17 of the MFMA sets out the required content of the Budget Report and supporting documentation. In addition, National Treasury published (12th December 2005) detailed guidance on the budget report content and format (MFMA Circular No 28). The key documentation that must be supplied includes:

- Resolution imposing any municipal tax and tariffs for the budget year.
- Resolutions approving measurable performance objectives for revenue from each source and for each vote in the budget.
- Resolutions approving any changes to the municipality's Integrated Development Plan (IDP).
- Resolutions approving any changes to the municipality's budget-related policies.
- Information regarding implications of the proposed tariffs on household accounts.
- Projected monthly cash flow forecast.
- Particulars of municipal investments, grants given to outside bodies, and remuneration packages for Councillors and Senior Managers.

Funding of the budget: Section 18 (1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected.
- Cash-backed accumulated funds from previous years' surpluses not committed for other purposes.
- Borrowed funds but only for the financing of the capital budget.

Consultation on the tabled budget: The budget documentation (prepared in accordance with MFMA circular no 28 – mentioned above) must be made public immediately after being tabled in council for consultation. This includes posting the information on the municipal web site. The MFMA requires a municipality to seek views on the tabled budget from:

- The local community;
- The relevant district municipality,
- Other local municipalities within the area,
- The relevant provincial treasury,
- National departments, and
- Providers of bulk services.

- 4.1.2 **2007/08 budget methodology:** The proposed 2006/07 operational Adjustments Budget (approved by Council on the 27th March 2007) has largely been used as the 'base' upon which anticipated inflationary increases have been applied to form the 2007/08 operational budget proposals. The salaries budget however has been produced using a zero-based budget methodology that is taking into account the actual individual costs of all occupied posts. The inflation figures and other budget assumptions taken into account are given in section 4.3 of this Budget Report. The revenue estimates have also taken into account 2005/06 actuals and year-to-date actuals in order to make the estimates realistic and robust.
- 4.1.3 Operational Budget growth over and above inflation has however been included in the budget proposals, totalling R40.005 million, on the following items:
- R3.3 million to pay for the valuations required to implement the Property Rates Act,
 - R2 million to enact MCLM's statutory responsibilities under COIDA (Compensation of Injuries and Diseases Act)
 - R698k to provide for performance bonuses for section 57 managers (up to 14% of the total employment package),
 - R207k for out of pocket expenses allowances for Political Office bearers, R3.4 million for the six new Executive Manager posts created by the reorganisation,
 - R750k for disaster management for the illegal eviction of farm workers, and
 - R1.2 million for vehicle leases,
 - R2 million for Mayoral Special Projects,
 - R750k for training of councillors, and
 - R25.7 million for repairs and maintenance of Network Plants and Machinery.
- 4.1.4 It should be noted that a zero-based methodology for salaries was used in preparing the 2007/08 budget. The salaries budget makes provision for all currently occupied posts but does not include any amounts for the filling of vacancies to meet the full organisational organigram requirements (which would require a further amount of R42,814 million to be added to the budget).

- 4.1.5 The operational budget for 2007/08 proposed in this report is based largely on the existing management structures (although the Budget Votes anticipate the new proposed reorganisation into six service Directorates and the costs of the new six Executive Managers have been included). Considerable work will be undertaken during the next few months to restructure the operational budget to be in line with the new management arrangements currently being worked-up. It is planned to undertake this exercise using a zero-based budget approach and it is hoped that in this way operational budget savings may be realised which could therefore be used to fund high-priority projects and services. It is intended to bring this new restructured operational budget to Council later in 2007/08 in the form of an Adjustments Budget.
- 4.1.6 On the Capital Budget side, the Senior Management Team apportioned the secured and unsecured capital funds to Directorates in line with broad IDP priorities. Directors then submitted capital project proposals in line with the amounts thus allocated to their service.

4. 2 BUDGET RELATED POLICIES – OVERVIEW AND PROPOSED AMMENDMENTS

- 4.2.1 Various policies approved by Council underpin governance and the financial functioning of the municipality and are relevant to the budget process. The purpose of this section of the Budget Report is to indicate the key policies in this regard and to seek approval for any new or amended policies by Council.
- 4.2.2 The following policies approved by Council for implementation in the 2006/7 financial year remain in force for the 2007/08 financial year:
- Supply Chain Management Policy,
 - Investment of funds, borrowing and cash management Policy,
 - Write-off policy,
 - Tariff Policy, and
 - Indigent Policy.
- 4.2.3 The above policies are annually reviewed to ensure they comply with any changes in statutory legislation/regulations and serve the Council's best interests and strategic objectives.
- 4.2.4 Changes are proposed to the 2006/07 Credit Control and Debt Collection Policy. The changes proposed are as follows:
- Accounts owing R250 or more will be subject to cut off and credit control processes – this is an addition to clause 6.4.1 of the 2006/07 Policy.
 - Where service connection is removed, the consumer will be charged with the costs of this action in terms of the council tariff structure. This is an addition to the second paragraph of clause 6.4.5.

- The 7th of each month clause was removed in clause 6.12.1.
- Clause 6.14.1 has had the following added: 'unless it can be proved that the account was debited with an amount in excess of R5,000 due to the meter not being read, property being transferred late, and any other journals exceeding R5,000.'
- The words 'immediately' and 'retrospective' have been removed from clause 6.14.2.7.
- The total arrear amount which is subject to the agreed arrangement will cease to attract interest if the arrangement is honoured (clause remove).

4.3 BUDGET ASSUMPTIONS

- 4.3.1 **Introduction:** This section of the Budget Report provides a comprehensive summary of all the assumptions used in preparing the budget proposals. Budgets are prepared in an environment of uncertainty and assumptions need to be made about both internal and external factors that could impact on the budget during the course of the financial year.
- 4.3.2 It should also be noted that uncertainty increases the longer one looks ahead: thus the forecasts for the two outlying years, 2008/09 and 2009/10 are not budgets but just estimates
- 4.3.3 **National economic outlook:** National Treasury advises that the medium term outlook for the South African economy remains positive with Real Gross Domestic Product (GDP) growth for 2007/08, 2008/09, and 2009/10 expected to be around 4.4%, 4.8%, and 5.3% respectively. (MFMA circular no.41, 31st January 2007).
- 4.3.4 **Local population growth and local economic factors:** It is assumed that Mogale City's area will share in the economic growth forecasted for the rest of the country and particularly for Gauteng. The budget proposals include a 4% annual growth in bulk purchases made by the municipality arising from local economic growth/increase in the number of households and businesses. This is based on the 4.3% yearly average growth seen in the West Rand for the period 2003 to 2005 (source: An economic growth & development strategy for the West Rand', October 2006, KPMG). For prudential reasons, only a 3% annual increase in electricity, water, and property rates income has been assumed from the same cause.
- 4.3.5 **National Inflation forecasts:** National Treasury advises that the Consumer Price Index (CPIX) is expected to average 4.8% over the next three financial years with the forecast for 2007/08, 2008/09, and 2009/10

being 5.1%, 4.3% and 4.5% respectively. (MFMA circular no.41, 31st January 2007).

4.3.6 **Price inflation included in the budget proposals:** The following have been included in MCLM's budget proposals:

- **General expenditure and R&M** – Most general expenditure budget items and the repairs and maintenance budgets have been increased from the proposed 2006/07 Adjustments Budget figure by 4.8% for 2007/08 and 4.5% for the two outer years.
- **Fuel and Oil** – Given the recent high inflation on this expenditure item and the unpredictability of future global oil prices, an annual 10% increase has been assumed in the budget.
- **Municipal Services** – these budgets are for paying the cost of electricity and water used in municipal buildings. The budgets have been increased by 6% annually in line with the tariff increases proposed within this Budget Report.
- **Budgets not inflated** –static budgets have been proposed for the Grants and Special Projects Budgets. Any increase of these budgets is a political decision taking into account MCLM's other budget needs and resources available.

4.3.7 **Price movements on bulk purchases:** Based on correspondence received from Rand Water and Eskom, the 2007/08 budget has included a price increase of 4.5% for bulk water purchases and 5.6% for bulk electricity purchases.

4.3.8 **Pay Inflation on salaries and allowance:** Employee salaries and contributions have been increased by 7% on the understanding that negotiations are in progress at the South African Local Government Bargaining Council. Currently there is a three year collective agreement reached at the last Bargaining Council which stated that all employees, excluding Section 57 officers, will receive an across-the-board increase based on the average CPIX percentage for the twelve month period February 2007 to January 2007 (as published by Statistics South Africa) plus 1.5%. This increase to be calculated on the basic salaries of employees as at 30th June 2007. CPIX inflation for this period (published in February) was 4.9% which means that if the previous agreement holds, the salary increase would be 6.65% for 2007/08. An Adjustments Budget process will be used to implement the final decision of the Bargaining Council into the 2007/08 Budget.

4.3.9 **Pay inflation on Councillor Allowances:** A 6% increase has been allowed for in the 2007/08 budget for Councillor Allowances. This is in line

with the most recently gazetted Public Office Bearers Act (government circular R1224).

- 4.3.10 **Indigent Registration and Approval:** The budget makes provision for 20,000 indigents to be registered, approved, and receiving free basic services. This is in line with the Mayoral 100 day's target of registering indigents.
- 4.3.11 **Expenditure on health clinics:** this service is a function of Province but MCLM, like most other South African municipalities, has undertaken this service itself (the expenditure being part-funded by Province). Province has declared that it wishes to take over the management and funding of this service at the start of the new financial year. Whether this does actually happen is dependent on the agreement of the staff currently employed at the health clinics. If the service does transfer then MCLM will achieve a budget saving of R3.1 million which will be available to fund expenditure elsewhere. Currently, however, the budget proposals still include the expenditure on health clinics until the situation becomes known with certainty.
- 4.3.12 **Depreciation:** Depreciation is a charge made to the operational budget for 'using up' the capital assets employed by the municipal services. The budget estimate for depreciation for 2007/08 and onwards is guess estimate. The full implementation of depreciation will only occur once the municipality's asset register is fully completed and valued.
- 4.3.13 **Interest rates for borrowing:** The current bank base rate for long-term borrowing is 12.5%. The cost to an organisation of borrowing is either higher or lower than this base rate depending on its credit rating. This budget does not make any provision for the Council to enter into new loan for capital funding purposes.
- 4.3.14 **National Treasury municipal growth parameters:** These have been set at between 3% and 6% for 2007/08 (National Treasury: MFMA circular No 41: 31st January 2007). The growth parameters apply to tariff increases for property rates, user and other charges raised by municipalities, to ensure that all spheres of government support the national macro-economic policies. Municipalities should not set tariff and rate increases above these figures unless the municipality can motivate and explain the extra increase.
- 4.3.15 **Collection rates for main revenue sources:** Provision for the non-receipt of billed income has been made in the budget (this is called the working capital budget). It has been assumed that of the total income budget 92% will be received as actual income. The proportion of income received as compared to the total revenue budget has varied from 85% to 91% in the last

three financial years. It is currently 88% (April 2007). The difference between the revenue budget (billing) and cash forecast is a cost to the working capital budget. The Municipal Financial Management Directorate is aware that a Collection Rate of 92% is a high target which may be difficult to attain and maybe seen as going against the MFMA requirement that the budget must be based on 'realistically anticipated revenues to be collected'. The Directorate is however confident that the current Revenue Enhancement Project led by the CFO will yield positive results and increase MCLM's Collection Rate. If this does not happen during the new financial year then the Working Capital budget will be adjusted accordingly through an Adjustments Budget process.

4.4 FUNDING THE BUDGET

4.4.1 **Key funding sources for Operating Budget:** The Operating Budget is funded largely from the main tariffs i.e. Property Rates, Electricity, Water and Sanitation as well as Refuse Removal generating a billed income of R541.5 million or 74% of the total operating revenue. Another key funding source (12% of overall operating funding) is government grants - of which Equitable Share amounts to of R81.598 million in 2007/08.

4.4.2 **Funding sources for the Capital Budget:** The confirmed-to-date Capital Budget is funded largely from grants from other spheres of government (the most important of which is MIG (Municipal Infrastructure Grant) which amounts to R34.502 million for 2007/08. The budget will also be funded from land sale proceeds (R16 million) and R29.696 million for roll overs.

4.4.3 **Property Rates:** The proposed increase for Property Rates is 6% in line with National Treasury Guidelines. The current rate in the rand is 13.25c. The new rate will be 14.04c. This rate is based on the current valuation roll. The implementation of the Property Rates Act will be undertaken in 2009/10 (see section 4.8.3 later in this report).

Table 4: Property Rates Revenue 2005/06 to 2009/10

| | 2005/06 Pre-audited actuals | 2006/07 Original Budget | 2006/07 Adjusted Budget | 2007/08 Proposed Budget | 2008/09 Forecast | 2009/10 Forecast |
|------------------|-----------------------------------|-------------------------------|-------------------------------|-------------------------------|---------------------|---------------------|
| | R 000s | R 000s | R 000s | R 000s | R 000s | R 000s |
| Revenue budget | 109,723 | 118,632 | 118,632 | 129,522 | 140,040 | 151,441 |
| Rate in the rand | 11.75 | 12.50 | 13.25 | 14.04 | ? | ? |
| Tariff Increase | 7.5% | 6% | 6% | 6% | 6% | ? |

Note: The tariff increase and rate in the Rand charge is very difficult to determine for 2009/10 as the Property Rates Act will be implemented in this year

- 4.4.4 **Electricity sales:** The 2007/08 proposed tariffs for electricity have taken the following into account: (1) the final year proposals for restructuring the tariffs in order to be in line with National Electricity Regulator guidelines. This is why there is no standard increase to the existing tariffs. (2) The latest guidelines for tariff setting from NER received at the beginning of March 2007.

Table 5: Electricity Revenue 2005/06 to 2009/010

| | 2005/06 Pre-audited actuals | 2006/07 Original Budget | 2006/07 Adjusted Budget | 2007/08 Proposed Budget | 2008/09 Forecast | 2009/10 Forecast |
|----------------------------|-----------------------------------|-------------------------------|-------------------------------|-------------------------------|---------------------|---------------------|
| | R 000s | R 000s | R 000s | R 000s | R 000s | R 000s |
| Revenue Budget | 206,902 | 216,209 | 216,209 | 236,056 | 250,219 | 267,735 |
| Tariff Increase | -13.62 to 7.17% | -17.38 to 16.79% | -17.38 to 16.79% | -20.71 to 12.46% | 6% | 6% |
| Bulk Purchases Electricity | 205,175 | 139,939 | 134,134 | 147,311 | 156,150 | 167,080 |

- 4.4.5 **Water sales:** The proposed increase to the water tariff is 6% in line with National Treasury Guidelines. The tariffs provide for growth of 3% the structure of the tariff remains the same as in previous years i.e. a “step tariff” based on increased cost for increased usage. This is a payment mechanism which allows for the provision of the 6kl free basic water to all consumers within the MCLM area but also encourages the saving of water as a scarce resource, as the more you use the more you pay.

Table 6: Water Revenue 2005/06 to 2009/10

| | 2005/06 Pre-audited actuals | 2006/07 Original Budget | 2006/07 Adjusted Budget | 2007/08 Proposed Budget | 2008/09 Forecast | 2009/10 Forecast |
|----------------------|-----------------------------------|-------------------------------|-------------------------------|-------------------------------|---------------------|---------------------|
| | R 000s | R 000s | R 000s | R 000s | R 000s | R 000s |
| Revenue Budget | 109,936 | 120,028 | 120,028 | 131,046 | 138,909 | 148,632 |
| Tariff Increase | 6% | 6% | 6% | 6% | 6% | 6% |
| Bulk Purchases Water | 109,369 | 78,335 | 73,413 | 79,785 | 84,572 | 90,492 |

- 4.4.6 **Sanitation charges:** The proposed increase to the sanitation tariff is 6% in line with National Treasury Guidelines. The Proposed Budget and forward

forecasts do not make provision for any change in the methodology for charging for this service (i.e. moving to a volumetric charging methodology).

Table 7: Sanitation Revenue 2005/06 to 2009/10

| | 2005/06 Pre-audited actuals | 2006/07 Original Budget | 2006/07 Adjusted Budget | 2007/08 Proposed Budget | 2008/09 Forecast | 2009/10 Forecast |
|--------------------|-----------------------------------|-------------------------------|-------------------------------|-------------------------------|---------------------|---------------------|
| | R 000s | R 000s | R 000s | R 000s | R 000s | R 000s |
| Revenue Budget | 45,989 | 50,210 | 47,216 | 50,049 | 53,052 | 56,766 |
| Tariff Increase | 6% | 6% | 6% | 6% | 6% | 6% |

4.4.7 **Refuse Collection charges:** The proposed increase to the Refuse Removal Tariff for the 2006/7 financial year is 6% in line with National Treasury Guidelines.

Table 8: Refuse Collection Revenue 2005/06 to 2009/10

| | 2005/06 Pre-audited actuals | 2006/07 Original Budget | 2006/07 Adjusted Budget | 2007/08 Proposed Budget | 2008/09 Forecast | 2009/10 Forecast |
|--------------------|-----------------------------------|-------------------------------|-------------------------------|-------------------------------|---------------------|---------------------|
| | R 000s | R 000s | R 000s | R 000s | R 000s | R 000s |
| Revenue Budget | 39,167 | 42,359 | 42,359 | 44,900 | 47,594 | 50,926 |
| Tariff Increase | 7.5% | 6% | 6% | 6% | 6% | 6% |

4.4.8 **Other Charges:** A 6% average increase for the remaining general tariffs and other user charges is proposed in the tariff schedule. Tariffs for traffic fines and licence permits have not increased from the current year's charges as Mogale City Local Municipality does not itself set these charges. Some tariffs have been increased by more than 6% to bring MCLM's fees in line with neighbouring municipalities' fees.

4.4.9 **Investments:** Schedule 5 shows that the municipality currently has some R87.7 million of investments. The majority of these investments are held as security against long-term "bullet" loans and will be used in the future to repay these loan amounts.

4.4.10 **Grant allocations to be received:** The Operating and Capital Grant allocations received from other spheres of government are shown in detail in schedule 6.

- 4.4.11 **Sale of assets:** An estimated amount of R16 million will be raised, once the properties has been transferred to various purchasers and services have been put up. The land that was sold is in Rangeview Extension 2.
- 4.4.12 **Funds to be carried-over from 2006/07:** Finance Portfolio Committee at its meeting on 21st May 2007 agreed that capital projects not spent during 2006/07 and needing to be rolled forward (with their funding) should be included in the budget proposals. This information will be included in the Budget Report to Council.
- 4.4.13 **Borrowing:** Long-term borrowing is a source of finance available to municipalities for the funding of the capital budget. Current Council borrowing is anticipated to be R247 million at the end of this current financial year as shown in schedule 7. Total interest payments on this debt will be R32 million for the 2006/07 budget year and is a cost to the operating budget. This budget does not make any provision for new borrowing to fund the capital budget. R16 million may however become available to fund the capital budget arising from the restructuring of Council's existing loans with DBSA (Development Bank of South Africa). This is still being investigated with DBSA. Council will need to approve this loan restructuring (after public consultation has been undertaken on this issue as per the MFMA requirements) before the capital projects to be funded from the loan restructuring can be included in the capital budget via an Adjustments Budget process.

4.5 CASH FLOW FORECAST

- 4.5.1 Cash flow management on a daily, weekly, monthly and annual basis is currently undertaken and is reported to Council on a quarterly basis.
- 4.5.2 A full annual cash flow forecast, including monthly cash flow forecasts per revenue source and key expenditure grouping, is shown in Schedule 12 for the March Council meeting.
- 4.5.3 The cash flow forecast shows a projected cash surplus at year end of R110 000. This effectively means that cash outflows during the year are projected to balance the cash inflows during the year. The cash position will require careful monitoring to ensure that the timings of cash in and out flows are in line.
- 4.5.4 The cash flow forecast also reflects the projected cash flows for the two outer years, 2008/09 and 2009/10. These cash flows reflect cash deficits of R24, 226m and 53,499m respectively. It is however expected that not all expenditure budgeted for in the 2007/08 year will be spent which will result in a larger cash surplus to be carried forward to the 2008/09 year. The projected cash in and out flows will also be adjusted closer to the start of the next financial year to reflect a more realistic forecast.

4.6 DISCLOSURE ON ALLOCATIONS MADE BY THE MUNICIPALITY

4.6.1 Section 17 (j) of the MFMA requires the municipality to disclose in its budget documentation the amounts of any proposed allocations or grants by the municipality to other municipalities, municipal entities, other organs of state or any outside body/organisation. The Council allocates grants-in-aid, discretionary grants, and grants by councillors (included in the operating budget) on an annual basis to needy organisations, based on business plans indicating the proposed usage of such funds. These budgets are shown in schedule 8.

4.7 DISCLOSURE ON SALARIES, ALLOWANCES AND BENEFITS

4.7.1 Sections 17 (k) and 17 (l) of the MFMA requires the municipality to disclose in its budget documentation the salaries, allowances and benefits given to Councillors, Senior Managers and other municipal staff. This information is shown in schedules 9, 10 and 11.

4.8 DISCLOSURE ON THE IMPLEMENTATION OF THE MUNICIPAL FINANCE MANAGEMENT ACT (MFMA) AND OTHER LEGISLATION

4.8.1 **Municipal Finance Management Act (MFMA):** The municipality is classified as high-capacity by National Treasury with respect to the municipal financial management reforms required by the MFMA. An MFMA Project Implementation Plan was established during May 2006 with the following overall objectives (they are not in any order of priority ranking):

1. Establish and maintain project management structures and processes for managing and monitoring the MFMA Project Implementation Plan.
2. Build and enhance financial management capacity at MCLM.
3. Improve performance management processes.
4. Improve financial systems.
5. Improve the IDP/Budget/SDBIP process.
6. Improve end-of-year (annual) reporting.
7. Improve in-year financial reporting.

4.8.2 The progress made during 2006/07 on these objectives is given below:

Objective 1: Establish and maintain project management structures and processes for managing and monitoring the MFMA Project implementation Plan:

The Deputy Director: Project & Information (Financial Services Directorate) was appointed as MFMA Project Manager and

undertook this role for most of the year. This role is now being undertaken by the Acting Budget Specialist as the former post holder is now 2010 Project Manager. An MFMA Project Steering Committee was established during May 2006 and meets occasionally. The Committee comprises: the MMC Finance as chairman, MMC Governance, MMC Infrastructure, Head of Operations (Executive Mayor's Office), Municipal Manager, Chief Financial Officer, Director: Infrastructure, Director: Water Sanitation, Deputy Director: IDP, Acting Budget Specialist, and the International Municipal Adviser. The Executive Mayor has an open invitation to the Committee and indeed attended the first meeting held on 4th August 2006.

Objective 2: To build and enhance financial management capacity at MCLM: There are three sub-objectives for this: namely:

- To appoint the necessary municipal officials who are key to the implementation of the MFMA: Key appointments last year of course included the new Municipal Manager and Chief Financial Officer. An experienced Financial Statements Specialist was also recruited. Key appointments remaining are the Deputy Directors for Revenues and Budget & Treasury as well as the Budget Specialist post and vacant posts within the Budget Office. Progress is currently being made with respect to these appointments.
- To develop elected members and officials: A multimedia interactive MFMA training package is just about to be rolled out at Mogale City Local Municipality to all Councillors and most of the staff. Information on this will be distributed separately in the next couple of weeks.
- To have a Financial Management Internship Programme: Mogale City appointed two Financial Management Interns on 1st July 2006 for a period of two years. These posts are funded through the Financial Management Grant (FMG) received from National Treasury. It is intended to appoint three more Interns during 2007.

Objective 3: to improve performance management processes: This objective was not tackled during 2006/07.

Objective 4: To improve financial systems: This objective relates to the implementation of BIQ. During the past financial year the many elements of the BIQ Accounting system have been implemented, not without a high level of frustration when trying to extract the data contained in the Venus system.

Initially the general ledger was deployed so as to accept the transactions from the modules to be implemented. The historical entries for the 2005/6 financial

year have been transferred from the Venus system and this module is currently being reconciled to the various sub-ledgers and checked for completeness. The Annual Financial Statements for the 2005/6 financial year, due for finalisation by 31 March 2007, will be produced from the General Ledger reporting system.

The elements implemented are operating satisfactorily without any major setbacks with staff being generally able to process data adequately. Certain members of staff have indicated that the new system is an improvement over the Venus system while others still prefer the Venus system. This is to be expected when changing from one system to another.

Significant advantages of the BIQ system over the Venus system revolve around the speed of processing of the Billing Run, 45 minutes vs. whole weekend, and in the salaries run, 10 minutes vs. a week that included the processing of several journals etc. which journals are a by-product of the system. MCLM can look forward to the processing of financial accounts directly from the system and the ability of printing a more user friendly trial balance based on a few inputs.

In order to become more familiar with the various facilities of the system, staff will need to experiment with the various reports available from the system. This will, with time, free up time otherwise spent in producing information manually, that is available from the system.

The salaries module is currently being implemented and is ran the salaries for the first time in March 2007. The Human Resources, Requisitioning, GIS Interface and Property Management module are still outstanding.

The Property Management module has been outlined to the LED department. The training and implementation of this module will result in the town planning information available to authorised stakeholders in the municipality. This module is the starting point of any information related to property within MCLM and is pivotal to MCLM operations.

Objective 5: To improve the IDP/Budget Process: A report from the International Municipal Adviser on the strengths and weaknesses of the IDP/Budget process observed for the 2006/07 cycle was received by the MFMA Project Steering Committee at its May 2006 meeting. The Committee agreed the review and the recommendations for change for implementation in the 2007/08 IDP/Budget process. A new process and timetable was devised and agreed during August 2006. Unfortunately, the new IDP/Budget process was not followed: this was perhaps inevitable given the lack of a permanent Municipal Manager and Chief Financial Officer for a large part of the intended

process. Further work on this objective has been included in the 2007/08 MFMA Project Implementation Plan.

The improvements made in the May 2006/07 Budget Report have been sustained in this year's Budget Report. Mogale City Local Municipality now meets most of the MFMA requirements relating to the documentation and information to be contained within the budget report. The following are the most significant areas that MCLM does not currently comply with:

- Proper estimates for years two and three, particularly for the capital budget,
- measurable performance indicators for each revenue source and budget vote,
- the inclusion of key financial indicators and forecasts,
- statements showing the budget using National Treasury's service classification system (GIS),
- a statement showing the links between the budget and IDP, and
- budgeted financial statements in the new GRAP format.

The omissions noted above are largely due to the fact that BIQ is not yet fully implemented. Once this occurs the information required will be able to be automatically produced. The lack of measurable performance indicators and key financial indicators in the Budget Report will however need to be addressed in any new IDP/Budget process developed for the 2008/09 cycle. Many performance measures will be included in the 2007/08 SDBIP (Service Delivery and Budget Implementation Plan) but what is needed is a strengthening of the link between the budget inputs and the associated performance outputs delivered in spending the budget.

Objective 6: To improve end-of-year (annual) reporting: The sub-objectives for this area of work are to:

- 'Catch-up' on the production and audit of the Financial Statements so that MCLM is up-to-date. The audited 2003/04 Financial Statements were tabled at Council on 27th October 2006: the Annual Report for 2003/04 is due to be tabled at Council in the near future. The Financial Statements for 2004/05 were submitted to the Auditor-General on 27th October 2006. These were then withdrawn during March of this year in order to be amended in accordance with the Auditor-General's recommendations. The amended 2004/05 Financial Statements were resubmitted to the Auditor-General on 25th April 2007 and MCLM now awaits the final Management Letter from the Auditor-General's office. The 2005/06 Financial Statements have been completed internally but have not yet been submitted to the Auditor-General pending the receipt of the 2004/05 Management Letter. It is further intended to prepare the 2006/07 Financial Statements in line with the MFMA deadlines (i.e. submission of these to

the Auditor-General by the end of August annually), but this is largely dependent on the Auditor-General's Office (i.e. receipt of the 2004/05 Management Letter and time taken to undertake the 2005/06 audit).

- Change the format and content of the 2005/06 Financial Statements so that they are compliant with GRAP (Generally Recognised Accounting Practices). This is currently in progress.
- Improve the 2005/06 Annual Report to bring it more in line with National Treasury's best-practice guidelines. This has not yet been started: the deadline for this is anticipated to be in September 2007 and depends upon the completion of the 2005/06 Financial Statements and the receipt of the Audit Report from the Auditor-General.
- To produce a new report – the "Oversight Report" - for the 2005/06 Financial Statements. The Oversight Report is a statutory MFMA requirement. Work on this has not yet started as it has a 2007/08 deadline.

Objective 7: To improve in-year financial reporting: The format and content of the monthly budget monitoring report was changed during 2006/07 to meet the following MFMA requirements:

- Compliance with MFMA section 66 which requires quarterly reporting to Council on expenditure on staff benefits.
- Compliance with MFMA section 71 (1) (d) which requires that expenditure-to-date is given for each operational budget vote (in the past expenditure-to-date was only analysed per type of expenditure and not per vote as required).
- Compliance with MFMA section 71 (1) (e) which requires monthly reporting on the amount of grant allocations received and the amount of expenditure incurred from these allocations.
- The production of an overall summary on the financial position in order to make the report more informative and easy-to-use.
- More emphasis given to explain the figures and what they mean rather than just giving lots of tables and graphs.

Further changes are, however, still required and these are included in the 2007/08 MFMA Project Implementation Plan. The five key changes still needed are as follows:

- Compliance with MFMA section 71 (1) (g) which requires that a projection (i.e. an estimate) of the expenditure and revenues for the rest of the financial year is given.
- The establishment of regular monthly budget monitoring meetings (for both the operational and capital budget) between the Budget Office and Directors just prior to the financial monitoring report being produced.
- The production of year-to-date financial statements.
- Obtaining more relevant and more detailed financial data from the BIQ financial system (once fully implemented) to monitor revenue collection performance.

4.8.3 **Property Rates Act:** Prior to Mogale City Local Municipality (MCLM) advertising the tender, it was envisaged that one tender for the entire West Rand Area (Mogale, Randfontein, Westonaria and West Rand District Municipality) would be advertised. A verbal agreement to this effect was entered into by all the three local authorities and the district whereby an all inclusive single tender was to be advertised. It was also agreed that one Monitor would be appointed to oversee the entire valuation exercise for all the four (4) entities. While the West Rand District Municipality (WDRM) made an undertaking that all the payments for the appointment of the Monitor would be met by them.

4.8.4 However, the above milestones did not realize, due to among other factors, the following:

- The timeframes that were agreed upon regarding the advertisement and appointment of Valuers were more often than not flaunted by some parties concerned. As such, MCLM, through the Valuation Section, took a decision that it should proceed on its own with the advertisement of the tender and the appointment of an Assistant Municipal Valuer. The decision was also concluded after taking into account the limited time that was available to meet the strict time deadlines set out in the Municipal Property Rates Act (MPRA) for the implementation thereof. This was further compounded by the fact that MCLM has the largest property portfolio in comparison with the other local authorities that were part of this agreement.
- The tender for the Monitor was advertised on the 7th February 2007, but no responses were received from any of the three (3) service providers that attended the briefing session. It is against this background that the West Rand District Council is currently head-hurting for a suitable service provider to be appointed as a Monitor. We therefore hope that this will be concluded soon and preferably before the appointment of the MCLM Assistant Municipal Valuer is finalized.