

ITEM



# **2009/10 BUDGET REPORT**

**24<sup>th</sup> June 2009**

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## 2. BUDGET RELATED RESOLUTIONS

Council resolves:

1. That the annual budget of Mogale City Local Municipality for the financial year 2009/10 and the indicative estimates for the two projected outer years 2010/11 and 2011/12, as set out in the tables listed below be **approved**.
  - 1.1 Budget Summary: Table A1;
  - 1.2 Budgeted Financial Performance (Revenue & Expenditure by municipal votes: Table A3);
  - 1.3 Budgeted Financial Performance (Revenue & Expenditure Table A4) and
  - 1.4 Budgeted Capital Expenditure by vote, standard classification & funding: Table A5 and,
  - 1, 5 Budgeted Financial Position: Table A6.
  
2. That the new proposed Property rates based on new valuation roll be **approved**.
  
3. That cognizance be taken of government gazette numbers 32061 and 32062 regarding the regulations of the ratio of tariffs among property categories and in terms of the calculations residential tax payers are allocated rebate of R40, 000 on the valuation and a rebate of 40% on the tariff.
  
4. That the increase to Refuse Removal and Sanitation tariffs of 10% for the budget year 2009/10 be **approved**.
  
5. That the proposed average tariff increase for electricity of 35, 83% (33.33% plus the 2, 5% surcharge) for 2009/10 be **approved**.
  
6. That the remaining tariffs be increased by 8% as reflected in Table A12 be **approved**.
  
7. That the amendments proposed to the policy for Credit Control & Debt Collection, as set out in section 4.2.3 of this report be **approved**.
  
8. That the amendments proposed to the Indigent Management Policy, as set out in section 4.2.4 of this report be **approved**.
  
9. That the amendments to Rates Policy as set out in section 4.2.5 of this report be **approved**.
  
10. That the Public Safety Tariff Policy as reflected in Annexure 17 be **approved**.

### 3. EXECUTIVE SUMMARY

#### 3.1 2009/10 OPERATIONAL BUDGET PROPOSALS

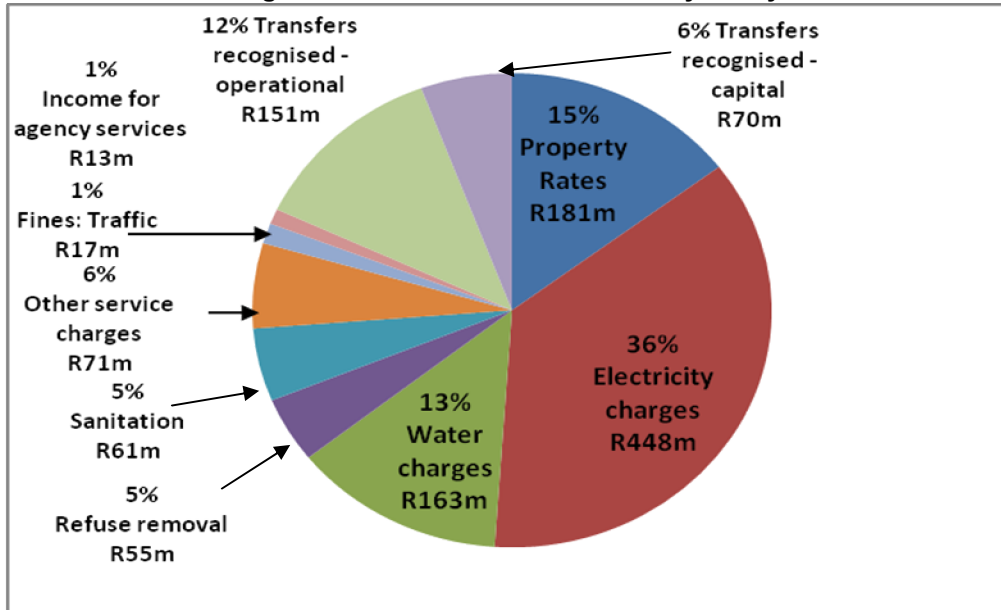
- 3.1.1 The total operational expenditure budget for Mogale City as balanced to the total revenue forecasted for 2009/2010 is R1, 230 million. This budget is R281, 066 million (or 30%) above the Approved Adjustment Budget for the current financial year (2008/2009). The Original Budget as approved by Council for 2008/2009 financial year was R977, 664 million which is R252, 628 million (26%) lesser than this proposed expenditure budget.

**Table1: Total Operational Budget 2009/10 to 2011/12**

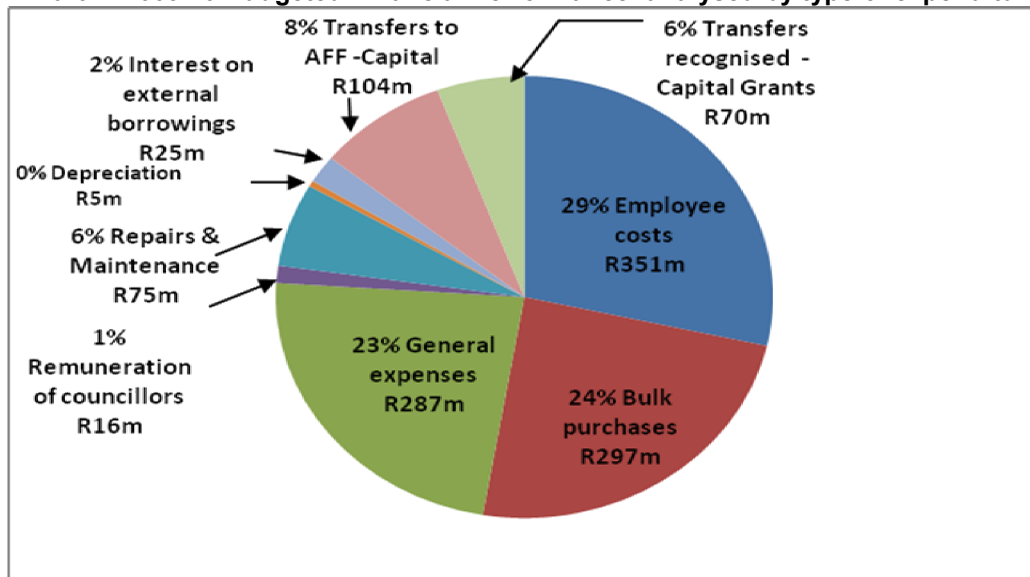
	<b>2008/09 Original Budget</b>	<b>2008/09 Adjusted Budget</b>	<b>2009/10 Budget</b>	<b>2010/11 Forecast</b>	<b>2011/12 Forecast</b>
	<b>R 000</b>	<b>R 000</b>	<b>R 000</b>	<b>R 000</b>	<b>R 000</b>
Expenditure	977 664	949 226	1 230 292	1 376 369	1 600 676
Revenue	977 664	949 226	1 230 292	1 376 369	1 600 676
<b>Surplus/(Deficit)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

- 3.1.2 Tables A3 and A4 of this report show the Budgeted Financial Performance (Revenue & Expenditure by Municipal votes) as well as the Budgeted Financial Performance (Revenue & Expenditure).
- 3.1.3 Charts 1 illustrate how the source of revenue is analysed and Charts 2 and 3 illustrate how the operational expenditure budget is allocated between Departments and between different types of expenditure for 2009/10.
- 3.1.4 The total operational revenue budget proposed for Mogale City Local Municipality for 2009/10 is also R1, 230 million. Table A4 shows the Budgeted Financial Performance (revenue and expenditure).

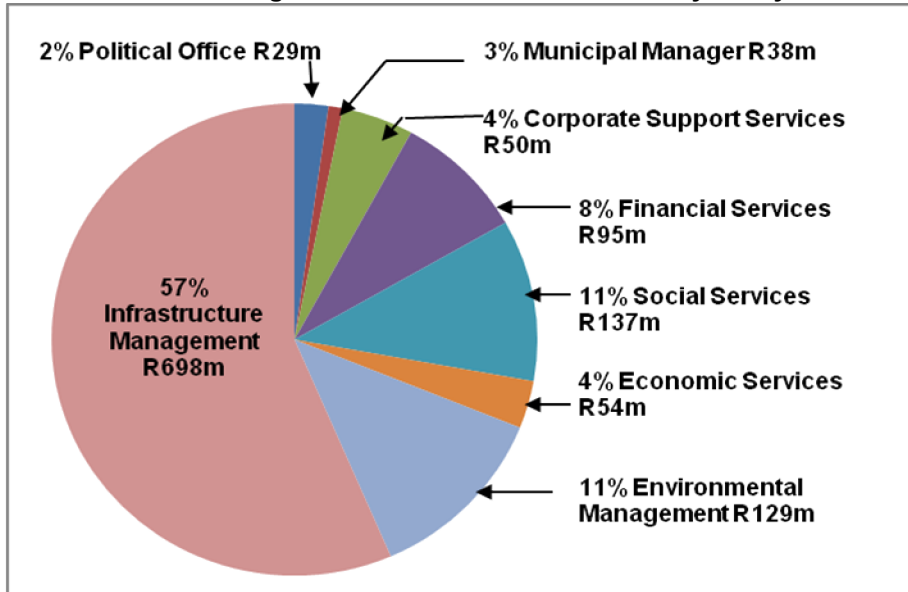
**Chart 1: 2009/10 Budgeted Financial Performance: analysed by source of revenue**



**Chart 2: 2009/10 Budgeted Financial Performance: analysed by type of expenditure**



**Chart 3: 2009/10 Budgeted Financial Performance: analysed by vote**



## 3.2 2009/10 CAPITAL BUDGET

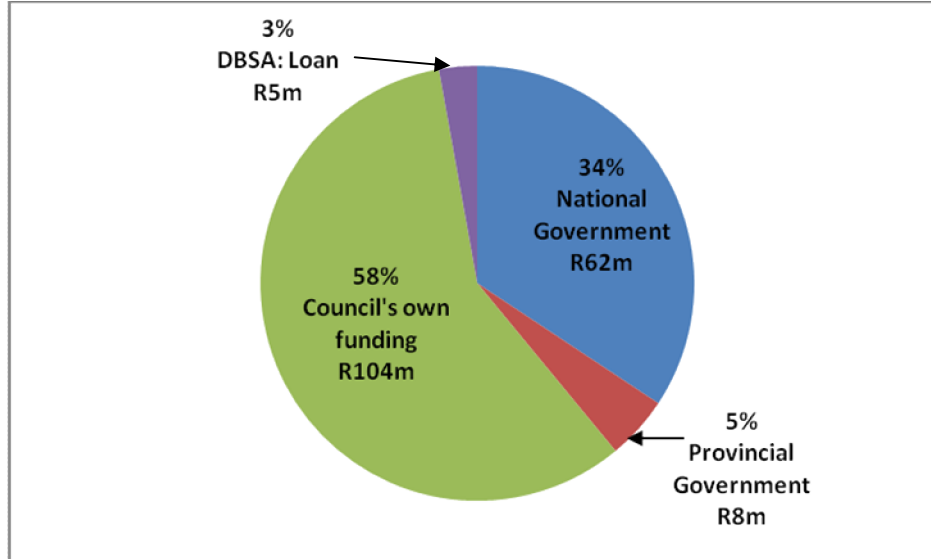
- 3.2.1 The total capital budget for Mogale City Local Municipality for 2009/10 is R179, 508 million. This is R27, 670 million above the 2008/09 Approved Adjustment Budget (18% above) and R39, 876 million above the current year's Original Budget (28% above).
- 3.2.2 Please note that the budget forecasts for two outer years shown in table 2 below includes the amounts gazetted in DORA (Division of Revenues Act) to MCLM from National government for 2010/11 and 2011/12 for MIG (Municipal Infrastructure Grant).

**Table2: Proposed Capital Budget 2009/10 to 2011/12**

	<b>2008/09 Original Budget</b>	<b>2008/09 Adjusted Budget</b>	<b>2009/10 Budget</b>	<b>2010/11 Forecast</b>	<b>2011/12 Forecast</b>
	<b>R 000</b>	<b>R 000</b>	<b>R 000</b>	<b>R 000</b>	<b>R 000</b>
<b>Total</b>	<b>139 632</b>	<b>151 838</b>	<b>179 508</b>	<b>139 826</b>	<b>153 907</b>

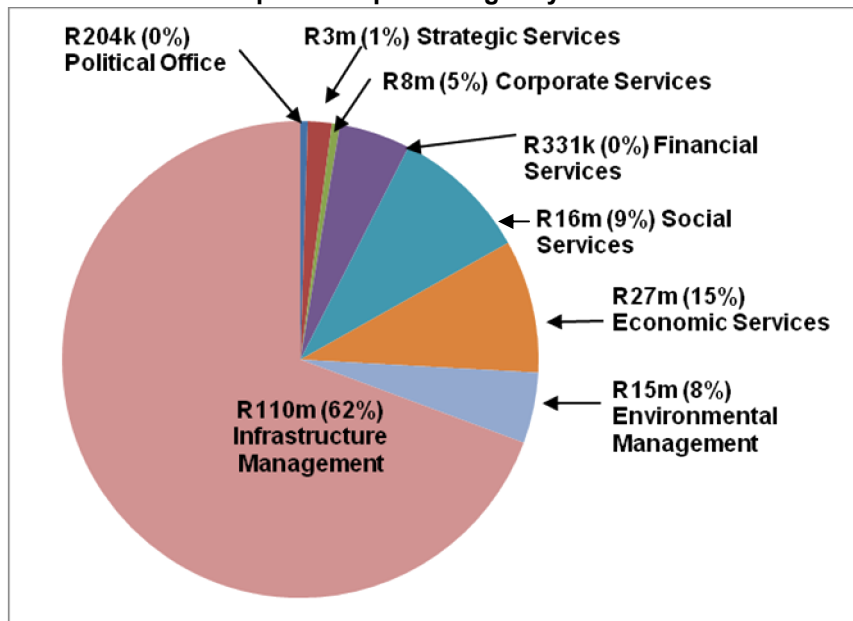
- 3.2.3 Details of the funding of the proposed capital budget are given in Table A11 (a) of this report and shown in chart 4 below. The sources of funding are:
- R83, 394 million from Own funding,
  - R21 million from the sale of land at Rangeview,
  - R5, 096 million from DBSA loan, this is co-funding of MIG project (New 6ML Muldersdrift Reservoir/Section B pipeline).
  - R42, 767 million from MIG (Municipal Infrastructure Grant) – The amount gazetted for MLCM in 2009/10 is R52, 449 million however 3.70% (R1, 941 million) of this amount is allowed to be used for operational expenditure.
  - R18, 800 million from Neighbourhood Development Partnership.
  - R7 million from Gauteng Social Development Department,
  - R900k from SRAC for funding of Libraries,
  - R550k from GOT-Seta, MLCM received R1, 895 million during 2008/09 financial and will spent R1, 657 million and the remaining balance will be rolled over to 2009/10 financial year.

**Chart 4: Funding of the Proposed 2009/10 Capital Budget**



3.2.4 It is proposed that in order to protect the cash position of the municipality, (see section 4.5 of this report) those capital projects that are to be funded from the land sales receipt are not permitted to start until the receipt of the funds by MCLM. This also then means that the Rangeview infrastructure works needs to be undertaken as a priority early in the new financial year in order to release the land sales receipt needed to fund the own-funded capital budget. Likewise, those capital projects to be funded from surplus cash will not be permitted to start until MCLM has actually realised the cash.

**Chart 5: 2009/10 Proposed Capital Budget by vote**



- 3.2.5 Table A5 of this report shows the proposed allocation of the total capital budget to individual Departments of the municipality (i.e. the budget votes). This is also illustrated in chart 5 above. A list of the individual capital projects proposed in the budget is given in **schedule 3(a)**.
- 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 +/-R250 million to fund the capital budget. Other possible funding could come from a restructuring of the existing loans from DBSA (R16 million). A list of possible capital projects that could be funded from this potential funding source is found in **schedule 3(b)** of this Budget Report. **These capital projects will be added to the capital budget once the funding sources are approved and confirmed through an Adjustment 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 is shown in **schedule 3(c)** of this report. This includes the housing projects that will be undertaken by Province directly instead of MCLM acting as an agent.

### 3.3 PROPOSED PROPERTY RATES, TARIFFS, AND USER CHARGES FOR 2009/10

Table 3: Property rates tariffs based on the new valuation roll

Category	Tariff	Primary rebate	Secondary rebate	Discount
<b>Agriculture</b>				
Tariff Business	0.0156			
Tariff Agriculture	0.002			
Tariff Residential	0.0078	-15 000	-25 000	40%
Residential	0.0078	-15 000	-25 000	40%
Municipal	0			
PSI	0			
State Owned Property (Non Residential)	0.0156			
Commercial	0.0156			
General	0.0156			
Industrial	0.0156			
State Owned Property (Residential)	0.0078	-15 000	-25 000	40%
Public Benefit Organization	0			
Vacant Properties	0.0312			
Religious	0			
Education	0.0156			
Institution				
<b>Sectional titles</b>				
Industrial	0.0156			
Residential	0.0078	-15 000	-25 000	40%
Business	0.0156			

3.3.1 The new valuation roll has been compiled in terms of the Municipal Property Rates Act. The valuation was opened for inspection and objection from 19 February 2009 to 28 April 2009. Property rates will, with effect from 01 July 2009 be based on the total market value of properties and not only on the site value of land, as is the situation currently. The supplementary valuation roll has been compiled, in line with section 78 of Municipal Property Rates Act, no 6 of 2004. The supplementary valuation roll has been advertised in the newspapers and is open for inspections and objections from the 29<sup>th</sup> May to the 29<sup>th</sup> June 2009.

3.3.2 in the determination of the above tariffs an effort was made to keep the overall rates revenue within the projections included in the draft budget.

3.3.3 The value of residential properties increased substantially as a result of the new valuation and will be accorded an exemption of R15, 000 in terms of legislation and a further R25, 000 in terms of the rates policy. A further discount of 40% on the tariff will be accorded to residential properties.

3.3.4 The Ministers of Finance and Provincial and Local Government have issued regulations regarding the upper limits with respect to the ratios between residential regarding the upper limits with respect to the ratios between residential and non-residential properties as they relate to agricultural properties and public service infrastructure properties.

3.3.5 **Table 4: The rate ratios as promulgated by the Ministers are as follows:**

<b>Categories</b>	<b>Ratio in relation to residential property</b>
Residential property	1:1
Agricultural property	1:0.25
Public service infrastructure property	1:0.25

3.3.6 Agricultural properties utilised for business and residential respectively purposes are excluded from the above and charged at the tariff applicable to business and residential respectively. State owned properties other than PSI are levied at the commercial tariffs and excluded from above ratio. The above promulgated ratios mean that the tariffs that will be applicable to agricultural properties will be 25% of the tariff that will be applicable to residential properties. The sliding scale as currently applicable to agricultural properties is not applicable anymore.

3.3.7 All vacant stands will be levied at a tariff four times the residential tariff based on the land value of the property.

**Table 5: Increases in tariffs and charges**

	<b>2009/10 Proposals</b>
Electricity tariffs	35.83%
Water tariffs	15.3%
Sanitation tariffs	10%
Refuse collection tariffs	10%
Other user charges	8%

- 3.3.8 The increases being proposed for 2009/10 are shown in table 4 for property rates and 5 for other tariffs, and the detailed tariff proposals can be found **table A11** of this report.
- 3.3.9 It should be noted that National Treasury's guideline growth parameters for municipal rates and tariffs is 3% to 6% for 2009/10 (MFMA Circular no. 48 – 02<sup>nd</sup> March 2009).
- 3.3.10 However National Treasury advises that when municipality revise their tariffs and other charges they should take into account the labour and other input costs of services provided by the municipality, the need to ensure financial sustainability, local economic conditions and the affordability of services. Also taking into consideration the municipalities indigent's policy. MLCM have taken all this factors into consideration when revising the tariffs.
- 3.3.11 other user charge increases by 8%.
- 3.3.12 an amended Rates Policy, in line with the Property Rates is attached in **Annexure 16**.

### 3.4 KEY BUDGET ISSUES

3.4.1 The key issues in this proposed Budget can be stated to be as follows:

- The operational and capital budget proposed in this Budget Report are cash backed, that is the cash inflows forecast for the year can fund the cash outflows included in the budget. However, in order to make the budget cash backed several projects identified by the 3<sup>rd</sup> Strategic IDP/Budget Workshop as being of high priority have had to be omitted. In addition, other operational budget savings have been made in order to balance the budget proposals to the cash flow forecast.
- The own-funded capital budget proposed in this Budget Report assumes that infrastructure works at Rangeview are completed timeously as a priority at the start of the new financial year in order to release land sale income of R21 million to be used in funding the own-funded capital budget.
- It is further anticipated that through a process that has already commenced Council will be able to raise +/-R250 million rand in sales of land which funds will be used to fund the unsecured capital projects in **Schedule 3(b)**.
- The timing of capital works to be undertaken from the own-funded capital budget will need to take into account the timing of the receipt of the land sales income and the availability of cash.
- The budget proposals assume a Collection Rate of 93% (i.e. that 93% of billed income will be received) and that the current Collection Rate ( 91%) will be improved upon through the Revenue Enhancement Strategy.
- The budget proposals assume that increased demand for services in the MCLM area arising from economic growth and increased household demand will amount to 4% annually. However for prudent reasons 3% increase have been assumed.

## 4. SUPPORTING INFORMATION ON THE BUDGET PROPOSALS

### 4.1 2009/10 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 (12<sup>th</sup> 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) has been made public immediately after being tabled in council on the 26<sup>th</sup> March 2009 for consultation. This included posting the information on the municipal web site and placing the Budget at the Libraries. The requirements of the MFMA to

seek views on the tabled budget from the under mentioned stakeholders was adhered to:

- 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 **MFMA: NEW BUDGET AND REPORTING REGULATIONS**

- On the 23<sup>rd</sup> January 2009, the minister of Finance promulgated Government Gazette regulating the compilation of municipal budgets and reporting. On the same gazette there was a list of municipalities that must comply with this regulation effective from 01<sup>st</sup> July 2009 and Mogale City is one of them.
- The main objective of the regulations is to formalise norms and standards which when applied will improve credibility, sustainability, transparency, accuracy and reliability of municipal budgets. Budgets tables, supporting tables and associated charts were developed to translate the budget regulation requirements into practical outcomes.
- If Council is provided with understandable financial information they will be better able to take informed decisions that promote effective financial management, and that is aligned to service delivery performance. Transparency, accountability and 'understandability' are vital components of this objective. The allocation of financial resources aligned to service delivery targets, with rigorous regular monitoring, is intended to make it abundantly clear what is being promised when budgets are approved, when plans are varied and when actual service delivery achievement is measured against the approved plans.

4.1.3 **2009/10 budget methodology:** The 2008/09 operational Adjustments Budget ( approved by Council on the 29<sup>th</sup> January 2009) has largely been used as the ‘base’ upon which anticipated inflationary increases have been applied to form the 2009/10 operational budget proposals. Operational growth over and above inflation has also been included and these are shown in 4.1.3 below. In addition items proposed by the Executive Committee and by the 2<sup>nd</sup> Strategic IDP/Budget Workshop (a meeting of the Executive Committee) have been included in these budget proposals along with proposed savings on the operational budget in order to ensure the proposed budget is cash backed i.e. able to be funded from the estimated cash flow forecast. The proposed items to be included and budget savings proposed are listed below in paragraphs 4.1.7 and 4.1.8.

4.1.4 Operational Budget growth over and above inflation has however been included in the budget proposals, totalling R18, 604 million, on the following items:

- R450k for Youth Development in Mayor’s Office,
- R350k for Mayor’s Awards
- R1 million for 2010 projects,
- R400k for State of the City Address;
- R350k for Public Participation,
- R300k for 2011 Municipal Elections,
- R12, 357 million for Consultants,
- R2, 897 million for License and Internet link fees,
- R500k for Operational lease of IT Equipment.

4.1.5 It should be noted that the budget for salaries is based on the payroll for January 2009 (i.e. warm bodies actually employed) plus an increase of R4 million for filling of critical posts and the R2, 5 million from SRAC for Libraries. The cost of filling all vacant posts within the existing structure (R403 388 million) would be an extra R52 159 million (2009/10 prices) on top of the employees budget shown in these budget proposals.

4.1.6 The budget for consultant fees was undertaken using a zero based budget approach. The total budget needed for 2009/10 is R14, 357 million comprises of the following:

<b>Economic services</b>	<b>R2, 000, 000</b>
CBD Precinct Plan	R200, 000
Formalization of Township	R1, 800, 000
 <b>Integrated Environmental Management</b>	 <b>R900 000</b>
State of Environmental Assessment & EMF	R900, 000
 <b>Financial Management Services</b>	 <b>R3, 287, 229</b>

Infrastructure Asset Management (GRAP 17) R3, 287, 229

**Corporate Support Services R2, 000, 000**

Roll out of the HR Strategy R2, 000, 000

**Municipal Manager's Office R4, 170, 000**

Implementation of BPR Project Outcome R2, 370, 000

EPR Solution R1, 800, 000

**Infrastructure Services**

Roads & Surface Drainage IMP/SMP R2, 000, 000

4.1.7 In order to balance the proposed budget to the cash flow forecast (i.e. to ensure that the budget is cash backed) the following projects have been omitted and savings undertaken in these budget proposals as follows:

- The bulk purchase for Electricity has been reduced by R54, 384 million to cater for capital projects for Infrastructure Department, employing more Electricians **and increasing repairs and maintenance by R20, 373 million.**
- The bulk purchase for Water has been reduced by R12, 847 million.
- The provision for the security contract has been reduced by R3, million to cater for the installation of security systems.
- Revenue Improvement Projects has been decreased by R1, 9 million.
- The budget makes provision only R4 million (R6, 5 million including SRAC funding) of new vacant posts to be filled.

4.1.8 On the Capital Budget side, the Mayoral Committee Members and Executive Committee Members prioritized capital budget by ranking them at the 2<sup>nd</sup> Strategic IDP/Budget workshop during March 2009 in line with broad IDP prioritise. The IDP/Budget Implementation team then took into the budget the first two projects presented by Executive Managers of respective Departments as priority linking them to Community needs from November 2008 Public Participation.

4.1.9 In order to balance the budget proposals R58, 400 million was apportioned as unsecured capital fund to Departments (**see attached schedule 3(b)**).

## **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 budget related policies approved by Council for implementation in the 2008/09 financial year remain in force for the 2009/10 financial year:

- Supply Chain Management Policy,
- Investment, borrowing and cash management Policy, and
- Write-off policy

4.2.3 **Changes are proposed to the 2008/09 Credit Control and Debt Collection Policy as follows:**

- Second paragraph of clause 5.9, Limited collection actions (i.e. Final Letter of Demand) are applied for inactive accounts smaller than R3 000 due to the cost–benefit ratio of such cases and any further action required for these individual accounts is at the discretion of the Chief Financial Office. This clause has been removed.
- For consumer who buys water and electricity from the prepaid vending machine, the municipality may limit the amount of vending for consumers with outstanding accounts and or take a percentage of the amount vended to settle the arrears clause 6.4.7 was added.
- Liquidations and insolvents are recommended to Council for possible write off clause was added on 6.10.1
- Possession clause was added on paragraph 1 and three of clause 6.10.2.
- This clause, the Council reserve the right to hand over any debt irrespective of its aging, was added on 6.11.2.
- The amount of R2000, household and business were removed from clause 6.11.3.1(Collection charges will be levied against a customer in respect of any

relevant action taken in terms of, or for the purpose of, the full implementation of this Policy and the associated Bylaw)

- Accounts that are 120 days and above as well as the amount handed over will cease to attract interest clause 6.12.4 was added.
  - Tenants clause removed on clause 6.14.1 and an initial payment of 50% of the outstanding debt is required clause was added.
  - This will be applicable to tenant and owner consumers. Tenants should obtain letter from the owner granting them permission to enter into an arrangement clause was added.
    - The costs resulting from the legal process are added to the existing arrears on the account and an initial payment of at least one quarter to one third of the total outstanding amount is required to be paid clause was removed on clause 6.14.2.9.
    - Payment for the prepaid meter must be carried by the business and the municipality will notify the owner of the property that a prepayment meter has been installed on his property and why it has been done clause was removed from clause 6.14.3.
  - Clause 6.16 the arrangement for the following categories of consumers may be allowed more than sixty months and current accounts to be paid in full was added.
    - Under debt review, administrations and late estate
  - This pensioner's rebate will be dealt with in terms of the rate policy clause was added on clause 11.1.
  - This clause 11.1 was removed as it will be taken care off by the rates policy.

A person who has reached the age of 60 or more on 30 June 2008, or a person who is physically or mentally disabled and who can prove that he/she receives a social pension, or a person certified by the General Manager: Health Care as being physically or mentally disabled may, in terms of the provisions of section 32(1)(b) of the Local Authorities Rating Ordinance, 1977, receive a remission of 40% on the general assessment rates due for the 2008/09 financial year. The rebate is granted subject to the following conditions:
- (a) The Premier must approve the category of persons in terms of section 32(1) (b) (IV) of the Ordinance.
  - (b) The joint income of the applicant and his/her spouse, if any, May not exceed R30000 for the year ended 30 June 2007.
  - (c) The rateable property in question may be occupied by only the applicant and his/her spouse, if any, and by dependants with no income, or by certain persons in specific circumstances at the discretion of the Chief Financial Officer.
  - (d) There may not be more than two dwellings on the rateable property in question, provided that where there are two dwellings on the property (duet houses); the

- rebate is only applicable if separate accounts are rendered to the individual owners, subject to the Municipality's conditions for the separation of the account.
- (e) The rateable property in question must qualify for the rebate in terms of section 21(4) of the Ordinance for the 2007/08 financial year.
  - (f) The application for remission for the 2007/08 financial year must be received before 30 June 2008 on a form (which will be made available for this purpose by the Chief Financial Officer) and the information furnished must be substantiated by an affidavit by the applicant.  
NB: Applications sent by mail must reach the office on or before the closing date. The Municipality does not accept any responsibility/liability for postal items (including registered post) that do not reach us.
  - (g) The applicant must submit proof of his/her age and identity and, in the case of a physically or mentally disabled person, proof of receipt of a social pension or, if no such pension is received, proof of certification by the General Manager: Health Care.
  - (h) The applicant's current account must be paid in full.
  - (i) If the applicant complies in all respects with these conditions, the amount remitted will be credited on the account and will be included in the monthly levy.
  - (j) This rebate is subject to the availability of funds in the 2008/09 financial year.

#### 4.2.4 **Changes are proposed to the 2008/09 Indigent Management Policy as follows: Additions and Amendments to the Policy:**

- **Free Basic Services:** The quantity of services that shall be supplied free of charge to an indigent household, amounting of 6 kl of water per month, 50 kWh free electricity per month subsidized sanitation services, and refuse removal services. Rates will be covered by the Municipality's Property Rates Policy.
- **Child-headed Family:** means a household where the main caregiver of the said household is younger than 18 years of age. Also, a Child-headed household as defined in the section 28(3) of the Constitution.
- **Pensioner:** means a person who is 60 years of age or more.
- **Indigent:** Any household which is responsible for the payment of services and rates, earning a combined gross income equivalent to or less than two times the Government pension grant as prescribed by the National Department of Social Development or in line with the National Indigence Framework issued by the Department Local Government (DLG), who qualify, according to the policy, for rebates/remissions or a services subsidy. Examples hereof include social pensioners, the unemployed and child-headed families who are unable to fully meet their obligations for municipal services consumed and property taxes on their monthly accounts. Any other Government grants received by such households will not be considered as additional income.
- **Rural:** Areas outside the town and related suburbs. In the case of Mogale City, this covers Magaliesburg, Tarlton, Muldersdrift and Hekpoort.
- **Primary Criteria:** In cases where the account holder is deceased, the applicant must produce a Letter of Authority on the property.

Automatic qualification

Consumers with non-vacant properties valued at R40 000 or less automatically qualify as indigents

### **SPECIAL CASES**

- Where the income is above two times the Government pension grant as prescribed by the National Department of Social Development but, on assessment by the Indigent Management Committee, is insufficient to cater for the said household.

### **PROPERTY OWNERSHIP**

- The property of the applicant/ prospective indigent household, in line with the Municipal Property Rates Policy, shall not exceed R460 000, 00.
- Should the applicant sell/ dispose or bequeath their property within 12 months from the date of approval of cancellation of debt, he/she will be liable for all the debt previously cancelled, with interest for months post cancellation.

### **Comment:**

- The applicant should, as part of the application, be willing to give consent for external scans as may be deemed necessary by the Municipality.

### **SPECIAL PROVISION FOR THE RURAL AREAS**

- Though the above Criteria for Qualification require that an applicant have a Municipal account, this Policy makes special provision for low indigent households in the rural communities. These households will benefit from the Indigent Management Programme only through access to free basic water delivered in water tankers. Introduction and sustenance of water tankers will be subject to written permission granted by the land owner. Costs for the water and related tankers will be covered from the Equitable Share.

### **REPORTING AND QUALITY CONTROL**

- Quarterly reports shall be submitted by the Department: Social Services, with financial implications to relevant Portfolio Committees and to the Mayoral Committee on progress made regarding the status of registered indigents.

### **EXTENT OF MONTHLY INDIGENT SUPPORT**

- Credit towards monthly refuse collection charges
- Credit towards monthly sewerage charges, provided this is part of the Municipality's waterborne sewerage system
- The accounts of successful applicants should be flagged and installation of prepaid electricity and water meters should be prioritized.
- The account of an indigent household that applied for an Indigent Grant should be credited with an amount totalling the cost of free basic services as defined in this Policy.
- The Municipality reserves the right to install prepaid meters in all the households classified as indigent.
- **Process Management**
  - Validity Period

Validity period of assistance will be for a maximum period of 24 months.  
Households will be re-assessed at the end of a 24 months period.  
Death of Registered Applicant

➤ **Termination of Indigent Support**

- End of the 24 months cycle, subject to re-assessment.

**4.2.5 Amendments to Rates Policy**

1) Par 2.14: Definition of Independent Schools deleted as it is not relevant

2) Par 8.1.b: Criteria for Pensioners Rebated amended: Income R60 000pa and no limit to property value.

3) Par 13.1.a. Residential rebate increased from 35% to 40%

4) 13.1.b. Farm properties: Sliding scale deleted due to application of new regulations on ratios.

**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, 2010/11 and 2011/12 are not budgets but just estimates

4.3.3 **National economic outlook:** Domestic GDP growth is projected to slow to 1, 2% in 2009 from estimated 3.1% in 2008. The period of slower growth ahead is likely to be characterised by rising unemployment, declining business profitability and the closure of some companies. (MFMA circular no.48, 02<sup>nd</sup> March 2009).

4.3.4 **Local population growth and local economic factors:** The budget proposals assume that local economic growth (and growth in household demand) within the Mogale City Local Municipality area will be at the national GDP growth forecast by National Treasury. Thus the budget proposals include a 3% annual growth in bulk purchases made by the municipality and a 3% annual increase in electricity, water, and property rates income.

- 4.3.5 **National Inflation forecasts:** National Treasury advises that the Consumer Price Index (CPIX) is forecast to be 5.4% for 2009/10, 5.1% for 2010/11, and 4.6% for 2011/12. (MFMA circular no.48, 02<sup>nd</sup> March 2009).
- 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 other general expenditure budget items and the repairs and maintenance budgets have been increased from the proposed 2008/09 Adjustments Budget figure by 11.1% for 2009/10 (**See attach schedule 2 for other general expenses**). The current average CPIX for the twelfth month is forecasted to be 10,1% however the inflationary increase in 2009/10 financial year is 11,1% and 5,3% and 4,7% for the two outer years in line National Treasury's forecast CPIX inflation.
  - **Fuel and Oil:** Fuel and Oil inflation for the month of March 2009 shows increase of 7% and year-on-year a decline of 14, 9%, however due to the unpredictability of future global oil prices and unstable Rand; we recommend an annual 15% increase for this line item.
  - **Municipal Services:** these budgets are for paying the cost of electricity and water used in municipal buildings. The budgets have been increased by 8%.
- 4.3.7 **Price movements on bulk purchases:** Based on correspondence received from Rand Water, the 2009/10 budget has included a price increase of 15.3% for bulk water purchases. National Treasury advises municipalities to budget for a 25% increase in bulk electricity purchases. This is an increase from April 2009 which is the beginning of Eskom financial year. The municipality will be able to increase tariff from 01<sup>st</sup> July 2009. Therefore the 25% Eskom increase will be higher for Municipalities since Eskom is required to recover their budgeted revenue over only 9 months and not 12 months. The effective increase from Eskom to Municipality will then be 33, 33%. The Annexure to MFMA Circular no.48 makes provision for an increase of 34%.  
If NERSA tables a revised electricity pricing structure before 01<sup>st</sup> July 2009, municipalities will be required to adjust their budgets accordingly.
- 4.3.8 **Increase on salaries and allowance:** Employee salaries and contributions have been increased by 15% based on the discussion at SALGA (South African Local Government Bargaining Council) level. The 15% increase is excluding Section 57 officers. South African Local Government Bargaining Council (SALGA) and labour movements are currently negotiating.

- 4.3.9 The increases for the section 57 employees shall be in accordance to their employment contracts.
- 4.3.9 **Increase on Councillor Allowances:** An increase of 11% has been allowed for in the 2009/10 budget for Councillors Allowances. This is in line with most recently gazetted Remuneration of Public Office Bearers Act (R1319).
- 4.3.10 **Indigents Registration and Approval:** The budget makes provision for a further 3000 indigents to be registered, currently the approved indigents is +/- 7000 households, and are receiving free basic services.
- 4.3.11 **Overtime and Leave Payments:** The amounts for these items in this proposed budget are same as 2008/09 Adjustment Budget. The existing overtime policy should be adhered in order to ensure that overtime payments are limited to those that are strictly necessary to ensure service to the public and are in compliance with relevant legislative requirements. The budget for leave payments only makes provision for payments to those who are retiring or resigning.
- 4.3.13 **Depreciation:** Depreciation is a charge made to the operational budget for 'using up' the capital assets employed by the municipal services. It is not an actual cash cost to the municipality. The budget estimate for depreciation for 2009/10 and onwards is guess estimate. The full implementation of depreciation will only occur once the municipality's asset register is fully completed and valued. The 2009/10 estimate is based on the depreciation calculation in the 2007/08 Financial Statements.
- 4.3.14 **Interest rates for borrowing:** The current bank base rate for long-term borrowing is 12%. The cost to an organisation of borrowing is either higher or lower than this base rate depending on its credit rating. This budget makes no provision for the Council to enter into new loan.
- 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, excluding grant income, 93% will be received as actual income. The proportion of income received as compared to the total revenue budget has varied from 85% to 94% in the last three financial years. The average collection rate as at the end of April 2009 is 92%. The Municipal Finance Management Department is aware that a Collection Rate of 93% 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 Department is however confident that the

current Revenue Enhancement Project led by the CFO will continue to yield positive results and increase MCLM's Collection Rate.

#### 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 R904 963 million or 75% of the total operating revenue. Another key funding source (17% of overall operating funding) is government grants - of which Equitable Share amounts to of R132, 729 million in 2009/10.
- 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 R42, 767 million for 2009/10. The own-funded capital budget is proposed to be funded from surplus cash of R66, 294 million from savings identified in operational budget, DBSA loan of R4,910 million (roll over from 2008/09), land sales income R21 million, R17 million from DLG for basic water & sanitation targets which is roll over from 2008/09. R7 million from Gauteng Department of Social Development, R900k from SRAC and R550k from GOT-Seta.
- 4.4.3 **Property Rates:** The value of residential properties increased substantially as a result of the new valuation and will be accorded an exemption of R15, 000 and a further R25, 000 in terms of the rates policy. In modelling of the tariffs an effort was made to spread the effect of the new rating system. The intention of the Municipal Property Rates Act was to spread the rating equitably among property owners. The approach was to ensure that the overall revenue from rates is not reduced and also that the revenue is not unreasonably increased.

**Table 6: Property Rates Revenue 2007/08 to 2011/12**

	2007/08 Pre-audited actual	2008/09 Original Budget	2008/09 Adjusted Budget	2009/10 Proposed Budget	2010/11 Forecast	2011/12 Forecast
	R 000s	R 000s	R 000s	R 000s	R 000s	R 000s
Revenue budget	136 631	153 789	151 124	242 742	278 743	306 617
Revenue foregone	0	0	0	62 238	80 187	88 206
Total	136 631	153 789	151 124	180 505	198 555	218 411
Tariff Increase	6%	8%	8%	19.44%	10%?	10%?

4.4.4 **Electricity sales:** The 2009/10 proposed tariffs for electricity has assumed 35.83% increase. A 2.5% surcharge over and above Eskom’s increase is requested to improve the financial status of the Municipality Electricity distribution services to create a transparent and separate surcharge for electricity. The present tariff structure does not make sufficient provision for refurbishment and no provision for extensions and upgrading. The Municipal Fiscal Power and Function Act of April 2008 make provision for such surcharges. It must be noted that some categories will only be increased by 29% due to the change in the tariff objectives from demand to consumption control. **(See attach report from Infrastructure Services for more details).**

**Table 7: Electricity Revenue 2007/08 to 2011/2012**

	2007/08 Pre-audited actual	2008/09 Original Budget	2008/09 Adjusted Budget	2009/10 Proposed Budget	2010/11 Forecast	2011/12 Forecast
	R 000s	R 000s	R 000s	R 000s	R 000s	R 000s
Revenue Budget	233 146	323 677	329 727	447 868	559 835	699 794
Tariff Increase	11.79% to 8.98%	35.9%	35.9%	35.83%	25%	25%
Bulk Purchases Electricity	140 345	182 172	182 172	199 000	330 140	386 561

4.4.5 **Water sales:** The proposed increase to the water tariff is 15.3%. 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 allow for the provision of the 6kl free basic water to all consumers within the MCLM area but also encourage the saving of water as a scarce resource, as the more you use the more you pay.

**Table 8: Water Revenue 2007/08 to 2011/12**

	2007/08 Pre-audited actual	2008/09 Original Budget	2008/09 Adjusted Budget	2009/10 Proposed Budget	2010/11 Forecast	2011/12 Forecast
	R 000s	R 000s	R 000s	R 000s	R 000s	R 000s
Revenue Budget	180 080	140 875	137 903	163 139	188 099	216 878
Tariff Increase	6%	8%	8%	15.3%	15.3%	15.3%
Bulk Purchases Water	83 560	88 536	87 525	97 849	124 058	143 039

4.4.6 **Sanitation charges:** The proposed increase to the sanitation tariff is 10%. 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 9: Sanitation Revenue 2007/08 to 2011/12**

	2007/08 Pre-audited actual	2008/09 Original Budget	2008/09 Adjusted Budget	2009/10 Proposed Budget	2010/11 Forecast	2011/12 Forecast
	R 000s	R 000s	R 000s	R 000s	R 000s	R 000s
Revenue Budget	50 588	49 915	55 663	61 229	66 127	71 418
Tariff Increase	6%	8%	8%	10%	10%	10%

4.4.7 **Refuse Collection charges:** The proposed increase to the Refuse Removal Tariff for the 2009/10 financial year is 10%

**Table 10: Refuse Collection Revenue 2007/08 to 2011/12**

	2007/08 Pre-audited actual	2008/09 Original Budget	2008/09 Adjusted Budget	2009/10 Proposed Budget	2010/11 Forecast	2011/12 Forecast
	R 000s	R 000s	R 000s	R 000s	R 000s	R 000s
Revenue Budget	45 413	49 898	47 475	52 222	56 400	60 912
Tariff Increase	6%	8%	8%	10%	10%	10%

4.4.8 **Other Charges:** An 8% 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.

4.4.9 **Investments:** The municipality currently has some R88, 972 million of investments (as at end of April 2009). R56, 405 million 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 **Sale of assets:** The capital budget proposed in this report includes the provision of infrastructure at Rangeview. Once this is achieved this will release R21 million land sale income. It is proposed that this income is utilised to partly fund the municipality's own-funded capital budget for 2009/10.

## 4.5 CASH FLOW FORECAST

- 4.5.1 It is projected that the new financial year will be kicked off with a zero balance.
- 4.5.2 We project to start the year with zero balance cash / cash equivalents and project an average collection rate for the coming financial year of 93%. Based on these assumptions the projected income for the year exceeds the projected expenditure for the year by R314k.
- 4.5.3 The average collection rate for main tariffs for the current financial year to date is 92%. When other income is added the collection rate is decreased to only 90%.
- 4.5.4 It is suggested that the proposed expenditure levels are maintained and not be increased at this stage. In the light of the current economic environment and looming recession it would be prudent to budget for a higher than normal cash in hand buffer as the said economic circumstances may cause the proposed collection rate of 93% not to be achieved. Therefore Mogale City will have to monitor its operational expenditure closely and safe as much as possible, curb all non essential and non service delivery expenditure and ensure that the budgeted collection rate is achieved to enable the municipality to function efficiently and deliver services to the community.
- 4.5.6 It is recommended that Mogale City's proposed operating and own funded capital budget is maintained for the time being and if the collection rate of 93% is proved to be achievable and maintainable, the surplus that may become available could then be utilized to motivate an increase in the own funded capital budget at the time when the municipality considers its adjustments budget.
- 4.5.5 A full annual cash flow forecast, including budgeted cash flow forecasts per revenue source and key expenditure grouping, is shown in **Table A7**.

## **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.

## **4.7 DISCLOSURE ON THE IMPLEMENTATION OF THE MUNICIPAL FINANCE MANAGEMENT ACT (MFMA) AND OTHER LEGISLATION**

4.7.1 **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.

4.7.2 The progress made during 2008/09 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 Manager: Budget & Treasury is now the MFMA Project Manager. The MFMA Project Steering Committee meets monthly and its membership was increased during the year to include all the new Executive Managers (representatives from the departments are sent if the Executive Manager is unable to attend) and all Member of Mayoral Committee.

**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: All key posts within Budget & Treasury are filled. One Budget Coordinator was appointed as a Financial Statements Specialist. The vacant posts for Budget Coordinator will be filled before the end of financial year.

- 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. The progress report will be distributed separately.
- To have a Financial Management Internship Programme: Mogale City appointed five new Financial Management Interns on 1<sup>st</sup> January 2008 for a period of two years. These posts are funded through the Financial Management Grant (FMG) received from National Treasury.

**Objective 3: to improve performance management processes:** This objective was not tackled during 2008/09.

**Objective 4: To improve financial systems:** This objective relates to the implementation of BIQ. This was largely completed during 2007/08.

**Objective 5: To improve the IDP/Budget Process:** The Executive Mayor has tables at Council a time schedule outlining key deadlines for preparing, tabling and approving the budget, reviewing the IDP (as per section 34 of the MSA) and budget related policies, preparation of the SDBIP and the public consultation process to be undertaken.

The improvements made in the May 2007/08 Budget Report has been sustained in this year's Budget Report. Mogale City Local Municipality now meets many 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.

**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 and Annual reports so that MCLM is up-to-date. All outstanding Financial Statements have been submitted for audit to the auditor-General. The 2007/08 Financial Statements and 2007/08 Annual Report were tabled at council on the 29<sup>th</sup> January 2009 for noting.
- Change the format and content of the 2007/08 Financial Statements so that they are compliant with GRAP (Generally Recognised Accounting

Practices). The 2007/08 Financial Statements were prepared in accordance to GRAP except for the recognition of Infrastructure assets and Impairment Loss

- Improve the 2007/08 Annual Report to bring it more in line with National Treasury's best-practice guidelines. This has been achieved. The 2007/08 Annual Report was tabled at Council on the 29<sup>th</sup> January 2009.
- To produce the "Oversight Report" - for the 2006/07 Annual Report. The Oversight Report is a statutory MFMA requirement. A report will be tabled at Council on 27<sup>th</sup> March 2009 outlining a process for producing the Oversight Report.

**Objective 7: To improve in-year financial reporting:**

No new work was undertaken on this objective during 2008/09 after significant changes were made to the budget monitoring report prior to 2007/08. Further changes in this area we still required and these will need to be implemented during 2008/09. The five key changes still needed are as:

- 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 Departments 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.
- However of the five key changes one was achieved during 2007/08: The establishment of regular monthly budget monitoring meetings (for both the operational and capital budget) between the Budget Office and Departments just prior to the financial monitoring report being produced.

4.7.3 **Property Rates Act:** In terms of the Local Government: Municipal Property Rates Act, Number 6 of 2004, all municipalities in South Africa is to levy rates and taxes based on the new Act. Therefore, Mogale City Local Municipality (MCLM) like any other municipality should conduct valuations on all rateable properties on 1st July 2009.

In light of the above, the new valuation roll has been compiled in terms of the MPRA. The valuation was opened for inspection and objections from 19 February 2009 to 28 April 2009. **For more details on tariffs based on new valuation roll see section 3.3 (page 11-12).**

