



Mogale City



2006/07 BUDGET REPORT

31ST MAY 2006

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2. BUDGET RELATED RESOLUTIONS

1. Council resolves that the annual budget of Mogale City Local Municipality for the financial year 2006/07 and indicative estimates for the two projected outer years 2007/08 and 2008/09, in line with the Integrated Development Plan, be **approved** as set out in the following schedules:
 - 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 an increase to property rates of 6% for the budget year 2006/07 be **approved** and implemented from 1st July 2006.

3. Council resolves that the proposed tariffs and charges for the budget year 2006/07 reflected in schedule 13 be **approved** and implemented from 1st July 2006 (except for the new sanitation volumetric tariff which will be implemented from 1st October 2006).

4. Council resolves to **approve** the amendments proposed to the policies for Credit Control and Debt Collection, Indigents, Deposits, and Inactive Credit Balances as set out in section 5.3 of this report. In particular Council to:
 - 1) Increase the indigent household income level from R1,600 per month to R1,660, and
 - 2) To rescind all prior Credit Control and Debt Collection policies and replace with the new policy.

5. Council resolves to approve By-Laws for implementation from 1 July 2006 pertaining to the following areas:
 - 5.1 Credit Control and Debt Collection
 - 5.2 Integrated Waste Management
 - 5.3 Integrated Pest Control
 - 5.4 Crematorium
 - 5.5 Cemetery
 - 5.6 Parks, dams, rivers and trees
 - 5.7 Local Economic Development

3. EXECUTIVE MAYOR'S BUDGET SPEECH

This will be handed out at Council on 31st May and subsequently incorporated into this document.

4. EXECUTIVE SUMMARY

4.1 2006/07 OPERATIONAL BUDGET PROPOSALS

- 4.1.1 The total operational expenditure budget proposed for Mogale City Local Municipality for 2006/07 is R690 million including a R7 million contribution to the Capital Replacement Reserve. The budget is R30 million (or 4.5%) above the Original Budget for the current year (2005/06) agreed by Council on 27th May 2005 and R49 million (or 7.7%) above the 2005/06 Adjustments Budget approved by Council on 26th April 2006.
- 4.1.2 The total operational revenue budget proposed for Mogale City Local Municipality for 2006/07 is R690 million. This is R30 million (or 4.5%) above the Original Budget for the current year (2005/06) agreed by Council on 27th May 2005 and R50 million (or 7.7%) above the 2005/06 Adjustments Budget approved by Council on 26th April 2006. These figures are shown in Table 1.
- 4.1.3 The total operational budget proposed in this May Budget Report for the 2006/7 financial year has not changed from that proposed in the tabled (March) Budget Report.

Table 1: Total Operational Budget 2004/05 to 2008/09

	2004/05 Audited actuals	2005/06 Original Budget	2005/06 Adjusted Budget	2006/07 Proposed Budget	2007/08 Forecast	2008/09 Forecast
	R 000s	R 000s	R 000s	R 000s	R 000s	R 000s
Expenditure	583,524	655,311	635,465	682,571	715,334	747,524
Contribution to CRR	4,276	4,646	5,000	7,496	12,314	19,564
Revenue	(579,638)	(659,957)	(640,465)	(690,067)	(727,648)	(767,088)
(Surplus)/deficit	(8,162)	0	0	0	0	0

NB Pre Audited figures before adjustment entries for loan restructuring. The deficit is mainly due to the INCA loan consolidation which required the early redemption of certain loans. From a cash flow perspective it had a positive impact for Council, but from a Budget perspective, the income from the release of the reserves held against the loan are not reflected as an income in the Income and Expenditure Statement.

- 4.1.4 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. When considering schedule 2 (the Operating Budget split per vote), one will see that certain directorates budgets from the 2004/5 financial year to that of the 2005/6 and into the MTREF period, have changed significantly. This is mainly due to restructuring within Council with certain functions transferred between Directorates. Filling of critical vacancies has also played a role in increasing the overall budget and expenditure of certain directorates.

Bulk purchases of Water and Electricity is a major cost driver which greatly affects the overall costs of Water and Sanitation Directorate and Infrastructure.

4.1.5 Charts 1 and 2 illustrate how the operational expenditure budget is allocated between Directorates and between different types of expenditure for 2006/07.

Chart 1: 2006/07 Operational Expenditure Budget: vote allocations

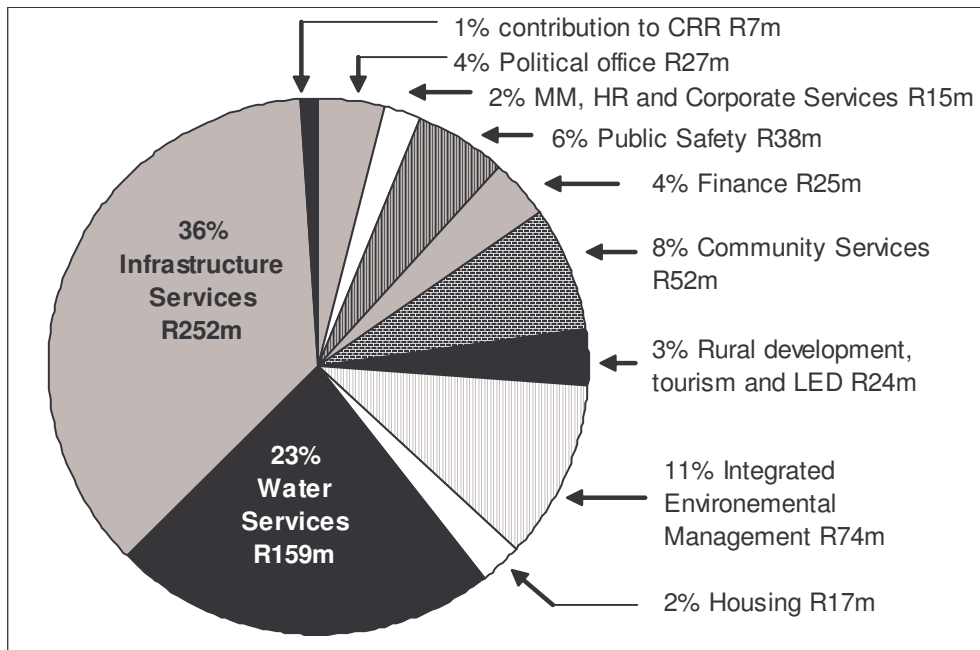
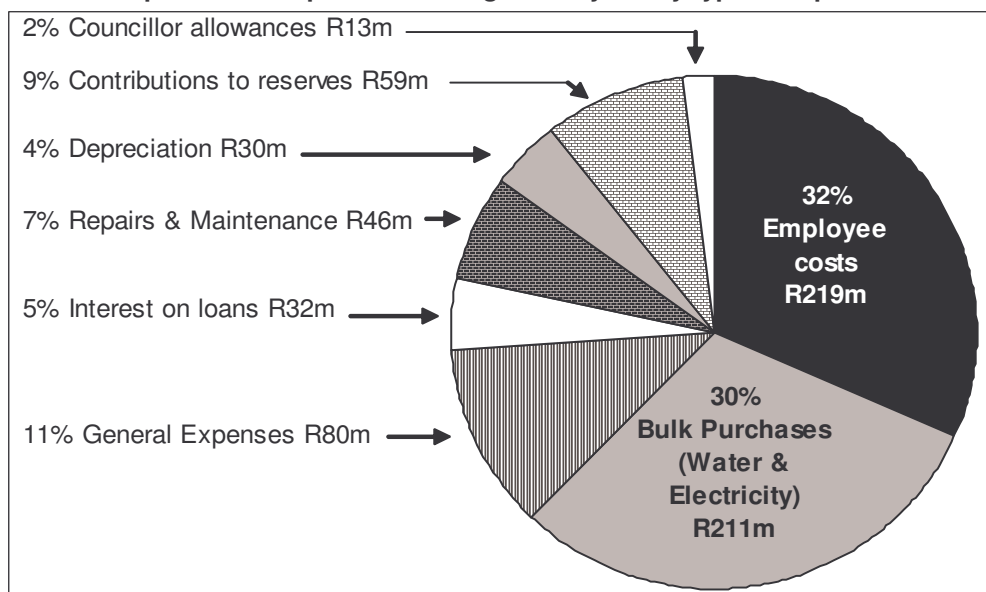
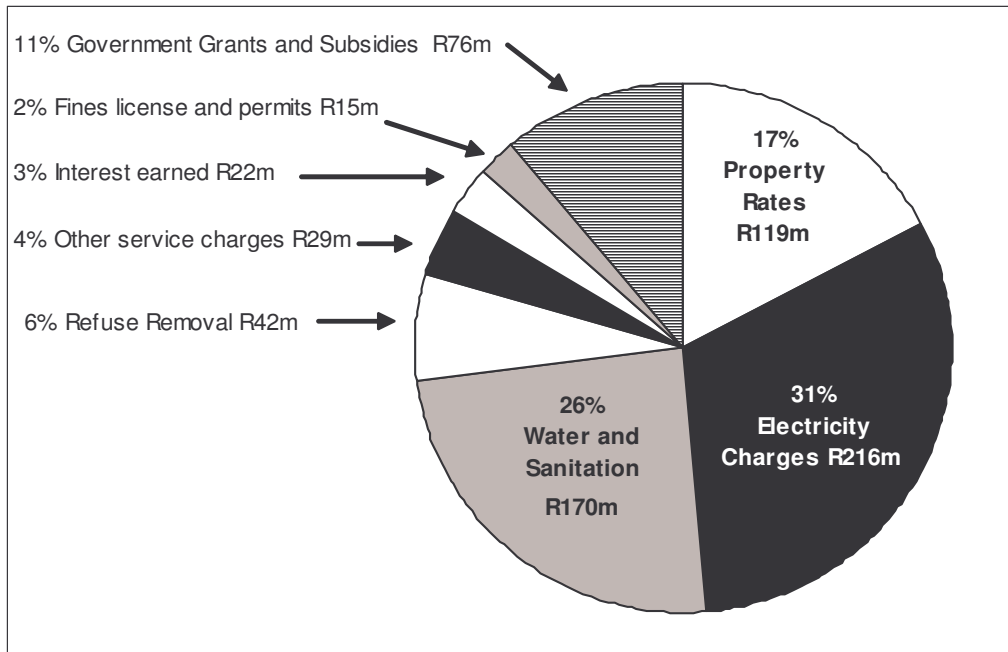


Chart 2: 2006/07 Operational Expenditure Budget: analysed by type of expenditure



4.1.6 A balanced operational budget is being proposed for 2006/07: that is, the proposed operational expenditure, including contributions to the Capital Replacement Reserve (CRR), can be funded from anticipated operational revenue. Schedule 1 shows the operational revenue budget by source of revenue. This information is illustrated in chart 3.

Chart 3: 2006/07 Operational Revenue Budget: analysed by source of revenue



4.2 2006/07 CAPITAL BUDGET PROPOSALS

4.2.1 The total capital budget proposed for Mogale City Local Municipality for 2006/07 is R84.386 million which is R66 million below (or 44% of) the Original Budget for the current year (2005/06) agreed by Council on 5 December 2005 and R9 million (or 12%) above the 2005/06 Adjustments Budget agreed by Council on 31st March 2006. These figures are shown in Table 2 below. Please note that the two outer years are aspirations at this stage: it is unlikely that the municipality will have funds to meet capital expenditure at this level and next year's budget cycle will need to align the budget to available funding.

4.2.2 The proposed capital budget for 2006/07 is reflected in the table below:

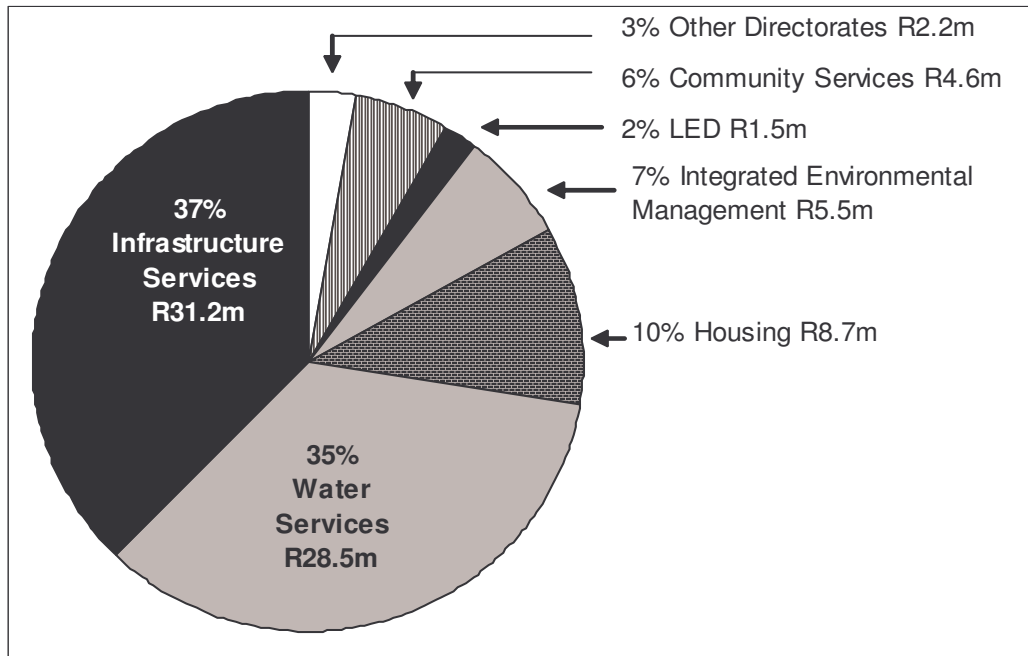
Table 2: Total Capital Budget 2004/05 to 2008/09

	2004/05 Unaudited actuals *NB* R 000s	2005/06 Original Budget R 000s	2005/06 Adjusted Budget R 000s	2006/07 Proposed Budget R 000s	2007/08 Forecast R 000s	2008/09 Forecast R 000s
TOTAL	77,215	150,293	74,998	82,387	132,674	122,735

Schedule 3 of this report shows the proposed allocation of the total capital budget to individual Directorates of the municipality (i.e. the budget votes). Chart 4 illustrates this information in a pie chart.

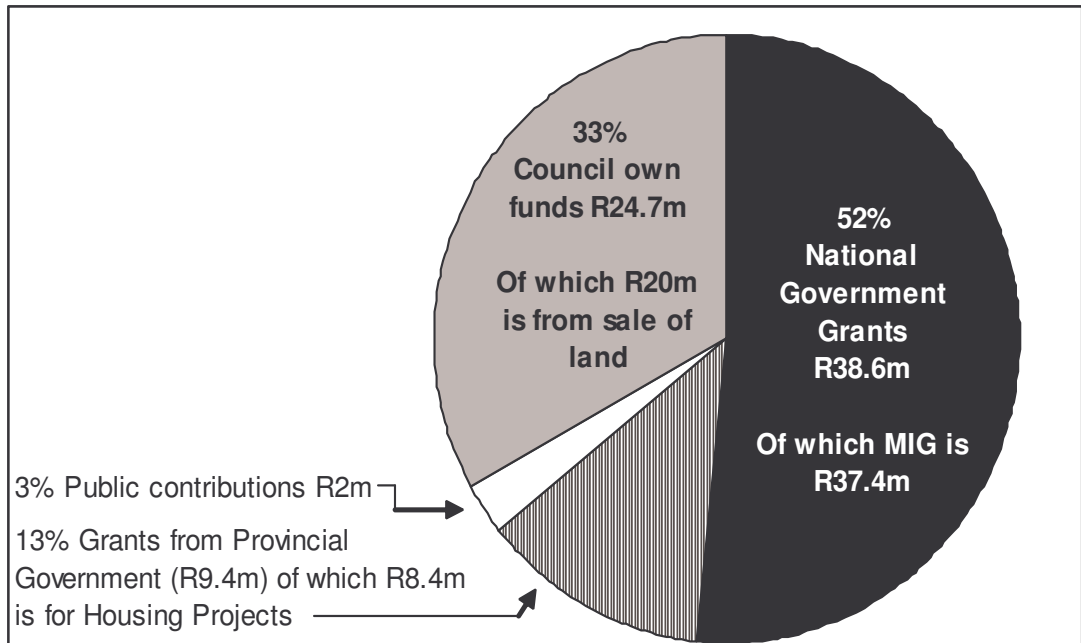
4.2.4 There have been slight amendments to the budget votes per Directorate indicated in the March 2006 report to Council due to the projects funded through the Capital Replacement Reserve having been fully integrated into the Capital Budgets of Directorates. There is also a slight increase to the 2006/7 total capital budget of R37 000 due to minor anticipated rollovers of certain projects.

Chart 4: 2006/07 Capital Budget: vote allocations to Directorates



4.2.5 Details of the funding of the capital budget are given in schedule 4 of this report and shown in chart 5.

Chart 5: Funding of the 2006/07 Capital Budget



4.2.6 A list of the individual capital projects proposed in the budget is given in schedule 3a. It should be noted that whilst funding has been secured from GDH of R6.6 million for housing projects they have not yet confirmed, in writing, their acceptance of the specific projects proposed by Mogale City.

4.2.7 It should also be noted that a major change has been introduced in the 2006/07 capital budget process. Only projects with secure grant funding, and assured internal funding i.e. sale of land revenue, have been included in the budget proposals at this stage. By secure grant funding we mean projects which have received final grant-funding letters from the donor organisations. A list of projects which officials feel may receive grant funding or could be funded through additional internally generated funds for 2006/07 is given in schedule 3b of this report. These projects will be added to the municipality's capital budget (via a Council approved adjustments budget) as and when the funding becomes secured.

4.2.8 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-book' 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.

- 4.2.9 Directorates can only commence the spending of the capital budget once the relevant external grant monies have been received by the municipality and/or the Chief Financial Officer is assured that the municipality's cash flow position can support the expenditure. This may therefore have an impact on the start-date the projects can commence 'on-the-ground'.

4.3 PROPOSED PROPERTY RATES, TARIFFS, AND USER CHARGES FOR 2006/07

- 4.3.1 The increases being proposed for 2006/07 are shown in table 3 and the detailed tariff proposals can be found in schedule 13.

Table 3: Increases in rates, tariffs and charges

	2006/07 Proposals
Property Rates	6 %
Electricity tariffs	-17.38 % to 16.79 %
Water tariffs	6 %
Sanitation tariffs	6 %
Refuse collection tariffs	6 %
Other user charges	3 % to 20 %

- 4.3.2 It should be noted that National Treasury's guideline growth parameters for municipal rates and tariffs is 3% to 6% for 2006/07. Mogale City Local Municipality's proposals for main tariffs are thus within National Treasury's recommendations for all main tariffs except for electricity, as the municipality is still in the process of realigning the tariffs to National Electricity Regulator tariff guidelines. Other user charge increases have been determined based on comparisons with other local authorities within the area as well as a movement towards cost recovery or partial cost recovery, depending on the specific tariff. It should also be noted that the Property Rates will be based on the current valuation roll for 2006/07 with the implementation of the Property Rates Act taking effect for 2008/09 onwards.

4.4 SUMMARY OF KEY BUDGET ISSUES AND ASSUMPTIONS

- 4.4.1 The 2006/7 budget has been prepared for the first time on the basis of Generally Accepted Municipal Accounting Practice (GAMAP) and no longer on the guidelines of the Institute of Municipal Financial Officers (IMFO). The key changes are as follows:
- The **salary component** of the budget previously did not include locomotion and councillor allowances as well as the Council's contributions to pensioner medical aid. One must be careful, therefore,

in comparing the proposed 2006/07 total salaries and wages budget directly with the 2005/06 budget as the former now includes additional areas of expense.

- The budget no longer includes **interest and redemption charges on internal funds and redemption on external loans**. This has now been replaced by Interest on external loans and Depreciation on assets.
- **Contribution to funds**: the only contributions which are now included in the 2006/7 budget are the contribution to working capital reserve/bad debt reserve and the contribution to the Capital Replacement Reserve (CRR) . The income shown in the budget is the billed income. One has to however make provision for the billed income which is not collected. In order to align the cash flow or income actually received to the billed income, one reduces or “balances” the expenditure to this actual income received through the contribution to working capital/bad debt reserve. The contribution to the Capital Replacement Reserve is for the funding of capital assets (i.e. the capital budget).

Contributions that were allowed to be budgeted for under the IMFO guidelines, e.g. contributions to leave provision, audit fees etc, are now included as specific expenditure line items either under salaries and allowances or general expenses.

- 4.4.2 The difficulty in developing and balancing any budget is due to the fact that the demands are always far greater than the available resources for any particular financial year. One has to therefore have a way in which to prioritise the resources to the list of projects and required expenses.
- 4.4.3 The Mayoral Committee conducted a four day Strategic Planning Workshop. The objective of the workshop was to review achievements and challenges of the last term; interface with the District and Provincial Departments as well as review and chart the way forward for the next term. In terms of the key deliverables, the vision, mission and performance areas were validated. From the inputs of the province, district and departments as well as the Executive Mayor, ten strategic needs were agreed upon. Underpinning these were two critical supporting focal points, namely, strengthening the infrastructure backbone of service delivery as well as optimising and streamlining the institutional capacity of the city. The workshop further identified four areas of priority that would have special focus over the next three year period:

CROSS CUTTING IMPACT/FOCUS AREAS	2006/7 STRATEGIC FOCUS AREAS	2007/8 STRATEGIC FOCUS AREAS	2008/9 STRATEGIC FOCUS AREAS
Infrastructure Development Accelerated Service Delivery	Housing Security of Tenure Free Basic Services	Housing Security of Tenure Free Basic Services	Housing Security of Tenure Free Basic Services
	Maintenance Upgrade/Refurbishment Development	Maintenance Upgrade/Refurbishment Development	Maintenance Upgrade/Refurbishment Development
Local Economic Development Rural Development (Special focus on rural areas mainstreamed across Directorates)	Job Creation Entrepreneurship Attraction of Investment into the City	Job Creation Entrepreneurship Attraction of Investment into the City	Job Creation Entrepreneurship Attraction of Investment into the City
Democracy and Good Governance	Public Participation People Finance Systems and Processes Legal Compliance	Public Participation People Finance Systems and Processes Legal Compliance	Public Participation People Finance Systems and Processes Legal Compliance

4.4. 4 In essence, the workshop ensured alignment of the city's strategic delivery areas to the needs on the ground as captured in the Local Government Election process (Manifesto of the ANC), National, Provincial and District Strategies and Programmes, as well as an appreciation of the lessons learnt from the previous term. The strategic focus areas for service delivery in the next term of office can be summarised as follows:

- 1) Economic Growth and Development
 - Job Creation
 - Entrepreneurship
 - Attraction of Investment into the City

- 2) Accelerated Service Delivery and Infrastructure Development
 - Housing/Shelter
 - Water

- Sanitation
 - Refuse Removal
 - Roads
 - Electricity
 - Fleet and Equipment
 - Assets (Land and Buildings)
- 3) Social Development and Security
- Health Care
 - Education and Skills Development
 - Safety and Security
 - Social Well Being
 - Transport
 - Clean Environment
 - Recreation
- 4) Democracy and Good Governance
- Public Participation
 - People
 - Finance
 - Processes and Systems
 - Legal Compliance
 - Inter-Governmental Relations

4.4.5 Out of the above mentioned focus areas, five key areas were identified as more critical and needing prioritisation. These include:-

- Infrastructure Upgrade and Development
- The Provision of housing
- Local Economic Development
- Public Participation.
- Rural Development

4.4.6 It is in line with these findings that the IDP/MTIEF has been developed. The projects and budget allocation for 2006/7 is aligned to the above priorities. As the MTIEF period unfolds (2007/8 and 2008/9) additional focus will be given to further align the IDP and budget.

5. SUPPORTING INFORMATION ON THE BUDGET PROPOSALS

5.1 2006/07 BUDGET PROCESS OVERVIEW

5.1.1 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 have recently 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.

5.1.2 **2006/07 budget process at Mogale City Local Municipality:**

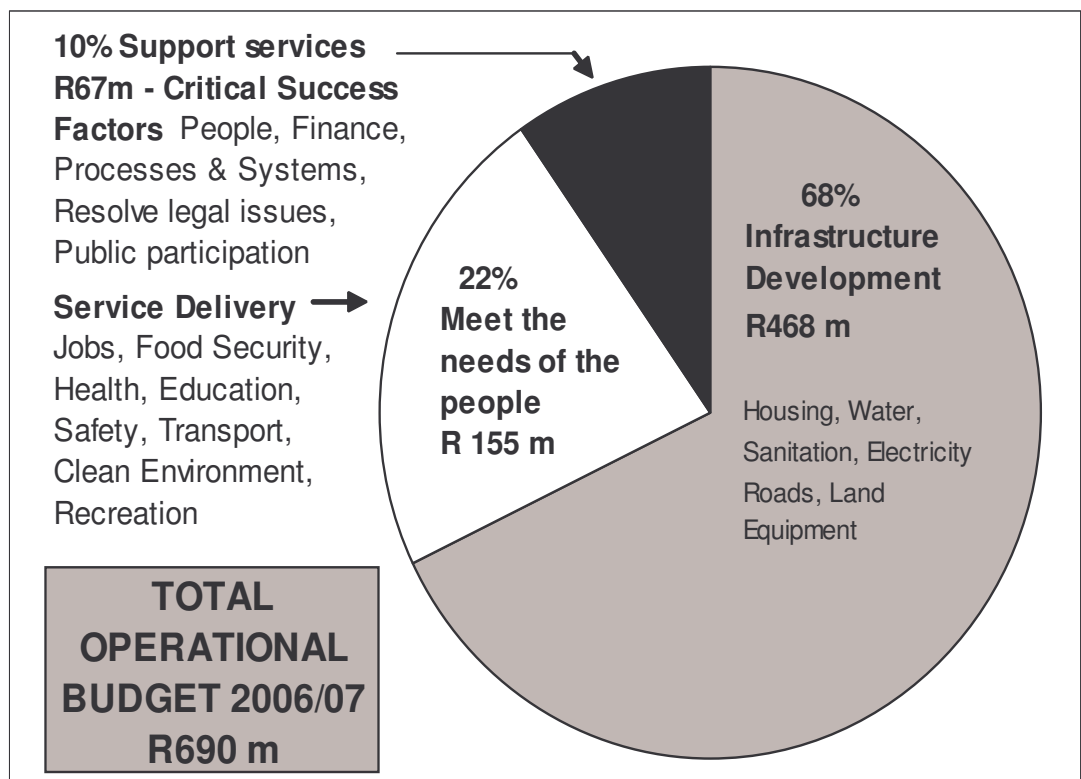
The following process has been undertaken:

- Executive Mayor tabled budget guidelines and 2006/07 budget process at Council at the end of August 2005.
- Strategic Breakaways to confirm medium term key political priorities and alignment to national and provincial priorities
- Presentation by Municipal Manager and Financial Services Directorate to Directors and Deputy Directors on the budget guidelines and information that must be submitted (6th December 2005).
- One-on-one discussions between Line Directors and the Budget Office – the latter taking the Directorates through the budget packs and the information that is needed to prepare the budget.
- Deadline for final budget submissions to the Budget office (16th January 2006).
- First consolidated budget position for the municipality (end February 2006).
- Municipal Manager and Chief Finance Officer review and challenge budget submissions with Service Directors (during March 2006).
- Workshop/presentation of the draft Budget and IDP key assumptions and strategic objectives to full Council before submission to Finance Portfolio Committee and Mayoral Committee and Council for approval
- Council approves the draft budget for 2006/07 on March 31st 2006
- New Mayoral Committee and Directors meet to review and workshop the priorities for 2006/07 contained within the IDP and whether the 2006/07 draft budget is aligned to these priorities (April and early May)
- Community Roadshows held in May 2006 to report back on the 100 day plan of action for the new Council as well as to communicate and interact with the community on the 2006/7 budget and IDP prioritisation and projects to be undertaken, tariffs, by-laws and funding of the budget. Community feedback was positive in general, confirming the prioritisation of projects. The turnout of community members at the Roadshow meetings, across the spectrum, was good.

5.2 ALIGNMENT OF BUDGET WITH INTEGRATED DEVELOPMENT PLAN (IDP)

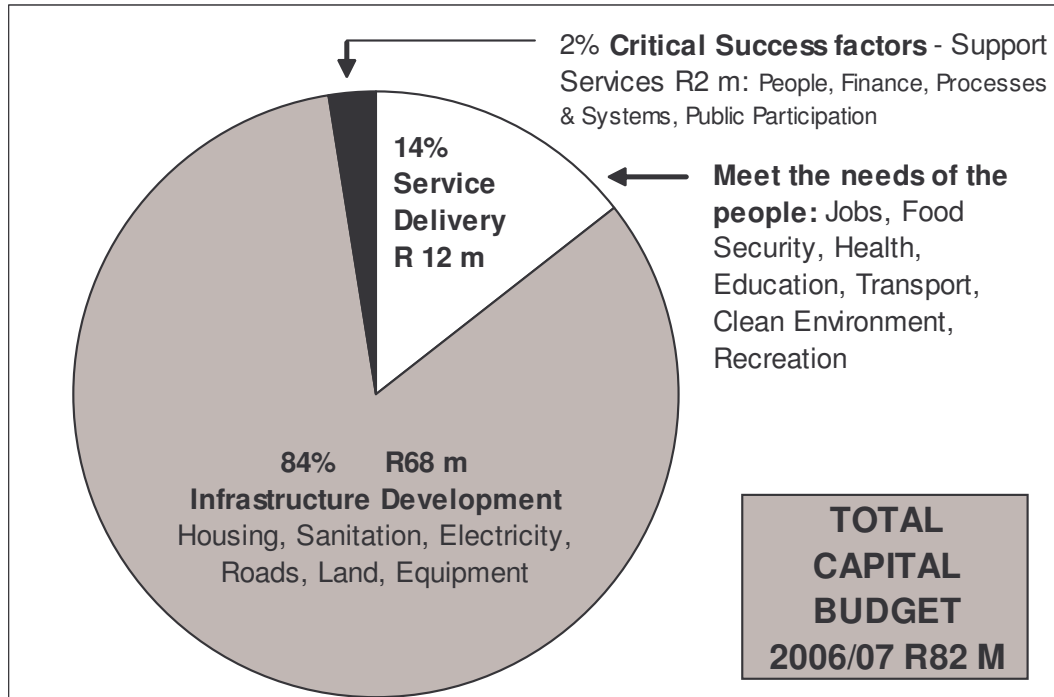
5.2.1 Section 4.4.3 detailed the process which was undertaken to agree on the strategic priority areas which formed the basis of the IDP of Mogale City. This in turn was utilised to align the budget. The graphs below indicate the budget split according to the three key priority areas being 1) the strengthening of the backbone of service delivery 2) meeting the social, economic and security needs of the people and 3) the support services required in order to enable 1) and 2).

Chart 6: 2006/07 Opex Budget analysed over the three key focus areas



5.2.2 The detailed IDP is available for perusal on Mogale City Local Municipality's Website (www.mogalecity.gov.za).

Chart 7: 2006/07 Capital Budget analysed over the three key focus areas



5.3 BUDGET RELATED POLICIES – OVERVIEW AND PROPOSED AMMENDMENTS

5.3.1 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.

5.3.2 The following policies approved by Council for implementation in the 2005/6 financial year remain in force for the 2006/07 financial year:

- 5.3.2.1 Supply Chain Management Policy,
- 5.3.2.2 Investment of funds, borrowing and cash management Policy,
- 5.3.2.3 Write-off policy, and
- 5.3.2.4 Tariff Policy.

5.3.3 A Credit Control and Debt Collection Policy was tabled at Council with the 2005/06 budget and approved in May 2005. A slightly amended policy is now before Council for approval. The amendments relate to administrative arrangements and clarifications rather than to policy objectives. The amendments being proposed to the policy document last seen by Council were highlighted and underlined in a schedule attached to the March Budget report. Further amendments have been made to ensure full implementation of

- credit control with regard to cut-offs and reconnections as well as to processes to ensure that illegal connections are detected and strong action taken against offenders. (This document is on the Municipality's website and copies of the document can also be obtained from the Financial Services Directorate). Ongoing communication has and is being undertaken with councillors as well as with communities in order to ensure full understanding of the policy and by-laws and the service providers who will be assisting Mogale City with the implementation of the Credit Control and Debt Collection Processes.
- 5.3.4 Council is also being asked to approve a new Deposit Policy (attached as a schedule in the March Budget report and available on the website or from Financial Services Directorate). The objective of this policy is to establish a uniform deposit policy for the supply of electricity and water to users within the municipality's area. Two key changes are being proposed compared to the current practice: (1) the requirement for a deposit on the installation of prepayment meters (to be used for maintaining the meters) and, (2) the requirement of a guarantee from large/bulk commercial users, in addition to their initial deposits, (this is to reduce the risk to the municipality of such large users defaulting on their payments).
- 5.3.5 Council approval is being sought for the new policy relating to inactive credit balances. The Inactive Credit Balance Policy lays down procedures to be followed by the Financial Services (Revenue) Directorate in dealing with credit balances that have not been claimed and/or are unallocated. This policy was attached as a schedule in the March Budget report and is available on the website or from Financial Services Directorate.
- 5.3.6 In addition, an amendment to the Council's Indigent Policy is being proposed for Council approval. It is proposed to increase the cut-off income amount for qualifying as an indigent household from R1,600 per month to R1,660. This change will allow households comprising of two pensioners to qualify as indigents.
- 5.3.7 Integrated Environmental Management has a number of Policies and By-laws which are to be implemented as from 1 July 2006. These include the following and indicate the main issues included in each By-Law (copies are available for perusal on the web site).
- 5.3.8 **INTEGRATED WASTE MANAGEMENT BY-LAWS:** This By-Law regulates the handling of solid waste in Mogale City. It does not propose any additional tariffs except for the tariffs which are already in use such as, refuse removal charges, landfill site charges. A permit system will be implemented for commercial waste producers and there will be an annual administrative fee payable. No tariff has however been developed yet for the permit system and this is only expected to rollout during 2007/2008.

5.3.9 **INTEGRATED PEST CONTROL (IPC) BY-LAWS:** These By-Laws regulate the control of pests in the municipal area. Although the DIEM Tariffs make provision for IPC Services, assistance is usually provided to underprivileged & vulnerable communities on an ad hoc basis and based on the merits of the case.

5.3.10 **CREMATORIUM BY-LAWS:** These By-Laws regulates the establishment and operation of crematoriums in Mogale City. Mogale City's only crematorium is leased to a private company and the tariffs would only become applicable once the lease expires and the Municipality takes ownership of the facility or if the Municipality should construct another crematorium elsewhere.

5.3.11 **CEMETERY BY-LAWS:** These By-Laws regulate the usage of cemeteries within MCLM There are no additional tariffs which are not already in use by the Municipality.

5.3.12 **BY-LAWS RELATED TO PARKS, DAMS, RIVERS AND TREES:** These By-Laws make provision for the rental of parks for commercial events and the fee structure has been in use for the past 12 months:

RENTAL OF PARKS:	
Non Profit Organizations with no sales	R300 per day
Non Profit Organizations with sales	R400 per day
Any organization for sale and marketing of goods and services	R1100 per day
Sub-Letting of park space for stalls or market	R15 m2
Musical Concert where 50% of profits or more used for charity and no sale of food beverages takes place	R1100 per day
Musical Concert where 50% of profits or more used for charity and sale of food beverages takes place	R2800 per day
Musical Concert which is profit driven	R5500 per day

The remainder of the charges included in this By-Law have been in use by the Municipality for a long period of time.

5.3.13 **URBAN GREENING AND BIO-DIVERSITY PRESERVATION BY-LAW:** This By-Law proposes the charging of administration fees for the review of Landscape Development Plans for certain property developments. The fee structure is as follows:

SIZE OF PROPERTY DEVELOPMENT	FEE PAYABLE ON SUBMISSION
2000m ² to 10,000m ²	R500
10,001m ² to 5Ha	R1000
50,001m ² to 10Ha	R1500
Larger than 10Ha	R2000

- 5.3.14 The By-Law also makes provision for the leasing of advertising space on traffic islands and public gardens. The following fees are applicable:

Number of advertising locations	Price per location
One to five locations leased	R1500 per location per month
Five to fifteen locations leased	R1250 per location per month
More than fifteen locations leased	R1000 per location per month

- 5.3.15 A lease cancellation penalty of R100 per location per month prior to lease expiry date will be payable if an advertising location leaseholder wishes to exit this lease agreement with the Municipality.

5.4 BUDGET ASSUMPTIONS

- 5.4.1 **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.
- 5.4.2 It should also be noted that uncertainty increases the longer one looks ahead: thus the forecasts for the two outlying years, 2007/08 and 2008/09 are not budgets but just estimates. A key focus area for the 2007/08 budget cycle will be to improve longer-term forecasting by the municipality.
- 5.4.3 **General inflation outlook:** National Treasury advises that the medium term outlook for the South African economy remains positive with the inflation rate expected to stay within the target range of 3 to 6 percent. The inflation forecast (CPIX) announced for 2006/07, 2007/08 and 2008/09 are 5.2%, 4.8% and 4.5% respectively.
- 5.4.4 **National Treasury municipal growth parameters:** These have been set at between 3% and 6% for 2006/07 (National Treasury: MFMA circular No 27: 18th November 2005). 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, unless it can be shown that external factors particular to the municipality concerned impact otherwise.
- 5.4.5 **Local population growth and local economic factors:** Income figures for the main tariff categories have taken into account a 3% growth rate for the municipal area. This has been based on the trends seen over recent financial years whilst still remaining prudent (from an anticipated income perspective).

- 5.4.6 Critical to the council's ability to ensure full collection of assessment rates is the process of speeding up the transfer of deeds into individuals' names. The current years 3% growth factor was met as a whole with the provision of the main services, but assessment rates billed income lagged behind, due partly to the difficulties in completing transfer of ownership.
- 5.4.7 **Indigent Registration and Approval:** Another key focus of the 2006/7 financial year is to ensure that all indigents are registered and approved. Currently the number of registered indigents is in the region of 5 900 (households). This figure should at least double in the 2006/7 financial year. Service providers have been engaged and structured interaction and communication with communities will be rolling out from May onwards through the Office of the Speaker to ensure that all stakeholders are fully informed and the process runs smoothly.
- 5.4.8 **Write off of indigent debt:** It is anticipated that all of the indigent outstanding debt, currently reflected as part of the total R453 million outstanding debt, will be written off by 30th June 2006. One will therefore observe that the income budget on arrear accounts for 2006/7 is less than the current financial year's budget as the base on which the interest is calculated has reduced.
- 5.4.9 **Supply of free basic services:**
- The increase in the number of indigents in the area will mean an increase is needed in the amount of free basic electricity provided, particularly to the poorest of the poor within MCLM. This would be 50 kWh to all indigents and to any household which utilises less than 150 kWh. On approval of the indigent, prepaid water and electricity meters (within the areas supplied by MCLM) will be installed to ensure that the usage remains within an affordable level and well as to simplify the supply of free basic services.
 - 6kl free basic water continues to be provided to all households.
 - The tariff structures suggested for implementation from 1st October 2006 will also now include free basic sanitation. Previously sanitation charges were based primarily on the property size. The new tariff moves towards a volumetric sanitation tariff which will allow the first 6kl flowing into the sewage system to be free basic sanitation and payment on the increased volume of water consumed would then be charged.
 - Free basic refuse is also under investigation for implementation within the next 3 year period.

- The above-mentioned communication drive with regard to indigent registration will also include information regarding the improved credit control processes that have been implemented. These utilise external service providers to augment the municipality's technical services staff in the Electricity and Water Directorates, in order to deal with cut-offs and reconnections, and through this process a reduction in illegal connections of electricity and water.

- 5.4.10 **Interest rates for borrowing and investment of funds:** The current market rate for long-term borrowing ranges from 10% to 15%. It is not recommended that MCLM enter into any additional loans for at least a further period of 12 months. The prevailing interest rate on short-term investments is 6.7%. MCLM has been able to place a number of short term deposits in line with the Banking and Investment Policy over the 2005/6 financial year in order obtain the highest return on short term excess cash deposits.
- 5.4.11 **Collection rates for main revenue sources and timing of revenue collection:** Collection rates for the council over the past 11 months have been consistently 2% above those of the previous financial year and have averaged at 86%. Based on this improvement, and the additional interventions planned which will lead to continued improvements in credit control and hence payment levels, the collection rate used to calculate the budget figures is 89% for the 2006/7 financial year.
- 5.4.12 **Price movements on bulk purchases:** From the correspondence that the MCLM has received with regard to bulk water purchase increases for the 2006/7 financial year, the new year's budget has included an increase of approximately 5.5% (base increase) for Rand Water and 5.9% for Eskom.
- 5.4.13 **Average salary increases:** A 6% increase has been allowed for in the 2006/07 budget for salaries. The actual approved increases as per the SALGBC negotiated agreement will be implemented once formally received in writing.
- 5.4.14 **Councillor Allowances:** A 6% increase has been allowed for in the 2006/07 budget for Councillor allowances. The national Increases to Public Office Bearers have not yet been gazetted but draft increases have been published by the Department of Local Government. The structure of councillor allowances has been amended to indicate a total cost to municipalities, depending on their grading, for all Councillor allowances (apart from cell phone allowances). The draft documentation suggests that MCLM will be graded 4 rather than grade 5 and this will mean the increases when finally gazetted will be within the 6% increase allowed for in the budget proposals.

5.4.15 **Depreciation:** What must be noted when this budget is approved is that the full implementation of depreciation will only occur in the 2006/7 financial year and hence the amount included in the 2006/7 budget has been kept approximately to the amount for redemption of external loans in the 2005/6 financial year. The total implication will only be confirmed once the full implementation of depreciation has been completed during the 2006/7 financial year. Any adjustments required will be confirmed in the 2006/7 adjustments budget.

5.5 FUNDING THE BUDGET

5.5.1 **Fiscal Overview:** MCLM approved a financial recovery plan in 2004 in order to address financial sustainability issues within MCLM. Key focus was placed on the following areas:

- Improved income generation and collection of current and arrear accounts, and through this a reduction of the outstanding debt.
- Increased efficiency, effectiveness and economical usage of funds within MCLM.
- Strong cash flow management and roll-out of projects within available resources as opposed to merely against budget.
- Reduction in long-term debt.
- Improvements to financial management and capacity building.

5.5.2 The continual appraisal and updating, as well as full implementation of the plan, continues to be a key priority of the local authority in order to ensure continued improvements to the financial status of MCLM.

5.5.3 **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 R 547 million or 79% of the total operating revenue. Another key funding source (11% of overall operating funding) is government grants - of which Equitable Share amounts to of R68.282 million and an (anticipated) Health Grant of R5.5 million.

5.5.4 **Property Rates:** The proposed increase for Property Rates is 6% in line with National Treasury Guidelines. The current rate in the rand is 12.504c. The new rate will be 13.253c. This rate is based on the current valuation roll. The implementation of the Property Rates Act will be undertaken in 2007/08 (see section 5.9.9 later in this report).

Table 5: Property Rates Revenue 2004/05 to 2008/09

	2004/05 Unaudited actuals *NB* R 000s	2005/06 Original Budget R 000s	2005/06 Adjusted Budget R 000s	2006/07 Proposed Budget R 000s	2007/08 Forecast R 000s	2008/09 Forecast R 000s
Revenue budget	105,362	114,724	109,723	118,632	124,326	129,921
Rate in the rand	11.10	11.75	11.75	12.50	?	?
Tariff Increase	5.5%	6%	6%	6%	?	?

The tariff increase and rate in the Rand charge is very difficult to determine for 2007/8 and 2008/09 as the Property Rates Act will be implemented in 2007/08

5.5.5 **Electricity:** The 2006/07 tariffs for electricity, agreed by the Council on 31st March, 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 on the 22nd of March 2006.

Table 6: Electricity Revenue 2004/05 to 2008/09

	2004/05 Unaudited actuals *NB* R 000s	2005/06 Original Budget R 000s	2005/06 Adjusted Budget R 000s	2006/07 Proposed Budget R 000s	2007/08 Forecast R 000s	2008/09 Forecast R 000s
Revenue Budget	195,432	205,214	206,902	216,209	226,587	236,783
Tariff Increase	-4.81 to 14%	-13.62 to 7.17%	-13.62 to 7.17%	-17.38 to 16.79%	-5 to 15%	0 to 10%
Bulk Purchases Electricity	111,837	122,000	130,662	139,939	146,935	155,752

5.5.6 **Water:** The proposed increase to the Water tariff is 6% in line with National Treasury Guidelines. 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 7: Water Revenue 2004/05 to 2008/09

	2004/05 Unaudited actuals *NB* R 000s	2005/06 Original Budget R 000s	2005/06 Adjusted Budget R 000s	2006/07 Proposed Budget R 000s	2007/08 Forecast R 000s	2008/09 Forecast R 000s
Revenue Budget	93,095	107,902	109,936	120,028	125,789	131,450
Tariff Increase	8%	6%	6%	6%	4.8%	4.5%
Bulk Purchases Water	62,871	74,251	74,251	78,335	82,095	85,789

5.5.7 **Sanitation:** The proposed sanitation tariffs for 2006/07 are partly calculated on a new base, i.e. a volumetric tariff as opposed to the current tariff which is based on the size of the plot. This new tariff model will be introduced from 1st October 2006 onwards and will allow for the introduction for the first time of free basic sanitation for 2006/07. The new tariff structure cannot be implemented from 1st July as the required linkages that need to be made between the pre-payment system and with property and debtor systems can only be implemented when the new financial system (BIQ) is in place.

Table 8: Sanitation Revenue 2004/05 to 2008/09

	2004/05 Unaudited actuals *NB* R 000s	2005/06 Original Budget R 000s	2005/06 Adjusted Budget R 000s	2006/07 Proposed Budget R 000s	2007/08 Forecast R 000s	2008/09 Forecast R 000s
Revenue Budget	40,707	45,015	45,989	50,210	52,620	54,988
Tariff Increase	8%	6%	6%	6%*	4.8%	4.5%

NB !! Please note that the 6% reflected under 2006/7 is an average anticipated increase, but this cannot be directly compared to previous years' increases because of the change in methodology being made for 2006/07 (i.e. the move towards volumetric tariff).

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

Table 9: Refuse Collection Revenue 2004/05 to 2008/09

	2004/05 Unaudited actuals *NB* R 000s	2005/06 Original Budget R 000s	2005/06 Adjusted Budget R 000s	2006/07 Proposed Budget R 000s	2007/08 Forecast R 000s	2008/09 Forecast R 000s
Revenue Budget	35,523	39,489	39,167	42,359	44,392	46,390
Tariff Increase	8%	7.5%	6%	6%	4.8%	4.5%

5.5.9 **Other Charges:** Increases for the remaining general tariffs and other user charges range from 3% to 20%. These are based on a comparison to charges of other similar sized local authorities as well as moving towards cost recovery or partial cost recovery, depending on the service area, in line with the Tariff Policy as approved by Council in May 2005.

5.5.10 **Savings and efficiencies:** Mogale City Local Municipality is clearly focused on reducing the operating budget through increased efficiencies and effectiveness, in order to be able to increase capital expenditure in the future in line with National Priorities. However the ability to currently reduce the operating budget is limited, due to the massive capital expenditure incurred in previous financial years, leading to significant interest and loan repayments which have had to be financed from the operating budget.

5.5.11 Mogale City's ability to undertake increased capital investment in its area is linked directly with increasing the levels of payments received from users of the municipality's services and all communities need to understand this fact. Where individual households cannot afford to pay for the full account, they must register as indigents in order to obtain assistance. It is, however, the individual's responsibility to ensure that they maintain their usage of services within an affordable level, hence the strong movement towards prepayment for services. A massive drive has been embarked on to increase the payment levels of all communities and businesses within the MCLM area.

5.5.12 **Investments:** Schedule 5 shows that the municipality currently has some R87.5 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.

5.5.13 In addition, the municipality's cash flow position has improved during 2005/06 and small amounts of short-term surplus cash have been invested in call deposits thus benefiting the municipality's revenue position by the interest

income received. Despite this success the Chief Financial Officer cannot yet budget for such interest income as the cash flow position of the municipality, although improving, is still required to be managed extremely carefully. It is anticipated, through continuing with the stringent financial management which has become a norm over the past three financial years, that the cash flow position will continue to improve over the medium-term. Short-term investments can then be budgeted for in advance of a particular financial year and the interest income thus obtained used towards funding the operational budget.

- 5.5.14 **Grant allocations:** The Operating and Capital Grant allocations received from other spheres of government are shown in detail in schedule 6. It needs to be highlighted that the Health Grant has not yet been confirmed by gazette and so this is still an estimated figure at this stage in the budget process.
- 5.5.15 **Sale of assets:** A tender for the sale of land for residential use was issued late in 2005. The land sold is in the following areas: Rangeview Ext 2, Boltonia Ext 2 and Kagiso Ext 9. R20 million arising from this tender has been included in the budget proposals to part-fund the 2006/07 capital budget especially infrastructure projects. The income is in the process of being received by the Council. It is anticipated that the full amount of the tendered price will have been received in the municipality's bank account by the start of the new financial year.
- 5.5.16 **Funds to be carried-over from 2005/06:** Capital Projects which are anticipated to be required to be rolled over from the current financial year have been brought into account in the new year's budget. Anticipated roll-overs required for grant funding have been brought into account .
- 5.5.17 **Borrowing:** Long-term borrowing is a source of finance available to municipalities for the funding of the capital budget. The Chief Finance Officer advises Council that the municipality's current cash flow and budget position cannot accommodate any new borrowing during 2006/07. This position will be reviewed when the MTREF is revised for the next three year cycle i.e. 2007/8 to 2008/9. Council borrowing currently stands at some R314 million as shown in schedule 7. Total interest payments on this debt will be some R48 million for the current financial year (see schedule 7a) and is a cost to the operating budget. The trend is for these interest payments to decrease over time as the municipality repays outstanding debt.

5.6 CASH FLOW FORECAST

- 5.6.1 Cash flow management on a daily, weekly, monthly and annual basis is currently undertaken and is reported to Council on a quarterly basis.

- 5.6.2 A full annual cash flow forecast, including monthly cash flow forecasts per revenue source and key expenditure grouping, is shown in Schedule 12. This shows that we anticipate cash shortages at the beginning of the financial year, primarily due to anticipated large payments needing to be made to Eskom for winter bulk purchases of electricity. This will mean that capital projects and large repairs and maintenance projects will not be able to commence straight-away but will need to wait until the cash flow improves later in the year. These latter start-dates need to be incorporated into the SDBIP (Service Delivery and Budget Implementation Plan) and individual Directors' performance agreements.

5.7 DISCLOSURE ON ALLOCATIONS MADE BY THE MUNICIPALITY

- 5.7.1 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.

5.8 DISCLOSURE ON SALARIES, ALLOWANCES AND BENEFITS

- 5.8.1 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.

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

- 5.9.1 **Municipal Finance Management Act (MFMA):** The municipality is classified as high-capacity with respect to the municipal financial management reforms required by the MFMA. The newly appointed DD: Project and Information Management within the Financial Services Directorate has been tasked to coordinate and monitor the municipality's outstanding tasks relating to the implementation of the reforms. A new Project Steering Committee, to be chaired by the MMC Finance, is due to meet during June 2006 to drive the further changes required through the municipality. In addition, a new International Municipal Adviser, Ms Karen Watling from the United Kingdom, has been allocated to the municipality by National Treasury to assist and advise on the remaining reforms.

5.9.2 Improvements were made in the March 2006 Budget Report in meeting the MFMA and National Treasury reporting requirements regarding the documentation and information to be contained within the budget report. This report takes this improvement a step further and now contains detailed information regarding salaries and allowances, cash flow forecasts and further budget charts that were not included in the March report. However, the following are the most significant omissions in this Budget Report:

- 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 GAMAP format.

5.9.3 The omissions in this report are largely due to the fact that the Venus system cannot automatically produce the information in the required National Treasury formats. This will be addressed with the introduction of the BIQ system (see below). The lack of measurable performance indicators and key financial indicators in the Budget Report will be addressed in the new IDP/Budget process being developed for the 2007/08 cycle. Many performance measures will be included in the 2006/07 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.

5.9.4 In addition, further progress has been made in introducing the new GAMAP/GRAP accounting standards into the format and content of the budget proposals, for example initial depreciation charges have been included (these are charges to the service directorates for assets utilised over a period which is considered the useful life of the respective assets in delivering services).

5.9.5 Further improvements to the IDP/Budget process will be introduced for the 2007/08 cycle. This will involve a new process and timetable in order to tighten the linkages between the IDP and budget, deliver budget proposals at a far earlier stage in the cycle, and improve strategic and longer-term financial planning. The newly appointed Deputy Director: Budget and Treasury will lead this new process, assisted by the new International Municipal Adviser.

5.9.6 Another key project that will help with the financial reforms will be the implementation of a new financial system which has been standardised with much success throughout the West Rand District. The new financial system (BIQ), will replace the current (Venus) system which is not adequate in meeting the needs of the municipality, especially with regard to speedy reporting requirements in terms of the MFMA. West Rand District Municipality is supplying both funding and experienced IT personnel to help Mogale City Local Municipality implement the new system. The project is in progress and the objective is to have the new system phased-in operationally from the start of the new financial year (2006/07). The benefits of the implementation of the new system will include:

- Implementation of a new finance server with sufficient capacity for future growth.
- Financial training for all finance staff along with training on how to implement key finance principles on the new system.
- Improved off-site backup and disaster recovery for financial information.
- Reduced operational costs compared to the Venus system which is costly in terms of its maintenance and support requirements.
- Increased IT and financial capacity and assistance from throughout the district for potential problems experienced with the system.
- The ability to obtain reports automatically from the system in the required formats for National Treasury and internal users (currently a lot of independent spreadsheet manipulation has to be undertaken on the figures obtained from the Venus system).
- A fully integrated data-base that automatically updates separate financial modules (so saving time and reducing errors).
- A more timely and accurate production of the Financial Statements.
- Anticipated reduction in negative audit outcomes due to system issues. Great improvements have been experienced in other local municipalities within the district on implementation of BIQ.

5.9.7 One must at this point note that it is not merely the system capabilities, per se, that have been considered in this decision of changing systems, but also the user-friendliness and cost factors of one system versus the other. Affordable system backup is critical in order to be able to utilise a system to its full capacity, and BIQ is more favourable in this regard than the Venus system.

5.9.8 Mogale City Local Municipality's progress with the other key reforms required by the MFMA include:

- **Implementation of appropriate controls over Municipal Bank Accounts and cash management:** A new policy for these areas, complying with MFMA legislation, was implemented in the 2005/06 financial year. Strict daily, weekly, and monthly cash flow management occurs to ensure that the municipality's liquidity is assured.
- **In-year reporting of revenue and expenditure:** Monthly reports are submitted to the Executive Mayor and Finance Portfolio Committee with quarterly Financial and Service Delivery reports submitted to Council. Further improvements to the in-year monitoring reports will be introduced through the course of the 2006/07 financial year (for example, improved forecasting of likely year-end position).
- **Revising policies for Supply Chain Management and complying with provision for Tender Committees:** The new Supply Chain Management Policy was implemented on 1st October 2005 in line with the MFMA requirement. MCLM is fully compliant with these areas of the financial management reforms. MCLM has implemented a new procurement system in the 2005/6 financial year which controls the tender and other procurement processes from the issuing of requests for supply of goods and services to the adjudication and final approval and the monitoring and evaluation thereafter. MCLM is currently in the process of setting up a fully fledged procurement section that will lead to further enhancements in project planning and management and cost efficiencies for council through proactive planning for procurement.
- **Preparation of Financial Statements:** The Auditor-General's final report for the 2003/04 Financial Statements was still outstanding as at the time of writing this report but it is expected imminently.

The 2004/05 Financial Statements are currently being prepared by the municipality and the aim is to get these to the Auditor-General one month after the receipt of the management letter for the 2003/04 Financial Statements, as per the Council's resolution. In addition plans are currently being made to try to produce and submit the 2005/06 Financial Statements to the Auditor-General by the end of August 2006 (in line with MFMA requirements). The 2005/06 Financial Statements will also need to be fully GAMP/CRAP compliant for the first time (an MFMA requirement for high-capacity municipalities). The timeous completion of the 2005/6 financial statements will obviously be impacted on if there are any delays to the finalisation of the audit of the 2004/5 financial statements.

This Financial Statements 'catch-up' exercise will be managed by the new Deputy Director: Budget and Treasury and will involve the introduction of project management tools and techniques to better involve and co-ordinate the work required by different departments within the Financial Services Directorate to produce the statements.

The Financial Services Directorate is still trying to fill the long-vacant post of Financial Statements Specialist but this is proving difficult largely because of the specialised nature of the job and the lack of suitably qualified and experienced candidates.

- 5.9.9 **Property Rates Act:** The new Property Rates Act has not been implemented in the 2006/7 budget. This Act requires the municipality to undertake a complete revaluation of all commercial and residential properties within its boundaries. In addition, the Act requires certain information to be supplied with the Budget Report (for example, the cost of income foregone on relief measures such as exemptions and rebates).
- 5.9.10 Proposed mechanisms of increasing capacity within the Valuation Department are currently being finalised in order to undertake the work required to try and implement the Act in the 2007/08 budget. A draft Rates Policy was presented to the Finance Portfolio Committee for consideration in December 2005 and to a workshop for Mayoral Committee Councillors. Following from this a number of questions were posed and amendments to the draft policy suggested. It is planned to submit a new Rates Policy to Council for initial consideration by September 2006. Robust interaction with the community, other stakeholder groups as well as National and Provincial government and the District will be required before finalizing the rating schedule for future implementation.