



# **2008/09 BUDGET REPORT**

**30<sup>th</sup> May 2008**

# 1. TABLE OF CONTENTS

	<b>BUDGET REPORT</b>	<b>Page</b>
<b>1.</b>	<b>TABLE OF CONTENTS</b>	<b>2</b>
<b>2.</b>	<b>BUDGET RELATED RESOLUTIONS</b>	<b>4</b>
<b>3.</b>	<b>EXECUTIVE SUMMARY</b>	
3.1	2008/09 Operational Budget Proposals	5
3.2	2008/09 Capital Budget Proposals	7
3.3	Proposed property rates, tariffs, and user charges for 2008/09	10
3.4	Key budget issues	11
<b>4.</b>	<b>SUPPORTING INFORMATION ON THE BUDGET PROPOSALS</b>	
4.1	2008/09 Budget Process Overview	11
4.2	Budget related Policies – overview and proposed amendments	15
4.3	Budget Assumptions	16
4.4	Funding the Budget	19
4.5	Cash flow Forecast (Three Options)	22
4.6	Disclosure on allocations made by the municipality	23
4.7	Disclosure on the implementation of the MFMA and other legislation	24
	<b>SCHEDULES TO THE BUDGET REPORT</b>	
1	Operating revenue by source	
2	Operating expenditure by vote	
2a	Operating expenditure by type	
3	Capital expenditure by vote	

3a	Individual capital projects proposed in the budget	
3b	Out-of-books capital expenditure	
4	Capital funding by source	
5	Investment particulars by type	
5a	Investment particulars by maturity	
6	Government grants and subsidies – allocations to the municipality	
7	Existing borrowing	
7a	Interest on borrowing	
8	Grant allocations to external bodies (Not Applicable)	
9	Summary of personnel numbers	
10	Estimated monthly cash flows	
11	Proposed rates, tariffs and user charges for 2008/09	
12	Credit Control and Debt Collection Policy	
13	Indigent Policy	

## 2. BUDGET RELATED RESOLUTIONS

Council resolves

1. That the attached draft Operating and Capital Budgets of Mogale City Local Municipality for the financial year 2008/09 and indicative estimates for the two projected outer years 2009/10 and 2010/11, as tabled in Council on 30th March 2008, and set out in the schedules listed below, be **approved**.
  - 1.1 Operating revenue by source reflected in Schedule 1;
  - 1.2 Operating expenditure by vote reflected in Schedule 2;
  - 1.3 Capital expenditure by vote reflected in Schedule 3; and
  - 1.4 Capital funding by source reflected in Schedule 4.
2. That the increase to property rates of 8% for the budget year 2008/09 be approved.
3. That the proposed average tariff increase for electricity of 15% for 2008/09 be approved and that any further increase that might be implemented after such the aforementioned increase be passed on to the consumer and be implemented immediately
4.
  - a. That the first free 6Kilolitres of water be awarded free of charge to all consumers including indigents.
  - b. That from 7 Kilolitres to 30 Kilolitre be increased by 8%
  - c. That from 31 Kilolitre and above is increased by 10%
5. Council approves that the remaining tariffs be increased by 8%
6. Council resolves to **approve** the amendments proposed to the policies for Credit Control & Debt Collection and Indigents, as set out in section 5.3 of this report.
7. That the Municipal Manager be authorised to start the process to raise the required long term loan to finance the proposed capital budget.

### 3. EXECUTIVE SUMMARY

#### 3.1 2008/09 OPERATIONAL BUDGET PROPOSALS

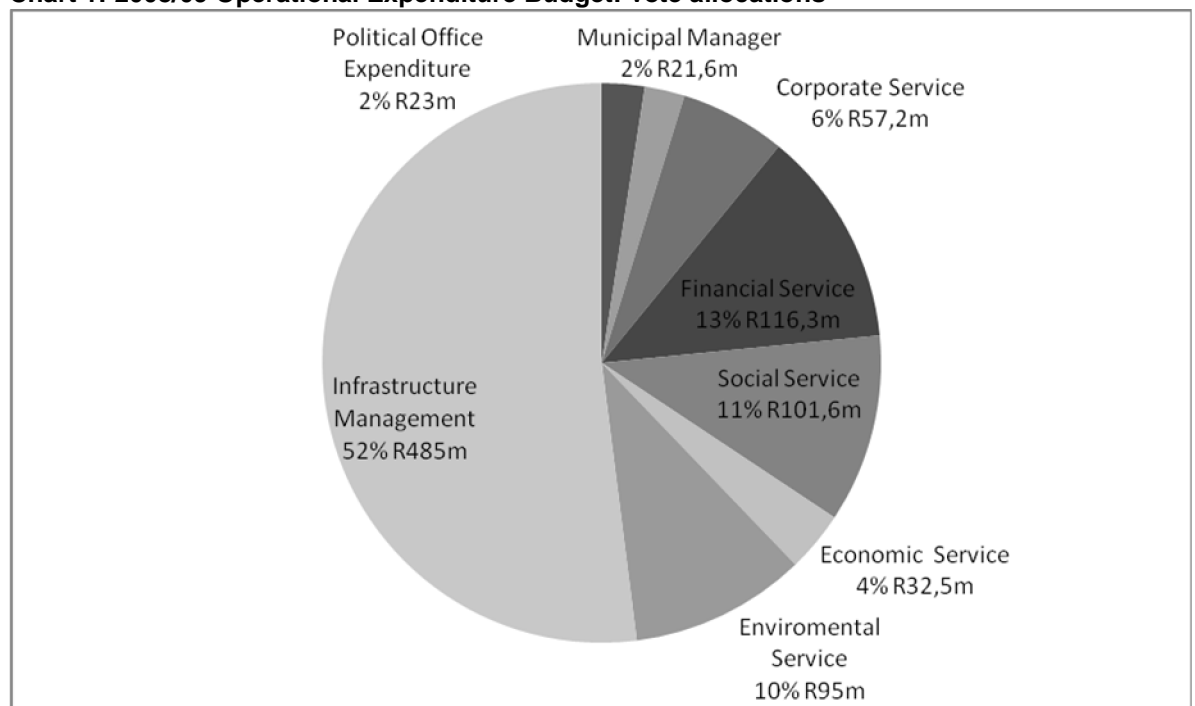
43.1.1 The total operational expenditure budget proposed for MCLM as balanced to the total revenue forecasted for 2008/09 is R933, 087 million. This budget is R133 231 million (or17 %) above the Adjusted Budget for the current financial year (2007/08). The Original Budget as approved by Council for the 2007/2008 Financial year is R 727 506 million which is R 205 581 million lesser than this proposed expenditure budget.

**Table 1: Total Operational Budget 2007/08 to 2010/11**

	2007/08 Original Budget  R 000s	2007/08 Adjusted Budget  R 000s	2008/09 Proposed Budget  R 000s	2009/10 Forecast  R 000s	2010/11 Forecast  R 000s
Expenditure	727,506	773,839	933,087	1,019,465	1 173 422
Revenue	727 506	799, 856	933, 087	1,019,465	1 173 422
<b>(surplus)/deficit</b>	<b>0</b>	<b>26 017</b>	<b>0</b>	<b>0</b>	<b>0</b>

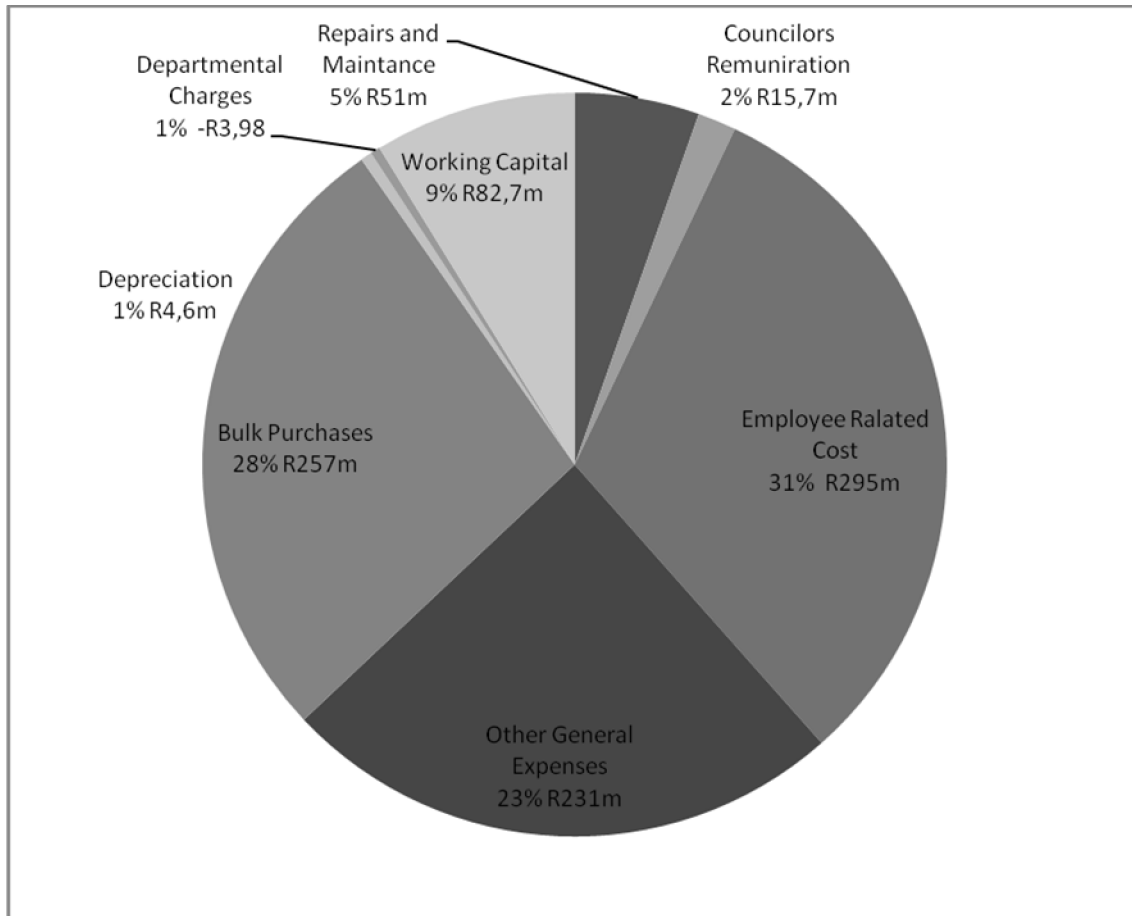
3.1.2 Schedules 2 and 2a of this report show the proposed allocation of the total operational expenditure budget to individual Departments of the municipality (i.e. the budget votes) as well as the total analysed per expenditure type.

**Chart 1: 2008/09 Operational Expenditure Budget: vote allocations**

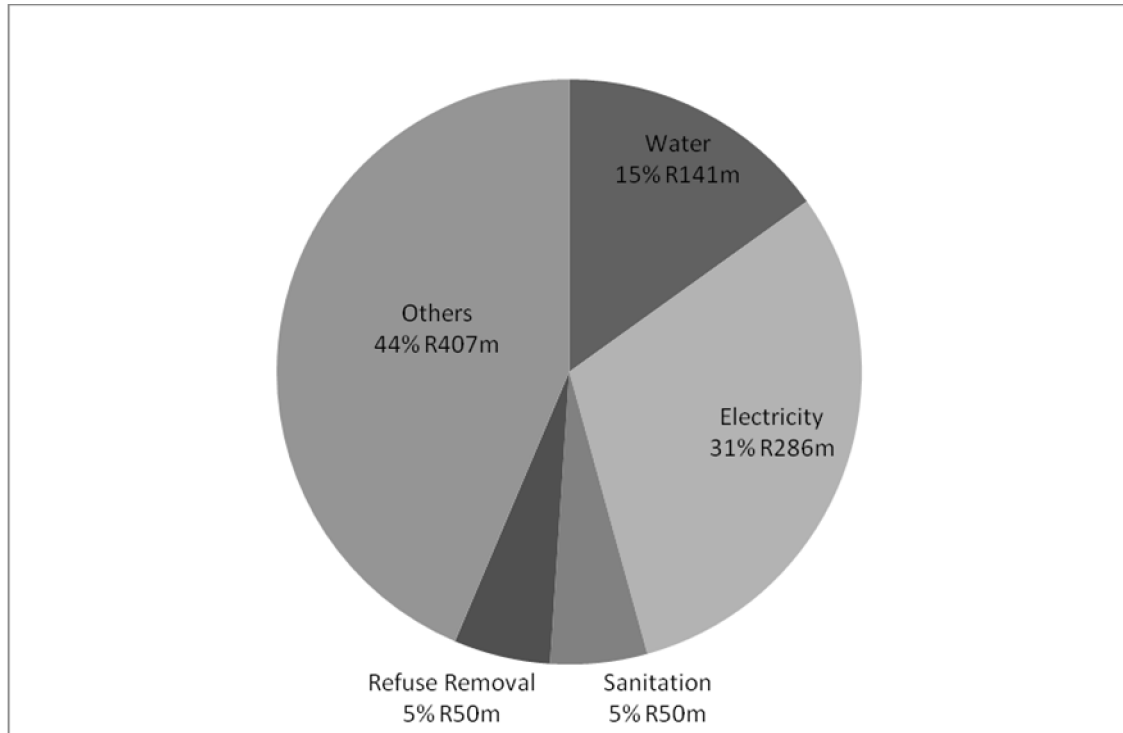


3.1.3 Charts 1 and 2 illustrate how the operational expenditure budget is allocated between Directorates and between different types of expenditure for 2008/09.

**Chart 2: 2008/09 Operational Expenditure Budget: analysed by type of expenditure**



**Chart 3: 2008/09 Operational Revenue Budget: analysed by source of revenue**



3.1.4 The total operational revenue budget proposed for Mogale City Local Municipality for 2008/09 is also R933 087 million. Schedule 1 shows the operational revenue budget by source of revenue.

### **3.2 2008/09 CAPITAL BUDGET PROPOSALS**

3.2.1 The total capital budget proposed for Mogale City Local Municipality for 2008/09 is R114,570 million. This is R33, 610 million above the 2007/08 Adjusted Budget (42% above) and R23, 788 million above the current year's Original Budget (26% above).

3.2.2 Please note that the budget forecasts for two outer years shown in table 2 below represent the amounts gazetted in DORA (Division of Revenues Act) to MCLM from national government for 2009/10 and 2010/11 for MIG (Municipal Infrastructure Grant).

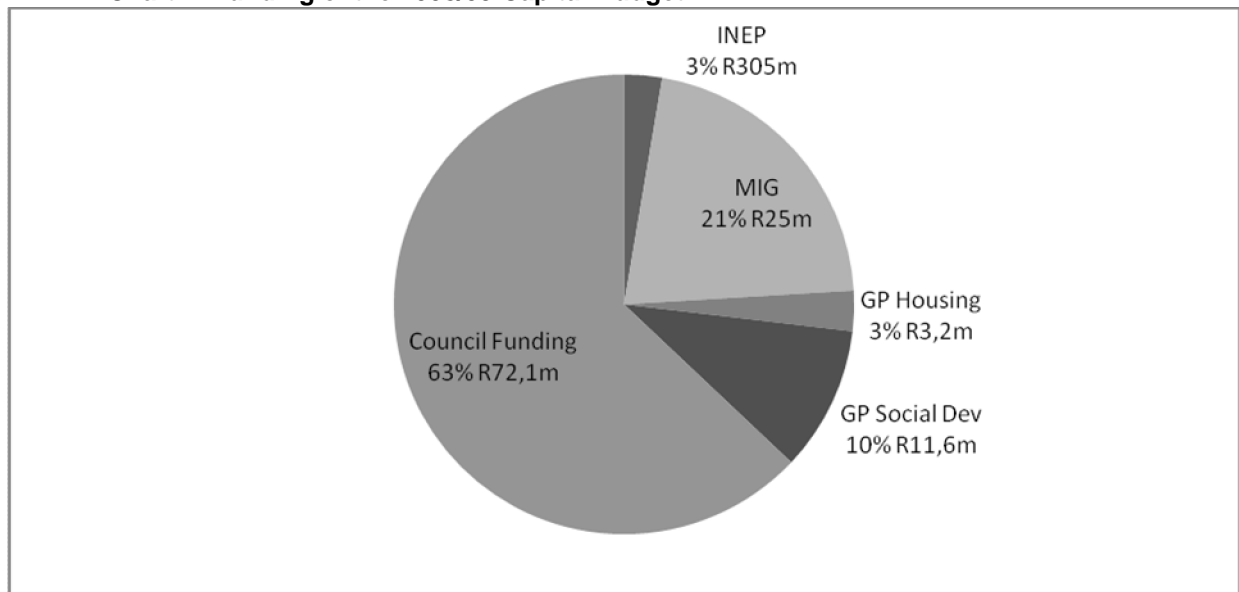
**Table 2: Total Capital Budget 2007/08 to 2010/11**

	2007/08 Original Budget	2007/08 Adjusted Budget	2008/09 Proposed Budget	2009/10 Forecast	2010/11 Forecast
	R 000s	R 000s	R 000s	R 000s	R 000s
<b>TOTAL</b>	<b>90,782</b>	<b>80,960</b>	<b>114,570</b>	<b>47 848</b>	<b>54 099</b>

3.2.3 Details of the funding of the proposed capital budget are given in schedule 4 of this report and shown in chart 4 below. The sources of funding are:

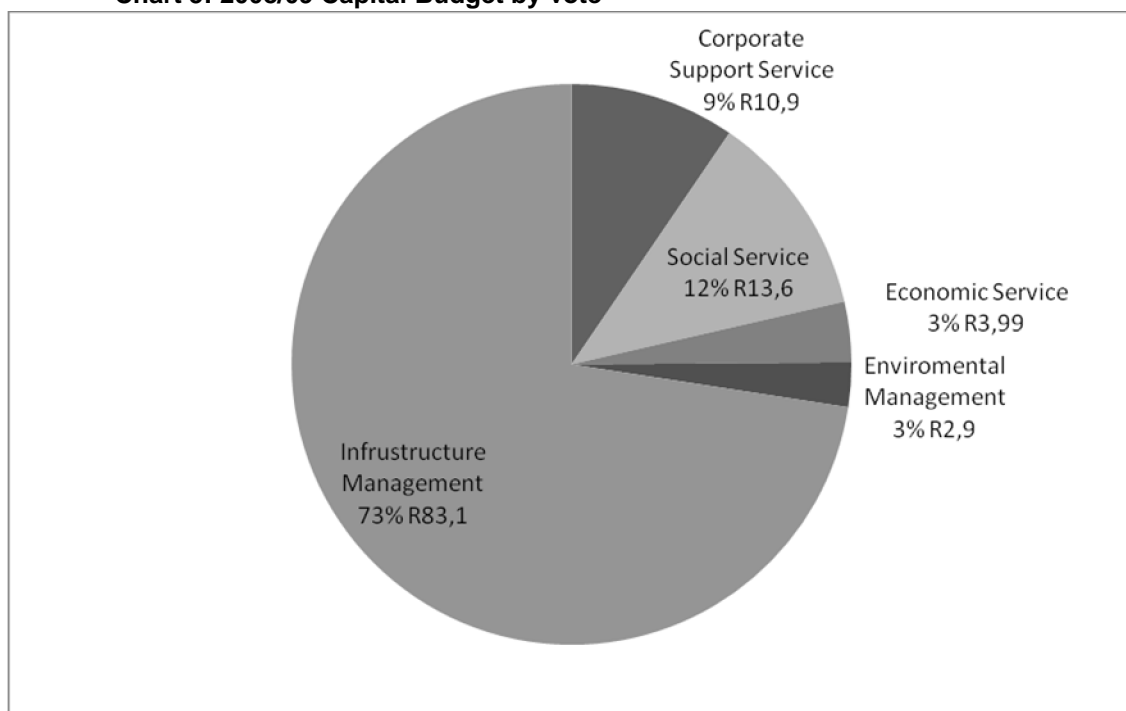
- R24 487 million from MIG (Municipal Infrastructure Grant) – The amount gazetted for MCLM in 2008/09 is R42, 475 million however 5% (R1,789 million) of this amount is allowed to be used for operational expenditure and R16 198 545 will be spent in the 2007/2008 financial year.
- R3,051 million from Department of Mineral and Energy (INEP)
- R11, 650 million for Gauteng Social Development.
- R3,240 Gauteng Department of Housing
- R30 million from a new capital long-term loan,
- R18, 606 million from the sale of land at Rangeview, and
- R 23,536 million from surplus cash mainly anticipated from sales of Land.

**Chart 4: Funding of the 2008/09 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 is received 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: 2008/09 Capital Budget by vote**



3.2.6 Schedule 3 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 3a.

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 3b of this report. This includes the housing projects that will now be undertaken by Province directly instead of MCLM acting as an agent.

### 3.3 PROPOSED PROPERTY RATES, TARIFFS, AND USER CHARGES FOR 2008/09

**Table 3: Increases in rates, tariffs and charges**

	<b>2008/09 Proposals</b>
Property Rates	8%
Electricity tariffs	15%
Water tariffs	<ul style="list-style-type: none"> <li>❖ Free of charge on the first 6kilolitres</li> <li>❖ 8% on 7 kilolitres to 30 kilolitres</li> <li>❖ 10% on 31 kilolitres and above</li> <li>❖ Landed cost Is the cost of purchase of water at Rand Water</li> </ul>
Sanitation tariffs	8%
Refuse collection tariffs	8%
Other user charges	8%

- 3.3.1 The increases being proposed for 2008/09 are shown in table 3 and the detailed tariff proposals can be found in schedule 13.
- 3.3.2 National Treasury has not set growth parameters as they have done for previous financial years. However, National Treasury advises that municipalities are expected to levy their rates and tariffs taking into account their local economic conditions, affordability levels and remain broadly in line with the macro-economic policy determined by government. It should also be noted that the Property Rates will be based on the current valuation roll for 2008/09 with the implementation of the Property Rates Act taking effect for 2009/10 onwards.
- 3.3.3 Council needs to note that in the resolutions it is being requested to approve the tariffs for electricity now in order to get final approval from NERSA in time to implement the new tariffs at the beginning of the financial year.
- 3.3.4 A draft Rates Policy, in line with the Property Rates Act to be implemented for 2009/2010, is currently in process of consultation with stakeholders and will be tabled shortly at Council for approval.

### 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 discarded. 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 requires Council to approve the acquisition of a new long-term loan amounting to R30 million. It also 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 R18, 606 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 R10.5 million rand in sales of land which funds will be used entirely for purchase of additional land.
- 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 94% (i.e. that 94% 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.

## 4. SUPPORTING INFORMATION ON THE BUDGET PROPOSALS

### 4.1 2008/09 BUDGET PROCESS OVERVIEW

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

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

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

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

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

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

**Consultation on the tabled budget:** The budget documentation (prepared in accordance with MFMA circular no 28 – mentioned above) has been made public immediately after being tabled in council on the 30<sup>th</sup> March 2008 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.

The inputs of the stakeholders has as far as possible been incorporated in this Budget

4.1.2 **2008/09 budget methodology:** The 2007/08 operational Adjustments Budget ( approved by Council on the 31st March 2008) has largely been used as the 'base' upon which anticipated inflationary increases have been applied to form the 2008/09 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 Management Team and by the 3<sup>rd</sup> Strategic IDP/Budget Workshop (a meeting of the Mayoral Committee and Executive Management Team) 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.

4.1.3 Operational Budget growth over and above inflation has however been included in the budget proposals, totalling R79, 129 million, on the following items:

R6, 496 million for the funding of critical vacant posts in line with the new organisational structure (see 4.14 below). R2, 062 of this is funded by grant from SRAC (Sports, Recreation, and Arts & Culture) from Province for new staff to be appointed on three year fixed term contracts.

- R10, 668 million Property Rates Act implementation with is in terms of the Local Government: MPRA no. 6 of 2004.
- R4, 000 million Revenue Enhancement Strategy.
- R10, 800 million Security Services contract.
- R2, 438 million SRAC funded expenditure on libraries and sports.
- R8, 274 million ring-fenced expenditure on repairs and maintenance for the electricity service.
- R2, 980 million interest charges for a new capital loan of R30 million.
- R29 ,111 million increase in the working capital budget in order to ensure that the budget proposed in this report is cash backed i.e. the cash flow forecast can support and pay for the budget.
- Acquisition of land income of R10.5million has been included to be used entirely for Purchase of other land for Council.

4.1.4 It should be noted that the budget for salaries is based on the payroll for April 2008 (i.e. warm bodies actually employed) plus an increase of R4 million to employ new staff as a step towards the adoption of the new organisational structure for the municipality.. The cost of filling all vacant posts within the new structure (R428, 908 million) would be an extra R116, 714 million (2008/09 prices) on top of the employees budget shown in these budget proposals thus the structure has not been implemented in total.

4.1.6 The budget for consultant fees was undertaken using a zero based budget approach. The total budget needed for 2008/09 is R16, 335 comprises of the following:

<b>Economic services</b>	<b>2, 750, 000</b>
Muldersdrift Precinct Plan	800, 000
Magaliesburg Precinct Plan	1,200, 000
Proposed Witpoortjie & Leratong Node	750, 000
<b>Integrated Environmental Management</b>	<b>1 100 000</b>
Geological Risk Assessments	500, 000
State of Environmental Assessment & EMF	400, 000
Legal Administrator fees	2 00 000
<b>Infrastructure Services</b>	<b>2, 000, 000</b>
Integrated Infrastructure Master Plan	1, 000, 000
Fleet Management Plan	1, 000, 000
<b>Financial Management Services</b>	<b>7 985 000</b>
Infrastructure Asset Management (GRAP 17)	5, 585, 000
MISG grant	400 000
Financial IT System (BIQ)	2 000 000
<b>Municipal Manager's Office</b>	<b>2 500 000</b>
Forensic Audit	500, 000
Business Processes reengineering	1 000 000
Business Process reengineering (Finalisation)	1 000 000

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 budget for buildings maintenance for 2008/09 has been reduced by R4 million.
- The budget makes provision only for R4 million (R6m including SRAC) of new vacant posts to be filled.
- The Special Projects budget has been reduced by half which is a R3 million cut and the grants in aid budget has been treated likewise with a cut of R0.5 million.

## **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 2007/08 financial year remain in force for the 2008/09 financial year:

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

4.2.3 Changes are proposed to the 2007/08 Credit Control and Debt Collection Policy as follows:

- ‘More or above R500’ was inserted on clause 5.2
- ‘That consent should be in form of a letter and a lease agreement between the owner and tenant and that owner shall have no right to discontinue the services nor finalized tenants account unless the latter’s accounts is owing and or the lease agreement expired’ was added on clause 5.7.
- ‘No account shall be opened on a property that is owing, be it tenant or owner’s account unless there is a payment arrangement on the account’ was added on clause 6.1
- ‘The council reserve the right to disconnect or cut off the services of a tenant if the owner’s account is in arrears’ was added on clause 6.1
- The ‘reminder’ was replaced by ‘warning notices’ on clause 6.4.1
- The amount has been increased to R500 on clause 6.4.1
- 6.4.6. Was added which states that ‘consumer who claim to have been wrongfully cut off should report such to the Municipality within two days, failure to do so, Municipality shall not be held responsible for any losses incurred by the consumer. Consumers who suffered losses due to wrongful disconnection should produce a proof of her/his losses to the Council so that an investigation can be undertaken’.
- ‘No proposal for arrangement to pay arrears account’ was replaced by ‘arrangement to be considered but limited from six to ten months period’ on clause 6.14.1.

4.2.4 Changes are proposed to the 2007/08 Indigent Policy as follows: this information is not available for finance Portfolio Committee.

## 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, 2009/10 and 2010/11 are not budgets but just estimates
- 4.3.3 **National economic outlook:** National Treasury advises that the medium term outlook for the South African economy remains positive, despite global economic uncertainty, with Real Gross Domestic Product (GDP) growth for 2008/09, 2009/10, and 2010/11 expected to be around 4.0%, 4.2%, and 4.7% respectively. (MFMA circular no.45, 8<sup>th</sup> February 2008 updated by National Treasury on 27<sup>th</sup> February 2008).
- 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 4% annual growth in bulk purchases made by the municipality and a 4% 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 6.2% for 2008/09, 4.8% for 2009/10, and 4.7% for 2010/11. (MFMA circular no.45, 8<sup>th</sup> February 2008 updated by National Treasury on 27<sup>th</sup> February 2008).
- 4.3.6 **Price inflation included in the budget proposals:** The following have been included in MCLM's budget proposals:
- **General expenditure and R&M** – Most general expenditure budget items and the repairs and maintenance budgets have been increased from the proposed 2007/08 Adjustments Budget figure by 6.2% for 2008/09 in line with National Treasury's forecast CPIX inflation and 4.8% and 4.7% % for the two outer years.
  - **Fuel and Oil** – Given the recent high inflation on this expenditure item this budget has increased in the recent past significantly. It is felt therefore that the budget should remain at the 2007/08 Adjustments

Budget figure and that management need to control the use of vehicles so as to keep within this budget amount.

- **Municipal Services** – these budgets are for paying the cost of electricity and water used in municipal buildings. The budgets have been increased by 10% annually in line with the tariff increases proposed within this Budget Report. (The 10.2% is the average increase in tariffs for electricity and water proposed in these budget proposals)

- 4.3.7 **Price movements on bulk purchases:** Based on correspondence received from Rand Water and Eskom, the 2008/09 budget has included a price increase of 5.6% for bulk water purchases (including a 0.6% rebate and a 1% water levy) and 14.2% for bulk electricity purchases. It is further anticipated that the Electricity will be increased by a further 53% this is intended to be incorporated into council's tariff when implemented
- 4.3.8 **Pay Inflation on salaries and allowance:** Employee salaries and contributions have been increased by 10.3% based upon the agreement made in 2007 by the South African Local Government Bargaining Council. Currently there is a three year collective agreement reached at the last Bargaining Council which states that all employees, excluding Section 57 officers, receive an across-the-board increase based on the average CPIX percentage for the twelve month period February 2007 to January 2008 (as published by Statistics South Africa) plus 1.5%. CPIX inflation for this period (published in April) was 6.8% which means under the agreement; the salary increase would be 8.3% for 2007/08. On top of this an allowance has been made to provide for pay increases arising from staff moving upwards to the next pay notch.
- 4.3.9 The increases for the section 57 employees shall be in accordance to their employment contracts
- 4.3.9 **Pay increase on Councillor Allowances:** A 13.0 % increase has been allowed for in the 2008/09 budget for Councillor Allowances. This amount may change when the latest Public Office Bearers Act is gazetted.
- 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 **Expenditure on electricity-related repairs and maintenance:** An increase to the municipality's repairs and maintenance budget has been included in the 2008/09 budget proposals. This increase of R8,274 million represents 5% of the income forecast to be received by MCLM from electricity

sales during 2008/09, however R6million was moved from this expenditure item to capital budget.

- 4.3.12 **Overtime and Leave Payments:** The amounts for these items in this proposed budget are significantly less than the 2007/08 Original Budget. It is proposed to limit overtime payments to R10 million. The Executive Manager: Corporate Services is currently drawing up an overtime policy that will 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. There will be no further payments for general leave buy-off in the municipality.
- 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 2008/09 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 2008/09 estimate is based on the depreciation calculation in the 2006/07 Financial Statements.
- 4.3.14 **Interest rates for borrowing:** The current bank base rate for long-term borrowing is 15, 5%. The cost to an organisation of borrowing is either higher or lower than this base rate depending on its credit rating. This budget makes provision for the Council to enter into new loan of R30 million for funding the own-funded capital budget proposed in this Budget Report. The estimated interest rate for this new loan is 14, 5% resulting in additional interest charges for 2008/09 of R2, 980 million.
- 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, 94% 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. It is currently 93% (April 2008). The Municipal Finance Management Department is aware that a Collection Rate of 94% 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 R698, 791 million or 75% of the total operating revenue. Another key funding source (11% of overall operating funding) is government grants - of which Equitable Share amounts to of R101, 826 million in 2008/09.
- 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 R24.487 million for 2008/09. The own-funded capital budget is proposed to be funded from a new long term loan of R30 million, land sales income R18, 606 million 11,650 million from Gauteng Department of Social Development ,R3,240 from Gauteng Department of Housing R3,051 from INEP
- 4.4.3 **Property Rates:** The proposed increase for Property Rates is 8%. The current rate in the rand is 14.04c. The new rate will be 15.16c. This rate is based on the current valuation roll. The implementation of the Property Rates Act will be undertaken in 2009/10 (see section 4.8.3 later in this report).

**Table 4: Property Rates Revenue 2006/07 to 2010/11**

	2006/07 Pre-audited actuals	2007/08 Original Budget	2007/08 Adjusted Budget	2008/09 Proposed Budget	2009/10 Forecast	2010/11 Forecast
	R 000s	R 000s	R 000s	R 000s	R 000s	R 000s
Revenue budget	137 938	129 522	136 146	153 788	169 476	186 762
Tariff Increase	6%	6%	6%	8%	8%?	8%?

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

- 4.4.4 **Electricity sales:** The 2008/09 proposed tariffs for electricity have assumed the maximum increase that will be permitted by NER (date of letter advising this). Thus the tariff increase for 2008/09 is 15%. It needs to be noted that these budget proposals make provision for 5% of the electricity revenue forecast to be received by MCLM during 2008/09 to be 'ring-fenced' for repairs and maintenance by the electricity service.

**Table 5: Electricity Revenue 2006/07 to 2010/2011**

	2006/07 Pre-audited actuals	2007/08 Original Budget	2007/08 Adjusted Budget	2008/09 Proposed Budget	2009/10 Forecast	2010/11 Forecast
	R 000s	R 000s	R 000s	R 000s	R 000s	R 000s
Revenue Budget	241 026	236 056	240 501	285 499	339 801	404 431
Tariff Increase	-20.71 to 12.46%	6%	6%	15%	15%	15%
Bulk Purchases Electricity	128 795	147 311	147 311	174 122	205 812	243 270

4.4.5 **Water sales:** The first 6 kilolitres will be awarded free of charge to all consumers including indigents. An increase of 8% is proposed for 7 kilolitres to 30 kilolitres and 31 kilolitres and above is increased by 10%.

**Table 6: Water Revenue 2006/07 to 2010/11**

	2006/07 Pre-audited actuals	2007/08 Original Budget	2007/08 Adjusted Budget	2008/09 Proposed Budget	2009/10 Forecast	2010/11 Forecast
	R 000s	R 000s	R 000s	R 000s	R 000s	R 000s
Revenue Budget	129 411	131 046	125 880	140 875	155 244	171 079
Tariff Increase	6%	6%	6%	8%-10%	8%	8%
Bulk Purchases Water	80 409	79 785	83 216	92 036	102 345	113 807

4.4.6 **Sanitation charges:** The proposed increase to the sanitation tariff is 8%. The Proposed Budget and forward forecasts do not make provision for any change in the methodology for charging for this service (i.e. moving to a volumetric charging methodology).

**Table 7: Sanitation Revenue 2006/07 to 2010/11**

	2006/07 Pre-audited actuals	2007/08 Original Budget	2007/08 Adjusted Budget	2008/09 Proposed Budget	2009/10 Forecast	2010/11 Forecast
	R 000s	R 000s	R 000s	R 000s	R 000s	R 000s
Revenue Budget	55 575	50 049	44 619	49 915	55 006	60 617
Tariff Increase	6%	6%	6%	8%	8%	8%

4.4.7 **Refuse Collection charges:** The proposed increase to the Refuse Removal Tariff for the 2008/09 financial year is 8%

**Table 8: Refuse Collection Revenue 2006/07 to 2010/11**

	2006/07 Pre-audited actuals	2007/08 Original Budget	2007/08 Adjusted Budget	2008/09 Proposed Budget	2009/10 Forecast	2010/11 Forecast
	R 000s	R 000s	R 000s	R 000s	R 000s	R 000s
Revenue Budget	48 333	44 900	43 198	49 898	54 988	60 596
Tariff Increase	6%	6%	6%	8%	8%	8%

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:** Schedule 5 shows that the municipality currently has some R128, 394 million of investments (as at February 2008). R51 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 **Grant allocations to be received:** The Operating and Capital Grant allocations received from other spheres of government are shown in detail in schedule 6.

4.4.11 **Sale of assets:** The capital budget proposed in this report includes the provision of infrastructure at Rangeview. Once this is achieved this will release R31,041 million land sale income. It is proposed that this income is utilised to part fund the municipality's own-funded capital budget for 2008/09.

- 4.4.12 **Funds to be carried-over from 2007/08:** No amounts have as yet been included in these budget proposals for capital projects not spending in 2007/08 and needing to be rolled forward. This information will be included in the May Budget Report to Council. These roll forwards may have funding implications for the own-funded capital budget.
- 4.4.13 **Borrowing:** Long-term borrowing is a source of finance available to municipalities for the funding of the capital budget. Current Council borrowing is anticipated to be R209, 492 million at the end of this current financial year as shown in schedule 7. Total interest payments on this current debt will be R26, 700 million for the 2008/09 budget year and is a cost to the operating budget. This budget makes provision for new borrowing of R30 million to fund the own-funded capital budget proposed in this report. The MFMA (section 46) requires that public consultation is undertaken and the costs of the proposed loan be made available before Council can decide to authorise the new debt agreement.

## 4.5 CASH FLOW FORECAST

It is projected that the new financial year will be kicked off with a zero balance as the only surplus funds with which Mogale City projects to close the 2007/08 financial year is the R6,116m Housing Grant. This amount is being invested until it will be utilized by the Housing Department. Therefore Mogale City itself does not have any surplus funds with which to start the 2008/2009 financial year. Mogale City expects to receive grant funding for capital projects amounting to R42,428m and it is expected that all the proposed grant funded projects will be completed during the year. A further R20,150m is expected from National Treasury which must be utilized to finish projects by December 2008 to meet the national water demand target, but as Mogale City did not have any written confirmation at the time of this report, this amount is not included in the budget. Capital projects to be funded from own resources as well as a proposed loan amounts to R72,142m.

Three scenarios of cash flow projections based on various collection rates are presented.

92% Collection Rate:

This scenario shows that the zero cash in hand position with which the municipality starts the year off grows to R14,662m at the end July 2008. This increase is due to the portion of equitable share amounting to R33,942m expected to be received during July 2008. The projected cash outflows for August and September 2008 is expected to outstrip the projected income, resulting in the cash surplus being depleted and turning into a cash deficit early in the new financial year. Of great

concern is that the projected income is not sufficient to support the projected outflows for the financial year and it is expected that Mogale City will end the year off with a deficit of R 12,448m.

As at 30 April 2008 the collection rate for the current financial year only amounts to 91%.

At a 92% collection rate, some expenditure savings will need to be identified to ensure that the municipality closes 2008/2009 with positive cash in hand position.

#### 93% Collection Rate:

At a collection rate of 93%, the cash flow projections show that the 2008/2009 financial year will as well be closed off with a cash flow deficit. Of concern is still that the total cash outflow for the year is R5,791m more than the expected cash receipts for the year.

#### 94% Collection Rate:

This is the collection rate that Mogale City hopes to achieve in the 2008/2009 financial year with the help of the revenue enhancement projects being put into place. This scenario shows that the projected cash receipts of Mogale City will exceed the projected cash payments by R0,866m for the year under review and this amount is also projected to be the cash in hand surplus as at the end of the year.

Please note as well, that if Mogale does not obtain the R30m new loan that is proposed to be raised in October 2008, this deficit position will continue until February 2009 when the last and largest share of Equitable Share is expected to be received. It is therefore very important that expenditure on all projects being funded by own resources be controlled very tightly to prevent Mogale City having to incur extra interest expenses to fund the deficit especially against the background of the very high interest rates prevailing at the moment and are expected to continue into the new financial year

## **4.6 DISCLOSURE ON ALLOCATIONS MADE BY THE MUNICIPALITY**

4.6.1 Section 17 (j) of the MFMA requires the municipality to disclose in its budget documentation the amounts of any proposed allocations or grants by the municipality to other municipalities, municipal entities, other organs of state or any outside body/organisation. The Council allocates grants-in-aid, discretionary grants, and grants by councillors (included in the operating

budget) on an annual basis to needy organisations, based on business plans indicating the proposed usage of such funds. These budgets are shown in schedule 8.

## **4.7 DISCLOSURE ON 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 2007/08 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 newly appointed 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)

### **Objective 2: To build and enhance financial management capacity at MCLM**

There are three sub-objectives for this: namely:

- To appoint the necessary municipal officials who are key to the implementation of the MFMA: Key appointments last year were the

Manager: Budget & Treasury, Budget Specialist, and two new budget co-ordinators in the Budget Office. Unfortunately MCLM lost its Financial Statements Specialist during the 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. Information on this will be distributed separately shortly.
- To have a Financial Management Internship Programme: Mogale City appointed four 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 2007/08.

**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:** A report from the International Municipal Adviser on the strengths and weaknesses of the IDP/Budget process observed for the 2007/08 cycle was received by the MFMA Project Steering Committee at its May 2007 meeting. The Committee agreed the review and the recommendations for change for implementation in the 2008/09 IDP/Budget process. A new process and timetable was devised and agreed during August 2007. Unfortunately, the new IDP/Budget process was not followed.

The improvements made in the May 2006/07 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 now been submitted for audit to the auditor-General. The auditors are currently completing the audit on the 2006/07 Financial Statements.
- Change the format and content of the 2005/06 Financial Statements so that they are compliant with GRAP (Generally Recognised Accounting Practices). The 2006/07 Financial Statements were prepared in accordance to GRAP except for the recognition of Infrastructure assets and Impairment Loss
- Improve the 2006/07 Annual Report to bring it more in line with National Treasury's best-practice guidelines. This has been achieved. The 2006/07 Annual Report will be tabled at Council on 31<sup>st</sup> March 2008.
- To produce a new report – 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 31<sup>st</sup> March 2008 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 2007/08 after significant changes were made to the budget monitoring report prior to 2007/08. Further changes in this area are 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 Directors just prior to the financial monitoring report being produced.
- The production of year-to-date financial statements.
- Obtaining more relevant and more detailed financial data from the BIQ financial system (once fully implemented) to monitor revenue collection performance.

4.7.3 **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, a tender was advertised for the appointment of an Assistant Municipal Valuer for Mogale City Local Municipality. However, prior to Mogale City Local Municipality (MCLM) advertising the tender for the appointment of an Assistant Municipal Valuer, it was envisaged that one tender would be advertised for the entire West Rand Area (Mogale, Randfontein, Westonaria and West Rand District Municipality). A verbal agreement to this effect was entered into by all the four local authorities in 2006 whereby an all inclusive single tender was to be advertised. Furthermore, it was also agreed that one Monitor would be appointed to oversee the entire valuation exercise for all the four (4) entities. Over and above that, the West Rand District Municipality (WRDM) made a commitment to meet all the costs for the appointment of the Monitor.

Nonetheless, the above undertaking did not materialize, due to among other reasons, the following:

- The timeframes that were agreed upon regarding the advertisement and appointment of Municipal Valuers were more often than not flaunted by some parties concerned. As such, MCLM through the office of Chief Financial Officer and Valuation Section took a decision that it should proceed on its own with the advertisement of the tender and the appointment of an Assistant Municipal Valuer respectively. The decision was further motivated by the fact that limited time was available to meet the strict time deadlines set out in the Municipal Property Rates Act (MPRA) regarding the implementation thereof. This was further compounded with the other local municipalities that were supposed to be part of the cost and resource sharing agreement.
- Secondly, despite the tender for the Monitor having been advertised on the 7<sup>th</sup> February 2007 by the WRDM, no responses were received from any of the three (3) service providers that attended the compulsory briefing session. It is against this background that the West Rand District Council took a decision to head-hunt for a suitable service provider to be appointed as a Monitor. However, the whole exercise took longer than anticipated and as such, it led to the MCLM proceeding on its own with the appointment of an Assistant Municipal Valuer. Subsequently DDP Valuers were appointed on the 1<sup>st</sup> August 2007 as the Assistant Municipal Valuer for MCLM. They have therefore been on site ever since and have thus far established the property master and carried out inspections on +/- 27 000 rateable properties.

