

EXECUTIVE SUMMARY

1 2007/08 OPERATIONAL BUDGET PROPOSALS

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

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

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

- 1.2 Schedules 2 and 2a of this report show the proposed allocation of the total operational expenditure budget to individual Directorates of the municipality (i.e. the budget votes) as well as the total analysed per expenditure type.
- 1.3 Charts 1 and 2 illustrate how the operational expenditure budget is allocated between Directorates and between different types of expenditure for 2007/08.

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

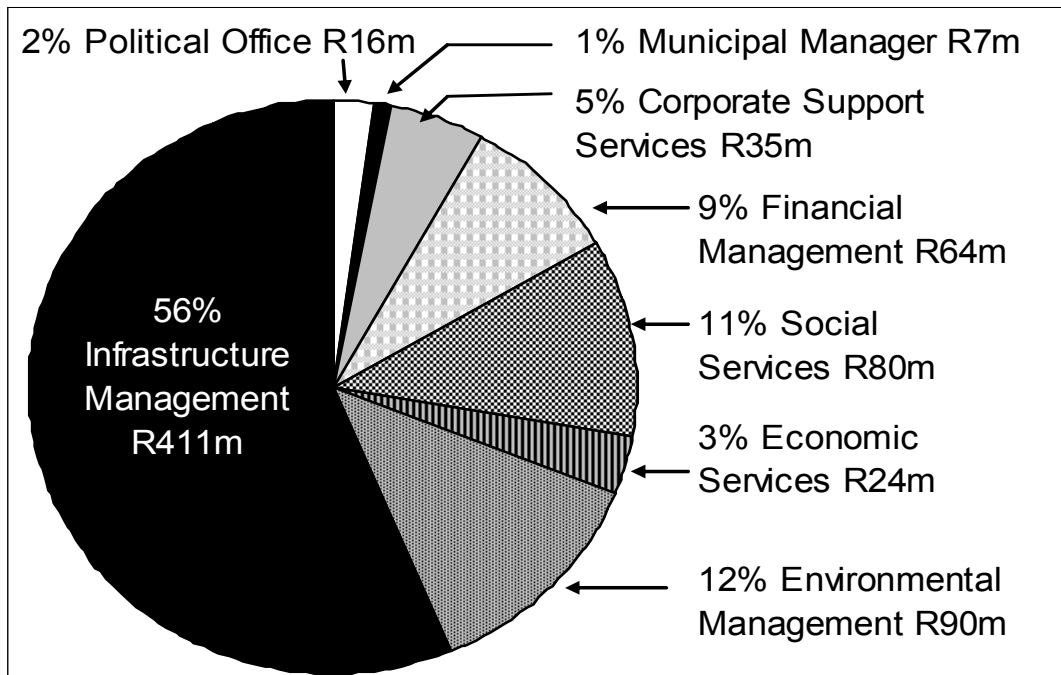
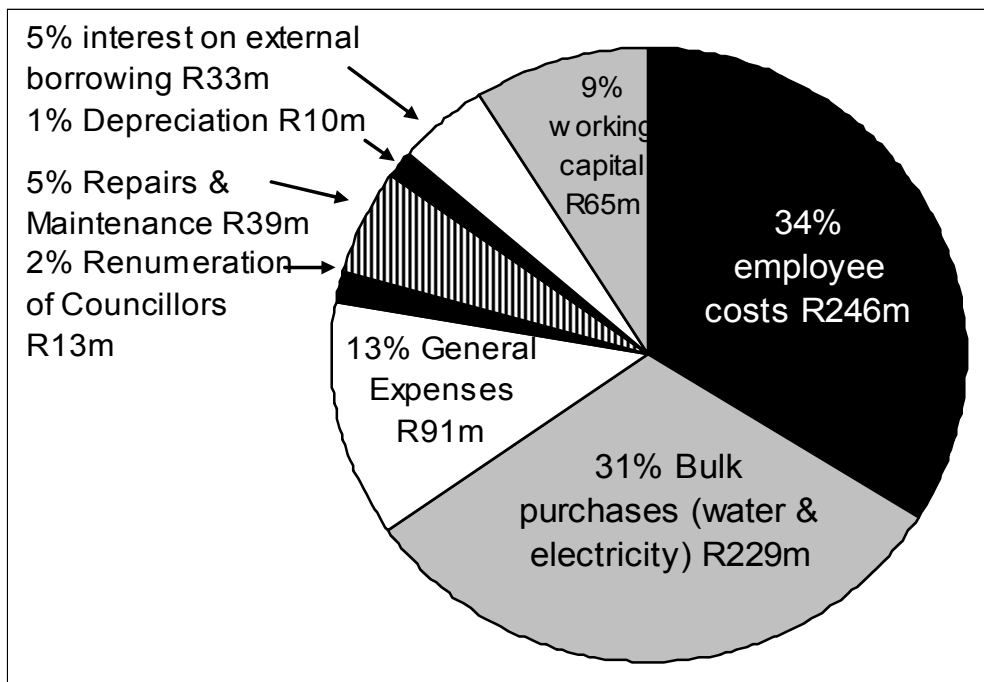
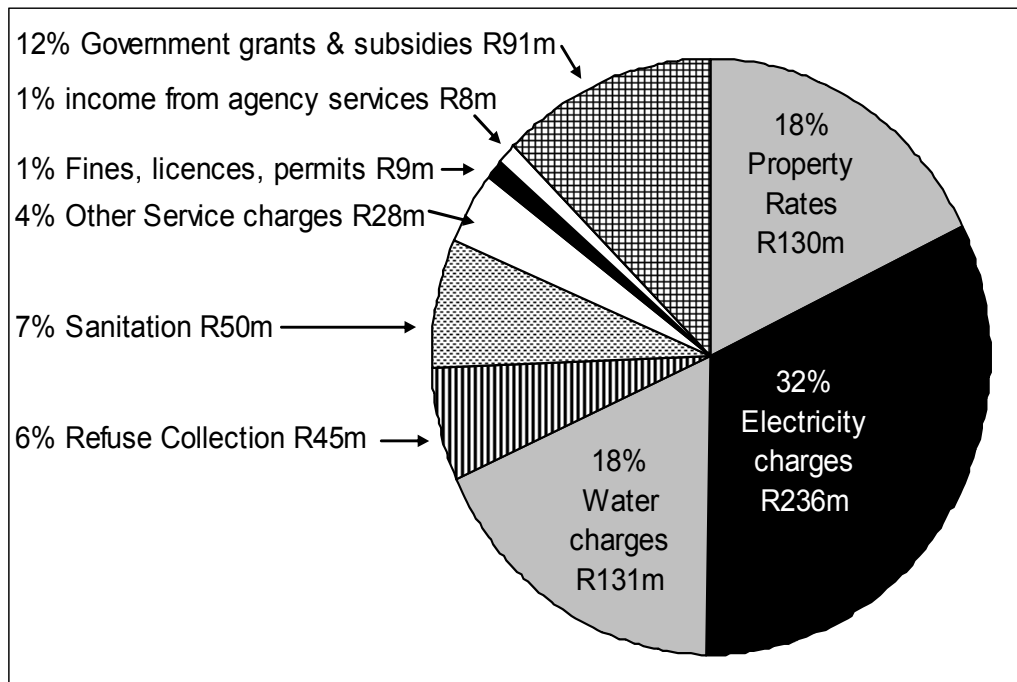


Chart 2: 2007/08 Operational Expenditure Budget: analysed by type of expenditure



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

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



2 2007/08 CAPITAL BUDGET PROPOSALS

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

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

	2006/07 Original Budget	2006/07 Adjusted Budget	2007/08 confirmed to date Budget	2008/09 Forecast	2009/10 Forecast
	R 000s	R 000s	R 000s	R 000s	R 000s

TOTAL	82,387	78,729	90,782	58,798	40,677
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2.3 Details of the funding of the confirmed-to-date capital budget are given in schedule 4 of this report and shown in chart 4 below. The major sources of funding are:

- R32.287 million from MIG (Municipal Infrastructure Grant),
- R5.717 million from Department of Water Affairs and Fishery,
- R1.548 million SRAC (Sports, Recreation, Arts, and Culture) grant from Province (this latter is to fund the Lusaka sports complex palisade fencing and some computers for the library service),
- R16 million from the selling of MCLM land, and
- R5.371 for service connections arising from the recoverables income from the operational budget.
- R29.696 million for rolled over projects from 2006/07 Financial Year.

Chart 4: Funding of the 2007/08 Capital Budget

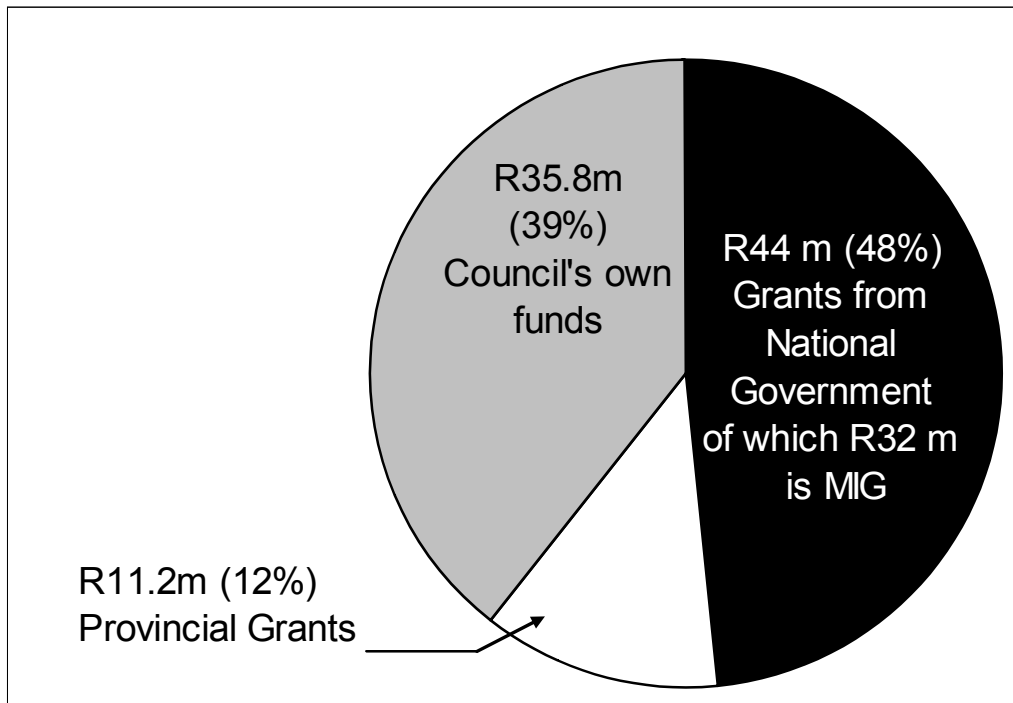
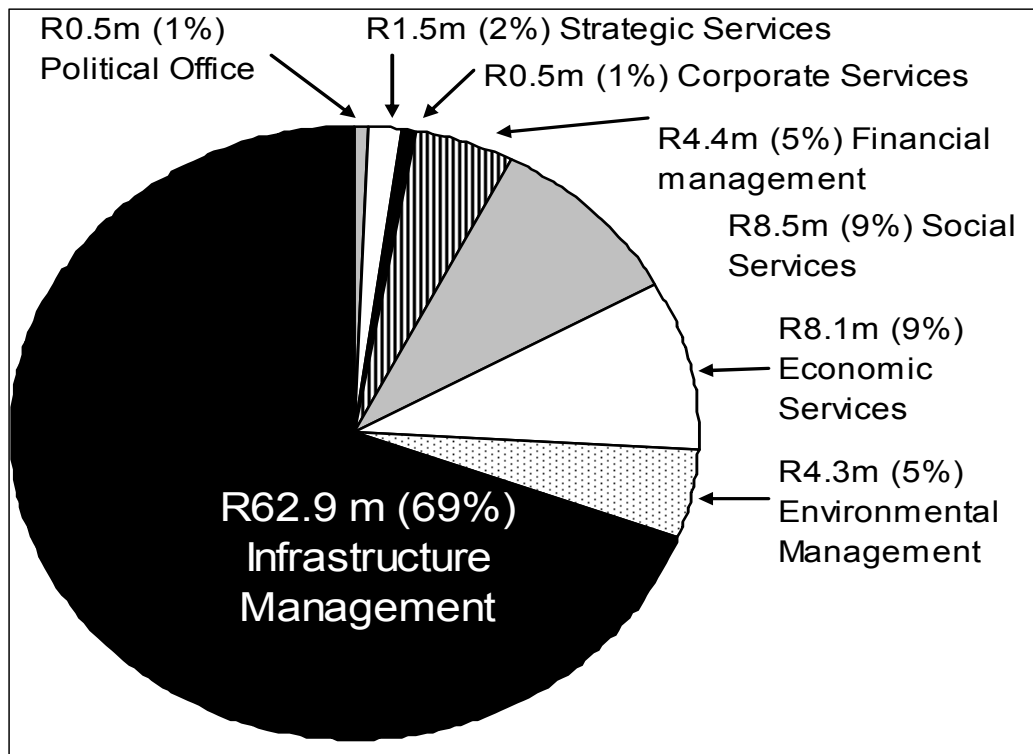


Chart 5: 2007/08 Capital Budget by vote



2.4 Schedule 3 of this report shows the proposed allocation of the total confirmed-to-date capital budget to individual Directorates of the municipality (i.e. the budget votes). This is also illustrated in chart 5 above and also includes rolled overs. A list of the individual capital projects proposed in the budget is given in schedule 3a (1) and a list of projects rolled over is given in schedule 3a (2).

2.5 Additional capital grant funding is R11.684 million, may also be available from the following sources: DWAF (Department of Water Affairs & Forestry) R3.432 million, SRAC (Sports, Recreation, Arts and Culture grant from Province) R950k, WRDM (West Rand District Municipality) 970k, and Department of Housing R6.332 million. Officials are currently trying to obtain confirmation on whether these grants will be given to MCLM for 2007/08. These grants would be used to fund specific capital projects agreed by the grant-donor organisations and will be added to the capital budget once the funds are secured through an Adjustments Budget process.

2.6 In addition to capital grant funding discussed above, the municipality is likely to be able to utilise additional land sale proceeds to the value of R81 million to fund the capital budget (see section 4.4.11 of this report for further information). Other possible funding could come from a restructuring of the existing loans from DBSA (R16 million). Section 4.4.13 of this report gives further information on this. A list of possible capital projects that could be funded from these potential funding sources is

found in Schedule 3b of this Budget Report. These capital projects will be added to the capital budget once the funding sources are approved and confirmed through an Adjustments Budget process.

2.7 The Council also supports investment projects within the municipality's boundaries that are totally funded by other government sectors and/or private sector partners. These projects are termed 'out -of-books' projects since the funding for the projects does not flow through Mogale City's bank account. A list of these projects, including the Housing Development projects funded by Province, is shown in Schedule 3c of this report.

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

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

Table 3: Increases in rates, tariffs and charges

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

3.2 It should be noted that National Treasury's guideline growth parameters for municipal rates and tariffs is 3% to 6% for 2007/08 (MFMA Circular no. 41 – 31st January 2007). Mogale City Local Municipality's proposals for tariffs are thus within National Treasury's recommendations except for electricity and Refuse collection. The proposed electricity tariffs have varying rates of increase/decrease (but the average increase is 4.8%) as they are still being restructured to be in line with the National Electricity Regulator tariff guidelines. Other user charge increases average 6%. It should also be noted that the Property Rates will be based on the current valuation roll for 2007/08 with the implementation of the Property Rates Act taking effect for 2009/10 onwards.

- 3.3 At its meeting on 27th March 2007, Council requested the Chief Financial Officer to negotiate with the Electricity Department of MCLM to reduce the proposed Domestic electricity tariff increase. The proposed domestic electricity tariffs are based on a study undertaken by consultant Stewart Scott and have taken a number of factors into account, as follows:
- The need for electricity tariffs to be cost reflective. A mark-up must be placed on the Eskom tariffs in order for MCLM to fund the costs of the Electricity Service. A mark-up of 15% was recommended by the Stewart Scott Study. In addition, MCLM purchases electricity at a voltage of 33000 kWh. This carries an additional 10% extension charge cost should MCLM not consume its full voltage demand, as Eskom cannot reverse the amount made available to MCLM. Such costs also have to be absorbed by the tariff charged by MCLM.
 - The need for maintaining the electricity sales surplus in order to fund the delivery of other essential Council services.
 - Reduced Non-Residential tariffs have resulted in increases to Residential tariffs which have previously been subsidised by Non-Residential tariff payers. The National Electricity Regulator (NER) requires the charging of a fair tariff for all consumers, whether residential or commercial/industrial. Thus residential users over the last few years have seen higher increases in their tariffs compared to commercial and industrial users in order to level the field and to create a fair tariff policy. This should also help to encourage commercial and industrial investment within the municipality's area.