

REPORT TO COUNCIL – 25 MARCH 2008
OFFICE OF THE EXECUTIVE MAYOR

2008/2009 DRAFT MEDIUM TERM REVENUE AND EXPENDITURE (MTREF) BUDGET

1. Introduction

In terms of Section 16 (2) of the Municipal Finance Management Act (MFMA) No 56, 2003:

“(2) The mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.”

The formulation of the 2008/2009 MTREF budget commenced in August 2007 with the adoption of the Budget Time table by Council on 28 August 2007 (BCC216/07) indicating the key deadlines for the preparation of the budget.

A Mayoral Strategic Workshop convened on 23 November 2007 at the Regent Hotel where the budget assumptions were presented to Senior Management and Council and the IDP/Budget strategies were established. Subsequent to this meeting further meetings were held with the Mayor’s Budget Committee on the 3 March 2008, 14 March 2008 and the 17 March 2008 to discuss budget strategies, tariff increases and the way forward.

2. Budget Assumptions/Parameters

The budget assumptions/parameters have been amended taking into account the parameters and guidelines from Amatola Water, the National Electricity Regulator of South Africa (Nersa) and National Treasury (Refer Circular No. 45 of the MFMA)

Table 1: Budget Assumptions / Parameters

Description	2007/2008	2008/2009	2009/2010	2010/2011
NT Guidelines	3% - 6%	4.90%	4.50%	4.50%
CPIX	5.10%	8.8% / 9.6%	6.50%	7.00%
Salaries	6.60%	10.50%	10.50%	10.50%
Electricity Purchases	6.20%	15.02%	15.02%	15.02%
Water Purchases	5.50%	10.00%	10.00%	10.00%
Electricity & Water Growth	0.00%	0.00%	0.00%	0.00%
Rates, Refuse & Sewerage Growth	0.00%	0.00%	0.00%	0.00%
Free Basic Electricity	50 kwh p.m.	50 kwh p.m.	50 kwh p.m.	50 kwh p.m.
Free Basic Water	6 kl p.m.	6 kl p.m.	6 kl p.m.	6 kl p.m.
Basic Welfare Package	R237.56	R273.77	R301.61	R332.29
Equitable Share Allocation	R252,125,000	R310,257,000	R389,903,000	R486,349,000
Bad Debt Provision	R32,102,569	R43,080,156	R68,550,126	R72,683,134

3. Operating Budget for 2008/2009 MTREF Period

The table below identifies the 2008/2009 MTREF Operating Budget

Table 2: Draft Operating Budget for the 2008/2009 MTREF Period

	2008/2009 BUDGET	2009/2010 BUDGET	2010/2011 BUDGET
<u>Revenue Per Source</u>			
Assessment Rates	358,523,317	394,375,649	433,813,214
Refuse Charges	119,414,425	131,355,857	144,491,454
Sewerage Charges	132,516,432	145,768,075	160,344,883
Trade Effluent	7,624,750	8,387,225	9,225,948
Water Charges	196,809,224	216,490,146	238,139,161
Electricity Charges	536,285,742	600,640,031	672,716,835
Fire Levy	26,365,680	29,002,248	31,902,473
Grants and Subsidies	463,501,631	490,028,669	566,043,445
Operating Project Grants	116,674,910	62,882,408	41,750,000
Fines	8,021,879	8,743,849	9,530,796
Housing Rentals	7,218,059	7,867,683	8,575,777
Other Rentals	2,386,233	2,600,995	2,835,083
Income Foregone	-161,461	-166,305	-176,283
Other	35,032,684	100,566,243	135,435,341
<u>Total Direct Operating Income</u>	2,010,213,505	2,198,542,773	2,454,628,127
	-	-	-
<u>Expenditure Per Category</u>			
Salaries, Wages & Allowances	659,606,021	725,523,620	797,714,946
Remuneration of Councillors	19,252,967	20,311,880	21,530,594
General Expenses	472,915,198	529,859,339	566,955,747
Operating Projects	116,674,910	62,882,408	41,750,000
Bulk Electricity Purchases	310,422,464	357,047,918	410,676,516
Bulk Water Purchases	92,108,987	101,319,886	111,451,875
Repairs & Maintenance	133,621,906	151,461,380	238,961,854
Depreciation	106,054,835	108,054,835	112,418,120
Interest on External Loans	78,762,140	119,703,575	128,994,695
<u>Total Direct Operating Expenditure</u>	1,989,419,428	2,176,164,841	2,430,454,347
Internal Charges	674,067,335	708,352,597	750,853,756
<u>Total Operating Expenditure</u>	2,663,486,763	2,884,517,438	3,181,308,103
Internal Recoveries	-674,067,437	-708,352,598	-750,853,754
<u>Sub-Total</u>	1,989,419,326	2,176,164,840	2,430,454,349
Transfers To/From Other Reserves	20,361,751	21,694,159	22,995,817
<u>Total Operating Expenditure</u>	2,009,781,077	2,197,858,999	2,453,450,166
<u>Surplus / (Deficit)</u>	432,428	683,774	1,177,961

Chart 1: 2008/2009 Operating Budget Per Income Sources

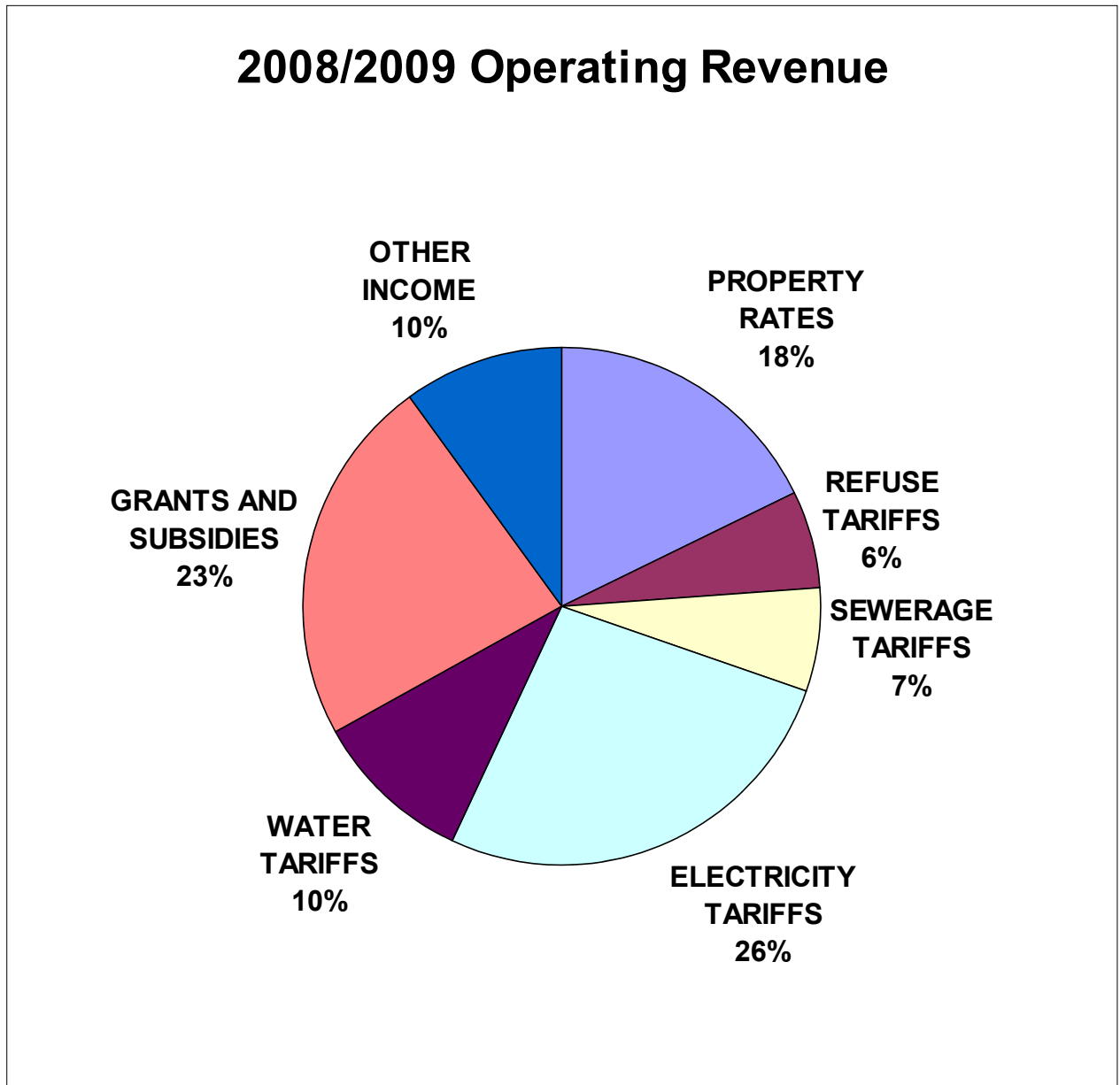
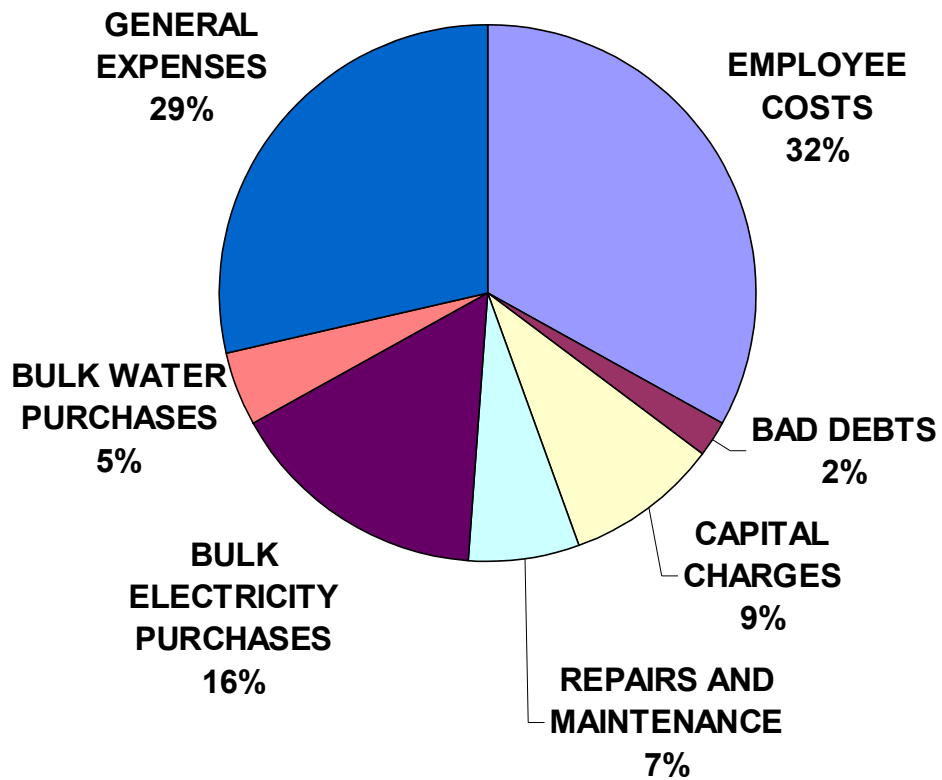


Chart 2: 2008/2009 Operating Budget Per Expenditure Categories

2008/2009 Operating Expenditure



4. Grants included in the Budget in Terms of the 2008 DORA Report

The following table reflects grants to be received in 2008/2009, 2009/2010 and 2010/2011 in terms of the DORA report published after the 2008 National Budget speech delivered by the Minister of Finance on the 20TH February 2008.

Table 3: 2008/2009 to 2010/2011 Grant Allocations in terms of 2008 DORA

	<u>2007/2008</u>	<u>2008/2009</u>	<u>2009/2010</u>	<u>2010/2011</u>
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>
1. Appendix E3				
<u>Specific Purpose Recurrent Grant Allocations (Schedule 6)</u>				
a. Local Government Financial Management Grant	500,000	500,000	750,000	1,250,000
b. Water Services Operating & Transfer Subsidy (DWAF)	4,755,000	2,542,000	2,372,000	1,410,000
c. Municipal Systems Improvement Programme	0	400,000	400,000	400,000
<u>Sub-Total - Specific Purpose Recurrent Grant Allocations</u>	5,255,000	3,442,000	3,522,000	3,060,000
2. Appendix E4				
<u>Infrastructure Grant Allocations (Schedule 4 and 6)</u>				
a. Municipal Infrastructure Grant (MIG)	115,379,000	144,850,000	163,716,000	134,151,000
b. MIG - Eradication of Bucket Sanitation Programme	406,000	0	0	0
c. Public Transport Infrastructure and Systems Grant	0	8,592,000	31,213,000	71,478,000
d. Neighbourhood Development Partnership Grant	0	5,000,000	9,143,000	13,139,000
e. National Electrification Programme (NEP)	21,323,000	32,712,000	50,000,000	55,000,000
<u>Sub-Total - Infrastructure Grant Allocations</u>	137,108,000	191,154,000	254,072,000	273,768,000
3. Appendix E5				
<u>Allocations-In-Kind (Schedule 7)</u>				
a. Water Services Operating & Transfer Subsidy Grant	1,853,000	792,000	0	0
b. National Electrification Programme (Eskom) Grant	2,279,000	2,132,000	2,633,000	3,056,000
c. Neighbourhood Development Partnership Grant	0	2,000,000	3,075,000	886,000
<u>Sub-Total - Allocations-In-Kind</u>	4,132,000	4,924,000	5,708,000	3,942,000
4. Appendix E6				
<u>Equitable Share Allocations</u>				
a. Equitable Share	252,125,000	310,257,000	389,903,000	486,349,000
<u>Sub-Total - Equitable Share Allocations</u>	252,125,000	310,257,000	389,903,000	486,349,000
<u>Grand Total - Total Allocations to Municipalities</u>	398,620,000	509,777,000	653,205,000	767,119,000

5. Equitable Share Allocation

The equitable share included in the 2008 DORA report has been allocated as follows:

Table 4: Equitable Share Allocation

Allocations	2007/2008	2008/2009	2009/2010	2010/2011
Free Basic Water - 6kl	12,064,349	13,391,427	14,730,570	16,203,627
Free Basic Electricity - 50kwh	13,054,956	15,013,199	16,814,783	18,832,557
Poor Relief – Sewerage	27,835,200	35,697,600	39,267,360	43,194,095
Poor Relief – Refuse	32,957,712	37,610,352	41,371,387	45,508,526
Poor Relief – Fire Levy	7,578,946	8,412,630	9,253,893	10,179,282
Poor Relief – Rates	23,648,000	26,249,280	28,874,208	31,761,629
R293 – Salaries	7,923,113	0	0	0
Equitable Allocation	81,966,743	124,876,933	189,584,662	269,562,534
Bulk Water Purchases	13,095,981	14,005,579	15,006,137	16,106,750
Provision for Bad Debts	17,000,000	20,000,000	20,000,000	20,000,000
<u>Operating Budget</u>	<u>237,125,000</u>	<u>295,257,000</u>	<u>374,903,000</u>	<u>471,349,000</u>
<u>Mayoral Imbizo Projects</u>	<u>15,000,000</u>	<u>15,000,000</u>	<u>15,000,000</u>	<u>15,000,000</u>
<u>Total Equitable Share</u>	<u>252,125,000</u>	<u>310,257,000</u>	<u>389,903,000</u>	<u>486,349,000</u>

6. Provision for Bad Debt, Leave Pay and Repairs and Maintenance

6.1. Provision for Bad Debt

Table 5: Proposed Bad Debt Provision for the 2008/2009 MTREF Period

Proposed Bad Debt Provision	2008/2009	2009/2010	2010/2011
	43,080,156	68,550,126	72,683,134

For each of the three financial years, R20.0 million has been allocated from the equitable share for the provision of bad debts. The balance is funded directly from the operating budget.

6.2. Provision for Leave Pay

Table 6: Proposed Provision for Leave Provision

Proposed Leave Provision	2008/2009	2009/2010	2010/2011
	16,905,207	17,919,519	18,994,691

6.3. Repairs and Maintenance

An amount of R111.1, R125.2 and R141.1 million has been provided for maintenance in the 2008/09 to 2010/11 financial years for roads, refuse, sewerage, electricity and water respectively.

Table 7: Repairs and Maintenance

Provision for Repairs and Maintenance	2007/2008 Budget	2008/2009 Budget	2009/2010 Budget	2010/2011 Budget
<u>Roads</u>	18,501,893	20,167,063	23,797,135	28,080,619
% Increase on Previous Year	9.00%	18.00%	18.00%	18.00%
	1,665,170	3,630,071	4,283,484	5,054,511
<u>Total</u>	20,167,063	23,797,135	28,080,619	33,135,130
- <u>Refuse Service Tariff Income</u>	102,235,457	119,414,425	131,355,867	144,491,454
% of Tariff Income	2.50%	5.00%	5.00%	5.00%
<u>Total</u>	2,555,886	5,970,721	6,567,793	7,224,573
- <u>Sewerage Service Tariff Income</u>	114,466,194	132,516,432	145,768,075	160,344,883
% of Tariff Income	8.00%	9.00%	9.00%	9.00%
<u>Total</u>	9,157,296	11,926,479	13,119,127	14,431,039
- <u>Electricity Service Tariff Income</u>	450,515,881	536,285,742	600,640,031	672,716,835
% of Tariff Income	6.00%	10.00%	10.00%	10.00%
<u>Total</u>	27,030,953	53,628,574	60,064,003	67,271,684
- <u>Water Service Tariff Income</u>	153,188,787	196,809,224	216,490,146	238,139,161
% of Tariff Income	8.00%	8.00%	8.00%	8.00%
<u>Total</u>	12,255,103	15,744,738	17,319,212	19,051,133
<u>GrandTotal Repairs & Maintenance</u>	71,166,301	111,067,647	125,150,754	141,113,559

7. Summary of the Proposed Tariff Increases

Considering the income envelope to fund the budgeted expenditure the following tariff increases have been applied for the 2008/2009 MTREF period.

Table 8: Proposed Tariff Increases

Description	2007/2008	2008/2009	2009/2010	2010/2011
Rates	9.00%	11.00%	10.00%	10.00%
Refuse	10.00%	11.00%	10.00%	10.00%
Sewerage	5.00%	11.00%	10.00%	10.00%
Electricity	5.60%	15.00%	12.00%	12.00%
Water	7.00%	11.00%	10.00%	10.00%
Fire Levy	7.00%	11.00%	10.00%	10.00%
Sundry Income	7.00%	9.00%	9.00%	9.00%
Average Increase	7.23%	11.29%	10.14%	10.14%

8. Proposed Welfare Package

An amount of R136.4 million has been allocated from the 2008/09 equitable share to provide relief to the indigent consumers. The package has been designed to subsidise the indigent consumers by 100% on all services as well as quantify the cost of 50kwh Electricity and 6kl Water. The compilation of this package is illustrated in Table 9 below.

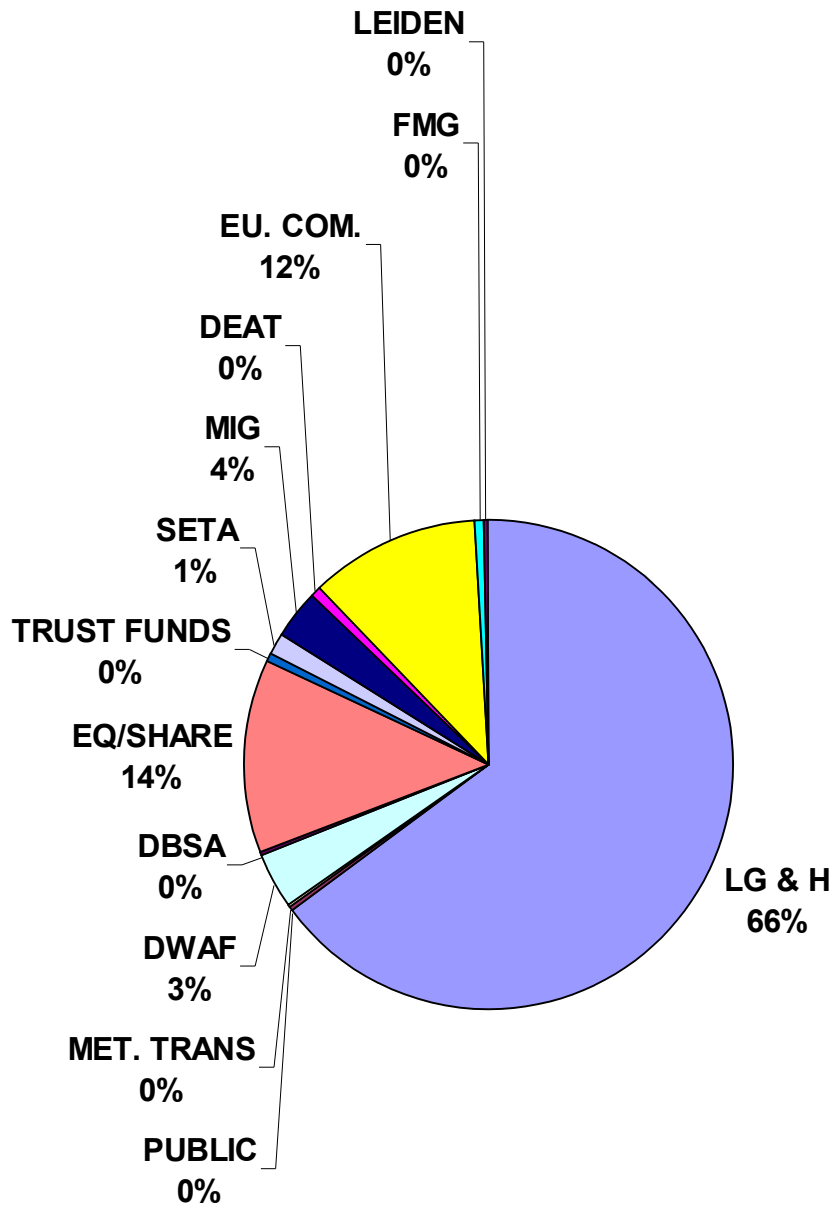
Table 9: Proposed Welfare Package

<u>Monthly Welfare Package</u>	2007/2008 Actual Package	2008/2009 Proposed Package	2009/2010 Proposed Package	2010/2011 Proposed Package
Rates - 20000 Property Valuation	49.27	54.69	60.15	66.17
Refuse	68.66	78.35	86.19	94.81
Sewerage	57.99	74.37	81.81	89.99
Fire Levy	15.79	17.53	19.28	21.21
Electricity - 50kwh	20.72	23.83	26.69	29.89
Water – 6kl	25.13	27.90	30.69	33.76
Total Welfare Package Per Month	237.56	276.67	304.81	335.83

9. Operating Projects**Table 10: Operating Budget Projects Per Funding Source for 2008/2009 MTREF Period**

OPEX PER FUNDING SOURCE	2008/2009 R	2009/2010 R	2010/2011 R
LG & H	75,669,351	28,972,008	16,900,000
PUBLIC	200,000	200,000	200,000
MET. TRANS	400,000	400,000	400,000
DWAF	4,057,250	7,460,400	6,600,000
DBSA	251,929	0	0
EQ/SHARE	15,000,000	15,000,000	15,000,000
TRUST FUNDS	557,200	0	0
SETA	1,639,180	1,300,000	1,400,000
MIG	4,100,000	5,000,000	0
DEAT	500,000	500,000	0
EU. COM.	13,450,000	3,300,000	0
FMG	500,000	750,000	1,250,000
LEIDEN	350,000	0	0
TOTAL OPEX PROJECTS	116,674,910	62,882,408	41,750,000

OPEX PER FUNDING SOURCE



10. Capital Budget

The Table 11 below indicates Capital Budget per sources of funding. Detailed capital expenditure per project is attached as Annexure 8.

Table 11: Capital Budget per Funding Source for 2008/2009 MTREF Period

CAPEX PER FUNDING SOURCE	2008/2009 R	2009/2010 R	2010/2011 R
SURPLUSES	39,058,000	9,212,822	0
C.R.R.	49,403,279	38,491,200	33,013,560
LG & H	23,800,000	10,000,000	5,000,000
EFF	112,885,000	92,320,000	74,300,000
MET.TRANS.	13,620,000	14,430,000	23,100,000
DWAF	230,870	230,870	0
EU. COM	45,330,000	31,520,000	33,800,000
LA	2,500,000	0	0
INEP	32,712,000	50,000,000	55,000,000
D.B.S.A. - GRANT	51,078	0	0
MIG	137,917,499	160,883,495	126,318,499
NEIGHBOURHOOD DEV. GRANT	8,300,000	93,800,000	19,400,000
PUBLIC	8,000,000	8,000,000	2,000,000
P.T.I. & S. G.	8,592,000	31,213,000	71,478,000
D.B.S.A. EXTENDED LOAN	65,000,000	65,000,000	70,000,000
TOTAL CAPEX	547,399,726	605,101,387	513,410,059

CAPEX PER FUNDING SOURCE

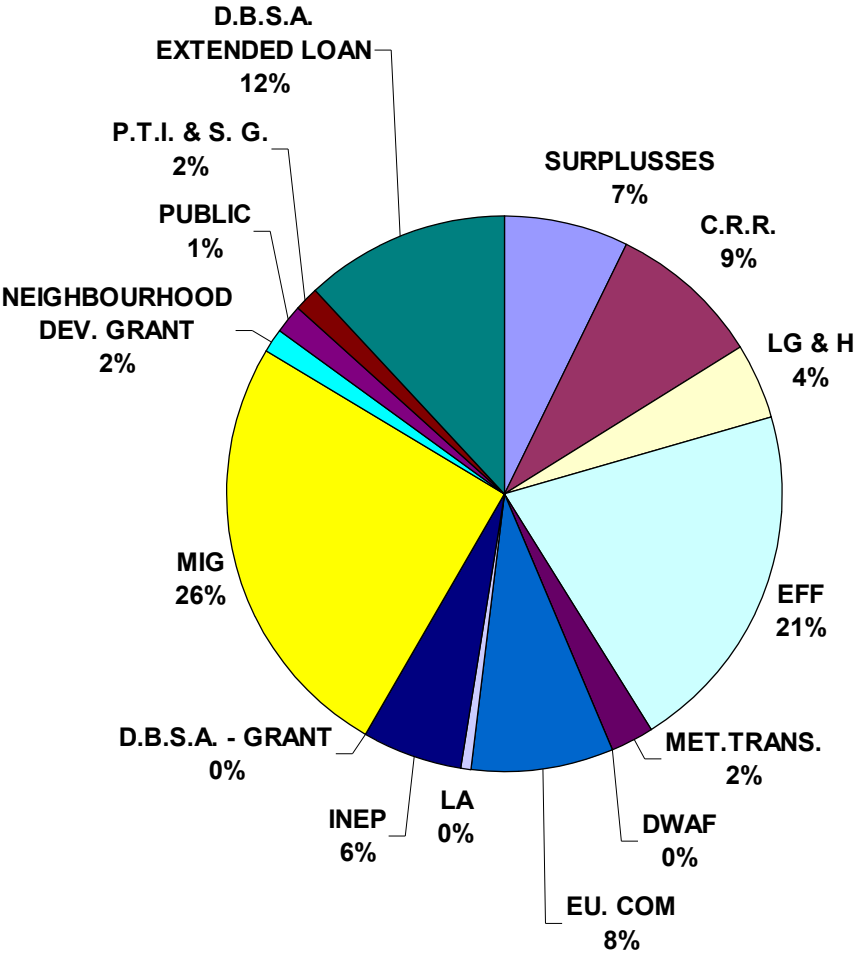
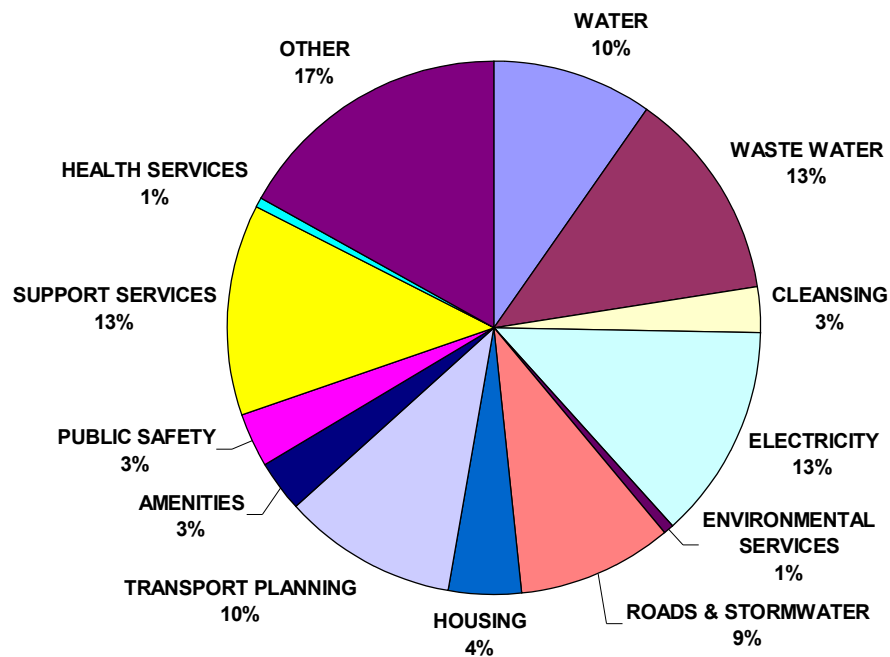


Table 12: 2008/2009 MTREF Capital Budget Per Service

CAPEX PER SERVICE	2008/2009 R	2009/2010 R	2010/2011 R
WATER	53,330,870	59,919,144	22,000,000
WASTE WATER	69,634,115	88,810,415	91,976,310
CLEANSING	14,800,000	13,000,000	16,000,000
ELECTRICITY	72,252,000	77,500,000	77,500,000
ENVIRONMENTAL SERVICES	3,000,000	516,303	2,366,475
ROADS & STORMWATER	51,980,000	74,583,770	8,130,000
HOUSING	23,800,000	10,000,000	5,000,000
TRANSPORT PLANNING	57,342,000	133,034,818	131,428,000
AMENITIES	17,360,000	15,326,188	8,209,860
PUBLIC SAFETY	18,178,155	19,062,396	8,890,000
SUPPORT SERVICES	70,431,157	30,132,822	17,055,000
HEALTH SERVICES	3,138,371	650,000	650,000
OTHER	92,153,058	82,565,531	93,319,414
TOTAL	547,399,726	605,101,387	482,525,059

CAPEX PER SERVICE



11. Service Delivery and Budget Implementation Plans (SDBIP)

In terms of section 69 (3) of the MFMA “the Accounting Officer must not later than 14 days after the approval of the annual budget submit to the Mayor a draft SDBIP for the budget year”.

12. Recommendation

It is recommended that:

1. The 2008/2009 Draft Medium Term Revenue and Expenditure Framework Budget be considered for discussion.

2. The 2008/2009 Draft Medium Term Revenue and Expenditure Framework Budget be approved as detailed in the Budget Summary

<u>Year</u>	Operating Budget R	Capital Budget R	Total Budget R
2008/2009	2,663,486,763	547,399,726	3,210,886,489
2009/2010	2,884,517,438	605,101,387	3,489,618,825
2010/2011	3,181,308,103	482,970,059	3,664,278,162

3. The draft budget for the financial year 2008/2009; and indicative for the two projected outer years 2009/10 and 2010/2011 be approved as set-out in National Treasury's Reporting Structure "Annexures" 1 to 6.
4. Approval be granted for the proposed increase in tariffs and charges with effect from 1 July 2008 in respect of the following:-

4.1 Service Tariffs:-

	% INCREASE
Sewerage	11%
Refuse	11%
Water	11%
Electricity	15%

(Refer to the 2008/2009 Draft Tariff Book for detailed tariffs)

4.2 General rate on land and improvements:-

	% INCREASE
Residential	11%
Industrial	11%
Business	11%
Government & Parastatals	11%

(Refer to the 2008/2009 Draft Tariff Book for detailed tariffs)

4.3. Miscellaneous Tariffs as set out in the 2008/2009 Draft Tariff Book.

5. Indigent subsidy be granted to registered indigents in terms of Council's Indigent Policy as amended from time to time.

6. The indigent consumers be given 100% subsidy on their accounts which will result in an increase in the total welfare package from R237.56 to R276.67 per month.
7. Free basic electricity be maintained for the registered indigent consumers at 50kwh.
8. Free basic water of 6kl be maintained for all registered indigent consumers.
9. That the tariff book be amended before the Public Participation process.
10. That R15 million be allocated from the External Financing Fund (EFF) for the 2008/2009 financial year for the Mdantsane Urban Renewal Programme (MURP).
11. That the Housing budget be adjusted as follows:-

	2008/2009 R	2009/2010 R	2010/2011 R
Operating Projects	68,452,640	23,000,000	11,900,000
Capital Projects	23,800,000	10,000,000	5,000,000

12. That the Capital Budget for the outer year 2009/2010 be amended in accordance with Council accounting and budget policies and such additional grant funding identified.
13. That a further loan of R200.0 million from DBSA is anticipated to fund the infrastructure programme in the 2008/2009 and outer years.

N.C. PETER
EXECUTIVE MAYOR

ANNEXURES

The following annexures are attached for perusal:

- “ANNEXURE 1” – National Treasury Tables 1 to 6
- “ANNEXURE 2” – National Treasury Schedules 1 to 4
- “ANNEXURE 3” - National Treasury Supporting Tables 1 to 9
- “ANNEXURE 4” – National Treasury Schedules 1 to 2
- “ANNEXURE 5” – National Treasury Agency Tables
- “ANNEXURE 6” – National Treasury Schedule 1
- “ANNEXURE 7” – Detailed Operating Budget Projects
- “ANNEXURE 8” – Detailed Capital Budget Projects