

2009/2010 MEDIUM TERM REVENUE AND EXPENDITURE (MTREF) BUDGET

1. BUDGET PROCESS

1.1 Overview

The budget process is governed by the Municipal Finance Management Act 56 of 2003 and the Municipal Systems Act 32 of 2000. The objective process is to ensure good governance and accountability and enables the municipality to involve residents and other stakeholders in the budgeting process.

In terms of Section 24 (1) and (2) of the Municipal Finance Management Act (MFMA) No 56, 2003:

“(1) The municipal council must at least 30 days before the start of the budget year consider approval of the annual budget.

(2) An annual budget –

- (a) must be approved before the start of the budget year;*
- (b) is approved by the adoption by the council of a resolution referred to in section 17(3)(a)(i); and*
- (c) must be approved together with the adoption of resolutions as may be necessary –*
 - (i) imposing any municipal tax for the budget year;*
 - (ii) setting any municipal tariffs for the budget year;*
 - (iii) approving measurable performance objectives for revenue from each source and for each vote in the budget;*
 - (iv) approving any changes to the municipality’s integrated development plan; and*
 - (v) approving any changes to the municipality’s budget-related policies.”*

1.2 Schedule of the Key Deadlines relating to the Integrated Development Plan (IDP) and Budget Process

The process started with the approval by Council of the schedule of key deadlines for the IDP review and the development of the budget on 26 August 2008 (BCC217/08). This is to ensure integration between the development of the IDP and the budget.

Table 1: Key Deadlines relating to the IDP and Budget Process

ACTIVITY / KEY EVENTS	DATE
IDP and Budget Process Plan approved by Council	26 August 2008
MTREF projections considered with all Directorates	November 2008
Tabling of Draft Operating and Capital for the 2009/10 MTREF to Council	26 March 2009
IDP and Budget Public Hearings	8 - 18 May 2009
Approval of the 2009/10 MTREF IDP and Budget	29 May 2009
Submission of the Approved Budget to National and Provincial Treasury , DPLG and Provincial Local Government	12 June 2009

1.3 Consultation Process

This process was undertaken through a series of events and strategic processes, namely:

- IDP Technical Cluster meetings held in October 2008 , to revive and assist IDP clusters in conducting their situation analysis which informs the review of objectives and strategies;
- BCM Cluster Workshop held with Mayoral Committee Members in November 2008. IDP Technical Clusters briefed their political leaders on performance highlights for the 2007/08 financial year and reflected on reviewed objectives and strategies for 2009/10;
- IDP/PMS/Budget External Representative Forum held in November 2008;
- IDP Technical Cluster meetings were held on 27 and 28 November 2008 to propose projects that are linked to the reviewed objectives and strategies;
- Business Plans Review meeting held in January 2009. The purpose was to review business plans submitted by directorates for 2009/10 MTREF period;
- Business Plans Prioritization/ Weighting on 03 March to 09 March 2009;
- IDP and Budget Alignment Workshop held on 10 to 11 February 2009 with Executive Mayor, Mayoral Committee Members, BCM Directors and General Managers, *inter alia*, to consider the 2008/09 capital expenditure as well as to refine objectives and strategies for 2009/10 MTREF period;
- Technical Cluster Session held 03 March to 05 March 2009 to present the prioritized projects against submitted projects, including MFMA Circular 48;
- Public hearings on the draft IDP and 2009/10 MTREF Budget were held from 8 to 18 May 2009.

2. BUFFALO CITY'S 2009/10 MTREF BUDGET OVERVIEW

2.1 Background

The 2009/10 MTREF Budget has been prepared in compliance with the MFMA. This is a financial plan as informed by the municipality's strategic plan (IDP) in order to ensure service delivery to the community that will enable the municipality to meet its operational and strategic objectives for the 2009/10 MTREF period.

2.2 Alignment of the Budget with the IDP

The review of IDP was informed by the over-arching six key objectives as per Table 2.

Table 2: BCM Key Objectives

KEY ISSUE	BCM KEY OBJECTIVES
<i>Buffalo City lacks a clearly defined long-term development strategy this negatively impacts on the ability of BCM & Buffalo City stakeholders to work towards the achievement of Buffalo City's vision.</i>	<p>BCM1 Local, Provincial & National stakeholders support and work together to achieve the vision for Buffalo City.</p> <p>LGSO: Good Governance & Community participation</p>
<i>The sustainability of BCM is dependent on expanding its revenue in relation to costs and its financial viability, whilst implementing its mandate.</i>	<p>BCM2 Effective, efficient, co-ordinated financial management and increased revenue - enabling BCM to deliver its mandate*.</p> <p>LGSO: Financial viability and financial management</p>
<i>Inefficiencies exist within the institution, which compromise BCM's ability to deliver services.</i>	<p>BCM3 BCM's institution is capacitated and structured to enable efficient, effective, and sustainable service delivery.</p> <p>LGSO: Municipal Transformation and Institutional Development</p>
<i>Low economic growth, high unemployment, low skills levels, high levels of poverty and high inequality exist within BCM.</i>	<p>BCM4 BCM creates an enabling environment for an economy that is growing, diversifying, generating increasing number of sustainable employment opportunities and contributing to increased incomes and equality.</p> <p>LGSO: Local Economic Development</p>
<i>Whilst BCM delivers basic services (water, sanitation, waste removal & electricity) to about 70% of households, many households still lack adequate transport, social services, economic opportunities and an enriching environment.</i>	<p>BCM5 Buffalo City is well structured, efficient and supports sustainable human settlements, thus enabling residents to meet their physical, social, developmental, environmental, cultural & psychological needs. (live, work & play)</p> <p>LGSO: Basic Service Delivery and Infrastructure Investment</p>
<i>Lack of sustainable development and inappropriate use of resources has a harmful impact on the health and well-being of present and future generations of BCM.</i>	<p>BCM6 BCM has a safe, healthy & sustainable environment protected for the benefit of present and future generations through securing ecologically sustainable development and use of natural resources, whilst promoting justifiable social and economic development.</p>

The 2009/10 to 2011/12 budget is informed by the IDP Strategic Objectives and Priorities, Mayoral Imbizo Priorities Issues, the 2008/09 State of the City Address and the Mpekweni Priorities and Resolutions. The alignment of key objectives with the allocation of financial resources for capital and operating projects is reflected in Table 3.

Table 3: BCM Key Objectives

KEY OBJECTIVES		2009/2010 R	2010/2011 R	2011/2012 R
BCM 1	Good Governance & Community Participation	44,956,092	25,011,400	18,027,000
BCM 2	Financial viability and Financial Management	69,482,799	47,864,564	30,048,327
BCM 3	Municipal Transformation and Institutional	17,497,160	5,778,652	4,800,000
BCM 4	Local Economic Development	31,887,830	17,020,854	18,410,000
BCM 5	Basic Service Delivery and Infrastructure	1,175,725,526	696,738,762	1,036,691,112
BCM 6	Safe, Healthy and Sustainable environment	75,848,363	17,520,000	26,428,000
TOTAL		1,415,397,770	809,934,232	1,134,404,439

The allocation of the budget in respect of the strategic priorities is reflected in Table 4 below.

Table 4: Allocation of Funding for Strategic Priorities

Strategic Priority	2009/2010	2010/2011	2011/2012
	R	R	R
West Bank Restitution	49,327,805	47,500,000	150,500,000
Second Creek	25,470,000	3,945,000	
Duncan Village Redevelopment Initiative	182,249,950	141,751,622	107,030,000
Mdantsane Urban Renewal Programme	324,119,444	181,635,501	141,705,924
King Williams Town /Bhisho Corridor	96,391,062	89,445,800	75,366,303
Waste Management	90,156,473	50,700,000	80,978,507
Infrastructure Development	216,297,154	112,009,659	436,560,378
Rural Development	51,530,110	25,950,000	8,950,000
Local Economic Development	22,693,598	17,020,854	18,410,000
Infrastructure Maintenance	131,772,617	42,551,160	26,840,000

2.3 Alignment with National and Provincial Priorities

The 2009/10 IDP was developed within the framework of National, Provincial and District plans and policies, with particular consideration being given to the National Spatial Development Perspective (NSDP) Millennium Development Goals, National Service Delivery Goals and the Eastern Cape Provincial Growth and Development Plan (PGDP).

National Spatial Development Perspectives (NSDP) Principles

- To promote economic growth as a pre-requisite for achieving policy objectives, key among which would be poverty alleviation
- To ensure government spending on fixed investment, beyond the constitutional obligation to provide basic services to all citizens
- To encourage efforts to address past and current social inequalities
- To overcome the spatial distortions of apartheid through corridor and nodal approaches in planning

Millennium Development Goals (2015) relating to Local Government

- To ensure environmental sustainability
- To promote gender equality and empower women
- To eradicate extreme poverty and hunger

National Service Delivery Goals

- Water 2008
- Sanitation 2010
- Housing 2014
- Electricity 2015

Provincial Growth and Development Plan (PGDP) Goals (2004-2014) related to Local Government

- To halve unemployment and poverty
- To maintain an economic growth rate of between 5-8% per annum
- To establish food sufficiency
- To halt and reduce the spread of HIV & AIDS
- To provide clean water to all
- To eliminate sanitation problems

2.4 Equitable Share Allocation

The objective of the intergovernmental system as far as it relates to local government, is to provide for an equitable sharing of nationally raised revenue while promoting vertical and horizontal equity as well as certainty of revenue streams, and recognize variations in the fiscal capacities of municipalities as provided for in sections 214 and 227 of the Constitution.

The equitable share allocation takes into account the poor population, the number of poor households, the extent of service provision to poor households and the fiscal capacities of municipalities.

Buffalo City Municipality been allocated an amount of R392,874,598 for the 2009/10 financial year as gazetted in the 2009 Division of Revenue Act (DoRA), a breakdown of which is shown in the table below: -

Table 5: Breakdown of the local government equitable share

Components	2008/2009	2009/2010	2010/2011	2011/2012
Total Allocation	310,256,722	392,874,598	492,572,147	545,234,827
Basic Services	299,364,742	379,482,854		
Institutional Grant	10,891,980	13,391,744		

The equitable share allocation for the 2009/10 financial year reflects an increase of 26.6% compared to the 2008/09 financial year. The increase in allocation has been used to budget for the possible increase in number of indigent households which is estimated at 5,000.

2.5 Proposed Social Package

Table 6: Proposed Social Package

Monthly Social Package	2008/2009	2009/2010	2010/2011	2011/2012
	Proposed	Proposed	Proposed	Proposed
	Package	Package	Package	Package
Rates (Based on property value of R139,000)	54.69	60.70	67.38	74.79
Refuse	78.35	87.63	97.27	107.97
Sewerage	74.37	74.37	82.55	91.63
Fire Levy	17.53	19.45	21.59	23.97
Electricity - 50kwh	23.83	31.71	42.49	56.94
Water - 6kl	27.90	30.97	34.37	38.16
Total Social Package Per Month	276.67	304.83	345.65	393.46

The equitable share has been used to provide relief to indigent consumers. The package has been designed to subsidise the indigent consumers:

- Rates to a maximum of a property value of R139,000
- Electricity to a maximum of 50kwh
- Water to a maximum of 6kl
- Refuse, Sewerage and Fire levy 100% of monthly billing

2.6 Financial position, viability and sustainability

BCM has demonstrated prudent financial management and manageable debt level. This has been confirmed by the latest credit rating of A1.za which is reflecting a stable outlook for the municipality. The rating demonstrates prudent financial policies, manageable debt levels, sound financial management and liquidity.

BCM's local economy is underpinned by the finance and business sector, manufacturing and government services. The manufacturing sector is largely dependent on the automotive industry and supported by a number of component manufacturers. However, the slowdown in the national economy is having an impact on the city's economy. The slowdown in the

international auto industry is having an effect on the local industry and makes the economy of Buffalo City vulnerable to job losses and the closure of small component manufacturers. This will therefore result in an increase in unemployment as well as an increase in the number of indigents.

The city reported growth in the total operating budget of 34% from 2008/09 to 2009/10 financial year. Revenue sources are diversified and remain similar to previous years. About 70% of the City's revenue is contributed by services it provides. This has increased by 7% compared to 2008/09 financial year. The portion of grant funding has increased by 26.6% compared to 2008/09 financial year this is evident of the government's focus to finance the operating costs of basic services that the municipality has to provide to indigent consumers and to improve municipal infrastructure. BCM in turn utilises the equitable share allocation to subsidise indigent consumers for basic services.

Total expenditure increased by 35% from 2008/09 to 2009/10 financial year. Unfunded mandates such as primary health care exert pressure on the city's operating budget. Expenditure flexibility is limited and non-discretionary expenditure such employee costs, debt service and bulk purchases constitute 52% of total spending. Staff remuneration costs decreased by 3% from 2008/09 financial year and comprise 28% of the operating revenue budget. Repairs and maintenance comprise 6% of the total budget and is considered inadequate given the condition of most of the critical service infrastructure such as electricity and sewerage networks, water mains and roads. Although the MTREF budget reflects increase in allocation by 27% it still remains inadequate given the amount of deferred maintenance that the City must address.

The municipality faces a housing backlog of around 75,000 low income housing. Despite limited resources and capacity, the challenge for the municipality is not only to supply basic services and housing to its community, but also to provide sustainable human settlements where residents have access to community facilities and economic opportunities that can be accessed through public transport and a safe road network. The city still requires high capital spending to eradicate infrastructure backlogs including refurbishment of its ageing infrastructure.

The cash flow of Buffalo City depends on the continued focus on collections of outstanding debtors. BCM's current collection rate is 94% which is higher than the industry average of 90%. However, the city has large outstanding debtors which are older than 120 days. The municipality has raised provision for bad debts of R69.7 million given the municipality's current experience with the collection of old debts.

Interest bearing liability will increase to R537 million. Debt to revenue ratio will increase to 43% in 2009/10 financial year.

BCM is faced with the following constraining factors which impedes its ability to expand: -

- High levels of poverty and unemployment resulting in high service demands.
- Capital spending pressures to eradicate infrastructure backlogs.
- High level of deferred maintenance, coupled with inadequate spending on existing maintenance.
- Scarcity of technical staff which has an impact on infrastructure development and maintenance of assets.

2.7 Budget Assumptions

The budget assumptions/parameters are based amongst others on guidelines from Amatola Water and National Treasury MFMA Circular No. 48.

Table 7: Budget Assumptions / Parameters

Description	2008/2009	2009/2010	2010/2011	2011/2012
Salaries	10.50%	13.20%	10.50%	10.50%
Electricity Purchases	35.90%	34.00%	34.00%	34.00%
Water Purchases	10.00%	11.00%	11.00%	11.00%
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	R276.67	R304.83	R345.65	R393.46
Equitable Share Allocation	R322,191,000	R392,875,000	R492,572,000	R545,235,000
Bad Debt Provision	R42,283,339	R69,726,307	R77,681,451	R85,449,596

The preparation of the draft 2009/10 MTREF budget has taken into considerations these assumptions:

- The overall increase in human resource costs has been based on the SALGBC determined agreement of the average CPIX percentage for the twelve-month period, plus 1.5%. An average CPIX for February 2008 to January 2009 as published by Statistics South Africa has been used plus 1.5% to arrive at the projected 13.2% increase.
- An increase in provision for bad debts of 64.9% (R27.4 million) has been budgeted for due to anticipated increase in unemployment and ratepayer's ability to pay as a result of the current economic slowdown,
- A 34% increase in Eskom bulk electricity tariffs has been provided. Eskom has applied for a 34% increase to National Electricity Regulator of South Africa (NERSA), but the revised electricity pricing structure has not been approved yet.
- A provision of 2 cents per kwh Environmental Electricity Levy in terms of MFMA Circular 48. The additional cost to Council of approximately R29 million will be recovered from the consumers by including it in the tariff.
- A provision of R17.5 million for the implementation of the job evaluation which is based on the quantified draft wage curve.

2.8 Summary of Proposed Tariff Increases

Considering the income envelope to fund the budgeted expenditure the following tariff increases have been applied for the 2009/2010 MTREF period.

Table 8 : Proposed Tariff Increases

Description	2008/2009	2009/2010	2010/2011	2011/2012
Rates	11.00%	Variable (Refer to Note Below)		
Refuse	11.00%	11.00%	11.00%	11.00%
Sewerage	11.00%	11.00%	11.00%	11.00%
Electricity	30.00%	34.00%	34.00%	34.00%
Water	11.00%	11.00%	11.00%	11.00%
Fire Levy	11.00%	11.00%	11.00%	11.00%
Sundry Income	9.00%	11.00%	11.00%	11.00%

As from 1 July 2009 the rates to be charged to consumers will be based on the market value of each ratepayer's property as per the new valuation roll.

2.9 Operating Budget Summary for the 2009/2010 MTREF Period

Table 9: Draft Operating Budget for the 2009/2010 to 2010/2012 MTREF Period

	2008/2009	2009/2010	2010/2011	2011/2012
	BUDGET	BUDGET	BUDGET	BUDGET
<u>Revenue Per Source</u>				
Assessment Rates	358,523,317	408,208,357	453,111,277	502,953,517
Refuse Charges	119,414,425	138,033,322	153,216,987	170,070,856
Sewerage Charges	132,516,432	142,660,896	158,353,596	175,772,490
Trade Effluent	7,624,750	8,463,474	9,394,456	10,427,846
Water Charges	183,634,963	203,834,809	226,256,638	251,144,868
Electricity Charges	604,173,373	838,592,320	1,113,853,709	1,482,703,970
Fire Levy	26,365,680	28,769,010	31,933,601	35,446,297
Grants and Subsidies	372,013,633	440,539,216	541,049,357	594,625,899
Operating Project	210,233,712	400,113,676	289,842,134	335,064,057
Fines	8,021,879	8,743,849	9,530,796	9,816,720
Housing Rentals	79,128	7,867,683	8,575,777	8,833,050
Other Rentals	9,525,164	2,600,993	2,835,083	2,920,136
Income Foregone	(161,461)	(166,305)	(176,283)	(181,571)
Other	161,264,185	176,584,142	191,500,091	195,512,872
<u>Total Direct Operating Income</u>	2,193,229,180	2,804,845,442	3,189,277,219	3,775,111,007
<u>Expenditure Per Category</u>				
Salaries, Wages & Allowances	660,316,695	794,449,415	877,021,140	969,143,365
Remuneration of Councillors	20,868,027	23,200,203	25,300,221	27,620,742
General Expenses	473,230,639	560,561,539	605,978,442	656,235,510
Operating Projects	210,233,712	400,113,676	289,842,134	335,064,057
Bulk Electricity Purchases	366,774,586	520,477,945	687,580,447	911,497,799
Bulk Water Purchases	112,673,904	122,200,836	135,642,928	150,563,650
Repairs & Maintenance	149,850,627	190,052,164	351,352,168	510,594,713
Depreciation	107,296,335	273,516,007	290,728,874	290,744,899
Interest on External Loans	78,762,140	69,037,328	72,331,337	68,431,227
<u>Total Direct Operating Expenditure</u>	2,180,006,665	2,953,609,113	3,335,777,691	3,919,895,962
Internal Charges	682,216,335	717,350,597	760,301,657	805,825,286
<u>Total Operating Expenditure</u>	2,862,223,000	3,670,959,710	4,096,079,348	4,725,721,248
Internal Recoveries	(682,216,335)	(717,350,597)	(760,301,654)	(805,825,274)
<u>Sub-Total</u>	2,180,006,665	2,953,609,113	3,335,777,694	3,919,895,974
Transfers To/From Other Reserves	12,790,189	(148,882,812)	(146,603,760)	(145,455,565)
<u>Total Operating Expenditure</u>	2,192,796,854	2,804,726,301	3,189,173,934	3,774,440,409
<u>Surplus / (Deficit)</u>	432,326	119,141	103,285	670,598

Chart 1: 2009/2010 Operating Budget Per Revenue Source

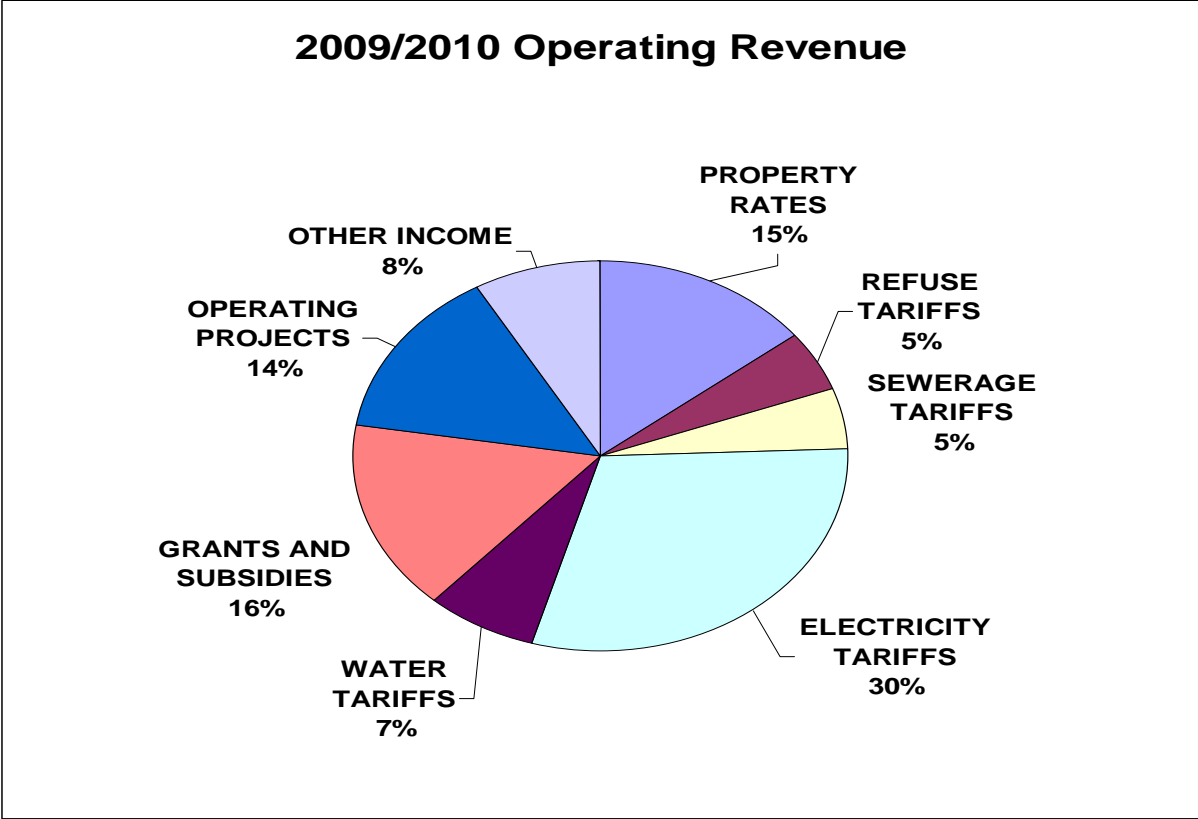
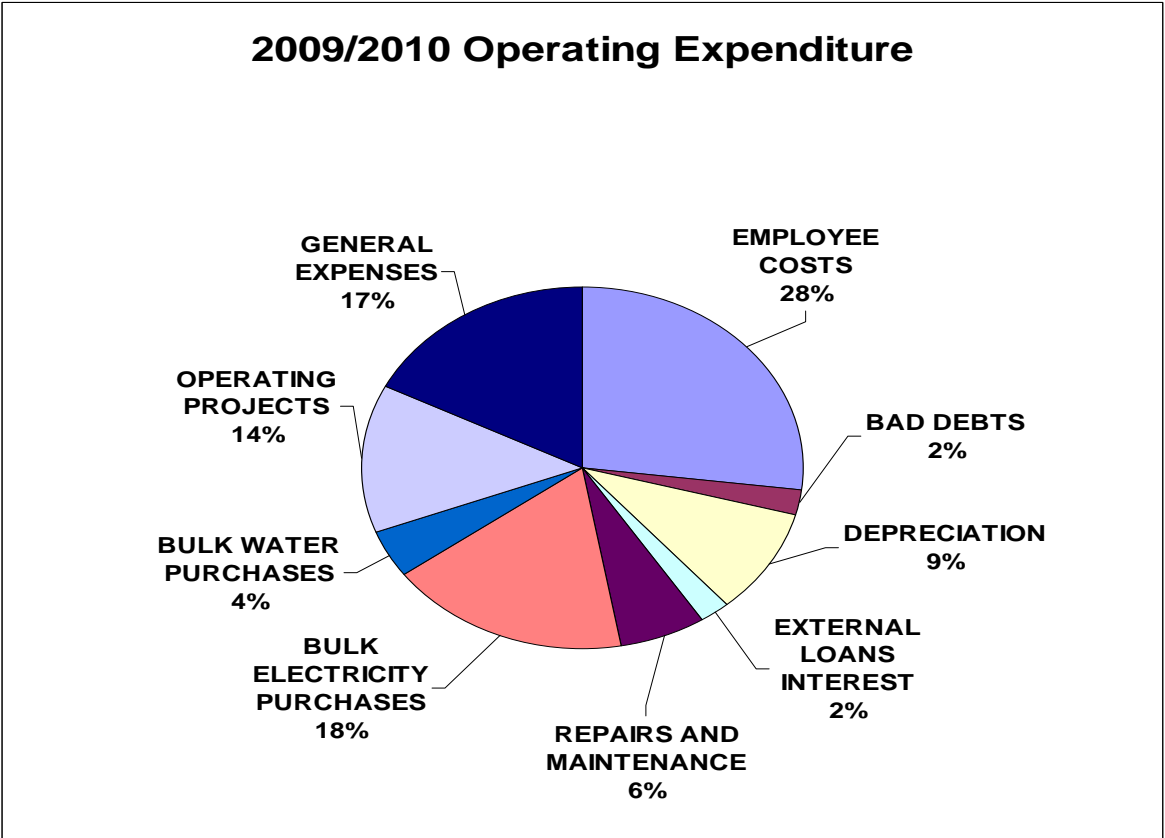


Chart 2: 2009/2010 Operating Budget Per Expenditure Categories



The following reflects the results of the trading services after the proposed tariff increase have been applied.

- **Electricity**

Table 10: Electricity Service Summary

	2007/2008 ACTUALS	2008/2009 BUDGET	2009/2010 BUDGET	% INCREASE	2010/2011 BUDGET	2011/2012 BUDGET
Revenue						
Tariff Income	326,148,784	604,173,373	838,592,320	38.80%	1,113,853,709	1,482,703,970
Projects	8,966,068	3,543,000	0	-100.00%	0	0
Other Income	196,229,948	41,049,635	46,414,416	13.07%	55,389,453	66,140,171
Internal Recoveries	160,229,716	177,720,479	186,621,835	5.01%	197,819,145	209,688,294
Total Income	691,574,516	826,486,487	1,071,628,571	29.66%	1,367,062,307	1,758,532,435
Expenditure						
Salaries & Wages	31,167,212	37,407,174	44,057,648	17.78%	48,592,942	53,603,680
Capital Charges	29,407,617	31,123,932	51,894,932	66.74%	52,623,091	51,969,017
Repairs & Maintenance	14,843,492	65,963,649	80,959,232	22.73%	108,485,371	145,370,397
Bulk Purchases	267,937,804	366,774,586	520,477,945	41.91%	687,580,447	911,497,799
General Expenses	36,209,229	53,949,769	63,903,432	18.45%	69,988,205	76,765,759
Projects	8,966,068	3,543,000	0	0.00%	0	0
Internal Charges	191,680,616	216,443,686	228,546,090	5.59%	242,250,501	256,776,759
Total Expenditure	580,212,038	775,205,796	989,839,279	27.69%	1,209,520,557	1,495,983,411
Trf To / From Reserves	(55,252,155)	(2,312,071)	27,455,166		27,123,958	26,770,500
Surplus / (Deficit)	56,110,323	48,968,620	109,244,458		184,665,708	289,319,524

Electricity service reflects a surplus of R109.2 million for the 2009/10 financial year after applying a 34 % increase in the tariffs proposed by Eskom and including a 2 cents per kwh Environmental Electricity Levy. The surplus from electricity contributes to Rates and General services.

Purchase of power from Eskom amounts to R491.5 million and the Environment Electricity Levy R29.0 million. The budget provision of R491.5 million represents an increase of 34.0 %, over the 2008/09 budget.

- **Water**

Table 11: Water Service Summary

	2007/2008 ACTUALS	2008/2009 BUDGET	2009/2010 BUDGET	% INCREASE	2010/2011 BUDGET	2011/2012 BUDGET
Revenue						
Tariff Income	169,287,311	183,634,963	203,834,809	11.00%	226,256,638	251,144,868
Projects	4,248,508	8,135,053	13,833,094	70.04%	6,600,000	0
Other Income	74,457,671	37,525,543	38,235,479	1.89%	42,165,185	46,101,379
Internal Recoveries	120,322,174	132,875,596	138,860,370	4.50%	147,191,991	156,023,510
Total Revenue	368,315,664	362,171,155	394,763,752	9.00%	422,213,814	453,269,757
Expenditure						
Salaries & Wages	34,848,197	39,536,577	50,673,848	28.17%	55,887,329	61,647,340
Capital Charges	18,900,452	20,595,910	30,770,633	49.40%	31,305,522	31,177,272
Repairs & Maintenance	11,862,051	16,232,675	16,306,785	0.46%	18,100,531	20,091,589
Bulk Purchases	90,795,230	112,673,904	122,200,836	8.46%	135,642,928	150,563,650
General Expenses	48,119,457	34,133,875	36,587,742	7.19%	39,399,082	42,274,231
Projects	4,248,508	8,135,053	13,833,094	0.00%	6,600,000	0
Internal Charges	145,973,355	162,250,291	170,678,083	5.19%	180,912,198	191,760,032
Total Expenditure	354,747,250	393,558,285	441,051,021	12.07%	467,847,590	497,514,114
Trf To / From Reserves	(1,613,391)	(1,859,008)	22,665,396		21,947,498	21,721,444
Surplus / (Deficit)	11,955,023	(33,246,138)	(23,621,873)		(23,686,278)	(22,522,913)

The water service reflects a deficit of R23.6 million for the 2009/10 financial year after applying the 11% increase in the tariffs.

The bulk water purchases amounts to R122.2 million, which is R9.5 million more than 2008/09 estimate of R112.7 million, which represents a year-on-year increase of 8.46 %.

In order for water services to break even, the water tariff needs to be increased by a further 13.02%. The deficit incurred by the water service is subsidized by Rates and General Service.

- Refuse

Table 12: Refuse Service Summary

	2007/2008	2008/2009	2009/2010	%	2010/2011	2011/2012
	ACTUALS	BUDGET	BUDGET	INCREASE	BUDGET	BUDGET
<u>Revenue</u>						
Tariff Income	109,833,002	119,414,425	138,033,322	15.59%	153,216,987	170,070,856
Projects	12,915,010	18,024,000	18,442,711	0.00%	3,100,000	2,500,000
Other Income	41,445,109	44,657,609	50,304,665	0.00%	55,778,503	61,653,968
Internal Recoveries	10,289,361	11,025,024	11,618,097	5.38%	12,315,183	13,054,094
Total Revenue	174,482,482	193,121,058	218,398,795	13.09%	224,410,673	247,278,918
<u>Expenditure</u>						
Salaries & Wages	57,006,162	57,033,450	62,990,024	10.44%	69,528,064	76,751,610
Capital Charges	11,036,035	12,664,082	18,905,357	49.28%	20,477,865	19,707,329
Repairs & Maintenance	613,386	5,970,722	6,901,666	15.59%	7,660,849	8,503,543
Bulk Purchases	0	0	0	0.00%	0	0
General Expenses	90,377,539	83,446,300	102,299,816	22.59%	111,790,888	121,969,569
Projects	12,915,010	18,024,000	18,442,711	0.00%	3,100,000	2,500,000
Internal Charges	30,024,805	32,839,042	36,593,639	11.43%	38,770,893	41,077,863
Total Expenditure	201,972,937	209,977,596	246,133,213	17.22%	251,328,559	270,509,914
Trf To / From Reserves	(1,819,854)	(2,409,342)	(788,216)		(1,012,325)	(1,233,480)
Surplus / (Deficit)	(29,310,309)	(19,265,880)	(28,522,634)		(27,930,211)	(24,464,476)

The refuse service reflects a deficit of R28.5 million for the 2009/10 financial year after applying the 11 % increase in the tariffs. Refuse tariff income has increased by 15.59 % compared to the 2008/09 financial year.

In order for refuse services to break even, the refuse tariff needs to be increased by a further 23.21%. The deficit incurred by the Refuse Services is subsidised by Rates and General Services.

- **Sewerage Service**

Table 13: Sewerage Service Summary

	2007/2008	2008/2009	2009/2010	%	2010/2011	2011/2012
	ACTUALS	BUDGET	BUDGET	INCREASE	BUDGET	BUDGET
Revenue						
Tariff Income	119,553,255	132,516,432	142,660,896	7.66%	158,353,596	175,772,490
Projects	0	0	0	0.00%	0	0
Other Income	84,208,087	51,175,871	50,960,803	-0.42%	56,519,739	62,533,079
Internal Recoveries	13,469,002	18,813,109	19,377,501	3.00%	20,540,153	21,772,562
Total Income	217,230,344	202,505,412	212,999,200	5.18%	235,413,488	260,078,131
Expenditure						
Salaries & Wages	34,611,898	41,196,203	50,785,866	23.28%	56,037,331	61,839,359
Capital Charges	40,364,768	16,148,392	59,224,163	266.75%	61,902,916	61,454,042
Repairs & Maintenance	11,183,568	12,421,928	12,839,481	3.36%	14,251,824	15,819,524
Bulk Purchases	0	0	0	0.00%	0	0
General Expenses	57,456,846	63,156,532	71,938,591	13.91%	78,867,328	86,487,920
Projects	0	0	0	0.00%	0	0
Internal Charges	39,622,663	47,868,509	50,814,167	6.15%	53,856,825	57,081,736
Total Expenditure	183,239,743	180,791,564	245,602,268	35.85%	264,916,224	282,682,581
Trf To / From Reserves	(1,291,724)	(1,517,036)	31,807,681		31,579,712	31,333,248
Surplus / (Deficit)	32,698,877	20,196,812	(795,387)		2,076,976	8,728,798

The sewerage service reflects a deficit of R0.8 million for the 2009/10 financial year after applying the 11 % increase in the tariffs. Sewerage tariff income has increased by 7.66 % compared to the 2008/09 financial year. The deficit from Sewerage Services is subsidized by Rates and General services.

2.11 Highlights from the Operating Budget

2.11.1 Repairs and Maintenance

An amount of R190.1, R351.4 and R510.6 million has been provided for maintenance in the 2009/10 to 2011/12 financial years for roads, refuse, sewerage, electricity and water respectively.

Table 14: Repairs and Maintenance

Provision for Repairs and Maintenance	2008/2009	2009/2010	2010/2011	2011/2012
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	Budget	Budget	Budget	Budget
<u>Roads</u>	20,167,063	23,797,135	28,080,619	33,135,130
% Increase on Previous Year	18.00%	18.00%	18.00%	18.00%
	3,630,071	4,283,484	5,054,511	5,964,323
<u>Total</u>	23,797,135	28,080,619	33,135,130	39,099,454
<u>Refuse Service Tariff Income</u>	119,414,425	138,033,322	153,216,987	170,070,856
% of Tariff Income	5.00%	5.00%	5.00%	5.00%
<u>Total</u>	5,970,721	6,901,666	7,660,849	8,503,543
<u>Sewerage Service Tariff Income</u>	132,516,432	142,660,896	158,353,595	175,772,490
% of Tariff Income	9.00%	9.00%	9.00%	9.00%
<u>Total</u>	11,926,479	12,839,481	14,251,824	15,819,524
<u>Electricity Service Tariff Income</u>	604,173,373	809,592,320	1,084,853,709	1,453,703,970
% of Tariff Income	10.00%	10.00%	10.00%	10.00%
<u>Total</u>	60,417,337	80,959,232	108,485,371	145,370,397
<u>Water Service Tariff Income</u>	196,809,224	203,834,809	226,256,638	251,144,868
% of Tariff Income	8.00%	8.00%	8.00%	8.00%
<u>Total</u>	15,744,738	16,306,785	18,100,531	20,091,589
<u>Other</u>	31,994,217	44,964,382	169,718,463	281,710,206
<u>GrandTotal Repairs & Maintenance</u>	149,850,627	190,052,164	351,352,168	510,594,713

The calculation of the budget for repairs and maintenance to roads is based on a 18% increase on the previous years budget and the services calculation is based on 5% to 10% of the anticipated budgeted tariff income to be generated as per Table 10 above.

2.11.2 Provision for Bad Debts

Table 15: Proposed Bad Debt Provision for the 2009/2010 MTREF Period

Proposed Bad Debt Provision	2009/2010	2010/2011	2011/2012
	69,726,306	77,681,451	85,449,596

The provision for bad debts has increased by R27, 4 million from R42.3 million in 2008/2009 to R69,7million in 2009/2010, due to:

- anticipated increase in unemployment as a result of retrenchments in the manufacturing industry,
- ratepayer's inability to pay as a result of the current economic slowdown.

2.11.2 Key issues from the Operating Budget

- Personnel costs decreased by 3% from 2008/09 financial year and comprise 28% of the operating revenue budget.
- Repairs and maintenance budget comprises of 6% of the total expenditure budget
- This is considered inadequate taking into account the infrastructure backlog and the deteriorating infrastructure that the City is faced with.
- The average increase in budget of 26.8% compared to 2008/09 is an indication of the City's commitment to address the challenge

2.12 Grants Included In The Budget In Terms Of The 2009/10 DoRA Report

The following table reflects grants to be received in 2009/2010, 2010/2011 and 2011/2012 in terms of the DoRA report published after the 2009 National Budget speech delivered by the Minister of Finance on 11 February 2009.

Table 16: 2009/2010 to 2011/2012 Grant Allocations in terms of 2009 DoRA

	<u>2008/2009</u> Actual	<u>2009/2010</u> Allocation	<u>2010/2011</u> Allocation	<u>2011/2012</u> Allocation
1. Specific Purpose Recurrent Grant Allocations (Schedule 6)				
a. Local Government Financial Management Grant	500,000	750,000	1,000,000	1,250,000
b. Water Services Operating & Transfer Subsidy (DAAF)	2,644,000	2,534,000	1,881,000	1,395,000
c. Municipal Systems Improvement Programme	400,000	500,000	750,000	790,000
Sub-Total - Specific Purpose Recurrent Grant Allocations	3,544,000	3,784,000	3,631,000	3,435,000
2. Infrastructure Grant Allocations (Schedule 4 and 6)				
a. Municipal Infrastructure Grant (MIG)	136,951,000	172,136,000	202,982,000	174,264,000
b. Public Transport Infrastructure and Systems Grant	8,592,000	31,213,000	71,478,000	400,000,000
c. Neighbourhood Development Partnership Grant	6,500,000	4,000,000	7,200,000	12,960,000
d. National Electrification Programme (NEP)	32,712,000	13,000,000	55,000,000	20,000,000
e. Electricity Demand Side Management Grant	0	5,000,000	2,000,000	2,000,000
Sub-Total - Infrastructure Grant Allocations	184,755,000	225,349,000	338,660,000	609,224,000
	<u>2008/2009</u> Allocations	<u>2009/2010</u> Allocations	<u>2010/2011</u> Allocations	<u>2011/2012</u> Allocations
3. Allocations-In-Kind (Schedule 7)				
a. Water Services Operating & Transfer Subsidy Grant	1,107,000	1,056,000	0	0
b. National Electrification Programme (Eskom) Grant	179,000	4,498,000	16,729,000	0
c. Neighbourhood Development Partnership Grant	1,000,000	2,000,000	2,000,000	1,000,000
Sub-Total - Allocations-In-Kind	2,286,000	7,554,000	18,729,000	1,000,000
	<u>2008/2009</u> Allocations	<u>2009/2010</u> Allocations	<u>2010/2011</u> Allocations	<u>2011/2012</u> Allocations

4. Equitable Share Allocations

a. Equitable Share	322,191,000	392,875,000	492,572,000	545,235,000
Sub-Total - Equitable Share Allocations	322,191,000	392,875,000	492,572,000	545,235,000

Grand Total - Total Allocations to Municipalities	512,776,000	629,562,000	853,592,000	1,158,894,000
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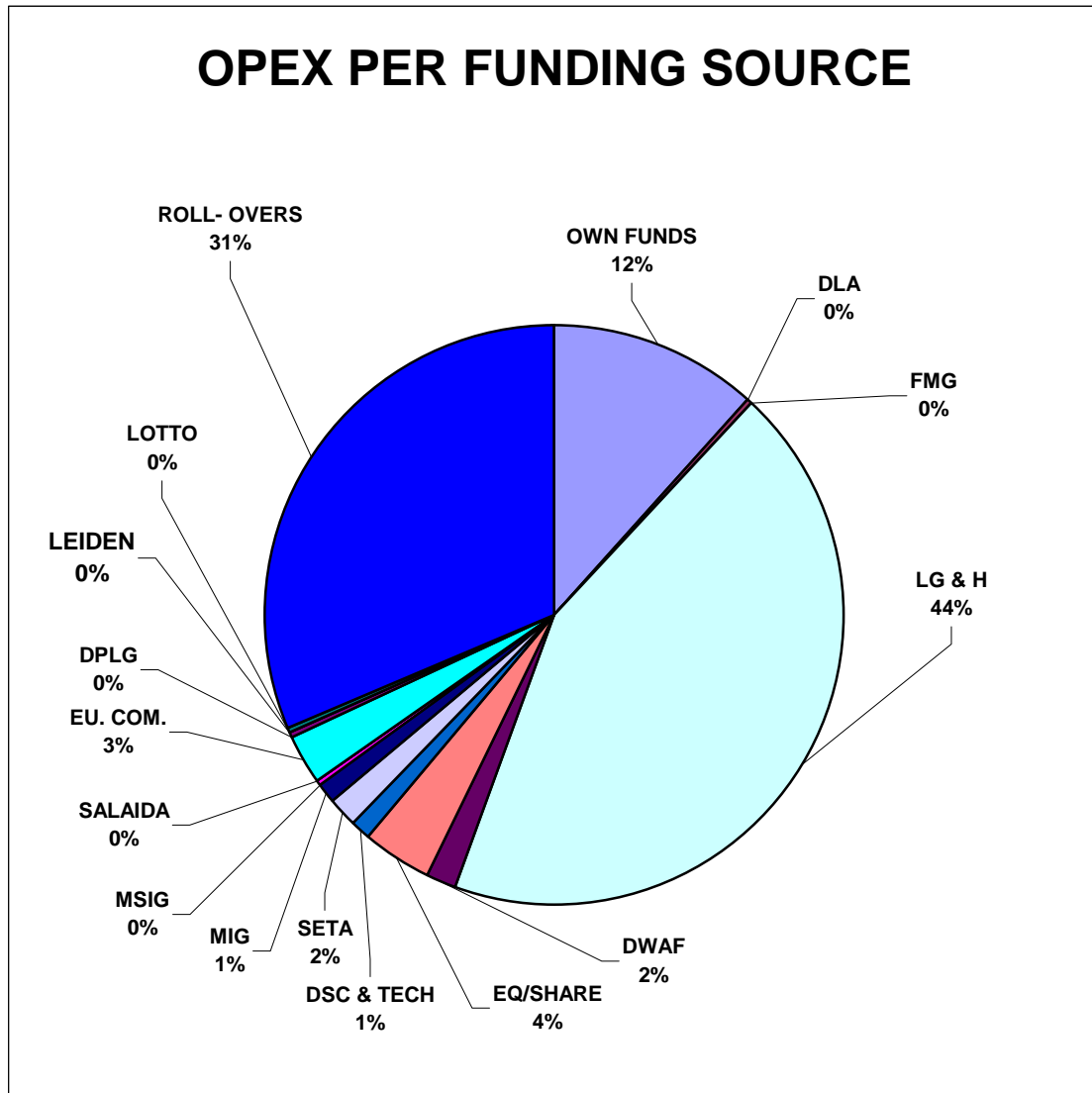
2.13 Operating Projects**Table 17: Operating Projects Per Funding Source for 2009/2010 MTREF Period (Annexure 2)**

OPEX PER FUNDING SOURCE	2009/2010 R	2010/2011 R	2011/2012 R
Own Funds	46,740,176	33,585,822	38,857,000
Dept. Land Affairs	500,000	1,000,000	1,000,000
Finance Management Grant	750,000	1,000,000	1,250,000
Dept. Local Government and Housing	173,804,022	218,722,912	269,187,057
Dept. Water Affairs & Forestry	7,460,400	6,600,000	0
Equitable Share	15,000,000	15,000,000	15,000,000
Dept. Science & Technology	5,000,000	5,000,000	4,000,000
Sectoral Education & Training Authority	6,925,000	0	0
Municipal Infrastructure Grant	4,000,000	100,000	0
Municipal Systems Improvement Grant	500,000	0	0
SALAIDA	1,014,000	1,033,400	470,000
European Commission	11,020,000	7,200,000	5,200,000
Dept of Provincial Local Government	500,000	500,000	0
LOTTO	603,708	0	0
Leiden	440,567	100,000	100,000
TOTAL NEW OPEX PROJECTS	274,257,873	289,842,134	335,064,057
ROLLED OVER OPEX PER FUNDING SOURCE	2009/2010 R	2010/2011 R	2011/2012 R
Own Funds	9,135,722		
Buffalo City Metropolitan Transport	396,431		
Department of Arts and Culture	131,037		
Development Bank of South Africa	234,779		
Dept. Environmental Affairs and Tourism	140,000		
Dept. Local Govt, Housing & Traditional Affairs	2,681,135		
Donor Funding	1,255,192		
Dept. of Science & Technology	582,889		
Dept. Water Affairs & Forestry	4,553,060		
Equitable Share	14,920,248		
European Commission	6,919,923		
Finance Management Grant	550,055		
Dept. Housing and Local Government	36,202		
Leiden	18,948		
Dept. Housing and Local Government	69,500,798		
LOTTO	1,956,994		
Municipal Infrastructure Grant	10,405,358		
Municipal Systems Improvement Grant	415,163		
SALAIDA	1,094,137		
ROLLED OVER OPEX PER FUNDING SOURCE	2009/2010	2010/2011	2011/2012

Sectoral Education & Training Authority	414,443		
Swedish International Development Agency	104,989		
Trust Funds	408,301		
TOTAL ROLLED-OVER OPEX PROJECTS	125,855,804	0	0

TOTAL OPEX PER FUNDING SOURCE	400,113,677	289,842,134	335,064,057
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Chart 3 : Operating Projects per Funding Source



2.14 Capital Projects

Table 18 below reflects the Capital Budget per sources of funding. (Annexure B).

Table 18: Capital Budget per Funding Source for 2009/2010 MTREF Period

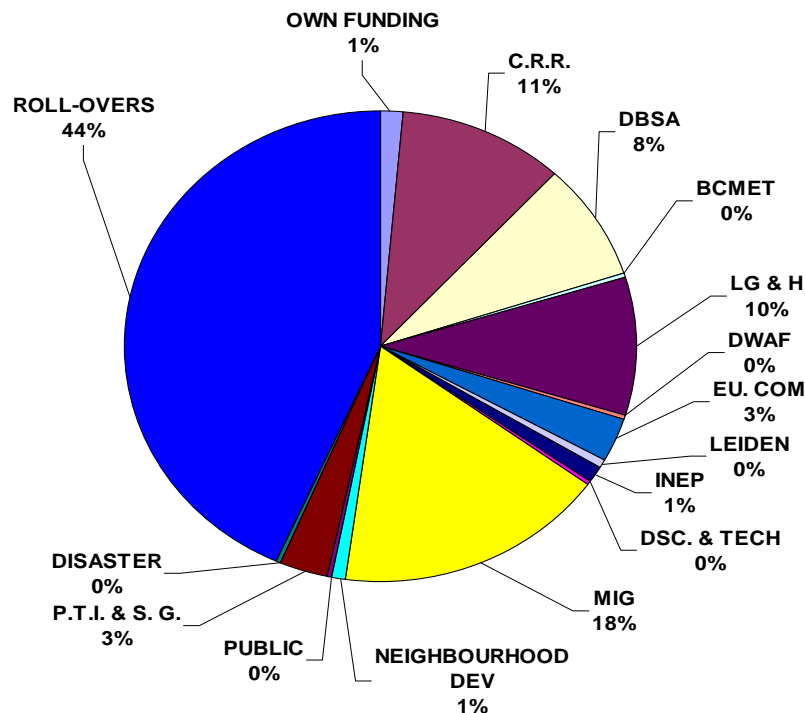
CAPEX PER FUNDING SOURCE	2009/2010	2010/2011	2011/2012
	R	R	R
Own Funding	15,000,000	15,000,000	15,000,000
Capital Replacement Reserve	105,740,192	134,341,554	95,286,327
Development Bank of South Africa	83,689,000	0	0
BCM Metropolitan Transport	200,000	0	0
Dept. Local Government and Housing	98,327,845	33,279,300	12,538,827
Dept. Water Affairs & Forestry	278,870	0	0
European Commission	33,000,000	0	0
Leiden	4,000,000	0	0
National Electrification Programme	13,000,000	55,000,000	20,000,000
Dept. Science & Technology	3,000,000	0	0
Municipal Infrastructure Grant	174,503,495	199,993,244	255,515,228
Neighbourhood Development Partnership Grant	9,143,000	10,000,000	0
Public	1,000,000	1,000,000	1,000,000
Public Transport Infrastructure Systems Grant	31,213,000	71,478,000	400,000,000
Disaster Management Grant	3,000,000	0	0
TOTAL NEW CAPEX	575,095,402	520,092,098	799,340,382

ROLLED OVER CAPEX PER FUNDING SOURCE	2009/2010	2010/2011	2011/2012
	R	R	R
Capital Replacement Reserve	38,390,483		
Development Bank of South Africa	121,882,175		
BCM Metropolitan Transport	1,615,358		
Dept. Local Government and Housing	23,649,873		
Dept. Water Affairs & Forestry	255,097		
European Commission	47,156,747		
Leiden	186,910		
National Electrification Programme	22,327,718		
Dept. Science & Technology	390,580		
Municipal Infrastructure Grant	117,484,599		
Neighbourhood Development Partnership Grant	6,500,000		
Public	914,618		
Public Transport Infrastructure Systems Grant	5,559,997		
Disaster Management Grant	299,363		
Dept. Sports Recreation Arts & Culture	50,000,000	0	0
Dept. Environmental Affairs & Tourism	700,000		
Dept of Land Affairs	2,082,276		
Development Bank of South Africa Grant	51,078		
Eastern Cape Development Co-Operation	344,272		
LOTTA	344,555		
Swedish International Development Agency	52,994		
TOTAL ROLLED-OVER CAPEX	440,188,693	0	0

TOTAL CAPEX PER FUNDING SOURCE	1,015,284,095	520,092,098	799,340,382
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Chart 4 : Capital Expenditure (Projects) per Funding Source

CAPEX PER FUNDING SOURCE



3. BUDGET RELATED POLICIES

The following policies have been taken into account in the development of the 2009/10 to 2011/12 MTREF budget: -

Budget Policy

The Budget Policy has been developed in terms of Chapter 4 Section 15 to 32 of the MFMA and was approved by Council on 29 May 2008. The policy is currently being reviewed to take into account the key issues as per the MFMA Municipal Budget and Reporting Regulations.

Tariff Policy

In terms of Section 74(1) of the Municipal Systems Act, Council adopted a tariff policy on 30 May 2006. The reviewed policy is submitted to Council on 29 May 2009 for approval (Policy Annexure 4).

Credit Control and Debt Collection Policy

The Credit Control and Debt Collection Policy including the indigent policy were adopted by Council in 2 May 2007.

Investment and Cash Management Policy

In terms of Section 13(2) of the Municipal Finance Management Act, the municipality must adopt an investment and cash management policy. The reviewed policy will be submitted to Council on 29 May 2009 for approval (Policy Annexure 5).

Rates Policy

In terms of Section 3 of the Municipal Property Rates Act, Council must adopt a rates policy. The reviewed policy is submitted to Council on 29 May 2009 for approval (Policy Annexure 6).

Policy on Reserves and Asset Management Policy

The policy on Reserves and Asset Management policy are included in the accounting policies which were adopted by Council in August 2008.

Supply Chain Management Policy

In terms of Section 111 of the MFMA the municipality must adopt a Supply Chain Management policy. The reviewed policy was approved by Council in 24 February 2009.

4. RECOMMENDATION

It is recommended that: -

1. The annual budget for the financial year 2009/10; and the indicative budget for the two projected outer years 2010/11 and 2011/12 be approved as set out in the following annexures: -
 - (a) Annexure 1 – National Treasury Tables A1 to A10
 - (b) Annexure 2 – Detailed Operating Projects
 - (c) Annexure 3 – Detailed Capital Projects

	Operating Budget R	Capital Budget R	Total Budget R
2009/2010 Budget	2,953,609,113	1,015,284,095	3,968,893,208
2010/2011 Budget	3,335,777,694	520,092,098	3,855,869,792
2011/2012 Budget	3,919,895,974	799,340,382	4,719,236,352

2. Approval be granted for the increase in tariffs and charges with effect from 1 July 2009 in respect of the following: -

(a) Service Tariffs

▪ Sewerage	11%
▪ Refuse	11%
▪ Water	11%
▪ Electricity	34%

(b) General Rates on property

The Rates Tariffs have been determined taking into account the market value of properties in terms of the Municipal Rates Property Act, No. 6 of 2004 and the following tariffs are proposed to Council for approval: -

(i) Residential Property	0.005875
(ii) Agricultural Property	0.001470
(iii) Public Service Infrastructure	0.001470
(iv) Commercial Property	0.011750
(v) Educational Institutions	0.004100
(vi) Rural Communal Land	0.000000
(vii) Vacant Land	0.017620

The above tariffs are rate in the rand on market value

(c) Miscellaneous tariffs as set out in the detailed tariff book (Refer to Annexure 7)

3. That an indigent subsidy be granted to registered indigents in terms of Council's Indigent Policy as amended from time to time.
4. That an indigent consumer be given a maximum subsidy on his account of R304,83, per month, which includes a maximum of 50kwh for electricity and 6kl for water.
5. That free basic electricity be granted for a registered indigent consumer of 50KWh per month.
6. That free basic water be granted to a registered indigent of 6Kl per month.
7. That no new capital expenditure be undertaken until all funding has been obtained and approved by Council.
8. That loan funding will only be allocated to those projects, which will result in the creation of a capital asset for the City.
9. That the amended Integrated Development Plan be adopted.
10. That approval be granted to roll over committed expenditure of R9,1 million for operating projects and R38,4 million for capital projects funded from Own Funding and Capital Replacement Reserve.
11. That the Municipal Manager advertise the Council's 2009/10 tariffs on 1 June 2009 for public inspection in terms of Section 75A (3) of the Municipal Systems Act, No. 32 of 2000.

12. Council note that the National Treasury supporting schedules are attached as Annexure 1B.

FOR CONSIDERATION

Z. FAKU
EXECUTIVE MAYOR