

**REPORT TO SPECIAL COUNCIL: 31 MAY 2010**  
**OFFICE OF THE EXECUTIVE MAYOR**

**REVIEWED 2010/2011 INTEGRATED DEVELOPMENT PLAN (IDP) AND MEDIUM TERM REVENUE AND EXPENDITURE (MTREF) BUDGET**

**1. BACKGROUND**

In terms of Section 30 of the Municipal Systems Act no 32 of 2000, *the Executive Mayor of a municipality must in accordance with S 29-*

*“(c) submit the draft plan to the municipal council for adoption by the council, further, Section 53 of the Municipal Finance Management Act no 56 of 2003 subsection 1 (b) The Mayor of the Municipality must coordinate the annual revision of the IDP in terms of 34 of the MSA and the preparation of the annual budget and determine how the IDP is to be taken into account/ or revised for the purposes of the budget. Following is the process followed during the review of the IDP and Budget.”*

The budget process is governed by the Municipal Finance Management Act 56 of 2003 and the Municipal Systems Act 32 of 2000. The objective of the 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.”*

## **2. EXECUTIVE SUMMARY OF THE 2010/2011 MEDIUM TERM REVENUE AND EXPENDITURE (MTREF) BUDGET**

The 2010/2011 MTREF Budget has been prepared in terms of the National Treasury Guidelines, MFMA Circular 51 and the Municipal Budget and Reporting Regulations. The current socio-economic situation has also been considered during the budget preparation and setting of tariff increases which includes the average CPI, the unemployment rate and the revenue collection rates. This has taken into account in order to ensure that the budget is funded from realistically anticipated revenue to be collected as well financial sustainability of the municipality.

The highlights from the 2010/2011 Budget of R3.7 Billion are as follows:

### **2.1 Operating Budget**

The operating budget of the municipality has increased from R2.8 billion (2009/10) to R3.2 billion (2010/2011) which indicates a 14% growth. The operating budget is funded by 21% of grant funding and 79% from our revenue sources. 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. The growth in the operating budget is attributable to the following:

- An increase of 24.6% in the repairs and maintenance budget resulting in an additional R46.35million compared to the 2009/10 financial year. The break down of the increase per service is as follows:
  1. Roads - 67.5% increase from the 2009/2010 financial year.
  2. Refuse services - 6.0 % of revenue
  3. Sewerage services - 12.0 % of revenue
  4. Electricity services - 10.0 % of revenue
  5. Water services - 10.0 % of revenue;
- A provision for bad debts of 10% on revenue for service charges (R77.7 million) due to anticipated increase in the rate of unemployment;
- A provision of 24.8% increase in Eskom bulk electricity purchases as per NERSA approved tariff increases;
- A provision of 8.8% increase in bulk water purchases from Amatola Water;
- A provision of 8.5% increase in staff costs for salary increases as well as funding for posts that were vacant and unfunded in 2009/10;
- An increase of 5% in general expenses as a result of impact of capital spending on operations.

Unfunded mandates such as primary health care and library services exert pressure on the city's operating budget. Expenditure flexibility is limited and non-discretionary expenditure such as employee costs, debt service and bulk purchases and capital charges constitute 61% of total spending. Staff remuneration costs comprise 29% of the operating revenue budget. Repairs and maintenance comprise 7% of the total budget and is still considered inadequate even after the 24.6% increase compared to 2009/10 financial year given the condition of most of the critical service infrastructure such as electricity and sewerage networks, water mains and roads.

## 2.2 Capital Budget

The capital budget has decreased from R1.01 billion in 2009/10 to R480 million in 2010/2011 financial year. The capital budget is funded by 64% grant funding and 36% own revenue. This is evident of the government's focus to finance the upgrading of municipal infrastructure. The decline in the budget is attributable to:

- A commitment not yet received for European Union funding
- No new loan facility secured for the 2010/2011 financial year
- Phasing out of 2010 World Cup spending on upgrading of stadiums
- A reduction in the housing budget

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.

Major capital projects for infrastructure development for the 2010/2011 financial year include the following:

### **Sanitation**

An amount of R287 million will be invested on upgrading of sanitation infrastructure in 2010/2011 MTREF period with R128 million on Upgrading of Rural Sanitation Infrastructure. Major capital projects over the medium term are: Upgrading of Waste water Treatment Works in Zwelitsha, Quinera Treatment Works, Reeston Phase3 Bulk Sewer and Mdantsane Bufferstrip Sanitation.

### **Water**

An amount of R161 million will be invested on upgrading of water infrastructure in 2010/2011 MTREF period. Major water infrastructure projects over the medium term are: King William's Town and Bhisho infrastructure, Amahleke Water Supply, Augmentation of Umzoniana Water Treatment Capacity, Upgrading of Rural Bulk Water Supply Scheme (Ward 33), Bulk Water Supply Coastal Areas, Relocation of Mid blocks in Mdantsane.

### **Roads**

An amount of R356 million will be invested on upgrading of roads infrastructure in 2010/2011 MTREF period. Major roads upgrading projects over the medium term are: Westbank Restitution R60 million, Rural roads upgrade R44 million, Mdantsane Roads Upgrade R175 million and Rehabilitation of Underground Stormwater.

### **Electricity**

An amount of R162 million will be invested in upgrading of electricity infrastructure in 2010/2011 MTREF period. Major electricity infrastructure upgrading projects over the medium term are: Electrification of areas like Reeston and Duncan Village, Upgrading of electricity reticulation in King William's Town and Coastal Areas, Construction of Queenspark and Reeston Substation, Conversion of credit meters to prepaid meters and the installation of streetlights and high masts.

## **Transport Planning and Operations**

An amount of R1.3 billion will be invested on upgrading of transport infrastructure in 2010/2011 MTREF period. Major transport infrastructure upgrading projects over the medium term are: Qumza Highway Upgrade, Yellowwoods River Bridge, Needscamp/Potsdam Bridge, implementation of Bus Rapid Transit System (BRT) and Upgrading of Pedestrian Facilities.

## **Refuse Removal**

In order to address the challenge of refuse removal and cleanliness of the city, BCM will be investing:

- R40 million on Wheely Bins in 2010/2011 and 2011/12 financial years
- R3.8 million in the Construction of Collection Points in wards 10,5 and 12
- R15.8 million in the Construction of a New Cell – Roundhill Regional Landfill Site

## **Community Facilities**

Buffalo City Municipality will be investing an amount of R 23 million in the 2010/2011 MTREF period on constructing and upgrading of Community Halls in Mdantsane, Phakamisa, Scenery Park , Airport & St Mary, and Ndevana. Other major community facilities projects are upgrading of sport field and development of 3 new cemeteries (one in Inland, Coastal and Midlands Area).

## **Local Economic Development**

Buffalo City Municipality will be investing an amount of R 23 million in the 2010/2011 financial year on local economic development with special focus on Tourism, Agriculture, Emerging Contractor and Informal Traders Development Programme and Cooperative Support Programme.

## **2.3 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 in 2009 (based on 2007/08 annual financial statements) which is reflecting a stable outlook for the municipality. The rating demonstrates prudent financial policies, manageable debt levels, sound financial management and liquidity. BCM is currently undergoing a credit rating based on 2008/09 annual financial statements including its performance for the first half of the 2009/10 financial year. The outcome thereof will be published by June 2010.

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 has therefore result in an increase in unemployment as well as an increase in the number of indigents.

BCM has maintained a marginal net cash position. However, the cash flow of Buffalo City depends on the continued focus on collections of outstanding debtors. BCM's current collection rate is 92% which indicated a 2% decrease compared to the 2008/09 financial year but is still 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 R77.8 million given the municipality's current experience with the collection of old debts and the increase in the rate of unemployment.

Interest bearing liability will increase to R580 million by the end of 2009/10 financial year. Debt to revenue ratio will increase to 43% hence no new borrowings are anticipated in the 2010/2011 financial year.

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

- High levels of poverty and unemployment resulting in an increase in number of indigents
- 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, maintenance of assets and spending rate of capital budget allocations

## 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 recognizes 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 R509 million for the 2009/10 financial year as gazetted in the 2010 Division of Revenue Act (DoRA).-

The equitable share allocation for the 2010/2011 financial year reflects an increase of 27% compared to the 2009/10 financial year. The increase in allocation has been used to budget for the possible increase in number of indigent households to 65,000.

**Table 1: Proposed Indigent Consumer Package**

MONTHLY WELFARE PACKAGE	2009/2010	2010/2011	2011/2012	2012/2013
	ACTUAL	PROPOSED	PROPOSED	PROPOSED
	PACKAGE	PACKAGE	PACKAGE	PACKAGE
Rates	60.70	66.77	73.45	80.79
Refuse	87.63	97.37	108.08	119.97
Sewerage	53.44	59.32	65.84	73.09
Fire Levy	19.45	22.40	24.86	27.60
Electricity - 50kwh	31.71	33.20	40.51	49.42
Water - 6kl	30.97	34.37	38.16	42.35
<b>Total Welfare Package Per Month</b>	<b>283.90</b>	<b>313.43</b>	<b>350.90</b>	<b>393.22</b>

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

### **3. OVERVIEW OF THE ANNUAL BUDGET PROCESS**

The budget process has taken into account the review of the IDP Objectives and Strategies for the 2010/2011 MTREF through a series of events and strategic processes, which include the following:

- 3.1 Approval by Council of the IDP/ Budget Process Plan with the schedule of key deadlines for the IDP review and the development of the budget. This was to ensure integration between the review of the IDP and the development of the budget.
- 3.2 An advertisement was placed in the local newspaper in September 2009 calling for sector organizations and stakeholders to nominate members for the IDP, Budget & PMS Representative Forum;
- 3.3 IDP Sessions were held on 1 and 12 September 2009 with all Buffalo City Councillors, to assess progress with the implementation of ward needs and identify new ward priorities in terms of service delivery;
- 3.4 An IDP/Budget/PMS External Representative Forum was held on 30 September 2009, to review progress in implementation of the 2008/09 IDP/Budget, report on performance of the first quarter of 2009/10 IDP/ Budget and to outline the review process towards 2010/2011IDP;
- 3.5 Technical Cluster meetings were convened on 4-12 November 2009 to conduct a situation analysis exercise and to commence a review of objectives and strategies towards 2010/2011;
- 3.6 An Institutional Strategic Planning workshop was held in Fish River Sun from 29 November to 1 December 2009;
- 3.7 An IDP/Budget/PMS Workshop that was held on 11 December 2009 to consider outstanding issues from the Institutional strategic planning session and to assess progress in terms of the action plans of each directorate;
- 3.8 Directorates submitted business plans for proposed projects from 8 – 18 February 2010;
- 3.9 An IDP/Budget/PMS Workshop was held on 25 February 2010, wherein Clusters presented their draft IDP Objectives and Strategies as well as preliminary projects for 2010/2011 MTREF period.
- 3.10 An IDP/Budget & PMS External Representative Forum was held on 4 March 2010 to engage external stakeholders on draft IDP Objectives, Strategies, Indicators, Targets and preliminary projects for 2010/2011 MTREF period.
- 3.11 IDP Thematic Clusters convened from 9-12 March 2010 to prioritise their projects in line with the available funding for 2010/2011 MTREF period; and
- 3.12 IDP/Budget Public hearings were held from 14 April – 3 May 2010, wherein the draft IDP and Draft 2010/2011 MTREF Budget was presented to the broader BCM community. Inputs from the broader community consultations have been taken into consideration in the finalization of the 2010/2011 IDP and Budget.

**Table 2: Key Deadlines relating to the IDP and Budget Process**

<b>ACTIVITY / KEY EVENTS</b>	<b>DATE</b>
IDP and Budget Process Plan approved by Council	25 August 2009 - MC 483/09 01 October 2009 - BCC 311/09
MTREF projections considered with all Directorates	November 2009
Tabling of Draft 2010/2011 MTREF Budget to Council	30 March 2010
IDP and Budget Public Hearings	14 April - 03 May 2010
Approval of the 2009/10 MTREF IDP and Budget	31 May 2010
Submission of the Approved Budget to National and Provincial Treasury , CoGTA and Provincial Local Government and Traditional Affairs	14 June 2010

#### **4. OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH INTEGRATED DEVELOPMENT PLAN**

##### **4.1 IDP/BUDGET KEY INFORMANTS**

The IDP review process was undertaken within the framework of National, Provincial and District policies and legislation. Some of the key informants that guide the review and refinement of IDP objectives and strategies include the following:

- Cluster Situation Analysis reports;
- Comments from the MEC;
- The 5 year Local Government Strategic Objectives;
- Millennium Development Goals;
- BCM sector plans and other surveys;
- Provincial Growth & Development Plan;
- National Spatial Development Framework;
- National Objectives and Targets; and
- An assessment of IDP implementation which includes the 2009/10 State of the City and the Priorities and Resolutions from the Institutional Strategic Planning workshop which was held at the Fish River Sun.

## 4.2 BCM'S SIX KEY OVERARCHING OBJECTIVES: IDP (2010/2011)

Through this process key issues for each of the IDP Clusters were identified and distilled. The table below contains the key issues with the overarching key objectives of BCM.

**Table 3: BCM Six Key Overarching Objectives: IDP (2010/2011)**

KEY ISSUE	BCM KEY OBJECTIVES
<i>Buffalo City lacks a clearly defined long-term development strategy this negatively impacts on the ability of BCM &amp; Buffalo City stakeholders to work towards the achievement of Buffalo City's vision.</i>	<b>BCM1</b> Local, Provincial & National stakeholders support and work together to achieve the vision for Buffalo City
<i>The sustainability of BCM is dependent on expanding its revenue in relation to costs and its financial viability, whilst implementing its mandate.</i>	<b>BCM2</b> Effective, efficient, co-ordinated financial management and increased revenue - enabling BCM to deliver its mandate*.
<i>Inefficiencies exist within the institution, which compromise BCM's ability to deliver services.</i>	<b>BCM3</b> BCM's institution is capacitated and structured to enable efficient, effective, and sustainable service delivery.
<i>Low economic growth, high unemployment, low skills levels, high levels of poverty and high inequality exist within BCM.</i>	<b>BCM4</b> 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.
<i>Whilst BCM delivers basic services (water, sanitation, waste removal &amp; electricity) to about 70% of households, many households still lack adequate transport, social services, economic opportunities and an enriching environment.</i>	<b>BCM5</b> 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)
<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>	<b>BCM6</b> BCM has a safe, healthy and 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.
* <b>Mandate:</b> as per the objectives for local government (Section 152 of the Constitution): provision of democratic and accountable local government, ensuring the provision of services in a sustainable manner, promoting social and economic development, promoting a safe and healthy environment, encouraging the involvement of communities and community organisation in matters of local government.	

### 4.3 KEY ISSUES: IDP 2010/2011

Buffalo City's key issues or strategic focus areas have been identified and distilled over a number of years. Due to the time it takes to address some of the strategic focus areas, most of the focus areas still remain relevant to date. These key issues include:

- Expediting the provision of key services such as roads, electricity, water and sanitation
- Improving financial / revenue generating capacity of BCM through devising and implementing support tools;
- "Growing the cake" by stimulating local economic development;
- Supporting BCM staff through training and staff retention programmes;
- Improving communication, both internally and externally;
- Attaining institutional stability, both administratively and politically.

Through public engagements, further priority areas emerged and these have been distilled into the following 5 priority issues, which BCM has to address going forward. The 5 priority issues relate to:

- Roads & Transport
- Electricity
- Water & Sanitation
- Housing & Land
- Waste Management

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

**Table 4: Allocation of Funding for the 5 BCM Priority issues**

<b>PRIORITY ISSUE</b>	<b>2009/2010 R'000</b>	<b>2010/2011 R'000</b>	<b>2011/12 R'000</b>	<b>2012/13 R'000</b>
Roads & Transport	229,144	204,552	553,867	882,769
Electricity	78,919	45,000	71,550	45,000
Water & Sanitation	241,185	112,212	159,864	175,500
Housing & Land	125,478	9,800	52,900	22,000
Waste Management	61,211	17,500	42,800	10,000

## 5. OVERVIEW OF BUDGET ASSUMPTIONS

The preparation of the draft 2010/2011 MTREF budget has taken into account the following assumptions/parameters:

- The contents of MFMA Circular No. 51, which deals with the global economic slowdown and the impact of such on the local economy and also predicts the headline inflation for the next three years.
- The parameters and guidelines for tariff on Bulk Water and Electricity purchases from Amatola Water and NERSA respectively.

**Table 5: Budget Assumptions / Parameters**

Description	2009/2010	2010/2011	2011/2012	2012/2013
National Treasury Headline Inflation Forecasts	6.70%	5.7%	6.2%	5.9%
Salaries	13.00%	8.5%	9.0%	9.0%
Electricity Purchases	31.30%	24.8%	25.9%	25.9%
Water Purchases	7.0%	8.8%	9.0%	9.0%
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	R283.90	R313.43	R350.90	R393.22
Equitable Share Allocation	R401,692,000	R508,895,000	R583,459,000	R643,912,000
Bad Debt Provision	R69,726,307	R77,681,451	R85,449,596	R93,994,556
Rates	Variable	10.0%	10.0%	10.0%
Refuse	11.0%	11.0%	11.0%	11.0%
Sewerage	11.0%	11.0%	11.0%	11.0%
Electricity	34.0%	22.0%	22.0%	22.0%
Electricity - Indigent and Pensioners	15.0%	15.0%	15.0%	15.0%
Water	11.0%	11.0%	11.0%	11.0%
Fire Levy	11.0%	11.0%	11.0%	11.0%
Sundry Income	11.0%	11.0%	11.0%	11.0%

On 24 February 2010 NERSA issued Municipal Electricity Tariff Guideline for 2010/2011 MTREF period and that the following Incremental Block Tariffs (IBTs) are to be implemented in order to provide cross subsidization for to low income domestic consumers.

**Table 6: IBT for the 2010/2011 MTREF Period as per NERSA Guidelines**

MONTHLY CONSUMPTION LEVEL	2010/2011	2011/2012	2012/2013
Block 1 (1 - 50kWh)	5.60%	5.50%	5.50%
Block 2 (51 – 350kWh)	7.30%	7.73%	8.00%
Block 3 (351 – 600kWh)	15.33%	16.03%	16.16%
Block 4 (> 600kWh)	15.33%	16.03%	16.16%

- Approximately 102,000 pre-payment meter customers consume average 260kwh electricity per month and;
- Approximately 14,355 credit meter consumer consume 420kwh electricity per month

The implication of the implementation of the IBT in the 2010/2011 financial year is that BCM will realize a shortfall of R59 million in the revenue for electricity.

BCM has submitted an application to NERSA:

- For the 22% increase in electricity tariff and 15% increase for indigent consumers and
- For the delay in the implementation of IBT to the 2011/12 financial year

If NERSA does not approve our application we will therefore have to reduce the 2010/2011 budget by the R59 million. We are expecting a response for NERSA by end of May 2010.

## 6. OPERATING BUDGET

### 6.1 Operating Budget Summary For The MTREF Period

Table 7: Draft Operating Budget for the 2010/2011 MTREF Period

	<b>2009/2010 APPROVED BUDGET</b>	<b>2010/2011 PROPOSED BUDGET</b>	<b>2011/2012 PROPOSED BUDGET</b>	<b>2012/2013 PROPOSED BUDGET</b>
<b><u>Revenue Per Source</u></b>				
Assessment Rates	(441,763,527)	(485,939,880)	(534,533,868)	(587,987,254)
Refuse Charges	(137,842,579)	(153,005,263)	(169,835,842)	(188,517,784)
Sewerage Charges	(146,597,011)	(162,722,682)	(180,622,177)	(200,490,617)
Trade Effluent	(8,463,474)	(9,394,456)	(10,427,846)	(11,574,909)
Water Charges	(202,854,696)	(225,168,713)	(249,937,271)	(277,430,371)
Electricity Charges	(810,214,976)	(988,462,271)	(1,205,923,970)	(1,471,227,244)
Fire Levy	(31,613,716)	(35,091,225)	(38,951,259)	(43,235,898)
Grants and Subsidies	(454,851,575)	(566,547,777)	(649,103,581)	(718,427,484)
Operating Project	(229,972,400)	(110,302,050)	(222,774,736)	(229,321,000)
Fines	(8,743,849)	(9,705,672)	(10,773,296)	(11,958,359)
Housing Rentals	(7,867,683)	(8,733,128)	(9,693,772)	(10,760,087)
Other Rentals	(2,600,993)	(2,887,102)	(3,204,683)	(3,557,199)
Income Foregone	15,773,180	17,508,230	19,434,135	21,571,890
Other	(200,283,274)	(208,043,077)	(225,655,961)	(245,459,375)
<b><u>Total Direct Operating Income</u></b>	<b>(2,667,896,573)</b>	<b>(2,948,495,065)</b>	<b>(3,492,004,128)</b>	<b>(3,978,375,691)</b>
<b><u>Expenditure Per Category</u></b>				
Salaries, Wages & Allowances	796,995,545	906,833,141	1,000,851,504	1,086,404,992
Remuneration of Councillors	23,200,204	25,237,654	27,551,946	29,912,122
General Expenses	633,766,189	683,643,330	732,737,859	785,826,256
Operating Projects	229,972,400	110,302,050	222,774,736	229,321,000
Bulk Electricity Purchases	476,599,576	594,796,271	748,253,709	942,051,419
Bulk Water Purchases	125,200,836	119,768,561	130,547,732	142,297,028
Repairs & Maintenance	188,372,161	234,724,847	268,219,785	307,593,722
Depreciation	273,516,007	476,021,212	498,810,806	584,381,508
Interest on External Loans	69,037,328	100,888,988	97,821,666	95,486,074
<b><u>Total Direct Operating Expenditure</u></b>	<b>2,816,660,246</b>	<b>3,252,216,054</b>	<b>3,727,569,743</b>	<b>4,203,274,121</b>
Internal Charges	717,350,597	777,241,736	817,305,004	859,491,552
<b><u>Total Operating Expenditure</u></b>	<b>3,534,010,843</b>	<b>4,029,457,790</b>	<b>4,544,874,747</b>	<b>5,062,765,673</b>
Internal Recoveries	(717,350,597)	(777,241,736)	(817,305,004)	(859,491,552)
<b><u>Sub-Total</u></b>	<b>2,816,660,246</b>	<b>3,252,216,054</b>	<b>3,727,569,743</b>	<b>4,203,274,121</b>
Transfers To/From Other Reserves	(148,882,812)	(303,824,274)	(236,236,213)	(225,298,479)
<b><u>Total Operating Expenditure</u></b>	<b>2,667,777,434</b>	<b>2,948,391,780</b>	<b>3,491,333,530</b>	<b>3,977,975,642</b>
<b><u>(Surplus) / Deficit</u></b>	<b>(119,139)</b>	<b>(103,285)</b>	<b>(670,598)</b>	<b>(400,050)</b>

Chart 1: Operating Budget per Income Sources

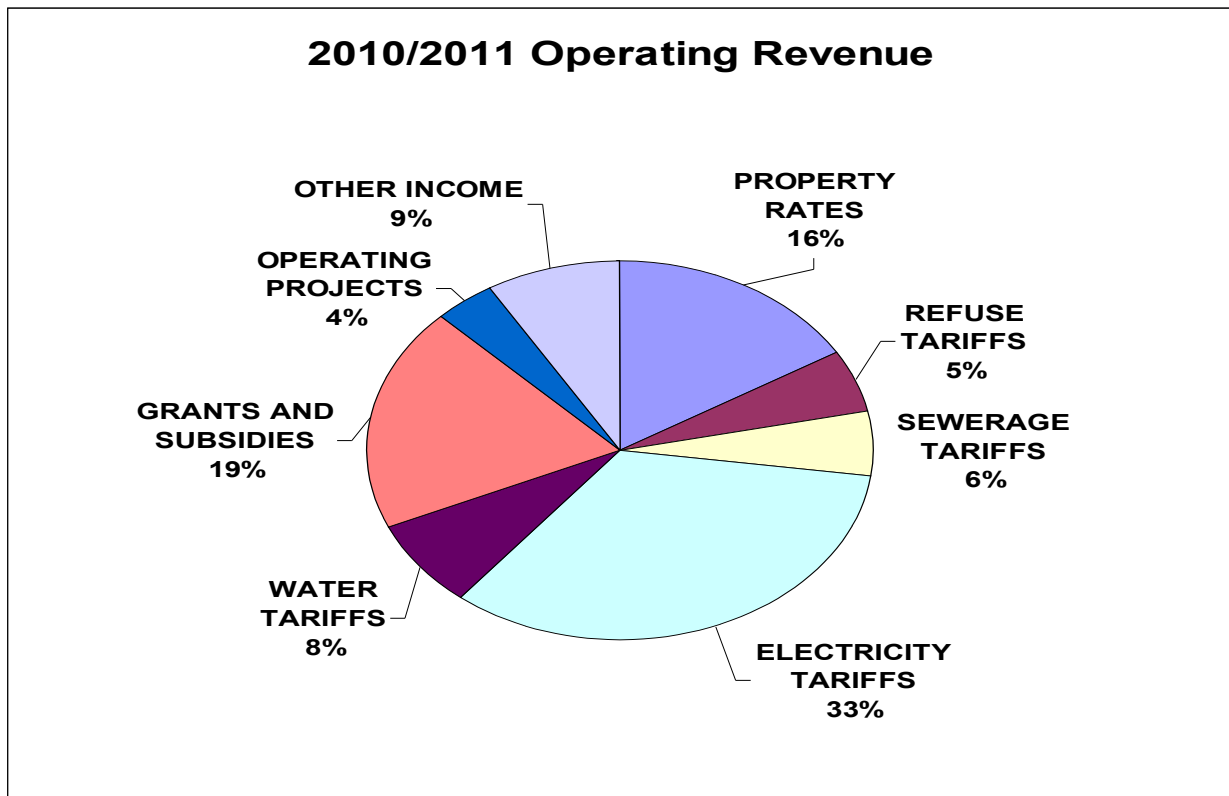
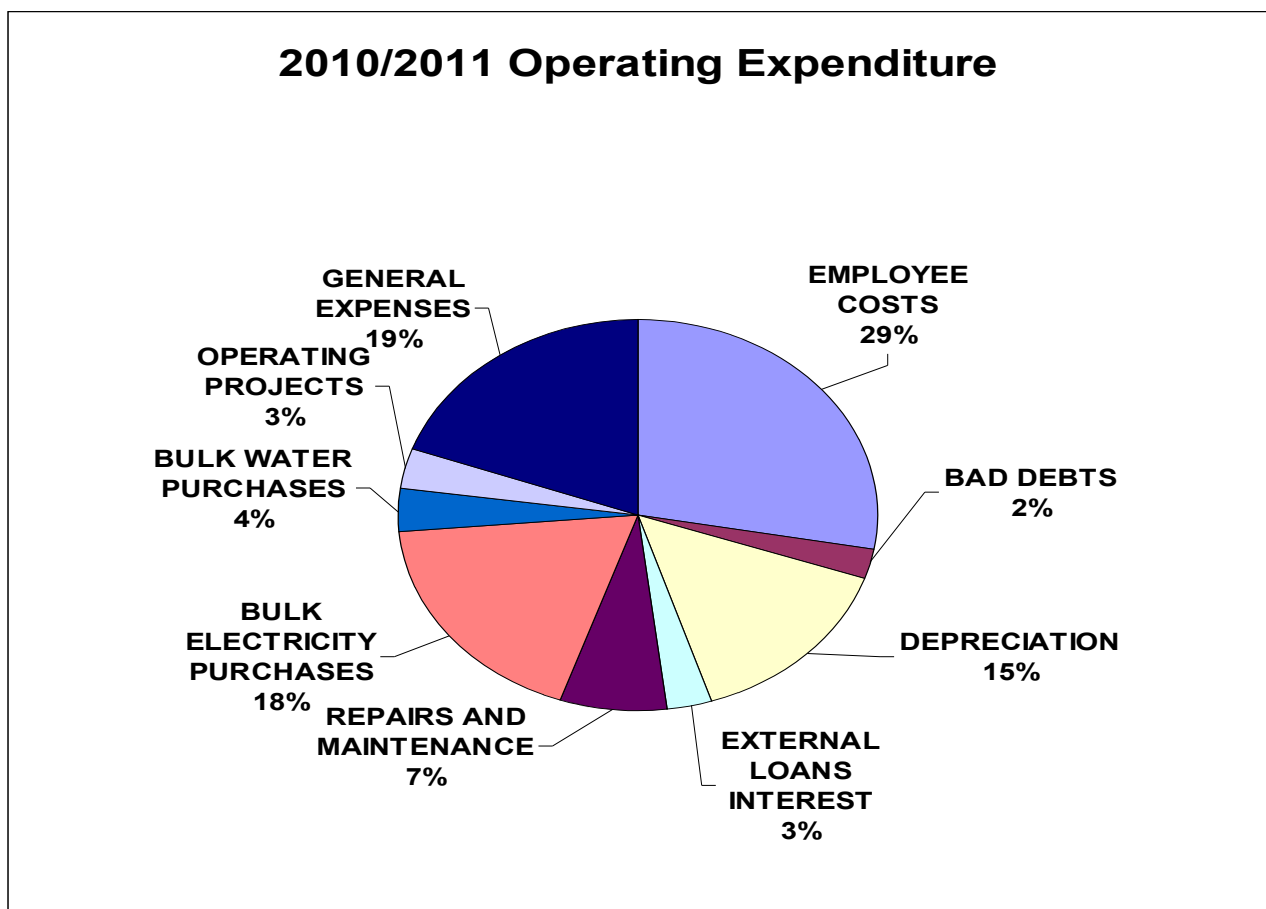


Chart 2: 2009/2010 Operating Budget per Expenditure Categories



## 6.2 Trading Services

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

- **Electricity**

**Table 8: Electricity Services Summary**

	2009/2010	2010/2011	%	2011/2012	2012/2013
	BUDGET	BUDGET	INCREASE	BUDGET	BUDGET
<b>Revenue</b>					
Tariff Income	(810,214,976)	(988,462,271)	22.00%	(1,205,923,970)	(1,471,227,244)
Projects	0	0	0.00%	0	0
Other Income	(46,414,416)	(52,133,793)	12.32%	(60,607,600)	(70,616,123)
Internal Recoveries	(186,621,835)	(195,952,927)	5.00%	(205,750,573)	(216,038,102)
<b>Total Income</b>	<b>(1,043,251,227)</b>	<b>(1,236,548,991)</b>	<b>18.53%</b>	<b>(1,472,282,143)</b>	<b>(1,757,881,469)</b>
<b>Expenditure</b>					
Salaries & Wages	44,889,511	49,262,902	9.74%	53,552,014	58,225,314
Capital Charges	51,894,932	121,591,179	134.30%	122,170,003	118,457,170
Repairs & Maintenance	80,959,232	98,846,227	22.09%	120,592,397	147,122,724
Bulk Purchases	476,599,576	594,796,271	24.80%	748,253,709	942,051,419
General Expenses	65,439,432	67,890,982	3.75%	72,953,462	78,537,393
Projects	0	0	0.00%	0	0
Internal Charges	228,546,090	245,150,746	7.27%	257,664,119	270,832,698
<b>Total Expenditure</b>	<b>948,328,773</b>	<b>1,177,538,306</b>	<b>24.17%</b>	<b>1,375,185,704</b>	<b>1,615,226,719</b>
Trf To / From Reserves	(27,455,166)	(98,139,790)		(86,418,070)	(82,845,577)
<b>(Surplus) / Deficit</b>	<b>(122,377,620)</b>	<b>(157,150,475)</b>		<b>(183,514,509)</b>	<b>(225,500,327)</b>

An electricity service reflects a surplus of R157.15 million for the 2010/2011 financial year after applying a 22.0 % increase in the tariffs. Electricity tariff income has increased by 22.0% compared to the 2009/10 financial year. The surplus from electricity contributes to Rates and General services.

Purchase of power from Eskom amounts to R594,8 million. The budget provision of R594.8 million represents an increase of 24.8 %, over the 2009/10 budget.

- **Water**

**Table 9: Water Services Summary**

	2009/2010	2010/2011	%	2011/2012	2012/2013
	BUDGET	BUDGET	INCREASE	BUDGET	BUDGET
<b>Revenue</b>					
Tariff Income	(202,854,696)	(225,168,713)	11.00%	(249,937,271)	(277,430,371)
Projects	(5,303,760)	0	-100.00%	0	0
Other Income	(40,942,102)	(44,349,735)	8.32%	(49,058,738)	(52,404,642)
Internal Recoveries	(138,860,370)	(145,803,389)	5.00%	(153,093,558)	(160,748,236)
<b>Total Revenue</b>	<b>(387,960,928)</b>	<b>(415,321,836)</b>	<b>7.05%</b>	<b>(452,089,567)</b>	<b>(490,583,249)</b>
<b>Expenditure</b>					
Salaries & Wages	50,630,177	55,022,732	8.68%	59,829,237	65,067,421
Capital Charges	30,770,633	49,070,536	59.47%	48,287,411	47,900,301
Repairs & Maintenance	16,306,784	22,516,871	38.08%	24,993,727	27,743,037
Bulk Purchases	125,200,836	119,768,561	-4.34%	130,547,732	142,297,028
General Expenses	42,592,709	39,466,922	-7.34%	42,073,959	44,874,653
Projects	5,303,760	0	0.00%	0	0
Internal Charges	170,678,083	181,002,257	6.05%	190,138,257	199,744,205
<b>Total Expenditure</b>	<b>441,482,982</b>	<b>466,847,879</b>	<b>5.75%</b>	<b>495,870,322</b>	<b>527,626,644</b>
Trf To / From Reserves	(22,665,396)	(36,932,403)		(30,934,570)	(29,646,107)
<b>(Surplus) / Deficit</b>	<b>30,856,658</b>	<b>14,593,639</b>		<b>12,846,185</b>	<b>7,397,289</b>

The water service reflects a deficit of R14.59 million for the 20010/2011 financial year after applying the 11 % increase in the tariffs.

The bulk water purchases amounts to R119,77 million, which is R5.43 million less than the 2009/10 estimate of R125.2 million. This situation arose from the fact that an amount of R15.3 million was included in the R125.2 million as a provision in the 2009/2010 financial year, in the event of a drought which would force the Municipality to buy in water at a premium. In essence the purchases from Amatola Water have increases by 8.8%.

In order for water services to break even, the water tariff needs to be increased by a further 7.19%.

- **Refuse**

**Table 10: Refuse Services Summary**

	<b>2009/2010</b>	<b>2010/2011</b>	<b>%</b>	<b>2011/2012</b>	<b>2012/2013</b>
	<b>BUDGET</b>	<b>BUDGET</b>	<b>INCREASE</b>	<b>BUDGET</b>	<b>BUDGET</b>
<b>Revenue</b>					
Tariff Income	(137,842,579)	(153,005,263)	11.00%	(169,835,842)	(188,517,784)
Projects	(1,300,000)	(750,000)	0.00%	0	0
Other Income	(50,304,665)	(61,733,328)	0.00%	(68,523,994)	(76,061,634)
Internal Recoveries	(11,618,097)	(12,199,002)	5.00%	(12,808,952)	(13,449,400)
<b>Total Revenue</b>	<b>(201,065,341)</b>	<b>(227,687,593)</b>	<b>13.24%</b>	<b>(251,168,788)</b>	<b>(278,028,818)</b>
<b>Expenditure</b>					
Salaries & Wages	63,067,232	67,234,441	6.61%	73,186,689	79,685,785
Capital Charges	18,905,357	6,571,325	-65.24%	6,513,221	6,475,444
Repairs & Maintenance	5,001,666	9,180,316	83.55%	10,190,151	11,311,067
Bulk Purchases	0	0	0.00%	0	0
General Expenses	104,479,817	122,293,775	17.05%	132,831,723	144,373,911
Projects	1,300,000	750,000	0.00%	0	0
Internal Charges	36,593,639	39,730,454	8.57%	41,777,840	43,939,331
<b>Total Expenditure</b>	<b>229,347,711</b>	<b>245,760,311</b>	<b>7.16%</b>	<b>264,499,625</b>	<b>285,785,539</b>
Trf To / From Reserves	788,216	1,155,194		1,292,530	1,439,091
<b>(Surplus) / Deficit</b>	<b>29,070,586</b>	<b>19,227,912</b>		<b>14,623,367</b>	<b>9,195,812</b>

The refuse service indicates a deficit of R17.23 million for the 2010/2011 financial year after applying the 11 % increase in the tariffs. Refuse tariff income has increased by 11.0 % as compared to the 2009/10 financial year.

In order for refuse services to break even, the refuse tariff needs to be increased by a further 13.95%. The deficit incurred by the Refuse Services is subsidised by Rates and General Services.

- Sewerage Service

**Table 11: Sewerage Services Summary**

	<b>2009/2010 BUDGET</b>	<b>2010/2011 BUDGET</b>	<b>% INCREASE</b>	<b>2011/2012 BUDGET</b>	<b>2012/2013 BUDGET</b>
<b>Revenue</b>					
Tariff Income	(146,597,011)	(162,722,682)	11.00%	(180,622,177)	(200,490,617)
Projects	0	0	0.00%	0	0
Other Income	(50,960,803)	(47,580,153)	-6.63%	(52,813,970)	(58,623,507)
Internal Recoveries	(19,377,501)	(20,346,376)	5.00%	(21,363,695)	(22,431,880)
<b>Total Income</b>	<b>(216,935,315)</b>	<b>(230,649,212)</b>	<b>6.32%</b>	<b>(254,799,842)</b>	<b>(281,546,003)</b>
<b>Expenditure</b>					
Salaries & Wages	50,211,865	56,127,732	11.78%	61,070,393	66,456,762
Capital Charges	59,224,163	47,029,902	-20.59%	48,762,262	50,530,203
Repairs & Maintenance	16,464,481	19,526,722	18.60%	21,674,661	24,058,874
Bulk Purchases	0	0	0.00%	0	0
General Expenses	76,376,240	85,744,933	12.27%	92,822,839	100,554,981
Projects	0	0	0.00%	0	0
Internal Charges	50,814,167	55,731,192	9.68%	58,632,914	61,695,831
<b>Total Expenditure</b>	<b>253,090,916</b>	<b>264,160,480</b>	<b>4.37%</b>	<b>282,963,068</b>	<b>303,296,651</b>
Trf To / From Reserves	(31,807,681)	(37,596,485)		(32,983,804)	(32,362,020)
<b>(Surplus) / Deficit</b>	<b>4,347,920</b>	<b>(4,085,216)</b>		<b>(4,820,578)</b>	<b>(10,611,372)</b>

The sewerage service reflects a surplus of R4.06 million for the 2010/2011 financial year after applying the 11 % increase in the tariffs. Sewerage tariff income has increased by 11 % as compared to the 2009/10 financial year. The surplus from Sewerage Services contributes to Rates and General services.

### 6.3 Repairs and Maintenance

An amount of R234.7 million has been provided for maintenance in the 2009/2010 financial year for roads, refuse, sewerage, electricity and water respectively. This reflects an increase of 24.6% compared to the 2009/2010 financial year and a further increase of 14% for 2011/2012 and 15% for 2012/2013 financial years.

**Table 12: Repairs and Maintenance**

PROVISION FOR REPAIRS AND MAINTENANCE	2009/2010	2010/2011	2011/2012	2012/2013
	BUDGET	BUDGET	BUDGET	BUDGET
<b>Roads</b>	23,797,135	28,080,619	47,035,037	51,268,190
% Increase on Previous Year	18.00%	67.50%	9.00%	9.00%
	4,283,484	18,954,418	4,233,153	4,614,137
<b>Total</b>	<b>28,080,619</b>	<b>47,035,037</b>	<b>51,268,190</b>	<b>55,882,327</b>
<b>Refuse Service Tariff Income</b>	138,033,322	153,005,263	169,835,842	188,517,784
% of Tariff Income	5.00%	6.00%	6.00%	6.00%
<b>Total</b>	<b>6,901,666</b>	<b>9,180,316</b>	<b>10,190,151</b>	<b>11,311,067</b>
<b>Sewerage Service Tariff Income</b>	142,660,896	162,722,682	180,622,177	200,490,617
% of Tariff Income	9.00%	12.00%	12.00%	12.00%
<b>Total</b>	<b>12,839,481</b>	<b>19,526,722</b>	<b>21,674,661</b>	<b>24,058,874</b>
<b>Electricity Service Tariff Income</b>	809,592,320	988,462,271	1,205,923,970	1,471,227,244
% of Tariff Income	10.00%	10.00%	10.00%	10.00%
<b>Total</b>	<b>80,959,232</b>	<b>98,846,227</b>	<b>120,592,397</b>	<b>147,122,724</b>
<b>Water Service Tariff Income</b>	203,834,809	225,168,713	249,937,271	277,430,371
% of Tariff Income	8.00%	10.00%	10.00%	10.00%
<b>Total</b>	<b>16,306,785</b>	<b>22,516,871</b>	<b>24,993,727</b>	<b>27,743,037</b>
<b>Other</b>	43,284,379	37,619,674	39,500,659	41,475,692
<b>Total</b>	<b>43,284,379</b>	<b>37,619,674</b>	<b>39,500,659</b>	<b>41,475,692</b>
<b>Grand Total Repairs &amp; Maintenance</b>	<b>188,372,161</b>	<b>234,724,847</b>	<b>268,219,785</b>	<b>307,593,722</b>

### 6.4 Provision for Bad Debts

**Table 13: Proposed Bad Debt Provision for the MTREF Period**

	2009/2010	2010/2011	2011/2012	2012/2013
<b>Proposed Bad Debt Provision</b>	<b>69,726,306</b>	<b>77,681,451</b>	<b>85,449,596</b>	<b>93,884,556</b>

The provision for bad debts has increased by R7,9 million in 2009/2010 to R77,7 million in

The provision for bad debts has been increased 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.

## 6.5 Grants Included In the Budget In Terms Of the 2010 DoRA Report

The following table reflects grants to be received in MTREF in terms of the DORA report published after the 2010 National Budget speech delivered by the Minister of Finance on the 13<sup>th</sup> April 2010.

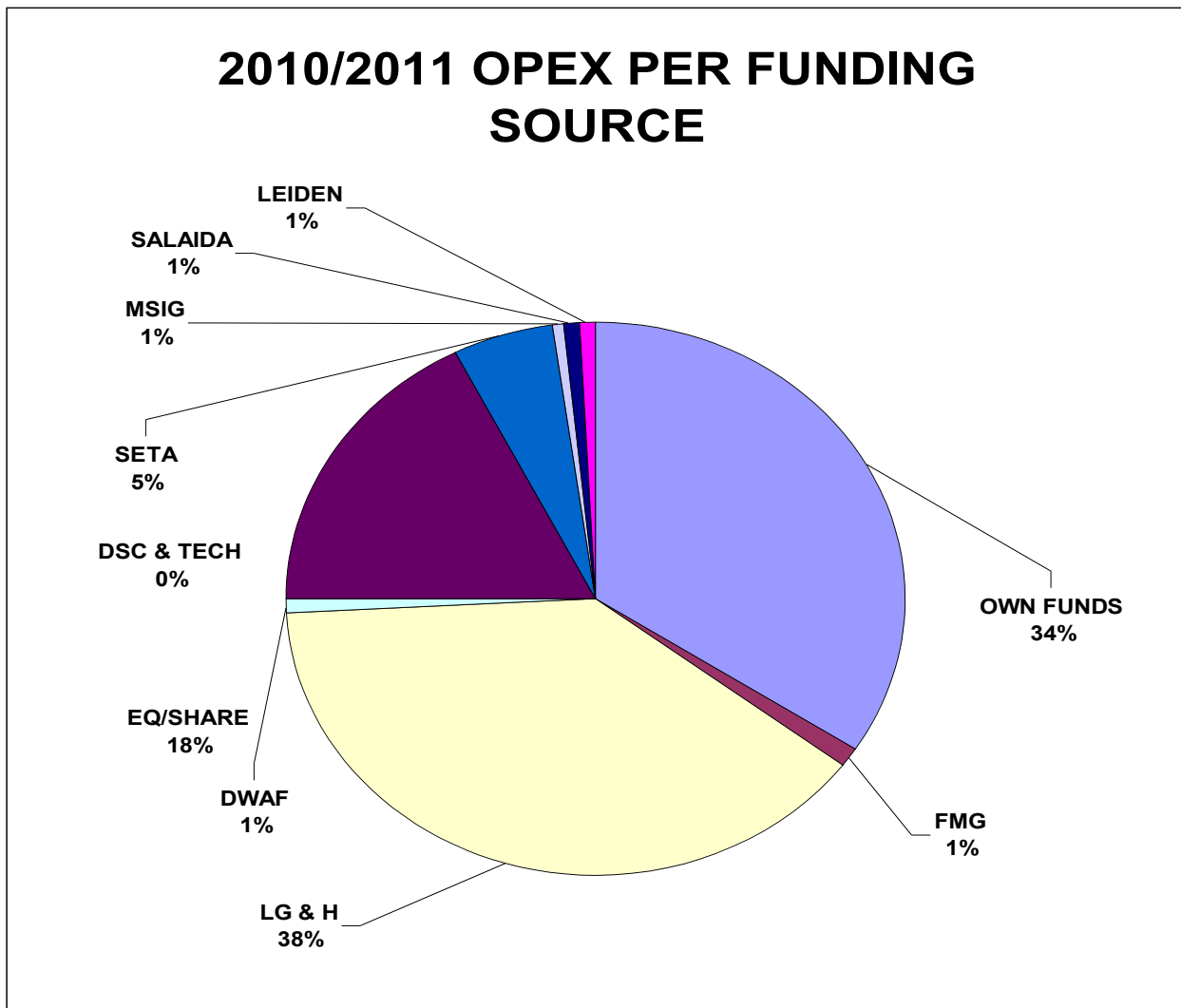
**Table 14: to 2012/2013 Grant Allocations in terms of 2010 DORA**

	2009/2010		2010/2011 MTREF	
	Government Gazette No 32794 10 Dec 2009	Government Gazette No 33100 13 Apr 2010	Government Gazette No 33100 13 Apr 2010	Government Gazette No 33100 13 Apr 2010
	<u>2009/2010</u>	<u>2010/2011</u>	<u>2011/2012</u>	<u>2012/2013</u>
<b>1. Appendix W4</b>				
<b><u>Specific Purpose Recurrent Grant Allocations</u></b>				
Local Government Financial Management Grant	1,000,000	1,200,000	1,450,000	1,500,000
Water Services Operating & Transfer Subsidy (DWAF)	2,985,000	2,105,000	1,395,000	0
Municipal Systems Improvement Programme	500,000	750,000	790,000	800,000
<b><u>Sub-Total - Specific Purpose Recurrent Grant Allocations</u></b>	<b>4,485,000</b>	<b>4,055,000</b>	<b>3,635,000</b>	<b>2,300,000</b>
<b>2. Appendix W5</b>				
<b><u>Infrastructure Grant Allocations</u></b>				
Municipal Infrastructure Grant (MIG)	172,136,000	193,192,000	232,352,000	282,519,000
Public Transport Infrastructure and Systems Grant	31,213,000	71,478,000	400,000,000	700,000,000
Neighbourhood Development Partnership Grant (Capital Grant)	6,000,000	13,000,000	18,000,000	35,000,000
Integrated National Electrification Programme (INEP)	13,000,000	20,000,000	25,000,000	20,000,000
Electricity Demand Side Management Grant	5,000,000	4,000,000	8,000,000	0
<b><u>Sub-Total - Infrastructure Grant Allocations</u></b>	<b>227,349,000</b>	<b>301,670,000</b>	<b>683,352,000</b>	<b>1,037,519,000</b>
<b>3. Appendix W6</b>				
<b><u>Allocations-In-Kind</u></b>				
Water Services Operating & Transfer Subsidy Grant (DWAF)	603,000	0	0	0
Integrated National Electrification Programme (INEP) (Eskom) Grant	5,166,000	6,491,000	16,729,000	0
Neighbourhood Development Partnership Grant (Technical Assistance)	1,000,000	1,300,000	3,500,000	4,136,000
Electricity Demand Side Management (Eskom) Grant	0	0	5,000,000	0
<b><u>Sub-Total - Allocations-In-Kind</u></b>	<b>6,769,000</b>	<b>7,791,000</b>	<b>25,229,000</b>	<b>4,136,000</b>
<b>4. Appendix W7</b>				
<b><u>Incentives to Municipalities</u></b>				
Expanded Public Works Programme Incentives Grant for Municipalities	500,000	1,827,000	0	0
<b><u>Sub-Total - Equitable Share Allocations</u></b>	<b>500,000</b>	<b>1,827,000</b>	<b>0</b>	<b>0</b>
<b>4. Appendix E6</b>				
<b><u>Equitable Share Allocations</u></b>				
Equitable Share	401,691,000	508,895,000	583,459,000	643,912,000
<b><u>Sub-Total - Equitable Share Allocations</u></b>	<b>401,691,000</b>	<b>508,895,000</b>	<b>583,459,000</b>	<b>643,912,000</b>
<b><u>Grand Total - Total Allocations to Buffalo City Municipality</u></b>	<b>640,794,000</b>	<b>824,238,000</b>	<b>1,295,675,000</b>	<b>1,687,867,000</b>

## 6.6 Operating Projects

**Table 15: Operating Budget Projects per Funding Source for MTREF Period**

OPEX PER FUNDING SOURCE	2009/2010	2010/2011	2011/2012	2012/2013
	R	R	R	R
Own Funds	33,585,822	37,785,000	44,286,000	28,993,000
Finance Management Grant	1,000,000	1,200,000	1,450,000	1,500,000
Dept of Land Affairs	1,000,000	0	0	0
Dept of Local Government and Housing	218,722,912	42,675,050	144,488,736	165,828,000
Dept. Water Affairs & Forestry	6,600,000	1,000,000	1,000,000	0
European Commission	7,200,000	0	0	0
Equitable Share	15,000,000	19,500,000	19,500,000	19,500,000
Dept. of Science & Technology	5,000,000	0	4,000,000	5,000,000
Sectoral Education & Training Authority	0	5,750,000	6,600,000	7,700,000
Municipal Infrastructure Grant	100,000	0	0	0
Municipal Systems Infrastructure Grant	500,000	650,000	790,000	800,000
SALAIDA	1,022,400	750,000	0	0
Leiden	100,000	992,000	660,000	0
<b>TOTAL OPEX</b>	<b>289,831,134</b>	<b>110,302,050</b>	<b>222,774,736</b>	<b>229,321,000</b>

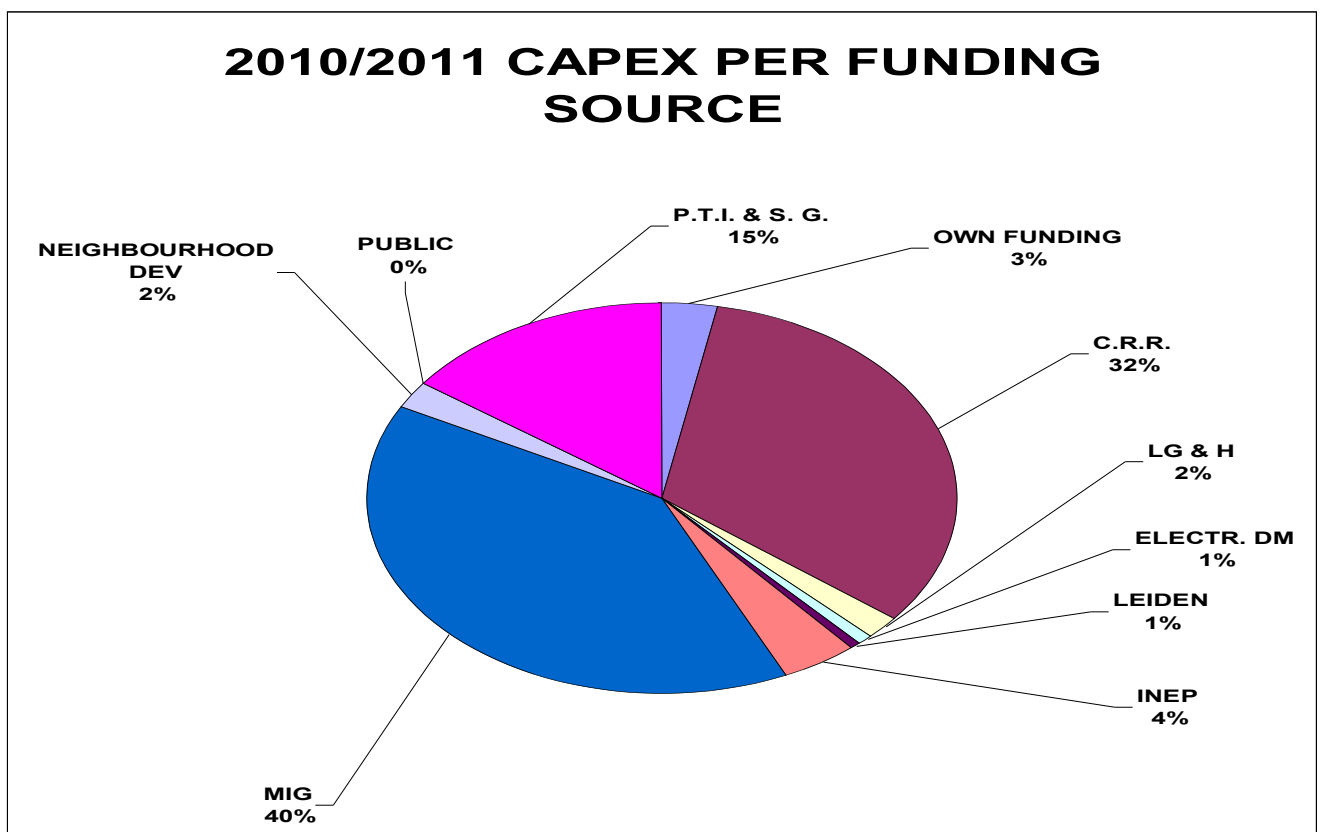


## 7. CAPITAL BUDGET

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

**Table 16: Capital Budget per Funding Source for MTREF Period**

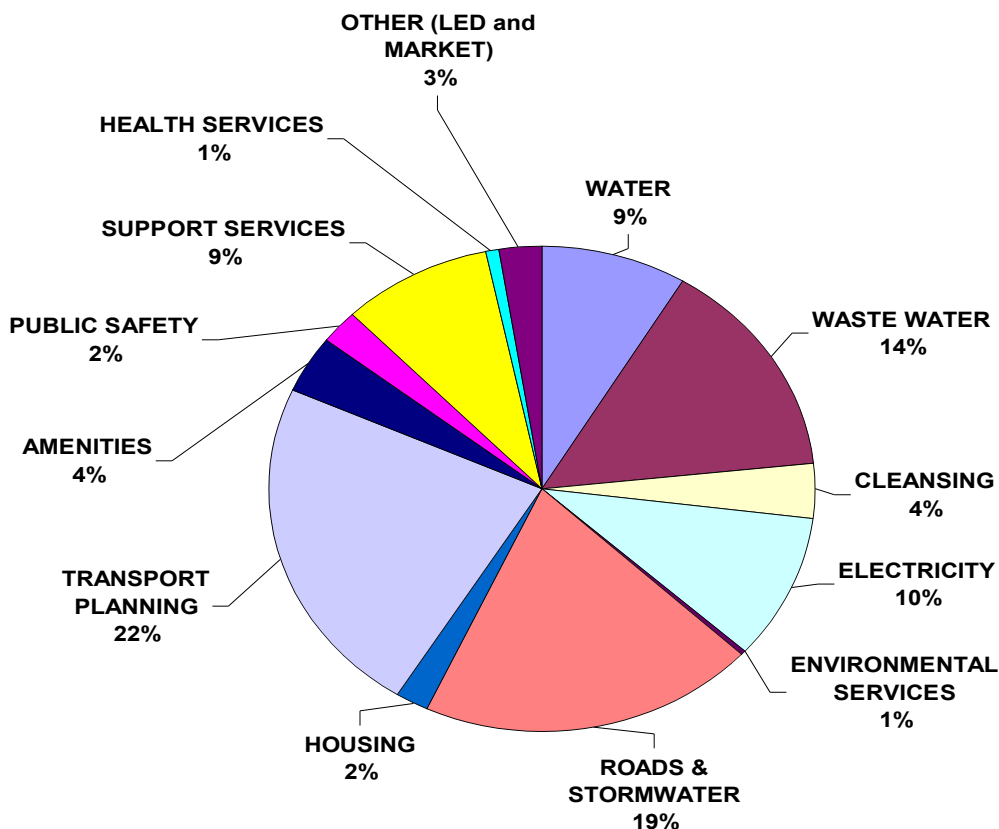
CAPEX PER FUNDING SOURCE	2009/2010 R	2010/2011 R	2011/2012 R	2012/2013 R
Capital Replacement Reserve	159,130,675	170,742,054	297,615,417	167,845,000
Development Bank of South Africa - Loan	205,571,175	0	0	0
Buffalo City Metropolitan Board	1,815,358	0	0	0
Dept. of Econ. Dev., Environ. Affairs & Tourism	700,000	0	0	0
Dept. of Land Affairs	2,082,276	0	0	0
Dept. of Sports, Arts & Culture	50,000,000	0	0	0
Dept. Science & Technology	3,390,580	0	0	0
Dept. of Water Affairs	533,967	0	0	0
Development Bank of South Africa - Grant	51,078	0	0	0
Easter Cape Development Corporation	344,272	0	0	0
European Commission	80,156,747	0	0	0
Dept. Local Government & Housing	121,977,718	9,800,000	52,900,000	22,000,000
Lotto Funding	344,555	0	0	0
Electricity Demand Management Leiden	0	4,000,000	8,000,000	0
Integrated National Electrification Programme	4,186,910	2,588,000	0	0
Municipal Infrastructure Grant	35,327,718	20,000,000	25,000,000	20,000,000
Neighbourhood Development Partnership Grant	291,988,094	190,004,332	219,866,720	279,019,000
Disaster Management Grant	15,643,000	10,500,000	18,000,000	35,000,000
Public	3,299,363	0	0	0
Public Transport Infrastructure & Systems Grant	1,914,618	1,000,000	1,000,000	0
SIDA	36,772,997	71,478,000	400,000,000	700,000,000
	52,993	0	0	0
<b>TOTAL CAPEX</b>	<b>1,015,284,094</b>	<b>480,112,386</b>	<b>1,022,382,137</b>	<b>1,223,864,000</b>



**Table 17: Capital Budget per Service for MTREF Period**

CAPEX PER SERVICE	2009/2010	2010/2011	2011/2012	2012/2013
	R	R	R	R
Water	102,833,918	41,500,000	55,000,000	64,500,000
Waste Water	138,350,568	70,711,855	104,683,730	111,000,000
Cleansing	61,221,393	17,500,000	42,800,000	10,000,000
Electricity	78,918,718	45,800,000	71,550,000	45,000,000
Environmental Services	6,664,289	2,500,000	9,016,303	9,000,000
Roads & Storm water	161,299,067	95,500,000	120,866,687	139,019,000
Housing	127,877,718	9,800,000	52,900,000	22,000,000
Transport Planning	77,091,434	109,052,360	433,000,000	743,750,000
Amenities	54,126,524	18,100,000	8,500,000	1,000,000
Public Safety	46,609,451	10,750,000	23,578,000	1,100,000
Support Services	133,220,748	42,975,664	86,337,417	72,405,000
Health Services	1,495,445	3,392,477	6,100,000	0
Other (LED and Market)	25,574,821	12,530,000	8,050,000	5,090,000
<b>TOTAL CAPEX</b>	<b>1,015,284,094</b>	<b>480,112,356</b>	<b>1,022,382,137</b>	<b>1,223,864,000</b>

**2010/2011 CAPEX PER SERVICE**



## **8. OVERVIEW OF BUDGET RELATED POLICIES**

The following policies have guided the process of the development of the MTREF budget: -

### **8.1 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 and MFMA Circular 51. The key issues to be incorporated in the policy have been presented to a Councillors' workshop on 14 May 2010.

### **8.2 Tariff Policy**

In terms of Section 74(1) of the Municipal Systems Act, Council adopted a tariff policy on 4 June 2009. No amendments have been made to the policy for the 2010/2011 financial year.

### **8.3 Rates Policy**

In terms of Section 3 of the Municipal Property Rates Act, Council adopted a rates policy on 4 June 2009. . The policy has been reviewed and presented to Councillors on 19 March 2010. The draft reviewed policy was approved by Council on 30 March 2010 and advertised for public comments on 16 April 2010.

The reviewed policy is submitted to Council on 31 May 2010 for approval (Policy Annexure 5).

### **8.4 Credit Control Policy**

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

The policy has been reviewed and presented to Councillors on 19 March 2010. The draft reviewed policy was approved by Council on 30 March 2010 and advertised for public comments on 16 April 2010.

The reviewed policy is submitted to Council on 31 May 2010 for approval (Policy Annexure 5).

### **8.5 Indigent Policy**

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

A detailed indigent policy has been developed as a stand alone policy and presented to Councillors on 19 March 2010. The draft policy was approved by Council on 30 March 2010 and advertised for public comments on 16 April 2010.

The policy is submitted to Council on 31 May 2010 for approval (Policy Annexure 5).

### **8.6 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 policy was approved by Council on 4 June 2009. No amendments have been made to the policy for the 2010/2011 financial year.

## 8.7 Long-Term Borrowings Policy

A long-term borrowings policy has been developed in compliance with the Municipal Finance and Management Act and the Municipal Budget and Reporting Regulations on Debt Disclosure.

The draft policy was presented to Councillors on 14 May 2010. The policy is submitted to Council on 31 May 2010 for approval (Policy Annexure 5).

## 8.8 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.

The policy is currently under review and a draft was presented to Councillors on 10 May 2010.

## 8.9 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 2009.

## 9. RECOMMENDATION

It is recommended that: -

- 1 The Buffalo City Municipality's Reviewed 2010/2011 IDP be adopted by Council (Refer to Annexure 7).
2. The budget for the 2010/2011 MTREF period be approved as set out in the following annexure: -
  - (a) Annexure 1 – National Treasury Tables A1 to A10
  - (b) Annexure 2 – National Treasury Supporting Tables SA1 to SA37
  - (c) Annexure 3 – Detailed Operating Projects
  - (d) Annexure 4 – Detailed Capital Projects

	<b>OPERATING BUDGET R</b>	<b>CAPITAL BUDGET R</b>	<b>TOTAL BUDGET R</b>
Budget	3,252,216,054	480,112,356	3,732,328,410
2011/2012 Budget	3,727,569,743	1,022,382,137	4,749,951,880
2012/2013 Budget	4,203,274,121	1,223,864,000	5,427,138,121

3. Approval be granted for the increase in tariffs and charges with effect from 1 July 2010 in respect of the following: -
  - (a) Service Tariffs
    - Rates 10%
    - Sewerage 11%
    - Refuse 11%
    - Water 11%
    - Electricity 22%
    - Electricity – indigent and Pensioners 15%

- (b) Council notes that NERSA has issued a guideline on Incremental Block Tariffs (IBTs) for 2010/2011 MTREF period as follows:

MONTHLY CONSUMPTION LEVEL	2010/2011	2011/2012	2012/2013
Block 1 (1 – 50kWh)	5.60%	5.50%	5.50%
Block 2 (51 – 350kWh)	7.30%	7.73%	8.00%
Block 3 (351 – 600kWh)	15.33%	16.03%	16.16%
Block 4 (> 600kWh)	15.33%	16.03%	16.16%

- (c) **If NERSA does not approve BCM's 22% electricity tariff increase that will result in a R59 million shortfall in the 2010/2011 tabled budget.**

- (d) Miscellaneous tariffs as set out in the detailed tariff book (Refer to Annexure 6)

4. That an indigent subsidy be granted to registered indigents in terms of Council's Indigent Policy.
5. That an indigent consumer be given a maximum subsidy on his account of R313.43 per month, which includes a maximum of 50kWh for electricity and 6kl for water.
6. That free basic electricity be granted for a registered indigent consumer of 50kWh per month.
7. That free basic water be granted to a registered indigent of 6kl per month.
8. That no new capital expenditure be undertaken until a commitment for funding has been received by Council and such project has been approved by Council.
9. That 2009/2010 roll over for grant funded projects will be appropriated in the budget once an approval has been received from National Treasury.
10. That the Municipal Manager advertise the Council's tariffs on 1 June 2010 for public inspection in terms of Section 75A (3) of the Municipal Systems Act, No. 32 of 2000.

**Z. FAKU**  
**EXECUTIVE MAYOR**