



2011-2012 BUDGET REPORT

24th March 2011

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1. Introduction

During the 2011/12 financial year we hope to raise R1, 484,875,988 in billed revenue and operational grants, excluding capital grants of R115, 334,678. Of the R1, 484,875,988 revenue anticipated R1, 484, 875,988 will be spent on operational budget to deliver services like water, electricity distribution, sanitation and sewerage and refuse removal. The rest amounting R115, 334,678 will be spent on capital budget to achieve the following objectives.

1. To provide sustainable services to the community.
2. To promote sustainable environmental services.
3. To promote sustainable governance to the local community.
4. To ensure sustainable governance practice within the municipality.

In compiling this 2011/12 annual budget the strategic planning document was compiled and reconciled with the IDP. Community consultations were held in November 2010, and inputs from the community of Mogale City were gathered and used to inform the IDP. On operational budget however some of the items like bulk purchases and employee related costs are predetermined, despite that, the overwhelming request from communities for repairs on roads, street lights and storm water drainage resulted in additional funds set aside to improve maintenance of existing infrastructure.

2. Resolutions

Council resolves:

2. That the annual budget of Mogale City Local Municipality for the financial year 2011/12 and indicative estimates for the two projected outer years 2012/13 and 2013/14, as set out in the tables listed below be tabled.

2.1 Budget Summary : Table A1;

2.2 Budgeted Financial Performance: (Revenue and Expenditure by standard classification): A2;

2.2 Budgeted Financial Performance : (Revenue and Expenditure by Municipal votes):A3

2.3 Budgeted Financial Performance : (Revenue and Expenditure) :A4

2.4 Budgeted Capital Expenditure vote: (Standard classification and funding): A5

2.5 Budgeted Financial Position : A6

2.6 Budgeted Cash Flows:A7

2.7 Cash backed reserves/accumulated surplus funds reconciliation : A8

2.8 Assets Management: A9

2.9 Basic service delivery measurement : A10

3 The proposed increase on property rates of 12%, based on the existing and supplementary valuation rolls be tabled.

4 The proposed increase on sanitation tariffs of 13% on the 2011/12 budget be tabled.

5 The proposed increase on electricity tariffs of 20.38% on the 2011/12 budget be tabled.

6 The propose tariff increase on water is about 19% based on the new policy for Engineering Services Determination attached as **Annexure 7** however an increase of 12,9% in revenue is assumed.

7 The increase of the remaining tariffs of 10% be tabled as reflected in Schedule 3.

8 The amended credit control and debt collection policy be tabled as attached in Annexure1.

9 That the revised property rates policy attached as Annexure 2 be tabled.

10 That the revised municipal property rates by-law attached as Annexure 3 be tabled.

11. The write off policy attached as Annexure 4 be tabled.

12. That the Sport and Recreation facilities tariffs policy attached as Annexure 5 be tabled.

13. That the revised indigent policy attached as Annexure 6 be tabled.

14. That the tariff policy for Engineering Services Determination attached as Annexure 7 be tabled.

15. That the Virement policy attached as Annexure 8 be tabled.

16. That the Funding and Reserves policy as Annexure 9 be tabled.

17. That the Integrated Development Plan (IDP) as attached be tabled.

3. Executive Summary

3.1 2011/2012 Operational budget proposal

- 3.1.1 The total estimated operational revenue for 2011/2012 from own sources is R1,284,152,206 and estimated R200,723,782 from National, Provincial Government and District Municipality as operational grants and subsidies. The estimated total revenue for the year 2011/2012 is R1, 484,875,988. The estimated revenue is 14% above the current adjusted budget. On the other hand the proposed estimated operational expenditure for 2011/2012 annual budget is R1, 484,875,988, 14% above the current adjusted operational expenditure budget.

Table: 1 Operational Expenditure

	2010/2011 Original Budget	2010/2011 Adjusted budget	2011/2012 Proposed budget
	R 000	R 000	R 000
Expenditure	1,257,831,977	1,307,886,887	1,484,875,988
Transfer to Capital	214,330,391	97,405,828	115,334,678
Revenue	1,356,071,812	1,307,886,887	1,484,875,988
Surplus/ (Deficit)	0	0	0

- 3.1.2 Table A2, A3 and A4 attached to this report shows budgeted financial performance, table A6 shows financial position and table A7 shows budgeted cash flow for financial year 2011/2012.
- 3.1.3 The charts bellow illustrates revenue according to sources and operational expenditure allocations according to departments in Mogale City.

Chart 1: Revenue by source

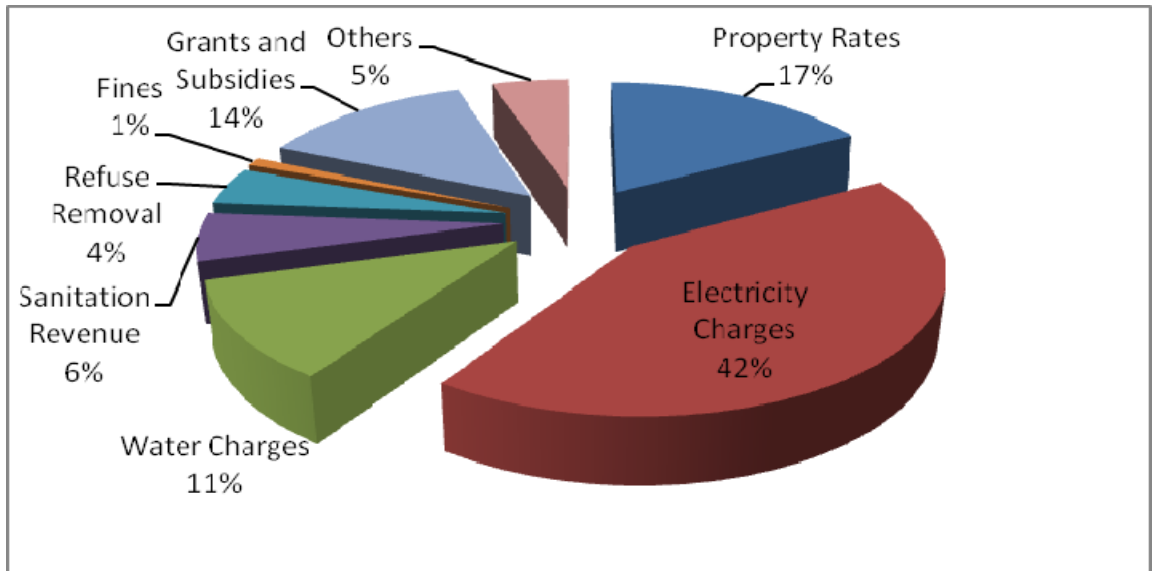


Chart 2: Expenditure by type

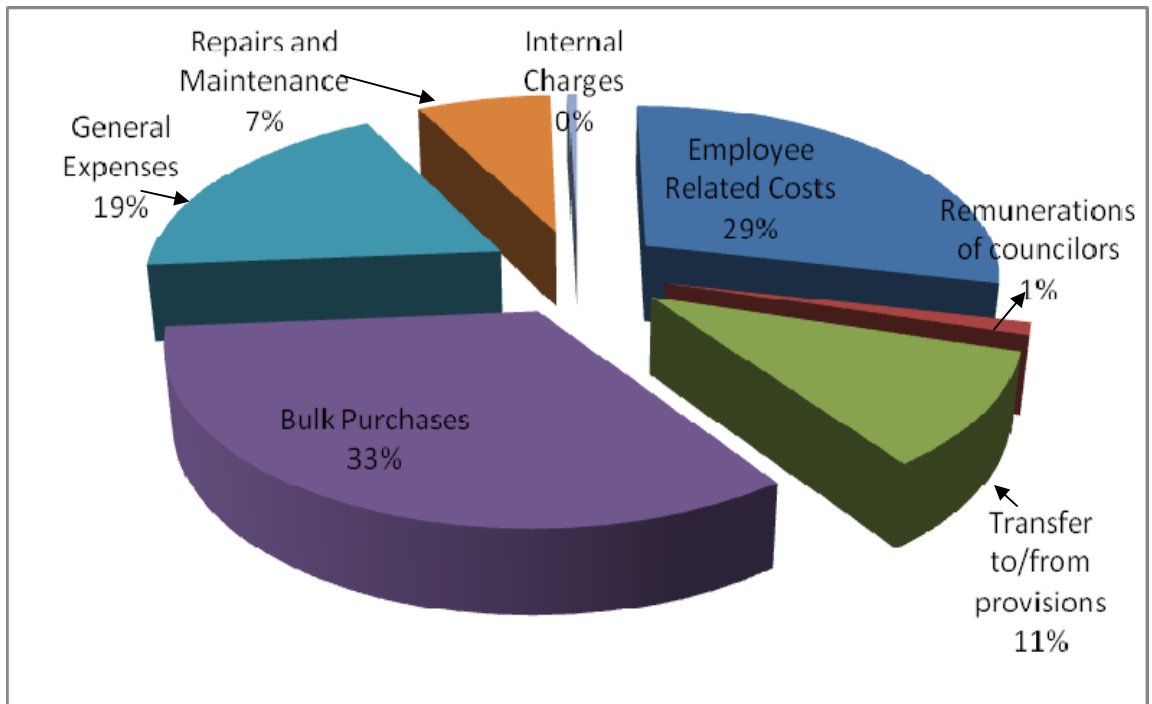
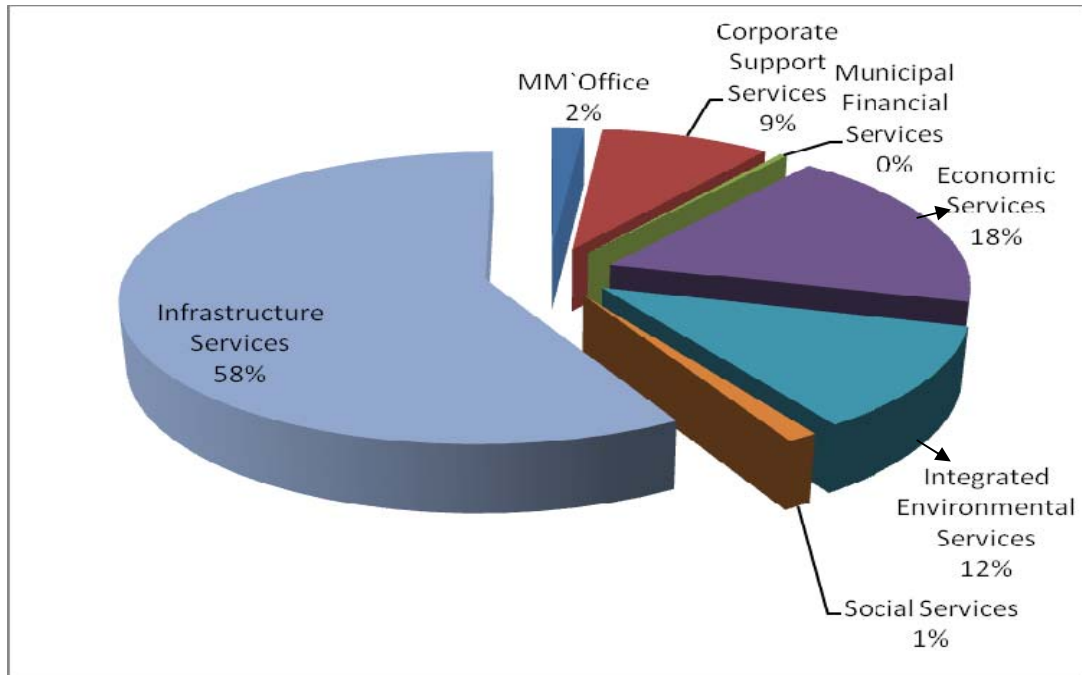


Chart 3: Expenditure by vote



3.2. 2011/2012 Capital Budget

3.2.1 The total capital budget for Mogale City for 2011/12 is R258,331,582. This R58,287,547 (29%) above the 2010/11 adjusted capital budget.

Table 2: Capital Expenditure

	2010/2011 Original Budget	2010/2011 Adjusted budget	2011/2012 Proposed budget
	R 000	R 000	R 000
Total Expenditure	214,330,391	200,044,035	258,331,582

3.2.2 Details of the proposed capital budget funding are as follows:

- R58,231,588 from own source revenue generated from main tariffs.
- R77,915,718 from Municipal Infrastructure Grant
- R4,064,000 from Extended Public Works Program
- R20,000,000 from Neighborhood Development Partnership Grant.
- R5,284,400 from Department Local Government
- R7,070,560 from West Rand District Municipality for DMA
- R1,000,000 Department of Sport Recreation Arts and Culture
- R84,765,315 from long term loan

Chart 4: Funding of the proposed 2011/12 Capital budget

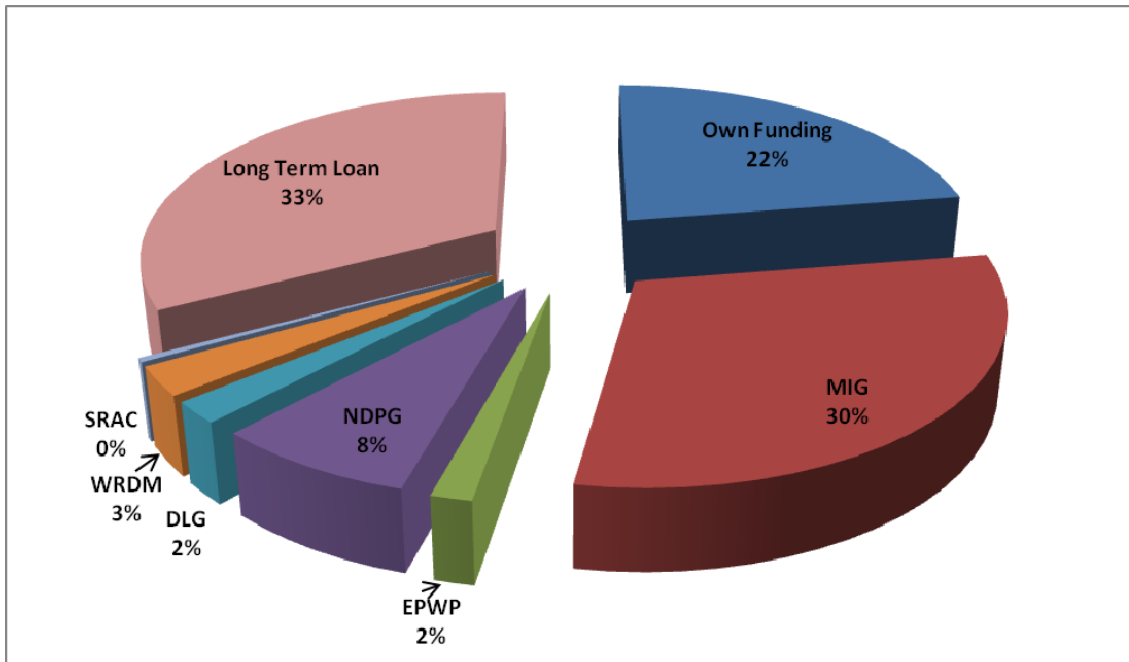
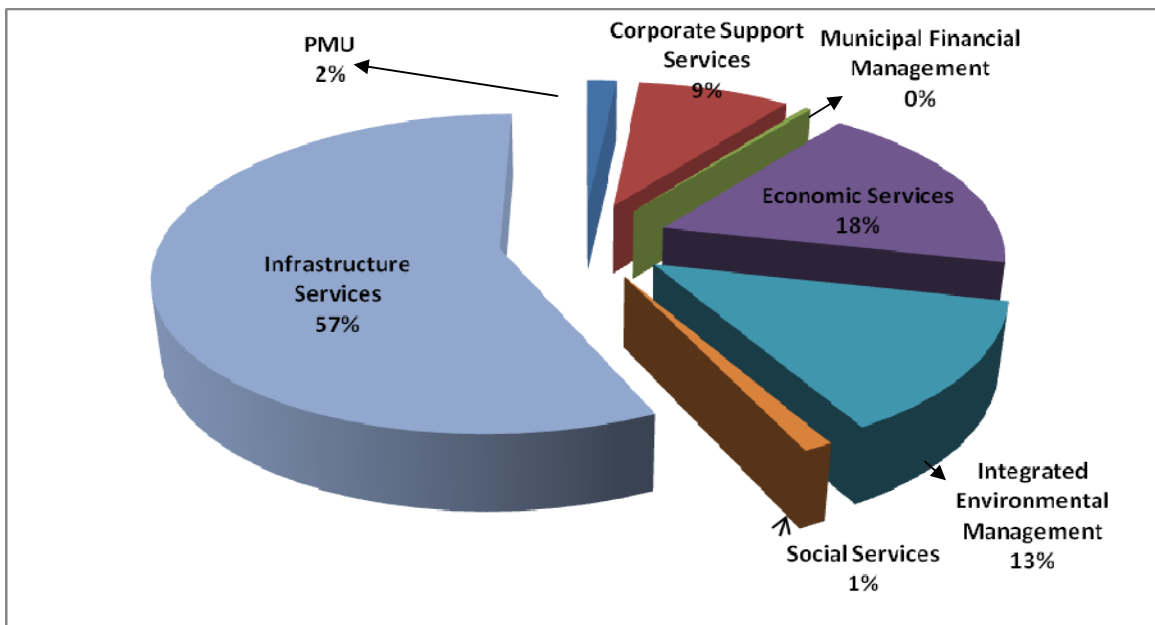


Chart 5: Capital Budget by Vote



3.2.3 Council also supports investments project within the municipal boundaries that are totally funded by other government sphere or private sector initiative. These projects are termed “out of books” project since the funding for the project does not flow through Mogale City `s bank account. A list of these projects is attached as Schedule 2(b).

4. SUPPORTING DOCUMENTATION ON THE BUDGETED PROPOSALS

4.1 2011/2012 Overview of annual budget process

4.1.1 **Legislative requirements:** The Municipal Finance Management Act sets out the key legislation for the budget process: These comprise the following:

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

Content of the budget: Section 17 of the MFMA sets out the requirement of the content of the budget report and supporting. In addition, National Treasury published government gazette 32141 that serves as additional regulation and guidelines on the budget report content. The key document that must be supplied include the following

- Resolutions imposing any municipal tax and tariffs for the budget year.
- Resolutions approving measurable performance objective for the revenue from each source and for each vote in the budget
- Resolution approving any changes in the municipality's Integrated Development Program (IDP).
- Resolution approving any changes to the proposed tariffs on the household account
- Projected monthly cash flow forecast.

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

- Realistically anticipated revenue.
- Cash backed accumulated funds, from previous year's surplus not committed for other purpose.
- Borrowed funds but only for financing of capital budget.

Consultation on the tabled budget: The budget documentation must be made public immediately after tabling. This includes posting the information on the municipal web site and placing the budget at the libraries. The requirements of the MFMA to seek view on the tabled budget from the under mentioned stakeholder must be adhered to.

- The local community
- The relevant district municipality
- Other local municipalities within the area
- The relevant provincial treasury and
- Providers of bulk services.

4.2 Budget Assumptions

- i. **Introduction:** This section of the budget report provide comprehensive summary of all the assumption used in the budget proposal. Budgets are prepared in an environment of uncertainty and assumptions need to be made about both internal and external factors that could impact on the budget during the course of the financial year.
- ii. It should be noted that the longer the period the more uncertainly and vice versa, the two outer period as presented on the budget are more likely to be missed than the 2011/12 estimates.
- iii. **National economic outlook:** During the compilation of this budget the economic growth was recorded at 2.8% and it is estimated to grow at growth of 3 % in 2011 and 3.8% in 2012. This budget was prepared with these projected growth in mind
- iv. Inflation rate was recorded at 4.3% Y/Y in 2010 or 3.6% in December 2010. It is estimated that inflation rate for the year 2011 will remain below 4.4% Y/Y. However this estimation assumed a stable crude and other commodity prices, with the price bent crude oil hovering around \$115 , it is expected that inflation will higher than expected hence a rate of 4.9% was assumed in the budget.
- v. Prices increases on various items on the budget were assumed as follows
 - Employees related costs were increased by 7.5% based on the multiyear agreement signed between organized labour and employer which states that should inflation rate be less than 5% or more than 10% parties may open negotiations, the assumption made is that labour will reopen the negotiation and a settlement will be above the current 6,5%
 - General expenditure was increased by 27% mainly as a result of requests from departments
- vi. **Price movements on bulk purchases:** Based on correspondence received from Rand Water and National Treasury, the price of water purchases will increase by 12.9% and the price of electricity purchases will increase by 26.71%
- vii. **Remuneration of councilors:** Councilors remunerations were increased by less than 1%
- viii. **Overtime and leave payment:** it was assumed that leave will be paid only on termination due to resignation, death or dismissal. It was also assumed that the municipality will not purchase any leave in cash during the year. Overtime was budget based on municipal overtime policy and legislation that exempt employee earning more than R140k from earning overtime.
- ix. **Depreciation Expenses:** Depreciation expenses increase by 6% based on the current expenses and 6% increase in acquisition of new assets.

- x. **Interest on borrowing:** Currently prime landing is 9.5% and based on the inflation rate above, stable interest rate is expected during the most of the budget period
- xi. **Collection rate:** collection rate of 91% was assumed during budget period based on the current performance and leading economic indicators which suggest improved economic activities.

4.2.1 Overview of budget related policies:

4.2.2 Various policies approved by Council underpin governance and the financial functioning of the municipality and are relevant to the budget process. The purpose of this section of the Budget Report is to indicate the key policies in this regard and to seek approval for any new or amended policies by Council.

4.2.3 The following budget related policies approved by Council for implementation in the 2010/11 financial year remain in force for the 2011/12 financial year:

- **Supply Chain Management Policy,**
- **Investment, borrowing and cash management Policy**
- **Budget Management Policy**

4.2.4 Changes are proposed to the 2010/2011 Property Rates Policy as follows:

1. Par 7.1: after 7.1.8, add 7.1.9, 7.1.10 and 7.1.11 for Institution, Education and Private Open Space respectively which are three more categories of properties.
2. Par 11.1(a): Delete the sentence which reads as follows, “ Where municipal properties are leased, the lessee will be responsible for the payment of the determined assessment rates” and insert the sentence which reads as follows,” However, the municipality may levy rates and taxes on its own properties if the properties fall within the following categories:
 - (i) Municipal properties that are leased out, more so on long leases, the lessee will be responsible for the payment of the determined assessment rates.
 - (ii) Municipal properties that have been sold by a municipality and of Which possession was given to the buyer pending registration of Ownership in the name of the buyer.

4.2.5 Changes in the Credit Control Debt Management Policy

- All debtors with arrears more or above R500 on clause 5.2 has been removed.
- Are subject to the normal credit control and debt collection process clause has been added on clause 5.9 and are handed over for collection to debt collectors appointed for this purpose clause has been removed.
- The account settled in full has been added on clause 6.1.
- A Water and Lights account cannot be opened without written consent of the owner of the property, accompanied by proper identification, provided that no arrears are owed to the municipality for that property or unless there is a formal arrangement by the owner of the property to pay the arrears. This last paragraph on clause 6.2 has been deleted.
- The amount subject to cut offs has been increased to R650.00 on clause 6.4.1 and other credit control measures removed.
- On clause 6.4.5 paragraph two, the word disconnections were replaced by restriction.
- Is outstanding for 90 days and above clause has been removed on clause 6, 11.1 and Government account will not be handed over to external debt collector's clause was added on the same clause.
- Clause 6.11.3.1,6.11.3.2, and 6.11.3.3 has been removed.
- Any amount outstanding over 90 days and above clause has been replaced by accounts that remain outstanding after internal credit control measures on clause 6.11.4
- Less 4 percent on clause 6.12,1 has been removed.
- Clause 6.17 has been added; Consumers who settled their account in full or within six months will be entitled to hundred percent (100%) interest write off.

4.2.6 Changes in the write off policy

This clause has been added;

- If the debtor is declared or approved as indigents in terms of the indigent management policy
- With the exclusion of indigent, interest and any other write off in terms of any approved council policy.

4.3 Funding of the budget

4.3.1 **Key funding for operating budget:** The operating budget is mainly funded by main tariffs. i.e. Property rates, Electricity, Water and Sanitation as well as refuse removal. Billed revenue from these sources is expected to amount to R1,200,009,191. Grant and subsidies amounted to 13.5% of the total funding.

4.3.2 **Funding source for the Capital Budget:** Confirmed to date Capital Budget is funded largely from own revenue, long term loans and MIG which amounted to R77, 915,718 in 2011/12. The own funded projects is proposed to be funded from own funding to the value of R58,231,588. The funding structure of the capital budget is as follows

- R58,231,588 from own source revenue generated from main tariffs.
- R77,915,718 from Municipal Infrastructure Grant
- R4,064,000 from Extended Public Works Program
- R20, 000,000 from Neighborhood Development Partnership Grant.
- R5,284,400 from Department Local Government
- R7,070,560 from West Rand District Municipality for DMA
- R1,000,000 Department of Sport Recreation Arts and Culture
- R84,765,315 from long term loan

Table 3: Property rates Act

	2010/11 Original Budget	2010/11 Adjusted budget	2011/12 Proposed budget
Budget revenue	387,064,942	351,464,498	393,663,553
Revenue forgone	131,369,217	125,517,896	140,580,045
% Increase	27,8%	-12%	12%

4.3.3 **Property Rates:** The proposed increase for Property Rates is 12% during the financial year 2011/12. This rate is based on the new valuation roll.

Table 4: Electricity

	2010/11 Original Budget	2010/11 Adjusted budget	2011/12 Proposed budget
Budget revenue	524,983,900	521,737,766	628,067,923
% Increase	6,27%	-0,61%	20.30%

4.3.4 The 2011/12 electricity revenue has assumed 20.30% increased as result of a communication from National Treasury on budget guidelines and Nersa.

Table 5: Water Revenue

	2010/11 Original Budget	2010/11 Adjusted budget	2011/12 Proposed budget
Budget revenue	149,985,106	149,287,643	168,599,749
% Increase	11%	-0.46%	12,9%

4.3.5 Water revenue is expected to increase by 12.9% as result of adjustment of tariffs by same percentage emanating from Rand Water`s intention to increase water tariffs by similar percentage.

Table 6: Sanitation Revenue

	2010/11 Original Budget	2010/11 Adjusted budget	2011/12 Proposed budget
Budget revenue	55,534,935	73,034,035	82,528,462
% Increase	-21%	31.5%	13%

Table 7: Refuse Collection

	2010/11 Original Budget	2010/11 Adjusted budget	2011/12 Proposed budget
Budget revenue	73,802,496	57,085,734	64,506,881
% Increase	-23%	%	13%

4.4 CASH FLOW FOCUS

It is projected that the new financial year will be kicked off with a zero balance.

- 4.4.1 We project to start the year with zero balance cash / cash equivalents and project an average collection rate for the coming financial year of 91%. Based on these assumptions the projected income for the year exceeds the projected expenditure for the year by R403k
- 4.4.2 The average collection rate for main tariffs for the current financial year to date is 91%.
- 4.4.3 It is suggested that the proposed expenditure levels are maintained and not be increased at this stage. In the light of the current economic environment and the projection negative outlook in inflation it is prudent to budget for a higher than normal cash in hand to buffer against negative economic circumstances may cause the proposed collection rate of 91% not to be achieved. Therefore Mogale City will have to monitor its operational expenditure closely and safe as much as possible, curb all non essential and non service delivery expenditure and ensure that the budgeted collection rate is achieved to enable the municipality to function efficiently and deliver services to the community.
- 4.4.4 It is recommended that Mogale City's proposed operating and own funded capital budget is maintained for the time being and if the collection rate of 91% is proving to be achievable and maintainable and **the propose increase of Water and Sanitation of 19%** could yield positive results, the surplus that may become available could then be utilized to motivate an increase in the own funded capital budget at the time when the Municipality considers its adjustments budget.

4.5 Disclosure on allocation made by the municipality

4.5.1 Section 17 (j) of the MFMA requires the municipality to disclose in its budget documentation the amounts of any proposed allocations or grants by the municipality to other municipalities, municipal entities, other organs of state or any outside body/organization. The Council allocates grants-in-aid, discretionary grants, and grants by councillors (included in the operating budget) on an annual basis to needy organizations, based on business plans indicating the proposed usage of such funds.