

## EXECUTIVE SUMMARY

### 1. **PURPOSE**

The purpose of this report is to table the first draft budget for 2013/2014 to the Council to approve.

### 2. **BACKGROUND**

As the Council knows that the budget must be compiled according to the prescriptions of the MFMA Act 56 of 2003. We are always trying to comply with the act and this year is no exception

Compliance with the MFMA and this circular is critical to ensure the acceptance of our budget by National Treasury. One big exception is that we must include the different departments SDBIP's with the budget approval. Previously it had to be done 28 days after the approval of the budget. We must also show the previous two year's budget as well as for the next two years. To comply with this we brought in four extra columns into the budget for the 2011/2012, 2012/2013, 2013/2014 and 2014/2015 budgets. It makes the budget document very bulky but it is very useful and can be used for comparisons over the last couple of years and to see the projections for the next two years.

### 3. **Summary of Income Budget for 2013/2014**

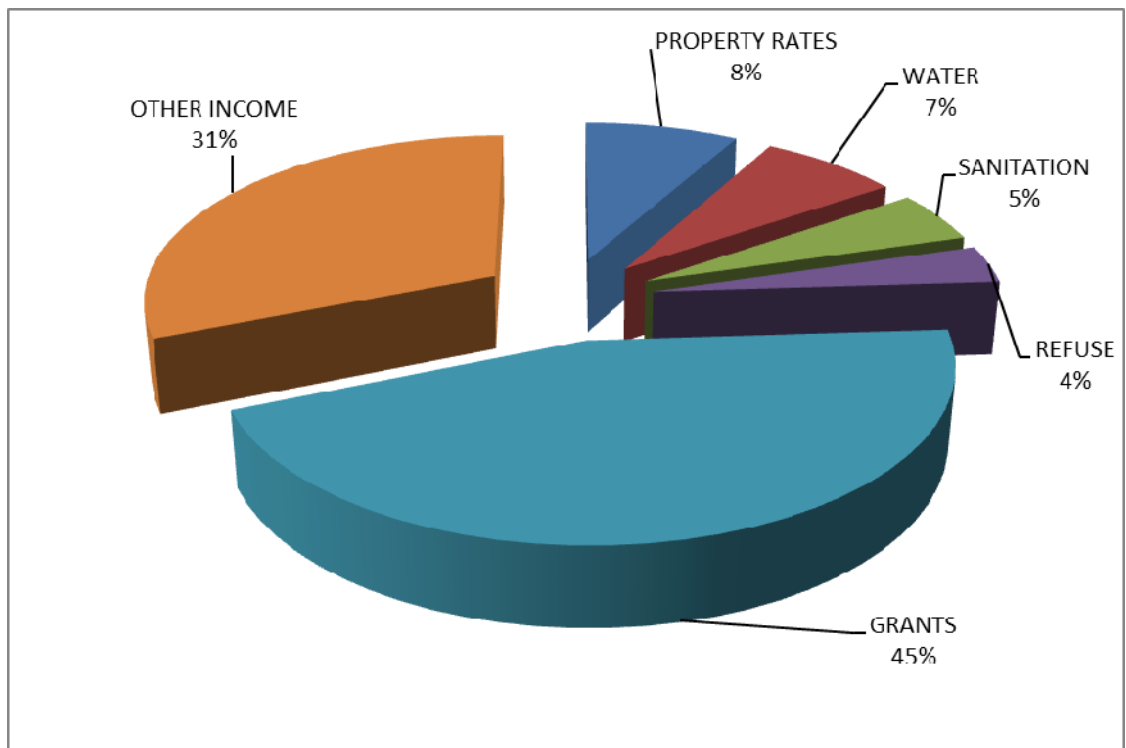
#### **TABLE OF INCOME**

<b>DESCRIPTION</b>	<b>BUDGET 2012/2013</b>	<b>BUDGET 2013/2014</b>	<b>DIFFERENCE</b>
PROPERTY RATES	R 13 621 000	R 16 535 000	R 2 914 000
WATER	R 9 747 000	R 14 959 000	R 5 212 000
SANITATION	R 8 780 000	R 10 014 000	R 1 234 000
REFUSE	R 6 340 000	R 7 282 000	R 942 000
GRANTS	R 94 858 000	R 91 086 000	R -3 772 000
OTHER INCOME	R 62 506 000	R 63 204 000	R 698 000
<b>TOTAL</b>	<b>R 195 852 000</b>	<b>R 203 080 000</b>	<b>R 5 832 000</b>

The reason for the decrease in Equitable share is due to census from R 85 634 000 million to R 82 382 000 difference is R 3 252 000 million.

The results of the latest national census were released by Statistics South Africa in October 2012. According to the 2011 Census, the population of some municipalities grew by over 50 per cent between 2001 and 2011, while others experienced a decline in population. Some provinces recorded significantly smaller populations in the 2011 Census than had been previously estimated, including KwaZulu-Natal, Eastern Cape, Limpopo and the Free State. Gauteng has the highest population increase of close to 1 million people. Transfers to municipalities will significantly be affected by this data as the data used in the local government equitable share and municipal infrastructure grant have been updated to reflect these changes.

The following chart below illustrates the percentage per service against total income budget.



If we take a look at other income it shows 31 % of the total budget the reason for that is due to electricity.

Increases in services for the 2013/2014 budget year.

Description	2011/2012	2012/2013	2013/2014
Water	10%	10%	10%
Sewerage	6%	6%	6%
Waste Management	6%	6%	6%
Rates	10%	10%	6%

We budgeted for 64% collection rate on Waste Management, Sewerage, Water and Rates.

All other income was increased with 6%.

As we all know that the cost of infrastructure and maintenance is increasing daily it's one of the most important factors influencing the water tariffs.

One other impact on water is that from the 1 July 2013 only indigent consumers will receive 6 kl free water. Reason for this is due to the financial position of the municipality. The impact of the free water to all the domestic consumers comes to an amount of R 6 000 000.00 per annum.

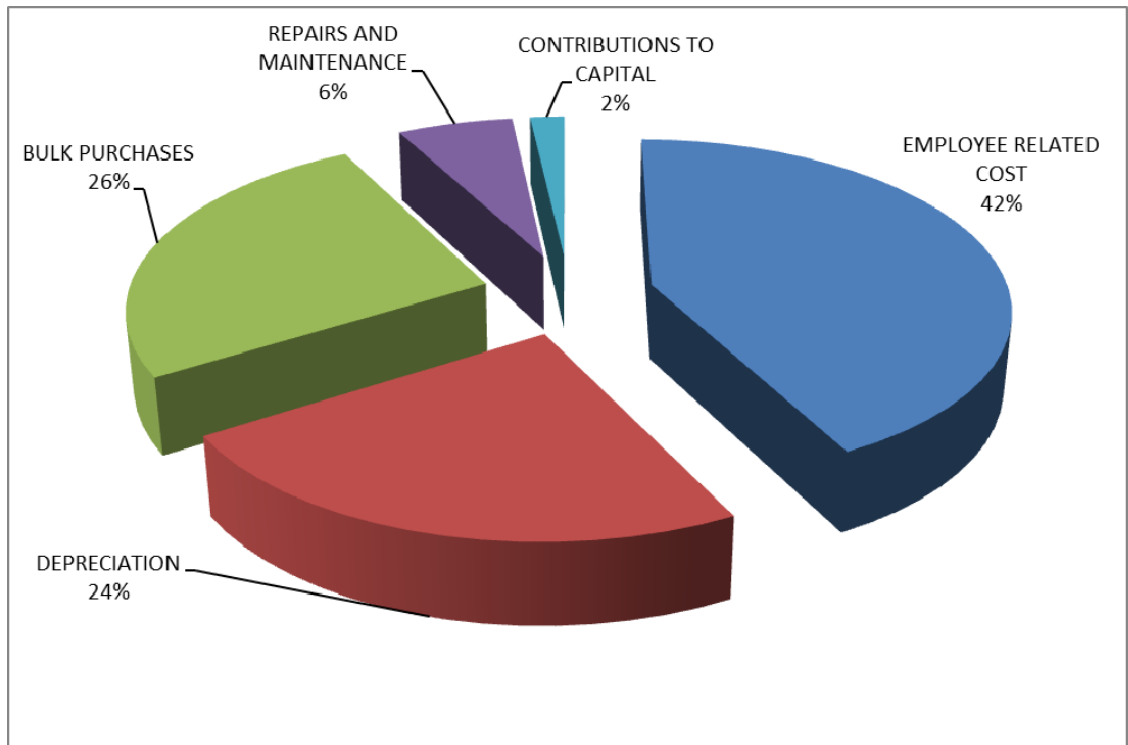
4. **SUMMARY OF EXPENDITURE BUDGET FOR 2013/2014 BUDGET YEAR.**

**TABLE OF EXPENDITURE**

DESCRIPTION	BUDGET 2012/2013	BUDGET 2013/2014	DIFFERENCE
EMPLOYEE RELATED COST	R 67 367 000	R 75 989 000	R 8 622 000
DEPRECIATION	R 42 000 000	R 42 312 000	R 312 000
BULK PURCHASES	R 48 593 000	R 46 598 000	R – 1 995 000
REPAIRS AND MAINTENANCE	R 9 210 000	R 10 810 000	R 1 600 000
CONTRIBUTIONS TO CAPITAL	R 2 500 000	R 3 190 000	R 690 000

GENERAL EXPENDITURE	R 68 488 000	R 66 494 000	R -1 994 000
TOTAL	R 238 158 000	R 245 393 000	R 7 235 000

The following chart below illustrates the percentage per expenditure type against total expenditure budget.



### **Salaries – R 75 989 000**

We budgeted for 6.85% increase on salaries for personnel for 2013/2014. For Councilors we projected an increase in allowances of 6%. Currently the salary percentage is 31.26% of the total budget. The national norm is between 30 and 35%.

### **Depreciation – R 42 312 000**

Due to the fact that the municipalities budget is in a deficit of R 42 312 000 is due to depreciation which is a non-cash deficit.

A Financial Performance budget surplus/deficit in itself is not an indication of a 'funded' budget, due to items such as capital grants, depreciation and provisions.

Let's assume, for example, that a municipal Financial Performance budget shows a deficit. This deficit would not exist if budgeted depreciation was not included. Trying to apply the past mindset of a "balanced budget" to the Financial Performance budget may result in a view that consumer charges will need to be increased to cover the depreciation. This may not be the case, since a deficit on the Financial Performance budget does not necessarily mean that the budget is not funded. Therefore, further analysis will be required by the municipality to obtain the correct picture.

### **Bulk Purchases – R 46 598 000**

The only reason why it show in the above expenditure table a minus difference is due to Centlec budget that is outstanding it will be corrected as soon as Centlec budget is available to Kopanong Local Municipality.

### **REPAIRS & MAINTENANCE – R 10 810 000**

Repair and maintenance increased by 6% overall with few exceptions. It made up 4.41 % of the total budget. The national norm is in the region of 7 to 7.5%. The service departments such as water, sewerage, roads and waste management were allocated the highest portion of the budget. This is to maintain the services on our planned bigger spending under general expenditure.

Over the last two years maintenance on vehicles increased dramatically. This was due to the long overdue life expectancies of all vehicles with exception of vehicles not older than three years. In the past not enough was spend in replacing vehicles such as tractors and LDV's. Over the last two to three years replacing of vehicles reduced maintenance costs. The older vehicles are still high maintenance and cost the council a lot of money.

Maintenance on buildings is also steadily rising. Building includes halls, offices, stores at unit level and Council owned houses. More and more money is been spend on this due to low spending over the last 5 to 10 years. Our budget made provision for a higher spending on buildings thus better maintenance.

As mentioned already bigger spending on streets and roads will automatically increase the maintenance as well. Here our budget made provision for higher maintenance especially on roads and streets that were either upgraded or resealed in the previous year and higher maintenance for those that we plan to do in the next financial year.

Maintenance on equipment and computer equipment is very important due to the fact that service delivery depend on equipment to be in a good working condition. We also made provision for the upgrading of equipment and computer equipment. We do have a 20% per annum replacement plan on computers but the equipment not due for replacement must be maintained.

Over the last two years we experienced rather big problems with our sewerage and water networks in most of our towns, therefore we increased our budget for this votes quite substantial to meet the demands in the next financial year. If the networks is not working to full capacity service delivery will not be to the acquired standard Kopanong is striving to achieve.

#### **GENERAL EXPENDITURE – R 66 494 000**

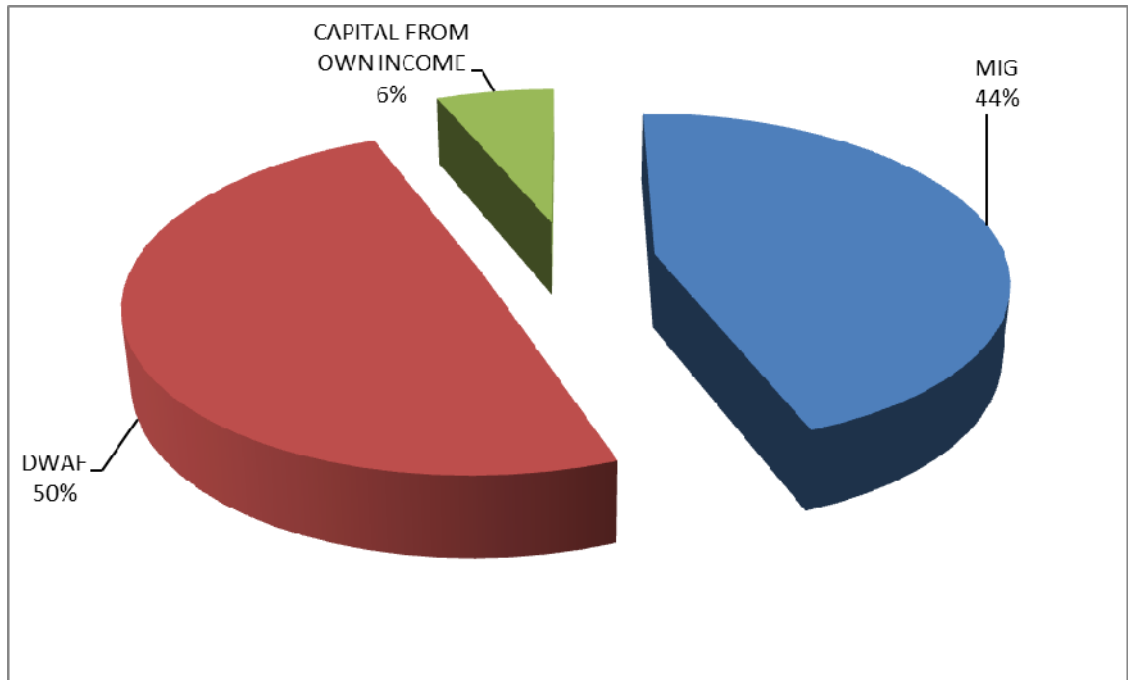
Overall most of the line items were increased by 6%. In certain instances we budgeted on a zero base and some new line items where introduced. Currently general expenditure is 27% of the total budget. This is very high due to the following factors:

To give substance to the vision of council for Kopanong in the IDP more will be spend on good governance in form of drafting of policies, implementation of policies, implementation of strategies, better public participation strategies, implementing of a Local Aids Council and Strategy, drafting of a Housing sector plan and training of staff.

More funds will be made available to increase the quality and type of service delivery to communities. More attention will be given to roads, cemeteries, water distribution, waste management and waste water in all towns of Kopanong Local Municipality area in 2013/2014.

#### **5. CAPITAL BUDGET – R 50 421 000**

<b>DESCRIPTION</b>	<b>BUDGET 2013/2014</b>
<b>MIG</b>	<b>R 22 331 000</b>
<b>DWAF</b>	<b>R 24 900 000</b>
<b>CAPITAL FROM OWN INCOME</b>	<b>R 3 190 000</b>
<b>TOTAL</b>	<b>R 50 421 000</b>



In total 94 % of our capital budget is funded from external sources. All of these funds were already allocated to certain projects such as the Water projects of Jagersfontein and Fauresmith amounted to R 24 900 000. And R 22 331 000 for MIG projects.

Due to the higher spending on maintenance and general expenditure we could only contribute 6% - R 3 190 000 to the capital budget. This includes a planned three year strategy to provide ablution facilities and fencing of cemeteries to all towns of Kopanong and also Furniture and Computers and Equipment. Also fencing at landfill site will begin in the 2013/2014 budget year.

## 6. PROBLEM STATEMENT

The new changes and regulations what we must adhere to also poses a problem. It is a new territory and we struggled to present all new regulations as understandable as possible to council. Certain things can't be simplified and must be taken as they're prescribed. Hopefully we succeeded in our request to simplify the budget and council would be able to give their inputs as they understand it.

The uncertainty of what fuel prices will have on suppliers and us is also a problem. To budget for something you are not certain about is always difficult and one hopes that our projections will be accurate and fair. One thing is certain and that is the cost of consumables, vehicles and basically every thing will rise and the consumers of services do not always see it that way. Services will be more

expensive and to keep it affordable for every one is and will be a challenge to municipalities al over. But with good planning and management it is possible to keep cost as low as possible in future.