




OVERVIEW OF BUDGET ASSUMPTIONS



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- 1 Budgets are prepared in an environment of uncertainty and assumptions need to be made about internal and external factors that could impact on the budget during the course of the financial year
 - 2 In compiling the 2010/11 MTREF, the following pivotal issues and assumptions were taken into consideration and modeled into the budget planning process:
 - 2.1 Economic climate;
 - 2.2 Poverty levels;
 - 2.3 Inflation; and
 - 2.4 Service delivery cost increases
 - 3 Tariff and Proper Rate increases should be affordable and on par with CPIX, however taking into account the need to address infrastructure requirements
 - 4 No budget will be allocated for capital projects unless the request is included in the IDP
 - 5 No disposal of municipal vacant land will be included as anticipated revenue to be realised and form part of the budget
 - 6 Operational costs will be maintained at current levels or reduced as cost containment measures
 - 7 "Ring Fence" specific allocations to departments for implementation of projects
 - 8 Budget allocations for externally funded projects be maintained at approved levels
 - 9 Cash flow projections should be strictly maintained to ensure the municipality's ability to meet its obligations.

- 10 The medium term outlook for the South African economy remains positive with Real Gross Domestic Product (GDP) growth for 2010/11, 2011/12 and 2012/13 expected to be around 4.5%, 4.9% and 5.4% respectively. (MFMA circular No. 51, 19 February 2010)
- 11 The Consumer Price Index (CPIX) is expected to average 6% for the 2010/11 and 5.7% over the two remaining MTREF years, with the forecast for 2010/11, 2011/12 and 2012/13 being 5.8%, 6.1% and 5.9% respectively. (MFMA Circular No. 51, 19 February 2010)
- 12 It is assumed that Umjindi will share in the economic growth forecasted for the country and particularly for Mpumalanga. The budget proposals include a 3.5% annual growth in bulk purchases made by the municipality arising from local economic growth/increase in the number of households
- 13 After falling from 27% in 2003 to 22% in 2007, unemployment rose to 24.3% in 2009
- 14 Most general expenditure budget items and the repairs and maintenance budgets have been increased by 6% for the 2010/11 budget year.
- 15 The 2010/11 budget has included a price increase of 24.8% for bulk electricity purchases based on NERSA's guideline electricity tariff increase in line with the approved ESKOM average price increase for 2010/11.
- 16 Employees salaries and contributions have been increased in line with the SALGA three year collective agreements of *1 July 2009 to 30 June 2012 which is based on the average CPIX of 1 February 2009 until 31 January 2010 (as published by Statistics South Africa) plus 1,5%*
- 17 Increase for Councilors allowances has been allowed for in the 2010/11 budget in line with the Remuneration of Public Office Bearers Act (No. 20 of 1998)
- 18 The budget makes provision for 2000 indigent household to be registered, approved and receiving free basic services in 2010/11

- 19 The current bank base rate for long-term borrowing is **10.5%**. The cost to Umjindi of borrowing will either be higher or lower than this base rate depending on our credit rating. This budget does not make provision for Council to enter into any new loans for capital funding purposes.
- 20 Provision for non-receipt of billed income has been made in the budget (this is called the working capital budget). It is assumed that of the total income budget 97% will be received as actual income. Collection rate currently varies between 71% and 85%.
- 21 The Equitable Share, Finance Management Grant, Municipal System Improvement Grant, National Electrification Programme Grant and **EPWP Incentive Grant** where determined in line with the 2010/11 Division of Revenue Bill (Government Gazette No. 32882).

