

# UMJINDI LOCAL MUNICIPALITY

## DRAFT BUDGET

### 2010/11 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK

<b>Core Business Area</b>	Financial Services Directorate
<b>Operational Area</b>	Budget & Treasury Section

**Owner: Umjindi Budget & Treasury Section**

**Client: Umjindi Local Municipality**

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**Public**

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# TABLE OF CONTENTS

PAGE NO:

1. PURPOSE	4
2. BACKGROUND	4 – 6
3. BUDGET ASSUMPTIONS	7 – 9
4. BUDGET HIGHLIGHTS	9
5. OPERATING BUDGET	10 – 11
6. EXTERNAL FUNDS (GRANTS)	12 – 14
7. CAPITAL BUDGET	15 – 19
8. REVENUE FRAMEWORK	20 – 23
9. TARIFF SETTING	24 – 39
10. EXPENDITURE FRAMEWORK	40 – 43
11. UNFUNDED AND CUT-OFFS	43 – 44
12. CONCLUSION	45
13. RECOMMENDATIONS	45 - 46

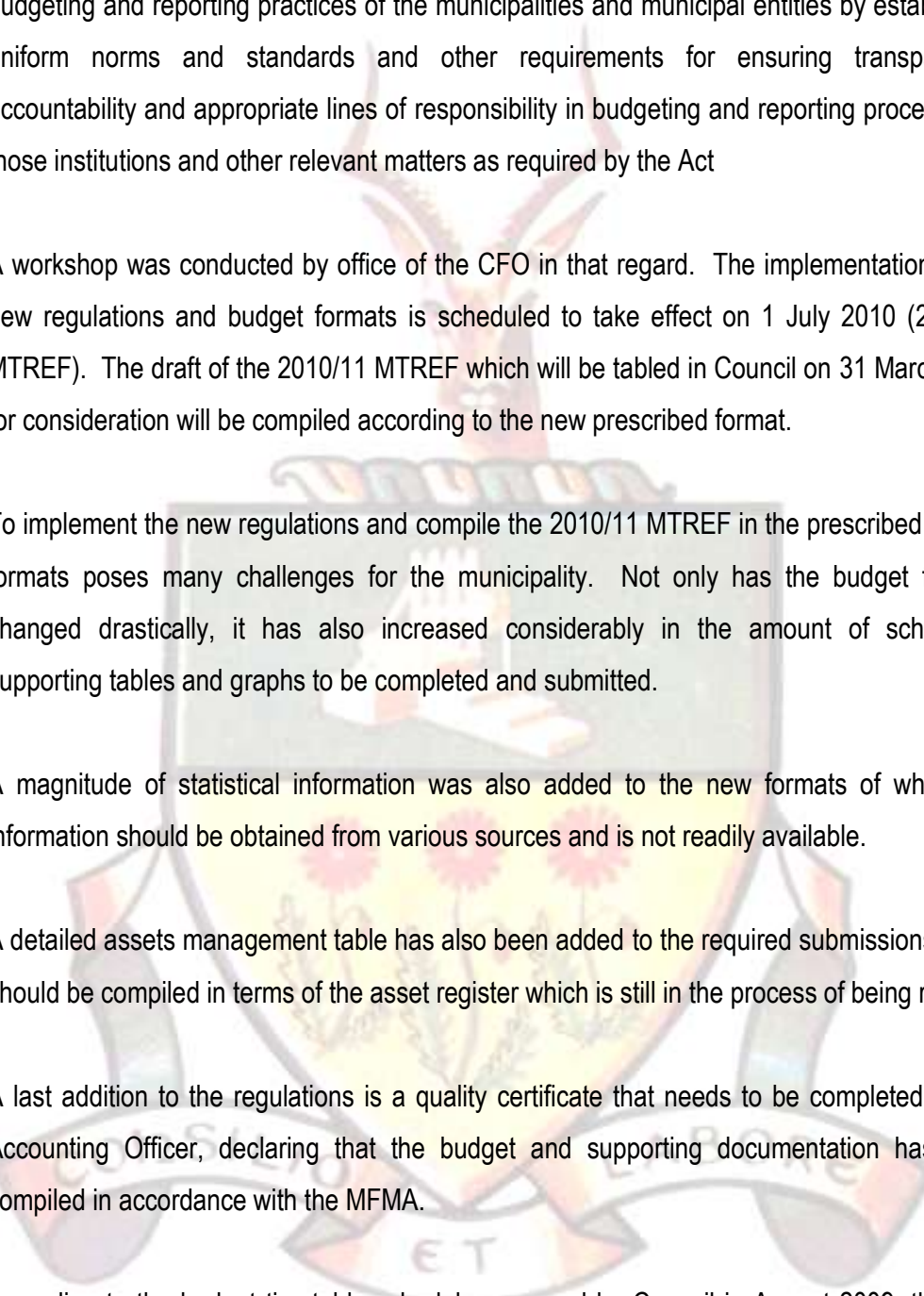


# 1. PURPOSE

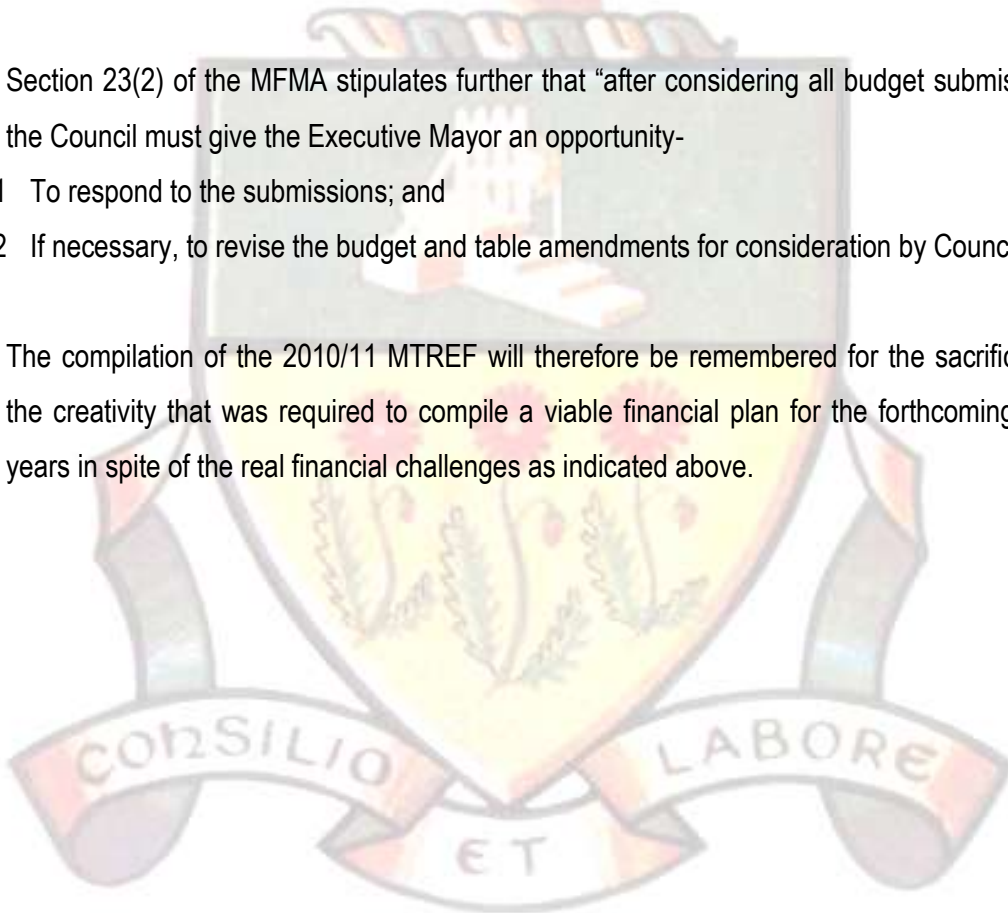
- 1.1 The purpose of the report is to table the draft 2010/2011 Medium-Term Revenue and Expenditure Framework (MTREF) before Council in terms of Section 16(2) of the Local Government: Municipal Finance Management Act (MFMA), 2003 Act 56 of 2003, prior to the community consultation process.
- 1.2 The recommendation to this report is to request that the draft 2010/2011 MTREF, tabled in accordance with the MFMA, form the basis of the community consultation process.

# 2. BACKGROUND

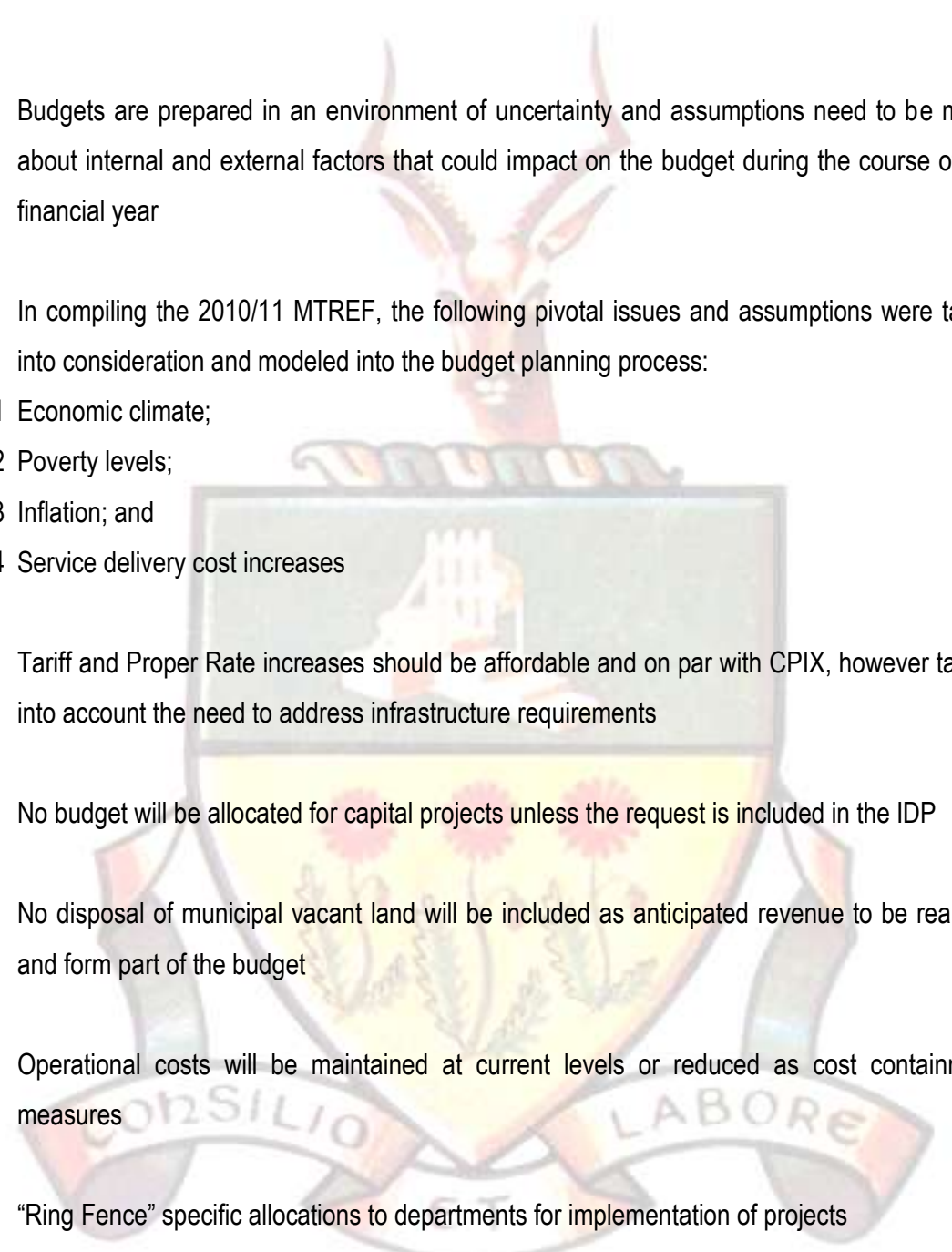
- 2.1 The 2010/11 MTREF will be remembered for the tremendous challenges that the Municipality encountered and are yet to be overcome.
- 2.2 The main challenge that had to be addressed in the planning process and which will remain a threat for the rest of the coming financial year is the effect the global economic climate has on the municipality.
- 2.3 The 2009/10 Adjustment Budget directly informed the compilation of the draft 2010/11 MTREF, aligned to the spirit of the MFMA, and more specifically the principle of multi-year budgeting.
- 2.4 The Ministry of Finance has issued new regulations prescribing the budget and reporting standards, including the formats for municipal budgets as required by the MFMA.

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- 2.5 The object of these Regulations is to secure sound and sustainable management of the budgeting and reporting practices of the municipalities and municipal entities by establishing uniform norms and standards and other requirements for ensuring transparency, accountability and appropriate lines of responsibility in budgeting and reporting processes of those institutions and other relevant matters as required by the Act
- 2.6 A workshop was conducted by office of the CFO in that regard. The implementation of the new regulations and budget formats is scheduled to take effect on 1 July 2010 (2010/11 MTREF). The draft of the 2010/11 MTREF which will be tabled in Council on 31 March 2010 for consideration will be compiled according to the new prescribed format.
- 2.7 To implement the new regulations and compile the 2010/11 MTREF in the prescribed budget formats poses many challenges for the municipality. Not only has the budget formats changed drastically, it has also increased considerably in the amount of schedules, supporting tables and graphs to be completed and submitted.
- 2.8 A magnitude of statistical information was also added to the new formats of which the information should be obtained from various sources and is not readily available.
- 2.9 A detailed assets management table has also been added to the required submissions which should be compiled in terms of the asset register which is still in the process of being refined.
- 2.10 A last addition to the regulations is a quality certificate that needs to be completed by the Accounting Officer, declaring that the budget and supporting documentation has been compiled in accordance with the MFMA.
- 2.11 According to the budget timetable schedule approved by Council in August 2009, the draft 2010/11 MTREF should be approved in March 2010 to ensure a transparent, efficient and effective community consultation process.

- 2.12 The MSA, chapter 4 deals with community participation. With specific reference to the budget process, section 16(i) and (iv) stipulates that a municipality must encourage and create conditions for the local community to participate in the affairs of the municipality, including in the preparation, implementation and review of its Integrated Development Plan and the preparation of its budget.
- 2.13 Section 22 of the MFMA also stipulated that immediately after an annual budget is tabled in a municipal council the Accounting Officer must make public the annual budget and documents; invite the local community to submit representations in connection with the budget and submit the annual budget to the National Treasury and the relevant Provincial Treasury in printed and electronic formats.
- 2.14 Section 23(2) of the MFMA stipulates further that “after considering all budget submissions, the Council must give the Executive Mayor an opportunity-
- 2.14.1 To respond to the submissions; and
- 2.14.2 If necessary, to revise the budget and table amendments for consideration by Council”
- 2.15 The compilation of the 2010/11 MTREF will therefore be remembered for the sacrifice and the creativity that was required to compile a viable financial plan for the forthcoming three years in spite of the real financial challenges as indicated above.



## 3. BUDGET ASSUMPTIONS

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- 3.1 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
  - 3.2 In compiling the 2010/11 MTREF, the following pivotal issues and assumptions were taken into consideration and modeled into the budget planning process:
    - 3.2.1 Economic climate;
    - 3.2.2 Poverty levels;
    - 3.2.3 Inflation; and
    - 3.2.4 Service delivery cost increases
  - 3.2 Tariff and Proper Rate increases should be affordable and on par with CPIX, however taking into account the need to address infrastructure requirements
  - 3.4 No budget will be allocated for capital projects unless the request is included in the IDP
  - 3.5 No disposal of municipal vacant land will be included as anticipated revenue to be realised and form part of the budget
  - 3.6 Operational costs will be maintained at current levels or reduced as cost containment measures
  - 3.7 “Ring Fence” specific allocations to departments for implementation of projects
  - 3.8 Budget allocations for externally funded projects be maintained at approved levels

- 3.9 Cash flow projections should be strictly maintained to ensure the municipality's ability to meet its obligations.
- 3.10 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)
- 3.11 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)
- 3.12 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
- 3.13 After falling from 27% in 2003 to 22% in 2007, unemployment rose to 24.3% in 2009
- 3.14 Most general expenditure budget items and the repairs and maintenance budgets have been increased by 6% for the 2010/11 budget year.
- 3.15 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.
- 3.16 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%
- 3.17 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)

- 3.18 The budget makes provision for 2000 indigent household to be registered, approved and receiving free basic services in 2010/11
- 3.19 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.
- 3.20 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%.
- 3.21 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).

## 4. BUDGET HIGHLIGHTS

- 4.1 An amount of **R3 008 million** has been budgeted for the indigent household subsidization
- 4.2 An amount of **R5 577 million** has been budgeted for free basic services to other residents
- 4.3 An amount of **R42 578 million** has been budgeted for infrastructure and institutional development
- 4.4 The envisaged sources of funding for the Capital Budget must be properly considered and the Council **is** satisfied that this funding is available and has not been committed for other purposes.

## 5. OPERATING BUDGET

5.1 The following table represents the draft 2010/11 MTREF as informed by the 2009/10 Adjustment Budget, Integrated Development Plan and various other best practice methodologies eg. Balanced budget constraint, affordability of services to the community within the context of sustainability

DESCRIPTION	BUDGET 2010/11	% OF BUDGET
<b>Operating Revenue by Vote</b>		
Office of the Executive Mayor	(778 050)	1
Office of the Municipal Manager	(27 316)	1
Financial Services	(60 888 420)	32
Civil Services	(41 264 137)	22
Electrical Services	(67 823 724)	36
Community Services	(8 706 474)	5
Corporate Services	(12 565)	1
Developmental Planning	(3 565 206)	2
<b>TOTAL OPERATING REVENUE</b>	<b>(183 065 892)</b>	<b>100</b>
<b>Operating Expenditure by Vote</b>		
Office of the Executive Mayor	8 067 865	4
Office of the Municipal Manager	6 091 197	3
Financial Services	73 000 813	39
Civil Services	25 833 876	14
Electrical Services	41 711 065	22
Community Services	20 025 878	11
Corporate Services	9 392 355	5
Developmental Planning	4 940 963	3
<b>TOTAL OPERATING EXPENDITURE</b>	<b>189 064 012</b>	<b>100</b>
<b>(SURPLUS) / DEFICIT</b>	<b>(5 998 120)</b>	

- 5.2 Although the departure point in terms of affordability was the approved 2009/10 MTREF, and more specifically the outer year allocations, various changes have influenced the draft 2010/11 MTREF (eg. Economic indicators etc)
- 5.3 Departments utilised the month of February 2010 (year-to-date figures) to capture detail budget proposal. The budget proposals were analyzed during the management budget meeting which took place on 15, 16 and 17 March 2010.
- 5.4 Departments were given the opportunity to refine their budget proposals in line with the budget principles.
- 5.5 These sessions did not only focus on expenditure, but revenue generation potential within the context of improved service delivery, operational efficiencies and potential gains



## 6. EXTERNAL FUNDS (GRANTS) - DORA

6.1 With the promulgation of the 2010 Division of Revenue Act, the following operational and capital allocations towards the municipality have been factored into the MTREF

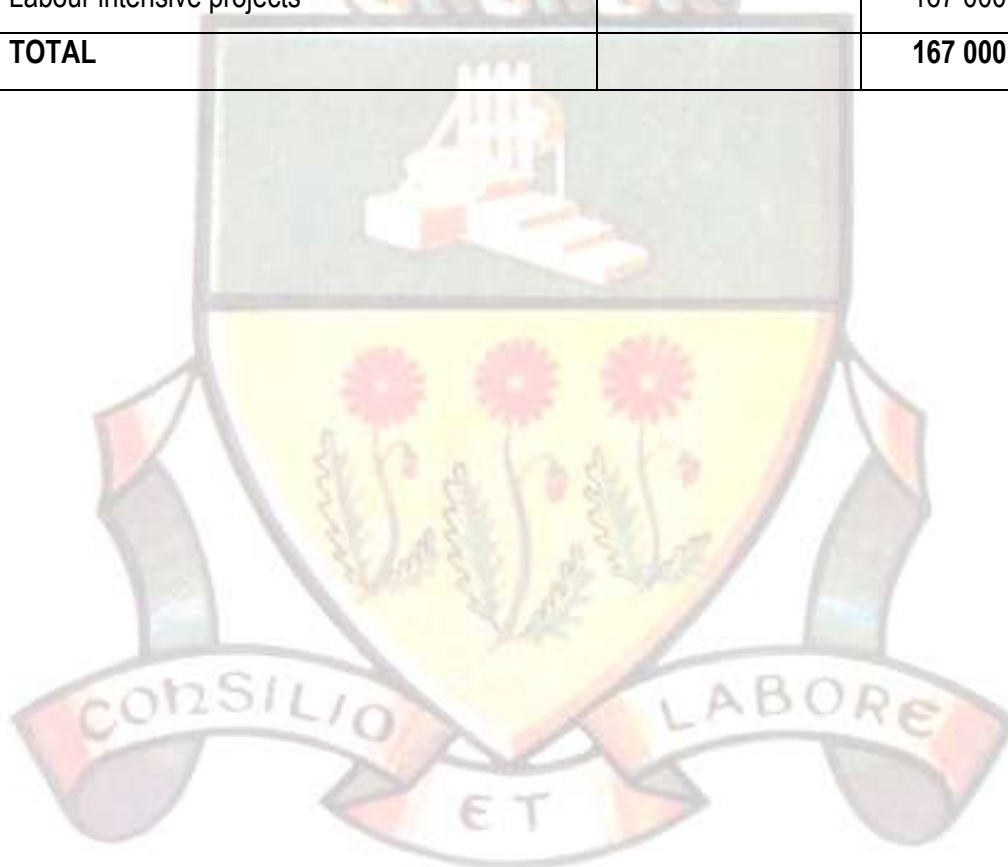
DESCRIPTION	BUDGET 2009/10 R' 000	BUDGET 2010/11 R'000	INCREASE/ DECREASE %
MIG	16 719	18 630	11
DME	8 960	8 500	(5)
FMG	750	1 000	33
MSIG	735	750	2
EPWP Incentive		167	100
Equitable Share	29 392	36 584	24
<b>TOTAL GRANTS</b>	<b>56 556</b>	<b>65 631</b>	<b>17</b>

6.2 The table below illustrates how the above grants have been allocated to the various projects in the 2010/11 budget year:

DECDRIPTION	GRANT INCOME	EXPENDITURE
<b>MUNICIPAL INFRASTRUCTURE GRANT (MIG)</b>	<b>18 630 000</b>	
Replacement of AC pipes (Phase III)		8 423 680
Roads and storm water infrastructure		3 879 240
Water and Sanitation for Ward 1 (Esperado)		3 500 000
VIP toilets for rural areas (Phases) Emjindini Trust and KaMadakwa		1 400 000
Sports Infrastructure		238 350
Street lights & High mast lights (Dikbas & Verulam)		600 000
PMU		588 730
<b>TOTAL</b>		<b>18 630 000</b>

<b>NATIONAL ELECTRIFICATION FUND (DME)</b>	<b>8 500 000</b>	
Link services for Verulam Electrification		2 999 200
Electrification of Verulam Phase 1		2 980 800
Emjindini Ext 14 Phase II (380 households)		2 520 000
<b>TOTAL</b>		<b>8 500 000</b>
<b>MUNICIPAL SYSTEMS INFRASTRUCTURE GRANT (MSIG)</b>	<b>750 000</b>	
Correction of valuation roll		300 000
Ward committee activities (cell phone airtime)		120 000
Refinement of Asset Register		330 000
<b>TOTAL</b>		<b>750 000</b>
<b>FINANCE MANAGEMENT GRANT (FMG)</b>	<b>1 000 000</b>	
CPMD Training		196 500
CPMD additional costs		165 000
Appointment of 2 Finance Interns		180 000
Compilation of Annual financial Statements		400 000
Internal Financial Management Workshops		58 500
<b>TOTAL</b>		<b>1 000 000</b>
<b>EQUITABLE SHARE</b>	<b>36 584 000</b>	
Councilors Allowances		778 050
Free Basic Services to all residents		5 577 475
Subsidy for Indigent households		3 007 877
Pre-paid services		160 000
Indigent registration process – temps & advert		55 000
Ward committee meetings		10 000
Provision of water to rural areas		1 000 000
Provision of free alternative energy		820 000

Vending machines – Assistance		10 000
Provision of free basic service to farms bordering municipal boundary – Eskom		5 000
Internal Audit Software System		150 000
Work study conducted for the entire municipality		250 000
Asset register system		486 647
Capital Projects		15 870 000
Operational Budget		8 403 951
<b>TOTAL</b>		<b>36 584 000</b>
<b>EPWP INCENTIVE GRANT</b>	<b>167 000</b>	
Labour intensive projects		167 000
<b>TOTAL</b>		<b>167 000</b>



# 7. CAPITAL BUDGET

7.1 The following table indicates the draft 2010/11 Medium-term Capital Budget per Department and funding source

DEPARTMENT	PROJECT	INTERNAL FUNDS	EXTERNAL FUNDS	TOTAL
<b>CIVIL SERVICES</b>		<b>5 450 000</b>	<b>17 369 920</b>	<b>22 819 920</b>
	Replacement of AC Pipes		8 423 680	
	Roads and Storm water		3 879 240	
	Water and Sanitation for ward 1 (Esperado)		3 500 000	
	VIP toilets for rural areas (Phases) Emjindini Trust & KaMadakwa		1 400 000	
	Counter funding for upgrading of inlet works at Sewerage purification works	530 000		
	Installation of services – water & sewerage (stands 1972, 3030, 829 & 831)	2 600 000		
	New concrete mixer – resurfacing of roads	320 000		
	Renovations at Rimers water works (Phase I)	150 000		
	Replacement of tools and equipment	150 000		
	Remedial works at the Dam (Phase I)	1 700 000		

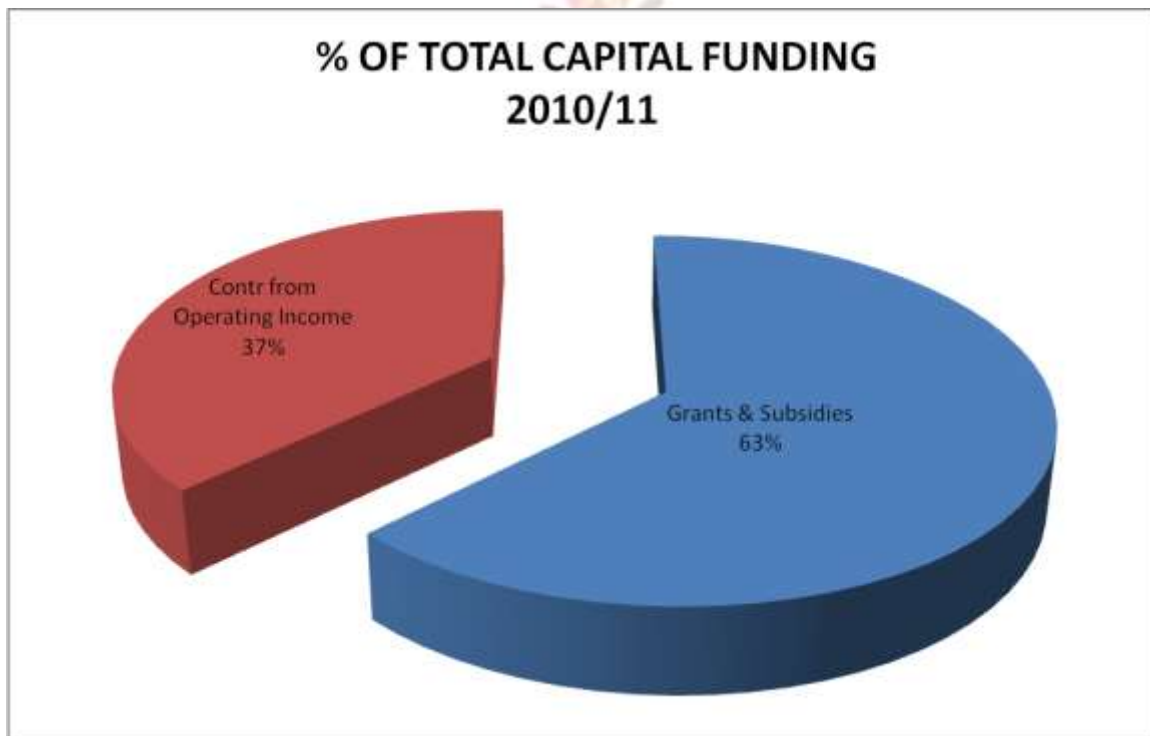
	EPWP labour intensive		167 000	
<b>TOTAL</b>		<b>5 450 000</b>	<b>17 369 920</b>	<b>22 819 920</b>
<b>ELECTRICAL SERVICES</b>		<b>6 200 000</b>	<b>9 338 350</b>	<b>15 538 350</b>
	Link services for Verulam Electrification		2 999 200	
	Electrification of Verulam Phase I		2 980 800	
	Emjindini Ext 14 Phase II (380 households)		2 520 000	
	Extension of street lights – Emjindini robots to Suidkaap water works	260 000		
	Replacement of switchgear – Donga substation	720 000		
	Installation of street lights – Bulembu to Montevista Phase II	170 000		
	Counter funding for Electrification of Verulam	2 250 000		
	Counter funding for Electrification of Ext 14	1 850 000		
	Replacement of vehicles (1 x vehicle per department)	950 000		
	Street lights & High mast lights (Dikbas, Verulam & Emjindini Trust)		838 350	
<b>TOTAL</b>		<b>6 200 000</b>	<b>9 338 350</b>	<b>15 538 350</b>
<b>COMMUNITY SERVICES</b>		<b>610 000</b>		<b>610 000</b>
	Chairs and tables for cathyville	10 000		

	hall			
	Electrification of the Dumping site	175 000		
	Apollo light at the dumping site	160 000		
	Chairs and tables for town hall	45 000		
	Chairs for Emjindini hall	40 000		
	Kudu grass cutting equipment	180 000		
<b>TOTAL</b>		<b>610 000</b>		<b>610 000</b>
<b>CORPORATE SERVICES</b>		<b>340 000</b>		<b>340 000</b>
	Replacement of franking machine for posting services	40 000		
	Installation of Voice over IP telecommunication system	300 000		
<b>TOTAL</b>		<b>340 000</b>		<b>340 000</b>
<b>FINANCIAL SERVICES</b>		<b>3 120 000</b>		<b>3 120 000</b>
	Replacement of tender box (steel)	15 000		
	Fire proof safe for contracts and other documents	120 000		
	Financial Management System including Payroll and Human resource system	2 985 000		
<b>TOTAL</b>		<b>3 120 000</b>		<b>3 120 000</b>
<b>MUNICIPAL MANAGER</b>		<b>150 000</b>		<b>150 000</b>
	Internal Audit software system	150 000		

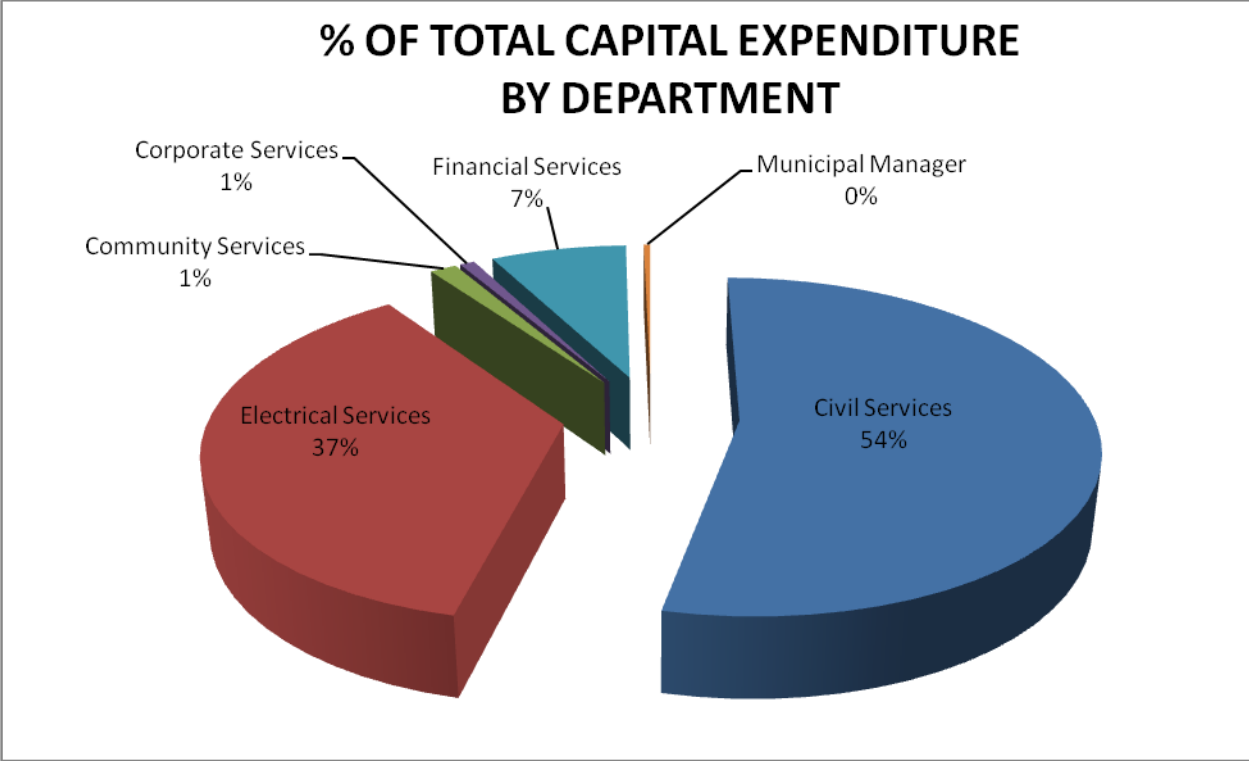
TOTAL		150 000		150 000
TOTAL CAPEX		15 870 000	26 708 270	42 578 270

7.2 The total draft capital budget currently equates to **R42 578 million**.

7.3 The following graphs illustrate the above table in terms of funding source breakdown and capital budget allocation per department:

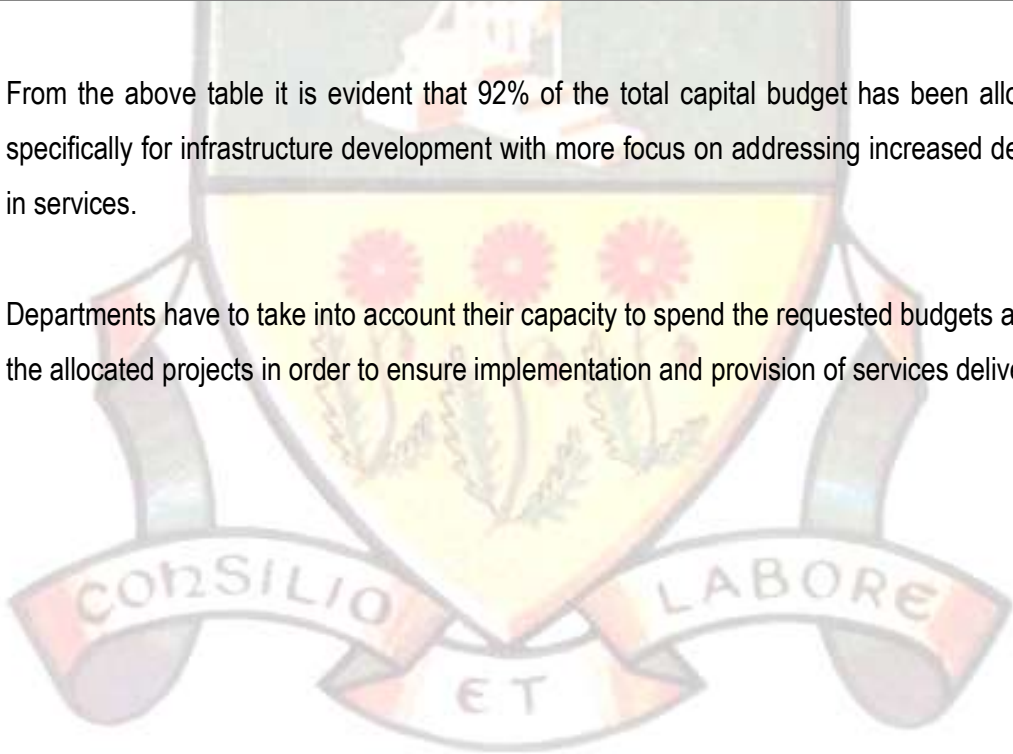


7.4 Council funded projects equate to **R15 870 million** (37%) of the total 2010/11 capital budget with **R26 708 million** (63%), funded externally



7.5 From the above table it is evident that 92% of the total capital budget has been allocated specifically for infrastructure development with more focus on addressing increased demand in services.

7.6 Departments have to take into account their capacity to spend the requested budgets against the allocated projects in order to ensure implementation and provision of services delivery



## 8. REVENUE FRAMEWORK

- 8.1 In order to serve the community and to render the services needed, revenue generation is fundamental to financial sustainability of every municipality
- 8.2 The reality is that we are faced with developmental backlogs and poverty, challenging our revenue generation capacity. The requests always exceed the available funds. This was even more obvious when compiling the 2010/11 MTREF
- 8.3 Municipalities must table a balanced and more credible budget, based on realistic **estimation** of revenue that are consistent with their budgetary resources and collection experience
- 8.4 The revenue strategy is a function of key components such as:
- 8.4.1 Growth in town and economic development;
  - 8.4.2 Revenue enhancement;
  - 8.4.3 Achievement of 97% annualized collection rate for consumer revenue;
  - 8.4.4 National Treasury guidelines;
  - 8.4.5 Electricity tariff increases within National Electrification Regulator of South Africa (NERSA) approval;
  - 8.4.6 Approval of full cost recovery of specific department;
  - 8.4.7 Determining tariff escalation rate by establishing/calculating revenue requirement; and
  - 8.4.8 Ensuring ability to extent new services and recovering of costs thereof

8.5 The following table is a high level summary of the draft 2010/11 MTREF (Classified per main revenue source)

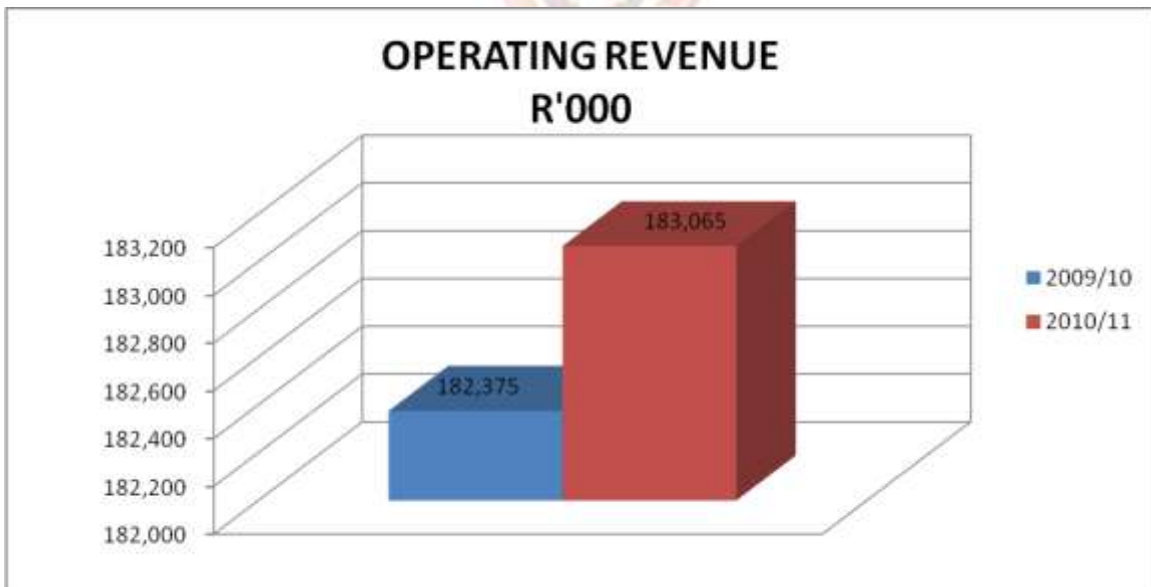
DESCRIPTION	APPROVED BUDGET 2009/10	ADJUSTMENT BUDGET 2009/10	BUDGET YEAR 2010/11	% INCREASE / (DECREASE)	BUDGET YEAR 2011/12	BUDGET YEAR 2012/13
<b>Operating Revenue by Source</b>						
Property rates	14 630 875	14 630 875	21 073 033	44	22 337 415	23 677 660
Electricity	39 845 690	39 845 690	58 202 226	46	61 694 358	65 396 019
Water	17 206 995	17 206 995	18 276 614	6	19 373 210	20 535 603
Sanitation	4 757 040	4 755 040	4 849 827	2	5 140 816	5 449 266
Refuse Removal	7 028 592	7 161 592	6 116 912	(13)	6 483 927	6 872 962
Grants	57 767 611	58 717 611	68 031 000	18	73 740 121	79 386 588
Interest & Inv Inc	510 864	260 864	501 100	(2)	531 166	563 036
Rent of facilities	508 661	508 661	438 549	(14)	464 862	492 754
Interest on O/S debt	1 608 016	1 608 016	1 550 000	(4)	1 643 000	1 741 580
Traffic fines	302 252	302 252	100 300	(67)	106 318	112 697
Fines	565	565	565	0	599	635
Licenses and permits	1 815 416	1 815 410	1 710 500	(6)	1 812 930	1 921 918
Other	36 392 397	13 743 567	2 215 266	(94)	2 558 501	2 711 798
<b>TOTAL OPERATING REVENUE</b>	<b>182 374 974</b>	<b>156 374 887</b>	<b>183 065 892</b>	<b>0,4</b>	<b>195 887 223</b>	<b>208 862 516</b>

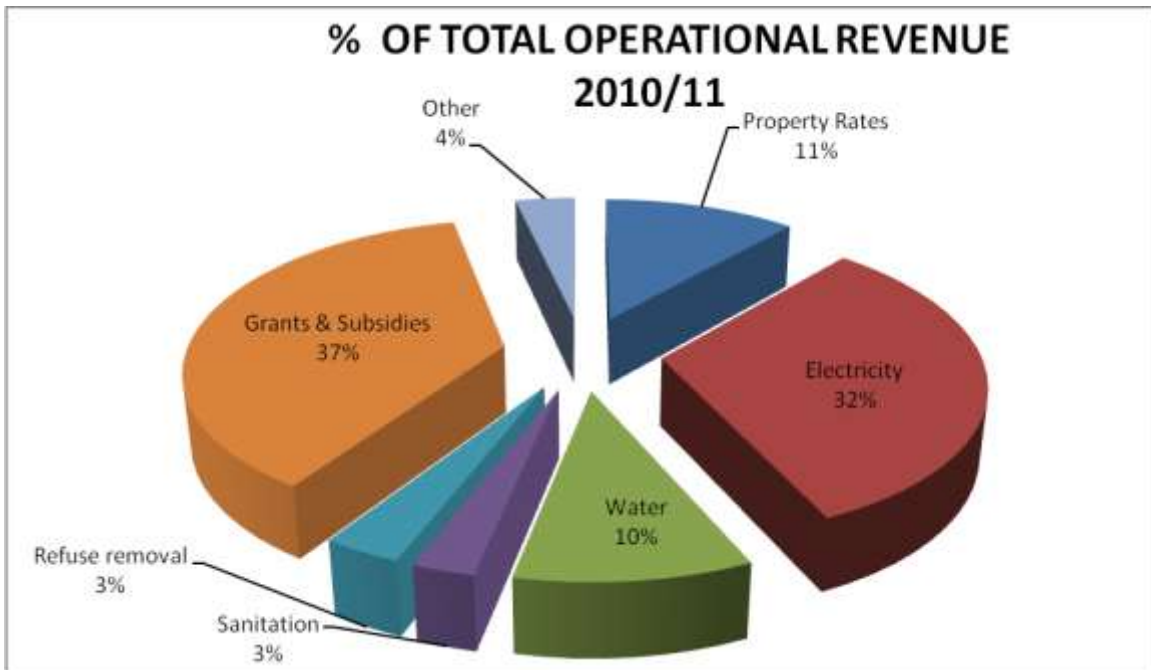
8.6 Total revenue increased by 17% against the 2009/10 adjustment budget and by 0.4% against the 2009/10 approved budget

8.7 Property rates increased by 44% against the 2009/10 budget, and mainly as a result of inclusion of the farms as valued on the valuation roll

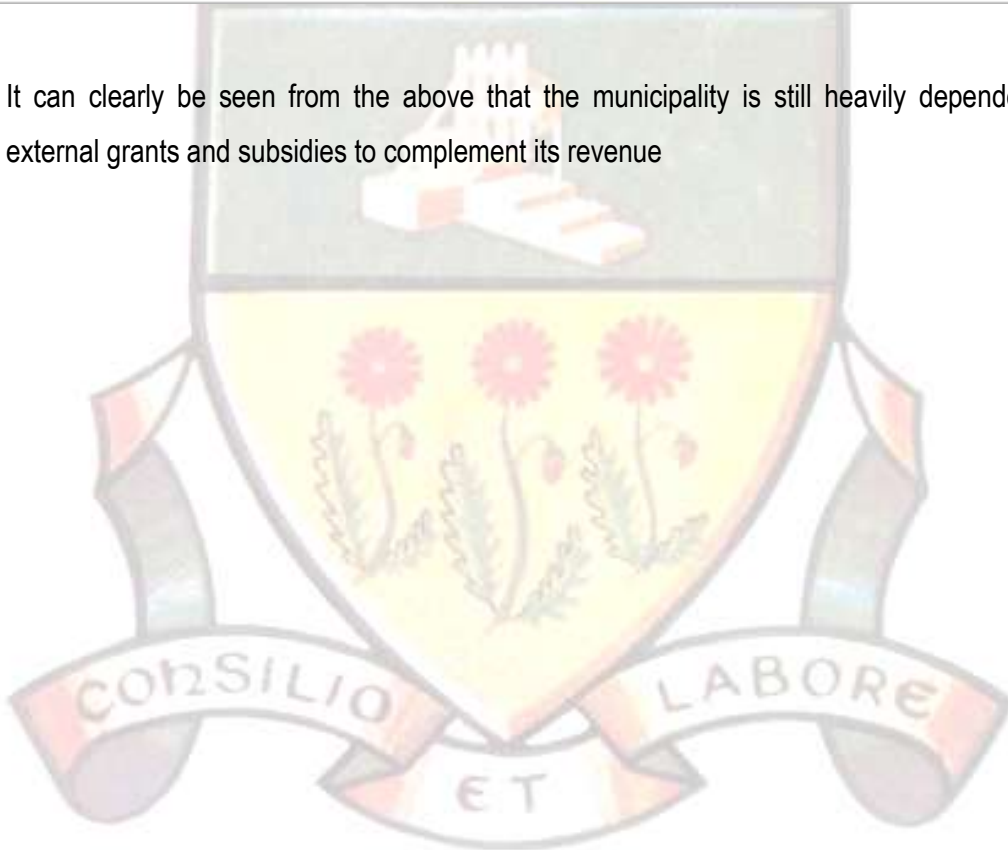
8.8 Other service charges have in total increased by 27% against the 2009/10 adjustment budget. This can mainly be attributed to the tariff increases

8.9 The following graphs illustrate the above table in terms of annual revenue growth and revenue source breakdown





8.10 It can clearly be seen from the above that the municipality is still heavily dependent on external grants and subsidies to complement its revenue



## 9. TARIFF SETTING

- 9.1 Umjindi Municipality derives its revenue from the provision of services such as electricity, water, sanitation and refuse removal. A considerable portion of the revenue is also derived from property rates and grants by national governments as well as other minor charges such as traffic fines.
- 9.2 As in the past, increase cost primarily driven by the Consumer Price Index (CPIX), dictates an increase in the tariffs charged to the consumers and the ratepayers. It therefore follows that all the tariffs will have to be increased by a percentage in line with the current CPIX estimated at 6%
- 9.3 It is realised that the ability of the community to pay for services rendered is also under tremendous pressure and that the economic outlook for the near future require everybody to make sacrifices.
- 9.4 The additional revenue that will be generated through tariff increased has to ensure continued service delivery.
- 9.5 Tariff increases were therefore calculated at 6% with regards to the main services, with the exception of electricity and refuse removal at 31% and 8% respectively. This owing to the special circumstance regarding power security in South Africa and the losses currently being incurred on refuse removal.
- 9.6 The current property rate tariff will not increase with a specific percentage owing to the implementation of the new valuation roll, more particularly to the teething problems experienced by the municipality. It is believed that this gesture will harmonize the situation with ratepayers, whilst the municipality embarks on rectifying the valuation roll.

- 9.7 The latest figures released by Stats SA indicate contractions in several spheres of the economy and this confirms that the disposable income of households remain under a lot of strain.
- 9.8 By drastically increasing tariffs on essential commodities, more strain will be added for the already cash stripped resident households
- 9.9 Increases beyond the 6% included in the draft MTREF will only add to bad debt which is already high and a decline in the cash flow
- 9.10 It must be kept in mind that household cash flow will definitely be strained by tariff increase of ESKOM
- 9.11 The outcome of the increases in tariffs (Revenue) on different revenue categories is as follows:

DETAILS	2010/11 PROPOSED TARIFF INCREASE	2010/11 TOTAL BUDGETED REVENUE R'000
Property Rates	0	21 073
Electricity	31%	58 202
Water	6%	18 276
Sanitation	6%	4 850
Refuse Removal	8%	6 117
<b>TOTAL</b>		<b>108 518</b>

- 9.12 From the household perspective, how much more will be paid in rand is of more interest that the % increase in the various tariffs and rates

### 9.13 Property Rates

9.13.1 Property rates cover the shortfall on the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeted process

9.13.2 The categories of rate-able properties for purposes of levying rates and the proposed rates are as follows:

<b>CATEGORY</b>	<b>CURRENT TARIFF 2009/10</b>	<b>PROPOSED TARIFF 2010/11</b>
	<b>c</b>	<b>c</b>
Residential	0,9	0,9
Business & Commercial	1,8	1,8
Industrial	1,8	1,8
State owned residential	0,9	0,9
State owned non-residential	0,9	0,9
Agricultural residential	0,9	0,9
Agricultural non-residential (Land solely for farming)	0,9	0,9
Agricultural non-residential (Business)	0,9	0,9
Agricultural vacant land	4,5	4,5
All non agricultural land	4,5	4,5
All non-permitted use	4,5	4,5

## 9.14 Water

9.14.1 A 6% increase in water tariffs applicable to the residents of Umjindi is proposed, generating R1 million additional revenue, and R18 million in total

9.14.2 A summary of the proposed tariffs (**VAT EXCLUDED**) for households (residential) and non-residential are as follows:

<b>CATEGORY</b>	<b>CURRENT TARIFFS 2009/10</b>	<b>PROPOSED TARIFFS 2010/11</b>
	<b>Per kl R</b>	<b>Per kl R</b>
<b>Monthly Basic Charge per Category</b>		
Residential 0 – 6 kl	Free	Free
Residential: Developed & Churches	30,50	31,85
Residential: eMjindini Developed & Churches	27,24	28,88
Residential: Undeveloped	55,65	58,99
Business	55,65	58,99
Prison farm	81,090	85,955
<b>Purified Water per Month</b>		
Residential Consumer 0 – 6 kl	Free	Free
All consumers 7 kl – 25 kl	4,28	4,54
26 kl – 35 kl	4,30	5,16
36 kl and above	4,32	5,18
<b>Unpurified Water to Industries and Crocodile Farm</b>		
First 500 kl or part thereof	393,24	416,83
Above 500 kl	1,39	1,47
<b>WATER RESTRICTIONS IN CASE OF DROUGHT</b>		

<b>Monthly Basic Charge (Dam Water Level @ 85%)</b>		
Residential Consumer 0 – 6 kl	Free	Free
All consumers 7 kl – 25 kl	4,28	5,16
26 kl – 35 kl	4,30	5,18
36 kl and above	4,32	5,50

<b>CATEGORY</b>	<b>CURRENT TARIFFS 2009/10</b>	<b>PROPOSED TARIFFS 2010/11</b>
	<b>Per kl R</b>	<b>Per kl R</b>
<b>WATER RESTRICTIONS IN CASE OF DROUGHT</b>		
<b>Monthly Basic Charge (Dam Water Level @ 85%-75%)</b>		
Residential Consumer 0 – 6 kl	Free	Free
All consumers 7 kl – 25 kl	4,28	5,16
26 kl – 35 kl	4,30	5,50
36 kl and above	4,32	7,00
<b>Monthly Basic Charge (Dam Water Level is below 70%)</b>		
<b>No watering of gardens and washing of cars with garden hoses</b>		
Residential Consumer 0 – 6 kl	Free	Free
All consumers 7 kl – 25 kl	4,28	5,16
26 kl – 35 kl	4,30	7,00
36 kl and above	4,32	15,00
<b>New Connection Charges</b>		
	Cost + 15%	Cost + 15%
<b>Testing of Meter</b>		

Where meter show an error of less than 2,5%	106,00	112,36
Where meter show an error of more than 2,5%	N/C	N/C
<b>Water Connection</b>		
Water connection	1 123,60	1 191,02
Poverty (Indigent) tariff (A281/2005)	357,22	378,65

<b>CATEGORY</b>	<b>CURRENT TARIFFS 2009/10</b>	<b>PROPOSED TARIFFS 2010/11</b>
	<b>Per kl R</b>	<b>Per kl R</b>
<b>PENALTIES: TEMPERING WITH WATER METERS (RECONNECTION FEE)</b>		
<b>Domestic Consumers (Pre-paid &amp; Conversional)</b>		
<b>FIRST OFFENCE</b>		
Without damage to installation	1 134,20	1 202,25
With damage to installation	1 817,90	1 926,97
<b>SECOND OFFENCE</b>	1 187,90	1 926,97
<b>THIRD OFFENCE</b>		
Legal action and removal of meter		
<b>SELF – RECONNECTION</b>		
When a customer has illegally reconnected himself/herself after he/she has been cut-off due to reasons such as: <ul style="list-style-type: none"> <li>• Failure to pay his/her account;</li> <li>• After meter has been found tempered with;</li> </ul>		

and		
<ul style="list-style-type: none"> <li>• Meter by-passed by customer</li> </ul>		
If customers readings, differs from those taken when he/she was cut-off, such customer be declared self-reconnected and the following fine be imposed upon him/her and the installation be removed	1 987,50	2 106,75

CATEGORY	CURRENT TARIFFS 2009/10	PROPOSED TARIFFS 2010/11
	Per kl R	Per kl R
<b>BUSINESS CONSUMERS AND LARGE POWER USERS</b>		
<b>FIRST OFFENCE</b>		
Plus an estimated cost for loss of income during the period when the meter was tampered with	3 710,00	3 932,60
<b>SECOND OFFENCE</b>		
Legal action and removal of meter		
The occupier/owner of the property be held liable for any tampering with any meter on his/her property		

#### 9.14 Refuse Removal

9.14.1 Currently refuse removal is operating at a loss/deficit. In normal practice terms, the rendering of this service should at least break-even, which is currently not the case. Umjindi will have to implement a strategy to ensure that this service can be rendered in a sustainable manner over the long-to-medium-term.

9.14.2 Refuse removal tariffs are proposed to be increased with 8% from the 1 July 2010 to

ensure that costs are recovered

9.14.3 Revenue of R6 million will be generated through the tariff increase and anticipated growth in service rendering.

9.14.4 The following table indicates a comparison between current and proposed amounts payable from 1 July 2010 (**VAT EXCLUDED**)

<b>CATEGORY</b>	<b>CURRENT TARIFFS 2009/10</b>	<b>PROPOSED TARIFFS 2010/11</b>
	<b>R</b>	<b>R</b>
<b>Once per Week</b>		
1 <sup>st</sup> Bin – All sections	47,00	50,76
<b>Daily Removal</b>		
1 <sup>st</sup> Bin	172,25	186,03
2 <sup>nd</sup> Bin	121,64	131,37
<b>OTHER REMOVALS</b>		
<b>Special removals 6 per m3</b>	577,17	623,34
Bulk containers/Bins (Business)	204,37	220,72
Rental of Bulk containers/Bins (Maximum 3 days)	240,36	259,58
Unsound foodstuff per removal	621,69	671,43
<b>Cleaning of Erven per m2</b>	1,06	1,14

## 9.15 Sanitation

9.15.1 The tariff is proposed to be increased by 6% from 1 July 2010

9.15.2 The total revenue expected to be generated from rendering this service amounts to R4,8 million for the 2010/11 financial year.

9.15.3 The following table indicate the proposed tariffs (**VAT EXCLUDED**) to be implemented with effect from 1 July 2010:

<b>CATEGORY</b>	<b>CURRENT TARIFFS 2009/10</b>	<b>PROPOSED TARIFFS 2010/11</b>
	<b>R</b>	<b>R</b>
<b>Private Residential Purposes</b>		
For every 100m2 or portion thereof	4,77	5,06
Maximum	93,02	98,60
<b>Prisons</b>		
For every 100m2 or portion thereof	4,77	5,06
Maximum	2 173,00	2 303,38
<b>Other Land</b>		
For every 100m2 or portion thereof	4,77	5,06
Maximum	1 303,80	1 382,03
<b>Domestic sewerage</b>		
Per water closet pan, urinal or compartment	14,15	15,00
<b>Connection fees</b>		
	Cost + 15%	Cost + 15%
<b>Sewerage Connection Fees</b>		
Sewerage connection fees	975,20	1 033,71
Poverty (Indigent) tariff	464,81	492,70
<b>Sewerage Blockages Private Properties</b>		

<b>Weekdays (Office Hours)</b>		
First half hour or portion thereof	295,21	312,92
Every additional half hour or portion thereof	139,00	147,34
<b>Saturdays &amp; After Hours</b>		
First half hour or portion thereof	476,47	505,06
Every additional half hour or portion thereof	238,50	252,81
<b>Sundays &amp; Holidays</b>		
First half hour or portion thereof	476,47	505,06
Every additional half hour or portion thereof	225,00	238,50

## 9.16 Electricity

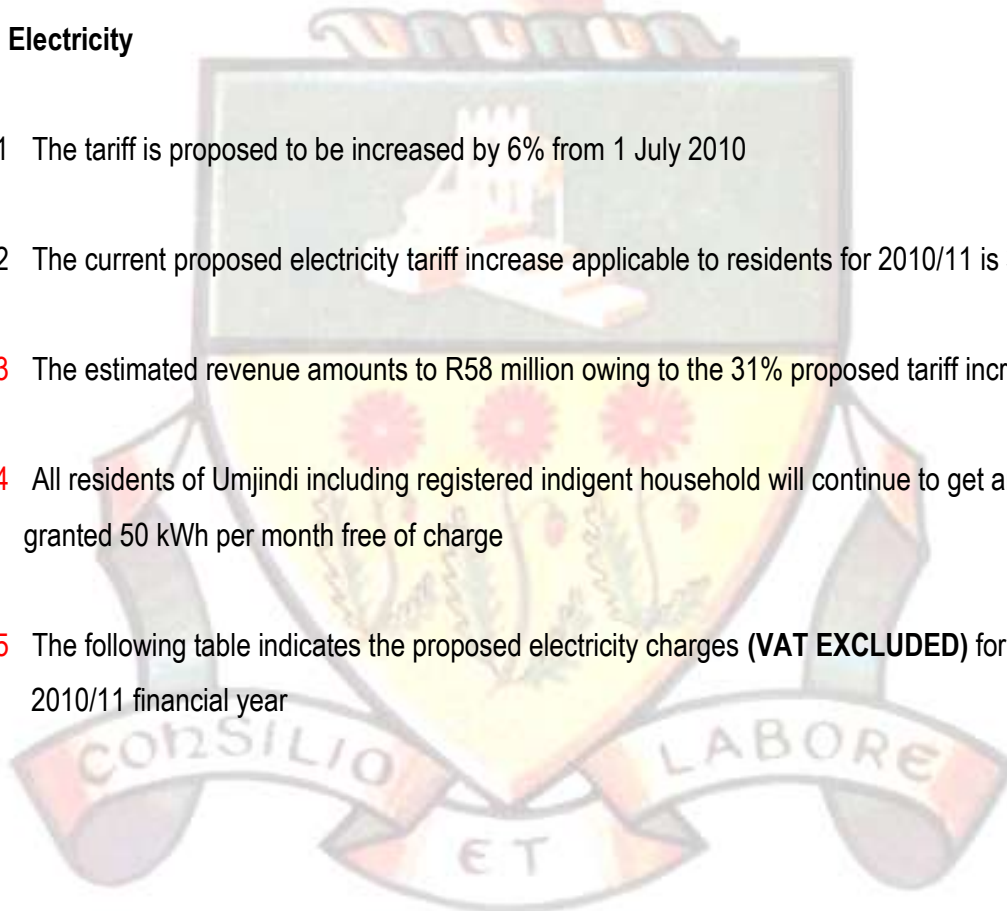
9.16.1 The tariff is proposed to be increased by 6% from 1 July 2010

9.16.2 The current proposed electricity tariff increase applicable to residents for 2010/11 is 31%.

9.16.3 The estimated revenue amounts to R58 million owing to the 31% proposed tariff increase

9.16.4 All residents of Umjindi including registered indigent household will continue to get and be granted 50 kWh per month free of charge

9.16.5 The following table indicates the proposed electricity charges (**VAT EXCLUDED**) for the 2010/11 financial year



CATEGORY	CURRENT TARIFFS 2009/10	PROPOSED TARIFFS 2010/11
	R	R
<b>DOMESTIC (HOUSEHOLD, FLATS, GUEST HOUSES, CHURCHES &amp; SCHOOLS WITHOUT KVA AND AGRICULTURAL HOLDINGS)</b>		
<b>Domestic Basic Charge</b>		
Domestic with no consumption for 30 days and longer	114,00	149,35
Residential 0 – 50 units	Free	Free
Residential 51 units – above	114,00	149,35
<b>Domestic Energy Charge of Electricity</b>		
Conventional 0 – 50 units	Free	Free
Conventional 51 units – above	0,56	0,73
Pre-paid 0 -50 units	Free	Free
Pre-paid (single or three phase) 51 units – above	0,65	0,85
<b>Liveline 0 – above</b>	0,598	0,784
<b>Domestic Bulk</b>		
Standard Supply	0,585	0,766
<b>Time of use</b>		
Peak	1,62	2,12
Standard	0,34	0,445
Off-peak	0,234	0,306
<b>COMMERCIAL (MUNICIPAL , BUSINESS ETC)</b>		
<b>Basic Charge (conventional)</b>		
Three phase (including vacant stand)	482,00	631,42
Single phase (including vacant stand)	422,00	552,82
<b>Energy Charge of Electricity</b>		

Charge per unit	0,56	0,734
Business consumption (Pre-paid)	0,65	0,85
<b>INDUSTRIAL (MUNCIPAL, BUSINESS, SCHOOLS WITH KVA ECT)</b>		
<b>Low Voltage 400 V (Demand Scale)</b>		
Metered KVA	73,50	96,30
Charge per unit	0,34	0,445
Basic charge (including vacant stands)	620,00	812,20
<b>Time of use</b>		
Peak	1,62	2,12
Standard	0,34	0,445
Off-peak	0,23	0,301
<b>KVA 11000V</b>		
Metered KVA	73,00	95,35
Charge per unit	0,264	0,35
Basic charge (including vacant stand)	620,00	812,20
<b>Time of use</b>		
Basic charge	620,00	812,20
<b>Demand charge per kVA (30 min periods)</b>		
<b>Energy charges</b>		
<b>Peak</b>		
High Demand (June – August)	0,994	1,30
Low Demand (September – May)	0,32	0,42
<b>Standard</b>		
High Demand (June – August)	0,302	0,400
Low Demand (September – May)	0,218	0,285
<b>Off-peak</b>		
High Demand (June – August)	0,17	0,223

Low Demand (September – May)	0,148	0,195
<b>CONNECTION CHARGES AND OTHER MAINTENANCE</b>		
Single phase pre-paid meter	3 820,00	4 150,00
Single phase conventional meter	3 745,00	4 050,00
Single phase pre-paid meter (Poverty)Indigent	Free	Free
Three phase pre-paid meter	6 340,00	6 850,00
Three phase conventional meter	6 155,00	6 650,00
Change conventional to pre-paid meter (single phase)	625,00	675,00
Change conventional to pre-paid meter (three phase)	3 157,89	3 400,00
Change pre-paid to conventional (Single phase)	650,00	700,00
Change pre-paid to conventional (Three phase)	1 280,00	1 380,00
<b>PENALTIES: TEMPERING WITH ELECTRICITY METERS</b>		
<b>Domestic Consumer (Pre-paid &amp; Conventional)</b>		
<b>First Offence</b>		
Without damage to installation	1 500,00	1 620,00
With damage to installation	2 200,00	2 380,00
<b>Second Offence</b>		
	2 800,00	3 025,00
<b>Third Offence</b>		
Legal action and removal of meter		
<b>SELF – RECONNECTION</b>		
When a customer has illegally reconnected himself/herself after he/she has been cut-off due to reasons such as: <ul style="list-style-type: none"> <li>• Failure to pay his/her account;</li> <li>• After meter has been found tempered with;</li> <li>and</li> </ul>		

<ul style="list-style-type: none"> <li>• Meter by-passed by customer</li> </ul>		
If customers readings, differs from those taken when he/she was cut-off, such customer be declared self-reconnected and the following fine be imposed upon him/her and the installation be removed	1 800,00	1 950,00
<b>Business Consumers and Large Power users</b>		
<b>FIRST OFFENCE</b>		
Plus an estimated cost for loss of income during the period when the meter was tempered with	4 800,00	5 185,00
<b>SECOND OFFENCE</b>		
Legal action and removal of meter		
The occupier/owner of the property be held liable for any tempering with any meter on his/her property		
<b>Testing of Meters (Section 9(1) of By Laws)</b>	220,00	240,00
Attendance to complaint other than fault in council's supply or equipment (per call)	220,00	240,00
Testing of electrical installation (Section 16(8)b of By-Laws) – On request of consumer	320,00	350,00
<b>Replacement of tariff circuit breakers with</b>		
Higher circuit breaker per phase	250,00	270,00
Lower circuit breaker per phase	250,00	270,00
<b>Consumer is of the opinion tariff circuit breaker tr current value that its rating</b>		
Tariff	215,00	232,00
Per circuit breaker	98,00	105,00
<b>(These costs are refundable at non-compliance)</b>		
<b>After a tariff circuit breaker has been tested, the Engineer's finding as to the tariff circuit breaker's compliance with the provisions of these By-Laws shall be final and a tariff circuit breaker shall be</b>		

regarded as complying with the provisions of these By-Laws if the test proves that it does not trip within 30 minutes when it passes a steady current of 5% below its rating		
Aggregate of units determined by Council Engineer		
<b>Testing/fault finding on electrical cables</b>		
First 2 hours	850,00	920,00
Every hour thereafter	325,00	350,00
Plus: Travel cost	Actual cost	Actual cost
<b>Tariff classification</b>		
In the event of a dispute regarding the tariff under which a consumer is classified, Council's decision shall be final		

### 9.17 Other tariffs

9.17.1 The tariffs for all other services rendered i.e approval of building plans etc, will be increased with an inflation related percentage of 6%

9.17.2 The proposed tariffs for the various services are attached as Annexure to this report

9.17.3 The shortfall owing to these tariffs not always covering costs is funded through property rates.

### 9.18 Equitable Share

9.18.1 The Equitable share allocation to the local sphere of government is an important supplement to existing municipal revenue and takes account of the fiscal capacity, fiscal efficiency, developmental needs, extent of poverty and backlogs in municipalities

9.18.2 It is an unconditional grant and allocations are contained in the Division of Revenue Act (DORA)

19.8.3 The structure and components of the formula are summarized as follows:

Grant = BS + D + I + R+(-) C where:

BS = Basic Service Component

D = Development component

I = Institutional Support Component

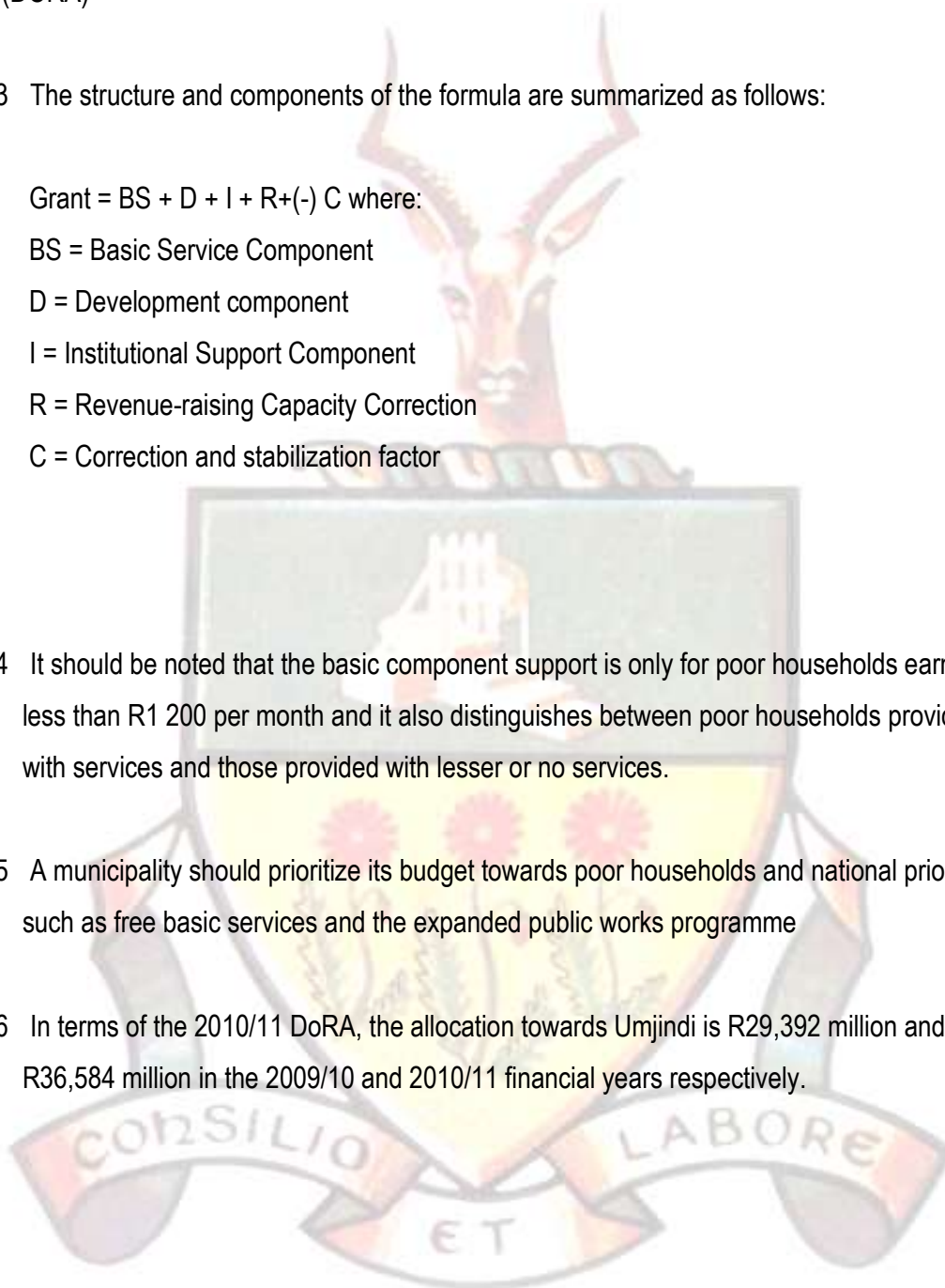
R = Revenue-raising Capacity Correction

C = Correction and stabilization factor

19.8.4 It should be noted that the basic component support is only for poor households earning less than R1 200 per month and it also distinguishes between poor households provided with services and those provided with lesser or no services.

19.8.5 A municipality should prioritize its budget towards poor households and national priorities such as free basic services and the expanded public works programme

19.8.6 In terms of the 2010/11 DoRA, the allocation towards Umjindi is R29,392 million and R36,584 million in the 2009/10 and 2010/11 financial years respectively.



# 10. EXPENDITURE FRAMEWORK

10.1 Some of the salient features and best practice methodologies relating to expenditure include the following:

- 10.1.1 Asset renewal strategy (infrastructure repairs and maintenance a priority)
- 10.1.2 Balanced budget constraint (expenditure cannot exceed revenue)
- 10.1.3 Capital programme aligned to asset renewal strategy
- 10.1.4 Operational gains and efficiencies resulting in additional funding capacity on the capital programme as well as redirection of funding to other critical areas, and
- 10.1.5 Strict principle of no project plan (business plan) no budget allocation (funding allocation)

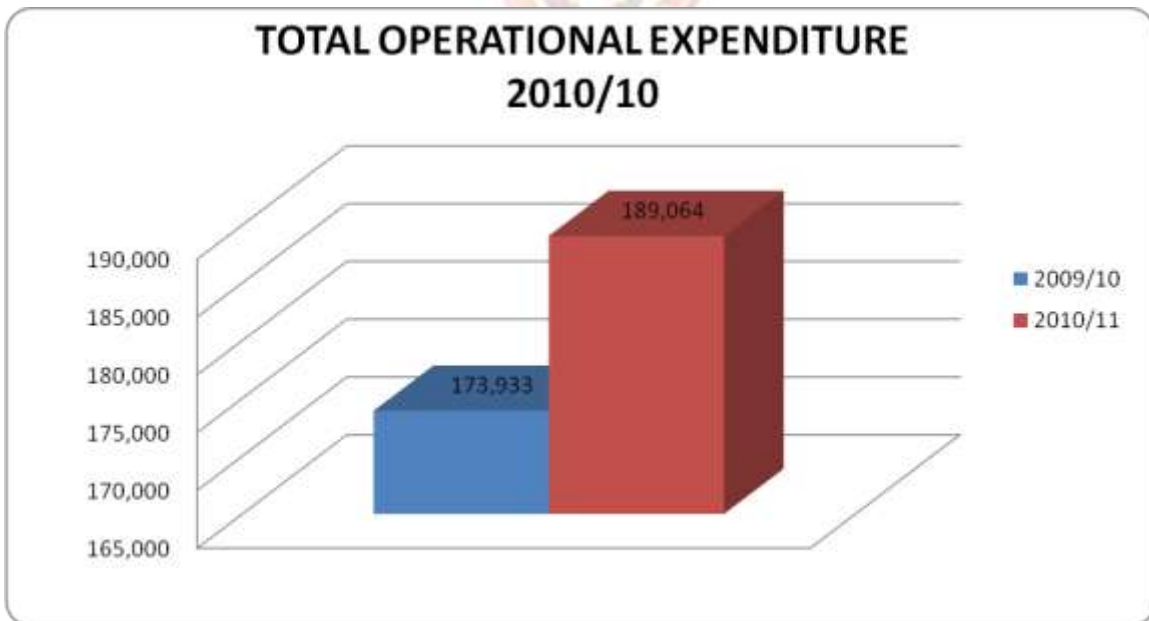
10.2 The following table is a high level summary of the draft 2010/11 Medium-Term Expenditure Framework (Classified per main category of expenditure)

DESCRIPTION	APPROVED BUDGET 2009/10	ADJUSTMENT BUDGET 2009/10	BUDGET YEAR 2010/11	% INCREASE / (DECREASE)	BUDGET YEAR 2011/12	BUDGET YEAR 2012/13
<b>Operating Expenditure by Type</b>						
Employee related costs	50 160 093	50 160 093	53 559 437	7	56 475 928	59 864 463
Remuneration of Councilors	4 115 369	4 115 369	4 269 943	4	4 526 140	4 797 709
Electricity bulk purchases	24 170 416	24 170 416	30 350 000	26	32 171 000	34 101 260
Repairs and Maintenance	5 982 833	6 601 267	7 250 836	21	7 729 886	8 112 207
Redemption of external loans & Interest	1 300 483	1 300 483	1 273 870	(2)	1 360 302	1 431 320
Depreciation	10 000 000	40 000 000	50 000 000	400	53 000 000	56 180 000
Leave and landfill site provision	5 226 888	4 176 888	1 400 000	(73)	1 484 000	1 573 040
General expenses	71 675 922	63 335 922	40 959 926	(43)	45 586 602	50 514 896
<b>TOTAL OPERATING EXPE</b>	<b>173 932 837</b>	<b>193 860 438</b>	<b>189 064 012</b>	<b>7</b>	<b>202 333 858</b>	<b>216 574 895</b>

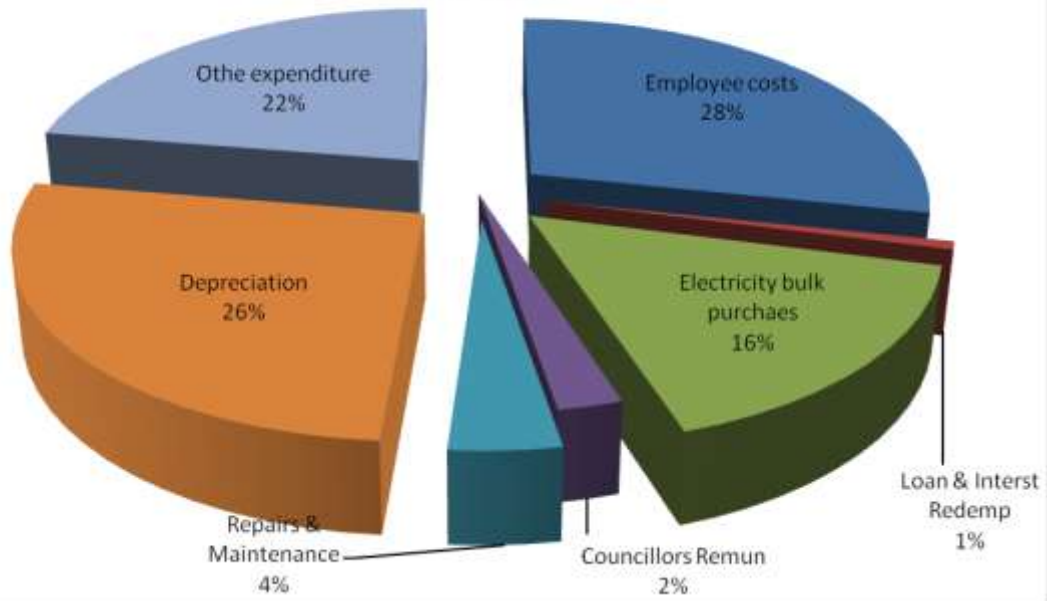
- 10.3 The draft expenditure equates to R189 million in the 2010/11 financial year
- 10.4 Total expenditure has decreased by 2% against the 2009/10 adjustment budget and by 7% against the 2009/10 approved budget
- 10.5 In terms of the projected R54 million for the 2010/11 financial year, indicative salary increases have been included and represents 28% of the total operating expenditure budget
- 10.6 The cost associated with the remuneration of councilors is determined and informed directly by way of the Remuneration of Public Office Bearers Act 1998 (Act No. 20 of 1998)
- 10.7 Aligned to the best practice methodology of preserving and maintaining current infrastructure, the expenditure framework has essentially catered for infrastructure maintenance
- 10.8 Compared to the 2009/10 approve budget, the repairs and maintenance has increased by 21% from R5,9 million to R7,2 million
- 10.9 Compared to the 2009/10 adjustment budget, the bulk electricity purchase has increased by 26% from R24 million to R30 million
- 10.10 General expenditure comprises of municipal rates and services, administration and general related expenditure. The 43% decrease from the 2009/10 adjustment budget to the draft 2010/11 MTREF can directly be attributed to the implementation of the cost cutting and curtailment measures with a view to managing expenditure levels downwards
- 10.11 The number of households in informal areas that receives free services and the cost of these services (eg. Delivery of water in rural areas) are not taken into account in the table above
- 10.12 Revenue estimated to be foregone with regards to property rates rebate is R1,5 million for the 2010/11 financial year

10.13 The cost (revenue forgone) of the social package of the registered indigent household is offset by the equitable share received in terms of the DoRa.

10.14 The following graphs illustrate the above table in terms of expenditure annual growth and expenditure breakdown



## % OF TOTAL OPERATIONAL EXPENDITURE 2010/11



# 11. UNFUNDED AND CUT-OFFS

11.1 Municipalities must table a balanced and more credible budgets based on realistic estimates of revenue and expenditure that are consistent with their budgetary resources, collection and expenditure experience

11.2 The following table reflects some unanticipated cut-offs from the 2010/11 Medium-term Revenue and Expenditure Framework

DETAILS	DRAFT	REDUCED AMOUNT	
<b>SALARIES</b>			
Overtime	2 635 427	1 147 857	1 487 570
Director in the office of the Municipal Manager	456 096	456 096	0
Admin Officer – Corporate Services	261 248	261 248	0
Transversal Officer	242 972	242 972	0
Labour Relations Officer – Corporate Service	231 285	231 285	0
Student traffic officers – Community Services	316 106	316 106	0
Engineering Technician – Civil	171 122	171 122	0
Engineering Technician - Civil	171 122	171 122	0
Electrician – Electrical Services	300 548	300 548	0
<b>TOTAL</b>	<b>4 785 926</b>	<b>3 298 356</b>	<b>1 487 570</b>
<b>REPAIRS AND MAINTENANCE</b>			
Maintenance of Buildings	1 308 000	608 000	700 000
Resurfacing of existing roads	1 200 000	300 000	900 000
Maintenance of Streets	1 500 000	600 000	900 000
Audit Fees	1 396 000	496 000	900 000

<b>TOTAL</b>	<b>5 404 000</b>	<b>2 004 000</b>	<b>3 400 000</b>
<b>TOTAL CUT-OFF</b>	<b>10 189 926</b>	<b>5 302 356</b>	<b>4 887 570</b>

## 12. CONCLUSION

- 12.1 Although the Municipality in its entirety faces many financial and non-financial challenges, the continued improvement and development of an effective financial planning process aids the actualization of fulfilling its facilitating role to capacitate the community to build a prosperous future for all
- 12.2 The draft 2010/11 MTREF contains realistic and credible revenue and expenditure proposals which should provide sound basis for improved financial management and institutional development as well as service delivery improvement and implementation.
- 12.3 The public participation and consultation process, of which this report forms the departure point, will strengthen the principles of people-centered governance, transparency and accountability

## 13. RECOMMENDATION

- 13.1 That the draft 2010/11 Medium-term Revenue and Expenditure Framework, tabled in accordance with the Municipal Finance Management Act, 2003 (Act No.56 of 2003) be approved and form the basis of the community consultation process
- 13.2 That all budget related policies be subjected to be reviewed and reviewed/amended policies be tabled before council for approval together with the final 2010/11 MTREF budget for 2010/11

13.3 That the Municipal Manager submit the service delivery and budget implementation plan to the Mayor together with the final budget to be considered by the Mayor for tabling ito Section 16(2) of the Act

