

Budget Summary



Msunduzi Municipality

Budget 2010/11

by

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UNDERLYING ASSUMPTIONS

The following factors were considered for tariff setting in order to produce a realistic and credible budget :

- Tariffs are set to be enough to balance the budget (no deficit)
- Affordability of the rate payers and consumers.
- The need for investments on upgrading and building of new infrastructure such as sanitation, but revenue enhancement and cost containment strategies influenced the other services.
- The need for investment on existing of infrastructure and other assets.

UNDERLYING ASSUMPTIONS (continued)

- Provision of basic services to the poor households.
- Consideration of National and Provincial governments priorities and budgeting guidelines.
- Turn Around Strategy and Financial Recovery as incorporated in the Integrated Development Plan
- National regulatory bodies regulations e.g. NERSA
- Economic growth or decline in economic activities in the region.
- Equity issues e.g. common tariffs for all

UNDERLYING ASSUMPTIONS (continued)

The Municipal revenue perspective for the Medium Term Revenue and Expenditure Framework (MTREF) will be generated from the following tariff charge increase:

Description	2010/11
Electricity	21 %
Water	8%
Sewer	8%
Refuse Removal	8%
Property Rates	8%
Other tariffs	10%

DRAFT BUDGET BEFORE CHANGES

Description	2010/11
Revenue	2 210 713 243
Expenditure	2 129 592 506
Surplus	81 120 737
Current Non-payment	750 243 115
Deficit	-669 122 378

Total High-level Summary

Operating Revenue	R
Sales	1 813 823 269
Other Miscellaneous	396 889 974
Total Revenue	2 210 713 243
Operating Expenses	
Bulk Purchases	975 254 045
Employee Related Costs	654 323 236
General Expenses	242 449 352
Repairs & Maintenance	71 307 183
Lease Charges	1 327 424
Interest Charges	69 096 888
Other Indirect Operating Expenses	115 834 378
Total Expenditure	2 129 592 506
Surplus	81 120 737
Less : Non-payment	750 243 115
Surplus/(Deficit)	-669 122 378

Electricity High-level Summary

Operating Revenue	R
Sales	957 000 000
Other Miscellaneous	127 354 757
Total Revenue	1 084 354 757
Operating Expenses	
Bulk Purchases	726 600 000
Employee Related Costs	52 258 901
General Expenses	2 773 595
Repairs & Maintenance	34 536 875
Lease Charges	131 272
Interest Charges	17 984 756
Other Indirect Operating Expenses	25 593 503
Total Expenditure	859 878 902
Surplus	224 475 855
Less : Non-payment	421 080 000
Surplus/(Deficit)	-196 604 145

Water High-level Summary

Operating Revenue	R
Sales	211 253 351
Other Miscellaneous	76 838 061
Total Revenue	288 091 412
Operating Expenses	
Bulk Purchases	203 234 045
Employee Related Costs	5 624 006
General Expenses	12 410 282
Repairs & Maintenance	497 572
Lease Charges	105 857
Interest Charges	11 576 031
Other Indirect Operating Expenses	7 926 875
Total Expenditure	241 374 668
Surplus	46 716 744
Less : Non-payment	95 064 008
Surplus/(Deficit)	-48 347 264

Refuse High-level Summary

Operating Revenue	R
Sales	66 282 919
Other Miscellaneous	48 383 423
Total Revenue	114 666 342
Operating Expenses	
Bulk Purchases	
Employee Related Costs	55 348 845
General Expenses	6 280 577
Repairs & Maintenance	6 291 834
Lease Charges	161 754
Interest Charges	8 052 408
Other Indirect Operating Expenses	633 203
Total Expenditure	76 768 621
Surplus	37 897 721
Less : Non-payment	19 307 704
Surplus/(Deficit)	18 590 017

Sanitation High-level Summary

Operating Revenue	R
Sales	91 143 967
Other Miscellaneous	49 706 879
Total Revenue	140 850 846
Operating Expenses	
Bulk Purchases	45 420 000
Employee Related Costs	2 381 067
General Expenses	984 746
Repairs & Maintenance	349 083
Lease Charges	96 413
Interest Charges	5 235 012
Other Indirect Operating Expenses	4 672 430
Total Expenditure	59 138 751
Surplus	81 712 095
Less : Non-payment	29 166 069
Surplus/(Deficit)	52 546 026

Rates High-level Summary

Operating Revenue	R
Sales	488 143 032
Other Miscellaneous	94 606 854
Total Revenue	582 749 886
Operating Expenses	
Bulk Purchases	0
Employee Related Costs	538 710 417
General Expenses	220 000 152
Repairs & Maintenance	29 631 819
Lease Charges	832 128
Interest Charges	25 442 681
Other Indirect Operating Expenses	77 008 367
Total Expenditure	892 431 564
Deficit	-309 681 678
Less : Non-payment	185 625 334
Surplus/(Deficit)	-495 307 012

UNBALANCED BUDGET

The Municipal Finance Management Act prohibits the adoption of an unbalanced Budget

The National Treasury indicated that the municipality must make the necessary adjustments to balance the budget as originally tabled

Certain changes had to be made in accordance with requests made by stakeholders

A comparison between the unbalanced budget and the balanced budget will indicate the steps the municipality will need to take in the year ahead to balance the budget – failure will result in an unbalanced budget and the prospects of bankruptcy staring us in the face. The medicine will be unpleasant, but unavoidable

Changes to Draft Budget

Item	Draft	Revised	Positive/(Negative)
Overtime	30 000 000	15 000 000	15 000 000
Locomotion	6 119 802	2 119 802	4 000 000
Temporary Staff	15 738 912	2 738 912	13 000 000
Electricity –Bulk Purchases	726 600 000	660 600 000	66 000 000
Water –Bulk purchases	248 654 045	230 654 045	18 000 000
Provisions for Bad Debts	750 243 115	194 803 113	555 440 002
General Expenses	242 449 352	282 132 183	(39 682 831)
Repairs & Maintenance	71 307 183	74 307 183	(3 000 000)
Sub-total			628 757 171

Changes to Draft Budget (continued)

Item	Draft	Revised	Positive/(Negative)
Brought forward			628 757 171
Electricity Sales	957 000 000	963 000 000	6 000 000
Water Sales	211 253 351	232 000 000	20 746 649
Cost Recoveries from Illegal Connections	0	2 000 000	2 000 000
Interest	45 208 967	32 631 009	(12 577 958)
Employee related cost			24 309 414
Total Positive Change			669 235 276
Original Deficit			669 122 898
Surplus			112 898

Reasons for the Changes

- 1. The Municipality is planning to do vigorous credit control**
- 2. The Municipality is planning for Revenue enhancement and Cost containment projects which will influence cash collections**
- 3. The above measures should result in a decrease in bulk purchases and an increase in revenue.**
- 4. District Water meters will be installed to monitor water losses and illegal connections.**
- 5. New meters will be installed in some places which will result in increased revenue flows.**

Reasons for the Changes(continued)

6. Fortified protective structures will be installed to reduce thefts , illegal connections and result in increased revenue inflow.
7. The above will also decrease Electricity Bulk purchases.
8. Salaries were reduced by 5% , it is expected that savings will be realised after implementing a new proposed structure in the second quarter of the year.
9. It is expected that collection levels will improve and this will result in a lower bad debt provision amount.

Reasons for the Changes(continued)

- 10. A complete schedule with targeted inflows have been developed and will be monitored daily.**
- 11. The above has an element of risk and assumed cash inflows might vary from the actuals.**

Result

The reasons previously given resulted in a balanced Final Draft Budget which will be tabled on 30 June 2010 before Council for adoption, is as follows;

Total High-level Summary

Operating Revenue	R
Sales	1 840 569 918
Capital Grants	136 513 266
Other Miscellaneous	386 312 016
Total Revenue	2 363 395 200
Operating Expenses	
Bulk Purchases	891 254 044
Employee Related Costs	598 013 822
General Expenses	282 132 183
Repairs & Maintenance	74 307 183
Lease Charges	1 327 424
Interest Charges	69 096 888
Capital Grants	136 513 266
Other Indirect Operating Expenses	115 834 378
Total Expenditure	2 168 479 188
Surplus	194 916 012
Less : Non-payment	194 803 113
Surplus/(Deficit)	112 899

Electricity High-level Summary

Operating Revenue	R
Sales	963 000 000
MIG- Capital	64 418 800
Other Miscellaneous	122 154 696
Total Revenue	1 149 573496
Operating Expenses	
Bulk Purchases	660 600 000
Employee Related Costs	46 876 401
General Expenses	8 037 435
Repairs & Maintenance	34 536 875
Lease Charges	131 272
Interest Charges	17 984 756
MIG- Capital	64 418 800
Other Indirect Operating Expenses	25 593 503
Total Expenditure	858 179 042
Surplus	291 394 454
Less : Non-payment	109 334 819
Surplus/(Deficit)	182 059 635

Water High-level Summary

Operating Revenue	R
Sales	232 000 000
MIG - Capital	22 169 624
Other Miscellaneous	75 859 054
Total Revenue	330 028 678
Operating Expenses	
Bulk Purchases	188 521 986
Employee Related Costs	5 128 572
General Expenses	14 122 782
Repairs & Maintenance	3 497 572
Lease Charges	105 857
Interest Charges	11 576 031
MIG - Capital	22 169 624
Other Indirect Operating Expenses	7 926 875
Total Expenditure	253 049 299
Surplus	76 979 379
Less : Non-payment	24 683 685
Surplus/(Deficit)	52 295 694

Refuse High-level Summary

Operating Revenue	R
Sales	66 282 919
MIG- Capital	0
Other Miscellaneous	47 947 373
Total Revenue	114 230 292
Operating Expenses	
Bulk Purchases	
Employee Related Costs	46 984 150
General Expenses	7 993 077
Repairs & Maintenance	6 291 834
Lease Charges	161 754
Interest Charges	8 052 408
MIG- Capital	0
Other Indirect Operating Expenses	633 203
Total Expenditure	70 116 426
Surplus	44 113 866
Less : Non-payment	5 013 309
Surplus/(Deficit)	39 100 557

Sanitation High-level Summary

Operating Revenue	R
Sales	91 143 967
MIG- Capital	14 000 000
Other Miscellaneous	49 068 770
Total Revenue	154 212 737
Operating Expenses	
Bulk Purchases	42 132 058
Employee Related Costs	2 194 408
General Expenses	984 746
Repairs & Maintenance	349 083
Lease Charges	96 413
Interest Charges	5 235 012
MIG- Capital	14 000 000
Other Indirect Operating Expenses	4 672 430
Total Expenditure	69 664 150
Surplus	84 548 587
Less : Non-payment	7 573 066
Surplus/(Deficit)	76 975 521

Rates High-level Summary

Operating Revenue	R
Sales	488 143 032
MIG –Capital	1 924 838
Other Miscellaneous	91 282 123
Total Revenue	581 349 993
Operating Expenses	
Bulk Purchases	0
Employee Related Costs	496 830 291
General Expenses	250 994 143
Repairs & Maintenance	29 631 819
Lease Charges	832 128
Interest Charges	26 248 681
MIG –Capital	1 924 838
Other Indirect Operating Expenses	77 008 367
Total Expenditure	883 470 267
Surplus	--302 120 274
Less : Non-payment	48 198 234
Surplus/(Deficit)	-350 318 508

Capital Budget

- The Municipality will have to rely on external funding for some capital projects which are urgent, like fleet renewal.
- R 80 million from Municipal Infrastructure Grant (MIG) will be used to fund revenue enhancement measures. This money will be used to fund acquisition of water meters and fortification structures for electricity.
- The Municipality does not have surplus revenue or reserves to fund its own capital projects.

Critical Projects

- **Water District Meters**
- **Protective Structures Electricity**
- **Cleansing of Debtors Data**
- **Consolidation of Billing**
- **Credit Control**
- **Debt Collection**
- **Demand Management Electricity**
- **ESKOM Negotiations**
 - **Surcharge**
 - **Leverage**
- **Regularisation of Entities – Feasibility studies**

Indigents

- Electricity - 50 kWh free if registered as lifeline with 20amp (No upper limit)
- Water – 6 kl free if <6 kl is used (pay for all if usage is in excess)
- Refuse – 50 % rebate if registered as lifeline
electricity - if no electricity water <6 kl
- Sanitation - 50 % rebate if registered as lifeline
electricity - if no electricity water <6 kl
- Rates - R 150 000 value deduction (all domestic properties)

Property Rates

COMPARATIVE RATES INCREASES

VALUE OF PROPERTY	RATE	AMOUNT	RATE	AMOUNT	VARIANCE	INCREASE
	2009/10		2010/11			
	0.01650		0.01780			
200 000	0.00760	1520	0.00960	1920	400	26.32%
400 000	0.00760	3040	0.00960	3840	800	26.32%
500 000	0.00760	3800	0.00960	4800	1000	26.32%
600 000	0.00760	4560	0.00960	5760	1200	26.32%
650 000	0.00760	4940	0.00960	6240	1300	26.32%
700 000	0.00760	5320	0.00960	6720	1400	26.32%
900 000	0.00760	6840	0.00960	8640	1800	26.32%
1 000 000	0.00760	7600	0.00960	9600	2000	26.32%
1 500 000	0.00760	11400	0.00960	14400	3000	26.32%
2 000 000	0.00760	15200	0.00960	19200	4000	26.32%

Property Rates

COMPARATIVE RATES INCREASES						
DOMESTIC R 15,000 REBATE - R 135 000 VALUE DEDUCTION						
VALUE OF PROPERTY	RATE	AMOUNT	RATE	AMOUNT	VARIANCE	INCREASE
	2009/10		2010/11			
	0.01650		0.01780			
200 000	0.00760	1520	0.00960	624	-896	-58.95%
400 000	0.00760	3040	0.00960	2544	-496	-16.32%
500 000	0.00760	3800	0.00960	3504	-296	-7.79%
600 000	0.00760	4560	0.00960	4464	-96	-2.11%
650 000	0.00760	4940	0.00960	4944	4	0.08%
700 000	0.00760	5320	0.00960	5424	104	1.95%
900 000	0.00760	6840	0.00960	7344	504	7.37%
1 000 000	0.00760	7600	0.00960	8304	704	9.26%
1 500 000	0.00760	11400	0.00960	13104	1704	14.95%
2 000 000	0.00760	15200	0.00960	17904	2704	17.79%

Thank You