

**The Msunduzi Municipality
Office of the Administrator**

Telephone		Private Bag
Ucingo	033 392 2002	Isikhwama X321
Facsimile		Pietermaritzburg
eFekesi	033 392 2397	ePietermaritzburg 3200

Email: JohannMettler@msunduzi.gov.za

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1. TITLE OF SUBMISSION

Operating and Capital Budget for the 2010/2011 financial year and the Budget Policy for 2010/11.

2. PURPOSE

To report to the Council on the Operating and Capital estimates for 2010/2011 financial year, the relevant Tariffs and Policies which are submitted for approval.

3. BACKGROUND

The National Treasury has imposed a provisional limitation of 5.7% growth in expenditure. The Budget Circular received recommended a growth rate of 5.7% for 2010/11, 6.2% for 2011/12 and 5.9% for 2012/13. The budget regulations also made provision for a budget policy which needs to be approved. As for the 2009/10 financial year, Msunduzi Municipality did not have a Budget Policy in place. It is therefore important that the policy be approved before the start of the new financial year.

4. DISCUSSION

4.1 THE BUDGET POLICY

The Budget Policy is formulated to ensure effective budget monitoring and to comply with the MFMA Budget and Reporting Regulations. In summary, the policy deals with the following;

- Budget management and oversight,
- Shifting of funds within votes,
- Introduction of adjustments budget,
- Unforeseen and unavoidable expenditure, and
- Unauthorised expenditure approved by the Mayor.

4.2 OPERATING BUDGET

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 sanitation, but revenue enhancement and cost containment strategies influenced the other services.
- The need for investment on existing of infrastructure and other assets.
- 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

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%

The Municipal Finance Management Act prohibits the adoption of an unbalanced budget. The National Treasury indicated that the municipality must make necessary adjustments to

balance the budget as originally tabled. Certain changes had to be made in accordance with requests made by stakeholders.

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
Provision for Bad Debts	750 243 115	194 803 113	555 440 002
General Expenses	242 449 352	282 132 183	(39 682 831)
Repairs and Maintenance	71 307 183	74 307 183	(3 000 000)
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

- The Municipality is planning to do vigorous credit control
- The Municipality is planning for Revenue enhancement and Cost containment projects which will influence cash collections
- The above measures should result in a decrease in bulk purchases and increase in revenue
- District Water meters will be installed to monitor water losses and illegal connections:
- New meters will be installed in some places which will result in increased revenue flows.
- Fortified protective structures will be installed to reduce thefts, illegal connections and result in increased revenue inflow.
- The above will also decrease Electricity Bulk Purchases.
- 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
- It is expected that collection levels will improve and this will result in a lower bad debt provision amount.
- A complete schedule with targeted inflows has been developed and will be monitored daily. The above has an element of risk and assumed cash inflows might vary from the actual.

The 2010/2011 Budget, Annexure A, is as follows;

Item	Amount
Total Revenue	R 2 363 395 200
Total Expenditure (excluding bad debt provision)	R 2 168 479 188
Surplus	R 194 916 012
Non – Payment (bad debt provision)	R 194 803 113
Surplus	R 112 899

4.3 GRANTS AND SUBSIDIES

Grants and subsidies are reflected in both revenue and expenditure in the 2010/2011 operating budget which amount to R7 million and R136, 5 million for Operating and Capital respectively. Equitable shares increased by R61 million from R206 million to R267 million

4.4 CAPITAL BUDGET

The capital budget is attached as Annexure B. Though business units have made submission of R159 million, no capital projects will be funded from council's own internal funds because there are no funds available. It is further not prudent to increase external debt (loans) at this point because loan repayments will hamper financial recovery. It is envisaged that external borrowings will only be commenced with whenever the payment rate for services increase to acceptable levels. Capital projects which are externally funded amount to R137 million for the 2010/2011 financial year.


5. LEGAL IMPLICATIONS

In accordance with the Municipal Finance Management Act section 17(3), the Budget and related policies and tariffs must be approved before the start of the new financial year.

6. RECOMMENDATION

It is recommended that Council take note and approves;

- 1) The Business Plan for the Financial recovery and Turnaround Strategy
- 2) the 2010/2011 Operating and Capital budget,
- 3) the Tariff Register 2010/11
- 4) the Budget Policy
- 5) the Credit Control and Debt Collection Policy,
- 6) the Indigent Policy,
- 7) the Tariff Policy,
- 8) the Rates Policy



J.F. METTLER
Administrator

ANNEXURES

Annexure A Operational Budget 2010/11

Annexure B Capital Budget 2010/11

ANNEXURE A

Msunduzi Municipality
High Level Summary for Draft Budget 2010/2011

Description	Actual- (2008/9)	Adjustment Budget(2009/10)	Original Budget(2010/11)
Operating Revenue			
Rates	378 556 016	405 500 000	453,161 733
Sale of Electricity	627 506 504	803 737 192	963 000 000
Sale of Water	213 920 408	209,638,005	232 000 000
Sewerage	68,432,384	69,176,113	91,143 967
Refuse	42,579 578	50 189 202	66,282,919
Airport	2 621,868	6 212,497	2 204 086
Market	10,459,592	14 632 100	17,140,341
Forestry	15 339 356	11 286 220	11 600 952
Equitable Share	187 098,867	206 177 691	267,210 613
Arrear Rates & Penalties	20,581,029	33 906 200	5 966,490
Fines	14 246 279	8 808 324	6 665 607
Rental Income	15,030,087	18 298 212	15,758 209
Grants & Subsidies	137 341,492	60 373 360	4 480 542
Fire Dept. Tariff Income	689,431	500,000	649 137
Burials & Cremations	1 188 207	3,885 677	849 351
Building Plans	1,730,706	1 661 749	1,464 538
Reconnection Fees	7 088 028	7 220,534	10 912 650
Training Levy Recovery	2 025 279	900,000	1 030 012
MIG - PMU Unit Income	1,689,010	4 832 716	2 628 734
Interest Accrued	41 342 137	19,811,757	32,631,009
Interest on Investments	17,069,640	12,682 277	4,284 663
Land Sales	0	10,430,018	20,000 000
Other Income	33,495,039	142,893,273	15,816,381
Revenue Raised	1,840,030,934	2,102,753,117	2 226 881 934
Capital Grants			136,513,266
Total Revenue	1,840,030,934	2,102,753,117	2,363,395,200
Operating Expenses			
Employee Costs	594 306 242	634 910,404	598,013,822
Bulk Purchases -Electricity	420 119 222	553,823,604	660,600,000
Bulk Purchases- Water	216 651 627	231,269,484	230,654,045
General Expenses	410 266,795	297 035 439	282 132 183
Repairs & Maintenance	77 379 164	69 255 951	74,307 183
Lease Charges	1 821 726	3,791,458	1 327 424
Interest Charges	57,421,392	92,504,582	69,096,888
Direct Operating Expenses	1,777,966,168	1,882,590,932	1,916,131,545
Bad Debt Provision	10 000,000	423 670 936	194 803 113
Other Indirect Operating Expenses	48,036,873	318,482,142	115,834,378
Total Indirect Operating Expenses	58,036,873	742,153,078	310,637,491
Total Expenses	1,836,003,040	2,624,744,010	2,226,769,036
Revenue Vs Expenses Surplus/(Shortfall)	4,027,894	-521,990,893	136,626,164
Less Capital Grants			-136,513,266
Surplus/(shortfall)			112,898

ANNEXURE B

Capital Budget 2010/2011 Summary by Funding/Business Unit

SBU Description	COUNCIL	DME	NDPG	DOT	MIG	TOTAL
Financial Management Services						
Good Governance and Management Control Services	25,128,000		15,000,000			40,128,000
Infrastructure Development, Service Delivery Provision and Maintenance Services	70,881,000	4,000,000		15,000,000	102,175,003	192,056,003
Sustainable Community Service Delivery Management	63,415,000				338,263	63,753,263
Total	159,424,000	4,000,000	15,000,000	15,000,000	102,513,263	295,937,266
Council Funded Projects	159,424,000					159,424,000
Grant Funded Projects	136,513,266					136,513,266
Total	295,937,266					295,937,266