

# REPORT BY MUNICIPAL MANAGER

TO

THE FINANCIAL PORTFOLIO COMMITTEE AND EXECUTIVE COMMITTEE

27 MARCH 2011

## DRAFT OPERATING AND CAPITAL BUDGET 2011/2012

### **1. PURPOSE OF REPORT**

To report to the Financial Services Portfolio Committee and Executive Committee on the Draft Operating and Capital Budget for the 2011/2012 which are submitted for approval.

### **2. INTRODUCTION**

Section 18 of the MFMA requires that an annual budget must be 'funded', and identifies three possible funding sources: (a) realistically anticipated revenues to be collected, (b) cash-backed accumulated funds from previous years' surpluses not committed for other purposes, and (c) borrowed funds, but only for the capital budget.

### **3. SITUATIONAL ANALYSIS**

The National Treasury has imposed a provisional limitation of 4.8% growth in expenditure. The MFMA Circular No.55 of Municipal Finance Management Act received recommended a growth rate of 4.8% for 2011/12, 5.3% for 2012/13 and 5.5% for 2013/14.

The amendment to the Municipal Systems Act (MSA) and Chapter 4 of the MFMA require that a revised IDP be adopted at the time of adopting the budget. The process leading to the adoption of the 2011/12 budget and IDP must therefore be incorporated into one process, together with the process for approving taxes, levies and user charges. This will ensure credible plans and budgets that are realistic and implementable. Furthermore, the IDP must inform the entire budget, and not just the capital budget, which has traditionally been the case.

The Draft Budget and revised IDP must be tabled together in Council no later than 1<sup>st</sup> April (90 days before the start of the budget year), together with the draft resolutions and budget related policies. The Accounting Officer must immediately (on the same day) post the budget, revised IDP and all related documents onto the municipal website so that the budget is accessible to the public. The accounting officer must also immediately make available, to the public, hard copies of the budget and all other related documents and send (hard and electronic) copies to National and Provincial treasuries and other relevant organs of state (e.g. Water Affairs, Mineral and Energy, Water Boards and all other Municipalities within the same District).

The business units were requested to revisit their submission in order to produce a balance budget. The current draft budget shows a surplus of R 90 000 after the tariffs below have been introduced.

### **Proposed Tariff Charges**

Description	2010/2011	2011/2012
Electricity-Bulk	21%	21.6%
Electricity-Other	21%	23.3%
Water	8%	8%
Sewer	8%	8%
Refuse	8%	8%
Landfill Site	8%	8%
Property Rates	8%	8%
Other Tariffs	10%	8%

#### **Electricity**

The Eskom price of bulk electricity supplied to municipalities will increase by 26.71 per cent on 1 July 2011. The proposed electricity tariff increase for bulk is 21.6% and other 23.3%.

#### **Water**

The Umgeni Water will increase the price of bulk water purchases by 6.1% in the 2011/2012 financial year. The additional 13.5% increase of a capital unit charge for the construction of the Springrove Dam was deferred. The proposed water tariff increase is 8%.

Water tariffs are structured to protect basic levels of service and designed to encourage efficient and sustainable consumption.

#### **Sewer**

The proposed sewer tariff increase for the 2011/2012 financial year will be 8%.

#### **Refuse**

The proposed refuse tariff increase for the 2011/2012 financial year will be 8%.

#### **Landfill Site**

The proposed landfill site tariff increase for the 2011/2012 financial year will be 8%.

#### **Property Rates**

The property rates revenue increase for the 2011/2012 financial year will be 8%. The primary rate randage will be increased by 6%. The following increases by category for the 2011/2012 financial year are proposed:-

Vacant land	5%
Residential (primary rebate has been reduced by 1%)	7.3%
Small home business (new category)	6%
Business (primary rebate has been reduced by 2%)	7.1%

The Supplementary Valuation Roll 4 will generate approximate rates income of R11 million for the 2011/2012 financial year.

### **Other Tariffs**

The proposed on other tariff increase for the 2011/2012 financial year will be 8%.

### **General**

The above mentioned tariff increases are necessary in order to ensure financial sustainability, local economic conditions and the affordability of services, taking into consideration the municipality's indigent policy. The indigent policy will remain unchanged in terms of qualifying criteria.

### **Equitable Share**

In respect of the Income projections the equitable share allocation for The Msunduzi Municipality for 2011/2012 has been increased by R 37.6 million to R 304.8 million in comparison to the 2010/2011 allocation of R 267.2 million.

## **4. EXPENDITURE**

### **Employee Related Costs**

The Msunduzi municipality must also take into account the Salary and Wages Collective Agreement 2009/10 to 2011/2012. The agreement provides for a wage increase based on the average CPI for the period 1 February 2010 until 31 January 2011, plus 2 per cent. The average CPI for this period is 4.08 per cent, plus the 2 per cent gives a wage increase of 6.08 per cent for the 2011/12 financial year, starting from 1 July 2011. Since the average CPI is clearly lower than 5%, consideration must be given to escape clause or opt-out clause ( in Clause 6.5% of the Salary and Wage Agreement) which explicitly provides that if the average CPI is lower than 5% or higher than 10%, any party may be entitled to re-open wage negotiations.

Included in the draft budget is 7% increase in employee related costs and a provision of R 20 million for vacant/critical posts.

## **Bulk Purchases**

### **Electricity**

Electricity bulk purchases from Eskom will increase by 26.71 per cent on 1 July 2011.

### **Water**

An increase of 6.1% on bulk purchases is included in the draft budget for the 2011/2012 financial year.

## **General Expenses**

General expenses have been increased by 4.8% as per National Guideline.

## **Repairs and Maintenance**

Repairs and maintenance votes have been increased by 4.8% as per National Guideline. Vehicles budget were increased by 8.7% of the approved 2010/11 budget due to ageing of the existing fleet.

## **Lease Charges**

Lease charges have been calculated according to the lease register.

## **Interest Charges**

Calculation of the above charges was based on the amortization table.

## **Operating Grants**

Operating grants allocation to the municipality from National Treasury are as follows:

-Local Government Financial Management	R 1 441 000
-Municipal System Improvement	R 790 000
-Municipal Infrastructure-Operating Costs	<u>R 2 908 000</u>
Total	<u>R 5 139 000</u>

Allocation for Provincial grants amounts to R 38.97 million for the 2011/2012 financial year.

## **New Votes**

Provision for new votes amounts to R 59.9 million are included in 2011/2012 draft budget.

## 5. CAPITAL

In terms of the Division of Revenue Act (DORA) the Msunduzi Municipality has been allocated the following capital grants for the 2011/2012 financial year including indicative figures for the two outer years:-

Grant	2011/12	2012/2013	2013/2014
Municipal Infrastructure	1 23 547 000	150 682 840	158 970 700
Neighbourhood Development Partnership	4 000 000	6 000 000	20 000 000
Public Transport Infrastructure and System	65 000 000	85 000 000	25 000 000
Electricity Demand Side Management	4 000 000		
Rural Households Infrastructure	2 000 000	4 500 000	7 000 000
Expanded Public Works Programme Incentive	2 268 000		
<b>Total</b>	<b>200 815 000</b>	<b>246 182 840</b>	<b>210 970 700</b>

## 6. RECOMMENDATIONS

1. That the Draft Budget for 2011/12 be approved
  - (i) That the increase in electricity bulk tariff be 21.6%.
  - (ii) That the increase electricity other tariff be 23.3%
  - (iii) That the increase water tariff be 8%
  - (iv) That the increase sewer tariff be 8%
  - (v) That the increase refuse tariff be 8%
  - (vi) That the increase landfill site tariff be 8%
  - (vii) That the Property Rates revenue be capped to R 488 million.

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