

## Section 3 – Budget Overview

### Introduction

The main issues in regard to the budget 2010/11 are;

- First year to be fully GRAP compliant from the on set, for example things like Post Retirement Benefits, unbundling of assets;
- NERSA approval of Eskom tariffs and the capping of Municipalities by means of Municipal guidelines;
- New budget related requirements with very detailed information;
- Capital program in excess of R 200million over the MTEF; and
- Cash flow planning taking into account no new borrowings.

### The National, Provincial and District Context

The Municipality's budget must be seen within the context of the policies and financial priorities of National, Provincial and district government. In essence, the spheres of Government are partners in meeting the service delivery challenges faced in Witzenberg. Witzenberg Municipality alone cannot meet these challenges. It requires support from the other spheres of Government through the direct allocation of resources as well as the achievement of their own policies.

The following table shows the allocations to Witzenberg Municipality as set out in the National Budget Division of Revenue Bill in the MTEF period;

ALLOCATIONS	2010/2011	2011/2012	2012/2013
	R'000	R'000	R'000
<b>UN-CONDITIONAL GRANTS</b>			
<b>EQUITABLE SHARE</b>	<b>36,683</b>	<b>41,433</b>	<b>45,613</b>
Equitable share Formula	35,516	40,192	44,310
Special contribution toward Councillor Remuneration	1,167	1,241	1,303
<b>CONDITIONAL GRANTS</b>			
<b>INFRASTRUCTURE</b>	<b>14,360</b>	<b>17,865</b>	<b>19,074</b>
MIG	12,360	14,865	18,074
INEP	2,000	3,000	1,000
<b>ALLOCATIONS-IN-KIND</b>	<b>12,025</b>	<b>10,472</b>	<b>34,147</b>
RBIG	11,000	10,000	32,000
INEP (Towards Eskom)	1,025	472	2,147
<b>SPECIFIC PURPOSE ALLOCATIONS</b>	<b>4,200</b>	<b>2,450</b>	<b>2,050</b>
LG FMG	3,000	1,250	1,250
MSIG	1,200	1,200	800
<b>NATIONAL GRANTS TOTAL</b>	<b>67,268</b>	<b>72,220</b>	<b>100,884</b>

In addition to the transfers, the Provincial Treasury also publishes the distribution of Provincial allocation in the provincial gazette and is set out in the table below;

ALLOCATIONS	2010/2011	2011/2012	2012/2013
	R'000	R'000	R'000
<b>Conditional Grants:</b>			
IHHSDG	16,125	18,680	17,857
CDW OPERATIONAL GRANT	225	234	243
HOUSING CONSUMER EDUCATION GRANT	0	0	0
MAINTENANCE OF PROCLAIMED ROADS	616	0	0
MOBILITY STRATEGIES	0	0	0
NON MOTORISED TRANSPORT	0	0	0
LIBRARY SERVICES	578	608	0
CLEANEST TOWN COMPETITION	30	0	0
DEVELOPMENT OF SPORT AND RECREATION FACILITIES	0	0	0
<b>Un-Conditional Grants:</b>			
None			
<b>PROVINCIAL GRAND TOTAL</b>	<b>17,574</b>	<b>19,522</b>	<b>18,100</b>

In addition to this the Cape Winelands District Municipality has also contribute R 2.3 million to the upgrade of Tulbagh roads.

The only new addition to the funding provided by National government is the RBIG funds that is directed to the solving of the bulk water infrastructure of Witzenberg.

#### National Treasury Budget Circular

Each year, National Treasury issues a circular to municipalities advising them of the budget parameters within which municipalities should work when preparing their budgets. This circular MFMA circular 51 and an annexure to it was distributed as an attachment to the report for the tabling of the budget. Included in that circular are the headline CPI forecast shown in the table below.

	Current Year - 1	Current Year	Budget Year	Budget Year + 1	Budget Year + 2
	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013
Inflation rates	9.90%	6.70%	5.70%	6.20%	5.90%

#### Funding the Budget

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17.

Achievement of this requirement effectively means that a Council has a budget of which the cash flow indicates that the budget can be funded via Operating activities, Financing activities and cash at hand.

This will be a difficult task for Witzenberg Municipality. The Cash held situation over the MTREF period is shown in the table below;

	Audited Outcome 2006/07	Audited Outcome 2007/08	Audited Outcome 2008/09	Current Year 2009/10	Budget Year 2010/11	Budget Year +1 2010/11	Budget Year +2 2010/11
Cash at end of the year	R 14,012	R 19,775	R 32,573	R 39,597	R 23,660	R 16,026	R 6,703

The cash backlog is however the biggest challenge for Witzenberg, the tendencies in this regard is shown in the table below

	Audited Outcome 2006/07	Audited Outcome 2007/08	Audited Outcome 2008/09	Current Year 2009/10	Budget Year 2010/11	Budget Year +1 2010/11	Budget Year +2 2010/11
Shortfall	R 30,666	R34,633	R 26,722	R 19,021	R 39,980	R 36,609	R 28,855

The largest provision at this time that is not cash back is the post retirement benefits provision of over the R 30 million that needed to be created. Another one of which the amounts is currently not known is the provision for landfill sites. An estimated contribution towards for each year was provided but the backlog is the unknown factor.

It is still crucial that sound financial decision be the highest priority of the Municipality, Witzenberg do not have money that can be misdirected.

### **A Credible Budget**

Amongst other things, a credible budget is a budget that:

- Funds only activities consistent with the revised IDP and vice versa ensuring the IDP is realistically achievable given the financial constraints of the municipality;
- Is achievable in terms of agreed service delivery and performance targets;
- Contains revenue and expenditure projections that are consistent with current and on past performance and supported by documented evidence of future assumptions;
- Does not jeopardise the financial viability of the municipality (ensures that the financial position is maintained within generally accepted prudential limits and that obligations can be met in the short, medium and long term); and

- Provides managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

In striving to have a funded budget the following assumptions and methodologies were taken into consideration.

The population growth as included in the IDP was used in order to calculate the population as shown in the table below;

	Current Year - 3	Current Year - 2	Current Year - 1	Current Year	Budget Year	Budget Year + 1	Budget Year + 2
	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013
Population size (83 568 - 2001, growth 0.9%)	88185	88979	89780	90588	91403	92226	93056

The inflation rates as provided by National treasury were used in the forecast of expenditure. It was also used as the benchmark for tariff increases as it was recognised the clients are under severe pressure due the economical melt down.

The growth on Property rates as source of income was capped to last years indicators with the last year kept as low as possible.

	Current Year - 3 %	Current Year - 2 %	Current Year - 1 %	Current Year %	Budget Year %	Budget Year + 1 %	Budget Year + 2 %
	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013
Growth per annum	6.5%	7.9%	15.7%	32.1%	16.3%	22.2%	6.0%

The increase in Property rates is basically due to the decrease in administrative cost charged to and surplus of trade and economical services.

The increase in tariffs by Eskom included for bulk purchases was the main driver for electricity increases. The new block step-up tariffs were also introduced for residential clients. With regard to this there is also some capping being done by NERSA.

The effect of this is that the mark-up and the profit of electricity are decreasing.

	Current Year - 3	Current Year - 2	Current Year - 1	Current Year	Budget Year	Budget Year + 1	Budget Year + 2
	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013
Percentage loss	10.03%	9.02%	12.18%	11.27%	10.07%	9.99%	9.91%
Cost per unit of purchases (c/kWh)	R 0.1795	R 0.1881	R 0.2453	R 0.3264	R 0.4129	R 0.5199	R 0.6551
Income per unit (c/kWh)	R 0.3550	R 0.3666	R 0.4517	R 0.5686	R 0.6704	R 0.8111	R 0.9837
Markup	97.81%	94.86%	84.12%	74.18%	62.37%	56.02%	50.16%
% Profit	18.59%	20.10%	15.44%	12.23%	10.90%	11.11%	10.90%
% Administrative charge	9.76%	9.82%	8.94%	8.26%	8.41%	8.32%	8.13%

The following principles were applied with regard to the Water, Sanitation and Refuse removal in the determination of the tariff increases to the end consumers:

- The profit of water as a trade service is limited to 15% and economical services, such as sewerage and refuse removal, should at least breakeven with the recovery of costs. If not currently the situation it is phased-in over the MTEF period; and
- The administrative cost levy may not exceed 7.5% of the total income. If not currently the situation it is phased-in over the MTEF period with a maximum correction of 3% per annum.

The results of this are shown in the tables below;

Water	Current Year - 3	Current Year - 2	Current Year - 1	Current Year	Budget Year	Budget Year + 1	Budget Year + 2
	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013
Income per unit (c/kl)	R 5.5836	R 5.2656	R 6.2803	R 6.1616	R 6.4011	R 6.6891	R 6.9685
% Profit / (Deficit)	-8.47%	11.60%	24.88%	23.98%	23.90%	23.96%	24.00%
% Administrative charge	25.82%	22.90%	25.98%	20.65%	16.71%	13.79%	11.00%

Sewerage	Current Year - 3	Current Year - 2	Current Year - 1	Current Year	Budget Year	Budget Year + 1	Budget Year + 2
	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013
% Profit / (Deficit)	-1.24%	20.84%	27.22%	6.22%	0.95%	1.02%	1.05%
% Administrative charge	25.23%	30.32%	29.84%	22.92%	19.65%	15.78%	13.02%

Refuse removal	Current Year - 3	Current Year - 2	Current Year - 1	Current Year	Budget Year	Budget Year + 1	Budget Year + 2
	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013
% Profit / (Deficit)	-7.80%	-4.23%	-6.06%	6.31%	3.54%	2.68%	2.61%
% Administrative charge	14.44%	12.63%	16.90%	12.99%	10.87%	8.92%	7.55%

The consumption and client number were based on the past trends and provision was made that the Ceres golf estate first real income in terms of property rates will start flowing from middle of 2012 financial year, at that stage only the valuation of sites were included.

The detail tariff lists is attached as Annexure 2, the increases to Water was in the range of not more than 6% on consumption and below 1.5% on the fixed charges, the services charges for sewerage and refuse was also kept to below 2% and electricity at least 3 percent below the Eskom approved tariff increases.

## Fiscal Overview of Witzenberg Municipality

Over the past financial years via sound and strong financial management, Witzenberg Municipality has moved from an intensive care position via strong financial discipline to a position in the general ward but not out of hospital, in other words relative financial stability. There is also a high level of compliance with the Municipal Finance Management Act and other legislation directly affecting financial management.

For the second time in three years the municipality received an unqualified audit report from the Auditor-General. The switch over to GRAP has had huge affect on Witzenberg.

Table A1 the budget summary tells the story of the changes.

Financial Performance	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year	Budget Year +1	Budget Year +2
	2006/7	2007/8	2008/9	Current Year 2009/10		2010/11	2011/12	2012/13
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Property rates	18,190	19,623	22,706	29,986	31,967	22,741	28,038	27,142
Service charges	93,256	101,876	118,903	145,183	146,053	165,486	193,571	227,242
Investment revenue	1,920	2,091	871	806	3,229	1,546	1,285	1,325
Transfers recognised - operational	15,685	19,840	26,705	35,080	61,302	41,769	45,125	48,330
Other own revenue	14,709	17,230	15,932	19,511	16,570	19,903	21,753	23,037
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>143,760</b>	<b>160,659</b>	<b>185,118</b>	<b>230,565</b>	<b>259,122</b>	<b>251,444</b>	<b>289,772</b>	<b>327,075</b>
Employee costs	50,606	52,523	59,788	74,779	79,368	91,702	102,263	111,794
Remuneration of councillors	4,140	4,552	4,980	5,630	5,630	5,988	6,323	6,696
Depreciation & asset impairment	0	0	0	0	6,563	11,406	14,864	19,826
Finance charges	11,535	10,484	10,578	14,286	12,069	10,584	9,967	9,289
Materials and bulk purchases	30,088	32,598	43,928	60,528	59,422	74,189	94,529	120,153
Transfers and grants	398	457	453	561	561	723	788	834
Other expenditure	37,664	48,298	53,269	50,172	57,696	46,984	47,888	47,664
<b>Total Expenditure</b>	<b>134,431</b>	<b>148,912</b>	<b>172,995</b>	<b>205,957</b>	<b>221,309</b>	<b>241,576</b>	<b>276,622</b>	<b>316,255</b>
<b>Surplus/(Deficit)</b>	<b>9,329</b>	<b>11,747</b>	<b>12,123</b>	<b>24,609</b>	<b>37,813</b>	<b>9,869</b>	<b>13,151</b>	<b>10,820</b>
Transfers recognised - capital	0	0	0	0	48,390	56,739	47,338	67,357
Contributions recognised - capital & contributed assets	0	0	0	0	367	0	0	0
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>9,329</b>	<b>11,747</b>	<b>12,123</b>	<b>24,609</b>	<b>86,570</b>	<b>66,607</b>	<b>60,489</b>	<b>78,177</b>
Share of surplus/ (deficit) of associate	0	0	0	0	0	0	0	0
<b>Surplus/(Deficit) for the year</b>	<b>9,329</b>	<b>11,747</b>	<b>12,123</b>	<b>24,609</b>	<b>86,570</b>	<b>66,607</b>	<b>60,489</b>	<b>78,177</b>

Base on face value it seems that the surplus is growing but it must be pointed out that this is only due to the fact that GRAP requires now that all capital receipts must be recognised in the Financial Performance of the Municipality. Another major change is that depreciation is now a new entry for the first time. It basically replaces redemption payments of the past years. In Witzenberg case the depreciation charges will have a larger impact on the tariffs than the redemption charges.

The way that the indigent subsidy is reflected has also changed. In the past it was included as general expenditure, now it is reflected as income forgone and deducted from the income. As it is reflected on table A1 Budget Summary it is also not entirely correct because the indigent subsidy is deducted from the Property rates instead of from each service therefore for comparison purposes the service charges and the property rates must be viewed as one

Another major change is that internal charges and transfers to/from the reserves is not reflected in the Financial performance of the Municipality. The transfers to and from the reserves has however a bearing on the cash flow activities of the Municipality.

Financial Performance	Adjusted Budget	Budget Year	Variance	Budget Year +1	Variance	Budget Year +2	Variance
	2009/10	2010/11		2011/12		2012/13	
	R'000	R'000		R'000		R'000	
Property rates	31,967	22,741		28,038		27,142	
Service charges	146,053	165,486	5.73%	193,571	17.74%	227,242	14.79%
Investment revenue	3,229	1,546	-52.12%	1,285	-16.90%	1,325	3.15%
Transfers recognised - operational	61,302	41,769	-31.86%	45,125	-8.04%	48,330	7.10%
Other own revenue	16,570	19,903	20.11%	21,753	9.30%	23,037	5.90%
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>259,122</b>	<b>251,444</b>	<b>-2.96%</b>	<b>289,772</b>	<b>15.24%</b>	<b>327,075</b>	<b>12.87%</b>
Employee costs	79,368	91,702	15.54%	102,263	11.52%	111,794	9.32%
Remuneration of councillors	5,630	5,988	6.36%	6,323	5.60%	6,696	5.90%
Depreciation & asset impairment	6,563	11,406	73.80%	14,864	30.31%	19,826	33.38%
Finance charges	12,069	10,584	-12.30%	9,967	-5.83%	9,289	-6.80%
Materials and bulk purchases	59,422	74,189	24.85%	94,529	27.42%	120,153	27.11%
Transfers and grants	561	723	28.81%	788	9.02%	834	5.89%
Other expenditure	57,696	46,984	-18.57%	47,888	-1.92%	47,664	-0.47%
<b>Total Expenditure</b>	<b>221,309</b>	<b>241,576</b>	<b>9.16%</b>	<b>276,622</b>	<b>14.51%</b>	<b>316,255</b>	<b>14.33%</b>

Over the next 3 years the total revenue increases from R 251,444 to R 327,075 in 2013, the expenditure from R 241,576 to R 316,255.

The salary increase is basically due to three contributing factors, namely the salary increase of 7.7%, the additional burden of the non-pension allowance that will become pension able as from 1 July 2010 and lastly the additional positions.

The depreciation charges must be viewed from the perspective that the existing PPE is old and the charges on existing PPE is low. In future this will force the municipality to provide for the replacement of assets at the end of the useful lifespan.

The finance charges are decreasing, as the existing non current liabilities are paid and no new borrowings are taken-up. It is an indication that the redemption of the liabilities has now preference over the interest charges.

The bulk purchase of electricity is in line and provides for the NERSA approved increases as shown in the table below;

PRICE INCREASES BY ESKOM	FY09/10	FY10/11	FY11/12	FY12/13
Average standard Increase	31.00%	24.80%	25.80%	25.90%

Other expenditure shows a decrease but as mentioned already this is due to the new way of accounting for indigent subsidy.

The expenditure on capital includes the 15 highest valued projects over the MTREF period.

Project name	Type of Asset	Total value	2010/2011	2011/2012	2012/2013
Tulbagh UISP 560 units	Housing	52,662	16,125	18,680	17,857
Bulk water - Kleinberg River	Water reservoirs & reticulation	29,700	9,000	8,900	11,800
Bulk water Provision Hamlet	Water reservoirs & reticulation	11,400	0	0	11,400
Upgrading Roads	Roads, pavements, bridges & storm water	10,800	2,800	3,000	5,000
Tulbagh upper reservoir (WTW.B2)	Water reservoirs & reticulation	9,179	4,920	4,259	0
Bulk water Provision Wolseley	Water reservoirs & reticulation	8,200	200	300	7,700
Building - Municipal Offices	Land & buildings	7,413	1,946	1,951	3,516
Refuse sites - Central site	Refuse sites	6,500	500	3,000	3,000
Upgrade sewer works - Tulbagh (MIG)	Sewerage purification & reticulation	4,500	1,500	1,000	2,000
Upgrading of sport facilities	Sport fields	3,733	1,233	1,500	1,000
Swimming pool - N'duli	Recreation facilities	3,500	1,750	1,750	0
Connections - Chris Hanl 600	Housing	3,300	1,100	1,100	1,100
Closing of landfill sites	Refuse sites	3,190	3,190	0	0
Bulk water - Kleinberg River	Water reservoirs & reticulation	3,000	0	0	3,000
Upgrade, Voortrekker street Wolseley	Roads, pavements, bridges & storm water	3,000	1,500	1,500	0

The table below shows the summary capital expenditure;

Classification	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year	Budget Year +1	Budget Year +2
	2006/07	2007/08	2008/09		2008/10		2010/11	2011/12	2012/13
<b>Governance and administration</b>	1,191	819	1,409	6,237	5,467	5,467	7,849	3,079	4,574
Executive and council	106	0	118	0	546	546	0	0	0
Budget and treasury office	574	335	219	564	835	835	1,729	367	352
Corporate services	511	484	1,072	5,673	4,086	4,086	6,120	2,712	4,222
<b>Community and public safety</b>	14,167	25,829	43,251	15,279	26,974	26,974	23,443	26,147	22,311
Community and social services	93	143	295	185	692	692	330	342	712
Sport and recreation	519	1,025	737	1,426	1,333	1,333	4,753	4,795	2,685
Public safety	116	341	1,627	106	387	387	1,548	2,330	1,057
Housing	13,439	24,320	40,592	13,562	24,562	24,562	16,812	18,680	17,857
Health	0	0	0	0	0	0	0	0	0
<b>Economic and environmental services</b>	794	2,758	3,426	2,125	3,560	3,560	7,964	5,040	6,205
Planning and development	29	6	0	0	417	417	132	20	5
Road transport	755	2,747	3,416	2,125	3,143	3,143	7,832	5,020	6,200
Environmental protection	10	5	10	0	0	0	0	0	0
<b>Trading services</b>	8,089	5,085	11,957	17,250	27,640	28,006	35,920	26,553	47,963
Electricity	1,866	1,582	3,005	2,876	3,616	3,616	2,909	3,500	2,863
Water	1,389	1,466	3,931	10,371	13,920	14,258	19,483	15,859	36,000
Waste water management	4,825	1,331	4,777	3,106	7,510	7,538	8,908	3,594	5,700
Waste management	9	706	244	897	2,343	2,343	4,620	3,600	3,400
Other	0	0	0	0	251	251	0	0	0
<b>Total Capital Expenditure</b>	<b>24,241</b>	<b>34,491</b>	<b>60,043</b>	<b>40,891</b>	<b>63,641</b>	<b>64,007</b>	<b>75,176</b>	<b>60,819</b>	<b>81,053</b>
<b>Funded by:</b>									
National Government	8278	6253	11460	12560	21612	21919	34354	28658	49500
Provincial Government	13439	24316	40592	19654	27378	27378	20085	18680	17877
District Municipality	0	0	0	0	251	251	2300	0	0
Other transfers and grants	0	0	0	335	367	367	0	0	0
<b>Transfers recognised - capital</b>	<b>21717</b>	<b>30569</b>	<b>52052</b>	<b>32549</b>	<b>49608</b>	<b>49916</b>	<b>56739</b>	<b>47338</b>	<b>67357</b>
Public contributions & donations	0	0	0	0	0	0	0	0	0
Borrowing	2444	3794	7862	1727	4213	4241	500	0	0
Internally generated funds	81	128	129	6616	9819	9850	17937	13479	13696
<b>Total Capital Funding</b>	<b>24242</b>	<b>34491</b>	<b>60043</b>	<b>40892</b>	<b>63640</b>	<b>64006</b>	<b>75176</b>	<b>60817</b>	<b>81053</b>

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### **Budget process**

A schedule of key deadlines was prepared for tabling in Council by the Mayor prior to the end of August 2009, which did not serve due to political instability at the time.

The process has commenced late, with the effect of a lot of pressure towards the end.

The draft budget should be tabled in Council by the end of March 2010. A period of consultation then follows. At the culmination of the consultation process the Mayor must consider any representations and decide if any amendments should be made to the budget.

The final budget has to be agreed by Council by the end of May 2010. The Municipality's budget is again prepared on a 3 year basis.