

DRAFT ANNUAL BUDGET OF

# SETSOTO LOCAL MUNICIPALITY



2012/13 TO 2014/15  
MEDIUM TERM REVENUE AND EXPENDITURE  
FORECASTS

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## **Part 1 – Annual Budget**

### **1.1 Mayor's Report**

The budget of the municipality is compiled in an era where there is an increase in an unemployment rate which would affect the budget adversely. The municipality would need to budget conservatively and manage the current revenue streams effectively and efficiently. The municipality must also be innovative and source new revenue streams that we can tap into.

The municipality must strive to increase the collection rate so as to ensure that the cash flow turns positive for the purposes of delivering services to the community uninterrupted and to ensure a fruitful partnership with all the suppliers. Service delivery and sound financial management practices remain our cornerstone in all our activities.

Despite the fact that the municipality's current cash flow is not that good, the municipality still delivers to the best of its ability. This Council will only strive to improve on the current status of service delivery and the principle of "Batho Pele" will be enhanced through the implementation of performance based appointments and performance appraisals for personnel.

### **1.2 Council Resolutions**

The Council approved and adopted the following resolutions:

1. The Council of Setsoto Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:
  - 1.1. The annual budget of the municipality for the financial year 2012/13 and the multi-year and single-year capital appropriations as set out in the following tables:
    - 1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification);
    - 1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote);
    - 1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type); and
    - 1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source.
  - 1.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:
    - 1.2.1. Budgeted Financial Position;
    - 1.2.2. Budgeted Cash Flows;
    - 1.2.3. Cash backed reserves and accumulated surplus reconciliation;
2. The Council of Setsoto Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2012:
  - 2.1. the tariffs for property rates,
  - 2.2. the tariffs for electricity
  - 2.3. the tariffs for the supply of water
  - 2.4. the tariffs for sanitation services
  - 2.5. the tariffs for solid waste services

3. The Council of Setsoto Local Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2012 the tariffs for other services.

### 1.3 Executive Summary

In his Budget Speech the Minister of Finance indicates that some of the key draft National Development Plan identified is the “*Lowering costs for both households and business*” and “*Increasing public infrastructure spending*”. The foregoing translate that in compiling our draft budget we have to determine tariffs that are affordable to households and businesses in order to lower their costs. The municipality must also increase its spending on the refurbishment of its assets and increase infrastructure spending.

In compiling the draft budget the municipality has taken into account Circular 58 and the following principles have been observed:

- i. ***Revenue management*** – To ensure the collection of revenues, municipalities need to ensure that billing systems are accurate, send out accounts to residents and follow up to collect revenues owed.
- ii. ***Collecting outstanding debts*** – This requires political commitment, sufficient administrative capacity, and pricing policies that ensure that bills are accurate and affordable, especially for poor households.
- iii. ***Pricing services correctly*** – The full cost of services should be reflected in the price charged to residents who can afford to pay. Many municipalities offer generous subsidies and rebates that result in services being run at a loss, resulting in funds being diverted away from other priorities.
- iv. ***Under spending on repairs and maintenance*** – Often seen as a way to reduce spending in the short term, underspending on maintenance can shorten the life of assets, increase long-term maintenance and refurbishment costs, and cause a deterioration in the reliability of services.
- v. ***Spending on non-priorities*** – Many municipalities spend significant amounts on non-priority items including unnecessary travel, luxury furnishings, excessive catering and unwarranted public relations projects. Consultants are often used to perform routine tasks.

The draft budget of the municipality comprises revenue that the municipality anticipates to collect at least 60% from consumers, grant and subsidies received in terms of Division of Revenue Act and the expenditure that the municipality plans to undertake in order to achieve its objectives as outlined in the Integrated Development Plan.

Circular 58 issued by National Treasury dictates that “*municipalities must adopt a conservative approach when projecting their expected revenues and cash receipts*”. In determining revenue and expenditure estimates the municipality has taken into account the prior year audited financial statements as well as the revised budget for the current year under review. There has been a

considerable increase in the outstanding debt which prompted the increase in the provision for bad debts and as indicated debt Impairment has been budgeted at 40% of revenue billed.

The municipality has been confronted with many challenges in compiling the draft budget and the challenges may be summarised as follows:

- The sharp increase in outstanding debt
- The NERSA increase granted to Eskom which is still above the inflation rate
- The increase in interest earned which may not be realised as a result of the low payment rate

## Revenue Framework

FS191 Setsoto - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
<b>Revenue By Source</b>									
Property rates	22 620	22 491	23 680	24 674	23 747	23 747	24 337	24 580	24 763
Property rates - penalties & collection charges	-	-	-	-	-	-	-	-	-
Service charges - electricity revenue	24 333	30 731	42 263	49 759	48 932	48 932	55 294	58 058	60 961
Service charges - water revenue	24 693	26 165	22 361	20 279	21 769	21 769	22 857	23 543	24 014
Service charges - sanitation revenue	12 987	13 156	14 283	13 256	13 256	13 256	13 256	13 654	13 927
Service charges - refuse revenue	15 814	15 922	16 356	14 186	15 613	15 613	15 613	16 082	16 403
Service charges - other	-	268	165	16	16	16	-	-	-
Rental of facilities and equipment	691	689	436	674	668	668	679	693	699
Interest earned - external investments	924	2 932	2 344	1 500	1 400	1 400	1 785	2 506	2 557
Interest earned - outstanding debtors	19 403	17 579	11 836	19 308	19 308	19 308	14 888	20 285	20 488
Dividends received	-	-	-	-	-	-	-	-	-
Fines	236	296	297	405	230	230	225	225	225
Licences and permits	9	5	1	-	3	3	-	-	-
Agency services	-	-	-	-	-	-	-	-	-
Transfers recognised - operational	82 890	109 050	135 824	147 070	152 115	152 115	168 858	179 842	194 325
Other revenue	6 154	2 565	2 651	16 154	17 835	17 835	18 230	18 315	18 366
Gains on disposal of PPE									
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>210 754</b>	<b>241 848</b>	<b>272 496</b>	<b>307 280</b>	<b>314 893</b>	<b>314 893</b>	<b>336 022</b>	<b>357 784</b>	<b>376 730</b>

The total operating revenue is anticipated to be R336 million and R357 million and R376 million for the two outer years. The current budget year has declined with an average of 14% from the revised budget and 12% from the original adopted budget. The decline is mainly attributed to capital grant income which was previously reporting under all the grants and subsidies.

Property rates are anticipated to increase with 2% from the revised budget. The tariff for property rates is expected to remain unchanged, however the following rebates are anticipated:

- All owners of property rates to receive a rebate of 93.9% (previous financial year 94.3%)

- All owners of business and industrial property to receive a rebate of 93.9% (previous financial year 94.3%)
- All agricultural properties to receive a rebate of 93.9% (previous financial year 94.3%)
- All state owned properties to receive a rebate of (previous financial year 0%)

Electricity is the biggest contributor towards municipal revenue which contributes an average of 52% towards total service charges and the budget is anticipated to be an amount of R 55 million. The average increase in terms of electricity tariff is 11.03% in line with National Energy Regulator (NERSA) approved increase. An amount of R 8 million has been allocated as a provision for bad debt. The municipality is anticipating to introduce Inclining Block Tariff (IBT) as mandated by NERSA. The guide that is provided by NERSA in terms of IBT provides the average cents per kilowatt hour used by consumers to be as follows:

DOMESTIC TARIFFS(IBTs)				COMMERCIAL 2000 kWh		INDUSTRIAL  43800 kWh (c/kWh)
Domestic  Block 1 0 – 50 kWh (c/kWh)	Domestic  Block 2 51 – 350kWh (c/kWh)	Domestic  Block 3 351 – 600 kWh (c/kWh)	Domestic  Block 4 >600 kWh (c/kWh)	Prepaid	Conventional	
61 – 66	77 – 82	104 - 109	124 – 129	130 – 135	130 – 135	132 – 137

The tariff for water is anticipated to increase with an additional 5% from the previous financial year. The increase is attributed to an increase in the input costs by manufactures and suppliers as a result an expected sharp increase in fuel costs and inflation targeting. The budget is anticipated to be an amount of R 22 million, while the municipality has allocated R16 million as bad debt provision. The foregoing implies that only an amount of R6 million shall be received by the municipality in order to fund its service delivery objectives.

Refuse / Solid waste is budgeted an amount of R 15 million while the provision for bad debt is an amount of R 13 million. The tariff for refuse / solid waste is expected to remain unchanged. The collection of refuse / solid waste is expected to be done at least twice per month as a result of a shortage of utensils.

Sewerage / Waste water is budgeted an amount of R 13 million and the provision for bad debt is an amount of R 11 million. The tariff is anticipated to remain unchanged.

Interest on external investments is expected to grow by 21% from the revised budget and 19% from the original adopted budget.

Interest on outstanding debtors budgeted an amount of R 14 million and the audited figure for the prior year was R 11 million.

## Overall impact of tariff increases on households

The following table shows the overall expected impact of the tariff increases on a large and small household, as well as an indigent household receiving free basic services.

FS191 Setsoto - Supporting Table SA14 Household bills

Description	2008/9	2009/10	2010/11	Current Year 2011/12	Medium Term Revenue & Expenditure Framework			
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Budget Year 2012/13 % incr.	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
<b>Rand/cent</b>								
<b>Monthly Account for Household - 'Middle Income Range'</b>								
<b>Rates and services charges:</b>								
Property rates	256.42	264.58	280.46	280.46	5.7%	296.33	305.22	311.33
Electricity: Basic levy	100.91	131.59	157.91	190.10	11.0%	211.01	217.34	221.69
Electricity: Consumption	379.68	469.77	560.50	608.00	10.9%	674.50	694.74	708.63
Water: Basic levy	50.84	53.26	58.59	58.59	5.0%	61.52	63.37	64.63
Water: Consumption	64.36	81.66	89.85	87.60	4.8%	91.80	94.55	96.45
Sanitation	47.01	47.01	49.36	49.36	-	49.36	50.84	51.86
Refuse removal	57.17	57.17	60.03	60.03	-	60.03	61.83	63.07
Other			-					
<b>sub-total</b>	<b>956.39</b>	<b>1 105.04</b>	<b>1 256.70</b>	<b>1 334.14</b>	<b>8.3%</b>	<b>1 444.55</b>	<b>1 487.89</b>	<b>1 517.65</b>
VAT on Services	98.00	117.67	136.67	147.52		160.75	165.57	168.88
<b>Total large household bill:</b>	<b>1 054.38</b>	<b>1 222.71</b>	<b>1 393.37</b>	<b>1 481.65</b>	<b>8.3%</b>	<b>1 605.30</b>	<b>1 653.46</b>	<b>1 686.53</b>
<b>% increase/-decrease</b>		<b>16.0%</b>	<b>14.0%</b>	<b>6.3%</b>		<b>-</b>	<b>3.0%</b>	<b>2.0%</b>
<b>Monthly Account for Household - 'Affordable Range'</b>								
<b>Rates and services charges:</b>								
Property rates	-	-	-	-	-	-	-	-
Electricity: Basic levy	-	-	-	-	-	-	-	-
Electricity: Consumption	-	-	-	-	-	-	-	-
Water: Basic levy	52.76	53.26	58.59	58.59	5.0%	61.52	63.37	64.63
Water: Consumption	-	-	-	-	-	-	-	-
Sanitation	47.01	47.01	49.36	49.36	-	49.36	50.84	51.86
Refuse removal	47.01	47.01	49.36	60.03	-	60.03	61.83	63.07
Other	-	-	-	-	-	-	-	-
<b>sub-total</b>	<b>146.78</b>	<b>147.28</b>	<b>157.31</b>	<b>167.98</b>	<b>1.7%</b>	<b>170.91</b>	<b>176.04</b>	<b>179.56</b>
VAT on Services	19.25	20.55	20.62	23.52		23.93	24.65	25.14
<b>Total small household bill:</b>	<b>166.03</b>	<b>167.83</b>	<b>177.93</b>	<b>191.50</b>	<b>1.7%</b>	<b>194.84</b>	<b>200.69</b>	<b>204.70</b>
<b>% increase/-decrease</b>		<b>1.1%</b>	<b>6.0%</b>	<b>7.6%</b>		<b>-</b>	<b>3.0%</b>	<b>2.0%</b>

The operating grants that are indicated in the Division of Revenue Bill is a total amount of R168 million which represents an average increase of 5%. The grants are as follows:

Other revenue is anticipated to grow by only 1% from the revised budget amount.

**FS191 Setsoto - Supporting Table SA18 Transfers and grant receipts**

Description	2008/9	2009/10	2010/11	2012/13 Medium Term Revenue & Expenditure Framework			
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
<b>RECEIPTS:</b>							
<b>- Operating Transfers and Grants</b>							
<b>National Government:</b>	<b>82 890</b>	<b>109 050</b>	<b>135 824</b>	<b>160 757</b>	<b>168 858</b>	<b>179 842</b>	<b>194 325</b>
Local Government Equitable Share	81 655	107 565	133 874	147 875	165 468	177 472	191 625
Finance Management	500	750	1 200	1 450	1 500	1 500	1 750
Municipal Systems Improvement	735	735	750	790	800	870	950
EPWP Incentive				10 642	1 090		
<b>Provincial Government:</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
N/A							
<b>District Municipality:</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
N/A							
<b>Other grant providers:</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
N/A							
<b>Total Operating Transfers and Grants</b>	<b>82 890</b>	<b>109 050</b>	<b>135 824</b>	<b>160 757</b>	<b>168 858</b>	<b>179 842</b>	<b>194 325</b>

**Expenditure Framework**

**FS191 Setsoto - Table A4 Budgeted Financial Performance (revenue and expenditure)**

Description	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
<b>Expenditure By Type</b>									
Employee related costs	65 880	80 381	82 153	88 421	88 960	88 960	94 217	98 781	103 441
Remuneration of councillors	6 922	8 013	8 143	8 810	9 317	9 317	9 783	10 077	10 278
Debt impairment	20 800	79 879	56 657	39 267	45 791	45 791	54 197	53 113	52 210
Depreciation & asset impairment	25 845	30 968	18 614	26 685	24 335	24 335	23 726	23 370	23 137
Finance charges	4 179	4 060	2 850	10 308	3 508	3 508	3 848	4 440	4 732
Bulk purchases	19 327	26 120	30 341	40 730	43 658	43 658	49 771	60 720	74 686
Other materials									
Contracted services	-	-	-	-	-	-	-	-	-
Transfers and grants	13 033	14 862	13 384	26 699	24 519	24 519	26 737	27 336	27 690
Other expenditure	46 330	46 264	59 091	66 358	74 774	74 774	73 741	79 922	80 531
Loss on disposal of PPE									
<b>Total Expenditure</b>	<b>202 316</b>	<b>290 547</b>	<b>271 234</b>	<b>307 278</b>	<b>314 862</b>	<b>314 862</b>	<b>336 020</b>	<b>357 760</b>	<b>376 705</b>
<b>Surplus/(Deficit)</b>	<b>8 438</b>	<b>(48 698)</b>	<b>1 262</b>	<b>2</b>	<b>31</b>	<b>31</b>	<b>2</b>	<b>24</b>	<b>25</b>

Employee related costs are allocated an amount of R94 million which represents an average increase of 6% from the revised budget amount. The 5% is guided by Circular 58 which indicates that municipalities must budget for a 5 per cent cost-of-living increase adjustment, and the additional 1% increase shall go towards vacant posts.

Remuneration of Councillors is anticipated to be an amount of R9.7 million which represents an average increase of 6% from the revised amount budget.

Debt impairment which is a provision of bad debt is astoundingly high at an amount of R54 million. The foregoing implies that there has to be a concerted effort in order to reduce the provision as this may impact adversely on the provision of services.

Depreciate is loosely defined as a decrease in value of assets through wear and tear which is provided over the useful life of the asset and it is allocated an amount of R23 million.

Interest expense is allocated an amount of R3.8 million.

Bulk purchases which represents electricity that the municipality purchases for re-sale is anticipated to be an average of R50 million. The foregoing is in line with the Eskom's increase granted by NERSA.

Grants and subsidies given, represents the total costs of indigent support and it is allocated an amount of R26 million which represents an increase of 9% from the revised budget. The increase is attributed to slow economic growth as observed by the *Medium Term Budget Policy Statement 2011* and the indigent subsidy threshold is expected to be increase as a result. The proposed increase is as follows:

<b><u>PROPOSED INDIGENT SUBSIDY</u></b>	
<b>DESCRIPTION</b>	<b>% SUBSIDY 2012/2013</b>
<b><u>INCOME CATEGORY</u></b>	
A R 0 - R 1200 per household per month	<b>100%</b>
B R 1201 - R 1400 per household per month	<b>80%</b>
C R 1401 - R 1600 per household per month	<b>60%</b>
D R 1601 - R1800 per household per month	<b>25%</b>

<b><u>CURRENT INDIGENT SUBSIDY</u></b>	
<b>DESCRIPTION</b>	<b>% SUBSIDY 2011/2012</b>
<b><u>INCOME CATEGORY</u></b>	
A R 0 - R 1000 per household per month	<b>100%</b>
B R 1001 - R 1200 per household per month	<b>80%</b>
C R 1201 - R 1400 per household per month	<b>60%</b>
D R 1401 - R1600 per household per month	<b>25%</b>

## Capital Expenditure Framework

The capital budget of the municipality shall be funded from Municipal Infrastructure Grant (MIG) and the allocation is as follows:

FS191 Setsoto - Supporting Table SA18 Transfers and grant receipts

Description	2008/9	2009/10	2010/11	Current Year 2011/12	2012/13 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
<b>Capital Transfers and Grants</b>							
National Government:	37 778	37 516	52 351	62 963	76 379	80 570	85 228
Municipal Infrastructure Grant (MIG)	37 778	37 516	52 351	62 963	72 560	76 542	80 967
<b>Total Capital Transfers and Grants</b>	<b>37 778</b>	<b>37 516</b>	<b>52 351</b>	<b>62 963</b>	<b>76 379</b>	<b>80 570</b>	<b>85 228</b>

An amount of R3,8 million for the current budget year 2012/2013 and R4 million for 2013/2014 and R4,2 million for 2014/2015 from MIG has been ring-fenced for administration costs.

## Part 2 – Supporting Documentation

### 2.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget.

#### 2.1.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2010) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled the budget key timelines before Council meeting outlining the key activities to be undertaken with strict timeliness. There was however necessary deviations from the key dates set out in the Budget Time Schedule tabled in Council due to the non availability of key personnel.

#### 2.1.2 IDP and Service Delivery and Budget Implementation Plan

An IDP is the principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan. The IDP Process Plan was compiled and tabled before Council

The IDP has taken into financial planning process based on the approved 2011/12 MTREF, Mid-year Review and adjustments budget.

With the compilation of the 2012/13 MTREF, each department/function had to review their activities, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2011/12 Departmental Service Delivery and Budget Implementation Plan.

### **2.1.3 Community Consultation**

The municipality shall conduct the community participation process from 17 to 26 April 2012 as per approved budget timetable in order to invite the community as well as sector department's inputs and recommendations.

## **2.2 Overview of budget related-policies**

The municipal budget related policies shall be reviewed as part of community inputs and the final reviewed policies shall be tabled with the final budget / MTREF 2012/2013 to 2014/2015.

## **2.3 Municipal manager's quality certificate**

I ....., Municipal Manager of Setsoto Local Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name \_\_\_\_\_

Municipal Manager: Setsoto Local Municipality (FS191)

Signature \_\_\_\_\_

Date \_\_\_\_\_

## **MAIN TABLES**