

Beaufort West Municipality

Final Budget 2010/11 to
2012/13

Budget Schedules and Supporting Tables
26 May 2010

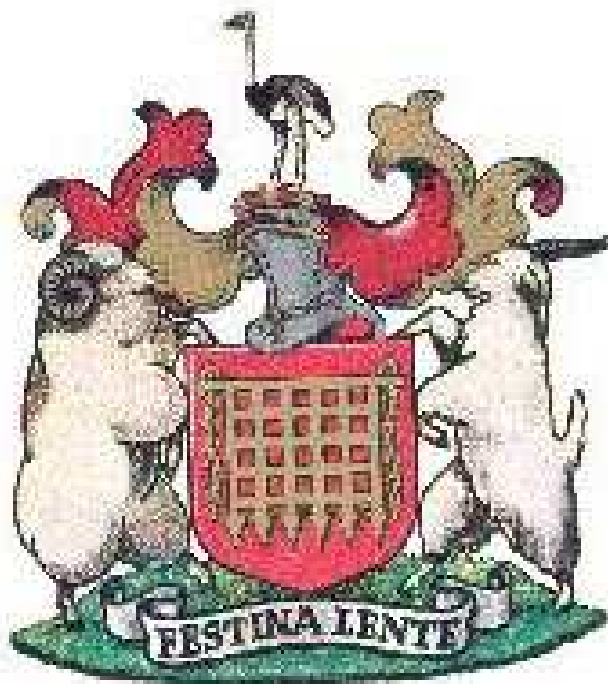


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Mayor's Report

Honourable Speaker;
Deputy Mayor;
Members of the Mayoral Committee;
Aldermen;
Councillors;
Municipal Manager and officials;
Distinguished guests;
Ladies and gentlemen.

Today I am presenting to you the medium term revenue and expenditure framework in accordance with the powers vested in me in terms of section 16(2) of the Municipal Finance Management Act.

Allow me first of all to thank all councilors who have sacrificed their time to give input into the draft budget. An extensive consultation process was followed during the past two months since the draft budget was tabled during which the views of the local community, National and Provincial Treasury was solicited.

Whilst the country's economy is on the road to recovery and growth is expected overall, the economic outlook for Beaufort West is less positive. Poverty and unemployment remains our biggest challenges, putting pressure on our revenue streams. Given the low tax base of our municipality, it has become imperative that effective management of our resources should be number one on the service delivery agenda. We must commit ourselves to doing things differently as the President of South Africa mentioned in his State of the Nation Address. Minister Gordhan said in his budget speech that we cannot do the same old things and expect different results. It is against this backdrop that I urge both Councilors and the administration to constantly innovate and react differently to respond to the challenges we are faced with.

President Zuma, in his State of the Nation Address, also stated that municipalities must improve the provision of housing, water, sanitation, electricity, waste management and roads. The President also said that measures must be put in place to reduce water losses by half by 2014. In this regard, we have provided for a pressure control system that will ensure that water losses are minimized through pressure control.

A capital budget amounting to R 50,1 million is proposed for 2010/11 (R17 million and R15,4 million for the outer years). The capital budget is primarily funded from national and provincial grant funds (R 44 million).

The following represents a summary of the major capital projects to be undertaken during 2010/11:

- An amount of R28,6 million will be spent on water purification in an effort to curb the drought that is currently experienced in our town;
- R2,4 million will be spent on the upgrading of the Merweville sewerage project (funds rolled over from previous year);
- R2 million is allocated to the 132kV substation (rolled over from previous year);
- R2,5 million will be spent on resurfacing of gravel roads while an amount of R2,5 million will be spent on storm water (retention dams);
- The municipality has also received a R2 million allocation from the Neighbourhood Development Partnership Grant;
- R1 million will be spent on the reconstruction of roads in the industrial area;
- The N1 stormwater construction will be completed at a cost of R1,8 million (rolled over from previous year).

In keeping with our commitment to fight poverty and unemployment, an amount of R160,000 has been provided for in the operating budget for job creation. A total amount of R3,5 million has been appropriated for the resurfacing of tar roads. Labour cost as a percentage of total operating expenditure amounts to 32%.

Furthermore, we intend to use labour intensive methods to carry out infrastructure projects. We will also employ four young graduates on an internship programme to prepare them for their professional career. The benefits of the Expanded Public Works Programme should be fully utilized by actively participating in the programme.

Speaker, I wish to emphasize the fact that it was extremely difficult to balance the budget because we hear the cry of our people and want to respond to the needs of our people but on the other hand we are also faced with limited resources and budgetary constraints.

Despite all the challenges that we are faced with, we remain confident and hopeful that soon the tide will turn and that together we will do more to ensure that our people gets the quality of services they deserve.

Resolutions

It is recommended that:

1. Council resolves that the annual budget of the municipality for the financial year 2010/11; and indicative for the two projected outer years 2011/12 and 2012/13 be approved as set out in the following schedules:
 - 1.1 Operating revenue and expenditure by standard classification reflected in table A2;
 - 1.2 Operating revenue and expenditure by municipal vote reflected in table A3;

- 1.3 Operating revenue by source and expenditure by type reflected in table A4;
- 1.4 Capital expenditure by vote, standard classification and funding reflected in table A5;
2. Council resolves that property rates be levied and increased by 6.5% for the 2010/11 based on the new valuation roll prepared in terms of the Municipal Property Rates Act;
 3. Council resolves that tariffs and charges as reflected in the tariff book be increased as follows for the 2010/11 financial year:

3.1 Water	- 10%;
3.2 Sanitation	- 8.5%;
3.3 Refuse Removal	- 8.5%;
3.4 Sundry Tariffs (excluding cemeteries)	- 8.5%.
 4. Council resolves to increase electricity tariffs by 15% for poor households and by 24,8% for all other consumers for the 2010/11 financial year;
 5. Council resolves to consider revising the budget related policies from June 2010 for the next budget cycle.
 6. Council resolves to implement the following cost saving measures:
 - Reduce fruitless and wasteful expenditure through better and improved planning of our activities and tasks;
 - Council must establish a committee in terms of section 32(2)(a) read regulation 74 of the Budget and Reporting Regulations;
 - This committee will consider the recoverability of unauthorized, irregular and fruitless and wasteful expenditure;
 - Ensure that the correct advertisements are placed;
 - Reduce overtime especially on Sundays;
 - The use of shared transport to attend meetings and/or workshops out of town;
 - Limit the number of meetings/workshops to be attended and the number of attendees to the absolute minimum;
 - Improved control over excessive telephone costs;
 - Follow up on WCA claims;
 - Limit water and electricity line losses;
 - Better and improved control over overtime by using the lowest paid officials to perform tasks after hours;
 - Establish a performance based and results driven approach amongst the entire workforce where all officials are held accountable for their actions;
 - Regular performance measurement, improved supervision and control as well as remedial actions are absolute necessity for improved service delivery;

Executive Summary

Budget Assumptions

The following assumptions were made when the budget was prepared:

- Employee costs will increase by 7.5% calculated on TASK job evaluations and grading system ;
- Employees will be remunerated in terms of the new grading system and wage curve with effect from 1 October 2009;
- Electricity bulk purchases increase by 29,8%;
- CPIX for 2010/11, 2011/12 and 2012/13 are 5.7%, 6.2% and 5.9% respectively;
- Although inflation expectations as projected by National Treasury are 5,7%, most expenditure items were increased by more than that due to expected increases in input costs;
- Provision for doubtful debts is 6.1% of total rates and service charges; and
- Minimal growth in water and electricity revenue due to increased consumption (new low cost houses).

National treasury Guidelines

Growth in consumption expenditure should be carefully managed and the tender processes should be streamlined in order to achieve improved turnaround times in awarding bids.

When revising rates, tariffs and other charges, the municipality must take into account labour and other input costs, the need to ensure financial sustainability, local economic conditions and the affordability of services taking into consideration the municipality's indigent policy.

Municipalities must also ensure that their water tariffs are cost reflective and that tariffs are structured in such a way to protect basic levels of service. Tariffs should also be designed to encourage efficient and sustainable consumption (e.g. through increasing block tariffs). We are currently in process of reviewing the water tariff structure to ensure that water conservation promoted through tariffs and that cost is recovered.

Municipalities are urged to give priority to the following:

- Ensure that drinking water meets the required quality standards at all times;
- Protect the poor from the worst impacts of the economic downturn;
- Supporting meaningful local economic development initiatives that foster micro and small business opportunities and job creation;
- Securing the health of our asset base by increased spending on especially the income generating assets; and
- Expediting spending on capital projects that are funded by conditional grants.

Special attention should be paid to control expenditure on non essential activities and nice-to-have items. We should also ensure that we receive value for money when appointing consultants. Particular attention should also be paid to managing all revenue and cash streams effectively, especially debtors.

Budget Summary

Revenue is projected to grow by 31% from R144,8 million in 2009/10 to R190,2 million in 2010/11.

The major revenue items are as follows:

	2009/10	2010/11	% Total Revenue	Growth 2009/10 - 2010/11	2011/12	2012/13
Property Rates	17 700	18 233	9.6%	3.0%	19 638	21 157
Service charges	57 748	71 825	37.8%	24.4%	79 927	91 886
Operational grants	19 737	44 285	23.3%	124.4%	34 207	36 166
Capital grants	27 648	44 007	23.1%	59.2%	12 199	10 577
Investment revenue	300	360	0.2%	20.0%	374	379
Other own revenue	21 717	11 494	6.0%	-47.1%	12 405	13 391
	144 850	190 204	100.0%	31.3%	158 750	173 556

Revenue from service charges represents the bulk of the revenue at 37,8% followed by operational grants of 23,3%, capital grants of 23,1% and rates of 9,6%. The projected revenue numbers are based on the current year full year forecast and adjusted for tariff increases.

The operational expenditure has increased by 6,2% from R144,6 million in 2009/10 to R153,6 million in 2010/11. The major expenditure items are as follows:

	2009/10	2010/11	% Total Revenue	Growth 2009/10 - 2010/11	2011/12	2012/13
Employee costs	45 862	49 988	32.1%	9.0%	53 185	57 963
Remuneration of Councillors	3 412	3 575	2.3%	4.8%	3 857	4 155
Depreciation	8 525	11 050	7.1%	29.6%	11 910	12 836
Finance charges	2 200	1 701	1.1%	-22.7%	1 836	1 982
Bulk purchases	20 627	26 371	16.9%	27.8%	32 883	41 017
Repairs & Maintenance	10 565	12 445	8.0%	17.8%	13 424	14 477
Other Expenditure	53 620	50 814	32.6%	-5.2%	54 574	56 654
	144 811	155 944	100.0%	7.7%	171 669	189 084

Employee costs and bulk purchases represents the bulk of the expenditure at 32,1% and 16,9% respectively. Other expenditure comprises among others general expenses

such as telephone, audit costs, cost of free basic services as well as expenditure on low cost housing (top structures) and electrification of Central Karoo.

The budget can be summarized as follows:

Operating revenue	R 190 204
Less: Operating Expenditure	<u>R 155 944</u>
Surplus	R 34 260
Less: Capital Grants	R 44 007
Add: Depreciation	<u>R 9 760</u>
Surplus	<u>R 13</u>

The impact of tariff increases is as follows:

Credit meters			
Large Household			
	2009/10	2010/11	Incr/(Decr)
Property Rates	624.25	664.83	6.5%
Electricity: Basic levy (75 amps)	318.05	396.93	24.8%
Consumption	504.40	629.49	24.8%
Water: Basic levy	41.24	45.36	10.0%
Consumption	126.02	138.62	10.0%
Sanitation 1 sewerage point	57.45	62.33	8.5%
Refuse removal	33.07	35.88	8.5%
Vat on services	151.23	183.21	21.1%
Total	1,855.71	2,156.65	16.2%

Prepaid meters			
Small Household			
	2009/10	2010/11	Incr/(Decr)
Property Rates	0.00	0.00	
Electricity: Basic levy		0.00	
Consumption (20 amps)	128.61	147.90	15.0%
Water: Basic levy		0.00	
Consumption	101.33	111.46	10.0%
Sanitation 1 sewerage point	57.54	62.43	8.5%
Refuse removal	33.07	35.88	8.5%
Vat on services	44.88	50.07	11.6%
Total	365.43	407.75	11.6%

Key Financial Indicators

Financial Indicators	Basis of Calculation	Audited Actual 2007/08	Audited Actual 2008/09
Borrowing Management:			
Borrowing to asset ratio	Total long term borrowing / Total assets	7,7%	4,9%
Capital charges to operating expenditure	Interest and Principal Paid / Operating Expenditure	2,5%	2,9%
Safety of Capital:			
Debt to equity	Loans, Accounts payable, Overdraft / Funds & Reserves	24,6%	18,5%
Gearing	Funds & Reserves / Long Term Borrowing	13,1:1	13,2:1
Liquidity:			
Current Ratio	Current assets / Current Liabilities	1,6:1	1,3:1
Liquid Ratio	Current assets less stock / Current Liabilities	1,6:1	1,2:1
Revenue Management			
Debtors collection rate	Receipts / Billings	90,0%	88,0%
Outstanding debtors to revenue	Outstanding debtors / Revenue	36,8%	21%
Other Indicators			
Electricity distribution losses	Total units purchased less total units sold / Total units purchased	18,3%	15,6%
Water distribution losses	Total units purchased less total units sold / Total units purchased	33,5%	28%
Staff cost to total operating expenditure	Employee related cost / Total Operating Expenditure	29%	24,7%

Drinking water quality and waste water management

The Beaufort West Municipality is the Water Service Authority in the Central Karoo and is water service provider responsible for the provision of drinking water and management of waste water in the towns of Beaufort West, Merweville and Nelspoort.

Blue drop and green drop performance ratings

During the April 2010 Blue Drop Excellence Awards Beaufort West received Blue Drop Certification with an overall score of 95%. Nelspoort and Merweville scored 70% and 86.3% respectively.

Concerning the green drop, we did partake but we are still awaiting feedback on the certification process.

The challenges that are faced with for both the blue drop and green drop are as follows:

- Process Controlling

Staff needs training to ensure skills adequacy.

- Efficiency of Monitoring Programme and credibility of sample analyses

Proof of laboratory credibility through accreditation or participation in an accredited proficiency testing scheme is essential for DWQ compliance and credibility of sample results.

- Water safety plan

A water safety plan was compiled for Beaufort West, Nelspoort and Merweville. The water safety plan consists of a complete risk assessment from catchment to consumer and summarizes the risk assessment in a risk matrix. It also indicates the control measures required to mitigate the risks.

- General

The water department is using old and outdated equipment;
There is a shortage of ground and raw surface water due to drought conditions;
The safety equipment is inadequate; and
Personnel vacancies also negatively impacts on the operations of the section.

Budget for 2010/11 on water and waste water management

Safety equipment at a cost of R 125 000 will be purchased during 2010/11 while a pressure control system will be installed at a cost of R 700 000.