



EXECUTIVE SUMMARY FOR BUDGET 2006 / 2009

LESEDI LOCAL MUNICIPALITY

EXECUTIVE SUMMARY (CFO'S REPORT)

FOREWORD

The three year budget has been compiled in terms of Generally Accepted Municipal Accounting Practices (GAMAP), MFMA No.56 of 2003 and the new personnel structure approved by the Council October 2001. The budgets have also been compiled on a three year basis, which is a requirement of National Treasury. The budget process for the compilation of the three-year budget commenced in August 2005. The municipality were faced with various challenges during the compilation of the budget and reviewing the IDP's such as the formulation of measurable objectives for the different functions, the financial implications of the organisational structure, capital costs, rising input costs to deliver services and the increasing of maintenance costs.

According to National Treasury MFMA Circular No. 28 of 2005:-

The draft budget documentation must be tabled to council not later than 31 March (90 days before the start of the budget year). Immediately after tabling, the following must be submitted to the National Treasury:

- Three hard copies of the draft budget documentation
- The corresponding electronic budget returns (Appendix A and B).

The Council and the Department of Finance approved the following maximum expenditure for the 2005/2006 financial year.

| | | |
|------------------|-----------|--------------|
| Capital Budget | 2005/2006 | R55 258 714 |
| Operating Budget | 2005/2006 | R152 434 674 |

The capital budget were approved on condition that the projects financed from CMIP, DM, Provincial and DME funds were evaluated on an ad-hoc basis with the provision that if the other financing sources are utilised, then a further request for the consideration of the relevant projects must be submitted.

The Council has budgeted for a surplus of R118 223.

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1. DRAFT CAPITAL BUDGET

A three(3) year draft capital budget has been prepared and built on the IDP document approved by the Council. The capital budget is attached as **Annexure "B"**

The capital amount required for 2006/2007 is R52 911 879 and this represents a decrease of 4.25% over the 2005/2006 capital budget. The capital budget is still too high and should be reduced. On the draft capital budget, the Council need to use ±R29 308 200 from its own funds. In 2005/2006 financial year, the Council budgeted R18.0 million of its own funds for capital projects.

Many of the capital projects required by the Executive Managers were reduced due to a lack of funds and the increasing maintenance costs.

The Department of Finance will be requested to approve ad-hoc projects amounting to **R23 603 679** namely: -

LESEDI 3 YEAR CAPITAL BUDGET 2006-2009 AD-HOC CAPITAL EXPENDITURE FOR 2006/2007

| Project | % Vat Rec | Budget 2006/2007 |
|--|----------------------|-----------------------------|
| INFRASTRUCTURE | | |
| <u>Electricity</u> | | |
| New Extension – Impumelelo Ext 2 | 100 | 4 000 000 |
| Ring Fencing – Electricity EDI | 100 | 500 000 |
| Total Electricity | | R4 500 000 |
| <u>Sewerage</u> | | |
| Upgrade Outfall Sewer: Heidelberg to Ratanda | 100 | 4 000 000 |
| Network: Kwazenzele Sewer Plant | 100 | 1 500 000 |
| Total Sewerage | | R5 500 000 |
| <u>Roads & Stormwater</u> | | |
| Construct main routes: Heidelberg X23 | | 3 343 679 |
| Total Roads and Stormwater | | R3 343 679 |
| TOTAL INFRASTRUCTURE (AD-HOC) | | R13 343 679 |

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| Project | % Vat Rec | Budget 2006/2007 |
|---|------------------|-------------------------|
| COMMUNITY | | |
| Sports and Recreation Multipurpose Hall Ext 23 | | 3 300 000 |
| Total Sports & Recreation | | R3 300 000 |
| Night Soil VIP Toilets | | 6 960 000 |
| Total Night Soil | | R6 960 000 |
| TOTAL COMMUNITY (AD-HOC) | | R10 260 000 |
| TOTAL AD-HOC | | R23 603 679 |
| TOTAL AFF | | R29 308 200 |
| GRAND TOTAL CAPITAL | | R52 911 879 |

THE DRAFT OPERATING BUDGET 2006/2007 TO 2008/2009

The draft operating budget is attached as **Annexure "A"** and includes a three year term, which will be reviewed yearly.

Expenditure

The draft operating expenditure budget for 2006/2007 is an amount of R172 467 019 as compared to R152 434 674, in the 2005/2006 financial year. This represents an increase of 13.14%.

To keep the budget within the income of the council, many requests of the Executive Managers cannot be budgeted for, because the council cannot allow tariff increases to be higher than the inflation rate.

The main sections of the expenditure in the operating budget are the following: -

Salaries

This section increased from R54 865 202 for the 2005/2006 financial year to an amount of R61 236 817 for the 2006/2007 financial year, which includes a general, salary increase of 6.00%. The overall increase over salaries is 11.61%.

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Provision has been made available for the following new staff members as requested.

| DEPARTMENT | DESCRIPTION | LEVEL | AMOUNT |
|----------------------|--|--------|------------------|
| Waste Management | 4 Labourers | 17 | R256 232 |
| Waste Management | 1 Driver | 14 –13 | R75 957 |
| Engineering Services | 1 Plumber | 7 | R163 212 |
| Sewerage/ Water | 1 Labourer | 17 | R55 076 |
| Mayor's Office | Liasing Officer/Political Advisor | 5 | R234 670 |
| Mayor's Office | Driver (Existing post: adjustment) | 10 | R15 759 |
| Speaker's Office | Secretary (Existing post amended and adjusted) | 7 | R23 374 |
| | | | R 842 280 |

The total salary package of the Council including allowances of the councillors is 35.48% of the income of the Council. Salaries excluding councillors allowances is 33.16% of the income of the Council, but if the salaries of personnel that is charged out to other clusters and to the capital program is subtracted, salaries is 29.00% of the expenditure.

General Expenses

Increased from R89 438 103 to an amount of R96 756 164. This represents an increase of 8.18% and includes expenditure with regard to: -

| DESCRIPTION | FROM | TO |
|-----------------------------------|--------------------|--------------------|
| Bulk purchases Electricity | R32 113 000 | R34 009 780 |
| Bulk purchases Water | R14 018 950 | R14 860 087 |
| Bulk purchases Water – Ekurhuleni | R420 350 | R445 571 |
| Sewerage Charges – ERWAT | R2 800 000 | R3 500 000 |
| TOTAL | R49 352 300 | R52 815 438 |

The Council has no control over the abovementioned tariffs levied and the increase was R3 463 138 or 7.02%. These four (4) services represent 54.58% of the General Expenses.

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Other costs included in the General Expenditure that put pressure on the tariffs are the following: -

| DESCRIPTION | FROM | TO |
|-------------------------|------------|-----------|
| Protective Clothing | R313 403 | R346 856 |
| Printing and Stationery | R780 953 | R802 287 |
| Municipal Services | R2 182 517 | Per annum |
| Transfer Station | R1 400 000 | Per annum |
| Security Services | R2 287 979 | Per annum |
| Transport Costs | R9 794 494 | Per annum |

The growth in the expenditure is high and tariffs cannot be increased with the same percentage, but new assets of the council have an influence on the other expenditures (*for example – Municipal Service, Security and Insurance costs*). Although there are no cost increases over a wide spectrum the telephone cost were reduce by implementing a management system in each cluster the telephone expenses was reduce from R1.4 million per annum to R1 146 799 per annum.

Department Charges (087)

The expenditure of R9 581 843 has no direct influence on the total expenditure of the budget, because it is only the expenditure that are booked from one cluster to another cluster for service to be delivered

Repair and Maintenance (066)

The expenditure has increased from an amount of R4 852 430 to R7 552 972 the 2006/2007 financial year. It increased by 55.65%.

Although it increased by 55.65%, it is only 4.38% of the total expenditure. The growth in expenditure is due to all the new assets which includes the swimming pool, sport stadiums, electricity network, water; sewerage network, municipal buildings and motor museum, which needs to be maintained.

Capital Charges

The capital charges (*depreciation and interest on borrowings has increased from R13.9 million to R15.1 million*). The increase is the effect of new internal loans that has been granted during the previous financial year. It is therefore very important that the capital

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budget should be planned and only unavoidable or high priority projects should be approved on the capital budget.

Contribution to Capital Expenditure

The contribution has been increased from an amount of R1 014 384 2005/2006 to R1 329 363 for the 2006/2007 financial year. The increase of the contribution is 31.05%. The amount of R1.3 million is requested for tools, computers and other equipment by the departments.

Contribution to Provisions

The contribution has been increased from R2 264 244 to R3 969 829. The council is forced to increase the provision for bad debts due to the increase in outstanding debtors. The Auditor-General in his report on the financial statements the previous year mentioned the fact that the provision is not sufficient.

The outstanding debtors are R77.4 million and the provision for bad debts is R26.6 million. The Council is also responsible to make the necessary provision for leave monies. An amount of R1 133 849 has been budgeted for the contribution to the provision for leave in the 2006/2007 financial year.

Internal Charges: Amounts Charged Out

The amount of R24 488 813 is internal charges for services rendered and transport to other departments.

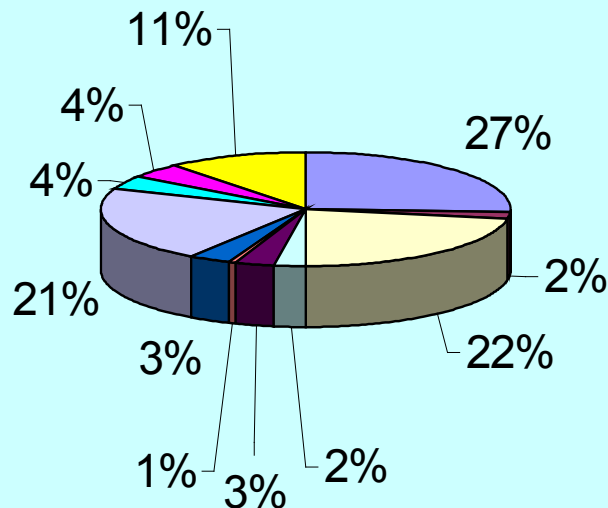
The main expenditure groups are reflected as a percentage of the total 2006/2007 Operating Budget in the Chart below.

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MAIN SOURCES OF EXPENDITURE – 2006 / 2007

| | |
|--|---------------------|
| Salaries | 57 238 138 |
| Remuneration of Councilors | 3 998 679 |
| Bulk Purchases | 49 315 438 |
| Transfers of Reserves | 5 408 194 |
| Internal Charges (Finance Charges) | 6 858 136 |
| Contribution of Capital Expenditure | 1 329 363 |
| Repairs and Maintenance | 7 552 972 |
| General Expenses | 47 440 726 |
| Depreciation (GAMAP) | 8 232 343 |
| Departmental Charges | 9 581 843 |
| Minus - Amounts Charged Out | (24 488 813) |
| TOTAL | R172 467 019 |

EXPENDITURE 2006/7



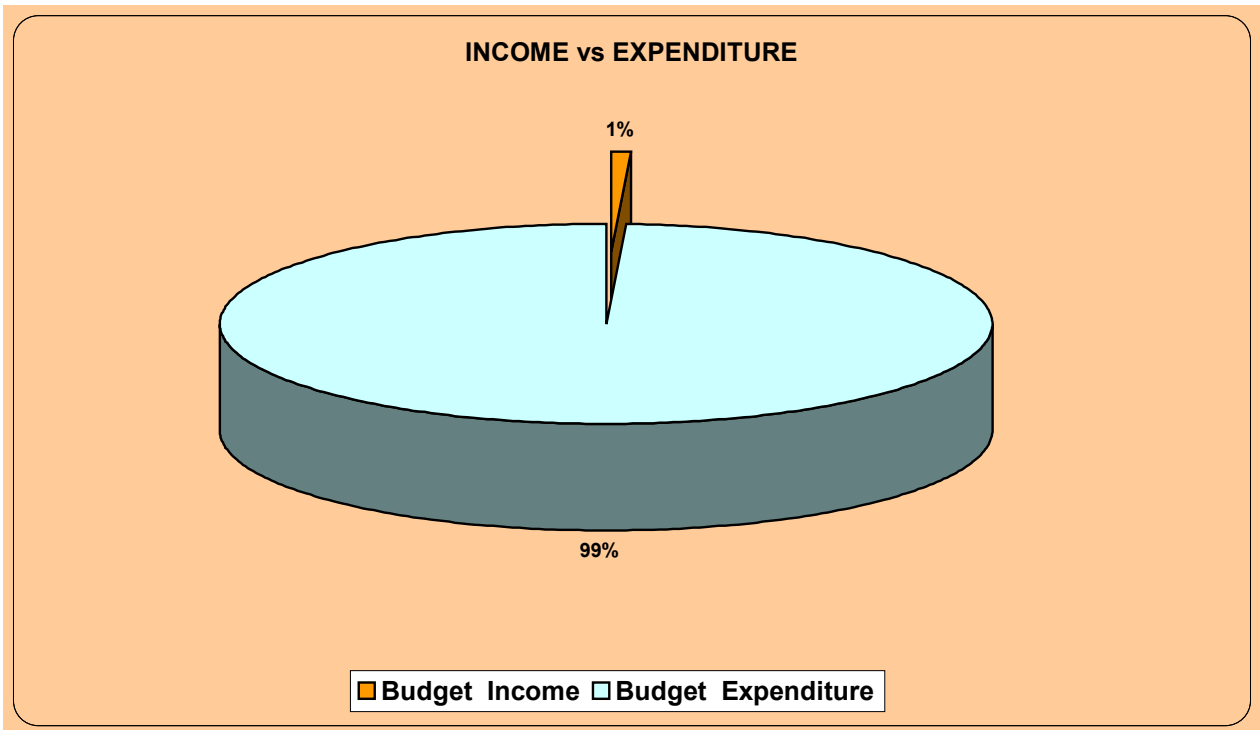
| | |
|---|---|
| <ul style="list-style-type: none"> Salaries Bulk Purchases Internal Charges (Fin Charges) Repairs and Maintenance Depreciation (GAMAP) Minus - amount Charged Out | <ul style="list-style-type: none"> Remuneration of Councilors Transfers of Reserves Contribution of Capital Exp General Expenses Departmental Charges |
|---|---|

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The following section put pressure on the tariffs due to the fact that there is no income or the income is very low namely:-

INCOME VS EXPENDITURE

| | Income Budget | Expenditure Budget |
|--|----------------------|---------------------------|
| Arts & Culture | 25 492 | 2 715 561 |
| Sports & Recreation | 26 500 | 1 998 646 |
| Night Soil | 452 | 591 313 |
| Social Development | 0 | 1 058 744 |
| Cemeteries | 262 030 | 932 250 |
| Parks | 0 | 6 501 693 |
| Public Works & Roads and Stormwater | 56 186 | 11 603 969 |
| Workshop | 0 | 2 136 722 |
| Internal Audit | 0 | 850 000 |
| Fire | 647 156 | 4 856 867 |
| Human Resources | 4 000 | 1 839 155 |
| Housing | 575 648 | 3 250 764 |
| IDP | 137 500 | 3 621 568 |
| Local Economic Development | 31 000 | 2 387 517 |
| Total | R1 765 964 | R44 344 769 |



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Income

The draft operating income for 2006/2007 is estimated at R172 570 750 thus leaving a surplus on the operating account of R103 731. Provision has been made to supply all consumers with 50 units of electricity and 6Kl of water free of charge. The Income Budget has been compiled and based on a 100% income principle, although provision for bad debts has been provided for in the Operating Expenditure Budget for 2006/2007.

To cover the expenditure of the operating budget all the tariffs of the Council were investigated and where necessary increases will have to be discussed and recommended accordingly. The increase in income from R152 552 897 budgeted for the 2005/2006 period to R172 570 750 budgeted for the 2006/2007 financial year is 13.12%.

Refuse Removal

Tariffs increased with 6% due to the establishment of new townships within Lesedi Local Municipality area. The expenditure of this section grows yearly much higher than the inflation rate. The increase are due to the tariff increases at Platkop Dumping site, cost increase of the transfer station, transport costs and the informal settlements which receive their services free of charge. None of the inhabitants in the informal settlement's pay for their services. There is also a budget for a new refuse removal truck plus a driver operator and 4 new labours which put further pressure on the refuse removal tariff.

To prevent running the service at a loss, the proposed tariffs were increased by 6%.

| Description of Tariff | Present Tariff | Proposed Tariff | % Increase |
|--|----------------|-----------------|------------|
| Domestic | R51,25 | R54 35 | 6.05 |
| Business / Industrial / hospital | R96,10 | R101.90 | 6.04 |
| Flats | R48,05 | R50.95 | 6.04 |
| Departmental | R48,00 | R50.90 | 6.04 |
| Builders / Contractors | R54,00 | R57.25 | 6.02 |
| Informal Sector | R15 02 | R15 02 | 6.19 |
| Mass Disposal at Transfer Station, per ton | R136,50 | R144.70 | 6.01 |
| Mass Containers during Week days | R136,50 | R144.70 | 6.01 |
| Mass Containers Weekends | R157.50 | R166.95 | 6.00 |
| Mass Disposal at Platkop per ton | R68.50 | R72.60 | 5.99 |

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Sewerage

Tariffs increased by 8% due to the establishment of new townships within the Lesedi Local Municipality area. It is recommended that the sewer tariffs be increased for the 2006 /2007 financial year as follows:

| Description of Tariff | Present Tariff | Proposed Tariff | % Increase |
|--|----------------|-----------------|------------|
| Domestic Basic | R13,80 | R16.00 | 15.94 |
| 1 Sewer point | R14,65 | R15.85 | 8.19 |
| 2 or more sewer points | R34,05 | R36.80 | 8.08 |
| Flats and second unit on Domestic Stand | R14,65 | R15.85 | 8.19 |
| Hospital Basic | R13,80 | R16.00 | 15.94 |
| For each sewer point | R36,90 | R39.85 | 7.99 |
| All Others Basic | R13,80 | R16.00 | 15.94 |
| Business / Industrial / schools Each Point | R41,35 | R44.65 | 7.98 |
| Departmental | R34,45 | R37.20 | 7.98 |
| Builders / Contractors | R24,40 | R26.35 | 7.99 |
| Informal Sector | R10,60 | R11.45 | 8.02 |

The maintenance of the sewer network and the cost of the sewer effluence to Erwat increase yearly and therefore the abovementioned tariff increase was unavoidable

Water

Tariffs increased by 8% due to Rand Water tariff increase with effect from the 1 July 2006. Provision was made in the 2006/2007 budget for the first 6KL water free of charge. The department limited the tariff increases within the inflation rate, but the costs of the Water department are increasing yearly.

It cost the council R3,46 per KL water to supply the water to a household. The following tariff increases are proposed.

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| Description of Tariff | Present Tariff | Proposed Tariff | % Increase |
|--|----------------|-----------------|------------|
| Domestic Basic (without improvements) | R6.00 | R8.00 | 33.33% |
| 0 – 6 KL | Nil | Nil | Nil |
| 6,1 – 10 KL | R4.10 | R4.45 | 8.54% |
| 10,1 – 30 KL | R5.35 | R5.80 | 8.41% |
| 30,1 – 50 KL | R6.70 | R7.23 | 7.91% |
| 50,1 – 70 KL | R10.10 | R10.90 | 7.92% |
| 70 > | R10.90 | R11.80 | 8.26% |
| Informal Settlement | Nil | Nil | Nil |
| Flats | R5.75 | R6.20 | 7.83 |
| Hospital | R5.75 | R6.20 | 7.83 |
| Business | R5.75 | R6.20 | 7.83 |
| Industrial | R5.75 | R6.20 | 7.83 |
| All other users per KL | R5.75 | R6.20 | 7.83 |
| Schools, Churches, Sports Clubs & Museum | R5.75 | R6.20 | 7.83 |
| Basic Levy for more than one Consumer on any peace of land | R8.20 | R10.00 | 21,95% |
| Basic Vacant Domestic Stands | R17.50 | R50.00 | 185.00% |
| Basic Business Stands | R18.70 | R20.20 | 8.02% |
| Basic Industrial Stands | R44.35 | R47.90 | 8.00% |
| Departmental | Cost Prize | Cost Prize | |
| Water Leakages (Confirm by Eng. Dept) | R5.75 | R6.20 | 7.83% |
| Temporary Connections Basic | R30.15 | R32.60 | 8.13% |

Electricity

Tariffs increased by 5% due to Eskom increase with effect from 1 July 2006. The National Electrical Regulator (NER) insisted that for the 2006/2007 budget, the increase on electricity must not be higher than 5.0%. The council did not increase business, industry, school and churches with the improvement of the budget tariffs for the 2005 / 2006 budget year. It is therefore recommended that all the tariffs be increased in the 2006 / 2007 budget to comply with NER's request. The increase is within the inflation rate.

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| Description of Tariff | Present Tariff | Proposed Tariff | % Increase |
|---|----------------|-----------------|------------|
| Domestic | | | |
| Basic Charge <i>(with improvements)</i> | R8.20 | R8.65 | 5.49 |
| Basic Charge <i>(without improvements)</i> | R19.85 | R50.00 | 151.89 |
| Usage : 0 – 50 Units | Nil | Nil | |
| 50,1 > | 0.3195 | 0.3371 | 5.51 |
| Business | | | |
| Basic Charge | R68.00 | R149.90 | } 5.53 |
| Usage per Kwh | 0.3441 | 0.3630 | |
| Fixed Charge | R74.05 | R0 | |
| High / Low Volt Consumers | | | |
| < 100 Kwh | 0.3441 | 0.3630 | 5.49 |
| Basic Charge | R183.50 | R290.45 | 58.28 |
| Per KVA <i>(per month)</i> | Nil | Nil | |
| Fixed Charge | R91.80 | R0 | 0.00 |
| 101 – 4000 KVA per Kwh | 0.1877 | 0.1980 | 5.49 |
| Per KVA | R50.58 | R53.3619 | 5.50 |
| Basic Charge <i>(per month)</i> | R183.50 | R290.45 | 58.28 |
| Fixed Charge | R91.80 | R0.00 | 0.00 |
| > 4000 KVA per Kwh | 0.1428 | 0.1507 | 5.53 |
| Per KVA | R50.00 | R52.75 | 5.50 |
| Basic Charge <i>(per month)</i> | R183.50 | R545.25 | } 5.52 |
| Fixed Charge <i>(per month)</i> | R333.25 | 0 | |
| Churches, Sport Clubs, Museums per | | | |
| Usage per KWH | 0.3195 | 0.3371 | 5.51 |
| Basic Charge <i>(per month)</i> | R37.75 | R39.85 | 5.56 |
| Industrial Stands Basic Charge without improvements | R183.50 | R350 | 90.74 |
| Schools / Hostels | | | |
| Per Kwh | 0.3198 | 0.3374 | 5.50 |
| Basic Charge | R64.78 | R116.10 | 17.22 |
| Fixed Charge | R45.25 | R0 | 0.00 |
| Farm Lines | | | |
| 0 – 1000 Kwh | 0.3639 | 0.3839 | 5.50 |
| > 1000 Kwh | 0.2970 | 0.3133 | 5.49 |
| Fixed Charge < 50 Kva | R149.95 | R158.20 | 5.50 |
| Fixed Charge > 51 Kva | R191.60 | R202.20 | 5.53 |
| Casual Consumers | | | |
| Per Kwh | 0.4015 | 0.4015 | 0.00 |
| Fixed Charge (per month) | R98.30 | R98.30 | 0.00 |
| Departmental Charges per Kwh | Cost Prize | Cost Prize | |

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Assessment Rates

The income on Property Rates has been calculated on a new Valuation Roll and the Property rates Act (Act of 2004) as well as the Property Rates Policy.

The Valuation Roll must still be approved and the owners can still object to the valuation put on their properties.

According to the attached policy which should be approved, different rebates will be applicable on different categories of owners of property.

To calculate the income accurately with all uncertainties is not easy but the deviation if any will be less than 1%.

The council is requested to approve a tariff of R0, 01 in the Rand (1cent in the Rand) which will generate income of 26.3 million.

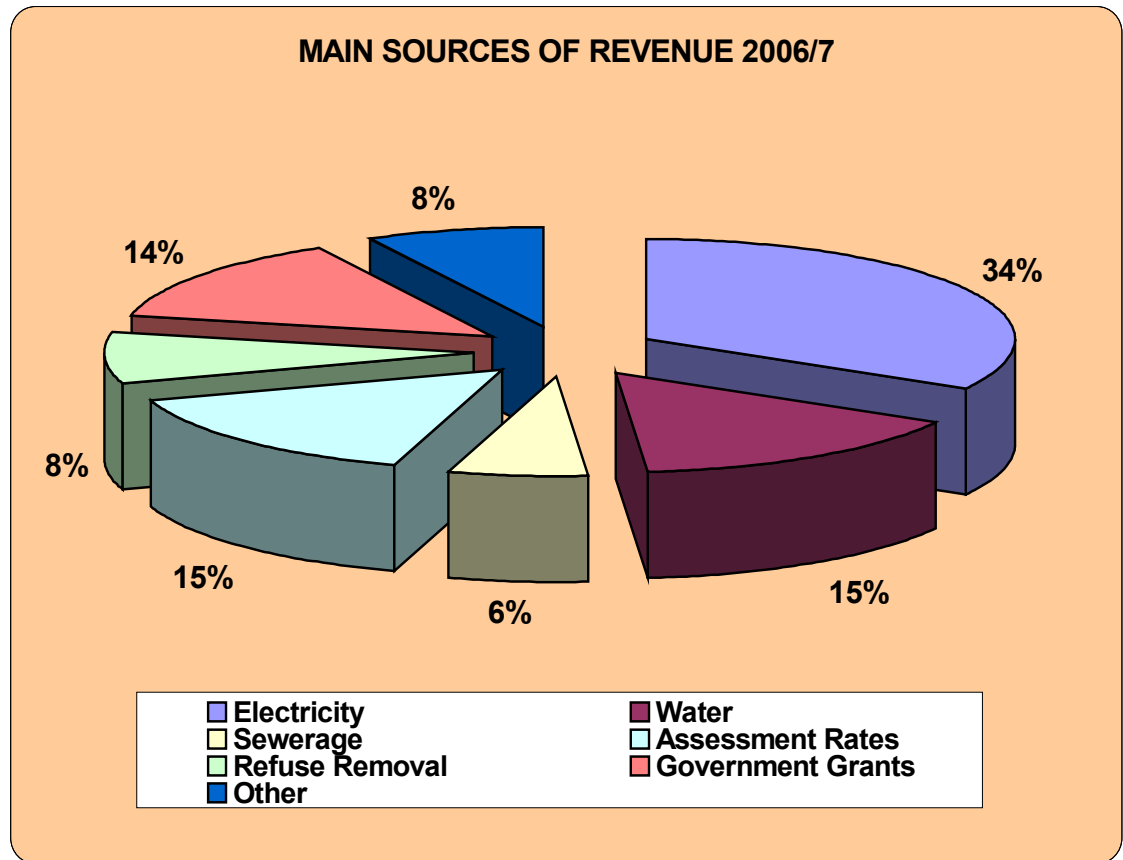
It is also recommended that the Rates Policy be changed as follows, namely :

- Residential properties without any improvements – none
- Municipal Properties Other – 100%

The chart below reflects the main sources of revenue for the 2006/2007 financial year.

| <i>MAIN SOURCES OF REVENUE – 2006 / 2007</i> | |
|---|---------------------|
| Electricity | 57 423 805 |
| Water | 26 662 052 |
| Sewerage | 10 592 476 |
| Assessment Rates | 26 231 630 |
| Refuse Removal | 14 249 069 |
| Government Grants | 24 108 531 |
| Other | 13 303 187 |
| TOTAL | R172 570 750 |

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The following documents are **attached** hereto, namely :-

- Guideline on Electricity price increases from the NER.
- Approval of Electricity tariff 2006/2007 from the NER.
- Example of a typical household consumers account for different areas.
- National Treasury MFMA Circular No.28 Of 2005

NB – That the interest rate charged for advances from the Council's Assets Finance Fund (AFF) is 10% p.a

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| CAPITAL | Budget 2006 / 2007 | AFF | Grants & Subsidies |
|----------------------------------|-----------------------|-------------------|-----------------------|
| INFRASTRUCTURE | | | AD – HOC |
| Electricity | 8 280 900 | 3 780 900 | 4 500 000 |
| Water | 440 000 | 440 000 | |
| Sewerage | 12 980 000 | 7 480 000 | 5 500 000 |
| Roads & Stormwater | 12 973 679 | 9 630 000 | 3 343 679 |
| TOTAL | 34 674 579 | 21 330 900 | 13 343 679 |
| COMMUNITY | | | |
| Clinics | 130 300 | 130 300 | |
| Sports & Recreation | 5 500 000 | 2 200 000 | 3 300 000 |
| LED | 500 000 | 500 000 | |
| Night Soil | 6 960 000 | | 6 960 000 |
| Electricity | 50,000 | 50,000 | |
| TOTAL | 13 140 300 | 2 880 300 | 10 260 000 |
| OTHER | | | |
| Electricity | 430 000 | 430 000 | |
| Water | 360 000 | 360 000 | |
| Sewerage | 70 000 | 70 000 | |
| Cleansing | 26 000 | 26 000 | |
| Roads and Stormwater | 240 000 | 240 000 | |
| Workshop | 90 000 | 90 000 | |
| Cemeteries | 400 000 | 400 000 | |
| Parks | 563 000 | 563 000 | |
| Human Resources | 32 000 | 32 000 | |
| Information Management | 468 000 | 468 000 | |
| Municipal Buildings | 400 000 | 400 000 | |
| Waste Management | 1 738 000 | 1 738 000 | |
| Council's General Expenditure | 280 000 | 280 000 | |
| TOTAL | 5 097 000 | 5 097 000 | 0 |
| GRAND TOTAL | 52 911 879 | 29 308 200 | 23 603 679 |

