CHAPTER 4: IMPLEMENTATION AND FINANCIAL PLAN

4.1 BACKGROUND

For the first time in the history of CoT, the draft MTREF was approved in February thus ensuring extensive community participation and ample time for the community to engage and submit inputs. Compared to previous financial years, 16 meetings were conducted where attendance was poor and some meetings had to be rescheduled.

The 2009/2010 MTREF will be remembered for the tremendous challenges that were encountered, and that continue to confront every community member within the CoT as a result of the global economic meltdown. Everybody in this organisation will have to embrace the words "ke nako", meaning "its time" (in the Sesotho and Setswana languages), to scale down on some expenditure that does not have a direct impact on a better life for all. Now is the time to cut the coat according to the cloth.

"Ke nako ya go bofa lepanta !".

These challenges had to be addressed in the budget planning process as they remain a threat for the rest of the coming financial year. The current global economic climate has a paramount effect on governments, big corporations and individuals alike.

In his Budget Speech to Parliament on 11 February 2009, the Minister of Finance highlighted the ways in which the current global economic crisis will affect the local economy. Nearly all developed countries are now in recession and the banking sector remains under pressure.
Credit conditions are deteriorating and demand is in decline, affecting employment as companies adjust to a period of significantly reduced demand.

However, it should be noted that notwithstanding the cumbersome prevailing economic circumstances as mentioned above, the draft 2009/2010 MTREF has been able to address the following:

- The CoT as the administrative Capital City of South Africa continued its track record of sound revenue growth with an increase of 17,8% against the 2008/2009 adjustment budget and by 21,9% against the 2008/2009 approved budget. The total budgeted revenue amounts to R15,4 billion, R16,9 billion and R17,5 billion for the 2009/2010, 2010/2011 and 2011/2012 financial year respectively;
- Government grants and subsidies increased by 22,6% compared to the 2008/2009 adjustment budget;
- The operating expenditure equates to R13,5 billion in the 2009/2010 financial year and increases to R14,2 billion in the 2010/2011 financial year, a growth of 5,2%;
- The total expenditure increased by 12,0% against the 2008/2009 adjustment budget and by 17,4% against the 2008/2009 approved budget;
- The total draft Capital budget currently equates to R3,5 billion, R3,6 billion and R3,1 billion in the 2009/2010, 2010/2011 and 2011/2012 financial year respectively;
- Council funded capital projects equates to 61,9% of the total 2009/2010 capital programme compared to 59,3% and 73,3% in the two outer financial years.
- Basic Social Package

The CoT continuously affirms the commitment of pushing back the frontiers of poverty and the adverse social and economic realities. As a result thereof, a basket of social relief will be provided to the elderly and/or the pro-poor/registered indigent households as follows:

- Register and support more indigent households;

- Provide 6kℓ water, 100kwh electricity and 6kℓ sanitation free in a 30-day cycle to the registered indigent households, no property rates is payable
- Reduced bus tariffs and library fees;
- Free admission fees in swimming baths and resorts;
- Free grave provision for the poor household

In order to continue to sustain the above-mentioned positive MTREF strategies, it should be noted that the CoT should do business unusual.

On 1 April 2009 National Treasury (NT) announced a budget deficit of 1,2% of GDP and predicted that the national budget will swing from a surplus to a deficit of 1,0% of gross domestic product. The latest figures compare daunting to the estimated growth of 3,1% in 2008. The period of slower growth ahead is likely to be characterised by rising unemployment, declining business profitability and the closure of some companies. While policy responses to the crisis will reduce the impact on poor and marginalised communities, economic conditions will be difficult for a long time.

During the compilation of the Corporate Deviation report and the day to day cash flow management of the CoT, it became evident that the CoT is experiencing cash flow shortages as a result of price increases and the inability of the community to honor their monthly municipal accounts. These cash flow challenges were first reported to Council and the Mayoral Committee during the adjustment budget process in October 2008. In order to address these cash flow shortages, strategies were submitted to Council recommending ie a 10% saving on the budgeted amount for general expenses in the operating budget. It was further recommended that no requisitions for Capital Expenditure (expenditure related to non-capital items funded in the capital budget, ie office furniture above R10 000), operating expenditure (expenditure related to non capital items funded in the operating budget ie office furniture below R10 000) and other operating requirements which the City could do without for the remaining of the financial year not be processed. Similar recommendations as submitted to Council were also strongly recommended by the Minister of Finance in NT Circular 48.

In the above Circular, the Minister of Finance expressed concern over “insufficient control” of budgets across national departments regarding foreign travel, advertising, and public relations and consulting services, NT issued a directive to curtail some operational costs. Some of the drastic cost-cutting measures that government departments were advised to consider and that CoT departments were already requested to comply with are the following:

- Reducing the number of officials traveling abroad and cutting down on advertising;
- Using video-conferencing for meetings and scheduling these outside of meal times to cut out the cost of catering;
- Hiring less expensive cars when traveling; and
- Freezing vacant posts and cutting back on overtime hours.

The Constitutional Mandate of NT prescribe that annually, NT issues guidelines through MFMA circulars on pertinent issues to be considered in the preparation of the annual budgets. In this regard MFMA Circular 48 of 2 March 2009 provided instructions, guidance and information on the compilation of the 2009/2010 MTREF.

The prevailing national economic conditions were taken into account with the modeling of the Long-term Financial Strategy (LTFS). This financial planning tool has essentially informed the compilation of the draft 2009/2010 MTREF with the emphasis on affordability and long-term sustainability. A cost increase factor was higher at the time when compiling the model (12,1% in November 2008) than the current cost price index (8,5% as at end of March 2009). The consumer price index measures monthly changes in prices for a range of consumer products such as food, beverages, clothing, housing, health and education. CPI is based on a number of factors such as the city growth factor, poverty levels in the city, debt level and service delivery cost increases. In respect of service delivery cost increases it must be mentioned that certain input costs increased in excess of inflation, for example fuel, chemicals, coal and steel prices. Many of the other suppliers also increased their selling price by far more than the inflation rate.

The CoT recommended tariff increases is in line with what the Economists is speculating. Economists believe that SA will remain mired in recession for most of this year as waning global demand erodes exports and consumer spending retreats. Prices for goods, which have a weighting of 54% in the CPI, rose by an annual 8,7% last month, unchanged from February, while the rate of increase for services, which make up the rest of the CPI, slowed to 8,4% from 8,5%. Although the pace of food and fuel price rises is slowing, the cost of many other goods and services is increasing. Based on the above, CoT tariff increase cannot be adjusted to the current CPI of 8,5%.

The Ministry of Finance also issued new regulations prescribing the budgeting and reporting standards, including the formats for municipal budgets as required by the MFMA. The object of these Regulations is to secure sound and sustainable management of the budgeting as mentioned above and reporting practices of municipalities and municipal entities by establishing uniform norms and standards and other requirements for ensuring transparency, accountability and appropriate lines of responsibility in the budgeting and reporting processes of those institutions and other relevant matters as required by the Act.

The draft 2009/2010 MTREF was compiled according to the new prescribed format. A last addition to the regulations is a quality certificate that needs to be completed by the City Manager declaring that the budget and supporting documentation has been compiled in accordance with the MFMA.

A major challenge is the special circumstances regarding energy (electricity) provision and security in South Africa, resulting in high tariff increases for bulk electricity purchases. The expected increase applicable for the 2009/2010 financial year equates to 34% which is similar to the increase of the previous financial year. The increase of 34% will have impact on the affordability by consumers resulting in an increase in bad debts which will further lead to cash flow challenges currently experienced by the City.

It should also be noted that NERSA was once again not in a position to approve a revised electricity pricing structure, as is required in terms of Section 42(5) of the MFMA, before 15 March 2009. Indicators are however that the tariff will be available at the latest on 1 June 2009. In terms of Section 24(1) of the MFMA, a municipality's annual budget must be approved 30 days before commencement of the financial year, and therefore NT advised municipalities with regard to the percentage increase to be included in the 2009/2010 MTREF.

A further challenge parallel to the above is the inadequate electricity bulk infrastructure capacity of the CoT impacting negatively on service delivery and development that also links to the electricity power security risk in South Africa. This need to be addressed to mitigate dire consequences, such as the impact on new developments, delay in housing development projects, safety risks, network capacity backlog, loss of revenue, to mention a few. A special funding strategy is necessary to address this important costly challenge over the next five years.

Hosting of the 2010 Soccer World Cup poses a financial challenge to the CoT regarding the budgetary requirements for the operating and capital expenditure. As a way of addressing this challenge a meeting was held with the Minister of Local Government where the CoT submitted a operating budget shortfall of R243,2 million and a capital budget shortfall of R297,2 million. The operating budget shortfall has been included in 2009/2010 MTREF. Possible funding of the operating and capital budget shortfall from external sources is being investigated by the Minister, to minimise the negative impact on the CoT.

Another challenge in respect of the 2009/2010 Draft MTREF relates to providing cash backing for capital reserves, provisions and unspent conditional grants, in order to establish the long-term sustainability and viability of the organisation. Sound accounting practice requires that all reserves, provisions, conditional grants and long term loans received but not spent, should be backed by an equal amount of cash in the bank/investment. With respect to unspent grants, since 2005, the annual Division of Revenue Act has been stipulating the following:

> *'Despite the provisions of the Public Finance Management Act or the Municipal Finance Management Act relating to roll-overs, any conditional allocation ... not spent at the end of a financial year, or in the case of a municipality, at the end of a municipal financial year, reverts to the National Revenue Fund, unless the relevant receiving officer can prove to the satisfaction of the NT that the unspent allocation is committed to identifiable projects.'*

This then implies that the City should make provision through the budget to cash back its reserves as mentioned above.

4.2 COMMUNITY CONSULTATION

The MSA, Chapter 4 deals with Community participation. With specific reference to the budget process, Section 16(1) (a) and (iv) stipulate that a municipality must encourage, and create conditions for, the local community to participate in the affairs of the municipality, including in the preparation, implementation and review of its integrated development plan and the preparation of its budget.

Section 22 of the MFMA also stipulates that immediately after an annual budget is tabled in a municipal council the accounting officer must make public the annual budget and documents; invite the local community to submit representations in connection with the budget; and submit the annual budget to the NT and the relevant provincial treasury in printed and electronic formats.

Section 23(2) of the MFMA stipulates further that "after considering all budget submissions, the Council must give the Executive Mayor an opportunity –
(a) To respond to the submissions; and
(b) If necessary, to revise the budget and table amendments for consideration by the council".

The tabling of the draft budget in Council was followed by publication of the budget documentation, and consultative meetings were held from 3 March to 9 April 2009 to receive inputs from stakeholder's formations. The closing date for written submissions was 9 April 2009 which concluded the community consultation process. The process embarked in a zonal manner according to the latest proposed zones. Fifteen venues were visited within the city's boundaries and an average attendance of 100 people per meeting was recorded, which compared well to the previous financial year's process. However, some meetings were very poorly attended and had to be rescheduled. The highest attendance was at Mamelodi and Soshanguve where more than 300 people per venue attended.

The budget process commenced a month earlier than in previous financial years, as per approved time schedule, with the purpose to advertise timeously and conduct extensive community consultation as well as to grant more time for submissions to be considered for possible inclusion in the final draft budget. Numerous questions were raised and responded to during the meetings. The community was also allowed to submit issues in a written format on which the relevant departments responded. Feedback to the issues raised is available on request. The Executive Mayor will during her Budget Speech refer to the main issues raised during the process in accordance to Section 23(2) of the MFMA.

Some of the issues raised by the community can be summarised as follows:
- Backlogs in roads and stormwater drainage including adequate maintenance thereof;
- Proposed tariff increases that was said to be unaffordable;
- The high municipal Debt and incorrect billing of some municipal services accounts;
- Crime prevention and security;
- Indigent registration process
- Inadequate maintenance of some municipal assets;
- Lack of communication and feed back between the politicians and communities in some wards;
- 2010 SWC budget compromising other priority service delivery objectives
- Other services e.g. health, bus services, sporting facilities, libraries, cemeteries, skills centres and Local Economic Development promotion, not being addressed adequately; and
- Supply chain and tendering process that do not benefit local community.

The community consultation submissions were considered during the compilation of the draft 2009/2010 MTREF.

4.3 BUSINESS PLANNING AND FINANCIAL STRATEGY

As per Chapter 2, National and Provincial imperatives were also included in the process of reviewing the IDP, and hence the 2009/2010 MTREF. The established CoT business planning processes have been used to guide the detail operational budget appropriations and three year capital programme.

4.3.1 Long-term Financial Strategy

The Long-term Financial Strategy (LTFS) has essentially informed the compilation of the draft 2009/2010 MTREF with the emphasis on affordability and long-term sustainability.

In order to ensure sustainability and owing to the current economic climate and the community's inability to pay their consumer accounts it became necessary to reduce the debt collection rate from 98% to 95%, which in return resulted in a reduction in the spending capacity of the CoT.

Although the LTFS is predominantly a financial planning tool to ensure long-term financial sustainability for the organisation, the financial planning process and LTFS run parallel to ensure the strategies and direction of the Municipality are at all times informed by best practice.

One of the salient features of the LTFS is the attentiveness to ultimate sustainability, not only from a municipal finance perspective, but also relating to service delivery in line with the CDS imperatives/priorities, a driver of the Five-year Integrated Development Plan.

Within the context of the LTFS the following has been modeled into the strategy:

- Economic climate;
- City growth increase factors;
- Poverty levels in the City;
- Inflation pressures;
- Debt level of the City,
- Household growth rate;
- Repairs and maintenance increase factor; and
- Service delivery cost increase.

4.4 2009/2010 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK

The following budget principles and guidelines have directly informed the compilation of the draft 2009/2010 MTREF:

- Intermediary service level standards should be utilised to subsequently inform the measurable objectives, targets and backlog eradication goals.
- Tariff and Property Rate increases should be affordable and on par with the headline inflation rate however, taking into account the growth of the metropolitan area and the need to address infrastructure backlogs.
- No budget will be allocated for external funded projects unless the request is supported by a written confirmation from the external source on the specific grant.
- No budget will be allocated for capital projects unless the request is included in the IDP and is supported by a project plan.
- It is imperative that strategic units undertake intensive periodic planning on their respective operational and capital budget components, during the MTREF process to ensure efficient and effective cash flow planning, therefore eliminating possible fruitless and wasteful expenditure.
- Each strategic unit will be held accountable for maximising collection on services and any revenue generated within the specific strategic unit in order to realise the budgeted revenue.
- Ward based projects must be implemented within the agreed upon timeframes with emphasis on the involvement of the community.
- All expenditure on items, even if is budgeted for, must be carefully considered to ascertain that the hard earned money of the general public is not wasted. The principle of value-for-money must always prevail.

The amount budgeted for the following items have been drastically scaled down:

- Corporate gifts
- Consultant fees
- Furniture and Computer equipment
- Decorations and medals
- Reimbursements
- Refreshments for External Visitors
- Special Events
- Special Projects
- Subsistence, Traveling and Conference fees (National and International).

4.4.1 Budget Policy Amendments (2009/2010)

The Budget Policy as approved on 2 August 2007 was amended on 29 May 2008 in respect of both Operating and Capital Budget Fund Transfers. During the 2008/2009 financial year, a number of issues arose that called for the amendment of the Policy to address the shortcomings and interpretation issues. The following amendments are therefore proposed:

Amendment:

Fund Transfers: Capital Budget

According to Chapter 5, Part Two, paragraph 5.2.8 of the Budget Policy the relevant Member of the Mayoral Committee must sign the documented fund transfer or amendment on the required format and he/she must give careful consideration on the proposed transfer implication on service delivery.

According to paragraph 5.2.10 of the Budget Policy as amended on 29 May 2008, all capital budget fund transfers are to be submitted to the Mayoral Committee for consideration and possible approval once the report has been signed by the Strategic Executive Director and the comments of the Member of the Mayoral Committee and the IDP office has been included.

As the proposed amendment is to limit capital budget fund transfers to the annual adjustments budget, it is proposed that paragraphs 5.2.7 to 5.2.12 of Chapter 5, Part 2 (Fund Transfers), Paragraph 5 (Capital Budget Fund Transfers) of the Budget Policy be replaced with the following:

"5 CAPITAL BUDGET FUND TRANSFERS

5.2.7 Capital Budget Fund Transfers will only be allowed once annually during the Adjustments Budget.

5.2.8 The Strategic Executive Officer must ensure that any proposed amendment to the capital budget be considered in the context of the City Scorecard and SDBIP targets. The proposed amendment need to be consulted with the respective member of the Mayoral Committee.

5.2.9 The relevant Member of the Mayoral Committee must sign the documented amendment on the required format and he/she must give careful consideration on the proposed transfer implication on service delivery.

5.2.10 The IDP Office will render formal comments with a recommendation on the proposed fund transfer taking into consideration imperatives of the five year plan, city development strategy as well as operational implications.

5.2.11 Capital Budget amendments would therefore be done in a prescribed format between individual IDP projects (WBS Level 3), within the approved Capital Programme (Vote), within the approved Funding Source, to facilitate the effective implementation of the capital programme."

4.4.2 Operational Budget

The following table represents the draft 2009/2010 MTREF as informed by the 2008/2009 Adjustments Budget, CoT business planning process, Five-year Integrated Development Plan and various other best practice methodologies eg balanced budget constraint:

Table 84: The 2009/2010 MTREF as informed by the 2008/2009 Adjustments Budget

CITY OF TSHWANE - BUDGETED PARENT ENTITY STATEMENT FINANCIAL PERFORMANCE (BY DEPARTMENT/STRATEGIC UNIT)

Description	Preceding Year 2007/08	Current Year 2008/09			2009/10 Medium Term Revenue and Expenditure Framework - Projected		
	Audited Actual	Approved Budget	Adjusted Budget	Full Year Forecast	Budget Year 2009/10	Budget Year +1 2010/11	Budget Year +2 2011/12
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Operating Revenue by Vote							
Office of the Executive Mayor & City Manager	(11,034)	(70,571)	(91,978)	(91,978)	(55,870)	(22,076)	(82)
General and Assessment Rates	(3,777,582)	(5,021,575)	(4,872,564)	(4,872,564)	(5,321,735)	(5,840,267)	(6,321,764)
Financial Services	(63,067)	(53,528)	(154,282)	(154,282)	(152,593)	(165,854)	(115,937)
Corporate & Shared Services	(44,695)	(57,161)	(57,161)	(57,161)	(66,210)	(71,506)	(77,227)
Community Safety	(146,453)	(153,825)	(153,825)	(153,825)	(179,557)	(193,814)	(203,839)
Economic Development	(144,541)	(160,073)	(171,254)	(171,254)	(190,635)	(205,725)	(220,023)
Health & Social Development	(67,882)	(62,853)	(70,282)	(70,282)	(71,088)	(74,763)	(78,632)
Sport & Recreation	(39,611)	(39,097)	(39,111)	(39,111)	(63,369)	(7,937)	(58,572)
Housing & Sustainable Human Settlement Dev	(200,528)	(252,622)	(354,384)	(354,384)	(403,167)	(281,851)	(292,702)
Agriculture & Environmental Management	(338,761)	(408,754)	(427,902)	(427,902)	(487,935)	(526,001)	(580,083)
Public Works	(5,218,170)	(6,356,833)	(6,640,649)	(6,640,649)	(8,376,291)	(9,354,453)	(9,390,529)
City Planning & Regional Services	(68,471)	(72,085)	(126,335)	(126,335)	(130,122)	(141,195)	(157,297)
Total Operating Revenue	(10,120,794)	(12,708,977)	(13,159,725)	(13,159,725)	(15,498,571)	(16,885,441)	(17,496,687)
Operating Expenditure By Vote							
Office of the Executive Mayor & City Manager	224,535	468,452	540,433	540,433	621,889	343,729	341,009
General and Assessment Rates	*491,892*	*868,733*	*912,535*	*912,535*	*1,040,620*	*1,048,921*	*1,122,386*
Financial Services	410,619	518,558	614,478	614,478	690,528	743,105	779,374
Corporate & Shared Services	834,940	894,574	890,404	890,404	981,143	1,038,210	1,096,200
Community Safety	719,250	858,254	834,151	834,151	892,308	954,531	1,020,340
Economic Development	270,278	350,998	353,004	353,004	376,299	399,547	424,150
Health & Social Development	241,948	286,302	314,523	314,523	325,025	346,658	372,803
Sport & Recreation	164,455	232,365	222,626	222,626	242,073	251,733	268,916
Housing & Sustainable Human Settlement Dev	*292,227*	*377,524*	*377,821*	*377,821*	*341,013*	*367,413*	*391,655*
Agriculture & Environmental Management	876,043	763,577	801,097	801,097	965,433	1,028,749	1,095,126
Public Works	*4,956,892*	*5,710,342*	*6,026,229*	*6,026,229*	*6,841,213*	*7,486,321*	*8,109,354*
City Planning & Regional Services	*135,162*	*169,707*	*169,546*	*169,546*	*181,815*	*194,146*	*207,576*
Total Operating Expenditure	9,618,241	11,499,385	12,056,847	12,056,847	13,499,358	14,203,064	15,228,891
(SURPLUS)/DEFICIT	(502,553)	(1,209,592)	(1,102,879)	(1,102,879)	(1,999,213)	(2,682,377)	(2,267,796)
Reserve movements (1)							
Transfer to Government Grant Reserve	467,680,281	961,480,988	819,724,641	819,724,641	1,350,417,436	1,476,069,388	847,464,388
Depreciation off-sets	(353,582,353)	(408,142,742)	(408,142,742)	(408,142,742)	(457,437,293)	(509,534,407)	(540,089,483)
Transfers To/From Other Reserves	388,455,010	227,599,403	227,599,403	227,599,403	254,591,379	264,775,034	275,366,036
Transfer to CRR		428654410.3	463697229.8	463697229.8	851641273.2	1451067038	1685055084
(SURPLUS)/DEFICIT after reserves	0	0	0	0	0	0	0

Notes:
1. Surplus includes capital government grants which are appropriated to the capital expenditure budget.
2. Includes depreciation charges for externally funded assets offset by transfer from reserve accounts.

Note:

The above table in NT's new reporting format is available in the Budget Document (Annexure J).

Although the departure point in terms of affordability was the approved 2008/2009 MTREF, and more specifically the outer year allocations, various changes have influenced the draft 2009/2010 MTREF (eg strategy changes, economic indicators, etc). Departments utilised the months of November 2008 (in terms of the approved time-schedule) to capture detail budget proposals aligned to the business planning process as well as the imperatives of the Five-year Integrated Strategic Development Plan. The captured budget proposals were subsequently analysed by the Financial Services Department prior to the departmental budget hearings which was conducted from 21 November to 5 December 2008. These sessions did not only focus on expenditure, but revenue generation potential within the context of improved service delivery, operational efficiencies and potential gains.

In view of the cash flow situation, further budget hearings were held between 17 February to 3 March 2009 to interrogate departments regarding their budget requests for the 2009/2010 financial year. Special emphasis was placed on the necessity that budget submissions should be aligned to the core business and that the residents receive value for money. In line with NT directives, non-essential and nice-to-have items that only create costs for the man in the street were put under the spotlight and scrapped from the draft budget. Through this process, capacity was created which could be reallocated to other crucial needs.

Furthermore, with the promulgation of the 2009 Division of Revenue Act (DoRA), the following operational and capital allocations towards the CoT have been included in the draft 2009/2010 MTREF:

Table 85: Operational and Capital Allocations towards the CoT by Dora

MUNICIPAL FINANCIAL YEAR 01 JULY TO 30 JUNE					
	2009/2010 Previous DORA R'000	2009/2010 New DORA R'000	2010/2011 Previous DORA R'000	2010/2011 New DORA R'000	2011/2012 New DORA R'000
Infrastructure Grants	**985,140**	**966,827**	**1,235,678**	**1,399,545**	**760,940**
Municipal Infrastructure Grant (Cities)	325,102	342,079	266,413	403,532	346,441
Integrated National Electrification Programme (Municipal) Grant	80,826	22,778	85,000	85,000	50,000
Electricity Demand Side Management (Municipal) Grant	0	30,000	0	36,000	45,000
Public Transport Infrastructure and Systems Grant	565,245	565,245	864,180	864,180	300,000
2010 FIFA World Cup Stadium Development Grant	1,166	0	1,691	0	0
Neighbourhood Development Partnership Grant (Capital Grant)	12,801	6,725	18,394	10,833	19,499
Recurrent Grant Allocation	**65,855**	**66,609**	**27,068**	**30,040**	**6,179**
Local Government Restructuring Grant	0	0	0	0	0
Local Government Financial Management Grant	750	750	1,000	1,000	1,250
Water Services Operating Subsidy Grant	9,305	10,059	5,280	7,040	4,929
Water Services Operating and Transfer Subsidy (DWAF) : Agreements	0	0	0	0	0
2010 World Cup Host City Operating Grant	55,800	55,800	20,788	22,000	0
Indirect Grant	**31,301**	**18,836**	**29,257**	**8,400**	**2,500**
Integrated National Electrification Programme (ESKOM) Grant	23,675	9,536	27,484	5,400	0
Neighbourhood Development Partnership Grant (Technical Assistance)	6,151	3,000	1,773	3,000	2,500
Backlogs in Water and Sanitation at Clinics and Schools Grant	1,475	6,300	0	0	0
Equitable Share	**1,499,852**	**1,481,612**	**1,723,285**	**1,757,572**	**1,912,454**
Equitable Share Formula	536,388	512,149	702,148	675,636	747,670
Fuel Levy	0	969,463	0	1,081,936	1,164,784
RSC Levies Replacement	963,464	0	1,021,137	0	0
TOTAL	**2,582,148**	**2,533,884**	**3,015,288**	**3,195,557**	**2,682,073**

The detail outcomes of the draft 2009/2010 MTREF will be discussed further below.

4.4.2.1 Revenue Framework

In order to serve the community, and to render the services needed, revenue generation is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty, challenging our revenue generating capacity. The funding requests always exceed the available resources. This was even more obvious when compiling the draft 2009/2010 MTREF.
The revenue strategy is a function of key components such as:

- Growth in the city and economic development.
- Revenue enhancement.
- Achievement of the 95% annualised collection rate for consumer revenue.
- NT guidelines.
- Electricity tariff increases within the National Electricity Regulator of South Africa (NERSA) approval.
- Achievement of full cost recovery of specific user charges.
- Determining tariff escalation rate by establishing/calculating revenue requirement.

- The Property Rates Policy in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA).
- Ensure the ability to extend new services and recovering of the costs.

The following table is a high level summary of the draft 2009/2010 MTREF (classified per main revenue source):

Table 86: High level summary of the 2009/2010 MTREF (classified per main revenue source)

CITY OF TSHWANE - BUDGETED PARENT ENTITY STATEMENT FINANCIAL PERFORMANCE							
Description	Preceding Year 2007/08	Current Year 2008/09			2009/10 Medium Term Revenue and Expenditure Framework - Projected		
	Audited Actual	Approved Budget	Adjusted Budget	Full Year Forecast	Budget Year 2009/10	Budget Year +1 2010/11	Budget Year +2 2011/12
Operating Revenue by Source	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Property rates	(2,181,018)	(3,246,000)	(3,246,000)	(3,246,000)	(3,597,980)	(3,885,818)	(4,196,684)
Property rates - penalties & collection charges							
Service charges - electricity revenue	(3,034,977)	(3,385,621)	(3,835,621)	(3,835,621)	(5,030,000)	(5,533,000)	(6,086,300)
Service charges - water revenue	(1,232,886)	(1,471,069)	(1,471,069)	(1,471,069)	(1,475,000)	(1,598,324)	(1,728,014)
Service charges - sanitation revenue	(303,406)	(313,963)	(313,963)	(313,963)	(354,780)	(383,162)	(413,815)
Service charges - refuse removal	(267,689)	(328,054)	(328,054)	(328,054)	(383,825)	(414,531)	(447,693)
Rental of facilities and equipment	(84,317)	(68,452)	(71,757)	(71,757)	(95,947)	(103,623)	(111,914)
Interest earned - external investments	(135,555)	(120,441)	(120,441)	(120,441)	(123,376)	(134,109)	(81,482)
Interest earned - outstanding debtors	(179,065)	(173,624)	(173,624)	(173,624)	(223,732)	(241,630)	(260,960)
Fines	(39,357)	(55,160)	(55,160)	(55,160)	(62,611)	(67,620)	(73,030)
Licences and permits	(29,499)	(24,931)	(24,931)	(24,931)	(31,539)	(34,062)	(36,787)
Operational Government Grants & Subsidie	(1,449,548)	(1,725,378)	(1,847,692)	(1,847,692)	(1,920,930)	(2,108,704)	(2,244,245)
Capital Government Grants & Subsidies	(467,680)	(961,481)	(819,725)	(819,725)	(1,350,417)	(1,476,069)	(847,464)
Other income	(541,763)	(655,501)	(672,386)	(672,386)	(665,326)	(714,871)	(771,261)
Public contr, donated & contributed PPE	(165,369)	(138,000)	(138,000)	(138,000)	(155,200)	(159,856)	(164,652)
Gains on disposal of property, plant and equipment	(4,937)	(41,302)	(41,302)	(41,302)	(27,908)	(30,061)	(32,386)
Gain: Changes in fair value of livestock	(3,727)						
Total Operating Revenue	(10,120,794)	(12,708,977)	(13,159,725)	(13,159,725)	(15,498,571)	(16,885,441)	(17,496,687)

Notes:

- Total revenue increased by 17,8% against the 2008/2009 adjustment budget and by 21,9% against the 2008/2009 approved budget.
- Property rates increased by 10,8% and service charges with 21,8% against the 2008/2009 adjustments budget. This can mainly be attributed to the growth in the city, tariff increases and changes to the tariff structures.
- Capital grants and subsidies increased by 40,5% against the 2008/2009 approved budget.

4.4.2.2 Tariff-setting principles

Tariff-setting plays a major role in ensuring desired levels of revenue by assisting in the compilation of a credible and balanced budget.

All metropolitan municipalities derive its revenue from the provision of mainline goods and services such as water, electricity, sanitation and solid waste removal. A considerable portion of the revenue is also derived from property rates (a relative stable source as it is not affected by seasonal trends and economic cycles), operating and capital grants by organs of state as well as other minor charges such as building plan fees.

The following principles and guidelines have been considered in the 2009/2010 MTREF:

- The ability of the community to pay for services received;
- Realistic revenue estimates through a conservative, objective and analytical process based on realistically expected revenue, taking into consideration available actual revenue and estimated growth percentages;
- Identification and pursuance of grants from national, provincial and other agencies;
- The impact of inflation, and other cost drivers;
- Increases above CPI if required owing to budgetary requirements aimed at sustaining services provision;
- Credible collection rates
- CoT to ensure its ability to extend new services and recovering of costs thereof;
- Balanced budget requirement;
- Current electricity constraints;
- Deteriorated economic outlook.

As in the past, the above principles, primarily driven by the Consumer Price Index (CPI), dictates the annual increase in the tariffs charged to the consumers and the ratepayers aligned to the economist speculations as mentioned under background.

In short, the following tariff increases are proposed to be applicable from 1 July 2009 and the revenue streams are discussed in detail below:

Property rates	13%
Water	13%
Electricity	34%
Waste Removal	17%
Sanitation	13%.

4.4.2.2.1 Property Rates

Property rates cover the shortfall on the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

In terms of Section 3 of the MPRA, the Council of a municipality must adopt a policy on the levying of rates on rate-able property in the municipality. The Council approved the Rates Policy on 29 May 2008 where after the policy will be reviewed annually simultaneously with the budget process and no policy amendments were proposed from 1 July 2009 in the Draft 2009/2010 MTREF, for community consultation purposes which served before Council in February 2009.

Following a request from the Minister for Provincial and Local Government, the Minister of Finance has granted approval (Government Gazette 32062 of 27 March 2009) in terms of Section 43(2) of the MFMA for upper limits with respect to the rate ratios between residential and non-residential properties as they relate to agricultural properties and public service infrastructure properties, as prescribed in Government Gazette 32061 of 27 March 2009, to become effective for municipalities as from 1 July 2009.

The effect of this announcement is that agricultural properties may now only be charged a maximum tariff of 25% of the Residential Property category's tariff.

Agricultural property means property envisaged in section 8(2)(d)(i)(e) and (f)(i) of the MPRA and are in other words the following:

- Farm properties used for agricultural purposes – section 8(2)(d)(i);
- Farm properties not used for any purpose – section 8(2)(e); and
- Smallholdings used for agricultural purposes – section 8(2)(f)(i).

The announcement also includes the same maximum ratio in comparison with the Residential category, to be charged on Public Service Infrastructure but will have no effect for the CoT.

The promulgation of this amendment to the MPRA was beyond control of the CoT and will necessitate amendments to the approved Property Rates Policy of the CoT. The amendments are as follows:

- The sliding scale rating that has been applied to agricultural properties will not be applicable as of 1 July 2009.
- There will be no "Agricultural Vacant" category of property as of 1 July 2009 .
- The category "Agricultural Property" will be defined, for purposes of the regulation, as any farm property or small holding that is used for agricultural activity or not used for any purpose.

The interpretation of the amendment is to the effect that the net tariff, after rebates were taken into account, should be applicable and therefore the 35% rebate granted to residential properties will have to be subtracted from the base tariff of residential properties to calculate the tariff for agricultural properties.

The announced maximum tariff ratio of 1:0,25 for Residential to Agricultural properties will result in a net shortfall of approximately R50 million necessitating another 1,5% tariff increase over and above the proposed 13% in property rates. However, in order not to burden the other categories of rate payers in this regard, it is proposed that the CoT absorb the shortfall and that the proposed tariff increase remains at 13%.

A report regarding the request of the "Blair Athol Homeowners Organization" to introduce a new category for self-maintained establishments to be charged Property Rates at a reduced tariff to that of the Residential category, will serve before Council in May 2009. The recommendations in this report are not to the effect that any changes will be effective to the rates policy.

The following stipulations in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA). In addition to this impermissible value, a further R35 000 reduction on the market value of a property will be granted in terms of the CoT Rates Policy.
- 35% rebate will be granted on all residential properties (including state owned residential properties).
- 100% rebate will be granted to registered indigents in terms of the Indigent Policy of the CoT.
- Pensioners, physically and mentally disabled
- A maximum/total rebate of 50% will be granted to owners of rate-able property subject to total gross income of the applicant and/or his/her spouse, if any, not to exceed the amount equal to twice the annual state pension as approved by the National Government for a financial year; or
- A maximum/total rebate of 40% will be granted subject to joint income of the applicant and/or his/her spouse if any, that is more than twice the annual state pension, but not to exceed R85 000 (R75 000 for 2008/2009) for a financial year, which amount may be reviewed during the CoT's annual budget process;
- The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependants without income;
- The applicant must submit proof of his/her age and identity and, in the case of a physically or mentally handicapped person, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension;
- The applicant's account must be paid in full, or if not, an arrangement to pay the debt should be in place; and
- The property must be categorized as residential.
- The Municipality may award a 100% grant-in-aid on the assessment rates of rate-able properties of certain classes such as registered welfare organizations, hospitals for mentally ill persons, institutions or organizations performing charitable work, sports grounds used for purposes of amateur sport, etc and after the owner of such property has applied to the Chief Financial Officer in the prescribed format for such grant and the application thereof has been approved.
- 20% rebate will be granted to independent schools, on the basis of an approved application to the Financial Services Department in the prescribed format.

The categories of rate-able properties for purposes of levying rates and the proposed rates based on a 13% increase are as follows:

Table 87: Proposed tariff increase

Category	Current Tariff (1 July 2008)	Proposed tariff (from 1 July 2009)
	c	c
Residential	0,9	1,017
Government	1,8	2,034
Business & Commercial	1,8	2,034
Agricultural	0,9	0,165
Vacant land	4,0	4,52
Municipal rateable	According to category of use	According to category of use
Agricultural vacant	4,0	Category to be removed
Industrial	1,8	2,034
Non-permitted use	4,5	5,085

Calculation of the monthly amount payable for Property Rates

Example of residential property:

(Value less R50 000.00) X 1,017c less 35% divided by 12 for monthly property tax.

(R1,0 million less R50 000,00) X 1,017c less 35% divided by 12 = R523,33 per month.

4.4.2.2.2 Water

Bulk purchases

- The Minister of Water Affairs and Forestry has tabled the bulk water tariff increase for Water Boards in parliament. The increase regarding Rand Water bulk purchases tariffs amounts to 8,3% from 1 July 2009.
- It is estimated that approximately 185,0 million kℓ of water will be purchased from Rand Water for the 2009/2010 financial year, at an estimated cost of R663,7 million.

CoT Tariff increase

- The revenue indicated in the pre-community consultation 2009/2010 MTREF was revised with the finalisation of the draft 2009/2010 MTREF as more information regarding consumption figures became available, indicating approximately a 10% reduction in consumption.
- This declining trend will have to be monitored. The decline is mainly in the 72 and above kℓ residential category.
- The bulk price increase of Rand Water contributes to approximately 50% of the CoT's input cost. As own cost drivers are very high the water tariff applicable to CoT consumers should increase with at least 13% to cover the increase in cost.
- A 13% increase in water tariffs applicable to the residents of Tshwane is proposed, generating R166,6 million additional revenue.
- 12 kℓ water per 30-day period will be granted free of charge to registered indigents.

A summary of the proposed tariffs for households (residential) and non-residential are as follows:

Table 88: Proposed tariffs for households (residential) and non-residential

CATEGORY	CURRENT TARIFFS 2008/2009	PROPOSED TARIFFS 2009/2010
	Per kℓ R	Per kℓ R
RESIDENTIAL		
(i) 0 to 6 kℓ per 30-day period (200 ℓ a day)	3,78	4,27
(ii) 7 to 12 kℓ per 30-day period	5,40	6,10
(iii) 13 to 18 kℓ per 30-day period	7,08	8,00
(iv) 19 to 24 kℓ per 30-day period	8,19	9,25
(v) 25 to 30 kℓ per 30-day period	9,35	10,57
(vi) 31 to 42 kℓ per 30-day period	10,12	11,44
(vii) 43 to 72 kℓ per 30-day period	10,83	12,24
(viii) More than 72 kℓ per 30-day period:	11,59	13,10
NON-RESIDENTIAL		
(i) 0 – 10 000 kℓ per 30-day period	7,98	9,02
(ii) 10 001 – 100 000 kℓ per 30-day period	7,57	8,55
(iii) More than 100 000 kℓ per 30-day period	7,05	8,97

Examples of monthly water consumption charges (single dwelling-houses):

Table 89: Monthly water consumption charges (single dwelling-houses)

Monthly consumption	Current amount payable	Proposed amount payable	Difference (13% increase)
kℓ	R	R	R
5	18,90	21,36	2,46
10	44,28	50,04	5,76
20	113,94	128,75	14,81
30	202,80	229,16	26,36
40	304,00	343,52	39,52
50	410,88	464,29	53,41
80	741,86	838,30	96,44
100	973,66	1 100,24	126,58

4.4.2.2.3 Electricity

Eskom bulk tariff increase

The annexure to MFMA Circular 48 of NT advised that in the absence of the National Energy Regulator of SA (NERSA) approving a revised electricity pricing structure before 15 March 2009, municipalities should budget for a 34% nominal increase in bulk electricity tariffs (this is in line with correspondence received from the Acting Minister of Public Enterprises). Following representations from municipalities, NT has requested that NERSA table a revised pricing structure on/before 1 June 2009. If NERSA does not revise the pricing structure before the said date, the 34% nominal increase will apply for the 2009/2010 financial year and the CoT will have no other option than to give it through to it's consumers. The increase will cover increases in operating costs and takes account of the damage an excessive hike could do to an economy expecting hardly any growth. Included in the increase is an Environmental Electricity levy of 2c per kWh. The levy is estimated at an amount of R176,0 million for the 2009/2010 financial year and this amount has to be collected from the CoT consumers on behalf of Eskom.

During the community consultation process it was indicated that the Eskom tariff increase will be given through to the CoT consumers. However, the sustainability of the City becomes questionable as the current vulnerable cash flow status will inevitably be further negatively impacted on resulting in an increased cash outflow (payment towards Eskom for bulk electricity purchases), with the parallel leg of cash inflow not realising owing to the inability of consumers to pay.

Electricity Regulation Act, 2006

Note should be taken of Government Gazette 31793 of 16 January 2009, regarding the electricity regulations and deviation from the set or approved tariff.

"Prescribed circumstances

2(a) the regulator may approve a deviation from the set or approved tariffs as contemplated by section 15(3) of the Act under the following circumstances, in line with the prescribed rules:
- (i) When the electricity demand is higher and is threatening the sustainability of the electricity supply industry;
- (ii) When the national savings target of at least 10 percent is not achieved; or
- (iii) When the sector saving target as may be determined by the Minister after consultation with the stakeholders is not being achieved."

Where "annual national baseline electricity consumption" means the total electricity sales in terawatt-hours during the period October 2006 to September 2007. This is to achieve a sufficient margin between the demand for electricity and the supply of electricity.

Should a deviation from the approved tariffs in terms of 2(a)(i) be allowed an opportunity will be granted for Eskom to collect cost for primary energy expansion and the stabilizing of the system. Furthermore, should a deviation be allowed in terms of 2(a)(ii) there will be a penalty on the CoT tariffs, resulting in a higher scale. This could lead to a potential loss of revenue for the CoT as a portion of the revenue will have to be utilised to pay the mentioned penalties or fund the 10% cut back. Last but not least a deviation in terms of 2(a)(iii) could also result in penalties if the industry, commercial and residential sectors does not achieve the set energy consumption target.

The Power Conservation Programme will limit consumers to a level of consumption below or equal to the current load profile which implicates a no-growth scenario. For this reason natural growth was neither calculated into the Eskom expenditure nor the income from electricity sales.

The CoT is in process of implementing the first phase of this process regarding consumers using more than 2,5 GWh per annum. This will affect approximately 25 CoT consumers.

Infrastructure development

A main challenge for CoT is the inadequate electricity bulk infrastructure capacity and the impact on service delivery and development. A 20 year master plan is available which is updated on a yearly basis to implement infrastructure in time.

Most of the suburbs and inner city network was designed or strengthened around 1982 and it was designed for 20-25 years hence the life-expectancy of these networks has peaked and the only way to avoid dire consequences is to upgrade the entire network (substation and transmission lines).

The Electricity Division is appraising many applications which are fostered by rapid development growth.

The following consequences should be noted:

- Delay and/or stop new developments (rapid development growth).
- Delay the Housing Development projects of low cost housing
- More frequent power failures will be experienced owing to overloaded and unreliable network.
- Will not comply with the Department of Minerals and Energy (DME) requirements of energizing the households which will result in grant reductions from DME (jeopardize the free 10A connection as prescribed by DME and approved by Council)
- Safety risk for operational, maintenance and construction staff
- Loss of revenue on electricity sale from new developments.
- Possible legal steps and litigation against the Council by dissatisfied customers/residents.

The approved budget for the Electricity Division can only be utilised to prioritise the upgrade of some committed projects and some untenable infrastructure (ie substations without back-up supply). It is estimated that special funding for electricity bulk infrastructure to the amount of R319,0 million per year for a five year period will be necessary to steer us out of this predicament.

Funding of this initiative can be done by way of factoring in a levy for bulk supply infrastructure in the tariff. NERSA has indicated that they will allow for such an increase and it seems as if other Metro’s are following the same option. To raise approximately R300,0 million per annum is currently not feasible. However a 4% increase (contributing R150,0 million towards the strategy) in tariffs (included in the 34% proposed increase) is proposed to kick start the strategy in the 2009/2010 financial year.

Tariff applicable to CoT customers

The proposed Tshwane electricity tariff increase applicable to our residents for 2009/2010 of 34%, in accordance with the Eskom expected increase, was submitted to NERSA for approval. It should be noted that the CoT proposal actually amounts to a 30% increase to counter the Eskom increase, therefore contributing to the alleviation of the financial burden on the consumer. However an additional 4% increase had to be affected to provide for the ailing of the bulk infrastructure that needs to be addressed as discussed above. The collection of the Environmental Electricity levy on behalf of Eskom is also included in the 34% increase. The estimated electricity revenue amounts to R5 030,0 million which includes an amount of R150,0 million (4% tariff increase) for funding the ailing bulk infrastructure and R176,0 million (4,6% tariff increase) for the payment of the Environmental Electricity levy.

Registered indigents will again be granted 100 kWh per 30-day period free of charge.

Examples of monthly electricity consumption charges (single dwelling-houses):

Table 90: Examples of monthly electricity consumption charges (single dwelling-houses)

Monthly consumption kWh	Current amount payable R	Proposed amount payable R	Difference (13% increase) R
100	55,37	74,20	18,83
250	138,43	185,50	47,07
500	276,85	370,98	94,13
750	415,28	556,48	141,20
1 000	553,70	741,96	188,26
2 000	1 107,40	1 483,92	376,52

4.4.2.2.4 Waste-removal Services

Currently solid waste removal is operating at a deficit. The main contributors to this deficit are Repairs and Maintenance (ie Vehicles) and General Expenses (ie Rental: Property, Plant and Equipment, Private Sector

Labour and Petrol and Diesel Fuel). The cost with regard to Private Sector Labour is owing to the truck drivers and their assistants who's contracts has not expired yet and was not part of the permanent labour broker appointments.

In normal practise terms the rendering of this service should at least break even, which is currently not the case. The CoT will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium- to long-term.

The first step in achieving the mentioned objectives is through the proposal of a 17% tariff increase.

- The tariff structure of solid-waste removal is based on the cost per m³ (container capacity) of refuse removed per month and on the service provided in a specific area.
- Tariffs for city cleaning are levied on all premises irrespective of who removes the waste generated on the premises.
- Waste-removal tariffs are proposed to be increased with 17% from 1 July 2009 to ensure that costs are recovered.
- Additional revenue of R55,7 million will be generated through the tariff increase and an anticipated growth in the rendering of the service.

The following table indicates a comparison between the current and proposed amounts payable from 1 July 2009:

Table 91: Comparison between current and proposed amounts payable from 1 July 2009

	CURRENT TARIFFS 2008/2009			PROPOSED TARIFFS 2009/2010		
		WASTE REMOVAL	CITY CLEANING		WASTE REMOVAL	CITY CLEANING
Tariff per container per month or part of a month: Areas serviced by means of: (Tariff is multiplied by the number of service rounds per week and the number of containers.)	Per litre (per service) (R)	Per month (R)		Per litre (per service) (R)	Per month (R)	
1 100ℓ container removed once a week	0,1336	146,96	146,96	0,1563	171,93	171,93
240ℓ container removed once a week	0,1336	32,06	32,06	0,1563	37,51	37,51
85ℓ container removed twice a week	0,2672	22,71	22,71	0,3126	26,57	26,57
85ℓ container removed once a week	0,1336	11,36	11,36	0,1563	13,28	13,28

The amount payable is calculated as follows:

Example: 85ℓ container removed once a week:
85ℓ x 0,1563 (waste removal) = R13,28 per month
85ℓ x 0,1563 (city cleaning) = R13,28 per month
Total payable R26,56 per month

4.4.2.2.5 Sanitation

- Sanitation charges are calculated according to the percentage water discharged as indicated in the table below.
- Free sanitation (98% of 6 kℓ water) will be applicable to registered indigents.
- The tariffs are proposed to increase with 13% from 1 July 2009.
- The total revenue expected to be generated from rendering this service amounts to R354,7 million for the 2009/2010 financial year.

The following table compares the current and proposed tariffs:

Table 92: Current and proposed tariffs

CATEGORY	CURRENT TARIFF 2008/2009		PROPOSED TARIFF 2009/2010	
	% DISCHARGED	TARIFF PER kℓ R	% DISCHARGED	TARIFF PER kℓ R
0 – 6 kℓ per 30-day period	98	2,74	98	3,10
7 – 12 kℓ per 30-day period	90	3,72	90	4,20
13 – 18 kℓ per 30-day period	75	4,80	75	5,42
19 – 24 kℓ per 30-day period	60	4,80	60	5,42
25 – 30 kℓ per 30-day period	52	4,80	52	5,52
31 – 42 kℓ per 30-day period	10	4,80	10	5,52
More than 42 kℓ per 30-day period	1	4,80	1	5,52

Assuming that the consumption of a household is 24 kℓ, then the amount payable will be calculated as follows:

Table 93: Consumption of a household

Consumption	% discharged	Tariff R	Amount R
First 6 kℓ	98	3,10	18,23
Next 6 kℓ	90	4,20	22,68
Next 6 kℓ	75	5,42	24,39
Next 6 kℓ	60	5,42	19,51
Amount payable			R84,81
kℓ x % discharged x tariff = amount payable			

Examples of monthly sanitation charges (single dwelling-houses)

Table 94: Monthly sanitation charges (single dwelling-houses)

Monthly water consumption kℓ	Current amount payable R	Proposed amount payable R	Difference (13% increase) R
5	13,43	15,17	1,74
10	29,50	33,34	3,84
20	63,56	71,82	8,26
30	90,06	102,06	12,00
40	94,86	107,58	12,72
50	96,20	109,13	12,93
80	97,64	110,78	13,14
100	98,60	111,89	13,29

4.4.2.2.6 The outcome of the proposed increases in tariffs as discussed above on the different revenue categories (monthly municipal accounts) is summarised as follows:

Table 95: Outcome of the Proposed Increases in Tariffs as Discussed Above on the Different Revenue Categories (Monthly Municipal Accounts)

Revenue category	2009/2010 proposed tariff increase	2009/2010 estimated revenue (tariff increase excluded)	2009/2010 Additional revenue for each 1% tariff increase	2009/2010 additional revenue owing to % tariff increases	2009/2010 Total Budgeted revenue
	%	**R'000**	**R'000**	**R'000**	**R'000**
Property rates	13	3 184 060	31 840	413 920	3 597 980
Sanitation	13	313 960	3 140	40 820	354 780
Solid Waste	17	328 065	3 280	55 760	383 825
Water	13	1 281 244	12 812	166 556	1 447 800
Electricity	34	3 753 742	37 537	1 276 258	5 030 000

Revenue category	2009/2010 proposed tariff increase	2009/2010 estimated revenue (tariff increase excluded)	2009/2010 Additional revenue for each 1% tariff increase	2009/2010 additional revenue owing to % tariff increases	2009/2010 Total Budgeted revenue
Total		**8 861 071**	**88 609**	**1 953 314**	**10 814 385**

It is realised that the ability of the community to pay for services received is also under tremendous pressure and that the economic outlook for the near future require everybody to make sacrifices.

From a household perspective how much more will be paid in rand value is of more interest than the % increase in the various tariffs and rates. Examples of the effect of the proposed tariff increases on the monthly municipal accounts of households are contained in Annexure G of the report.

4.4.2.3 Other tariffs

The tariffs for all the other services rendered i.e. approval of building plans, swimming baths etc were investigated, and where possible, benchmarked with other metros. The tariffs of some services were increased with an inflation related percentage, to ensure cost recovery. Each department motivated it's proposed increase which is attached to the tariff schedule for easy referral. The proposed tariffs for the various services are attached as Annexure F1 to F21.

The short fall on the rendering of these services is funded through property rates.

4.4.3 Equitable Share

The equitable share allocation to the local sphere of government is an important supplement to existing municipal revenue and takes account of the fiscal capacity, fiscal efficiency, developmental needs, extent of poverty and backlogs in municipalities, to the extent that such information is available.

It is an unconditional grant and allocations are contained in the Division of Revenue Act (DoRA).

The structure and components of the formula are summarized as follows:

Grant = BS + D + I – R ± C where

- BS = Basic services component
- D = Development component
- I = Institutional support component
- R = Revenue-raising Capacity correction
- C = Correction and stabilization factor

It should be noted that the basic component support only poor households earning less than R800 per month and it also distinguishes between poor households provided with services and those provided with lesser or no services.

A municipality should prioritise its budget towards poor households and national priorities such as free basic services and the expanded public works programme.

In terms of the 2009 DoRA, the allocation towards the CoT is R512,1 million, R675,6 million and R747,7 million in the 2009/2010, 2010/2011 and 2011/2012 financial years respectively.

4.4.4 General fuel levy

Owing to its deficiencies, Regional Services Council (RSA) and Joint Services Board (JSB) Levies were abolished from 1 July 2006. An interim grant, based on historical actual RSC levies collected, was put in place while national government explored suitable replacements for the former RSC levies system (included in the Equitable Share allocation).

In MFMA Circular 48 municipalities are informed of the outcome of the investigation and other information regarding the process.

The option of sharing a national tax with local government as a primary replacement for the former RSC levies was first communicated in a discussion document entitled "Options for the replacement of RSC and JSB levies" released for public comment early in 2006. The 2008 Budget Review announced the possible sharing of the general fuel levy with metropolitan municipalities as primary permanent replacement of the former RSC levies. The 2008 Budget Forum supported this proposal and the sharing of the general fuel levy with metros was accordingly announced in the 2008 Medium-term Budget and Expenditure Review. Following meetings with the Department of Provincial and Local Government and the South African Local Government Association at a technical level, metros (the existing and three new metros which will come into being after the next municipal elections) were consulted in a workshop held on 1 December 2008. Subsequently, the Minister of Finance announced in his 2009 Budget Speech the sharing of the general fuel levy with metropolitan municipalities as replacement of the previous RSC levies.

It is the intention to introduce the sharing of the general fuel levy with metros from the 2009/2010 financial year through the Taxation Laws Amendment Bill, which is currently being processed through the parliamentary system. The Bill proposes that 23% of the revenue raised from the general fuel levy be allocated to metros.

In order to mitigate shocks, the RSC levies replacement grant will be phased-out and sharing of the general fuel levy with metros will be phased-in over a four year period as follows:

2009/2010 - Allocations will be based on a 75% share of the 2009/2010 RSC levy replacement grant and 25% of its share of the 2008 overall fuel sales in metros;

2010/2011 - Allocations will be based on a 50% share of the 2009/2010 RSC levy replacement grant and 50% of its share of overall fuel sales in metros based on the latest available information;

2011/2012 - Allocations will be based on a 25% share of the 2009/2010 RSC levy replacement grant and 75% of its share of overall fuel sales in metros based on the latest available information;

2012/2013 - Sharing of general fuel levy to be based solely (100%) on total fuel sales within the jurisdiction of a metro, based on the latest available information.

Fuel sales in a metro will be based on the latest available annual fuel sales figures (in litres), as obtained by the South African Petroleum Industry Association (SAPIA), which are adjusted by population for overlapping magisterial district boundaries based on the 2001 Census information as obtained from Statistics South Africa (Stats SA).

Subject to the enactment of the Taxation Laws Amendment Bill, the CoT will receive its share of the 'metro' general fuel levy as follows:

Table 96: CoT share of "metro" general fuel levy

	2009/2010	2010/2011	2011/2012
	R'000	R'000	R'000
CoT	969 463	1 081 936	1 164 784

The allocations for the two outer years will, as part of the 2010 and 2011 Budget processes, be updated with the latest fuel sales available.

The general fuel levy transfers to each municipality will be paid in three instalments on 28 September 2009, 29 December 2009 and 29 March 2010.

The three instalments payable to the CoT for the 2009/2010 financial is indicated below:

- R323 154 000 (September 2009),
- R323 155 000 (December 2009), and
- R323 154 000 (March 2010).

Funds from the general fuel levy are proposed to support municipal expenditure on roads and transport infrastructure.

It is important to note that the sharing of the general fuel levy will be legislated through the Taxation Laws Amendment Bill, 2009, when enacted. The Bill makes provision that each metro's share be announced through a Government Gazette. As soon as enacted, the fuel levy sharing amounts for each metro will be published (legislated) through a Notice in the Government Gazette.

4.5 EXPENDITURE FRAMEWORK

Some of the salient features and best practice methodologies relating to expenditure include, inter alia:

- Asset renewal strategy (infrastructure repairs and maintenance a priority)
- Balanced budget constraint (expenditure cannot exceed revenue)
- Capital programme aligned to asset renewal strategy and backlog eradication
- Operational gains and efficiencies resulting in additional funding capacity on the capital programme as well as redirection of funding to other critical areas
- Strict principle of no project plan (business plan) no budget allocation (funding allocation)

The following table is a high level summary of the draft 2009/2010 Medium-term Expenditure Framework (classified per main category of expenditure) for the CoT based on departmental budget proposals aligned to the Five-year Integrated Development Strategy, financial planning guidelines and a detail analysis of performance trends:

Table 97: High level summary of the 2009/2010 Medium-term Expenditure Framework (classified per main category of expenditure) for the CoT based on departmental budget proposals

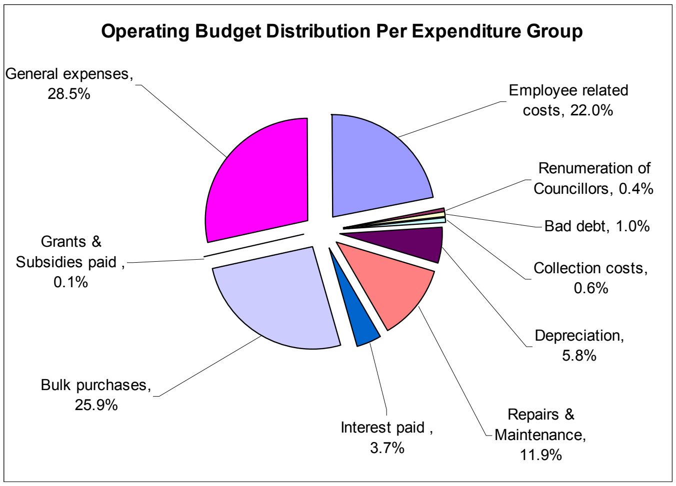
CITY OF TSHWANE - BUDGETED PARENT ENTITY STATEMENT FINANCIAL PERFORMANCE							
Description	Preceding Year 2007/08	Current Year 2008/09			2009/10 Medium Term Revenue and Expenditure Framework - Projected		
	Audited Actual	Approved Budget	Adjusted Budget	Full Year Forecast	Budget Year 2009/10	Budget Year +1 2010/11	Budget Year +2 2011/12
Operating Expenditure By Type	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Employee related costs	2,305,800	2,725,169	2,767,782	2,767,782	2,970,869	3,178,074	3,400,539
Total Remuneration	*2,621,003*	*3,234,656*	*3,281,323*	*3,281,323*	*3,534,783*	*3,781,463*	*4,046,165*
Minus: Distribution Accounts Remuneration	*(315,203)*	*(509,487)*	*(513,540)*	*(513,540)*	*(563,914)*	*(603,388)*	*(645,626)*
Remuneration of Councillors	44,201	76,722	76,722	76,722	57,963	63,539	69,661
Bad debt	280,647	131,774	131,774	131,774	138,472	145,396	152,666
Collection costs	72,224	70,281	72,281	72,281	76,618	81,215	86,088
Depreciation	542,316	832,526	862,988	862,988	783,926	911,798	1,026,168
Repairs & Maintenance	1,465,128	1,413,138	1,423,458	1,423,458	1,609,287	1,722,247	1,843,460
Primary Cost	*894,629*	*925,937*	*936,257*	*936,257*	*1,083,394*	*1,170,057*	*1,263,661*
Secondary Cost	*570,499*	*487,202*	*487,202*	*487,202*	*525,893*	*552,190*	*579,799*
Interest paid	362,150	354,567	411,961	411,961	505,734	583,727	591,123
Bulk purchases	2,206,818	2,563,032	2,789,472	2,789,472	3,496,677	3,831,417	4,198,468
Contracted services							
Grants and subsidies paid	11,585	12,953	12,953	12,953	13,564	14,318	15,117
General expenses	2,327,371	3,319,224	3,507,455	3,507,455	3,846,249	3,671,333	3,845,602
Primary Cost	*2,227,777*	*3,215,092*	*3,403,323*	*3,403,323*	*3,731,704*	*3,545,334*	*3,707,002*
Secondary Cost	*99,594*	*104,132*	*104,132*	*104,132*	*114,545*	*126,000*	*138,600*
Total Operating Expenditure	9,618,241	11,499,385	12,056,847	12,056,847	13,499,358	14,203,064	15,228,891

The draft operating expenditure equates to R13,5 billion in the 2009/2010 financial year and escalates to R14,2 billion in the 2010/2011 financial year, a growth of 5,2%.

Total operating expenditure has increased by 12,0% against the 2008/2009 Adjustments Budget and by 17,4% against the 2008/2009 approved budget.

The following graph illustrates the percentage each expenditure group constitutes of the total expenditure for the 2009/2010 financial year:

Diagram 25: Percentage each expenditure group constitutes of the total expenditure for the 2009/2010 financial year



A further analysis on some of the main expenditure group's growth is indicated and discussed below:

Table 98: Further analysis of the percentage each expenditure group constitutes of the total expenditure for the 2009/2010 financial year

Category	Approved Budget 2006/07	Approved Budget 2007/08	Growth 2006/07 - 2007/08	Approved Budget 2008/09	Growth 2007/08 - 2008/09	Draft Budget 2009/10	Growth 2008/09 - 2009/10
Employee Related Costs	2,034,256	2,255,502	11%	2,725,169	21%	2,970,869	9%
Remuneration of Councillors	40,752	47,182	16%	76,722	63%	57,963	-24%
Repairs & Maintenance	905,466	1,096,958	21%	1,413,138	29%	1,609,287	14%
Bulk Purchases	1,990,742	2,232,956	12%	2,563,032	15%	3,496,677	36%
General Expenditure	1,847,532	2,118,792	15%	3,319,224	57%	3,846,250	16%

- Employee Related Costs

In terms of the projected R2,9 billion for the 2009/2010 financial year, indicative salary increases have been included and represents 22,0% of the total expenditure budget. Before distribution of the relevant employee cost to repairs and maintenance the salary budget equates to 26,2% of the total operating expenditure.

- Remuneration of Councillors

The cost associated with the remuneration of councillors is determined and informed directly by way of the Remuneration of Public Office Bearers Act 1998 (Act 20 of 1998).

- Repairs and Maintenance

Aligned to the best practice methodology of preserving and maintaining current infrastructure, this expenditure framework has essentially catered for extensive growth in this area aligned to the asset renewal strategy of the CoT. Compared to the 2008/2009 Approved Budget the repairs and maintenance group of expenditure has increased by 14,3% from R1,4 billion to R1,6 billion (2009/2010) and increase to R1,8 billion in the 2011/2012 financial year, as indicated in the high level summary, an increase of 28,6%.

Table 99: Repairs and maintenance group of expenditure

CITY OF TSHWANE - REPAIRS & MAINTENANCE COMPARED TO TOTAL OPERATING EXPENDITURE							
Description	Preceding Year 2007/08	Current Year 2008/09			2009/10 Medium Term Revenue and Expenditure Framework - Projected		
	Audited Actual	Approved Budget	Adjusted Budget	Full Year Forecast	Budget Year 2009/10	Budget Year +1 2010/11	Budget Year +2 2011/12
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
A = Total Repairs & Maintenance	1,465,128	1,413,138	1,423,458	1,423,458	1,609,287	1,722,247	1,843,460
B = Total Operating Expenditure	9,618,241	11,499,385	12,056,847	12,056,847	13,499,358	14,203,064	15,228,891
A / B %	15.23%	12.29%	11.81%	11.81%	11.92%	12.13%	12.11%

From the above it can be seen that the percentage repairs and maintenance measured against the total operating budget equates to 11,9% in the 2009/2010 year and maintain this level (approximately 12%)

throughout the medium-term. It can further be deduced that the CoT is well within the average provision of repairs and maintenance and confirms the asset renewal strategy as modelled into the LTFS.

- Bulk Purchases

Compared to the 2008/2009 Adjustments Budget the bulk purchases group of expenditure has increased by 25,3% from R2,8 billion to R3,5 billion.

- General Expenditure

General expenditure comprises of municipal rates and services, administrative and general related expenditure as well as raw and consumption material. The 9,7% increase from the 2008/2009 Adjustments Budget to the draft 2009/2010 MTREF can directly be attributed to general increases in the economy (e.g. telephones and data services, paper and stationery, consumables etc) although a major emphasis has been placed on managing these expenditure levels downwards. A further contribution to the increase in General Expenses is owing to Operational Grants that is to be received to the amount of R231,3 million. The correlating expenditure is provided for 2010 related expenditure (R55,8 m), feasibility studies (R59,8 m), sport and recreation related expenditure (R6,0 m) and Project Linked Housing Top Structures (R109,7 million).

General expenditure constitutes 28,5% of the total operating expenditure. This is inter alia owing to Section 15(4) of the MPRA which stipulates that all reductions and rebates need to be reflected in the budget as:

- Revenue on the revenue framework of the MTREF
- Revenue foregone on the expenditure framework of the MTREF.

Owing to this requirement, consideration needs to be given to the fact that approximately R808,5 million revenue foregone in terms of the MPRA requirement has been included in the 2009/2010 MTREF on both the revenue and expenditure components. If the correlating expenditure against the operation grants that is to be received and the revenue foregone are excluded from this group the percentage will change from 28,5% to 22,5%.

During the departmental budget hearings that were conducted from 24 November to 5 December 2008 the Corporate and Shared Services Department requested that all legal costs be centralised at the said Department. The relevant Strategic Units/ Departments (i.e. City Planning and Regional Services and Transport) that budgeted individually for legal costs were requested to indicate whether the budgeted amounts may or may not be centralised at the Corporate and Shared Services Department. The feedback received from the Strategic Units/ Departments clearly indicated that the departmental budgeted amounts for legal costs cannot be centralised as requested.

Furthermore, an amount of R243,2 million had to be included in the draft 2009/2010 MTREF (General Expenses) to fund the 2010 Soccer World Cup. The amount provided was determined by the Office of the CEO: 2010 which was deemed the minimum amount necessary to meet the FIFA agreement requirements.

A meeting was conducted with the Minister of Local Government where CoT submitted a budget shortfall regarding operating requests of R243,2 million that is currently funded from the Metro's own pocket in terms of the 2010 Soccer World Cup. Possible funding of the Metro's shortfalls from external sources is being investigated by the Minister. Should funding become available from such sources the amount received will be considered for redirection towards electricity during the 2009/2010 Adjustments Budget for the ailing of bulk infrastructure.

A request to fund a second 2010 SWC fan park was received. However, owing to the high cost implications and the current financial position of the CoT this initiative could not be included in the draft 2009/2010 MTREF.

Should any funding from external sources owing to the investigation conducted by the Minister of Local Government become available funding of this initiative can be considered.

The following table is a high level summary of the projects that will be executed with the R243,2 million as determined by the Office of the CEO: 2010:

Table 100: High level summary of the projects that will be executed with the R243,2 million as determined by the Office of the CEO: 2010

PROJECT DESCRIPTION	SHORTFALL
Stadium	3 986 809
Transport	15 457 950
Training Venues	1 550 000
Support Infrastructure & City Services	4 607 300
Tourism & Small Business Support	12 000 000
Marketing & Communication	6 354 570
City Beautification	4 500 000
Health & Safety	3 000 000
Security & Disaster Management	60 825 400
Signage, RPP & Legal	4 000 000
Volunteer Program	18 702 500
Environmental Rehabilitation & Green Goal	3 946 688
Fan Parks/Public Viewing areas	130 000 000
Events and Event related issues	(25 750 000)
TOTAL	243 181 217

Operating Budget requests not funded

Although the proposed draft budget is essentially directly informed by the strategic business planning priorities of the CoT, the reality of balancing and aligning limited funding capacity to that of unlimited needs (priorities) will always remain a challenge.

The following issues have not been allocated funding in the context of the draft 2009/2010 MTREF owing to funding constraints:

Table 101: Issues not been allocated funding

	Additional Requests					
Strategic Unit/ Department	**Employee Related Costs**	**Repairs and Maintenance**	**Bulk Purchases**	**General Expenses**	**Internal General Expenditure**	**TOTAL**
Office of the Executive Mayor and City Manager	49,087,170	-	-	154,208,384	-	**203,295,554**
Financial Services	-	1,175,000	-	2,006,274	-	**3,181,274**
Corporate and Shared Services	9,926,157	2,598,800	-	38,498,689	2,500	**51,026,146**
Community Safety	11,020,000	-	-	15,500,000	-	**26,520,000**
Economic Development	22,198,939	9,915,000	-	279,409,378	-	**311,523,317**
Health and Social Development	51,364,950	1,400,000	-	12,848,506	-	**65,613,456**
Sport and Recreation						**-**
Housing and Sustainable Human Settlement Dev	3,002,851	35,559,871	-	164,926,452	-	**203,489,173**
Agriculture and Environmental Management	22,749,281	50,870,788	-	104,829,426	-	**178,449,495**
Electricity	-	-	-	1,070,000	-	**1,070,000**
Transport	9,230,000	100,000	-	46,512,477	-	**55,842,477**
Roads and Stormwater	-	153,621,323	-	39,828,650	-	**193,449,973**
Water and Sanitation	-	24,963,697	9,639,490	33,041,437	-	**67,644,624**
City Planning and Regional Services	-	700,000	-	20,338,000	-	**21,038,000**
TOTAL	**178,579,348**	**280,904,479**	**9,639,490**	**913,017,673**	**2,500**	**1,382,143,489**

In addition to the above table the following issues could also not be funded in the 2009/2010 MTREF:

Tshwane House

It should be noted that no provision has been made on the 2009/2010 MTREF for the rebuilding and/or Early Works Bridging Finance Facility as was requested during a recent progress report as this project is funded by way of a Public Private Partnership. An amount of R50,3 million has however been included in the 2009/2010 MTREF for the operational costs relating to the existing building (Munitoria).

Transport Integrated Infrastructure Framework Agency (TIIFA)

Although an appointment was made within the Transport Division to implement the above project no funds have been provided for this function in the 2009/2010 MTREF. During the budget session that was conducted with the Transport Division on 27 February 2009 it became evident that the full cost implication of this project has not been taken into account before the mentioned appointment was made and the unit was established. A report indicating the structure and cost implications will have to be compiled by the Transport

Division and submitted to Council for approval before funding for this project can be considered and included in the MTREF.

The Tshwane Leadership and Management Academy Strategy

The CoT in partnership with the University of Pretoria has set up a framework for the implementation of a Leadership and Management Academy. Emphasis is placed on developing and presenting development programs that are aligned to institutional and departmental strategies. The total financial implication for the CoT over a 5 year period for the implementation of the Tshwane Leadership and Management Academy (TLMA) amounts to R91,4 million. Owing to the current financial constraints experienced by the CoT the required amount of R16,2 million for the 2009/2010 financial year could not be provided for in the 2009/2010 MTREF.

Remuneration budget of the City Planning and Regional Services Department

The City Planning and Regional Services Department requested that the Departments remuneration budget be increased from R150,1 million as is currently included in the 2009/2010 MTREF to at least R174,0 million to cover the remuneration costs for the current and newly appointed personnel for the period ending 30 June 2009. Should the additional funds not be provided an anticipated over expenditure of approximately R23,9 million is anticipated. An analysis was done on the remuneration budget of the City Planning and Regional Services Department that indicated a growth of 64% from 2006/07 to 2009/2010. Should the budgeted amount be increased to R174,0 million this will result in a total growth of 90% from the 2006/07 financial year. The request for the additional R23,9 million will accommodate the funding of unfunded vacancies in order to populate the ASD structure within the department. It needs to be noted that council resolved that the ASD process should not result in additional expenditure for CoT. Owing to the current financial constraints experienced by the CoT the additional amount of R23,9 million could not be provided for in the 2009/2010 MTREF.

Basic Social Package

The social package assists households that cannot pay for services and are registered as indigent, in terms of the Indigent policy. Currently approximately 52 000 households are registered as indigent. The target is to register 90 000 or more indigent households.

Table 102: Basic Social Package

Service	Social package available to registered indigent households in terms of the Indigent Policy	Monthly support per registered indigent household	Estimated revenue loss for the 2009/2010 financial year (90 000 indigent households)
		Rand	**R'million**
Water	12kℓ	62,22	67,2
Electricity	100 KWh	74,20	80,1
Sanitation	6kℓ	18,23	19,7
Total		154,65	167,0

The number of households in informal areas that receive free services and the cost of these services (eg the provision of water through stand pipes) are not taken into account in the table above. Furthermore, owing to the value of the properties of the registered indigents not being available the revenue foregone with regard to property rates is not available. An estimated amount in this regard amounts to R45,0 million.

The cost (revenue forgone) of the social package of the registered indigent is off-set by the equitable share received in terms of the DoRA.

4.6 CAPITAL BUDGET

Attached hereto as Annexure A.

Similarly to the approach followed with the compilation of the operating budget, budget guidelines relating to the compilation of the draft 2009/2010 Medium-term Capital Budget were compiled in consultation with the IDP Office of which the departure point was the approved 2008/2009 MTREF, and more specifically the approved 2008/2009 Adjustments Budget. Departments were requested to consider not only affordability constraints, but the detail projects as approved in the previous budget cycle aligned to the departmental business plans, objectives and targets of the CoT.

During the departmental budget hearings that was conducted from 21 November to 5 December 2008 the detail capital projects were extensively analysed. Owing to affordability constraints departments were requested to prioritize capital funded projects within the context of affordability. Further budget hearing sessions were held with departments from 17 February to 3 March 2009 to ensure budgeted projects are prioritised and aligned to departmental business plans.

The compilation of the capital budget in terms of council funds was based on the project submissions that were received from the departments after the reprioritisation process in terms of affordability constraints. The increased funding requirements had to be modelled into the LTFS to establish whether the requested funding requirements could be funded within a sustainable approach, over the medium to long-term.

The following table indicates the draft 2009/2010 Medium-term Capital Budget per funding source and strategic unit/department:

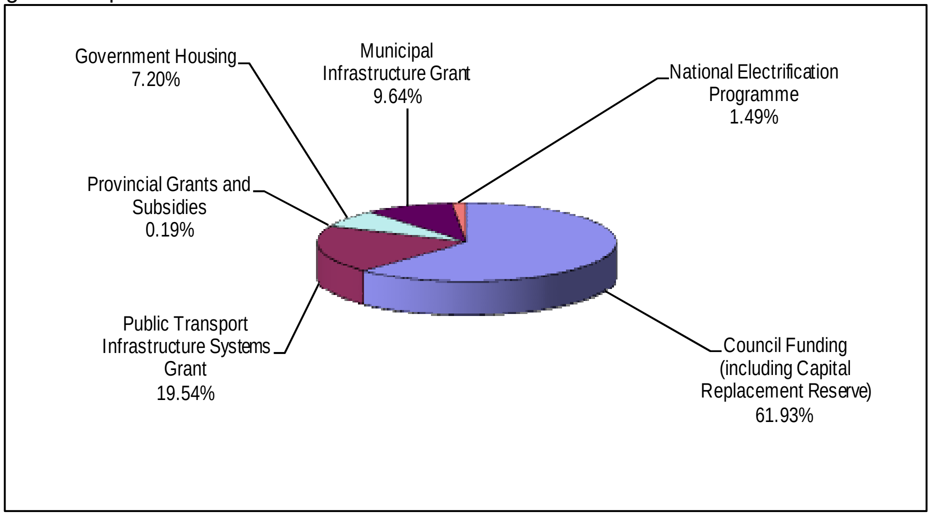
Table 103: 2009/2010 Medium-term Capital Budget per funding source and strategic unit/department

2009/10 MEDIUM-TERM CAPITAL BUDGET PER FUNDING SOURCE & SECTION 80 COMMITTEE						
FUNDING SOURCE	Budget 2009/10	%	Budget 2010/11	%	Budget 2011/12	%
Council Funding	2,161,620,900		2,111,446,850		2,283,329,750	
Capital Replacement Reserve	35,469,778	61.93%	35,488,903	59.26%	41,342,485	73.28%
Public Transport Infrastructure Systems Grant	693,254,080	19.54%	804,180,000	22.20%	240,000,000	7.57%
Provincial Grants and Subsidies	6,825,126	0.19%	10,833,000	0.30%	29,499,000	0.93%
Government Housing	255,481,230	7.20%	136,524,388	3.77%	136,524,388	4.30%
Municipal Infrastructure Grant	342,079,000	9.64%	403,532,000	11.14%	346,441,000	10.92%
National Electrification Programme	52,778,000	1.49%	121,000,000	3.34%	95,000,000	2.99%
TOTAL CAPITAL FUNDING	3,547,508,114	100.00%	3,623,005,141	100.00%	3,172,136,623	100.00%
Agriculture & Environmental Management	89,216,118	2.51%	84,178,640	2.32%	93,374,158	2.94%
City Planning & Regional Services	6,785,126	0.19%	11,153,000	0.31%	19,899,000	0.63%
Community Safety	87,232,500	2.46%	47,556,900	1.31%	52,671,500	1.66%
Corporate & Shared Services	99,971,403	2.82%	90,351,367	2.49%	86,838,175	2.74%
Economic Development	42,649,000	1.20%	32,910,158	0.91%	34,637,471	1.09%
Financial Services	17,052,934	0.48%	15,000,000	0.41%	13,000,000	0.41%
Health & Social Development	37,674,489	1.06%	16,191,751	0.45%	103,895,000	3.28%
Housing Services	431,964,145	12.18%	317,437,388	8.76%	336,524,388	10.61%
Office Of the City Manager & Executive Mayor	1,385,000	0.04%	3,639,901	0.10%	3,699,901	0.12%
Public Works	2,627,396,399	74.06%	2,966,586,036	81.88%	2,334,597,030	73.60%
Public Works: Electricity	608,994,987		632,020,000		631,700,000	
Public Works: Roads & Stormwater	587,339,597		472,512,990		501,491,414	
Public Works: Transport	602,623,012		832,759,050		268,850,000	
Public Works: Water & Sanitation	828,438,803		1,029,293,996		932,555,616	
Sport, Recreation, Arts and Culture	106,181,000	2.99%	38,000,000	1.05%	93,000,000	2.93%
TOTAL CAPITAL EXPENDITURE	3,547,508,114	100.00%	3,623,005,141	100.00%	3,172,136,623	100.00%

The total capital budget equates to R3 547,5 million, R3 623,0 million and R3 172,1 million in the 2009/2010, 2010/2011 and 2011/2012 financial years respectively.

The following graphs illustrate the above table in terms of funding source breakdown and capital budget allocation per strategic unit/department:

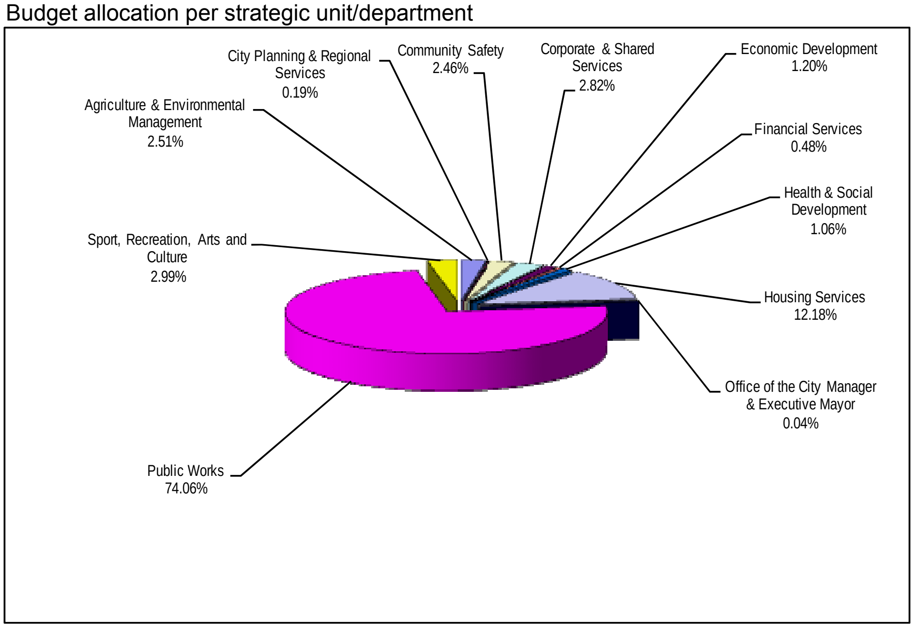
Diagram 26: Total capital budget in terms of funding source breakdown and capital budget allocation per strategic unit/department



Council funded projects equate to 61,93% (of which the remaining 38,07% relates to various funding sources such as MIG, PTIS and provincial grants and subsidies) of the total 2009/2010 capital programme when compared to 59,26% and 73,28% in the two outer financial years.

The Transport Division indicated that not all the grant funding appropriated during the 2008 DoRA would be utilised in the 2008/2009 financial year and as a result the capital budget escalated owing to the Public Transport Infrastructure Systems (PTIS) grant funding role-over.

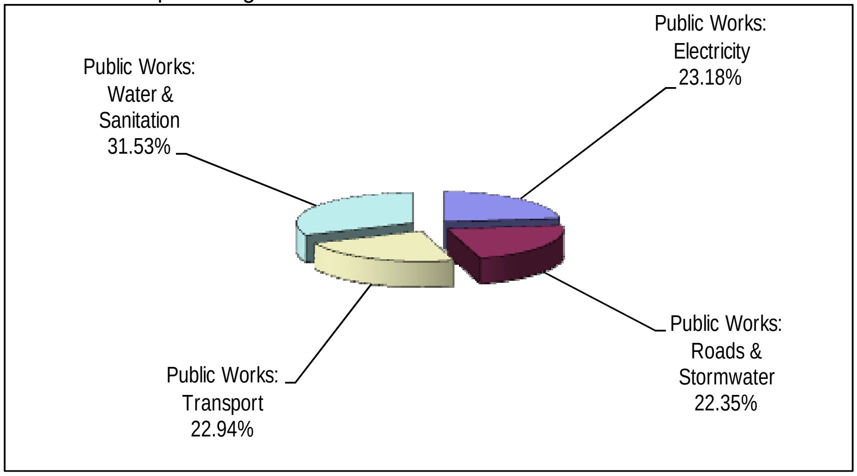
Diagram 27: % Budget allocation per strategic unit/department



From the above table it is evident that 74,06% of the total capital budget has been allocated specifically for infrastructure development with more focus on backlog eradication and to address increased demand in services.

The percentage budget allocation within the Public Works Divisions is presented graphically below:

Diagram 28: Breakdown of the capital budget within Public Works Divisions



During the compilation of the draft 2009/2010 MTREF the regions engaged with the relevant departments to ensure that regional needs in terms of their capital requirements were taken into account and that the strategic objectives of the city are achieved.

It also needs to be noted that all purchases of computer equipment (ie laptops) have been centralised at the Corporate and Shared Services Department. Strategic units will no longer budget for computer equipment and will request these items via the Corporate and Shared Services Department. Funding has also been provided for the purchasing of desktop computers and it is recommended that the current running leases not be renewed when they lapse and an option of purchasing be explored as it is more cost effective.

As indicated previously one of the CoT's challenges is the ailing bulk electricity infrastructure (including backlogs). The CoT therefore need to provide approximately R319,0 million per year for a five year period. A 4% increase in electricity tariffs will generate R150,0 million which has been allocated towards the Electricity Division for new bulk electricity infrastructure in the 2009/2010 MTREF (also discussed in the Revenue Framework portion of the report). Should additional funding become available further funding for this project will be considered during the Adjustments Budget process.

It should be noted that an amount of R30 m has been allocated to the CoT in the 2009 DoRA from DME for the Energy Efficiency Demand Side Management (EEDSM) programme, through smart metering projects. The Public Works Department (Electricity Division) indicated that the funding is to support the Automated Meter Reading project, which will be addressed in phases. It is proposed that any shortfall relating to the roll out of phase 1 of the project be addressed during the 2009/10 adjustments budget (the cost of the project, the impact on the individual consumer accounts as well as how much revenue will be generated from the roll out of the meters). The CoT is in the process of appointing a service provider in this regard.

During the finalisation of the Health and Social Development Department's capital budget it became apparent that the department has captured needs relating to the Metsweding and Bronkhorstspruit municipalities. It was indicated that the Executive Mayor had signed a Memorandum of Understanding with the respective municipality in order to assist them in the execution of the projects.

Due to the current financial constraints of the CoT the following projects which relate to Metsweding has been removed from the capital budget of the Health and Social Development Department, also taking into account that the cost of these projects cannot be capitalised in terms of the relevant GRAP accounting standards as the assets are not CoT assets.

Table 104: Projects relating to Metsweding which have been removed from the capital budget

Health and Social Development	Project Description	Budget 2009/10	Budget 2010/11	Budget 2011/12	Ward to be implemented in	Benefit Ward	Regions	New or Renewal
Health & Social Development	Mobile at L&J Farm	-	-	600,000	Metsweding	Metsweding	Metsweding	New
Health & Social Development	Extension Refilwe to a 24H Emergency unit	-	-	1,600,000	Metsweding	Metsweding	Metsweding	New
Health & Social Development	Early Childhood Development Centres x2 in Sokhulumi and Zithobeni	-	-	2,000,000	Metsweding	Metsweding	Metsweding	New
Health & Social Development	Air Quality Monitoring Station	-	-	2,000,000	Metsweding	Metsweding	Metsweding	New
Health & Social Development	New equipment: Integrated Noise Level meter	-	-	100,000	Metsweding	Metsweding	Metsweding	New
		-	-	6,300,000				

The following table is a breakdown of the capital budget per strategic focus area:

Table 105: Breakdown of the capital budget per strategic focus area

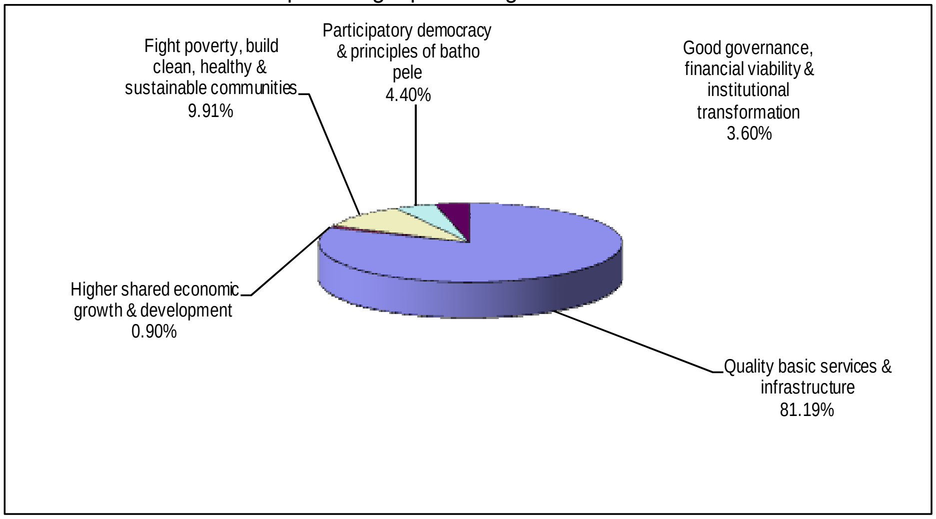
Strategic Objectives	Budget 2009/10 R'000	%	Budget 2010/11 R'000	%	Budget 2011/12 R'000	%
1. Quality basic services & infrastructure	2,880,185	81.19%	3,082,643	85.09%	2,510,771	79.15%
2. Higher shared economic growth & development	31,952	0.90%	55,753	1.54%	68,436	2.16%
3. Fight poverty, build clean, healthy & sustainable communities	351,558	9.91%	224,900	6.21%	392,747	12.38%
4. Participatory democracy & principles of batho pele	156,053	4.40%	160,870	4.44%	126,565	3.99%
5. Good governance, financial viability & institutional transformation	127,761	3.60%	98,839	2.73%	73,617	2.32%
TOTAL CAPITAL BUDGET	**3,547,508**	**100.00%**	**3,623,005**	**100.00%**	**3,172,137**	**100.00%**

In view of the above a large portion of the capital budget has been allocated to strategic focus area 1 (quality basic services and infrastructure).

A total amount of R351,5 million (10,0%) is specifically aligned to the alleviation of poverty, building clean, healthy and sustainable communities. The balance of the funding allocations has been prioritised in terms of participatory democracy and fostering the principles of Batho Pele, ensuring good governance and financial viability as well as shared economic growth and development.

The above table is graphically illustrated as follows:

Diagram 29: Breakdown of the capital budget per strategic focus area



Some of the grants gazetted in the 2009 DoRA relate to funding the 2010 programme specifically towards additional infrastructure requirements. These grants have been incorporated into the draft 2009/2010 capital budget.

The 2010 related projects have been included in the draft 2009/2010 detail Capital Budget as indicated by strategic units/departments and marked as such in Annexure J.

The following table is a summary of the total value of the 2010 related projects per strategic unit:

Table 106: Total value of the 2010 related projects per strategic unit

Strategic Unit	Budget 2009/10	Budget 2010/11	Budget 2011/12
Agriculture & Enviromental Management	30,600,000	32,720,000	35,300,000
Community Safety	62,500,000	15,500,000	2,000,000
Economic Development	7,957,000	4,000,000	-
Health & Social Development	11,500,000	-	30,300,000
Public Works: Electricity	438,710,000	473,045,000	464,700,000
Public Works: Roads & Stormwater	127,538,461	2,000,000	15,000,000
Public Works: Transport	532,257,912	864,180,000	300,000,000
Public Works: Water & Sanitation	33,000,000	36,000,000	43,000,000
Sport, Recreation, Arts & Culture	70,633,000	6,000,000	50,000,000
Total	**1,314,696,373**	**1,433,445,000**	**940,300,000**

In view of the above the total allocation towards the 2010 SWC equates to R1 314,6 million, R1 433,4 million and R940,3 million in the respective financial years and comprise of various funding sources (ie MIG, PTIS and provincial grants and subsidies).

It should be noted that although the abovementioned relates to the 2010 SWC and will contribute to the successful hosting of the event by CoT, the projects listed form part of the broader planning framework and objectives of the City. This is to ensure that funding allocations are not only informed by the 2010 SWC, but are sustainable post 2010 and ensure that the city's objectives are met.

4.6.1 Capital Budget Requests Not Funded

Additional funding requests were received from the strategic units/departments for various projects. After an analysis of the requests some projects were removed from the additional funding list taking into account that some capacity has been provided for them in the draft capital budget whereas some were addressed during the 2008/2009 Adjustments budget.

Further engagements were conducted between the Budget Office and the Office of the CEO: 2010 to analyse additional requests received for 2010 related projects. Projects relating to the Wonderboom Airport were subsequently excluded from the additional funding list taking into consideration that the Airport is not part of the 2010 FIFA requirements.

The table below indicates the additional requests per strategic unit/department which could not be accommodated in the draft 2009/2010 Capital Budget:

Table 107: Additional requests per strategic unit/department which could not be accommodated in the Capital Budget

Strategic Unit	Budget 2009/10	Budget 2010/11	Budget 2011/12
Agriculture & Environmental Management	37,700,000	20,500,000	-
City Planning & Regional Services	3,850,000	800,000	4,350,000
Community Safety	1,500,000	-	-
Corportate and Shared Services	8,300,000	5,200,000	5,000,000
Economic Development	-	-	35,000,000
Financial Services	1,500,000	-	-
Health and Social Development	29,600,000	-	-
Housing Services	190,418,065	294,105,000	484,110,250
Electricity	459,000,000	524,000,000	492,800,000
Roads and Stormwater	339,000,000	818,000,000	1,085,388,000
Water and Sanitation	409,522,000	410,608,700	464,445,000
Transport	33,188,300	49,600,000	53,550,000
Sport, Recreation, Arts and Culture	15,500,000	-	-
Total	1,529,078,365	2,122,813,700	2,624,643,250

It can be concluded that the additional funding requests submitted by the departments amounts to R1 529,0 million, R2 122,8 million and R2 624,6 million in the 2009/2010, 2010/2011 and 2011/2012 financial year respectively. A list containing the detail additional requests is attached as Annexure I.

The following table is a summary of the 2010 projects per strategic unit:

Table 108: Summary of the 2010 projects per strategic unit

Strategic Unit	Project Description	Budget 2009/10
Community Safety	ICT: TETRA	237,000,000
Health and Social Development	Health and Safety	29,600,000
Public Works and Infrastructure Development	Stadium Precinct Development	30,600,000
Total		297,200,000

The above 2010 requests were received from the Office of the CEO: 2010 subsequent to the engagement with individual strategic units. These requests are currently not included in the 2009/2010 MTREF and funding of this shortfall from external sources is being investigated by the Minister of Local Government.

Additional to the capital funding requested by departments a submission from the Office of the CEO 2010 was received for the TETRA project to an amount of R237 million which did not form part of the department's initial submissions.

4.7 FUNDING PROPOSALS REGARDING THE ADDITIONAL REQUESTS NOT FUNDED IN THE 2009/2010 MTREF

Funding the total additional requests to the amount of R2 983,2 million (R1 382,1 m operating and R1 601,1 m capital) is clearly unaffordable based on the previous discussions in the report.

It should be noted that both the MFMA and sound business practice dictate that loans cannot be utilised for operational purposes. Certain ratio's indicating the loan capacity of the Municipality should be kept in mind i.e. gearing and Debt to Total Income Ratio.

A loan to the amount of R800,0 million has already been included in the 2009/2010 MTREF to partially fund the Capital Budget. The loan amount provided falls within the Gearing Ratio prescriptions.

Therefore the above additional requests can only be funded by means of a further tariff increase of approximately 33% above the current tariff increases included in the MTREF which will further contribute to the strain on household's disposable income and the CoT bad debt situation, and is clearly unaffordable and not recommended.

4.8 EXTERNAL LOANS

The Council resolved on 27 November 2008 with the approval of the external loan funding for the 2008/2009 capital program inter alia that in future the raising of external short term loans for funding of the capital and operating programmes for a financial year be processed and considered with the approval of the budget for the specific financial year.

In terms of Section 45 of the MFMA a municipality may incur short term debt in anticipation of long term debt inflows or commitments, if a resolution was taken by the Council, signed by the Mayor, approving the debt agreement and the accounting officer has signed the agreement which creates or acknowledges the debt.

It furthermore states that to incur the short-term debt, that Council may approve short term debt transactions individually or credit facilities, providing that all short term debt must be repaid within the financial year.

The rates of loan transactions will be determined at the time of the transaction and will be determined by the money market rates applicable for specific periods. Quotations will be requested at the time of the transaction in order to select the lowest rate available to the CoT.

In terms of the budget and cash flow statement for the 2009/2010 financial year as presented for consideration in this report, external loans to the amount of R800,0 million are required to partially fund the approved and planned capital expenditure.

It is therefore proposed that the short term facility required be limited to an amount not exceeding R500,0 million at any time.

It is furthermore proposed that the City Manager be authorised to sign all necessary agreements or documents with regard to the short term loan facilities that could be obtained from the above credit facilities.

It is also necessary that the CFO be mandated to incur short term debt as and when required in response to the cash flow requirements.

4.9 STRATEGY TOWARDS RESERVES CASH BACKING

The motivation for a strategy towards cash backing is to have separate investments (including interest earned on these investments) earmarked for specific future indefinite liabilities that may amongst other provide funding for capital reserves and capital provisions and repayment of grants received but not utilised. A phased–in approach should be followed and managed according to mid-year and year end figures.

Cash received from operating activities are used to provide working capital and to temporarily fund capital expenditure in advance of external loan draw downs. Operational cash flow deficits and surpluses are forecasted and managed on a daily basis within available cash resources and banking facilities.

During the draft 2009/2010 MTREF a strategy towards the cash backing of the CoT capital reserves and provisions and unspent conditional grants, as well as the uptake of long-term loans were modeled into the LTFS to ensure the sustainability of the City over a medium- to long-term. The strategy was informed amongst others by relevant GRAP accounting standards, sections 18 and 19 of the MFMA and NT Circular 48.

A contributing driver towards this strategy was the provision contained in Circular 48 with regard to unspent conditional grants stating that any allocation not spent at the end of a financial year, reverts back to the National Revenue Fund.

Should NT enforce the above it will impact negatively on the cash flow position of the CoT if the unspent portion is not backed by a dedicated investment.

Furthermore, it is recommended that during the 2010/2011 MTREF process the current strategy be extended regarding the utilisation of revenue generated from property rates in taking a further step towards ensuring that all the above are cash backed.

It is further recommended that from the 2009/2010 financial year, the cash back position be reported on, on a quarterly basis and be included in the quarterly report to Council.

4.10 MUNICIPAL ENTITIES' BUDGETS

In terms of Section 17(3)(g) of the MFMA, when an annual budget is tabled in terms of Section 16(2), it must be accompanied by any prescribed budget information on municipal entities under the sole or shared control of the municipality. The format in which the municipal entities' budget information should be compiled and included in the annual budget is prescribed by NT circulars and regulations.

In view of the above the budget related information of Sandspruit Works Association, Civerelo Water and Housing Company Tshwane, the current operational CoT municipal entities, has been compiled in the prescribed NT formats and is included in the draft 2009/2010 MTREF.

A consolidated overview of the CoT and above municipal entities' budgets have also been compiled and included in the draft MTREF as a NT requirement for cognisance, as contained in Annexure J.

4.11 CONCLUSION

Although the Municipality in its entirety faces many financial and non-financial challenges, the continued improvement and development of an effective financial planning process aids the actualisation of fulfilling its facilitating role to capacitate the community to build a prosperous future for all.

The financial planning imperatives as embedded in the LTFS contribute to ensuring that the Municipality remains financially viable and that municipal services are provided economically to all communities.

The draft 2009/2010 MTREF contains realistic and credible revenue and expenditure proposals which should provide a sound basis for improved financial management and institutional development as well as service delivery improvement and implementation. The strategy towards cash backing entrenched in the LTFS will ensure the sustainability of the city over a medium- to long-term.

The public participation and consultation process, of which this report forms the departure point, will strengthen the principles of people-centred governance, transparency and accountability.