CHAPTER 4: FINANCIAL PLAN

4.1 INTRODUCTION

The approval of the 2007/08 Mid-year review and adjustments budget has directly informed the compilation of the draft 2008/09 MTREF, aligned to the spirit of the Municipal Finance Management Act, and more specifically the principle of multi-year budgeting.

The financial planning principle of budgeting for improved service delivery and subsequently realising operational efficiency gains while ensuring the city's deliverables are attained in a sustainable manner has been strictly implemented with the compilation of the draft 2008/09 draft Medium-term Revenue and Expenditure Framework. In ensuring this principle is successfully implemented through the entire planning process, the IDP Office and Performance Management Office have not only been key role-players throughout the process (departmental budget hearings), but also contributed to the development of the budgeting principles and guidelines.

In his State of the Nation Address, the State President said:

(Unaltered)

> *"The entirety of our system of governance is therefore making the commitment that in the period ahead of us, it will do its best to live up to the imperative – Business Unusual! We speak of Business Unusual not referring to any changes in our established policies but with regard to the speedy, efficient and effective implementation of these policies and programmes, so that the lives of our people should change for the better, sooner rather than later."*

"Business unusual", hence the principle of ensuring total value for money which will place the CoT in a position by which more can be achieved with less (planning for improved service delivery). The challenge of addressing unlimited needs within the constraints of limited resources has necessitated a change in the way we do business to ensure we stretch the value of a rand to the maximum in order to get more done with less.

The compilation of this medium-term revenue and expenditure framework within the 2008/09 time-schedule (approved by Council on 27 September 2008), various directives from National Treasury, as well the community consultation process which was undertaken from 1 to 23 April 2008, once again demonstrates, not only the commitment of the CoT to the strict adherence to the MFMA and National Treasury's Reforms, but the continuation and refinement with the process of transparency and a people centred local government (principles of Batho Pele).

With the finalisation of the 2008/09 MTREF, various unfunded issues were raised at the Mayoral Budget and Transformation Committee. Consideration had to be given to issues in respect of funding and implementation: These issues included, inter alia the following:

- Agriculture and Environmental Management indicated that funding is required for the appointment of permanent labourers at the Waste Management Division to the value of R120 million. After extensive deliberation it was decided that a phased approach would be implemented at 25% per annum, and as a result an amount of R34 million will be allocated to the Division with the 2008 Adjustments Budget.
- Community Safety indicated that additional R78 million would be required for vacancies related to the further role out of the Safer City Policy. Owing to affordability constraints, an amount of R35 million has been made available for this purpose in the 2008/09 MTREF. This amount also related to the provision of security services during the 2010 SWC. The finance

Department corresponded with the National Treasury and South African Police Services and it was confirmed that an amount of R1, 2 billion has been allocated to SAPS for this purpose. The Metropolitan Police Division will therefore have to enter into discussions with SAPS and compile a MoU in terms of addressing the security requirements of the 2010 SWC.

- Transport Division indicated that an amount of R443 million would be required for the 2008 financial year in terms of upgrading the Wonderboom Airport for the 2010 SWC. After deliberations, it was decided to phase out the project to 2014, and only address the critical infrastructure needs to ensure the Airport is operational for the 2010 SWC. An amount of R160,4 million was therefore included in the capital programme for the 2008/09 financial year. It needs to be noted that currently no provision has been made for the 2009/10 and 2010/11 book years as the capital programme will have to be prioritised with the compilation of the 2009/10 MTREF owing to affordability constraints.

4.2 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 2008/09 MTREF. The established CoT business planning processes have been used to guide the detail operational budget appropriations and three year capital programme.

LONG-TERM FINANCIAL STRATEGY

The Long-term Financial Strategy (LTFS) has essentially informed the compilation of the 2008/09 Medium-term Revenue and Expenditure Framework relating directly to affordability and long-term sustainability.

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 CoT 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 modelled into the strategy:

- Economic climate;
- Macro economic factors;
- City growth revenue increase factor;
- Poverty levels in the City;
- Inflation pressures;
- Debt level of the City,
- Household formation rate;
- Residential property value;
- Repairs and maintenance increase factor;
- Infrastructure development vs. the maintenance of current infrastructure;
- Service delivery cost increase etc.

4.3 2008/09 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK

The following budget **principles** and **guidelines** have directly informed the compilation of the draft 2008/09 MTREF as adopted by the Municipality's Top Management on 8 February 2008:

- The set 2008/09 priorities and city scorecard targets as well as the MTREF baseline allocations per main function are confirmed;
- The use of intermediary service level standards subsequently informing the measurable objectives, targets and backlog eradication goals;
- Rates and increases take into account the need to address infrastructure backlog;
- Maintain best practice logic within the planning context always taking into consideration the balanced budget constraint;
- The Municipal Manager should analyse performance trends in terms of operational and capital budget components, with specific attention being given to underperforming functions/strategic units. Special attention needs to be given to efficiency gains and the principle of value for money;
- Detail business plans of each function/strategic unit will have to be finalised by the end of February 2008;
- No capital allocations are to be made to the Executive Mayor/Municipal Manager strategic unit;
- No budget will be allocated for external funded projects unless the request is supported by a confirmation on the specific grant;
- No budget will be allocated for capital projects unless the request is supported by a project plan;
- The ASD is to be factored urgently into the Budget Process and subsequently finalised;
- Tariff increase should respond to the following within the framework of National Treasury Circular No 45:
    - 2008 Division of Revenue Act;
    - Population growth rate (2.5%);
    - Maintenance Budget to be 14,0% of total operating income (Restructuring Grant target to preserve the city's quality infrastructure);
- REDS – To be flagged-out as a major risk because the asset base of the Municipality will be significantly reduced if REDS become Public Entities;
- The threshold on Capital Assets is set at R10 000. Essentially any individual item with an asset value of below R10 000 will be expensed against the non capital items GL within the raw and consumption materials group of expenditure. Items exceeding this threshold will have to be provided as part of the capital budget.

4.3.1 AMENDMENT TO BUDGET POLICY

The Budget Policy was approved on 02 August 2007. During the 2007/08 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 proposed:

Amendment:

Fund Transfers: Operating Budget

According to Chapter 5, Part Two, paragraph 4.2 of the Budget Policy it is a prerequisite that all operating budget fund transfers must be authorised by the respective strategic executive director/ department head and the respective Member of the Mayoral Committee.

No Member of the Mayoral Committee is responsible for the Office of the Executive Mayor and the City Manager and hence nobody in that capacity can be held responsible in terms of paragraph 4.2.

It is therefore proposed that Chapter 5, Part Two: Fund Transfers, paragraph 4.2 of the Policy be amended to read as follows:

> "A prerequisite will however be that all operating budget fund transfers must be authorised by the respective strategic executive director/ departmental head and the respective Member of the Mayoral Committee. In the absence of the strategic executive director/ departmental head, he/she may delegate the authority in this regard to a person acting on his/her behalf. In the event of a department not accountable to a Member of the Mayoral Committee, authorisation should be obtained from the City Manager instead."

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 the Accounting Officer as defined by the Act has to approve the proposed fund transfer once the report had been signed by the Strategic Executive Director and the Member of the Mayoral Committee and the IDP Office comments had been included.

At the Council meeting of 27 March 2008 it was resolved that all priority programmes/projects approved through the MTREF should be 'ring-fenced'. It is therefore proposed that all capital budget fund transfers are submitted to the Mayoral Committee for consideration and possible approval to ensure the original intention of the project is achieved. The rule set out in Paragraph 5.2.10 will have to be changed accordingly. All the other rules under paragraph 5.2 remain in force.

It is therefore proposed that Chapter 5, Part Two: Fund Transfers, paragraph 5.2.10 of the Policy be amended to read as follows:

> "The Mayoral Committee has to consider the proposed fund transfer for approval once the documented fund transfer or amendment on the required format had been signed by the Strategic Executive Director, the City Manager as Accounting Officer and the relevant Member of the Mayoral Committee and the IDP Office comments had been included."

Amendment:

Capital Budget: Conditions of capitalisation

In terms of Chapter 4, Part Two, paragraph 1 of the Budget Policy certain conditions must be met to determine which items need to be capitalised and included in the Asset Register as property, plant and equipment.

The threshold value (minimum acquisition price) is used, to determine which items need to be capitalised and included in the Asset Register. The threshold value will be reviewed annually by the Chief Financial Officer in consultation with the office of the Auditor General if necessary. The current value stands at R100 000. Resulting from a need to exercise greater control over items bought to be used in the production or supply of goods or services, it is proposed that the threshold value should be amended to R10 000 with effect from 1 July 2008.

4.3.2 OPERATIONAL BUDGET

The following table represents the 2008/09 MTREF as informed by the 2007/08 Adjustments Budget, CoT business planning process, Five-year Integrated Development Plan and various other best practice methodologies e.g. balanced budget constraint, affordability of services to the community within the context of sustainability:

Table 4.3.2(a)

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

Description	Preceding Year 2006/07	Current Year 2007/08			2008/09 Medium Term Revenue and Expenditure Framework		
	Audited Actual	Approved Budget	Adjusted Budget	Full Year Forecast	Budget Year 2008/09	Budget Year +1 2009/10	Budget Year +2 2010/11
Operating Revenue By Department	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Office of the Executive Mayor & Municipal Mgr	(1,347)	(596)	(61,820)	(61,820)	(70,571)	(57,586)	(23,152)
General Assessment	(3,229,275)	(3,600,954)	(3,725,954)	(3,725,954)	(5,021,575)	(5,472,215)	(5,967,078)
Financial Services	(70,333)	(62,843)	(63,931)	(63,931)	(53,528)	(56,959)	(60,862)
Corporate & Shared Services	(43,100)	(55,825)	(52,813)	(52,813)	(57,161)	(61,494)	(66,141)
Community Safety	(124,718)	(149,871)	(143,421)	(143,421)	(153,825)	(167,004)	(181,204)
Economic Development	(128,428)	(148,528)	(153,345)	(153,345)	(160,073)	(164,272)	(175,147)
Health & Social Development	(53,942)	(53,091)	(64,783)	(64,783)	(62,853)	(68,231)	(74,028)
Sport & Recreation	(40,903)	(38,638)	(40,292)	(40,292)	(39,097)	(61,421)	(12,305)
Housing Services	(152,621)	(475,625)	(258,475)	(258,475)	(252,622)	(260,116)	(257,792)
Agriculture & Environmental Management	(303,467)	(369,783)	(369,961)	(369,961)	(408,754)	(422,816)	(455,318)
Public Works	(4,389,212)	(5,187,921)	(5,236,422)	(5,236,422)	(6,356,833)	(6,780,971)	(7,564,051)
City Planning & Regional Services	(67,110)	(63,083)	(63,213)	(63,213)	(72,085)	(82,136)	(92,257)
Total Operating Revenue	(8,604,455)	(10,206,759)	(10,234,429)	(10,234,429)	(12,708,977)	(13,655,221)	(14,929,335)
Operating Expenditure By Vote							
Office of the Executive Mayor & Municipal Mgr	416,565	459,513	516,291	516,291	716,728	739,745	746,263
General Assessment	556,526	295,402	279,644	279,644	868,733	928,228	991,846
Financial Services	353,358	465,526	485,678	485,678	518,558	557,280	590,025
Corporate & Shared Services	548,332	552,038	553,686	553,686	651,254	758,132	814,417
Community Safety	579,889	739,731	731,999	731,999	858,254	852,128	891,483
Economic Development	256,443	244,544	260,333	260,333	350,998	373,256	394,046
Health & Social Development	209,243	237,087	257,283	257,283	286,302	301,347	327,920
Sport & Recreation	146,986	184,432	187,229	187,229	232,365	242,034	245,793
Housing Services	288,589	316,547	324,469	324,469	377,524	393,280	421,719
Agriculture & Environmental Management	720,285	700,552	706,650	706,650	763,577	820,209	872,288
Public Works	4,556,988	4,738,751	4,897,335	4,897,335	5,710,342	6,305,059	6,893,106
City Planning & Regional Services	108,004	122,176	133,848	133,848	164,751	175,210	186,741
Total Operating Expenditure	8,741,209	9,056,301	9,334,443	9,334,443	11,499,385	12,445,907	13,375,646
(SURPLUS)/DEFICIT	136,754	(1,150,458)	(899,986)	(899,986)	(1,209,592)	(1,209,313)	(1,553,689)

Notes:

1. Surplus includes capital government grants which are appropriated to the capital expenditure budget (see table 5.2.1 and 6(a))
2. Includes depreciation charges for externally funded assets offset by transfer from reserve accounts (see table 6(a)). (not included in the IDP)

Although the departure point in terms of affordability was the approved 2007/08 MTREF, and more specifically the outer year allocations, various changes have influenced the draft 2008/09 MTREF (e.g. strategy changes, Property Rates Act, Division of Revenue Act etc). Departments utilised the months of November and December 2007 (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 Finance Department prior to the departmental budget hearings which took place from 5th to 15th February 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 as well as the revenue enhancement strategy formed the core of the agenda. In addition these sessions were chaired by the CFO and departmental representation was critically emphasised at an executive management level. Subsequent to the budget hearings departments were given an opportunity to go back and refine their captured budget in line with the approved budget principles. Departments were further requested to provide detailed motivations for funding requested as well as the cost breakdown of specialized items such as special projects, special events, consultant fees, non-capital items etc

Furthermore, with the promulgation of the 2008 Division of Revenue Bill, the following operational and capital allocations towards the CoT have been factored into the draft MTREF:

	MUNICIPAL FINANCIAL YEAR 1 JULY - 30 JUNE				
	2008/2009	2008/2009	2009/2010	2009/2010	2010/2011
	Previous DORA	New DORA	Previous DORA	New DORA	New DORA
	R'000	R'000	R'000	R'000	R'000
Infrastructure Grants	769,467	912,604	468,910	985,140	1,235,678
Municipal Infrastructure Grant(MIG)	280,935	288,935	232,200	325,102	266,413
Integrated National Electrification Programme (Municipal) Grant	47,618	60,500	71,710	80,826	85,000
Public Transport Infrastructure System(PTIS)	400,000	510,169	165,000	565,245	864,180
2010 FIFA World Cup Stadium Development Grant	40,914	46,000	0	1,166	1,691
Neighbourhood Development Partnership Grant (Capital Grant)	0	7,000	0	12,801	18,394
Recurrent Grant Allocation	15,436	13,666	22,120	65,855	27,068
Local Government Financial Management Grant	750	750	750	750	1,000
Water Services Operating Subsidy Grant	0	12,916	0	9,305	5,280
Water Services Operating & Transfer Subsidy(DWAF) : Agreements	14,686	0	21,370	0	0
2010 FIFA World Cup Host City Operating Grant	0	0	0	55,800	20,788
Indirect Grant	0	24,061	0	31,301	29,257
Integrated National Electrification Programme (ESKOM) Grant	0	✧19,176	0	✧23,675	✧27,484
Neighbourhood Development Partnership Grant (Technical Assistance)	0	✧4,000	0	✧6,151	✧1,773
Backlogs in Water and Sanitation at Clinics and Schools Grant	0	✧885	0	✧1,475	0
Equitable Share	1,264,591	1,303,064	1,474,114	1,499,852	1,723,285
Equitable Share Formula	362,413	400,887	510,650	536,388	702,148
RSC Levies Replacement	902,177	902,177	963,464	963,464	1,021,137
TOTAL	2,049,494	2,253,395	1,965,144	2,582,148	3,015,288

✧ Allocations-in-kind (indirect grant) contained in the 2008/09 DoRA. Although these grants have been gazetted as Tshwane allocations, it needs to be noted that they do not form part of the CoT 2008/09 MTREF as these allocations are transferred directly to the implementing agent e.g. Eskom

The detail outcomes of the draft 2008/09 Medium-term Revenue and Expenditure Framework will be discussed further below.

4.3.2.1 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 backlogs of underdevelopment and poverty, challenging our revenue generating capacity. Municipalities must table a balanced and credible budget, based on realistic estimates of revenue that are consistent with their budgetary resources and collection experience. All sources of revenue such as own revenue, grants, subsidies, donor funds, trust monies and agency receipts must be included.

National Treasury provides guidelines for the compilation of municipal budgets for the next three years through circulars. For compilation of the 2008/09 MTREF Circulars 42 of 30 March 2007 and 45 of 8 February 2008 give specific guidance on requirements for funding the budget.

The following table is a high level summary of the 2008/09 Medium-term Revenue Framework (classified per main category of income):

Table 4.3.2.1

CITY OF TSHWANE - BUDGETED PARENT ENTITY STATEMENT OF FINANCIAL PERFORMANCE

Description	Notes	Preceding Year 2006/07	Current Year 2007/08			2008/09 Medium Term Revenue and Expenditure Framework		
		Audited Actual	Approved Budget	Adjusted Budget	Full Year Forecast	Budget Year 2008/09	Budget Year +1 2009/10	Budget Year +2 2010/11
Operating Revenue by Source		R'000	R'000	R'000	R'000	R'000	R'000	R'000
Property rates		(1,719,224)	(1,935,541)	(2,007,541)	(2,007,541)	(3,246,000)	(3,473,220)	(3,716,345)
Property rates - penalties & collection charges								
Service charges - electricity revenue		(2,664,518)	(2,991,198)	(2,994,198)	(2,994,198)	(3,385,621)	(3,679,411)	(3,996,146)
Service charges - water revenue		(1,036,701)	(1,162,275)	(1,198,567)	(1,198,567)	(1,471,069)	(1,598,722)	(1,736,345)
Service charges - sanitation revenue		(249,567)	(287,664)	(290,164)	(290,164)	(313,963)	(341,207)	(370,580)
Service charges - refuse removal		(250,700)	(286,551)	(286,551)	(286,551)	(328,054)	(336,959)	(365,966)
Service charges - other								
Regional Services Levies - turnover			(20,000)	(20,000)	(20,000)			
Regional Services Levies - remuneration								
Rental of facilities and equipment		(70,028)	(68,388)	(74,496)	(74,496)	(68,452)	(74,393)	(80,797)
Interest earned - external investments		(134,187)	(113,303)	(113,303)	(113,303)	(120,441)	(128,269)	(136,608)
Interest earned - outstanding debtors		(142,516)	(160,433)	(160,433)	(160,433)	(173,624)	(188,691)	(204,933)
Dividends received								
Fines		(38,390)	(57,434)	(49,434)	(49,434)	(53,891)	(58,568)	(63,610)
Licences and permits		(21,817)	(23,050)	(23,050)	(23,050)	(24,931)	(27,093)	(29,427)
Income for agency services								
Government Grants and subsidies - Operating		(1,248,260)	(1,498,338)	(1,647,618)	(1,647,618)	(1,725,378)	(1,848,082)	(2,045,236)
Government Grants and subsidies - Capital	1	(317,834)	(798,900)	(554,240)	(554,240)	(961,481)	(1,024,946)	(1,258,309)
Other income		(524,232)	(608,333)	(619,483)	(619,483)	(656,770)	(692,017)	(736,997)
Public contributions, donated & contributed PPE		(165,567)	(155,000)	(155,000)	(155,000)	(138,000)	(139,656)	(141,192)
Gains on disposal of PPE		(20,915)	(40,352)	(40,352)	(40,352)	(41,302)	(43,985)	(46,843)
Total Revenue By Source		(8,604,455)	(10,206,759)	(10,234,429)	(10,234,429)	(12,708,977)	(13,655,221)	(14,929,335)

Total revenue increased by 24,2% against the 2007/08 adjustment budget and by 24.5% against the 2007/08 approved budget. Cognisance needs to be taken of the fact that the percentage revenue growth is inclusive of capital grants and donations which increased by 73,5% against the 2007/08 Adjustments Budget and by 20,4% against the 2007/08 approved budget.

Furthermore, owing to Section 15(4) of the Municipal Property Rates Act (MPRA) all projected reductions and rebates need to be reflected in the municipality's annual budget for that year as:

- Revenue on the revenue framework of the MTREF
- Revenue forgone on the expenditure framework of the MTREF

Owing to this requirement, consideration needs to be given to the fact that R715,5 million has been included in the 2008/09 MTREF (as in the table above) on both the revenue and expenditure components. This implication will bring about a slight change in the accounting for the transactions on a monthly basis.

The increase in interest earned on external investments is mainly related to the investment strategy of the CoT as informed by the cash flow planning of the organization, expenditure trends (operating and capital), revenue generating capacity, national and provincial grant transfers and current account surpluses.

The net realized profit from the sale of property, plant and equipment has been included as one of the format requirements relating to the implementation of GAMAP/GRAP and National Treasury Financial Management Reforms.

4.3.2.2 REVENUE AND TARIFF-SETTING

Revenue Strategy

The revenue strategy is a function of key components:

- Growth in the city and economic development.
- Revenue enhancement (refer Revenue Enhancement Strategy).
- Achievement of the 98% annualised collection rate for consumer revenue.
- National Treasury guidelines.
- Electricity tariff increases within 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).
- Power security in South Africa.

Tariff-setting

The CoT derives its revenue on the provision of mainline goods and services such as water, electricity, sanitation and solid waste removal. Property rates, operating and capital grants from organs of state and other minor charges (such as building plan fees), also contributes to the coffers of the CoT.

Tariff-setting plays a major role in ensuring certain levels of revenue assisting in compilation of a credible and balanced budget, and to accommodate the acceleration of basic services and alignment to the five-year strategic plan (programme).
The following principles and guidelines have been considered in the 2008/09 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 increases.
- Credible collection rates and collection improvement targets.
- Ensure ability to extend new services and recovering of costs thereof.

Increases in tariffs should preferably be within inflation targets and stimulate growth in the local economy. According to National Treasury Circular 45 the latest available forecast for CPIX for 2008/09, 2009/10 and 2010/11 are 6,2%, 4,8% and 4,7% respectively. The additional revenue that will be generated through tariff increases has to ensure continued service delivery. Tariff increases were calculated at 8% with regard to the main services, with the exception of electricity, owing to the special circumstances regarding power security in South Africa.

The additional revenue that will be generated through tariff increases has to ensure continued service delivery. Tariff increases were therefore calculated at 8% (also in line with CPIX) with regard to the main services, with the exception of electricity (12%), owing to the special circumstances regarding power security in South Africa.

The current property rate tariff will not increase with a specific percentage owing to the implementation of the new valuation roll in terms of the MPRA from 1 July 2008. However a percentage increase of 8% in revenue and a 2% growth in the value base is proposed for the 2008/09 financial year.

The outcome of the increase in tariffs (revenue) on the different revenue categories is:

Revenue category	2008/09 growth %	2008/09 growth % included (revenue/tariff increase excluded)	2008/09 additional revenue for each 1% (revenue) tariff increase	2008/09 additional revenue owing to 8 % (revenue) tariff increase	2008/09 Total Budgeted revenue
	%	R'000	R'000	R'000	R'000
Property rates	3,0	2 148 612	21 486	171 888	✧2 320 500
Sanitation	2,5	287 931	2 879	23 032	310 963
⌖Waste services	4,0	278 590	2 786	22 288	300 878
Water	2,5	1 342 661	13 426	107 408	1 450 069
⌗Electricity	0,0	3 022 873	30 229	362 748	3 385 621
Total		**7 080 667**	**70 806**	**687 364**	**7 768 031**

✧ Excluding revenue foregone
⌗ 12% increase proposal
⌖ Now proposing a 15% increase owing to fuel and related costs.

Except for electricity and property rates (which will be discussed comprehensively), the revenue categories are highlighted as set out below and more information is available in the Budget Document.

4.3.3 PROPERTY RATES

Municipalities need a reliable source of revenue to provide services and perform their functions. Property rates are an important source of revenue for municipalities and are used to fund services that benefit the community as a whole and must 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.

The Local Government: Municipal Property Rates Act (MPRA), 2004 has been promulgated with effect from 2 July 2005. Properties are now valued on the land plus improvements, and according to current market values, as at the date of calculation which for the CoT is at 1 July 2007. The implication is that some residents will pay more and others will pay less and neighbours may end up paying different amounts owing to inter alia the value of the house (improvements). The act requires that municipalities group properties by category and that an individual tariff be levied for each category. The property rate levied by a municipality on a property must be paid by the registered owner. It should therefore be noted that sectional titles will now be valued and levied individually.

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 and the policy must take effect on the effective date of the first valuation roll prepared by the municipality in terms of the act, and must accompany the municipality's budget for the financial year concerned. The rates policy will be reviewed annually simultaneously with the budget process.

The CoT informed the community of the Draft Property Rates Policy during the community consultation process from 1 to 24 April 2008 and a report containing the community inputs will be submitted to Council for approval on 29 May 2008.

The first general valuation under the provisions of this Act will be implemented on 1 July 2008. In the valuation process, the comparable method of valuation – the most acceptable local and international method for calculations was used. Information on properties was gleaned from a number of sources, i.e. title deeds, building plans, on site inspections, and analyzing of other factors such as location, stand size, age of improvements, quality of construction etc.

Calculations are now based on two main pillars, the rates policy and the general valuation roll.

The rate in the rand will substantially reduce owing to the huge increase in the rates base, from R21,3 billion (valuations based on land value only), to R268,6 billion after the improved valuation process of properties. A total of 466 570 properties have been registered.

4.3.3.1 DETERMINING THE RATES TARIFF

The tariff calculation on property rates is a specialised function, therefore an advanced application has been developed by an external programming company to develop a tariff calculator to determine the property rates tariff and rebates according to the draft Property Rates Policy of the CoT. The valuation roll gets fed electronically into the application which is described by the developers as a management decision making support tool.

The contributing factors in determining the property rates tariffs are discussed briefly. The draft Property Rates Policy contains the detail information.

The annual estimation of the growth % will play a major role in determination of expected revenue owing to improvements being included in the rates base. A 3,2% growth in the property valuations is expected for the 2008/09 financial year, resulting in approximately R67 million additional revenue from property rates. For the purposes of tariff calculation, the R67 million was subtracted from the requested budgeted amount for property rates as that would be billed on new developments and the current properties would not have to contribute to that amount.

The effect of additional revenue owing to the 20% rebate not applicable on Government (previously in terms of the Transvaal Rating Ordinance) was calculated on R30 million. This additional funding option was identified in the Revenue Enhancement Strategy. Independent schools and hospitals will also now be liable for the payment of property rates. However, schools for disabled and hospitals for mentally ill will receive a 100% rebate, if application is approved.

The draft Municipal Property Rates Regulations on a Rate Ratio between Residential and Non-residential Properties were considered. The ratio of the Business and Commercial as well as the Industrial categories to the Residential category was calculated on 2:1.

The applicable value rebate, tariff rebate and grants-in-aid in terms of the CoT draft Property Rates Policy were taken into consideration when the tariffs were determined.

An eight percent growth in property rates revenue was determined for the 2008/09 MTREF. The generation of further R150 million additional revenue from property rates is necessary to fund other major initiatives mainly benefiting backlog eradication of main services and roads in previously disadvantaged areas, as well as repair and maintenance of the current asset base of the city. The tariffs were therefore calculated to generate a total revenue of R2 470,5 million for the 2008/09 financial year.

A further R60 m will have to be generated to assist in funding capital requirements for Wonderboom Airport. This amount became available when the property rate revenue was calculated after the property rate calculator's data was refined. It was therefore not necessary to increase the tariff. The total property rate revenue amounts to R2 530,5 m for the 2008/09 financial year.

The amount included in the budget amounts to R3,246 billion owing to the disclosure of revenue foregone in terms of the MPRA.

<u>Impermissible rate (VALUE REBATE)</u>

The first R15 000 of the market value of a property used for residential purposes is excluded from the rateable value (Section 17(h) of the MPRA).

<u>Value rebate</u>

The draft policy determines that a further R35 000 will be rebated on the value of a property used for residential purposes, above the R15 000 impermissible rate, before applying the applicable tariff.

<u>Tariff rebates</u>

35% rebate will be granted on all residential properties (including state owned residential and agricultural residential properties).

<u>Grants-in-aid</u>

a) Indigents

100% rebate will be granted to registered indigents in terms of the Indigent Policy of CoT.

b) Pensioners, physically and mentally disabled

i) A maximum/total rebate of 50% (on the remaining property tax, after the applicable residential rebates have been granted) will be granted to owners of rateable 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

ii) A maximum/total rebate of 40% (on the remaining property tax, after the applicable residential rebates have been granted) 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 R60 000 for a financial year, which amount may be reviewed during the CoT's annual budget process;

The final draft of the Property Rates policy however proposes a R75 000 income level, which will be considered for approval by Council on 29 May 2008.

iii) The rateable property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependants without income;

iv) 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;

v) The applicant's account must be paid in full, or if not, an arrangement to pay the debt should be in place; and

vi) The property must be categorized as residential.

c) Independent schools

The final draft of the Property Rates Policy proposes a 20% rebate to be granted to independent schools in the 2008/09 financial year, on the basis of an approved application to the CFO in the prescribed format. A further relief may be considered during the rates policy review during the next budget process. The draft Property Rates Policy will be considered for approval by Council on 29 May 2008.

This recommendation has been considered on the basis that independent schools are currently exempted from payment of rates in accordance with the Local Authorities Rating Ordinance, 1977 (Ordinance 11 of 1977), and further that the implementation of the MPRA will take effect in the mid-term of such schools' financial period and therefore no provision would have been made in their operating budget for the payment of property rates.

d) The Municipality may award a 100% grant-in-aid on the assessment rates of rateable 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.

4.3.3.2 The categories of rateable properties for purposes of levying rates and the proposed applicable rates are:

Category	Market value	Tariff	Ratio iro residential	% of total income
	R	c		%
Residential properties	189 325 839 958	0,9	1:1,0	43
Government properties	8 946 239 899	1,8	1:1,0	3
Business & Commercial	36 956 284 783	1,8	1:2,0	28
Agricultural	8 655 959 300	0,9 With sliding scale on hectares	1:1,0	1
Vacant land	10 009 889 902	4,0	1:4,4	18
Municipal non-rateable	5 315 725 066	-	-	-
Municipal rateable	129 259 600	According to category of use	-	0
Agricultural vacant	2 934 646 132	4,0 With sliding scale on hectares	1:4,4	2
Industrial	5 784 558 240	1,82	1:2,0	4
No category	3 555 527 884		-	
Public Service Infrastructure	419 247 053		-	
Totals	**272 033 177 817**			**100**

How to calculate the amount payable: Example of residential property

(Value less R50 000.00) X 0,9c less 35% divided by 12 for monthly property tax.
(R1,0 million less R50 000,00) X 0,9c less 35% divided by 12 = R463,13 per month.

4.3.3.3 MUNICIPAL PROPERTY RATES REGULATIONS ON A RATE RATIO BETWEEN RESIDENTIAL AND NON-RESIDENTIAL PROPERTIES

Draft regulations published by the Department of Provincial and Local Government propose a ratio between the residential and non-residential categories of properties. The regulations propose a reduction in rates payable by the state and state-owned companies to a maximum of 25% of those payable on residential properties. The government also proposes restricting rates payable by industrial, commercial and mining, property owners. The loss in revenue in this regard will have to be loaded onto the residential and commercial role-players if service levels were to be retained. The NEC of SALGA will be meeting with the Minister of Provincial and Local Government to discuss the draft regulations. Alternatives to the proposed ratios in the draft gazette are being discussed based on public comments received.

The proposal submitted after comments from stakeholders is to revise the ratio between residential property and Business, commercial and Industrial property is revised upwards from 1:2 to 1:3. Furthermore, state owned property will be rated according to use or zoning.

The ratios applied when the tariffs were calculated are in line with the proposals. The residential ratio to business, Commercial and Industrial is currently 1:2.

4.3.4 WATER

Bulk purchases

- On 1 July 2007, Rand Water increased its bulk tariffs by 6,2%. This represents a total price increase of 17,61639c per kℓ (excluding VAT and the Water Research Commission levy), to 321,2376c per kℓ (excluding VAT and the Water Research Commission levy).
- It is estimated that approximately 77% of water will be purchased from Rand Water at a cost of R631,4 million. Approximately 8% will be purchased from Roodeplaat Temba Water Services Trust at a cost of approximately R61 million and 15% will be made available from our own sources (i.e. the Rietvlei springs, Sterkfontein springs, Erasmia borehole, etc).

CoT Tariff increase

- An 8% increase in water tariffs is proposed, generating R107,4 million additional revenue.
- The tariff applicable to non-residential (businesses, etc) will however increase with 10% as a phased process to be more in line with other metros and contribute towards generating approximately R7,0 million additional revenue to further economic development and an increased business base.
- A total revenue of R1 450 million is expected from water sales of 197,8 million kℓ in the 2008/09 financial year.
- 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:

CATEGORY	CURRENT TARIFFS 2007/08	PROPOSED TARIFFS 2008/09
	Per kℓ R	Per kℓ R
RESIDENTIAL		
(i) 0 to 6 kℓ per 30-day period (200 ℓ a day)	3,50	3,78
(ii) 7 to 12 kℓ per 30-day period	5,00	5,40
(iii) 13 to 18 kℓ per 30-day period	6,56	7,08
(iv) 19 to 24 kℓ per 30-day period	7,58	8,19
(v) 25 to 30 kℓ per 30-day period	8,66	9,35
(vi) 31 to 42 kℓ per 30-day period	9,37	10,12
(vii) 43 to 72 kℓ per 30-day period	10,03	10,83
(viii) More than 72 kℓ per 30-day period:	10,73	11,59
NON-RESIDENTIAL		
(i) 0 – 10 000 kℓ per 30-day period	7,25	7,83
(ii) 10 001 – 100 000 kℓ per 30-day period	6,89	7,44
(iii) More than 100 000 kℓ per 30-day period	6,41	6,92

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

Monthly consumption kℓ	Current amount payable R	Proposed amount payable R	Difference (8% increase) R
5	17,50	18,90	1,40
10	41,00	44,28	3,28
20	105,52	113,94	8,42
30	187,80	202,80	15,00
40	281,50	304,00	22,50
50	380,48	410,88	30,40
80	686,98	741,86	54,88
100	901,58	973,66	72,08

4.3.5 ELECTRICITY

NERSA approved on 20 December 2008, a 14,2% increase on the Eskom average tariff applicable from 1 April 2008. Due to the requirements of the MFMA, Eskom can only increase it's prices to municipalities with effect from 1 July 2008. This time lag leads to an under-recovery by Eskom in sales to municipalities which calls for a higher price increase to municipalities which is determined to be 15,02%.

NERSA further decided that the Eskom tariff increase of 15,02% to municipalities translates to a guideline increase of 12% in the average electricity tariffs of municipalities.

The proposed Tshwane electricity tariff increases for 2008/9 include an energy increase of 12% and demand and fixed demand increases of approximately 5,6%.

NERSA also published an average municipal tariff level benchmark in c/kWh as detailed below:

	Domestic Low	Domestic High	Commercial	Commercial Prepaid	Industrial
RED 6 (Tshwane)	43 - 47	44 - 48	43 - 47	47 - 51	44 - 48

The proposed tariffs are within the set NERSA benchmarks, with the exception of the domestic tariff and the three- phase 126-150A non-domestic tariffs that are slightly – approximately 1% - higher than the benchmark. The non-domestic tariff scale on this level will phase out as new straight non-domestic connections will after 1 July 2008 be restricted to a maximum of 100A.

In line with the process implemented in 2007 to phase out free basic electricity – except for the grants to registered indigent customers - the perimeter of 200kWh or less consumption per thirty day period to qualify for 50kWh free will be adjusted to 100kWh or less on 1 July 2008 and will be phased out completely on 1 July 2009. The registered indigents will still be granted 100 kWh per 30-day period free of charge.

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

Monthly consumption kWh	Current amount payable R	Proposed amount payable R	Difference (12% increase)
100	21,72	24,32	2,60
250	108,58	121,60	13,02
500	217,15	243,20	26,05
750	325,73	364,80	39,07
1,000	434,30	486,40	52,10
2,000	868,60	972,80	104,20

On 4 February 2008 CoT also received a letter from Eskom with regard to capacity constrains indicating that it would be addressed in three stages. The third stage, Power Conservation Programme, is relevant to the 2008/09 financial year and tariff and budget considerations.

The Power Conservation Programme is expected to last for approximately four years and is a quota based incentive / penalty system. The protocol for this system is currently under development but based on discussions with Eskom and NERSA, customers might be limited to a level of consumption that could be below or equal to the current load profile which implicates a no-growth scenario. For this reason natural growth was not calculated into the Eskom expenditure neither to the income from electricity sales.

Should the load profile be pitched lower that current consumption levels it is assumed that the two power stations of CoT will offset the requested cutback from Eskom purchases. For this reason the budget allowance to purchase coal for the power stations must be to allow for maximum generation and to prevent the anticipated high penalties for additional kWh above the set levels. Allowance to recruit additional staff is also important and the power stations must be empowered to operate outside the current procurement rules to acquire material / resources in short time.

4.3.5.1 Eskom's Draft application to NERSA for a further price increase in the 2008/09 MTREF

Eskom submitted its draft application dated 3 April 2008 to National Treasury and Organised Local Government in terms of Section 42 of the MFMA. A request from SALGA for comments on the submission was received on 10 April 2008.

In the submission Eskom recommends a revision of the price increase of 14,2 (15% approved for municipalities) for 2008/09. A 53% and 43% real price increase (60% nominal increase) in 2008/09 and 2009/10 respectively is requested. This is based on full pass-through of primary energy costs and DSM cost variances over the MYPD to by implement in 2008/09. If the status quo remains, the price increase for 2009/10 will be almost 100%.

Their analysis reflects an urgent need to double prices over the next two years and thereafter, once they are at acceptable economic levels, prices can escalate marginally above inflation. The financial analysis already assumes a R60 billion government loan and aims to maintain Eskom's credit rating to enable the company to fund the build programme.

The submission contains a comprehensive motivation for the request.

The Strategic Executive Director: Public Works (Electricity Division) and Financial Services Department rendered comments on the submission motivating clearly why the CoT cannot support the new proposed tariff increase.

In addition, it needs to be noted that the CoT has undertaken an extensive community consultation process aligned to the legislative imperatives of the Municipal Finance Management Act. The intention of the community consultation process is to inform all relevant role-players within the Tshwane municipal boundary of the intended revenue and expenditure framework for the 2008/09 medium-term, in which a tariff increase of 12% for electricity was consulted on. Any further increase would directly be in contravention of the spirit of the MFMA, and the principles of Batho Pele, which require transparency and accountability within the system of municipal governance. Therefore, the price increase should have already been approved before 15 March 2008 for implementation 1 July 2008.

If NERSA allows the proposed Eskom tariff increase it will have an enormous impact on the affordability of electricity for local authority customers especially the indigent. In addressing the affordability, municipalities will most probably increase the already top heavy cross-subsidization burden on industrial and commercial customers. This will again result in increasing the gap between Eskom and municipal commercial and industrial customers to the extent that municipal commercial and industrial consumers will not be able to compete with their Eskom competition. It might be that municipalities end up losing prime customers and it will most certainly hamper the tariff harmonization process with the RED's imminent.

If municipalities are classified in the category "all other tariffs" it will mean a 63,5% increase on top of the 15% already approved for the 2008/09 financial year. Since it will be recovered over a period of nine months, the increase will most probably be in the order of 68 to 70% for municipalities.

Assuming a 68% increase, Tshwane will have to recover an additional R1,2 billion from its customers which equates to 37,26% of the current total electricity revenue included in the 2008/09 MTREF. This will result in an additional average increase in Tshwane electricity tariffs of 36,2% which can be considered totally unaffordable and unsustainable within the Tshwane context.

It needs to be noted that when tariff increases are considered in order to fund the expenditure framework of the City, care is given to economic factors such as household growth, indigent levels, inflation outlook and more importantly the ability of consumers to pay for services rendered. This issue is pertinent, as the long-term financial plan of the CoT concentrates on managing down outstanding debtors, and the implementation of a higher tariff increase will undoubtedly result in a significant increase in outstanding debtors.

Furthermore, the sustainability of the City becomes questionable as the current vulnerable cash flow status will inevitably be further negatively impacted on, as a higher tariff (R1,2 billion generated on behalf of Eskom) will directly result in an increased cash outflow (payment towards Eskom for bulk electricity purchases), with the parallel leg of cash inflow not realizing owing to the inability of consumers to pay. The challenge with the proposal relates directly to the fact that although Eskom's immediate financial need would be addressed, sustainability of municipalities becomes uncertain as to who will assist the municipalities managing the resultant bad debt. It is therefore a proposal by which the ends do not justify the means, as municipalities are mandated with the responsibility of eradicating infrastructure backlogs aligned to national targets. As it is, the City can already not meet the funding requirements to ensure that targets are achieved by which the man on the street is granted his constitutional right to basic services.

Whilst it is still uncertain whether this increase will be approved or adjusted by NERSA, it is incumbent on the Council to provide for this eventuality insofar as the amendment of tariffs are concerned as the MFMA provides very clearly that tariffs can only be increased once during a financial year. Owing to the fact that NERSA will have to grant municipalities approval for an equivalent percentage increase it is therefore recommended that the proposed tariff for electricity for the 2008/09 financial year be amended by the inclusion of the following proviso:

"Provided that if an increase in the Eskom tariff in excess of 15,2% is granted by NERSA on or before 30 June 2008, the CoT tariff for the consumption of electricity for the 2008/09 financial year be increased on average by the percentage increase allowed by NERSA for municipalities with effect from 1 July 2008."

4.3.6 WASTE-REMOVAL SERVICES

- Waste-removal revenue is proposed to be increased with 8% from 1 July 2008 to ensure that costs are recovered.
- Additional revenue of R22,3 million will be generated through the tariff increase and anticipated growth in service rendering.
- A structure change is however proposed from 1 July 2008.
- The tariff structure will be based on the cost per litre of refuse removed per month and on the service provided in a specific area.
- The tariff per litre was calculated at 12,6c.
- Tariffs for city cleaning are levied on all premises irrespective of who removes the waste generated on the premises.

At the end of the budget process a request was received from the Agricultural and Environmental Management Department for a higher tariff increase.

The price increases of specifically fuel and steel and the associated increases have a serious impact on the operational budget of Waste Management. Previous short falls on the budget could in the past when Waste Management was part of the larger Housing, City Planning and Environmental Management Department be absorbed. This is however not possible with Waste Management now the largest function in the new Agriculture and Environmental Management Department and will have to be addressed. The pressure to clean up illegal dumping and long grass to be cut had a further negative impact. Requirements by the Auditor General and the OHS-act were also implemented. It is therefore unfortunate that a 15% increase in solid waste tariffs will have to be considered in order to follow a phased approach in recouping the (R36,7 m more compared to the 2007/08 Adjustments budget) increasing shortfall on the waste management account. The new schedule containing the proposed 15% increase resulted in additional revenue of R18 m which has been included in the 2008/09 MTREF, is attached for approval.

The following table indicates a comparison between current and proposed tariffs, should a 15% tariff increase be approved, from 1 July 2008:

Table 4.3.6

	CURRENT TARIFFS 2007/08		**PROPOSED TARIFFS 2008/09**	
	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 month (R)		Per month (R)	

	CURRENT TARIFFS 2007/08		PROPOSED TARIFFS 2008/09	
	WASTE REMOVAL	CITY CLEANING	WASTE REMOVAL	CITY CLEANING
240ℓ container removed once a week	27,91	27,91	32,06	32,06
85ℓ container removed twice a week	19,70	19,70	22,71	22,71
85ℓ container removed once a week	9,85	9,85	11,35	11,35
1 100ℓ container removed once a week	111,16	111,16	146,96	146,96

Note: The tariff per litre amounts to 13,6c.

4.3.7 SANITATION

- Sanitation charges are calculated according to the percentage water discharged as indicated in the table below.
- The free sanitation portion (98% of 6 kℓ water) will be applicable to registered indigents only.
- The tariffs are proposed to be increased with 8% from 1 July 2008.
- The total revenue expected to be generated from rendering this service amounts to R310,5 million for the 2008/09 financial year.

The following table compares the current and proposed tariffs:

(a)

CATEGORY	CURRENT TARIFF 2007/08		PROPOSED TARIFF 2008/09	
	% DISCHARGED	TARIFF PER kℓ	% DISCHARGED	TARIFF PER kℓ
		R		R
0 – 6 kℓ per 30-day period	98	2,54	98	2,74
7 – 12 kℓ per 30-day period	90	3,44	90	3,72
13 – 18 kℓ per 30-day period	75	4,44	75	4,80
19 – 24 kℓ per 30-day period	60	4,44	60	4,80
25 – 30 kℓ per 30-day period	52	4,44	52	4,80
31 – 42 kℓ per 30-day period	10	4,44	10	4,80
More than 42 kℓ per 30-day period	1	4,44	1	4,80

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

(b)

Consumption	% discharged	Tariff R	Amount R
First 6 kℓ	98	2,74	16,11
Next 6 kℓ	90	3,72	20,08
Next 6 kℓ	75	4,80	21,60
Next 6 kℓ	60	4,80	17,28
Amount payable			75,07
kℓ x % discharged x tariff = amount payable			

Examples of monthly sanitation charges (single dwelling-houses)

Monthly water consumption kℓ	Current amount payable R	Proposed amount payable R	Difference (8% increase) R
5	12,45	13,43	0,98
10	27,32	29,50	2,18
20	58,82	63,56	4,74
30	83,33	90,06	6,73
40	87,77	94,86	7,09
50	89,01	96,20	7,19
80	90,34	97,64	7,30
100	91,23	98,60	7,37

4.3.8 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, some to ensure recovering costs. An increase of 25% on average is however proposed for the bus service which is necessitated by the fuel price increase of R3 per litre in the current financial year. Each department motivated its proposed increase which is attached to the tariff schedule for easy referral.

The short fall owing to these tariffs not always covering costs is funded through property rates.

The following services rendered, are however not increased as Departments were of the opinion that these tariffs are market related and a further increase will make these social services unaffordable and are therefore only included in the report for completeness:

- Cemeteries.
- Informal Trade and Micro Enterprise Development.
- Services rendered by the Environmental Management Division.

Owing to the discontinuation of the production of 1c and 2c coins by the Reserve Bank and to ease the administrative burden for cashiers at the various pay points, tariffs will be rounded off to the lowest 5c as prudent business practice.

In cases where the tariff is determined per square metre or per hour, the amount will only be rounded off after the total number of hours or square metres were determined.

The "hop on hop off bus" will be launched at the end of May 2008. It is proposed that the tariff be applicable from 1 July 2008 or nearest date thereafter as determined by the Strategic Executive Director: Economic Development.

Investigation of revenue contributions

The CoT currently doesn't levy property rates on unproclaimed areas for township development (i.e.) farm areas of Mabopane, GaRankuwa, Soshanguve, Stinkwater and Kudube). The levying of a flat rate will be investigated owing to necessary further infrastructure development. A database will have to be developed in order to render accounts. A cost benefit analysis will be undertaken and depending on the outcome thereof a process will be put in place for implementation with effect from 1 July 2009.

4.3.9 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 Bill, 2008 (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

The basic component supports 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.

The local government equitable share fulfils an important objective of ensuring stable and equitable allocations to all the municipalities. However, in recognition of the large differences in the circumstances that exist at local government level, a concerted reform process is necessary to prevent poorer municipal areas from being under funded. This process is already under way, with the hope that a solution can be implemented during the earliest subsequent budget cycle.

In terms of the Division of Revenue Bill, 2008, the allocation towards the CoT is R400,9 million in the 2008/09 financial year, R536,4 million and R702,1 million in the 2009/10 and 2010/11 financial years respectively. This amounts to an increase of R38,5 million for the 2008/09 financial year compared to the allocation indicated in the 2007 DoRA. Furthermore, in addition to the abovementioned amounts the RSC Levies replacement grant equates to R902,1 million, R936,5 million and R1 021,1 million in the respective years.

4.4 EXPENDITURE FRAMEWORK

The following table is a high level summary of the 2008/09 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 4.4(a)

CITY OF TSHWANE - BUDGETED PARENT ENTITY STATEMENT OF FINANCIAL PERFORMANCE								
Description	Notes	Preceding Year 2006/07	Current Year 2007/08			2008/09 Medium Term Revenue and Expenditure Framework		
		Audited Actual	Approved Budget	Adjusted Budget	Full Year Forecast	Budget Year 2008/09	Budget Year +1 2009/10	Budget Year +2 2010/11
		R'000	R'000	R'000	R'000	R'000	R'000	R'000
Operating Expenditure by Type								
Employee related costs		2,111,057	2,255,502	2,248,392	2,248,392	2,725,169	2,813,231	2,970,352
Total Remuneration		*2,412,004*	*2,736,837*	*2,729,727*	*2,729,727*	*3,234,656*	*3,353,287*	*3,542,812*
Minus: Distribution Accounts Remuneration		*(300,947)*	*(481,335)*	*(481,335)*	*(481,335)*	*(509,487)*	*(540,056)*	*(572,460)*
Remuneration of Councillors		45,946	47,182	48,184	48,184	76,722	81,262	86,070
Bad debts		193,489	129,021	129,021	129,021	131,774	138,472	145,396
Collection costs		49,538	53,179	53,179	53,179	70,281	74,568	79,047
Depreciation	2	558,584	728,388	728,388	728,388	832,526	953,087	1,069,673
Repairs and maintenance		1,325,086	1,096,958	1,111,117	1,111,117	1,413,138	1,511,763	1,622,778
Primary Cost		*727,352*	*719,384*	*735,218*	*735,218*	*925,937*	*995,329*	*1,075,359*
Secondary Cost		*597,734*	*377,574*	*375,899*	*375,899*	*487,202*	*516,434*	*547,420*
Interest paid		314,136	382,139	382,139	382,139	354,567	440,948	483,012
Bulk purchases		2,130,979	2,232,956	2,232,956	2,232,956	2,563,032	2,816,197	3,094,444
Contracted services								
Grants and subsidies paid		8,392	12,185	12,185	12,185	12,953	14,269	15,136
General expenses		2,004,000	2,118,792	2,388,884	2,388,884	3,319,224	3,602,111	3,809,737
Primary Cost		*1,903,974*	*2,024,768*	*2,287,372*	*2,287,372*	*3,215,092*	*3,491,731*	*3,692,734*
Secondary Cost		*100,026*	*94,024*	*101,512*	*101,512*	*104,132*	*110,380*	*117,003*
Operating Expenditure by Vote		**8,741,209**	**9,056,301**	**9,334,443**	**9,334,443**	**11,499,385**	**12,445,907**	**13,375,646**
(SURPLUS)/DEFICIT (1)		**136,754**	**(1,150,458)**	**(899,986)**	**(899,986)**	**(1,209,592)**	**(1,209,313)**	**(1,553,689)**

Reserve movements (1)								
Transfer to Government Grant Reserve	1	317,834	798,900	554,240	554,240	961,481	1,024,946	1,258,309
Depreciation off-sets	2	(353,582)	(373,331)	(373,331)	(373,331)	(408,143)	(445,583)	(490,189)
Transfers To/From Other Reserves		(101,005)	724,889	719,077	719,077	227,599	236,703	246,172
Transfer to CRR						390,302	354,000	495,261
(SURPLUS)/DEFICIT after reserves		-	-	-	-	-	-	-

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.

Total operating expenditure has increased by 23,19% against the 2007/08 adjustment budget and by 26,97% against the 2007/08 approved budget.

It can be deduced from the above table that the operating expenditure equates to R11,4 billion in the 2008/09 financial year and escalates to R13,3 billion in the 2010/11 financial year, a growth of 16,32%

A further analysis of the operating expenditure as contained in the above table will be discussed per main expenditure classification:

- **Remuneration**

The Finance Department entered into consultation with the Executive Director: Human Resources to discuss the affordability of the proposed remuneration budget subsequent to the compilation of the personnel cost plan (PCP) aligned to the Alternative Service Delivery structure. The reason for the session was to consider the proposed budget in terms of affordability, as the budget requirement was totally unaffordable for the CoT.

The outcome of this meeting was that the Human Resource Division was of the opinion that various duplications occurred with the compilation of the personnel cost plan (PCP), and that it would be necessary to review the plan in consultation with the respective strategic executive directors and the Alternative Service Delivery Task Team.

The above mentioned process resulted in an amended personnel cost plan for the CoT, which equates to R3,2 billion for the 2008/09 financial year. When compared to the 2007/08 Adjustments Budget of R2,72 billion, it is an escalation of R504 million (18,49%). Salary increases (8,3%) have also been considered within the proposed budget for remuneration.

This remuneration budget also includes the further expansion of the Metropolitan Police Service by an additional 350 members, of which the appointment process was finalised in January 2008 as well as an additional allocation of R35 million for the further role-out of the Safer City Policy.

- **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 No 20 of 1998).

- **Bad Debts**

Provision for bad debt and bad debt write-off is aligned to the various policies of the CoT.

- **Collection Costs**

Collection costs relates to the cost associated and incurred by the CoT in ensuring revenue billed is collected. The current proposed budget equates to R70,2 million, a growth of R17,1 million when compared to the 2007/08 Adjustment Budget appropriation. The increase is aligned to the debt collection strategy of the CoT

- **Depreciation**

The escalation in depreciation can be attributed to the aggressive capital programme. From the above table it can be summarised that depreciation escalates from R832,5 million in 2008/09 to R1,069 billion in 2010/11, a growth of 27,8%.

- **Repairs and maintenance**

During the departmental budget hearings it became clear that departments were more and more starting to place emphasis on the repairs and maintenance expenditure component. 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 CoT. When compared to the 2007/08 Adjustments Budget, the repairs and maintenance group of expenditure has increased by 27,18% from R1,111 billion to R1,413 billon, and steadily increases to R1,622 billion in the 2010/11 financial year, an increase of 14,79%.

The following are highlights of the increased repairs and maintenance:

Strategic Unit	Real Increase R'000	Motivation for increase
Office of the EM & CM	4,106	Relates to information management infrastrucutre
Financial Services	3,874	Repairs and maintenace to cashier points
Corporate & Shared Services	48,925	Increase relates to Buildings (Rebuilding of Tshwane Head Office)
Economic Development	4,302	Relates to Vehicle (Busses)
Health and Social	3,204	R&M in terms of fire fighting equipment
Sports and Recreation	21,356	Increas relates to the maintenance of sport and recreational facilities
Agriculture and Environmental	11,230	Repairs and maintenace to Fresh Produce Market
Public Works	151,881	Repairs and maintenace to infrastructure

The following table is a summary of the repairs and maintenance related expenditure as a percentage of the total operating expenditure:

CITY OF TSHWANE - REPAIRS AND MAINTENANCE COMPARE TO TOTAL PROPERTY, PLANT & EQUIPMENT							
Description	Preceding year 2006/07	Current year 2007/08			2008/09 Medium Term Revenue and Expenditure Framework		
	Audited Actual R'000	Approved Budget R'000	Adjusted Budget R'000	Full Year Forecast R'000	Budget Year 2008/09	Budget Year +1 2009/10	Budget Year +2 2010/11
A = Total Repairs & Maintenance	**1,325,086**	**1,096,958**	**1,111,117**	**1,111,117**	**1,413,138**	**1,511,763**	**1,622,778**
B = Total Operating Expenditure	**8,741,209**	**9,056,301**	**9,334,433**	**9,334,443**	**11,499,385**	**12,445,907**	**13,375,646**
A ÷ B %	15.16%	12.11%	11.90%	11.90%	12.29%	12.15%	12.13%

From the above it can be seen that the percentage repairs and maintenance measured against the total operating budget equates to 12,29% in the 2008/09 year and maintains this level 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 Long-term Financial Strategy.

- **Interest Paid**

The increase in interest paid can be directly attributed to the level of external loans raised. The indicative borrowing levels as factored into the Long-term Financial Strategy is R354 million, R440 million and R483 million in the three respective financial years. Historic borrowing as well as intended borrowing directly influences the budget provisions.

- **Bulk Purchases**

Bulk purchases and the growth is aligned to the revenue generation potential and takes into consideration the growth in the City as well as seasonal factors. This group of expenditure comprises mainly of the purchase of electricity from Eskom as well as water from Rand Water.

- **Grants and Subsidies Paid**

The funding budgeted against this classification relates mainly to the grants-in-aid to NGO's.

- **General Expenditure**

General expenditure comprises of municipal rates and services, administrative and general related expenditure as well as raw and consumption material. The increase of R930 million (R2,388 billion in the 2007/08 Adjustments Budget versus R3,319 billion in the 2008/09 MTREF) can be directly attributed to general increases in the economy (e.g. telephones and data services, paper and stationery, consumables, fuel etc) although a major emphasis has been placed on managing these expenditure levels downwards. The purchase of coal for own power generation (electricity at the power stations) has contributed to the increase (R106,5 million in 2007/08 to R174,7 million in 2008/09) as well as other initiatives such as increased watchmen services (security services) at the clinics and other depots. It needs to be noted that the difference of R715,5 million between the figure mentioned above (R2,388 billion) and the figure included in the statement of financial performance (R3,319 billion) is directly related to the revenue forgone as explained in the revenue portion of the report.

A further intensive analysis of performance trends related to departmental expenditure was undertaken by the Budget Office in consultation with the respective strategic units subsequent to the departmental budget hearings. This process was aimed at identifying operational capacity within the context of improved service delivery and efficiency. In many instances, these interventions and management strategies resulted in reductions at line-item level which have been redirected to other areas of priority. In addition, strategic units were informed without detail motivations relating various items e.g. consultant fees, special projects, special events etc, no consideration would be given to the inclusion of budget appropriations. Strategic units submitted the required motivations and the resultant inclusion based on the validity of the motivations was included in the detail operating budget.

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

- Asset renewal strategy (infrastructure repairs and maintenance a priority), R300 million increase
- 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)
- Expansion of the Metropolitan Police Service by 350 members (appointment 1 January 2008, of which the full funding implication has been factored into the 2008/09 MTREF)
- Increased allocations towards the Electricity Division, of which a major priority is the power stations and refurbishment thereof
- Consideration of the Alternative Service Delivery Structure with the compilation of the remuneration budget
- An allocation of R30 million towards SMME development of which the Economic Development Department need to compile a policy and implementation framework
- Indigent support programme, R25 million
- Celebrating Tshwane as the African Capital City of Excellence, R10 million
- Smart and innovative City Programme, R15 million
- Customer focus and Batho Pele, R15 million
- Economic investment and lead projects, R494 million
- Further role-out of the transport service (bus service) by an additional 100 busses

Basic Social Package

The social package assists residents that cannot pay for services and is registered as indigent, in terms of the Indigent policy.

Service	Proposed package available to registered indigent household	Estimated revenue loss (90 000 indigent households)
		R'million
Water	12kℓ	59,5
Electricity	100 KWh	52,5
Sanitation	6kℓ	17,7
Total		129,7

The number of households in informal areas that receive free services and the cost of these services (e.g. the provision of water through stand pipes) are not taken into account in the table above.

Furthermore, owing to the implementation of the MPRA and the process of registration (anticipated to be finalised by June 2008), information regarding the value of the properties of the registered indigent is not available. It is estimated that approximately R41 million revenue will be foregone in this regard for the 2008/09 financial year.

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.

4.5 CAPITAL BUDGET

Similarly to the approach followed with the compilation of the operating budget, budget guidelines relating to the compilation of the 2008/09 Medium-term Capital Budget were compiled in consultation with the IDP Office of which the guiding principle was the approved 2007/08 MTREF, and more specifically the 2007/08 Adjustments Budget. Departments were urged to carefully consider not only affordability constraints, but the detail projects as approved in the previous cycle aligned to the departmental business plans, objectives and targets of the CoT

During the departmental budget hearings (5 to 12 February 2008) the detail capital projects were extensively analysed. Concerns were raised relating to affordability and subsequently departments were requested to prioritize funding allocations within the context of affordability constraints (council funded projects). In addition to these hearings, the promulgation of the 2008 Division of Revenue Act created capacity related to specific initiatives, e.g. 2010 transport related projects. This necessitated a further review of the capital budget aligned to funding allocations and more specifically the principle of no project (business plan) no budget.

Furthermore, issues relating to projects that's core intention is the establishment of CoT buildings and facilities were raised with by various strategic units, e.g. metropolitan police stations, libraries, cashier points. The issues raised include, amongst others, the fact that the strategic units determine and motivate the project, but ultimately the Corporate and Shared Services Department is responsible for the initial cost calculations, project design, tender specifications, project implementation and management. Once completed, the building or facility is transferred to the relevant strategic unit. Although the relevant strategic unit is involved in determining specifications, accountability of the project and subsequent performance reporting is very much dependant on progress made by the Corporate and Shared Services Department.

To this end, it was proposed that all projects, of which core intention is the establishment of CoT facilities and buildings be allocated in the Medium-term Capital Budget to the Corporate and Shared Services Department. It needs to be noted that the proposal could not be implemented with the finalization of the 2008/09 MTREF owing to the fact that various issues need to be clarified to ensure that the implementation of the current capital projects are not impeded, e.g. accountability, cost centre owners, system configuration in SAP, interest and depreciation, asset classification, impact on reporting etc.

It is therefore proposed that the Corporate and Shared Services Department undertake an investigation into this proposal and compile a report for submission in August 2008 to the Mayoral Committee for consideration and implementation (1 July 2009) relating to the viability and management structure of the takeover.

The compilation of the capital budget in terms of internal capacity (council funds)/affordability was based on the project submissions as received from the departments after they had reprioritised funding allocations. This increased funding requirement had to be modelled in context of the LTFS to attain whether the requested funding requirements could be funded within a sustainable approach.

The following table indicates the breakdown per funding source and Strategic Unit budget allocation (vote / program level) of the 2008/09 Medium-term Capital Budget:

Table 4.5(a)

2008/09 MEDIUM-TERM CAPITAL BUDGET PER FUNDING SOURCE & SECTION 80 COMMITTEE

FUNDING SOURCE	Budget 2008/09	%	Budget 2009/10	%	Budget 2010/11	%
Council Funding	2 138 968 400	67,65%	1 957 217 100	64,87%	1 995 189 050	60,67%
PTIS	501 654 000	15,87%	521 895 000	17,30%	804 180 000	24,45%
Provincial Grants and Subsidies	26 070 000	0,82%	12 801 000	0,42%	18 394 000	0,56%
Government Housing	84 321 988	2,67%	84 321 988	2,79%	84 321 988	2,56%
MIG	288 935 000	9,14%	325 102 000	10,77%	266 413 000	8,10%
National Electrification Programme	60 500 000	1,91%	80 826 000	2,68%	85 000 000	2,58%
Capital Replacement Reserve	61 315 790	1,94%	35 150 000	1,16%	35 350 000	1,07%
TOTAL CAPITAL FUNDING	3 161 765 178	100,00%	3 017 313 088	100,00%	3 288 848 038	100,00%
Agriculture & Environmental Management	81 578 000	2,58%	85 500 000	2,83%	75 900 000	2,31%
City Planning & Regional Services	16 070 000	0,51%	13 301 000	0,44%	18 894 000	0,57%
Community Safety	63 374 294	2,00%	83 000 000	2,75%	45 400 000	1,38%
Corporate and Shared Services	112 633 597	3,56%	91 900 000	3,05%	82 900 000	2,52%
Economic Development	47 876 238	1,51%	42 307 000	1,40%	32 850 000	1,00%
Financial Services	18 421 884	0,58%	15 000 000	0,50%	15 000 000	0,46%
Health & Social Development	32 959 371	1,04%	17 000 000	0,56%	75 877 000	2,31%
Housing Services	245 334 988	7,76%	260 234 988	8,62%	265 234 988	8,06%
Office of the Executive Mayor & City Manager	528 201	0,02%	0	0,00%	0	0,00%
Public Works	2 350 635 605	74,35%	2 302 937 100	76,32%	2 638 792 050	80,23%
- Electricity	442 790 065		478 483 000		442 020 000	
- Roads and Stormwater	582 157 240		483 872 000		403 258 000	
- Transport	552 446 600		515 224 100		832 759 050	
- Water & Sanitation	773 241 700		825 358 000		960 755 000	
Sport & Recreation	192 353 000	6,08%	106 133 000	3,52%	38 000 000	1,16%
TOTAL CAPITAL EXPENDITURE	3 161 765 178	100,00%	3 017 313 088	100,00%	3 288 848 038	100,00%

Note: Cognisance needs to be taken of the fact that the impact of the Munitoria PPP capitalisation project has not been factored into the above table relating to year 2 (2009/10 financial year). This implication has however been factored into the LTFS from a Statement of Financial Position perspective.

From the above table it can be seen that the total capital budget equates to R3,1 billion in the 2008/09 financial year and escalates to R3,2 billion in the 2010/11 financial year. The affordability level in terms of internal funding for the 2008/09, 2009/10 and 2010/11 financial years is R2,138 billion, R1,957 billion and R1,995 billion respectively.

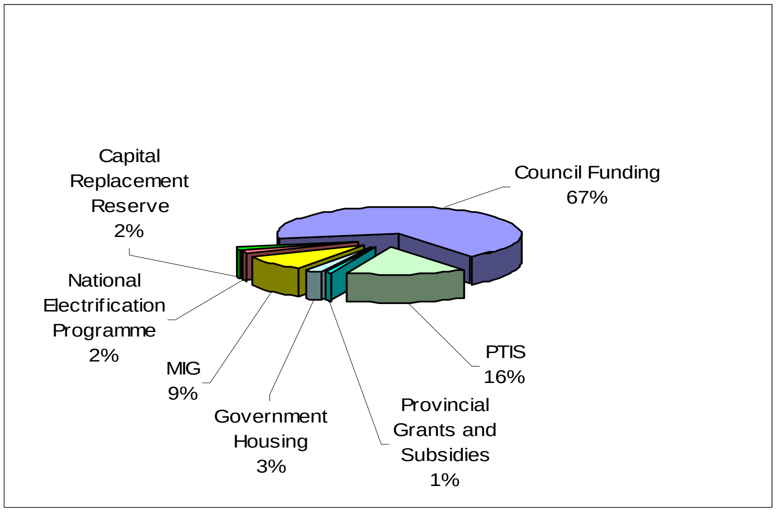
It needs to be noted that the capital budget funding proposals have been considered (modelled) within the context of the LTFS to ensure continued affordability and sustainability for the CoT, and includes the fact that the borrowing levels is indicative of R822 million, R450 million and R400 million for each of the respective years.

From the above it can be seen that the capital budget has essentially escalated owing directly to the increased capacity on own funds (internal funding) and the promulgation of the 2008 Division of Revenue Act which included various increases in the funding allocations towards the CoT.

Furthermore, to address the priority issues of the CoT (eradication of backlogs e.g. water provision aligned to national targets) the level of council funding (borrowed and surpluses) has essentially been raised to ensure alignment and targets are met within the national and provincial deadlines.

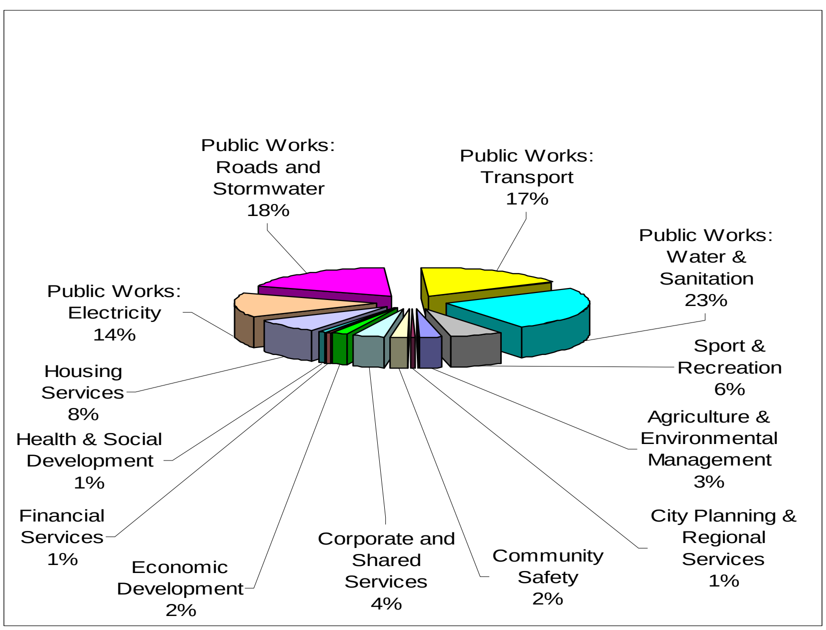
The following graphs illustrate the above table in terms of funding source breakdown and capital budget allocation per Strategic Unit:

2008/09 Medium-term Capital Budget in terms of funding source:



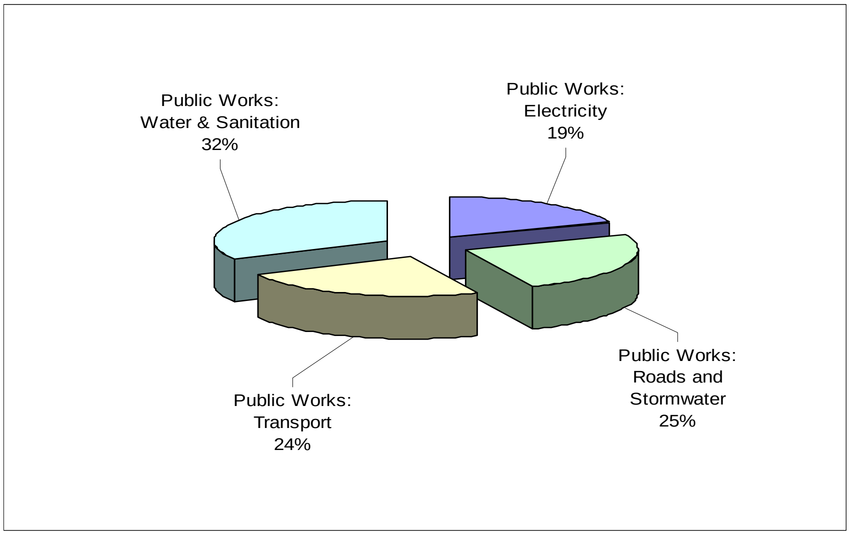
Council funded projects equates to 67,0% of the total 2008/09 capital programme compared to 64,8% and 60,6% in the two outer years. This can be attributed to the increase in grant funding related to transport related infrastructure.

2008/09 Medium-term Capital Budget per Strategic Unit:



In terms of infrastructure development, more than 74,3% of the capital budget has been allocated specifically for this purpose with the exclusion of housing in the 2008/09 financial year.

The following graph illustrates the percentage funding breakdown of the Public Works Department:



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

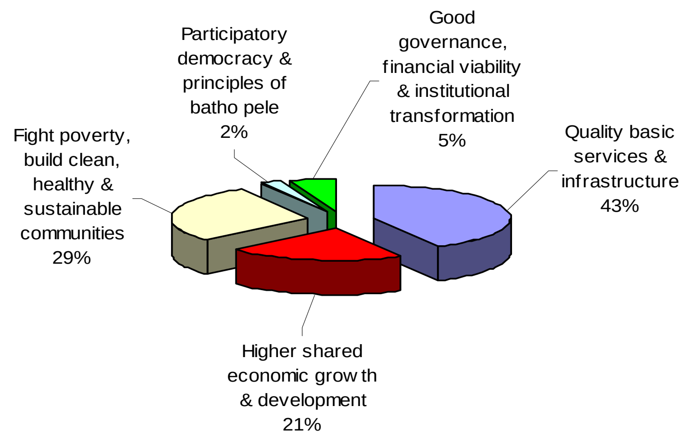
Table 4.5(b)

Strategic Objective	Budget 2008/09	%	Budget 2009/10	%	Budget 2010/11	%
1. Quality basic services & infrastructure	1 332 080 073	42%	1 510 165 088	50%	1 906 051 198	58%
2. Higher shared economic growth & development	659 677 265	21%	400 550 588	13%	279 723 498	9%
3. Fight poverty, build clean, healthy & sustainable communities	919 345 363	29%	874 366 618	29%	893 622 548	27%
4. Participatory democracy & principles of batho pele	77 524 398	2%	73 076 398	2%	61 786 398	2%
5. Good governance, financial viability & institutional transformation	173 138 080	5%	159 154 398	5%	147 664 398	4%
Total Capital Budget	3 161 765 178	100%	3 017 313 088	100%	3 288 848 038	100%

From the above it can be seen that 42% (R1,332 billion) of the budget has been allocated to strategic focus area 1 (quality basic services and infrastructure) in the 2008/09 financial year, and escalates to 58% (R1,906 billion) in 2010/11.

In terms of accelerating higher and shared economic growth and development in the City, 21% (R659 million) has been earmarked for the 2008/09 financial year. R919 million is specifically aligned to fighting poverty, building clean, healthy and safe communities. The balance of the funding allocations have been prioritised in terms of participatory democracy and fostering the principles of Batho Pele as well as ensuring good governance, financial viability and institutional transformation and makes up the balance of 7%.

The above table is graphically illustrated as follows:



The following table is a breakdown of the 2008/09 Medium-term Capital Budget per main infrastructure classification:

Table 4.5(c)

Categories	Budget 2008/09	Budget 2009/10	Budget 2010/11
Parks	14 000 000	14 700 000	14 900 000
Equipment	181 800 000	187 200 000	144 100 000
Cemetaries	7 000 000	13 500 000	0
Resorts	36 200 000	40 000 000	39 000 000
Waste Mangement	20 215 000	16 200 000	19 000 000
Other	92 015 790	60 900 000	77 400 000
Buildings	153 135 000	177 958 000	174 714 000
Roads	415 626 250	313 907 000	254 333 000
Clinics	21 500 000	4 000 000	58 557 000
Housing	223 234 988	228 234 988	223 234 988
Electricity	363 058 000	392 758 000	405 045 000
Stormwater	127 008 750	151 690 000	108 000 000
Sport	546 707 000	554 028 000	813 180 000
Transport	197 397 600	44 604 100	18 604 050
Sewerage	125 776 800	236 300 000	450 300 000
Water	637 090 000	581 333 000	488 480 000
TOTAL	3 161 765 178	3 017 313 088	3 288 848 038

In terms of the 2008 Division of Revenue Act, various additional infrastructure related grants have been gazetted for Tshwane which have been incorporated into the capital budget. These additional allocations are specifically intended to address infrastructure requirements relating to the 2010 SWC. Firstly, in terms of the Public Transport Infrastructure and Systems Grant (PTIS), an amount of R510 million, R565 million and R864 million has been gazetted as transfers to the CoT. For stadium development (Loftus Versveld) an amount of R76,6 million has been made available for 2009/10 and 2010/11. Cognizance needs to be taken of the fact that the stadium grant has not been included in the capital budget as Loftus Versveld does not form part of the asset base of the City. This funding will be included in the operational budget of the City to be managed and monitored by the Chief Executive Officer: 2010 SWC as the CoT is the custodian of the funding.

It should be noted that in principle no project that is funded from external sources is included in the MTREF without written confirmation from the 3rd party. However, in the case of the

Government Housing Grants it is imperative that the projects be included in the MTREF based on information received from National Government, Gauteng Provincial Government and the North West Province as written confirmation is only received after the approval of the CoT budget. Should the projects not be included in the MTREF, and written confirmation is received timeously, subsequent to budget approval, the execution of the projects could be hampered as the projects can then only be included in the MTREF during the adjustments budget process. When the projects are included in the MTREF and written confirmation is received the projects can be implemented immediately subject to the availability of committed funding. Any variance (over or under provision) could be corrected during the Adjustments Budget process. Cognisance needs to be taken that the current included grant funding is indicative of the commitment from Provincial Government for the 2008/09 MTREF.

The following projects have been included in the 2008/09 Medium-term Capital Budget relating to the 2010 SWC:

Table 4.5(d)

Strategic Unit	Project Name	Project Number	Budget 2008/09	Budget 2009/10	Budget 2010/11
Agriculture & Environmental Management	Self Catering Chalets at Rietvlei Nature Reserve	710445	3 000 000	3 000 000	3 000 000
Community Safety	Equipping of current Disaster Operations Centre	711922	2 500 000	4 000 000	3 500 000
Community Safety	Disaster Risk Management Tools and Equipment	712587	0	500 000	600 000
Community Safety	Acquisition of Fully Equipped Mobile Joint Incident Coordination Unit	712588	7 000 000	0	300 000
Community Safety	Acquisition: Fire Fighting Vehicles	710564	10 000 000	5 000 000	7 500 000
Community Safety	The Establishment of Network Infrastructure (IT and CCTV)	712345	4 000 000	4 000 000	0
Community Safety	Upgrading Control Room/Ops Room CCTV Control Room (Phase 1)	712348	7 000 000	3 500 000	0
Community Safety	Purchasing of Policing Equipment for the 2010 World Soccer Cup	712500	8 000 000	20 000 000	0
Economic Development	Marketing & Trading Stalls - Ga-Rankuwa	712298	2 000 000	2 000 000	2 000 000
Economic Development	Mamelodi Rondavels	710582	1 000 000	1 000 000	1 000 000
Economic Development	Tourism Signage	710579	3 000 000	3 000 000	0
Economic Development	Hop on Hop off Bus	710580	2 500 000	2 700 000	0
Economic Development	Tourism Information Office	710586	1 000 000	2 500 000	3 000 000
Economic Development	Arts & Craft Exhibition Stalls	710587	6 150 000	9 457 000	5 000 000
Public Works	Loftus: Upgrading of Charles Street	712537	42 000 000	40 000 000	0
Public Works	Hatfield: Upgrading of Pretorius Str	712538	9 600 000	0	0
Public Works	Hatfield : Upgrading of Schoeman Str	712539	14 600 000	0	0
Public Works	Hatfield: Upgrading of Duncan/Gordon	712540	18 400 000	0	0
Public Works	Hatfield One Way System	712541	22 000 000	0	0
Public Works	Upgrading of Maunde	712544	2 000 000	0	0
Public Works	Upgrading of Maunde	712544	17 800 000	0	0
Public Works	Giant Stadium: Buitekant Str	712545	2 000 000	0	0
Public Works	Giant Stadium: Buitekant Str	712545	10 000 000	0	0
Public Works	Wonderboom Airport Access: Lindveldt Avn	712546	9 000 000	0	0
Public Works	K69 Between Waterkloof Air Force Base & R21	712547	8 700 000	9 000 000	0
Public Works	Rainbow Junction/Pta North Public Transport: 2010	712382	0	2 971 200	3 385 200
Public Works	Public Transport Facility (Loftus Versveld Stadium 2010SWC)	712589	15 000 000	35 000 000	0
Public Works	Training Venues (2010SWC)	712590	9 000 000	21 000 000	0
Public Works	CBD and Surrounding Areas (2010SWC) HOV / BRT Lanes on Corridors to North and Hatfield	712591	321 554 000	406 895 000	804 180 000
Public Works	Development of Main Station Node as Regional Transport Hub	712748	4 000 000	10 000 000	0
Public Works	Electronic Ticketing System (Bus Service)	712593	2 908 000	0	0
Public Works	Separation Airside/Landside movements	711953	6 500 000	0	0
Public Works	Replacement of weather system	712562	10 000 000	0	0
Public Works	Arrivals and departure halls	712563	5 000 000	0	0
Public Works	Porte Courche for SMME development	712564	1 500 000	0	0
Public Works	Drop off facility	712565	350 000	0	0
Public Works	Aircraft parking facility in maintenance area	712567	5 000 000	0	0
Public Works	Construction of holding bays	712570	10 000 000	0	0
Public Works	Electrical reticulation upgrade	712571	500 000	0	0
Public Works	Water reticulation phase 2	712572	750 000	0	0
Public Works	Upgrade stormwater system phase 2	712573	1 000 000	0	0
Public Works	Upgrade sewerage network phase 2	712574	1 000 000	0	0
Public Works	Purchase new emergency vehicles	712575	10 000 000	0	0
Public Works	Purchase ground handling equipment	712576	5 000 000	0	0
Public Works	Construct new aircraft parking aprons	712577	100 900 000	0	0
Public Works	Construct public transport and parking facility	712579	3 000 000	0	0
Sport & Recreation	Upgrading of the Soshanguve Giant Stadium	710690	148 653 000	35 133 000	0
Sport & Recreation	Upgrading of the Soshanguve Giant Stadium	710690	8 000 000	40 000 000	0
Sport & Recreation	Atteridgeville Super Stadium	710713	10 000 000	0	0
Sport & Recreation	Atteridgeville Super Stadium	710713	14 000 000	0	0
Sport & Recreation	Solomon Mahlangu Freedom Square - Cultural Centre	711439	0	4 000 000	6 000 000
Sport & Recreation	Hammanskraal Cultural Centre	712397	0	3 000 000	7 000 000
Total			906 865 000	667 656 200	846 465 200

The total allocation towards the 2010 SWC equates to R906,8 million, R667,6 million and R846,4 million in the respective financial years (various funding sources). Cognisance also needs to be taken of the fact that although the abovementioned does relate to the 2010 SWC and will contribute to the successfully 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 solely informed by the 2010 SWC, but are sustainable post 2010 and ensure the objectives of the CoT are attained. In addition to the abovementioned, an amount of R160,5 million has been approved for the 2008/09 financial year for infrastructure upgrading at Wonderboom Airport.

In addition to the project proposals as contained in the 2008/09 Medium-term Capital Budget, a further initiative currently underway in the City relates to the Neighbourhood Development Partnership Grant. In terms of the Neighbourhood Development Partnership Grant, an amount of R7 million, R12,8 million and R18,3 million have been gazetted in the 2008 Division of Revenue Bill for the 2008/09, 2009/10 and 2010/11 financial years respectively. The successful project is the Tsosoloso/ReKgabisa which is in alignment with the NDPG goals in many ways.

With the compilation of the Draft 2008/09 Medium-term Capital programme, the principle of no project (business) plan was strictly implemented. This resulted in the exclusion of 178 projects totalling R1,6 billion, R1,9 billion and R2,4 billion in the 2008/09, 2009/10 and 2010/11 financial years respectively. Subsequent to the tabling on the Draft 2008/09 MTREF at Council (31 March 2008) the relevant strategic units were informed that the principle of no project plan no capital budget allocation would strictly be applied with the finalisation of the MTREF. This resulted in a majority of the plans being received and budget provisions included in the detail capital budget.

Furthermore, the budgeting principle of no capital project allocations to the Office of the Executive Mayor and City Manager has strictly been adhered to, with the exception of project 712758 (Capital funded from operating). With the compilation of the 2007/08 MTREF the capitalisation threshold was set at R100 000.

Essentially, any individual capital item with a value under a R100 000 was budgeted against non-capital items (Raw and consumption materials group of expenditure) and expensed in the operating budget. The asset then formed part of the inventory register of the particular department. The Auditor General raised concern relating to the threshold level, and this level was subsequently reduced to R10 000 per item. The implication is that any item above R10 000 but below R100 000 has been moved to the capital budget and financed from operating funds. Hence the inclusion of the above mentioned project should not be considered a traditional capital project as it is financed by operating funds.

The achievement of a total capital budget in excess of R3 billion for the first time can be considered a key milestone, and clearly illustrates the commitment of the CoT in ensuring that the organisation strives at providing a better life for all its residents.

4.6 COMMUNITY CONSULTATION PROCESS

Section 22 of the Municipal Finance Management Act, 2003 (Act 56 of 2003) (MFMA) 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 National Treasury 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".

As indicated previously, the tabling of the draft budget in Council was followed by publication of the budget documentation, and various ward committee consultative meetings were held to receive submissions from stakeholder's formations.

The following section provides an overview of the consultation and community consultation activities.

- **Publication of draft budget:** The draft budget report (hard copy) was made available at all the municipal customer care offices and the draft document was made available on the CoT's website.

- **Ward committee/business meetings**: Nine zonal meetings which included all 76 wards in the CoT were held from 1 to 23 April 2008 at various community venues. Further community consultation meetings were scheduled from 8 to 15 May 2008.

- **Electronic**: The tabled budget document was published on www.tshwane.gov.za.

This is the fifth time that the municipality has embarked on such a community consultation drive. During the process approximately 700 people participated.

The agenda relating to the above mentioned sessions was as follows:

- Consult on PMRA and the draft Property Rates Policy and By-Laws and the implications thereof
- Consult on the Draft 2008/09 MTREF
    - Revenue framework and proposed tariff increases
    - Expenditure framework in terms of operating expenditure and proposed capital expenditure
- Obtain comments and inputs from the community

Inputs and comments received during these sessions have been summarized as follows:

- MPRA and draft Property Rates Policy and By-laws
    - General impact of the new valuation roll and tariff proposals
    - Impact on schools
    - Impact on agricultural holdings
    - Pensioners and issues relating to pensioner rebates
    - Non-permitted land use and interventions required to address the issue

- Concern relating to infrastructure development and the slow pace/performance
- Economic development, job creation and general SMME issues
- Concern relating to repairs and maintenance
- Electricity reticulation, load shedding and the power stations
- Security at public facilities
- Transportation and the bus service
- Crime prevention

Further details of the activities in terms of the consultation process are covered in the 2007/08 MTREF Document.

4.7 CONCLUSION

The application of sound financial management principles for the compilation of a financial plan should be considered an ongoing process by which the essential and critical refinement of the integration of the City Development Strategy, IDP and Budget is ultimately achieved.

The financial planning imperatives as embedded in the Long-Term Financial Strategy will contribute to ensuring that the Municipality remains financially viable and that municipal services are provided economically to all communities.

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 within the City of Tshwane.

Although the City in its entirety faces many challenges, financial and non-financial of nature, the continued improvement and development of an effective financial planning process (budget process) will, without a doubt add to the building of a prosperous City for all residents.

The 2008/09 Medium-Term Revenue and Expenditure Framework 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.

In conclusion, the 2008/09 Medium-term Revenue and Expenditure Framework can also be seen as further alignment to the imperatives and objectives of the Five-year Integrated Development Plan, driven by the City Development Strategy and broader context of national and provincial priorities.