CHAPTER 5: FINANCIAL PLAN

5.1 INTRODUCTION

On 1 March 2006, the electorate in the City of Tshwane reinstated a majority African National Congress (ANC) Council that confirmed the vital importance of the achievement; the central goal of securing a better life for the people.

The appointment of a new Executive Mayor, as well as Mayoral Committee succeeding the elections resulted in the development of a 5 year Integrated Development Plan 2006-2011 (TIDP) which outlined the city's five main strategic objectives, detailed in key performance areas in terms of the then newly developed 5 year strategy, which is now commonly referred to as the City's Five Year Programme (5YP). The Five Year Programme (5YP) has been re-conformed as the guiding document for the 2007/08 budget planning process through the city's political oversight committee. The outcome of this reviewed Integrated Development Plan was the alignment of the planning process and resource allocations to the imperatives of the strategic direction. Thus compilation and approval of the 2006/07 Medium-term Revenue and Expenditure Framework (three year budget) was a direct product aligned to the imperatives and strategic direction of this Municipality.

With the approval of the 2006/07 Adjustments Budget by Council on 25 January 2007, the platform was laid for further refinement of the business planning, performance management and financial planning process aligned to the strategic agenda of the CoT, as well as the mandatory legislative requirements of the Municipal Finance Management Act and National Treasury Financial Management Reforms.

The key to strengthening the link between priorities and spending plans lies in enhancing political oversight of the budget process. Section 53(1)(a) of the MFMA states that the mayor of a municipality must provide political guidance over the budget process and the priorities that must guide the preparation of the budget.

The Mayoral Budget Committee has a significant role to play in the financial planning process. Strengthening the link between Government's priorities and spending plans is not an end in itself, but eh goal should be to enhanced service delivery aimed at improving the quality of life for all the people within the city.

Political oversight of the budget process is essential to ensure that:

- The political executive is responsible for policy and prioritisation
- Policy priorities are linked to departmental spending plans and the delivery of quality services.

Budgeting is primarily about the priorities and choices that the Municipality has to make in deciding how to meet the agreed set of policy objectives through better service delivery. Political oversight of the budget process allows Government and in particular the Municipality to manage the tension between competing policy priorities and fiscal realities. The key to strengthening the linkage between priorities and departmental plans lies in enhancing political oversight of the IDP and Budget process. The Mayoral Committee and the Budget Conferences play a leading role in guiding the alignment of resource allocations with national, provincial and local priorities.

The diagram below provides further details on the oversight and management structures as well as their key roles and responsibilities.

Council

Considers and approves Revised IDP and Final Budget

Mayoral Committee

- Provides political oversight to allow the municipality to manage the tension between competing policy priorities and fiscal realities
- Receives recommendations from Portfolio Committee & Mayoral Budget Committee on policy options and changes to baseline allocations
- Recommends Revised IDP and Final Budget to Council

Mayoral Budget Committee, Portfolio Committee and Budget Conferences

- Considers draft and final budget proposals before tabling at Council
- Review departmental budget inputs with municipal priorities

Medium-term Budget Committee (MTBC-Technical Committee)

- Compile budget document and report in line with the provisions of the MFMA
- Align business planning outputs/targets to resource allocations
- Manage departmental hearings
- Provide guidance on policy options

5.2 BUSINESS PLANNING AND FINANCIAL STRATEGY

5.2.1 FIVE-YEAR INTEGRATED DEVELOPMENT PLAN

The TIDP (2006-2011) was translated into the business and financial planning process leading up to the Draft 2007/08 MTREF, based on the approved 2006/07 MTREF. The business planning process has subsequently been refined and further aligned to the imperatives and objectives of the 5YP through the 2006/2007 integrated development planning cycle.

Integration during the first revision cycle focused on the relationship between the Tshwane Integrated Development Plan and the following national, provincial and local endeavours:

- National Key Performance Indicators (NKPIs);
- Gauteng Development Strategy (GDS);
- Tshwane CDS;
- CoT Five-year Strategic and Business Plan (5SBP);
- Accelerated and Shared Growth Initiative of South Africa (ASGISA);
- National 2014 Vision; and
- National Spatial Development Perspective.

The end product of the above mentioned process is a 2007/08 MTREF not only aligned to the imperatives of the TIDP, but also the national and provincial drivers.

5.2.2 CORPORATE AND BUSINESS PLANNING

The Council approved TIDP Process Plan established an integrated corporate and business planning process with the following principles in mind:

- Seamless integration of strategic and bottom up community development planning;
- Strategy driven resource allocation, based on political strategic priorities;
- A holistic approach to programmes and project identification; and
- Measurability of plans and hence delivery.

With the compilation of the 2007/08 MTREF, each strategic unit/department had to review the business planning process, setting of priorities and targets in consultation with the relevant Members of the Mayoral Committee. These have essentially informed the detail operational budget appropriations and three year capital programme. The extensive business planning process as undertaken with the compilation of the 2006/07 MTREF has essentially been refined and further aligned incorporating key measurable objectives and targets to ensure the planning process translates into actual performance.

5.2.3 LONG-TERM FINANCIAL STRATEGY

The Long-term Financial Model (LTFS) has essentially informed the compilation of the 2007/08 MTREF relating directly to affordability and sustainability. With the review of the strategy, not only was the key imperative of the Municipal Investment Infrastructure modelled, but the mandatory requirements of the Restructuring Grant as well. 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 City Development Strategy (the City long-term plan) imperatives/priorities, and the TIDP. Emphasis has also been placed on the ability of the community to pay for the service rendered.

5.3 2007/08 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK

5.3.1 PRINCIPLES AND GUIDELINES

The following budget **principles** and **guidelines** have directly informed the compilation of the 2007/08 MTREF:

- Confirmation of the 2007/08 priorities and targets as well as the MTREF baseline allocations per main function
- Confirmation of 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 logics within the planning context always taking into consideration the balanced budget constraint

- An analysis of performance trends in terms of operational and capital budget components, with specific attention being given to underperforming functions/strategic units
- Detail business plans had to be finalised by the end of April 2007
- No capital allocations to the Executive Mayor/Municipal Manager
- "Ring-fence" specific allocations to departments (eg 2010)
- Specific allocations towards the Tshwane Enterprise Development Agency (TEDA)
- Alternative service delivery to be factored into the Adjustments Budget process and subsequently finalised
- Tariff increase to respond to the following:
  - 2007 Division of Revenue Act
  - Population growth rate (2,5%)
  - Maintenance Budget as a % of the value of our assets (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.
- No project plan, no budget

5.3.2 OPERATIONAL BUDGET

The following table represents the 2007/08 MTREF in terms of the new alternative service delivery structure as informed by the 2006/07 Adjustments Budget, CoT business planning process, TIDP and various other best practice methodologies e.g. balanced budget constraint:

NEW STRUCTURE CONTROL - BUDGETED STATEMENT OF FINANCIAL PERFORMANCE							
Description	Preceding Year 2005/06	Current Year 2006/07			2007/08 Medium Term Revenue and Expenditure Framework		
	Audited Actual	Approved Budget	Adjusted Budget	Full Year Forecast	Budget Year 2007/08	Budget Year +1 2008/09	Budget Year +2 2009/10
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	(570)	(189)	(4,921)	(4,921)	(546)	(585)	(626)
Financial Services	(119,004)	(20,307)	(45,805)	(45,805)	(62,826)	(64,922)	(68,130)
General Assessment	(3,284,341)	(2,918,771)	(3,067,139)	(3,067,139)	(3,600,954)	(3,831,980)	(4,212,659)
Corporate & Shared Services	(52,883)	(48,589)	(52,775)	(52,775)	(55,892)	(59,402)	(62,913)
Community Safety	(99,684)	(133,604)	(121,079)	(118,261)	(140,219)	(151,513)	(163,458)
Economic Development	(138,672)	(147,613)	(169,186)	(169,186)	(227,546)	(361,303)	(316,257)
Health & Social Development	(46,980)	(54,611)	(59,778)	(62,596)	(64,436)	(68,586)	(72,600)
Sport & Recreation	(6,140)	(41,783)	(45,270)	(45,270)	(36,945)	(30,485)	(7,329)
Housing Services	(23,511)	(422,372)	(279,768)	(279,768)	(472,218)	(545,647)	(578,427)
Agriculture & Environmental Management	(322,566)	(309,816)	(319,660)	(319,660)	(353,434)	(378,878)	(404,614)
Public Works	(3,763,159)	(4,300,985)	(4,354,767)	(4,354,767)	(5,018,903)	(5,579,882)	(5,749,403)
City Planning & Regional Services	(93,941)	(50,044)	(67,410)	(67,410)	(82,840)	(87,422)	(91,825)
Total Operating Revenue	**(7,951,451)**	**(8,448,683)**	**(8,587,559)**	**(8,587,559)**	**(10,116,759)**	**(11,160,604)**	**(11,728,240)**
Operating Expenditure By Department							
Office of the Executive Mayor & Municipal Mgr	333,496	402,761	445,951	445,951	478,440	494,877	524,044
Financial Services	347,359	446,170	453,216	453,216	456,010	478,734	501,044
General Assessment	685,052	341,728	280,628	280,628	295,402	312,811	325,990
Corporate & Shared Services	478,430	522,567	537,624	537,624	542,754	555,840	654,287
Community Safety	529,759	595,093	605,356	603,544	733,083	765,462	793,602
Economic Development	235,356	248,541	274,194	274,194	322,270	353,367	377,162
Health & Social Development	188,527	213,528	228,523	230,335	259,297	281,843	290,125
Sport & Recreation	116,010	124,560	147,814	147,814	168,871	183,648	193,207
Housing Services	241,521	261,336	269,874	269,874	307,565	334,273	358,856
Agriculture & Environmental Management	546,398	601,053	626,404	626,404	677,689	724,656	774,041
Public Works	3,824,815	4,027,396	4,191,204	4,191,204	4,669,419	5,000,202	5,358,473
City Planning & Regional Services	109,376	115,245	116,180	116,180	123,343	129,598	135,337
Total Operating Expenditure	**7,636,098**	**7,899,977**	**8,176,969**	**8,176,969**	**9,034,141**	**9,615,311**	**10,286,168**
(SURPLUS)/DEFICIT	**(315,353)**	**(548,706)**	**(410,590)**	**(410,590)**	**(1,082,618)**	**(1,545,293)**	**(1,442,072)**

From the above table it can be seen that the total revenue equates to R10,1 billion inclusive of capital grants utilised to fund the capital expenditure budget. The total operating expenditure is in excess of R9 billion, resulting in a surplus of R1 billion utilised in funding the capital expenditure budget and offsetting deprecation on externally funded projects.

The detail outcomes of the 2007/08 MTREF will be discussed further below as well as in the Budget Document.

5.3.2.1 REVENUE FRAMEWORK

The City of Tshwane Council is committed to improving the quality of life of all its citizens; to promoting a living environment which fosters harmony and confidence which provides opportunity for growth and prosperity for all living within its region.

Municipalities must table a balanced and credible budget, based on realistic estimates of revenue that are consistent with their budgetary resources and collection experience.

The needs of the residents and communities have to be met within the financial capacity and resource constraints of the Municipality. National Treasury Circular 42 of 2007 provides specific guidance on MFMA requirements for funding the budget.

National Treasury provides guidelines on the growth limits for the municipal budgets for the next coming three years through circulars. The guideline growth limits are based on the Macro Economic Trends such as inflation, government directives and policies, as well as the employment and affordability demographics of the residents. It is anticipated that the outlook of South Africa's economy will remain positive over the 2007 medium-term.

Furthermore, the circular stipulates that any increases in tariffs and rates levied, must be motivated and explained to the local and business communities, particularly where additional local factors have an impact on revenues. Councils are strongly urged to ensure that national economic, tax and fiscal policy objectives are not undermined through excessive municipal charges and that the growth parameters should not be mistaken to mean that expansion of municipal services and infrastructure are curtailed in any way, which must be undertaken within available municipal resources.

It should however be noted that section 168 (1) of the Municipal Finance Management Act, No. 56 of 2003, stipulates that the Minister, acting with the concurrence of the Cabinet member responsible for local government, may make regulations or guidelines applicable to municipalities and municipal entities and section 168 (3) stipulate that no guidelines issued in terms of subsection (1) are binding on a municipality unless adopted by its council; or a municipal entity unless adopted by the council of the entity's parent municipality.

It is also of great importance to note that municipal fiscal powers and functions have been conveyed to the municipalities in terms of Section 229 of the Constitution of the Republic of South Africa, 1996. Furthermore, section 11 of the Local Government Municipal System Act stipulate that the executive and legislative authority of a municipality is exercised by the council of the municipality and the council takes all the decisions of the municipality subject to section 59 of the same Act. Section 11 (3) (i) of the Local Government Municipal System Act stipulates that a municipality exercises its legislative or executive authority by imposing and recovering rates, taxes, levies, duties, service fees and surcharges on fees, including setting and implementing tariff, rates and tax and debt collection policies.

5.3.2.2 REVENUE AND TARIFF-SETTING

Revenue Strategy

The revenue strategy is a function of the following key components:

- Growth in the city and economic development
- Revenue enhancement through:
  - o Eradication of free basic services to all households
  - o Changes in tariff structures
- Achievement of the 98% annualised collection rate for consumer revenue (restructuring grant target)
- 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 following table is a high level summary of the 2007/08 Medium-term Revenue Framework (classified per main category of income):

CITY OF TSHWANE - BUDGETED & FORECAST PARENT ENTITY STATEMENT OF FINANCIAL PERFORMANCE								
Description	Notes	Preceding Year 2005/06	Current Year 2006/07			2007/08 Medium Term Revenue and Expenditure Framework		
		Audited Actual	Approved Budget	Adjusted Budget	Full Year Forecast	Budget Year 2007/08	Budget Year +1 2008/09	Budget Year +2 2009/10
Operating Revenue by Source		**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Property rates		(1,624,061)	(1,670,113)	(1,735,113)	(1,735,113)	(1,935,541)	(2,078,533)	(2,227,722)
Property rates - penalties & collection charges								
Service charges - electricity revenue		(2,463,013)	(2,663,845)	(2,693,845)	(2,693,845)	(2,991,198)	(3,232,393)	(3,464,401)
Service charges - water revenue		(961,165)	(1,065,154)	(1,065,154)	(1,065,154)	(1,162,275)	(1,248,140)	(1,337,727)
Service charges - sanitation revenue		(194,398)	(217,000)	(217,000)	(217,000)	(287,664)	(308,916)	(331,088)
Service charges - refuse removal		(255,981)	(271,141)	(271,141)	(271,141)	(286,551)	(307,721)	(329,807)
Service charges - other								
Regional Services Levies - turnover		(444,787)		(16,000)	(16,000)	(20,000)		
Regional Services Levies - remuneration		(199,824)						
Rental of facilities and equipment		(57,846)	(51,934)	(56,194)	(56,194)	(68,388)	(73,441)	(78,712)
Interest earned - external investments		(103,545)	(42,442)	(42,442)	(42,442)	(113,303)	(119,535)	(125,512)
Interest earned - outstanding debtors		(50,335)	(129,008)	(137,008)	(137,008)	(160,433)	(172,285)	(184,651)
Dividends received								
Fines		(22,896)	(52,743)	(42,743)	(42,743)	(57,434)	(62,396)	(67,787)
Licences and permits		(19,713)	(34,298)	(34,298)	(34,298)	(23,050)	(24,753)	(26,529)
Income for agency services								
Government Grants and subsidies - Operating		(425,101)	(1,319,280)	(1,362,693)	(1,362,693)	(1,498,338)	(1,579,812)	(1,822,438)
Government Grants and subsidies - Capital	1	(360,157)	(524,767)	(386,651)	(386,651)	(708,900)	(1,102,503)	(848,410)
Other income		(599,962)	(392,459)	(512,778)	(512,778)	(608,333)	(652,792)	(685,431)
Public contributions, donated & contributed PPE		(146,434)				(155,000)	(155,000)	(157,000)
Gains on disposal of PPE		(22,232)	(14,500)	(14,500)	(14,500)	(40,352)	(42,386)	(41,025)
Total Revenue By Source		**(7,951,451)**	**(8,448,683)**	**(8,587,559)**	**(8,587,559)**	**(10,116,759)**	**(11,160,604)**	**(11,728,240)**

Notes:

- Total revenue increased by 17,8% against the 2006/07 adjustment budget and by 19,7% against the 2006/07 approved budget.

- Property rates increased by 11,6% and service charges with 11,3% against the 2006/07 adjustments budget. This can mainly be attributed to the growth in the city, tariff increases and changes to the tariff structures.

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 operating grants and subsidies have also increased as a direct result of the revenue received from the Equitable Share Allocation and various other operating grants, e.g. provincial grants relating to transportation infrastructure and 2010 Soccer World Cup. The Equitable Share Allocation is also inclusive of the RSC Levies replacement grant.

Against public contributions, the review received from township development has been included in the Draft 2007/08 MTREF. This is just one of the format requirements relating to the implementation of GAMAP/GRAP and National Treasury Financial Management Reforms. Another is the inclusion of the net realized profit from the sale of property, plant and equipment.

Tariff-setting

The CoT derives its revenue on the provision of mainline goods and services such as water, electricity, sanitation and 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 2007/08 MTREF:

- The ability of the community to pay for services received.
- The average effect on consumer accounts.
- 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, the municipal cost index and other cost increases.
- Credible collection rates and collection improvement targets.
- Ensure ability to extend new services and recovering of costs thereof.

The outcome of a 7% increase in tariffs (revenue) except electricity (*6%) on the different revenue categories is as follows:

Revenue category	2007/08 growth %	2007/08 growth % included (tariff increase excluded)	2007/08 Additional revenue for each 1% tariff increase	2007/08 additional revenue owing to 7% tariff increase	2007/08 Budgeted revenue (before generating additional revenue through structure changes)
	%	**R'000**	**R'000**	**R'000**	**R'000**
Property rates	2,5	1 808 841	18,1	126,7	1 935 541
Sanitation	2,5	235 764	2,4	16,8	252 564
Waste services	2,5	267 651	2,7	18,9	286 551
Water	2,5	1 004 775	10,0	70,0	1 074 775
Electricity	4,0	2 784 398	27,8	*166,8	2 951 198
Total		**6 101 429**	**61,0**	**399,2**	**6 500 629**

Revenue enhancement requirements necessitated the investigation and comparison of tariff levels and structures with other metros. The eradication of the current basic social package (granting of free basic services to all households) was also investigated combined with tariff structure changes. Additional revenue generated through this strategy will be allocated towards funding other major initiatives mainly benefiting backlog eradication of main services and roads in previously disadvantaged areas.

The following policy changes were implemented as resolved by Council on 29 March 2007 (discussed per service below) which will result in the generation of an additional

R162,6 million revenue and these initiatives have been factored into the draft 2007/08 MTREF:

- The eradication of the free basic services currently granted to all households.
- Tariff structure changes.
- Expansion of the Basic Social Services Package granted to the Registered Indigent households.

The total revenue to be generated from the main services for the 2007/08 financial year therefore amounts to:

Revenue category	2007/08 Budgeted revenue (before generating additional revenue)	Additional revenue	2007/08 Total budgeted revenue
	R	R	R
Property rates	1 935 541	-	1 935 541
Sanitation	252 564	35 100	287 664
Waste removal	286 551	-	286 551
Water	1 074 775	87 500	1 162 275
Electricity	2 951 198	40 000	2 991 198
	6 500 629	162 600	6 663 229

From the household perspective how much more will be paid in rand is of more interest than the % increase in the various tariffs and rates. Examples of the effect of the proposed tariff increase, eradication of free basic services and tariff structure changes on the monthly municipal accounts of households are contained in Annexure A of the report.

The revenue categories are highlighted as follows and more information is available in the Budget Document.

5.3.2.3 PROPERTY RATES

- Property rates is one of the primary sources of revenue for municipalities
- There is no direct relationship between services rendered to individual ratepayers and the tax levied
- Factors that determine the amount that a property owner must pay to the municipality is:
    - The assessed value of the property, and
    - The effective assessment rate

- The effective property rate from 1 July 2007 amounts to 14,43c (7,0% increase) in every rand on the site value of the property before applying rebates, if applicable.

The rebates granted for the 2007/08 financial year is summarised as follows:

Particulars	2007/08 Applicable rebate %
Residential properties with a site value of R10 000 and less (RDP houses included)	100
All other residential properties (exclusively used for residential purposes and homes for the aged)	35
*Pensioners (60 yrs and more with joint income of not more than R106 000) and physically or mentally disabled people Plus an additional	40
**State owned property	20

Note:

* The rebate is granted subject to certain conditions (such as joint income, age and the value of the property). An amount of R1,0 million is included in the 2007/08 MTREF for granting of the 40% rebate to pensioners.

** The Rating of State Property Act, 1984 (Act 74 of 1984), provides for mandatory rebates that must be granted by municipalities when levying rates on state property. During the transitional period and until such time that a comprehensive valuation roll is prepared in terms of the MPRA, 2004 a municipality must continue to grant state property the mandatory rebates provided for in the Rating of State Property Act, 1984 (Act 74 of 1984). This was confirmed in Circular 1 of 2006 (issued on 7 April 2006) by the Department of Provincial and Local Government. The rebate currently amounts to 20% on state owned property.

The Local Government: Municipal Property Rates Act, 2004 (Act 6 of 2004)

The MPRA, 2004 has been promulgated with effect from 2 July 2005. A critical look at the time schedule for handling the first general valuation under the provisions of this Act revealed that to allow for a smooth and efficient transition, 1 July 2008 would be the earliest date on which the CoT would be able to start implementing this legislation. A report will be tabled in May 2007 before Council for approval to start with the general valuation process.

Water

Bulk purchases

- On 1 July 2007, Rand Water is increasing its bulk tariffs by 4,5%, from 290,5c to 303,65c per kℓ (excluding VAT and the Water Research Commission levy).
- The Water Research Commission has not announced its new water research levy pricing (currently 3,22c/kℓ)
- It is estimated that approximately 76% of water will be purchased from Rand Water at a cost of R572,1 million
- Approximately 7,5% will be purchased from Roodeplaat Temba Water Services Trust at a cost of R55,9 million (exclude purchases for the Magalies Water service provider in the far northern areas).
- 16,5% will be made available from our own sources (ie the Rietvlei springs, Sterkfontein springs, Erasmia borehole, etc).

CoT Tariff increase

- A total revenue of R1 162,3 million is expected from water sales of 172 million kℓ in the 2007/08 financial year.
- The budgeted revenue from water sales is based on the assumption that normal seasonal rainfall patterns and temperatures will prevail.
- It was resolved that 6 kℓ free water not be granted to all households (eradication of free basic services) from 1 July 2007.
- It was further resolved that the free 6 kℓ to registered indigents be increased to 12 kℓ per 30-day period.
- The water tariff structure was also reviewed to assist the low income earner who will not meet the indigent criteria.
- The new structure introduces slow inclining steps for conservative consumers to not feel the impact of the free basic services not being granted to all households from 1 July 2007. The high consumption consumers will pay more which is in line with other metros. An additional R71,5 m revenue is estimated to be generated and included in the total revenue of R1 162,3 m
- It should be noted that high water consumers may use water conservatively impacting negatively in the budgeted revenue.

- It is proposed that the water charges applicable to businesses be increased with 12% for the first two categories (0 – 100 000 kℓ and with 10% for the top category (water intensive industries consuming more than 100 000 kℓ per month) to be more in line with other metros and contribute towards generating the additional revenue (R16,0 m).
- The current approved water tariff policy will have to be changed to exclude the granting of 6 kℓ free basic water to all households.

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

CATEGORY		CURRENT TARIFFS 2006/07	PROPOSED TARIFFS 2007/08
		Per kℓ R	Per kℓ R
RESIDENTIAL			
(i)	0 to 6 kℓ per 30-day period (200 ℓ a day)	5,44 (free)	3,50
(ii)	7 to 12 kℓ per 30-day period	5,62	5,00
(iii)	13 to 18 kℓ per 30-day period	6,04	6,56
(iv)	19 to 24 kℓ per 30-day period	6,47	7,58
(v)	25 to 30 kℓ per 30-day period	6,47	8,66
(vi)	31 to 42 kℓ per 30-day period	6,47	9,37
(vii)	43 to 72 kℓ per 30-day period	7,21	10,03
(viii)	More than 72 kℓ per 30-day period:	8,48	10,73
NON-RESIDENTIAL			
(i)	0 – 10 000 kℓ per 30-day period	6,47	7,25
(ii)	10 001 – 100 000 kℓ per 30-day period	6,15	6,89
(iii)	More than 100 000 kℓ per 30-day period	5,83	6,41

Electricity

<u>Bulk Purchases</u>

- It is estimated that approximately 89% (8 912,7 GWh) of electricity will be purchased from Eskom and approximately 11% will be made available from own sources (Pretoria West Power Station and Rooiwal Power Station).
- Eskom purchases to the amount of R1 546 million are therefore included in the 2007/08 MTREF.

- The National Electricity Regulator of South Africa implemented a Multi Year Price Determination (MYPD) strategy mainly to:

    - Ensure reasonable price stability for customers
    - Cap Eskom's revenue requirements on CPIX + 1%
    - The Eskom tariff increase for municipalities is therefore assumed to be in the order of 6,0% based on CPIX figures available.

CoT tariff increase

- An annual electricity price increase guideline of 5,6% for municipalities' consumers has been determined by the NERSA for the 2007/08 financial year.
- This guideline does not mean an automatic increase in tariffs and municipalities have to apply to the NERSA for the approval of tariffs.
- An increase of 6,0% has currently been included in the draft 2007/08 MTREF and was submitted to NERSA for approval.
- The 6,0% increase in Electricity tariffs was proposed based on NERSA guidelines, which also result in some of the user tariffs being increased with a lower percentage. This is owing to the fact that the Regulator indicated in the guidelines that where the Regulator has previously limited increases to specific tariff categories (CoT demand charges) then the licensee should increase their tariffs at a lower rate than the guideline or even decreases those tariffs.
- The proposed increase for energy charges and fixed charges are therefore 6,0% for all the tariff categories, and demand charges for small businesses, commercial and industrial consumers with 3,0%.
- It was resolved that the free portion of 50 kWh per 30 day period to all households be eradicated which will result in additional revenue of R40 m. This will result in a differential percentage increase on consumer accounts.
- To assist the low consumption consumers and the poor not registered as indigent it is recommended that 50 kWh per 30 day period be granted to consumers consuming 200 kWh per 30 day period and less. Consumers using more than 200 kWh will pay for all kWh consumed.
- It was further resolved that the current free 50 kWh electricity to registered indigents be increased to 100 kWh per 30-day period.

Impact of the proposed tariffs on Residential consumers is as follows:

	Total cost for 100 kWh (Rand)	Total cost for 200 kWh (Rand)	Total cost for 250 kWh (Rand)	Total cost for 500 kWh (Rand)	Total cost for 1 000 kWh (Rand)
Current tariff	20,49	61,47	81,94	184,37	389,22
Proposed tariff	21,72	65,15	108,58	217,15	434,30
Increase in Rand	1,23	3,68	26,64	32,78	45,08
% increase	6,0	6,0	32,5	17,8	11,6

Waste-removal Services

- The tariff structure of solid-waste removal is based on the cost per m³ of refuse removed per month and on the service provided in a specific area
- Tariffs for city cleaning are levied on all premises irrespective of who removes the waste generated on the premises.
- Waste-removal tariffs are proposed to be increased with 7% from 1 July 2007.

The following table indicates a comparison between current and proposed tariffs from 1 July 2007:

	CURRENT TARIFFS 2006/07		PROPOSED TARIFFS 2007/08	
	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)	
1 000ℓ container removed once a week	-	-	111,16	111,16
130ℓ containers removed once a week	-	-	13,87	13,87
240ℓ container removed once a week	26,08	26,08	27,91	27,91
85ℓ container removed twice a week	18,40	18,40	19,70	19,70
85ℓ container removed once a week	9,20	9,20	9,85	9,85
Refuse bags in formal areas – four bags once a week	26,08	26,08	27,91	27,91
Refuse bags in informal areas	6,54	6,54	7,00	7,00

Sanitation

- The free sanitation portion (98% of 6 kℓ water) for all households currently supplied was resolved to be eradicated and to be applicable to registered indigents only.
- This will result in revenue enhancement to an additional amount of R35,1 m.
- The tariff structure was consequently reviewed to assist the low income earner who will not meet the indigent criteria by introducing a stepped tariff structure.
- The stepped tariff structure will result in differential percentage increases on household accounts.
- The other consumers will pay 7% more for the sanitation service
- Sanitation charges are calculated according to the percentage water discharged as indicated in the table below.

The following table compares the current and proposed tariffs:

CATEGORY	CURRENT TARIFF 2006/07		PROPOSED TARIFF 2007/08	
	% DISCHARGED	TARIFF PER kℓ	% DISCHARGED	TARIFF PER kℓ
		R		R
0 – 6 kℓ per 30-day period	98	Free of charge	98	2,54
7 – 12 kℓ per 30-day period	90	4,00	90	3,44
13 – 18 kℓ per 30-day period	75	4,00	75	4,44
19 – 24 kℓ per 30-day period	60	4,00	60	4,44
25 – 30 kℓ per 30-day period	52	4,00	52	4,44
31 – 42 kℓ per 30-day period	10	4,00	10	4,44
More than 42 kℓ per 30-day period	1	4,00	1	4,44

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

Consumption	% discharged	Tariff R	Amount R
First 6 kℓ	98	2,54	14,94
Next 6 kℓ	90	3,44	18,58
Next 6 kℓ	75	4,44	19,98
Next 6 kℓ	60	4,44	15,98
Amount payable			69,48
kℓ x % discharged x tariff = amount payable			

Other tariffs and Value Added Tax Implications

- Other tariffs for services rendered ie approval of building plans, swimming baths etc have mainly been increased from 1 February 2007 (a few others from 1 March 2007).
- No tariff increase is proposed on 1 July 2007 as to increase tariffs again within months would be unfair.
- The next tariff increase will therefore be annually from 1 July 2008.
- A report, informing Council of the administration process of VAT will be tabled in Council during May 2007.

Equitable Share

The local government equitable share allocation is based on achieving the Constitutional requirements as provided for in sections 214 and 227 of the Constitution. In terms of these provisions, local government is entitled to an equitable share of nationally raised revenue to enable municipalities to provide basic services to low-income households and to assist municipalities in maintaining functioning administrations.

Equitable share takes account of the fiscal capacity, fiscal efficiency, developmental needs, extent of poverty and backlogs in municipalities. It is an unconditional grant which has the following components on it in terms of the Division of Revenue Act, 2007 (DoRA)

- BS = Basic services component
- D = Development component
- I = Institutional support component
- R = Revenue Raising Capacity
- C = Correction and stability factor

It should be noted that the basic component support only poor households earning less than certain category of income and it also distinguish between poor households provided with services and those provided with lesser or no services.

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

In terms of the DoRA, 2007, the allocation towards the City of Tshwane is R299,5 million in the 2007/08 financial year, R362,4 million and R510,7 million in the 2008/09 and 2009/10 financial years respectively. In terms of the formula determining the equitable share allocation, the allocation increases substantially in the 2009/10 financial year specifically towards the CoT. Furthermore, in addition to the abovementioned amounts the RSC Levies replacement grant equates to R801 million, R902 million and R963 million in the respective years.

5.3.2.4 GRANTS AND SUBSIDIES

With the promulgation of the DoRA, 2007, cognizance needs to be taken of the following operational and capital allocations:

	MUNICIPAL FINANCIAL YEAR 1 JULY - 30 JUNE		
	2007/2008 R'000	**2008/2009 R'000**	**2009/2010 R'000**
Infrastructure Grants	**429,286**	**769,467**	**468,910**
Municipal Infrastructure Grant(MIG)	234,108	280,935	232,200
Integrated National Electrification Programme	37,400	47,618	71,710
Public Transport Infrastructure System(PTIF)	105,000	400,000	165,000
2010 FIFA World Cup Stadium Development Grant	52,778	40,914	0
Recurrent Grant Allocation	**92,979**	**15,436**	**22,120**
Local Government Restructuring Grant	75,000	0	0
Local Government Financial Management Grant	500	750	750
Water Services Operating & Transfer Subsidy(DWAF) : Agreements	17,479	14,686	21,370
Equitable Share	**1,101,416**	**1,264,590**	**1,474,114**
Equitable Share Formula	299,481	362,413	510,650
RSC Levies Replacement	801,935	902,177	963,464
TOTAL	**1,623,681**	**2,049,493**	**1,965,144**

	NATIONAL FINANCIAL YEAR 1 APRIL - 31 MARCH		
	2007/2008 R'000	**2008/2009 R'000**	**2009/2010 R'000**
Infrastructure Grants	**416,862**	**759,911**	**546,310**
Municipal Infrastructure Grant(MIG)	221,684	271,379	309,600
Integrated National Electrification Programme	37,400	47,618	71,710
Public Transport Infrastructure System(PTIF)	105,000	400,000	165,000
2010 FIFA World Cup Stadium Development Grant	52,778	40,914	
Recurrent Grant Allocation	**118,525**	**14,307**	**22,120**
Local Government Restructuring Grant	100,000	0	0
Local Government Financial Management Grant	500	750	750
Water Services Operating & Transfer Subsidy(DWAF) : Agreements	18,025	13,557	21,370
Equitable Share	**1,101,416**	**1,264,590**	**1,474,114**
Equitable Share Formula	299,481	362,413	510,650
RSC Levies Replacement	801,935	902,177	963,464
TOTAL	**1,636,803**	**2,038,808**	**2,042,544**

5.3.2.5 EXPENDITURE FRAMEWORK

The following table is a high level summary of the 2007/08 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 Plan, financial planning guidelines and a detail analysis of performance trends:

CITY OF TSHWANE - BUDGETED & FORECAST PARENT ENTITY STATEMENT OF FINANCIAL PERFORMANCE

Description	Notes	Preceding Year 2005/06	Current Year 2006/07			2007/08 Medium Term Revenue and Expenditure Framework		
		Audited Actual	Approved Budget	Adjusted Budget	Full Year Forecast	Budget Year 2007/08	Budget Year +1 2008/09	Budget Year +2 2009/10
Operating Expenditure by Type								
Employee related costs		1,763,364	2,034,256	2,070,178	2,070,178	2,236,343	2,325,796	2,407,199
Remuneration of Councillors		34,795	40,752	40,752	40,752	47,182	49,069	50,786
Bad debts		332,941	106,649	106,649	106,649	129,021	138,566	138,566
Collection costs		47,410	42,669	42,669	42,669	53,179	57,106	61,204
Depreciation	2	494,346	574,460	574,460	574,460	725,388	828,497	941,763
Repairs and maintenance		1,051,019	905,466	1,029,880	1,029,880	1,096,958	1,198,787	1,299,601
Interest paid		266,630	345,900	345,900	345,900	382,139	394,088	504,204
Bulk purchases		1,853,026	1,990,742	2,007,742	2,007,742	2,232,956	2,397,920	2,570,033
Grants and subsidies paid		10,226	11,550	11,550	11,550	12,185	12,855	13,498
General expenses		1,782,341	1,847,532	1,947,188	1,947,188	2,118,792	2,212,625	2,299,313
Operating Expenditure by Vote		**7,636,098**	**7,899,977**	**8,176,969**	**8,176,969**	**9,034,141**	**9,615,311**	**10,286,168**
(SURPLUS)/DEFICIT (1)		**(315,353)**	**(548,706)**	**(410,590)**	**(410,590)**	**(1,082,618)**	**(1,545,293)**	**(1,442,072)**

Reserve movements (1)								
Transfer to Government Grant Reserve	1	360,157	524,767	386,651	386,651	708,900	1,102,503	848,410
Depreciation off-sets	2	(353,582)	(344,135)	(338,643)	(338,643)	(370,331)	(411,774)	(443,827)
Transfers To/From Other Reserves		308,779	368,074	362,582	362,582	744,049	854,564	1,037,489
(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

A major strategy related to the outcome of this planning was aligned to generating further operational gains and efficiencies to ensure the CoT undertakes detail financial planning aligned to budgeting for improved service delivery. The above table is a direct product of this initiative, of which operational capacity created has been directed to the capital affordability limitations.

Total operating expenditure has increased by 10,4% against the 2006/07 adjustment budget and by 14,4% against the 2006/07 approved budget. Total revenue increased by 17,8% against the 2006/07 adjustment budget and by 19,7% against the 2006/07 approved budget as explained in the revenue strategy portion of the report. Cognisance needs to be taken of the fact that the percentage revenue growth is inclusive of capital grants and donations.

It can be deduced from the above table that the draft operating expenditure equates to R9,034 billion in the 2007/08 financial year and escalates to R10,286 billion in the 2009/10 financial year, a growth of 13,8%.

The *remuneration* increase includes the current expansion of the Metropolitan Police Service by 300 officials, as well as the further expansion of the service by an additional 350 officials in the 2007/08 financial year. The escalation in depreciation can be attributed to the aggressive capital programme. 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.

In terms of *repairs and maintenance*, the current level of funding relating to the 2007/08 financial year totals R1,097 billion, and steadily increases to R1,300 billion in the 2009/10 financial year, a growth of 18,5%. The increase in R&M forms part of the asset renewal strategy of CoT.

The following two tables are a summary of the repairs and maintenance related expenditure as a percentage of the net value of property, plant and equipment as well as total operating expenditure:

CITY OF TSHWANE - REPAIRS & MAINTENANCE COMPARED TO TOTAL PROPERTY, PLANT & EQUIPMENT							
Description	Preceeding year 2005/06	Current year 2006/07			2007/08 Medium Term Revenue and Expenditure Framework		
		Approved Budget	Adjusted Budget	Full year Forecast	Budget Year 2007/08	Budget Year +1 2008/09	Budget Year +2 2009/10
A = Total Repairs & Maintenance	1 051 019 000	905 466 000	1 029 880 000	1 029 880 000	1 096 958 000	1 198 787 000	1 299 601 000
B = Total Net Propert, Plant & Equipment	7 458 749 026	9 262 813 670	8 512 280 000	8 512 280 000	11 063 604 000	12 115 712 000	13 937 931 000
A ÷B %	**14,09%**	**9,78%**	**12,10%**	**12,10%**	**9,92%**	**9,89%**	**9,32%**

CITY OF TSHWANE - REPAIRS & MAINTENANCE COMPARED TO TOTAL OPERATING EXPENDITURE							
Description	Preceeding year 2005/06	Current year 2006/07			2007/08 Medium Term Revenue and Expenditure		
		Approved Budget	Adjusted Budget	Full year Forecast	Budget Year 2007/08	Budget Year +1 2008/09	Budget Year +2 2009/10
A = Total Repairs & Maintenance	1 051 019 000	905 466 000	1 029 880 000	1 029 880 000	1 096 958 000	1 198 787 000	1 299 601 000
B = Total Operating Expenditure	7 636 098 000	7 899 977 000	8 176 969 000	8 176 969 000	9 034 141 000	9 615 311 000	10 286 168 000
A ÷B %	**13,76%**	**11,46%**	**12,59%**	**12,59%**	**12,14%**	**12,47%**	**12,63%**

From the above it can be seen that the percentage repairs and maintenance measured against the total net value of property, plant and equipment equates to 9,92% in the 2007/08 financial. The percentage repairs and maintenance against the total operating budget equates to 12,14%.

The following table is a comparison between other metropolitan municipalities in the country in terms of repairs and maintenance as a percentage of operating expenditure:

Metro	R & M as % of total opex
Buffalo City	10%
Ekurhuleni	10%
eThekwini	12%
Nelson Mandela	9%
Tshwane	12%

In terms of the above, it can 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.

General expenditure comprises of municipal rates and services, administrative and general related expenditure as well as raw and consumption material. The 8,8% increase when compared to the 2006/07 Adjustments Budget can directly be attributed to general increases in the economy (e.g. telephones and data services, paper and stationery, consumables etc), the purchase of coal for own power generation (electricity at the power stations) as well as other initiatives such as the cash-in-transit service and the early childhood development programme. Furthermore, the appointment of an additional 650 Metropolitan Police officers (2006/07 and 2007/08) has attributed to the increase in this expenditure owing to operational requirements (e.g. uniforms, lease of vehicles etc).

Taking into consideration the fact that the LTFS is modelled based on the outcomes of the previous financial planning process and other factors such as the mandatory conditions of the Restructuring Grant, the departmental base-line allocations determine the operational budgetary limitations relating to affordability, and departments had to align resource allocations to the Five-year Integrated Development Plan. The outcomes of the cluster hearings as well as the analysis of departmental expenditure have been modelled within the context of affordability and sustainability.

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

- Remuneration costs (percentage expenditure reduction/operational efficiencies and gains as factored into the 2006/07 MTREF to an amount of R46 million has been incorporated into the Draft 2007/08 MTREF)
- Repairs and maintenance (infrastructure repairs and maintenance a priority)
- Balanced budget constraint (expenditure cannot exceed revenue)
- Capital programme aligned to asset renewal strategy
- Operational gains and efficiencies resulting in additional funding capacity on the capital programme of R120 million (percentage expenditure reduction/operational efficiencies and gains as factored into the 2006/07 MTREF has been incorporated into the Draft 2007/08 MTREF, including the remuneration reduction).

A couple of highlights relating to the draft expenditure framework, includes:

- Further expansion of the Metropolitan Police Service by 350 members
- Jazz Festival
- Repairs and maintenance for buildings and the provision of access to the disabled
- Further implementation of the SMME rollout
- Renewal of the bus fleet, including the installation of an electronic ticketing system
- Further rollout of the early child hood development programme
- Further roll out of Tshwane Enterprise Development Agency

5.3.2.6 BASIC SOCIAL SERVICES PACKAGE (APPLICABLE TO REGISTERED INDIGENT HOUSEHOLDS)

From 1 July 2007 only the registered indigent will have access to free services. The basic social package currently applicable to all households will be eradicated. A limited number of households will however still benefit by the granting of free electricity and be exempted from paying property rates. A full package of services will however be applicable to qualifying registered indigent households.

The above is summarised as follows:

Service	Proposed package available to limited households	Proposed package available to registered indigent households	Estimated revenue loss (50 000 indigent households)
			R'm
Water	-	12 kℓ	30,6
Electricity	50 kWh If consumption 200 kWh and less	100 kWh	27,4
Sanitation	-	6 kℓ	9,0
Property rates	100% rebate if site value is R10 000 or less	100% rebate if site value is R10 000 or less, 25% rebate if site value is more	46,9
Total			113,9

It is foreseen that with this increase in free services to the indigent the outstanding debt will subsequently decrease. More indigent households will be encouraged to register (estimated to increase to 50 000) and therefore more households will benefit from the proposal. The Basic Social Services Package will therefore have to include the proposals regarding the registered indigent household benefits.

This policy is currently under review and is drafted by a multi disciplined team with the aim of expanding the current policy to include more specific definitions of indigency categories and the full scope of assistance, benefits and services to the Poor and the draft is titled "Social Services Policy".

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

5.3.3 CAPITAL BUDGET

The compilation of the capital budget in terms of internal capacity (council funds)/affordability was based on the outcome of the Long-term Financial Strategy and funding options targeting an aggressive infrastructure investment framework, directly informed by the 5-year Strategic Integrated Development Programme.

The LTFS, was based upon maintaining the capital expenditure at the 2006/07 level of expenditure in real terms. The funding options, operational gains and efficiencies allowed this level to be exceeded and the proposed increase in internal capacity equates to 26,4% when compared to the 2006/07 Adjustments Budget. Taking this into consideration, the affordability level in terms of internal funding for the 2007/08, 2008/09 and 2009/10 financial years is R1,517 billion, R1,692 billion and R1,750 billion respectively. Furthermore the commitment of the CoT to an aggressive infrastructure investment strategy addressing backlog eradication is further illustrated with the growth of internal funding by an additional R232,6 million (15,34% growth) over the medium-term.

The following table indicates the breakdown per funding source and main function of the Medium-term Capital Budget:

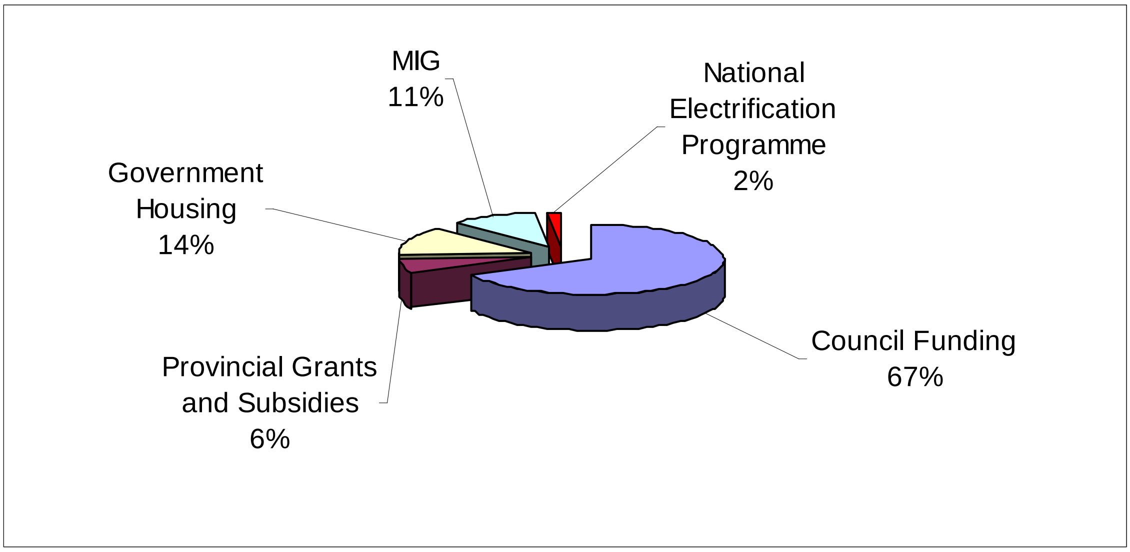
5.3.3.1 2007/08 MEDIUM-TERM CAPITAL BUDGET:

FUNDING SOURCE	Budget 2007/08	%	Budget 2008/09	%	Budget 2009/10	%
Council Funding	1 516 940 000	68,15%	1 692 200 000	60,55%	1 749 550 000	67,34%
Provincial Grants and Subsidies	133 610 000	6,00%	406 450 000	14,54%	158 700 000	6,11%
Government Housing	303 782 000	13,65%	367 500 000	13,15%	385 800 000	14,85%
MIG	234 108 000	10,52%	280 935 000	10,05%	232 200 000	8,94%
National Electrification Programme	37 400 000	1,68%	47 618 000	1,70%	71 710 000	2,76%
TOTAL CAPITAL FUNDING	**2 225 840 000**	**100,00%**	**2 794 703 000**	**100,00%**	**2 597 960 000**	**100,00%**
Agriculture & Environmental Management	48 880 000	2,20%	39 815 000	1,42%	60 200 000	2,32%
City Planning & Regional Services	8 000 000	0,36%	10 000 000	0,36%	4 000 000	0,15%
Community Safety	37 000 000	1,66%	43 000 000	1,54%	29 000 000	1,12%
Corporate and Shared Services	11 400 000	0,51%	16 485 000	0,59%	20 000 000	0,77%
Economic Development	42 525 000	1,91%	49 054 000	1,76%	19 650 000	0,76%
Finance	17 600 000	0,79%	15 500 000	0,55%	15 000 000	0,58%
Health & Social Development	6 520 000	0,29%	39 500 000	1,41%	15 000 000	0,58%
Housing Services	452 695 000	20,34%	552 300 000	19,76%	580 600 000	22,35%
Customer Care	5 000 000	0,22%	0	0,00%	0	0,00%
Information Management Division	60 000 000	2,70%	63 000 000	2,25%	62 000 000	2,39%
Chief Operating Officer	30 000 000	1,35%	49 900 000	1,79%	39 900 000	1,54%
Public Works	1 429 868 000	64,24%	1 739 496 000	62,24%	1 699 477 000	65,42%
- Electricity	***360 835 000***		***397 176 000***		***425 110 000***	
- Roads and Stormwater	***518 988 000***		***516 735 000***		***411 247 000***	
- Transport	***67 300 000***		***313 750 000***		***177 750 000***	
- Water & Sanitation	***482 745 000***		***511 835 000***		***685 370 000***	
Sport & Recreation	76 352 000	3,43%	176 653 000	6,32%	53 133 000	2,05%
TOTAL CAPITAL EXPENDITURE	**2 225 840 000**	**100,00%**	**2 794 703 000**	**100,00%**	**2 597 960 000**	**100,00%**

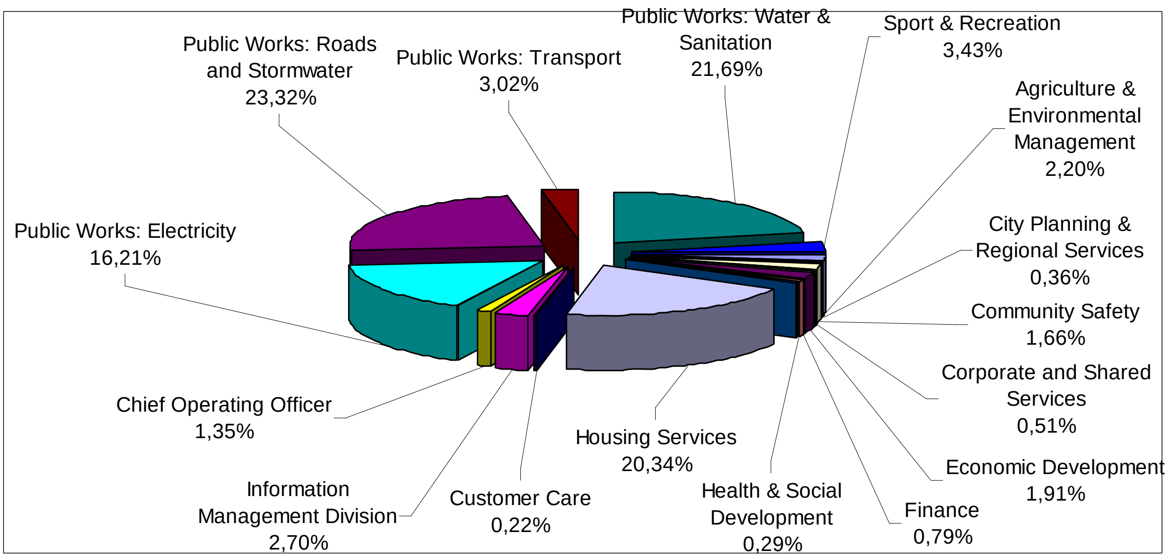
In terms of government grants and refunds, cognisance needs to be taken of the fact that the amounts included in the capital budget were based on the 2007 DoRA and other grants as confirmed by Province with the exception of the government housing allocations which total R303,7 million, R367,5 million and R385 million in the respective financial years. The project implementation of these funds will have to be directly informed by confirmation of the funding to be received in the 2007/08 municipal financial year from the Department of Housing. No spending can proceed before confirmation has been received and should it become necessary the budgeted funding allocations will have to be reduced with the 2007/08 Adjustments budget and Mid-year review.

The following graphs illustrate the above table relating to the breakdown of funding and capital expenditure allocations per main function:

2007/08 MTREF per funding source:



2007/08 MTREF per main function:



From the above it can be seen that the total capital budget equates to R2,226 billion in the 2007/08 financial year and escalates to R2,597 billion, which equates to a 16,72% increase in the 2009/10 financial year (over the three years). In terms of infrastructure development, more than 85% of the capital budget has been allocated specifically for this purpose with the inclusion of housing in the 2007/08 financial year.

Cognisance needs to be taken of the fact that the Municipal Precinct/ rebuilding of Munitoria (PPP) project has not been factored into the above figures. A provision for the asset creation will need to be revisited in year three. As the project is a public private partnership, it has not been included in the detail project proposals as the financial implication will only relate to the Statement of Financial Position. The financial implications of this initiative have been factored into the LTFS, not only relating to the balance sheet implications but the operating implications as well.

2007/08 MTREF Capital Expenditure Budget per Strategic Objective (5 year programme):

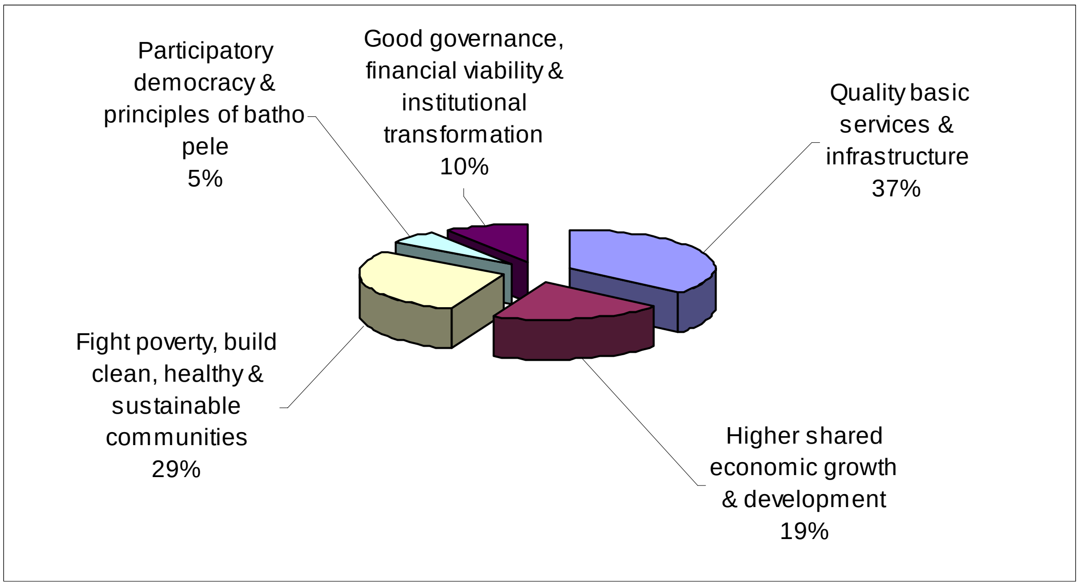
Strategic Objective	Draft 2007/08	%	Draft 2008/09	%	Draft 2009/10	%
1. Quality basic services & infrastructure	814 307 240	37%	1 161 446 258	42%	1 153 372 380	44%
2. Higher shared economic growth & development	426 254 290	19%	491 731 883	18%	352 530 380	14%
3. Fight poverty, build clean, healthy & sustainable communities	650 289 570	29%	793 209 860	28%	751 819 240	29%
4. Participatory democracy & principles of batho pele	122 150 400	5%	130 098 000	5%	126 508 000	5%
5. Good governance, financial viability & institutional transformation	212 838 500	10%	218 217 000	8%	213 730 000	8%
Total Capital Budget	**2 225 840 000**	**100%**	**2 794 703 000**	**100%**	**2 597 960 000**	**100%**

From the above it can be seen that 37% (R814 million) of the budget has been allocated to strategic focus area 1 (quality basic services and infrastructure) in the 2007/08 financial year, and escalates to 44% (R1,153 billion) in 2009/10.

In terms of accelerating higher and shared economic growth and development in the City, 19% (R426 million) has been earmarked for the 2007/08 financial year. R650 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 15%.

The following graph is a graphical representation of the above table:

5.3.3.2 2007/08 MTREF CAPITAL EXPENDITURE BUDGET PER STRATEGIC OBJECTIVE (5 YEAR PROGRAMME):



5.3.3.3 2010 SOCCER WORLD CUP

In terms of the 2010 Soccer World Cup, the following table details specific project inclusion for this initiative:

Project Name	Project Number	Budget 2007/08	Budget 2008/09	Budget 2009/10
Self catering Chalets at Rietvlei Nature Reserve	710445	5,780,000	0	0
Acquisition of fully equipped mobile joint incident coordination unit	712588	0	7,000,000	0
The establishment of network infrastructure (IT and CCTV)	712345	4,000,000	4,000,000	4,000,000
Purchasing of electronic policing equipment for the 2010 world soccer cup	712500	0	8,000,000	0
Upgrading of the Metro Police Control Room/Ops Room/CCTV Control Room (Phase 1)	712348	4,000,000	7,000,000	3,500,000
Marketing & Trading Stalls - Ga-Rankuwa	712298	0	2,000,000	2,000,000
Tourism Signage	710579	1,000,000	1,500,000	1,500,000
Mamelodi Rondawels	710582	1,000,000	1,000,000	1,000,000
Hop on Hop off Bus	710580	1,575,000	1,653,750	0
Arts & Craft Exhibition Stalls	710587	2,150,000	9,457,500	0
Electrical reticulation upgrade	712571	500,000	500,000	0
Water reticulation phase 2	712572	750,000	750,000	0
Loftus: Upgrading of Charles Street	712537	6,000,000	25,000,000	0
Hatfield: Upgrading of Pretorius Str	712538	7,000,000	3,000,000	0
Hatfield : Upgrading of Schoeman Str	712539	7,000,000	3,000,000	0
Hatfield: Upgrading of Duncan/Gordon	712540	5,000,000	18,000,000	0

Project Name	Project Number	Budget 2007/08	Budget 2008/09	Budget 2009/10
Hatfield One Way System	712541	1,000,000	12,000,000	0
Upgrading of Maunde Street	712544	12,000,000	15,000,000	0
Giant Stadium: Buitekant Street	712545	5,000,000	8,000,000	0
Wonderboom Airport Access: Lindveldt Avenue	712546	10,000,000	16,000,000	0
K69 Between Waterkloof Air Force Base & R21	712547	15,000,000	10,000,000	0
Rainbow Junction/Pta North Public Transport: 2010	712382	1,800,000	0	0
Loftus Versfeld Pedestrian Link (DOT FUNDED)	712561	2,000,000	6,000,000	0
Loftus Versveld Stadium - 2010 (Transport Infrastructure)	712589	0	39,000,000	31,000,000
Training Venues - 2010 (Transport Infrastructure)	712590	0	39,000,000	30,000,000
CBD and surrounding areas - 2010 (Transport Infrastructure)	712591	0	200,000,000	97,000,000
Other transport support projects - 2010 (Transport Infrastructure)	712592	4,000,000	10,000,000	0
Electronic Ticketing System (Bus Service)	712593	25,000,000	0	0
Atteridgeville Superstadium	710713	20,000,000	14,000,000	0
Upgrading Of The Soshanguve Giant Stadium	710690	40,062,000	156,653,000	35,133,000
Solomon Mahlangu Freedom Square - Cultural centre	711439	0	0	4,000,000
Hammanskraal Cultural Centre	712397	0	0	3,000,000
Total		181,617,000	617,514,250	212,133,000

From the above it can be deduced that the total funding allocation towards the 2010 SWC equates to R1,011 billion over the medium-term. In terms of funding sources, R692,5 million is funded by national and provincial transfers (grants) and the balance of R318,6 million is internally funded (council funding). It needs to be noted that the project identification methodology did not solely focus on the 2010 Soccer World Cup per say, but is directly informed by the planning instruments utilised by this organisation (e.g. 5 Year Strategic Integrated Development Plan, CDS, Asset renewal strategy etc) to ensure sustainability post 2010 SWC.

In terms of the DoRA, 2007, various additional infrastructure related grants have been gazetted for Tshwane which have been incorporated into the draft capital budget. These additional allocations are specifically intended to address infrastructure requirements relating to the 2010 SWC and have subsequently been included in the above table.

Firstly, in terms of the Public Transport Infrastructure and Systems Grant (PTIS), an amount of R105 million, R400 million and R165 million has been gazetted as transfers to the CoT. For stadium development (Loftus Versveld) an amount of R93,692 million has been made available over the next two financial years. Cognisance 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. In terms of the Municipal Infrastructure Grant allocations towards CoT, the allocations total R234,1 million, R280,9 million and R232,2 million for the respective financial years.

In terms of the detail capital budget, 324 projects constitute the total project proposals and are detailed in the budget document attached to this report. A couple of highlights in terms of the capital budget include, inter alia:

- Backlog eradication aligned to National targets
- Roads infrastructure: Northern Areas (e.g. Soshanguve)
- Fresh Produce Market in the North
- Hop on hop off bus
- Emergency management expansion projects
- Further capital investment related to asset renewal (extend the lifetime of assets)
- Inner city regeneration projects, related to buildings, public transport facilities etc

5.4 COMMUNITY CONSULTATION PROCESS

Chapter 4 of the Local Government Municipal System Act deals with Community participation. Section 16 (1) of the LGMSA stipulates that a municipality must develop a culture of municipal governance that compliments formal representative government with a system of participatory governance. Of more important to the budget process is section 16(1) (a) and (iv) which stipulate that a municipality must for the purpose of section 16 (1) encourage, and create conditions for, the local community to participate in the affairs of the municipality, including in the preparation, implementation and review of its integrated development plan and the preparation of its budget. Section 16 (2) further stipulate that subsection (1) must not be interpreted as permitting interference with a municipal council's right to govern and to exercise the executive and legislative authority of the municipality.

The mechanisms, processes and procedures for community participation is highlighted in section 17 of the LGMSA.

Section 22 of the Municipal Finance Management Act, 2003 (Act 56 of 2003) (MFMA) also stipulates that immediately after an annual budget is tabled in a municipal council the accounting officer must make public the annual budget and documents; invite the local community to submit representations in connection with the budget; and submit the annual budget to the 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 extensive 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.

- **Budget conference**: Two budget conferences were held on 2 March and 4 May 2007 respectively which involved councillors, ward committee representatives and senior management. The purpose of the conferences was to discuss and inform politicians and management of the budget.
- **Publication of draft budget:** The draft budget report (hard copy) was made available at all the libraries, municipal customer care offices and the draft document was made available on the COT's website.
- **Ward committee/business meetings**: Eight zonal meetings which included all 76 wards in the COT were held from 10 to 16 April 2007 at various community venues and businesses were invited to the meeting held on 16 April 2007.
- **Electronic**: The tabled budget document was published on www.tshwane.gov.za.

This is the fourth time that the municipality has embarked on such a community consultation drive. During the process approximately 400 people participated. It should be noted that only ward committee members, as community representatives, over and above politicians, were invited to these meetings. The process of consultation can be considered successful.

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

5.5 CONCLUSION

The application of sound financial management principals 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, TIDP 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 2007/08 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 2007/08 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.