

MANTSOPA LOCAL MUNICIPALITY (FS196)

DRAFT (BUDGET)MTREF  
FORECAST 2015/16

BUDGET

# Contents

## Budget

- Executive summary
- Operating Frame work
- Summary of Income & Expenditure
- Capital expenditure
- Operating Revenue
- Operating Expenditure
- Tariff setting
- Overall impact of tariff increases on households
- Free basic services
- Schedule A
- Tariff lists

## Appendixes

- Budget Policy
  - Property Rates Policy
  - Tariff Policy
  - Debt Collection and Credit Control Policy
  - Cash Management & Investment Policy
  - Indigent Policy
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## Executive Summary

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

National Treasury's MFMA Circular No. 51, 54, 66, 67 and 72 were used to guide the compilation of the 2014/15 MTREF.

The main challenges experienced during the compilation of the 2015/16 MTREF can be summarised as follows:

- The on-going difficulties in the national and local economy;
- Aging and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk water and electricity (due to tariff increases from Bloem Water and Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be a point where services will no-longer be affordable;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2015/16 MTREF process; and
- Availability of affordable capital/borrowing.

The following budget principles and guidelines directly informed the compilation of the 2015/16 MTREF:

- The 2014/15 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2015/16 annual budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity. It should be taken into account the need to address infrastructure backlogs. Furthermore, it is important that water, electricity, sanitation and refuse removal services must be cost effective;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;
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## Operating Revenue Framework

For Mantsopa Local Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
  - Growth in the Municipality and continued economic development;
  - Efficient revenue management, which aims to increase the average collection rate from 55% to at least 67% for property rates and other key service charges;
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- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- To achieve full cost recovery of specific user charges especially in relation to trading services were unable as a result of the high amount of debt impairment and a part of the equitable share was used to balance these services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service within National Treasury's guidelines;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Municipality.

In view of the aforementioned, the following table is a consolidated overview of the proposed 2015/16 Medium-term Revenue and Expenditure Framework:

**Table 1 Summary Overview of the 2015/16 Draft Budget**

<b>R thousand</b>	<b>Adjustment budget 2014/15</b>	<b>Draft budget 2015/16</b>
Total Operating Revenue	R 212 016 575	R 232 892 153
Total Operating Expenditure	(R209 170 882)	(R229 265 441)
<b>Operating surplus / (Deficit)</b>	<b>R 2 845 693</b>	<b>R 3 626 712</b>
Capital grants received	R 33 712 100	R 21 456 600
<b>Total surplus before capital expenditure</b>	<b>R 36 557 793</b>	<b>R 25 083 312</b>
Capital expenditure	(R 36 545 100)	(R 25 079 350)
<b>Net Surplus / (Deficit)</b>	<b>R 12 693</b>	<b>R 3 962</b>

The total operating revenue has increase by R20 875 578 from the 2014/15 adjustment budget to the 2015/16 draft budget. The major components for the increase are as follow: Operating grants increase by R5 000 000, Interest on outstanding debtors increase by R5 000 000, Service charges increase by R11 620 000 and other income decrease by R744 000.

Total operating expenditure for the 2015/16 draft budget has been appropriated at R229 265 441, an increase of R20 094 559 comparing with the 2014/15 adjustment budget.

The capital grants received for the 2015/16 financial year as per DoRA amounts to R21 456 600, while the expenditure budgeted for 2015/15 amounts to R25 079 350. The shortfall of R3 622 750 will be financed out of the operating surplus of R3 626 712.

According to the above information the operating surplus amounts to R3 626 712. However, it must be bear in mind that R3 622 750 must be transferred to finance capital expenditure. The result thereof is that the net surplus on the total budget amounts to R3 962. This is a clear indication that it will be absolutely important that all departments will have to adhere to the budget, otherwise unauthorised expenditure could emerge.

The following table is a summary of the 2015/16 MTREF (classified by main revenue source and Expenditure):

**Table 2 Summary of the 2015/16 MTREF (classified by main revenue source and Expenditure)**

FS196 Mantsopa - Table A4 Draft Budget Financial Performance (revenue and expenditure)			
Description	Original Budget	Adjusted Budget	Budget Year 2015/16
<b>Revenue By Source</b>			
Property rates	16 086	12 886	13 850
Service charges - electricity revenue	34 937	38 282	42 410
Service charges - water revenue	36 320	34 063	37 647
Service charges - sanitation revenue	22 679	19,320	21 442
Service charges - refuse revenue	12 696	10,982	12,769
Rental of facilities and equipment	1,113	1,187	1,259
Interest earned - external investments	200	250	571
Interest earned - outstanding debtors	20,000	20,000	25 000
Dividends received	20	20	20
Fines	150	150	574
Transfers recognised - operating	71,601	71,601	76750
Other revenue	545	3,276	601
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>216 347</b>	<b>212,017</b>	<b>232 892</b>
<b>Expenditure By Type</b>			
Employee related costs	71 968	71 968	73 028
Remuneration of councillors	5,715	5,715	6 290
Debt impairment	20,090	20,090	59 607
Depreciation & asset impairment	11,991	11,991	4 251
Finance charges	512	555	0
Bulk purchases	33,647	33,647	37 476
Other materials	8 400	7 383	8 281
Other expenditure	60 513	58 192	40 331
<b>Total Expenditure</b>	<b>212 836</b>	<b>209 171</b>	<b>229 265</b>
<b>Surplus/(Deficit)</b>	<b>3 510</b>	<b>2 846</b>	<b>3 627</b>
Transfers recognised - capital	33,712	33 712	21 457
<b>Surplus/(Deficit) before taxation</b>	<b>37 223</b>	<b>36 558</b>	<b>25 083</b>

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Electricity is the largest revenue source totalling to R42 409 564 with water being the second largest revenue source totalling R37 647 736. The third largest sources is sanitation which also totals to R21 441 744.

Operating grants and transfers totals R76 750 400 of the 2015/16 Draft Budget.

## Capital Expenditure

The following table gives a breakdown of the capital expenditure as per department.

**Table 3 Capital Expenditure Budget by vote and funding**

FS196 Mantsopa - Table A5 Capital Expenditure Budget by vote and funding			
Vote Description	Current Year 2014/15		
	Original Budget	Adjusted Budget	Draft Budget 2015/16
<b>Capital expenditure - Municipal Vote</b>			
<b>Single-year expenditure appropriation</b>			
1.1 - Office of the Municipal Manager	–	–	44
1.2 - Internal Audit	50	10	0
1.3 - Integrated Development Plan	12	–	14
1.4 - Performance Management	–	–	0
1.5 - Local economic development	162	126	0
2.1 - Mayor's Office	100	–	598
2.2 - Speaker's Office	150	110	0
2.3 - Council	–	–	0
3.1 - Financial Services	100	100	0
3.2 - Rates and Tax	–	–	0
4.1 - Administration Services	1,000	1,000	2 037
5.1 - Community Services Director's office	20	20	0
5.2 - Parks and recreation	–	–	0
5.3 - Libraries	–	–	0
5.4 - Fire Department	–	–	0
5.5 - Traffic Department	255	170	180
5.6 - Housing	–	–	0
6.1 - Cemeteries	–	–	0
6.2 - Properties	4,133	4,143	5 171
6.3 - Project Management Unit	20	10	0
6.4 - Roads and Streets	17,116	17,156	13 286
6.5 - Electricity	5,500	5,500	3 600
6.6 - Water	7,200	7,800	0
6.7 - Sewerage	400	400	150
6.8 - Refuse Removal	1 000	–	0
<b>Total Capital Expenditure</b>	<b>37 218</b>	<b>36,545</b>	<b>25 079</b>

Total new assets

- Roads - R13 285 716: Infrastructure
- Electricity – R3 000 000: Infrastructure
- Properties – R5 170 884: Sport grounds and buildings
- General vehicles – R650 000
- Plant & Equipment – R170 000
- Computers – R1 549 000
- Furniture and Office Equipment – R646 000

Total replacement of assets

- General Vehicles – R600 000
- Furniture and Office Equipment - R7 750

The following table is a consolidated overview of the proposed 2014/15 Medium-term Revenue and Expenditure Framework as per National Treasury's prescribe template:

**Table 4 - Consolidated Overview of the 2013/14 MTREF**

FS196 Mantsopa - Table A1 Budget Summary

Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
<b>R thousands</b>								
<b><u>Financial Performance</u></b>								
Property rates	10,762	11,825	12,668	16,086	12,886	13,850	14,819	15,856
Service charges	66,062	92,697	89,714	106,632	102,647	114,267	122,266	130,825
Investment revenue	106	227	531	200	250	571	611	654
Transfers recognised - operational	64,219	71,198	70,125	71,601	71,601	76,750	70,526	68,950
Other own revenue	14,320	23,956	22,529	21,828	24,633	27,454	29,376	31,432
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>155,469</b>	<b>199,903</b>	<b>195,567</b>	<b>216,347</b>	<b>212,017</b>	<b>232,892</b>	<b>237,597</b>	<b>247,717</b>
Employee costs	48,719	52,539	60,473	71,968	71,599	73,028	78,140	83,610
Remuneration of councillors	4,270	4,889	4,909	5,715	5,715	6,290	6,731	7,202
Depreciation & asset impairment	24,328	30,004	23,795	11,991	11,991	4,251	4,549	4,868
Finance charges	994	814	888	512	555	–	–	–
Materials and bulk purchases	36,241	36,364	41,892	42,047	41,029	45,757	48,960	52,387
Other expenditure	61,450	155,629	76,910	80,603	78,282	99,939	95,337	95,499
<b>Total Expenditure</b>	<b>176,002</b>	<b>280,239</b>	<b>208,868</b>	<b>212,836</b>	<b>209,171</b>	<b>229,265</b>	<b>233,717</b>	<b>243,565</b>
<b>Surplus/(Deficit)</b>					<b>2,846</b>	<b>3,627</b>		<b>4,152</b>

	(20,533)	(80,336)	(13,301)	3,510			3,881	
Transfers recognised - capital	24,215	34,244	25,930	33,712	33,712	21,457	23,248	21,935
Contributions recognised - capital & contributed assets	–	–	–	–	–	–	–	–
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>3,681</b>	<b>(46,092)</b>	<b>12,629</b>	<b>37,223</b>	<b>36,558</b>	<b>25,083</b>	<b>27,129</b>	<b>26,087</b>
<b><u>Capital expenditure &amp; funds sources</u></b>								
<b>Capital expenditure</b>	<b>24,215</b>	36,004	26,718	37,218	36,545	25,079	26,188	25,345
Transfers recognised - capital	<b>24,215</b>	34,244	25,930	33,712	33,712	21,457	23,248	21,935
Internally generated funds	–	1,760	788	3,506	2,833	3,623	2,940	3,410
<b>Total sources of capital funds</b>	<b>24,215</b>	36,004	26,718	37,218	36,545	25,079	26,188	25,345
<b><u>Financial position</u></b>								
Total current assets	<b>111,652</b>	69,778	52,782	61,039	140,855	150,246	171,789	201,352
Total non current assets	<b>736,257</b>	743,094	707,747	811,970	1,284,269	1,324,291	1,341,691	1,340,524
Total current liabilities	<b>53,529</b>	64,761	71,331	38,920	95,550	97,143	79,425	71,583
Total non current liabilities	<b>32,545</b>	30,972	47,073	4,152	3,686	3,686	3,686	2,348
Community wealth/Equity	<b>761,834</b>	717,139	642,125	829,937	1,325,888	1,373,708	1,430,369	1,467,945
<b><u>Cash flows</u></b>								
Net cash from (used) operating	<b>20,708</b>	46,311	29,784	35,947	30,549	29,861	22,854	16,071
Net cash from (used) investing	<b>(22,233)</b>	(43,961)	(29,208)	(37,218)	(36,545)	(25,079)	(26,188)	(25,345)
Net cash from (used) financing	<b>(1,241)</b>	(2,194)	–	(1,338)	(1,338)	–	–	(1,338)
<b>Cash/cash equivalents at the year end</b>	<b>(4,158)</b>	(4,002)	609	(2,415)	5	4,787	1,453	(9,159)
<b><u>Cash backing/surplus reconciliation</u></b>								
Cash and investments available	<b>(13,469)</b>	8,973	8,553	1,100	1,220	8,584	100	100
Application of cash and investments	<b>(668)</b>	20,003	23,499	(42,815)	(47,545)	(38,382)	(58,179)	(81,623)
<b>Balance - surplus (shortfall)</b>	<b>(12,800)</b>	(11,030)	(14,946)	43,915	48,765	46,966	58,279	81,723
<b><u>Asset management</u></b>								
Asset register summary (WDV)	<b>735,254</b>	741,254	706,331	810,720	1,282,851	1,315,610	1,341,501	1,340,339
Depreciation & asset impairment	<b>24,328</b>	30,004	23,795	11,991	11,991	4,251	4,549	4,868
Renewal of Existing Assets	–	–	–	10,491	9,403	608	4,148	4,935
Repairs and Maintenance	<b>11,623</b>	6,411	24,451	8,400	7,382	8,281	8,861	9,481
<b><u>Free services</u></b>								
Cost of Free Basic Services provided			–		839	1,253		1,670



	<b>16,618</b>	18,333		839			1,461	
Revenue cost of free services provided <b>Households below minimum service level</b>	<b>16,618</b>	19,354	-	17,365	17,365	24,138	25,327	26,541
Water:	-	-	-	-	-	-	-	-
Sanitation/sewerage:	2	2	-	1	1	-	-	-
Energy:	-	-	-	-	-	-	-	-
Refuse:	-	-	-	-	-	-	-	-

Total operating revenue has increase by R20 875 578 for the 2015/16 financial year compared to the 2014/15 Adjustments Budget and represents an increase of 9.8%. The increase was arising from the following: Operating grants increase by R5 000 000 (67%), Interest on outstanding debtors increase by R5 000 000 (25%), Service charges increase by R11 620 000 (11.3%) and other income decrease by R744 000 (3%). For the two outer years, operational revenue is expected to increase respectively by 2 and 4%. The main reason for such a low increase is mainly the result of a reduction in operating grants expected.

Total operating expenditure for the 2015/16 financial year has been appropriated at R229 265 441. When compared to the 2014/15 Adjustments Budget, operational expenditure has increase by 9.6% during the 2015/16 draft budget. However, the expenditure for the outer two years increased respectively with 1.9 and 4%.

The capital budget of R25 079 350 for 2015/16 has decreased by R 11 465 750 when compared to the 2014/15 Adjustment Budget. The reduction is due to a reduction of National Government grants to the amount of R11 000 000 for capital projects. A substantial portion amounting to R21 456 000 for the capital budget will be funded from Grants. The balance of R3 622 750 will be funded from internally generated funds.

**Revenue received from different services is illustrated clearly in the following table.**

**Table 5 Revenue Increase / (decrease)**

Service	Adj Budget 2014/15	Budget 2015/16	Increase/(decrease)	%
Property rates	12,886,267	13,849,595	963,328	<b>7%</b>
Electricity	38,282,006	42,409,564	4,127,558	<b>11%</b>
Water	34,062,610	37,646,736	3,584,126	<b>11%</b>
Sanitation	19,320,264	21,441,744	2,121,480	<b>11%</b>
Refuse	10,981,908	12,769,166	1,787,258	<b>16%</b>
Other income	24,882,620	28,024,948	3,142,328	<b>13%</b>
Operating grants	71,600,900	76,750,400	5,149,500	<b>7%</b>
Total operating Revenue	212,016,575	232,892,153	20,875,578	<b>10%</b>

Electricity is the largest revenue source totalling to R42 409 564 with water the second largest revenue source totalling 37 646 736. The third largest sources is sanitation with a total of R21 441 744.

Operating grants and transfers budgeted for in 2014/15 totals to R71 600 900. The grants allocated according to DoRA amounts to R76 750 400 for 2015/16.

## Expenditure

The municipality's expenditure framework for the 2015/16 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plans no budget*. If there is no business plan no funding allocation can be made.

The following table is a high level summary of the 2015/16 budget and MTREF (classified per main type of operating expenditure):

**Table 6** Table A4 Budgeted Financial Performance (revenue and expenditure)

FS196 Mantsopa - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
<b>Expenditure By Type</b>									
Employee related costs	48 719	52 539	60 473	71 968	71 599	64 636	73 028	78 140	83 610
Remuneration of councillors	4 270	4 889	4 909	5 715	5 715	5 715	6 290	6 731	7 202
Debt impairment	10 694	95 997	48 773	20 090	20 090	20 090	59 607	52 183	49 323
Depreciation & asset impairment	24 328	30 004	23 795	11 991	10 557	10 557	11 991	12 830	13 728
Finance charges	994	814	888	512	555	555			
Bulk purchases	26 226	29 954	30 796	33 647	33 647	33 647	37 476	40 099	42 906
Other materials	10 015	6 410	11 096	8 400	7 383	7 383	8 281	8 618	9 481
Contracted services	994	0	1 806	-	-	-	3 000	-	-
Transfers and grants		0	-	-	-	-	-	-	-
Other expenditure	49 762	59 632	331	60 513	58 192	58 192	37 331	43 155	46 175
Loss on disposal of PPE									
<b>Total Expenditure</b>	<b>176 002</b>	<b>280 239</b>	<b>208 868</b>	<b>212 836</b>	<b>209 171</b>	<b>209 171</b>	<b>229 265</b>	<b>233 717</b>	<b>243 565</b>

The budgeted allocation for employee related costs for the 2015/16 financial year totals R79 318 242 which equals 34.6% of the total operating expenditure. Councillor remuneration of R6 290 130 is included in the amount of 79 318 242. Salary increases are expected to be 7% for 2015/16. An annual increase of 7% has been included in the two outer years of the MTREF.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the municipality's budget and an amount of R6 290 310 was provided.

The provision of debt impairment was determined for the 2015/16 financial year on an amount equates to R59 607 406. Debt impairment is based on the current collection rate plus a 12 % increase. This amount cannot be cut as it will result in cash flow problems.

Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R4 251 493 for the 2015/16. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Finance charges will be freeze for the next two years by the DBSA and therefor it was budget at 0% for 2015/16 as well as 2016/17.

Bulk purchases are directly informed by the purchase of electricity from Eskom and water from Bloem Water. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditure includes distribution losses.

Other materials comprise mostly of materials needed for repairs and maintenance. During the compilation of the 2015/16 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the aging of the municipality's infrastructure and historic deferred maintenance. The appropriation against this group of expenditure are budget at an amount of R8 281 350 for 2015/16. It must be bear in mind that the amount of R43 864 000 for salaries are excluded in the amount of repairs and maintenance. In relation to the total operating expenditure, repairs and maintenance comprises of 3.6% while it was 3.9% in 2014/15. Repairs and maintenance including salaries of R43 864 000 is 22.7% of the total expenditure budget.

## **Tariff setting**

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the municipality.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible.

The percentage increases of Eskom bulk tariffs are above the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's electricity tariffs are largely outside the control of the Municipality. Discounting the impact of these price increases in lower consumer tariffs will erode the municipality's future financial position and viability. Salaries are also expected to rise with 7% and budget accordingly.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity and water, petrol, diesel, chemicals, cement etc. The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the municipality has undertaken the tariff setting process relating to service charges as follows.

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## Property Rates

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

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

- The first R80 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA);
- 50 % rebate will be granted on all residential properties.

The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2015/16 financial year is based on a .001045%.

**Table 7 Comparison of proposed rates to levy for the 2015/16 financial year**

Category	Current Tariff	Proposed Tariff	Difference (increase)	% Change
	R	R	R	
<b>Residential</b>	.0049300	0.005225	0.000295	5.98%
<b>Government</b>	0.009860	0.010450	0.000590	5.98%
<b>Business</b>	0.009860	0.010450	0.000590	5.98%
<b>Farms</b>	0.000880	0.000933	0.000053	6.02%

## Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.
- In addition National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective by 2015.

Better maintenance of infrastructure, Commissioning of boreholes and cost-reflective tariffs will ensure that the supply challenges are managed in future to ensure sustainability.

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The proposed water tariff must increase an average of 6% for usage, while the proposed basic charge increased by 18.64% as from 1 July 2015. The budget for bulk water purchases from Bloem Water was increased by approximately 6.3%, but the costs for chemicals could be cut back a lot enabling an lower increase. In addition 6 kℓ water per 30-day period will again be granted free of charge to all residents.

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

**Table 8 Comparison between current water charges and proposed increases**

Category	Current amount payable	Proposed amount payable	Difference (increase)	% Change
	R	R	R	
<b>Residential</b>				
Basic charge	88.50	105.00	16.50	18.64%
0-6kl	5.20	5.50	0.30	5.77%
7-20 kl	5.95	6.30	0.35	5.88%
21-40 kl	7.26	7.70	0.44	6.06%
40 kl <	8.74	9.20	0.46	5.26%
<b>Business</b>				
Basic charge	48.50	55.00	6.50	7%
Usage	6.10	6.85	0.75	6.04%

## Sale of Electricity and Impact of Tariff Increases

NERSA has announced the revised bulk electricity pricing structure. Sales from ESKOM will cost approximately 14.24% more from 1 July 2015. However, NERSA allowed municipalities to increase tariffs for block 1 at 6.3%, block 2 with 7.73% and block 3 and 4 at 12.20% than **7.39%**. However, the block tariff structure is used and the lower consumption tariffs increased less than the high consumption tariffs. Furthermore, it should be noted that given the magnitude of the tariff increase, it is expected to depress growth in electricity consumption, which will have a negative impact on the municipality's revenue from electricity.

Registered indigents will again be granted 50 kWh per 30-day period free of charge.

**Table 9 Comparison between current electricity charges and proposed increases**

Monthly consumption kWh	Current amount payable	Proposed amount payable	Difference (increase)	% Change
	R	R	R	
<b>0-50 (Block 1)</b>	0.74	0.79	0.05	6.76%
<b>51-350 (Block 2)</b>	0.88	0.95	0.07	7.95%
<b>351-600 (Block 3)</b>	1.197	1.35	0.153	11.33%
<b>601 &lt; (Block 4)</b>	1.428	1.61	0.182	11.30%
<b>Business</b>	1.503	1.60	0.097	6.06%
<b>Bulk</b>	0.585	0.66	0.075	12.20%
<b>Departmental</b>	1.503	1.60	0.103	6.45%
<b>KVA</b>	102.50	115.00	12.50	12.82%

The inadequate electricity bulk capacity and the impact on service delivery and development remains a challenge for the Municipality.

The approved budget for the Electricity Division can only be utilised for certain committed upgrade projects and to strengthen critical infrastructure (e.g. substations without back-up supply). The INEG grant according to DoRA amounts to R3 000 000.

## Sanitation and Impact of Tariff Increases

A tariff increase between 6.01% and 13.82% is proposed from 1 July 2015. This is based on the input cost assumptions related to water. It should be noted that electricity and chemicals costs contribute largely to treatment of waste water input costs. Furthermore, the department must be cost reflective.

**Table 10 Comparison between current sanitation charges and proposed increases**

Monthly consumption	Current amount payable R	Proposed amount payable R	Difference (increase) R	% Change
Households	142.00	155.00	13.00	9.15%
Business	233.00	247.00	14.00	6.01%
Bulk	6 500.00	7 000.00	500.00	7.69%
Departmental	217.00	247.00	30.00	13.82%

## Waste Removal and Impact of Tariff Increases

It is widely accepted that the rendering of this service should at least break even, although this service is currently making surplus.

The proposed tariff increase for 2015/16 is done in accordance with the fact that the department must be cost reflective.

**Table 11 Comparison between current refuse charges and proposed increases**

Monthly consumption	Current amount payable R	Proposed amount payable R	Difference (increase) R	% Change
Households	74.00	85.00	11.00	14.68%
Business	296.00	320.00	24.00	8.11%
Departmental	296.00	320.00	24.00	8.11%

## Overall impact of tariff increases on households

The following table shows the overall expected impact of the tariff increases on a large and small household, as well as an indigent household receiving free basic services.

**Table 12 Supporting Table SA14 Household bills**

Description	Ref	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16 % incr.	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
<b>Rand/cent</b>								
<b>Monthly Account for Household - 'Middle Income Range'</b>	1							
Rates and services charges:								
Property rates		242.19	256.77	256.77	5.1%	269.96	288.86	309.08
Electricity: Basic levy		-	-	-				
Electricity: Consumption		1,093.85	1,171.45	1,171.45	11.5%	1,306.00	1,397.42	1,495.24
Water: Basic levy		83.50	88.50	88.50	18.6%	105.00	112.35	120.21
Water: Consumption		147.18	187.10	187.10	5.9%	198.20	212.07	226.92
Sanitation		134.00	142.00	142.00	9.2%	155.00	165.85	177.46
Refuse removal		70.00	74.00	74.00	14.9%	85.00	90.95	97.32
sub-total		1,770.72	1,919.82	1,919.82	10.4%	2,119.16	2,267.50	2,426.22
VAT on Services		213.99	232.83	232.83	11.2%	258.89	277.01	296.40
<b>Total large household bill:</b>		1,984.71	2,152.65	2,152.65	10.5%	2,378.05	2,544.51	2,722.63
% increase/-decrease		0.5%	8.5%	-		10.5%	7.0%	7.0%
<b>Monthly Account for Household - 'Affordable Range'</b>	2							
Rates and services charges:								
Property rates		164.69	174.60	174.60	4.7%	182.88	195.68	209.37
Electricity: Consumption		450.35	480.55	480.55	9.7%	527.00	563.89	603.36
Water: Basic levy		83.50	88.50	88.50	18.6%	105.00	112.35	120.21
Water: Consumption		112.93	150.80	150.80	5.9%	159.70	170.88	182.84
Sanitation		134.00	142.00	142.00	9.2%	155.00	165.85	177.46
Refuse removal		70.00	74.00	74.00	14.9%	85.00	90.95	97.32
sub-total		1,015.47	1,110.45	1,110.45	9.4%	1,214.58	1,299.60	1,390.57
VAT on Services		119.11	131.02	131.02	10.2%	144.44	154.55	165.37
<b>Total small household bill:</b>		1,134.58	1,241.47	1,241.47	9.5%	1,359.01	1,454.14	1,555.93
% increase/-decrease		(1.15)	9.4%	-		9.5%	7.0%	7.0%
<b>Monthly Account for Household - 'Indigent' Household receiving free basic services</b>	3							
Rates and services charges:								
Property rates		87.19	92.44	92.44	3.6%	95.79	102.50	109.67
Electricity: Consumption		248.10	264.00	264.00	8.0%	285.00	304.95	326.30
Water: Basic levy		-	-	-				
Water: Consumption		78.68	83.30	83.30	5.9%	88.20	94.37	100.98
Sanitation		-	-	-				
Refuse removal		-	-	-				
sub-total		413.97	439.74	439.74	6.7%	468.99	501.82	536.95
VAT on Services		45.75	48.62	48.62	7.5%	52.25	55.91	59.82
<b>Total small household bill:</b>		459.72	488.36	488.36	6.7%	521.24	557.73	596.77
% increase/-decrease		(3.5%)	6.2%	-		6.7%	7.0%	7.0%

## 1.5.2 Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the municipality's Indigent Policy. The target is to register **3000** (four thousand) or more indigent households during the 2015/16 financial year, a process reviewed annually.

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

All indigents will get the following subsidies per month.

**Table 13 Indigent subsidy**

<b>Service</b>	<b>Basic</b>	<b>Units</b>	<b>Unit price</b>	<b>Subsidy</b>
Electricity	R0.00	50	R0.79	R 39.50
Water	R105.00	6	R5.50	R 138.00
Refuse removal	R85.00	0	0	R 85.00
Sewerage	R155.00	0	0	R 155.00
<b>TOTAL</b>				<b>R 417.50</b>

## A - Schedule

Attached hereto find the complete A - Schedule

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