

# Annual Budget of Kareeberg Municipality

2013/14 to 2015/16  
MEDIUM TERM REVENUE AND  
EXPENDITURE FORECASTS

## VISION

A SUSTAINABLE, AFFORDABLE and DEVELOPMENTAL QUALITY SERVICE for ALL

## MISSION

WE WILL ACHIEVE OUR VISION BY ENSURING THAT WE:

- Provide a continuous and constant service
- Provide a better level of service for our basket of services
- Provide value for money that will be maintained by the municipality
- Improve existing infrastructure and create new opportunities for all



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**Abbreviations and Acronyms**

ASGISA	Accelerated and Shared Growth Initiative
CFO	Chief Financial Officer
CPI	Consumer Price Index
CRRF	Capital Replacement Reserve Fund
DBSA	Development Bank of South Africa
DoRA	Division of Revenue Act
DWA	Department of Water Affairs
EE	Employment Equity
FBS	Free basic services
GAMAP	Generally Accepted Municipal Accounting Practice
GRAP	General Recognised Accounting Practice
HR	Human Resources
IDP	Integrated Development Strategy
IT	Information Technology
kℓ	kilolitre
km	kilometre
KPA	Key Performance Area
KPI	Key Performance Indicator
kWh	kilowatt
ℓ	litre
LED	Local Economic Development
MBRR	Municipal Budget and Reporting Regulation
MFMA	Municipal Financial Management Act programme
MIG	Municipal Infrastructure Grant
MM	Municipal Manager
MPRA	Municipal Properties Rates Act
MSA	Municipal Systems Act
MTEF	Medium-term Expenditure Framework
MTREF	Medium-term Revenue and Expenditure Framework
NERSA	National Electricity Regulator South Africa
NGO	Non-Governmental organisations
NKPIs	National Key Performance Indicators
NT	National Treasury
PBO	Public Benefit Organisations
PMS	Performance Management System
PPE	Property Plant and Equipment
RDP	Reconstruction and Development Programme
SALGA	South African Local Government Association
SAPS	South African Police Service
SCMP	Supply Chain Management Policy
SDBIP	Service Delivery Budget Implementation Plan
SMME	Small Micro and Medium Enterprises

## **Introduction**

- a Kareeberg Municipality is situated in the western side of the Pixley ka Seme District Municipality in the Northern Cape Province. The district consists of nine municipalities of which Kareeberg is the second smallest.

The municipality was established through the amalgamation of Carnarvon, Vanwyksvlei and Vosburg, as well as a large area of rural farms. The administrative centre is located in Carnarvon with Vanwyksvlei and Vosburg being rural service centres.

The landscape is typical Karoo with an annual average rainfall of 260mm and an annual evaporation of 230mm. There are no constant rivers running through the municipal area and all towns are dependent on ground water.

Local economic opportunities are sadly lacking in the municipal area with the declining economy being largely based on sheep farming. With a registered indigent rate of approximately 61%, most of the residents rely heavily on the provision of free basic services.

Population growth has been negative by  $\pm 4\%$  over the last ten years. The migration of economically active residents to greater urban areas has a huge impact on the population growth. The total population of the municipality is 11 673, which constitutes 3 222 households. 1 158 households (population 4 168), are resident in the rural areas whilst 2 064 (population 7 504) resides in the urban areas.

- b Kareeberg Municipality has an ongoing consultative process whereby any stakeholder in the municipality can give input for the budgetary process. The municipality has an open door policy so that the Mayor's office, as well as senior management, are available at any time. After each bi-monthly council meeting a community meeting is held where feedback is given by council as well as where inputs by the community are noted. A monthly newsletter, "Die Korbeeltjie", is delivered to each household free of charge wherein the Mayor gives feedback on council activities and asks for inputs on any matter for better service delivery. Advertisements for inputs during the revision of the IDP as well as the budget process were placed in the local newspaper. No inputs were received.
- c This year's Medium Term Revenue and Expenditure Framework is informed by the municipality's vision of affordable and sustainable service delivery. This budget has been prepared in line with the requirements as set out in Circulars 51, 54, 55, 58, 59, 66 and 67 of National Treasury and complies with the Municipal Budget and Reporting Regulations.
- d Although the municipality will make every effort to collect all revenue due, so that service delivery will not be hampered in any way, the following challenges causes concern:
- Aging and poorly maintained water, roads and electricity infrastructure;
  - The increased cost of bulk electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents.
  - Wage increases for municipal staff that continue to exceed consumer inflation

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 electricity.

## Part 1 – Annual Budget

1.1 Mayor's Report





1.2 Council Resolutions

### 1.3 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.

The main challenges experienced during the compilation of the 2013 - 2014 MTREF can be summarised as follows:

The ongoing difficulties in the national and local economy;

Aging and poorly maintained water, roads and electricity infrastructure;

The increased cost of bulk electricity (due to tariff increases from 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;

Availability of affordable capital

The following budget principles and guidelines directly informed the compilation of the 2013 - 2014 MTREF:

The 2012/13 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 2013/14 annual budget;

Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;

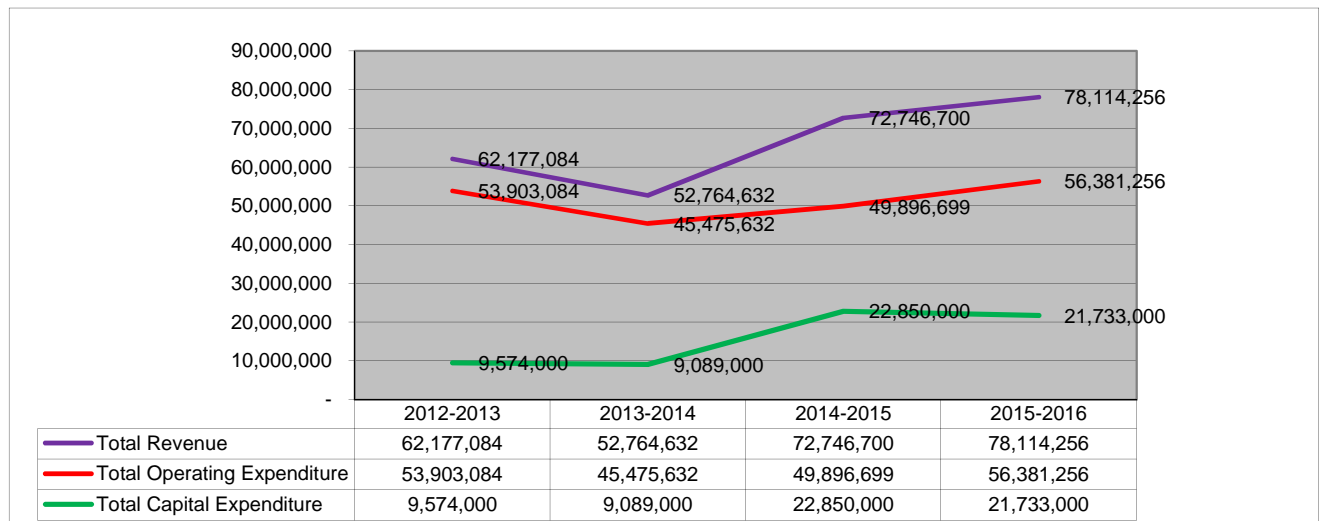
Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;

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 Municipal Finance Management Act;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2013/14 Medium-term Revenue and Expenditure Framework:

**Table 1 Consolidated Overview of the 2013/14 MTREF**

Description	Adjusted Budget 2012/13	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Total Revenue	62,177,084	52,764,632	72,746,700	78,114,256
Total Operating Expenditure	53,903,084	45,475,632	49,896,699	56,381,256
Surplus/(Deficit for the year)	8,274,000	7,289,000	22,850,000	21,733,000
Total Capital Expenditure	9,574,000	9,089,000	22,850,000	21,733,000



Total revenue has decreased by 15.14 per cent or R9.412 million for the 2013/14 financial year when compared to the 2012/13 Adjustments Budget. Grant revenue received from Government departments caused the adjustment to the 2012/13 budget. For the two outer years, revenue will increase by 37.87 and 7.38 per cent respectively, equating to a total revenue growth of R 25.3 million over the MTREF when compared to the 2012/13 financial year.

The erratic movement is due to changes in municipal infrastructure allocations. Regional Bulk Infrastructure Grant allocated for 2014/15 (R 15mil) and 2015/16 (R 13.7mil) causes revenue to rocket upwards. Operational revenue increases by R 3.8mil over the MTREF.

Total operating expenditure for the 2013/14 financial year has been appropriated at R45.47 million and translates into a budgeted loss of R1.8 million. Operational expenditure grows by 10.91 per cent from the original 2012/13 budget and by 9.72 and 13.0 per cent for each of the respective outer years of the MTREF. Expenditure increases by R 2.5million over the MTRF. The value of the assets are already appropriated to the accumulated Surplus.

The deficit for the MTREF is caused by depreciation for assets purchased from Government Grants. It would increase expenditure with 3.96%. Although it is understood that depreciation should be budgeted for, it is also true that the burden on the consumer will increase beyond affordability.

The capital budget constitutes the Municipal Infrastructure Grant allocated in the Division of Revenue Bill and the projects align with the Integrated Development Plan.

#### 1.4 Operating Revenue Framework

For Kareeberg 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 maintenance 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 macro-economic policy;

- Efficient revenue management, which aims to ensure a 95 per cent annual collection rate for property rates and other key service charges;

- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);

- Achievement of full cost recovery of specific user charges especially in relation to trading services;

- The municipality's Property Rates By-law approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);

- The municipality's Indigent Policy and rendering of free basic services; and

- Tariff policies of the municipality

The following table is a summary of the 2013/14 MTREF (classified by main revenue source):

**Table 2 Summary of revenue classified by main revenue source**

Description R	2009/10	2010/11	2011/12	Current Year 2012/13				2013/14 Medium Term Revenue &		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
<b>Revenue By Source</b>										
Property rates	3,892,838	3,908,466	3,878,347	4,526,502	4,526,502	4,318,455	4,318,455	5,431,632	6,488,028	6,622,569
Property rates - penalties & collection charges	204,870	248,377	199,288	190,000	190,000	187,205	187,205	190,000	199,500	209,475
Service charges - electricity revenue	4,466,913	5,514,194	6,631,019	7,240,297	7,240,297	6,921,331	6,921,331	8,147,236	9,255,214	12,321,447
Service charges - water revenue	2,974,678	3,100,112	3,386,633	3,554,778	3,554,778	3,608,560	3,608,560	3,767,354	4,481,248	4,669,937
Service charges - sanitation revenue	1,847,552	1,924,834	2,058,501	2,289,697	2,289,697	2,225,796	2,225,796	2,382,660	2,597,987	2,613,668
Service charges - refuse revenue	2,470,537	2,584,520	2,780,237	3,048,829	3,048,829	2,922,354	2,922,354	3,081,769	3,589,479	3,637,790
Service charges - other										
Rental of facilities and equipment	446,335	448,165	522,383	410,674	410,674	423,912	423,912	410,674	431,133	452,689
Interest earned - external investments	1,743,469	1,115,642	928,766	1,297,000	1,297,000	1,506,849	1,506,849	1,297,000	1,361,850	1,429,943
Interest earned - outstanding debtors	4,713	4,009	7,756	3,300	3,300	3,383	3,383	3,300	3,465	3,638
Dividends received										
Fines	19,189	19,652	22,806	12,230	12,230	5,633	5,633	12,230	12,842	13,484
Licences and permits	17,837	14,737	11,202	7,420	7,420	5,624	5,624	7,420	7,791	8,181
Agency services	96,122	105,017	119,540	97,000	97,000	134,343	134,343	97,000	101,850	106,943
Transfers recognised - operational	12,597,889	20,822,137	18,771,962	15,906,000	27,306,000	27,306,000	27,306,000	17,728,000	18,580,000	21,613,000
Other revenue	943,917	2,090,156	1,903,536	1,119,357	2,619,357	2,882,484	2,882,484	1,119,357	2,786,313	2,678,492
Gains on disposal of PPE	-	-	-	-	-	-	-	-	-	-
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>31,726,860</b>	<b>41,900,019</b>	<b>41,221,976</b>	<b>39,703,084</b>	<b>52,603,084</b>	<b>52,451,928</b>	<b>52,451,928</b>	<b>43,675,632</b>	<b>49,896,700</b>	<b>56,381,256</b>

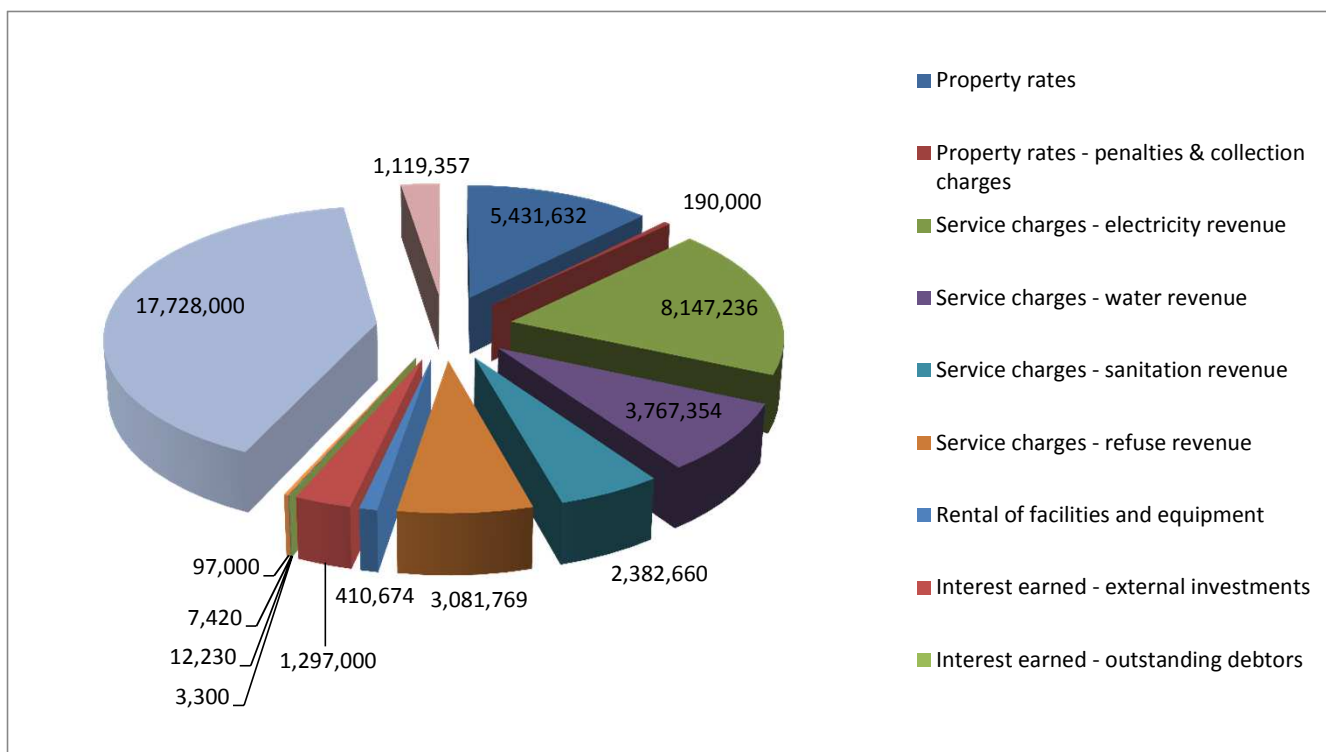


Table 3 Percentage growth in revenue by main revenue source

R	Description	Current Year 2012/13		2013/14 Medium Term Revenue & Expenditure Framework					
		Adjusted Budget	%	Budget Year 2013/14	%	Budget Year +1 2014/15	%	Budget Year +2 2015/16	%
	Property rates	4,526,502	17.00%	5,431,632	20.00%	6,488,028	19.00%	6,622,569	2.00%
	Property rates - penalties & collection charges	190,000	-5.00%	190,000	0.00%	199,500	5.00%	209,475	5.00%
	Service charges - electricity revenue	7,240,297	9.00%	8,147,236	13.00%	9,255,214	14.00%	12,321,447	33.00%
	Service charges - water revenue	3,554,778	5.00%	3,767,354	6.00%	4,481,248	19.00%	4,669,937	4.00%
	Service charges - sanitation revenue	2,289,697	11.00%	2,382,660	4.00%	2,597,987	9.00%	2,613,668	1.00%
	Service charges - refuse revenue	3,048,829	10.00%	3,081,769	1.00%	3,589,479	16.00%	3,637,790	1.00%
	Service charges - other	-		-		-		-	
	Rental of facilities and equipment	410,674	-21.00%	410,674	0.00%	431,133	5.00%	452,689	5.00%
	Interest earned - external investments	1,297,000	40.00%	1,297,000	0.00%	1,361,850	5.00%	1,429,943	5.00%
	Interest earned - outstanding debtors	3,300	-57.00%	3,300	0.00%	3,465	5.00%	3,638	5.00%
	Dividends received	-		-		-		-	
	Fines	12,230	-46.00%	12,230	0.00%	12,842	5.00%	13,484	5.00%
	Licences and permits	7,420	-34.00%	7,420	0.00%	7,791	5.00%	8,181	5.00%
	Agency services	97,000	-19.00%	97,000	0.00%	101,850	5.00%	106,943	5.00%
	Transfers recognised - operational	27,306,000	45.00%	17,728,000	-35.00%	18,580,000	5.00%	21,613,000	16.00%
	Other revenue	2,619,357	38.00%	1,119,357	-57.00%	2,786,313	149.00%	2,678,492	-4.00%
	Gains on disposal of PPE	-		-		-		-	
	<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>52,603,084</b>		<b>43,675,632</b>		<b>49,896,700</b>		<b>56,381,256</b>	
	Total Revenue from rates and service charges	20,660,103	39.28%	22,810,651	52.23%	26,411,956	52.93%	29,865,411	52.97%

Revenue generated from rates and services charges form a significant percentage of the revenue basket for the municipality. Rates and service charge revenues comprise more than half of the total revenue mix. In the 2012/13 financial year, revenue from rates and services charges totalled R20.6 million. This increases to R22.8 million, R26.4 million and R29.8 million in the respective financial years of the MTREF. This growth can be mainly attributed to the increased share that the sale of electricity contributes to the total revenue mix, which in turn is due to rapid increases in the Eskom tariffs for bulk electricity. The above table includes revenue foregone arising from discounts and rebates associated with the tariff policies of the municipality. Details in this regard are contained in MBRR SA1 (see pages 89 and 90).

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.

Operating grants and transfers total R27.3 million in the 2012/13 financial year. Operating grants constitute 40.59%, 37.24% and 38.33% of the MTREF, starting with the 2013-2014 budget. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 4 Operating Transfers and Grant Receipts

R	Description	2009/10	2010/11	2011/12	Current Year 2012/13			2013/14 Medium Term Revenue &		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
	<b>RECEIPTS:</b>									
	<b>Operating Transfers and Grants</b>									
	<b>National Government:</b>	<b>9,277,967</b>	<b>11,450,480</b>	<b>13,116,000</b>	<b>15,241,000</b>	<b>15,241,000</b>	<b>15,241,000</b>	<b>16,808,000</b>	<b>17,803,000</b>	<b>20,836,000</b>
	Equitable Share	7,227,967	9,050,480	10,466,000	11,941,000	11,941,000	11,941,000	13,268,000	15,069,000	17,919,000
	Finance Management	750,000	1,200,000	1,450,000	1,500,000	1,500,000	1,500,000	1,650,000	1,800,000	1,950,000
	Municipal Systems Improvement	1,300,000	1,200,000	1,200,000	800,000	800,000	800,000	890,000	934,000	967,000
	Public Works				1,000,000	1,000,000	1,000,000	1,000,000		
	<b>Provincial Government:</b>	<b>540,022</b>	<b>3,657,344</b>	<b>7,797,445</b>	<b>665,000</b>	<b>12,065,000</b>	<b>12,065,000</b>	<b>920,000</b>	<b>777,000</b>	<b>777,000</b>
	Sports and Recreation	334,000	340,000	501,000	665,000	665,000	665,000	720,000	777,000	777,000
	Kreeberg festival	11,989	200,000					100,000		
	Housing		2,541,551	2,381,969						
	Sports and Recreation			3,755,965						
	Job creation		325,000	325,000						
	Water affairs	165,000	89,120							
	Housing B. Agterdam		61,673							
	Van yksvlei water assistance			639,879						
	Youth Development			93,632						
	Water Service Plan	14,033								
	Economic affairs	15,000	100,000	100,000				100,000		
	Housing					2,500,000	2,500,000			
	EPWP					8,000,000	8,000,000			
	Dept. of Water affairs					400,000	400,000			
	Municipal Drought Relief					500,000	500,000			
	<b>Other grant providers:</b>	<b>45,375</b>	<b>57,455</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>Open Africa</b>		57,455							
	<b>Development Bank</b>	45,375								
	<b>Total Operating Transfers and Grants</b>	<b>9,863,364</b>	<b>15,165,279</b>	<b>20,913,445</b>	<b>15,906,000</b>	<b>27,306,000</b>	<b>27,306,000</b>	<b>17,728,000</b>	<b>18,580,000</b>	<b>21,613,000</b>

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. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment

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, petrol, diesel, chemicals, cement etc.

The tariff setting process relating to service charges is set out as follows.

### Property Rates

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA).
- The rating of agricultural properties have been phased in. The ratio for these properties have been set at 1 : 0.066.

The second valuation roll will be implemented from 1 July 2013. An increase of 15% is expected in the valuation.

To soften the increase for other services, property rates have increased by 10%

- Council affords agriculture a further rebate for the following criteria:

- 5% if no municipal road borders the property;
- 5% if no sewerage is connected to the property
- 5% if the municipality does not supply electricity to the property
- 5% if the municipality does not supply water to the property
- 5% if the municipality does not supply refuse removal to the property
- 5% if the owner contributes substantially to job creation
- 5% if the owner supplies acceptable standard of water services to the farm workers

- The Municipality may award a 100 per cent grant-in-aid on the assessment rates of rate-able properties of certain classes such as official places of worship, registered welfare organizations, institutions or organizations performing charitable work, sports grounds used for purposes of amateur sport as well as for State infrastructure.

The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2013/14 financial year is contained below:

Table 5 Comparison of proposed rates to be levied for the 2013/14 financial year

Category	Current tariff (1 July 2012) c	Proposed tariff (1 July 2013) c	% increase
Residential properties	1.760	1.936	10.00
Business & Commercial	1.760	1.936	10.00
Industrial	1.760	1.936	10.00
State owned properties	3.520	3.872	10.00
Agricultural	0.116	0.128	10.34
Municipal rateable	0.968	1.065	10.02
Public Service Infrastructure	0.440	0.484	10.00
Places of Worship	1.760	1.936	10.00
Public benefit organisation properties	1.760	1.936	10.00