

Maluti-A-Phofung Water Budget 2010/11 “MTREF”





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Executive Summary

2. BACKGROUND

In terms of Section 87 of Municipal Finance Management Act No.56 of 2003, the board of directors must submit a proposed budget for the entity each financial year. The submission of the proposed budget should not be later than 150 days before the start of the financial year so that the parent municipality can consider the submitted budget. If the parent municipality makes recommendation, the board should consider the recommendation and submit the revised budget not later than 100 days before the start of the financial year.

After that the Mayor of the parent municipality must table the proposed budget to the Council when the annual budget of the municipality for the relevant year is tabled. When the budget has been approved by Council, the board must approve the budget of the entity not later than 30 days before the start of financial year, taking into account any hearings or recommendations of the Council.

3. PURPOSES

The purpose of this report is to present the budget for 2010/2011 financial year to the council for approval. This is compliance with the MFMA No.56 of 2003.

4. BUDGETING PROCESS AND PRINCIPLE APPLIED

The approved budget for 2009/2010 had the indicative trends for 2010/2011, but during this budgeting process zero based principles were followed to try and correct flaws occurred during the previous budgeting process if there were any of such flaws. So since the entity is expected to table a balanced and credible budget that is based on realistic estimates, management had to sit down and review the budget for 2010/2011 analyzing, prioritizing needs and projects.

The current budget was informed by MFMA Circular No 48 published on the 2 March 2009 by the National Treasury, which is used to set out the policy context and direction so that departments, provinces and municipalities can prepare their budget plans for the next three years.

Table 1: MFMA Circular 48

Fiscal year	2008	2009	2010	2011	2012
CPI	8.1	10.8	5.4	5.1	4.6



The second thing that was also considered was the allocation of equitable share versus the number of households receiving FBW and free water. Currently, 88% of household in the MAP area has access to potable water and the ones without access are catered by water tanks that deliver water to these areas.

Table 2: Free Basic Water Cost calculation as base for Equitable Share allocation

	Budget 2009/10	Budget 2010/11	Budget 2011/12	Budget 2012/13
Total Expenses	R 104,488,841	R 118,264,164,	R 134,965,260	R 145,519,185
m3 water produced	13,200,000	13,200,000	13,560,000	14,040,000
Network water losses	10.00%	10.00%	10.00%	10.00%
Volume accounted for	11,880,000	11,708,815.00	12,204,000	11,793,600
cost /m3 accounted for	R 8.84	R 9.90	R 11.06	R11.52
H/holds (WSDP-Dec 2006)	105,868	105,868	108,515	111,228
Backlog (below RDP)	9,800	7,350	5,513	5,513
Nr H/H receiving FBW	96,068	96,068	105,715	96,068
Volume FBW m3	6,916,896	6,916,896	7,283,858	7,611,485
Cost of FBW	R 60,836,570	R 68,499,787	R 80,552,921	R 87,655,672
Less: DWAF Grant	R 13,797,000	R 10,944,000	R 8,830,000	R7,064,000
Funding ex Equitable Share	R 47,039,570	R 57,555,787	R 71,722,921	R 80,591,672
Equitable Share Deficit	R 0	R 0	R 0	R0



Apart from that, we have used allocation as per the Division of Revenue (DORA) (see annexure 1), and the allocations for the parent municipality were as follows:

Table 3: Equitable share for MAP vs. MAP Water

	2008/2009		2009/2010		2010/2011	
MAP	159,108,000		199,070,000		247,432,000	
MAP Water	21,116,832	13.27%	49,767,500	25%	57,555,787,	25%

Table 4: Comparison of equitable share vs. operating grant

	2008/2009	2009/2010	2010/2011	
EQ	159,108,000	199,070,000	247,432,000	
OP	13,797,000	13,797,000	10,944,000	25%

As the last resort in order to formulate the budget some of actual expenses were considered for 6 months to ascertain outstanding work that needs to be done and work which is also crucial for service delivery .The money owed to DEWA was also spread over the period of three (3) years to reduce the burden from the entity.

In order to make sure that the entity's budget is balanced and credible, the proposed amounts were based on realistic estimates of revenue to be collected taking into account proactive steps taken to introduce E-venus system.



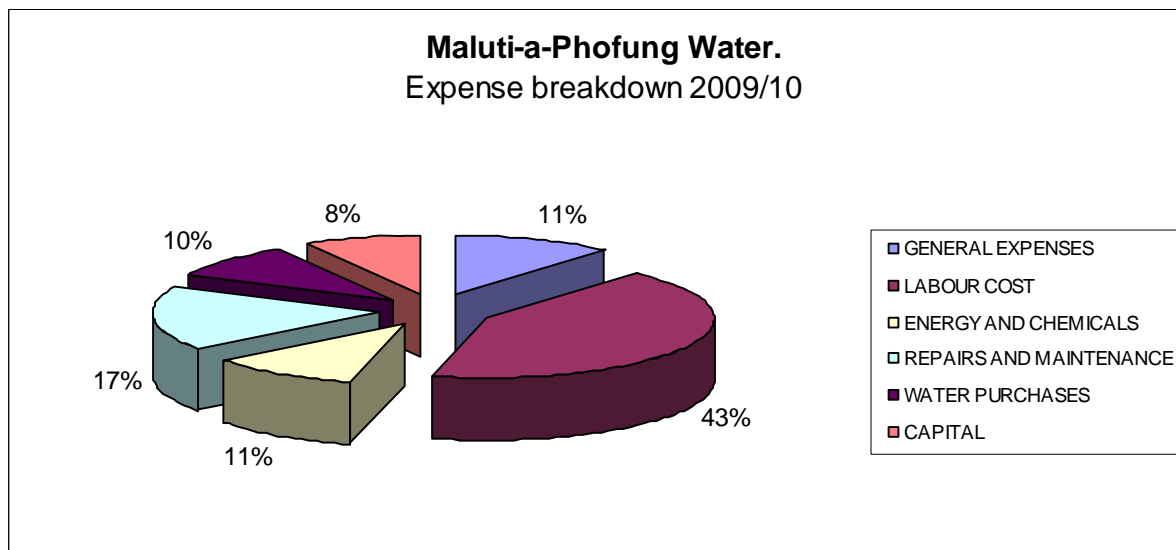
5. BUDGET OVERVIEW

The budget for 2010/2011 has increased by 12.97% as compared to the budget of 2009/2010 financial year and amounts to R 120,064,164.

5.1 OPERATIONAL COSTS

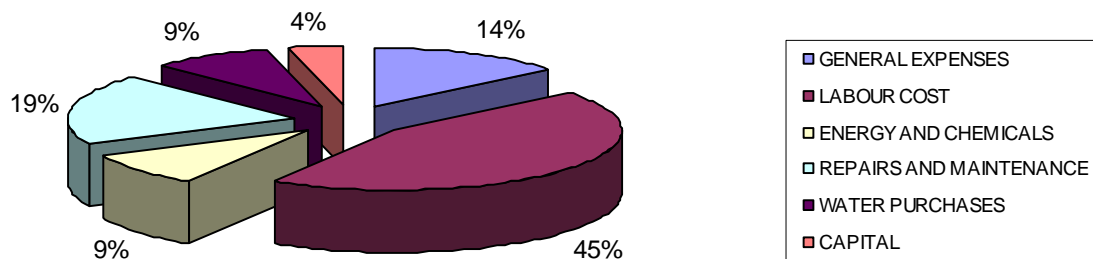
Table 5: Expense breakdown

Expenses breakdown	2009/2010	2010/2011	2011/12	2012/13
GENERAL EXPENSES	12,366	16,697	17,711	16,350
LABOUR COST	46,273	53,915	63,245	69,344
ENERGY AND CHEMICALS	7,808	11,257	11,856	13,042
REPAIRS AND MAINTENANCE	18,703	23,043	23,541	24,718
WATER PURCHASES	10,497	10,556	12,338	12,955
CAPITAL	9,142	4,600	6,274	9,110

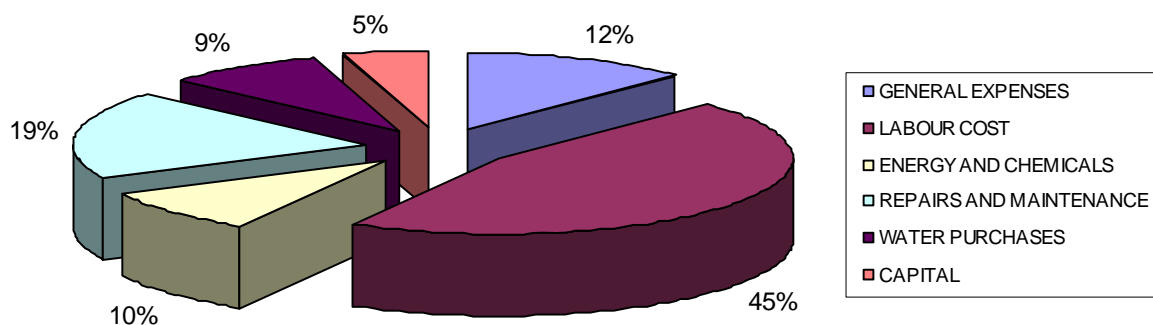


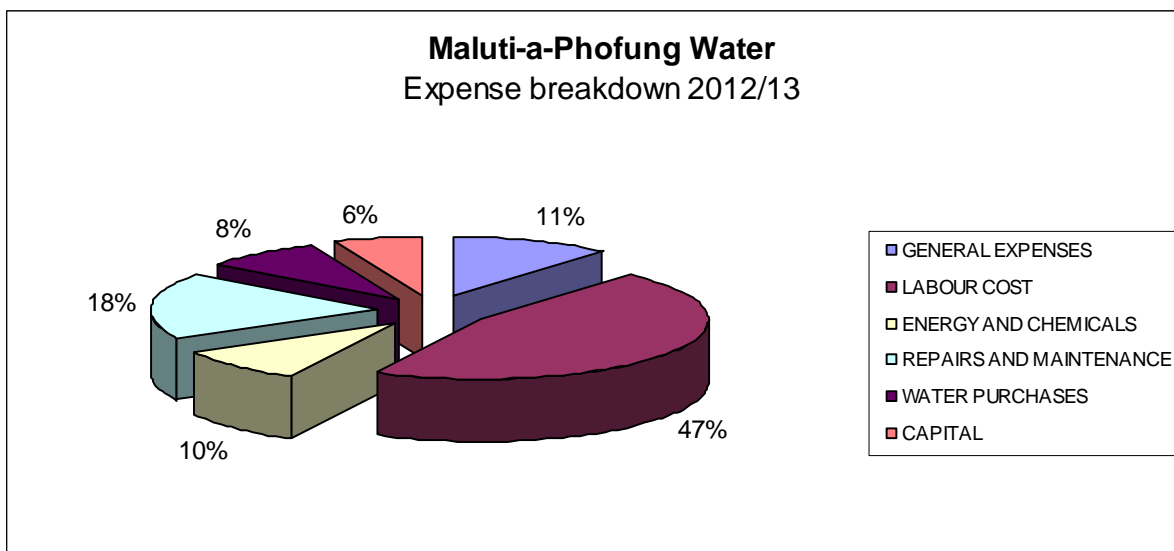


Maluti-a-Phofung Water
Expense breakdown 2010/11



Maluti-a-Phofung Water
Expense breakdown 2011/12





5.3 Labour Costs

5.3.1 Housing allowance: The above mentioned allowance is included in the proposed budget for 2010/11 due to the agreement reached with employee's representatives of 2007/8 financial wage agreement. However the allowance will only be given to employees who have bonds and are deducted from their salaries, adding an extra R600 000 to our salary cost. This will be guided by SALGA guidelines on housing allowance.

5.3.2 Salaries: In the current budget of 2009/10 financial year the agreement reached was at the average of 9.5 percent. For the new budget of 2010/11 financial year the projected 14.17% for salary increase includes 15% increase on medical aid, approved positions on the structure of about R 2.8 m and normal 10% annual increase.

5.3.3 Bonus allocation for PMS: The implementation of the performance management system warrants us to budget for a certain amount for performance bonus and merit increase to deserving employees. The approved PMS policy provides for payment of 14th cheque to deserving employees, for the purpose of the budget we envisage that a top performer will probably receive half of the annual bonus as a performance bonus to arrive at the figure included in the draft budget for 2010/2011 subject to overall performance of the entity and individual employee.



5.4. Energy and Chemical

The chemicals are one of the most critically items for purification of raw water and sewer .Major portion of the budgeted figure includes an amount for electricity. Overall increase on this particular item is about 31% .

5.5. Repairs and Maintenance

The overall increase under this item is about 18.83% compared to the previous budget mainly due to the refurbishment and maintenance projects envisaged in the new financial year .This provision is made due to the safety standards that should be upheld.

5.6. General Expenses

Major component of this item consists of the leasing of equipment and management fees due to the strategic partners. This represents an increase of about 26% compared to the previous budget.



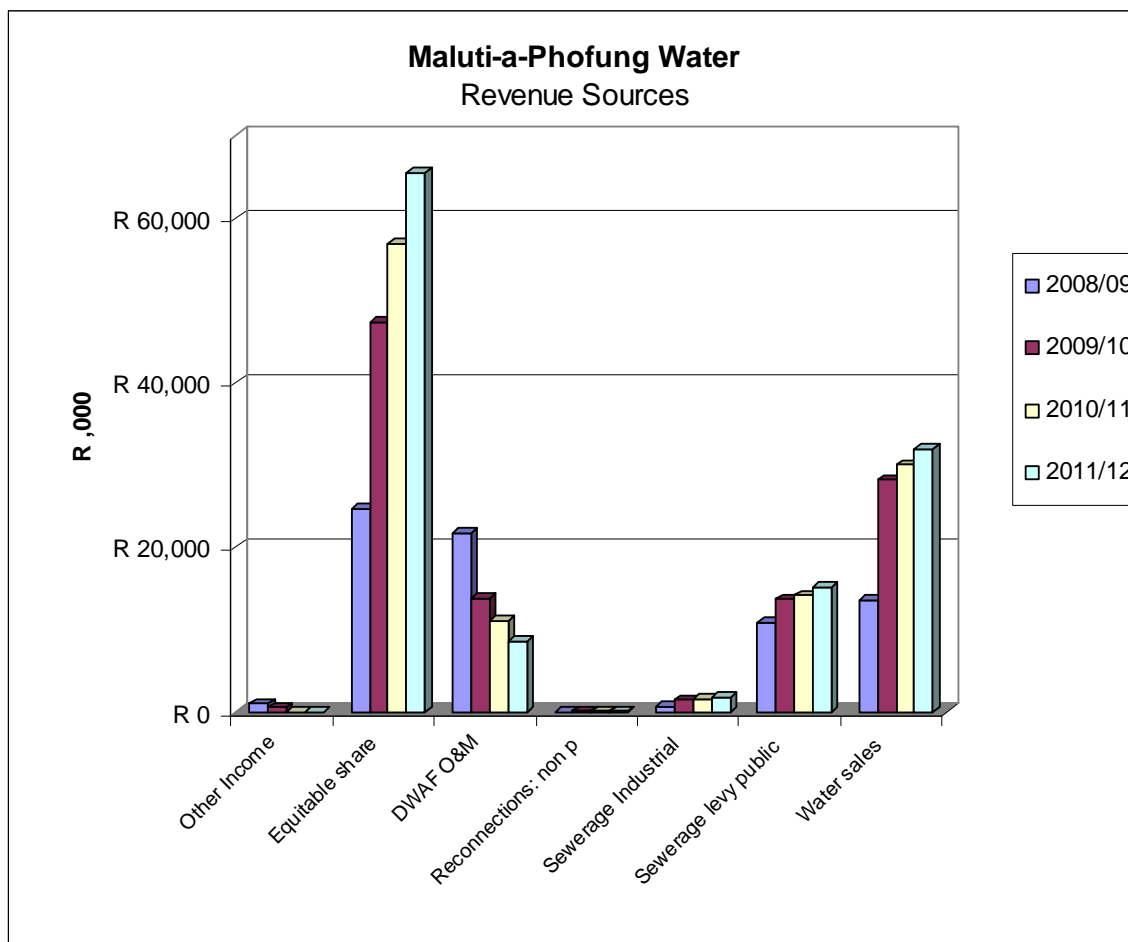
6. REVENUE BY SOURCE

The table below depicts source of revenue for MAP Water, and most of the budget is coming from the equitable share, water sales and DWAF grant.

Table 6: Revenue by source

Revenue	2009/2010	2010/11	2011/12	2012/13
Other Income	0	0	0	0
Equitable share	47,048	57,555	71,722	80,591
DWAF O&M	13,797	10,944	8,830	7,064
Reconnections: non p	0	0	0	0
Sewerage Industrial	0	1,606	1,605	1,766
Sewerage levy public	5,691	15,753	14,167	15,168
Water sales	14,460	34,206	30,056	31,960

The income from DWAF for the O&M grant is reduced to R10, 944 as per DORA allocation. If the O&M grant is decreasing, the allocation for equitable share should increase and we believe that 25% of the equitable share must be allocated to water and sanitation services.





7. CHALLENGES

The entity is doing all it can to provide quality services to the communities under limited resources, even though there are challenges that need to be highlighted:

- The infrastructure that we have is old, of which most needs upgrade and major refurbishment. For MAP Water to be able to do water conservation and demand management, bulk meters and valves need to be installed, especially in the Greater Qwa Qwa area.
- The other challenge that we are facing is the water quality water in Qwa Qwa, when Fika Patso was constructed some of the subsystems were left out, namely: flocculation, sedimentation and filtration. Due to this, if the water from Fika Patso has a high level of suspended solids, the treatment works cannot remove such, thus brown water supplied to the communities.
- Dam levels and demand is also posing a challenge for the entity because if the levels are low, quality in some instances could be compromised and some areas like Kestell are experiencing a difficulty in terms of water supply.

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