

14. OVERVIEW OF BUDGET ASSUMPTIONS

Expenditure

Salaries and Allowances

It is assumed that salaries of employees and councillors will in terms of the National Bargain Council negotiations of salary increases for the following three years. The following was negotiated for 2014/2015 namely:

Salary increase based on CPIX 5.6% plus 1% notch increase for qualifying employees.

General expenditure

It is assumed that costs for services will increase in line with the CPIX. The current oil price is a concern and it is expected that the fuel price hikes will have a substantial effect on expenditure. It is also assumed that the capital projects for 2014/2015 will be completed during the financial year as there were budgeted for, the depreciation of such projects as per general recognized accounting practice (GRAP) is also taken in to account.

The depreciation is assumed to increase in 2014/2015 because there are projects that will be capitalised to assets which are still in work in progress. That will accelerate the depreciation expense. The depreciation will be funded by our reserves.

General expense consist of all expenses that are not allocated specific space in the template, that is why it will be seen to be more than 10%.

Repairs and Maintenance

It is assumed that municipal infrastructure and assets will be maintained and there will be an increase on its spending. No major breakages will take place during the financial year.

Finance costs

It is assumed that interest rates will be stable during the financial year, but the provision for interest is base on lease liability.

Bulk Purchases

It is assumed that electricity tariffs of Eskom will increase by 7.39% as from 1 July 2014, as approved by NERSA.

Contracted services

Contracted services include all services are contracted and also repairs and maintenance since our repairs and maintenance are provided external.

Income

Collection rate for municipal services

It is assumed that the collection rate (percentage of service charges recovered) for the financial year will be the same as the current payment rate. In accordance with relevant legislation and national directives, the estimated revenue recovery rates are based on realistic and sustainable trends. The Municipality's collection rate is set at an average of 75%. Adequate provision is made for non-recovery.

It is assumed that in 2015/2016 and 2016/2017 the collection will be 75% and 75% respectively.

Sale of water and sewerage fees

An inflation linked tariff increase of 10% is provided for across the board. The budget was also based on the realistic billing figures and the projection was made.

INTEREST ON INVESTMENTS

Interest Income is expected to decrease due to accelerated project implementation which reduces funds available for investment. MIG and MWIG have multi-year contracts and there are no delays in projects implementation. The investment to financial institutions depends on the interest rate of that institution during that period.

Other revenue

Other revenue in the budget consist of the amount that will be collected during the year such as meter testing, tender fee, indonsa hall hire, indonsa deposit refundable etc. The other portion of revenue is not collectable revenue but the funds that will be used to cater for the expenses other than those funded by grants and also to cater for backlog depreciation and provision of doubtful debts.

Grants

It is assumed that the National and Provincial grants as per Division of Revenue Act (DORA) which has been included in the budget will be received during the 2014/2015 financial year.

FINANCIAL POSITION

Property Plant and Equipment

It is assumed that looking at our current funding there will be a decrease in addition to PPE in 2014/2015 as compared to 2013/2014.

Long –term Receivables

It is assumed that taking in to account the current movement there will be an increase in 2013/2014 long term receivables resulting from the 7.39% increase by Eskom and also the provision for new accounts. This 7.39% increase taken in to account in the two outer years.

Intangible Asset

It is assumed that the Intangible asset will increase with R50 000 as the net movement after taking into account the amortisation amount and the payments to software licences for the year over the three year period.

Call Investment Deposits

2013-14: The Call investment estimated balance was determined based on the call investment balance as at 31 January 2014 and together with the projected six months expenditure based on the prior year conditional grant expenditure. For 2013/14 financial year going forward, it is assumed that there will be an increase.

Inventory

The inventory level is assumed to increase in the next financial year based on the current stock level.

Trade and other payables from exchange transactions

Looking at the systems being in place and the system to be implemented, it is more likely that our payables will decrease by 6% in the 2014/2015 and 10% in the other two outer years.

Consumer Debtors

It is assumed that looking at our rate of collection and debtor's age analysis it is more likely that there will be an increase in consumer Debtors.

Consumer deposit

If we are looking at 6 months movement, it gives us a increase in consumer deposit. An increase is the net movement between new accounts and consumers who defaulted. There is proposed new method of how to deal with the consumer deposits but it is still at draft stage. We made the assumption that next year which is 2014/2015 the change will be more less the same and the other two outer years.

Transfers and grants – capital

The Regional bulk infrastructure grant if reflected in the budget because of the confirmation from water affairs that we will receive the funding.

Other Grants

The following grants are gazetted by provincial treasury in terms of section 30(2) of Division of revenue bill 2014.

Corridor development, Shared services and Art centre subsidies (Indonsa Grant)

Cash flow

Cash from operating activity

The assumed collection rate based on the current collection level is 75% of billable revenue, taking into account that there are debtors paying for 2013/2014 debts.

The figure for other revenue is assumed based on the last financial year AFS and current collection.

All other activities are assumed based on the previous financial statements information and taking into account the current movements.