



LEPHALE MUNICIPALITY

DRAFT BUDGET 2023 2024

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1. REPORT OF THE HONOURABLE MAYOR

Budget Process for the municipalities is controlled by pieces of legislation.

Key to those legislations is MFMA and Municipal Systems Act 32 of 2000.

Section 16 of MFMA requires Council to table of the annual budget at least 90 days before the start of the financial year while Section 17 (2) (b) of Municipal Systems Act requires Council to establish appropriate mechanism, processes, and procedures to enable local communities to participate in the affairs of the municipality through notification and public procedures, when appropriate.

Section 53 of MFMA requires the Mayor of a municipality to provide general political guidance over the budget process and the priorities that must guide the preparation of the budget.

The Municipality Budget also align to Chapter 2 of The Municipal Budget and Reporting Regulations, gazette on 17 April 2009, the Mayor of a municipality must establish a budget steering committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

This budget process started with steering committees' meetings where the priorities of the Municipality for 2023/24 Budget were identified for the preparation of the budget. Treasury guidelines for the preparation of the budget were shared with the Services Departments. Service departments submitted their budget proposals for consideration to the portfolio committee.

The 2023/24 MTREF Budget is also aligned IDP, Provincial and National Government Development plans and Priorities.

In line with Section 17 of Municipal Systems Act, The Budget, IDP and tariff proposals were published for comment and consultation as part of public comment and consultation process.

The budget Process plan was tabled to council in August 2023 with all the due dates of all activities.



2. EXECUTIVE SUMMARY

The preparation of the budget is guided by circular 122 and 123 of MFMA no 56 of 2003. The Circulars are linked to the Municipal Budget and Reporting Regulations (MBRR) and the municipal Standard Chart of Accounts (mSCOA); and strives to support municipalities' budget preparation processes so that the minimum requirements are achieved.

The objective of the circulars is to demonstrate how municipalities should undertake annual budget preparation in accordance with the budget and financial reform agenda by focusing on key “game changers”, which includes.

- ensuring that municipal budgets are funded,
- revenue management is optimized,
- assets are managed efficiently, supply chain management processes are adhered to,
- mSCOA is implemented correctly and that audit findings are addressed.

The preparation of the 2023/24 Municipality's Medium-Term Revenue and Expenditure Framework (MTREF) comes when SA has experienced the largest decline in economic outputs in 2022/23. The economic outlook faces a range of risks, including weaker-than-expected global growth, further disruptions to global supply chains and renewed inflationary pressures from the war in Ukraine, continued power cuts and a deterioration in port and rail infrastructure, widespread criminal activity, and any deterioration of the fiscal outlook.

Government is taking urgent measures to reduce load-shedding in the short term and transform the sector through market reforms to achieve long-term energy security.

The impact of Load shedding, ageing infrastructure and Economic constraints will put Pressure on the 2023/24 MTREF Budgets.

Changes on Local Government allocations

The local government equitable share and related allocations increases at an annual average rate of 7.8 per cent and municipal conditional grants increase by 3.5 per cent over the 2023 MTEF period.

The local government equitable share formula has been updated to account for projected household growth, inflation and estimated increases in bulk water and electricity costs over the 2023 MTEF period. It also includes allocations for the operational and maintenance costs associated with the provision of free basic services.



The 2023/24 Budget requires the implementation of structural reforms to maximize the value of spending, exercise prudent and compliant financial management and eradicate wasteful treatment of public funds and resources.

The major contribution to National development Plan is to improve the lives of Lephalale Community through Poverty alleviation, rural infrastructure development while creating Jobs for the disadvantaged. Job creation is a top priority of the economic recovery plan that will guide policy actions over the medium term, supported by new infrastructure investment and large-scale public employment programs. In addition, skills development will be a priority to improve productivity and operational efficiency.

On the capital Expenditure Municipality is dependent on Grants and operational expenditure is dependent on the Service Charges (Own revenue) and portion of Equitable shares.

This means when implementing the budget Municipality should Increase the revenue initiatives which includes, Installation of Electricity prepaid meters, cutting of water losses, charging cost reflective and affordable tariffs, accelerate Debt collection, Filling of Critical positions (PMU office) , Implementation of revenue enhancement ,UIFW reduction strategies ,cost containment strategies Municipality must also focus on Local Economic Development to unlock new sources of revenue.

Accurate metering and billing are important in terms of consumer confidence in the accuracy of service charges.

Municipality must also prioritize Capital Spending to avoid the withholding of funds by Treasury. Cost containment strategies will be implemented to reduce the noncore Expenditures. The municipality has also embarked a range of collection strategies to optimize the collection of revenue. To ensure on the optimization of resources Municipality must cut on operational costs and remove the nice to have costs.



The budget for Lephalale Municipality will address the following key areas as guided by National Government.

Short-term Priorities

- Maintenance of the infrastructure to improve reliability infrastructure network,
- Manage employee related cost to be within the norm.
- Capitalize and explore on available funding mix – Budgeted to technical reports.
- Ensure operational efficiency to achieve service delivery.
- Implementation of Cost containment and revenue enhancement strategies
- Attract investment in the Town.
- Planning of Vision 2050 started.

Medium-term priorities include:

- Implementation of flat rate at the villages
- Increase the revenue base.
- Capitalize DBSA non lending support.
- Focus on the on-asset care Projects (asset renewal and replacement of ageing infrastructure.
- Application for smart water metering

Long Term Focus

The planning for Lephalale VISION 2040 evolving which Includes:

- Development of Economic recovery plan with Revenue Diversification, longevity, and Long-term Financial sustainability
- Attract investments to create Jobs and capitalize on Lephalale competencies (Mining, Agriculture & tourism)
- Explore Public Private partnerships (Grey Water)
- Entities (Smart electricity and Water Metering), Zeeland)
- Apply for electricity Licenses in new areas.
- Capital investment plan vs Capital expansion.

The budget will be implemented in line with the following Treasury Norms and standards:

- Revenue the Collection rate = Due to economic downfall the revenue collection projected at 85% vs Treasury Norms of 95%



- Employee related Cost as percentage of Total Expenditure = 30%
- Contracted services as a % of total Expenditure = 5%
- Infrastructure maintenance as % of total PPE = 8%
- Application of prepaid and flat rate at the Villages
- Indigent registrations
- Budget to include asset replacement Reserves.
- Cost containment – Do more with less.
- Own funding Project should focus on Projects Revenue enhancement Projects.
- Mobilize Investments to Lephalale Local economic development.

2.1 BUDGET SUMMARY

The total budget for MTREF 2023/24 includes Total Revenue is R752 million and Total Expenditure of R750 million resulting in the Surplus of R1,9 million.

The operating Revenue budget has changed from R739 million in 2022/2023 to R752 million in 2023/2024 FY, R800 million 2024/2025 FY and R848 million in 2025/2026 FY respectively.

The operating Expenditure budget has changed from 738 million in 2022/2023 to R750 million in 2023/2024 FY, R782 million 2024/2025 FY and R820 million in 2025/2026, resulting to a surplus of R 1,9 Million for 2023/24 FY and R18 million and R28 million in the outer years.

The Capital expenditure is R102 million which includes R22m Own capital Funded and R80m National Grant Funded Projects.

All tariffs have been adjusted by 5,3 % for the 2024/25 Financial year except for electricity which is adjusted by 6% as per Treasury Circular. Nersa is yet to provide final approval of electricity Tariffs.

Below is the table showing the budget tariffs for the MTREF 2024/25

Revenue Tariff increase

Description	23/24	24/25	25/26
Rates	5,3 %	4,9 %	4.7%
Electricity	6%	4,9 %	4.7%
Water	5,3 %	4,9 %	4.7%
Sanitation	5,3 %	4,9 %	4.7%
Refuse	5,3 %	4,9 %	4.7%



The Revenue Budget.

The weak economic growth has put pressure on consumers' ability to pay for services, while transfers from national government are growing more slowly than in the past. Municipalities must ensure that they render basic services, maintain their assets and clean environment. Furthermore, there must be continuous communication with the community another stakeholder to improve the municipality's reputation. This will assist in attracting investment in the local economy which may result in reduced unemployment.

Therefore, the new leadership is advised to:

- Decisively address unfunded budgets by reducing non-priority spending and improving
- revenue management processes to enable collection; and
- Address service delivery failures by ensuring adequate maintenance, upgrading and
- renewal of existing assets to enable reliable service delivery.

Revenue Tariff Increase

The MTREF-based revenue and expenditure budget assumed inflation-linked annual draft budget of 5,3%, 4,9% and 4.7% respectively for the 3-years budget period of 2023/2024, 2024/2025 and 2025/2026.

The revenue tariff increases are as per MFMA Circulars 122 & 123 except for electricity charges which are increased as per Nersa regulation.

Employee related costs and remuneration of councilors R268 Million

Employee related costs: Budget R 253 million.

The 2023/24 includes the head count of 455 permanent employees and 47 contract employees. The Salary and Wage Collective Agreement for the period 01 July 2021 to 31 June 2024 date 15 September 2021 has been approved by the Bargaining Committee of the central Council. The Municipality has made a provision 5,4% increase based on the Bargaining Council Increase.

The overall employee benefits is at 34% as a percentage of total operation expenditure which is in line with the Treasury norm of 30 -40 %

Additional increase of 4% on employee benefits is mainly due to the overtime and standby allowance at Service Delivery Department to address aging infrastructure challenges. Municipality must explore the shift system to cut on overtime costs. Position will be staggered to ensure alignment to the norms.2% vacancy factor.

Due to financial constraint position will be reprioritized to ensure continuity of service delivery.



Budget Includes 1% total Salary Bill for Skill development: Training will be reprioritized to Improve operational Efficiency.

The training must include.

- Capacitate internal staff to reduce overreliance on Service Providers
- Mentoring Program NBI
- Operators Training
- Fitter & Turner: training for electronics and two stroke engines:
- supervisor Role and Responsibility Training
- Health and Safety Training.
- Advance Microsoft (word, PowerPoint excel)

Remuneration of councilors- R15 Million

Remuneration of Councilors are budget in line with the Government Gazette on the Remuneration of Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published annually between December and January by the Department of Cooperative Governance.

Remuneration of Municipality has increased by 5,4 % is based on previous year budget. Cell phone allowance and car allowance remained the same for remainder of their term.

Bulk Purchases - R156 M

The National Energy Regulator of South Africa (NERSA) is responsible for the price determination of the bulk costs of electricity. In January 2023, NERSA approved tariff increases of 18.7 per cent in 2023/24 and 12.7 per cent increase in 2024/25.

Inventory Consumed – R49 M

The amount of Bulk water is R15 M (Purified water) R17 Million for (abstraction of raw water from Mokolo dam) and 17 million (Inhouse maintenance and withdrawals from stores). Other material consumed includes purchases of the materials for maintenance of Infrastructure network inhouse.

Bulk purchase of water has been increased by 5,3 % and budgeted under inventory according to MFMA circular 123.



Contracted Service R 63 M

Contracted services as a percentage of the Total Expenditure are at 9% which above norm of (5%). Of the total contracted services the amount of R22million (30%) relates to repairs and maintenance, R51 million relates to consultant and system vendors. Details are reflected on annexure C below.

DESCRIPTION	2023/24	2023/24
Consultants and Professional Services		
Accounting and auditing Services- asset	3 944 000	5%
Forensic Investigation	1 177 000	2%
Internal audit Outsourcing and audity Committee	964 000	1%
Risk Management outsorcing	484 000	1%
Strategic Session	1 000 000	1%
Valuer	1 500 000,00	2%
EAP and Medical Services	200 000	0%
Legal Services	7 499 000	10%
Total Consultants and professional Services	16 768 000	23%
Contractors - Repairs and maintenance		
Maintenance services -Sanitation	8 688 000	12%
Maintenance services -Water	4 089 000	6%
Maintenance services -Electricity	1 700 000	2%
Maintenance services -Waste	696 000	1%
Maintenance services -Roads ,Buildings & Storm water	818 100	1%
Maintenance services -Vehicles	6 052 000	8%
Total Repairs and maintenance	22 043 100	30%
Outsourced consultant Services		
Prepaid vendors	12 714 000	17%
Security	13 755 000	19%
Hygiene services	500 000	1%
Water Meter reading	1 100 000	1%
Collection Cost	4 006 000	5%
Other - IT ,admin systems,Photocopy	2 945 141	4%
Total Outsourced Services	35 020 141	47%
TOTAL	73 831 241	100%



Repairs and maintenance R50M

The repairs and maintenance is R50 million which includes which includes the amount of R16million for outsourcing of External Service Provide where the municipality does not have inhouse capacity. The R34million is allocated to inventory consumed for the material and supplies from the store for inhouse maintenance. The budget also constitutes the development of the detailed plans for Sanitation and water and electricity. Priorities will also be given to infrastructure projects which will support the revenue enhancement.

Municipality has directed more funds to repairs and maintenance to align to the treasury Norm of 6%o of PPE. Municipality has submitted a business case to DWS for refurbishment of the infrastructure which will increase our infrastructure to be within the norm.

The following business case has been approved DWS

- ✓ Refurbishment and upgrading of Sewer pump station Waste water treatment works Network pipes and replacement of AC Pipes Phase 1 & 2
- ✓ Replacement of Lephalale Town and marapong replacement of Old AC pipes

- The amount of R10 has been allocated for technical reports.
 - ✓ Marapong Roads & storm water technical report
 - ✓ Unweight Roads -Technical report.
 - ✓ Refurbishment and upgrading of Paarl wastewater treatment works & holding dam.
 - ✓ Refurbishment of Zongesien & construction of sewer dumping site
 - ✓ Construction of KingbirdLine (Technical report)

The total Budget for repair and maintenance will be R86 Million which 5 % of PPE which in line with the Norm.

Asset renewal Projects (R31 Million)

- Marapong Bulk Water Supply
- Marapong Storage Facility-Construction of 2x3ML Steel Reservoirs

Debt Impairment R24 M

The budget for Debt impairment has increased from R22 million in 2023/24 to R24 due to high debtors' book. The debt collector has been appointed to assist acceleration of debt collection and reduction of debt Book.

Finance Charges R16M



The finance charges are relatively low as the municipality did not take any additional loans to date.

General Expenses R81 m

General Expenses constitute 10 % of the total operating expenditure which is below the norm of 10% as per Treasury MFMA budget guidelines. The amount of the operating costs includes fleet cost and Financial and IT systems related costs.

Total operating Revenue R 752 m

Property rates constitutes is R113 m which constitute 15 % of operating revenue.

Service charges

Service charges is R336 Million which constitutes 44% of the budgeted revenue The amount is lower than R348 M budgeted in the previous budget cycle. Electricity cost has realized a reduction mainly impacted by Load shedding. Municipality is fast racking the prepaid Electricity Metering by 30 April 2023.

Service charges for electricity has been adjusted to R225M vs R 240m.

Service charges water has been adjusted to R64m.

Sanitation Revenue has been adjusted to R 27m.

Service charges refuse has been adjusted to R20m.

The increase has been affected in line with MFMA Circular 123.

Interest on Investment

The interest on investment is R5M, the Grant allocation has been reduced. The WSIG allocation received in the Current Financial year has been reallocated to Schedule 6 of DORA(Fund will be administered by National Government).

Interest on Outstanding Debtors R50million

The impact of economic downfall has resulted in the in the inability of consumers to pay their debt on time. Municipality has reviewed the billing cycle to accelerate debt collection.

License and Permit R9,1 m

The budgeted revenue for License and Permit has been increased in line with the CPI.



Strategies will be implemented to improve on revenue collection of the same.

Transfers of Grants and subsidies are reconciling as per DORA allocation for R312 million. The allocation are as follows:

DESCRIPTION	2023/24	2024/25	2025/26
Equitable share	226 374 000	251 551 000	273 787 000
MIG	2 586 000	2 699 300	2 817 400
FMG	1 700 000	1 700 000	1 900 000
EPWP	1 035 000		
Total Operating Grants	231 695 000	255 950 300	278 504 400
MIG	49 134 000	51 286 700	53 530 600
ENERGY EFFICIENCY	-	5 000 000	-
INEP	-	18 000 000	18 806 000
WSIG	-	52 209 000	54 533 000
WSIG S6B	31 226 000	63 531 100	70 000 000
Total Operating Grants	80 360 000	190 026 800	196 869 600
TOTAL GRANTS	312 055 000	445 977 100	475 374 000

Municipality Grant's funding focus on improving service delivery and maintenance of the infrastructure assets.

Other revenue R4m

Other revenue includes Sundry Income i.e purchase of tender documents, Consolidation and divisions for the plans, Photocopy machines charges and payment of clearance certificates.

Revenue Management

Municipality will implement revenue enhancement strategies and attract investment through Local economic development.



To increase the revenue collection efforts are put in place to accelerate debt collections and increase the revenue base in 2023/24 Financial Year.

Strategies includes:

Cost reflective tariffs – Charging cost effective and affordable tariffs.

Customer care – Ensure timely resolving of customer queries and improving service delivery.

Cost containment - that the operating expenses of the municipality are kept at a minimum rate.

Accelate Debt collection - issuing of letters of demand for the payment of accounts in arrears and optimizing the recovery of funds.

Installation of smart meters and regularly service the water and electricity meters to guard against malfunctioning that may result in inaccurate billing, water or electricity leakages, or any other form of loss such as illegal connections.



4. OVERVIEW OF THE ANNUAL BUDGET PROCESS FOR THE FY 2023/2024 Compliance to regulations

Budget Process for the municipalities is controlled by pieces of legislation. Key to those legislations is MFMA and Municipal Systems Act 32 of 2000. Section 24 of MFMA requires Council to consider approval of the annual budget at least 30 days before the start of the financial year while Section 17 (2) (b) of Municipal Systems Act requires Council to establish appropriate mechanism, processes, and procedures to enable local communities to participate in the affairs of the municipality through notification and public procedures, when appropriate. Section 53 of MFMA requires the Mayor of a municipality to provide general political guidance over the budget process and the priorities that must guide the preparation of the budget.

In terms of Chapter 2 of the Municipal Budget and Reporting Regulations, gazette on 17 April 2009, the Mayor of a municipality must establish a budget steering committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

Municipalities are under pressure to generate revenue because of the economic landscape, the COVID-19 pandemic, weak tariff setting and increases in key cost drivers to provide basic municipal services. Customers' ability to pay for services is declining, which means that less revenue will be collected. To achieve financial sustainability, municipalities must demonstrate the political will to implement the changes required to improve their performance. Where municipalities consistently fail to deliver their mandates, the Constitution provides for provincial and/or national government to intervene.

5. OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH IDP

The budget of the municipality is aligned with the IDP. All the projects appearing in the budget are also appearing in the IDP. The IDP contains all the municipal projects funded and not funded for the next five years, while the budget contains only the funded projects. The budget schedules A1 – A5 from the annual budget schedules are also presented in the IDP. The Strategic goals and objectives of the municipality from the IDP are also linked to the Budget (refer to SA4 – SA6 in the budget schedules)

6. MEASURABLE PERFORMANCE OBJECTIVES

Introduction

Chapter 6 S38 of the Municipal Systems Act (2000) (MSA) requires that every Municipality must develop a Performance Management System suitable for their own needs. The aim of performance management is to indicate how well a Municipality is meeting its priorities/goals and objectives. It gives clear guidance on the effectiveness



and efficiency of policies and processes and indicates improvements required. Performance management is key to effective management. It facilitates effective accountability, enabling key stakeholders and role players to track progress and identify scope for improvement.

The performance management system is the primary mechanism to monitor, review and improve on the activities of the municipality. It must provide an integrated approach that links municipal performance to individual performance; aimed at improving planning (reviewing), budgeting, monitoring, reporting and evaluation.

7. OVERVIEW OF BUDGET RELATED POLICIES

The list of the budget related policies and the objectives of the municipality are as follows:

1. Tariff Policy

The objective of the tariff policy is to ensure that:

- a) The tariffs of the Municipality comply with the legislation prevailing at the time of implementation.
- b) The Municipal services are financially sustainable, affordable, and equitable.
- c) The needs of the indigent, aged, and disabled are taken into consideration.
- d) There is consistency in how the tariffs are applied throughout the municipality.
- e) The policy is drawn in line with the principles as outlined in the MSA

2. Credit Control and Debt Collection Policy

The objectives of the policy are to:

- a) Provide a framework within which the municipal council can exercise its executive and legislative authority regarding credit control and debt collection.
- b) Ensure that all monies due and payable to the municipality are collected and used to deliver municipal services in the best interest of community, residents and ratepayers and in a financially sustainable manner.
- c) Set realistic targets for debt collection.
- d) Outline credit control and debt collection policy procedures and mechanisms; and
- e) Provide a framework to link the municipal budget to Indigent support, and Tariff policies.

3. Indigent Policy

The purpose of the Policy is to provide a framework and structures to support poverty alleviation within the Municipality by providing a support programme for the subsidization of basic services to indigent households.



The policy objectives

The objective of this Policy will be to ensure the following:

- a) The provision of basic services to the approved indigent/vulnerable members of community in a sustainable manner within the financial and administrative capacity of the Municipality.
- b) Establish the framework for the identification, screening and management of indigent households including an economic rehabilitation plan where possible.
- c) The provision of procedures and guidelines for the subsidization of basic services.

4. Property Rates Policy

The key objectives of the policy are to:

- (a) Ensure that all owners of rateable property are informed about their liability to pay assessment rates.
- (b) Specify relief measures for ratepayers who may qualify for relief or partial relief in respect of the payment of rates through exemptions, reductions and rebates contemplated in section 8 of this policy and section 15 of the Act;
- (c) Set out the criteria to be applied by the Council if it increases rates and levies differential rates on different categories of property;
- (d) Provide for categories of public benefit organisations, approved in terms of Section 30(1) of the Income Tax Act, 1962 (Act no 58 of 1962) as amended, which ratepayers are eligible for exemptions, reductions and rebates and therefore may apply to the Council for relief from rates.
- (e) Recognise the state, organs of state and owners of public service infrastructure as property owners.
- (f) Encourage the development of property.
- (g) Ensure that all persons liable for rates are treated equitably as required by the Act.
- (h) Determine the level of increases in rates
- (i) Provide for exemption, rebates, and reductions.

5. Supply Chain Management Policy

The objectives of this policy are to implement the legislative provisions relating to the supply chain management of the Municipality, that:

- (a) gives effect to:
 - (i) section 217 of the Constitution; and
 - (ii) Part 1 of Chapter 11 and other applicable provisions of the MFMA;
- (b) is fair, equitable, transparent, competitive, and cost effective.
- (c) complies with:
 - (i) the regulatory framework prescribed in Chapter 2 of the SCMR; and
 - (ii) any minimum norms and standards that may be prescribed by means of regulations or guidelines as envisaged by the provisions of section 168 of the MFMA;
- (d) is consistent with other applicable legislation.



(e) does not undermine the objective for uniformity in Supply Chain Management Systems between organs of state in all spheres; and

(f) is consistent with national economic policy concerning the promotion of investments and doing business with the public sector.

(2) The Municipality may not act otherwise than in accordance with this Supply Chain Management Policy when:

(a) procuring goods and/or services.

(b) Disposing of goods no longer needed.

(c) selecting contractors to aid in the provision of municipal services otherwise than in circumstances where Chapter 8 of the MSA applies; or

(d) in the case of the Municipality selecting external mechanisms referred to in section 80(1)(b) of the MSA for the provision of municipal services in circumstances contemplated in section 83 of that Act.

(3) To assure the creation of an environment where business can be conducted with integrity and in a fair, reasonable and accountable manner, this policy will ensure that the Municipal Manager and all officials of the Municipality involved in supply chain management activities must act with integrity, accountability, transparency and with the highest of ethical standards and free of favoritism, nepotism, and corruption of any kind. The officials of the Municipality involved in supply chain management activities must adhere to the code of ethical standards contained in this policy, together with the Code of Conduct for Municipal Staff Members as contained in Schedule 2 of the MSA.

6. Fixed Asset Management Policy

The objective of this policy is to improve accounting of assets in the municipalities. Good asset management is critical to any business environment whether in the private or public sector. In the past municipalities used a cash-based system to account for assets, whilst the trend has been to move to an accrual system.

With the cash system, assets were written off in the year of disposal or, in cases where infrastructure assets were financed from advances or loans, they were written off when the loans were fully redeemed. No costs were attached to subsequent periods in which these assets would be used.

With an accrual system the assets are incorporated into the books of accounts and systematically written off over their anticipated lives. This necessitates that a record is kept of the cost of the assets, the assets are verified periodically, and the assets can be traced to their suppliers via invoices or other such related delivery documents. This ensures good financial discipline and allows decision makers greater control over the management of assets. An Asset Management Policy should promote efficient and effective monitoring and control of assets.

7. Banking and Investment Policy



The policy of the municipality is aimed at gaining the optimal return on investments, without incurring undue risks, during those periods when cash revenues are not needed for capital or operational purposes.

8. Virement Policy

Virement is the process of transferring funds from one line item of a budget to another. The policy will monitor the budget transfers of Lephalale Local Municipality. The purpose of this policy is therefore to provide a framework whereby transfers between line items within votes of the operating budget may be performed with the approval of certain officials.

9. Unknown deposit Policy

The objective of this policy is to direct the payments such as direct deposits and bank transfers that are deposited into the municipality's bank account without proper reference number, and the origin of the payment cannot always be traced.

The policy ensures the following:

- Proper recording of unknown deposits
- That unknown deposits are properly monitored.
- That unknown deposits are cleared timeously.
- Those unknown deposits register is reconciled to general ledger monthly.

This policy also provides guidance on how to treat unknown deposits that remain untraced or unclaimed for a certain period.

OVERVIEW OF BUDGET ASSUMPTIONS

Revenue Framework

Section 18 of the MFMA states that the budget can only be funded by realistically anticipated revenue to be collected and cash-backed accumulated funds from previous years, not committed for other purposes.

In addition, NT Circular 93 stipulates that the budget is to be managed in a full accrual manner, reflecting a transparent budget and accounting system approach.

Municipality must maintain tariff increases at level that reflect an appropriate balance between affordability of the poorer household and other consumers while ensuring financial sustainability.



The MFMA requires the municipality to adopt and implement a tariff policy. Council has approved such policies for all major tariff-funded services provided by the municipality, which are attached as annexure to this document.

Council is required to adopt budgetary provisions based on realistic anticipated revenue for the budget year from each revenue source and per requirements of the MFMA (chapter 4, s17 (1) (a) (b)).

The MTREF model, which enables economic forecasts and the eventual medium term fiscal framework, was compiled under harsh external economic conditions. Budgetary constraints and economic challenges meant that the municipality applies a combination of cost-saving interventions to ensure an affordable credible and sustainable budget over the 2023/2024 MTREF.

National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the municipality's financial sustainability. The Consumer Price Index (CPI) is forecasted to be within the lower limit of the 3 to 6 per cent target band; therefore, municipalities are required to justify all increases more than the projected inflation target for 2023/24 MTREF in their budget narratives and pay careful attention to the differential incidence of tariff increases across all consumer groups. It is noted that the tariff increases by Eskom and Water Boards are above inflation and should be considered as such while determining cost-reflective tariffs.

Eskom Bulk Tariff Increases

NERSA approved a municipal tariff increase of 18,7 per Nersa Guideline on Municipal Electricity Price Increase for 2023/24, 12,7% - 2024/25 Financial year and 17,7% increase in 2025/26 Financial year.

Financial modeling

In addition to the above, further principles applied to the MTREF in determining the affordability envelope included:

- Higher than headline CPI revenue increases, to the extent that they affect and support Council's activities of relevant services.
- Credible collection rates, based on collection achievement to date, incorporating improved success anticipated on selected revenue items.

CPI projections adopted over MTREF:



CPI projections over the 2022/2023 MTREF are 4.8% for 2023/2024, 4,5% for 2024/2025 and 4.4%.

EXPENDITURE FRAMEWORK

Municipalities are under pressure to generate revenue because of the economic landscape, the COVID-19 pandemic, weak tariff setting and increases in key cost drivers to provide basic municipal services. Customers' ability to pay for services is declining, which means that less revenue will be collected.

To achieve financial sustainability, municipalities must demonstrate the political will to implement the changes required to improve their performance.

Initiatives to improve financial sustainability.

Municipality will implement revenue Enhancement strategies and the Municipality has also applied for the support from DDM Model and DBSA on the Following Programs which include:

District Development Model initiatives

- 1.Revenue Improvement Programme
- 2.Spatial Restructuring Programme
- 3.Asset Care Programme
- 4.Infrastructure Delivery Support
- 5.Infrastructure Planning Support

Salaries, wages, and related staff cost.

The Salary and Wage Collective Agreement for the period 01 July 2021 to 31 June 2024 date 15 September 2021 has been approved by the Bargaining Committee of the central Council. The Municipality has made a provision 5,4% increase based on the previous Bargaining Council Increase.

The overall employee benefits is at 34% as a percentage of total operation expenditure which is in line with the Treasury norm of 30 – 40%

Additional increase of 3% on employee benefits is mainly due to the overtime and standby allowance at Service Delivery Department to address aging infrastructure challenges. Municipality must explore the shift system to reduce high cost of overtime and address the issue of budget constraints.

Position will be staggered to ensure alignment to the norms.2% vacancy factor.



Remuneration of Councilors

Remuneration of Councilors are based on the Government Gazette on the Remuneration of Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published annually between December and January by the Department of Cooperative Governance. The increase of 5,4 % is budgeted for.

Conditional Grants Transfers

Section 22 of the Division of Revenue Act, 2020 requires that any conditional allocation or a portion thereof that is not spent at the end of the 2020/21 financial year reverts to the National Revenue Fund, unless the rollover of the allocation is approved in terms of subsection (2). Furthermore, the receiving officer, provincial treasury and national transferring officer is required to prove to National Treasury that the unspent allocation is committed to identifiable projects, in which case the funds may be rolled over.

Stringent controls are place for the application of rollovers within the stipulated timelines. Rollovers request for 3 consecutive years will not be accepted.

Process for the unspent committed cost relating to Covid 19 allocation has been stipulated and the Municipality Fastrack spending.

Importance of section 17 of the Division of Revenue Act

The purpose of this section is to provide further clarity on section 17 of DoRA in relation to the transfer of funds to the organ of state in order to implement projects on behalf of the municipalities.

Section 17 (3) of DoRA states that a receiving officer may not allocate any portion of a schedule 5 allocation to any other organ of state for the performance of a function, unless the receiving officer and the organ of the state agree on the obligation of both parties and a payment schedule, the receiving officer has notified the transferring officer, the relevant provincial treasury, and National Treasury of the agreed payment schedule and:

Repairs and maintenance

The National Treasury Budget Circular 108 for the 2023/2024 MTREF stated, amongst other, that municipalities must “secure the health of their asset base (especially the



municipality's revenue generating assets) by increasing spending on repairs and maintenance". The repairs and maintenance will be budgeted in line with the infrastructure master plan and the norm.

Free basic Services

The municipality is currently busy updating the indigents register which will inform the budget for free basic services during the adjustment. The current budget for free basic services is based on previous spending.

REVENUE FRAMEWORK

Service growth

The municipality's revenue will increase by 5,3%. The municipality is highly dependent on the revenue received from Service charges. This will pose a risk to financial sustainability as Consumers may reprioritize their budget to complementary services. The municipality will continue to explore and implement customer care and debt collection strategies to ensure the generation of internal Revenue.

The Municipality is also facing a huge challenge to sustain the revenue levels due to the staff demobilization of Medupi Project.

Collection Rate

In accordance with relevant legislation and national directives the municipalities projected revenue recovery rates are based on realistic and sustainable trends.

The total collection rate for 2023/2024 is projected at an average of 85% and is based on a combination of actual collection rates achieved to date and the estimated outcomes for the current financial period. The Collection rate will improve as the Municipality implementing a prepaid system for electricity and also have appointed a service provider for debt collection.

Depreciation

Depreciation on the new capital expenditure is calculated at a varying rate ranging between 3 to 30 years depending on the nature of the asset. Actual depreciation was modelled on existing assets. An annual capital expenditure implementation rate of 100% was factored into the model. The higher than usual depreciation is as results of



the implementation of GRAP17 where the Municipality’s assets were revalued in the 2023/2024 financial year.

8. OVERVIEW OF BUDGET FUNDING

Fiscal Overview

Operating budget

The total budget for MTREF 2023/24 includes Total Revenue is R752 million and Total Expenditure of R750 million resulting in the Surplus of R1,9 million.

The operating Revenue budget has changed from R739 million in 2022/2023 to R752 million in 2023/2024 FY, R800 million 2024/2025 FY and R848 million in 2025/2026 FY respectively.

The operating Expenditure budget has changed from 738 million in 2022/2023 to R750 million in 2023/2024 FY, R782 million 2024/2025 FY and R820 million in 2025/2026, resulting to a surplus of R 1,9 Million for 2023/24 FY and R18 million and R28 million in the outer years.

The Capital expenditure is R102 million which includes R22m Own capital Funded and R80m National Grant Funded Projects.

The aging infrastructure assets of the Municipality require that there be a constant investment and maintenance program. The municipality has made an allocation in 2023/2024. The municipality has approved the infrastructure master plan which is going to inform the upgrading and renewal of infrastructure.

DESCRIPTION	2023/24	2024/25	2025/26
MIG	49 134 000	51 286 700	53 530 600
ENERGY EFFICIENCY	-	5 000 000	-
INEP	-	18 000 000	18 806 000
WSIG	-	52 209 000	54 533 000
WSIG S6B	31 226 000	63 531 100	70 000 000
Own Funding Project	22 030 000	17 150 000	13 500 000
TOTAL GRANTS	102 390 000	207 176 800	210 369 600



Medium term capital budget and funding sources

The funding sources listed below are appropriated towards the following major projects on the capital budget:

National Grant Funded Projects

- Municipal Infrastructure grant to improve bulk infrastructure in support of housing opportunities. R49m.
- Municipal Water Infrastructure Grants to improve the water infrastructure R31m. **(DWS will administer the funds- Schedule 6 B)**

Own Capital funded R22M.

- A portion of their internally generated 'own revenue' towards their capital budget funding mix
- Purchasing of new equipment and machinery to improve service delivery.

Property Rate

The proposed property rates are levied in accordance with existing council policies unless otherwise indicated and both the Local Government Municipal Property Rates Act 2004 (MPRA) and the Local Government Municipal Finance Management Act 2003.

Property Rates Policy was approved by council during May 2020. The reviewed policy has been attached for approval.

Property tax rates are based on values indicated in General Valuation Roll of 2020. The Roll is updated for properties affected by land sub-divisions, alterations to buildings, demolitions, and new buildings (improvements) through Supplementary Valuation Rolls.

Rebates and concessions are granted to certain categories of property usage and/or property owner.

Water and Sanitation

The proposed Water and Sanitation Tariffs for 2023/24 are consistent with National Policy on the provision of free basic services, the National Strategic Framework for Water and Sanitation and with Council's Indigent relief measures.

Rates, Tariff Policies and Equitable Service Framework.

The tariff increases are necessary to address essential operational requirements, maintenance of existing infrastructure, new infrastructure provision and to ensure the financial sustainability of the service.



The progressive nature of existing domestic stepped tariff structure both for water and sanitation is pro-poor and allows for the needs of the indigents. In total the proposed Tariffs and Rates are cost-reflective and will provide the income to cover the costs of Water and Sanitation during the 2023/2024 financial year.

Electricity

The proposed revisions to the tariffs have been formulated in accordance with the Lephhalale Local Municipality Tariff and Rates Policy and comply with Section 74 of the Municipal Systems Act as well as the recommendations of the National Energy Regulator of South Africa (NERSA)

The Electricity Regulation Act requires that the proposed revisions to the electricity consumption-based tariffs be submitted to the Regulator as soon as possible.

Cash backed accumulated surplus.

Cash backed accumulated revenue surpluses are used to provide working capital and to temporarily fund capital expenditure. Operational cash flow deficits and surpluses are forecasted and managed daily within available cash resources and banking facilities.

All statutory funds reserves, including unspent grants, are fully cash backed. Long term provisions are cash backed to extend that actual expenditure is projected for the budget year.

EXPENDITURE ON GRANTS ALLOCATION AND GRANT PROGRAMME

The municipality is allocated the following grants as per Division of Revenue Act:



DESCRIPTION	2023/24	2024/25	2025/26
Equitable share	226 374 000	251 551 000	273 787 000
MIG- PMU	2 586 000	2 699 300	2 817 400
FMG	1 700 000	1 700 000	1 900 000
EPWP	1 035 000		
Total Operating Grants	231 695 000	255 950 300	278 504 400
MIG	49 134 000	51 286 700	53 530 600
ENERGY EFFICIENCY	-	5 000 000	-
INEP	-	18 000 000	18 806 000
WSIG	-	52 209 000	54 533 000
WSIG S6B	31 226 000	63 531 100	70 000 000
Total Operating Grants	80 360 000	190 026 800	196 869 600
TOTAL GRANTS	312 055 000	445 977 100	475 374 000

9. ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY

Grants-in-Aid refer to transfers of municipal funds to organizations or bodies assisting the Municipality in the exercise of powers of function in terms of Section 67 of MFMA and do not constitute commercial or business contracts and transactions. Specific provision must be made in the Municipality's annual operating budget for Grants-in-Aid in terms of provisions contained in Section 17(3) (j) of the MFMA

The municipality is giving the grants to the following institution:



DESCRIPTION	2023/24	2024/25	2025/26
DONATIONS	118 818	125 689	131 596
SPCA	118 818	125 689	131 596
COMMUNITY SERVICE FORUM	118 818	125 689	131 596
SMME	118 818	125 689	131 596
MOGOL CLUB	118 818	125 689	131 596
SPORT CLUB MARAPONG	118 818	125 689	131 596
AGRI - CONTRIBUTION	118 818	125 689	131 596
ENTERPRISE DEVELOPMENT	239 625	251 377	263 192
Total Operating Grants	1 071 351	1 131 200	1 184 364

10. COUNCILLOR AND BOARD MEMBER ALLOWANCES AND EMPLOYEE BENEFITS

The salaries, allowance, and benefits of the councilors for our municipality are informed by the government gazette no 39548 for the determination of upper limits of salaries, allowances, and benefits. The annual increase as per circular 108 applies. Refer to SA23 on the budget supporting schedules.

11. CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

The municipality has the following water projects which is having future budgetary implications:

- Mokuanyane and Shongoane RWS phase 5
R7 ,8 million.
- Witpoort & Ga Seleka Regional water Phase 5 – R13 Million

CAPITAL PROJECT SUMMARY



The Capital expenditure is R102 million which includes R22m Own capital Funded and R80m National Grant Funded Projects. The details are depicted by Tables below:

DESCRIPTION	2023/24	2024/25	2025/26
MIG	49 134 000	51 286 700	53 530 600
ENERGY EFFICIENCY	-	5 000 000	-
INEP	-	18 000 000	18 806 000
WSIG	-	52 209 000	54 533 000
WSIG S6B	31 226 000	63 531 100	70 000 000
Own Funding Project	22 030 000	17 150 000	13 500 000
TOTAL GRANTS	102 390 000	207 176 800	210 369 600

MIG PROJECTS

PROJECT NAME MIG	DEPARTMENT	2023/24	2024/25	2025/26
Extension and Augmentation of water supply in Witpoort RWS 6	MIG	3 892 682	-	-
Establishment of transfer stations in the rural villages	MIG	31 980 275	-	-
Marapong sports, arts and culture precinct phase 2	MIG	10 000 000	-	-
Highmast installation in Various villages	MIG	3 267 693	11 316 728	-
Martinique access road	MIG		8 000 000	
Letlora access road	MIG		5 000 000	8 000 000
Extension 1 and Augmentation of water supply in Mokuruanyane Cluster	MIG		11 139 709	-
Steve Biko EXT2 access road	MIG		5 771 137	14 182 600
Bangalong access road	MIG			16 348 000
Construction of OR tambo	MIG		5 000 000	15 000 000
Marapong Access Roads & storm water	MIG		5 059 126	
TOTAL MIG		49 140 650	51 286 700	53 530 600

WSIG PROJECTS



PROJECT NAME WSIG	DEPARTMENT	2023/24	2024/25	2025/26
REPLACEMENT OF ASBESTOS CEMENT PIPE (AC) TO HDPE/uPVC WATER PIPES IN LEPHALALE	WSIG		13 052 250	13 633 250
REPLACEMENT OF ASBESTOS CEMENT PIPE (AC) TO HDPE/uPVC WATER PIPES IN ONVERWACHT	WSIG		13 052 250	13 633 250
REPLACEMENT OF ASBESTOS CEMENT PIPE (AC) TO HDPE/uPVC WATER PIPES IN LEPHALALE	WSIG		13 052 250	6 816 625
REPLACEMENT OF ASBESTOS CEMENT PIPE (AC) TO HDPE/uPVC WATER PIPES IN MARAPONG	WSIG		13 052 250	13 633 250
REPLACEMENT OF ASBESTOS CEMENT PIPE (AC) TO HDPE/uPVC WATER PIPES IN ONVERWACHT	WSIG S6B		15 882 775	17 500 000
REPLACEMENT OF ASBESTOS CEMENT PIPE (AC) TO HDPE/uPVC WATER PIPES IN MARAPONG	WSIG S6B		15 882 775	17 500 000
REPLACEMENT OF ASBESTOS CEMENT PIPE (AC) TO HDPE/uPVC WATER PIPES IN ONVERWACHT	WSIG S6B		15 882 775	17 500 000
REFURBISHMENT AND UPGRADING OF SEWER PUMP STATIONS, WASTE WATER TREATMENT Marapong Bulk Water Supply	WSIG			6 816 625
Marapong Bulk Water Supply	WSIG S6B	21 226 000		
Marapong Storage Facility-Construction of 2x3ML	WSIG S6B	10 000 000	15 882 775	17 500 000
TOTAL WSIG		31 226 000	115 740 100	124 533 000

ELECTRIFICATION

PROJECT NAME RENERGY EFFICIENCY	DEPARTMENT	2023/24	2024/25	2025/26
Energy Efficiency 5A	Electrical	-	5 000 000	

PROJECT NAME ELECTRIFICATION	DEPARTMENT	2023/24	2024/25	2025/26
Electrification in Various villages - 5A	Electrical	-	18 000 000	18 806 000
TOTAL ELECTRIFICATION		-	18 000 000	18 806 000

OWN FUNDING



PROJECT NAME OWN FUNDING	DEPARTMENT	2023/24	2024/25	2025/26
Asbestos Cutting Machine	Water	100 000		
Jack Hammer (Makita Demolition Hammer)	Water	150 000		
Palisade Fencing for Storage Facilities and Water Pumpstations (Urban and Rural)	Water		1 500 000	
Appoint the Transactional Advisor – Zeeland	Water	-		
Security Guard Houses	Water		400 000	
Office Equipment	Corporate Services	500 000		
Computer Equipment	Corporate Services	300 000		
Operationalisation testing ground/Weighbridge Town - Test ground	Social - Licencing	1 500 000		
Licencing of Landfill	social - waste	1 800 000		
1 X Compactor trucks	social - waste		2 000 000	
1 x Skip loader truck	social - waste		2 500 000	
Tractor	social - waste	700 000		
TLB + Detagible Broom	Public work	1 720 000		
Trailer for Roller	Public work	80 000		
Road resealing	Public work	2 000 000		
Marapong Roads & storm water Technical report	Public work	1 200 000		
Onvewaght Roads -Technical report	Public work	1 200 000		
Supply,Delivery and off - Loading on Mobile Trash	Sanitation		750 000	
Supply,Delivery and off - Loading and licencing of Sewer Unblocking machine	Sanitation	680 000		
Supply delivery and Offloading of Mobile bucket w	Sanitation	1 300 000		
Refurbishment and upgrading of Paarl wastewater treatment works & holding dam	Sanitation	1 500 000		
Technical report for VIP Toilets	Sanitation	600 000		
Refurbishment of Zongesien & construction of sewer dumping site	Sanitation	2 500 000		
Construction of KingbirdLine (Techical report)	Electrical	1 600 000	8 000 000	13 500 000
Replacembet of Switch Gears x 2	Electrical	800 000		
Consulting Engineer (Responsible Engineer - approval for Engineering)	Electrical			
Maintanance and closing of the ring circuits + 12 Pump 25 Reurbishment and construction of line to zongesien	Electrical	1 000 000		
Pump 24 Reurbishment and construction phehelelo	Sanitation	500 000		
BI system	Sanitation BTO		2 000 000	
		300 000		
TOTAL OWN FUNDING		22 030 000	17 150 000	13 500 000

12. LEGISLATION COMPLIANCES STATUS



Compliances with the MFMA implementation requirements have been substantially adhered to through the following activities:

Budget and Treasury Office

A budget office and Treasury office has been established with the MFMA.

Budgeting

The annual budget is prepared in accordance with the requirements prescribed by the National Treasury and MFMA.

Financial reporting

100% compliance with regards to monthly, quarterly and annual reporting to the Executive Mayor, Mayoral committee, Council, Provincial and National Treasury.

Annual Report

The annual report is prepared in accordance with the MFMA and National Treasury requirements.

Internship Programme

The Lephalale Local Municipality is participating in the Municipal Finance Management Internship Programme and has employed 5 interns undergoing training in various finance sections.