



FINAL BUDGET 2020 2021

TABLE OF CONTENT

- 1. REPORT OF THE HONOURABLE MAYOR**
- 2. EXECUTIVE SUMMARY**
- 3. BUDGET SCHEDULES**
- 4. OVERVIEW OF THE ANNUAL BUDGET PROCESS FOR THE FY 2020/2021**
- 5. OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH IDP**
- 6. MEASURABLE PERFORMANCE OBJECTIVES**
- 7. OVERVIEW OF BUDGET RELATED POLICIES**
- 8. OVERVIEW OF BUDGET ASSUMPTIONS**
- 9. OVERVIEW OF BUDGET FUNDING**
- 10. EXPENDITURE ON GRANTS ALLOCATION AND GRANT PROGRAMME**
- 11. ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY**
- 12. COUNCILLOR AND BOARD MEMBER ALLOWANCES AND EMPLOYEE BENEFITS**
- 13. CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS**
- 14. CAPITAL EXPENDITURE DETAILS**
- 15. LEGISLATION COMPLIANCES STATUS**
- 16. QUALITY CERTIFICATES**

1. REPORT OF THE HONOURABLE MAYOR

Budget Process for the municipalities is controlled by pieces of legislation. Key to those legislations are 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.

This budget process started with steering committees meetings where the priorities of the Municipality were identified and formed the basis for the priorities and allocation for the 2020/2021 were discussed. Service departments submitted their budget proposals for consideration to the portfolio committee.

In line with Section 17 of Municipal Systems Act, The Budget, IDP and tariff proposals will be published for comment and consultation as part of public comment and consultation process during April 2020.

Comments from the public will be considered by the steering committee and then presented to Council for approval

2. EXECUTIVE SUMMARY

The preparation of the 2020/21 Municipality's Medium Term Revenue and Expenditure Framework (MTREF) was an extremely challenging one as various factors, with considerable potential impacts on core service delivery cost and revenue components influenced the outcome of this MTREF. Some of the major factors are the increased demand in the basic services which puts a huge burden on the bulk and reticulation infrastructure of the municipality. The implementation of the pre-paid meter system will have a great impact on the operational expenditure of the municipality. The municipality is also faced with the future challenge in terms of the maintenance of the expected infrastructure under construction as this will have an impact on future services tariffs.

The 2020/21 MTREF also has to take the National Development Plan and the National Priorities into consideration. The major contribution by the Municipality to the National Development Plan is through improving the lives of Lephalale Community through poverty alleviation and rural infrastructure development and thereby creating jobs for the previously disadvantaged.

A critical review was also undertaken of expenditure on noncore and nice to have items. The municipality has also taken a step in reducing the expenditure on social activities in the 2020/2021 financial year. In order to improve the financial viability and sustainability of services, the municipality has embarked on implementing a range of collection strategies to optimize collection of revenue owed by consumers.

The MTREF-based revenue and expenditure projections assumed inflation-linked annual adjustments of 4.5%, 4.6% and 4.6% respectively for the 3-years budget period of 2020/2021, 2021/2022 and 2023/2023.

Further key parameters applied to the municipality financial framework included the following for the 2020/2021 financial year:

Revenue Tariff increase

	19/20	20/21	21/22
Rates	4.5%	4.6%	4.6%
Electricity	8%	6.23%	4.6%
Water	4.5%	4.6%	4.6%
Sanitation	4.5%	4.6%	4.6%
Refuse	4.5%	4.6%	4.6%

- Salaries and Wages adjustments 6.3%
- General expenses 6%
- Repairs & maintenance 6%

Below is the table showing the operating budget for the MTREF 2019/2020:

	ADJUSTMENT BUDGET 2019/20	DRAFT 2020/201	BUDGET
	R000	R000	
Total Operating Revenue	R561 403		R591 455
Total Operating Expenditure	R557 411		R589 395
Surplus/ (Deficit) for the year	R1,287		R2,060
Own funding Projects Revenue	R36 844		R22 410
Total Capital Projects	R146 004		R109 091

Percentage growth on revenue categories (year-on-year):

- Assessment Rates 1.04%
- Electricity 1.04%
- Water 1.04%
- Sanitation 1.04%
- Refuse 1.04%

Percentage growth on cost categories (year-on-year):

- Staff costs 1.09%
- General expenses 1.06%
- Repairs & Maintenance 1.06%

The budget has been prepared in terms of guidelines as contained in National Treasury Circular 99 for the 2020/2021 MTREF.

Finance Charges

The finance charges are kept constant because the municipality is not intending to take loans.

3. OVERVIEW OF THE ANNUAL BUDGET PROCESS FOR THE FY 2019/2020

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.

This budget process started with steering committees meetings where the priorities of the Municipality were identified and formed the basis for the priorities and allocation for the 2020/2021 were discussed. Service departments submitted their budget proposals for consideration to the budget office.

In line with Section 17 of Municipal Systems Act, The Budget, IDP and tariff proposals will be published for comment and consultation as part of public comment and consultation process during April 2020.

Comments from the public will be considered by the steering committee and then presented to Council for approval.

4. 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)

5. 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.

6. OVERVIEW OF BUDGET RELATED POLICIES

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

- Tariff Policy
- Credit Control and Debt Collection Policy
- Indigent Policy
- Property Rates Policy
- Supply Chain Management Policy
- Fixed Asset Management Policy
- Banking and Investment Policy
- Virement Policy
- Unknown deposit Policy

7. 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.

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 ad per requirements of the MFMA (chapter 4, s17 (1) (a) (b)).

The MTREF model, which enables economics 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 2020/2021 MTREF.

The biggest challenge this year was the increasing need for services which resulted in a need to finance the increase of the *bulk* infrastructure and also a need to increase the personnel numbers.

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 2020/2021 MTREF are 4.5% for 2021/2022, 4.6% for 2022/2023 and 4.6%.

EXPENDITURE FRAMEWORK

Salaries, wages and related staff cost

The Salary and Wage increase as per SALGBC for 2020/2021 FY is 6.25%. This increase is based on the Reserve Bank's projected average CPI for 2020 which is 4.7% (January 2020 MPC statement). This is automatically increased to 5%, plus 1.25, in terms of the formulations in clauses 6.3, 6.4, and 6.5 of the salary and wage collective agreement.

Repairs and maintenance

The National Treasury Budget Circular 99 for the 2020/2021 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 high increase after the municipality completes the project of master plan.

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 6%. The municipality is facing a huge challenge as to the sustainability of the revenue levels after the Medupi expansion project are commissioned. Currently at Medupi there is a lot of demobilization, which makes the municipality not to increase their revenue higher.

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 2020/2021 is projected at an average of 90% and is based on a combination of actual collection rates achieved to date and the estimated outcomes for the current financial period. The better than current

projected collection rate is based on the fact that the Municipality will be implementing a prepaid system for electricity and also have appointed a service provider for debt collection.

Depreciation

Depreciation on 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 modeled 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 2010/2011 financial year

8. OVERVIEW OF BUDGET FUNDING

Fiscal Overview

Operating budget – Expenditure

The operating budget increased from R557 411 million in 2019/2020 to R589 395 in 2020/2021 FY, R627 806 million 2021/2022 FY and R666 895 million in 2022/2023 FY respectively.

CAPITAL EXPENDITURE

The aging infrastructure assets of the Municipality requires that there is a constant investment and maintenance program. The municipality has made an allocation in 2019/2020 budget of R5 million for infrastructure master plan which is going to inform the upgrading and renewal of infrastructure

The capital budget is as follows:

Capital Budget

	2019/2020 R'm	2020/2021 R'm	2021/2022 R'm
Capital Budget	109 091	97 112	92 771
Funded as follows:			
National Grant funding	86 681	97 112	92 771
Provincial Grant funding	0	0	0
Borrowings	0	0	0
Municipal own funding	22 410	0	0

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

- Municipal Infrastructure grant to improve bulk infrastructure in support of housing opportunities
- Municipal Water Infrastructure Grants to improve the water infrastructure

Own Capital funded

- Purchasing of new equipment and machinery to improve service delivery

Sources of funding

Rates, tariffs and other charges

Property Tax Rates

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 2019. The reviewed policy has been attached for approval

Property tax rates are based on values indicated in General Valuation Roll of 2013. The Roll is updated for properties affected by land sub-divisions, alterations to buildings, demolitions and new buildings (improvements) through Supplementary Valuation Rolls. The new valuation roll will be implemented from 1st July 2020

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 2020/2021 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 2020/2021 financial year.

Electricity

The proposed revisions to the tariffs have been formulated in accordance with the Lephalale 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 on a daily basis 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.

9. EXPENDITURE ON GRANTS ALLOCATION AND GRANT PROGRAMME

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

Grants Allocations	2020/21	2021/22	2022/23
	“R000	“R000	“R000
Equitable Shares	164 011	182 473	201 258
MIG	43 364	46 960	49 591
DWS	35 200	40 000	37 160
MSIG	300	2 500	1 500
EPWP	1 568		
FMG	1 700	1 700	1 700
Total	256 143	283 633	298 209

10. 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:

INSTITUTION	2020/2021	2021/2022	2022/2023
Donations	104 500	109 307	114 335
Community Safety Forum	104 500	109 307	114 335
Enterprise Development	209 000	218 614	228 670
SMME	104 500	109 307	114 335
Mogol Club	104 500	109 307	114 335
Sports Club Marapong	104 500	109 307	114 335
Agri Contribution	104 500	109 307	114 335
SPCA	104 500	109 307	114 335
TOTAL	940 500	983 763	1 029 016

11. 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 99 applies. Refer to SA23 on the budget supporting schedules.

12. CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

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

- Ga seleka and Witpoort RWS phase R2 036 107
- Mokuruanyane and shongoane RWS phase 4 and 5
R7 791 913

The projects were now funded with own funding in 2021/2022 financial year

13. CAPITAL PROJECTS

DESCRIPTION	DEPARTMENT	AMOUNT 2020/2021	AMOUNT 2021/2022	AMOUNT 2022/2023
Speed Camera	Traffic	240 000,00		
Blue Lights	Traffic	250 000,00		
Firearms x 5	Traffic	100 000,00		
Shredder	Planning Development	50 000,00		
Acquisitions of 6 hectares land for integrated human		-		
Office Furniture	Corporate Services	271 979,00		
Monitoring Tool	Corporate Services	500 000,00		
Replacement of Desktops	Corporate Services	300 000,00		
TLB	Public Works	-		
Camera	Communication	70 000,00		
Asbestos cutting machine		20 000,00		
Water Tankering x 1	WATER	-		
Technical study - VIP toilets	SANITATION	1 500 000,00		
Security Guard Houses	PUBLIC WORKS	1 000 000,00		
skip bins 30 cubic meter x12	WASTE	1 500 000,00		
skip loader trucks x1		2 000 000,00		
Operationalize weighbridge		300 000,00		
Security System Marapong, Thabo Mbeki and Mokuanyane	PROTECTION SERVICES	480 000,00		
CEMETERY	CEMETERY	4 000 000,00		
Ga seleka and Witpoort RWS phase	Water	2 036 107,40		
Mokuanyane and Shongwane RWS phase 4 and 5		7 791 913,60		
		22 410 000,00		
TOTAL OWN FUNDING		22 410 000,00	-	
GRANTS PROJECTS				
Electrification Grants		10 000 000,00	10 000 000,00	
WSIG		35 200 000,00	40 000 000,00	
MIG		41 181 850,00	44 612 000,00	
MSIG		300 000,00	2 500 000,00	
TOTAL GRANTS PROJECTS		86 681 850,00	97 112 000,00	
TOTAL CAPITAL PROJECTS		109 091 850,00	97 112 000,00	
WSIG Projects				
Marapong Bulk Water Supply (LEPLEP03)	WSIG	11 502 124,00		
Construction of Mokuanyane Regional Water Scheme Bulk Pipeline Phase 1&2	WSIG	23 697 876,00	40 000 000,00	
TOTAL WSIG		35 200 000,00	40 000 000,00	
MIG Projects				
Steve Biko Access Road		14 072 464,76		
Establishment of 2 transfer stations in the rural areas seleka and moong		14 946 110,74	23 368 975,00	
Highmast installation at segale, botsalanong, kopanong, senoela, morwe, botshabelo, moong, sefithigo		2 000 000,00	4 096 018,00	
Highmasl light x20		10 163 274,50		
Extension and Augmentation of water supply in Witpoort RWS 6			17 147 007,00	
TOTAL MIG		41 181 850,00	44 612 000,00	

14. 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.