



LEPHALALE
MUNICIPALITY

DRAFT BUDGET NARRATIONS

2024 2025 (MTREF)



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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 2024/25 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 2024/25 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 2024 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 2024/25 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 2024/25 MTREF Budgets.

Changes on Local Government allocations – reduced

There is a net reduction of R80.6 billion to main budget non-interest expenditure are identified across the three spheres of government over the MTEF in comparison to the 2023 budget estimates. Among these 2024 MTEF fiscal consolidation reductions, local government has the smallest contribution. Over the 2024 MTEF, the local government equitable share and direct conditional grants will be reduced by a total of R15.5 billion, made up of R9.6 billion in the local government equitable share and R5.9 billion in direct conditional grants.

Governance ,Performance and investment matters

The 2024/25 Budget is prepared as at the stage where municipalities need to play pivotal role in igniting the Economy of the country .Therefore effort must made to put initiatives that will attract investment and also to ensure that critical infrastructure such as water ,electrical and sanitation are well maintained. More focus must be on bulk infrastructure and the budget must be allocated for repairs and maintenance

This 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.

The budget is prepared under difficult circumstances whereby consumers are facing economic hardships. The scaling down of the Economy in Lephalale as result of the completion of Medupi Project, short coming of Covid has resulted in the closing of shops, migration of people out of town and increasing Vacant houses and has put pressure on consumer affordability due to high rate of unemployment, high debt book and low collection of revenue

Impact of ongoing Load shedding and a hike in electricity charges has resulted in Consumers switching over to other sources of energy which includes solar and Gas.

The service charge has increased by 6 % which in with the economic growth band except to electricity which has been increased by 7,4% while waiting for NERSA tariff increase approval.

The operating costs for the provision of services are on the increase due to expansion of free basic services to the villages. this is unsustainable as it reduces the reserves for asset replacement and maintenance.

Therefor to remain sustainable municipality must implement the revenue Enhancement strategies

- Accelerating the implementation of prepaid water and electricity smart meters
- Implement the New Valuation roll effective from 1 July 2025.
- Implementation of Revenue Enhancement and cost containment strategies.
- Implementation of strategies to collect revenue at the Marapong and Thabo Mbeki Township.
- Introduction of a flat rate for informal settlement and rural villages.



- Introduction of new sources of revenue (Rental stock ,weighbridge ,Landfill, Grey water ,Zeeland WTW).

This means when implementing the budget Municipality should Increase the revenue , cutting of water& Electricity losses, charging cost reflective and affordable tariffs, accelerate Debt collection, Filling of only Critical positions, Implementation of revenue enhancement ,UFW reduction strategies, cost containment strategies. Municipality must also accelerate investment summit packages to unlock economic activity of the town.

Municipality must implement systems to ensure accurate metering and billing to instill confidence of the public.

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 on a range of collection strategies to optimize the collection of revenue. To ensure on the optimization of resources Municipality must cut 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.
- Capitalize DBSA and Exxaro non lending support.

Medium-term priorities include:

- Implementation of flat rate at the villages.
- Increase the revenue base.
- Source Funds for the implementation of smart metering.
- Focus on the on-asset care Projects (asset renewal and replacement of ageing infrastructure.



Long Term Focus

- Development of Economic recovery plan with Revenue Diversification, longevity, and Long-term Financial sustainability.
 - ✓ Attract investments to create Jobs and capitalize on Lephale competencies (Energy, Mining, Agriculture & tourism).
 - ✓ Explore Public Private partnerships (Grey Water).
 - ✓ Entities opportunities.
 - ✓ Zeeland Water Treatment.
 - ✓ 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 = 25- 40%
- Contracted services as a % of total Expenditure = 5%
- Asset renewal and maintenance as % of total PPE = 8%
- Application of prepaid and flat rate at the Villages
- Strategies to collect revenue Marapong and Thabo Mbeki
- Indigent registrations
- Budget to include asset replacement Reserves.
- Cost containment – Do more with less.
- Own funding Projects directed at Revenue enhancement Projects and technical reports to unlock Grant Spending.
- Attract investments for Lephale Local economic development.

3. BUDGET SUMMARY

The total Operating budget for MTREF 2024/25 includes Total Revenue is R838 million and Total Expenditure of R836 million resulting in the Surplus of R2 .8 million.

The operating Revenue budget has changed from R784 million in 2023/2024 to R838 million in 2024/2025 FY, R877 million 2025/2026 FY and R890 million in 2026/2027 FY respectively.

The operating Expenditure budget has changed from 782 million in 2023/2024 to R836 million in 2024/2025 FY, R875 million 2025/2026 FY and R888 million in 2026/2027,



resulting to a surplus of R 2.8 million for 2024/25 FY and R1,6 million and R1,9million in the outer years.

The Capital expenditure is R224 million which includes R30m Own capital Funded and R194m National Grant Funded Projects.

All tariffs have been adjusted by 6 % for the 2024/25 Financial year except for electricity which is adjusted by 7.4% pending NERSA approval. The operating expenditures has been increased in line with Macro-economic performance and projections for factors as per MFMA Circular 128.

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

Revenue Tariff increase

Description	24/25	25/26	26/27
Rates	6 %	4,6%	4.6%
Electricity	7.4 %	4,6%	4.6%
Water	6 %	4,6%	4.6%
Sanitation	6 %	4,6%	4.6%
Refuse	6 %	4,6%	4.6%
Operating Expenditures	4.9%	4,6%	4.6%

NERSA still pending LLM has budget 7.4 % increase. To be updated when final approval is received from NERSA.

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 4.9%, 4,6% and 4.6% respectively for the 3-years budget period of 2024/2025, 2025/2026 and 2026/2027

The revenue tariff increases are as per MFMA Circulars 126 &128 except for electricity charges which are increased as per Nersa regulation.

Employee related costs and remuneration of councilors R280 Million

Employee related costs: Budget R 265 million.

The 2024/25 includes the head count of 416 which including and 5 Funded vacant positions. The Salary and Wage Collective Agreement for the period 01 July 2021 to 31 June 2024 has come to an end and a new agreement is under consultation . The Municipality has made a provision 5,9% which includes 4,9 % based on MFMA Circular 128 including 1% to provide for the new agreement.

The overall employee benefits is at 31% 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 cut on overtime costs.

Position will be staggered to ensure alignment to the norms.

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

The following position will be prioritized in 2024/25 Financial year ,

- PMS Officer HR - L5
- IDP Officer – L3 (upgraded from L5)
- Asset Manager L2-1
- Process Controller L7 (Sanitation)
- Electrician L6 (Sanitation)

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

The training must be included.

- Capacitate internal staff to reduce overreliance on consultants.
- Mentoring Program NBI.
- Operators Training.

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.

Bulk Purchases - R193Million

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 – R53 M

The amount of Bulk water is R18 M (Purified water) R24 Million for (abstraction of raw water from Mofolo dam) and R7 million relates to (Inhouse maintenance and withdrawals from stores). This includes purchases of the materials for maintenance of Infrastructure network inhouse.

Bulk purchase of water has been budgeted under inventory according to MFMA circular 123.

Contracted Service R 76M

Contracted services as a percentage of the Total Expenditure are at 9% which is above the norm of 5% . Of the total contracted services, the amount of R15 million (19%) relates to repairs and maintenance, R62 million relates to consultant and system vendors.



DESCRIPTION	2024/25	2025/26	2026/27
Consultants and Professional Services	Draft Budget	Draft Budget	Draft Budget
Accounting and auditing Services	3,500,000	3,661,000	3,825,745
Forensic Investigation	2,500,000	2,615,000	2,732,675
Internal audit Outsourcing and audit Committee	1,012,220	1,058,782	1,106,427
Risk Management outsourcing	507,569	530,917	554,808
STRATEGIC	4,000,000	1,046,000	1,093,070
Valuer	3,000,000	3,138,000	3,279,210
EAP and Medical Services	650,000	679,900	710,496
Legal Services	5,486,269	5,738,637	5,996,876
Total Consultants and professional Services	20,656,058	18,468,237	19,299,307
Maintenance services -Sanitation	7,867,226	5,603,718	5,810,885
Maintenance services -Water	3,414,296	1,531,654	1,600,578
Maintenance services -Electricity	1,134,295	768,073	802,636
Maintenance services -Waste	2,198,704	2,299,844	2,403,337
Maintenance services -Roads Buildings & Storm water	1,640,338	1,715,794	1,793,004
Maintenance services -Vehicles	3,468,903	3,628,473	3,791,754
Total Repairs and maintenance	19,723,762	15,547,554	16,202,195
Prepaid vendors	10,000,000	10,460,000	10,930,700
Security	18,708,546	19,069,139	19,949,750
Hygiene services	500,000	523,000	546,535
Water Meter reading	830,915	869,137	908,248
Collection Cost	2,800,000	2,915,000	2,732,675
IT -Outsourced	2,883,780	2,516,434	2,652,173
Total Outsourced Services	35,723,241	36,352,710	37,720,082
TOTAL	76,103,061	70,368,501	73,221,584



Repairs and maintenance R150M

The repairs and maintenance is R125 million which includes which includes the amount of R15,4 million for outsourcing of External Service Provide where the municipality does not have inhouse capacity. The R7million is allocated to inventory consumed for the material withdrawn from stores and additional R8 Millions for general operational maintenance.

DWS has approved business case the amount of R142 Million has been allocated to the 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
- ✓ Replacement of Lephalale Town and Marapong replacement of Old AC pipes

Depreciation R94M

Depreciation is based on straight-line method over the useful life of the assets. Infrastructure assets account for most of the amount. The assets include movable assets i.e., office furniture, vehicles, equipment, and Immovable assets includes Community Assets, Smart meters etc.

Debt Impairment R33 M

The budget for Debt impairment has increased to R33 million in 2024/25 due to high debtors' book. The debt collector has been appointed to assist acceleration of debt collection and reduction of debt Book.

Irrecoverable Debt written off R6M

The municipality has provided R6M for irrecoverable debt .The municipalities will record the reversal of impairment loss to reduce the Accumulated Provision for Debt Impairment with the irrecoverable Debts Written Off.

Finance Charges R19M



The finance relates to interest charged for the provision of Post employment retirement benefits and landfill site and R7 Million relates to interest Charged in relation to the Interest charged on financial lease at Zeeland.

Transfer and subsidies R1M

The budget relates to subsidies incurred by Municipality on the Non-profit organization which include Mogol club.SPCA and etc.

Operational Expenses R77 m

Operational Expenses constitute 9 % of the total operating expenditure which is in line with 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 838 m

Property rates constitute R126 m which constitute 15 % of operating revenue.

Service charges

Service charges is R388 Million which constitutes 46% 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 June 2023.

Service Charges

Service charges for electricity has been adjusted to R265m – 31%

Service charges water has been adjusted to R71m – 8%

Sanitation Revenue has been adjusted to R 29m – 3.4%

Service charges refuse has been adjusted to R23m.- 2.7%

The increase has been effected in line with MFMA Circular 128.

Municipality is highly Grant Funded Equitable share constitute to the amount of R247M - 29%

Interest on Investment R7.1M

The interest on investment is R7.1M, The amount is related to interest received from Short term investment from Grant and own Funding funds .

Interest on Outstanding Debtors



- **Revenue from Exchange Transactions - R37million**
- **Non-Exchange transactions – R15 million.**

The impact of economic downfall has resulted in the inability of consumers to pay their debt on time. Municipality has reviewed the billing cycle to align to the month end where consumers are getting paydays. Data cleansing Project is on progress. Municipality has procured an Indigent management system.

Agency Fees R9,6

The budgeted revenue for License and Permit has been increased in line with the CPI. Municipality is performing the services (License and permits)for Department of Transport Strategies will be implemented to improve on revenue collection of the same.

Transfers of Grants and subsidies are reconciling as per DORA allocation for **R441 million**. The allocation are as follows:

GRANTS	Budget 2024/2025	Budget 2025/2026	Budget 2026/2027
EQUITABLE SHARES	241,654,000	254,298,000	266,256,000
MIG - PMU	2,521,250	2,640,050	2,861,150
FMG	1,800,000	1,900,000	2,000,000
EPWP	1,311,000		
Sub total	247,286,250	258,838,050	271,117,150
MIG	47,903,750	50,160,950	54,361,850
INEP		12,412,000	11,212,000
ENERGY EFFICIENCY	4,000,000	4,000,000	
WSIG	39,147,000	35,000,000	45,000,000
WSIG 6B	102,954,000	103,300,000	87,611,000
TOTAL CAPITAL GRANTS	194,004,750	204,872,950	198,184,850
TOTAL GRANTS	441,291,000	463,711,000	469,302,000

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

Operational revenue R2.6M

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.

Other revenue

The budget includes Fines ,penalties and forfeits of R1M ,rental of fixed assets for R791K and sale of good and services rendered of R1.8M

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 2024/25 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:

7.1 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



7.2 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.

7.3 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

7.4 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.

7.5 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.

7.6 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.

7.7 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.

7.8 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.

7.9 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.



- 7.10 Subsistence and Travel Policy (ANNEXURE 4)
- 7.11 Petty Cash Policy (ANNEXTURE 4)
- 7.12 Cost Containment Policy (ANNEXURE 4)
- 7.13 SCM Turnaround Policy (ANNEXURE 4)
- 7.14 Funding and Reserves Policy (ANNEXURE 4)
- 7.15 Borrowing Policy (ANNEXURE 4)
- 7.16 Long term Financial Planning Policy (ANNEXURE 4)
- 7.17 Policy Related to infrastructure investment and capital Projects (ANNEXURE 4)
- 7.18 Banking Electronic Transfer Policy (ANNEXTURE 4)
- 7.19 Expenditure Management Policy (ANNEXTURE 4)
- 7.20 Revenue Enhancement Strategy (ANNEXTURE 4)
- 7.21 UIFW Reduction Strategy (ANNEXTURE 4)
- 7.22 Consultant reduction Strategy(ANNEXTURE4)

8. 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 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 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 Tarrif Increases

NERSA approved 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 2024/2025 MTREF are 4,9% for 2025/2026, 4,6% for 2026/2027 and 4.6%.

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:

Salaries, wages, and related staff cost.

The 2024/25 includes the head count of 421 which includes current head count of 416 employees and 5 vacant positions . The Salary and Wage Collective Agreement for the period 01 July 2021 to 31 June 2024 has come to an end and a new agreement is under consultation . The Municipality has made a provision 5,9% which includes 4,9 % based on MFMA Circular 128 including 1% to provide for the new agreement.

The overall employee benefits is at 31% 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 cut on overtime costs.

Position will be staggered to ensure alignment to the norms.

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.

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.

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 128 for the 2024/2025 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 2024/2025 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 2024/2025 financial year.

9. OVERVIEW OF BUDGET FUNDING

Fiscal Overview

Operating budget

The total Operating budget for MTREF 2024/25 includes Total Revenue is R838 million and Total Expenditure of R836 million resulting in the Surplus of R2 .8 million.

The operating Revenue budget has changed from R784 million in 2023/2024 to R838 million in 2024/2025 FY, R877 million 2025/2026 FY and R890 million in 2026/2027 FY respectively.

The operating Expenditure budget has changed from 782 million in 2023/2024 to R836 million in 2024/2025 FY, R875 million 2025/2026 FY and R888 million in 2026/2027, resulting to a surplus of R 2.8 million for 2024/25 FY and R1,6 million and R1,9million in the outer years.

The Capital expenditure is R224 million which includes R30m Own capital Funded and R194 m National Grant Funded Projects.



All tariffs have been adjusted by 6 % for the 2024/25 Financial year except for electricity which is adjusted by 7.4% pending NERSA approval. The operating expenditures has been increased in line with Macro-economic performance and projections for factors as per MFMA Circular 128.

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 R30 M.

- 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 the council during May 2023. 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.



10. EXPENDITURE ON GRANTS ALLOCATION AND GRANT PROGRAMME

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

GRANTS	Budget 2024/2025	Budget 2025/2026	Budget 2026/2027
EQUITABLE SHARES	241,654,000	254,298,000	266,256,000
MIG - PMU	2,521,250	2,640,050	2,861,150
FMG	1,800,000	1,900,000	2,000,000
EPWP	1,311,000		
Sub total	247,286,250	258,838,050	271,117,150
MIG	47,903,750	50,160,950	54,361,850
INEP		12,412,000	11,212,000
ENERGY EFFICIENCY AND DEMAND SI	4,000,000	4,000,000	
WSIG	39,147,000	35,000,000	45,000,000
WSIG 6B	102,954,000	103,300,000	87,611,000
TOTAL CAPITAL GRANTS	194,004,750	204,872,950	198,184,850
TOTAL GRANTS	441,291,000	463,711,000	469,302,000

11. 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	BUDGET	BUDGET	BUDGET
	2024/2025	2025/2026	2026/2027
COMMUNITY SAFETY FORUM	125,689	131,471	137,387
DONATIONS ORGANISATIONS	125,689	131,471	137,387
AGRI CONTRIBUTION	125,689	131,471	137,387
MOGOL CLUB	125,689	131,471	137,387
SPCA	125,689	131,471	137,387
SPORT CLUB MARAPONG	125,689	131,471	137,387
ENTERPRISE DEVELOPMENT	300,000	313,800	327,921
TRANSFERS AND SUBSIDIES	1,054,137	1,102,627	1,152,245

12. 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.

13. CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

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

- Mokuruanyane and Shongoane RWS phase 5
R7 ,9 million.
- Witpoort & Ga Seleka Regional water Phase 5 – R13 Million



14. CAPITAL PROJECT DETAILS

The Capital expenditure is R224 million which includes R30 m Own capital Funded and R194 m National Grant Funded Projects. The details are depicted by Tables below:

PROJECTS	Budget 2024/2025	Budget 2025/2026	Budget 2026/2027
INEP		12,412,000	11,212,000
DEMAND SIDE MANAGEMENT GRANTS	4,000,000	4,000,000	
MIG	47,903,750	47,237,700	49,476,950
WSIG	39,147,000	35,000,000	45,000,000
WSIG 6B	102,954,000	103,300,000	87,611,000
OWN FUNDING	30,089,199.50	5,800,000.00	
TOTAL GRANTS	224,093,950	207,749,700	193,299,950

MIG PROJECTS

MIG Projects	Budget 2024 2025	Budget 2025 2026	Budget 2026 2027
Installation of Highmasts in various villages	17,550,000		
Sefitlhogo access road	20,353,750		
Refurbishment of Thabo Mbeki stadium	10,000,000		
Letlora access road		32,000,000	28,900,000
Martinique access road		15,237,700	11,646,250
Total MIG Project	47,903,750	47,237,700	98,953,900



WSIG PROJECTS

DWS PROJECTS	Budget 2024 2025	Budget 2025 2026	Budget 2026 2027
REPLACEMENT OF ASBESTOS CEMENT PIPE (AC) TO HDPE/uPVC WATER PIPES IN LEPHALALE TOWN (RESIDENTIAL)	24,784,906		
REPLACEMENT OF ASBESTOS CEMENT PIPE (AC) TO HDPE/uPVC WATER PIPES IN ONVERWACHT (SECTION B)	23,588,505		
REPLACEMENT OF ASBESTOS CEMENT PIPE (AC) TO HDPE/uPVC WATER PIPES IN LEPHALALE (CBD)	20,660,238		
REPLACEMENT OF ASBESTOS CEMENT PIPE (AC) TO HDPE/uPVC WATER PIPES IN MARAPONG (ZONE 2)		28,566,553	18,134,909
REPLACEMENT OF ASBESTOS CEMENT PIPE (AC) TO HDPE/uPVC WATER PIPES IN ONVERWACHT (SECTION C)			41,392,865
REPLACEMENT OF ASBESTOS CEMENT PIPE (AC) TO HDPE/uPVC WATER PIPES IN MARAPONG (ZONE 1)	6,947,437	35,000,000	
REPLACEMENT OF ASBESTOS CEMENT PIPE (AC) TO HDPE/uPVC WATER PIPES IN ONVERWACHT (SECTION A)	32,199,563	39,147,000	
REFURBISHMENT AND UPGRADING OF SEWER PUMP STATIONS, WASTE WATER TREATMENT WORKS, NETWORK PIPES AND REPLACEMENT OF SEWER AC PIPES	15,960,560	35,586,447	
MARAPONG BULK WATER SUPPLY	13,987,039		
MARAPONG BULK WATER SUPPLY-STORAGE	3,972,752		
EXTENSION AND AUGMENTATION OF WATER SUPPLY IN GA-SELEKA PHASE 6			73,083,226
Total	142,101,000	138,300,000	132,611,000

ELECTRIFICATION

DOE PROJECTS	Budget 2024 2025	Budget 2025 2026	Budget 2025 2026
INEP		12,412,000	11,212,000
MANAGEMNT GRANTS	4,000,000	4,000,000	
Total DOE Project	4,000,000	16,412,000	11,212,000



OWN FUNDING



Description	Department	Budget 2024 2025	Budget 2025 2026
0573_Treatment works and Holding dam	Sanitation		1,500,000
0573_Refurbishment of Zongesien & sewer dumping site	Sanitation		2,000,000
0553_Construction of KingbirdLine(Technical report)	Electrical		1,600,000
0553_Replacement of Switch Gears X2	Electrical	1,400,000	
Conduct an assessment and compile technical report for Ga-Seleka Water Scheme	Water	1,500,000	
Conduct an assessment and compile technical report for Shogoane Water Scheme	Water	1,500,000	
Supply ,dellvery ,offlaoding and instalation of Jojo Tanks in various Villages	Water	300,000	
Installation of Cages (Drilled boreholes)	Water		350,000
Mayoral Vehicle	Strategic	700,000	
Purchase of 1 X LDV Vehicle (Sanitaion)	Sanitation	350,000	
Purchase of 1 X LDV Vehicle (Mechanical)	Mechanical	350,000	
Sewer PipeLine inspection Camera	Sanitation	200,000	
Branding of Entrance to Town	Strategic	1,000,000	
Mokuruanyane and Shongwane Reginal Water S cheme Bulk phase 5	Water	7,900,000	
Electricification of various Villages	Electrical	3,256,200	
BI system & Revenue enhancement Tool	Finance		
Mobile walk-through metal detector	MM	200,000	
Land Acquisition 528 hectares ,Private land Onverwagt - Node 1	Planning	5,425,000	
Safe Room Furniture	Coporate	150,000	
Resealing of testing ground	Public Works	2,000,000	
Equipments,Computers and IT System upgrade	Corporate	1,000,000	
Office Equipment and Furniture	Corporate	350,000	
Installation and upgrade of recording system in the council chamber	Corporate	400,000	
10 x 30 Cubic meter Skip Bins	Social Services	1,500,000	
Purchasing of x6 Walk behind Loan mower machines	Social Services	200,000	
Purchasing 1 x Road marking machine	Social Services	50,000	
Purchase pf 2 x Lawn mowers	Social Services	90,000	
Purchase of 6 x Chainsaws	Social Services	18,000	
Purchase of 4 x Chain pole pruners	Social Services	20,000	
Purchase OF 1x Breatherlisor		30,000	
Total		30,089,200	5,800,000

15. 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 Program and has employs 5 interns undergoing training in various finance sections in line with the conditions of FMG grants.

16. QUALITY CERTIFICATES

Signed Quality certificate will be submitted once Budget is approved by Council