



LEPHALALE MUNICIPALITY

FINAL BUDGET 2021 2022

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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 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 aligns 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 2021/22 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 2021/22 MTREF Budget is also aligned to 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 2020 with all the due dates of all activities.



2. EXECUTIVE SUMMARY

The preparation of the budget is guided by circular 107 and 108 of MFMA no 56 of 2003. The Circular 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 2021/22 Municipality's Medium Term Revenue and Expenditure Framework (MTREF) comes while Economic outlook remains highly uncertain, and the economic effects of the pandemic are still far-reaching. Rising unemployment and income losses have entrenched existing inequalities. The Economic growth rate will slowly improve as restrictions are removed , how the real output are expected around 2024. The impact of Covid 19 and ageing infrastructure and Economic constraints will put Pressure on the 2021/22 MTREF Budgets.

Changes on Local Government allocations

The 2021/22 Budget protects transfers that focus on infrastructure, service delivery and COVID-19 spending while reducing those spent less effectively. The 2021 Budget includes funding for initiatives to improve municipal revenue collection and support municipalities to be financially sustainable.

The budget for Lephalale Municipality will mainly focus on the Maintenance of the infrastructure to improve reliability infrastructure network., operational efficiency to improve service delivery and also addressing the challenges of Covid 19. Revenue enhancement initiatives will also be explored and also the planning for Lephalale VISION 2040.



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 in order to improve productivity and operational efficiency.

On the capital Expenditure Municipality is dependent on Grants and operational expenditure is depend 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, Skill development, Implementation of revenue enhancement initiatives.The Municipality must also focus on Local Economic Development to unlock new sources of revenue .

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

Municipality will 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 which include cutting on travelling & subsistence to remove the nice to have and the use of Technology for meetings and while adhering to Covid regulations.



2.1 BUDGET SUMMARY

The total budget for MTREF 2021/22 includes Total Operating Expenditure is R663 Million and Total Operating Revenue of R667 million resulting in the operating Surplus of R3,8Million.

The operating Revenue budget has changed from R645 million in 2020/2021 to R667 million in 2021/2022 FY, R701 million 2022/2023 FY and R725 million in 2023/2024 FY respectively.

The operating Expenditure budget has changed from R624million in 2020/2021 to R663 million in 2021/2022 FY, R697 million 2022/2023 FY and R716 million in 2023/2024, resulting to a surplus of R 3,8 Million for 2021/22 FY and R4,3million and R8,9million in the outer years.

The Capital expenditure is R93 million which includes R23m Own capital Funded and R70m National Grant Funded Projects.

All tariffs have been adjusted by 3.9% for the current Financial year except for electricity which is adjusted by 14,59% and 8,9% in later years as regulated by NERSA.

The budget will be affected by negative economic conditions and the impact of Covid 19.

Below is the table showing the budget tariffs for the MTREF 2021/22

Revenue Tariff increase

Description	21/22	22/23	23/24
Rates	3.9%	4.2%	4.4%
Electricity	14,59%	8.9%	8.9%
Water	3.9%	4.2%	4.4%
Sanitation	3.9%	4.2%	4.4%
Refuse	3.9%	4.2%	4.4%

Revenue Tariff Increase

The MTREF-based revenue and expenditure budget assumed inflation-linked annual draft budget of 3.9%, 4,2% and 4.2% respectively for the 3-years budget period of 2021/2022, 2022/2023 and 2023/2024. The revenue tariff increases are as per MTREF Circular 108 except for electricity charges which are increased as per Nersa regulation.



Employee related costs and remuneration of councilors

Budget R228 Million. The 2021/22 includes the head count of 475 permanent employees and 47 contract employees. The Salary and Wage Collective Agreement for the period 01 July 2018 to 31 June 2020 has come to an end and a new agreement is under consultation, Therefore, in the absence of information in this regard from the South African Local Government Bargaining Council (SALGBC).The Municipality has made a provision 6,25% increase based on the previous Bargaining Council Increase.

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 . Operational efficiency mechanisms to be implemented to reduce the cost of overtime and standby allowance.

This result in overtime increases on employee related costs and remuneration of councilors as a percentage of total operating expenditure is 35% as opposed to 33% of the norm. A cost and benefit analysis exercise is underway to compare Overtime vs the implementation of shift work. Resolution will be taken on the least cost option.

The budget includes the following critical position to strengthen governance and improve service delivery. Existing Man plan has been restructured to address shortage of critical skills.

Internal Audit - Level 4 (Restructuring Support assistant Level 7)

Manager Risk – Level 2-1

LED Specialist – Level 3

Professional Engineer Level 3 (Restructuring- Area Manager L3)

Assistant MPAC level 6

2x Senior Security Officer Level 5

2x Truck Operators Level 7

2x Customer Care Level 7 (Restructuring Clerk Gr1 L7 and Switch Board Operator L9)

Senior Cleansing Supervisor Level 6 (Restructuring Waste management clerk L7

Safety Clerk Level 7 (Restructuring HR Clerk L7)

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

The training must includes

- Asset care –MISA (Develop an Infrastructure Asset Management)
- Operators Training
- Management Development Programme
- supervisor Role and Responsibility Training
- Health and Safety Training.
- Advance Microsoft (word, PowerPoint excel)

Remuneration of councilors- R11,7m



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 6.25% is based on previous year budget. Cell phone allowance and car allowance remained the same for remainder of their term.

Bulk Purchases - R148,5M

Bulk of electricity has increased by 17,8 % as per Nersa Regulation as opposed to 5.2% as per Budget circular 108. The budget for 2020/21 was R126M and has been increased to R148M.

Inventory Consumed – R21M

The amount of Bulk water is R13,3M .Other material consumed includes purchases of the materials for maintenance of Infrastructure network inhouse. Bulk purchase of water has been increased by 3.9% and budgeted under inventory according to circular 108.

Contracted Service R 55m

Contracted services as a percentage of the Total Expenditure are at 8,5% which within above norm of (2% and 5%).

The National Treasury Budget Circular 108 for the 2021/2022 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 municipality has appointed the service provider develop the Infrastructure master plan.

Repairs and maintenance R17M

The repairs and maintenance budget the repairs and maintenance of the Infrastructure network and will be updated once final plan is received. 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.

Repairs and maintenance is below the norm of 8%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.



Project include:

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

In 2020/21 Lephhalale Municipality received additional allocation of R27m for Equitable share. The budget was allocated to address service delivery challenges which included Maintenance for water ,sanitation and electricity infrastructure ,Waste and Parks Fleet and machinery. 2021/22 Municipality is not allocated additional Equitable hence a reduction on the Budget from R191million to R174 million.

Debt Impairment

The budget for Debt impairment has increased from R8 million to R13million in 2021/22 R34m and R24m in the outer years the reason being our debtors book is too high and we are currently busy with the Process of writing of irrecoverable debts.

Finance Charges R2,1M

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

General Expenses R68m

General Expenses constitute 9 % of the total operating expenditure which is below the norm of 10% as per Treasury MFMA budget guidelines. This reflects the impact of cost containment based on less budget on travelling and subsistence and few gatherings.

Total operating Revenue R 667m

Property rates constitutes is R106m which constitute 16% of operating revenue.

Service charges

Service charges is R437M which 48% of the operating revenue.

Service charges for Electricity was increased by 14,59% of CPI. R237m

Service charges water has been adjusted by 3,9% in line with CPI.R50m

Sanitation Revenue has been adjusted by 3.9% which is in line with CPI.R 24m

Service charges refuse and license has been adjusted to 3.9% which is in line with CPI. R19M

Interest on Investment



The interest on investment has been reduced from R3.5m to R2,1m reason ,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

For the current Financial Year, the Municipality has offered interest relief of th 3 Month which was not budgeted for in 2021/22 and the outer years.

License and Permit R8,2m

The budgeted revenue for License and Permit has decreased to R8.2 due to the impact of Covid regulations.

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

Transfers of Grants and subsidies are reconciling as per DORA allocation for R250 million. The allocation is as follows:

Grants Allocations	BUDGET 2021/2022	BUDGET 2022/2023	BUDGET 2023/2024
Equitable Shares	174 746 000	190 615 000	195 302 000
MIG	46 014 000	49 592 000	51 727 000
DWS	0	37 160 000	30 832 000
MSIG	-	-	
INEP	26 500 000	12 000 000	10 500 000
EPWP	1 220 000	-	
FMG	1 650 000	1 650 000	
Total	250 130 000	291 017 000	289 768 000

The 2021 Budget protects transfers that focus on infrastructure, service delivery and COVID-19 spending while implementing cost containment measures. In 2021, government will expand the scope of the municipal infrastructure grant to allow municipalities to use up to 5 per cent of their allocation to develop infrastructure asset management plans. Municipality has applied for DDM model initiatives to improve the Infrastructure.

The INEP Budget is R26,5 Million for electrification at the Villages.



Municipality must explore other Grant's funding to improve service delivery and maintain the infrastructure assets.

Other revenue R3,7m

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. The under collection for the 2021/22 Financial will be impacted by COVID 19 Regulations.

Revenue Management

During Level 5 lockdown Municipality offices were closed and most customers could not pay for their services which resulted to under collection of revenue. The lockdown regulations were eased the collection rate as 31 March 83%.

Municipality will continue to accelerate debt collection through , customer care and implement strategies to improve the collection rate in 2021/22 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 .

Accelerate 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 2021/2022- 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 as a result 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. In order 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 provide assistance 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 favouritism, 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.
- That 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.



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 2021/2022 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 in excess of the projected inflation target for 2021/22 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

In March, NERSA approved a municipal tariff increase of 14,59 per Nersa Guideline on Municipal Electricity Price Increase for 2021/22.

The outer two years of the 2021 MTEF use 8.9 per cent, which is an average annual tariff increase used for the NERSA's multi-year price determination period of 1 April 2019 to 31 March 2022. Moreover, the outer year is anticipated to be the first year of the MYPD 5 period, yet to be published.

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 2021/2022 MTREF are 3.9% for 2022/2023, 4.2% for 2023/2024 and 4.4%.

EXPENDITURE FRAMEWORK

Municipalities are under pressure to generate revenue as a result 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.

In order 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
- 6.Capacity support (DBSA)

Salaries, wages, and related staff cost.

The Salary and Wage Collective Agreement for the period 01 July 2018 to 31 June 2020 has come to an end and a new agreement is under consultation, which we hope will consider the current fiscal constraints faced by government. Therefore, in the absence of any information in this regard from the South African Local Government Bargaining Council (SALGBC), Municipalities' are advised to consider their financial sustainability when considering salary increase. Based on the above the municipality has increased with 6.25% for 2021/2022 FY.



Manplan must be reviewed and repurposed to priorities critical positions (IA,MPAC,Security ,Risk and Customer Care ,Technical Skills) without increasing the headcount.

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 6.25% is budgeted for.

Payment of danger allowance to the Employees

The SALGBC Circular No. 5 of 2020 provides advice to municipalities about the payment of danger allowance to employees working at the frontline to fight the COVID-19 pandemic.

The Circular provides that the council of the municipality must have an approved policy that should guide how the danger allowance should be paid, based on the affordability of the municipality.

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 year 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 2021/2022 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 3.9%. 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 2021/2022 is projected at an average of 84% 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 2010/2011 financial year.

8. OVERVIEW OF BUDGET FUNDING

Fiscal Overview

Operating budget

The operating Revenue budget has changed from R645million in 2020/2021 to R667 in 2021/2022 FY, R701 million 2022/2023 FY and R72 million in 2023/2024 FY respectively.

The operating Expenditure budget has changed from R624million in 2020/2021 to R663 in 2021/2022 FY, R697 million 2022/2023 FY and R716 million in 2023/2024 FY respectively.

CAPITAL EXPENDITURE

The aging infrastructure assets of the Municipality require that there be a constant investment and maintenance program. The municipality has made an allocation in 2021/2022 budget of R5 million for infrastructure master plan which is going to inform the upgrading and renewal of infrastructure.

The budget includes R 70 Million for grant Funding and R 22 Million of own funding projects.



Capital Budget

CAPITAL PROJECTS	2021/2022	2022/2023	2023/2024
MIG	43 713 300	47 112 399	49 140 650
ELECTRIFICATION	26 500 000	12 000 000	10 500 000
OWN FUNDING	22 293 000		
TOTAL LLM CAPEX	92 506 300	59 112 399	59 640 650
WISIG (Schedule c)	60 000 000		
TOTAL CAPEX	152 506 300	59 112 399	59 640 650

(WSIG - DWS will administer the funds- Schedule 6 B)

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.R43m .
- Electrification R26m .
- Municipal Water Infrastructure Grants to improve the water infrastructure R60m.
(DWS will administer the funds- Schedule 6 B)

Own Capital funded R23M

- 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 2021/2022 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 2021/2022 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 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:

Grants Allocations	BUDGET 2021/2022	BUDGET 2022/2023	BUDGET 2023/2024
Equitable Shares	174 746 000	190 615 000	195 302 000
MIG	46 014 000	49 592 000	51 727 000
DWS	0	37 160 000	30 832 000
MSIG	-	-	
INEP	26 500 000	12 000 000	10 500 000
EPWP	1 220 000	-	
FMG	1 650 000	1 650 000	
Total	250 130 000	291 017 000	289 768 000

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:

INSTITUTION	2021/2022	2022/2023	2023/2024
Donations	108 576	112 810	117 210
Community Safety Forum	108 576	112 810	117 210
Enterprise Development	217 151	225 620	234 419
SMME	108 576	112 810	117 210
Mogol Club	108 576	112 810	117 210
Sports Club Marapong	108 576	112 810	117 210
Agri Contribution	108 576	112 810	117 210
SPCA	108 576	112 810	117 210
TOTAL	977 180	1 015 290	1 054 886

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:

- 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 2020/2021 financial year.



CAPITAL PROJECT SUMMARY

CAPITAL PROJECTS	2021/2022	2022/2023	2023/2024
MIG	43 713 300	47 112 399	49 140 650
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TOTAL CAPEX	152 506 300	59 112 399	59 640 650

PROJECT DETAILS MIG

CAPITAL PROJECTS OWN FUNDING	Funder	DEPARTMENT	2021/2022	2022/2023	2023/2024
Establishment of 2 transfer stations in the rural areas seleka and moong	MIG	INFRASTRUCTURE	29 521 567		
Thabo Mbeki Sewer Network Sanitation PHASE2	MIG	INFRASTRUCTURE	932 441	46 553 544	
HIGH MAST LIGH INSTTALLATION SEGALE ,BOTSALANONG ,KOPANONG SENOELA,MOROE,BOTSABELO	MIG	INFRASTRUCTURE	7 163 275		
HIGH MAST LIGH INSTALLATION AT STEVE BIKO,MAETELESA,TSHEHLONG,DITAUNG	MIG	INFRASTRUCTURE	6 096 018		
Extension and Augmentation of water supply in Shongoane RWS	MIG	INFRASTRUCTURE		558 855	49 140 650
TOTAL MIG			43 713 300	47 112 399	49 140 650



DWS (Schedule 6B)

CAPITAL PROJECTS	Funder	DEPARTMENT	2021/2022	2022/2023	2023/2024
WATER					
MOKURUANYANE RWS BULK PIPE LINE	WISIG	INFRASTRUCTURE	24 000 000		
MARAPONG BULK	WISIG	INFRASTRUCTURE	36 000 000		
TOTAL SCHEDULE 6			60 000 000		

OWN FUNDING

CAPITAL PROJECTS OWN FUNDING	Funder	DEPARTMENT	2021/2022	2022/2023	2023/2024
Land Acquisition: 6.5h & Transfer Cost	LLM	Planning	5 425 000		
Construction of HawkerS stalls	LLM	LED	3 500 000	3 500 000	
MATNEK BRIDGE	LLM	PUBLIC WORKS	1 000 000		
HIGH MAST LIGTH PHAHLADIRA	LLM	ELECTRICITY	2 500 000		
Mobile Offices	LLM	BTO	500 000		
Unblocking sewer machine	LLM	SANITATION	543 000		
Sand removal	LLM	SANITATION	450 000		
Mobile bucket wintch	LLM	SANITATION	5 000		
MOBILE TRASH PUMP	LLM	SANITATION	200 000		
Electricity Infructure Master Plan	DBSA	ELECTRICITY	500 000		
Sanitation Infructure Master Plan	DBSA	SANITATION	500 000		
Waste Infructure Master Plan	DBSA	WASTE	350 000		
Water Infructure Master Plan	DBSA	WATER	500 000		
Cherry picker	LLM	ELECTRICAL	1 500 000		
LDV Bakkie	LLM	ELECTRICAL	460 000		
3,5 Ton Truck with Canopy	LLM	ELECTRICAL	850 000		
Mayoral vehicle	LLM	STRATEGIC	700 000		
speakers vehicle	LLM	STRATEGIC	700 000		
3,5 Ton truck	LLM	PUBLIC WORKS	850 000		
Mechanical Broom	LLM	PUBLIC WORKS	1 000 000		
WALK BEHIND ROLLER	LLM	PUBLIC WORKS	100 000		
PLATE COMPACTOR	LLM	PUBLIC WORKS	80 000		
ASPHALT SAW CUTTER	LLM	PUBLIC WORKS	80 000		
Total Own Funding			22 293 000	3 500 000	-



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.