



LEPHALALE
MUNICIPALITY

NORMAL ADJUSTMENT BUDGET

NARRATIONS

2024 2025 (MTREF)



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1. REPORT OF THE HONOURABLE MAYOR

Section 28 of the Municipal Financial Management Act, The municipality may revise the approved budget through the adjustment budgets. In term of sub section 2 of Section 28 of the Act .The adjustment budget :



- (a) must adjust the Revenue and Expenditure estimates downwards if there is material under – collection of Revenue during the current year:
- (b) May appropriate additional Revenues that have become available over and above those anticipated in the Annual Budget, but only to revise or accelerate spending programmes already budgeted for
- (c) May, within a prescribed framework, authorize unforeseeable and unavoidable expenditure recommended by the mayor of the Municipality.
- (d) May authorize the utilization of projected Savings in one vote towards spending under another vote.
- (e) May authorize the spending of funds that were unspent at the end of the past financial year where the under – spending could not reasonably have been foreseen at the time to include projected rollovers when the Annual Budget for the current year was approved by the Council.
- (f) May correct any errors in the Annual Budget; and
- (g) May provide for any other expenditure within a prescribed framework

Section 54 of the MFMA deals with the SDBIP, and subsection 1(c), provides for amendments to the SDBIP.

(1) On receipt of a statement or report submitted by the accounting officer of the municipality in terms of section 71 or 72, the mayor must ... c) consider and, if necessary, make any revisions to the service delivery and budget implementation plan, provided that revisions to the service delivery targets and performance indicators in the plan may only be made with the approval of the council following approval of an adjustments budget.

Cognizance should also be taken of the requirements as set out in Chapter 4 of the Municipal Budget and Reporting Regulations, which addresses the following principles:

- Section 21: Formats of adjustment budget
- Section 22: Funding of adjustment budget
- Section 23: Timeframes for tabling of adjustment budget
- Section 24: Submission of tabled adjustment budget
- Section 25: Approval of adjustment budget
- Section 26: Publication of approved adjustment budget
- Section 27: Submission of approved adjustment budget .

The attached adjustments budget follows the format as prescribed in Schedule B of the Municipal Budget and Reporting Regulations. This item must be read with the analysis of the midyear results as presented in a separate report to Council for further information on the actual performance of the municipality for the first six months.



2. EXECUTIVE SUMMARY

The purpose of this report is to recommend adjustments to be made to the Capital and Operating Budgets of Council as well as the resulting adjustments to the Measurable Performance Objectives.

It is a legislative requirement, in terms of section 54(1)(c) of the Municipal Finance Management Act (MFMA), that the municipality undertake a critical assessment of the performance to date and determines the need for an Adjustment Budget.

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 adjustment budget must be compiled 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 2024/25 Adjustment budget must address the effects of Economic constraints , a hike in electricity charges, high rate of unemployment that has affected the consumers affordability of basic services . Consumers are also switching to other sources of energy which includes solar and Gas due to loadshedding.

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. Low collection of Revenue has let to the Municipality.

The operating costs for the provision of services are on the increase due to expansion of free basic services to the villages, the ageing infrastructure .This will reduce the reserves for asset replacement and maintenance.

3. REVENUE ENHANCEMENT & COST CONTAINMENT STRATEGIES

The adjustment 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.

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 Implementation of revenue enhancement ,UIFW reduction strategies, cost containment strategies Municipality must also focus on Local Economic Development to unlock new sources of revenue.

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

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

There to remain Financially viable municipality must implement the revenue Enhancement strategies

- Accelerating the implementation of prepaid electricity system
- Expedite the application of Funding for smart water meters
- Implementation of Revenue Enhancement and cost containment strategies
- Update of the General Valuation Roll
- Capitalize on the available grants.
- Introduction of new sources of revenue (Rental stock ,weighbridge ,Landfill, Grey water ,Zeeland WTW)
- Implementation of the investment summit packages
- Replacement of standing/Malfunctioning meters
- Draw up a strategy for revenue collection in Marapong and Thabo Mbeki Introduction of Flat rate and the villages

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 by appointing only critical Positions



- Accelerate grant funded Projects.
- Ensure operational efficiency to achieve service delivery.
- Implementation of Cost containment and revenue enhancement strategies
- Fastrack the implementation of Investment summit packages

Medium-term priorities include:

- Pre-paid Smart electricity and Water Metering
- Increase the revenue base.
- Capitalize DBSA non lending support.
- Source Funds for the implementation of smart metering.
- Focus on the on-asset care Projects (asset renewal and replacement of ageing infrastructure.
- Implementation of the Revenue improvement plan

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 Lephalale competencies (Energy, Mining, Agriculture & tourism).
- Implementation of flat rate at the villages.
- Explore Public Private partnerships (Grey Water).
- Entities opportunities.
- Take over Zeeland Water Treatment.
- Apply for electricity Licenses in new areas.
- Capital investment plan vs Capital expansion.

4. STRATEGIES FOR COST CONTAINMENT

- Reduce travelling and accommodation
- Reduce reimbursed Travelling for councillors.
- Staff expected to bring tea and coffee.
- Stringent reduction of overtime
- Booking for accommodation 3 Star.
- Telephone reduce to R200 per employee where applicable.
- Pool cars to be used by official without car allowance.
- No catering for meeting: Meetings reduced to 2hours.
- Attend Team and Zoom Meetings.
- Online and onsite training where possible.



- Paperless for council /EXCO /MPAC Items Agenda save on printing and overtime and transport costs.
- Rapid response to queries, overtime only allocated for emergencies Threatening life and Health.
- Filling for some vacant position delayed and staggered to save employee related costs and align to treasury regulations.
- Parking of fleet outside working hours.
- Full Implementation of time and attendance.
- Attach attendance register for offsite meetings and training.
- Pre- authorisation of Trips.

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 90 % vs Treasury Norms of 95%
- Employee related Cost as percentage of Total Expenditure = 25- 40%
- Contracted services as at % of total Expenditure = 8%
- Asset renewal and maintenance as % of total PPE = 5%
- 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 Lephalale Local economic development

3. BUDGET SUMMARY

The Municipality has adjusted 2024/25 to address the impact of Economic constraints, ongoing Load shedding and a hike in electricity charges that has resulted in Consumers switching to other sources of energy which includes solar and Gas.

The Scaling down of the Economic activity 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 number of Vacant houses in Lephalale.



The operating Revenue reduced by R3,5 Million from R838 Million to R834 Million because of the above

The operating expenditure has reduced by R3.5 Million from R835 Million to R832,5 Million, due to implementation of Cost containment strategies.

The movement between Operating Revenue and the Operating Expenditure has the same net operating surplus of R2,8 Million.

The capital expenditure has been revised from R247 Million to 246 Million. The movement includes the grant approved roll over of R7,6 million and decrease in own funding projects due to delays on the implementation.

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	10.23%	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 10.23 % 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 R270 Million

Employee related costs: Budget R 255 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 32% 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 on the adjustment budget 2024/25 Financial year

- PMS Officer HR - L5
- IDP Officer – L3 (upgraded from L5)
- Grap Specialist L3-1
- 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 - R184 Million

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 – R55 M

The amount of Bulk water is R18 M (Purified water) R24 Million for (abstraction of raw water from Mofolo dam) and R13 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 78 M

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, R61 million relates to consultants and system vendors.



DESCRIPTION	2024/25	2024/25	Budget vs
Consultants and Professional Services	Original Budget	ADJ budget	Adj Budget Variance
Accounting and auditing Services	3,754,841.00	3,254,841.00	500,000.00
Forensic Investigation	2,500,000.00	1,500,000.00	1,000,000.00
Internal audit Outsourcing and audit Committee	1,012,221.00	1,312,221.00	- 300,000.00
Valuer	3,000,000.00	2,500,000.00	500,000.00
Quality Control - Indigents /scm system	300,000.00	762,723.30	- 462,723.30
Legal Services	5,244,999.00	7,444,999.00	- 2,200,000.00
Total Consultants and professional Services	24,704,222	25,666,945	- 962,723
			-
Contractors			-
Maintenance services -Sanitation	4,302,435	4,802,435	- 500,000
Maintenance services -Water	1,562,384	1,562,384	-
Maintenance services -Electricity	2,524,759	3,024,759	- 500,000
Maintenance services -Waste	2,198,704	1,198,704	1,000,000
_0573_Huilbos _Maintenance	2,064,790	64,790	2,000,000
Maintenance services -Roads Buildings & Storm water (0540)	1,598,490	2,098,490	- 500,000
Maintenance services -Vehicles	3,468,903	3,968,903	- 500,000
Total Repairs and maintenance	17,720,465	16,720,465	1,000,000
Prepaid vendors	10,000,000	16,400,000	- 6,400,000
Security	20,347,459	16,963,678	3,383,781
Water Meter reading	830,915	830,915	-
Collection Cost	2,500,000	1,500,000	1,000,000
Total Outsourced Services	33,678,374	35,694,593	- 2,016,219
TOTAL	76,103,061	78,082,003	- 1,978,942



Repairs and maintenance R150M

The repairs and maintenance is R142 million which includes which includes the amount of R16 million for outsourcing of External Service Provide where the municipality does not have inhouse capacity. The R13 million is allocated to inventory consumed for the material withdrawn from stores .

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 R91M

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 R38 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 R16M

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 R20 M

The finance relates to interest charged for the provision of Post employment retirement benefits and landfill site and R8 Million relates to interest Charged in relation to the Interest charged on financial lease at Zeeland.

Transfer and subsidies R2M

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



Operational Expenses R74 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 835 m

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

Service charges

Service charges is R360 Million which constitutes 43% of the budgeted revenue. Electricity cost has realized a reduction mainly impacted by reduction on Electricity consumption.

Service charges for electricity has been adjusted to R235m – R265m

Service charges water has been adjusted to R69m from R69m

Sanitation Revenue has been adjusted to R 30 m from R29m

Service charges refuse has been adjusted to R23m from R25m

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

Municipality is highly Grant Funded. Equitable share constitutes 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 - 51 million**
- **Non-Exchange transactions – R19 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 R12m

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 reconciled 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 R5M ,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 a municipal tariff increase of 10.39% per Nersa Guideline on Municipal Electricity Price Increase for 2024/25 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 6% 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 32% as a percentage of total operation expenditure which is in line with the Treasury norm of 30 - 40 % .

An 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 6 %. 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 operating Revenue reduced by R3,5 Million from R838 Million to R834 Million because of the above

The operating expenditure has reduced by R3.5 Million from R835 Million to R832,5Million, due to implementation of Cost containment strategies.

The movement between Operating Revenue and the Operating Expenditure has the same net operating surplus of R2,7 Million.

The capital expenditure has been revised from R247 Million to R246 Million. The movement include the grant approved roll over of R7,6 million and decrease in own funding projects due to delays on the implementation.

All tariffs have been adjusted by 6 % for the 2024/25 Financial year except for electricity which is adjusted by 10.39 % 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. R49 m.
- Municipal Water Infrastructure Grants to improve the water infrastructure R142m. **(DWS will administer the funds- Schedule 6**
- **Energy Efficiency R4M**

Own Capital funded R44 M.

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

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 2024/25 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 2024/2025 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.

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 SIDE	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 grants to the following institution:

DESCRIPTION	BUDGET 2024/2025	BUDGET 2025/2026	BUDGET 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 & Shongoane phase 5 has been resuscitated- Budget R7.9m

14. CAPITAL PROJECT DETAILS



The Capital expenditure is R265 million which includes R46m Own capital Funded and R222 m National Grant Funded Projects. The details are depicted by Tables below:

TOTAL CAPEX

Description	Budget 2024/25	Adjustment Budget	Variance	Motivation
MIG	47,903,750	47,903,750	-	
Energy Efficiency	4,000,000	4,000,000	-	
WSIG(Schedule 6B)	142,101,000	142,101,000	-	
Disaster Grant Relief	7,600,000	7,600,000	-	
Own Funding	46,041,921	44,561,921	1,480,000	Price adjustments ,Laptops required and Weighbridge refurb deferred to 2025/26 Department of Road and Transport is conducting feasibility studies for the Province
TOTAL	247,646,671	246,166,671	1,480,000	
Disaster Recovery Grant		19,475,000	(19,475,000)	REVISED DORA
TOTAL CAPEX	247,646,671	265,641,671	(17,995,000)	

MIG

Description	Budget 2024/25	Adjustment Budget	Variance
Sefitlhogo Access Road	20,353,750.00	19,431,849	921,901
Refurbishment of Thabo Mbeki Stadium	10,000,000.00	10,000,000	-
Highmast installation in Various villages	17,550,000.00	8,933,524	8,616,476
GA - Seleka Wipoort RWS		135,794	(135,794)
Highmast installation in Various villages		2,064,224	(2,064,224)
16 Highmast		2,030,871	(2,030,871)
Extension and Augmentation		5,307,488	(5,307,488)
Thabo Mbeki sewer net work phase 2			
Total	47,903,750.00	47,903,750.00	-

WSIG



Description	Budget 2024/25	Adjustment Budget	Variance
Marapong Bulk Water Supply Storage	3,972,752.00	18,745,218.00	(14,772,466.00)
Marapong Bulk	13,987,039.00	13,069,152	917,887
Total	17,959,791.00	31,814,370	(13,854,579)

CAPITAL PROJECTS - WSIG Schedule 6B	Budget 2024/25	Adjustment Budget	Variance
REPLACEMENT OF ASBESTOS CEMENT PIPE (AC) TO HDPE/uPVC WATER PIPES IN LEPHALALE CBD	24,784,906.00	24,263,796	521,110
Replacement of Asbestos cement pipe (ac) to HDPE/uPVC water pipes in onverwacht (section B)	32,199,563.00	25,761,604	6,437,959
Replacement of Asbestos cement pipe (ac) to HDPE/uPVC water pipes in Town - Residential	20,660,283.00	28,770,549	(8,110,266)
Replacement of Asbestos Cement Pipe(AC) to HDPE/uPVC Water pipes in Onverwacht (Section B)	23,588,505.00	-	23,588,505.00
0573_Renewal and upgrading of sewer pump stations, Network pipes and Replacement of AC pipes in Town and Onverwacht	15,960,560.00	31,490,681.63	(15,530,121.63)
Replacement of Asbestos cement pipe (ac) to HDPE/uPVC water pipes in Marapong (Zone 1) 2	6,947,392.00	-	6,947,392.00
Sub Total	124,141,209.00	110,286,630.33	13,854,578.67
Total WSIG	142,101,000.00	142,101,000.00	0.00

Energy Efficiency

Description	Budget 2024/25	Adjustment Budget	Variance
Energy Efficiency 5A	4,000,000.00	4,000,000	-
Total	4,000,000.00	4,000,000.00	

OWN FUNDING



Description	Budget 2024/25	Adjustment Budget	Variance
IT Equipments 2022	1,000,000.00	1,300,000.00	(300,000.00)
0540_ Road resealing	2,000,000.00	2,000,000.00	-
Land acquisition	5,425,000.00	5,425,000.00	-
0553_ Replacement of Switch Gea	1,400,000.00	1,400,000.00	-
Supply ,dellvery ,offlaoding and instalation of Jojo Tanks in various Villages	300,000.00	300,000.00	-
0101_ Mayoral Vehicle 2	700,000.00	700,000.00	-
Conduct an assessment and compile technical report for Shogoane Water Scheme	1,500,000.00	1,500,000.00	-
Conduct an assessment and compile technical report for Ga-Seleka water scheme	1,500,000.00	1,500,000.00	-
Purchase of 1 X LDV Vehicle (Sanitation)	350,000.00	350,000.00	-
Purchase of 1 X LDV Vehicle (Mechanical)	350,000.00	350,000.00	-
Sewer PipeLine inspection Camera	200,000.00	200,000.00	-
Branding of Entrance to Town	1,000,000.00	1,000,000.00	-
Mokuruanyane and Shongwane RWS phase 5	7,900,000.00	7,900,000.00	
Electricification of various Villages	3,256,200.00	3,256,200.00	-
Installation and upgrade of recording system in the council chamber	400,000.00	400,000.00	-
10 x 30 Cubic meter Skip Bins	1,500,000.00	1,500,000.00	-
Purchasing of x6 Walk behind Loan mower machines	200,000.00	200,000.00	-
Purchasing 1 x Road marking machine	50,000.00	200,000.00	(150,000.00)
Purchase pf 2 x Lawn mowers	90,000.00	90,000.00	-
Purchase of 6 x Chainsaws	18,000.00	18,000.00	-
Purchase of 4 x Chain pole pruners	20,000.00	20,000.00	-
Purchase OF 1x Breatherlisor	30,000.00	30,000.00	-
Mobile walk through detector	200,000.00	-	200,000.00
Furniture safe Room Furniture	150,000.00	150,000.00	-
0307_ Office Equipments	550,000.00	550,000.00	-
Total	30,089,200.00	30,339,200.00	(250,000)

ROLL OVER



Description	Budget 2024/25	Adjustment Budget	Variance	Narrations
Disaster Relief Grant	7,600,000	7,600,000	-	
Own Funding	15,952,721	14,222,721	1,730,000	Price adjustments & Budget for Weighbridge deferred to 2025/26 - Department of Road and Transport as are busy with the feasibility studies of weighbridges for the Limpopo Province.
Total	23,552,721	21,822,721	1,730,000	

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 Adjustment Budget is approved by Council