



LEPHALALE
MUNICIPALITY

FINAL ANNUAL BUDGET
NARRATIONS
2025 2026 (MTREF)



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1. REPORT OF THE HONOURABLE MAYOR

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

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

Section 16 of MFMA requires Council to table of the annual budget at least 90 days before the start of the financial year while Section 17 (2) (b) of the 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 2024/25 Budget were identified for the preparation of the budget. Treasury guidelines for the preparation of the budget were shared with the Services Departments. Service departments submitted their budget proposals for consideration to the portfolio committee.

The 2025/26 MTREF Budget is also aligned IDP, Provincial and National Government Development plans and Priorities.

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

The budget Process plan was tabled to council in August 2024 with all the due dates of all activities.

2. EXECUTIVE SUMMARY

The preparation of the budget is guided by circular 129 & 130 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 strive 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 2025/26 Municipality’s Medium-Term Revenue and Expenditure Framework (MTREF) comes when the economy is improving in response to the suspension of power cuts since March 2024, improved confidence following the formation of the government of national unity in June, better than-expected inflation outcomes in recent months and reduced borrowing costs.

Even though the confidence of the consumers has been uplifted by the improved economy, households are still struggling to pay municipal accounts and that has a negative impact on municipal own revenues.

The budget is also affected by ongoing disasters in line with global warming, ageing infrastructure and Economic constraints will put Pressure on the 2025/26 MTREF Budgets.

Changes on Local Government allocations – reduced

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

Governance ,Performance and investment matters

The 2025/26 Budget is prepared as at the stage where municipalities need to play pivotal role in igniting the Economy of the country .Therefore effort must be made to put initiatives that will attract investment and also to ensure that critical infrastructure such as water ,electricity and sanitation are well maintained. More focus must be on bulk infrastructure and the budget must be allocated for repairs and maintenance



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

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

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

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

Consumers switching over to other sources of energy which includes solar and Gas due increased charge of electricity. More effort should be given to diversification of energy to reduce costs .

The service charge has increased by 6 % which in with the economic growth band. Electricity tariffs will be adjusted once NERSA approve the cost of supply report.

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

Therefore to remain sustainable municipality must implement the revenue Enhancement strategies

- Migration to both smart water and electricity metering.
- Implement the New Valuation roll effective from 1 July 2026.
- Implementation of Revenue Enhancement and cost containment strategies.
- Implementation of strategies to collect revenue at the Marapong and Thabo Mbeki Township.



- Introduction of a flat rate for informal settlement and rural villages once infrastructure has been installed.
- Introduction of new sources of revenue (Rental stock, Landfill, Grey water ,Zeeland WTW) and implementation of Investment packages.

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

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

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

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

Short-term Priorities

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

Medium-term priorities include:

- Implementation of flat rate at the villages.
- Increase the revenue base.
- Source Funds for the implementation of smart metering.



- Focus on the on-asset care Projects (asset renewal and replacement of ageing infrastructure).

Long Term Focus

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

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

- Revenue the Collection rate = Due to economic downfall the revenue collection projected at 85% vs Treasury Norms of 95%
- Employee related Cost as percentage of Total Expenditure = 25- 40%
- Contracted services as a % of total Expenditure = 5%
- Asset renewal and maintenance as % of total PPE = 8%
- Application of prepaid and flat rate at the Villages
- Strategies to collect revenue Marapong and Thabo Mbeki
- Indigent registrations
- Budget to include asset replacement Reserves.
- Cost containment – Do more with less.
- Own funding Projects directed at Revenue enhancement Projects and technical reports to unlock Grant Spending.
- Attract investments for Lephale Local economic development.



3. BUDGET SUMMARY

The total Operating budget for MTREF 2025/26 includes Total Revenue is R904.2 million and Total Expenditure of R901 million resulting in a Surplus of R2.8 million.

The operating Revenue budget has changed from R835 million in 2024/2025 to R904 million in 2025/2026 FY, R944 million 2026/2027 FY and R986 million in 2027/2028 FY respectively.

The operating Expenditure budget has changed from 832 million in 2024/2025 to R901 million in 2025/2026 FY, R943 million 2026/2027 FY and R979 million in 2027/2028, resulting to a surplus of R 2.8 million for 2025/26 FY and R1.5 million and R7.1 million in the outer years.

The Capital expenditure is R158 million which includes R41million Own capital Funded and R 117 million National Grant Funded Projects.

Provision has been made for employee costs to be adjusted by 5.05% in 2025/2026 financial year as per MFMA Circular 129.

All tariffs has been increased by 6 % ,4.5% and 4.4 % for 2025/26 ,2026/27 and 2027/28 except for Electricity is adjusted by 15% in line with the application made to NERSA .The Electricity tariffs will be updated once NERSA approves the cost of supply.

The operating expenditure has been increased in line with Macro-economic performance and projections for factors as per MFMA Circular 129 and MFMA Circular 130.

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

Revenue Tariff increase

Description	25/26	26/27	27/28
Rates	6 %	4,6%	4.4%
Electricity	15%	4,6%	4.4%
Water	6 %	4,6%	4.4%
Sanitation	6 %	4,6%	4.4%
Refuse	6 %	4,6%	4.4%
Operating Expenditures	4.3%	4,6%	4.4%

NERSA still pending LLM has budget 15 % increase on Electricity Charges . 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.

TOTAL OPERATING REVENUE - R904 Million

Property rates constitute R133 m which constitute 15 % of operating revenue.

Service charges

Service charges are R403 Million which constitutes 30% of the budgeted. Electricity cost has realized a reduction mainly consumers switching to other sources of Energy due increased Electricity Prices.

Service Charges

Service charges for electricity has been adjusted to R271 m – 30%

Service charges water has been adjusted to R74m – 8%

Sanitation Revenue has been adjusted to R 32m – 3.4%

Service charges refuse has been adjusted to R27m.- 2.7% .

Municipality is highly Grant Funded Equitable share constitute to the amount of R260 M - 29%

Interest on Investment

The interest on investment is R7.5m. 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 - R54 million & Non-Exchange transactions – R15 million.

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

Agency Fees R13 Million

The budgeted revenue for License and Permit has been increased in line with the CPI. Municipality is performing the services (License and permits) for Department of Transport

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

Transfers of Grants and subsidies are reconciling as per DORA allocation for R463,7 million.

The allocation are as follows:

GRANTS	Budget 2025/2026	Budget 2026/2027
EQUITABLE SHARES	254,298,000	266,256,000
MIG - PMU	2,640,050	2,861,150
FMG	1,900,000	2,000,000
EPWP		
Sub total	258,838,050	271,117,150
MIG	50,160,950	54,361,850
INEP	12,412,000	11,212,000
ENERGY EFFICIENCY AND DEM.	4,000,000	
WSIG	35,000,000	45,000,000
WSIG 6B	103,300,000	87,611,000
TOTAL CAPITAL GRANTS	204,872,950	198,184,850
TOTAL GRANTS	463,711,000	469,302,000

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

Operational revenue R3 Million

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



Revenue Management

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

To increase the revenue collection efforts are put in place to accelerate debt collections and increase the revenue base in 2025/26 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.

TOTAL OPERATING EXPENDITURE – R901Million

Employee related costs and remuneration of councilors R299 Million

Employee related costs: Budget R 273 Million

2025/26 includes the head count of 483 permanent employees and 9 contract employees. The Salary and Wage Collective Agreement for the period 01 July 2021 to 31 June 2024 has come to an end and a new agreement is under consultation . The Municipality has made a provision 5,9% which includes 4,9 % based on MFMA Circular 128 including 1% to provide for the new agreement.

The overall employee benefits is at 31% as a percentage of total operation expenditure which is in line with the Treasury norm of 30 - 40 % .

Additional increase of 3% on employee benefits is mainly due to the overtime and standby allowance at Service Delivery Department to address aging infrastructure challenges. Municipality must explore the shift system to cut on overtime costs.

Position will be staggered to ensure alignment to the norms.



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

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

- Receipting and credit Control Manager L2-1
- Financial Accounting Manager L2
- 2x disaster Official L 7
- 8x intern Traffic Officer Stipend.

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

Remuneration of councilors- R16 Million

Remuneration of Councilors are budgeted 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 - R193 Million

Bulk Electricity purchases have been increased by 11.23 % in line with Eskom approved tariffs

Inventory Consumed – R58 Million

The amount of Bulk water is R19m (Purified water) R26m for (abstraction of raw water from Mofolo dam) and R13m 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 increased by 4.3 % and budgeted under inventory according to MFMA circular 123.

Contracted Service R 83 Million

Contracted services as a percentage of the Total Expenditure are at 9% which is in line with the norm . Of the total contracted services, the amount of R19m (22%) relates to repairs and maintenance, R64m relates to consultant and system vendors.



DESCRIPTION	2025/26	2026/27	2027/28
Consultants and Professional Services	DRAFT BUDGET	DRAFT BUDGET	DRAFT BUDGET
Accounting and auditing Services	3,398,054.00	3,550,966.43	3,639,741
Forensic Investigation	1,566,000.00	1,636,470.00	1,677,382
Internal audit Outsourcing and audit Committee	1,369,958.72	1,431,606.87	1,467,397
Valuer	2,610,000.00	2,727,450.00	2,795,636
Quality Control - Indigents /scm system	796,283.13	832,115.87	852,919
Legal Services	7,772,578.96	8,122,345.01	8,325,404
Total Consultants and professional Services	26,796,291	28,002,124	28,702,177
Contractors			
Maintenance services -Sanitation	6,363,742	6,650,111	6,816,363
Maintenance services -Water	1,631,129	1,704,530	1,747,143
Maintenance services -Electricity	3,657,848	3,822,452	3,918,013
Maintenance services -Waste*Par	1,551,447	1,621,262	1,661,794
Maintenance services -Roads Buildings & Storm water (0540)	2,190,824	2,289,411	2,346,646
Maintenance services -Vehicles	4,143,535	4,329,994	4,438,244
Total Repairs and maintenance	19,538,525	20,417,758	20,928,202
Prepaid vendors	16,845,404.00	17,603,447	18,043,533
Security	18,210,079.83	19,029,533	19,505,272
Water Meter reading	867,475.26	906,512	929,174
Collection Cost	1,566,000.00	1,636,470	1,677,382
Total Outsourced Services	37,488,959	39,175,962	40,155,361
TOTAL	83,823,775	87,595,845	89,785,741



Repairs and maintenance R150 Million

The repairs and maintenance is R197 million which includes the amount of R20m for outsourcing of External Service Provide where the municipality does not have inhouse capacity. The R13m is allocated to inventory consumed for the material withdrawn from stores .

DWS has approved business case, the amount of R177m 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

Debt Impairment & Debt Write off R58 Million

The budget for Debt impairment has increased from R42m and debt write off is R16m in 2025/26 due to high debtors' book. The debt collector has been appointed to assist with acceleration of debt collection and reduction of debt Book.

Finance Charges R21 Million

The finance relates to interest charged for the provision of Post employment retirement benefits and landfill site and R7m relates to interest Charged in relation to the Interest charged on financial lease at Zeeland.

Operational Expenses R78 Million

Operational Expenses constitute 8.5 % 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.



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
- 7.22 Consultant reduction Strategy

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 a level that reflects 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. The 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

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 2025/2026 MTREF are 4,3% for 2026/2027, 4.6 % for 2027 2028 and 4.4 %.

EXPENDITURE FRAMEWORK

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

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

Initiatives to improve financial sustainability.

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

Salaries, wages, and related staff cost.

The 2025/26 includes the head count of 483 permanent employees and 9 contract employees. 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 30% 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 the Service Delivery Department to address aging infrastructure challenges. Municipality must explore the shift system to cut on overtime costs.

Position will be staggered to ensure alignment to the norms.

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

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

Remuneration of Councilors

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

Conditional Grants Transfers

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

Stringent controls are place for the application of rollovers within the stipulated timelines.

Rollovers request for 3 consecutive years will not be accepted.

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

Importance of section 17 of the Division of Revenue Act

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

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



Repairs and maintenance

The National Treasury Budget Circular 128 for the 2024/2025 MTREF stated, amongst other, that municipalities must “secure the health of their asset base (especially the municipality’s revenue generating assets) by increasing spending on repairs and maintenance”. The repairs and maintenance will be budgeted in line with the infrastructure master plan and the norm.

Free basic Services

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

REVENUE FRAMEWORK

Service growth

The municipality’s revenue will increase by 5,3%. The municipality is highly dependent on the revenue received from Service charges. This will pose a risk to financial sustainability as Consumers may reprioritize their budget to complementary services. The municipality will continue to explore and implement customer care and debt collection strategies to ensure the generation of internal Revenue. The Municipality is also facing a huge challenge to sustain the revenue levels due to the staff demobilization of Medupi Project.

Collection Rate

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

The total collection rate for 2025/2026 is projected at an average of 85% and is based on a combination of actual collection rates achieved to date and the estimated outcomes for the current financial period. The Collection rate will improve as the Municipality implementing a prepaid system for electricity and also have appointed a service provider for debt collection.

Depreciation

Depreciation on the new capital expenditure is calculated at a varying rate ranging between 3 to 30 years depending on the nature of the asset. Actual depreciation was modelled on existing assets. An annual capital expenditure implementation rate of 100% was factored into the model. The higher than usual depreciation is as results of the implementation of GRAP17 where the Municipality’s assets were revalued in the 2024/2025 financial year.



9. OVERVIEW OF BUDGET FUNDING

Fiscal Overview

Operating budget

The total Operating budget for MTREF 2025/26 includes Total Revenue is R904.2 million and Total Expenditure of R901 million resulting in a Surplus of R2.8 million.

The operating Revenue budget has changed from R835 million in 2024/2025 to R904 million in 2025/2026 FY, R944 million 2026/2027 FY and R986 million in 2027/2028 FY respectively.

The operating Expenditure budget has changed from 832 million in 2024/2025 to R901 million in 2025/2026 FY, R943 million 2026/2027 FY and R979 million in 2027/2028, resulting to a surplus of R 2.8 million for 2025/26 FY and R1.5 million and R7.1 million in the outer years.

The Capital expenditure is R158 million which includes R41million Own capital Funded and R 117 million National Grant Funded Projects.

Provision has been made for employee costs to be adjusted by 5.05% in 2025/2026 financial year as per MFMA Circular 129.

All tariffs has been increased by 6 % ,4.5% and 4.4 % for 2025/26 ,2026/27 and 2027/28 except for Electricity is adjusted by 15% in line with the application made to NERSA .The Electricity tariffs will be updated once NERSA approves the cost of supply.

Medium term capital budget and funding sources

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

National Grant Funded Projects

- Municipal Infrastructure grant to improve bulk infrastructure in support of housing opportunities. R49m.
- Municipal Water Infrastructure Grants to improve the water infrastructure R63m. **(DWS will administer the funds- Schedule 6 B)**
- Energy Efficiency R4m
- The own Funding Projects are R41 million.



Own Capital funded R41Million.

- 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 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 owners.

Water and Sanitation

The proposed Water and Sanitation Tariffs for 2025/26 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 2025/2026 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 the Division of Revenue Act:

GRANTS	Budget 2025/2026	Budget 2026/2027	Budget 2027/2028
EQUITABLE SHARES	254,203,000	265,671,000	277,699,000
MIG - PMU	2,628,300	2,848,300	2,975,900
FMG	1,900,000	2,000,000	2,200,000
EPWP	1,478,000	-	-
Sub total	260,209,300	270,519,300	282,874,900
MIG	49,937,700	54,117,700	56,542,100
INEP	-	11,212,000	11,719,000
ENERGY EFFICIENCY AND DEMAND	4,000,000	-	5,000,000
WSIG (Schedule 6, Part B)	63,300,000	77,611,000	71,992,000
TOTAL CAPITAL GRANTS	117,237,700	142,940,700	145,253,100
TOTAL GRANTS EXC ESKOM	377,447,000	413,460,000	428,128,000
INEP (Schedule 6,Part B) (ESKOM)	22,088,000	24,721,000	8,988,000
TOTAL GRANT	399,535,000	438,181,000	437,116,000

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 2025/2026	BUDGET 2026/2027	BUDGET 2027/2028
COMMUNITY FORUM	143,432	149,886	153,634
DONATIONS ORGANISATION	143,432	149,886	153,634
AGRI CONTRIBUTION	143,432	149,886	153,634
MOGOL CLUB	143,432	149,886	153,634
SPCA	143,432	149,886	153,634
SPORT CLUB MARAPONG	143,432	149,886	153,634
ENTERPRISE DEVELOPMENT	342,350	357,755	366,699
TRANSFERS AND SUBSIDIES	1,202,942	1,257,074	1,288,501

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 have future budgetary implications:

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



14. CAPITAL PROJECT DETAILS

The Capital expenditure is R158 million which includes R41 m Own capital Funded and R117m National Grant Funded Projects. The budget will be revised once DORA allocation is issued after the budget speech. The details are depicted by Tables below:

DESCRIPTION	FUNDER	2025-26	2026-27	2027 -28
MIG		49,937,700	54,117,700	56,542,100
INEP		-	11,212,000	11,719,000
ENERGY EFFICIENCY		4,000,000	-	5,000,000
WSIG		63,300,000	77,611,000	71,992,000
OWN FUNDING		40,676,347	11,100,000	800,000
TOTAL CAPITAL GRANTS		157,914,047	154,040,700	146,053,100

MIG PROJECTS

DEPARTMENT	FUNDER	2025-26	2026-27	2027 -28
Design and installation of Infrastructure Bulk services Thabo Mbeki Ext 2	MIG		8,137,689	14,755,850
Construction of VIP Toilers in various villages	MIG		10,000,000	11,770,190
Refurbishment of Reuben Mogashoa stadium	MIG	493,966		
Sefithlogo Access Road	MIG	14,987,163		
Witpoort Seleka Regional Water Scheme	MIG	8,583,074	4,583,074	
Letlora access road	MIG	15,376,709	11,930,303	11,361,850
villages	MIG	5,503,017	13,743,333	13,000,000
Refurbishment sanitation components	MIG	4,993,770	5,723,300	5,654,210
TOTAL		49,937,700	54,117,700	56,542,100



ELECTRICITY PROJECTS

DEPARTMENT	FUNDER	2025-26	2026-27	2027 -28
Electrification of 1096 households at various villages	INEP		11,212,000	11,719,000
Energy Efficiency and Demand Side Management	DMRE	4,000,000		5,000,000

WSIG PROJECTS

DEPARTMENT	FUNDER	2025-26	2026-27	2027 -28
Replacement Of Asbestos Cement Pipe (AC) In Marapong (Zone 2)	WSIG	11,701,462	16,701,462	11,701,461.91
Replacement Of Asbestos Cement Pipe (AC) In Marapong (Zone 1)	WSIG	10,533,884	10,533,884	10,533,884.09
Replacement Of Asbestos Cement Pipe (AC) In Onverwacht (Section C)	WSIG	11,392,865	11,392,865	11,392,865.45
Pipe (AC) To In Onverwacht (Section A)	WSIG	10,699,563	10,699,563	10,699,562.58
Construction of Marapong Bulk water Supply Project	WSIG	8,972,226	13,972,226	8,972,225.97
Refurbishment and upgrading of Sewer Pumpstations, Wastewater Treatment Works, Network Pipes and	WSIG	5,000,000	9,311,000	13,692,000.00
Construction of Ventilated Improved Pit Latrine(VIP) in the rural node.+	WSIG	5,000,000	5,000,000	5,000,000.00
TOTAL		63,300,000	77,611,000	71,992,000



OWN FUNDING

DEPARTMENT	FUNDER	2025-26	2026-27	2027 -28
Purchase and installtion of telematics system	LLM	500,000		
Brushcutters	LLM	106,661.99		
tractor	LLM	561,200.00		
Slasher	LLM	165,600.00		
ride-on	LLM	252,885.00		
SKIP Bins	LLM	1,500,000		
Acquire of 2 x Sedan vehicles for use by 08 traffic officers	LLM	1,000,000		
Acquire of 2 x LDV vehicles for Disaster	LLM	800,000		
Acquire of 10 x LDV vehicles for Service delivery	LLM	4,000,000		
Mokuruanyane and Shongoane RWS PHASE 5 (stalled)	LLM			
Witpoort and Gaseleka RWS Phase 5 (stalled)	LLM			
Establishment of 2 Transfer stations (stalled)	LLM	1,000,000		
Jet Patcher	LLM	6,500,000		
Grader	LLM	4,500,000		
Compactor	LLM	1,500,000		
Resealing of roads in Town, Onverwacht and Marapong	LLM	4,500,000	5,000,000	
Replacement of switchgears	LLM		1,800,000	
Technical report for construction of King Bird line and substaion 4	LLM	1,000,000		
Installation of Statistical meters at all distribution points	LLM	1,200,000		
Supply and delivery of Asbestos Cutting Machine	LLM	100,000		
Supply and delivery of Dicing Machine (100mm)	LLM	200,000		
Review Water and Conservation and Water Management Strategy	LLM	1,500,000		
Installation of palisade fencing for Storage facilities and Pump Stations	LLM	500,000		
8 Ton Towing Truck	LLM	1,500,000		
Diagnostic Machine for Light Mothor Vehicles and Trucks	LLM	110,000		
Two Hoist Lift	LLM	220,000		
Relocation of Server	LLM	3,500,000	3,500,000	
IT Equipments	LLM	500,000	500,000	500,000
Office Equipments & Furniture	LLM	300,000	300,000	300,000
Establish township at Steenbokpan, township establishment process including the opening of the township register and its declaration	LLM	1,000,000		
Rezoning of Park	LLM	500,000		
Formalisation of Infomal settlement - Steve biko & GA- Phahladira	LLM	1,000,000		
Drone	LLM	50,000		
Camera	LLM	50,000		
4x Guard House	LLM	560,000		
		40,676,347	11,100,000	800,000



15. LEGISLATION COMPLIANCES STATUS

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

Budget and Treasury Office

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

Budgeting

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

Financial reporting

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

Annual Report

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

Internship Programme

The Lephalale Local Municipality is participating in the Municipal Finance Management Internship Program and has employed 5 interns undergoing training in various finance sections in line with the conditions of FMG grants.

16. QUALITY CERTIFICATES

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