



# LEPHALALE MUNICIPALITY

## FINAL BUDGET 2020 2021

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## 1. REPORT OF THE HONOURABLE MAYOR

The Budget Process for the municipality is controlled by various 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 mechanisms, processes and procedures to enable local communities to participate in the affairs of the municipality through notification and public procedures, when appropriate.

**Section 53** of MFMA requires the Mayor of a municipality to provide general political guidance over the budget process and the priorities that must guide the preparation of the budget.

The Municipality Budget also align to Chapter 2 of The Municipal Budget and Reporting Regulations, gazette on 17 April 2009, the Mayor of a municipality must establish a budget steering committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

This budget process started with steering committees meetings where the priorities of the Municipality for 2020/21 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 2020/21 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 was presented to the Council meeting on the 26 May 2020 for noting and referred back for public participation due to the impact of Covid -9.
- On the 29th May 2020 Adverts were published on National Newspapers, Municipal website, Municipal Facebook, Municipal whatsapp number for Public participation.
- Closing date for the comments was on the 19th June 2020, which was extended to 24 June 2020.
- The Mayors responded to Comments on the 25th June 2020 utilizing various mentioned platforms.
- Approval phase: The special Council was held on the 30th June 2020 to approve the budget.



## **2. EXECUTIVE SUMMARY**

The preparation of the 2020/21 Municipality's Medium Term Revenue and Expenditure Framework (MTREF), was extremely challenging due to tough Economic Conditions, the impact of Covid 19 and the increase in the service delivery demand which will put a burden on bulk and reticulation infrastructure of the Municipality.

The major contribution to the National development Plan is to improve the lives of the Lephalale Community through poverty alleviation, rural infrastructure development while creating jobs for the disadvantaged.

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

This means when implementing the budget, the Municipality should increase revenue initiatives which include: installation of electricity prepaid meters, cutting of water losses, debt collection, skill development, implementation of a new valuation roll and local economic development to unlock new sources of revenue.

To ensure the optimization of resources, the Municipality must implement cost containment measures which will reduce operational costs.

A critical review was undertaken to reduce non-core and nice-to-have items and a step was taken to reduce social activities in the 2020/21 financial year.

The Municipality has also embarked on a range of collection strategies to optimize the collection of revenue.

The Municipality is also faced with the future challenge in terms of the maintenance of the expected infrastructure under construction as this will have an impact on future services tariffs.

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



## 2.1 BUDGET SUMMARY

The budget includes Total Operating Expenditure is R591m, and Total Operating Revenue of R596m resulting in the operating Surplus of R4.6m.

The Capital expenditure is R109m which includes R22m Own capital Funded and R 87m National Grant Funded Projects.

The 2020/21 Budget includes the head count of 475 permanent employees and 47 contract employees.

Provision has been made for employees cost to be increased by 6, 25% as per circular 99. All tariffs have been adjusted by 4, 5% for the current financial year except for electricity which is adjusted by 6, 22 % as regulated by NERSA. The budget will be affected by negative economic conditions and the impact of Covid 19

**Below is the table showing the operating budget for the MTREF 2020/2021**

| DESCRIPTION                     | ADJUSTMENT BUDGET<br>2019/20 | DRAFT BUDGET<br>2020/2021 |
|---------------------------------|------------------------------|---------------------------|
|                                 | R000                         | R000                      |
| Total Operating Revenue         | R561 403                     | R595 757                  |
| Total Operating Expenditure     | R557 411                     | R591 116                  |
| Surplus/ (Deficit) for the year | R1,287                       | R4,641                    |
| Own funding Projects Revenue    | R36 844                      | R22 410                   |
| Total Capital Projects          | R146 004                     | R109 091                  |

### Revenue Tariff increase

| Description | 20/21 | 21/22 | 22/23 |
|-------------|-------|-------|-------|
| Rates       | 4.5%  | 4.6%  | 4.6%  |
| Electricity | 6.22% | 5.2%  | 8.9%  |
| Water       | 4.5%  | 4.6%  | 4.6%  |
| Sanitation  | 4.5%  | 4.6%  | 4.6%  |
| Refuse      | 4.5%  | 4.6%  | 4.6%  |



## **Revenue Tariff Increase**

The MTREF-based revenue and expenditure budget assumed inflation-linked annual adjustments of 4.5%, 4.6% and 4.6% respectively for the 3-years budget period of 2020/2021, 2021/2022 and 2022/2023. The revenue tariff increases are as per MTREF Circular 99 except for electricity charges which are increased as per Nersa regulation.

## **Employee related costs and remuneration of councilors**

The employee related cost has increase 6.3% by as per regulation. Additional increase of 2, 7 % on employee benefits is mainly due to the overtime and standby allowance at Service Delivery Department. Operational efficiency mechanisms to be implemented to reduce the cost of overtime and standby allowance. This result in overtime increases on employee related costs and remuneration of councilors as a percentage of total expenditure is 38% as opposed to 33% of the norm.

## **Remuneration of councilors**

Remuneration of Municipality has increased by 6.25% .Cellphone allowance and car allowance has been catered for in the budget. The increase will only be affected in 2021/22 as per upper limit gazette at the beginning of the new term.

## **Bulk purchases**

The Bulk purchase of electricity has increased by 6, 9 % as per Nersa Regulation as opposed to 8% as per Budget circular 99.

The Bulk purchase of water has been increased by 4.5% as per Budget Circular 99



### Contracted Service

Contracted services as a percentage of the Total Expenditure is budgeted at 4% which within the norm of (2% and 5%).

### Breakdown of Contracted Services as per MSCOA

| Contracted services |  | 2020/21 Medium Term Revenue & Expenditure Framework |                           |                           |
|---------------------|--|---|---------------------------|---------------------------|
|                     |  | Budget Year 2020/21                                 | Budget Year +1<br>2021/22 | Budget Year +2<br>2022/23 |
| 0001/4103/0000      | PROFESSIONAL FEE-adhoc request MM        | 209 000   | 218 405                   | 228 233                   |
| 0021/4488/0000      | AUDIT COMMITTEE                          | 250 000   | 261 250                   | 273 006                   |
| 0071/4464/0000      | BUSINESS CONTINUITY                      | 219 868   | 229 762                   | 240 101                   |
| 0071/4460/0000      | RISK COMMITTEE                           | 150 000   | 156 750                   | 163 804                   |
| 0200/4110/0000      | MSCOA-Financial System                   | 2 209 200   | 2 308 614                 | 2 412 502                 |
| 0200/4201/0000      | BUDGET REFORMS( Reviewer for Financials) | 526 000   | 549 670                   | 574 405                   |
| 0211/4415/0000      | ASSET COUNT - Assets verification)       | 2 729 306   | 2 852 125                 | 2 980 471                 |
| 0223/4117/0000      | SERVICE CONTRACTS -Finacial system       | 1 212 956   | 1 267 539                 | 1 324 578                 |
| 0235/4119/0000      | VALUATION ROLL                           | 3 700 000   | 3 866 500                 | 4 040 493                 |
| 0330/4107/0000      | LEGAL FEES                               | 3 344 000   | 3 497 824                 | 3 658 724                 |
| 0441/4516/0000      | PHYSICAL SECURITY- Security Services     | 9 217 444   | 9 632 228                 | 10 065 679                |
| 0540/4511/0000      | RENT MACHINERY & EQUIPMENT- Printers     | 173 583   | 181 607                   | 190 001                   |
| 0563/4109/0000      | METER READING COSTS                      | 440 572   | 460 838                   | 482 037                   |
|                     | <b>Total</b>                             | <b>24 381 929</b>                                   | <b>25 483 113</b>         | <b>26 634 034</b>         |



## Breakdown of Repairs and Maintenance as per MSCOA

| Description    |                             | 2020/21 Medium Term Revenue & Expenditure Framework |                           |                           |
|----------------|-----------------------------|---|---------------------------|---------------------------|
|                |                             | Budget Year 2020/21                                 | Budget Year +1<br>2021/22 | Budget Year +2<br>2022/23 |
| 0540/3801/0000 | AIRCONDITIONER MAINTENANCE  | 850 000   | 889 100                   | 929 999                   |
| 0540/3811/0000 | BUILDINGS CIVIL MATERIAL    | 852 929   | 892 164                   | 933 203                   |
| 0540/3843/0000 | ROAD MAINTENANCE - URBAN    | 859 115   | 898 635                   | 939 972                   |
| 0540/3845/0000 | ROAD RESEAL/FOGSPRAY        | 1 045 000   | 1 093 070                 | 1 143 351                 |
| 0540/3869/0000 | VEHICLE ACCOUNT P/WORKS     | 869 854   | 909 868                   | 951 722                   |
| 0553/3869/0000 | VEHICLE ACCOUNT ELECTRICITY | 371 834   | 388 938                   | 406 829                   |
| 0563/3869/0000 | VEHICLE ACCOUNT WATER       | 403 811   | 422 387                   | 441 817                   |
| 0573/3869/0000 | VEHICLE ACCOUNT SANITATION  | 521 913   | 545 921                   | 571 033                   |
| 0483/3869/0000 | VEHICLE ACCOUNT WASTE       | 1 950 449   | 2 038 219                 | 2 129 939                 |
| 0421/3869/0000 | VEHICLE ACCOUNT PARKS       | 265 528   | 277 477                   | 289 964                   |
| 0307/3869/0000 | VEHICLE ACCOUNT POOL CARS   | 565 965   | 591 999                   | 619 231                   |
| 0553/3833/0000 | NETWORK ELECTRICITY         | 3 000 000   | 3 138 000                 | 3 282 348                 |
| 0563/3833/0000 | NETWORK - WATER             | 3 500 000   | 3 661 000                 | 3 829 406                 |
| 0573/3833/0000 | NETWORK - SANITATION        | 5 477 715   | 5 729 690                 | 5 993 255                 |
| 0453/3819/0000 | FURNITURE & EQUIPMENT       | 131 921   | 137 857                   | 144 061                   |
| 0235/3854/0000 | MAINTENANCE OF SMART METER  | 8 312 000   | 8 686 040                 | 9 076 912                 |
| 0101/3829/0000 | MACHINERY & EQUIPMENT       | 1 584 970   | 1 657 748                 | 1 733 869                 |
|                | <b>Total</b>                | <b>30 563 004</b>                                   | <b>31 958 112</b>         | <b>33 416 910</b>         |

The National Treasury Budget Circular 99 for the 2020/2021 MTREF stated, amongst other, that municipalities must “secure the health of their asset base (especially the municipality’s revenue generating assets) by increasing spending on repairs and maintenance”. The repairs and maintenance budget will be adjusted after the municipality completes the Infrastructure of master plan.

Repairs and maintenance constitute 2% of the total PPE as oppose to the norm of 8% .A service provider has been appointed to compile infrastructure master Plan. The repair and maintenance costs will be determined once the master plans are completed.



## General Expenses Breakdown as per MSCOA

| Description                 | 2020/21           | 2021/22           | 2022/23           |
|-----------------------------|-------------------|-------------------|-------------------|
| ADVERTISMENT COSTS          | 760 948           | 795 832           | 832 315           |
| AMMUNITION                  | 1 158             | 1 210             | 1 264             |
| AUDIT FEES                  | 5 271 642         | 5 508 866         | 5 756 765         |
| BANKFEES                    | 10 520            | 10 993            | 11 488            |
| BULK SMS PURCHASE;          | 1 367 600         | 1 429 142         | 1 493 453         |
| BY-LAWS & POLICIES;         | 123 403           | 129 080           | 135 018           |
| CEREMONIAL FUNCTIONS        | 545 000           | 1 093 070         | 1 143 351         |
| CHEMICALS                   | 20 900            | 21 841            | 22 823            |
| COMMUNITY CLEANING CAMPAIGN | 104 500           | 109 203           | 114 117           |
| COMMUNITY PARTICIPATION     | 545 000           | 1 093 070         | 1 143 351         |
| COMPENSATION COMMISSIONER   | 1 668 126         | 1 744 859         | 1 825 123         |
| COMPENSATION FOR V W C      | 1 101 430         | 1 152 096         | 1 205 092         |
| Consumer Education          | 250 000           |                   |                   |
| COUNCIL & PERSONEL TEE      | 231 961           | 242 631           | 253 792           |
| COVID                       | 2 500 000         |                   |                   |
| CRIME PREVENTION AWARENESS  | 5 497             | 5 744             | 6 003             |
| DATA INPUT & MAINTENANCE    | 50 000            | 52 250            | 54 601            |
| DEEDS SYSTEM;               | 1 021 656         | 984 606           | 945 523           |
| DELEGATION FEES             | 309 176           | 323 262           | 337 989           |
| DISASTER MANAGMENT          | 54 967            | 57 441            | 60 025            |
| E P W P;                    | 1 568 000         | -                 | -                 |
| EAP PROGRAMMES;             | 550 715           | 576 048           | 602 546           |
| EDUCATION AND AWARENESS;    | 32 980            | 34 464            | 36 015            |
| EPWP                        | 110 143           | 115 210           | 120 509           |
| Esri Licenses               | 165 215           | 172 814           | 180 764           |
| FLEET MANAGMENT             | 347 942           | 363 947           | 380 689           |
| FORMALISATION OF RURAL VIL  | 1 000 000         | 1 046 000         | 1 094 116         |
| FRAUD AWARENESS;            | 10 993            | 11 488            | 12 005            |
| FREE ELECTRICITY;           | 2 415 993         | 2 527 046         | 2 643 204         |
| FUEL                        | 822 501           | 860 025           | 899 260           |
| GENDER;CHILDREN;DISABEL &   | 715 930           | 748 862           | 783 310           |
| GIS Integration             | 1 045 000         | 1 093 070         | 1 143 351         |
| HIV/ AIDS Programmes        | 88 114            | 92 168            | 96 407            |
| HOUSE CONNECTIONS           | 6 170             | 6 454             | 6 751             |
| IDP PROCESS                 | 600 000           | 627 000           | 655 215           |
| INDIGENOUS TREES            | 48 041            | 50 202            | 52 462            |
| INSURANCE;                  | 1 837 044         | 1 921 297         | 2 009 414         |
| JOB EVALUATION;             | 57 990            | 60 658            | 63 448            |
| LAND AUDIT;                 | 11 014            | 11 521            | 12 051            |
| LED 10 ROOIGOUD COMMONAGE;  | 55 072            | 57 605            | 60 255            |
| LED Strategy                | 1 700 000         |                   |                   |
| LEVY SALGA ;                | 2 051 985         | 2 146 376         | 2 245 110         |
| LIBRARY CAMPAIGN;           | 23 152            | 24 194            | 25 283            |
| LOST BOOKS                  | 1 158             | 1 210             | 1 264             |
| MARKETING PLAN;             | 165 215           | 172 814           | 180 764           |
| MATERIAL AND STOCK          | 1 091 003         | 1 140 579         | 1 192 408         |
| <b>SUBTOTAL</b>             | <b>32 464 852</b> | <b>28 616 247</b> | <b>29 838 695</b> |



### Breakdown of General Expenses Cont..

| Description                | 2020/21           | 2021/22           | 2022/23           |
|----------------------------|-------------------|-------------------|-------------------|
| MAYOR'S BURSARY FUND;      | 495 644           | 518 443           | 542 291           |
| MEDECINE & MEDICAL MATERIA | 28 995            | 30 329            | 31 724            |
| MPA CActivities            | 46 392            | 48 526            | 50 758            |
| MUNICIPAL ARRANGEMENTS     | 17 397            | 18 197            | 19 034            |
| Municipal Building Plans   | 500 000           |                   |                   |
| MUNICIPAL SERVICES         | 566 965           | 593 045           | 620 326           |
| NURSERY TOP UP;            | 2 315             | 2 419             | 2 528             |
| P M U COSTS                | 45 230            | 47 311            | 49 487            |
| PAUPERS FUNERAL            | 8 682             | 9 073             | 9 481             |
| PAVILION                   | 5 788             | 6 048             | 6 321             |
| PENSIONERS MEDICAL EX GRAT | 1 319 181         | 1 379 864         | 1 443 337         |
| PERIOD JOURNALS            | 1 158             | 1 210             | 1 264             |
| POSTAGE                    | 763 001           | 798 099           | 834 812           |
| PRINTING & STATIONARY      | 1 322 411         | 1 384 309         | 1 449 117         |
| PROMOTIONAL ITEMS          | 69 588            | 72 789            | 76 138            |
| PROTECTIVE CLOTHING        | 2 037 750         | 2 131 487         | 2 229 535         |
| PUBLICITY                  | 89 034            | 93 041            | 97 227            |
| PURCHASE OF BOOKS          | 11 576            | 12 097            | 12 641            |
| PURCHASE OF REFUSE BAGS    | 329 802           | 344 643           | 360 152           |
| RENT CELLPHONE / 3G        | 253 941           | 265 438           | 277 455           |
| RENT MACHINERY & EQUIPMENT | 12 550            | 13 118            | 13 712            |
| RENTAL COPIERS/FAX         | 638 962           | 668 198           | 698 772           |
| RISK ASSESSMENT;           | 10 000            | 10 450            | 10 920            |
| SERVICE CONTRACTS          | 867 500           | 907 405           | 949 146           |
| SERVICES (ESKOM POWER)     | 2 914 814         | 3 048 671         | 3 188 675         |
| SKILLS DEVELOPMENT LEVY;   | 1 546 002         | 1 616 490         | 1 690 192         |
| SOCIAL ACTIVITIES          | 439 659           | 459 746           | 480 750           |
| SPECIMEN ANALISYS          | 110 143           | 115 210           | 120 509           |
| SPORTS                     | 154 200           | 161 293           | 168 713           |
| STRATEGIC SESSIONS         | 400 000           | 420 800           | 442 682           |
| STUDENTS/SCHOLARS          | 1 158             | 1 210             | 1 264             |
| SUBSCRIPTIONS              | 89 251            | 93 305            | 97 542            |
| SUBSISTENCE                | 2 092 537         | 2 188 442         | 2 288 746         |
| SUPPORT TO RECYCLING;      | 104 500           | 109 203           | 114 117           |
| TELEPHONE                  | 991 287           | 1 036 886         | 1 084 583         |
| TRADITIONAL OFFICES;       | 52 250            | 54 654            | 57 168            |
| TRAINING                   | 1 469 591         | 1 537 181         | 1 607 880         |
| Transitional Advisor       | 627 000           | 655 842           | 686 011           |
| Transport Subsidi          | 209 000           | 218 614           | 228 670           |
| TRAVELLING                 | 3 006 096         | 3 118 511         | 3 236 995         |
| Tribunal                   | 90 000            | 120 000           | 150 000           |
| VEHICLE LEASE;             | 136 948           | 143 247           | 149 837           |
| VERIFICATIONS;             | 15 077            | 15 771            | 16 497            |
| WARD COMMITTEE             | 1 542 002         | 1 612 934         | 1 687 129         |
| WASTE INFORMATION SYSTEM;  | 104 500           | 109 203           | 114 117           |
| WATER SAMPLING & TESTING;  | 220 286           | 230 419           | 241 018           |
| WORK FOR WATER             | 11 576            | 12 097            | 12 641            |
| Workshop for Builders      | 80 000            |                   |                   |
| YOUTH (INCLUDING YOUTH DAY | 156 750           | 163 961           | 171 503           |
| <b>SUBTOTAL</b>            | <b>26 008 941</b> | <b>26 599 228</b> | <b>27 823 417</b> |
| <b>TOTAL</b>               | <b>58 473 793</b> | <b>55 215 475</b> | <b>57 662 112</b> |

### General Expenses Narrations

General Expenses constitute 15 % of the total expenditure which is above the norm of 10% as per Treasury MFMA budget guidelines. This mainly due the operational cost for Covid – 19 R2.5 Million and Audit Fees R5.2 million.



### **Service charges**

Sanitation Revenue has been adjusted by 4.5% which is in line with CPI.  
Service charges for Electricity was initially increased by 4, 5% CPI instead 6, 23% as Nersa approved Tariffs .This has been corrected.  
Service charges refuse and license has been adjusted to 4, 5% which is in line with CPI.

### **License and Permit**

The budgeted revenue for License and Permit has increased 4, 6% as per Treasury Circular 99.

### **Investment Revenue**

Interest earned on external Investments has been corrected and are A6, A15 & A16 are now reconciling.  
Transfers of Grants and subsidies are reconciling as per DORA allocation for the amount of R169.4million.

### **Other revenue**

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**

During Level 5 lockdown Municipality offices were closed and most customers could not pay for their services which resulted to under collection in March 2020 of 76% and in April 2020 of 67% .When the lockdown regulations were eased the consumers effected the payment including the arrears of the past 2 months which resulted to 110% in May 2020.The overall average collection rate to date is 83%.

Municipality will continue to implement operational efficiencies, customer care and relations strategies to ensure the maintenance of positive cash flow.

### **Finance Charges**

The finance charges are kept constant because the municipality is not intending to take loans. Finance charges remain unchanged as it is informed by amortization schedule on our financial lease.



#### **4. OVERVIEW OF THE ANNUAL BUDGET PROCESS FOR THE FY 2020/2021- Compliance to regulations**

The Budget Process for the municipalities is controlled by pieces of legislation. Key to those legislations is MFMA and Municipal Systems Act 32 of 2000. Section 24 of MFMA requires Council to consider approval of the annual budget at least 30 days before the start of the financial year while Section 17 (2) (b) of Municipal Systems Act requires Council to establish appropriate mechanism, processes and procedures to enable local communities to participate in the affairs of the municipality through notification and public procedures, when appropriate. Section 53 of MFMA requires the Mayor of a municipality to provide general political guidance over the budget process and the priorities that must guide the preparation of the budget.

In terms of Chapter 2 of the Municipal Budget and Reporting Regulations, gazette on 17 April 2009, the Mayor of a municipality must establish a budget steering committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

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

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

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



## **5. OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH IDP**

The budget of the municipality is aligned with the IDP. All the projects appearing in the budget are also appearing in the IDP. The IDP contains all the municipal projects funded and not funded for the next five years, while the budget contains only the funded projects. The budget schedules A1 – A5 from the annual budget schedules are also presented in the IDP. The Strategic goals and objectives of the municipality from the IDP are also linked to the Budget (refer to SA4 – SA6 in the budget schedules)



## **6. MEASURABLE PERFORMANCE OBJECTIVES**

### **Introduction**

Chapter 6, S38 of the Municipal Systems Act (2000) (MSA) requires that every Municipality must develop a Performance Management System suitable for their own needs. The aim of performance management is to indicate how well a Municipality is meeting its priorities/goals and objectives. It gives clear guidance on the effectiveness and efficiency of policies and processes and indicates improvements required. Performance management is key to effective management. It facilitates effective accountability, enabling key stakeholders and role players to track progress and identify scope for improvement.

The performance management system is the primary mechanism to monitor, review and improve on the activities of the municipality. It must provide an integrated approach that links municipal performance to individual performance; aimed at improving planning (reviewing), budgeting, monitoring, reporting and evaluation.



## **7. OVERVIEW OF BUDGET RELATED POLICIES**

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

### **1. Tariff Policy**

The objective of the tariff policy is to ensure that:

- a) The tariffs of the Municipality comply with the legislation prevailing at the time of implementation.
- b) The Municipal services are financially sustainable, affordable and equitable.
- c) The needs of the indigent, aged and disabled are taken into consideration.
- d) There is consistency in how the tariffs are applied throughout the municipality.
- e) The policy is drawn in line with the principles as outlined in the MSA

### **2. Credit Control and Debt Collection Policy**

The objectives of the policy are to:

- a) Provide a framework within which the municipal council can exercise its executive and legislative authority with regard to credit control and debt collection;
- b) Ensure that all monies due and payable to the municipality are collected and used to deliver municipal services in the best interest of community, residents and ratepayers and in a financially sustainable manner;
- c) Set realistic targets for debt collection;
- d) Outline credit control and debt collection policy procedures and mechanisms; and
- e) Provide a framework to link the municipal budget to Indigent support; and Tariff policies.

### **3. Indigent Policy**

The purpose of the Policy is to provide a framework and structures to support poverty alleviation within the Municipality by providing a support programme for the subsidization of basic services to indigent households.

The policy objectives

The objective of this Policy will be to ensure the following:

- a) The provision of basic services to the approved indigent/vulnerable members of community in a sustainable manner within the financial and administrative capacity of the Municipality.



- b) Establish the framework for the identification, screening and management of indigent households including an economic rehabilitation plan where possible.
- c) The provision of procedures and guidelines for the subsidization of basic services.

#### **4. Property Rates Policy**

The key objectives of the policy are to:

- (a) Ensure that all owners of rateable property are informed about their liability to pay assessment rates;
- (b) Specify relief measures for ratepayers who may qualify for relief or partial relief in respect of the payment of rates through exemptions, reductions and rebates contemplated in section 8 of this policy and section 15 of the Act;
- (c) Set out the criteria to be applied by the Council if it increases rates and levies differential rates on different categories of property;
- (d) Provide for categories of public benefit organisations, approved in terms of Section 30(1) of the Income Tax Act, 1962 (Act no 58 of 1962) as amended, which ratepayers are eligible for exemptions, reductions and rebates and therefore may apply to the Council for relief from rates;
- (e) Recognise the state, organs of state and owners of public service infrastructure as property owners;
- (f) Encourage the development of property;
- (g) Ensure that all persons liable for rates are treated equitably as required by the Act.
- (h) Determine the level of increases in rates
- (i) Provide for exemption, rebates and reductions.

#### **5. Supply Chain Management Policy**

The objectives of this policy are to implement the legislative provisions relating to the supply chain management of the Municipality, that:

- (a) Gives effect to:
    - (i) Section 217 of the Constitution; and
    - (ii) Part 1 of Chapter 11 and other applicable provisions of the MFMA;
  - (b) is fair, equitable, transparent, competitive and cost effective;
  - (c) complies with:
    - (i) the regulatory framework prescribed in Chapter 2 of the SCMR; and
    - (ii) any minimum norms and standards that may be prescribed by means of regulations or guidelines as envisaged by the provisions of section 168 of the MFMA;
  - (d) is consistent with other applicable legislation;
  - (e) does not undermine the objective for uniformity in Supply Chain Management Systems between organs of state in all spheres; and
  - (f) is consistent with national economic policy concerning the promotion of investments and doing business with the public sector.
- (2) The Municipality may not act otherwise than in accordance with this Supply Chain Management Policy when:
- (a) procuring goods and/or services;



(b) Disposing of goods no longer needed;  
(c) selecting contractors to provide assistance in the provision of municipal services otherwise than in circumstances where Chapter 8 of the MSA applies; or  
(d) in the case of the Municipality selecting external mechanisms referred to in section 80(1)(b) of the MSA for the provision of municipal services in circumstances contemplated in section 83 of that Act.

(3) To assure the creation of an environment where business can be conducted with integrity and in a fair, reasonable and accountable manner, this policy will ensure that the Municipal Manager and all officials of the Municipality involved in supply chain management activities must act with integrity, accountability, transparency and with the highest of ethical standards and free of favouritism, nepotism and corruption of any kind. The officials of the Municipality involved in supply chain management activities must adhere to the code of ethical standards contained in this policy, together with the Code of Conduct for Municipal Staff Members as contained in Schedule 2 of the MSA.

## **6. Fixed Asset Management Policy**

The objective of this policy is to improve accounting of assets in the municipalities. Good asset management is critical to any business environment whether in the private or public sector. In the past municipalities used a cash-based system to account for assets, whilst the trend has been to move to an accrual system.

With the cash system, assets were written off in the year of disposal or, in cases where infrastructure assets were financed from advances or loans, they were written off when the loans were fully redeemed. No costs were attached to subsequent periods in which these assets would be used.

With an accrual system the assets are incorporated into the books of accounts and systematically written off over their anticipated lives. This necessitates that a record is kept of the cost of the assets, the assets are verified periodically, and the assets can be traced to their suppliers via invoices or other such related delivery documents. This ensures good financial discipline, and allows decision makers greater control over the management of assets. An Asset Management Policy should promote efficient and effective monitoring and control of assets.

## **7. Banking and Investment Policy**

The policy of the municipality is aimed at gaining the optimal return on investments, without incurring undue risks, during those periods when cash revenues are not needed for capital or operational purposes.



## **8. Virement Policy**

Virement is the process of transferring funds from one line item of a budget to another. The policy will monitor the budget transfers of Lephalale Local Municipality. The purpose of this policy is therefore to provide a framework whereby transfers between line items within votes of the operating budget may be performed with the approval of certain officials

## **9. Unknown deposit Policy**

The objective of this policy is to direct the payments such as direct deposits and bank transfers that are deposited into the municipality's bank account without proper reference number, and the origin of the payment cannot always be traced.

The policy ensures the following:

- Proper recording of unknown deposits
- That unknown deposits are properly monitored
- That unknown deposits are cleared timeously
- That unknown deposits register is reconciled to general ledger on a monthly basis

This policy also provides guidance on how to treat unknown deposits that remain untraced or unclaimed for a certain period



## **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.

The MFMA requires the municipality to adopt and implement a tariff policy. Council has approved such policies for all major tariff-funded services provided by the municipality, which are attached as annexure to this document.

Council is required to adopt budgetary provisions based on realistic anticipated revenue for the budget year from each revenue source ad per requirements of the MFMA (chapter 4, s17 (1) (a) (b)).

The MTREF model, which enables economics forecasts and the eventual medium term fiscal framework, was compiled under harsh external economic conditions. Budgetary constraints and economic challenges meant that the municipality applies a combination of cost-saving interventions to ensure an affordable credible and sustainable budget over the 2020/2021 MTREF.

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

### **Financial modeling**

In addition to the above, further principles applied to the MTREF in determining the affordability envelope included:

- Higher than headline CPI revenue increases, to the extent that they affect and support Council's activities of relevant services.
- Credible collection rates, based on collection achievement to date, incorporating improved success anticipated on selected revenue items.

### **CPI projections adopted over MTREF**

CPI projections over the 2020/2021 MTREF are 4.5% for 2021/2022, 4.6% for 2022/2023 and 4.6%.



## **EXPENDITURE FRAMEWORK**

### **Salaries, wages and related staff cost**

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

### **Repairs and maintenance**

The National Treasury Budget Circular 99 for the 2020/2021 MTREF stated, amongst other, that municipalities must "secure the health of their asset base (especially the municipality's revenue generating assets) by increasing spending on repairs and maintenance". The repairs and maintenance will be adjusted in line with the Infrastructure master plan.

### **Free basic Services**

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

## **REVENUE FRAMEWORK**

### **Service growth**

The municipality's revenue will increase by 4.5%. 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 2020/2021 is projected at an average of 90% and is based on a combination of actual collection rates achieved to date and the estimated outcomes for the current financial period. The better than current projected collection rate is based on the fact that the Municipality will be implementing a prepaid system for electricity and also have appointed a service provider for debt collection.

### **Depreciation**

Depreciation on 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 modeled on existing assets. An annual capital expenditure implementation rate of 100% was factored into the model. The higher than usual depreciation is as results of the implementation of GRAP17 where the Municipality's assets were revalued in the 2010/2011 financial year.



## 9. OVERVIEW OF BUDGET FUNDING

### Fiscal Overview

#### Operating budget – Expenditure

The operating budget increased from R557 411 million in 2019/2020 to R591 116 in 2020/2021 FY, R615 344 million 2021/2022 FY and R646 727 million in 2022/2023 FY respectively.

#### CAPITAL EXPENDITURE

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

The Municipality repair and maintenance cost has increased from R28 557 million in 2019/2020 to R30 563 in 2020/2021 FY, R31 958 million 2021/2022 FY and R33 416 million in 2022/2023 FY respectively. The capital budget is as follows:

#### Capital Budget

|                           | 2020/2021<br>R'm | 2021/2022<br>R'm | 2022/2023<br>R'm |
|---------------------------|------------------|------------------|------------------|
| Capital Budget            | 109 091          | 97 112           | 92 771           |
| <b>Funded as follows:</b> |                  |                  |                  |
| National Grant funding    | 86 681           | 97 112           | 92 771           |
| Provincial Grant funding  | 0                | 0                | 0                |
| Borrowings                | 0                | 0                | 0                |
| Municipal own funding     | 22 410           | 0                | 0                |

#### Medium term capital budget and funding sources

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

#### National Grant Funded

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



### **Own Capital funded**

Purchasing of new equipment and machinery to improve service delivery.

### **Property Rate**

The proposed property rates are levied in accordance with existing council policies unless otherwise indicated and both the Local Government Municipal Property Rates Act 2004 (MPRA) and the Local Government Municipal Finance Management Act 2003.

Property Rates Policy was approved by council during May 2019. The reviewed policy has been attached for approval

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

Rebates and concessions are granted to certain categories of property usage and/or property owner.

### **Water and Sanitation**

The proposed Water and Sanitation Tariffs for 2020/2021 are consistent with National Policy on the provision of free basic services, the National Strategic Framework for Water and Sanitation and with Council's Indigent relief measures;

### **Rates, Tariff Policies and Equitable Service Framework.**

The tariff increases are necessary to address essential operational requirements, maintenance of existing infrastructure, new infrastructure provision and to ensure the financial sustainability of the service.

The progressive nature of existing domestic stepped tariff structure both for water and sanitation is pro-poor and allows for the needs of the indigents. In total the proposed Tariffs and Rates are cost-reflective and will provide the income to cover the costs of Water and Sanitation during the 2020/2021 financial year.



## **Electricity**

The proposed revisions to the tariffs have been formulated in accordance with the Lephalale Local Municipality Tariff and Rates Policy and comply with Section 74 of the Municipal Systems Act as well as the recommendations of the National Energy Regulator of South Africa (NERSA)

The Electricity Regulation Act requires that the proposed revisions to the electricity consumption based tariffs be submitted to the Regulator as soon as possible.

## **Cash backed accumulated surplus**

Cash backed accumulated revenue surpluses are used to provide working capital and to temporarily fund capital expenditure. Operational cash flow deficits and surpluses are forecasted and managed on a daily basis within available cash resources and banking facilities.

All statutory funds reserves, including unspent grants, are fully cash backed. Long term provisions are cash backed to extend that actual expenditure is projected for the budget year.



## 10. EXPENDITURE ON GRANTS ALLOCATION AND GRANT PROGRAMME

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

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

## 11. ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY

Grants-in-Aid refer to transfers of municipal funds to organizations or bodies assisting the Municipality in the exercise of powers of function in terms of Section 67 of MFMA and do not constitute commercial or business contracts and transactions. Specific provision must be made in the Municipality's annual operating budget for Grants-in-Aid in terms of provisions contained in Section 17(3) (j) of the MFMA.

The municipality is giving the grants to the following institution:

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



## **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 99 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:

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

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



## 14. CAPITAL PROJECTS

### 14.1 OWN FUNDING

| OWN FUNDING PROJECTS                                      | DEPARTMENT              | AMOUNT 2020/2021     |
|---|-------------------------|----------------------|
| Speed Camera  | Traffic                 | 240 000,00           |
| Blue Lights   | Traffic                 | 250 000,00           |
| Firearms x 5  | Traffic                 | 100 000,00           |
| Shredder  | Planning<br>Development | 50 000,00            |
| Acquisitions of 6 hectares land for<br>integrated human   |                         | -                    |
| Replacement Office Furniture                              | Corporate<br>Services   | 271 979,00           |
| Monitoring Tool   | Corporate<br>Services   | 400 000,00           |
| Replacement of Desktops                                   | Corporate<br>Services   | -                    |
| Video Conference Solution                                 | Corporate<br>Services   | 400 000,00           |
| Camera  | Communication           | 70 000,00            |
| Asbestos cutting machine                                  |                         | 20 000,00            |
| Water Tankering x 3-Covid 19                              | WATER                   | 4 500 000,00         |
| Technical study - VIP toilets                             | SANITATION              | -                    |
| Security Guard Houses                                     | PUBLIC WORKS            | 1 000 000,00         |
| skip bins 30 cubic meter                                  | WASTE                   | 500 000,00           |
| skip loader trucks x1                                     |                         | -                    |
| Operationalize weighbridge                                |                         | 300 000,00           |
| Security System Marapong, Thabo<br>Mbeki and Mukuruanyane | PROTECTION<br>SERVICES  | 480 000,00           |
| CEMETERY  | CEMETERY                | 4 000 000,00         |
| Ga seleka and Witpoort RWS phase                          | Water                   | 2 036 107,40         |
| Mokuruanyane and Shongwane RWS<br>phase 4 and 5           |                         | 7 791 913,60         |
| <b>TOTAL OWN FUNDING</b>                                  |                         | <b>22 410 000,00</b> |



## 14.2 WISIG

| WSIG Projects  |      | AMOUNT 2020/2021     | AMOUNT 2021/2022     | AMOUNT 2022/2023     |
|--|------|----------------------|----------------------|----------------------|
| Marapong Bulk Water Supply (LEPLEP03)                                      | WSIG | 11 502 124,00        |                      |                      |
| Construction of Mokuruanyane Regional Water Scheme Bulk Pipeline Phase 1&2 | WSIG | 23 697 876,00        | 40 000 000,00        | 37 160 000,00        |
| <b>TOTAL WISIG</b>   |      | <b>35 200 000,00</b> | <b>40 000 000,00</b> | <b>37 160 000,00</b> |

## 14.3 MIG PROJECTS

| MIG Projects   |  | AMOUNT 2020/2021  | AMOUNT 2021/2022  | AMOUNT 2022/2023  |
|--|--|-------------------|-------------------|-------------------|
| Steve Biko Access Road   |  | 13 072 464,76     |                   |                   |
| Melvel Access Road   |  | 1 000 000,00      |                   |                   |
| Establishment of 2 transfer stations in the rural areas seleka and moong                             |  | 14 946 110,74     | 23 368 975,00     | 23 555 725,00     |
| Highmast installation at Segale, Botsalanong, Kopanong, Senoela, Morwe, Botshabelo, Moong, Sefithigo |  | 2 000 000,00      | 4 096 018,00      |                   |
| Highmas light x20  |  | 10 163 274,50     |                   |                   |
| Extension and Augmentation of Water Supply in Witpoort RWS 6   |  |                   | 17 147 007,00     | 23 555 725,00     |
| <b>TOTAL MIG</b>   |  | <b>41 181 850</b> | <b>44 612 000</b> | <b>47 111 450</b> |



## 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 Programme and has employed 5 interns undergoing training in various finance sections.



## 15:1 IMPACT OF COVID – 19

Municipality has initially used the Disaster Relief Funds to allocate Covid – 19. Expenses. The Matter will be tabled in the next council meeting which is on the 30 June 2020 and data strings will be submitted to Treasury. A correction has been effected and the Funding Segment for these procurements will be against the specific fund in accordance to MSCOA and Circular No.9.

### 2020/21 Financial Year

The Municipality Total Budgeted Revenue of 2019/20 Financial year Revenue as approved by Council is R542 million and has increased to R558 million during the normal budget adjustment after midterm period it has further increased by R298 thousand for the purpose of special adjustment for Covid-19.

Municipality has further made a Virement of R250 Thousand from Security Services Vote to cater for the Covid-19 Expenses. Additional employee related cost for Covid - 19 have been funded from the Cost Containment Savings.

#### MSCOA Covid 19- Cost allocation

Municipality reviewed the budget to address the impact of the pandemic.

### 2021/2022 Financial Year

| <b>MTREF PPE &amp; COVID 19 BUDGET</b> | <b>2020/21</b>   |
|--|------------------|
| <b>3 x 16 000 Ltrs WATER Tankers</b>   | <b>4 500 000</b> |
| <b>Operational costs – Fuel</b>        | <b>300 000</b>   |
| <b>Additional PPE</b>                  | <b>2 200 000</b> |
| <b>Visual Video Conferencing</b>       | <b>400 000</b>   |

Municipality has reprioritised the Capital Project to include R4 500 000 to buy 3 x Water tankers in order to supply water to the Rural Areas. An amount of R2 500 000 has been



budgeted for the purchase of PPE and sanitizers including the operational cost to deliver water to the Rural Areas.

The following Projects will be expedited to address the Challenges of Covid- 19.

- Phahladira Mohlasedi Water supply Project – 80% Complete
- Steve Biko Water Supply Project – Procurement stage
- Mokuruanyane Bulk Water Supply Project - 10% on Construction
- Marapong Bulk Water Supply – Detail Design\_Completed