



LEPHALALE MUNICIPALITY

FINAL BUDGET 2022 2023

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1. REPORT OF THE HONOURABLE MAYOR

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

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

Section 16 of MFMA requires Council to table of the annual budget at least 90 days before the start of the financial year while Section 17 (2) (b) of Municipal Systems Act requires Council to establish appropriate mechanism, processes, and procedures to enable local communities to participate in the affairs of the municipality through notification and public procedures, when appropriate.

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

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

This budget process started with steering committees' meetings where the priorities of the Municipality for 2022/23 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 2022/23 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 2021 with all the due dates of all activities.



2. EXECUTIVE SUMMARY

The preparation of the budget is guided by circular 112 and 115 of MFMA no 56 of 2003. The Circulars are linked to the Municipal Budget and Reporting Regulations (MBRR) and the municipal Standard Chart of Accounts (mSCOA); and strives to support municipalities' budget preparation processes so that the minimum requirements are achieved.

The objective of the circulars is to demonstrate how municipalities should undertake annual budget preparation in accordance with the budget and financial reform agenda by focusing on key “game changers”, which includes.

- ensuring that municipal budgets are funded,
- revenue management is optimized,
- assets are managed efficiently, supply chain management processes are adhered to,
- mSCOA is implemented correctly and that audit findings are addressed.

The preparation of the 2022/23 Municipality's Medium-Term Revenue and Expenditure Framework (MTREF) comes when SA has experienced the largest decline in economic outputs in 2020 due to the strict Covid 19 Lockdown. The main risk into the economic outlook is slowdown in economic growth. The evolution of COVID 19 and slow progress in vaccine rollout reinforces uncertainty and possess a risk to economic recovery.

The rising unemployment and income losses have entrenched existing inequalities. The Economic growth rate will slowly improve as restrictions are removed, how the real output are expected around 2024. The impact of Covid 19 and ageing infrastructure and Economic constraints will put Pressure on the 2022/23 MTREF Budgets.

Changes on Local Government allocations

The 2022/23 Budget 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 2022/23 Budget protects transfers that focus on infrastructure, service delivery and COVID-19 spending while reducing those spent less effectively.

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



employment programs. In addition, skills development will be a priority in order to improve productivity and operational efficiency.

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

This means when implementing the budget Municipality should Increase the revenue initiatives which includes, Installation of Electricity prepaid meters, cutting of water losses, charging cost reflective and affordable tariffs, accelerate Debt collection, Filling of Critical positions, Implementation of revenue enhancement. Municipality must also focus on Local Economic Development to unlock new sources of revenue.

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

Municipality will also prioritize Capital Spending to avoid the withholding of funds by Treasury. Cost containment strategies will be implemented to reduce the noncore Expenditures. The municipality has also embarked a range of collection strategies to optimize the collection of revenue. To ensure on the optimization of resources Municipality must cut on operational costs which include cutting on travelling & subsistence to remove the nice to have and the use of Technology for meetings and while adhering to Covid regulations

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 head count proactively and conduct staff audit to ensure staff complements aligned to organogram,
- Ensure operational efficiency to achieve service delivery and addressing the challenges of Covid 19.
- Implementation of Cost containment and revenue enhancement strategies

Medium-term priorities include

- Reindustrializing through implementation of the master plans.
- growing exports through the African Continental Free Trade Area
- implementing the Tourism Sector Recovery Plan; supporting township and rural economies; and promoting localization,
- inclusive economic growth and job creation



Long Term Focus

The planning for Lephalale VISION 2040 evolving which Includes:

- Development of Economic recovery plan with Revenue Diversification, longevity, and Long-term Financial sustainability
- Attract investments to create Jobs and capitalize on Lephalale competencies (Mining, Agriculture & tourism)
- Explore Public Private partnerships (Grey Water)
- Entities (Smart electricity and Water Metering), Zeeland)
- Apply for electricity Licenses in new areas.
- Capital investment plan vs Capital expansion
- Capitalize DBSA non lending support
 - Revenue enhancement
 - Asset Care
 - Spatial Planning

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

- Revenue the Collection rate = 85 vs Treasury Norms of 95%
- Employee related Cost as percentage of Total Expenditure = 30%
- Contracted services of total Expenditure = 5%
- Infrastructure maintenance of total PPE = 5%
- Application of prepaid and flat rate at the Villages
- Indigent registrations
- Budget to include asset replacement Reserves
- Cost containment – Do more with less.
- Own funding Project should focus on Projects Revenue enhancement Projects.
- Mobilize Investments to Lephalale thought advertising and marketing
- Complete the projects under WIP.



2.1 BUDGET SUMMARY

The Final budget was tabled before council on the 31 May 2022 and the Council recommended that the public engagement meeting be held by the 13 June 2022 to inform the public on the water tariff increase and that Special Council meeting be arranged on or before the 30 June 2022 to present feedback on the outcome of Public engagement pertaining to the proposed water tariff increase.

On the 19 March 2012 the minister pronounced the establishment of 9 catchment management areas in 9 water management areas with DWS. Lephalale Municipality acquired a license in 2012 and signed a contract in 2015 with DWS for the abstraction of raw water from Mokolo Dam (MCWAP-1)

In terms of section 59 (2) of the National water Act 36 of 1998 (the NWA), Water Users must pay all water uses charge imposed under section 57 of the NWA read with the pricing strategies promulgated from time to time in terms of section 56 of NWA.

Lephalale Municipality is required to pay extraction of water from Mokolo in order to comply to the Act and retain the water license.

During the public participations held in April and May 2022, the members of the public were presented with the tariff increment of 4.8% as per the MTREF Circular 115 of the National Treasury.

However, upon performance of sensitivity analysis and budget permutations, it was discovered that the percentage increment of 4.8% will not be financially viable for the municipality to still have a funded budget and meet the monthly instalments to DWS.

The sensitivity analysis indicated that the Municipality would only breakeven when it implemented 60% increase on water consumption tariffs. The proposed tariff was then presented to the members of the public at the special public participation that was held at Mogol Function Hall on 13 June 2022, and during the engagements the members of the public objected the proposed water increase due to affordability, unfavorable economic conditions and service delivery issues.



The Municipality considered the concerns of the public and reviewed the water tariffs to be affordable and collectable. Therefore, a further budget analysis was performed, and the Municipality then arrived at decision to meet the consumers halfway by rather increasing the tariff by 30% in 2022/2023 and cut on the budget expenditure to still maintain a funded budget.

The total budget for MTREF 2022/23 includes Total Operating Revenue is R741 million and Total Operating Expenditure of R739 million resulting in the operating Surplus of R1,8 million.

The operating Revenue budget has changed from R667 million in 2021/2022 to R741 million in 2022/2023 FY, R784 million 2023/2024 FY and R833 million in 2024/2025 FY respectively.

The operating Expenditure budget has changed from R663 million in 2021/2022 to R739 million in 2022/2023 FY, R777 million 2023/2024 FY and R812 million in 2024/2025, resulting to a surplus of R 1,8 Million for 2021/22 FY and R7,1 million and R20 million in the outer years.

The Capital expenditure is R183 million which includes R35m Own capital Funded and R148m National Grant Funded Projects.

All Tariffs have been adjusted with 4,8 % for the current financial year except electricity which is adjusted by 9,6 % and as per Nersa guideline and the incorporation the extraction of Raw water from Mokolo dam in line Water Authority License and 30% of Water consumption Charges.

The significant increase is due to the Municipality being made notified by DWS that Municipality has entered into the contract in 2015.

Impact of COVID 19 had a negative impact on Economic growth

Below is the table showing the budget tariffs for the MTREF 2022/23

Revenue Tariff increase

Description	22/23	23/24	24/25
Rates	4,8%	4.4%	4.5%
Electricity	9,6%	4.4%	4.5%
Water	30%	4.4%	4.5%
Sanitation	4,8%	4.4%	4.5%
Refuse	4,8%	4.4%	4.5%



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 Council is advised to:

- Decisively address unfunded budgets by reducing non-priority spending and improving
- revenue management processes to enable collection; and
- Address service delivery failures by ensuring adequate maintenance, upgrading and
- renewal of existing assets to enable reliable service delivery.

Revenue Tariff Increase

The MTREF-based revenue and expenditure budget assumed inflation-linked annual draft budget of 4,8%, 4,4% and 4.5% respectively for the 3-years budget period of 2022/2023, 2023/2024 and 2024/2025.

The revenue tariff increases are as per MFMA Circulars 112 & 115 except for electricity charges which are increased as per Nersa regulation and the incorporation the extraction of Raw water from Mokolo dam in line Water Authority License and 30% of Water consumption Charges.

Expenditure Budget

Employee related costs and remuneration of councilors R249 Million

Employee related costs: Budget R 236 million.

The 2022/23 includes the head count of 455 permanent employees and 47 contract employees. The Salary and Wage Collective Agreement for the period 01 July 2021 to 31 June 2024 date 15 September 2021 has been approved by the Bargaining Committee of the central Council. The Municipality has made a provision 4,8 increase based on the previous Bargaining Council Increase.

The overall employee benefits is at 33% 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. In addition, the municipality has included the amount R2,5 million for the



implementation of the shift system ,which will result in a saving of R6 million compared to the previous year.

Position will be staggered to ensure alignment to the norms 2% vacancy factor

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

Accountant Revenue Property and Clearance L4

Accountant Budget and reporting L4

Financial system analyst L3

Operator TLB/Mechanical broom L10

Quantity Surveying L3

Manager Fleet and Workshop Management L2-1

Fleet Data Capturer /Clerk L7

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

The training must include

- Capacitate internal staff to reduce overreliance on Service Providers
- Mentoring Program NBI
- Operators Training
- Fitter & Turner: training for electronics and two stroke engines:
- supervisor Role and Responsibility Training
- Health and Safety Training.
- Advance Microsoft (word, PowerPoint excel)

Remuneration of councilors- R13 Million

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

Remuneration of Municipality has increased by 4,8 % is based on previous year budget. Cell phone allowance and car allowance remained the same for remainder of their term.

Bulk Purchases - R146,4M

In their Multi-Year Price Determination (MYPD 5) application Eskom requested approval for municipal bulk tariff increases of 20.5 per cent in 2022/23, 15 per cent in 2023/24 and 10 per cent in 2024/25. NERSA rejected this revenue application at the end of September 2021 and in October 2021 ESKOM filed an application in the High Court to review NERSA's decision. Following the deliberations, NERSA has approved a 9.6 per



cent tariff increase for Eskom starting from April 2022 and this figure accounts for a 3.49 per cent increase in 2022/23.

Inventory Consumed – R58 M

The amount of Bulk water is R38 M. Other material consumed includes purchases of the materials for maintenance of Infrastructure network inhouse.

Bulk purchase of water has been increased by R24million mainly due to the following:

The Municipality has made allocation of R24 million for 2022/23 for payment to DWS for raw water extracted from Mokolo Dam. This is in relation to the contract which was entered in with DWS in 2015 where the municipality was awarded a license as a water authority. In relation to the contract the municipality should therefore be charged for water resource in line the DWS Pricing strategy which includes Water Resource Management and consumptive costs (operation and maintenance, return on asset, depreciation, and water resource levy).

A meeting was held on the 17 May 2022 with DWS whereby they presented that municipality is sitting with a debt of R107 Million and that the municipality has been allocated a volume of 7 200 000 cubic meters of water per annum in line with the License. DWS has made a request to the municipality to acknowledge the debt and enter into a debt agreement. Municipality is currently verifying the cost and exploring the funding model to repay the costs. This will further be reviewed during 2023/24 Adjustment Budget.

The water has been budgeted under inventory according to MFMA circular 115.

Contracted Service R 70,9 M

Contracted services as a percentage of the Total Expenditure are at 9% which within above norm of (2% and 5%).

Additional 4% is catered for the phasing of the new service provider for Prepaid Electricity and smart water meters and replacement of the smart meters which have reached the useful life, Consultants for UIFW investigation and Compilation of the detailed integrated Development plan for 5TH Council of Lephalele Municipality. More funds have been directed to Inhouse maintenance to reduce the contracted services.

Repairs and maintenance R51,9M

The R20M is allocated to inventory consumed for the material and supplies from the store for inhouse maintenance. Additional R20M has been allocated to contracted services for outsource maintenance. The budget also constitutes the development of the



detailed plans for Sanitation and water and electricity. Priorities will also be given to infrastructure projects which will support the revenue enhancement.

Municipality has directed more funds to repairs and maintenance to align to the treasury Norm of 6% of PPE. Municipality has submitted a business case to DWS for refurbishment of the infrastructure which will increase our infrastructure to be within the norm.

Additional allocation for refurbishment of Infrastructure assets under capital budget amounting R11,9 million

- Refurbishment and upgrading of Sewer pump station Waste water treatment works Network pipes and replacement of AC Pipes Phase 1 & 2 = R5,8 Million MIG & R3,4 Million Own Funding.
- Replacement of Lephale Town and Marapong replacement of Old AC pipes R3 Million

The total Budget for repair and maintenance will be R48,5 million which 3,3% of PPE which is below Norm of 5- 6%.

Debt Impairment R17 M

The budget for Debt impairment has increased from R14M in 2022/23 R17M due to high debtors' book. The debt collector has been appointed to assist acceleration of debt collection and reduction of debt Book.

Finance Charges R14M

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

General Expenses R83m

General Expenses constitute 11 % of the total operating expenditure which is above the norm of 10% as per Treasury MFMA budget guidelines. The amount includes the operating costs which was previously classified as contracted services financial systems and Microsoft. This reflects the impact of cost containment based on less budget on travelling and subsistence and few gatherings.

Total operating Revenue R 741 m

Property rates constitutes is R112m which constitute 15 % of operating revenue.



Service charges

Service charges is R481 M which 64% of the operating revenue.

Service charges for electricity has been adjusted to R251m

Service charges water has been adjusted to R69 m

Sanitation Revenue has been adjusted to R 25m

Service charges refuse has been adjusted to R20,6m

The increase has been effected in line with MFMA Circular 115 and CPI.

Service Charge Water

The service Charge for water has been increased from R49 Million to R69 Million to give effect to contract which was entered in with DWS in 2015 where the municipality was awarded a license as a water authority.

The Municipality has made allocation of R24 million for 2022/23 for payment to DWS for raw water extracted from Mokolo Dam. This is in relation to the contract which was entered in with DWS in 2015 where the municipality was awarded a license as a water authority. In relation to the contract the municipality should therefore be charged for water resource in line the DWS Pricing strategy which includes Water Resource Management and consumptive costs (operation and maintenance, return on asset, depreciation, and water resource levy).

Interest on Investment

The interest on investment is R2,2M the Grant allocation has been reduced. The WSIG allocation received in the Current Financial year has been reallocated to Schedule 6 of DORA (Fund will be administered by National Government).

Interest on Outstanding Debtors R36M

The impact of Covid 19 has result in the in the inability of consumers to pay their debt on time. Municipality has reviewed the billing cycle to accelerate debt collection.

License and Permit R8,7M

The budgeted revenue for License and Permit has been increased in line with the CPI
The relaxation of Covid 19 Regulations will improve on Revenue billed.

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

Transfers of Grants and subsidies are reconciling as per DORA allocation for R356 million. The allocation are as follows:



TOTAL GRANTS	BUDGET 2022/2023	BUDGET 2023/2024	BUDGET 2024/2025
EQUITABLE SHARES	202 071 000	223 270 000	246 827 000
MIG - PMU	2 979 600	2 586 350	2 699 950
FMG	1 650 000	1 700 000	1 700 000
EPWP	1 292 000		
Total operating Grants	207 992 600	227 556 350	251 226 950
MIG	56 612 400	49 140 650	51 299 050
INEP	20 000 000	22 500 000	10 971 000
DEMAND SIDE MANAGEMENT GRANTS	4 000 000		5 000 000
WSIG Schedule 6 B	67 160 000	71 226 000	63 531 000
WSIG Schedule 5 B		50 832 000	52 209 000
Total Capital Grants	147 772 400	193 698 650	183 010 050
Total Grants	355 765 000	421 255 000	434 237 000

The 2022/23 Budget protects transfers that focus on infrastructure, service delivery and COVID-19 spending while implementing cost containment measures.

In 2022, government will expand the scope of the municipal infrastructure grant to allow municipalities to use up to 5 per cent of their allocation to develop infrastructure asset management plans. Municipality has a signed of Infrastructure master plan. The district will assist the Municipality to the preparation of water ,electricity and sanitation master plans for implementation in 2022/23 Financial year.

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

Other revenue R4m

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 of revenue. The lockdown regulations were eased the collection rate as 31 March 83%.



Municipality will continue to accelerate debt collection through , customer care and implement strategies to improve the collection rate in 2022/23 Financial Year.

Strategies includes:

Cost reflective tariffs – Charging cost effective and affordable tariffs.

Customer care – Ensure timely resolving of customer queries and improving service delivery.

Cost containment - that the operating expenses of the municipality are kept at a minimum rate.

Accelate Debt collection - issuing of letters of demand for the payment of accounts in arrears and optimizing the recovery of funds.

Installation of smart meters and regularly service the water and electricity meters to guard against malfunctioning that may result in inaccurate billing, water or electricity leakages, or any other form of loss such as illegal connections.

**4. OVERVIEW OF THE ANNUAL BUDGET PROCESS FOR THE FY 2021/2022-
Compliance to regulations**

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

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

Municipalities are under pressure to generate revenue as a result of the economic landscape, the COVID-19 pandemic, weak tariff setting and increases in key cost drivers to provide basic municipal services. Customers' ability to pay for services is declining, which means that less revenue will be collected. In order to achieve financial sustainability, municipalities must demonstrate the political will to implement the changes required to improve their performance. Where municipalities consistently fail to deliver



their mandates, the Constitution provides for provincial and/or national government to intervene.

5. OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH IDP

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

6. MEASURABLE PERFORMANCE OBJECTIVES

Introduction

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

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

7. OVERVIEW OF BUDGET RELATED POLICIES

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

1. Tariff Policy

The objective of the tariff policy is to ensure that:

- a) The tariffs of the Municipality comply with the legislation prevailing at the time of implementation.
- b) The Municipal services are financially sustainable, affordable, and equitable.
- c) The needs of the indigent, aged, and disabled are taken into consideration.



- d) There is consistency in how the tariffs are applied throughout the municipality.
- e) The policy is drawn in line with the principles as outlined in the MSA

2. Credit Control and Debt Collection Policy

The objectives of the policy are to:

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

3. Indigent Policy

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

The policy objectives

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

- a) The provision of basic services to the approved indigent/vulnerable members of community in a sustainable manner within the financial and administrative capacity of the Municipality.
- b) Establish the framework for the identification, screening and management of indigent households including an economic rehabilitation plan where possible.
- c) The provision of procedures and guidelines for the subsidization of basic services.

4. Property Rates Policy

The key objectives of the policy are to:

- (a) Ensure that all owners of rateable property are informed about their liability to pay assessment rates.
- (b) Specify relief measures for ratepayers who may qualify for relief or partial relief in respect of the payment of rates through exemptions, reductions and rebates contemplated in section 8 of this policy and section 15 of the Act;
- (c) Set out the criteria to be applied by the Council if it increases rates and levies differential rates on different categories of property;
- (d) Provide for categories of public benefit organisations, approved in terms of Section 30(1) of the Income Tax Act, 1962 (Act no 58 of 1962) as amended, which



- ratepayers are eligible for exemptions, reductions and rebates and therefore may apply to the Council for relief from rates;
- (e) Recognise the state, organs of state and owners of public service infrastructure as property owners;
 - (f) Encourage the development of property.
 - (g) Ensure that all persons liable for rates are treated equitably as required by the Act. (h) Determine the level of increases in rates
 - (i) Provide for exemption, rebates and reductions.

5. Supply Chain Management Policy

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

- (a) gives effect to:
 - (i) section 217 of the Constitution; and
 - (ii) Part 1 of Chapter 11 and other applicable provisions of the MFMA;
 - (b) is fair, equitable, transparent, competitive and cost effective.
 - (c) complies with:
 - (i) the regulatory framework prescribed in Chapter 2 of the SCMR; and
 - (ii) any minimum norms and standards that may be prescribed by means of regulations or guidelines as envisaged by the provisions of section 168 of the MFMA;
 - (d) is consistent with other applicable legislation.
 - (e) does not undermine the objective for uniformity in Supply Chain Management Systems between organs of state in all spheres; and
 - (f) is consistent with national economic policy concerning the promotion of investments and doing business with the public sector.
- (2) The Municipality may not act otherwise than in accordance with this Supply Chain Management Policy when:
- (a) procuring goods and/or services;
 - (b) Disposing of goods no longer needed;
 - (c) selecting contractors to provide assistance in the provision of municipal services otherwise than in circumstances where Chapter 8 of the MSA applies; or
 - (d) in the case of the Municipality selecting external mechanisms referred to in section 80(1)(b) of the MSA for the provision of municipal services in circumstances contemplated in section 83 of that Act.
- (3) To assure the creation of an environment where business can be conducted with integrity and in a fair, reasonable and accountable manner, this policy will ensure that the Municipal Manager and all officials of the Municipality involved in supply chain management activities must act with integrity, accountability, transparency and with the highest of ethical standards and free of favouritism, nepotism and corruption of any kind. The officials of the Municipality involved in supply chain management activities must adhere to the code of ethical standards contained in this policy, together with the Code of Conduct for Municipal Staff Members as contained in Schedule 2 of the MSA.



6. Fixed Asset Management Policy

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

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

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

7. Banking and Investment Policy

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

8. Virement Policy

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

9. Unknown deposit Policy

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

The policy ensures the following:

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



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

OVERVIEW OF BUDGET ASSUMPTIONS

Revenue Framework

Section 18 of the MFMA states that the budget can only be funded by realistically anticipated revenue to be collected and cash-backed accumulated funds from previous years, not committed for other purposes.

In addition, NT Circular 93 stipulates that the budget is to be managed in a full accrual manner, reflecting a transparent budget and accounting system approach.

Municipality must maintain tariff increases at level that reflect an appropriate balance between affordability of the poorer household and other consumers while ensuring financial sustainability.

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

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

The MTREF model, which enables economics forecasts and the eventual medium term fiscal framework, was compiled under harsh external economic conditions. Budgetary constraints and economic challenges meant that the municipality applies a combination of cost-saving interventions to ensure an affordable credible and sustainable budget over the 2022/2023 MTREF.

National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the municipality's financial sustainability. The Consumer Price Index (CPI) is forecasted to be within the lower limit of the 3 to 6 per cent target band; therefore, municipalities are required to justify all increases in excess of the projected inflation target for 2022/23 MTREF in their budget narratives and pay careful attention to the differential incidence of tariff increases across all consumer groups. It is noted that the tariff increases by Eskom and Water Boards are above inflation and should be considered as such while determining cost-reflective tariffs.



Eskom Bulk Tarrif Increases

In March, NERSA approved a municipal tariff increase of 9,6 per Nersa Guideline on Municipal Electricity Price Increase for 2022/23

The outer two years of the 2023 MTEF use 4,5 per cent, which is an average annual tariff increase used for the NERSA's multi-year price determination period of 1 April 2019 to 31 March 2022. Moreover, the outer year is anticipated to be the first year of the MYPD 5 period, yet to be published.

Financial modeling

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

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

CPI projections adopted over MTREF:

CPI projections over the 2022/2023 MTREF are 4.8% for 2023/2024, 4,5% for 2024/2025 and 4.4%.

EXPENDITURE FRAMEWORK

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

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

Initiatives to improve financial sustainability.

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



District Development Model initiatives

- 1.Revenue Improvement Programme
- 2.Spatial Restructuring Programme
- 3.Asset Care Programme
- 4.Infrastructure Delivery Support
- 5.Infrastructure Planning Support
- 6.Capacity support (DBSA)

Salaries, wages, and related staff cost.

The Salary and Wage Collective Agreement for the period 01 July 2021 to 31 June 2024 date 15 September 2021 has been approved by the Bargaining Committee of the central Council. The Municipality has made a provision 4,8 increase based on the previous Bargaining Council Increase.

The overall employee benefits is at 33% 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 . In addition, the municipality has included the amount R2,5 million for the implementation of the shift system ,which will result in a saving of R6 million compared to the previous year.

Position will be staggered to ensure alignment to the norms.2% vacancy factor

Remuneration of Councilors

Remuneration of Councilors are based on the Government Gazette on the Remuneration of Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published annually between December and January by the Department of Cooperative Governance. The increase of 4,8 % is budgeted for.

Conditional Grants Transfers

Section 22 of the Division of Revenue Act, 2020 requires that any conditional allocation or a portion thereof that is not spent at the end of the 2020/21 financial year reverts to the National Revenue Fund, unless the rollover of the allocation is approved in terms of



subsection (2). Furthermore, the receiving officer, provincial treasury and national transferring officer is required to prove to National Treasury that the unspent allocation is committed to identifiable projects, in which case the funds may be rolled over. Stringent controls are place for the application of rollovers within the stipulated timelines. Rollovers request for 3 consecutive year will not be accepted. Process for the unspent committed cost relating to Covid 19 allocation has been stipulated and the Municipality Fastrack spending .

Importance of section 17 of the Division of Revenue Act

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

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

Repairs and maintenance

The National Treasury Budget Circular 108 for the 2022/2023 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 4,8%. 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 2022/2023 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 2022/2023 financial year.

8. OVERVIEW OF BUDGET FUNDING

Fiscal Overview

Operating budget

The total budget for MTREF 2022/23 includes Total Operating Revenue is R741 million and Total Operating Expenditure of R739 million resulting in the operating Surplus of R1,8 million.

The operating Revenue budget has changed from R667 million in 2021/2022 to R741 million in 2022/2023 FY, R784 million 2023/2024 FY and R833 million in 2024/2025 FY respectively.

The operating Expenditure budget has changed from R663 million in 2021/2022 to R739 million in 2022/2023 FY, R777 million 2023/2024 FY and R812 million in 2024/2025, resulting to a surplus of R 1,8 Million for 2021/22 FY and R7,1 million and R20 million in the outer years.



CAPITAL EXPENDITURE

The Capital expenditure is R183 million which includes R35m Own capital Funded and R148m National Grant Funded Projects.

The aging infrastructure assets of the Municipality require that there be a constant investment and maintenance program. The municipality has made an allocation in 2022/2023. The municipality has approved the infrastructure master plan which is going to inform the upgrading and renewal of infrastructure.

DESCRIPTION	2022/23	2023/24	2024/25
MIG	56 612 400	49 140 650	51 299 050
WSIG	67 160 000	122 058 000	115 740 000
INEP	20 000 000	22 500 000	10 971 000
ELECTRICITY EFFICEINCY	4 000 000	-	5 000 000
OWN FUNDING	35 255 000	-	-
TOTAL	183 027 400	193 698 650	183 010 050

Medium term capital budget and funding sources

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

National Grant Funded Projects

- Municipal Infrastructure grant to improve bulk infrastructure in support of housing opportunities.R56m .
- Electrification R24m .
- Municipal Water Infrastructure Grants to improve the water infrastructure R67m. (DWS will administer the funds- Schedule 6 B)

Own Capital funded R35M

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



Property Rates

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

Property Rates Policy was approved by council during May 2020. The reviewed policy has been attached for approval.

Property tax rates are based on values indicated in General Valuation Roll of 2020. The Roll is updated for properties affected by land sub-divisions, alterations to buildings, demolitions and new buildings (improvements) through Supplementary Valuation Rolls.

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

Water and Sanitation

The proposed Water and Sanitation Tariffs for 2022/23 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 2022/2023 financial year.

Electricity

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



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

Cash backed accumulated surplus.

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

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

EXPENDITURE ON GRANTS ALLOCATION AND GRANT PROGRAMME

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

TOTAL GRANTS	BUDGET 2022/2023	BUDGET 2023/2024	BUDGET 2024/2025
EQUITABLE SHARES	202 071 000	223 270 000	246 827 000
MIG - PMU	2 979 600	2 586 350	2 699 950
FMG	1 650 000	1 700 000	1 700 000
EPWP	1 292 000		
Total operating Grants	207 992 600	227 556 350	251 226 950
MIG	56 612 400	49 140 650	51 299 050
INEP	20 000 000	22 500 000	10 971 000
DEMAND SIDE MANAGEMENT GRANTS	4 000 000		5 000 000
WSIG Schedule 6 B	67 160 000	71 226 000	63 531 000
WSIG Schedule 5 B		50 832 000	52 209 000
Total Capital Grants	147 772 400	193 698 650	183 010 050
Total Grants	355 765 000	421 255 000	434 237 000

9. ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY

Grants-in-Aid refer to transfers of municipal funds to organizations or bodies assisting the Municipality in the exercise of powers of function in terms of Section 67 of MFMA and do not constitute commercial or business contracts and transactions. Specific



provision must be made in the Municipality's annual operating budget for Grants-in-Aid in terms of provisions contained in Section 17(3) (j) of the MFMA

The municipality is giving the grants to the following institution:

DESCRIPTION	BUDGET		BUDGET
	2022/2023	BUDGET 2023/2024	2024/2025
Donations	113 788	118 794	124 140
Community Safety Forum	113 788	118 794	124 140
SMME	113 788	118 794	124 140
Mogol Club	113 788	118 794	124 140
Sport Club Marapong	113 788	118 794	124 140
Agri- Contribution	113 788	118 794	124 140
SPCA	113 788	118 794	124 140
Enterprise Development	227 574	237 588	248 279
TOTAL	1 024 088	1 069 148	1 117 259

10. COUNCILLOR AND BOARD MEMBER ALLOWANCES AND EMPLOYEE BENEFITS

The salaries, allowance, and benefits of the councilors for our municipality are informed by the government gazette no 39548 for the determination of upper limits of salaries, allowances and benefits. The annual increase as per circular 108 applies. Refer to SA23 on the budget supporting schedules.

11. CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

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

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

The projects were now funded with own funding in 2022/2023 financial year.



CAPITAL PROJECT SUMMARY

MIG PROJECTS

Description		Funder	2022/23	2023/24	2024/25
Ga-Seleka and Witpoort RWS phase 5 (to be completed)	WATER	MIG	13 166 149		
Thabo Mbeki Sewer Network Sanitation PHASE2	SANITATION	MIG	17 516 008		
Marapong stadium (Phase 2) sports art and culture	PARKS	MIG	10 000 000		
Extension and Augmentation of water supply in Witpoort RWS 6	WATER	MIG	15 930 243	20 732 683	
Extension and Augmentation of water supply in Shongoane RWS Phase 6	WATER	MIG		28 407 967	51 299 050
TOTAL			56 612 400	49 140 650	51 299 050

WSIG PROJECTS

Description		Funder	2022/23	2023/24	2024/25
Refurbishment and Upgrading of Sewer Pump Stations, Network Pipes and Replacement of AC pipes in Town and Onverwacht	SANITATION	WSIG	5 809 231		
Replacement of AC pipes and Upgrading of Water Network in Marapong	WATER	WSIG	3 073 099		
Marapong Bulk Water Supply Pipe line	WATER	WSIG	22 719 185		
Marapong Bulk Water Supply Storage	WATER	WSIG	20 992 788		
Mokuruanyane RWS Bulk Pipeline phase 1 and 2	WATER	WSIG	14 565 697		
Refurbishment and upgrade of RWS in varios villages Phase 1	WATER	WSIG SCHEDULE 5B		50 832 000	52 209 000
Refurbishment and upgrade of RWS in varios villages Phase 2	WATER	WSIG SCHEDULE 6B		71 226 000	63 531 000
TOTAL			67 160 000	122 058 000	115 740 000



ELECTRIFICATION

Description	Funder	2022/23	2023/24	2024/25
Electrification of various villages, Marapong and Steenbokpan informal settlement	INEP	20 000 000	22 500 000,00	10 971 000,00
TOTAL		20 000 000	22 500 000,00	10 971 000,00
CAPITAL PROIJECT - Energy Efficiency				
Town and Villages	Energy Efficiency	4 000 000		5 000 000
TOTAL		4 000 000	-	5 000 000
		24 000 000	22 500 000	15 971 000



OWN FUNDING

Description		Funder	2022/23
Lephalale Investment summit	STRATEGIC SERVICES	LLM	2 500 000
Development of Lephalale Economic growth strategy for Vision 2050	MM OFFICE	LLM	5 000 000
Project management system	BTO	LLM	480 000
Credit control system	BTO	LLM	500 000
Indigent management system	BTO	LLM	200 000
BI system & Revenue enhancement Tool	BTO	LLM	500 000
Anti-fraud and corruption hotline	RISK	LLM	560 000
Conduct security assessment of all strategic assets and implement appropriate security measures to protect the assets	SECURITY	LLM	3 000 000
Mobile walk-through metal detector	SECURITY	LLM	100 000
Development of ICT strategy	IT	LLM	1 000 000
Revision of Spatial Development Framework	PLANNING	LLM	1 200 000
Revision of Land use Scheme	PLANNING	LLM	600 000
Land Acquisition	PLANNING	LLM	5 425 000
Palisade Fencing for Onverwacht cemetery	PARKS	LLM	2 000 000
Cover of sidewalk at civic centre for protection against the element	PUBLIC WORKS	LLM	200 000
2 x Tractor slasher mower	PARKS	LLM	170 000
2 X Chainsaws	PARKS	LLM	28 000
2 X Pole pruner chainsaw	PARKS	LLM	32 000
1 x Sedan	TRAFFIC (New trainess	LLM	400 000
Pro-laser for speed machine	TRAFFIC	LLM	250 000
Weigh bridge system operationalize the one at waste(the other at traffic testing ground side)	TRAFFIC (New trainess	LLM	400 000
Brush Carters x 10	PARKS	LLM	150 000
Installation of pump generators (Water Trucks)- 3	Water	LLM	200 000
Installation of (2) water pumps spiral	Water	LLM	150 000
Refurbishment and Upgrading of Sewer Pump Stations, Network Pipes and Replacement of AC pipes in Town and Onverwacht	Water	LLM	3 400 000
Walk behind roller	Public works	LLM	200 000
Plate compactor	Public works	LLM	120 000
10 KVA Mobile diesel generator	electricity	LLM	150 000
Cable fault detector	electricity	LLM	700 000
2 X LDV Bakkie Canopies	electricity	LLM	40 000
Fencing of storage facilities	water	LLM	500 000
Join a new Pipeline existig line from pumpstion 25 to zongesien	Sanitation	LLM	500 000
Refurbishment of Zongesien wastewater treatment works	Sanitation	LLM	3 000 000
Melvel- drilling and equipping of borehole/ rising main/electrification	Water	LLM	300 000
Replacement of Furniture & Equipment (including podium and sound system)	Corporate	LLM	500 000
Mobile Office	BTO	LLM	500 000
IT Equipment	IT	LLM	300 000
TOTAL			35 255 000



12. LEGISLATION COMPLIANCES STATUS

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

Budget and Treasury Office

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

Budgeting

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

Financial reporting

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

Annual Report

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

Internship Programme

The Lephalale Local Municipality is participating in the Municipal Finance Management Internship Programme and has employed 5 interns undergoing training in various finance sections.