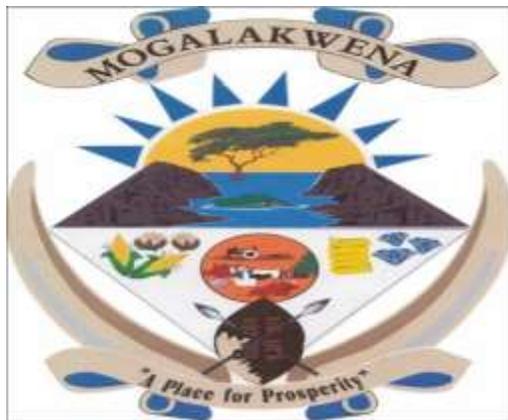


**ANNUAL BUDGET OF
MOGALAKWENA LOCAL MUNICIPALITY**



2020/21 TO 2022/23

DRAFT

**MEDIUM TERM REVENUE AND
EXPENDITURE FORECASTS**

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Part 1 – Annual Budget

1.1 Mayor's Report

The Mayor will present her report separately in the council meeting to be held on 28th of May 2020.

The speech will be attached to the minutes of the council meeting.

1.2 Council Resolutions

- The budget related resolutions will form part of the budget document after submission of the budget to council.
- The Municipal Manager will submit the electronic budget documents and the corresponding electronic returns by the 10th working day after council approval to National and provincial treasuries. The hard copies including council resolutions will also be submitted by the 10 June 2020. A circular has been issued by treasury extending the MFMA date for adoption and approval of the 2020/21 budget to lock down regulations because of COVID 19 pandemic

1.3 Executive Summary

The budget of the municipality was prepared taking into consideration the Municipal Budget and Reporting Regulations and the National Treasury circulars relating to budgets. (The budget circulars issued for the 2020/21 MTREF is circular 98 , 99 and its Annexure issued in March 2020)

The application of sound financial management principles for the compilation of the municipality's budget is essential and critical to ensure that the municipality remains financially sound and that the municipality can provide services to all communities in a sustainable manner.

The municipality given its financial crisis that led to provincial intervention as from January 2020 resulted in the municipality developing a financial recovery plan to improve its financial status and ensure that the budget is funded

The budget has been prepared at the time when the South African economic and revenue outlook has deteriorated since the October 2019 medium term budget policy statement (MTBPS). This has resulted in the municipality having to continue applying cost containment measures in order to eliminate non priority spending and also only allowing expenditure increases by 4.5% across all departments except for increase in bulk purchases for electricity 8.1%.

The municipality has adopted the following assumptions during the preparation of the 2020/21 MTREF Budget:

National and provincial assumptions

- Local Government Grants allocations as per Division of Revenue Bill as per Government Gazette No 43025 issued on the 17th of February 2020
- Proposed electricity purchases increase of 8.1%
- Proposed increases of 4.5% for bulk water purchases as per circular 99.
- Revenue to increase by maximum of 4.5% and justification required for all increases above the inflation target
- Remuneration for upper limits to be taken into consideration when preparing budget.
- Employee costs increase of 6.25% as per salary and wage collective agreement
- Cost reflective and sustainable tariff increases
- The impact of COVID 19 pandemic on the ability of the municipality to render services and the related costs

Municipal Assumptions

- Impact of the financial recovery plan on the budget, setting of revenue targets at 90% of previously billed revenue and spending limits set at 75% of estimated current expenditure.
- Curbing of increasing costs for security.
- Reducing the operating expenditure by 75% to align to anticipated cash collections of 75% except for bulk purchases and employee costs
- Implementing additional cost containment measures in order to maintain a budget surplus over the MTREF period
- Prioritizing contractual obligations
- Providing funds for revenue enhancement projects such as smart metering and revenue turnaround project
- Funding for absorption of 77 Letsema temporary workers as per court order

The municipality has experienced the following challenges during the preparation of the 2020/21 MTREF:

- The need to increase funding for operations and maintenance due to ageing infrastructure
- No cash reserves available to fund or co fund capital projects
- Low revenue collection rates experienced in the 2019/20 financial year
- The increased cost of supply for water and electricity resulting in unsustainable municipal tariffs
- Employee costs constitute 40% of the operational budget.
- Increasing distribution losses for water and electricity due to ageing infrastructure
- Costs relating to absorption of temporary employees (Letsema employees) as per court award

The following budget principles and guidelines directly informed the compilation of the 2020/21 MTREF:

- The 2019/20 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2020/21 annual budget
- The Annual Budget was prepared in terms of National Treasury MFMA Municipal Budget and Reporting Regulations. The growth parameters were calculated based on the average CPIX and guidance of Circular 99 issued by treasury as follows:

Fiscal year	2019/20	2020/21	2021/22	2022/23
Consumer Price Inflation (CPI)	4.1%	4.5%	4.6%	4.6%
Real GDP Growth	0.3%	0.9%	1.3%	1.6%

The municipality has reviewed the service delivery priorities as part of this year's planning and budget process

The political priorities of Mogalakwena municipality are as follows:

- Water and Sanitation
- Roads and Storm water
- LED and Unemployment
- Electricity
- Institutional Arrangements
- Refuse and Solid waste management
- Land & Environment
- Housing

- Crime and Prevention, Safety & Security
- Health & Welfare
- Communication
- Education
- Sports, Arts and Culture
- Community Facilities
- Transport

Mogalakwena is responsible for the provision of the following services to 82 675 households (as per the Community Survey of 2016 by Statistics South Africa):

- Water and Sanitation
- Roads and Storm water
- Refuse Removal
- Electricity Distribution

The priorities are linked to the draft IDP as outlined in the detailed Capital Investment Programme from 2020/21 to 2022/23.

Key amendments to the Integrated Development Plan

Section 25 of MSA requires that each Municipal Council must adopt a single, inclusive and strategic plan for the development of the municipality. This plan must link, integrate and co-ordinate plans and it should take into account proposals for the development of the municipality.

Section 34 provides that the IDP must be reviewed annually and amended if necessary. It is clear from the budget that stringent budget control must be implemented in order to sustain the viability of the municipality.

Alignment with national, provincial and district priorities

The priorities of Mogalakwena municipality were aligned with that of national, provincial government and the district municipality.

Strategic Objectives:

The following key strategic objectives for the municipality shall provide direction to the planning and implementation process as well as to inform the operations of the municipality:

OBJECTIVES	OUTCOMES
1. Foster, regulate, maintain and promote a sustainable environment	Improved quality of life and protected natural resources for future generations

OBJECTIVES	OUTCOMES
2. Improve the quality of life through social development and the provision of effective community services	Developed community
3. Sound and efficient financial management	Sustainable financial viability
4. To create inclusive and well-coordinated investment opportunities for the growth of the economy	Reduced poverty
5. The optimum utilization of land	Coordinated rational regulated and orderly land development and utilization
6. To improve the quality and quantity of municipal infrastructure and services	Enhanced and sustainable socio economic growth
7. To develop and implement integrated management and governance systems	Accountable and good governance – clean audits
8. To ensure that all stakeholders within the institution are adequately capacitated and retained	Competent and productive workforce

Key demographic, economic and other assumptions

Demographic overview

According to the Community Survey 2016, Mogalakwena Municipality contains over 43% of the Waterberg district's population with a total population of 325 291 and 82 675 households. The Africans are in majority (315 814) and constitute approximately 97% of the total Mogalakwena municipality population. The white population is 7222, colored population is 500 and the Indian/Asian population is 1756. Just over 53% of the population is females. The table below compares municipal demographics per racial group and sex.

Table 1 : Population by racial group and sex

POPULATION GROUP	MALES		FEMALES		TOTAL		2016 SURVEY
	NUMBER OF PERSONS	PERCENTAGE OF POPULATION	NUMBER OF PERSONS	PERCENTAGE OF POPULATION	NUMBER OF TOTAL POPULATION	PERCENTAGE OF TOTAL POPULATION	% OF THE POPULATION IN WATERBERG DISTRICT
Black African	147 791	96.9%	168 024	97.3%	315 814	97.1%	46.4%
White	3 567	2.3%	3 654	2.1%	7 222	2.2%	12.0%
Colored	314	0.2%	185	0.1%	500	0.2%	22.0%
Indian/Asian	887	0.6%	868	0.5%	1 756	0.5%	65.7%
Total Population	152 559	100%	172 732	100%	325 291	100%	43.6%

Source: Stats' Community Survey 2016

Interpretation and Implications to the developmental mandate of the Municipality

Figures from the 2016 Community Survey indicate a population increase of 5.7 % (about 17 611) from the situation in 2011. The Municipality renders services to households and therefore adopts the layman's view that the number of households has increased significantly between 2011 and 2016. The increase in the number of households, particularly in the rural areas where there are minimal services has increased backlogs in electricity provision, housing needs, roads, access to water, sanitation needs, etc. There are arbitrary differences in figures with regard to racial groups' representations. Although racial integration is gradually being achieved through some blacks moving from the traditional black towns and rural areas to settle in Mokopane, there is a widening gap between the rich and the poor. Racial segregation is replaced by socio-economic segregation. There is therefore a need to speed up integrated human settlement in order to proactively address resultant social ills (such as crime, and skewed unsustainable development).

Table 2 Population distribution according to age

NUMBER OF RESIDENTS PER AGE GROUP	0 – 4	5 – 9	10 – 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 – 44
	48 845	44 324	36 727	30 040	27 313	23 831	19 055	15 231	14 415
	45 - 49	50 - 54	55 – 59	60 - 64	65 - 69	70 - 74	75 - 79	80 - 84	85 +
	12 891	11 902	10 137	8 960	7 152	6 004	4 263	2 052	2 149

Source: Stats' Community Survey 2016

The majority of the population is aged between 0 and 19 followed by those aged between 20 and 34, which suggests that the municipality is dominated by people who are both socially and economically active. In addition, the municipal area has a high dependency ratio due to the majority of the population aged between 0-19. However, the Municipality has to prioritize social programmes and projects which will be able to address the socio-economic needs of the people. For example, there is a need to increase the number and improve the quality of social amenities in the municipal area, preferably within the municipal growth points. Attention should also be paid to local economic development initiatives in these population concentration points.

The Stats' Community Census was unable to provide economic data on employment and income statistics; therefore, we have utilized the 2011 Census data for these tables.

Number of residents per income type	No income		R1 - R400		R401 - R800		R801 - R1 600		R1 601 - R3 200		R3 201 - R6 400	
	2001	2011	2001	2011	2001	2011	2001	2011	2001	2011	2001	2011
	1 028	132 367	7 158	83 069	8 135	8 658	7 240	41 578	6 146	10 729	4 958	7 126
Number of residents per income type	R6 401 - R12 800		R12 801 - R25 600		R25 601 - R51 200		R51 201 - R102 400		R102 401 - R204 800		R204 801 or more	
	2001	2011	2001	2011	2001	2011	2001	2011	2001	2011	2001	2011
	1 711	6 538	466	1 771	144	175	65	149	18	85	11	328

Source: Stats' Census 2001 & 2011

Economic overview

Table 3: Employment Status, 2001 vs. 2011

GENDER	EMPLOYED		UNEMPLOYED		NOT ECONOMICALLY ACTIVE	
	2001	2011	2001	2011	2001	2011
FEMALE	16 345	21 358	19 172	17 833	56 353	59 600
MALE	20 744	25 679	14 526	13 777	37 919	51 396

Source: StatsSA Census 2001 & 2011

One of the key social problems facing the Mogalakwena Municipality is poverty. The unemployment rate in the Municipality is 40.2% of the economically active population (people between the ages of 15 and 64 years). Women, and especially rural women, form the greatest number affected by the lack of job opportunities as well as other social problems. Adding to the unemployment statistics is the increasing number of graduates unable to find employment. The internships offered by the government and private sectors only offer a temporary solution to the problem. General education levels are low, as income earned by low-skilled laborers is lower than income earned by highly skilled workers. Since education levels are low, income earned is concentrated in the lower brackets, which suggests that the general population is poor. In addition due to the high rate of unemployment there is a tremendous amount of people who have no income and hence, poverty is a major problem in the municipal area.

Progress with provision of basic services

Access to services

Service	No of households having services	Backlog
Water (RDP level)	70 344	12 331
Electricity	72 691	9 984
Refuse removal	32 305	50 370
Sanitation	42 911	39 764

Source: StatsSA Community Survey 2016

Indigent welfare packages for 2020/21:

Package Indigent	Compilation for	19/20 R(Vat included)	20/21 R(Vat included)
Rates – R100 000 Valuation		51.36	53.67
Refuse (up to 500 m2)		62.81	65.64

Sewage (up to 500 m2)	34.28	35.82
Electricity – 50kwh	51.69	58.45
Water – 6kl	100.48	122.99
Total indigent package per month	300.62	336.57

Free and subsidized services provided to the following number of households:

Water	1 905
Electricity	1 905
Sanitation	1 905
Refuse Removal	1 905
Rural Sanitation	0
Rates	1 905

It should be noted that only indigents are eligible to receive 50kwh of free basic electricity and 6kl of free basic water per month.

Service charges and other fees and charges

Service	% increase
Water	4.5
Electricity	8.1
Refuse removal	4.5
Property rate	4.5
Sewerage	4.5

The effect of the annual budget

The demand on the municipality in terms of service delivery continues to grow and this results in an ever-increasing outflow on the resources at the disposal of the municipality.

The following table is a summary of the total budget:

Description	Current Budget	2020-2021	2021-2022	2022-2023
Total Operational Revenue	- 1 052 545 139	- 1 060 178 203	- 1 122 490 158	- 1 193 725 835
Total Operating Expenditure	995 719 733	1 001 593 551	1 045 701 968	1 094 544 107
Operational -Surplus/Decficit	- 56 825 406	- 58 584 652	- 76 788 190	- 99 181 728
Total capital grants	- 480 975 000	- 283 843 700	- 395 618 000	- 597 240 000
Total Capital Expenditure	529 935 720	326 343 700	430 624 000	633 275 276
Overall Budget -Surplus/Decficit	- 7 864 686	- 16 084 652	- 41 782 190	- 63 146 452

The municipality is budgeting for an overall surplus of R16 084 652 after funding the own capital projects (CRR) of R42, 500,000 in the 2020/2021 financial year.

Past performance and impact of the previous year's audited results and annual report

Mogalakwena Municipality has just in May 2020 received an audit report of the 2018/2019 financial year by The Office of the Auditor General. The Municipality obtained an adverse audit opinion in the 2018/2019 financial year. Major issues that led to the unfavorable audit opinion are:

- Property Plant & Equipment
- Revenue from non-exchange transactions
- Revenue from exchange transactions
- Expenditure Management
- Unauthorized, Irregular, fruitless and wasteful expenditure
- Statement of comparison of budget and actual amounts
- Commitments
- Prior year adjustment
- Supply chain management issues
- Consequence Management
- Audit of Predetermined Objectives
- Inventories
- Contingent liabilities

An audit action plan to address issues raised has been compiled. Some of the queries have been addressed and some can only be addressed as part of year-end processes.

Consolidated financial position and summary medium term revenue and expenditure strategy

The sustainability of the municipality will be adversely affected in the long-term if debt collection is not improved. The municipality no longer has reserves to invest in critical infrastructure capital projects and therefore service delivery will be adversely affected in 2020/21.

1.4 Operating Revenue Framework

In these tough economic times strong revenue management is fundamental to the financial sustainability of the municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality is currently in the process of developing a Financial Recovery Plan with the aim to secure the municipality's ability to meet its obligations to provide basic services to the community. The municipality is currently looking at also enhancing the revenue to ensure that a revenue enhancement strategy is reviewed and implemented in a phased-in approach. There are challenges of collecting operating revenue from communities as the current revenue collection is at 61%.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Local economic development
- Efficient revenue management, which aims to ensure revenue collection is maximized
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariffs that are cost reflective
- Extend billing to villages where water supply is continuous
- The municipality's Indigent Policy and rendering of free basic services; and
- Revenue targets set at 90% of actual billings for 2019/20 as per the financial recovery plan

Revenue from water has been increased by R4.5m from the adjusted budget figures because of 4.5% increase in tariffs based on current year billing estimate. The billing estimate is based on 90% of the estimated actual billing for the 2019/20 financial year. This was done to set realistic revenue targets.

Revenue from electricity has been decreased by R16.6m to align to actual estimated billings however tariffs have been increased by 8.1%. The billing estimate is based on 95% of the estimated actual billing for the 2019/20 financial year

Revenue from property rates has been decreased by R4.4m due to revenue target set as per financial recovery plan. The billing estimate is based on 90% of the estimated actual billing for the 2019/20 financial year. The tariffs on property rates however were increased by 4.5%.

Revenue from interest earned on external investments has increased by 36.4% from adjustment figure to align it to three years average annual income received. In the year 2019/20 the municipality utilized the total amount of equitable shares received in the first quarter to settle R130m worth of accruals that were not budgeted for. The municipality also did not receive on time the equitable shares in November 2019 and therefore lost on investment income for the first six months. We estimate that on a quarterly basis an amount of R100m will be available for investment in the 2020/21 financial year with an annual return of 8%.

Revenue from sale of land and assets have been estimated at R19m in the 2020/21 financial year. The municipality as part of the revenue enhancement strategy as included in the financial recovery plan, will be selling land inventory held at 30 June 2019.

1.4.1 Grant allocations

The Division of Revenue Bill allocations to Mogalakwena Municipality for the 2020/2021 to 2022/2023 financial years are as follows:

Grant allocations over the MTREF

Description	Current Budget	2020-2021	2021-2022	2022-2023
TS_O_M_DM_LIM_DC36_WATERBERG GRANT	- 5 000 000,00	- 5 225 000,00	- 5 465 350,00	- 5 716 756,10
TS_O_M_NRF_EQUITABLE SHARE	- 436 536 000,00	- 467 724 000,00	- 501 940 000,00	- 532 639 000,00
TS_O_M_NG_MIG GRANT	- 5 000 000,00	- 7 766 300,00	- 8 500 000,00	- 9 000 000,00
TS_O_M_NG_LOCAL GOV FIN MNG GRANT	- 1 770 000,00	- 1 700 000,00	- 2 000 000,00	- 2 200 000,00
TS_O_M_NG_EPWP GRANT	- 1 294 000,00	- 1 259 000,00	-	-
Operational grants	- 449 600 000,00	- 483 674 300,00	- 517 905 350,00	- 549 555 756,10
TS_C_M_NG_INEP GRANT	- 14 000 000,00	- 18 000 000,00	- 18 000 000,00	- 15 000 000,00
TS_C_M_NG_RBIG GRANT	- 183 558 000,00	- 74 434 000,00	- 171 702 000,00	- 373 873 000,00
TS_C_M_NG_WSIG GRANT	- 60 000 000,00	- 43 850 000,00	- 45 000 000,00	- 37 640 000,00
TS_C_M_NG_MIG GRANT	- 151 417 000,00	- 147 559 700,00	- 160 916 000,00	- 170 727 000,00
TS_C_IK_PE_OTH TRF PE_MINING COMP	- 72 000 000,00			
Total Capital Grants	- 480 975 000,00	- 283 843 700,00	- 395 618 000,00	- 597 240 000,00

Supporting **Table SA 18, 19 and 20** is attached as pages ____ to ____.

- The municipality's equitable shares has increased by 7.14% to **R467.7m** in the 2020/21 financial year and will be increasing by 22% to **R532.6m** over the MTREF
- The capital grants have decreased by 30% to **R283.8m** due to a decrease of **R109m** for RBIG grant and **R16m** for WSIG. The capital grants then increases to **R192.7m** over the MTREF
- The EPWP grant is allocated **R1.3m** in the 2020/21 financial however there is no allocation over the MTREF period
- The municipality has not in the 2020/21 financial year budgeted for in kind capital grant donation from Ivan Plats Mine because the MFMA Section 33 process has not been finalized
- The municipality will in the 2020/21 financial year robustly engage the district municipality for the payment of the grant to fund disaster and fire services as the district has still to settle its funding for the 2018/19 financial year. The grant is budgeted at **R5.2m** for the 2020/21 financial year

1.4.2 Summary of Operating Revenue

The following table gives a breakdown of the income categories for the 2020/21 to 2022/23 financial years:

Revenue by Source				
Description	Current Budget	2020-2021	2021-2022	2022-2023
Property rates	- 78 819 886	- 74 262 976	- 77 679 073	- 81 252 311
Service charges - electricity revenue	- 276 968 521	- 260 287 579	- 273 822 533	- 298 192 738
Service charges - water revenue	- 110 045 709	- 116 519 525	- 121 879 423	- 127 485 877
Service charges - sanitation revenue	- 21 737 266	- 16 654 735	- 17 420 853	- 18 222 212
Service charges - refuse revenue	- 20 150 313	- 15 807 481	- 16 534 625	- 17 295 217
Rental of facilities and equipment	- 1 691 954	- 1 768 092	- 1 849 424	- 1 934 498
Interest earned - external investments	- 6 265 525	- 8 547 474	- 8 940 657	- 9 351 928
Interest earned - outstanding debtors	- 41 131 424	- 41 445 447	- 43 351 937	- 45 346 127
Dividends received	-	-	-	-
Fines, Penalties and forfeits	- 6 793 648	- 7 099 362	- 7 425 933	- 7 767 526
Licences and permits	- 1 636 966	- 1 710 629	- 1 789 318	- 1 871 627
Agency services	- 8 697 515	- 9 088 903	- 9 506 993	- 9 944 314
Transfers and subsidies	- 449 600 000	- 483 674 300	- 517 905 350	- 549 555 756
Other revenue	- 3 689 273	- 3 855 290	- 4 032 634	- 4 218 135
Gains on disposal of PPE	- 25 317 139	- 19 456 410	- 20 351 405	- 21 287 570
	- 1 052 545 139	- 1 060 178 203	- 1 122 490 158	- 1 193 725 835
Capital Grants	- 480 975 000	- 283 843 700	- 395 618 000	- 597 240 000
Total Revenue	- 1 533 520 139	- 1 344 021 903	- 1 518 108 158	- 1 790 965 835



Figure 1 -Main Operational Income Categories

- The municipality's operational revenue has increased by 0.72% from R1.05b to R1.06b due to targeted revenue of 90% to current billings in order to ensure that billing inaccuracies are properly taken into account during the 2020/21 budget while implementing revenue enhancement strategies.
- Operation grants contributes 46% of the total operational revenue budget followed by service charges contributing 41%.

Growth in revenue by revenue source

The municipal revenue from operations has grown by 0.7% from the adjusted budget. The increase is mainly due to tariff increase of 4.5% for water, 8.17% for electricity and all other tariffs increased by 4.5% at a target revenue of 90% to current billings. At the moment the municipality will be performing studies to determine if tariffs are not cost reflective and necessary adjustments will be made in the 2020/21 budget year.

- Operating grants increases from **R449.6m** to **R482.9m** in the 2020/21 financial year and increases to **R517.9m** in the 2021/22 financial year.
- The service charges increased by 0.7% from the adjusted budget to R409m in the 2020/21 financial year due to increase in tariffs of water and electricity by 4.5% and 8.1% respectively. It should be noted that the minimal percentage increase is due to targeted revenue of 90% to current billings.
- Property rates revenue has increased by 4.5% in the 2019/20 year to **R74.2m** and then increases to **R77.6m** and **R81.2m** over the MTREF.
- Investment income also increased by 36.4% to **R8.5m** in the 2020/21 financial year.
- Other income from fines, gains from sale of properties and other sources increased by 4.5% due to normal increase linked to CPI.

The rates and tariff revision are undertaken after consideration of different factors relevant to the geographic spread of the municipality. The following were considered during the tariff and rates increase; local economic conditions, cost drivers, affordability of services and poverty and indigents. As the municipality is not profit driven, the breakeven of costs and revenue will be an acceptable ratio unlike providing service at a loss and an ever increasing debtor's book which will be close to impossible and costly to collect.

The percentage increases of electricity tariffs granted to Eskom has a direct impact on the water tariffs as electricity is one of the cost drivers for water tariffs and is beyond the mentioned inflation target.

The current challenge facing the municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the municipality has undertaken the tariff setting process relating to service charges as follows:

1.4.3 Rates tariffs and other charges

Proposed tariff increases for the 2019/20 to 2022/23 financial years with prior comparatives are the following:

Description	2019/20	2020/2021	2021/2022	2022/2023
Rates	6%	4.5%	4.6%	4.6%
Refuse	6%	4.5%	4.6%	4.6%
Sewerage	6%	4.5%	4.6%	4.6%
Water	8.5%	4.5%	4.6%	4.6%

Electricity	13.07%	8.1%	5.2%	8.9%
Average Increase	7.91%	5.22%	4.72%	5.46%

- While the court case is still pending between Nersa and Eskom, the municipality has estimated the electricity tariff increase for 2020/21 to be 8.1% as guided by circular 99.
- The proposed water tariff increase for the 2020/21 is kept at 4.5% as there is no confirmation of tariff increase from the department of water affairs.

14.3.1 Water tariff

In terms of Section 75A of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000), the following tariff structure be approved in respect of water supply for 2020/21 financial year:

- The proposed increase of 4.5% for the water tariffs in 2020/21 financial year.
- It is estimated that water to the amount of R 26 000 000 will be purchased from LNW and other service providers in 2020/21 financial year.

A total revenue of R 116 4997 765 is expected from water sales.

- The budgeted revenue is based on connection fees, defaulting fees, monthly consumption of water and testing of meters.
- From 01 July 2018 only indigents have been receiving the 6kl of free basic water. 6kl of water will continue to be provided for funerals at no cost to the person requesting the service.
- Consumers in villages will receive Free Basic Water through assistance from council to pay Eskom, repair broken boreholes and pay pump operators.

The following recommended tariff structure for water for 2020/21 compared to 2019/20:

Type Consumer	Type Scale	Intervals	19/20	20/21
			Per Kilolitre Vat Inclusive	Per Kilolitre Vat Inclusive
Domestic:	Gliding scale	0 – 10 kl	16.50	20.20
		11 – 50 kl	17.52	21.44
		51 – 100 kl	21.08	25.80
		101 > kl	35.07	42.93
Businesses:	Normal		17.52	21.44
Flats:	Normal		17.52	21.44
Industrial:	Normal		17.52	21.44

Provincial Hospitals	Normal		16.50	20.20
Schools Churches Hostels Sport clubs	Normal		17.52	21.44
Departmental	Normal		17.52	21.44

The abovementioned tariffs are subject to a 20% discount for unpurified borehole water as drinking water supplied to Rebone Township.

Prepaid water tariffs are calculated at the same rates as conventional meters.

Examples of monthly water consumption charges:

Consumption KL	Current monthly account	Proposed monthly account	Additional amount payable	Increase
	R	R	R	R
10	165.00	202.00	37.00	22.4%
42	725.64	888.08	162.44	22.4%
75	1392.80	1704.60	311.80	22.4%
110	2270.50	2778.90	508.40	22.4%

1.4.3.2 Sewage tariff

In terms of Section 75A of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000), the following tariff structure be approved in respect of sewage for 2020/21:

- A tariff increase of 4.5% is included in the final 2020/21 MTREF
- The free basic sanitation is provided for indigents only

The following recommended tariff structure for sewerage for 2020/21 compared to 2019/20:

TYPE CONSUMER	SIZE OF ERF	19/20	20/21	ADD- ITIONAL vat inclusive	ADD- ITIONA L vat inclusi ve
		BASIC vat inclusive	BASIC vat inclusive		
1.	Residential	0-500	34.57	36.13	

	Houses	501-1000	69.33		72.45	
		1001-1500	110.78		115.77	
		1501-2000	124.69		130.30	
		2001-2500	138.54		144.77	
		2501-3000	152.39		159.25	
		First 3000 Every additional 500	13.84		14.46	
2.	Churches	0-500	34.57	29.29	36.13	30.61
	Hospitals	501-1000	69.33	29.29	72.45	30.61
	Creches	1001-1500	110.78	29.29	115.77	30.61
	Schools	1501-2000	124.69	29.29	130.30	30.61
	Sport clubs	2001-2500	138.54	29.29	144.77	30.61
		2501-3000	152.39	29.29	159.25	30.61
		First 3000 Every additional 500	13.84	29.29	14.46	30.61
3.	Other:					
	3.1 Businesses	Irrespective	367.07	93.48	389.09	97.69
	3.2 Industrial	Irrespective	367.07	93.48	389.09	97.69
	3.3 Flats	Irrespective	367.07	100.29	389.09	104.80
	3.4 Hostels	Irrespective	367.07	71.48	389.09	74.70
	3.5 Boarding house	Irrespective	367.07	71.48	389.09	74.70
	3.6 Departmental	Irrespective	367.07	93.48	389.09	97.69

Examples of sewerage tariff

Size of erf	Current monthly	Proposed monthly	Additional amount	Increase
m2	Account	Account	Payable	
	R	R	R	%
500	34.57	36.13	1.56	4.5
1600	124.69	130.30	5.61	4.5
3500	166.23	173.71	7.48	4.5
Business	367.07	389.09	22.02	4.5

1.4.3.3 Refuse Removal

In terms of Section 75A of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000), the following tariff structure be approved in respect of refuse removal for 2019/20.

The following recommended tariff structure for refuse removal for 2019/20 compared to 2018/19 financial year:

		19/20		20/21		
TYPE CONSUMER	SIZE OF ERF	BASIC vat inclusive	ADD-ITIONAL vat inclusive	BASIC vat inclusive	ADD-ITIONAL vat inclusive	
Domestic	Residential houses	0-500	63.36		66.21	
	Churches	501-1000	92.61		96.78	
	Church halls	1001-1500	126.38		132.07	
	Residential erven which are being built on	1501-Above	136.19		142.32	
			Per	Bulk	Per	Bulk
			Container	Container	Container	Container
Commercial	Businesses	Irrespective	242.98	1620.57	253.91	1693.50
	Industrial	Irrespective	242.98	1620.57	253.91	1693.50
Other	Municipality	Irrespective	126.38	1620.57	132.07	1693.50
	Flats	Irrespective	126.38	1620.57	132.07	1693.50
	Old Age Homes	Irrespective	126.38	1620.57	132.07	1693.50
	Hostels	Irrespective	126.38	1620.57	132.07	1693.50
	Boarding houses	Irrespective	126.38	1620.57	132.07	1693.50
	Schools	Irrespective	126.38	1620.57	132.07	1693.50
	Hospitals	Irrespective	126.38	1620.57	132.07	1693.50
	Government	Irrespective	126.38	1620.57	132.07	1693.50
	Sport Organizations	Irrespective	126.38	1620.57	132.07	1693.50
	Charity Organizations	Irrespective	126.38	1620.57	132.07	1693.50
	Other	Irrespective	126.38	1620.57	132.07	1693.50

Bulk	Per load or part thereof		520.42		543.84	
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Example of monthly refuse tariff

Size of erf	Current monthly	Proposed monthly	Additional amount	Increase
m2	Account	Account	Payable	
	R	R	R	%
500	63.36	66.21	2.85	4.5
950	92.61	96.78	4.17	4.5
1200	126.38	132.07	5.69	4.5
1550	136.19	142.32	6.13	4.5
Business	242.98	253.91	10.93	4.5

1.4.3.4 Property Rate Tariff

Property rates are mainly used to provide funds for non-remunerative services such as the cost of governance and administration of council, financial services, sport and recreation facilities. These funds also pay for the costs of maintaining an orderly community, for an example, as far as traffic, safety, trade, industries, health, roads and parks are concerned.

Depending on circumstances at a given moment, a rate payer may make use of these collective services to a greater or lesser degree. Given this kind of collective service, the provision must be financed by a general tax unlike the specific charge of measurable services such as water and electricity.

Annexure to MFMA Circular 51 as well as Government Gazette 33016, also known as the “*Amended Municipal Property Rates Regulations on the Rate Ratios between Residential and Non-Residential Properties*” were published to achieve national uniformity regarding property taxes.

Two factors determine the amount that the property owner must pay to a local authority for assessment rates: Firstly, the assessed value of the property and secondly, the effective assessment rate. Due to the implementation of the MPRA a new tariff structure has been formulated. The calculation is based on the market value of the property.

The applicable tariff on 1 July 2020 is 0.012629c (residential) (1 July 2019 – 0.012085c) and 0,025497c (1 July 2019 – 0,024399c) (business, commercial, industrial and mining) and 0,003157c (1 July 2019 – 0,003021c) (agriculture, state owned property excluding residential, public service infrastructure, public benefit organization property) in the Rand.

The table below reflects assessment rates compared to total expenditure:

Year	Operating Budget ('000)	Rates ('000)	%
2019/2020	995 720	78 819	7.9%
2020/2021	1 075 870	82 367	7.7%
2021/2022	1 119 630	86 156	7.7%
2022/2023	1 180 122	90 119	7.6%

The following recommended tariff structure for Property Tax for 2020/21 compared to 2019/20 financial year:

TYPE	TARIFF CODE	19/20		20/21	
		CENT IN RAND	% DISCOUNT	CENT IN RAND	% DISCOUNT
1. Improved residential stands	VA771	0.012085	40.00	0.012629	40.00
2. Improved business stands	VA772	0.024399	0.00	0.025497	0.00
3. Pensioners as rate policy	VAIND	0.012085	100.00	0.012629	100.00
4. Pensioners as rate policy	VAIND	0.012085	100.00	0.012629	100.00
5. State owned properties	VA775	0.003021	30.00	0.003157	30.00
6. Improved flats	VA776	0.012085	40.00	0.012629	40.00
7. Developed erven industrial	VA777	0.024399	0.00	0.025497	0.00
8. Undeveloped erven	VA778	0.024399	0.00	0.025497	0.00
9. Municipality	VA779	0.000000	0.00	0.000000	0.00
10. Undeveloped business erven	VA780	0.024399	0.00	0.025497	0.00
11. Permission to do business on residential erven	VA781	0.024399	0.00	0.025497	0.00
12. Undeveloped industrial	VA782	0.024399	0.00	0.025497	0.00
13. Undeveloped flat erven	VA783	0.024399	0.00	0.025497	0.00
14. Private parks	VA788	0.003021	0.00	0.003157	0.00
15. Private streets	VA789	0.003021	0.00	0.003157	0.00
16. Agricultural fields (Macalacaskop)	VA790	0.003021	0.00	0.003157	0.00
17. Welfare organizations, Hospitals, Clinics etc	VA791	0.003021	100.00	0.003157	100.00

Agricultural

TYPE	TARIFF CODE	19/20		20/21	
		CENT IN RAND	% DISCOUNT	CENT IN RAND	% DISCOUNT
1. Residential	VA5771	0.003021	0.00	0.003157	0.00
2. Business, Commercial, Ecotourism, game hunting	VA5772	0.003021	0.00	0.003157	0.00
3. Pensioners as rate policy	VA5773	0.003021	100.00	0.003157	100.00
4. Pensioners as rate policy	VA5774	0.003021	100.00	0.003157	100.00
5. State owned properties	VA5775	0.003021	0.00	0.003157	0.00
6. Industrial, agricultural holdings	VA5776	0.003021	0.00	0.003157	0.00
7. Undeveloped	VA5777	0.003021	0.00	0.003157	0.00
8. Municipality	VA5778	0.000000	0.00	0.000000	0.00
9. Mining	VA5779	0.024399	0.00	0.025497	0.00
10. Welfare organization, Hospitals, Clinics etc	VA5780	0.003021	100.00	0.003157	100.00

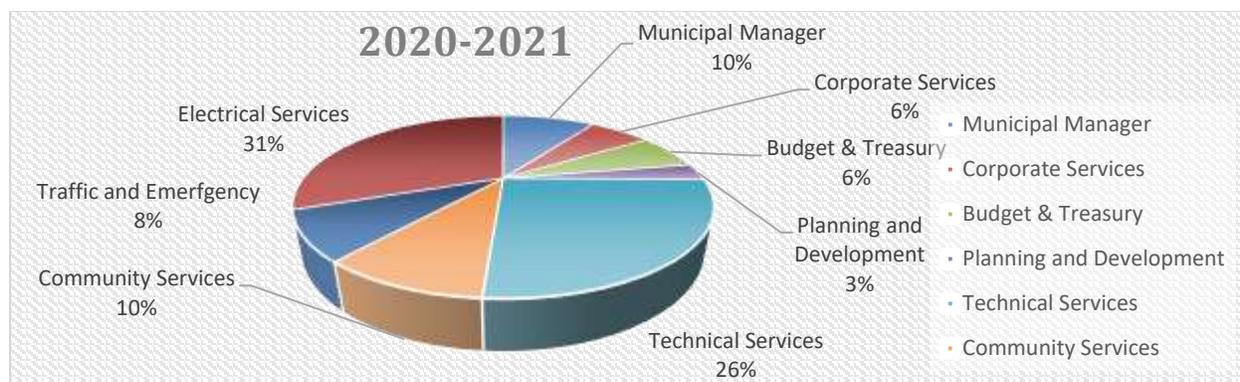
1.5 Operating Expenditure Framework

The municipality expenditure framework for the 2020/21 budget and MTREF is informed by the following:

- The other operating expenditure excluding employee costs and non – cash items has been set at 75% of the current expenditure trends as per financial recovery plan
- The priority focus area was be given to repairs and maintenance both water, roads and electricity assets. The repairs and maintenance must be insourced to curb expenditure on contracted services and to be in line with cost containment measures.
- Elimination of non-core expenses was done. Expenses such as entertainment, gala dinners, excessive catering, etc.
- Funding of all posts that were previously filled and absorption of Letsema temporary employees was given priority
- Assets management plan should be done in order to assess the conditions of our infrastructure asset. The plan will in future determine the acceptable allocations towards operations and maintenance
- Current ratio should be improved to at least 2:1 within the MTREF
- The departmental allocations on operating expenditure amounted to **R1.00billion in the 2019/20** financial year which increases to **R1.09billion** over the MTREF period (2022/23 financial year). This represent 1% increase in operational expenditure from the adjusted budget

The following is the operating expenditure allocations per department:

Operating Expenditure per Vote				
Description	Current Budget	2020-2021	2021-2022	2022-2023
Municipal Manager	86 705 173	100 006 958	104 704 248	110 192 744
Corporate Services	66 203 788	64 549 189	67 922 258	71 217 659
Budget & Treasury	72 407 326	65 507 861	64 283 845	64 669 781
Planning and Development	25 915 276	31 477 354	32 723 095	34 368 829
Technical Services	260 290 435	257 169 400	270 301 184	284 126 060
Community Services	97 450 996	99 331 778	104 560 161	109 988 142
Traffic and Emergency	84 743 624	79 091 036	82 986 113	86 967 857
Electrical Services	302 003 115	304 459 976	318 221 064	333 013 035
TOTAL OPERATING EXPENDITURE	995 719 733	1 001 593 551	1 045 701 968	1 094 544 107



- The department of technical services responsible for water, sanitation and roads has been allocated **R257.1m** for operational expenditure which is an increase of 1.1% from the adjusted budget.
- The electrical department was allocated an amount of **R304.4m** for operational expenditure in 2020/21 which is a 0.8% increase from the 2019/20 budget due to increase in cost for bulk electricity and reduction to other expenditures. The bulk electricity tariffs has increased to 8.1% as recommended in MFMA Circular 99 while we await the outcome of the court case between NERSA and Eskom.

The following table gives a breakdown of the expenditure categories for the 2020/21 financial year:

Expenditure by Type				
Description	Current Budget	2020-2021	2021-2022	2022-2023
Employee related costs	327 373 588	377 153 342	397 022 744	417 297 702
Remuneration of councillors	25 206 281	24 763 013	25 978 755	27 865 597
Debt impairment	10 000 000	25 450 000	26 620 700	27 845 252
Depreciation & asset impairment	78 893 112	91 343 302	95 513 113	99 873 295
Finance charges	-	-	-	-
Bulk purchases	271 170 950	269 111 948	281 528 098	294 807 521
Other materials	15 561 015	12 146 627	12 706 507	13 292 197
Contracted services	191 978 408	130 313 142	131 660 578	134 356 574
Transfers and subsidies	1 111 566	1 046 268	1 095 830	1 147 741
Other expenditure	74 424 813	70 265 909	73 575 643	78 058 226
Loss on disposal of PPE	-	-	-	-
Total Expenditure	995 719 733	1 001 593 551	1 045 701 968	1 094 544 107

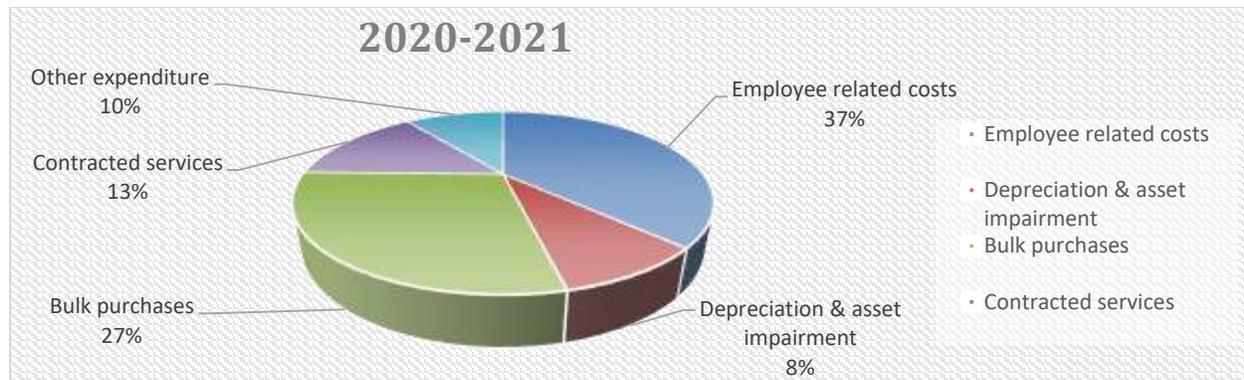


Figure 2 -Main Operational Expenditure Categories

- The municipality needs to increase its revenue generation in order to adequately fund its operational requirements, in line with National Treasury directives.

Highlights of other expense allocation

- The amount of **R1.5m** has been allocated for revenue enhancement activities
- The amount of **R500k** has been allocated for service plans (Water and energy plans)
- There was a reduction in allocated funds for repairs and maintenance as the municipality has opted for insourcing and only engage service providers for specialized services and delivery of maintenance materials.
- Security costs were reduced by **R9m** as the number of deployed security officials have been reduced. A new tender will be issued in the 2020/21 financial year for security at reduced number of security officials
- An amount of **R4.5m** was allocated to deal with PPE requirements for COVID 19 pandemic
- Contracted services have been allocated **R130m** in the 2020/21 financial year which is a reduction of 32% from adjustment budget figures
- Consumable materials were allocated an amount of **R12.1m** which is a reduction of 22% from the adjustment budget figures

The provision of debt impairment was determined based on an annual collection rate and taking into account the amount already provided for. For the 2020/21 financial year an additional amount of R15m was allocated to debt impairment to match the deteriorating collection rate. The total allocation to debt impairment is R25.4m

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total

R91.4m for the 2020/21 financial year. The depreciation was increased by R13m also to match current depreciation rate

Bulk water purchases are directly informed by the purchase of bulk water from Lepelle Northern Water. The annual price increases have been factored into the budget appropriations. The expenditures includes the cost of water distribution losses as the cost in included in the bulk purchases amount.

Other materials comprise of amongst others the purchase of fuel, diesel, materials for maintenance, cleaning materials and chemicals.

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved.

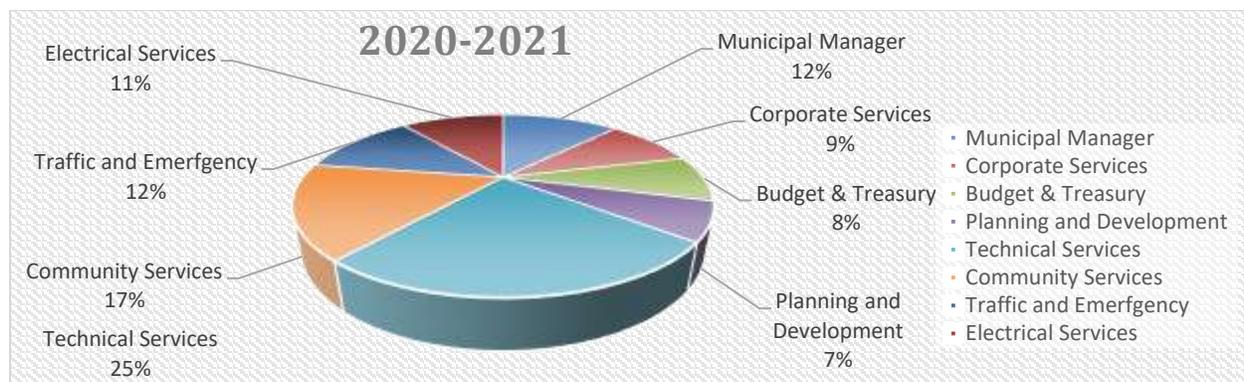
Priority given to repairs and maintenance

- Aligned to the priority being given to preserving and maintaining the municipality's current infrastructure, the 2019/20 budget and MTREF provide for extensive growth in the area of asset maintenance. In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration and purchases of materials.
- The municipality has allocated R 86.1m towards Repairs and maintenance. Due to budget constraints the municipality could not allocate 10% of the value of property plant and equipment to repairs and maintenance as required by National Treasury.

Employee costs

The following are department allocations for employee costs including councilor allowances:

Municipal Manager	44 749 526	48 529 148	50 859 121	53 869 718
Corporate Services	31 586 338	36 023 781	37 891 752	39 775 689
Budget & Treasury	28 439 462	33 033 451	34 755 582	36 492 431
Planning and Development	20 497 108	26 858 412	28 265 730	29 704 435
Technical Services	85 823 980	100 554 598	105 961 232	111 531 240
Community Services	59 193 736	66 397 464	70 096 606	73 926 369
Traffic and Emergency	43 694 011	47 638 448	50 083 153	52 548 753
Electrical Services	38 595 708	42 881 052	45 088 323	47 314 664
TOTAL EMPLOYEE COST	352 579 869	401 916 355	423 001 499	445 163 300



- An amount of R401.9m has been budgeted for in the 2020/21 financial year increasing to R445.1m over the MTREF period
- There has been an increase of 14% in the 2020/21 year when compared to the adjusted budget.
- The actual annual increase for employees has been included at 6.7% in accordance with the collective bargaining council pronouncement

- The municipality has provided an additional amount of R12.4m to cover the costs of absorbing 77 Letsema temporary employees in the 2020/21 financial year
- 10 Vacant positions have been budgeted for at R5m to be filled in the 2020/21 financial year
- The employee costs constitute 40% of the total operating expenditure allocation because of the above which is the maximum amount allowed as per treasury guideline.
- The municipality will finalize the review of the organizational structure in the 2020/21 financial year in order to ensure that all available staff are used to effectively to reduce the cost of overtime

1.6 Capital Expenditure

For 2020/21 an amount of **R326.4m** has been appropriated for the acquisition of assets.

The amount of **R283.8m** was funded from conditional grants and an external funder has committed to contributing an amount of **R42.5m** in the 2020/21 for own funded projects.

The municipality is in the process of compiling an informed asset management plan that will guide the next financial year IDP/Budget process.

The following are summarized capital expenditure per department for both grant funded and own funded capital assets:

Capital Expenditure per Vote				
Description	Current Budget	2020-2021	2021-2022	2022-2023
Municipal Manager	821 896	-	-	-
Corporate Services	1 500 000	2 600 000	-	-
Budget & Treasury	58 000	400 000	-	-
Planning and Development	50 000	1 000 000	-	13 500 000
Technical Services	490 222 204	297 843 700	404 124 000	558 947 076
Community Services	20 241 720	1 000 000	4 000 000	41 828 200
Traffic and Emergency	500 000	1 500 000	2 000 000	-
Electrical Services	16 541 900	22 000 000	20 500 000	19 000 000
TOTAL CAPITAL EXPENDITURE PER VOTE	529 935 720	326 343 700	430 624 000	633 275 276

Further detail relating to asset classes and proposed capital expenditure is contained in MBRR A9 (Asset Management). In addition to the MBRR Table A9, MBRR Tables SA34a, b, c provides a detailed breakdown of the capital programme relating to new asset construction, capital asset renewal as well as operational repairs and maintenance by asset class.

A breakdown of the capital expenditure for the 2020/21 financial year is attached as pages to _____.

Annual Budget Tables

The Annual Budget Tables:

Table A1	Budget summary – (attached as <u>page</u> _____)
Table A2	Budgeted Financial Performance (revenue and expenditure by standard classification) – (attached as <u>pages to</u> _____)
Table A3	Budgeted Financial Performance (revenue and expenditure by municipal vote) - (attached as <u>pages to</u> _____)
Table A4	Budgeted Financial Performance (revenue and expenditure) - (attached as <u>page</u> _____)
Table A5	Budgeted Capital Expenditure by vote, standard classification and Funding - (attached as <u>pages to</u> _____)
Table A6	Budgeted Financial Position - (attached as <u>page</u> _____)
Table A7	Budgeted Cash Flows - (attached as <u>page</u> _____)
Table A8	Cash backed reserves/ accumulated surplus reconciliation - (attached as <u>page</u> _____)
Table A9	Asset Management - (attached as <u>pages to</u> _____)
Table A10	Basic service delivery measurement - (attached as <u>page</u> _____)

Budget Related Charts and Explanatory Notes:

Supporting information, charts and explanations of trends and anomalies for each table are reflected as **table SA1 – SA 37** (attached as pages to)

Part 2 – Supporting Documentation

2.1 Overview of Annual Budget Process

2.1.1 In undertaking its annual budget process, Mogalakwena Municipality was guided by the following key legislation and documents:

- Municipal Finance Management Act;
- Municipal Systems Act;
- MFMA Circular 55, 58, 59, 66, 67, Annexure to Circular 67, 70, 72, 74, 78, 82, 85, 86, 89, 91, 93, 94, 98 and 99
- National Treasury instruction 1 of 2013/2014
- Government Gazette 43025 of 17 February 2020

The municipality is always conscious of the fact that the IDP, Budget and other consultative processes have to be undertaken with credibility and honesty in order to ensure good governance and accountability. The Municipality engaged its various stakeholders in preparing the final 2020/21 MTREF budget, namely:

- Communities in all 32 wards
- Sector departments
- Private Sector
- Traditional Leaders
- Ward and PR councillors
- Community based organizations
- NGO's
- Disabled people's groups, women, youth and pensioners.
- Community Development Workers
- Mining Sector

From these community participation and consultation process, the municipality identified and prioritized the needs of the communities. The priorities were later allocated weights and an interaction process was undertaken to find the best fit between the needs prioritized and the funding envelope, consisting of both own revenue and grant funding. As is almost always the case in any budget process, some priorities were identified that cannot be funded in the 2020/21 financial year.

These priorities and their related programmes/ projects are included in the medium term IDP for funding consideration once additional funding becomes available, currently or in the future years.

In all these public consultation and participation process, including internal prioritization and negotiation processes, the Mayor plays an active oversight role over the IDP and Budget as required by Section 53(1) (a) of the MFMA, which states that the Mayor of a municipality must provide general political guidance over the budget process and the priorities that must guide the preparation of the budget. Under the influence of the Mayor, engagements were also held over a number of days with the Councillors in the budget and prioritization processes. The table below is an extract of the key deadlines relating to the Budget and IDP processes as required by Section 21(1) (b) of the Municipal Finance Management Act, 2003:

MONTH	IDP	PMS	BUDGET
July	<p>Print and distribute final approved IDP.</p> <p>Development of 2020/21 IDP Process Plan that guide the planning, drafting, adoption of the plan.</p> <p>Give notice to local community of particulars of the Process Plan.</p>	<p>Conclude annual performance agreements</p> <p>Print and distribute final approved SDBIP</p>	<p>Place approved annual budget and policies on the municipal Web site</p> <p>Print and distribute final approved budget</p> <p>Establish appropriate committees and consultation forums</p>
August	<p>Table to EXCO, council the IDP Process Plan for approval.</p> <p>Conduct stakeholder registration.</p> <p>Consider comments from various stakeholders during 2019/20 IDP Roadshows</p>	<p>Place annual performance agreements on the municipal website</p> <p>Development and submission of annual performance report</p>	<p>Table in council IDP, PMS and budget process plan</p>

MONTH	IDP	PMS	BUDGET
September	<p>Consider proposals received from MEC, if any.(IDP preparation process)</p> <p>Coordinate public consultation in terms of Tariffs, Indigent Credit, Credit Control and FBE.</p> <p>Public consultation in terms of CBP.</p>		<p>Implement process plan</p> <p>Commence community and stakeholder consultative process, review inputs, financial models, assess impacts on tariffs and change and consider funding decisions</p>
October	Setting new strategic agenda for the IDP in light of the new focus of Council.	Develop and submit the 1 st Quarter Performance Report to Council and Coghsta	Consolidate community inputs on proposed tariffs.
November & December	Horizontal and vertical alignment with District, Province and other stakeholders begins.		Finalize inputs from bulk resource providers and agree on proposed price increase
January	<p>Horizontal and vertical alignment with District, Province and other stakeholders continues.</p> <p>Departments identify projects/programmes.</p>	<p>Development and consideration by Municipal Manager of the mid-year performance Report.</p> <p>Finalize, and publicize Mid-year report.</p> <p>Table the draft Annual Report to Council.</p>	Note the president's "State of the Nation Address " for further budget priorities
February	<p>Horizontal and vertical alignment with District, Province and other stakeholders continues.</p> <p>Departments identify projects/programmes.</p>	Make the draft Annual Report public for comments.	Note National budget for provincial and national allocations to municipalities for incorporation into budget
March	Finalize Capital Investment Plan and Financial Plan.	Submit the draft Annual Report to MPAC.	Table in council the draft IDP, annual budget and all supporting documentation

MONTH	IDP	PMS	BUDGET
	<p>Tabling of draft IDP and budget before council.</p> <p>Publication of tabled draft IDP, budget and invite local communities and stakeholders for comments and inputs.</p>	<p>Submit the oversight report on the Annual Report to Council for approval.</p>	<p>Publicize the tabled draft budget</p>
April	<p>Prepare and conduct IDP/Budget roadshows.</p>	<p>Prepare SDBIPs linked to IDP strategies, objectives, KPI's and targets.</p> <p>Develop and submit the 3rd Quarter Performance Report to Council and COGHSTA</p>	<p>Consultation on tabled draft budget, publicize and conduct public hearing</p>
May	<p>EXCO recommends adoption of the IDP to Council.</p> <p>Council sitting to approve IDP, and budget.</p>		<p>Consideration of community views and other stakeholders and revise budget if necessary</p> <p>Approval of annual budget, including taxes, tariffs and policies.</p>
June	<p>Submission of approved IDP to the COGHSTA and Provincial Treasury</p>	<p>Prepare final SDBIPs linked to IDP strategies, objectives, KPI's and targets.</p> <p>Submission of draft SDBIPs and Annual PAs to Mayor.</p> <p>Mayor approves SDBIPs</p>	<p>Submission of approved Budget to the COGHSTA, Provincial Treasury and National Treasury</p>

2.1.2 The following policies were taken into account when developing the Annual budget:

- The Rates Policy
- Credit Control and Debt Collection Bylaw
- Indigent Policy
- Tariff Policy
- Investment & Cash Management Policy
- Asset Management Policy
- Supply Chain Management Policy
- Expenditure Management Policy & Procedure Manual
- Policy on Unauthorized, Irregular and Fruitless & Wasteful Expenditure
- Virements policy
- Bad debts write-off policy
- Funding and reserves policy
- Cost containment policy

2.1.3 Community consultation process with communities and key Stakeholders:

Section 22 of MFMA stipulates that immediately after the annual budget is tabled in a municipal council the accounting officer must make public the annual budget and documents; invite the local community to submit representations in connection with the budget; and submit the annual budget to National Treasury and the relevant provincial treasury in printed and electronic formats.

Section 23(2) of the MFMA provides further that after considering all budget submissions, the council must allow the mayor an opportunity-

- (a) to respond to the submissions
- (b) If necessary, to revise the budget and table amendments for consideration by council.

The IDP representative forums took place on the 22 August 2019, 23 October 2019 and 12 March 2020.

Community based planning consultations were conducted with CDW's, ward committees, street committees, Village Development Committees, Councilors and Traditional Leaders from the 26 September 2019 to the 11 October 2019.

The Community consultation Forums on proposed tariffs and related matters will be held during June 2020.

The following provides an overview of the publication of the budget and the public participation activities:

Councillors briefing sessions:

Councillors will be briefed during June 2020, before proposals will be tabled to other stakeholders.

Publication of the final budget:

The final notices will be published in local and national newspapers inviting the public to view and inspect the budget documents to enable them to submit inputs for the final budget. The final IDP/ Budget report will be available at the libraries, community halls, tribal offices, SDA's and the MPCC's after adoption by council.

Ward committees and traditional authorities, organized business and sector departments also participate in the IDP representative forum meetings.

Stakeholders will be given an opportunity to raise questions and comment on the progress made by council. Any written submissions received will be submitted to the Manager: Developmental Services at the end of the community consultation process. The Mayor will respond to those issues that are raised.

Main concerns and comments raised during the consultation process

After the community consultative processes, the concerns raised by the stakeholders on the following matters will be addressed through the final budget:

- LED
- Crime prevention
- Water and sanitation
- Roads and storm water
- Health and welfare
- Refuse and solid waste v
- Housing
- Sports, arts and culture
- Community facilities
- Electricity
- Education
- Land and environmental management
- Transport
- Communication
- Institutional arrangements

No road shows will be performed due to lock down regulations, but communities and stakeholders will be invited to submit comments to the Municipal Manager during June 2020.

2.2 Overview of Alignment of Annual Budget and IDP

The IDP of the municipality is reviewed annually in terms of section 34 of the MSA and section 21 of the MFMA.

2.2.1 Vision of the Municipality

The vision of Mogalakwena Municipality is ***to be the leading, sustainable and diversified economic hub focused on community needs.***

2.2.2 Details of proposed amendments to the Integrated Development Plan

New needs that emerged during the 2019/2020 financial year have been taken into account when compiling the draft 2020/2021 IDP.

The draft 2020/21 IDP will be presented to council on 28 May 2020 through visual arrangements due to lock down regulations.

2.2.3 Revenue, operating expenditure and capital expenditure aligned to IDP

Developmental services together with Finance department initiated that the first priority must be allocated the higher percentage of funding.

The prioritization criteria and their respective weights for 2020/2021 are as follows:

Source of funding	CRR	MIG	DWA	WSIG	INEG
	%	%	%	%	%
Roads and storm water	4%	45%			
Water and Sanitation	70%	52%	100%	100%	
LED	0%	0%			
Land and Cemeteries	0%	0%			
Electricity	11%	3%			100%
Waste Management	0%	0%			
Other	15%	0%			

2.3 Measurable performance objectives and indicators

The measurable performance indicators and objectives for revenue and expenditure (both capital and operating) will be contained in the draft Service Delivery Budget Implementation Plan (SDBIP) of the municipality and of the Section 57 managers. The draft SDBIP is designed such that it gives effect to the implementation of the budget, with quarterly performance targets. The final SDBIP will be submitted to the Mayor immediately after the budget has been approved. The time-frames as contained in Section 53(1) (c) of the MFMA will be complied with.

2.4 Overview of budget-related policies

The municipality acknowledges that for the budget to be credible and balanced, it must be supported by policies that guide the revenue and expenditure estimates. To ensure this, the budget related policies have been reviewed to take the socio-economic realities of the communities into account when compiling the 2020/2021 final budget.

2.4.1 Tariff Policy

The Tariff Policy is amended as follows:

Clause 10 on page 12 of the policy changes from reading as follows:

“This Policy will be known as the Tariff Policy and shall commence on 01 July 2019”

To reading as follows:

“This Policy will be known as the Tariff Policy and shall commence on 01 July 2020”

The amended Tariff policy is attached as pages to .

2.4.2 Rates Policy

The Rates Policy is amended as follows:

Clause **10.3.3** of the policy changes from reading as follows:

- (aa) *“the joint income of that person and his/her spouse, if any, for the year ended 30 June may not exceed R71 460 (seventy one thousand four hundred and sixty Rand) per year or such higher amount as may be determined in the Municipality’s budget;”*

To reading as follows:

- (as) *“the joint income of that person and his/her spouse, if any, for the year ended 30 June may not exceed R74 675 (seventy four thousand six hundred and seventy five sixteen Rand) per year or such higher amount as may be determined in the Municipality’s budget;”*

The amended Rates Policy is attached as pages to .

2.4.3 Debt Collection and Credit Control Policy

There are no amendments to the Debt Collection and Credit Control Policy

The Debt Collection and Credit Control By-Law is attached as pages to .

2.4.4 Indigent Policy

The Indigent Policy has been amended as follows:

Clause 9 on page 5 of the policy changes from reading as follows:

“The title of this policy is indigent policy and the commencement date is on the 01 July 2020”

to reading as follows:

“The title of this policy is indigent policy and the commencement date is on the 01 July 2020”

The amended Indigent Policy is attached as pages to .

2.4.5 Investment and Cash Management Policy

There are no amendments to the Investment and Cash Management Policy.

The Investment and Cash Management Policy is attached as pages to .

2.4.6 Asset Management Policy

The Asset management Policy has been reviewed and amended as follows:

The following component has been added to the Annexure A Immovable PPE component list,

- Masonry Structure – Stone Pitching

The reviewed policy is attached as pages to .

2.4.7 Supply Chain Management Policy

There are no amendments to the Irregular, fruitless and wasteful expenditure policy.

The reviewed policy is attached as pages to .

2.4.8 Irregular, Fruitless and Wasteful Expenditure Policy

There are no amendments to the Irregular, fruitless and wasteful expenditure policy.

The policy is attached as pages to .

2.4.9 Expenditure Policy and Procedure Manual

There are no amendments to the Expenditure Policy and Expenditure procedure manual.

The policy is attached as pages to .

2.4.10 Virement policy

There are no amendments to the Virement Policy.

The policy is attached as pages to .

2.4.11 Bad Debts Write off Policy

There are no amendments to the Bad Debts Write off Policy.

The policy is attached as pages to .

2.4.12 Funding and reserves policy

There are no amendments to the Funding and reserves policy.

The policy is attached as pages to .

2.4.13 Cost containment Policy

The municipality is during the 2020/21 budget presenting a cost containment policy which complies to regulation issued by National Treasury in order to curb and eliminate nonpriority spending. The following are key issues addressed by the policy:

- Use of consultants
- Vehicle use of political office bearers
- Travel and subsistence claims
- Domestic accommodation and use of credit cards
- Sponsorships, events, and catering
- Communication expenses
- Conferences and meetings

2.4.14 Virement, adjustment budgets, and unforeseen and unavoidable expenditure

The mid-year budget and performance review, coupled with the monthly budget statements are considered key documents to assist with the preparation of an adjustment budget and forthcoming budget.

The 2020/21 medium term budget should only be amended by:

Departmental Managers authorizing offsetting operating budget variations within the votes delegated to them, essential allowing variations within the department budget 'groups' but not across budget groups. Therefore, for example, manager could transfer allocations within an expenditure group such as 'Employee costs'. It should be noted that each capital project also represents a vote requiring Council approval to amend.

A mid-year review by the Accounting Officer in accordance with the MFMA, due for completion by January, which would possibly culminate in an Adjustment Budget being presented to Council in the month following the review, if required.

An Adjustment Budget in accordance with the provision of section 28 of the MFMA brought to Council for approval in circumstances where extraordinary events require fundamental and urgent change to budget.

Section 28 of the MFMA, Act No. 56 of 2003 provides as follows:

“(1) A municipality may revise an approved annual budget through an adjustments budget.

(2) An adjustment budget-

- (a) must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;*
- (b) may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;*
- (c) may, within a prescribed framework, authorize unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;*
- (d) may authorize the utilization of projected savings in one vote towards spending under another vote;*
- (e) may authorize the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonable have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;*

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(f) may correct any errors in the annual budget; and

(g) may provide for any other expenditure within a prescribed framework

(3) An adjustment budget must be in a prescribed form.

(4) Only the mayor may table an adjustment budget in the municipal council, but an adjustment budget in terms of section (2)(b) to (g) may only be tabled within any prescribed limitations as to timing frequency.

(5) When an adjustment budget is tabled, it must be accompanied by –

(a) an explanation how the adjustment budget affects the annual budget;

(b) a motivation of any material changes to the annual budget;

(c) an explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years; and

(d) any other supporting documentation that may be prescribed.

(6) Municipal tax and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan.

(7) Sections 22(b), 23(b) and 24(3) apply in respect of an adjustments budget, and in such application a reference in those sections to an annual budget must be read as a reference to an adjustment budget.”

Unforeseen and Unavoidable Expenditure

Section 29 of the MFMA, Act No.56 of 2003 provides as follows:

“(1) The mayor of a municipality may in emergency or other exceptional circumstances authorize unforeseeable and unavoidable expenditure for which no provision was made in an approved budget.

(2) Any such expenditure –

(a) must be in accordance with any framework that may be prescribed,

(b) may not exceed a prescribed percentage of the approved annual budget,

(c) must be reported by the mayor to the municipal council at its next meeting, and

(d) must be appropriated in an adjustment budget.

(3) such adjustments budget is not passed within 60 days after the expenditure was incurred, the expenditure is unauthorized and section 32 applies.”

2.5 Overview of budget assumptions

2.5.1 Review of external factors

Population migration

Population migration has an impact on the provision of bulk services. As people move into various localities, they demand more services which the municipality did not plan for in advance, for example the demand for RDP houses and free basic services will increase as a result of migration into the municipality.

The expected growth of the population in the Mogalakwena area is projected to be approximately 5% by 2021.

Employment

Two of the key social problems facing the Mogalakwena Municipality poverty due to unemployment and substance abuse. The unemployment rate in the Municipality is 40.2% of the economically active population (people between the ages of 15 and 64 years). Women, and especially rural women, form the greatest number affected by the lack of job opportunities as well as other social problems. Adding to the unemployment statistics is the increasing number of graduates unable to find employment. The internships offered by the government and private sectors only offer a temporary solution to the problem. Substance abuse is rife amongst the youth irrespective of socio-economic status.

Development of Businesses

The following new business development areas have been approved by council:

- Ext 13 & 6 – Industrial sites are currently being sold
- Ext 13 (Erf 4794) – Site for a regional mall has been approved by council. A service provider has been appointed to develop the shopping mall and conduct the specialist studies and rezoning.
- Erf 4699 – Site approved by council for a motor city. A service provider has been appointed to develop the motor city and conduct the specialist studies and rezoning.
- Portion 197 of 80 – PPR town and townlands 44ks: The municipality needs to appoint a company to conduct the feasibility studies. Budget needs to be allocated during the 2020/21 financial year.

New residential areas

The following new residential areas have been approved or proposed to council:

- Rebone Ext – in excess of 600 sites (farm Steilloop 403 LR) – The agreement with Rural Development has lapsed where the municipality was given a caretakership over the area. The item needs to be submitted to council in order to extend the caretakership agreement.
- Ext 15– Housing development Agency (HDA) has appointed a service provider to complete the engineering designs which has been submitted to technical department for approval.
- Sekgakgapeng – 600 Sites – The demarcation of the stands has already been done by the chief of the area.
- Sukses (Weenen) – 300 Sites. Budget is needed for the environmental impact study and Geotech investigations. The land surveyor will do the demarcation of sites.
- Taueatsoala – 1000 Sites (Waiting for Coghsta to do the survey)
- Township establishment 21, 22, 23 (remaining Ext Macala, between Bargain, Ext 17, Zone B and C)
 - Ext 21 & 22 – Township establishment process needs to be started and geotechnical investigations are needed to check for dolomite in the area.
 - Ext 23 – An environmental impact assessment needs to be completed before township establishment can be considered.
- Subdivision of Ext 14 – Budget has been requested in the 2019/20 adjustment budget for subdivision. This process needs to be completed before the end of June 2020.

Bulk services still have to be provided to the approved areas and additional bulk services will be required if the proposed sites are approved by council.

2.5.2 General inflation outlook and its impact on municipal activities

The inflation rate of 4.5%, 4.6% and 4.6% were applied for the 2020/2021 to 2022/2023 financial years consecutively. This is an indication of the rising costs to provide services to the municipality and the municipality will have to look for better methods of cost-reduction and cost-recovery.

2.5.3 Interest rates for borrowing and investment of funds

The municipality has no borrowing obligations at present. The interest rate for investment of funds is higher than the previous year and this will increase the interest that the municipality generates on investments.

2.5.4 Timing of Revenue Collection

Prepaid meters for Extension 14 and 20 have been installed. The roll out in Extension 19 is approximately complete. Phola Park has been put on hold for now as the reticulation system has to be completed first. These projects are aimed at reducing the municipality's bad debts and improve revenue generation.

2.5.5 Growth or Decline in Tax Base of the Municipality

There was no significant growth in the tax base as the MPRA has been phased in. The annual valuation roll has been completed in the 2018/19 financial year and has been in place since the 1st July 2019. It will be valid for four years.

2.5.6 Collection Rates

The average collection rate for the past financial year was 60.5% but should be improved to be sustainable on the long-term. The collection rate in 2020/21 is projected at 75% given the current collection rate of 65%

2.5.7 Price Movements

The municipality has implemented a proposed increases in the purchase price for bulk water of 4.5% whilst awaiting Lepelle Northern Water to approve an official increase as per MFMA circular 99. Since NERSA and Eskom are currently in court to finalise the increase in electricity tariffs we have used the rate of 8.1% proposed in the MFMA Circular 99.

2.5.8 Average salary increases

A 6.25% increase on salaries is budgeted for in the draft budget.

2.5.9 Industrial relations, climate reorganization and capacity building

There are industrial sites that are currently owned by the municipality. However, services need to be installed prior to selling the sites. We need to make provision in the budget for the installation of these services. If a significant number of the sites are sold, it will result in an enormous injection for the area in respect of services and job creation.

2.5.10 Trends in Demand for Free or Subsidized Basic Services

There is a growth 5.7% in the population which is having an effect on the households. Another factor that influences the increase in the demand for free or subsidized basic services is the migration of people into the municipal are. Anglo Platinum Mines is expanding and has purchased land from the municipality in extension 14 in order to erect housing for their employees. Services have been installed and the houses are being erected and will be occupied during the 2020/2021 financial year. The mine has requested for additional sites that they require. A council resolution will be needed before more sites are allocated.

2.5.11 Changing Demand Characteristics

The demand for services exceeds available resources and the municipality therefore cannot meet all the needs of the communities at this stage. Some of the needs that cannot

be met by the municipality in the 2019/2020 financial year have been included in the 2020/2021 and 2021/2022 financial years.

2.5.12 Trends in demand for Free or Subsidized Basic Services

From the 2018/2019 financial year 6kl of free basic water has only been provided to indigents and not to all consumers.

2.5.13 Impact of National, Provincial and Local Policies

The municipality prepared the budget with consideration of all required legislative prescripts, MFMA circulars and other policy imperatives.

2.5.14 Ability of the Municipality to Spend and Deliver on the Programme

Capital projects will be implemented from grant funding but there are insufficient funds available for adequate maintenance of infrastructure. This may have a negative impact on the infrastructure as it may deteriorate rapidly in the future.

During the 2018/19 financial year 100% of the MIG received has been spent. The total allocation for MIG for 2019/20 is R 153.3m.

During the 2018/19 financial year 100% of the RBIG million received has been spent. The total allocation for RBIG for 2019/20 is R 74.4m.

2.5.15 Implications of Restructuring and other Major Events into the Future

The municipality is in the process of reviewing the Organisational Structure and the process is due to be completed before the end of the current financial year. The rolling out of the job evaluation process is also due to be completed before the end of the financial year.

The municipality is not aware of any other restructuring and/or major events that will affect the municipality in the foreseeable future.

2.6 Overview of budget funding

Section 18(1) of the MFMA requires the budget of a municipality to be funded from-

- (a) realistic anticipated revenue to be collected;
- (b) cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- (c) Borrowed funds, but only for the capital budget referred to in section 17(2) of the MFMA.

Section 18(2) of the MFMA requires the revenue projections in the budget to be realistic, taking into account-

- (a) projected revenue for the current year based on collection levels to date; and
- (b) Actual revenue collected in the previous financial year.

This budget has been prepared taking into account the requirements of the abovementioned section. Revenue was estimated using a collection rate of 75% to billings. The capital budget was limited to the gazetted funding. An adjustment budget will be compiled for council consideration once more funding becomes available from either internal and/or external sources.

2.6.1 Investments

Investments held represent cash backed accumulated surpluses and the unspent conditional grants and receipts.

The Table below indicates the investment particulars by maturity as at 29 February 2020:

Institution	Investment	Monetary value
		'000
ABSA	Short term	0
FNB	Short term	0
Nedbank	Short term	0
Standard Bank	Short term	54 629
Total		54 629

The total amount invested externally as at 29 February 2020 amounts to R 54.6m which is R24.6m more than the investments as at 28 February 2019. The R 54.6m was held in the municipal call accounts which are also interest generating accounts.

The interest earned from these investments would be utilized to fund the operating budget. The capital replacement reserve is also backed by the investments.

Supporting **Table SA 16** is attached as page .

2.6.2 Estimated debtors collection levels

A debtor's collection rate of 75% of levied amounts is estimated for the 2020/21 financial year.

2.6.3 Planned proceeds from sale of assets

The municipality developed 1 200 residential stands for resale in Extension 12. To date the municipality has sold 977 stands. 130 of the stands have been sold to the mine for the construction of a private hospital and an old age home. A further 98 stands are for housing for the mines employees.

2.6.4 Planned proceeds from lease of assets

Proceeds from rental of facilities and equipment are estimated at R 1.7m.

2.6.5 Planned use of bank overdrafts

There is no possibility that Mogalakwena will utilize a bank overdraft in the 2020/21 financial year to fund part of its budget even when collection rate reduces. The costs will be curbed in relation to the collection of revenue.

2.6.6 Use of previous year's cash backed accumulated surpluses

VAT refunds to be received in 2019/20 will be reserved in terms of the funding and reserve policy to fund future refurbishment of assets.

2.7 Expenditure on allocations and grants programmes

Provision is made in the 2020/21 budget for the following statutory and reserve fund contributions:

- Capital Replacement Reserve : R 36 500 000
- Provision for bad debt reserve : R 25 450 000

Allocations and grants made by the municipality

Funds have been allocated to the following allocations and grants in the 2020/21 financial year:

Assistance to indigents in distress
Assistance to indigents deserving students
Community development worker support
Discretionary Fund Mayor
Sport events
Mayoral Special Programmes
Free burials paupers indigent

Free Basic Services for indigents - Water
- Electricity

- Sewer
- Refuse
- Assessment Rates

2.8 Councillor and employee benefits

The following information with regard to the salary budget which forms part of the operating budget must be taken into consideration by council before approving the budget:

- Provision for a 6.25% increase was made for both councillors and officials.

Nine new positions were provided for in the 2020/2021 salary budget.

Disclosure of salaries and allowances and benefits is attached as supporting **Table SA 22 and 23** pages to.

2.9 Monthly targets for revenue, expenditure and cash flow

The disclosure on monthly targets for revenue, expenditure and cash flow is attached **Table SA 25 to SA 30** as pages to.

2.10 Annual budgets and SDBIP

Section 53(1)(c)(ii) of the MFMA Indicates that the mayor of a municipality must take all reasonable steps to ensure that the municipality's service delivery and budget implementation plan is approved by the mayor within 28 days after the approval of the budget.

The SDBIP will be submitted to the mayor immediately after the budget has been approved. The time-frames as contained in Section 53(1)(c) of the MFMA will be complied with.

2.11 Contracts having future budgetary implications

Contracts having future budgetary implications are reflected in **table SA33** attached as page.

2.12 Capital expenditure details

A combination of grant funding and own funds will be used to fund the capital budget. The detailed final capital budget over the 2020/21 MTREF is attached as pages to.

2.13 Legislation compliance status

This budget has been prepared in accordance with the requirements of the Municipal Finance Management Act, the Municipal Budget and Reporting Regulations and the Municipal Systems Act. The municipal manager has complied with the new budget format when compiling the 2020/21 to 2022/23 MTREF.

2.14 Other supporting documents

Circular 70, 72, 74, 78, 85, 86, 89, 91, 93, 94, 98, 99 and Instruction 1 of 2013/2014 as issued by National Treasury are complied with in the preparation of the 2020/2021 to 2022/2023 budget. Circular 98 and 99, being the latest budget circulars are attached as pages to.