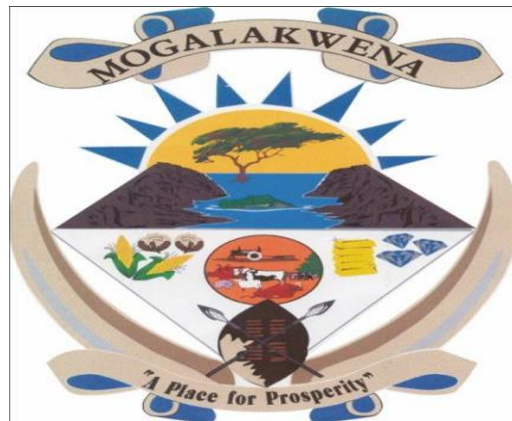


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# **ANNUAL BUDGET OF MOGALAKWENA LOCAL MUNICIPALITY**



**2019/20 TO 2021/22**

**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 28 May 2019.

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 10<sup>th</sup> working day after council approval to National and provincial treasuries. The hard copies including council resolutions will also be submitted by the 11<sup>th</sup> June 2019.

### **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 2019/20 MTREF is circular 93 and 94)

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 is able to provide services to all communities in a sustainable manner.

The budget has been prepared at the time when the South African economic and revenue outlook has deteriorated since the October 2018 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 5.2% across all departments except for increases in bulk purchases which for electricity and water were 15.63% and 8.5% respectively.

The municipality has adopted the following assumptions during the preparation of the 2019/20 MTREF Budget:

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### **National and provincial assumptions**

- Local Government Grants allocations as per Division of Revenue Bill as per Government Gazette No 42217 issued on the 08<sup>th</sup> of February 2019
- NERSA proposed increases of 15.63% for electricity purchases
- Lepelle Northern water proposed increases of 8.5% for bulk water purchases
- Revenue to increase by maximum of 6% and justification required for all increases above the inflation target
- The tariffs for water revenue to be increased by 8.5% and for electricity proposed at 13.07%
- Remuneration for upper limits to be taken into consideration when preparing budget.
- Employee costs increase of 6.5% as per salary and wage collective agreement
- Cost reflective and sustainable tariff increases

### **Municipal Assumptions**

- Curbing of increasing costs for security
- Curbing increase of operating expenditure to 5.2% which is in line with increased revenues 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 new mass positions appointed in the second and third quarter of the current financial year and also funding for absorption of 134 Letsema temporary workers as per court order

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The municipality has experienced the following challenges during the preparation of the 2019/20 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 2018/19 financial year
- The increased cost of supply for water and electricity resulting in unsustainable municipal tariffs
- Employee cost increases for municipal staff that continue to exceed consumer inflation due to more than 200 new positions filled in the 2018/19 financial year. Employee costs constitute 39% of the operational budget.
- Increasing distribution losses for water and electricity due to ageing infrastructure
- The cost relating to the process of job evaluation outcomes
- 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 2019/20 MTREF:

- The 2018/19 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 2019/20 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 94 issued by treasury as follows:

<b>Fiscal year</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
<b>Consumer Price Inflation (CPI)</b>	4.7%	5.2%	5.4%	5.4%
<b>Real GDP Growth</b>	0.7%	1.5%	1.7%	2.1%

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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:

- 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 2019/20 to 2021/22.

### **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.

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### 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
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

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## 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, coloured 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%
Coloured	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: StatsSA 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).



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Table 2 Population distribution according to age

	0 – 4	5 – 9	10 – 14	15 – 19	20 – 24	25 – 29	30 – 34	35 – 39	40 – 44
<b>NUMBER OF RESIDENTS PER AGE GROUP</b>	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: StatsSA 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 StatsSA 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
	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: StatsSA Census 2001 & 2011

## Economic overview

Table 3: Employment Status, 2001 vs. 2011

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

Source: StatsSA Census 2001 & 2011

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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 2019/20:

Package Indigent	Compilation for	18/19 R(Vat included)	19/20 R(Vat included)
Rates – R100 000 Valuation		48.45	51.36
Refuse (up to 500 m2)		59.25	62.81
Sewage (up to 500 m2)		32.34	34.28
Electricity – 50kwh		45.72	51.69
Water – 6kl		92.61	100.48
Total indigent package per month		<b>278.37</b>	<b>300.62</b>

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

Water	2 616
Electricity	2 616
Sanitation	2 616
Refuse Removal	2 616
Rural Sanitation	0
Rates	2 616

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	8.5
Electricity	13.07
Refuse removal	6
Property rate	6
Sewerage	6

The following table is a summary of the total budget:

Description	2019/2020	2020/2021	2021/2022
Total Operational Revenue	- 1 041 006 481	- 1 102 416 663	- 1 170 568 825
Total Operating Expenditure	1 040 177 238	1 093 118 397	1 159 111 063
<b>Operational -Surplus/Decficit</b>	<b>- 829 242</b>	<b>- 9 298 266</b>	<b>- 11 457 762</b>
<b>Total capital grants</b>	<b>- 406 475 000</b>	<b>- 466 606 000</b>	<b>- 540 204 000</b>
<b>Donation in kind - Ivan plats</b>	<b>- 72 000 000</b>	<b>- 72 000 000</b>	<b>- 72 000 000</b>
Total Capital Expenditure	515 363 100	567 273 200	636 163 900
<b>Overall Budget -Surplis/Deficit</b>	<b>36 058 858</b>	<b>19 368 934</b>	<b>12 502 138</b>

The budget surplus is caused by CRR funded capital items. The deficit of r36 058 858 is funded from the operational surplus of R829 242 and CRR of R36 887 100.

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

Mogalakwena Municipality obtained an adverse audit opinion in the 2017/2018 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 and Internal Audit is monitoring the implementation. Some of the queries are in the process of being addressed and some can only be addressed as part of year-end processes. The action plan is meant to improve the audit opinion for the 2018/2019 financial year.

### **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 2019/2020.

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## 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 looking at 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 55% (71% Year to date billing vs receipts)

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 from water has been increased by 5% as a result of 8.5% increase in tariffs based on current year billing estimate. The billing estimate is based on 97% achievement of the water revenue on the adjusted budget.

Revenue from electricity has been increased by 6% as a result of 13.07% increase in tariffs based on current year billing estimate. The billing estimate is based on 94% achievement of the electricity revenue on the adjusted budget.

Revenue from property rates has been increased by 5% as a result of 6% increase in tariffs based on current year billing estimate. The billing estimate is based on 99% achievement of the property rates revenue on the adjusted budget.

All other revenue has been increased by 5%.

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### 1.4.1 Grant allocations

The Division of Revenue Bill allocations to Mogalakwena Municipality for the 2019/2020 to 2021/2022 financial years are as follows:

Grant allocations over the MTREF

Grant type	2019/2020	2020/2021	2021/2022
	(R'000)	(R'000)	(R'000)
Equitable Share	436 536	467 163	501 280
Finance Management Grant	1 770	1 770	2 034
Municipal Infrastructure Grant	156 417	165 556	178 704
Water Service Infrastructure Grant	60 000	43 850	55 000
Regional Bulk Infrastructure Grant	183 558	250 000	300 000
Integrated National Electrification Grant	14 000	15 200	15 000
EPWP	1 294	0	0
Donation - Ivanplats	72 000	72 000	72 000
<b>Total Grant Funding</b>	<b>925 575</b>	<b>1 015 539</b>	<b>1 124 018</b>

Supporting **Table SA 18, 19 and 20** is attached as pages 347 to 349.

- The municipality's equitable shares has increased by 10% to **R436.5m** in the 2019/20 financial year and will be increasing by 27% to **R501.2m** over the MTREF
- The capital grants has increased by 50% to **R406.5m** due to an increase of **R113m** for RBIG grant and **R20m** for WSIG. The capital grants then increases to **R540m** over the MTREF
- The EPWP grant is allocated R1.3m in the 2019/20 financial however there is no allocation over the MTREF period

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### 1.4.2 Summary of Operating Revenue

The following table gives a breakdown of the income categories for the 2019/20 to 2021/22 financial years:

	Adjusted Budget	2019/2020	2020/2021	2021/2022	% Increase
Operational grants	- 412 773 825	- 452 100 000	- 481 933 000	- 516 814 000	8,70%
Service charges	- 386 538 373	- 409 913 153	- 432 048 463	- 455 379 080	5,70%
Property rates	- 76 923 701	- 80 769 886	- 85 131 460	- 89 728 559	4,76%
Investment income	- 45 549 568	- 50 396 948	- 53 085 922	- 55 918 477	9,62%
Fines and penalties	- 6 470 141	- 6 793 648	- 7 133 330	- 7 489 997	4,76%
Other revenue	- 14 967 339	- 15 715 706	- 16 501 491	- 17 326 566	4,76%
<b>Operational revenue</b>	<b>- 943 222 947</b>	<b>- 1 015 689 341</b>	<b>- 1 075 833 667</b>	<b>- 1 142 656 679</b>	<b>7,13%</b>
Gains and losses	- 24 111 561	- 25 317 139	- 26 582 996	- 27 912 146	4,76%
<b>Total operational revenue</b>	<b>- 967 334 508</b>	<b>- 1 041 006 481</b>	<b>- 1 102 416 663</b>	<b>- 1 170 568 825</b>	<b>7,08%</b>

**Figure 1 -Main Operational Income Categories**

The municipality's operational revenue has increased by 7% from R967.m to R1.04b. Operation grants contributes 43% of the total operational revenue budget followed by service charges contributing 39%.

### Growth in revenue by revenue source

The municipal revenue from operations has grown by 7% from the adjusted budget. The increase is mainly due to tariff increase of 8.5% for water, 13.07% for electricity and all other tariffs increased by 5%. 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 **R412.7m** to **R452.1m** in the 2019/20 financial year and increases to **R516.8m** in the 2021/22 financial year.
- The service charges increased by 5.7% from the adjusted budget to R409.9m in the 2019/20 financial year due to increase in tariffs of water and electricity by 8.5% and 13.07% respectively.
- Property rates revenue has increased by 4.76% in the 2019/20 year to **R80.7m** and then increases to RR89.7m over the MTREF.
- Investment income also increased by 9.62% to **R50.3m** in the 2019/20 financial year. The increase is mainly due to interest on outstanding debt that was not properly budgeted in the 2018/19 financial year
- Other income from fines, gains from sale of properties and other sources increased by 4.76% to **R47.8m** due to normal increase of 5.2% linked to CPI

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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 2018/19 to 2021/22 financial years with prior comparatives are the following:

Description	2018/19	2019/20	2020/2021	2021/2022
Rates	6%	6%	6%	6%
Refuse	6%	6%	6%	6%
Sewerage	6%	6%	6%	6%
Water	8%	8.5%	8.5%	8.5%
Electricity	6.84%	13.07%	9.41%	9.41%
Average Increase	6.57%	7.91%	8.08%	8.08%

- The electricity tariff increase for the 2019/20 as per the proposal received from NERSA is 13.07%.
- The proposed water tariff increase for the 2019/20 as per Lepelle-Northern Water is 8.5%.



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### 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 2019/20 financial year:

- The Lepelle Northern Water (LNW) has proposed to increase their tariffs by 8.5% in 2019/20 financial year.
- The LNW 8.5% increase on its bulk tariff from 7.29c to 7.92c per kl (excluding VAT and the Water Research commission levy).
- It is estimated that water to the amount of R 37 829 088 will be purchased from LNW and other service providers in 2019/20 financial year.

A total revenue of R 80 945 709.7 is expected from water sales.

- The budgeted revenue is based on connection fees, defaulting fees, monthly consumption of water and testing of meters.
- Even though the water tariffs has increased by 8.5% the impact of the increase on budgeted revenue from the adjustment budget figures is 5% as the municipality is currently billing only 97% of the budgeted water revenue
- 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.

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The following recommended tariff structure for water for 2019/20 compared to 2018/19:

Type Consumer	Type Scale	Intervals	18/19	19/20
			Per Kilolitre	Per Kilolitre
<b>Domestic:</b>	Gliding scale	0 – 10 kl 11 – 50 kl 51 – 100 kl 101 > kl	<b>Vat Inclusive</b>	<b>Vat Inclusive</b>
			15.21	16.50
			16.15	17.52
			19.43	21.08
			32.32	35.07
<b>Businesses:</b>	Normal		16.15	17.52
<b>Flats:</b>	Normal		16.15	17.52
<b>Industrial:</b>	Normal		16.15	17.52
<b>Provincial Hospitals</b>	Normal		15.21	16.50
<b>Schools Churches Hostels Sport clubs</b>	Normal		16.15	17.52
<b>Departmental</b>	Normal		16.15	17.52

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	152.10	165.00	12.90	8.5%
42	668.90	725.64	56.74	8.5%
75	1283.85	1392.80	108.95	8.5%
110	2092.80	2270.50	177.70	8.5%

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### 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 2019/20:

- A tariff increase of 6% is included in the final 2019/20 MTREF
- The free basic sanitation is provided for indigents only

The following recommended tariff structure for sewerage for 2019/20 compared to 2018/19:

		18/19		19/20	
TYPE CONSUMER	SIZE OF ERF	BASIC vat inclusive	ADD-ITIONAL vat inclusive	BASIC vat inclusive	ADD-ITIONAL vat inclusive
1.	Residential	0-500	32.61	34.57	
	Houses	501-1000	65.41	69.33	
		1001-1500	104.51	110.78	
		1501-2000	117.63	124.69	
		2001-2500	130.70	138.54	
		2501-3000	143.76	152.39	
		First 3000 Every additional 500	13.06	13.84	
2.	Churches	0-500	32.61	27.63	29.29
	Hospitals	501-1000	65.41	27.63	29.29
	Creches	1001-1500	104.51	27.63	29.29
	Schools	1501-2000	117.63	27.63	29.29
	Sport clubs	2001-2500	130.70	27.63	29.29
		2501-3000	143.76	27.63	29.29
		First 3000 Every additional 500	13.06	27.63	29.29

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3.	Other:					
	3.1 Businesses	Irrespective	346.29	88.19	367.07	93.48
	3.2 Industrial	Irrespective	346.29	88.19	367.07	93.48
	3.3 Flats	Irrespective	346.29	94.61	367.07	100.29
	3.4 Hostels	Irrespective	346.29	67.43	367.07	71.48
	3.5 Boarding house	Irrespective	346.29	67.43	367.07	71.48
	3.6 Departmental	Irrespective	346.29	88.19	367.07	93.48

### Examples of sewerage tariff

Size of erf	Current monthly	Proposed monthly	Additional amount	Increase
m2	Account	Account	Payable	
	R	R	R	%
500	32.61	34.57	1.96	6
1600	117.63	124.69	7.06	6
3500	156.82	166.23	9.41	6
Business	346.29	367.07	20.78	6

### 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:

		18/19		19/20	
TYPE CONSUMER	SIZE OF ERF	BASIC vat inclusive	ADD-ITONAL vat inclusive	BASIC vat inclusive	ADD-ITONAL vat inclusive
Domestic	Residential houses	0-500	59.77	63.36	
	Churches	501-1000	87.37	92.61	
	Church halls	1001-1500	119.23	126.38	
	Residential erven which are being built on	1501-Above	128.48	136.19	

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			Per	Bulk	Per	Bulk
			Container	Container	Container	Container
Commercial	Businesses	Irrespective	229.23	1528.84	242.98	1620.57
	Industrial	Irrespective	229.23	1528.84	242.98	1620.57
Other	Municipality	Irrespective	119.23	1528.84	126.38	1620.57
	Flats	Irrespective	119.23	1528.84	126.38	1620.57
	Old Age Homes	Irrespective	119.23	1528.84	126.38	1620.57
	Hostels	Irrespective	119.23	1528.84	126.38	1620.57
	Boarding houses	Irrespective	119.23	1528.84	126.38	1620.57
	Schools	Irrespective	119.23	1528.84	126.38	1620.57
	Hospitals	Irrespective	119.23	1528.84	126.38	1620.57
	Government	Irrespective	119.23	1528.84	126.38	1620.57
	Sport Organizations	Irrespective	119.23	1528.84	126.38	1620.57
	Charity Organizations	Irrespective	119.23	1528.84	126.38	1620.57
	Other	Irrespective	119.23	1528.84	126.38	1620.57
Bulk	Per load or part thereof		490.96		520.42	

#### Example of monthly refuse tariff

Size of erf	Current monthly	Proposed monthly	Additional amount	Increase
m2	Account	Account	Payable	
	R	R	R	%
500	59.77	63.36	3.59	6
950	87.37	92.61	5.24	6
1200	119.23	126.38	7.15	6
1550	128.48	136.19	7.71	6
Business	229.23	242.98	13.75	6

#### 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.

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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 2019 is 0.012085c (residential) (1 July 2018 – 0.011401c) and 0,024399c (1 July 2018 – 0,023018c) (business, commercial, industrial and mining) and 0,003021c (1 July 2018 – 0,002850c) (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)	%
2018/2019	974 055	76 924	7.89%
2019/2020	1 039 347	80 770	7.77%
2020/2021	1 096 149	85 131	7.77%
2021/2022	1 157 891	89 728	7.77%

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

TYPE	TARIFF CODE	18/19		19/20	
		CENT IN RAND	% DISCOUNT	CENT IN RAND	% DISCOUNT
1.Improved residential stands	VA771	0.011401	40.00	0.012085	40.00
2. Improved business stands	VA772	0.023018	0.00	0.024399	0.00
3. Pensioners as rate policy	VAIND	0.011401	100.00	0.012085	100.00
4. Pensioners as rate policy	VAIND	0.011401	100.00	0.012085	100.00
5. State owned properties	VA775	0.002850	30.00	0.003021	30.00
6. Improved flats	VA776	0.011401	40.00	0.012085	40.00
7. Developed erven industrial	VA777	0.023018	0.00	0.024399	0.00
8. Undeveloped erven	VA778	0.023018	0.00	0.024399	0.00
9. Municipality	VA779	0.000000	0.00	0.000000	0.00
10. Undeveloped business erven	VA780	0.023018	0.00	0.024399	0.00
11. Permission to do business on residential erven	VA781	0.023018	0.00	0.024399	0.00
12. Undeveloped industrial	VA782	0.023018	0.00	0.024399	0.00
13. Undeveloped flat erven	VA783	0.023018	0.00	0.024399	0.00
14. Private parks	VA788	0.002850	0.00	0.003021	0.00
15. Private streets	VA789	0.002850	0.00	0.003021	0.00
16. Agricultural fields (Macalacaskop)	VA790	0.002850	0.00	0.003021	0.00
17. Welfare organizations, Hospitals, Clinics etc	VA791	0.002850	100.00	0.003021	100.00

### Agricultural

TYPE	TARIFF CODE	18/19		19/20	
		CENT IN RAND	% DISCOUNT	CENT IN RAND	% DISCOUNT
1.Residential	VA5771	0.002850	0.00	0.003021	0.00
2. Business, Commercial, Ecotourism, game hunting	VA5772	0.002850	0.00	0.003021	0.00
3. Pensioners as rate policy	VA5773	0.002850	100.00	0.003021	100.00
4. Pensioners as rate policy	VA5774	0.002850	100.00	0.003021	100.00
5. State owned properties	VA5775	0.002850	0.00	0.003021	0.00
6. Industrial, agricultural holdings	VA5776	0.002850	0.00	0.003021	0.00
7. Undeveloped	VA5777	0.002850	0.00	0.003021	0.00
8. Municipality	VA5778	0.000000	0.00	0.000000	0.00
9. Mining	VA5779	0.023018	0.00	0.024399	0.00
10. Welfare organization, Hospitals, Clinics etc	VA5780	0.002850	100.00	0.003021	100.00

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## 1.5 Operating Expenditure Framework

The municipality expenditure framework for the 2019/20 budget and MTREF is informed by the following:

- The priority focus area should be given to repairs and maintenance both water, roads and electricity assets. At least 10% of the budget should be appropriated towards operation and maintenance costs due to ageing infrastructure.
- Elimination of non-core expenses should be done. Expenses such as entertainment, gala dinners, excessive catering, etc.
- Funding of all posts that were filled in the 2019/20 year 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 **R1.04billion in the 2019/20** financial year which increases to **R1.1billion** over the MTREF period (2021/22 financial year). This represent 6.7% increase in operational expenditure from the adjusted budget
- We have firstly prioritized the contractual obligations and all other operating expenditure was increased by 5.2% across the board in an endeavor to reduce the increasing operating expenditure

The following is the operating expenditure allocations per department:

TOTAL OPEX	2018/2019	2019/2020	2020/2021	2021/2022
Municipal Manager	85 055 736	84 585 620	88 814 054	94 092 490
Corporate Services	62 962 533	68 546 294	69 302 169	74 503 989
Budget & Treasury	76 787 434	66 291 684	70 050 804	74 112 709
Planning and Development	25 392 672	35 450 865	36 857 890	39 083 035
Technical Services	277 124 296	276 863 068	292 182 062	308 859 258
Community Services	97 209 524	116 930 048	124 330 783	131 948 833
Traffic and Emergency	78 804 458	80 271 965	84 959 346	89 905 973
Electrical Services	270 719 069	311 237 695	326 621 288	346 604 776
<b>TOTAL OPEX</b>	<b>974 055 722</b>	<b>1 040 177 238</b>	<b>1 093 118 397</b>	<b>1 159 111 063</b>



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- The department of technical services responsible for water, sanitation and roads has been allocated **R276.8m** for operational expenditure which is a decrease of 1% from the adjusted budget.
- The electrical department was allocated an amount of **R311.2m** for operational expenditure in 2019/20 which is a 15.02% increase from the 2018/19 budget due to increase in cost for bulk electricity. The bulk electricity tariffs has increased 15.63% as approved by NERSA

The following table gives a breakdown of the expenditure categories for the 2019/20 financial year:

Medium-Term Revenue & Expenditure Framework			
Description	2019/20	2020/21	2021/22
Operating Expenditure			
Employee related costs	378 961 000.00	398 314 000.00	427 190 356.00
Remuneration of councilors	25 206 281.00	26 883 549.00	28 655 308.00
Bad debts	7 000 000.00	7 378 000.00	7 776 000.00
Depreciation	78 893 112.00	82 619 285.00	87 078 193.00
Repairs and maintenance	70 264 429.00	74 183 000.00	78 188 000
Interest paid	-	-	-
Bulk purchases – Electricity	242 527 230.00	255 474 016.00	269 270 252.00
Bulk purchases – Water	38 090 407.00	40 147 256.00	42 315 168.00
Contracted services	124 071 000.00	132 238 000.00	138 574 351.00
Grants and subsidies paid	1 347 602.00	1 420 000.00	1 497 073.00
Other expenditure	73 815 000.00	74 461 156.00	78 567 146.00
<b>Total Operating Expenditure (Net)</b>	<b>1 040 177 203.00</b>	<b>1 093 118 262.00</b>	<b>1 159 111 847.00</b>

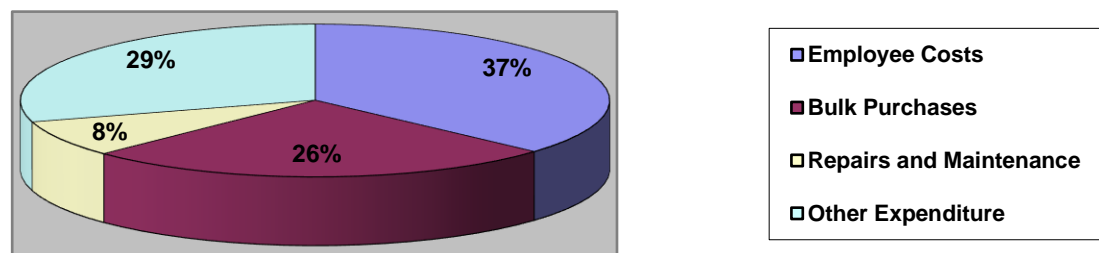


Figure 2 -Main Operational Expenditure Categories

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- 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 **R6m** has been allocated for legal fees
- The amount of **R9m** allocated for lease costs (Fleet and equipment rentals).
- Insurance premium has been allocated an amount of **R6m**
- An amount of **R6.3m** was provided for audit fees

The provision of debt impairment was determined based on an annual collection rate and taking into account the amount already provided for. For the 2019/20 financial year an allocation of **R7m** was provided for additions to impairments. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues. The municipality has already provided for 90% of its total debtors book and the collection rate has improved to 71% at end of April 2019 and therefore the additional impairment amount is sufficient.

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 **R78.8m** for the 2019/20 financial year.

Bulk 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 is 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.

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### 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 70 264 429 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:

EMPLOYEE RELATED COSTS	2018/2019	2019/2020	2020/2021	2021/2022
Municipal Manager	41 692 002	45 349 810	48 272 735	51 360 332
Corporate Services	27 818 015	34 121 300	34 197 884	38 091 806
Budget & Treasury	25 316 093	30 951 763	32 525 949	34 543 448
Planning and Development	20 506 525	29 823 082	31 661 724	33 603 951
Technical Services	71 313 469	99 359 707	105 605 924	112 231 641
Community Services	49 199 952	79 879 973	85 076 597	90 565 989
Traffic and Emergency	44 358 801	44 897 136	47 679 265	50 618 134
Electrical Services	34 002 333	39 784 838	40 177 075	44 829 743
<b>TOTAL EMPLOYEE RELATED COST</b>	<b>314 207 190</b>	<b>404 167 608</b>	<b>425 197 153</b>	<b>455 845 045</b>

- An amount of R404.1m has been budgeted for in the 2019/20 financial year increasing to R455.8m over the MTREF period
- There has been an increase of 29% in the 2019/20 year when compared to the adjusted budget mainly due to positions that were filled in the second and third quarter of the 2018/19 financial year (More than 200 positions were filled)
- The actual annual increase for employees has been included at 6.5% in accordance with the collective bargaining council pronouncement
- The municipality has provided an additional amount of R19m to cover the costs of absorbing 134 Letsema temporary employees in the 2019/20 financial year
- The employee costs constitute 38% of the total operating expenditure allocation which is still within the acceptable norm of 40%

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## 1.6 Capital Expenditure

For 2019/20 an amount of **R514.3m** has been appropriated for the acquisition of assets.

The amount of **R406.4m** was funded from conditional grants and an external funder has committed to contributing an amount of **R72m** in the 2019/20 for completion of Masodi project.

The municipality has through previous year created capital replacement fund (Refunds from VAT received in 2018/16 year) allocated an amount of **R35.8m** to fund assets.

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:

<b>CAPITAL EXPENDITURE OWN FUNDING</b>	<b>2019/2020</b>	<b>2020/2021</b>	<b>2021/2022</b>
Municipal Manager	420 000	-	25 000
Corporate Services	7 070 000	950 000	4 500 000
Budget & Treasury	176 000	3 000	8 000
Planning and Development	50 000	50 000	100 000
Technical Services	15 000 000	25 000 000	-
Community Services	9 200 000	55 000	15 000
Traffic and Emergncy	1 347 000	2 529 200	5 430 400
Electrical Services	2 624 100	80 000	85 500
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>35 887 100</b>	<b>28 667 200</b>	<b>10 163 900</b>
<b>CAPITAL EXPENDITURE GRANTS</b>	<b>2019/2020</b>	<b>2020/2021</b>	<b>2021/2022</b>
Municipal Manager	-	-	-
Corporate Services	-	-	-
Budget & Treasury	-	-	-
Planning and Development	7 000 000	-	-
Technical Services	430 272 024	496 406 000	579 161 850
Community Services	21 203 976	20 000 000	21 838 150
Traffic and Emergncy	-	-	-
Electrical Services	20 000 000	22 200 000	25 000 000
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>478 476 000</b>	<b>538 606 000</b>	<b>626 000 000</b>

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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 2019/20 financial year is attached as pages 389 to 394.

### **Annual Budget Tables**

#### **The Annual Budget Tables:**

Table A1	Budget summary – (attached as <u>page 300</u> )
Table A2	Budgeted Financial Performance (revenue and expenditure by standard classification) – (attached as <u>pages 301 to 304</u> )
Table A3	Budgeted Financial Performance (revenue and expenditure by municipal vote) - (attached as <u>pages 305 to 308</u> )
Table A4	Budgeted Financial Performance (revenue and expenditure) - (attached as <u>page 309</u> )
Table A5	Budgeted Capital Expenditure by vote, standard classification and Funding - (attached as <u>pages 310 to 313</u> )
Table A6	Budgeted Financial Position - (attached as <u>page 314</u> )
Table A7	Budgeted Cash Flows - (attached as <u>page 315</u> )
Table A8	Cash backed reserves/ accumulated surplus reconciliation - (attached as <u>page 316</u> )
Table A9	Asset Management - (attached as <u>pages 318 to 320</u> )
Table A10	Basic service delivery measurement - (attached as <u>page 321</u> )

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### **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 322 to 388)

## **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 and 94
- National Treasury instruction 1 of 2013/2014
- Government Gazette 42217 of 08 February 2019

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 2019/20 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

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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 2019/20 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
<b>July</b>	Print and distribute final approved IDP.	Conclude annual performance agreements	Place approved annual budget and policies on the municipal Web site
	Development of 2019/20 IDP Process Plan that guide the planning, adoption of the plan.	Print and distribute final approved SDBIP	Print and distribute final approved budget
	Give notice to local community of particulars of the Process Plan.		Establish appropriate committees and consultation forums

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<b>August</b>	<p>Table to EXCO, council the IDP Process Plan for approval.</p> <p>Conduct stakeholder registration.</p> <p>Consider comments from various stakeholders during 2018/19 IDP Roadshows</p>	<p>Place annual performance agreements on the municipal website</p> <p>Development and submission of annual performance report</p>	Table in council IDP, PMS and budget process plan
<b>September</b>	<p>Consider proposals received from MEC, if any.(IDP preparation process)</p> <p>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>
<b>October</b>	Setting new strategic agenda for the IDP in light of the new focus of Council.	Develop and submit the 1 <sup>st</sup> Quarter Performance Report to Council and Coghsta	Consolidate community inputs on proposed tariffs.
<b>November &amp; December</b>	Horizontal and vertical alignment with District, Province and other stakeholders begins.		Finalize inputs from bulk resource providers and agree on proposed price increase
<b>January</b>	<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 final 2017/2018 Annual Report to Council.</p>	Note the president's "State of the Nation Address " for further budget priorities



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<b>February</b>	Horizontal and vertical alignment with District, Province and other stakeholders continues.  Departments identify projects/programmes.	Make the final 2017/2018 Annual Report public for comments.	Note National budget for provincial and national allocations to municipalities for incorporation into budget
<b>March</b>	Finalize Capital Investment Plan and Financial Plan.  Tabling of final IDP & budgets before council.  Publication of tabled final IDP, budget and invite local communities and stakeholders for comments and inputs.	Submit the final 2017/2018 Annual Report to MPAC.  Submit the oversight report on the Annual Report to Council for approval.	Table in council the final IDP, annual budget and all supporting documentation  Publicize the tabled final budget
<b>April</b>	Prepare and conduct IDP/Budget roadshows.	Prepare SDBIPs linked to IDP strategies, objectives, KPI's and targets.  Develop and submit the 3 <sup>rd</sup> Quarter Performance Report to Council and COGHSTA	Consultation on tabled final budget, publicize and conduct public hearing
<b>May</b>	Exco recommends adoption of the IDP to Council.  Council sitting to approve IDP, and budget.		Consideration of community views and other stakeholders and revise budget if necessary  Approval of annual budget, including taxes, tariffs and policies.

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<b>June</b>	Submission of approved IDP to the COGHSTA and Provincial Treasury	Prepare final SDBIPs linked to IDP strategies, objectives, KPI's and targets. Submission of final SDBIPs and Annual PAs to Mayor. Mayor approves the SDBIPs	Submission of approved Budget to the COGHSTA, Provincial Treasury and National Treasury
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### **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

### **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.

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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.

Consultations with the representatives took place on the 2 November 2018. Stakeholders who attended the meetings include ward committees, members of the community, Traditional Leaders, community, representatives from youth organizations, sector departments, mining houses and business.

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

#### **Councillors briefing sessions:**

Councillors will be briefed during April 2019, 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.

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### **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

The final IDP, Budget and Mayoral roadshows will be conducted from 1 April 2019 to 15 April 2019.

## **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 2018/2019 financial year have been taken into account when compiling the draft 2019/2020 IDP.

The draft 2019/20 IDP will be presented to council on 29 March 2019 as per the 2019/2020 IDP, Budget and PMS process plan.

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### 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 2019/2020 are as follows:

Source of funding	CRR	MIG	DWA	WSIG	INEG
	%	%	%	%	%
Roads and storm water	0%	26.86%			
Water and Sanitation	78.40%	50.17%	100%	100%	
LED	0%	4.70%			
Land and Cemeteries	0.06%	4.90%			
Electricity	8.23%	4.03%			100%
Waste Management	0%				
Other	13.31%	9%			

### 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 2019/2020 final budget.

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#### **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 2018”*

To reading as follows:

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

The amended Tariff policy is attached as pages 423 to 435.

#### **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 R67 416 (sixty seven thousand four hundred and sixteen 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 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;”*

The amended Rates Policy is attached as pages 436 to 454.

#### **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 455 to 465.

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#### **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 2018*

*to reading as follows:*

*“The title of this policy is indigent policy and the commencement date is on the 01 July 2019”*

The amended Indigent Policy is attached as pages 466 to 471.

#### **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 472 to 486.

#### **2.4.6 Asset Management Policy**

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

Paragraph 8.2.3.6.1 (i) of the Asset Management Policy which read as:

*“The depreciation method and amortisation method shall be reviewed in each reporting period. The straight-line method shall be used in all cases unless the CFO determines otherwise in writing, and except for capital spares in stores for which the production-unit method is used.”*

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Has been amended and is now read as follows:

*“The depreciation method and amortisation method shall be reviewed in each reporting period. The diminishing balance method shall be used in all cases unless the CFO determines otherwise in writing, and except for capital spares in stores for which the production-unit method is used.”*

The reviewed policy is attached as pages 487 to 531.

#### **2.4.7 Supply Chain Management Policy**

The following paragraph was inserted to deal with the process for implementation regulation 32 procurement process.

*The municipality may procure goods and services under contracts secured by other organs of state but only if:*

- a) The contract has been secured by that other organ of state by means of a competitive bidding process applicable to that other organ of state*
- b) The municipality has no reason to believe that such contract was not validly procured*
- c) There are demonstrable discounts or benefits for the municipality to do so*
- d) That other organ of state and the provider have consented to such procurement in writing*

*The above process will be subjected to the bid adjudication committee for recommendation of appointment to the accounting officer*

The reviewed policy is attached as pages 532 to 589.

#### **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 590 to 594.



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#### **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 595 to 603.

#### **2.4.10 Virement policy**

There are no amendments to the Virement Policy.

The policy is attached as pages 604 to 611.

#### **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 612 to 629.

#### **2.4.12 Funding and reserves policy**

The Funding and reserves policy has been included in the draft budget.

The policy is attached as pages 630 to 634.

#### **2.4.13 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 2019/20 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.

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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;*
- (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.*

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(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.”*

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## **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 2020.

Although migration from rural to urban areas is expected to a certain degree, the municipality has prepared a document called “State of Readiness” to accommodate the economic growth being brought about by the potential mining sector development. Various infrastructure development is already taking place as follows:

- Water Master plan sector plan – Phase 1 is 99% complete. Stage 2 is currently being implemented..  
The municipality is still awaiting the additional 3 Mega Liters from Lepelle Northern Water.
- Waste water master plan - implementation stage  
An agreement was signed with Ivanplats to fund the remaining work. The value of the remaining work is estimated at R216million and has been appropriated over three years.
- Roads and stormwater master plan – Council approved 100% completion.  
(Currently sourcing funds to implement)

#### **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.

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## 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. The process is currently at Supply Chain Management.

## 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) – Rural Development has given the municipality a caretakership agreement over the area. Budget is needed to do the land survey and to subdivide the site.
- Ext 15– Housing development Agency (HDA) is assisting to do the replanning and provision of services.
- Mahwelereng: The process is with Supply Chain management to provide a service provider to do the township establishment, land survey and environmental impact assessment.
- 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 – Township establishment can be started as there is no dolomite in this area.
- Subdivision of Ext 14 – Budget has been requested in the 2019/20 budget for subdivision.

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.

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### **2.5.2 General inflation outlook and its impact on municipal activities**

The inflation rate of 5.2%, 5.4% and 5.4% were applied for the 2019/2020 to 2021/2022 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. 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 80% 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.

The municipality is planning to roll out prepaid meters in Mahwelereng during the fourth quarter of the 2018/19 financial year and in the 2019/20 financial year. An amount of R25m has been appropriated for this purpose

### **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 and will be in place from the 1 July 2019. The municipality is currently in the process of finalizing the new valuations.

### **2.5.6 Collection Rates**

The average collection rate for the past financial year was 55% but should be improved to be sustainable on the long-term. The collection rate in 2019/20 is projected at 75% given the current collection rate of 71%

### **2.5.7 Price Movements**

The municipality has received proposals from Lepelle-Northern Water and NERSA indicating price increases in the purchase price for bulk water and bulk electricity of 8.5% and 13.07% respectively.

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### **2.5.8 Average salary increases**

A 6.7% increase on salaries is budgeted for in the draft budget.

### **2.5.9 Industrial relations, climate reorganization and capacity building**

The industrial sites that are currently being sold by the municipality will result in an expansion of the industrial area. 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. We however need to conduct a land audit in order to determine which land belongs to the municipality and can be used to plan for an industrial supply park. Funds will be needed to be budgeted for in the 2018/19 budget in order to conduct the land audit.

### **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 installed and the houses are being erected and will be occupied during the 2019/2020 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 2018/2019 financial year have been included in the 2019/2020 and 2020/2021 financial years.

### **2.5.12 Trends in demand for Free or Subsidized Basic Services**

Although the free basic electricity was phased out for non-indigent consumers in the 2010/11 financial year, this has not improved the municipality's affordability to provide services to all its consumers. 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.

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#### **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 2017/18 financial year, R 152.8 million was received from MIG, of which approximately 95% was spent. For the 2018/19 financial year 100% of the R 69.1 million received has been spent as at 28 February 2019. The total allocation for MIG for 2018/2019 is R 153.1 million.

During the 2017/18 financial year, R 136 3 million was received from RBIG, of which 82% was spent. For the 2018/19 financial year 76% of the R38.5 million received has been spent as at 28 February 2019. The total allocation for RBIG for 2018/2019 is R 80 million.

#### **2.5.15 Implications of Restructuring and other Major Events into the Future**

The municipality is currently in the process of procuring a service provider to conduct the Organizational Review and the rolling out of job evaluation process. The process will be completed before the end of the current 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.



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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 85% 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 28 February 2019:

Institution	Investment	Monetary value
		'000
ABSA	Short term	0
FNB	Short term	0
Nedbank	Short term	30 000
Standard Bank	Short term	0
<b>Total</b>		<b>30 000</b>

The total amount invested externally as at 28 February 2019 amounts to R30 million which is R120 million less than the investments as at 28 February 2018.

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 345.

### 2.6.2 Estimated debtors collection levels

A debtor's collection rate of 75% of levied amounts is estimated for the 2019/20 financial year.

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### **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 1 691 954.

### **2.6.5 Planned use of bank overdrafts**

There is no possibility that Mogalakwena will utilize a bank overdraft in the 2019/20 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**

The municipality has received R90m VAT refunds in 2018/19 and 50% of the cash was reserved as cash surpluses that was used to fund capital assets to an amount of R31.8m in the 2019/20 financial year. Additional 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 2019/20 budget for the following statutory and reserve fund contributions:

- Capital Replacement Reserve : R 36 887 100
- Provision for bad debt reserve : R 15 111 215

### **Allocations and grants made by the municipality**

Funds have been allocated to the following allocations and grants in the 2019/20 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

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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 6.7% increase was made for both councilors and officials.

Nine new positions were provided for in the 2019/2020 salary budget.

Disclosure of salaries and allowances and benefits is attached as supporting **Table SA 22 and 23** pages 351 to 353.

## 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 355 to 360.

## 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 363.

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## **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 2019/20 MTREF is attached as pages 389 to 394.

## **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 acting municipal manager has complied with the new budget format when compiling the 2019/20 to 2021/22 MTREF.

## **2.14 Other supporting documents**

Circular 70, 72, 74, 78, 85, 86, 89, 91, 93, 94 and Instruction 1 of 2013/2014 as issued by National Treasury are complied with in the preparation of the 2019/2020 to 2021/2022 budget. Circular 93 and 94, being the latest budget circulars are attached as pages 635 to 673.