



Budget Medium Term Revenue and Expenditure Forecasts

MFMA Section 16 Report

2020/2021

Govan Mbeki Municipality

Table of Contents

1. OVERVIEW	3
1.1 Purpose.....	3
1.2 Background	3
1.3 Long Term Financial Sustainability (LTFS).....	3
1.4 2020/2021 MTREF Policy statements and guidelines.....	4
2. EXECUTIVE SUMMARY.....	5
2.1 Executive Summary	5
2.2 Consolidated overview	7
3. DETAILED OVERVIEW OF BUDGET	11
3.1 Revenue.....	11
3.2 Operating Expenditure.....	14
4. CONSULTATION PROCESS	17
5. BUDGET RELATED POLICIES AND OVERVIEW OF TARIFF ADJUSTMENTS	18
5.1 Virement Policy (Annexure D).....	18
5.2 Accounting policy (Annexure E).....	18
5.3 Supply Chain Management Policy (Annexure F)	18
5.4 Credit control and Debt collection policy (Annexure G).....	18
5.5 Investment policy (Annexure H).....	18
5.6 Property Rates policy (Annexure I).....	18
5.7 Tariff policy (Annexure J)	19
5.8 Fixed Asset Management Policy (Annexure K).....	19
5.9 Short Term Risk and Liabilities Policy (Annexure L).....	19
5.10 Funding and Reserves Policy (Annexure M)	19
5.11 Budget Policy (Annexure N)	19
5.12 Borrowing Policy (Annexure O).....	19
5.13 Blacklisting Policy (Annexure P)	19
5.14 Indigent Management Policy (Annexure Q)	19
5.15 Travelling and Subsistence Policy (Annexure R)	19
5.16 Provision for Doubtful Debt and Debt Write-Off Policy (Annexure S)	19
5.17 Unclaimed Deposit Policy (Annexure T).....	19
5.18 Retention Policy (Annexure U).....	19
6. OVERVIEW OF BUDGET ASSUMPTIONS.....	20
6.1 Key Financial indicators	20

6.2	Credit Rating	20
6.3	Borrowing and Investment of funds	20
6.4	Rates, tariffs, charges and timing of revenue collection	20
6.5	Collection rates for each revenue source	21
6.6	Price movements on specifics	21
6.7	Average salary increases	21
6.8	Changing Demand characteristics	21
6.9	Ability to the municipality to spend and deliver on programs	21
7.	ALIGNMENT OF BUDGET TO THE INTEGRATED DEVELOPMENT PLAN.....	21
7.1	IDP Review and stakeholder participation.....	21
7.2	IDP link to the budget	21
8.	BUDGET RECOMMENDATIONS	22

1. OVERVIEW

1.1 Purpose

The purpose of the report is to table the 2020/21 Medium-term Revenue and Expenditure Framework (MTREF) before Council in terms of Section 16(2) of the Local Government: Municipal Finance Management Act (MFMA), 2003 (Act 56 of 2003) prior to the community consultation process.

1.2 Background

Section 16(1) of the Municipal Finance Management Act (MFMA) stipulates that the council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year. Section 16(2) stipulates that in order to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

Section 22 of the MFMA also stipulates that immediately after an annual budget is tabled in a municipal council the accounting officer must make public the annual budget and documents in terms of Section 17 and invite the local community to submit representations in connection with the budget; and submit the annual budget to the National Treasury and the relevant provincial treasury in printed and electronic formats.

Section 23(2) of the MFMA stipulates further that “after considering all budget submissions, the Council must give the Executive Mayor an opportunity –

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

The tabling of the Draft Budget and IDP will be followed by public consultation meetings with various stakeholders.

The 2020/21 MTREF will be considered for approval by Council in 28 May 2020 after taking into account the outcome of public consultation broadcasted on the Radio on the 23 May 2020.

1.3 Long Term Financial Sustainability (LTFS)

The purpose of the long-term financial strategy is to ensure that the municipality is financially sustainable and able to respond to the Municipal Growth and Development Strategy, policies, priorities and infrastructure needs.

The objectives of the LTFS are:

- Prudent and sound medium-term to long-term financial framework.
- Ensure sustainability of services.
- Investment in infrastructure.
- Adequate maintenance of infrastructure.
- Identify strategies that will ensure long-term financial sustainability:
- Operational efficiency initiatives,
- Sustainable and alternative revenue streams.
- Respond to the long-term strategy of the municipality.
- Improve the municipality’s credit rating.

Owing to the limited revenue base (municipal rates, user charges and grants/subsidies) the Municipality has to be proactive in the minimization of costs and the maximisation of efficiencies in order to respond to increased service delivery requirements.

The strategies and measures already implemented to ensure sustainability are:

- The Budget Policy;
- Financial Recovery Plan(FRP)
- Budget Principles and guidelines; and
- The Cash-Flow Management Intervention Initiatives.

Long-term Financial Model (LTFM)

The long-term Financial Model essentially informs the compilation of the MTREF with the emphasis on affordability and long-term sustainability. Although the LTFM is predominantly a financial planning tool to ensure long-term financial sustainability for the organisation, the financial planning process and LTFM run parallel to ensure the strategies and direction of the Municipality are at all times informed by best practice. The municipality has completed Financial Sustainability Plan which is currently in implementation stage, however the implementation was also disturbed by National lockdown.

1.4 2020/2021 MTREF Policy statements and guidelines

The IDP is the primary point of reference for preparation of the MTREF. Accordingly the budget addresses the following strategic objectives:

- Provide basic services, roads and storm water.
- Economic growth and development and job creation.
- Sustainable communities with clean, healthy and safe environments and integrated social services.
- Participatory democracy and Batho Pele.
- Promote sound governance.
- Ensure financial sustainability.
- Organisational development and transformation.

The 2020/21 MTREF reflects the reality of the current budgetary pressures. The following budget guidelines directly informed the compilation of the budget;

- Scale down on baseline allocation as indicated by National Government.
- Approve a balanced budget and create cash surplus over the Medium-Term.
- The budget must be funded in accordance with the funding compliance procedure set out in MFMA Circular 42 and the Funding Compliance Guideline.
- Reprioritise competing needs within the allocations.
- Ensure the timely delivery of the capital programmes (eliminate under spending of capital budget).
- Tariff and Property Rate increases should take into account the need to address infrastructure backlogs and other strategies and affordability of services.
- The percentage salary increases according SALGA guideline
 - *2020/21 Financial Year – 6.25%*
 - *2021/22 Financial Year – 6.25%*
 - *2022/23 Financial Year – 6.25%*
- Special attention needs to be given to efficiency gains and the principle of value for money.
- Filling of vacancies should be reviewed within the available budget.

2. EXECUTIVE SUMMARY

2.1 Executive Summary

The preparation of the 2020/2021 Budget and Medium Term Revenue and Expenditure Framework (MTREF) is based on the guidelines contained in the MFMA **Circular No.99** issued by National Treasury.

The other fundamental principles underlying the preparation of this draft budget is the application of sound Financial Management to ensure Financial Viability, and that municipal services provide sustainable, economically and equitable to all communities.

The main challenges experienced during compilation of the 2020/21 MTREF can be summarized as follows:

- Significant increase in operating expenditure with limited increase in operating revenue resulting in budget being unfunded.
- Cash flow constraints
- The increased cost of bulk purchases (due to increase from Rand Water and Eskom).
- The need to re-prioritise expenditure within the existing resource envelope given the cash flow realities and declining cash position.
- Unavailability of own-funding for capital budget; and
- Inability to raise capital/borrowing.

The following principles and guidelines will directly inform the 2020/2021 MTREF:

- The budget of 2020/2021 budget was used as baseline and was appropriate as upper limits.
- CPI guidelines from National Treasury except where specific sector increases are prescribed.
- Ensuring that drinking water meets the required quality standards at all times
- Identification of inefficiencies and elimination of no-priority spending
- Securing health of the assets by increasing the spending on repairs and maintenance
- Developing strategies in reducing water and electricity losses
- Developing tariffs that are cost reflective
- Maintaining a long financially sustainable environment
- Protect the poor from the worst impacts of the economic downturn at all times
- Job creation and poverty reduction

For the municipality to be able to deliver efficient and effective public services within the existing fiscal purse, tough decisions will have to be taken on the expenditure side. Priority ought to be given to the following areas:

- A performance culture where all the people are held accountable for their actions, accompanied by clear, measurable outcomes related to key developmental priorities.
- Limit outsourcing of work
- Procurement reforms
- Limit wastage and inefficient systems
- Effective implementation of the Financial Recovery Plan

The budget has been prepared with a vision of sustaining the financial capability of the municipality in the long term. A special effort was taken to improve the credibility of the budget. The tariffs have been set in line with tariff policy and the following factors were considered:

- The current collection rate
- The affordability of the community
- The social package
- The direct cost drivers

- General increase by Rans Water on water.
- General increase by NERSA on electricity.
- Inflation rate increases

The tariffs for service charges have been increased as follows:

- Water	6.6%
- Electricity	6.24%
- Rates	0%
- Waste management	
o Refuse removal	4.9%
- Sewer	6.6%
- Miscellaneous	4.9%

The social package is proposed as follows:

DESCRIPTION	2017/2018 VAT Inclusive	2018/2019 VAT Inclusive	2019/2020 VAT Inclusive
Free Electricity	52.18	52.66	58.12
Free Water	192.33	211.93	224.91
Equitable Share	226.84	239.00	253.63
TOTAL	471.35	503.59	536.66

The municipality is implementing the inclining block tariffs on electricity and water. The IBT for the electricity is in-line with the NERSA guidelines. The water tariffs are also designed using the inclining block model to promote conservative approach to the domestic consumers.

The municipality will still ensure that the poor are protected through the indigent support scheme as per the indigent policy and debt collection strategy. The threshold for increasing free basic services for a household will be reviewed. The increase on the package indicates the municipality's commitment to protect the poor and also to ensure that those who cannot afford to pay are not burden with the unpaid accounts.

The council is committed in creating employment and reducing poverty as part of National Initiative, through meaningful local economic developmental initiatives and labour intensive projects. Furthermore, the municipality will on the continuous basis engage with the service providers to ensure that labour intensive approaches are utilized. The municipality will also ensure that it implements the intern programs to provide the young people with on the job training.

A conservative approach in spending will be adopted to ensure financial sustainability. As a municipality we should also all pay serious attention to managing revenue and any cash streams effectively through revenue management processes and procedures.

2.2 Consolidated overview

The budget has been prepared in terms of guidelines as contained in Circular 99 of the MFMA. The contents and format of the budget are in line with the requirements of the Municipal Budget and Reporting Regulations and any applicable legislation.

The 2020/2021 budget comprises of R 2.391 billion for operating expenditure and R253 million for capital investment programs. The total operating income budget is R2.402 billion resulting in an operating surplus of R 10.3 million.

Municipal revenues and cash flows are expected to remain under pressure as we still continue to have low income revenue growth with a continued increase in expenditure.

Table 1: Consolidated overview of the 2020/2021 Budget

Description	Audited Outcome 2018/2019	Original Budget 2019/2020	Special Adjustment 2019/20	Adjusted Budget 2019/2020	Budget 2020/2021	Budget 2021/2022	Budget 2022/2023
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Total Operating Revenue	1 758 967	2 000 926	2 241 409	2 241 409	2 390 493	2 441 384	2 852 794
Total Operating Expenditure	1 736 664	2 415 650	2 251 409	2 241 208	2 354 167	2 248 354	2 428 246
Surplus /(Deficit) for the year	22 303	- 414 724	- 10 000	201	36 326	193 030	424 548
Total Capital Expenditure	124 232	142 187	142 187	142 187	253 275	266 434	304 403

Operating budget

The operating budget deals with day to day operations of the municipality to ensure that service delivery is sustained.

The operating budget has increased to **R2.3 billion** compared to the current adjusted budget of **R2.2 billion**.

The trend is that the operating expenditure has been increasing over the years driven by:

- salary increments
- the need to repair infrastructure
- the need to adequately budget for debt impairment and depreciation,
- Inflation rates

Capital budget

An amount of R253 million has been allocated for the capital investment program for 2020/2021 financial year. This is an increase from the R142 million budget for 2019/20.

Capital Expenditure

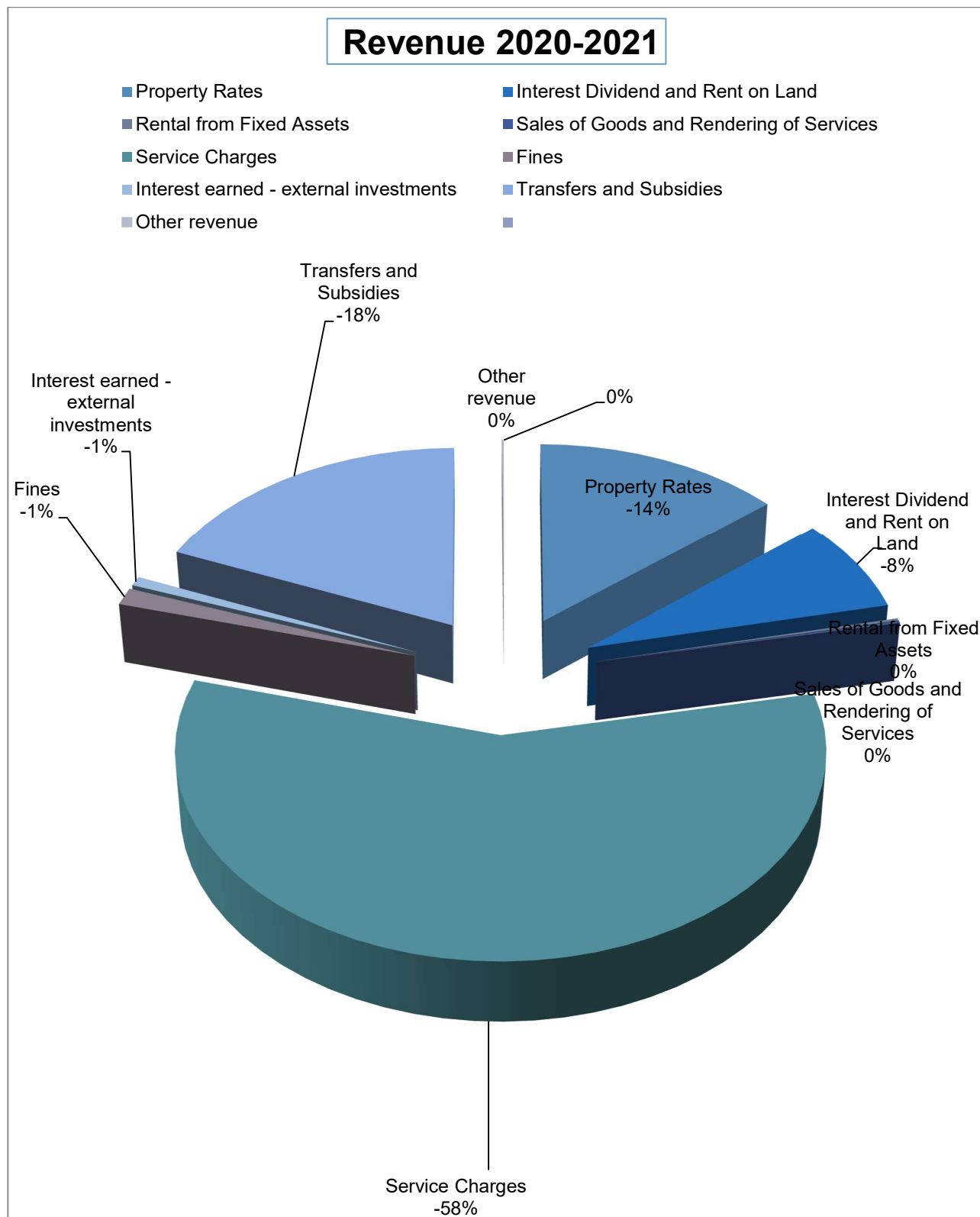
Description	Funding	Section	Draft Budget 2020-2021	Amended budget	Final Capital budget 2021	Final Capital budget 2022	Final Capital budget 2023
Furniture and Equipment	Revenue	PMU	100 000		100 000	105 000.00	110 250.00
Furniture and Equipment - whole of municipality	Revenue	GMM		2 000 000	2 000 000	2 100 000.00	2 205 000.00
DISASTER Recovery Site	Revenue	ICT	3 400 000		3 400 000	3 570 000.00	3 748 500.00
Electrification	Revenue	Energy	2 000 000		2 000 000	2 100 000.00	2 205 000.00
Kombie	Revenue	Fleet			-	-	-
Enclosures	Revenue	Energy	5 000 000		5 000 000	5 250 000.00	5 512 500.00
Procurement of Fleet	Revenue	Fleet	5 500 000		5 500 000	5 775 000.00	6 063 750.00
Fencing of facilities	Revenue	Facilities	4 700 000		4 700 000	4 935 000.00	5 181 750.00
Construction of informal trading infrastructure	Revenue	LED	3 000 000		3 000 000	3 150 000.00	-
Backup GIS Server	Revenue	GIS	200 000		200 000	-	-
Computer and large format printer	Revenue	GIS	200 000		200 000	-	-
Compactor Trucks *5	Revenue	Waste Management	12 500 000	- 5 000 000	7 500 000	6 000 000.00	6 300 000.00
LDV bakkie *1	Revenue	Waste Management	350 000		350 000		-
Computers (Laptops) *4	Revenue	Waste Management	100 000	- 40 000	60 000	60 000.00	63 000.00
Skip loader trucks *2	Revenue	Waste Management	4 000 000	-	4 000 000		-
Skip containers	Revenue	Waste Management	500 000	-	500 000		-
Fencing of closed landfill sites	Revenue	Waste Management	8 000 000	- 3 000 000	5 000 000	3 500 000.00	3 675 000.00
Construction of a central transfer station and drop off facility in Evander including equipment and containers (phase 1)	Revenue	Waste Management	10 000 000	- 10 000 000	-	10 000 000.00	10 500 000.00
Construction of a drop off facility in Evander (next to WWTW)	Revenue	Waste Management	2 900 000		2 900 000		-
Construction of two mini transfer stations at:	Revenue	Waste Management			-		-
- Kinross landfill site (licensed facility)	Revenue	Waste Management	5 800 000		5 800 000		-
Ext 25 Kinross	Revenue	Waste Management			-		-
Construction of 4 x mini-transfer stations in eMbalenhle	Revenue	Waste Management		12 000 000	12 000 000		-
- ext. 9	Revenue	Waste Management		-	-		-
- ext. 10	Revenue	Waste Management	115 000 000	- 115 000 000	-		-
- ext. 18	Revenue	Waste Management			-		-
- ext. 19	Revenue	Waste Management			-		-
Construction of 3 x mini-transfer	Revenue	Waste Management			-		-

stations in Leandra/ Lebohang:							
- Lebohang ext. 7	Revenue	Waste Management	9 000 000		9 000 000		-
- Lebohang ext. 18	Revenue	Waste Management			-		-
- Lebohang ext. 19	Revenue	Waste Management			-		-
Construction of 3 x mini-transfer stations in Secunda:	Revenue	Waste Management			-		-
- ext. 16	Revenue	Waste Management	8 900 000		8 900 000		-
- ext. 23	Revenue	Waste Management			-		-
Secunda landfill site	Revenue	Waste Management			-		-
Construction of a mini-transfer station Trichardt (next to WWTW)	Revenue	Waste Management	2 900 000		2 900 000		-
Construction of 3 x mini-transfer stations in eMzinoni/ Bethal:	Revenue	Waste Management	8 900 000		8 900 000		-
- eMzinoni ext. 4	Revenue	Waste Management			-		-
- Bethal ext. 14	Revenue	Waste Management			-		-
Bethal landfill site	Revenue	Waste Management			-		-
Skip loader trucks for transfer stations	Revenue	Waste Management	4 000 000	- 4 000 000	-	4 200 000.00	4 410 000.00
Infrastructure for Secunda landfill site – roads, lights, site office, weigh bridge, storm water drainage, leachate control, cell construction.	Revenue	Waste Management	15 000 000	- 14 000 000	1 000 000	14 700 000.00	15 435 000.00
Infrastructure for Bethal landfill site – roads, lights, site office, weigh bridge, storm water drainage, leachate control, cell construction.	Revenue	Waste Management	15 000 000	- 14 000 000	1 000 000	14 700 000.00	15 435 000.00
Infrastructure for Leandra landfill site – roads, lights, site office, weigh bridge, storm water drainage, leachate control, cell construction.	Revenue	Waste Management	15 000 000	- 12 000 000	3 000 000	12 600 000.00	13 230 000.00
Closure and rehabilitation of the Evander landfill site	Revenue	Waste Management	8 000 000	- 8 000 000	-	8 400 000.00	8 820 000.00
Closure and rehabilitation of the Kinross landfill site	Revenue	Waste Management	8 000 000		8 000 000	-	-
Closure and rehabilitation of the eMbalenhle landfill site	Revenue	Waste Management	8 000 000	- 8 000 000	-	8 400 000.00	8 820 000.00
Closure and rehabilitation of the Bethal-Morgenzon-road landfill site	Revenue	Waste Management	8 000 000	- 8 000 000	-	8 400 000.00	8 820 000.00
Closure and rehabilitation of the Lebohang landfill site	Revenue	Waste Management	8 000 000	- 8 000 000	-	8 400 000.00	8 820 000.00

Radio Communication	Revenue	Fire Department	500 000		500 000	525 000.00	551 250.00
Tipper Truck	Revenue	Roads and storm water	1 700 000		1 700 000	1 785 000.00	1 874 250.00
Walk behind Roller with Trailer *3	Revenue	Roads and storm water			-	-	-
Plant & Equipment	Revenue	Roads and storm water	3 200 000		3 200 000	3 360 000.00	3 528 000.00
Upgrading of eendracht Pipe line	Revenue	Water	3 000 000		3 000 000	3 150 000.00	3 307 500.00
Installation of booster Pump & panel at Reservoirs	Revenue	Water	3 000 000		3 000 000	3 150 000.00	3 307 500.00
Replacement of aged valves at GMM	Revenue	Water	3 000 000		3 000 000	3 150 000.00	3 307 500.00
Cleaning of Reservoirs	Revenue	Water	2 000 000		2 000 000	2 100 000.00	2 205 000.00
TLB for water and sanitation	Revenue	Water	4 000 000		4 000 000	4 200 000.00	4 410 000.00
Water Cart for Water and sanitation	Revenue	Water and Sanitation	3 000 000		3 000 000	3 150 000.00	3 307 500.00
Septic truck for water and sanitation	Revenue	Sanitation	3 000 000		3 000 000	3 150 000.00	3 307 500.00
Securing of sewer pump stations	Revenue	Sewer	3 000 000		3 000 000	3 150 000.00	3 307 500.00
MIG PROJECTS	MIG	PMU	57 422 000	- 57 422 000	-	59 219 200.00	62 634 450.00
Refurbish and Upgrade Water Pipeline to Van Heerden Reservoir and Recommission Reservoir	MIG/MP1117/W/12/13	PMU		R18 830 000	18 830 000		
Refurbishment and Upgrading of Emzinoni WWTW and sewer pump stations	MIG/MP1656/S/18/21	PMU		R13 720 900	13 720 900		
Rehabilitation of Tarred roads in Embalenhle	MIG/MP1285/RST/14/17	PMU		R10 000 000	10 000 000		
Construction of WWTW in Charl Cilliers.	MIP/MP1756/S/18/21	PMU		R12 000 000	12 000 000		
Upgrading of Embalenhle sewer pump stations and bulk sewer lines	WSIG	Water and Sanitation	R30 000 000	R0	30 000 000	30 000 000	60 000 000
Electricity projects	INEP	Energy	32 414 000	R0	32 414 000	20 000 000	20 000 000
Total			451 186 000	- 195 040 000	253 274 900	266 434 200	304 402 700

3. DETAILED OVERVIEW OF BUDGET

3.1 Revenue



TOTAL SUMMARY OF THE EXPENDITURE BUDGET PER TYPE

Description	2021	2022	2023
Interest Dividend and Rent on Land	191 223 144	185 560 463	196 552 169
Operational Revenue	2 590 875	2 553 089	2 693 504
Rental from Fixed Assets	4 728 219	4 659 270	4 915 526
Sales of Goods and Rendering of Services	3 721 005	3 666 740	3 868 425
Service Charges	1 445 163 543	1 440 717 372	1 502 551 251
Fines Penalties and Forfeits	34 646 220	34 228 535	36 620 826
Interest Dividend and Rent on Land	18 878 688	82 668 564	82 668 564
Property Rates	346 777 376	341 720 236	360 514 825
Operational grants	342 763 996	345 609 913	377 476 099
Total operating revenue budget	2 390 493 066	2 441 384 182	2 567 861 189
Capital grants	119 836 004	102 974 674	107 590 087
Total revenue budget	2 510 329 070	2 544 358 856	2 675 451 276

Comments on Operating Revenue

The property rates

The property rates amounts to R 346.7 million for the 2020/2021 financial year. This revenue stream has been increased by 7 %. An amount of R 28 million is budgeted for the income forgone in terms of rebates and discounts that are offered by the municipality for the indigents, pensioners and the areas where the municipality is not providing services. This revenue stream contributes 14% of the total revenue.

Service charges

Service charges include electricity, refuse, sewer and water. The service charges for 2020/2021 amount to R 1 445, 2021/2022 R 1 549 and 2022/2023 amounts to R 1 661 billion. The R 1 445 billion is made up of the following, Water R 545.9 million, Refuse R 149.3 million, Sewerage R 139.8 million and electricity R610.1 million. The service charges contribute 58% of the operating revenue.

Rental income

The rental income amounts to R5.7 million. The stream contributes 0.2% of the total revenue.

Fines

The revenue estimates for the fines have been increased from R 31.6 million to R 34.6 million, this mainly make a provision as required by iGRAP1.

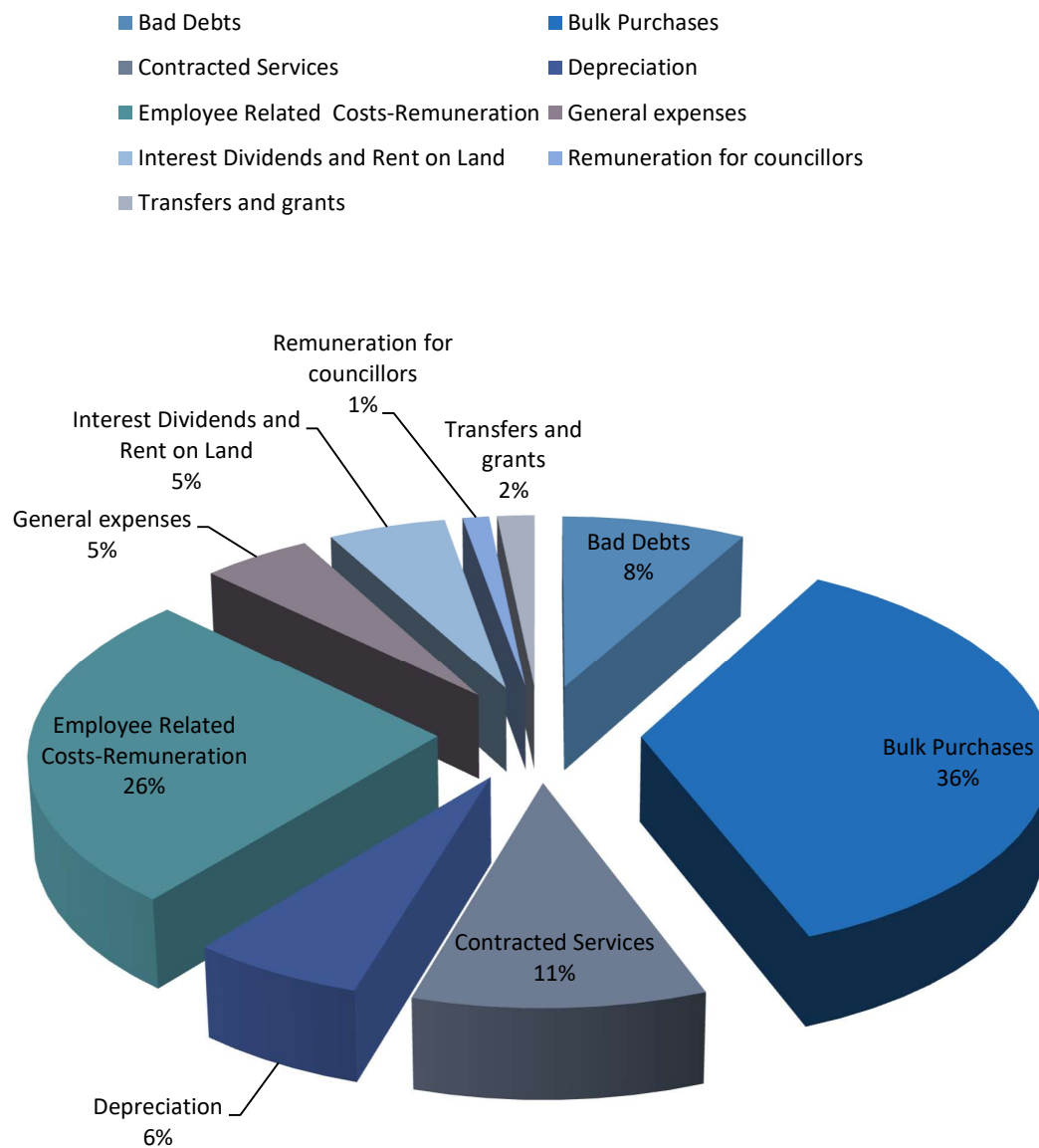
Grants and Subsidies – operating

The grants subsidies refer to the Division of Revenue Act allocations in the 2020/21 financial year, the operational grants allocations are as follows:

DESCRIPTION	2020/21	2021/22	2022/23
Equitable share	314,264,000	347,754,000	382,276,000
Finance Management Grant	2,000,000	2,200,000	2,200,000
Extended Public Works Program	1,000,000		
Infrastructure Development Grant	25,500,000	26,000,000	26,182,000
TOTAL	342,764,000	375,954,000	410,658,000

3.2 Operating Expenditure

EXPENDITURE 2020-2021



TOTAL SUMMARY OF THE EXPENDITURE BUDGET PER TYPE

Description	2021	2022	2023
Expenditure			
Bulk Purchases	862 200 132	892 712 436	1 010 348 185
Contracted Services	251 615 656	158 457 464	164 843 591
Depreciation and Amortisation	148 449 084	140 031 100	146 434 475
Employee Related Cost	628 944 975	612 543 481	650 836 714
Interest Dividends and Rent on Land	123 974 905	119 212 203	125 053 599
Inventory Consumed	35 625 175	38 503 322	30 660 201
Operating Leases	4 994 862	4 802 974	4 802 974
Operational Cost	74 753 882	67 041 524	69 632 772
Remuneration of Councillors	29 385 756	28 822 519	30 840 117
Impairment Loss	194 222 640	186 227 151	194 793 577
Total expenditure budget	2 354 167 067	2 248 354 174	2 428 246 205

Comments on Operating Expenditure:

Employee related costs

The employee related costs and remuneration of councillors indicate a percentage of 27% of the total operating budget. The average salary increase 6.25%. The overtime will have to be controlled and filling of vacant positions will have to be fast tracked.

Bulk purchases

The bulk purchases for electricity and water amounts to R 862.2 million, which contributes 36% of the operating budget. The Eskom will increase the bulk purchases to the municipality by 6.9% and Rand Water is estimated to be 6.6%.

Contracted services

In a bid to cut cost and ensure the funding of the overall budget, contracted services budget have increased mainly with inflation rate. Contracted services amount to 135million and constitute 5.76 % of total operating expenditure.

The contract management will have to be improved for the contracted services. The outsourcing of work will need to be controlled to ensure skill transfers and with municipality officials eventually performing work internally.

Repairs and maintenance

Repairs and maintenance amounting to R 115 million constitute 4.9% of the overall expenditure budget. The repairs and maintenance budget increased in relation to increase in inflation rate and this line item will ensure that the municipality provide service delivery to the communities..

Depreciation

Depreciation constitutes 6% of the budget. The budget increase was informed by historical trends as well as budgeted and forecasted additions.

General expenditure

In a bid to cut cost and ensure the funding of the overall budget is R115 million. The transport cost still needs to be controlled. General expenditure takes 5% of the total operating expenditure.

Finance costs

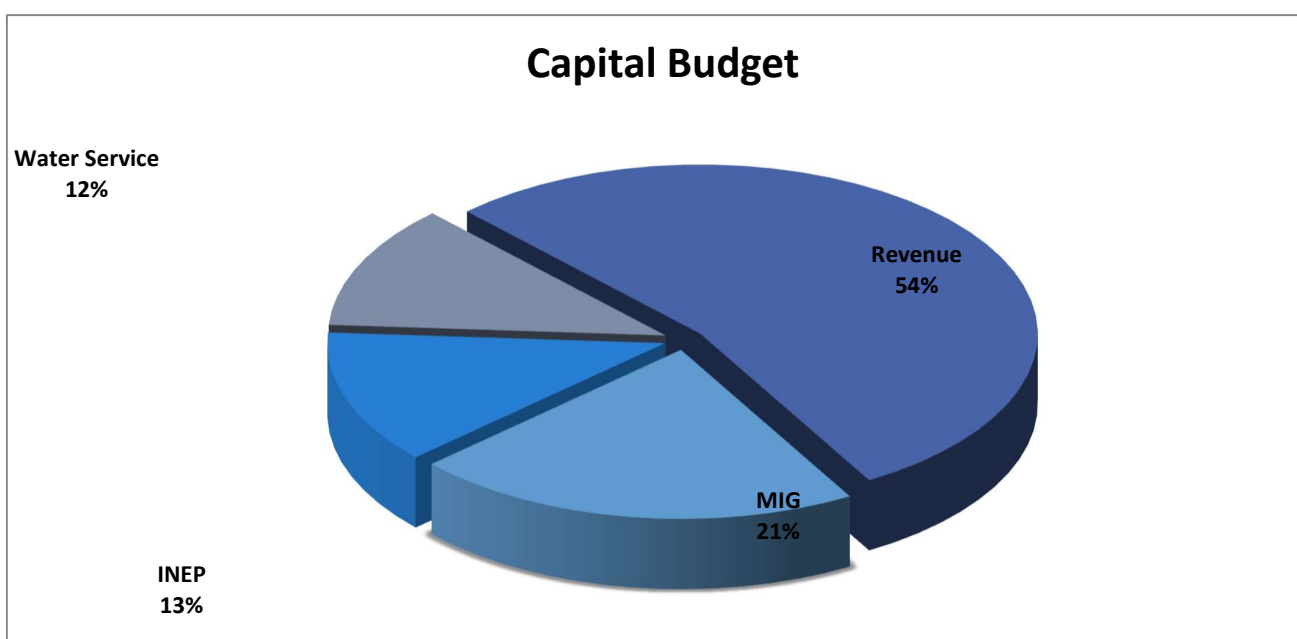
Finance cost constitute 5% of the budget which is mainly the interest that is charged on electricity and water outstanding debt.

Impairment loss

Impairment loss it is non cash item mainly comprised of the expected provision on the non-payment of debt by the consumers. Due to lockdown the municipality is expected to lose revenue collection from outstanding debts a, and some debts will be irrecoverability which might also lead to write –off's.

3.3 Capital Expenditure per source

Description	2020/21 Budget	2020/22 Budget	2020/23 Budget
Integrated National Electrification Grant	32 414 000	20 000 000	20 000 000
Municipal Infrastructure Grants	54 550 900	59 219 200	62 634 450
Revenue	136 310 000	157 215 000	161 768 450
Water Service Infrastructure Grant	30 000 000	30 000 000	60 000 000
Grand Total	253 274 900.00	266 434 200.00	304 402 700.00



4. CONSULTATION PROCESS

Section 22 of the Municipal Finance Management Act requires that after tabling of the Draft Budget, the municipality must make the budget available to the public and conduct community participation.

The community were not consulted ordinarily however the leadership of the municipality delivered the budget speech on Radio and other social media processes, this unfolded in observation of the Lockdown rules and regulations as stipulated by the Parliament of South Africa.

5. BUDGET RELATED POLICIES AND OVERVIEW OF TARIFF ADJUSTMENTS

The municipality's budgeting process is guided and governed by the relevant legislation and related policies.

The purpose of the budget related policies is to govern and guide the budget process and inform the projections of the medium term.

Listed below with a brief description are the municipalities budget related policies. The budget and accounting policies were reviewed during the year.

The accounting policy is reviewed on an on-going basis to incorporate changes required by the relevant Accounting Standards, apart from the changes to these policies as part of the budget process.

- Budget related policies are attached for review as follows:

5.1 Virement Policy (Annexure D)

The Virement policy establishes the framework for managers to manage their respective budgets within limitations, and also to ensure good budgeting practice and effective financial management. The Virement policy has been amended to improve budgetary controls.

5.2 Accounting policy (Annexure E)

The accounting policy guides the preparation of the Annual Financial Statements and is reviewed each year during the preparation to ensure compliance with Generally Recognized Accounting standards and other guiding principles such as International Financial Reporting.

5.3 Supply Chain Management Policy (Annexure F)

The supply chain management policy was adopted and amendments are as result of council resolution.

5.4 Credit control and Debt collection policy (Annexure G)

The council adopted a policy a few amendments have been made to give clear indication in terms indigents, s 118 on the issuing of rates clearance and the outstanding debt.

5.5 Investment policy (Annexure H)

The intention of the investment policy is to ensure investments are made in an efficient and effective manner which generates the best returns for the municipality while considering preservation and safety of the principal and appropriate liquidity.

5.6 Property Rates policy (Annexure I)

Section 3(1) of the Local Government Property Rates Act, 2004 (Act 6 of 2004) and Section 62 (1) (f) of the Municipal Finance Management Act, determines that a municipality must adopt and implement a rates policy on the levying.

5.7 Tariff policy (Annexure J)

The tariff policy covers levying of tariffs, fees and charges for municipal services. The tariff policy details electricity, water, sewer, refuse removal and miscellaneous tariffs.

5.8 Fixed Asset Management Policy (Annexure K)

The asset policy is designed to ensure management of Municipal assets in efficient and effective manner with regard to acquisition, utilization, control maintenance and disposal of assets. The policy guides Directorates in their responsibility and duties for control of their assets.

5.9 Short Term Risk and Liabilities Policy (Annexure L)

5.10 Funding and Reserves Policy (Annexure M)

5.11 Budget Policy (Annexure N)

5.12 Borrowing Policy (Annexure O)

5.13 Blacklisting Policy (Annexure P)

5.14 Indigent Management Policy (Annexure Q)

5.15 Travelling and Subsistence Policy (Annexure R)

5.16 Provision for Doubtful Debt and Debt Write-Off Policy (Annexure S)

5.17 Unclaimed Deposit Policy (Annexure T)

5.18 Retention Policy (Annexure U)

6. OVERVIEW OF BUDGET ASSUMPTIONS

The budget assumptions are determined before the budget process, guided by the economic outlook, movements in terms of the markets and by the national treasury guidelines.

The assumptions are devised in such a way that they support the short and long term finances and strategy of the municipality.

6.1 Key Financial indicators

The growth parameters set by National treasury are set between 3 and 6 percent which are also target range for the inflation rate. All steps have been taken to be in line with these National Treasury guidelines however the following factors affect the municipal operations and the budget accordingly:

- Anticipated high fuel prices
- Higher salaries
- Increase by Eskom and Rand water
- Job creation and protecting the poor

The 2020/2021 has been developed guided by the following inflation forecast:

Fiscal Year	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast
Real GDP Growth	0.5%	0.5%	2.0%	1.3%	2.2%
CPI Inflation	5.4%	5.4%	4.9%	5.0%	5.5%

6.2 Credit Rating

The municipality has not had a credit rating and with National Treasury support, the municipality will have to undertake it.

6.3 Borrowing and Investment of funds

The MFMA permits the borrowing for long term if it is for the acquisition of capital goods such plant and equipment and infrastructure. The municipality will consider the unsecured loan in the medium term, as this is backed up by the acknowledgement from the lender, that the municipality is showing sound financial management and an ability to meet short term obligations.

The municipality has a total amount of R 1.7 million external loans.

The investments amount to R154 million, R11.9 million of these investments are securities for the DBSA loans and due to negative cash flow the municipality is unable to build more reserves.

6.4 Rates, tariffs, charges and timing of revenue collection

Accounts for rates, refuse, electricity, water and sanitation are issued on a monthly basis and are due and payable before the 7th of the month. Recovery procedures for non-payment may be commenced within 7 days of payment default. The electricity supply is cut and water supply is restricted when a client defaults. The municipality is committed in ensuring that collection levels are improved and that credit control will be enforced on those who can afford and not honouring their municipal accounts.

6.5 Collection rates for each revenue source

The collection rate for all the services is expected to be 85% average throughout; this is due to credit control actions that are taken against the defaulters. Where Eskom is a service delivery agent, consumers who are not paying will be restricted water.

6.6 Price movements on specifics

The cost of bulk purchases amounts to R862 million for both electricity and water. The projections are informed by the increases from the Rand water and Eskom. Eskom has advised there will be an increase across the board of 6.9% on the bulk purchases of electricity.

The increase on both electricity and water tariff has been pegged at 6.9% and 6.6% respectively per NERSA and Rand Water.

6.7 Average salary increases

Circular issued by National Treasury was taken into account in budgeting for employee related costs it recommends an increase of average 6.25%

6.8 Changing Demand characteristics

The demand for services is increasing yearly as the municipality is expected to deliver services to the indigent and pressure to reduce poverty.

6.9 Ability to the municipality to spend and deliver on programs

The 2019/2020 operating budget will be spent 100% by year end looking at the projected actual by year end. The challenges are still there in terms of maintaining the infrastructure and managing the breakdowns especially revenue generating.

7. ALIGNMENT OF BUDGET TO THE INTEGRATED DEVELOPMENT PLAN

7.1 IDP Review and stakeholder participation

The IDP has been prepared for the medium term to 2020/21. In the current financial year the IDP has undergone the review as required by the Municipal Systems Act and MFMA. Community needs and inputs were sought and the stake holders were consulted.

The IDP takes cognizance of the National, provincial and district priorities. The key focus and IDP priorities are:

- To provide , improve and sustain infrastructure
- To promote socio economic development in rural and urban areas
- To enable and speed up institutional transformation
- To strengthen democracy and good governance
- To improve and sustain financial management

7.2 IDP link to the budget

In compliance with Systems Act of 2000 and the Municipal Finance Management Act the budget is informed and aligned to the IDP priorities.

The budget is aligned to the IDP.

8. BUDGET RECOMMENDATIONS

1. That the report on the Medium Term Revenue and Expenditure Framework for 2020/2021 and two outer years **BE ACKNOWLEDGED**.
2. That the budget comprising of operating Income budget of **R 2 390 493**, operating expenditure budget of **R 2 354 167** and capital budget of **R 253 274 900** as set out in the following tables **BE APPROVED** for the adoption to ensure compliance with section 16 (2) of the Municipal Finance Management Act (No 56 of 2003):
3. That the budget related policies of Council mentioned in the report **BE APPROVED**.
4. That proposed tariff increases **BE APPROVED** as follows:
 - 4.1 **ASSESSMENT RATES**
All property taxes as per the 2019/2020 tariff book increased by 0%.
 - 4.2 **SEWERAGE**
All sewerage charges as per the 2019/2020 tariff book increased by 6.6%.
 - 4.3 **REFUSE**
All refuse charges as per the 2019/2020 tariff book increased by 4.9%.
 - 4.4 **WATER**
All basic water charges as per the 2019/2020 tariff book increased by 6.6%
 - 4.5 **ELECTRICITY**
All basic electricity charges Increase with 6.24% in line with NERSA
 - 4.6 **DEPOSITS**
Increase with 6.6%
 - 4.7 **MISCELLANEOUS TARIFFS**
 - As per the 2019/20 tariff book increased by 4.9%.
 - These are tariffs that are used on a needs basis.
 - All tariffs exclude VAT except in the case of assessment rates that are zero-rate.
 - 4.8 **INTEREST / CAPITALIZED ARREARS**
 - No interest will be levied on those arrears for which the consumer made formal arrangements.
 - Interest will only be levied on those arrears for which no formal arrangement exist and/or arrear as a result of not complying with the said arrangements.
 - Interest rates will be levied at market related rates.