

STRICTLY CONFIDENTIAL

EXECUTIVE SUMMARY

SUBMISSION TO : Council

DIVISION REQUESTING THE SUBMISSION : Finance

TITLE OF THE SUBMISSION

MFMA Section 16(1)&(2) – Annual budget 2020/21

1. SOLUTION REQUIRED

Strategy Endorsement	
Commercial Options	
Approval	
Information	X

2. PURPOSE

To table the draft annual budget for the 2020/21 Multi Term Revenue and Expenditure Framework (MTREF).

3. LEGISLATIVE BACKGROUND

In terms of section 16 (1) and (2) of the MFMA, the council of municipality must for each financial year approve an annual budget for the municipality before the start of that financial year and in order for a municipality 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.

4. DISCUSSION

Overview of the Budget Process

As required by section 21 (1) of the MFMA Council approved an IDP/ Budget Process Plan for the 2020/21 Financial Year in August 2019. The plan outlined schedule of key deadlines for the review of the IDP and adoption of the budget.

Various consultation processes were held with stakeholders in terms of the process plan, at public participation engagements for the draft IDP however due to COVID19 lockdown the consultation process had to be done using other platforms such as putting the notice on the website and local newspaper requesting comments from the public as well final IDP and Budget had to.

Budget assumptions

National Treasury issued MFMA/Budget Circular 99 indicating information relevant in the compilation of the 2020/21 budget. The following CPI's were used to project expenditure for the 2020/21 financial year as well as the two subsequent years:

Item	2020/21	2021/22	2022/21
Salaries	6.25%	4.6%	4.6%
General expenditure	4.5%	4.6%	4.6%

There has been an increment of 8.1% on Bulk electricity and 6.6% increase on water and ERWAT. The said projections were used to forecast revenue from services as well as to determine tariff increases for the 2020/21 financial year.

The said circular advises municipalities to give attention to several areas of concern, among others:

- Revenue management
- Collection of outstanding debt
- Pricing services correctly
- Under-spending on conditional grants

Division of Revenue bill of 2020/21 financial year has been issued, advising on the allocation of revenue raised nationally to other government spheres. It is outlined in the said bill, that the Lesedi's allocation for equitable share is estimated at R148 million, indicated in Division of Revenue bill of 2020/21 financial year, while Municipal Infrastructure Grant is estimated at R26.4 million. The proposed allocation has a significant impact on the municipality's fiscal position and its commitment to meeting its set objectives.

Cost containment measures

In MFMA Circular No. 97 requires all municipalities to implement cost containment measures with effect of July 2019. **The cost containment measures must be implemented to eliminate waste, reprioritize spending and ensure savings on six focus areas namely, consultancy fees, no credit cards, travel and related costs, advertising, catering and event costs as well as costs for accommodation.** Municipalities were subsequently strongly urged to take note of the cost containment measures as approved by Cabinet and align their budgeting policies to these guidelines to the maximum extent possible and develop a cost containment policy.

Although it's acknowledged that local government is autonomous in its strategy formulation (IDP) and setting of budget appropriations, local government remains a sphere of government and must therefore align itself to the maximum extent possible to that of national and provincial government. In this regard in terms of section 62(1) of the MFMA the accounting officer of the municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure:

- That the resources of the municipality are used effectively, efficiently and economically;
- That full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;
- That the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control; and of internal audit operating in accordance with any prescribed norms and standards; and
- That unauthorized, irregular or fruitless and wasteful expenditure and other losses are prevented.

Overview of alignment of the Budget with the IDP

The strategic objectives as per the draft IDP would be addressed by the budget. A reconciliation of the IDP strategic objectives and the budget are populated in the budget supporting tables SA4 (revenue), SA5 (operational expenditure) and SA6 (capital expenditure).

Measurable Performance Objectives and Indicators

MFMA Circular 13, advises municipality to formulate the Service Delivery and Budget Implementation Plans (SDBIP), after adoption of the budget. The draft SDBIP will be informed by the approved budget and will be tabled to the Executive Mayor 14 days after approval of the budget, while the final SDBIP will be signed by the Executive Mayor within 28 days of approval of the budget, as legislated.

5. FUNDING OF THE BUDGET

In terms of section 18(1)(a)(b)(c) of the MFMA, an annual budget may only be funded from realistically anticipated revenues to be collected; cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and borrowed funds, but only for the capital budget referred to in section 17(2).

Tariff increases

It is well understandable that the municipality's ability to fund its operations is also based on its own generated revenue. MFMA circular 99 advises municipalities to apply cost-reflective tariffs. The following tariff increments are proposed to be affected in the 2020/21 financial year.

Assessment Rates	-	4.9%.
Electricity	-	6.23%
Water	-	6.6%
Sanitation	-	4.9%
Refuse	-	4.9%.
Other income	-	4.9%.
Rental	-	10%

The electricity tariff application is in line with NERSA's guidelines and as a result is approved by them.

The following are budget related policies are presented for adoption:

- ❖ Credit Control and Debt Collection Policy
- ❖ Indigent Management Policy
- ❖ Tariff Policy
- ❖ Property Rates Policy
- ❖ Supply Chain Management Policy
- ❖ Cost containment policy
- ❖ Asset Management policy
- ❖ Budget policy
- ❖ Virement policy
- ❖ Loan policy
- ❖ Grants policy
- ❖ Funds reserves policy
- ❖ Inventory management policy
- ❖ Cash Management and payment of creditors policy
- ❖ Supply chain management policy

- ❖ Short term insurance policy
- ❖ Funding and reserves policy
- ❖ Provision for doubtful debtors and debt write off policy
- ❖ Investments policy
- ❖ Long term financial policy

Revenue

Proposed revenue for the 2020/21 financial year is as follows:

Description	Budget 2020/21 R	Budget (outer year) 2021/22 R	Budget (outer year) 2022/23 R	Weighting
Property rates	135,625,634	142,271,291	149,242,584	13.4
Service charges- electricity revenue	367,083,522	389,850,522	414,030,895	36.1
Service charges – Water revenue	129,982,158	138,551,261	147,685,449	12.8
Service charges – sanitation revenue	32,976,846	34,592,711	36,287,754	3.2
Service Charges refuse revenue	35,285,092	37,014,062	38,827,751	3.5
Fines	35,065,563	36,783,776	38,586,181	3.5
Interest earned outstanding debtors	35,988,137	37,844,033	39,796,972	3.5
Transfers recognized -Operational	162,749,024	179,328,479	203,279,479	16.0
Transfers recognized -Capital	71,074,000	73,241,000	78,610,000	7.0
Rental of facilities and equipment	5,587,756	5,861,554	6,148,771	0.6
Other revenue	4,257,880	4,466,515	4,685,375	0.4
Total	1,015,675,612	1,064,832,078	1,157,181,211	100

The largest revenue items are electricity at 36.1%, grant income at 23% (16% is operational grants and 7% is capital grants), property rates at 13.4% and water sales at 12.8%. The three items generate 85.3% of the revenue of the municipality.

Expenditure

Proposed expenditure for the financial year is as follows:

Description	Budget 2020/21 R	Budget (outer year) 2021/22 R	Budget (outer year) 2022/23 R	Weighting
Employee costs	215,770,342	226,662,542	237,724,630	22.3
Councillors remuneration	12,559,572	13,375,944	14,084,869	1.3
Debt Impairment	158,355,796	166,728,545	175,549,677	16.4
Depreciation	39,845,956	41,687,517	43,730,203	4.1
Finance charges	7,607,693	7,547,828	7,917,673	0.8
Bulk purchases: Electricity and Water	363,306,696	388,150,882	414,694,535	37.6
Other Materials	17,452,857	17,658,889	18,516,775	1.8
Contracted services	95,961,839	85,955,457	97,272,720	9.9
Other expenditure	55,087,636	57,509,580	59,850,221	5.7
Total Expenditure	965,948,387	1,005,277,184	1,069,341,303	100.0

The largest expenditure items are bulk purchases at 37.6% employee related costs at 22.3% and debt impairment at 16.4%. The three items make up 76.3% of the expenditure of the municipality.

Capital Budget

The Capital Budget amounts to R79,691,405 and is funded as follows:

Description	Budget 2020/21 R	Weighting
National Government funded	65,639,000	82%
<i>Lesedi L.M. (own funded)</i>	14,052,405	18%
TOTAL	79,691,405	100%

CAPITAL PROJECTS 2020/21									
GRANT FUNDED PROJECTS									
Typ	Votenummer	Description	Department	Source of funding	Budget	Adj Budget	Budget 20/21	Budget 21/22	Budget 22/23
P	31106420420CLD062ZWM	VEHICLE	Libraries	Recapitalisation of Community Grant - Libraries	-	-	500 000.00	525 000.00	550 000.00
P	31106456420CLD482ZWM	ALARM SYSTEM	Libraries	Recapitalisation of Community Grant - Libraries	-	50 000.00	-	-	-
P	31106456420LBD492ZWM	RFID GATES	Libraries	Library Plan	-	280 000.00	-	-	-
P	31106460420CLC952ZWM	FURNITURE	Libraries	Recapitalisation of Community Grant - Libraries	150 000.00	-	300 000.00	315 000.00	330 000.00
P	31106460420LBD442ZWM	CCTV CAMERAS	Libraries	Library Plan	-	50 000.00	-	-	-
P	31106460420LBD452ZWM	BIG SCREEN TV	Libraries	Library Plan	-	50 000.00	-	-	-
P	31106460420LBD472ZWM	OFFICE EQUIPMENT	Libraries	Library Plan	-	78 000.00	-	-	-
P	31106470020CLC842ZWM	COMPUTER HARDWARE	Libraries	Recapitalisation of Community Grant - Libraries	480 000.00	510 000.00	250 000.00	262 500.00	275 000.00
P	31106473520CLD032ZWM	MAINTENANCE DEVON	Libraries	Recapitalisation of Community Grant - Libraries	2 000 000.00	430 433.00	-	-	-
P	31106473520CLD042ZWM	REWIRING OF HEIDELBERG LIBRARY	Libraries	Recapitalisation of Community Grant - Library Plan	-	1 917 483.00	-	-	-
P	31106473520CLD082ZWM	NEW BOOKS	Libraries	Recapitalisation of Community Grant - Libraries	1 000 000.00	3 000 000.00	1 000 000.00	1 050 000.00	1 100 000.00
P	31106473520CLD382ZWM	FENCING OF RATANDA PROPER	Libraries	Library Plan	1 000 000.00	2 000 000.00	-	-	-
P	31106473520CLD392ZWM	CAR PORT IN RATANDA	Libraries	Recapitalisation of Community Grant - Libraries	120 000.00	129 045.00	-	-	-
P	31106473520CLD552ZWM	KWA - ZENZELE LIBRARY	Libraries	Library Plan	-	-	2 515 000.00	2 694 000.00	2 874 400.00
P	31106473520LBD462ZWM	PLAY AREA EQUIPMENT	Libraries	Library Plan	-	150 000.00	-	-	-
P	31206473520CGD502ZWM	FIRE ENGINE	Fire Fighting and Protection	COGTA	-	6 000 000.00	-	-	-
P	37156432420PC612ZWM	ELECTRIFICATION- OBED NKOSI	Electricity	INEP	900 000.00	-	6 545 000.00	-	-
P	37156432420PC632ZWM	STREET LIGHTS (EDSM)	Electricity	EEMD	7 000 000.00	-	-	-	-
P	37156432420PC652ZWM	ELECTRIFICATION- OBED NKOSI	Electricity	INEP	727 600.00	-	-	-	-
P	37156437020PD122ZWM	ELECTRIFICATION- IMPUMELELO - MV	Electricity	INEP	5 000 000.00	4 027 600.00	12 455 000.00	15 500 000.00	18 000 000.00
P	37156437420PD112ZWM	ELECTRIFICATION- IMPUMELELO - LV	Electricity	INEP	6 372 400.00	6 372 400.00	-	-	-
P	37156437420PD132ZWM	INSTALLATION OF HIGHMASTS AT LESEDI	Electricity	MIG	1 904 000.00	3 104 000.00	-	6 241 000.00	-
P	37306472420FMD012ZWM	CONST ROADS & S/W RATANDA 1,3;6 & OBED N	Roads and Stormwater	MIG	11 500 000.00	1 100 000.00	5 490 000.00	7 000 000.00	8 000 000.00
P	37306472420FMD152ZWM	CONSTR ROADS & STORMWATER JAMESON PARK	Roads and Stormwater	MIG	7 800 000.00	7 800 000.00	5 977 581.04	-	13 000 000.00
P	37306472420FMD162ZWM	CONSTR ROADS & STORMWATER RATANDA EXT7	Roads and Stormwater	MIG	4 000 000.00	4 000 000.00	2 910 000.90	-	-
P	37306472420FMD512ZWM	CONSTR ROADS & STORMWATER EXT 23	Roads and Stormwater	MIG	-	-	6 171 418.06	5 000 000.00	-
P	37306472420FMD532ZWM	CONSTR ROADS & STORMWATER KWAZENZELE PHASE 1	Roads and Stormwater	MIG	-	-	5 700 000.00	10 000 000.00	8 698 000.00
P	37356449420FMD142ZWM	UPGRADING OF DEVON WASTE WATER TREATMENT	Waste Water Management	MIG	1 200 000.00	-	-	-	-
P	37356449420WGD182ZWM	UPGR SEWER PIPELINE THOKOLOHONG AGRI VIL	Waste Water Management	MIG	7 000 000.00	2 000 000.00	-	-	-
P	37356449420WGD542ZWM	UPGR SEWER PIPELINE IN RATANDA EXT 2	Waste Water Management	WSIG	-	-	6 000 000.00	7 220 000.00	7 566 560.00
P	37456446020WGD172ZWM	REPLACEMENT OF ASBESTOS PIPES LESEDI PS	Waste Water Management	WSIG	8 000 000.00	8 000 000.00	9 825 000.00	11 780 000.00	12 345 440.00
Total Grant funded Projects					66 154 000.00	51 048 961.00	65 639 000.00	67 587 500.00	72 739 400.00

INTERNAL FUNDED PROJECTS									
Typ	Votenummer	Description	Department	Source of funding	Budget	Adj Budget	Budget 20/21	Budget 21/22	Budget 22/23
P	31106473520CFD552ZWA	KWA - ZENZELE LIBRARY	Libraries	Internal Funding	-	-	1 200 000.00	-	-
P	31156472420CFD302ZWM	INTERNAL ROADS EKHUTULENI CEMETERY	Cemeteries	Internal Funding	1 500 000.00	-	-	-	-
P	31206456420CFD272ZWM	FIRE ENGINE	Fire Fighting and Protection	Internal Funding	4 500 000.00	4 652 405.00	4 652 405.00	-	-
P	31306420420CFD062ZWM	VEHICLE	Health	Internal Funding	-	-	-	-	-
P	31556456020CFD382ZWM	BUSH CUTTERS; CHAINSAWS; BLOWERS	Biodiversity and Landscape	Internal Funding	350 000.00	115 470.00	200 000.00	-	-
P	32156421020CFD402ZWM	MAYOR'S CAR	Executive Mayor	Internal Funding	700 000.00	527 044.00	-	-	-
P	32206421020CFD412ZWM	SPEAKER'S CAR	Speaker	Internal Funding	500 000.00	502 174.00	-	-	-
P	33206473520CFD562ZWM	SHARED ECONOMIC INFRASTRUCTURE FACILITY	LED	Internal Funding	-	59 960.00	-	-	-
P	34106474020CFD442ZWM	UPGRADE OF MUNICIPAL BUILDING	Finance	Internal Funding	300 000.00	-	-	-	-
P	35106460420CFD952ZWM	FURNITURE	Administrative and Corporate Support	Internal Funding	350 000.00	-	-	-	-
P	35206470020CFD842ZWM	COMPUTER HARDWARE	ICT	Internal Funding	1 000 000.00	642 911.00	1 500 000.00	-	-
P	37156420420CFD382ZWM	VEHICLE CHERRY PICKER	Electricity	Internal Funding	-	300 000.00	-	-	-
P	37156433020CFD662ZWM	ELECTRIFICATION- RATANDA EXT 8	Electricity	Internal Funding	500 000.00	500 000.00	-	-	-
P	37156433020CFD702ZWM	ELECTRIFICATION- IMPUMELELO	Electricity	Internal Funding	-	-	3 000 000.00	-	-
P	37156433020CFD222ZWM	UPGRADING & REFURBISHMENT OF NETWORK	Electricity	Internal Funding	500 000.00	-	-	-	-
P	37156456420CFD422ZWM	TOOLS & EQUIPMENT	Electricity	Internal Funding	150 000.00	27 000.00	-	-	-
P	37306472420CFD872ZWM	RESEALING OF ROADS	Roads and Stormwater	Internal Funding	5 000 000.00	-	3 500 000.00	-	-
P	37306472420CFD92ZWM	CONSTRUCTION OF ROADS JAMESON PARK	Roads and Stormwater	Internal Funding	-	1 310 000.00	-	-	-
P	37356420420CFD912ZWM	TRAILERS	Waste Water Management	Internal Funding	350 000.00	-	-	-	-
P	37456456420CFD372ZWM	UPGRADING TELEMETRY SYSTEM	Water	Internal Funding	500 000.00	-	-	-	-
Total Internal funded Projects					16 200 000.00	8 636 964.00	14 052 405.00	-	-
TOTAL CAPITAL					82 354 000.00	59 685 925.00	79 691 405.00	67 587 500.00	72 739 400.00

5. LEGISLATIVE PROVISION

Section 16 (1) and (2) of the MFMA.

6. LC.CM-.../05/2020 RECOMMENDATION

6.1 THAT Council notes the annual budget with operational and capital revenue of R1,015,675,612 operational expenditure of R965,948,387 and Capital Expenditure of R79,691,405 for the 2020/21 financial year as contained in the following tables: