

STRICTLY CONFIDENTIAL

EXECUTIVE SUMMARY

SUBMISSION TO : Council

DIVISION REQUESTING THE SUBMISSION : Finance

TITLE OF THE SUBMISSION

MFMA Section 16(1)&(2) – Draft 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. Furthermore, engagements were held to discuss the IDP priorities. Inter-alia, the municipality considered National Treasury's budget circulars, which provided guidance and assumptions.

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 2019/20 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	-	8.1%
Water	-	6.6%
Sanitation	-	7.9%
Refuse	-	4.9%.
Other income	-	4.9%.

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 – (changes)
- ❖ Indigent Management Policy – (changes)
- ❖ Tariff Policy – (changes)
- ❖ Property Rates Policy – (changes)
- ❖ Supply Chain Management Policy – (changes)
- ❖ Cost containment policy – (New)
- ❖ 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	Draft Budget 2020/21 R	Draft Budget (outer year) 2021/22 R	Draft Budget (outer year) 2022/23 R	Weighting
Property rates	135,625,634	142,271,291	149,242,584	13.27
Service charges- electricity revenue	373,410,007	392,877,396	413,359,776	36.54
Service charges – Water revenue	129,982,158	138,551,261	147,685,449	12.72
Service charges – sanitation revenue	32,976,846	34,592,711	36,287,754	3.23
Service Charges refuse revenue	35,285,092	37,014,062	38,827,751	3.45
Fines	35,065,563	36,783,776	38,586,181	3.43
Interest earned outstanding debtors	35,988,137	37,844,033	39,796,972	3.52
Transfers recognized -Operational	162,249,024	171,828,479	195,279,479	15.88
Transfers recognized -Capital	71,574,000	62,741,000	67,601,000	7.00
Rental of facilities and equipment	5,587,756	5,861,554	6,148,771	0.55
Other revenue	4,257,880	4,466,515	4,685,375	0.42
Total	1,022,002,097	1,064,832,078	1,137,501,092	100

The largest revenue items are electricity at 36.5%, grant income at 22.88% (15.88% is operational grants and 7% is capital grants), property rates at 13.27% and water sales at 12.72%. The three items generate 85.37% of the revenue of the municipality.

Expenditure

Proposed expenditure for the financial year is as follows:

Description	Draft Budget 2020/21 R	Draft Budget (outer year) 2021/22 R	Draft Budget (outer year) 2022/23 R	Weighting
Employee costs	215,434,502	226,662,542	237,724,630	22.24
Councillors remuneration	12,562,396	13,228,203	13,876,384	1.30
Debt Impairment	158,355,796	166,728,545	175,549,677	16.35
Depreciation	39,845,956	41,687,517	43,730,203	4.11
Finance charges	7,607,693	7,547,828	7,917,673	0.79
Bulk purchases: Electricity and Water	366,546,899	386,710,935	407,955,533	37.84
Other Materials	17,119,857	17,422,639	18,269,275	1.77
Contracted services	94,065,589	85,499,307	96,708,078	9.71
Other expenditure	57,073,172	55,835,682	58,110,462	5.89
Total Expenditure	968,611,860	1,001,323,198	1,059,881,915	100.0

The largest expenditure items are bulk purchases at 37.84% employee related costs at 22.24% and debt impairment at 16.53%. The three items make up 76.61% of the expenditure of the municipality.

Capital Budget

The Capital Budget amounts to R71,989,000 and is funded as follows:

Description	Draft Budget 2020/21 R	Weighting
National Government funded	65,589,000	91%
<i>Lesedi L.M. (own funded)</i>	6,400,000	9%
TOTAL	71,989,000	100%

LIST OF CAPITAL PROJECTS 2020/21									
GRANT FUNDED PROJECTS									
Votenummer	Description	Department	Source of funding	Original Budget 2019/20	Special Budget 2019/20	Adjustd Budget 2019/20	Budget 20/21	Budget 21/22	Budget 22/23
31106456420LB04922W7	RFID GATES	Libraries	Library Plan	-	-	280 000.00	140 000.00	-	-
31106460420LB04422W7	CCTV CAMERAS	Libraries	Library Plan	-	-	50 000.00	75 000.00	-	-
31106460420LB04522W7	BIG SCREEN TV	Libraries	Library Plan	-	-	50 000.00	-	-	-
31106473520LB04622W7	PLAY AREA EQUIPMENT	Libraries	Library Plan	-	-	150 000.00	-	-	-
31106460420LB04722WM	OFFICE EQUIPMENT	Libraries	Library Plan	-	-	78 000.00	-	-	-
31106456420LC04822W7	ALARM SYSTEM	Libraries	Recapitalisation of Community Grant - Libraries	-	-	50 000.00	-	-	-
31106460420LC0522WM	FURNITURE	Libraries	Recapitalisation of Community Grant - Libraries	150 000.00	150 000.00	-	300 000.00	-	-
31106470020LC05422WM	COMPUTER HARDWARE	Libraries	Recapitalisation of Community Grant - Libraries	480 000.00	480 000.00	510 000.00	400 000.00	-	-
31106473520LC05822W2	MAINTENANCE DEVON	Libraries	Recapitalisation of Community Grant - Libraries	2 000 000.00	2 000 000.00	430 433.00	-	-	-
31106473520LC05822WM	NEW BOOKS	Libraries	Recapitalisation of Community Grant - Libraries	1 000 000.00	1 000 000.00	3 000 000.00	2 500 000.00	-	-
31106473520LC05922WM	REWIRING OF HEIDELBERG LIBRARY	Libraries	Recapitalisation of Community Grant - Library Plan	-	3 103 730.00	1 917 483.00	-	-	-
31106473520LC05922W4	FENCING OF RATANDA PROPER	Libraries	Library Plan	1 000 000.00	1 000 000.00	2 000 000.00	-	-	-
31106473520LC05922W4	CAR PORT IN RATANDA	Libraries	Recapitalisation of Community Grant - Libraries	120 000.00	120 000.00	129 045.00	-	-	-
31106420420LC0622WM	VEHICLE	Libraries	Recapitalisation of Community Grant - Libraries	-	-	-	500 000.00	-	-
31106473520LC0622WA	KWAZENZELE LIBRARY	Libraries	Library Plan	-	-	-	600 000.00	-	-
31206473520CG05022WM	FIRE ENGINE	Fire Fighting and Protection	COGTA	-	-	6 000 000.00	-	-	-
31656473520FMC6822W5	RENSBURG EXT 4 SPORTS COMPLEX GRANDSTAND	Sports and Recreation	MIG	-	-	-	-	2 741 000.00	-
3715645420IPC6122W4	ELECTRIFICATION- OBED NKOSI	Electricity	INEP	900 000.00	900 000.00	-	6 545 000.00	-	-
371564543020FC6322WM	STREET LIGHTS (EDDSM)	Electricity	EEMD	7 000 000.00	7 000 000.00	-	-	-	-
371564543020IPC6522W4	ELECTRIFICATION- OBED NKOSI	Electricity	INEP	727 600.00	727 600.00	-	-	-	-
37156457020IPD1122W7	ELECTRIFICATION- IMPUMELELO - MV	Electricity	INEP	5 000 000.00	5 000 000.00	4 027 600.00	12 455 000.00	15 500 000.00	18 000 000.00
37156457420IPD1122W7	ELECTRIFICATION- IMPUMELELO - LV	Electricity	INEP	6 372 400.00	6 372 400.00	6 372 400.00	-	-	-
37156457420IPD1322WM	INSTALLATION OF HIGHMASTS AT LESEDI	Electricity	MIG	1 904 000.00	1 904 000.00	3 104 000.00	3 249 000.00	3 500 000.00	3 000 000.00
37306472420FMD0122W4	CONSTR ROADS & S/W RATANDA 1,3,5 & OBEDI N	Roads and Stormwater	MIG	11 500 000.00	11 500 000.00	1 100 000.00	7 000 000.00	11 000 000.00	-
37306472420FMD1522W8	CONSTR ROADS & STORMWATER JAMESON PARK	Roads and Stormwater	MIG	7 800 000.00	7 800 000.00	7 800 000.00	3 000 000.00	-	13 000 000.00
37306472420FMD5122W5	CONSTR ROADS & STORMWATER EXT 23	Roads and Stormwater	MIG	-	-	-	5 000 000.00	-	-
37306472420FMD5222W7	CONSTR ROADS & STORMWATER IMPUMELELO	Roads and Stormwater	MIG	-	-	-	-	-	13 689 000.00
37306472420FMD5322WA	CONSTR ROADS & STORMWATER KWAZENZELE PHASE 1	Roads and Stormwater	MIG	-	-	-	6 000 000.00	11 000 000.00	-
37306472420FMD1622W4	CONSTR ROADS & STORMWATER RATANDA EXT7	Roads and Stormwater	MIG	4 000 000.00	4 000 000.00	4 000 000.00	2 000 000.00	-	-
37356449420FMD1422W2	UPGRADING OF DEVON WASTE WATER TREATMENT	Waste Water Management	MIG	1 200 000.00	1 200 000.00	-	-	-	-
37356449420WGD5422W4	UPGR SEWER PIPELINE IN RATANDA EXT 2	Waste Water Management	MIG	-	-	-	6 000 000.00	7 220 000.00	7 566 500.00
37356449420WGD1822WM	UPGR SEWER PIPELINE THOKOLOHONG AGRV VIL	Waste Water Management	WSIG	7 000 000.00	7 000 000.00	2 000 000.00	-	-	-
37456446020WGD1722WM	REPLACEMENT OF ASBESTOS CEMENT WATER PIPES LESEDI P5	Waste Water Management	WSIG	-	-	-	9 825 000.00	11 780 000.00	12 345 440.00
37456446020WGD1722WM	REPLACEMENT OF ASBESTOS PIPES LESEDI P4	Water	WSIG	8 000 000.00	8 000 000.00	8 000 000.00	-	-	-
			Total Grant funded Projects	66 154 000.00	69 257 730.00	51 048 961.00	65 589 000.00	62 741 000.00	67 601 000.00

INTERNAL FUNDED PROJECTS									
Votenumbr	Description		Source of funding	Original Budget 2019/20	Special Budget 2019/20	Adjustd Budget 2019/20	Budget 20/21	Budget 21/22	Budget 22/23
New Vote	IMPUMELO LIBRARY	Libraries	Internal Funding	-	-	-	1 200 000.00	-	-
311564724200CF0302ZWM	INTERNAL ROADS EKHUTULENI CEMETERY	Cemeteries	Internal Funding	1 500 000.00	-	-	-	-	-
312064564200CF0272ZWM	FIRE ENGINE	Fire Fighting and Protection	Internal Funding	4 500 000.00	4 500 000.00	4 652 405.00	-	-	-
315564560200CF0302ZWM	BUSH CUTTERS; CHAINSAWS; BLOWERS	Biodiversity and Landscape	Internal Funding	350 000.00	115 470.00	115 470.00	200 000.00	-	-
321564210200CF0402ZWM	MAYOR'S CAR	Executive Mayor	Internal Funding	700 000.00	700 000.00	527 044.00	-	-	-
322064210200CF0412ZWM	SPEAKER'S CAR	Speaker	Internal Funding	500 000.00	500 000.00	502 174.00	-	-	-
332064735200CF0562ZWN	SHARED ECONOMIC INFRASTRUCTURE FACILITY	LED	Internal Funding	-	-	59 960.00	-	-	-
341064740200CF0442ZHO	UPGRADE OF MUNICIPAL BUILDING	Finance	Internal Funding	300 000.00	-	-	-	-	-
351064640200CF0592ZWM	FURNITURE	Administrative and Corporate Support	Internal Funding	350 000.00	-	-	-	-	-
352064700200CF0842ZWM	COMPUTER HARDWARE	ICT	Internal Funding	1 000 000.00	642 911.00	642 911.00	-	-	-
371564204200CF0392ZWM	VEHICLE CHERRY PICKER	Electricity	Internal Funding	-	-	300 000.00	-	-	-
371564330200CF0662ZWN	ELECTRIFICATION- RATAANDA EXT 8	Electricity	Internal Funding	500 000.00	500 000.00	500 000.00	-	-	-
371564330200CF0212ZWM	UPGRADING & REFURBISHMENT OF NETWORK	Electricity	Internal Funding	500 000.00	-	-	-	-	-
371564564200CF0242ZWM	TOOLS & EQUIPMENT	Electricity	Internal Funding	150 000.00	27 000.00	27 000.00	-	-	-
373064724200CF0372ZWM	RESEALING OF ROADS	Roads and Stormwater	Internal Funding	5 000 000.00	-	-	5 000 000.00	-	-
373064724200CF0392ZWN	CONSTRUCTION OF ROADS JAMESON PARK	Roads and Stormwater	Internal Funding	-	-	1 310 000.00	-	-	-
373564204200CF0392ZWM	TRAILERS	Waste Water Management	Internal Funding	350 000.00	-	-	-	-	-
374564564200CF0372ZWN	UPGRADING TELEMETRY SYSTEM	Water	Internal Funding	500 000.00	-	-	-	-	-
			Total Internal funded Projects	16 200 000.00	6 985 381.00	8 636 964.00	6 400 000.00	-	-
			TOTAL CAPITAL	82 354 000.00	76 248 111.00	59 685 935.00	71 989 000.00	62 741 000.00	67 601 000.00

5. LEGISLATIVE PROVISION

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

6. LC.CM-.../03/2018 RECOMMENDATION

6.1 THAT Council notes the draft annual budget with operational revenue of R1,022,002,097 operational expenditure of R968,611,860 and Capital Expenditure of R71,979,000 for the 2019/20 financial year as contained in the following tables: