



DRAFT ANNUAL BUDGET FOR 2020/2021 MTREF

2020/21 to 2022/23

**Medium Term Revenue and Expenditure
Framework (MTREF)**

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Glossary

Adjustments Budget – Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

Allocations – Money received from Provincial or National Government or other municipalities.

AFS- Annual Financial Statements

Assessment Rates - Local Government tax based on the assessed value of a property.

To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

Budget – The financial plan of the Municipality.

Budget Related Policy – Policy of a municipality affecting or affected by the budget, examples include tariff policy, rates policy and credit control policy.

Capital Expenditure - Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's Statement of Financial Performance.

CRR – Capital Replacement Reserve. A cash reserve set aside for future capital expenditure.

Cash Flow Statement – A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it is shown as expenditure in the month it is received, even though it may not be paid in the same period.

CFO - Chief Financial Officer

DORA – Division of Revenue Act. Annual legislation that shows the total allocations made by National to Provincial and local government.

Equitable Share – A general grant paid to municipalities. It is predominantly targeted to help with free basic services.

EPWP – Expanded Public Works Programme.

FFC – Financial and Fiscal Commission.

Fruitless and wasteful expenditure – Expenditure that was made in vain and would have been avoided had reasonable care been exercised.

GIS – Geographic Information System.

GFS – Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.

GGP – Gross Geographic Product

GRAP – Generally Recognised Accounting Practice. The new standard for municipal accounting and basis upon which AFS are prepared.

IDP – Integrated Development Plan. The main strategic planning document of the Municipality

ISDF – Integrated Strategic Development Framework - The 20-year framework linking technical, financial and economic planning.

KPI's – Key Performance Indicators. Measures of service output and/or outcome.

MEC – Minister in Executive Committee (Province).

MFMA – The Municipal Finance Management Act – No. 53 of 2003. The principle piece of legislation relating to municipal financial management.

MTREF – Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous three years and current years' financial position.

MPAC – Municipal Public Accounts Committee.

MSCOA – Municipal Standard Chart of Accounts

NERSA – National Electricity Regulator of South Africa.

NT – National Treasury.

NDPG – Neighbourhood Development Partnership Grant.

Net Assets – Net assets are the residual interest in the assets of the entity after deducting all its liabilities. This means the net assets of the municipality equates to the "net wealth" of the municipality, after all assets were sold/recovered and all liabilities paid. Transactions which do not meet the definition of Revenue or

Expenses, such as increases in values of Property, Plant and Equipment where there is no inflow or outflow of resources are accounted for in Net Assets.

Operating Expenditure – Spending on the day to day expenses of the Municipality such as salaries and wages.

R&M – Repairs and maintenance on property, plant and equipment.

SDBIP – Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

Strategic Objectives – The main priorities of the Municipality as set out in the IDP.

Budgeted spending must contribute towards the achievement of the strategic objectives.

SCM – Supply Chain Management.

Unauthorised expenditure – Generally, spending without, or in excess of, an approved budget.

Virement – A transfer of budget.

Virement Policy - The policy that sets out the rules for budget transfers. Virements are normally allowed within a vote. Transfers between votes must be agreed by

Council through an Adjustments Budget.

Vote – One of the main segments into which a budget is divided. In Kgatelopele Local Municipality this means at directorate level.

**THE SPEECH OF THE MAYOR ON THE OCASSION OF THE APPROVAL OF IDP
REVIEW 2017/18,
THE ANNUAL BUDGET FOR 2020/21 MEDIUM TERM REVENUE AND EXPENDITURE
FRAMEWORK,
BUDGET POLICIES AND PROPOSED TARIFF INCREASES FOR 2020/21
23 MARCH 2020**

Honourable Councillors
Municipal Manager
Senior Management Team
Officials Present
Community members Present

Good Morning

When we took office in 2016, we were handed an enormous task of ensuring that the people of Kgatelopele Local Municipality receive quality basic services efficiently and effectively, without wasting tax-payers money. We owed it to the community to ensure that we make meaningful changes in their lives, most importantly that we take them along as we move towards bettering the conditions under which they live. If we look back at the 4 years that years that has passed, what have we achieved while we were in office? Has the community felt the impact that we promised them? The following are just a few of the major milestone we have achieved:

- Stabilizing the political and administration operation
- Appointing competent senior manager, who will carry out our vision
- Procure municipal fleet to ensure service delivery is done timeously
- Increased the number of registered indigents
- Development of the integrated infrastructure master plan
- Implementation of the solar revenue enhancement project
- Created a mayoral project that employed 30 community members

This is just a few of the milestones that we have accomplished and we are working hard as council to ensure that all the promises we made the community are fulfilled. Let this serve as a reminder that when we took the oath of office, we all committed to working in the best interest of those that voted us into office, we committed to be their voice and represent them to the best of our ability.

The direction the municipality is talking will see the birth of a smart city one day. Even though there is no universally accepted definition of what exactly constitutes a smart city, there are certain commonalities. Fundamentally, a smart city is a municipality that uses ICT to increase its operational efficiency, share information with the public, and improve the quality of government services and citizen welfare. We have to start using technology to better the lives of our people, to make access to basic services a norm to them. Gone are the days where you have to drive to Kimberley to pay your Truworths account, today you can pay it using your phone or the ATM. Why can't we have the same for our people, for them to pay their municipal account online, at the local SPAR or OK Foods, why do they have to come and queue at the municipal building to pay services.

Honourable Councillors, the theme for the financial year 2020/21 is "Building a tech-Savvy workplace. To achieve this, we have to invest in our technology that we have and to upgrade it, this starts without connectivity and reliable systems

Honourable Councillors, the intention with this speech is to give the State of the municipality, and lay the foundation for what is ahead of us, which is delivery of services through the implementation of projects, conducting maintenance of the infrastructure, caring for our customers and improve governance, management, stability and sustainability.

All municipalities aspire to develop and create wealth and opportunities for its people. We had since overcome that by the upgrades of bulk water supply and sewer plant. Through the Integrated Infrastructure Development Master Plan, we want to build a strong municipality with reliable infrastructure that can attract investments for growth and development. The budget for 2020/21 sees capital grants gazetted amount at R 18 020 000 (eighteen million and twenty thousand) for 2020/21, R 13 303 000 (thirteen million, three hundred and three thousand) for 2021/22 and R 29 510 000.00 (twenty-nine thousand million, five hundred and ten thousand) for 2022/23. The MIG funding included in the capital grants earmarked for the construction of the new land-fill site and water & sanitation reticulation services. Five percent (5%) of the MIG allocation is primarily for Project Management Unit support to enable effective and credible oversight in the implementation of capital projects.

Our biggest challenge that remains is access to land, our people want to see our towns develop, tenure of land and land for self-sustenance. Our youth remains unemployed and more internships and in-service training opportunities are required to provide the experience to young citizens, in 2019/20 we have seen 30 people employed in the mayoral project, this provided relief to their households. We also started the learnership initiative to give N6 learners in service training to complete their diplomas.

On the matter of entrepreneurs, it has been an outcry of small and medium enterprises in our locality of the deprived opportunities in the procurement system of the municipality. Supported by the Preferential Procurement Policy Framework Regulations of 2017, this municipality has been setting aside tenders and quotations for designated groups to remove unfair competition between various companies in different stages of growth and development. We have ensured that all capital projects have subcontracting, we have urged the community to ensure that their company documents remain up-to-date and to always keep an eye on our website for opportunities.

We have also noted weaknesses and complexities of tendering and I since instructed management to develop an SMME Support Strategy and create a SCM Advisory where SMME's will be assisted, not with pricing of goods and service but more tender compliance, completion of forms, municipal accounts, registration on CSD and referrals for project funding and business development

The Budget is credible, relevant and funded with risks of cash flow sustainability, in 2020/21 if losses reduction, efficiencies and collections are not improved accordingly there will be major financial constraints. To this end, we are attending to this in three angles, loss reduction, revenue enhancement and cost containment. There are quick win projects identified in all the three angles, the technical team will be engaging with management in this regard.

We are busy with the installation of pre-paid water meters specifically for indigents, with the intention to have a full roll out to all households. We are doing this to ensure that non-indigent households pay their bills and that those that are indigent must be supported appropriately through the social package as offered by the municipality.

As I move towards concluding this state of the municipality address, let me present the proposed tariffs structure as follows, and are hereby submitted for approval:

- Decrease in Rates and taxes by 2%
- Increase Water by 4,5%
- Increase Sanitation by 4,5%
- Increase Refuse removal 4,5%
- Increase Electricity 6.4%, we are awaiting the outcomes of the application and the NERSA approval is the final approval of tariff increases to be affected from 1 July 2020.

In the 2020/21 financial year, our focus as directed by council would be as follows

- Preparing for a SMART City
- short- and long-term financial sustainability
- Revenue Enhancement
- Implementation of the Integrated Infrastructure Development Master Plan
- Supporting our SMME's
- Sustain Political and Administrative Stability
- Improve in the monitoring & evaluation of institutional performance
- Explore funding options for roads & storm water
- Staff performance and staff morale
- Professionalization of the Technical, Infrastructure & Community Services

I want to say to administration, let this opportunity address our challenges, and not be a theory of some other municipality to be tried here. We must be creative, engage broadly and ensure that we benefit as a municipality and the community of Kgatelopele. We expect you to take us in confidence as you engage and provide continuous feedback through the portfolio committees of the Municipality.

I therefore present the IDP Review 2017/18, the Annual Budget for 2020/21 Medium Term Revenue Expenditure Framework, the proposed tariffs increase and the attached Budget Policies the agenda.

I would like to thank the staff in my office, the office of the Municipal Manager and his team and all Councillors who made this occasion a success.

I Thank You

Presented by:

Hon. Cllr. R. Losper

Mayor

Kgatelopele Local Municipality

Date: 23 March

1. COUNCIL RESOLUTIONS

1. The Council of Kgatelopele Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

1.1 The draft annual budget of the municipality for the financial year 2020/21 and the multi-year and single-year capital appropriations as set out in the following tables:

- 1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification)
- 1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote)
- 1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type)
- 1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as

- 1.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:

- 1.2.1. Budgeted Financial Position
- 1.2.2. Budgeted Cash Flows
- 1.2.3. Cash backed reserves and accumulated surplus reconciliation
- 1.2.4. Asset management
- 1.2.5. Basic service delivery measurement

2. The Council of Kgatelopele Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2020:

- 2.1. the tariffs for property rates
- 2.2. the tariffs for electricity
- 2.3. the tariffs for the supply of water
- 2.4. the tariffs for sanitation services
- 2.5. the tariffs for solid waste services

3. The Council of Kgatelopele Local Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2020 the tariffs for other services, as set out in to respectively.

4. To give proper effect to the municipality's annual budget, the Council of Kgatelopele Local Municipality approves:

4.1 That cash backing is implemented through the utilisation of a portion of the revenue generated from property rates to ensure that all capital reserves and provisions, unspent long-term loans and unspent conditional grants are cash backed as required in terms of the municipality's funding and reserves policy as prescribed by section 8 of the Municipal Budget and Reporting Regulations.

The following budget principles and guidelines directly informed the compilation of the

- The 2019/20 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2020/21 draft annual budget; where appropriate a zero-base approach has been to some extent used.
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of refuse removal and the continued escalation in the fuel price. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;
- Circular 82 of National Treasury's guidelines on cost containment, the following cost saving measures were applied:
 - Restructuring of the personnel structure to decrease consultant fees and overtime costs.
 - Integrating position to decrease employee related costs
 - No borrowing initiatives taken;
 - Principle of 0% increase in non-core general expenses unless valid motivations dictate.
 - Subsistence and travel cost
 - Catering and entertainment

In view of the aforementioned, the following table is a consolidated overview of the proposed 2020/21 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2019/2020 MTREF

	Adjustment Budget 2019/20	Budget year 2020/2021	Budget year +1 2021/2022	Budget year +2 2022/2023
Total Operating Revenue	R 109 922	R 112 143	R 118 935	R 128 918
Total Operating Expenditure	R 109 820	R 111 970	R 118 741	R 128 150
Surplus	R 101	R 173	R 194	R 768
Total Capital Expenditure	R 28 675	R 18 020	R 13 303	R 29 510

Total operating revenue has grown by 2%, R 112 143 million for the 2020/21 financial year when compared to the 2019/20 Adjustments Budget. For the two outer years, operational revenue will increase by 6% and by 1.9% respectively, equating to a total revenue growth of R 11,303 million over the MTREF when compared to the 2019/20 financial year adjusted budget.

Total operating expenditure for the 2020/21 financial year has been appropriated at R 111, 970 million and translates into a budgeted surplus of R 173 707 before taking into consideration capital transfers. When compared to the 2018/19 Adjustments Budget, operational expenditure has grown by 2% in the 2019/20 budget. The surplus will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

The budget for Kgatelopele Local Municipality amounts to approximately R 130,163 million. This constitutes R 19,020 million for capital expenditure and R 112,143 million for operating revenue.

4. OPERATING REVENUE FRAMEWORK

For Kgatelopele Local Municipality to continue improving the quality of life of its communities through the delivery of quality services, it is necessary to generate sufficient revenue from rates and service charges. It is also important to ensure that all billable revenue is firstly correctly charged and secondly adequately collected. The prevailing economic circumstances are adding to the difficulties in collecting the revenue due to the municipality and additional savings initiatives will need to be implemented in the MTREF to ensure the financial sustainability of the municipality. The expenditure required to address the needs of the community 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's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Revenue enhancement and maximizing the revenue base;
- Efficient revenue management, which aims to ensure 95% annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Moving towards cost reflective tariff increases for water, sanitation and refuse collection;
- Budgeting for a moderate surplus to ensure availability of cash reserves to back statutory funds and provisions.
- Fully subsidizing all indigent households in terms of the relief offered by the municipality
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA); Increased pressure to deliver and maintain services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Municipality

The following table is a summary of the 2020/21 MTREF (classified by main revenue source).

Table 2 Summary of revenue classified by main revenue source

NC086 Kgatelopele - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
Revenue By Source								
Property rates	2	19,990	19,990	19,990	–	21,074	22,252	23,320
Service charges - electricity revenue	2	34,763	31,463	31,463	–	32,021	35,569	37,276
Service charges - water revenue	2	9,045	7,925	7,925	–	8,426	9,583	10,043
Service charges - sanitation revenue	2	4,415	3,751	3,751	–	4,155	5,398	5,657
Service charges - refuse revenue	2	7,852	7,852	7,852	–	7,339	8,765	9,186
Rental of facilities and equipment		677	623	623	–	641	774	916
Interest earned - external investments		975	983	983	–	956	600	1,050
Interest earned - outstanding debtors		398	1,974	1,974	–	1,487	973	963
Dividends received		–	–	–	–	–	–	–
Fines, penalties and forfeits		1,403	1,140	1,140	–	589	617	647
Licences and permits		457	257	257	–	346	363	17
Agency services		389	389	389	–	292	306	320
Transfers and subsidies		27,106	26,978	26,978	–	27,749	30,166	32,849
Other revenue	2	8,569	6,597	6,597	–	6,165	3,568	6,673
Gains on disposal of PPE		–	–	–	–	903	–	–
Total Revenue (excluding capital transfers and contributions)		116,037	109,922	109,922	–	112,143	118,935	128,918

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality. The increase in revenue of 2% represents the tariff increase for water, sanitation and refuses revenue and electricity. Rates and service charge revenues comprise 65% of the total operating revenue mix. In the 2019/2020 financial year, revenue from rates and services charges totalled R 70,981 million, which was 65% of the total operating revenue.

The second largest source is operational grants from national and provincial government, after service charges, property rates is the third largest revenue source which has shown growth over the MTREF, followed by 'other revenue' which consists of various items such as income received from permits and licenses, sale of land, connection fees, advertisement fees etc. Departments delivering these services have been urged to review the tariffs of these items on an annual basis to ensure they are cost reflective and market related.

The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 3 – Operational and Capital grants

The table below illustrates the capital and operational grants the municipality will be receiving as per the DORA for 2020/2021.

Description	DESCRIPTION	2020/2021	2021/2022	2022/2023
	Capital Grants			
MIG	Solid waste / Municipal Infrastructure Grant	8,020,000.00	8,303,000.00	8,510,000.00
RBIG	Water / Regional Bulk Infrastructure Grant	-	-	-
INEP	Electricity / Integrated National Electrification Programme	-	2,000,000.00	2,000,000.00
WSIG	Water / Water Services Infrastructure Grant	8,000,000.00	-	15,000,000.00
EEDSMG	Electricity / Energy Efficiency & Demand Side Management	2,000,000.00	3,000,000.00	4,000,000.00
	Sub-section Total:	18,020,000.00	13,303,000.00	29,510,000.00
	Main Vote Total of Capital	18,020,000.00	13,303,000.00	29,510,000.00
	Operational Grants			
FMG	Internship salaries	572,959.20	572,959.20	572,959.20
FMG	Updating of assets register	800,000.00	700,000.00	600,000.00
FMG	Supplementary valuation roll	207,040.80	300,000.00	300,000.00
FMG	System support	400,000.00	400,000.00	400,000.00
FMG	AFS review	300,000.00	300,000.00	300,000.00
FMG	Change of financial system	520,000.00	805,000.00	1,405,000.00
		-	-	-
	Sub-section Total	2,800,000.00	3,077,959.20	3,577,959.20
		-		
	Equitable Share			
	Operational Equitable Share	22,680,000.00	24,801,000.00	26,881,000.00
	Sub-Section Total	22,680,000.00	24,801,000.00	26,881,000.00
	Library Service			
	Remuneration of Staff	655,000.00	655,000.00	655,000.00
	Sub-section Total	655,000.00	655,000.00	655,000.00
	EPWP & Council Support			
EPWP	Council / Expanded Public Works Programme Ingrated Grant	1,000,000.00	-	-
E/S	Support of Council and Remmuniration of Councillors	1,614,000.00	1,679,000.00	1,749,000.00
	Sub-section Total	2,614,000.00	1,679,000.00	1,749,000.00
	Main Vote Total Operational Grants	28,749,000.00	30,212,959.20	32,862,959.20

The municipality's infrastructure projects are all grant funded, for the past 3 years the municipality has managed to spend its full MIG and WSIG allocation within the financial year it was allocated.

Tariff Setting and Tariff Implications of the Draft Annual Budget

Tariff-setting is a pivotal and strategic part of the compilation of any budget.

When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Municipality.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges within CPI. Municipalities should justify in their budget documentation all increases in excess of the CPI upper boundary of the South African Reserve Bank's inflation target. Circular 72 stated that, if municipalities continue to act in this manner that increase tariff above inflation, the National Treasury will have no other option but to set upper limits of tariff increases for property rates and service charges to which municipalities will have to conform.

Excessive increases are likely to be counterproductive to economic growth and development, resulting in higher levels of non-payment. The 4,5 percent increases in the average for services, electricity is at 6.4%, there will be a 2% increase on property rates. Other factors contributing to the rising cost include the anticipated collectively agreed upon wage increase which is above upper boundary, the excessive increase in the price of petrol and diesel as well as chemicals, spares and other materials that collectively contribute to the extent that tariffs need to be increased annually.

4.1 Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process. In the 2019/20 financial year, the municipality implemented the first year of the general valuation roll that would replace the current 2013 general valuation roll. A large number of properties were identified in the new valuation roll as compared to the 2013 general valuation roll. Property value increased by R 300 million in the 2019 general valuation roll as compared to the 2013 general valuation roll.

As per the Municipal Property Rates Act, the municipality phased in the increase in the rates to cushion the shock to the property owners. A decrease in the tariff for property rates will be implemented and phased in over 3 years.

The municipality is currently busy with the supplementary valuation roll to be implemented the 1st July 2020. All property that was built from the 1st July 2018 until the date of the supplementary contribute to the increase in the property rates and the correction and omission of property values.

During the 2018/19 financial year, the municipality embarked in a project to updated its Spatial Development Plan and its Land Use Scheme, during this project it was identified that 220 ervens that were sold, valued in 2013, that are still under the municipality's name. This poses a challenge as the municipality cannot bill itself on property rates of those ervens. Engagements are underway to force households do the transfers of the properties. During the abovementioned project, it became evident that there is a high number of land use transgressions and building violations without any action taken, even when there is a transgression fine on the tariff list.

The following stipulations in the Property Rates Policy are highlighted:

- The first R 15 000 of the market value of a property used for residential purposes is exempted from the rate-able value (Section 17(h) of the MPRA). Additionally, the Municipality also further provide for residential properties an R 25 000 as non-ratable, therefore the total non-ratable value for residential properties is R 40 000.
- 100% rebate will be granted to registered indigents in terms of the Indigent Policy, based on the maximum usage as contained in the policy.
- The Municipality may also award a 100% rebate on the assessment rates of rate-able properties of certain classes such as registered welfare organizations, institutions or organizations performing charitable work and public benefit organizations as defined in the property rates policy of the municipality. The owner of such a property must apply to the Chief Financial Officer in the prescribed format and at the prescribed date in order to qualify for the relief.

The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2019/20 financial year to be implemented the 1st July 2019 is contained below.

Table 4 Comparison of 2019/2020 levied to proposed rates for 2020/21

KGATELOPELE LOCAL MUNICIPALITY					
DRAFT TARIFFS 2020/2021					
	UNIT				
		Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent
		Tariff 2019/2020 (Excl VAT) R c	Tariff 2019/2020 (Inc VAT) R c	Tariff 2020/2021 (Excl VAT) R c	Tariff 2020/2021 (Inc VAT) R c
PROPERTY RATES					
Residential properties	Stand	0.0079		0.0081	
Industrial Properties	Stand	0.0159		0.0162	
Business & Commercial Properties	Stand	0.0119		0.0121	
Farm Properties used for:				-	
Agricultural purpose	Farm	0.0003		0.0003	
Business & commercial purpose	Farm	0.0253		0.0259	
Residential purpose	Farm	0.0079		0.0081	
Other purpose	Farm	0.0253		0.0259	
Farm Properties not used for any purpose	Farm	0.0253		0.0259	
State owned properties	Stand	0.0063		0.0065	
Municipal properties - Exempted	Stand	0.0000		-	
Public Service Infrastructure - Exempted	Stand	0.0000		-	
Privately owned towns serviced by the owner	Stand	0.0063		0.0065	
Formal & informal Settlements	Stand	0.0000		-	
Communal Land (S1 Communal Land Right Act 2004)	Stand	0.0000		-	
State Trust Land	Stand	0.0000		-	
Properties acquired through Provision of Land Assistance Act 126 of 1993, or Restitution of Land Rights Act 22 of 1994 which is subject to the communal Property Associations Act 28 of 1991		0.0000		-	
Listed Protected Areas - Exempted	Stand	0.0000		-	
Properties on which National Monuments are Proclaimed - Exempted on approval of application	Stand	0.0000		-	
Properties owned by Public Benefit Organisations used for benefit of listed in the 9th schedule to income tax act	Stand	0.0000		-	
Blocks of Flats		0.0079		0.0081	
Mining		0.0159		0.0162	
Churches - Exempted		0.0000		-	
Small Holdings	Stand	0.0063		0.0065	

With the implementation of the new General Valuation Roll on the 1st July 2019, there was a substantial increase in the number of properties and property value since the last General Valuation Roll done in 2013. The municipality deemed it fit to decrease rates to reduce the shock factor for the rate payers. Which resulted in a decrease in the tariff for all rate-able property categories at 20% excluding farms for agricultural purposes, which decreases with 825%, consideration has been given to the drought in the municipal area has been experiencing since 2013 that has affected the productivity of the farmers that produce perishables. A supplementary valuation roll will be implemented 1st July 2020.

4.2 Sale of Water and Impact of Tariff Increases

Parts of South Africa has been declared disaster areas due to drought, with water being a scarce resource, Kgatelopele Local Municipality strives in trying to curb water losses and ensuring there is sufficient water supply for its residence. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

In addition, National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective, which Kgatelopele Local Municipality is working towards. South Africa is in the midst of its worst drought in at least two decades, threatening agricultural output and pushing up food prices. Maintenance of infrastructure and cost-reflective tariffs will ensure that the supply is managed in future to ensure sustainability. With the introduction of prepaid meters, community members will be more aware of their water usage and reduce excessive water usage and losses.

Proposed tariff increases as from 1 July 2020 are indicated in Table 5. The 6 kℓ free water per 30-day period has since 2014 only been granted to registered indigents.

A summary of the proposed tariffs for households (residential) are as follows:

Table 5 Proposed Water Tariffs

KGATELOPELE LOCAL MUNICIPALITY							
DRAFT TARIFFS 2020/2021							
	UNIT						
		Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent		
		Tariff 2019/2020 (Excl VAT) R c	Tariff 2019/2020 (Inc VAT) R c	Tariff 2020/2021 (Excl VAT) R c	Tariff 2020/2021 (Inc VAT) R c		
WATER							
Domestic households							
Tariffs Applied for:							
Block 1 (0-6 kl) 6	1+	kL	7.18	8.25	7.53	8.66	
Block 2 (7.-25 kl) 18	1 +	kL	8.04	9.25	8.44	9.70	
Block 3 (26 - 50 kl) 24	1+	kL	9.23	10.62	9.69	11.14	
Block 4 (>51 kl)	1+	kL	10.98	12.63	11.52	13.24	
Basic Charge (inclusive of basic charge per borehole)		Stand	89.71	103.17	94.11	108.23	
Basic Charge (Indigents) (0-6 kl)	0 - 6 kL Free	Stand			-	0.00	
Basic Charge (Vacant)		Stand	269.16	309.53	282.35	324.70	
						0.00	
Business							
Tariffs Applied for:							
Block 1 (0-6 kl)	1+	kL	8.9785	10.33	9.42	10.83	
Block 2 (7.-25 kl)	1 +	kL	10.0565	11.56	10.55	12.13	
Block 3 (26 - 50 kl)	1+	kL	11.5316	13.26	12.10	13.91	
Block 4 (>51 kl)	1+	kL	13.7160	15.77	14.39	16.55	
Basic Charge (inclusive of basic charge per borehole)		Stand	269.1568	309.53	282.35	324.70	
Basic Charge (Vacant)		Stand	807.4534	928.57	847.02	974.07	
						0	
Industrial							
Tariffs Applied for:							
Block 1 (0-6 kl)		kL	10.7799	12.40	11.31	13.00	
Block 2 (7.-25 kl)		kL	12.0565	13.86	12.65	14.54	
Block 3 (26 - 50 kl)		kL	13.8436	15.92	14.52	16.70	
Block 4 (>51 kl)		kL	16.4677	18.94	17.27	19.87	
Basic Charge (inclusive of basic charge per borehole)		Stand	269.1568	309.53	282.35	324.70	
Basic Charge (Vacant)		Stand	807.4563	928.57	847.02	974.07	

The tariff structure of the 2019/20 financial year has not been changed

In the fight to assist our indigents to better manage their accounts, in 2018/19, the municipality introduced a conversion of conventional water meters to prepaid water meters. Due to the cost of these prepaid meters, the municipality had to phase it out over a number of years. Indigents will not be disadvantaged by the prepaid water meter as the tap will not run dry at any point. Prepaid water meters will be able to detect when there is a leakage and will assist curb water losses.

Sale of Electricity and Impact of Tariff Increases

NERSA announced the revised bulk electricity pricing structure, with Eskom being awarded an increase of 6.9% for 2020/21 financial year. The increase guideline for municipalities to levy to consumers has not been finalised, however an increase of 6.4% has been used in the assumption for electricity tariff increase for the budget for implementation on the 1st July 2020 in the interim. The municipality is currently rendering the service at a loss due to the wage bill, general expenditure and increased maintenance and losses incurred due to theft and the aging infrastructure in the department. The increase awarded to Eskom by Nersa will further place immense pressure on the budget and the affordability of the service for the consumers and the municipality. Alternative way to decrease the dependency on Eskom generated energy has to be is currently being explored to decrease this burden. The municipality has embarked on a project in the 2019/20 financial year to reduce its own electricity consumption as a pilot project using solar electricity. The project will demonstrate the revenue enhancement strategy using solar energy.

The following table shows the impact of the proposed increases in electricity tariffs for domestic consumers:

Table 6 Comparison between current electricity charges and increases (Domestic)

KGATELOPELE LOCAL MUNICIPALITY							
DRAFT TARIFFS 2020/2021							
	UNIT						
		Rounded off to nearest cent	Tariff 2019/2020 (Excl VAT) R c	Tariff 2020/2021 (Inc VAT) R c			
ELECTRICITY							
Domestic Households (Prepaid)							
Tariffs Applied for:							
Block 1 (0-50 kWh)	1+	kWh	1.0277	1.18	1.0934	1.26	
Block 2 (51-350 kWh)	1+	kWh	1.3205	1.52	1.4050	1.62	
Block 3 (351-600 kWh)	1+	kWh	1.8714	2.15	1.9912	2.29	
Block 4 (>600 kWh)	1+	kWh	2.1981	2.53	2.3388	2.69	
Basic Charges		Per Meter	19.8487	22.83	21.1190	24.29	
Basic Charges (Indigent) - Only for first prepaid meter	0 kWh free unit	Per Meter	FREE	FREE	FREE	FREE	
Basic Charges (Indigent) - Second, third ,etc. prepaid meter	No free units	Per Meter	19.8561	22.83	21.1269	24.30	
Domestic Households (Conventional)							
Tariffs Applied for:							
Block 1 (0-50 kWh)	1+	kWh	1.0277	1.18	1.0934	1.26	
Block 2 (51-350 kWh)	1+	kWh	1.3205	1.52	1.4050	1.62	
Block 3 (351-600 kWh)	1+	kWh	1.8714	2.15	1.9912	2.29	
Block 4 (>600 kWh)	1+	kWh	2.1981	2.53	2.3388	2.69	
Basic Charge		Stand	268.7192	309.03	285.9173	328.80	
Basic Charge on Vacant Stands		Stand	373.3257	429.32	397.2186	456.80	

The municipality adopted a zero tolerance for businesses debt in relation to electricity. All electricity consumed by businesses should be paid over per month, this includes businesses that have payment arrangements on their arrears.

The following table shows the impact of the proposed increases in electricity tariffs for businesses, industrial, school:

KGATELOPELE LOCAL MUNICIPALITY							
DRAFT TARIFFS 2020/2021							
	UNIT	Rounded off to nearest cent		Rounded off to nearest cent		Rounded off to nearest cent	
		Tariff 2019/2020 (Excl VAT) R c	Tariff 2019/2020 (Inc VAT) R c	Tariff 2020/2021 (Excl VAT) R c	Tariff 2020/2021 (Inc VAT) R c		
ELECTRICITY							
Business (Commercial)							
Business Prepaid Single Phase	1 +	kWh	2.2873	2.63	2.4336	2.80	
Business Prepaid Three Phase	1+	kWh	2.2873	2.63	2.4336	2.80	
Business Conventional Single Phase	1+	kWh	2.2873	2.63	2.4337	2.80	
Business Conventional Three Phase	1+	kWh	2.2873	2.63	2.4337	2.80	
Basic charge Conventional		Stand	298.0568	342.77	317.1324	364.70	
Basic charge Prepaid		Per Meter	298.0568	342.77	317.1324	364.70	
Basic Charge on Vacant Stands		Stand	876.9963	1,008.55	933.1241	1073.09	
Industrial							
Energy	1 +	kWh	2.0051	2.31	2.1334	2.45	
Demand KVA Meters (per KVA)	1 +	KVA	183.9003	211.49	195.6700	225.02	
Basic Charge Conventional & Prepaid		Stand	634.0746	729.19	674.6554	775.85	
Basic Charge on Vacant Stands		Stand	876.9963	1,008.55	933.1241	1073.09	
Schools							
Energy	1 +	kWh	1.8693	2.15	1.9889	2.29	
Basic Charge Conventional		Stand	268.7192	309.03	285.9173	328.80	
Basic Charge Prepaid		Per Meter	267.1215	307.19	284.2173	326.85	

Sanitation and Impact of Tariff Increases

A tariff increases of 4.9% for sanitation is proposed from 1st July 2020.

This is based on tariff increases related to inflation increases as mentioned earlier in the budget. The municipality embarked on capital project to upgrade the sewage system in the 2016/2017 financial year which we anticipate to conclude by the end of the 2019/20 financial year, through grant funding. This will ensure the municipality improves on the management of the oxidation ponds through the additional capacity the new ponds and reducing the number of septic tanks that need suction on a regular basis.

With the upgraded and extended oxidation pond, the new municipality will have to review its current tariff structure.

The following factors are being considered in developing a cost reflective tariff:

- The percentage water discharged during the process;
- Differential tariff that will ensure that our tariff is favourable and fair to all consumers

Free sanitation will be applicable to registered indigents. The following table compares the current and proposed tariffs:

Table 7 Comparison between current sanitation charges and increases

KGATELOPELE LOCAL MUNICIPALITY						
DRAFT TARIFFS 2020/2021						
		UNIT	Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent
			Tariff 2019/2020 (Excl VAT) R c	Tariff 2019/2020 (Inc VAT) R c	Tariff 2020/2021 (Excl VAT) R c	Tariff 2020/2021 (Inc VAT) R c
					-	
SEWERAGE						
Residential / Government / Churches / PBO		Point	142.8335	164.26		0
Flats		Unit	142.8335	164.26		0
Business / Guesthouses / Hotels / Industrial	The Greater of Per 100m ²	100m ²	244.4321	281.10		0
		or Point	244.4321	281.10		0
		or Unit	244.4321	281.10		0
Septic Tank		per month	142.8335	164.26		0
		ad-hoc	451.0533	518.71		0
Sewerage Connection New		Connection	COST + 15 %	COST + 15 %		0

Waste Removal and Impact of Tariff Increases

Services relevant to refuse removal, refuse dumps and solid waste disposal mechanisms must comply with stringent legislative requirements such as the National Environmental Management: Waste Act, No 59 of 2008. This service will receive further revision of the solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term. The current landfill site has reached its capacity in terms of servicing the municipality, the municipality has started the process of establishing a new landfill site to accommodate the current demand.

An increase of 4.5% in the waste removal tariff is proposed from 1 July 2020. Higher increases are not viable at this stage owing to the increases implemented in preceding financial years to ensure sustainability of this service. The management of the landfill site is still outsourced until the municipality builds adequate capacity to render that service itself after the new landfill site is established.

The following table compares current and proposed amounts payable from 1 July 2020:

Table 8 Comparison between current waste removal fees and increases

KGATELOPELE LOCAL MUNICIPALITY						
DRAFT TARIFFS 2020/2021						
	UNIT					
		Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent
		Tariff 2019/2020 (Excl VAT) R c	Tariff 2019/2020 (Inc VAT) R c	Tariff 2020/2021 (Excl VAT) R c	Tariff 2020/2021 (Inc VAT) R c	
						0
REFUSE REMOVAL						0
Basic Charge Residential	Stand	121.9688	140.26			0
Basic Charge Residential (Indigent)	Stand	0.0000	-			0
Basic Charge Business - unit - low capacity and high	Stand	257.4975	296.12			0
Basic Charge Industrial	Stand	257.4975	296.12			0
Basic Charge Government	Stand	257.4975	296.12			0
Garden Refuse Removal	load	150.7732	173.39			0
Building Rubble	per ton	448.9257	516.26			0
Illegal Dumping		354.6016	407.79			0
Basic Charge Residential (Vacant)	Stand	365.9205	420.81			0
Basic Charge Business and Other (Vacant)	Stand	772.4784	888.35			0
Churches - exempt						0

5. OPERATING EXPENDITURE FRAMEWORK

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

- Balanced budget constraint (cash operating expenditure should not exceed cash operating revenue) unless there are sound reasons for utilising existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the MTREF as informed by Section 18 and 19 of the MFMA;
- Introduction of integrated posts to reduce the personnel budget
- Reducing expenditure on non-core programmes;
- Implementing operational gains and efficiencies;
- Strict adherence to the principle of no project plan no budget. If there is no business plan no funding allocation will be made; and
- Taking cognisance of cost containment guidelines and assessing the status of current measures included in the Cost Containment Strategy of the municipality.

The following table is a high-level summary of the 2020/21 budget and MTREF (classified per main type of operating expenditure):

Table 9 Summary of operating expenditure by functional classification item

NC086 Kgatelopele - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
R thousand	1							
Expenditure By Type								
Employee related costs	2	37,462	35,230	35,230	-	37,246	39,855	42,330
Remuneration of councillors		2,602	2,602	2,602	-	2,622	2,890	3,000
Debt impairment	3	5,832	5,832	5,832	-	5,890	6,173	6,469
Depreciation & asset impairment	2	11,096	11,096	11,096	-	11,833	12,547	13,149
Finance charges		812	512	512	-	133	139	146
Bulk purchases	2	26,649	20,342	20,342	-	21,306	24,182	26,843
Other materials	8	361	2,505	2,505	-	1,507	174	122
Contracted services		13,009	13,726	13,726	-	14,129	13,334	14,635
Transfers and subsidies		-	-	-	-	-	-	-
Other expenditure	4, 5	20,628	17,977	17,977	-	17,305	19,446	21,456
Loss on disposal of PPE		-	-	-	-	-	-	-
Total Expenditure		118,450	109,821	109,821	-	111,970	118,740	128,150

The budgeted allocation for employee related costs and remuneration of councillors for the 2020/21 financial year totals R 37, 246 million which equals 33% of the total operating expenditure and within the NT norm of 25 – 40 per cent. A three-year collective SALGBC salary agreement that came into effect on 1 July 2018 will be ending June 2021. This salary determination and annual notch increases for qualifying personnel have been factored into the budget for the 2020/21 financial year at 6.5%.

As part of the Municipality's cost reprioritisation and cash management strategy no vacancies have been budgeted for. In order to ensure economic viability and to not overstretch the already limited financial resources, cash management this percentage of employee related cost in relation to total budget need to be maintained at less than 40%. This had forced management to relook and develop a Human Resource Strategy, this also included looking at an approach to integrate job descriptions to customise the positions for a municipality this size and catering for its unique needs. During the 2018/19 financial year all senior management position were filled with performance plans.

New regulations have been promulgated, which regulations provide for the Minister of Co-operative Governance to determine the total remuneration packages payable to any new employees to the posts of Municipal Manager and Section 57 Employees (Directors), with effect from 1 July 2014. No increase allocation for remuneration of section 57 managers has been budgeted as no gazette has been released. The cost associated with the remuneration of councillors is determined by the Minister of Cooperative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). However, there has been no gazette indicating an increase in councillor's remuneration.

The provision of debt impairment and write-off of bad debts for consumer accounts has been determined based on the Debt Write-off Policy of the Municipality. For the 2020/21 financial year this amount equates to R 5, 889 million. An incentive approach was tabled to council as a motivation to encourage indigent households to maintain their accounts and provide relief on the indigent households. A 30% of the indigent debt is written off at the end of the financial year, the second phase of the write off will be 20% on condition the indigent household pays their arrangement amount of R 200.00 every month without defaulting for a full year, only than will they qualify for the second write-off. This approach will motivate households to pay their municipal accounts and have the municipality meet them half way as most of the debt has reached this stage due to lack of credit control in the past.

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 of asset consumption. Budget appropriations in this regard total R 11, 832 million for the 2020/21 financial year and equates to 11% of the total operating expenditure.

The budget includes a total of R 132 967 in relation to finance charges for the 2020/2021 financial year. The municipality currently has a payment arrangement with Eskom which it has honoured since September 2017 when the payment arrangement started. This arrangement includes interest rates on the account which can only be written off at the end of the 3-year arrangement ending August 2020, however, we envision to settle the outstanding amount before the end of the financial year . The municipality does not have any current borrowings and does not plan on taking on any loan for the 2020/2021 financial year.

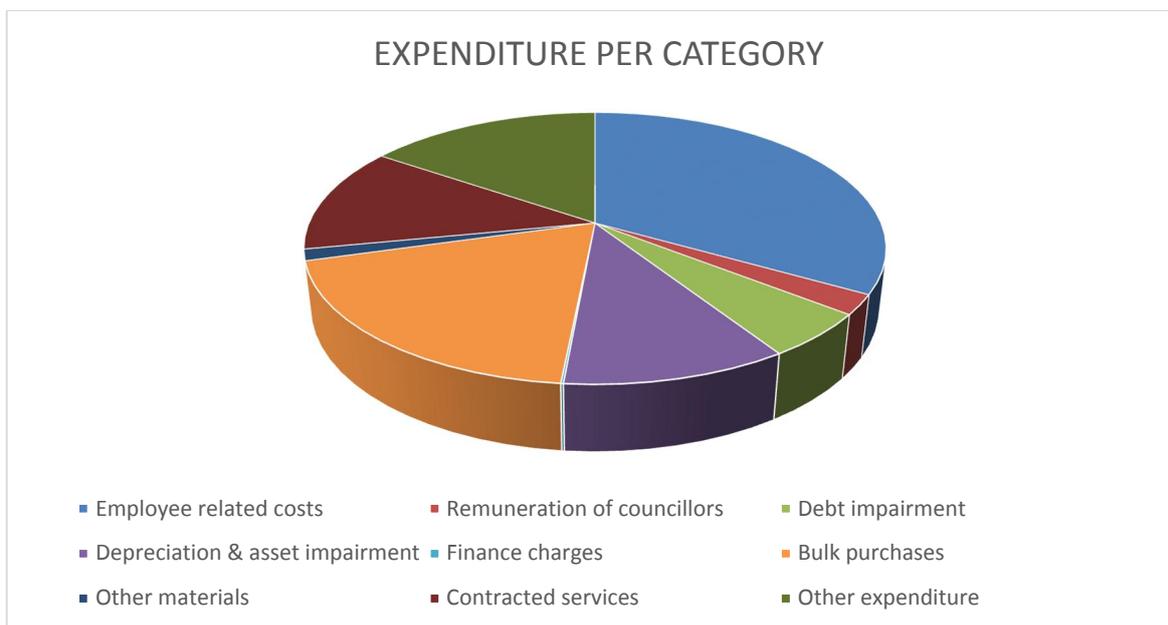
Bulk purchases equate to 19% of the total expenditure and are directly informed by the purchase of electricity from Eskom and the increase on bulk supply based on the guideline for NERSA increases. The expenditures accounts for distribution losses.

Contracted services comprise of amongst others the purchase of materials and spares for maintenance and actual repair and maintenance done by a service provider. In line with Kgatelopele Local Municipality's repairs and maintenance priorities this group of expenditure has been prioritized to ensure sustainability of Kgatelopele Local Municipality's infrastructure. Sewerage section remains the highest contributor to repair and maintenance expenditure, with the upgrading of the sewerage network this should decrease the cost of repairs and maintenance in that section. Contracted services also include expenditure relating to the provision of services by means of the appointment of service providers where the necessary in-house skills are not available or have not yet been adequately developed. One of the major contributors to consultant fees is the financial system change and the upgrading of the internet connectivity for a smarter city.

Certain functions also require the contracting of specialist knowledge contracted from time to time due to the fact that the municipality cannot afford to employ experts on a full-time basis. Contracted services have been identified as an area for the municipality to implement efficiencies. As part of the compilation of the 2020/21 MTREF this group of expenditure was critically evaluated and operational efficiencies are being enforced. In the 2020/21 financial year, this group of expenditure is budgeted at a total of R 14, 128 million, which equate to 12% of total operating budget, which is a 1% increase as compared to the previous financial year.

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. The decrease in other expenditure due to the implementation of cost containment, in line with circular 82, other expenditure amounts to 15% % for the 2020/21 financial year which presents a 2% reduction compared to 2018/19.

The following graph gives a breakdown of the main expenditure categories for the 2020/21 financial year.



2.1 Priority given to repairs and maintenance

Aligned to the priority being given to preserving and maintaining the Municipality’s current infrastructure, the 2020/21 budget and MTREF provide for continuing in the area of asset maintenance, as informed by the asset maintenance strategy and repairs and maintenance plan of the Municipality.

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, purchases of materials and contracted services. Considering these cost drivers, the following table is a consolidation of all the expenditures associated with repairs and maintenance. Since the implementation of mSCOA, expenditure is recorded through its nature and not function. Repairs and maintenance form part of contracted services and general expenditure.

2.2 Free Basic Services: Basic Social Services Package

The social package assists households that are indigent/poor or face other circumstances that limit their ability to pay for services. To receive these free/subsidised services the households are required to register in terms of the Municipality's Indigent Policy. The budgeted indigent households for 2020/21 remains at an estimate of 1500 and will be reviewed monthly.

The municipality budgeted the following for the indigent relief:

- Water – R 971 658
- Electricity – R 985 261
- Refuse – R 2 502 820
- Sanitation – R 1 959 266

The cost of the social package of the registered indigent households is fully covered by the local government equitable share received in terms of the annual Division of Revenue Act and that portion relating to a specific service has been apportioned as revenue to that specific service.

The following is an extract from NT Budget Circular 85:

“The change in the treatment of cost of free basic services indicates that municipalities must not disclose the support to indigents on table SA21 “Transfers and grants.”

6. CAPITAL EXPENDITURE

The following table provides a breakdown of budgeted capital expenditure by vote and functional area:

Table 11 2020/21 Medium-term capital budget per vote

Description	DESCRIPTION	2020/2021	2021/2022	2022/2023
	Capital Grants			
MIG	Solid waste / Municipal Infrastructure Grant	8,020,000.00	8,303,000.00	8,510,000.00
RBIG	Water / Regional Bulk Infrastructure Grant	-	-	-
INEP	Electricity / Integrated National Electrification Programme	-	2,000,000.00	2,000,000.00
WSIG	Water / Water Services Infrastructure Grant	8,000,000.00	-	15,000,000.00
EEDSMG	Electricity / Energy Efficiency & Demand Side Management	2,000,000.00	3,000,000.00	4,000,000.00
	Sub-section Total:	18,020,000.00	13,303,000.00	29,510,000.00

For 2020/21 an amount of R 18,020 million has been appropriated for the development of infrastructure which represents 79% of the total capital budget of R 22,889 million. In the outer years this amount totals R 14,803million and R 29,510, respectively for each of the outer financial years.

SA34a, b, c & e 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. Our internally funded project are as follows

1. Prepaid water meters – R 650 000
2. Numbering of graves – R 230 000
3. Officer space and furniture – R 1 109 000
4. Equipment and resources – R 1 280 000
5. Skid bins and tractor – R 1 000 000

3.2 Future operational cost of new infrastructure

Furthermore, a long-term financial plan implementation policy has been developed to encompass costs over the long term. It needs to be noted that as part of the 2020/201MTREF, this expenditure has been factored into the two outer years of the operational budget.

ANNUAL BUDGET TABLES

The following twenty pages present the ten main budget tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2019/20 annual budget and MTREF to be approved and/or noted by the Council. Each table is accompanied by explanatory notes on the facing page.

Table 12 MBRR Table A1 - Budget Summary

NC086 Kgatelopele - Table A1 Budget Su

Description	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
R thousands							
Financial Performance							
Property rates	19,990	19,990	19,990	–	21,074	22,252	23,320
Service charges	56,074	50,991	50,991	–	51,941	59,315	62,162
Investment revenue	975	983	983	–	956	600	1,050
Transfers recognised - operational	27,106	26,978	26,978	–	27,749	30,166	32,849
Other own revenue	11,892	10,979	10,979	–	10,423	6,601	9,537
Total Revenue (excluding capital transfers and contributions)	116,037	109,922	109,922	–	112,143	118,935	128,918
Employee costs	37,462	35,230	35,230	–	37,246	39,855	42,330
Remuneration of councillors	2,602	2,602	2,602	–	2,622	2,890	3,000
Depreciation & asset impairment	11,096	11,096	11,096	–	11,833	12,547	13,149
Finance charges	812	512	512	–	133	139	146
Materials and bulk purchases	27,010	22,847	22,847	–	22,813	24,356	26,964
Transfers and grants	–	–	–	–	–	–	–
Other expenditure	39,468	37,534	37,534	–	37,323	38,953	42,560
Total Expenditure	118,450	109,821	109,821	–	111,970	118,740	128,150
Surplus/(Deficit)	(2,413)	101	101	–	174	194	768
Transfers and subsidies - capital (monetary alloc	22,686	28,676	28,676	–	18,020	13,303	29,510
Contributions recognised - capital & contributed a	–	–	–	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions	20,273	28,777	28,777	–	18,194	13,497	30,278
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–
Surplus/(Deficit) for the year	20,273	28,777	28,777	–	18,194	13,497	30,278
Capital expenditure & funds sources							
Capital expenditure	28,214	35,624	35,624	–	21,659	13,303	29,510
Transfers recognised - capital	22,686	28,676	28,676	–	18,020	13,303	29,510
Public contributions & donations	–	–	–	–	–	–	–
Borrowing	–	–	–	–	–	–	–
Internally generated funds	4,473	6,948	6,948	–	3,639	–	–
Total sources of capital funds	27,159	35,624	35,624	–	21,659	13,303	29,510
Financial position							
Total current assets	49,529	50,569	50,569	–	86,768	91,944	92,704
Total non current assets	356,921	364,331	364,331	–	49,505	9,839	–
Total current liabilities	(44,892)	(44,941)	(44,941)	–	13,455	8,036	24,505
Total non current liabilities	(4,934)	(4,934)	(4,934)	–	–	–	–
Community wealth/Equity	329,408	329,510	329,510	–	–	–	–
Cash flows							
Net cash from (used) operating	201,091	281,664	281,664	–	37,057	31,005	72,856
Net cash from (used) investing	(28,214)	(35,624)	(35,624)	–	(18,020)	(13,303)	(29,150)
Net cash from (used) financing	49	–	–	–	–	–	–
Cash/cash equivalents at the year end	187,169	260,283	260,283	–	19,037	36,740	80,446
Cash backing/surplus reconciliation							
Cash and investments available	(49,220)	2,756	2,756	–	11,411	8,086	5,012
Application of cash and investments	(50,874)	(31,132)	(31,132)	–	(84,567)	(85,508)	(103,437)
Balance - surplus (shortfall)	1,655	33,889	33,889	–	95,978	93,594	108,449

1. Table A1 is a budget summary and provides a concise overview of the Municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's service delivery and commitment to eliminating basic service delivery backlogs.
3. Financial management reforms emphasise the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
 - a. The operating surplus/deficit (after Total Expenditure) is positive over the MTREF
 - b. Capital expenditure is balanced by capital funding sources, of which
 - i. Transfers recognised is reflected on the Financial Performance Budget;
 - ii. Borrowing is incorporated in the net cash from financing on the Cash Flow Budget
 - iii. Internally generated funds are financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years. The amount is incorporated in the Net cash from investing on the Cash Flow Budget. The fact that the municipality's cash flow remains positive and stable indicates that the necessary cash resources are available to fund the Capital Budget.
4. The Cash backing/surplus reconciliation shows that the cash increases over the MTREF.
5. Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of Free Services shows that the amount spent on Free Basic Services and the revenue cost of free services provided by the municipality continues to increase.

Table 13 MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by functional classification)

Explanatory notes to MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by functional classification) - mSCOA – Function/Sub Function

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per functional classification. The modified GFS functional classification, now Function/Sub Function, divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms of each of these functional areas which enables National Treasury to compile 'whole of government' reports.
2. Note the Total Revenue on this table includes capital revenues (Transfers recognised: capital) and so does not balance to the operating revenue shown on Table A4.

NC086 Kgatelopele - Table A2 Budgeted Financial Performance (revenue and expenditure by functional classification)

Functional Classification Description	Ref	Current Year 2019/20			2020/21 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
Revenue - Functional							
Governance and administration		57,141	57,120	57,120	59,119	63,208	67,477
Executive and council		2,669	2,669	2,669	1,614	1,679	1,749
Finance and administration		54,472	54,451	54,451	57,505	61,529	65,728
Internal audit		-	-	-	-	-	-
Community and public safety		775	672	672	662	693	727
Community and social services		776	665	665	655	686	719
Sport and recreation		(2)	7	7	7	7	7
Public safety		-	-	-	-	-	-
Housing		-	-	-	-	-	-
Health		-	-	-	-	-	-
Economic and environmental services		1,655	1,119	1,119	798	837	514
Planning and development		170	123	123	130	136	143
Road transport		1,485	996	996	668	700	371
Environmental protection		-	-	-	-	-	-
Trading services		79,152	79,687	79,687	69,988	71,996	90,987
Energy sources		36,888	33,483	33,483	34,041	39,939	42,583
Water management		21,689	24,829	24,829	16,426	9,583	25,043
Waste water management		4,536	3,751	3,751	12,181	13,708	14,175
Waste management		16,040	17,624	17,624	7,339	8,765	9,186
Other	4	-	-	-	-	-	-
Total Revenue - Functional	2	138,723	138,598	138,598	130,567	136,734	159,704
Expenditure - Functional							
Governance and administration		38,945	41,527	41,527	39,161	42,303	24,492
Executive and council		8,179	9,116	9,116	8,617	9,028	600
Finance and administration		29,728	31,263	31,263	29,436	32,093	23,892
Internal audit		1,038	1,148	1,148	1,108	1,182	-
Community and public safety		10,653	9,301	9,301	4,899	5,140	4,022
Community and social services		6,485	7,092	7,092	3,279	3,466	2,265
Sport and recreation		4,168	2,209	2,209	1,619	1,674	1,758
Public safety		-	-	-	-	-	-
Housing		-	-	-	-	-	-
Health		-	-	-	-	-	-
Economic and environmental services		5,170	4,163	4,163	4,468	4,461	1,946
Planning and development		1,868	1,049	1,049	965	769	-
Road transport		3,302	3,114	3,114	3,503	3,691	1,946
Environmental protection		-	-	-	-	-	-
Trading services		63,634	54,797	54,797	57,133	63,218	66,440
Energy sources		36,007	29,926	29,926	29,545	32,977	34,606
Water management		10,367	8,246	8,246	13,004	14,495	15,222
Waste water management		9,126	9,328	9,328	7,627	8,404	8,865
Waste management		8,134	7,296	7,296	6,957	7,341	7,747
Other	4	48	33	33	35	37	-
Total Expenditure - Functional	3	118,450	109,821	109,821	105,696	115,159	96,901
Surplus/(Deficit) for the year		20,273	28,777	28,777	24,871	21,575	62,804

Table 14 MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

NC086 Kgatelopele - Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)

Vote Description	Ref	Current Year 2019/20			2020/21 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
R thousand							
Revenue by Vote	1						
Vote 1 - Executive And Council		2,739	2,739	2,739	1,684	1,752	1,825
Vote 2 - Corporate Services		(150)	150	150	-	-	-
Vote 3 - Community And Social Services		776	662	662	662	693	727
Vote 4 - Financial Services		54,622	54,301	54,301	57,505	61,529	65,728
Vote 5 - Technical Services		79,265	79,751	79,751	70,049	72,060	91,053
Vote 6 - Traffic Services		1,471	996	996	668	700	371
Vote 7 - [NAME OF VOTE 7]		-	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-
Vote 9 - [NAME OF VOTE 9]		-	-	-	-	-	-
Vote 10 - [NAME OF VOTE 10]		-	-	-	-	-	-
Vote 11 - [NAME OF VOTE 11]		-	-	-	-	-	-
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-
Total Revenue by Vote	2	138,723	138,598	138,598	130,567	136,734	159,704
Expenditure by Vote to be appropriated	1						
Vote 1 - Executive And Council		8,361	7,979	7,979	8,100	8,480	-
Vote 2 - Corporate Services		11,581	11,874	11,874	11,752	13,038	3,258
Vote 3 - Community And Social Services		2,367	1,119	1,119	1,266	1,331	-
Vote 4 - Financial Services		25,685	27,204	27,204	25,380	27,156	27,103
Vote 5 - Technical Services		68,718	60,109	60,109	57,433	63,284	66,540
Vote 6 - Traffic Services		1,739	1,536	1,536	1,766	1,871	-
Vote 7 - [NAME OF VOTE 7]		-	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-
Vote 9 - [NAME OF VOTE 9]		-	-	-	-	-	-
Vote 10 - [NAME OF VOTE 10]		-	-	-	-	-	-
Vote 11 - [NAME OF VOTE 11]		-	-	-	-	-	-
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-
Total Expenditure by Vote	2	118,450	109,821	109,821	105,696	115,159	96,901
Surplus/(Deficit) for the year	2	20,273	28,777	28,777	24,871	21,575	62,804

Explanatory notes to MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote) – mSCOA – Own Segment

1. Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per own segment: municipal vote (directorate). This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the Municipality. This means it is possible to present the operating surplus or deficit of a vote.

Table 15 MBRR Table A4 - Budgeted Financial Performance (revenue and expenditure)

NC086 Kgatelopele - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
R thousand	1							
Revenue By Source								
Property rates	2	19,990	19,990	19,990	–	21,074	22,252	23,320
Service charges - electricity revenue	2	34,763	31,463	31,463	–	32,021	35,569	37,276
Service charges - water revenue	2	9,045	7,925	7,925	–	8,426	9,583	10,043
Service charges - sanitation revenue	2	4,415	3,751	3,751	–	4,155	5,398	5,657
Service charges - refuse revenue	2	7,852	7,852	7,852	–	7,339	8,765	9,186
Service charges - other		–	–	–	–	–	–	–
Rental of facilities and equipment		677	623	623	–	641	774	916
Interest earned - external investments		975	983	983	–	956	600	1,050
Interest earned - outstanding debtors		398	1,974	1,974	–	1,487	973	963
Dividends received		–	–	–	–	–	–	–
Fines, penalties and forfeits		1,403	1,140	1,140	–	589	617	647
Licences and permits		457	257	257	–	346	363	17
Agency services		389	389	389	–	292	306	320
Transfers and subsidies		27,106	26,978	26,978	–	27,749	30,166	32,849
Other revenue	2	8,569	6,597	6,597	–	6,165	3,568	6,673
Gains on disposal of PPE		–	–	–	–	903	–	–
Total Revenue (excluding capital transfers and contributions)		116,037	109,922	109,922	–	112,143	118,935	128,918
Expenditure By Type								
Employee related costs	2	37,462	35,230	35,230	–	37,246	39,855	42,330
Remuneration of councillors		2,602	2,602	2,602	–	2,622	2,890	3,000
Debt impairment	3	5,832	5,832	5,832	–	5,890	6,173	6,469
Depreciation & asset impairment	2	11,096	11,096	11,096	–	11,833	12,547	13,149
Finance charges		812	512	512	–	133	139	146
Bulk purchases	2	26,649	20,342	20,342	–	21,306	24,182	26,843
Other materials	8	361	2,505	2,505	–	1,507	174	122
Contracted services		13,009	13,726	13,726	–	14,129	13,334	14,635
Transfers and subsidies		–	–	–	–	–	–	–
Other expenditure	4, 5	20,628	17,977	17,977	–	17,305	19,446	21,456
Loss on disposal of PPE		–	–	–	–	–	–	–
Total Expenditure		118,450	109,821	109,821	–	111,970	118,740	128,150
Surplus/(Deficit)		(2,413)	101	101	–	174	194	768
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		22,686	28,676	28,676	–	18,020	13,303	29,510

Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)

1. Total operating revenue was R 109,969 million in 2019/2020 and indicates an increase to R 112,143 million in 2020/21.
2. Revenue to be generated from property rates is R19,989 million in the 2019/20 financial year and increases to R 21,074 million by 2020/21 which represents 18% of the operating revenue base of the Municipality and therefore remains a significant funding source for the municipality. The new General Valuation roll was implemented in the 2019/20 financial year.
3. Services charges relating to electricity, water, sanitation and refuse removal constitutes the biggest component of the revenue basket of the Municipality totalling R 50, 991

million for the 2019/20 financial year and indicates an increase to R 51,961 million by 2020/21. This is also a result of the change in budget presentation for free basic services, explained in this report. For the 2020/21 financial year services charges amount to 65% of the operating revenue base.

4. Transfers recognised – operating grants includes the local government equitable share and other operating grants from national and provincial government.
5. Bulk purchases have slightly increased over the years period escalating from R 20,488 million to R 21,305 million. These increases can be attributed to the increase of 19%.
6. Employee related costs and bulk purchases are the main cost drivers within the municipality and alternative operational gains and efficiencies will have to be identified to lessen the impact of wage and bulk tariff increases in future years.

Table 16 MBRR Table A5 - Budgeted Capital Expenditure by vote, functional classification and funding source

NC086 Kgatelopele - Table A5 Budgeted Capital Expenditure by vote, functional classification and funding

Vote Description	Ref	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
R thousand	1							
Single-year expenditure to be appropriated	2							
Vote 1 - Executive And Council		1,655	1,055	1,055	-	-	-	-
Vote 2 - Corporate Services		473	250	250	-	1,359	-	-
Vote 3 - Community And Social Services		-	-	-	-	-	-	-
Vote 4 - Financial Services		-	-	-	-	-	-	-
Vote 5 - Technical Services		17,144	23,646	23,646	-	20,300	13,303	29,510
Vote 6 - Traffic Services		-	-	-	-	-	-	-
Vote 7 - [NAME OF VOTE 7]		-	-	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-	-
Vote 9 - [NAME OF VOTE 9]		-	-	-	-	-	-	-
Vote 10 - [NAME OF VOTE 10]		-	-	-	-	-	-	-
Vote 11 - [NAME OF VOTE 11]		-	-	-	-	-	-	-
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-
Capital single-year expenditure sub-total		19,272	24,951	24,951	-	21,659	13,303	29,510
Total Capital Expenditure - Vote	3,7	28,214	35,624	35,624	-	21,659	13,303	29,510

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by functional classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.

2. The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations. The capital expenditure amounts to R 21,659 million in 2020/21. Due to our MIG allocation which normally less than the project value, our projects are commonly multi-year projects.
3. Unlike multi-year capital appropriations, single-year appropriations relate to expenditure that will be incurred in the specific budget year such as the procurement of vehicles and specialized tools and equipment. The budget appropriations for the two outer years are indicative allocations based on the departmental business plans as informed by the IDP and will be reviewed on an annual basis to assess the relevance of the expenditure in relation to the strategic objectives and service delivery imperatives of the Municipality.
4. The capital programme is funded from national and provincial grants and transfers, public contributions and donations, borrowing and internally generated funds from previous year surpluses. For 2020/21, capital transfers totals R 18,020 million, internally generated funding totalling R 3, 639 million. These funding sources are further discussed in detail in paragraph 2.6 (Overview of Budget Funding).

Table 17 MBRR Table A6 - Budgeted Financial Position

NC086 Kgatelopele - Table A6 Budgeted Financial Position

Description	Ref	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
ASSETS								
Current assets								
Cash		(61,455)	(8,495)	(8,495)	-	11,351	8,022	4,945
Call investment deposits	1	12,235	11,252	11,252	-	61	64	67
Consumer debtors	1	74,881	24,331	24,331	-	75,357	83,858	87,692
Other debtors		18,375	17,989	17,989	-	-	-	-
Current portion of long-term receivables		-	-	-	-	-	-	-
Inventory	2	5,493	5,493	5,493	-	-	-	-
Total current assets		49,529	50,569	50,569	-	86,768	91,944	92,704
Non current assets								
Long-term receivables		-	-	-	-	-	-	-
Investments		-	-	-	-	-	-	-
Investment property		43,219	43,219	43,219	-	-	-	-
Investment in Associate		-	-	-	-	-	-	-
Property, plant and equipment	3	311,842	319,252	319,252	-	49,505	9,839	-
Agricultural		-	-	-	-	-	-	-
Biological		-	-	-	-	-	-	-
Intangible		973	973	973	-	-	-	-
Other non-current assets		886	886	886	-	-	-	-
Total non current assets		356,921	364,331	364,331	-	49,505	9,839	-
TOTAL ASSETS		406,450	414,900	414,900	-	136,273	101,783	92,704
LIABILITIES								
Current liabilities								
Bank overdraft	1	-	-	-	-	-	-	-
Borrowing	4	-	-	-	-	-	-	-
Consumer deposits		1,543	1,495	1,495	-	-	-	-
Trade and other payables	4	(48,360)	(48,360)	(48,360)	-	13,455	8,036	24,505
Provisions		1,925	1,925	1,925	-	-	-	-
Total current liabilities		(44,892)	(44,941)	(44,941)	-	13,455	8,036	24,505
Non current liabilities								
Borrowing		-	-	-	-	-	-	-
Provisions		(4,934)	(4,934)	(4,934)	-	-	-	-
Total non current liabilities		(4,934)	(4,934)	(4,934)	-	-	-	-
TOTAL LIABILITIES		(49,826)	(49,875)	(49,875)	-	13,455	8,036	24,505
NET ASSETS	5	456,276	464,774	464,774	-	122,818	93,746	68,199

Explanatory notes to Table A6 - Budgeted Financial Position

1. Table A6 is consistent with international standards of good financial management practice and improves understand ability for councillors and management of the impact of the budget on the statement of financial position (balance sheet).
2. This format of presenting the statement of financial position is largely aligned to GRAP1, which is generally aligned to the international version which presents Assets Less Liabilities as “accounting” Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.

3. Table 19 is supported by an extensive table of notes providing a detailed analysis of the major components of a number of items, including:
- Consumer debtors;
 - Property, plant and equipment;
 - Trade and other payables;
 - Provisions non-current;
 - Changes in net assets; and
 - Reserves
4. The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.
5. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition, the funding compliance assessment is informed directly by forecasting the statement of financial position.

Table 18 MBRR Table A7 - Cash Backed Reserves/Accumulated Surplus Reconciliation

NC086 Kgatelopele - Table A7 Budgeted Cash Flows

Description	Ref	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
CASH FLOW FROM OPERATING ACTIVITIES								
Receipts								
Property rates		–	16,991	16,991	–	20,021	20,921	21,968
Service charges		–	42,961	42,961	–	49,363	51,585	54,164
Other revenue		88,471	83,480	83,480	–	8,503	8,948	9,396
Government - operating	1	11,098	13,903	13,903	–	45,769	43,516	62,013
Government - capital	1	–	28,676	28,676	–	–	–	–
Interest		–	2,760	2,760	–	2,321	2,475	2,599
Dividends		–	–	–	–	–	–	–
Payments								
Suppliers and employees		100,711	92,381	92,381	–	(88,786)	(96,300)	(77,136)
Finance charges		812	512	512	–	(133)	(139)	(146)
Transfers and Grants	1	–	–	–	–	–	–	–
NET CASH FROM/(USED) OPERATING ACTIVITIES		201,091	281,664	281,664	–	37,057	31,005	72,856
CASH FLOWS FROM INVESTING ACTIVITIES								
Receipts								
Proceeds on disposal of PPE		–	–	–	–	–	–	–
Decrease (Increase) in non-current debtors		–	–	–	–	–	–	–
Decrease (increase) other non-current receivables		–	–	–	–	–	–	–
Decrease (increase) in non-current investments		–	–	–	–	–	–	–
Payments								
Capital assets		(28,214)	(35,624)	(35,624)	–	(18,020)	(13,303)	(29,150)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(28,214)	(35,624)	(35,624)	–	(18,020)	(13,303)	(29,150)
CASH FLOWS FROM FINANCING ACTIVITIES								
Receipts								
Short term loans		–	–	–	–	–	–	–
Borrowing long term/refinancing		–	–	–	–	–	–	–
Increase (decrease) in consumer deposits		49	–	–	–	–	–	–
Payments								
Repayment of borrowing		–	–	–	–	–	–	–
NET CASH FROM/(USED) FINANCING ACTIVITIES		49	–	–	–	–	–	–
NET INCREASE/ (DECREASE) IN CASH HELD		172,926	246,041	246,041	–	19,037	17,702	43,706
Cash/cash equivalents at the year begin:	2	14,242	14,242	14,242	–	–	19,037	36,740
Cash/cash equivalents at the year end:	2	187,169	260,283	260,283	–	19,037	36,740	80,446

Table 19 Cash backed reserves/accumulated surplus reconciliation

NC086 Kgatelopele - Table A8 Cash backed reserves/accumulated surplus reconciliation

Description	Ref	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
Cash and investments available								
Cash/cash equivalents at the year end	1	187,169	260,283	260,283	-	19,037	36,740	80,446
Other current investments > 90 days		(236,388)	(257,526)	(257,526)	-	(7,626)	(28,654)	(75,434)
Non current assets - Investments	1	-	-	-	-	-	-	-
Cash and investments available:		(49,220)	2,756	2,756	-	11,411	8,086	5,012
Application of cash and investments								
Unspent conditional transfers		10,968	10,968	10,968	-	(13,455)	(8,036)	(24,505)
Unspent borrowing		-	-	-	-	-	-	-
Statutory requirements	2	-	-	-	-	-	-	-
Other working capital requirements	3	(61,842)	(42,100)	(42,100)	-	(71,112)	(77,472)	(78,932)
Other provisions		-	-	-	-	-	-	-
Long term investments committed	4	-	-	-	-	-	-	-
Reserves to be backed by cash/investments	5	-	-	-	-	-	-	-
Total Application of cash and investments:		(50,874)	(31,132)	(31,132)	-	(84,567)	(85,508)	(103,437)
Surplus(shortfall)		1,655	33,889	33,889	-	95,978	93,594	108,449

Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus

Reconciliation

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of noncompliance with the MFMA requirements that the municipality’s budget must be “funded”.
4. As part of the budgeting and planning guidelines that informed the compilation of the 2020/21 MTREF the end objective of the medium-term framework was to ensure the budget is funded aligned to section 18 of the MFMA.
5. As can be seen the budget has been modelled to ensure that the budget is funded.

Table 20 MBRR Table A9 - Asset Management

NC086 Kgatelopele - Table A9 Asset Management

Description	Ref	Current Year 2019/20			2020/21 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
CAPITAL EXPENDITURE							
Total New Assets	1	27,086	27,817	27,817	59,050	13,303	29,510
<i>Roads Infrastructure</i>		-	-	-	-	-	-
<i>Storm water Infrastructure</i>		-	-	-	-	-	-
<i>Electrical Infrastructure</i>		2,000	2,000	2,000	3,030	5,000	6,000
<i>Water Supply Infrastructure</i>		-	-	-	8,000	-	15,000
<i>Sanitation Infrastructure</i>		-	-	-	-	-	-
<i>Solid Waste Infrastructure</i>		9,042	9,773	9,773	8,020	8,303	8,510
<i>Rail Infrastructure</i>		-	-	-	-	-	-
<i>Coastal Infrastructure</i>		-	-	-	-	-	-
<i>Information and Communication Infrastructure</i>		-	-	-	-	-	-
Infrastructure		11,042	11,773	11,773	19,050	13,303	29,510

Explanatory notes to Table A9 - Asset Management

1. Table A9 provides an overview of municipal capital allocations to building new assets and the renewal/upgrading of existing assets, as well as spending on repairs and maintenance by asset class.
2. The following graph provides an analysis between depreciation and operational repairs and maintenance over the MTREF

Table 21 MBRR Table A10 - Basic Service Delivery Measurement

Explanatory notes to Table A10 - Basic Service Delivery Measurement

1. Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services.
2. Good progress is being made with the eradication of current services backlogs. Housing remains a challenge.
 - Electricity services – the current backlog has provisionally been eliminated.
3. The budget provides for 1 500 households to be registered as indigent in 2019/20, and therefore entitled to receiving Free Basic Services. The number is set to increase over the MTREF, especially by poor people seeking economic opportunities.
4. It is anticipated that the cost of these Free Basic Services will amount to R 7,302 million in 2020/21. This is covered by the municipality’s equitable share allocation from national government.

5. In addition to the Free Basic Services, other rates rebate also applies to households.

PART 2 – SUPPORTING DOCUMENTATION

2.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition, Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Full-time Councillors, Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the MMC for Finance.

The primary aims of the Budget Steering Committee are to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the Municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.1.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2016) a time schedule that sets out the process to prepare the IDP and prepare the budget.

The Mayor tabled in Council the required IDP and budget time schedule on 28 August 2016.

Key dates applicable to the process were:

- 25 January 2020 - Council considered the 2019/2020 Mid-year Review;
- 23 March 2020 - Tabling in Council of the Reviewed 2020/21 IDP, SDBIP and 2020/21 MTREF for public consultation;

Round 1 of public participation

Date	Area	Venue
16 September 2019	(Ward 4)	Shaleje Church
17 September 2019	(Ward 3)	Kuilsville Primary
18 September 2019	(Ward 2)	Kuilsville Primary
19 September 2019	(Ward 1)	Tlhakalatlou Hall

Kgatelopele Municipality will then embark on the 2nd round of its community engagement in order to give feedback on the progress made towards the needs which were raised during the 1st round which were held in January. The 2nd round of community engagement are planned for the month of March and April 2020. The dates for the 2nd round of consultative meetings are planned as follows:

DATE	WARD NUMBER	TIME	VENUE
30 March 2020	Ward 4	17:00	Shaleje Hall PPC
31 March 2020	Ward 3	17:00	Kuilsville Hall
01 April 2020	Ward 2	17:00	Kuilsville Community Hall
02 April 2020	Ward 1	17:00	Tlhakalatlou Community Hall

However, due to the Corona Virus Pandemic, consultation will be done by means of pamphlets will be issued for inputs. Ward committee members will facilitate this process.

IDP and Service Delivery and Budget Implementation Plan

This is the first year of the new generation IDP (2017/2022) to be considered and adopted by Council in May 2020. The Final IDP process started in January 2018 after the tabling of the IDP Process Plan and the Budget Time Schedule for the 2020/21 MTREF. The Municipality's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions.

Service Delivery and Budget Implementation Plan. The Process Plan applicable to the Final IDP cycle included the following key IDP processes and deliverables:

- Registration of community needs;
- Compilation of departmental business plans with key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring processes.

The IDP will be taken into a business and financial planning process leading up to the 2020/21 MTREF, based on the approved 2019/2020 MTREF, mid-year review and adjustments budget. The business planning process was subsequently refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2019/20 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2019/2020 Departmental Service Delivery and Budget. Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

Financial Modelling and Key Planning Drivers

As part of the compilation of the 2020/21 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2020/21 MTREF:

- Municipality growth

- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate (trends, inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2019/2020 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 91 were taken into consideration in the planning and prioritisation process.

Community Consultation on the Final Budget

The Final 2020/21 MTREF, will be tabled in Council in May 2020 and will be made available to the community as follows:

Copies of the document can be viewed:

- At the offices of all Area Managers
- All public libraries within the municipality
- Municipal website

All documents in the appropriate format (electronic and printed) will be provided to National Treasury and Provincial Treasury in accordance with section 23 of the MFMA, to provide an opportunity for comment.

OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realised through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five-year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery. Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality. It is important that the IDP developed by municipalities correlate with

National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area.

Applied to the Municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the Municipality strategically complies with the key national and provincial priorities. The aim of this new five-year IDP cycle is to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the Municipality's response to these requirements.

The national and provincial priorities, policies and strategies of importance include amongst others:

- Green Paper on National Strategic Planning of 2009;
- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (GGDS);

- National and Provincial spatial development perspectives;
- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPIs);
- Accelerated and Shared Growth Initiative (ASGISA);
- National 2015 Vision;
- National Spatial Development Perspective (NSDP);
- The National Priority Outcomes; and
- National Development Plan

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP but must also conduct its affairs in a manner which is consistent with its IDP.

The following table highlights the IDP's five strategic objectives for the 2019/20 MTREF and further planning refinements that have directly informed the compilation of the budget:

IDP Strategic Objectives

SO, 1: To ensure the provision of sustainable basic services to our communities

- Electricity: To provide all planned "households "with electricity energy connection and promote use of other alternative energy.
- Water & Sewer: Address the provision and maintenance of municipal service such as water and sewage removal.
- Roads & Storm water: Address the provision and maintenance of municipal services such as roads and storm water
- Housing: To facilitate the provision of sustainable human settlement, which promote human habitation.

SO, 2: Conservation of the environment

- Parks & Cemetery: Address the provision and maintenance of parks and cemeteries.
- Waste Removal: External provision, to ensure proper management of the service provider contracted to provide the service.

SO, 3: To promote a conducive environment for economic development

- Local Economic Development: To promote a conducive environment for enterprise support and development, and foster partnership that contributes to economic development.

SO, 4: To ensure an effective and efficient financial viable municipality

- Supply Chain Management: To ensure a credible process of procuring goods and service for the municipality.
- Expenditure: To ensure the timeous payment of all creditors within 30 days of the creditor's statement, as prescribed in Chapter 8 of the municipal Finance Management act no 56 of 2003.
- Revenue: To ensure the timeous distribution of accurate service accounts and ensure that all money owed to the municipality are collected within 30 days.
- Budget & Treasury: Ensuring that the municipality produces a credible budget and ensuring adherence to the budget structure.
- Asset Management: To ensure the safekeeping, of all municipal assets, and ensure proper management over all assets to obtain the maximum financial benefit from these assets.
- Financial Systems: Ensuring the effective efficient management of the financial system in order to maintain accurate financial information.

SO, 5: Democratic and accountable government

- Council: To ensure good and accountable governance, that promotes the objectives of local government as enshrined in the RSA Constitution, Chapter 7, Section 152.
- Portfolio Committees: To ensure effective and efficient Council operation and enable oversight role of Council.
- Ward Committees: To ensure effective community participation in the affairs of local government so as to deepen democracy.

SO, 6: Municipal Transformation and Organisational Development

- Risk Management: Is to be responsible for enterprise risk management and fraud prevention management within the Kgatelopele Municipality. This entails development of policies, strategy & processes, development of fraud prevention, facilitating and advising on risk management issues. While promoting a culture of risk management amongst managers.

- Internal Auditing: To provide independent, objective assurance and consulting services design to add value and improve Kgatelopele Municipality operations. Driven by the following values; honesty, integrity, professionalism, accountability, objectivity and empathy, while ensuring good governance.
- Integrated Development Plan: To ensure formulation/development of a credible and realistic IDP.
- Performance Management System: To ensure the implementation of performance management system and promote a performance orientated organizational culture.
- Communication & Media Relation: To enhance & promote the role of the municipality and its operations in its area of jurisdiction in ways that contribute to the process of deepening democracy by: promoting awareness of economic opportunities, improve the culture of service delivery in the public service, build & promote partnership through public participation and communicate policies & information.
- Council Secretariat: To ensure efficient and effective operation of Council, and the record keeping thereof.
- Human Resource: Promote organizational cohesion. Effective human resource development and performance development and employment equity.

- Administration: Key systems, processes and structures to support governance and operational efficiency
 - o Housing: To provide sustainable human settlement suitable for human habitation.
 - o Land: Development of erven as informed by the Spatial Development Framework
 - o Library Services: Sufficient library service delivered to the community

- Traffic Services: Efficient traffic service regarding vehicle registration, learner's licenses and law enforcement
- Information Technology: Improved organizational stability and sustainability

In order to ensure integrated and focused service delivery between all spheres of government it was important for the Municipality to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

Local priorities were identified as part of the IDP review process which is directly aligned to that of the national and provincial priorities. The key performance areas can be summarised as follows against the five strategic objectives:

Provision of quality basic services and infrastructure which includes, amongst others:

- Provide electricity;
- Provide water;
- Provide sanitation;
- Provide waste removal;
- Provide housing;
- Provide roads and storm water;
- Provide municipality planning services; and
- Maintaining the infrastructure of the Municipality.

Economic growth and development that leads to sustainable job creation by:

- Ensuring there is a clear structural plan for the Municipality;
- Ensuring planning processes function in accordance with set timeframes;
- Facilitating the use of labour-intensive approaches in the delivery of services and the building of infrastructure.

Fight poverty and build clean, healthy, safe and sustainable communities:

- Effective implementation of the Indigent Policy;
- Extending waste removal services and ensuring effective municipality cleansing;
- Ensuring all waste water treatment works are operating optimally;

- Working with strategic partners such as SAPS to address crime;
- Ensuring safe working environments by effective enforcement of building and health regulations;
- Promote viable, sustainable communities through proper zoning; and
- Promote environmental sustainability by protecting wetlands and key open spaces.

Integrated Social Services for empowered and sustainable communities

- Work with provincial departments to ensure the development of community infrastructure such as schools and clinics is properly co-ordinated with the informal settlements upgrade programme

Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service by:

- Optimising effective community participation in the ward committee system; and
- Implementing Batho Pele in the revenue management strategy.

Promote sound governance through:

- Publishing the outcomes of all tender processes on the municipal website

Ensure financial sustainability through:

- Reviewing the use of contracted services
- Continuing to implement the infrastructure maintenance strategy and the repairs and maintenance plan

Optimal institutional transformation to ensure capacity to achieve set objectives

- Review of the organisational structure to optimize the use of personnel;

In line with the MSA, the IDP constitutes a single, inclusive strategic plan for the Municipality. The five-year programme responds to the development challenges and opportunities faced by the Municipality by identifying the key performance areas to achieve the five the strategic objectives mentioned above.

In addition to the five-year IDP, the Municipality undertakes an extensive planning and developmental strategy which primarily focuses on a longer-term horizon; 15 to 20 years

for infrastructure planning. This process is aimed at influencing the development path to restructure current patterns of settlement, activity and access to resources in the Municipality so as to promote greater equity and enhanced opportunity. It provides direction to the Municipality's IDP, associated sectorial plans and strategies, and the allocation of resources of the Municipality and other service delivery partners.

This development strategy introduces important policy shifts which have further been translated into seven strategic focus areas/objectives as outlined below:

- Developing dormant areas;
- Enforcing hard development lines – so as to direct private investment;
- Maintaining existing urban areas;
- Strengthening key economic clusters;
- Building social cohesion;
- Strong developmental initiatives in relation to the municipal institution as a whole; and
- Sound financial fundamentals.

Lessons learned with previous IDP revision and planning cycles as well as changing environments were taken into consideration in the compilation of the new IDP of the 2017/2022 cycle, including:

- Strengthening the analysis and strategic planning processes of the Municipality;
- Initiating zonal planning processes that involve the communities in the analysis and planning processes. More emphasis was placed on area-based interventions, within the overall holistic framework;
- Ensuring better coordination through a programmatic approach and attempting to focus the budgeting process through planning interventions; and
- Strengthening performance management and monitoring systems in ensuring the objectives and deliverables are achieved.

The 2019/20 MTREF has therefore been directly informed by the new Final five-year IDP process and the following tables provide a reconciliation between the IDP strategic objectives and operating revenue, operating expenditure and capital expenditure.

Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the Municipality has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assesses and reviews organisational performance which in turn is directly linked to individual employee’s performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly at each quarter, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages. The planning, budgeting and reporting cycle can be graphically illustrated as follows:

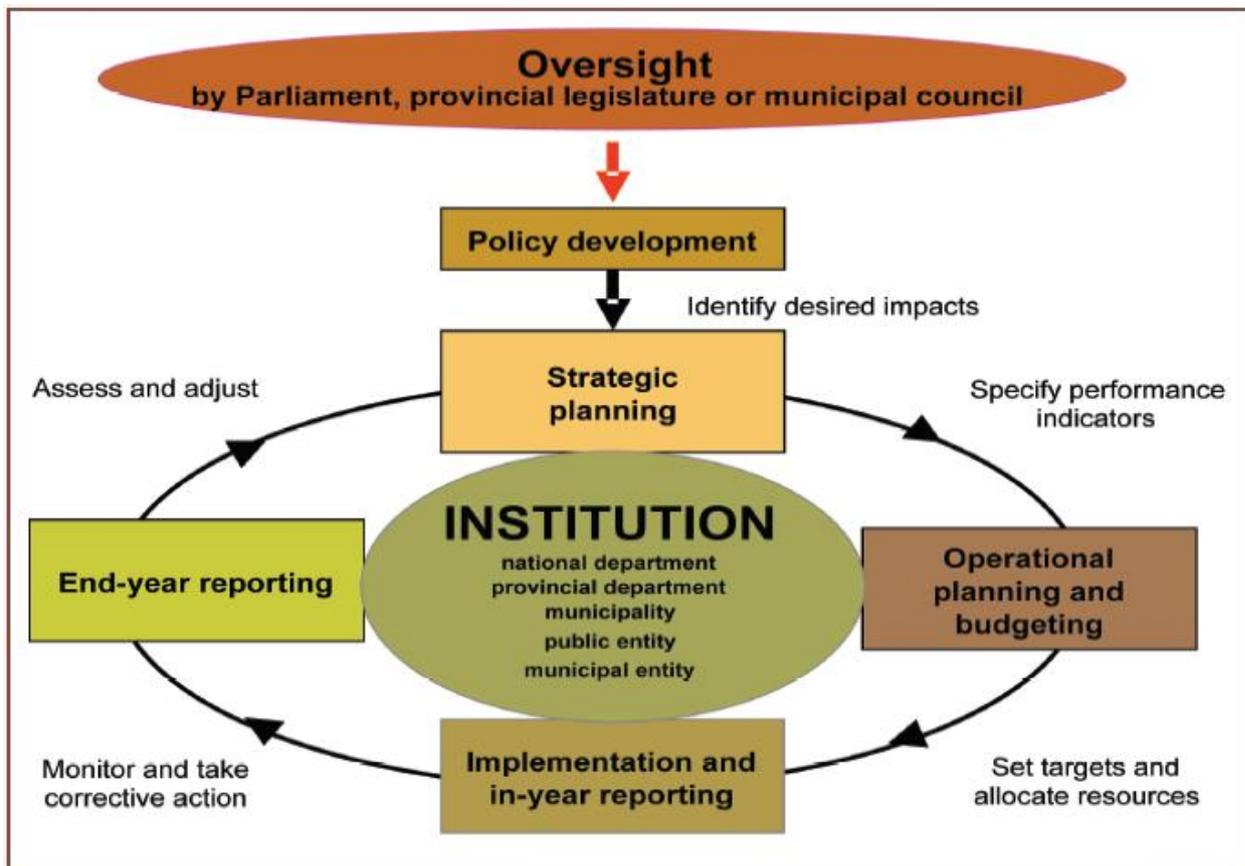


Figure 5 Planning, budgeting and reporting cycle

The performance of the Municipality relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The Municipality therefore has adopted one integrated performance management system which encompasses:

- Planning (setting goals, objectives, targets and benchmarks);
- Monitoring (regular monitoring and checking on the progress against plan);
- Measurement (indicators of success);
- Review (identifying areas requiring change and improvement);
- Reporting (what information, to whom, from whom, how often and for what purpose);
and
- Improvement (making changes where necessary).

The performance information concepts used by the Municipality in its integrate performance management system are aligned to the Framework of Managing Programme Performance Information issued by the National Treasury:

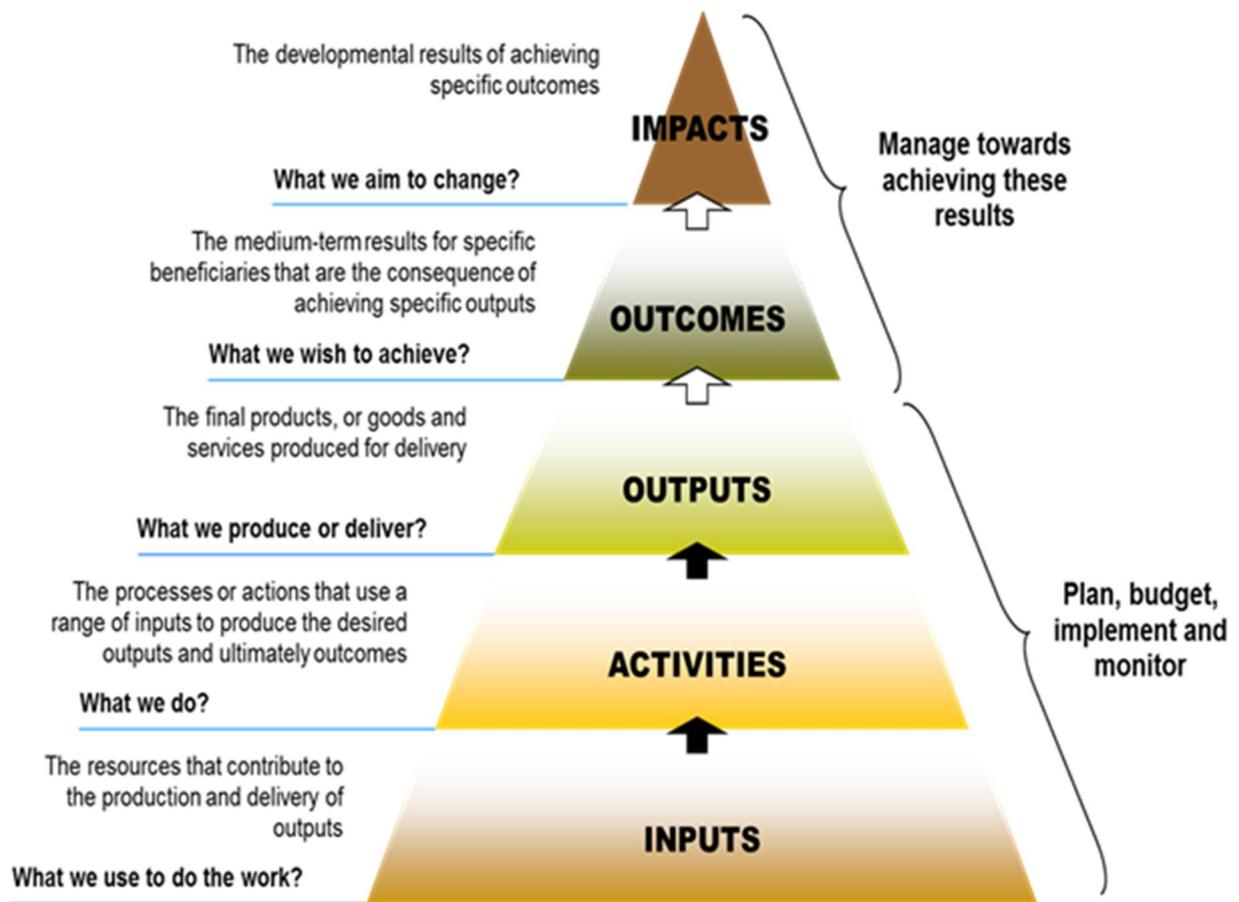


Figure 6 Definition of performance information concepts

Performance indicators and benchmarks

Borrowing Management

Capital expenditure in local government can be funded by capital grants, own-source revenue and long term borrowing. The ability of a municipality to raise long term borrowing is largely dependent on its creditworthiness and financial position. As with all other municipalities, Kgatelopele’s borrowing strategy is primarily informed by the affordability of debt repayments. The structure of the Municipality’s debt portfolio is dominated by annuity loans. For the 2020/2021 financial year the municipality has no intension of entering into any long term borrowings due affordability. The municipality also does not have any current long-term loans that need to be serviced.

The following financial performance indicators have formed part of the compilation of the 2020/21 MTREF:

- *Capital charges to operating expenditure* is a measure of the cost of borrowing in relation to the operating expenditure. It can be seen that the cost of borrowing remains steady. While borrowing is considered a prudent financial instrument in financing capital infrastructure development, this indicator will have to be carefully monitored going forward.

In summary, various financial risks could have a negative impact on the future borrowing capacity of the municipality.

Indicators and ratios

The key financial indicators and ratios mentioned below are disclosed in 'Supporting Table SA8: Performance indicators and benchmarks':

- Borrowing management
- Safety of capital
- Liquidity
- Debtors' and creditors' management
- Mix of expenditure types
- Mix of revenue sources
- Unaccounted for losses in respect of services rendered

Funding measure ratios are disclosed in 'Supporting Table SA10: Funding measurement'.

Free Basic Services: basic social services package for indigent households

The social package assists residents that have difficulty paying for services and are registered as indigent households in terms of the Indigent Policy of the municipality. Only registered indigents qualify for the free basic services.

For the 2020/21 financial year 1 500 registered indigents have been provided for in the budget with this figured increasing from the actual registered indigents of 2020/21. In terms

of the Municipality's indigent policy registered households are entitled to 6kl fee water, 50 kwh of electricity, sanitation service charge and free waste removal once a week, as well as a rebate on their property rates.

Further detail relating to the number of households receiving free basic services, the cost of free basic services, highest level of free basic services as well as the revenue cost associated with the free basic services is contained in Table 23 MBRR A10 (Basic Service Delivery Measurement).

Note that the number of households in informal areas that receive free services and the cost of these services (e.g. the provision of water through stand pipes, water tankers, etc) are not taken into account in the table noted above.

Providing clean water and managing waste water

The municipality is the Water Services Authority for the entire municipality in terms of the Water Services Act, 1997 and acts as water services provider. The municipality bulk water provides the service by making use of its own water sources, such as boreholes. An additional reservoir was concluded in the 2016/2017 financial year.

The Department of Water Affairs conducts an annual performance rating of water treatment works, presenting a Blue Drop or Green Drop award respectively to potable water treatment works and waste water treatment works that meet certain criteria of excellence. The municipality has blue drop water status.

Upgrading of the existing sewerage system is part of the multi-year project that started in the current financial year, to be concluded in the 2017/2018 financial, this will aid the municipality to meet the minimum Green Drop certification standards.

The following is briefly the main challenges facing the municipality in this regard:

- The infrastructure at most of the waste water treatment works is old and insufficient to treat the increased volumes of waste water to the necessary compliance standard;
- Shortage of skilled personnel makes proper operations and maintenance difficult;

- The municipality has almost reached its electricity capacity.

The following are some of the steps that have been taken to address these challenges:

- Infrastructure shortcomings are being addressed through the capital budget in terms of a 5-year upgrade plan through registered MIG projects;
- The filling of key personnel vacancies has commenced
- Project cost estimate has been received from Eskom for the increasing of the current capacity

OVERVIEW OF BUDGET RELATED POLICIES

Overview of budget related-policies

The Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

Budget Policy

The budget process is governed by various provisions in the MFMA and is aimed at instilling and establishing an increased level of discipline, responsibility and accountability in the financial management practices of municipalities. To ensure that the Municipality continues to deliver on its core mandate and achieves its developmental goals, the mid-year review and adjustment budget process will be utilised to ensure that underperforming functions are identified and funds redirected to performing functions.

Virement Policy

The Virement Policy aims to empower senior managers with an efficient financial and budgetary amendment and control system to ensure optimum service delivery within the legislative framework of the MFMA and the Municipality's system of delegations.

Tariff Policy

The Municipality's tariff policies provide a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery.

Changes in the tariff policy was the exemption of churches from refuse charges. The ratio of agricultural use of land was aligned with the Property Tax Rates Act.

The following policies have also been subject to review:

- Indigent Policy;
- Travelling & Subsistence;

OVERVIEW OF BUDGET ASSUMPTIONS

External factors

The effects of recession are less evident than the same time two years ago. After a protracted standstill in interest rates, this has since increased. Upwards pressure is also evident in the inflation rate and the Rand continues to weaken against leading currencies. International oil prices are rising after a significant decrease over the previous months.

General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2020/21

MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity and fuel; and
- The increase in the cost of remuneration. Employee related costs comprise 36,7 per cent of total operating expenditure in the 2018/19 MTREF and therefore increases above inflation places a disproportionate upward pressure on the expenditure budget

Collection rate for revenue services

The base assumption is that tariff and rating increases will increase at a rate linked to CPI over the medium term. It is also assumed that current economic conditions, and relative inflationary conditions, will continue for the forecasted term.

The rate of revenue collection is currently expressed as a percentage (80 per cent) of annual billings. Cash flow is assumed to be 80 per cent of billings from an increased collection of arrear debt.

The Municipality has in place a fair but rigorous credit control policy. Furthermore, its policy on indigent support means that many households who would normally struggle to pay their accounts receive free or subsidised basic services thereby keeping them free of the burden of municipal debt

Growth or decline in tax base of the municipality

Debtors' revenue is assumed to increase at a rate that is influenced by the consumer debtors' collection rate, tariff/rate pricing, real growth rate of the Municipality, household formation growth rate and the poor household change rate.

The revised headline CPI forecasts from National Treasury for 2020/21, 2021/22 and 2022/23 are 4.5%, 4.6% and 4.6% respectively. The growth parameters apply to tariff increases for property rates, user and other charges raised by municipalities and municipal entities, to ensure that all spheres of government support the national macroeconomic policies. NT has communicated that any rate or tariff increase above CPI must be fully communicated to the community.

Household formation is the key factor in measuring municipal revenue and expenditure growth, as servicing 'households' is a greater municipal service factor than servicing individuals. Household formation rates are assumed to convert to household dwellings. In addition, the change in the number of poor households influences the net revenue benefit derived from household formation growth, as it assumes that the same costs incurred for servicing the household exist, but that no consumer revenue is derived as the 'poor household' mainly limits consumption to the level of free basic services.

Salary increases

The new collective agreement regarding salaries/wages has not been signed for the 1st July 2019. CPI plus 1% is being used to project the increment for salaries.

Impact of national, provincial and local policies

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:

- Creating jobs;
- Enhancing education and skill development;
- Improving Health services;
- Rural development and agriculture; and
- Fighting crime and corruption.

To achieve these priorities integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

Ability of the municipality to spend and deliver on the programmes

It is estimated that a spending rate of at least 80 per cent could be achieved on operating expenditure and 100 per cent on the capital programme for the 2020/21 MTREF.

OVERVIEW OF BUDGET FUNDING

Funding the Budget

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section

Achievement of this requirement in totality effectively means that a Council has 'balanced' its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows. Refer to Section 4, 'Table A8: Cash backed reserves/accumulated surplus reconciliation' and Annexure 2, 'Supporting Table SA10: Funding measurement'.

Fiscal Overview of Kgatelopele Municipality

Kgatelopele Municipality has over recent years facing cash-flow constrains and being grant depended. The municipality has also strived to have a high level of compliance with the Municipal Finance Management Act and other legislation directly affecting financial management. Kgatelopele has received a disclaimer audit report in the 2017/2018 financial year. Kgatelopele Municipality is on the pathway to meet the deadline for implementing National Treasury's MSCOA Chart of Accounts effective 1 July 2017 and will be amongst other municipalities in South Africa to do so.

The table below is a breakdown of the operating revenue A4

Table 22 MBRR SA23 - Salaries, allowances and benefits (political office bearers/councillors/senior managers)

MONTHLY TARGETS FOR REVENUE, EXPENDITURE AND CASH FLOW

Table 23 MBRR SA25 - Budgeted monthly revenue and expenditure

Table 24 MBRR SA26 - Budgeted monthly revenue and expenditure (municipal vote)

Table 25 MBRR SA27 - Budgeted monthly revenue and expenditure (functional classification)

Table 26 MBRR SA29 - Budgeted monthly capital expenditure (functional classification)

Table 27 MBRR SA30 - Budgeted monthly cash flow

Final Annual budgets and SDBIP

The Draft SDBIP will be tabled as a separate item at the Council meeting held on 23 March 2020.

Capital Expenditure Details

Capital details are shown in Annexure 1 and 2 on following tables:

- 'Main Table A5: Capex (capital expenditure)'
- Main Table A9: Asset Management (capital expenditure, Asset Register, Depreciation, and R&M)'
- 'Supporting Table SA6: Reconciliation of IDP strategic objectives and budget (capital expenditure)'
- 'Supporting Table SA28: Monthly Capital Expenditure by Municipal Vote (capital expenditure)'
- 'Supporting Table SA29: Monthly Capital Expenditure by GFS and Funding Source (capital expenditure)'
- 'Supporting Table SA34a: Capital expenditure on new assets by asset class'

- ‘Supporting Table SA34b: Capital expenditure on the renewal of existing assets by asset class’
- ‘Supporting Table SA36: Detailed capital budget’

LEGISLATION COMPLIANCE STATUS

The disclosure on legislation compliance must provide a brief summary of the status of the implementation of legislation applicable to municipalities, including progress made or delays experienced in implementation.

Municipal Finance Management Act - No 56 of 2003

The MFMA became effective on 1st July 2004. It covers all aspects of municipal finance including budgeting, supply chain management and financial reporting.

The MFMA and the budget

The following explains the budgeting process in terms of the requirements in the MFMA. It is based on National Treasury’s guide to the MFMA. The MFMA requires a Council to adopt three-year capital and operating budgets that take into account, and are linked to, the municipality’s current and future development priorities and other finance-related policies (such as those relating to free basic service provision).

These budgets must clearly set out revenue by source and expenditure by vote over three years and must be accompanied by performance objectives for revenue and expenditure, a cash flow statement and any particulars on borrowings, investments, municipal entities, service delivery agreements, grant allocations and details of employment costs.

The budget may be funded only from reasonable estimates of revenue and cash-backed deficit funds from the previous year and borrowings (the latter for capital items only).

Other Legislation

In addition to the MFMA, the following legislation also influences Municipality budgeting;

The Division of Revenue Act and Provincial Budget Announcements

Three year national allocations to local government are published per municipality each year in the Division of Revenue Act. The Act places duties on municipalities in addition to the requirements of the MFMA, specifically with regard to reporting obligations. Allocations to the Municipality from Provincial Government are announced and published in the Provincial budget.

Section 18 of the MFMA states, “annual budgets may only be funded from reasonably anticipated revenues to be collected”. The provision in the budget for allocations from National and Provincial Government should reflect the allocations announced in the DORA or in the relevant Provincial Gazette.

The Municipal Systems Act - No 32 of 2000 and Municipal Systems Amendment Act no 44 of 2003

One of the key objectives of the Municipal Systems Act is to ensure financially and economically viable communities. The requirements of the Act link closely to those of the MFMA. In particular, the following requirements need to be taken into consideration in the budgeting process;

- Chapters 4 and 5 relating to community participation and the requirements for the Integrated Development Planning process.
- Chapter 6 relates to performance management which links with the requirements for the budget to contain measurable performance objectives and quarterly performance targets in the Service Delivery and Budget Implementation Plan.
- Chapter 8 relates to the requirement to produce a tariff policy. Section 20 – Other supporting documents.

Other supporting documents

Various supporting documents are attached to enable the reader a fuller understanding of the various processes involved. These are the following:

Annexure 1 – 2020-2021 MTREF Main Budget Tables version 6.3

Tables A1 to A10

Annexure 2 – 2020-2021 MTREF Supporting Budget Tables version 6.3

Supporting Tables SA1 to SA37

Annexure 3 – Three prior years outcome and current year main Supporting Budget Tables

Annexure 4 –2020/2021 NT Circular and guidelines

Circular 82, 99

Annexure 5 – Tariffs*, Charges and Fees for 2020/2021

Annexure 5 – Policies

- Tariff
