



DRAFT ANNUAL BUDGET FOR 2021/2022 MTREF

2021/22 to 2023/24

**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 DRAFT ANNUAL BUDGET FOR 2021/22 MEDIUM TERM REVENUE AND
EXPENDITURE FRAMEWORK,
BUDGET POLICIES AND PROPOSED TARIFF INCREASES FOR 2021/22
29 MARCH 2021**

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 2021/22 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 2021:

- 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 2021 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 2020/21 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 2021/22 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 2021/22 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2021/2022 MTREF

	Adjustment Budget year 2020/21	Draft Budget year 2021/2022	Draft Budget year +1 2022/2023	Draft Budget year +2 2023/2024
Total Operating Revenue	R 116 715 269	R 124 462 534	R 134 763 806	R 136 409 009
Total Operating Expenditure	R 116 205 235	R 124 268 519	R 133 638 737	R 131 846 523
Surplus	R 510 033	R 194 015	R 1 125 069	R 4 562 486
Total Capital Expenditure	R 21 845 000	R 90 594 000	R 131 612 000	R 157 462 000

Total operating revenue has grown by 6% from the 2020/21 financial year's total revenue and a growth 8%, from R 116 715 million for the 2020/21 financial year to R 124 463 million when compared to the 2021/2022. For the two outer years, operational revenue will increase by 8% and by 1% respectively, equating to a total revenue growth of R 19,693 million over the MTREF when compared to the 2020/21 financial year adjusted budget.

Total operating expenditure for the 2021/22 financial year has been appropriated at R 124, 268 million and translates into a budgeted surplus of R 194 015 before taking into consideration capital transfers. When compared to the 2020/21 Adjustments Budget, operational expenditure has grown by 6% in the 2021/22 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 is estimated at R 215 065 million. This constitutes R 90,594 million for capital expenditure and R 124,462 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. At the beginning of the financial year the municipality changed financial systems to ensure that we have a financial system that operates correctly including billing correctly and allocating payments correctly. 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 2021/22 MTREF (classified by main revenue source).

Table 2 Summary of revenue classified by main revenue source

Budget Items	Adjusted Budget 2020/2021 (2nd Adjusted)	Draft Budget 2021/2022	Draft budget 2022/2023	Draft budget 2023/2024
Property rates	20,474,248	22,171,034	23,146,559.75	24,188,154.94
Service charges - electricity revenue	33,198,457	36,326,752	37,961,455.35	39,669,720.84
Service charges - water revenue	8,545,681	13,016,950	13,602,713.05	14,214,835.14
Service charges - sanitation revenue	4,373,919	6,908,961	7,219,360.16	7,544,231.37
Service charges - refuse revenue	8,247,158	8,937,843	9,340,045.54	9,760,347.59
Service charges - other	-		-	-
Rental of facilities and equipment	359,646	361,404	374,184.12	387,584.11
Interest earned - external investment	829,089	367,780	384,329.79	401,624.63
Interest earned - outstanding debtors	2,453,334	2,021,363	1,534,625.86	1,603,684.02
Dividends received	-			
Fines, penalties and forfeits	608,660	1,081,226	774,597.14	758,665.78
Licences and permits	730,879	948,650	991,339.01	1,035,949.26
Agency services	392,378	415,921	434,637.11	454,195.78
Transfers and subsidies	32,372,000	30,350,000	37,203,000	34,543,000.00
Other revenue	3,678,460	1,554,652	1,796,959.16	1,847,015.16
Gains on disposal of PPE	451,360	-		
TOTAL	116,715,269	124,462,534	134,763,806	136,409,009

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 6% represents the tariff increase for water, sanitation and refuses revenue and electricity. Rates and service charge revenues comprise 70% of the total operating revenue mix. In the 2021/2022 financial year, revenue from rates and services charges totalled R 87,362 million which is an increase from 2020/21 financial year's R 74,893 million.

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, mainly grants for capital expenditure. Conditional grants such as the Finance Management Grant, Equitable share and Library grant have been a great contributor to the municipality's cashflow over the years and cannot survive without these grants. The Equitable Share is used to subsidise indigents and municipal running costs.

There has been a drastic growth in the number of indigents in the 2020/2021 financial year which was fuelled by the effects of the national lockdown on the livelihood of many South Africans. The municipality has left the indigent registration open through out the year as circumstance may change.

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 2021/2022.

DORA ALLOCATION 2021 - 2021			
Operational Grants	2021/22	2022/23	2023/24
Equitable Share	23,834,000.00	25,560,000.00	25,833,000.00
Special Support for Council Remunerations	1,679,000.00	1,731,000.00	1,798,000.00
Financial Management Grant	2,850,000.00	3,000,000.00	3,000,000.00
Library	912,000.00	912,000.00	912,000.00
Expanded Public Works Programme Integrated Grant	1,075,000.00	-	-
Sub-Total Operational Grants	30,350,000.00	31,203,000.00	31,543,000.00
Capital Grant			
Municipal Infrastructure Grant	20,227,000	8,510,000	8,678,000
Energy Efficiency & Demand Side Management Grant	3,000,000	4,000,000	-
Intergrated National Electrification Programme Grant	-	2,000,000	3,000,000
Regional Bulk Infrastructure Grant	62,367,000	105,102,000	132,809,000
Water Services Infrastructure Grant	5,000,000	12,000,000	12,975,000
Sub-Total Infrastructure Grant	90,594,000.00	131,612,000.00	157,462,000.00
Total Operational & Capital	120 032 000	161 903 000	188 093 000

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. The funding will be used to improve and create new infrastructure assets. The municipality’s main source of funding for capital assets is through government grants.

Due to the effects of the COVID-19 pandemic and the lockdown, the municipality released an increase in the interest on outstanding debtors as the collection rate dropped and households no longer were able to pay for municipal services as before.

A proposed decrease in the interest rate which was prime plus 1 to only 3% is made in the budget to assist both the municipality and consumers. This will reduce the growing debtor's book which is growing based on the interest charged. Furthermore, interest will be waived for consumers that enter into a payment arrangement and actually stick to the payment arrangement.

Lastly 'other revenue' which consists of various items such as income received from rental fees, 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.

Tariff Setting and Tariff Implications of the 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 4,1 percent increases in the average for services and property rates and electricity is at 14.59%.

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. The municipality will be implementing its first supplementary roll from this general valuation roll. 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. The supplementary roll includes newly build properties, new improvements made and changes as per the act the Municipal Property Rates Act.

As per the Municipal Property Rates Act, the municipality phased in the increase in the rates to cushion the shock to the property owners.

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.

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 15 000 as non-ratable, therefore the total non-ratable value for residential properties is R 30 000.
- 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 municipality will also be awarding a rebate on property rates to properties in the tourism industry such as guesthouses and game farms. 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.
- Exclusion of 'State owned properties' and "government properties' from the property rates tariff and the valuation roll. Which brings rise to inclusion of a tariff for 'public service use'. These are properties such as state-owned hospitals, schools, etc.
- Inclusion of property rates for a category for multiple use, for properties that are used for more than one use. This is normally properties that are residential and business.

The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2021/22 financial year to be implemented the 1st July 2021 is contained below.

Table 4 Comparison of 2020/2021 levied to proposed rates for 2021/22

KGATELOPELE LOCAL MUNICIPALITY					
DRAFT TARIFFS 2021/2022					
	UNIT	Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent
		Tariff 2020/2021 (Excl VAT) R c	Tariff 2020/2021 (Inc VAT) R c	Tariff 2021/2022 (Excl VAT) R c	Tariff 2021/2022 (Inc VAT) R c
PROPERTY RATES					
Residential properties	Stand	0.0081		0.0084	
Industrial Properties	Stand	0.0162		0.0168	
Business & Commercial Properties	Stand	0.0121		0.0126	
Farm Properties used for:		-		-	
Agricultural purpose	Farm	0.0003		0.0003	
Business & commercial purpose	Farm	0.0259		0.0269	
Residential purpose	Farm	0.0081		0.0084	
Other purpose	Farm	0.0259		0.0269	
Farm Properties not used for any purpose	Farm	0.0259		0.0269	
State owned properties	Stand	0.0065		-	
Public Service Purpose	Stand			0.0067	
Municipal properties - Exempted	Stand	-		-	
Public Service Infrastructure - Exempted	Stand	-		-	
Privately owned towns serviced by the owner	Stand	0.0065		0.0084	
Formal & informal Settlements	Stand	-		-	
Communal Land (S1 Communal Land Right Act 2004)	Stand	-		-	
State Trust Land	Stand	-		-	
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 1996		-		-	
Listed Protected Areas - Exempted	Stand	-		-	
Properties on which National Monuments are Proclaimed - Exempted on approval of application	Stand	-		-	
Properties owned by Public Benefit Organisations used for benefit of listed in the 9th schedule to income tax act	Stand	-		-	
Blocks of Flats	Block	0.0081		0.0084	
Mining		0.0162		0.0168	
Multipurpose	Stand			0.0105	
Churches - Exempted	Stand	-		-	
Small Holdings	Stand	0.0065		0.0084	

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 over the years. The municipality also corrected the property rates for small holdings and privately owned towns as per Section 19 which does not permit different rates for residential properties. However, included in the Property Rates Policy is the rebate that is awarded to these properties as the municipality does not provide them with full services.

4.2 Sale of Water and Impact of Tariff Increases

Kgatelopele Local Municipality has been fortunate to have a natural supply of water that it can extract to provide water to the community. This source has received blue drop status in the past and is tested bi-weekly to ensure that the quality of water is good to be consumed. 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. 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. The municipality has not started with creating cost reflective tariffs exercise as yet. However, we have tried to address the losses through the war on leaks project, which gave rise to prepaid water meters.

Proposed tariff increases as from 1 July 2021 are indicated in Table 5. The 6 kℓ free water per 30-day period has since 2014 only been granted to registered indigents. Our informal settlement received jojo to provide them with water as part of the measures put in place for COVID 19. Areas such as small holdings that have residential properties received communal taps in 2018, as they did not have any infrastructure for normal household taps, the scatteredness of the properties contributed to the need for communal taps.

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

Table 5 Proposed Water Tariffs for the 2021/2022 financial year

KGATELOPELE LOCAL MUNICIPALITY							
DRAFT TARIFFS 2021/2022							
	UNIT	Rounded off to nearest cent		Rounded off to nearest cent		Rounded off to nearest cent	
		Tariff 2020/2021 (Excl VAT) R c	Tariff 2020/2021 (Inc VAT) R c	Tariff 2021/2022 (Excl VAT) R c	Tariff 2021/2022 (Inc VAT) R c		
		-		-		-	
		-		-		-	
		-		-		-	
WATER							
Domestic households							
Tariffs Applied for:							
Block 1 (0-6 kl) 6	1+	kL	7.50	8.63	7.83	9.00	
Block 2 (7.-25 kl) 18	1+	kL	8.40	9.66	8.77	10.09	
Block 3 (26 - 50 kl) 24	1+	kL	9.65	11.10	10.07	11.59	
Block 4 (>51 kl)	1+	kL	11.47	13.19	11.98	13.77	
Basic Charge (inclusive of basic charge per borehole)		Stand	93.75	107.81	97.88	112.56	
Basic Charge (Indigents) (0-6 kl)	0 - 6 kL Free	Stand	-	0.00	-	-	
Basic Charge (Vacant)		Stand	281.27	323.46	293.64	337.69	
Installation of prepaid meters	Indigents	Stand					
Installation of prepaid meters	Residential	Stand	-	0.00	COST + 15%	COST + 15%	
			-	-	-	-	
Business			-	-	-	-	
Tariffs Applied for:			-	-	-	-	
Block 1 (0-6 kl)	1+	kL	9.38	10.79	9.80	11.26	
Block 2 (7.-25 kl)	1+	kL	10.51	12.09	10.97	12.62	
Block 3 (26 - 50 kl)	1+	kL	12.05	13.86	12.58	14.47	
Block 4 (>51 kl)	1+	kL	14.33	16.48	14.96	17.21	
Basic Charge (inclusive of basic charge per borehole)		Stand	281.27	323.46	293.64	337.69	
Basic Charge (Vacant)		Stand	843.79	970.36	880.92	1,013.05	
			-	0.00	-	-	
Industrial			-	0.00	-	-	
Tariffs Applied for:			-	0.00	-	-	
Block 1 (0-6 kl)		kL	11.26	12.95	11.76	13.52	
Block 2 (7.-25 kl)		kL	12.60	14.49	13.15	15.13	
Block 3 (26 - 50 kl)		kL	14.47	16.64	15.10	17.37	
Block 4 (>51 kl)		kL	17.21	19.79	17.97	20.66	
Basic Charge (inclusive of basic charge per borehole)		Stand	281.27	323.46	293.64	337.69	
Basic Charge (Vacant)		Stand	843.79	970.36	880.92	1,013.06	

The tariff structure of the 2021/22 financial year has not been changed, with the exception of an inclusion of basic charge for boreholes which was introduced in the 2020/21 financial year. In the fight to assist our indigents to better manage their accounts, the municipality rolled out 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. Based on the success of the prepaid meter and the sense of control one gets with having a prepaid water meter, the municipality has received a number of requests to have the project rolled out to non-indigent households at a fee per installation of prepaid meters.

Sale of Electricity and Impact of Tariff Increases

NERSA announced the revised bulk electricity pricing structure, with Eskom being awarded an increase of 17% for 2021/22 financial year. The NERSA guideline framework for municipalities to levy to consumers was used to determine the increase of 14.59% on electricity tariff for the budget for implementation on the 1st July 2021. 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. During the 2020/21 financial year, the municipal building has not experienced any load shedding due to the solar panels the municipality installed at the main building, which provided electricity during periods where load shedding was scheduled. In addition, the municipality has utilised its solar supply as a main source of electricity and only utilising the Eskom electricity when the battery is running low to allow it time to recharge. This is the vision the municipality has for the whole town, to reduce the reliance on the Eskom grid.

During the pandemic the municipality experienced an increase in tempering of prepaid electricity meters as the municipality implemented credit control. This required the municipality to vigorous like do inspections on low and zero purchasing households to reduce loses. The municipality adopted a zero tolerance to policy for tampering of electricity boxes, a fine and criminal case will be levied. Tempering of electricity meter boxes has been one of the major contributors to our electricity losses.

A total of 195 households received electricity connections which was funded through the INEP grant. This is new connections that addressed the backlog the municipality had, not withstanding the increase in demand for electricity especially in the informal settlements that have mushroomed over the years. Most of these areas are sitting on dolomitic land, which makes it difficult to prioritise them for formalising the area as a residential area.

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

KGATELOPELE LOCAL MUNICIPALITY							
DRAFT TARIFFS 2021/2022							
	UNIT		Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent	
			Tariff 2020/2021 (Excl VAT) R c	Tariff 2020/2021 (Inc VAT) R c	Tariff 2021/2022 (Excl VAT) R c	Tariff 2021/2022 (Inc VAT) R c	
			-	-	-	-	
ELECTRICITY							
Domestic Households (Prepaid)							
Tariffs Applied for:							
Block 1 (0-50 kWh)	1+	kWh	1.0916	1.26	1.2508	1.44	
Block 2 (51-350 kWh)	1+	kWh	1.4026	1.61	1.6072	1.85	
Block 3 (351-600 kWh)	1+	kWh	1.9878	2.29	2.2778	2.62	
Block 4 (>600 kWh)	1+	kWh	2.3349	2.69	2.6755	3.08	
Basic Charges		Per Meter	21.0833	24.25	24.1594	27.78	
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	21.0833	24.25	24.1594	27.78	
Domestic Households (Conventional)							
Tariffs Applied for:							
Block 1 (0-50 kWh)	1+	kWh	1.0916	1.26	1.2508	1.44	
Block 2 (51-350 kWh)	1+	kWh	1.4026	1.61	1.6072	1.85	
Block 3 (351-600 kWh)	1+	kWh	1.9878	2.29	2.2778	2.62	
Block 4 (>600 kWh)	1+	kWh	2.3349	2.69	2.6755	3.08	
Basic Charge		Stand	21.0833	24.25	24.1594	27.78	
Basic Charge on Vacant Stands		Stand	396.5466	456.03	454.4027	522.56	
Business (Commercial)							
Business Prepaid Single Phase							
Business Prepaid Single Phase	1 +	kWh	2.4252	2.79	2.78	3.20	
Business Prepaid Three Phase	1+	kWh	2.4252	2.79	2.78	3.20	
Business Conventional Single Phase	1+	kWh	2.4252	2.79	2.78	3.20	
Business Conventional Three Phase	1+	kWh	2.4252	2.79	2.78	3.20	
Demand KVA Meters (per KVA)		KVA	176.1900	202.62	201.90	232.18	
Basic charge Conventional		Stand	316.5959	364.09	362.79	417.21	
Basic charge Prepaid		Per Meter	316.5959	364.09	362.79	417.21	
Basic Charge on Vacant Stands		Stand	931.5455	1071.28	1,067.46	1,227.58	
Industrial							
Energy							
Energy	1 +	kWh	1.9147	2.20	2.19	2.52	
Demand KVA Meters (per KVA)	1 +	KVA	176.1900	202.62	201.90	232.18	
Basic Charge Conventional & Prepaid		Stand	607.5000	698.63	696.13	800.55	
Basic Charge on Vacant Stands		Stand	607.5000	698.63	696.13	800.55	
Schools, Public Benefit Organisation, Own use							
Energy							
Energy	1 +	kWh	1.9855	2.28	2.28	2.62	
Demand KVA Meters (per KVA)		KVA	176.1900	202.62	201.90	232.18	
Basic Charge Conventional		Stand	285.4336	328.25	327.08	376.14	
Basic Charge Prepaid		Per Meter	283.7365	326.30	325.13	373.90	

The tariff structure which is a block tariff structure for households remains unchanged.

Sanitation and Impact of Tariff Increases

A tariff increases of 4.1% for sanitation is proposed from 1st July 2021.

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. The next step is to reticulate the households and businesses that are currently using septic tanks. After this is done the municipality will be able to start the exercise on developing cost reflective tariff as the maintenance cost has to be included.

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, a small number of them are using septic tanks. In 2019 the municipality installed communal toilets with the assistance of Jasper Solar Park as part of their community uplift, these communal toilets are situated in the informal settlement areas as they do not have access to services. There is an average of 45 households that are using pit toilets in the jurisdiction of the municipality that needs to be connected to the main line and provided proper sanitation services.

The following table compares the current and proposed tariffs:

Table 7 Comparison between current sanitation charges and increases

KGATELOPELE LOCAL MUNICIPALITY						
DRAFT TARIFFS 2021/2022						
	UNIT	Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent	
		Tariff 2020/2021 (Excl VAT) R c	Tariff 2020/2021 (Inc VAT) R c	Tariff 2021/2022 (Excl VAT) R c	Tariff 2021/2022 (Inc VAT) R c	
		-		-		
SEWERAGE		-		-		
Residential / Government / Churches / PBO	Point	149.26	171.65	155.83	179.20	
Flats	Unit	149.26	171.65	155.83	179.20	
Business / Guesthouses / Hotels / Industrial	The Greater of Per 100m ²	255.43	293.75	266.67	306.67	
	or Point	255.43	293.75	266.67	306.67	
	or Unit	255.43	293.75	266.67	306.67	
Septic Tank	per month	149.26	171.65	155.83	179.20	
	ad-hoc	471.35	542.05	492.09	565.90	
Sewerage Connection New	Connection	COST + 15 %	COST + 15 %	COST + 15 %	COST + 15 %	

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 4.1% in the waste removal tariff is proposed from 1 July 2021.

Changes are proposed for the new financial year which resulted in a split tariff for businesses between low capacity (small businesses with low waste output) and high capacity (grocery stores that have a high waste output).

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 2021:

Table 8 Comparison between current waste removal fees and increases

KGATELOPELE LOCAL MUNICIPALITY						
DRAFT TARIFFS 2021/2022						
	UNIT	Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent	
		Tariff 2020/2021 (Excl VAT) R c	Tariff 2020/2021 (Inc VAT) R c	Tariff 2021/2022 (Excl VAT) R c	Tariff 2021/2022 (Inc VAT) R c	
		-		-	-	
REFUSE REMOVAL		-		-	-	
Basic Charge Residential	Stand/unit	127.46	146.58	133.07	153.03	
basic charge for additional	Unit			66.53	76.51	
Basic Charge Residential (Indigent)	Stand	-		-	-	
Basic Charge Business - unit - low capacity	Stand	269.08	309.45	280.92	323.06	
Basic Charge Business - unit - high capacity	Stand			1,123.70	1,292.25	
Basic Charge Industrial	Stand	269.08	309.45	280.92	323.06	
Basic Charge Government	Stand	269.08	309.45	280.92	323.06	
Garden Refuse Removal	load	157.56	181.19	164.49	189.16	
Building Rubble / construction material	per ton	469.13	539.50	489.77	563.23	
Illegal Dumping		370.56	426.14	386.86	444.89	
Basic Charge Residential (Vacant)	Stand	382.39	439.74	399.21	459.09	
Basic Charge Business and Other (Vacant)	Stand	807.24	928.33	842.76	969.17	
Clearing of vacant stands	Stand			2,000.00	2,300.00	
Churches - exempt		-		-	-	

5. OPERATING EXPENDITURE FRAMEWORK

The Municipality's expenditure framework for the 2021/22 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
- Provision made for COVID -19
- Implementing operational gains and efficiencies;
- Strict adherences 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 2021/22 budget and MTREF (classified per main type of operating expenditure).

Table 9 Summary of operating expenditure by functional classification item

Budget Items	Adjusted Budget 2020/2021 (2nd Adjusted)	Draft Budget 2021/2022	Draft budget 2022/2023	Draft budget 2023/2024
Total Operating Expenditure				
Employee related costs	38,311,603	43,087,788	45,660,460.20	48,328,858.47
Remuneration of councillors	2,607,550	2,709,068	2,828,266.99	2,955,539.01
Debt impairment	5,589,859	4,471,887	5,366,264.64	7,512,770.50
Depreciation & asset impairment	12,535,184	12,539,687	18,141,480.34	10,304,491.23
Finance charges	199,450	162,628	130,102.57	91,071.80
Bulk purchases	21,050,682	26,150,590	27,301,215.54	28,529,770.24
Other materials	3,055,323	2,489,876	1,916,349.25	2,156,920.25
Contracted services	14,155,482	14,885,187	13,867,776.20	12,668,812.19
Transfers and subsidies	150,000	-	-	-
Other expenditure	18,550,102	17,771,689	18,426,694.82	19,298,155.29
Loss on disposal of PPE	-	-	-	-
TOTAL	116,205,235	124,268,400	133,638,611	131,846,389

The budgeted allocation for employee related costs and remuneration of councillors for the 2021/22 financial year totals R 45,797 million which equals 37% 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 2021/22 financial year at 11% for employee related cost and 4% for remuneration of councillors. The new salary increases will be communicated before the beginning of the new financial year, currently in the budget an estimated increase of 6% has been included for employee related cost and remuneration of councillors at 4%.

Only funded vacancies are for critical posts that affect service delivery and finance posts that will assist the municipality in credit control and ensuring billing is done correctly and accurately. A new department called Roads and Stormwater is budgeted for as this was seen a crucial need during the natural disaster that high the Kgatelopele Local Municipality which included flooding of street due to blocked stormwater pipes and poor drainage systems. The department will also prioritise sealing of potholes and maintaining our roads.

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. There are no vacancies in the senior management positions of the municipality.

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. Increase allocation for remuneration of section 57 managers has been budgeted as per the gazette 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).

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 2021/22

financial year this amount equates to R 4, 471 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, only for those qualifying indigents. 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. This has also given rise to the amendment of the Write Off Policy and the Indigent Policy in relation to the write off that will be permitted limited to the amount budgeted for.

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 12, 539 million for the 2021/22 financial year and equates to 1% of the total operating expenditure.

The budget includes a total of R 162 628 in relation to finance charges for the 2021/2022 financial year which is the interest charged on the Auditor General account. The municipality has remained on the current account in relation to the Eskom account. The municipality does not have any current borrowings and does not plan on taking on any loan for the 2021/2022 financial year.

Bulk purchases equate to 21% 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 the 17.8% increase Eskom received and distribution losses which is currently within the norm.

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. Contracted services comprise mainly of accounting services for the implementation of the financial system which went live in the 2020/2021 financial year and the cost to ensure enough training is provided for the remainder of the modules that need implementation. Also included under accounting services and consultancy is the Immovable Infrastructure portion of the asset register and the supplementary valuation roll.

Others contracted services include 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.

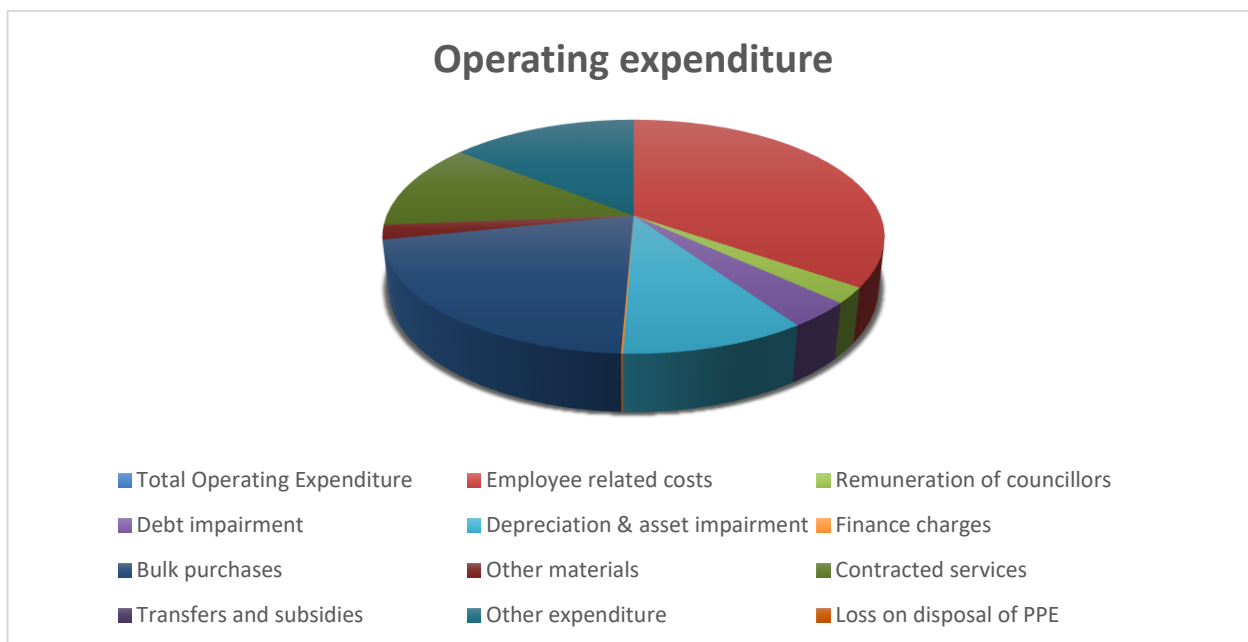
Certain functions also require the contracting of specialist knowledge contracted from time to time due to the fact that the municipality cannot afford to employ experts on a full-time basis. Contracted services have been identified as an area for the municipality to implement efficiencies. As part of the compilation of the 2021/22 MTREF this group of expenditure was critically evaluated and operational efficiencies are being enforced. In the 2021/22 financial year, this group of expenditure is budgeted at a total of R 14, 885 million, which equate to 12% of total operating budget, which is a 5% 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 14% for the 2021/22 financial year and has decreased by 4%.

Other material has decreased from 3,005 million to 2,489 million, which is mostly inventory store items which is used for service delivery. Included is the provision for the Roads and Stormwater departments needs to ensure the department operates effectively and yields the desired objective.

In the 2020/2021 financial year budget the municipality had budgeted R 150 000 for transfers and subsidies which was Covid related assistance for the Quarantine site, this provision is not available in the current financial year due to cost constraints.

The following graph gives a breakdown of the main expenditure categories for the 2021/22 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 2021/22 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 2021/22 remains at an estimate of 1700 and will be reviewed monthly.

The municipality budgeted a total of R 11 404 763 for the indigent relief as follows:

- Water – R 2 924 375
- Electricity – R 534 787
- Refuse – R 3 038 116
- Sanitation – R 3 669 250
- Property rate – R 1 238 235

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 2021/22 Medium-term capital budget per vote

DORA ALLOCATION 2021 - 2024	2021/2022	2022/2023	2023/2024
Capital Grant			
Municipal Infrastructure Grant	20,227,000	8,510,000	8,678,000
Energy Efficiency & Demand Side Management Grant	3,000,000	4,000,000	-
Intergrated National Electrification Programme Grant	-	2,000,000	3,000,000
Regional Bulk Infrastructure Grant	62,367,000	105,102,000	132,809,000
Water Services Infrastructure Grant	5,000,000	12,000,000	12,975,000
Sub-Total Infrastructure Grant	90,594,000.00	131,612,000.00	157,462,000.00

For 2021/22 an amount of R 90,594 million has been appropriated for the development of infrastructure which represents 95% of the total capital budget of R 94,494 million. In the outer years this amount totals R 131,612million and R 157,462 million, 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. Furniture – R 800 000
2. Technical equipment – R 2 700 000
3. IT equipment – R 400 000

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 2021/2022 MTREF, 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

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.

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

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)

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

1. Total operating revenue was R 124,462 million in 2021/2022 and indicates an increase to R 136,409 million in 2023/24.

2. Revenue to be generated from property rates is R22,171 million in the 2021/22 financial year and increases to R 24,181 million by 2023/24 which represents 4% 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. First supplementary valuation roll to be implemented 1st July 2021.
3. Services charges relating to electricity, water, sanitation and refuse removal constitutes the biggest component of the revenue basket of the Municipality totalling R 65, 190 million for the 2021/22 financial year and indicates an increase to R 71,189 million by 2023/24. This is also a result of the change in budget presentation for free basic services, explained in this report. For the 2021/22 financial year services charges amount to 52% 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 21,050 million to R 26,151 million. These increases can be attributed to the increase of 20%.
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

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 90,594 million in 2021/22. 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 2021/22, capital transfers totals R 19,020 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

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

Table 19 Cash backed reserves/accumulated surplus reconciliation

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 2021/22 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

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 1 700 households to be registered as indigent in 2021/22, 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 11,419 million in 2021/22. 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:

Round 1 of public participation

Due to the Covid pandemic it was impossible for community participations to sit.

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 of the community and their inputs to the budget. The 2nd round of community engagement are planned for the month of April 2021. The dates for the 2nd round of consultative meetings are planned as follows:

DATE	WARD NUMBER	TIME	VENUE

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 2021. The Final IDP process started in January 2018 after the tabling of the IDP Process Plan and the Budget Time Schedule for the 2021/22 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 2021/22 MTREF, based on the approved 2020/2021 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 2021/22 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 2020/2021 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 2021/22 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 2021/22 MTREF:

- Municipality growth
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate (trends, inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2020/2021 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 2021/22 MTREF, will be tabled in Council in May 2021 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
 - o Traffic Services: Efficient traffic service regarding vehicle registration, learner's licenses and law enforcement
 - o 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 2021/22 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:

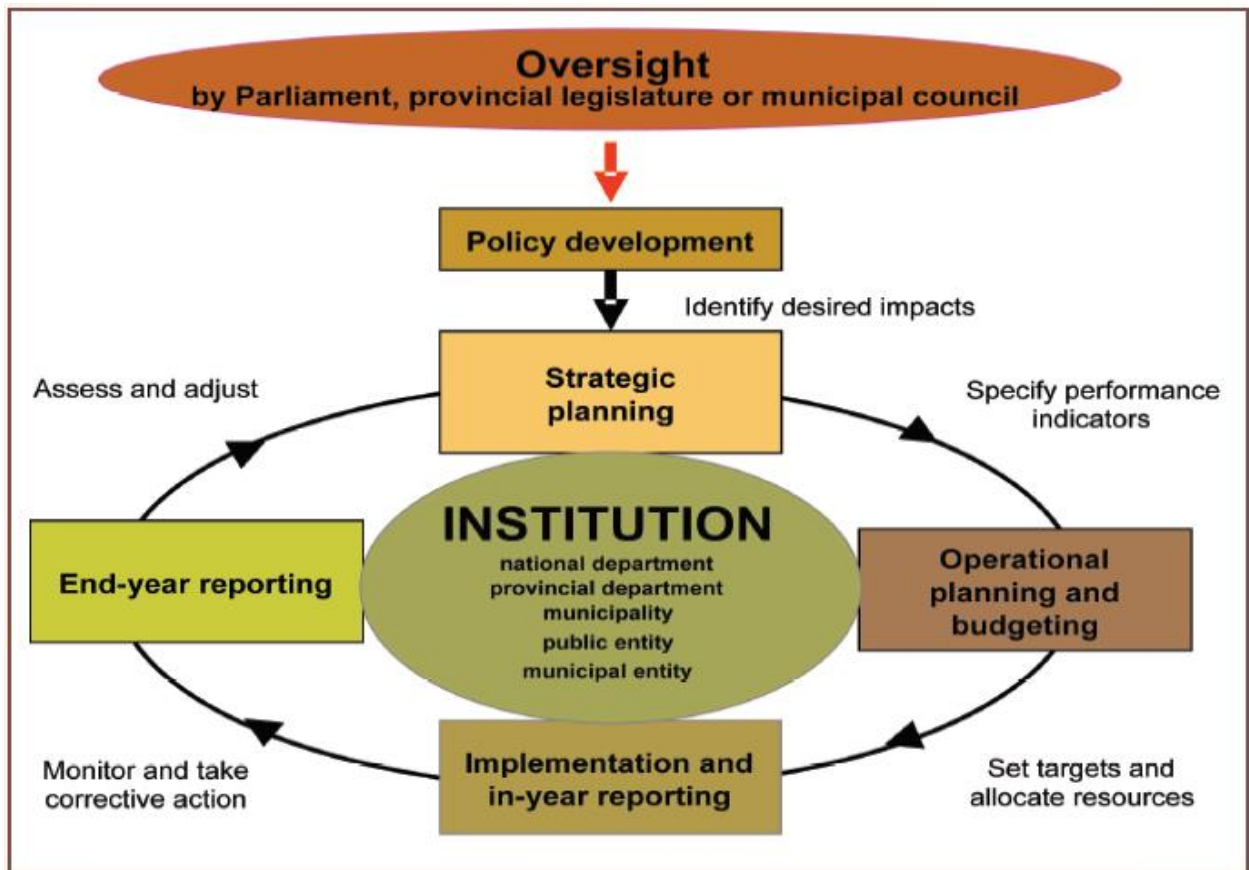


Figure 5 Planning, budgeting and reporting cycle

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:

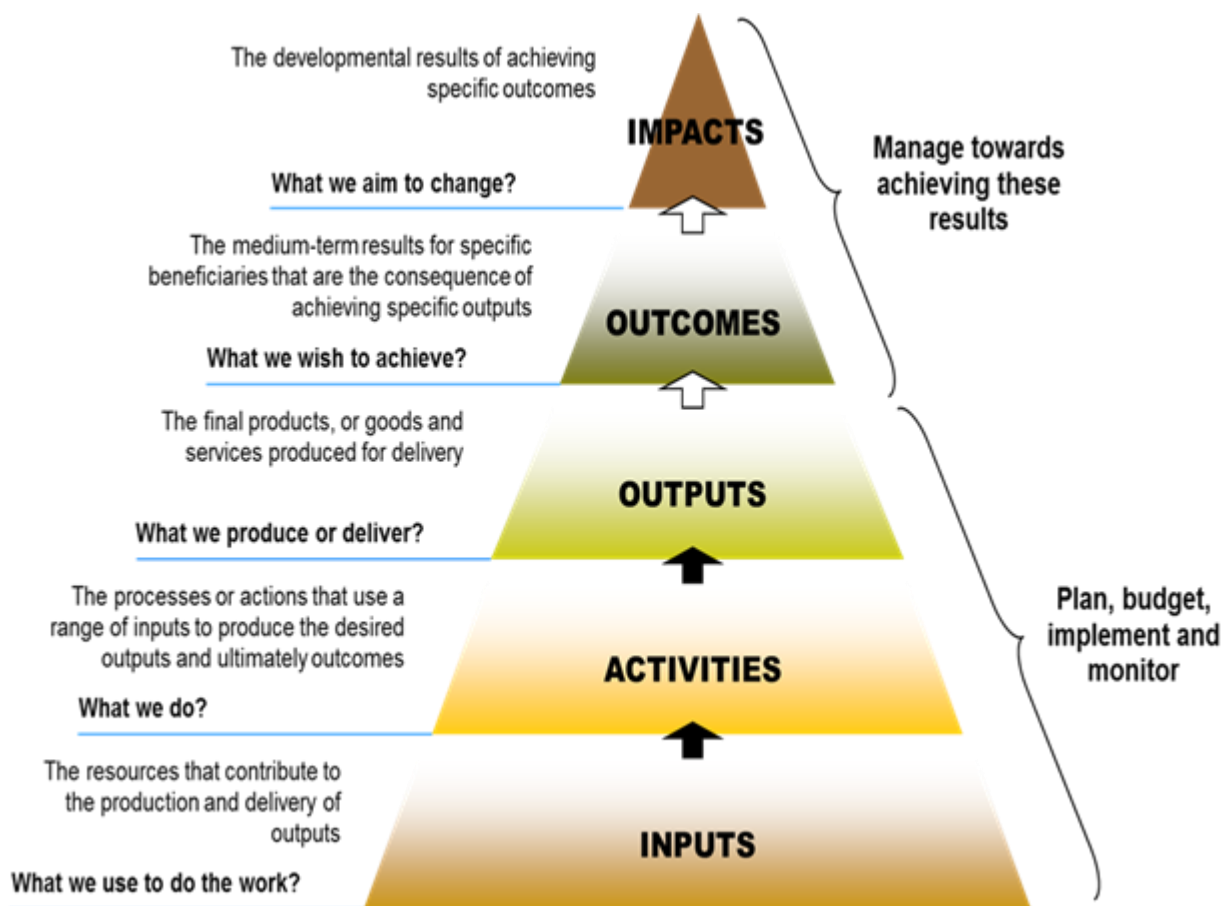


Figure 6 Definition of performance information concepts

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 2021/2022 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 2021/22 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 2021/22 financial year 1 700 registered indigents have been provided for in the budget with this figured increasing from the actual registered indigents of 2021/22. In terms of the Municipality's indigent policy registered households are entitled to 6kl free 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.

Property rate Policy

Changes in the property rates policy include the addition of rebates for game farms, guesthouses and small holdings. The exclusion of the category 'State Owned' and inclusion of 'Public Service Purpose'.

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. The decreasing of interest rate from prime plus 1 to 3%. The municipality included a tariff for clearing of sites, penalty for electricity tempering done by businesses.

Changes in the tariff policy was the exemption of churches from refuse charges. The ratio of agricultural use of land was aligned with the Local Municipality 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 2021/22

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 37 per cent of total operating expenditure in the 2021/22 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 (95 per cent) of annual billings. Cash flow is assumed to be 95 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 2021/22, 2021/22 and 2022/23 are 4.1%, 4.4% and 4.5% 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 2021/22 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 2018/2019 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 –2021/2022 NT Circular and guidelines

Circular 82, 99

Annexure 5 – Tariffs*, Charges and Fees for 2021/2022

Annexure 5 – Policies

- Tariff
