



NGAKA MODIRI MOLEMA DISTRICT MUNICIPALITY
PROPOSED MEDIUM TERM REVENUE AND EXPENDITURE
FRAMEWORK FOR
2018/19 TO 2020/21

ABBREVIATIONS AND ACRONYMS

CPI	Consumer Price Index
DBSA	Development Bank of South Africa
DoRA	Division of Revenue Act
EM	Executive Mayor
FBS	Free basic services
NMMDM	Ngaka Modiri Molema District Municipality
GRAP	General Recognised Accounting Practice
IDP	Integrated Development Plan
kℓ	kilolitre
km	kilometre
KPA	Key Performance Area
KPI	Key Performance Indicator
kWh	kilowatt
ℓ	Litre
LED	Local Economic Development
MEC	Member of the Executive Committee
MFMA	Municipal Financial Management Act
MIG	Municipal Infrastructure Grant
MMC	Member of Mayoral Committee
MSA	Municipal Systems Act
MTREF	Medium-term Revenue and Expenditure Framework
PMS	Performance Management System
RSC	Regional Services Council
SALGA	South African Local Government Association
SDBIP	Service Delivery Budget Implementation Plan

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PROPOSED MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK FOR 2018/19 -20/21

1. PURPOSE

The purpose of the report is to table the draft 2018/19 Medium- Term Revenue and Expenditure Framework (MTREF) before Council in terms of Section 16 (2) of the Local Government: Municipal Finance Management Act (Act 56 of 2003) for community consultation.

As a result, NMMDM Council should note the following:

- 1.1.1. Proposed operating revenue framework to the amount of R702,977 million
- 1.1.2. Proposed operating expenditure budget to the amount of R871, 868 million.
- 1.1.3. Proposed capital expenditure budget to the amount of R275, 614 million.
- 1.1.4. Proposed total revenue budget of R 998,591 million.
- 1.1.5. Proposed new and existing capital projects on Table 16 to Table 22 of the budget document.
- 1.1.6. Proposed grants and subsidies capital to the amount of R287,068 million.
- 1.1.7. Proposed 2018/19 to 2020/21 MTREF budget and accompanying annual budget schedules tables.
- 1.1.8. The budget-related policies accompanying the MTREF budget for 2018/19 to 2020/21
- 1.1.9. Adopt the cost containment measures as suggested in the updated MFMA Circular No.82, 89 & 91.

2. STRATEGIC OBJECTIVE ADDRESSED

“To ensure sound financial sustainability”

3. LEGISLATIVE AND REGULATORY FRAMEWORK

In terms of Municipal Finance Management Act, No. 56 of 2003, Chapter 4, Section 16, approval of annual budget states that:

- 1) The council of the municipality must for each financial year approve an annual budget for the municipality before the start of that financial year.
- 2) In order for the a municipality to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before that start of the budget year.

- 3) Subsection (1) does not preclude not the appropriation of money for capital expenditure for a period not exceeding three financial years, provided a separate appropriation is made for each of those financial years.

Subsequent, Section 22 of the MFMA state that immediately after an annual budget is tabled in a Municipal Council the Accounting Officer must –

- a) in accordance with Chapter 4 of Municipal System Act –
 - i. make public the annual budget and the documents referred to in section 17(3); and
 - ii. invite the local community to submit representations in connection with the budget; and
- b) submit the annual budget –
 - i. in both printed and electronic formats to the National Treasury and the relevant provincial treasury; and
 - ii. in either format to any prescribed national or provincial organs of state and to other municipalities affected.

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

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

In principle, draft operating and capital budget is tabled to facilitate community participation and encourage discussion with all stakeholders, rather than approval and will be refined to take into account the outcome of the public consultation process.

4. EXECUTIVE SUMMARY

The development of the budget which is an exercise of allocating resources is a difficult exercise under normal circumstances, due to competing demands for limited resources. This exercise is even more difficult with regard to Ngaka Modiri Molema District Municipality, due to the dire financial situation it finds itself in. By the end of the current financial year (2017/18), the municipality will be having estimated financial obligations of R549, 106 million, which translates to an increase of 35% or R141, 957 million as compared to R407, 149 million of 2016/17 financial year. This amount includes the current year outstanding creditors of R49

million [MAQS Construction & Gaoranolwe] and long outstanding debt of Sedibeng Water for an amount of R358, 149 million. In that view, this dilemma confirms that the municipality will continue operating under strain financial conditions.

Following that, we ensured that the budget process is a collective effort, where various departments were consulted and informed, and the budget allocations are based on principles that reflect the financial situation of the municipality. This is part of the budget reform measures that the municipality is initiating, to ensure that the process is in line with best practices. As results, we have ensured that the budget reflects the following:

- That capital budget figures talk to the infrastructure plans figures;
- That priority is given to core business areas of the municipality;
- That the budget provides for cost cutting/reduction measures;
- There will be no budget allocated to 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; and
- A critical review was also undertaken of expenditures on non-core and 'nice to have' items.

National Treasury's MFMA Circular No. 78, 79, 82, 85, 86, 89 & 91 other previous MFMA circulars were used to guide the compilation of the 2018/19 MTREF. As indicated above, the main challenges experienced during the compilation of the 2018/19 MTREF can be summarized as follows:

- Huge amount of outstanding amount of creditors for previous financial years;
- Non-compliance with conditional grants;
- Increasing demand of water due draught ;
- The ongoing difficulties in global and local macro economy;
- Aging and poorly maintained water, roads and sanitation infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- Salaries and wage increases for municipal staff that continue to exceed consumer inflation target (Consumer Price Inflations estimates - 5.3% + Real GDP growth - 1.5%); and

- The declining of credit ratings and creditworthiness of the municipality with financial institutions and
- The current Value Added Tax (VAT) increase from 14% to 15% which will be effective from 1 April 2018 as announced by Minister of Finance.

Table 1: Draft consolidated operating budget overview for 2018/19 MTREF

Description	2014/15	2015/16	2016/17	Current Year 2017/18			2018/19 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Total Operating Revenue	453,292	519,657	562,295	622,675	624,956	624,956	702,977	768,573	837,521
Total Operating Expenditure	996,547	992,566	895,907	795,216	799,645	799,645	871,868	971,732	1,092,312
Surplus/(Deficit)	(543,256)	(472,910)	(333,612)	(172,541)	(174,689)	(174,689)	(168,891)	(203,159)	(254,791)
Capital Expenditure	211,168	101,194	109,221	307,575	307,575	307,575	295,614	301,829	320,120

Total operating revenue has increased by 12.48 % or R702, 977 million for the 2018/19 financial year when compared to the 2017/18 adjustments budget. For the two outer years, operational revenue will increase by R 65,596 million or 9.33% and R68, 948 million or 9% respectively, equating to a total revenue growth of R78, 021 million over the MTREF when compared to adjustment budget for the 2017/18 financial year.

Total operating expenditure for the 2018/19 financial year has been appropriated at R871, 868 million and translates into a budgeted deficit of R168, 891 million as compared to the 2017/18 adjustments budget. The operational expenditure has increased by 9.03 % in the 2018/19 budget year and increases by 11.45 % and by 12.40 % for each of the respective outer years of the MTREF. The operating deficit for the two outer years increases to R203, 159 million and R 254,791 million respectively.

The capital expenditure budget of R295, 614 million for 2018/19 which is 4 % decrease as compared to the 2017/18 adjustment budget. For the two outer years, capital expenditure increases to R301, 829 million and R320, 120 million respectively. Owing to the declining of credit ratings and creditworthiness of the municipality with financial institutions, a note should be taken that the municipality has reached its prudential borrowing limits. As results, the

municipality is unable to acquire more borrowing to fund capital project over the medium-term framework.

5. OPERATING REVENUE FRAMEWORK

For the district to continue improving the quality of services provided to its citizens it needs to generate the required revenue. As it stands, the municipality relies entirely on grants which contribute 99% of total operating revenue allocated to the municipality. In these tough economic times strong revenue and expenditure management is critical for the sustainability of the municipality. The reality of the matter is that Ngaka Modiri Molema District is faced with service delivery backlogs, inequality, high unemployment and extreme poverty. The expenditure is required address these challenges which are inevitably always exceed the available funding. In other words, difficult choices have to be made in relation to cost cutting measures and balancing expenditures against realistically anticipated revenues.

The municipality's own revenue is built around the following key components:

- Sale of water tokens, yard connections fee, interest on primary bank account, sewer suction, and
- Rental of facilities and equipment.

The following table is a summary of the revenue for 2018/19 MTREF [main revenue classification]

Table 2: Summary of revenue classified by main revenue sources

Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
R thousand	1										
Revenue By Source											
Property rates	2	-	-	-	-	-	-	-	-	-	-
Service charges - electricity revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - water revenue	2	842	959	963	-	-	-	-	-	-	-
Rental of facilities and equipment		-	186	208	214	214	214	-	216	216	216
Interest earned - external investments		3,975	3,024	4,784	-	2,045	2,045	-	2,000	2,500	3,000
Transfers and subsidies		447,684	513,723	555,237	619,361	619,597	619,597	-	699,511	764,357	832,605
Other revenue	2	790	1,766	1,103	3,100	3,100	3,100	-	1,250	1,500	1,700
Total Revenue (excluding capital transfers and contributions)		453,292	519,657	562,295	622,675	624,956	624,956	-	702,977	768,573	837,521

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

recognised – operational forms a significant percentage of the revenue basket for the district. The total budget for transfers recognised-operational is R699, 511 million for 2018/19 financial year and increases to R764, 357 million and R832, 605 million for two outer years respectively.

Operating grants and transfers totals to R702, 977 million in the 2018/19 financial year and steadily increases to R837, 521 million by 2020/2021 financial year. This budget growth for the 2018/19 financial year is 12.48% and then decreases to 9.33% and flattens to 9% in 2020/2021 financial year. From the above table, it should be noted that the biggest portion of operating grants and transfers is equitable share which aimed for basic service delivery and other grants are for institutional transformation, such as capacity building and developing systems and procedures.

As highlighted before, own revenue comprises with sales of tokens, interest on primary bank account, sewer sunction, and rental of facilities and equipment. However, it should be noted that for 2018/19 financial year, this revenue budget is projected at R2, 216 million, which translate to a decrease of 2% as compared to the 2017/18 adjustment budget. For two outer years 2019/20 and 2020/21 financial years, own revenue is budget for R2, 716 million and R3, 216 million respectively. Following this explanation, this reduction is due to the fact that the municipality has stopped with water connections which were the main source of revenue for the municipality.

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

Table 3: Summary of Operating Transfers and Grants for 2018/19 MTREF

Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18			2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
RECEIPTS:	1, 2									
Operating Transfers and Grants										
National Government:		447,539	513,653	554,981	619,361	619,361	619,361	699,511	794,357	832,605
Local Government Equitable Share		444,828	510,260	551,464	616,267	616,267	616,267	696,369	792,027	829,843
Finance Management		1,250	1,325	1,460	1,795	1,795	1,795	1,865	2,330	2,762
Municipal Systems Improvement		786	524	-	-	-	-	-	-	-
Water Services Operating Subsidy		-	-	262	-	-	-	-	-	-
EPWP Incentive		676	1,545	1,578	1,299	1,299	1,299	1,277	-	-
SETA		-	-	217	-	-	-	-	-	-
Provincial Government:		145	-	-	-	-	-	-	-	-
Disaster Management Grant		145	-	-	-	-	-	-	-	-
Total Operating Transfers and Grants	5	447,684	513,653	554,981	619,361	619,361	619,361	699,511	794,357	832,605

6. IN-KIND ALLOCATIONS

In terms of Section 21 subsection (1) (a), (b) and (i) of the Division of Revenue Act, 2018 states, if satisfies that the conversion will prevent under-expenditure or improve the level of service delivery in respect of the allocation in question National Treasury may convert any portion of an allocation listed in Part B of Schedule 5 to one listed in Part B if schedule 6. Procedurally, in-kind allocations are not directly deposited into municipal account neither disclosed as part of operating revenue instead the municipality is expected to develop business plans and submit them to the funding agent for approval and thereafter, spend and claim back from the funding agent.

Table 4 below, shows the summary of schedule 6 Part B as an in-kind allocations to the Ngaka Modiri Molema District Municipality,

Table 4: Summary of Schedule 6 Part B [In-Kind Allocations] for 2018/19 MTREF

In-Kind Allocations	Original Budget 2018/19	Medium Term Revenue and Expenditure Framework	
		2019/20	2020/2021
Water Service Infrastructure Grant	-	145,233.00	200,000.00
Regional Bulk Infrastructure Grant	103,000.00	98,270.00	80,000.00
Total	103,000.00	243,503.00	280,000.00

6.1.1. Water Services Infrastructure Grant

The strategic goal of this grant is to assist Water Service Authorities (WSAs) to reduce water and sanitation backlogs. Therefore, for 2019/20 MTREF period, the total allocation for the indirect portion of the grant is R 145,233 million and increases by R54,767 million in 2020/2021 financial year.

6.1.2. Regional Bulk Infrastructure Grant (RBIG)

The purpose of RBIG is to facilitate achievement of targets for access to bulk water and sanitation through successful execution and implementation of bulk projects of regional significance. For 2018/19 financial year, RBIG is allocated an amount of R103 million and it increases over the MTREF to R243, 503 million and R280 million respectively.

7. PROPOSED TARIFFS -SETTING

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges are revised, local economic conditions, input costs and the affordability of services is taken into account to ensure the financial sustainability of the district. National Treasury continues to encourage municipalities to keep rates, tariffs and other charges as low as possible. It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of employee related costs, other materials and outsourced service, such as security services.

The current challenge facing the municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. As results, for the purpose of 2019/20 MTREF, tariffs setting for the municipality has taken into consideration the macroeconomic performance and projections from 2017 to 2020 financial years. The table below demonstrate the macroeconomic performance and projections of South African economy and inflation targets.

Table 5: Macroeconomic performance and projections from 2017-2020

Fiscal year	2017/18 Estimate	2018/19	2019/20 Forecast	2020/21
Consumer Price Inflation (CPI)	5.3%	5.3%	5.4%	5.5%
Real GDP growth	1.0%	1.5%	1.8%	2.1%

The above macroeconomic performance and projections shows that, the global economic growth outlook has improved, but it is clouded by the prevailing policy uncertainty due to the increasing pressure within the world trading system. Furthermore, these factors may jeopardise South Africa's prudent macroeconomic and fiscal policies, which include inflation targeting and a flexible exchange rate, the local economy's ability to adjust to global volatility and the stable investment platform. The gross domestic product (GDP) growth rate is forecasted to increase by 1.5 % in 2018 and to improve moderately over the medium term with to 1.8 % and 2.1 % in 2019 and 2020 respectively.

This forecast is supported by marginally higher global growth, stabilising commodity prices, greater reliability of the electricity network, more favourable weather conditions, recovering business and consumer confidence, and improved labour relations. The positive trajectory marks a shift from several years of declining growth however; this is still not high enough to markedly reduce unemployment, poverty and inequality. It is for these reasons that, these economic challenges will continue to pressurise municipal revenue generation and collection levels hence a conservative approach is advised for projecting revenue. In that view, municipalities are still forced to improve their efforts to limit non-priority spending and implement stringent cost-containment measures. Considering the above outlook, the current municipal tariffs were adjusted by 6% which falls within the limit Consumer Price Index.

The following are the proposed water and sanitation and other services tariffs for 2018/19 MTREF period.

Table 6: Proposed Water and Sanitation Tariffs

Water and Sanitation Tariffs	Current Tariffs 01 July 2017	Proposed Tariffs 2018/19
Water tariff (flat rate)	R 18/kl	19/kl
Water tanker - 10kl	R 15/km	16/km
Water tanker - 14kl	R 17/km	18/km
Water tanker- 16kl	R 19/km	20/km
Water tanker - 18kl	R 21/km	22/km
Water tanker - 20kl	R 23/km	24/km
Vacuum tanker (suction of sanitation facilities at a rate of R 14/km for a distance more than 10km)	R 395	418
Yard connection fee	R 3987	4226
Consumer Tag	R36	38

To this end, it should be highlighted that services rendered by the municipality, as far water and sanitation is concern does not reflect cost benefit to the district municipality. However, it should be noted that, municipalities by law are not encouraged to make profit on services rendered instead service charged to our local communities should be cost effective and affordable. In that manner, for 2018/19 financial year, the district municipality will roll-out a programme of compiling an indigent register particularly were the district municipality is offering or rendering basic services. The reason behind this is that, our local communities, especially, rural communities are faced with high level of unemployment, inequality and

poverty, as results they unable to access or pay for basic services. Thus, this refers to indigent communities.

Table 7: Proposed Service Trucks Tariffs

Service Trucks Tariffs	Current Tariffs 01 July 2017	Proposed Tariffs 2018/19
Maintenance motor grader (13 ton)	R 479/hr	R 480/hr
Construction motor grader (15 ton)	R 585/hr	R 620/hr
Tractor loader backhoe	R 330/hr	R 350/hr
6m3 tipper truck	R 383/hr	R 406/hr
6m3 tipper truck	R 16/km	R 17/km
2.7 m3 front end loader	R 479/hr	R 508/hr
Tracktor	R 479/hr	R 507/hr
Pedestrial roller	R 192/hr	R 203/hr
6kl water bowser	R 383/hr	R 406/hr
6kl water bowser	R 16/km	R 17/km
1 ton lowbed & hoarse	R 32/km	R 34/km
4 ton lowbed & hoarse	R 43/km	R 46/km
30-40 ton lowbed & hoarse	R 70/km	R 74/km

8. OPERATING EXPENDITURE FRAMEWORK

The district's business affairs and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on non-core and 'nice to have' items. The cost containment measures were implemented to eliminate non-priority spending to reprioritize spending on service delivery. The municipality's expenditure framework for the 2018/19 budget and MTREF is informed by the following:

- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA; and
- Strict adherence to the principle of *no project plans no budget*. If there is no business plan no funding allocation can be made.

The following table is a high level summary of the proposed 2018/19 budget and MTREF (classified per main type of operating expenditure).

Table 8: Proposed operating expenditure by standard classification item

Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Expenditure By Type											
Employee related costs	2	304,688	294,720	306,937	313,591	313,591	313,591	-	333,971	348,118	364,658
Remuneration of councillors		8,049	13,251	8,398	13,671	13,671	13,671	-	10,217	10,790	11,372
Debt impairment	3	-	-	-	-	-	-	-	-	-	-
Depreciation & asset impairment	2	229,415	334,913	384,824	323,478	323,478	323,478	-	384,824	461,789	554,146
Finance charges		7,166	-	-	800	800	800	-	1,500	1,700	1,900
Bulk purchases	2	-	-	-	-	-	-	-	-	-	-
Other materials	8	43,006	64,181	28,090	38,000	27,500	27,500	-	9,080	10,600	11,700
Contracted services		171,763	220,963	123,388	19,050	17,050	17,050	-	53,775	55,598	59,810
Transfers and subsidies		141,727	11,663	3,533	13,094	11,094	11,094	-	18,142	18,830	20,762
Other expenditure	4, 5	90,733	52,876	40,738	73,532	92,461	92,461	-	60,360	64,308	67,964
Loss on disposal of PPE		-	-	-	-	-	-	-	-	-	-
Total Expenditure		996,547	992,566	895,907	795,216	799,645	799,645	-	871,868	971,732	1,092,312

8.1.1. Employee Costs

The budgeted allocation for employee related costs for the 2018/19 financial year amounts to R333, 971 million which translate an increase of 6.4%. For the two outer years, employee related cost increases by R 14,147 million or 4.2% and R16, 540 million or 5% respectively. However, it should be noted that the total employee related costs includes Project Management Unit salary budget of R4, 4 million which funded Municipal Infrastructure Grant.

The salary and wage collective agreement for the period 01 July 2015 to 30 June 2018 has come to an end. Therefore, in absence of SALGA collective agreement, the salary increase for 2018/19 MTREF was based on the macro-economic performance and projections for Consumer Price Inflation and Real GDP growth respectively.

- 2018/19 financial year – proposed salary increases is projected to 6.4%
- 2019/20 financial year – proposed salary increases is projected to 4.2%
- 2020/21 financial year- proposed salary increases is projected 5%

8.1.2. Remuneration of Councillors

The cost associated with the remuneration of councillors is determined and informed directly by way of the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The determined upper limits of salaries, allowances and benefits of members of Council are gazetted annually in

December/ January. As results, remuneration of Councillors for 2018/19 financial year is budget for R 10, 2 million and R10, 7 million and R 11, 3 million for the outer years

8.1.3. Depreciation and Assets Impairment

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. The budget appropriation in this regard is a total of R384, 824 million for the 2018/19 financial year. For the two outers year's depreciation is budgeted at R461, 789 million and R554, 146 million respectively.

8.1.4. Finance Charges

The increase in finance charges can be directly attributed to the level of interest charged from outstanding creditors and bank. Finance charges provided in the MTREF amounts to R1, 5 million; R1, 7 million and R1, 9 million respectively.

8.1.5. Other Materials

This expenditure group amounts to R 9 million for 2018/19 MTREF. For two outer years, the expenditure is R10, 6 million and R 11, 7 million respectively.

8.1.6. Contracted Services

This group of expenditure amounts to R53 million and for the two outer years this amount increases to R55 million and R59 million respectively. Contracted services consist of security services, insurance and fuel & oil among others.

8.1.7. Transfers and Subsidies

This expenditure group consists of operating transfers and grants and a portion of equitable shares allocated to local municipalities. For 2018/19 MTREF, an amount of R3 million is budgeted for each local municipality. As results, an amount of R3, 3 million and R 3, 6 million is budgeted for the two outer years.

8.1.8. Other Expenditure

General expenditure has decreased by R32, 1 million in line with value for money expenditure review. In 2019/20 financial year, other expenditure budget is R64, 3 million and R 67, 96 million in the outer years.

The following table gives a breakdown of the main expenditure categories for the 2018/19 financial year.

Figure 1: Main expenditure category for 2018/19 MTREF

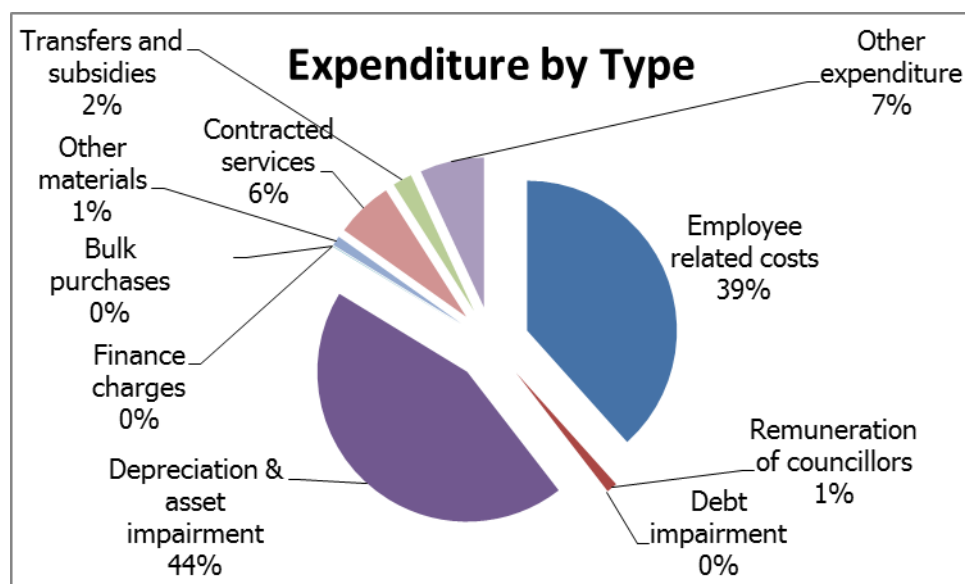


Table 9: Proposed Operating expenditure budget allocation per vote

Vote Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18			2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Expenditure by Vote to be appropriated	1									
Vote 1 - Executive and Council		9,467	31,142	36,179	35,252	35,102	35,102	34,569	38,199	40,523
Vote 2 - Municipal Manager		53,243	-	-	51,136	50,886	50,886	55,943	58,320	61,478
Vote 3 - Finance, Economy & Enterprise Development		255,531	353,053	393,236	356,545	358,793	358,793	415,228	488,415	582,028
Vote 4 - Corporate Services		321,226	315,857	322,113	66,278	76,172	76,172	75,780	79,574	83,450
Vote 5 - Development & Town Planning Services		8,111	3,019	31	26,731	28,082	28,082	25,213	27,262	28,785
Vote 6 - Community Services		3,997	4,594	1,338	119,783	117,379	117,379	131,127	136,356	142,988
Vote 7 - Public Works & Basic Services		344,973	284,901	143,011	139,490	133,229	133,229	134,008	143,605	153,060
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-	-	-	-
Vote 9 - [NAME OF VOTE 9]		-	-	-	-	-	-	-	-	-
Vote 10 - [NAME OF VOTE 10]		-	-	-	-	-	-	-	-	-
Vote 11 - [NAME OF VOTE 11]		-	-	-	-	-	-	-	-	-
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-
Total Expenditure by Vote	2	996,547	992,566	895,907	795,216	799,645	799,645	871,868	971,732	1,092,312
Surplus/(Deficit) for the year	2	(332,088)	(371,716)	(224,391)	135,034	132,886	132,886	126,723	98,670	65,329

Vote 1 – Executive and Council

The total amount allocated for Vote 1 for the 2018/19 year is R34, 569 million, increasing to R38, 199 million in 2019/20 and R 40, 523 million in the outer years.

Vote 2 – Municipal Manager

The total amount allocated for Vote 2 for the 2018/19 year is R55, 943 million, increasing to R58, 320 million in 2019/20 and increase to R61, 478 million in the outer years.

Vote 3 – Finance, Economy & Enterprise Development

The total amount allocated for Vote 3 for the 2018/19 year is R 415,228 million, increasing to R488, 415 million in 2019/20 and R 582, 028 million in the outer years.

Vote 4 – Corporate Services

The total amount allocated for Vote 4 for the 2018/19 year is R75, 780 million, and increasing to R79, 574 million in 2019/20 and R83, 450 million in the outer years.

Vote 5 – Development and Town Planning Services

The total amount allocated for Vote 5 for the 2018/19 year is R25, 213 million, increasing to R27, 262 million in 2019/20 and increasing to R28, 785 million in the outer years.

Vote 6 – Community Services

The total amount allocated for Vote 6 for the 2018/19 year is R131, 127 million, increasing to R136, 356 million in 2019/20 and R142, 988 million in the outer years.

Vote 7 – Public Service Works and Basic Services

The total amount allocated for Vote 7 for the 2018/19 year is R134, 008 million, increasing to R143, 605 million in 2019/20 and decreasing to R153, 060 million in the outer years.

9. CAPITAL EXPENDITURE FRAMEWORK

For 2018/19 an amount of R287, 491 million has been appropriated for the development of infrastructure which represents 30% of the total revenue budget. In the outer years, this amount increases to R293, 499 million and R311, 036 million respectively for each of the financial years. In addition to the MBRR Table A5, MBRR Tables SA34a, c, SA35, SA36& SA37 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. The following table provides a breakdown of budgeted capital expenditure by vote.

Table 10: Proposed Capital expenditure by vote, functional classification for MTREF

Vote Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
R thousand	1										
Single-year expenditure to be appropriated	2										
Vote 1 - Executive and Council		-	-	-	-	-	-	-	-	-	-
Vote 2 - Municipal Manager		362	640	353	1,500	1,840	1,840	-	-	-	-
Vote 3 - Finance, Economy & Enterprise Development		-	-	-	-	-	-	-	-	-	-
Vote 4 - Corporate Services		3,294	15,563	687	6,000	-	-	-	302	305	310
Vote 5 - Development & Town Planning Services		-	-	-	-	-	-	-	120	150	180
Vote 6 - Community Services		-	(42,206)	-	-	-	-	-	-	-	-
Vote 7 - Public Works & Basic Services		119,068	(763,271)	92,110	300,230	300,230	300,230	-	287,068	293,044	310,546
Total Capital Expenditure - Vote		122,724	(789,274)	93,149	307,730	302,070	302,070	-	287,491	293,499	311,036

Vote 2 – Corporate Services

The total amount allocated for Vote 4 for the 2018/19 year is R302 thousand, increasing to R305 thousand in 2019/20 and R310 thousand in the outer year. This expenditure budget relates to computer software & licences.

Vote 5 – Development & Town Planning Services

The total amount allocated for Vote 5 for the 2018/19 year is R120 thousand, increasing to R150 thousand in 2019/20 and R180 thousand in the outer year. This expenditure relates to procurement of office equipment and tools of trade.

Vote 5 – Public Works & Basic Services

The total amount allocated for Vote 7 for the 2018/19 year is R287, 068 million, increasing to R296, 044 million in 2019/20 and R310, 546 million in the outer year. This expenditure relates to procurement of office equipment and tools of trade.

10.ALLOCATIONS MADE BY DISTRICT MUNICIPALITY TO LOCAL MUNICIPALITIES

The Division of Revenue Bill (DoRA) provides that the revenue raised nationally in respect of 2018/19 financial year must be divided among the national, provincial and local spheres of government. Moreover, section 29 of the Division of Revenue Act provides that category C municipality must within 10 days after the act takes effect submit to the National Treasury and all category B municipalities within the municipality's area of jurisdiction the budget as tabled in accordance with Section 16 of the MFMA for the 2018/19 financial year.

Therefore, Ngaka Modiri Molema District Municipality as category C must indicate all allocations from their equitable share and conditional grants allocations to be transferred to each local

municipality within the area of jurisdiction. The intention of this transfer is to support local municipalities with provision of basic services rendered on behalf of district municipality. Furthermore, it is also suggested that the relationship between local municipalities and district municipality must be in a form of service level agreement, which should specify roles and responsibilities of each sphere and clarify the process of assets hand over and issues of repairs and maintenance after project completion. For 2018/19 financial year, an amount of R12 million is budgeted for local municipalities and which one will receive R1, 5 million at the beginning of the first quarter and last payment will be done on the second quarter.

The following table shows a breakdown of proposed transfers and grants made by the district to local municipalities.

Table 11: Proposed Transfers and Grants made by the district municipality to locals for 2018/19 MTREF

Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Cash Transfers to other municipalities											
Mafikeng Local Municipality	1	7,782	1,654	15	2,000	2,000	2,000		3,000	3,300	3,600
Ditsobotla Local Municipality			1,654		2,000	2,000	2,000		3,000	3,300	3,600
Ramotshere Moiloa Local Municipality			1,654		2,000	2,000	2,000		3,000	3,300	3,600
Ratlou Local Municipality			1,654		2,000	2,000	2,000		3,000	3,300	3,600
Tswaing Local Municipality			1,654		2,000	-	-		3,000	3,300	3,600
Total Cash Transfers To Municipalities:		7,782	8,269	15	10,000	8,000	8,000	-	15,000	16,500	18,000

11. 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 Municipal Manager and Senior officials of the municipality meeting under the chairpersonship of the MMC for Finance.

The primary aim of the Budget Steering Committee is 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 district’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.

Section 21(1) (b) of the MFMA provides that, the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2017) a time schedule that sets out the process to revise the IDP and prepare the budget. In addition, section 34(a) of Municipal Systems Act of 2000 states that the municipality must review its Integrated Development Plan (IDP) annually in accordance with an assessment of its performance measurement. In light with the above, the Municipal Council adopted its IDP Process Plan and time schedule during its council sitting 29 August 2017. As a result, Time Schedule of key deadlines for 2018/19 MTREF is as follows:

Table 12: Time Schedule of Key deadlines for 2018/19 MTREF

TIME SCHEDULE OF KEY DEADLINES		
Mayor to Table in Council 10 Months Prior to Start of Budget Year		
Month	NGAKA MODIRI MOLEMA DISTRICT MUNICIPALITY	Budget Year : 2018/19
	Mayor and Council	Administration - Municipality
Jul 2017	Mayor begins planning for next three-year budget in accordance with co-ordination role of budget process MFMA s 53 Planning includes review of the previous year’s budget process and completion of the Budget Evaluation Checklist	Accounting officers and senior officials of municipality begin planning for next three-year budget MFMA s 68, 77 Accounting officers and senior officials of municipality review options and contracts for service delivery MSA s 76-81
Aug 2017	Mayor tables in Council a time schedule outlining key deadlines for: preparing, tabling and approving the budget; reviewing the IDP (as per s 34 of MSA) and budget related policies and c consultation processes at least 10 months before the start of the	

	<p>budget year.</p> <p>MFMA s 21,22, 23;</p> <p>MSA s 34, Ch 4 as amended</p> <p>Mayor establishes committees and consultation forums for the budget process</p>	
Sept 2017	<p>Council through the IDP review process determines its strategic objectives for service delivery & development for next three-year budgets including review of provincial and national government sector and strategic plans</p>	<p>Budget office of municipality determine revenue projections and proposed rate and service charges and drafts initial allocations to functions and departments for the next financial year after taking into account strategic objectives</p> <p>Engages with Provincial and National sector departments on sector specific programmes for alignment with municipalities plans (schools, libraries, clinics, water, electricity, roads, etc)</p>
Oct 2017		<p>Accounting officer does initial review of national policies and budget plans and potential price increases of bulk resources with function and department officials</p> <p>MFMA s 35, 36, 42; MTBPS</p>
Nov 2017	<p>Council finalises tariff (rates and service charges) policies for next financial year</p> <p>MSA s 74, 75</p>	<p>Accounting officer reviews and drafts initial changes to IDP</p> <p>MSA s 34</p>
Dec 2017		<p>Accounting officer and senior officials consolidate and prepare proposed budget and plans for next financial year taking into account previous year's performance as per audited financial statements</p>
Jan 2018		<p>Accounting officer reviews proposed national and provincial allocations to municipality for incorporation into the draft budget for tabling. (Proposed national and provincial allocations for three years must be available by 20 January)</p> <p>MFMA s 36</p>
Feb 2018		<p>Accounting officer finalises and submits to Mayor proposed budgets and plans for next three-year budgets taking into account the recent mid-year review and any corrective measures proposed as part of the oversight report for the previous years audited financial statements and annual report</p> <p>Accounting officer to notify relevant municipalities of projected allocations for next three budget years 120 days prior to start of budget year</p> <p>MFMA s 37(2)</p>

<p>Mar 2018</p>	<p>Mayor tables municipality budget, resolutions, plans, and proposed revisions to IDP at least 90 days before start of budget year</p> <p>MFMA s 16, 22, 23, 87; MSA s 34</p>	<p>Accounting officer publishes tabled budget, plans, and proposed revisions to IDP, invites local community comment and submits to NT, PT and others as prescribed</p> <p>MFMA s 22 & 37; MSA Ch 4 as amended</p> <p>Accounting officer reviews any changes in prices for bulk resources as communicated by 15 March</p> <p>MFMA s 42</p>
<p>Apr 2018</p>	<p>Consultation with national and provincial treasuries and finalise sector plans for water, sanitation, electricity etc</p> <p>MFMA s 21</p> <p>Public hearings on the budget, and council debate. Council consider views of the local community, NT, PT, other provincial and national organs of state and municipalities. Mayor to be provided with an opportunity to respond to submissions during consultation and table amendments for council consideration. Council to consider approval of budget and plans at least 30 days before start of budget year.</p> <p>MFMA s 23, 24; MSA Ch 4 as amended</p>	<p>Accounting officer assists the Mayor in revising budget documentation in accordance with consultative processes and taking into account the results from the third quarterly review of the current year</p>
<p>May 2018</p>	<p>Council must approve annual budget by resolution, setting taxes and tariffs, approving changes to IDP and budget related policies, approving measurable performance objectives for revenue by source and expenditure by vote before start of budget year</p> <p>MFMA s 16, 24, 26, 53</p>	<p>Accounting officer assists the Mayor in preparing the final budget documentation for consideration for approval at least 30 days before the start of the budget year taking into account consultative processes and any other new information of a material nature</p>
<p>Jun 2018</p>	<p>Mayor must approve SDBIP within 28 days after approval of the budget and ensure that annual performance contracts are concluded in accordance with s 57(2) of the MSA. Mayor to ensure that the annual performance agreements are linked to the measurable performance objectives approved with the budget and SDBIP. The mayor submits the approved SDBIP and performance agreements to council, MEC for local government and makes public within 14 days after approval.</p> <p>MFMA s 53; MSA s 38-45, 57(2)</p> <p>Council must finalise a system of delegations.</p> <p>MFMA s 59, 79, 82; MSA s 59-65</p>	<p>Accounting officer submits to the mayor no later than 14 days after approval of the budget a draft of the SDBIP and annual performance agreements required by s 57(1)(b) of the MSA.</p> <p>MFMA s 69; MSA s 57</p> <p>Accounting officer of municipality publishes adopted budget and plans</p> <p>MFMA s 75, 87</p>

Abbreviations: **IDP** - Integrated Development Plan; **MFMA** - Local Government: Municipal Finance Management Act, No. 56 of 2003; **MSA** - Local Government: Municipal Systems Act, No. 32 of 2000, as amended; **MTBPS** - National Treasury annual publication, Medium Term Budget and Policy Statement; **NT** - National Treasury; **PT** - Provincial Treasuries; **SDBIP** - Service Delivery and Budget Implementation Plan

Over the last past five years the office of the MEC for Local Government & Human Settlements (LG&HS) in their assessments of municipalities has repeatedly critiqued the District's Integrated Development Plan (IDP) credibility for lacking key sectorial plans that are legislatively mandated to form part of the IDP. Consequently, the absence of these key sector plans contributes to the aggravating factors that the office of the Auditor General used to justify by awarding a negative audit opinion against the district for its operations.

Therefore, in an effort to improve this outcry, the department of Development and Town Planning Services is in a process of compiling and following critical legislated sector plans that are to be incorporated into the fifth generation District's IDP during its review process. In that view, for 2018/19 MTREF, an amount of R 2, 2 million has been set aside for development of NMMDM Spatial Development Framework and Environmental Management Framework respectively.

12.IDP AND SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN

This is the first five year Integrated Development Plan (IDP) for the new political administration which were inaugurated just after the local government democratic elections held in August 2016. The district IDP is a principal strategic planning instrument which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan.

The Process Plan applicable to the fifth revision cycle included the following key IDP processes and deliverables:

- Registration of community needs;
- Compilation of departmental business plans including 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 has been taken into a business and financial planning process leading up to the 2018/19 MTREF, based on the approved 2017/18 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections. With the compilation of the 2018/19 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and second quarter performance against the 2017/18 Service Delivery and Budget Implementation Plan.

13.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 realized through a credible integrated developmental planning process. 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.

One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the municipalities response to these requirements. 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. The following table shows the reconciliation of IDP strategic objectives and budget for operating expenditure and capital expenditure.

Table 12: Proposed Reconciliation of IDP Strategic Objectives and budget-Operating expenditure for 2018/19 MTREF

Strategic Objective	Goal	Goal Code	Ref	2014/15	2015/16	2016/17	Current Year 2017/18			2018/19 Medium Term Revenue & Expenditure Framework			
				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21	
R thousand													
MUNICIPAL TRANSFORMATION AND INSTITUTIONAL	Policy implementation and providing direction leading to effective service delivery			62,710	31,142	36,179	86,388	85,988	85,988	90,512	96,519	102,001	
FINANCIAL VIABILITY	Sound Financial Management			255,531	353,053	393,236	356,545	358,793	358,793	415,228	488,415	582,028	
GOOD GOVERNANCE AND COMMUNITY PARTICIPATION	Effective running of the institution that promotes high level of ethics and			325,223	320,451	323,451	186,061	193,551	193,551	206,907	215,931	226,438	
LOCAL ECONOMIC DEVELOPMENT	Contribute to the development of the district growth and improved economic conditions			8,111	3,019	31	26,731	28,082	28,082	25,213	27,262	28,785	
BASIC SERVICES AND INFRASTRUCTURE INVESTMENT	Access to clean drinking water and basic sanitation services			344,973	284,901	143,011	139,490	133,229	133,229	134,008	143,605	153,060	
Allocations to other priorities													
Total Expenditure				1	996,547	992,566	895,907	795,216	799,645	799,645	871,868	971,732	1,092,312

Table 13: Proposed Reconciliation of IDP Strategic Objectives and budget -Capital expenditure for 2018/19 MTREF

Strategic Objective	Goal	Goal Code	Ref	2014/15	2015/16	2016/17	Current Year 2017/18			2018/19 Medium Term Revenue & Expenditure Framework			
				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21	
R thousand													
MUNICIPAL TRANSFORMATION AND INSTITUTIONAL	Policy implementation and providing direction leading to effective service delivery	A		362	640	353	1,500	1,840	1,840	-	-	-	
FINANCIAL VIABILITY	Sound Financial Management	B		-	-	-	-	-	-	-	-	-	
GOOD GOVERNANCE AND COMMUNITY PARTICIPATION	Effective running of the institution that promotes high level of ethics and	C		3,294	(26,643)	687	6,000	-	-	302	305	310	
LOCAL ECONOMIC DEVELOPMENT	Contribute to the development of the district growth and improved economic conditions	D		-	-	-	-	-	-	120	150	180	
BASIC SERVICES AND INFRASTRUCTURE INVESTMENT	Access to clean drinking water and basic sanitation services	E		119,068	(763,271)	92,110	300,230	300,230	300,230	287,068	293,044	310,546	
Allocations to other priorities				3									
Total Capital Expenditure				1	122,724	(789,274)	93,149	307,730	302,070	302,070	287,491	293,499	311,036

14. OVERVIEW OF BUDGET RELATED-POLICIES

The municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies. Given the work backlogs and problems that the municipality experienced during the year, no policies were reviewed. Ordinarily, if there is a change in legislation or national policies or prescripts that necessitates the changes of existing policies, the municipality is compelled to undertake a review and amend its policies. As results,

it is recommended that attention be given to policy planning in order to identify any gaps on the policies and where necessary, to effect improvements accordingly.

As a matter of principle any review of tariffs that affects consumers will need to be accompanied by an improvement in the delivery of services. In addition to that, any review of the current tariffs needs to be supported by a rationale on which they are based. Furthermore, the municipality needs assess whether the tariff increase is based on loss recovery, or are market related or are nominal. The following budget-related policies must be noted for 2018/19 MTERF budget.

- Municipal Budget Policy
- Asset Management Policy
- Supply Chain Management Policy
- Cash Management and Investment Policy
- Funding and Reserves Policy
- Policy Borrowing
- Tariff Policy

A note should be taken that, the Municipal Tariff policy was adjusted accordingly in line with consumer price index of 6 % as outlined by MFMA Circular No. 89 & 91

15. OVERVIEW OF BUDGET FUNDING

The total revenue of Ngaka Modiri Molema District Municipality for the budget year 2018/19 is R990, 591 million. The budget is primarily funded from government grants and subsidies which forms major portion of sources of revenue. The operating expenditure and other portion of capital expenditure are funded from own revenue and operating grants and subsidies such as Local Government: Equitable Shares, Finance Management Grant and EPWP incentive grant. The capital expenditure budget is funded from conditional grants as outlined in the Division of Revenue Act No. 1 of 2018 as amended.

Table 14: Proposed Sources of budget funding for 2018/19 MTREF

BUDGET FUNDING	R'000	As % of TOTAL FUNDING
Grants and Subsidies Received Operating	699,511	71
Grants and Subsidies Received Capital	295,491	30
Own Revenue	3,466	0.0
Total Budget Funding	998,591	100%

16. OVERVIEW OF BUDGET ASSUMPTIONS

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act No. 1998 (Act 20 of 1998). The last proclamation in this regard was published on 15 December 2017. As results, the benefits of different members of the municipal councils are budgeted at actual as directed by MFMA Circular No. 89 & 91. The Salaries, allowances and related benefits of personnel for 2018/19 budget year are provided at 6.4 % .

All revenue from grants and subsidies has been budgeted as per Division of Revenue Act allocation including estimates for the two outer years. The operating expenditure budget has been provided as per DoRA allocation for the MTREF. Capital expenditure has been budgeted based on community needs and current infrastructure backlogs. Therefore, the current budget has been prepared in accordance with Municipal Finance Management Act 56 of 2003 together with Municipal Budget and Reporting Regulations of 2009.

17. CAPITAL TRANSFERS AND GRANTS PROGRAMME

Capital grants and receipts equates to R295,491 million or 30% of the total funding source for the 2018/19 financial year and increase to R 302,189 million and R320,120 million for two outer years.

Table 15: Summary of capital and grants programme for 2018/19 MTREF

Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18			2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Capital expenditure of Transfers and Grants										
National Government:		190,099	101,194	109,221	307,575	307,575	307,575	295,614	302,189	320,120
Municipal Infrastructure Grant (MIG)		127,347	99,242	106,840	305,040	305,040	305,040	293,074	299,499	317,274
Rural Transport Services and Infrastructure		2,775	1,952	2,381	2,535	2,535	2,535	2,540	2,690	2,846
Regional Bulk Infrastructure		23,915								
Municipal Water Infrastructure Grant		6,062								
Department of Water Affairs and Forestry		30,000								
Provincial Government:		21,069	-	-	-	-	-	-	-	-
Local Government		20,000								
Premier's Legacy Grant		1,069								
Total capital expenditure of Transfers and Grants		211,168	101,194	109,221	307,575	307,575	307,575	295,614	302,189	320,120

18. CAPITAL BUDGET DETAILS

The allocations are made on condition that the projects are in line with the Integrated Development Plan of the local municipalities as aligned with the Ngaka Modiri Molema District Municipality's Integrated Development Plan and also to avoid duplication of implementation and Budgeting. The proposed projects are approved by the relevant local municipalities' council or by the district municipality council if part of the original IDP. Any changes to the approved budgeted projects will only be effected through the municipality`s council resolution subject to the municipality`s delegation to the Mayor regarding approval of such changes and in consultation with the affected local municipality.

The capital projects allocations by Ngaka Modiri Molema District Municipality to local municipalities are implemented by the Ngaka Modiri Molema District municipality on behalf of local municipalities for monitoring purposes as no funds are directly transferred to the local municipalities' but only completed projects. The transfer to the local municipalities is only in the form of the completed capital projects handover to the local municipalities, unless otherwise, stated funds can be transferred as per the service level agreement.

Figure 2: Proposed Capital Projects per local municipalities for 2018/19 MTREF

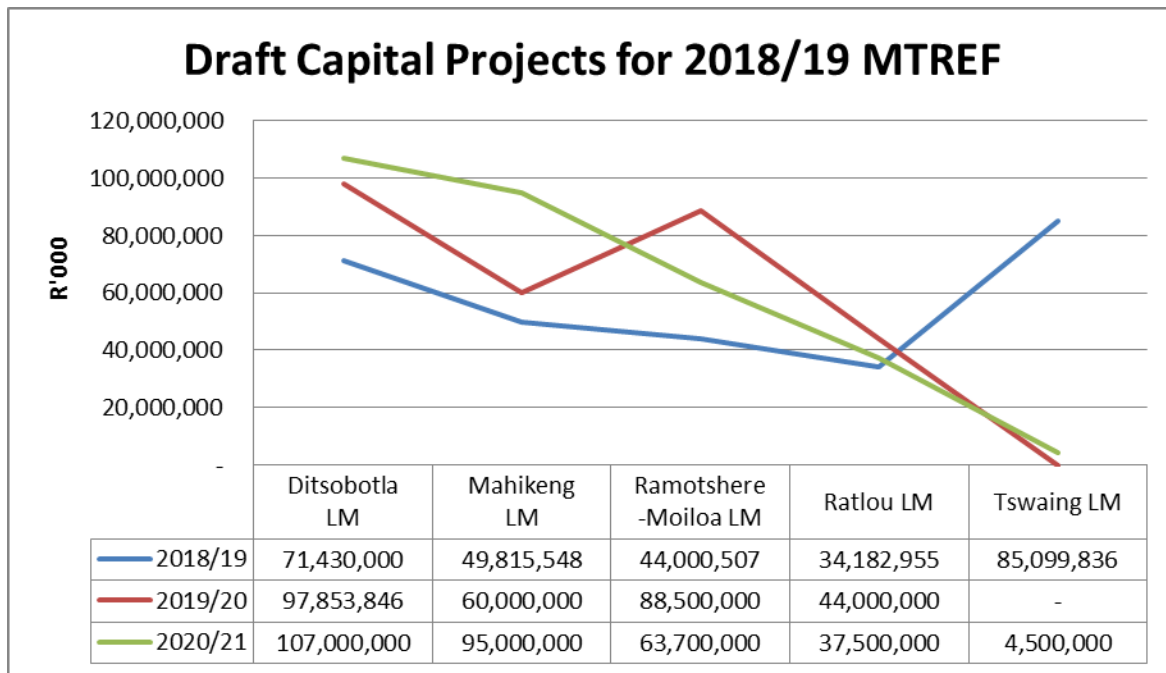


Figure 3: Proposed Water and Sanitation projects for MTREF Period

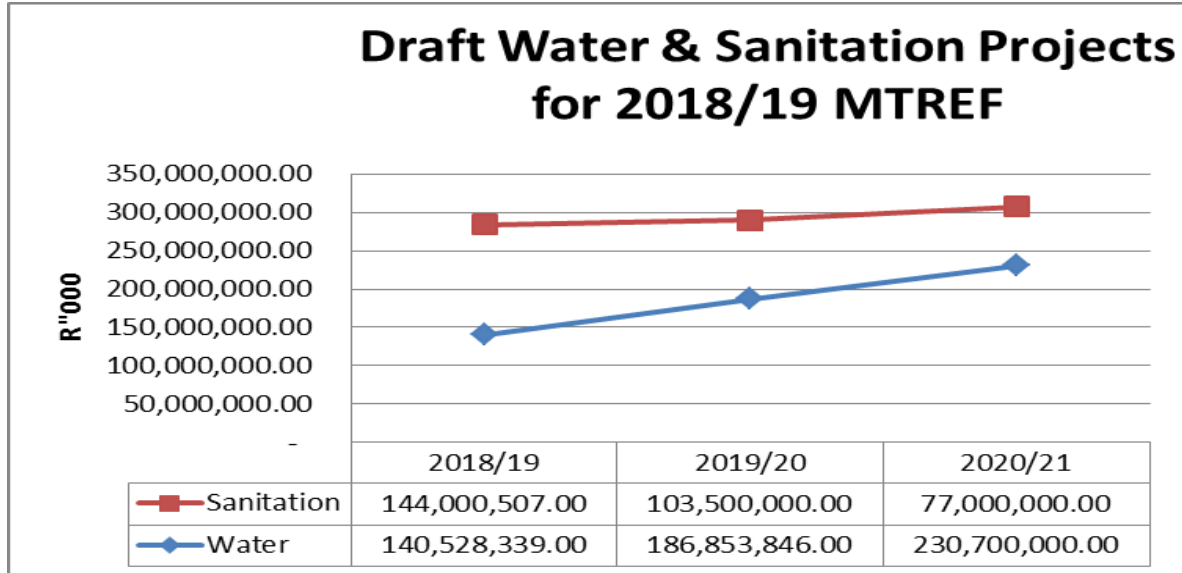


Table 16: Proposed Water Capital Projects for Ditsobotla Local Municipality

CAPITAL PROJECTS	VTSD	WARD	STATUS	BUDGET 18/19 FY	BUDGET 19/20 FY	BUDGET 20/21 FY
DITSOBOTLA LOCAL MUNICIPALITY						
WATER						
BODIBE WARD 17 WATER RETICULATION	Village	11, 17, 18 & 19	Tender	R 7,000,000	R 9,853,846	R -
GAMOTLATLA WATER SUPPLY	Village	13	Tender	R 12,500,000	R -	R -
GREATER LICHTENBURG BWS	Town	1, 2, 3, 4, 5 & 6	Design	R -	R 20,000,000	R 30,000,000
MATILE 1 WATER SUPPLY	Village	19	Tender	R 4,630,000	R -	R -
MATILE 2 WATER SUPPLY	Village	19	Tender	R 13,500,000	R -	R -
MEETMEKAAR AND SPRINGBOKPAN WATER SUPPLY	Village	19	Construction	R 10,000,000	R 41,000,000	R -
RIETVLEI WATER SUPPLY	Village	14	Design	R -	R -	R -
VERDWAAL 2 BULK WATER SUPPLY AND RETICULATION	Village	10	Re-design	R 800,000	R -	R -
TOTAL WATER				R 48,430,000	R 70,853,846	R 30,000,000

Table 17: Proposed Sanitation Capital Projects for Ditsobotla Local Municipality

CAPITAL PROJECTS	VTSD	WARD	STATUS	BUDGET 18/19 FY	BUDGET 19/20 FY	BUDGET 20/21 FY
DITSOBOTLA LOCAL MUNICIPALITY						
SANITATION						
COLIGNY SEWER NETWORK UPGRADE	Town	15 & 16	Design	R -	R 5,000,000	R 20,000,000
DITSOBOTLA RURAL SANITATION PROGRAMME	Villages	Multiple Wards	Design	R 20,000,000	R 7,000,000	R 20,000,000
ITSOENG WWTW UPGRADE	Small Dorpie	7, 8, 9 & 12	New project	R -	R 7,000,000	R 7,000,000
LICHTENBURG WWTW	Town	5, 6	New project	R -	R 8,000,000	R 30,000,000
TLHABOLOGANG BULK SANITATION (WWTW)	Township	15 & 16	Complete	R -	R -	R -
TLHABOLOGANG BULK SANITATION (M & E)	Township	15 & 16	Complete	R -	R -	R -
TLHABOLOGANG BULK SANITATION (OUT FALL SEWER)	Township	15 & 16	Complete	R 3,000,000	R -	R -
TOTAL SANITATION				R 23,000,000	R 27,000,000	R 77,000,000

Table 18: Proposed Water & Sanitation Capital Projects for Ramotshere-Moiloa Local Municipality

CAPITAL PROJECTS	VTSD	WARD	STATUS	BUDGET 18/19 FY	BUDGET 19/20 FY	BUDGET 20/21 FY
RAMOTSHERE-MOILOA LOCAL MUNICIPALITY						
WATER						
BORAKALALO WATER SUPPLY	Village	4	New project	R -	R 2,000,000	R 8,000,000
GOPANE WATER SUPPLY	Village	6	New project	R -	R 2,000,000	R 8,000,000
LEEUFONTEIN WATER SUPPLY	Village		New project	R -	R 2,000,000	R 7,100,000
LOBATLA WATER SUPPLY	Village	3	New project	R -	R 2,000,000	R 600,000
MMUTSHWEU WATER SUPPLY	Village	8	New project	R -	R 2,000,000	R 8,000,000
MOSHANA WATER SUPPLY	Village	2	Construction	R -	R -	R -
MOTLHABA WATER SUPPLY	Village		New project	R -	R 2,000,000	R 5,000,000
MOTSWEDI WATER SUPPLY	Village	5	New project	R -	R 2,000,000	R 8,000,000
SUPINGSTAD BULK WATER SUPPLY	Village	1	New project	R -	R 4,000,000	R 7,000,000
TOTAL WATER				R -	R 32,000,000	R 63,700,000
SANITATION						
GROOT MARICO WWTW	Small Dorpie	17	Construction	R 4,000,507	R -	R -
RAMOTSHERE-MOILOA RURAL SANITATION	Villages	Multi wards	Construction	R 11,000,000	R 6,500,000	R -
ZEERUST WWTP PHASE 2	Town	15	Construction	R 29,000,000	R 50,000,000	R -
TOTAL SANITATION				R 44,000,507	R 56,500,000	R -
TOTAL RAMOTSHERE-MOILOA				R 44,000,507	R 88,500,000	R 63,700,000

Table 19: Proposed Water Capital Projects for Ratlou Local Municipality

CAPITAL PROJECTS	VTSD	WARD	STATUS	BUDGET 18/19 FY	BUDGET 19/20 FY	BUDGET 20/21 FY
RATLOU LOCAL MUNICIPALITY						
DINGATENG-MABULE WATER SUPPLY EXTENSION	Village	1	New project	R -	R 7,000,000	R -
DISANENG BULK WATER SUPPLY	Village	3	New project	R -	R 5,000,000	R -
DITLOUNG WATER SUPPLY	Village	2	Retention	R 198,238	R -	R -
KRAAIPAN WATER SUPPLY EXTENSION	Village	8	New project	R -	R 5,000,000	R 5,000,000
LOPORUNG WATER SUPPLY EXTENSION	Village	2	New project	R -	R 7,000,000	R 6,000,000
MADIBOGO WATER SUPPLY PHASE 1	Village	6	New project	R -	R 8,000,000	R -
MAIPENG WATER SUPPLY	Village	10	New project	R -	R 2,000,000	R -
MAYAAYANE WATER SUPPLY	Village	1	Retention	R 385,418	R -	R -
MAREETSANE WATER EXTENSION	Village		New project	R -	R 2,000,000	R 5,000,000
MASAMANE WATER SUPPLY	Village	1	New project	R -	R 2,000,000	R 5,500,000
MATHATENG WATER SUPPLY EXTENSION	Village	1	New project	R -	R 2,000,000	R 5,000,000
MATLODING WATER SUPPLY EXTENSION	Village	4	New project	R -	R 2,000,000	R 5,000,000
PHITSANE-MAKGOBISTAD	Village		New project	R -	R 2,000,000	R 6,000,000
SASANE WATER SUPPLY	Village	2	Construction	R 279,252.9	R -	R -
SELOSESHA WATER SUPPLY	Village	2	Construction	R 320,046.6	R -	R -
SETLAGOLE BULK WATER SUPPLY	Village	5 & 14	Construction	R 25,000,000.0	R -	R -
TSHIDILAMOLOMO WATER SUPPLY UPGRADE	Village	1	Construction	R 8,000,000.0	R -	R -
TOTAL WATER				R 34,182,955.4	R 44,000,000	R 37,500,000

Table 20: Proposed Water Capital Projects for Tswaing Local Municipality

CAPITAL PROJECTS	VTSD	WARD	STATUS	BUDGET 18/19 FY	BUDGET 19/20 FY	BUDGET 20/21 FY
TSWAING LOCAL MUNICIPALITY						
WATER						
DEELPAN WATER SUPPLY PHASE 2	Village	1	New project	R -	R -	R -
DELAREYVILLE X8 WATER RETICULATION	Town	9	New project	R -	R -	R -
KHUNWANA WATER SUPPLY	Village	2	New project	R -	R -	R 4,500,000
OTTOSDAL BULK WATER SUPPLY & RETICULATION PHASE 2	Town	13	Construction	R 22,099,835	R -	R -
SANNIESHOF/AGISANANG BULK WATER SUPPLY & RETICULATION	Township	8	Tender	R 16,000,000	R -	R -
TOTAL WATER				R 38,099,835	R -	R 4,500,000
SANITATION						
SANNIESHOF WWTW	Town	8	Construction	R 40,000,000.0	R -	R -
TSWAING RURAL SANITATION	Villages	Multiple wards	Tender	R 7,000,000.0	R -	R -
TOTAL SANITATION				R 47,000,000.0	R -	R -
TOTAL TSWAING LOCAL MUNICIPALITY				R 85,099,835.5	R -	R 4,500,000

Table 21: Proposed Sanitation Capital Projects for Mahikeng Local Municipality

CAPITAL PROJECTS	VTSD	WARD	STATUS	BUDGET 18/19 FY	BUDGET 19/20 FY	BUDGET 20/21 FY
MAHIKENG LOCAL MUNICIPALITY						
SANITATION						
MAHIKENG RURAL SANITATION PROGRAMME	Village	Multiple Wards	-	R 30,000,000	R 20,000,000	R -
TOTAL SANITATION				R 30,000,000	R 20,000,000	R -

Table 22: Proposed Water Capital Projects for Mahikeng Local Municipality

CAPITAL PROJECTS	VTSD	WARD	STATUS	BUDGET 18/19 FY	BUDGET 19/20 FY	BUDGET 20/21 FY
MAHIKENG LOCAL MUNICIPALITY						
WATER						
DIHATSHWANE WATER SUPPLY	Village	27	Design	R -	R 7,000,000	R 7,000,000
DIBONO AND MANAWANA WATER SUPPLY	Village	2	Design	R -	R 5,000,000	R 5,000,000
DITHAKONG TSA GA SEHUBA (DHITAKONG EAST & WEST, DITSHILONG AND DIHATSHWANE) WATER SUPPLY	Village	27	Design	R -	R 7,000,000	R 8,000,000
LONELY PARK WATER SUPPLY	Village	29	Design	R -	R 2,000,000	R 9,000,000
LOTLHAKANE WATER SUPPLY	Village	23	Design	R -	R 2,000,000	R 8,000,000
MADIBE-A-TAU WATER SUPPLY	Village	26	Design	R -	R 2,000,000	R 8,000,000
LETLHOGORING WATER SUPPLY	Village	26	Design	R -	R 2,000,000	R 7,000,000
MORWATSHETLHA WATER SUPPLY	Village	26	Design	R -	R 2,000,000	R 6,000,000
SEBOWANA WATER SUPPLY	Village	26	Design	R -	R 2,000,000	R 8,000,000
SEIPONE WATER SUPPLY	Village	26	Design	R -	R 2,000,000	R 5,000,000
MANJA WATER SUPPLY	Village	26	Design	R -	R 2,000,000	R 5,000,000
MAKGOKGOANE WATER SUPPLY	Village	33	Retention	R 465,548	R -	R -
MAGOGOE KOIKOI AND MAGOGOE CENTRAL WATER SUPPLY	Village	19	Design	R -	R -	R -
MAJEMANTSHO WATER SUPPLY	Village	21	Design	R 12,000,000	R -	R -
MAKHUBUNG WATER SUPPLY	Village	1	Design	R -	R 2,000,000	R 5,000,000
MOGOSANE WATER SUPPLY	Village	6	Retention	R -	R -	R -
MOLETSAMONGWE WATER SUPPLY	Village	6	Retention	R -	R -	R -
MORAKA WATER SUPPLY			New project	R -	R -	R 3,000,000
MOTLHABENG(MAFIKENG) WATER SUPPLY			New project	R -	R -	R 3,000,000
SCHOONGEZIGHT WATER SUPPLY	Village	27	New project	R -	R -	R -
SETLOPO WATER SUPPLY	Village	22	New project	R -	R 3,000,000	R 8,000,000
SEWEDING , MAGOGOE TAR, PHOLA & PHATSIMA, MOCOSENG,. TLOUNG WATER SUPPLY	Village	14, 11,	New project	R 7,350,000	R -	R -
TOTAL WATER				R 19,815,548	R 40,000,000	R 95,000,000

19.LEGISLATION COMPLIANCE STATUS

This section highlights compliance status with the Municipal Finance Management Act 56 of 2003 and implementation requirements throughout the year. The following compliance issues are reported.

19.1.1. In-year reporting

As far as in-year reporting is concern, the municipality has successfully complied with MFMA requirements. Section 52(d), 71 & 72 reports were presented and adopted to mayor and council for last quarter although there were challenges with implementation of mSCOA reform.

19.1.2. Internship programme

Since the introduction of the MFMA internship programme the district municipality has successfully trained and employed 20 and 17 interns respectively, and majority of these interns were appointed in Budget and Treasury Office.

19.1.3. Budget and Treasury Office

The Budget and Treasury Office has been established in accordance with the MFMA and the position of Chief Financial Officer is appointed of a 5 year term contract since 1 January 2018.

19.1.4. Audit Committee

The term of office for Audit Committee has come to an end in September 2017. Nonetheless, the appointment of new committee members will take effect from 1 April 2018.

19.1.5. Service Delivery Budget and Implementation Plan

The detail SDBIP document is at a draft stage and will be finalised after approval of the 2018/19 MTREF in May 2018 and it will be directly aligned and informed by the 2018/19 MTREF.

19.1.6. Annual Report

Annual Report has been compiled and adopted in terms of the MFMA requirements and Municipal Public Accounts Committee is in a process to consult with the local communities for oversight report.

19.1.7. **MFMA Competency Training**

The municipality, in partnership with National Treasury have enrolled 16 municipal officials of the municipality for minimum competency requirement as envisaged by Government gazette No 29967 which was published in July 2007. A note should be taken that, out of sixteen (16) municipal officials registered with University of Pretoria, nine (9) of them are designated managers from different department within the municipality. For junior officials of the municipality, this training was concluded last year in October 2016. In addition, two senior officials (Chief Financial Officer & Senior Manager: Development & Town Planning Services) are currently attending a certificate programme in municipal development and leadership with Witwatersrand University since the beginning of February 2018.

19.1.8. **Policies**

All policies were not reviewed and therefore, no major changes were done. The Municipal Tariff policy was adjusted accordingly in line with consumer price index of 6% as outlined in Municipal Finance Management Act 56 of 2003 budget circular 89 & 91.

19.1.9. **mSCOA Compliance**

On the 1 July 2017 the municipality implemented mSCOA regulations. However, the municipality experienced number of challenges. Technically, these challenges includes among others:

- Classification differences between the original budget that were adopted by municipal council and data strings that were submitted to National Treasury ;
- The budget related policies were not updated for alignment to the mSCOA regulations [e.g. virement policy]; and
- Data migration/conversation /cleansing.

Given the above synopsis, it is for these reasons that the municipality will conduct assessment/ audit for mSCOA implementation for 2017/18 financial year. In addition, this assessment/ audit will not be limited to the above-mentioned challenges but also cover governance issues, change management and training, and procurement of financial systems [ICT due diligence] processes.

20. CASHFLOW MANAGEMENT STRATEGY

Table 23: Proposed Cashflow Management Statement for MTREF

Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
CASH FLOW FROM OPERATING ACTIVITIES											
Receipts											
Property rates		-	-	-	-	-	-	-	-	-	-
Service charges		-	-	-	700	700	700	-	-	-	-
Other revenue		1,632	237,094	2,274	2,614	21,204	21,204	-	1,466	1,716	1,916
Government - operating	1	447,684	513,653	545,281	619,361	585,983	585,983	-	699,511	794,357	832,605
Government - capital	1	318,016	101,194	109,221	307,575	170,781	170,781	-	295,614	302,189	320,120
Interest		1,936	3,024	4,784	-	6,571	6,571	-	2,000	2,500	3,000
Dividends		-	-	-	-	-	-	-	-	-	-
Payments											
Suppliers and employees		(727,950)	(629,814)	(559,504)	(616,126)	(533,812)	(533,812)	-	(696,323)	(639,413)	(665,504)
Finance charges		(7,166)	-	-	(800)	-	-	-	(1,500)	(1,700)	(1,900)
Transfers and Grants	1	-	(11,663)	(3,533)	(13,094)	(13,094)	(13,094)	-	(18,142)	(18,830)	(20,762)
NET CASH FROM/(USED) OPERATING ACTIVITIES		34,152	213,489	98,524	300,230	238,333	238,333	-	282,626	440,819	469,475
CASH FLOWS FROM INVESTING ACTIVITIES											
Receipts											
Proceeds on disposal of PPE		-	(1,981)	1,865	-	-	-	-	-	-	-
Decrease (Increase) in non-current debtors		-	-	-	-	-	-	-	-	-	-
Decrease (increase) other non-current receivables		-	29,901	-	-	-	-	-	-	-	-
Decrease (increase) in non-current investments		-	-	-	-	-	-	-	-	-	-
Payments											
Capital assets		5,038	(229,814)	(86,931)	(300,230)	(129,449)	(129,449)	-	(296,036)	(301,829)	(320,120)
NET CASH FROM/(USED) INVESTING ACTIVITIES		5,038	(201,894)	(85,066)	(300,230)	(129,449)	(129,449)	-	(296,036)	(301,829)	(320,120)
CASH FLOWS FROM FINANCING ACTIVITIES											
Receipts											
Short term loans		-	-	-	-	-	-	-	-	-	-
Borrowing long term/refinancing		-	-	-	-	-	-	-	-	-	-
Increase (decrease) in consumer deposits		-	-	-	-	-	-	-	-	-	-
Payments											
Repayment of borrowing		(89,929)	(7,042)	(1,431)	-	-	-	-	-	-	-
NET CASH FROM/(USED) FINANCING ACTIVITIES		(89,929)	(7,042)	(1,431)	-	-	-	-	-	-	-
NET INCREASE/ (DECREASE) IN CASH HELD		(50,740)	4,553	12,026	-	108,884	108,884	-	(13,410)	138,990	149,355
Cash/cash equivalents at the year begin:	2	141,186	(2,750)	1,803	-	-	-	-	53,000	39,590	178,580
Cash/cash equivalents at the year end:	2	90,446	1,803	13,829	-	108,884	108,884	-	39,590	178,580	327,935

Cash flow management and forecasting is a critical step in determining if the budget is funded over the medium-term. The table below is consistent with prescribed standards and norms of good financial management practice and also improves understanding for councillors, management and public at large. It should be remembered that over the last few years this municipality has been struggling to maintain cash movement against service delivery demands and previous commitments made by the municipality. As part of turnaround strategy and sound financial management, this budget book suggest that all senior managers, middle managers should undergo thorough Financial and Non-Financial training in order to have a deeper understanding of the pros and cons of cash flow management within the municipality.

In addition, this will also prepare them to develop procurement plans that will ease operations and enhance effective financial planning. Not limited to that, evaluation and monitoring as far as spending is concerned, will also be in place to avoid over or underspending, enhance

accountability and promote transparency. Therefore, some specific features of cash flow management include the following:

- Clear separation of receipts and payments within each cash flow category;
- Clear separation of capital and operating receipts from government and other, and
- Net cash increase or decrease from operating, financing and investing activities.

The table below shows that cash and cash equivalents of the district were highly committed over the MTREF period taking into consideration of huge amount of accruals and service delivery demands. As it stands, the municipality will only be able to pay outstanding creditors of R228, 920 million, which will leave the municipality with a balance of R320, 186 million of debt owed to Sedibeng Water. Indeed, from 2018/19 financial year to 2020/21 financial year the municipality will continue to operate with deficit budget. However, strict cost containment measures and strict adherence to cash flow management will be implemented.

21.RECOMMENDATIONS

It is recommended that council notes NMMDM the following:

- 21.1. Proposed operating revenue framework to the amount of R702,977 million
- 21.2. Proposed operating expenditure budget to the amount of R871, 868 million.
- 21.3. Proposed capital expenditure budget to the amount of R295, 614 million.
- 21.4. Propose total revenue budget of R 998,591 million.
- 21.5. Proposed new and existing capital projects on Table 16 to Table 22 of the budget document.
- 21.6. Proposed grants and subsidies capital to the amount of R287, 068 million.
- 21.7. Proposed 2018/19 to 2020/21 MTREF budget and accompanying annual budget schedules tables.
- 21.8. The budget-related policies accompanying the MTREF budget for 2018/19 to 2020/21
- 21.9. Adopt the cost containment measures as suggested in the updated MFMA Circular No.82, 89 & 91.

MUNICIPAL MANAGER'S QUALITY CERTIFICATE

I **M. M. J MOHLAKOANA**, Municipal Manager of Ngaka Modiri Molema District Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name: **M. M.J MOHLAKOANA**

Municipal Manager of Ngaka Modiri Molema District Municipality (DC38)

Signature: _____

Date: _____