



# BUDGET 2020-2023



Kou-kamma  
Municipality (EC109)

Copies of this document can be viewed:

- All satellite offices and public libraries with the municipality
- At [www.koukammamunicipality.gov.za](http://www.koukammamunicipality.gov.za)

# Table of Contents

<b>Part 1- Annual Budget .....</b>	<b>2</b>
1.1 Mayor’s Report .....	2
1.2 Council Resolutions.....	4
1.3 Executive Summary .....	6
1.3.1 Overview of the annual budget process.....	9
1.3.2 Overview of budget related- policies .....	9
1.3.3 Overview of budget assumptions.....	9
1.4 Operating Revenue Framework .....	12
1.5 Operating Expenditure Framework.....	16
1.6 Capital Expenditure.....	19
<b>Part 2: Supporting Documentation.....</b>	<b>21</b>
2. Municipal Manager’s quality certificate.....	22
<b>Annexure A: A-Schedule v6.4.1 (2020/21 – 2022/23)</b>	
<b>Annexure B: Tariff book 2020/21</b>	
<b>Annexure C: Budget related policies</b>	
<b>Annexure D: Service level standard</b>	
<b>Annexure E: Approved Organogram</b>	

## Part 1- Annual Budget

### 1.1 Mayor's Report

The 2020 Medium Term Budget Policy Statement highlights the difficult economic and fiscal choices confronting government over the next several years. This has however severely worsened with the outbreak of COVID 19, leading to a National lockdown. The economic impact both locally and globally will continue to be felt for the next years to come.

In 2020, global economic growth is expected to strengthen to 3.3 per cent. Global inflation remains contained. Global monetary policy is supportive, and South Africa is benefiting from demand for emerging market assets.

The biggest challenge facing the country as well as Kou-kamma municipality at the moment is the high rate of unemployment coupled with the weakened economy. In order to try and address this, the Minister of finance has introduced the following initiatives to jump start the economy:

- 1. The fruits of the reform agenda led by the President*
- 2. Lower inflation*
- 3. The interest rate reduction earlier this year*
- 4. The recent gains in platinum group metals prices*
- 5. The impending change to the electricity regulatory framework*
- 6. The tax proposals*

The country as a whole has been downgraded to junk status. Although the long term growth seems positive there are some tough decisions that government needs to make. South Africa finds itself at a crossroads. This Medium Term Budget Policy Statement (MTBPS) highlights the difficult economic and fiscal choices confronting government over the next several years. In order to achieve these objectives and address current economic pressures being faced by the municipality and government as a whole, require us to forge a new compact between the social partners. Raising the level of investment and improving the ease of doing business in the country will support job creation. Private sector investment and job creation are critical to reducing unemployment.

We as management within local government have a significant role to play in strengthening the link between the citizen and government's overall priorities and spending plans. The goal should be to enhance service delivery aimed at improving the quality of life for all people within the Kou-kamma Municipality. Budgeting is primarily about the choices that the municipality has to make between competing priorities and fiscal realities. The challenge is to do more with available resources .We need to remain focused on the effective delivery of the core municipal services through the application of efficient and effective service delivery mechanisms. The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that sustainable municipal services are provided economically and equitable to all communities.

The 2020/21 Medium Term Revenue and Expenditure Framework and its related policies has been compiled in compliance with the Municipal Finance Management Act No. 56 of 2003 and the Municipal Budget and Reporting Regulations which are aimed at improving credibility, sustainability, transparency, accuracy and reliability of municipal budgets.

The 2020/21 MTREF has been prepared using realistically anticipated estimates and are guided by guidelines as per the National Treasury Budget Circulars. The main aim of the budget remains **SERVICE DELIVERY**. It is also aimed at ensuring that services are effectively and efficiently rendered in the most economical way.

A brief overview of the budget 2020/21 budget is as follows:

- Total operating income - R189 328 525
- Capital Budget - R25 611 500
- Total operating expenditure – R185 535 500

The capital budget would be financed mainly from capital grants received from other spheres of government. The operating budget is extremely constrained and focuses on service delivery. The reason for this is the limiting income realistically anticipated.

*Let us continue to work together to build a better community of Kou-kamma thus achieving a better life for all.*



**THE MAYOR/SPEAKER  
COUNCILLOR S VUSO**

## **1.2 Council Resolutions**

On the 29<sup>th</sup> May 2020 the Council of Kou-kamma Local Municipality will meet in Kareedouw, to consider the approval of the Annual budget of the municipality for the financial year 2020/21 MTREF. It is recommended that Council approves and adopts the following resolutions:

1. The Council of Kou-kamma Local Municipality, acting in terms of Section 24 of the Municipal Finance Management Act (Act 56 of 2003) approves:
  - 1.1. The Annual Budget of the municipality for the financial year 2020/21 and the multi-year and single-year capital appropriations as set out in the following tables:
    - 1.1.1. Budgeted Financial Performance(revenue and expenditure by standard classification);
    - 1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote)
    - 1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type); and
    - 1.1.4. Multi-year and single-year and single year capital appropriations by municipal vote and standard classification and associated funding by source.
  - 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 table:
    - 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; and
    - 1.2.5. Basic service delivery measurement.
2. The Council of Kou-kamma Local Municipality, acting in terms of Section 75A of the Local Government: Municipal Systems Act, (Act 32 of 2000) approves:
  - 2.1. The property rates tariffs- as set out in Annexure B,
  - 2.2. The tariffs for electricity- as set out in Annexure B
  - 2.3. The tariffs for Sanitation-as set out in Annexure B
  - 2.4. The tariffs for refuse- as set out in Annexure B and
  - 2.5. Any other municipal tariffs as set out in the Tariff book

3. That Council approved the following budget related policies in terms of Section 24 (2)(c)(i)(ii)(iii)(v) of the Municipal Finance Management Act (Act 56 of 2003) as per Annexure C to the document:
  - Supply Chain Management
  - Credit Control and Debt Collection
  - Indigent Support
  - Property Rates
  - Write off
  - Tariff
  - Virement
  
4. For Council to adopt the Service Level Standards as required by the National Treasury in MFMA Circular 89 and 91, as per annexure D of the document

### **1.3 Executive Summary**

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

Section 21 of the Municipal Finance Management Act deals with Municipal Budgets and describes the entire budgeting process. The Mayor is tasked with the co-ordinating the processes for preparing the budget, reviewing the Integrated Development Plan (IDP) and budget related policies. The Accounting Officer, as per Section 68 of the MFMA, is required to assist the Mayor in developing and implementing the budgetary process.

Great emphasis was placed in ensuring that the budget is realistically funded. A complete analysis of the various financial scenarios and outcomes was done and the best viable solution sought.

In addition to the budget, an amendment to the Municipal Systems Act (MSA) and Chapter 4 of the MFMA require that the Integrated Development Plan (IDP) be adopted at the same time of adopting the budget. The IDP informs the budget and their simultaneous adoption will ensure that the budget is properly aligned to the IDP and ensure that planned projects are credible and that the budgets are realistic and implementable. The budget was drafted in conjunction with the IDP.

Furthermore, the National Treasury has regulated a Municipal Standard Chart of Accounts, which was effective from 01 July 2017. This requires all municipalities and municipal entities to transact live on the new chart of accounts. It is therefore a requirement that the Draft budget be Mscoa compliant.

The annual budget was prepared in accordance to the National Treasury's content and format as contained in Circular 98 & 99. The two concepts considered were:

- 1) That the budget must be funded according to Section 18 of the MFMA(as mentioned above), and
- 2) That the budget must be credible.

A credible budget is described as one that:

- Funds only activities consistent with the draft IDP and vice versa ensuring the IDP is realistically achievable given the financial constraints of the municipality.
- Is achievable in terms of agreed service delivery and performance targets.
- Contains revenue and expenditure projections that are consistent with current and past performance and supported by documented evidence of future assumptions.
- Does not jeopardise the financial viability of the municipality(ensures that the financial position is maintained within generally accepted prudential limits and that obligations can be met in the short, medium and long term); and
- Provides managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

The Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds are transferred from low-to high- priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have items'.

The Municipality has embarked on implementing a range of revenue collection strategies to optimise the collection of debt owed by consumers. The Municipality has also adopted a conservative approach when projecting its expected revenue and cash receipts.

The main challenges experienced during the compilation of the 2020/21 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy
- Aging and poorly maintained roads and electricity and water 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'
- The increased cost of bulk electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents,
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Low collection rates
- Poor communities and
- Cash flow challenges
- Impact of the COVID-19 pandemic



The following budget principles and guidelines directly informed the compilation of the 2020/21 MTREF:

- The 2019/20 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget adopted as upper limits for new baselines for the 2020/21 annual budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- 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 bulk electricity. 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 (DoRA) or MTBPS.

**Table 1 Consolidated Overview of the 2020/21 MTREF**

DESCRIPTION	2019/20	2020/21	Budget year +1	Budget year +2
	ADJUSTMENTS BUDGET		2021/22	2022/23
Operational Income	-202 928 143.00	-189 328 524.84	-178 879 978.07	-188 384 360.39
Operational Expenditure	183 165 563.00	185 535 500.41	176 220 927.47	187 384 360.39
Capital Expenditure	47 220 145.00	25 611 500.00	20 493 550.00	18 147 150.00
(SURPLUS) / DEFICIT	<b>R 27 457 565.00</b>	<b>R 21 818 475.58</b>	<b>R 17 834 499.40</b>	<b>R 17 147 150.00</b>
Depreciation	27 457 565.00	21 818 475.58	23 100 948.70	24 487 005.62
<b>NET (SURPLUS) / DEFICIT</b>	<b>R -</b>	<b>R 0.00</b>	<b>-R 5 266 449.30</b>	<b>-R 7 339 855.62</b>

Total operating revenue has decreased by 7.0 per cent or R13 600 million for the 2020/21 financial year compared to the 2019/20 Adjustments Budget. This is mainly due to the decrease in transfers and subsidies. For the two outer years, operational revenue decrease by 6 per cent and increase by 5 per cent respectively.

Total operating expenditure for the 2020/21 financial year has increased by R2 370 million or 1.3 per cent, when compared to the 2019/20 Adjustments Budget. This is mainly due to belt tightening measures being implemented by the municipality to ensure non-service related operational expenditure is kept to a minimum. For the two outer years, operational expenditure will decrease by 5 per cent and increase by 6 per cent respectively.

### **1.3.1 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 setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations (MBRR) 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.

### **1.3.2 Overview of budget related- policies**

The Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies. The following budget polices will be tabled for consideration with the budget:

- Supply chain management
- Credit Control and Debt Collection
- Indigent Support
- Rates
- Write off
- Tariff
- Virement

### **1.3.3 Overview of budget assumptions**

#### **1.3.3.1 External factors**

Due to the slowdown of the economy, companied by the geographical are of the municipality; financial resources are limited as result of slow/no economic growth, this therefore reduces payment levels by consumers. The high levels of unemployment, resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the Municipality's finances.

The current COVID-19 epidemic impacting the global economics may cause significant strain on the municipalities' ability to collect services, in addition to the cost to deliver services may increase drastically.

### **1.3.3.2 General Inflation outlook and its impact on the municipal activities**

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

- 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
- The increase in the cost of remuneration
- The downgrade of the countries global economy
- Financial impact of Covid 19 on the municipality and the ability to generate own revenue

### **1.3.3.3 Collection rate for revenue services**

The current collection rate of the municipality is below 40%, this necessitates aggressive revenue enhancement strategies. Therefore base assumption is that tariff and rating increases will increase at the same rate as CPI.

As result of the impact of the Covid 19 on the economy coupled with the current collection rate, the municipality has adopted a conservative approach for the 2020/21 financial year.

Budgeted collection rates are therefore as follows:

- Property Rates: 45%
- Services charges: 40%
- Interest on arrear debt: 20%

### **1.3.3.4 Salary increases**

In accordance with the guidance in the MFMA circular 98, the Wage collective agreement has been concluded during the 2018/19 financial year, based on this the municipality has budgeted for salary increases as follows:

- Employees: 6.25% - plus 2.5% notch increase
- Councillors: CPI – 6.25%
- Directors: CPI – 6.25%

### **1.3.3.5 Impact of national, provincial and local policies**

In compilation of the budget for 2020/21, cognisance was taken of Provincial and National strategies.

### **1.3.3.6 Ability of the municipality to spend and deliver on the programmes**

It is estimated that a spending rate of at least 90.0 per cent is achieved on Operating expenditure and 75.0 per cent on the Capital Programme for the 2019/20 of which performance has been factored into the cash flow budget. This basis has thus been used as a benchmark for the 2020/21 draft annual budget.

### **1.3.3.7 Cost containment**

Due to cash flow constraints within the municipality, operational costs are kept at a minimum. The following cost containment measures have been implemented and the effects of these have been realised throughout the current financial year:

- Officials do not make use of air transport and workshops, trainings and other events are not attended, unless special permission is granted by the Municipal Manager.
- All Travel and subsistence claims, must be accompanied by a pre-approval (trip authority) as well as a memo directed to the CFO as to why an official attended a specific event.
- A maximum of two officials per departments is allowed to attend meeting/trainings/workshops.
- Accommodation is limited to R1000 per person per night including meals.
- Telephone usage has set limits per employees and no colour printing is made use of.
- No catering is bought for internal meetings
- All meetings and strategic sessions are held at municipal owned venues
- Stationary are being signed for
- No bottled water/refreshments are bought for the MM or mayor's office
- Restrictions are placed on the purchases of laptops.
- Restriction on the use of consultants unless critical.
- Overtime is limited to 40 hours and only approved if a pre-approved plan is presented.
- Overtime is limited to essential use staff

## 1.4 Operating Revenue Framework

For Kou-kamma to continue improving the quality of services provided to its community it needs to generate the required revenue. The municipality is currently faced with a collection rate of <40%, in these tough economic times strong revenue management is fundamental. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges 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 is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the Municipality and continued economic development;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/ calculating the revenue requirement of each service;
- The municipality's Property Rates Act, 2004 (Act No. 6 of 2004) (MPRA) and amendment of 2014.
- Increase ability to extend new services and recover costs.
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff Policies of the Municipality.

**Table 2 Summary of revenue classified by main revenue source**

EC109 Kou-Kamma - Table A4 Budgeted Financial Performance (revenue and expenditure)											
Description	Ref	2016/17	2017/18	2018/19	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
<b>Revenue By Source</b>											
Property rates	2	16 256	13 608	14 627	18 948	14 132	14 132	-	17 133	18 161	19 251
Service charges - electricity revenue	2	2 033	1 814	2 006	1 938	2 857	2 857	-	2 997	3 176	3 367
Service charges - water revenue	2	11 765	10 007	13 733	16 073	16 505	16 505	-	16 979	17 998	19 078
Service charges - sanitation revenue	2	8 580	5 842	5 579	6 021	5 826	5 826	-	6 145	6 514	6 905
Service charges - refuse revenue	2	4 092	2 481	3 013	3 236	3 138	3 138	-	3 314	3 513	3 724
Rental of facilities and equipment		380	334	307	882	1 656	1 656		1 432	1 518	1 609
Interest earned - external investments		73	214	592	317	930	930		917	971	1 030
Interest earned - outstanding debtors		9 188	11 359	9 942	14 317	18 636	18 636		19 293	20 450	21 677
Dividends received						-	-				
Fines, penalties and forfeits		5 123	9 846	20 159	15 025	20 451	20 451		18 500	19 610	20 787
Licences and permits		18	-			-	-				
Agency services		5 783	5 145	2 990	1 995	3 606	3 606		4 097	4 343	4 604
Transfers and subsidies		48 540	55 128	53 564	60 059	60 064	60 064		61 289	60 128	63 653
Other revenue	2	3 667	1 582	2 749	13 595	11 212	11 212	-	14 508	2 002	4 553
Gains		334									
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>115 833</b>	<b>117 360</b>	<b>129 260</b>	<b>152 405</b>	<b>159 012</b>	<b>159 012</b>	<b>-</b>	<b>166 604</b>	<b>158 386</b>	<b>170 237</b>
<b>Surplus/(Deficit)</b>		<b>(6 763)</b>	<b>(8 084)</b>	<b>(17 689)</b>	<b>(24 166)</b>	<b>(24 153)</b>	<b>(24 153)</b>	<b>-</b>	<b>(18 931)</b>	<b>(17 834)</b>	<b>(17 147)</b>
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		15 951	23 975	15 199	26 176	43 916	43 916		22 725	20 494	18 147
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)	6	-									
Transfers and subsidies - capital (in-kind - all)											
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>		<b>9 188</b>	<b>15 892</b>	<b>(2 490)</b>	<b>2 011</b>	<b>19 763</b>	<b>19 763</b>	<b>-</b>	<b>3 793</b>	<b>2 659</b>	<b>1 000</b>

As the municipality is largely grant dependant, most revenue is from the National government, comprising of 45.0 per cent. All income from these grants has been gazetted as part of the Division of revenue act. Secondly revenue generated from rates and services charges also forms a significant percentage of the revenue basket. In the 2020/21 financial year, revenue from services charges is estimated to total R29 436 million and property rates at R17 134 million.

The other item contributing to revenue is "other income" which consists of various items such as income received from permits and licences, building plan fees, connection fees, rental of facilities and other sundry income. Departments have been urged to review the tariffs of these items on an annual basis to ensure they are cost reflective and market related.

**Table 3 Operating and Capital Grants Receipts**

<u>Grants</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>
<b>Capital</b>			
<b>Direct</b>			
MIG	15 322 000.00	16 289 000.00	16 997 000.00
INEP	6 037 000.00	5 019 000.00	2 000 000.00
<b>Indirect</b>			
WSIG	6 000 000.00		
INEP	1 413 000.00	1 910 000.00	2 348 000.00
National Treasury (Audit fees)	30 000.00	30 000.00	30 000.00
	<b>28 802 000.00</b>	<b>23 248 000.00</b>	<b>21 375 000.00</b>
<b>Operational</b>			
Equitable share	52 718 000.00	56 484 000.00	59 973 000.00
FMG	2 800 000.00	2 800 000.00	2 800 000.00
DSRAC	1 300 000.00	-	-
EPWP	1 112 000.00	-	-
Sarah Baartman (Fire Services)	1 200 000.00	-	-
DEDEA	3 494 000.00	-	-
	<b>62 624 000.00</b>	<b>59 284 000.00</b>	<b>62 773 000.00</b>
<b>Total</b>	<b>91 426 000.00</b>	<b>82 532 000.00</b>	<b>84 148 000.00</b>

As indicated in the table above, is a breakdown of both capital and operational grants to be received in the 2020/21 MTREF.

#### 1.4.1 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.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the ratio for the non-residential categories, Public Service Infrastructure and agricultural properties relative to residential properties. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

In terms of the Municipal Property Rates Act, property valuations need to be assessed every four years for inclusion in the General Valuation Roll. The municipality has an updated valuation roll; and is in the process of completing the supplementary valuation roll.

**Table 4 Comparison of proposed rates to be levied for the 2020/21 financial year**  
*Tariffs are attached as a separate appendix to the report.*

**1.4.2 Sale of Electricity and Impact of Tariff Increases**

The municipality has been implanting a step- tariff structure for the past four year. This is in line with the requirements of NERSA. Registered indigents will again be granted 50 kWh per 30 day period free of charge. The Sarah Baartman District municipality has started with a project to get municipalities’ cost effective tariffs, based on this assessment and coupled with the approved Eskom increase of 8.97% by NERSA, the municipality has increased electricity tariffs by 6.22% for the 2020/21 financial year.

The following tables show the proposed changes to the current tariff structure:

**Table 4: Tariff structure (Electricity)**

	<b>Excl VAT</b>	<b>VAT</b>	<b>Incl VAT</b>	
Block 1 (0 - 50Kwh)	1.10	0.16	1.26	cent p'kwh
Block 2 (51 - 350Kwh)	1.41	0.21	1.63	cent p'kwh
Block 3 (351 - 600Kwh)	2.07	0.31	2.38	cent p'kwh
Block 4 (>600Kwh)	2.35	0.35	2.70	cent p'kwh

With the above increases the aim is to both increase revenue and encourage consumers to use electricity wisely as our country’s national grid is under severe pressure. No basic charge will be levied for electricity. These tariffs are in line with the guidelines as prescribed by NERSA, an application for approval has been submitted to the regulator.



## 1.5 Operating Expenditure Framework

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

- Balanced budget constrain (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;
- The capital programme is aligned to the assets renewal and backlogs eradication.
- Operational gains and efficiencies will be directed to funding the capital budget and other core services.

**Table 5 Summary of operating expenditure by standard classification item**

EC109 Kou-Kamma - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2016/17	2017/18	2018/19	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
<b>Expenditure By Type</b>	1										
Employee related costs	2	41 817	43 216	48 883	59 650	55 779	55 779	-	58 886	61 033	66 312
Remuneration of councillors		3 123	3 433	3 721	3 945	3 945	3 945		4 110	4 366	4 639
Debt impairment	3	19 605	31 127	41 753	37 349	44 627	44 627		55 690	41 372	42 954
Depreciation & asset impairment	2	17 493	19 019	20 143	27 458	27 458	27 458	-	21 818	23 101	24 487
Finance charges		1 951	1 286	718	1 250	323	323		273	289	307
Bulk purchases	2	3 513	3 362	3 625	4 762	6 700	6 700	-	4 592	4 867	5 159
Other materials	8	1 026	1 812	1 984	7 139	6 918	6 918		6 063	5 907	6 261
Contracted services		2 714	5 596	10 044	11 202	12 320	12 320	-	11 681	11 847	12 521
Transfers and subsidies		16 702	-	-	-	-	-	-	-	-	-
Other expenditure	4, 5	14 641	16 448	15 142	23 817	25 096	25 096	-	22 422	23 439	24 744
Losses			145	934							
<b>Total Expenditure</b>		<b>122 597</b>	<b>125 444</b>	<b>146 948</b>	<b>176 571</b>	<b>183 165</b>	<b>183 165</b>	<b>-</b>	<b>185 536</b>	<b>176 221</b>	<b>187 384</b>

The budgeted allocation for employee related costs for the 2020/21 financial year totals R62 995 million, which equals 34.0 per cent of the total operating expenditure. Circular 70 guidelines have been implemented with regards to the percentage of employee costs to operational expenditure is between 30-40%, the municipality is thus within these limits. Furthermore as per the wage negotiations agreed upon, salaries has been budgeted in accordance with this.

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). Amounts paid to councillors are in line with these gazetted amounts.

Attached to the budget book, as Annexure E is the approved organogram, listing all filled and vacant positions. Based on the current financial situation of the municipality, it has been decided that the only position that will be prioritised to be funded for the 2020/21 financial year is the position of Director: Technical & Community services. Positions that have been advertised prior to the lockdown will continue to be funded.

The provision of debt impairment was determined based on an annual collection rate of 45%, 40% and 20% for property rates, services and interest on arrear debt respectively for the 2020/21 financial year and 65% for the outer years.

While the expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues. Provision for depreciation and asset impairment has been informed by the Municipality's Asset Values and prior year expenditures incurred. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R21 818 million for the 2020/21 financial year and equate to 12.0 per cent of the total operational expenditure.

Bulk purchases are directly informed by the purchase of electricity from Eskom. The annual price increase of 8.97 per cent has been factored into the budget appropriations and directly informs the revenue provisions. The expenditures include distribution losses.

Other materials comprise of amongst others the purchase of materials for maintenance. In line with the Municipality's repairs and maintenance the expenditure has been prioritised to ensure sustainability of the Municipality's infrastructure.

The following are the main expenditure categories for 2020/21 financial year:

- Employee related costs & Remuneration of Councillors
- Debt impairment
- Depreciation and Asset Impairment
- Bulk Purchases

### **1.5.1 Free Basic Services: Basic Welfare Package**

The welfare package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services that households are required to register in terms of the Municipality's Indigent Policy. An amount of R18 982 million has been allocated from the 2020/21 equitable share to provide relief to the indigent consumers. Taking cognizance of the plight of the poor and affordability of basic services, 6kl of free water and 50kwh of electricity per month, refuse, sanitation; grave site as well as rebates on rates is applicable.

## 1.6 Capital Expenditure

Capital expenditure for the next three years will be funded solely by Grants and other external fund sources. This is due to significant constraints of Council funds as highlighted in the sections above and the significant impact that the increase in the bulk electricity tariffs had on the cash flow of the municipality. The Capital Grants to be received are highlighted in the Executive Summary above.

**Table 6 Capital expenditure by standard classification**

EC109 Kou-Kamma - Table A5 Adjustments Capital Expenditure Budget by vote and funding

Vote Description	Ref	2016/17	2017/18	2018/19	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
<b>Capital Expenditure - Functional</b>	1										
<i>Governance and administration</i>		44	-	160	672	982	982	-	960	-	-
Executive and council				51	151	151	151		80		
Finance and administration		44	-	110	521	831	831		880		
Internal audit											
<i>Community and public safety</i>		3 764	429	2 079	12 998	12 473	12 473	-	2 207	-	-
Community and social services		3 764	427	2 053	12 098	11 571	11 571		1 240		
Sport and recreation						-	-		150		
Public safety				26	900	900	900		817		
Housing						-	-				
Health		-	2			3	3				
<i>Economic and environmental services</i>		2 033	5 329	4 938	100	3 425	3 425	-	14 556	-	-
Planning and development				67							
Road transport		2 033	5 329	4 872	100	3 425	3 425		14 556		
Environmental protection											
<i>Trading services</i>		9 950	14 091	9 901	15 628	30 339	30 339	-	7 889	20 494	18 147
Energy sources		616	2 213		1 550	1 550	1 550		6 087	5 019	2 000
Water management		6 014	8 369	8 501	5 558	19 508	19 508		200		
Waste water management		3 320	-	1 160	8 020	9 007	9 007			15 475	16 147
Waste management		-	3 508	240	500	275	275		1 602		
<i>Other</i>											
<b>Total Capital Expenditure - Functional</b>	3	15 791	19 849	17 079	29 398	47 220	47 220	-	25 612	20 494	18 147
<b>Funded by:</b>											
National Government		13 740	19 572	15 996	26 176	43 916	43 916		20 593	20 494	18 147
Provincial Government		2 033	275	744	420	300	300		2 132		
District Municipality		-	2		900	903	903				
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)											
Transfers recognised - capital	4	15 772	19 849	16 740	27 496	45 118	45 118	-	22 725	20 494	18 147
<b>Borrowing</b>	6										
Internally generated funds		19		338	1 902	2 102	2 102		2 887		
<b>Total Capital Funding</b>	7	15 791	19 849	17 079	29 398	47 220	47 220	-	25 612	20 494	18 147

Table A5 as per the MBBR excludes all indirect capital expenditures that will be incurred during the 2020/21 financial year.

The table below highlights total service delivery project planned for the next financial year

**Table 7 Capital expenditure by project**

DEPARTMENT	FUNCTION	ITEM DESCRIPTION	REGION	ORIGINAL BUDGET	FUNDING SOURCE	MSCOA PROJECT NUMBER
Corporate Services	Administration	Renovation of council chambers	Main Building	R 400 000.00	Internal funds	7471
	Administration	Acquisition of land	Krakeel	R 100 000.00	Internal funds	2460
	Administration	Furniture and Office Equipment	Main Building	R 80 000.00	Internal funds	7460
	ICT	Computers	Municipal Offices	R 300 000.00	Internal funds	6460
MMO & Mayors Office	MMO & Mayors Office	Furniture and Office Equipment	Main Building	R 80 000.00	Internal funds	2460
Technical & Community Services	Cemeteries	Ablution facilities (Container)	Stormsrivier	R 60 000.00	Internal funds	13472
	Cemeteries	Paving	Stormsrivier	R 100 000.00	Internal funds	13472
	Community Halls	Upgrading of community hall	Woodlands	R 300 000.00	Internal funds	12472
	Community Halls	Furniture (Tables & Chairs)	All wards	R 250 000.00	Internal funds	12472
	Electricity	Electrification of households	Krakeel	R 1 718 000.00	INEP	24460
	Electricity	Electrification of households	Louterwater	R 4 319 000.00	INEP	24460
	Electricity	Tools & Equipment	All wards	R 50 000.00	Internal funds	24472
	Fire Services	Tools & Equipment	All wards	R 80 000.00	Internal funds	16460
	Fire Services	Fire Engine	All wards	R 700 000.00	Internal funds	16460
	Fire Services	Furniture and Office Equipment	Blikkiesdorp	R 37 000.00	Internal funds	16460
	Library Services	Upgrading of library	Clarkson	R 180 000.00	DSRAC	11472
	Library Services	Upgrading of library	Misgund	R 200 000.00	DSRAC	11472
	Library Services	Upgrading of library	Stormsrivier	R 150 000.00	DSRAC	11472
	Waste Management	Fencing of landfill site	Woodlands	R 1 166 000.00	DEDEA	18460
	Waste Management	Fencing of landfill site	Coldstream	R 435 600.00	DEDEA	18460
	Sportsgrounds	Upgrading of sportsfields	All wards	R 150 000.00	Internal funds	17472
	Roads	Upgrading of Roads	Louterwater	R 14 555 900.00	MIG	20472
	Water Management	Jet Machine *2	All wards	R 200 000.00	Internal funds	23460
				<b>R25 611 500.00</b>		

In addition to the above the following in-kind transfers has been allocated to the municipality. A project relating to this allocation still needs to be confirmed:

- WSIG: R6000 000
- INEP (Eskom): R1 413 000

## Part 2: Supporting Documentation

**Table 12 MBRR Table A7- Budgeted Cash Flow Statement**

EC109 Kou-Kamma - Table A7 Budgeted Cash Flows											
Description	Ref	2016/17	2017/18	2018/19	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>											
<b>Receipts</b>											
Property rates		10 656	14 942	14 627	11 369	8 479	8 479		7 710	11 805	12 513
Service charges		6 235	3 107	29 125	16 361	16 996	16 996		13 422	21 234	22 508
Other revenue		9 848	6 413	6 045	21 471	26 473	26 473		20 056	11 472	14 276
Transfers and Subsidies - Operational	1	44 436	47 809	31 776	60 029	60 064	60 064		61 289	60 128	63 653
Transfers and Subsidies - Capital	1	17 947	23 362	38 173	26 176	43 916	43 916		22 725	20 494	18 147
Interest		73	214	592	7 476	10 248	10 248		4 775	11 197	11 868
Dividends									-	-	-
<b>Payments</b>											
Suppliers and employees		(57 617)	(72 222)	(81 629)	(110 003)	(110 758)	(110 758)		(107 754)	(111 459)	(119 637)
Finance charges		(194)	(992)	(718)	(1 250)	(323)	(323)		(273)	(289)	(307)
Transfers and Grants	1	(16 702)	(8 098)						-	-	-
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>		<b>14 681</b>	<b>14 534</b>	<b>37 991</b>	<b>31 629</b>	<b>55 094</b>	<b>55 094</b>	<b>-</b>	<b>21 949</b>	<b>24 581</b>	<b>23 022</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>											
<b>Receipts</b>											
Proceeds on disposal of PPE									-	-	-
Decrease (increase) in non-current receivables									-	-	-
Decrease (increase) in non-current investments									-	-	-
<b>Payments</b>											
Capital assets		(15 805)	(13 763)	(17 538)	(29 468)	(47 220)	(47 220)		(25 612)	(20 494)	(18 147)
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>		<b>(15 805)</b>	<b>(13 763)</b>	<b>(17 538)</b>	<b>(29 468)</b>	<b>(47 220)</b>	<b>(47 220)</b>	<b>-</b>	<b>(25 612)</b>	<b>(20 494)</b>	<b>(18 147)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>											
<b>Receipts</b>											
Short term loans		836							-	-	-
Borrowing long term/refinancing									-	-	-
Increase (decrease) in consumer deposits									-	-	-
<b>Payments</b>											
Repayment of borrowing									-	-	-
<b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>		<b>836</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE/ (DECREASE) IN CASH HELD</b>		<b>(288)</b>	<b>771</b>	<b>20 453</b>	<b>2 161</b>	<b>7 874</b>	<b>7 874</b>	<b>-</b>	<b>(3 662)</b>	<b>4 088</b>	<b>4 875</b>
Cash/cash equivalents at the year begin:	2	1 002	714	1 485	21 938	21 938			3 705	43	4 131
Cash/cash equivalents at the year end:	2	714	1 485	21 938	2 161	29 812	29 812	-	43	4 131	9 006

### Explanatory notes to Table A7- Budgeted Cash Flow Statement

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows be expected level of cash inflow versus cash out-flow that is likely to result from the implementation of the budget.

## **2. Municipal Manager's quality certificate**

I, **Pumelelo Kate**, Municipal Manager of Kou-kamma Local Municipality, hereby certify that the 2020/21 Annual Budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the Municipal Budget and Reporting Regulations, and that the Annual Budget and supporting documents are consistent with the Integrated Development Plan of the Municipality.

**Print Name: PUMELELO KATE**

**Signature –**

A handwritten signature in black ink, appearing to be 'Pumelelo Kate', written over a faint circular stamp or watermark.

**Date: 29 MAY 2020**