



Fezile Dabi

District Municipality

FINAL ANNUAL BUDGET

2020/21 TO 2022/23

MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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PART 1- ANNUAL BUDGET

1.1 MAYOR'S REPORT

1.1.1. Mayoral Budget Speech

The budget speech is attached as a separate document.

1.2 COUNCIL RESOLUTIONS

On the 29 May 2020 the Council of Fezile Dabi District Municipality scheduled a meeting to table the draft annual budget for the year 2020/21.

(a) That the following policies has been reviewed and updated with recent circulars.

- (i) Budget Reporting policy;(reviewed no changes made)
- (ii) Budget Virement policy;(reviewed and changes were made as per circular)
- (iii) Supply Chain Management Policy (Reviewed)

- Approval of the annual budget of the municipality, and specifically appropriately the amounts to different votes, and for single-year and multi-year capital expenditures note should be taken that Fezile Dabi district municipality does not have infrastructural assets and therefore multi-year budgeting on capital expenditure is not applicable)
- Approval of annual measurable performance objectives for the draft annual budget for each year of the medium term revenue and expenditure framework

(b) That the final annual budget documentation for 2020/21 – 2022/23 as outlined in the budget regulations be submitted to National and Provincial government or organ of state after approval by Council.

The aforesaid information is set out in detail on Circular 99 Schedule A1 Version 6.4– mSCOA Implementation March 2020 budget tables, other supporting documents.

1.3 EXECUTIVE SUMMARY AND BUDGET ASSUMPTIONS

MFMA Circulars (Recent circular 99)

Introduction

This budget circular is a follow-up to MFMA Circular No. 98 that was issued on 06 December 2019. It aims to provide further guidance to municipalities with the preparation of their 2020/21 Medium Term Revenue and Expenditure Framework (MTREF) budgets and should be read together with the budget circulars that have been issued previously. The grant allocations as per the 2020 Budget Review and the 2020 Division of Revenue Bill are also key focus areas in this circular.

National Treasury sent out MFMA Circular No. 91 on 07 March 2018 (mSCOA Implementation) and No. 89 on 08 December 2017 providing guidance to municipalities on their 2018/19 budgets and Medium Term Revenue and Expenditure Framework (MTREF). Circular No. 86 and 85 remind us of the key focus areas for the 2017/18 budget process, and that it must be read together with MFMA Circulars no 48, 51, 54, 55, 67, 70, 78, and 79. It is essential reading material in order to understand the background to this budget. National Treasury has also set out the requirements for funding the budget and producing a credible budget.

1.3.1 The South African economy and inflation targets

Over the past year, economic growth has been weaker than forecasted and is only expected to reach 0.9 per cent in 2020. The 2020 budget highlights the difficult economic and fiscal choices confronting government over the next several years.

It is projected that revenue to be collected for the 2020/21 financial year will amount to R1.5 trillion which equates to 29.2 per cent of the Gross Domestic Product (GDP), whereas expenditure is projected to be at R1.95 trillion which is equivalent to 36 per cent of GDP. This means that there is a consolidated budget deficit of R370.5 billion or 6.8 per cent of GDP in 2020/21. The gross national debts by the end of 2020/21 is projected to be R3.56 trillion which is 65.6 per cent of GDP.

It is evident that determined action is required to reverse the deterioration of the public finances by narrowing the budget deficit, containing debt and growing the economy faster and in a sustainable manner. Municipalities therefore need to exercise caution when they prepare their 2020/21 MTREF budgets to ensure synergy with national economic and fiscal prudence.

The declining economic growth which might be impacted on further by the Corona virus pandemic and international companies closing down as a result, the deteriorating state of the finances for state-owned entities, continued high unemployment and water and electricity shortages will put pressure on the ability of municipalities to raise revenue. Municipalities are therefore advised to follow a conservative approach when projecting their revenue and to eliminate any waste and unnecessary expenditure. **Importantly, municipalities should ensure that they adopt realistic and funded 2020/21 MTREF budgets, collect the debts owed to them and pay their creditors within 30 days of receipt of invoice.**

Other challenges facing Fezile Dabi District Municipality

- The corona virus outbreak (national and global) with locked down stage 3 budget process were not complied with as a results of the laws regulating locked down stage 5 and 4.
- The listiriosis outbreak in fezile dabi region (**Rainbow Chicken**) it was controlled however it remain high risk to the district therefore this will affect the budget for Environmental Health Management to sample more foods and water.
- The continued negative effect of the economic downturn;
- The higher dependency on grants available for funding; operating grants and subsidies have marginally increased by 1.03% from 2019/20 to 2020/21.
- Overhead cost growing at a higher rate than income;
- Weaker outlook as a result of lower commodity prices, drought and diminished business and consumer confidence;
- Persistent high unemployed remains one of our pressing challenges;
- A provision for contribution to the capital replacement reserve (CRR) in the operating budget has been made in order to grow our reserve;

These circumstances make it essential for the municipality to reprioritize expenditure and implement stringent cost – containment measures.

TOTAL REVENUE BY SOURCE

TOTAL REVENUE BY SOURCE	Final Annual Budget 2020/21	Budget Year 2021/22	Budget Year 2022/23
Operating Grants and Subsidies	163 223 000	167 339 000	172 882 000
Capital Grants	2 256 000	2 827 000	2 462 000
Exchange Revenue - External investments	8 000 000	8 384 000	8 786 432
Operational Revenue	310 000	324 880	340 474
Sales and Rendering of Services	1 140 000	41 920	43 932
Transfer from accumulated Surplus (CRR)	13 322 150	18 658 244	25 413 391
TOTAL	<u>188 501 150</u>	<u>197 635 044</u>	<u>209 928 229</u>

Revenue Notes

- Operating Grants and Subsidies are as per Division of Revenue Act (Gazetted 2018).
- Exchange Revenue: Interest on investment was calculated based on Current Interest rates taking Inflation into account.
- Operating revenue consist of telephone deductions from employees and, refund from insurance and skills levy from SETA.
- Sales and rendering of services consist of entrance fees for HIV Benefit concert and sale of tender documents.
- A transfer of R 13.3 million will be taken from the previous year's accumulated surplus account to balance the current financial year budgeted projections. There increase from 12.7 million to R13.3 million was as a results of 5% upper limits from SALGA.

TOTAL EXPENDITURE BY SOURCE	Final Budget 2020/21	Budget 2021/22	Budget Year 2022/23
Employees' Related Cost	119 190 800	126 428 554	134 330 338
Remuneration of Councillors	8 758 000	8 862 422	9 319 028
Depreciation and Amortization	3 000 000	3 144 000	3 294 912
Other Materials	1 980 900	2 075 983	2 175 630
Contracted Services	27 352 000	27 536 008	29 785 040
Transfers and Subsidy	3 490 000	3 657 520	3 833 081
Other Expenditure	24 569 450	25 762 878	27 014 471
Capital Expenditure	160 000	167 680	175 729
TOTALS	188 501 150	197 635 044	209 928 229

Expenditure Notes

- Employee related costs, The South African Local Government Bargaining Council entered into a three-year Salary and Wage Collective Agreement (15 August 2018) for the period 01 July 2018 to 30 June 2021 has come to an end. Salaries and wages increased by 6.25%
The previous years were:
 - 2020/21 Financial Year – average CPI of 4.9% (Feb 2019 – Jan 2020) + 1.25% per cent
 - 2019/20 Financial Year – 4.3% per cent
 - 2018/19 Financial Year – average CPI of 4.7% (Feb 2018 – Jan 2019) + 1 per cent
- Remuneration of councillors increased with 5% in accordance with the Government Gazette on the Remuneration of the Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published by Department of Cooperative Governance.
- Depreciation and Amortisation was made as a provision for all council assets (CRR Policy)
- Other material projections is based on the current price of a litre of fuel plus average increase based on inflation and increased number of pooled Council Vehicles.
- Contracted services include amongst other things Auditor General fee, VAT Consultant, Annual Financial Statement preparation and Asset count. As well as Financial Management Grant to hire minimum of five interns in finance for a period not exceeding three years.
- Other expenditure includes wellbeing of Cllrs Funeral support and establishments of cooperatives as well as SMME Support.
- Other expenses for the 2020/2 were based on the departmental inputs in line with their IDP objectives of each department. The 2021/22 & 2021/22 calculations were based on

Consumer Price Index of 4.8% 2021/22 and 4.8% 2021/22 published on the **MFMA Circular no. 99**.

- In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures.

1.4 ANNUAL BUDGET OVERVIEW OF THE 2020/21 MTREF

This section provides an overview of the Fezile Dabi District Municipality's 2020/21 to 2022/23 MTREF. It includes an assessment of how the budget links with the national and provincial government context along with a view of the fiscal position of Fezile Dabi District Municipality.

The municipality's budget must be seen within the context of the policies and financial priorities of national, provincial and local government. In essence, the spheres of Government are partners in meeting the service delivery challenges faced at Fezile Dabi District Municipality. Fezile Dabi District Municipality cannot alone meet these challenges. It requires support from others spheres of Government through the direct allocation of resources as well as the achievement of their own policies.

According to Circular No 99, the following headline macro-economic forecast must be taken into consideration when preparing 2020/21 budgets and MTREF:

Fiscal Year	2019/20 Estimate	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast
CPI Inflation	4.7%	4.9%	4.8%	4.8%
Real GDP growth	1.0%	1.25%	1.6%	1.00%

Source: 2020 Budget Review.

The budget process in Fezile Dabi District Municipality followed the requirements of the MFMA. A Table of key deadlines was prepared for tabling in Council by the Executive Mayor on the 30 August 2019.

A budget Committee was established to examine, review and prioritize budget proposals from departments.

The MFMA requires municipalities to set out measurable performance objectives when tabling their budgets. These "key deliverables" link the financial inputs of the budget to service delivery on the ground.

As a further enhancement to this, quarterly service targets and monthly financial targets are contained in the Draft Service Delivery and Budget Implementation Plan (SDBIP). This must be approved by the Mayor within 28 days after the approval of the final budget and forms the basis for the Municipality's in year monitoring.

In view of the aforementioned, the following table is a consolidated overview of the proposed MTREF:

**Table 1 Consolidated Overview of the 2020/21 MTREF:
AGGREGATE TOTAL**

DETAILS	ORIGINAL BUDGET 2019/20	REVISED BUDGET 2019/20	ANNUAL BUDGET 2020/21	DIFFERENCE
Total Operating Income	155 559 000	173 827 893	175 179 000	(0.78%)
Total Expenditure	170 412 000	190 684 490	187 939 930	1.44%
Surplus/(Deficit)	(4 831 000)	(16 856 597)	(13 322 150)	24.30%
Total Capital Expenditu	3 000 000	3 430 000	160 000	95.34%
Capital Replacement R	(1 831 000)	(13 426 597)	(13 162 150)	6.15%

The surplus/ (deficit) in the above table differs from that in the SA Tables, as the SA Tables does not take into account the appropriations.

For Fezile Dabi District Municipality to continue maintaining /improving the quality of services provided to its citizens it needs to generate the required revenue.

The municipality's revenue strategy is built around the following key components:
National Treasury's guidelines ,Circular No 85 & 86

**Table 2 Summary of Revenue Classes by Main Revenue Sources
SUMMARY OF INCOME BY SOURCE 2020/21**

DETAILS	ORIGINAL BUDGET 2019/20	REVISED BUDGET 2019/20	ANNUAL BUDGET 2020/21	DIFFERENCE
Exchange Revenue	7000 000	8 500 000	8 000 000	5.88%
Operational Revenue	480 000	780 000	310 000	60.26%
Transfers and Subsidies	155 559 000	178 834 000	157 633 000	11.86%
Capital Grants	2 318 000	2 318 000	2 506 000	(81.10)
Sales and Rendering Ser	224 000	805 300	750 000	(7.37%)
TOTAL INCOME	165 581 000	173 827 893	175 179 000	6.87%

The following table gives a breakdown of the various grants allocated to Fezile Dabi District Municipality over the medium term:

Table 3 Grants Allocation

Medium –Term Estimates

DETAILS	ORIGINAL BUDGET 2019/20	REVISED BUDGET 2019/20	ANNUAL BUDGET 2020/21
Equitable Share	10 385 000	10 385 000	11 150 000
Local Government Financial Management Grant	1 000 000	1 000 000	1 000 000

Municipal Systems Improvement Grant	-	-	300 000
Rural Roads Asset Management Systems Grant	2 318 000	2 318 000	2 206 000
Expanded Public Works Programme Integrated Grant			
RSC Levy Replacement Grants	144 174 000	144 174 000	148 073 000
Energy Efficiency & Demand Side Management Grant		6 000 000	3 000 000
TOTAL INCOME	165 581 000	173 821 000	175 179 000

1.4 – Operating Expenditure Framework

The expenditure framework for the 2020/21 budget and MTREF is informed by the National Treasury’s guidelines and 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; Operational gains and efficiencies will be directed to funding the capital budget and other core services;

Strict adherences to the principle of no project plan no budget. If there is no business plan no funding allocation can be made.

The operating expenditure decreased from **R190.6million (2019/20) to R187.7 million in 2020/21**

The following table is a summary of the 2020/21 MTREF (classified by main expenditure by category)

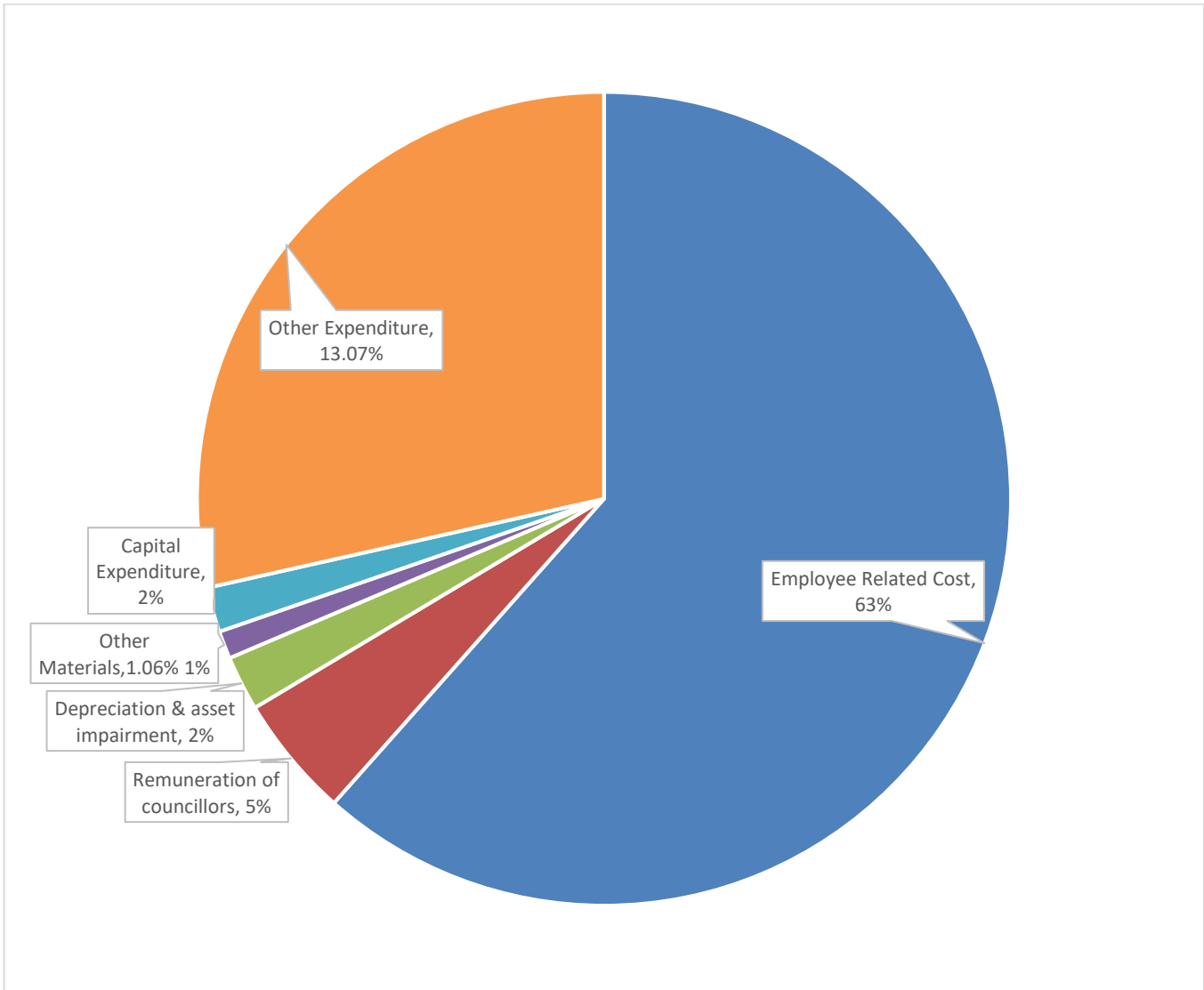
Table 4: Summary of operating expenditure by category

DETAILS	ORIGINAL BUDGET 2019/20	REVISED BUDGET 2019/20	ANNUAL BUDGET 2020/21	DIFFERENCE
Employee Related Cost	110 164 000	111 136 490	119 190 800	8.2%
Remuneration of councillors	8 396 000	8 396 000	8 758 000	4.3%
Depreciation & asset impairment	2 620 000	4 620 000	3 000 000	(35.06%)
Other Materials	1 754 000	2019 000	1 980 900	(1.89%)
Contracted Services	17 179 000	31 844 000	27 352 000	(14.11%)
Transfer and Subsidy	3 030 000	4 280 000	3 490 000	(84.20%)
Other Expenditure	24 269 000	24 959 000	24 569 450	(1.56%)
TOTAL EXPENDITURE	157 597 000	198 120 350	188 501 150	(19.61%)

- An increase has been made for all employee remuneration on estimation of consumer price inflation (4.9%) + and real GDP growth (1.25%) =6.25% increase. Based on the current agreement of labour unions and bargaining council.
- Councillor remuneration Remuneration of Public Bearers Act. On Aggregate increased by 0%
- Provision for depreciation and asset impairment is informed by the municipality's asset management policy.
- Other materials budget is based on the current cost of litre of petrol plus inflation but petrol cost fluctuate.
- Contracted Services consist of budgeted specialized skill that the institution need from outside consultants and specialized legal services.
- Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. This makes up 13.08% of operating expenditure.

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

Operating Expenditure Chart



Employee Related Cost	119 190 800	63.23%
Remuneration of councillors	8 758 000	4.65%
Depreciation & asset impairment	3 000 000	1.60%
Other Materials	1 980 900	1.06%
Capital Expenditure	160 000	0.09%
Other Expenditure	24 569 450	13.07%
Transfer and Subsidies	3 490 000	1.86%
Contracted Services	27 352 000	14.55%
TOTAL EXPENDITURE	188 501 150	

1.5 ANNUAL BUDGET TABLES

Background on the main budget tables

(Budget main tables A1 to A10)

- **Table A1** is a budget summary and provides a concise overview of the municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance). The table provides an overview of the amounts to be approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance.
- Financial management reforms emphasize the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
- The operating surplus/deficit (after Total Expenditure) is negative over the MTREF and is being funded from short term investments and positive bank balances.
- Capital expenditure is funded from internally generated funds (positive cash balances)
- Total revenue is R165.5 million in 2019/20 and escalates to R175 million by 2020/21. This represents a year-on-year increase of 5.80% for the 2020/21 financial year and 2.16% for the 2021/22 financial year.
- Transfers recognized: It needs to be noted that in real terms the grants receipts from national government are growing slightly over the MTREF by 3.03% (2018/19), 3.33% (2019/20), and 3% (2020/21)
- Capital Budget The capital budget decreased from R 3 430 000 (2019/20) to R 160 000 in 2020/21. Total capital budget will be spent on furniture; other equipment; no budget for computer software, and vehicles.
- The Budget Committee went through several stages of prioritizing the capital budget to contain the budget within the available funding.

- **Table A2** is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification, the modified GFS standard classification divides the municipal services into 15 functional areas.
- Municipal revenue, operating expenditure and capital expenditure are then classified in terms of each of these functional areas which enable the National Treasury to compile government's reports.

- **Table A3** is a view of the budgeted financial performance in relation to revenue and expenditure by vote

Table A3: Summary of operating expenditure by Vote

DETAILS	ORIGINAL BUDGET 2019/20	REVISED BUDGET 2019/20	ANNUAL BUDGET 2020/21	DIFFERENCE
Council General	12 017 000	15 377 000	12 861 000	(19.56%)
Executive Mayor	11 573 000	15 425 000	14 145 000	(8.30%)
Speaker	6 677 000	7 096 000	8 068 000	13.70%
Mayoral Committee	3 883 000	3 803 000	4 016 000	5.06%
Municipal Manager	26 985 500	25 864 955	26 956 480	4.22%
Finance	18 930 000	21 447 635	21 027 680	(1.96)
Information Technology	3 092 000	3 089 000	3 123 000	1.10%
Project Management	8 682 000	14 441 000	11 897 650	(17.61)
Corporate Support Service	22 724 000	26 981 800	24 486 680	(9.31%)
Fire & Emergency	11 010 000	11 641 000	12 585 000	8.11%
Disaster Management	4 787 000	4 845 500	4 994 000	3.06%
Local Economic Dev	13 985 000	14 252 800	15 453 680	8.43%
Environmental Health	18 918 000	18 903 800	24 234 380	28.20%
Environmental Management	4 148 000	4 086 000	4 510 600	10.39%
TOTAL EXPENDITURE BY VOTE	167 412 000	187 254 490	188 341 150	0.58%

- **Table A4** Total revenue is R165.5 million 2019/20 and escalates to R 175.1 million by 2020/21. This represents a year-on-year increase of 5.80% for the 2020/21 financial year; 2.17% for the 2021/22 financial year and 3.09% 2022/23 financial year

- Transfers recognized-operating, includes the local government equitable share and levy replacement grant, other operating grants from national and provincial government.

- An increase has been made for all employee remuneration based on inflation plus real GDP growth 6.25% on the current agreement.
- Councillors remuneration: Remuneration of Public Bearers Act no Upper limit has been set to date the budget is based on actual estimate.
- Provision for depreciation and asset impairment is informed by the municipality's asset management policy.
- Other Materials major expense is petrol
- Capital expenditure comprises of office furniture and equipment has decreased dramatically. But when adding Rural Roads Management Grant this Category of expenditure show a slight increase
- General expenditure comprises of various line items relating to the daily operations of the municipality.

- **Table A5** is a breakdown of the capital programme in relation to capital expenditure by municipal vote (single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget.
- Capital Budget The capital budget decreased from R 3 430 000 (2019/20) to R 160 000 in 2020/21. Total capital budget will be spent on furniture; air conditioners.
- The Budget Committee went through several stages of prioritizing the capital budget to contain the budget within the available funding.
- The capital programme is funded from the Capital Replacement Reserve.

Table A5 & A5A is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.

- An amount of R2 206 000 for 2020/21, R2 327 000 and R2 462 000 is from national government for the Rural Roads Assets Management System within the District.

- **Table A6** is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).
- This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as “accounting” Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.
- Table 6 is supported by an extensive table of notes (SA3) providing a detailed analysis of the major components of a number of items,
- including:
 - Call investments deposits;
 - Property, plant and equipment;
 - Trade and other payables;
 - Provisions non-current;
 - Changes in net assets; and
 - Reserves
- The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.
- Any movement on the budgeted financial performance or the capital budget will inevitably impact on the budgeted financial position

- **Table A7** budgeted cash flow statement is the first measurement in determining if the budget is funded, it shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.

- The cash flow management and forecasting is a critical step in determining if the budget is funded over medium-term. The table above is consistent with international standards of good financial management practice and also improves understandability for councillors and management. Some specific features include:
 - Clear separation of receipts and payments within each cash flow category.
 - Clear separation of capital and operating receipts from government, also enables cash from “debtors and other” to provide for as cash inflow based on actual performance.
 - Separation of borrowing and loan repayments (no set-off), to assist with MFMA compliance assessment regarding the use of long-term borrowing (debt).

- The above table shows a decrease in the cash and cash equivalents to R66.2 million for 2020/21 financial year. The negative cash position will decrease to R52. million. In the past performances, the municipality used to have Positive cash flow position.

Decrease /Increase reconciliation

Opening balance R 66.2 million
 Less capital expenditure (R 160) thousand
 Less transfer to operations (R 13.3) million
 = Net cash at end of 2020 fin year 51.4 million

- **Table 8** The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – funding a municipal budget in accordance with sections 18 and 19 of the MFMA. The 2020/21 budget is showing a positive outcome.
- From the above table it can be seen that the cash and investments available total R60.million in the 2020/21 financial year. The following is a breakdown of the application of this funding:
 - Unspent conditional transfers (grants) are automatically assumed to be an obligation as the municipality has received government transfers in advance of meeting the conditions. Ordinarily, unless there are special circumstances, the revenue fund at the end of the financial year. In the past these have been allowed to ‘roll-over’ and be spent in the ordinary course of business, but this practice has been discontinued.
 - Provision for statutory requirements including VAT owing due to timing differences resulting from year-end obligations. The main purpose of other working capital is to ensure that sufficient funds are available to meet obligations as they fall due.
 - This liability is informed by all provisions.
 - The level of cash-backing is directly informed by the municipality’s cash backing policy.
 - It can be concluded that the council has a surplus against the cash backed and accumulated surpluses reconciliation.

- **Table A9 Assets Management** Capital expenditure comprises of office furniture and equipment has decreased dramatically.
- An amount of R2 318 000 for 2019/20, R2 206 000 for 2020/21 and R2 327 000 for 2021/22 is from national government for the Rural Roads Assets Management System within the District.

- **Table A10** has not been completed as the district municipality does not render any basic services

PART 2- SUPPORTING DOCUMENTS

2.1 OVERVIEW OF ANNUAL BUDGET PROCESS

PAST ACTIVITIES	DATE
Approval of the consolidated IDP and Budget process plan by council	30 August 2019
Budget steering committee (S 72 report and working session on the Adjustment budget for 2019/20)	08 February 2020
Approval of the adjustment budget	23 February 2020
Publication of the Adjustment budget 2019/20 (Budget documents distributed in local libraries and local municipalities within the district)	05 March 2020
IDP steering committee	10 March 2020
Finance Portfolio committee meeting MPAC meeting (noting the tabling of the draft budget 2019/20)	19 March. But the budget was not ready yet
Mayoral committee meeting (noting the tabling of the draft budget 2020/21)	20 March 2020

PAST ACTIVITIES	DATE
IDP & Budget steering committee (ensuring a realistically funded Draft budget 2020/21)	17 March 2020
Council meeting (tabling of the draft budget 2020/21)	26 March 2020
Adherence to the internal MFMA compliance calendar for the Month of April (submission and publication of documents)	05 April 2020
Public Participation meetings (Draft IDP and Draft budget 2020/21)	Office of the Executive Mayor will provide dates after Council meeting
Budget steering committee meeting (consideration of the public participation report)	Due to lock down rules no meetings held.
Finance Portfolio committee meeting	Due to lock down rules no meetings held.
Mayoral committee meeting (noting the approval of the annual budget 2020/21)	Due to lock down rules no meetings held.
Council meeting (approval of the annual budget 2020/21)	29 May 2020.

Adherence to the internal MFMA compliance calendar for the Month of May 2020(submission and publication of documents)	06 June 2020
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2.2 OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH INTEGRATED DEVELOPMENT PLAN

There is an active team in charge of the alignment on the strategic documents, which deals with the following; intergrated development planning, annual budgets, performance management, reporting, monitoring and evaluation.

SA4

This table shows the reconciliation of IDP strategic objectives and budget (revenue)

SA5

This table shows the reconciliation of IDP strategic objectives and budget (operating expenditure)

SA6

This table shows the reconciliation of IDP strategic objectives and budget (capital expenditure)
(supporting tables SA4, SA5, SA6)

2.3 MEASURABLE PERFORMANCE OBJECTIVES

Table SA7 is linked to Table A10 which outlines the basic service delivery measurement, no information has been captured on these tables, the information relates to household service targets on water, sanitation/ sewerage, energy and refuse.

2.4 OVERVIEW OF BUDGET-RELATED POLICIES

Council must take note that the following policies relate to the budget and its implementation:

Budget and Reporting Policy	(Reviewed no changes made)
Supply Chain Management Policy	(Reviewed)
Budget Virement Policy	(Reviewed)

The above policies can also be accessed from www.feziledabi.gov.za

2.5 OVERVIEW OF BUDGET ASSUMPTIONS

Budgets are prepared in an environment of uncertainty. To prepare meaningful budgets, assumptions need to be made about internal and external factors that could influence the budget. Documentation of the assumptions used in preparing the budget assists understanding of the information. This section provides a comprehensive summary of all the assumptions used in preparing the budget.

Revenue assumptions

Operating grants and subsidies

R 163,223,000

Operating grants and subsidies are as per the Division of Revenue Act

Interest earned on external investments

Investment	R 6 500 000
Interest on Current Account	R 1500 000
Total Interest for the year	R 8 000 000

The interest earned on external investments is based on the assumption that the average interest rate range from 6-7 % on the investments in the next financial year and these are short term investments.

Sales and Rendering Services

R 1 300 000

Description	Amount (R)
Insurance Claims Received	10 000.00
Skills levy- seta	90 000.00
Private Telephone Deductions	200 000.00
Tender deposits	20 000.00
Entrance Fees	1000 000 .00
TOTAL	1 300 00.00

Assumptions used for projecting some of the above figures are based on averaging methods and the most appropriate average was used to come up with the estimation

Sales on tender documents is expected to be as follows:

443 documents @ R40, 2 documents @ R250 and 12 documents @ R150 which gives a total of R 20 000 (users of this document should take note of a rounding error amounting to R 20)

Expenditure assumptions

An increase of 6.8% on employee's related costs (excluding updates on salary notches) and 0.00% on Remuneration of councilors has been applied; in the absence of other information contained in circular 91 which has been issued after the tabling of the National budget the aforesaid estimates are as per circular.

All other General and Capital Expenses have been budgeted in line with the user's Inputs, applying the combination of Zero-Based and Incremental Budgeting approaches, projected cost of living increase adjustments as well as taking into account previous years' circulars, circular 59, circular 74 and application of circular 75 and 80, 86 will also be effected as well during the steering committee session.

2.6 OVERVIEW OF BUDGET FUNDING

Funding the Budget

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

Realistically anticipates revenues to be collected

Cash- backed accumulated funds from previous years 'surpluses not committed for other purposes; and

Borrowed funds, but only for capital budget referred to in section 17(2)

Achievement of this requirement in totality effectively means that a Council has 'balanced' its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows.

Under old budget formats a 'balanced' income generated approach was key objective and this assisted in ensuring that outflows were matched by inflows, provided revenue collections were realistic . However, GRAP compliant budgets necessitate that budget 'balancing' be much more comprehensive.

New budgeting and accounting formats (mSCOA) demand that the budgeted Statement of Financial Performance, the Budgeted Statement of Financial Position and the Budgeted Statement of Cash Flows must be considered simultaneously to ensure effective financial management and sustainability to ensure that the budget is funded.

Total revenue

R 175 179 000

Table A7 and Table A8 - budget main tables indicate the detailed funding of the budget, derived from the said tables there is a **budget deficit amounting to R 13 322 150**, thus there was scheduled meeting from **10 and 17 of March 2020 (Budget steering committie)** in order to ensure that the budget is funded from realistically anticipated sources of revenue and that prioritization takes place to avoid budget deficits.

Credible Budget

Amongst other things, a credible budget is a budget that:

Funds only activities consistent with the revised 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 jeopardize 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 short term, medium and long term);and

Provides managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

A budget set out certain service delivery levels and associated financial implications. Therefore the community should realistically expect to receive these promised service delivery levels and understand the associated financial implications. Major under spending due to collection of revenue or poor planning is a clear example of a budget that is not credible and unrealistic.

Furthermore, budgets tabled for consultation at least 90 days prior to the start of the budget year should already be credible and fairly close to the final approved budget.

2.7 EXPENDITURE ON ALLOCATIONS AND GRANT PROGRAMMES

Table S A19

This table outlines the expenditure on transfers and grant programmes

(Please turn over for attached table S A19)

2.8 COUNCILLORS AND BOARD MEMBER ALLOWANCES AND EMPLOYEE BENEFITS

Table S A22

This table gives a summary of councilor and staff benefits (was updated in line with circular 99 issued recently)

Table S A23

This table gives a summary of salaries, allowances & benefits for political office bearers/councilors/senior managers (was updated in line with circular 99 issued recently)

Table S A24

This table gives a summary of personnel numbers (was updated in line with circular 99 issued recently)

(S A22, S A23 and S A 24)

MONTHLY TARGETS FOR REVENUE, EXPENDITURE AND CASH FLOW

Table S A25

This table shows the consolidated budgeted monthly revenue and expenditure

Table S A26

This table shows the consolidated budgeted monthly revenue and expenditure by municipal vote

Table S A27

This table shows the consolidated budgeted monthly revenue and expenditure by standard classification

Table S A28

This table shows the consolidated budgeted monthly capital expenditure by municipal vote

Table S A29

This table shows the consolidated budgeted monthly capital expenditure by standard classification

Table S A30

This table shows the consolidated monthly budget cash flow

Table S A34a

This table show the capital expenditure on new assets by assets class

Table S A34c

This table shows the consolidated repairs and maintenance expenditure by assets class

Table S A34d

This table shows the consolidated depreciation by assets class

Table S A35

This table shows the consolidated future financial implication of the capital budget

Table S A36

This table shows the consolidated detailed capital budget

(S A25, S A26, S A27, S A28, S A29 and S A30)

(S A34a, SA34c, S A35and S A36)

2.9 ANNUAL BUDGETS AND SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLANS- INTERNAL DEPARTMENTS

The annual budget divided in quarterly periods and meant for strategic implementation contained in the draft SDBIP 2020/21.

2.10 CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

Contracts with future budgetary implications will be considered during the prioritizing process to take place and will be accounted for.

2.11 CAPITAL EXPENDITURE DETAILS

DEPARTMENTS AND DESCRIPTIONS	BUDGETED AMOUNT
Council General	
Furniture & Equipment	R 0
Executive Mayor	
Furniture & Equipment	R 0
Vehicles	R 0
Office of the Speaker	
Furniture & Equipment	R 0
Mayoral Committee	
Furniture & Equipment	R 0
Municipal Manager	
Furniture & Equipment	R 0
Financial Services	
Vehicles	R 0
Replacement of Executive Mayor Vehicle	R 0
Information Technology	
IT Equipment	R 0
Project Management & Public Works	
Provision for Replacement of old Plant Property and Equipment	R 140 000
Reception waiting area at Mayor's office	R 0
Convert own building to be energy efficient Phase 1	R 0
Make provision to convert garage at Main Building into new records area	R 0
New Satellite Fire Station Building in Viljoenskroon	R 0
New Satellite Fire Station Building in Villiers	R 0
Corporate Support Services	

Furniture & Equipment	R 0
Fire Services	
Furniture & Equipment	R 0
Vehicles (grass fire unit for the District unimoq)	R 0
Fire Engine for the District and rescue equipment for local municipalities	R 0
Hazzmat Unit	R 0
Disaster Management	
Furniture & Equipment	R 0
Vehicles	R 0
Equipment	R 0
Local Economic Development	
Furniture & Equipment	R 0
Environmental Health and Emergency Services	
Sampling Equipment for Environmental Health Practioners	R 20 000
TOTAL	R 160 000

Table S A 15

Investment particulars by type

The investment that the municipality hold in 202021 financial year is estimated to the amount of R51.4 million which is re-invested to back up the following commitments.

- (i) Postretirement benefits obligation.
- (ii) Long service awards.
- (iii) Provision for Leave Sold.
- (iv) Retention creditors.
- (v) Unspent conditional grants.
- (vi) Trade payables.
- (vii) Accruals.
- (viii) Provision for VAT.

PART 2.1

Municipal Managers Quality Certificate

Enquiries: Mrs. Moeketsi
Telephone: (016) 970 8625
E-mail address:mariam@feziledabi.gov.za

QUALITY CERTIFICATE

I, Ms. Molibeli Lindi, Municipal Manager of Fezile Dabi District Municipality hereby certify that the 2020/2021 Annual Budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under that Act, and that the Annual Budget and supporting documentation are consistent with the Integrated Development Plan of the municipality.

Print Name: _____
Municipal Manager of Fezile Dabi District Municipality (DC20)

Signature: _____

Date: _____

BUDGET POLICIES THAT ARE REVIEWED AND UPDATED 2020.

- (i) BUDGET REPORTING POLICY
- (ii) BUDGET VIREMENT POLICY(REVIEWED AND UPDATED AS PER CIRCULAR 8 mSCOA implementation)

mSCOA environment

mSCOA is a business reform and requires multi-dimensional budgeting and recording of transactions across the following seven segments:

- i. Project segment. The flow chart incorporate the virement principles explained above and provide guidance on how a virement should be applied in the mSCOA environment. Virement decisions should start with the project segment, if a virement needs to be done for a project, the municipality should consider whether it is a new or existing capital, operational or default project and based on the type of project, a virement is allowed or whether and adjustments budget is required.
- ii. Function segment. The next segment that should be considered in terms of the impact of the virement process is the function segment. If there is no change to the function segment, a virement may be done subject to the virement principles below.
- iii. Funding segment if there is no change to the funding segment, a virement may be done subject to the virement principles below.
- iv. Regional Segment If there are changes to the regional segment in the application of a virement, then a virement may not be done but an adjustments budget is required, because Council allocates the project and funding to a specific region. A virement may be done if it will not result in changes to the regional segment subject to the application of the virement principles below.
- v. Costing Segment Changes to the costing segment should not affect the application of a virement.
- vi. Item Segment: Expenditure if changes in expenditure are incurred in the capital or operational budget, the virement decision should start with the project segment. If a virement is allowed, it will be subject to the application of the virement principles below.

An example of a change taking place in the capital budget is when the nature of the project may change from “outsourced” to an “own account” project which will result in a different selection of accounts from expense accounts within the item classification for Construction Work-in-progress.

- vii. Item segment: Revenue if changes in revenue type change either in the Capital or Operational Budget. First start with the Project and apply the change to all the segments and should the Virement be allowed refer to The Virement Principals before applying the Virement.

When a municipality review its virement policy, it must consider the implications of possible mSCOA segment changes taking place because of the virement (the moving of budgetary allocations within a function or its sub-functions). If virement result in a mSCOA segment change, by adding a new project, changing the region or funding source, it is not allowed. Such a shifting of budgetary allocations may only be done through an adjustments budget and not through the application of a virement

- (iii) SUPPLY CHAIN MANAGEMENT POLICY

ANNUAL BUDGET 2017/18 OLD VERSION 2.8