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LOCAL MUNICIPALITY



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Mohokare Local Municipality

Draft Budget 2020/21 to 2022/23

Medium Term Revenue and Expenditure Framework

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Glossary

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

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

AFS – Annual Financial Statements

Budget – The financial plan of the Municipality

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

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

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

CFO – Chief Financial Officer

DoRA – Division of Revenue Act. Annual legislation that shows the total allocations made by national to provincial and local government.

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

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

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

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

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

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

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

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

NT – National Treasury

Net assets – Net assets are the residual interest in the assets of the entity after deducting all its liabilities. This means the net assets of the municipality equates to the “net wealth” of the municipality, after all assets were sold/recovered and all liabilities paid. Transactions which do not meet the definition of revenue or expenses, such as an increase in the values of Property, Plant and Equipment where there is no inflow or outflow of resources, are accounted for in net assets.

Operating expenditure – Spending on the day to day expense of the municipality such as salaries and wages.

Rates – Local Government tax based on the assessed value of a property. To determine the rates payable, the assessed ratable value of the property is multiplied by the predetermined rate.

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

SCM – Supply Chain Management

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

Strategic objectives – The main priorities of the Municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

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

Virement – A transfer of budget.

Virement Policy – The policy that sets out the rules of budget transfers. Virements are normally allowed within a vote. Transfers between votes must be agreed by Council through an adjustment budget.

mSCOA – Municipal Standard Chart of Accounts.

PART 1 – ANNUAL BUDGET

1.1 Mayor's report

See report attached

1.2 Resolutions

See council resolution attached

1.3 Executive Summary

Introduction

In assisting in the compilation of this MTREF, National Treasury MFMA Circulars No. 97, 98 and 99 were used where necessary.

Background

In the 2019 Medium Term Budget Policy Statement (MTBPS) tabled by the Minister of Finance on 30 October 2019, he stated that, he is tabling the 2019 MTBPS in a difficult global and domestic environment.

The global growth forecast for 2019 is the lowest since the 2008 financial crisis, weighed down by mounting trade tensions and political uncertainty. Economic activity in two engines of the world economy, namely China and India, is also slowing this year.

Policy makers have taken a number of steps to support growth, but there is a risk that these measures will create new vulnerabilities, as interest rates in advanced economies decline. About a quarter of government bonds in these countries have negative yields.

GDP growth forecast of 1.3 per cent in the 2017/18 budget was revised down to 0.7 per cent. The rate of recovery will be slow and at this time, it is anticipated that growth of 1.9 per cent may be reached by 2020. This was the economic outlook before the impact of the COVID 19 Crisis that has had an irreparable impact on the world economy and thus directly on the budgeting processes followed by the Municipality.

The National State of Disaster and subsequent lockdown comes amidst already dire macroeconomic conditions which have seen South Africa slump into a technical recession and downgraded to sub-investment grade ("junk" status) and worsening already high levels of unemployment.

The lockdown will likely have a devastating effect on economic activity as non-essential business are forced to shut down completely resulting in a reduction in overall economic output and job losses.

National Government, in conjunction with prominent private sector roleplayers, has introduced various forms of relief programmes to aid small businesses and employees alike during the period of the lockdown to compensate for a loss of income and wages, etc.

Municipalities will be impacted negatively due to a loss of revenue streams as businesses, households and communities reel from the economic fallout caused by COVID-19. They may also be required to expand their scope of basic services and free basic services to respond directly to the socio-economic impacts of the pandemic and prevent the transmission of communicable diseases.

In South Africa, economic growth has continued to stagnate and weaknesses in the world economy are likely to amplify our own challenges. These weaknesses include the impact of the COVID 19 virus on the world economy. The discussion paper termed the Economic transformation, inclusive growth, and competitiveness released by the National Treasury has proposed a number of economic reforms that might boost GDP growth over the medium and longer term, and support increased investment and job creation. These measures have been broadly agreed on within government. The next step is to implement the reforms urgently. Nevertheless, the economy has continued to weaken with the economic growth projected to grow at 1.2 per cent in the 2020/21 financial year, while long term estimates have fallen prompting government to review its outer year's estimates.

In addition to low growth, South Africa's biggest economic risk is Eskom. Ongoing problems with the utility's operations continue to disrupt the supply of electricity to households and businesses. Government has allocated significant resources to assist Eskom. With the immediate financial restraints lifted, the focus must be on operational problems and restructuring Eskom into three separate entities. Doing so will mark the beginning of a transition to a competitive, transparent and financially viable electricity sector.

South Africa's public finances deteriorated over the past decade; a trend that accelerated in recent years as low growth led to large revenue shortfalls. For 10 years, the country has run large budget deficits. This has put us deeply in debt, to the point where interest payments have begun crowding out social and economic spending programmes. This cannot be sustained.

Government proposed a range of expenditure reductions to restore the public finances to a sustainable position, some of which are likely to be painful. We owe it to future generations to ensure that we are good stewards of our country's resources and that they do not have to pay for faults in our decision-making.

In summary, the country's tax collection targets have not been met and this means that the fiscus has less funds available to allocate across the various spheres of government. Unfortunately, a similar decline cannot be measured in expenditure and this means that deficits are growing.

This economic challenges will continue to exert pressure on municipal revenue generation and collection levels hence a conservative approach is advised for revenue projections. Municipalities affected by the drought should also consider its impact on revenue generation. In addition, municipalities will have to improve their efforts to limit non-priority spending and to implement stringent cost-containment measures.

Budget Summary

The budget for the 2020/21 financial year is at a surplus of R92,56 million. A provision of R8,45 million was provided for the rendering of free basic services. Details on the calculation of this amount are available in the detailed discussion of the budget further on in this document.

Financial position and MTREF strategy

The financial position of Mohokare Local Municipality is such that the funding of the service delivery program depends on a steady flow of cash. The salary component should be curtailed and steps to be taken to ensure that there is not a waste of man-power anywhere.

The budget is based on an average payment level of 45%. This is based on the premise of an improvement in the management of debt. We are confident that we can reach this level as several debt management strategies (i.e. the handing over of debtors, installing of pre-paid water meters, etc.) has already commenced during the 2018/19 financial year. We believe that our credit control measures are not harsh, but measured, targeted and backed up by good data management.

Capital Budget

The capital budget for the 2020/21 financial year totals to R91,5 million of which R90,8 million is funded from National and Provincial grants and R750 thousand from internally generated funds (replacing and improving of movable assets e.g. vehicles, laptops etc.). Find below an extract of the projects to be funded from the 2020/21 capital budget:

Description of project	Funding	Capital budget
Roleleathunya: Construction of the sports ground (MIS:234965)	<i>MIG</i>	805,410.00
Rouxville/Roleleathunya: Installation of 5 high mast lights in Thokoza (MIS:265444)	<i>MIG</i>	212,845.94
Rouxville/Roleleathunya: Construction of paved 2km access road and related storm water - phase 2 (MIS:273182)	<i>MIG</i>	4,826,952.85
Zastron/Matlakeng: Upgrading of Waste Water Pump Stations and construction of new outfall sewer line (MIS:295628)	<i>MIG</i>	10,262,991.21
Zastron / Matlakeng: Specialized vehicle	<i>MIG</i>	894,900.00
Upgrading of the Zastron Water Treatment Works (WTW)	<i>WSIG</i>	2,217,739.30
Construction of the Abstraction Works on the Orange River & Equipping of x2 raw water pump stations with M&E	<i>WSIG</i>	17,782,260.70
Construction of a bulk raw water pipeline from the Caledon River to the Smithfield Water Treatment Works	<i>WSIG</i>	8,025,000.00
The Construction of 27km long, 300mm diameter pipeline from the orange river to Paisley dam close to Rouxville/roleleathunya. Construction of 2 booster pumpstations(Civil Works)	<i>RBIG</i>	25,000,000.00
Upgrading of the Rouxville/Roleleathunya water treatment works (WTW) (civil works) to a capacity of 3.2ml/day, construction of new 4.8 km long main rise from the WTW to the 3 existing reservoirs and upgrading o infrastructure for 5 existing boreholes.	<i>RBIG</i>	15,000,000.00
Rouxville P2 Electrifications	<i>INEP</i>	3,400,000.00
Zastron Electrification	<i>INEP</i>	850,000.00
Rouxville sub-station	<i>INEP</i>	1,600,000.00
		90,878,100.00

Operating Expenditure

Building on cost containment guidelines as set out in MFMA Circular 97 (31 July 2019) which are effective from 1 July 2019, government at all levels will need to identify opportunities to increase efficiency and reduce waste. At a national level, the budget will pay particular attention to reducing line items that are not critical to service delivery to reinforce cost containment. Municipalities are urged to implement the cost containment measures on the focus areas namely:

- use of consultants;
- vehicles used for political office bearers;
- no credit cards;
- travel and subsistence;
- domestic accommodation;
- advertising;
- conferences, meeting and study tours;
- excessive spending on furniture and equipment;
- limitation of amounts spent on tools of trade (not to exceed what is allowed by the Public Office Bearers Act);
- All unplanned overtime to be approved beforehand;
- communication;
- sponsorships;
- catering; and
- events costs

Enforcement of above cost containment measures:

The non-adherence to the provisions of the MCCR will be an act of financial misconduct as defined in section 171 and 172 of the MFMA and municipalities and municipal entities will have to implement the provisions of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

Municipalities must prioritise the provision of basic services such as electricity, water, sanitation and refuse removal in their MTREF budgets. Municipality may only budget for non-core functions if:

- The function is listed in Schedule 4B and 5B of the Constitution;
- The function is assigned to municipality in terms of national and provincial legislation;
- The municipality has prioritised the provision of basic services; and
- It does not jeopardise the financial viability of the municipality.

The budget for the 2020/21 financial year eliminates all non-priority spending and will be monitored closely to ensure that overspending is limited to the minimum.

Table 1.1 below, is an extract from Table A4 of the budget. The schedule indicates the relation between the various expenditure items as budgeted for.

Extract from Table A4 Budgeted Financial Performance (revenue and expenditure)

Table 1.1

Description	Current Year 2019/20		2020/21 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
R thousand					
Expenditure By Type					
Employee related costs	78,023	78,724	83,965	89,213	94,789
Remuneration of councillors	4,439	4,204	4,616	4,847	5,089
Debt impairment	23,825	23,825	25,016	26,267	27,580
Depreciation & asset impairment	25,691	25,691	24,407	25,627	26,909
Finance charges	6,058	6,014	8,075	8,479	8,903
Bulk purchases	28,294	28,294	28,471	30,748	33,208
Other materials	12,170	11,409	10,662	11,195	11,373
Contracted services	8,313	10,365	12,084	10,271	8,731
Other expenditure	28,276	25,418	20,606	21,421	22,288
Total Expenditure	215,090	213,945	217,902	228,069	238,870

The expenditure on salaries is set at 38.53% of the operating expenditure.

In relation to budgeted operating income from own generated funds (refer to table 1.2) which amounts to R111,723 million (excluding electricity), the relation of salary expense to operating income amounts to 75,1%. This indicates that income from own generated funds should be monitored closely to ensure that Mohokare Local Municipality is not reliant on equitable share to fund the salary bill.

Operating Revenue

Local government is in essence funded from three sources. Assessment rates, revenues from trading services and transfers from national government.

The following schedule sets out the various revenue components of Mohokare Local Municipality's operating budget.

Extract from Table A4 Budgeted Financial Performance (revenue and expenditure)*Table 1.2*

Description	Current Year 2019/20		2020/21 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
R thousand					
Revenue By Source					
Property rates	8,157	8,157	7,881	8,275	8,689
Service charges - electricity revenue	33,632	33,632	29,348	31,800	34,455
Service charges - water revenue	31,672	31,672	30,828	32,370	33,988
Service charges - sanitation revenue	10,161	10,161	9,401	9,872	10,365
Service charges - refuse revenue	6,313	6,313	5,387	5,656	5,939
Rental of facilities and equipment	1,013	1,013	650	683	717
Interest earned - external investments	954	954	450	450	450
Interest earned - outstanding debtors	9,269	9,269	6,500	6,500	6,500
Dividends received	10	10	10	10	10
Fines, penalties and forfeits	35,934	35,934	35,000	36,750	38,588
Transfers and subsidies	72,021	72,021	77,585	82,609	88,229
Other revenue	18,083	18,083	15,615	13,615	11,315
Total Revenue (excluding capital transfers and contributions)	227,219	227,219	218,655	228,590	239,244

National, Provincial and District priorities

The Municipality's budget must always be seen within the context of the policies and financial priorities of National and Provincial government. All spheres of Government are partners in meeting the service delivery challenges we face in Mohokare and the municipality cannot meet these challenges alone. South Africa has achieved considerable success in reaching the current level of macro-economic stability, but our own local economy is still plagued with high levels of unemployment and poverty.

The following table sets out the allocations to Mohokare Local Municipality as per the National Division of Revenue Act for the MTREF period:

Extract from table SA18 Transfers and grant receipts:*Table 1.3*

Description	Current Year 2019/20		2020/21 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
R thousand					
<u>Operating Transfers and Grants</u>					
National Government:	72,021	72,021	77,585	82,609	88,229
Local Government Equitable Share	68,586	68,586	73,785	79,609	85,029
Finance Management	2,435	2,435	2,800	3,000	3,200
EPWP Incentive	1,000	1,000	1,000		
Total Operating Transfers and Grants	72,021	72,021	77,585	82,609	88,229
<u>Capital Transfers and Grants</u>					
National Government:	77,991	77,991	85,923	70,107	52,479
Municipal Infrastructure Grant (MIG)	17,991	17,991	17,898	19,107	19,991
Regional Bulk Infrastructure	30,000	30,000	40,000	20,000	
Water Services Infrastructure Grant	30,000	30,000	28,025	31,000	32,488
Provincial Government:	2,211	2,211	5,850	4,321	5,200
Integrated National Electrification Programme	2,211	2,211	5,850	4,321	5,200
Other grant providers:	-	2,000	-	-	-
<i>Free State Provincial Government</i>		2,000			
Total Capital Transfers and Grants	80,202	82,202	91,773	74,428	57,679
TOTAL RECEIPTS OF TRANSFERS & GRANTS	152,223	154,223	169,358	157,037	145,908

Conclusion

The 2020/21 draft budget for Mohokare Local Municipality is the second budget to be prepared by the current Council.

All efforts have been made, including a successful consultative period, to ensure that this budget mitigates as far as possible the rate and tariff burden on our domestic and business customers and also allows for the necessary funds to be available to attain a funded budget for the 2020/21 period.

1.4 Annual Budget Tables

Find below a brief discussion of the annual tables as per the requirements of Municipal Budget and Reporting Regulations:

a) Table A1: Budgeted Summary

The surplus reported is brought on by the large amount of conditional capital grants allocated to the Municipality for the financial year. As the relating expenditure which are incurred using said recognised grants are capitalised as work-in-progress and the relating revenue is recognised in the statement of Financial Performance, the user of the financial information should not be under the impression that the amount is available to apply to other areas as the revenue recognised are to be used to pay the corresponding contractor/engineer in respect of the specific capital project.

b) Table A2: Budget Financial Performance (revenue & expenditure by functional classification)

As the main purpose of the Municipality is to deliver services to the consumers, the major portion of revenue is generated from trading services. Expenditure is budgeted for to focus on service delivery and limit non-priority spending to the absolute minimum. As reported above, the budgeted surplus correlates with the capital grant allocation of the Municipality for the financial year.

c) Table A3: Budget Financial Performance (revenue & expenditure by municipal vote)

The main contributor to municipal revenue is the Technical Services Department (also where the bulk of capital grant funding is being applied in order to maintain, renew, replace and construct service delivery related municipal assets). Finance also makes a significant contribution with items such as Property rates and taxes, VAT receivable as well as interest income that falls within the budget of the department. Included in the revenue budget of the Community Services Department are under more the revenue budgeted for to be received from Traffic Fines as well as the portion of capital grant funding to be applied to community related asset renewals, replacements and constructions.

Expenditure budgeted for correlates to the revenue budget with the main expenditures falling within the finance department where several of the operational functions of the municipality are housed.

Technical services again show a large budget as the bulk of service delivery are performed by the divisions said department.

d) Table A4: Budget Financial Performance (revenue & expenditure)

Refer to the discussions above.

e) Table A5: Budgeted Capital Expenditure by vote, functional classification and funding

95% of the total capital budget are being utilised in the Technical Services Department. The main area where conditional capital grants will be applied in the 2020/21 financial year is the water division, focussing mainly on bulk supply. The full breakdown of how the conditional grant funding are to be applied are set out on page 6 and 7 of this document.

f) Table A6: Budget Financial Position

Liquidity remains a concern as the low collection rate on trade receivables remains an issue. In order to ensure that the Municipality are able to meet its financial obligations as it falls due along with the repayment of old outstanding debt (trade and third party related), a close watch should be kept on the spending of the Municipality.

The increase in non-current assets are brought along by the budgeted Work in Progress to be completed during the financial year.

g) Table A7: Budget Cash Flow

The municipal cash flow is under severe pressure due to the amount of outstanding consumer debtors to be collected as well as the significant amount pertaining to outstanding creditors. Close monitoring of expenditure incurred during the 2020/21 financial year should be done to ensure that budgeted amounts are not overspent.

PART 2 – SUPPORTING DOCUMENTATION

2.1 Overview of 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.

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

The Mayor tabled the required IDP process plan and budget time schedule in line with the applicable legislation.

The community and other stakeholders were consulted during the review of Integrated Development Plan which informed this annual budget. Further consultation took place during April and May 2018. Plans are in place for Council to consider approval of the IDP and annual budget at least 30 days before the start of a new financial year, as required by the Municipal Finance Management Act.

2.2 Overview of alignment of annual budget with Integrated Development Plan

The municipality has improved in terms of aligning its integrated development plan; annual budget and service delivery & budget implementation plan. The integration has improved due to the mSCOA that was implemented on 1 July 2017.

2.3 Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the predetermined strategic objectives and priorities in accordance with legislative requirements and good business practices as informed by the National Framework for Managing Program Performance Information. The measurable performance objectives will be included in the service delivery and budget implementation plan when it is submitted to the Council for approval.

2.4 Overview of budget related policies

The budget related policies, as attached, formed the basis of the proposed budget. The salient points of the proposed budget that are that the budget must be cash-funded, tariff adjustments must be fair, employee related costs must be all-inclusive and the conditions of all provisions must be met with cash where required.

2.5 Overview of budget assumptions

Budgets are prepared in an environment of uncertainty and assumptions need to be made about internal and external factors that could impact on the budget during the course of the financial year. In compiling the 2020-21 Annual Budget, the following key issues and assumptions were taken into consideration and modelled into the budget planning process:

- (a) Economic climate and poverty levels within the municipality will remain the same / constant for major part of the financial year given the limited economic activities with the vicinity;
- (b) Cash flow projections will be strictly maintained to ensure the municipality's ability to meet its financial obligations;
- (c) The budget is prepared in the assumption that no allocations as per 2018 Annual Division of Revenue Act will be withheld / offset / paid back to the National Revenue Fund.
- (d) Operational costs will be maintained at current levels or reduced as cost containment measures and where there is material decrease in revenue collection rate, expenditure will have to be reduced at the same proportion;
- (e) The impact of the national disaster declared by the President in relation to COVID 19. This impact has been taken into account for as far as it falls within the mandate of the Municipality as set out in the guidelines of the attached MFMA circular warning that the Municipality should not place itself under further financial strain by budgeting for items that are not within the mandate of the Municipality as per the constitution.

2.6 Overview of budget funding

Past performance

During the past three years, Mohokare Local Municipality improved their audit opinion from a disclaimer audit opinion in 2016/17 to a qualified audit opinion in 2017/18 and 2018/19.

Mohokare Local Municipality has experienced severe cash flow problems during the past years due to the withholding of a total of R24 million from equitable share by National Treasury as a result the roll-over of a conditional grant from 2018/19 which were disallowed. This impacted the cash flow of Mohokare Local Municipality negatively to such an extent that Mohokare Local Municipality had to make use of an overdraft facility from the bank to be able to meet the basic service delivery needs in the previous financial year.

This in turn requires Mohokare Local Municipality to cut all non-priority spending to the absolute minimum during the 2020/21 financial period as well as the two MTREF out-years to be able to repay long outstanding creditors.

Budget summary

Due to the impact of the above mentioned factors Mohokare Local Municipality's budget for the 2020/21 financial year has to be monitored closely to ensure that over expenditure does not occur.

Council is requested to assist the municipality by setting the example of limiting unnecessary spending.

Economically Mohokare Local Municipality remains weak. Fundamentally we are an agriculture and tourist region near the Lesotho border. Funds has been availed for the LED Unit to maximize the potential of the municipality.

Cash flow

For the past years, Mohokare was handicapped with a poor cash-flow. This has resulted in poor maintenance of especially the infrastructure. The pot-holes in various towns are a matter of concern.

The cash flow of Mohokare Local Municipality should be monitored closely in the 2020/21 financial year to ensure that the municipality is able to meet its obligations and is able to pay outstanding creditors (from the previous financial year as well as for the current financial year) as they fall due.

Capital Budget

The capital budget for the 2020/21 financial year totals to R91,628 million of which R90,878 million is funded from National and Provincial grants and R 750 thousand from internally generated funds.

Operating Expenditure

Employee related costs

The budgeted salary increase of 6% is in line with the National Treasury prescriptions as well as the increase set by the bargaining council agreement which is 6.%.

In relation to budgeted operating income from own generated funds (refer to table 1.2) which amounts to R111,7 million (excluding electricity), the relation of salary expense to operating income amounts to 75,1%. This indicates that income from own generated funds should be monitored closely to ensure that Mohokare Local Municipality is not reliant on equitable share to fund the salary bill.

The following items are under more included in the line item “other expenditure”:

- Insurance
- Uniforms and protective clothing
- Subsistence and travelling
- Legal costs
- License and internet fees
- Printing and stationery
- Telephone costs
- Advertising costs
- Water chemicals
- Training expenses
- Electricity expenses
- Fuel and Oil expenses

Free Basic Services

The budget for the 2020/21 financial year contains a provision of R8,45 million for free basic services. These services are off-set from the equitable share.

The calculation of the amount provided for free basic services was determined by taking the following into account:

- The proposed tariffs regarding sewerage, refuse and water;
- The current year tariff for electricity (as confirmed with Eskom’s Free Basic Electricity Department) increased by the NERSA proposed tariff increase;
- The amount of 6kl of free water per indigent household per month;
- The amount of 50kWh of free electricity per indigent household per month;
- The budgeted amount of 1,500 indigent households for the 2020/21 financial

Operating Revenue

Local government is in essence funded from three sources: assessment rates, revenues from trading services (the majority is water in the case of Mohokare Local Municipality) and transfers from National Government.

The percentage of revenue from the various sources are as follows:

Source of income	Amount	Percentage
Self-generated income (incl. electricity)	141,070	45.44%
Operating grants	77,585	24.99%
Capital grants	91,773	29.56%
TOTAL	310,428	100.00%

The municipality is still greatly reliant on grants as set out above.

Tariff implications of the annual budget

Council has taken into consideration the guidelines of the Municipal Budget Circular for the 2020/21 MTREF when preparing the budget. National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges at levels that reflect an appropriate balance between the interest of poor households, other customers and ensuring the financial sustainability of the municipality. For this reason, a proposed increase in line with inflation (3 - 6%) are recommended.

The following calculations was performed to support the proposed tariff increases as per the attached draft tariff list.

Property Rates

The calculation for property rates was done with the following taken into account:

- A new valuation roll was implemented on 01 July 2015.
- We performed a zero based calculation in terms of the budgeted revenue to be received in respect of property rates
- We used the new valuation roll together with the proposed tariffs for each of the stakeholder groups and determined the amount of revenue to be budgeted for the 2020/21 as well as the MTREF outer-years.
- Property rate rebates (per the historic trend as identified by inspecting previous financial years) was adjusted to be in line with the property rates as budgeted.

Water, sanitation and refuse removal rates

The increase in the tariffs of water, sanitation and refuse removal are explained below:

The following approach was used in all calculations.

- The figures per the audited 2018/19 AFS has been used as a base for the cost per unit calculations
- We determined the total cost allocated to each of the three units (water, refuse and sanitation)
- We obtained the number of households in Mohokare Local Municipality

Other operating revenue considerations

- Electricity charges has been increased in accordance with the NERSA guidelines
- Interest on arrears has been included in the 2020/21 budget as well as for the MTREF outer years.
- The budget for traffic fines was increased based on the actual fines issued during the 2018/19 financial year (Traffic fines to the value of R36,8 million was issued)
- All figures relating to the outer years was reviewed to ensure that it is in line with the 2020/21 budgeted projections.

2.7 Expenditure on allocations and grant programs

It is the intention of the municipality to spend all of its grant allocations within the current year according to the conditions of such allocations / grants. Performance review will be done during the mid-year budget assessment and where under spending is foreseeable; the necessary procedure will be followed to ensure that spending is done 100%.

DORA GRANTS ALLOCATIONS FOR MOHOKARE MUNICIPALITY FOR 2020/21 MTREF

Description	Allocated amount
R thousand	Budget Year 2020/21
Operating Transfers and Grants	
National Government:	77,585
Local Government Equitable Share	73,785
Finance Management	2,800
EPWP Incentive	1,000
Total Operating Transfers and Grants	77,585
Capital Transfers and Grants	
Municipal Infrastructure Grant (MIG)	17,898
Regional Bulk Infrastructure	40,000
Water Services Infrastructure Grant	28,025
Integrated National Electrification Programme	5,850
Total Capital Transfers and Grants	91,773
TOTAL RECEIPTS OF TRANSFERS & GRANTS	169,358

All the grants allocated are conditional i.e. have to meet an obligation except Equitable Share grant which is unconditional.

2.8 Allocations and grants made by the municipality

The 2020/21 MTREF doesn't have any allocation and grants made by the municipality.

2.9 Councillor and board member allowances and employee benefits

The Municipal System Act, section 66(1) requires the Municipal Manager to approve a staff establishment for the municipality within a policy framework determined by the municipal council and subject to any applicable legislation. The act further requires the Municipal Manager to provide a job description for each post on the staff establishment and to attach to those posts the remuneration and other conditions of service as may be determined in accordance with any applicable labour legislation.

(a) Employee costs will increase from **R 78,724 million** (2019-20 adjustment budget) to **R 83,965 million** that are in line with the prescriptions of the Collective Agreement that are in place.

(b) The Council Remuneration of **R 4,616 million** for 20/21 was budgeted taking into consideration **the regulations of the Public Office Bearers Act and prescriptions as per the MFMA Circular guidance.**

2.10 Monthly targets for revenue, expenditure and cash flow

The municipality has not over the years been in a position to bill all its budgeted revenue.

This meant that the municipality had to prioritise its spending as the spending is informed by availability of cash. Therefore, the spending on operational expenditure has been marginally less than anticipated due to cash flow constraints. The municipality still has to take into consideration the payments agreements it has entered into with its outstanding creditors especially for third parties (SALA Pension Fund, Municipal Workers Provident Fund (MWPF), The Auditor General of South Africa, The South African Local Government Association (SALGA) and several other smaller outstanding creditors.

2.11 Annual budgets and service delivery and budget implementation plans – internal departments

The departmental service delivery implementation plans are at a draft stage and will be completed after adoption of the annual budget in order to form the high level of the municipal service delivery and budget implementation plan to be approved by the mayor, 28 days after the annual budget has been approved.

2.12 Contracts having future budgetary implications

The municipality does not intend to enter into contracts that have future budgetary implications. In terms of the municipality's Supply Chain Management Policy, no contracts are awarded beyond the medium-term revenue and expenditure framework (three years). In ensuring adherence to this contractual time frame limitation, all reports submitted to either the Bid Evaluation or Adjudication committees must obtain formal financial comments from the Budget and Treasury Office.

2.13 Capital expenditure details

The total capital expenditure budget of the municipality is **R 90 878 100**.

Water Services Infrastructure Grant is allocated at **R 28 025 000** and the Regional Bulk Infrastructure Grant is allocated at **R 40 000 000**. Municipality is also allocated **R1 000 000** in relation to Expanded Public Works Programme.

The other balance on the Municipal Infrastructure Grant amounting to **R 17 898 000** will be funding the Project Management Unit related costs. Below are planned projects for the coming financial year:

Project Management Unit operational budget (5% of allocation): **R 885 400**

Description of project	Funding	Capital budget
Roleleathunya: Construction of the sports ground (MIS:234965)	MIG	805,410.00
Rouxville/Roleleathunya: Installation of 5 high mast lights in Thokoza (MIS:265444)	MIG	212,845.94
Rouxville/Roleleathunya: Construction of paved 2km access road and related storm water - phase 2 (MIS:273182)	MIG	4,826,952.85
Zastron/Matlakeng: Upgrading of Waste Water Pump Stations and construction of new outfall sewer line (MIS:295628)	MIG	10,262,991.21
Zastron / Matlakeng: Specialized vehicle	MIG	894,900.00
Upgrading of the Zastron Water Treatment Works (WTW)	WSIG	2,217,739.30
Construction of the Abstraction Works on the Orange River & Equipping of x2 raw water pump stations with M&E	WSIG	17,782,260.70

Construction of a bulk raw water pipeline from the Caledon River to the Smithfield Water Treatment Works	<i>WSIG</i>	8,025,000.00
The Construction of 27km long, 300mm diameter pipeline from the orange river to Paisley dam close to Rouxville/roleleathunya. Construction of 2 booster pumpstations(Civil Works)	<i>RBIG</i>	25,000,000.00
Upgrading of the Rouxville/Roleleathunya water treatment works (WTW) (civil works) to a capacity of 3.2ml/day, construction of new 4..8 km long main rise from the WTW to the 3 existing reservoirs and upgrading o infrastructure for 5 existing boreholes.	<i>RBIG</i>	15,000,000.00
Rouxville P2 Electrifications	<i>INEP</i>	3,400,000.00
Zastron Electrification	<i>INEP</i>	850,000.00
Rouxville sub-station	<i>INEP</i>	1,600,000.00

90,878,100.00

2.14 Legislation compliance

The Municipality have experienced difficulty in reporting to National Treasury within the legislated timeframes. These difficulties were mainly brought on by the conversion to mSCOA at 1 July 2017, which caused a backlog on the municipality's financial system. All challenges were reported to both National and Provincial Treasury.

2.15 Other supporting documents

The documents mentioned below are attached as annexures to the annual budget:

Budget related Policies

The detailed policies themselves are included in this section of the budget documentation.

The following policies are included in the folder "Budget Policies"

Budget-related policies:

1. Indigent Policy
2. Rates Policy
3. Credit Control Policy

4. Tariff Policy
5. Water estimates Policy
6. Unallocated deposits Policy
7. Debt write-off Policy

Other Finance Policies:

8. Banking and Investment Policy
9. Budget Policy
10. Virement Policy

GRAP Related Policies:

11. Supply Chain Management Policy

Rates and Tariffs Schedule

The 2020/21 tariff list is included.

Other supporting documents

MFMA Budget Circulars:

- MFMA Budget Circular No 97
- MFMA Budget Circular No 98
- MFMA Budget Circular No 99

Division of Revenue Act Bill 2020/21

2.16 Municipal Manager's Quality Certificate

The Municipal Manager's quality certificate as required by the Municipal Budget and Reporting Regulations is attached.