



**MOHOKARE**  
LOCAL MUNICIPALITY



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# **Mohokare Local Municipality**

## **Final Budget 2021/22 to 2023/24**

### **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. 107 and 108 were used where necessary.

#### **Background**

The South African economy contracted by an estimated 7.2 per cent in 2020 compared with the 7.8 per cent contraction projected in the 2020 Medium Term Budget Policy Statement (MTBPS). The revised estimate results from easing lockdown restrictions in the third quarter and a faster-than-expected resumption of global growth, especially in China. The National Treasury projects real economic growth of 3.3 per cent in 2021, following an estimated contraction of 7.2 per cent in 2020. Real GDP growth is expected to moderate to 1.9 per cent in 2022 and 2023.

The outlook remains highly uncertain, and the economic effects of the pandemic are far-reaching. There were 1.7 million fewer jobs by the third quarter of 2020 compared to the same period in 2019. Rising unemployment and income losses have entrenched existing inequalities. GDP is only expected to recover to pre-pandemic levels in late 2023. High-frequency data for the third quarter, such as the volume of electricity distributed, mining and manufacturing output, business confidence and the ABSA Purchasing Managers' Index (PMI) shows evidence of a limited economic rebound.

Although growth rates are likely to improve quickly as restrictions are removed, based on current projections, the output is only expected to return to pre-pandemic levels in 2024. Given South Africa's structural constraints, its recovery will be slower than many of its developing-country peers. Industrial sectors (which include mining, manufacturing, construction and utilities) lagged substantially, undermined by structural constraints including unreliable electricity supply and weak public investment that preceded the pandemic. Over the next several years, the country requires the implementation of long-standing structural reforms to sustainably move to a higher growth path.

These economic challenges will continue to exert pressure on municipal revenue generation and collection levels; hence a conservative approach is advised for revenue projections.

Over the next three years, municipalities will have to adjust to significant changes in expenditure plans while improving accountability. The 2021 Budget protects transfers that focus on infrastructure, service delivery and COVID-19 spending while reducing those spent less effectively. The 2021 Budget includes funding for initiatives to improve municipal revenue collection and support financially distressed municipalities.

Transfers to local government over the medium-term account for **9.4 per cent** of nationally raised funds after providing for debt-service costs, the contingency reserve and provisional allocations. Local government's share of revenue has risen in relative terms because reductions to the public-service wage bill affect only national and provincial government. Local government transfers grow by an annual average of 5.2 per cent over the MTEF; the equitable share declines by 4.4 per cent and conditional grants grow by 7.3 per cent. As part of government's fiscal consolidation policies over the medium term, transfers to local government are reduced by R19.4 billion, including R14.7 billion from the local government equitable share, R2.7 billion from the general fuel levy and R2 billion in direct conditional grants.

The 2020/21 municipal financial year represents the last year of the current municipal councils' electoral term. Therefore, the next municipal election to usher in new councils is expected to take place between August and November 2021 in terms of the Section 24 (2) of the Municipal Structures Act, 2000 (Act No. 32 of 2000) (MSA).

It is acknowledged that the period within which the coming election's date is expected takes place after the start of a new financial year. This particular scenario poses a latent challenge in so far as adherence to legislated timeframes with regard to the adoption of the 5-year Integrated Development Plan (IDP) and the subsequent implementation.

Given the fact that the IDP and budget would need to be reviewed and adopted by 30 June 2021, the current council has an obligation to ensure that these stipulations are complied with. In this regard, the current council will be expected to continue reviewing the IDP and ensuring that it is adopted within the legislated timeframe.

Section 25 (3) of the MSA does allow the municipal council to adopt the IDP of the preceding council. However, should the incoming councils be unhappy with the priorities set out by the current council, in this case, municipal councils are advised to consider the existing adopted IDP and resolve to initiate or not to initiate an amendment procedure as guided by the MSA and the Municipal Performance and Planning Regulations (2001).

The Department of Cooperative Governance (DCoG), through the Chief Directorate: Development Planning, is rolling out the revised IDP guidelines to municipalities. These

guidelines are aimed to, amongst others, guide municipalities with regards to the adoption of IDPs during an election year.

### **Budget Summary**

The budget for the 2021/22 financial year is at a surplus of R81,3 million. A provision of R8,85 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 2021/22 financial year totals to R81,9 million of which R77,4 million is funded from National and Provincial grants and R4,5 million 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 2021/22 capital budget:

<b>Description of project</b>	<b>Funding</b>	<b>Capital budget</b>
Roleleathunya: Construction of the sports ground (MIS:234965)	<i>MIG</i>	859,815.00
Rouxville/Roleleathunya: Construction of paved 2km access road and related storm water - phase 2 (MIS:378096)	<i>MIG</i>	7,596,877.29
Zastron/Matlakeng: Upgrading of Waste Water Pump Stations and construction of new outfall sewer line (MIS:295628)	<i>MIG</i>	9,375,957.71
Installation of pre-paid water meters in Zastron	<i>WSIG</i>	4,048,732.32
Smithfield / Mofulatshepe: Upgrading of the outfall sewer	<i>WSIG</i>	9,661,537.55
Constructon of the abstraction works in Rouxville	<i>WSIG</i>	16,054,743.73
Upgrading of the Zastron Water Treatment Works (WTW)	<i>WSIG</i>	1,234,986.40
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>	20,000,000.00
Construction of a substation in Rouxville	<i>INEP</i>	3,127,000.00
Zastron Phase 2 - Electrification of 300 Households	<i>INEP</i>	2,717,500.00
Rouxville Phase 2 – Electrification of 300 Households	<i>INEP</i>	2,717,500.00



## 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 2021/22 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 2020/21		2021/22 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
<b>R thousand</b>					
<b>Expenditure By Type</b>					
Employee related costs	83 965	83 057	87 729	92 116	96 721
Remuneration of councillors	4 616	4 616	4 893	5 138	5 395
Debt impairment	25 016	35 016	35 016	36 767	38 605
Depreciation & asset impairment	24 407	24 407	24 888	26 132	27 439
Finance charges	8 075	8 696	9 123	9 580	10 059
Bulk purchases	28 471	28 471	28 522	29 948	31 446
Other materials	10 662	9 762	7 932	8 329	8 745
Contracted services	12 084	7 847	9 608	10 096	10 451
Other expenditure	20 606	28 446	22 881	24 025	25 226
<b>Total Expenditure</b>	<b>217 902</b>	<b>230 318</b>	<b>230 593</b>	<b>242 130</b>	<b>254 087</b>

The expenditure on salaries is set at 38% of the operating expenditure.

In relation to budgeted operating income from own generated funds (refer to table 1.2) which amounts to R122,003 million (excluding electricity), the relation of salary expense to operating income amounts to 71,9%. 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 2020/21		2021/22 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
<b>R thousand</b>					
<b>Revenue By Source</b>					
Property rates	7 881	7 881	9 680	10 164	10 672
Service charges - electricity revenue	29 348	29 348	30 780	32 319	33 935
Service charges - water revenue	30 828	30 828	42 492	44 616	46 847
Service charges - sanitation revenue	9 401	9 401	9 332	9 798	10 288
Service charges - refuse revenue	5 387	5 387	5 184	5 443	5 716
Rental of facilities and equipment	650	650	570	599	628
Interest earned - external investments	450	450	450	473	496
Interest earned - outstanding debtors	6 500	6 500	6 500	6 825	7 166
Dividends received	10	5	10	10	10
Fines, penalties and forfeits	35 000	35 000	35 000	36 750	38 588
Transfers and subsidies	77 585	89 452	80 762	84 272	83 887
Other revenue	15 615	15 615	12 785	13 424	14 096
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>218 655</b>	<b>230 517</b>	<b>233 544</b>	<b>244 693</b>	<b>252 329</b>

**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 2020/21		2021/22 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
<b>R thousand</b>					
<b><u>Operating Transfers and Grants</u></b>					
National Government:					
Local Government Equitable Share	73 785	85 652	76 781	81 272	80 887
Finance Management	2 800	2 800	2 850	3 000	3 000
EPWP Incentive	1 000	1 000	1 131	–	–
<b>Total Operating Transfers and Grants</b>	<b>77 585</b>	<b>89 452</b>	<b>80 762</b>	<b>84 272</b>	<b>83 887</b>
<b><u>Capital Transfers and Grants</u></b>					
<b>National Government:</b>	<b>85 923</b>	<b>85 703</b>	<b>69 788</b>	<b>52 079</b>	<b>43 610</b>
Municipal Infrastructure Grant	17 898	17 678	18 788	19 991	20 710
Regional Bulk Infrastructure	40 000	40 000	20 000	–	–
Water Services Infrastructure Grant	28 025	28 025	31 000	32 088	22 900
<b>Provincial Government:</b>	<b>5 850</b>	<b>5 850</b>	<b>8 562</b>	<b>5 500</b>	<b>5 500</b>
Integrated National Electrification Programme	5 850	5 850	8 562	5 500	5 500
<b>Other grant providers:</b>	<b>–</b>	<b>1 000</b>	<b>–</b>	<b>–</b>	<b>–</b>
CoGTA Provincial Government	–	1 000	–	–	–
<b>Total Capital Transfers and Grants</b>	<b>91 773</b>	<b>92 553</b>	<b>78 350</b>	<b>57 579</b>	<b>49 110</b>
<b>TOTAL RECEIPTS OF TRANSFERS &amp; GRANTS</b>	<b>169 358</b>	<b>182 005</b>	<b>159 112</b>	<b>141 851</b>	<b>132 997</b>

**Conclusion**

The 2021/22 budget for Mohokare Local Municipality is the last 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 2021/22 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 2021/22 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 2021/22 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 2020 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 will take place during April and May 2021. 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 2021-22 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 2021 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 has maintained their audit opinion to be a qualified audit opinion 2017/18 and 2018/19. The municipality's audit opinion for 2019/20 financial year is still a qualified audit opinion with lesser paragraphs.

Mohokare Local Municipality has experienced severe cash flow problems during the past years due to the withholding of a total of R20,8 million from equitable share by National Treasury as a result the roll-over of a conditional grant from 2019/20 which were disallowed. This impacted the cash flow of Mohokare Local Municipality negatively.



This in turn requires Mohokare Local Municipality to cut all non-priority spending to the absolute minimum during the 2021/22 financial period as well as the two MTREF outer-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 2021/22 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 2021/22 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 2021/22 financial year totals to R81,887 million of which R77,394 million is funded from National and Provincial grants and R4,493 million from internally generated funds.

### **Operating Expenditure**

#### *Employee related costs*

The budgeted salary increase of 6% is in line with the National Treasury prescriptions.

In relation to budgeted operating income from own generated funds (refer to table 1.2) which amounts to R122 million (excluding electricity), the relation of salary expense to operating income amounts to 71,9%. 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 2021/22 financial year contains a provision of R8,85 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 2021/22 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:

<b>Source of income</b>	<b>Amount</b>	<b>Percentage</b>
Self-generated income (incl. electricity)	152 782	48.99%
Operating grants	80 762	25.89%
Capital grants	78 350	25.12%
<b>TOTAL</b>	<b>311 894</b>	<b>100.00%</b>

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 2021/22 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 2021/22 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 2019/20 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 2021/22 budget as well as for the MTREF outer years.
- All figures relating to the outer years was reviewed to ensure that it is in line with the 2021/22 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 2021/22 MTREF**

Description	Allocated amount
<b>R thousand</b>	Budget Year 2021/22
<b><u>Operating Transfers and Grants</u></b>	
National Government	
Local Government Equitable Share	76 781
Finance Management	2 850
EPWP Incentive	1 131
<b>Total Operating Transfers and Grants</b>	<b>80 762</b>
<b><u>Capital Transfers and Grants</u></b>	
<b>National Government:</b>	
Municipal Infrastructure Grant	18 788
Regional Bulk Infrastructure	20 000
Water Services Infrastructure Grant	31 000
Integrated National Electrification Programme	8 562
<b>Total Capital Transfers and Grants</b>	<b>78 350</b>
<b>TOTAL RECEIPTS OF TRANSFERS &amp; GRANTS</b>	<b>159 112</b>

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 2021/22 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 83,057 million** (2020-21 adjustment budget) to **R 87,729 million** that are in line with the prescriptions of the Collective Agreement that are in place.

(b) The Council Remuneration of **R 4,893 million** for 21/22 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 88 887 150**.

Water Services Infrastructure Grant is allocated at **R 31 000 000** and the Regional Bulk Infrastructure Grant is allocated at **R 20 000 000**. Municipality is also allocated **R1 131 000** in relation to Expanded Public Works Programme.

The other balance on the Municipal Infrastructure Grant amounting to **R 18 788 000** 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 955 350**

<b>Description of project</b>	<b>Funding</b>	<b>Capital budget</b>
Roleleathunya: Construction of the sports ground (MIS:234965)	<i>MIG</i>	859,815.00
Rouxville/Roleleathunya: Construction of paved 2km access road and related storm water - phase 2 (MIS:378096)	<i>MIG</i>	7,596,877.29
Zastron/Matlakeng: Upgrading of Waste Water Pump Stations and construction of new outfall sewer line (MIS:295628)	<i>MIG</i>	9,375,957.71
Installation of pre-paid water meters in Zastron	<i>WSIG</i>	4,048,732.32
Smithfield / Mofulatshepe: Upgrading of the outfall sewer	<i>WSIG</i>	9,661,537.55
Constructon of the abstraction works in Rouxville	<i>WSIG</i>	16,054,743.73
Upgrading of the Zastron Water Treatment Works (WTW)	<i>WSIG</i>	1,234,986.40

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>	20,000,000.00
Construction of a substation in Rouxville	<i>INEP</i>	3,127,000.00
Zastron Phase 2 - Electrification of 300 Households	<i>INEP</i>	2,717,500.00
Rouxville Phase 2 – Electrification of 300 Households	<i>INEP</i>	2,717,500.00

## 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 National Lockdown during 2020 due to COVID, 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
11. Unauthorized, Irregular, Fruitless and Wasteful Expenditure Policy
12. Travel and Subsistence Policy
13. Cost containment Policy
14. SIPDM Policy

GRAP Related Policies:

15. Accounting Policy
16. Asset Management Policy
17. Inventory Management Policy
18. Supply Chain Management Policy

### **Rates and Tariffs Schedule**

The 2021/22 tariff list is included.

### **Other supporting documents**

MFMA Budget Circulars:

- MFMA Budget Circular No 107
- MFMA Budget Circular No 108

Division of Revenue Act Bill 2021/22

### **2.16 Municipal Manager's Quality Certificate**

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