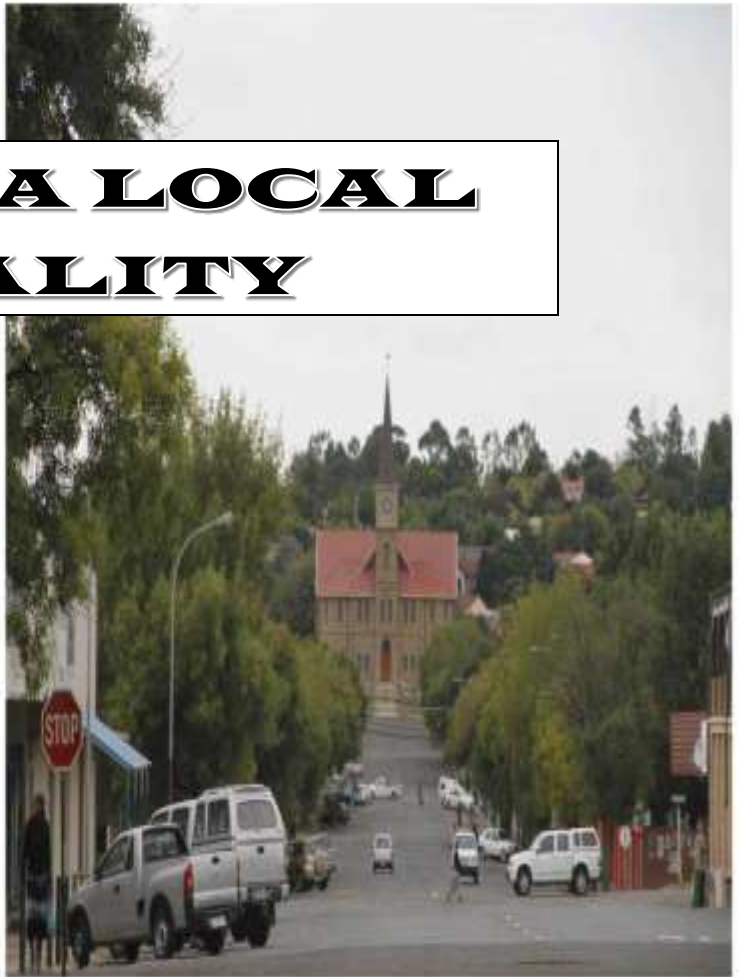




NKETOANA LOCAL MUNICIPALITY



FINAL ANNUAL BUDGET OF

NKETOANA LOCAL MUNICIPALITY

2019/20 TO 2021/22
MEDIUM TERM REVENUE AND EXPENDITURE
FORECASTS

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- Finance department
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Abbreviations and Acronyms

| | | | |
|--------|---|-------|---|
| AMR | Automated Meter Reading | MFMG | Municipal Financial Management Grant |
| ASGISA | Accelerated and Shared Growth Initiative | MFMA | Municipal Financial Management Act |
| BPC | Budget Planning Committee | MIG | Municipal Infrastructure Grant |
| CFO | Chief Financial Officer | MM | Municipal Manager |
| CPI | Consumer Price Index | MMC | Member of Mayoral Committee |
| DBSA | Development Bank of South Africa | MPRA | Municipal Properties Rates Act |
| DoRA | Division of Revenue Act | MSA | Municipal Systems Act |
| DWA | Department of Water Affairs | MSIG | Municipal Systems Improvement Grant |
| EPIP | Environmental Protection and Infrastructure Programme | MTEF | Medium-term Expenditure Framework |
| EPWP | Expanded Public Works Programme | MTREF | Medium-term Revenue and Expenditure Framework |
| FBS | Free basic services | NERSA | National Electricity Regulator South Africa |
| GDP | Gross domestic product | NGO | Non-Governmental organisations |
| GFS | Government Financial Statistics | NKPIs | National Key Performance Indicators |
| GRAP | General Recognised Accounting Practice | OP | Operational Plan |
| HR | Human Resources | PMS | Performance Management System |
| IDP | Integrated Development Strategy | PPE | Property Plant and Equipment |
| IT | Information Technology | RBIG | Restructuring Bulk Grant |
| kℓ | kilolitre | SALGA | South African Local Government Association |
| Km | kilometre | SDBIP | Service Delivery Budget Implementation Plan |
| KPA | Key Performance Area | SMME | Small Micro and Medium Enterprises |
| KPI | Key Performance Indicator | | |
| KWh | kilowatt | | |
| ℓ | Litre | | |
| LED | Local Economic Development | | |
| MEC | Member of the Executive Committee | | |

Part 1 – Annual Budget

1.1 Mayor's Report

BUDGET SPEECH DELIVERED BY THE MAYOR OF NKETOANA LOCAL MUNICIPALITY HONOURABLE MADITSWAKO TERESIA MOKOENA DURING THE ADOPTION OF BUDGET AND IDP COUNCIL HELD AT NKETOANA LOCAL MUNICIPALITY COUNCIL CHAMBER ON THE 6TH OF JUNE 2019.

Honorable Speaker, Cllr KA Mokoena

Chief Whip, Cllr PM Mauled

Members of the Executive Committee

Leadership of the Political Parties

Management and Staff members

Community leaders

Distinguished guests

People of Nketoana Local Municipality

1. INTRODUCTION

I have the honor to present the 2019/20 Budget speech of Nketoana Local Municipality to everyone before me.

Honorable Speaker, I do so in a spirit of frankness, both about our challenges as a Municipality and the opportunities to turn our Municipality into a direction of hope, confidence and a better life for all.

The performance of Nketoana is one of the key barometers for measuring the development and growth prospects not only for the people of Nketoana, but also for the province as a whole and logically the country at large.

It is this recognition about the importance of our performance that has informed how we have structured our priorities and the budget for the Mid-Term Expenditure Framework and the Annual Budget for 2019/20 Financial Year.

Honorable Speaker, we are gathered here today, to table the 2019/20 Annual Budget in compliance with the requirements of the Municipal Finance Management Act, 56 of 2003. This 2019/20 budget was prepared under challenging circumstances as it took a lot of effort to consolidate a budget with limited resources and a lot of needs. It is our intention to have this budget approved today 31 May 2019.

The Integrated Development Plan (IDP) is the municipality's 5-year plan which is reviewed annually. Accordingly we have done the review for 2019/20 financial year and it is part of the agenda for this meeting.

Honorable Speaker, Nketoana Local Municipality has identified a number of Key IDP Interventions through public consultations and various internal robust deliberations which represent the programs and projects aimed at improving the quality of life to the people of Nketoana. This includes, amongst others, advancing the provision of services to new extensions, attending to the water debacle within the Nketoana Jurisdiction, advancing the site allocation program which seeks to improve the settlement debacle of our people, improvement on the waste removal in pursuit of a healthy environment, attending to our road issues including but not limited to resealing of old roads and installation of speed bumps to ensure a safer community, upgrading of the aged infrastructure to ensure adequate general service delivery and ultimately advancing youth empowerment through academic and entrepreneurial opportunities; My primary desire is to continuously improve the audit opinion of the municipality in line with the improvement of service delivery to our people.

Through the audit action plan document formulated with the assistance and monitoring of the provincial and national treasury, Council has taken several bold decisions that will assist us to ensure that our actions are geared towards improving the lives of many of our poor people, young and old, employed and unemployed.

2019/2020 BUDGET:

Honorable Speaker, in preparing this budget, the input of all communities and stakeholders in Nketoana were taken into account as required by chapter 5 of the local government Municipal Systems Act. Strategic alignment of Nketoana's IDP with National Development Plan, provincial strategic objectives as well as the District vision guided us in the allocation of our available resources to achieve our goals in reducing poverty, unemployment and inequality within our region.

All of us want jobs, thriving businesses, engaged professionals, active youth, narrowing inequality, and reduction in poverty. In this regard, Nketoana Local Municipality will receive a conditional grant amounting to R1 million through the Division of Revenue Act from the Department of Public Works to create sustainable work opportunities for people in our region.

Through the constant hard work, commitment and dedication of our finance team led by our young, energetic and driven CFO, Nketoana Local Municipality has thus received a qualified audit opinion in the 2017/2018 financial year. As most would be aware, we previously had a disclaimer of an audit opinion simply meaning no reliance at all could be put on our financial statements by external stakeholders, now the qualification status simply means reliance when making decisions can be put by external stakeholders. Now MM and CFO, we deeply thank you and your teams for your hard work. It must be noted that the Municipal manager, Chief financial officer, officials and councillors continue to have a huge task on further improving the status to an ultimate desired opinion of a clean audit, I however have full hope and confidence in you my team. CFO, I must emphasise this point to you and the community at large, as you are the custodian of our finances, be informed that our current audit opinion is impressive and a positive financial outlook of this municipality as we just overcame a disclaimer in the previous audit (2016/2017) and the latter still undoubtedly leaves a bad taste in my mouth. You have my utmost support dwelling and in pursuit of a better audit opinion as afore-said.

Honorable Speaker, there were times when the municipality was one of the best not only in the province but in the country as well. We were compared with the best performing municipalities. I therefore acknowledge the fact that; the municipality must work hard to return to its positive financial status.

A major challenge facing our municipality is financial viability to be encountered in the 2019/2020 financial year due to budget cuts versus increasing demands linked to expenditure. These cuts have been validated by Honorable Minister of Finance Tito Mboweni with concurrence by the MEC: Free State Provincial Treasury, specifically focusing on local government when the 2019 budget speech was delivered in February 2019. Thus the municipality will be significantly cutting operational costs to ensure financial sustainability and conformance with treasury guidelines on cost-cutting measures. If we act together, we can address the declining confidence and the retreat of deteriorating municipal infrastructure, ultimately, we can emerge with a viable Nketoana Municipality, where investors come to invest and businesses grow to ensure we meet our developmental mandate.

2 PROGRAMMES AND PROJECTS FOR 2019/20

Honorable Speaker, as we move with speed to unlock development and expand services, we have invested substantial amounts towards:

- Reitz Bulk Water Pipe Line to Petrus Steyn, which we want to see it through even under the challenges it possesses. The municipality has budgeted R32 Million for the 2019/2020 financial year. Honorable Cllr Moloedi and Mokoena, on the project completion, the residents of Mamafubedu will have enough water flow and the water challenge will be a thing of the past.

Nketoana Local Municipality has started with the process of appointing service providers to source additional funding in pursuit of assisting the municipality to acquire other additional

grants which the municipality was not privy to. This is post the MEC for Finance in the Free State Ms. E. Rockman had advised the municipalities to do so, in her Budget speech in March 2018.

Honorable Speaker, we are indeed committed to work hard to change the status of this municipality.

We remain committed to projects that will further increase the participation in sports by the community of Nketoana by rebuilding sports facilities around Nketoana. We started in Mamafubedu where we have built a very nice sport facility, which was followed by Petsana and we are now moving to Ntha where a funding request has been submitted for a sports facility and the municipality is awaiting approval. Indeed Nketoana will be a pioneer of sportsmen and sportswomen who will represent us regionally, provincially, nationally and ultimately globally.

Honorable Speaker, I would like to emphasize that community safety remains our priority given the recent incidents of gang-rated crimes, that's why we have budgeted R 172 Thousands towards the installation of 8 high Mast lights especially in new extensions.

Tourism remains at the Centre of our strategy to grow the economy of Nketoana and create valuable, sustainable employment opportunities for all the poor people especially young people. We have allocated funds towards Tourism in an effort to stimulate it.

However, I do acknowledge that, due to high levels of poverty, unemployment and inequality, we require far greater community facilitation. In rolling out the cooperatives support we have budgeted R 60 000 towards Training and LED projects.

3 BUDGET BACKGROUND NOTES

The MTREF for 2019/20 to 2021/22 were compiled in accordance with the requirements of the relevant legislation, of which the following are the most important:

- The Constitution of the Republic of South Africa, Act 108 of 1996;
- The Municipal Structures Act, Act 117 of 1998;
- The Municipal Systems Act, Act 32 of 2000;
- The Municipal Finance Management Act, Act 56 of 2003;
- The Municipal Budget and Reporting Regulations promulgated on 17April 2009; and
- The Division of Revenue Act

The Revenue and Expenditure Projections assumed inflation-linked annual adjustments over the MTREF except for electricity which is guided by NERSA.

Honorable Speaker, The main challenges experienced during the compilation of the 2019/20 MTREF can be summarised as follows:

- Increased costs associated with bulk water and electricity, placing upward pressure on tariff increases to consumers. Continued high tariff increases may soon render municipal services financially unaffordable;
- Reprioritization of capital projects and operating expenditure within the financial affordability limits of the budget, taking the cash position into account;
- Salary increases (6.5%) for municipal staff exceeding consumer inflation, and the requirement to fill unfunded vacant, critical and essential positions in accordance with the Salary and Wage Collective Agreement;
- CPI over the medium term is projected at 5.6%.
- The fuel price is subject to all the variables including the currency volatility and other risks facing the emerging markets.

- Limited income base and no growth in the revenue base.
- Relief for indigent households.
- Unfunded mandates.
- The Municipal Systems Improvement Grant which is still not being allocated to the municipality due to National Cogta appointing consultants who were supposed to compile the revenue enhancement strategy.

The authority's strategic focus areas, which are reflected in the budget, are **financial sustainability, good governance, institutional development, basic service delivery and local economic development and growth.**

KEY POINTS OF THE BUDGET:

Operating income decreases from R336 million in 2018/2019 to R331 million in 2019/2020 (1.3%). Operating expenses decreases from R381 million in 2018/2019 to R333 million in 2019/2020 (12.7%) including Depreciation and Asset Impairment.

Honorable Speaker, The capital budget increases from R65 million in 2018/2019 to R92 million in 2019/2020 (42.6%)

Revenue from property taxes will decrease by more than R 1.2 million, services fees increased by R 11.6 million and other income by approximately R11 million. We will realise an increase in operating grants of R 3.3 million (3%).

Tariff increases:

- Property rates 6%
- Electricity 13.02% (awaiting NERSA approval)
- Water 6%

- Sewerage 6%
- Solid waste 6%

4 IN CONCLUSION

Honorable Speaker, as we table this budget for adoption by Council, we are proud of the enormous achievements that have been achieved since the inception of the term of this Council given the difficult socioeconomic conditions.

Compatriots, we do acknowledge that there are still a number of people who remain dissatisfied, impatient and unconvinced about our progress because they feel that their needs and aspirations remain unfulfilled.

We remain committed to improving the quality of lives of our people. Let our efforts and creative energies be channeled towards bettering the lives of the people of this sub-region.

We should gear up to satisfy the aspirations of the vast majority whose dreams remain deferred and this Honorable Speaker, is our primary objective, and we shall as promised work towards its attainment.

Fellow Councilors, it is my honor to table the MTREF and 2019/2020 Budget for adoption by this full Council.

I thank you.

Maditswako Teresia Mokoena
Executive Mayor

1.2. Council Resolution



NKETOANA LOCAL MUNICIPALITY (FS 193)

Item Number : 169/06(Special Council 06/06/2019)
147/05 (Council 31/05/2019) {Attachments}

Heading : Annual Budget 2019/20 to 2021/2022

Department : Finance

Purpose:

The purpose of the report is to table the Annual Budget for 2019/20 for approval by council.

Regulatory Framework

Section 16 of the Municipal Finance Management Act of 2003 states that municipalities must for each financial year approve an annual budget for the municipality before the start of that financial year

Section 17 of the MFMA further states that

- 1) An annual budget of a municipality must be in a prescribed format
 - a) Setting out the realistically anticipated revenue for the budget year from each revenue source
 - b) Appropriating expenditure for the budget year under the different votes of the municipality
 - c) Setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget
 - d) Setting out
 - i) Estimated revenue and expenditure by vote for the current year ; and
 - ii) Actual revenue and expenditure by vote for the financial year preceding the current year ; and
 - e) A statement containing any other information required by section 215(3) of the Constitution or as may be prescribed
- 2) Annual budget must generally be divided into a capital and an operating budget in accordance with international best practices, as may be prescribed.
- 3) When an annual budget is tabled in terms of section 16(2) it must be accompanied by the following documents
 - a) Draft resolutions
 - i) Approving the budget of the budget of the municipality
 - ii) Imposing any tax municipal tax and setting any municipal tariffs as maybe

- iii) Approving any other matter that maybe prescribed
- b) Measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan.
- c) A projection of cash flow for the budget year revenue source , broken down per month,
- d) Any proposed amendments to the municipality's integrated development plan in terms of section 34 of the Municipal Systems Act
- e) Any proposed amendments to the budget –related policies of the municipality
- f) Particulars of the municipality's investments
- g) Any prescribed budget information on municipal entities under the sole or shared control of the municipality
- h) Particulars of new municipal entities which the municipality intends to establish or in which the municipality intend to participate
- i) Particulars of all proposed service delivery agreements including material amendments to existing service delivery agreements
- j) Particulars of any proposed allocations or grants by the municipality to-
 - i) other municipalities
 - ii) any municipal entities and other external mechanism assisting the municipality in the exercise of its functions or powers
 - iii) any other organs of state
 - iv) any organization or bodies referred to in section 67 (1)
- k) The proposed cost to the municipality for the budget year of the salary, allowances and benefits of-
 - i) each political office bearer of the municipality
 - ii) councilors of the municipality; and
 - iii)the municipal manager; chief financial; each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager.
- l) The proposed cost for the budget year to a municipal entity under the sole or shred control of the municipality of the salary , allowances and benefits of –
 - i) each member of the entity's board of directors; and
 - ii)the chief executive officer and each senior manager of the entity;
- m) Any other supporting documentation as maybe prescribed

Section 24 of the MFMA further states that:

- 1) the municipal council must at least 30 days before the start of the budget year consider approval of the annual budget
- 2) An annual budget –
 - a. Must be approved before the start of the budget year
 - b. Is approved by the adoption by the council of a resolution referred to in section 17(3) (a) (i) and
 - c. Must be approved together with the adoption of the resolution as may be necessary –
 - i) Imposing any municipal tax for the budget year
 - ii) Setting any municipal tariffs for the budget year
 - iii) Approving measurable performance objectives for the revenue from each source and for each vote in the budget
 - iv) Approving any changes to the municipality's integrated plan ; and
 - v) Approving any changes to the municipality's budget related policies
- 3) The accounting Officer of the municipality must submit the approved annual budget to the National Treasury and the relevant provincial treasury.

Background

The Budget Process Plan was approved by Council on 23 August 2018 in compliance with Sections 27 and 29 of the Municipal Systems Act.

To drive public participation, Nketoana Local Municipality established a number of IDP and Budget structures which allowed it to solicit inputs and comments from the diverse stakeholders.

According to the Budget Process Plan the annual 2019/2020 budget had to be tabled in Council by no later than 31 May 2019. The Draft Annual Budget for the 2019/2020 financial year will therefore be tabled in Council for approval on 31 May 2019. After the approval by Council, the budget & IDP will be made public and submitted to National and Provincial Treasury.

The 2019/20 Budget was a consultative process in which all S57 managers participated.

Throughout May 2019, Nketoana Local Municipality embarked on IDP and Budget hearings / road shows. The aim was still to solicit inputs and the public were invited in the form of public notice to make comments.

In the interest of public participation, Nketoana Local Municipality held IDP Road shows in all 4 towns. In general the municipality has complied with the IDP processes as enshrined in the Municipal Systems Act. The issues that were raised at the IDP and Budget Road shows, amongst others, include

- Service delivery Improvement
- Priority be given to new extension to have services
- Consider to buy than to lease assets for municipal utilisation
- High consideration of the utilisation of local suppliers

The annual budget of the municipality was consolidated taking into consideration all the departments' needs. The total revenue budget is R -331 320 793.26 which includes operational grants. Total operating expenditure is R 332 585 641.08 including Employee Related Costs, Repairs and Maintenance, Depreciation and Debt impairment. The operational budget is at a deficit of R -1 264 847.82. This is mainly due to Depreciation and Debt Impairment of R 41 210 808.00 and R 41 688 466.24 respectively. The very poor payment of services by the community also impacts negatively on the municipal revenue. The tariffs would also have to be reconfigured to at least allow a breakeven situation. Adequate staff establishment will also assist over reliance on professional services.

Capital Budget for 2019/20 is R 92 582 000, with the whole capital Budget being fully funded by grants.

Tariffs

After receiving inputs on the budget during the budget consultation we revised our proposed tariff increase to an average of 6% and all services excluding electricity, mainly because of the current CPI of 5.7%. It must also be noted that other overheads such as salary increases continue to be at a rate over the CPI which forms the major budget component.

The Electricity tariff will be proposed at 13.02% as guided by NERSA.

The departments have also proposed new tariffs in an effort to generate more revenue.

Water and Electricity, the municipality is using the IBT i.e. step tariff, meaning that the more services the consumers consume the more they pay.

Council will during the 2018/2019 year review its Organogram in pursuit of realising an effective and efficient cost benefit situation. This will positively impact on the expenditure as it currently seems bloated.

The ANNEXTUREs attached for further detail.

- A1 Schedule of 2019/20 (Draft Budget)
- Draft Capital Budget 2019/20
- Draft Tariff List 2019/20
- Circular 93 and 94 of National Treasury
- Budget related Policies
- Asset Management
- Banking and Investment
- Budget Policy 201/2019
- Car allowance
- Cell Phone allowance
- Credit control and debt collection
- Donations
- Expenditure
- Free Basic Waste (FBW)
- Indigent Support
- Leave Policy
- Overtime
- Principles and Policy on writing off of irrecoverable debt, unallocated revenue & impairment
- Property Rates
- Study Grant
- Supply Chain Management
- Tariff
- Travel and Subsistence
- Virement
- Working hours

Resolved:

1. That the annual budget 2019/2020 to 2021/2022 was approved by council.

1.3. Executive Summary

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

The Nketoana's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programs so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items. Key areas where savings were realized were on telephone and internet usage, printing, workshops, overseas and national travel, accommodation, and catering.

The Nketoana has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the Nketoana has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 93 and 94 were used to guide the compilation of the 2019/20 MTREF.

The main challenges experienced during the compilation of the 2019/2020 MTREF can be summarized as follows:

- Aging and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritize projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk water and electricity (due to tariff increases from DWAF and Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- The ongoing difficulties in the national and local economy;

The following budget principles and guidelines directly informed the compilation of the 2019/20 MTREF:

- ❖ The 2018/19 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2019/20 annual budget;
- ❖ Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- ❖ Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity. In addition, tariffs need to remain or move towards

being cost reflective, and should take into account the need to address infrastructure backlogs;

- ❖ There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazette as required by the annual Division of Revenue Act;

In view of the aforementioned, the following table is a consolidated overview of the tabled 2019/20 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2019/2020 MTREF

| Budget | 2018/2019 | 2019/2020 | 2020/2021 | 2021/2022 |
|-----------------------------|------------------|------------------|------------------|------------------|
| | R'000 | R'000 | R'000 | R'000 |
| Total Operating Revenue | 335 622 | 331 321 | 344 510 | 367 391 |
| Total Operating Expenditure | 380 962 | 332 586 | 359 410 | 382 399 |
| Surplus/(Deficit) | (45 339) | (1 265) | (14 900) | (15 007) |

Total operating revenue for has decreased by 1.3% or R 4.3 million for the 2019/20 financial year when compared to the 2018/19 Adjustments Budget. For the two outer years, operational revenue will increase by 6% respectively, equating to a total revenue growth of R 22.9 million over the MTREF when compared to the 2018/19 financial year.

Total operating expenditure for the 2019/20 financial year has been appropriated at R 333 million. When compared to the 2018/19 Adjustment budget, total operating expenditure has decreased by 13% in the year 2019/20 budget. The operating deficit for the year 2019/20 is R 1 264 980 which includes an amount of R 1 268 600 that will be funded by MIG (actually the budget has a surplus when we remove that 3.3% MIG Operational allocation used to pay salaries of PMU staff). Operating expenditure includes non-cash items which are depreciation and bad debts both at an amount of R 82.9 million for the year 2019/20.

The total capital budget of R 92.5 million for the year 2019/20 is fully funded from Government Grants and Subsidies.

1.4. Operating Revenue Framework

For Nketoana Local Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

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

- ❖ National Treasury's guidelines and macroeconomic policy;
- ❖ Growth in the Municipality and continued economic development; SMME development
- ❖ Efficient revenue management, which aims to ensure at least 65% annual collection rate for property rates and other key service charges;
- ❖ Electricity tariff increases of 13.02% as per the tariff increase guidelines from NERSA;
- ❖ Achievement of full cost recovery of specific user charges especially in relation to trading services; this is still a challenge especially on the non-profit making departments
- ❖ Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- ❖ The municipality's Property Rates Policy approved in terms of the MPRA Act no 6 of 2004;
- ❖ Increase ability to extend new services and recover costs;
- ❖ Municipality revenue enhancement strategy
- ❖ Credit and debt control policy
- ❖ The municipality's Indigent Policy and rendering of FBS; and
- ❖ Tariff policies of the Municipality.
- ❖ Financial recovery plan

The following table is a summary of the 2019/20 MTREF (classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source

FS193 Nketoana - Table A4 Budgeted Financial Performance (revenue and expenditure)

| Description | Ref | 2015/16 | 2016/17 | 2017/18 | Current Year 2018/19 | | | | 2019/20 Medium Term Revenue & Expenditure Framework | | |
|--|-----|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|---|------------------------|------------------------|
| | | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2019/20 | Budget Year +1 2020/21 | Budget Year +2 2021/22 |
| Revenue By Source | | | | | | | | | | | |
| Property rates | 2 | - | - | 12 049 | 21 860 | 21 000 | 20 350 | - | 19 803 | 20 991 | 22 250 |
| Service charges - electricity revenue | 2 | - | - | 27 630 | 57 054 | 48 311 | 143 820 | - | 51 803 | 54 911 | 58 206 |
| Service charges - water revenue | 2 | - | - | 29 504 | 56 442 | 43 198 | 62 854 | - | 49 411 | 52 375 | 55 518 |
| Service charges - sanitation revenue | 2 | - | - | 13 831 | 22 855 | 23 517 | 23 229 | - | 23 443 | 24 850 | 26 341 |
| Service charges - refuse revenue | 2 | - | - | 13 238 | 22 191 | 22 640 | 66 489 | - | 24 567 | 26 041 | 27 603 |
| Rental of facilities and equipment | | - | - | 268 | 782 | 459 | 472 | - | 965 | 1 023 | 1 084 |
| Interest earned - external investments | | - | - | 553 | 1 411 | 958 | 752 | - | 844 | 894 | 948 |
| Interest earned - outstanding debtors | | - | - | 25 546 | 42 201 | 42 903 | 44 461 | - | 44 540 | 47 212 | 50 045 |
| Dividends received | | - | - | - | - | - | - | - | - | - | - |
| Fines, penalties and forfeits | | - | - | 194 | 650 | 302 | 334 | - | 205 | 217 | 230 |
| Licences and permits | | - | - | - | 585 | - | - | - | - | - | - |
| Agency services | | - | - | - | - | - | - | - | - | - | - |
| Transfers and subsidies | | - | - | 63 422 | 115 319 | 115 063 | 264 752 | - | 111 729 | 111 743 | 120 658 |
| Other revenue | 2 | - | - | 1 511 | 19 153 | 17 270 | 4 645 | - | 4 013 | 4 254 | 4 509 |
| Gains on disposal of PPE | | - | - | - | - | - | - | - | - | - | - |
| Total Revenue (excluding capital transfers and contributions) | | - | - | 187 745 | 360 502 | 335 622 | 632 160 | - | 331 321 | 344 510 | 367 391 |

Table 3 Percentage growth in revenue by main revenue source

FS193 Nketoana - Table A4 Budgeted Financial Performance (revenue and expenditure)

| Description | Current Year 2018/19 | | 2019/2020 Medium Term Revenue & Expenditure Framework | | | | | |
|--|----------------------|-------|---|-------|------------------------|-------|------------------------|-------|
| | Adjusted Budget | % | Budget Year 2019/20 | % | Budget Year +1 2020/21 | % | Budget Year +2 2021/22 | % |
| Revenue By Source | | | | | | | | |
| Property rates | 21 000 | 6% | 19 803 | 6% | 20 991 | 6% | 22 250 | 6% |
| Service charges - electricity revenue | 48 311 | 14% | 51 803 | 16% | 54 911 | 16% | 58 206 | 16% |
| Service charges - water revenue | 43 198 | 13% | 49 411 | 15% | 52 375 | 15% | 55 518 | 15% |
| Service charges - sanitation revenue | 23 517 | 7% | 23 433 | 7% | 24 850 | 7% | 26 341 | 7% |
| Service charges - refuse revenue | 22 640 | 7% | 24 567 | 7% | 26 041 | 8% | 27 603 | 8% |
| Service charges - other | | | | | | | | |
| Rental of facilities and equipment | 459 | 0.14% | 965 | 0.29% | 1 023 | 0.30% | 1 084 | 0.30% |
| Interest earned - external investments | 958 | 0.29% | 844 | 0.25% | 894 | 0.26% | 948 | 0.26% |
| Interest earned - outstanding debtors | 42 903 | 13% | 44 540 | 13% | 47 212 | 14% | 50 045 | 14% |

| | | | | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Dividends received | | | | | | | | |
| Fines | 302 | 0.09% | 205 | 0.06% | 217 | 0.06% | 230 | 0.06% |
| Licences and permits | | | | | | | | |
| Agency services | | | | | | | | |
| Transfers recognised - operational | 115 063 | 34% | 111 729 | 34% | 111 743 | 32% | 120 658 | 33% |
| Other revenue | 17 270 | 5% | 4 013 | 1.2% | 4 254 | 1.23% | 4 509 | 1.2% |
| Gains on disposal of PPE | | | | | | | | |
| Total Revenue (excluding capital transfers and contributions) | 335 622 | 100.00% | 331 321 | 100.00% | 344 510 | 100.00% | 330 797 | 100.00% |
| Total revenue from rates and service charges | 158 666 | 47% | 169 026 | 51% | 179 167 | 52% | 189 917 | 52% |

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

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Nketoana. In the 2018/19 financial year, revenue from rates and services charges totalled R159 million or 47%. This increases to R169 million, R179 million and R190 million in the respective financial years of the MTREF. This growth can be mainly attributed to the increased share that the sale of electricity contributes to the total revenue mix, which in turn is due to rapid increases in the Eskom tariffs for bulk electricity. The above table includes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality. Details in this regard are contained in SA1

Operating grants and transfers totals R111 728 760 in the 2019/20 financial year and increases to R111 742 872 in 2020/21 and R120 658 104 in 2021/22. Note that the year-on-year growth for the 2019/20 financial year is 34% and then decreases to 32% and 33% in the two outer years.

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

Table 4 Operating Transfers and Grant Receipts

FS193 Nketoana - Supporting Table SA18 Transfers and grant receipts

| Description | Ref | 2015/16 | 2016/17 | 2017/18 | Current Year 2018/19 | | | 2019/20 Medium Term Revenue & Expenditure Framework | | |
|---|------|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
| | | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget | Adjusted Budget | Full Year Forecast | Budget Year 2019/20 | Budget Year +1 2020/21 | Budget Year +2 2021/22 |
| RECEIPTS: | 1, 2 | | | | | | | | | |
| Operating Transfers and Grants | | | | | | | | | | |
| National Government: | | - | - | 63 422 | 115 319 | 115 063 | 264 752 | 101 529 | 107 291 | 115 939 |
| Local Government Equitable Share | | - | - | 50 913 | 87 568 | 87 543 | 233 448 | 97 092 | 104 624 | 113 008 |
| | | - | - | - | - | - | - | - | - | - |
| | | - | - | - | - | - | - | - | - | - |
| | | - | - | - | - | - | - | - | - | - |
| | | - | - | - | - | - | - | - | - | - |
| Other transfers/grants [insert description] | | - | - | 12 509 | 27 751 | 27 520 | 31 304 | 4 437 | 2 667 | 2 931 |
| Provincial Government: | | - | - | - | - | - | - | 3 900 | 4 134 | 4 382 |
| | | - | - | - | - | - | - | - | - | - |
| | | - | - | - | - | - | - | - | - | - |
| | | - | - | - | - | - | - | - | - | - |
| Other transfers/grants [insert description] | | - | - | - | - | - | - | 3 900 | 4 134 | 4 382 |
| District Municipality: | | - | - | - | - | - | - | - | - | - |
| [insert description] | | - | - | - | - | - | - | - | - | - |
| | | - | - | - | - | - | - | - | - | - |
| Other grant providers: | | - | - | - | - | - | - | 6 300 | 318 | 337 |
| [insert description] | | - | - | - | - | - | - | - | - | - |
| | | - | - | - | - | - | - | 6 300 | 318 | 337 |
| Total Operating Transfers and Grants | 5 | - | - | 63 422 | 115 319 | 115 063 | 264 752 | 111 729 | 111 743 | 120 658 |

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Municipality.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increases of both Eskom bulk tariffs are beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's electricity and in these tariffs are largely outside the control of the municipality. Discounting the impact of these price increases in lower consumer tariffs will erode the Municipality's future financial position and viability.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity and water, petrol, diesel, chemicals, cement etc. The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the Municipality has undertaken the tariff setting process relating to service charges as follows;

1.4.1. Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 1:0.25. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

Below is the proposed property rates to levy for the 2019/20 financial year excluding vat:

| PROPERTY RATES | 2018/2019 | Increase | 2019/2020 |
|--|------------------|-----------------|------------------|
| Business, commercial, and industries | 0.0059690 | 18.00% | 0.0070434 |
| Residential Property | 0.0051862 | 6.00% | 0.0054973 |
| Property owned by the state or an organ of state (Including Education) | 0.0278392 | -74.70% | 0.0070433 |
| Farming land used for bona fide farming | 0.0012961 | 6.00% | 0.0013743 |
| Public service infrastrucuture | 0.0000000 | 6.00% | 0.0000000 |
| Vacant land irrespective of zoning | 0.0105679 | 6.00% | 0.0112020 |
| Mining property | 0.0051862 | 6.00% | 0.0054973 |
| Religious | 0.0000000 | 6.00% | 0.0000000 |

1.4.2. Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- ❖ Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- ❖ Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- ❖ Water tariffs are designed to encourage efficient and sustainable consumption.

In addition, National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective from 2014.

A summary of the proposed tariffs for households (residential) and non-residential are as follows:

Proposed Water Tariffs

Metered Water

Residential, Flats, Church and old ages, commercial, government institution

| All - Excluding Industries & Departmental | 2018/2019 | Increase | 2019/2020 |
|--|-----------|----------|-----------|
| Service Fee (per month) | 161.71 | 6.00% | 171.41 |
| Consumption - 0 to 10kl (per kl) | 8.11 | 6.00% | 8.60 |
| Consumption - 11 to 15kl (per kl) | 12.98 | 6.00% | 13.76 |
| Consumption - 16 to 20kl (per kl) | 17.78 | 6.00% | 18.85 |
| Consumption - 21 to 25kl (per kl) | 21.84 | 6.00% | 23.15 |
| Consumption - 26 and more (per kl) | 24.96 | 6.00% | 26.46 |
| Free Basic Services Indigents 6kl (per kl) | 8.11 | 6.00% | 8.60 |
| Industries | | | |
| Service Fee (per month) | 209.52 | 6.00% | 222.09 |
| Consumption 0 to 200kl (per kl) | 13.59 | 6.00% | 14.41 |
| Consumption 201 and more (per kl) | 24.63 | 6.00% | 26.11 |
| Additional Availability charge : Farms/Smallholdings | 209.52 | 6.00% | 222.09 |
| Departmental | | | |
| Service Fee (per month) | 127.79 | 6.00% | 135.46 |
| Consumption (per kl) | 11.17 | 6.00% | 11.84 |

1.4.3. Sale of Electricity and Impact of Tariff Increases

Eskom bulk tariff increases

The National Energy Regulator of South Africa (NERSA) published their “Municipal Tariff Guideline Increase, Benchmarks and Proposed Timelines for Municipal Tariff Approval Process for the 2019/20 Financial Year” on 29 March 2019. The guideline includes an update to the average cost structure used to determine the municipal tariff increase. It also sets out proposed timeframes for the approval of municipal tariffs. NERSA invites comments on the guideline to be submitted by 12 April 2019.

The NERSA document proposes a 13.87% guideline increase for municipal electricity tariffs for 2019/20. This is based on a bulk tariff increase for municipalities of 15.63%, the municipality applied for a 13.02% average tariff increase.

Municipalities are urged to examine the cost structure of providing electricity services and to apply to NERSA for electricity tariff increases that reflect the total cost of providing the service so that they work towards achieving fully cost-reflective tariffs that will help them achieve financial sustainability.

1.4.4. Sanitation and Impact of Tariff Increases

Sanitation charges are calculated according to the percentage water discharged as indicated in the table below;

Free sanitation (Free basic (residential) -100%) will be applicable to registered indigents; and the total revenue expected to be generated from rendering this service amounts to R23 million for the 2019/20 financial year.

The proposed tariffs for sanitation are as follows:

Waterborne – Residential including churches and old age

| Residential (Including churches, old age homes, etc.) | 2018/2019 | Increase | 2019/2020 |
|---|-----------|----------|-----------|
| Per toilet/urinal (per month) | 72.01 | 6.00% | 76.34 |
| Minimum (1 or 2 toilets per month) | 136.12 | 6.00% | 144.29 |
| Additional Availability charge : Farms/Smallholdings | 136.12 | 6.00% | 144.29 |
| | | | |
| Business (Include schools, government institutions, etc.) | | | |
| Per toilet/urinal (per month) | 139.21 | 15.00% | 160.10 |
| Minimum (per month) | 139.21 | 15.00% | 160.10 |

| | | | |
|--|------------|---------|------------|
| Additional Availability charge : Farms/Smallholdings | 139.21 | 15.00% | 160.10 |
| Industries | | | |
| Per toilet/urinal (per month) | 139.21 | 34.35% | 187.03 |
| Minimum (per month) | 139.21 | 34.35% | 187.03 |
| Additional Availability charge : Farms/Smallholdings | 139.21 | 34.35% | 187.03 |
| Departmental | | | |
| Per toilet/urinal (per month) | 60.15 | 6.00% | 63.76 |
| Minimum (per month) | 120.22 | 6.00% | 127.44 |
| SEPTIC TANK | | | |
| Residential (Including churches, old age homes, etc.) | | | |
| Minimum (per toilet/urinal per month) | 734.51 | -80.36% | 144.29 |
| Farms/Smallholdings - The toilet/urinal fee & additional cost (Labour, fuel, etc.) & 20% | Cost & 20% | | Cost & 20% |
| Business (Include schools, government institutions, etc.) | | | |
| Minimum (per toilet/urinal per month) | 812.68 | -80.30% | 160.10 |
| Farms/Smallholdings - The toilet/urinal fee & additional cost (Labour, fuel, etc.) & 20% | Cost & 20% | | Cost & 20% |
| Industries | | | |
| Minimum (per toilet/urinal per month) | 176.45 | 6.00% | 187.03 |
| Farms/Smallholdings - The toilet/urinal fee & additional cost (Labour, fuel, etc.) & 20% | | | |
| Departmental | | | |
| Minimum (per toilet/urinal per month) | 734.52 | -80.36% | 144.29 |

Septic-tank residential, business & departmental tariff structure changed not billing per suction.
 Fixed monthly charge suction done on request

1. VIP Toilets and Buckets

For the household using VIP toilets the service will be charged for cleaning of VIP toilets 881.42 per suction

2. Availability Charge

The following availability charge shall be payable in respect of vacant stands:

Per residential stand per month 252.21

Per Non-residential stand per month 358.97

3. Charges for work carried out by the municipality:

| | |
|----------------------------------|----------|
| Re-inspection fee per connection | 843.95 |
| Sealing opening per connection | 1 265.93 |

| | |
|--|------------|
| Re-opening sealed connection | 1 265.93 |
| Alterations to gullies, per gully | Cost & 20% |
| Removing blockages on private dwelling | 351.08 |

1.4.5. Waste Removal and Impact of Tariff Increases

The proposed tariffs for waste removal are as follows:

| Residential (Including churches, old age homes, etc.)- Minimum | 2018/2019 | Increase | 2019/2020 |
|---|------------------|-----------------|------------------|
| Per Bin (per month) | 162.04 | 6.00% | 171.76 |
| <i>Farms/Smallholdings - Per bin per month (Customer to deliver to within urban boundaries or refuse site). See policy</i> | Cost & 20% | N/A | 171.76 |
| Business (Office Blocks) | | | |
| Per Bin (per month) | 198.06 | 15.00% | 227.77 |
| <i>Farms/Smallholdings - Per bin per month (Customer to deliver to within urban boundaries or at refuse site). See policy</i> | Cost & 20% | N/A | 227.77 |
| Business (Retail) - Per Collection | 818.35 | 15.00% | 941.11 |
| <i>Farms/Smallholdings - Per bin per month (Customer to deliver to within urban boundaries or at refuse site). See policy</i> | Cost & 20% | N/A | 941.11 |
| Business (Include schools, government institutions, etc.) | | | |
| Per Bin (per month) | 900.19 | 15.00% | 1 035.22 |
| <i>Farms/Smallholdings - Per bin per month (Customer to deliver to within urban boundaries or at refuse site). See policy</i> | Cost & 20% | N/A | 1 035.22 |
| Industries | | | |
| Per Bin (per month) | 1 170.25 | 6.00% | 1 240.47 |
| <i>Farms/Smallholdings - Per bin per month (Customer to deliver to within urban boundaries or at refuse site). See policy</i> | Cost & 20% | N/A | 1 240.47 |
| Departmental | | | |
| Per Bin (per month) | 162.04 | 6.00% | 171.76 |
| Special service (waste) | | | Cost & 20% |

1.4.6 Overall impact of tariff increases on households

The overall expected impact of the tariff increases on a large and small household, as well as an indigent household receiving free basic services.

Note that in all instances the overall impact of the tariff increases on household’s bills has been kept at an average of 6% as per the Inflation.

1.5. Operating Expenditure Framework

The Nketoana Local Municipality's expenditure framework for the 2019/20 budget and MTREF is informed by the following:

- ❖ The asset management strategy and the repairs and maintenance plan;
- ❖ 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;
- ❖ The capital programme is aligned to the IDP and MIG strategy and backlog eradication plan;
- ❖ Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- ❖ Strict adherence to the principle of *no project plans no budget*. If there is no business plan no funding allocation can be made.

The following table is a high level summary of the 2019/20 budget and MTREF (classified per main type of operating expenditure):

Table 5 Summary of operating expenditure by standard classification item

| Description | Ref | Current Year 2018/19 | | | | 2019/20 Medium Term Revenue & Expenditure Framework | | |
|---------------------------------|------|----------------------|-----------------|--------------------|-------------------|---|------------------------|------------------------|
| | | Original Budget | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2019/20 | Budget Year +1 2020/21 | Budget Year +2 2021/22 |
| R thousand | 1 | | | | | | | |
| Expenditure By Type | - | | | | | | | |
| Employee related costs | 2 | 118,387 | 124,187 | 90,455 | - | 132,507 | 141,731 | 151,596 |
| Remuneration of councillors | | - | - | 19 | - | - | - | - |
| Debt impairment | 3 | 55,027 | 52,900 | 62,811 | - | 58,029 | 61,510 | 65,201 |
| Depreciation & asset impairment | 2 | 58,873 | 58,873 | - | - | 58,873 | 58,873 | 58,873 |
| Finance charges | | 18,115 | 22,002 | 70,702 | - | 26,452 | 28,039 | 29,721 |
| Bulk purchases | 2 | 9,577 | 770 | 156,133 | - | 58,412 | 61,917 | 65,632 |
| Other materials | 8 | 5,884 | 8,210 | 7,793 | - | 6,470 | 6,858 | 7,269 |
| Contracted services | | 94,573 | 114,011 | 64,664 | - | 30,771 | 32,617 | 34,574 |
| Transfers and subsidies | | 9 | 10 | - | - | - | - | - |
| Other expenditure | 4, 5 | - | - | - | - | 20,398 | 21,632 | 22,941 |
| Loss on disposal of PPE | | - | - | - | - | - | - | - |
| Total Expenditure | | 360,444 | 380,962 | 452,577 | - | 391,911 | 413,176 | 435,808 |

The budgeted allocation for employee related costs for the 2019/20 financial year totals R132 507 million, which equals 34% of the total operating expenditure. Consolidated

employee related cost for the 2019/20 financial year totals to 132 million. An annual increase of 7% has been included in the 2019/20 MTREF based on previous year's salary wage collective agreement.

The provision of debt impairment was determined based on an annual collection rate and the Debt Write-off Policy of the Nketoana. For the 2019/20 financial year this amount equates to R58 million and escalates to R65 million by 2021/22. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R58 million for the 2019/20 financial year and equates to 15% of the total operating expenditure.

Finance charges consist primarily of the repayment of Eskom Interest and interest on long-term borrowing (cost of capital). Finance charges make up 7% (R26 million) of operating expenditure and increases to R29 million by 2021/22.

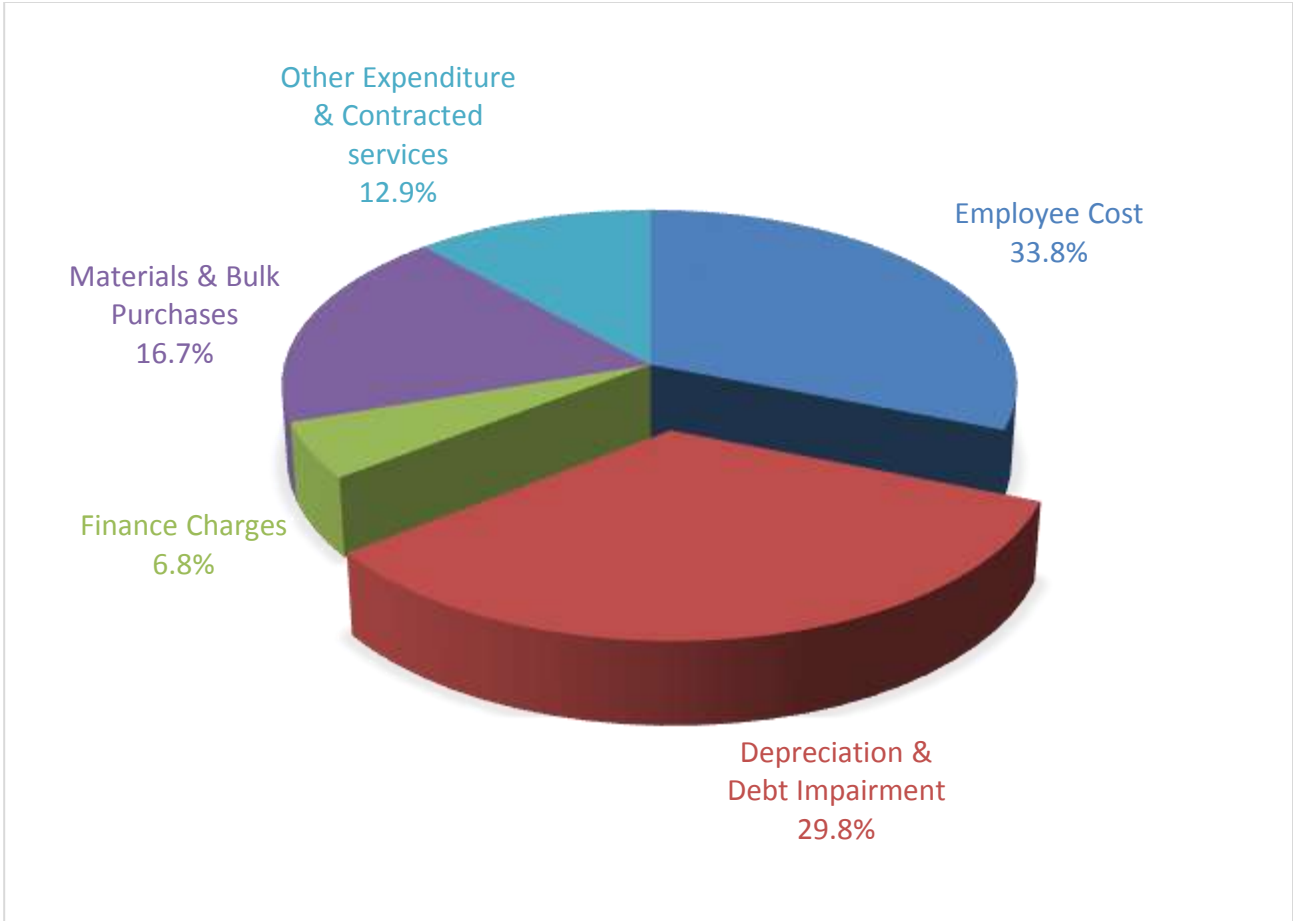
Bulk purchases are directly informed by the purchase of electricity from Eskom and water from DWAF. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions.

Other materials comprises materials for maintenance when doing the repairs internally. For 2019/20 the appropriation against this group of expenditure is 2% (R6 million).

Contracted comprises of professional fees and leased machinery and fleet. As part of the compilation of the 2019/20 MTREF, this group of expenditure totals R30 million.

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has been identified as an area in which cost savings and efficiencies can be achieved, expenditure for this group totals 20 million for the year 2019/20.

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



Main operational expenditure categories for the 2018/19 financial

Table 6 Repairs and maintenance per asset class

| Description | Ref | Current Year 2018/19 | | | 2019/20 Medium Term Revenue & Expenditure Framework | | |
|---|----------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
| | | Original Budget | Adjusted Budget | Full Year Forecast | Budget Year 2019/20 | Budget Year +1 2020/21 | Budget Year +2 2021/22 |
| R thousand | 1 | | | | | | |
| Repairs and maintenance expenditure by Asset Class/Sub-class | | | | | | | |
| - | | | | | | | |
| Infrastructure | | 4,723 | 5,604 | - | 6,430 | 6,816 | 7,225 |
| Roads Infrastructure | | 2,212 | 1,909 | - | 1,952 | 2,070 | 2,194 |
| <i>Roads</i> | | 1,962 | 1,529 | - | 1,697 | 1,799 | 1,907 |
| <i>Road Structures</i> | | - | - | - | - | - | - |
| <i>Road Furniture</i> | | 250 | 380 | - | 256 | 271 | 287 |
| <i>Capital Spares</i> | | - | - | - | - | - | - |
| Storm water Infrastructure | | - | - | - | - | - | - |
| <i>Drainage Collection</i> | | - | - | - | - | - | - |
| <i>Storm water Conveyance</i> | | - | - | - | - | - | - |
| <i>Attenuation</i> | | - | - | - | - | - | - |
| Electrical Infrastructure | | 911 | 925 | - | 811 | 860 | 911 |
| <i>Power Plants</i> | | - | - | - | - | - | - |
| <i>HV Substations</i> | | - | - | - | - | - | - |
| <i>HV Switching Station</i> | | - | - | - | - | - | - |
| <i>HV Transmission Conductors</i> | | - | - | - | - | - | - |
| <i>MV Substations</i> | | - | - | - | - | - | - |
| <i>MV Switching Stations</i> | | - | - | - | - | - | - |
| <i>MV Networks</i> | | 911 | 925 | - | 811 | 860 | 911 |
| <i>LV Networks</i> | | - | - | - | - | - | - |
| <i>Capital Spares</i> | | - | - | - | - | - | - |
| Water Supply Infrastructure | | 1,500 | 2,570 | - | 3,371 | 3,573 | 3,787 |
| <i>Dams and Weirs</i> | | - | - | - | - | - | - |
| <i>Boreholes</i> | | - | - | - | - | - | - |
| <i>Reservoirs</i> | | - | - | - | - | - | - |
| <i>Pump Stations</i> | | - | - | - | - | - | - |
| <i>Water Treatment Works</i> | | - | - | - | - | - | - |
| <i>Bulk Mains</i> | | - | - | - | - | - | - |
| <i>Distribution</i> | | 1,500 | 2,570 | - | 3,371 | 3,573 | 3,787 |
| <i>Distribution Points</i> | | - | - | - | - | - | - |
| <i>PRV Stations</i> | | - | - | - | - | - | - |

| | | | | | | |
|--|-----|-----|---|-----|-----|-----|
| <i>Capital Spares</i> | - | - | - | - | - | - |
| Sanitation Infrastructure | 100 | 200 | - | 296 | 314 | 332 |
| <i>Pump Station</i> | - | - | - | - | - | - |
| <i>Reticulation</i> | 100 | 200 | - | 296 | 314 | 332 |
| <i>Waste Water Treatment Works</i> | - | - | - | - | - | - |
| <i>Outfall Sewers</i> | - | - | - | - | - | - |
| <i>Toilet Facilities</i> | - | - | - | - | - | - |
| <i>Capital Spares</i> | - | - | - | - | - | - |
| Solid Waste Infrastructure | - | - | - | - | - | - |
| <i>Landfill Sites</i> | - | - | - | - | - | - |
| <i>Waste Transfer Stations</i> | - | - | - | - | - | - |
| <i>Waste Processing Facilities</i> | - | - | - | - | - | - |
| <i>Waste Drop-off Points</i> | - | - | - | - | - | - |
| <i>Waste Separation Facilities</i> | - | - | - | - | - | - |
| <i>Electricity Generation Facilities</i> | - | - | - | - | - | - |
| <i>Capital Spares</i> | - | - | - | - | - | - |
| Rail Infrastructure | - | - | - | - | - | - |
| <i>Rail Lines</i> | - | - | - | - | - | - |
| <i>Rail Structures</i> | - | - | - | - | - | - |
| <i>Rail Furniture</i> | - | - | - | - | - | - |
| <i>Drainage Collection</i> | - | - | - | - | - | - |
| <i>Storm water Conveyance</i> | - | - | - | - | - | - |
| <i>Attenuation</i> | - | - | - | - | - | - |
| <i>MV Substations</i> | - | - | - | - | - | - |
| <i>LV Networks</i> | - | - | - | - | - | - |
| <i>Capital Spares</i> | - | - | - | - | - | - |
| Coastal Infrastructure | - | - | - | - | - | - |
| <i>Sand Pumps</i> | - | - | - | - | - | - |
| <i>Piers</i> | - | - | - | - | - | - |
| <i>Revetments</i> | - | - | - | - | - | - |
| <i>Promenades</i> | - | - | - | - | - | - |
| <i>Capital Spares</i> | - | - | - | - | - | - |
| Information and Communication Infrastructure | - | - | - | - | - | - |
| <i>Data Centres</i> | - | - | - | - | - | - |
| <i>Core Layers</i> | - | - | - | - | - | - |
| <i>Distribution Layers</i> | - | - | - | - | - | - |

| | | | | | | |
|-----------------------------------|------------|------------|----------|------------|------------|------------|
| <i>Capital Spares</i> | - | - | - | - | - | - |
| <u>Community Assets</u> | 380 | 598 | - | 489 | 518 | 550 |
| Community Facilities | 300 | 558 | - | 487 | 516 | 547 |
| <i>Halls</i> | - | - | - | - | - | - |
| <i>Centres</i> | - | - | - | - | - | - |
| <i>Crèches</i> | - | - | - | - | - | - |
| <i>Clinics/Care Centres</i> | - | - | - | - | - | - |
| <i>Fire/Ambulance Stations</i> | - | - | - | - | - | - |
| <i>Testing Stations</i> | - | - | - | - | - | - |
| <i>Museums</i> | - | - | - | - | - | - |
| <i>Galleries</i> | - | - | - | - | - | - |
| <i>Theatres</i> | - | - | - | - | - | - |
| <i>Libraries</i> | - | - | - | - | - | - |
| <i>Cemeteries/Crematoria</i> | 300 | 558 | - | 487 | 516 | 547 |
| <i>Police</i> | - | - | - | - | - | - |
| <i>Parks</i> | - | - | - | - | - | - |
| <i>Public Open Space</i> | - | - | - | - | - | - |
| <i>Nature Reserves</i> | - | - | - | - | - | - |
| <i>Public Ablution Facilities</i> | - | - | - | - | - | - |
| <i>Markets</i> | - | - | - | - | - | - |
| <i>Stalls</i> | - | - | - | - | - | - |
| <i>Abattoirs</i> | - | - | - | - | - | - |
| <i>Airports</i> | - | - | - | - | - | - |
| <i>Taxi Ranks/Bus Terminals</i> | - | - | - | - | - | - |
| <i>Capital Spares</i> | - | - | - | - | - | - |
| Sport and Recreation Facilities | 80 | 40 | - | 3 | 3 | 3 |
| <i>Indoor Facilities</i> | - | - | - | - | - | - |
| <i>Outdoor Facilities</i> | 80 | 40 | - | 3 | 3 | 3 |
| <i>Capital Spares</i> | - | - | - | - | - | - |
| | 1 | 1 | 1 | 1 | 1 | 1 |
| <u>Heritage assets</u> | - | - | - | - | - | - |
| Monuments | - | - | - | - | - | - |
| Historic Buildings | - | - | - | - | - | - |
| Works of Art | - | - | - | - | - | - |
| Conservation Areas | - | - | - | - | - | - |
| Other Heritage | - | - | - | - | - | - |

| | | | | | |
|--|------------|------------|----------|------------|------------|
| | | | - | - | - |
| | | | | | |
| Investment properties | | | | | |
| Revenue Generating | - | - | - | - | - |
| <i>Improved Property</i> | - | - | - | - | - |
| <i>Unimproved Property</i> | - | - | - | - | - |
| Non-revenue Generating | - | - | - | - | - |
| <i>Improved Property</i> | - | - | - | - | - |
| <i>Unimproved Property</i> | - | - | - | - | - |
| | | | | | |
| Other assets | 300 | 498 | - | 384 | 407 |
| Operational Buildings | 300 | 498 | - | 384 | 407 |
| <i>Municipal Offices</i> | 300 | 498 | - | 384 | 407 |
| <i>Pay/Enquiry Points</i> | - | - | - | - | - |
| <i>Building Plan Offices</i> | - | - | - | - | - |
| <i>Workshops</i> | - | - | - | - | - |
| <i>Yards</i> | - | - | - | - | - |
| <i>Stores</i> | - | - | - | - | - |
| <i>Laboratories</i> | - | - | - | - | - |
| <i>Training Centres</i> | - | - | - | - | - |
| <i>Manufacturing Plant</i> | - | - | - | - | - |
| <i>Depots</i> | - | - | - | - | - |
| <i>Capital Spares</i> | - | - | - | - | - |
| Housing | - | - | - | - | - |
| <i>Staff Housing</i> | - | - | - | - | - |
| <i>Social Housing</i> | - | - | - | - | - |
| <i>Capital Spares</i> | - | - | - | - | - |
| | | | | | |
| Biological or Cultivated Assets | | | | | |
| Biological or Cultivated Assets | - | - | - | - | - |
| | | | | | |
| Intangible Assets | | | | | |
| Servitudes | - | - | - | - | - |
| Licences and Rights | - | - | - | - | - |
| <i>Water Rights</i> | - | - | - | - | - |
| <i>Effluent Licenses</i> | - | - | - | - | - |
| <i>Solid Waste Licenses</i> | - | - | - | - | - |
| <i>Computer Software and Applications</i> | - | - | - | - | - |
| <i>Load Settlement Software Applications</i> | - | - | - | - | - |

| | | | | | | | |
|--|---|---------------|---------------|----------|---------------|---------------|---------------|
| <i>Unspecified</i> | | | | | | | |
| | | - | - | - | - | - | - |
| <u>Computer Equipment</u> | | 500 | 400 | - | 76 | 81 | 86 |
| Computer Equipment | | 500 | 400 | - | 76 | 81 | 86 |
| <u>Furniture and Office Equipment</u> | | 10 | - | - | - | - | - |
| Furniture and Office Equipment | | 10 | - | - | - | - | - |
| <u>Machinery and Equipment</u> | | 4,148 | 3,585 | - | 5,145 | 5,454 | 5,781 |
| Machinery and Equipment | | 4,148 | 3,585 | - | 5,145 | 5,454 | 5,781 |
| <u>Transport Assets</u> | | 1,760 | 700 | - | 528 | 560 | 593 |
| Transport Assets | | 1,760 | 700 | - | 528 | 560 | 593 |
| <u>Land</u> | | - | - | - | - | - | - |
| Land | | - | - | - | - | - | - |
| <u>Zoo's, Marine and Non-biological Animals</u> | | - | - | - | - | - | - |
| Zoo's, Marine and Non-biological Animals | | - | - | - | - | - | - |
| Total Repairs and Maintenance Expenditure | 1 | 11,821 | 11,384 | - | 13,053 | 13,836 | 14,666 |

For the 2019/20 financial year, 49.26% or R6.4 million of total repairs and maintenance will be spent on infrastructure assets. Water infrastructure has received a significant proportion of this allocation totalling 52.4% (R3.3 million), followed by road infrastructure at 30.4% per cent (R1.9 million), Electricity at 12.6% (R811 thousand) and sanitation at 4.6% (R296 thousand). Community assets has been allocated R486 thousands of total repairs and maintenance equating to 3.7%.

1.5.1 Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Nketoana Local Municipality Indigent Policy. The target is to register 6000 or more indigent households during the 2019/20 financial year, a process reviewed annually.

The municipality is reviewing the Indigent policy, the threshold of indigent is R4 000, we believe that this will assist the poorest of the poor within our community. There was also an outcry for NGO's especially that takes care of people with disabilities, and also the Old age residents were included in this policy. The said organisations will receive a rebate

depending on the consumption of their water and electricity. This resulted from the door-to-door campaign that was made by councillors.

It is Important to note that the current outstanding debt is not caused by the poor people as they are being subsidized on their full accounts. The debt is caused by those who earn above the R4 000 per month bracket and who are not paying. The motivation for the selected list of residents to start the collection process with is thus aimed at professional people, business, agriculture, etc. as their income is above the basic norm. The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

1.6. Capital expenditure

For 2019/20 the total amount of R 174 million has been appropriated for the development of infrastructure which represents 100 per cent of the total capital budget. 38 million is for MIG and 136 million is for RBIG.

Break down of Projects to be undertaken over the 2019/20 medium-term includes:

MIG

- Nketoana: Installation of 8(30m) high mast lights in 4 towns (MIS: 271223) – R 172 392.93
- Ntha: Upgrading of 1.5km gravel roads & storm water drainage – R 591 266.57
- Petsana: Upgrading of 3.5km sewer outfall (MIS: 288662) – R 646 455.39
- Petsana: Upgrading of 2km Gravel Roads (MIS: 298371) – R 13 408 098.38
- Ntha: Upgrading of sports facility (MIS) – R 13 421 227.05
- Pesana: Upgrading of water pumps and motors (MIS) – R 2 563 557.08
- Nketoana: Installation of bulk zonal water meters – R 5 371 691.98
- Petsana: Upgrading of 4km sewer outfall phase2 – R928 710.72

RBIG

- Construction of a new 42km long 315mm dia pipe from Reitz WTW to Petrus Steyn - R 30 372 686.96
- New 4MI concrete reservoir in Petrus Steyn – R 2 063 963.39
- New water abstraction point in Liebenbergsvlei including a new 56km long 355mm dia pipeline to Lindley – R 72 576 192.14
- New 10MI concrete reservoir in Reitz – R 4 212 858.19
- Construction of a new 20km long 315mm dia pipeline from Reitz WTW – R 6 941 326.40
- New 2MI concrete reservoir in Lindley – R 1 524 216.36
- New 1MI concrete reservoir in Arlington – R 993 973.94

1.7 Annual Budget Tables - Parent Municipality

The following eighteen pages present the ten main budget tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2019/20 budget and MTREF as tabled by the Council. Each table is accompanied by explanatory notes on the facing page.

Table 7 MBRR Table A1 - Budget Summary

| Description | 2017/18 | Current Year 2018/19 | | | 2019/20 Medium Term Revenue & Expenditure | | |
|---|-----------------|----------------------|-----------------|--------------------|---|------------------------|---------------------|
| | Audited Outcome | Original Budget | Adjusted Budget | Full Year Forecast | Budget Year 2019/20 | Budget Year +1 2020/21 | Budget Year 2021/22 |
| R thousands | | | | | | | |
| <u>Financial Performance</u> | | | | | | | |
| Property rates | 12,049 | 21,860 | 21,000 | 20,350 | 20,312 | 21,531 | 22,823 |
| Service charges | 84,204 | 158,541 | 137,666 | 296,392 | 143,657 | 152,277 | 161,413 |
| Investment revenue | 553 | 1,411 | 958 | 752 | 844 | 894 | 948 |
| Transfers recognised - operational | 63,422 | 115,319 | 115,063 | 264,752 | 91,274 | 91,670 | 92,091 |
| Other own revenue | 27,518 | 63,371 | 60,935 | 49,913 | 47,556 | 50,492 | 53,522 |
| | 187,745 | 360,502 | 335,622 | 632,160 | 303,644 | 316,865 | 330,797 |
| Total Revenue (excluding capital transfers and contributions) | | | | | | | |
| Employee costs | 32,675 | 118,387 | 124,187 | 90,455 | 132,507 | 141,731 | 151,596 |
| Remuneration of councillors | – | – | – | 19 | – | – | – |
| Depreciation & asset impairment | – | 58,873 | 58,873 | – | 58,873 | 58,873 | 58,873 |
| Finance charges | 12,712 | 18,115 | 22,002 | 70,702 | 26,452 | 28,039 | 29,721 |
| Materials and bulk purchases | 3,512 | 15,461 | 8,980 | 163,927 | 64,882 | 68,775 | 72,901 |
| Transfers and grants | 4 | 9 | 10 | – | – | – | – |
| Other expenditure | 93,215 | 149,600 | 166,911 | 127,475 | 109,197 | 115,760 | 122,716 |
| Total Expenditure | 142,118 | 360,444 | 380,962 | 452,577 | 391,911 | 413,176 | 435,808 |
| Surplus/(Deficit) | 45,628 | 57 | (45,339) | 179,583 | (88,267) | (96,312) | (105,011) |
| Transfers and subsidies - capital (monetary allocations) (National / Provincial and District) | 851 | 40,000 | 40,000 | 3,405 | – | – | – |
| Contributions recognised - capital & contributed assets | – | – | – | – | – | – | – |
| | 46,479 | 40,057 | (5,339) | 182,988 | (88,267) | (96,312) | (105,011) |
| Surplus/(Deficit) after capital transfers & contributions | | | | | | | |
| Share of surplus/ (deficit) of associate | – | – | – | – | – | – | – |
| Surplus/(Deficit) for the year | 46,479 | 40,057 | (5,339) | 182,988 | (88,267) | (96,312) | (105,011) |
| <u>Capital expenditure & funds sources</u> | | | | | | | |
| Capital expenditure | (956) | 64,927 | 63,575 | (52,130) | 2,972 | 3,150 | 3,339 |
| Transfers recognised - capital | – | – | – | – | – | – | – |

| | | | | | | | |
|--|------------------|------------------|------------------|--------------------|-----------------|-----------------|------------------|
| Borrowing | - | - | - | - | - | - | - |
| Internally generated funds | - | - | - | - | - | - | - |
| Total sources of capital funds | - | - | - | - | - | - | - |
| <u>Financial position</u> | | | | | | | |
| Total current assets | (95,228) | (24,870) | (68,914) | (236,012) | (91,333) | (99,563) | (108,458) |
| Total non current assets | 1,228,554 | 64,927 | 63,575 | 20,143,404 | 2,972 | 3,150 | 3,339 |
| Total current liabilities | 314,469 | - | - | (124,179) | - | - | - |
| Total non current liabilities | 61,872 | - | - | 2,257,366 | - | - | - |
| Community wealth/Equity | 756,986 | 40,057 | (5,339) | 26,431,228 | (88,267) | (96,312) | (105,011) |
| <u>Cash flows</u> | | | | | | | |
| Net cash from (used) operating | (145,509) | (26,444) | (33,188) | 2,419,484 | (29,489) | (37,540) | (46,247) |
| Net cash from (used) investing | (240,723) | (64,927) | (63,575) | (11,132,966) | (2,972) | (3,150) | (3,339) |
| Net cash from (used) financing | 8,384 | - | - | 361,986 | - | - | - |
| Cash/cash equivalents at the year end | (377,848) | (91,371) | (96,763) | (8,351,497) | (32,461) | (73,151) | (122,737) |
| <u>Cash backing/surplus reconciliation</u> | | | | | | | |
| Cash and investments available | 15,159 | (150,244) | (155,635) | 261,459 | (91,333) | (99,563) | (108,458) |
| Application of cash and investments | 365,516 | (39,189) | (35,532) | (23,499,019) | - | - | - |
| Balance - surplus (shortfall) | (350,357) | (111,055) | (120,103) | 23,760,478 | (91,333) | (99,563) | (108,458) |
| <u>Asset management</u> | | | | | | | |
| Asset register summary (WDV) | - | - | - | - | - | - | - |
| Depreciation | - | 58,873 | 58,873 | - | 58,873 | 58,873 | 58,873 |
| Renewal and Upgrading of Existing Assets | - | 40,296 | 38,944 | - | - | - | - |
| Repairs and Maintenance | - | 11,821 | 11,384 | - | 13,053 | 13,836 | 14,666 |
| <u>Free services</u> | | | | | | | |
| Cost of Free Basic Services provided | - | - | - | - | - | - | - |
| Revenue cost of free services provided | - | - | - | - | - | - | - |
| <u>Households below minimum service level</u> | | | | | | | |
| Water: | - | - | - | - | - | - | - |
| Sanitation/sewerage: | - | - | - | - | - | - | - |
| Energy: | - | - | - | - | - | - | - |
| Refuse: | - | - | - | - | - | - | - |

Explanatory notes to MBRR Table A1 - Budget Summary

1. Table A1 is a budget summary and provides a concise overview of the Nketoana's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
3. Financial management reforms emphasises 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:
 - a. The operating surplus/deficit (after Total Expenditure) is negative over the MTREF
 - b. Capital expenditure is balanced by capital funding sources, of which
 - i. Transfers recognised is reflected on the Financial Performance Budget;
 - ii. Borrowing is incorporated in the net cash from financing on the Cash Flow Budget
 - iii. Internally generated funds is financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years. The amount is incorporated in the Net cash from investing on the Cash Flow Budget. The fact that the municipality's cash flow remains positive, and is improving indicates that the necessary cash resources are available to fund the Capital Budget.
4. The Cash backing/surplus reconciliation shows that in previous financial years the municipality was not paying much attention to managing this aspect of its finances, and consequently many of its obligations are not cash-backed. This places the municipality in a very vulnerable financial position, as the recent slow-down in revenue collections highlighted

Table 8 MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

| Functional Classification Description | Ref | 2017/18 | Current Year 2018/19 | | | 2019/20 Medium Term Revenue & Expenditure Framework | | |
|---------------------------------------|-----|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
| | | Audited Outcome | Original Budget | Adjusted Budget | Full Year Forecast | Budget Year 2019/20 | Budget Year +1 2020/21 | Budget Year +2 2021/22 |
| Revenue - Functional | 1 | | | | | | | |
| Governance and administration | | 102,593 | 94,148 | 99,302 | 200,510 | 85,367 | 89,480 | 93,840 |
| Executive and council | | – | 8,616 | 12,899 | – | 12,899 | 12,899 | 12,899 |
| Finance and administration | | 102,593 | 85,532 | 86,402 | 200,510 | 72,468 | 76,581 | 80,941 |
| Internal audit | | – | – | – | – | – | – | – |
| Community and public safety | | 371 | 14,668 | 13,362 | 716 | 13,688 | 13,992 | 14,314 |
| Community and social services | | – | 3,880 | 4,180 | – | 4,180 | 4,180 | 4,180 |
| Sport and recreation | | 312 | 8,226 | 6,199 | 607 | 5,089 | 5,128 | 5,169 |
| Public safety | | 59 | 700 | 107 | 109 | 116 | 123 | 130 |

| | | | | | | | | |
|--|---|----------------|----------------|----------------|----------------|-----------------|-----------------|------------------|
| Housing | | - | 1,862 | 2,876 | - | 4,303 | 4,562 | 4,835 |
| Health | | - | - | - | - | - | - | - |
| Economic and environmental services | | - | 19,319 | 17,446 | - | 8,878 | 8,878 | 8,878 |
| Planning and development | | - | 2,758 | 1,420 | - | 1,420 | 1,420 | 1,420 |
| Road transport | | - | 16,561 | 16,026 | - | 7,458 | 7,458 | 7,458 |
| Environmental protection | | - | - | - | - | - | - | - |
| Trading services | | 85,632 | 270,664 | 244,194 | 144,612 | 194,391 | 203,195 | 212,445 |
| Energy sources | | 27,627 | 59,941 | 52,652 | 47,931 | 51,653 | 54,584 | 57,691 |
| Water management | | 30,300 | 116,139 | 98,245 | 50,082 | 81,429 | 84,395 | 87,539 |
| Waste water management | | 13,829 | 60,650 | 60,084 | 23,223 | 29,971 | 31,377 | 32,868 |
| Waste management | | 13,877 | 33,935 | 33,214 | 23,376 | 31,338 | 32,839 | 34,347 |
| Other | 4 | - | 1,702 | 1,318 | - | 1,318 | 1,318 | 1,318 |
| Total Revenue - Functional | 2 | 188,596 | 400,502 | 375,622 | 345,839 | 303,644 | 316,865 | 330,796 |
| Expenditure - Functional | - | | | | | | | |
| Governance and administration | | 35,985 | 91,258 | 90,903 | 68,027 | 90,592 | 96,004 | 101,766 |
| Executive and council | | 9,146 | 29,892 | 25,818 | 18,501 | 25,763 | 27,360 | 29,062 |
| Finance and administration | | 26,839 | 61,366 | 65,085 | 49,526 | 64,829 | 68,644 | 72,705 |
| Internal audit | | - | - | - | - | - | - | - |
| Community and public safety | | 8,911 | 32,422 | 35,810 | 25,135 | 39,534 | 42,222 | 45,097 |
| Community and social services | | 1,011 | 3,536 | 4,080 | 2,229 | 3,900 | 4,134 | 4,384 |
| Sport and recreation | | 5,646 | 19,154 | 22,157 | 15,942 | 24,572 | 26,263 | 28,072 |
| Public safety | | 1,556 | 7,051 | 6,687 | 5,091 | 8,044 | 8,597 | 9,188 |
| Housing | | 698 | 2,683 | 2,887 | 1,873 | 3,018 | 3,228 | 3,453 |
| Health | | - | - | - | - | - | - | - |
| Economic and environmental services | | 4,083 | 47,467 | 46,886 | 10,534 | 46,745 | 47,705 | 48,729 |
| Planning and development | | 320 | 1,325 | 1,416 | 841 | 1,373 | 1,466 | 1,566 |
| Road transport | | 3,763 | 46,142 | 45,470 | 9,693 | 45,373 | 46,239 | 47,163 |
| Environmental protection | | - | - | - | - | - | - | - |
| Trading services | | 92,835 | 187,925 | 206,044 | 163,502 | 214,086 | 226,226 | 239,124 |
| Energy sources | | 47,152 | 87,415 | 98,650 | 83,669 | 99,384 | 105,198 | 111,366 |
| Water management | | 25,360 | 50,500 | 58,856 | 44,510 | 63,464 | 66,855 | 70,460 |
| Waste water management | | 10,609 | 25,279 | 27,449 | 18,356 | 28,544 | 30,056 | 31,666 |
| Waste management | | 9,714 | 24,731 | 21,089 | 16,967 | 22,695 | 24,117 | 25,631 |
| Other | 4 | 305 | 1,372 | 1,318 | 594 | 953 | 1,019 | 1,091 |
| Total Expenditure - Functional | 3 | 142,118 | 360,444 | 380,962 | 267,791 | 391,911 | 413,176 | 435,808 |
| Surplus/(Deficit) for the year | | 46,479 | 40,057 | (5,339) | 78,048 | (88,267) | (96,312) | (105,011) |

Explanatory notes to MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

- 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 enables the National Treasury to compile 'whole of government' reports.
- Note the Total Revenue on this table includes capital revenues (Transfers recognised – capital) and so does not balance to the operating revenue shown on Table A4.

3. Note that as a general principle the revenues for the Trading Services should exceed their expenditures. The table highlights that this is the case for Water, Waste water and waste management functions, but not the Electricity Services. As already noted above, the municipality will be undertaking a detailed study of this function to explore ways of improving efficiencies and provide a basis for re-evaluating the function's tariff structure.
4. Because the tariffs of electricity are regulated by Nersa and as a result the electricity department has been operating on a deficit. The municipality had a meeting with Nersa and presented electricity department situation in an effort to get assistance or alternatively to have higher tariffs and it was concluded that the municipality must first do a Cost of Supply study.
5. Other functions that show a deficit between revenue and expenditure are being financed from rates revenues and other revenue sources reflected under the Corporate and Finance Services.

Table 9 MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

| Vote Description | Ref | 2017/18 | Current Year 2018/19 | | | 2019/20 Medium Term Revenue & Expenditure Framework | | |
|---|-----|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
| | | Audited Outcome | Original Budget | Adjusted Budget | Full Year Forecast | Budget Year 2019/20 | Budget Year +1 2020/21 | Budget Year +2 2021/22 |
| Revenue by Vote | 1 | | | | | | | |
| Vote 1 - Vote 1 : Executive and Council | | – | 8,616 | 12,899 | 1,158,904 | 12,899 | 12,899 | 12,899 |
| Vote 2 - Vote 2 : Finance and Administration | | 102,593 | 85,532 | 86,402 | 200,510 | 72,466 | 76,579 | 80,939 |
| Vote 3 - Vote 3 : Community Services | | 371 | 12,806 | 10,486 | 869,894 | 9,385 | 9,431 | 9,479 |
| Vote 4 - Vote 4 : Waste Management | | 13,877 | 33,935 | 33,214 | 2,051,458 | 31,338 | 32,839 | 34,347 |
| Vote 5 - Vote 5 : Local Economic Development | | – | 4,460 | 2,739 | 2,028,082 | 2,739 | 2,739 | 2,739 |
| Vote 6 - Vote 6 : Roads Transport | | – | 16,561 | 16,026 | 2,028,082 | 7,458 | 7,458 | 7,458 |
| Vote 7 - Vote 7 : Water | | 30,300 | 116,139 | 98,245 | 339,808 | 81,429 | 84,395 | 87,539 |
| Vote 8 - Vote 8 : Electricity | | 27,627 | 59,941 | 52,652 | 1,786,287 | 51,653 | 54,584 | 57,691 |
| Vote 9 - Vote 9 : Waste Water | | 13,829 | 60,650 | 60,084 | 602,675 | 29,971 | 31,377 | 32,868 |
| Vote 10 - Vote 10 : Housing | | – | 1,862 | 2,876 | 2,317,808 | 4,303 | 4,562 | 4,835 |
| Vote 11 - NULL | | – | – | – | 2,897,260 | – | – | – |
| Vote 12 - NULL | | – | – | – | 2,897,260 | – | – | – |
| Vote 13 - NULL | | – | – | – | 2,897,260 | – | – | – |
| Vote 14 - NULL | | – | – | – | 2,897,260 | – | – | – |
| Vote 15 - NULL | | – | – | – | 2,897,260 | – | – | – |
| Total Revenue by Vote | 2 | 188,596 | 400,502 | 375,622 | 27,869,807 | 303,642 | 316,863 | 330,794 |
| Expenditure by Vote to be appropriated | 1 | | | | | | | |
| Vote 1 - Vote 1 : Executive and Council | | 9,146 | 29,892 | 25,818 | 757,642 | 25,763 | 27,360 | 29,062 |

| | | | | | | | | |
|--|----------|----------------|----------------|----------------|-------------------|-----------------|-----------------|------------------|
| Vote 2 - Vote 2 : Finance and Administration | | 26,839 | 61,366 | 65,085 | 49,526 | 64,829 | 68,644 | 72,705 |
| Vote 3 - Vote 3 : Community Services | | 8,213 | 29,740 | 32,923 | 577,618 | 36,515 | 38,994 | 41,645 |
| Vote 4 - Vote 4 : Waste Management | | 9,714 | 24,731 | 21,089 | 1,310,464 | 22,695 | 24,117 | 25,631 |
| Vote 5 - Vote 5 : Local Economic Development | | 624 | 2,697 | 2,734 | 1,294,932 | 2,326 | 2,485 | 2,657 |
| Vote 6 - Vote 6 : Roads Transport | | 3,763 | 46,142 | 45,470 | 1,303,190 | 45,373 | 46,239 | 47,163 |
| Vote 7 - Vote 7 : Water | | 25,360 | 50,500 | 58,856 | 229,295 | 63,464 | 66,855 | 70,460 |
| Vote 8 - Vote 8 : Electricity | | 47,152 | 87,415 | 98,650 | 1,192,381 | 99,384 | 105,198 | 111,366 |
| Vote 9 - Vote 9 : Waste Water | | 10,609 | 25,279 | 27,449 | 387,927 | 28,636 | 30,155 | 31,772 |
| Vote 10 - Vote 10 : Housing | | 698 | 2,683 | 2,887 | 1,480,156 | 3,018 | 3,228 | 3,453 |
| Vote 11 - NULL | | - | - | - | 1,847,853 | - | - | - |
| Vote 12 - NULL | | - | - | - | 1,847,853 | - | - | - |
| Vote 13 - NULL | | - | - | - | 1,847,853 | - | - | - |
| Vote 14 - NULL | | - | - | - | 1,847,853 | - | - | - |
| Vote 15 - NULL | | - | - | - | 1,847,853 | - | - | - |
| Total Expenditure by Vote | 2 | 142,118 | 360,444 | 380,962 | 17,822,397 | 392,003 | 413,275 | 435,914 |
| Surplus/(Deficit) for the year | 2 | 46,479 | 40,057 | (5,339) | 10,047,410 | (88,361) | (96,413) | (105,119) |

Explanatory notes to MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

1. Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of Nketoana. This means it is possible to present the operating surplus or deficit of a vote. The following table is an analysis of the surplus or deficit for the electricity and water trading services.
2. The electricity department is operating on a deficit and as such cannot subsidise other non-revenue generating departments. It is also burdening the operating budget of the municipality. This is mainly due to the tariffs of electricity which are not cost reflective.

Table 10 MBRR Table A4 - Budgeted Financial Performance (revenue and expenditure)

| Description | Ref | 2017/18 | Current Year 2018/19 | | | | 2019/20 Medium Term Revenue & Expenditure Framework | | |
|--|------|----------------|----------------------|-----------------|-----------------|--------------------|---|---------------------|------------------------|
| | | | Audited Outcome | Original Budget | Adjusted Budget | Full Year Forecast | 2019/2020 Pre-audit outcome | Budget Year 2019/20 | Budget Year +1 2020/21 |
| Nketoana Local Municipality | | | | | | | | | |
| R thousand | | | | | | | | | |
| 2019/2020 Final Annual Budget and MTREF | | | | | | | | | |
| Revenue By Source | | | | | | | | | |
| Property rates | 2 | 12,049 | 21,860 | 21,000 | 20,350 | - | 20,312 | 21,531 | 22,823 |
| Service charges - electricity revenue | 2 | 27,630 | 57,054 | 48,311 | 143,820 | - | 48,858 | 51,789 | 54,896 |
| Service charges - water revenue | 2 | 29,504 | 56,442 | 43,198 | 62,854 | - | 49,005 | 51,946 | 55,063 |
| Service charges - sanitation revenue | 2 | 13,831 | 22,855 | 23,517 | 23,229 | - | 23,443 | 24,850 | 26,341 |
| Service charges - refuse revenue | 2 | 13,238 | 22,191 | 22,640 | 66,489 | - | 22,351 | 23,692 | 25,114 |
| Rental of facilities and equipment | | 268 | 782 | 459 | 472 | - | 462 | 490 | 519 |
| Interest earned - external investments | | 553 | 1,411 | 958 | 752 | - | 844 | 894 | 948 |
| Interest earned - outstanding debtors | | 25,546 | 42,201 | 42,903 | 44,461 | - | 44,033 | 46,675 | 49,476 |
| Dividends received | | - | - | - | - | - | - | - | - |
| Fines, penalties and forfeits | | 194 | 650 | 302 | 334 | - | 255 | 270 | 286 |
| Licences and permits | | - | 585 | - | - | - | - | - | - |
| Agency services | | - | - | - | - | - | - | - | - |
| Transfers and subsidies | | 63,422 | 115,319 | 115,063 | 264,752 | - | 91,274 | 91,670 | 92,091 |
| Other revenue | 2 | 1,511 | 19,153 | 17,270 | 4,645 | - | 2,806 | 3,057 | 3,240 |
| Gains on disposal of PPE | | - | - | - | - | - | - | - | - |
| Total Revenue (excluding capital transfers and contributions) | | 187,745 | 360,502 | 335,622 | 632,160 | - | 303,644 | 316,865 | 330,797 |
| Expenditure By Type | | | | | | | | | |
| Employee related costs | 2 | 32,675 | 118,387 | 124,187 | 90,455 | - | 132,507 | 141,731 | 151,596 |
| Remuneration of councillors | | - | - | - | 19 | - | - | - | - |
| Debt impairment | 3 | 35,354 | 55,027 | 52,900 | 62,811 | - | 58,029 | 61,510 | 65,201 |
| Depreciation & asset impairment | 2 | - | 58,873 | 58,873 | - | - | 58,873 | 58,873 | 58,873 |
| Finance charges | | 12,712 | 18,115 | 22,002 | 70,702 | - | 26,452 | 28,039 | 29,721 |
| Bulk purchases | 2 | - | 9,577 | 770 | 156,133 | - | 58,412 | 61,917 | 65,632 |
| Other materials | 8 | 3,512 | 5,884 | 8,210 | 7,793 | - | 6,470 | 6,858 | 7,269 |
| Contracted services | | 57,861 | 94,573 | 114,011 | 64,664 | - | 30,771 | 32,617 | 34,574 |
| Transfers and subsidies | 4 | 9 | 10 | 10 | - | - | - | - | - |
| Other expenditure | 4, 5 | - | - | - | - | - | 20,398 | 21,632 | 22,941 |
| Loss on disposal of PPE | | - | - | - | - | - | - | - | - |
| Total Expenditure | | 142,118 | 360,444 | 380,962 | 452,577 | - | 391,911 | 413,176 | 435,808 |
| Surplus/(Deficit) | | 45,628 | 57 | (45,339) | 179,583 | - | (88,267) | (96,312) | (105,011) |
| Transfers and subsidies - capital (monetary allocations) (National / Provincial and District) | | 851 | 40,000 | 40,000 | 3,405 | - | - | - | - |
| Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions) | 6 | - | - | - | - | - | - | - | - |

| | | | | | | | | |
|--|---------------|---------------|----------------|----------------|----------|-----------------|-----------------|------------------|
| Transfers and subsidies - capital (in-kind - all) | - | - | - | - | - | - | - | - |
| Surplus/(Deficit) after capital transfers & contributions | 46,479 | 40,057 | (5,339) | 182,988 | - | (88,267) | (96,312) | (105,011) |
| Taxation | - | - | - | - | - | - | - | - |
| Surplus/(Deficit) after taxation | 46,479 | 40,057 | (5,339) | 182,988 | - | (88,267) | (96,312) | (105,011) |
| Attributable to minorities | - | - | - | - | - | - | - | - |
| Surplus/(Deficit) attributable to municipality | 46,479 | 40,057 | (5,339) | 182,988 | - | (88,267) | (96,312) | (105,011) |
| Share of surplus/ (deficit) of associate | 7 | - | - | - | - | - | - | - |
| Surplus/(Deficit) for the year | 46,479 | 40,057 | (5,339) | 182,988 | - | (88,267) | (96,312) | (105,011) |

Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)

- Total revenue is R303 Million in 2019/20 and escalates to R330 Million by 2021/22. This represents a year-on-year increase of 8.9% from the 2019/20 financial year and for the two outer years.
- Revenue to be generated from property rates is R20 Million in the 2019/20 financial year and increases to R22 million by 2021/22 which represents 6% of the operating revenue base of Nketoana. It remains relatively constant over the medium-term and tariff increases have been factored in at 7 per cent of the respective financial years of the MTREF.
- The surplus on the water account remains relatively high over the MTREF translating into a surplus of 68 per cent, 70 per cent and 73 per cent for each of the respective financial years over the MTREF.
- Note that the surpluses on these trading accounts are supposed to be utilised as an internal funding source *used to cross-subsidise other municipal services*. At the moment only the water surplus is used as electricity is operating on a deficit.
- Total revenue is R303 Million in 2019/20 and escalates to R330 Million by 2021/22. This represents a year-on-year increase of 8.9% from the 2019/20 financial year and for the two outer years.
- Revenue to be generated from property rates is R20 Million in the 2019/20 financial year and increases to R22 million by 2021/22 which represents 6% of the operating revenue base of Nketoana. It remains relatively constant over the medium-term and tariff increases have been factored in at 7 per cent of the respective financial years of the MTREF.
- Services charges relating to electricity, water, sanitation and refuse removal constitutes the biggest component of the revenue basket of the Nketoana totalling R143 million for the 2019/20 financial year and increasing to R161 million by 2021/22. For the 2019/20 financial year services charges amount to 47% of the total revenue base and grows by 6 per cent per annum over the medium-term. This growth can mainly be attributed to the increase in the bulk prices of electricity and water.
- Transfers recognised – operational includes the local government equitable share and other operating grants from national and provincial government. It needs to be noted

that in real terms the grants receipts from national government are growing rapidly over the MTREF by 9 per cent and 6 per cent for the two outer years. The percentage share of this revenue source declines due to the more rapid relative growth in service charge revenues.

9. Bulk purchases increases from 2019/20 to 2021/22 period respectively from R58 million to R65 million. These increases can be attributed to the substantial increase in the cost of bulk electricity from Eskom and water from Rand Water.
10. Employee related costs and bulk purchases are the main cost drivers within the municipality and alternative operational gains and efficiencies will have to be identified to lessen the impact of wage and bulk tariff increases in future years.

Table 11 MBRR Table A6 - Budgeted Financial Position

| Description | Ref | Current Year 2018/19 | | | | 2019/20 Medium Term Revenue & Expenditure Framework | | |
|--|-----|----------------------|-----------------|--------------------|-------------------|---|------------------------|------------------------|
| | | Original Budget | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2019/20 | Budget Year +1 2020/21 | Budget Year +2 2021/22 |
| R thousand | | | | | | | | |
| ASSETS | | | | | | | | |
| Current assets | | | | | | | | |
| Cash | | (150,244) | (155,635) | 225,149 | - | (91,333) | (99,563) | (108,458) |
| Call investment deposits | 1 | - | - | 4,133 | - | - | - | - |
| Consumer debtors | 1 | 125,374 | 86,721 | (8,679,360) | - | - | - | - |
| Other debtors | | - | - | 8,185,831 | - | - | - | - |
| Current portion of long-term receivables | | - | - | - | - | - | - | - |
| Inventory | 2 | - | - | 28,235 | - | - | - | - |
| Total current assets | | (24,870) | (68,914) | (236,012) | - | (91,333) | (99,563) | (108,458) |
| Non current assets | | | | | | | | |
| Long-term receivables | | - | - | 10,838,832 | - | - | - | - |
| Investments | | - | - | 32,178 | - | - | - | - |
| Investment property | | - | - | - | - | - | - | - |
| Investment in Associate | | - | - | - | - | - | - | - |
| Property, plant and equipment | 3 | 64,927 | 63,575 | 8,920,852 | - | 2,972 | 3,150 | 3,339 |
| Biological | | - | - | 2,831 | - | - | - | - |
| Intangible | | - | - | - | - | - | - | - |
| Other non-current assets | | - | - | 348,712 | - | - | - | - |
| Total non current assets | | 64,927 | 63,575 | 20,143,404 | - | 2,972 | 3,150 | 3,339 |
| TOTAL ASSETS | | 40,057 | (5,339) | 19,907,392 | - | (88,361) | (96,413) | (105,119) |
| LIABILITIES | | | | | | | | |
| Current liabilities | | | | | | | | |
| Bank overdraft | 1 | - | - | - | - | - | - | - |
| Borrowing | 4 | - | - | 63,679 | - | - | - | - |
| Consumer deposits | | - | - | 39,408 | - | - | - | - |
| Trade and other payables | 4 | - | - | (483,119) | - | - | - | - |
| Provisions | | - | - | 255,853 | - | - | - | - |
| Total current liabilities | | - | - | (124,179) | - | - | - | - |

| | | | | | | | | |
|--------------------------------------|---|---------------|----------------|-------------------|---|-----------------|-----------------|------------------|
| Non current liabilities | | | | | | | | |
| Borrowing | | - | - | 258,899 | - | - | - | - |
| Provisions | | - | - | 1,998,467 | - | - | - | - |
| Total non current liabilities | | - | - | 2,257,366 | - | - | - | - |
| TOTAL LIABILITIES | | - | - | 2,133,187 | - | - | - | - |
| NET ASSETS | 5 | 40,057 | (5,339) | 17,774,205 | - | (88,361) | (96,413) | (105,119) |
| COMMUNITY WEALTH/EQUITY | | | | | | | | |
| Accumulated Surplus/(Deficit) | | 40,057 | (5,339) | (8,460,165) | - | (88,267) | (96,312) | (105,011) |
| Reserves | 4 | - | - | 34,891,393 | - | - | - | - |
| TOTAL COMMUNITY WEALTH/EQUITY | 5 | 40,057 | (5,339) | 26,431,228 | - | (88,267) | (96,312) | (105,011) |

Explanatory notes to Table A6 - Budgeted Financial Position

1. Table A6 is consistent with international standards of good financial management practice, and improves understand ability for councillors and management of the impact of the budget on the statement of financial position (balance sheet).

2. 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.

3. 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;
- Consumer debtors;
- Property, plant and equipment;
- Trade and other payables;
- Provisions non-current;
- Changes in net assets; and
- Reserves

4. 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.

5. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the

determination of ratios and financial indicators. In addition the funding compliance assessment is informed directly by forecasting the statement of financial position.

Table 12 MBRR Table A7 - Budgeted Cash Flow Statement

| Description | Ref | Current Year 2018/19 | | | | 2019/20 Medium Term Revenue & Expenditure Framework | | |
|---|-----|----------------------|-----------------|---------------------|-------------------|---|------------------------|------------------------|
| | | Original Budget | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2019/20 | Budget Year +1 2020/21 | Budget Year +2 2021/22 |
| R thousand | | | | | | | | |
| CASH FLOW FROM OPERATING ACTIVITIES | | | | | | | | |
| Receipts | | | | | | | | |
| Property rates | | - | - | (68,144) | - | 20,312 | 21,531 | 22,823 |
| Service charges | | 55,027 | 71,945 | 9,064,246 | - | 143,657 | 152,277 | 161,413 |
| Other revenue | | 21,170 | 18,032 | (8,180,379) | - | 3,521 | 3,815 | 4,044 |
| Government - operating | 1 | 115,319 | 115,063 | 264,752 | - | 91,274 | 91,670 | 92,091 |
| Government - capital | 1 | 40,000 | 40,000 | 3,405 | - | - | - | - |
| Interest | | 43,612 | 43,861 | 45,213 | - | 44,877 | 47,570 | 50,424 |
| Dividends | | - | - | - | - | - | - | - |
| Payments | | | | | | | | |
| Suppliers and employees | | (283,448) | (300,077) | 1,361,091 | - | (306,679) | (326,364) | (347,320) |
| Finance charges | | (18,115) | (22,002) | (70,702) | - | (26,452) | (28,039) | (29,721) |
| Transfers and Grants | 1 | (9) | (10) | - | - | - | - | - |
| NET CASH FROM/(USED) OPERATING ACTIVITIES | | (26,444) | (33,188) | 2,419,484 | - | (29,489) | (37,540) | (46,247) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | | | |
| Receipts | | | | | | | | |
| Proceeds on disposal of PPE | | - | - | - | - | - | - | - |
| Decrease (Increase) in non-current debtors | | - | - | (10,838,832) | - | - | - | - |
| Decrease (increase) other non-current receivables | | - | - | (348,712) | - | - | - | - |
| Decrease (increase) in non-current investments | | - | - | (32,178) | - | - | - | - |
| Payments | | | | | | | | |
| Capital assets | | (64,927) | (63,575) | 86,755 | - | (2,972) | (3,150) | (3,339) |
| NET CASH FROM/(USED) INVESTING ACTIVITIES | | (64,927) | (63,575) | (11,132,966) | - | (2,972) | (3,150) | (3,339) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | | | | |
| Receipts | | | | | | | | |
| Short term loans | | - | - | - | - | - | - | - |
| Borrowing long term/refinancing | | - | - | 322,578 | - | - | - | - |
| Increase (decrease) in consumer deposits | | - | - | 39,408 | - | - | - | - |
| Payments | | | | | | | | |
| Repayment of borrowing | | - | - | - | - | - | - | - |
| NET CASH FROM/(USED) FINANCING ACTIVITIES | | - | - | 361,986 | - | - | - | - |
| NET INCREASE/ (DECREASE) IN CASH HELD | | (91,371) | (96,763) | (8,351,497) | - | (32,461) | (40,690) | (49,586) |
| Cash/cash equivalents at the year begin: | 2 | - | - | - | - | - | - | - |

| | | | | | | | | |
|--|---|----------|----------|-------------|---|----------|----------|-----------|
| | | | | | | | (32,461) | (73,151) |
| Cash/cash equivalents at the year end: | 2 | (91,371) | (96,763) | (8,351,497) | - | (32,461) | (73,151) | (122,737) |

Explanatory notes to Table A7 - Budgeted Cash Flow Statement

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
3. The 2019/20 MTREF has been informed by the planning principle of ensuring adequate cash reserves over the medium-term.

Table 13 MBRR Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

| Description | Ref | Current Year 2018/19 | | | | 2019/20 Medium Term Revenue & Expenditure Framework | | |
|---|-----|----------------------|------------------|---------------------|-------------------|---|------------------------|------------------------|
| | | Original Budget | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2019/20 | Budget Year +1 2020/21 | Budget Year +2 2021/22 |
| Cash and investments available | | | | | | | | |
| Cash/cash equivalents at the year end | 1 | (91,371) | (96,763) | (8,351,497) | - | (32,461) | (73,151) | (122,737) |
| Other current investments > 90 days | | (58,873) | (58,873) | 8,580,778 | - | (58,873) | (26,412) | 14,278 |
| Non current assets - Investments | 1 | - | - | 32,178 | - | - | - | - |
| Cash and investments available: | | (150,244) | (155,635) | 261,459 | - | (91,333) | (99,563) | (108,458) |
| Application of cash and investments | | | | | | | | |
| Unspent conditional transfers | | - | - | (76,200) | - | - | - | - |
| Unspent borrowing | | - | - | - | - | - | - | - |
| Statutory requirements | 2 | | | | | | | |
| Other working capital requirements | 3 | (39,189) | (35,532) | (23,422,818) | - | - | - | - |
| Other provisions | | | | | | | | |
| Long term investments committed | 4 | - | - | - | - | - | - | - |
| Reserves to be backed by cash/investments | 5 | | | | | | | |
| Total Application of cash and investments: | | (39,189) | (35,532) | (23,499,019) | - | - | - | - |
| Surplus(shortfall) | | (111,055) | (120,103) | 23,760,478 | - | (91,333) | (99,563) | (108,458) |

Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.

3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".
4. Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.
5. From the table it can be seen that for the period 2019/20 to 2021/22 the shortfall increased from R91 333 million to R 108 458 million.

Table 14 MBRR Table A9 - Asset Management

| Description | Ref | Current Year 2018/19 | | | 2019/20 Medium Term Revenue & Expenditure Framework | | |
|---|-----|----------------------|-----------------|--------------------|---|------------------------|------------------------|
| | | Original Budget | Adjusted Budget | Full Year Forecast | Budget Year 2019/20 | Budget Year +1 2020/21 | Budget Year +2 2021/22 |
| R thousand | | | | | | | |
| CAPITAL EXPENDITURE | | | | | | | |
| Total New Assets | 1 | 24,631 | 24,631 | - | 2,972 | 3,150 | 3,339 |
| <i>Roads Infrastructure</i> | | - | - | - | - | - | - |
| <i>Storm water Infrastructure</i> | | 1,522 | 1,522 | - | - | - | - |
| <i>Electrical Infrastructure</i> | | 1,547 | 1,547 | - | - | - | - |
| <i>Water Supply Infrastructure</i> | | 20,612 | 20,612 | - | - | - | - |
| <i>Sanitation Infrastructure</i> | | - | - | - | - | - | - |
| <i>Solid Waste Infrastructure</i> | | - | - | - | 2,862 | 3,033 | 3,215 |
| <i>Rail Infrastructure</i> | | - | - | - | - | - | - |
| <i>Coastal Infrastructure</i> | | - | - | - | - | - | - |
| <i>Information and Communication Infrastructure</i> | | - | - | - | - | - | - |
| Infrastructure | | 23,681 | 23,681 | - | 2,862 | 3,033 | 3,215 |
| Community Facilities | | - | - | - | - | - | - |
| Sport and Recreation Facilities | | 950 | 950 | - | - | - | - |
| Community Assets | | 950 | 950 | - | - | - | - |
| Heritage Assets | | - | - | - | - | - | - |
| Revenue Generating | | - | - | - | - | - | - |
| Non-revenue Generating | | - | - | - | - | - | - |
| Investment properties | | - | - | - | - | - | - |
| Operational Buildings | | - | - | - | - | - | - |
| Housing | | - | - | - | - | - | - |
| Other Assets | | - | - | - | - | - | - |
| Biological or Cultivated Assets | | - | - | - | - | - | - |
| Servitudes | | - | - | - | - | - | - |
| Licences and Rights | | - | - | - | - | - | - |
| Intangible Assets | | - | - | - | - | - | - |
| Computer Equipment | | - | - | - | - | - | - |
| Furniture and Office Equipment | | - | - | - | 110 | 117 | 124 |
| Machinery and Equipment | | - | - | - | - | - | - |
| Transport Assets | | - | - | - | - | - | - |
| Land | | - | - | - | - | - | - |
| Zoo's, Marine and Non-biological Animals | | - | - | - | - | - | - |
| Total Renewal of Existing Assets | 2 | - | - | - | - | - | - |
| <i>Roads Infrastructure</i> | | - | - | - | - | - | - |
| <i>Storm water Infrastructure</i> | | - | - | - | - | - | - |
| <i>Electrical Infrastructure</i> | | - | - | - | - | - | - |
| <i>Water Supply Infrastructure</i> | | - | - | - | - | - | - |
| <i>Sanitation Infrastructure</i> | | - | - | - | - | - | - |

| | | | | | | | |
|---|---|---------------|---------------|---|---|---|---|
| <i>Solid Waste Infrastructure</i> | | - | - | - | - | - | - |
| <i>Rail Infrastructure</i> | | - | - | - | - | - | - |
| <i>Coastal Infrastructure</i> | | - | - | - | - | - | - |
| <i>Information and Communication Infrastructure</i> | | - | - | - | - | - | - |
| Infrastructure | | - | - | - | - | - | - |
| Community Facilities | | - | - | - | - | - | - |
| Sport and Recreation Facilities | | - | - | - | - | - | - |
| Community Assets | | - | - | - | - | - | - |
| Heritage Assets | | - | - | - | - | - | - |
| Revenue Generating | | - | - | - | - | - | - |
| Non-revenue Generating | | - | - | - | - | - | - |
| Investment properties | | - | - | - | - | - | - |
| Operational Buildings | | - | - | - | - | - | - |
| Housing | | - | - | - | - | - | - |
| Other Assets | | - | - | - | - | - | - |
| Biological or Cultivated Assets | | - | - | - | - | - | - |
| Servitudes | | - | - | - | - | - | - |
| Licences and Rights | | - | - | - | - | - | - |
| Intangible Assets | | - | - | - | - | - | - |
| Computer Equipment | | - | - | - | - | - | - |
| Furniture and Office Equipment | | - | - | - | - | - | - |
| Machinery and Equipment | | - | - | - | - | - | - |
| Transport Assets | | - | - | - | - | - | - |
| Land | | - | - | - | - | - | - |
| Zoo's, Marine and Non-biological Animals | | - | - | - | - | - | - |
| Total Upgrading of Existing Assets | 6 | 40,296 | 38,944 | - | - | - | - |
| <i>Roads Infrastructure</i> | | 7,046 | 5,694 | - | - | - | - |
| <i>Storm water Infrastructure</i> | | - | - | - | - | - | - |
| <i>Electrical Infrastructure</i> | | - | - | - | - | - | - |
| <i>Water Supply Infrastructure</i> | | 2,531 | 2,531 | - | - | - | - |
| <i>Sanitation Infrastructure</i> | | 20,279 | 20,279 | - | - | - | - |
| <i>Solid Waste Infrastructure</i> | | 9,760 | 9,760 | - | - | - | - |
| <i>Rail Infrastructure</i> | | - | - | - | - | - | - |
| <i>Coastal Infrastructure</i> | | - | - | - | - | - | - |
| <i>Information and Communication Infrastructure</i> | | - | - | - | - | - | - |
| Infrastructure | | 39,616 | 38,264 | - | - | - | - |
| Community Facilities | | - | - | - | - | - | - |
| Sport and Recreation Facilities | | 255 | 255 | - | - | - | - |
| Community Assets | | 255 | 255 | - | - | - | - |
| Heritage Assets | | - | - | - | - | - | - |
| Revenue Generating | | - | - | - | - | - | - |
| Non-revenue Generating | | - | - | - | - | - | - |
| Investment properties | | - | - | - | - | - | - |
| Operational Buildings | | 425 | 425 | - | - | - | - |
| Housing | | - | - | - | - | - | - |
| Other Assets | | 425 | 425 | - | - | - | - |
| Biological or Cultivated Assets | | - | - | - | - | - | - |
| Servitudes | | - | - | - | - | - | - |
| Licences and Rights | | - | - | - | - | - | - |
| Intangible Assets | | - | - | - | - | - | - |
| Computer Equipment | | - | - | - | - | - | - |
| Furniture and Office Equipment | | - | - | - | - | - | - |
| Machinery and Equipment | | - | - | - | - | - | - |
| Transport Assets | | - | - | - | - | - | - |
| Land | | - | - | - | - | - | - |
| Zoo's, Marine and Non-biological Animals | | - | - | - | - | - | - |

| | | | | | | | |
|---|---|---------------|---------------|---|--------------|--------------|--------------|
| Total Capital Expenditure | 4 | 64,927 | 63,575 | - | 2,972 | 3,150 | 3,339 |
| <i>Roads Infrastructure</i> | | 7,046 | 5,694 | - | - | - | - |
| <i>Storm water Infrastructure</i> | | 1,522 | 1,522 | - | - | - | - |
| <i>Electrical Infrastructure</i> | | 1,547 | 1,547 | - | - | - | - |
| <i>Water Supply Infrastructure</i> | | 23,143 | 23,143 | - | - | - | - |
| <i>Sanitation Infrastructure</i> | | 20,279 | 20,279 | - | - | - | - |
| <i>Solid Waste Infrastructure</i> | | 9,760 | 9,760 | - | 2,862 | 3,033 | 3,215 |
| <i>Rail Infrastructure</i> | | - | - | - | - | - | - |
| <i>Coastal Infrastructure</i> | | - | - | - | - | - | - |
| <i>Information and Communication Infrastructure</i> | | - | - | - | - | - | - |
| Infrastructure | | 63,297 | 61,945 | - | 2,862 | 3,033 | 3,215 |
| Community Facilities | | - | - | - | - | - | - |
| Sport and Recreation Facilities | | 1,205 | 1,205 | - | - | - | - |
| Community Assets | | 1,205 | 1,205 | - | - | - | - |
| Heritage Assets | | - | - | - | - | - | - |
| Revenue Generating | | - | - | - | - | - | - |
| Non-revenue Generating | | - | - | - | - | - | - |
| Investment properties | | - | - | - | - | - | - |
| Operational Buildings | | 425 | 425 | - | - | - | - |
| Housing | | - | - | - | - | - | - |
| Other Assets | | 425 | 425 | - | - | - | - |
| Biological or Cultivated Assets | | - | - | - | - | - | - |
| Servitudes | | - | - | - | - | - | - |
| Licences and Rights | | - | - | - | - | - | - |
| Intangible Assets | | - | - | - | - | - | - |
| Computer Equipment | | - | - | - | - | - | - |
| Furniture and Office Equipment | | - | - | - | 110 | 117 | 124 |
| Machinery and Equipment | | - | - | - | - | - | - |
| Transport Assets | | - | - | - | - | - | - |
| Land | | - | - | - | - | - | - |
| Zoo's, Marine and Non-biological Animals | | - | - | - | - | - | - |
| TOTAL CAPITAL EXPENDITURE - Asset class | | 64,927 | 63,575 | - | 2,972 | 3,150 | 3,339 |
| ASSET REGISTER SUMMARY - PPE (WDV) | 5 | - | - | - | - | - | - |
| <i>Roads Infrastructure</i> | | | | | | | |
| <i>Storm water Infrastructure</i> | | | | | | | |
| <i>Electrical Infrastructure</i> | | | | | | | |
| <i>Water Supply Infrastructure</i> | | | | | | | |
| <i>Sanitation Infrastructure</i> | | | | | | | |
| <i>Solid Waste Infrastructure</i> | | | | | | | |
| <i>Rail Infrastructure</i> | | | | | | | |
| <i>Coastal Infrastructure</i> | | | | | | | |
| <i>Information and Communication Infrastructure</i> | | | | | | | |
| Infrastructure | | - | - | - | - | - | - |
| Community Assets | | | | | | | |
| Heritage Assets | | | | | | | |
| Investment properties | | | | | | | |
| Other Assets | | | | | | | |
| Biological or Cultivated Assets | | | | | | | |
| Intangible Assets | | | | | | | |
| Computer Equipment | | | | | | | |
| Furniture and Office Equipment | | | | | | | |

| | | | | | | | |
|---|---|---------------|---------------|----------|---------------|---------------|---------------|
| Machinery and Equipment | | | | | | | |
| Transport Assets | | | | | | | |
| Land | | | | | | | |
| Zoo's, Marine and Non-biological Animals | | | | | | | |
| TOTAL ASSET REGISTER SUMMARY - PPE (WDV) | 5 | - | - | - | - | - | - |
| EXPENDITURE OTHER ITEMS | | 70,694 | 70,257 | - | 71,925 | 72,708 | 73,539 |
| <u>Depreciation</u> | 7 | 58,873 | 58,873 | - | 58,873 | 58,873 | 58,873 |
| <u>Repairs and Maintenance by Asset Class</u> | 3 | 11,821 | 11,384 | - | 13,053 | 13,836 | 14,666 |
| <i>Roads Infrastructure</i> | | 2,212 | 1,909 | - | 1,952 | 2,070 | 2,194 |
| <i>Storm water Infrastructure</i> | | - | - | - | - | - | - |
| <i>Electrical Infrastructure</i> | | 911 | 925 | - | 811 | 860 | 911 |
| <i>Water Supply Infrastructure</i> | | 1,500 | 2,570 | - | 3,371 | 3,573 | 3,787 |
| <i>Sanitation Infrastructure</i> | | 100 | 200 | - | 296 | 314 | 332 |
| <i>Solid Waste Infrastructure</i> | | - | - | - | - | - | - |
| <i>Rail Infrastructure</i> | | - | - | - | - | - | - |
| <i>Coastal Infrastructure</i> | | - | - | - | - | - | - |
| <i>Information and Communication Infrastructure</i> | | - | - | - | - | - | - |
| Infrastructure | | 4,723 | 5,604 | - | 6,430 | 6,816 | 7,225 |
| Community Facilities | | 300 | 558 | - | 487 | 516 | 547 |
| Sport and Recreation Facilities | | 80 | 40 | - | 3 | 3 | 3 |
| Community Assets | | 380 | 598 | - | 489 | 518 | 550 |
| Heritage Assets | | - | - | - | - | - | - |
| Revenue Generating | | - | - | - | - | - | - |
| Non-revenue Generating | | - | - | - | - | - | - |
| Investment properties | | - | - | - | - | - | - |
| Operational Buildings | | 300 | 498 | - | 384 | 407 | 432 |
| Housing | | - | - | - | - | - | - |
| Other Assets | | 300 | 498 | - | 384 | 407 | 432 |
| Biological or Cultivated Assets | | - | - | - | - | - | - |
| Servitudes | | - | - | - | - | - | - |
| Licences and Rights | | - | - | - | - | - | - |
| Intangible Assets | | - | - | - | - | - | - |
| Computer Equipment | | 500 | 400 | - | 76 | 81 | 86 |
| Furniture and Office Equipment | | 10 | - | - | - | - | - |
| Machinery and Equipment | | 4,148 | 3,585 | - | 5,145 | 5,454 | 5,781 |
| Transport Assets | | 1,760 | 700 | - | 528 | 560 | 593 |
| Land | | - | - | - | - | - | - |
| Zoo's, Marine and Non-biological Animals | | - | - | - | - | - | - |
| TOTAL EXPENDITURE OTHER ITEMS | | 70,694 | 70,257 | - | 71,925 | 72,708 | 73,539 |

Explanatory notes to Table A9 - Asset Management

1. Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.

2. National Treasury has recommended that municipalities should allocate at least 40 per cent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8 per cent of PPE.

Part 2 – Supporting Documentation

2.1 Overview of the Annual Budget Process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition, Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the MMC for Finance.

The primary aim of the Budget Steering Committee is to ensure:

- That the process followed to compile the budget complies with legislation and good budget practices;
- That there is proper alignment between the policy and service delivery priorities set out in the Municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- That the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- That the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.2 Budget Process Overview

BUDGET TIMELINE 2019/2020 Budget

| Budget Activity | Timeline | Responsible Person |
|--|---|--------------------|
| 1. Situation Analysis / Data Collection of IDP 2018/2019 | 1 st September 2018 – 31 st December 2018 | Manager IDP |
| 2. Preparation of Budget Guidelines | 1 st – 31 st October 2018 | CFO |
| 3. 1 st Quarter Budget Assessment Report | 13 th October 2018 | BTO |
| 4. Budget Steering Committee Meeting | 17 th October 2018 | Mayor |
| 5. 2 nd Quarter Budget Assessment Report and Submission of Half Yearly Budget Report. | 18 th January 2019 | BTO |
| 6. Budget Steering Committee Meeting | 23 rd January 2019 | Mayor |
| 7. Table 2018-2019 Mid Term Budget Performance and Assessment Report to Council. | 25 th January 2019 | Mayor |
| 8. Mid Year Budget Performance Engagement – Provincial Treasury | January – February 2019 | CFO/MM |
| 9. Projects – Planning the Future | 01 st – 28 th February 2019 | Manager IDP |
| 10. Table 2018-2019 Adjustment Budget to Council. | 28 th February 2019 | Mayor |
| 11. Submit the 2019-2020 Draft Budget to the Mayor. | 08 th – 15 th March 2019 | CFO/MM |
| 12. Budget Steering Committee Meeting | 20 th March 2019 | Mayor |
| 13. Finalize the 2019-2020 Draft Budget | 22 nd March 2019 | CFO/MM |
| 14. Council Meeting to Table the Draft Budget. | 28 th March 2019 | Mayor |
| 15. Obtain Comments from the public on Draft Budget 2019/20 | 01 st -30 th April 2019 | Mayor |
| 16. Budget and Benchmark Assessment – Provincial Treasury | April - May 2019 | CFO/MM |
| 17. Budget Steering Committee Meeting | 09 th May 2019 | Mayor |
| 18. Finalize budget and tariffs for 2019-2020 | 17 th May 2019 | CFO/MM |
| 19. Submit Final Draft budget 2019-2020 to the Mayor. | 22 nd May 2019 | MM |
| 20. Table Final 2019-2020 Annual Budget for Approval | 30 th May 2019 | Mayor |

There were no major deviations from the key dates set out in the Budget Time Schedule tabled in Council.

2.3 Community Consultation, IDP and Service Delivery and Budget Implementation Plan

The 2019/20 MTREF budget was tabled before council on 28 March 2019 and for community consultation.

The municipality will be consulting all the stakeholders on the budget.

2.4 Overview of alignment of annual budget and IDP and strategic objectives

In order to ensure integrated and focused service delivery between all spheres of government it was important for Nketoana Local Municipality to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building clean, healthy, safe, and sustainable communities, financial viability, and sound institutional governance.

Local priorities were identified as part of the IDP review process, which is directly aligned to that of the national and provincial priorities. The key performance areas can be summarised as follows against the five strategic objectives:

1. Provision of quality basic services and infrastructure which includes, amongst others:
 - Provide electricity;
 - Provide water;
 - Provide sanitation;
 - Provide waste removal;
 - Provide roads and storm water;
 - Provide stands;
 - Maintaining the infrastructure of the Municipality.
2. Economic growth and development that leads to sustainable job creation by:
 - Ensuring there is a clear structural plan for the Municipality;
 - Ensuring planning processes function in accordance with set timeframes;
 - Facilitating the use of labour intensive approaches in the delivery of services and the building of infrastructure.
3. Fight poverty and build clean, healthy, safe and sustainable communities:

- Effective implementation of the Indigent Policy;
 - Extending waste removal services and ensuring effective city cleansing;
 - Ensuring all waste water treatment works are operating optimally;
 - Working with Police to address crime;
 - Ensuring safe working environments by effective enforcement of building and health regulations;
 - Promote viable, sustainable communities through proper zoning.
4. Good governance, financial viability and institutional governance:
- Reviewing the use of contracted services;
 - Continuing to implement the infrastructure renewal strategy and the repairs and maintenance plan;
 - Publishing the outcomes of all tender processes on the municipal website;
 - To create financially sustainable and accountable municipality.

2.5 Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with Legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the Municipality has developed and implemented a performance management system of which system is constantly refined as the intergraded planning process unfolds. The Municipality targets, monitors, assesses and reviews organisational performance, which in turn is directly linked to the HOD's performance.

The performance of the Municipality relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The Municipality therefore has adopted one integrated performance management system which encompasses:

- ❖ Planning (setting goals, objectives, targets and benchmarks);
- ❖ Monitoring (regular monitoring and checking on the progress against plan);
- ❖ Measurement (indicators of success);
- ❖ Review (identifying areas requiring change and improvement);
- ❖ Reporting (what information, to whom, from whom, how often and for what purpose); and
- ❖ Improvement (making changes where necessary).

2.6 Overview of budget related-policies

The Nketoana's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

- **Credit control and debt collection Policy**

It was also brought to the attention of the Council that outstanding debt (excluding rates that expires after 30 years), do expire after three (3) years under certain conditions.

A workshop was held by the Council and Management on, inter alia, the Revenue Policies. All approved policies were accepted by Council except for the postponement of the implementation of the 30/70% debt collection via the pre-paid electricity system as per the Credit Control and Debt Collection policy. The latest changes on the policies/by-laws were tabled to in Council on 31 March 2019.

- **Fixed Asset Management Policy**

The utilization and management of property, plant and equipment is the prime mechanism by which a municipality can fulfil its constitutional mandates for :

- ✓ Delivery of sustainable services,
- ✓ Social and economic development,
- ✓ Promoting safe and healthy environments; and
- ✓ Providing the basic needs to the community.

As trustees on behalf of the local community, the municipality has a legislative and moral obligation to ensure it implements policies to safeguard the monetary value and future service provision invested in property, plant and equipment.

- **Supply Chain Management Policy**

The Supply Chain Management Policy was tabled in Council in March 2019. There was also another policy which was tabled with the SCM Policy which is the SCM Policy for Infrastructure & Delivery Management

MFMA Circular No 77: Model SCM Policy for Infrastructure Delivery Management provides guidance to municipalities and municipal entities on the establishment of a suitable supply chain management system for infrastructure delivery which is better able to deliver value for money, while minimizing the scope for corruption.

- **Budget and Virement Policy**

The Budget and Virement Policy aims to empower senior managers with an efficient financial and budgetary amendment and control system to ensure optimum service delivery within the legislative framework of the MFMA and the Nketoana's system of delegations. The Budget and Virement Policy was tabled in Council for review in March 2019 in respect of both Operating and Capital Budget Fund Transfers.

- **Banking and Investment Policy**

The Nketoana's banking and Investment Policy was also tabled in Council in March 2019. The aim of the policy is to ensure that the Nketoana's surplus cash and investments are adequately managed, especially the funds set aside for the cash backing of certain reserves. The policy details the minimum cash and cash equivalents required at any point in time and introduces time frames to achieve certain benchmarks.

- **Tariff Policy**

The Nketoana's tariff policy provide a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery.

- **Indigent Policy**

The provision of basic services to the community in a sustainable manner within the financial and administrative capacity of the council and to provide procedures and guidelines for the subsidization of basic service (s) charges to its indigent households, using the council's budgetary provisions and/or funds received from central government in accordance with prescribed policy guidelines.

- **Property Rates Policy**

This policy is mandated by Section 3 of the Local Government: Municipal Property Rates Act, 2004 (No. 6 of 2004), which specifically provides that a municipality must adopt a Rates Policy. Rates are levied in accordance with the Act as an amount in the rand based on the market value of all rateable property contained in the municipality's valuation roll and supplementary valuation roll.

2.7 Overview of budget assumptions

Key budget assumptions municipality used is as follows:

- The municipality is expected to budget based on its strength to collect revenue
- Repairs and Maintenance as this will assist in the life span of an asset
- Refrain from budgeting for luxury furniture and non-priorities such as excessive catering (MFMA circular 82)
- Increase the labour force by way of implementing EPWP programmes
- CPI 5.3% MFMA circular 91
- New tariffs have been proposed by the departments and they are also going to be provided with targets in order to ensure proper implementation of tariffs
- The municipality is going to consider the possibility of buying the new Compact Track and TLB in an effort to decrease contracted costs.
- The electricity tariffs have been applied for at Nersa at the 6.8 percentage increase.
- The repayment of plan has been provided for on the budget of 2019/2020 with R18.3 million being for repayment of arrears debt.
- The municipality has established the cash flow committee in an effort to properly manage the payments being made and ensure that there are no critical supplier not being paid.
- The municipality is anticipating to reach the 75 percent collection on the 2019/2020 financial year.
- There is also a system of debt collection the municipality bought which is going to be assisting with the debt collection. The system will assist the municipality by issuing final notice to summons and will also be in showing how much the municipality will be collecting from outstanding debt.

2.8 Overview of budget funding

In terms of DoRA allocation, there is an estimated Unconditional grant of R97 million for 2019/20 financial year.

Capital budget funded by MIG of R38 million and RBIG of R13 million.

2.9 Councillor and employee benefits

We have budgeted 7% in terms of salary increase for both staff and councillors in absence of the guidelines from SALGA.

2.10 Monthly targets for revenue, expenditure and cash flow

| MONTHLY CASH FLOWS Nketoana Local Municipality | Budget Year 2019/20 | | | | | | | | | | | | Medium Term Revenue and Expenditure Framework | | |
|--|---------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---|------------------------|------------------------|
| | July | August | Sept. | October | November | December | January | February | March | April | May | June | Budget Year 2019/20 | Budget Year +1 2020/21 | Budget Year +2 2021/22 |
| Cash Receipts By Source | | | | | | | | | | | | | | | |
| Property rates | 1 693 | 1 693 | 1 693 | 1 693 | 1 693 | 1 693 | 1 693 | 1 693 | 1 693 | 1 693 | 1 693 | 1 693 | 20 312 | 21 531 | 22 823 |
| Service charges - electricity revenue | 4 071 | 4 071 | 4 071 | 4 071 | 4 071 | 4 071 | 4 071 | 4 071 | 4 071 | 4 071 | 4 071 | 4 071 | 48 858 | 51 789 | 54 896 |
| Service charges - water revenue | 4 084 | 4 084 | 4 084 | 4 084 | 4 084 | 4 084 | 4 084 | 4 084 | 4 084 | 4 084 | 4 084 | 4 084 | 49 005 | 51 946 | 55 063 |
| Service charges - sanitation revenue | 1 954 | 1 954 | 1 954 | 1 954 | 1 954 | 1 954 | 1 954 | 1 954 | 1 954 | 1 954 | 1 954 | 1 954 | 23 443 | 24 850 | 26 341 |
| Service charges - refuse revenue | 1 863 | 1 863 | 1 863 | 1 863 | 1 863 | 1 863 | 1 863 | 1 863 | 1 863 | 1 863 | 1 863 | 1 863 | 22 351 | 23 692 | 25 114 |
| Rental of facilities and equipment | 39 | 39 | 39 | 39 | 39 | 39 | 39 | 39 | 39 | 39 | 39 | 39 | 462 | 490 | 519 |
| Interest earned - external investments | 70 | 70 | 70 | 70 | 70 | 70 | 70 | 70 | 70 | 70 | 70 | 70 | 844 | 894 | 948 |
| Interest earned - outstanding debtors | 3 669 | 3 669 | 3 669 | 3 669 | 3 669 | 3 669 | 3 669 | 3 669 | 3 669 | 3 669 | 3 669 | 3 669 | 44 033 | 46 675 | 49 476 |
| Dividends received | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Fines, penalties and forfeits | 21 | 21 | 21 | 21 | 21 | 21 | 21 | 21 | 21 | 21 | 21 | 21 | 255 | 270 | 286 |
| Licences and permits | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Agency services | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Transfer receipts - operational | 7 606 | 7 606 | 7 606 | 7 606 | 7 606 | 7 606 | 7 606 | 7 606 | 7 606 | 7 606 | 7 606 | 7 606 | 91 274 | 91 670 | 92 091 |
| Other revenue | 234 | 234 | 234 | 234 | 234 | 234 | 234 | 234 | 234 | 234 | 234 | 234 | 2 804 | 3 055 | 3 238 |
| Cash Receipts by Source | 25 303 | 25 303 | 25 303 | 25 303 | 25 303 | 25 303 | 25 303 | 25 303 | 25 303 | 25 303 | 25 303 | 25 303 | 303 642 | 316 863 | 330 794 |
| Other Cash Flows by Source | | | | | | | | | | | | | | | |
| Transfer receipts - capital | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions) & Transfers and subsidies - capital (in-kind - all) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Proceeds on disposal of PPE | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Short term loans | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Borrowing long term/refinancing | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Increase (decrease) in consumer deposits | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Decrease (Increase) in non-current debtors | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Decrease (increase) other non-current receivables | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Decrease (increase) in non-current investments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

| Total Cash Receipts by Source | 25 303 | 25 303 | 25 303 | 25 303 | 25 303 | 25 303 | 25 303 | 25 303 | 25 303 | 25 303 | 25 303 | 25 303 | 303 642 | 316 863 | 330 794 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|
| Cash Payments by Type | | | | | | | | | | | | | | | |
| Employee related costs | 11 050 | 11 050 | 11 050 | 11 050 | 11 050 | 11 050 | 11 050 | 11 050 | 11 050 | 11 050 | 11 050 | 11 050 | 132 600 | 141 829 | 151 702 |
| Remuneration of councillors | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Finance charges | 2 204 | 2 204 | 2 204 | 2 204 | 2 204 | 2 204 | 2 204 | 2 204 | 2 204 | 2 204 | 2 204 | 2 204 | 26 452 | 28 039 | 29 721 |
| Bulk purchases - Electricity | 4 868 | 4 868 | 4 868 | 4 868 | 4 868 | 4 868 | 4 868 | 4 868 | 4 868 | 4 868 | 4 868 | 4 868 | 58 412 | 61 917 | 65 632 |
| Bulk purchases - Water & Sewer | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other materials | 539 | 539 | 539 | 539 | 539 | 539 | 539 | 539 | 539 | 539 | 539 | 539 | 6 470 | 6 858 | 7 269 |
| Contracted services | 4 264 | 4 264 | 4 264 | 4 264 | 4 264 | 4 264 | 4 264 | 4 264 | 4 264 | 4 264 | 4 264 | 4 264 | 51 169 | 54 249 | 57 516 |
| Transfers and grants - other municipalities | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Transfers and grants - other | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other expenditure | 4 836 | 4 836 | 4 836 | 4 836 | 4 836 | 4 836 | 4 836 | 4 836 | 4 836 | 4 836 | 4 836 | 4 836 | 58 029 | 61 510 | 65 201 |
| Cash Payments by Type | 27 761 | 27 761 | 27 761 | 27 761 | 27 761 | 27 761 | 27 761 | 27 761 | 27 761 | 27 761 | 27 761 | 27 761 | 333 131 | 354 403 | 377 041 |
| Other Cash Flows/Payments by Type | | | | | | | | | | | | | | | |
| Capital assets | 248 | 248 | 248 | 248 | 248 | 248 | 248 | 248 | 248 | 248 | 248 | 248 | 2 972 | 3 150 | 3 339 |
| Repayment of borrowing | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other Cash Flows/Payments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Cash Payments by Type | 28 009 | 28 009 | 28 009 | 28 009 | 28 009 | 28 009 | 28 009 | 28 009 | 28 009 | 28 009 | 28 009 | 28 008 | 336 102 | 357 553 | 380 380 |
| NET INCREASE/(DECREASE) IN CASH HELD | (2 705) | (2 705) | (2 705) | (2 705) | (2 705) | (2 705) | (2 705) | (2 705) | (2 705) | (2 705) | (2 705) | (2 705) | (32 461) | (40 690) | (49 586) |
| Cash/cash equivalents at the month/year begin: | - | (2 705) | (5 410) | (8 115) | (10 820) | (13 525) | (16 230) | (18 935) | (21 641) | (24 346) | (27 051) | (29 756) | - | (32 461) | (73 151) |
| Cash/cash equivalents at the month/year end: | (2 705) | (5 410) | (8 115) | (10 820) | (13 525) | (16 230) | (18 935) | (21 641) | (24 346) | (27 051) | (29 756) | (32 461) | (32 461) | (73 151) | (122 737) |

2.11 Contracts having future budgetary implications

We anticipate spending 100% of Conditional grants allocated to the municipality

2.12 Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

- **In year reporting**
Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively improved.
- **Internship programme**
The municipality is participating in Municipal Financial Management Internship Programme and has 5 interns undergoing training in various divisions of the Financial Services Department which started on 04 February 2018 and will run until 31 January 2021.
- **Budget and Treasury Office**
The Budget and Treasury Office has been established in accordance with the MFMA. There is however a high shortage of personnel in the budget and reporting division.
- **Audit Committee**
The new audit committee has been appointed from July 2017 to June 2020
- **Service Delivery and Implementation Plan**
The detail SDBIP document is at a draft stage and will be in line with MFMA.
- **Annual Report**
Annual report is compiled in terms of the MFMA and National Treasury requirements.
- **MFMA Training**
The MFMA training module in electronic format is presented at the Municipality internal centre which is Finance department in this regard and training is on-going.

2.13 Other supporting tables

Copy of Annual Budget (A1-Schedule) attached for tables SA1 to SA37.

2.14 Municipal Manager’s quality certificate

Municipal Manager Quality Certificate



I **Mzwandile Penwell Manzi** municipal manager of Nketoana Local Municipality, hereby certify that the Draft Annual Budget 2018/19 to 2020/21 and supporting documentation have been prepared in accordance with Municipal Finance Management Act and the regulations made under the Act, and that the Draft Annual Budget 2018/19 to 2020/21 and supporting documentation are consistent with the Integrated Development Plan of the municipality.

Print Name: MZWANDILE PENWELL MANZI

Municipal Manager: NKETOANA LOCAL MUNICIPALITY (FS193)

Date: 28/03/2019