

ANNUAL BUDGET OF  
**EPRHAIM MOGALE**  
**LOCAL MUNICIPALITY**



**2022/23 TO 2024/25**  
**MEDIUM TERM REVENUE AND**  
**EXPENDITURE FORECASTS**

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## **Abbreviations and Acronyms**

CFO	Chief Financial Officer
MM	Municipality Manager
CPI	Consumer Price Index
CRRF	Capital Replacement Reserve Fund
DBSA	Development Bank of South Africa
DoRA	Division of Revenue Act
DWA	Department of Water Affairs
FBS	Free basic services
GAMAP	Generally Accepted Municipal Accounting Practice
GDP	Gross domestic product
GFS	Government Financial Statistics
GRAP	General Recognised Accounting Practice
IDP	Integrated Development Strategy
KPA	Key Performance Area
KPI	Key Performance Indicator
LED	Local Economic Development
MEC	Member of the Executive Committee
MFMA	Municipal Financial Management Act
MIG	Municipal Infrastructure Grant
MPRA	Municipal Properties Rates Act
MSA	Municipal Systems Act
MTEF	Medium-term Expenditure Framework
MTREF	Medium-term Revenue and Expenditure Framework
NERSA	National Electricity Regulator South Africa
OHS	Occupational Health and Safety
PMS	Performance Management System
PPE	Property Plant and Equipment
PPP	Public Private Partnership
SALGA	South African Local Government Association
SDBIP	Service Delivery Budget Implementation Plan

## **Part 1 – Annual Budget**

### **1.1 Mayor’s Report**

## 1.2 Council Resolution

That the Council of Ephraim Mogale Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves:

1. The Annual budget of the municipality for the financial year 2022/2023 and the multi-year and single-year capital appropriations as set out in the following tables:
  - (A) Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table A2 of MTREF
  - (B) Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table A3 of MTREF
  - (C) Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table A4 of MTREF
  - (D) Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table A5 of MTREF

### Summary

Description	2021/22 Medium Term Revenue &		
	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
R thousand			
Total Revenue	312,927	327,737	326,122
Total Expenditure	342,011	370,058	403,642
Total Capital Expenditure	82,383	103,410	50,417

2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:
  - (A) Budgeted Financial Position as contained in Table A6 OF MTREF
  - (B) Budgeted Cash Flows as contained in Table A7 OF MTREF
  - (C) Cash backed reserves and accumulated surplus reconciliation as contained in Table A8 OF MTREF
  - (D) Asset management as contained in Table A9 of MTREF
  - (E) Basic service delivery measurement as contained in Table A10 OF MTREF
3. Tariffs and charges reflected in Annexure B are approved for the budget Year 2022/2023.
4. The amended Budget related policies as detailed in Annexure C are approved for the budget year 2022/2023.
5. The deficit for 2022/2023 annual budget be funded from the reserves from the bank.

### **1.3 Executive Summary**

The Annual budget for 2022/2023 was compiled in accordance with the requirements of the Municipal Finance Management Act (Act 56 of 2003) as well as the Municipal Budget and Reporting Regulations which gives a clear directive on the prescribed reporting framework and structure to be used.

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

Section 16 of the Municipal Finance Management Act (MFMA) requires that the municipality must for each financial year approve an annual budget before the start of the financial year.

The format and contents of the budget are prescribed by sections 16 to 27 of the MFMA as well the Municipal Budget and Reporting Regulation issued by National Treasury.

The MFMA refers to funding of expenditure and states:

**a.** An annual budget may only be funded from:

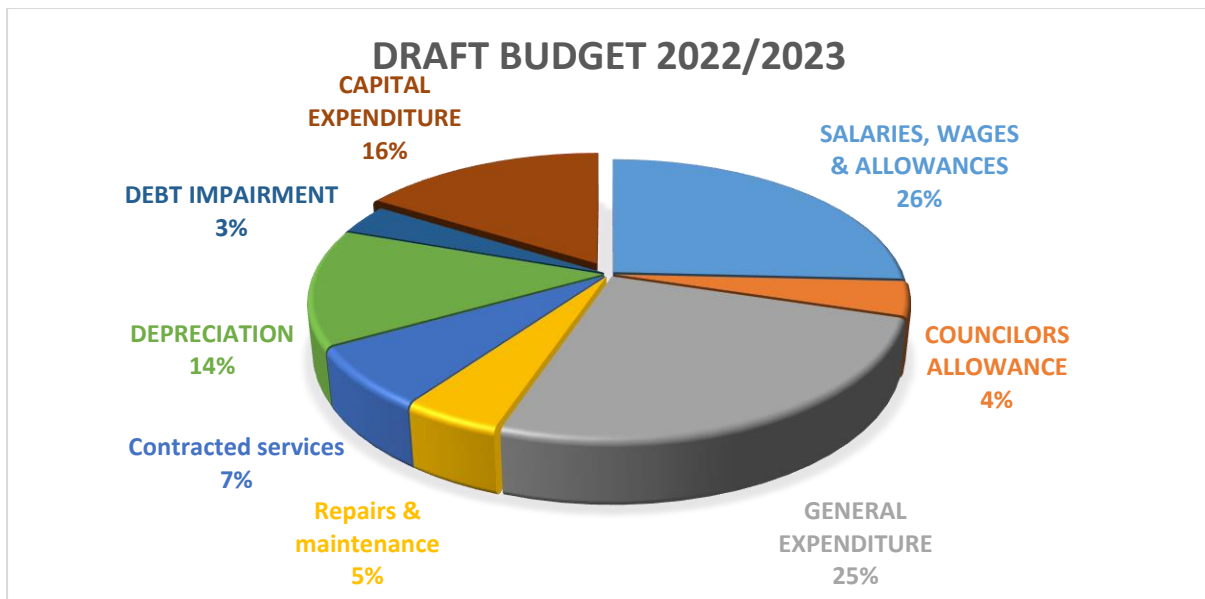
- realistically anticipated revenues to be collected
- cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds; but only for the capital budget referred to in section 17(2).

**b.** Revenue projections in the budget must be realistic, taking into account:

- projected revenue for the current year based on collection levels to date; and
- Actual revenue collected in previous financial years."

Circular 115 was issued by National Treasury provide further guidance for the preparation of 2022/2023 MTREF. All other MFMA Budget Circulars as well as departmental inputs were taken into consideration when preparing the Annual budget.

The following is a summary of Annual budget for 2022/2023.



The second highest percentage goes to the General expenditure (55%) which is mainly caused by expenditure such as Bulk purchases Amounting to R55 Million.

The salaries and wages for 2021/2022 financial year was R106 Million and it has increased to R111 Million for 2022/2023 financial year. Salaries and wages has increased by 4.9%.

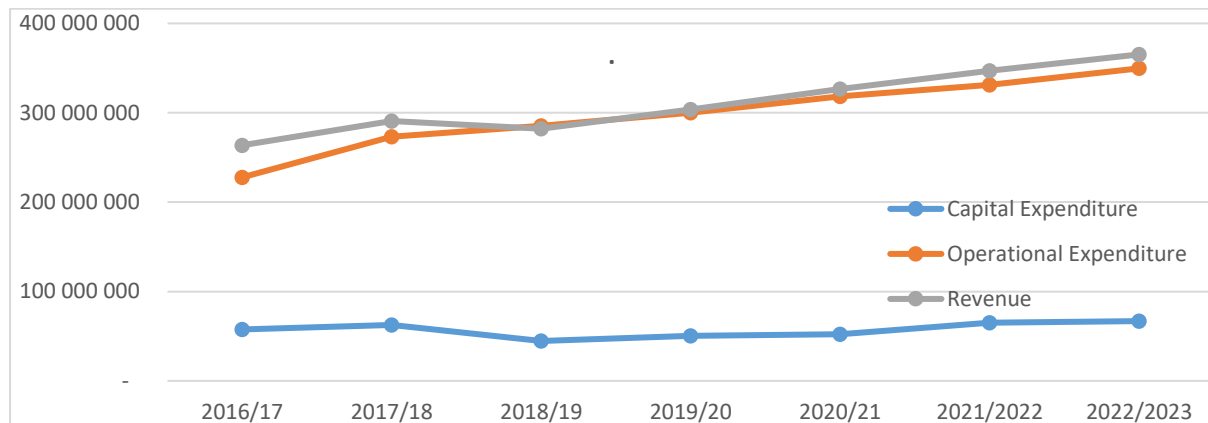
Repairs and maintenance is below 8% of the total property plant and equipment of the municipality, however the overall budget will be able to deal with all items that needs to be repaired or maintained in 2022/2023 financial year.

Provision for doubtful debts is seating at 3% due to non-payment of debts.

Depreciation is at 14%, and this has been done in line with **GRAP** standard.



The following graph provides an analysis of Revenue, operational expenditure and capital expenditure over the MTREF. It highlights the Municipality's strategy to address the Community needs.



Revenue has been growing since 2016/2017 up to 2017/2018, this is mainly as a result of Operational Grants (such as equitable share) increasing every year as well as tariffs. However revenue went down in 2018/2019 financial year mainly as a result of decrease in MIG.

Total operational expenditure has been increasing without declining from 2016/2017 to 2022/2023 as a result of annual increase in inflation.

Capital expenditure has went down from 2017/2018 to 2018/2019 due to decline in MIG funding.

**The following were the challenges experienced during the compilation of the 2022/2023 MTREF**

- The ongoing difficulties in the national and local economy
- The need to reprioritize projects and expenditure within the existing limited resource taking into account the current cash flow limitations
- Salaries increases for municipal staff
- Non-payment of municipal services account
- Alignment of 2022/2023 budget to mSCOA
- Load Shredding and Continuous increase in Fuel

**The following budget principles and guidelines directly informed the compilation of the 2022/2023 Annual Budget**

- Zero rated budgeting was used on capital budget
- 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
- Tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs
- the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act

## **Revenue management**

National Treasury continues to encourage municipalities to keep increases in property rates, tariffs for trading services and charges for other municipal own revenue sources within the parameters of the country's inflation rate. Furthermore, municipalities must adopt a tariff setting methodology that achieves an appropriate balance between the interests of poor households and other customers while ensuring financial sustainability of the municipality. Demand management is becoming increasingly necessary as the country faces water shortages and an unstable electricity supply. The approach to tariff setting should consider all these factors and strive to achieve an equitable balance.

It is anticipated that the cost of providing municipal services will grow at a faster rate than the transfers from national government. Resource scarcity will most likely increase the cost of bulk purchases in respect of electricity beyond the country's inflationary targets.

Furthermore, providing for free basic services in the case of poorer households must be carefully considered and, where some municipalities have opted to provide this benefit to ALL households, this may not be financially sustainable in the long-term.

Where appropriate, a municipality should re-evaluate the costs and benefits of universal or targeted provision of free basic services subsidies, in order to protect their delivery to poor households in particular. At no point should the provision of these subsidies remove resources from programmes that will expand access to infrastructure services for presently un-served households. Where municipalities do not have an adequate revenue base and where municipalities face a combination of challenges such as resource scarcity, high unemployment and slower than average economic growth, an aggressive approach to curbing non-core spending and improving operational efficiencies is strongly advised.

## **Tariff setting**

There are several tools available and methodologies employed to determine the appropriate tariffs. Municipalities may favour different approaches but the principles of tariff setting should be consistently applied. Municipalities should consider the following practicalities when setting tariffs:

- Costs of bulk purchases and the fluctuation in the seasonal cost thereof;
- Consumption patterns to enable better demand planning and management; and
- In the event that municipalities have been under recovering costs, embark on a process to correct their tariff structures over a reasonable time period so that cost reflective tariffs are achieved.

The tariff setting process is reliant on sound baseline information such as the number of properties within the municipal area of jurisdiction, the values of these properties, the number of households identified as indigent or poor, the consumption patterns in respect of basic services and the growth patterns within the various geographic areas.

The inflation rate forecasts as per MFMA circular no.115 issued by National Treasury has been used on the MTERF. The maximum of 4.8 growth rate was used on the tariffs. However some tariffs are based on cost recovery.

The following are the proposed tariff increases after taking into consideration the guidelines from National Treasury:

Assessment Rates:	4.8%
Electricity:	9% (Final Approved NERSA tariff will be used)

Cleansing: 4.8%

Other income: 4.8%

The inflation rate forecasts as per MFMA circular no.115 issued by National Treasury has been used on the MTERF. The maximum of 4.8% growth rate was used on the tariffs

The following table is an overview of the proposed 2022/2023 Annual budget

## Revenue

LIM471 Ephraim Mogale - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2018/19	2019/20	2020/21	Current Year 2021/22				2022/23 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
<b>Revenue By Source</b>											
Property rates	2	36 282	37 633	40 096	41 763	41 674	41 674	31 281	46 134	46 104	50 331
Service charges - electricity revenue	2	50 358	54 607	60 317	78 892	77 116	77 116	58 330	84 055	87 753	91 702
Service charges - water revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - sanitation revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - refuse revenue	2	3 995	4 777	5 337	5 543	5 500	5 500	4 101	5 827	6 083	6 357
Rental of facilities and equipment		155	173	175	180	171	171	103	179	187	196
Interest earned - external investments		4 017	4 763	1 494	2 500	1 750	1 750	1 503	1 834	1 915	2 001
Interest earned - outstanding debtors		7 477	7 610	7 354	6 650	8 077	8 077	6 272	8 465	8 837	9 235
Dividends received		-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits		1 299	314	365	160	109	109	73	157	163	171
Licences and permits		3 282	3 389	4 787	5 311	5 311	5 311	-	5 506	5 611	6 073
Agency services		-	-	-	-	-	-	-	-	-	-
Transfers and subsidies		133 485	140 650	193 491	170 781	170 781	170 781	158 456	183 236	190 283	206 633
Other revenue	2	5 060	8 632	9 349	1 127	1 021	1 021	466	1 091	1 139	1 190
Gains		-	-	-	-	-	-	-	-	-	-
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>246 991</b>	<b>271 748</b>	<b>322 744</b>	<b>312 827</b>	<b>311 670</b>	<b>311 670</b>	<b>280 588</b>	<b>368 648</b>	<b>368 838</b>	<b>379 888</b>

The projected income for 2021/2022 financial year has increased from R351 Million to R376 Million in 2022/2023 financial year. The total revenue has increased as a results of the following:

- Transfer and subsidies provided for R 205 Million in 2021/2022 financial year while in 2022/2023 financial year is budgeted for R221 Million. There is an increase of R16 Million.
- Sale of electricity has increased by R7 Million due to increase in electricity tariffs.
- Property rates increased from R44 Million in 2021/2022 to R46 Million in 2022/2023 financial year. This is due to 4.8 percentage increase on property rates tariffs.

## Operational Expenditure

Expenditure By Type											
Employee related costs	2	74 508	80 259	88 916	105 982	106 272	106 272	69 107	111 649	115 720	120 328
Remuneration of councillors		13 236	13 745	13 299	16 717	16 717	9 862	17 386	18 081	18 804	18 804
Debt impairment	3	12 472	13 149	13 458	14 546	14 546	-	15 128	15 733	16 363	16 363
Depreciation & asset impairment	2	51 853	53 190	52 544	59 784	59 784	59 784	-	59 055	61 418	63 874
Finance charges		2 112	2 465	3 355	11	11	11	-	1 000	1 040	1 082
Bulk purchases - electricity	2	33 901	37 923	42 480	49 795	49 795	32 865	55 482	63 735	70 109	70 109
Inventory consumed	8	1 776	1 780	1 548	1 550	1 837	1 837	487	-	-	-
Contracted services		29 590	23 854	28 880	48 798	51 134	23 728	50 196	52 503	47 742	47 742
Transfers and subsidies		-	-	-	-	-	-	-	-	-	-
Other expenditure	4, 5	36 162	33 193	28 269	47 880	49 275	49 275	27 357	53 858	56 751	58 938
Losses		(9 343)	(4 862)	(4 092)	-	-	-	-	-	-	-
<b>Total Expenditure</b>		<b>248 286</b>	<b>254 485</b>	<b>288 738</b>	<b>342 084</b>	<b>348 872</b>	<b>348 872</b>	<b>183 428</b>	<b>383 564</b>	<b>384 881</b>	<b>397 240</b>

Total operational expenditure in 2021/2022 is R350 Million and has increased in 2022/2023 financial year to R368 Million. There is an increase of R18 Million mainly as a result of the following.

- Salaries and allowances for municipal staff has increased by 4.9%. Remuneration of councillors are calculated on actual costs approved in accordance with the Government Gazette on the Remuneration of Public Office Bearers Act.
- Bulk purchases, Repairs and maintenance and Contracted services are causing a major increase in operational expenditure.
- Depreciation has been budgeted for R59 Million as it is the requirement of GRAP presentation in respect of assets.
- Debt impairment has also increased R15 million due to non-payment of municipal accounts

## Capital Expenditure

Function	SegmentDesc	AccType	Budget 2022/2023	Budget 2023/2024	Budget 2024/2025
(ICT)	SWITCH	OWN	30,000.00		
(ICT)	Capital Fund ICT Computers	OWN	250,000.00		
(ICT)	Routers and wireless access point	OWN	100,000.00		
(ICT)	WIFI	OWN	600,000.00		
(ICT)	Capital Fund PURCHASE OF PRINTERS	OWN	50,000.00		
(ICT)	SEVER ROOM IP CAMERAS	OWN	60,000.00		
(ICT)	SERVER X2	OWN	364,000.00	-	-
Administration	Furniture (500/305065)	OWN	500,000.00	200,000.00	150,000.00
Community Services	4-ton Truck	OWN	-	600,000.00	-
Electricity:Electricity	Capital Fund Upgrade Municipal ESKON Supply	OWN	3,000,000.00	3,000,000.00	3,000,000.00
Electricity:Electricity	Replace 35MM PILC 11KV Cable ERF 181-830	OWN	100,000.00	-	-
Electricity:Electricity	Replce 20 kWh meters (change to 60 kWh meters)	OWN	100,000.00	110,000.00	121,000.00
Electricity:Electricity	New LDV with Toolbox	OWN	-	680,000.00	-
Electricity:Electricity	Replace 30 KWh meters	OWN	150,000.00	165,000.00	181,500.00
Electricity:Electricity	Electrical Infrastructure(Replace 20 wood streetlight	OWN	180,000.00	198,000.00	217,800.00
Electricity:Electricity	Tool sets	OWN	-	100,000.00	-
Electricity:Electricity	Replace minisub stand 338 Mopanie Street	OWN	1,800,000.00		100,000.00
Electricity:Electricity	Replace old PEX Cable -Erf 812-1/900	OWN	1,000,000.00		
Electricity:Electricity	Replace old PEX Cable - Erf 1/900-749	OWN		760,000.00	
Electricity:Electricity	Replace Minisubstation-Stand Sportfield	OWN		1,700,000.00	
Electricity:Electricity	Replace old PEX Cable Erf 749-754	OWN		770,000.00	
Electricity:Electricity	Replace 11kv overhead line with cable industrial str	OWN		1,000,000.00	
Electricity:Electricity	Replace Minisubstation Stand 749	OWN		1,600,000.00	
Electricity:Electricity	Generator for functions	OWN			400,000.00
Electricity:Electricity	Generator - Corporate services 220kVA	OWN	1,200,000.00		
Electricity:Electricity	Xmas decorations-Marble Hall	OWN			250000
Electricity:Electricity	Extend streetlights in Ficus street (14)	OWN		880,000.00	
Electricity:Electricity	Replace 6 wood poles on O/H line-Dump Site (maybe	OWN			100000
Electricity:Electricity	Replace RMU Ext.5 stand 902 with SF6 RMU	OWN		1000000	
Electricity:Electricity	Upgrade Switching Station to SF6 Erf202	OWN			1,200,000.00
Electricity:Electricity	Replace ring main unit Ext. 1, stand 97 Fourth Avenue	OWN			800,000.00
Electricity:Electricity	Replace old 35mm PILC 11kV cable from Erf423 to 381	OWN			1,500,000.00
Electricity:Electricity	Extend 11kV cable from portion 1232 to Erf 862	OWN		3,500,000.00	
Electricity:Electricity	Transformer Replacement 500kVA-Portion 151	OWN		650,000.00	
Electricity:Electricity	Transformer Replacement 150kVA-Portion 375	OWN	250,000.00		
Electricity:Electricity	SSEG for Municipal Buildings	OWN			1,500,000.00
Electricity:Electricity	Extension 6 Substation	OWN			12,200,000.00
Electricity:Electricity	Protection relays for OTK Substation	OWN		450,000.00	
Electricity:Electricity	High Mast Lights - Matseding	OWN	3,500,000.00		
Electricity:Electricity	High Mast Lights - Doornspruit	OWN	3,500,000.00		
Electricity:Electricity	High Mast Lights - Moganyaka	OWN		4,000,000.00	
Electricity:Electricity	High Mast Lights - Malebitsa	OWN			4,000,000.00
Electricity:Electricity	High Mast Lights - Mooihoek ( Tsimanyane South)	OWN			4,000,000.00

Function	SegmentDesc	AccType	Budget 2022/2023	Budget 2023/2024	Budget 2024/2025
Electricity:Electricity	Quality of supply recorders	OWN	-	660,000.00	
Electricity:Electricity	Industrial Substation second supply phase 4 (cable)	OWN	-	4,000,000.00	
Fleet Mangement	TOOLS & EQUIPMENTS	OWN	50,000.00		
Fleet Mangement	Finance Bakkie	OWN	600,000.00		
Fleet Mangement	Yellow Machine	OWN	11,000,000.00	10,000,000.00	
Housing:Housing and Building	Capital Fund Air Conditioning	OWN	50,000.00		
Licensing & Traffic	Digital Speed Camera	OWN	400,000.00	-	-
Paks & Cemeteries	Capital Fund Landscaping & Greening (425/305071)	OWN	500,000.00	550,000.00	600,000.00
Roads:Roads& Stormwater (650)	Leeufontein Sports Complex	OWN	3,000,000.00		
Roads:Roads& Stormwater (650)	Mohlalaotwane	MIG	-	8,341,587.58	12,000,000.00
Roads:Roads& Stormwater (650)	Regae Bus Route	MIG	6,754,514.72	-	-
Roads:Roads& Stormwater (650)	Mabitsi Internal Road	MIG	17,563,313.92	-	-
Roads:Roads& Stormwater (650)	Morarela Internal Road	MIG	2,996,060.68	17,278,773.10	-
Roads:Roads& Stormwater (650)	Rathoke Internal Street	MIG	2,996,060.68	11,803,939.32	-
Roads:Roads& Stormwater (650)	Dichoeung Internal Street	MIG	5,620,000.00	-	-
Roads:Roads& Stormwater (650)	Rehabilitation of Leeufontein internal streets	OWN	-	3,500,000.00	
Roads:Roads& Stormwater (650)	Matlala Ramoshebo Internal Route (4.5KM)	MIG	-	-	12,000,000.00
Roads:Roads& Stormwater (650)	Moeding Internal street	MIG	-	-	12,000,000.00
Roads:Roads& Stormwater (650)	Rehabilitation of Marblehall Aerodrome	OWN	-	1,200,000.00	
Roads:Roads& Stormwater (650)	Reviewing of Roads and Stormwater Master Plan	OWN	-	1,800,000.00	
Roads:Roads& Stormwater (650)	Purchase of TLB	OWN	-		
Roads:Roads& Stormwater (650)	Purchasing of a Light delivery vehicle	OWN	650,000.00	-	
Solid Waste	508 REFUSE CONTAINER	OWN	750,000.00	800,000.00	850,000.00
Solid Waste	Refuse Truck with roll on roll off system	OWN	-	-	-
			<b>69,663,950.00</b>	<b>85,297,300.00</b>	<b>67,170,300.00</b>

Capital expenditure has decreased from R81Million in 2021/2022 to R69 Million in 2022/2023 financial year.

#### 1.4 Annual Budget Tables

See attached copy of Medium Term Revenue and Expenditure (MTREF) which represents the ten main budget tables (Table A1 to Table A10) as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2022/2023 Annual budget in Annexure A.

#### Table A1 –Budget Summary

1. Table A1 is a budget summary and provides a concise overview of the Municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
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. Financial management reforms emphasize the importance of the municipal budget being funded.
3. 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 positive over the final budget
  - (B) Capital expenditure is balanced by capital funding sources, of which

- i. Transfers recognized are reflected on the Financial Performance Budget
  - ii. Internally generated funds are 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 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 In essence the cash backing surplus 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.
  5. From the table it can be seen that for the period 2018/19 up to date, the cash backed reserved shows a positive movement, which proves that the municipality will be able to pay their expenses.
  6. Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor

**Table A2 –Budgeted Financial Performance (revenue and expenditure by standard classification)**

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The Total Revenue on this table includes capital revenues (Transfers recognized – capital)
2. The municipality shows a positive surplus for all perspective years. This prove that the municipality follows section 18 of the MFMA.

**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 organizational structure of the municipality. This means it is possible to present the operating surplus or deficit of a vote.

**Table A4 – Budgeted Financial Performance (revenue and Expenditure)**

1. Table A4 reflects the level in which the revenue base of the municipality. Our reliance is mainly on grants and subsidies constitute 60% of the total budget.
2. Employee related costs and bulk purchases are the main cost drivers within the municipality and alternative operations gains and efficiencies will have to be identified to lessen the impact of wage and bulk tariff increases in future years.

**Table A5 – Budgeted Capital Expenditure by vote, standard classification and funding source**

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
2. The Annual budget provides that a municipality may approve multi-year or single year capital budget appropriations. In relation to multi-year appropriations, for 2022/2023 R69 million has been allocated for capital expenditure which has decreased by 15% when compared to 2020/2021 financial year.

### **Table A6 – Budgeted Financial Position**

1. Table A6 is consistent with international standards of good financial management practice, and improves understandability for councillors and management of the impact of the budget on the statement of financial position.
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 A6 is supported by an extensive table of notes SA3 which providing a detailed analysis of the major components of a number of items, including:
  - (a) Call investments deposits
  - (b) Consumer debtors;
  - (c) Property, plant and equipment;
  - (d) Trade and other payables;
  - (e) Provisions noncurrent;
  - (f) Changes in net assets; and
  - (g) 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 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 Budgeted cash flow show a favourable closing balance which clearly indicate that the municipality will be able to finance the adjustment budget over the medium-term.



#### **Table A8 Cash Backed Reserves/Accumulated Surplus**

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”. The municipality shows the positive movement for all the years.
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 2018/2019 up to date, the cash backed reserved shows a positive movement, which proves that the municipality will be able to pay their expenses without borrowings Considering the requirements of section 18 of the MFMA, it can be shown that municipality has funded all the projects by having the positive cash
6. As part of the budgeting and planning guidelines that informed the compilation of the 2022/2023 MTREF the end objective of the medium-term framework was to ensure the budget is funded aligned to section 18 of the MFMA.

#### **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. The repairs and maintenance are mainly done In house. Repairs and maintenance is below 8% since we have recently unbundled community assets however the 3% will be able to deal with all items that needs to be repaired or maintained in 2022/2023 financial year.

#### **Table A10 Basic Service Delivery Measurement**

This table proves an overview of service delivery levels for each main Service.

The municipality has kept cost of free basic service from R1.7 million in 2022/2023 financial year.

The following services are not offered by Ephraim Mogale Local municipality hence there are no inputs on the budget.

- (a) Water (Sekhukhune District Municipality)
- (b) Sanitation (Sekhukhune District Municipality)

## **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 aims of the Budget Steering Committee are 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.

A schedule of key deadlines was prepared for tabling in Council by the Mayor prior to the end of August 2021 as required. The Annual budget was tabled to Council on the 31<sup>st</sup> of March 2022. A period of consultation will then follow as per Sections 22 and 23 of the MFMA.

#### **a. Budget Process Overview**

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2018) a time schedule that sets out the process to revise the IDP and prepare the budget.

The following has been adhered to in terms of the Budget Time Table and IDP process plan:

The budget process timetable was submitted to council and approved.

SDBIP's were approved as provided for in the MFMA Section 53 (3)(a).

Financial statements were prepared and submitted on 30 August 2019.

The Budget Advisory Committee held its meetings for the reviewing the annual performance.

The mid-year budget and performance assessment was tabled to council and approved.

The annual report was tabled to council.

The adjustment budget process was finalized and tabled to council for approval on the 26<sup>th</sup> February 2019.

The strategic planning took place on January 2017 and the purpose as per the timetable is to align the budget with the IDP, where community needs have been prioritized.

The municipality will hold public participation meetings for comments with regards to the budget from the month of April 2020.

## **1.2 Overview of alignment of annual budget with IDP**

The Ephraim Mogale Local Council adopted an Integrated Development Plan (IDP) process plan in terms of section 28 of the Municipal Systems Act which clarified the roles and responsibilities of IDP structures that must be established for the consideration of the final IDP review for the 2021/2022 Financial Year.

This review process was done in terms of section 34 of the MSA which inter-alia reads as follows:

*"A municipal Council must review its IDP in accordance with an assessment of its performance measurements in terms of section 41; and to the extent that changing circumstances so demand; and may amend its IDP in accordance with a prescribed process".*

Therefore, the purpose of this review is to incorporate the views of the community of EPRHAIM MOGALE, as influenced by changing circumstances.

Accordingly, section 25 of the Municipal Structures Act (MSA) says that each municipal council must, within a prescribed period after its elected term, adopt a single, inclusive and strategic plan for the development of the municipality which;

- (a) Links, integrates and co-ordinates plans and takes into account proposals for the development of the municipality;
- (b) Aligns the resources and capacity of the municipality with the implementation of the plan;
- (c) Forms the policy framework and general basis on which annual budgets must be based
- (d) Is compatible with National and Provincial development plan and planning requirements binding on the municipality in terms of MFMA Circular no. 54.

An integrated development plan adopted by a municipal council in terms of sub-section (1) may be amended in terms of section 34 and remains in force until an integrated development plan is adopted by the next elected council.

In Annualing the IDP for the next five years, the municipality has followed its process plan adopted in terms of section 28 (1)(2) and (3) of the Municipal Systems Act, adopted by council during August 2016.

Section 26 (a) to (i) of the MSA<sup>2</sup> prescribes nine (9) key components which must appear on a credible IDP and these components are discussed in summary below.

- a) The vision of the Municipality
- b) Guided by the community, the Municipal Council has developed a set of priority development issues as per the requirement of section 26 (c), which are clustered into five Key Performance Areas, to be implemented during the next three years.

The Key Performance Areas are the following:

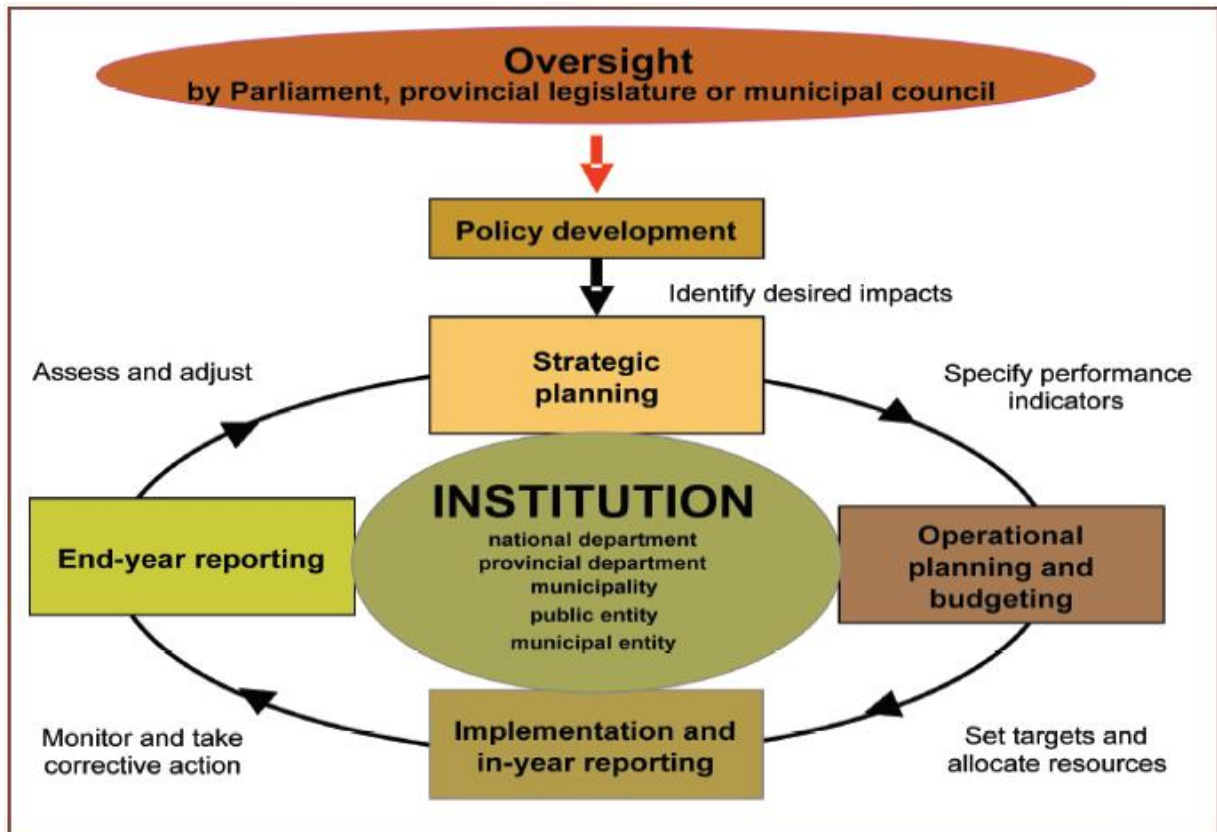
1. Service Delivery and Infrastructure Developments
2. Local Economic Development
3. Municipal Financial Liability
4. Institutional Transformation
5. Good Governance and Public Participation
6. Spatial Rationale

### **1.3 Measurable performance objectives and indicators**

The key financial indicators and ratios are disclosed in Supporting Table SA8: Performance indicators and benchmarks. Ephraim Mogale Local municipality is anticipating an 80% collection rate in 2022/2023 financial year.

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 integrated planning process unfolds. The Municipality targets, monitors, assess and reviews organisational performance which in turn is directly linked to individual employee's performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly during the last stage, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages. The planning, budgeting and reporting cycle can be graphically illustrated as follows:

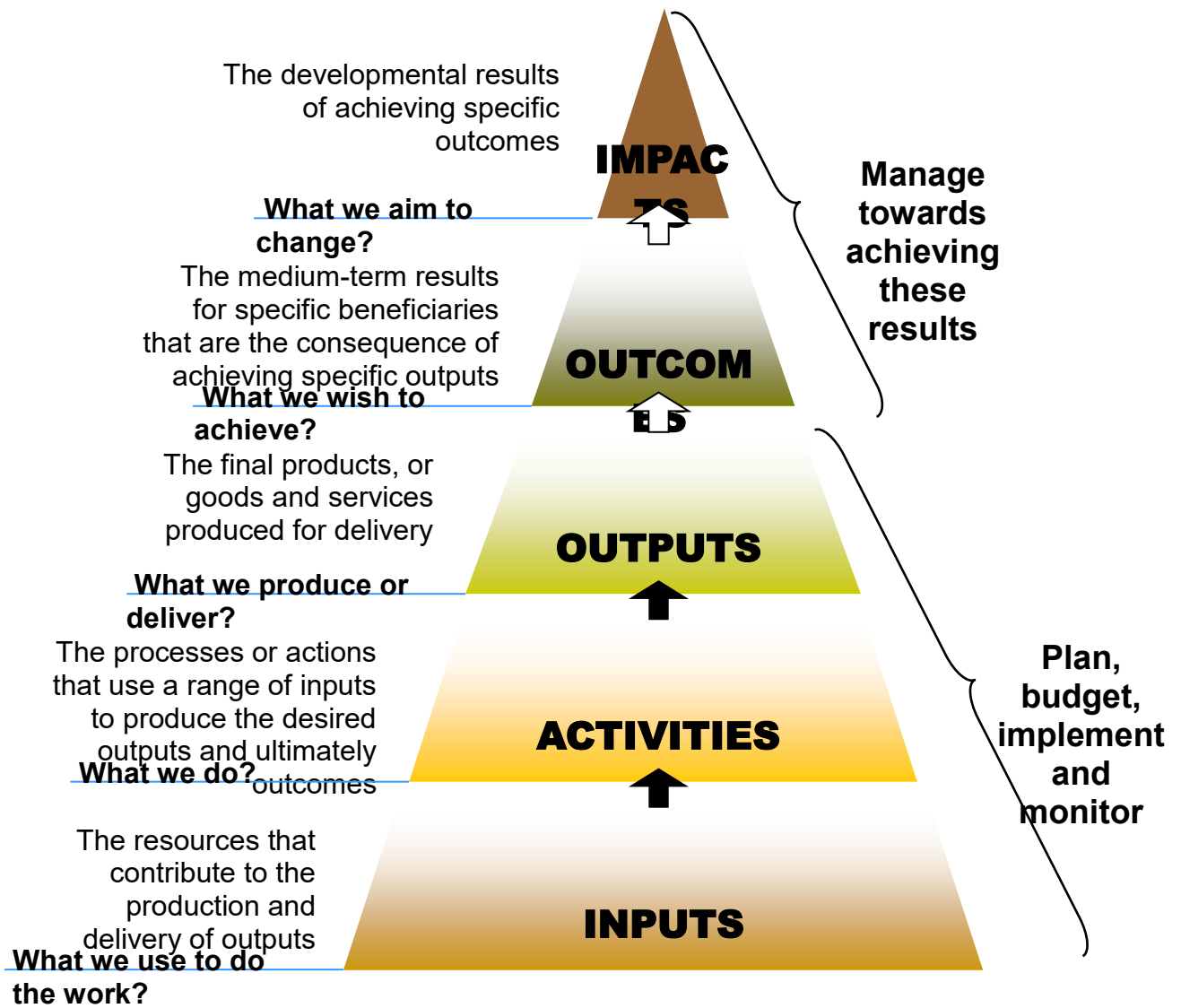


**Figure 1 Planning, budgeting and reporting cycle**

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).

The performance information concepts used by the Municipality in its integrated performance management system are aligned to the **Framework of Managing Programme Performance Information** issued by the National Treasury:



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

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

The purpose of these policies is to prescribe the accounting and administrative and procedures relating to Ephraim Mogale Municipality.

The Municipality performs the procedures set out in the policies to ensure the effective planning and sound financial management

1. **Credit Debt Management Policy** - The implementation of this policy should be based on sound business practices. This includes credit worthiness checks when application for services is made, as well as debt collection through sanctions of warnings, disconnections, evictions and other legal processes.
2. **Supply Chain Management Policy** - The purpose of this manual is to prescribe the policies and procedures relating to Supply Chain Management of the EPRHAIM MOGALE Municipality. The principles of this policy is to give effect to a fair, equitable, transparent, competitive and cost-effective system for the procuring of goods and services, disposing of goods and selecting of contractors in the provision of municipal services.
3. **Budget Policy** - The purpose of this policy is to provide an overview of the procedure for the structural process of Planning and Managing the Budget. The procedures include the development of budgets, including the preparation of the budget, revision, approval, monitoring and evaluation of budgetary performance for a financial year.
4. **Indigent Support Policy** - to provide access and regulate free basic services to all indigent households.
5. **Tariff and Rates Policy** –the purpose of this policy is to determine the tariffs which must be charged for the supply of the four major services, which are : water, electricity, sewerage & refuse.
6. **Property Rates Policy** – the purpose of this policy is to assist the municipality to impose rates within a statutory framework which enhances certainty, uniformity and simplicity across the nation and which takes account of historical imbalances and the burden of rates on the poor. It be noted that the municipality is working on final Annual.
7. **Investment policy** – this policy prescribes for the management of cash and the investing of municipal money. Travel and Subsistence Policy
8. **Travel and Subsistence** - This policy regulates the re-imburement of travelling and subsistence cost to officials and councilors attending to official business.

9. **Cell Phone Policy** - The aim of this policy is to: regulate the granting of cell phones allowance to the employees of Ephraim Mogale Local Municipality improve the communication in the workplace and to the public, in order to give a better service.
10. **Funding and Reserve Policy**- This policy ensures that cash resources and reserves are maintained at the required levels to avoid future year unfunded liabilities.
11. **Overtime and standby policy** – To provide framework and guidelines for the implementation and maintenance of overtime and standby worked and the remuneration attached thereto.
12. **Acting Allowance Policy**– Provide guidelines for the handling of acting in various positions
13. **Virement Policy**- Provides guidance on how and when they may shift funds between items, projects, programmes within their areas of responsibilities.
14. **Transport Allowance** - To provide Ephraim Mogale Local Municipality with uniform procedures, conditions and limitations for transport allowances in a consistent, fair and equitable manner.

## **2.5 Overview of budget assumptions**

### **2.5.1 External factors**

We will further investigate the following during our public participation process as well as per internal research and take the following into consideration:

- Confirm the labour (i.e. the wage agreements with unions) and other input costs of services provided by the municipality or entity,
- Ensure the need to ensure financial sustainability,
- Reconsider the local economic conditions and the affordability of services,
- Taking into consideration the municipality's indigent policy.
- We also considered relevant policy developments in the different sectors.
- In considering changes in property rates, the municipality took cognizance of local economic conditions such as the changes in the property market, trends in household incomes and unemployment. Excessive increases in property rates and other tariffs are likely to be counterproductive, resulting in higher levels of non-payment and increased bad debts.

### **2.5.2 General inflation outlook and its impact on the municipal activities**

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

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity and water; and
- The increase in the cost of remuneration by 6.5%.
- The 80% average payment rate.

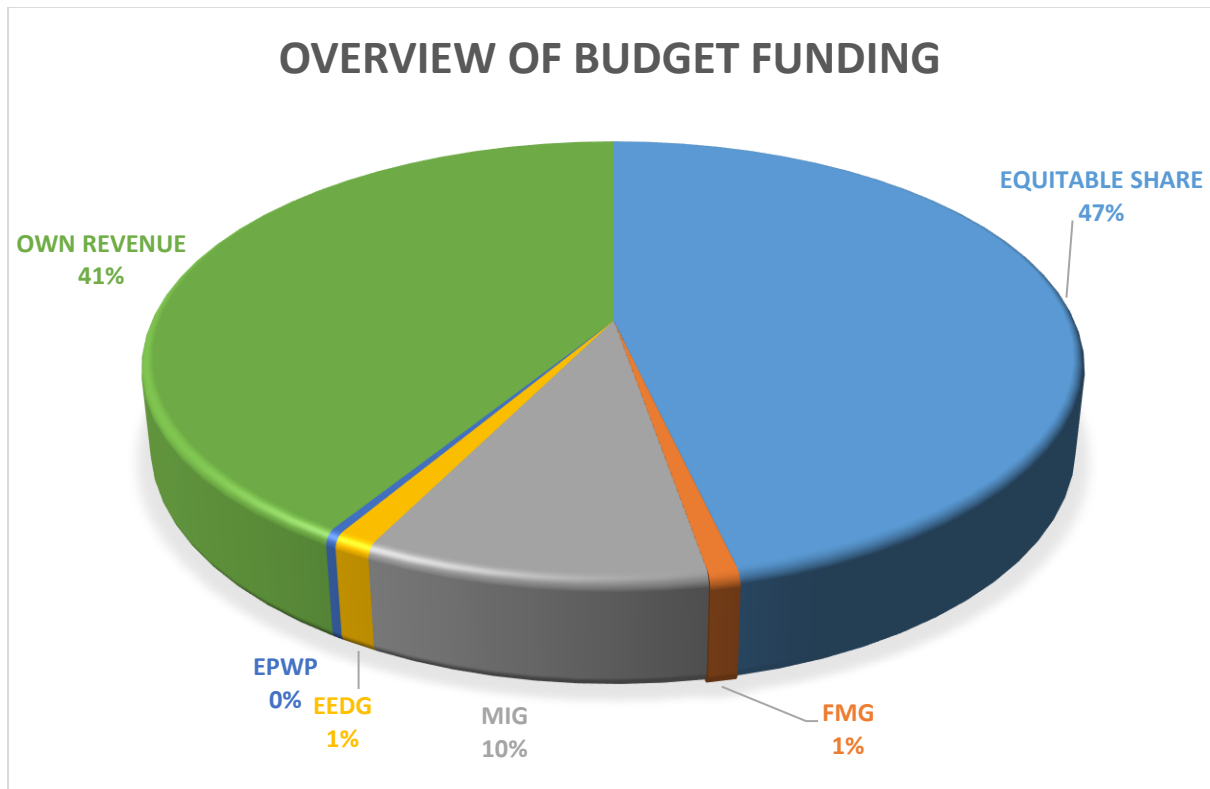


## 2.6 Overview of Budget Funding

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

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17.

Achievement of this requirement in totality effectively means that a Council has 'balanced' its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows. Refer Table A8: Cash backed reserves/accumulated surplus reconciliation' and Supporting Table SA10: Funding measurement.



## 2.7 Expenditure on allocations and grants programmers

Expenditure on grants can also be viewed in SA19 and SA20 attached with other supporting documents in Annexure A

## 2.8 Allocation and Grants made by the Municipality

- Allocation and Grants made by the Municipality is reflected in Annexure A

## 2.9 Councilors and employee benefits

Councillor and employee benefits can be viewed in SA 22 and 23, together with the summary of the personnel numbers in SA24 attached as Annexure A

## **2.10 Monthly targets for revenue, expenditure and cash**

Disclosure on monthly targets for revenue, expenditure and cash flow is made in the following MTREF tables:

- (A) TABLE SA25 - Budgeted monthly revenue and expenditure
- (B) TABLE SA26 - Budgeted monthly revenue and expenditure (municipal vote)
- (C) TABLE SA27 - Budgeted monthly revenue and expenditure (standard classification)
- (D) TABLE SA28 - Budgeted monthly capital expenditure (municipal vote)
- (E) TABLE SA29 - Budgeted monthly capital expenditure (standard classification)
- (F) TABLE SA30 - Budgeted monthly cash flow

## **2.11 Annual budgets and SDBIPs – internal departments**

- In terms of section 53(1)(c)(ii) of the MFMA the Service Delivery and Budget Implementation Plan must be approved by the Mayor within 28 days after the final approval of the budget. The monthly and quarterly service delivery targets and performance indicators will be revised to correspond with the 2022/2023 budget.

## **2.12 Contracts having future budgetary implications**

- In terms of the Municipality's Supply Chain Management Policy, no contracts are awarded beyond the medium-term revenue and expenditure framework (three years).

## **2.13 Capital expenditure details**

Capital Details are shown in the following MTREF Tables:

- TABLE SA 34a – Capital expenditure on new assets by assets class
- TABLE SA 34b – Capital Expenditure on the renewal of existing assets by assets class
- TABLE SA 34c – Repairs and maintenance expenditure by assets class
- TABLE SA 34d - Depreciation by assets classification
- TABLE SA 35 – Future financial implications of the capital budget
- TABLE SA 36 – Detailed capital budget per municipal vote
- TABLE SA 37– Projects delayed from previous financial year

## **2.14 Legislation compliance status**

The Municipality operations are governed by an array of different acts.

The following Acts and prescripts are central in defining municipal boundaries and areas of influence:

- ◆ Regional Services Council Act, 1985 (Act 109 of 1985)
- ◆ Local Government: Municipal Structures Act, Act 117 of 1998 with all its amendments to date.
- ◆ Local Government : Municipal Systems Act, Act 32 of 2000 with all its amendments to date in its entirety together with regulations promulgated and applicable to high capacity municipalities.
- ◆ Local Government: Municipal Finance Management Act, Act 56 of 2004 in its entirety including regulations promulgated.

- ◆ Compliance is also given to circulars by National Treasury in line with the Municipal Systems Act and the Municipal Finance Management Act
- ◆ Local Government : Property Rates Act, Act 6 of 2004 and its promulgated regulations

Thus not only is Ephraim Mogale Local Municipality responsive to national government legislation, it has to comply with all the local government regulations and acts.

***2.15 Other Supporting Document.***

Other supporting documents entail supporting budget tables on SA1 to SA38, attached as **Annexure A**

**2.16 Annual Budget of municipal entities to the municipal annual budget**

- Not applicable

**2.17 Quality certificate.**