

ANNUAL BUDGET OF
EPHRAIM MOGALE
LOCAL MUNICIPALITY



2018/19 TO 2020/21
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

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

- 1.2.1. The Annual budget of the municipality for the financial year 2018/2019 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
- 1.2.2. 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
- 1.2.3. Tariffs and charges reflected in Annexure B are approved for the budget Year 2018/2019.
- 1.2.4. The amended Budget related policies as detailed in Annexure C are approved for the budget year 2018/2019.

1.3 Executive Summary

The annual budget for 2018/2019 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 municipality'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:

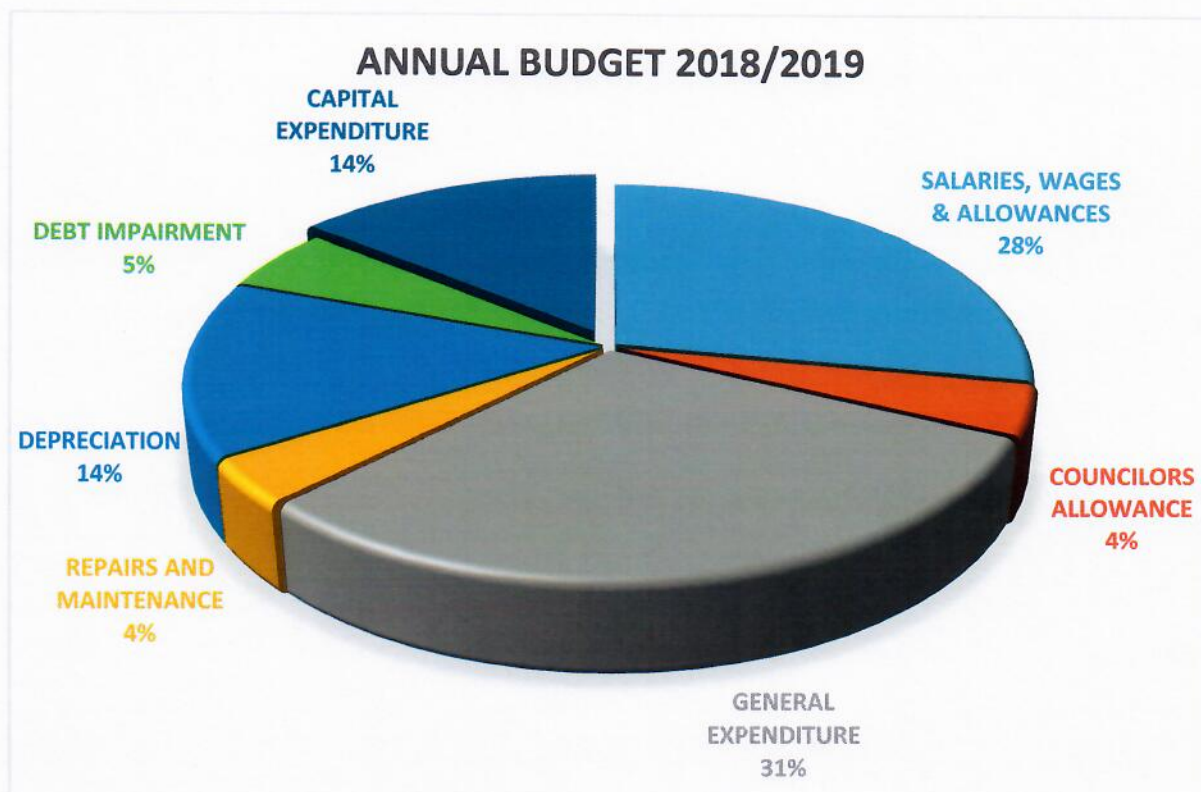
- realistically anticipated revenues to be collected
- cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds; but only for the capital budget referred to in section 17(2).

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 88 and 91 issued by National Treasury provide further guidance for the preparation of 2018/2019 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 2018/2019.



The highest percentage goes to the General expenditure (31%) which is mainly caused by expenditure such as Bulk purchases and Contracted services costing R34 Million and R12.3 Million respectively.

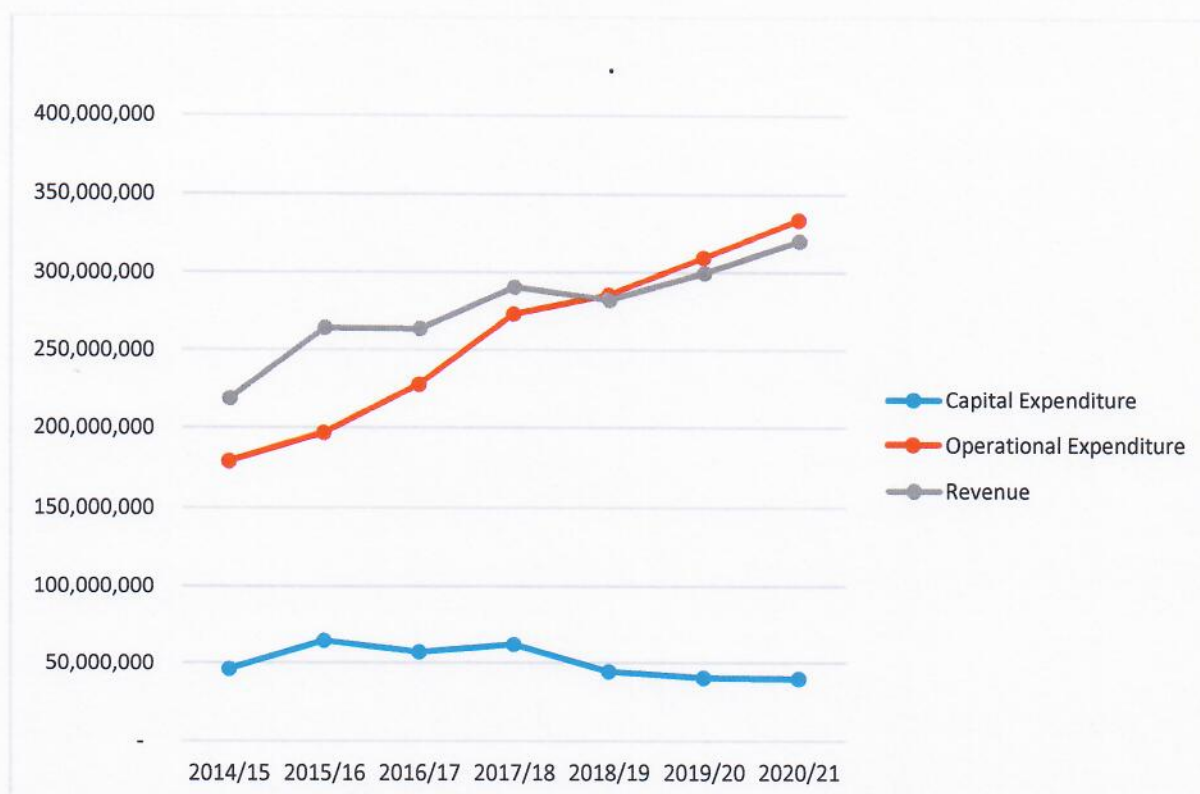
The salaries and wages for 2017/2018 financial year was R84 Million and it has increased to R92 Million for 2018/2019 financial year. Salaries and wages has increased by 7%.

Repairs and maintenance is below 8% of the total property plant and equipment of the municipality, however the 4% based on the overall budget will be able to deal with all items that needs to be repaired or maintained in 2018/2019 financial year.

Provision for doubtful debts is seating at 5% 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 2014/2015 up to 2017/2018, this is mainly as a results of Operational Grants (such as equitable share) increasing every year as well as tariffs. However revenue went down in 2018/2019 financial year manly as a results of decrease in MIG.

Total operational expenditure has been increasing without a declining from 2014/2015 to 2020/2021 as a results of annual increase in inflation.

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

The following were the challenges experienced during the compilation of the 2018/2019 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 2018/2019 budget to mSCOA

The following budget principles and guidelines directly informed the compilation of the 2018/2019 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.89 issued by National Treasury has been used on the MTERF. The maximum of 5.2 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:	5.2%
Electricity:	6.84%
Cleansing:	5.2%
Other income:	5.2%

The inflation rate forecasts as per MFMA circular no.89 issued by National Treasury has been used on the MTERF. The maximum of 5.2 growth rate was used on the tariffs. However some tariffs are based on cost recovery.

The following table is an overview of the proposed 2018/2019 Annual budget

Revenue

Description	Current Year 2017/18		2018/19 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
R thousand					
Revenue By Source					
Property rates	35,127,971	35,941,333	37,810,283	39,776,417	41,844,791
Service charges - electricity revenue	48,685,521	49,254,785	51,802,779	54,496,523	57,330,342
Service charges - refuse revenue	4,968,405	4,342,303	4,232,266	4,452,344	4,683,866
Rental of facilities and equipment	151,965	213,888	225,010	236,711	249,020
Interest earned - external investments	6,933,293	10,149,821	9,274,063	9,756,314	10,263,642
Interest earned - outstanding debtors	5,036,639	5,722,710	6,020,292	6,333,347	6,662,681
Fines, penalties and forfeits	262,539	262,143	96,258	101,263	106,529
Licences and permits	3,181,453	2,511,370	2,641,960	2,779,342	2,923,868
Agency services	7,635,500	7,145,634	887,682	933,842	982,402
Other revenue	2,287,258	1,019,061	2,918,233	3,069,982	3,229,621
Gains on disposal of PPE		1,950,552			
Total own revenue	114,270,545	118,513,601	115,908,827	121,936,086	128,276,762
Local Government Equitable Share	123,766,000	123,766,000	129,676,000	141,749,000	153,984,000
Finance Management	2,145,000	2,145,000	2,215,000	2,680,000	3,112,000
EPWP Incentive	1,447,000	1,447,000	1,594,000		
Municipal Infrastructure Grant (MIG)	44,810,000	44,810,000	32,823,000	33,443,000	35,160,000
Total Grants	172,168,000	172,168,000	166,308,000	177,872,000	192,256,000
Total Revenue	286,438,545	290,681,601	282,216,827	299,808,086	320,532,762

The projected income for 2018/2019 financial year has decreased from R290 Million in 2017/2018 to R282 Million in 2018/2019 financial year. The total revenue has decreased by R8 Million as a results of the following:

- The Municipal infrastructure grant is provided for R 44.8 Million in 2017/2018 financial year while in 2018/2019 financial year is budgeted for 282 Million. There is a decrease of R12 Million from previous year.
- Sale of assets is budgeted for R1.9 Million in 2017/2018 while there is no provision in 2018/2019 financial year.
- Agency services also when down in 2018/2019 by R6 Million. This is as a results of recognizing 2018/2019 cash received by municipality on behalf of Transport department as a liability.

Operational Expenditure

Description	2018/19 Medium Term Revenue & Expenditure			
	Adjusted Budget	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Expenditure By Type				
Employee related costs	84,946,953.66	92,788,570.15	124,668,247.04	132,777,561.85
Remuneration of councillors	12,639,897.83	13,524,690.68	14,336,172.12	15,196,342.45
Debt impairment	14,384,607.79	17,678,683.43	16,051,558.87	20,873,213.99
Depreciation & asset impairment	45,000,000.00	47,700,000.00	50,562,000.00	53,595,720.00
Finance charges	422,257.54	447,591.36	474,446.84	502,913.65
Bulk purchases	31,703,467.00	34,341,200.87	37,791,402.23	41,260,652.95
Other materials	11,115,864.68	12,213,784.08	12,217,882.79	12,963,188.42
Contracted services	12,929,969.74	12,288,004.24	5,970,904.49	6,149,158.76
Transfers and subsidies	2,910,422.00	2,653,080.66	2,812,265.50	2,981,001.43
Other expenditure	57,005,368.87	50,627,221.21	44,502,205.80	47,358,728.03
Loss on disposal of PPE				
Total Expenditure	273,058,809.12	284,262,826.68	309,387,085.67	333,658,481.52

Total operational expenditure in 2017/2018 is R273 Million and has increased in 2018/2019 financial year to R284 Million. There is an increase of R11 Million mainly as a results of the following.

- Salaries and allowances for municipal staff has increased by 7%. Remuneration of councilors 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 R47.7 Million as it is the requirement of GRAP presentation in respect of assets.
- Debt impairment has also increased R3 Million due to non-payment of municipal accounts

Capital Expenditure

Function	Segment Desc	FUNDING	ADJUSTMENT BUDGET 2017- 2018	Budget 2018- 2019	Budget 2019- 2020	Budget 2020- 2021
Administration	FILE STORAGE CENTRE	OWN	80,000.00			
Administration	PURCHASE OF OFFICE FURNITURE	OWN		500,000.00	100,000.00	100,000.00
Administration	PURCHASE OF QUE MANAGEMENT SYSTEM	OWN		-	100,000.00	100,000.00
Administration	PURCHASE OF WATER DISPENSORS	OWN		60,000.00	0	0
Administrative and Corporate Support	PURCHASE OF CUTLERY AND TABLE CLOTHS	OWN		-	0	0
Administrative and Corporate Support	Purchase of industrial shredder	OWN		-	0	0
Administration Total			80,000.00	560,000.00	200,000.00	200,000.00
Parks & Cemeteries	Bush Cutters	OWN	159,996.00			
Parks & Cemeteries	Landscaping & Greening (425/305071)	OWN	999,996.00	750,000.00	-	500,000.00
Parks & Cemeteries	TLB	OWN	-	-	1,300,000.00	
Parks & Cemeteries Total			1,159,992.00	750,000.00	1,300,000.00	500,000.00
Community Services Management	DIGITAL CAMERAS	OWN	10,000.00			
Community Services Management Total			10,000.00	-	-	-
Electricity: Electricity	Industrial substation second supply phase 2 (OTK Panel)	OWN	579,036.00			
Electricity: Electricity	MINISUBSTATION STAND 456	OWN	-			
Electricity: Electricity	REPLACE RMU WITH SF6 CIRCUIT BREAKERS	OWN	421,763.00			
Electricity: Electricity	TRANSFORMER REPLACEMENT 500KVA	OWN	-			
Electricity: Electricity	Industrial substation second supply phase 2	OWN	1,146,270.00			
Electricity: Electricity	Upgrade Municipal ESKOM supply	OWN		3,000,000.00	1,000,000.00	3,000,000.00
Electricity: Electricity	Industrial substation second supply phase 3	OWN		-	300,000.00	
Electricity: Electricity	Replace PEX cable in EXT 5	OWN		1,500,000.00		
Electricity: Electricity	Replace minisubstation Stand 906	OWN		-	300,000.00	
Electricity: Electricity	Install RMU and cable to connect Ext 5 & 6 at stand 1032	OWN		850,000.00		
Electricity: Electricity	Transformer Replacement 500kVA - Portion 515	OWN		500,000.00		
Electricity: Electricity	Replace minisubstation Stand 338 - 500KVA	OWN		-	500,000.00	
Electricity: Electricity	Network design software	OWN		60,000.00		
Electricity: Electricity	Install LT cable from stand 1789 to stand 1032	OWN		-		
Electricity: Electricity	Retrofit Mast light fittings - Leeufontein	OWN		-	500,000.00	
Electricity: Electricity	Generator - corporate services 220kVA	OWN		-	300,000.00	
Electricity: Electricity	Truck mounted crane BCG 739L	OWN		400,000.00		
Electricity: Electricity	Xmas Decorations - Marble Hall	OWN		-	100,000.00	
Electricity: Electricity	Replace old PEX cable ERF 749 to 754	OWN			300,000.00	
Electricity: Electricity	Replace Old 35mm² PILC 11kV Cable from Erf181 to 830	OWN			370,000.00	
Electricity: Electricity	Replace 11KV Overhead Line with cable Industria Street	OWN			350,000.00	
Electricity: Electricity	Replace minisubstation - Stand Sportfield	OWN			360,000.00	
Electricity: Electricity	Industrial Substation Second Supply Phase 4 (CABLE)	OWN			300,000.00	
Electricity: Electricity	Retrofit mast light fittings - Regae	OWN			500,000.00	
Electricity: Electricity	Generator for functions (Mobile unit 100kVA (on trailer)	OWN			400,000.00	
Electricity: Electricity	High Mast Light Project (40m masts)	OWN			500,000.00	
Electricity: Electricity	New LDV with Toolbox	OWN			360,000.00	
Electricity: Electricity	Replace RMU EXT 5 stand 902 with SF6 RMU	OWN				300,000.00
Electricity: Electricity	Replace old PEX 11kV Cable from 713 to 561	OWN				300,000.00
Electricity: Electricity	Replace SWITCHING STATION with SF6 CIRCUIT BREAKERS	OWN				400,000.00
Electricity: Electricity	Replace RMU Ext 1 Stand 97 with SF6 RMU	OWN				400,000.00
Electricity: Electricity	Replace old PEX 11kV Cable from 812 to 1/900	OWN				550,000.00
Electricity: Electricity	REPLACE OLD 35mm² PILC 11kV CABLE FROM Erf423 to 381	OWN				400,000.00
Electricity: Electricity	NEW MINISUBSTATION – DENSIFICATION ERF 561 RANON	OWN				450,000.00
Electricity: Electricity	Retrofit mast light fittings - RATHOKE	OWN				350,000.00
Electricity: Electricity	High Mast Light Project (6 x 40m masts)	OWN				500,000.00
Electricity: Electricity Total			2,147,069.00	6,310,000.00	6,440,000.00	6,650,000.00
Planning and development	wifi	OWN	1,600,000.00			
Planning and development Total			1,600,000.00	-	-	-
Finance: Finance	CASH COUNTING MACHINES	OWN	80,000.00			
Finance: Finance Total			80,000.00	-	-	-
Fleet Management: Fleet Management	Vehicle (640/305000)	OWN	600,000.00			
Fleet Management: Fleet Management	Tools & equip	OWN		200,000.00		
Fleet Management: Fleet Management Total			600,000.00	200,000.00	-	-
Housing: Housing and Building	Air Conditioning	OWN	50,000.00	300,000.00		
Housing: Housing and Building Total			50,000.00	300,000.00	-	-
Information Communication Technology	ICT Computers	OWN	135,000.00	120,000.00		
Information Communication Technology	PURCHASE OF PRINTERS	OWN	50,000.00	70,000.00		
Information Communication Technology	Replacement of switches	OWN		150,000.00		
Information Communication Technology	Purchase of IT Equipments	OWN		40,000.00		
Information Communication Technology	Sound	OWN		70,000.00		
Information Communication Technology	Television	OWN		13,000.00		
Information Communication Technology	SERVER	OWN	50,000.00			
Information Communication Technology (ICT) Total			235,000.00	463,000.00	-	-
Licensing and Traffic	Speed Camera (225/305070)	OWN	300,000.00			
Licensing and Traffic	Vehicle - Traffic	OWN	600,000.00			
Licensing and Traffic	Machinery and equipment	OWN		500,000.00		
Licensing and Traffic	Dash Camera	OWN		12,000.00		
Licensing and Traffic Total			900,000.00	512,000.00	-	-
Mayor and Council: Council	Vehicle	OWN	950,000.00			
Mayor and Council: Council Total			950,000.00	-	-	-

Roads: Roads & Stormwater	Bomag Roller	OWN	200,000.00			
Roads: Roads & Stormwater	Dichoeung Internal Road	OWN	8,050,000.00	-		
Roads: Roads & Stormwater	Dumpers X1 (650/305025)	OWN	400,000.00			-
Roads: Roads & Stormwater	Mamphogo Sports Complex (650/305178)	MIG	6,500,004.00	12,151,228.00	-	
Roads: Roads & Stormwater	Ngwalemong Internal Streets	MIG	11,411,342.82	7,791,947.00		
Roads: Roads & Stormwater	Replacement Of 20 Catchment Concrete Cover	OWN	180,000.00			
Roads: Roads & Stormwater	Saw Cutter (650/305148)	OWN	57,000.00			
Roads: Roads & Stormwater	Stormwater Extension 6(650/305147)	OWN	4,934,466.40	-	600,000.00	500,000.00
Roads: Roads & Stormwater	Upgrading Of Letebejane/Ditholong Internal Streets	MIG	10,120,000.00	7,565,140.91		
Roads: Roads & Stormwater	LEEUWFONTAIN SPORTS COMPLEX	MIG	10,832,004.00		5,000,000.00	
Roads: Roads & Stormwater	Construction Industria Road (650/305175)	OWN	1,499,996.00			
Roads: Roads & Stormwater	Mashemong / Mooihoek internal street	MIG/OWN		7,000,682.95	15,000,000.00	10,000,000.00
Roads: Roads & Stormwater	Mmakgatle internal road	MIG			10,943,000.00	
Roads: Roads & Stormwater	Malebitsa internal street	MIG				10,460,000.00
Roads: Roads & Stormwater	Mogalatsane/Phetwane	MIG				12,000,000.00
Roads: Roads & Stormwater Total			54,184,813.22	34,508,998.86	31,543,000.00	32,960,000.00
Solid Waste Removal: Solid Waste	REFUSE CONTAINER	OWN	526,000.00			
Solid Waste Removal: Solid Waste	TIPPER TRUCK	OWN	-	950,000.00		
Solid Waste Removal: Solid Waste	Landfill site weighbridge 12m	OWN	-	1,100,000.00		
Solid Waste Removal: Solid Waste	Replace one waste compactor truck	OWN			1,300,000.00	-
Solid Waste Removal: Solid Waste Total			526,000.00	2,050,000.00	1,300,000.00	-
Grand Total			62,522,874.22	45,653,998.86	40,783,000.00	40,310,000.00

Capital expenditure has decline from R62 Million in 2017/2018 to R45 Million in 2018/2019 financial year. Capital expenditure has decreased by R17 Million mainly as a results of decrease in MIG funding.

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 2018/2019 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 2013/14 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 2017/2018 R61 million has been allocated for capital expenditure which decreased by 14% when compared to 2016/2017 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 2013/2014 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 2017/18 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 4% will be able to deal with all items that needs to be repaired or maintained in 2018/2019 financial year.

Table A10 Basic Service Delivery Measurement

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

The municipality has increased cost of free basic service from R1.8 million in 2017/2018 to R1.9 Million in 2018/2019 financial year.

The following services is 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 2017 as required. The Annual budget will be tabled in Council before 31 March 2018. 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 2017) 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 31 August 2017.

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 27th February 2018.

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 2018.

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 2017/2018 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 drafting 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 MSA² 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 2018/2019 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:

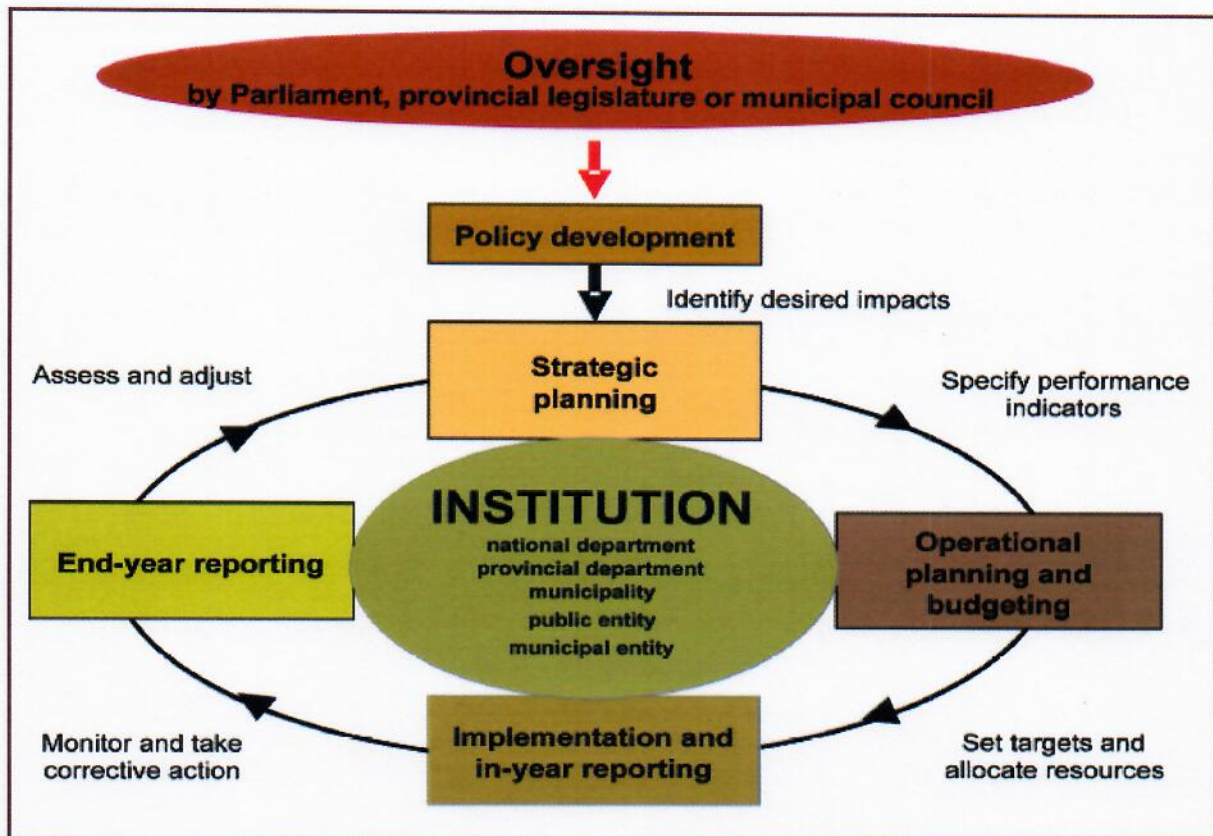
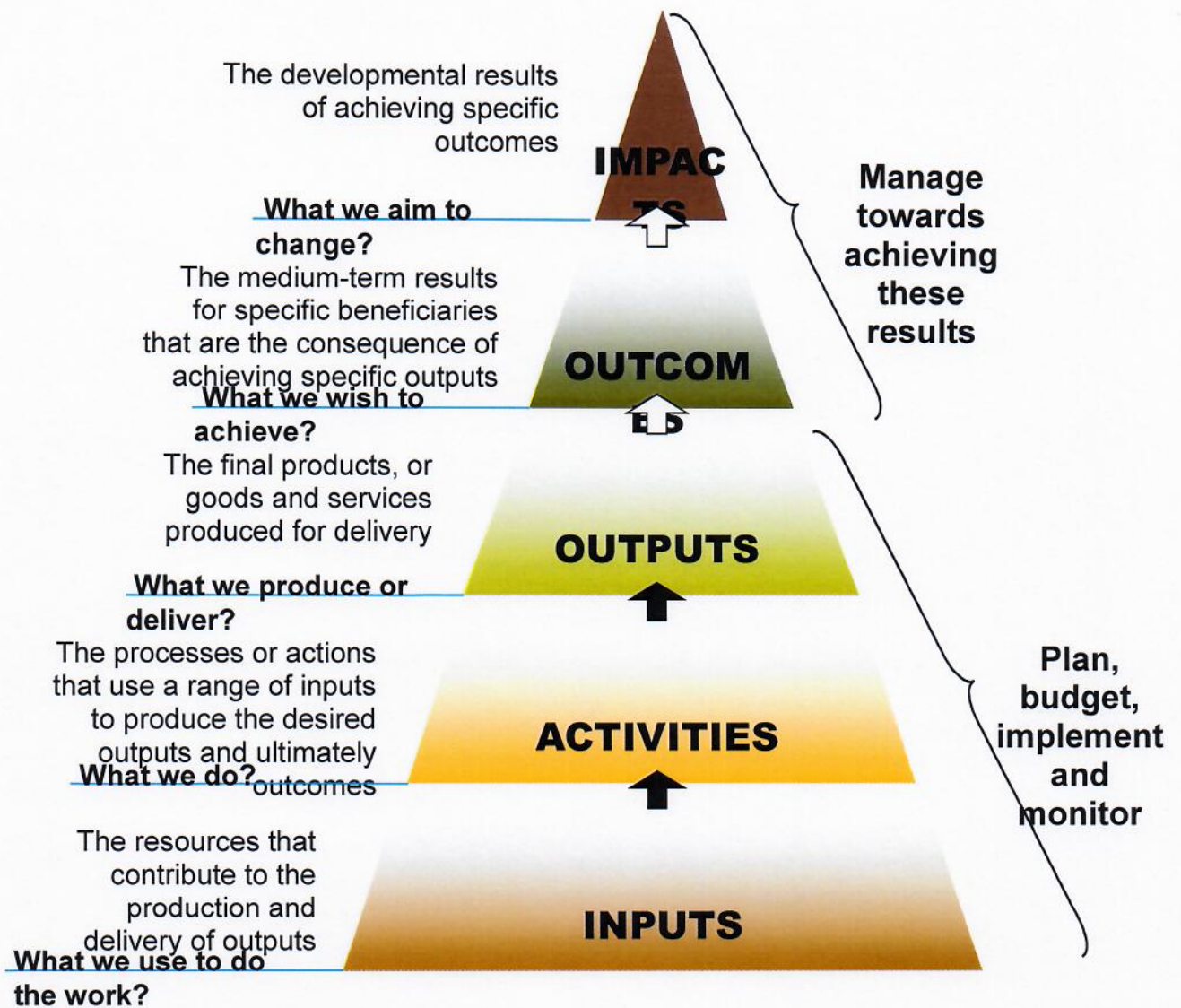


Figure 1 Planning, budgeting and reporting cycle

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.
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-imbursment 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 2016/17 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 7%.
- The 80% average payment rate.

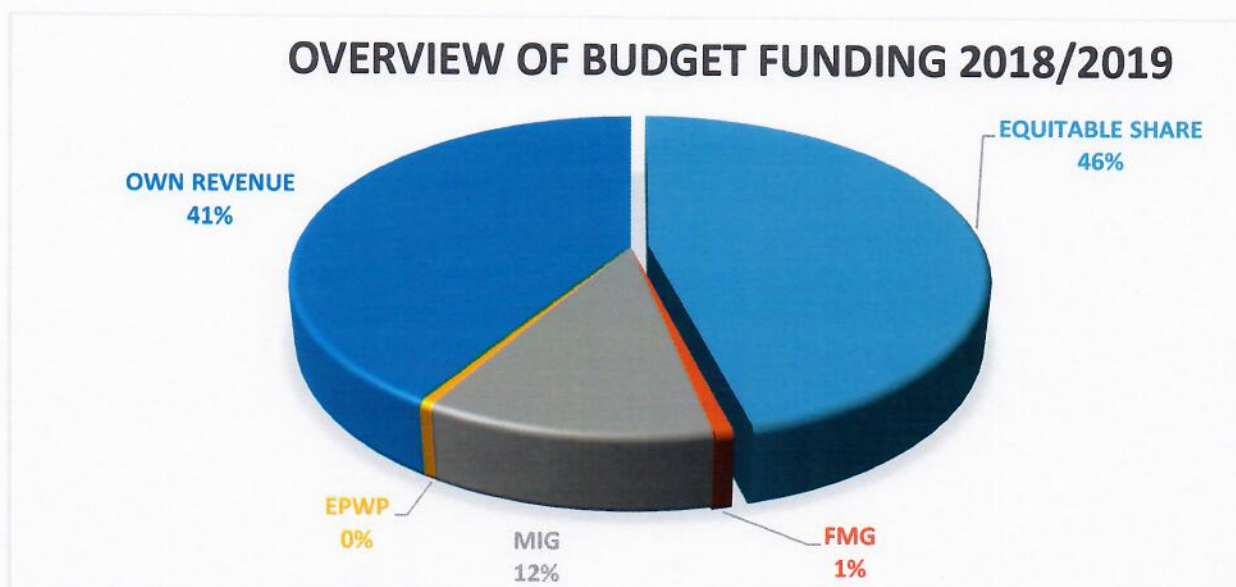
2.6 Overview of Budget Funding

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

NAME OF THE GRANT	ALLOCATION AUTHORITY/DEPARTMENT	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21	PURPOSE
EQUITABLE SHARE	National Government	129,676,000	141,749,000	153,984,000	To implement the Programme by providing capital subsidies to municipalities to address the electrification backlog
FINANCE MANAGEMENT GRANT (FMG)	National Government	2,215,000	2,680,000	3,112,000	To promote and support reforms in financial management by building the capacity in municipalities to implement the Municipal Finance Management Act.
EPWP- EXTENDED PUBLIC WORKS PROGRAMME	National Government	1,594,000			To incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in identified focus areas, in compliance with the Expanded Public Works Programme guidelines.
MIG (MUNICIPAL INFRASTRUCTURE GRANT)	National Government	32,823,000	33,443,000	35,160,000	To supplement capital finance for basic municipal infrastructure for poor households, micro enterprises and social institutions.

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 2018/2019 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



EPHRAIM MOGALE LOCAL MUNICIPALITY

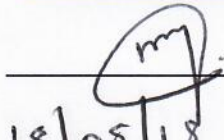
QUALITY CERTIFICATE

I, **Mathebela MM**, the municipal manager of **Ephraim Mogale Local Municipality**, hereby certify that the Annual budget and supporting documentation for 2018/2019 have been prepared in accordance with the Municipal Finance Management Act and the Regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the Municipality.

Print Name : Mathebela MM

Municipal manager of : **Ephraim Mogale Local Municipality (LIM471)**

Signature


18/05/18

Date