

# ANNUAL BUDGET OF MOQHAKA LOCAL MUNICIPALITY



*"People's power in action"*

## 2018/19 TO 2020/21 MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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## **MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK 2018/19 TO 2020/21**

### **TABLE OF CONTENTS**

1.1 Executive Mayor's Speech.....	3
1.2 Council Resolutions.....	3
1.3 Executive Summary.....	3
1.4 Budget Principles.....	4
1.5 Tariffs Setting.....	4
1.6 Tariffs Increases.....	5
1.7 Budget Compilation Challenges.....	5
1.8 Overview of Budget Funding.....	6
1.9 Operating Revenue Framework.....	7
1.10 Revenue Strategy Key Components.....	7-11
1.11 Operational Transfers.....	12-14
1.12 Operating Expenditure Framework.....	15
1.13 Operating Expenditure by Standard Classification.....	16-17
1.14 Capital Expenditure.....	18-19
1.15 Cash Flow Statement.....	20-21

## Part 1 – Annual Budget

### 1.1 Executive Mayors' Speech

The Mayor's speech is attached as Annexure 1 to this budget document.

### 1.2 Council Resolutions

The Council approves and takes the following resolutions for the annual budget of 2018/19 to 2020/21 financial period:

The Council of Moqhaka Local Municipality, acting in terms of *section 24* of the Local Government: Municipal Financial Management Act (Act 56 of 2003) adopts the budget for the 2018/19 MTREF.

1.2.1 The annual budget of the municipality for the financial year 2018/19 and the multi-year and single-year capital appropriations as set out in the following tables:

- 1.2.1.1 Budget Summary as per Table A1,
- 1.2.1.2 Budgeted Financial Performance as per Table A2,
- 1.2.1.3 Budgeted Financial Performance as per Table A3,
- 1.2.1.4 Budgeted Financial Performance as per Table A4,
- 1.2.1.5 Multi-year and single-year capital appropriation by municipal vote and standard classification and associated funding by source reflected as per Table A5,
- 1.2.1.6 Budgeted Financial Position as per Table A6,
- 1.2.1.7 Budgeted Cash Flows as per Table A7,
- 1.2.1.8 Cash Backed reserves and accumulated surplus reconciliation as per Table A8,
- 1.2.1.9 Asset Management as per Table A9,
- 1.2.1.10 Basic Service Delivery measurement reflected as per Table A10.

### 1.3 Executive Summary

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, equitably and efficiently to the entire community. The Municipal Budget and Reporting Regulations, as well as various circulars as issued by National Treasury has been used as a guiding tool for the budget preparation by local government.

The National Treasury's MFMA Circulars No.89 and 91 were used to guide the compilation of the 2018/19 MTREF.

The compilation of the MTREF remains a huge challenge to balance the budget between the limited revenue resources available and the immense need to provide quality service delivery to our community. Tariff increases must be limited to be within the affordability levels of our community and must still promote economic growth and ensure financial sustainability the tariffs must be cost reflective.

The municipality's financial health position continues to deteriorate and as such needs to be stabilised and to strive to continuously better its financial position, complimented by acceptable levels of service delivery at affordable tariffs. The retention/maintenance of sufficient cash-backed reserves is critical for the sustainability of the municipality.

#### 1.4 **The following budget principles and guidelines directly informed the compilation of the 2018/19 MTREF:**

- The 2017/18 Adjustment Budget priorities and targets, as well as the base line allocations contained in that Adjustment Budget were adopted as the upper limits for the new baselines for the 2018/19 annual budget;
- Zero rated budgeting was utilised in the compilation of the Capital Budget;
- Tariffs 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 the infrastructure backlogs and maintenance thereof;**
- 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.

#### 1.5 **Tariff Setting**

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

- Costs of bulk purchases (Electricity & Water) and the fluctuation in the seasonal cost {time-of-use-tariffs} thereof;
- Consumption patterns to enable better demand planning and management; and
- In the event that the municipality has been under recovering costs, embark on a process to correct their tariff structures over a reasonable time period so that cost reflective tariffs are phased in, in a manner that spreads the impact on consumers over a period of time.

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 the MFMA Circular no. 89 & 91 issued by National Treasury has been used on the MTREF. The maximum of 6% growth rate was pronounced on the Revenue tariffs increases. However, some tariffs are higher than the stipulated percentage as these are based on the cost of delivering the respective services.

#### 1.6 **The Council of Moghaka Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts the following tariffs as set out and included in the budget documentation, with effect from 01 July 2018: (Average Increases)**

- Assessment Rates: 6%
- Electricity: 6.84%
- Water: 10.5%
- Sewerage: 10%
- Refuse: 9%
- Other Income: 6%

(Detailed tariff list is attached as **Annexure F**)

The Council, in compliance with Section 14 of the Local Government: Municipal Property Rates Act, 2004 notes and tables to Council for approval the property rates increases as set out as per the tariff list attached as **Annexure F**.

**1.7    The main challenges experienced during the compilation of the 2018/19 MTREF can be summarised as follows:**

- The ongoing economic difficulties in relation to the national and local economy;
- Aging and inadequately maintained water, roads, sewer and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource basket given the cash flow realities and declining cash position of the municipality coupled with the ongoing increase of the municipality's debtors book;
- The increased cost of electricity (due to tariff increases as approved by NERSA);
- Wage increases for municipal staff that continues to exceed consumer inflation, as well as the need to fill critical vacancies to augment service delivery;
- Availability of affordable capital/borrowing;
- The Alignment of the Budget to mSCOA Regulations.

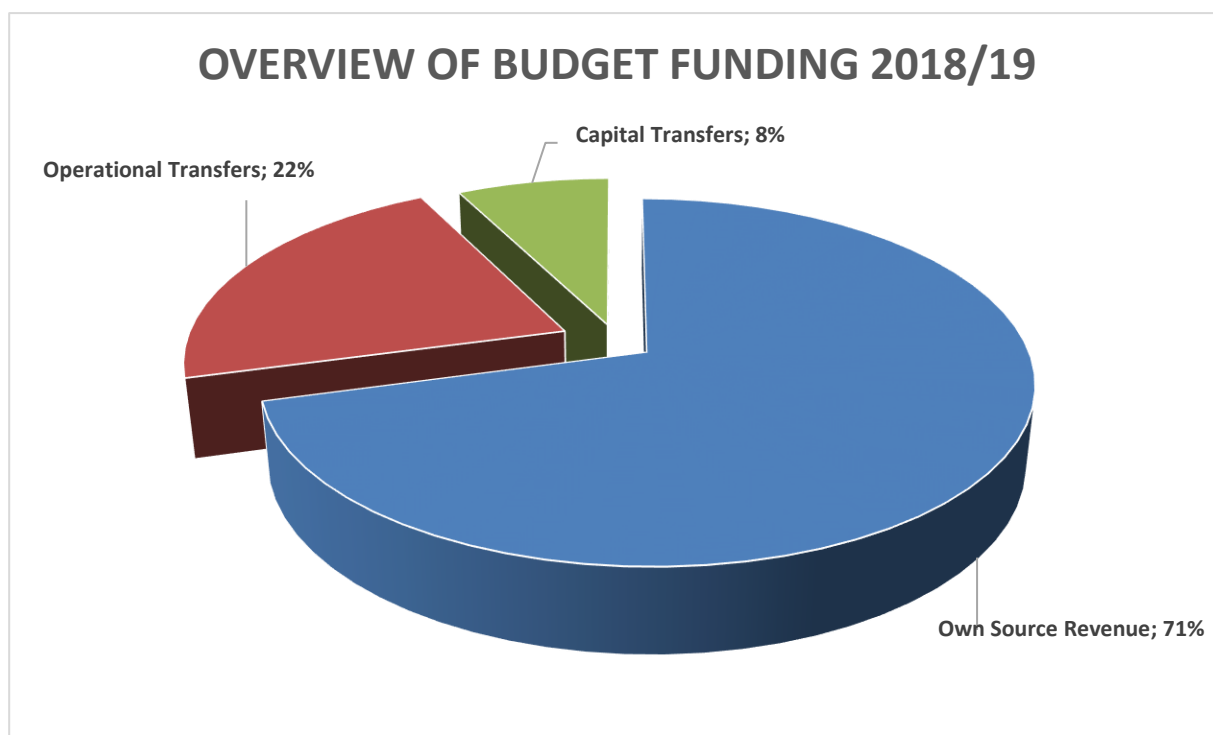
## 1.8 Overview of Budget Funding

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 the previous years' surpluses not committed for other purposes; and
- ✓ Borrowed funds, but only for the capital budget referred to in section 17.

**The importance of tabling funded budgets is highlighted in MFMA Circular No. 74.**

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



## 1.9 **Operating Revenue Framework**

For Moqhaka Local Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and high poverty & unemployment rate in our area.

The expenditure required to address these challenges will inevitably always exceed available funding, taking into account the subsidies that the municipality needs to provide to the poor, hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

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

- National Treasury's guidelines and macroeconomic policy;
- Improving the effectiveness of revenue management processes and procedures;
- Efficient revenue management, which aims to ensure a **95%** annual collection rate for property rates and service charges as required by MFMA Circular 71;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Paying special attention to cost containment measures by, amongst other things, controlling unnecessary spending on nice-to-have items and non-essential activities as was highlighted in MFMA Circular No.82;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service in order to achieve cost reflective tariffs (or Break-Even-Point);
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- The municipality's Indigent Policy and the rendering of free basic services; and
- Curbing consumption of water and electricity by indigents to ensure that they do not exceed their allocated benefits;
- Tariff policies of the Municipality.

The financial sustainability of the 2018/19 MTREF is largely dependent on the collection level of the anticipated revenue. Provision is made in the budget for a **collection rate of 85%**. To achieve this collection, Moqhaka Local Municipality is looking to implement more robust credit and debt control measures, which will ensure that all consumers who can afford to pay for services rendered do pay for those services and those who cannot afford to pay for the services are registered as indigent in terms of the municipality's indigent policy. This rate is in relation to the 2018/19 financial year revenue collection, and does not take into account the collection efforts of the municipality with regards to its outstanding consumer debt.

In terms of Council's social commitment to assist the poor communities within Moqhaka the supply of free basic services and social contributions to identified structures in Moqhaka remains a priority in order to ensure basic service delivery.

In view of the aforementioned, the following table is a consolidated overview of the proposed 2018/19 Medium-term Revenue and Expenditure Framework:

**Table 1 Consolidated Overview of the 2018/19 MTREF**

<b>R thousand</b>	<b>Adjustment Budget 2017/18</b>	<b>Budget Year +1 2018/19</b>	<b>Budget Year +2 2019/20</b>	<b>Budget Year +3 2020/21</b>
Total Operating Revenue	737 024	807 165	960 087	1 020 301
Total Operating Expenditure	722 536	790 573	834 991	889 996
<b><i>(Surplus)/Deficit for the year</i></b>	<b>14 505</b>	<b>16 592</b>	<b>17 488</b>	<b>18 450</b>
<b>Total Capital Expenditure</b>	<b>79 188</b>	<b>66 283</b>	<b>45 255</b>	<b>47 047</b>

Total operating revenue has been appropriated at **R807** million. When compared to the 2017/18 Adjustment Budget, operational revenue has grown by **10%**. This is mainly due to the increase in the municipal equitable share, the increase in the service charges which is aimed at improving the services to be cost reflective and to achieve financial sustainability. For the two outer years, operational revenue is anticipated to increase by 5.4% and 5.5% respectively.

Total operating expenditure for the 2018/19 financial year has been appropriated at R 791 million. When compared to the 2017/18 Adjustments Budget, operational expenditure has been projected at 9% in the 2018/19 budget and by 5.4% and 5.5% for each of the respective outer years of the MTREF. The anticipated surpluses to be raised will be used to fund capital expenditure and to further ensure cash backing of funds and reserves.

The capital budget amounts to **R66** million for 2018/19 which is a R13 million decrease (The municipality did not receive any allocation from DoE for the new budget year, and the Water Infrastructure Grant decreased by R10 million) from 2017/18 Adjustment Budget. This is mainly due to the reduced Water Services Infrastructure Grant and the decline with regards to the Own Funding Capital. The capital budget will mainly be funded from grants over the MTREF with gazetted grants of R49 million as per the Division of Revenue bill 2018/19 and **R15** million from the municipal own funding.



The following table is a summary of the 2018/19 MTREF (classified by main revenue source):

**Table 2 Summary of revenue classified by main revenue source (A4)**

<b>Revenue types</b>			
<b>R thousand</b>	<b>Adjustment Budget Year 2017/18</b>	<b>Budget Year 2018/19</b>	<b>%</b>
Property rates	66 503	70 608	<b>6%</b>
Service Charges: Electricity	286 482	306 319	<b>7%</b>
Service Charges: Water	102 644	119 113	<b>16%</b>
Service Charges: Sanitation	38 756	41 922	<b>8%</b>
Service Charges: Refuse	31 132	33 925	<b>9%</b>
Rental of Facilities	8 557	9 003	<b>5%</b>
Interest : External Investments	1 350	1 420	<b>5%</b>
Interest: Outstanding Debtors	18 236	19 764	<b>8%</b>
Fines, penalties and forfeits	5 625	5 976	<b>6%</b>
Transfers Recognised Operational	166 741	188 893	<b>13%</b>
Other Revenue	10 998	10 222	<b>-7%</b>
<b>Total Revenue (Excluding capital grants)</b>	<b>737 024</b>	<b>807 165</b>	<b>10%</b>

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

The municipalities were required to comply with the mSCOA Regulations as from 01 July 2017. The implementation of the mSCOA brought with it a number of challenges for Moqhaka Municipality. One of the main challenges was to migrate from the old 13 digits vote number to a 20-digits function segment as per the regulations. This has led to some changes in the known item descriptions and reclassification of certain expenditure and the related disclosure for these items. Despite a number of trainings been provided by both the National and Provincial Treasury, challenges still remain in terms of the reporting documentation required by these higher structures. The municipality is working closely with the Financial System provider to ensure that all the necessary reports are compiled and submitted as required by Treasury.

Revenue generated from **rates and service charges** comprise a significant percentage of the revenue basket for the Municipality. Rates and service charge revenues comprise more than two thirds of the total revenue mix. In the 2018/19 financial year, revenue from rates and services charges totalled R572 million. This effectively means that the municipality is highly dependent on its consumers/community to pay for the services rendered in order to enable the municipality to continue rendering these services consistently so. The municipal funding composition is clearly outlined in page 4 of this document.

## **REMARKS**

### **WATER**

The municipality is currently stable in terms of supply of water services to the community. The supply of water is a core function for the municipality, as a result a lot is required from the municipality as a Water Service Authority. Amongst other things, the maintenance of the water network and water purification plants within the 3 towns of Moqhaka Local Municipality. This also necessitates sufficient budget provision for the construction of water reservoirs in all three towns to ensure sustainable water supply. The acquisition of a new fleet to improve service delivery and to duly respond to consumers' queries lodged. This has resulted in the water revenue increasing on average by **10.5%**.

Our water infrastructure comprises primarily of aged asbestos pipes which burst perpetually and this results in the disruption of water supply to the community. The repairs and maintenance/upgrading of the water network is being undertaken on a piecemeal basis due to the lack of sufficient financial resources which will see a complete overall refurbishment of the entire network. The municipality is continually preparing business plans to obtain funding for these dilapidated infrastructure assets.

### **SANITATION**

The municipality is faced with a number of challenges with regards to delivering an effective sewer system (network & purification plant). The continuous collapsing sewer lines is putting a strain on the municipality's budget in relation to rendering the sewer services. The continuous growth/demand for water borne sewer system, also results in a challenge for the municipality to expand/upgrade the outfall sewer lines. The high maintenance costs of the sewer network, pump stations and the treatment plant are mainly as a result of the age of this infrastructure and the disposal of foreign objects (e.g. stones, steel and lately plastic crates) into the sewer lines. **This calls mainly for Community awareness in terms of the role and objective of the sewer services in general.** The untreated effluent from the industries which leads to increased operational treatment costs (e.g. pulp, oil, grease & raw blood). All of these issues has led to an increased budget with regards to the sanitation services of an average of **10%**.

### **REFUSE**

Revenues from Solid Waste Management increased on average by **9%**. Although this is above the inflation rate, the tariff is based on the costs of delivering the service. This is a progressive increase in ensuring that the tariffs are cost reflective, and that the unit is ultimately financially sustainable.

It was also determined by the municipality that one of the contributors to the Solid Waste expenditure relates to the time spent collecting refuse which does not comply with the required specifications as outlined in the Provincial Gazette of 13 March 2015.

*which defines a "bin" as follows;*

"bin - means a standard type of refuse bin with a capacity of 0.1 cubic meters or 85 litres as approved by the Municipality and which can be supplied by the Municipality. The bin may be constructed of galvanised iron, rubber or polythene;

bin liner-means a plastic bag approved by the Municipality which is placed inside a bin with a maximum capacity of 0.1 cubic meters. These bags must be of a dark colour, 950 mm x 750 mm in size, of low density minimum 40 micrometer diameter or 20 micrometer diameter high density;"

It is against this background that the municipality cannot continue to collect refuse that is not kept in acceptable containers as indicated above. *(it should also be noted that any refuse placed in mealie bags, the bags will not be returned only the refuse bins will be returned).*

### **OTHER REVENUE**

Other revenue comprises of various items such as income received from building plan fees, connection fees, rental of properties and advertisement fees. Departments have been urged to review the tariffs of these items on an annual basis to ensure they are cost reflective, market related and financially sustainable. This will also enable the municipality to have sufficient resources to affect the necessary repairs and maintenance to keep the properties on a good condition.

## 1.11 OPERATIONAL TRANSFERS

Operating grants and transfers amounted to **R167** million in the 2017/18 financial year and the grants increased to **R189** million for the 2018/19 financial year. This is mainly because of the increase in the municipal equitable share allocation which increased by R21 million (13%).

**Table 3 Summary of revenue classified by municipal votes (A3)**

Revenue by Municipal Vote				
Vote Description		2018/19 MTREF		
R thousand	Adjustment Budget 2017/18	Budget year 2018/19	Budget year 2019/20	Budget Year 2020/21
<b>Revenue by Vote</b>				
Vote 1 - Councillors	118 934	128 867	144 974	160 404
Vote 2 - Office of the municipal manager	–	–	–	–
Vote 3 - Corporate Services	763	804	848	894
Vote 4 - Finance	422 071	74 673	78 705	83 034
Vote 5 - Technical Services	200 379	586 040	656 892	692 934
Vote 6 - Community and Emergency Services	47 231	51 980	54 752	57 804
Vote 7 - Local Economic Development and Planning	13 504	14 207	14 974	15 797
<b>Total Revenue by Vote</b>	<b>802 882</b>	<b>856 570</b>	<b>951 145</b>	<b>1 010 868</b>

**Table 4 Operating Transfers and Grant Receipts (SA18)**

<b>FS201 Moghaka - Supporting Table SA18 Transfers and grant receipts</b>					
DESCRIPTION	REF	Budget Year 2017/18	Budget Year +2018/19	Budget Year +2019/20	Budget Year +20/21
		Adjusted Budget			
<b>R thousands</b>					
<b>RECEIPTS:</b>	1, 2				
<b>Operating Transfers and Grants</b>					
<b>National Government:</b>		<b>166 741</b>	<b>187 902</b>	<b>208 973</b>	<b>226 300</b>
Local Government Equitable Share		164 092	185 144	206 063	223 900
LG Seta	3	504	543	573	–
Finance Management Grant		2 145	2 215	2 337	2 400
<b>EPWP Incentive</b>		<b>1 000</b>	<b>1 000</b>	<b>1 055</b>	<b>1 113</b>
EPWP Incentive	5	1 000	1 000	1 055	1 113
<b>District Municipality:</b>		<b>–</b>	<b>–</b>		<b>–</b>
<b>Other grant providers:</b>		<b>–</b>	<b>–</b>		<b>–</b>
<b>Total Operating Transfers and Grants</b>	6	<b>167 741</b>	<b>188 902</b>	<b>210 028</b>	<b>227 413</b>
<b>National Government:</b>		<b>65 840</b>	<b>49 410</b>	<b>52 128</b>	<b>54 995</b>
Municipal Infrastructure Grant (MIG)		40 840	39 410	41 578	43 864
Water Services Infrastructure Grant		20 000	10 000	10 550	11 130
EPWP		–	–	–	–
DOE		5 000	–	–	–
<b>EPWP Incentive</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>District Municipality:</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<i>[insert description]</i>					
<b>Other grant providers:</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<i>[insert description]</i>					
<b>Total Capital Transfers and Grants</b>	6	<b>65 840</b>	<b>49 410</b>	<b>52 128</b>	<b>54 995</b>
<b>TOTAL RECEIPTS OF TRANSFERS &amp; GRANTS</b>		<b>233 581</b>	<b>238 312</b>	<b>262 155</b>	<b>282 408</b>

The Capital grants for the 2017/18 financial year have decreased from R66 million to R49 million in the 2018/19 Budget year, this is mainly because of the decrease in the Water Services Infrastructure Grant by R10 million and the electricity funding from DoE of R5 million.

**Table 5 CAPITAL GRANT FUNDING**

PROJECT DESCRIPTION	TOWN/AREA	WARD	FUNDING	GRANT	OWN FUNDING
Moqhaka: Installation of sewer for 4000 new erven in Rammulotsi (northleigh)	Rammulotsi	21	R 5 364 570	✓	
Rammulotsi: Development and fencing of new landfill site - phase 2 (MIS:215370)	Rammulotsi	21	R 9 033 209	✓	
Maokeng/Nyakallong: Upgrading of Community and Sports Facility (MIS:249771)	Rammulotsi	18	R 1 950 000	✓	
Brentpark: Construction of 0.96km paved road and storm water channel to Brentpark Stadium (MIS:269933)	Brentpark	13	R 4 529 648	✓	
Gelukwaarts: Construction of 0,395km tarred road and stormwater crossing (MIS:270279)	Maokeng	8,10,12-14	R 7 646 184	✓	
Matlwangtlwang: Construction of 0.62km brick Paved road with V-Channels storm water drainage (1800-1722)(MIS:270047)	Matlwangtlwang	2	R 4 639 755	✓	
Seisoville: Construction of 0.750km paved road and storm water drainage at Ntanga street (MIS:272675)	Maokeng	15	R 3 186 865	✓	
Water Services Infrastructure Grant	Moqhaka	All	R 10 000 000	✓	

## 1.12 Operating Expenditure Framework

The Municipality's expenditure framework for the 2018/19 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of no project plans no budget. If there is no business plan no funding allocation can be made.

**Table 6 Summary of operating expenditure by municipal votes (A3)**

Expenditure by Municipal Vote				
Vote Description	2018/19 MTREF			
R thousand	Annual Budget 2017/18	Budget year 2018/19	Budget year 2019/20	Budget Year 2020/21
<b>Expenditure by Vote to be appropriated</b>				
Vote 1 - Councillors	61 779	65 508	68 705	72 844
Vote 2 - Office of the municipal manager	12 343	15 558	16 398	17 300
Vote 3 - Corporate Services	36 417	33 250	35 046	36 973
Vote 4 - Finance	333 148	33 794	35 618	37 633
Vote 5 - Technical Services	98 643	471 323	495 094	522 324
Vote 6 - Community and Emergency Services	133 299	140 525	151 862	168 879
Vote 7 - Local Economic Development and Planning	26 473	30 615	32 268	34 043
<b>Total Expenditure by Vote</b>	<b>702 103</b>	<b>790 573</b>	<b>834 991</b>	<b>889 996</b>

**1.13 The following table is a high level summary of the 2017/18 budget and MTREF (classified per main type of operating expenditure):**

**Table 7: Summary of operating expenditure by standard classification (A4)**

<b>OPERATING EXPENSES</b>			
<b>Description R thousand</b>	<b>Adjustment Budget Year 2017/18</b>	<b>Budget Year 2018/19</b>	<b>%</b>
Employee Related Cost	248 870	267 549	<b>8%</b>
Remuneration of Councillors	17 340	18 192	<b>5%</b>
Bulk Purchases	234 142	251 237	<b>7%</b>
Contracted Services	97 829	105 811	<b>8%</b>
Other Materials	10 061	10 706	<b>6%</b>
Depreciation & Asset Impairment	15 109	32 881	<b>118%</b>
Finance charges	2 985	3 140	<b>5%</b>
Contribution to bad debts	7 303	10 133	<b>39%</b>
General Expenses	88 897	90 924	<b>2%</b>
<b>Total Expenditure (Excluding capital grants)</b>	<b>722 536</b>	<b>790 573</b>	<b>9%</b>

**REMARKS**

The budgeted allocation for employee related costs for the 2018/19 financial year totals R268 million, which equates to 34% of the total operating expenditure. A provisional increase of 7.5% has been provided for. Salary increases have been factored into this budget for the 2018/19 financial year and an additional 1% to cover the salary notches increases as well as some of the critical vacancies to be filled by the municipality in the 2018/19 financial year.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the respective budget.

The cost associated with the remuneration of the municipality's senior managers is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Local Government: Upper Limits of Total Remuneration Packages payable to Municipal Managers and Managers directly accountable to Municipal. The most recent proclamation in this regard has been taken into account in compiling the respective budget.

Bulk purchases are directly informed by the purchase of electricity from Eskom. The annual price increases as approved by NERSA (National Energy Regulator of South Africa) have been factored at 7.32% into the budget appropriation and directly inform the revenue provisions. The expenditure also incorporates the reticulation losses.



Provision for depreciation and asset impairment is informed by the Municipality's Asset Management Policy and in particular the Asset Register. Depreciation is widely considered a proxy for the measurement of the asset consumption rate. It should be noted that the implementation of GRAP 17 accounting standard as required by National Treasury has resulted in the inclusion of a range of assets that previously were not included in the asset register onto the register. This has resulted in a significant increase in depreciation relative to previous years. The final audited amount for depreciation for the 2016/17 financial year amounted to **R111 million**. Due to organisational constraints and the minimal increases in revenues, the municipality is phasing in the depreciation amount over the MTREF so as to ensure that this expenditure does not unfavourably affect the service tariffs.

The provision of debt impairment was determined based on an annual collection rate of 85%. While this expenditure is considered to be a non-cash flow item, it informs the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues. The debt impairment provision was also increased taking into account the current outstanding municipal debt.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). The municipality is currently servicing the DBSA loan.

## 1.14 Capital expenditure

The following table provides a breakdown of budgeted capital expenditure by Council vote.

**Table 8 Budgeted Capital Expenditure by Vote, Standard Classification and funding**

FS201 Moqhaka - Table B5 Adjustments Capital Expenditure Budget by vote and funding -				
Vote Description	2018/19 MTREF			
R thousand	Adjustment Budget 2017/18	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
<b>Capital expenditure - Vote</b>				
Vote 1 - Councillors	200	–	–	–
Vote 2 - Office of the municipal manager	50	–	–	–
Vote 3 - Corporate Services	1 315	650	1 100	550
Vote 4 - Finance	451	1 050	1 159	1 223
Vote 5 - Technical Services	61 409	48 092	38 110	40 748
Vote 6 - Community and Emergency Services	14 913	15 591	4 886	4 526
Vote 7 -LED	850	900	–	–
	<b>79 188</b>	<b>66 283</b>	<b>45 255</b>	<b>47 047</b>
<b>Capital Expenditure - Functional</b>				
<b>Governance and administration</b>	<b>3 502</b>	<b>2 658</b>	<b>2 426</b>	<b>1 949</b>
Executive and council	350	–	–	–
Budget and treasury office	3 152	2 658	2 426	1 949
Internal Audit	–	–	–	–
<b>Community and public safety</b>	<b>5 867</b>	<b>7 093</b>	<b>6 136</b>	<b>6 465</b>
Community and social services	388	–	–	–
Sport and recreation	1 089	2 800	1 808	1 904
Public safety	4 390	4 293	4 328	4 561
Housing	–	–	–	–
Health	–	–	–	–
<b>Economic and environmental services</b>	<b>10 905</b>	<b>18 728</b>	<b>19 042</b>	<b>5 071</b>
Planning and development	257	100	–	–
Road transport	10 218	18 628	19 042	5 071
Environmental protection	430	–	–	–
<b>Trading services</b>	<b>58 914</b>	<b>37 805</b>	<b>17 651</b>	<b>33 562</b>
Energy sources	5 661	2 909	301	–
Water Management	22 280	14 678	13 132	18 278
Waste water management	21 499	9 785	3 625	15 284
Waste management	9 474	10 433	593	–
<b>Other</b>				–
<b>Total Capital Expenditure - Standard</b>	<b>79 188</b>	<b>66 284</b>	<b>45 255</b>	<b>47 047</b>
<b>Funded by:</b>				
National Government	63 798	51 817	38 169	40 186
Provincial Government	–	–	–	–
District Municipality	–	–	–	–
Internally generated funds	15 390	14 466	7 086	6 861
<b>Total Capital Funding</b>	<b>79 188</b>	<b>66 283</b>	<b>45 255</b>	<b>47 047</b>

### Table 9 Capital-Own Funding

The following table is a breakdown of the own funding on capital expenditure:

CAPITAL BUDGET (Own Funds)								
R thousand	Political Offices	Municipal Manager	Finance Services	Corporate Services	Technical Services	Community & Social Services	LED	TOTAL
Furniture, Equipment & Heavy Machinery	-	-	1 050	650	558	2 408	900	5 566
KHATLISO: UPGRADING OF ROAD 0.56KM (Phase: 1)					3 000			3 000
SERVICING 20 ERVEN IN TUINHOF					1 500			1 500
MATLWANGTLWANG DRY SANITATION-590 Erf (Phase:1)					3 292			3 292
Fire Engine						2 200		2 200
<b>Total</b>	-	-	<b>1 050</b>	<b>650</b>	<b>8 350</b>	<b>4 608</b>	<b>900</b>	<b>15 558</b>

## 1.15 Cash flow Statement

**Table 10 Budget Cash Flows**

FS201 Moqhaka - Table A7 Budget Cash Flows				
Description	2018/19 Medium Term Revenue & Expenditure Framework			
R thousand	Adjustment Budget 2017/18	Budget Year +18/19	Budget Year +18/19	Budget Year +19/20
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
<b>Receipts</b>				
Property rates, penalties & collection charges	70 487	63 547	66 979	70 663
Service charges	436 080	441 162	464 985	490 559
Other revenue	21 911	38 220	40 284	42 499
Government - operating	166 741	188 359	206 063	223 900
Government - capital	66 840	49 410	59 018	64 526
Interest	17 627	9 882	10 416	10 988
Dividends	–	–	–	–
<b>Payments</b>				
Suppliers and employees	(705 161)	(724 211)	(763 319)	(805 301)
Finance charges	(2 985)	(2 669)	(2 813)	(2 968)
Transfers and Grants	–			
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>	<b>71 540</b>	<b>63 701</b>	<b>81 612</b>	<b>94 867</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>Receipts</b>				
Proceeds on disposal of PPE	–	–	–	–
Decrease (Increase) in non-current debtors	–	–	–	–
Decrease (increase) other non-current receivables	–	–	–	–
Decrease (increase) in non-current investments	–	–	–	–
<b>Payments</b>				
Capital assets	(79 188)	(49 410)	(59 018)	(64 526)
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>	<b>(79 188)</b>	<b>(49 410)</b>	<b>(59 018)</b>	<b>(64 526)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
<b>Receipts</b>				
Short term loans	–	–	–	–
Borrowing long term/refinancing	–	–	–	–
Increase (decrease) in consumer deposits	–	–	–	–
<b>Payments</b>				
Repayment of borrowing	(3 200)	(3 200)	(3 373)	(3 558)
<b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>	<b>(3 200)</b>	<b>(3 200)</b>	<b>(3 373)</b>	<b>(3 558)</b>
<b>NET INCREASE/ (DECREASE) IN CASH HELD</b>	<b>(10 848)</b>	<b>11 091</b>	<b>19 221</b>	<b>26 783</b>
Cash/cash equivalents at the year begin:	11 427	579	11 670	30 891
<b>Cash/cash equivalents at the year end:</b>	<b>579</b>	<b>11 670</b>	<b>30 891</b>	<b>57 674</b>

**REMARKS ON THE CASHFLOW**

The cash flows have been projected on the various revenue streams based on the actual collection rate of the revenue streams as follows:

<b>Revenue Description</b>	<b>Collection Rate</b>
Property Rates	90%
Electricity revenue	95%
Water revenue	80%
Sanitation revenue	71%
Refuse revenue	74%
Operating & Capital grants	100%
<b>Average Collection</b>	<b>85%</b>

The municipality has also made provision to meet **90%** of its overall Operational obligations. This provision is to be reviewed during the adjustment budget process depending on the availability of additional revenues and 100% of the Capital commitments. The 5% variance between the revenue collection and the expenditure, will be subsidised through the additional revenue enhancement mechanisms and the collection of outstanding debt.

**Collections from Arrear Debtors**

The municipality's debtors book amounted to **R563m** as at 30 April 2018. The municipality plans to collect at least **20% (R109m)** of its arrear debt in order to fund the outstanding creditors and other operational requirements during the financial year 2018/19. However, it should be noted that about **29%** (R166m) of this outstanding debt has repayment agreements in place. The municipality's priority will be in ensuring that the debtors with arrangements do honour these arrangements.

The municipality owes Eskom **R240m** as at the preparation of the Annual Budget 2018/19. The municipality met with Eskom with regards to the outstanding debt and an arrangement was reached to this effect, which extends to 31 January 2019 in terms of which the municipality will be servicing its current account and maintaining the arrears at an outstanding of **R226m** as at the date when the arrangement was made. The repayments relating to the current account are already provided for within the current budget and also the 2018/19 budget. The review of the arrangement is prior to the municipality preparing the 2018/19 adjustment budget and as such we will be in a position to incorporate any adjustments to the Eskom arrangement into our adjustment budget if any.

The municipality has finalised the compilation of a Revenue Enhancement Strategy, and amongst other things, the municipality is also prioritising the reduction/elimination of the **reticulation losses** (Water is currently at **R7.5m** & Electricity at **R38.5m** – as per the Audited Annual Financial Statements of 30 June 2017) through its continuous program of water and electricity meter replacements. To effectively carry out this task, the municipality appointed a panel of service providers to replace the faulty water and electricity meters.