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**NARRATED ANNUAL BUDGET
2021/22 MTREF**

MEETING TO BE HELD ON

30 JUNE 2021

ANNUAL BUDGET OF MOQHAKA LOCAL MUNICIPALITY



2021/22 TO 2023/24 MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK 2020/21 TO 2022/23

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Annual Budget

(a) Executive Mayor's Speech

The Mayor's speech will accompany the final annual budget approval.

(b) Council Resolutions

The Council take note of the following resolutions for the annual budget of 2021/22 to 2023/24 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) tables the budget for the 2021/22 MTREF.

The annual budget of the municipality for the financial year 2021/22 and the multi-year and single-year capital appropriations as set out in the following tables:

- i. Budget Summary as per Table A1,
- ii. Budgeted Financial Performance as per Table A2,
- iii. Budgeted Financial Performance as per Table A3,
- iv. Budgeted Financial Performance as per Table A4,
- v. Multi-year and single-year capital appropriation by municipal vote and standard classification and associated funding by source reflected as per Table A5,
- vi. Budgeted Financial Position as per Table A6,
- vii. Budgeted Cash Flows as per Table A7,
- viii. Cash Backed reserves and accumulated surplus reconciliation as per Table A8,
- ix. Asset Management as per Table A9,
- x. Basic Service Delivery measurement reflected as per Table A10.

1. Executive Summary

1.1 Introduction

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 community at large. The Municipal Budget and Reporting Regulations, as well as various circulars as issued by the National Treasury has been used as a guiding tool for the budget preparation by Local Government.

The National Treasury's MFMA Circular No.107 were used to guide the compilation of the 2021/22 MTREF.

The compilation of the MTREF remains a significant challenge to balance the budget between the limited revenue resources available and the immense need to provide quality basic 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 to 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. In the present current economic climate, municipalities cannot afford to provide municipal services without recovering the cost of providing these services.

1.2 Economic Overview

The global economic outlook is uncertain; additional policy stimulus packages and successful rollout of COVID-19 vaccines will boost global growth. The Real GDP is expected to grow by at 3.3 per cent in 2021 and 2.2 per cent in 2022.

The National Treasury projects real economic growth of 3.3 per cent in 2021, following an expected contraction of 7.8 per cent in 2020. Real GDP growth is expected to moderate to 1.7 per cent in 2022 and 1.5 per cent in 2023, averaging 2.1 per cent over the medium term.

The main risks to the economic outlook are weaker-than-expected growth, continued deterioration in the public finances and a failure to implement structural reforms. A second wave of COVID-19 infections, accompanied by new restrictions on economic activity, would have significant implications for the outlook. Government's fiscal position is a risk to growth: higher long-term borrowing costs and risk premiums have started to affect the broader economy.

The following macro-economic forecasts have been taken into consideration during the preparation of the 2021/22 MTREF.

Table 1: Macroeconomic Performance and Projections, 2016 - 2020

Percentage change	2019/20	2020/21	2021/22	2022/23	2023/24
	Actual	Estimate	Forecast		
Real GDP growth	0.2	-8.3	5.4	1.9	1.6
Nominal GDP growth					
CPI Inflation	4.2	3	4.2	4.2	4.4

Source: National Treasury

The main risks to the economic outlook are weaker-than-expected growth, continued deterioration in the public finances and a failure to implement structural reforms. A second wave of COVID-19 infections, accompanied by new restrictions on economic activity, would have significant implications for the outlook. Government's fiscal position is a risk to growth: higher long-term borrowing costs and risk premiums have started to affect the broader economy.

Electricity remains a binding constraint on economic recovery, with power interruptions expected to continue into 2021. Private generation will only be able to plug the electricity gap to a limited extent over the next year.

The legislation governing local planning and budgeting emphasises community participation in decision-making. The partnership between municipalities and communities relies on the public recognising the value of, and paying for, municipal services. Over the medium term, equitable share allocations, which fund free basic services for low-income households, grow faster than inflation to account for household growth and higher costs of services. But, for most municipalities, own revenues are a larger proportion of their funding than transfers. **Their sustainability depends on how they collect and spend their own revenues.**

1.3 Budget Overview

There are three budgets tabled for approval by Council, the operating expenditure budget, the operating revenue budget and the capital budget.

Table 1 Consolidated Overview of the MTREF

R thousand	Adjustment Budget 2020/21	Budget Year +1 2021/22	% Increase/ (decrease)	Budget Year +2 2022/23	% Increase/ (decrease)	Budget Year +3 2023/24	% Increase/ (decrease)
Total Operating Revenue	1 006 361	1 019 732	1%	1 064 600	4%	1 111 443	4%
Total Operating Expenditure	980 403	986 045	1%	1 029 431	4%	1 074 726	4%
<i>Surplus/(Deficit) for the year</i>	25 958	33 687	30%	35 169	4%	36 717	4%
Total Capital Expenditure	68 636	79 058	15%	80 920	2%	84 049	4%

The total operating revenue for the 2021/22 financial year has been forecasted at **R1.02 billion**. When compared to the 2020/21 Adjustment Budget, operational revenue has experienced a growth of 1%. For the two outer years, operational revenue is anticipated to increase by **4.4%** and **5.5%** respectively.

The total operating expenditure for the 2021/22 financial year has been forecasted at **R986 million**. When compared to the 2020/21 Adjustments Budget, operational expenditure has been projected at **1%** in the 2021/22 budget year and by **4.4%** and **4.5%** for each of the respective outer years of the MTREF. The anticipated surpluses to be raised will be used to predominantly fund capital expenditure and to further ensure cash backing of funds and reserves.

The capital budget amounts to **R749 million** for 2021/22, which is a **R10 million (15%)** increase from 2020/21 Adjustment Budget. This was mainly caused by the additional funds received for the Water Services Infrastructure Grant and the Integrated electrification grant, and also a decrease with regards to the Own Funding Capital. The capital budget will mainly be funded from grants over the MTREF with gazetted grants of **R57 million** as per the Division of Revenue bill 2021/22 and **R22 million** from the municipal own funding.

2. The following budget principles and guidelines directly informed the compilation of the 2021/22 MTREF:

- The 2020/21 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 2021/22 annual budget.
- The Zero-based budgeting methodology was adopted in the compilation of the Capital Budget.
- The Tariffs and Property Rates increases should remain affordable and should generally not exceed inflation as measured by the CPI year on year, 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.

3. 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 is consistently applied. The municipality considered the following practicalities when setting tariffs:

- The Costs of bulk purchases (Electricity & Water) and the fluctuation in the seasonal cost {time-of-use-tariffs} thereof;
- The Consumption patterns to enable better demand management and planning; and
- In the event that the municipality has been under recovering costs, embark on a process to correct the 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 reasonable 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/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. 107 issued by National Treasury has been considered in compilation of the MTREF. The maximum of 6% rate increase was pronounced amongst the Revenue tariffs increases. However, some tariffs are higher than the stipulated percentage as these are based on recovering the cost of delivering the respective services and ensuring that the municipality remains sustainable.

4. The Council of Moqhaka Local Municipality, acting in terms of Section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) tables the following tariffs as set out and included in the budget documentation, with effect from 01 July 2021: (Average Increases)

The proposed revisions to the tariffs have been formulated in accordance with the municipality's Tariff and Rates Policy and complies with Section 74 of the Municipal Systems Act as well as the recommendations of the National Energy Regulator of South Africa (NERSA). In terms of Section 75A of the Local Government Municipal Systems Act, any fees, charges or tariffs which a municipality may wish to levy and recover in respect of any function or service of the municipality, must be approved by a resolution passed by the municipal Council with a supporting vote of a majority of its members.

The average tariff increases for the MTREF is as follows:

Description	2019/20	2020/21	2021/22	2022/23	2023/24
Property Rates	9%	4.6%	6.7%	6%	6%
Electricity	9.41%	6.22%	14.59%	6%	6%
Water	6%	9.8%	6.3%	6%	6%
Sanitation	6%	5.4%	6.6%	6.3%	6.1%
Refuse	6%	8.3%	8.1%	7%	6.5%
Other Income	9%	11%	6.5%	6.3%	6%

* Electricity tariffs is as per the National Energy Regulator of South Africa (NERSA) approval.

*** 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**.

5. The main challenges experienced during the compilation of the MTREF can be summarised as follows:

- The ongoing economic difficulties in relation to the national and local economic growth;
- The aging 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 basic service delivery;

- The lack of affordable capital/borrowing;

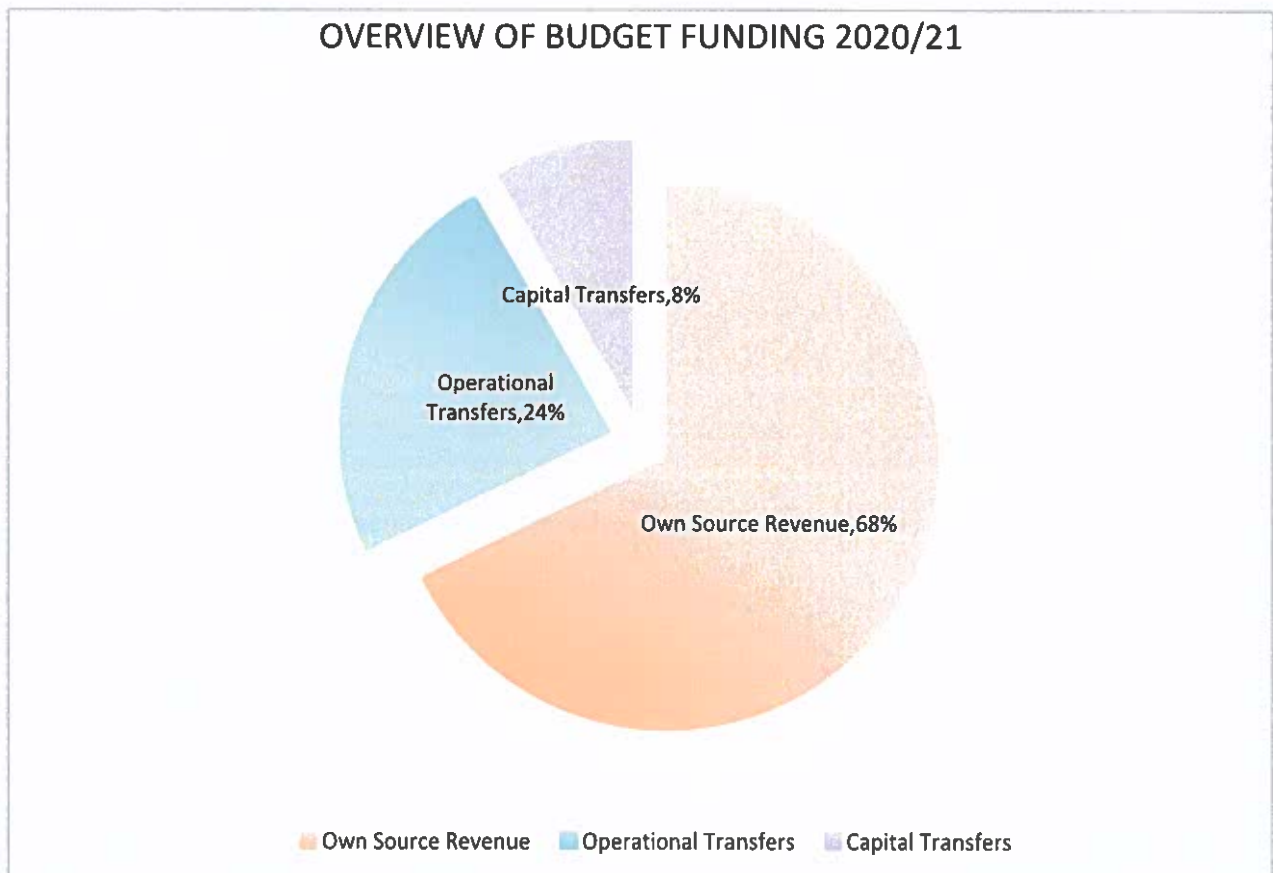
6. Overview of Budget Funding

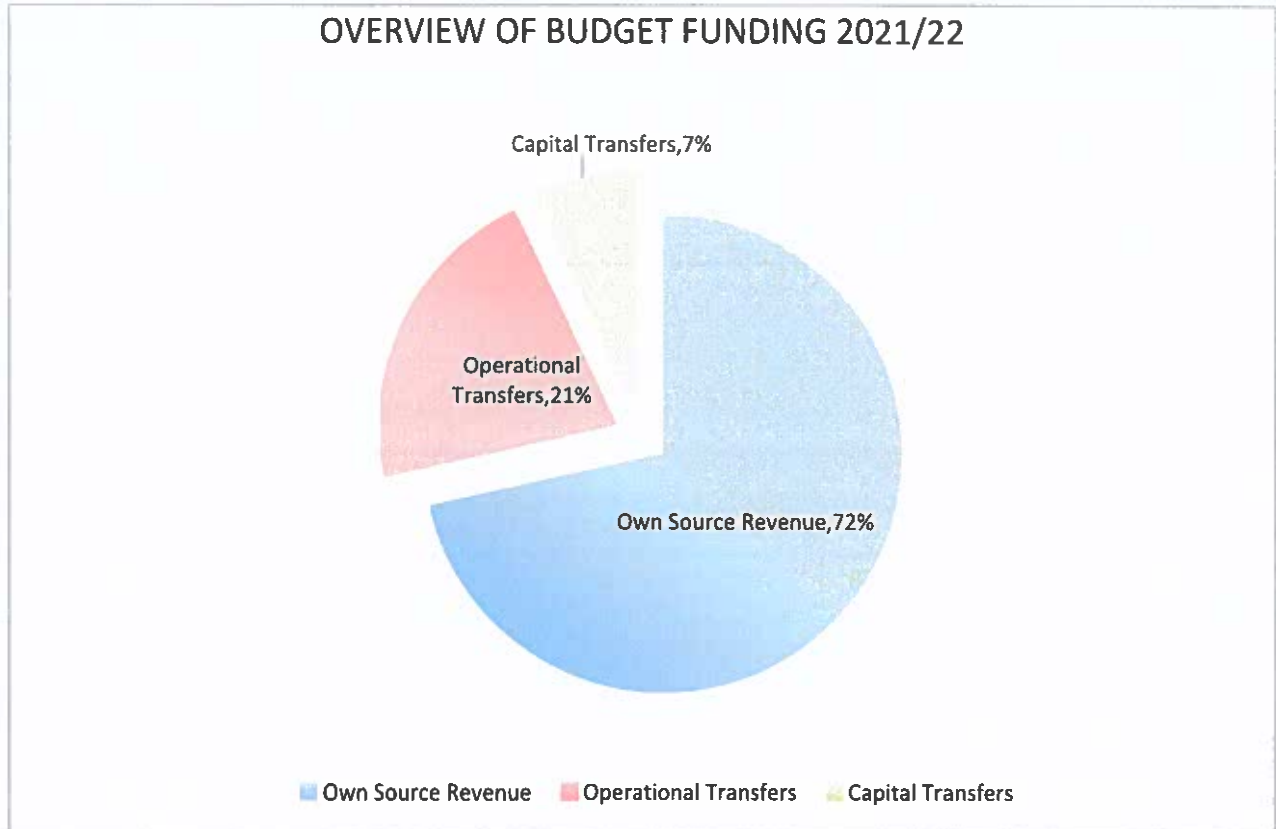
In line with Section 18 (1) of the MFMA which states that an annual budget may only be funded from:

- ✓ 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 annual budget by ensuring that budgeted outflows will be offset by a combination of planned inflows. Refer to Table A7 Budgeted Cash Flows and Table A8 Cash backed reserves/accumulated surplus reconciliation.





The Municipality continues to experience an unfavourable financial profile and low liquidity levels, which is mainly attributable to:

- The high outstanding debtors book which continues to increase on an annual basis due to non-payment of services by consumers,
- The municipality operates within its annual budget, as approved by Council.
- The municipality maintains a minimal cash to fund operations in effecting service delivery.

In compliance with relevant statutory requirements, the Financial Plan (Medium Term Revenue and Expenditure Framework-MTREF) is reviewed and updated annually.

The Capital budget is mainly funded by the allocations (grants) received by the municipality from National and Provincial Government in the form of grants, as well as public contributions and donations, borrowings and internally generated funds.

The municipality raises revenue from a basket of differential tariff increases determined in the most acceptable and equitable funding regime taking into consideration the actual cost of delivering services, budget priorities and national legislation, regulations and policy guidelines. The municipal revenue comprises of operating revenue which includes property taxes, services charges and operating grants- and capital revenue which consists of capital grants, borrowings, cash reserves and operating surplus.

This high level of independent and relative stable income sources of revenue is one of the key factors that support the sound financial position of the municipality. In addition to the obvious need to grow the municipality's revenue by increasing its tax base, other means for securing funding for Council projects need to be explored in a variety of ways. The municipality faces unpleasant choices in attempting to finance the projected levels of investment in infrastructure. Sources of capital finance are already stretched with limited scope for further borrowing, consumer pressure to restrict tariff and tax increases, and little likelihood of a structural upward adjustment in grant allocations. Further, efficiencies in the borrowing programme will continue to be sought to lock in lower cost and longer-term borrowing, plus the introduction of new revenue sources such as infrastructure contribution and charges.

7. Operating Revenue Framework

The municipality generates income from various sources such as exchange and non-exchange transactions. Revenue from exchange transactions is generated mainly from trading services. The municipality has adopted a consolidated billing system for both exchange and non-exchange transactions for municipal services. Billing is therefore done systematically based on fixed monthly tariffs for other services as well as consumption-based billing for metered services.

For Moqhaka Local Municipality to continue improving the quality of basic services provided to its citizens it needs to generate the required level of revenue and improve its debt collection rate. 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 and 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.

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

- National Treasury's guidelines and macro-economic policy;
- Projected growth and growth in demand for services;
- Realistic projections of revenue and collection thereof, as well as strategies for debtor's management;
- 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 No. 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;

Moqhaka Local Municipality 2021/22 Annual Budget and MTREF

- 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;
- Determination of tariffs for trading services in a cost reflective and a cost recovery manner;
- 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 by Council 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.

The financial sustainability of the 2021/22 MTREF is largely dependent on the collection 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 accordingly as indigents in terms of the municipality's indigent policy. This rate is in relation to the 2021/22 financial year revenue collection, and does not take into account the collection efforts of the municipality with regards to its arrear consumer debt.

In terms of Council's social commitment to assist the poor households 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 provides a consolidated overview of the proposed Medium-term Revenue and Expenditure Framework:

The following graph outlined the overall performance of the various budget votes;

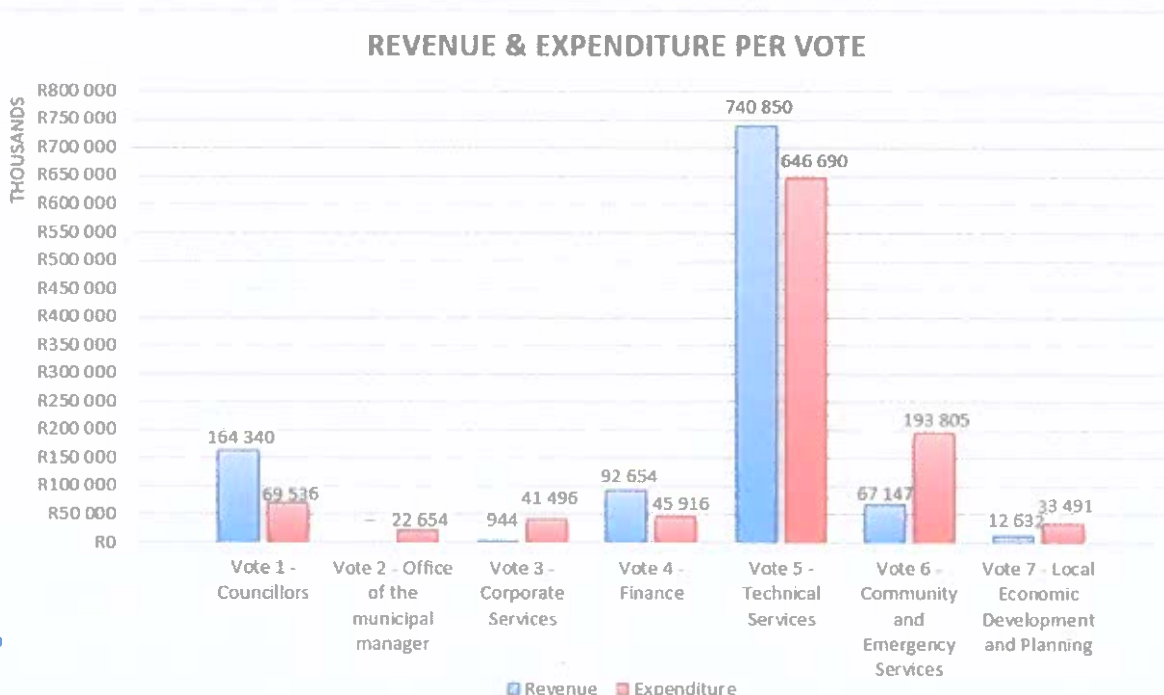


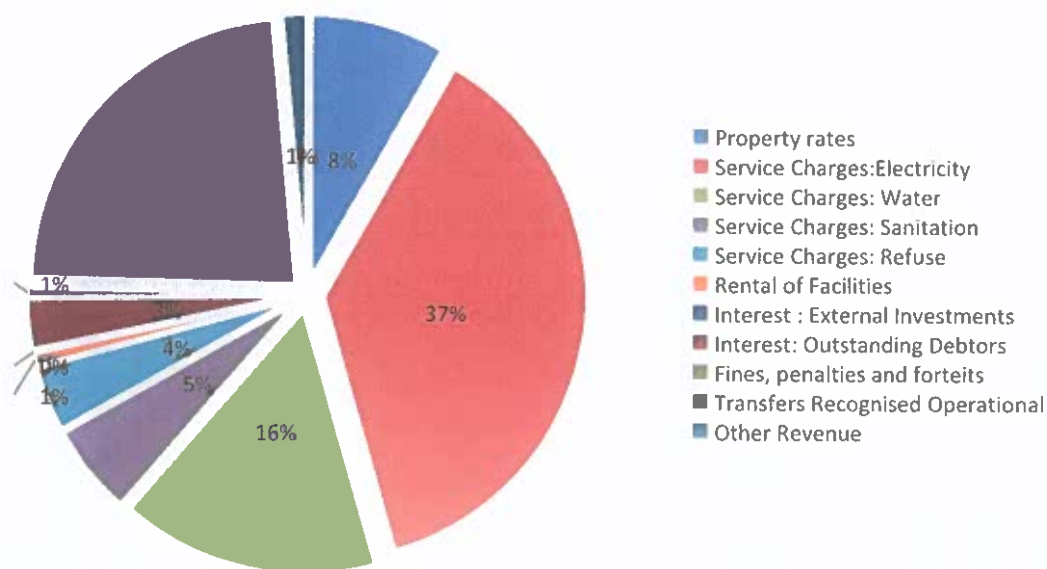
Table 2 Summary of revenue classified by municipal votes (A3)

Vote Description R thousand	Adjustment Budget 2020/21	2021/22 MTREF		
		Budget year 2021/22	Budget year 2022/23	Budget Year 2023/24
Revenue by Vote				
Vote 1 - Councillors	197 951	164 340	170 913	177 750
Vote 2 - Office of the municipal manager	-	-	-	-
Vote 3 - Corporate Services	801	944	982	1 021
Vote 4 - Finance	90 690	92 654	96 360	100 215
Vote 5 - Technical Services	716 621	740 850	770 484	801 304
Vote 6 - Community and Emergency Services	60 510	67 147	69 833	72 626
Vote 7 - Local Economic Development and Planning	8 422	12 632	13 137	13 663
Total Revenue by Vote	1 074 995	1 078 568	1 121 711	1 166 579

The following table is a summary of the MTREF classified by main revenue source

Table 3 Summary of revenue classified by main revenue source (A4)

REVENUE BY SOURCE



Revenue types				
R thousand	Adjustment Budget Year 2020/21	Budget Year 2021/22	%	Revenue Composition
Property rates	79 352	84 416	6%	8%
Service Charges: Electricity	367 517	380 617	4%	37%
Service Charges: Water	152 768	161 199	6%	16%
Service Charges: Sanitation	50 701	55 712	10%	5%
Service Charges: Refuse	37 736	39 995	6%	4%
Rental of Facilities	4 769	7 943	67%	1%
Interest : External Investments	1 883	1 524	-19%	0%
Interest: Outstanding Debtors	30 144	31 284	4%	3%
Fines, penalties and forfeits	4 853	6 019	24%	1%
Transfers Recognised Operational	262 565	236 129	-10%	23%
Other Revenue	14 073	14 895	6%	1%
Total Revenue (Excluding capital grants)	1 006 361	1 019 732	1%	100%

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.

Revenue generated from **rates and service charges** comprise a significant percentage (71%) of the revenue basket for the Municipality. Rates and service charge revenues comprise more than two thirds of the total revenue mix. In the 2021/22 financial year, revenue from rates and services charges amounted to **R722** million. This effectively means that the municipality is highly dependent on its consumers/households/community to pay for the services rendered in order to enable the municipality to continue rendering these basic services consistently so. The municipal funding composition is outlined in section 6 of this document.

TARIFFS INCREASE REMARKS

Electricity

The electricity tariff increase is in line with the NERSA Guideline Increase of **14.59%**. The municipality is experiencing an outright deficit of **3.21%** (Sales increase of 14.59 – bulk purchases of 17.8%). This also put pressure on the municipal fiscus.

Water

Revenues from water services increased on average by **6.3%**. The municipality continue to experience major challenges with regards to its water network, which in most cases leaves the community without water for extended period of times. The water network is still predominantly asbestos pipelines. This continues to adversely affect our water distribution infrastructure due to continuous burst pipes, especially during the winter season due to the type of network in place (asbestos pipes).

The repairs and maintenance cost for the network is funding from the “basic water charge” tariff. It has been evident from the past 3 years that this tariff does not adequately cover the costs of effectively maintaining the water network. This tariff continues to experience a higher tariff increase to ensure that adequate financial resources is available for the rehabilitation of the water infrastructure network.

The developments which the municipality undertook in the last 3 years has seen quite a high demand in terms of the water supply. Which, conversely puts pressure on the municipality to ensure that water is supplied accordingly to all residents within its Jurisdiction. The lack of adequate number of reservoirs still remain a huge challenge for the municipality in ensuring that its residents have water at all times.

Sanitation

Revenues from sanitation services increased on average by **6.6%**. The municipality continue to experience serious challenges with regards to its sanitation network. The network is a clay pipe network and is aged, while at the same time the municipality is experiencing continuous collapse lines which is very costly to the municipality to upkeep and maintain. These clay pipes most of the time results in sewer blockages due to the aging thereof, which also exacerbate the repairs and maintenance costs relating to the sanitation infrastructure network.

The repairs and maintenance cost for the network are mainly funded from the “basic sanitation charge” tariff. It has been evident from the past 3 years that this tariff is not adequate to cover the costs of effectively maintaining the sanitation network. This tariff will experience a higher tariff increase to ensure that adequate funding is available for the rehabilitation of the sanitation infrastructure network.

REFUSE

Revenues from Solid Waste Management increased on average by **8.1%**. The increased tariff is based on the costs of delivering the respective service. This is a progressive increase in ensuring that the tariffs are cost reflective, and that the division results in financial sustainability.

It was also determined by the municipality that one of the contributors to the Solid Waste expenditure relates to the excessive time spent (which leads to overtime been worked in most cases) collecting refuse that is kept in containers 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 component increased on average by 6.5%. This was as a result of the alignment of the costs involved in rendering these services, so as to ensure that the municipality does not run these services at a loss which will ultimately affect the municipality's going concern.

Other revenue comprises of various items such as income received from building plan fees, connection fees, rental of properties and advertisement fees. The departments are continuously reviewing the tariffs relating to these services 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 effect the necessary repairs and maintenance to keep the properties on a good condition.

8. OPERATIONAL TRANSFERS

The Operating grants and transfers amounted to **R261** million in the 2020/21 financial year and the grants increased to **R234** million for the 2021/22 financial year. This is mainly because of the increase in the municipal equitable share allocation for the new financial year.

Table 4 Operating Transfers and Grant Receipts (SA18)

Description	Ref	2017/18	2018/19	2019/20	Current Year 2020/21			2021/22 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
RECEIPTS:	1.2									
Operating Transfers and Grants										
National Government:		167 237	188 359	208 888	224 134	260 842	260 842	234 117	243 482	253 221
Local Government Equitable Share										
Equitable Share		166 237	187 359	205 660	222 134	258 842	258 842	230 417	239 634	249 219
Expanded Public Works Programme Integrated Grant		1 000	1 000	-	-	-	-	-	-	-
Integrated National Electrification Programme Grant		-	-	-	-	-	-	1 500	1 560	1 622
Local Government Financial Management Grant		-	-	2 215	2 000	2 000	2 000	2 200	2 288	2 380
Municipal Disaster Relief Grant		-	-	1 013	-	-	-	-	-	-
Municipal Infrastructure Grant		-	-	-	-	-	-	-	-	-
Provincial Government:		1 000	-	-	-	-	-	-	-	-
Limited Financial and Infrastructure Support to Municipalities for the Maintenance of Water Supply Infrastructure		1 000	-	-	-	-	-	-	-	-
District Municipality:		-	-	-	-	-	-	-	-	-
Other grant providers:		-	-	1 131	1 723	1 723	1 723	2 012	2 092	2 176
National Economical Development and Labour Council		-	-	1 000	1 228	1 228	1 228	1 392	1 448	1 506
National Skills Fund		-	-	131	495	495	495	620	645	671
Total Operating Transfers and Grants	5	168 237	188 359	210 019	225 857	262 565	262 565	236 129	245 574	255 397
Capital Transfers and Grants										
National Government:		-	28 290	48 545	63 934	68 636	68 636	58 836	61 189	63 637
Integrated National Electrification Programme Grant		-	-	-	-	-	-	-	-	-
Municipal Disaster Relief Grant		-	-	-	-	-	-	-	-	-
Municipal Infrastructure Grant		-	-	40 178	49 924	49 311	49 311	42 336	44 029	45 791
Water Services Infrastructure Grant		-	28 290	8 367	14 010	19 325	19 325	16 500	17 160	17 846
Provincial Government:		-	-	-	-	-	-	-	-	-
Specify (Add grant description)		-	-	-	-	-	-	-	-	-
District Municipality:		-	-	-	-	-	-	-	-	-
Other grant providers:		-	-	-	-	(3)	(3)	-	-	-
Developers Contribution		-	-	-	-	-	-	-	-	-
Office of the Pension Fund Adjudicator		-	-	-	-	(3)	(3)	-	-	-
Total Capital Transfers and Grants	5	-	28 290	48 545	63 934	68 634	68 634	58 836	61 189	63 637
TOTAL RECEIPTS OF TRANSFERS & GRANTS		168 237	216 649	258 565	289 791	331 199	331 199	294 965	306 764	319 034

9. Operating Expenditure Framework

The Municipality's expenditure framework for the 2021/22 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.

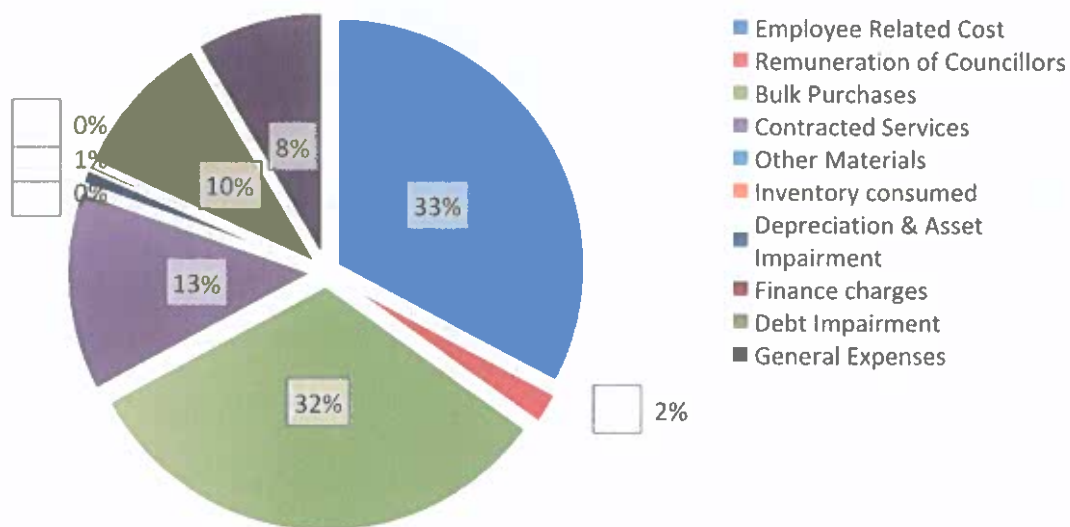
Table 5 Summary of operating expenditure by municipal votes (A3)

Vote Description	Adjustment Budget 2020/21	2021/22 MTREF		
		Budget year 2021/22	Budget year 2022/23	Budget Year 2023/24
R thousand				
Expenditure by Vote to be appropriated				
Vote 1 - Councillors	69 880	69 536	72 158	75 152
Vote 2 - Office of the municipal manager	15 398	22 654	23 560	24 502
Vote 3 - Corporate Services	36 594	41 496	43 156	44 882
Vote 4 - Finance	49 309	45 916	47 753	49 663
Vote 5 - Technical Services	587 027	591 512	616 632	641 297
Vote 6 - Community and Emergency Services	188 708	193 805	201 557	209 619
Vote 7 - Local Economic Development and Planning	33 488	33 491	34 830	36 224
Total Expenditure by Vote	980 404	998 410	1 039 646	1 081 340

10. The following table is a high level summary of the 2021/22 budget and MTREF (classified per main type of operating expenditure):

Table 6: Summary of operating expenditure by standard classification (A4)

EXPENDITURE BY TYPE



OPERATING EXPENSES				
Description R thousand	Adjustment Budget Year 2020/21	Budget Year 2021/22	%	Expenditure Composition
Employee Related Cost	319 068	322 955	1%	33%
Remuneration of Councillors	20 213	20 693	2%	2%
Bulk Purchases	281 259	318 434	13%	32%
Contracted Services	133 614	130 293	-2%	13%
Other Materials	16 603	-	-100%	0%
Inventory consumed	-	1 412	100%	0%
Depreciation & Asset Impairment	9 760	9 676	-1%	1%
Finance charges	4 500	3 620	-20%	0%
Debt Impairment	93 982	95 496	2%	10%
General Expenses	101 404	83 466	-18%	8%
Total Expenditure (Excluding capital grants)	980 403	986 045	1%	100%

REMARKS

The budgeted allocation for employee related costs for the 2021/22 financial year amounts to R323 million, which equates to 33% of the total operating expenditure. The employee increase percentage is within the threshold as stipulated in the MFMA Circular No. 71.

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 Manager. 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 17.8% into the budget appropriation and directly inform the revenue provisions. The expenditure also incorporates the reticulation losses.

The Other materials have been reclassified into inventory consumed in line with the mSCOA updates, and the remainder of the inventory has been reclassified to the balance sheet.

Provision for depreciation and asset impairment is being faced in over the financial years due to its excessive impact on the revenue tariffs, to provide for the asset renewal as a result of use over the years in line with GRAP 17.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). The municipality is currently servicing the DBSA loan. The reduction in finance charges is the expected outcome on the municipality's obligations due to payment arrangements that have been entered into.

Contracted services has been reduced by 2% in line with the cost containment and the reduction of non-core expenditure. _

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 costs 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.

11. Capital expenditure

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

Table 7 Budgeted Capital Expenditure by Vote, Standard Classification and funding

Vote Description R thousand	2021/22 MTREF			
	Adjustment Budget 2020/21	Budget Year 2021/22	Budget Year 2022/23	Budget Year 2023/24
Capital expenditure - Vote				
Multi-year expenditure to be appropriated				
Vote 1 - Councillors	650	750	–	–
Vote 2 - Office of the municipal manager	–	200	208	216
Vote 3 - Corporate Services	–	–	–	–
Vote 4 - Finance	–	–	–	–
Vote 5 - Technical Services	–	–	–	–
Vote 6 - Community and Emergency Services	6	–	–	–
Vote 7 -LED	–	–	–	–
Capital multi-year expenditure sub-total	656	950	208	216
Single-year expenditure to be appropriated				
Vote 1 - Councillors	35	871	386	402
Vote 2 - Office of the municipal manager	134	916	953	991
Vote 3 - Corporate Services	2 860	2 720	2 829	2 942
Vote 4 - Finance	487	1 662	1 728	1 798
Vote 5 - Technical Services	58 743	57 598	59 902	62 298
Vote 6 - Community and Emergency Services	26 555	13 125	13 651	14 197
Vote 7 -LED	1 479	1 216	1 264	1 206
Capital single-year expenditure sub-total	90 293	78 108	80 712	83 832
Total Capital Expenditure - Vote	90 949	79 058	80 920	84 048

Moghaka Local Municipality 2021/22 Annual Budget and MTREF

Vote Description	2021/22 MTREF			
	R thousand	Adjustment Budget 2020/21	Budget Year 2021/22	Budget Year 2022/23
Capital Expenditure - Functional				
Governance and administration	5 885	8 790	7 842	8 155
Executive and council	685	1 741	511	531
Budget and treasury office	5 199	7 049	7 331	7 624
Internal Audit	1	–	–	–
Community and public safety	20 376	9 542	9 923	10 320
Community and social services	6 100	5 580	5 803	6 035
Sport and recreation	11 503	340	354	368
Public safety	2 773	3 322	3 455	3 593
Housing	–	300	312	324
Health	–	–	–	–
Economic and environmental services	35 452	22 918	23 835	24 789
Planning and development	464	330	343	357
Road transport	34 688	22 588	23 492	24 432
Environmental protection	300	–	–	–
Trading services	29 236	37 807	39 143	40 709
Energy sources	–	1 000	1 040	1 082
Water Management	20 503	17 326	18 019	18 740
Waste water management	1 040	13 917	14 473	15 052
Waste management	7 528	5 395	5 611	5 835
Other	165	170	177	76
Total Capital Expenditure - Standard	90 949	79 058	80 920	84 049
Funded by:				
National Government	66 140	56 719	58 988	61 347
Provincial Government	–	–	–	–
District Municipality	–	–	–	–
Internally generated funds	24 809	22 338	21 932	22 701
Total Capital Funding	90 949	79 058	80 920	84 049

Table 8 CAPITAL GRANT FUNDING

PROJECT DESCRIPTION	WARD	FUNDING	GRANT
Rammulotsi: Development and fencing of new landfill site - phase 2 (MIS:215370)	23	R 7 213 594	a
Rammulotsi: Construction of 0.83km paved road from 4274 – 4218 and 0.33km from 4756 – 4902 with V-drain storm water (MIS:338433)	19,20	R 2 663 000	a
Maokeng: Upgrading of 2.5km sewer pipe line at Gelukwaarts (MIS:338515)	7, 14	R 13 666 526	a
Maokeng Selection Park: Upgrading of roads 1.34km with storm water (MIS:373417)	14	R 9 520 000	a
Rammulotsi (Northleigh): Construction of 1km storm water and channeling of vlei area (MIS:373437)	23	R 5 077 239	a
Maokeng: Installation of 8 Highmast Lights (MIS:373162)	8-9	R 938 917	a
Maokeng/Nyakallong: Upgrading of Community and Sports Facility - Phase 2	11	R 1 958 824	a

Table 9 Capital-Own Funding

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

CAPITAL BUDGET (Own Funds)								
Description	Political Offices	Municipal Manager	Finance Services	Corporate Services	Technical Services	Community & Social Services	LED	TOTAL
Furniture, Equipment & Heavy Machinery	R 371 400	R 1 116 000	R 1 662 000	R 720 000	R 5 842 840	R 3 095 232	R 1 215 000	R 14 022 472
Vehicles	R 1 250 000	R -	R -	R -	R -	R -	R -	R 1 250 000
Hardware	R -	R -	R -	R 2 000 000	R -	R -		R 2 000 000
Disaster Emergency Housing	R -	R -	R -	R -	R -	R 1 650 000	R -	R 1 650 000
Cemetery Fencing	R -	R -	R -	R -	R -	R 2 000 000	R -	R 2 000 000
Cemetery System	R -	R -	R -	R -	R -	R 1 000 000	R -	R 1 000 000
Landfil sites ablution blocks	R -	R -	R -	R -	R -	R 416 000	R -	R 416 000
Total	R1 621 400	R 1 116 000	R1 662 000	R2 720 000	R 5 842 840	R 8 161 232	R 1 215 000	R 22 338 472

12. Cash flow Statement

Table 10 Budget Cash Flows

Description	Ref	2017/18	2018/19	2019/20	Current Year 2020/21				2021/22 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
CASH FLOW FROM OPERATING ACTIVITIES											
Receipts											
Property rates		-	-	-	-	-	-	6 153	-	-	-
Service charges		-	-	-	-	25 639	25 639	111 411	771 328	813 751	858 507
Other revenue		-	-	-	-	11 069	11 069	66 859	320 697	338 335	356 944
Transfers and Subsidies - Operational	1	-	-	-	-	-	-	736	-	-	-
Transfers and Subsidies - Capital	1	-	-	-	-	-	-	22 604	-	-	-
Interest		-	-	-	-	-	-	-	24	25	26
Dividends		-	-	-	-	-	-	459	-	-	-
Payments											
Suppliers and employees		-	-	-	-	-	-	113 807	(636 788)	(671 811)	(708 761)
Finance charges		-	-	-	-	-	-	-	(7 048)	(7 435)	(7 844)
Transfers and Grants	1	-	-	-	-	-	-	-	-	-	-
NET CASH FROM/(USED) OPERATING ACTIVITIES		-	-	-	-	36 708	36 708	322 030	448 213	472 864	498 872
CASH FLOWS FROM INVESTING ACTIVITIES											
Receipts											
Proceeds on disposal of PPE		-	-	-	-	-	-	-	-	-	-
Decrease (increase) in non-current receivables		-	-	-	-	-	-	-	-	-	-
Decrease (increase) in non-current investments		206	13	(9)	30	-	-	-	(11)	(10)	(10)
Payments											
Capital assets		-	-	-	-	-	-	(14 448)	(73 730)	(77 785)	(82 063)
NET CASH FROM/(USED) INVESTING ACTIVITIES		206	13	(9)	30	-	-	(14 448)	(73 741)	(77 795)	(82 074)
CASH FLOWS FROM FINANCING ACTIVITIES											
Receipts											
Short term loans		-	-	-	-	-	-	-	-	-	-
Borrowing long term/re-financing		-	-	-	-	-	-	-	(1 572)	(1 658)	(1 750)
Increase (decrease) in consumer deposits		(10 410)	(1 631)	2 790	(2 612)	-	-	(367)	569	497	517
Payments											
Repayment of borrowing		-	-	-	-	-	-	-	-	-	-
NET CASH FROM/(USED) FINANCING ACTIVITIES		(10 410)	(1 631)	2 790	(2 612)	-	-	(367)	(1 003)	(1 161)	(1 232)
NET INCREASE/(DECREASE) IN CASH HELD		(10 205)	(1 619)	2 781	(2 582)	36 708	36 708	307 215	373 469	393 908	415 566
Cash/cash equivalents at the year begin:	2	5 410	(5 820)	15 232	6 600	6 600	6 600	-	582	374 051	767 959
Cash/cash equivalents at the year end:	2	(4 795)	(7 439)	18 013	4 019	43 308	43 308	307 215	374 051	767 959	1 183 525

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.

Revenue Description	Collection Rate
Property Rates	90%
Electricity revenue	90%
Water revenue	80%
Sanitation revenue	80%
Refuse revenue	80%
Operating & Capital grants	100%
Other Income	80%
Average Collection	85%

The municipality has also made provision to meet **95%** 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 as outlined in the budget funding plan and the collection of outstanding debt, which is also coupled by the radical meter replacement process undertaken by the municipality.

Collections from Arrear Debtors

The municipality's debtors book amounted to **R 953m** as at 31 May 2021. The municipality plans to collect at least **20% (R191m)** of its arrear debt in order to fund the outstanding creditors and other operational requirements during the budget year.

The municipality owes Eskom **R477m** as at the preparation of the Annual Budget 2021/22. The municipality signed a payment arrangement with Eskom to settle this outstanding debt. The repayments relating to the current account are already provided for within the annual budget. This outstanding debt continue to decline very slowly given the fact that the municipality is still cross-subsidising other services to ensure effective service delivery.

The municipality continue to target the reduction of the reticulation losses for both water and electricity which were as follows; Water amounted to **R17m (2019 R18m)** & Electricity at **R54m (2019 R 44m)** – as per the Audited Annual Financial Statements of 30 June 2020 through its continuous program of water and electricity meter replacements. To effectively carry out this task, the municipality sourced the services of private contractors to speed up the replacement of faulty water and electricity meters.

13. Long term borrowing

The municipality has not obtained any new long term borrowings in the current financial year. The table below indicates the balances as at 31 May 2021 and the projections for the current and the next MTREF.

Table 11 Municipal Borrowing

FS201 Moqhaka - Supporting Table SA17 Borrowing

Borrowing - Categorised by type R thousand	Ref	2017/18	2018/19	2019/20	Current Year 2020/21			2021/22 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
Parent municipality										
Annuity and Bullet Loans		22 662	24 846	26 337	23 462	23 462	23 462	23 088	24 011	24 972
Long-Term Loans (non-annuity)										
Local registered stock										
Instalment Credit										
Financial Leases		10	2 288	1 229	712	712	712	-	-	-
PPP liabilities										
Finance Granted By Cap Equipment Supplier										
Marketable Bonds										
Non-Marketable Bonds										
Bankers Acceptances										
Financial derivatives										
Other Securities										
Municipality sub-total	1	22 672	27 134	27 565	24 174	24 174	24 174	23 088	24 011	24 972

14. Performance Management

The municipality has adopted a Performance Management System (PMS). The PMS requires that the Municipal Manager and all Senior Managers accountable to the Municipal Manager sign performance agreements annually in line with the IDP Review, the Budget and the Service Delivery and Budget Implementation Plan (SDBIP).

It is further expected that Senior Managers enter into performance contracts with the Divisional Managers (Managers reporting to Senior Managers). The performance system is cascaded down to the entry level in the organisation.

The Municipal Manager, Senior Managers and divisional heads are evaluated against the Key Performance Indicators and the job description for each incumbent.

The performance contracts of Municipal Manager and Senior Managers include performance bonus, this is budgeted for, even though performance bonuses were never paid before.

All divisional heads, in the same manner as the Senior Managers and the Municipal Manager sign annual performance agreements and must be assessed accordingly. Monthly and quarterly reporting performance is compulsory with quarterly performance reports submitted to the Internal Audit for verification purposes, and the Executive Mayor submitting these to Council within 30 days after the end of the quarter.
