KOUGA
local municipality
Good Governance through Service Excellence

ORDINARY COUNCIL MEETING

SUPPLEMENTARY AGENDA

Date	:	26 June 2020
Time	:	10:00
Venue	:	Virtual Meeting

KOUGA MUNICIPALITY (EC108)	UMASIPALA I-KOUGA (EC108)	MUNISIPALITEIT KOUGA (OK108)
NOTICE CONVENING A MEETING	**ISAZISO NGENTLANGANISO**	**KENNISGEWING VAN VERGADERING**
NOTICE IS HEREBY GIVEN in terms of the amended Directions on Municipal Operations and Governance, in terms of Section 27(2) of the Disaster Management Act, 2002, that a virtual Ordinary Council Meeting will be held on	**OKU KUKWAZISA** malunga neZikhokelo eziLungisiweyo ekuSebenzeni koMasipala kunye noLawulo ngokweMigaqqo yeCandelo lama 27(2) loMthetho woLawulo lweNtlekele ka 2002, ukuba kubanjwe intlanganiso ebonakalayo yesigqeba Ye khansile	**KENNIS GESKIED HIERMEE** ingevolge die gewysigde Aanwysings Vir Munisipale Bedrywighede En Bestuur, Ingevolge Artikel 27 (2) van die Wet op Rampbestuur, 2002, dat 'n virtuele raadsvergadering gehou sal word op
DATE: **26 June 2020**	**UMHLA**: **26 Isilimela 2020**	**DATUM**: **26 Junie 2020**
TIME: **10:00**	**IXESHA**: **10:00**	**TYD**: **10:00**
H. BORNMAN **SPEAKER**	**H. BORNMAN** **USOMLOMO**	**H. BORNMAN** **SPEAKER**

Councillors are required to comply with the Standing Rules and Orders of Council and all its Committees By-law as promulgated in the Provincial Gazette on 22 October 2018 No.4134 and applicable to this meeting of Council. Any person who willfully contravenes any provision of these rules shall be guilty of an offence and which contravention shall be dealt with in accordance with the disciplinary procedures for Councillors.

AGENDA

1. **MATTERS DEALT WITH IN TERMS OF DELEGATED AUTHORITY BY THE EXECUTIVE MAYOR**

   (The reports by the Executive Mayor, in terms of the provisions of Section 63 of the Local Government Municipal Systems Act, 32 of 2000, on matters dealt with by the Executive Mayor in terms of delegated authority as detailed in the Minutes to be noted).

2. **REPORTS: OFFICE OF THE MUNICIPAL MANAGER**

20/06/MM4 2020/21 Draft IDP Review of the 5 Year IDP (2017/2022)
(the Final IDP document will be distributed under separate cover)

Pages 5-8

3. REPORTS BY THE PORTFOLIO CHAIRPERSONS

3.1 REPORT BY THE PORTFOLIO CHAIRPERSON: FINANCE

20/06/F28 Medium Term Revenue And Expenditure Framework (MTREF) - Budget For The 2020/21 To 2022/23 Financial Years

Pages 10-147

20/06/F29 Revision Of Fees And Charges For The 2020/21 Financial Year: Sports And Recreation

Pages 148-149

3.2 REPORT BY THE PORTFOLIO CHAIRPERSON: CORPORATE SERVICES

20/06/CORP1 Kouga Municipality – Institutional Calendar Of Meetings: 1 July 2020 To June 2021

Pages 151-153

20/06/CORP2 Replacement Of Members On The Municipal Public Accounts Committee (MPAC)

Pages 154-155

4. CLOSURE

Distribution list:

Executive Mayor
Speaker
Mayoral Committee Councillors
Municipal Manager
All Directors & Relevant Managers
Legal Services
Media Liaison Officer
Committee Services

REPORTS BY THE OFFICE OF THE MUNICIPAL MANAGER

KOUGA MUNICIPALITY (EC 108)

ORDINARY COUNCIL MEETING

OFFICE OF THE MUNICIPAL MANAGER

DATE: 26 JUNE 2020 **ITEM NO.: 20/06/MM4**

FINAL AMENDED 2020/21 IDP REVIEW OF THE 5 YEAR IDP (2017/2022)

1. Introduction

The purpose of this report is to table the 2020/21 IDP review of the 2017/22 Integrated Development Plan for consideration by Council.

2. Legislative requirements

Section 34 of the Local Government Municipal Systems Act, 32 of 2000 prescribes that:

"Annual review and amendment of integrated development plan – A municipal council -

(a) must review its integrated development plan –

(i) annually in accordance with an assessment of its performance measurements in terms of section 41: and
(ii) to the extent that changing circumstances so demand; and

(b) may amend its integrated development plan in accordance with a prescribed process.

3. Background

This report is the third (3rd) review of the 2017/22 Integrated Development Plan of the Kouga Municipality. The process started with the adoption of the IDP Process Plan on 30 July 2019, Council Resolution no. 19/07/MM2 which included all the different processes and timeframes to be followed. The process plan also made provision for compliance timeframes of the financial reporting cycles as well as performance management. The Draft IDP was adopted on 26 March 2020, Council Resolution 20/03/MM3. Several Special Council meetings were scheduled thereafter to complete the alignment process between the IDP and the Budget.

The IDP review for 2020/21 was informed by the following:

- The municipality's overall performance attained for the 2019/20 financial year as well as the mid-year performance for 2019/20 financial year;
- Comments from the MEC for Local Government and Traditional Affairs and other stakeholders; and
- Changing circumstances in the municipal area.

4. Community Involvement

According to the Local Government Systems Act, Act 32 of 2000, Section 16, a municipality must develop a culture of municipal governance that complements formal representative government with a system of participatory governance by encouraging and create conditions for the local community to participate in the affairs of the municipality.

The municipality take cognizance of the importance of community participation and therefore schedule at least 2 rounds of public meetings in all wards and certain towns in the municipal area. The 1st round of meetings, according to the process plan, was held form 28 October 2019 to 26 November 2019.

There was a marked increase in the attendance of meetings by the public. However, ward 1 and ward 6 meetings did not take place. The meetings started at 18:00 at night and most of the meetings ended at 21:00. It is requested that councillors and management be visible at public meetings and encourages the community to attend the meetings that can make a difference in their lives and participation in decision making.

The 2nd round public meetings could not take place due to the unfortunate circumstances we as a municipality has found ourselves due to Covid-19. However, the municipality has tried its best to involve the community by having a media briefing on 8 June 2020 as well as making use of social media, municipal website and municipal notice boards and local radio stations.

5. Meetings

The following meetings were held and attended held during the 1st three phases of the IDP process:

3 Ward Based Planning Workshops
1 round of Public Meetings
2 District Consultative Meetings
1 District Representative Forum Meeting
1 Strategic Planning Session
1 IGR Meeting
2 Budget Meetings
1 IDP Assessment

The IDP Manager also attended an IDP Workshop in Bhisho on 30 January 2019. The annual IDP Assessment was held at the Mpekweni Holiday Resort from 1 – 2 August 2019. The municipality again a scored a **HIGH** rating in all 5 KPA's for the 2nd review of the 2017-2020 IDP Review. The assessment is a very exhausting exercise and it is very important that a delegation accompany the IDP Manager to the annual assessment.

6. Consideration of matters raised at public meetings

There is an overall misconception by the public regarding funding and implementation of projects which should be addressed in the 2nd round of public meetings. The general matters raised at the public participation meetings were mainly of the slow progress in basic service delivery, housing and job creation. An effort should be made to attend to at least one priority per year in each ward so that the community may have more faith in municipal governance.

7. Priorities per ward

A consolidated ward priority list of all 15 wards were presented at the strategic planning session held on 13 March 2020. The priority list was presented in order to consider the inputs of the community for the 2020/21 budget process. A total of 33 priorities were finally decided on and these priorities are aligned to the budget for 2020/21.

8. Public inputs and comments

The public was invited to submit inputs into the 2nd Draft IDP and MTREF Budget for 2020/21. The closing date for submissions were the 16th of June 2020. The following submissions were received and considered:

Only 3 submissions were received.

1. Mr Mervyn Bull. He listed his input to be considered in the next financial year

   - Water Borne System – Kloof side of Leadwood Street

2. Mr Tim Elliot. It is evident that Mr Elliot took his time to go through the budget and he made valuable inputs which has been considered for this financial year as well as the outer years. His inputs/comments cover a range of issues in the budget especially the justification of Priorities 17, 21 and 31 in the draft IDP.
3. Mr Fred Beechy. Mr Beechy's input covers mostly Ward 12 issues in the Paradise Beach areas. Some of the issues are duplicated as it is already captured in the ward priorities

   The issues listed are:
   - Tarring of gravel road from Paradise Beach to R102
   - Dune encroachment and dune erosion in Botha Avenue – Paradise Beach
   - Safe beach access to Botha Avenue
   - Estuary Management Plan
   - Domestic electrical distribution and streetlights in Paradise Beach
   - Water reticulation in Paradise Beach – replace asbestos pipes
   - Removal and control of alien vegetation
   - Roads, drainage and traffic calming
   - Fire risks and control
   - Drop off point – Paradise Beach dumpsite
   - Municipal signage at picnic and braai areas
   - The Lookout – CCTV monitoring (Old Ski Boat Club)

9. Comment on public inputs – public participation

The above comments were considered in the finalization of the IDP and Budget. Where it is possible to implement in the 2020/21 financial year, in terms of the resources available, it will be included into the workplans of the respective directorates. The projects not included in the 2020/21 financial year IDP / Budget will be incorporated in the 2021/22 financial year.

10. Recommendation

10.1 That the **Final Amended IDP** for the 2020/21 Review be approved in terms of the provisions of Section 25 of the Local Government Municipal Systems Act, 32 of 2000.

10.2 That the **Final Amended IDP** document be submitted to the MEC and relevant stakeholders within 10 days of acceptance by Council.

10.3 That the Draft 2020/21 IDP be published on the municipal website within 10 days of acceptance by the Council.

Item prepared by : **The Manager: IDP** Colleen Dreyer

Approved by : **The Municipal Manager**

REPORTS BY THE PORTFOLIO CHAIRPERSON: FINANCE

KOUGA LOCAL MUNICIPALITY (EC108)

ORDINARY COUNCIL MEETING

FINANCE

DATE: 26 JUNE 2020 **ITEM NO: 20/06/F28**

MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF) - BUDGET FOR THE 2020/21 TO 2022/23 FINANCIAL YEARS

1. Introduction

The purpose of the report is to table the Medium-Term Revenue and Expenditure Framework (MTREF) – Budget for the 2020/21 – 2022/23 financial years to the Council.

2. Recommendation

2.1. That the Executive Mayor recommends that the Council, by resolution taken by the majority of its full number and in terms of Section 30(2) of the Local Government: Municipal Structures Act No. 117 of 1998 (as amended), read in conjunction with Section 24 of the Local Government: Municipal Finance Management Act, Act 56 of 2003, approves the Annual Budget for the 2020/21 financial year and the indicative allocations for the projected outer years 2021/22 and 2022; and the multi-year and single year capital appropriations, as set out in the following tables, including the associated recommendations.

a) Consolidated Budget Summary [Table A1]
b) Budgeted Financial Performance (revenue and expenditure by standard classification); [Table A2]
c) Budgeted Financial Performance (revenue and expenditure by municipal vote); [Table A3]
d) Budgeted Financial Performance (revenue by source and expenditure by type); [Table A4]
e) Multi-year and single year capital appropriations by municipal vote and standard classification and associated funding by source. [Table A5]

2.2. That the budgeted financial position, budgeted cash flows, cash-backed reserves/accumulated surplus, asset management and basic service delivery targets be noted as set-out in the following tables:

a. Budgeted Financial Position; [Table A6]
b. Budgeted Cash Flows; [Table A7]
c. Cash backed reserves and accumulated surplus reconciliation; [Table A8]
d. Asset management; [Table A9]
e. Basic service delivery measurement. [Table A10]

2.3. That the tariffs be increased as follows, with effect from 1 July 2020:

Property rates	5.25%
Water	8.1%
Sanitation	7%
Refuse	7%
Electricity (average increase in electricity income)	6.25%
Environmental Management Fee	0%

a) Indicative tariffs for 2021/22 and 2022/23 will be increased as follows:

	2021/22	**2022/23**
Property rates	5.25%	5.25%
Water	7.1%	7.1%
Sanitation	6.5%	6.5%
Refuse	6.5%	6.5%
Electricity (average increase in electricity income)	6.25%	6.25%
Environmental Management Fee	0%	0%

Item prepared by: Manager Budget & Treasury

Item approved by: Chief Financial Officer

Item endorsed by the Municipal Manager

Noted by the Portfolio Councillor:

KOUGA LOCAL MUNICIPALITY

KOUGA
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Good Governance through Service Excellence

2020/21 – 2022/23

ANNUAL BUDGET

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PART 1 – ANNUAL BUDGET

1.1 EXECUTIVE MAYOR'S REPORT

Extraordinary circumstances have marked the review of Kouga Municipality's Integrated Development Plan (IDP) for the 2020/21 financial year and the compilation of the Medium-Term Revenue and Expenditure Framework (MTREF) for the period 2020/21 to 2022/23.

The finalisation of both documents has taken place during the first three months of a nationwide lockdown, aimed at curbing the spread of Covid-19, a pandemic that has been ravaging the healthcare systems and economies of countries across the globe.

The Kouga municipal area has not been spared from the economic devastation, with many businesses unable to operate during the lockdown and many residents losing all or a significant portion of their income.

These circumstances have impacted on the IDP and, more so, the municipal budget for the coming financial years.

Provision has had to be made for an anticipated 11% reduction in the collection rate to 85%, with many residents and businesses struggling to pay their municipal accounts due to the lockdown.

Moreover, in order to assist residents and businesses through these unprecedented times, COVID-19 payment relief options have been incorporated into the final budget, as well as additional rates rebates for pensioners, leading to a further loss of anticipated income for the municipality.

Ward-based public consultation meetings could also not take place following the adoption of the draft IDP and MTREF in March due to the nationwide ban on gatherings during the lockdown, which started on 27 March.

Instead, media platforms such as community radio stations and social media platforms had to be used to present the documents to our communities and gather their input.

The challenges facing Kouga are prevalent across South Africa, but what sets our municipality apart is the proactive and innovative manner in which we deal with challenges.

While the reduction in income could impact on the municipality's ability to improve and expand on the existing services offered, we are committed to finding other means of supplementing this income so that the good work Kouga has been doing, can continue.

What is important is that these means should not further burden residents and businesses. Among the proposals that are, therefore, being explored is the alienation of immovable assets not required for the delivery of basic services.
As announced in my State of the Municipality Address earlier this year, the strategic focus areas of the municipality for 2020/2021 will be guided by six narratives.
These are:

- Keep Kouga Serviced
- Keep Kouga Clean
- Keep Kouga Green
- Keep Kouga Safe
- Keep Kouga Smart, and
- Keep Kouga Growing

Our plans to Keep Kouga Serviced in 2020/2021 include bringing new boreholes on line to achieve water security and installing container ablution facilities in areas where the bucket system is still in use.

We will further be rolling out electricity to areas that never had access to power, including Stofwolk at Hankey, where Eskom has committed to powering up at least 300 households.

Kouga's war on potholes and the resealing of tar roads will also continue while the roll-out of wheelie bins to all areas will be finalized. This, together with the regular clearing of illegal dump sites and awareness drives, will strengthen efforts to Keep Kouga Clean.

The Keep Kouga Green campaign was launched in February 2020, with the aim of raising awareness of climate change and the role each one of us can play to slow it down and minimise the impact on communities.

Depending on the impact of Covid-19 restrictions on school activities, learners will be one of our focus groups for the campaign in the coming year.

The establishment of Community Safety Forums will also remain a priority in 2020/2021 as we strive to Keep Kouga Safe while we will be investigating the possibility of introducing fibre as a fifth utility as part of our efforts to Keep Kouga Smart.

In view of the economic impact of the Covid-19 lockdown, it is now more important than ever for the municipality to create an enabling environment to Keep Kouga Growing.

These efforts will be guided by two documents currently under review – the Local Economic Development Strategy and Spatial Development Framework.

With the nationwide lockdown set to continue for at least the first few months of the new financial year, we remain in unchartered waters.

We have, however, shown ourselves to be a region that stands together during times of adversity. I am confident that, as long as we keep on caring for each other as we have done during the first months of the lockdown, we will persevere and, ultimately, emerge stronger and more united than ever before.

In closing, I would like to extend my heartfelt gratitude to the municipal administration and workforce for their ongoing commitment towards service excellence no matter the obstacles or risk to themselves.

It is you and our communities that have made Kouga one of the best regions to live in in South Africa. Together, we remain on course to achieve freedom, fairness and opportunity for all while respecting and celebrating our diversity.

CLR H HENDRICKS
EXECUTIVE MAYOR

1.2 COUNCIL RESOLUTIONS

(a) The Executive Mayor recommends that the Council resolves that:

2. The annual budget of the Kouga Municipality for the financial year 2020/21 and the indicative allocations for the projected outer years 2021/22 and 2022/23; and the multi-year and single year capital appropriations be approved for the purpose of complying with section 24 of the Municipal Finance Management Act (MFMA), Act No. 56 of 2003, as set-out in the following tables:

   a) Consolidated Budget Summary [Page 21].
   b) Budgeted Financial Performance (revenue and expenditure by standard classification); [Page 23]
   c) Budgeted Financial Performance (revenue and expenditure by municipal vote); [Page 25]
   d) Budgeted Financial Performance (revenue by source and expenditure by type); [Page 26]
   e) and Multi-year and single year capital appropriations by municipal vote and standard classification and associated funding by source. [Page 29]

3. The budgeted financial position, budgeted cash flows, cash-backed reserves/accumulated surplus, asset management and basic service delivery targets be noted as set-out in the following tables:

   a) Budgeted Financial Position; [Page 31]
   b) Budgeted Cash Flows; [Page 33]
   c) Cash backed reserves and accumulated surplus reconciliation; [Page 34]
   d) Asset management; [Page 35]
   e) Basic service delivery measurement. [Page 38]

3. The tariffs be increased as follows, with effect from 1 July 2020:

Property rates	5.25%
Water	8.1%
Sanitation	7%
Refuse	7%
Electricity (average increase in electricity income)	6.25%
Environmental Management Fee	0%

4. The indicative tariffs for 2021/22 and 2022/23 be increased as follows:

	2021/22	2022/23
Property rates	5.25%	5.25%
Water	7.1%	7.1%
Sanitation	6.5%	6.5%
Refuse	6.5%	6.5%
Electricity (average increase in electricity income)	6.25%	6.25%
Environmental Management Fee	0%	0%

1.3 EXECUTIVE SUMMARY

The key service delivery priorities, as reflected in the IDP, informed the development of the Budget, including the need to maintain and improve the Municipality's financial sustainability.
It is also to be noted, that cost containment measures are being implemented to curb costs and to improve operational efficiency.

National Treasury's MFMA Circulars No. 48, 51, 54, 55, 58, 59, 66, 67, 70, 72, 74, 75,78,79,85,86, 88, 89, 91, 93, 94, 98 and 99 (refer to Annexures "A and B") was used to guide the compilation of the 2020/21 Medium Term Revenue and Expenditure Framework (MTREF).

The Municipality faced the following significant challenges during the compilation of the 2020/21 MTREF:

- Maintaining an acceptable employee related cost ratio.
- Increased costs associated with bulk electricity and water purchases, placing upward pressure on municipal tariff increases.
- Allocation of the required budget provision for the rehabilitation and maintenance of infrastructure.
- Maintaining electricity and water losses at acceptable levels.
- Maintaining revenue collection rates at the targeted levels; and
- Maintaining an acceptable cost coverage ratio.

The following budgeting principles and guidelines directly informed the compilation of the 2020/21 MTREF:

- The priorities and targets, relating to the key strategic focus areas, as outlined in the IDP.
- The level of property rates and tariff increases to take into account the need to address maintenance and infrastructural backlogs.
- The level of property rates and tariff increases to ensure the delivery of municipal services on a financially sustainable basis.
- The need to enhance the municipality's revenue base.
- No loan funding is available to support the Capital Budget, in view of financial affordability considerations.
- In accordance with Section 19 of the Municipal Finance Management Act, the relevant Directors must submit comprehensive reports in relation to new projects, inter alia; dealing with the total project costs, funding sources, future operating budget implications and associated tariff implications, before Council finally approves the implementation of any new projects.

In view of the aforementioned, the following table represents an overview of the proposed 2020/21 Medium-term Revenue and Expenditure Framework:

Table 1 (Overview of the 2020/21 MTREF)

Description	Current year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework					
R thousands	Adjusted Budget	Budget Year 2020/21	% Increase /(decrease)	Budget Year 2021/22	% Increase /(decrease)	Budget Year 2022/23	% Increase /(decrease)
Total Operating Revenue	846 865	906 005	6.98%	951 682	5.04%	1 011 795	6.32%
Total Operating Expenditure	927 120	996 342	7.47%	976 684	-1.97%	1 043 507	6.84%
Surplus/(Deficit)	(80 256)	(90 337)	12.56%	(25 002)	-72.32%	(31 712)	26.84%
Capital Expenditure	192 276	56 912	-70.40%	71 646	25.89%	73 485	2.57%

Total operating revenue has increased by 6.98% or R 59,141 million for the 2020/21 financial year, compared to the 2019/20 Adjustments Budget.

For the two outer years, operational revenue increases by 5.04% and 6.32% respectively, resulting in a total revenue growth of R 164,930 million over the MTREF, when compared to the 2019/20 financial year.

Total operating expenditure for the 2020/21 financial year amounts to R 996,342 million, resulting in a budgeted deficit of R 90,337 million. Compared to the 2019/20 Adjustments Budget, operational expenditure increased by 7.47% in the 2020/21 Budget.

For the two outer years, operational expenditure decreases by 1.97% and increases by 6.84% respectively. The 2021/22 and 2022/23 budgets reflect operating deficits of R 25,002 million and R 31,712 million respectively.

The major operating expenditure items for 2020/21 are employee related costs (33.82%), bulk purchases (28.08%), other expenditure (9.89%), debt impairment (8.99%) and depreciation (8.96%).

Funding for the 2020/21 Operating Budget is obtained from various sources, the major sources being service charges such as electricity, water, sanitation, environmental management fees and refuse collection (53.17%), property rates (22.70%), grants and subsidies received from National and Provincial Governments (16.07%).

In order to fund the 2020/21 Operating Budget, the following increases in property rates and service charges have been proposed, with effect from 1 July 2020:

Property rates	-	5.25%
Water	-	8.1%
Sanitation	-	7%
Refuse	-	7%
Electricity (average increase in income)	-	6.25%
Environmental Management Fee	-	0%

The capital budget of R 56,912 million for 2020/21 is R 135,364 million or 70.40% less than the 2019/20 Adjustments Budget.

This is mainly due to the approved rollover of R 98,017 million for the Water Services Infrastructure Grant and rollover of R 17,432 million of internally funded projects, during the 2019/20 financial year.

The Capital Budget over the MTREF will be mainly funded from government grants and subsidies, as the municipality has reached its prudential borrowing limits, whilst limited internal funding is available.

1.4 OPERATING REVENUE FRAMEWORK

The continued provision and expansion of municipal services is largely dependent on the Municipality generating sufficient revenues. Efficient and effective revenue management is thus of vital importance in ensuring the ongoing financial sustainability of the Municipality. Furthermore, in accordance with the MFMA, expenditure has to be limited to the realistically anticipated revenues.

The Municipality's revenue management strategy includes the following key components:

- National Treasury's guidelines in this regard.
- Tariff Policies.
- Property Rates Policy.
- Indigent Policy and provision of free basic services.
- The level of property rates and tariff increases must ensure financially sustainable service delivery.
- The level of property rates and tariff increases to take into account the maintenance and replacement of infrastructure, including the expansion of services.
- Determining fully cost reflective tariffs for trading services.
- Electricity bulk tariff increases as approved by the National Electricity Regulator of South Africa (NERSA).
- Water bulk tariff increases as approved by the Nelson Mandela Bay Metropolitan Municipality.
- Efficient revenue management, targeting an 85% annual collection rate for property rates and service charges, except for electricity charges which is 90%.

The following table is a summary of the 2020/21 MTREF (classified by main revenue source):

Table 2 (Summary of main revenue sources)

Description	Current year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousands	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Revenue By Source				
Property rates	197 221	205 650	216 447	227 810
Service charges - electricity revenue	274 470	291 625	309 851	329 217
Service charges - water revenue	75 713	81 846	87 657	93 881
Service charges - sanitation revenue	50 051	53 555	57 036	60 743
Service charges - refuse revenue	52 072	54 690	57 291	60 061
Rental of facilities and equipment	4 037	4 083	4 270	4 467
Interest earned - external investments	15 375	13 013	13 612	14 238
Interest earned - outstanding debtors	10 892	6 993	7 482	8 006
Fines, penalties and forfeits	6 397	6 685	6 993	7 314
Licences and permits	19 822	20 714	21 667	22 663
Transfers and subsidies	133 725	145 612	158 488	172 144
Other revenue	7 088	21 540	10 887	11 250
Total Revenue (excluding capital transfers and contributions)	**846 865**	**906 005**	**951 682**	**1 011 795**

The following table illustrates the mix of main revenue sources, supporting the 2020/21 MTREF:

Table 3 (Mix of main revenue sources)

Description	Current year 2019/20		2020/21 Medium Term Revenue & Expenditure Framework					
R thousands	Adjusted Budget	%	Budget Year 2020/21	%	Budget Year 2021/22	%	Budget Year 2022/23	%
Revenue By Source								
Property rates	197 221	23.29%	205 650	22.70%	216 447	22.74%	227 810	22.52%
Service charges - electricity revenue	274 470	32.41%	291 625	32.19%	309 851	32.56%	329 217	32.54%
Service charges - water revenue	75 713	8.94%	81 846	9.03%	87 657	9.21%	93 881	9.28%
Service charges - sanitation revenue	50 051	5.91%	53 555	5.91%	57 036	5.99%	60 743	6.00%
Service charges - refuse revenue	52 072	6.15%	54 690	6.04%	57 291	6.02%	60 061	5.94%
Rental of facilities and equipment	4 037	0.48%	4 083	0.45%	4 270	0.45%	4 467	0.44%
Interest earned - external investments	15 375	1.82%	13 013	1.44%	13 612	1.43%	14 238	1.41%
Interest earned - outstanding debtors	10 892	1.29%	6 993	0.77%	7 482	0.79%	8 006	0.79%
Fines, penalties and forfeits	6 397	0.76%	6 685	0.74%	6 993	0.73%	7 314	0.72%
Licences and permits	19 822	2.34%	20 714	2.29%	21 667	2.28%	22 663	2.24%
Transfers and subsidies	133 725	15.79%	145 612	16.07%	158 488	16.65%	172 144	17.01%
Other revenue	7 088	0.84%	21 540	2.38%	10 887	1.14%	11 250	1.11%
Total Revenue (excluding capital transfers and contributions)	**846 865**	**100.00%**	**906 005**	**100.00%**	**951 682**	**100.00%**	**1 011 795**	**100.00%**
Total Revenue from Property Rates and Service Charges	**649 528**	**76.70%**	**687 366**	**75.87%**	**728 282**	**76.53%**	**771 713**	**76.27%**

In the 2019/20 financial year, rates and service charges amounted to R 649,528 million. This increases to R 687,366 million, R 728,282 million and R 771,713 million in the 2020/21, 2021/22 and 2022/23 financial years, respectively.

The major operating revenue sources for 2020/21 are electricity (32.19%), property rates (22.70%), operating grants & subsidies (16.07%), water (9.03%) and refuse (6.04%).

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

Table 4 (Operating Transfers and Grant Receipts)

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
R thousands				
RECEIPTS:				
Operating Transfers and Grants				
National Government:	129 297	140 782	153 495	166 975
Local Government Equitable Share	124 938	136 649	150 022	163 410
Expanded Public Works Programme	1 000	1 054		
Local Government Financial Management Grant	1 770	1 500	1 770	1 770
Municipal Infrastructure Grant	1 589	1 579	1 703	1 795
Provincial Government:	2 050	2 050	2 050	2 050
Sports and Recreation	2 050	2 050	2 050	2 050
District Municipality:	1 765	2 780	2 943	3 120
Environment Health Subsidy	1 765	2 780	2 943	3 120
Total Operating Transfers and Grants	133 112	145 612	158 488	172 144

The Municipality is faced with the significant challenge of providing services with its limited financial resources. Against this background, the Municipality has undertaken the tariff determination process relating to property rates and service charges as follows:

1.4.1 Property Rates

Property rates fund the costs associated with the provision of general services, such as fire, library and roads and stormwater services.

The following provisions in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rateable value (Section 17(h) of the MPRA).
- An additional R85 000 rebate will be granted to registered indigents in terms of the Indigent Policy.
- If the usage of a property changes during a financial year, the rebate applicable will be reduced *pro rata* for the balance of the financial year.

A property rates increase of 5.25% is proposed as from 1 July 2020.

The proposed property rates increase is mainly influenced by the following:

- Employee related costs increased by 6.25%.
- Providing for debt impairment.

1.4.2 Sale of Water and Impact of Tariff Increases

In accordance with National Treasury's MFMA Circulars, no. 51, 55, 58, 66, 70, 74, 85, 88, 89, 91, 93 and 94, Municipalities are encouraged to review the level and structure of their water tariffs to ensure:

- Fully cost reflective water tariffs – tariffs should include the costs associated with bulk water purchases, the maintenance and renewal of purification plants, water networks and water reticulation expansion.
- Water tariffs are structured to protect basic levels of service; and
- Water tariffs are designed to encourage efficient and sustainable consumption.

National Treasury has urged municipalities to ensure that water tariffs are fully cost reflective by 2014/15. In this regard a phased-in approach will be undertaken to ensure that tariffs are fully cost reflective over the medium term. As the charging of fully cost reflective tariffs would place an undue financial burden on customers, it will not be possible to implement it in the 2020/21 MTREF.

A tariff increases of 8.1% is proposed as from 1 July 2020. The proposed tariff increase is mainly influenced by the following:

- Employee related costs increased by 6.25%.
- The cost of bulk water purchases increased by 8.1%.
- Providing for debt impairment.

The water tariff structure is designed in such a manner that higher levels of water consumption are progressively charged at a higher rate.

1.4.3 Sale of Electricity and Impact of Tariff Increases

The National Energy Regulator of South Africa (NERSA) is responsible for price determination of the bulk costs for electricity. Nersa has determined that the Municipality's consumer tariffs will be increased by 6.25% on average to offset the additional electricity bulk purchase costs, as from 1 July 2020.

The proposed tariff increases are mainly influenced by the following:

- Employee related costs increased by 6.25%.
- The cost of bulk electricity purchases increased by 6.9%.
- Repairs and maintenance of electricity infrastructure.
- Costs of servicing existing external borrowing to fund electricity infrastructure.
- Providing for debt impairment.

1.4.4 Sanitation and Impact of Tariff Increases

In accordance with National Treasury's MFMA Circulars, no. 51, 55, 58, 66, 70, 74, 85, 88, 89, 91, 93 and 94, Municipalities are encouraged to review the level and structure of their sanitation tariffs to ensure:

- Fully cost reflective sanitation tariffs – tariffs should include the costs associated with maintenance and renewal of treatment plants, sanitation networks and sanitation infrastructure expansion.
- Sanitation tariffs are structured to protect basic levels of service; and
- Sanitation tariffs are designed to encourage efficient and sustainable consumption.

National Treasury has urged municipalities to ensure that sanitation tariffs are fully cost reflective by 2014/15. In this regard a phased-in approach will be undertaken to ensure that tariffs are fully cost reflective over the medium term. As the charging of fully cost reflective tariffs would place an undue financial burden on customers, it will not be possible to implement it in the 2020/21 MTREF.

Sanitation charges are determined based on the volume of water consumed, which is appropriately reduced by the percentage of water discharged into the sewer system.

A tariff increases of 7% is proposed as from 1 July 2020. The proposed tariff increase is mainly influenced by the following:

- Employee related costs increased by 6.25%.
- Providing for debt impairment.

1.4.5 Refuse Collection and Impact of Tariff Increases

National Treasury has urged municipalities to ensure that refuse tariffs are fully cost reflective by 2015. The tariffs should take into account the need to maintain a cash-backed reserve to cover the future costs of the rehabilitation of landfill sites. In this regard a phased-in approach will be undertaken to ensure that tariffs are fully cost reflective over the medium term. As the charging of fully cost reflective tariffs would place an undue financial burden on customers, it will not be possible to implement it in the 2020/21 MTREF.

A tariff increases of 7% is proposed for refuse collection, as from 1 July 2020.

The proposed tariff increase is mainly influenced by the following:

- Employee related costs increased by 6.25%.
- Providing for debt impairment

1.4.6 Environmental Management Fees and Impact of Tariff increases

A tariff increases of 0% is proposed for the environmental management fee, as from 1 July 2020.

1.5 OPERATING EXPENDITURE FRAMEWORK

The Municipality's expenditure framework for the 2020/21 budget and MTREF is informed by the following:

- The funding of the budget over the medium-term is informed by the requirements of Section 18 and 19 of the MFMA.

- A balanced budget approach by limiting operating expenditure to the operating revenue.

The following table is a high-level summary of the 2020/21 budget and MTREF (classified per main type of operating expenditure):

Table 5 (Summary of operating expenditure by standard classification item)

Description	Current year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousands	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Expenditure By Type				
Employee related costs	303 219	336 974	353 569	369 833
Remuneration of councillors	13 063	13 651	14 279	14 936
Debt impairment	26 420	89 573	29 519	31 380
Depreciation and asset impairment	85 101	89 271	93 556	98 046
Finance charges	2 201	1 388	716	-
Bulk purchases	271 623	279 744	295 063	320 818
Other materials	33 560	26 059	26 270	31 398
Contracted services	84 393	60 352	61 674	69 279
Transfers and subsidies	250	761	773	946
Other expenditure	107 291	98 571	101 266	106 872
Total Expenditure	**927 120**	**996 342**	**976 684**	**1 043 507**

The total operating expenditure increased by R 69,221 million (7.47%) from R 927,120 million in 2019/20 to R 996,342 million in 2020/21. Below is a discussion of the main expenditure components.

Employee related costs

The 2020/21 budget provides for a general increase of 6.25%, in the line with the approved Salary and Wage Collective Agreement.

The total budget provision of R 336,974 million represents an increase of 11.13% over the 2019/20 budget. Employee related costs in the 2020/21 Budget, represent 33.82% of the total operating expenditure.

Remuneration of Councillors

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). There is no proclamation in terms of Remuneration of Councillors yet, but a budget provision of 4.5% increase has been made in preparing the budget.

Debt Impairment

The provision for debt impairment was determined based on a targeted annual collection rate of 85% for property rates and services charges, except for electricity charges which is 90%. For the 2020/21 financial year this amounted to R 89,573 million and decrease to R 31,380 million in 2022/23. While this expenditure represents a non-cash flow item, it is taken into account in determining the total costs associated with the rendering of municipal services and the realistically anticipated revenues.

Depreciation and Asset Impairment

The provision for depreciation and asset impairment has been informed by the Municipality's Fixed Assets Register. The budget amounts to R 89,271 million for the 2020/21 financial and equates to 8.96% of the total operating expenditure.

Finance Charges

Finance charges consist primarily of the repayment of interest on existing long-term borrowing (cost of capital). Finance charges constitute 0.14% (R 1,388 million) of total operating expenditure for 2020/21.

Bulk Electricity Purchases

The bulk purchases of electricity increased by R 13,821 million (5.95%), from R 232,353 million in 2019/20 to R 246,173 million in 2020/21. Bulk electricity purchases constitute 24.71% of total operating expenditure for 2020/21.

Bulk Water Purchases

The bulk purchases of water decreased by R 5,700 million, from R 39,270 million in 2019/20 to R 33,570 million in 2020/21. Bulk water purchases constitute 3.37% of total operating expenditure for 2020/21.

Other Materials

Other materials relate to the inventory items, such as material and supplies, consumables, printing and stationery, fuel and oil etc., initially budgeted under general expenses, being transferred to other materials. This is in line with the mSCOA requirements. The budget for 2020/21 amounts to R 26,059 million and equates to 2.62% of the total operating expenditure (refer to Table A9 for full disclosure of repairs and maintenance).

Contracted Services

In the 2020/21 financial year, the budget provision amounts to R 60,352 million and equates to 6.06% of the total operating expenditure.

Transfers and subsidies

Transfers and subsidies relate to grant-in-aid given by the municipality to various non-profit organizations, in line with the Council approved grant-in-aid policy. In the 2020/21 financial year, the budget provision amounts to R 0,761 million and equates to 0.08% of the total operating expenditure.

Other Expenditure

Other expenditure comprises of various line items relating to the daily operations of the municipality. In the 2020/21 financial year, the budget provision amounts to R 98,571 million and equates to 9.89% of the total operating expenditure.

The graph below reflects the expenditure components of the budgeted statement of financial performance.

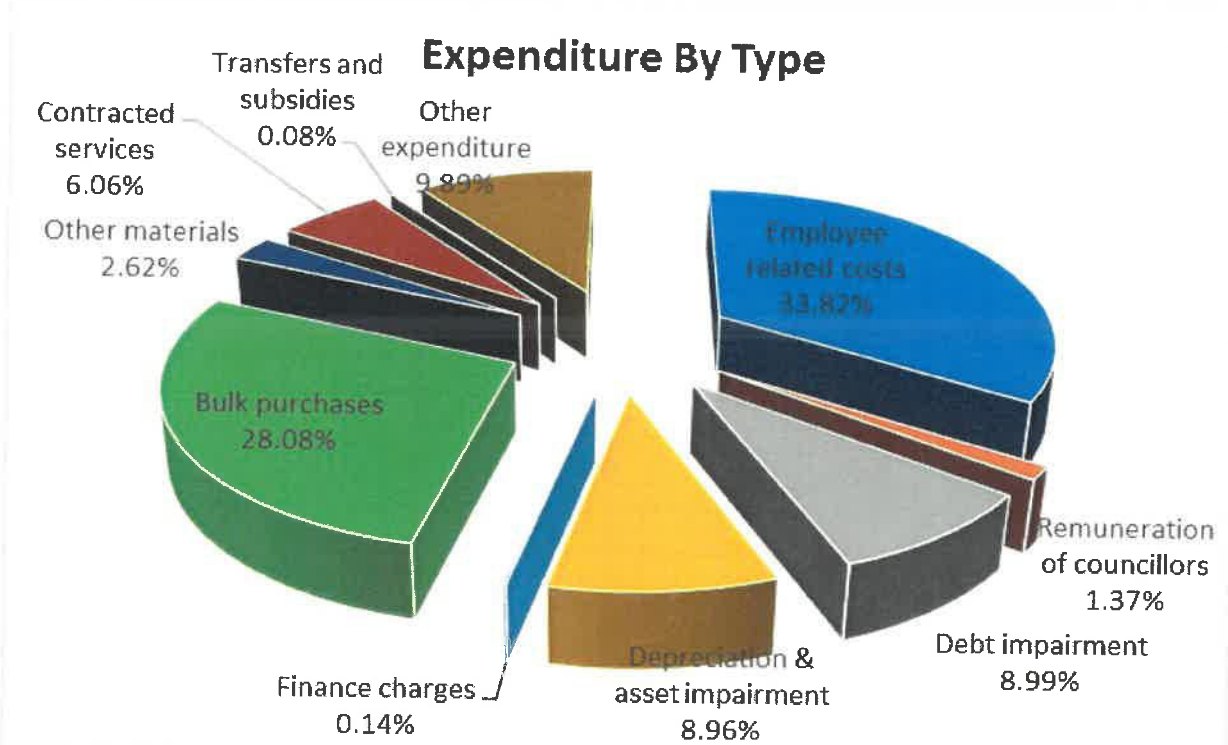

Figure 1 Main operational expenditure categories for the 2020/21 financial year

1.5.1 Priority relating to repairs and maintenance

The repairs and maintenance expenditure in the 2020/21 financial year, decreased by R 25,380 million or -43.28% compared to the 2019/20 Adjustments Budget.

It is to be noted that repairs and maintenance, constitutes 3.34%, 3.55% and 4.44% of the total operating expenditure, for the 2020/21, 2021/22 and 2022/23 financial years, respectively.

The table below provides a breakdown of the repairs and maintenance in relation to asset class:

Table 6 (Repairs and maintenance per asset class)

Description	Current year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousands	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Repairs and Maintenance by Asset Class	58 638	33 257	34 646	46 358
Roads Infrastructure	24 984	5 049	5 051	15 364
Storm water Infrastructure	908	906	948	992
Electrical Infrastructure	6 369	5 436	5 686	5 948
Water Supply Infrastructure	3 964	4 322	4 520	4 728
Sanitation Infrastructure	3 636	3 228	3 376	3 531
Solid Waste Infrastructure	1 760	157	219	229
Infrastructure	41 620	19 097	19 800	30 791
Community Facilities	1 524	1 198	1 253	1 311
Sport and Recreation Facilities	2 640	2 159	2 258	2 362
Community Assets	4 164	3 357	3 511	3 673
Operational Buildings	3 753	2 534	2 685	2 847
Other Assets	3 753	2 534	2 685	2 847
Machinery and Equipment	521	529	553	579
Transport Assets	8 578	7 740	8 096	8 468
TOTAL EXPENDITURE OTHER ITEMS	58 638	33 257	34 646	46 358

For the 2020/21 financial year an amount of R 19,097 million (57.42%) of total repairs and maintenance, will be spent on infrastructure assets.

1.5.1 Free Basic Services: Indigent Support

The indigent support assists indigent households that have limited financial ability to pay for municipal services. In order to qualify for free services, the households are required to register in terms of the Municipality's Indigent Policy, whilst the monthly household income may not exceed two state pensions. Detail relating to free services, cost of free basic services, as well as basic service delivery measurement is contained in Table A10 (Basic Service Delivery Measurement).

The cost of the indigent support of the registered indigent households is largely financed by national government through the local government equitable share allocation, received in terms of the annual Division of Revenue Act.

1.6 CAPITAL EXPENDITURE

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

Table 7 (2020/21 Medium-term capital budget per vote)

Description	Current Year 2019/20		2020/21 Medium Term Revenue & Expenditure Framework					
R thousands	Adjusted Budget	%	Budget Year 2020/21		Budget Year 2021/22		Budget Year 2022/23	%
Capital expenditure - Vote								
Vote 1 - EXECUTIVE COUNCIL	2 229	1.16%	835	1.47%	1 000	1.40%	900	1.22%
Vote 2 - FINANCIAL SERVICES	7 291	3.79%	800	1.41%	600	0.84%	600	0.82%
Vote 3 - CORPORATE SERVICES	2 778	1.44%	1 349	2.37%	559	0.78%	319	0.43%
Vote 4 - PLANNING, DEVELOPMENT & TOURISM	2 222	1.16%	1 505	2.64%	2 402	3.35%	3 162	4.30%
Vote 5 - INFRASTRUCTURE & ENGINEERING	155 619	80.94%	45 938	80.72%	58 922	82.24%	59 993	81.64%
Vote 6 - COMMUNITY SERVICES	22 138	11.51%	6 485	11.39%	8 162	11.39%	8 512	11.58%
Total Capital Expenditure - Vote	192 276	100.00%	56 912	100.00%	71 646	100.00%	73 485	100.00%

Infrastructure and Engineering receives the highest allocation of R 45,938 million in 2020/21, which equates to 80.72%, followed by Community Services at R 6,485 million (11.39%), Planning, Development and Tourism at R 1,505 million (2.64%), Corporate Services at R 1,349 million (2.37%), Executive & Council at R 0,835 million (1.47%) and Financial Services at R 0,800 million (1.41%).

Annexure "C" provides a summary of the capital projects included in the Capital budget.

The following graph provides a breakdown of the capital budget to be spent on infrastructure related projects over the MTREF.

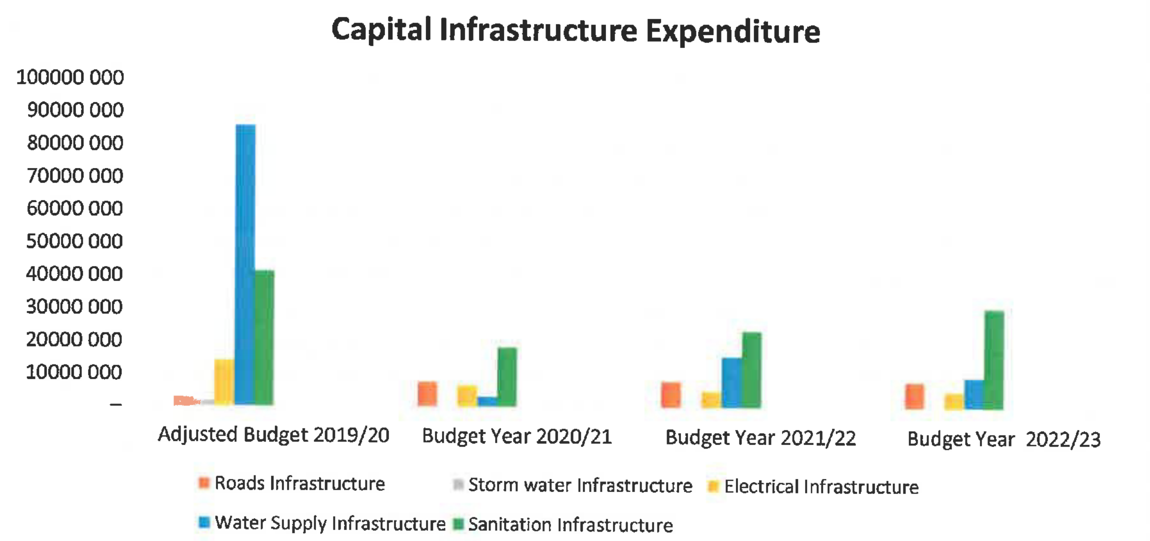

Figure 2 Capital Infrastructure Programme

1.7 ANNUAL BUDGET TABLES

The ten main budget tables, as required in terms of the Municipal Budget and Reporting Regulations, are included in this section. These tables set out the Municipality's 2020/21 Budget and MTREF to be considered for approval by Council. Each table is accompanied by *explanatory notes*.

Table 8 (Table A1 - Budget Summary)

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousands	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Financial Performance				
Property rates	197 221	205 650	216 447	227 810
Service charges	452 307	481 716	511 835	543 902
Investment revenue	15 375	13 013	13 612	14 238
Transfers recognised - operational	133 725	145 612	158 488	172 144
Other own revenue	48 236	60 015	51 299	53 701
Total Revenue (excluding capital transfers and contributions)	846 865	906 005	951 682	1 011 795
Employee costs	303 219	336 974	353 569	369 833
Remuneration of councillors	13 063	13 651	14 279	14 936
Depreciation & asset impairment	85 101	89 271	93 556	98 046
Finance charges	2 201	1 388	716	–
Materials and bulk purchases	305 183	305 802	321 333	352 216
Transfers and grants	250	761	773	946
Other expenditure	218 104	248 495	192 459	207 531
Total Expenditure	927 120	996 342	976 684	1 043 507
Surplus/(Deficit)	(80 256)	(90 337)	(25 002)	(31 712)
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	56 455	38 356	38 331	41 172
Contributions recognised - capital & contributed assets	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions	(23 801)	(51 980)	13 328	9 459
Share of surplus/ (deficit) of associate	–	–	–	–
Surplus/(Deficit) for the year	(23 801)	(51 980)	13 328	9 459
Capital expenditure & funds sources				
Capital expenditure	192 276	56 912	71 646	73 485
Transfers recognised - capital	136 511	33 610	33 587	36 058
Public contributions & donations	–	–	–	–
Borrowing	–	–	–	–
Internally generated funds	55 765	23 303	38 058	37 428
Total sources of capital funds	192 276	56 912	71 646	73 485

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousands	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Financial position				
Total current assets	179 973	182 094	220 975	266 102
Total non-current assets	2 368 782	2 229 248	2 239 696	2 237 045
Total current liabilities	189 824	190 365	187 504	180 757
Total non-current liabilities	182 000	170 192	163 445	163 445
Community wealth/Equity	2 176 930	2 050 785	2 109 722	2 158 945
Cash flows				
Net cash from (used) operating	61 303	37 290	106 973	107 697
Net cash from (used) investing	(192 273)	(56 912)	(71 646)	(73 485)
Net cash from (used) financing	(6 929)	(9 608)	(6 747)	–
Cash/cash equivalents at the year end	76 328	47 099	75 679	109 890
Cash backing/surplus reconciliation				
Cash and investments available	76 328	47 099	75 679	109 890
Application of cash and investments	47 297	27 163	7 324	(2 910)
Balance - surplus (shortfall)	29 032	19 936	68 355	112 800
Asset management				
Asset register summary (WDV)	2 269 551	2 229 235	2 239 683	2 237 032
Depreciation	85 101	89 271	93 556	98 046
Renewal of Existing Assets	12 197	6 220	15 571	4 851
Repairs and Maintenance	58 638	33 257	34 646	46 358
Free services				
Cost of Free Basic Services provided	53 178	49 305	52 870	56 930
Revenue cost of free services provided	18 555	19 659	20 938	22 301
Households below minimum service level				
Water:	–	–	–	–
Sanitation/sewerage:	0	–	–	–
Energy:	–	–	–	–
Refuse:	28	–	–	–

Explanatory notes to Table A1 - Budget Summary

The aim of the Budget Summary is to provide a concise overview of the proposed budget from all of the major financial perspectives (operating expenditure, capital expenditure, financial position, cash flow, and MFMA funding compliance). The table provides an overview of the amounts to be approved by Council within the context of operating performance, resources utilised for capital expenditure, financial position, cash and funding compliance, as well as the Municipality's commitment to eliminating basic service delivery backlogs.

Table 9 (Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification))

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousands	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Revenue - Functional				
Municipal governance and administration	345 087	332 007	343 106	365 091
Executive and council	27	28	30	31
Finance and administration	345 060	331 979	343 076	365 060
Internal audit				
Community and public safety	14 354	15 620	16 189	16 790
Community and social services	2 479	2 498	2 519	2 540
Sport and recreation	7 867	8 085	8 457	8 846
Public safety	1 984	1 985	1 986	1 987
Housing				
Health	2 024	3 051	3 226	3 416
Economic and environmental services	24 086	23 813	23 858	24 969
Planning and development	6 979	7 173	7 555	7 915
Road transport	14 586	15 252	14 851	15 534
Environmental protection	2 521	1 389	1 453	1 519
Trading services	519 793	572 921	606 859	646 117
Energy sources	287 775	304 317	321 769	342 911
Water management	89 113	100 261	107 447	115 149
Waste water management	87 728	93 692	100 341	106 644
Waste management	55 177	74 651	77 303	81 414
Other				
Total Revenue - Functional	**903 320**	**944 362**	**990 012**	**1 052 967**
Expenditure - Functional				
Municipal governance and administration	218 961	242 971	228 774	239 445
Executive and council	42 438	41 969	44 964	46 989
Finance and administration	176 503	200 981	183 789	192 434
Internal audit	20	21	22	23

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousands	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Community and public safety	**88 859**	**93 241**	**95 928**	**99 594**
Community and social services	12 809	10 773	10 909	11 411
Sport and recreation	45 403	45 537	46 907	48 316
Public safety	22 341	25 505	26 688	27 926
Housing	3 228	5 399	5 112	5 339
Health	5 077	6 026	6 312	6 602
Economic and environmental services	**132 385**	**122 804**	**127 634**	**143 411**
Planning and development	34 901	39 343	40 508	42 152
Road transport	95 684	81 450	85 022	99 058
Environmental protection	1 801	2 011	2 104	2 200
Trading services	**484 807**	**534 193**	**520 439**	**556 798**
Energy sources	285 667	316 672	314 621	340 450
Water management	77 891	91 486	86 585	91 763
Waste water management	57 231	62 587	59 132	61 687
Waste management	64 018	63 448	60 102	62 898
Other	**2 108**	**3 133**	**3 908**	**4 259**
Total Expenditure - Functional	**927 120**	**996 342**	**976 684**	**1 043 507**
Surplus/(Deficit)	**(23 801)**	**(51 980)**	**13 328**	**9 459**

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

The 'standard classification' refers to a modified Government Finance Statistics (GFS) reporting structure. The aim of the standard classification approach is to ensure that all municipalities approve a budget in one common format, to facilitate comparison across all municipalities. It should be noted that the revenue by vote as reflected in this table, includes revenue attributable to capital grants.

Table 10 (Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote))

Vote Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Revenue by Vote				
Vote 1 - EXECUTIVE COUNCIL	–	–	–	–
Vote 2 - FINANCIAL SERVICES	339 202	325 858	336 673	358 363
Vote 3 - CORPORATE SERVICES	293	307	321	335
Vote 4 - PLANNING, DEVELOPMENT & TOURISM	4 052	4 521	4 729	4 947
Vote 5 - INFRASTRUCTURE AND ENGINEERING	468 542	501 976	532 383	567 672
Vote 6 - COMMUNITY SERVICES	23 086	22 924	22 582	23 477
Vote 7 - COMMUNITY SERVICES (CONTINUED)	68 143	88 776	93 324	98 172
Total Revenue by Vote	**903 320**	**944 362**	**990 012**	**1 052 967**
Expenditure by Vote *to be appropriated*				
Vote 1 - EXECUTIVE COUNCIL	45 728	45 541	47 141	49 280
Vote 2 - FINANCIAL SERVICES	89 104	115 737	97 543	102 200
Vote 3 - CORPORATE SERVICES	54 343	43 677	43 809	45 848
Vote 4 - PLANNING, DEVELOPMENT & TOURISM	20 400	24 996	25 577	26 628
Vote 5 - INFRASTRUCTURE AND ENGINEERING	531 698	575 140	569 398	618 155
Vote 6 - COMMUNITY SERVICES	57 044	57 150	59 806	62 567
Vote 7 - COMMUNITY SERVICES (CONTINUED)	128 803	134 101	133 409	138 829
Total Expenditure by Vote	**927 120**	**996 342**	**976 684**	**1 043 506**
Surplus/(Deficit) for the year	**(23 801)**	**(51 980)**	**13 328**	**9 460**

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

1. The purpose of the format in which the budget is presented, is to enable the Council to enforce a vote in accordance with the municipality's organisational structure, so as to assign responsibility for the revenue and expenditure recorded against these votes to the Municipal Manager and Directors concerned. Operating revenue and expenditure are thus presented by 'vote'. A 'vote' is defined as one of the main segments into which a budget of a municipality is divided into, for the appropriation of funds.

Table 11 (Table A4 - Budgeted Financial Performance (revenue and expenditure))

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousands	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Revenue By Source				
Property rates	197 221	205 650	216 447	227 810
Service charges - electricity revenue	274 470	291 625	309 851	329 217
Service charges - water revenue	75 713	81 846	87 657	93 881
Service charges - sanitation revenue	50 051	53 555	57 036	60 743
Service charges - refuse revenue	52 072	54 690	57 291	60 061
Rental of facilities and equipment	4 037	4 083	4 270	4 467
Interest earned - external investments	15 375	13 013	13 612	14 238
Interest earned - outstanding debtors	10 892	6 993	7 482	8 006
Fines, penalties and forfeits	6 397	6 685	6 993	7 314
Licences and permits	19 822	20 714	21 667	22 663
Transfers and subsidies	133 725	145 612	158 488	172 144
Other revenue	7 088	21 540	10 887	11 250
Total Revenue (excluding capital transfers and contributions)	**846 865**	**906 005**	**951 682**	**1 011 795**
Expenditure By Type				
Employee related costs	303 219	336 974	353 569	369 833
Remuneration of councillors	13 063	13 651	14 279	14 936
Debt impairment	26 420	89 573	29 519	31 380
Depreciation and asset impairment	85 101	89 271	93 556	98 046
Finance charges	2 201	1 388	716	-
Bulk purchases	271 623	279 744	295 063	320 818
Other materials	33 560	26 059	26 270	31 398
Contracted services	84 393	60 352	61 674	69 279
Transfers and subsidies	250	761	773	946
Other expenditure	107 291	98 571	101 266	106 872
Total Expenditure	**927 120**	**996 342**	**976 684**	**1 043 507**
Surplus/(Deficit)	**(80 256)**	**(90 337)**	**(25 002)**	**(31 712)**

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousands	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	56 455	38 356	38 331	41 172
Transfers and subsidies - capital (monetary allocations) (Nat / Prov Departm Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporatons, Higher Educ Institutions)	0	0	0	0
Transfers and subsidies - capital (in-kind - all)	-	-	-	-
Surplus/(Deficit) after capital transfers and contributions	(23 801)	(51 980)	13 328	9 459
Taxation	-	-	-	-
Surplus/(Deficit) after taxation	(23 801)	(51 980)	13 328	9 459
Attributable to minorities	-	-	-	-
Surplus/(Deficit) attributable to municipality	(23 801)	(51 980)	13 328	9 459
Share of surplus/ (deficit) of associate	-	-	-	-
Surplus/(Deficit) for the year	(23 801)	(51 980)	13 328	9 459

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

Revenue

1. The Financial Performance Budget is required to be approved concurrently by revenue source and expenditure type, so as to ensure consistency with annual reporting format requirements. A key aim is to facilitate comparison between the annual results and the original budget, so as to assess performance.

2. Total revenue amounts to R 906,005 million in 2020/21 and increases to R 1,011,795 billion in 2022/23. This represents a year-on-year increase of 6.98% for the 2020/21 financial year and increases of 5.04% for the 2021/22 financial year and 6.32% for the 2022/23 financial year, respectively.

3. Revenue from property rates amounts to R 205,650 million in the 2020/21 financial year and increases to R 227,810 million in 2022/23, which amounts to 22.70% of the total operating revenue base of the Municipality.

4. Services charges relating to electricity, water, sanitation, environmental management and refuse collection constitute the biggest component of the total revenue base, amounting to R 481,716 million for the 2020/21 financial year and increasing to R 543,902 million in 2022/23. For the 2020/21 financial year services charges amount to 53.17% of the total revenue base.

5. Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government. It is to be noted that the grants increased by 8.89% for 2020/21, 8.84% for 2021/22 and increased by 8.62% for 2022/23, compared to the 2019/20 Adjustments Budget.

Below a breakdown of property rates and service charges for 2020/21:

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework	
R thousands	Adjusted Budget	Budget Year 2020/21	%
Revenue By Source			
Property rates	197 221	205 650	4.27%
Service charges - electricity revenue	274 470	291 625	6.25%
Service charges - water revenue	75 713	81 846	8.10%
Service charges - sanitation revenue	50 051	53 555	7.00%
Service charges - refuse revenue	37 401	40 019	7.00%
Service charges - environment management revenue	14 671	14 671	0.00%

Table 12 (Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source)

Vote Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Capital expenditure - Vote				
Multi-year expenditure *to be appropriated*				
Vote 1 - EXECUTIVE COUNCIL	–	–	–	–
Vote 2 - FINANCIAL SERVICES	–	–	–	–
Vote 3 - CORPORATE SERVICES	–	–	–	–
Vote 4 - PLANNING, DEVELOPMENT & TOURISM	–	–	–	–
Vote 5 - INFRASTRUCTURE AND ENGINEERING	–	–	–	–
Vote 6 - COMMUNITY SERVICES	–	–	–	–
Vote 7 - COMMUNITY SERVICES (CONTINUED)	–	–	–	–
Capital multi-year expenditure sub-total	–	–	–	–
Single-year expenditure *to be appropriated*				
Vote 1 - EXECUTIVE COUNCIL	2 229	835	1 000	900
Vote 2 - FINANCIAL SERVICES	7 291	800	600	600
Vote 3 - CORPORATE SERVICES	2 778	1 349	559	319
Vote 4 - PLANNING, DEVELOPMENT & TOURISM	2 222	1 505	2 402	3 162
Vote 5 - INFRASTRUCTURE AND ENGINEERING	155 619	45 938	58 922	59 993
Vote 6 - COMMUNITY SERVICES	8 562	4 019	4 794	5 030
Vote 7 - COMMUNITY SERVICES (CONTINUED)	13 576	2 467	3 368	3 481
Capital single-year expenditure sub-total	**192 276**	**56 912**	**71 646**	**73 485**
Total Capital Expenditure - Vote	**192 276**	**56 912**	**71 646**	**73 485**

Vote Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Capital Expenditure - Functional				
Governance and administration	14 682	3 734	3 369	3 039
Executive and council	2 226	835	1 210	1 121
Finance and administration	12 440	2 899	2 159	1 919
Internal audit	16			
Community and public safety	15 970	9 172	11 463	12 268
Community and social services	943		825	904
Sport and recreation	7 772	4 743	6 545	6 889
Public safety	5 693	3 669	3 594	3 725
Housing	1 562	760	500	750
Health				
Economic and environmental services	4 182	8 536	9 963	10 468
Planning and development	1 189	645	1 692	2 302
Road transport	2 994	7 891	8 270	8 166
Environmental protection				
Trading services	157 442	35 371	46 640	47 599
Energy sources	16 130	8 172	6 278	5 243
Water management	98 424	3 380	16 500	9 450
Waste water management	34 912	22 583	23 652	32 686
Waste management	7 977	1 237	210	221
Other		100	210	110
Total Capital Expenditure - Functional	192 276	56 912	71 646	73 485
Funded by:				
National Government	132 846	31 644	31 622	34 093
Provincial Government				
District Municipality	3 665	1 965	1 965	1 965
Other transfers and grants				
Transfers recognised - capital	136 511	33 610	33 587	36 058
Public contributions & donations				
Borrowing				
Internally generated funds	55 765	23 303	38 058	37 428
Total Capital Funding	192 276	56 912	71 646	73 485

Explanatory notes to 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; 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 capital programme is funded from national grants and internally generated funds. For 2020/21, capital transfers totals R 33,610 million (59.05%) and amounts to R 36,058 million for 2022/23 (49.07%). Internally generated funding amounts to R 23,303 million, R 38,058 million and R 37,428 million for each of the respective financial years of the MTREF. These funding sources are further discussed in detail in Section 2.6 (Overview of Budget Funding).

Table 13 (Table A6 - Budgeted Financial Position)

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
ASSETS				
Current assets				
Cash	6 871	4 710	7 568	10 989
Call investment deposits	69 457	42 389	68 111	98 901
Consumer debtors	60 507	81 061	88 332	96 058
Other debtors	33 885	44 682	47 712	50 901
Current portion of long-term receivables	3	3	3	3
Inventory	9 249	9 249	9 249	9 249
Total current assets	**179 973**	**182 094**	**220 975**	**266 102**
Non-current assets				
Long-term receivables	13	13	13	13
Investments	–	–	–	–
Investment property	242 552	242 552	242 552	242 552
Investment in Associate	–	–	–	–
Property, plant and equipment	2 124 004	1 985 075	1 996 097	1 993 670
Agricultural	–	–	–	–
Biological	–	–	–	–
Intangible	2 212	1 608	1 034	810
Other non-current assets	–	–	–	–
Total non-current assets	**2 368 782**	**2 229 248**	**2 239 696**	**2 237 045**
TOTAL ASSETS	**2 548 754**	**2 411 341**	**2 460 671**	**2 503 147**
LIABILITIES				
Current liabilities				
Bank overdraft	–	–	–	–
Borrowing	9 067	9 608	6 747	–
Consumer deposits	17 378	17 378	17 378	17 378
Trade and other payables	133 730	133 730	133 730	133 730
Provisions	29 649	29 649	29 649	29 649
Total current liabilities	**189 824**	**190 365**	**187 504**	**180 757**
Non-current liabilities				
Borrowing	18 556	6 747	–	–
Provisions	163 445	163 445	163 445	163 445
Total non-current liabilities	**182 000**	**170 192**	**163 445**	**163 445**
TOTAL LIABILITIES	**371 824**	**360 557**	**350 949**	**344 202**
NET ASSETS	**2 176 930**	**2 050 785**	**2 109 722**	**2 158 945**
COMMUNITY WEALTH/EQUITY				
Accumulated Surplus/(Deficit)	2 176 930	2 050 785	2 109 722	2 158 945
Reserves	–	–	–	–
TOTAL COMMUNITY WEALTH/EQUITY	**2 176 930**	**2 050 785**	**2 109 722**	**2 158 945**

Explanatory notes to Table A6 - Budgeted Financial Position

1. The table presents Assets less Liabilities as Community Wealth. The order of items within each group is also aligned to the convention of showing items in order of liquidity, i.e. assets readily converted to cash or liabilities immediately required to be met from cash appear first.

2. Any movement on the Budgeted Financial Performance or the Capital Budget will invariably impact on the Budgeted Financial Position. For example, the collection rate assumption will impact on the cash position of the municipality and consequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption informs the budget provision for debt impairment, which in turn impacts on the provision for bad debts. 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 directly informed by forecasting the statement of financial position

Table 14 (Table A7 - Budgeted cash flow statement)

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Property rates	189 333	174 803	207 789	218 698
Service charges	434 214	424 039	491 362	522 146
Other revenue	37 344	53 022	43 817	45 694
Government - operating	133 725	145 612	158 488	172 144
Government - capital	56 455	38 356	38 331	41 172
Interest	25 832	18 957	20 795	21 924
Dividends		–	–	–
Payments				
Suppliers and employees	(813 149)	(815 350)	(852 120)	(913 136)
Finance charges	(2 201)	(1 388)	(716)	–
Transfers and Grants	(250)	(761)	(773)	(946)
NET CASH FROM/(USED) OPERATING ACTIVITIES	**61 303**	**37 290**	**106 973**	**107 697**
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts				
Proceeds on disposal of PPE	–	–	–	–
Decrease (Increase) in non-current debtors	–	–	–	–
Decrease (increase) other non-current receivables	3	–	–	–
Decrease (increase) in non-current investments	–	–	–	–
Payments				
Capital assets	(192 276)	(56 912)	(71 646)	(73 485)
NET CASH FROM/(USED) INVESTING ACTIVITIES	**(192 273)**	**(56 912)**	**(71 646)**	**(73 485)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts				
Short term loans	–	–	–	–
Borrowing long term/refinancing	–	–	–	–
Increase (decrease) in consumer deposits	2 137	–	–	–
Payments				
Repayment of borrowing	(9 067)	(9 608)	(6 747)	–
NET CASH FROM/(USED) FINANCING ACTIVITIES	**(6 929)**	**(9 608)**	**(6 747)**	**–**
NET INCREASE/ (DECREASE) IN CASH HELD	**(137 900)**	**(29 230)**	**28 580**	**34 211**
Cash/cash equivalents at the year begin:	214 228	76 328	47 099	75 679
Cash/cash equivalents at the year-end:	76 328	47 099	75 679	109 890

Explanatory notes to Table A7 - Budgeted Cash Flow Statement

1. The budgeted cash flow statement represents the first measurement in determining whether the budget is funded.

2. It reflects the expected cash in-flows versus cash outflows that are likely to result from the implementation of the budget.

3. The cash position of the Municipality increases over the 2020/21 to 2022/23 period, from R 47,099 million to R 109,890 million.

4. Cash and cash equivalents amount to R 47,099 million as at the end of the 2020/21 financial year and increases to R 109,890 million in 2022/23.

Table 15 (Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation)

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Cash and investments available				
Cash/cash equivalents at the year end	76 328	47 099	75 679	109 890
Other current investments > 90 days	–	–	–	–
Non-current assets - Investments	–	–	–	–
Cash and investments available:	**76 328**	**47 099**	**75 679**	**109 890**
Application of cash and investments				
Unspent conditional transfers	–	–	–	–
Unspent borrowing	–	–	–	–
Statutory requirements		–	–	–
Other working capital requirements	44 314	24 046	4 064	(6 320)
Other provisions	2 982	3 116	3 260	3 410
Long term investments committed	–	–	–	–
Reserves to be backed by cash/investments	–	–	–	–
Total Application of cash and investments:	**47 297**	**27 163**	**7 324**	**(2 910)**
Surplus(shortfall)	**29 032**	**19 936**	**68 355**	**112 800**

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

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.

2. The table assesses 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. As part of the budgeting and planning guidelines that informed the compilation of the 2020/21 MTREF, the end objective of the medium-term framework was to ensure the budget is funded as required in accordance with section 18 of the MFMA.

4. It is to be noted that the budget moves from a funding surplus of R 19,936 million in 2020/21 to a funding surplus of R 112,800 million in 2022/23.

Table 16 (Table A9 - Asset Management)

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousands	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
CAPITAL EXPENDITURE				
Total New Assets	**125 948**	**29 156**	**22 531**	**29 107**
Storm water Infrastructure	1 943			
Electrical Infrastructure	10 938	6 822	5 278	5 243
Water Supply Infrastructure	47 591			
Sanitation Infrastructure	37 202	9 680	8 000	13 650
Solid Waste Infrastructure		4 000		2 000
Information and Communication Infrastructure	850	600	600	600
Infrastructure	98 523	21 102	13 878	21 493
Community Facilities	2 194	1 600	3 175	3 859
Sport and Recreation Facilities	96			
Community Assets	2 291	1 600	3 175	3 859
Revenue Generating	126	179	187	197
Non-revenue Generating	1 562	360	500	750
Investment properties	1 688	539	687	947
Operational Buildings	172	100	800	100
Other Assets	172	100	800	100
Biological or Cultivated Assets				
Licences and Rights	1 792	1 364	540	566
Intangible Assets	1 792	1 364	540	566
Computer Equipment	2 357	465	400	150
Furniture and Office Equipment	2 421		741	673
Machinery and Equipment	8 648	3 587	2 310	1 321
Transport Assets	8 056	400		
Total Renewal of Existing Assets	**12 197**	**6 220**	**15 571**	**4 851**
Roads Infrastructure	2 500			
Water Supply Infrastructure		2 630	10 800	
Infrastructure	2 500	2 630	10 800	-
Community Facilities	182	100	105	
Sport and Recreation Facilities	2 134	200	1 260	1 323
Community Assets	2 316	300	1 365	1 323
Revenue Generating	7 381	3 290	3 406	3 528
Investment properties	7 381	3 290	3 406	3 528
Total Upgrading of Existing Assets	**54 132**	**21 536**	**33 543**	**39 527**
Roads Infrastructure	364	7 891	8 270	8 166
Electrical Infrastructure	3 438			
Water Supply Infrastructure	38 452	600	5 000	9 450
Sanitation Infrastructure	4 463	8 903	15 652	17 036
Information and Communication Infrastructure	326			
Infrastructure	47 042	17 393	28 922	34 652
Community Facilities	12			
Sport and Recreation Facilities	3 573	4 063	4 492	4 738
Community Assets	3 584	4 063	4 492	4 738
Operational Buildings	155	80	129	136
Other Assets	155	80	129	136
Computer Equipment	3 350			

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousands	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Total Capital Expenditure	**192 276**	**56 912**	**71 646**	**73 485**
Roads Infrastructure	2 864	7 891	8 270	8 166
Storm water Infrastructure	1 943			
Electrical Infrastructure	14 376	6 822	5 278	5 243
Water Supply Infrastructure	86 042	3 230	15 800	9 450
Sanitation Infrastructure	41 664	18 583	23 652	30 686
Solid Waste Infrastructure		4 000		2 000
Information and Communication Infrastructure	1 176	600	600	600
Infrastructure	148 065	41 125	53 601	56 145
Community Facilities	2 388	1 700	3 280	3 859
Sport and Recreation Facilities	5 802	4 263	5 752	6 061
Community Assets	8 191	5 963	9 032	9 920
Revenue Generating	7 507	3 469	3 594	3 725
Non-revenue Generating	1 562	360	500	750
Investment properties	9 069	3 829	4 094	4 475
Operational Buildings	327	180	929	236
Other Assets	327	180	929	236
Licences and Rights	1 792	1 364	540	566
Intangible Assets	1 792	1 364	540	566
Computer Equipment	5 707	465	400	150
Furniture and Office Equipment	2 421		741	673
Machinery and Equipment	8 648	3 587	2 310	1 321
Transport Assets	8 056	400		
TOTAL CAPITAL EXPENDITURE - Asset Class	**192 276**	**56 912**	**71 646**	**73 485**
ASSET REGISTER SUMMARY - PPE (WDV)	**2 269 551**	**2 229 235**	**2 239 683**	**2 237 032**
Roads Infrastructure	630 390	(38 228)	(40 063)	(41 986)
Storm water Infrastructure	46 991	(15 570)	(16 317)	(17 101)
Electrical Infrastructure	174 995	(760)	(1 877)	(3 304)
Water Supply Infrastructure	343 028	(4 806)	8 447	1 012
Sanitation Infrastructure	450 980	18 583	23 652	30 686
Solid Waste Infrastructure	16 009			
Information and Communication Infrastructure	3 350			
Infrastructure	1 665 743	(40 781)	(26 158)	(30 693)
Community Assets	24 070	5 168	7 830	8 659
Investment properties	242 552	242 552	242 552	242 552
Other Assets	44 232	(7 398)	(8 281)	(8 683)
Intangible Assets	2 212	1 608	1 034	810
Computer Equipment	3 024	5 145	879	2 886
Furniture and Office Equipment	13 805		741	673
Machinery and Equipment	11 977	10 956	9 768	9 683
Transport Assets	20 431	(7 172)	(7 977)	(8 402)
Land	241 506	2 019 157	2 019 297	2 019 547
TOTAL ASSET REGISTER SUMMARY - PPE (WDV)	**2 269 551**	**2 229 235**	**2 239 683**	**2 237 032**

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousands	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
EXPENDITURE OTHER ITEMS				
Depreciation	85 101	89 271	93 556	98 046
Repairs and Maintenance by Asset Class	58 638	33 257	34 646	46 358
Roads Infrastructure	24 984	5 049	5 051	15 364
Storm water Infrastructure	908	906	948	992
Electrical Infrastructure	6 369	5 436	5 686	5 948
Water Supply Infrastructure	3 964	4 322	4 520	4 728
Sanitation Infrastructure	3 636	3 228	3 376	3 531
Solid Waste Infrastructure	1 760	157	219	229
Infrastructure	41 620	19 097	19 800	30 791
Community Facilities	1 524	1 198	1 253	1 311
Sport and Recreation Facilities	2 640	2 159	2 258	2 362
Community Assets	4 164	3 357	3 511	3 673
Operational Buildings	3 753	2 534	2 685	2 847
Other Assets	3 753	2 534	2 685	2 847
Machinery and Equipment	521	529	553	579
Transport Assets	8 578	7 740	8 096	8 468
TOTAL EXPENDITURE OTHER ITEMS	143 738	122 528	128 202	144 404

Explanatory notes to Table A9 - Asset Management

1. The table provides a summarised version of the capital programme divided into new assets and renewal of existing assets; and also reflects the relevant asset categories. The associated repairs and maintenance and depreciation are also reflected.

   It also provides an indication of the resources deployed for maintaining and renewing existing assets, as well as the extent of asset expansion.

2. National Treasury has suggested that municipalities should allocate at least 40% of their capital budget to the renewal/rehabilitation of existing assets, and allocations to repairs and maintenance should be 8% of PPE. In this regard the expenditure relating to the renewal/rehabilitation of existing assets amounts to 48.8% of the capital budget, whilst repairs and maintenance constitute 1.7% of PPE.

Table 17 (Table A10 - Basic Service Delivery Measurement)

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year2022/23
Household service targets				
Water:				
Piped water inside dwelling	21 440	–	–	–
Piped water inside yard (but not in dwelling)	–	–	–	–
Using public tap (at least min.service level)	–	–	–	–
Other water supply (at least min.service level)	–	–	–	–
Minimum Service Level and Above sub-total	21 440	–	–	–
Using public tap (< min.service level)	–	–	–	–
Other water supply (< min.service level)	–	–	–	–
No water supply	–	–	–	–
Below Minimum Service Level sub-total	–	–	–	–
Total number of households	**21 440**	–	–	–
Sanitation/sewerage:				
Flush toilet (connected to sewerage)	18 406	–	–	–
Flush toilet (with septic tank)	–	–	–	–
Chemical toilet	–	–	–	–
Pit toilet (ventilated)	–	–	–	–
Other toilet provisions (> min.service level)	–	–	–	–
Minimum Service Level and Above sub-total	18 406	–	–	–
Bucket toilet	328	–	–	–
Other toilet provisions (< min.service level)	–	–	–	–
No toilet provisions	–	–	–	–
Below Minimum Service Level sub-total	328	–	–	–
Total number of households	**18 734**	–	–	–

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year2022/23
Energy:				
Electricity (at least min.service level)	10 649	–	–	–
Electricity - prepaid (min.service level)	14 808	–	–	–
Minimum Service Level and Above sub-total	25 457	–	–	–
Electricity (< min.service level)	–	–	–	–
Electricity - prepaid (< min. service level)	–	–	–	–
Other energy sources	–	–	–	–
Below Minimum Service Level sub-total	–	–	–	–
Total number of households	**25 457**	**–**	**–**	**–**
Refuse:				
Removed at least once a week	–	–	–	–
Minimum Service Level and Above sub-total	–	–	–	–
Removed less frequently than once a week	27 948	–	–	–
Using communal refuse dump	–	–	–	–
Using own refuse dump	–	–	–	–
Other rubbish disposal	–	–	–	–
No rubbish disposal	–	–	–	–
Below Minimum Service Level sub-total	27 948	–	–	–
Total number of households	**27 948**	**–**	**–**	**–**
Households receiving Free Basic Service				
Water (6 kilolitres per household per month)	6 700	17 641 920	19 070 916	20 615 660
Sanitation (free minimum level service)	6 700	9 123 753	9 853 653	10 641 946
Electricity/other energy (50kwh per household per month)	6 700	5 570 276	5 859 931	6 381 465
Refuse (removed at least once a week)	6 700	16 968 661	18 085 130	19 290 917
Cost of Free Basic Services provided - Formal Settlements (R'000)				
Water (6 kilolitres per indigent household per month)	19 362	17 642	19 071	20 616
Sanitation (free sanitation service to indigent households)	10 487	9 124	9 854	10 642
Electricity/other energy (50kwh per indigent household per month)	4 767	5 570	5 860	6 381
Refuse (removed once a week for indigent households)	18 561	16 969	18 085	19 291
Cost of Free Basic Services provided - Informal Formal Settlements (R'000)		–	–	–
Total cost of FBS provided	**53 178**	**49 305**	**52 870**	**56 930**

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year2022/23
Highest level of free service provided per household				
Property rates (R value threshold)	713	–	–	–
Water (kilolitres per household per month)	12	–	–	–
Sanitation (kilolitres per household per month)	12	–	–	–
Sanitation (Rand per household per month)	349	–	–	–
Electricity (kwh per household per month)	50	–	–	–
Refuse (average litres per week)		–	–	–
Revenue cost of subsidised services provided (R'000)	–			
Property rates (**tariff adjustment**) (**impermissable values per section 17 of MPRA**)		–	–	–
Property rates exemptions, reductions and rebates **and impermissable values in excess of section 17 of MPRA)**	18 555	19 659	20 938	22 301
Water (**in excess of 6 kilolitres per indigent household per month**)	–	–	–	–
Sanitation (**in excess of free sanitation service to indigent households**)	–	–	–	–
Electricity/other energy (**in excess of 50 kwh per indigent household per month**)	–	–	–	–
Refuse (**in excess of one removal a week for indigent households**)	–	–	–	–
Municipal Housing - rental rebates	–	–	–	–
Housing - top structure subsidies	–	–	–	–
Other		–	–	–
Total revenue cost of subsidised services provided	**18 555**	**19 659**	**20 938**	**22 301**

Explanatory notes to Table A10 - Basic Service Delivery Measurement

1. Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services.

PART 2 – SUPPORTING DOCUMENTATION

2.1 OVERVIEW OF ANNUAL BUDGET PROCESS

The Budget process started in September 2019 after the approval of a timetable to guide the preparation of the 2020/21 to 2022/23 Operating and Capital Budgets.

The timetable provides broad timeframes for the IDP and Budget preparation process. It allows for consultation with stakeholders, such as the elected public representatives, employees of the Municipality, Civil Society, State departments, business and labour, during April/May 2020. The main aim of the timetable was to ensure that an IDP and a balanced Budget were tabled in March 2020. The Budget and IDP will be tabled by the Executive Mayor at a Council meeting scheduled for 26 June 2020. After this meeting, it will be submitted to National and Provincial Treasury.

The budget consultation process took the form of publication of the Draft Budget on municipal website, Facebook, and radio presentation of the Draft Budget by the Executive Mayor. The inputs of the aforementioned consultations were taken into account, whilst the Executive Mayor will table the IDP and Budget for consideration and approval at a Council meeting scheduled for 26 June 2020.

The Service Delivery and Budget Implementation Plan is the mechanism that ensures that the IDP and the Budget is aligned.

2.1.1 IDP & Budget Timetable 2020/21 to 2022/23

The preparation of the 2020/21 to 2022/23 IDP and Budget were guided by the following schedule of key deadlines as approved by Council on 30 July 2019.

Activity	Date
IDP/Budget Schedule approved by Council	30 July 2019
Tabling of draft IDP and Budget in Council	31 March 2020
Public Participation	During April and May 2020
Final adoption of IDP and Budget by Council	29 May 2020
Approval of SDBIP by Executive Mayor	26 June 2020

It should be noted that the final adoption of IDP and Budget was rescheduled for 26 June 2020 due to COVID-19 pandemic.

2.2 ALIGNMENT OF ANNUAL BUDGET WITH INTEGRATED DEVELOPMENT PLAN

The Integrated Development Plan (IDP) determines and prioritises the needs of the community.

The review of the IDP, in accordance with the Municipal Systems Act, was guided and informed by the following principles:

- Achievement of the five strategic priorities of the municipality.
- Focusing on service delivery backlogs and the maintenance of infrastructure.
- Addressing community priorities (needs) as identified in the IDP.

The review of the IDP focused on establishing measurable performance indicators and targets. These targets informed the preparation of the multi-year budget, as well as the Service Delivery and Budget Implementation Plan (SDBIP).

The 2020/21 to 2022/23 Operating and Capital Budgets were prepared in accordance with the IDP. The key strategic focus areas of the IDP are as follows:

- Municipal transformation and development
- Service delivery and infrastructure development
- Local economic development
- Financial sustainability and viability
- Good governance and public participation

The budget consultation process took the form of publication of the Draft Budget on municipal website, Facebook, radio presentation of the Draft Budget by the Executive Mayor, National and Provincial Governments on how the budget addresses the IDP priorities and objectives. The feedback flowing from these meetings will be referred to the relevant Directorates for their attention.

Below is a table, which illustrates the link between the Budget and the IDP.

BUDGET ALLOCATION ACCORDING TO IDP PRIORITIES

Description	Municipal Transformation and Development	Service Delivery and Infrastructure Development	Local Economic Development	Financial Sustainability and Viability	Good Governance and Public Participation	Spatial Rationale and Environmental Management	Total
R thousand							
2020/21 Budget							
Capital Expenditure	200	51 947	430	800	1 984	1 552	**56 912**
Operating Expenditure	10 849	754 044	8 180	120 548	72 629	30 093	**996 342**
Total	**11 049**	**805 990**	**8 610**	**121 348**	**74 614**	**31 644**	**1 053 254**
2021/22 Budget							
Capital Expenditure	–	67 374	1 141	600	1 559	971	**71 646**
Operating Expenditure	11 348	746 898	9 448	102 575	75 853	30 562	**976 684**
Total	**11 348**	**814 272**	**10 589**	**103 175**	**77 412**	**31 533**	**1 048 329**
2022/23 Budget							
Capital Expenditure	–	69 034	1 613	600	1 219	1 020	**73 485**
Operating Expenditure	11 870	803 113	9 780	107 464	79 335	31 945	**1 043 506**
Total	**11 870**	**872 146**	**11 393**	**108 064**	**80 554**	**32 965**	**1 116 992**

BUDGET ALLOCATION ACCORDING TO IDP PRIORITIES

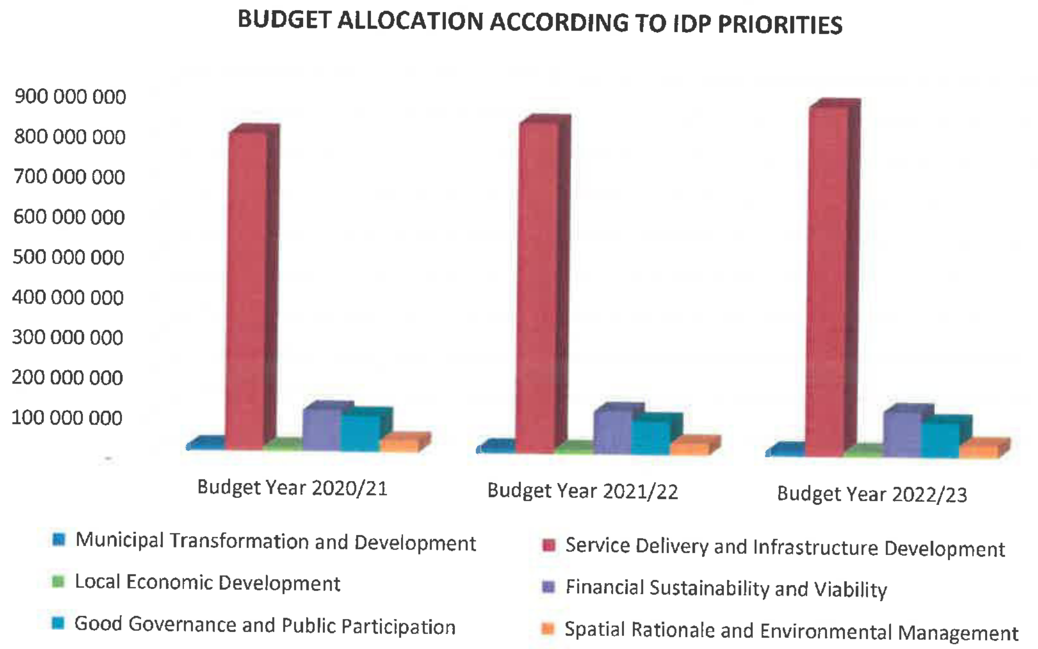

Figure 3 – 2020/21 Expenditure by IDP Priorities

2.3 MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS

Description of financial indicator	Basis of calculation	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
		Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Borrowing Management					
Credit Rating					
Capital Charges to Operating Expenditure	Interest & Principal Paid /Operating Expenditure	1.2%	1.1%	0.8%	0.0%
Capital Charges to Own Revenue	Finance charges & Repayment of borrowing /Own Revenue	1.6%	1.4%	0.9%	0.0%
Liquidity					
Current Ratio	Current assets/current liabilities	0.9	1.0	1.2	1.5
Current Ratio adjusted for aged debtors	Current assets less debtors > 90 days/current liabilities	0.9	1.0	1.2	1.5
Liquidity Ratio	Monetary Assets/Current Liabilities	0.4	0.2	0.4	0.6
Revenue Management					
Annual Debtors Collection Rate (Payment Level %)	Last 12 Mths Receipts/Last 12 Mths Billing	96.0%	87.1%	96.0%	96.0%
Current Debtors Collection Rate (Cash receipts % of Ratepayer & Other revenue)		96.0%	87.1%	96.0%	96.0%
Outstanding Debtors to Revenue	Total Outstanding Debtors to Annual Revenue	11.1%	13.9%	14.3%	14.5%
Creditors to Cash and Investments		-175.2%	283.9%	176.7%	121.7%

Description of financial indicator	Basis of calculation	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
		Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Other Indicators					
Employee costs	Employee costs/ (Total Revenue - capital revenue)	35.8%	37.2%	37.2%	36.6%
Remuneration	Total remuneration/ (Total Revenue - capital revenue)	37.6%	38.0%	37.1%	36.5%
Repairs & Maintenance	R&M/ (Total Revenue excluding capital revenue)	6.9%	3.7%	3.6%	4.6%
Finance charges & Depreciation	FC&D/ (Total Revenue - capital revenue)	10.3%	10.0%	9.9%	9.7%
IDP regulation financial viability indicators					
i. Debt coverage	(Total Operating Revenue - Operating Grants)/Debt service payments due within financial year)	20.2	27.6	36.2	38.3
ii.O/S Service Debtors to Revenue	Total outstanding service debtors/annual revenue received for services	14.4%	18.2%	18.6%	18.9%
iii. Cost coverage	(Available cash + Investments)/monthly fixed operational expenditure	1.2	0.7	1.1	1.5

2.3.1 Performance indicators and benchmarks

2.3.1.1 Borrowing Management

Capital expenditure may be funded from capital grants, internal sources and long-term borrowing. The ability of a municipality to raise long term borrowing is largely dependent on its creditworthiness and financial position. The following financial performance indicators formed part of the compilation of the 2020/21 MTREF:

- *Capital charges to operating expenditure* is a measure of the cost of borrowing, compared to the total operating expenditure. The cost of borrowing amounts to 1.1% of total operating expenditure in the 2020/21 financial year and reduces to 0.0% in 2021/22.

2.3.1.2 Liquidity

- The *current ratio* is a measure of the current assets divided by the current liabilities. The Municipality has set a benchmark limit of 1. For the 2020/21 MTREF, the current ratio is 1.0 in the 2020/21, 1.2 in the 2021/22 and 1.5 in the 2022/23 financial years.

- *The liquidity ratio* is a measure of the municipality's ability to utilise cash and cash equivalents to meets its current liabilities. A liquidity ratio of 1 should be maintained. For the 2020/21 MTREF, the liquidity ratio is at 0.2:1. This represents a significant risk for the Municipality, as any under collection of revenue will result in financial challenges for the Municipality. As part of the medium-term financial planning objectives, this ratio must be maintained at a minimum of 1.

2.3.2 Basic social services package for indigent households

The Constitution stipulates that a municipality must structure and manage its administration, budgeting and planning so as to give priority to the basic needs of the community and to promote their social and economic development. The basic social package is an affirmation of the Municipality's commitment to push back the frontiers of poverty by providing social welfare to those residents who cannot afford to pay, as a result of adverse social and economic conditions.

The initiatives carried out by the Municipality in this regard are detailed below.

Service	Social Package	Approximate Cost R	Current cost 2020/21	Est. No. of Households
Assessment Rates	All residential property owners are exempted from paying rates on the first R15 000 of their property values.			
	An additional R85 000 credit on property rates for indigent consumers.	410,551.17	62.67 pm	6 551
Water	The first 12kl of water per month provided free to indigent consumers	1,179,180	180 pm	6 551
Electricity	The first 50kwh of electricity provided free to indigent consumers	331,196.50	51.50 pm	6 431
Refuse removal	Full credit for the monthly charge.	1,198,833	183 pm	6 551
*Sewerage	Full credit for monthly charge of sewerage to indigent consumers (For waterborne sewerage removal the maximum credit is based on 12kl per month)	1,482,556.81	226.31 pm	6 551
EMF	Full credit for the monthly charge.	262,040	40 pm	6 551
Total Operating Costs		**4,864,357.48**		

2.4 OVERVIEW OF BUDGET RELATED POLICIES

The MFMA and the Budget and Reporting Regulations require budget related policies to be reviewed, and where applicable, be updated on an annual basis.

2.4.1 Financial Management Policies

A number of policies have been adopted by the Council. The policies govern the financial management functions of the Municipality, such as supply chain management, budget virements, credit control and debt collection, etc.

2.4.2 Review of credit control and debt collection policies

The Customer Care, Credit Control and Debt Collection Policy was reviewed and approved by Council on 30 October 2019.

The 2020/21 MTREF has been prepared on the basis of achieving an average revenue collection rate of 85% of current billings for property rate and service charges, except for electricity which is 90%.

2.4.3 Supply Chain Management Policy

A revised Supply Chain Management Policy was adopted by Council in April 2018.

2.4.4 Property Rates Policy

A revised Property Rates Policy was adopted by Council in February 2018.

2.4.5 Funding and Reserves Policy

The Funding and Reserves Policy was adopted by Council in May 2016.

2.4.6 Cost Containment Policy

The Cost Containment Policy was adopted by Council in May 2016.

2.4.7 Cash Management and Investment Policy

The Cash Management and Investment Policy was adopted by Council in May 2016.

2.4.8 Borrowing Policy

The Borrowing Policy was adopted by Council in May 2016.

All the above policies are available on the Municipality's website, as well as the following budget related policies:

- Indigent Policy.
- Budget virement Policy.

2.5 OVERVIEW OF BUDGET ASSUMPTIONS

The municipal fiscal environment is influenced by a variety of macro-economic control measures. National Treasury provides guidelines on the ceiling of year-on-year increases in the total Operating Budget, whilst the National Electricity Regulator of South Africa (NERSA) regulates bulk electricity tariff increases. The Municipality's employee related costs are also influenced by collective agreements concluded in the South African Local Government Bargaining Council. Various government departments also affect municipal service delivery through the level of grants and subsidies.

The following principles and guidelines directly informed the compilation of the Budget:

- The priorities and targets, relating to the key strategic focus areas, as outlined in the IDP.
- The need to enhance the municipality's revenue base.
- The level of property rates and tariff increases to take into account the need to address maintenance and infrastructural backlogs, including the expansion of services.
- The level of property rates and tariff increases to ensure the delivery of services on a financially sustainable basis.
- No loan funding is available to support the Capital Budget, in view of financial affordability considerations.
- No growth in revenue sources has been provided for in view of current consumption trends in municipal services.
- No growth in property rates income has been provided for, in view of the depressed property market.

The Municipality faced the following significant challenges in preparing the 2020/21 – 2022/23 Budget:

- Maintaining an acceptable employee related cost ratio.
- Increased costs associated with bulk electricity and water purchases, placing upward pressure on municipal tariff increases.
- Allocation of the required budget provision for the rehabilitation and maintenance of infrastructure.
- Maintaining electricity and water losses at acceptable levels.
- Maintaining revenue collection rates at the targeted levels; and
- Maintaining an acceptable cost coverage ratio.

The multi-year budget is therefore underpinned by the following assumptions:

	2020/21	2021/22	2022/23
Income	%	%	%
Tariff Increases for water	8.1	7.1	7.1
Tariff Increases for sanitation	7	6.5	6.5
Tariff Increases for refuse	7	6.5	6.5
Property rates increase	5.25	5.25	5.25
Electricity tariff increase (on average)	6.25	6.25	6.25
Environmental Management Fee increase	0	0	0
Revenue collection rates (Property Rates and Service Charges)	85	96	96
Revenue collection rates (Electricity)	90	96	96
Expenditure increases allowed	4.5	4.6	4.6
Salary increase	6.25	4.6	4.6
Increase in bulk purchase of electricity costs	6.9	5.2	8.9
Increase in bulk purchase of water costs	8.1	7.5	7.5

2.6 OVERVIEW OF BUDGET FUNDING

2.6.1 Medium-term outlook: operating revenue

The following table provides a breakdown of operating revenue over the medium-term:

Table 18 (Breakdown of the operating revenue over the medium-term)

The following graph is a breakdown of the operational revenue per main category for the 2020/21 financial year.

Description	Current Year 2019/20		2020/21 Medium Term Revenue & Expenditure Framework					
	Adjusted Budget	%	Budget Year 2020/21	%	Budget Year 2021/22	%	Budget Year 2022/23	%
R thousands								
Revenue By Source								
Property rates	197 221	23.29%	205 650	22.70%	216 447	22.74%	227 810	22.52%
Service charges	452 307	53.41%	481 716	53.17%	511 835	53.78%	543 902	53.76%
Transfers and subsidies	133 725	15.79%	145 612	16.07%	158 488	16.65%	172 144	17.01%
Other revenue	63 611	7.51%	73 028	8.06%	64 911	6.82%	67 938	6.71%
Total Revenue (excluding capital transfers and contributions)	**846 865**	**100.00%**	**906 005**	**100.00%**	**951 682**	**100.00%**	**1 011 795**	**100.00%**

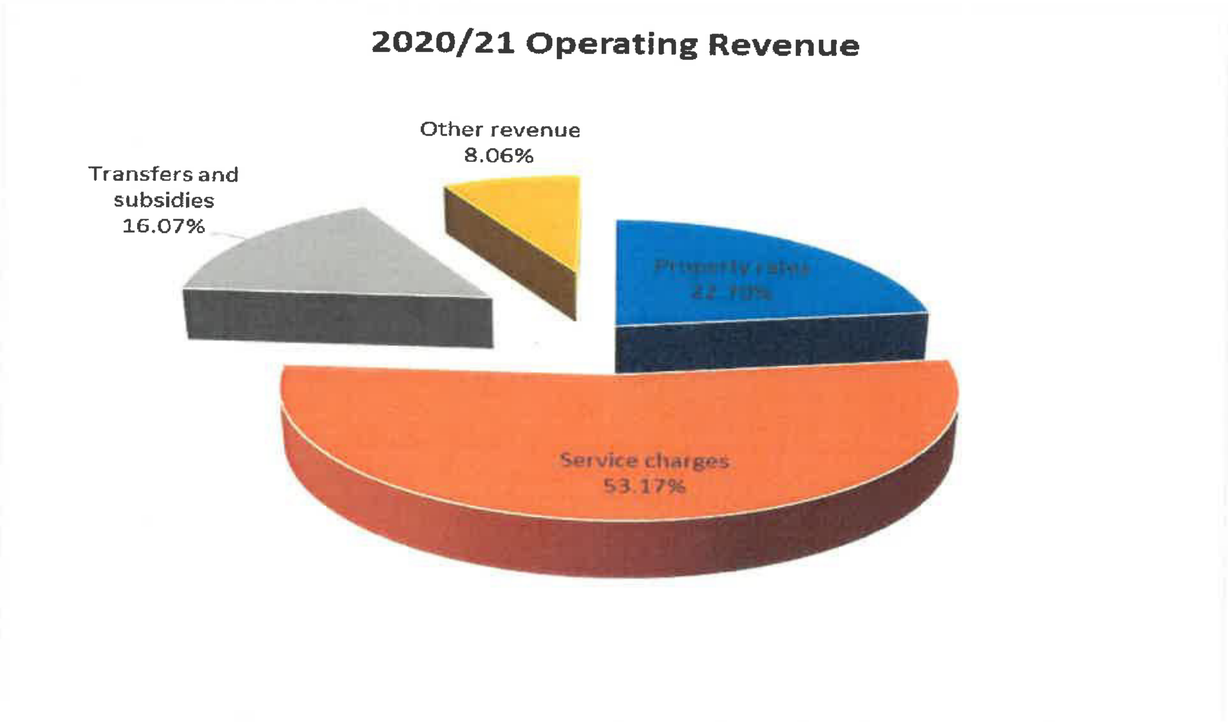

Figure 4 Breakdown of operating revenue over the 2020/21 MTRE

Tariff determination is important in ensuring appropriate levels of revenue, in order to achieve a credible and funded budget. Operating revenue is mainly derived from service charges, such as water, electricity, sanitation and refuse collection and disposal, property rates and operating grants.

The revenue management strategy includes the following key components:

- National Treasury's guidelines in this regard.
- The Property Rates Policy.
- The level of property rates and tariff increases must ensure financially sustainable service delivery.
- The level of property rates and tariff increases to take into account maintenance and replacement of infrastructure, including the expansion of services.
- Determining fully cost reflective tariffs for trading services.
- Electricity bulk tariff increases as approved by the National Electricity Regulator of South Africa (NERSA).
- Water bulk tariff increases as approved by the Nelson Mandela Bay Metropolitan Municipality.
- Efficient revenue management, targeting an 85% annual collection rate for property rates and service charges, except for electricity which is 90%.
- Growth in the revenue base.

The aforementioned principles guided the annual increases in property rates and tariffs, charged to the consumer.

Property rates amounts to R 205650 million in the 2020/21 financial year and increases to R 227,810 million in 2022/23, representing 22.70% of the total operating revenue for the 2020/21 budget.

Services charges relating to electricity, water, sanitation, environmental management and refuse collection constitute the largest component of the revenue base, amounting to R 481,716 million in the 2020/21 financial year and increasing to R 543,902 million in 2022/23. For the 2020/21 financial year, services charges amount to 53.17% of the total revenue base.

Operational grants and subsidies amount to R 145,612 million, R 158,488 million and R 172,144 million for each of the respective financial years of the MTREF, or 16.07% of total operating revenue for 2020/21.

The table below provides investment particulars by type.

Table 19 (SA15 – Detail Investment Information)

Investment type	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
R thousand				
Parent municipality				
Securities - National Government				
Listed Corporate Bonds				
Deposits - Bank	76 328	47 099	75 679	109 890
Deposits - Public Investment Commissioners				
Deposits - Corporation for Public Deposits				
Bankers' Acceptance Certificates				
Negotiable Certificates of Deposit - Banks				
Guaranteed Endowment Policies (sinking)				
Repurchase Agreements - Banks				
Municipal Bonds				
Municipality sub-total	76 328	47 099	75 679	109 890
Entities				
Securities - National Government				
Listed Corporate Bonds				
Deposits - Bank				
Deposits - Public Investment Commissioners				
Deposits - Corporation for Public Deposits				
Bankers' Acceptance Certificates				
Negotiable Certificates of Deposit - Banks				
Guaranteed Endowment Policies (sinking)				
Repurchase Agreements - Banks				
Entities sub-total	–	–	–	–
Consolidated total:	76 328	47 099	75 679	109 890

Investments are anticipated to increase from R 47,099 million in 2020/21 to R 109,890 million in 2022/23.

2.6.2 Medium-term outlook: capital revenue

The following table provides a breakdown of the funding components of the 2020/21 medium-term capital programme:

Table 20 (Sources of capital revenue over the MTREF)

Vote Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Funded by:				
National Government	132 846	31 644	31 622	34 093
Provincial Government				
District Municipality	3 665	1 965	1 965	1 965
Other transfers and grants				
Transfers recognised - capital	136 511	33 610	33 587	36 058
Public contributions & donations				
Borrowing				
Internally generated funds	55 765	23 303	38 058	37 428
Total Capital Funding	192 276	56 912	71 646	73 485

The above table is graphically represented as follows for the 202021 financial year.

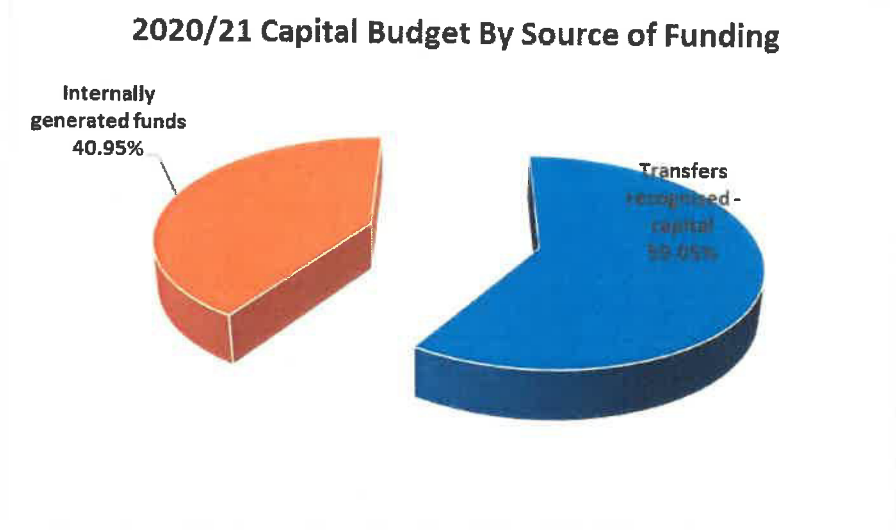

Figure 5 Sources of Capital Revenue for the 2020/21 financial year

Capital Grants constitute 59.05% of the total funding sources, amounting to R 33,610 million for the 2020/21 financial year and amounting to R 36,058 million or 49.07% in the 2022/23 financial year.
It is to be noted that no borrowing is planned for the 2020/21 MTREF, in view of financial affordability considerations.

The following table provides a detailed analysis of the Municipality's borrowings.

Table 21 (Table SA 17 - Detail of borrowings)

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
R thousands				
Parent municipality				
Annuity and Bullet Loans	16 354	6 747		
Total Borrowing	16 354	6 747	–	–

The following graph illustrates the outstanding borrowing for the 2020/21 to 2022/23 period:

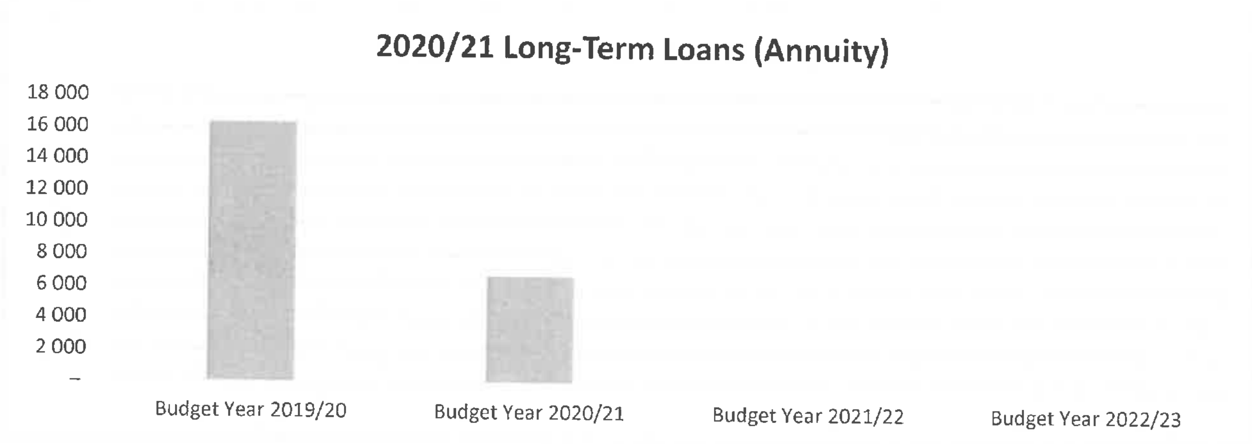

Figure 6 Growth in outstanding borrowing (long-term liabilities)

The following table indicates the capital transfers and grant receipts:

Table 22 (Table SA 18 - Transfers and grant receipts)

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
R thousands				
RECEIPTS:				
Operating Transfers and Grants				
National Government:	129 297	140 782	153 495	166 975
Local Government Equitable Share	124 938	136 649	150 022	163 410
Expanded Public Works Programme	1 000	1 054		
Local Government Financial Management Grant	1 770	1 500	1 770	1 770
Municipal Infrastructure Grant	1 589	1 579	1 703	1 795
Provincial Government:	2 050	2 050	2 050	2 050
Sports and Recreation	2 050	2 050	2 050	2 050
District Municipality:	1 765	2 780	2 943	3 120
Environment Health Subsidy	1 765	2 780	2 943	3 120
Total Operating Transfers and Grants	133 112	145 612	158 488	172 144
Capital Transfers and Grants				
National Government:	56 098	36 391	36 366	39 206
Integrated National Electrification Programme (Municipal Grant)	10 002	5 200	4 000	5 109
Municipal Infrastructure Grant	36 096	29 999	32 366	34 097
Municipal Disaster Relief Grant		1 192		
Water Services Infrastructure Grant	10 000			
District Municipality:	1 965	1 965	1 965	1 965
Fire Services Subsidy	1 965	1 965	1 965	1 965
Total Capital Transfers and Grants	58 063	38 356	38 331	41 172
TOTAL RECEIPTS OF TRANSFERS & GRANTS	191 175	183 968	196 819	213 316

2.6.3 Cash Flow Management

Cash flow management and forecasting is a critical step in determining whether the budget is funded over the medium-term. The table includes some specific features:

- Clear separation of receipts and payments within each cash flow category.
- Clear separation of capital and operating receipts from government; and
- Separation of borrowing and loan repayments (no set-off), to assist with MFMA compliance assessment regarding the use of long-term borrowing (debt).

Table 23 (Table A7 - Budgeted cash flow statement)

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Property rates	189 333	174 803	207 789	218 698
Service charges	434 214	424 039	491 362	522 146
Other revenue	37 344	53 022	43 817	45 694
Government - operating	133 725	145 612	158 488	172 144
Government - capital	56 455	38 356	38 331	41 172
Interest	25 832	18 957	20 795	21 924
Dividends		–	–	–
Payments				
Suppliers and employees	(813 149)	(815 350)	(852 120)	(913 136)
Finance charges	(2 201)	(1 388)	(716)	–
Transfers and Grants	(250)	(761)	(773)	(946)
NET CASH FROM/(USED) OPERATING ACTIVITIES	61 303	37 290	106 973	107 697
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts				
Proceeds on disposal of PPE	–	–	–	–
Decrease (Increase) in non-current debtors	–	–	–	–
Decrease (increase) other non-current receivables	3	–	–	–
Decrease (increase) in non-current investments	–	–	–	–
Payments				
Capital assets	(192 276)	(56 912)	(71 646)	(73 485)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(192 273)	(56 912)	(71 646)	(73 485)
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts				
Short term loans	–	–	–	–
Borrowing long term/refinancing	–	–	–	–
Increase (decrease) in consumer deposits	2 137	–	–	–
Payments				
Repayment of borrowing	(9 067)	(9 608)	(6 747)	–
NET CASH FROM/(USED) FINANCING ACTIVITIES	(6 929)	(9 608)	(6 747)	–
NET INCREASE/ (DECREASE) IN CASH HELD	(137 900)	(29 230)	28 580	34 211
Cash/cash equivalents at the year begin:	214 228	76 328	47 099	75 679
Cash/cash equivalents at the year-end:	76 328	47 099	75 679	109 890

For the 2020/21 MTREF, the cash and cash equivalents over the medium-term is anticipated to increase from R 47,099 million in 2020/21 million to R 109,890 million in 2022/23.

Table 24 (Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation)

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Cash and investments available				
Cash/cash equivalents at the year end	76 328	47 099	75 679	109 890
Other current investments > 90 days	–	–	–	–
Non-current assets - Investments	–	–	–	–
Cash and investments available:	**76 328**	**47 099**	**75 679**	**109 890**
Application of cash and investments				
Unspent conditional transfers	–	–	–	–
Unspent borrowing	–	–	–	–
Statutory requirements		–	–	–
Other working capital requirements	44 314	24 046	4 064	(6 320)
Other provisions	2 982	3 116	3 260	3 410
Long term investments committed	–	–	–	–
Reserves to be backed by cash/investments	–	–	–	–
Total Application of cash and investments:	**47 297**	**27 163**	**7 324**	**(2 910)**
Surplus(shortfall)	**29 032**	**19 936**	**68 355**	**112 800**

The underlying purpose of Table A8 is to reflect the predicted cash and investments that are available at the end of a particular budget year and how these funds were used. A surplus would indicate that sufficient cash and investments were available to meet commitments, whilst a shortfall would indicate inadequate cash and investments were available to meet commitments.

The available cash and investments amount to R 47,099 million in the 2020/21 financial year and increases to R 109,890 million in 2022/23. The following is a breakdown of the application of this funding:

- Unspent conditional transfers (grants) – no unspent grant funding is anticipated over the 2020/21 MTREF.

- There is no unspent borrowing from previous financial years.

- The main purpose of the other working capital requirements is to ensure that sufficient funds are available to meet commitments as and when they fall due. A key challenge is often the mismatch between the timing of receipts from debtors and payments due to employees and creditors. High levels of non-payment by debtors will result in a greater requirement for working capital, ultimately causing cash flow challenges.

- Current provisions relating to environmental clean-ups and rehabilitation of landfill sites have been provided for.

It is concluded that the Municipality's cash backed, and accumulated surpluses reconciliation reflects surpluses of R 19,936 million, R 68,355 million and R 112,800 million for the 2020/21, 2021/22 and 2022/23 financial years, respectively.

It is to be noted that the 2020/21 MTREF is funded, when considering the funding requirements of section 18 and 19 of the MFMA. The cost coverage ratio is, however, 0.7 months, 1.1 months and 1.5 months for the 2020/21, 2021/22 and 2022/23 financial years, respectively.

2.6.5 Funding Compliance Measurement

National Treasury requires the Municipality to assess its financial sustainability against the different measures outlined below.

Description	MFMA section	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
		Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Funding measures					
Cash/cash equivalents at the year-end - R'000	18(1)b	76 328	47 099	75 679	109 890
Cash + investments at the yr end less applications - R'000	18(1)b	29 032	19 936	68 355	112 800
Cash year end/monthly employee/supplier payments	18(1)b	1.2	0.7	1.1	1.5
Surplus/(Deficit) excluding depreciation offsets: R'000	18(1)	(23 801)	(51 980)	13 328	9 459
Service charge rev % change - macro CPIX target exclusive	18(1)a, (2)	(6.0%)	(0.2%)	(0.0%)	(0.0%)
Cash receipts % of Ratepayer & Other revenue	18(1)a, (2)	94.7%	87.2%	95.3%	95.3%
Debt impairment expense as a % of total billable revenue	18(1)a, (2)	4.1%	13.0%	4.1%	4.1%
Capital payments % of capital expenditure	18(1)c;19	100.0%	100.0%	100.0%	100.0%
Borrowing receipts % of capital expenditure (excl. transfers)	18(1)c	0.0%	0.0%	0.0%	0.0%
Grants % of Govt. legislated/gazetted allocations	18(1)a		112.0%	111.3%	111.3%
Current consumer debtors % change - incr(decr)	18(1)a	(5.8%)	33.2%	8.2%	8.0%
Long term receivables % change - incr(decr)	18(1)a	(18.8%)	0.0%	0.0%	0.0%
R&M % of Property Plant & Equipment	20(1)(vi)	2.8%	1.7%	1.7%	2.3%
Asset renewal % of capital budget	20(1)(vi)	6.3%	10.9%	21.7%	6.6%

Below is a discussion of the different measures.

2.6.5.1 Cash/cash equivalent position

The forecasted cash and cash equivalents for the 2020/21 MTREF amounts to R 47,099 million, R 75,679 million and R 109,890 million for the respective financial years.

2.6.5.2 Cash plus investments less application of funds

For the 2020/21, 2021/22 and 2022/23 budgets, the available cash and investments exceed the application of funds by an amount of R 19,936 million, R 68,355 million and R 112,800 million respectively.

2.6.5.3 Monthly average payments covered by cash or cash equivalents

As part of the 2020/21 MTREF, the projected cash position causes the ratio to increase from 0.7 months to 1.5 months.

2.6.5.4 Surplus/deficit excluding depreciation offsets

For the 2020/21 MTREF the indicative outcome is a deficit of R 51,980 million, surplus of R 13,328 million and R 9,459 million respectively. This is made up as follows:

Description	Current Year 2019/20	2019/20 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
R thousands				
Surplus/(Deficit)	(80 256)	(90 337)	(25 002)	(31 712)
Transfers and subsidies - capital	56 455	38 356	38 331	41 172
Total	(23 801)	(51 980)	13 328	9 459

It needs to be noted that a surplus does not necessarily mean that the budget is funded from a cash flow perspective, and therefore the first two measures in the table are critical.

2.6.5.5 Property Rates/service charge revenue as a percentage increase less macro inflation target

This is calculated by deducting the maximum macro-economic inflation target (which is currently 4.5%), so as to determine the real increase in revenue. The percentage growth totals -0.2%, 0.0% and 0.0% for the respective financial years of the 2020/21 MTREF.

2.6.5.6 Cash receipts as a percentage of ratepayer and other revenue

The outcome is approximately 87.2% for the 2020/21 and 95.3% each of the respective two outer years of the 2020/21 MTREF.

2.6.5.7 Debt impairment expense as a percentage of billable revenue

The provision has been set at 15% for property rates and services, except for electricity which is 10% for the 2020/21 and 4% each of the respective two outer years of the 2020/21 MTREF, in line with the revenue collection trends.

2.6.5.8 Capital payments percentage of capital expenditure

The purpose of this measure is to determine whether the timing of payments has been taken into account in forecasting the cash position.

2.6.5.9 Borrowing as a percentage of capital expenditure (excluding transfers, grants and contributions)

No borrowing has been planned for the 2020/21 MTREF.

2.6.5.10 Transfers/grants revenue as a percentage of Government transfers/grants available

The purpose of this measurement is mainly to ensure that all available transfers from national and provincial government have been budgeted for. All transfers are included in the budget.

2.6.5.11 Repairs and maintenance expenditure level

The expenditure constitutes 1.7%, 1.7% and 2.3% of Property, Plant and Equipment respectively, over the 2020/21 MTREF, whilst National Treasury has suggested an 8% level.

2.7 EXPENDITURE ON ALLOCATIONS AND GRANT PROGRAMMES

GRANTS RECEIVED

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
R thousands				
RECEIPTS:				
Operating Transfers and Grants				
National Government:	129 297	140 782	153 495	166 975
Local Government Equitable Share	124 938	136 649	150 022	163 410
Expanded Public Works Programme	1 000	1 054		
Local Government Financial Management Grant	1 770	1 500	1 770	1 770
Municipal Infrastructure Grant	1 589	1 579	1 703	1 795
Provincial Government:	2 050	2 050	2 050	2 050
Sports and Recreation	2 050	2 050	2 050	2 050
District Municipality:	1 765	2 780	2 943	3 120
Environment Health Subsidy	1 765	2 780	2 943	3 120
Total Operating Transfers and Grants	133 112	145 612	158 488	172 144
Capital Transfers and Grants				
National Government:	56 098	36 391	36 366	39 206
Integrated National Electrification Programme (Municipal Grant)	10 002	5 200	4 000	5 109
Municipal Infrastructure Grant	36 096	29 999	32 366	34 097
Municipal Disaster Relief Grant		1 192		
Water Services Infrastructure Grant	10 000			
District Municipality:	1 965	1 965	1 965	1 965
Fire Services Subsidy	1 965	1 965	1 965	1 965
Total Capital Transfers and Grants	58 063	38 356	38 331	41 172
TOTAL RECEIPTS OF TRANSFERS & GRANTS	191 175	183 968	196 819	213 316

GRANTS EXPENDITURE

GRANTS RECONCILIATION

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
R thousands				
EXPENDITURE ON TRANSFERS AND GRANT PROGRAM:				
Operating expenditure of Transfers and Grants				
National Government:	129 297	140 782	153 495	166 975
Local Government Equitable Share	124 938	136 649	150 022	163 410
Expanded Public Works Programme	1 000	1 054		
Local Government Financial Management Grant	1 770	1 500	1 770	1 770
Municipal Infrastructure Grant	1 589	1 579	1 703	1 795
Provincial Government:	2 050	2 050	2 050	2 050
Sports and Recreation	2 050	2 050	2 050	2 050
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Municipal Disaster Relief Grant		1 192		
Water Services Infrastructure Grant	10 000			
District Municipality:	1 965	1 965	1 965	1 965
Fire Services Subsidy	1 965	1 965	1 965	1 965
Total Capital Transfers and Grants	58 063	38 356	38 331	41 172
TOTAL EXPENDITURE OF TRANSFERS & GRANTS	191 175	183 968	196 819	213 316

2.8 ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY

The table below reflects the grants and allocations made by the Municipality. It includes grants-in-aid made in accordance with the Municipality's grants-in-aid policy and transfers to entities and other organisations to primarily support their operational expenditure.

ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY

Description	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Cash Transfers to Entities/Other External Mechanisms				
Various Organisations	250	761	773	946
Total Cash Transfers To Entities/Ems'	250	761	773	946
TOTAL CASH TRANSFERS AND GRANTS	250	761	773	946
TOTAL TRANSFERS AND GRANTS	250	761	773	946

2.9 COUNCILLORS AND EMPLOYEE BENEFITS

DISCLOSURE OF SALARIES, ALLOWANCES & BENEFITS

Summary of Employee and Councillor remuneration	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2020/21	Budget Year2021/22	Budget Year 2022/23
Councillors (Political Office Bearers plus Other)				
Basic Salaries and Wages	8 403	8 781	9 185	9 607
Other benefits and allowances	4 660	4 870	5 094	5 328
Sub Total - Councillors	**13 063**	**13 651**	**14 279**	**14 936**
Senior Managers of the Municipality				
Basic Salaries and Wages	6 764	7 146	7 480	7 818
Other benefits and allowances	829	879	920	962
Sub Total - Senior Managers of Municipality	**7 593**	**8 025**	**8 400**	**8 780**
Other Municipal Staff				
Basic Salaries and Wages	191 746	219 432	228 837	243 817
Pension and UIF Contributions	29 339	31 286	33 362	33 362
Medical Aid Contributions	15 119	16 124	17 195	17 195
Overtime	27 259	20 000	20 920	21 882
Performance Bonus	–	–	–	–
Motor Vehicle Allowance	7 551	8 053	8 588	8 588
Cellphone Allowance	–	–	–	–
Housing Allowances	992	1 058	1 128	1 128
Other benefits and allowances	22 199	31 481	33 524	33 465
Payments in lieu of leave	18	19	20	20
Long service awards	1 403	1 496	1 595	1 595
Post-retirement benefit obligations	–	–	–	–
Sub Total - Other Municipal Staff	**295 626**	**328 949**	**345 169**	**361 052**
TOTAL SALARY, ALLOWANCES & BENEFITS	**303 219**	**336 974**	**353 569**	**369 833**
TOTAL MANAGERS AND STAFF	**303 219**	**336 974**	**353 569**	**369 833**

DISCLOSURE OF SALARIES, ALLOWANCES & BENEFITS

Disclosure of Salaries, Allowances & Benefits			
Rand per annum	Salary	Allowances	Total Package
Councillors			
Speaker	538 887	233 104	771 990
Chief Whip	505 207	221 451	726 658
Executive Mayor	673 610	280 314	953 924
Deputy Executive Mayor			–
Executive Committee	2 526 036	1 107 395	3 633 432
Total for all other councillors	4 537 025	3 027 795	7 564 820
Total Councillors	8 780 765	4 870 059	13 650 824
Senior Managers of the Municipality			
Municipal Manager (MM)	1 455 445	98 688	1 554 133
Chief Finance Officer	1 152 665	123 360	1 276 025
Director Infrastructure and Engineering	1 177 337	98 688	1 276 025
Director Corporate Services	1 177 337	98 688	1 276 025
Director Community Services	1 009 736	266 288	1 276 025
Director Planning, Development and Tourism	1 009 736	266 288	1 276 025
Total Senior Managers of the Municipality	6 982 255	952 001	7 934 256
TOTAL COST OF COUNCILLOR, DIRECTOR and EXECUTIVE REMUNERATION	15 763 020	5 822 060	21 585 080

2.10 MONTHLY TARGETS FOR REVENUE, EXPENDITURE AND CASH FLOW

MONTHLY CASH FLOWS	Budget Year 2020/21												Budget Year 2020/21
R thousand	July	August	Sept.	October	November	December	January	February	March	April	May	June	
Cash Receipts By Source													
Property rates	9 697	38 277	24 286	16 435	12 033	11 961	11 578	10 504	10 504	9 802	9 475	10 251	174 803
Service charges - electricity revenue	14 560	57 473	36 465	24 677	18 067	17 959	17 385	15 771	15 771	14 717	14 226	15 391	262 462
Service charges - water revenue	3 859	15 234	9 666	6 541	4 789	4 760	4 608	4 180	4 180	3 901	3 771	4 080	69 569
Service charges - sanitation revenue	2 525	9 968	6 325	4 280	3 133	3 115	3 015	2 735	2 735	2 553	2 467	2 669	45 522
Service charges - refuse revenue	2 579	10 179	6 459	4 371	3 200	3 181	3 079	2 793	2 793	2 607	2 520	2 726	46 486
Service charges - other	–	–	–	–	–	–	–	–	–	–	–	–	
Rental of facilities and equipment	226	894	567	384	281	279	270	245	245	229	221	239	4 083
Interest earned - external investments	722	2 850	1 808	1 224	896	890	862	782	782	730	705	763	13 013
Interest earned - outstanding debtors	330	1 302	826	559	409	407	394	357	357	333	322	349	5 944
Dividends received	–	–	–	–	–	–	–	–	–	–	–	–	–
Fines, penalties and forfeits	371	1 464	929	629	460	457	443	402	402	375	362	392	6 685
Licences and permits	1 149	4 536	2 878	1 948	1 426	1 417	1 372	1 245	1 245	1 161	1 123	1 215	20 714
Agency services	–	–	–	–	–	–	–	–	–	–	–	–	–
Transfer receipts - operational		48 199			48 199				48 537			677	145 612
Other revenue	1 195	4 717	2 993	2 025	1 483	1 474	1 427	1 294	1 294	1 208	1 168	1 263	21 540
Cash Receipts by Source	**37 214**	**195 092**	**93 200**	**63 072**	**94 375**	**45 901**	**44 433**	**40 309**	**88 847**	**37 615**	**36 361**	**40 014**	**816 433**
Other Cash Flows by Source													
Transfer receipts - capital		12 388			12 388				12 785			795	38 356
Total Cash Receipts by Source	**37 214**	**207 480**	**93 200**	**63 072**	**106 763**	**45 901**	**44 433**	**40 309**	**101 632**	**37 615**	**36 361**	**40 809**	**854 789**

MONTHLY CASH FLOWS	Budget Year 2020/21												Budget Year 2020/21
R thousand	July	August	Sept.	October	November	December	January	February	March	April	May	June	
Cash Payments by Type													
Employee related costs	26 472	26 472	26 472	26 472	39 472	26 472	26 472	26 472	26 472	26 472	26 472	32 782	336 974
Remuneration of councillors	1 138	1 138	1 138	1 138	1 138	1 138	1 138	1 138	1 138	1 138	1 138	1 138	13 651
Finance charges	77	304	193	130	96	95	92	83	83	78	75	81	1 388
Bulk purchases - Electricity	13 657	53 906	34 202	23 146	16 945	16 844	16 306	14 792	14 792	13 804	13 343	14 436	246 173
Bulk purchases - Water & Sewer	1 862	7 351	4 664	3 156	2 311	2 297	2 224	2 017	2 017	1 882	1 820	1 969	33 570
Other materials	1 446	5 706	3 620	2 450	1 794	1 783	1 726	1 566	1 566	1 461	1 412	1 528	26 059
Contracted services	3 348	13 215	8 385	5 674	4 154	4 130	3 998	3 626	3 626	3 384	3 271	3 539	60 352
Transfers and grants - other municipalities	–	–	–	–	–	–	–	–	–	–	–	–	
Transfers and grants - other	42	167	106	72	52	52	50	46	46	43	41	45	761
Other expenditure	5 468	21 585	13 695	9 268	6 785	6 745	6 529	5 923	5 923	5 527	5 343	5 780	98 571
Cash Payments by Type	**53 510**	**129 843**	**92 474**	**71 506**	**72 747**	**59 555**	**58 534**	**55 664**	**55 664**	**53 789**	**52 916**	**61 297**	**817 499**
Other Cash Flows/Payments by Type													
Capital assets	3 157	12 462	7 907	5 351	3 918	3 894	3 770	3 420	3 420	3 191	3 085	3 337	56 912
Repayment of borrowing	533	2 104	1 335	903	661	657	636	577	577	539	521	563	9 608
Other Cash Flows/Payments	–	–	–	–	–	–	–	–	–	–	–	–	
Total Cash Payments by Type	**57 200**	**144 409**	**101 716**	**77 760**	**77 326**	**64 107**	**62 940**	**59 661**	**59 661**	**57 519**	**56 521**	**65 198**	**884 019**
NET INCREASE/(DECREASE) IN CASH HELD	**(19 986)**	**63 070**	**(8 516)**	**(14 688)**	**29 437**	**(18 206)**	**(18 507)**	**(19 352)**	**41 971**	**(19 904)**	**(20 161)**	**(24 389)**	**(29 230)**
Cash/cash equivalents at the month/year begin:	76 328	56 343	119 413	110 897	96 208	125 646	107 439	88 933	69 581	111 552	91 648	71 488	76 328
Cash/cash equivalents at the month/year end:	56 343	119 413	110 897	96 208	125 646	107 439	88 933	69 581	111 552	91 648	71 488	47 099	47 099

MONTHLY CASH FLOWS	Medium Term Revenue and Expenditure Framework		
R thousand	**Budget Year 2020/21**	**Budget Year 2021/22**	**Budget Year 2022/23**
Cash Receipts By Source			
Property rates	174 803	207 789	218 698
Service charges - electricity revenue	262 462	297 457	316 048
Service charges - water revenue	69 569	84 151	90 126
Service charges - sanitation revenue	45 522	54 755	58 314
Service charges - refuse revenue	46 486	54 999	57 659
Service charges - other			
Rental of facilities and equipment	4 083	4 270	4 467
Interest earned - external investments	13 013	13 612	14 238
Interest earned - outstanding debtors	5 944	7 183	7 686
Dividends received	–	–	–
Fines, penalties and forfeits	6 685	6 993	7 314
Licences and permits	20 714	21 667	22 663
Agency services	–	–	–
Transfer receipts - operational	145 612	158 488	172 144
Other revenue	21 540	10 887	11 250
Cash Receipts by Source	**816 433**	**922 251**	**980 606**
Other Cash Flows by Source			
Transfer receipts - capital	38 356	38 331	41 172
Total Cash Receipts by Source	**854 789**	**960 582**	**1 021 778**

MONTHLY CASH FLOWS	Medium Term Revenue and Expenditure Framework		
R thousand	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
Cash Payments by Type			
Employee related costs	336 974	353 569	369 833
Remuneration of councillors	13 651	14 279	14 936
Finance charges	1 388	716	
Bulk purchases - Electricity	246 173	258 974	282 023
Bulk purchases - Water & Sewer	33 570	36 088	38 795
Other materials	26 059	26 270	31 398
Contracted services	60 352	61 674	69 279
Transfers and grants - other municipalities			
Transfers and grants - other	761	773	946
Other expenditure	98 571	101 266	106 872
Cash Payments by Type	**817 499**	**853 609**	**914 081**
Other Cash Flows/Payments by Type			
Capital assets	56 912	71 646	73 485
Repayment of borrowing	9 608	6 747	
Other Cash Flows/Payments			
Total Cash Payments by Type	**884 019**	**932 001**	**987 567**
NET INCREASE/(DECREASE) IN CASH HELD	**(29 230)**	**28 580**	**34 211**
Cash/cash equivalents at the month/year begin:	76 328	47 099	75 679
Cash/cash equivalents at the month/year end:	47 099	75 679	109 890

2.11 ANNUAL BUDGETS AND SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLANS –DIRECTORATES

In terms of section 53 (1)(c)(ii) of the MFMA, the Service Delivery and Budget Implementation Plan (SDBIP) constitutes a detailed plan for implementing the Municipality's delivery of services and its annual budget, which must include the following:

(a) Monthly projections of

- Revenue to be collected, by source; and
- Operational and capital expenditure, by vote.

(b) Service delivery targets and performance indicators for each quarter.

In accordance with Section 53 of the MFMA, the Executive Mayor is required to approve the SDBIP within 28 days after the approval of the budget. Furthermore, the Executive Mayor must ensure that the revenue and expenditure projections for each month and the service delivery targets and performance indicators, as set out in the SDBIP, are made public within 14 days after the approval of the SDBIP.

The SDBIP gives effect to the IDP and Budget of the Municipality. It includes the service delivery targets and performance indicators for each quarter, which forms the basis for the performance agreements of the Directors. It therefore facilitates oversight over the financial and non-financial performance of the Municipality and allows the Municipal Manager to monitor the performance of the Directors, the Executive Mayor/Council to monitor the performance of the Municipal Manager, and the Community to monitor the performance of the Municipality.

The SDBIP relating to the 2020/21 financial year will be approved by the Executive Mayor during July 2020, following the approval of the Budget.

2.12 LEGISLATION COMPLIANCE STATUS

The following reflects the status of implementation of some of the key MFMA areas:

IDP

A revised 2020/21 IDP has been developed, which was approved at a Council meeting to be held on 31 March 2020. The IDP includes specific deliverables that forms the basis for the Budget and SDBIP. The final version of the revised 2020/21 IDP will be considered at a Council meeting scheduled for 26 June 2020.

Budget

The draft annual budget document has been developed taking the MFMA and National Treasury (NT) requirements into account. Budgets are being tabled and approved within the required legislated timeframes.

Annual Report

The Annual Report has been developed taking the MFMA and NT requirements into account. The 2018/19 Annual Report was approved by Council on 26 March 2020.

Oversight Report

The Municipal Public Accounts Committee has considered the 2018/19 Annual report. Its Oversight Report was adopted at a Council meeting held on 26 March 2020.

In-Year Reporting

The municipality submits the various reports required to the Executive Mayor, Council, and NT on an ongoing basis, in accordance with the MFMA.

Supply Chain Management Policy (SCM)

A Supply Chain Management Policy has been adopted and implemented in accordance with the MFMA and NT requirements.

All the required committee structures are in place. Whilst the municipality is working at making these new processes operate more efficiently and effectively, it is considered that the municipality is currently complying with the MFMA and NT guidelines.

Budget and Treasury

A Budget and Treasury Office has been established in accordance with the MFMA and NT requirements, consisting of a CFO and municipal officials reporting to the CFO.

Audit Committee

An Audit Committee has been established and meets on a quarterly basis.

Internal Audit Function

The Municipality's Internal Audit Function reports to the Municipal Manager and is operating in accordance with an audit plan.

In relation to the 2020/21 financial year and beyond, the municipality plans to focus on the following high priority areas:

- Maintaining its unqualified audit status.
- Further strengthening of the integration and linkages between the IDP, Budget, SDBIP and Annual Report.

Internship Programme

The municipality has a total of five Interns on the Municipal Financial Management Internship programme, as approved by National Treasury.

Municipal Standard Chart of Accounts (mSCOA)

In accordance with the Municipal Regulations relating to mSCOA, municipalities were required to be compliant with the mSCOA classification framework by 1 July 2017. It is to be noted that the Municipality has been transacting on the mSCOA compliant financial system since July 2017.

2.13 CAPITAL EXPENDITURE DETAILS

A summary of the budgeted capital expenditure is reflected in **Annexure "C".**

2.14 MUNICIPAL MANAGER'S QUALITY CERTIFICATION

Quality Certificate

I, Mr. C Du Plessis, Municipal Manager of Kouga Municipality, hereby certify that the annual budget and supporting documentation 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 : Charl Du Plessis

Municipal Manager of Kouga Municipality (EC108)

Signature :

Date : 22/06/2020

ANNEXURE "C"

PROJECTS	Funding Source	Annual Budget 2020/21	Annual Budget 2021/22	Annual Budget 2022/23
CORPORATE SERVICES				
Biometric Systems	Internal	200 000	209 200	218 823
Computer Equipment	Internal	200 000	-	-
Computer Software and Applications	Internal	50 000	-	-
EDMS	Internal	799 455	-	-
Electronic Queing System	Internal	-	250 000	-
Fencing of municipal buildings	Internal	100 000	100 000	100 000
		1 349 455	**559 200**	**318 823**
EXECUTIVE & COUNCIL				
Computer Equipment	Internal	85 000	150 000	150 000
Furniture and Equipment	Internal	-	100 000	-
Ward Councillors' Capital Projects	Internal	750 000	750 000	750 000
		835 000	**1 000 000**	**900 000**
FINANCE				
Cibex Software	Internal	600 000	600 000	600 000
Computer Equipment	Internal	200 000	-	-
		800 000	**600 000**	**600 000**
PLANNING, DEVELOPMENT & TOURISM				
Commonage Land Agricultural Support	Internal	-	550 000	1 102 500
Computer Equipment	Internal	30 000	66 150	69 458
Computer Software and Applications	Internal	315 000	330 750	347 288
Furniture and equipment	Internal	-	430 500	452 025
Land acquisition housing projects	Internal	360 000	500 000	750 000
LED Project: Establishment of Business Support Centre (Ocean Vie	Internal	300 000	315 000	330 750
Tourism: Restoration of Fisherman Gravesite	Internal	100 000	105 000	-
Tourism: Upgrading / Renovation of the Phillips Tunnel	Internal	-	105 000	110 250
Vehicles	Internal	400 000	-	-
		1 505 000	**2 402 400**	**3 162 270**

PROJECTS	Funding Source	Annual Budget 2020/21	Annual Budget 2021/22	Annual Budget 2022/23
INFRASTRUCTURE & ENGINEERING				
Construct emergency overflow pond Koraal Sewer pump station	Internal	2 400 000	-	-
Fencing Kruisfontein waste water treatment plant	Internal	800 000	-	400 000
Fencing Mainsubstation Jeffrey's Bay	Internal	500 000	-	-
Fencing Sea Vista Reservoir	Internal	-	700 000	-
Generator 2	Internal	500 000	-	-
Humansdorp, Kruisfontein and Osean View Electrific	INEP	4 521 739	3 478 261	4 442 609
Machinery and Equipment	Internal	300 000	-	-
New by-pass sewer rising main and pump stations Jbay	Internal	1 000 000	6 000 000	11 000 000
New overheadlines 66kv overheadlines(Jbay to Melk	Internal	1 300 000	1 000 000	-
Patensie Sewage Package Plant	MIG	6 379 942	-	-
Piped Reticulation in St Francis	Internal	1 500 000	2 000 000	2 000 000
Repair leaking concrete water tower Paradise Beach	Internal	300 000	2 800 000	-
Replace 250mm Watermain Canal Rd, St Francis	Internal	1 000 000	1 000 000	-
Replace 250mm Watermain Mimosa Str Jbay	Internal	330 000	2 000 000	-
Replace main waterline Sout Rivier bridge crossing St Francis Bay	Internal	1 000 000	5 000 000	-
Retrofit oil circuit breakers Main substation Jeffrey's Bay	Internal	-	800 000	800 000
Saffery Substation	Internal	1 000 000	-	-
Security Cameras & Substation Security	Internal	200 000	1 000 000	-
Sewer pump station level monitoring	Internal	-	-	250 000
Upgrade Centerton sewer pump station	Internal	-	-	2 000 000
Upgrade Hankey water treatment works	Internal	600 000	5 000 000	9 450 000
Upgrade Loerie sewer pump station	Internal	1 600 000	-	-
Upgrade Sanitation System Old Hankey	MIG	7 902 794	15 652 174	17 036 336
Upgrade sewer rising mains Jbay (La Mer-4A-4B) Prep	Internal	1 000 000	-	-
Upgrading of Gravel Roads in Jeffreys Bay	MIG	7 890 511	8 270 189	8 166 090
Upgrading of Sports Facilities	MIG	3 912 926	4 221 593	4 447 487
		45 937 913	**58 922 218**	**59 992 522**

PROJECTS	Funding Source	Annual Budget 2020/21	Annual Budget 2021/22	Annual Budget 2022/23
COMMUNITY SERVICES				
Computer Equipment	Internal	30 000	63 000	66 150
Fencing community halls	Internal	-	1 050 000	1 102 500
Fencing of Cemeteries	Internal	-	825 000	903 750
Fencing of Yellow Woods	Internal	200 000	210 000	220 500
Furniture and equipment	Internal	-	210 000	220 500
Humansdorp Fire Station , Fencing	Internal	200 000	-	-
Jack Hammer and water pump	Internal	350 000	735 000	771 750
Machinery and Equipment	Internal	278 500	287 425	296 796
Security Cameras	Internal	750 000	1 000 000	1 000 000
skip bins	Internal	200 000	210 000	220 500
Upgrading of Pellsrus, Kabeljous, Cape St Francis	Internal	150 000	165 000	180 750
Vehicles	Internal	1 325 000	1 441 250	1 563 312
Vehicles	DISTR	1 965 100	1 965 100	1 965 100
Wheelie Bins	MDRG	1 036 522	-	-
		6 485 122	**8 161 775**	**8 511 608**
Capital Budget		**56 912 490**	**71 645 593**	**73 485 223**
Internally generated funds		23 302 955	38 058 275	37 427 601
Transfers recognised - capital		33 609 535	33 587 318	36 057 622
Total		**56 912 490**	**71 645 593**	**73 485 223**

NATIONAL TREASURY

MFMA Circular No. 98

Municipal Finance Management Act No. 56 of 2003

Municipal Budget Circular for the 2020/21 MTREF

CONTENTS

1. Introduction

The purpose of the annual budget circular is to guide municipalities with their compilation of the 2020/21 Medium Term Revenue and Expenditure Framework (MTREF). This circular is linked to the Municipal Budget and Reporting Regulations (MBRR); and strives to support the budget preparation processes of municipalities so that the minimum requirements of the MBRR promulgated in 2009 are achieved.

In 2010, the National Treasury introduced the local government budget and financial reform agenda. Since then several projects to further this agenda have been introduced. The recent implementation of the municipal Standard Chart of Accounts *(m*SCOA*)* and the accompanying "game changers" signals a smarter way forward to strengthening local government finances.

Among the objectives of this budget circular is to demonstrate how municipalities should undertake the annual budget preparation in accordance with the budget and financial reform agenda and the associated "game changers".

Municipalities are reminded to refer to the previous annual budget circulars for guidance on budget preparation issues that are not covered in this circular.

2. The South African economy and inflation targets

In the 2019 Medium Term Budget Policy Statement (MTBPS) tabled by the Minister of Finance on 30 October 2019, he stated that, he is tabling the 2019 MTBPS in a difficult global and domestic environment. The global growth forecast for 2019 is the lowest since the 2008 financial crisis, weighed down by mounting trade tensions and political uncertainty. Economic activity in two engines of the world economy, namely China and India, is also slowing this year. Policy makers have taken a number of steps to support growth, but there is a risk that these measures will create new vulnerabilities, as interest rates in advanced economies decline. About a quarter of government bonds in these countries have negative yields.

In South Africa, economic growth has continued to stagnate and weaknesses in the world economy are likely to amplify our own challenges. The discussion paper termed the Economic transformation, inclusive growth, and competitiveness released by the National Treasury has proposed a number of economic reforms that might boost GDP growth over the medium and longer term, and support increased investment and job creation. These measures have been broadly agreed on within government. The next step is to implement the reforms urgently. Nevertheless, the economy has continued to weaken with the economic growth projected to grow at 1.2 per cent in the 2020/21 financial year, while long term estimates have fallen prompting government to review its outer year's estimates.

In addition to low growth, South Africa's biggest economic risk is Eskom. Ongoing problems with the utility's operations continue to disrupt the supply of electricity to households and businesses. Government has allocated significant resources to assist Eskom. With the immediate financial restraints lifted, the focus must be on operational problems and restructuring Eskom into three separate entities. Doing so will mark the beginning of a transition to a competitive, transparent and financially viable electricity sector.

South Africa's public finances deteriorated over the past decade; a trend that accelerated in recent years as low growth led to large revenue shortfalls. For 10 years, the country has run large budget deficits. This has put us deeply in debt, to the point where interest payments have begun crowding out social and economic spending programmes. This cannot be sustained.

Government proposed a range of expenditure reductions to restore the public finances to a sustainable position, some of which are likely to be painful. We owe it to future generations to ensure that we are good stewards of our country's resources and that they do not have to pay for faults in our decision-making.

The following macro-economic forecasts must be considered when preparing the 2020/21 MTREF municipal budgets.

Table 1: Macroeconomic performance and projections, 2018 - 2022

Fiscal year	2018/19	2019/20	2020/21	2021/22	2022/23
	Actual	Estimate		Forecast	
CPI Inflation	4.7%	4.3%	4.9%	4.8%	4.8%

Source: Medium Term Budget Policy Statement 2019.

Note: the fiscal year referred to is the national fiscal year (April to March) which is more closely aligned to the municipal fiscal year (July to June) than the calendar year inflation.

3. Key focus areas for the 2020/21 budget process

3.1 Division of Revenue outlook

Municipal governments face multiple pressures over the period ahead with local government expected to expand access to free basic service to poor households, while ensuring that those who can afford to pay for services do so.

The 2020 MTEF includes large reductions in planned transfers to municipalities. The implication of these reductions is that municipalities will be required to reprioritise projects. Larger reductions in grants are mainly affecting urban municipalities which have the capacity to offset the effects of these cuts from their own revenue investments.

A notable revision is that of the Public Transport Network Grant (PTNG) which has funded 13 cities over the past decade, yet only six have launched operations. In the 2020 MTEF, the grant will be allocated only to 10 cities and these cities will be required to reduce their costs and to demonstrate their effectiveness to receive PTNG funding.

3.2 Local government conditional grants and additional allocations

The proposed division of revenue is still biased towards prioritising funding services for poor communities. Allocations to local government subsidise the cost of delivering free basic services to the less fortunate and the poorest of the poor households, and the infrastructure needed to deliver those services, as well as the maintenance of the infrastructure to ensure the sustainable delivery of these services.

The 2019 Medium Term Budget Policy Statement (MTBPS) projects transfers for local government for the 2020 MTREF at R397 billion, of which 62.2 per cent comprise unconditional allocations while the remainder is conditional grant funding. The allocations for local government over the medium term represent 8.6 per cent of non-interest expenditure and a slight decrease from the 8.9 per cent realised in the 2018 budget.

The equitable share and the allocation of the general fuel levy to local government constitutes unconditional funding. Municipalities are reminded that this funding allocation is formula driven and designed to fund the provision of free basic services to disadvantaged communities. Conditional grant funding must be utilised for the intended purpose within the timeframes, as specified in the annual Division of Revenue Bill. Monies not spent must be returned to the fiscus and requests for roll-overs will only be considered in extenuating circumstances.

The annual Division of Revenue Bill will be published in February 2020 after the budget speech by the Minister of Finance. The grant allocations will be specified in this Bill and municipalities must reconcile their budgets to the numbers published therein.

Municipalities are advised to use the indicative numbers presented in the 2019 Division of Revenue Act to compile their 2020/21 MTREF. In terms of the outer year allocations (2021/22 financial year), it is proposed that municipalities conservatively limit funding allocations to the indicative numbers as proposed in the 2019 Division of Revenue Act for 2021/22. The DoRA is available at http://www.treasury.gov.za/documents/national%20budget/2019/default.aspx

3.3 Changes to the structure of local government allocations

The local government equitable share formula has been updated to account for projected household growth, inflation and estimated increases in bulk water and electricity costs over the MTEF period.

Large urban municipalities continue to underinvest in infrastructure, primarily because of poor programme and project preparation practices, leading to long delays, higher costs and breakdowns in service delivery. While public and private capital funding is available, these weaknesses translate into low levels of effective demand from the municipalities.

To address these problems, from 2020/21 government will introduce dedicated grant funding for large urban municipalities. Eligible municipalities will receive co-financing on a declining basis over three years. Financing will be conditional on establishing a municipal project preparation fund and an infrastructure delivery management system, and achieving targets for programmes and projects under preparation. Funding for this new facility will be reprioritised from existing allocations to municipalities.

Government is also working with municipalities to increase their revenue raising potential. The Municipal Fiscal Powers and Functions Amendment Bill, which will be tabled shortly, will standardise the regulation of development charges. Development charges are the mechanism by which municipalities recover the capital costs of connecting new developments to infrastructure for water, roads, electricity and other services. Currently, these charges are frequently below cost, so municipalities effectively subsidise the provision of infrastructure to businesses and other developments, reducing their ability to subsidise infrastructure directly for lower-income residents.

The change could increase municipal revenues for capital spending by an estimated R20 billion a year. Several efforts are also under way to improve the effectiveness of transfers to rural municipalities. The possibility of using municipal infrastructure grant funds to buy waste management vehicles, which must be purchased through a contract facilitated by the National Treasury to minimise costs, is being investigated to expand services in rural areas. Funds may be reprioritised between water and sanitation grants to accelerate the completion of regional bulk water schemes.

The Department of Energy will complete an electrification master plan to guide the future allocation of funds between the Eskom, municipal, and non-grid components of the Integrated National Electrification Programme. The Department of Transport will establish a national database for all road traffic and condition data to inform the prioritisation and monitoring of road maintenance across all roads.

3.4 Addressing unfunded budgets in local government

A revised strategy to address municipal financial performance failures has been endorsed by the Budget Council and Budget Forum (the respective intergovernmental forums for provincial and local government finances). This strategy is based on an analysis of performance failures in governance, financial management, institutional capabilities and service delivery. As part of this strategy, municipalities must ensure that their budgets are adequately funded.

The number of councils adopting unfunded budgets, where realistically anticipated revenue is insufficient to cover planned spending sustainably, increased from 74 in 2016/17 to 126 in 2019/20. The National Treasury, alongside provincial treasuries, has provided extensive advice and support to ensure that municipalities plan affordable expenditure and collect all the revenue owed to them. All municipalities are able to table a funded budget. This is easier for transfer-dependent municipalities as they have more predictable revenue and can plan their spending accordingly.

The 126 municipalities with unfunded budgets were required to table special adjustments budgets to align their spending plans with projected revenues and ensure they have plans in place to pay their creditors (including Eskom and the water boards). Those municipalities that did not table funded adjustments budgets by 15 November 2019 had their December 2019 tranche of the local government equitable share withheld as the MFMA requires that a municipality must table a funded budget.

Municipalities who are finding it difficult to table funded and sustainable budgets should contact National or their respective provincial treasury for assistance to reprioritise their budgets.

3.5 Municipal Standard Chart of Accounts (*m*SCOA)

3.2.1 Release of Version 6.4 of the Chart

On an annual basis, the *m*SCOA chart is reviewed to address implementation challenges and correct chart related errors. Towards this end, Version 6.4 is released with this circular (see Annexure A). Version 6.4 of the chart will be effective from 2020/21 and must be used to compile the 2020/21 MTREF and is available on the link below:

http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Pages/default.aspx

3.2.2 Budgeting, transacting and reporting in an mSCOA environment

The *m*SCOA Regulations[1] prescribes the uniform recording and classification of municipal budget and financial information at a transaction level. All municipalities and municipal entities had to comply with the Regulations by 01 July 2017.

This standard classification framework enforces the link between planning (IDP) and the budget through the project segment and enables annual reporting and performance management linked to strategic service delivery objectives.

By now, all municipalities should:

- Have acquired, upgraded and maintain the hardware, software and licences required to be and remain *m*SCOA compliant;

[1] The Minister of Finance promulgated the Municipal Regulations on a Standard Chart of Accounts in government gazette Notice No. 37577 on 22 April 2014.

- Budget, transact and report on all six (6) legislated *m*SCOA segments and directly on the core financial system and submit the required data strings directly from this system to the Local Government Portal;
- Lock down the budget adopted by Council on the core municipal financial system before submitting the budget (ORGB) data string to the local government portal;
- Closed the core financial system at month-end as required in terms of the MFMA before submitting the monthly data string to the local government portal; and
- Generate regulated Schedules (A, B, C) directly from the core municipal financial systems.

If your municipality has not achieved the above level of implementation as yet, then the implementation of *m*SCOA in your municipality should be accelerated. Towards this end:

- A road map must be provided to the National and respective provincial treasury to indicate how the municipality will be become *m*SCOA compliant;
- The municipality's *m*SCOA Project Steering Committee (chaired by the Accounting Officer) must meet at least monthly (if not more often) to track the progress against the road map and take corrective action where required;
- The National Treasury (in the case of non-delegated municipalities) and respective provincial treasury (in the case of delegated municipalities) should be invited to the *m*SCOA Project Steering Committee meeting; and
- Progress against the road map should be presented at the Mid-Year Budget and Performance and Budget Benchmark engagements.

3.2.3 *Changing of the Core Financial System*

Municipalities are reminded to follow the required due diligence processes in terms of MFMA Circulars No. 80 and 93 and *m*SCOA Circulars No. 5 and 6 when they procure a core financial system.

In addition, if a municipality enters into a contract with a system vendor for the maintenance of the procured system that will impose financial obligations on the municipality beyond the three years covered in the MTREF budget, then the provisions of Section 33 of the MFMA should be adhered to.

Service level agreements (SLA) with system vendors must also be managed properly. Penalties, including the termination of the SLA in cases of persistent non-compliance, should be imposed if the agreed upon milestones are not met by the system vendor. Likewise, if a system vendor has delivered on the services agreed upon in the SLA, then the municipality should pay all money owing to the system vendor within 30 days of receiving the relevant invoice or statement, as per the requirements of Section 65(2)(e) of the MFMA.

The National Treasury will conduct independent audits on all municipal core financial systems in 2020 to determine to what extend these systems comply with the functionality requirements and 15 business processes required in terms of *m*SCOA. These results will also inform the new transversal tender for the procurement of municipal financial and internal control systems in 2021. Until these audits have been concluded and the results have been released, municipalities should exercise caution when changing their financial system to avoid purchasing a system that do not comply with the necessary *m*SCOA functionality requirements.

Municipalities are advised to use their internal audit function to ensure that the correct process was followed. Internal audit must ensure that the municipality has complied with the requirements of MFMA Circulars No. 80 and 93, *m*SCOA Circulars No. 5 and 6 and Section 33 of the MFMA when they procure a core financial system and/or enter into an SLA with a system vendor. The reports on these matters of internal audit must be tabled to the audit committee and at municipal council for consideration.

3.2.4 Submission of Borrowing Monitoring and Investment Monitoring Data Strings

Chapter 3 of the *m*SCOA Regulations provides that the Minister of Finance may determine minimum business processes and system requirements through issuing a gazette. MFMA Circular No. 80 provided guidance on these requirements for all categories of municipality (A, B and C). The Request for Proposal (RFP) issued on 4 March 2016 for the appointment of service providers for an integrated financial management and internal control system for local government (RT25-2016 published in Tender Bulletin No. 2906), provided further guidance on the requirements applicable to a specific category of municipality.

It should be noted that National Treasury will expand the requirements applicable to categories B and C municipalities in 2020 to include business processes and system functionality relating to investment, borrowing or performance management. The expanded requirements will provide the basis for the new transversal contract for the appointment of service providers for an integrated financial management and internal control system for local government that might be issued in 2021, as well as the minimum business and system requirements that will be gazetted at a future date, as envisaged in the Regulation.

In the interim, categories B and C municipalities that have not procured investment, borrowing or performance management modules, will have to prepare and submit their quarterly Investment Monitoring and Borrowing Monitoring data strings to the Local Government Portal manually.

3.2.5 Cash Flow Reconciliation

The cash flow information presented on Table A7 of Budget Schedule A and Table B7 of Adjustments Budget Schedule B did not reconcile to the corresponding data strings for the past two financial years. One of the contributing factors to this was that there were errors in the linkages in the segment item: asset and liabilities on the Local Government Database. National Treasury has now corrected these linkages in the segment item: asset and liabilities.

It was further noticed that a number of municipalities do not use the movement accounts correctly in the *m*SCOA chart which distorts the figures reported in the cash flow tables. Guidance on the use of movement accounts is provided in **Annexure A**.

4. The revenue budget

Similar to the rest of government, municipalities face a difficult fiscal environment. Even as demand for services rises, weak economic growth has put stress on consumers' ability to pay for services, while transfers from national government are growing more slowly than in the past. Some municipalities have managed these challenges well, but others have fallen into financial distress and face liquidity problems. These include municipalities that are unable to meet their payment obligations to Eskom, water boards and other creditors. There is a need for municipalities to focus on collecting revenues owed to them, and eliminate wasteful and non-core spending. Municipal budgets will be scrutinised to ensure that municipalities adequately provide to service their debt obligations. Municipalities must ensure that expenditure is limited to the maximum revenue collected and not spend on money that they do not have.

Municipalities are reminded that the local government equitable share allocation is mainly to fund the costs of free basic services and to subsidise the administrative costs of the smaller and more rural municipalities. The increasing unemployment and growth in the number of persons per household means that the revenue foregone in respect of free basic services will likely increase and it will become even more difficult to collect revenue. The household budget will be under pressure and trade-offs will be applied as it may be unaffordable to pay all household expenses with regularity.

National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality. The Consumer Price Index (CPI) inflation is forecasted to be within the upper limit of the 3 to 6 per cent target band; therefore, municipalities are required to ***justify all increases in excess of the* projected inflation target for 2020/21** in their budget narratives, and pay careful attention to the differential incidence of tariff increases across all consumer groups. In addition, municipalities should include a detail of their revenue growth assumptions for the different service charges in the budget narrative.

4.1 Maximising the revenue generation of the municipal revenue base

Reference is made to MFMA Circular No. 93, item 3.1. The emphasis is on municipalities to comply with Section 18 of the MFMA and ensure that they fund their 2020/21 MTREF budgets from realistically anticipated revenues to be collected. Municipalities are cautioned against assuming collection rates that are unrealistic and unattainable as this has been identified as a fundamental reason for municipalities not attaining their desired collection rates.

It is therefore essential that municipalities pay attention to reconciling the valuation roll data to that of the billing system to ensure that revenue anticipated from property rates are accurate. Municipalities are encouraged to undertake this exercise as a routine practice. The list of exceptions derived from this reconciliation will provide an indication of where the municipality may be compromising its revenue generation in respect of property rates. A further test would be to reconcile this with the deeds office registry. In accordance with the MFMA Circular No. 93, municipalities are once more requested to submit the required information to the National Treasury by no later than 7 February 2020.

The above information must be submitted on a CD or USB to the National Treasury, for attention:

For couriered documents
Ms Linda Kruger
National Treasury
40 Church Square
Pretoria, 0002

For posted documents
Ms Linda Kruger
National Treasury
Private Bag X115
Pretoria, 0001

4.2 Setting cost reflective tariffs

Cost reflective tariff setting is a requirement of Section 74(2) of the Municipal Systems Act, 2000 (Act No.32 of 2000) which states that tariffs must "*reflect the costs reasonably associated with rendering the service*". This is meant to assist municipalities to generate sufficient revenue to fully recover their costs, deliver services to customers sustainably and invest in infrastructure that promotes local economic development.

The starting point for sound tariff setting is a credible budget. A credible budget is one that ensures the funding of all approved items and is anchored in sound, timely and reliable information on expenditure and service delivery (FFC, 2011). Credible budgets are critical for local government to fulfil its mandate to sustainably provide services. **If the budget is not credible then tariffs will not result in financial sustainability even if they are set using a sound methodology.**

A credible expenditure budget reflects the costs necessary to provide a service efficiently and effectively:

- An *effective* budget is one that is adequate to deliver a service of the necessary quality on a sustainable basis.
- An *efficient* budget is one that delivers services at the lowest possible cost.

In many cases, municipal budgets have costs that are bloated in some areas (high governance and administration costs are one commonly cited example) but inadequate in other areas (inadequate allowance for maintenance is an example). This means that a budget may be both ineffective and inefficient. Before embarking on the tariff setting process, a municipality must assess its budget to determine its efficiency and effectiveness. Ideally, a budget should be zero-based, at least periodically. This would typically require an assessment of what infrastructure is in place and what is needed to operate and maintain this infrastructure.

There are several tools and methodologies to support municipalities in setting tariffs. The common observation is that these tools and methodologies are not aligned. This creates confusion on the approach to be applied. Research has further identified that many municipalities set tariffs through an incremental method and not a scientific method. As a result, many municipalities do not recover the cost of providing that service.

Against this background an exercise was undertaken to bring certainty when setting tariffs. A tool and guide has been developed by National Treasury for this purpose and caters for all categories of municipalities. It also assists those municipalities that lack credible data which is the corner stone for setting a proper tariff. The emphasis is on setting tariffs for the four trading services namely water, sanitation, electricity and solid waste. The methodology follows an approach to tariff setting consistent with existing methodologies developed by SALGA, the NERSA Cost of Supply Framework for electricity, and the DWS Norms and Standards for water services.

The National Treasury Municipal Costing Guide is available on the link below on the National Treasury website.

http://mfma.treasury.gov.za/Guidelines/Documents/Forms/AllItems.aspx?RootFolder=%2fGuid
elines%2fDocuments%2fMunicipal%20Costing%20Guide&FolderCTID=0x0120004720FD2D0 551AE409361D6CB3E122A08

Setting cost reflective tariffs is the start to improved budgeting and financial sustainability.

How will reducing Non-Revenue Water and Non-Revenue Electricity bring down the tariffs required?

Many municipalities have very high levels of Non-Revenue Water (NRW), and some also have high levels of Non-Revenue Electricity (NRE). NRW and NRE can be broken down into 'technical' and 'non-technical' losses*.

Technical losses are related to physical losses out of the system. In the case of water, this is due to pipe bursts and leakages or due to overflows on storage tanks. In the case of electricity, these are due to resistive losses and other similar effects. The cost of real losses sits in the bulk portion of the bulk purchases cost or if a municipality is performing the bulk water function internally, a portion of the costs associated with bulk water treatment and supply. If a municipality reduces its real losses, it will lose less water and electricity from the system and the cost of purchasing water and electricity or treating bulk water will be reduced.

Non-technical losses refer to losses due to theft or to metering inaccuracies. In these cases, there is no physical loss of water or electricity: someone is using the water or electricity and simply not paying for it. Reducing non-technical losses will have no effect on the cost of supplying a service but it will have an effect on the volumes sold. Since the tariff is calculated as the revenue required divided by the volume sold, increasing the volume sold will reduce the tariff required.

Reducing technical losses will thus reduce the tariffs required because the cost of supplying the service will be reduced. Reducing non-technical losses will reduce the tariffs required because the volumes sold will be increased.

Note that the International Water Association (IWA) uses the term 'real losses' and not technical losses, and 'apparent losses' in place of 'non-technical losses'.

4.3 Bulk electricity tariffs

Final electricity bulk price increases for 2020/21 are uncertain at this stage. Although the National Energy Regulator of South Africa (NERSA) has approved a Multi-Year Price Determination (MYPD) for the period from 1 April 2019 to 31 March 2022, Eskom has submitted an urgent application to the courts to revise the bulk tariffs allowed under the MYPD. In their most recent MYPD decision, NERSA allowed for tariff increases of 9.41 per cent in 2019/20, 8.1 per cent in 2020/21 and 5.22 per cent in 2021/22 (for national financial years). However, Eskom disagrees with the way NERSA accounted for the R23 billion per year in fiscal support from government in determining Eskom's allowable revenue for this MYPD period. Eskom has requested that the court to allow revised tariff increases of between
16.6 and 16.72 per cent in 2020/21 and 2021/22. The application has been made on an urgent basis, and a decision could be handed down as soon as early in February 2020.

The difference between municipal and national financial years means that in 2020/21, bulk tariff increases for municipalities will be slightly lower than the figures cited above for increases applicable in the national financial year. NERSA has not yet published guidance on the exact tariffs for the 2020/21 municipal financial year. National Treasury's advice to municipalities is to prepare scenarios for electricity bulk price increases in 2020/21 of between about 7 per cent and 15 per cent (to account for the difference in financial years and the potential outcomes of the court case).

Municipalities should also note that if a court decision is made in February 2020 to allow a higher bulk electricity tariff increase, the decision is likely to be too late for National Treasury to make any changes to the equitable share allocations which will be tabled in the Division of Revenue Bill on 19 February 2020.

4.4 Levying of surcharges

Municipal Surcharges are regulated through the Municipal Fiscal Powers and Functions Act (MFPFA) and Local Government Municipal Systems Act (MSA). Section 8 of the MFPFA gives power to the Minister of Finance to prescribe compulsory national norms and standards for imposing "municipal surcharges". Municipal surcharges are defined as: "a charge in excess of the municipal base tariff that a municipality may impose on fees for a municipal service provided by or on behalf of a municipality, in terms of section 229(1)(a) of the Constitution;".

Section 75A of MSA empowers municipalities to "levy and recover fees, charges or tariffs in respect of any function or service of the municipality". Municipalities must also adopt and implement a tariff policy on the levying of fees for municipal services in terms of section 74 of the Systems Act. The tariff policy should then guide the exercise of power given under section 75A. In section 74(2)(f) the Act provides that the tariff policy must reflect at least the following principles:

4 *"provision may be made in appropriate circumstances for a surcharge on the tariff for a service;".*

Furthermore, Section 9 of the MFPFA requires a municipality to comply with processes in section 75A (2), (3) and (4) of the Systems Act in levying a surcharge.

In terms of the process, the Minister of Finance determines the norms and standards that municipalities must comply with in the exercise of their powers in terms of section 75A of the Systems Act. Approval for surcharges is done by the municipality in terms of section 75A of the Systems Act but subject to the norms and standards prescribed by the Minister of Finance in terms of the MFPFA.

The Minister of Finance has not yet prescribed the norms and standards (the power to prescribe is discretionary). The absence of norms and standards does not prevent municipalities from including surcharges in their tariffs as the power to impose a surcharge is given in the Municipal Systems Act. However, if a municipality decide to levy a surcharge, an approval is done by the municipal council in terms of section 75A of the Municipal Systems Act which gives power to municipalities to levy and recover fees, charges or tariffs in respect of any function or service of the municipality.

A surcharge is normally treated as part of the tariff. When a municipality determines a base tariff, it can include a surcharge (added as a separate variable). The municipal base tariff and a surcharge (if applicable) collectively becomes the tariff for a municipal service (such as electricity). The collective tariff must be approved by the municipal council and published for public comments in terms of section 75A of the Municipal Systems Act (MSA). It must also be subjected to the prescribed budget processes in terms of the MFMA.

In the case of electricity, NERSA only approves the base tariff. However, the final tariff that is published for public comments in terms of MSA and MFMA should include the surcharge if the municipality opted to levy it and is approved by the municipal council.

5. Funding choices and Budgeting issues

The Circular clearly outlines that, as a result of the economic landscape and weak tariff setting, municipalities are under pressure to generate revenue. The ability of customers to pay for services is declining and this means that less revenue will be collected. Therefore, municipalities must consider the following when compiling their 2020/21 MTREF budgets:

- improving the effectiveness of revenue management processes and procedures;
- paying special attention to cost containment measures by, amongst other things, controlling unnecessary spending on nice-to-have items and non-essential activities as per the Cost Containment Regulations that was issued on 07 June 2019;
- ensuring value for money through the procurement process;
- the affordability of providing free basic services to all households; and

- curbing consumption of water and electricity by the indigents to ensure that they do not exceed their allocation.

Accounting officers are reminded of their responsibility in terms of section 62(1)(a) of the MFMA to use the resources of the municipality effectively, efficiently and economically. Failure to do this will result in the accounting officer committing an act of financial misconduct which will trigger the application of chapter 15 of the MFMA read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings promulgated on 30 May 2014.

5.1 Employee related costs

The *Salary and Wage Collective Agreement* for the period 01 July 2018 to 30 June 2021 is still in operation, therefore municipalities need to budget for their employee related costs in line with the multi-year wage agreement, and also ensure the agreement is correctly implemented and applied as per clauses of the agreement.

5.2 Remuneration of councilors

Municipalities are advised to budget for the actual costs approved in accordance with the Government Gazette on the Remuneration of Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published annually between December and January by the Department of Cooperative Governance. Any overpayment to councillors contrary to the upper limits as published by the Minister of Cooperative Governance and Traditional Affairs will be irregular expenditure in terms of section 167 of the MFMA and must be recovered from the councillor(s) concerned.

5.3 Budgeting for water under inventory

GRAP 12, paragraph .07 defines inventory as follows:

"Inventories are assets:
(a) in the form of materials or supplies to be consumed in the production process,
(b) in the form of materials or supplies to be consumed or distributed in the rendering of services,
(c) held for sale or distribution in the ordinary course of operations, or
(d) in the process of production for sale or distribution."

In terms of this definition water should be treated as inventory and should be budgeted and accounted for accordingly. Annexure B to MFMA Circular No. 70 (Municipal Budget Circular for the 2014/15 MTREF) included guidance on the treatment of non-revenue water and electricity. To date the National Treasury has allowed municipalities to either budget for bulk purchasing of water as a direct expense in the Statement of Financial Performance as an interim measure or to account for water under inventory.

Municipalities were cautioned in MFMA Circular No. 93 for the 2019/20 MTREF that the A1 Schedule for the 2020/21 MTREF will be amended in line with the prescripts of GRAP 12. The draft amendments to the A1 Schedule to cater for water under inventory in line with GRAP 12 is attached to the budget circular as **Annexure B**. The amendments are circulated for comments and will be implemented with effect from the 2021/22 MTREF.

In terms of the *m*SCOA definition ***"Inventory consumed water"*** water stock should be treated as follows:

Water stock must be accounted for as inventory. This will include water purchased and not yet sold at reporting date insofar as it is stored (controlled) in reservoirs and pipes at year end. Water stock also includes any water purification costs incurred for non-purchased water. Pre-purified, non-purchased water should not be capitalised as part of inventory. The cost of water *purchased and not yet sold at reporting comprises the purchase price, import duties, and other taxes (other than those subsequently recoverable by the municipalities from the taxing* *authorities, such as VAT) and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Importantly, trade discounts, rebates and other similar items are deducted in determining the costs of purchase.*

Substantial changes to the A1 schedule were required to accommodate this approach to account for water under inventory.

5.4 Budgeting for debt impairment in *m*SCOA

Municipalities are incorrectly using the line item for bad debts written-off under the Item Expenditure segment when budgeting for debt impairment. It should be highlighted that bad debts written-off is not the same as debt impairment. Debt impairment is the provision that the municipality makes for non-payment while bad debt written-off is the irrecoverable debts written off during the financial year as approved by Council per type of service. Therefore, municipalities are advised to use impairment loss under the Item Gains and Losses segment for debt impairment. This provides a breakdown for the different categories that can be impaired, for example, trade and other receivables from exchange transactions: water.

6. Conditional Grant Transfers to Municipalities

6.1 Non-compliance of in year monitoring

In terms of Section 74(1) of the Municipal Finance Management Act, 2003 (Act No. 56. of 2003) (MFMA), municipalities must submit to the transferring officers, National and Provincial treasuries documents and monthly grant reports as may be prescribed or required. Furthermore, section 12(2) of the Division of Revenue Act, 2019 (Act No. 16 of 2019) (DoRA) states that the municipality, as part of the report required in terms of section 71 of the MFMA, report on the matters referred to in subsection (4) and submit a copy of that report to the relevant provincial treasury, the National Treasury and the relevant Transferring Officer.

There are municipalities that have not been complying with the reporting requirements as stipulated above. Municipalities are reminded that non-submission of monthly reports translates to non-compliance with the MFMA and DoRA. The National Treasury and Transferring Officer will be implementing stringent measures to municipalities that do not comply with the prescripts. This includes, but is not limited to, the stopping and reallocation of conditional grants funding away from municipalities that are non-compliant. Municipalities are encouraged to comply with the reporting requirements in order to avoid withholding or stopping of an allocation. Reporting for conditional grants will also be extended in future to include the information from National Transferring Officers in the *m*SCOA format.

In terms of performance reporting on conditional grants, municipalities and Transferring Officers are urged to pay particular attention to the contents of money spent against conditional grants. Government is not realizing full value for money against the substantial investments it makes through grants. While financial reporting has become a routine matter on reporting, output/outcome based reporting has become important and it requires attention by all stakeholders. Workshops must be initiated across all government institutions to ensure value for money on conditional grants.

6.2 Stopping and reallocation in terms of the Division of Revenue Act

National Treasury as part of its in-year monitoring on conditional grants has through the Minister of Finance approved requests from the transferring officers to publish a gazette on stopping and reallocations between grants early in the beginning of the year, 2019/20. The gazette addresses shifting of allocations from underperforming local municipalities to their respective district municipalities, correction of errors against allocations made during the main budget and the conversion of allocations between schedules.

5 Integrated National Electrification Programme

The Department of Energy (DoE) is stopping and re-allocating funds from the Masilonyana Local Municipality (LM) to Lejweleputswa District Municipality (DM) under the Integrated National Electrification Programme (INEP 5B). The Masilonyana LM and the Lejweleputswa DM have entered into a Memorandum of Understanding wherein it was agreed that the district municipality will implement the electrification project on behalf of the local municipality with the assistance of the Municipal Infrastructure Support Agent (MISA) to verify the work done.

6 Conversion of allocations

According to Section 21(2)(a) of the 2019 DoRA, National Treasury may, after consultation with the relevant transferring officer, receiving officer and provincial treasury, convert any portion of an allocation listed in Part B of Schedule 5 to one listed in Part B of Schedule 6 if it is satisfied that the conversion shall prevent under-expenditure or improve the level of service delivery in respect of the allocation in question or convert any portion of an allocation listed in Part B of Schedule 6 to one listed in Part B of Schedule 5.

7 Neighbourhood Development Partnership Grant

The Neighbourhood Development Partnership Programme within the National Treasury is converting funds under the Neighbourhood Development Partnership Grant (NDPG) due to anticipated underspending. The 2019/20 NDPG 5B allocations for West Rand DM and Emfuleni LM will be converted from Part B of Schedule 5 to Part B of Schedule 6.

8 The Municipal Emergency Housing Grant

An amount of R149.1 million is allocated to Eastern Cape and KwaZulu-Natal municipalities after the Department of Human Settlements (DHS) declared a disaster in municipalities in these provinces. The allocation is done through the Municipal Emergency Housing Grant (MEHG) for the emergency relief to fund the temporary shelters following various disaster incidents namely fire and severe rain that caused damages and affected home owners. Funding for the MEHG remains unallocated in the Division of Revenue Act it only gets allocated upon disaster declaration.

9 Correction of errors in the Division of Revenue Act

According to Section 16(2) of the 2019 DoRA, for purposes of correcting an error or omission in an allocation or framework published, the National Treasury must on its initiative and after consultation with the relevant transferring officer by notice in the Gazette amend the affected allocation or framework.

The Magareng, Emthanjeni and Prince Albert local municipalities in the Northern Cape and Western Cape province respectively had their 2019/20 MIG erroneously allocated in the Section 16 gazette. The MIG allocation for the Prince Albert LM did not take into account the final sport allocation of R3.6 million which was allocated to the Magareng (R2 million) and the Emthanjeni (R1.6 million) local municipalities.

6.3 Invoice Verification against conditional grant expenditure/ Cost reimbursement

National Treasury has over the past two years introduced a system of monitoring all invoices that are paid by municipalities against the transferred conditional grants. The process involves a team of various stakeholders to be periodically placed in municipalities and facilitate verification on all issued invoices to check whether the work done is compliant to the conditional grant framework. This initiative was necessitated by the extent of unauthorized, irregular and unrecognized expenditure that was being recorded by municipalities through the Auditor General's report. This process will also reduce and ultimately seek to eliminate the extent of misuse of conditional grant allocations.

A selected number of municipalities are earmarked on an annual basis to be supported through this process and transfers are only made to these municipalities once the team is satisfied after verification of the invoices has taken place. These processes assist against the transfer of funds for projects that are not ready for implementation, but at the same time recognizes municipalities that are spending well and incentivizes them for the good work.

Furthermore, in instances where a local municipality is unable to deliver the current year's projects, this process allows for the funds be rechanneled through their district municipalities as part of the District Development Model launched in November 2019. The District Development Model allows for government to allocate funding to the district for implementation on behalf of the local municipality until such time that capacity is built within the local municipality to implement projects on their own.

A process map for invoice verification/or cost reimbursement is attached as **Annexure C**.

7. Preparation of Municipal Budgets for 2020/21 MTREF

7.1 Schedule A1 version to be used for the 2020/21 MTREF

National Treasury has released Version 6.4 of the Schedule A1 (the Excel Formats) which is aligned to Version 6.4 of the *m*SCOA classification framework and must be used when compiling the 2020/21 MTREF budget. Refer to Annexure B for the changes to this version of the Schedule A1.

ALL municipalities **MUST** prepare their 2020/21 MTREF tabled and adopted budgets using the A1 schedule version 6.4.

It is imperative that all municipalities prepare their 2020/21 MTREF budgets **in their financial systems and that the Schedule A1 be produced directly from their financial system.** Vendors have demonstrated their budget modules to the National Treasury and provincial treasuries. All financial systems have this functionality to assist and prepare budgets and to generate the prescribed Schedule A1 directly from the financial system. Therefore, there is no reason why the 2020/21 MTREF budget must be done manually which has been found to create alignment problems.

Municipalities **must** start early enough to capture their tabled budget (and later the adopted budget) in the budget module provided and **must** ensure that they produce their Schedule A1 directly out of the budget module.

Ultimately the aim is to get to a point where all municipalities budget and transact directly in and report from their core financial system. This will result in one version of the '**truth**' where the financial performance reported to Council will not differ from the financial performance information submitted to and published by National and provincial treasuries. This will also

The National Treasury has indicated in MFMA Circular No. 93 that in future all A1 Schedules must be submitted in PDF format only. Some vendors have expressed concerns regarding the layout of some of the worksheets and the presentation thereof in PDF. Given the fact that the *m*SCOA classification framework makes it possible to generate the financial data required in the A1 schedule directly from the data strings and to promote the *m*SCOA approach for additional data needed and prescribed in the MBRR from sub-systems, the National Treasury will only accept a prescribed data string containing the supporting data, populated and uploaded by each municipality (refer to the attachment to this MFMA Budget Circular No 98 on the website for the layout of the data string) from the **2020/21 MTREF**. The publication in the 2020/21 MTREF of non-financial data will be done using the supporting data uploaded from these data strings.

The National Treasury will no longer gather supporting data from the MBRR A1 Schedules, but will expect each municipality to submit the prescribed supporting data strings containing the required data using the LG Upload Portal.

The detail of supporting data strings is available as attachments to this circular.

Version 6.4 of Schedule A1 is available on the following link and is accompanied a comparison between mSCOA vs 6.3 and vs 6.4, highlighting changes made.

http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Pages/default.aspx

The Municipal Budget and Reporting Regulations, formats and associated guides are available on National Treasury's website at:
http://mfma.treasury.gov.za/RegulationsandGazettes/Pages/default.aspx

7.2 Assistance with the compilation of budgets

If municipalities require advice with the compilation of their respective budgets, specifically the budget documents or Schedule A1, they should direct their enquiries to their respective provincial treasuries or to the following National Treasury officials:

Province	Responsible NT officials	Tel. No.	Email
Eastern Cape Buffalo City	Matjatji Mashoeshoe Mandla Gilimani	012-315 5553 012-315 5807	Matjatji.Mashoeshoe@treasury.gov.za Mandla.Gilimani@treasury.gov.za
Free State	Cethekile Moshane	012-315 5079	Cethekile.moshane@treasury.gov.za
Gauteng Johannesburg & Tshwane	Kgomotso Baloyi Kevin Bell Willem Voigt	012-315 5866 012-315 5725 012-315 5830	Kgomotso.Baloyi@treasury.gov.za Kevin.Bell@treasury.gov.za WillemCordes.Voigt@treasury.gov.za
KwaZulu-Natal eThekwini	Kgomotso Baloyi Johan Botha Una Rautenbach Abigail Maila	012-315 5866 012-315 5171 012-315 5700	Kgomotso.Baloyi@treasury.gov.za Johan.Botha@treasury.gov.za Una.Rautenbach@treasury.gov.za Abigail.Maila@treasury.gov.za
Limpopo	Willem Voigt Sifiso Mabaso	012-315 5830 012-315 5952	WillemCordes.Voigt@treasury.gov.za Sifiso.Mabaso@treasury.gov.za
Mpumalanga	Mandla Gilimani Musa Mnguni	012-315 5807 012 315 5072	Mandla.Gilimani@treasury.gov.za Musa Mnguni@treasury.gov.za
Northern Cape	Mandla Gilimani Phumelele Gulukunqu	012-315 5807 012 315 5539	Mandla.Gilimani@treasury.gov.za Phumelele.Gulukunqu@treasury.gov.za
North West	Willem Voigt Makgabo Mabotja	012-315 5830 012-315 5156	WillemCordes.Voigt@treasury.gov.za Makgabo.Mabotja@treasury.gov.za
Cape Town George	Kgomotso Baloyi Willem Voigt & Mandla Gilimani	012-315 5866 012-315 5830 012-315 5807	Kgomotso.Baloyi@treasury.gov.za WillemCordes.Voigt@treasury.gov.za Mandla.Gilimani@treasury.gov.za

Technical issues with Excel formats	Elsabe Rossouw	012-315 5534	lgdataqueries@treasury.gov.za

National and provincial treasuries, will undertake a completeness check on the data string submissions and will analyse the supporting data strings. Where municipalities have not provided complete supporting information, the municipality will be informed and will be required to make the necessary corrections and resubmit the data strings.

7.3 Verification process and period of 2020/21 MTREF budgets

As the *m*SCOA reporting requirements state that a budget must be locked into the financial system by latest 30 June before the start of the new municipal financial year, in the previous timeframes provided, there was no opportunity to evaluate the adopted budget to be funded and complete BEFORE the start of the municipal financial year. The traditional verification period from July to September can no longer be applied as the municipalities are already transacting against the adopted and locked budget. Amending an unfunded and incomplete budget in an adjusted budget is also not the solution as the National Treasury only considers an adjusted budget in the third and fourth quarter of the financial year for analysis and publication purposes.

The verification period of all municipal budget will therefore be brought forward to the period 31 May to 30 June. In this one-month period, the National and provincial treasuries will be required to evaluate all municipal budgets for completeness and for being fully funded. Any adjustment that need to be made must be done before the start of the municipal financial year on 1 July

Municipal managers are reminded that the annual budget must be accompanied by a quality certificate and council resolution, as well as a budget locking certificate (in the case of adopted budgets) in accordance with the format specified in Regulation 31 of Schedule A of the Municipal Budget and Reporting Regulations.

The National Treasury would like to emphasise that where municipalities have not adhered to the Municipal Budget and Reporting Regulations, ***they will be required to go back to the municipal Council and table a complete budget document aligned to the requirements of the Municipal Budget and Reporting Regulations and the Municipal Standard Chart of Accounts Regulations. In addition, where municipalities have adopted an unfunded budget, they will be required to correct the budget to ensure they adopt and implement a funded budget***.

Municipalities with municipal entities are once again reminded to prepare consolidated budgets and in-year monitoring reports for both the parent municipality and its entity or entities. The following must be compiled:

- An annual budget, adjustments budget and monthly financial reports for the parent municipality in the relevant formats;
- An annual budget, adjustments budget and monthly financial reports for the entity in the relevant formats; and
- A consolidated annual budget, adjustments budget and monthly financial reports for the parent municipality and all its municipal entities in the relevant formats.

The budget and data strings that the municipality submits to National Treasury must be a consolidated budget for the municipality (including entities). The budget of each entity must be submitted on the D schedule.

Annually during the budget verification process, it is noted that municipalities have challenges to align the audited years, which results in amendments to the Schedule A. Municipalities must ensure that the audited figures and adjusted budget figures captured on the Schedule A aligns to the annual financial statements and Schedule B respectively.

8. Budget process and submissions for the 2020/21 MTREF

8.1 Submitting budget documentation and schedules for 2020/21 MTREF

To facilitate oversight of compliance with the Municipal Budget and Reporting Regulations, accounting officers are reminded that:

- Section 22(b)(i) of the MFMA requires that, ***immediately*** after an annual budget is tabled in a municipal council, it must be submitted to the National Treasury and the relevant provincial treasury in electronic formats. If the annual budget is tabled to council on **31 March 2020**, the final date of submission of the electronic budget documents and corresponding *m*SCOA data strings is **Wednesday, 01 April 2020**.

Section 24(3) of the MFMA, read together with regulation 20(1) of the Municipal Budget and Reporting Regulations, requires that the approved annual budget must be submitted to both National Treasury and the relevant provincial treasury ***within ten working days*** after the council has approved the annual budget. E.g. if the council approves the annual budget on **29 May 2020**, given the new timeframe for the evaluation of the municipal budgets, the adopted budget data strings and documentation must be submitted by the latest **Monday, 1 June 2020**.

Municipalities are no longer expected to submit hard copies of budget related documents to National Treasury from the 2020/21 MTREF.

8.2 Expected submissions for 2020/21 MTREF

- The budget documentation as set out in the Municipal Budget and Reporting Regulations (MBRR). The budget document must include the main Tables (A1 - A10) and the supporting tables in the A1 schedule must be submitted in the prescribed *m*SCOA data string in the format indicated in an attachment as part of this circular.
- the draft and final service delivery and budget implementation plan in electronic PDF format;
- the draft and final integrated development plan;
- the council resolution for the tabled and adopted budgets;
- signed Quality Certificate as prescribed in the Municipal Budget and Reporting Regulations for the tabled and adopted budgets;
- schedules D specific for the entities; and
- A budget locking certificate immediately at the start of the new municipal financial year on 1 July.

Budget related documents and schedules must be uploaded by approved registered users using the LG Upload Portal at: https://lguploadportal.treasury.gov.za/.

Please note that the LG Upload Portal does not have the same size restrictions previously encountered but requires all documents to:

1. be in PDF format only; and
2. each PDF file must NOT contain multiple document e.g. council resolution and quality certificate within the budget document. Each document type must be identified and uploaded separately.

Any problems experienced in this regard can be addressed with Elsabe Rossouw at Elsabe.Rossouw@treasury.gov.za.

In addition to the above-mentioned budget documentation, metropolitan municipalities must submit the draft Built Environment Performance Plan (BEPP) tabled in council by 31 March 2020 to Yasmin.coovadia@treasury.gov.za. If the BEPP documents are too large to be sent via email (exceeds 4MB) please submit to yasmin.coovadia@gmail.com or send to Yasmin Coovadia via Dropbox; any problems experienced in this regard can be addressed with Yasmin.Coovadia@treasury.gov.za. Hard copies of the BEPP may be sent to Yasmin Coovadia, National Treasury, 3rd floor 40 Church Square, Pretoria, 0002 or Private Bag X115, Pretoria, 0001. (Yasmin to confirm if she still needs hard copies.)

8.3 Retirement of the Budget reform returns (Appendix B)

Municipalities must conclude all reporting for 2018/19 up to restated audit outcomes on the Appendix B (old electronic returns) to lgdatabase@treasury.gov.za before we can retire the returns.

Ensure that each municipality also submit the pre-audit and audited data strings in the *m*SCOA classification framework as data strings and that the figures are aligned to the Appendix B returns. Pre-audit and audited outcomes will only be submitted in the *m*SCOA data strings prescribed from 2019/20 onwards.

8.4 Publications from the *m*SCOA classification framework

The 2019 MTREF and the preliminary Quarter 1 Section 71 results for the 2019/20 financial year that has recently been published, have exposed that the credibility of the *m*SCOA data strings is a concern. At the core of the problem is:

- The incorrect use of the *m*SCOA and municipal accounting practices by municipalities;
- A large number of municipalities are not budgeting, transacting and reporting directly in/from their core financial systems. Instead they prepare their budgets and reports on excel spreadsheet and then import the excel spreadsheets into the system. Often this manipulation of data leads to unauthorised, irregular, fruitful and wasteful (UIFW) expenditure and fraud and corruption as the controls that are built into the core financial systems are not triggered and transactions are processed that should not be processed; and
- Municipalities are not locking their adopted budgets and their financial systems at month-end to ensure prudent financial management. To enforce municipalities to lock their budgets and close their financial system at month-end in 2020/21, the Local Government Database and Reporting System will lock all submission periods within the reporting period at the end of each quarter. The published period will NOT be opened again to ensure consistency between publications. System vendors were also requested to build this functionality into their municipal financial systems.

To improve the credibility of these data string, National and provincial treasuries are analysing the accuracy of the data strings and the use of the six regulated segments. The National Treasury has developed tools to analyse the segment/chart use and trained budget analysts from both National and provincial treasuries on the use thereof.

The data strings are also verified against the Council adopted budget (A1 Schedule), adjustments budget (B Schedule) and monthly performance against the budget (C Schedule) to ensure that these figures reconcile.

Quality improving focus areas for the 2020/21 MTREF:

- Pay specific attention to the funding of the capital budget and expenditure. The total capital expenditure must balance with the total funding used. Currently the expenditure is much higher than the funding reported.
- Opening balances, especially for capital projects, will always be DEFAULT projects as it will remain a system activity governed by council decision. In the current publications, capital expenditure is highly overstated due to incorrect use of opening balances for capital projects and presents a very inflated view of the actual capital expenditure.
- The cash flow data supplied by municipalities is not credible. This is partly due to the different ways in which the vendors treat actual cash collected but also is a result of the National Treasury not giving clear guidance on the procedures and processes to follow to get credible cash flow figures. In this budget circular signals have been given as to the treatments the National Treasury wants all municipalities to follow to get credible figures from the *m*SCOA data stings. The National Treasury will implement these guidelines in March 2020 in time for the receipt of the 2020/21 MTREF budget data strings. It will affect the third and fourth quarter Section 71 publications of 2019/20 as well.
- It is imperative that vendors assist municipalities to populate SA30 / SC30 when submitting cash flow figures. The detail that is required to ring fence functions and to determine actual cash collections are in the mentioned MBRR supporting worksheets and not in A7 / C7 which is a summarised version. When transferring payments made from sub-system to the general ledger, please ensure that these transfers are done using the prescribed 6 segments at the detailed level prescribed in SA30 / SC30.
- Municipalities are not using the FUND, REGION and COSTING segment correctly. In many instances these segments are simply defaulted and hence the true power of the *m*SCOA classification framework cannot be demonstrated.
- The National Treasury is currently developing Municipal Money Phase II. The first step is to interactively show all capital projects municipalities have budgeted for and are reporting on monthly to all citizens. It has become apparent that many municipalities are not using the correct GPS coordinates when reporting on the capital projects. Many are simply using the GPS coordinates of the municipal building or using 0 coordinates. Special attention must be given to the correct location and the proper description of projects as citizens will now be able to drill down and follow what is happening in their own wards.

8.5 Publication of budgets on municipal websites

In terms of section 75 of the MFMA, all municipalities are required to publish their tabled budgets, adopted budgets, annual reports (containing audited annual financial statements) and other relevant information on the municipality's website. This will aid in promoting public accountability and good governance.

All relevant documents mentioned in this circular are available on the National Treasury website, http://mfma.treasury.gov.za/Pages/Default.aspx. Municipalities are encouraged to visit it regularly as documents are regularly added / updated on the website.

Link to all previous circulars

K:\CD - LGBA\Municipalities\20. Budget Regulations\04. Budget Circulars\2020 MTREF

Contact

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JH Hattingh
Chief Director: Local Government Budget Analysis
06 December 2019

Annexure A – Cash Flow Reconciliation

The following movement accounts should only be used for cash inflow and outflow transactions:

Item Assets:

- *Collections:* Collections received pertaining to a respective account (example is collection on receivables from non-exchange (property rates) and non-exchange (service charges electricity) transactions.
- *Acquisitions:* Purchases of assets and other expenditure.
- *Disposal:* Sale of non-current assets (example land).
- *Earned:* Interest earned on a bank account.

Item Liabilities:

- *Receipts:* Current year receipts on transfer and subsidies.
- *Advances:* Advances taken for the year, example for borrowing.
- *Repayments:* Repayments for the year, example for borrowing.
- *Payments:* Payments made; example defined benefits.
- *Withdrawals:* Payments made, examples are for bulk purchases for electricity and bulk purchases water.

10 *Funding segment*

Most municipalities are transacting incorrectly on the funding segment and accordingly overstate the cash balances available per function (example energy sources (electricity), water management (water treatment) etc. for the payment of services.
The "Funding" segment in the financial system identifies the various sources of funding available to municipalities for financing expenditure relating to the operation of the municipality for both capital and operational expenditure.

The intent with the Funding segment is to assist municipalities in the management of available funds to use in running the municipality (working capital), capital expanding, maintenance programmes and operational projects intended for the benefit of the community. **The underlying principle in recording of transactions in this segment is therefore cash based or funds available to utilise.**

The key question in finding the appropriate classification code for this segment is: "against which source of funding is the payment allocated and against which source is revenue received?"

The primary sources of funding for a municipality are property rates, service charges, equitable share and own revenue. Further to these sources of revenue a municipality also spend funds transferred from other sectors within government, namely transfers and subsidies such as appropriated by national and provincial government in terms of the Division of Revenue Act (DORA). A further source of funds available for utilisation is "cash backed reserves" as directed by the municipality's financial policy on the utilisation of the reserves.

The projects as defined within the Project segment together with the "funding" and "Item" segments provide information on how funds have been spent and on what. The Funding segment's structure distinguishes between "Operational, Capital and Non-Funding Transactions".

Operational: Operational revenue provides for funds from all other sources of income such as taxes, service charges, commercial services, transfer and subsidies, etc.

Capital: Funds to finance capital projects.
Non-funding Transactions: This is items that does not relate to a cash transaction. Examples of non-funding transactions are:

- Billing for services on consumer accounts issued;
- Recording of invoices;
- Depreciation; and
- Debt provision.

Example 1: A municipality has issued a consumer account (billing) to a client for electricity consumption amounting to R100 in Ward X.

The transaction will be recorded as follows:

Segment	Dt	Cr
Project	Default	Default
Function	Function: Energy Sources: Non-core Function: Electricity	Function: Energy Sources: Non-core Function: Electricity
Item	Assets: Current Assets: Trade and other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Electricity: Monthly Billing	Revenue: Exchange Revenue: Service Charges: Electricity: Electricity Sales :Domestic Low: Conventional
Funding	Non funding transaction	Non funding transaction
Region	Ward X	Ward X
Costing	Default	Default
Amount	100	100

The monthly billing of a consumer does not relate to any cash inflow, the funding segment therefore a non-funding transaction.

Example 2: The client pays the municipality R100 on the consumer account received.

The transaction will be recorded as follows:

Segment	Dt	Cr
Project	Default	Default
Function	Function: Energy Sources: Non-core Function: Electricity	Function: Energy Sources: Non-core Function: Electricity
Item	Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Bank Account: Specify (replace with account description): Deposits	Assets: Current Assets: Trade and other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Electricity: Collections
Funding	Fund: Operational: Revenue: General Revenue: Service Charges: Electricity	Fund: Operational: Revenue: General Revenue: Service Charges: Electricity
Region	Ward X	Ward X
Costing	Default	Default
Amount	100	100

The payment received will be recorded as a cash inflow against revenue service charges electricity for the function electricity. The electricity function will now have R100 funding (cash inflow) available for the payment of expenditure.

Example 3: The municipality receives an invoice from Eskom for the usage of electricity amounting to R50.

The transaction will be recorded as follows:

Segment	Dt	Cr
Project	Municipal Running Cost	Municipal Running Cost
Function	Electricity	Electricity
Item	Expenditure: Bulk Purchases: Electricity: ESKOM	Liabilities: Current Liabilities: Trade and Other Payable Exchange Transactions: Electricity Bulk Purchase: Deposits
Funding	Non funding transaction	Non funding transaction
Region	Mun	Mun
Costing	Default	Default
Amount	R50	R50

The recording of an invoice in the financial system does not relate to any cash outflow, no payment has been made, the funding segment therefore is a non-funding transaction.

Example 4: The municipality pay Eskom R50 on the invoice received.

The transaction will be recorded as follows:

Segment	Dt	Cr
Project	Default	Default
Function	Electricity	Electricity
Item	Liabilities: Current Liabilities: Trade and Other Payable Exchange Transactions: Electricity Bulk Purchase: Withdrawals	Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Bank Account: Specify (replace with account description):Withdrawals
Funding	Fund: Operational: Revenue: General Revenue: Service Charges: Electricity	Fund: Operational: Revenue: General Revenue: Service Charges: Electricity
Region	Mun	Mun
Costing	Default	Default
Amount	R50	R50

The payment made will be recorded as a cash outflow against revenue service charges electricity for the function electricity. The electricity function will now have a balance of R50 cash available (funding) which is the difference between the cash received of R100 from a consumer on electricity consumption (example 2) and the payment of R50 to Eskom for the usage of electricity (example 4).

The electricity function will have a net balance of R50 positive cash (funding) which reconcile to the net cash in the bank account of R50.

Annexure B – Amendments to the A1 Schedule to cater for water under inventory in line with GRAP 12

Substantial changes to the A1 schedule were required to accommodate the approach to account for water under inventory. The draft adjustment to the A1 Schedule (Excel version) is attached to this published circular with amendments highlighted in light orange. The Excel document has been populated for one financial year to demonstrate the accounting treatment of the proposed changes. These changes are not for implementation during the 2020/21 MTREF but are included in the circular for comments prior to final implementation during the 2021/22 MTREF. The main changes were to Table SA3 that required further changes to some other worksheets as indicated below.

Table SA3

Changes to this table included the addition of water and other inventory items to enable municipalities to fully budget for the acquisition, issuing, adjustment, write-off, transfer and sale of all inventories. This will provide a detail reconciliation for the disclosure of inventory on the Statement of Financial Position (Table A6). This section has been aligned to the mSCOA chart - Item Assets – Inventory and, as it relates to water inventory, also to the IWA Modified Water Balance utilised by the DWS. The layout of the section includes the following inventory items:

- Water (separate item)
- Agricultural, Consumables, Finished Goods, Materials and Supplies (consolidated into one item)
- Work-in-progress (separate item)
- Housing Stock (separate item)
- Land (separate item)

It is important to note that, as a result of these changes, bulk purchasing of water will be processed as a cash transaction in the Statement of Financial Position – Acquisition of Inventory (Table A6). Acquisitions of water stock should include the following:

- Bulk purchases - Supply from bulk or other water service providers recognised by the amount paid.
- Water purified - Potable supply from Water Treatment Works. Value is to be determined by calculating primary and secondary cost components.
- Natural sources - Supply from boreholes, springs, fountain if not supplied through the water treatment plant. Value is to be determined by calculating primary and secondary cost components.

Currently the Statement of Financial Performance (Table A4) reflected the bulk purchasing of water as a cash expense. In terms of the change to treating water as inventory the cost of sales (water inventory consumed) is disclosed as a separate non-cash expense included under "Other materials & inventory consumed" on Table A4.

The cost of water losses and any write-down of inventory are expensed as a non-cash entry under "Expenditure by type Losses" on Table A4. When there is clear evidence of an increase in net realisable value of inventory adjustments are accounted for as a non-cash entry under "Revenue by source Gains" on Table A4.

Water Inventory consumed (cost of sales) included under "Other materials & Inventory Consumed" on Table A4 should include the following:

Billed Authorised Consumption

Billed Metered Consumption
- Free Basic Water
- Subsidised Water
- Revenue Water

Billed Unmetered Consumption
- Free Basic Water
- Subsidised Water
- Revenue Water

Un-Billed Authorised Consumption
- Unbilled Metered Consumption
- Unbilled Unmetered Consumption

The above-mentioned amendments to Table SA3 also necessitated adjustments to the following other tables as indicated below:

Table SA1
In order to adequately account for inventory, including water inventory, the following detail calculations were added on Table SA1:

Addition of Other materials & Inventory Consumed
- Inventory Consumed - Water
- Inventory Consumed - Other material
- Other materials

Total Other Material & Inventory Consumed

Bulk purchases: Electricity & Waste Water (previously Electricity & Water - now water changed to "Waste Water)
The change of terminology
- Electricity Bulk Purchases (no change)
- Waste Water Bulk Purchases (previously Water Bulk Purchases now water changed to "Waste Water")

Table A4
The change of terminology:
- Bulk purchases now ***"Bulk purchases: Electricity & Waste Water"***
- Gains on disposal of PPE now ***"Gains"***
- Loss on disposal of PPE now ***"Losses"***
- Other Material changed to ***"Other materials & inventory consumed"***

Table SA 30
The changes of terminology to cash payments by type:
- Bulk purchases - Electricity now changed to ***"Bulk purchases - Electricity & Waste Water"***
- Bulk purchases - Water & Sewer" now changes to ***"Acquisition Inventory - Water & other inventory"***

Annexure C – Process map for invoice verification/cost reimbursement

ACTIVITY	INSTITUTION	INDIVIDUAL
Step 1: Municipality receives invoices from the contractors and consultants	Municipality	Technical Director and PMU Manager
Step 2: Check completeness and all documents included and update the verification list/implementation plan	Municipality	PMU Manager
Step 3: Invoices and verification list submitted to Province (PT, Transport, CoGTA province, DWS, Energy, human settlement and MISA)	Municipality	Technical Director
Step 4: Province coordinates the site verification meeting/s with all stakeholders (Prov CoGTA and Treasury, MISA and municipality	Province	Provincial selected lead official
Step 5: Municipality arranges with consultants and contractors to be on site and prepares the necessary progress report	Municipality	Technical Director and PMU
Steps 6: Site meeting/s held	(Prov CoGTA/Treasury, MISA and municipality	Verification Team
Step 7: Transferring National Officer/MISA prepares the verification report and shares with all the verification team members. It recommends the amount to be released to municipality or recommends a refer back	Transferring National Officer/MISA	Transferring National Officer/MISA
Step 8: Verification team (coordinated by Province) to consider the recommendations by Transferring National Officer/MISA and submit recommendations to NT/Sector department	Province	Transferring National Officer/MISA with Provincial Treasury

ACTIVITY	INSTITUTION	INDIVIDUAL
Step 9: Transferring National Office reviews all documentation submitted and: (i) either refer back to Province for corrections; or (ii) submits report to NT	Transferring National Officer	Director: Grant Administration in national department
Step 10: NT evaluates and provides go ahead to Transferring National Officer and confirms amount for the transfer	National Treasury	Municipal Grant Monitoring and Analysis (MGMA) Unit within NT
Step 11: Transferring National Officer prepares sundry payment advise for Finance and confirm the date with NT	Transferring National Officer	Transferring National Officer
Step 12: Finance confirms transfer details with National Treasury (date amount) and loads transfer NT loads transfers on Safety Web	Finance	Finance Grant Administration Unit with NT
Step 13: Transferring National Officer confirms transfer with receiving officer	Finance	FINANCE
Step 14: Municipality effects the payments to contractors and submit Proof of Payment (POP)'s Transferring National Officer	Municipality	Technical Director / CFO
Step 15: Next transfer of funds may be effected once the previous POP has been verified	National Treasury and Transferring National Officer	National Treasury and Transferring National Officer

Municipal Budget Circular for the 2020/21 MTREF

5 CONTENTS

Introduction

This budget circular is a follow-up to MFMA Circular No. 98 that was issued on 06 December 2019. It aims to provide further guidance to municipalities with the preparation of their 2020/21 Medium Term Revenue and Expenditure Framework (MTREF) budgets and should be read together with the budget circulars that have been issued previously.

The grant allocations as per the 2020 Budget Review and the 2020 Division of Revenue Bill are also key focus areas in this circular.

1. The South African economy and inflation targets

Over the past year, economic growth has been weaker than forecasted and is only expected to reach 0.9 per cent in 2020. The 2020 budget highlights the difficult economic and fiscal choices confronting government over the next several years.

It is projected that revenue to be collected for the 2020/21 financial year will amount to R1.5 trillion which equates to 29.2 per cent of the Gross Domestic Product (GDP), whereas expenditure is projected to be at R1.95 trillion which is equivalent to 36 per cent of GDP. This means that there is a consolidated budget deficit of R370.5 billion or 6.8 per cent of GDP in 2020/21. The gross national debts by the end of 2020/21 is projected to be R3.56 trillion which is 65.6 per cent of GDP.

It is evident that determined action is required to reverse the deterioration of the public finances by narrowing the budget deficit, containing debt and growing the economy faster and in a sustainable manner. Municipalities therefore need to exercise caution when they prepare their 2020/21 MTREF budgets to ensure synergy with national economic and fiscal prudency.

The declining economic growth which might be impacted on further by the Corona virus pandemic and international companies closing down as a result, the deteriorating state of the finances for state-owned entities, continued high unemployment and water and electricity shortages will put pressure on the ability of municipalities to raise revenue. Municipalities are therefore advised to follow a conservative approach when projecting their revenue and to eliminate any waste and unnecessary expenditure. Importantly, municipalities should ensure that they adopt realistic and funded 2020/21 MTREF budgets, collect the debts owed to them and pay their creditors within 30 days of receipt of invoice.

The following macro-economic forecasts must be considered when preparing the 2020/21 MTREF municipal budgets.

6 Table 1 Macroeconomic performance and projections

	2019	2020	2021	2022
Percentage change	Estimate		Forecast	
Real GDP growth	**0.3**	**0.9**	**1.3**	**1.6**
CPI inflation	4.1	4.5	4.6	4.6

Source: 2020 Budget Review.
Note: the fiscal year referred to is the national fiscal year (April to March) which is more closely aligned to the municipal fiscal year (July to June) than the calendar year inflation.

2. Key focus areas for the 2020/21 municipal budget process

After budgeting for debt-service costs, the contingency reserve and provisional allocations, 48.2 per cent of the nationally raised funds are allocated to national government, 43 per cent to provinces and 8.8 per cent to local government. This is a reduction from the 9.1 per cent allocated to local government when compared to the 2019/20 financial year.

Local government continue to receive the least share of the division of nationally raised revenue because it has extensive powers to raise its own revenue. On aggregate; the local government sphere raises about 70 per cent of its own revenue. However, municipalities should make every effort to improve the collection rates through improved billing and collection practices. In the present current economic climate, municipalities cannot afford to provide municipal services without recovering the cost of providing these services.

Spending outcomes for 2018/19 varied across the 257 municipalities. Many municipalities adopted unrealistic spending plans. As a result, 211 municipalities underspent their operating budgets and 214 municipalities underspent their capital budgets. This was a slight improvement from the previous year.

Of the R33.6 billion in conditional grants transferred to municipalities in 2018/19, R27.2 billion (80.1 per cent) was spent, compared to 93 per cent spent in 2017/18. This decline was partly due to underspending on drought relief funds allocated in the middle of the financial year.

2.1 Local government grants and municipal revenue strength

The conditional grants to municipalities have been reduced and most conditional grants have been reduced as part of efforts to limit growth in government expenditure and ensure that public debt is sustainable. To manage the effect on services, these reductions take into account:

- Past spending and performance;
- Whether the conditional grant funds salaries, and other related costs; and
- Whether there has been significant real growth in allocations in recent years.

Where possible, the National Treasury has reduced transfers that are more likely to go unspent or to be spent less effectively. Accordingly, grants that have persistently underperformed have been reduced by larger amounts. The largest proportional reduction to local government grants in 2020/21 has been made in respect of the public transport network grant, because only six of the 13 cities receiving the grant have successfully launched public transport systems. The three cities that have shown the least progress, namely Buffalo City, Msunduzi and Mbombela have been suspended from the grant and will not receive allocations in the 2020 MTEF period.

Legislation governing local planning and budgeting emphasises community participation in decision-making. The partnership between municipalities and communities relies on households and businesses recognising the value of, and paying for, municipal services. While government subsidises municipal services for low-income households, these services are only sustainable if people who can afford them and use larger quantities thereof pay their bills. Therefore, the sustainability of municipalities depends on how they collect and spend their own revenues.

Municipalities are reminded that all allocations included in their budgets must correspond to the allocations listed in the Division of Revenue Bill. All the budget documentation can be accessed from the National Treasury website by clicking on the link below: http://www.treasury.gov.za/documents/national%20budget/2020/default.aspx

2.1. Changes to local government allocations

2.1.1. Unconditional grants

Over the next three years, above-inflation growth in allocations to the local government equitable share continues, while growth in conditional grants is slower as a result of the reductions announced in the 2020 Budget. The local government Equitable Share continues to receive above inflation increases because it allows municipalities to offer free basic services to indigent residents who cannot afford to pay for services. The total direct allocations to local government grow at an annual average rate of 6.6 per cent over the MTEF period.

2.1.2. Conditional grants

The 2020 Division of Revenue Bill has technical adjustments which were effected through the shifting of funds between different municipal allocations. However, it should be noted that the technical adjustments do not change the total amount allocated to local government. These changes to the grants include the shifting of:

- R400 million in 2020/21 from the municipal infrastructure grant, the water services infrastructure grants and the urban settlements development grant to the indirect regional bulk infrastructure grant to assist in funding the rehabilitation of wastewater treatment infrastructure in the Vaal River System;
- R160 million from the direct *neighbourhood development partnership grant* to the indirect component of the grant over the MTEF period;
- R3 billion that had been indicatively allocated to the new *informal settlement upgrading partnership grant* in 2020/21. This amount is shifted back to the *urban settlements development grant* following the decision to extend the informal settlements window within this grant for another year; and
- R166 million over the 2020 MTEF period from the *municipal infrastructure grant* to the *integrated urban development grant* for the entry of one additional municipality into the grant.

In addition to funds shifted from other local government grants, R250 million has been added to the indirect *regional bulk infrastructure grant* in 2020/21 to assist with addressing pollution in the Vaal River System. These funds were reprioritised from allocations in other spheres of government.

2.2 Response to the Finance and Fiscal Commission (FFC)'s recommendations

The Finance and Fiscal Commission Act, 1997 (Act No. No 99) requires that the FFC tables their recommendations on financial and fiscal matters at least 10 months before the start of each financial year. The FFC tabled its *Submission for the Division of Revenue 2020/21* to Parliament in May 2019. This year's theme is "reprioritising local government finances". The 2020/21 recommendations cover the following areas: local government financing framework, municipal government capacity building, local government sustainability, infrastructure management and efficiency, investment and developmental challenges in the local government sector.

2.2.1 Supplementary revenue sources for local government

The FFC recommended that the Minister of Finance should take steps (including piloting) to add supplementary revenue sources to the list of allowable taxes for different types of municipalities in a differentiated manner. National government supports this recommendation that additional revenue sources to municipalities should be fully explored. In response, various reforms have been prioritised to supplement the revenue sources of municipalities.

These include: amending the Municipal Fiscal Powers and Functions Act, 2007 (Act No. 12 of 2007) to ensure development charges are uniformly regulated and updating the municipal borrowing policy framework to clarify the funding instruments that municipalities are allowed to use to leverage their borrowing including clarifying the role of development finance institutions in this regard.

The Municipal Fiscal Powers and Functions Act already allows municipalities to apply to the Minister of Finance to levy additional taxes such as the tourism levies and fire levies recommended by the FFC. This Act also allows the Minister of Finance to introduce new municipal taxes on his own initiative. Applications from municipalities to implement new revenue sources provide a good mechanism for piloting new revenue sources like these as it ensures that the pilot municipalities are ready and willing to implement the new taxes. To be considered by the Minister of Finance, an application to introduce additional taxes must include the following:

- What the revenue from the proposed new municipal tax will be used for;
- Its compliance with section 229(2)(a) of the Constitution, which requires that municipal taxes do not prejudice national economic policy;
- The tax base, the desired tax rate, people liable for the tax and tax relief measures;
- The tax collecting authority; and
- Particulars of any consultations conducted, including consultations with a provincial government and organised local government and other municipalities where applicable, and the outcomes of these consultations.

2.2.2 Local government infrastructure management and efficiency

Government continues to provide responses to the FFC's recommendations on an annual basis. These annual recommendations by the FFC are required in terms of section 9 of the Intergovernmental Fiscal Relations Act, 1997 (Act No. 97 of 1997). The FFC recommended that the Ministers of Cooperative Governance and Traditional Affairs (CoGTA) and Finance should jointly strengthen the linkage between technical project planning processes and budgeting and foster smooth intergovernmental infrastructure coordination as part of the ongoing local government infrastructure grant reforms.

Government acknowledges the need to consolidate municipal infrastructure grants and to strengthen the linkages between the technical project planning process and the budgeting. The review of local government infrastructure grants has identified consolidation and rationalisation in the number of grants received by each municipality as a key area for reforming the grant system. As the various grants in the system serve different purposes, the consolidation and rationalisation process requires extensive consultation before grants can be merged. As a result, there is no definitive dates set on when the consolidation of grants will take place. However, government is committed to achieving the vision of a differentiated grant system.

2.3 Building capability for infrastructure delivery

The National Treasury continues to expand the tools available for provinces and municipalities to improve spending. Weaknesses in preparing and authorising projects and programmes are one of the main causes of poor performance on infrastructure transfers. The Infrastructure Delivery Management System (IDMS) has assisted provinces to build infrastructure units with qualified staff and institutionalise best practices. In the 2020/21 MTEF, cities will receive grant funding through the *integrated city development grant* to institutionalise an effective system for preparing programmes and projects. Metros will only be eligible for this funding if they:

- Have not had an adverse or disclaimed audit opinion in the last two financial years;

- Have formally adopted the Cities' Infrastructure Delivery and Management System (CIDMS) guidelines;
- Establish a programme and project approval committee to authorise work; and
- Commit to co-financing contributions and budget management arrangements.

National government provides a broad range of capacity-support grants and programmes for local government. These grants and programmes are under review and reforms to improve its effectiveness are likely to be implemented from 2021/22.

2.4 Development Charges reforms

National Treasury continues to explore how municipalities can use a broader package of infrastructure financing sources to meet their developmental mandate. One of these sources is development charges.

A development charge is a once-off charge imposed by a municipality on a land owner as a condition of approving a land development application that will substantially result in increased demand for municipal infrastructure services. These charges are imposed to cover the costs incurred by the municipality when installing new infrastructure or upgrading an existing infrastructure that is required to service the proposed development. It is based on the concept that urban growth and expanded land use creates the need for additional infrastructure services, therefore the developer should pay the incidence costs.

Municipalities have not fully used development charges due to uncertainty surrounding the regulatory frameworks. National Treasury is therefore amending the Municipal Fiscal Powers and Functions Act, 2007 (Act No. 97 of 1997) to incorporate the regulation of development charges. Cabinet has approved the publication of the draft Amendment Bill for public comment. The due date for submitting comments is 31 March 2020.

The draft Bill can be accessed on the National Treasury website at: http://www.treasury.gov.za/legislation/draft_bills/default.aspx.

3. Eskom Bulk Tariff increases

The National Energy Regulator of South Africa (NERSA) is responsible for price determination of the bulk costs for electricity. However, there has not been any determination by NERSA since the impasse around Eskom's application.

While the court case between NERSA and Eskom is still pending, municipalities should use the tariff increases previously (March 2019) approved by the regulator of 8.1 per cent for 2020/21, 5.2 per cent 2021/22 and 8.9 per cent for 2022/23.

4. Budgeting issues

4.1 The wage bill

The 2020 Budget Review highlighted the proposed wage bill reduction for the public service. Similar to national and provincial government, municipalities must ensure that compensation demands are balanced with the broader needs of society. In this context, municipalities should start taking decisive action to address bloated organisational structures and above inflation wage increases.

Wage bill increases are crowding out spending on capital projects for future economic growth and impacts on service delivery.

Local government also confronts tough fiscal choices in the face of financial and institutional problems that result in service-delivery breakdowns and unpaid bills. Municipalities can offset these trends by improving own revenue collection, working more efficiently and implementing cost containment measures.

4.2 Pension fund and SARS contributions

In terms of section 13A of the Pension Funds Act, 1956 (Act No. 24 of 1956), an employer must pay contributions it collected from employees' salaries to the relevant pension fund by the 7th day after the end of the month in respect of which the contributions were payable.

According to the latest annual report by the Pension Fund Adjudicator (PFA), it is especially concerned about non-payment of contributions in the municipal sector, thereby putting members' benefits at risk for extended periods of time. Over and above, there is interest on contributions that an employer is liable to pay if pension fund contributions are not paid over timeously. The Financial Services Laws General Amendment Act, 2013 (Act No. 45 of 2013) makes the employer's failure to pay contributions to a retirement fund a **criminal offence**. The amendment to this Act now provides for personal liability of persons who are entrusted with managing the overall financial affairs of the employer.

Section 65(2)(f) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) states that the accounting officer must take all reasonable steps to ensure that the municipality complies with its tax, levy, duty, pension, medical aid, audit fees, and their statutory commitments. Section 171(1) of the MFMA provides that the accounting officer commits financial misconduct if that accounting officer fails to comply with a duty imposed by a provision of the Act on the accounting officer of a municipality. In addition, section 173(1)(a)(i) of the MFMA than provides that an accounting officer is guilty an offence if that accounting officer deliberately or in a grossly negligent way amongst other, contravene or fails to comply with the provision of section 65(2)(f) of the MFMA. We will therefore be monitoring whether municipalities are addressing this failure by accounting officers consistent with the legal framework provided for in the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings and take the necessary action where there is failure on the part of municipalities to address this matter.

4.3 Water

Access to clean and potable water is a mandatory imperative in terms of the country's Constitution, the National Water Act, 1998 (Act No. 36 of 1998) and priorities set by the government in the National Development Plan (NDP). Water is also recognised as a fundamental human right and there is no doubt about the important role that water plays in human existence, the environment, economic development and sustainability.

Municipalities should take strategic action to ensure effective water management and resilience to drought, including the security of water supply, environmental degradation, and pollution of resources to achieve economic growth, development and socio-economic priorities in an equitable and sustainable manner.

4.4 Attracting economic investment

Maintaining clean cities underpins economic activity and wellbeing. Investors are not interested in investing in filthy cities. Therefore, municipalities should place emphasis on sensible land use planning and development and building plan control for housing, commercial, industrial and recreational uses. Investments in waste collection and treatment infrastructure should be made in tandem with industrial and urban developments to minimise pollution to our land and waters.

4.5 Borrowing for multi-year capital projects

In terms of sections 16(3) of the MFMA, money for capital expenditure may be appropriated for a period not exceeding three financial years, provided that a separate appropriation is made for each of those financial years.

Section 19(1) of the MFMA further states that *a municipality may spend money on a capital project only if —*

(a) the money for the project, excluding the cost of feasibility studies conducted by or on behalf of the municipality, has been appropriated in the capital budget referred to in section 17(2)(b) the project, including the total cost, has been approved by the council;
(b) section 33 has been complied with, to the extent that that section may be applicable to the project; and
(c) the sources of funding have been considered, are available and have not been committed *for other purposes.*

Before approving a capital project, the municipal council must consider:

a) the projected cost covering all financial years until the project is operational; and
b) the future operational costs and revenue on the project, including municipal tax and tariff implications.

A municipality must adjust the revenue and expenditure estimates in an approved annual budget downwards through an adjustments budget if there is material under-collection of revenue during the current year in terms of section 28(2) of the MFMA. It may also appropriate additional revenues that have become available over and above those anticipated in the annual budget, ***but only to revise or accelerate spending programmes already budgeted*** for. New capital projects can therefore not be included in the adjustments budget, unless provided for in terms of section 28(2) of the MFMA.

With regard to the shifting of funds between multi-year appropriations, section 31 of the MFMA requires that *when funds for a capital programme are appropriated in terms of section 16(3) for more than one financial year, expenditure for that programme during a financial year may exceed the amount of that year's appropriation for that programme, provided that –*

(a) the increase does not exceed 20 per cent of that year's appropriation for the programme;
(b) the increase is funded within the following year's appropriation for that programme;
(c) the municipal manager certifies that -
  (i) actual revenue for the financial year is expected to exceed budgeted revenue; and
  (ii) ***sufficient funds are available for the increase without incurring further borrowing beyond the annual budget limit****;*
(d) prior written approval is obtained from the mayor for the increase: and
(e) the documents referred to in paragraphs (c) and (d) are submitted to the relevant provincial treasury and the Auditor-General.

Considering the above sections of the MFMA, it is clear that section 16(3) allows for a multi- year capital appropriation not exceeding three financial years, while section 31 allows for:

- A maximum increase of 20 per cent in the appropriation for the year provided that it is funded within the following year's appropriation for that programme. By implication it must be a multi-year programme and the increase should also fit within the limit of the next year's appropriation;

- Sufficient funds are available for the increase **without incurring further borrowing beyond the approved annual budget limit**. This means that additional revenues should be available in the year that the municipality intends to accelerate the expenditure or that a project saving that was funded from the borrowing that was approved for the current year should be used to prevent borrowing to exceed the annual budget limit; and
- This further implies that additional revenues should be available and prohibits the use of accumulated cash backed reserves from previous years for the acceleration of the programme.

Section 28(2)(b) prescribes that additional revenues that have become available may be used to revise or accelerate programmes already budgeted for. The same section further indicates that an adjustments budget process will be required to accelerate a capital programme. The municipal manager must provide certification that the additional revenues will be available within the financial year that the programme will be accelerated in terms of section 31 of the MFMA.

The legislation is not clear as to the timeframes for section 31 other than to state that prior written approval should be obtained from the Mayor. A prudent approach would be to include the documentation as part of the adjustments budget process and the dates set out in the Municipal Budget and Reporting Regulations.

This part of the Circular should also be read in conjunction with MFMA Circular No. 58 issued on 14 December 2011.

4.6 Refinancing of existing loans

Section 46(5) of the MFMA allows a municipality to re-financing existing long-term debt, provided that —

(a) the existing long-term debt was lawfully incurred;
(b) the re-financing does not extend the term of the debt beyond the useful life of the property, plant or equipment for which the money was originally borrowed;
(c) the net present value of projected future payments (including principal and interest payments) after re-financing is less than the net present value of projected future payments before re-financing; and
(d) the discount rate used in projecting net present value referred to in paragraph (c), and any assumptions in connection with the calculations, must be reasonable and in accordance with criteria set out in a framework that may be prescribed.

If the re-financing of an existing loan does not comply with the above requirements, then the municipality should consider going to the market for a new loan that offers more affordable terms and/or negotiate a payment arrangement with the financial institution until the loan can be repaid as per the original terms.

5. Conditional Grant Transfers to Municipalities

This section provides guidance to municipalities with regard to the preparation for the 2019/20 unspent conditional grant and roll-over process and should be referenced against previous annual budget circulars.

6.1 Criteria for the rollover of conditional grant funds

Section 22 of the 2019 Division of Revenue Act (DoRA) requires that any conditional grants which are not spent at the end of the municipal financial year must revert to the National Revenue Fund, unless the receiving officer, provincial treasury and transferring national officer proves to National Treasury that the unspent allocation is committed to identifiable projects, in which case the funds may be rolled over.

When requesting a rollover in terms of section 22(2) of the 2019 DoRA, municipalities must include the following information with their submission to National Treasury:

1. A formal letter, signed by the accounting officer must be addressed to the National Treasury requesting the rollover of unspent conditional grants in terms of section 22(2) of the 2019 DoRA;
2. A list of all the projects that are linked to the unspent conditional grants and a breakdown of how much was allocated and spent per project;
3. The following evidence indicating that work on each of the projects has commenced, as applicable to the specific rollover(s):

   a) Proof that the project tender was published and the period for tender submissions closed before 31 March;
   b) Proof that a contractor or service provider was appointed for delivery of the project before 31 March; or
   c) Proof of a project tender, appointment of contractor or service provider for delivery of service before 30 June in cases where additional funding was allocated during the course of the final year of the project;
   d) Incorporation of the Appropriation Statement;
   e) Evidence that all projects linked to an allocation will be fully utilised by 30 June 2021 (attach cash flow projection for the applicable grant).

4. A progress report (also in percentages) on the status of each project's implementation that includes an attached, legible **implementation plan**);
5. The value of the committed project funding, and the conditional allocation from the funding source;
6. Reasons why the grants were not fully spent during the year of original allocation per the DoRA;
7. Rollover of rollovers will not be considered therefore municipalities must not include previous year's unspent conditional grants as rollover request;
8. An indication of the time-period within which the funds are to be spent if the roll over is approved; and
9. Proof that the Municipal Manager and Chief Financial Officer are permanently appointed.

No rollover requests will be considered for municipalities with vacant or acting Chief Financial Officers and Municipal Managers for a period exceeding 6 months from the date of vacancy, this also includes acting appointments as a result of suspensions of either MM or CFO that are more than 12 months.

7 If any of the above information is not provided or the application is received by National Treasury (Intergovernmental Relations Division) after 31 August 2020, the application will be declined.

In addition, National Treasury will also consider the following information when assessing rollover applications; and reserves the right to decline an application should there be non- performance by the municipality in any of these areas:

1. Compliance with the in-year reporting requirements in terms of sections 71 and 72 of the MFMA and section 12 of the 2019 DoRA, **including the municipal manager and chief financial officer signing-off on the information** sent to National Treasury;
2. Submission of the pre-audited Annual Financial Statements information to National Treasury by 31 August 2020;
3. Accurate disclosure of grant performance in the 2019/20 pre-audited Annual Financial Statements, (i.e. correct disclosure of grant receipts and spending in the notes to the AFS); and
4. Cash available in the bank (net position including short term investments) as at 30 June 2020 is equivalent to the amount that is unspent as at the end of the financial year. If the amount that is requested for roll over is not entirely cash backed, such a roll over will not be approved. National Treasury will not approve portions of roll over requests.

It should be noted that under no circumstances will the National Treasury consider requests to roll-over:

1. The entire 2019/20 allocation to the municipality, in cases whereby the roll over request is more than 50 per cent of the total allocation National Treasury will approve the roll over amount up to 50 per cent of the 2019/20 allocation;
2. Roll Over request of the same grant for the third consecutive time;
3. Funding for projects constituted through Regulation 32 of the Municipal Supply Chain Management Regulations (Gazette No.27636). Projects linked to additional funding and disasters are exempted; and
4. A portion of an allocation where the proof of commitment for the roll over application is linked to invoices that were issued before or on 31 May 2020.

7.1 Unspent conditional grant funds for 2019/20

The process to ensure the return of unspent conditional grants for the 2019/20 financial year will be managed in accordance with section 22 of the DoRA. In addition to the previous MFMA Circulars, the following practical arrangements will apply:

Step 1: Municipalities must submit their June 2020 conditional grant expenditure reports according to section 71 of the MFMA reflecting all accrued expenditure on conditional grants and further ensure that expenditure reported to both National Treasury and national transferring officers reconcile;
Step 2: When preparing the Annual Financial Statements, a municipality must determine the portion of each national conditional grant allocation that remained unspent as at 30 June 2020. These amounts MUST exclude all interest earned on conditional grants, retentions and VAT related to conditional grant spending that has been reclaimed from SARS, which must be disclosed separately;
Step 3: If the receiving officer wants to motivate in terms of section 22(2) of the 2018 DoRA that the unspent funds are committed to identifiable projects, the roll over application pack must be submitted to National Treasury by 31 August 2020.

National Treasury will not consider any rollover requests that are incomplete or received after this deadline.

Step 4: National Treasury will confirm in writing whether or not the municipality may retain any of the unspent funds as a rollover based on criteria outlined above by 23 October 2020;
Step 5: National Treasury will communicate the unspent conditional grants amount by 06 November 2020. A municipality must return the remaining unspent conditional grant funds that are not subject to a specific repayment arrangement to the National Revenue Fund by 20 November 2020; and

Step 6: Any unspent conditional grant funds that should have, but has not been repaid to the National Revenue Fund by 20 November 2020, and for which a municipality has not requested a repayment arrangement, will be offset against the municipality's 04 December 2020 equitable share allocation.

All other issues pertaining to Appropriation Statement and reporting on approved roll overs are addressed in the Annexure to MFMA Circular No. 86.

6. The Municipal Budget and Reporting Regulations

National Treasury, together with the provincial treasuries, are rolling out training on budgeting and transacting in the *m*SCOA environment to all provinces to improve the credibility of the 2020/21 MTREF budgets.

6.1 Assistance with the compilation of budgets

In cases where the municipality requires advice with the compilation of their respective budgets, specifically the budget documents or Schedule A1, they should direct their enquiries to their respective provincial treasuries or to the following National Treasury officials:

Province	Responsible NT officials	Tel. No.	Email
Eastern Cape	Matjatji Mashoeshoe	012-315 5553	Matjatji.Mashoeshoe@treasury.gov.za
Free State	Cethekile Moshane	012-315 5079	Cethekile.moshane@treasury.gov.za
Gauteng	Kgomotso Baloyi Kevin Bell	012-315 5866 012-315 5725	Kgomotso.Baloyi@treasury.gov.za Kevin.Bell@treasury.gov.za
KwaZulu-Natal	Kgomotso Baloyi Johan Botha	012-315 5936 012-315 5171	Kgomotso.Baloyi@treasury.gov.za Johan.Botha@treasury.gov.za
Limpopo	Willem Voigt Sifiso Mabaso	012-315 5830 012-315 5952	Willem.Voigt@treasury.gov.za Sifiso.Mabaso@treasury.gov.za
Mpumalanga	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
Northern Cape	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
North West	Willem Voigt Makgabo Mabotja	012-315 5830 012-315 5156	Willem.Voigt@treasury.gov.za Makgabo.Mabotja@treasury.gov.za
Western Cape	Vuyo Mbunge	012-315 5661	Vuyo.Mbunge@treasury.gov.za
Technical issues Local Government Database	Elsabe Rossouw	012-315 5534	lgdataqueries@treasury.gov.za

National Treasury, together with the provincial treasuries, will undertake a compliance check and, where municipalities have not provided complete budget information, the municipal budgets will be returned to the mayors and municipal managers of the affected municipalities for the necessary corrections. Municipal managers are reminded that the annual budget must be accompanied by a quality certificate and council resolution in accordance with the format specified in regulation 31 of Schedule A of the Municipal Budget and Reporting Regulations. In addition to the above compliance check, the *m*SCOA data strings will be assessed to determine whether the municipalities are compliant.

The National Treasury herewith emphasises that where municipalities have not adhered to the Municipal Budget and Reporting Regulations, ***they will be required to return to the municipal council and table a complete budget document aligned to the requirement of the Municipal Budget and Reporting Regulations.***

Municipalities with municipal entities are once again reminded to prepare consolidated budgets and in-year monitoring reports for both the parent municipality and its entity or entities. The following must be compiled:

- An annual budget, adjustments budget and monthly financial reports for the parent municipality in the relevant formats;
- An annual budget, adjustments budget and monthly financial reports for the entity in the relevant formats; and
- A consolidated annual budget, adjustments budget and monthly financial reports for the parent municipality and all its municipal entities in the relevant formats.

The Schedule A that the municipality submits to National Treasury must be a consolidated budget for the municipality (plus entities) and the budget of the parent municipality. Schedules D must be submitted for each entity.

7. Municipal Chart of Accounts (*m*SCOA)

7.1 Release of Version 6.4.1 of the Chart

Version 6.4.1 was released to include the amendments in conditional grants as per the 2020 DoRA. Version 6.4.1 of the chart will be effective from 2020/21 and must be used to compile the 2020/21 MTREF. It is available on the link below:

Link to *m*SCOA

7.2 Use of funding segment to populate the cash flow tables

It is critical that municipalities undertake balance sheet and cash flow budgeting to provide accurate cash flow information. The general rule that applies is that the "funding" and "Item" segments must be combined to provide cash flow information on how funds have been spent and on what.

This means that the budget is available at a cash flow level (A1 Schedule Budget Table SA30 and A7) and not when billing is done or when invoices are processed (A1 Schedule Budget Table A4: Statement of Financial Performance). Municipalities must apply the budgeted assumed collection rate to determine the cash flow budgets. Therefore, expenditure can only be processed against items with funding in line with the anticipated cash inflow and not billing. Municipalities should therefore identify the relevant source in the funding segment where revenue is received from and identify the funds to be used when payments are made. Guidance on this was provided in MFMA Circular No. 98.

However, there are still challenges to populate the detail of cash payments by type in the A1 Schedule Budget Table SA30 from Item Liabilities: Current Liabilities: Trade and other payables from exchange transactions as payables and accruals are not broken down by type (e.g. other materials, contracted services etc.). This omission of detail in the *m*SCOA chart will be addressed through chart amendments in version 6.5 of the chart.

As an interim measure the cash flow will be populated as follows:

For Cash Receipts:
The **cash receipts by source** will be populated using Item Assets: Current Assets: Cash and cash equivalents: Cash at bank: Bank account: Deposits in conjunction with the Funding Segment.

For Cash Payments:
The **cash payments** by type will be populated using Item Liabilities: Current Liabilities: Trade and other payables Exchange and Non- Exchange Transactions: Withdrawals in conjunction with the Funding Segment.

The cash payments that are not classified by type, will be grouped together as other payments on table SA30. This will enable population of suppliers and employees on the cash flow (Table A7).

National Treasury will share the linking of A1 Schedule Budget Tables SA30 and A7 to the *m*SCOA chart items to ensure that the cash flow information is populated correctly with municipalities and system vendors.

7.3 Capital Projects using Internally Generated Funding

Capital Projects in acquiring Assets using Internally Generated Funding must use: Funding: Capital: Transfer from Operational Revenue. This will ensure that table A5 will be populated correctly.

8. Budget process and submissions for the 2020/21 MTREF

8.1 Submitting budget documentation and schedules for 2020/21 MTREF

Accounting officers are reminded that Section 22(b)(i) of the MFMA requires that, ***immediately*** after an annual budget is tabled in a municipal council, it must be submitted to the National Treasury and the relevant provincial treasury in PDF and electronic formats. However, in cases where Council requires amendments to the tabled budget prior to consultation, municipalities should inform he National Treasury and the relevant provincial treasury *immediately* and submit the required budget documents and corresponding *m*SCOA data strings ***within three working days*** after the Council meeting.

The approved annual budget must still be submitted to both National Treasury and the relevant provincial treasury ***within ten working days*** after the council has approved the annual budget.

8.2 Document uploads to the Local Government Upload Portal

Due to the number of queries received on the document upload process using the Local Government Upload Portal, a full guideline will be issued in due course to explain the process and to outline which documents will be required to upload.

Contact

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Post	Private Bag X115, Pretoria 0001
Phone	012 315 5009
Fax	012 395 6553
Website	http://www.treasury.gov.za/default.aspx

JH Hattingh
Chief Director: Local Government Budget Analysis 09 March 2020

KOUGA MUNICIPALITY (EC108)

ORDINARY COUNCIL MEETING

FINANCE

DATE: 26 JUNE 2020 **ITEM: 20/06/F29**

REVISION OF FEES AND CHARGES FOR THE 2020/21 FINANCIAL YEAR: SPORTS AND RECREATION

1. Purpose

The purpose of this report is to request the approval of the proposed fees and charges for sports and recreational facilities, for the 2020/21 financial year.

2. Background

Directorates, in consultation with the Chief Financial Officer are required to review the fees and charges, at least once a year.

The fees and charges have not been increased as reflected in Annexure 'A'

3. Recommendation

3.1 That the Council, by resolution taken by majority of its full number, and in terms of Sections 30(2) and 93(4) of the Local Government: Municipal Structures Act, Act 117 of 1998 (as amended), read in conjunction with Chapter 4 of the Local Government: Municipal Finance Management Act, Act 56 of 2003, approves the fees and charges for Sports and Recreation, as reflected in **Annexure 'A'**, with effect from 1 July 2020.

Item prepared by: Manager Revenue

Item approved by: Chief Financial Officer

Item endorsed by the Municipal Manager

Noted by the Portfolio Councillor:

ANNEXURE A		R	R	R	
SPORTS AND RECREATION	**800**				
-					
Sportsfield Rental per day : Music Concerts, Festivals, Sport Tournaments					
Profitable Functions		4,917.00	4,275.33	4,091.23	4.50
Sports Tournaments		1,500.00			**NEW**
Non-Profitable Functions : NGO's, Churches, PO's		1,788.00	1,554.67	1,487.72	4.50
Sports Affiliation per year		447.00	388.67	371.93	4.50
-					
Country Club Tariffs					
Hall only		-	-	704.80	
Side Hall		-	-	412.84	
Hall & Side Hall		-	-	836.84	
Braai Area		-	-	141.33	
Complex		-	-	2,106.98	
Welfare organisations per year		636.00	552.88	529.07	4.50
Deposit					
Damages			1,000.00	1,000.00	0.00

REPORTS BY THE PORTFOLIO CHAIRPERSON: CORPORATE SERVICES

KOUGA MUNICIPALITY (EC108)

ORDINARY COUNCIL MEETING

CORPORATE SERVICES

DATE: 26 JUNE 2020 **ITEM NO: 20/06/CORP1**

KOUGA MUNICIPALITY –CALENDAR OF MEETINGS: 1 JULY 2020 TO JUNE 2021

1. Purpose

The purpose of the item is to submit the Calendar of Meetings for Council Committees for the period 1 July 2020 to 30 June 2021.

2. Background

The Calendar of Meetings for 1 July 2020 – 30 June 2021 was submitted to the Office of the Speaker for approval and is now submitted to Council on 26 June 2020 for adoption.

This version allows for an eight-week (bi-monthly) rhyme for meetings of the Mayoral Committee and Portfolio Committees. It also accommodates the legislated 4 Ordinary Council meetings per FY. The amended calendar will enable proper planning going forward.

Portfolio) OCM (Ordinary Council) MPAC MC (Mayoral Committee)
KAC (KOUGA AUDIT)

Date	Jul 2020	Aug 2020	Sep 2020	Oct 2020	Nov 2020	Dec 2020	Jan 2021	Feb 2021	Mar 2021	Apr 2021	May 2021	Jun 2021
1												
2								PF	MPAC			
3					PF			PF	MPAC			
4					PF			PF	MPAC			
5					PF							
6										PF		
7	PF									PF		
8	PF		PF							PF		PF
9	PF		PF									PF
10			PF			MPAC						PF
11												
12												
13												
14												
15												MPAC
16								MC				
17								MPAC				
18									MPAC			
19											MPAC	
20							MPAC			MC		
21	MC			MPAC						MPAC		
22												
23			MPAC									
24					KAC							KAC
25		KAC			MC				KAC			
26		MPAC			MPAC			OCM				
27												
28	MPAC	OCM									OCM	
29			MC									
30				OCM								
31												

3. Recommendation

3.1 That the Updated Calendar of Meetings for Council Committees for the period 01 July 2020 to 30 June 2021, be adopted.

Item prepared by: **Acting Administration Manager**

Item approved by: **Director: Corporate Services**

Item noted by **: The Portfolio Chairperson**

KOUGA MUNICIPALITY (EC 108)

ORDINARY COUNCIL MEETING

CORPORATE SERVICES

DATE: 26 JUNE 2020 **ITEM NO: 20/06/CORP2**

REPLACEMENT OF MEMBERS ON THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC)

1. Introduction

The purpose of this item is to replace the late Cllr T Meleni on the Municipal Public Accounts Committee (MPAC) and to request approval to advertise for two Public Representatives.

Cllr T Meleni passed away on 4 June 2020 which leaves his position on the Municipal Public Accounts Committee (MPAC) vacant. In addition, Ms L Mostert and Ms H. Thiart have also resigned as members of MPAC.

2. Discussion:

The following members were elected and appointed by Council to serve on the Municipal Public Accounts Committee (MPAC).

Cllr W. Gertenbach (Chairperson)
Cllr W. Coenraad
Cllr R. Jantjies
Cllr C. August
Cllr L. Vorster
Cllr P. Nkwalase
Cllr M. Peters
Cllr T. Meleni (deceased)
Ms L. Mostert (resigned)
Ms H. Thiart ((resigned)

For the purposes of continuity and promoting experience and expertise within MPAC, council is urged to ensure that whenever possible, MPAC nominations have previously served on MPAC or have similar experience.

The names of the MPAC councillors, their party affiliation and a brief profile covering their professional qualifications / experience shall be published on the municipal website and in the Annual Report.

3. Recommendation

3.1 That Cllr T Meleni be replaced on the Municipal Public Accounts Committee (MPAC) with immediate effect.

3.2 That the Council nominate the relevant replacement.

3.3 That Council approve the advertising of two Public Representatives to replace Ms L Mostert and Ms H Thiart

Item prepared by: **Acting Administration Manager**

Item approved by: **Director: Corporate Services**

Item noted by: **The Portfolio Councillor**