

REPORT : EXECUTIVE MAYOR**1. PURPOSE**

The purpose of this item is to table the annual budget for the budget year 2020/2021.

2. BACKGROUND

In terms of section 15 of the Municipal Finance Management Act 56 of 2003, the municipality may incur expenditure only in terms of an approved budget. Section 16 (1) further states that the Council of a municipality must for each financial year approve an annual budget for the municipality before the start of the that financial year.

For a municipality to comply with section 16 (1), the Mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

3. DISCUSSION

Attached is the Budget report outlining the budget processes and highlights relating to the Budget 2020/2021.

In compiling the Budget, the municipality has considered its own IDP, MFMA Circulars No. 98 & 99 and the views of internal departments. As part of the budget processes the municipality also considered:

- Realistic revenue and expenditure projections for the budget year as well as future years.
- The national budget, the provincial budget, the national government's fiscal and macro-economic policy, the annual Division of Revenue Act (DORA) and the district municipality.

Immediately after an annual budget is tabled in a municipal council, the accounting officer will –

- In accordance with Chapter 4 of the Municipal Systems Act-
 - Make public the annual budget and the documents referred to in section 17(3) of the MFMA; and
 - Invite the local community to submit representations in connection with the budget; and
 - Submit the annual budget to the National and Provincial Treasury.

It is also important to note that the municipality will continue to transact and implement the mSCOA regulations.

4. STAKEHOLDERS CONSULTED

Management
National and Provincial Treasury

5. LEGAL IMPLICATIONS

Compliance with Municipal Finance Management Act 56 of 2003

6. STAFF IMPLICATIONS

As per the Organisational Structure – Staff compliment

7. FINANCIAL IMPLICATIONS

Annual Budget for 2020/2021 financial year

8. SERVICE DELIVERY IMPLICATION

If the budget is not approved no services delivery can take place. It will hamper the entire municipality to fulfill its mandate.

9. RISKS

If the budget is not tabled, approved and amended as suggested it might lead to votes overspending, with the effect that unauthorized expenditure will occur, leading to a qualification during the audit process. The continuation of service delivery will be ceased with the inception of the budget period starting 01 July 2020.

10. ANNEXURES

Budget document for the year 2020/2021.
Service Standards
Municipal Policies

11. RECOMMENDATIONS

1. That the budget be adopted and approved by Council as per tables reflected below and that it be implemented with effect from 1 July 2020.

I. Main Tables:

- (a) Table A1 : Summary
- (b) Table A2 : Budgeted Financial Performance (revenue and expenditure by standard classification)

- (c) Table A3 : Budget Financial Performance (revenue and expenditure by vote)
- (d) Table A4 : Budget Financial Performance
- (e) Table A5 : Budgeted Capital Expenditure by vote, standard classification and funding
- (f) Table A6 : Budgeted Financial Position
- (g) Table A7 : Budgeted Financial Position
- (h) Table A8 : Reserves Reconciliation
- (i) Table A9 : Asset
- (j) Table A10: Basic Service Delivery Measurement

II. Supporting Tables

- (a) Table SA2: Matrix Finance Performance Budget
- (b) Table SA8: Performance indicators and benchmarks
- (c) Table SA25: Budgeted monthly revenue and expenditure
- (d) Table SA26: Budgeted monthly revenue and expenditure (municipal vote)
- (e) Table SA27: Budgeted monthly revenue and expenditure (standard classification)
- (f) Table SA30: Budgeted monthly cashflow

III Supporting Policies

- (a) Investment and Cash Management Policy
 - (b) Budget Policy
 - (c) Customer Care, Credit Control and Debt Collection Policy
 - (d) Property Rates Policy
 - (e) Tariff Policy
 - (f) Supply Chain Management Policy
 - (g) Indigent Policy
 - (h) Virement Policy
 - (i) Asset Policy
2. That the tariff structure as reflected for the 2020/2021 be adopted and approved.
 3. That the following budget related policies, namely, Investment and Cash Management Policy, Budget Policy, Customer Care, Credit Control and Debt Collection Policy, Property Rates Policy, Tariff Policy, SCM policy, Virement Policy and Indigent Policy be adopted and approved.

(FOR RESOLUTION)

Minutes: Council Meeting – 30 June 2020

After the IDP and Budget Speech as delivered by the Executive Mayor, he proposed that the matter be resolved as follows and was seconded by Cllr Hlakane also including amendments to the Indigent Benefits as indicated.

RESOLVED:

1. That the budget be adopted and approved by Council as per tables reflected below and that it be implemented with effect from 1 July 2020.

I. Main Tables:

- (a) Table A1 : Summary
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- (g) Indigent Policy
- (h) Virement Policy
- (i) Asset Policy

2. That the tariff structure as reflected for the 2020/2021 be adopted and approved.
 3. That the following budget related policies, namely, Investment and Cash Management Policy, Budget Policy, Customer Care, Credit Control and Debt Collection Policy, Property Rates Policy, Tariff Policy, SCM policy and Virement Policy be adopted and approved.
 4. That the Indigent Policy be adopted and approved with inclusive of the following thresholds:
 - (a) That households with two Sassa Pensioners above the age of 60 also qualify for 100% Indigent Subsidy;
 - (b) That households with retired professionals above the age of 60 with an income below the threshold of R6000.00 qualifies for 100% Indigent Subsidy;
 - (c) That households with an income as indicated will qualify for indigent subsidy on a sliding scale and will expected to pay the portion of their service account as follows:
 - Households with income of 6000 – 7000 to pay 20% of the account
 - Households with income of 7000 – 8000 to pay 40% of the account
 - Households with income of 8000 – 9000 to pay 60% of the account
 - Households with income of 9000 – 10000 to pay 80% of the account
 - Households with income of 10000 – 11000 and above to pay 100 % of the account
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2020

Integrated Development Plan and Budget Speech

Building relationships of trust within the municipal environment-the road towards sustainable basic services provision

Councillor Koalane Komane

Executive Mayor

30 June 2020



*Office of the Executive Mayor, Annex Building, Second Floor, Ficksburg 9730
Email:pamayor@setsoto.co.za*

Honourable Speaker
Members of the Mayoral Committee
Chairperson of the Finance Committee and Members
Members of the Integrated Development Plan and Budget Steering Committee
Honourable Councillors
Distinguished Guests
Members of the Media
Officials
Setsoto Citizenry

Good Morning

It is my honour to introduce the fourth Budget of the fourth administration of this municipality's lifespan. Today I table:

- The final Integrated Development Plan for 2020/2021;
- The Medium-Term Revenue and Expenditure Framework for 2020/2021 to 2022/2023;
- The Three-Year Infrastructure Investment Programme;
- The Tariff Proposals;
- The Finance Related Policies; and
- The Integrated Development Plan Sector Plans.

Mr. Speaker, as this is my maiden speech to this house as the Executive Mayor and member of this council, allow me to pay tribute to my parents **Mr. Marabi Koalane** and **Mrs. Mantso Koalane**. May their soul rest in eternal peace. They have supported me all the time, never doubted me, they sacrificed everything to make me the person I am today. **Mr. Marabi Koalane** even when he was at his weakest point, persisted to go out and be a migrant labourer. **Mrs. Mantso Koalane** the pillar of my strength, would never rest and went through rains, storms and cold weather for my siblings and me. Every time when the going gets tough, I remember the resilience of these two anchors, for which I will forever be grateful.

Great men and women have stood here to deliver integrated development plan and budget speeches in the same capacity as myself. I would like to acknowledge their contribution to the prudent stewardship of the strategic planning and finances of this municipality. To them I say, *'thank you for your contribution and the foundation you have laid for all of us to follow'*. To my immediate predecessor, **Ms. Maoke Nthateng**, on behalf of the council of Setsoto Local Municipality, I wish to say *"thank you for your dedicated service to the citizenry of Setsoto, including your years as an official and a Councillor"*.

In May 2019, the African National Congress received a massive mandate to lead the sixth administration again. With renewed vigour, under the leadership of His Excellency The President, Mr. Ramaphosa, government committed itself to serve the people of South Africa with humility and dedication. As we enter the last leg of our term of office, in line with the 2019 African National Congress Manifesto, I wish to thank the voters who have demonstrated continued confidence in the African National Congress to lead this council and transform their lives for the better.

People of Setsoto Local Municipality have unequivocally given the mandate for a continued economic reform, for not just political stability, but also reposed faith in our economic policies. This is the Integrated Development Plan and Budget to boost the quality of our lives and enhances our livelihoods. Only through higher growth we can achieve that and have our youth gainfully and meaningfully employed.

Let our businesses be innovative, healthy, and solvent with the use of technology in line with the Fourth Industrial Revolution. For every youth, for every member of our society who seeks a better life, for every woman wishing to standup and get counted, for every individual from minority sections of our society, this Integrated Development Plan and Budget aims to have your aspirations and hopes addressed as compiled during the integrated Development plan roadshows, as well as your written comments.

Mr. Speaker, during this challenging times due to Covid-19 Pandemic, this council is committed to transforming the economy through, refocusing existing policies, strategies and programmes, such as: sustainable service delivery through information communication technologies, creating a local environment that is conducive to sustainable jobs creation; fighting corruption; improving education and training; providing quality health care; and attracting local and international investors, in order to create inclusive economy with greater citizen participation. The focus is to improve efficiency of spending in the municipality and delivery of services to promote the growth of the private sector to transform our economy to higher income status so as to increase revenue base.

The preparation of this Integrated Development Plan and Budget, which is the fourth in the current term of office of this council, was largely guided by emerging strategies issued by the Department of Corporative Governance and Traditional Affairs and National Treasury from ongoing review of the National Development Plan and the Medium-Term Strategic Framework, and serves as progress report toward the attainment of the goals and objectives contain in the medium-term strategic plan, which in turn, constitutes the building blocks towards the achievement of National Development Plan Vision 2030, which is the primary and guiding document for the future of our citizenry.

COMPILATION OF THE INTEGRATED DEVELOPMENT PLAN 2020/2021 AND MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK 2020/2021-2022/2023

Honourable Councillors, the application of sound financial management and accounting principles for the compilation of the municipality's strategic plans is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided continually, sustainably, economically and equitably to all communities. Given the current Covid-19 Pandemic, the municipality's business and service delivery priorities were reviewed and reprioritized as part of this year's planning and budgeting process.

A critical review of expenditure was also undertaken on non-core and "nice to have" items. Key areas where savings were realised were on telephone and internet usage, printing and stationery, workshops, accommodation and catering due to the implementation of Cost Containment Policy approved by council.

Mr. Speaker, the municipality has embarked on implementing a range of revenue collection strategies to ensure that revenue due to the municipality is collected. Various customer care initiatives have been undertaken to ensure that communities are truly involved in the process of planning and budgeting to ensuring a people led government.

Municipal Finance Management Act, 56 of, Circulars Number 98 and 99, were also used to guide the compilation of the Integrated Development Plan 2020/2021 and the Medium-Term Revenue and Expenditure Framework 2020/2021 to 2022/2023. Municipal Standard Chart of Accounts version 6.4 was also introduced with circulars to ensure a Municipal Standard Chart of Accounts compliant Integrated Development Plan and Budget.

OPERATING REVENUE FRAMEWORK

Mr. Speaker, for the municipality to continue improving the quality of services provided to its citizens, it needs to generate the required revenue. In these tough economic times, strong revenue management is fundamental to the financial sustainability of every municipality.

The reality is that we are faced with developmental backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding, hence difficult choices have to be made in relation to tariff increases and balancing expenditure against realistically anticipated revenues. The municipality's revenue collection strategy is built around the following key components:

- National Treasury's guidelines and macro-economic policy;
- Growth in the municipality and continued economic development;
- Efficient revenue management, which aims to ensure eighty percent annual collection rate for property rates and key service charges;
- Electricity tariff increase by National Electricity Regulator of South Africa;
- Achievement of full cost recovery of specific user charges, especially in relation to trading services;
- Determining tariff escalation rate by calculating revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 6 of 2004;
- Implementation of the new valuation roll;
- Increased ability to extent new services and recover costs;
- Indigent Policy and rendering of free basic services; and
- Tariff Policy of Council

OPERATING REVENUE BY SOURCE

The total operating revenue has grown by six percent or **Thirty-Five Million Five Hundred and Seventy-Five Thousand Rand** for the **2020/2021** financial year when compared to the **2019/2020 Adjustment Budget**. For the next three years the municipality have estimated to collect **One Billion Seven Hundred and Forty-Three Million Rand** made of the following amounts: **Five Hundred and Fifty Million Five Hundred and Twenty-Nine Thousand Rand** for **2020/2021**; **Five Hundred and Eighty-One Million Eight Hundred and Ninety Thousand Rand** for **2021/2022** and **Six Hundred and Ten Million Nine Hundred and Eighty-Five Thousand Rand** for **2022/2023** respectively. **Mr. Speaker**, the revenue basket is made up of the following revenue sources:

- Property Rates- with an increase of **six percent** to an anticipated **Sixty-Nine Million Seven Hundred and Ten Thousand Rand** from **Sixty-Five Million Seven Hundred and Sixty-Four Thousand Rand** in the **2019/2020** financial year;
- Electricity Revenue-as guided by National Electricity Regulator of South Africa, and increase of **six percent** to an anticipated **Seventy-Eight Million Seven Hundred and Ninety-Two Thousand Rand** from **Seventy-Four Million Three Hundred and Fifty-Six Thousand Rand** in the **2019/2020** financial year;

Mr. Speaker, our communities should be made aware that, in terms of the Final Tariff **2020/2021_V4**, and as guided by National Electricity Regulator of South Africa during our discussion, the following tariffs are proposed:

Domestic Tariffs: Conventional

- Block 1 **0-50 c/kwh** is increased from **R 0,99 to R 1,06**, which translate into a **seven percent** increment not **seven percent**;
- Block 4 **600> c/kwh** increased from **R 1,98 to R 2,10** which translate into **six percent**

Domestic Tariffs: Prepaid

- Block 1 **0-50 c/kwh** is increased from **R 0,99 to R 1,06**, which translate into a **seven percent** increment not six percent;
- **Block 4 600> c/kwh** increased from **R 1,92 to R 2,04** which translate into **six percent**

There is a difference of **R 0.06** between the tariff for Block 4 between the Conventional and Prepaid Tariffs as guided by National Electricity Regulator of South Africa

- Water Revenue- an increase of **six percent** to and anticipated **Sixty-One Million Five Hundred and Seventy-Four Thousand Rand** from **Fifty-Eight Million Eighty-Nine Thousand Rand** in the **2019/2020** financial year;
- Sanitation Revenue- an increase of **six percent** to an anticipated **Thirty-Five Million One Hundred and Twenty-Two Thousand Rand** from **Thirty-Three Million One Hundred and Thirty-Four Thousand Rand** in the **2019/2020** financial year;
- Refuse Revenue- an increase of six percent to an anticipated **Forty-Four Million Seven Hundred and Nine Thousand Rand** from **Forty-Two Million One Hundred and Seventy-Eight Thousand Rand** in the **2019/2020** financial year;
- Transfer and Subsidies Revenue- an increase of seven percent to an anticipated **Two Hundred and Ten Million Two Hundred and Forty-Six Thousand Rand** from **One Hundred and Ninety-Six Million Seven Hundred and One Thousand Rand** in the **2019/2020** financial year;
- The remaining **Two Hundred and Ninety-Six Million Five Hundred and Thirty Thousand** in the revenue basket is made up of the following:
 - Rental of Facilities and Equipment;
 - Interest earned-external investment;
 - Interest earned-outstanding debtors;
 - Dividends Received;
 - Fines, Penalties and Forfeits;
 - Licenses and Permits;
 - Agency Services;
 - Other Revenue; and
 - Gains on Disposal of PPE.

OPERATING EXPENDITURE BY TYPE

Honourable Councillors, the operating expenditure of the municipality, excluding capital grants is estimated at **Two Billion Two Hundred and Ninety-Seven Million Three Hundred and Three Thousand Rand** over a period of three years, made up of the following:-

- **Six Hundred and Eighty Million Nine Hundred and Sixty-Four Thousand Rand** in the **2020/2021**;
- **Seven Hundred and Eighty-Eight Million Four Hundred and Fifty-Eight Thousand Rand** in the **2021/2022**; and
- **Eight Hundred and Twenty-Seven Million Eight Hundred and Eighty-One Thousand Rand** in **2022/2023** financial years respectively.

The budgeted allocation for employee related costs for the **2020/2021** financial year totals **Two Hundred and Twenty Million One Hundred and Seventy-One Thousand Rand**, which exclude councillor remuneration. This translate into a **twelve percent** from the **2019/2020 Adjustment Budget**. Filling of critical positions in terms of the approved organisational structure were and the annual increment is based on the ongoing wage negotiations. The current organisational structure also needs to be reviewed as it was last approved in **February 2014**.

The cost associated with the remuneration of councillors is determined by the Minister of Corporative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 20 of 1998, provision of **Sixteen Million Nine Hundred and Seventy-Three Thousand Rand** has been made for the remuneration of councillors, this translate into and increment of **five percent**.

Mr. Speaker, provision for debt impairment for the 2020/2021 financial year amounts to **Seventy-Two Million Rand**. While this expenditure is considered a non-cash flow item, it informs the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues. Looking at this figure it shows that the municipality has only realistically budgeted for a **seventy-five percent** collection rate.

Provision for depreciation and asset impairment has been informed by the municipality's Asset Management Policy and Generally Recognised Accounting Practices standards. The implementation of Generally Recognised Accounting Practice 17 Accounting Standard has meant bringing a range of assets previously not included in the asset register as well as addressing the audit findings from the previous financial year. This has resulted in a significant increase in depreciation figures relative to previous years.

Finance charges consist mainly of the repayment of interest on long-term borrowing the municipality has with financial institutions. The municipality has long-term borrowing with the following institutions:

- Development Bank of Southern Africa;
- Amalgamated Banks of South Africa; and
- Wesbank

The municipality has no intention to acquire additional borrowing for the Medium-Term period.

Bulk purchases are as a result of the purchase of electricity from Eskom and this increase is determined by National Electricity Regulator of South Africa as already alluded to. Other expenditure increased by **fifty-three percent**; however stringent cost containment measures are in place to curb unnecessary expenditure.

BASIC SOCIAL SERVICES PACKAGE

Ladies and Gentlemen, the social package assist households that are poor or face other circumstances that limit their ability to pay for services. To receive these free basic services; households are required to register for indigent subsidy as per the municipality's **Indigent Policy**. In terms of the Service Delivery and Budget Implementation Plan, the target is to register **Seven Thousand Household** of the **Twelve Thousand Household** as per the Statistic South Africa Community Survey of 2016 in the next financial year. The cost of the social package of the registered indigent household is largely finance by the national government through equitable share allocation in terms of the Division of Revenue Division. The subsidy is as follows:

- Household earning between **R 0-R 3 760** per household received **Hundred Percent** Subsidy, which includes:
 - Water at Basic plus 6kl at **R 122.02**
 - Electricity at Basic plus 50kwh at **R 53.00**
 - Refuse per month at **R 125.97**
 - Sewer per month at **R 108.33**
 - Total household account at **R 409.32** per month
- In terms of council resolution number **75/5 of 2018**, council also resolved that contribution for Indigent Burials be increased within the township from **R 1 500** to **R 1 800** and burials at the farming areas be increased to **R 2 500**
- In our endeavour to collect all revenue due to the municipality, the smart metering system is configured in a way that when electricity is bought, **fifty percent** of the money is allocated to the arrear amount whilst the other **fifty percent** is allocated to the current account.

CAPITAL INVESTMENT PROGRAMME

Mr. Speaker, the following provides a breakdown of budgeted capital expenditure for the **2020/2021 Medium-Term Revenue and Expenditure Framework**:

- Ficksburg/ Meqheleng: Conversion of 969 Ventilated Improved Pit latrine to waterborne toilets **One Million Three Hundred Thousand Rand**
- Meqheleng: Development of New Cemetery **One Million Six Hundred Thousand Rand**
- Moemaneng/ Marquard: Upgrading of Recreational and Sport Facilities **Six Hundred Thousand Rand**
- Upgrading of the Water Treatment Works in Clocolan/ Hlohlolwane **Thirty-Five Million Rand**
- Construction of a Central Water Treatment Works in Senekal with rising main pipes and raw water supply pipes and pump stations from all Dams **Ninety Million Rand**
- Clocolan: Upgrading of the Wastewater Treatment Works **Three Million Rand**
Clocolan/Hlohlolwane: Replacement of an old 5km asbestos water rising main pipeline **Twenty Million Rand**
- Marquard: Upgrading of Sport and Recreational Facility **Four Million One Hundred Thousand Rand**
- Ficksburg/Meqheleng: Rehabilitation of 1.5km surfaced road and storm water drainage **Five Million Rand**
- Clocolan/Hlohlolwane: Installation of 5 high mast lights **Two Million Five Hundred Thousand Rand**
- Ficksburg/Meqheleng: Installation of 10 high mast lights to the value of **Three Million Five Hundred Thousand Rand**
- Marquard/Moemaneng: Installation of 8 high mast lights to the value of **Two Million Rand**
- Senekal/Matwabeng: Installation of 7 high mast lights to the value of **Two Million Rand**
- Marquard/Moemaneng: Refurbishment of 3 Existing Boreholes (COVID-19) to the value of **One Million Rand**
- Senekal/ Matwabeng: Refurbishment of the Sewer Pump Stations to the value of **Four Million Rand**
- Clocolan/ Hlohlolwane: Provision of Waterborne Sanitation System to 350 households to the value of **Four Million Rand**
- Bucket Eradication in Marquard/ Moemaneng to the value of **Thirty Million Rand**
- Bucket Eradication in Ficksburg/Meqheleng to the value of **Fifty Million Rand**
- Bucket Eradication in Clocolan/Hlohlolwane to the value of **Seventy Million Rand**

Mr. Speaker, the above infrastructure investment programme is funded to the tune of **One Hundred and Seventy-One Million Four Hundred and Thirty-Three Thousand Rand**, made up of the following conditional grants:

- Municipal Infrastructure Grant amounting **Forty-Nine Million Seven Hundred and Fifty Thousand Rand**;
- Regional Bulk Infrastructure amounting to **Ninety-Two Million One Hundred and Eight Thousand Rand**;
- Water Services Infrastructure Grant amounting to **Twenty-Six Million Three Hundred and Seventy-Five Thousand Rand**; and
- Integrated National Electrification Programme amounting to **Three Million Two Hundred Thousand Rand**.

In our endeavour to promote local economic development, I propose that the **One Hundred and Seventy-One Million**, earmarked for infrastructure development for the 2020/2021 financial year, be ensured to circulate within the municipality by employing local contractors and labour.

Qualified and experienced local contractors should be identified from our supplier database and be requested to submit proposals for the implementation of programmes and projects. When a project is implemented in a unit of the municipality, preference should be given to local contractors and labour in those respective towns.

Gone are the days where contractors come into our municipality only to take away our finances and we do not see any value for money when they are gone. We should ensure that at least seventy percent of this funding is circulated within the municipality to increase our revenue base and the living conditions of our people.

CONCLUSION

To summarise my introductory remarks, this Integrated Development Plan and Budget, Mr. Speaker, is dedicated to providing better living conditions to all citizens as contained in the Integrated Development under the following Key Performance Areas;

- Basic Services for **Four Hundred and Ninety-Three Million Seven Hundred and Eighty Thousand Rand**;
- Local Economic Development for **Eight Million Two Hundred and Twenty-Two Thousand rand**;
- Institutional Capacity for **Fifty-Nine Million Seven Hundred and -Ninety Thousand Rand**;
- Financial Management and Accounting for **Fifty-Nine Million Seven Hundred and -Ninety Thousand Rand**;

- Good Governance, Transparency and Accountability for **Twenty-Nine Million Six-Hundred and Ninety Thousand Rand**; and
- Public Participation for **Twenty-Nine Million Six-Hundred and Ninety Thousand Rand**.

These are the areas of our performance, holding these areas together, are our two hands-one , corruption free, policy driven, good governance and two- clean and sound financial management and accounting.

Mr. Speaker, as I conclude, I wish to take this opportunity to thank all who contributed to the compilation of the Integrated Development Plan 2020/2021 and the Medium-Term Revenue and Expenditure Framework 2020/2021 to 2022/2023, National and Provincial Treasury, Department of Corporative Governance and Traditional Affairs, all Sector Departments for the continued support in many ways to our developmental endeavours, ranging from grants, loans and technical assistance, among others.

Our municipal staff for their dedication, commitment, and resilience in providing sustainable services to our communities. My fellow councillors for their oversight and political guidance. I look forward to your continued cooperation, as the municipality embarks on the transformation journey towards the local government election 2021/2022 and beyond.

I now call on council for the consideration and approval in tandem of the Integrated Development Plan 2020/2021 and Budget 2020/2021 proposals.

I thank You, **Mr. Speaker**.

ANNUAL BUDGET 2020/21

SETSOTO LOCAL MUNICIPALITY



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

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Abbreviations and Acronyms

AMR	Automated Meter Reading
ASGISA	Accelerated and Shared Growth Initiative
BPC	Budget Planning Committee
CBD	Central Business District
CFO	Chief Financial Officer
MM	Municipal Manager
CPI	Consumer Price Index
CRRF	Capital Replacement Reserve Fund
DBSA	Development Bank of South Africa
DoRA	Division of Revenue Act
DWA	Department of Water Affairs
EE	Employment Equity
EEDSM	Energy Efficiency Demand Side Management
EM	Executive Mayor
FBS	Free basic services
GAMAP	Generally Accepted Municipal Accounting Practice
GDP	Gross domestic product
GDS	Gauteng Growth and Development Strategy
GFS	Government Financial Statistics
GRAP	General Recognised Accounting Practice
HR	Human Resources
HSRC	Human Science Research Council
IDP	Integrated Development Strategy
IT	Information Technology
kℓ	kilolitre
km	kilometre
KPA	Key Performance Area
KPI	Key Performance Indicator
kWh	kilowatt
ℓ	litre
LED	Local Economic Development
MEC	Member of the Executive Committee
MFMA	Municipal Financial Management Act
MIG	Municipal Infrastructure Grant
MMC	Member of Mayoral Committee
MPRA	Municipal Properties Rates Act

Setsoto Local Municipality – Annual Budget & MTREF 2020/21

MSA	Municipal Systems Act
mSCOA	Municipal Standard Chart of Accounts
MTEF	Medium-term Expenditure Framework
MTREF	Medium-term Revenue and Expenditure Framework
NERSA	National Electricity Regulator South Africa
NGO	Non-Governmental organisations
NKPIs	National Key Performance Indicators
OHS	Occupational Health and Safety
OP	Operational Plan
PBO	Public Benefit Organisations
PHC	Provincial Health Care
PMS	Performance Management System
PPE	Property Plant and Equipment
PPP	Public Private Partnership
PTIS	Public Transport Infrastructure System
RG	Restructuring Grant
RSC	Regional Services Council
SALGA	South African Local Government Association
SAPS	South African Police Service
SDBIP	Service Delivery Budget Implementation Plan
SMME	Small Micro and Medium Enterprises

PART 1: Annual Budget

1.1 Mayor's Report

The Executive Mayors report will be handed out during the Budget meeting.

1.2 Executive Summary

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

The Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. A critical review was also undertaken of expenditures on noncore and 'nice to have' items. Key areas where savings were realized were on telephone and internet usage, printing, workshops, accommodation, and catering. Also referring to the Cost containment measures adopted by Council.

The Municipality has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the Municipality has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 98 and 99 were used to guide the compilation of the 2020/21 MTREF. The mSCOA version 6.4 was also introduced with the circulars and thus the budget tables were compiled and reported in terms of the said circulars.

The main challenges experienced during the compilation of the 2020/21 MTREF can be summarised as follows:

- The on-going difficulties in the national and local economy;
- Aging and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be a point where services will no-longer be affordable;

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- Wage increases for municipal staff that continue to exceed consumer inflation (Based on the ongoing negotiations between SALGA and Trade unions), as well as the need to fill critical vacancies.

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

- The 2019/20 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2020/21 annual budget;
- Intermediate service level standards were used to inform the measurable objectives.
- Tariff and property rate increases should be affordable, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of providing water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

1.3 Recommendation

It is recommended that council at its Meeting held on 31th March 2020, consider the tabled budget for the 2020/21 financial year with the following resolutions:

- 1.1. That budget of the municipality is made public immediately after being tabled;
 - 1.2. That local community are invited to submit their representations in connection with the budget;
 - 1.3. That the budget is submitted to both National and provincial Treasury to also make submissions;
 - 1.4. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are considered;
2. The Council of Setsoto Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) should also consider the following before approving their implementation;
 - 2.1. the tariffs for property rates – as set out in attached tariff list,
 - 2.2. the tariffs for electricity– as set out in attached tariff list,
 - 2.3. the tariffs for the supply of water – as set out in attached tariff list
 - 2.4. the tariffs for sanitation services – as set out in attached tariff list
 - 2.5. the tariffs for solid waste services – as set out in attached tariff list

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3. The Council of Setsoto Local Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves the consultation with local community in terms of paragraph 2 above.

In view of the above, the following table is a consolidated overview of the proposed 2020/21 Medium-term Revenue and Expenditure Framework:

1.4 Summary of Operating Revenue and Expenditure

Total operating revenue has grown by **6 %** or **R35,575 million** for the 2020/21 financial year when compared to the 2019/20 Adjustment Budget. For the two outer years, operational revenue will increase by **5%** respectively.

Total operating expenditure for the 2020/21 financial year has grown by **19%** or **R131,859 million** and the total amount appropriated is **R680,964 million** including depreciation of R126,156 million and which translates into a budgeted deficit of **R130,435 million** excluding capital transfers.

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FS191 Setsoto - Table A1 Budget Summary

Description	2016/17	2017/18	2018/19	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
Financial Performance										
Property rates	44,239	64,488	52,726	62,336	65,764	62,336	41,799	69,710	68,725	72,162
Service charges	171,181	191,716	180,829	222,550	207,756	222,550	138,680	220,197	245,361	257,629
Investment revenue	40	51	2,082	1,600	4,164	1,600	7,564	4,825	1,764	1,852
Transfers recognised - operational	170,002	163,386	177,827	196,383	196,701	196,383	148,457	210,246	223,147	234,304
Other own revenue	2,225	53,953	33,662	38,905	40,567	38,905	27,086	45,551	42,893	45,038
Total Revenue (excluding capital transfers and contributions)	387,687	473,593	447,126	521,774	514,954	521,774	363,585	550,529	581,890	610,985
Employee costs	184,977	154,356	150,312	213,385	195,896	213,385	128,056	220,171	235,257	247,020
Remuneration of councillors	12,519	14,594	13,538	16,455	16,205	16,455	10,481	16,973	18,141	19,048
Depreciation & asset impairment	212,220	176,926	–	119,015	119,015	119,015	10,473	126,156	249,015	261,465
Finance charges	2,289	5,961	5,889	7,966	7,790	7,966	5,199	7,785	8,782	9,222
Materials and bulk purchases	72,798	72,397	76,579	114,193	95,767	114,193	62,462	148,531	125,897	132,192
Transfers and grants	13,838	38,693	21,540	17,314	17,879	17,314	19,293	22,327	18,617	19,547
Other expenditure	140,364	123,566	58,390	110,357	96,553	110,357	77,275	139,021	132,749	139,386
Total Expenditure	639,005	586,492	326,247	598,684	549,105	598,684	313,239	680,964	788,458	827,881
Surplus/(Deficit)	(251,318)	(112,899)	120,879	(76,910)	(34,151)	(76,910)	50,347	(130,435)	(206,568)	(216,896)

1.5 Operating Revenue Framework

For Setsoto Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

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

- National Treasury's guidelines and macro-economic policy;
- Growth in the Municipality and continued economic development;
- Efficient revenue management, which aims to ensure a 80 per cent (80%) annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- The implementation of the new valuation roll;
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Council.

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1.6 Summary of Operating Revenue by source

Table 2 – Summary of Operating Revenue by source

FS191 Setsoto - Table A1 Budget Summary

Description	2016/17	2017/18	2018/19	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
Financial Performance										
Property rates	44,239	64,488	52,726	62,336	65,764	62,336	41,799	69,710	68,725	72,162
Service charges	171,181	191,716	180,829	222,550	207,756	222,550	138,680	220,197	245,361	257,629
Investment revenue	40	51	2,082	1,600	4,164	1,600	7,564	4,825	1,764	1,852
Transfers recognised - operational	170,002	163,386	177,827	196,383	196,701	196,383	148,457	210,246	223,147	234,304
Other own revenue	2,225	53,953	33,662	38,905	40,567	38,905	27,086	45,551	42,893	45,038
Total Revenue (excluding capital transfers and contributions)	387,687	473,593	447,126	521,774	514,954	521,774	363,585	550,529	581,890	610,985

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

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality. Rates and service charge revenues comprise **53%** of the total revenue mix. In the 2019/20 financial year, revenue from rates and services charges totalled **R273,521 million**. In the above table revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality have been taken into account for both property rates and service charges.

Service charges on electricity will be increased in line with the proposed increase by the National Energy Regulation of South Africa (NERSA) while other service charges were increased with an average of 6%.

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1.7 Summary of operating expenditure by standard classification item

Table 8 Summary of operating expenditure by standard classification item

FS191 Setsoto - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	2016/17	2017/18	2018/19	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
Expenditure By Type										
Employee related costs	184,977	154,356	150,312	213,385	195,896	213,385	128,056	220,171	235,257	247,020
Remuneration of councillors	12,519	14,594	13,538	16,455	16,205	16,455	10,481	16,973	18,141	19,048
Debt impairment	69,861	79,723	22,693	50,673	49,406	50,673	40,114	71,253	66,892	70,236
Depreciation & asset impairment	212,220	176,926	–	119,015	119,015	119,015	10,473	126,156	249,015	261,465
Finance charges	2,289	5,961	5,889	7,966	7,790	7,966	5,199	7,785	8,782	9,222
Bulk purchases	72,798	53,990	61,863	76,974	68,382	76,974	48,168	84,544	84,863	89,107
Other materials	–	18,407	14,716	37,219	27,385	37,219	14,294	63,987	41,034	43,086
Contracted services	22,741	16,719	11,088	19,002	21,083	19,002	19,070	27,963	21,004	22,055
Transfers and subsidies	13,838	38,693	21,540	17,314	17,879	17,314	19,293	22,327	18,617	19,547
Other expenditure	47,504	26,213	24,608	40,683	26,064	40,683	18,091	39,805	44,853	47,095
Loss on disposal of PPE	258	912	–	–	–	–	–	–	–	–
Total Expenditure	639,005	586,492	326,247	598,684	549,105	598,684	313,239	680,964	788,458	827,881

The budgeted allocation for employee related costs for the 2020/21 financial year totals R220,171 million (excluding Councillors remuneration) representing a notable increase of 11% when compared to the adjustment budget for the 2019/20 financial year. Filling of critical positions in terms of the approved organisational structure were considered as well as the annual increment based on the ongoing wage negotiations.

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

Provision of debt impairment for the 2020/21 financial year amounts to **R72 million**. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy as well as the GRAP standards. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years. The recurring audit finding from the Auditor General in terms of the depreciation was also taken into account when compiling the budget.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital) that the municipality has with financial institutions namely DBSA, ABSA and Wesbank. However, the municipality has no intention to acquire any new borrowings in the 2020/21 MTREF.

Bulk purchases are directly informed by the purchase of electricity from Eskom and an increase as determined and approved by NERSA.

Other expenditure increased with 35% or R13,741 million, however the cost containment measures as outlined in the Circular 82 and adopted by the municipal Council still apply.

1.7.1 Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality Indigent Policy. The target is to register 12 000 or more indigent households during the 2020/21 financial year, a process reviewed annually.

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

1.8 Capital expenditure

The following table provides a breakdown of budgeted capital expenditure for the 2020/21 Medium Term Revenue & Expenditure Framework, it should be noted that the DORA used was the one promulgated in 2019 as the 2020 was not yet issued at the time of compiling the draft budget therefore, the second outer year figures could not be provided.

Grants	2020/21	2021/22
Municipal Infrastructure Grant	49,750	53,415
Regional Bulk Infrastructure Grant	92,108	80,000
Water Services Infrastructure Grant	26,375	27,825
Integrated National Electrification Programme Grant	3,200	3,376
Total	171,433	164,616

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FS191 Setsoto - Table A5 Budgeted Capital Expenditure by vote, functional classification and funding										
Vote Description	2016/17	2017/18	2018/19	Current Year 2019/20				2020/21	Medium Term Revenue & Expenditure Framework	
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
Capital Expenditure - Functional										
<i>Governance and administration</i>	3,610	23,972	804	4,189	555	4,189	506	2,589	3,389	3,559
<i>Community and public safety</i>	12,266	4,601	(5,376)	4,595	16,249	4,595	7,043	7,759	5,371	4,800
<i>Economic and environmental services</i>	21,252	141,717	82,161	1,481	889	1,807	40	32,943	1,481	1,555
<i>Trading services</i>	1,194	1,194	1,194	11,005	149,543	149,543	178,054	200,432	180,633	189,665
Total Capital Expenditure Functional	38,323	171,484	78,784	21,270	167,237	160,135	185,644	243,723	190,874	199,578

Implementation plans for the implementation of grants are not yet finalised since the 2020 DORA is not yet published.

1.9 Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. In year reporting
Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the Municipality website.
2. Internship programme
The Municipality is participating in the Municipal Financial Management Internship programme and has employed five interns undergoing training in various divisions of the Financial Services Department.

3. **Budget and Treasury Office**
The Budget and Treasury Office has been established in accordance with the MFMA and the appointment of the Chief Financial Officer is in progress.
4. **Audit and Risk Committees**
An Audit and Risk Committees have been established and are fully functional.
5. **Service Delivery and Implementation Plan**
The detail SDBIP document is at a draft stage and will be finalised after approval of the 2020/21 MTREF in May 2020 which will be aligned and informed by the 2020/21 MTREF.
6. **Annual Report**
Annual report is compiled in terms of the MFMA and National Treasury requirements.
7. **MFMA Training**
The MFMA training module in electronic format is presented at the Municipality internal centre and training is ongoing.
8. **Policies**
All budget related policies will be amended and be tabled in the Municipal Council meeting together with the draft budget.

1.10 Funding credibility on cash flow

The following table illustrate that based on the collection rate of service charges the budget are cash funded.

Table 10 – Summary of Operating Revenue and Expenditure cash flow

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FS191 Setsoto - Table A7 Budgeted Cash Flows

Description R thousand	2016/17	2017/18	2018/19	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
CASH FLOW FROM OPERATING ACTIVITIES										
Receipts										
Property rates	44,239	14,335	(7,675)	62,336	65,764	172,888	105,990	69,710	68,725	72,162
Service charges	171,181	13,874	118,198	222,550	229,924	674,998	350,655	220,197	245,361	257,629
Other revenue	10,216	5,600	4,774	6,261	5,096	6,261	3,217	8,012	6,903	7,248
Government - operating	170,002	163,386	177,827	196,383	196,701	196,383	148,457	210,246	223,147	234,304
Government - capital	103,396	87,509	168,708	144,924	144,924	144,924	102,125	169,915	164,616	164,616
Interest	21,498	26,573	29,291	34,173	39,283	34,173	31,054	42,275	37,676	39,559
Dividends	40	51	104	71	88	71	88	88	78	82
Payments										
Suppliers and employees	(397,463)	(107,094)	(192,615)	(454,390)	(404,421)	(899,231)	(348,283)	(524,697)	(512,044)	(537,646)
Finance charges	(2,289)	(5,961)	(5,889)	(7,966)	(7,790)	(7,966)	(5,199)	(7,785)	(8,782)	(9,222)
Transfers and Grants	(13,838)	(38,693)	(21,540)	(17,314)	(17,879)	(17,314)	(19,293)	(22,327)	(18,617)	(19,547)
NET CASH FROM/(USED) OPERATING ACTIVITIES	106,984	159,581	271,182	187,028	251,692	305,187	368,812	165,636	207,063	209,185
CASH FLOWS FROM INVESTING ACTIVITIES										
Receipts										
Proceeds on disposal of PPE	1,595	(1,927)	1,576	–	264	–	291	–	–	–
Decrease (Increase) in non-current debtors	–	–	–	–	–	–	–	–	–	–
Decrease (increase) other non-current receivables	–	(141,327)	(143,057)	(1,600)	(45)	282,784	145,374	(1,600)	(800)	(840)
Decrease (increase) in non-current investments	(112)	638	(181,198)	–	–	183,772	45,439	–	–	–
Payments										

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Capital assets	(38,323)	(214,271)	(103,318)	(170,382)	(167,192)	(170,382)	(48,864)	(243,723)	(190,074)	(199,578)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(36,840)	(356,887)	(425,997)	(171,982)	(166,973)	296,174	142,240	(245,323)	(190,874)	(200,418)
CASH FLOWS FROM FINANCING ACTIVITIES										
Receipts										
Short term loans	–	(6,813)	(6,813)	–	–	13,625	6,813	–	–	–
Borrowing long term/refinancing	7,269	14,977	23,755	–	–	–	–	–	–	–
Increase (decrease) in consumer deposits	(8)	274	3,623	–	–	(6,411)	(3,131)	–	–	–
Payments										
Repayment of borrowing	–	(2,251)	–	–	–	(50,035)	(26,905)	–	–	–
NET CASH FROM/(USED) FINANCING ACTIVITIES	7,261	6,188	20,565	–	–	(42,820)	(23,223)	–	–	–
NET INCREASE/ (DECREASE) IN CASH HELD	77,405	(191,118)	(134,249)	15,047	84,719	558,541	487,829	(79,687)	16,189	8,768
Cash/cash equivalents at the year begin:	3,656	2,081	1,283	–	–	(112,291)	(112,291)	–	(79,687)	(63,498)
Cash/cash equivalents at the year end:	81,060	(189,037)	(132,966)	15,047	84,719	446,250	375,538	(79,687)	(63,498)	(54,730)

1.11 Municipal manager’s quality certificate

I, S T R Ramakarane, Municipal Manager of Setsoto Local 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 S T R RAMAKARANE _____

Municipal manager of Setsoto Municipality (FS191)

Signature _____

Date _____

Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget.

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2017) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled the budget key timelines before Council meeting outlining the key activities to be undertaken with strict timeliness.

2.3 Overview of budget related-policies

The municipal budget related policies will be reviewed as part of community consultation

2.4 List of Tariffs

The municipal budget was compiled using the attached Tariff list.