

Kannaland Municipality Draft Budget 2021/2022 to 2022/2023



KANNALAND
MUNISIPALITEIT | MUNICIPALITY

Medium Term Revenue and Expenditure Framework (MTREF)

5 July 2021

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1 GLOSSARY

<p>Adjustment's budget - Prescribed in section 28 of the MFMA - the formal means by which a municipality may revise its annual budget during the year.</p>
<p>Allocations – Money received from provincial or national government or other municipalities.</p>
<p>Budget – The financial plan of municipality.</p>
<p>Budget-related policy – Policy of a municipality affecting or affected by the budget, such as the tariffs policy, rates policy and credit control and debts collection policy.</p>
<p>Capital expenditure – Spending on assets such as land, buildings and machinery. Any capitalexpenditure must be reflected as an asset on the municipality's statement of financial position (balance sheet).</p>
<p>Cash flow statement – A statement showing when actual cash will be received and spent by the municipality. Cash payments do not always coincide with the timing of budgeted expenditure. For example, when an invoice is received by the municipality it scores as expenditure in the month it is received, even though it may not be paid in the same period.</p>
<p>DORA – Division of Revenue Act. Annual piece of legislation that shows the amount of allocations from national to local government.</p>
<p>Equitable share – A general grant paid to municipalities. It is predominantly targeted to help with freebasic services.</p>
<p>Fruitless and wasteful expenditure – Expenditure that was made in vain and would have been avoided hadreasonable care been exercised.</p>
<p>GFS – Government finance statistics. An internationally recognized classification system that facilitates like forlike comparison between municipalities.</p>
<p>GRAP – Generally Recognised Accounting Practice. The new standard for municipal accounting.</p>
<p>IDP – Integrated development plan. The main strategic planning document of the Municipality.</p>
<p>KPIs – Key performance indicators. Measures of services output and/or outcome.</p>
<p>MFMA – The Municipal Finance Management Act, 2003 – Act No. 56 of 2003. The principal piece of legislationrelating to municipal financial management.</p>
<p>MTREF – Medium-term revenue and expenditure framework. A medium-term financial plan, usually three years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous and currents years' financial position.</p>
<p>Rates – Local government taxation based on an assessed value of a property. To determine the rates payable,the assessed rateable value is multiplied by the rate in the rand.</p>
<p>SDBIP – Service delivery and budget implementation plan. A detailed plan comprising quarterly performancetargets and monthly budget estimates.</p>
<p>Strategic Objectives – The main priorities of the municipality as set out in the IDP. Budgeted spending mustcontribute towards the achievement of the strategic objectives.</p>

Unauthorized expenditure – Generally, spending without, or in excess of, an approved budget.
Virement – A transfer of budget
Virement policy – The policy that sets out the rules for the budget transfers. Virements are normally allowed within a vote. Transfers between votes must be agreed by council through an adjustments budget.
Vote – One of the main segments into which a budget is divided, usually directorate/department level.

PART 1 – ANNUAL BUDGET

3.1 MAYORAL SPEECH

The Mayoral Budget Speech will be made available on the day of approval of the Budget.

3.2 Final Budget and Budget Related Workshop.

The Budget and Treasury Office scheduled a Budget Workshop which were postponed a couple of times, but did still manage to hold the workshop before the approval of the budget.

- a) The Annual Budget for the Financial Year 2021/22 and indicative outer years 2022/23 and 2023/24 as set-out in terms of Section 24 of the MFMA:
 - Capital Expenditure by project as contained in Annexure A to the Agenda.
 - Capital Funding by source as contained in Annexure A to the Agenda.
 - Operating Revenue by source as contained in Table 1 of the report
 - Operating Expenditure by type as contained in Table 2 of the report
- b) That tariffs and services charges as reflected in the formal tariff list for the budget year 2021/22.
- c) The capital funding, both internal and external funding, as they must be secured prior to the commencement of any new capital project.

3.3 RECOMMENDATIONSTO THE COUNCIL

That Council approves the **2021/22** Final Budget as based on contemplated expenditure and revenue for the MTREF and therefore all the budget recommendations including the Financial Recovery Plan initiatives be taken into-consideration.

That Council approves the final Budget for **2021/22** in terms of Section 17(2) of the Municipal Finance Management Act, (Act 56 of 2003), as well as Section 24 of the Municipal Finance Management Act, (Act 56 of 2003).

That the final budget be made available to all public places and social media platforms for the Public and other stakeholders. Furthermore, Budget Related Policies will also be posted on the municipal website as adopted by council.

That the following policies that are posted on the Municipal Website as reviewed and approved by council on the **6th of July 2021**.

- **Customer Care, Credit Control and Debt Collection;**
- **Property Rates;**

- **Tariff Policy;**
- **Unauthorized, Irregular and Fruitless and Wasteful Expenditure;**
- **Indigent;**
- **Virement Policy;**
- **Cash Management and Investment;**
- **Supply Chain Management;**
- **PPFFA;**
- **Asset Management;**
- **Funding Borrowing and Reserve;**
- **Long-Term Financial Plan;**
- **Liquidity Policy;**
- **Budget Implementation and Monitoring Policy;**
- **Bad Debt Write-Off;**
- **Fleet Management;**
- **Grants-In-Aid;**
- **Travel and Subsistence;**
- **Risk Management;**
- **Capital Contributions for New Developments;**
- **Water Losses Policy;**
- **Electricity Losses Policy;**
- **Public Participation Policy**

That the final budget documentation for 2021/22 – 2023/2024 as outlined in the budget regulations be submitted to National and Provincial Treasury.

2 EXECUTIVE SUMMARY

The Country as a whole has experienced negative economic growth as a result of the deadly disease known as Covid 19. Since March 2020, the whole country has been on lockdown from alert level 5 to alert level 1 as continuously applied by the National Government through the Covid 19 Command Council and COGTA.

Kannaland Municipality has also been affected by the unstable economic outlook locally. The continued presence of the Covid 19 in South Africa affects both livelihood and community health, that has resulted in job losses and death among the community.

The continued negative effect of the economic downturn, more so now that our national economic health is in a volatile state, increases shortcomings in respect of service delivery and the inability of the Municipality to fund the service delivery budget implementation plans. As the economy struggles, locally it results to increased non-payment of municipal services, while the need for basic services has risen immensely.

This has affected the inability of the Municipality to establish a capital replacement reserve to provide financial leverage for non-cash items in the budget. Insufficient funding for the rehabilitation and/or replacement of components that have reached the end of their designed life. Inadequate maintenance budgets, which could be attributed to the Municipality's limited income base.

This affects the Municipality efforts to improve the financial health and implementation of strategic plans, such as decreasing the outstanding creditor book, the current budget and increasing revenue collection of outstanding debtors. Nersa's directive that bulk purchases will once again increase above the inflation rate for Municipalities will deal the frail economy another devastating blow.

The success of the Financial Recovery Plan and the Budget Funding Plan will help the Municipality in addressing the short comings in respect of improving the financial health, service delivery and ensuring that the Municipality meets the legislated requirements. The implementation of the Financial Recovery Plan and The Budget Funding Plan strategies are a work-in-progress and progress is evident.

Key budget considerations:

- The Municipality must focus on its core functions. During the Adjustment Budget of 2020/2021, the Municipality was faced with challenges in mitigating the low rate of debt collection against the increasing expenditure as a result of employee related costs.
- The need to maximize income through efficiencies and the way we do business was investigated before we decided to increase our service charges and other tariffs within reasonable levels.
- An initiative as part of the Revenue Enhancement Project was implemented to ensure, among other, that all consumers are billed correctly and are contributing to the Municipality's income asset out in our Tariff Policy.
- The Municipality was unable in the past to realize a Capital Replacement Reserve (CRR) due to previous financial limitations and restrictions to take action against indigent households who are failing to adhere to the relevant policy and requirements. Council has envisaged to establish the revenue enhancement plan will, however, include the establishment of a CRR to be funded from a vigorous collection process to be applied in respect of prior year's outstanding debt. This process will be phased in over the next five (5) years. The before-mentioned will be an ambitious goal especially given the fact that the municipality will have to deal with overdue creditors to an amount in excess of R39 million.
- The Capital Contributions Policy was reviewed to ensure that the Municipality recover the capital outlay in the expansion of infrastructure as a result of new connections.
- The Municipality adopted a hands-on cash management approach through a planned Cash Flow Management Committee. The Municipality's updated Cash Management Policy will be in effect as of 1 July 2021.
- No external loans will be sourced to fund capital projects. The capital acquisitions for the 2021/2022 MTREF will only be funded and restricted to the availability of cash funds and secured grant funding.
- The Municipality has implemented a process to ensure that all available National and Provincial Government Grants are accessed in order to service part of our capital programme.

- In spite of the above-mentioned challenges, the budget team managed to build the tariffs around the CPI inflation base on the macro-economic performance for 2021/2022 to 2023/2024. They have further applied electricity increases in line with ESKOM's tariffs, National Treasury guidelines and now awaiting the outcome of NERSA's directive.

4.1.1 Funding the budget

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

- Realistically anticipated revenues to be collected;
- Backed accumulated funds from previous years' surpluses not committed for other purposes;
- Borrowed funds, but only for the capital budget referred to in Section 17 of the MFMA

The Municipality is committed to achieving the outcomes, as outlined by the above legislation. However, it is not always possible to ensure that budgeted inflows break even with budgeted outflows due to inherent financial and other constraints. Our 2021/2022 proposed budget is an indication that we are experiencing challenges, but we are working towards the before-mentioned objective.

New budgeting, mSCOA and accounting formats demand that the budgeted statement of financial performance (income statement), the budgeted statement of financial position (balance sheet) and the budgeted statement of cash flows must be considered simultaneously to ensure effective financial management and sustainability and to ensure that the budget is funded. The Municipality is currently applying mSCOA Cash Flow and Balance sheet budgeting but with various degrees of success. This is still a work in progress and assistance is being provided by the MFIP programme and Provincial Government.

4.1.2 A credible budget

It describes the ability of governments to accurately and consistently meet their expenditure and revenue targets. At its' core, budget credibility is about upholding local government commitments and seek to understand why government deviates from these commitments.

Amongst other things, a credible budget is a budget that adheres to the following principles:

- Items budgeted for should be restricted to key performance indicators identified in the IDP for MTREF. Care should be taken that provision is only made provided that sufficient funding is available.
- The budget should be achievable in terms of agreed service delivery and performance targets.
- It contains revenue and expenditure projections that are consistent with current and past performance and is supported by documented evidence of future assumptions.
- The financial viability of the Municipality should at all times be considered in deciding on the inclusion or exclusion of the budget items (affordability confirmed prior to inclusion).
- Managers are provided with appropriate levels of delegation, sufficient to meet their financial management responsibilities, with a sufficient staff complement.

4.2 BUDGET OVERVIEW OF THE 2021/2022 MTREF

This section provides an overview of the Kannaland Municipality's 2021/2022 MTREF. It includes an assessment of how the budget links with the national and provincial government contexts along with a review of the fiscal position of the Municipality.

The municipality's budget must be seen within the context of the policies and financial priorities of national, provincial and local governments. In essence, the spheres of government are partners in meeting the service delivery challenges faced in Kannaland. Kannaland alone cannot meet these challenges. It requires support from the other spheres of government through the direct allocation of resources, as well as the achievement of their own policies.

According to MFMA Circular No. 108, the following headline inflation forecasts underpin the 2021/2022 national budget:

FINANCIAL YEAR		INFLATION
• 2019/20 ACTUAL		• 4.1%
• 2020/21 ESTIMATE		• 3.3%
• 2021/22	FORECAST	• 3.9%
• 2022/23		• 4.2%
• 2023/24		• 4.4%

The growth parameters apply to tariff increases for property rates, user and other charges raised by municipalities and municipal entities, to ensure that all spheres of government support the national macroeconomic policies, unless it can be shown that external factors impact otherwise.

The budget process in Kannaland followed the requirements of the MFMA. A table of key deadlines was tabled in Council by the Executive Mayor in August 2020. The budget task team was to examine, review and prioritize budget proposals from user departments.

For the 2021/2022 period, the Municipality is planning to spend **R23 767 300** on Capital Projects.

FUNDING	AMOUNT
National Government	R 22 763 300
Provincial Government	
Own Funded	R 1 004 000

The MFMA requires municipalities to set out measurable performance objectives when tabling their budgets. These "key deliverables" link the financial inputs of the budget to service delivery requirements.

As a further enhancement to this, quarterly service targets and monthly financial targets are contained in the Service Delivery and Budget Implementation Plan (SDBIP). This must be approved by the Executive

Mayor within the timelines of the approval of the final budget and forms the basis for the municipalities' in-year monitoring.

Kannaland budgeted for an **operational deficit** of **±R 5.4 million**. The total expected operational revenue is **R 186.419 million** and operational expenditure is **R 191.830 million**. Contributed assets funded by conditional national grants and own funded in the budget to the amount of **R 23.767 million**.

Budget	Amount '000
Operating Expenditure	R 191 830
Operating Income	R 186 419
(Deficit)/ Surplus	(R 5 411)
Capital	R 23 767

Further comments regarding the financial position and financial results will be included in the final report after the systems data strings have been aligned with the budget schedules.

In view of the before-mentioned, the following table is a consolidated overview of the proposed MTREF:

Table A1 Summary

WC041 Kannaland - Table A1 Budget Summary										
Description	2017/18	2018/19	2019/20	Current Year 2020/21				2021/22 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
R thousands										
Financial Performance										
Property rates	17 244	51 186	173 916	19 540	22 821	22 821	81 442	24 562	25 593	26 719
Service charges	68 729	526 505	1 069 475	92 033	88 167	88 167	455 718	104 162	112 625	122 772
Investment revenue	508	1 169	6 981	-	815	815	2 443	864	898	934
Transfers recognised - operational	47 132	246 118	251 093	37 753	46 570	46 570	139 009	45 128	55 822	38 608
Other own revenue	12 031	52 985	137 614	14 384	14 154	14 154	40 865	11 704	14 284	16 481
Total Revenue (excluding capital transfers and contributions)	145 643	877 963	1 639 078	163 710	172 526	172 526	719 478	186 419	209 223	205 514
Employee costs	(34 120)	398 931	233 101	58 317	61 101	61 101	186 155	65 553	67 834	70 270
Remuneration of councillors	2 998	38 293	26 964	3 578	3 394	3 394	9 514	3 637	3 782	3 933
Depreciation & asset impairment	703	39 854	48 203	12 231	12 222	12 222	35 529	12 698	13 206	13 735
Finance charges	3 619	4 801	5 948	227	181	181	582	382	392	401
Materials and bulk purchases	42 118	424 083	146 336	48 900	54 310	54 310	134 414	56 133	59 511	63 297
Transfers and grants	4 453	22 220	(896)	470	770	770	1 186	838	872	907
Other expenditure	49 056	214 502	130 276	39 462	46 298	46 298	82 270	52 589	60 968	45 579
Total Expenditure	68 826	1 142 684	589 932	163 186	178 276	178 276	449 651	191 830	206 565	198 122
Surplus/(Deficit)	76 817	(264 721)	1 049 145	524	(5 750)	(5 750)	269 826	(5 411)	2 657	7 392
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions) & Transfers and subsidies - capital (in-kind - all)	11 675	55 468	271 680	65 370	36 843	36 843	90 110	22 763	22 081	34 805
Surplus/(Deficit) after capital transfers & contributions	88 492	(208 871)	1 320 826	65 894	31 094	31 094	359 936	17 352	24 738	42 197
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) for the year	88 492	(208 871)	1 320 826	65 894	31 094	31 094	359 936	17 352	24 738	42 197
Capital expenditure & funds sources										
Capital expenditure	10 450	871	(13 197)	63 321	37 550	37 550	13 244	23 767	22 081	34 805
Transfers recognised - capital	16 305	(730)	(13 315)	63 321	36 850	36 850	12 630	22 763	22 081	34 805
Public contributions & donations	-	-	-	-	-	-	-	-	-	-
Borrowing	-	-	-	-	-	-	-	-	-	-
Internally generated funds	-	(64)	-	-	700	700	614	1 004	-	-
Total sources of capital funds	16 305	(795)	(13 315)	63 321	37 550	37 550	13 244	23 767	22 081	34 805
Financial position										
Total current assets	59 565	(668 623)	(142 122)	84 949	48 665	48 665	(55 199)	(17 989)	(14 835)	(22 554)
Total non current assets	1 626	(227 724)	(750 160)	378 132	364 992	364 992	(705 440)	351 292	10 936	23 215
Total current liabilities	(1 049)	(751 989)	(47 708)	113 235	144 664	144 664	41 172	26 695	(28 490)	(41 389)
Total non current liabilities	3 206	1 285	(16 908)	33 493	37 082	37 082	(29 687)	37 082	(1 292)	(1 292)
Community wealth/Equity	(555)	645	(6 524)	250 300	488 811	488 811	(1 414)	249 857	-	-
Cash flows										
Net cash from (used) operating	(2 522)	(494 989)	(554 721)	123 006	108 307	108 307	(582 377)	38 401	28 774	37 914
Net cash from (used) investing	-	-	-	-	-	-	-	(23 767)	(22 081)	(34 805)
Net cash from (used) financing	-	-	-	-	-	-	-	(572)	(572)	(572)
Cash/cash equivalents at the year end	(2 522)	(494 992)	(830 820)	134 637	193 282	193 282	(858 476)	56 549	62 669	65 206
Cash backing/surplus reconciliation										
Cash and investments available	65 488	10 272	22 757	134 331	156 693	156 693	26 419	24 503	(4 930)	(11 121)
Application of cash and investments	1 573	(675 013)	5 878	195 931	275 450	275 450	73 201	92 661	(21 732)	(33 258)
Balance - surplus (shortfall)	63 915	685 285	16 878	(61 600)	(118 756)	(118 756)	(46 782)	(68 158)	16 802	22 136
Asset management										
Asset register summary (WDV)	1 626	(227 689)	(754 208)	378 132	664 281	664 281	-	351 292	10 936	23 215
Depreciation	703	39 854	48 203	12 231	12 222	12 222	-	12 698	13 206	13 735
Renewal of Existing Assets	971	-	-	-	-	-	-	-	-	-
Repairs and Maintenance	(451)	226 222	118 409	27 009	30 834	30 834	-	22 898	23 835	24 906
Free services										
Cost of Free Basic Services provided	(12 737)	(1 477)	7 496	20 152	18 023	18 023	21 714	21 714	22 476	23 308
Revenue cost of free services provided	(4 843)	4 383	7 456	4 931	-	-	4 973	4 973	5 182	5 410
Households below minimum service level										
Water:	-	-	-	-	-	-	-	-	-	-
Sanitation/sewerage:	-	-	-	-	-	-	-	-	-	-
Energy:	-	-	-	-	-	-	-	-	-	-
Refuse:	-	-	-	-	-	-	-	-	-	-

4.3 BUDGETED FINANCIAL PERFORMANCE

4.3.1 Table A4 Budgeted financial performance (revenue and expenditure)

WC041 Kannaland - Table A4 Budgeted Financial Performance (revenue and expenditure)											
Description	Ref	2017/18	2018/19	2019/20	Current Year 2020/21				2021/22 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
Revenue By Source											
Property rates	2	17 244	51 186	173 916	19 540	22 821	22 821	81 442	24 562	25 593	26 719
Service charges - electricity revenue	2	44 660	309 703	598 096	55 943	56 494	56 494	227 753	67 946	75 016	83 278
Service charges - water revenue	2	13 077	84 341	209 606	21 626	17 113	17 113	103 504	20 787	22 036	23 569
Service charges - sanitation revenue	2	6 607	59 469	130 779	7 520	7 607	7 607	61 299	8 019	8 168	8 528
Service charges - refuse revenue	2	4 385	72 991	130 994	6 945	6 952	6 952	63 162	7 410	7 404	7 397
Rental of facilities and equipment		570	1 442	8 688	17	567	567	261	631	688	749
Interest earned - external investments		508	1 169	6 981	-	815	815	2 443	864	898	934
Interest earned - outstanding debtors		3 383	20 110	44 277	5 567	5 454	5 454	13 439	3 087	3 207	3 317
Dividends received		-	3	3	-	-	-	-	-	-	-
Fines, penalties and forfeits		6 664	24 724	70 685	7 384	6 354	6 354	22 718	5 547	7 574	9 102
Licences and permits		139	325	1 786	50	215	215	817	378	643	1 019
Agency services		-	1 788	3 808	1 000	1 025	1 025	2 020	1 087	1 130	1 175
Transfers and subsidies		47 132	246 118	251 093	37 753	46 570	46 570	139 009	45 128	55 822	38 608
Other revenue	2	1 274	4 593	8 368	365	538	538	1 610	974	1 042	1 119
Gains		-	-	-	-	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contributions)		145 643	877 963	1 639 078	163 710	172 526	172 526	719 478	186 419	209 223	205 514
Expenditure By Type											
Employee related costs	2	(34 120)	398 931	233 101	58 317	61 101	61 101	186 155	65 553	67 834	70 270
Remuneration of councillors		2 998	38 293	26 964	3 578	3 394	3 394	9 514	3 637	3 782	3 933
Debt impairment	3	20 194	99 878	38 730	11 923	13 538	13 538	15 238	20 723	18 675	17 880
Depreciation & asset impairment	2	703	39 854	48 203	12 231	12 222	12 222	35 529	12 698	13 206	13 735
Finance charges		3 619	4 801	5 948	227	181	181	582	382	392	401
Bulk purchases	2	40 402	385 078	127 040	41 793	42 763	42 763	116 742	48 940	52 219	55 694
Other materials	8	1 716	39 006	19 296	7 107	11 547	11 547	17 673	7 193	7 292	7 603
Contracted services		16 576	35 905	42 118	15 682	18 164	18 164	35 203	17 971	27 926	12 717
Transfers and subsidies		4 453	22 220	(896)	470	770	770	1 186	838	872	907
Other expenditure	4, 5	9 320	78 324	49 403	11 857	14 596	14 596	31 830	13 895	14 367	14 981
Losses		2 966	395	25	-	-	-	-	-	-	-
Total Expenditure		68 826	1 142 684	589 932	163 186	178 276	178 276	449 651	191 830	206 565	198 122
Surplus/(Deficit)											
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		11 675	55 468	271 680	65 370	36 843	36 843	90 110	22 763	22 081	34 805
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)	6	-	-	-	-	-	-	-	-	-	-
Transfers and subsidies - capital (in-kind - all)		-	382	-	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions		88 492	(208 871)	1 320 826	65 894	31 094	31 094	359 936	17 352	24 738	42 197
Taxation		-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after taxation		88 492	(208 871)	1 320 826	65 894	31 094	31 094	359 936	17 352	24 738	42 197
Attributable to minorities		-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) attributable to municipality		88 492	(208 871)	1 320 826	65 894	31 094	31 094	359 936	17 352	24 738	42 197
Share of surplus/ (deficit) of associate	7	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) for the year		88 492	(208 871)	1 320 826	65 894	31 094	31 094	359 936	17 352	24 738	42 197

4.3.2 OPERATING REVENUE FRAMEWORK

The increase in revenue is mainly due to an increase in tariffs that have been in line and capped by the headline (CPI) inflation forecast. It should be noted that even though Kannaland Municipality had tariff increases, the progress made to achieving a self-sustainable municipality has been offset by the increased inability to collect revenue.

The cost of compliance, low productivity, the high cost of rural procurement and the inability to attract scarce skills at an affordable cost all contribute to an expense account that cannot be funded by our current revenue base and strategies need to be developed to expand the current revenue base with taking into account the limited water storage capacity at the same time.

The drought is having an adverse effect on not only the ability to collect revenue, as a result of the downturn in the economy, but also on the selling of trading services (water and electricity) that are the main contributors to the profit margin of the Municipality.

The increase in revenue is mainly due to:

- an increase in tariffs;
- an increase in conditional grant funding;
- an increase in unconditional grant equitable share allocation;

Equitable Share allocation -

- Original Budget 2020/2021 **R28 803 000**;
- Adjustment Budget 2020/2021 was **R34 011 00** increase as a result of additional allocation to fund Covid 19 expenditure;
- Final Budget 2021/2022 is **R30 553 000**.

4.3.2.1 SERVICE CHARGES AND MISCELLANEOUS TARIFFS

The following tariff increases are proposed: Please see annexure for detailed tariffs

- Electricity – 14.59% on average
 - Water – 4.4%
 - Rates – Residential 4% with Industrial & Businesses at 6%
 - Refuse – 4.4%
 - Sewerage – 4.4%
 - Other – 4.4
-

4.3.3 TARIFF CHANGES SUGGESTED FOR 2021/2022

4.3.3.1 Property rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the Municipality's budgeting process. The municipality has proposed a 4 & 6 % increase on property rates.

Every tariff to be expressed in terms of the baseline tariff (Equal to Residential tariff)						Tariff After Rebate	R	0.0177
BASELINE RATE PER R1 ON THE VALUATION	2018/19	2019/20	Y/Y Increase	2020/21	Y/Y Increase	2021/22	Y/Y Increase	
Residential Properties	R 0.0139	R 0.0158	13.5%	R 0.0170	7.88%	R 0.0177	4%	
Vacant Land: Residential	R 0.0139	R 0.0158	13.5%	R 0.0170	7.88%	R 0.0177	4%	
Vacant Land: Business	R 0.0253	R 0.0293	15.5%	R 0.0340	16.20%	R 0.0360	6%	
Agricultural Properties	R 0.0035	R 0.0023	-33.8%	R 0.0026	13.12%	R 0.0026	0%	
Businesses and Commercial Properties	R 0.0253	R 0.0293	15.5%	R 0.0340	16.20%	R 0.0360	6%	
Business Properties - Accommodation Establishments	R 0.0174	R 0.0200	15.5%	R 0.0221	10.27%	R 0.0234	6%	
Industrial Properties	R 0.0253	R 0.0293	15.5%	R 0.0340	16.20%	R 0.0360	6%	
Public Service Infrastructure	R 0.0035	R 0.0039	13.5%	R 0.0043	9.15%	R -	Exempt	
Public Service Properties/Organs of state	R 0.0253	R 0.0293	15.5%	R 0.0340	16.20%	R 0.0360	6%	
Public Benefit Organisations (Incl. Old Age Homes)	R 0.0028	R 0.0032	13.5%	R 0.0034	7.88%	R 0.0034	0%	
Place of Worship - Church							Impermissible	
Protected Area							Impermissible	
Municipal Properties							Exempt	

Exemptions, rebates and reductions	Tariff Applicable	Rebate	Impermissible / Exempt	Ratio : base tariff (policy)	Tariffs	Ratio : base tariff after rebates
	2021/22				2021/22	
Residential Properties	R 0.0177		First R15,000 not rateable	1:1	R 0.0177	1:1
Vacant Land: Residential	R 0.0177			1:1	R 0.0177	1:1
Vacant Land: Business	R 0.0360			1:2.04	R 0.0360	1:2.04
Agricultural Properties	R 0.0026			1:0.147	R 0.0026	1:0.147
Businesses and Commercial Properties	R 0.0360			1:2.04	R 0.0360	1:2.04
Business Properties - Accommodation Establishments	R 0.0360	35.0%		1:2.04	R 0.0234	1:1.324
Industrial Properties	R 0.0360			1:2.04	R 0.0360	1:2.04
Public Service Infrastructure	R -		First 30% Impermissible - 70% Exempt	1:0.25	R -	1:0
Public Service Properties/Organs of state	R 0.0360			1:2.04	R 0.0360	1:2.04
Public Benefit Organisations (Incl. Old Age Homes)	R 0.0034			1:0.19	R 0.0034	1:0.19
Place of Worship - Church	R 0.0177		100% Impermissible	1:1	R -	1:0
Protected Area	R 0.0177		100% Impermissible	1:1	R -	1:0
Municipal Properties	R -		Exempt	1:0	R -	1:0

Rebate to qualified pensioners (Age 60 years) / Disabled persons	30%				See Property Rates Policy
market value of R120 000 or less. (Including Indigents)	100%				

In terms of Section 7 of the MPRA the Municipality will not levy property rates on-	Municipal Properties	Exempt
(i) properties of which the municipality is the owner;	70% of PSI after the 30% Impermissible	Exempt
(ii) Public Service Infrastructure owned by a municipal entity;		
(iii) Leased Municipal Properties with a nominal value and/or portions of the commonage property where it is not practical to levy property rates; and		
(iv) Municipal vesting properties.		
Other impermissible rates		
In terms of Section 17(1) (i) of the MPRA, the Municipality may not levy a rate on improved property registered in the name of and used primarily as a place of public worship by a religious community, including an official residence registered in the name of that community which is occupied by an office bearer of that community who officiates at services at that place of worship.	Place of Worship - Church	100% Impermissible
Section 17 (1) (e) of the Act precludes Council from levying rates on those parts of a special nature reserve, national park or nature reserve within the meaning of the National Environmental Management: Protected Areas Act, 2003 (Act 57 of 2003), or of a national botanical garden within the meaning of the National Environmental: Management: Biodiversity Act, 2004 (Act 10 of 2004) which are not developed or used for commercial, farming or residential purposes. The apportioned value of any portion of such properties utilized for any purpose other than that used for such conservation purposes will be rated accordingly.	Protected Area	100% Impermissible

The following ratios publish under GN R195 in GG33016 of 12 March 2010 are applicable in levying rates:

Categories	Ratio in relation to residential properties.
Residential Property	1:1
Agricultural property	1:0.25
Public service infrastructure	1:0.25
Public benefit organisation property	1:0.25

Kannaland Municipality
1:1
1:0.147
1:0
1:0.19

2. The rate on the categories of non residential property listed in the first column of the table below may not exceed the ratio to the rate on residential properties listed in the second column of the table below, where,

(a) the first number in the second column of the table represents the ratio to the rate on residential properties;

(b) the second number in the second column of the table represents the maximum ratio to the rate on residential property that may be imposed on the non-residential properties listed in the first column of the table:

4.4 Water tariffs

South Africa faces similar challenges with regards to water supply as it did with electricity, since demand growth outstrips supply. The situation is further negatively impacted by the droughts experienced in the surrounding areas. Consequently, National Treasury is encouraging all municipalities to carefully review the structuring of their water tariffs to ensure that water tariffs are:

- fully cost-reflective, including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent);
- designed to encourage efficient and sustainable consumption.

In addition, National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective. However, this remains a challenge in specifically previously disadvantaged communities that cannot afford to pay for these services and the impact of Covid 19.

During the tariff modelling exercise, it was acknowledged that the basic charge for water does not cover

the basic cost for the water service and that the structure needs to be changed and remodelled in future budgets.

A tariff increases of 4.4 % from 1 July 2021 for water is proposed. In addition, 6kl water per 30-day period will be granted free of charge to indigent households. The tariff structure is designed to charge higher levels of consumption at a higher rate per kilolitre with certain consumers paying an average fixed rate for water. These consumers include:

- Industrial Areas;
- Large businesses and B&B's;
- Social and services institutions;
- Old age home and frail care centres;
- Churches, schools, hostels and clubs;
- Stand pipe consumers

A summary of the proposed tariffs for households (residential) and non-residential in Kannaland are as follows:

4.4.1 Table 5 – Proposed water tariffs

CATEGORY	CURRENT TARIFF (2020/2021)	PROPOSED TARIFF (2021/2022)	Proposed % increase to be levied from 1 July 2021
	Rand per kl	Rand per kl	
Residential			
(i) 0 to 6 kl per 30 -day period	6,10	6,30	4.4%
(ii) 7 to 15 kl per 30 -day period	7,10	7,40	4.4%
(iii) 16 to 20 kl per 30 -day period	11,39	11,80	4.4%
(iv) 21 to 30 kl per 30 -day period	13,80	14,40	4.4%
(iv) above 30 kl per 30 -day period	16,18	16,80	4.4%
Industries			
Large business and guesthouses	13,30	13,80	4.4%
Social and services institutions	11,53	12,00	4.4%
Old age home and frail care centres	9,22	9,60	4.4%
Churches, schools, hostels and clubs	9,22	9,60	4.4%
Stand pipe consumers	124,20	129,20	4.4%

4.5 Electricity tariffs

The Municipal Electrical Tariff is increased by 14.59% on average. The medium bulk “time of use” tariff does indicate a very low profit margin, have been restructured but will need to be revisited and adjusted to at least an acceptable gross profit margin of 25%. The Municipality applies a seasonal tariff to the electricity usage thus an increased tariff is applied for the winter periods.

ELECTRICITY							
RESIDENTIAL AND SOCIAL COMPANIES <i>[Including Churches, Halls, Social and Frail Care Centres]</i>							
		2019/2020		2020/2021		2021/2022	
LIFELINE TARIFF: 0-20 AMPERE		SUMMER: Sept-May	WINTER: June-Aug	SUMMER: Sept-May	WINTER: June-Aug	SUMMER: Sept-May	WINTER: June-Aug
USAGE BLOCKS:							
Block 1	0-350kWh	1.2882	1.5618	1.3600	1.6360	1.558	1.875
Block 2	351-600kWh	1.4136	1.7214	1.4980	1.8100	1.717	2.074
Block 3	>600kWh	2.0406	2.2344	2.1560	2.3690	2.471	2.715
Basic - Fixed charge Rand per month		R 61.31		R 65.12		R 74.70	
* TARIFF AIM: 0-20 AMPS, Low income groups, less than 450 kwh per month. * If consumer use more than 450kWh the prepaid option must be used							
		2019/2020		2020/2021		2021/2022	
CONVENTIONAL TARIFF: 0-59 AMPERE		SUMMER: Sept-May	WINTER: June-Aug	SUMMER: Sept-May	WINTER: June-Aug	SUMMER: Sept-May	WINTER: June-Aug
Block 1	0-350kWh	1.5960	1.8126	1.6570	1.8160	1.899	2.081
Block 2	>350kWh	1.7556	1.9380	1.8810	2.0300	2.155	2.326
Basic - Fixed charge Rand per month		R 61.31		R 65.12		R 74.70	
* TARIFF AIM: 0-59 AMPS, Low and Medium income groups, less than 850kwh per month.							
		2019/2020		2020/2021		2021/2022	
CONVENTIONAL TARIFF: 60 - 100 AMPERE		SUMMER: Sept-May	WINTER: June-Aug	SUMMER: Sept-May	WINTER: June-Aug	SUMMER: Sept-May	WINTER: June-Aug
Block 1	0-600kWh	1.6302	2.0748	1.7210	2.1860	1.972	2.505
Block 2	>600kWh	1.9950	2.2002	2.1030	2.3300	2.410	2.670
Basic - Fixed charge Rand per month		R 383.61		R 431.79		R 495.00	
* TARIFF AIM: 60-100 AMPS, Medium and Higher income groups. Structured to encourage Energy saving methods and rather to transfer to Prepaid.							
		2019/2020		2020/2021		2021/2022	
PREPAID TARIFF: 0 - 100 AMPERE		SUMMER: Sept-May	WINTER: June-Aug	SUMMER: Sept-May	WINTER: June-Aug	SUMMER: Sept-May	WINTER: June-Aug
Block 1	0-350kWh	R 1.585	R 1.882	R 1.668	R 1.969	R 1.911	R 2.256
Block 2	351-600kWh	R 1.630	R 1.936	R 1.721	R 2.040	R 1.972	R 2.338
Block 3	>600kWh	R 1.836	R 2.101	R 1.944	R 2.230	R 2.228	R 2.555
Basic - Fixed charge Rand per month		R -	R -	R -	R -	R -	R -
Environmental Levy (cent per kwh)		DISCONTINUE	DISCONTINUE	DISCONTINUE	DISCONTINUE	DISCONTINUE	DISCONTINUE
* TARIFF AIM: 0 -100 AMPS, Medium and Higher income groups. Benefit to consumers for buying energy upfront.							

Excl VAT

Excl VAT

Excl VAT

Excl VAT

ESKOM Municipal Bulk Increase awarded by Nersa - 17.80%

Special Bulk Consumers Time of Use 50- 500 kVA

Megaflex / MiniFlex + 20% (Weighted Average)

CHARGE:	2018/19	Description	2019/2020	2020/2021	2021/2022	Excl VAT
BASIC:	R 42.90	R / DAY	R 48.91	R 51.53	R 59.05	14.59%
DEMAND:	R 89.69	R / KVA (ACT.	R 102.25	R 107.72	R 123.44	14.59%
ACCESS:	R 41.52	R / KVA (MND	R 47.33	R 49.87	R 57.15	14.59%
ENERGY:						
PEAK LOW:	R 1.1350	C / KWH	R 1.2939	R 1.4990	R 1.718	14.59%
STD LOW:	R 0.7620	C / KWH	R 0.8687	R 1.1150	R 1.278	14.59%
OFF-PEAK LOW:	R 0.5840	C / KWH	R 0.6658	R 0.7116	R 0.815	14.59%
PEAK HIGH:	R 3.6880	C / KWH	R 4.2043	R 4.3550	R 4.990	14.59%
STD HIGH:	R 1.0840	C / KWH	R 1.2358	R 1.4000	R 1.604	14.59%
OFF-PEAK HIGH:	R 0.6570	C / KWH	R 0.7490	R 0.8090	R 0.927	14.59%
Ancillary service charge [c/kWh]	-	C / KWH	-		R 0.006	

Mega / Miniflex

Special Bulk Consumers Time of Use > 500 kVA

Megaflex / MiniFlex + 25% (Weighted Average)

CHARGE:	2018/19	Description	2019/2020	2020/2021	2021/2022	Excl VAT
BASIC:	R 222.96	R / DAY	R 254.179	R 267.790	R 306.86	14.59%
DEMAND:	R 87.36	R / KVA (ACT.	R 99.593	R 104.920	R 120.23	14.59%
ACCESS:	R 39.56	R / KVA (MND	R 45.098	R 47.510	R 54.44	14.59%
ENERGY:						
PEAK LOW:	R 1.3880	C / KWH	R 1.582	R 1.640	R 1.879	14.59%
STD LOW:	R 0.9910	C / KWH	R 1.130	R 1.171	R 1.342	14.59%
OFF-PEAK LOW:	R 0.7080	C / KWH	R 0.807	R 0.838	R 0.960	14.59%
PEAK HIGH:	R 3.9500	C / KWH	R 4.503	R 4.672	R 5.354	14.59%
STD HIGH:	R 1.2760	C / KWH	R 1.455	R 1.508	R 1.728	14.59%
OFF-PEAK HIGH:	R 0.8350	C / KWH	R 0.952	R 0.986	R 1.130	14.59%
Ancillary service charge [c/kWh]	-	C / KWH	-		R 0.006	

Mega / Miniflex

It should be noted the Ancillary Service Charges will be removed from the schedule.

4.6 Sanitation tariffs

A tariff increases of 4.4% for sanitation from 1 July 2021 is proposed.

SEWERAGE					
Sewerage Basic Tariff	2018/19	2019/20	2020/21	2021/22	Incl VAT
Availability per month	273.45	314.47	339.62	354.61	407.80
Residential unit per month	183.48	211.00	227.88	237.91	273.60
Residential old age unit per month	133.22	153.20	165.46	172.70	198.60
Sewerage per Pan per month					
Businesses [1 to 15 pans]	205.99	236.89	255.84	267.13	307.20
Businesses [16 and more pans]	164.07	188.68	203.77	212.78	244.70
Hotels B&B's and Guest Houses	191.42	220.13	237.74	248.17	285.40
Schools and Hostels (1 to 15 pans)	164.07	188.68	203.77	212.70	244.60
Schools and Hostels (16 and more pans)	175.55	201.89	218.04	227.65	261.80
Churches and Social Service centres	133.22	153.20	165.46	172.78	198.70
Septic Tanks					
Basic Charge fixed cost per month	70.12	80.63	87.08	90.96	104.60
Service on request -	-	-	-	-	-
Service - (Normal Hours) - Residential (Per Suction)	183.48	211.00	227.88	237.91	273.60
Service - (Normal Hours) - Businesses (Per Suction)	183.48	211.00	227.88	237.91	273.60
Service - After hours (Mon - Thur)	393.17	452.15	488.32	509.83	586.30
Service - After hours (Friday till Monday 7h30 including Public Holidays)	458.70	527.50	569.70	594.78	684.00
Travelling Cost outside Town per Km (Farms)	12.62	14.51	15.87	16.35	18.80
Sundry Tariffs					
Connection Costs	2 472.77	2 843.68	3 071.18	3 206.35	3 687.30
Connection Costs - Indigent	123.64	142.18	153.56	160.35	184.40
Actual Cost + 30% Administration fee	-	-	-	-	-
Stortings tarief (Vuil fabriek water in riool stelsel) (PER /M3)	6.82	7.85	R 8.47	8.87	10.20
Blockages - Service delivered on private property	-	-	-	-	-
* Week Days Cost per hour [minimum 1 Hour]	6 072.45	6 983.32	417.00	435.39	500.70
* After hours Cost per hour [Minimum 1 Hour]	6 072.45	6 983.32	625.00	652.52	750.40
-	-	-	-	-	-
Departmental Accounts					
Departmental Levy	93.53	107.56	116.17	121.30	139.50

4.6.1 Overall impact of tariff increases on households

It should be noted that the majority of indigent households in Kannaland are situated in the affordable house areas. The valuation of these houses was increased from R70 000 to R120 000 with the indigent policy adjusted accordingly and therefor will get a property rates rebate to the full amount. Indigent households receive a discount on their services equal to the basic charge for water plus 6kl's water free, 50kwh electricity units, the monthly levy for refuse and sanitation.

4.6.2 Overall Transfers and Subsidies funding

The following table provides a breakdown of the various grants allocated to Kannaland Municipality from National Government and Provincial government for both Capital and Operational grants over the 2021/2022 MTREF:

Subsidies & Transfers			67,746,000,00	77,758,000,00	73,268,000,00
			Original Budget 21/22	MTREF Budget 22/23	MTRF Budget 23/24
	Grant	Dept			
Opex	Equitable Share	National	30,553,000,00	31,856,000,00	31,393,000,00
Opex	Financial Management Grant	National	2,811,000,00	2,932,000,00	2,932,000,00
Opex	Municipal Infrastructure Grant (Municipal)	National	529,700,00	554,150,00	568,700,00
Opex	Expanded Public Works	National	1,359,000,00	-	-
Opex	Human Settlement	Provincial	6,100,000,00	16,900,000,00	78,000,00
Opex	Western Cape Infrastructure Grant	Provincial	50,000,00	50,000,00	50,000,00
Opex	Western Cape Financial Management Capacity Building	Provincial	250,000,00	-	-
Opex	Library (Replacement)	Provincial	3,217,000,00	3,272,000,00	3,328,000,00
Opex	Community Development Workers	Provincial	113,000,00	113,000,00	113,000,00
Capex	Water Services Infrastructure Grant	National	10,000,000,00	9,552,000,00	21,000,000,00
Capex	Integrated National Electrification Programme	National	2,699,000,00	2,000,000,00	3,000,000,00
Capex	Municipal Infrastructure Grant (Capital)	National	10,064,300,00	10,528,850,00	10,805,300,00
			-		

4.6.3 CREDIT CONTROL AND DEBT COLLECTION

Credit control has been implemented internally. The Municipality has made an appointment of a permanent person to deal rigorously with the implementation of credit and debt control. We are anticipating improved application of the debt collection and may not meet the industry benchmark set at 93% but the Municipality is striving for improved collection percentages.

The budgeted average collection rate on service and property rates over the MTREF will be as follow:

- 2021/22 - 85%
- 2022/23 - 88.6%
- 2023/24 - 90.8%
- Traffic - 25% - 2021/22 and 35% over the balance of the MTREF.

The population of Kannaland Municipality can be regarded as impoverished, and unemployment is at an all-time high due to the impact of the drought and Covid-19. The economy is very much industry- (winery and dairy.) and agriculture-dependent that is seasonal in nature. The budget assumptions with regard to debt impairment are as follow:

PROVISION FOR BAD DEBT		2021/22		2022/23		2023/24			
Billed Service Charges		PROVISION	Collection Rate %	PROVISION	Collection Rate %	PROVISION	Collection Rate %		
Property Rates	R	4 441 640,00	81,0%	R	3 795 693,00	85,0%	R	2 904 620,00	89,0%
Electricity	R	757 572,00	98,5%	R	560 025,00	99,0%	R	621 681,00	99,0%
Water	R	5 322 925,00	75,0%	R	4 511 742,00	80,0%	R	4 460 176,00	81,5%
Sewerage	R	3 162 356,00	62,0%	R	2 774 257,00	68,0%	R	2 352 074,00	74,0%
Refuse	R	3 161 760,00	60,0%	R	2 634 878,00	68,0%	R	2 233 583,00	74,0%
Rent / Sundries	R	126 620,00	80,0%	R	65 960,00	90,0%	R	68 840,00	90,0%
Traffic Fines	R	3 750 000,00	25,0%	R	4 550 000,00	35,0%	R	5 525 000,00	35,0%
		<u>R</u>	<u>20 722 873,00</u>		<u>R</u>	<u>18 892 555,00</u>		<u>R</u>	<u>18 165 974,00</u>

4.7 OPERATING EXPENDITURE FRAMEWORK

The expenditure framework for the 2021/2022 budget and MTREF is informed by the guidelines of National Treasury.

Reasons for significant cost variances:

- Debt impairment – The calculation is based on the assumed payment ratios and also the current economic climate in Kannaland.
- Bulk purchases for electricity will increase significantly as a result of bulk increase of 17.90% in electricity prices for 2021/20220 financial year – The increase is based on the tariff for bulk purchases as set out by NERSA
- The municipality has applied a 3.9% for 2021/2022 and 4% for the outer years wage increases for salaries while awaiting the wage agreements negotiations between SALGA and Unions

Under expenditure, debt impairment will be the offset against revenue to ensure that that there are only budgeted for realistically realizable revenue.

The following table is a summary of the 2021/2022 MTREF (classified by main expenditure types):

WC041 Kannaland - Table A4 Budgeted Financial Performance (revenue and expenditure)											
Description	Ref	2017/18	2018/19	2019/20	Current Year 2020/21				2021/22 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
Expenditure By Type											
Employee related costs	2	(34 120)	398 931	233 101	58 317	61 101	61 101	186 155	65 553	67 834	70 270
Remuneration of councillors		2 998	38 293	26 964	3 578	3 394	3 394	9 514	3 637	3 782	3 933
Debt impairment	3	20 194	99 878	38 730	11 923	13 538	13 538	15 238	20 723	18 675	17 880
Depreciation & asset impairment	2	703	39 854	48 203	12 231	12 222	12 222	35 529	12 698	13 206	13 735
Finance charges		3 619	4 801	5 948	227	181	181	582	382	392	401
Bulk purchases	2	40 402	385 078	127 040	41 793	42 763	42 763	116 742	48 940	52 219	55 694
Other materials	8	1 716	39 006	19 296	7 107	11 547	11 547	17 673	7 193	7 292	7 603
Contracted services		16 576	35 905	42 118	15 682	18 164	18 164	35 203	17 971	27 926	12 717
Transfers and subsidies		4 453	22 220	(896)	470	770	770	1 186	838	872	907
Other expenditure	4, 5	9 320	78 324	49 403	11 857	14 596	14 596	31 830	13 895	14 367	14 981
Losses		2 966	395	25	-	-	-	-	-	-	-
Total Expenditure		68 826	1 142 684	589 932	163 186	178 276	178 276	449 651	191 830	206 565	198 122

The Operating Expenditure has increased from **R178 275 785** in **2020/2021** to **R191 830 122** in **2021/2022**. The biggest contributors to the increase are Employee related cost Bulk Purchases, debt impairment and other expenditure.

Employee Related Costs increased from **R61 101 188** (34% of operating expenditure) to **R65 552 680** (34% of operating expenditure). Provision has been made for a 3.9 % salary increase which is below the average annual increases for the past five years.

4.7.1 Office bearers/councillors/senior managers

The cost associated with the remuneration of Councillors is determined and informed directly by way of the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The determined upper limits of salaries, allowances and benefits of members of Council are gazetted annually in December/January. The latest gazette was published in December **2019/2020** by the Department of Cooperative Governance. The total cost to company cost for councillors amounted to **R 3 391 208**. The cost associated with the senior managers amounted to **R 3 060 138**, that includes the Municipal Manager, Chief Financial Officer and Director Technical services as per the approved organogram.

WC041 Kannaland - Supporting Table SA23 Salaries, allowances & benefits (political office bearers/councillors/senior managers)

WC041 Kannaland - Supporting Table SA23 Salaries, allowances & benefits (political office bearers/councillors/senior managers)								
Disclosure of Salaries, Allowances & Benefits 1.	Ref	No.	Salary	Contributions	Allowances	Performance Bonuses	In-kind benefits	Total Package
Rand per annum				1.				2.
Councillors	3							
Speaker	4	1	500 010	42 070	49 880	-	-	591 960
Chief Whip		-	-	-	-	-	-	-
Executive Mayor		1	881 600	39 000	49 880	-	-	970 480
Deputy Executive Mayor		1	404 210	-	49 880	-	-	454 090
Executive Committee		-	-	-	-	-	-	-
Total for all other councillors		-	1 109 050	139 400	371 700	-	-	1 620 150
Total Councillors	8	3	2 894 870	220 470	521 340			3 636 680
Senior Managers of the Municipality	5							
Municipal Manager (MM)		1	1 062 390	23 606	250 893	-	-	1 336 889
Chief Finance Officer		1	983 000	-	198 000	-	-	1 181 000
Director Technical Services		1	479 500	11 749	51 000	-	-	542 249
		-	-	-	-	-	-	-
		-	-	-	-	-	-	-
		-	-	-	-	-	-	-
<i>List of each official with packages >= senior manager</i>								
		-	-	-	-	-	-	-
		-	-	-	-	-	-	-
		-	-	-	-	-	-	-
		-	-	-	-	-	-	-
		-	-	-	-	-	-	-
		-	-	-	-	-	-	-
		-	-	-	-	-	-	-
		-	-	-	-	-	-	-
		-	-	-	-	-	-	-
		-	-	-	-	-	-	-
Total Senior Managers of the Municipality	8,10	3	2 524 890	35 355	499 893	-	-	3 060 138

4.7.2 Budgeted financial performance (revenue and expenditure by functional classification)

WC041 Kannaland - Table A2 Budgeted Financial Performance (revenue and expenditure by functional classification)										
Functional Classification Description	Ref	2017/18	2018/19	2019/20	Current Year 2020/21			2021/22 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
Revenue - Functional										
Governance and administration		8 883	254 821	333 682	37 632	46 952	46 952	40 973	42 937	43 327
Executive and council		59 485	216 127	181 184	8 920	13 356	13 356	6 402	7 261	6 313
Finance and administration		(50 602)	38 694	152 498	28 712	33 597	33 597	34 571	35 676	37 014
Internal audit		-	-	-	-	-	-	-	-	-
Community and public safety		27 923	53 938	192 872	15 167	19 883	19 883	20 827	30 822	14 371
Community and social services		14 105	22 151	174 854	14 967	18 682	18 682	14 727	13 922	14 293
Sport and recreation		(4 502)	(901)	10 230	-	-	-	-	-	-
Public safety		11 293	30 732	7 028	-	-	-	-	-	-
Housing		7 027	1 957	760	200	1 201	1 201	6 100	16 900	78
Health		-	-	-	-	-	-	-	-	-
Economic and environmental services		12 451	8 435	64 458	7 398	6 490	6 490	7 047	9 380	11 315
Planning and development		(14)	333	111	-	-	-	-	-	-
Road transport		12 465	8 102	64 347	7 398	6 490	6 490	7 047	9 380	11 315
Environmental protection		-	-	-	-	-	-	-	-	-
Trading services		108 204	616 620	1 487 450	168 884	136 045	136 045	140 336	148 164	171 307
Energy sources		62 046	341 047	627 214	59 735	62 782	62 782	74 321	80 697	89 962
Water management		24 913	128 341	402 000	50 507	43 229	43 229	35 358	36 350	49 533
Waste water management		13 279	79 148	248 048	44 106	14 396	14 396	15 079	15 523	16 201
Waste management		7 968	68 083	210 189	14 537	15 637	15 637	15 578	15 595	15 610
Other	4	(143)	-	-	-	-	-	-	-	-
Total Revenue - Functional	2	157 318	933 813	2 078 462	229 081	209 370	209 370	209 182	231 303	240 319
Expenditure - Functional										
Governance and administration		45 856	329 155	228 735	51 106	58 889	58 889	57 383	57 784	59 890
Executive and council		(38 016)	116 649	29 466	12 074	19 762	19 762	17 062	17 045	18 625
Finance and administration		83 872	212 506	199 269	39 031	39 128	39 128	40 321	40 739	41 265
Internal audit		-	-	-	-	-	-	-	-	-
Community and public safety		(3 901)	91 874	(26 134)	10 729	11 678	11 678	17 233	27 089	10 674
Community and social services		(14 635)	33 387	(24 025)	8 333	8 729	8 729	9 166	8 133	8 458
Sport and recreation		4 672	2 771	(9 051)	812	597	597	549	572	595
Public safety		1 025	29 010	2 629	207	261	261	375	390	405
Housing		5 037	26 705	4 313	1 376	2 091	2 091	7 143	17 994	1 216
Health		-	-	-	-	-	-	-	-	-
Economic and environmental services		(1 815)	21 578	59 693	19 221	15 335	15 335	16 083	18 089	19 597
Planning and development		27	132	(111)	-	-	-	-	-	-
Road transport		(1 842)	21 446	59 804	19 221	15 335	15 335	16 083	18 089	19 597
Environmental protection		-	-	-	-	-	-	-	-	-
Trading services		27 553	700 236	158 874	82 131	92 373	92 373	101 131	103 603	107 961
Energy sources		31 143	430 297	167 855	53 186	54 962	54 962	59 169	62 485	66 425
Water management		(1 132)	128 935	3 718	13 240	16 350	16 350	18 684	18 013	18 436
Waste water management		(5 077)	61 551	12 442	6 906	8 413	8 413	9 711	9 418	9 273
Waste management		2 619	79 454	(25 141)	8 799	12 649	12 649	13 566	13 687	13 828
Other	4	286	-	-	-	-	-	-	-	-
Total Expenditure - Functional	3	67 979	1 142 843	421 168	163 186	178 276	178 276	191 830	206 565	198 122
Surplus/(Deficit) for the year		89 339	(209 030)	1 657 293	65 894	31 094	31 094	17 352	24 738	42 197

4.7.3 Budgeted financial performance (revenue and expenditure by municipal vote)

WC041 Kannaland - Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)										
Vote Description	Ref	2017/18	2018/19	2019/20	Current Year 2020/21			2021/22 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
Revenue by Vote										
Vote 1 - MUNICIPAL MANAGER			207 563	122 055	8 920	13 356	13 356	6 402	7 261	6 313
Vote 2 - CORPORATE SERVICES			42 494	193 208	21 132	24 971	24 971	26 377	40 052	25 534
Vote 3 - FINANCIAL SERVICES			88 540	231 296	28 412	33 316	33 316	34 128	35 221	36 547
Vote 4 - TECHNICAL SERVICES			595 216	1 364 199	170 617	137 727	137 727	142 274	148 769	171 925
			933 813	1 910 758	229 081	209 370	209 370	209 182	231 303	240 319
Expenditure by Vote to be appropriated										
Vote 1 - MUNICIPAL MANAGER	1		124 380	89 304	12 074	19 762	19 762	17 062	17 045	18 625
Vote 2 - CORPORATE SERVICES			163 578	94 283	30 120	29 458	29 458	34 547	47 369	32 553
Vote 3 - FINANCIAL SERVICES			99 654	58 200	25 429	26 016	26 016	29 387	29 296	29 371
Vote 4 - TECHNICAL SERVICES			753 466	342 436	94 418	101 645	101 645	109 345	111 305	115 962
Vote 5 - CALITZDORP SPA			-	-	-	-	-	-	-	-
Vote 5 - CALITZDORP SPA			1 766	4 650	1 145	1 395	1 395	1 490	1 549	1 611
Total Expenditure by Vote	2		1 142 843	588 872	163 186	178 276	178 276	191 830	206 565	198 122
Surplus/(Deficit) for the year	2		(209 030)	1 321 886	65 894	31 094	31 094	17 352	24 738	42 197

4.8 CAPITAL BUDGET

The Capital Budget for 2021/2022 amounts to **R23 767 300**, that is funded by National Government Grant (R 22 763 000) and Own funded (R 1 004 000).

This Capital Budget has been compiled with due consideration to the direct impact that it would have on the Operating Budget and our cash position where projects are to be funded solely from internal sources and not external borrowings. With the current financial constraints that exist on budget it was decided to not obtain external funding for capital projects. The Capital Budget reflects the following budget allocation to the various departments and reflects the strategic priorities outlined in the IDP. (A5)

The demand for future capital expenditure cannot be completely reliable on grant funding but will have to be expanded. All capital expenditure has been funded in recent years by conditional grants that have the objective to eradicate backlogs in service delivery as a result of the inequalities of the past. The problem arising from this is that the infrastructure that is responsible for economic activity is not only outdated but has not been properly maintained for decades.

The economic life of the before-mentioned infrastructure is coming to an end with no strategy or provision in place to address the inevitable situation where general reactive maintenance and repairs will just not suffice. Therefore, it is of the utmost importance that a CRR (capital replacement reserve) be established in the near future to ensure not only a sustainable municipality but a self-sustainable local economy that would contribute to job creation and the eradication of poverty. Industry norm and good practice would be to contribute two per cent of the net carrying value of immovable assets to the CRR and to aim in achieving this objective should be a priority as the liquidity position of Kannaland Municipality improves.

4.8.1 Table A5 Budgeted capital expenditure by vote, functional classification and funding

WC041 Kannaland - Table A5 Budgeted Capital Expenditure by vote, functional classification and funding											
Vote Description	Ref	2017/18	2018/19	2019/20	Current Year 2020/21				2021/22 medium-term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
Capital expenditure - Vote											
Multi-year expenditure to be appropriated	2										
Vote 1 - MUNICIPAL MANAGER		-	-	-	-	-	-	-	-	-	-
Vote 2 - CORPORATE SERVICES		-	-	-	1 000	1 650	1 650	-	-	-	-
Vote 3 - FINANCIAL SERVICES		-	-	-	-	700	700	-	-	-	-
Vote 4 - TECHNICAL SERVICES		-	-	(457)	-	-	-	-	-	-	-
Vote 5 - CALITZDORP SPA		-	-	-	-	-	-	-	-	-	-
Vote 6 - CORPORATE SERVICES (Continued)		-	-	-	-	-	-	-	-	-	-
Capital multi-year expenditure sub-total		-	-	(457)	1 000	2 350	2 350	-	-	-	-
Single-year expenditure to be appropriated	2										
Vote 1 - MUNICIPAL MANAGER		-	-	-	-	-	-	-	192	-	-
Vote 2 - CORPORATE SERVICES		-	3 161	902	4 454	4 454	4 454	-	1 023	-	-
Vote 3 - FINANCIAL SERVICES		-	(47 430)	(10 302)	-	-	-	-	1 664	-	-
Vote 4 - TECHNICAL SERVICES		-	99 155	9 123	57 867	30 746	30 746	-	20 888	22 081	34 805
Vote 5 - CALITZDORP SPA		-	-	-	-	-	-	-	-	-	-
Vote 6 - CORPORATE SERVICES (Continued)		-	-	-	-	-	-	-	-	-	-
Capital single-year expenditure sub-total		-	54 886	(276)	62 321	35 200	35 200	-	23 767	22 081	34 805
Total Capital Expenditure - Vote	3,7	-	54 886	(733)	63 321	37 550	37 550	-	23 767	22 081	34 805
Capital Expenditure - Functional											
Governance and administration		(5 855)	1 601	118	-	700	700	614	2 001	-	-
Executive and council		-	-	-	-	-	-	-	192	-	-
Finance and administration		(5 855)	1 601	118	-	700	700	614	1 809	-	-
Internal audit		-	-	-	-	-	-	-	-	-	-
Community and public safety		4 213	568	(10 491)	5 454	6 104	6 104	1 276	378	-	-
Community and social services		19	-	-	4 145	4 795	4 795	1 107	-	-	-
Sport and recreation		4 194	568	(10 491)	1 309	1 309	1 309	169	378	-	-
Public safety		-	-	-	-	-	-	-	-	-	-
Housing		-	-	-	-	-	-	-	-	-	-
Health		-	-	-	-	-	-	-	-	-	-
Economic and environmental services		1 290	-	-	-	7	7	-	500	-	-
Planning and development		-	-	-	-	-	-	-	-	-	-
Road transport		1 290	-	-	-	7	7	-	500	-	-
Environmental protection		-	-	-	-	-	-	-	-	-	-
Trading services		10 802	(1 298)	(2 824)	57 867	30 739	30 739	8 836	20 888	22 081	34 805
Energy sources		4 786	67	(1 221)	-	2 699	2 699	-	2 699	2 000	3 000
Water management		5 045	(1 366)	(1 590)	27 867	28 040	28 040	8 836	18 189	20 081	31 805
Waste water management		971	-	(12)	30 000	-	-	-	-	-	-
Waste management		-	-	-	-	-	-	-	-	-	-
Other		-	-	-	-	-	-	-	-	-	-
Total Capital Expenditure - Functional	3,7	10 450	871	(13 197)	63 321	37 550	37 550	10 725	23 767	22 081	34 805
Funded by:											
National Government		13 037	(1 684)	(13 185)	59 721	30 805	30 805	8 264	22 763	22 081	34 805
Provincial Government		3 268	954	(130)	3 600	6 045	6 045	1 848	-	-	-
District Municipality		-	-	-	-	-	-	-	-	-	-
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)		-	-	-	-	-	-	-	-	-	-
Transfers recognised - capital	4	16 305	(730)	(13 315)	63 321	36 850	36 850	10 112	22 763	22 081	34 805
Public contributions & donations	5	-	-	-	-	-	-	-	-	-	-
Borrowing	6	-	-	-	-	-	-	-	-	-	-
Internally generated funds		-	(64)	-	-	700	700	614	1 004	-	-
Total Capital Funding	7	16 305	(795)	(13 315)	63 321	37 550	37 550	10 725	23 767	22 081	34 805

4.9 BUDGET SCHEDULES

4.9.1 Table A6 Budgeted financial position

WC041 Kannaland - Table A6 Budgeted Financial Position											
Description	Ref	2017/18	2018/19	2019/20	rent Year 2020/21			Pre-audit outcome	2021/22	Budget Year	Budget Year
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast		Medium 2021/22	+1 2022/23	+2 2023/24
R thousand											
ASSETS											
Current assets											
Cash		65 488	1 732	1 381	125 945	118 831	118 831	25 505	(15 175)	(4 869)	(11 072)
Call investment deposits	1	0	8 576	21 376	8 387	37 862	37 862	3 634	37 862	-	-
Consumer debtors	1	(5 117)	(653 807)	(148 966)	(17 826)	(20 914)	(20 914)	(67 964)	3 456	(5 559)	(6 480)
Other debtors		(791)	(26 043)	(16 326)	(28 559)	(86 607)	(86 607)	(17 594)	(46 381)	(2 450)	(2 975)
Current portion of long-term receivables		-	(5)	(5)	(8)	-	-	-	-	-	-
Inventory	2	(16)	924	418	(2 990)	(407)	(407)	864	(2 867)	(5 333)	(5 566)
Total current assets		59 565	(668 623)	(142 122)	84 949	48 765	48 765	(55 555)	(23 104)	(18 212)	(26 093)
Non current assets											
Long-term receivables		-	-	-	-	-	-	-	-	-	-
Investments		-	(36)	-	-	-	-	-	-	-	-
Investment property		(98)	(211)	(124)	1 489	2 729	2 729	-	1 364	-	-
Investment in Associate		-	-	-	-	-	-	-	-	-	-
Property, plant and equipment	3	1 754	(227 426)	(750 028)	376 628	362 217	362 217	(707 931)	349 890	10 936	23 215
Agricultural		-	-	-	-	-	-	-	-	-	-
Biological		-	-	-	-	-	-	-	-	-	-
Intangible		(29)	(52)	(7)	15	46	46	(28)	38	-	-
Other non-current assets		-	-	-	-	-	-	-	-	-	-
Total non current assets		1 626	(227 724)	(750 160)	378 132	364 992	364 992	(707 959)	351 292	10 936	23 215
TOTAL ASSETS		61 191	(896 348)	(892 281)	463 081	413 758	413 758	(763 514)	328 188	(7 276)	(2 878)
LIABILITIES											
Current liabilities											
Bank overdraft	1	-	-	-	-	-	-	-	-	-	-
Borrowing	4	-	(293)	(951)	(605)	(1 731)	(1 731)	(968)	(1 731)	(1 145)	(1 145)
Consumer deposits		-	11	63	964	2 055	2 055	88	1 027	-	-
Trade and other payables	4	1 324	(751 350)	(44 814)	110 222	119 202	119 202	46 777	16 025	(26 048)	(38 902)
Provisions		(2 373)	(357)	(2 006)	2 654	25 237	25 237	-	12 619	-	-
Total current liabilities		(1 049)	(751 989)	(47 708)	113 235	144 764	144 764	45 897	27 940	(27 193)	(40 046)
Non current liabilities											
Borrowing		0	(1 166)	(4 700)	1 141	(429)	(429)	(3 641)	(429)	(1 292)	(1 292)
Provisions		3 206	2 452	(12 207)	32 352	37 511	37 511	(26 046)	37 511	-	-
Total non current liabilities		3 206	1 285	(16 908)	33 493	37 082	37 082	(29 687)	37 082	(1 292)	(1 292)
TOTAL LIABILITIES		2 157	(750 703)	(64 615)	146 728	181 846	181 846	16 210	65 023	(28 485)	(41 339)
NET ASSETS	5	59 034	(145 644)	(827 666)	316 353	231 912	231 912	(779 724)	263 166	21 209	38 461
COMMUNITY WEALTH/EQUITY											
Accumulated Surplus/(Deficit)		(476)	1 347	(5 044)	251 727	477 907	477 907	-	238 953	-	-
Reserves	4	(79)	(701)	(1 480)	(1 427)	10 904	10 904	(1 389)	10 904	-	-
TOTAL COMMUNITY WEALTH/EQUITY	5	(555)	645	(6 524)	250 300	488 811	488 811	(1 389)	249 857	-	-

4.9.2 Table A7 Budgeted cash flows

WC041 Kannaland - Table A7 Budgeted Cash Flows

WC041 Kannaland - Table A7 Budgeted Cash Flows											
Description	Ref	2017/18	2018/19	2019/20	Current Year 2020/21				2021/22 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
CASH FLOW FROM OPERATING ACTIVITIES											
Receipts											
Property rates		-	24 007	(7 791)	18 701	15 571	15 571	(26 297)	20 213	21 645	23 444
Service charges		-	14 298	(73 513)	111 548	110 122	110 122	(172 100)	89 407	100 047	111 084
Other revenue		-	11 918	3 940	2 027	2 939	2 939	(3 734)	9 833	13 493	16 103
Transfers and Subsidies - Operational	1	-	28 700	(63 235)	35 224	40 725	40 725	(100 290)	44 598	55 268	38 039
Transfers and Subsidies - Capital	1	-	25 000	(59 725)	63 321	36 843	36 843	(85 486)	22 763	22 081	34 805
Interest		-	4 487	2 910	-	4 966	4 966	(709)	3 961	4 114	4 262
Dividends		-	3	3	-	-	-	-	-	-	-
Payments											
Suppliers and employees		(2 522)	(603 403)	(353 475)	(107 815)	(102 859)	(102 859)	(193 760)	(152 375)	(187 873)	(189 823)
Finance charges		-	-	-	-	-	-	-	-	-	-
Transfers and Grants	1	-	-	(3 834)	-	-	-	-	-	-	-
NET CASH FROM/(USED) OPERATING ACTIVITIES		(2 522)	(494 989)	(554 721)	123 006	108 307	108 307	(582 377)	38 401	28 774	37 914
CASH FLOWS FROM INVESTING ACTIVITIES											
Receipts											
Proceeds on disposal of PPE		-	-	-	-	-	-	-	-	-	-
Decrease (increase) in non-current receivables		-	-	-	-	-	-	-	-	-	-
Decrease (increase) in non-current investments		-	-	-	-	-	-	-	-	-	-
Payments											
Capital assets		-	-	-	-	-	-	-	(23 767)	(22 081)	(34 805)
NET CASH FROM/(USED) INVESTING ACTIVITIES		-	-	-	-	-	-	-	(23 767)	(22 081)	(34 805)
CASH FLOWS FROM FINANCING ACTIVITIES											
Receipts											
Short term loans		-	-	-	-	-	-	-	-	-	-
Borrowing long term/refinancing		-	-	-	-	-	-	-	-	-	-
Increase (decrease) in consumer deposits		-	-	-	-	-	-	-	-	-	-
Payments											
Repayment of borrowing		-	-	-	-	-	-	-	(572)	(572)	(572)
NET CASH FROM/(USED) FINANCING ACTIVITIES		-	-	-	-	-	-	-	(572)	(572)	(572)
NET INCREASE/ (DECREASE) IN CASH HELD		(2 522)	(494 989)	(554 721)	123 006	108 307	108 307	(582 377)	14 061	6 120	2 536
Cash/cash equivalents at the year begin:	2	-	(2)	(276 099)	11 631	84 975	84 975	(276 099)	42 488	56 549	62 669
Cash/cash equivalents at the year end:	2	(2 522)	(494 992)	(830 820)	134 637	193 282	193 282	(858 476)	56 549	62 669	65 206

4.10 PART 2 – SUPPORTING DOCUMENTATION

4.10.1 BUDGET PREPERATION PROCESS

A central element of the reforms is a change to the way that municipalities prepare their budgets.

The MFMA requires a council to adopt three-year capital and operating budgets that take into account, and are linked to, the municipality’s current and future development priorities (as contained in the IDP) and other finance-related policies (such as those relating to free basic service provision).

These budgets must clearly set out revenue by source and expenditure by vote over three years and must be accompanied by performance objectives for revenue and expenditure, a cash flow statement and particulars on borrowing, investments, municipal entities and service delivery agreements, grant allocations and details of employment costs.

The budget may be funded only from realistic estimates of revenue and cash-backed surplus funds from the previous year and borrowings (the latter for capital items only).

4.10.1.1 Budget preparation timetable

The first step in the budget preparation process is to develop a timetable of all key deadlines relating to the budget and to review the Municipality’s IDP and budget-related policies.

The budget preparation timetable should be prepared by Senior Management and tabled by the Executive Mayor for Council to adoption ten (10) months before the commencement of the next budget year.

The next diagram depicts the planning, implementation and monitoring process that is followed:



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 a time schedule of key deadlines that sets out the process to revise the IDP and prepare the budget.

4.10.1.2 Key Deadlines relating to the budget process

The key deadlines are detailed in the IDP process plan.

4.10.1.3 Approval of the budget

The final budget was intended to be tabled by the mayor on the 31 May 2021 as per MFMA and MBRRR regulations to the Kannaland Municipality council, due to unforeseen circumstance and council processes, the budget has been scheduled to be approved on the 30th June 2021.

Once tabled at Council, the Municipal Manager must make public the appropriate budget documentation and submit it to both the national and the relevant provincial treasury and any other government departments as required. At this time, the local community must be invited to submit representations on what is contained in the budget.

Consultation with the community and key stakeholders

When the budget is tabled, Council must have considered the views of the local community, the national and the relevant provincial treasury and other municipalities and government departments that may have made submissions on the budget.

The consultation with national and provincial Treasuries regarding the MTREF is attached as an annexure to this document.

Public participation process has been conducted as part of the IDP and budget road shows. The overall objective of this road show was to ensure an authentic and inclusive public participation process for the IDP and budget.

The Public Participation meetings (road shows) were held during May 2021 taking cognisance of the lockdown regulations, within the respective wards of Kannaland. The planned road shows were driven by a Steering Committee constituted by politicians and officials from all directorates. This Committee provided guidance and feedback on areas that required improvement as the IDP and budget road shows unfolded.

A complete report regarding the feedback on the public participation process will be included in the IDP document.

4.10.2 SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN

The Municipal Manager must within fourteen days after the approval of the annual budget submit to the Executive Mayor for approval a service delivery and budget implementation plan and annual performance agreements for all pertinent senior staff.

A service delivery and budget implementation plan is a detailed plan for implementing the delivery of municipal services contemplated in the annual budget and should indicate monthly revenue and expenditure projections and quarterly service delivery targets and performance indicators.

The Executive Mayor must approve the service delivery and budget implementation plan within 28 days of the approval of the annual budget.

This plan must then be monitored by the Executive Mayor and reported on to Council on a regular basis. The Municipal Manager is responsible for implementation of the budget and must take steps to ensure that all spending is in accordance with the budget and that revenue and expenditure are properly monitored.

Council may incur expenditure only if it is in terms of the budget, within the limits of the amounts appropriated against each budget vote – and in the case of capital expenditure, only if Council has approved the project. Expenditure incurred outside of these parameters may be considered to be unauthorized. Unauthorized expenditure must be reported with irregular, fruitless and wasteful expenditure, and may result in criminal proceedings.

4.10.3 ALIGNMENT OF BUDGET TO IDP

Local priorities were identified as part of the IDP process which is directly aligned to that of national and provincial priorities.

The IDP strategic objectives and goals are set out in the IDP document.

Kannaland is the place of choice and this along with the strategic vision and mission has led to the conceptualization of five strategic goals for Kannaland. These goals are as follows:

Strategic objective	Key performance area
To provide access to reliable infrastructure that will contribute to a higher quality of life for Kannaland citizens	Infrastructure
To provide adequate services and improve our public relations	Services and public relations
To strive towards a safe community in Kannaland through the proactive management of traffic, environmental health, fire and disaster risks	Safe community environment

To facilitate economic growth and social and community development	Economic growth and development
To promote efficient and effective governance with high levels of stakeholder participation.	Governance and stakeholder participation
To provide an efficient workforce by aligning our institutional arrangements to our overall strategy	Institutional transformation
To strive towards a financially sustainable municipality	Financial sustainability

The above strategic goals are set to become the catalysts to ensure that the vision and mission is achieved in the next five years.

The 2021/2022 MTREF has, therefore, been directly informed by the IDP and the following tables provide reconciliation between the IDP strategic objectives and goals.

Please find attached:

- Table 27 – SA4: Reconciliation between IDP strategic objectives and budgeted operating revenue
- Table 28 – SA5: Reconciliation between IDP strategic objectives and budgeted operating expenditure
- Table 29 – SA6: Reconciliation between IDP strategic objectives and budgeted capital expenditure

The mentioned documents will be adjusted accordingly to rectify deviations and missing information, prior to the approval of the final budget.

4.10.4 MEASURABLE PERFORMANCE OBJECTIVES (MPOS) AND INDICATORS

The MPOs included in the table below are only those that are linked to basic service delivery. See Annexure SA7: Measurable performance objectives.

The key financial indicators and ratios are expressed in the table attached - See Annexure SA8:

Financial indicators and benchmarks.

4.10.5 OVERVIEW OF BUDGET RELATED POLICIES

The Municipality’s budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

Section 17(3)(e) of the Municipal Finance Management Act, (Act No 56 of 2003) prescribes that the Municipality must review the budget related policies annually. Herewith follows suggested changes to council’s budget related policies:

The budget committee considered amendments to various policies and the following budget-related policies were reviewed:

1. Customer Care, Credit Control and Debt Collection
2. Property Rates
3. Tariff Policy
4. Unauthorized, Irregular and Fruitless and Wasteful Expenditure
5. Indigent
6. Budget & Virement Policy
7. Cash Management and Investment
8. Supply Chain Management
9. PPPFA
10. Asset Management
11. Funding Borrowing and Reserve
12. Liquidity
13. Budget Implementation and Monitoring
14. Bad Debt Write-Off
15. Fleet Management
16. Grants-In-Aid

17. Travel And Subsistence
18. Risk Management
19. Capital Contribution Policy
20. Water Losses
21. Electricity Losses
22. Public Participation

The following by-laws need to be advertised after council approval:

- Customer Care, Credit Control & Debt Collection By-Law;
- Tariff By-Law; and
- Property rates by-law.

The Budget Committee has indicated that the finalization of the policy changes will be finalized after the budget consultation process is completed. The policies are contained in the budget document and placed on municipal website for public comment.

The following financial policies need to be reviewed in future:

- Infrastructure Investment and capital projects including planning and approval of capital projects policy on developer contributions – this is to be included in the tariff policy.
- Unforeseen and unavoidable expenditure
- Policy dealing with management and oversight
- Cost Containment policies and policies envisaged to give effect to cost containment.

Budget related policies are attached as annexures to this document.

4.10.5.1 Review of current policies

Except for the policies mentioned below, the budget-related policies must be reviewed and material changes be noted.

Virement policy

National Treasury must inform us as to the MSCOA changes.

A new policy is necessary for the long-term financial plan and it has been included in the draft budget policies.

4.10.6 BUDGET ASSUMPTIONS

Budgets are prepared in an environment of uncertainty. To prepare meaningful budgets, assumptions need to be made about internal and external factors that could influence the budget. Documentation of the assumptions used in preparing the budget assists understanding of the information. This section provides a comprehensive summary of all the assumptions used in preparing the budget.

4.10.7 National Treasury MFMA Circular 108

These circulars were issued in December 2020 and they provide guidance to municipalities for the preparation of the 2021/2022 budget and MTREF.

4.10.8 Inflation Outlook

In MFMA Circular No. 108, inflation forecasts are estimated at as actual 2020/2021 3.3% and 2021/2022 3.9% and 2022/2023 4.2% respectively for the MTREF.

4.10.8.1 Rates, tariffs, charges and timing of revenue collection

The increases of tariffs and rates excluding Electricity tariffs will be within the norm set by National Treasury and the South African Reserve Bank's inflation target. In order to have a cash funded budget the following tariff increases are recommended for the 2021/2023 financial year:

	Final Budget 2019/20	Budget 2020/21	Budget 2021/22
Rates	6%	5.2%	4% & 6%
Tariffs:			
Water	6%	5.2%	4.4%
Sewerage	6%	5.2%	4.4%
Electricity (Pending NERSA)	6.0%	+7%*	14.59%
Cleansing	6%	5.2%	4.4%
General charges	6%	5.2%	4.4%

*The Electricity tariffs is subject to approval by NERSA before the approval of the final budget.

The final reviewed cash flow statement will show when rates and tariffs are expected to be collected over the financial year. In general terms, the timing of rates, tariffs and charges are based on the following:

Rates	Monthly billing. Interim billing throughout the year.
Tariffs	Monthly billing. On-going prepayment meters. Seasonal fluctuations.
Charges	Generally steady state throughout the financial year with seasonal fluctuations

4.10.8.2 Collection rates for each revenue source and customer type

Bad debt provisions and collection rates are assumed in the MTREF were already discussed earlier in this document.

4.10.8.3 Price movements on specifics e.g. bulk purchases

The following amounts are included in the MTREF for increases in bulk purchases;

	2020/2021	2021/2022	2022/2023
Bulk Purchases	16 %	17.90%	9%

4.10.8.4 Average salary increases

The MTREF includes the following average percentage increases for wages, salaries and for councillors' remuneration;

Description	2020/2021	2021/2022
Councillors	As Per Government Gazette	As Per Government Gazette
Section 57 employees	As Per Government Gazette	As Per Government Gazette
Salaried employees	6.25%	5% pending Salga Negotiations
Casual employees	4%	3.9 %

4.10.8.5 Industrial relations climate, reorganization and capacity building

The ability of the Municipality to deliver quality services is virtually entirely dependent on its staff. Failure by the Municipality to invest in its staff to ensure that the capacity and skills exist to meet the challenges being faced by Kannaland will ultimately mean a failure to deliver services. Currently, the Municipality face financial constraints which do not make it possible for all employees to receive the required training. As result, the Municipality has developed a training plan to priorities critical training. The Municipality is also facing capacity constraints which cannot be merely rectified through training.

4.10.8.6 2.6.8 – Trends in demand for free or subsidized basic services

Kannaland criteria for supporting free or subsidized basic services are set out in the indigent policy. The government allocates revenue via the equitable share grant with the primary aim of assisting municipalities with the costs of providing free or subsidized basic services. Any costs over and above the equitable share allocation must be paid by the consumer.

COST OF FREE BASIC SERVICES					
2021/2022					
Elec	Water	Refuse	Sewerage	Rates	Total
R3 563 570,00	R4 010 000,00	R7 570 000,00	R6 570 000,00	R2 550 000,00	R24 263 570,00
2022/2023					
Elec	Water	Refuse	Sewerage	Rates	
R3 563 570,00	R4 178 420,00	R7 570 000,00	R6 845 940,00	R2 550 000,00	R24 707 930,00
2023/2024					
Elec	Water	Refuse	Sewerage	Rates	
R3 563 570,00	R4 362 270,00	R7 570 000,00	R7 147 160,00	R2 550 000,00	R24 263 570,00

4.10.8.7 Capital budget

The Municipality provided grant funded projects as gazetted in the Division of Revenue Act, for the 2021/2022 annual budget.

4.10.8.8 Implications of restructuring and other major events in the future

The Municipality is currently in the process of implementing changes to the micro structure. These changes are being done internally with the existing staff component. These changes will be implemented to streamline service delivery and to affect savings.

4.10.8.9 Budgeting for contingency plans for prolonged power outages

This Municipality is in the process of implementing contingency plans to address Eskom power outages such as the procurement of generators. Due to financial constraints the municipality would only be able to realize these goals in the adjustment budget.

However, it has been established that the government is collectively working with Eskom to mitigate the impact of power cuts. These efforts will improve the availability of electricity over the medium term, and plans are under way to ensure that South Africa can generate sufficient energy to power its economy over the long term. The government consistently encourages a reduction in energy consumption and promotion of energy efficiency.

Consequently, the response from government is to address the immediate challenge and it would therefore be premature for municipalities to invest in contingency infrastructure with the expectation of funding.

4.10.8.10 Service level standards

A broad guideline was provided on the minimum service standards to be incorporated in the budget documentation. In addition to the guideline, a framework was developed as an outline to assist municipalities in finalizing their service level standards.

It is accepted that it is not possible to have the same service level standards across all municipalities. Therefore, the outline must be used as a guideline and be amended accordingly to align to the municipality's specific circumstances.

The service level standards will be tabled before council for formal adoption with the final budget and is attached as an annexure to this document.

4.10.9 MUNICIPAL MANAGER’S QUALITY CERTIFICATE

I, Roland Butler, the Acting Municipal Manager of Kannaland Municipality hereby certifies that the Annual Budget and supporting documentation for the 2021/2022 financial year, have been prepared in accordance with the Municipal Finance Management Act and Regulations made under the Act, and that the Annual Budget and supporting documentation are consistent with the Integrated Development Plan.

Print name
Municipal Manager of
Signature
Date

4.10.9.1 ANNEXURES TO THE DOCUMENT

Annexure 1: Budget speech

To be included with final budget approval

Annexure 2: Tariff list 2021/2022

Annexure 3: MFMA Circular No. 108

Annexure 4: A-Schedule budget supporting tables (All Tables)

Annexure 5: Budget Summary Presentation