GREAT KEI MUNICIPALITY

BUDGET 2015/2016 – 2017/2018

<u>MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK</u>

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PART 1 – ANNUAL BUDGET

Section 1: MAYOR`S REPORT

I have pleasure in presenting the Medium Term Revenue and Expenditure Framework for the budget year 2015/2016.

Local government reforms in South Africa pose a challenge to all Municipalities in smaller municipalities like ours. Indeed the Great Kei Municipality has sets its targets to comply with accounting reforms as envisaged in the MFMA and other pieces of legislation.

The economic viability of the region remains a priority for our municipality. Every effort has been made and continues to be made to stimulate investment in the Great Kei Municipality with the limited resources and high rate of unemployment that is faced by the municipality.

The council's strategic objective of service delivery includes improving delivering acceptable levels of services in roads, refuse removal and electricity.

National, Provincial, District and local priorities have been considered through Integrated Development Plan process, whereby communities give input into service needs and these are incorporated in the IDP process.

I must however admit that the IGR processes is running smoothly as expected, however some of the departments are not attending these meeting, therefore improvement still needs to be made regarding this.

The council as an institution is faced with numerous challenges. The greatest challenge is the culture of non-payment for rates and services by customers on a regular basis. Due to this challenge the municipality has become increasingly reliant on grant funding received from National Government. In this budget grant funding contributes 64% and 36% from own revenue.

To be able to generate own revenue, council has increased electricity tariff with 12,20%, refuse and rates tariffs has increased by 4,4%. The electricity increases is in line with NERSA as amended on 29 January 2015 and Eskom tariff increases.

The electricity service though is supposed to generate revenue to improve electricity infrastructure and subsidize other services, it is being ran at a loss in Great Kei as a result of tampering by the community. The high unemployment rate in the region has become the major contributing factor towards the inability of customers to service their accounts.

The municipality is however working towards improving its credit control policy and implementation of revenue enhancement strategy to be able to deliver on its mandate and achieve National and Provincial priorities. The municipality is having meetings Rate

Payers Association, Departments and Farmers Association in order to deal with the matter of non-payment of the services.

Inability of the municipality to attract skilled employees, like engineers and electricians to deal with service delivery issues is another challenge as the revenue base of the municipality is limited.

As a summary, the medium term service delivery objectives include the:

- The registration of indigent consumers and the rollout of free basic electricity;
- Improve credit control and implementation of revenue enhancement strategy;
- Improving Financial Management;
- Improve IT infrastructure;
- Upgrading of roads;
- Fencing Cemeteries;
- Upgrading Community Halls;
- Reduce electricity distribution losses;
- Capacity building; and
- SMME, Agriculture and Tourism development.

The Great Kei Municipal Budget is prioritizing service delivery and creation of job opportunities through SMME, Agriculture development. The Extended Public Works Programme is also a contributing factor to job creation.

The total budget of the municipality is R149,3m of which R35m is for capital expenditure and R87,2m is for operating expenditure and R27,1 for Depreciation and Provision for bad debts. Due to limited resources the municipality is not in a position to contribute much to capital expenditure and is therefore assisted by funds from MIG.

EXPENDITURE TYPE	**2015/16**	**2016/17**	**2017/18**
Operating	R87,2m	R92,3m	R97m
Depreciation & Provision for bad debts	R27,1m	R28m	29m
Capital	R35m	R12,7m	R13,2m
Total	**R149,3m**	**R133m**	**R139.2m**

Despite the numerous challenges facing Council, I and my fellow councilors are confident for the future of the Great Kei Municipality and are committed to building the financially sound and prosperous municipality that delivers services on time to Great Kei communities.

I would like to thank the communities for their inputs into the IDP and budget process, my fellow councilors, the Acting Municipal Manager and his staff for their continued support.

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N W TEKILE

MAYOR

SECTION 2: BUDGET RELATED RESOLUTIONS

The resolutions approved by Council with an annual budget on the 28th May 2015:

RESOLVED:

a) That the annual budget of Great Kei Municipality for financial year 2015/2016; and indicative for two projected years 2016/2017 and 2017/2018 as set out in the schedules contained, be approved:

Table A1 – Budget Summary

Table A2A - Budget Financial Performance (revenue and expenditure by standard classification)

Table A3A – Budgeted Financial Performance (revenue and expenditure by municipal vote)

Table A 4 – Budgeted Financial Performance (revenue and expenditure)

Table A5 – Budgeted Capital Expenditure by vote, standard classification and funding

- Multiyear and single year capital appropriations by municipal vote and standard classification and associated funding by source

Table A5A – Budgeted Capital Expenditure by vote, standard classification and funding

Table A6 – Budgeted Financial Position

Table A 7 – Budgeted Cash Flows

Table A 8 – Cash backed reserves/accumulated surplus reconciliation

Table A 9 – Asset Management

Table A 10 – Basic Service Delivery measurement

It should be noted that in respect of capital expenditure estimates”

- Instances where information has been provided in terms of Sec19(2)(b) of the MFMA, the consideration and adoption of capital budget constitutes projects consideration for the specific projects as reflected in the detailed capital budget. Where information in terms of Sec 19(2)(b) is not provided, specific project approval be sought from council during the course of the year.
- That council consider and adopt the amendments to its Tariffs of Charges as depicted on the schedule annexed hereto and marked as annexure B and that these tariffs come into operation on 1st July 2015.
- That the council note the following existing budget related policies which have been amended:
    - Credit control and debt management policy
    - Indigent management policy
    - Customer care policy
    - Budget Process Policy
    - Investment and Cash Management Policy
    - Petty Cash Policy
    - Rates Policy
    - Asset Management Policy
    - Tariffs Policy
    - Virement Policy

SECTION 3: EXECUTIVE SUMMARY

The Municipality has utilized budget formats extracted from National Treasury website to report on 2015/2016 the draft budget.

Effect of the annual budget

- The Municipality uses external mechanisms to provide service delivery, in particular, the construction of capital assets and professional engineering services associated with the service.
- Electricity distribution is done in the area of Komga only, as all other municipal areas are supplied by Eskom directly. Funding of R1m from National government for the electrification of housing has been gazetted in the year 2015/2016. Bulk electricity purchases budget for the year is R 7 000 000, however, there is gross under collection in the service as there is a large number of consumers tampering with electricity. Free basic services have a budget provision of R500 000. National Electricity Regulator (Nersa) has approved an increase in the bulk electricity to 14,24%. The Municipality has increased electricity charges by 12,20% and charges will differ depending on consumption by different users. This difference in percentage changes will put a strain in the Municipality's finances because the cost of purchasing the electricity service is more by 2% when comparing it to the cost of selling it.

- Refuse removal is done internally in all GKM areas and the municipality has budgeted R1,4m to acquire new plant in order to increase the number of pick up points for refuse removal. The annual tariff for 2015/2016 on this service is 4,4%. Budget allocation for refuse removal is distributed among the expenditure votes including fuel, vehicle licensing, truck service, landfill site renovation as well as the human capital associated with the service.

- Budget provision for construction of roads via MIG amounts to R 13 065 000, including 5% allocation for miscellaneous expenses of the Project Management Unit.
- The Operational costs excluding personnel costs are budgeted for utilizing the funds allocated from the Provincial Department of Sports, Arts and Culture for Library Section. Amount allocated for Library Subsidy for the budget year 2015/2016 is R410 000.

The proposed major tariff adjustments are as follows:

Assessment Rates - 4,4% rebate is R15000 and R30 000 for all residential properties.

Waste Management - 4,4%

Electricity - 12,20%

Other Sundries tariffs - 4,4%

SECTION 4: ANNUAL BUDGET TABLES

PART 2 – SUPPORTING DOCUMENTATION

SECTION 5: Overview of annual budget process

Municipal Finance Management Act section 21 requires that the process for preparing the annual budget and for reviewing the municipality`s integrated development plan and budget should be well co-ordinate to ensure consistency as well as credibility.

The budget and IDP process plan of the municipality was tabled in Council in August 2014. Communities gave priorities per ward in the various consultative meetings during the month of November 2014 and April 2015. The draft budget and IDP was tabled in the Council that was held in March 2015 and annual budget will be approved in May 2015.

The draft budget will be placed on the Municipal website and will be placed on all municipal libraries as well as in Municipal Satellite Offices.

The annual budget will tabled on the 28th May 2015 in Council. The Municipality's draft budget is prepared on a three year basis. This takes into account the National and Provincial allocations to the Municipality. The MFMA requires municipalities to prepare 3 year budgets, with comparatives of the past three years, the current year as well as the two outer years. This is meant to ensure a more thorough financial planning and provide for seamless service delivery.

SECTION 6: ANNUAL BUDGET PROCESS

Each year National Treasury issues a circular to municipalities indicating the budget parameters within which municipalities should base their budgets on.

Circular 75 has reflected the following headline forecast for the year 2015/2016, 2016/2017 and 2017/2017 is 4.8 percent, 5.9 percent and 5.6 percent respectively.

- Assumptions that inform the 2014/15 budget are consumer price index (CPI) of 4,4% for Councillor Allowances,
- 4,4% increase for S 57 Managers,
- 6,9% increase for employees below S 57 Managers,
- Administration costs,
- repairs and maintenance costs of 4,4% increment basis
- capital charges incremental is 4,4%
- capital budget estimates are based on grant allocations as Gazzetted in the DORA and internal revenue.
- capital budget has increased from R 16,3m in 2014/2015 to R35m in 2015/2016 financial year.
- The municipality prioritizes electricity distribution, construction of roads, community halls; sport fields; refuse removal, among others, SMME, Agriculture and Tourism development; IT Infrastructure; renovations to municipal buildings through the implementation of Supply Chain Policy.

SECTION 7: Overview and alignment of the Annual Budget with the Annual Integrated Development Plan

The Integrated Development Plan is the strategic document of the municipality which forms the basis of all projects undertaken. The budget is an enabling tool and consists of community priorities and indicates funded and non-funded projects.

Community consultation allow for proper prioritization of needs per ward and takes into account available resources, particularly, financial resources.

The highlights of the annual budget that are aligned to IDP for the year 2015/16 include, but not limited to the following projects to be funded by internal revenue: This is on the assumption that all revenue projected will be received during the 2015/2016 financial year.

Project name	**Department allocated to**	**Amount budgeted**
Audit Fees	Municipal Manager	R 3 200 000
Life Saving	Strategic Services	R 300 000
Renovations at Caravan Park	Community Services: Caravan Park	R 350 000
Bulk Electricity	Technical Services: Electricity	R 7 000 000
Loan Repayment - DBSA	Budget & Treasury	R 738 500
Training	Corporate Services	R 500 000
Fencing of Cemeteries	Community Services: Cemeteries	R 200 000

Local Economic Development projects- SMME, Agriculture, Tourism development	Strategic Services	R 400 000
IDP and PMS	Strategic Services	R 200 000
Public Participation	Municipal Council	R 80 000
Repairs: Municipal Buildings	Technical Services: Town Planning	R 700 000
Roads Maintenance	Technical Services: Streets	R 2 000 000
Revenue Solution Project	Budget and Treasury Office	R 1 200 000
GRAP Compliant Fixed Asset Register	Budget and Treasury Office	R 500 000
Cage Truck x3	Community Services: Refuse	R1 400 000
IT Infrastructure	Budget and Treasury Office	R1 000 000
Renovations: Halls	Community Services: Amenities	R400 000
Free Basic Services	Budget and Treasury Office	R500 000

Municipal Infrastructure Grant income amount to R 13 065 000 for the year 2015/2016 and includes Project Management unit operating expenses of 5%. It is also estimated that an amount of R17m worth of MIG projects for previous year will be rolled over to 2015-16. Identifiable projects to be utilized by the MIG grant include:

- Rehabilitation of Jongilanga Internal Streets
- Rehabilitation of Tuba Internal Streets
- Rehabilitation of Internal Streets of Zozo
- Rehabilitation of Makhazi Sportsfield
- Rehabilitation of Lusizini Internal streets
- Rehabilitation of Ncalukeni Internal Streets
- Contstruction of Elityeni Day Care Centre
- Rehabilitation of Siviwe Internal Street
- Construction of Kei Mouth Indoor Facility
- Construction of Happy Valley/T Peace Village Community Hall

SECTION 8: Measurable performance objectives and indicators

In developing measurable performance objectives, consideration has been given to:

- the IDP of the Municipality,
- the Service delivery and budget implementation plan
- Economic development initiatives that facilitate job creation, economic growth, poverty alleviation as well as provision for basic services.

Measurable performance objectives and indicators include the following:

(a) Borrowing management

(b) Debtors and creditors management

(c) Expenditure types

(d) Revenue sources

(e) Unaccounted for losses in respect of services rendered i.e. electricity losses.

Measurable performance objectives for :

- Revenue for each vote
- Revenue for each source
- Operating and capital expenditure for each vote

SECTION 9: Overview of budget assumptions

Budget assumptions:

Circular 75 has been utilized as the primary source of obtaining guidance on percentages for all expenditure and revenue increases. Internal and external factors affecting the budget have been considered.

External factors:

(a) The high rate of unemployment within the municipal area which resulted in the increase in the indigent register. Also, the debtors' book has huge balances that need to be considered for writing off as irrecoverable.

(b) The recent economic downturn has also affected the ability for other consumers to pay for services as well as the attitude of non-payment for services.

(c) The municipality has limited funds to support SMME, Agriculture and Tourism development which would serve as an exit strategy for indigent consumers as well as to improve the overall status of consumers.

(d) The general inflation is estimated at 4,4% for the 2015/2016 financial year. This affects the general tariff increases levied by the Municipality from year to year.

(e) The recent increase in electricity tariffs by Nersa to 12,20% impacts negatively on Municipality because the cost of acquiring this service for the 2015/2016 financial year is 14,24%.

(f) The municipality has increased salaries by 6,9% which includes 4,4% inflation rate and 2,5% incremental notch.

(g) Tariffs for 2015/16

SECTION 10: Funding Compliance

The municipality depends mostly on grant funding to finance operations. Factors affecting the financial viability of the municipality have been highlighted in the above paragraphs. A revenue raising strategy has been developed and it has been two years since its implementation from 2012/2013 financial year. The financial viability of the municipality has been identified as one of the key priorities in the New Year and other revenue raising strategies will be put in place together with the implementation of Debt and Credit Control Policy.

The increase in electricity tariff is supported by the result of the increment approved by Nersa on 29 January 2015. Other service increases are set at 4,4% so as to cover operational costs.

The budget is credible but some of its projects are not cash backed e.g depreciation and provisions for bad debts. The municipality does not foresee entering into loan arrangements but has processes in place to repay all outstanding loans, eg. DBSA loan.

SECTION 11: OVERVIEW OF BUDGET FUNDING

The MFMA S 18 (1) states that the annual budget may only be funded from:

- Realistically anticipated revenues to be collected
- Cash backed accumulated funds from previous year`s surplus funds nor committed for other purposes, and
- Borrowed funds, but only for capital budget referred to in S17

This section requires that projected revenues be based on recorded revenues of the previous period which forms a clear indication of how projections should be set.

A Credible Budget

- A Budget is Credible when it is an implementing tool for the Municipal IDP, this ensures that projects indicated in the IDP will be achieved within the financial constraints of the Municipality.
- The service delivery and budget implementation plan of the municipality and set performance targets can be achieved with the budget.
- Contains revenue and expenditure projections that are consistent with current and past performance and are supported by documented evidence of future assumptions.
- Does not compromise the financial viability of the Municipality.
- Provides managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

FISCAL OVERVIEW OF GREAT KEI MUNICIPALITY

The Great Kei Municipality is largely dependent on Grant funds that are allocated by the National Revenue Fund. The amount generated from internal revenue is largely affected by external factors, including the attitude or culture of non-payment for services by rate payers. Further, the municipality has an electricity distribution license to the Komga community only as all other areas of the municipality are supplied directly by Eskom. There is also a high rate of electricity tampering within Great Kei Municipality and this leads to loss of revenue. This then is a loss of revenue that could assist the municipality on financial sustainability. The municipality is unable to match employee salaries with those of municipalities of a similar grade. This is particularly due to limited funds available. It therefore leaves the municipality at a disadvantage of not being able to attract and retain highly skilled individuals.

Section 12 – Expenditure on allocations and grant Programmes

Grant allocations are detailed in the following schedule:.

Grant funding	Purpose	Allocating Authority	Amount 15/16 R 000	Amount 16/17 R 000	Amount 17/18 R 000
Equitable Share	Unconditional - Free basic services – councilor allowances	National Treasury	R42 202	R41 379	R39 588
Finance Management Grant	Conditional	National Treasury	R1 875	R2 010	R2 345
Municipal Systems Improvement Grant	Conditional	National Treasury	R 930	R 957	R1 033
Extended Public Works Programme	Conditional	National Treasury	R1 000	-	-

Library Subsidy	Conditional	Provincial	R 410	R 410	R 431
Municipal Infrastructure Grant	Conditional	National Treasury	R13 065	R13 413	R13 935

SECTION 13: GRANT ALLOCATIONS TO OTHER MUNICIPALITIES

The Great Kei Municipality is a category B municipality which is located in a semi-rural area of the Eastern Cape. The majority of communities are unemployed as there are no industries within the Municipal area. The towns making up the municipal area include: Chintsa, Kei Mouth, Morgans Bay, Haga Haga.

This therefore means the Municipality does not make any allocations to other institutions.

SECTION 14: COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS

Supporting Table SA 22 and SA 23 give a summary of councilor allowances and employee benefits for all the budget years.

SECTION 15: MONTHLY TARGETS FOR REVENUE, EXPENDITURE AND CASH FLOW

Monthly cash flows by Source

Supporting tables SA 24 to SA 30 show the monthly cash flows of the municipality for the budget year.

SECTION 16: ANNUAL BUDGET AND MUNICIPAL SCORECARD

The scorecard of the Municipality is linked to the Integrated Development Plan (IDP). It is this document that details the activities to be undertaken by the Municipality to realize the IDP. Departmental service delivery and budget implementation plans are then annealed from the Municipal strategic scorecard.

SECTION 17: ANNUAL BUDGET AND SERVICE DELIVERY AGREEMENTS – MUNICIPAL ENTITIES AND OTHER EXTERNAL MECHANISIMS

The Great Kei Municipality does not have a municipal entity.

The Municipality does not have any other service delivery agreements with external parties for the delivery of Municipal services.

SECTION 18: CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

The Municipality does not have any agreements that have future budgetary implications.

SECTION 19: CAPITAL EXPENDITURE DETAILS

Details on capital expenditure are listed in Supporting Table SA 34 to SA 37.

SECTION 20: LEGISLATION COMPLIANCE STATUS

The Municipal Finance Act together with the latest budget regulations and circular, have been utilized to compile the budget for the MTREF.

The Act covers all aspects of municipal finance including budgeting, supply chain management and financial reporting.

The Great Kei Municipality is a low capacity Municipality as designated according to National Treasury capacity levels.

The MFMA and the budget

The following explains the budgeting process in terms of the MFMA as well as with the guidance of the Municipal Budget Regulations effective to low capacity municipalities by 1 July 2010.

The budget preparation process

The MFMA S 21 requires the Mayor of the Municipality to lead the budget preparation process through a co-ordinated cycle of events. The budget cycle should commence at least 10 months before the start of the budget year to ensure that the budget is approved before the start of the financial year.

A Budget and IDP Process Plan was tabled before Council in August 2014 for the budget preparation process of the 2015/2016 financial year as well as the two outer years. The Integrated Development Plan of the Municipality has been reviewed during 2014/2015 and the national fiscal and micro-economic policies have been taken into consideration with regard to funding allocations as well as prioritization of projects. The Municipality has also taken into consideration the National, Provincial and District budgets in reviewing of the IDP document such that communities and all other stakeholders are consulted on projects to be undertaken.

The Mayor has to ensure that the IDP review forms an integral part of the Budget Process and that any changes to the Strategic priorities as contained in the IDP document have realistic projections of revenue and expenditure.

Tabling of Annual Budget

The Initial draft budget will be tabled before Council on the 31st March 2015.

The final budget will be adopted on the 28th May 2015

Publication of the Annual Budget

Once tabled to Council, the draft budget is submitted to National Treasury, Provincial Treasury and also placed on the Municipal website in terms of S75 of MFMA. In that Council meeting members of the community are invited to ensure they participate fully in the budget process.

MFMA requirements:

The MFMA S 17, requires that an annual budget of a municipality must be a schedule in the prescribed format setting out realistically anticipated revenues to be collected from each revenue source. National Treasury introduces updated budget A1 schedules each year that the Municipalities have to comply with. The Great Kei Municipality has made efforts to comply with Circular 75 of the MFMA.

SECTION 21: QUALITY CERTIFICATION

I, Mrs. I Sikhulu-Nqwena, Acting Municipal Manager of Great Kei Municipality, hereby certify that the draft budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act and the regulations made under the Act, and that the annual budget and supporting documentation are consistent with the Integrated Development Plan of the municipality and the service delivery agreement of the municipality.

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I Sikhulu-Nqwena
ACTING MUNICIPAL MANAGER of Great Kei Municipality EC 123

28 May 2015