



# ***NKONKOBÉ MUNICIPALITY***



## **2015/16 TO 2017/18 MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS**

*Prepared in terms of the Local Government: Municipal Finance Management Act (56/2003): Municipal Budget and Reporting Regulations, Government Gazette 32141, 17 April 2009.*

---



## 1. TABLE OF CONTENTS

Section	Description	Page No.	Annexure No.
1.	Table of contents	2	
2.	Glossary	3-4	
3.	Mayoral Budget Speech	5-10	
4.	Budget Related Resolution	11-12	
5.	Overview of the budget	13	
5.1	Balanced and credible budget	13	
5.2	Government priorities considered	14-15	
6.	Executive summary	16-19	
6.1	Key budget assumptions	20-22	
6.2	Service delivery	22	
6.3	Implementation of GRAP	22	
6.4	Internal charges	23	
6.5	Functions outsourced/agency basis	23	
6.6	Operating budget	23	
6.7	Capital budget	23	
6.8.	Employee cost and other expenditure to total operating Expenditure	23-24	
7.1	Budget tables (A1-A10)	25	A
7.2	Budget supporting tables (SA1-SA37)	25-26	A
8.	Overview of annual budget process	27	
9.	Overview of alignment of budget with Integrated Development Plan	28	
9.1	Updating of the planning data	28	
9.2	IDP, Budget and PMS linkage	28	
10.	Measurable performance objectives and Indicators	29-32	
11.	Overview of budget related policies And amendments	33	
11.1	Budget policy	33	
11.2	Tariff policy	33	
11.3	Credit control and debt collection policy	33	
11.4	Cash Management and investment policy	33	
11.5	Property rates policy	33	
11.6	Accounting policy	34	
11.7	Fixed assets management policy	34	
11.8	Supply chain policy	34	
11.9	Funding and reserves policy	34	
11.10	Policy on the use and application Of information technology	34	
12.	Overview of budget funding and funding Compliance	35	
12.1	Funding the budget	35	
12.2	A credible budget	35	
12.3	Fiscal overview of Nkonkobe Municipality	36	
12.4	Long term financial planning	36	
12.5	Sources of Funding	36	



---

12.6	Sale of assets	36
13.	Grant expenditure and allocations	37-38
14.	Allocations and grants made by municipality	38
15.	Councillor allowances and employee Benefits	39
16	Service delivery and budget implementation Plan (SDBIP)	39
17.	Investments	39
18.	Contracts having future budgetary Implications	39
19.	Capital expenditure and previously Delayed projects	39
20.	Annual budgets and service delivery Agreements – municipal entities and Other external mechanisms	39
20.1	Entities	39
20.2	Other external service delivery mechanisms	40
21.	Legislation compliance status	41-46
22.	Other supporting documents	47
23.	Municipal manager's quality certification	48
24.	Municipal Contacts	A
25.	Tariff List	B



---

## 2. GLOSSARY

---

**Adjustments Budget** – prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

**Allocations** – Money received from Provincial or National Government or other municipalities.

**Budget** – the financial plan of the municipality.

**Budget related policy** – policy of a municipality affecting or affected by the budget, such as the tariffs policy, rates policy and credit control and debt collection policy, etc.

**Capital Expenditure** – Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the municipality's balance sheet.

**Cash flow statement** – a statement showing when actual cash will be received and spent by the municipality. Cash payments do not always coincide with budgeted expenditure timings. 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.

**DORA** – Division of Revenue Act. Annual legislation that shows the amount of allocations from National to Local government.

**Equitable share** – a general grant paid to municipalities. It is predominantly targeted to help with free basic services.

**Fruitless and wasteful expenditure** – expenditure that was made in vain and would have been avoided had reasonable care been exercised.

**GFS** – Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.

**GAAP** – General Accepted Accounting Principles. World Wide Accepted Standards.

**GRAP** – Generally Recognised Accounting Practice. The new standard for municipal accounting.

**IDP** – Integrated Development Plan. The main strategic planning document of the municipality.

**KPI's** – Key Performance Indicators. Measures of service output and / or outcome.



---

**MFMA** – The Municipal Finance Management Act – no 53 of 2003.  
The principle piece of legislation relating to municipal financial management.

**MTREF** – Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous and current year's financial position.

**Operating expenditure** – spending on the day to day expenses of the municipality such as salaries and wages.

**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.

**SDBIP** – Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

**Strategic Objectives** – the main priorities of the municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

**Unauthorised expenditure** – generally, spending without, or in excess of, and approved budget.

**Virement** – a transfer of budget

**Virement Policy** – The policy that sets out the rules for budget transfers. Virements are normally allowed within a vote. Transfers between votes must be taken and approved by Council.

**Vote** – one of the main segments into which a budget is divided, usually at directorate / department level.



---

### 3. MAYORAL BUDGET SPEECH

---

Honourable Speaker  
Council Chief Whip  
Members of the Executive Committee  
Members of Council  
Traditional leaders  
The Acting Municipal Manager  
Senior Managers and managers of the municipality  
Ward Committee Members  
Community Development Workers  
Community Members  
Ladies and Gentlemen

It gives me great pleasure to present the budget for 2015/16 financial year to this community. Times like these present unique opportunities to reflect on issues that really matter to peoples' lives. An institutional budget is everyone's concern and it is indeed a sensitive subject for many of us. A large number of our communities had an opportunity to reflect on the critical challenges they are facing and gave their inputs when we were preparing this budget. Today the very same communities yearn to gather an understanding of how we have responded to their concerns.

During the compilation of this budget, the municipality extensively engaged communities at various levels to ensure adherence with the pieces of legislation. Through the outreach programme we had, our communities were afforded a platform to genuinely raise burning issues and areas of concern that required council to act differently. Key to such concerns raised by our communities included issues relating to:

- I. State of rural roads
- II. State of Community halls (those vandalized and in need of renovations, and to be construction.)
- III. Fencing of grazing land and irrigations schemes
- IV. Refuse removal
- V. Storm water drainage (Rural gravesites and in our towns)
- VI. Electricity (households and community halls)
- VII. Delayed response on Disaster incidents
- VIII. Youth Development Programmes

Honourable Speaker, I must say with confidence that under these circumstances, the municipality is obliged to turn the tide and provide a more rapid response for the benefit of the people. Local government has graduated from the planning phase; the time now calls for implementation of community needs at an accelerated rate more than ever. This we can attain when we draw from our past experiences, as our past will reflect where we did wrong and where we need to direct our energies the most. Having said that Madam Speaker; I take pride in the work done by Nkonkobe Municipality in the previous years in ensuring delivery of services to our communities.



Many in this house Honourable Speaker are at this critical juncture anxious to get an insight on how we have budgeted. Their concerns are:

- (i) Whether the Budget is of the **right magnitude** to address our challenges;
- (ii) Whether it is directed at the **right objectives** and will therefore be effective in helping Nkonkobe municipality advance on its backlogs;
- (iii) Whether we will not divert resources from important policy goals and
- (iv) Whether the municipality has indeed considered **inputs** from the communities.

The Budget we are delivering today, together with the Integrated Development Plan tabled before this Council are tools that will assist us to achieve the mandate given to us by the ruling party; that of “changing people’s lives for better”.

Delivering the January 8 statement earlier this year in Cape Town during the ruling African National Congress's 103rd anniversary celebrations, President Jacob Zuma declared 2015 as the Year of the Freedom Charter and Unity in Action. The president called on all sectors of society to embrace the Freedom Charter as this year also marks the 60th anniversary of the historic document, which was adopted in Kliptown in 1955.

The president said to achieve radical social and economic transformation, it was important for the country to use the Freedom Charter as a guide to shaping policies and legislation that are aimed at serving all South Africans.

As characterized by its opening demand; “The People Shall Govern!”, the Freedom Charter states that South Africa belongs to all who live in it. While the first and second clauses of the Freedom Charter state that “the people shall govern” and that “all national groups shall have equal rights”, the President said more still needs to be done to realize the goals of the third clause, which says – “the people shall share in the country’s wealth”.

Also looking at the recently launched Back to Basics programme by the Department of Corporative Governance and Traditional Affairs, it remains the responsibility of this council to ensure that both our IDP and Budget are tools that will guide us in becoming responsive to the needs of the communities we serve. While they may not satisfy everyone now, these tools are meant to assist us to take the necessary strides in order to ensure that we make maximum impact to the majority of the citizens of Nkonkobe Municipality, and that we continue to work tirelessly in ensuring that all people share in the county’s wealth.

Let me remind the house that when we conducted road shows during the month of April, communities fully expressed their expectations from government giving us ideas on what to prioritize and how to allocate the budget. I am hoping against all hope that the budget I am tabling here today will respond to the needs of the majority. Like I have articulated earlier on, it is totally impossible to please everyone but I have hope that what we are here to offer will make a meaningful difference to the lives of our people. The people are indeed governing.



---

## **Overview of Nkonkobe Municipality**

Nkonkobe municipality has, over the years seen a lot of development. We continue to see government addressing issues of electricity, water and sanitation within our communities. The state of our road network remains a challenge. However, excellent strides are being made to ensure that roads that are a competence of the provincial department of roads and public works are fixed and maintained by the department. In the meantime, the municipality continues to do its best in addressing the issue through our technical unit. The municipality also purchased a plant in the last financial year to construct and maintain roads in-house.

Unemployment and poverty levels within Nkonkobe Municipality are still at a high and are coupled with certain development backlogs. The need to ensure that maximum utility is derived through allocation of scarce resources for development through a proper planning process is evident. That is why, as this Council, we took a conscious decision to focus on poverty alleviation projects in the next financial year. This we hope to achieve through our municipal projects. We have set aside money to address issues of Local Economic Development – where our goal will be to give more support and further develop our own SMMEs to address the monopoly in the market. Heritage - which could have huge economical spin-offs for the area – and sports – which seeks to develop our youth, have also found space in our planning. We will also look at the completion of unfinished projects from the 2014/2015 financial year.

Our 2015/16 IDP also addresses an issue of job creation through our own EPW-funded projects and our internally-funded infrastructure projects. What we will also look at in the next financial year are ways of being innovative with the little budget we have. We have devised ways and means to manage the little we have and achieve more. Efficiency in this regard is critically important.

Honourable Speaker allow me therefore to put it before this house that the financial position of the municipality is sound. When looking at our books and how we conduct the business of the institution, the office of the Auditor General gave us a qualified opinion for three consecutive years, including the 2013/14 financial year. Progress has been made, even though the opinion is the same as the previous year – issues raised by the auditors are now at a minimal. There is a plan in place to address these issues, and this is already being implemented.

### **Cooperative governance**

We recognize the efforts of sector departments and their dedication regarding community development. Resources are now allocated to various municipal wards with a large number of households benefiting every financial year. Our intention is to accelerate service delivery, this we can achieve through cooperative governance. When we continue to work in silos communities will not enjoy the fruits of a democratic government.

Through cooperative governance we are able to prevent the worst-case scenarios, where government resources advantage a few. Through cooperative governance a consultative process is followed to tighten up any loopholes and possibilities of duplication of the limited resources. As we strengthen the intergovernmental relations





between these organs of state, the municipality is able to present a true reflection of its situational analysis and as such is better able to provide relevant assistance.

I must again Honourable Speaker commend government departments such as Social Development, National Department of Environmental Affairs, Rural Development, and others for constantly availing themselves whenever they are engaged. Their positive response is guaranteed and is assurance to many that community development is everyone's responsibility.

## **Expenditure**

As council we have taken a bold step to closely monitor our expenditure patterns. We have come to realize that a bulk of our budget has to be spent on capital projects, in that manner we will be able to speed up service delivery. Earlier Madam Speaker I spoke of being innovative in our planning and delivery of services; and that as we employ collection strategies, our own revenue needs to be realistic and conservative as possible; one of those strategies being “**collection before spending**”, specifically for our own revenue funded projects.

## **Infrastructure**

As a rural municipality our revenue base is thin. Our inability to collect the expected revenue from the consumers makes it even more difficult for council to fully realize its objectives. Honourable Speaker, our public infrastructure must reflect our ambition to build a better Nkonkobe that our people deserve. Inadequate infrastructure can indeed be a serious bottleneck to development and it can severely affect the quality of life of our citizens. And the focus of this budget is exactly on improving our public infrastructure.

## **Honourable Speaker, allow me now to present to this house the 2015/16 budget allocation.**

The total municipal budget for the 2015/16 financial year stands at **R280 524 648**, with the following focus priority areas:

- Completion of the new council chamber
- Repairs and Maintenance
- Poverty alleviation initiatives (support to CO-Ops and SMME's)
- Heritage and Tourism
- Municipal-funded EPWP & Provincial-funded EPWP as per the policy
- The budget also covers environmental and cultural issues, infrastructure and social clusters.

The total **operating budget (expenditure)** is projected at **R 223 615 948.00**, and is broken down as follows:

- Personnel & Councilor's Allowance R 112,000,000.00
- Repairs and Maintenance: R 11 270 000.00
- General Expenditure: R 100,345,948.00

General Expenses figure includes Bulk Electricity and Security services, but excluding Provision for Bad Debts and Depreciation



The total budget for **general expenses** is **R 100,345,948.00**. This includes the agency agreements rendered by the Nkonkobe Municipality. The Category includes the purchase of bulk electricity supply to Eskom that is budgeted at **R 40 000 000.00** and provision of Free Basic Services is budgeted for **R 13,000,000**. Telephone usage is also provided at an estimated amount of **R 2,800,000.00**.

Provision is made at **R11 270 000.00** for all **repairs and maintenance** of the municipality infrastructure assets. This includes: repairs and renovations to buildings, community halls, vehicles as well as electricity related infrastructure.

A sum of **R13,154,000 000** is provided for contributions to **Fixed Assets / Contribution to Replacement Reserves and Provisions**, financed from our own revenue so as to enhance service delivery (Projects of capital nature).

- Provision for Bad Debts is at **R 12,967,604**
- Depreciation is provided at **R 20,000,000**
- Total provisions: **R 32,967,604**

The **capital budget** is projected at **R 56,908,700.00** for the 2015/16 financial year. Included in the figure is the CRR (Capital projects funded from revenue generated internally), and it is broken down as follows:

Internal Capital Budget CRR: **R 13,154, 000.00**  
MIG Projects: **R 31,754,700.00**  
INEP **R 12,000,000.00**

The projected **operating income** of the Municipality includes **own revenue** projected at **R99,820,648.00** from property rates and other service charges, and **R136,949,300.00** from Grants, excluding MIG & INEP.

**The Anticipated income is broken down as follows:**

• Equitable Share Allocation:	R130,357,000
• Property Rates Income:	R 40,000,000
• Income from Electricity	R 35,524,648
• Refuse Collection Income:	R 3,500,000
• Municipal Infrastructure Grant:	R 33,426,000
• E-Natis Licensing Income:	R 3,000,000
• Traffic Control Income:	R 160, 000
• FMG & MSIG:	R 2,730,000
• EPWP	R 1,041,000
• Other Revenue	R 34,286,000
<b>TOTAL</b>	<b>R 280,524,648</b>

***Proposed Projects: Find these as an annexure A (SA36)***



---

## **In Conclusion**

As we approach the end of this term, Madam Speaker, it is our responsibility to undertake a delivery audit of all projects in the Nkonkobe area. This exercise will pave a way for council to identify and address challenges within the projects, to identify areas that are neglected and provide intervention measures to aid unsustainable projects.

When implementing the 2015/16 planned projects, we want to encourage labour intensive method to create jobs and fight poverty. We aim to be more strategically focused to alleviate poverty. This we can achieve when we are responsive to the IDP priority areas. Everything we do as government must contribute in a direct and meaningful way to the improvement of the lives of our people. I owe a great debt of gratitude to fellow councilors and officials for the commitment they have shown in ensuring that we achieve our goals as this council.

**I thank you!**



---

## 4. BUDGET RELATED RESOLUTIONS

---

### Council Resolutions

On 28 May 2015 the Council of Nkonkobe Local Municipality met in the TRC hall to consider the IDP and Annual budget of the municipality for the financial year 2015/16. The Council approved the following resolutions:

1. The council adopt the IDP for 2015/2016 financial year as a strategic document to guide developmental initiatives and programmes for duration of the period enunciated therein,
  - 1.1.1. The organizational structure for 2015/2016 financial year, which is an annexure to the IDP.
  - 1.1.2. The IDP and Budget 2015/2016 should be made public in terms of section 21A and 21B of the Municipal Systems Act.
  - 1.1.3. The copy of the IDP and Budget 2015/2016 be submitted to the MEC for Local Government in terms of section 32 of the Municipal Systems Act.
  
2. The Council of Nkonkobe Municipality Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:
  - 2.1. The annual budget of the municipality for the financial year 2015/16 and the multi-year and single-year capital appropriations as set out in the following tables: **see Annexure A**
    - 2.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table A2
    - 2.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table A3
    - 2.1.3. Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table A4
    - 2.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table A5



- 
- 2.2.** The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables: **see Annexure A**
- 2.2.1. Budgeted Financial Position as contained in Table A6
  - 2.2.2. Budgeted Cash Flows as contained in Table A7
  - 2.2.3. Cash backed reserves and accumulated surplus reconciliation as contained in Table A8
  - 2.2.4. Asset management as contained in Table A9
  - 2.2.5. Basic service delivery measurement as contained in Table A10
3. The Council of Nkonkobe Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves with effect from 1 July 2015 the tariffs as set out in **Annexure B**.



---

## 5. OVERVIEW OF THE BUDGET

---

### 5.1 Balanced and Credible Budget

The following National Treasury guidelines have been taken into consideration when preparing the budget:

- Tabling a balance and credible budget that is based on realistic estimates of revenue to be collected, taking into account both actual revenue collected in the past financial year, and revenue projects for the current financial year.
- The inclusion of all grants in the annual budget, on both the revenue and expenditure side;
- The presentation of three year capital and operating budgets;
- The revision of the IDP to be consistent with the three year budget;
- The maximum expenditure growth limit of 6% to stay within inflation targets as determined by National Treasury. The growth limit applies to own revenue sources only and excludes intergovernmental grants, for both the capital and operating budgets.
- Increases in rates and taxes have been kept within inflation targets, in support of government's macro-economic objectives and investor confidence.

#### 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;
- Cash backed accumulated funds from previous year's surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget

Achievement of these requirements in totality effectively means that council has "balanced" its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows.

#### Credible Budget

Amongst other things, the following has been taken into consideration to ensure that this is a credible budget;

- Only activities consistent with the revised IDP have been included in the budget, taking into consideration the financial constraints of the municipality;
- It is achievable in terms of the agreed services delivery and budget implementation plan and performance targets;
- Contains revenue and expenditure projection that are consistent with current and past performance



- Does not jeopardize the financial viability of the municipality (ensures that the financial position is maintained within generally accepted prudential limits and that obligations can be met in the short, medium and long term; and
- Provided managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

The budget sets out certain service delivery levels and associated financial implications, therefore the community should realistically expect to receive these promised service delivery levels and understanding the associated financial implications.

## 5.2 Government Priorities Considered

### THE MTREF

The budget has been prepared based on the new requirements and significant progress has been made on the implementation thereof. However, some processes are still being developed to ensure full compliance, which include activity based costing, asset management, system shortcomings, human capacity building amongst others.

Although the fact that our municipality is categorized as Low Capacity Municipality, it is also of outmost importance to ensure that Council complies with all legislative requirements, this entails the channelling of fund which would ordinarily be utilized for services delivery to the implementation of the legislative requirements.

In President Jacob Zuma's State of the Nation Address of 2015, he indicates government key priorities to be:

- Resolving the energy challenge
- Revitalising agriculture
- Adding value to our mineral wealth
- Enhancing the Industrial Policy Action Plan
- Encouraging private investments
- Reducing workplace conflict
- Unlocking the potential of small enterprises
- Infrastructure investments
- Support for implementation of the National Development Plan through in-depth, results-driven processes, known as phakisa laboratories.

Therefore, in framing this budget, priority has been given to objectives and priorities of government based on the IDP to be adopted by council.

A bulk electricity purchase has increased drastically over the past two years as result of NERSA and ESKOM tariff increases. **Bulk electricity price increase for 2015/16 from ESKOM will be 14,24 % while municipalities budgeted for an increase of 12,2 % , as per the final approval from NERSA.** This is having a negative impact on cash flow since the cost of the electricity increased by more than what the tariff has been increased with.



The municipality has set aside funds for electrification of rural areas in an attempt to reduce the backlog on access to electricity of communities. The municipality has also embarked on reduction of electricity losses so as to attain almost full recovery of electricity costs, which in turn will result in timeous payments of the electricity provider.

In an attempt to addressing challenges faced by the underprivileged, as well as the successful implementation of the indigent campaign, the provision of free basic services and indigent subsidy are increasing in our new budget in comparison to previous years. Electricity income however is also increasing due to the higher demand based on more households having access to electricity.

The budgeted deficit before capital grant income is due to non-cash items (Depreciation on assets and Debt impairment). The municipality is working towards the achievement of realising a surplus in future.

The area of focus in the coming financial year will be mainly in collecting revenue, which is mainly on rates revenue, to ensure the financial viability of the municipality since Nkonkobe Municipality is very much grant dependant at this stage. We are also embarking on reducing/management of our Electricity losses due to illegal bridging and tempering in our areas.

The effective management of assets will also be a focus area to ensure that all assets are maintained and repair based on their conditions taking into account the cost effectiveness thereof.. The Municipality is in a process of developing its Asset Maintenance Plan.

More budget related policies/strategies will be developed to assist the municipality to control its revenue and expenditure in future. No changes were made to the existing budget related policies.





## 6. EXECUTIVE SUMMARY

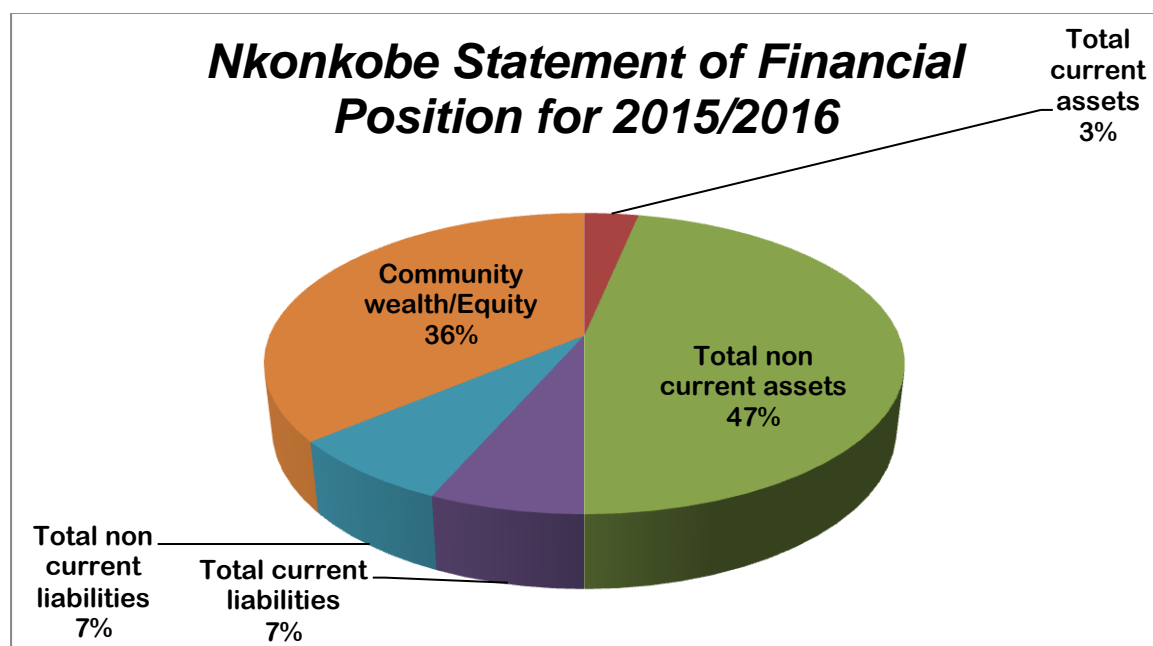
### Introduction

The municipality made good progress in recent years with regards to the budgeting procedures and ensuring that budgets are prepared in line with National Treasury Budget Regulations.

National Treasury's MFMA Circular No. 74, 75 was mainly used to guide the compilation of the 2015/16 MTREF. Some of the key challenges faced by the municipality when compiling the budget were:

- The on-going difficulties in the national and local economy;
- the effective budgeting of repairs and maintenance of such assets;
- The need to prioritise projects and expenditure within the financial means of the municipality.
- Wage increases for municipal staff that is unknown at this stage, as well as the need to fill critical vacancies;
- Affordability of capital projects and the resultant operational costs associated with new infrastructure projects; and
- Availability of affordable capital/borrowing.
- The increased cost of bulk electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;

The municipality's financial position is currently at a level that requires intense attention. The following chart shows the proposed financial position for the 2015/2016 financial year:





The Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programs so as to maintain sound financial stewardship.

The following budget principles and guidelines directly informed the compilation of the 2015/16 MTREF:

- The 2014/15 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2015/16 annual budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water, electricity and annual salary increases. In addition, tariffs need to remain or move towards being cost effective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2015/16 Medium-term Revenue and Expenditure Framework:



**EC127 Nkonkobe - Table A1 Consolidated Budget Summary**

Description	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
<b>R thousands</b>										
<b>Financial Performance</b>										
Property rates	19 070	19 393	35 300	30 580	34 312	49 633	–	40 000	62 434	75 905
Service charges	25 309	38 553	37 666	45 811	36 321	40 919	–	39 025	41 327	43 641
Investment revenue	871	900	590	1 500	1 000	1 000	–	1 000	1 059	1 118
Transfers recognised - operational	82 308	90 221	99 116	114 369	123 633	114 128	–	136 949	135 391	132 180
Other own revenue	7 960	6 784	9 928	24 377	13 648	16 523	–	19 796	20 964	22 138
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>135 518</b>	<b>155 851</b>	<b>182 600</b>	<b>216 636</b>	<b>208 913</b>	<b>222 204</b>	<b>–</b>	<b>236 770</b>	<b>261 175</b>	<b>274 982</b>
Employee costs	51 150	66 457	81 413	68 048	90 845	87 366	–	96 495	100 982	105 930
Remuneration of councillors	10 465	11 380	12 298	14 525	12 410	12 583	–	13 797	14 439	15 146
Depreciation & asset impairment	22 755	24 213	27 851	23 731	12 672	32 000	–	20 000	21 180	22 366
Finance charges	147	286	395	–	–	–	–	800	847	895
Materials and bulk purchases	28 778	34 998	34 931	22 100	24 829	24 829	–	40 000	42 360	44 732
Transfers and grants	10 641	9 300	10 513	1 000	900	12 100	–	15 050	15 938	16 830
Other expenditure	42 942	41 605	73 857	19 404	21 106	78 295	–	70 441	81 551	86 107
<b>Total Expenditure</b>	<b>166 878</b>	<b>188 239</b>	<b>241 257</b>	<b>148 808</b>	<b>162 761</b>	<b>247 173</b>	<b>–</b>	<b>256 584</b>	<b>277 297</b>	<b>292 007</b>
<b>Surplus/(Deficit)</b>	<b>(31 360)</b>	<b>(32 388)</b>	<b>(58 657)</b>	<b>67 828</b>	<b>46 152</b>	<b>(24 970)</b>	<b>–</b>	<b>(19 814)</b>	<b>(16 122)</b>	<b>(17 025)</b>
Transfers recognised - capital	21 693	26 315	33 615	32 228	39 697	39 697	–	43 755	42 920	49 667
Contributions recognised - capital & contributed a	–	–	–	–	–	–	–	–	–	–
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>(9 667)</b>	<b>(6 073)</b>	<b>(25 042)</b>	<b>100 056</b>	<b>85 848</b>	<b>14 727</b>	<b>–</b>	<b>23 941</b>	<b>26 799</b>	<b>32 643</b>
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–	–	–	–
<b>Surplus/(Deficit) for the year</b>	<b>(9 667)</b>	<b>(6 073)</b>	<b>(25 042)</b>	<b>100 056</b>	<b>85 848</b>	<b>14 727</b>	<b>–</b>	<b>23 941</b>	<b>26 799</b>	<b>32 643</b>
<b>Capital expenditure &amp; funds sources</b>										
<b>Capital expenditure</b>	–	–	–	40 317	45 617	46 727	–	56 909	61 711	69 511
Transfers recognised - capital	–	–	–	30 617	30 617	39 697	–	43 755	42 920	49 667
Public contributions & donations	–	–	–	–	–	–	–	–	–	–
Borrowing	–	–	–	–	–	–	–	–	–	–
Internally generated funds	–	–	–	9 700	15 000	7 030	–	13 154	18 791	19 843
<b>Total sources of capital funds</b>	–	–	–	<b>40 317</b>	<b>45 617</b>	<b>46 727</b>	–	<b>56 909</b>	<b>61 711</b>	<b>69 511</b>
<b>Financial position</b>										
Total current assets	28 610	36 892	44 962	20 437	20 437	20 437	–	21 427	22 573	23 826
Total non current assets	296 574	293 833	303 414	307 762	307 762	307 762	–	306 820	365 134	431 234
Total current liabilities	23 999	40 675	67 644	62 337	62 337	62 337	–	43 181	45 465	34 965
Total non current liabilities	17 503	19 586	34 174	19 303	19 303	19 303	–	47 860	50 704	53 543
Community wealth/Equity	283 682	270 465	246 558	246 558	246 558	246 558	–	237 206	291 538	366 551
<b>Cash flows</b>										
Net cash from (used) operating	33 305	34 074	48 973	40 317	59 727	59 727	–	52 957	76 711	69 511
Net cash from (used) investing	(33 012)	(32 717)	(44 922)	(40 317)	(46 727)	(46 727)	–	(56 909)	(61 711)	(69 511)
Net cash from (used) financing	(3 162)	69	(1 903)	–	(13 555)	(13 555)	–	(13 714)	(14 610)	(15 428)
<b>Cash/cash equivalents at the year end</b>	<b>(310)</b>	<b>1 116</b>	<b>3 264</b>	<b>–</b>	<b>2 709</b>	<b>2 709</b>	<b>–</b>	<b>2 131</b>	<b>2 521</b>	<b>(12 908)</b>
<b>Cash backing/surplus reconciliation</b>										
Cash and investments available	(310)	1 116	3 264	2 709	2 709	2 709	–	2 131	2 131	2 131
Application of cash and investments	8 792	27 855	43 525	42 279	37 427	39 558	–	20 874	18 946	6 843
<b>Balance - surplus (shortfall)</b>	<b>(9 103)</b>	<b>(26 739)</b>	<b>(40 261)</b>	<b>(39 569)</b>	<b>(34 717)</b>	<b>(36 848)</b>	<b>–</b>	<b>(18 743)</b>	<b>(16 815)</b>	<b>(4 712)</b>
<b>Asset management</b>										
Asset register summary (WDV)	18 333	17 735	21 550	21 550	286 211	286 211	21 700	21 700	21 724	21 754
Depreciation & asset impairment	22 755	24 213	27 851	23 731	12 672	32 000	20 000	20 000	21 180	22 366
Renewal of Existing Assets	–	–	–	–	–	–	–	–	–	–
Repairs and Maintenance	–	–	–	–	5 470	5 470	11 270	11 270	16 944	17 893
<b>Free services</b>										
Cost of Free Basic Services provided	–	–	–	–	–	–	10 000	10 000	10 590	11 183
Revenue cost of free services provided	–	–	–	–	–	–	13 000	13 000	13 767	14 538
<b>Households below minimum service level</b>										
Water:	–	–	–	–	–	–	–	–	–	–
Sanitation/sew erage:	–	–	–	–	–	–	–	–	–	–
Energy :	–	–	–	–	–	–	–	–	–	–
Refuse:	–	–	–	–	–	–	–	–	–	–



## **Consolidated Overview of the 2015/16 MTREF**

The final budget has also been prepared in accordance with chapter 4 of the Municipal Finance Management Act (MFMA Act no 56 of 2003), the Municipal Budget and Reporting Regulations, 23 January 2009 and all relevant prescriptions received via National Treasury Circulars and in particular Circulars 42, 74 and 75.

## **Financial Modelling and Key Planning Drivers**

As part of the compilation of the 2015/16 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2015/16 MTREF:

- Economic growth
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e. inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2014/15 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

The following aspects are some of the important issues addressed when preparing the 2015/2016 MTREF:

- In levying rates and tariffs the local economic conditions and affordability levels have been taken into account.
- A three year Operations and Capital Budget has been compiled in accordance with National Treasury uniform formats, and is linked to the performance targets for each vote on the budget, through the Service Delivery and Budget implementation Plan (SDBIP). The SDBIP will be approved within 28 days after the approval of the final budget.
- The budget reflects all revenue anticipated to be received and recognized during the 2015/2016 year and beyond. All sources of realistically anticipated revenues such as own revenue, grants, subsidies, agency receipts have been included.



---

## 6.1 Key Budget assumptions

### External factors

Domestically, after five years of strong growth, during which about two million jobs were created, our economy shrank fast and millions of people lost their jobs. It is expected that recovery from this deterioration will be slow and uneven and that growth for 2017 will be minimal with a slightly better growth in the outer years.

Owing to the economic slowdown, financial resources are limited due to reduced payment levels by consumers. This has resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the Municipality's finances.

### General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2015/16 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity; and
- The increase in the cost of remuneration.

### Collection rate for revenue services

The base assumption is that tariff and rating increases will increase at a rate slightly higher than CPI over the long term. It is also assumed that current economic conditions, and relatively controlled inflationary conditions, will continue for the forecasted term.

The rate of revenue collection is currently expressed as a percentage of annual billings.

The collections of the municipality on outstanding debtors are anticipated to increase during the coming financial period due to implementation of effective credit control. It should however be noted that the revenue budgeted for are 100% based on billing and therefore we need to explore and implement effective controls to increase our billing capacity to decrease our current grant dependency.



---

## **Growth or decline in tax base of the municipality**

Debtors' revenue is assumed to increase at a rate that is influenced by the consumer debtors' collection rate, tariff/rate pricing, real growth rate of the Municipality, household formation growth rate and the poor household change rate.

We have budgeted for a collection rate of 95%. Effective credit control will be implemented to assist in the achievement of the 95% collection for the 2015/16 year. We anticipate to see an increase in the outer years due to a new valuation roll that will be implemented, depending on the material increases during the valuation the tariffs might be affected to ensure affordability going forward.

## **Tariff increases**

It should be noted that the tariffs are attached as an annexure to the budget due to the complexity of the tariffs versus the budget schedule.

- There is no increase on Property Rates for 2015/2016 budget.
- Service charges – Electricity has increased by 12.2% for 2014/2015. This is based on the average increase approval from NERSA.
- Service charges – Refuse has increased by 4.5% for the 2015/2016 budget, when compared to the 2014/2015 financial year.
- Interest on investments – We aim to put more monies on our short term investment accounts resulting in an increase of interest received.
- Interest on outstanding debtors – Based on the more effective implementation of the credit control and debt management policy it is expected to decrease.

## **Salary increases and Council Remuneration**

There is a no collective agreement on salary increases in place for the budget year. Based on the circular and the notch increase we have budgeted for 6.9 per cent increase for the 2015/2016 period and 4.65 per cent for 2016/2017 and 4.9 for 2017/2018, excluded from the 6.9 per cent is the budget for the vacancies to be filled in the 2015/2016 financial year.

The budget for the council remuneration has been increased by 6.9% compared to the previous year. It should be noted that the allowance for Traditional leaders is part of council remuneration.

## **Impact of national, provincial and local policies**

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:



- Creating jobs;
- Enhancing education and skill development;
- Improving Health services;
- Rural development and agriculture; and
- Poverty Alleviation

To achieve these priorities integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

### **Ability of the municipality to spend and deliver on the programmes**

It is estimated that a spending rate of almost 100% will be achieved over the MTREF period.

Budgets are prepared in an environment of uncertainty. To prepare a meaningful budget, assumptions are made about internal and external factors that could influence the Annual Budget.

#### **Other assumptions:**

- Investments  
Nkonkobe municipality does not have long-term investments, only call accounts which are included in the cash and cash equivalents as per our annual financial statements.
- Borrowing  
The municipality is not in a process of applying for any loans.

## **6.2 Service delivery**

As part of the improvement of service delivery, more strategies will need to be developed and implemented to ensure that we meet the needs of the community and eliminates factors that have a negative effect on councillors' finances.

## **6.3 Implementation of GRAP**

The municipality fully implemented GRAP in 2010/2011 financial year. FMG (grant received from National Treasury) and own revenue is used to maintain compliance with GRAP. In the 2015/2016 budget, a budget has been set aside to assist with implementation of mSCOA.

The project also involves the review of the current Asset Management Policy to be aligned to GRAP standards. The major challenge of this project is the unbundling of Capital assets on an on-going basis.



## 6.4 Internal Charges

The current method of cost recovery between service departments must be reviewed in terms of Activity Based Costing Principles and Standards. Activity based costing principles if correctly applied, will ensure that all costs applicable to a specific service are recorded. This means that tariff setting will be improved. Our current financial system cannot perform this function and due to capacity problems within the finance department, this function will be done by the affected departments.

## 6.5 Functions outsourced and functions performed on agency basis

- No municipal services have been contracted out to section 21 or Proprietary Limited companies other than there one for external securities.
- Agent for Department of Roads and Transport on certain e-Natis transactions.

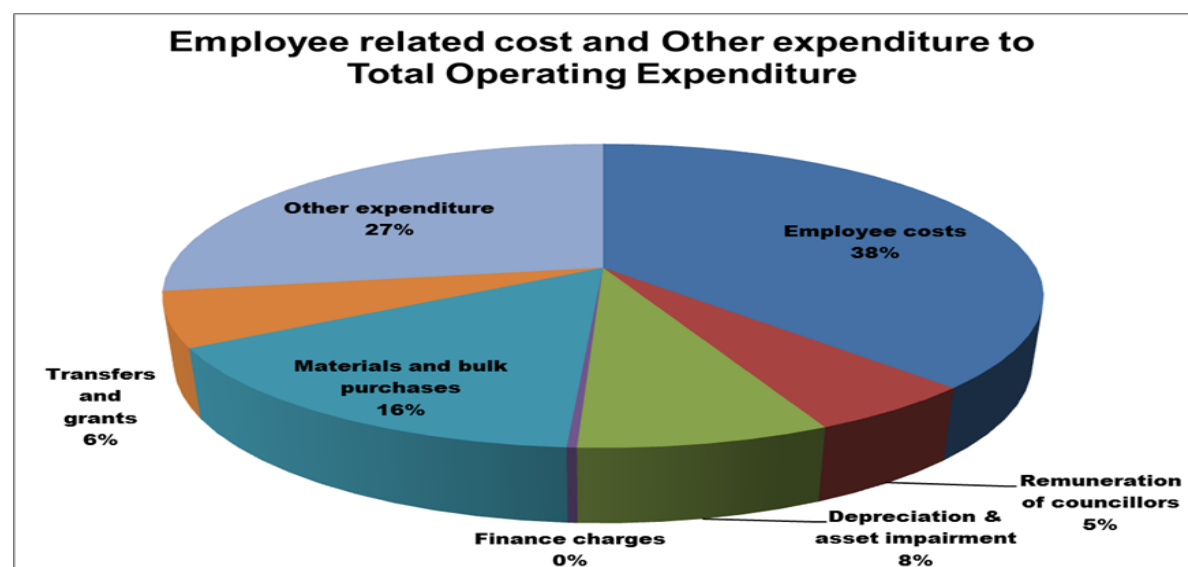
## 6.6 Operating Budget

The 2015/2016 operating expenditure budget amounts to R256,583,552 million (including non-cash items) supporting Tables A3 and A4 gives more detail.

## 6.7 Capital Budget

The 2015/2016 capital budget amounts to R56,908,700 million. (Including MIG and Dept. of Energy grant funding) Supporting tables A5 and SA36 gives more detail around the capital programme/budget. (See capital programme)

## 6.8 Employee cost and other expenditure to total Operating expenditure







---

The total employee cost for 2015/2016 including Councillor Allowance amounts to 43% of the total operating expenditure. It should be noted that the casual wages, standby allowances and overtime are included as part of employee related cost. Furthermore, the increase in employee related costs does not cater for the salaries that are being funded by grants.

Total operating expenditure amounts to R223,615,948 million in 2015/16. It should be noted that General Repairs and Maintenance reflects under other expenditure which is set out in detail under SA34c. It should further more be noted that the Transfers and grants are 6% of the total operating expenditure, and are based on the free basic services to indigents in our community, grants paid to Nkonkobe agency and other grants paid as a form of Donation.



---

## **7.1 BUDGET TABLES**

### **(Annexure A)**

---

<b>7.1.1</b>	A1 Budget Summary
<b>7.1.2</b>	A2 Budgeted Financial Performance (revenue and expenditure by standard classification)
<b>7.1.3</b>	A3 Budgeted Financial Performance (revenue and expenditure by detail standard classification)
<b>7.1.4</b>	A4 Budgeted financial Performance (revenue and Expenditure by Municipal vote)
<b>7.1.5</b>	A4 Budgeted Financial Performance (revenue and expenditure by detail municipal vote)
<b>7.1.6</b>	A4 Budgeted Financial Performance (revenue and expenditure)
<b>7.1.7</b>	A5 Budgeted Capital Expenditure by vote, detailed standard classification and funding
<b>7.1.8</b>	A5 Budget Capital expenditure by vote, detailed standard classification and funding
<b>7.1.9</b>	A6 Budgeted Financial Position
<b>7.1.10</b>	A7 Budgeted Cash Flows
<b>7.1.11</b>	A8 Cash backed reserves / accumulated surplus reconciliation
<b>7.1.12</b>	A9 asset management
<b>7.1.13</b>	A10 Basic Service delivery measurement

## **7.2 BUDGET SUPPORTING TABLES**

<b>7.2.1</b>	SA 1 Supporting detail to “Budgeted Financial Performance”
<b>7.2.2</b>	SA2 Matrix Financial Performance Budget (revenue source/expenditure type and dept)
<b>7.2.3</b>	SA3 Supporting detail to “Budgeted Financial Position”
<b>7.2.4</b>	SA4 Reconciliation to IDP strategic objectives and budget (revenue)
<b>7.2.5</b>	SA 5 Reconciliation to IDP Strategic objectives and budget (operating expenditure)
<b>7.2.6</b>	SA6 Reconciliation to IDP strategic objectives and budget (capital expenditure)
<b>7.2.7</b>	SA7 Measurable performance objectives
<b>7.2.8</b>	SA8 Performance Indicators and benchmarks
<b>7.2.9</b>	SA9 Social, economic and demographic statistics and assumptions
<b>7.2.10</b>	AS10 funding measurements
<b>7.2.11</b>	SA11 Property rates summary
<b>7.2.12</b>	SA 12 & 13 Property rates by category (current year)
<b>7.2.13</b>	SA14 Housing bills
<b>7.2.14</b>	SA15 Investment particulars by type
<b>7.2.15</b>	SA16 Investment particulars by maturity
<b>7.2.16</b>	SA17 Borrowing
<b>7.2.17</b>	SA18 Transfers and receipts
<b>7.2.18</b>	SA19 Expenditure on transfers and grant programme
<b>7.2.19</b>	SA20 Reconciliation of transfers, grant receipts and unspent funds
<b>7.2.20</b>	SA21 Transfers and grants made by the municipality



---

<b>7.2.21</b>	SA22 Summary councillor and staff benefits
<b>7.2.22</b>	SA23 Salaries, allowances & benefits (political office bearers /councillors/senior managers)
<b>7.2.23</b>	SA24 Summary of personnel numbers
<b>7.2.24</b>	SA25 Budgeted monthly revenue and expenditure
<b>7.2.25</b>	SA26 Budgeted monthly revenue and expenditure (municipal vote)
<b>7.2.26</b>	SA27 Budgeted monthly revenue and expenditure (standard classification)
<b>7.2.27</b>	SA28 Budgeted monthly Capital Expenditure (municipal vote)
<b>7.2.28</b>	SA29 Budgeted monthly Capital expenditure (standard classification)
<b>7.2.29</b>	SA30 Budgeted Monthly cash flow
<b>7.2.30</b>	SA31 Entities not required
<b>7.2.31</b>	SA32 lost of external mechanisms
<b>7.2.32</b>	SA33 Contracts having future budgetary implications
<b>7.2.33</b>	SA34a Capital expenditure on new assets by asset class
<b>7.2.34</b>	SA34b Capital expenditure on the renewal of existing assets by asset class
<b>7.2.35</b>	AS34c Repairs and maintenance expenditure by asset class
<b>7.2.36</b>	AS35 Future financial implications on the capital budget
<b>7.2.37</b>	SA36 Detailed capital budget
<b>7.2.38</b>	SA37 Projects delayed from previous financial years



---

## 8. OVERVIEW OF THE ANNUAL BUDGET PROCESS

---

### **Budget Process Overview**

#### Schedule of Key Deadlines relating to budget process [MFMA s 21(1)(b)]

The Act requires the formal budget process to start with the tabling by the Mayor in Council of a schedule showing the key budget deadlines. This was prepared and tabled during a Council meeting in August 2014.

#### Political oversight of the budget process

Section 53 of the MFMA requires that the Mayor provides general political guidance over the budget process and the priorities that must guide the preparation of the budget.

#### Process used to integrate the review of the IDP & preparation of the budget

Departments were required to give input and their needs to the budget. The budget process is integrated with the review of the IDP through the IDP review mechanism. The outcome of consultation feeding into the IDP review is taken into account in the budget process.

This budget had also better input from government departments in compared to previous years

#### Process for tabling the budget in Council for consultation

A statutory period of consultation follows the tabling of the budget in Council on 27 March 2015. Meetings with the local community should be advertised in the local press following the tabling of the draft budget.

The Mayor had considered the outcomes of these consultation meetings.

#### Process for approving the budget

The budget must be approved by Council by 28 May 2015.

#### Process and media used to provide information on the budget to the community

All budget documentation, the MTREF together with tariffs and policies, was made available at Council libraries and offices for inspection.

Advertisements informing the public about the availability of these documents and the schedules for the IDP/Budget public hearings was published in all local newspapers and put up at municipal offices and libraries.



---

## **9. OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH THE INTEGRATED DEVELOPMENT PLAN**

---

The IDP has been prepared for the Medium Term Revenue and Expenditure period which includes instances up to 2017/2018. A Budget and IDP Process Plan was developed and approved by Council during August 2014 Council meeting. The whole development of the Budget and IDP was based on the Budget and IDP Process Plan.

All the wards were visited and community needs and inputs were sought. All relevant stakeholders were consulted through the Intergovernmental Relations and Steering Committee meetings. The Integrated Development Plan of 2015/16 was developed in partial response to:

- The requirements of compliance with the Local Government Municipal Systems Act (MSA) 32 of 2000 which prescribes for the review of municipal integrated development plan (IDP), in which it prescribes for the municipality to:
  - Identify the gaps that warrant review in its IDP and revise accordingly
  - Review its performance and incorporate the outcomes of the review in its IDP review
  - Comments raised by MEC on the previous IDP
  - Queries raised by the auditor general in the municipality's annual statements which bear relevance for IDP and PMS linkages
  - A gap analysis conducted on the current IDP document pointed to the following key areas for specific attention and improvement during the formulation of this IDP.

### **9.1 Updating of the planning data**

Updated statistical information has been sourced from Global Insight 2011 and used to improve our demographic projections. Further, we have collected updated planning information from sector departments and that has necessitated few changes in the document.

### **9.2 Linkages between IDP, Budget and PMS**

This IDP has been designed in such a way to ensure clear alignment between its IDP KPAs, development objectives and Targets. The document provides both the framework adopted for managing our performance management and the actual commitments in terms of the scorecards describing a set of indicators and targets for our performance management.



## 10. MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS

### 10.1

#### EC127 Nkonkobe - Supporting Table SA7 Measureable performance objectives

Description	Unit of measurement	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
<b>Vote 1 - Strategic Planning &amp; LED</b>										
<b>Function 1 - Economic Development</b>										
<b>Sub-function 1 - Basic Service Delivery</b>										
	No. of appointment letters				1 050 000.00	1 050 000.00	1 050 000.00			
<i>To reduce unemployment by 750 by 2017</i>										
<b>To improve support to agricultural enterprises by 2017</b>	1. Letter of request for Ploughing 2. Proof of Payment 3. Happy Letters				400 000.00	400 000.00	400 000.00			
<b>Sub-function 2 - Local Economic Development</b>										
	By facilitating the development of tourism and package tourism products including community related enterprise				R696 960	R696 961	R696 962			
<i>To promote Nkonkobe as a leading Tourism destination in the Amathole region by 2017</i>										
<b>Sub-function 3 - Good Governance and Public Participation</b>										
	1. Final IDP. 2. Council Resolution. 3. Copy of the advertisement in the local				380 000.00	380 000.00	380 000.00			
<i>To ensure an effective developmental planning by 2017</i>										





2017										
To ensure improved leave management by 2017	1. Quarterly reports on implementation of payday leave management system				1 000 000.00	1 000 000.00	1 000 000.00			
<b>Sub-function 2 - (name)</b>										
<i>Insert measure/s description</i>										
<b>Sub-function 3 - (name)</b>										
<i>Insert measure/s description</i>										
<b>Vote 3 - Engineering</b>										
<b>Function 1 - Roads for growth</b>										
<b>Sub-function 1 - Basic Service Delivery</b>										
To ensure that the communities of Nkonkobe have improved municipal access roads by 2017	No. of Km's				13 115 126.00	13 115 126.00	13 115 126.00			
<b>Sub-function 2 - Electrification</b>										
To ensure that rural communities in the Eskom area of supply have access electricity by 2017	No. of households				2 500 000.00	2 500 000.00	2 500 000.00			
<b>Sub-function 3 - Solid Waste Management</b>										
To ensure access to an improve solid waste service by 2017	No. of refuse/ skip bins				400 000.00	400 000.00	400 000.00			
<b>Sub-function 4 - Community Facilities</b>										
To provide community facilities to Nkonkobe Communities by 2017	Completion certificate and Happy letter				9 380 000.00	9 380 000.00	9 380 000.00			





To ensure proper maintenance of municipal buildings by 2017	1. Expenditure reports. 2. pictures of work done				1 000 000.00	1 000 000.00	1 000 000.00			
<b>Sub-function 2 - (name)</b>										
<i>Insert measure/s description</i>										
<b>Sub-function 3 - (name)</b>										
<i>Insert measure/s description</i>										
<b>Vote 3 - Budget and Treasury Office</b>										
<b>Function 1 - Financial Management</b>										
<b>Sub-function 1 - Financial Viability</b>										
To ensure timeous financial reporting and compliance with legislation and treasury regulations by 2017	1. Council Resolution. 2. Copy of AFS. 3. Proof of submission to AG				2 640 000.00	2 640 000.00	2 640 000.00			



---

## 11. OVERVIEW OF BUDGET RELATED POLICIES AND AMENDMENTS

---

Listed below with a brief description are the municipality's budget related policies. The **detailed policies** are not included in this budget documentation. However, they are available at the office of the Municipal Manager.

This section is trying to give the user of this budget document a broad overview of the budget policy framework and highlights the amended policies by council resolution.

### 11.1 Budget Policy

#### **Purpose/Basic areas covered by policy/main objective**

The objectives of the budgeting policy are to set maximum expenditure limits for the budget or each component thereof, for the Municipality. A Municipality may only incur expenditure in accordance with its approved budget.

**Date of council approval:**

### 11.2 Tariff Policy

#### **Purpose/Basic areas covered by policy/main objective**

The purpose of this tariff policy is to prescribe the accounting and administrative policies and procedures relating to the determining and levying of tariffs by Nkonkobe Municipality.

### 11.3 Credit Control and Debt Collection Policy

#### **Purpose/Basic areas covered by policy/main objective**

The Local Government: Municipal Finance Management Act, 2003, Act 56 of 2003 contains legal prescriptions for sound and sustainable management of the financial affairs of municipalities. Section 97 deals with revenue management, inter alia with effective revenue collection systems and the preparation of accounts for service charges.

A Credit Control and Debt Collection Policy is required in order to give effect to requirements of Act 56, generally and specifically with revenue collection.

### 11.4 Cash Management and Investment Policy

#### **Purpose/Basic areas covered by policy/main objective**

In order to ensure sound and sustainable management of the cash resources of the municipality this policy addresses all principles and processes involved in cash and investment management

### 11.5 Property rates policy

Setting of criteria for establishing rates tariffs.



---

## **11.6 Accounting Policy**

### **Purpose/Basic areas covered by policy/main objective**

Accounting policy guides the preparation of the Annual Financial Statements and is reviewed each year during the preparation to ensure compliance with GRAP standards and any guiding principles issued by Accounting Standards Board and National Treasury.

## **11.8 Borrowing Policy**

### **Purpose/Basic areas covered by policy/main objective**

The objective of this policy is to ensure that the Municipality's borrowing practices at all times comply with the relevant laws and best practices. The primary goal in the borrowing of funds is to ensure that the funds are obtained at the lowest possible interest rates at minimum risk.

## **11.9 Fixed Assets Management Policy**

### **Purpose/Basic areas covered by policy/main objective**

The fixed assets management policy is designed to ensure management of Municipal assets in efficient and effective manner with regard to acquisition, utilisation, control, maintenance and disposal of assets. The policy guides directorates/departments and staff in their responsibility and duties for control of their assets.

## **11.10 Funding and Reserves Policy**

### **Purpose/Basic areas covered by policy/main objective**

This policy aims to set standards and guidelines towards ensuring financial viability over both the short- and long term and includes funding as well as reserves requirements.

## **11.11 Policy on the Use and Application of Information Technology**

### **Purpose/Basic areas covered by policy/main objective**

The purpose of this policy is to provide guidance to all current and future users of the information technology (IT) network, consisting of a variety of servers, personal computers, network printers and direct printers, to ensure that the system is properly managed, optimally used, applied to the best advantage of the municipality, and to prevent abuse of the system. This policy cannot lay down rules to cover every possible situation. Instead, it is designed to express the municipality's philosophy and set out the general principles that employees should apply when using computers.



---

## 12. OVERVIEW OF BUDGET FUNDING AND FUNDING COMPLIANCE

---

### 12.1 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;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17.

Achievement of this requirement in totality effectively means that a Council has 'balanced' its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows.

### 12.2 A credible budget

Amongst other things, a credible budget is a budget that:

- Funds only activities consistent with the revised IDP and vice versa ensuring the IDP is realistically achievable given the financial constraints of the municipality;
- Is achievable in terms of agreed service delivery and performance targets;
- Contains revenue and expenditure projections that are consistent with current and on past performance and supported by documented evidence of future assumptions;
- Does not jeopardise the financial viability of the municipality (ensures that the financial position is maintained within generally accepted prudential limits and that obligations can be met in the short, medium and long term); and
- Provides managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

A budget sets out certain service delivery levels and associated financial implications. Therefore the community should realistically expect to receive these promised service delivery levels and understand the associated financial implications. Major under spending due to under collection of revenue or poor planning is a clear example of a budget that is not credible and unrealistic.

Furthermore, budgets tabled for consultation at least 90 days prior to the start of the budget year should already be credible and fairly close to the final approved budget.



### **12.3 Fiscal Overview of Nkonkobe Municipality**

Over the past financial years via sound and strong financial management, Nkonkobe Municipality has moved internally to a position of relative financial stability. There is also a high level of compliance with the Municipal Finance Management Act and other legislation directly affecting financial management.

Municipality fully adopted GRAP standard with its AFS of 2013/14

### **12.4 Long term financial planning**

The municipality's financial position is sound and this budget further ensures that it stays sound. The municipality plans to continue exercising strict financial management and ensuring a cash flow which meets the requirements.

However, due to the size and tax base of the municipality, the municipality is starting to reach its ceiling in terms of its own funds and equitable grant to help fund its budget. Priorities need to be prioritised as demands will always outscore resources available.

### **12.5 Sources of funding**

The main sources of funding can be found under SA table 1.

However, the main own funding sources of the municipality comes from property rates and service charges such as electricity and refuse. The municipality is very dependent on the Equitable Share allocation as a funding source of its operating budget. The municipality does not have any investments and all money is needed on a real "immediate" scenario. This is why money is rather put in short-term investments to obtain a better interest rate than to leave it in operating account.

### **12.6 Sale of assets**

Municipality will also use annual stock and asset register to determine absolute and redundant assets and to make a recommendation to council on what to do with it.



### 13. GRANT EXPENDITURE AND ALLOCATIONS

The grants programme its expenditure on transfers can be found under SA table 19. Details of each grant are shown in the schedule that follows:

Name of Grant	Operating/capital	Allocation authority/department	Purpose of grant
Library Services	Operating	Province/ Cultural Affairs and Sport	To enable public libraries to render an improved service by addressing staffing shortages and operating needs.
Councillor remuneration	Operating	National Treasury	To assist municipalities with the cost of cllr remuneration
Local Government Financial Mng grant (FMG)	Operating	National Treasury	To promote and support reforms in financial mng by building capacity in municipalities to implement MFMA
Municipal Systems Improvement Grant (MSIG)	Operating	COGTA	To assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems
Municipal Infrastructure Grant (MIG)	Operating/ Capital	COGTA	To supplement capital finance for basic municipal infrastructure. The operating portion is utilised for project management unit.



---

Equitable Share	Operating	National Treasury	The equitable share of national revenue in accordance with the requirements of the Constitution.
EPWP	Incentive	National Public works	To assist with job creation

---

#### **14. ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY**

---

Any allocation made to an outside body must comply with the requirements of section 67 of the MFMA. This stipulates that before transferring funds to an outside organisation the Municipal Manager, as Accounting Officer, must be satisfied that the organisation or body has the capacity to comply with the agreement and has adequate financial management and other systems in place.

National Treasury further indicated in MFMA circular 51 that no more “discretionary” funds may be appropriated in the budget due to such funds not being transparent during the consultation process.

The municipality did not budget to make any grant transfers to any outside organisation/body or other organ of state other than the Nkonkobe agency (NEDA) and indigent relief as included per Treasury guidance under transfers and grants paid.



---

## 15. COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS

---

Supporting tables SA 22 and SA 23 summarises the salary, allowances and benefits over the MTREF.

## 16. SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN (SDBIP)

---

## 17. INVESTMENTS

---

The municipality does not have any money **that complies with the definition of investment**. Monies that are not needed are put in call accounts to attract interest.

## 18. CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

---

The municipality does not have any roll – over contracts with budget implications.

## 19. CAPITAL EXPENDITURE AND PREVIOUSLY DELAYED PROJECTS

---

Capital expenditure details are listed in supporting tables 34 to SA37. The municipality do not have any projects that were delayed in previous financial years.

## 20. ANNUAL BUDGETS AND SERVICE DELIVERY AGREEMENTS- MUNICIPAL ENTITIES AND OTHER EXTERNAL MECHANISMS

---

### 20.1 Entities

The municipality has NEDA as an entity.





---

## 20.2 Other External Service Delivery Mechanisms.

The municipality has no other service delivery agreements with external parties for the delivery of the Municipality's services except the one for external securities.



---

## 21. LEGISLATION COMPLIANCE STATUS

---

### **Municipal Finance Management Act - No 56 of 2003**

The MFMA became effective on 1<sup>st</sup> July 2004. The Act modernises budget and financial management practices within the overall objective of maximising the capacity of municipalities to deliver services. The MFMA covers all aspects of municipal finance including budgeting, supply chain management and financial reporting. The various sections of the Act are phased in according to the designated financial management capacity of municipalities. Nkonkobe municipality has been designated as a low capacity municipality. The MFMA is the foundation of the municipal financial management reforms which municipalities are implementing.

#### **The MFMA and the budget**

The following explains the budgeting process in terms of the requirements in the MFMA. It is based on National Treasury's guide to the MFMA.

#### The budget preparation process

*The Mayor must lead the budget preparation process through a co-ordinated cycle of events that commences at least ten months prior to the start of each financial year.*

#### Overview

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 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 any particulars on borrowings, investments, municipal entities, service delivery agreements, grant allocations and details of employment costs.

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

#### 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 is prepared by senior management and tabled by the Mayor for Council adoption by 31 August (ten months before the commencement of the next budget year).



#### Budget preparation and review of IDP and policy

The Mayor must co-ordinate the budget preparation process and the review of Council's IDP and budget-related policy, with the assistance of the municipal manager.

The Mayor must ensure that the IDP review forms an integral part of the budget process and that any changes to strategic priorities as contained in the IDP document have realistic projections of revenue and expenditure. In developing the budget, the management must take into account national and provincial budgets, the national fiscal and macro-economic policy and other relevant agreements or Acts of Parliament. The Mayor must consult with the relevant district Council and all other local municipalities in that district as well as the relevant provincial treasury and the National Treasury when preparing the budget, and must provide the National Treasury and other government departments with certain information on request.

This process of development should ideally occur between August and November, so that draft consolidated three-year budget proposals, IDP amendments and policies can be made available during December and January. This allows time during January, February and March for preliminary consultation and discussion on the draft budget.

#### Tabling of the draft budget

The initial draft budget must be tabled by the Mayor before Council for review by 31 March.

#### Publication of the draft budget

Once tabled at Council, the Municipal Manager must make public the appropriate budget documentation and submit it to National Treasury 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.

#### Opportunity to comment on draft budget

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

#### Opportunity for revisions to draft budget

After considering all views and submissions, Council must provide an opportunity for the Mayor to respond to the submissions received and if necessary to revise the budget and table amendments for Council's consideration.

Following the tabling of the draft budget at the end of March, the months of April and May should be used to accommodate public and government comment and to make any revisions that may be necessary. This may take the form of public hearings, Council debates, formal or informal delegations to the National Treasury, provincial treasury and other municipalities, or any other consultative forums designed to address stakeholder priorities.



---

### Adoption of the annual budget

The Council must then consider the approval of the budget by 31 May and must formally adopt the budget by 30 June. This provides a 30-day window for Council to revise the budget several times before its final approval.

If a Council fails to approve its budget at its first meeting, it must reconsider it, or an amended draft, again within seven days and it must continue to do so until it is finally approved – before 1 July.

Once approved, the Municipal Manager must place the budget on the municipality's website within five days.

### **BUDGET IMPLEMENTATION**

#### Implementation management – the Service Delivery and Budget Implementation Plan (SDBIP)

The Municipal Manager must within fourteen days of the approval of the annual budget (by 14 July at the latest) submit to the Mayor for approval a draft SDBIP and draft annual performance agreements for all pertinent senior staff.

An SDBIP 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 Mayor must approve the draft SDBIP within 28 days of the approval of the annual budget (by 28 July at the latest).

This plan must then be monitored by the Mayor and reported on to Council on a regular basis.

#### Managing the implementation process

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.

#### Variation from budget estimates

Generally, Councils 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 unauthorised or, in some cases, irregular or fruitless and wasteful. Unauthorised expenditure must be reported and may result in criminal proceedings.

#### Revision of budget estimates – the adjustments budget

It may be necessary on occasion for a Council to consider a revision of its original budget, owing to material and significant changes in revenue collections, expenditure patterns, or forecasts thereof for the remainder of the financial year.

In such cases a municipality may adopt an adjustments budget, prepared by the municipal manager and submitted to the Mayor for consideration and tabling at Council for adoption.

The adjustments budget must contain certain prescribed information, it may not result in further increases in taxes and tariffs and it must contain appropriate justifications and supporting material when approved by Council.



### **Requirements of the MFMA relating to the contents of annual budgets and supporting documentation**

Section 17 of the MFMA stipulates that an annual budget of a municipality must be a schedule in the prescribed format and sets out what must be included in that format. In its MFMA circular 48, National Treasury set out detailed guidance on the contents of budget documentation and the supporting schedules. Nkonkobe Municipality has made every effort to comply with the circular.

The following table shows how Nkonkobe Municipality complies with the disclosure requirements of section 17 of the MFMA.

<b>Requirement</b>	<b>Disclosure in budget documentation</b>
Schedule of reasonably anticipated revenue for the budget year from each revenue source	A4
Schedule showing appropriations of expenditure for the budget year under the different votes of the Municipality	A3
Schedule setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year	A3 and A4
Schedule setting out- (i) estimated revenue and expenditure by vote for the current year and (ii) Actual revenue and expenditure by vote for the financial year preceding the current year.	A3 and A4
Draft resolutions - (i) approving the budget of the Municipality (ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year and (iii) Approving any other matters that may be prescribed.	Section 4
Measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the Municipality's Integrated Development Plan.	Section 22 and SA 7
Projection of cash flow for the budget year by revenue source broken down per month	SA 25 – SA 26
Proposed amendments to the Municipality's integrated development plan following the annual review of the IDP in terms of section 34 of the	Section 9



Municipal Systems Act	
Particulars of the Municipality's investments	Section 17 and SA 16
Any prescribe information on municipal entities under the sole or shared control of the Municipality	SA31
Particulars of all proposed new municipal entities which the Municipality intends to establish or in which the Municipality intends to participate	SA31
Particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements	Section 20
Particulars of any proposed allocations or grants by the municipality to- (i) other municipalities (ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers (iii) any other organs of state (iv) any organisations or bodies referred to in section 67 (1) (bodies outside Government)	Section 14
The proposed cost to the municipality for the budget year of the salary, allowances and benefits of- (i) each political office bearer of the Municipality (ii) Councillors of the municipality (iii) the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager	Section 15
The proposed cost for the budget year to a municipal entity under the sole or shared control of the Municipality of the salary, allowances and benefits of- (i) each member of the entity's board of directors and (ii) the chief executive officer and each senior manager of the entity	SA forms
The proposed cost for the budget year to a municipal entity under the sole or shared control of the Municipality of the salary, allowances and benefits of- (i) each member of the entity's board of directors and (ii) the chief executive officer and each senior	SA forms



---

manager of the entity	
Any other supporting documentation as may be prescribed	SA forms

### **Other Legislation**

In addition to the MFMA, the following legislation also influences municipal budgeting;

#### The Division of Revenue Act 2010 and Provincial Budget Announcements

Three year national allocations to local government are published per municipality each year in the Division of Revenue Act. The Act places duties on municipalities in addition to the requirements of the MFMA, specifically with regard to reporting obligations.

Allocations to the Municipality from Provincial Government are announced and published in the Provincial budget.

Section 18 of the MFMA states that annual budgets may only be funded from reasonably anticipated revenues to be collected. The provision in the budget for allocations from National and Provincial Government should reflect the allocations announced in the DORA or in the relevant Provincial Gazette.

#### The Municipal Systems Act - No 32 of 2000 and Municipal Systems Amendment Act no 44 of 2003

One of the key objectives of the Municipal Systems Act is to ensure financially and economically viable communities. The requirements of the Act link closely to those of the MFMA. In particular, the following requirements need to be taken into consideration in the budgeting process;

- Chapters 4 and 5 relating to community participation and the requirements for the Integrated Development Planning process.
- Chapter 6 relates to performance management which links with the requirements for the budget to contain measurable performance objectives and quarterly performance targets in the Service Delivery and Budget Implementation Plan.
- Chapter 8 relates to the requirement to produce a tariff policy.



---

## 22. OTHER SUPPORTING DOCUMENTS

---

More details on the budget can be found in the supporting tables SA 1 – SA 3





---

## MUNICIPAL MANAGER'S QUALITY CERTIFICATION

---

UMasipala Wase Nkonkobe



Municipality of Nkonkobe

Martello Museum, Bell Street  
FORT BEAUFORT  
5720  
Eastern Cape – RSA

P.O. Box 36  
Fort Beaufort 5720  
Tel: (046) 645-7400/7451/ 7452  
Fax: 046 645 2562

---

## MUNICIPAL MANAGER'S QUALITY CERTIFICATION

I, L Menze, Acting Municipal Manager of Nkonkobe Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the Municipality.

.....  
L Menze  
Acting Municipal Manager of Nkonkobe Municipality (EC 127)

Date: 28 May 2015