



*Final Budget 2016/2017*

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## **2016/17 TO 2018/19 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.*



## Final Budget 2016/2017

### 1. TABLE OF CONTENTS

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



## *Final Budget 2016/2017*

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



## 2. GLOSSARY

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**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.

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## *Final Budget 2016/2017*

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**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 valued 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 approve by Council.

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

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### **3. MAYORAL BUDGET SPEECH**

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Honourable Speaker

Honourable Chief Whip

Executive Committee

Councillors

Traditional Leaders

Ward Committees

CDW's

Acting Municipal Manager and Senior Officials

It humbles me to be afforded the opportunity to table the budget for this financial year which will inevitably overlap to the new council term of office. It is important to highlight successes and shortcomings in the current term that is at its tail end and pave the way to the council to be ushered in after the 3<sup>rd</sup> August election. It is also important to highlight challenges and analyze strengths, weaknesses, opportunities and threats. One of the shortcomings facing the outgoing council was the weak foundation from the previous councils. The previous council was established from four previous Transitional Local Councils and rural councils. This challenge remains an albatross around our necks as we are still facing disparities emanating from this situation, these include inter alia infrastructural backlogs, lack of uniformity on the provision of basic services, for instances supplying electricity only to Fort Beaufort whilst in other areas such Alice and Middledrift it is supplied by ESKOM. This poses a challenge as the community of Fort Beaufort is always complaining about this disparity.

The Corruption and fraud remains a daunting challenge as it siphons away resources from important policy goals. Fighting corruption and fraud must be everybody's business because everyone is affected whether directly or indirectly. Corruption is rife in Supply Chain and in employment. Stealing of municipal resources whether it is money, fuels, abusing municipal vehicles are criminal offences and should be treated as such. However, we also need to guard against abusing our own position to settle scores by smearing others of corrupt activities whilst we know there was no such offence committed. It is also wrong because it compromises the very principle of fighting corruption and fraud.

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Communication with all stakeholders is one of the challenges facing this institution. Communication should not be understood as only responding to media questions or consulting communities on matters of development but rather a complex phenomenon that include telling communities about failure to deliver services and why? It is also about responding quickly to fix problems affecting service delivery such as potholes, leaking water pipes, electricity cuts, disaster management and so on.

The rural nature of our municipality and the thin revenue base which reduces the rate at which revenue is collected is among challenges that the institution faces. This is aggravated by the cost drivers such as electricity, telephones, fuel and the maintenance of plant and equipment.

In an attempt to position our institution to confront these challenges we crafted a concise vision “to be a self-sufficient municipality that is responsive to the needs of the people”. In order to realize this vision, we crafted a mission. In order to realize self-sufficiency, we established a technical unit. The technical unit saw the institution doing projects in house, buying plant and equipment and creating more temporary jobs in addition to permanent jobs. Through this technical unit we managed to build more community halls within limited resources. We are indeed gravitating towards a self-sufficient municipality that is responsive to the needs of the people.

The municipality has set itself audacious goals. Setting such goals without innovation is problematic. As a municipality we fell short of being innovative in the past. There is a dire need for the incoming council to be innovative and not to rely on the insufficient grant it receives from the national fiscal.

In spite of the challenges we experienced we have made excellent strides in changing the lives of the people of Nkonkobe for the better. Together we have managed to build community halls. In certain areas they are under construction and in certain areas they are completed whilst in some areas they are at a planning stage.

In the past the development of Nkonkobe exhibited skewness. We were compelled to strike a balance between development in urban and rural areas because we are quite aware of the fact that the past disparities created a physical and psychological gulf between the urban and rural poor. Hence the unproven theory of “using the money we pay for rates and services to fund rural development”. This mindset indicates a high level of political immaturity and should not be entertained. The constitution enshrines

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## *Final Budget 2016/2017*

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and protects the rights of individuals and individuals have got the right to choose whether they want to reside in urban and rural areas and they have equal rights to development.

The past financial years has been tumultuous by anyone standards. As a municipality we were equally affected by a financial meltdown and market turmoil. We were compelled to turn things around. We need to improvise to change current state of affairs if not the result will be calamitous. We must strive to succeed even during the toughest of turbulent times. Back to basics require us to put people first and that a municipality shall have at least one hall in each ward.

### **Highlights**

- Successful establishment of technical unit
  - Mechanization of technical unit
  - Creating both permanent and temporary jobs
  - Paving roads in towns, townships and rural areas.
  - Construction of community halls
  - Holding successful cultural week, mayoral cups and wards championships for social cohesion.
  - Construction of Day Care Centers
  - Construction of Drivers License testing station in Fort Beaufort
  - Construction of a Multimillion Multipurpose Centre in Middledrift
  - Construction of multimillion Council Chambers in Alice
  - A planned construction of multimillion sport complex in Fort Beaufort.
  - The Municipality designated to be among the best performing in providing free basic electricity
  - The Municipality designated as the best local municipality in communication in 2014
  - Spend 100 percent municipal infrastructure grant for 4 consecutive years except last year when we fell short by about 6%
  - Successful electrification of Fort Beaufort Golf Course
  - Successful installation of high mast lights in Fort Beaufort
  - A planned and already budgeted for of high mast lights in Alice and Middledrift
  - Launching of Middledrift block yard and that is up and running
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We aim to complete all the projects before we start the new projects

Most projects are at their last phase. It is possible to complete them in the beginning of the financial year and savings can be used to reprioritize new projects. In the past we acknowledged our thin revenue base and limited resources. To this end we took a decision to recognize and boost village and township economy. This we will do by organizing and skilling SMMES and Co-ops based in villages and townships. We will further assist in marketing those Co-ops and woo investors to invest in rural areas and townships to re-enforce those Co-operatives and SMMES. To this end we will work hand in glove with willing traditional leaders to avail communal land for such development. We aim to begin with Great places as centres and roll it out to other areas after establishment. We will identify land that in the past was used by our forefathers as ploughing fields lying unused. There is a need to engage families who own those pieces of land to group themselves and collect their ploughing fields in order to convert them to small holder farms and seek funds so that poverty can be alleviated through massive agricultural production (both cropping and livestock farming).

In Nkonkobe alone we have 11 chiefs with traditional councils

1. Chief Langa Mavuso- Aaaa Zwelidumile
2. Chief Justice Mabandla- Aaaa Jongilizwe
3. Chief Sisanda Burns-Ncamashe –Aaaa Jongulundi
4. Chief Kama – Aaaa Nokwandisa
5. Chief M Tyhali –Aaaa Dibanisauhlanga
6. Chief Mhlambiso- Aaaa Jongamahlubi
7. Chief Siseko Maqoma – Aaaa Zweliyazuza
8. Chief M Zulu -Aaaa Zanobuhle
9. Chief Khayaletu Mqalo – Aaaa Gcinisizwe
10. Chief Zibi- Aaaa Zanoxolo
11. Chief M Tyhali ( Kolomane) Aaaa Zanobuzwe

We appreciated the role already played by Chief Kama and Chief Mavuso to assist in development. Through their efforts we can safely say we work hand in hand with our chiefs to realize development. Chief Mavuso successfully started a crushed

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## Final Budget 2016/2017

stone project, whilst Chief Kama successfully started a rural market project. These projects are a beginning of greater things to come through Chiefs working together with Councillors to bring development. Our municipality is in most cases used as a model for various initiatives. The community based project (CBP) was piloted here in Nkonkobe; the Mayor's cup started here in Nkonkobe, the memorandum of understanding between traditional leaders and councillors was practicalised here in Nkonkobe. I can safely say we still going to be among first municipalities to work together with Chiefs to bring development to our communities.

### THREE YEAR CAPITAL PROGRAMME

FUNDER	MUNICIPAL INFRASTRUCTURE GRANT			MUNICIPAL BUDGET		
	2015/ 2016	2016/2017	2017/2018	2015/2016	2016/2017	2017/2018
PROJECT IMPLEMENTED						
DLTC - FORT BEAUFORT	R1 668 100.00					
CHICKEN ABBATTOIR:MIDDLEDRIFT	R900 000					
PARKS IN ALICE Phase 2	R1 438 535.52					
PAVING IN GQUMASHE Phase 2	R1 700 000	R1,372,350.00	R1,372,350.00			
PAVING IN NTSELAMANZI Phase 2	R2 000 000.00					
NGQOLOWA SPORT FIELD	R1 200 000					
CBP				R1,050,000.00	R1,050,000.00	R1,050,000.00
LED PROJECTs				R1,050,000.00	R1,050,000.00	R1,050,000.00
PAVING AND GREENING OF GUGULETHU Phase 2	R1 581 799.72	R2,000,000.00				
PAVING AND GREENING OF GOLF COURSE Phase 2	R1 644 297.33	R2,000,000.00				
PAVING AND GREENING OF GROUP 5 TO CAPE COLLEGE Phase 2	R1 507 563.00	R2,000,000.00				
PAVING AND GREENING OF HILLSIDE TO NTOLENI	R1,400,000.00	R2,000,000.00				
NGQOLOWA SPORT FIELD	R1 200 000	R1,500,000.00				
CHILD CARE FACILITY (EDUCARE CENTRE) KWAMEVA	R257 000.00					
HIGH MAST LIGHTS	R4 000 000.00	R2,000,000.00	R2,000,000.00			
HAWKER STALLS	R712,000.00					
SPORT COMPLEX -PHASE 1 (Fort Beaufort)	R1 286 252.00	R2,500,000.00	R3,500,000.00			
COMMUNITY HALL – KHULILE	R555 936.10					
COMMUNITY HALL – NTONGA	R460 000.00					
REGRAVELLING OF GRAVEL ROADS AND CULVERTS						
DAY CARE CENTRE MDENI (WARD 11)	R400 000.00					
DAY CARE CENTRE (WARD 1) ZIGODLO	R320 000.00					
DAY CARE CENTRE (WARD 16) LUGUDWINI	R370 000.00					
DAY CARE CENTRE (WARD 19) XHUKWANA	R487,734.52					
DAY CARE CENTRE in Fort Beaufort						
SITYI COOMUNITY HALL Phase 2	R768 140.50					
THAFENI COMMUNITY HALL Phase 2	R750 000.00					
PAVING OF STREETS (JAKARANDA, SOMERSET)						
PROJECT IN SEYMOUR/ BALFOUR				R2,000,000.00	R2,000,000.00	R2,000,000.00



## Final Budget 2016/2017

CONSTRUCTION OF MUNICIPAL POUND					
CONSTRUCTION OF QHOMFO CHILD CARE FACILITY	R50 000.00				
CONSTRUCTION OF BINFIELD COMMUNITY HALL	R397 268.24				
CONSTRUCTION OF DYAMALA COMMUNITY HALL	R479 074.42				
CONSTRUCTION OF HALA COMMUNITY HALL	R200 000.00				
CONSTRUCTION OF KWAMATHOLE COMMUNITY HALL	R137 899.10				
CONSTRUCTION OF MAARSDORP/ BALFOUR COMMUNITY HALL	R548 000.00				
CONSTRUCTION OF MAZOTSHWENI COMMUNITY HALL	R50 000.00				
CONSTRUCTION OF MBIZANA COMMUNITY HALL	R285 000.00				
CONSTRUCTION OF NTONGA COMMUNITY HALL	R545 070.00				
CONSTRUCTION OF THAFENI COMMUNITY HALL	R750 000.00				
CONSTRUCTION OF ZIBI COMMUNITY HALL	R353 575.10				
CONSTRUCTION OF HERTZOG COMMUNITY HALL	R364 076.06				
CONSTRUCTION OF CWARHU DAY CARE CENTRE	R200 000.00				
CONSTRUCTION OF QOMFO DAY CARE CENTRE	R50 000.00				
CONSTRUCTION OF Ejorini DAY CARE CENTRE	R100 000.00				
PAVING OF NEWTOWN INTERNAL STREETS	R1 000 000.00				
DEBE NEK VIC	R389 436.00				
RECREATIONAL FACILITY – HORSE RACING	R500 000.00				
PAVING OF CHRIS HANI STREET IN ALICE	R1 000 000.00				
FENCING OF CEMETERIES	R700 000.00				

BUDGET STATEMENT 2015 - 2017	2016/2017	2017/2018
<b>EXPENDITURE</b>		
Salaries and Wages	91,227,127.18	111,910,373.66
Remuneration for councilors'	14,278,057.70	15,431,932.34
EPWP	2,083,500.00	2,190,324.50
Bulk Purchases	43,760,000.00	
Contracted Services	580,000.00	
Repairs and Maintenance	5,700,000.00	22,366,080.00
General expenses and other	62,128,450.00	123,205,614.87
Capital Expenditure	42,790,550.00	52,477,533.50
<b>TOTAL EXPENDITURE</b>	<b>262,547,684.88</b>	<b>327,581,858.88</b>
<b>PROVISIONS</b>	<b>43,796,760.12</b>	<b>57,257,164.80</b>
<b>INCOME</b>		
Own revenue	-125,387,945	-67,098,240.00
<b>SUB-TOTAL</b>	<b>-125,387,945</b>	<b>-67,098,240.00</b>
<b>GRANTS AND SUBSIDIES: OPERATING</b>		
Equitable share	-112,565,000.00	-124,581,000.00
FMG Funding	-1,825,000.00	-1,900,000.00
MSIG Funding	-	-1,033,000.00
Municipal Demarcation Transition Grant (MERGER)	-13,428,000.00	
NATIONAL GOVERNMENT: COUNCIL REMUNERATION	-7,435,000.00	
EPWP	-1,083,500.00	
PMU TOP SLICE SALARIES	-1,548,450.00	
SKILLS DEVELOPMENT LEVIES RETURNS( LG SETA)	-350,000.00	
Subsidies	-801,000.00	-2,673,215.00
<b>TOTAL: GRANTS OPERATING</b>	<b>-144,035,950.00</b>	<b>-145,187,215.00</b>
<b>GRANTS, CAPITAL &amp; OTHER FUNDING</b>		
MIG Funding	-29,420,550.00	-36,492,000.00
INEP	-5,000,000.00	-15,000,000.00
<b>Total Capital Funding</b>	<b>-34,420,550.00</b>	<b>-36,492,000.00</b>
<b>Total Funding</b>	<b>-298,844,445.00</b>	<b>-248,777,455.00</b>



## *Final Budget 2016/2017*

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### **Conclusion**

We would like to see other Chiefs following this good example. Together we can build better communities. The incoming council must ensure that the vision of being self-sufficient is realized and political and administrative stability are maintained. I would like to thank the community of Nkonkobe and the ruling party for affording us this opportunity to lead this beloved municipality. I would like to further thank community and councillors for keeping this municipality stable. I owe Executive Committee, Troika, Councillors, Traditional Leaders, officials ably led by Mr L.Menze, ward committees and CDW's a debt of gratitude too deep to be formulated. We hope the incoming council will be able to maintain this hard achieved stability.

I thank you.

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## 4. DRAFT BUDGET RELATED RESOLUTIONS

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### Council Resolutions

On 26 May 2016 the Council of Nkonkobe Local Municipality met in the TRC hall to consider the Final IDP and Annual budget of the municipality for the financial year 2016/17. The Council approved the following resolutions:

1. The council adopt the Final IDP for 2016/2017 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 2016/2017 financial year, which is an annexure to the IDP.
    - 1.1.2. The IDP and Budget 2016/2017 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 2016/2017 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 2016/17 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
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## *Final Budget 2016/2017*

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- 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 2016 the Final tariffs as set out in **Annexure B**.
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## **5. OVERVIEW OF THE BUDGET**

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### **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 6,3% 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
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- 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- Agri-Parks Programme, aimed at increasing the participation of small holder farmers in agricultural activities
- Creation of Job Opportunities
- Infrastructure investments
- Encouraging private investments
- 

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 2016/17 from ESKOM will be 9.4 % while municipalities budgeted for an increase of 7,6%, as per the final approval from NERSA.** This is having a negative impact on cash

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## *Final Budget 2016/2017*

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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.

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## **6. EXECUTIVE SUMMARY**

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### **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, 78 and 79 was mainly used to guide the compilation of the 2016/17 MTREF. Some of the key challenges faced by the municipality when compiling the draft budget were:

- The on-going difficulties in the national and local economy;
- The municipality is in a process of amalgamating with Nxuba Municipality
- 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, as well as the need to fill critical vacancies;
- 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;

### **OPERATING REVENUE BUDGET**

The municipality's total budget amounts to R 298 844 445. Total budget has increased by R 7 869 209 compared to 2015/2016 budget. The budget did not take into account the commitments as well as outstanding creditors for 2015/2016 financial year, due to a decline in Equitable share transfer as per Division of Revenue Bill.

The decline of the Equitable share transfer has imposed a huge risk in the municipality in terms of service delivery and has a negative impact in the municipal cash-flow. The municipality's financial position is currently at a level that requires intense attention.

The municipality's budget is not cash backed as required by section 18(1) of the MFMA. Deficit is due to non-cash items such as depreciation and debt impairment.

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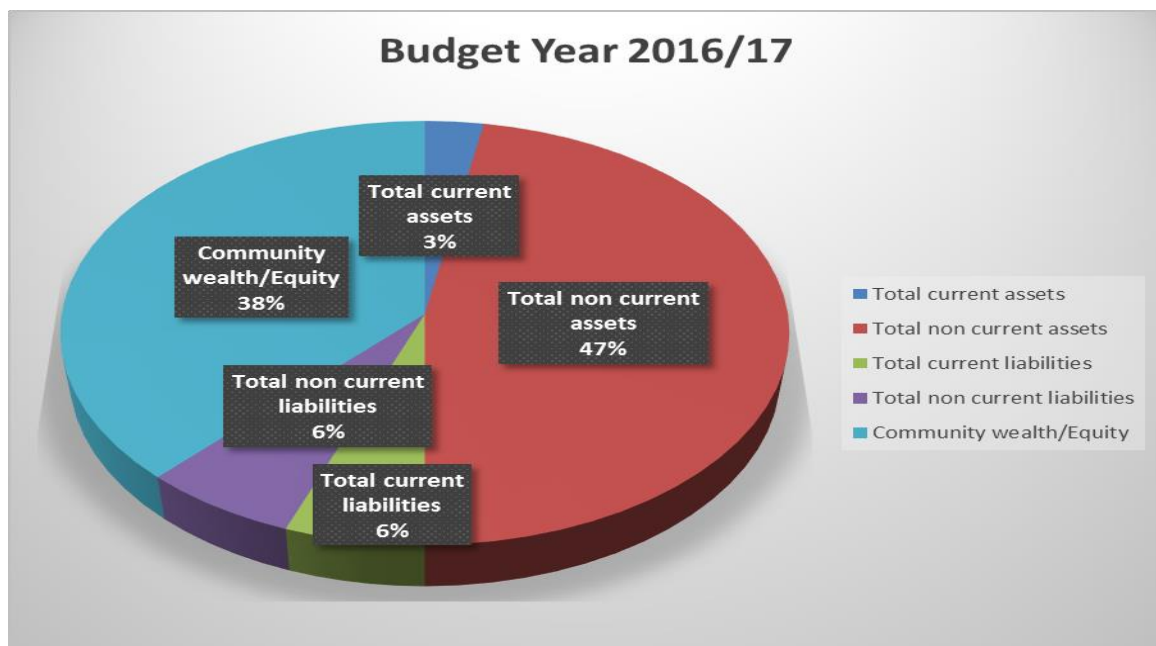


The municipality is expected to increase its electricity tariff by 7.6% as per NERSA guideline. Eskom bulk purchase will increase by 9.4%. Therefore, the municipality will have to fund the revenue forgone of 1,8%.

The municipality anticipate to collect 65% of the total budgeted revenue through property rates and service charges. This amount excludes the billing of the municipality.

### **STATEMENT OF FINANCIAL POSITION**

The graph below shows the statement of financial position of Nkonkobe Municipality.



The graph above shows that the municipality financial position is currently at a level that requires intense attention.



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## **7. Key Budget assumptions**

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### **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 2016/17 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 of CPI over the long term. It is also assumed that current economic conditions, and relatively controlled inflationary conditions, will continue for the forecasted term.

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## *Final Budget 2016/2017*

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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 and the revenue enhancement strategy to be developed. 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. Hence the municipality is anticipating to collect the actual revenue of R70 000 000.

### **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 65%. Effective credit control will be implemented to assist in the achievement of the 65% collection for the 2016/17 year.

### **Draft 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.

- Service charges – Electricity has increased by 7.60% for 2016/2017. This is based on the average increase approval from NERSA.
  - Property rates tariffs – there are no changes on the property rates tariffs
  - 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 collective agreement on salary increases in place for the budget year. Based on the circular and the notch increase we have budgeted for 6.3% plus 1% per cent increase for the 2016/2017 period and 7% for senior managers.

The budget for the council remuneration has been increased by 7% compared for 2016/2017 financial year.

### **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.
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## *Final Budget 2016/2017*

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### **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.

### **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 2016/2017 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 and other polices.

### **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.

### **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.

### **Operating Budget**

The 2016/2017 operating expenditure budget amounts to R263,553,895 million (including non-cash items).

### **Capital Budget**

The 2016/2017 capital budget amounts to R41,242,100 million. (Including MIG, INEP and Own revenue).

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## *Final Budget 2016/2017*

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

The total employee cost for 2016/2017 including Councillor Allowance amounts to 40% 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 R265,102,345 million in 2016/17. 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 5.52% 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.

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## **7.1 BUDGET TABLES**

### **(Annexure A)**

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<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

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## *Final Budget 2016/2017*

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

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### **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 2015.

#### 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 29 March 2016. 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 31 May 2016.

#### 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.

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

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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 2015 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 Draft Integrated Development Plan of 2016/17 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. Also, we have taken into account quarterly statistics information.

### **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.

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*Final Budget 2016/2017*



## 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				380 000.00	380 000.00	380 000.00			
<i>To ensure an effective developmental planning by 2017</i>										





## Final Budget 2016/2017

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





*Final Budget 2016/2017*

<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>										
<b>To ensure timeous financial reporting and compliance with legislation and treasury regulations by 2017</b>	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			

The above table will be linked to the SDBIP report. The municipality is in a process of tabling the draft SDBIP to the council. The 2016/2017 financial year figures are not included in the draft budget document.



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## **11. OVERVIEW OF BUDGET RELATED POLICIES AND AMENDMENTS**

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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 – No amendments were made**

#### **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.

### **11.2 Tariff Policy – Amendments were made**

#### **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 – No amendments were made**

#### **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 – No amendments were made**

#### **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 – Amendments were made**

Setting of criteria for establishing rates tariffs.



**11.6 Accounting Policy – No amendments were made**

**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 – No amendments were made**

**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 – No amendments were made**

**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 – No amendments were made**

**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 – No amendments were made**

**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.

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## **12. OVERVIEW OF BUDGET FUNDING AND FUNDING COMPLIANCE**

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### **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.

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### **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.

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### 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.



*Final Budget 2016/2017*

Municipal Demarcation Transition Grant	Operating	Department of Cooperative Governance and Traditional Affairs	Facilitate the successful implementation of major boundary changes that will take effect at the time of the 2016 local government elections
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

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

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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.

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## **15. COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS**

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

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

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## **17. INVESTMENTS**

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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**

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

## **19. CAPITAL EXPENDITURE AND PREVIOUSLY DELAYED PROJECTS**

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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**

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### **20.1 Entities**

The municipality has NEDA as an entity.

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## *Final Budget 2016/2017*

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### **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.

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## 21. LEGISLATION COMPLIANCE STATUS

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### **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).

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## *Final Budget 2016/2017*

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### 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.

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## *Final Budget 2016/2017*

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### 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.

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**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	Section 9



*Final Budget 2016/2017*

review of the IDP in terms of section 34 of the 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 manager of the entity	SA forms



## *Final Budget 2016/2017*

Any other supporting documentation as may be prescribed	SA forms
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### **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.
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## *Final Budget 2016/2017*

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### **22. OTHER SUPPORTING DOCUMENTS**

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

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