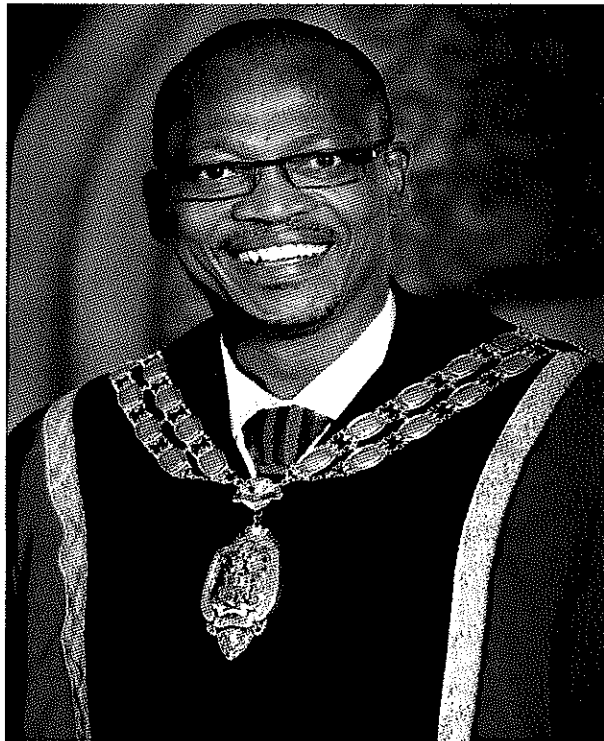


# **NEWCASTLE MUNICIPALITY**



## **ADJUSTMENTS BUDGET**

### **2016/17**

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## **PART 1 – ANNUAL BUDGET**

### **1. MAYOR'S REPORT**

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Speaker, it is my privilege and also as Mayor my obligation as per Section 28(4) of the Municipal Finance Management Act (MFMA) to submit this adjustments budget. This year it is an absolute pleasure to present an adjustment budget that is an improvement on previous years simply due to the fact that it seeks to address challenges of our 2015/16 and the current year budget.

Speaker, I indeed have some great news to share today:

When we look at the big picture, we can only come to one conclusion: We as Council, have indeed since 2008, succeeded in turning this gigantic Newcastle ship around from the history of qualified audit opinion to an unqualified audit opinion in 2015/16. It cannot be emphasized our commitment to use the adjustment budget to achieve a funded budget and improvement of the 2016/17 audit results. Together with the administration led by the Municipal Manager Speaker, we are working hard to ensure that a road to clean audit is cultivated.

Speaker, one cannot lose sight of the financial plight our municipality is currently facing. We will utilize this adjustment budget as the basis for reflecting a true financial situation we are currently facing. The adjustment budget will reflect reduction in revenue and expenditure with a view to reflect the true version of what the municipality can generate and spent. It will further be noted Speaker that both expenditure has been cut significantly in the current year with a view to curb unnecessary expenditure, but while at the same time ensuring provision of basic service delivery in most efficient way.

We are indeed delivering to our people and it is our target this year to spend at least over 80% of our capital budget as set out in our Service Delivery Budget Implementation Plan (SDBIP) and as set out in our Integrated Development Plan (IDP) for Newcastle Municipality. Although our target is 83% for the financial year, we are positive that we will improve on our actual capital budget expenditure of by a larger margin compared to the

previous three financial year. Speaker, the Oxford dictionary defines a budget as “a plan for spending money wisely”. We are certainly spending wisely and I would like to congratulate the Municipal Manager, his team and especially the CFO and his team, for fiscal discipline that led to an excellent adjustments budget for the 2016//2017 financial year. I wish to thank them for the long hours of extra work to ensure that we travel a safe fiscal road and in obtaining a clean audit opinion from the Auditor-General.

Speaker, It is good news to announce that Newcastle in the 2015/2016 financial year with an operating expenditure budget of the magnitude of R 1.894 billion, have spent R 2.568 billion (135%) of its budgeted expenditure. The over-expenditure of R 673 million is due to the bad debt impairment and depreciation in terms of the requirements of the South African Accounting Standards that was not budgeted for. This provision became a requirement after the Accountant-General, Auditor-General and the Accounting Standards Board. Taking this provision out of the equation it safe to safe the municipality did not overspent its budget in the 2015/16 financial year however these provisions needed to be reflected in the financial statements. Speaker, the CFO led by the Municipal Manager has ensure me that proper provision will be done in 2016/17 adjustment budget in order to avoid any unauthorized expenditure in the current financial year.

Speaker, it is great news that the adjustments budget for 2016/2017 that I table today is funded with realistically anticipated revenue sources and it also takes all the requirements of the South African Accounting Standards into consideration. The main purpose of this adjustment budget is to correct the material under and over budgeted figures as well as to accommodate additional revenues received from government grants. Furthermore will this adjustments budget also address any possible unauthorized expenditure with regard to non-cash expenditure items that needs to be budgeted for to comply with the South African Accounting Standards Board. This adjustments budget will also form the basis on which our third zero based budget will be compiled for the 2017/2018 financial year. Historical incremental type budgeting led to the huge budget problems of the past which we inherited.

Speaker, the Municipal Manager and Chief Financial Officer, based on the mandate given to them, compiled the adjustments budget and discussed it in detail with the MANCO members and the Executive Committee. The Adjustments Budget Report was circulated to

all councillors. It is worth mentioning Speaker that Council approved its first adjustment budget in December which sought to address a number of problems which Council inherited from 2015/16 year. These issues led to council adopting an unfunded budget for 2016/17. Some of the reasons for the first adjustment budget involved higher electricity tariff than the one approved by NERSA, adjusting downward the capital budget due to decision not to take the external loan and to generally cut down on operating expenditure in order to achieve a funded budget. The compiled second adjustments budget can thus be summarized as follows. Operating revenue will decrease by R 15.6 million from R 1.692 billion to R 1.676 billion. Operating expenditure will increase by R 86.3 million from R 1.872 billion to R 1.958 billion. The decrease in revenue is mainly caused by water revenue which did not perform as expected due to draught and consumer awareness to use water sparingly. Property rates have been adjusted upwards by R6.8 million due to additional properties and revised values on supplementary valuation rolls. Interest on investments has been reduced by R4.7 million due to withdrawal of investments and challenges of the municipality to build reserves.

Adjustments in the operating expenditure has been mainly on employee costs, depreciation, debt impairment and transfers and grants. Employee costs has been increased by R5.9 million due to movements of budget from general expenses is related to grants and had to be reflected by use and function of the grant spending. Depreciation has been increased by R39.4 million to accommodate additional depreciation as a results of the newly value infrastructure assets. Debt impairment has been increased by 27.2 million due to additional provision relating to rates, sewer and refuse which was not provided for previously. Speaker, it a requirement of the Auditor General that we provide doubtful debtors on all such revenue sources. Additional R4.8 had been made on transfers and grants for indigent benefits due to additional applications for indigent which have been approved. Speaker, it only a pleaser to report that this adjustments budget is fully funded and the municipality is expecting to remain with cash and cash equivalents of R29 million at the end of the financial year. Although this is very tight Speaker and is mainly adequate to cover reserves to be cash backed, but it is the best that the administration and the Executive Committee could do. I have tasked the Municipal Manager Speaker, to ensure that credit control and debt collection measure are effected. I can confidently report that the programme of water restrictors in the Eskom licensed areas have commenced and positive response it noted. This, Speaker, will not ensure that this municipality achieves a

better cash surplus at the end of the year, but also to ensure that a culture of payment and reserves of the municipality are built over the period of time.

Speaker some more good news: Capital expenditure will increase with R 3.4 million to R 263.9 million due to additional government grant funding. One of the most important functions of political leadership and strategic management is to obtain additional funds through proactive planning of projects and submitting business plans to provincial and national government departments. Under the leadership of the Mayor and Municipal Manager this has been a priority in this financial year, resulting in these much needed additional funding. The administration is positive that they will be able to spend the capital budget on the very much needed capital projects to improve the quality of life of our citizens. Each capital project is listed in Annexure C attached to the Adjustments Budget Report.

One of the main contributing factors to adjust the capital budget is the fact that we managed to secure grant funding of R 15.4 million from Arts and Culture to be used for the upgrade of Newcastle Library and the construction Charlestown Library. We also obtained approval from funding provincial departments to some of the grants that were unspent in 2015/16 financial year. Speaker, we remain committed that these grants will be 100% spent by the end of 2016/17 financial as we fully understand the impact of failure to spend these grants, expect for R10 million relating to the construction of Charlestown library, which council has resolved to roll over to the 2017/18 financial year. It does not only deprive our communities of the service delivery that they deserve, but it also means losing limited resources back to national fiscas through National Treasury Revenue Fund.

The good news and importance of this is that this ANC led Council cares about the wishes and demands of our communities and listens to our citizens. We have taken note of what our communities wants and we have ensured that all the important capital projects have been identified and prioritized for implementation this year.

Speaker, I can carry on listing good news and achievements, but would rather act in modesty and thank all members of this Council, including all representatives of all political parties and all members of the administration for their contributions made in this adjustment process. I would also like to thank all members of the public who assisted and

took part in putting Newcastle on the winning path. Every input, suggestion and all active participation is valued. Newcastle is a shining example of what can be achieved with a partnership of an active and participating community and a responding local government. Speaker, we dare never forget that this is the purpose of local government and that we are mere servants placed here to serve our community. I would also like to thank all sectors of all communities, who still need upgrading of facilities and assistance, and who have been working patiently with us to achieve this.

Speaker, I am humbled by the huge task entrusted to me as leader of this Council, and the opportunity to table this Adjustment Budget to better serve our people. It is of note that this Adjustments Budget amounting to R 2.222 billion (operating and capital expenditure wise). My team and I would like to ensure every citizen of Newcastle that we shall work tirelessly and leave no stone unturned to create a city of excellence for all with the limited funds entrusted to us.

Speaker, in the item serving before Council the recommendations are set out as recommended in the Adjustments Budget item. I herewith formally submit recommendations to Council for consideration and approval of the 2016/2017 adjustments budget.

**By E M Nkosi**

**Mayor: Newcastle Municipality**

## **2. ADJUSTMENTS BUDGET RESOLUTIONS**

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It is recommended:

- (a) that the operating and capital adjustment budgets be approved;
- (b) that monthly and quarterly service delivery targets and performance indicators in the service delivery and budget implementation plan be aligned in line with the adjustment budget
- (c) that the Accounting Officer be mandated to submit the adjustment budget to National and Provincial Treasuries as required by section 28(7) of Municipal Finance Management Act No.56 of 2003;
- (d) that departmental budgetary requirements be dealt with administratively and be addressed in terms of the approved virement policy;
- (e) that Executive Committee to monitor the implementation of the adjustment budget regularly as a standing item on the agenda;
- (f) that the feedback letter from the Provincial Treasury regarding mid-year budget and performance assessment be noted



**EXTRACT FROM THE MINUTES OF THE SPECIAL MEETING OF THE NEWCASTLE MUNICIPAL COUNCIL, HELD IN THE CONFERENCE ROOM, SHOW HALL, NEWCASTLE ON TUESDAY, 2017-02-28 AT 14:00**

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**PRESENT**

Councillor	J C N	Khumalo	:	Speaker
Councillor	V V	Bam		
Councillor	L L	Bosman		
Councillor	M V	Buhali		
Councillor	E C J	Cronje		
Councillor	T J C	Danisa		
Councillor	X N M	Dladla		
Councillor	B S	Dlamini		
Councillor	F P	Gama		
Councillor	V F	Hadebe		
Councillor	T S	Hlabisa		
Councillor	A	Khoza		
Councillor	B V	Khumalo		
Councillor	V D	Kubeka		
Councillor	N P	Kunene		
Councillor	C Y	Liu		
Councillor	N K	Majozi		
Councillor	F A	Malinga		
Councillor	N Y	Mbatha		
Councillor	A M	Mbuli		
Councillor	R N	Mdluli		
Councillor	A P	Meiring		
Councillor	H N	Mkhwanazi		
Councillor	T P	Mkhwanazi		
Councillor	M S	Mlangeni		
Councillor	N G	Mnguni		
Councillor	M V	Molefe		
Councillor	R M	Molelekoa		
Councillor	M V	Mthembu		
Councillor	V P	Mzima		
Councillor	R B	Ndimi		
Councillor	S S	Ndlangamandla		
Councillor	M S	Ndlovu		
Councillor	P F	Ndlovu		
Councillor	M E	Ngcobo		
Councillor	B C	Ngema		
Councillor	D R	Ngema		
Councillor	D	Ngwenya		
Councillor	C L	Nhlapho		
Councillor	S J	Nhlapho		
Councillor	E M	Nkosi		
Councillor	S N	Nkosi		
Councillor	J B	Nkwanazi		
Councillor	T M	Nzuza		
Councillor	S E	Shabangu		
Councillor	M	Shunmugam		
Councillor	D M	Sibilwane		
Councillor	D P	Sibiya		
Councillor	L T	Sikhosane		
Councillor	G M B	Thwala		
Councillor	L G	Thwala		
Councillor	S M	Thwala		
Councillor Dr	J A	Vorster		
Councillor	S A	Yende		
Councillor	M F	Zikhali		

(ii)

Councillor	N S	Zulu
Councillor	S J	Zulu
Councillor	S Z	Zulu
Councillor	T M	Zulu
Councillor	N A	Zwane

**ABSENT WITH APOLOGY**

Councillor	D X	Dube	:	out of town
Councillor	S G	Miya	:	ill
Councillor	M W	Twala	:	out of town

**ABSENT WITHOUT APOLOGY**

Councillor	T M	Ndaba		
Councillor	S L	Stein		
Inkosi	C S	Kubheka	:	Traditional Leader
Inkosi	B S	Radebe	:	Traditional Leader

**VACANCY**

Ward 23  
PR - (ex Cllr. A.A. Coka)

**CM11 : 2016/2017 OPERATIONAL AND CAPITAL ADJUSTMENT BUDGET : (BTO 6/1/1 - 2016/2017)**

**RESOLVED**

- (a) That the operating and capital adjustment budgets, be approved;
- (b) that monthly and quarterly service delivery targets and performance indicators in the service delivery and budget implementation plan be aligned in-line with the adjustment budget;
- (c) that the Accounting Officer be mandated to submit the adjustment budget to National and Provincial Treasuries as required by section 28(7) of the Municipal Finance Management Act N°. 56 of 2003;
- (d) that departmental budgetary requirements be dealt with administratively and be addressed in terms of the approved virement policy;
- (e) that the Executive Committee to monitor the implementation of the adjustment budget regularly as a standing item on the agenda;
- (f) that the feedback letter from the Provincial Treasury regarding mid-year budget and performance assessment, be noted;

(iii)

- (g) that the R10.0 million for the Charlestown Library Project included in the 2016/2017 adjustments budget (Capex) be appropriated in the 2017/2016 annual budget (Capex) and the 2016/2017 adjustments budget be amended, accordingly, to effect these changes;
- (h) that a provision of approximately R33.0 million be made in the next three financial years, in equal portions of approximately R11.0 million per year, to enable the Municipality to service the debt owed to the Department of Water and Sanitation in line with the agreement reached with the same department.
- (i) that a comprehensive report relating to issues pertaining to uThukela Water (Pty) Ltd be submitted to the Executive Committee.

I, the undersigned, **BHEKANI ERROL MSWANE**, in my capacity as **MUNICIPAL MANAGER** to the Newcastle Municipal Council, hereby certify the above as a true extract from the minutes of the special meeting held on 28 February 2017.



**B.E. MSWANE**  
**MUNICIPAL MANAGER**

Newcastle

### **3. EXECUTIVE SUMMARY**

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#### **3.1 OVERVIEW OF THE MUNICIPALITY**

Newcastle Municipality is located in the inland region on the Northwest corner of KwaZulu-Natal, a few kilometres south of the Free State and Gauteng provincial borders, in the foothills of the Drakensberg. The municipality covers an area of 1,855 km<sup>2</sup>, has a population of 332,980 by Census 2001 figures and is made up of 31 wards. The Newcastle municipal area is the most densely populated municipality in the District and constitutes 71% of the total population of the Amajuba District Municipality, and 3.5% of the total population within KwaZulu-Natal. From the 2011 Census figures, Newcastle has a very young population with most being in the 15 to 34 age group. This implies that most are in the active age group and hence planning is required for more employment opportunities. This is a challenge that needs a strategic approach in light of the general economic dynamics of the district as a whole.

The income breakdown of Newcastle further qualifies the fact that there are limited formal employment opportunities in the area. More than 60% of the population has an income of less than R1 500 a month. More than 48% have an income of less than R1000 per month. The number of people with no income has also trebled since the 1996 census. This has seen an increase in the indigent population from 220 to approximately 19,000 since March 2005. 60% of the population of Newcastle is mainly urban with 59,423 living in formal housing, 6,851 living informal settlements and 4,649 in traditional housing.

Newcastle is a secondary city offering employment opportunities to the surrounding rural hinterland and acts as the district's urban core. It therefore provides employment opportunities to the whole district. The greatest challenge is to provide housing accommodation and the essential services to meet the increasing demand especially around the urban core where a lot of informal settlements are sprouting up.

The following are the statistics for Newcastle drawn from the Census 2011 information presented by the Statistics South Africa.

<b>Criteria</b>	<b>Newcastle %</b>
Unemployment rate	54%
Population employed	27%
Population unemployed	32%
Population not economically active	40%
Access to electricity for lighting	84%
Access to refuse removal	71%
Piped Water inside dwelling	58%
Age group below 19	50%
Population with toilet connected to sewer	56%

The district as a whole is facing decline in GGP in all sectors. The economy of the district has experienced a change from a dominant manufacturing base to a services base.

There has been some growth in the trade, construction and community services sectors. The economy of Newcastle is however dominated by clothing and textiles, chemicals and metals. Although the district as a whole has a number of challenges due to the declining economy a lot of initiatives are underway to revive the economy.

### **Institutional Arrangements**

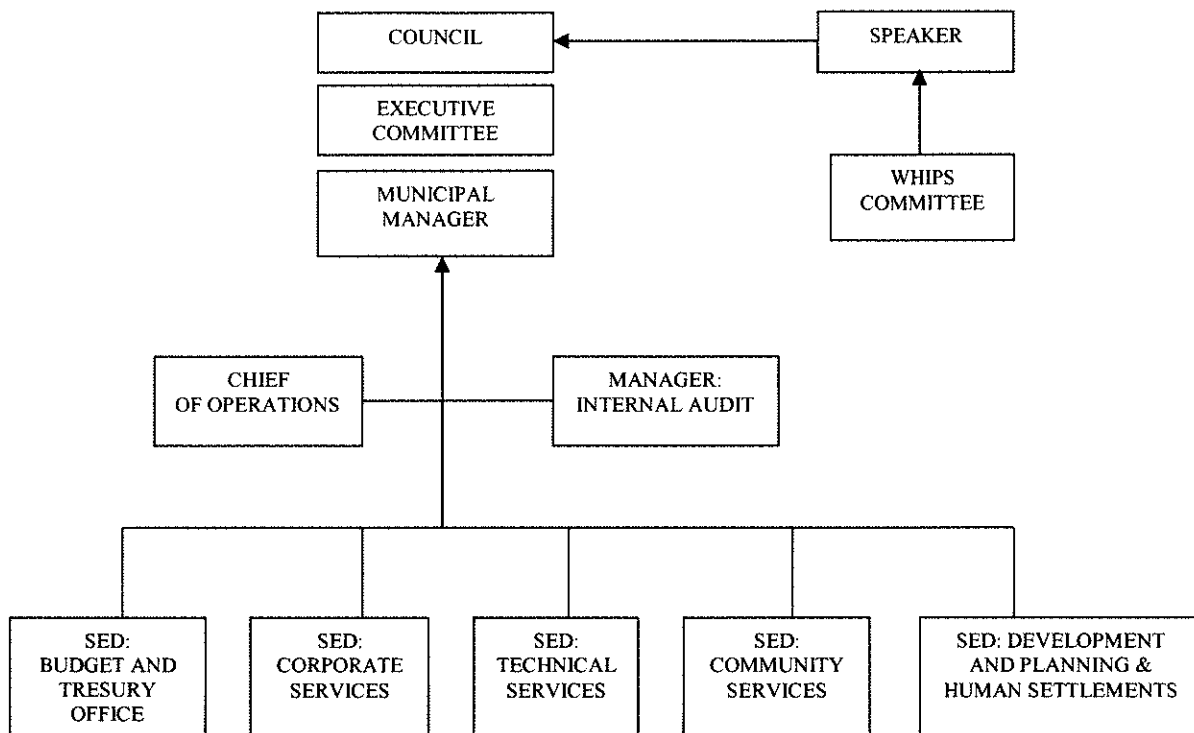
The Municipality has a staff compliment of approximately 1600 people, servicing areas of Newcastle, Madadeni, Osizweni, Blaauwbosch, Ngagane, Kilbarchan, and Charlestown. The Newcastle Organogram (illustrated below), and as approved by Council, makes provision for a Municipal Manager, a Chief of Operations, Internal Audit and five Departments each headed by a Strategic Executive Director. The five Departments of the municipality are:

- Budget and Treasury Office
- Corporate Services
- Technical Services
- Electrical Services
- Community Services
- Development, Planning and Human Settlement

It should be noted that Council is still in the process of revising the structure in line with Task Grading system. This structure should be implemented at the beginning of 2016/2017 financial year

and existing and certain new vacant posts have been budgeted for in line with the new structure and the TASK grading system.

### 3.2 NEWCASTLE MUNICIPALITY: ORGANOGRAM



### 3.4 COUNCILLORS, EXECUTIVE COMMITTEE AND OFFICIALS

#### EXECUTIVE COMMITTEE

DESIGNATION	SURNAME & INITIALS	PORTFOLIO COUNCILLOR	POLITICAL PARTY	WARD
Mayor	NKOSI E M	Budget and Treasury Office	ANC	PR
Deputy Mayor	SIBIYA D P	Community Services	ANC	PR
Executive Committee Member	BAM V V	Corporate Services	IFP	PR
Executive Committee Member	CRONJE E J C	Community Services	DA	2
Executive Committee Member	MDLULI R N	Corporate Services	ANC	13
Executive Committee Member	MOLELEKOA R M	Technical Services	ANC	12
Executive Committee Member	SHUNMUGAM M	Planning, Development and Human Settlements	ANC	3
Executive Committee Member	THWALA S M	Technical Services	EFF	PR
Executive Committee Member	ZWANE N A	Budget and Treasury Office	ANC	PR

## COUNCIL

DESIGNATION	SURNAME & INITIALS	POLITICAL PARTY	WARD
Speaker	KHUMALO J C N	ANC	PR
Councillor	BOSMAN L L	VFP	PR
Councillor	BHULI M V	AZAPO	PR
Councillor	COKA A A	EFF	PR
Councillor	DANISA T J C	ANC	31
Councillor	DLADLA X N M	ANC	1
Councillor	DLAMINI B S	ANC	26
Councillor	DUBE D X	IFP	PR
Councillor	GAMA F P	ANC	32
Councillor	HADEBE V F	EFF	PR
Councillor	HLABISA T S	ANC	22
Councillor	KHOZA A	ANC	28
Councillor	KHUMALO B V	ANC	7
Councillor	KUBEKA V D	ANC	8
Councillor	KUNENE N P	ANC	PR
Councillor	LIU C	IFP	PR
Councillor	MALINGA F A	IFP	PR
Councillor	MAJOZI N K	ANC	11
Councillor	MBATHA N Y	ANC	PR
Councillor	MBULI A M	DA	PR
Councillor	MEIRING A P	DA	4
Councillor	MIYA S G	ANC	19
Councillor	MKHWANAZI H P	ANC	30
Councillor	MKHWANAZI T P	ANC	34
Councillor	MLANGENI M S	IFP	PR
Councillor	MNGUNI N G	ANC	18
Councillor	MOLEFE M V	ANC	21
Councillor	MTHEMBU M V	ANC	29
Councillor	MZIMA V P	ANC	PR
Councillor	NDABA T M	ANC	15
Councillor	NDIMA R B	IFP	PR
Councillor	NDLANGAMANDL A S S	ANC	27
Councillor	NDLOVU M S	DA	PR
Councillor	NDLOVU P F	EFF	PR
Councillor	NGCOBO M E	ANC	25
Councillor	NGCOBO N M	ANC	23
Councillor	NGEMA B C	ANC	9
Councillor	NGEMA D R	ANC	PR
Councillor	NGWENYA D	ANC	16
Councillor	NHLAPHO C L	IFP	PR
Councillor	NHLAPHO S J	ANC	10
Councillor	NKOSI S N	PRM	PR
Councillor	NKWANAZI J B	DA	PR

Councillor	NZUZE T M	IFP	PR
Councillor	SHABANGU S E	ANC	24
Councillor	SIBILWANE D M	ANC	17
Councillor	SIKHOSANE L T	ANC	20
Councillor	STEIN S L	DA	PR
Councillor	THWALA G M B	ANC	29
Councillor	THWALA L G	ANC	5
Councillor	TWALA M W	EFF	PR
Councillor	VOSTER J A	IFP	9
Councillor	YENDE S A	ANC	PR
Councillor	ZIKHALI M F	ANC	14
Councillor	ZULU N S	IFP	PR
Councillor	ZULU S J	RLP	PR
Councillor	ZULU T M	IFP	PR
Councillor	Vacant		
Traditional Leader	KUBHEKA C S		
Traditional Leader	RADEBE B S		

## SENIOR MANAGERS

<b>DESIGNATION</b>	<b>SURNAME &amp; INITIALS</b>
Municipal Manager	Mswane B E
Acting Strategic Executive Director: Budget and Treasury Office	Nkosi S M
Acting Strategic Executive Director: Corporate Services	Vinkhumbo N
Strategic Executive Director: Technical Services	Zincume L
Acting Strategic Executive Director: Community Services	Sithole M P
Strategic Executive Director: Development, Planning and Human Settlements	Thusi N
Acting Executive Manager: Legal Services	Zwane Q
Senior Audit Executive	Chenia S



## **3.5 ADJUSTMENTS BUDGET FINANCIAL ANALYSIS**

### **3.5.1 INTRODUCTION**

Section 28(1)(2) of the Municipal Finance Management Act 56 of 2003 states that a municipality may revise an approved budget through an adjustment budget. An adjustment budget:

- a. must adjust revenue and expenditure estimates downward if there is material under-collection of revenue during the current year;
- b. may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;
- c. may, within the prescribed framework, authorize unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;
- d. may authorize utilization of savings in one vote towards spending under another vote;
- e. may authorize spending of funds that were spent at the end of the past financial year where under-spending could not reasonably have been foreseen at the time to include roll-overs when the annual budget for the current year was approved by council;
- f. may correct any errors in the annual budget; and
- g. may provide for additional expenditure within a prescribed framework.

In line with the above provisions of the Act, the municipality has considered that it is necessary to perform a second adjustment budget. The aim of this adjustment budget is to ensure that the municipality is operating within realistic revenue and expenditure and to ensure that very minimal variances are achieved between the actual outcomes and the budget at the end of the financial year. When tabled, an adjustment budget must provide explanations of how the current budget will be affected. Furthermore, motivation for any material adjustments in the adjustment budget must be provided. This adjustment budget will highlight differences and motivation of major variances between the first approved adjustment budget and the one being proposed. It is important to note that municipal tariffs may not be increased as a result of an adjustment budget process.

Cognisance should be taken that Council performed its first adjustment budget which was approved in December 2016. The mid-year budget review and the sections 71 reports for the past seven months reveal that there is a need to adjust the budget further in order to ensure that full year budget projections do not vary significantly from actual results. In line with section 28(1)(2)(a) of the MFMA, the municipality has considered necessary to perform the second adjustment budget in

order to deal the material under-collection of revenue, which has ultimately necessitated the downward adjustment of both operating revenue and expenditure. There has also been a need to appropriate additional grant funding for certain capital projects, which funding was received after the first adjustment budget was approved and for which no provision was made in the annual budget. Furthermore, there has been a necessity to move funds between departments with a view to achieve better project management and to accelerate implementation of such capital projects. The following sections give a synopsis of adjustments made and reasons for major variances in both capital and operating budgets.

### 3.5.2 PRIOR ADJUSTMENT BUDGET

As explained in paragraph 3.5.1 above, council per its first adjustment budget, which was approved in December 2016. While this adjustment budget focuses on analysing movements with the first adjustments, it is however critical council and public of the contents of the first adjustments budget. The summary of the financial performance, capital expenditure, balance sheet and cash flow of the first adjustment budget are highlighted hereunder.

**Table 1: Summary of prior adjustments budget**

Description	Budget Year 2016/17			
	Original Budget	Adjustments	Prior adjustments	Adjusted Budget
R thousands	A	F	G	H
<b>Financial Performance</b>				
Property rates	256 072	-	-	256 072
Service charges	1 083 994	(23 144)	(23 144)	1 060 850
Investment revenue	4 000	-	-	4 000
Transfers recognised - operational	325 438	5 250	5 250	330 688
Other own revenue	40 170	228	228	40 398
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>1 709 674</b>	<b>(17 666)</b>	<b>(17 666)</b>	<b>1 692 008</b>
Employee costs	476 620	(11 715)	(11 715)	464 905
Remuneration of councillors	21 023	32	32	21 055
Depreciation & asset impairment	330 121	-	-	330 121
Finance charges	61 899	(11 587)	(11 587)	50 312
Materials and bulk purchases	581 035	(23 316)	(23 316)	557 718
Transfers and grants	96 098	-	-	96 098
Other expenditure	388 935	(36 658)	(36 658)	352 278
<b>Total Expenditure</b>	<b>1 955 731</b>	<b>(83 244)</b>	<b>(83 244)</b>	<b>1 872 487</b>
<b>Surplus/(Deficit)</b>	<b>(246 057)</b>	<b>65 578</b>	<b>65 578</b>	<b>(180 479)</b>
Transfers recognised - capital	-	-	-	-
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>(246 057)</b>	<b>65 578</b>	<b>65 578</b>	<b>(180 479)</b>
Share of surplus/ (deficit) of associate	-	-	-	-
<b>Surplus/ (Deficit) for the year</b>	<b>(246 057)</b>	<b>65 578</b>	<b>65 578</b>	<b>(180 479)</b>

<b>Capital expenditure &amp; funds sources</b>				
<b>Capital expenditure</b>	275 667	(15 078)	(15 078)	260 589
Transfers recognised - capital	185 150	(400 347)	(400 347)	(215 197)
Borrowing	90 517	(90 517)	(90 517)	-
Internally generated funds	-	(45 391)	(45 391)	(45 391)
<b>Total sources of capital funds</b>	<b>275 667</b>	<b>(536 255)</b>	<b>(536 255)</b>	<b>(260 589)</b>
<b>Financial position</b>				
Total current assets	611 816	(103 845)	(103 845)	507 972
Total non current assets	4 620 712	3 194 264	3 194 264	7 814 976
Total current liabilities	184 956	157 932	157 932	342 888
Total non current liabilities	676 044	(69 922)	(69 922)	606 122
<b>Community wealth/Equity</b>	<b>4 371 528</b>	<b>3 002 410</b>	<b>3 002 410</b>	<b>7 373 938</b>
<b>Cash flows</b>				
Net cash from (used) operating	215 539	19 913	19 913	235 452
Net cash from (used) investing	(273 623)	67 165	67 165	(206 458)
Net cash from (used) financing	59 457	(87 128)	(87 128)	(27 671)
<b>Cash/cash equivalents at the year end</b>	<b>40 554</b>	<b>5 341</b>	<b>5 341</b>	<b>45 895</b>
<b>Cash backing/surplus reconciliation</b>				
Cash and investments available	40 554	5 340	5 340	45 894
Application of cash and investments	(261 675)	225 626	225 626	(36 049)
<b>Balance - surplus (shortfall)</b>	<b>302 229</b>	<b>(220 286)</b>	<b>(220 286)</b>	<b>81 943</b>
<b>Asset Management</b>				
Asset register summary (WDV)	3 925 100	3 895 294	3 895 294	7 820 393
Depreciation & asset impairment	330 121	-	-	330 121
Renewal of Existing Assets	88 044	(17 819)	(17 819)	70 225
Repairs and Maintenance	92 053	(21 203)	(21 203)	70 850
<b>Free services</b>				
Cost of Free Basic Services provided	82 087	-	-	82 087
Revenue cost of free services provided	-	-	-	-
<b>Households below minimum service level</b>				
Water:	7	-	-	7
Sanitation/sewerage:	26	-	-	26
Energy:	-	-	-	-
Refuse:	0	-	-	0

In the main, the above adjustment budget was necessary to urgently address challenges of overstated revenue, to curb expenditure, and to scrap projects that were initially planned to be funded from the external loan, which council felt it was no longer in the interest of council to do so. It was necessary to urgent perform an early adjustment budget in order to avoid unauthorised

expenditure. Reference is made to the adjustment budget report for reasons for adjustments I different revenue sources and expenditure items.

### **3.5.3 MID-YEAR ADJUSTMENT BUDGET: 2016/17**

The second adjustments budget was informed by the mid-year budget and performance assessment that was done in compliance with section 72 of the Municipal Finance Management Act, No.56 of 2003. The details of the adjustment budget are provided below.

## **FINANCIAL PERFORMANCE**

The high level summary of the operating budget is as per table B1 and B4 of Schedule B.

### **Operating revenue**

**Table 2: Adjustments revenue by revenue source**

Description	Budget Year 2016/17				
	Original Budget	Prior Adjusted	Other Adjusts.	Total Adjusts.	Adjusted Budget
	A	3 A1	8 F	9 G	10 H
<b>R thousands</b>					
<b>Revenue By Source</b>					
Property rates	256 072	256 072	6 829	6 829	262 901
Service charges - electricity revenue	712 968	689 824	-	-	689 824
Service charges - water revenue	184 732	184 732	(23 262)	(23 262)	161 470
Service charges - sanitation revenue	102 873	102 873	-	-	102 873
Service charges - refuse revenue	83 421	83 421	-	-	83 421
Rental of facilities and equipment	7 326	7 326	-	-	7 326
Interest earned - external investments	4 000	8 730	(4 729)	(4 729)	4 001
Interest earned - outstanding debtors	6 099	6 099	5 651	5 651	11 750
Fines	7 660	7 660	(2 457)	(2 457)	5 203
Licences and permits	12	12	-	-	12
Transfers recognised – operating	325 438	330 688	800	800	331 488
Other revenue	19 072	14 570	1 553	1 553	16 123
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>1 709 674</b>	<b>1 692 008</b>	<b>(15 615)</b>	<b>(15 615)</b>	<b>1 676 393</b>

Operating revenue budget has been further adjusted downward by R15.6 million from the prior adjusted budget of R1.692 billion to R1.674 billion. The following items attributed to the downward adjustment of revenue.

- Water services charges has been reduced by R23.2 million from the original budget of R184.7 million, resulting to an adjusted budget of R161.4 million. The municipality has embarked on a campaign to educate consumers to save water in order to deal with issues of drought. The increase in water surcharge has encouraged consumers to use less water. These factors have resulted in lower water consumption and the reduction in expected revenue.
- Revenue from fines has been reduced by R2.4 million from the original budget of R7.6 million, resulting to an adjusted budget of R5.2 million. Fines are dependent on law enforcement and compliance of motorists thereto. This revenue items has indicated very low performance since the beginning of the financial year and there is therefore a need to adjust expected revenue downwards.
- Interest on external investments has been reduced by R4.7 million from the original budget of R8.7 million to the adjusted budget of R4.0 million. The municipality has not been able make additional investments due to cash flow position. Until the municipality begins to adequately cover for its fixed costs, and to build up is internal reserves, if is only fair that this item is adjusted downwards.
- Transfers recognised (grants) has been increased by R800 000 from the budget of R330.6 million to the adjusted budget of 331.4 million. An additional appropriation was made to include the funding for awards made in respect of the cleanest town during the previous financial years. This funding is currently part of the unspent grants and has been appropriated since the department has plans to utilise it in the remainder of the financial year.
- Revenue from property rates has been increased by R6.8 million from the original budget of R256.0 million to the adjusted budget of R262.9 million. Based on the supplementary valuation rolls and other means implemented by the RITT, property rates seem to be performing better that expected.
- Revenue from outstanding debtors has been increased by R5.6 million from the original budget of R6.0 million to the adjusted budget of R11.7 million. The establishment of Revenue Income Task Team (RITT), which seek to ensure that outstanding debtors and interest has yielded positive results.

- Other sundry revenue has been increased by R1.5 million from the original budget of R14.5 million to the adjusted budget of R16.1 million. This is due to additional revenue bases based on additional demand than expected in the annual budget.

## Operating expenditure

**Table 3: Adjustments expenditure by item**

Description	Budget Year 2016/17				
	Original Budget	Prior Adjusted	Other Adjusts.	Total Adjusts.	Adjusted Budget
		3	8	9	10
R thousands	A	A1	F	G	H
<b>Expenditure By Type</b>					
Employee related costs	476 620	464 905	5 910	5 910	470 815
Remuneration of councillors	21 023	21 055		–	21 055
Debt impairment	61 007	61 007	27 249	27 249	88 256
Depreciation & asset impairment	330 121	330 121	39 467	39 467	369 587
Finance charges	61 899	50 312		–	50 312
Bulk purchases	577 973	553 162	–	–	553 162
Other materials	3 061	4 568	(1 025)	(1 025)	3 543
Contracted services	52 490	37 739	1 093	1 093	38 832
Transfers and grants	96 098	96 098	4 865	4 865	100 964
Other expenditure	275 438	253 520	8 775	8 775	262 295
Loss on disposal of PPE				–	–
<b>Total Expenditure</b>	<b>1 955 731</b>	<b>1 872 487</b>	<b>86 334</b>	<b>86 334</b>	<b>1 958 821</b>

Operating expenditure has been adjustment upwards by R86.3 million from the budget of R1.872 billion to the adjusted budget of R1.958 billion. Cognisance should however be taken that this upward adjustment is mainly as a result of non-cash items, being depreciation and debt impairment. Cash expenditure items has however been reduced based on the under-collection of revenue. The following major items attributed to the adjustments in the operating budget expenditure.

- Contracted services has been increased by R1.0 million from the revised budget of R37.7 million to R38.8 million. This is mainly due to security services deployed with new councillors and the addition of sites which necessitated security in order to avoid risk of loss and damage. An initial plan to terminate services in some of the sites, however a need to provide security in those sites has increased due to safety and loss risks potential.
- Employee related costs has been increased by R5.9 million from the budget of R464.9 million to R470.8 million. Funding which was previously classified as general expenditure and been

moved to employee related costs due to use of the function of the operational grants. This has been done in order to comply with GRAP Standards and requirements of the Office of the Auditor General.

- Other Materials has been reduced by R1.0 million from the budget of R4.5 million to R3.5 million. The purpose of this adjustment was to move savings around and to correct errors in the budget, however within the prescripts of the MFMA.
- Other expenditure has been increased by R8.7 million from the budget of R253.5 million to R262.2 million. The purpose of this adjustment was to move savings around and to correct errors in the budget, however within the prescripts of the MFMA.
- Repairs and maintenance has been reduced by R6.0 million from the budget of R70.4 million to R64.7 million. This is mainly due to certain operational projects for roads resealing which have been moved to the capital budget.
- Transfers and grants has been increased by R4.8 million from the original budget of R96.0 to R100.9 million. The variance is attributable to additional indigent applications which have been approved and were not anticipated when the budget was approved.
- Debt impairment has been increased by R27.2 million from the original budget of R61.0 million to R88.2 million. The rate at which the municipality's outstanding debtors is growing has necessitated additional provision for this item. The original budget excluded provision for rates, sewer and refuse. After engaging with the Office of the Auditor General during 2015/16 audit, this additional provision is now required. Although this is a non-cash item, it is however an important indicator that the municipality is currently failing to collect its debtors
- Depreciation has been increased by R39.4 million from the original budget of R330.1 million to R369.5 million. The variance between the original budget and the full year projection is based on the asset revaluation which was completed after the budget was approved. A different valuation methodology had to be applied after engaging the office of the Auditor General, which resulted in increased value of assets, which ultimately resulted in increased depreciation.

### 3.3 Net Operating results (surplus or deficit)

The summary of the net operating (surplus or deficit) results is as follows:

**Table 4: Net operating results**

Description	Budget Year 2016/17				
	Original Budget	Prior Adjusted	Other Adjusts.	Total Adjusts.	Adjusted Budget
R thousands	A	3	8	9	10
	A	A1	F	G	H
Total Revenue	1 709 674	1 692 008	(15 615)	(15 615)	1 676 393
Total Expenditure	1 955 731	1 872 487	86 334	86 334	1 958 821
<b>Surplus/ (Deficit) for the year</b>	<b>(246 057)</b>	<b>(180 479)</b>	<b>(101 949)</b>	<b>(101 949)</b>	<b>(282 428)</b>

The operating deficit is expected increase from R180.4 million to R282.4 million, which represents an increase of R102 million. This is mainly caused by the increase in depreciation and debt impairment by R27.2 million and R39.6 million respectively, as well as the reduction in revenue by R15.6 million. Nevertheless, the adjustment operating budget is expected to be fully funded after eliminating all non-cash items and after application of payment ratios for all different revenue sources.

### CAPITAL EXPENDITURE

The high level summary of the adjustments capital budget is as per table B5 of the Schedule B. Overall, capital budget will increase by R3.4 million from the budget of R260.5 to R263.9. The following sections provides a summary of adjustments made. While major adjustments were done in the first adjustment budget mainly due to the need to do away with projects that were initially approved to be funded from the external loan, no major adjustment were required in this round of the adjustment budget. It is a council commitment to achieve a target of at least 85% expenditure on capital budget. This council remain fully aware that capita budget is the major of service delivery barometer and ensure that resources are put to effective and efficient use in order to achieve this target.

The summary of capital budget by municipal vote and by funding source as extracted from table B5 of Schedule B is as follows:



**Table 5: Capital expenditure**

Description	Budget Year 2016/17				
	Original Budget	Prior Adjusted	Other Adjusts.	Total Adjusts.	Adjusted Budget
	A	5 A1	10 F	11 G	12 H
<b>R thousands</b>					
<b>Capital expenditure – Vote</b>					
<b>Single-year expenditure to be adjusted</b>					
CORPORATE SERVICES	17 604	5 066	(5 066)	(5 066)	-
COMMUNITY SERVICES	31 161	17 667	(3 167)	(3 167)	14 500
BUDGET AND TREASURY	943	821	(18)	(18)	802
MUNICIPAL MANAGER	2 824	2 824	-	-	2 824
DEVELOPMENT PLANNING AND HUMAN SETTLEMENTS	32 772	57 299	250	250	57 549
TECHNICAL SERVICES	175 427	166 199	11 403	11 403	177 602
ELECTRICAL AND MECHANICAL SERVICES	14 936	10 712	-	-	10 712
<b>Total Capital Expenditure – Vote</b>	<b>275 667</b>	<b>260 589</b>	<b>3 402</b>	<b>3 402</b>	<b>263 990</b>
<b>Funded by:</b>					
National Government	185 150	177 786	500	500	178 286
Provincial Government		37 412	(10)	(10)	37 402
<b>Total Capital transfers recognised</b>	<b>185 150</b>	<b>215 197</b>	<b>490</b>	<b>490</b>	<b>215 687</b>
Public contributions & donations				-	-
Borrowing	90 517	-	-	-	-
Internally generated funds	-	45 391	2 912	2 912	48 303
<b>Total Capital Funding</b>	<b>275 667</b>	<b>260 589</b>	<b>3 402</b>	<b>3 402</b>	<b>263 990</b>

**Capital budget by municipal vote**

Overall, capital budget has been adjusted upwards by R3.4 million. The adjustments between different votes were done in order to move projects to different municipal votes. This was done with a view to achieve better project management. In the main, the budget for tower block project (R5.0 million) was moved from Corporate Services to Technical Services, and construction of Charlestown and JBC halls (R3.1 million) were also moved from Community Services to Technical Services. The additional R250 000 was appropriated to Development Planning and Human Settlement in order to complete a project which is 98% complete.

**Internally funded projects**

Internally funded projects have been increased by R2.9 million from R45.3 million to R48.3 million. R1.3 million relating to VIP toilets has been moved from capital budget to operating budget in line with the nature of projected to be implemented. R4 million was for road resealing was moved from operating budget to capital budget as such maintenance will lead to the enhancement of value of assets. An additional R250 000 was appropriated in the for the Airport development project

in order to complete the projects which was already committed. Other movements were done order to move funds and projects within and between votes, however such movements did not require additional funding than that approved in the revised budget. Projects in this category will be funded from vat refunds still expected from SARS, revenue from sale of property as well as receipts from collections of arrear debtors which is expected to increase due to vigorous debt collection campaign.

### **Grant funded projects**

The budget for grant funded projects has been adjusted upwards by R490 000 million from R215.1 to R215.6 million. Additional funding railway station (R154 724), art purchases (R5000), Library equipment (R30 000) and Civic Centre Network Cabling (R100 000) were appropriated in the budget and will be funded from unspent grants. Other movements were done order to move funds and projects within and between votes, however such movements did not require additional funding than that approved in the revised budget.

### **CASH FLOW POSITION**

The 2016/17 adjustment budget fully funded and the municipality will still be in a position to remain with cash and cash equivalents of R29.1 million at the end of the year. While it is understood that this balance is only adequate to cover reserves that need to be cashed backed to the tune of R27.9 million, it must also be noted that the municipality has recently embarked on the vigorous revenue collection campaign in the Eskom licenced areas. These are areas which historically not been willing and where the municipality had no effective control system. The recent engagement has been a huge turnout and a number of consumers making payment arrangements. It is hoped and projected that this move will have positive results in improving the payment ratio by at least 86%.

The municipality is therefore expected to collect adequate revenue, which will generate adequate cash to cover all current liabilities and other provisions that might need cash reserves. The Municipal Manager and has team will continue to work tirelessly in devising turn around recovery plans of ensuring that the municipality reduces the deficit and start to build reserves that will serve this municipality good purpose over a long-term period.

### **3.6 COMPLIANCE WITH MUNICIPAL BUDGET REPORTING REGULATIONS**

The municipal adjustment budget has been prepared in compliance with the Municipal Budget Reporting Regulations format and all other requirements. Schedule consisting of all required tables is attached as Annexure B for this purpose.

### **3.7 MUNICIPAL STANDARD CHART OF ACCOUNTS REGULATIONS (mSCOA)**

As all municipalities are required by National Treasury to be fully mSCOA compliant as of 01 July 2017, the municipality is already over 90% complete with this process. The plan of the municipality is to initiate implementation with effect from 01 July 2017, which will in compliance as required National Treasury. In line with the National Treasury monitoring, the municipality has already prepared and tabled the project plan to the municipal council, appointed the project champion, established the project steering committee, sent relevant officials to the training arranged by National and Provincial Treasuries and has completed the process of unbundling the old chart of accounts to the mSCOA. All training attended by municipal official was conducted by National Treasury and no provision has been made in the 2016/17 to appoint any consultant to provide the mSCOA training. The plan, resolution and self-assessment tool have been submitted to National and Provincial Treasuries for implementation monitoring process. The municipality is already live on mSCOA system and is currently attending to any problem in order to be fully compliant by 01 July 2017

### **3.8 COST CONTAINMENT MEASURES**

In line with S62(1)(a) of the Municipal Finance Management Act No.5 of 2003 which requires the accounting officer to be responsible for managing financial administration of a municipality, the Minister of Finance in his budget speech on 24 February 2016 announced cost containment measures. The Minister emphasised the need to reduce excessive and wasteful expenditure, and that action be taken to manage unnecessary expenditure. He hinted on the need to curtail overseas trip, the submission of motivations to Municipal Managers and Mayors and oversight committees by those intending to embark on oversight trips. He further emphasised on the institutionalisation of further restrictions on conferences, catering, entertainment and social functions. In the tabling of his budget speech, the Minister urged Mayors of Municipalities to exercise and oversee the elimination of wasteful expenditure in government. In response to this, National Treasury issued MFMA

Circular No. 82, which seeks to provide guidelines to assist municipalities with regards to enforcement of cost containment measures.

The municipality has already made recognisable strides to enforce cost containment measure in the 2016/17 financial year. This will be evidenced mainly from a reduction of “other expenditure” and contracted services allocations, particularly the consultant fees. Provision of subsistence and travelling, consultant fees, entertainment fees, catering, functions and all other expenditure not critical for service delivery have been cut drastically in the budget. This has not only ended with operational expenditure, the capital budget of the municipality has been limited only to capital grants and external loans for service delivery projects. Provision for procurement of furniture and equipment and other tools not critical for services delivery have been eliminated from the budget to allow internal reserves of the municipality to increase and sustain.

In order to comply with MFMA Circular No. 82 and the national initiative of cost containment across the entire public sector, reference is made to the adoption of the circular by council. Subsequent to this, the municipality will review any budget related policies affected by the circular as move to achieve correct implementation.

### **3.9 SERVICE LEVEL STANDARDS**

All municipalities and required to formulate their own service level standards in line with MFMA Circulars No. 66 and 78. In line with Circular 66, the municipality has appropriately reflected infrastructure expenditure as the main driver of capital expenditure to comply with the local government priorities. The municipality is however in the process of formulating its own service level standards and this process will only be finalised during the current financial year. The municipality will be updating National and Provincial Treasuries with regards to the implementation progress of this requirement.

#### **4. ADJUSTMENTS BUDGET TABLES**

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The Schedule B are attached and consists of the following major budget tables:

- (a) Table B1 : Adjustment Budget Summary
- (b) Table B2 : Adjustment Budget Financial Performance (standard classification)
- (c) Table B3 : Adjustment Budget Financial Performance (municipal vote)
- (d) Table B4 : Adjustment Budget Financial Performance (revenue and expenditure)
- (e) Table B5 : Adjustment Capital Expenditure by vote and funding
- (f) Table B6 : Adjustments Budget Financial Position
- (g) Table B7 : Adjustments Budget Cash Flows
- (h) Table B8 : Cash backed reserves/accumulated surplus reconciliation
- (i) Table B9 : Asset Management
- (j) Table B10 : Basic service delivery measurement

**5. ADJUSTMENTS TO BUDGET ASSUMPTIONS**

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**General Inflation Outlooks and its Impact**

The global economy grew by an average of 5% from 2009 to 2014. It was a period of robust expansion but also of widening international imbalances. However, 2008 saw the gathering of storm clouds as industrialised countries moved into recession into the latter part of the year, interrupting a lengthy spell of sustained, positive growth in national and local economies. South African economy was no exception with the economy slowing sharply. Like other emerging markets we were affected by the looming recession in advanced economies. Our government has, however, adopted a macroeconomic framework and fiscal stance capable of withstanding tough times and protecting the economy during times of global economic turbulence. The Stats SA results indicated that South Africa is slowly moving out of recession, however, it is anticipated that challenges caused by recession will take more than just a year to re-instate as its impact will remain with South Africa for some time. This has been evidenced by the continuing job losses and employee demands for higher wages and nationwide service delivery protests.

Newcastle Municipality, like any other municipality, is still subjected to the impact from the global crisis as well as related ripple effects from national economy. The recent hikes in, to mention a few, electricity bulk purchases, fuel, interest rates and inability to fill critical positions in critical industries could not be interpreted in isolation of Newcastle Municipality and did therefore impact negatively adjustments budget.

The adjustment budget has however been prepared on the assumption that debt collection ratio of 86% will be achieved by the end of the financial year. The intervention of Mayor and the Municipal Manager to collect revenue in the Eskom licenced area is expected to yield positive results over the last four months of the financial year. It is expected that this move will improve the payment factor up to at least 86%.

## 6. ADJUSTMENTS TO BUDGET FUNDING

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### Operational Budget

The operational adjustments budget of Newcastle Municipality for the 2016/17 financial year will be funded from rates, service tariffs, fines, interest of investments, interest on outstanding debtors, sundry tariffs and grants and subsidies. Property rates and electricity are expected to generate R262.9.0 million and R689.8 million respectively, while water, sewer and refuse are expected to generate R161.4, R102.8 and R83.4 million respectively. All these tariffs are expected to generate the operating revenue of R1.300 billion (77.5%) to the municipality's total revenue. Electricity tariffs alone represent about 41% of the total operating revenue.

As required by MFMA, no amendments were done to the tariffs during the year, except for electricity which had to be aligned to NERSA's approval. In order to generate required revenue, the following tariffs apply to fund the operational adjustments budget:

	Annual	Adjusted
➤ Rates	7%	7%
➤ Electricity	9.4%	7.64%
➤ Refuse removal services	7%	7%
➤ Water	7%	7%
➤ Sanitation	7%	7%

Increases in the individual tariffs applicable to the above services are detailed in the tariff of charges, together with other proposed sundry tariffs. Sundry tariffs are expected to generate only about R16.1 million, which is below 1% of the total operational revenue. Grants and Subsidies included in the operational revenue budget amount to R331.4 million. This includes both conditional and unconditional operational grants. Interest received on external investments to an amount of R4.0 million will also contribute the operating revenue.

### Capital Budget

In line with section 18 of the MFMA, the capital budget has been funded from the following funding sources:

Government grants	R 215.6 million
Asset financing reserve	R 48.3 million

### **National and Provincial Government Transfers**

The National and Provincial grants allocation will be used to fund larger portions of the operating expenditure as well as the capital expenditure. These have been based on gazetted 2016 Adjusted Division of Revenue Act and the Provincial Gazette.



## **7. ADJUSTMENTS TO EXPENDITURE ON ALLOCATIONS AND GRANT PROGRAMMES**

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Grants and subsidies from National and Provincial governments, as reported in the 2016 Adjustments Division of Revenue Act have been included the 2016/17 adjustments budget and each allocation will be utilised for the purpose as described below.

### **National Grant Allocations**

#### **Equitable Share**

The equitable share is an unconditional grant and as such can be regarded as general revenue, however, it is a matter of co-operative governance that municipalities should prioritise its expenditure budget towards poor households and national priorities like free basic services.

#### **Municipal Infrastructural Grant (MIG)**

The Municipal Infrastructural Grant (MIG) is entering its twelfth year of implementation in the 2016/17 financial year. It resulted from the consolidation of various capital grants for municipal infrastructure (CMIP, Water Services Projects, CBPWP, LEDF, BSRP and the Urban Transport Fund) into a new funding arrangement. The Municipal Infrastructural Grant is a conditional grant which gives effect to national objectives to:

- Expand the delivery of basic services to all households, including the delivery of free basic services to poor households and other poverty alleviating objectives.
- Stimulate local economic development and job creation over the medium term.

The MIG funding will be utilised for the construction and upgrading roads and sewer projects in areas falling within Newcastle Municipality. It should be noted that Council is required to counter fund some of the projects.

#### **Finance Management Grant**

The Finance Management Grant is a capacity building grant provided by National Treasury to assist municipalities in building management planning, technical and financial management skills and capacity for effective service delivery. It will be utilised for the upgrading of skills and capacity of Newcastle Finance officials for workshops and training programmes, funding financial programmes with a view to capacitate financial systems, as well as for the remuneration of the

interns currently employed by the municipality and cover costs of their training and its facilities. There are currently four interns employed, and the activities are in place to appoint the fifth one, as per National Treasury guidelines.

### **Water Infrastructure Grant**

The Water Operating Subsidy is the capital grant provided by the Department of Water Affairs and Forestry to subsidise water schemes owned and/or operated by the department or other agencies on behalf of the department. Projects funded through this grant are implemented by the municipality.

### **Neighbouring Development Partnership**

This grant was established by National Treasury to support neighbouring development projects that provide community infrastructure and create the platform for other public and private sector development, towards improving the quality of life of residents in targeted underserved neighbourhoods, generally townships. The Technical Assistance Grant aims at supporting the development of township development plans. This is an indirect grant and not be transferred directly to Newcastle Municipality. The Capital Grant aims at supporting nodal investment into the construction or upgrading of community facilities, which may attract private sector investment. This is an indirect allocation which will be transferred by National Treasury directly to the service provider or the implementing agent.

### **National Electrification Programme (Municipal)**

The National Electrification Programme grant is transferred by the Department of Minerals and Energy directly to the municipality to implement integrated electrification programmes by addressing electrification backlogs of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation of electrification infrastructure.

### **Provincial Grant Allocations**

#### **Museum subsidy**

The funding is made available by KZN Premier's office to provide strategic financial support to municipalities with a focus on the development and maintenance of museums and care and preservation of cultural heritage.

### **Library Recapitalisation**

The subsidy is provided to improve library services. A new allocation for the upgrade of Newcastle Library and for the construction of new Charlestown Library to the tune of R15.4 million has been included in the adjustments budget.

## **8. ADJUSTMENTS TO ALLOCATIONS AND GRANTS MADE BY NEWCASTLE MUNICIPALITY**

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Provision for indigent benefits have been increased by R4.8 million to R100.9 million from the original budget of 96.0 million. This was due to increase in the number of approved indigents.

No provisions have be made by the municipality for allocations of other organs.

**9. ADJUSTMNTS TO COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS**

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Adjustments to councillors' allowances and employee benefits are as reflected in Table B1 and Table B4 of the Attached Schedule B

**10. ADJUSTMENTS TO SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN**

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Revisions to the Service Delivery and Budget Implementation Plan which aligns to the adjustment budget will be submitted separately.

## **11. ADJUSTMENTS TO CAPITAL EXPENDITURE**

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Adjustment to the capital expenditure are as reflected in Table B5 of the attached Schedule B

## **12. OTHER SUPPORTING DOCUMENTS**

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Additional supporting tables are attached from SB1 to SB19 of the Schedule SB20 of Schedule B.



## MUNICIPAL MANAGER'S QUALITY CERTIFICATE



I, **BE Mswane**, the Municipal Manager of **Newcastle Municipality**, hereby certify that the adjustments budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act, No56 of 2003; and Regulation 21 of the Budget and Reporting Regulations, and that the adjustments budget and supporting documentation are consistent with the Integrated Development Plan of the municipality.

**Print Name** : **BHEKANI ERROL MSWANE**

**Municipal Manager** : **NEWCASTLE MUNICIPALITY**

**Signature**

: *B.E. Mswane*

**Date**

: 2017/03/06