ANNUAL BUDGET OF

NQUTHU LOCAL MUNICIPALITY

MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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Part 1 – Annual Budget

1. Mayor's Report

Mayor's Report (2025-2026 Budget)

BRINGING HOPE TO THE CITIZENS OF NQUTHU

Greetings all

As this Council we are facing the tough task now of building trust with the community that we serve and ensure that they have the hope of entrusting us with governing this municipality.

Our budget is aligning with our strategic objectives as set out in the IDP.

Non-payment for property rates, electricity and refuse is still a growing concern for the municipality as there is a continued increase in the debt owed by the residents, this is caused by the current economic climate and high levels of poverty we are experiencing in our region. We, however, still expect those that can afford to honor this critical financial commitment for each household. This is causing a strain on the municipal finances and the inter-governmental avenues are currently being explored to ensure that these are paid. This is compounded by the high losses in the electricity trading account.

The municipality must prepare a budget that is; funded, credible, sustainable and relevant. The municipality has always achieved this in all previous budget years although the concern about depleting reserves and that the draft budget was unfunded.

2025-2026 MTREF SUMMARY income and expenditure

Description	2021/22	2022/23	2023/24	Current year 2024/25				2025/26 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit Outcome	Budget Year 2025/26	Budget Year 2026/27	Budget Year 2027/28
Financial Performance										
Property rates	45 635	36 645	51 452	52 750	52 750	52 750	20 869	57 467	60 513	63 599
Service charges	25 105	23 572	28 965	34 070	34 070	34 070	9 105	37 066	39 153	41 576
Investment revenue	6 957	10 349	9 506	5 995	9 095	9 095	1 799	0	0	0
Transfer and subsidies - Operational	161 585	177 394	186 803	212 836	212 836	212 836	84 295	215 536	207 688	216 865
Other own revenue	9 887	6 970	7 494	5 380	6 969	6 969	3 470	2 614	2 542	2 718
Total Revenue (excluding capital transfers and contributions)	**249 169**	**254 929**	**284 220**	**311 031**	**315 720**	**315 720**	**119 538**	**312 683**	**309 896**	**324 758**
Employee costs	88 885	87 296	100 570	118 969	118 347	118 347	27 504	115 511	119 390	126 300
Remuneration of councillors	13 085	13 462	14 046	17 155	17 155	17 155	3 384	15 973	16 915	17 896
Depreciation and amortisation	25 428	30 722	35 938	36 000	36 000	36 000	-	0	0	0
Finance charges	378	-	-	0	0	0	-	0	0	0
Inventory consumed and bulk purchases	31 175	32 835	33 341	42 588	46 292	46 292	14 555	42 597	41 639	41 843
Transfers and subsidies	9 053	4 453	3 985	2 854	2 510	2 510	-	0	1	1
Other expenditure	139 168	115 932	137 243	104 505	101 820	101 820	21 470	76 956	71 021	68 468
Total Expenditure	**307 173**	**284 700**	**325 124**	**322 072**	**322 124**	**322 124**	**66 913**	**251 037**	**248 966**	**254 509**
Surplus/(Deficit)	**(58 004)**	**(29 771)**	**(40 904)**	**(11 042)**	**(6 404)**	**(6 404)**	**52 625**	**61 646**	**60 930**	**70 249**
Transfers and subsidies - capital (monetary allocations)	61 964	41 026	80 502	46 128	52 243	52 243	7 183	37 961	41 010	42 778
Transfers and subsidies - capital (in-kind)	-	2 005	-	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions	**3 960**	**13 261**	**39 598**	**35 086**	**45 838**	**45 838**	**59 808**	**99 607**	**101 940**	**113 027**

Share of Surplus/Deficit attributable to Associate	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) for the year	**3 960**	**13 261**	**39 598**	**35 086**	**45 838**	**45 838**	**59 808**	**99 607**	**101 940**	**113 027**
Capital expenditure & funds sources										
Capital expenditure	**103 502**	**(59 168)**	**(30 719)**	**80 208**	**85 528**	**85 528**	**17 152**	**43 488**	**64 420**	**33 820**
Transfers recognised - capital	25 775	(17 159)	36 312	41 245	46 566	46 566	-	30 010	32 420	33 818
Borrowing	-	-	-	-	-	-	-	-	-	-
Internally generated funds	60 104	(42 009)	(67 031)	38 963	38 963	38 963	-	13 478	32 000	3
Total sources of capital funds	**85 879**	**(59 168)**	**(30 719)**	**80 208**	**85 528**	**85 528**	**-**	**43 488**	**64 420**	**33 820**
Financial position										
Total current assets	**162 891**	177 933	169 788	132 617	182 845	182 845	225 290	135 530	10 791	11 445
Total non current assets	**630 434**	663 323	734 296	754 257	819 493	819 493	751 366	531 829	64 420	33 820
Total current liabilities	**68 526**	115 378	141 086	103 485	138 251	138 251	150 695	109 277	(2 207)	(1 500)
Total non current liabilities	**2 779**	3 363	875	3 364	875	875	875	(1 592)	0	0
Community wealth/Equity	**718 058**	709 254	722 525	744 940	817 373	817 373	765 276	460 067	(24 522)	(66 261)
Cash flows										
Net cash from (used) operating	**1 748 499**	(6 145)	(447 522)	40 885	47 259	47 259	24 966	159 891	152 830	158 165
Net cash from (used) investing	**(857)**	9 784	(2 835)	(90 933)	(90 933)	(90 933)	-	(53 461)	(77 810)	(42 778)
Net cash from (used) financing	**-**	-	-	-	-	-	-	-	-	-
Cash/cash equivalents at the year end	**1 945 862**	**134 134**	**(341 532)**	**22 420**	**69 547**	**69 547**	**117 499**	**106 430**	**75 020**	**115 387**
Cash backing/surplus reconciliation										
Cash and investments available	**130 495**	108 825	92 533	16 996	53 662	53 662	126 530	0	0	0
Application of cash and investments	**(209 401)**	303 814	1 068 118	(1 513)	22 310	22 310	20 232	459 150	(9 445)	(36)

Balance - surplus (shortfall)	**339 896**	**(194 990)**	**(975 585)**	**18 508**	**31 352**	**31 352**	**106 298**	**(459 150)**	**9 446**	**37**
Asset management										
Asset register summary (WDV)	**424 296**	518 484	622 548	521 205	625 987	625 987	622 467	376 594	1	1
Depreciation	**24 813**	26 866	31 133	36 000	36 000	36 000	-	0	0	0
Renewal and Upgrading of Existing Assets	**17 551**	(7 970)	(3 413)	12 000	12 000	12 000	1 542	0	0	0
Repairs and Maintenance	**37 308**	17 995	40 052	9 514	8 884	8 884	1 118	6 628	6 828	7 183
Free services										
Cost of Free Basic Services provided	**-**	-	-	799	799	799	-	0	0	0
Revenue cost of free services provided	**-**	-	58	2 085	2 085	2 085	-	0	0	0
Households below minimum service level	–	–	–	–	–	–	–	–	–	–
Water:	-	-	-	-	-	-	-	-	-	-
Sanitation/sewerage:	-	-	-	-	-	-	-	-	-	-
Energy:	-	-	-	-	-	-	-	-	-	-
Refuse:	-	-	-	-	-	-	-	-	-	-

Underlying Principles - Draft Budget

• The bulk purchases of electricity are above the National Treasury inflationary guidelines. Although the study of increases by the NERSA are beyond Council's control as the service provided appointed to assist in doing cost of supply the municipality fully incorporate in the final budget, this budget is structured such as to absorb these excessive increases and keep the majority of electricity tariff.

•There will be budget allocated to national funded projects specific for sport field the necessary grants to the municipality are reflected in the national and have been gazette as required by the annual Division of Revenue Act;

Tariff Approach

Tariffs increase respond to the current economic downturn because over the years we have had lower increases, as directed by the Budget circulars.

Challenges

There have been various challenges that will be fully detailed in the budget book, mostly emanating from nonpayment by the government sector such as public works.

The introducing of cost supply impacts the enough time to do all changes required by the new version but hopping in the final budget will be completed.

Indigent Support

- Free 50 kilowatts of electricity.
- Over and above the free services indigent consumers not catered for as per above are assisted subject to the application on a form designed for that purpose by the Municipality as municipality is in line to implement all wards that are affected.

Capital Budget

The 2025-26 Capital Budget amounts to R 50 108 million and a detailed list of all the projects is contained in the budget document.

Conclusion

In closing I would like to take this opportunity to thank the Municipal Manager and his management team as well as all other municipal officials for their hard work in putting together the 2025-2026 MTREF.

Thank you

The Mayor

2. Council Resolutions

1. THAT Council of Nquthu Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003), will convene in the Council Chambers approved budget for 2025-26 financial year. The Council will approve and adopt the following resolutions:

1.1 The annual budget of the municipality for the financial year 2024/25 and the multi-year and single-year capital appropriations as set out in the following tables:

1.1.1 Budget summary as contained in Table A1.

1.1.2 Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in table A2.

1.1.3 Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table A3; and

1.1.4 Budgeted Financial Performance (revenue and expenditure) as contained in Table A4.

1.1.5 Budgeted Capital Expenditure by vote, standard classification and funding as contained in Table A5.

1.2 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:

1.2.1 Budgeted Financial Position as contained in Table A6.

1.2.2 Budgeted Cash Flows as contained in Table A7.

1.2.3 Cash backed reserves and accumulated surplus reconciliation as contained in Table A8.

1.2.4 Asset management as contained in Table A9; and

1.2.5 Basic service delivery measurement as contained in Table A10.

2. The Council of Nquthu Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems ACT (ACT 32 of 2000)

3. The public consultation process be undertaken as legislated.

4. The Municipal Manager is authorized to sign the quality certificate.

3. Executive Summary

Municipality as is the case in the whole is faced with financial difficulties mainly caused by the low payment of services by the debtors and there is a pressure to continue with controlled spending and continue reducing expenditure that is unnecessary.

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The productive involvement of the departments in the budget preparation process, there is persistent lack of cooperation, this leads to very ambitious and unreasonable estimates given that pushes the budget to deficit, this has been happening over the years.

There have been meetings held with the Senior Management and the Middle Management involved to try and achieve credible budget (Budget steering committee).

A critical review was also undertaken of expenditure on non-core and non-priority spending items in line with NT's Cost containment measures outlined in NT's MFMA circulars number 82 updated and 86. Emphasis was placed on providing funds for the repairs and maintenance expenditure line items.

The main challenges experienced during the compilation of the 2025-26 MTREF can be summarized as follows:

• The need to reprioritize projects and expenditure within the existing resource envelope. By far the greatest concern here lies with all the services financed by Property Tax (Rates).

• Many households in Nquthu do not pay Property Rates. This is because the individual properties within the Ngonyama Trust land are not separately valued and not subject to the Municipal Property Rates Act. This is despite the same communities enjoying most of the municipal services that are funded by Rates Income.

• There is no Equitable Share allocation for properties that do not pay Property Rates.

• The Electricity Trading account is operating at a deficit and there is no indication that this can be rectified any time soon, but we are busy with strategies to improve the situation.

• The dire need for credible business plans and budget work papers from the service delivery Departments remains a difficult hurdle to overcome.

• Although Employee related costs as a percentage of total Expenditure is high it is not realistic for Nquthu Municipality to be comfortable with this figure because of the high cost which distorts Council's budget figures when compared to other secondary cities.

• The lack of feasible results in Other Revenue sources for example Traffic Fines is placing unsustainable pressure on Rates. This is particularly anomalous since these fees should increase in an area where population and related vehicle numbers are increasing in, yet income is reducing;

• Affordability of capital projects – original allocations had to be reduced as well as the operational expenditure associated with prior year's capital investments needed to be factored into the budget

• The dire need for an efficient and effective business ethic to be applied to all the municipality's business processes regardless of whether the intended outcome of such a process is of a social, economic or profit making nature;

• Insufficient capital investment for all major infrastructure improvements and Renewal of Existing Assets; and

• The transition to a new version and a new chart of accounts (m-SCOA) in this financial year has placed the administration under tremendous strain to compile this budget. The future year's outcome however appears very promising in terms of the m-SCOA objectives. The municipality continues with the implementation of MSCOA in 2025-26 financial year.

4. Operating Revenue Framework

The municipality is highly dependent on Equitable Share, although we do have the electricity trading license, but currently the losses from this are very huge and the municipality ends up subsidizing this.

The municipality will be increasing the rates by 4.8%

Although the traffic department is now functioning, we still encounter problems about the traffic fines that are issued by the law enforcement in the sense that the state prosecutor often cancels the fines or reduces them drastically. And this is impacting on the budgeting procedure as this is proving to be unpredictable. The traffic section is expanding further by establishing the vehicle testing ground and they are also planning to do driver testing in future. The vehicle license renewal is currently being renewed at the SA Post Office.

5. Operating Expenditure Framework

The municipality's expenditure framework for the 2025-26 budget and MTREF is informed by the following:

- Given that one of the primary drivers of this budget is to keep tariff increases with the inflationary envelope
- Despite the above restriction the Chief Financial Officer has ensured that Repairs and Maintenance provisions are within best practice parameters of Asset Cost and Operating Expenditure. The weakness here however is that there are no Municipal wide asset repairs or maintenance plans. Repairs and Maintenance are done in silo's hence it lacks synergistic benefit of ensuring budget allocations are used efficiently and effectively.
- Related to the above weakness the capital programmed carries the risk of not ensuring that the asset renewal strategy and backlog eradication is achieved in this budget;
- Funding of the budget over the medium-term is made by Section 18 and 19 of the MFMA
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of "**no project plans no budget**". If there is no business plan no funding allocation can be made. This is the incumbent of the Accounting to enforce to the HOD's.

The following table is a high-level summary of the 2025-26 budget and MTREF (classified per main type of operating expenditure):

The budgeted allocation for employee-related costs for the 2025-26 financial year totals R115 million. Based on the collective SALGBC agreement, but the municipality budgets the increase of 6%.

The cost associated with the **remuneration of councilors** is determined by the Minister of Cooperative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). An increase has been budgeted for the 2025-26 financial year. The MEC has approved that three office-bearers' positions, namely the Mayor, the Deputy Mayor and Speaker be designated as full-time, these three have been budgeted for at full-time.

The provision for depreciation and asset impairment has been informed by the Municipality's Financial Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption.

Bulk purchases are directly informed by the purchase of electricity from Eskom. The annual price increases have been factored into budget appropriations.

The expenditure does not include distribution losses because the technical services still need to device a proper system for the accounting of all losses that are being incurred.

Other materials comprise the purchase of materials for maintenance. In line with the municipality's repairs and maintenance plan this group of expenditure has been prioritized to ensure sustainability of the municipality's infrastructure. The appropriation against this group of expenditure has grown, however further effort will be made in the outer years to increase this appropriation over and above the inflationary boundaries.

Contracted Services these are to be kept to a minimum and the use of consultants is always discouraged. Further details relating to contracted services can be seen in MBRR SA1

Other expenditure comprises various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved.

6. Capital expenditure.

The area of Nquthu is deeply rural and there is a challenge of access roads to the settlements and as such the focus of the municipality is the construction of roads infrastructure, but this is only gravel roads. Most of our funding is from MIG, and the other part is from own funding.

Part 2 – Supporting Documentation

7. Overview of the annual budget process

The Budget Preparation Process plan was adopted by the municipal council. However, strategic sessions to formulate its strategic direction before most of the consultations can unfold.

Public meetings will be held during the preparation of the budget. But the community will be more involved in the budget that will be tabled for public comments. The Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilize integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five-year strategic programmed of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents.

The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the municipality strategically complies with the key national and provincial priorities.

The IDP drives the strategic development of Municipality. The Municipality’s budget is influenced by the strategic objectives identified in the IDP. The service delivery budget implementation plan (SDBIP) ensures that the Municipality implements programmers and projects based on the IDP targets and associated budgets. The performance of the Municipality is tabled in its annual report.

8. Overview of budget related policies

The budget policies have not been changed for this financial year

9. Overview of budget assumptions

The municipality is not immune to the current economic climate facing the country and there has been slow payment for services rendered by the consumers. We are also experiencing high losses in the electricity trading account and the Electricity department is looking at means to reduce these losses and turn-around the situation.

Considering this challenge, we have adopted a conservative approach when dealing with the available resources and we are continuously putting aside excess unspent funds into reserves for future usage. We aim to keep our current ratio to be above six months considering that we are facing such challenges as the municipality.

The municipality is receiving MIG R 37 million as well as INEP R 20 million which is used to fund infrastructure investments.

10. Overview of budget funding

The municipal is still highly dependent on Equitable Share to fund its operations. The current year Equitable Share is R 187 million.

11. Expenditure on grants and reconciliations of unspent funds

The municipality always strives to fully spend its conditional grants within a prescribed year, however there are instances where such could not be achieved. An application is done to the donor for pardon and to use these funds in the next period.

It is confirmed that all the grants that are not spent as at year-end are fully cash backed as required.

12. Allocations on grants made by the municipality.

There are no grants that are made by the municipality to any outside entity.

13. Councilor and employee benefits

The councilor remuneration is currently paid out using the recent councilor remuneration gazette and we have been graded as Grade 3 for the purpose of councilor remuneration. There are currently 37 councilors, as per the current determination by the MEC for full-time councilors for the term of council, there was no office-bearer determined to be full-time.

The management is made up of 5 managers of which 4 of them are on contract and one is permanet

The salaries budget is budgeted to increase by 6%

Although all posts are fully budgeted for in the current year, however a strategic decision has been taken that only critical posts will be filled in the coming year, in line with cost containment measures being implemented.

14. Monthly targets for revenue, expenditure and cash flow

All calculation were done base on the reality

15. Annual budgets and SDBIPs – internal departments

The draft annual budget and departmental SDBIP's have been prepared by all the departments.

16. Contracts have future budgetary implications.

The municipality does not have any contracts that are beyond the 3 year that it is being budgeted for. The main contracts being used are for operational actives

17. Capital expenditure details.

The capital budget of the municipality is mainly made up of MIG as well as its own funding. Due to the high backlog of the infrastructure in our area it is always difficult for the municipality to spend 40% of its capital budget on the Renewal of Existing Assets that is required since we must still service those backlogs. But we are gradually investing in the Renewal of Existing Assets.

The priority for Renewal of Existing Assets is currently the ageing electricity infrastructure.

18. Legislation compliance status

Compliance with the MFMA implementation requirements has been substantially adhered to through the following activities:

1. In year reporting

   Reporting to National Treasury in electronic format was fully complied with monthly. Section 71 reporting to the mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the municipality's website.

2. Internship programmed inters are appointed and we have Inservice training with our own funding.

3. Budget and Treasury Office

   The Budget and Treasury Office has been established in accordance with the MFMA.

4. Audit Committee and Internal Audit

   An Audit Committee has been established and is fully functional. The Internal Audit function is co-sourced with an internal staff member as well as a consulting firm.

5. Service Delivery and Implementation Plan

   The draft SDBIP will be prepared.

19. Other supporting documents

The supporting documents in the form of budget schedules have been printed under schedule A.

20. Municipal standard chart of accounts (M-SCOA)

The municipality is currently undertaking all the regulated processes and directives of the M-SCOA circulars.

Our current service provider, Inzalo will be our main system provider for EMS