

A44 DRAFT BUDGET FOR THE 2025/2026, 2026/2027 AND 2027/2028 FINANCIAL YEAR
REPORT OF THE DRAFT BUDGET FOR THE 2025/2026 MEDIUM TERM REVENUE AND
EXPENDITURE FRAMEWORK (MTREF)

Report of the Executive Mayor: 2025-03-13

1. PURPOSE:

The purpose of this report is to table the Draft Budget for the 2025/2026 Medium Term Revenue and Expenditure Framework (MTREF) which takes into consideration, where practical previous Budget Circulars addressing the format and guidelines to be adopted when preparing the Draft Budget. Further, to inform Council of key aspects that has influenced the compilation of the above-mentioned budget and to consider recommendations on the financing and approval of this budget. In addition, preparation has been in compliance with the New Format Reform Initiatives Promulgated in terms of the Gazette No. 32141 Municipal Budget and Reporting Regulations (MBRR). Also to ensure that the Draft Budget will be prepared in compliance with the Regulations requirements of the Municipal Standard Chart of Accounts (mSCOA) – per MFMA Circular No. 80 and Government Gazette No. 37577 and addressing municipal revenue generation challenges. The Draft Budget also has been prepared on the basis of limiting non-priority spending and implementing stringent cost – containment measures as per MFMA circular.

2. BACKGROUND:

Section 16(1) and (2) of the Local Government: Municipal Finance Management Act, Act 56 of 2003, stipulates the following:

“1. The Council of a municipality must for each year approve an Annual Budget for the municipality before the start of the new financial year.

In order for the municipality to comply with subsection (1), the mayor of a municipality must table the Annual Budget at a council meeting at least 90 days before the start of the budget year.”

It must be noted that in addition to complying with the new format in terms of Gazette no 32141, the budget has been prepared in terms of the MFMA Circular no 128 and 129 other previous years relevant Municipal Budget MFMA Circulars.

3. OVERVIEW

National Treasury has issued Municipal Finance Management Act (MFMA) circular numbers 128 and 129 to guide the compilation of the 2025/2026 medium term revenue and expenditure framework (MTREF) which encourages municipalities to undertake annual budget preparation in accordance with the budget and financial management reform agenda by focusing on key “game changers”. These game changers include ensuring that municipal budgets are funded, revenue management is optimised, assets are managed efficiently, supply chain management processes are adhered to, mSCOA is implemented correctly and that audit findings are addressed.

National Treasury projects GDP to average around 1.8 per cent from 2025 to 2027, this is an improvement from the preceding three years.

The weak economic growth continues to impact municipal finances, and this has strained consumers’ ability to pay for services. Coupled with this conundrum is the marginal growth in national transfers as compared to the past. These two critical factors necessitate municipalities to function optimally, suggesting that municipal operations, processes, and procedures must be efficient. Inefficiencies in this space are guaranteed to manifest on municipal finances. These include the municipality being unable to meet its payment obligations to Eskom, water boards and other creditors. There is a need for municipality to focus on collecting revenues owed to it and eliminate wasteful and non-core spending.

The non-payment of creditors is a symptom of underlying problems which include, among others, weaknesses in revenue collection and underinvestment in asset maintenance and renewal, which compromises the reliability of delivering basic services. To achieve financial sustainability, the institution must demonstrate the political & administrative will to implement the changes required to improve the performance.

We must ensure that expenditure is limited to the maximum revenue collected and not spend on money that it does not have. We are also reminded that; the local government equitable share allocation is mainly to fund the costs of free basic services and to subsidise some of the administrative costs. The increasing unemployment and growth in the number of persons per household means that the revenue foregone in respect of free basic services will likely increase and it will become even more difficult to collect revenue. The household budget will be under pressure and trade-offs will be applied as it may be unaffordable to pay all household expenses with regularity.

The budget preparation process is confronted with numerous challenges, significantly complicating financial management and service delivery. These challenges encompass:

- **Aging Infrastructure Requiring Extensive Maintenance:** The municipality's infrastructure is in dire need of repair and maintenance, which demands considerable financial resources.
- **Inefficient Revenue Collection:** The municipality faces issues with collecting enough revenue, critically impacting its ability to cover operational costs and invest in necessary projects.
- **Losses from Trading Services:** Essential services are operating at a loss, diminishing the municipality's revenue and contributing to financial difficulties.
- **Unfunded Budget:** The municipality's budget shows expenditures that exceed its revenue, leading to an unfunded budget and financial instability.
- **Challenges with Long-term Financial Obligations:** Managing long-term financial obligations, including debts to creditors and collections from debtors, presents a significant challenge.
- **Over-reliance on Service Providers:** This reliance has led to increased costs for contracted services, further straining the budget.
- **Failure to Meet Eskom Debt Relief Conditions:** The inability to comply with the conditions for Eskom debt relief adds to the municipality's financial strain.
- **Projected 2024/25 Deficit Budget:** The anticipated budget for 2024/25 reveals a deficit, with spending outstripping revenue, threatening to further weaken the municipality's financial health
- **Absence of Cash Reserves:** The lack of cash reserves restricts the municipality's capacity to address emergencies, unexpected expenses, or critical infrastructure needs.

Addressing these challenges necessitates a thoughtful and comprehensive strategy, emphasizing improvements in revenue collection methods, expenditure optimization, the refinement of financial management practices, and strategic emphasis on critical infrastructure initiatives. Moreover, the pursuit of alternative financing options, the renegotiation of creditor agreements, and the enhancement of internal capabilities to decrease reliance on outside providers are critical for securing financial stability and the continuity of high-quality service delivery.

Essential actions include:

- Exploring new own-revenue streams to expand the municipal revenue pool, such as leasing properties, outdoor advertising, and selling plots of land.
- Strengthening credit controls and setting more ambitious goals for debt recovery.
- Enhancing interactions with customers to encourage timely payment for services.
- Cultivating a conducive environment for growth, development, and efficient service provision.
- Implementing policies to support needy families by offering them essential services for free, thereby shielding them from severe economic downturns.
- Rolling out strategies to enhance revenue.
- Executing a plan for financial recovery.
- Generating employment opportunities.
- Carrying out the installation and replacement of meters, including conducting meter audits.
- Adjusting tariffs to accurately reflect service costs.

Additionally, it's crucial for municipalities to adhere to cost-containment measures in specific areas such as consultancy fees, avoiding the use of credit cards, managing travel and related expenses, minimizing costs on advertising and catering, and reducing expenses related to events and accommodation. Budgeting carefully for mandates that are not fully funded is also essential. In line with regulations, municipalities must enforce cost containment policies approved by the Council. Lastly, there is a reminder for municipalities to act on items addressed in prior MFMA budget circulars, ensuring compliance and efficient financial management.

4. THE BUDGET PROCESS AND THE ALIGNMENT OF THE ANNUAL BUDGET WITH THE IDP

It must be noted that the next five-year Integrated Development Plan (IDP) is also being prepared and this process will permit the Municipality to re-examine plans and strategies to include strategic matters reflected in the IDP. Also, to ensure that these plans contain strategies that inform Institutional and Financial Planning through the entire budget process and are in line with key national and provincial government policies and programmes.

Further, the final annual budget will be fully aligned to the IDP process and will be linked to 07 Government priorities as per Medium Term Strategic Framework (MTSF) which include the following:

1. *A capable, ethical and developmental state*
2. *Economic transformation and job creation*
3. *Education, skills and health*
4. *Consolidating the social wage through reliable and quality basic services*
5. *Spatial integration, human settlements and local government*
6. *Social cohesion and safe communities*
7. *A better Africa and World*

5. **DISCUSSION:**

In terms of Section 9 of the Municipal Budget and Reporting Regulations, the Annual Budget and Supporting documentation of the municipality must be in a format specified in Schedule A and include all the required tables, explanatory information, taking into account any guidelines issued by the Minister of Finance in terms of Section 168(1) of the MFMA.

The **municipality's budgeting process** is governed by **legislative and policy frameworks** that ensure transparency, accountability, and financial sustainability. **Budget-related policies** provide guidance on the formulation, implementation, and monitoring of the budget while aligning with **accounting standards and regulatory requirements**. These policies inform **medium-term financial projections** and support effective service delivery.

The **budget and accounting policies** are reviewed regularly to incorporate necessary changes required by **updated accounting standards and legislation**. The revised policies, attached for review, ensure that the budget is structured to achieve **financial stability, cost recovery, and equitable service provision**.

The **municipality's budget framework** is underpinned by **operational grants (equitable share), capital grants, and internally generated revenue** from **property rates, taxes, and service charges**. In response to **inflation and rising operational costs**, the municipality proposes **tariff adjustments** to ensure sustainable revenue generation while maintaining affordability for consumers.

A detailed overview of the **budget-related policies and proposed tariff adjustments** is provided below for review and consideration as part of the **budget approval process**.

Tariffs :

- **Property Rates:** to subsidise expenditure on administrative mandates and repairs and maintenance of infrastructure property rates are suggested to increase by 4.4% in line with CPI
- **Sewerage Services:** To support the ongoing provision and maintenance of sewerage services, A non-percentage-based increment applied to correct historical inequalities in sewer tariffs, ensure cost-reflective pricing, and gradually balance disparities between towns.
- **Refuse Collection:** For the continuation of efficient refuse collection services, A non-percentage-based increment applied to correct historical inequalities in sewer tariffs, ensure cost-reflective pricing, and gradually balance disparities between towns
- **Water Supply:** An enhancement in water tariffs by 4.4% is recommended to address the cost pressures of supplying this vital service, ensuring its sustainability and reliability. The percentage increase might increase pending confirmation by DWS . Furthermore ,new categories has been introduced (The introduction of the Residential with More Than One Dwelling / Including Special Consent Use / Guest Houses / Flats / B&B / Multiple Use Purpose category across all towns is essential to ensure fair and equitable billing that reflects the actual land use and service demand . Properties with multiple dwellings, guest houses, and mixed-use purposes place a higher strain on municipal services , including water, sanitation, refuse removal, and infrastructure maintenance , compared to single residential properties. The current residential category does not distinguish between single dwellings and high-consumption, revenue-generating properties , leading to under-recovery of costs and cross-subsidization by standard residential users . By creating this category, the municipality will ensure cost-reflective billing, improved revenue generation, and financial sustainability , while also promoting consistent and transparent tariff structures in alignment with municipal planning and economic development objectives.
- **Electricity Supply:** Due to significant cost pressures in energy provision, a notable tariff hike of 12.72% is advised to ensure the municipality can continue to offer reliable electricity services and invest in sustainable energy initiatives. (awaiting Nersa guideline)

The budget related policies

- Credit Control & Debt Collection Policy (Amended)
- Supply Chain Management Policy. (Amended)
- Property Rates Policy (Amended)
- Tariff Policy
- Cell phone Allowances Policy
- Bad Debt Provision & Write-off Policy (Amended)
- Budget Policy
- Virement Policy
- Unclaimed deposit Policy(Amended
- Asset Management Policy (Amended)
- Petty Cash Policy
- Indigent Policy (Amended)
- S & T Policy
- Unauthorised, Irregular & Fruitless Expenditure (Amended)
- Borrowings policy
- Funding and Reserves Policy
- Policy relating to dealing with infrastructure investment and capital projects
- Banking and Investment Policy

- Cost Curtailment Policy
- Retention Policy
- Long term financial planning policy
- Creditors and staff payment policy
- Installation management and smart metering policy
- **Meter replacement and installation policy(New)**
- Tariff by-law
- Credit control and debt collection by-law
- Property rate by-law

CHANGES TO BUDGET-RELATED POLICIES FOR THE 2025/2026 FINANCIAL YEAR

The following amendments have been made to key budget-related policies to enhance financial management, procurement efficiency, and service delivery within the municipality.

1. Supply Chain Management Policy

1.1. Formal Written Price Quotations (Pg 16)

- The threshold for formal written price quotations has been lowered from R10,000 to R2,000 (incl. VAT), up to R300,000.
- The requirement for advertising procurement exceeding R30,000 has changed from five business days to seven business days on the municipal website and notice board.

1.2. Public Invitation for Competitive Bids (Pg 18-19)

- The minimum bid submission period for transactions over R10 million (Incl. VAT) has been reduced from 22 to 21 days.
- Bid advertisements must now be published in a local newspaper, municipal website, or eTender portal.
- The Accounting Officer may now reduce bid closure dates to 21 or 14 days, instead of the previous 22 or 10 days.

1.3. Procurement of Banking Services (Pg 22)

- The minimum bid submission period has been extended from 46 business days to 60 days from the date of advertisement.

1.4. Resolution of Disputes, Objections, Complaints, and Queries (Pg 30 & 36)

- The timeframe for unresolved disputes, objections, complaints, or queries to be escalated to Provincial Treasury has been extended from 46 business days to 60 business days.

1.5. Invitations for Expressions of Interest or Tender Offers (Pg 54)

- Advertisement periods for tenders have been adjusted from 22 business days to 21 business days.
- Invitations to submit tenders must be issued at least 14 days before the closing date (previously 10 days).
- Compulsory clarification meetings must be announced at least 5 days in advance.
- Procurement documents must be available at least 5 business days before the closing time for submissions.

2. New Policies Introduced: Draft Meter Replacement and Installation Policy

3. Draft Writing Off of Bad Debts and the Impairment of Debtors Policy

- The Debt Impairment Policy has been revised to ensure that:
- Impairment calculations are performed using credit risk characteristics instead of revenue categories.
- Impairment provisions are aligned with GRAP 104 requirements and calculated based on the expected credit loss approach. (addressing audit findings)

4. Draft Unclaimed Deposit Policy

- Clarifies that “Unknown deposits” refer to payments made into the municipality’s bank account that cannot be allocated to the correct consumer due to incorrect or missing reference numbers.

5. Amendments to the Draft Municipal Property Rates Policy (Pg 4-19)

- Vacant Land: This category has been removed as it is not included in the 2024 valuation roll.
- Property Value Threshold: The valuation-based rating for properties between R15,000 and R50,000 has been removed.
- State-Owned Properties: The category has been changed to Public Service Purpose in line with Section 8 of the Municipal Property Rates Act.
- Public Service Purposes Defined: Now includes hospitals, schools, libraries, police stations, courts, and correctional facilities.
- Multiple Use Properties: The municipality will apply appropriate categories based on the specific uses of the property.
- Municipal Leases: Rates will be applicable for properties leased by the municipality.
- Public Service Infrastructure (PSI): Must be rated at no more than 25% of the residential property rate.
- Agricultural Properties: May be rated at no more than 25% of the residential property rate in recognition of their limited use of municipal services.
- Indigent Rebates:
 - 100% rebate for registered indigents.
 - Pensioners (75+ years) automatically receive 100% rebate, provided accounts are up to date.
 - Religious Institutions: Places of public worship qualify for a 100% rebate.

6. Amendments to the Draft Free Basic Services and Indigent Support Policy (Pg 4-25)

- Removed references to informal settlement service levels and property values.
- Revised pensioner rebates:
 - 50% and 25% rebates removed.
 - Pensioners with income R5,201 – R7,000: 10% deposit, balance payable over 24 months.
 - Pensioners with income R7,001 – R9,000: 15% deposit, balance over 24 months.
 - Pensioners with income R9,001 – R11,000: 20% deposit, balance over 24 months.
 - Pensioners with income R11,001 – R13,000: 25% deposit, balance over 24 months.
- Self-Targeting Method: Indigent households must register within the municipality.
- Indigent Verification & Deregistration: Households will undergo periodic review.
- Municipal Oversight: The indigent register will be submitted to the Executive Mayor monthly and to Council quarterly.
- Promotion Campaigns: Councillors will conduct community outreach programs.
- Consumers with companies to be considered with specific conditions

7. Amendments to the Draft Credit Control and Debt Collection Policy (Pg 11-29)

1. Arrangements for Debt Repayment (Section 22.3)

Non-Indigent Consumers (Above R15,000 Household Monthly Income)

- Must pay **three months' current account** upfront.
- Remaining balance settled over 24 months.
- 20% of electricity purchases allocated to debt.
- If payments fall behind, the full amount becomes immediately payable.
- If none of the above plans are affordable, a **70/30 split** will apply (70% of electricity purchase allocated to debt).

2. Exemptions & Rights (Pages 11, 13, 14, 15)

- **RDP or Government-Funded Housing Beneficiaries:** Exempt from paying consumer deposits.
- **Rates & Services Payments:** Must continue even if under dispute; consumers must pay what they reasonably believe is due.
- **Municipal Access Rights:** The municipality has the legal right (Municipal Systems Act, Sec 101) to enter premises to read, inspect, or repair meters.

3. Meter Tampering and Back Charges (Page 15)

- **Bridging a meter** (illegal bypass) may result in charges for up to three years of estimated usage.
- Consumers must be informed in writing about back charges.

4. Interest Reversals (Page 19)

- Interest may only be reversed if:
- The municipality made an **administrative error**.
- There is a **discrepancy** due to incorrect meter readings.

5. Refund Process (Pages 20, 28)

- Refund requests must be in writing and include proof of payment.
- Refunds will **not** be processed if the consumer has outstanding debts at other addresses—credit balances will be transferred to cover other debts.
- Consumers must have sold all their properties within the municipality to qualify for a refund.

6. Business Arrangements (Page 28)

- Businesses must pay **three months' current account upfront**, and the remaining balance is settled over **12 months**.
- **35% of electricity purchases** will be allocated to debt repayments.
- If businesses break repayment arrangements, the municipality **hands over the account to debt collection**.

7. Interest Discounting for Full Settlement (Page 28)

- **CFO can recommend and MM approve** discounts on interest if the account is paid in full at the time of agreement.

8. Deceased Estates (Page 29)

- **Executor** of the deceased estate is liable for all debts on the property.
- If the estate is **not finalized**, the **occupants become "Deemed Owners"** and are responsible for property rates and service charges.
- Deemed ownership only confers **liability**, not legal property rights.

9. Debt Prescription Period (Page 31)

Services debt (electricity, water): Prescribes in three years if no legal action or contact occurs.

Property rates, sewerage, refuse charges: Prescribes in 30 years before it can be written off.

- **Prescription will not apply if:**
- The debtor acknowledges the debt.
- Legal action is taken.
- The debtor resides outside South Africa.

8. Unauthorised, Irregular, Fruitless, and Wasteful Expenditure Policy

- Conclusion: Any approval granted to write off debt owed to the municipality shall be provided to the Chief Financial Officer on a monthly basis.

9. Travel and Subsistence Policy (S & T)

- Awaiting SARS Rates for 2025/2026 financial year adjustments.

10. Assets Management Policy

- We have added **Paragraph 14**, which stipulates that the **Asset Management Policy** will be adopted prospectively to ensure compliance with **GRAP 3** on changes in accounting estimates. This provides a structured framework for assessing the accuracy and completeness of asset information, as detailed in **Annexure AV1**.
- Additionally, **Paragraph 15** introduces the **USEFUL LIFE OF ASSETS** section, aligning with the **Estimated Useful Life Guideline** outlined in **Annexure AV1**

These amendments align with the **Municipal Finance Management Act (MFMA)** and other relevant legislation, ensuring:

- **Enhanced financial sustainability** through responsible budgeting and expenditure management.
- **Increased efficiency in revenue collection** to support essential municipal services.
- **Greater transparency and accountability** in procurement and debt collection processes.
- **Improved social support mechanisms** for indigent households and pensioners.

FUNDING CHOICES AND MANAGEMENT ISSUES IN TERMS OF CIRCULAR NO.128 and 129

The Circulars reflects on the following aspects:

The economy of the country is forecasted to grow at an average of 1.8 per cent over the next three budget years, a moderate improvement on the 1.6 per cent expected. The pace of growth is still being limited by persistent – though gradually easing – constraints, particularly in logistics infrastructure. Faster growth depends largely on maintaining macroeconomic stability, the continued implementation of structural economic reforms, improving state capabilities and supporting higher infrastructure investment.

The following macro-economic forecasts must be considered when preparing the 2025/26 MTREF municipal budgets.

Macroeconomic Performance and Projections 2023 – 2028

Fiscal Year	2023/24 Actual	2024/25 Estimates	2025/26 Estimates	2026/27 Estimates	2027/28 Estimates
CPI Inflation	5.90%	4.60%	4.40%	4.50%	2.50%

The salary and wage collective agreement were signed by the parties of the South African Local Government Bargaining Council (SALGBC) on Friday, 6 September 2024 and municipalities are expected to implement the agreement with immediate effect as from 1 July 2024. In respect of the 2025/26 financial year, all employees covered by this agreement shall receive, with effect from 1 July 2025, an increase based on the average CPI percentage for the period 1 February 2024 until 31 January 2025, plus 0.75 per cent

In case the average CPI percentage for the period 1 February 2025 until 31 January 2026 is less than 4 per cent, it will be deemed to be 4 per cent, and if the average CPI percentage for this period is higher than 7 per cent, it will be deemed to be 7 per cent.

Employee related cost was provided using the Circular as a guidance as follows:

- 2025/26 Financial Year – 2026/27 projected CPI plus 0.75 per cent
- 2026/27 Financial Year – 2027/28 projected CPI plus 0.75 per cent
- 2027/28 Financial Year – 2029/30 projected CPI plus 0.75 per cent

A copy of the budget, including recommendations, the executive summary, annual budget tables, overview of the budget and budget related policies is attached as **ANNEXURE A**. The table below depicts the consolidated Overview of the Annual Budget:

CONSOLIDATED SUMMARY OVERVIEW OF THE 2025/2026 DRAFT ANNUAL BUDGET:

	2025 - 2026 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK			
	APPROVED ADJUSTMENTS BUDGET	BUDGET YEAR 2025/26	BUDGET YEAR 2026/27	BUDGET YEAR 2027/28
TOTAL OPEARATIONAL REVENUE	- 1 260 509 446.46	- 1 447 292 692.58	- 1 514 672 316.75	- 1 547 550 420.92
TOTAL OPERATIONAL EXPENDITURE	1 625 032 395.24	1 803 068 782.06	1 866 359 784.65	1 910 949 433.58
SURPLUS/DEFICIT	364 522 948.78	355 776 089.48	351 687 467.91	363 399 012.66
IRRECOVERABLE SDEBT WRITE-OFF	76 653 815.00	70 440 063.00	70 440 063.00	70 440 063.00
SURPLUS/DEFICIT EXCL WRITE-OFF	287 869 133.78	285 336 026.48	281 247 404.91	292 958 949.66
CAPITAL REVENUE	- 50 039 450.00	- 38 711 400.00	- 49 423 850.00	- 44 205 000.00
CAPITAL EXPENDITURE	80 243 964.80	47 063 400.00	57 123 850.00	47 305 000.00
INTERNALLY FUNDED ASSETS ACQUISITIONS	20 145 514.80	8 352 000.00	7 700 000.00	3 100 000.00
SURPLUS/DEFICIT FOR THE YEAR	314 483 498.78	317 064 689.48	302 263 617.91	319 194 012.66

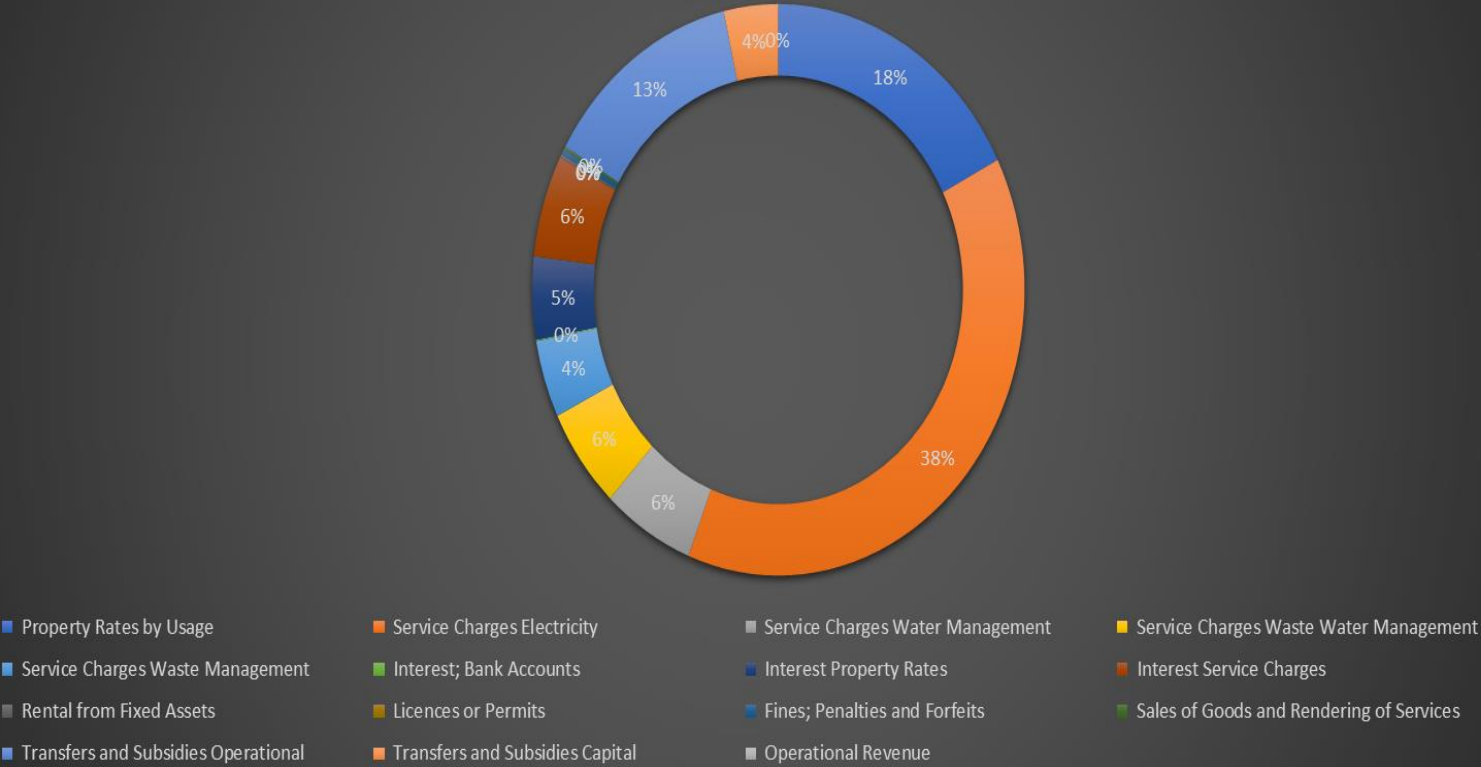
The projected total draft operating revenue for the 2025/2026 financial year amounts to R1,447 billion, which represent a R186 million increase from the 2024/2025 adjusted operating revenue budget of R1,260 billion. The total revenue comprises of 14% of operational grants (Equitable share, Financial Management Grant e.t.c) while internally generated revenue represents 86%. The ratio of shows that the municipality is not entirely dependent on grants while there still a need to ensure completeness of revenue and intensify credit control and debt collection processes. Capital allocations (Grants) funding decreased by R11 from R50 million in 2024/25 financial year to R38 million in 2025/26 financial year.

The total draft operating expenditure budget shows an increase of R178 million from R1,625 billion in the approved adjustments budget to R1,803 billion.

The overall deficit is projected to decrease by R30 586 924 from R394 727 463 during the adjustments budget to R364 140 539

Row Labels		Approved Adjustments Budget		Draft Budget 2025/2026		Draft Budget 2026/2027		Draft Budget 2027/2028
[-] I	-	1 310 548 896.46	-	1 486 004 092.58	-	1 564 096 166.75	-	1 591 755 420.92
Property Rates by Usage	-	251 399 369.34	-	262 461 816.00	-	274 272 597.72	-	281 129 412.66
Service Charges Electricity	-	435 835 439.73	-	577 059 633.81	-	603 027 317.33	-	618 103 000.26
Service Charges Water Management	-	82 565 332.36	-	90 423 615.00	-	94 492 677.68	-	96 854 994.62
Service Charges Waste Water Management	-	82 455 884.00	-	86 384 884.00	-	90 272 203.78	-	92 529 008.87
Service Charges Waste Management	-	61 615 601.42	-	66 004 529.21	-	68 974 733.03	-	70 699 101.35
Interest Property Rates	-	67 259 201.00	-	70 218 605.00	-	73 378 442.23	-	75 212 903.28
Interest Service Charges	-	83 240 799.00	-	86 968 900.00	-	90 882 500.50	-	93 154 563.01
Interest; Bank Accounts	-	439 975.00	-	1 077 750.00	-	1 126 248.75	-	1 154 404.97
Rental from Fixed Assets	-	2 562 865.60	-	2 725 500.00	-	2 848 147.50	-	2 919 351.19
Fines; Penalties and Forfeits	-	4 510 280.00	-	4 510 280.00	-	4 713 242.60	-	4 831 073.67
Licences or Permits	-	250 000.00	-	250 000.00	-	261 250.00	-	267 781.25
Sales of Goods and Rendering of Services	-	2 643 671.25	-	2 694 099.56	-	2 815 334.04	-	2 885 717.39
Transfers and Subsidies Capital	-	50 039 450.00	-	38 711 400.00	-	49 423 850.00	-	44 205 000.00
Transfers and Subsidies Operational	-	185 567 550.00	-	196 249 600.00	-	207 332 285.00	-	207 526 888.38
Operational Revenue	-	163 477.76	-	263 480.00	-	275 336.60	-	282 220.02
Grand Total		394 727 463.58		364 128 089.48		359 387 467.91		366 499 012.66

Operating Revenue By Source



OPERATING REVENUE BUDGET BY SOURCE

The total draft budget revenue including capital grants amounted to R1 486 004 092.58, the main contributors to this are as follows:

- Service Charges Electricity 38%
- Property Rates 18%
- Service Charges Water Management 6%
- Transfers and subsidies operational 13%
- Interest on Service Charges 6%
- Service Charges waste Management 4%
- Service Charges Waste Water Management 6%
- Transfers and subsidies capital 4%

Revenue management is fundamental to financial sustainability and therefore the municipal revenue strategy should be built around the following key components:

- Improving customer care and promoting the culture of payment
- Tightening credit control measures and increasing debt collection targets
- Realistic revenue estimates
- Ensuring that all tariffs are cost reflective
- Indigent support and provision of free basic services to poor households

Repairs and Maintenance

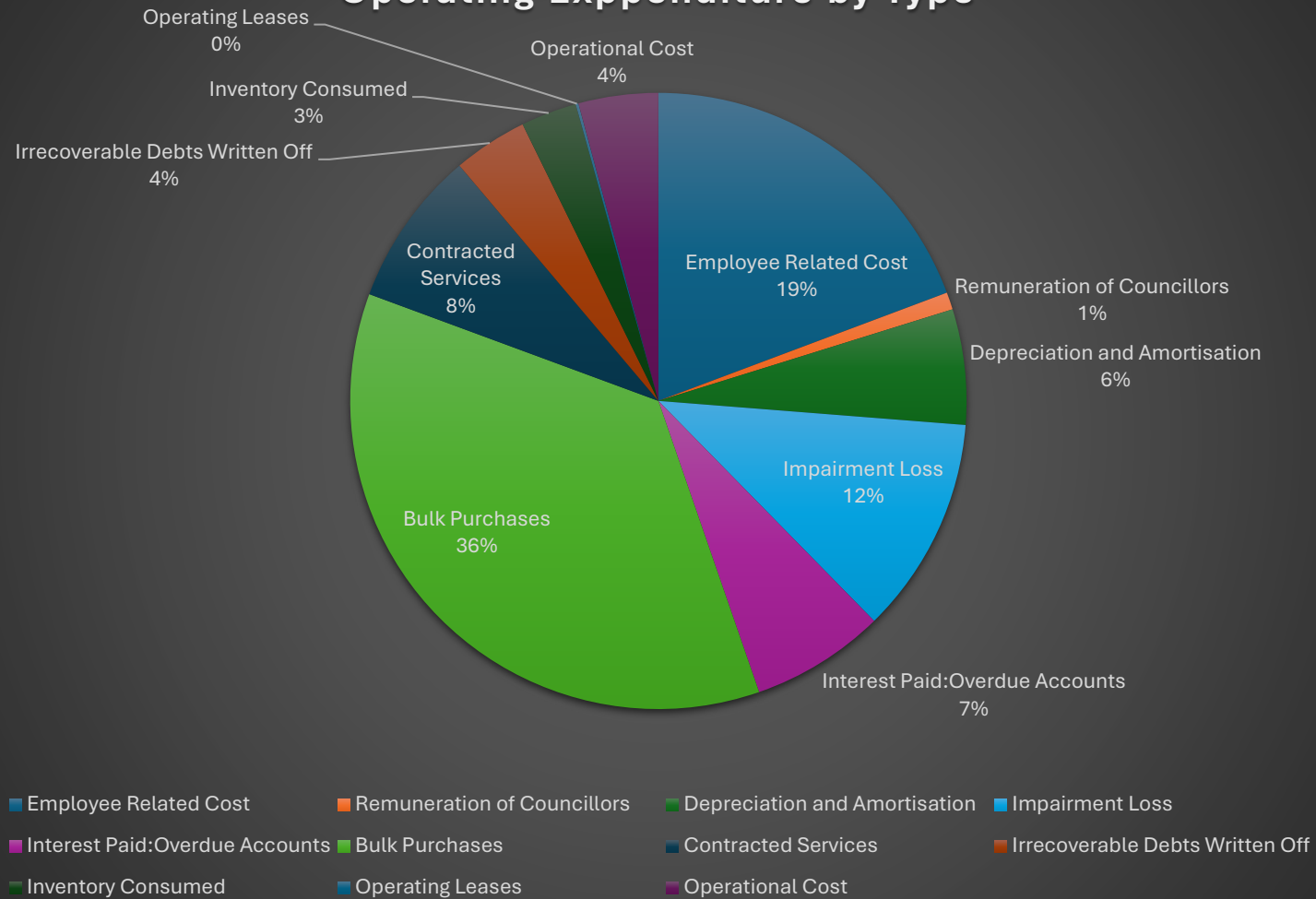
In terms of NT circular 66 and 70 repairs and maintenance as a percentage of Operating expenditure should be at 8%. The municipality budgeted R 72 737 708.00 towards repair and maintenance, this amount represents 4% of the operating expenditure which is below the norm in terms of circular 66 and 70.

Description	Approved Adjustments Budget	Draft Budget 2025/2026	Draft Budget 2026/2027	Draft Budget 2027/2028
Building and Structure	2 154 900.00	2 054 900.00	2 147 370.00	2 054 900.00
Plant and Machinery	1 320 000.00	1 447 150.00	1 512 271.75	1 486 066.04
Motor Vehicle	4 322 285.00	3 228 285.00	3 373 557.83	3 240 595.67
IT Equipment and Others	2 265 707.00	2 265 707.00	2 367 663.82	2 268 907.63
Roads	6 700 000.00	6 000 000.00	6 270 000.00	6 000 000.00
Electricity Network	33 967 399.00	40 110 096.00	41 915 050.32	40 117 557.01
Landfill Sites	5 900 000.00	4 000 000.00	3 000 000.00	4 000 000.00
Waste Water Network	4 835 020.00	5 131 570.00	5 362 490.65	5 251 465.41
Water Network	11 200 000.00	8 500 000.00	8 882 500.00	8 500 000.00
Grand Total	72 665 311.00	72 737 708.00	74 830 904.36	72 919 491.76
Total Expenditure Budget	1 803 068 782.06	4%		

Operating Expenditure by Type

Row Labels	Approved Adjustments Budget 2024/25	Draft Budget 2025/2026	Draft Budget 2026/2027	Draft Budget 2027/2028
A	80 243 964.80	47 063 400.00	57 123 850.00	47 305 000.00
Capital Expenditure	80 243 964.80	47 063 400.00	57 123 850.00	47 305 000.00
E	1 625 032 395.24	1 803 068 782.06	1 866 359 784.65	1 910 949 433.58
Employee Related Cost	337 900 758.57	348 476 955.91	361 507 269.06	369 580 946.41
Remuneration of Councillors	15 972 001.01	16 377 062.35	17 114 030.15	17 461 086.41
Impairment Loss	205 845 144.00	205 701 469.85	208 984 380.28	208 984 380.28
Depreciation and Amortisation	56 877 622.33	109 154 209.33	109 423 942.67	109 423 942.67
Interest Paid:Overdue Accounts	84 506 100.00	127 006 100.00	132 721 374.50	127 006 100.00
Bulk Purchases	574 872 000.00	647 880 744.00	682 607 151.88	724 860 534.58
Contracted Services	152 816 433.00	147 104 373.00	149 563 517.29	145 844 373.00
Inventory Consumed	45 539 305.55	52 894 905.00	55 275 175.73	56 657 055.12
Irrecoverable Debts Written Off	76 653 815.00	70 440 063.00	70 440 063.00	70 440 063.00
Operating Leases	2 700 000.00	2 700 000.00		-
Operational Cost	71 349 215.78	75 332 899.62	78 722 880.10	80 690 952.11

Operating Expenditure by Type



Bulk Purchases Electricity

Bulk purchases electricity amounted to R647 million, which contributes 36% of the total operating expenditure. Bulk purchases electricity is projected to increase by 12.7% as per Nersa approval.

Employee Related Costs

Employee related costs contributes R347 million to the total operating expenditure budget, which equates to 19% of the total operating expenditure budget. The municipality is encouraged to put in measures to control overtime and prioritise filling positions that will reduce overtime and help to improve the provision of services to communities.

Impairment Loss and depreciation and Amortisation

Due to the increasing debtors' balance and low collection rate impairment loss is projected to contribute 12% (R205 million) to the total operating expenditure budget and depreciation and amortisation contributes 6%

Contracted Services

Contratec services contributes 8% which equates to R147 million of the total operating expenditure budget. This shows a light decrease of R5.7 million when compared to the approved adjustments budget of R153 million.

Interest on overdue accounts

The municipality is incurring interest on its outstanding creditors mainly Eskom and the DWS. Due to the increase in these creditors interest is projected to increase drastically. Interest on overdue accounts contributes 7% to the total expenditure.

CAPITAL BUDGET

- An amount of **R 38 million** has been allocated for the capital investment program for 2025/2026 financial year. This is a decrease from the **R 50 Million** in 2024/25 financial year.
- Capital items budgeted from internal funds amounts to **R 8.3 million** which is a decrease from **R 20.1 million**, the municipality should put in place extra ordinary efforts to collect outstanding debtors and reduce the water and electricity losses which will subsequently reduce the bulk purchases expenditure

MIG FUNDED PROJECTS

IDP No	Project name	2025/2026 FY	2026/2027 FY	2027/2028 FY	Scope for 2025/2026 FY	Planned job opportunities for 2025/2026 FY	Ward Location	Ward/s Benefitting
MIG 01/2526	Installation/Refurbishment/Desludging or rural VIP toilets and provision of chemicals for the VIP toilets	1 197 021	16 328 021	15 000 000	Installation of 60 VIP toilets	15	9,12 & 13	9,12 & 13
MIG 02/2526	Refurbishment/Installation of boreholes in rural/farm areas	1 000 000	8 733 344	15 000 000	Refurbishment of 6 boreholes	3	9,12 & 13	9,12 & 13
MIG 03/2526	Rehabilitation of Morgenzon Landfill site	4 697 324	-	-	Rehabilitation of Morgenzon Landfill site	10	14	14
MIG 04/2526	Rehabilitation of tarred roads - Hlongwane Drive - Phase 2	12 117 055	-	-	Rehabilitation of 1km	15	5	1,2,5
MIG 05/2526	Development of Thuthukani Cemetery	5 700 000	5 000 000		Development of Thuthukani Cemetery	10	14	14
MIG 06/2526	Fencing of 2,2 km Walter Sisulu Cemetery		5 598 485				12	12
	Project Management Unit	1 300 600	1 731 150	1 868 200	PMU Operational Cost			
	TOTAL	26 012 000	37 391 000	31 868 200				

INEP FUNDED PROJECTS

		Budget							
IDP No	Project name	2025/2026 FY	2026/2027 FY	2027/2028 FY	Scope for 2025/2026 FY	Project category	Planned job opportunities for 2025/2026 FY	Ward Location	Ward/s Benefitting
INEP 01/2526	Construction of 11KV Switching Station for Rooikoppen	5 000 000	5 000 000	5 441 000	Construction of 11KV Switching Station for Rooikoppen - Phase 2	Electricity	10	11	11
INEP 02/2526	Construction of 6km ,11KV line from Substation A to Rooikoppen	5 000 000	4 764 000	4 764 000	Construction of 6km ,11KV line from Substation A to Rooikoppen - Phase 2	Electricity	10	7.11	11
	TOTAL	10 000 000	9 764 000	10 205 000			20		

EPWP FUNDED PROJECT

		Proposed Budget					
IDP No	Project name	2025/2026 FY	Scope for 2025/2026 FY	Project category	FTE target for 2025/2026 FY	Ward Location	Ward/s Benefitting
EPWP 01/2526	Keep Lekwa Clean	2 203 000	Keep Lekwa Clean	Environment	29	1,2,3,4,5,6,7,8,10,11,14 &15	1,2,3,4,5,6,7,8,10,11,14 &15
	TOTAL	2 203 000					

EEDSM FUNDED PROJECTS

IDP No	Project name	Budget			Scope for 2025/2026 FY	Project category	Planned job opportunities for 2025/2026 FY	Ward Location	Ward/s Benefitting
		2025/2026 FY	2026/2027 FY	2027/2028 FY					
EEDSM 01/2526	Implementation of energy efficiency and energy demand management within Lekwa LM	4 000 000	4 000 000	4 000 000	Retrofitting of Muncipal Buildings.	Electricity	4	1,2,3,4,5,6,7,8,9,10,11,12,13,14 & 15	1,2,3,4,5,6,7,8,9,10,11,12,13,14 & 16
	TOTAL	4 000 000	4 000 000	4 000 000			4		

ALLOCATIONS IN-KIND TO LEKWA LOCAL MUNICIPALITY

These are projects that are going to be implemented by other sector departments on behalf of the municipality. The funds will not be transferred to the municipality but to the implementing department.

REGIONAL BULK INFRASTRUCTURE GRANT

IDP No	Project name	2025/2026 FY	2026/2027 FY	2027/2028 FY	Scope for 2025/2026 FY
TBA	TBA	105 000 000	61 800 000	64 272 000	TBA
	TOTAL	105 000 000	61 800 000	64 272 000	

WATER SERVICES INFRASTRUCTURE GRANT

IDP No	Project name	2025/2026 FY	2026/2027 FY	2027/2028 FY	Scope for 2025/2026 FY
TBA	TBA	30 026 000	32 960 000	34 608 000	TBA
	TOTAL	30 026 000	32 960 000	34 608 000	

MIG 6B

IDP No	Project name	2025/2026 FY	2026/2027 FY	2027/2028 FY	Scope for 2025/2026 FY
TBA	TBA	8 636 000			TBA
	TOTAL	8 636 000	0	0	

SMART METERING GRANT 6B

IDP No	Project name	2025/2026 FY	2026/2027 FY	2027/2028 FY	Scope for 2025/2026 FY
TBA	TBA	47 000 000			TBA
	TOTAL	47 000 000	0	0	

Attached as **ANNEXURE A** is a detailed report.

6. IMPLICATIONS:

6.1. FINANCIAL

The Draft annual budget has an operating deficit of **R 364 million**

Currently the municipality's creditors amount to **R 3 389 897 682.34** with Eskom and DWS debt totalling to **R 3 326 787 748.54**. The current outstanding creditors is not in line with the cash flow , therefore the municipality is unable to pay its creditors timeously which might lead to litigations.

Based on the payment rate of 69% it is not adequate to cover the outstanding creditors and operational expenditures of the municipality

The municipality will be unable to pay the obligations when they become due and that will result in non-compliance with section 99(2)(b) of the Municipal Finance Management Act.

6.2. PERSONNEL

Certain critical vacant positions might remain unfilled due to cash flow constraints which will therefore impact on the service delivery

6.3. COMMUNICATION

The annual budget be sent to Provincial and National Treasury as prescribed and published on the municipality website.

RECOMMENDATIONS OF THE EXECUTIVE MAYOR

1. That in terms of section 24 of the Municipal Finance Management Act, 56 of 2003, the Draft Annual Budget of the municipality for the financial year 2025/26; and indicative allocations for the two projected outer years 2026/27 and 2027/28; and the multi-year capital appropriations with its schedules **BE APPROVED Annexure "A"**
2. That, pending approval by NERSA, the 12.72% the proposed increase on electricity tariffs, for the supply of electricity accounts rendered with effect from 1 April 2025, **BE NOTED; Annexure "B"**
3. That in terms of section 24(2)(c)(i) of the Municipal Finance Management Act, 56 of 2003, and sections 74 and 75A of the Local Government Municipal Systems Act, 32 of 2000 as amended, the tariffs for the supply of water, cleansing services, sanitation services property rates and sundry tariffs for accounts rendered be with effect from 1 July 2025.
4. That proposed tariff increases **BE ADOPTED** as follows:
 - 4.1. Assessment Rates: (4.4%) **Annexure "C"**
 - 4.2. Sewerage: CPI (non-percentage increase) **Annexure "C"**
 - 4.3. Refuse: CPI (non-percentage increase) **Annexure "C"**
 - 4.4. Water: CPI (4.4%) **(pending approved tariffs from DWS) Annexure "C"**
 - 4.5. Electricity- All Basic Electricity Charges Increase With 12.72% In Line With NERSA
 - 4.6. Deposits: CPI (4.4%) **Annexure "C"**
 - 4.7. Sundry Tariffs: CPI (4.4%) (These are tariffs that are used on a need basis) **Annexure "C"**

All tariffs exclude VAT except in the case of assessment rates that are zero-rate.

4.8. Interest / Capitalized Arrears

- No interest will be levied on those arrears for which the consumer made formal arrangements.
 - Interest will only be levied on those arrears for which no formal arrangement exists and/or arrear as a result of not complying with the said arrangements.
 - Interest rates will be levied at market related rates
5. That the annual salary increases of **CPI percentage plus 0.75%** as per the signed salary and wage collective agreement BE NOTED
 6. That provision BE MADE for a **4.4%** estimate increase in the salaries of councillors, of which final approval is still to be announced in terms of Public Office Bearers Act;
 7. That Heads of Departments TO ENSURE that the revenue and expenditure of their relevant department/section is monitored regularly, and, should it be found that the estimate revenue would not be realised,
 8. That the reviewed budget Funding Plan BE FINALIZED and submitted with the Final budget in May 2025;
 9. That, the following Draft Budget Related policies BE APPROVED Annexure “D”
 - Credit Control & Debt Collection Policy
 - Supply Chain Management Policy.
 - Property Rates Policy)
 - Tariff Policy
 - Cell phone Allowances Policy
 - Bad Debt Provision & Write-off Policy
 - Budget Policy
 - Virement Policy
 - Unclaimed deposit Policy
 - Asset Management Policy
 - Petty Cash Policy
 - Indigent Policy
 - S & T Policy
 - Unauthorised, Irregular & Fruitless Expenditure
 - Borrowings policy
 - Funding and Reserves Policy
 - Policy relating to dealing with infrastructure investment and capital projects
 - Banking and Investment Policy
 - Cost Curtailment Policy
 - Retention Policy
 - Long term financial planning policy
 - Creditors and staff payment policy
 - Installation management and smart metering policy
 - Meter replacement and installation policy
 - Tariff by-law
 - Credit control and debt collection by-law
 - Property rate by-law
 10. That the Bad Debt Provision & Write-off Policy 2024/25 be amended to addressing audit finding in compliance with GRAP 104 be approved
 11. That the IDP/Budget consultation meetings be conducted.
 12. That, the Municipal Manager be delegated to authorize the Quality Certificate relating to the Annual Budget and supporting documentation, BE APPROVED

13. That, the cost containment policy and regulation be implemented fully by the administration, BE NOTED.
14. That a copy of the approved draft budget BE SUBMITTED in print form and electronically to Provincial and National Treasury.