

# TABLING OF THE 2025/26 MTREF DRAFT BUDGET

## REPORT OF THE EXECUTIVE MAYOR

### **1. PURPOSE**

To table to Council the 2025/26 MTREF Draft Budget as per Section 16 (2) of the Municipal Finance Management Act.

### **2. BACKGROUND**

2.1 In the Constitution of the Republic of South Africa, 1996, Section 152, (1) The objects of Local Government are stated as:

- (a) To provide democratic and accountable government for local communities;
  - (b) To ensure the provision of services to communities in a sustainable manner;
  - (c) To promote social and economic development;
  - (d) To promote a safe and healthy environment and
  - (e) To encourage the involvement of communities and community organisations in the matters of local government.
- (2) A municipality must strive, within its financial and administrative capacity, to achieve the objects set out in subsection (1).

2.2 The Local Government, Municipal Systems Act, Act No 32 of 2000, Section 4 (1) (c) provides that Council of a municipality has the right to – finance the affairs of the Municipality by:

- (i) Charging fees for services; and
- (ii) Imposing surcharges on fees, rates on property and, to the extent authorized by national legislation, other taxes, levies and duties.

2.3 The Municipal Finance Management Act, Act 56 of 2003, Section 16 (2) requires that the Executive Mayor must table the annual budget at the Council meeting at least 90 days before the start of the budget year. Section 17 of the MFMA details and stipulates the contents, supporting documents and the format of what must be in the budget when it is tabled before Council.

2.4 Section 18 of the Municipal Finance Management Act, Act 56 of 2003 which deals with the funding of expenditure, states as follows:

- (1) "An annual budget may only be funded from –
  - (a) Realistically anticipated revenue to be collected from the approved sources of revenue;
  - (b) Cash-backed accumulated funds from previous financial years' surpluses not committed for other purposes; and
  - (c) Borrowed funds, but only for the capital budget referred to in section 17(2).
- (2) Revenue projections in the budget must be realistic, taking into account

(a) projected revenue for the current year based on collection levels to date; and

(b) actual revenue collected in previous years.”

In terms of Section 21 of the MFMA, the Mayor must ensure that the budget tabled in Council for consultation; is credible.

A credible budget must be consistent with the IDP and be achievable in terms of service delivery and performance targets; revenue and expenditure projections must be realistic; and the implementation of the budget must improve the financial viability of the Municipality

### **3. DISCUSSIONS**

#### **3.1 General information**

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

- the increase in unemployment rate within Dr Pixley Ka Isaka Seme Municipality
- Energy crisis facing the country
- Finalization of cost reflective tariffs
- demand for increase bulk infrastructure (water and sanitation) due to growth
- ageing water, roads, sanitation and electricity infrastructure;
- additional lack of capital to supplement capital programmes;
- repriorization of projects and expenditure given the cash flow realities of the municipality;
- challenges relating to revenue recovery, credit control and declining revenue base due to the current economic environment;

3.1.2 The 2025/26 medium term revenue expenditure framework (MTREF) was based on the following municipal strategic objectives:

- To provide effective, efficient and transformed Human Resource
- To provide access to Basic Service Delivery to the community
- To create and promote a conducive environment for socio-economic development
- To provide sound Financial Management & compliance with legislation
- To deepen democracy through public participation and promote good governance
- To ensure integrated rural and urban planning

3.1.3 The application of sound financial management principles is essential to ensure the municipality remains financially viable and the municipal services are provided economically and sustainably, Municipalities are required by National Treasury to table cash backed budgets this will ensure that all expenditures budgeted for are funded.

- 3.1.5 The mSCOA regulations apply to all municipalities since 1 July 2017 and the 2025/26 MTREF budget has been aligned to the new mSCOA chart version 6.9.

### **3.1 OPERATING REVENUE FRAMEWORK**

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

- to seek alternative sources of own revenue to increase funding for capital projects;
- expand revenue base through implementation of new valuation roll;
- identification and pursuance of government grants;
- tightening credit control measures and increase debt collection targets;
- improve customer relations and promote a culture of payment;
- realistic revenue estimates - going back-to-basics to ensure MTREF is appropriately funded;
- the impact of inflation, the municipal cost index and other cost increases;
- create an environment which enhances growth, development and service delivery;
- ensure economic services break-even;
- the indigent support policy to provide free basic services to poor households to protect them from the worst impacts of the economy; and
- ensure that revenue tariffs are cost reflective.

The mid-year revenue projections for 2024/25 and 2023/24 audited outcome figures were used as the baseline to project revenue for the next three (3) financial years to ensure budget projections is realistic and can be achieved.

### **3.2 OPERATING EXPENDITURE FRAMEWORK**

The Municipality is currently implementing the cost containment policy in order to reduce the spending patterns that are unnecessary. The following measures have been put in place during the 2023/24 financial year:

- i. Implement a temporary freeze on the recruitment of new personnel, unless the vacancies are deemed indispensable for the seamless functioning of the organization.
- ii. Temporarily suspend non-essential procurement processes.
- iii. Significantly decrease the frequency of travel and the occurrence of subsistence.
- iv. Propose implementing a temporary halt on expenditures pertaining to catering, conferences, and workshops that do not directly align with the system's objectives.
- v. All procurement should be evaluated by either the Accounting Office or the Cashflow committee.

- vi. Propose the reintroduction of the practice of restricting power purchases as a means of revenue collection, which would require amending the credit control policy.
- vii. Engage the services of a debt collector to facilitate the process of debt collection to all Municipal Administrative Unit including data cleansing.

### **3.3 CAPITAL EXPENDITURE FRAMEWORK**

One of the greatest challenges facing municipalities is the public perception on service delivery. Investment in municipal infrastructure is critical to sustaining growth, rehabilitating ageing infrastructure and eradicating service delivery backlogs. Therefore the capital financing strategies taken into consideration are:

- ensure capital programme is based on priorities, programmes and projects of the IDP;
- improve creditworthiness;
- ensure capital replacement reserve is cash backed;
- expedite spending on capital budget especially projects that are funded from conditional grants;
- explore new ways to find capital expenditure from own revenue contribution;
- analyze feasibility and impact on operating budget before capital projects are approved;
- determine affordable limits for borrowing; and
- maximizing of infrastructural development through the utilization of all available resources.

### **3.5 Tariffs**

3.5.1 When setting tariffs the following was considered:

- cost of bulk purchases and the fluctuation of seasonal consumption;
- cost reflectiveness of the tariffs
- consumption patterns to enable better planning;
- cost of providing services;
- the impact of the property rates on affordability and
- sound baseline information.
- And MFMA Circular 130
- Cost of Supply study

Which are attached as annexures .

3.5.3 The proposed revenue adjustments to fully recover the cost are:

- *Property rates*  
An average as per the new valuation.

- *Sewerage tariffs*  
Proposed Cost reflective tariffs are on the separate report
- *Refuse tariffs*  
Proposed Cost reflective tariffs are on the separate report
- *Water tariffs*  
Proposed Cost reflective tariffs are on the separate report
- *Electricity tariffs*  
Proposed average increase of 12.7.% based on the cost of supply study tool and subject to approval by NERSA.
- The cash flow projections will be based on the audited figures for 2023/24 financial collection rate of 41%.
- The provision of free basic services will still be provided to only all approved Indigent customers for 6KL of water for free and 50KWH for free. The indigent subsidy per month per customer is R340.
- All other sundry fees of the municipality are mainly adjusted taking into consideration the actual cost to render these services and the inflation rate of 4.3%.

All the tariffs will be taken for public consultation processes prior implementation, meetings will be held in all Wards as per the dates that were as approved Council for the IDP/ budget process plan in August 2024.

### 3.6 OPERATIONAL BUDGET

#### DRAFT BUDGET SUMMARY

| 2025/26 DRAFT BUDGET  |                         |                         |                         |                          |  |
|---|-------------------------|-------------------------|-------------------------|--------------------------|--|
| Description   | Adjusted Budget 2024/25 | 2025/26                 | 2026/27                 | 2027/28                  |  |
| Total Operating Revenue                                       | R 519 224 000.00        | R 578 341 943.75        | R 693 658 334.86        | R 645 227 340.52         |  |
| Total Operating Expenditure                                   | -R 534 597 000.00       | -R 532 266 422.64       | -R 564 774 595.27       | -R 600 323 608.34        |  |
| Surplus /(Deficit) for year before grants & transfers         | -R 15 373 000.00        | R 46 075 521.12         | R 128 883 739.60        | R 44 903 732.18          |  |
| Transfers & Subsidies - (Monetary allocations) Capital Grants | R 102 449 000.00        | R 68 878 050.00         | R 85 215 350.00         | R 83 922 250.00          |  |
| Net surplus/(deficit) after grants and transfers              | R 87 076 000.00         | R 114 953 571.12        | R 214 099 089.60        | R 128 825 982.18         |  |
| Internally Funded CAPEX                                       | R 5 370 000.00          | -R 4 300 000.00         | R -                     | R -                      |  |
| <b>Surplus/ Deficit</b>                                       | <b>R 81 706 000.00</b>  | <b>R 110 653 571.12</b> | <b>R 214 099 089.60</b> | <b>-R 127 038 223.30</b> |  |

#### OPERATIONAL REVENUE

| DETAILS   | 2025/26                 | 2026/27                 | 2027/28                 |
|---|-------------------------|-------------------------|-------------------------|
| <b>Exchange Revenue</b>                             |                         |                         |                         |
| Service charges: Electricity                        | R 106 317 996.23        | R 119 820 381.75        | R 135 037 570.23        |
| Service charges: water                              | R 39 665 290.00         | R 41 489 893.34         | R 43 315 448.65         |
| Service charges: waste water management             | R 53 482 744.36         | R 55 942 950.60         | R 58 404 440.42         |
| Service charges: waste management                   | R 12 443 413.46         | R 13 015 810.48         | R 13 588 506.14         |
| Sale of goods and rendering of services             | R 707 601.45            | R 740 151.11            | R 772 717.76            |
| Agency services                                     | R 7 509 600.00          | R 7 855 041.60          | R 8 200 663.43          |
| Interest earned from receivables                    | R 71 515 879.55         | R 74 805 610.01         | R 78 097 056.85         |
| Interest earned from Current and Non-current assets | R 3 650 500.00          | R 3 818 423.00          | R 3 986 433.61          |
| Rental from fixed assets                            | R 2 712 967.12          | R 2 837 763.60          | R 2 962 625.20          |
| Operational revenue                                 | R 3 811 802.04          | R 3 987 144.93          | R 4 162 579.31          |
| <b>Non-Exchange Revenue</b>                         |                         |                         |                         |
| Property rates                                      | R 94 481 553.33         | R 98 827 704.79         | R 103 176 123.80        |
| Licences and permits                                | R 10 430.00             | R 10 909.78             | R 11 389.81             |
| Fines and penalties                                 | R 470 046.72            | R 491 668.87            | R 513 302.30            |
| Transfers and subsidies                             | R 178 877 959.00        | R 182 107 650.00        | R 190 311 749.00        |
| Gains on disposal of assets                         | R 2 684 160.50          | R 2 691 881.00          | R 2 686 734.00          |
| Other   | R -                     | R -                     | R -                     |
| <b>Total Revenue</b>                                | <b>R 578 341 943.75</b> | <b>R 608 442 984.86</b> | <b>R 645 227 340.52</b> |

The Municipality's operational revenue is made up of 31% from Grants and 69% from Own revenue.

**Total Revenue** - there is an increase in the total revenue amounting from R519 224 000 in 2024/25 to R578 341 943.75 in 2025/26 which shows an increase of R59 117 943.75.

### OPERATIONAL EXPENDITURE

| DETAILS                         | 2025/26                 | 2026/27                 | 2027/28                 |
|---------------------------------|-------------------------|-------------------------|-------------------------|
| Employees Related Costs         | R 130 191 739.66        | R 134 704 989.94        | R 140 093 189.54        |
| Remuneration of Councilors      | R 11 317 971.40         | R 11 838 598.08         | R 12 359 496.40         |
| Bulk purchases electricity      | R 118 160 322.89        | R 133 166 683.90        | R 150 078 852.75        |
| Inventory consumed              | R 40 897 020.00         | R 42 778 282.92         | R 44 660 527.37         |
| Debt Impairment                 | R 89 893 659.69         | R 94 080 986.50         | R 98 276 304.71         |
| Depreciation                    | R 61 858 843.00         | R 64 580 632.09         | R 67 551 341.17         |
| Interest                        | R 9 000 000.00          | R 9 414 000.00          | R 9 828 216.00          |
| Contracted services             | R 32 330 005.00         | R 33 817 185.23         | R 35 305 141.38         |
| Irrecoverable debts written off | R 5 495 190.00          | R 5 747 968.74          | R 6 000 879.36          |
| Operational costs               | R 33 121 671.00         | R 34 645 267.87         | R 36 169 659.65         |
| <b>Total Expenditure</b>        | <b>R 532 266 422.64</b> | <b>R 564 774 595.27</b> | <b>R 600 323 608.34</b> |

**Total Expenditure-** the overall total expenditure has been decreased from R534 597 000.00 in 2024/25 financial year to R531 893 143 in 2025/26 due to cost curtailment measures put place for 2025/26.

Employee-related costs increase with 21% to R130 191 739.66 and constitute 32% of operating expenditure. The material increase is due to the implementation of Job Evaluation.

Bulk purchases increase with 12,7% from R104 845 000 to R118 160 323 and constitutes 28% of total operating expenditure.

Operational expenditure for 2025/26 amounts to R33 121 671 which constitutes 7% of the Opex budget

The cost associated with the remuneration of councilors is determined in accordance with the Remuneration of Public Office Bearers Act. Remuneration of councilors' increases with 4.3% from R10 886 000 to R11 317 714.

Provision for depreciation has been informed by the asset register.

*Priority given to repairs and maintenance.*

The municipality remains committed to maintain infrastructure and an amount of R36 800 684 is provided for the 2024/2025.

Repairs and maintenance constitutes 1.1% of operating expenditure. Although National Treasury indicate a guideline of 8% the provision will be increased once our collection rate increases.

### **3.7 OPERATIONAL AND CAPITAL GRANTS FOR 2025/26 FINANCIAL YEAR AS PER DORA**

| <b>DETAILS</b>                                      | <b>2025/26</b>          | <b>2026/27</b>          | <b>2027/28</b>          |
|---|-------------------------|-------------------------|-------------------------|
| Equitable Share                                     | R 172 696 000.00        | R 177 909 000.00        | R 185 942 000.00        |
| Municipal Infrastructure Grant                      | R 31 519 000.00         | R 33 973 000.00         | R 35 395 000.00         |
| Expanded Public Works Program                       | R 2 206 000.00          | R -                     | R -                     |
| Financial Management Grant                          | R 2 400 000.00          | R 2 500 000.00          | R 2 600 000.00          |
| Water Services Infrastructure Grant                 | R 38 935 000.00         | R 44 479 000.00         | R 41 453 000.00         |
| Integrated National Electrification Programme Grant | R -                     | R 8 462 000.00          | R 8 844 000.00          |
| <b>Total</b>  | <b>R 247 756 000.00</b> | <b>R 267 323 000.00</b> | <b>R 274 234 000.00</b> |

### **3.8 CAPITAL BUDGET**

Proposed MIG projects are as follows:

| No. | PROJECTS  | 2025/26                | 2026/27                | 2027/28                |
|-----|---|------------------------|------------------------|------------------------|
| 1   | Refurbishment of Volksrust Water Treatment Plant (Ward 4)         | R 6 000 000.00         | R 9 500 000.00         | R 3 000 000.00         |
| 2   | Refurbishment of Boreholes in private farms                       | R 2 000 000.00         | R 2 000 000.00         | R 3 500 000.00         |
| 3   | Drilling of new boreholes (3xDaggakraal 9, 10, 11, x2 Amersfoort) | R -                    | R 5 000 000.00         | R 5 000 000.00         |
| 4   | Construction of VIP toilets in farms ward 1,4, 5, 6, 10, 11       | R 3 000 000.00         | R 3 000 000.00         | R 3 896 775.00         |
| 5   | Refurbishment of Hoof pump station Ward 3                         | R 4 000 000.00         | R -                    | R -                    |
| 6   | Refurbishment of Beta Metal pump station Ward 3                   | R 3 000 000.00         | R -                    | R -                    |
| 7   | Construction of sewer reticulation in Vukuzakhe (ward 1 and 2)    | R 3 200 000.00         | R 3 000 000.00         | R 4 000 000.00         |
| 8   | Procurement of yellow fleet                                       | R 2 200 000.00         | R 2 500 000.00         | R 3 000 000.00         |
| 9   | Completion of Combo courts in Ward 1,2,3                          | R -                    | R 1 558 225.00         | R 3 000 000.00         |
| 10  | Construction of ward 1 paving road                                | R 5 000 000.00         | R -                    | R -                    |
| 11  | Completion of sewer reticulation network and top structures in P  | R 1 543 050.00         | R 3 728 475.00         | R 4 728 475.00         |
| 12  | Refurbishment of Water infrastructure in Wakkerstroom             | R -                    | R 1 987 650.00         | R 3 500 000.00         |
|     | PMU   | R 1 575 950.00         | R 1 698 650.00         | R 1 769 750.00         |
|     | <b>Total</b>  | <b>R 31 519 000.00</b> | <b>R 33 973 000.00</b> | <b>R 35 395 000.00</b> |

Proposed WSIG projects are as follows:

| Project                              | 2025/26         | 2026/27         | 2027/28         |
|--------------------------------------|-----------------|-----------------|-----------------|
| Sewer Reticulation in Amersfort town | R 38 935 000.00 | R 44 479 000.00 | R 41 453 000.00 |

Proposed INEP projects are as follows:

| Projects                               | 2025/26 | 2026/27        | 2027/28        |
|--|---------|----------------|----------------|
| Electrification of houses in Vukuzakhe | R -     | R 8 462 000.00 | R 8 844 000.00 |

Proposed Internally funded projects are as follows:

| 2025/26 PROPOSED INTERNALLY FUNDED PROJECTS |                       |
|---|-----------------------|
| Projects                                    | 2025/26               |
| Procurement of service delivery vehicles    | R 4 300 000.00        |
| <b>TOTAL</b>                                | <b>R 4 300 000.00</b> |

### 3.8 FUNDED BUDGET

The budget will be submitted to Provincial Treasury for assessment if it is funded or not prior the municipal data strings are submitted to National Treasury.

### ATTACHMENTS



1. Draft revenue and expenditure budget workings
2. MFMA Circular 130
3. Dora Allocation
4. Electricity Cost of Supply Study

## **RECOMMENDATIONS**

1. THAT Council takes note of the draft budget for 2025/26 to 2027/28 MTREF.
2. THAT Council takes note of the Capital projects as contained in the 2025/26 draft budget.
3. THAT Council takes note of the proposed tariffs increments.
4. THAT the following budget related policies be referred to the By-Laws and Policies Committee for review:
  - Acting Allowance Policy
  - Appointment of Temporal Worker's Policy
  - Credit Control and Debt Collection Policy
  - Supply Chain management Policy
  - Annexure to the SCM policy
  - Rates Policy
  - Tariff Policy
  - Provision for Doubtful debt Policy
  - Cash Management and Investment Policy
  - Virement Policy
  - Petty Cash Policy
  - Indigent Support Policy
  - Budget Policy
  - Fixed Asset Management Policy
  - Education Policy
  - Overtime Policy
  - Leave Policy
  - Promotion Policy
  - Recruitment Policy
  - Retention Policy
  - Student assistance Policy
  - Transfer Policy
  - The cost containment policy
  - The revenue management strategy
  - Contract Management Policy
  - Furniture Policy
  - Standby Policy

- Travelling Allowance Policy
  - Draft UIF&W Reduction Strategy
4. THAT the 2025/26 Draft Budget be advertised to the public for comments/ or inputs.
  5. That Council mandates the Accounting Officer to start the supply chain processes for the all the Capital Projects immediately after the 2025/26 MTREF draft budget is tabled to Council for the purposes of accelerating spending during the 2025/26 financial year.