

**SPEECH BY THE MAYOR OF KWADUKUZA MUNICIPALITY, COUNCILLOR
M.E NGIDI ON THE OCCASION OF THE TABLING OF THE 2025/2026 DRAFT
BUDGET**

Thursday, 26 March 2025

**MADAM SPEAKER, CLLR. D. GOVENDER
DEPUTY MAYOR, CLLR. S. CELE
CHIEF WHIP OF COUNCIL, CLLR. H. MBATHA
FELLOW COUNCILLORS
AMAKHOSI OF KWADUKUZA TRADITIONAL LOCAL COUNCIL
MUNICIPAL MANAGER AND THE MANAGEMENT TEAM
MEMBERS OF THE MEDIA
LADIES AND GENTLEMEN:**

I address you today in terms of Section 16 (1) and (2) of the Municipal Finance Management Act, No. 56 of 2003, which requires of me to table the draft budget to the municipal Council for noting at least 90 days before the start of the budget year.

Section 24 of the same Act requires that the final budget be approved by Council 30 days before the start of the budget year.

I must state that this draft budget being tabled today before Council is to be NOTED in line with the requirements of Chapter 4 of the MFMA for further consultations with all the relevant and key stakeholders, including but not limited to the:

- (i) Communities,
- (ii) Business sector and other formations and
- (iii) National / Provincial Treasuries.

The draft estimates of the Medium Term Revenue and Expenditure Framework outline KDM's draft revenue and expenditure plans for the next 3 years, specifically highlighting sources of funding and how these funds will be utilised in order to attain service delivery goals. This Draft MTREF is influenced by the following elements:

- Producing a balanced, credible, and funded budget considering realistically anticipated revenues

- Delivering quality services on the ground
- Cost increases
- Tariff increases
- Debt recovery
- Asset management
- Borrowing levels

OPERATIONAL REVENUE

The total operating revenue is expected to grow by R211,177,291, which is an 8% growth, for the 2025/2026 financial year in comparison to the 2024/2025 Adjusted Budget. For the two outer years, operational revenue will increase by R 230,323,341 and R241,516,003, respectively. The main driver of our revenue generation is Electricity, Refuse and Rates. It is important to note that Council has considered a zero percent increase to the rating structure of the Municipality, with a decreased rebate being budgeted for consideration. The current general rebate is 25%. The Municipality intends implementing a 18% rebate structure in the 2025/26 financial year. This will have the net impact of increasing the rates revenue.

Significant components of the Operating Revenue budget include capital transfers and property rates. In adherence with the prescribed formats issued by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statements. The inclusion of capital transfers would distort the calculation of the operating surplus/deficit. The increase in property rates is due to the following factors: -

- Reduced rebate structure from 25% to 18%
- Building completions.
- General Tariff increases.
- Phasing in approach of previous land reform areas.

Revenue generated from service charges for 2025/2026 financial year amounts to R1,643bn, which indicates 55% of revenue is generated from service charges revenue. I would like to state that the Council has embarked on various processes which will enforce better revenue collections on service charges, such as:

- Revenue Enhancement Projects

- Implementation of the Energy Losses Task Team which will assist in the reduction of energy losses.
- A contractor has been appointed for the disconnection/reconnection of electricity as well as meter inspections.
- Meter Replacement Programme
- Municipal Data Cleansing Project

The budget for Interest Earned on Investments has significantly decreased from the 2024/25 financial year. The Adjusted Budget reflected R75,097m allocation which reflects a decrease of R27,135m when compared to the 2025/26 draft budget year. The increased interest in the 2023/24 and 2024/25 fiscal year included interest earned on the Disaster Recovery and Disaster Response Grants, which were utilized to supplement municipal operations.

OPERATIONAL EXPENDITURE

Operational expenditure is R2,9 billion in the 2025/2026 budget. The operational budget has increased by R249 million from the 2024/25 approved budget but has been reduced by R20,669,737 from the adjusted budget passed in February 2025. A Deficit Adjustment Budget was passed in February. However, this approach is not sustainable for the long-term financial viability of the Municipality as this approach utilises cash reserves to fund the deficit.

In order to ensure a proper solution is implemented the municipality undertook an exercise of identifying the main drivers of the initial draft deficit. As this identification exercise is currently ongoing the below is not a comprehensive list of all the challenges. The following contributory factors have been identified:

- Increasing non-technical energy losses.
- A tariff increases approved for the 2024/2025 FY which was too low to cover increased costs of doing business.
- Committing to recurring expenditures based on once-off revenue (e.g. interest earned on unspent disaster grant funds).
- Rates based contracts with no direct financial capping leading to additional requests at the 2024/25 Adjustment Budget process carrying into the 2025/26 financial year.
- Rising staff costs with no corresponding increase to the organisation's overall value.

To ensure that operational expenditure aligns with anticipated revenue and reduce the risk of unfunded and deficit budgets, the Management, together with the Budget Steering Committee, has identified and propose the measures elaborated below.

The Bulk Purchases budget, which includes between R410m to R 440m in energy loss costs based on current Eskom billing, has been reduced by R176,6m for the 2025/26 financial year. The Municipality will launch an immediate and aggressive drive to curb non-technical energy losses.

The RT29/2024 transversal contract is secured by National Treasury (NT). The services offered under the RT29 Transversal contract are “Audit and Token Identifier (TID) Conversion of Existing Prepayment Meters and The Supply, Delivery, Installation, Management, And Maintenance of Smart Metering Solutions to The State Inclusive of Value-Added Services”. The Municipality showed interest in the services offered by the RT29-2024 transversal contract, and applied to National Treasury to participate in this contract based on the Municipality’s urgent identified needs as follows:

- Electrical Smart Metering
- Large Power User (LPU) Reconstruction (VAS)
- Vending Services (VAS)

As a further measure to curb the energy losses which are increasing year on year, the solutions offered under this RT29/2024 contract, especially the value-added services, will enable KDM to achieve the following benefits:

- Ability to manage and reduce Non- Technical Losses related to billable services.
- Creating visibility on the entire Revenue value chain system by ensuring the input data for billing is accurate and tamper management is improved.
- Providing key input in the MSCOA schedule of compliance.
- Better frequency and quality of billing data, which will reduce complaints from customers and increase customer satisfaction and revenue stability.
- Increased efficiency in credit control and debt collection; and
- Improved cash flow through enabling online bill presentment and payment solution.

It is proposed that a moratorium be placed on the filling of new posts until Council undertakes a comprehensive review of the current organogram. This review will assess the alignment of the current structure with available resources and identify opportunities to achieve greater operational efficiency. Furthermore, steps need to be taken to reduce overtime costs across the Municipality.

Employee related costs and council remuneration account for 22% of the total operational budget. Employee Costs stand at R 640,817,034, while Councillor Remuneration amount to R 33,638,118. The salary/wage increase for all employees is based on 4,9% increase with a 2,4% notch increase and an estimate for re-grading of the Municipality. Outer years have been budgeted for at inflation. This will continue to be revised with on-going consultation between the Expenditure Department and the respective Business Units.

There has been no decrease proposed to the current refuse removal contract. It will need to be renegotiated to ensure the future viability of the service. The Electrical Engineering Services and Civil Engineering Services Business Units will provide detailed maintenance plans that will focus on planned and preventative maintenance, thus reducing the need for emergency after-hours work. Internal funding for the capital budget will be reduced to stabilise the municipal cash flow and reserves. This is important for Municipality's financial sustainability, considering the 2024/2025 Adjustment Budget Deficit.

MANCO led by the Economic Development and Planning Business Unit needs to fast-track planning or the implementation of Township Establishments to increase the rate base of Council. This will not only increase the rates revenue but also refuse and allow for proper analysis of electricity usage across the Municipality.

These strategies aim to align the Municipality's expenditure with its financial capacity and ensure long-term financial stability.

Although the NERSA approved increase is 11,32%, the Bulk Purchases budget allocation is approximately R1,437bn, which is a decrease of R12,570m compared to the 2024/25 adjusted budget. As mentioned previously, the budget was reduced by R176,6m from the initial budget of R1,613bn, which represented the NERSA 11.32% increase over the adjusted budget allocation. The interim decision to decrease the Bulk Purchases budget is part of the Municipality's ongoing efforts to intensify energy loss reduction initiatives. The plans and processes aimed at reducing energy losses in the upcoming year will be thoroughly reviewed during the public participation process.

If these measures are deemed insufficient to achieve the desired reduction in energy losses, the Bulk Purchases budget will be increased accordingly with the final budget.

DETERMINATION OF RATES

In terms of the Draft Rates Policy 2025/2026, the Municipality may levy different rates for different categories of properties. The rating structure for 2025/2026 financial year is proposed as per the information on Concillors packs. To mention a few:

- An additional 0.3547 cents in the Rand on the market value in respect of commercial properties situated within the Special Rating Area as designated by Council.
- That the first R50 000 of all vacant residential properties owned by registered indigent beneficiaries be exempt from the calculation of rates.
- The first 30% of all Public Service Infrastructure (PSI) properties be exempt from the calculation of rates.

1. Exemptions, rebates, and reductions

In relation to the qualifying criteria established in the Council's Rates Policy, the rates for 2025/2026 will be subject to the following exemptions, rebates, and reductions:

- A general rebate, applicable in the 2025/2026 financial year only, in respect of all categories of properties, excluding properties in receipt of developers' rebates and unauthorised or illegal development or use and Abandoned Property Building: **18%**

The following rebates shall apply by application only, after deduction of the general rebate and only applicable to the below pensioners :

- Pensioners and Disability Grantees rebates:
 - Applicants under the age of 65 years - 25%
 - Applicants between 65 and 75 years - 30%
 - Applicants older than 75 years - 35%
- Agricultural properties: 50%
- Child headed households: 100%
- Excluded Services Rebate: 15%

The following rates are applicable only in respect of existing Service Level Agreements.

- Places of worship: 100%

- Public benefit organizations: 100%
- Land reform beneficiaries: 100%
- State land: 100%
- Commercial Developers incentives:

100% rebate	Year 1
90% rebate	Year 2
80% rebate	Year 3
70% rebate	Year 4
60% rebate	Year 5

There will be no incentives from year 6 onwards.

It must be noted that general rebates are not applicable to commercial developers.

The following Residential Developers Incentives are applicable only in respect of existing Service Level Agreements:

100% rebate	Year 1
100% rebate	Year 2
90% rebate	Year 3
80% rebate	Year 4
70% rebate	Year 5
60% rebate	Year 6
50% rebate	Year 7

There will be no Incentives from year 8 onwards.

Council must also note that the following general rebates are not applicable.

- 100% rebate in respect of the following PSI properties (phasing out of rates):
 - national, provincial, or other public roads on which goods, services or labour move across a municipal boundary.
 - water or sewer pipes, ducts or other conduits, dams, water supply reservoirs, water treatment plants or water pumps forming part of a water or sewer; and
 - Railway lines forming part of a national railway system.

This determination of rates stated above comes into operation on 01 July 2025. It is also determined that the final date for the payment of annual rates be fixed at 30 September 2025. Interest and administration charges will be raised in terms of Council's Credit Control & Debt Collection Policy and Tariff of Charges. Any capital rates outstanding as at 30 November 2025 will be subject to an administration charge of 10%, as stipulated in Council's Credit Control Policy and Tariff of Charges.

It is also determined that rates may be paid in 11 (eleven) equal instalments with the first instalment payable on or before the last municipal working day of August 2025. Thereafter each monthly instalment must be paid on or before the last working day of each month and provided that interest will accrue at 10% per annum in terms of Council's Credit Control & Debt Collection Policy and Tariff of Charges, if an instalment is not paid by the last working day of the month. Any capital rates outstanding as at 30 June 2026 will be subject to an administration charge of 10%, as stipulated in Council's Credit Control & Debt Collection Policy and Tariff of Charges.

Council will by special arrangement with individual property owners agree that rates be paid annually. Application to pay rates on an annual basis must be completed by 15 July 2025.

Tariff of charges

It is proposed that Council's tariff of charges be increased and be advertised to the general public for consultation towards implementation with effect from 1 July 2025. Council needs to approve consultations for the amendments to its Tariff of Charges (noting that the electricity tariffs are pending approval by NERSA) as depicted on the schedules annexed hereto, and that these tariffs come into operation on 1 July 2025. Council to note that all tariffs listed in the Tariff of Charges will be subject to the payment of value added tax, except for fines, refundable deposits, and interest charges, and where specifically indicated as inclusive of value added tax.

It is proposed that Council's tariff of charges be increased as follows and be advertised to the general public for consultation towards implementation with effect from 1 July 2025. The schedule of the structure of the tariff of charges is in the Councillors' pack for your consideration.

CAPITAL BUDGET OVER THE MTREF

The total capital budget is R367,525,799 over the MTREF. In light of a 2024/25 adjusted deficit budget, the Municipality utilised internal reserves to fund the operational deficit which led to a reduction in cash reserves. To preserve the Municipality's long term financial sustainability, significant reductions have been made to the use of internal funding for the capital budget in the draft Medium-Term Revenue and Expenditure Framework (MTREF).

Best Practice requires Council to allocate 40% of the capital budget to renewal of existing assets. In the previous financial year, 45% was catered towards renewal of existing assets as a result of the direct impact that the recent weather patterns have had on the municipal infrastructure. Heavy rainfalls and storms to extreme heatwaves and cold snaps, have impacted the infrastructure of the Municipality. With limited internal funding, 31% has been catered in the current year for renewal to existing projects.

PROVISION OF FREE BASIC SERVICES

In terms of the Free Basic Policy, the municipality has a responsibility of ensuring that indigent households are provided with the basic municipal services by subsidizing the cost of services payable by indigent consumers. Indigent Support is financed from the Equitable Share grant funding. However, Council needs to be mindful that Equitable Share is a finite grant and currently fully committed to indigent support, social development, and other critical Council Priorities. Therefore, any additional expenses expected to be funded via equitable share will require re-prioritisation of the existing programmes.

Both Internal Funds and Equitable Share are currently financing the expansion of refuse services into areas that have not yet been billed. These residents are currently categorized as Indigent by virtue of the area in which they reside although some residents may be over the household income thresholds determined by Council. This Refuse Indigent Support line item is allocated to cover the contractual expenses associated with providing refuse services to these areas.

The national priorities identified in the President's State of the Nation Address have been incorporated into the MTREF- 2025/2026 to 2027/28. These include Job Creation, Employment Equity, Promoting Youth Employment, Empowering black, South Africans and women in the workplace, Improving Education, Infrastructure Investment. Emphasis is also placed on alleviating poverty through economic restructuring programmes, ensuring prudent

spending of public funds, reducing wasteful expenditure, and implementing cost-cutting measures and attracting investment.

On the National budget review 2025, it was emphasised that local government must enhance service delivery to ensure communities receive value for money, build a durable and resilient economy, support economic recovery, advance reconstruction and development priorities and develop and maintain infrastructure.

With regard to the district priorities, the MTREF and IDP considers the strategic priorities of iLembe IDP, such as:

- Promoting investment and development
- Introducing incentives to attract development initiatives
- Establishing and promoting Public-Private Partnerships (PPPs)
- Protecting and preserving the natural environment
- Promoting cultural, community-based tourism and integrated tourism development
- Establishing co-operatives to maximize economic opportunities in the agricultural sector.

DEBT COLLECTION RATES

The municipality will undertake a review of the applicability and accuracy of the collection percentages within the forthcoming consultation period. Should there be any amendments to these percentages, same will be adjusted in the final budget document. Council has embarked on various processes within the current year which will enforce better revenue collections on service charges.

- Revenue Enhancement Project
- Continuation of the Revenue and Debt Steering Committee to assist in the reduction of Energy Losses.
- Meter Replacement Programme

INDIGENT POLICY

The Indigent Policy provides, inter alia, procedures and guidelines for the subsidisation of basic services and tariff charges to the indigent households. Indigent registration drives are conducted annually. The onus to re-apply for continued indigent support rests on the household.

The criterion for benefits under this scheme is part of the Credit Control Policy read with the Indigent Policy.

OVERVIEW OF THE BUDGET RELATED POLICIES

The budget process is guided and governed by relevant legislation and budget related policies. The following are key budget policies that are considered during the draft MTREF process. The policies have been considered by Council via a separate item included in the March Council Agenda. Notwithstanding this, below is a list of reviewed policies.

- **Rates Policy**
- **Credit Control & Debt Collection Policy**
- **Indigent Policy**
- **Tariff Policy**
- **Cash Management & Investment Policy**
- **Borrowings Policy**
- **Supply Chain Management Policy**

In the compilation of the draft MTREF, the following significant assumptions relating to normal inflationary increases and economic pressures are highlighted for Council:

- The impact of setting cost related tariffs.
- Consumer Price Index inflations – impacting the general tariff increases levelled by the municipality.
- Higher unemployment rate – resulting in indigent households within the KwaDukuza Jurisdiction.
- Global Economic status – thus hindering the consumer's ability to timeously settle debt. A conservative approach is used for projecting revenue.
- The National Energy Regulator of South Africa (NERSA) has approved Eskom's tariff application for the supply of bulk electricity at 11,32%
- Interest rates for borrowings and investment of funds.
- Credit ratings outlook – lower investment grade status.
- Zero-based budgeting for 2025/2026, which defines budgeting as a process where every Business Unit function is reviewed comprehensively and each expenditure must be approved, rather than increased.

Basis and Methodology for Forecasting Budget Projections

In terms of Chapter 4, Section 16, of the MFMA, the draft operational and capital budgets for the 2025/26 financial year, and the two subsequent years, attached hereto have been prepared according to the Municipal Budget and Reporting Regulations as gazetted in Government Gazette No. 32141 published on 17 April 2009.

Recognition of Free Basic Services

Indigent households receive 100 kwh of electricity each month, no charge to the consumer. This is accounted for under '*cost of free basic services*'. The indigent refuse benefit is raised and credited from equitable share and also accounted for as '*cost of free basic service*'.

Section 18 (1) of the MFMA states that the annual budget may only be funded from the following: -

- Realistically anticipated revenue to be collected.
- Cash backed accumulated funds from previous years surplus funds not committed for other purposes, and
- Borrowed funds, but only for the capital budgets.

FUNDING SOURCES

The funding model of the Draft MTREF 2025/2026 is dependent on the following:

- The anticipated amount of revenue from Property Rates in the budget year is R 824 million, which includes budget allocation of R15,8m for Special Rating Areas. The identical R15,8m expenditure of which sits under Management Fees on the Operational Expenditure budget.
- The anticipated amount of revenue from Service Charges in the budget year is R 1,643bn. Service Charges consists of revenue streams from Electricity and Refuse Removal.

TARIFF OF CHARGES

The Tariff of Charges is proposed to be implemented on 01 July 2025. This document provides for major services and lists minor and miscellaneous tariffs – including the hiring of municipal

facilities and town planning. An intensive and rigorous tariff setting process is undertaken to ensure the compilation of a credible and realistic budget.

- **EXTERNAL LOANS**

The long terms loans currently entered into are being repaid for capital projects previously undertaken by the Municipality. R102m loan funding was previously requested by the Electrical Business unit for the Dukuza Substation Project. No further request has been received in the current budget cycle.

- **INVESTMENTS**

KDM has funds held in bank deposits, including the depositing of grant funding into ring fenced call deposit accounts in order to improve management of grant funding.

The cash and investments of KDM currently amount to R530 million as at 3rd March 2025. It should be noted that these funds are committed as conditional grants or operating funds. These funds also consist of monies set aside to settle long-term debt and other commitments of Council. If KDM does not meet its long-term debt requirements as and when they fall due, it will be liable for severe penalties.

In terms of the MFMA, KwaDukuza Municipality is classified as a high-capacity Municipality, and has made significant progress in implementation of the MFMA. KDM is successfully complying with all MFMA requirements in terms of the Division Of Revenue Act; Asset Management Regulations; Minimum Competency Levels of municipal officials and the Municipal Property Rates Act. However, given the increased compliance requirements and enforcement the municipality must increase capacity within the Budget & Treasury Office to ensure that these continue to be achieved.

Council also appreciates that KwaDukuza Municipality has been receiving an unqualified Audit opinion for the past 19 consencetice years.

Madam Speaker, with the powers vested in me I would to invite members of the house to engage on this item and to support its recommendations, as required by Municipal Budget and Reporting Regulations stated below:

THAT it be noted that property rates are deemed zero rated in the treatment of Value Added Tax (VAT).

THAT it be noted that in respect of Capital Expenditure Estimates:

In those instances where information has been provided in terms of Section 19(2) (b) of the Municipal Finance Management Act No. 56 of 2003, the approval of the capital budget constitutes project approval for the specific projects as reflected in the detailed capital budget.

Where information in terms of Section 19(2) (b) of the MFMA is not provided, specific project approval is to be sought from Council during the course of the year prior to any spending taking place on these projects during the year. It be noted that should any expenditure be incurred on any of these projects without compliance with Section 19(2) of the MFMA such expenditure may be deemed as irregular or unauthorised. The relevant Business Units are to attend to the necessary compliance requirements in terms of Section 19.

THAT any savings on the capital budget is to be retained and not transferred to any other vote.

THAT for projects which have multiple sources of funding, any savings on the project attributable to the outcome of the competitive bidding processes of the council shall be apportioned in the following order of priority:

- Reduction in council contribution towards the project.
- Reduction of the loan funding portion of the project.

THAT in terms of the priority in the execution of the capital budget, priority should first be given to all projects that have been rolled over of which are primarily grant funded. Upon completion of all rolled over projects can the Business Units commence with their new projects. The cash flow estimates of the municipality should be noted in this regard.

In terms of Section 62(1)(a) of the Municipal Finance Management Act No. 56 of 2003, it be noted that new projects for the 2025/2026 financial year can only proceed once full business and operating plans indicating efficient, effective, and economical use of all assets to be acquired have been tabled and approved before council.

THAT in pursuance of the above and in terms of section 62(1) (c) read together with section 78 of the Municipal Finance Management Act No. 56 of 2003, the

Municipal Manager as well as all Executive Directors are to ensure that they develop and maintain efficient, effective, and transparent systems of financial, risk management and internal control in terms of projects within their directorates that have been approved for execution. That is be noted that the respective Head of the Business Unit is responsible for budget and financial management of their respective Business Units.

THAT it be noted that should any roll-overs of grant funding persist into the 2025/2026 financial year, the respective Executive Director ensure the necessary detailed motivations are completed for approval by National Treasury, Provincial Treasury, or the relevant transferring officer. This must be done within the timeframes and formats specified by the relevant regulating authority.

In the event that the National/Provincial Treasury does not approve the roll-over of such funds or even a portion of the funds (Section 21 of DORA), then council will have to fund these projects out of internal funding, and this will result in the reprioritisation of the capital budget for the 2025/2026 to 2027/2028 financial years in order to avoid cash flow and financial sustainability issues for the KwaDukuza Municipality. Where such indications that full expenditure will not occur, this risk must be tabled to MANCO and Council together with the necessary recovery plans by the relevant Business Unit. It is further noted that the grant motivation should be provided to the Finance Business Unit by 30 June 2025.

THAT any co-funding/counter funding or bridge funding of grant funded projects must be specifically approved by Council via a separate item which is to be submitted by the relevant Business Unit in charge of the project. Approval of the Budget does not constitute automatic approval of co-funding/counter funding or bridge funding.

THAT in compliance with relevant sections of the Municipal Finance Management Act, Municipal Property Rates Act and the Municipal Systems Act, the budgets, rates, and tariff determinations are published locally.

THAT the Accounting Officer prioritises the finalisation and signing of the RT29/2024 contract with the TAC recommended Service Provider by 4 April

2025 to allow for sufficient time for seamless migration to the new system.

THAT the Electricity Engineering Business Unit commence providing monthly progress reports to Manco and Council (or designated Council Committee) from the date of approval of the RT29/2024 National Treasury Transversal Contract.

Thank you