RESPONSE TO THE DRAFT KDM BUDGET FOR 2023/24, ON BEHALF OF THE BUSINESS COMMUNITY

28 APRIL 2023

DOCUMENT INFORMATION

The purpose of this document is to provide input, on behalf of the business community and from a business perspective, on the draft KwaDukuza Local Municipality (KDM) budget for 2023/24.

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1. INTRODUCTION

This document provides comments and input, as invited, into the KDM draft budget for the financial year 2023/24, with particular emphasis on its implications for the business community, specifically from a business retention and growth perspective. The iLembe Chamber of Commerce used its collective expertise to conduct a detailed analysis of the tabled budget.

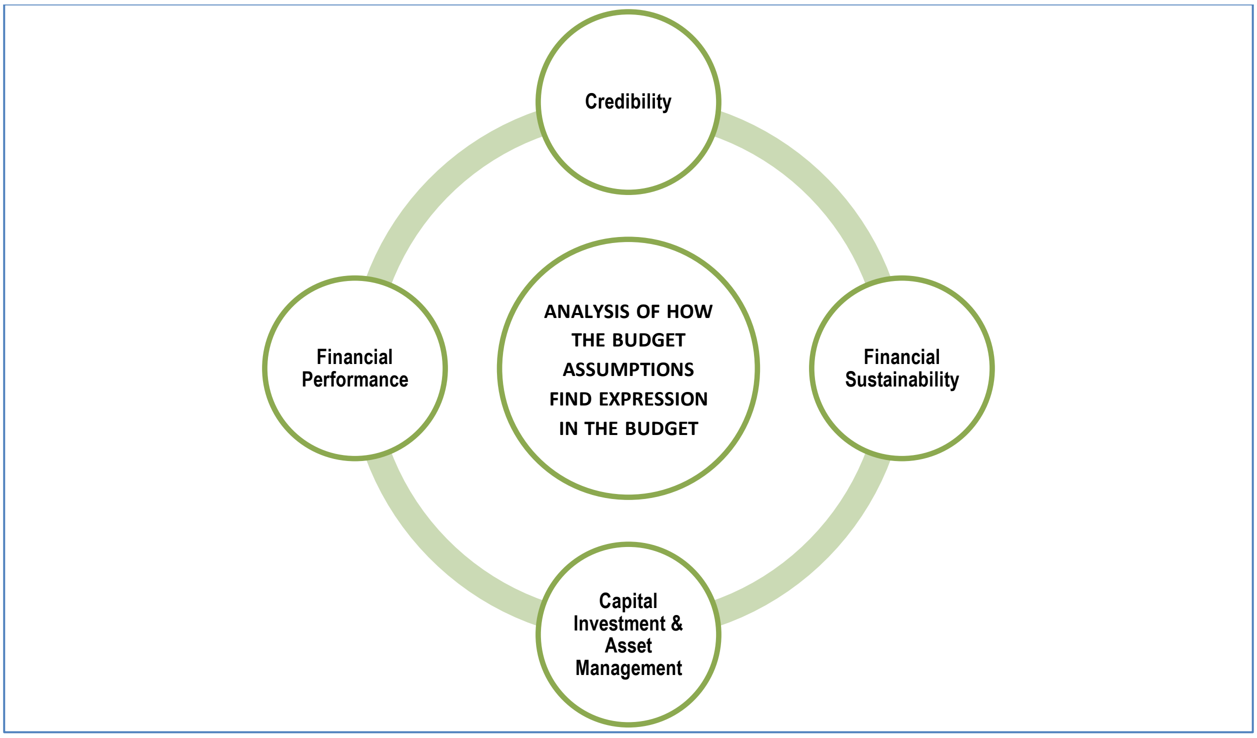
The objective of the analysis is to make observations and propose recommendations which we trust will be of value for finalising the budget, in addition to other input provided by the KwaDukuza community at large.

2. KEY OBSERVATIONS ON THE 2023/24 PROPOSED MTREF BUDGET

This section reflects on the key considerations that informed the budget assumptions and budget choices. The credibility of the budget, the financial performance of the municipality, its financial sustainability, and the budgets for capital investment & asset management will be analysed in detail.

The following budget assumptions, as proposed and tabled by the Mayor Nhaca, are examined in each of these sections where relevant.

- Increase in indigent households (higher indigents support)
- Global economic status, impacting on consumers ability to pay for services
- Eskom bulk electricity supply at 18.49%
- Property rates tariff increase of 7%
- Electricity tariffs increase 15%
- Refuse removal tariff increase of 10%
- Employee related costs increase at an average of 5.4%
- Assumed collection rate of 97%



2.1 CREDIBILITY

KEY CONSIDERATIONS	Current Year Budget Analysis (2022/23)
	How does the budget compare to current year actual trends?

BASELINE ASSESSMENT & FINANCIAL PERFORMANCE: OBSERVATIONS & RECOMMENDATIONS

OBSERVATIONS

- The table below indicates that the municipality budgeted for small operating surpluses over the 2023/24 Medium Term Revenue and Expenditure Framework, which increases in the 2025/26 financial year.
- The 2022/23 adjusted budget shows a deficit which is an important indicator in evaluating credibility of this baseline.

RECOMMENDATIONS

- The operating surpluses must be improved as the municipality will realise deficits if it experiences challenges with the forecasted revenue.
- It must ensure that all revenue is billed, and the projected operating expenditure is not exceeded.
- This will enable creation of capital reserves to fund the capital budget from own revenue.

TABLE 1: OPERATING SURPLUS / DEFICIT

Description	Current year 2022/23		2023/24 Medium Term Revenue & Expenditure Framework		
R thousands	Original Budget	Adjusted Budget	Budget Year 2023/24	Budget Year 2024/25	Budget Year 2025/26
Total Revenue (excluding capital transfers and contrib	2 137 733	2 225 674	2 477 733	2 637 879	2 780 495
Total Expenditure	2 136 507	2 226 063	2 477 603	2 637 742	2 780 132
Surplus/(Deficit)	1 226	(389)	131	138	364

2.2 FINANCIAL PERFORMANCE

2.2.1 OPERATING REVENUE

KEY CONSIDERATIONS	
	Revenue growth & its drivers.
	Affordability – increase in household bills.
	Is the budget based on realistically anticipated revenues?

APPLICABLE PERFORMANCE INDICATORS	NORM	2021/22 AUDITED	2022/23 ADJUSTED BUDGET	2023/24 PROPOSED BUDGET
Growth in number of Active Consumer Accounts	**CPI or more**	44000 properties	45000 properties (1000 additional properties) **2.27% growth**	50000 properties (5000 additional properties) **11.1% growth**
Annual Debtors Collection Rate (Payment Level %)	**Above 100%**	**109.5%**	**95.5%**	**57.6%** (-37.9% from 22/23 adjusted budget)
Current Debtors Collection Rate (Cash Receipts % of Rate Payers & Other Revenue)	**95%**	**102.3%**	**93.6%**	**89.2%** (-4.4% from 22/23 adjusted budget)
Outstanding Debtors Revenue (Receivables turnover ratio)	**An improvement is desirable**	**20.9%**	**25.2%**	**16.7%** (is this realistic?)

OPERATING REVENUE: OBSERVATIONS & RECOMMENDATIONS

OBSERVATIONS

- According to the National Treasury's guide on the macro-economic forecasts that must be considered when preparing the 2023/2024 MTREF municipal budgets, the CPI inflation rate to be applied is 5.3% for 2023/24 budget year – this has not been applied in this budget.
- The operating revenue increased by 11.3%, from R2.2 billion in the 2022/23 Adjustment Budget, to R2.5 billion in 2023/24 financial year.
- **The growth drivers are electricity, waste management charges, and transfers and subsidies.**
- Electricity increased by 15.4% from R1.1 billion in the 2022/23 adjustments budget to R1.2 billion in 2023/24 which is aligned to NERSA's tariff increase of 15.1%.
- Transfers and subsidies increased by 9.2%
- If ignoring transfers and subsidies, the operating budget increases by 11.6%.
- The refuse removal tariff increases by 10%, while the overall increase of 8% in the refuse charges budget.
- There is no clear explanation in the budget document of what informs the average increase of 10% for refuse, except that it is to balance out the cost of providing the service.
- Property rates increased by 7% from R643.8 million in the 2022/23 Adjustment Budget, to R723.3 million in 2023/24 is aligned to the tariff increase regardless of the municipality's indication that there will be additional newly registered properties.
- The current policy does not allow the municipality to budget for a deficit (5.1). It does, however, allow for cash backed accumulated funds to be used for funding purposes in the MFMA (Sec 18 (1) (b).

OBSERVATIONS

- There is an increase of 11.1 % from 45000 in 2022/23 to 50000 properties in the 2023/24 budget which does not seem to have been factored in.
- The average household bill for a middle-income household as per supporting table SA14 of the budget will increase by 13% from R3053.20 in 2022/23 to R 3451.64 in 2023/24. This is way above the inflation rate and highly unreasonable for a society that is already strained by increases in interest rates and other living expenses.
- The debtors collection rates are on the decline, there is a sharp decline on the collection of long outstanding debt year on year and the budget projection does not live up to the 97% current debtors collection rate.
- Based on the historical trend and the collection rates on the budget schedules, the budget is not based on realistically anticipated revenues.

RECOMMENDATIONS

- **Electricity:**
  - It is recommended that the budget for electricity revenue be adjusted down to be more realistic as it appears that the municipality did not consider the possible decline in electricity revenue consumption due to affordability constraints and consumers using alternative energy sources (moving off the grid) because of load shedding.
  - This omission poses a risk on the ability of the municipality to realise the projected revenue and the ability of the municipality to generate the projected operating surplus.
- **Refuse**
  - The municipality needs to monitor the extent to which the municipality generates surplus or deficit in rendering refuse service and maintaining its assets.
  - The business unit must implement efficiency measures to reduce operational costs and the burden on ratepayers, and the business community specifically.
  - An increase of 10% is not justified given the current economic climate, the reason provided by that it is due to the PPP is not adequate. The agreement should have considered all revenues as costs associated with this service including asset related costs.

RECOMMENDATIONS

- **Property Rates:**
  - The municipality needs to review the property register to identify the revenue that is due from the additional 5000 properties and ensure that they are included in the property rates calculation.
  - This will assist the municipality in containing the property rates increase closer to the CPI rate as opposed to 7% considering the current economic climate.
  - It is therefore suggested that the property rates increase needs to be adjusted down.
- **Affordability:**
  - The municipality needs to review the budget to consider affordability by consumers. The economic climate is not favourable to these proposed increases, and they need to be adjusted downwards.
  - It is recommended that KDM release uncommitted cash backed reserves that are in excess to the unspent conditional grants to fund part of the budget and reduce the burden on the consumers and ratepayers in compliance with the MFMA (Sec 18 (1) (b) which allows uncommitted cash backed accumulated reserves to be used to fund the budget.
- **Revenue Collection:**
  - The collection rate of 97% is unrealistic and needs to be reviewed down to produce a more realistic budget.
  - Inability to achieve the projected high collection rate due to consumers' inability to pay poses a risk and may negatively impact on the implementation of the budget and service delivery.
  - The Chamber would be interested in the detail pertaining to the planned revenue enhancement measures and the debt collection and credit control policies that will enable the municipality to maintain the high collection rate proposed.

TABLE 2: OPERATING REVENUE

Description	R thousands						
	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2023/24	Budget Year 2024/25	Budget Year 2025/26	
Revenue							
Exchange Revenue							
Service charges - Electricity	1 058 213	1 069 331	1 069 331	1 234 386	1 320 793	1 386 833	15,4%
Service charges - Waste Management	81 097	86 112	86 112	93 000	99 510	104 485	8,0%
Sale of Goods and Rendering of Services	23 776	29 476	29 476	32 360	33 978	35 677	9,8%
Agency services	13 200	13 200	13 200	14 124	14 830	15 572	7,0%
Interest earned from Receivables	9 250	9 250	9 250	10 120	10 626	11 157	9,4%
Interest earned from Current and Non-Current Assets	24 935	46 903	66 193	48 914	51 360	53 928	4,3%
Rental from Fixed Assets	3 003	3 023	3 023	3 333	3 500	3 675	10,3%
Operational Revenue	30 389	31 911	31 911	32 572	34 201	35 911	2,1%
Non-Exchange Revenue							0,0%
Property rates	604 725	643 800	643 800	688 866	723 309	759 474	7,0%
Surcharges and Taxes	-	-	-	-	-	-	0,0%
Fines, penalties and forfeits	30 695	31 715	31 715	33 465	35 138	36 895	5,5%
Licences or permits	734	834	834	834	875	919	0,0%
Transfer and subsidies - Operational	254 652	257 055	257 055	280 759	304 509	330 456	9,2%
Other Gains	3 065	3 065	3 065	5 000	5 250	5 513	63,1%
Total Revenue (excluding capital transfers and contributions)	2 137 733	2 225 674	2 244 965	2 477 733	2 637 879	2 780 495	11,3%

2.2.2 Operating Expenditure

Key Considerations	Zero Based Budgeting
	Cost Drivers
	Operational Efficiencies
	The extent of Remuneration to Total Operating Expenditure
	Bulk Purchases & Losses

Applicable Performance Indicators	Norm	2021/22 Audited	2022/23 Adjusted Budget	2023/24 Proposed Budget
Remuneration (Employee Related Costs and Councillors Remuneration) as % of Total Operating Expenditure	**25-40%**	**22%**	**24%**	**25%**

Operating Expenditure: Observations & Recommendations

Observations

- The operating expenditure increased by 11.3%, from R2.2 billion in the 2022/23 Adjustment Budget, to R2.5 billion in 2023/24.
- It appears that the municipality applied incremental budgeting to the overall operating revenue and expenditure by applying the same percentage increase, even though it is indicated that zero based budgeting was applied.
- The major cost drivers are employee related costs, councillor remuneration and electricity bulk purchases at 14.8%, 9.6% and 14,6% respectively.
- The extent of Remuneration to Total Operating Expenditure is 25% which is within the treasury norm of 25-40%.
- Electricity bulk purchases increased by 14.6% from R985.9 million in the 2022/23 adjustments budget to R1.1 billion in 2023/24. The increase is lower than the bulk tariff charge of 18.49% by Eskom.

Recommendations

- **Operating Expenditure:**
- The municipality must review its operational expenditure to conform to the zero-budgeting principle as the current incremental budgeting poses questions on the credibility of the budget.
- Employee Related Costs & Councillor Remuneration
- The increase in employee related costs is significant and poses a risk to the municipality's sustainability.
- Employee related costs increased by 14.8% from R516.7 million in the 2022/23 adjustments budget to R593 million in the 2023/24 financial year. This is far above the increase the revenue and contrary to the projected average increase of 5.4%.
- The same applies to Councillor Remuneration which is projected to increase by 9%.
- The municipality needs to ensure that there are operational efficiencies to reduce the staff costs and revise both these increases accordingly.
- The Chamber would like to obtain clarity on whether the above increases include the filling of long standing critical vacancies, in among others the Community Safety Directorate.

RECOMMENDATIONS

Electricity Bulk Purchases:

KDM is requested to provide clarity on the assumptions behind the increase in bulk electrical purchases being increased by 14.6%, from R985.9 million in the 2022/23 Adjustments Budget, to R1.1 billion in 2023/24 - lower than the bulk tariff charge of 18.49% from Eskom, as approved by NERSA.

The assumptions underlying this discrepancy need to be assessed.

Should it be a deliberate assumption that decline in bulk purchases is due to an anticipated reduced consumption; the same principle should also be conversely applied to the revenue projections and adjusted accordingly in the budget.

TABLE 3: OPERATING EXPENDITURE

Description	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2023/24	Budget Year 2024/25	Budget Year 2025/26	Adjusted 22/23 Vs Proposed 23/24
Expenditure		**R thousands**			**R thousands**		
Employee related costs	545 009	516 650	517 650	593 012	622 518	651 759	**14,8%**
Remuneration of councillors	27 116	28 695	28 695	31 360	32 928	34 575	**9,3%**
Bulk purchases - electricity	916 693	985 914	985 914	1 130 187	1 228 643	1 301 723	**14,6%**
Inventory consumed	31 000	24 345	24 395	25 098	26 353	27 670	**3,1%**
Debt impairment	19 000	21 000	21 000	18 500	19 425	20 396	**-11,9%**
Depreciation and amortisation	100 622	113 825	117 251	125 112	131 368	137 936	**9,9%**
Interest	25 101	25 101	25 101	22 047	23 149	24 306	**-12,2%**
Contracted services	304 080	330 778	342 940	345 683	360 753	379 591	**4,5%**
Transfers and subsidies	14 112	15 268	15 268	12 824	10 185	10 695	**-16,0%**
Irrecoverable debts written off	4 200	8 200	8 200	9 340	9 807	10 297	**13,9%**
Operational costs	129 809	134 510	134 385	141 636	148 669	156 043	**5,3%**
Losses on disposal of Assets	7 200	7 200	9 600	8 250	8 663	9 096	**14,6%**
Other Losses	12 566	14 566	14 566	14 553	15 280	16 044	**-0,1%**
Total Expenditure	**2 136 507**	**2 226 052**	**2 244 965**	**2 477 602**	**2 637 742**	**2 780 131**	**11,3%**

2.3 FINANCIAL SUSTAINABILITY

KEY CONSIDERATIONS	Cash Flow Management
	Debt serviceability
	Cash backed reserves & accumulated surplus – is the budget funded?
	The extent of Remuneration to Total Operating Expenditure
	Cash & Cash Equivalents (investments)

APPLICABLE PERFORMANCE INDICATORS	NORM	2021/22 AUDITED	2022/23 ADJUSTED BUDGET	2023/24 PROPOSED BUDGET
Cost Coverage	3 months	9.1 months	5.3 months	4 months
Current Ratio	1.5 to 2 :1	2.5%	1.6%	1.9%
Liquidity Ratio	Above 1	2%	1.2%	1.5%
Debt Coverage	45%	54.7%	35.7%	48.2%

FINANCIAL SUSTAINABILITY: OBSERVATIONS & RECOMMENDATIONS

OBSERVATIONS

- Cash and cash equivalents is projected to reduce from R867.8 million in the 2022/23 Adjustment Budget, to R735.5 million in 2023/24 regardless of the projected high collection rate of 97%.
- There will be a net decrease in cash in 2023/24 and 2024/25 financial years due to lesser cash inflow from operating activities. The cash improves in 2025/26 due to the projected lower capital expenditure.
- The cost coverage ratio (cash that should be available to cover monthly fixed operating expenditure) is projected to be 4 months in 2023/24 reducing to 3.5 months in 2024/25 and 2025/26 which is adequate in terms of National Treasury norms and standards.
- The financial ratios are positive indicating financial sustainability. It should be noted that the ratios are dependent on the municipality collecting 97% of billed revenue and effective cost containment measures.

RECOMMENDATIONS

The municipality appears to be financially sustainable considering the cash position and financial ratios. However, there is a decline in infrastructure investment over the Medium-Term Revenue Framework.

This could be a financial management strategy to alleviate the financial pressures at the cost of development.

The positive financial ratios are also based on the collection rate which appears to be high considering the current economic challenges which may impact on the consumers' ability to pay and the increasing number of indigents.

Failure to collect at the projected 97% will be detrimental to the financial sustainability of the municipality.

2.4 CAPITAL INVESTMENT & ASSET MANAGEMENT

KEY CONSIDERATIONS	Functional Areas of Capital Investment
	Funding of Capital Investment
	New Investment vs Renewal
	Repairs and Maintenance

APPLICABLE PERFORMANCE INDICATORS	NORM	2021/22 AUDITED	2022/23 ADJUSTED BUDGET	2023/24 PROPOSED BUDGET
Repairs and Maintenance as a % of Property, Plants and Equipment and Investment Property	**8%**	**6%**	**12%**	**6%**
Repairs and Maintenance as a % of operational expenditure	**6%**	**2.8%**	**3.5%**	**3.8%**
Renewal and upgrading of existing assets as a % of total Capex	**40%**	**36.1%**	**50.5%**	**27.2%**
Renewal and upgrading of existing assets as a % of total depreciation	**100%**	**105.5%**	**257.0%**	**64.7%**

CAPITAL INVESTMENT & ASSET MANAGEMENT: OBSERVATIONS & RECOMMENDATIONS

OBSERVATIONS

- **The capital budget reduced from R538.5 million in the 2022/23 Adjustment Budget, to R298.3 million in 2023/24 and further decreases to R109.7 million in 2025/26.**
- This is mainly due to the reduction in funding from own revenue and national grants.
- The significant infrastructure investment is on electricity (energy sources) with a budget allocation of R160.4 million representing 53.76% of the total capital budget of R298.3 million in 2023/24 financial year.
- This is followed by roads transport with an allocation of R97.3 million representing 32.62% of the total capital budget.
- The capital budget is funded by R171.2 million (57.39%) from own revenue generated by the municipality.
- The municipality allocated 27% of the capital budget towards renewal of existing infrastructure compared to 40% norm in terms of National Treasury's MFMA Circular No.71.
- The allocation for repairs and maintenance is 6% which is below the norm of 8% of Property, Plant and Equipment.
- Renewal of existing assets as a percentage of depreciation is 64.7% which is below the norm of 100%.
- This indicates that the municipality is consuming its assets at a higher rate than replacement. This will impact on sustainable service delivery in the long term due to aged infrastructure.
- Inadequate provision for renewal and maintenance of existing infrastructure which may negatively impact on sustainable service delivery.

RECOMMENDATIONS

- The municipality must ensure that it generates operating surpluses and collects revenue to maintain funding of the capital expenditure from own revenue.
- Failure thereof will result in the inability to deliver on projects as consulted with the communities and other stakeholders.
- It is noted that the municipality's finances are under pressure in 2025/26 given the significant reduction in capital funding from own revenue, resulting in lower capital expenditure.
- The municipality must address the 2 items i.e., asset renewal and repairs and maintenance that are less than the minimum required norms as per National Treasury guidelines. The allocation towards asset renewal and maintenance is of paramount importance in enabling reliable service delivery.
- The reason provided by the municipality in relation to provision of services to rural areas is noted. However, the municipality must ensure that it does not neglect maintenance of existing infrastructure which will result in a collapse of service delivery, a negative impact on the local economy, and unsustaible burden of existing and potential investors.
- Alternative revenue sources, among others nationally, need to be explored for the provision of services to our vast hinterland

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TABLE 4: CAPITAL BUDGET AND ASSET MANAGEMENT

Description	Current year 2022/23		2023/24 Medium Term Revenue & Expenditure Framework		
R thousands	Original Budget	Adjusted Budget	Budget Year 2023/24	Budget Year 2024/25	Budget Year 2025/26
Capital Expenditure - Functional					
Municipal governance and administration	**44 458**	**43 909**	**17 750**	**3 700**	**-**
Executive and council					
Finance and administration	44 458	43 909	17 750	3 700	
Internal audit					
Community and public safety	**88 157**	**82 508**	**10 221**	**10 925**	**14 000**
Community and social services	33 226	28 054			10 000
Sport and recreation	27 805	27 309	3 576		4 000
Public safety	21 500	21 518	1 945		
Housing	5 626	5 626	4 700	10 925	
Health					
Economic and environmental services	**155 078**	**214 664**	**99 976**	**112 028**	**55 373**
Planning and development	6 504	3 760	2 659		
Road transport	148 574	210 904	97 317	112 028	55 373
Environmental protection					
Trading services	**222 571**	**197 431**	**170 399**	**170 578**	**40 309**
Energy sources	215 171	190 031	160 399	170 578	40 309
Water management					
Waste water management					
Waste management	7 400	7 400	10 000		
Other					
Total Capital Expenditure - Functional	**510 265**	**538 512**	**298 346**	**297 231**	**109 682**
Funded by					
National Government	155 253	208 325	96 923	85 552	87 000
Provincial Government	126	126	200	225	
District Municipality					
Transfers and subsidies - capital (monetary allocations) (Nat / Prov Department Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Education Institutions)	29 356	29 356			
Transfers recognised - capital	**184 735**	**237 807**	**97 123**	**85 777**	**87 000**
Borrowing	10 000		30 000	72 000	
Internally generated funds	315 530	300 705	171 223	139 454	22 681
Total Capital Funding	**510 265**	**538 512**	**298 346**	**297 231**	**109 682**

3. BUDGET PROVISION FOR LOCAL BUSINESS ADVANCEMENT

The iLembe Chamber of Commerce, Industry & Tourism is committed to playing a meaningful role of a social partner representing the private sector in the developmental agenda of the municipality; making it a better place to live, work, do business and invest in.

In living up to this commitment, we have previously made representations to the municipality during the IDP and budget processes on measures that could assist the business community in advancing our shared local economic development intents.

In addition, a study commissioned by the iLembe Chamber in collaboration with the Ballito Business Park Lot Owners Association, found that the KwaDukuza Local Municipality is the most expensive municipality for the development of retail property type, and the second most expensive for the development of office and industrial property types after the eThekwini Metro, when compared to a sample of similar municipalities.

The following issues, as previously raised remain at the centre of the business community's concerns. We trust that the municipal administration will bring them to Council for consideration and action in the progressive spirit that they are being raised.

3.1 MOTIVATION FOR CONSIDERATION IN REDUCING THE COMPETITIVE COSTS OF DOING BUSINESS IN KDM

The Chamber, in its efforts to support the attraction of new investment, and development, as well as the retention of current investors, has identified the role that KDM can play in reducing the cost of doing business in the following areas of the budget for consideration.

LED LIMITATIONS	BUDGET RECOMMENDATIONS
High electrical connection and consumption costs for commercial and industrial properties when benchmarked to similar municipalities.	Consideration needs to be given to reducing the connection costs in this 2023/24 budget year while implementing deliberate measures to reduce the electricity distribution losses to address future consumption costs.
High refuse removal costs overall.	The proposed 10% increase will aggravate the situation, we recommend no increase in refuse charges for 2023/24 and minimal increases for the outer years to bring it in line with other comparable municipalities.
Policy proposal on utilising development contributions as an investment enabler and meaningful contributor to the KDM Economic Recovery Plan, and local economic development.	We propose that the municipality considers adopting a policy on the development contributions that seeks to: ▪ Ringfence the financial contributions and expenditure thereof to be directed to specific pre-identified and complementary development unlocking projects. ▪ Standardise the treatment, reporting and monitoring of the in-kind capital contributions. ▪ That the ringfenced contributions and performance objectives be reported to, and monitored by the KDM Council's Portfolio Committee

	responsible for Economic Development.
Alternative funding for the development of economic and strategic infrastructure to ensure the medium to long term competitiveness of the commercial property sector within the wider KwaDukuza region.	This budget sees a notable decrease in investment capital over the MTREF which is directly linked to the reduced municipal own funds contribution. It is recommended that the municipality takes advantage of its positive financial position and explore alternative funding mechanisms for strategic infrastructure development. These include: ▪ Establishing and promoting PPPs ▪ Alternative forms of borrowing. ▪ Introducing incentives that attract development initiatives. ▪ Partnerships with Provincial and National Departments on projects of a wider strategic interest.
The impact of the Ballito UIP on commercial/retail property values and property rates. It is acknowledged that the Ballito Special Ratings Area has been successful in enhancing public spaces and creating a clean and safe environment as intended. Whilst significantly enhancing KDM rates revenue – from 2016 to 2021, KDM rate randage increased by 53%, whilst rates revenue in the UIP precinct increased by 127% .	The rapid appreciation in property values has had the consequence of raising the rates payable per property since the property rates cents in the rand applied remain consistent with annual increases. It is proposed that KDM quantify the related rates revenue increases that relate to property value increases and consider using that as buffer to further curtail the proposed 7% increase in property rates, in SRA precincts at least. In addition, KDM to participate in the proposed KZN COGTA pilot on municipal matched funding in SRAs.

Strategic Capital Projects: As a business community we have contributed to the IDP process on the strategic projects that we see as being instrumental in development agenda of KDM.	The following are some of the projects that require specific attention in the budget, its implementation and intergovernmental cooperation with responsible government departments. ▪ Electrical capital in general. ▪ Dukuza sub-station. ▪ Ballito Taxi Rank upgrade ▪ P445 – proposed underpass for pedestrian traffic. ▪ M4 alternative route, the wider south/north link road. ▪ Umhlali CBD Revitlisation. ▪ Shakaskraal CBD Revitalisation.

4. CONCLUSION

The Chamber would like to extend its appreciation to the Mayor, the Municipal manager, the Chief Financial Officer and all directors and staff who contributed towards this draft budget.

The following is a summary of the recommendations of the Business Chamber on the 2023/24 budget:

4.1 CREDIBILITY

- The operating surpluses must be improved as the municipality will realise deficits if it experiences challenges with the forecasted revenue.
- It must ensure that all revenue is billed, and the projected operating expenditure is not exceeded.
- This will enable creation of capital reserves to fund the capital budget from own revenue.

4.2 OPERATING REVENUE

4.2.1 ELECTRICITY REVENUE:

- It is recommended that budget for electricity revenue be adjusted down to be more realistic as it appears that the municipality did not consider the possible decline in electricity revenue consumption due to affordability constraints and consumers using alternative energy sources (moving off the grid) because of load shedding.
- This omission poses a risk on the ability of the municipality to realise the projected revenue and the ability of the municipality to generate the projected operating surplus.
- Clarify how electricity losses in excess of 26% will be addressed.

4.2.2 REFUSE REVENUE:

- The municipality needs to monitor the extent to which the municipality generates surplus or deficit in rendering refuse service and maintaining its assets. The business unit must implement efficiency measures to reduce operational costs to reduce the burden on the ratepayers.
- An increase of 10% is not justified given the current economic climate, the PPP agreement should consider all revenues as costs associated with this service including asset related costs.

4.2.3 PROPERTY RATES:

- The municipality needs to review the property register to identify the revenue that is due from the additional 5000 properties and ensure that they are included in the property rates calculation.
- This will assist the municipality in containing the property rates increase closer to the CPI rate of 5.3% as opposed to 7% considering the current economic climate.
- The property rates increase therefore needs to be adjusted down.

4.2.4 AFFORDABILITY:

- The municipality needs to review the budget to consider affordability by consumers. The economic climate is not favourable to these proposed increases, and they need to be adjusted downwards.
- It is recommended that the municipality release uncommitted cash backed reserves that are in excess to the unspent conditional grants to fund part of the budget and reduce the burden on the consumers and ratepayers in compliance with the MFMA (Sec 18 (1) (b) which allows uncommitted cash backed accumulated reserves to be used to fund the budget.

4.2.5 REVENUE COLLECTION:

- The collection rate of 97% is unrealistic and needs to be reviewed down to produce a more realistic budget.
- Inability to achieve the projected high collection rate due to consumers' inability to pay poses a risk and may negatively impact on the implementation of the budget and service delivery.
- The municipality must maintain the high collection rate by implementing the planned revenue enhancement measures and the debt collection and credit control policies.

4.3 OPERATING EXPENDITURE

- The municipality must review its operational expenditure to conform to the zero-budgeting principle as the current incremental budgeting poses questions on the credibility of the budget.

4.3.1 EMPLOYEE RELATED COSTS & COUNCILLOR REMUNERATION

- The increase in employee related costs is significant and poses a risk to the municipality's sustainability.
- The municipality needs to ensure that there are operational efficiencies to reduce the staff costs and revise both these increases accordingly.
- Clarity will be sought on the progress with recruitment of staff into critical positions.

4.3.2 Electricity Bulk Purchases:

- It is concerning that the increase in bulk purchased increased by 14.6% from R985.9 million in the 2022/23 adjustments budget to R1.1 billion in 2023/24 which is lower than the bulk tariff charge of 18.49% by Eskom.
- The reasons for this discrepancy need to be assessed to avoid under-budgeting. Should it be a deliberate assumption that decline in bulk purchases is due to an anticipated reduced consumption; the same principle must also be conversely applied to the revenue projections and adjusted accordingly in the budget.

4.4 Financial Sustainability

- The municipality appears to be financially sustainable considering the cash position and financial ratios. However, there is a decline in infrastructure investment over the Medium-Term Revenue Framework.
- This could be a financial management strategy to alleviate the financial pressures at the cost of development.
- The positive financial ratios are also based on the collection rate which appears to be high considering the current economic challenges which may impact on the consumers' ability to pay and the increasing number of indigents.
- Failure to collect at the projected 97% will be detrimental to the financial sustainability of the municipality.

4.5 Capital Investment & Asset Management

- The municipality must ensure that it generates operating surpluses and collects revenue to maintain funding of the capital expenditure from own revenue.
- Failure thereof will result in the inability to deliver on projects as consulted with the communities and other stakeholders.
- It is noted that the municipality's finances are under pressure in 2025/26 given the significant reduction in capital funding from own revenue, resulting in lower capital expenditure.
- The municipality must address the 2 items i.e., asset renewal and repairs and maintenance that are less than the minimum required norms as per National Treasury guidelines. The allocation

towards asset renewal and maintenance is of paramount importance in enabling reliable service delivery.

- The reason provided by the municipality in relation to provision of services to rural areas is noted. However, the municipality must ensure that it does not neglect maintenance of existing infrastructure which will result in a collapse of service delivery and negative impact on the local economy.

4.6 PROVISION FOR LOCAL BUSINESS ADVANCEMENT

4.6.1 HIGH ELECTRICAL CONNECTION AND CONSUMPTION COSTS FOR COMMERCIAL AND INDUSTRIAL PROPERTIES

Consideration needs to be given to reducing the connection costs in this 2023/24 budget year while implementing deliberate measures to reduce the electricity distribution losses to address future consumption costs.

4.6.2 HIGH REFUSE REMOVAL COSTS OVERALL.

The proposed 10% increase will aggravate the situation. We recommend no increase in refuse charges for 2023/24 and minimal increases for the outer years to bring it in line with other comparable municipalities.

4.6.3 POLICY PROPOSAL ON DEVELOPMENT CONTRIBUTIONS

We propose that the municipality considers adopting a policy on the development contributions that seeks to:

- Ringfence the financial contributions and expenditure thereof to be directed to specific pre-identified and complementary development unlocking projects.
- Standardise the treatment, reporting and monitoring of the in-kind capital contributions.
- That the ringfenced contributions and performance objectives be reported to and monitored by Council's portfolio committee responsible for Economic Development.

4.6.4 ALTERNATIVE FUNDING FOR THE DEVELOPMENT OF ECONOMIC AND STRATEGIC INFRASTRUCTURE

This budget sees a notable decrease in investment capital over the MTREF which is directly linked to the reduced municipal own funds contribution.

It is recommended that the municipality takes advantage of its positive financial position and explore alternative funding mechanisms for strategic infrastructure development. These include:

- Establishing and promoting PPPs
- Alternative forms of borrowing.
- Introducing incentives that attract development initiatives.
- Partnerships with Provincial and National Departments on projects of a wider strategic interest.

4.6.5 THE IMPACT OF THE BALLITO UIP ON COMMERCIAL/RETAIL PROPERTY VALUES AND PROPERTY RATES.

The rapid appreciation in property values has had the unintended consequence of raising the rates payable per property since the property rates cents in the rand applied remain consistent with annual increases.

- It is proposed thar the municipality quantify the related rates revenue increases that relate to property value increases and consider using that as buffer to further curtail the proposed 7% increase in property rate.

4.6.6 CAPITAL PROJECTS

The following are some of the projects that require specific attention in the budget, its implementation and intergovernmental cooperation with responsible government departments.

- Electrical capital in general.
- Dukuza sub-station.
- Ballito Taxi Rank upgrade
- P445 – proposed underpass for pedestrian traffic.
- M4 alternative route, the wider south/north link road.
- Umhlali CBD Revitlisation.
- Shakaskraal CBD Revitalisation.

We trust that this comprehensive input will receive due consideration and enrich the process and quality of the final approval of the budget by Council.