Response to the draft

KDM MTREF Budget 2024/25

On behalf of the KwaDukuza Business Community

26 April 2024

ilembe
Chamber of Commerce
Industry and Tourism

Document Information

The purpose of this document is to provide comments on the draft KwaDukuza Local Municipality 2024/25 Medium Term Revenue and Expenditure Framework (MTREF) budget on behalf of the business community and from a business perspective.

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1. Introduction

This document provides comments and input, as invited as part of the public participation process, on the KDM draft MTREF Budget for the financial year 2024/25, with particular emphasis on its implications for the business community, specifically from a business retention and economic 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 in finalising the budget, in addition to other input provided by the KwaDukuza community at large.

This analysis and submission, as part of KDM's public participation obligations, contains the views of the wider KwaDukuza business community on how public funds are efficiently and effectively allocated, and how services to the business community are prioritized.

The submission will also assist in holding the municipality accountable for their decisions regarding service provision to the business community, ensuring that the needs, concerns, and preferences of businesses are addressed appropriately. Business owners have valuable insights into the specific services and infrastructure needed to support economic growth and development in KwaDukuza. A diverse range of perspectives was considered in this submission and we trust that it will aid the decision-making process.

2. High Level View: 2024/25 METREF Budget

2.1. The Positive

- The 2024/25 METREF Budget demonstrates a certain level of prudence compared to the increases that were implemented in the previous 2023/24 financial year.
- Revenue and expenditure increases were curtailed compared to previous budgets.
- In line with CPI, and National Treasury's guidance in MFMA Circular No. 126 and 128 to municipalities in preparation of the 2024/25 MTREF budgets, tariff increases are lower than the 2023/24 financial year.
- The municipality appears to be financially stable, an observation based on the cash position and financial ratios.
- The overall good quality of the budget produced by the municipality is acknowledged by the Chamber.

2.2 Unresolved and recurring concerns

2.2.1. Financial sustainability

- The operating surpluses budgeted for are worryingly insignificant considering the revenue pressure in relation to operating expenditure.
- Operating surpluses have declined compared to the 2023/24 financial year.
- The surpluses are realised due to the significant reduction of electricity bulk purchases. This poses a potential risk if the municipality does not realise the plans to reduce electricity losses.

The financial position is declining, and as a result, the municipality has adopted a policy which focuses on creating reserves and reducing funding of the capital budget from own funding

Recommendation

Although the municipality is currently financially stable, forward planning with concrete actions towards creating sustainability is required. This budget needs to factor this in both the revenue and expenditure assumptions components to realise more reasonable surpluses for long term sustainability.

2.1.2. Electricity trading business

- The municipality has incurred high costs of bulk electricity purchases over the previous years, far exceeding inflation, and this distorts the level of operating expenditure.
- Budgeted electricity revenue projections do not take into consideration the reduced consumption due to load shedding, and are assuming continuity of levels of consumption with only tariff adjustments.
- Electricity revenue projections do not consider the impact of rapid alternative energy adoption.
- The distribution losses remain high and even though the budget projections are lower than current actual levels, there have not been demonstrable changes to support this assumption.
- Eskom implemented the NERSA approved electricity tariff increase of 12.72%, whilst KDM is proposing a 10.5% increase. The Chamber would like to ascertain how this shortfall will be funded.

Recommendations

- The electricity trading budget needs to be reviewed in its entirety to avoid under-budgeting for expenses while over-budgeting for revenue.
- This review should factor in expected changes in energy consumption patterns, technological advancements, and evolving market conditions.
- Should it be a deliberate assumption that the 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.
- Explore strategies for diversifying revenue streams to mitigate any potential negative impacts of alternative energy adoption. This might include offering energy services beyond electricity provision, such as energy efficiency programs.

2.1.3. Affordability of doing business, and the cost of living

KDM needs to review the budget to consider its impact on business affordability. The local and national economic climates are not conducive to the proposed levels of increases. The following are specific items for your consideration:

Item	Observations	Recommendation
High refuse removal tariffs	The cost of refuse removal services remains high in comparison with similar municipalities, affecting the cost of doing business, and the cost of living, in KwaDukuza. The proposed 9% increase to commercial customers is too high considering increases in previous years. It is not evident that the function has been reviewed for efficiencies as previously recommended.	That a cost review strategy should be implemented to realise a more conservative increase in refuse charges for 2024/25, and minimal increases for the outer years, aimed at bringing it in line with other comparable municipalities.
Indigent management	National Treasury's equitable share allocation to KDM subsidises just over 74,028 households for the provision of electricity and refuse. (Source: 2024 LGES (Local Government Equitable Share) Data as published by the National Treasury. Clarity will be sought on the above figure, in relation to the just over 10,000 households on the KDM Indigent Register. The equitable share subsidy for electricity is based on 50kwh, while KDM provides 100kwh. This variance is funded from the municipality's own funds. The KDM policy indicates that these residents are categorised as indigents merely by virtue of the area that they reside in.	KDM must review the indigent grant policy to be more realistic and affordable. There must be a clear qualification criterion, based only on affordability or income category to ensure that those who can afford to pay for services do so. To achieve the above, a credible indigent database needs to be established and maintained.
Property rates rebates	The rapid appreciation in, especially commercial property values, has had the unintended consequence of	It is proposed that the municipality quantify rates revenue increases, associated with the increase in

	raising the rates payable per property since the property rates cents in the rand applied remain consistent with annual increases. Based on previous trends, the budget should assume that property rates revenue will be significantly higher than the rates tariff increases due to the growth in the property base. In the previous financial year, property rates revenue grew by 11.1% and a further 1.2% in the adjusted budget against a 7% rates tariff increase, clearly demonstrates the effect of growth in property quantities and property values.	property values and property quantities. Once this growth is quantified and modelled, it can render a 5% tariff increase unnecessary and provide much-needed relief to ratepayers. This rates revenue growth can also assist the municipality in realising more reasonable surpluses.
Electrical connection and consumption costs for commercial and industrial properties	This please was made to the municipality in previous budget representations. The average increase applied to the key industrial and urban electrical tariffs will be 13.29% due to the increase of 25.24% in the affordability subsidy charge approved by NERSA.	Consideration needs to be given to reducing electrical connection charges in this 2024/25 budget year, whilst implementing deliberate measures to reduce non-revenue electricity losses.
Efficiency measures in the management of development contributions	As in the previous budget submission, the Chamber appeals to the municipality to review the policy on the development contributions to create efficiency, transparency and demonstratable impact of these resources to encourage more private investment.	The Chamber proposes that the municipality considers adopting a policy on development contributions that seeks to: • Ringfence contributions, and the expenditure thereof, to be directed to specific pre-identified and complementary development unlocking projects. • Standardise the management, reporting and monitoring of 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.

2.1.4. Personnel resourcing and remuneration

- KDM has had to deal with issues relating to overtime dependency and payments, and the related financial constraints in the current financial year.
- This is indicative, among others, of staffing and skills gaps in critical directorates, including Community Safety, Electrical and Civil Engineering.
- Although employee related costs are within the prescribed norm (Employee Related Costs and Councillor Remuneration as a percentage of Total Operating Expenditure is 23.5%), the cost of Contracted Services highlights challenges in the organisational structure.
- Employee related costs should be considered in conjunction with the cost of Contracted Services, which, in this case, is so high that it negates the positive ratio.
- This also exposes KDM to other risks, such as an inability to build in-house expertise and capacity, and an unhealthy and ongoing reliance on contractors.

Recommendations

- The resourcing for the critical departments must be reviewed and prioritised to avoid service disruptions, and allow for adequate service delivery.
- Contracted Services need to be reviewed and internal capacity created for those services as that will be more sustainable for the municipality.

2.1.5. Maintenance & Renewal of Assets

- KDM must address two critical items i.e. Asset Renewal, and Repairs and Maintenance which do not meet the minimum prescribed norms prescribed in the National Treasury guidelines.
- The allocation towards Asset Renewal and Maintenance is of paramount importance in enabling reliable service delivery and preventing future infrastructure collapse and service disruptions.

- Table A9 of the budget document indicates that KDM allocated 28% of the capital budget towards renewal of existing infrastructure, compared to the norm of 40% in terms of National Treasury's MFMA Circular No.71.
- The allocation for Repairs and Maintenance is 3%, significantly lower than the norm of 8% of Property, Plant and Equipment.
- Given the 2022/23 audited result allocation of 2.3%, and 2.4% for the 2023/24 adjusted budget, the ongoing trend indicates that KDM is not providing adequately for repairs and maintenance.
- Renewal of existing assets as a percentage of depreciation is 38.4%, well below the accepted norm of 100% - KDM 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.

Recommendation

This budget should not be approved without giving serious consideration to the Asset Maintenance and Renewal budgets. The accumulated effect of the continuous neglect will be highly detrimental and requires immediate attention.

2.1.6. Capital Budget

i. Capital Investment & its funding

- This budget sees a notable decrease in investment capital over the MTREF, with a direct link to the reduced municipal own fund contributions.
- The debt to total operating revenue is 6.2% in 2024/25, against the norm of 45%. This indicates that the municipality still has capacity to take increased funding from borrowings.
- The municipality can no longer rely on national grants and own funds for capital investment; other financing measures must be considered.
- During the IDP participation process, the municipality was urged to create incentives for economic growth and development projects within the municipality; it is not clear from the budget whether these considerations were catered for and what the incentives are in order to encourage private sector investments.

Recommendation

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

- Borrowings
- Establishing and promoting PPPs
- Introducing incentives that attract development initiatives.
- Partnerships with Provincial and National Departments on projects of a wider strategic interest.
- A clear direction in the development incentives to encourage private sector investment.

ii. Capital Budget Distribution – CBDs and Tourism Nodes

- The municipality is prioritising the provision of services to rural areas - this is noted with understanding.
- However, KDM must ensure that it does not neglect existing economic infrastructure, with the resulting negative impact on our local economy.
- Rates and paid services contributions from the region's economic nodes are critical to municipal financial sustainability – yet they are not sufficiently serviced to ensure competitiveness and sustainability.
- Capital expenditure allocated by the municipality to beach nodes and Central Business Districts (CBDs), in a tourist economy, is crucial. These areas serve as the primary hubs for tourism activity, attracting visitors and generating revenue for local businesses.
- Well-maintained tourism nodes and CBDs contribute to the town's reputation as a desirable destination, leading to increased visitor numbers and longer stays, which in turn benefit local businesses and the community.
- It was concluded, with significant concern, from the budget document that no capital expenditure was budgeted for in wards that hosts economic nodes, i.e. wards 22, 6, 19, and 30.
- By developing and maintaining infrastructure such as sidewalks, boardwalks, promenades, and amenities like restrooms and recreational facilities, it enhances the overall appeal and accessibility of these areas, thus boosting tourism and stimulating economic growth.
- Ultimately, investing in tourism and commercial nodes contribute to the overall appeal, vitality, and sustainability of our region's economy, and local authority.

Recommendation

It is recommended that the capital budget be reviewed to strike a balance between rural development, and projects that are aimed at enhancing the overall appeal and accessibility of commercial and tourism nodes. This will boost tourism, trade and investment, stimulate economic growth and will ultimately increase the revenue potential of the municipality.

iii. Priority Capital Projects:

The following are only some of the projects that were identified by the business community as requiring specific attention in the MTREF budget.

- The redesign, development and upgrading of beach nodes along the KZN North Coast, with Salt Rock Main Beach specifically highlighted by the business community.
- The critical need for the development of all sections of the South North Link Route - not only to regulate traffic flow, ease congestion, but also to unlock economic potential.
- The completion of all upgrade elements at the Ballito and KwaDukuza/Stanger taxi ranks.
- The resurfacing and rehabilitation of Douglas Crowe Drive, Ozard Way and the Hawkins Car Park. Rehabilitation of Gourly Road, and Shaka's Rock Road.

Recommendations

- It is recommended that the capital budget be reviewed to include the above key projects in the MTREF.
- The municipality is urged to work with the business community to review and enhance the UIP concept and structures. A structure that is both public and private sector funded, with KDM matching private sector contributions in both KwaDukuza/Stanger and Ballito will be beneficial to both towns, and will be supported by the Chamber.
- The municipal budget needs to reflect the municipality's support for a UIP initiative in KwaDukuza/Stanger with matching public sector contributions.
- Since the current Ballito UIP period expires during this MTREF, a similar arrangement should be provided for in the MTREF budget.

3. Detailed Observations: 2024/25 MTREF Budget

This section explores the key considerations that informed the budget choices, which includes assumptions around the principles of credibility, financial performance, sustainability as well as capital investment and asset management.

3.1. Credibility of the Budget

Key Considerations	Budget Analysis
	Trend Analysis

Observations

- It is noted from Table 1 that the municipality budgeted for operating surpluses over the 2024/25 Medium Term Revenue and Expenditure Framework (MTREF).
- The operating surplus declined from R69,000 in the 2023/24 adjusted budget to R56,000 in the 2024/25 financial year and is projected to increase over the MTREF.
- The operating surpluses are low, indicating that KDM's operational expenses are high in relation to the operating revenue.
- The projected revenue increases are however informed by tariff increases, and not by the assumed growth in consumption.
- The negligible surpluses are not likely to provide much cushion against financial difficulties as intended in the municipal budgeting guideline - MFMA Circular No. 126.
- The municipality's own funding sources towards the Capital Budget is reducing over the 2024/25 MTREF.

Table 1: Operating Surplus / Deficit

Description	2022/23	Current year 2023/24		2024/25 Medium Term Revenue & Expenditure Framework		
R 000	Audited Outcome	Original Budget	Adjusted Budget	Budget 2024/25	Budget 2025/26	Budget 2026/27
Total Revenue (excluding capital transfers and contributions)	2 225 253	2 573 014	2 618 348	2 716 193	2 852 617	3 032 618
Total Expenditure	2 169 314	2 572 794	2 618 279	2 716 137	2 852 039	3 031 932
Surplus/ (Deficit)	55 939	220	69	56	578	686

3.2 Financial Performance

Key Considerations	Revenue growth & its drivers
	Affordability for households and businesses
	Is the budget based on realistically anticipated revenues?

Observations re major revenue contributors

3.2.1 Service charges

- Electricity revenue increased by 11.3%, from R1.3 billion in the 2023/24 adjusted budget, to R1.4 billion in the 2024/25 financial year.
- This is due to the assumed average maximum tariff increase of 10.5% while awaiting National Energy Regulator of South Africa (NERSA) approval.
- Please note that NERSA approved an increase of 12,72% on the 2nd of April 2024.
- It is noted with concern that, as with the previous budget assessment (2023/24 MTREF), the budget document does not provide detail on how the use of alternative energy sources (moving off the grid) is expected to impact on electricity revenue.
- The budget assumptions only indicate that households consumption was considered.

3.2.2 Property rates

- Increased by 5% from R696.9 million in the 2023/24 adjusted budget, to R731.9 million in the 2024/25 financial year.
- KDM indicated that there will be additional newly registered properties which will result in growth in the revenue base – it does however not clearly indicate the percentage growth that is included in the budget assumptions in the final budget.
- Considering previous trends, the effective increase in property rates revenue has been higher than the rates tariff increases due to the growth in the property base. If this growth is quantified, it can render the 5% tariff increase unnecessary and provide much-needed relief to ratepayers.
- In the previous financial year, the property rates grew by 11.1% and a further 1.2% in the adjusted budget, against a 7% rates tariff increase. This clearly demonstrates the effect of growth in property quantities and property values.

Observations re major revenue contributors

3.2.3 Revenue from transfers and subsidies

The operational revenue from transfers and subsidies increased by 2.4% from R293.4 million in the 2023/24 adjusted budget, to R300.3 million in the 2024/25 financial year.

- It is noted that the transfers from national and provincial government are increasing at a diminishing rate given the financial challenges due to the stagnant economy.
- Therefore, the municipality cannot rely on these transfers for sustainability.
- The ability and capacity to spend grants and subsidies requires reflection, and the private sector would like to repeat its offer of support in managing projects funded by transfers.

3.2.4 Refuse removal revenue

- Budgeted increases in refuse tariffs range from 7% - 9%, with commercial property tariffs increasing by the highest level of 9%.
- 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 the ratepayers.
- The increase is still excessive given the current economic climate and the increases already incurred in the previous financial years.

3.2.5 Other revenue

- Revenue generating items such as Sale of goods and rendering of services; and Fines, Penalties and Forfeits have significantly reduced.
- The municipality must ensure that it sustains its existing revenue base to ensure financial sustainability.
- Council approved interventions, among others revenue enhancement projects, meter replacement, and the municipal data cleansing project must be closely monitored to ensure successful implementation.

Figure 1: 2024/25 Operating Revenue Sources

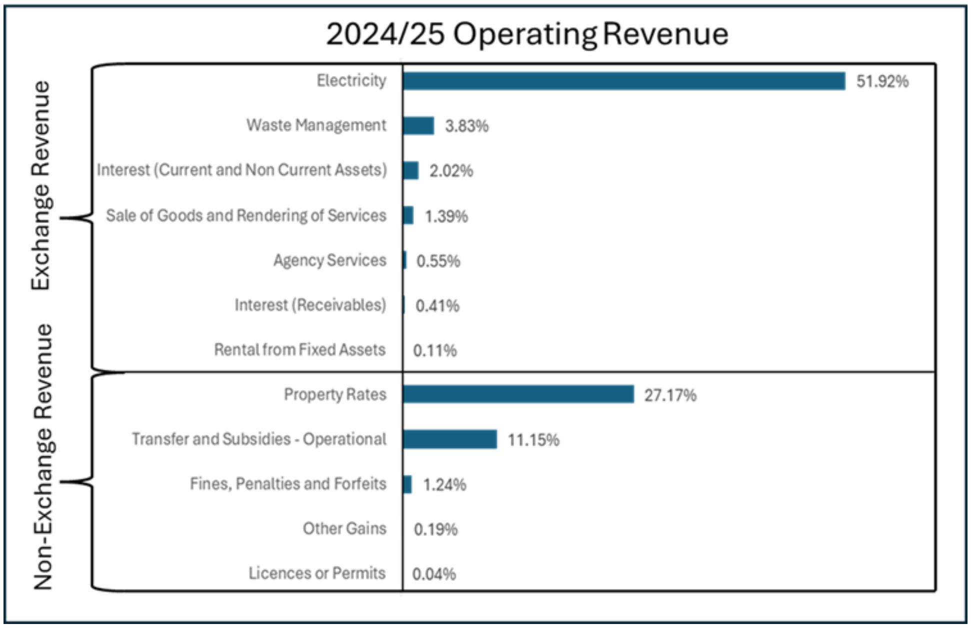


Table 2: Operating Revenue

Description	2022/23	Current year 2023/24				2024/25 Medium Term Revenue & Expenditure Framework			
R thousands	Audited Outcome	Original Budget	*%inc (2023/24 vs 2022/23)*	Adjusted Budget	*%inc (2023/24 original vs adjusted*	Budget Year 2024/25	*%inc (2024/25 vs 2023/24)*	Budget Year 2025/26	Budget Year 2026/27
Revenue									
Exchange Revenue									
Service charges - Electricity	1 047 042	1 234 386	*17,9%*	1 256 766	*1,8%*	1 398 776	*11,3%*	1 473 776	1 576 941
Service charges - Water	-	-		-		-		-	-
Service charges - Waste Water Management	-	-		-		-		-	-
Service charges - Waste Management	91 191	99 660	*9,3%*	97 160	*-2,5%*	103 074	*6,1%*	110 289	118 009
Sale of Goods and Rendering of Services	30 583	89 360	*192,2%*	44 360	*-50,4%*	37 376	*-15,7%*	39 018	40 759
Agency services	10 499	14 124	*34,5%*	14 124	*0,0%*	14 689	*4,0%*	15 570	16 505
Interest	-	-		-		-		-	-
Interest earned from Receivables	6 162	10 120	*64,2%*	13 120	*29,6%*	11 000	*-16,2%*	11 550	12 128
Interest earned from Current and Non Current Assets	92 233	79 539	*-13,8%*	129 017	*62,2%*	54 423	*-57,8%*	54 834	57 576
Dividends	-	-		-		-		-	-
Rent on Land	-	-		-		-		-	-
Rental from Fixed Assets	2 458	3 333	*35,6%*	3 336	*0,1%*	3 028	*-9,3%*	3 209	3 402
Licence and permits	-	-		-		-		-	-
Operational Revenue	29 641	32 572	*9,9%*	23 188	*-28,8%*	22 082	*-4,8%*	23 193	24 361
Non-Exchange Revenue									
Property rates	619 961	688 866	*11,1%*	696 866	*1,2%*	731 912	*5,0%*	775 826	822 376
Surcharges and Taxes	-	-		-		-		-	-
Fines, penalties and forfeits	33 430	33 465	*0,1%*	41 085	*22,8%*	33 515	*-18,4%*	35 191	36 950
Licences or permits	560	834	*48,8%*	934	*12,0%*	976	*4,6%*	1 025	1 077
Transfer and subsidies - Operational	248 866	281 754	*13,2%*	293 392	*4,1%*	300 343	*2,4%*	303 885	317 024
Interest	-	-		-		-		-	-
Fuel Levy	-	-		-		-		-	-
Operational Revenue	-	-		-		-		-	-
Gains on disposal of Assets	155	-	*-100,0%*	-		-		-	-
Other Gains	12 471	5 000	*-59,9%*	5 000	*0,0%*	5 000	*0,0%*	5 250	5 513
Discontinued Operations	-	-		-		-		-	-
Total Revenue (excluding capital transfers and contributions)	**2 225 253**	**2 573 014**	*15,6%*	**2 618 348**	*1,8%*	**2 716 193**	*3,7%*	**2 852 617**	**3 032 618**

Table 3: Financial Performance Measures

Applicable Performance Indicators	Norm	2021/22 Audited	2022/23 Adjusted Budget	2023/24 Proposed Budget	2024/25 Adjusted 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**	Not specified
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)	**96%**
Outstanding Debtors Revenue (Receivables turnover ratio)	**An improvement is desirable**	**20.9%**	**25.2%**	**16.7%**	

Recommendations re major revenue contributors

Revenue Collection

- The collection rate of 96% is unrealistic and needs to be reviewed down to produce a more realistic budget.
- An 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.

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 among others.
- This omission poses a risk to the ability of the municipality to realise the projected revenue and to generate the projected operating surplus.

Property Rates:

- The municipality needs to review the property register to identify the revenue that is due from the additional properties and ensure that they are included in the property rates calculation.
- An accurate assessment of the effect of growth in property quantities and property values on property rates calculations will assist KDM to contain the property rates increase.
- Despite the proposed property rates increase being at a reasonable level, the above will allow proposed increases to be adjusted downwards, providing a cost-of-doing-business reprieve.

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.
- Increases of 7% and 9% respectively are not justified given the current economic climate, all revenues as costs associated with this service, including theasset related cost, should be considered.

3.3 Operating Expenditure

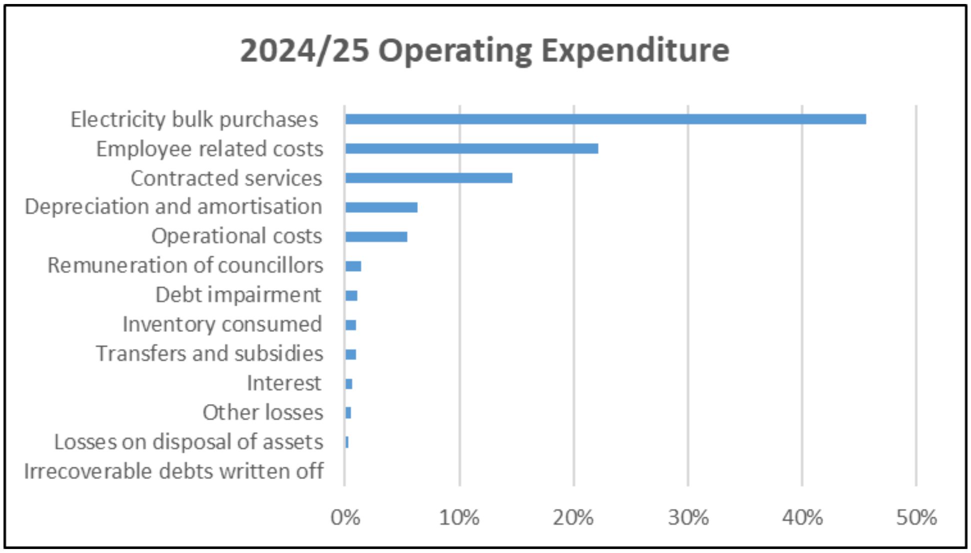
Key Considerations	
	Zero Based Budgeting
	Cost Drivers
	Operational Efficiencies
	Bulk Purchases & Losses

- The operating expenditure increased by 3.7% from R2.6 billion in the 2023/24 adjusted budget, to R2.7 billion in the 2024/25 financial year.
- It is concluded that the increase in operating expenditure was kept at this level to align it to the budgeted revenue increase, indicating the municipality's intent to achieve an operating surplus.
- The municipality has ensured a level of prudence compared to the increases that were implemented in the 2023/24 financial year.
- The major cost drivers are Electricity Bulk Purchases, Employee Related Costs and Contracted Services, as depicted in Table 4 and Figure 2 below.

Table 4: Operating Expenses

Expenditure										
Employee related costs	503 522	585 513	*16,3%*	564 981	*-3,5%*	602 844	*6,7%*	625 594	656 787	23,6%
Remuneration of councillors	32 812	35 392	*7,9%*	35 389	*0,0%*	37 823	*6,9%*	39 714	41 700	
Bulk purchases - electricity	1 020 839	1 116 231	*9,3%*	1 197 031	*7,2%*	1 238 436	*3,5%*	1 279 481	1 417 796	
Inventory consumed	16 150	26 528	*64,3%*	21 507	*-18,9%*	26 106	*21,4%*	30 418	31 974	
Debt impairment	13 303	7 000	*-47,4%*	27 840	*297,7%*	27 848	*0,0%*	29 241	30 703	
Depreciation and amortisation	97 352	164 407	*68,9%*	161 412	*-1,8%*	172 411	*6,8%*	188 113	195 757	
Interest	18 002	22 047	*22,5%*	17 701	*-19,7%*	15 989	*-9,7%*	15 294	14 446	
Contracted services	311 905	357 546	*14,6%*	384 956	*7,7%*	398 145	*3,4%*	430 391	418 539	14,7%
Transfers and subsidies	19 405	71 506	*268,5%*	27 447	*-61,6%*	24 551	*-10,6%*	22 460	22 983	
Irrecoverable debts written off	3 168	9 340	*194,9%*	2 840	*-69,6%*	2 840	*0,0%*	2 954	3 072	
Operational costs	114 823	152 480	*32,8%*	153 273	*0,5%*	146 767	*-4,2%*	164 884	173 506	
Losses on disposal of Assets	15 160	10 250	*-32,4%*	10 250	*0,0%*	8 250	*-19,5%*	8 663	9 096	
Other Losses	2 875	14 553	*406,2%*	13 653	*-6,2%*	14 127	*3,5%*	14 833	15 575	
Total Expenditure	**2 169 314**	**2 572 794**	***18,6%***	**2 618 279**	***1,8%***	**2 716 137**	***3,7%***	**2 852 039**	**3 031 932**	

Figure 2: 2024/25 Operating Expenditure



Observations re major expenditure items

3.3.1. Bulk purchases – Electricity

The bulk purchases increased by 3.5% from R1.2 billion in the 2023/24 adjusted budget, to R1.24 billion in the 2024/25 financial year. The increase is significantly lower than the bulk tariff charge of 12.72% by Eskom.

- It is noted that the municipality indicated that the increase is low because there is a need to implement aggressive strategy to address energy losses on the operational budget.
- This assumption appears unrealistic considering how the electricity bulk purchases have been increasing for the previous financial years.
- Furthermore, there is no indication if the strategy has already yielded the results.
- Failure to realise the objectives of the strategy will result in the under provision for electricity bulk purchases subsequently impacting on the municipality's ability to pay

3.3.2. Employee related costs

Remuneration of employees increased by 6.7% from R565 million in the 2023/24 adjusted budget, to R602.8 million in the 2023/24 financial year.

- This is consistent with the municipality's assumption on salary increase and notch increments. National Treasury in MFMA Circular No. 126 urged municipalities to consider projecting salary and wage increases that would reflect their affordability given the current economic challenges.
- The norm for Remuneration (Employee Related Costs and Councillors Remuneration) as % of Total Operating Expenditure is between 25% and 40%. It is noted the municipality's allocation is 23.5% and within the norm.
- However, the employee related costs must always be considered in conjunction with the contracted services costs which in this case are so high that they negate this positive ratio.
- Even though the employee related costs are within the norm, the high contracted services highlights challenges in the organisational structure. This increases can further expose the municipality to other risks, such as its inability to build capacity and ongoing reliance on contractors.

3.3.3. Contracted Services

- Outsourced services increased by 3.4% from R385 million in the 2023/24 adjusted budget, to R398.1 million in the 2024/25 financial year. This ratio is considered in relation to employee related costs to determine the level of outsourcing compared to internal capacity.
- The norm for Contracted Services as a % of Total Operating Expenditure is between 2% and 5%. The municipality's allocation is high at 14.7%.
- This indicates that that many functions are being outsourced to consultants, or that Contracted Services are not effectively utilised.

3.4 Capital investment and asset management

Key Considerations	The infrastructure needs, the maintenance upgrades, service expansions and development investments, and overall sustainability of the municipality.
	Long-term planning to anticipate future needs, mitigate risks, and ensure that capital investments align with the municipality's strategic goals and financial capacity.

3.4.1. Capital expenditure and funding

Table 5 below depicts the KDM Capital Budget and how it is funded.

- The capital budget decreased by 75.3% from R1.2 billion in the 2023/24 adjustments budget, to R286.2 million in the 2024/25 financial and further decreases to R152.5 million in 2026/27.
- The reduction is mainly due to the decrease in transfers from national government, borrowings, and decrease in own funding.
- The most significant infrastructure investment is on electricity (energy sources) with a budget allocation of R125.5 million, representing 43.9% of the total capital budget of R286.2 million in the 2024/25 financial year.
- This is followed by roads transport with an allocation of R71.6 million representing 25% of the total capital budget.
- The capital budget is funded by R216.2 million (75.8%) from own revenue generated by the municipality. Similar to the previous budget (2023/24 MTREF), the municipality’s ability to fund capital expenditure from own funds is deteriorating while it budgeted for low operating surpluses. This is exacerbated by the reducing capital transfers from national government.

Table 5: Capital expenditure and funding

Description	2022/23	Current year 2023/24				2024/25 Medium Term Revenue & Expenditure Framework			
R thousands	Audited Outcome	Original Budget	*%inc (2023/24 vs 2022/23)*	Adjusted Budget	*%inc (2023/24 original vs adjusted budget)*	Budget Year 2024/25	*%inc (2024/25 vs 2023/24)*	Budget Year 2025/26	Budget Year 2026/27
Capital Expenditure - Functional									
Municipal governance and administration	**31 537**	**27 313**	***-13,4%***	**33 725**	***23,5%***	**31 665**	**-6,1%**	**4 900**	**2 400**
Executive and council		10 400	*100,0%*	19 726	*89,7%*	12 010	-39,1%		
Finance and administration	31 537	16 913	*-46,4%*	13 999	*-17,2%*	19 655	40,4%	4 900	2 400
Internal audit									
Community and public safety	**68 091**	**60 624**	***-11,0%***	**56 411**	***-6,9%***	**46 306**	**-17,9%**	**26 031**	**-**
Community and social services	27 979	11 649	*-58,4%*	11 584	*-0,6%*	8 540	-26,3%	2 000	
Sport and recreation	27 671	23 931	*-13,5%*	23 230	*-2,9%*	14 286	-38,5%	24 031	
Public safety	7 782	20 343	*161,4%*	16 838	*-17,2%*	14 680	-12,8%		
Housing	4 658	4 700	*0,9%*	4 757	*1,2%*	8 800	85,0%		
Health									
Economic and environmental services	**510 283**	**706 777**	***38,5%***	**900 025**	***27,3%***	**80 049**	**-91,1%**	**58 269**	**56 886**
Planning and development	3 364	4 186	*24,4%*	9 487	*126,6%*	8 445	-11,0%	5 850	
Road transport	506 919	702 591	*38,6%*	890 538	*26,8%*	71 604	-92,0%	52 419	56 886
Environmental protection									
Trading services	**119 004**	**156 184**	***31,2%***	**169 763**	***8,7%***	**128 207**	**-24,5%**	**122 385**	**93 215**
Energy sources	113 026	149 643	*32,4%*	163 682	*9,4%*	125 522	-23,3%	122 385	93 215
Water management									
Waste water management									
Waste management	5 977	6 541	*9,4%*	6 081	*-7,0%*	2 685			
Other									
Total Capital Expenditure - Functional	**728 914**	**950 898**	***30,5%***	**1 159 923**	***22,0%***	**286 227**	**-75,3%**	**211 585**	**152 501**
Funded by									
National Government	502 726	700 233	*39,3%*	893 524	*27,6%*	66 126	-92,6%	61 414	65 011
Provincial Government	27	200	*641,3%*	3 212	*1506,0%*	3 255	1,3%		
District Municipality									
Transfers and subsidies - capital (monetary allocations) (Nat / Prov Departm Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporatons, Higher Educ Institutions)				500	*100,0%*		-100,0%		
Transfers recognised - capital	**502 753**	**700 433**	***39,3%***	**897 236**	***28,1%***	**69 381**	**-92,3%**	**61 414**	**65 011**
Borrowing		30 000	*100,0%*	10 000	*-66,7%*		-100,0%		
Internally generated funds	226 026	220 465	*-2,5%*	252 687	*14,6%*	216 846	-14,2%	150 171	87 490
Total Capital Funding	**728 779**	**950 898**	***30,5%***	**1 159 923**	***22,0%***	**286 227**	**-75,3%**	**211 585**	**152 501**

Observations re Capital expenditure and Funding

- It is noted that the municipality's finances will come under pressure in 2026/27 given the significant reduction in funding from own revenue, resulting in lower capital expenditure.
- The capital transfers represent 24.2% of the capital funding and is mainly from the Municipal Infrastructure Grant and Integrated National Electrification Programme.
- This budget sees a notable decrease in investment capital over the MTREF which is directly linked to the reduced municipal own funds contribution.
- The municipality indicates in the budget document that it has noted the impact of funding the capital budget from own revenue on its financial sustainability and has adopted the funding and reserves policy which stipulates the minimum funding requirements which the municipality will strive to achieve in the medium to long term. This is not visible in the budget.
- However, it appears that this strategy does not address the funding of the capital investment since the capital budget is reducing and there are no plans to use other financing measures in the 2024/25 MTREF.
- The debt to total operating revenue is 6.2% in 2024/25 against the norm of 45%. This indicates that the municipality still has capacity to take increased funding from borrowings.
- The municipality can no longer rely on national grants and own funds for capital investment. Other financing measures must be considered.
- During the IDP participation process, the municipality was urged to create incentives for economic growth and development projects within the municipality; it is not clear whether these considerations have been catered for and what the incentives are to encourage private sector investments.

Recommendations re Capital expenditure and Funding

- KDM must ensure that it generates operating surpluses and collect revenue to maintain the 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 recommended that the municipality takes advantage of its positive financial position and explore alternative funding mechanisms for strategic infrastructure development. This could be by taking advantage of the municipality's borrowing capacity and considering issuing bonds or loans to fund large-scale capital projects over an extended period, while ensuring debt service obligations are manageable within budget constraints.
- KDM must continue to explore opportunities to secure grants, subsidies, or assistance from higher levels of government, as well as the private sector.
- The incentive policy to attract and retain private investment as anticipated during the IDP process needs to be implemented.

3.4.2. Asset management: Renewal & Maintenance

Table 6 below depicts the municipality's budget allocation in relation to the asset management performance indicators and norm as per MFMA Circular No. 71.

Table 6: Asset management performance indicators

Applicable Performance Indicators	Norm	2022/23 Audited	2023/24 Adjusted Budget	2024/25 Proposed Budget
Capital Expenditure to Total Expenditure	**10% - 20%**	25.1%	30.7%	9.5%
Renewal and upgrading of Existing Assets as % of total Capex	**40%**	67.9%	62.6%	28%
Renewal and upgrading of Existing Assets as % of Depreciation	**100%**	529.5%	384.5%	38.4%
Repairs and Maintenance as a % of Property, Plants and Equipment and Investment Property	**8%**	2.3%	2.4%	3%

Observations re Asset management: Renewal & Maintenance

- The ratio of capital expenditure to total expenditure is used to assess the level of Capital Expenditure to Total Expenditure. This indicates the prioritisation of expenditure towards current operations versus future capacity in terms of municipal services.
- The municipality's ratio was above the norm of between 10% and 20% in 2022/23 and 2023/24. A ratio of more than 20% reflects higher spending on infrastructure and acceleration in service delivery but could also hold financial sustainability risks if the infrastructure does not include both economic (revenue generating) and social type infrastructure.
- The municipality's capital budget decreased significantly in 2024/25 and the ratio is slightly below the norm at 9.5%. A ratio less than 10% reflects lower spending by the municipality in infrastructure and holds potential risks to service delivery.
- It is noted that the reduction in national government grants and the municipality's own funds is impacting on its ability to invest in infrastructure and may pose risks to service delivery.
- Table A9 included in the budget document indicates that the municipality allocated 28% of the capital budget towards renewal of existing infrastructure compared to the norm of 40% in terms of National Treasury's MFMA Circular No.71.
- However, the narrative in the budget document refers to an allocation of 45% and that the municipality will be focussing on municipal infrastructure assets that were affected by the recent weather patterns.
- The allocation for repairs and maintenance is 3% which is below the norm of 8% of Property, Plant and Equipment.
- The trend indicates the municipality has not been providing adequately for repairs and maintenance given the 2022/23 audited result of 2.3% and 2.4% for the 2023/24 adjusted budget.
- Renewal of existing assets as a percentage of depreciation is 38.4% 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.

Observations re Asset management: Renewal & Maintenance

- The municipality is not providing adequately for renewal and maintenance of existing infrastructure. The municipality can no longer rely on national grants and own funds for capital investment and other financing measures must be considered i.e. borrowing.
- During the IDP process, the municipality was to create incentives for economic growth and development projects within the municipality. It is not clear whether these considerations have been catered for and what the incentives are that will encourage private sector investments.

Recommendations re Asset management: Renewal & Maintenance

- An asset management strategy must be developed to avoid the collapse of infrastructure which will negatively impact on service delivery and economic development.
- This budget should not be approved without giving some serious consideration to the asset maintenance and renewal budgets. The accumulated effect of neglecting it over the years will be detrimental and requires immediate attention.

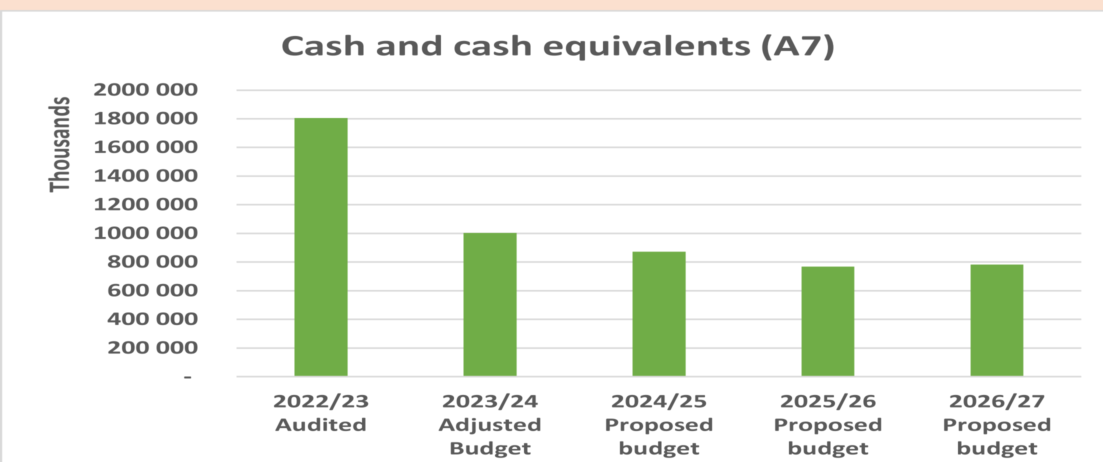
3.5 Financial sustainability

Key Considerations	Maintaining long-term fiscal health and effectively deliver essential services to their residents.
	Financial planning to anticipate future revenue and expenditure trends, address infrastructure needs, and establish reserve funds for contingencies and capital investments.

Observations re Financial Sustainability

- The municipality's cash position is deteriorating over the 2024/25 MTREF.
- Cash and cash equivalents is projected to decrease from R1 billion in the 2023/24 adjusted budget, to R871.6 million in 2024/25 regardless of the projected high collection rate of 96%.
- There will be a net decrease in cash in 2024/25 and 2025/26 financial years due to lesser cash inflows from operating activities due to increasing payments for suppliers, including contractors, and employees.
- The cash improvement in 2026/27 is due to the forecasted lower capital expenditure.
- Figure 3 below reflects the trend in cash and cash equivalents.

Figure 3: Cash and cash equivalents



Financial ratios are positive, indicating financial sustainability. It should be noted that the ratios are dependent on the municipality collecting 96% of billed revenue and implementing cost containment.

The operating budget is under pressure due to the low revenue growth.

Table 7 below highlights the key financial ratios that are considered to determine Financial Sustainability.

Table 7: Key financial ratios

Applicable Performance Indicators	Norm	2022/23 Audited	2023/24 Adjusted Budget	2024/25 Proposed Budget
Cost coverage ratio	**1 – 3 months**	5 months	5.2 months	4.3 months
Current ratio	**1.5 - 2.1**	1.5	1.6	1.6
Liquidity ratio	**Above 1**	1.2	1.1	1.4
Collection rate	**95%**	97%	103.1%	96%
Debt to Total Operating Revenue	**45%**	15%	7.5%	6.2%

Cost coverage ratio

- Projected to be 4.3 months in 2024/25, reducing to 3.7 months in 2025/26 and 3.5 months 2026/27.
- This is within the norm of 1 - 3 months cash that should be available to cover monthly fixed operating expenditure. However, it is declining in line with the reducing cash and cash equivalents.

Debt to total operating revenue

- Debt to total operating revenue is 6.2% in 2024/25, against the norm of 45%.
- This indicates that the municipality still has capacity to take increased funding from borrowings, however, this should be considered within the cash flow requirements.

Recommendations re Financial Sustainability

- The municipality must maintain the high collection rate by implementing the planned revenue enhancement measures and the debt collection and credit control policies.
- Cost containment measures must be implemented to reduce operating expenditure over the MTREF.
- It is noted that the municipality can no longer rely on national grants and own funds for capital investment. Therefore, other financing measures must be considered i.e. borrowing.

4. Conclusion

The Chamber would like to extend its appreciation to the Mayor, the Municipal Manager, the Chief Financial Officer (acting), and all Executive Directors, managers and staff who contributed towards this draft budget.

The Chamber trusts that the public participation process and this submission will provide business owners with the opportunity to influence decisions that directly affect their interests and livelihoods.

The iLembe Chamber believes that our input will promote good governance, enhance collaboration between the municipality and the business community, and ultimately advance the economic prosperity and the quality of life in our region.