

LET'S TALK DRAFT BUDGET 2025/2026



YOUR INPUT IS APPRECIATED

During a Special Council Meeting held on Thursday, March 27, 2025, I tabled the draft 2025/2026 Municipal Budget. By the end of March 2025, this Council will have been in office for three and a half years. At the beginning of this term in 2021, we launched the GROW strategy and its objectives. World politics, strained relations between South Africa and the United States of America, and the ongoing threat of load shedding have posed challenges to the implementation of this strategy and continued a fragile national economic downward trend in our country, from which our municipality and residents cannot escape. Nevertheless, despite the challenging financial climate, our dedicated taxpayers have maintained a 94% payment rate, for which we sincerely thank them. As a municipality, we continually strive for excellence in service delivery to ensure that our residents continue to receive maximum value for their money.

BUDGET AND TARIFF INFORMATION

The budget provides for R1,938,543,204 for the operational expenditure budget, while the capital budget of R425,198,323 is proposed to be financed by R164,102,725 from own funds; R204,350,000 in new loans (that will be paid back over time by the investment), and R56,745,598 in grants and donations. A large portion of the total operational budget (75% of it) consists of bulk purchases of electricity, the cost of purified water, debt losses and depreciation costs, employee-related expenses, and the costs of Council. This leaves the Council with virtually no room to maneuver.

After the implementation of the aforementioned budgets, the budget surplus before the recognition of capital transfers amounts to R2m. This shows the further commitment made by the Budget Management Committee to the planned deficit for the current financial year. The position improves further over the MTREF period and indicates a surplus of R1m in the 2026/27 budget year and R5m in the 2027/28 budget year. Factors beyond the municipality's control include the rising cost of service delivery year on year.



Alderman Dirk Kotzé

This makes it extremely difficult to draft a balanced budget. To name a few:

- The Eskom increase in bulk purchases of 12.7%.
- Increase in diesel expenses to operate a fleet of municipal vehicles and generators during load shedding.
- Rising fuel costs.
- Implementation of a new regional landfill site.
- Increase in interest costs for renewable energy loans that need to be taken.
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The municipality therefore had to cut expenses and will apply the cost containment policy even more strictly than in recent years. The projected budget surplus for the Medium-Term Revenue and Expenditure Framework (MTREF) amounts to R8m, which is a significant improvement from the previous MTREF period where there was a deficit of R6m. The Council has kept its promise made last year with the approval of the budget to reduce this deficit and keep expenses within the available funds. Although the rates charged must be cost-reflective to have a credible budget, the rates must also be affordable.

It is a very difficult task to find the balance between the two, namely cost-reflective tariffs versus affordable tariffs.

After careful consideration of the economic challenges our community is experiencing, we propose the following tariff increases for the 2025/26 budget year to be included as part of the public participation process that will follow:

- The proposed electricity consumption tariff increase in accordance with the NERSA tariff guideline is 10.81%. The council will implement a 10% increase in the electricity basic fee. This is less than what NERSA allows municipalities, but the municipality is trying to mitigate the impact of NERSA's increase.
- The proposed increase in property tax is 13%.
- The proposed tariff increase for waste removal is 7%.
- The proposed tariff increase for sewerage is 9%.
- The proposed tariff increase for water supply is 3%, and for the basic fee, it is 10%.

The proposed tariff increases amount to a total average increase of 10.1% or R323 per household with a property of approximately R1.1 million consuming 500 kWh of electricity and 15 kl of water per month. For a household with a property value of R2.5 million consuming 1,000 kWh of electricity and 30 kl of water per month, the average increase amounts to 10.3% or R540 per month.

Support measures

Please note that the normal credit control measures to place residential households within the safety net for assistance still apply. This safety net offers discounts to qualifying beneficiaries. These measures are not limited to certain people or groups in the community but are available to all residents within the qualifying categories and provide a discount to either pensioners or needy households on their electricity basic fees, property rates, and sewerage costs.

Pensioners qualify for the specified discount, provided they meet the following conditions: Occupy the property as their primary residence, be at least 60 years old, or be medically declared unfit, even if they are not yet 60 years old, and receive a gross monthly household income that does not exceed the amount determined by the Council during the municipality's budgeting process. The discount will be determined as follows: 30% discount if the total gross monthly household income does not exceed R26,620 per month (R319,440 per year), or 50% discount if the total gross monthly income does not exceed R19,910 per month (R238,920 per year).

Subsidized benefits

Needy households will receive subsidies on basic service fees such as water, electricity, waste removal, sanitation, and property tax. The three levels of subsidies for needy households are specifically developed to provide economic relief to those who really need it. This relief also includes households with a person(s) with disabilities, provided they meet the necessary criteria.

Subsidies for households in need:
(based on a property valuation of R125,000)

Category	2024/25 Subsidy (incl. VAT)	2024/25 Subsidy (incl. VAT)
Indigent Level 1 Household	R1 002.56	R1 047.34
Indigent Level 2 Household	R572.38	R607.25
Households housing a person with a disability	R1 002.56	R1 047.34
Indigent Level 3 Household	R1 002.56	R1 047.34

IDP
2025/26 IDP & budget review
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Mossel Bay
MUNICIPALITY

Impact of load-shedding

As a municipality, we continue to implement energy efficiency projects to mitigate the effects of ongoing load shedding. This includes initiatives for energy-efficient pump equipment and street lighting, and a demand management system to control geysers. The municipality has installed a 30kVA PV solar power generation system at the municipal Infrastructure Services offices, a 20kVA PV solar power generation system at the library in the Thusong Centre, approximately 1900 solar water heaters in housing projects, solar street lighting in parts of informal settlements, and battery backup power at various traffic intersections.

We are engaged in an energy efficiency project to replace approximately 5000 street light bulbs of 57 watts with new 37-watt LED lights over a period of three years at a cost of R13 million. The Emergency Municipal Load-shedding Relief Subsidy of R5 million from the Western Cape Provincial Government has made the acquisition of three emergency standby diesel generators for critical water pump stations possible. This project was completed in June 2024. Construction of a 2-megavolt ampere hybrid photovoltaic solar power system with battery storage is underway at Hartenbos.

Completion of the wastewater treatment plant is expected by December 2025 at a tender price of approximately R112 million. A tender for Phase 2 of this project, a 2-megavolt ampere hybrid photovoltaic solar power system with battery storage at the Great Brak River wastewater treatment plant, was recently awarded at a tender price of approximately R143 million. This photovoltaic installation will also serve and protect the Klein Brak River and Sandhoogte water purification plants against load-shedding up to Stage 6.

We are proactively planning for a future that will provide sustainable energy, including a 5 to 30 megavolt ampere independent power plant, not limited to solar power. Requests for proposals have been advertised, and 18 proposals have been received. The technical evaluation process has been completed, and two bidders have advanced to the next phase of the process, which involves financial offers.

The 66 kilovolt overhead line near Mossdustrya has been upgraded from 30 megavolt ampere to 47 megavolt ampere to unlock potential for renewable energy projects. This project was completed in June 2024 at a total cost of R17 million. An area at Mossdustrya has been identified for a solar farm, and environmental impact assessment approval is expected by the end of 2025. A Memorandum of Understanding between Mossel Bay Municipality and PetroSA has been signed to explore renewable energy projects.

INVESTMENTS & GROWTH

We as a municipality are particularly proud of the success of consecutive IRONMAN 70.3 competitions in Mossel Bay, in which we have invested R2 million annually. As a return on investment, independent research indicates that the last event injected R50 million into the local economy. For the second consecutive year, Mossel Bay has again been rated as the best destination of choice by the more than 2500 athletes and their supporters. Mossel Bay attracted more than 100 major sports and other events to the town in 2024, all of which contributed to the local economy.

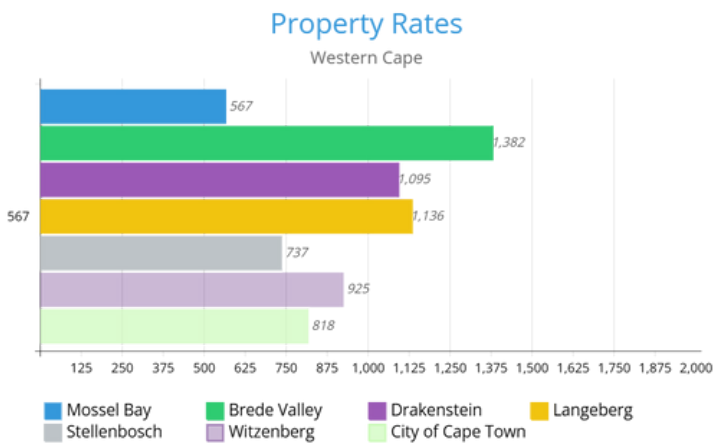
Lightstone Properties has named Mossel Bay as South Africa's leading tourism destination for the 2024/2025 festive season. This proves that Mossel Bay Municipality succeeds in setting a high standard for dedicated and inclusive service delivery. Mossel Bay has so much to be proud of. Additionally, Groot-Brakrivier, which is part of Mossel Bay Municipality, was placed second in the same survey.



Property tax

Property tax levied by the municipality is used to finance these services and functions, as well as other municipal operating costs related to the Finance and Corporate Services departments.

Mossel Bay traditionally has one of the lowest, if not the lowest, property tax profiles in the country. When Mossel Bay is compared to similar municipalities elsewhere, Mossel Bay obtains only 12.88% of the total budget revenue from property tax, while some comparable municipalities obtain up to mid-20 percent of revenue from property tax. The comparison below is an indication of the extent to which municipalities in the Garden Route fund their budgets from property tax.



ASSUMPTIONS

The following assumptions were made during the compilation of this budget:

- Current consumption trends are used to estimate the 2024/2025 adjustment budget projections and the 2025/2026 budget and MTREF (based on actual data up to February 2025).
- A general guideline cost increase of 4.9% from the adjustment budget to the 2025/2026 budget.
- Savings on employee-related costs of 5% for the budget year.

PERSONNEL

Personnel costs at Mossel Bay Municipality stand at 25% and are therefore still significantly less than the nationally accepted limit of 35%.

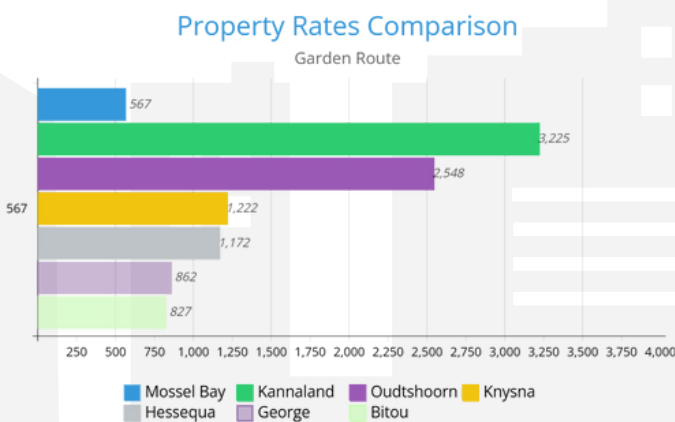
Municipalities are obliged to implement the national salary and wage collective agreement, signed by the parties of the South African Local Government Bargaining Council (SALGBC) on Friday, September 6, 2024, from July 1, 2024. For the 2025/26 fiscal year, all employees affected by this agreement will receive an increase based on the average CPI percentage (for the period February 1, 2024, to January 31, 2025) plus 0.75 percent from July 1, 2025. The publications of Statistics South Africa will be used to determine the average CPI.

PERFORMANCE VS. BUDGET

Over-recovery and/or under-spending of the originally approved budget create surplus cash. Since tariffs cannot be adjusted during the adjustment budget, the focus of the Budget Management Committee is on realistic income calculations. During this process, the expenditure budget is reduced to align with the cash estimated to be generated.

COST-REFLECTIVE

The municipal budget is compiled within the prescriptive guidelines set by the National Government. According to these prescriptions, municipalities must compile a budget that is realistic, affordable, and with "cost-reflective" municipal tariffs. The term 'cost-reflective' refers to the cost incurred by the municipality to provide a specific service.



A cost-reflective budget is essential to determine revenue and appropriate tariffs and must be applied to all services provided by the Municipality. The Constitution obliges the municipality to deliver specific services, which include basic services, the promotion of social and economic development, as well as the safety of its residents.

The delivery of these services incurs costs for the municipality, and these costs must be funded either by own funding (municipality-generated revenue and loans) or grant funding from the Provincial or National Government. The reality is that grant funding is drastically decreasing.

To provide a service such as waste removal, the revenue for this service must cover the operating costs, such as salaries, fuel, repairs and maintenance of equipment, office equipment, etc., as well as capital costs such as the replacement of municipal assets that have reached the end of their lifecycle.

The municipality may add a percentage or two as profit to make provision for future municipal capital replacement projects. The number of households registered for this service will determine the tariff that residents must pay to cover the aforementioned costs. This calculation is applied to all trading services, which include electricity, water, waste removal, and sewerage services.

Traditionally, service tariffs have been largely subsidized by the profits made from the sale of electricity.

In the future, the ongoing and increasing levels of load shedding will likely reduce this cross-subsidy to zero percent, and it is predicted that this will affect municipal fees in the coming years.

The municipality also performs functions such as maintenance of streets and stormwater, cleaning of public open spaces, provision of library services, assistance with the implementation of the National Housing Program, Fire, Rescue, and Disaster Management services, and ensuring the safety of residents.

These functions must be funded either by revenue generated by the municipality, loans, and/or grant funding. The municipality receives grant funding for some of these services, but the grants do not cover all the operational and capital costs to deliver these services efficiently.

FINANCIAL STABILITY

Ratings Afrika designated Mossel Bay Municipality, along with Midvaal Municipality in Gauteng, as South Africa's most financially sustainable municipalities in April 2024. The municipality's financial sustainability remains a key priority, but affordable service charges for our residents are of paramount importance.

Liquidity

Only four factors affect liquidity calculations negatively or positively, and they are as follows:

1. Tariff determination: Inaccurate tariff determination can place a burden on available cash. However, this has not been the case, as a process of careful and targeted budgeting has been followed, considering affordability for consumers. It is noted, however, that the affordability of municipal services is increasingly becoming a greater burden for taxpayers and residents, as it is clear that more people are taking longer to pay their service bills or are simply unable to pay their bills. This issue was carefully considered during the compilation of the 2025/2026 budget.

2. Funding of the budget. The deficit before capital grant funding is recognized is the most significant contributing element. This is taken very seriously, and the matter has received the most dedicated attention from the Budget Management Committee. Consequently, the draft budget shows a surplus before capital grant funding is recognized for the 2025/2026 MTREF period.

3. Operating costs in line with operational income

We anticipated the negative impact that Eskom's load shedding would have on the municipality's capital budget. This is why the municipality previously tried to keep electricity available for as many neighborhoods as possible. Despite strong resistance from some residents affected by load shedding, the municipality had to continue providing power from certain substations to mitigate the impact of power outages on the local economy. In the past year, purchases from Eskom increased by R65.8 million, but our electricity sales only increased by R32.3 million.

This resulted in a deficit of R33.5 million. The lack of revenue from electricity sales is a trend experienced by all municipalities in South Africa. A traditionally prominent revenue stream for local governments has significantly decreased due to load shedding.

4. Energy losses

The municipality's energy losses have increased by 3% year on year. The year-to-date (July 2024 to January 2025) electricity losses are estimated at 17.5%, which is 3.5% more than the corresponding period of the previous financial year.

There is thus a focus on managing tampering with electricity meters to address the consequences for residents who cannot afford services. The municipality's Community Safety and Infrastructure Services directorates' preventive measures to combat electricity theft are ongoing and being intensified. Initiatives such as meter audits and meter inspections are launched to combat tampering with electricity meters in all our wards in the greater Mossel Bay area.

It is a misconception that electricity theft is limited to certain wards.

Despite the costs involved, the municipality has invested in solar alternatives to limit the impact of energy losses on critical infrastructure and ensure sustainable service delivery of essential infrastructure when Eskom implements power outages. This investment will yield a good return on investment for taxpayers over time when sustainable service delivery can be guaranteed.

Limiting peak consumption

While the municipality pays more for electricity during peak consumption hours, residential energy consumers pay a fixed tariff regardless of when the electricity is used. This naturally affects municipal finances negatively.

The municipality appeals to energy consumers to limit peak-time energy consumption. If not, the municipality will have no choice but to reevaluate the current fixed tariff structure.

CLOSING REMARKS

I thank our residents for their continued support. The sustainable development of Mossel Bay rests on this collective team effort. We look forward to continuing our successful partnership with you. We remind our consumers that assistance is available to deserving cases and ask taxpayers to contact the municipality immediately to make arrangements to settle outstanding accounts.

I also want to express special thanks to our council members and municipal staff for their exceptional hard work in compiling this budget given the difficult financial circumstances. The political and administrative leadership of Mossel Bay Municipality is committed to working together to implement this budget and continue to strive for excellent service delivery.

Alderman Dirk Kotzé



Executive Mayor Mossel Bay Municipality