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City of Ekurhuleni Metropolitan Municipality Council

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CITY OF EKURHULENI METROPOLITAN MUNICIPALITY (THE CITY): DRAFT 2024/25 REVIEWED INTEGRATED DEVELOPMENT PLAN AND THE 2024/25 – 2026/27 MULTIYEAR BUDGET

Background

1. The South African Institute of Chartered Accountants (SAICA) notes the invite by the City for public comments on its budget as part of the City's public participation process and welcomes the opportunity to submit comments on the City's draft 2024/25 reviewed Integrated Development Plan and the 2024/25 – 2026/27 Multiyear budget.

2. SAICA is South Africa's pre-eminent accountancy body and is widely recognised as one of the world's leading accounting institutes. The Institute provides a wide range of support services to more than 52 000 members who are chartered accountants [CAs(SA)] and associates [AGAs(SA) and [ATs(SA)] who hold positions as chief executive officers, managing directors, board members, entrepreneurs, chief financial officers, auditors, and leaders in their spheres of business operation.

3. Our work in the public sector goes beyond member support but also includes a significant focus on advocacy and capacity building to support and encourage an improvement in public finance management.

Consolidated 2022/25 Draft MTREF Budget and Tariff Increases

Figure 1: Extract of the City's budgeted revenue and expenditure

Description	Budget Year 2023/24			2024/25 Medium Term Revenue Expenditure Framework		
	Revised Budget - 2023/24	YTD Actual - 2023/24	% Actuals	Draft Budget - 2024/25	Draft Budget - 2025/26	Draft Budget - 2026/27
	R	R		R	R	R
Total Revenue (excluding capital transfers and contributions)	55,539,197,553	35,152,964,108	63%	60,650,394,539	65,232,674,719	70,714,368,488
Total Expenditure	55,067,894,144	30,736,890,062	56%	60,048,459,832	64,603,388,013	70,056,863,494
Surplus/(Deficit)	**471,303,409**	**4,416,074,045**		**601,934,707**	**629,286,706**	**657,504,994**

Figure 2: Extract of the City's budgeted tariffs

Service category	2022/23 Approved tariff increase	2023/24 Proposed tariff increase	2024/25 Proposed tariff increase	2025/26 Proposed tariff increase
	%	%	%	%
Property rates	4.4	4.9	4.9	4.9
Sanitation	5.3	7.0	7.0	7.0
Refuse removal	5.3	6.0	6.0	6.0
Water	12.0	9.0	9.0	9.0
Electricity	Ranges between 15% and 18.65%	Ranges between 11% and 12.74%	Ranges between 11% and 12.74%	Ranges between 11% and 12.74%

4. South Africa has over the recent years faced slow economic growth with the effect of a persistently high unemployment rate. Statistics South Africa (Stats SA) has indicated that the annual economic growth rate for 2023 was 0,6%. The latest South African Reserve Bank (SARB) forecasts indicate an economic growth rate of 1,2% for 2024 which will improve to 1,6% in 2026. The current and expected economic growth rate is not nearly enough to address the country's high unemployment rate of 32,1% as reported by Stats SA.

5. Since the end of the COVID 19 pandemic, the country has consistently faced high inflation which currently sits at 5,3% as at March 2024 as released by Stats SA. This high inflation has also led to an increase in the country's repo rate which currently sits at 8.25% as determined by the SARB. Furthermore, the high inflation has exerted enormous pressure on household income leading to households being unable to meet basic needs such as food.

6. SAICA notes that the City has budgeted for a surplus over the Medium-Term Revenue and Expenditure Framework (MTREF) 2024/25 to 2026/27 which is consistent with the actual surplus trends the City has been reporting since the year 2020/21 as depicted in Figure 1. SAICA has however noted that the City has proposed tariff increases over the MTREF which are above inflation for certain services (that is, sanitation, refuse removal, water and electricity) as depicted in Figure 2. SAICA cautions the City against above-inflation tariff increases considering the current economic climate of the country, high unemployment rate and the financial pressure faced by households. These increases may have a negative effect on the City's targeted 90% debt collection leading to further strain on the City's finances.

7. SAICA therefore recommends that the City reconsider the proposed tariff increase in line with the current inflation taking into consideration the current economic situation of the businesses and residents within the City's jurisdiction.

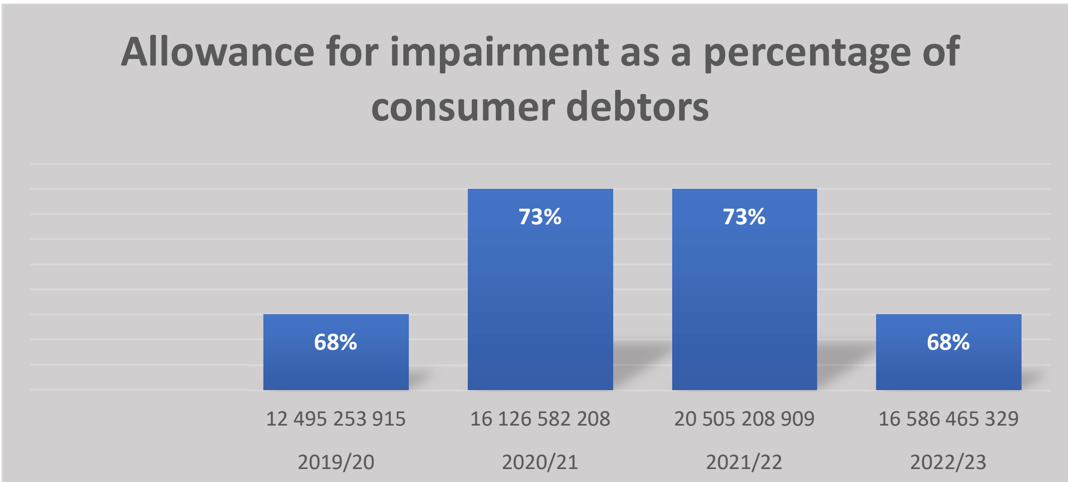
Debt Collection

Figure 3: Allowance for impairment of consumer debtors as per the City's audit reports from the Auditor-General

Financial year	Allowance for Impairment (R)	Allowance for impairment as a percentage of consumer debtors
2019/20	12 495 253 915	68%
2020/21	16 126 582 208	73%
2021/22	20 505 208 909	73%

Financial year	Allowance for Impairment (R)	Allowance for impairment as a percentage of consumer debtors
2022/23	16 586 465 329	68%

Figure 4: Depiction of the allowance for impairment as per the City's audit reports from the Auditor-General



8. The accounting standards requires municipalities to assess whether there is objective evidence that debtors have been impaired and where they have been impaired, the value of the debtors is reduced by the amount of the impairment at the end of each financial year. The impairment amount is referred to as the allowance for impairment. In simple terms, the allowance for impairment reflects the estimated amount of debtors that are expected to be uncollectible as at the end of the financial year. It is therefore a good indicator of the expected collectability of the municipality's debtors as at the end of the financial year i.e. the actual cash that the municipality will receive.

9. As reflected in Figure 3 and Figure 4 above, the amount of the allowance for debtors impairment has been ranging between 68% and 73% from 2019/20 to 2022/23 financial years. This indicates that at each of these financial years, the City has been expecting between 68% and 73% of its consumer debtors to be uncollectible. SAICA has however noted that the budget assumes a collection rate of 90% of the City's debtors which may not be achievable based on the allowance for debtors impairment trends since the 2019/20 financial year. The City should therefore reassess the expected collection rate to ensure that the budget is reasonable.

10. SAICA recommends that unless there is evidence that the economy within the jurisdiction is expected to increase drastically and allow for improved collection, the expected collection rate is revisited in line with the allowance for impairment historical trends to avoid the risk of the City having an unfunded budget based on poor recovery of debts.

Electricity and Water Losses

Figure 5: Electricity Losses as per the audited financial statements and the audit reports from the Auditor-General

Financial year	Technical losses (R)	Non-Technical losses	Total losses (R)	Percentage of total electricity
2019/20	579 728 806	1 302 057 571	1 881 789 377	14%
2020/21	524 032 620	1 429 287 789	1 953 320 409	16%
2021/22	622 851 521	1 777 645 758	2 400 497 279	17%
2022/23	638 775 862	1 694 840 303	2 333 616 165	16%

Figure 6: Electricity Losses as per the audited financial statements and the audit reports from the Auditor-General

11. SAICA has noted that the MTREF aims to reduce electricity losses to ensure its financial sustainability. As depicted in Figure 5 and Figure 6 above, the City's electricity losses have been increasing since the 2019/20 financial year. These losses represent lost revenue (at 16% in the 2022/23 financial year) for the City which could be used to fund capital expenditure to ensure effective service delivery to the citizens.

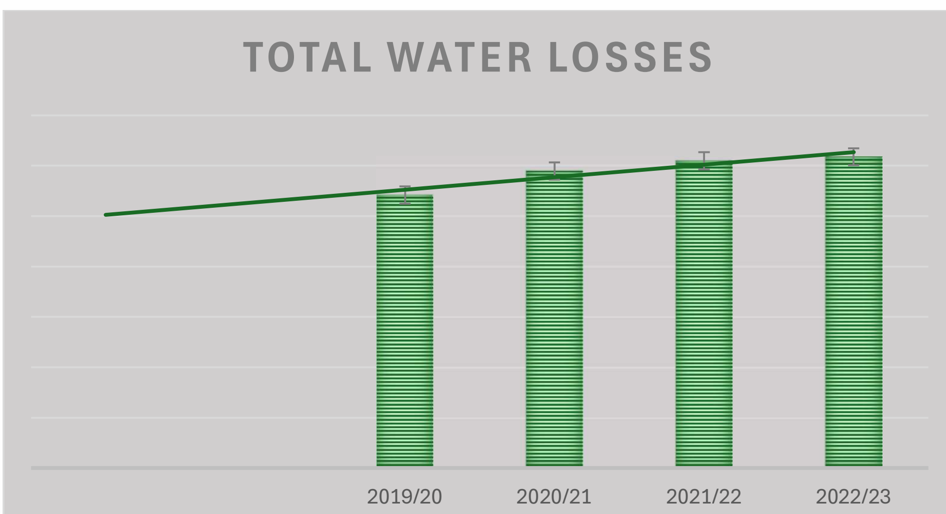
12. In an effort to reduce the electricity losses as planned, the City is required to budget adequately for the maintenance of the infrastructure to support the reduction of the electricity losses in the future years. While noting that the City has ringfenced R495 million of the maintenance budget to fund critical electricity maintenance and refurbishment, SAICA recommends that the City reconsiders the adequacy of this budget in line with the National Treasury norm of 8% required maintenance budget which may assist to reduce electricity losses.

13. It is also therefore important that there is implementation of proper infrastructure maintenance and the provision of appropriate security towards the City's infrastructure to prevent infrastructure decay, loss and vandalism which often lead to the incurrence of non-technical losses.

Figure 7: Water Losses as per the audited financial statements and/or the audit reports from the Auditor-General

Financial year	Technical losses (R)	Non-Technical losses (R)	Total losses (R)	Percentage of total water
2019/20	162 186 366	921 566 328	1 083 752 694	30%
2020/21	176 893 291	1 002 395 323	1 179 288 614	33%
2021/22	182 738 128	1 036 681 321	1 219 419 449	32%
2022/23	271 830 762	963 763 605	1 235 594 367	29%

Figure 8: Water losses as per the audited financial statements and/or the audit reports from the Auditor-General



14. SAICA has noted that the MTREF aims to reduce water losses to ensure its financial sustainability. As depicted in Figure 7 and Figure 8 above, the City's water losses have been increasing since the 2019/20 financial year. These losses represent lost revenue (at 29% the 2022/23 financial year) for the City which could be used to fund capital expenditure to ensure effective service delivery to the citizens.

15. In an effort to reduce the water losses as planned by the City, the City is required to budget adequately for the maintenance of the infrastructure to support the reduction of the water losses in the future years. SAICA recommends that the City reconsiders its budget if it has not adequately budgeted for the maintenance of water infrastructure to support its plan to reduce electricity losses to ensure that it is achievable.

16. It is also important that there is implementation of proper infrastructure maintenance and provide appropriate security towards the City's infrastructure to prevent infrastructure decay, loss and vandalism which often lead to the incurrence of non-technical losses.

Capital and Repairs and Maintenance Budget

Figure 9: Graphical depiction of the Capital Budget as per the Budget Book

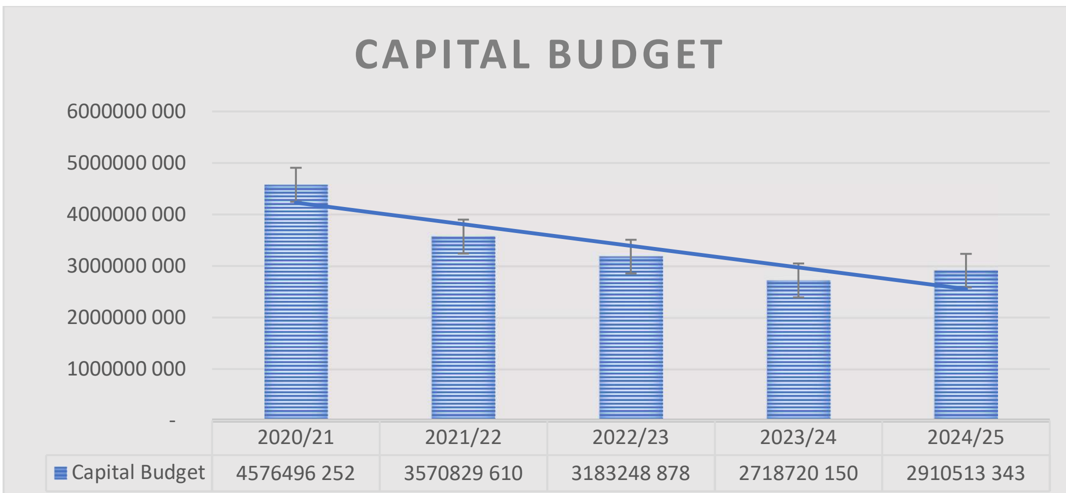
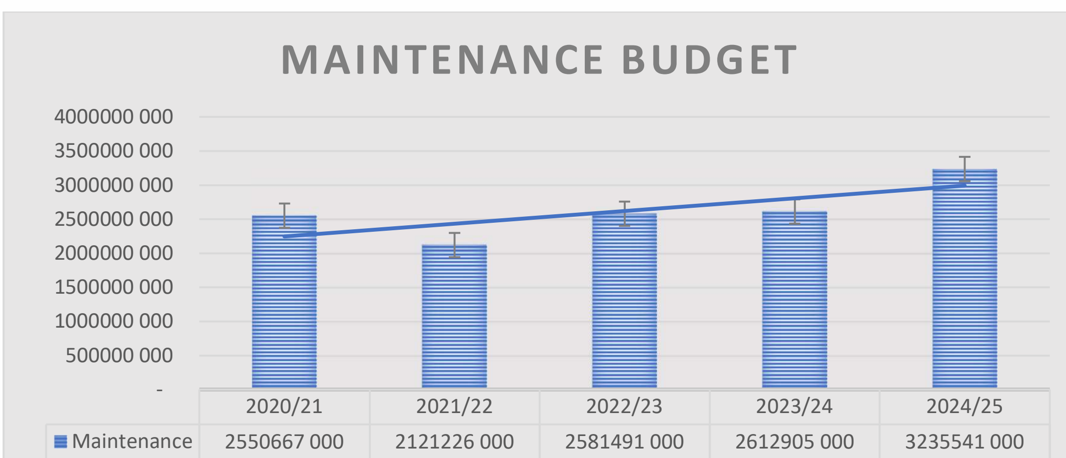


Figure 10: Graphical Depiction of the Maintenance Budget as per the Budget Book



17. SAICA notes that the City has budgeted R2.91 billion for capital expenditure for 2024/25 representing a 7% increase from the previous year. As depicted in Figure 9, the capital expenditure budget has shown a decrease (36%) between the 2020/21 and 2024/25 financial year which raises the concern that there may have not been sufficient investment in infrastructure in the City which may negatively impact service delivery.

18. SAICA recommends that the trend of increasing the capital expenditure budgeted noted in 2024/25 be maintained into the future to ensure that there is adequate infrastructure investment in the City to ensure effective service delivery to the citizens.

19. Figure 10 indicates that the repairs and maintenance budget has been increasing since the 2020/21 financial year. However, SAICA has noted that the budgeted repairs and maintenance has been consistently below the National Treasury norm of 8% of the value of property, plant and equipment.

20. Repairs and maintenance budgets below the norm may lead to the City having inadequate budget to prevent breakdowns and interruptions to the provision of services to the citizens. The City should therefore strive to maintain the required repairs and maintenance budget norm to ensure that the City's infrastructure is adequately maintained.

21. Inadequate repairs and maintenance budget may also lead to the City not achieving its plan on reducing electricity and water losses and may in effect have the opposite effect by increasing it. It is therefore recommended that the repairs and maintenance budget be revisited to align with the National Treasury's norms of 8% of the value of property, plant and equipment to avoid the risk of further infrastructure failure within the City.

22. National Treasury issued Government Gazette 50318 on 20 March 2024 to give effect to the stopping and re-allocation of conditional grants to municipalities in terms of sections 18 and 19 of the Division of Revenue Act (DoRA), as amended. The stopping and re-allocation of conditional grants is done against municipalities that reported significant underperformance as at midyear (that is 31 December 2023), and non-compliance against conditional grants frameworks and the provisions of the DoRA against their 2023/24 allocations. The purpose of sections 18 and 19 of the 2023 DoRA is to avoid transferring more funds to municipalities that are sitting with unspent transferred funds, avoid fiscal dumping, addresses possible misuse of conditional grant funds, and to support fast moving projects in-year with additional funding to accelerate the implementation of those projects and service delivery in those municipalities.

23. SAICA has noted that the following conditional grants were negatively impacted by the stopping and reallocation exercise:
    a. Urban Settlements Development Grant was decreased by R112 957 000
    b. Neighbourhood Development Partnership Grant was decreased by R20 370 000
    c. Public Transport Network Grant was decreased by R90 000 000

24. SAICA has noted that the above-mentioned grants are an integral part of the City's source of funding for its capital expenditure budget, accounting for 60% of the planned funding for 2024/25. Caution should therefore be exercised by the City to ensure prudent, effective and efficient spending of these grants in future to avoid their stopping and reallocation by National Treasury which may lead to the City not achieving its planned capital expenditure which will negatively impact service delivery.

Conclusion

25. SAICA appreciates the opportunity to make this submission. We would also appreciate the opportunity to engage further and would be willing to discuss the comments if required. Please do not hesitate to contact Odwa Benxa (odwab@saica.co.za) in this regard.

Kind regards,

Electronically signed

N. Soopal

Natashia Soopal

Executive: Ethics Standards and Public Sector