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To:

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WALTER SISULU LOCAL MUNICIPALITY ADOPTION 2024/2025 MTREF BUDGET

With reference to the above and the adoption of the 2024/2025 MTREF Budget of Walter Sisulu Local Municipality during a council meeting on Tuesday 4 June 2024, I wish to raise concern that it falls outside of the regulations as contained in MFMA Circular 123 and MFMA Circular 126.

As per the circular, weaker projections of GDP growth, reflects lower household consumption expenditure due to higher inflation and interest rates, and in the context of weaker global growth, government focus is towards working for sustained growth and resilience to shocks.

Household disposable income continues to fall, and pressure is placed on the ability to pay municipal accounts. Coupled with the economic effect of Eskom power cuts to the sustainability of small and large businesses, the affordability of municipal accounts becomes a reality.

Walter Sisulu Local Municipality faces these exact risk factors in light of the recent decision to adopt the 2024/2025 MTREF Budget, notwithstanding my caution against the tariffs.

This is to highlight a few factors that have negatively affected public opinion regarding the 2023/2024 MTREF Budget of Walter Sisulu Local Municipality:

- The adoption of the 2023/2024 MTREF Budget of Walter Sisulu Local Municipality saw council remove a 60% rebate, with immediate effect, to the Agriculture section, causing huge increases to the pocket of the rate payers.
- The maximum ratios with regards to Property Rates, as contained in the Local Government Municipal Property Rates Act, No. 6 of 2004, were adopted in the Rates Policy of council and implemented on the community with immediate effect.
- A basic electricity charge for the area of the former Gariep Local Municipality were implemented in January 2024, increasing the cost to the pocket of the rate payer with an immediate R260 excluding VAT.

These changes to the Rates Policy necessitated a rebate to be approved by the council of Walter Sisulu Local Municipality to absorb the shock of an above inflationary and unaffordable increase to the rate payers pocket in the 2023/2024 financial year.

In addition to the above shocks that took effect in the 2023/2024 MTREF Budget, the Walter Sisulu Local Municipality embarked on a new valuation process, which saw properties increase in value from 20% and in some instances with 300%. The new valuation roll will take effect in 1 July 2024.

Due to an error made by the previous valuer in 2019, the new valuation roll saw a decline in the total value of properties in the Walter Sisulu Local Municipality area. Public Service Infrastructure were overstated with a value of R3,9 Billion, a mistake pointed out by the current valuer and corrected to be indeed R130 million.

This error prompted the Municipal Manager to propose the tariffs for property rates to stay unchanged from the 2023/2024 MTREF Budget tariffs and a rebate of 50% be applied to properties whose value increased with more than 20% in market value.

However, an overview of the new valuation roll will see residential properties increase from R2 Billion to R3 Billion, Agriculture from R4 Billion to R6 Billion and state from R319 Million to R460 Million.

The burden for the error during the 2019 valuation process will now be carried by the categories that increased in market value. A contestation against this proposal lies in the methodology used to bill the public infrastructure based on the figure in the 2019 valuation roll. A billing that would not realise realistic income as the billing would be an overstated revenue based on fictitious values, creating an uncollectable and irrecoverable debt. The argument would be for a decrease in the rates tariff to protect the other categories from an excessive increase.

The current increase of property rates, against the backdrop of the prior year's increases, has seen increases well above inflation and affordability guidelines, placing an undue burden on the consumer.

As per MFMA Circular 126 which states:

"National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality. The Consumer Price Index (CPI) inflation is forecasted to be within the the 4 to 6 per cent target band; therefore, municipalities are required to justify all increases in excess of the projected inflation target for 2024/25."

"3.8 Maximising the revenue generation of the municipal revenue base Revenue on Property rates

This can identify any anomalies and errors of category of property and market values for review and investigation and the option of lodging an objection by the municipality, where applicable. This process should also identify outliers and shifts in market values by category and area so that tariffs on the new roll can be modelled and determined in an equitable manner to avoid rates shocks"

Realising the financial distress condition of Walter Sisulu Local Municipality, the intend is not to hamper or place further pressure in the efforts to turn around the finances of the municipality, but to build a trust relationship with the broader public, encourage investment, prevent business closures and to avoid the situation where the municipal outstanding debt increases due to the unaffordability of the municipal tariffs. All of which would strain the municipality more. Added to the risks already highlighted, the intention of the rate payers through public engagements during this process, should Walter Sisulu Local Municipality not adhere to their concerns regarding the above inflationary increase on property rates, were to declare a dispute with the municipality and withhold their property rates payments. This would render the municipality ineffective and unable to deliver on their core constitutional mandate.

The current tariff structure on property rates as proposed and adopted by council, falls outside of the guidelines of affordability and inflationary increases, and as per MFMA circular 126, the economic crisis in South Africa has already affected the ability of customers to pay for services and made the collection of revenue difficult, as is evident by the fact the Walter Sisulu Local Municipality has been unable to collect the outstanding debt in excess of R180 Million owed by consumers and fell short of the 90% collection rate necessary to operate effectively.

I therefore wish to request the assistance of National and Provincial treasury to intervene on this matter and assess the tariffs as adopted by the council of Walter Sisulu Local Municipality as per the circular extract below and advise accordingly:

"It is therefore noted that variations in regional specifics are possible, however, any variation of assumptions must be explicitly set out and well explained in the budget narratives, in the absence of which the Treasuries will refer the budget back to council for alignment to the macroeconomic performance projections."

The current 2024/2025 MTREF Budget places Walter Sisulu Local Municipality at risk of a rates boycott, increase non-payment of accounts and outstanding debt, therefore also influence the ability of the institution to deliver basic services.

Your assistance would be greatly appreciated.

Yours truly

M Botha

Councillor Magda Botha

Finance Committee Chairperson

Walter Sisulu Local Municipality