



## **Municipal Budget Circular for the 2015/16 MTREF**

This circular provides further guidance to municipalities and municipal entities for the preparation of their 2015/16 Budgets and Medium Term Revenue and Expenditure Framework (MTREF) relating to the likelihood of further increases to the bulk price of electricity.

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## 1. Budgeting for bulk electricity price increases

In terms of section 42(4) of the Municipal Finance Management Act (MFMA), the executive authority for an organ of state responsible for the provision of water, electricity or other bulk services to a municipality is required to table the amendments to its pricing structure in Parliament by 15 March annually for any increases to take effect from 1 July of that year. In the case of bulk electricity provided by Eskom the Minister of Public Enterprises is responsible for tabling these increases. Section 42(5) provides that the Minister of Finance may grant approval that the executive authority tables amendments to the pricing structure in Parliament after 15 March that can still take effect from 1 July of that year.

The Minister of Finance received requests in terms of section 42(5) of the MFMA to extend the deadline to provide adequate time for the National Energy Regulator of South Africa (NERSA) to review Eskom's applications with regard to the selective re-opener for MYPD3 and liquidation of its equity returns. The Minister of Finance approved that this deadline be extended to 15 May 2015 so as to ensure that municipalities are still able to table their budgets in the respective municipal councils by 31 May 2015 as per the requirements of the MFMA.

Should NERSA approve a further increase to Eskom's pricing structure, the implication will be that the municipal electricity guidelines already published by NERSA will have to be adjusted to account for the increase in Eskom's amended pricing structure. It is expected that any further increase to Eskom's bulk price that are approved by NERSA will be added to the 12.20 per cent bulk tariff increase for 2015/16 already approved. Municipalities will be advised of NERSA's determination in this regard as soon as available.

Consideration is also being given as to whether the 2 cent per kilowatt hour increase in the electricity levy that was announced by the Minister of Finance in his 2015 Budget Speech will also be implemented from 1 July 2015. An announcement in this regard will be made shortly and municipalities should be prepared to also take this into account in the costing of their bulk electricity purchases.

If any further increase to the bulk electricity tariff for 2015/16 is approved by NERSA, municipalities should make corresponding adjustments to their municipal electricity tariff structures as part of their budgets for the 2015/16 MTREF. **The budgets tabled in municipal councils by 31 May 2015 (as required by the MFMA) must fully account for the final bulk price increases approved by NERSA and be incorporated into electricity tariff structures.** Provision for free basic electricity to poor households should be protected in the municipal budget as part of electricity tariff structuring.

National Treasury acknowledges the difficulties that these late changes to the bulk price of electricity will create for municipalities as they finalise their budgets. Consideration of such late changes is part of the extraordinary measures government is taking to stabilise the future supply of electricity in South Africa. As such, while these measures may cause difficulties in the short-term they are in all of our long-term interest.

For any further advice or guidance on compiling your budget, please contact the budget analyst in your provincial treasury or National Treasury responsible for assisting your municipality.

## Contact



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

**Post** Private Bag X115, Pretoria 0001  
**Phone** 012 315 5009  
**Fax** 012 395 6553  
**Website** <http://www.treasury.gov.za/default.aspx>

**JH Hattingh**  
**Chief Director: Local Government Budget Analysis**  
17 April 2015