



## Annexure to MFMA Circular No. 48

This Annexure to MFMA Circular No.48 provides updated information to municipalities and municipal entities for the preparation of their 2009/10 budgets and Medium Term Revenue and Expenditure Framework (MTREF).

This Annexure to MFMA Circular No.48 deals with:

1. The bulk price of electricity; and
2. The prescribing of ratios in terms of the Municipal Property Rates Act.

**Municipalities must pay particular attention to each of these issues as they may have far reaching implications for municipalities' budgets.**

Because the issues covered in this Circular may not be addressed in the budgets tabled in municipalities by 31 March 2009, the Municipal Manager's are advised to immediately inform Council of both issues, indicating the impact they are likely to have on the tabled budgets, and also noting that the matters will be incorporated into the budget that is presented to Council for approval before 1 July 2009.

### 1. Eskom bulk tariff increases

In MFMA Circular 48 National Treasury advised that in the absence of NERSA approving a revised electricity pricing structure before 15 March 2009, municipalities should budget for a 25 per cent increase in bulk electricity tariffs when preparing their tabled and adopted budgets.

National Treasury has subsequently received correspondence from the Honourable Acting Minister of Public Enterprises, Mandisi Mpahlwa MP, indicating that municipalities should be advised to budget for a **25 per cent real increase in bulk electricity tariffs.**

This means, in line with the Acting Minister of Public Enterprises' request, municipalities should budget for a **34 per cent nominal increase in the bulk electricity tariffs.**

As noted previously, this recommendation should be seen as a necessary step taken to assist municipalities in preparing their budgets for the 2009/10 financial year and is not intended to in any way pre-empt NERSA's ruling on the 2009/10 tariff increase. Following representations from municipalities, National Treasury has requested that NERSA table a revised electricity pricing structure before 1 June 2009, at the very latest, so as to enable municipalities to incorporate it into their budgets which in terms of the MFMA must be approved by Council before 1 July.

If NERSA does not revise the electricity pricing structure before 1 July 2009, the 34 per cent nominal increase will apply to the bulk electricity tariff for the 2009/10 municipal financial year. Any further changes in the bulk price of electricity to municipalities will have to stand-over and be accommodated in the electricity price structure that NERSA must make before 15 March 2010, and will thus only apply from 1 July 2010.

## 2. The prescribing of ratios in terms of the Municipal Property Rates Act

Following a request from the Honourable Minister for Provincial and Local Government, Sicelo Shiceka MP, the Minister of Finance has granted approval (see Government Gazette No. 32062, General Notice No. GR 364) in terms of section 43(2) of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003), for the following upper limits with respect to the rate ratios between residential and non-residential properties as they relate to agricultural properties and public service infrastructure properties, as prescribed in Government Gazette No. 32061, Government Notice No. GR 363 to become effective for municipalities as from 1 July 2009.

The rate on the categories of non residential property listed in the first column of the table below may not exceed the ratio to the rate on residential properties listed in the second column of the table below, where,

- (a) the first number in the second column of the table represents the ratio to the rate on residential properties;
- (b) the second number in the second column of the table represents the maximum ratio to the rate on residential property that may be imposed on the non-residential properties listed in the first column of the table:

Categories	Ratio in relation to residential property
Residential property	1:1
Agricultural property	1:0.25
Public service infrastructure property	1:0.25

The Government Gazette No. 32061 Government Notice No. GR 363 provides the following definition of 'agricultural property':

**“agricultural property”** means property envisaged in section 8(2)(d)(i),(e) and (f)(i) of the MPRA.

In other words:

- farm properties used for agricultural purposes – section 8(2)(d)(i);
- farm properties not used for any purpose – section 8(2)(e); and
- smallholdings used for agricultural purposes – section 8(2)(f)(i).

Neither the MPRA nor the regulation defines 'public service infrastructure property'. Section 1 of the MPRA does, however, define 'public service infrastructure' as follows:

**“public service infrastructure”** means publically controlled infrastructure of the following kinds:

- (a) national, provincial or other public roads on which goods, services or labour move across a municipal boundary;

- (b) water or sewer pipes, ducts or other conduits, dams, water supply reservoirs, water treatment plants or water pumps forming part of a water or sewer scheme serving the public;
- (c) power stations, power substations or power lines forming part of an electricity scheme serving the public;
- (d) gas or liquid fuel plants or refineries or pipelines for gas or liquid fuels, forming part of a scheme for transporting such fuels;
- (e) railway lines forming part of a national railway system;
- (f) communication towers, masts, exchanges or lines forming part of a communications system serving the public;
- (g) runways or aprons at national or provincial airports;
- (h) breakwaters, sea walls, channels, basins, quay walls, jetties, roads, railway or infrastructure used for the provision of water, lights, power, sewerage or similar services of ports, or navigational aids comprising lighthouses, radio navigational aids, buoys, beacons or any other device or system used to assist the safe and efficient navigation of vessels;
- (i) any other publicly controlled infrastructure as may be prescribed; or
- (j) rights of way, easements or servitudes in connection with infrastructure mentioned in paragraphs (a) to (i).

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**27 March 2009**