



Annexure E

Budget Circulars

2026/2027

Draft

Medium Term

Revenue and Expenditure

Framework (MTREF)



Municipal Budget Circular for the 2026/27 MTREF

CONTENTS:

1. THE SOUTH AFRICAN ECONOMY AND INFLATION TARGETS	2
2. KEY FOCUS AREAS FOR THE 2026/27 BUDGET PROCESS	3
2.1 LOCAL GOVERNMENT CONDITIONAL GRANTS AND UNCONDITIONAL GRANTS ALLOCATIONS	3
2.2 POST 2025 MTBPS CHANGES	4
2.3 REVIEW OF THE LOCAL GOVERNMENT FISCAL FRAMEWORK	5
2.4 UPDATE ON THE REVIEW OF THE CONDITIONAL GRANTS	5
2.5 WATER CRISIS IN SOUTH AFRICA	6
2.6 IMPACT OF INFRASTRUCTURE DEGRADATION ON THE ECONOMY	6
2.7 METRO TRADING SERVICES REFORM (MTSR)	7
2.8 CRITERIA FOR THE RELEASE OF THE EQUITABLE SHARE	9
2.9 CRITERIA FOR THE ROLLOVER OF CONDITIONAL GRANT FUNDS	10
2.10 UNSPENT CONDITIONAL GRANT FUNDS FOR 2025/26	11
2.11 ROLLOVER OF THE URBAN DEVELOPMENT FINANCING GRANT: METRO TRADING SERVICES COMPONENT	12
3. BUDGET AND OTHER MANAGEMENT ISSUES	12
3.1 2026/27 MUNICIPAL BUDGET TABLING TIMELINES	12
3.2 TIMELINE FOR APPROVING THE REVISED SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN (SDBIP) FOLLOWING THE APPROVAL OF THE ADJUSTMENT BUDGET	13
3.3 CAUTION TO MANAGE TRANSITION RISK	13
3.4 WARNING NOT TO ENTER INTO CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS AS PART OF ELECTIONEERING	14
3.5 COST REFLECTIVE TARIFFS	14
3.6 BUDGETING FOR A FUNDED BUDGET	14
4. MUNICIPAL STANDARD CHART OF ACCOUNTS (MSCOA)	14
4.1 ALIGNMENT OF CASH FLOW LINKAGES	14
4.2 GUIDANCE ON SUBMISSION OF MSCOA ROADMAPS	15
4.4 STAGE 3 VALIDATION	16
4.5 RETENTIONS	17
4.6 VIREMENT DATA STRINGS AND REPORT	17
4.7 THE URBAN DEVELOPMENT FINANCING GRANT	18
4.8 REPORTING PERTAINING TO THE METRO TRADING SERVICES REFORM	18
5. SUBMITTING DOCUMENTS TO THE GOMUNI UPLOAD PORTAL	19
5.1 SUBMISSION OF ADDITIONAL INFORMATION	19
ALL ENQUIRIES SHOULD BE DIRECTED TO:	20
6. THE MUNICIPAL BUDGET AND REPORTING REGULATIONS	20
6.1 ASSISTANCE WITH THE COMPILATION OF BUDGETS	20
ANNEXURE A – PREVIOUS MFMA CIRCULARS	23

Introduction

This budget circular provides guidance to municipalities with their compilation of the 2026/27 Medium Term Revenue and Expenditure Framework (MTREF). It is linked to the Municipal Budget and Reporting Regulations (MBRR) and the Municipal Standard Chart of Accounts (mSCOA) and strives to support municipalities' budget preparation processes so that the minimum requirements are achieved.

Among the objectives of this budget circular is to demonstrate how municipalities should undertake annual budget preparation in accordance with the budget and financial management reform agenda by focussing on key "game changers". These game-changers include ensuring that municipal budgets are funded, revenue management is optimised, assets are managed efficiently, supply chain management processes are adhered to, mSCOA is implemented correctly and that audit findings are addressed. Municipalities are reminded to refer to the annual budget circulars of the previous years for guidance in areas of the budget preparation that are not covered in this circular.

1. The South African economy and inflation targets

GDP growth is expected to average 1.8 per cent from 2026 to 2028. Medium-term growth will be underpinned by household consumption supported by further gains in real purchasing power, moderately stronger wage growth, easing inflation, wealth gains from rising asset prices, improved consumer sentiment and better credit conditions. Continued investments in renewable energy and easing structural constraints are expected to support higher investment. Key factors for achieving faster economic growth and creating much-needed jobs include greater collaboration with the private sector in energy and transport, rapid implementation of structural reforms, easing of regulatory constraints and increased infrastructure investment.

The following macro-economic forecasts must be considered when preparing the 2026/27 MTREF municipal budgets.

Table 1: Macroeconomic performance and projections, 2025 - 2029

Fiscal year	2024/25	2025/26	2026/27	2027/28	2028/29
	Actual	Estimate	Forecast		
CPI Inflation	4.4%	3.2%	3.4%	3.3%	3.2%

Source: National Treasury Budget Review 2026.

Note: the fiscal year referred to is the national fiscal year (April to March) which is more closely aligned to the municipal fiscal year (July to June) than the calendar year inflation.

Inflation is expected to increase from 3.2 per cent in 2025 to 3.4 per cent in 2026, driven by higher food prices (particularly meat due to supply disruptions linked to foot-and mouth disease). Inflation is forecast to ease to 3.3 per cent in 2027 and 3.2 per cent in 2028, but risks from geopolitical tensions, exchange rate volatility, administered prices and animal disease outbreaks remain elevated. The reduction of the inflation target to 3 per cent with a 1 percentage point tolerance band will structurally reduce inflation, helping to protect real income levels.

In April 2024, the National Treasury initiated a comprehensive review of the budget process, with the goal of identifying and implementing reforms that would enhance the efficiency, transparency, and effectiveness of public resource allocation. It has resulted in a set of accountable reform proposals outlined below.

Targeted And Responsible Savings (TARS) and Spending Reviews

These MTEF guidelines introduce a new mechanism entitled Targeted and Responsible Savings (TARS), which is intended to identify and remove low-priority or underperforming programmes from the budget to reduce aggregate expenditure and, where appropriate, reallocate funding towards the priorities of governments outlined in the Medium-Term Development Plan (MTDP).

In line with the government's commitment to identify wasteful, inefficient, underperforming, and low priority programmes and ensure a more streamlined and effective allocation of resources. At national level the following initiatives are being utilised for the identification of programmes to be included the TARS process:

- Spending reviews;
- Previous work should be updated where appropriate to inform implementation;
- Outcomes of new sectoral reviews such as the Active Labour Market Policy (ALMP) and the review of infrastructure conditional grants should be implemented;
- New data driven approaches;
- Use of technology to eliminate double dipping in social grants and other programmes (e.g. community works programme);
- Annual audit of ghost workers and payroll irregularities;
- Updated proposals on public entity and departmental rationalisation;
- Resolve inefficiencies in public sector wage bill;
- Implement personnel expenditure review completed by the Department of Public Service and Administration (DPSA);
- Finalise extended review of public entities remuneration; and
- Technical baseline analysis and institutional reviews to ensure that departments and public entities are appropriately aligned to mandates.

All municipalities are encouraged as part of the annual municipal budget preparations process to progressively introduce the same approach which will enable the Council of a municipality to consider more appropriate the trade-offs when policy choices are made in conclude the budget for a specific cycle. Depending on the response observed by the National Treasury, further guidance will be issue in future.

2. Key focus areas for the 2026/27 budget process

2.1 Local government conditional grants and unconditional grants allocations

For the 2026/27 financial year, the overall direct allocations to local government amount to R182.3 billion, made up of R110.1 billion in the local government equitable share; R54.7 billion in direct conditional grants and R17.5 billion in the General fuel levy sharing with metros. These allocations alleviate some of the financial pressures, particularly in basic services, where the costs of providing services are rising. The overall direct allocations to local government grow by an annual average rate of 3.1 per cent and the local government equitable share and related allocations grow by 4.4 per cent over the 2026 MTEF period.

Notable changes to the conditional grants system

Given the ongoing review of the conditional grants system, there are several local government reforms proposed to conditional grants. The reforms are aimed at streamlining funding flows, reducing duplications, and aligning recurrent obligations with the appropriate funding base:

- The merger of the baselines of the integrated national electrification programme grant, and the energy efficiency demand side management grant in 2026/27 to focus on energy

efficiency and renewable energy programmes that can lead to more sustainable energy provision and enable the achievement of long-term energy security goals;

- The Infrastructure Skills Development Grant (ISDG) will remain under the management of the National Treasury for the next three financial years when it will cease to exist as a conditional grant. To assist this transformation, the grant has ceased the intake of new graduates to allow the current graduate cohort to complete their training; and
- To protect infrastructure investment from municipal dysfunction, a general clause has been introduced in the 2026 Division of Revenue Bill. It will enable the National Treasury to redirect infrastructure grants from local municipalities that have proven incapable of implementation to the Development Bank of Southern Africa, the Municipal Infrastructure Support Agent or capable district municipalities.

2.2 Post 2025 MTBPS changes

There are a number of reductions, several further cuts beyond the CPI adjustments and reprioritisations proposed in the 2025 MTBPS and these are effected to make funds available for other government priorities. These include:

Reprioritisations

- A shift of R300 million in 2026/27 from the municipal infrastructure grant to the Department of Cooperative Governance's vote for the once-off gratuity payment to outgoing councillors after the local government elections;
- A shift of R536 million in 2026/27 from the direct component of the municipal infrastructure grant to the indirect component to address infrastructure delivery issues; and
- A shift of R19.2 billion (R5.7 billion in 2026/27, R6.4 billion in 2027/28 and R7.1 billion in 2028/29) from the urban settlements development grant to the metro trading services component of the urban development financing grant to strengthen core utility functions; and an additional incentive allocation of R8.6 billion over the MTEF period towards the metro trading services component of the urban development financing grant, confirmed from the provisional allocations made in 2025.

Reduction

- The public transport network grant will be reduced by R8.3 billion over the MTEF period as part of the Targeted and Responsible Savings (TARS) process. This total reduction includes the R3 billion saving previously identified during the Medium-Term Budget Policy Statement (MTBPS), as well as further reprioritisations of R1.3 billion in 2026/27, R1.5 billion in 2027/28, and R2.5 billion in 2028/29. These additional funds are redirected to PRASA to accelerate the modernisation and replacement of critical rail signalling infrastructure.

Addition

- An addition of R2.1 billion over the MTEF period to the regional bulk infrastructure grant for a regional wastewater treatment works project in Polokwane, funded through the Budget Facility for Infrastructure.

Further reductions

- To make funds available and support the continuation of the implementation of the Presidential Employment Stimulus, reductions have been made on some conditional grants from the 2026 financial year. A reduction of R491 million in 2026/27 from the informal settlements upgrading partnership grant; a reduction of R784 million in 2026/27

from the integrated national electrification programme (Eskom) grant and a reduction of R921 million in 2026/27 from the municipal infrastructure grant.

Discontinuation

- The discontinuation of the indirect neighbourhood development partnership grant, with its baseline of R219 million over the MTEF shifted to the Vote of the National Treasury and earmarked to support government's infrastructure reforms.

Correction

- The correction of the BFI allocations for eThekweni Metropolitan Municipality, allocated through the urban development financing grant. The full allocation of R379 million for the non-revenue water project was erroneously allocated to eThekweni instead of being split between the municipality and the Infrastructure Fund as per the agreed work package. eThekweni's allocation in the urban development financing grant is reduced by R144 million over the MTEF and allocated to the Infrastructure Fund.

2.3 Review of the local government fiscal framework

Government continues to be fully committed to a comprehensive review of the local government fiscal framework, and the Budget Forum has approved a detailed programme of action to guide this work, including detailed terms of reference and the procurement of specialist expertise to undertake the technical analysis. The review will consider the financial viability, effectiveness, stability and long-term sustainability of the local government fiscal framework, through a detailed examination of the policies, practices and mechanisms that govern how resources are allocated, managed and used at municipal level, because this examination is crucial to understanding the current state of local government finance. The work is organised around five core thematic areas: a national baseline profile of the local government fiscal framework, including distressed and better-performing municipalities, and refinement of the problem statement, the local government equitable share formula, local government expenditure reviews, fiscal leakages in local government, and additional revenue options, including undersubscribed existing instruments, new own-revenue sources and improved municipal borrowing to enhance infrastructure investment and maintenance.

Oversight and engagement structures have been established, including a Reference Group to provide expert input and validate findings, with four meetings aligned with key deliverables, a Working Group to coordinate technical inputs and monitor progress, with online meetings every two months, and a Core Project Management Group to manage execution, research and reporting, with fortnightly meetings. The review also provides for interviews and up to four online sessions with chief financial officers, municipal managers and senior planners from a sample of 32 municipalities, to ensure that the findings are credible, evidence-based and grounded in municipal realities.

The work will be undertaken over the 2026 MTEF period, and therefore, for this review to succeed and to reflect the realities on the ground, it is essential that all municipalities provide the requested data as a matter of urgency, including complete and reliable personnel information. Consequently, we urge those municipalities that have not yet submitted the required datasets to do so without delay, so that the analysis can be robust, comparable and fully representative of the sector.

2.4 Update on the review of the conditional grants

The review process has been underpinned by extensive consultation processes since July 2024 during which the National Treasury presented the findings and recommendations of the review.

Most of the proposed reforms are intended for medium- to long-term implementation, while a select few have been prioritised for short-term introduction within the 2025 MTEF period. Further consultations have been conducted following the tabling of the 2025 Budget, focusing on reforms earmarked for medium- to long-term implementation. These ongoing engagements include impact assessments and preparatory work aimed at ensuring the successful rollout of the proposed changes. Over the 2026 MTEF period, government will roll out several local and provincial government reforms aimed at streamlining funding flows, reducing duplication, and aligning recurrent obligations with the appropriate funding base. These reforms are detailed in part 5 of the Explanatory Memorandum to the 2026 Division of Revenue under the relevant conditional grants.

2.5 Water crisis in South Africa

Water services across South Africa are becoming increasingly unreliable. Too many communities now experience intermittent supply, infrastructure failures and declining water quality.

105 out of 144 Water Service Authorities (WSAs) scored poor or critical in terms of the performance of their drinking water systems (Blue Drop) and/or wastewater systems (Green Drop) in the most recent reports. This means that water and sanitation services are failing in 73 per cent of WSAs – widespread failure of municipal water and sanitation services indicates a systemic problem. By September 2025, 53 out of the 105 worst performing WSAs had not yet produced corrective action plans to address their 2023 Blue, Green and No Drop report results.

At the same time, water demand is expected to exceed supply in several regions due to population growth, urbanisation, inefficient water use and climate change.

These pressures are already evident in major economic centres across the country, impacting on development and economic growth. Although South Africa is naturally water-scarce, the current crisis is primarily driven by municipal infrastructure and governance failures, while the uncertainty introduced by climate change multiplies all water related risks.

High water losses, ageing and poorly maintained infrastructure, weak financial management as well as growing municipal debts to water boards are placing the entire water value chain at risk. Water revenues are rarely reinvested into maintaining and upgrading infrastructure.

The Department of Water and Sanitation is advancing legislative and policy reforms. In parallel, the Metro Trading Services Reform, which was initially conceptualised around water services, utilises a performance-linked incentive grant to reward metros for improved governance, financial and operational performance. This reform will ensure that revenues from water and sanitation are reinvested directly into critical infrastructure to turnaround the vicious cycle of deteriorating water services in all eight metros (**Annexure A – Water Scarcity issues dealt with in previous budget circulars**).

2.6 Impact of infrastructure degradation on the economy

Widespread infrastructure failures, ageing assets and persistent underinvestment are increasingly constraining economic growth and service delivery across South Africa. Water, sanitation, electricity and transport infrastructure has been particularly affected.

The absence of functional and well-maintained basic service infrastructure disrupts business operations, increases operating costs and undermines investor confidence, stifling development and GDP growth. Industries that depend on reliable bulk services, such as mining, manufacturing, agriculture and logistics are impacted, with outages and service interruptions reducing productivity and raising the cost of doing business.

Deteriorating infrastructure also places growing fiscal pressure on municipalities, as emergency repairs and service backlogs drive a deteriorating and reinforcing negative cycle of increasing costs and decreasing service outcomes. Without sustained investment in maintenance, rehabilitation and expansion of infrastructure, these constraints will continue to weaken local economies, limit job creation and reduce the competitiveness of key economic centres.

To address these challenges, National Treasury has introduced a R54 billion performance-based incentive for metropolitan municipalities to support reforms in their trading services: water, sanitation electricity and solid waste services. The Metro Trading Services Reform is designed to ensure that revenue generated from these services is reinvested into maintaining and improving core infrastructure, strengthening the reliability and sustainability of municipal water services. Once trading services are ring-fenced and operating as viable utilities, can sustainably transfers to the rates account support other municipal functions such as roads, security and community services. The performance grant has been designed to incentivise metros to provide additional investment from their own revenues and loans to double the value of the reform to R108 billion. This investment in improved infrastructure will not only boost local economies but also unlock new investment opportunities.

2.7 Metro Trading Services Reform (MTSR)

The Metro Trading Services Reform (MTSR) is implemented through the Metro Trading Services component of the Urban Development Financing Grant (UDFG). This component of the UDFG provides a performance-based incentive to strengthen accountability, financial sustainability and operational performance in the water and sanitation, electricity and energy, and solid waste management trading services of metropolitan municipalities.

All metros must ensure that their 2026/27 MTREF reflects the indicative allocations published in the 2026 Division of Revenue Bill/Act and confirmed through Budget Allocation Letters issued by National Treasury. These performance-based incentive allocations may only be spent in support of the relevant trading services reform strategy and must be reported on accordingly.

Metro trading services participate in the reform in two cohorts, with differentiated requirements in 2026/27:

- **Cohort 1, entered the reform in 2025/26, includes:**
 - *Water and Sanitation:* Buffalo City, City of Cape Town, City of Johannesburg, City of Tshwane, eThekweni and Mangaung.
 - *Electricity and Energy:* Buffalo City, City of Cape Town, City of Ekurhuleni, City of Johannesburg, City of Tshwane and eThekweni.
- **Cohort 2, entering the reform in 2026/27, includes:**
 - *Solid Waste Management:* all metros.
 - *Water and Sanitation:* Ekurhuleni and Nelson Mandela Bay.
 - *Electricity and Energy:* Mangaung and Nelson Mandela Bay.

2.7.1 Cohort 1: Programme Year-2 (2026/27)

For Cohort 1 trading services, 2026/27 constitutes Year-2 (first full year of implementation).

In advance of 2026/27:

Prior to the commencement of the 2026/27, Cohort 1 metros were required to finalise, cost and obtain Council approval for each trading service's A3-PIAP v2.

Draft A3-PIAP v2 documents must:

- Be presented at the 2025/26 Mid-Year Budget Review (MYBR) in January/February 2026;

- Be presented again during the 2026/27 Benchmarking Engagements (April/May 2026); and
- Demonstrate alignment between the costing of reform activity packages and the draft 2026/27 MTREF.

The final Council-approved A3-PIAP v2 (by 30 June 2026) must:

- Reflect the metro's final sectoral allocation decision within the permissible ranges; and
- Be fully costed and consistent with the 2026/27 Council-approved budget tables.

During 2026/27:

- Metros must maintain all eight Minimum Commitments (M1-M8); and
- Metros must report against the full set of indicators as defined in Guidance Note 4, Annexure A (and in the Programme Operations Manual (POM)).

For Cohort 1, 2026/27 is the first year in which trading services performance is assessed against Council-approved targets. It is not a preparatory or "dry run" year. Achievement against these targets will be assessed between July-Sept 2026.

Failure to achieve or maintain Minimum Commitments may result in withholding and reallocation of incentive funds in accordance with DoRA and the POM.

2.7.2 Cohort 2: Programme Year-1 (2026/27)

For Cohort 2 trading services, 2026/27 constitutes Year-1 (entry year).

In advance of the 2026/27 year:

- Cohort 2 metros received indicative allocations for their trading services for 2026/27 in the 2026 DoRB;
- Metros must finalise and obtain Council approval of A3-PIAP v1 by 30 June 2026;
- The eight Minimum Commitments (M1–M8) must be formally made by 30 June 2026; and
- Cohort 2 trading services should allocate their 2026/27 incentive to reform-related expenditure (e.g. reform start-up costs and reform-related capital expenditure).

During 2026/27:

- The eight Minimum Commitments (M1–M8) must be achieved by 30 June 2027; and
- Preparatory reforms, institutional restructuring, financial modelling, and business and investment planning must be completed by 30 June 2027.

2.7.3 Reporting and Independent Verification

The Independent Verification Agent (IVA) verifies compliance with Minimum Commitments and performance against programme indicators.

Metros need to plan and budget for the forthcoming financial year, taking account of any positive or negative variance in expected incentive grant allocations for the forthcoming financial year. In other words:

- Performance for the **2025/26 financial year** will be independently verified between July-September 2026. The result of this verification **may affect Cohort 1's 2027/28 budget allocation and cohort 2's 2026/27 adjustments budget.**
 - Cohort 1's performance for 2025/26 will be assessed on a binary basis (in place / not in place), rather than through weighted proportional scoring, since the expected deliverable is a complete PIAP v2 with firm targets, supported by the business plan and budget which are two of the minimum commitments (M5 and M6).

- Cohort 2's performance for 2025/26 will be assessed based on submission of Council resolution to achieve the Minimum Commitments and approval of the A3: PIAP v1.
- Performance for the **2026/27 financial year** will be independently verified during July-September 2027. The result of this verification **may affect the metro's 2028/29 budget allocation**.

Metros are required to upload all performance claims and supporting evidence to the National Treasury MTSR online portal, scheduled to become operational in early 2026. Metros must ensure that internal data governance, reporting systems and management arrangements are aligned to enable timely and complete evidence submissions.

While the MTSR requires quarterly and annual reporting necessary for performance verification and incentive administration, these requirements are designed to leverage existing municipal reporting systems, including *mSCOA* financial reporting; Section 71 monthly and quarterly reporting; MFMA Circular No. 88 performance indicators; and standard conditional grant reporting frameworks. The reform seeks to strengthen existing systems rather than create parallel reporting processes or impose unnecessary administrative burdens.

2.7.4 Guidance documents and Programme Operations Manual (POM)

The Metro Trading Services Reform Programme Operations Manual (POM) will be released following the 2026 National Budget. The POM sets out the detailed institutional, financial, reporting, verification, governance and risk management procedures for implementation of the MTSR and administration of the UDFG-MTS component. The POM defines Minimum Commitments and performance indicators; specifies reporting templates and timelines; details IVA processes; and clarifies disbursement, stopping and reallocation provisions.

A number of Guidance Notes and related Annexures have been prepared to guide metros on the expectations of the MTSR performance incentive. These guidance documents set out what metros are expected to achieve in line with the reform to qualify for the incentive.

The Grant Framework in the 2026 DORB for the UDFG (MTS component) provides the expected outcomes, outputs, conditions and responsibilities for the performance incentive grant.

Metros must therefore implement the MTSR in accordance with the Grant Framework in the DoRB, the DoRA, the MFMA, its regulations and Circulars (including this Circular), related national legislation and policy, as well as MTSR Guidance Notes and their annexures and the POM.

2.8 Criteria for the release of the Equitable Share

The criteria for the release of the equitable share which were covered in MFMA Circulars No. 122 remain relevant and are still applicable for the release of equitable share instalments in the 2025/26 financial year.

Municipalities must put systems and processes in place to comply with the criteria for the release of the equitable share. For example, to formally assign/delegate this to a responsible official, include it in performance agreements, have a council policy, create a standard operating procedure, and add this requirement as a SDBIP indicator.

Failure to comply with the criteria will result in National Treasury invoking Section 38 of the MFMA which empowers National Treasury to withhold a municipality's equitable share if the municipality commits a serious or persistent breach of the measures established in terms of

Section 216(2) of the Constitution which includes reporting obligations set out in the MFMA and National Treasury requests for information in terms of Section 74 of the MFMA.

2.9 Criteria for the rollover of conditional grant funds

In terms of Section 21 of the Division of Revenue Act, 2025 (Act No. 2 of 2025) (DoRA) in conjunction with the Division of Revenue Amendment Act, 2025 (Act No. 12 of 2025), any conditional allocation or a portion thereof that is not spent at the end of the 2025/26 financial year reverts to the National Revenue Fund (NRF), unless the rollover of the allocation is approved in terms of subsection (2) of the DoRA. Furthermore, the receiving officer, provincial treasury and national transferring officer is required to prove to National Treasury that the unspent allocation is committed to identifiable projects, in which case the funds may be rolled over.

When requesting a rollover in terms of Section 21(2) of the 2025 DoRA, municipalities must include the following information with their submission to National Treasury. Municipalities must submit all rollover applications and queries related to the conditional grants to Rolloverapplication@treasury.gov.za.

1. A formal letter, signed by the accounting officer addressed to the National Treasury requesting the rollover of unspent conditional grants in terms of Section 21(2) of the 2025 DoRA;
2. A list of all the projects that are linked to the unspent conditional grants and a breakdown of how much was allocated, spent and the balance per project;
3. The following evidence indicating that work on each of the projects has commenced, as applicable to the specific rollover(s):
 - a) Proof that the service provider was appointed for delivery of the project before 31 March 2026;
 - b) Proof of project tender and tender submissions published and closed before 31 March 2026 or with the appointment of contractor or service provider for delivery of service before 30 June 2026 in cases where additional funding was allocated during the course of the financial year of the project;
 - c) Incorporation of the Statement of Comparison of Budget and Actual Amounts; and
 - d) Evidence that all projects linked to an allocation will be fully utilised by 30 June 2026 (attach cash flow projection for the applicable grant);
 - e) A progress report (also reflecting percentages) on the status of each project's implementation that includes an attached legible implementation plan);
 - f) The value of the committed project funding and the conditional allocation from the funding source;
 - g) Reasons why the grants were not fully spent during the year on the original allocation per the DoRA. This includes the Municipal Disaster Recovery and Response grants for transfers made during the 2025/26 financial year and not fully spent by 30 June 2026;
 - h) Rollover of rollovers will not be considered. Municipalities must therefore not include previous year's unspent conditional grants as rollover request;
 - i) An indication of the time period within which the funds are to be spent if the rollover is approved; and
 - j) Proof that the Municipal Manager and Chief Financial Officer are permanently appointed.

No rollover requests will be considered for municipalities with vacant or acting Chief Financial Officers and Municipal Managers for a period exceeding 6 months from the date of vacancy; this also includes acting appointments because of suspensions of either MM or CFO that are more than 12 months.

If any of the above information is not provided or the application is received by National Treasury (Intergovernmental Relations Division) after 31 August 2026, the application will be declined.

In addition, National Treasury will also consider the following information when assessing rollover applications; and reserves the right to decline an application should there be non-performance by the municipality in any of these areas:

1. Compliance with the in-year reporting requirements in terms of Sections 71 and 72 of the MFMA and Section 12 of the 2025 DoRA, including the Municipal Manager and Chief Financial Officer signing-off on the information sent to National Treasury;
2. Submission of the pre-audited Annual Financial Statements to National Treasury by 31 August 2026;
3. Accurate disclosure of grant performance in the 2025/26 pre-audited Annual Financial Statements, (i.e., correct disclosure of grant receipts and spending in the notes to the AFS);
4. Despite the fact that local government is required to comply with different norms and standards prescribed by different legislations, municipalities are expected to fully comply with the provisions of DoRA that relate to rollover processes and disclose conditional grant performance in the 2025/26 pre-audited Annual Financial Statements (i.e. Cash coverage and unspent conditional grants in the Statement of Financial Position) in order to verify grant expenditure; and
5. Cash available reflected in the Statement of Financial Position and Cash Flow Statements and the bank (net position including short-term investments) as at 30 June 2026 is equivalent to, or exceeds, the unspent amount at the end of the financial year. If the amount that is requested for rollover is not entirely cash-backed, such a rollover will not be approved. National Treasury will also not approve portions of rollover requests based on what is available in the bank.

It should be noted that under no circumstances will the National Treasury consider requests to rollover:

1. The entire 2025/26 allocation to the municipality. In cases where the rollover request is more than 50 per cent of the total allocation, National Treasury will approve the rollover amount up to 50 per cent of the 2025/26 allocation;
2. Rollover request of the same grant for the third consecutive time. In a case where a municipality is applying for rollover as a result of additional funding, the application will be carefully considered;
3. Funding for projects procured through Regulation 32 and 37 of the Municipal Supply Chain Management Regulations (Gazette No.27636) – Projects linked to additional funding and disasters are exempted; and
4. A portion of an allocation where the proof of commitment for the rollover application is linked to invoices that were issued before or on 31 March 2026. All invoices issued to the municipality before 31 March 2026 should be paid within the same year against the allocated conditional grants. i.e., invoices must be paid within 30 days.

2.10 Unspent conditional grant funds for 2025/26

The process to ensure the return of unspent conditional grants for the 2025/26 financial year will be managed in accordance with Section 21 of the DoRA. In addition to the previous MFMA Circulars, the following practical arrangements will apply:

Step 1: Municipalities must submit their June 2026 conditional grant expenditure reports according to Section 71 of the MFMA reflecting all accrued expenditure on conditional

grants and further ensure that expenditure reported to both National Treasury and national transferring officers reconciles;

- Step 2: When preparing the Annual Financial Statements, a municipality must determine the portion of each national conditional grant allocation that remained unspent as at 30 June 2026. The unspent grant values must be determined based on the guidance that was provided in mSCOA Circular No. 13 in as far as VAT, retention and interest is concerned; and
- Step 3: If the receiving officer wants to motivate in terms of Section 21(2) of the 2025 DoRA that the unspent funds are committed to identifiable projects, the rollover application pack must be submitted to National Treasury by no later than 31 August 2026.

National Treasury will not consider any rollover requests that are incomplete or received after this deadline.

- Step 4: National Treasury will confirm in writing whether or not the municipality may retain any of the unspent funds as a rollover based on criteria outlined above by 23 October 2026;
- Step 5: National Treasury will communicate the unspent conditional grants amount by 16 November 2026. A municipality must return the remaining unspent conditional grant funds that are not subject to a specific repayment arrangement to the National Revenue Fund (NRF) by 24 November 2026; and
- Step 6: Any unspent conditional grant funds that should have but have not been repaid to the National Revenue Fund (NRF) by 24 November 2026, and for which a municipality has not requested a repayment arrangement, will be offset against the municipality's 09 December 2026 equitable share allocation.

All other issues pertaining to Appropriation Statement and reporting on approved rollovers are addressed in the Annexure to MFMA Circular No. 86.

2.11 Rollover of the Urban Development Financing Grant: metro trading services component

The normal rules regarding rollovers will apply to the incentive grant. Essentially the Budget allocated during the National MTEF and reflected in the annual Division of Revenue Act will make provision that the cash flows be synchronised to achievements in line with the Annexure A3: Performance Improvement Action Plan (A3: PIAP).

While deadline for the submission of the rollovers, dates 31 August, earlier submission in the case of the Urban Development Financing Grant will receive a response promptly.

3. Budget and other management issues

3.1 2026/27 Municipal Budget Tabling Timelines

The 2026 National Budget was tabled by the Minister of Finance on 25 February 2026, which implies that Provincial Governments have two weeks thereafter to table the 2026 Provincial Budgets in the Provincial Legislators, i.e., 12 March 2026. This is in line with the PFMA – Treasury Regulations. Municipalities have sufficient time to accommodate the allocations in the DOR Bill in their 2026/27 MTREF Budgets before tabling on 31 March 2026.

The transfers from provinces to municipalities which are supposed to be included in provincial budgets and gazetted by provinces, should for all practical reasons also be available. Given that municipalities have 10 months to prepare their upcoming budgets prior to tabling it in Council for consideration, National Treasury have always advised municipalities to use the outer years

of the Annual DoRA as projections, add inflation to calculate the third year of the MTREF, when finalising the tabled budget.

For those municipalities where the budget was already in an advanced stage of preparations, they will have between tabling and the adoption stage (end of May 2026) to include and accommodate all the transfers for both national and provincial governments. This will allow National and Provincial Treasuries to verify and reconcile the transfers with the DoR Bill and provincial Gazettes.

3.2 Timeline for approving the revised Service Delivery and Budget Implementation plan (SDBIP) following the approval of the adjustment budget

Section 54(1)(c) of the MFMA provides that the Service Delivery and Budget Implementation Plan (SDBIP) may be revised following the approval of an adjustments budget. However, the MFMA and the Municipal Budget and Reporting Regulations (MBRR) do not explicitly prescribe the timeframe within which the revised SDBIP must be approved after the adjustments budget has been approved by council. The absence of a specified timeframe may result in inconsistent interpretations and practices across municipalities. To address this gap and ensure consistent application, the National Treasury provides the following guidance to ensure that the approved adjustments budget informs the revised SDBIP:

- Council must approve the revised SDBIP during the same council meeting where the adjustments budget is approved, if there are no structural changes to the SDBIP; and
- If the adjustments budget results in structural changes to service delivery targets or key performance indicators (KPIs), the council must approve the revised SDBIP within ten (10) working days of the adjustments budget's approval. This will ensure that any changes to service delivery targets or KPIs stemming from the adjustments budget are included in the revised SDBIP within the ten (10) working days.

Although the MFMA allows municipalities to revise the SDBIP after the adjustments budget has been approved, these revisions should not result in excessive or unnecessary changes. Significant KPI changes must be clearly justified and must follow the criteria set out in paragraph 7 of the MFMA Circular No. 129.

The National Treasury discourages excessive changes to KPIs during mid-year adjustments, as these changes may undermine effective performance monitoring and accountability.

3.3 Caution to manage transition risk

Municipalities are cautioned to adhere to the guidance provided in paragraph 3 (pages 4 and 5) of the Budget Circular No. 107 as the outgoing council may be tempted to prepare budget with unrealistically low tariff increases, additional absorption of unskilled staff, writing off debtors which can still be pursued and an over-ambitious capital expenditure programme. The outcome of this approach will undoubtedly be an unfunded municipal budget that threatens the municipality's financial sustainability and service delivery for the incoming Council after the elections".

National and Provincial Treasuries will be closely monitoring tabled budgets, collection rates and expenditure for any indications that the above guidance is not adhered to and appropriate consequences will be applied.

Municipal officials and councillors are reminded that interference in the implementation of the municipality's approved credit control policy may constitute an offence in terms of section 173(5)(a) of the MFMA. Offences in terms of the MFMA can result in a fine or imprisonment for up to five years, if convicted. In addition, the failure to properly implement the approved credit

control policy of the municipality by an official may constitute financial misconduct in terms of section 171 of the MFMA. In such a case, the municipality must investigate and, where necessary, institute disciplinary proceedings.

3.4 Warning not to enter into contracts having future budgetary implications as part of electioneering

Various municipal Councils in the past had entered into long-term contracts towards the end of their term therefore unfairly and carelessly financially committing the new Council.

Therefore, the current outgoing Council must not enter into such contacts and if there is a need, the Council should follow Section 33 of the MFMA in full. Failure to comply with such will lead to Section 216(2) being imposed until such a contract is nullified.

3.5 Cost reflective tariffs

In line with the guidance provided in MFMA Circular No. 132, municipalities need to complete the cost reflective tariff tool. If tariffs are not cost reflective already, the municipality needs to set out a path to achieve cost-reflective tariffs over the 2026/27 MTREF period.

At the time of issuing this circular NERSA has not yet confirmed the approved bulk costs municipalities must provide for in 2026/27. Municipalities must communicate clearly to the public that the electricity tariffs communicated in their tabled budgets may need to be adjusted once these are confirmed. Municipalities are advised to closely follow further guidance from NERSA.

3.6 Budgeting for a Funded Budget

National Treasury has observed over the years that many municipalities that adopt unfunded budgets are adopting **budget funding plans** as a mere compliance exercise. There is very little progress made to turn around from an unfunded budget position, to a funded one. As communicated before with the release of MFMA Circular No. 129 (issued during December 2024), this will be the last year than a funding plan as an instrument to facilitate measurable progress will be allowed. The enforce of compliance with Section 18 of the MFMA will now start taking precedence.

4. Municipal Standard Chart of Accounts (mSCOA)

4.1 Alignment of cash flow linkages

In terms of GRAP 2, cash flows should be classified in accordance with the nature of the activity to which they relate (operating, investing or financing) which requires that:

- Both operating and investing activities for *Interest, Insurance Refund and Retentions* must be accounted for based on the nature of the transactions; and
- The *Interest on short-term investment* (greater than 90 days but less than 12 months) and *long-term investments* (more than 12 months) must be populated within investing activities. Short-term investments are disclosed on the Statement of Financial Performance on table A4 of the A1 Schedule.

To give effect to this GRAP standard:

- A new operational funding source, namely *Insurance Refunds*, has been created under the Investing Activities of tables A7 and SA30 of the A1 Schedule in version 7.1 of the mSCOA chart;

- The VAT Receipts will be populated using the Bank Deposits (IA001001 – "DEPOSITS") and VAT Receipt funding source. The VAT Control account receipts will not be used for this purpose; and
- *Construction Contract Revenue* will no longer form part of *Sales of Goods and Rendering of Services and Development Charges* will no longer form part of *Operational Revenue*. A new funding source was created to allow for the separate population of *Construction Contract Revenue* and *Development Charges* as part of *Other Revenue* on table SA30 of the A1 Schedule.

The structure of table A7 of the A1 Schedule and relevant cash flow linkages has also been aligned to the *mSCOA* chart version 7.1. The updated linkages to supporting table SA30 that populated table A7 are attached as **Annexure B: Cash Flow Linkages**.

4.2 Guidance on submission of *mSCOA* roadmaps

Municipalities are reminded that the municipal *mSCOA* Road Maps must be revised annually as part of the annual budget process. The draft and final *mSCOA* Road Maps must be:

- Tabled and adopted in Council as part of the supporting documents to the budget; and
- Submitted in PDF format to the GoMuni Upload portal for review by National and Provincial Treasuries.

Going forward, municipalities are required to utilise the FCMCM web-based system to conduct self-assessments of their *mSCOA* road maps. This high-level self-assessment will identify gaps in *mSCOA* implementation that should be incorporated into and addressed through the municipal *mSCOA* Road Map. The e-road map must align with the objectives, tasks, and activities outlined in the municipality's comprehensive (traditional) *mSCOA* road map.

Accordingly, in addition to the draft and final *mSCOA* road maps submitted by municipalities as part of their tabled and adopted budget documents, the *mSCOA* e-road map (i.e. the high-level action plan generated through the FCMCM system) must be attached to the comprehensive (traditional) *mSCOA* road maps. The *mSCOA* road map and annexed e-road map must be submitted as a single consolidated PDF document and not as separate documents.

As articulated in MFMA Circular No 112 dated 6 December 2021, municipal *mSCOA* Road Maps should cover the following implementation areas:

- **System landscape** – does the municipality has access to updated ICT hardware, software and licenses that is sufficient to run the chosen financial management systems solution?
- **Governance and institutional arrangements** – are there a functional *mSCOA* steering committee or equivalent structure consisting of representatives from all business units, that meet regularly to monitor and report on *mSCOA* related issues to Management Committee (MANCO), Executive Committee (EXCO) and Council? Furthermore, did the municipality appoint a suitably qualified System Administrator and the required IT securities are in place?
- **System functionality** – is the functionality of the system complying with the minimum business processes and system specifications articulated in MFMA Circular No 80; is the municipality utilising the core financial system solution and its modules optimally; and are 3rd party sub-systems seamlessly integrating with the *mSCOA* enabling financial system?
- **Proficiency** of municipal officials to use the financial system – are the relevant municipal officials sufficiently capacitated on all system modules and functionalities to use the financial systems solution; are relevant officials in the organisation familiar with the *mSCOA* chart, balance sheet budgeting, and movement accounting; and have change

management taken place to ensure that *mSCOA* is institutionalised as an organizational reform and not only a financial reform?

Importantly, the municipal *mSCOA* Road Map should not be confused with the roadmaps used by system vendors for system upgrades, new developments, error-correction patches, updates, or training. The municipal *mSCOA* Road Map is broader than system functionality and must be developed and owned by the municipality. It should therefore not be prepared or driven by system vendors or external consultants.

The e-road map is intended to enhance oversight and monitoring by municipalities and provincial treasuries with respect to the implementation of *mSCOA* at municipal level.

4.4 Stage 3 validation

The development and piloting of the stage 3 validation to verify the credibility of *mSCOA* data strings submitted to the Local Government Database and Reporting System (LGDRS) has not been concluded and will only be introduced in the 2027/28 MTREF. This validation will automate the data string analysis currently undertaken by the National and Provincial Treasuries, and data string submissions that fail this validation will be rejected.

In preparation for the implementation of the stage 3 validation and ensure that credible data strings are submitted to the GoMuni Upload portal, municipalities should request their system vendors to incorporate additional validation rules within their municipal system solutions. At a minimum, these validation rules should address and resolve the following common errors identified in the submitted data strings:

- **Correct usage of the funding segment:** Some municipalities are not utilising the funding segment as per the guidance in the Project Summary Document (PSD), e.g. funded transactions are linked to non-funding transactions. The National Treasury will implement an addition validation to ensure the adherence of the principles of the PSD and ensure accurate populating of the Cash Flow Statement in chart version 7.2.
- **Unbundling of the Salary Clearing and Control Account:** A number of municipalities are not correctly unbundling the salary clearing and control accounts in accordance with the accounts prescribed in the *mSCOA* Chart of Accounts. This results in reporting inaccuracies relating to outstanding salary payments and third-party liabilities associated with payroll transactions;
- **Population of the cash flow tables:** The cash flow tables (A7, SA30, B7, SB30, C7 and SC30) in the A1 Schedules are not being fully and correctly populated by municipalities during the budgeting and transactional processes. Guidance on the updated linkages to supporting table SA30 that populated table A7 are attached as **Annexure B: Cash Flow Linkages** of this circular;
- **Opening balances:** Currently, the opening balances at year end (M12 as at 30 June) of the previous financial year are not being correctly rolled over to the first month (M01 as at 01 July) of the new financial year. In addition, these balances are not being updated to reflect the pre-audited (PAUD) and audit (AUDA) adjustments in the current financial year within the applicable open period(s). This validation rule(s) should test whether the opening balances have been rolled over correctly and balances off to zero. National Treasury will implement a validation rule to ensure that opening balances equal to zero in the third stage validation in chart version 7.2;
- **Function:** Currently, the use of the function segment by municipalities is not aligned with the guidance provided in the PSD for the function segment. Each function should net off to zero and should reflect a mini trial balance (Identified Revenue, Assets, Liabilities, Expenditure and Net Assets) (i.e., identified revenue, assets, liabilities, expenditure, and net assets) linked to the appropriate function and sub-function. The stage three validation should identify where budget allocations have not been allocated to the correct item within

a function or sub-function. In addition, all sub-functions are expected to balance to zero; and

- **Region:** The usage of the regional segment by municipalities is not aligned with the guidance provided in the PSD for the regional segment. Municipalities must ensure that each regional segment used balances to zero. Furthermore, each region should reflect a mini trial balance i.e., identified revenue, assets, liabilities, expenditure, and net assets) linked to the appropriate region or ward.

4.5 Retentions

In accordance with GRAP 19.18, accruals represent liabilities for goods or services that have been received or supplied but have not yet been paid, invoiced, or formally agreed with the supplier. For financial reporting and contract management purposes, once work has been certified as completed, the municipality becomes legally obligated to pay the full value of the work performed, inclusive of VAT, to the supplier.

A retention represents a delayed payment and not a reduction in the amount payable for the work performed. It therefore reflects only a timing difference in the settlement of the liability and does not reduce the contract price. Consequently, the full certified amount must be recognised, with the retention portion recorded as a liability until it becomes contractually due for release.

Accordingly, when work has been completed, the retention amount must be recognised inclusive of VAT and recorded to the Retention Liability account, with the VAT portion allocated to the Input VAT Accrual account, as this reflects the municipality's full obligation for the work performed.

However, given that most municipalities account for VAT on a payment basis with the South African Revenue Service (SARS), the claiming of VAT can only occur once the retention invoice has been received, recognised and paid. The VAT should therefore be processed against Input Tax General (for operational projects) or Input Tax Capital (for capital projects), as applicable.

Where a municipality accounts for VAT on an invoice basis with the South African Revenue Service (SARS), the VAT may only be claimed once the retention invoice has been received and recognised. In such cases, the VAT must also be processed against Input Tax General (for operational projects) or Input Tax Capital (for capital projects), as applicable.

4.6 Virement data strings and report

From the 2025/26 MTREF, municipalities report on their virements through the submission of a separate data string and report on virements to the GoMuni Upload portal.

mSCOA Circular No. 8, dated 24 April 2020 (as revised on 29 April 2020) has been updated to include the requirements of the virement data string and virement report. In accordance with the key principles set out in *mSCOA* Circular No. 8, municipalities are reminded of the following:

- **Virement Policy Alignment:** Municipalities must review their virement policies annually to ensure alignment with the principles and guidance contained in the circular and the broader *mSCOA* regulatory framework;
- **Multi-Dimensional Budgeting:** As a business reform, *mSCOA* requires multi-dimensional budgeting and the recording of transactions across the seven *mSCOA* segments. The circular provides guidance on how virements (budget transfers) must be managed within this framework;
- **Restrictions on Virements:** Virements may only take place within a function or its sub-functions and must utilise the same source of funding;

- **Adjustments Budget Requirement:** Where a proposed virement results in a change to an *m*SCOA segment (for example, the introduction of a new project, a change in region, or a change in the funding source), such a change is not permitted as a virement and must instead be processed through a formal adjustments budget approved by council; and
- **Prohibition on Certain Virements:** Municipal virement policies must explicitly prohibit virements from the repairs and maintenance project within the project segment.

4.7 The Urban Development Financing Grant

The Urban Development Financing Grant (UDFG) *is a new incentive-based financing grant supporting investment in urban development and resilient infrastructure and is targeted at the eight metropolitan municipalities.* The grant has been established to support Metro's in line with the Metro Trading Services Reform.

As of 2026/27 MTEF the UDFG will be administered through the following components, namely:

- Metro Trading Services component (MTS);
- Neighbourhood Development Partnership component (NDP);
- Programme for Project Preparation Support component (PPPS); and
- Public Employment Programme (PEP).

The chart has been amended in version 7.1 (2026/27) to include an Operational Project within the Project Segment for UDFG with a breakdown for the components, namely, MTS, NDP, PPPS and PEP. More details must be provided for Capital Projects. Metros must ensure that the naming of individual capital projects funded from the UDFG includes the standardised codes e.g. Substation – UDFG (MTS). The standardised codes are as follow:

UDFG – Metro Trading Services (MTS)

UDFG – Neighborhood Development Partnership (NDPG)

UDFG – Project and Programme Preparation Support (PPP)

UDFG – Public Employment Programme (PEP)

This will enable ring fencing of expenditure funded from the UDFG per component.

Herewith an example of the reporting done during disaster reporting:

PROJECTCODE	Account Name	INDIVIDUAL PROJECTS
PC00100100200100000000000000000000	Capital:Infrastructure:Existing:Renewal:Solid Waste Infrastructure:Landfill Sites	G46247 : Bisasar Road Landfill: Closure Preparation
PC00100100200100000000000000000000	Capital:Infrastructure:Existing:Renewal:Solid Waste Infrastructure:Landfill Sites	G46247 : Bisasar Road Landfill: Closure Preparation
PC00100100200100000000000000000000	Capital:Infrastructure:Existing:Renewal:Solid Waste Infrastructure:Landfill Sites	G46247 : Bisasar Road Landfill: Closure Preparation
PC00100100200100000000000000000000	Capital:Infrastructure:Existing:Renewal:Solid Waste Infrastructure:Landfill Sites	G46247 : Bisasar Road Landfill: Closure Preparation
PC00100100200100000000000000000000	Capital:Infrastructure:Existing:Renewal:Solid Waste Infrastructure:Landfill Sites	G46247 : Bisasar Road Landfill: Closure Preparation
PC00100100200100000000000000000000	Capital:Infrastructure:Existing:Renewal:Solid Waste Infrastructure:Landfill Sites	G46247 : Bisasar Road Landfill: Closure Preparation

4.8 Reporting pertaining to the Metro Trading Services Reform

The MTSR aims to restore and sustain electricity, water, sanitation, and waste services in Metros through institutional and financial reforms. Towards this end, a 6-year, R54 billion performance-linked incentive grant with technical assistance is provided to Metros to:

- Strengthen accountability and financial transparency;
- Unlock R108 billion in total infrastructure investment, leveraging improved revenue and borrowing capacity;
- Improve service reliability, quality, and sustainability; and

- Enable spatial transformation, economic inclusion, and growth.

To participate in the reform, Metros must maintain eight minimum commitments. The National Treasury's annual *mSCOA* Compliance Assessment (previously referred to as the *mSCOA* ICU desktop assessment), which has been incorporated into the FMCMM web-based system from the 2026/27 MTREF, will be used to validate compliance with Indicator A2 relating to *mSCOA* compliance.

The intention is that each Metro, based on its current level of compliance, will implement plans and targets to achieve full compliance by Year-6 (Y6) of the reform. In the first year of the reform (Y0), the score obtained in the 2024/25 *mSCOA* Compliance Assessment, which was shared with metros during the mid-year budget and performance engagements, will serve as the baseline position. Thereafter, year-on-year improvements in the *mSCOA* Compliance Assessment scores will be expected as Metros progress towards achieving their targets.

The results of the *mSCOA* Compliance Assessment (downloaded from the FMCMM web-based system), together with the *mSCOA* Road Map submitted to GoMuni Upload platform to address gaps in implementation, will be used by the Independent Verification Agent (IVA) as evidence of achievement for this indicator.

Metros are also reminded that Indicator M7 requires that separate financial statements, prepared in the *mSCOA* aligned Specimen AFS format, must be compiled and submitted for each trading service, aggregated to the consolidated Metro AFS.

5. Submitting documents to the GoMuni Upload Portal

5.1 Submission of additional information

In line with its commitment to improving transparency and accountability, the National Treasury requested the following information from municipalities via a letter from the Director-General of the National Treasury:

Procurement Spend Information

An *Instruction on Procurement Information Transparency* has been issued by the National Treasury for the publication of the dashboard and requesting procurement information from procurement systems of all departments, public entities and constitutional institutions. The published information will include, but is not limited to, supplier and ownership details, the nature, value, quantity of procurement transactions, and payments made to suppliers. It is intended that similar procurement information will be published in respect of local government in the procurement payments dashboard. The prescribed template is attached as **Annexure C**.

Employee Information

The National Treasury has additionally committed to improving transparency and accountability in personnel systems. A data driven ghost worker audit has been initiated at national and provincial government. It is intended that the ghost worker audits will be extended to local government. The information requested will be used for this initiative. The prescribed template is attached as **Annexure D**.

Audit management reports

Municipalities are required to upload all the communication of findings (COFAFS), as well as the final audit management report issued by the Auditor General to the LGDRS. With effect

from the 2026/27 MTREF, the COFAFS will be added as an upload option on GoMuni Upload. Please note that these reports, as issued by the Auditor-General, must not be altered in any way.

The National Treasury understands the sensitivity associated with the Auditor-General's management report. Municipalities are assured that the management reports are exclusively for internal use by National and Provincial Treasuries to determine the key areas that our municipal support programmes should target.

Should your municipality not be in possession of the management report, kindly provide us with a formal letter of permission to obtain the said report directly from the Office of the Auditor-General South Africa. The letter of permission must be on an official letterhead of the municipality and signed by the Accounting Officer (Municipal Manager).

All enquiries should be directed to:

INFORMATION REQUIRED		SUBMISSION PLATFORM	SUBMISSION DATE	QUERIES
1	Procurement Spend Report	GoMuni Upload Portal at https://lg.treasury.gov.za/ibi_apps/welcome	Within 10 working days after the end of each month	Thys Blom at Thys.Blom@treasury.gov.za
2	Employee Related Data	Central Supplier Database (CSD) at www.csd.gov.za	Templates available under the GoPublic / Template Library portal	csdoos.support@treasury.gov.za
3	Management Reports and COFAFS		By no later than the 10th working day in January annually	

The templates are can also be accessed under the GoPublic / Template Library portal on https://lg.treasury.gov.za/ibi_apps/portal/Template_Library.

The procurement spend and employee information should be available on municipal procurement systems and HR sub-systems of all municipalities. Municipalities should liaise with their respective system vendors to extract this information in the required templates format directly from their relevant systems.

This information is requested in terms of sections 5(2)(c), 33(3) and 74 of the Municipal Finance Management Act, 2003 (MFMA).

6. The Municipal Budget and Reporting Regulations

6.1 Assistance with the compilation of budgets

If municipalities require advice with the compilation of their respective budgets, specifically the budget documents or Schedule A, they should direct their enquiries to their respective provincial treasuries or to the following National Treasury officials:

Province	Responsible NT officials	Tel. No.	Email
Eastern Cape Buffalo City	Matjatji Mashoeshoe Pitso Zwane Mandla Gilimani	012-315 5553/ 0609242914 012-315 5171 012-315 5807/0661198036	Matjatji.Mashoeshoe@treasury.gov.za Pitso.Zwane@Treasury.gov.za Mandla.Gilimani@treasury.gov.za
Free State	Cethekile Moshane	012-315 5079	Cethekile.moshane@treasury.gov.za
Gauteng City of Tshwane and City of Johannesburg City of Ekurhuleni	Matjatji Mashoeshoe Pitso Zwane Willem Voigt Makgabo Mabotja Khanyisile Khosa Kgomotso Baloyi Lunathi Dumani	012-315 5553 012-315 7538 012-315 5830 012-315 5156 012-315 5866/082 887 2968	Matjatji.Mashoeshoe@treasury.gov.za Pitso.Zwane@Treasury.gov.za WillemCordes.Voigt@treasury.gov.za Makgabo.Mabotja@treasury.gov.za khanyisile.khoza@treasury.gov.za Kgomotso.Baloyi@treasury.gov.za Lunathi.dumani@treasury.gov.za
KwaZulu-Natal eThekweni uMhlathuze	Kgomotso Baloyi Lunathi Dumani Kevin Bell Sifiso Mabaso Matjatji Mashoeshoe Pitso Zwane	012-315 5866 012-315 5725 012-315 5952/060 923 7343 012-315 5553/060 326 6885 012 315 7538	Kgomotso.Baloyi@treasury.gov.za Lunathi.dumani@treasury.gov.za Kevin.Bell@treasury.gov.za Sifiso.mabaso@treasury.gov.za Matjatji.Mashoeshoe@treasury.gov.za Pitso.Zwane@Treasury.gov.za
Limpopo	Sifiso Mabaso Jabulile Ngwenya	012-315 5952/060 923 7343	Sifiso.Mabaso@treasury.gov.za Jabulile.ngwenya@treasury.gov.za
Mpumalanga	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
Northern Cape	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
North West Mafikeng	Willem Voigt Makgabo Mabotja Khanyisile Khosa Cethekile Moshane	012-315 5830 012-315 5156 012-315 5079	WillemCordes.Voigt@treasury.gov.za Makgabo.Mabotja@treasury.gov.za khanyisile.khoza@treasury.gov.za Cethekile.moshane@treasury.gov.za
Western Cape Cape Town George	Willem Voigt Khanyisile Khoza Kgomotso Baloyi Sifiso Mabaso	012-315 5830 012-315 5385 012-315 5866/082 887 2968 012-315 5952/ 060 923 7343	WillemCordes.Voigt@treasury.gov.za khanyisile.khoza@treasury.gov.za Kgomotso.Baloyi@treasury.gov.za Sifiso.Mabaso@treasury.gov.za
Technical issues on GoMuni Website	Data management		lgdataqueries@treasury.gov.za
Local government Conditional Grants			Sello.mashaba@treasury.gov.za Pretty.mavhungu@treasury.gov.za Marvin.ngobeni@treasury.gov.za Akanyang.modise@treasury.gov.za Sandra.admams@treasury.gov.za
Municipal (Eskom) and or Water Debt Relief and Smart Metering	LGBA: Revenue Section (Sadash Ramjathan)		revenuemanagement@treasury.gov.za

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
20 March 2026

Annexure A – Previous MFMA Circulars

Water scarcity issues dealt with in previous MFMA Circulars

Municipalities were reminded in the following MFMA budget Circulars to treat water as a scarce resource as follows:

MFMA Circular	Reference no. and Description	Comments
MFMA Circular No: 51	3.2 Water tariffs must be cost-reflective	South Africa faces similar challenges with regard to water supply as demand growth outstrips supply. Better maintenance of infrastructure, new dam construction and cost-reflective tariffs will ensure that the supply challenges are managed in future.
MFMA Circular No: 54	5.2 Water tariffs must be cost-reflective	There continues to be an urgent need to promote the careful use of water. Ensuring that water is correctly priced is the most effective means getting households and businesses to conserve water.
MFMA Circular No: 55	3.3 Water tariffs must be cost-reflective	To mitigate the need for water tariff increases, municipalities must put in place an appropriate strategy to limit water losses to acceptable levels. In this regard municipalities must ensure that water used by its own operations is charged to the relevant service and not simply attributed to water 'losses'.
MFMA Circular No: 58	3.4 Water and sanitation tariffs must be cost-reflective	To mitigate the need for water tariff increases, municipalities must put in place an appropriate strategy to limit water losses to acceptable levels. In this regard municipalities must ensure that water used by its own operations is charged to the relevant service and not simply attributed to water 'losses'.
MFMA Circular No: 67	5.6 Municipal water infrastructure grant and non-revenue water	According to the latest National Non-Revenue Water Assessment Report (The state of nonrevenue water in South Africa, Report TT522-12: www.wrc.org.za); recently released by the Water Research Commission and the Department of Water Affairs, more than 50 per cent of municipalities cannot provide a water balance. These municipalities cannot determine whether demand for water exceeds supply or quantify the extent to which non-revenue water influences water security and financial sustainability.
MFMA Circular No: 74	Water and sanitation tariffs must be cost-reflective	To mitigate the need for water tariff increases, municipalities must put in place an appropriate strategy to limit water losses to acceptable levels. In this regard municipalities must ensure that water used by its own operations is charged to the relevant service and not simply attributed to water losses.
MFMA Circular No: 78	5.2 Water and sanitation tariff increases	In light of the current drought being experienced across large parts of the country, and to mitigate the need for water tariff increases, municipalities must put in place appropriate strategies to limit water losses to acceptable levels. In this regard municipalities must ensure that water used by its own operations is charged to the relevant service and not simply attributed to water losses.
MFMA Circular No: 79	4. Revenue management	Demand management is becoming increasingly necessary as the country faces water shortages and an unstable electricity supply. The approach to tariff setting should consider all these factors and strive to achieve an equitable balance. It is anticipated that the cost of providing municipal services will grow at a faster rate than the transfers from national government. Resource scarcity will most likely increase the cost of bulk purchases in respect of water and electricity beyond the country's inflationary targets.

MFMA Circular No: 85	4.3 Water and sanitation tariff increases	In light of the current drought experienced across large parts of the country, water is now a scarce resource that must be conserved. Municipalities must put in place appropriate strategies to curb water losses as a result of leakages. The ageing infrastructure is a contributing factor as many municipalities have historically inadequately provided for repairs and maintenance and renewal of water infrastructure.
MFMA Circular No: 89	3.3 Water tariff increases	The prevailing drought makes it difficult for some municipalities to improve revenue generation from this service. It is now more important to improve demand management, infrastructure maintenance, loss management, meter reading and tariff setting in respect of water services.
MFMA Circular No: 91	1. The South African economy and inflation targets	The drought experienced in several provinces poses significant risks to agriculture and tourism for the period ahead, and this may threaten jobs in these sectors. The current water crisis in the Western Cape and other provinces will affect economic growth. While the drought's impact is uncertain much depends on how long it will prevail; the extent to which specific catchment areas are affected; and the success of mitigation measures.
MFMA Circular No: 93	3.3 Water tariff increases	Drought conditions make it difficult for some municipalities to improve revenue generation from this service. It is now more important to improve demand management, infrastructure maintenance, loss management, meter reading and tariff setting in respect of water services.
MFMA Circular No: 98	4.2 Setting cost reflective tariffs	Technical losses are related to physical losses out of the system. In the case of water, this is due to pipe bursts and leakages or due to overflows on storage tanks.
MFMA Circular No: 99	1. The South African economy and inflation targets	The declining economic growth which might be impacted on further by the Corona virus pandemic and international companies closing down as a result, the deteriorating state of the finances for state-owned entities, continued high unemployment and water and electricity shortages will put pressure on the ability of municipalities to raise revenue. Municipalities are therefore advised to follow a conservative approach when projecting their revenue and to eliminate any waste and unnecessary expenditure.
MFMA Circular No: 112	7. Funding choices and management issues	Strictly control the use of costly water tankers and fix the water infrastructure to enable the sustainable provision of water. Curbing the consumption of water and electricity by the indigents to ensure that they do not exceed their allocation.
MFMA Circular No: 115	7. Funding choices and management issues	Strictly control the use of costly water tankers and fix the water infrastructure to enable the sustainable provision of water; Curbing the consumption of water and electricity by the indigents to ensure that they do not exceed their allocation.
MFMA Circular No: 126	3.7 Pro-actively managing collection of municipal revenue in Eskom supplied areas	Until ERA is amended it is critical that municipalities update their By-laws and policies to facilitate and legally allow the restriction of water as part of proper credit control for municipal revenue collection in Eskom supplied areas.

MFMA Circular No: 128	2.6. Reforms to improve the efficiency and financial sustainability of metro's trading services	Due to years of neglect and inadequate infrastructure maintenance, South Africa's municipalities face severe utility services issues, including in water, wastewater, and electricity. A loss of essential management and technical skills has also contributed to the decline in service quality and reliability. Metro water services alone suffer from an investment gap of R9 billion per year. These inefficiencies threaten economic growth and job creation and increases poverty. Government transferred substantial monetary allocations to local government in the successive Budgets to support water services, but the outcome and value for money of these transfers is low. To address this, an incentive grant system is being explored for 2025/26 to increase investments, change management and governance structures, promote professional management, and ensure transparency, starting with metros.
-----------------------	---	--

12 March 2026

MEDIA STATEMENT

TIMELINES FOR MUNICIPAL ELECTRICITY TARIFF APPLICATIONS FOR THE 2026/27 FINANCIAL YEAR

The National Energy Regulator of South Africa (NERSA) wishes to inform all licensed municipal electricity distributors, stakeholders and members of the public of the timelines for the submission and approval of municipal electricity tariff applications for the 2026/27 financial year.

These timelines follow the recent approval of Eskom's Retail Tariff and Structural Adjustment (ERTSA) application and the judgment of the North Gauteng High Court issued on 20 February 2026, which amended the timelines set by the same court on 4 December 2025 regarding the approval of ERTSA and municipalities' tariff applications.

Approval of Eskom Tariff Adjustment

On 5 March 2026, NERSA approved Eskom's ERTSA application. As part of this decision, NERSA authorised a 9.01% tariff increase, which will be effective from 1 July 2026 to 30 June 2027.

Revised Timelines for Municipal Tariff Applications

As per the judgment of the North Gauteng High Court issued on 20 February 2026, municipalities/distributors' tariff application timelines are as follows:

- *Submission of Municipal Tariff Applications:*
Municipalities/distributors must submit their electricity tariff applications to NERSA by no later than 31 March 2026.
- *Public Participation Process:*
NERSA's public consultation process on municipal tariff applications will conclude on 21 April 2026.
- *Finalisation of Tariff Decisions:*
NERSA will finalise the consideration of the municipal electricity tariff applications and communicate its decisions on or before 11 May 2026.

Regulator Members:

Mr T Bukula (Chairperson) Ms R Govender (Deputy Chairperson) *Adv NP Sithole (Chief Executive Officer)
*Mr W Majola *Ms N Maseti *Mr MW Mkhize Ms T Semane Mr FK Sibanda Ms PN Sibiya
*Full-Time Regulator Members

These timelines will ensure that NERSA consider the municipal tariffs timeously and will enable municipalities to implement approved tariffs at the beginning of the 2026/27 municipal financial year on 1 July 2026.

Compliance Requirements for Municipalities

Municipalities are reminded that tariff applications must satisfy appropriate internal governance requirements, including:

- authorisation of the tariff application by the appropriate municipal authority;
- confirmation that tariffs have been approved by the Municipal Council;
- evidence of public consultation on proposed tariffs; and
- the submission of audited regulatory financial information for the 2024/25 financial year.

Failure to meet the revised deadlines may affect the processing and approval of the municipal electricity tariff applications.

Applications for Deviation

Municipalities that require deviations from the revised timelines may apply to the Court for relief, as provided for in the Court Order of 20 February 2026, provided that good cause is shown.

Publication of Tariff Applications by NERSA

The tariff applications will be published on the NERSA website to allow affected stakeholders and members of the public to submit written comments. The applications can be accessed on the NERSA website at www.nersa.org.za under Electricity > Pricing > Local Authorities & Private Distributors.

Commitment to Regulatory Certainty

NERSA appreciates the cooperation of municipalities and stakeholders in ensuring compliance with its regulatory processes. The revised timelines are intended to ensure regulatory certainty, transparency and the orderly implementation of electricity tariffs for the upcoming financial year.

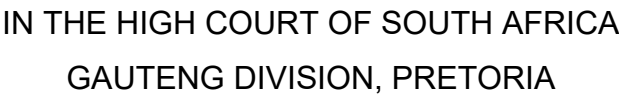
NERSA remains committed to fulfilling its statutory mandate of regulating the electricity sector in a manner that balances cost-reflective tariffs, consumer protection and the financial sustainability of the electricity supply industry.

Enquiries:

Mr Charles Hlebela – Head of Communications

Mobile: 083 646 8280

Email: charles.hlebela@nersa.org.za



Case Number: 2025/137620

(1) REPORTABLE: YES/~~NO~~
(2) OF INTEREST TO OTHER JUDGES: YES/~~NO~~
(3) REVISED.

04 DECEMBER 2025

.....
SIGNATURE

.....
DATE

In the application of:

AFRIFORUM NPC

Applicant

and

NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

1st Respondent

SOUTH AFRICAN LOCAL GOVERNMENT ASSOCIATION

2nd Respondent

ESKOM HOLDINGS SOC LIMITED

3rd Respondent

AMAHLATHI LOCAL MUNICIPALITY

4th Respondent

BLOUBERG LOCAL MUNICIPALITY

5th Respondent

DIHLABENG LOCAL MUNICIPALITY

6th Respondent

DIPALESENG LOCAL MUNICIPALITY

7th Respondent

DITSOBOTLA LOCAL MUNICIPALITY

8th Respondent

eDUMBE LOCAL MUNICIPALITY	9 th Respondent
KAMIESBERG LOCAL MUNICIPALITY	10 th Respondent
MERAFONG CITY LOCAL MUNICIPALITY	11 th Respondent
MOSSEL BAY LOCAL MUNICIPALITY	12 th Respondent
CITY OF EKURHULENI LOCAL MUNICIPALITY	13 th Respondent
CITY OF CAPE TOWN LOCAL MUNICIPALITY	14 th Respondent
192 LOCAL MUNICIPALITIES	15 th – 181 th Respondents

JUDGMENT(2)

LABUSCHAGNE J

INTRODUCTION

[1] The applicant successfully challenged the 2025/2026 public participation process pertaining to the approval of municipal electricity tariff applications, and I made an order on 31 October 2025 providing for a return date on 18 November 2025 regarding a timeline for all parties concerned. This is the judgment following the hearing of 18 November 2025.

[2] The order I issued on 31 October 2025 reads:

“Having read the papers and having heard counsel

IT IS ORDERED

- [1] *That the forms, service and time periods provided for in the Uniform Rules of Court are dispensed with and the application is heard on the basis of urgency in terms of rule 6(12).*
- [2] *NERSA's implementation of the public participation process of the notice and comment procedure elected by it by, as contemplated in section 4(1) and (3) of the Promotion of Administrative Justice Act, 3 of 2000 ("PAJA") utilised during the consideration and approval of the financial year 2025/2026 municipal tariff applications ("the approvals") is declared invalid in terms of section 172(1)(a) of the Constitution.*
- [3] *In terms of section 172(1)(b) of the Constitution, and despite the declaration of invalidity set out in paragraph 2 above, the approvals are not set aside.*
- [4] *A rule nisi is issued, returnable on 18 November 2025, calling on any respondent to show cause why the following order should not be made:*
- 4.1 *NERSA is directed to timeously comply with its obligations as public entity, and as envisaged in section 35(c)(ii) of the Municipal Finance Management Act, to timeously provide information and assistance to municipalities to enable municipalities to prepare their budgets in accordance with the processes set out in Chapter 4 of the MFMA. In pursuance of the aforesaid, the following directions are issued:*

- 4.1.1 *By 31 January of every year, NERSA must give municipal licensees written notice of bulk of wholesale tariffs at which municipal licensees shall purchase electricity from Eskom, or any other licensed generator, for the next financial year;*
- 4.1.2 *The notice referred to above shall in addition require municipal licensees to submit their electricity tariff applications by no later than 30 March of every year, failing which they run the risk of no tariff increase being approved;*
- 4.1.3 *NERSA is directed to comply with the provisions of section 4 of PAJA, and the regulations published in terms thereof, in respect of whichever procedure for public participation it chooses, in terms of section 4 of PAJA, for considering and approving municipal electricity tariff applications;*
- 4.1.4 *For purposes of meaningful public participation, NERSA is directed to publish every municipal electricity tariff application along with its cost of supply study for that particular financial year, in a manner that makes it accessible to the public, provided that, where a municipal electricity tariff application does not include a cost of supply study for the financial year, NERSA must specifically state the absence of such costs of supply study;*
- 4.1.5 *NERSA is directed to finalise the process of considering the municipal electricity tariff applications timeously*

received and communicate its decisions on or before 05 May of every year;

4.1.6 NERSA must simultaneously also publish all of the respective decisions it reached on the municipal electricity tariff applications received; and

4.1.7 NERSA may not unilaterally extend or deviate from the aforesaid timeframes for applications timeously received without good cause and, if established, with prior notice to the parties affected.

4.2 Every municipality that submits an electricity tariff application must take all reasonable steps to ensure that the public participation process NERSA chooses regarding municipal tariff applications is brought to the attention of the public within its jurisdiction.

[5] AfriForum shall forthwith cause this order to be served:

5.1 On all participating respondents' attorneys of record, where such attorneys have been appointed, by email;

5.2 On the Chief Executive Officer of Eskom, by the sheriff; and

*5.3 On the municipalities in **Annexure FA2** to the notice of motion, other than those in paragraph 5.1 above, by email sent to the municipal managers.*

[6] *NERSA is ordered to pay the costs of the application, including the costs consequent upon the employment of two advocates, on Scale C, where so employed.”*

[7] On the return day NERSA argued primarily that the imposition by the court of a timeline, or structural interdict, binding on it and the other parties constituted judicial overreach. None of the other parties took this point. The alternative contention was a refinement of the timeline that placed ESKOM on terms to file its Eskom Retail Tariffs Structural Adjustments(“ERTSA”) application timeously so that NERSA could in turn act timeously. Asked why NERSA could not do so itself, NERSA responded with a *non possumus* answer. It did not have the statutory power to do so. However, NERSA could in fact make it a licence condition of its licence with ESKOM requiring the filing of the ERTSA application by no later than 31 August of every year. Ordering NERSA to impose such a licence condition, would be judicial overreach.

[8] The timeline is merely aimed at streamlining and dovetailing statutory processes for the annual approval by NERSA of municipal electricity tariff applications and approval of municipal budgets. These processes are intertwined. Due to persistent failures of timeous and meaningful compliance by all involved, including NERSA, this requires deadlines to be imposed, but does not entail ordering NERSA on how discretionary powers are to be exercised.

IS THEISSUIN OF A TIMELINE JUDICIAL OVERREACH?

- [9] The question is whether the court may, without judicial overreach, issue a structural interdict prescribing timelines for NERSA's municipal electricity-tariff process, in circumstances where NERSA's recurrent lateness has impaired municipalities' budget processes and the public's right to meaningful participation. Therefore, whether judicial deference to a specialist regulator precludes the court from directing NERSA, ESKOM and municipalities to act within reasonable timeframes, due to a persistent pattern of non-compliance, which results in constitutional harm, thus justifying relief under section 172(1)(b) of the Constitution.

LEGAL PRINCIPLES

Constitutional duties

- [10] Section 237 of the Constitution,¹ underscores that all constitutional obligations must be performed diligently and without delay.² This provision, read with sections 33 and 195, impose a duty of timely administrative performance upon regulatory authorities such as NERSA.
- [11] Section 35(c) of the Municipal Finance Management Act (MFMA),³ requires national departments and public entities to "provide timely information and assistance to municipalities to enable them to plan and adopt their budgets". Municipal budgets must be tabled 90 days before the commencement of the

¹ Constitution of the Republic of South Africa, 1996.

² *Khumalo and Another v MEC for Education, KwaZulu-Natal* 2014 (5) SA 579 (CC).

³ 56 of 2003.

financial year on 1 July; late tariff determinations by NERSA directly impede this obligation and frustrate the constitutional value of accountability.

- [12] Section 15(1) of the Electricity Regulation Act,⁴ mandates NERSA to regulate tariffs in a manner consistent with efficiency, transparency and equity. These statutory duties must be discharged within a constitutionally reasonable timeframe.

Judicial deference and the separation of powers

- [13] The principle of judicial deference serves as a restraint upon the judiciary's interference with the policy-laden or technical choices of administrative agencies. As stated in *Minister of Environmental Affairs and Tourism and Others v Phambili Fisheries (Pty) Ltd (Minister of Environmental Affairs and Tourism and Others)*,⁵ "(j)udicial deference is particularly appropriate where the subject-matter of an administrative action is very technical or of a kind in which a court has no particular proficiency".
- [14] The same judgment of the *Minister of Environmental Affairs and Tourism and Others* cautioned that deference does not entail abdication. It emphasised that "(j)udicial deference does not imply judicial timidity or an unreadiness to perform the judicial function. It simply manifests the recognition that the law itself places certain administrative actions in the hands of the executive, not the judiciary".⁶

⁴ 4 of 2006.

⁵ 2003 (6) SA 407 (SCA) at para 53.

⁶ 2003 (6) SA 407 (SCA) at para 50.

[15] The Constitutional Court in *Bato Star Fishing (Pty) Ltd v Minister of Environmental Affairs and Tourism and Others (Bato Star Fishing)*,⁷ reaffirmed this balance, as follows:

“The use of the word deference may give rise to a misunderstanding as to the true function of a review court. This can be avoided if it is realised that the need for Courts to treat decision-makers with appropriate deference or respect flows not from judicial courtesy or etiquette but from the fundamental principle of separation of powers itself”.

[16] However, it is cognisant to note that the court in *Bato Star Fishing* further held:

“[48] In treating the decisions of administrative agencies with the appropriate respect, a Court is recognising the proper role of the Executive within the Constitution. In doing so, a Court should be careful not to attribute to itself superior wisdom in relation to matters entrusted to other branches of government. A Court should thus give due weight to findings of fact and policy decisions made by those with special expertise and experience in the field. The extent to which a Court should give weight to these considerations will depend upon the character of the decision itself, as well as on the identity of the decision-maker. *A decision that requires an equilibrium to be struck between a range of competing interests or considerations, and which is to be taken by a person or institution with specific expertise in that area, must be shown respect by the Courts. Often, a power will identify a goal to be achieved but will not dictate which route should be followed to achieve that goal.* In such circumstances, a Court should pay due respect to the route selected by the decision-maker. *This does not mean, however, that where the decision is one*

⁷ 2004 (4) SA 290 (CC) at para 46.

which will not reasonably result in the achievement of the goal, or which is not reasonably supported on the facts or not reasonable in the light of the reasons given for it, a Court may not review that decision. A Court should not rubber-stamp an unreasonable decision simply because of the complexity of the decision or the identity of the decision-maker.”

[17] In *Logbro Properties CC v Bedderson NO and Others*,⁸ the court offered a nuanced definition of deference as:

“(A) judicial willingness to appreciate the legitimate and constitutionally ordained province of administrative agencies; to admit the expertise of those agencies in policy-laden or polycentric issues; to accord their interpretation of fact and law due respect; and to be sensitive in general to the interests legitimately pursued by administrative bodies and the practical and financial constraints under which they operate. This type of deference is perfectly consistent with a concern for individual rights and a refusal to tolerate corruption and maladministration. It ought to be shaped not by an unwillingness to scrutinise administrative action, but by a careful weighing up of the need for – and the consequences of – judicial intervention. Above all, it ought to be shaped by a conscious determination not to usurp the functions of administrative agencies; not to cross over from review to appeal.”

[18] Judicial deference, within the doctrine of separation of powers, must also be understood in the light of the powers vested in the courts by the Constitution.⁹ The Constitutional Court in *Allpay Consolidated Investment Holdings (Pty) Ltd and Others v Chief Executive Officer, South African Social Security Agency*

⁸ 2003 (2) SA 460 (SCA) (18 October 2002) at para 21, the court quoted C Hoexter ‘The Future of Judicial Review in South African Administrative Law’ (2000) 117 SALJ 484 at 501-502, citing A Cockrell ‘“Can You Paradigm?” – Another Perspective on the Public Law / Private Law Divide’ 1993 Acta Juridica 227.

⁹ *Trencon Construction (Pty) Ltd v Industrial Development Corporation of South Africa Limited and Another* 2015 (10) BCLR 1199 (CC) at para 45.

and Others(Allpay II),¹⁰ took this further by linking deference directly to the remedial powers of courts. To this effect, Froneman J stated that:

“[42] There can be no doubt that the separation of powers attributes responsibility to the courts for ensuring that unconstitutional conduct is declared invalid and that constitutionally mandated remedies are afforded for violations of the Constitution. This means that the Court must provide effective relief for infringements of constitutional rights ...

...

[45] Hence, the answer to the separation-of-powers argument lies in the express provisions of section 172(1) of the Constitution. The corrective principle embodied there allows correction to the extent of the constitutional inconsistency ...”

[19] Finally, in *Kenton on Sea Ratepayers Association and others v Ndlambe Local Municipality and others*,¹¹ the court recognised, with approval, that “...Structural interdicts are particularly suited to remedying systemic failures or inadequate compliance with constitutional duties...’ ”.

[20] Accordingly, in the context of NERSA’s chronic delays, judicial deference cannot translate into judicial passivity. The separation of powers doctrine requires respect for the administrative independence of specialist bodies, but it also demands judicial intervention when constitutional duties, such as

¹⁰ [2014] ZACC 12; 2014 (4) SA 179 (CC); 2014 (6) BCLR 641 (CC) at paras 42 and 45.

¹¹ [2017] JOL 37639 (ECG) at para 99 citing LAWSA Volume 10(1).

facilitating timely and participatory tariff determinations, are consistently not timeously performed.

PAST CONDUCT OF NERSA

[21] The City of Cape Town has demonstrated before the court that NERSA has repeatedly communicated its municipal tariff approvals late:

- i. 2022/23 - decision 29 June 2022
- ii. 2023/24 - decision 28 June 2023
- iii. 2024/25 - decision 3 July 2024
- iv. 2025/26 - decision 1 July 2025.

This chronology shows a systemic pattern of delay spanning four consecutive financial years.

[22] The delays violate section 35 of the MFMA and undermine municipalities' ability to finalise budgets and facilitate the minimum 30 days public-participation period mandated by Regulation 18(2) of the Regulations on Fair Administrative Procedure.¹²

¹² GN R1022, G 23674 31 July 2002.

- [23] NERSA attributes the delays to municipalities' late submissions and to Eskom's ERTSA tariff-application cycle. However, municipalities, through SALGA and the City of Cape Town, have accepted the concept or idea of a proposed annual timetable submission, which will bind them.
- [24] Counsel for NERSA invokes *Bato Star Fishing* to contend that the court should exercise judicial deference and argues that NERSA must balance competing interests; therefore, an equilibrium needs to be struck between a range of competing interests or considerations, which NERSA is best equipped to determine as the expert. These competing interests may appear to be between municipalities' late submissions and Eskom's annual ERTSA process. However, NERSA has not demonstrated how Eskom's submission would necessitate deviation from its own statutory duties or cause the persistent delay. Its pleadings rather reflect that the delays stem from municipalities' late submissions. I accept nevertheless that it requires five months to assess the ERTSA application once ESKOM has submitted it.
- [25] NERSA, as the regulator, bears both statutory power and a constitutional duty to enforce compliance and reject late applications when necessary to preserve the integrity of the budgeting process and the public participation timeline. By repeatedly accommodating non-compliance, NERSA has blurred accountability and penalised municipalities that meet deadlines. Judicial deference cannot be extended to condone regulatory inaction.
- [26] Also, NERSA relies on *Bato Star Fishing* to argue that "often, a power will identify a goal to be achieved but will not dictate which route should be

followed to achieve that goal.”¹³ The reliance is misplaced as the principle presupposes that the goal in question is, in fact, being pursued and progressively realised. However, for four consecutive years, NERSA has failed to achieve its own statutory and constitutional goal, namely, to ensure the timeous approval of municipal tariffs and to facilitate meaningful public participation in the process (with a minimum of 30 days for public comments). In these circumstances, judicial deference cannot shield continued non-performance; rather, it militates in favour of a structural interdict to secure compliance and restore constitutional accountability.

[27] Furthermore, while tariff regulation entails technical expertise, the relief sought does not prescribe the substance of NERSA’s determinations, but only the procedural discipline required to uphold constitutional rights to participation, accountability, and efficient governance. It thus regulates process within a statutory timeframe, not outcome. Therefore, this will not be an instance where the court usurps the functions of a specialist body.

[28] As the Constitutional Court explained in *Doctors for Life International v Speaker of the National Assembly*,¹⁴ participatory democracy imposes an affirmative obligation on public institutions to facilitate reasonable opportunities for public involvement. NERSA’s chronic tardiness has rendered such participation illusory.

¹³ See n.7 at para 48.

¹⁴ 2006 (6) SA 416 (CC) at paras 101 and 125.

- [29] *Earthlife Africa Johannesburg and Another v Minister of Energy and Others*,¹⁵ illustrates that when executive agencies disregard their transparency and consultation duties in energy governance, judicial intervention is not only permissible but also constitutionally required.
- [30] NERSA's pattern of disregard for the rights of the public and municipalities is not unsystematic, sporadic, once-off, or intermittent; rather, it appears systemic and continuous. Judicial deference must yield when a specialist body's constitutionally non-compliant conduct becomes systemic. In particular, where NERSA's inaction has threatened constitutional values of public participation and the municipalities' budget process, the separation of powers cannot be invoked as a shield for inefficiency. A specialist body's technical expertise is not a shield that protects it from compliance with constitutional and statutory obligations.
- [31] The persistent failure to meet deadlines has become a structural deficiency, eroding public confidence and impairing the rule of law. As noted by Froneman J in *AllPay II*, courts must provide effective relief for infringements of constitutional rights.
- [32] A structural interdict prescribing reasonable procedural timelines within a statutory time frame, with flexibility for exceptional circumstances, ie requiring

¹⁵ 2017 (5) SA 227 (WCC) (26 April 2017).

an application to the court, strikes the proper constitutional balance between judicial deference and accountability.

- [33] Given NERSA's consistent failure to finalise municipal tariffs timeously and undermining public participation and municipal budgeting, a structural interdict under section 172(1)(b) of the Constitution would constitute a fair and equitable remedy. Such relief would enforce accountability without dictating the substantive outcome of NERSA's regulatory functions.

REFINEMENTS TO THE TIMELINE

- [34] NERSA submitted in the alternative that refinements are required to ensure and enhance timeous compliance. It requires ESKOM to submit its ERTSA application by 31 August every year. That is fair. It is the first of a series of dominoes that must be in place for the statutory processes of tariff approval by NERSA and budget approval by municipalities to take place within statutory timelines. If NERSA does not impose this date as a licence condition, then ESKOM must be directed to comply by the court.
- [35] The second proposal was that, in light of the need for a NERSA decision on the ERTSA to be published by 31 January of every year, municipalities should file their applications for tariff approvals by 28 February and NERSA should make known its decision on such applications by the end of May. Dealing with the first date, the filing date for municipal tariff applications, the rule nisi envisages a filing date of 30 March. Cape Town suggests that 20 March is

more appropriate and that six weeks for NERSA to consider the applications would be fair.

- [36] As municipal budget adjustments need to be published at least 30 days before the commencement of the financial year on 1 July of every year, the NERSA suggestion of its decision being published by the end of May leaves insufficient time for adjusting municipal budgets based on the NERSA approved tariff by the end of May.
- [37] I accept the proposal by the City of Cape Town in this regard as it strikes a balance between the tariff approval and budget approval processes.
- [38] As these are the only date changes that were mooted, the order will adjust the dates accordingly.
- [39] The rule nisi did not expressly provide for deviations from the timeline to be sanctioned by the court. As section 4 of PAJA gives NERSA a discretion to deviate in respect of public participation processes, the order should not detract from this statutory power. However, as the exercise by NERSA of its discretionary powers has a knock on effect on the budget approval process, and may impact parties adversely, a balance of the interests of all concerned is required to forge a just and equitable remedy. The Court is not empowered to legislate, but imposing judicial oversight over deviations from the time lines will provide a forum to balance competing interests in a manner that is just and equitable. In the premises the following order is made:

ORDER

[40] The following order is made final:

1. Eskom is directed to file its annual ERTSA application on or before 31 August to enable NERSA to comply with par 2.1 below.
2. NERSA is directed to timeously comply with its obligations as public entity, and as envisaged in section 35(c)(ii) of the Municipal Finance Management Act, to timeously provide information and assistance to municipalities to enable municipalities to prepare their budgets in accordance with the processes set out in Chapter 4 of the MFMA. In pursuance of the aforesaid, the following directions are issued:
 - 2.1 By 31 January of every year, NERSA must give municipal licensees written notice of bulk or wholesale tariffs at which municipal licensees shall purchase electricity from Eskom, or any other licensed generator, for the next financial year;
 - 2.2 The notice referred to above shall in addition require municipal licensees to submit their electricity tariff applications by no later than 20 March of every year, failing which they run the risk of no tariff increase being approved;
 - 2.3 NERSA is directed to comply with the provisions of section 4 of PAJA, and the regulations published in terms thereof, in respect of whichever procedure for public participation it chooses, in

terms of section 4 of PAJA, for considering and approving municipal electricity tariff applications;

- 2.4 For purposes of meaningful public participation, NERSA is directed to publish every municipal electricity tariff application along with its cost of supply study for that particular financial year, in a manner that makes it accessible to the public, provided that, where a municipal electricity tariff application does not include a cost of supply study for the financial year, NERSA must specifically state the absence of such costs of supply study;
 - 2.5 NERSA is directed to finalise the process of considering the municipal electricity tariff applications timeously received and communicate its decisions on or before 05 May of every year;
 - 2.6 NERSA must simultaneously also publish all of the respective decisions it reached on the municipal electricity tariff applications received; and
 - 2.7 NERSA may not unilaterally extend, or deviate from, the aforesaid timeframes for municipal electricity tariff applications timeously received without good cause shown to the satisfaction of the court.
3. Every municipality that submits an electricity tariff application must take all reasonable steps to ensure that the public participation process NERSA chooses regarding municipal tariff applications is brought to the attention of the public within its jurisdiction.

4. ESKOM and each municipality is directed to comply timeously with the aforesaid timeline; provided that, on good cause shown to the satisfaction of the court, the court may sanction a deviation on such terms as it deems meet.
5. AfriForum shall forthwith cause this order to be served:
 - 5.1 On all participating respondents' attorneys of record, where such attorneys have been appointed, by email;
 - 5.2 On the Chief Executive Officer of Eskom, by the sheriff; and
 - 5.3 On the municipalities in **Annexure FA2** to the notice of motion, other than those in paragraph 5.1 above, by email sent to the municipal managers.
6. NERSA is ordered to pay the costs of the application, including the costs consequent upon the employment of two advocates, on Scale C, where so employed.



LABUSCHAGNE J
JUDGE OF THE HIGH COURT

APPEARANCES:

**COUNSEL FOR APPLICANT: ADV BOTHA SC
ADV HUGO**

INSTRUCTED BY : HURTER SPIES ATTORNEYS

CONSEL FOR RESPONDENTS : ADV SHANGISA SC

ADV CHARLIE

INSTRUCTED BY DM 5 INC. Illovo

ADV MAKHAJANE

COJ

: ADV SIBISI

INSTRUCTED BY : SSM ATTORNEYS

SALGA : ADV TSATSAWANE SC

: ADV NKABINDE

INSTRUCTED BY : HM CHAANE ATTORNEYS

CAPE TOWN : ADV BREITENBACH SC

: ADV REYNOLDS

INSTRUCTED BY : TIMOTHY AND TIMOTHY ATTORNEYS

DATE JUDGEMENT DELIVERED: 04 DECEMBER 2025



Cost of Supply Framework and Pricing Methodology for Electricity Distributors in South Africa

Issued by:

The National Energy Regulator of South Africa
526 Madiba Street
Arcadia, Pretoria
0007

Contact Details:

Tel: +27(0)12 401 4600
Fax: +27(0)12 401 4700
Email: cosframework@nersa.org.za
Website: www.nersa.org.za

Published in October 2023

Contents

1. INTRODUCTION	3
2. COST OF SUPPLY STEPS	3
3. RING-FENCING	4
4. REVENUE REQUIREMENT	6
a) Cost-plus methodology	6
b) Rate of return.....	8
5. SALES	8
6. PURCHASES	9
7. REGULATORY ASSET BASE (RAB).....	10
8. DEPRECIATION	11
9. AMORTISATION OF LONG-TERM DEBT/INTEREST ON LOANS	12
10. RETURN ON ASSETS (ROA).....	12
11. OPERATING EXPENDITURE	13
12. SHARED COSTS	14
13. NOTIFIED MAXIMUM DEMAND EXCEEDANCES	14
14. REPAIRS AND MAINTENANCE	15
15. COST FUNCTIONALISATION	16
16. COST CLASSIFICATION	16
17. COST ALLOCATION.....	17
18. RATE SETTING AND ANNUAL ESCALATION MECHANISM.....	23
19. WHEELING CHARGES.....	24

1. INTRODUCTION

- 1.1 Section 4(c) of the National Energy Regulator Act, 2004 (Act No. 40 of 2004) ('the NERA') empowers the National Energy Regulator of South Africa (NERSA) with the responsibility to undertake the functions detailed in section 4 of the Electricity Regulation Act, 2006 (Act No. 4 of 2006) ('the ERA').
- 1.2 The ERA sets out NERSA's powers and functions. Of relevance to this application is section 4(a)(ii), wherein NERSA is empowered and required to regulate prices and tariffs.
- 1.3 Section 15(1) of the ERA prescribes the principles that should govern the setting and approval of tariffs, as follows:
 - a) Tariffs and revenues must enable an efficient licensee to recover the full cost of its licensed activities, including a reasonable margin or return.
 - b) Tariffs must also give end-users proper information on the costs that their consumption impose on the business.
 - c) Tariffs must avoid undue discrimination between users, and may permit cross-subsidisation between certain classes of customers, but should avoid discrimination between customer categories.
 - d) Tariffs should also provide an incentive for technical and economic efficiency improvements.
- 1.4 The Electricity Pricing Policy (EPP) states that 'Electricity distributors shall undertake Cost of Supply (COS) studies at least every five years, but at least when significant licensee structure changes occur, such as in customer base, relationships between cost components and sales volumes'. It also states that the cost of service methodology used to derive tariffs must accompany tariff applications to the Energy Regulator for changes to tariff structures. Eskom last applied for the revision of its tariff structures in 2012 based on the cost of supply study that it had conducted then.
- 1.5 At its meeting held on 29 October 2015, the Energy Regulator approved the COS Framework to assist licensees in undertaking COS studies. Subsequent to the approval, the framework was enhanced to include the useful lives of electricity assets to be used for depreciation purposes. This was approved on 29 March 2016.

2. COST OF SUPPLY STEPS

- 2.1 The framework primarily focuses on the distribution business of a licensee. Nonetheless, it is also acknowledged that certain distributors have their own generation plants, and others have progressed or might progress into transmission capacity. Therefore, the framework includes cost drivers relating to electricity generation, distribution and transmission. The framework follows a four-step process. The steps cover revenue requirement, cost functionalisation, cost classification and cost allocation with the ultimate goal of rate setting.

- 2.2 The Embedded Cost Basis was adopted in the development of the COS Framework in South Africa. This approach determines the apportionment of accounting-based revenue requirements using the functionalisation, classification and allocation processes with the ultimate goal of rate setting.

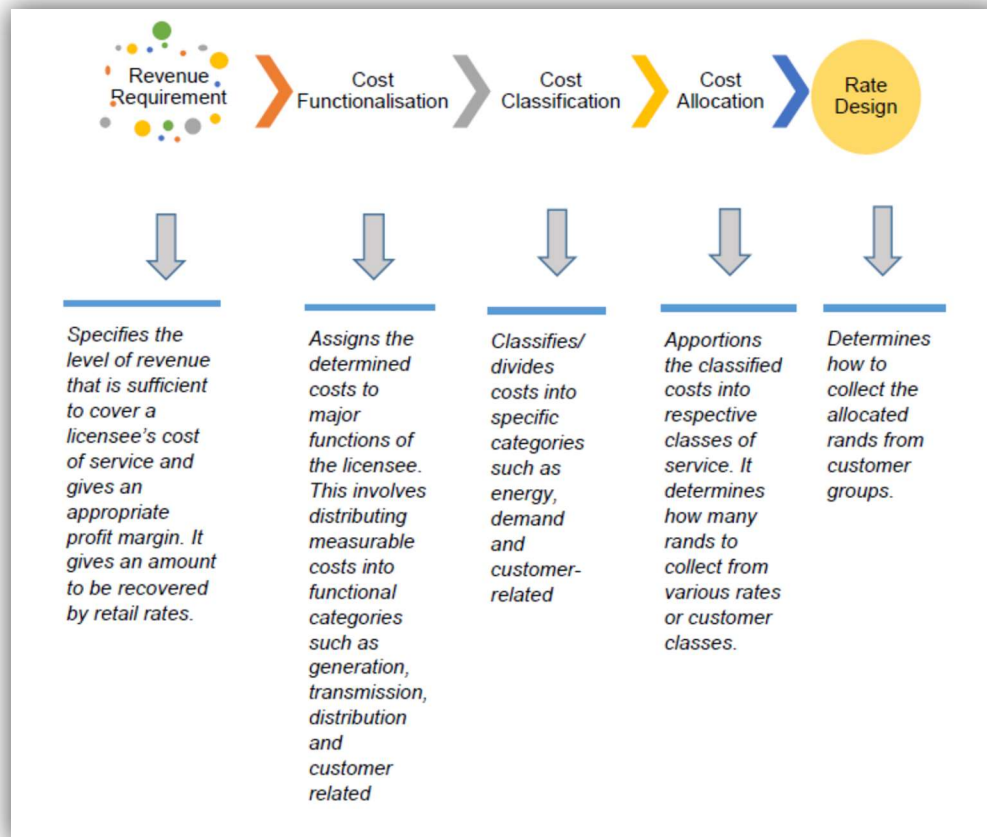


Figure 1: Cost of supply process

3. RING-FENCING

- 3.1 Classification and allocation of cost according to functions ensures that licensees achieve accounting ring-fencing. Cost functionalisation entails the arrangement of costs according to the major operating functions of a licensee, such as production/generation, transmission, distribution or customer-related costs. This assists in facilitating a determination in terms of which customer groups are responsible for such costs. All costs should be assigned to the major functions of a licensee. Costs can be assigned to different functions within a licensee.
- 3.2 For electricity, the following key accounts should ideally be delineated:
- Customer services
 - Networks
 - Energy.

- 3.3 The ring-fencing enforced by NERSA is the separation of accounts through the submission of the regulatory accounts. NERSA is not mandated to dictate how municipalities should spend their revenues, but is mandated to inspect the electricity account, and advise on and set tariffs based on the submitted regulatory accounts.
- 3.4 The ERA empowers NERSA to establish norms and standards and key performance indicators (KPIs) for municipalities to ring-fence their accounts through the submission of statements of electricity accounts. According to section 2.4 of the Electricity Pricing Policy (EPP), ring-fencing of key electricity functions (e.g. generation, networks, wholesale/retail and customer services) is the first step towards achieving accurate, transparent and unbundled accounts.
- 3.5 The revenue earned by the electricity business, as presented in the segments, must align with what is reported in the financial statements. Inter-segment transactions should be based on cost recovery, plus a return, in line with revenue requirement determination. All direct corporate overhead costs should be allocated to the relevant segments, and a cost driver apportionment should be used to split the remaining overhead costs on an equal basis between segments.
- 3.6 The following major costs and revenues should be ring-fenced:
- a) Services supplied by the electricity department to the rest of the municipality, where no charge is levied to cover the cost of supplying such service.
 - b) Electricity equipment and other resources used by the rest of the municipality with no charge. This typically includes heavy vehicles, large machinery and meter readers.
 - c) Public lighting, including streetlights, high-mast lights, traffic lights and parking lot lights. This service is considered a municipal service and not part of electricity supply, although the service is provided by the electricity department.
 - d) Electricity for own use by the municipality: Many municipalities have a different set of tariffs for the supply of electricity for use by their facilities, such as municipal buildings, stores, sewerage supplies, water pumping, and sometimes by staff.
 - e) Services the municipality provides to the electricity department: Typical services include meter reading and billing, revenue collection, general accounting and administration, telephones and stores.
 - f) Funding of capital expenditure: Some assets are still funded from external loans and some from internal consolidated loan funds.
 - g) Government grant funding: This distorts the normal profitability of departments and complicates the fair allocation of costs and revenues.
- 3.7 The following combination of allocation principles can be used:
- a) HR costs: A combination of staff costs and staff numbers
 - b) IT costs: A combination of computer numbers and computer asset values
 - c) Land and buildings: Asset values
 - d) Equipment: A combination of replacement values, purchase prices and number of assets

- e) Financial and other services: A combination of the number of customers served and the revenues.

3.8 All allocation ratios and principles should be set out in the manual used to ring-fence costs and revenues.

4. REVENUE REQUIREMENT

4.1 Licensees can choose between the cost-plus or rate of return methodologies. The methodology to recover revenues will be based on whether a licensee can supply an up-to-date asset register; if not, the preferred approach is the cost-plus methodology.

a) Cost-plus methodology

Current COS Framework Provisions

- 4.2 The cost-plus methodology means that a profit margin is added to determine a licensee's revenue requirement after all costs have been ascertained. The margin is represented by the surplus to be earned by the licensee.
- 4.3 After considering each licensee's particular circumstances, NERSA determines the surplus to be earned by the licensee. Currently, NERSA uses a tolerable range of 10 to 20%, with a target of 15% on the percentage surplus.

Table 1: Formula for the Cost Plus methodology

Total Required Purchases (MWh)				
(a) Sales forecast (Expected sales to customers)				X
(b) Electricity purchased for own use ¹				X
(c) Street lighting				X
(d) = (a) + (b) + (c) Total sales forecast				X
(e) Allowable loss factor (Represents a percentage energy loss of 10%) ²				1.10
(f) = (d) x (e) Required purchases				XX
Sources of Electricity Purchases	(g) Volume (MWh)	(h) Weight (%)	(i) = (j) / (g) Average Purchase Price(c/kWh)	(j) = (g) x (i) Total Cost (R)
Purchases from Eskom				X
Purchases from IPPs				X
Own Generation				X
Purchases - Other options				X
Total		100%		XX
Add other costs				
Operating expenditure				X
Shared costs				X
Depreciation/amortisation of refurbishment and capital costs				X
Interest on loans				X
(k) Total costs before Repairs and Maintenance (R&M) costs				XX
(l) = (k) x 6% Repairs and Maintenance costs at 6% of total costs before R&M				X
(m) = (k) + (l) Total costs before surplus				XX
(n) = (m) + 15% Add surplus allowable				15%
(o) = (m) + (n) Total Allowable Revenue				XXX
(p) = (o) / (f) Average selling price				X
(q) Previous year price				X
(w) = (p) / (q) - 1 x 100 Average percentage price increase				X %

Source: NERSA COS framework (2016, p.g 8 & 9)

- 4.4 A profit margin is required for a licensee to be efficient, sustainable and able to recover its costs to provide electricity to customers. If a surplus is not realised, a licensee is expected to maximise its efficiencies within its cost structures and not use the tariff application process as a profit-generating mechanism. Utilities in South Africa have applied for higher tariff increases due to declining percentage surplus and sustainability. Therefore, it is important that the proposed framework addresses the mark-up issue.
- 4.5 Due to some licensees' limited capacity to realise a surplus since they buy electricity from Eskom at the Nightsave tariff, NERSA will assess the application submitted and adjust it to consider the prevailing market conditions.
- 4.6 Since a licensee should add all its costs and a mark-up to determine its surplus, it should further demonstrate to NERSA the efforts it has put in place to deal with a decline in the surplus, which may include reducing its costs and other initiatives.

b) Rate of return

- 4.7 The current framework does not cater for an alternative to ascertain the licensee's revenue requirements. The amendment of the framework includes the rate of return (ROR) as an alternative to determining the revenue requirement of a licensee.

Formula for the ROR methodology

- 4.8 The formula highlights the three broad components of the ROR that will be used to calculate the revenue requirement, as discussed below:

$$R = E + (V - d + w) \times r$$

Where:

R = the required revenue of the regulated entity;

E = the operating expenditure

V = the value of the regulatory asset base

d = the accumulated depreciation on the regulatory asset base

W = the allowance for working capital held by the regulated entity

r = the calculated rate of return using the weighted average cost of capital (WACC).

Rules on the Rate of Return

- 4.9 The return on assets plays a major role in the application of the ROR methodology. It rewards the municipality for investing in the business. The fundamental principle is that the more the utility is exposed to risk, the more returns will be required to compensate for such risk. The rate of return shall be calculated using the WACC.

5. SALES

- 5.1 The first step in the revenue determination under the current framework is the sales forecast determination.
- 5.2 Sales are a key requirement in the business planning process as it includes planning for financial, human and physical resources to be utilised by a business. If the forecast sales are not realised, there is an expectation that a business will reduce its fixed costs over the medium to long term, as variable costs would have already decreased. However, this may be challenging in a natural monopoly business, such as electricity distribution, because this sector provides collective services shared by a number of users. Also, a huge portion of the costs are fixed. In addition, the sales/load forecasting approach is critical to ensuring that planning for the future resource needs of a utility is accurate, otherwise, a utility may over-invest in assets that then become stranded. Utilities in South Africa have applied for higher increases in revenues/tariffs due to declining sales. Therefore, it is important that the proposed framework addresses the sales issue.

- 5.3 Electricity distributors should provide the methodology and assumptions used to compile the sales forecast. The sales volume forecast assumptions must reflect the current conditions of the market at the time of the application and should consider the most recent actual volumes.
- 5.4 Due to the limited ability of some of the distributors to develop and implement a sales forecast methodology, NERSA will assess the sales forecast submitted and adjust it to take into account prevailing market conditions. NERSA may set a sales forecast applicable to a group of licensees and use this as a basis for COS studies and tariff setting.
- 5.5 Since sales trends are stable over time, distributors should demonstrate to NERSA the efforts they have put in place to deal with the decline in sales, which may include reducing their costs and implementing sales and marketing and other initiatives (subject to limitations in terms of capacity constraints).
- 5.6 The sales forecast should include own use, the impact of small-scale embedded generation (SSEG), load-shedding and other factors on the expected sales.
- 5.7 A sales forecast is a necessary requirement for projections for resources needed by a business, however the requirement determines revenues required by a business to cover its costs, both fixed and variable.

6. PURCHASES

- 6.1 The current framework takes into account purchases from Eskom, independent power producers (IPPs), other sources and own generation. The current framework further allows the licensee to use the purchases for the test period to forecast sales for the financial year that it is applying for. The forecast purchases, including the street lighting electricity, own use electricity and the allowable loss factor, are also considered by the current framework. The allowable loss factor is defined as 10% of the total anticipated purchases. This represents a 10% energy loss as per the current NERSA benchmarks. The tolerable range for energy losses is 5 to 12%. Licensees that have an efficient system can reduce losses to below 10%. Furthermore, licensees are incentivised for losses below 10%. The forecast purchases are weighed against the percentage contribution of each source of electricity to arrive at the average purchase price (APP) and, consequently, the total purchase cost of a licensee.
- 6.2 The cost associated with electricity purchases or the procurement of energy from different sources plays an important part in setting rates for electricity distributors. The cost of buying electricity from Eskom is efficient, because the purchase price is set and approved by the Energy Regulator. However, electricity purchases or procurement of energy and capacity from IPPs will be incurred based on the terms and conditions of the

respective power purchase agreements (PPAs). The Energy Regulator would have set the prices for licensed IPPs, while contracting between electricity distributors and unlicensed generation facilities has not been tested for efficiency. This means an electricity distributor can procure energy from an unregistered third party and pass through an inefficient cost to the customers.

- 6.3 In evaluating applications based on the COS framework/methodology, the cost associated with the IPPs will be tested for efficiency and prudence.
- 6.4 The licensed distributor must furnish NERSA with PPAs or any agreements that are in place between themselves and generation facilities, as well as invoices from the previous revenue period.

7. REGULATORY ASSET BASE (RAB)

- 7.1 The calculation of the RAB is meant to provide a basis for licensees to determine their respective depreciation based on the straight line approach and a return based on the WACC.
- 7.2 In enhancing this section, NERSA has taken guidance from section 15(1) of the ERA, which requires that an efficient licensee must recover the full cost of its licensed activities, including a reasonable margin or return. In getting to a reasonable asset base, NERSA requires licensees to value their assets using the indexed historic cost approach to determine the RAB replacement cost.

RAB initial measurement

- 7.3 Items of property, plant and equipment should initially be recorded at cost. Cost includes all costs necessary to bring the asset to working condition for its intended use. This would include its original purchase price and costs of site preparation, delivery and handling, installation, related professional fees for architects and engineers, and the estimated cost of dismantling and removing the asset and restoring the site.

Measurement subsequent to initial recognition

- 7.4 Licensees should use the indexed cost model to ascertain the replacement value of assets. The asset should be valued at an indexed cost, less the accumulated depreciation and impairment.

De-recognition (retirements and disposals)

- 7.5 Assets should be removed from the RAB on disposal or when withdrawn from use, and no future contribution to electricity supply is expected from their disposal.

Disclosure

- 7.6 For each major class of property, plant and equipment, licensees should disclose the following as a minimum:
- a) The basis for measuring the carrying amount
 - b) Depreciation method(s) used
 - c) Useful lives or depreciation rates
 - d) Gross carrying amount and accumulated depreciation and impairment losses
 - e) Reconciliation of the carrying amount at the beginning and the end of the period, showing additions, disposals, impairment losses and reversals.

RAB performance indicators

- 7.7 NERSA will use the System Average Interruption Frequency Index (SAIFI) or System Average Interruption Duration Index (SAIDI) as RAB performance measurement tools to adjust the network availability charges to customers.
- a) **SAIFI**: Represents the average number of times a customer experiences an outage during the year.
 - b) **SAIDI**: Describes the total duration of the average customer interruption.
- 7.8 These RAB performance indicators are meant to incentivise licensees to improve the performance of the RAB (networks) in delivering reliable and uninterrupted services.

8. DEPRECIATION

- 8.1 Depreciation is catered for in the cost component of the COS that licensees must recoup from tariffs.
- 8.2 Depreciation plays a vital role for the licensee to recoup the investment on its regulated assets to further invest in the business activity to ensure an uninterrupted supply of electricity to customers.
- 8.3 Regulatory depreciation of electricity asset provides the regulatory mechanisms under which capital investment costs by licensees are recovered on a cost-reflective basis over the course of its economic/regulatory economic life.

- 8.4 Depreciation is calculated on the RAB on a straight-line basis over the useful economic life of the asset using the following formula:

$$D = RAB \times (\text{remaining useful life} / \text{total useful life})$$

Where:

D = Annual depreciation

RAB = Regulatory Asset Base

Remaining useful life = an accounting estimate of the number of years the asset is likely to remain in service/use for the purpose of cost-effective revenue generation.

Total useful life = an estimation of the length of time the asset can reasonably be used to generate income and be of benefit to the municipality/ licensee.

- 8.5 Refurbishment costs shall be capitalised and amortised over the expected useful and economic lives of the refurbished assets.

9. AMORTISATION OF LONG-TERM DEBT/INTEREST ON LOANS

- 9.1 NERSA, in consultation with the relevant stakeholders, shall determine the economic life of the regulated electricity asset.

Interest on loans and capital repayments

- 9.2 Interest on loans will be based on the amount of interest paid to cover the loans acquired for the acquisition and refurbishment (repairs and maintenance) of the assets utilised on licensed activities.
- 9.3 Long-term loans must be taken only to acquire long-term assets. The municipality must clearly ring-fence loans taken for the electricity business from other loans of the municipality.
- 9.4 The municipality must provide evidence that the loans were procured efficiently and concluded using arm's length principles.

10. RETURN ON ASSETS (ROA)

- 10.1 The return on assets shall be calculated using the WACC, which comprises the cost of equity and cost of debt. The formula is as follows:

$$WACC = (K_d \times G) + [K_e (1 - G)]$$

Where:

K_d = cost of debt

G = level of Gearing

K_e = cost of equity

Cost of debt

- 10.2 The cost of debt (K_d) reflects the interest that is payable by the regulated licensee.
- 10.3 The risk-free rate shall be used as a proxy for the cost of debt.
- 10.4 In estimating the cost of debt, an appropriate debt premium shall be added to the risk-free rate of return.

Gearing

- 10.5 For the purpose of regulation, the licensee will determine its optimal gearing based on its actual calculation of its capital structure (debt–equity ratio of the capital structure).
- 10.6 NERSA will use licensee-specific gearing based on submitted information per application.

Cost of equity

- 10.7 The Capital Asset Pricing Model (CAPM) shall be used in determining the cost of equity as follows:

$$K_e \text{ Real} = R_f + (Mrp * \beta)$$

Where:

K_e = Nominal cost of equity

R_f = risk free rate

Mrp = market risk premium

β = beta

11. OPERATING EXPENDITURE

- 11.1 Section 3.2.1.1(a)(ii) of the current COS Framework provides that the licensee will be allowed operating expenditure in line with six key principles, namely:
- Allowable expenses relate to all expenses incurred in the production and supply of electricity. These costs include normal operating expenditures, such as labour costs and overheads (centrally administrative and general expenses allocated), that are normally recovered within one financial year, but exclude refurbishment costs that must be capitalised.
 - Expenses must be incurred in the normal operation and supply of electricity.
 - Expenses must be prudently and efficiently incurred and through at arm's length transaction. Licensees must have a competitive procurement policy and demonstrate to NERSA that it has strictly adhered to its procurement processes.

- d) For any expenses incurred under abnormal or extraordinary circumstances, consideration shall be given to spreading such expenses over a number of years. This consideration may also apply to particular types of expenditure within management's control, only for purposes of tariff smoothing once NERSA is satisfied that those expenses have been prudently and efficiently incurred.
 - e) Allowance for the human resources costs will be at reasonable levels. NERSA may require access to wage settlement documents to verify the reasonability of these costs. Costs relating to corporate social investment, expenses on charitable donations and broad social development activities cannot be included as qualifying (regulated) expenses unless it can be shown that these costs benefit tariff-paying customers.
 - f) Other expenses that are not related to the core business of supplying electricity will also be disallowed.
- NB: In classifying operating costs further into controllable or non-controllable elements, the Energy Regulator will decide on incentives for the licensee to minimise costs that are under its control and encourage it to reduce some of the costs that are not under its control.

12. SHARED COSTS

- 12.1 Shared costs should be limited based on the usage or causation by the licensee or electricity department. Costs containing different cost drivers' characteristics must be classified and allocated according to their characteristics.
- 12.2 The electricity distributor should start with ring-fencing its electricity business to assign shared costs to its cost objective in an equitable manner in terms of the benefit provided.
- 12.3 The electricity distributor should provide a method or assumptions used to determine the proportionate benefit provided by an activity or services to the shared cost.

13. NOTIFIED MAXIMUM DEMAND EXCEEDANCES

- 13.1 The COS Framework must outline the costs that NERSA will not allow through the tariff. This is to ensure that licensees know upfront which costs are not regarded as prudently incurred costs. The list of these costs does not necessarily have to be exhaustive, but it is necessary to highlight the costs that have arisen over the years. To be included on this list is the cost paid towards penalties for NMD exceedances. Licensees should be instructed to manage their NMD costs by charging or imposing penalties for exceedances on their customers. This is to ensure that the customers responsible for the NMD penalties pay for the penalties so that this cost is not socialised. Each customer's NMD requirements contribute to the peak demand of the system. If each customer stays within their NMD, the system peak remains within what was planned, or what it was designed for. The licensees must be transparent in terms of the methodology used to determine the penalties. As far as is reasonably possible, the costs should be

based on the additional cost to the licensee for the provision of the additional capacity or the new peak that was not planned.

- 13.2 The framework should clearly indicate that no costs will be allowed for NMD exceedances or payments made for penalties as a result of licensees exceeding their NMD. Eskom charges its customers for NMD exceedances, therefore, municipalities must do the same. Failure to do so by the municipalities will result in the cost of penalties being socialised should they be allowed through the tariff. The framework must also obligate licensees to be transparent in terms of the formula used to determine penalties related to NDM exceedances. This may require the identification of costs that vary with capacity/demand (kVA) and using that as a basis to determine penalty charges.

14. REPAIRS AND MAINTENANCE

- 14.1 Municipalities must provide NERSA with the planned scope of maintenance work to be done in the assessment period and the itemised costs thereof.
- 14.2 The money allocated towards maintenance should not be based on benchmarks or estimates but on actual cost to maintain the network based on the scope of work. The maintenance plan should outline the scope of work, including the cost of each maintenance activity that will be carried out according to the Original Equipment Manufacturer (OEM) of the various plant equipment.
- 14.3 The maintenance budget should be derived from the maintenance plan. There must, therefore, be a correlation between the maintenance plan and the budget.
- 14.4 The maintenance philosophy, which outlines the various maintenance strategies for various equipment, must be provided. This should indicate, as a minimum, which maintenance strategy (preventative, predictive or run-to-failure) will be adopted for various equipment. The Life of Plant Plan that indicates the remaining life of major assets and what high-level maintenance work is required to ensure that these assets reach their designed lives, i.e. General Outage (GO), Major General Outage (MGO), Interim Repairs (IR), and the high level scope of each, should also be provided. This will give NERSA assurance that the network will reach its designed life.
- 14.5 Having provided the cost of performing maintenance for a 50kVA transformer, for example, NERSA should benchmark this cost with other similar utilities to allow or disallow the full cost. This will ensure that the maintenance budget is within the range of other utilities that carry out similar maintenance activities.

15. COST FUNCTIONALISATION

- 15.1 The current framework requires that all costs be assigned to the following three major operating functions of a licensee:
- a) Production/generation (Gx)
 - b) Transmission (Tx)
 - c) Distribution (Dx) or customer-related costs.
- 15.2 This arrangement assists in facilitating a determination as to which customer groups are jointly responsible for such costs. Costs such as administrative and general expenses, as well as costs associated with the general plant are considered joint costs and are not functionalised to production, transmission or distribution directly; but are allocated to these functions on a basis that is appropriate to the particular cost (e.g. plant or labour ratios).
- 15.3 Cost functionalisation is critical in determining efficient rates. In this process, there is a prescribed uniform system of accounts where accounting records are commonly kept. Based on the accounting instructions accompanying the uniform system, costs are recorded in specific accounts or sub-accounts.
- 15.4 According to the COS Framework, most of a licensee's costs can be directly assigned to relevant functions. However, certain costs, such as shared costs, cannot be assigned to specific functions. Nonetheless, they should be allocated. Straight-forward costs should be assigned and allocated to a relevant function of the licensee, namely generation, transmission, distribution or customer-related.
- 15.5 Due to some distributors' lack of capacity to functionalise costs appropriately, NERSA will assess the study submitted and identify areas to take into account given the prevailing market conditions. NERSA may set parameters applicable to a group of licensees and use them as a basis for COS studies and tariff setting.

16. COST CLASSIFICATION

- 16.1 The objective of cost classification is to arrange costs into groups that bear a relationship to a measurable cost-defining characteristic of rendering the service.
- 16.2 The current framework classifies the cost between fixed and variable. The fixed and variable costs are classified as demand, usage or energy and customer-related. The sum of these three types of costs within a given class is the cost to serve that class.

a) Process of cost classification between fixed and variable costs

Functionalised costs are classified as fixed or variable, depending on their characteristics. Fixed costs are costs that remain constant regardless of the volume of output, and are predominately associated with capital investment. Fixed costs

include investment-related costs such as return, taxes, as well as certain operation and maintenance (O&M) expenses, including labour and administrative and general (A&G) expenses. Variable costs are costs that vary with the volume of output. Variable costs primarily consist of fuel costs. The non-labour portion of certain O&M expense accounts can also be classified as variable costs. Non-labour costs include materials and supplies.

b) Process of cost classification between energy, demand and customer-related costs

After functionalised costs are classified as fixed or variable, they are classified as energy, demand or customer-related costs. The energy and demand components are generally associated with providing peak and annual services. Variable costs are classified as the energy component to match their recovery with the level of output.

- 16.3 The purpose of the COS study is to ensure that licensees recover all the costs associated with supplying a customer. Therefore, when a municipality designs a tariff, it is important to ensure that all the related cost drivers are classified and eventually allocated to the relevant customer.
- 16.4 According to the COS Framework, most of a licensee's costs can be directly assigned to relevant functions. This principle should also apply in a one-part tariff, where the final tariff that a customer pays has embedded all the costs related to supplying that customer (i.e. demand and customer-related costs).

17. COST ALLOCATION

Cost allocation methodology

- 17.1 The adopted methodology for cost allocation is the asset valuation methodology. This methodology accurately reflects the replacement value of a licensee's assets. It uses annualised replacement costs and is a closer approximation of the true economic cost of providing the service.
- 17.2 This methodology allows for the cost chain involved in the supply of electricity to be understood. The function of the cost chain ranges from the production of electricity, the transmission of produced energy over power lines to load centres, the transportation and transformation of the power over the distribution networks, delivering the energy to the end-users, providing support services to such end-users, and the billing of end-users.
- 17.3 The adopted approach limits cost allocation to the following cost drivers: energy-driven costs (in monetary units, c/kWh), demand-driven costs (R/kVA) and customer driven costs (R/customer).

- 17.4 Various factors influence the costs of providing electricity to customers. They vary depending on, among others, the quantity of electricity used, the size of supply required, the period when electricity is used, the customer's geographic location, the voltage at which supply is provided and the power factor.

Energy cost allocation

- 17.5 The energy cost component of a licensee consists of costs that would vary with changes in the unit consumption of energy. The energy cost component of purchases is easy to allocate, because the purchase rates can be passed on to all lower voltage levels with an additional adjustment for losses.
- 17.6 The losses are determined by assuming loss factors for each network component and then comparing the cumulative losses to a network position with the expected loss values for that particular network location. If the cumulative losses of the network components do not compare with the expected or theoretical losses, the loss factor of every network component should be scaled accordingly. The share of total cost attributable to a customer group is calculated as follows:
- a) Calculate the time-differentiated consumption (if required) of every customer group at each voltage level
 - b) Multiply the consumption by the loss differentiated purchase rates.
- 17.7 The result of this allocation is a Rand value for each customer group at each voltage level representing the energy purchase cost.
- 17.8 Additional costs, such as overheads and other energy-related costs, can be incorporated with the calculated (energy-related) unit costs. These costs can be applied to specific customers. The total cost must be divided by the total energy consumption for relevant customers to derive a unit energy-related cost for each customer in the category. This derived unit cost must be added to the unit purchase cost for each agricultural customer.
- 17.9 The total energy-related cost for each agricultural customer can now be determined by multiplying the unit energy-related cost (including the additional energy-related costs) by the total consumption of the customer.

Demand cost allocation

- 17.10 The demand cost allocation method is used for all costs classified as demand-driven. This includes the network capital cost, the operations and maintenance cost of some networks, the demand purchase cost and the wires component of the purchase cost (if applicable). For this framework, the average and excess (A&E) method is adopted under demand cost allocation. The A&E method is used to allocate the cost of each asset category in the Reduced Network Diagram (RND) to each applicable customer group (refer to Appendix A for illustration). If a customer group uses a specific asset, that customer group should be included in the allocation of the cost of the asset group. For

example, the cost of the 132kV assets will be determined based on the demand imposed by each customer group on the 132kV network and the cost of these assets.

- 17.11 The allocation of a share of the network capital to a specific customer group is then calculated as follows:
- Calculate the proportion of each asset category in the RND that should be allocated to each customer group.
 - Sum all cost portions for all applicable assets per customer group.
 - Divide the total cost by the sum of the customer groups' undiversified maximum demands to calculate the R/kVA cost.

Customer cost allocation

- 17.12 Customer costs vary by the type of customer served. The number of customers or weighted number of customers is the basis for the customer allocation factors.
- 17.13 The total cost of a function is divided by either the number of customers or the weighted number of customers triggering such a cost component. For example, the number of large customers is used to divide the cost of meter reading for large customers.
- 17.14 The customer service cost, for example, is divided by the weighted customer numbers to determine the unit cost per customer. The principle is that one large customer is the equivalent of several small customers. Therefore, a bigger proportion of the cost is allocated to the large customer.

A. Cost allocation process

- 17.15 The cost allocation process involves allocation along cost drivers for:
- energy cost drivers, which relate to kWh consumed plus the network technical losses;
 - transmission network, which relates to diversified network demand as measured at main transmission sub-station;
 - distribution network, which refers to the network maximum demand relative to the system demand; and
 - retail/customer-related, which relates to the point of delivery share of total retail costs differentiated by the type of service and customer demand size.

i. Phase 1

- 17.16 The first phase of the process of cost allocation involves conducting the following activities to arrive at the cost allocation diagram (CAD):
- Conducting a network cost of supply study. The study is achieved by conducting a bay-by-bay study.

- b) Derivation of the general network diagram (GND). This is achieved by reviewing the network topography and obtaining the network lines, transformation assets and capacity details.
- c) Determining distribution assets per replacement value using overnight cost. This is achieved by using the network data obtained to cost each asset category per voltage level, i.e. high voltage (HV), medium voltage (MV) and low voltage (LV). Thereafter, LV supplies should be analysed by making assumptions and cost LV. Once the information has been analysed, it must be summarised and captured in relevant templates.
- d) Derivation of the CAD: This is the last step, which will be achieved by consolidating the GND and replacement costs (or overnight costs) into the CAD.

ii. Phase 2

17.17 The second phase of the process involves costing information, which is achieved by conducting the following activities:

- a) Effecting the approved revenue for a licensee to achieve the revenue requirement per licensee.
- b) Determining energy rates, distribution network charges and zonal loss factors to achieve purchase tariffs.
- c) Updating the distribution network loss factors.
- d) Conducting an electricity sales forecast.
- e) Determining the customer categories.

iii. Phase 3

17.18 The third phase of the process involves cost allocation, which is achieved by conducting the following activities:

- a) Active energy and technical losses: The cost of electrical losses is unbundled and recovered as a function of (a) the appropriate loss factors for the relevant voltage level, whether urban or rural and (b) distribution cost of energy purchases cost on a time-of-use basis. Since the purchase rates are currently differentiated according to the time of use, the measurements and calculation of losses will follow the same time-of-use periods. In calculating the cost of these losses for customers, both transmission and distribution loss factors are considered in allocating the costs, as follows:

Table 2: Loss factors

<u>Cost for total losses</u> = $\sum \{ \text{Delivered energy}_t \times (\text{distribution loss factor}_{VU/R} \times \text{transmission loss factor}_Z - 1) \times P_t \}$ Where: VU/R = at the relevant voltage level and urban/rural differentiation and Z= transmission zone and t = the appropriate Peak, Standard or Off - peak (PSO) time period and P_t= Purchase energy price for each PSO time period.

- b) Transmission loss factors are geographically differentiated. In contrast, the Distribution loss factors are based on estimated average losses per voltage category – the voltage level and rural and urban networks are differentiated as indicated in Table 3 below.

Table 3: Distribution loss factors per voltage category

	Urban	Rural
Voltage	Loss Factor	Loss Factor
<500V	1.0912	1.1189
≥500V - <66kV	1.0560	1.0900
≥66 – ≤132 kV	1.0174	NA
> 132 kV	0.0000	NA

- c) The geographical position of a supply point has an impact on electrical losses, i.e. the further the point of supply is from the source of the supply, the higher the losses. As losses are a cost to the business, they are allocated to customer categories based on the amount of losses determined. Losses over urban and rural networks are different and, therefore, loss factors are associated with different geographic positions. Therefore, voltage also has an impact on losses.
- d) Distribution network: The principal cost drivers for the network business are the voltage at which customers receive supply, the location of the customer and the capacity of the supply. Distribution network costs are therefore allocated according to Distribution's current voltage level and geographic categories on a R/kVA basis. The geographic (local and density signal) signal is provided through rural and urban differentiation. The voltage differentiation is based on the following categories.

Table 4 : Voltage level categories

VOLTAGE Urban	VOLTAGE Rural
< 500 V	< 500 V
≥ 500 V and < 66 kV	≥ 500 V and < 66 kV
≥ 66 kV and ≤ 132 kV	
> 132 kV	

- e) Network costs are allocated at each voltage level using the average and excess statistical method. This method takes into account the impact of a customer's capacity on average on the network, plus any peak impact. Therefore, diversity is considered when allocating the costs.
- f) The density of customers also has an impact on distribution cost per connection, i.e. the greater the density, the lower the cost per connection. Therefore, costs are differentiated into rural and urban networks. This will ensure that costs are allocated correctly.

17.19 Retail service: This includes the costs associated with marketing, meter reading, billing, and direct customer services and corporate overheads. The abovementioned costs are allocated per customer, as the total cost divided by the number or weighted average number of customer categories imposing that cost component. These costs are allocated based on the capacity of the customer, split between administration and service-related costs into the categories, as shown in the table below.

Table 5: Retail cost categories

Small	≤ 100 kVA
Medium	>100 kVA and ≤ 500 kVA
Large	>500 kVA and ≤ 1 MVA
Very Large	> 1 MVA
Key Customers	As per qualification criteria

17.20 The assets (in the asset register) are grouped into different voltage levels (HV, MV and LV), the ratio/percentage of each voltage is determined and the cost is apportioned on the basis of that voltage ratio.

17.21 The network cost should be split into both fixed and variable cost as follows:

- a) Allocation of network capital costs: These are the fixed costs of the distribution network and are allocated by the number of PODs per voltage level. The costs are allocated on a pro-rata PoD, and this will be recovered in R/PoD/month.
- b) Allocation of Eskom's NMD-related costs:
 - This cost is driven by the network peak, therefore, it is allocated according to each customer category's contribution to the network peak. Generic load profiles are used to calculate each customer category's contribution to the network peak.
 - First step – determine kWh consumption in the NMD period by multiplying the customer peak demand contribution by the projected volumes.
 - Second step – derive the percentage contribution to NMD by proportioning each customer kWh.
 - Lastly, the customer percentage contribution ratios are used to determine the rate for each customer category (the rate will be R/PoD/month).
- c) Allocation of variable maintenance costs:
 - If maintenance is due for each unit produced and has a cost per unit, then it would be a variable cost.
 - If allocated using pro-rata energy consumption, the unit of measure is R/kWh.

18. RATE SETTING AND ANNUAL ESCALATION MECHANISM

- 18.1 While taking into account the cost incurred in serving a particular class of customers, the following principles are also considered in rate setting.
- 18.2 When formulating a tariff methodology, a number of key principles and/or objectives must be considered. These principles represent the often conflicting requirements of different stakeholders and inform the analysis and decisions around the most appropriate regulatory options and detailed pricing approaches adopted.
- 18.3 The table below summarises the tariff objectives from a licensee's point of view.

Table 6: Pricing objectives from a licensee's point of view

<u>Stakeholder</u>	<u>Tariff objective</u>	<u>Description</u>
<u>Licensee</u>	Cost reflective	All prudently incurred cost should be recovered and yield reasonable profit
	Encourage efficient use	Appropriate price signals that will encourage efficiency
	Implementation cost	Implementation costs should be low

- 18.4 The table below shows the pricing objectives from a customer's point of view.

Table 7: Pricing objectives from a customer's point of view

<u>Customer</u>	Affordability	Price will exclude inefficiency (energy losses)
	Predictable and stable	The customer should be able to forecast future tariffs
	Transparent	Easy to read and apply, with no hidden costs

- 18.5 Three cost categories in the electricity supply industry have a bearing on tariff structure, namely:
- a) costs that vary with customer numbers and service intensity (R/month);
 - b) costs that vary with capacity/demand (kVA); and
 - c) costs that vary with energy (kWh).
- 18.6 Tariff design should achieve several objectives, including cost recovery and achieving economic efficiency by sending signals to consumers. The applicability of each charge or combination of charges should achieve a combination of these objectives. The framework should clarify which charges are applicable to specific customers and under which specific conditions they should be applied. It should provide rules applicable to each tariff component. It should also balance the simplicity and transparency of costs.

Annual price adjustments

- 18.7 An adjustment index will be issued to licensees to allow them to submit the tariff applications, which will be used to determine the costs that must increase with CPI, purchase costs and other OPEX. Where annual plans, such as repairs and maintenance and CAPEX plans, have been assessed and approved by NERSA, these can be adjusted based on that.

19. WHEELING CHARGES

- 19.1 Wheeling customers use the electricity grid to transport the electricity from the generator, and these network costs are covered through a wheeling tariff, or a use-of-system (UOS) charge. Municipalities have had difficulties getting their wheeling UOS tariffs approved by NERSA. NERSA's reason is that it lacks a wheeling framework on which wheeling tariff approvals could be based.
- 19.2 Municipalities employ a 'wheeling credit' method, which uses existing tariffs to recover the UOS charge and therefore does not require NERSA approval. The wheeling credit method was first developed by Eskom. Instead of explicitly charging a UOS charge on the wheeled energy units, the customer is charged full retail tariffs for all energy consumed (wheeled and non-wheeled energy units). At the end of the month, a credit is given for all wheeled energy, meaning that the customer only pays the resultant UOS charge for wheeled energy.
- 19.3 The two UOS tariff approaches for wheeling – the explicit UOS charge and the 'wheeling energy credit method' – are shown below.

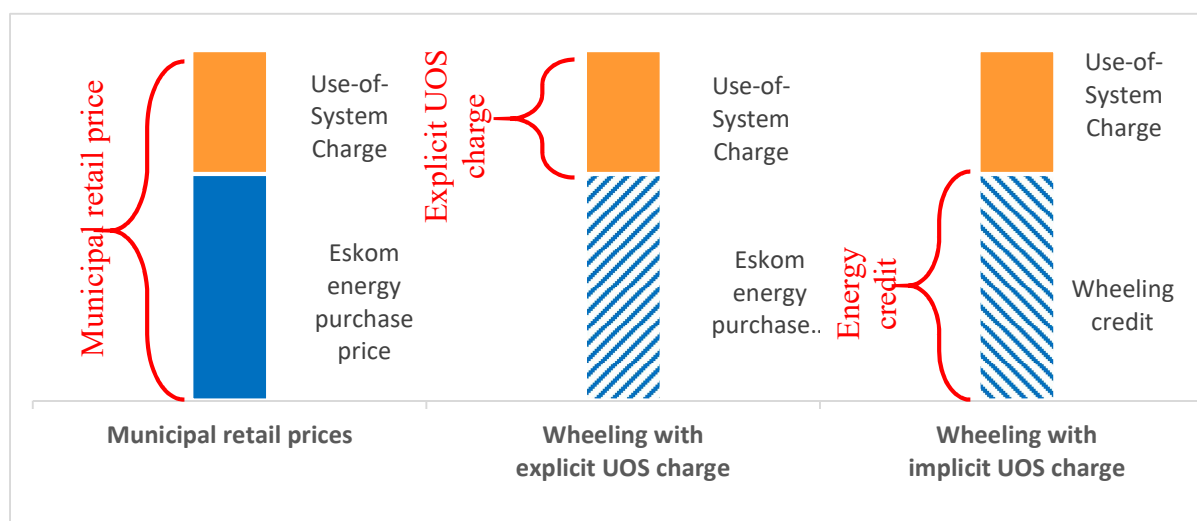


Figure 2: Graphical representation of wheeling billing alternatives

- 19.4 It is important to emphasise that both the explicit wheeling UOS charge and the wheeling energy credit approach result in the exact same revenue recovery for the municipality.

Explicit use-of-system charges

- 19.5 Under this approach, the customer receiving wheeled electricity pays an explicit UOS charge for each unit of wheeled energy. The UOS charge should equate to the municipality's existing retail tariffs, less Eskom's energy purchase costs. As such, the UOS charge covers all approved fixed, demand and energy charges, including contribution to regulated surpluses and subsidies.

$$UOS\ Charge = Municipal\ Energy\ Tariff - Eskom\ Energy\ Purchase\ Price$$

Implicit use-of-system charges – 'wheeling credit method'

- 19.6 This approach aligns with Eskom's existing wheeling methodology,¹ whereby the off-taker's account is credited to the value of the wheeled energy received. The wheeling energy credit is to the value of the wholesale electricity pricing structure (WEPS), less losses. For generators connected to Eskom's network, these credits will be passed onto the municipal account, which will then be relayed to the off-taker's account. For generators connecting to the municipal grid, the municipality will generate the wheeling credits based on the amount of energy metered at the generator's supply point.
- 19.7 The billing process is outlined as follows:
- a) Full tariff charges (i.e. normal non-wheeling retail tariffs) are raised for all the energy supplied through the meter, both the utility-sold energy and the wheeled energy. These tariffs include all approved fixed, demand and energy charges, including contribution to regulated surpluses and subsidies.
 - b) The wheeled energy is then credited to the customer's bill using the kWh allocated to the off-taker's account multiplied by the WEPS.
 - c) Therefore, the effective UOS charge for wheeled energy is the full tariff charges (i.e. normal non-wheeling retail tariffs) minus the Eskom energy purchase price.
- 19.8 The energy credit method is a simpler billing process and does not require an introduction of a new UOS tariff. The UOS charge is already recovered through normal prices, and the billing system is adjusted to credit the customer at the WEPS credit rate for all energy wheeled, less losses, since the municipality did not have to purchase this electricity from Eskom and recognise the cost of line losses.
- 19.9 The energy credit method requires that all wheeling customers be on a time-of-use tariff and billed in full for all energy received (wheeled and non-wheeled energy). At the end of the billing period, the wheeling customer should be credited for all wheeled energy received, excluding losses at Eskom's WEPS TOU energy rate.

¹ See Table 47 of Eskom's Schedule of Standard Tariffs

ANNEXURE 1: PROPOSED STANDARD STRUCTURES

1. The Distribution Tariff Code (version 6.2) specifies tariff categories applicable to different types of supplies. It is recommended that this approach be adopted to standardise tariff charges across South Africa, with modifications where applicable.

Table 1: Tariff structures for TOU-based tariffs

	TOU tariff for large supplies (e.g. > 500 kVA)	TOU tariff for medium-sized supplies (e.g. 25 kVA to 500 kVA)	TOU tariff for residential See residential
Retail charges	Based on capacity	Based on size	
Administration charges	R/point of delivery/day	R/point of delivery/day	
Service charges	R/account/day	R/account/day	
Energy charges	Includes only energy costs	Includes energy and variable network costs (network demand charge)	
	• Peak, standard and off-peak TOU c/kWh rates expressed at the highest voltage level • Seasonally and hourly differentiated ☼#	• Peak, standard and off-peak TOU c/kWh rates expressed at the highest voltage level • Seasonally and hourly differentiated ☼#	
Reactive energy charges	c/kvarh	c/kvarh	
Transmission network charges			
Transmission network charge	R/kVA ☼ - based on utilised capacity in all periods	R/kVA ☼ - based on utilised capacity in all periods	
Transmission reliability services charge	Separate c/kWh charge #	Separate c/kWh charge #	
Distribution network charges			
Network access charge	R/kVA charged on utilised capacity*	R/kVA charged on utilised capacity*	
Network demand charge	R/kVA - based on actual demand in peak and standard periods*	c/kWh – charged in peak and standard periods*	
Levies	Separate c/kWh charge	Separate c/kWh charge	

2. The table below shows the recommended tariff structures for non-TOU-demand based tariffs.

Table 2: Recommended tariff structures for non-TOU-demand based tariffs

	Tariff for large supplies (e.g. > 500 kVA)	Tariff for medium-sized supplies (e.g. 25 kVA to 500 kVA)
Retail charges	Based on size	Based on size
Administration charges	R/point of delivery/day	R/point of delivery/day
Service charges	R/account/day	R/account/day
Energy charges	Includes c/kWh energy costs and R/kW peak energy costs	Includes c/kWh energy costs and R/kW peak energy costs and variable network costs (network demand charge)
	Seasonally differentiated expressed at the highest voltage category ☼#	Seasonally differentiated expressed at the highest voltage category ☼#
Reactive energy charges	c/kvarh	c/kvarh
Transmission network charges		
Transmission network charge	R/kVA ☼ - based on utilised capacity in all periods	R/kVA ☼ - based on utilised capacity in all periods
Transmission reliability services charge	Separate c/kWh charge #	Separate c/kWh charge #
Distribution network charges		
Network access charge	R/kVA charged on utilised capacity*	R/kVA charged on utilised capacity*
Network demand charge	R/kVA - based on actual demand in peak and standard periods*	c/kWh – charged in peak and standard periods*
Levies	Separate c/kWh charge	Separate c/kWh charge

3. The table below shows the tariff structures for residential tariffs.

Table 3: Recommended tariff structures for residential tariffs

	Lifeline tariff (for low users of electricity)	Tariff for medium to high users	TOU tariff for residential
Retail charges	Not size-differentiated	Not size-differentiated	Not size-differentiated
Administration charges	Included in energy rate	Included in service charge	Included in service charge
Service charges	Included in energy rate	R/point of delivery/day	R/point of delivery/day
Energy charges	Includes all costs	Includes energy, transmission and variable distribution network costs (network demand charge)	Includes energy, transmission and variable distribution network costs (network demand charge)
	- Charges differentiated based on the supply size (Amp) - Tariff more expensive for higher supply sizes - Rates receive a subsidy	One single rate or rate seasonally differentiated expressed at the low voltage level	- Peak and off-peak TOU c/kWh rates expressed at the low voltage level - Seasonally and hourly differentiated
Reactive energy charges	N/A	N/A	N/A
Transmission network charges			
Transmission network charge	Included in energy rate	Included in network access charge	Included in network access charge
Transmission reliability services charge	Included in energy rate	Included in energy rate	Included in energy rate
Distribution network charges			Included in energy rate equally in all time periods
Network access charge	Included in energy rate	R/customer/day – based on supply size (kVA or Amp)	R/customer/day – based on supply size (kVA or Amp)
Network demand charge	Included in energy rate	Included in energy rate	Included in energy rate – charged in peak and standard periods only*#
Levies	NA	Included in energy rate	Included in energy rate
Subsidies	Included in energy rate		

4. The table below shows the recommended tariff structures for non-TOU small (non-residential) supplies.

Table 4: Recommended tariff structures for non-TOU small (non-residential) supplies

	Metered supply	Non-metered supply
Retail charges	Not size-differentiated	Not size-differentiated
Administration charges	Included in service charge	Included in service charge
Service charges	R/point of delivery/day	R/point of delivery/day
Energy charges	Includes energy, transmission and variable distribution network costs (network demand charge)	Includes energy, transmission and variable distribution network costs (network demand charge)
	One single rate or rate seasonally differentiated expressed at the low voltage level	One single rate or rate seasonally differentiated expressed at the low voltage level x fixed level of consumption
Reactive energy charges	N/A	N/A
Transmission network charges		
Transmission network charge	Included in network access charge	Included in energy rate
Transmission reliability services charge	Included in energy rate	Included in energy rate
Distribution network charges		
Network access charge	R/customer/day – based on supply size (kVA or Amp)	Included in energy rate
Network demand charge	Included in energy rate	Included in energy rate



SOUTH AFRICAN LOCAL GOVERNMENT BARGAINING COUNCIL

HEAD OFFICE

Tel: (031) 201-8210/6219/6255
Fax: (031) 201-9788

461 King Dinuzulu Road
BEREA
4062
E-mail: info@salgbc.org.za
Web-site: www.salgbc.org.za

13 March 2026

To All Municipal Managers

The Parties:

SALGA
SAMWU
IMATU

Mr. S Mbanga
Mr. D Magagula
Mr. J Koen

smbanga@salga.org.za
dumisane.magagula@samwu.org.za
johan@imatu.co.za

REGIONAL SECRETARIES:

Gauteng/Johannesburg/Tshwane Division
Eastern Cape Division
Western Cape/Cape Metro Division
Northern Cape/Free State Division
North West/Mpumalanga/
Limpopo Division Ms D Monyemangene
KwaZulu-Natal/eThekwin Division

Ms. E Sekgweleo
Mr. C.Gqeke
Ms. W Brink
Mr. T Mqobongo
Mr. V Nzuzza

esmeralda@salgbc.org.za
Chumani@salgbc.org.za
wilma@salgbc.org.za
Thabiso@salgbc.org.za
Dikeledi@salgbc.org.za
vusi@salgbc.org.za

Dear Sir/Madam

CIRCULAR NO.: 04/2026

SALARY AND WAGE INCREASE FOR THE PERIOD 1 JULY 2026 TO 30 JUNE 2027

The parties, SALGA, IMATU and SAMWU, at the Executive Committee meeting held on 11 March 2026, agreed that the salary and wage increase for the 2026/2027 financial year as per the Salary and Wage Collective Agreement dated 6 September 2024 shall be, as follows:

1. The salary and wage increase, in terms of clause 6.6 of the Collective Agreement shall be **four comma seven five percent (4.75 %)**, with effect from 1 July 2026.
2. Any linked benefits and conditions of service, as per clause 10 of the Collective Agreement shall increase by the same rate of **four comma seven five percent (4.75 %)**, with effect from 1 July 2026.
3. The Minimum Wage as stipulated in clause 7.4 of the Collective Agreement shall increase by the same rate **four comma seven five percent (4.75 %)**, from **R 10,616.35** to **R11,120.63**, with effect from 1 July 2026.

4. The flat rate Homeowners Allowance rate, in terms of clause 8.1.1.3 of the Collective Agreement, shall increase by the same rate of **four comma seven five percent (4.75 %)**, from **R 1 170.23** to **R 1,225.82**, with effect from 1 July 2026.
5. In respect of medical aid, the maximum employer contribution to an employee's accredited medical scheme, as set out in clause 9.1.3 of the Collective Agreement shall increase by the same rate of **four comma seven five percent (4.75 %)**, from **R 5 791.15** to **R 6,066.23**, with effect from 1 July 2026.
6. The following figures, from Statistics South Africa (STATS SA), are used to calculate the salary and wage related increases:

Total CPI for 12 months	= 38.90%
Average CPI	= divided by 12 Months
	= 3.24%(rounded to two decimal points)
Deemed provision	= 4% (if average CPI is below 4% per clause 6.8 of the Collective Agreement)
Salary Increase	= 4% plus 0.75%
	= 4.75%

“30-days from the date of approval of the budget of the municipality by the municipal council, or 30 June, whichever is the soonest, in respect of the 2026/2027 financial year.”

Yours faithfully

87 Hamilton Street, Arcadia, Pretoria, Private Bag X804, Pretoria, 0001 South Africa
Tel: (+27 12) 334 0600, Fax: (+27 12) 336 5954, Website: www.cogta.gov.za

Ref no: 14/4/P/1

The Municipal Manager
Knysna Local Municipality

Dear Municipal Manager,

WC048 - Knysna Local Municipality: Assessment of Compliance with Sections 13, 74 and 75 of the Local Government: Municipal Systems Act (MSA) (Act No. 32 of 2000)

The Department of Cooperative Governance (herewith referred as the DCoG) is responsible for the administration of the Local Government: Municipal Systems Act, (Act No. 32 of 2000) (hereafter referred to as the MSA) including the monitoring of compliance by municipalities in respect of the implementation of all legislative aspects articulated in Sections 13, 74 and 75 of the MSA.

Section 74 (1) of the MSA provides for a municipal council to adopt and implement a tariff policy on the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements, and which complies with the provisions of this Act and with any other applicable legislation. According to Section 74(2) a tariff policy must reflect at least the following principles, namely that (c) poor households must have access to at least basic services through (ii) special tariffs or lifeline tariffs for low levels of use or consumption of services or for basic levels of service; or (iii) any other direct or indirect method of subsidisation of tariffs for poor households. According to Section 74(3) a tariff policy may differentiate between different categories of users, debtors, service providers, services, service standards, geographical areas and other matters long as the differentiation does not amount to unfair discrimination.

Further, Section 75 (1) requires a municipal council must adopt by-laws to give effect to the implementation and enforcement of its tariff policy. According to Section 13 of the MSA a by-law passed by a municipal council— (a) must be published promptly in the Provincial Gazette and when feasible, also in a local newspaper or in any other practical way to bring the contents of the by-law to the attention of the local community and takes effect when published or on a future date determined in or in terms of the by-law. Section 75 (1) of the MSA requires a municipal council to adopt by-laws to give effect to the implementation and enforcement of its tariffs policy.

During the 2025/26 municipal financial year and in line with the Department's responsibilities outlined above, the DCoG assessed your municipality's compliance with Sections 13, 74 and 75 of the MSA and determines as follows:

WC048 - Knysna Local Municipality: Assessment of Compliance with Sections 13, 74 and 75 of the Local Government: Municipal Systems Act (MSA) (Act No. 32 of 2000)

Compliance with Section 74(1) of the MSA - Adoption and Implementation of Tariffs Policies:

Knysna Local Municipality's 2025/26 tariffs policy indicates the approval date and the effective date the tariffs policy. There are no recommendations in respect of the compliance with Section 74(1) of the MSA.

Compliance with Section 74(2) (c) (ii) and (iii) of the MSA:

Water Services - According to the information assessed, the Knysna Local Municipality's 2025/26 tariffs policy complied with section 74(2) (c) (ii) of the MSA. The municipality's tariffs policy does not reflect any other direct or indirect method of subsidisation of water tariffs for poor households.

Tariffs Policy and Levels of Free Basic Services:

Water Services - The municipality shall provide the first 6 kℓ of water per month free of charge to consumers who have registered as indigents in terms of the municipality's indigent relief programme (Knysna Local Municipality, 2025/26 Tariffs Policy, Page 18). There are no recommendations in respect of the levels of free basic water provision.

Compliance with Sections 74(3) of the MSA:

Water Services - The analysis determined that water tariff policy of the municipality is categorized customers tariff that may be imposed for the following categories of consumers (which the council may change) – (a). residential / domestic consumers; (b). business or commercial consumers; (c). industrial consumers; (d). municipalities; (e). consumers with whom special agreements were made; (f). public service purpose; (g). public benefit organisations and such like institutions; and (h). places of worship, and (i). mining (Knysna Local Municipality, 2025/26 Tariffs Policy, Pages 10-11). There are no recommendations in respect of the categorisation of users in terms of Section 75 (3) of the MSA.

Compliance with Sections 75(1) and 13(1) of the MSA – Adoption and Publication of Tariffs By-Law

According to the information assessed, the Knysna Local Municipality's tariffs by-law was published in the Western Cape Provincial Gazette No. 8125 on 12 July 2019. To align future amendments on the annual tariffs policies to the tariffs by-law, it is recommended that the municipality consider incorporating the following in the tariffs by-law: "The tariffs policy is hereby incorporated by reference in this By-law. All amendments to the tariffs policy as the municipal council may approve from time to time, shall be deemed to be likewise incorporated".

WC048 - Knysna Local Municipality: Assessment of Compliance with Sections 13, 74 and 75 of the Local Government: Municipal Systems Act (MSA) (Act No. 32 of 2000)

Kindly contact Choene Malatji, Deputy Director: Tariff Setting and Modelling on Cell No. 073 167 5157 and email chuenem@cogta.gov.za or alternatively Plaatjie Mahlobogoane, Director: Tariff Setting and Modelling on Cell No. 072 280 1457 or email plaatjiem@cogta.gov.za for more information related to this matter.

Kind regards



DR KEVIN NAIDOO

DEPUTY DIRECTOR-GENERAL: POLICY, GOVERNANCE AND ADMINISTRATION

DATE: 23/03/2026