THEEWATERSKLOOF MUNICIPALITY
BUDGET: 2016/2017 – 2018/2019

EXECUTIVE MAYOR'S SPEECH

Introduction

Speaker, members of the Executive Mayoral Committee, councillors, municipal manager, directors, municipal officials and representatives of the public and media.

This is my 10th and last concept budget as Executive Mayor and it remis once again a privilege to present it to you.

I am concerned about the trend of shrinking government income against a fast-growing indigent population. The fact that national government is reducing its financial obligations to municipalities while poverty escalates, is a setback. However, the country is experiencing tough economic challenges which increasingly compel us to be dependent on our own financial sources.

Only those municipalities who endeavour to strategically and proactively manage their sustainability will survive.

Three years ago this Municipality started developing and implementing strategies for sustainability management and it has started bearing fruit this year.

Although the compilation of this year's budget was difficult and complex, it offers hope for the future. For the first time we could commence with a fiscal reform process.

For years TWK's electricity and water consumer subsidised the larger base of tax payers. Electricity and water have become more costly and the difference between municipal and ESKOM rates has increased. This exposed the Municipality financially.

With the increase of service costs, consumers reduced their consumption and therefore our income decreased.

Consequently, we started making the municipality more tax financed than service financed. Despite unforeseen cost increases, rates could remain relatively low.

The significant increase in the reserve fund will help that infrastructure does not collapse. In the past it was a concern, but we now have a model to address it.

We already had to take up a small loan this year, although we would have prefered to delay it.

After the national municipal elections a new council will take over from us and manage this budget, but we won't leave them without a "testament".

We will hand over a clear financial model to our successors and trust they will adhere to it. If they do, the community can be rest assured that the Municipality's sustainability will be intact.

During our last strategic session key priorities were identified for the new council. This budget takes the priorities into account:

- Financial stability.
- Effective management of the migration phenomenon.
- Deteriorating infrastructure.
- Growing public expectations of the municipality.
- Control of troubled communities.

A comprehensive sustainability plan is already in place and will be handed over to the new council. Hard work lies ahead, but the Council leaves behind a good "road map" as a guide. The new council should be able to continue the work of the past 10 years with ease.

POSITIVES

There are a number of positive aspects:

- We have once again received a clean audit, and it symbolises excellent governance, a top administration and a clean corporate and political administration without corruption. Threats to municipal financial sustainability do not include corruption and poor management that have affected other organs of state.

- The budget is in synergy with the fourth revised third-generation IDP.

- The community was consulted thoroughly and gave inputs. The budget and IDP are for the people by the people. There is not nearly enough funding to address needs, but the authority did the best it could.

- The last two terms we became a government for the people and their interests came first. We provided decent services and the relations between the municipality and its customers have improved

- The municipality continued to render services to rate- and taxpayers. They did not necessarily receive what they believe they paid for, and they probably met the national government's obligations to the poor, but we did our best to give something back.

- With the Adjustment Budget we addressed critical capital projects which were not anticipated in the preparation of the 2015/16 budget. A reserve of R15m was accumulated and enabled us to expedite capital programmes and the upgrade of existing infrastructure.

- We developed a medium-term infrastructure replacement and upgrade plan and a funding model which mitigates the risk of collapsing infrastructure within the next three years. This budget is the first step in implementing such a model.

CHALLENGES

A clean audit does not indicate prosperity and wealth. Theewaterskloof is poor and the economy is limited. We dug deep to find meaningful vehicles for growth and development.

Our concern remains a narrow tariff base and limited funding to address infrastructural needs in so-called non-grants funded areas.

The national fiscal model remains a fundamental cause of concern.

The majority of municipalities in South Africa are unable to become and remain financially self-sufficient.

Although we understand that the state of the South African economy is limiting the ability of national government to subsidise and support local government and to meet its obligations towards municipalities, we are still deeply concerned about the inability of national government to address challenges impacting on our economic growth.

Growth will only occur when corruption, crime, poor governance, financial mismanagement, etc. have successfully been addressed by the national government. Only then will we see increased revenue streaming into the state coffers and only then will government be able to meet its obligations towards local government.

We have established a base of sustainability in the municipality, but there is little room for innovation, revenue enhancement, service delivery and the upgrade of infrastructure.

The lack of income sources is a major obstacle to growth and development goals. Affordability of the municipal account against the background of a very low per capita income is a key reason why we once again could not implement the proposed fiscal reform during this year, in order to make provision for a cash build-up through recovering depreciation from tariffs. This is a critical element of our financing model for the infrastructure plan.

Although we developed an mSCOA implementation and risk plan in terms of the mSCOA regulations, not much progress was made to be ready for the migration to mSCOA which becomes mandatory for all municipalities on 1 July 2017. Staff attended various training sessions and we are currently appointing a service provider to assist the authority in preparing for mSCOA.

INFLUENCE ON THE BUDGET

The budget is based on a number of council resolutions of which I want to highlight the following:

- The electricity tariff increase is subject to approval by NERSA.

- The poor receive support through Indigent Subsidies which entail free basic services such as 6kl water, 70KwH electricity as well as free refuse removal and sewerage services.

- The first R100 000 on all residential properties are exempt from property rates for persons older than 60 years and earning less than R6 400 per month. The exemption is applicable to all households earning less than R4 801.

BUDGET BACKGROUND NOTES

The MTREF for 2016/17 to 2018/19 were compiled in accordance with the requirements of the relevant legislation, of which the following are the most important:

- The Constitution of the Republic of South Africa, Act 108 of 1996;
- The Municipal Structures Act, Act 117 of 1998;
- The Municipal Systems Act, Act 32 of 2000;
- The Municipal Finance Management Act, Act 56 of 2003;
- The Municipal Budget and Reporting Regulations promulgated on 17 April 2009; and
- The Division of Revenue Act

The Revenue and Expenditure Projections assumed inflation-linked annual adjustments over the MTREF. The main challenges experienced during the compilation of the 2016/17 MTREF can be summarised as follows:

- Increased costs associated with bulk water and electricity, placing upward pressure on tariff increases to consumers. Continued high tariff increases may soon render municipal services financially unaffordable;

- Reprioritisation of capital projects and operating expenditure within the financial affordability limits of the budget, taking the cash position into account;

- Salary increases for municipal staff exceeding consumer inflation, and the requirement to fill unfunded vacant, critical and essential positions in accordance with the Salary and Wage Collective Agreement;

- National and local economic difficulties and a growth rate of 0.9%.

- CPI over the medium term is projected at 5.3%, 5.5% and 5.1%.
- The fuel price is subject to all the variables including the currency volatility and other risks facing the emerging markets.

- The quarterly GDP growth in 2016 is 0.3, 0.5, 1.3 and 2.64 – jointly less than 1%.

- Above-inflation increases in bulk purchase tariffs, such as Overberg Water 23% and ESKOM 9%.

- Limited income base and no growth in the revenue base.

- Relief for indigent households.

- Unfunded mandates.

- The Municipal Systems Improvement Grant amounting to R800,000 and which was utilised to finance operating expenditure relating to municipal systems, was discontinued this year as a result of which such expenditure now has to be financed from rates and service charges.

- The municipality is obliged in terms of legislation to conduct a municipal valuation of all properties in the municipal area at a cost of R3,6 million of which only R1 million could be included in the forthcoming year, with the balance to be financed in the outer year of the MTREF.

- Provision had to be made for an amount of R1,2 million as a contribution towards firefighting services.

- As a result of the re-demarcation of the municipal boundaries, the number of councillors have risen to 27 at an additional cost of R1,3 million.

The authority's strategic focus areas, which are reflected in the budget, are financial sustainability, good governance, institutional development, basic service delivery and local economic development and growth.

KEY POINTS OF THE BUDGET

Operating income decreases from R505,110 million in 2015/2016 to R481,437 million in 2016/2017 (4.7%).

Operating expenses decrease from R488,949 million in 2015/2016 to R470,657 million in 2016/2017 (3.7%).

The capital budget decreases from R79,791 million in 2015/2016 to R50,579 million in 2016/2017 (36.6%).

Revenue from property taxes will increase by more than R8 million, services fees by just less than R4 million and other income by approximately R300 000. The decrease in operating grants of more than R30 million (19%) and capital grants of more than R5 million (14%) are responsible for the decrease in income of 4.7%.

Tariff increases:

- Property rates 9.89%
- Electricity 9%
- Water 7.7%
- Sewerage 6%
- Solid waste 7.9%

Drafting this budget was not easy and required exceptional expertise, hard work and dedication. It required open minds and clear thinking.

This is a draft budget and subject to review. It will soon be presented and discussed with key stakeholders and contributors to the revenue of this Municipality as well as the community in general.

However, I think we developed a document that serves the best interest of the municipality and our entire constituency.

I thank the Municipal Manager, his Directors and personnel for their inputs.

I thank the members of my Executive Mayoral Committee and Council for their hard work.

I thank my Heavenly Father without whom nothing is possible.

Mister Speaker, I now table this budget to Council and for publication for public inputs.

I thank you
Alderman Chris Punt
Executive Mayor