

SPEECH FOR DRAFT BUDGET FOR COUNCIL MEETING ON 30 MARCH 2023

Good Morning Speaker, Aldermen, Deputy Mayor, Chief Whip, Councillors, Municipal Manager, Directors, Officials, Members of the Public and the Media

Section 16(2) and 17(3) of the Municipal Finance Management Act (MFMA)) require of the Mayor of George Municipality to table a draft Capital and Operating Budget for 2023/24–2025/26 (the MTREF) at a council meeting at least 90 days before the start of the budget year.

A budget makes budgetary provision for service delivery to the community of George. The community should realistically expect to receive services that are affordable for which provision is made in a budget.

In tabling a credible budget we need to ensure we fund activities consistent with the revised IDP while ensuring the IDP is realistic given the financial constraints of the municipality. The budget needs to meet agreed service delivery and performance targets taking into account revenue and expenditure projections while maintaining the financial viability of the municipality.

It is common knowledge that our economic outlook is not rosy both internationally and for South Africa given renewed inflationary pressures from the war in Ukraine, continued power cuts and a deterioration in port and rail infrastructure, and widespread criminal activity.

At the Adjustment Budget stage we already experienced the ravages of loadshedding on the economy and on the municipality.

Although George Municipality received the budget facility for infrastructure grant (BFI) allocation of R1.1 billion rand for the upgrading of the bulk water services the need for the upgrading and rehabilitation of the other core services infrastructure remains high. This demand is clearly visible in the capital budget we are tabling.

The ongoing problems with Eskom's operations that continue to disrupt the

supply of electricity to households and businesses with load shedding is a huge risk to municipalities. George Municipality was forced to invest in purchasing standby generators for various sewer pump stations to mitigate the impact of load shedding. The diesel costs run to R250k per day from Stage 4 and above.

During the February 2023 adjustments budget, the impact of loadshedding resulted in a R160m shortfall that will impact on our cash resources through to June 2023.

These therefore have been some of the issues determining our way forward with this draft budget.

The draft budget for 2023/24 will once again address the **Infrastructure** needs within the Municipality. We have adopted this approach for the past few years as we address the importance of the refurbishment of infrastructure, increasing the capacity while also taking note of changes in technology.

It has become increasingly imperative that municipalities address aging infrastructure throughout the country. Over the past few days, by way of example, it is noteworthy that Johannesburg has experienced widespread water shortages and parts of Ekurhuleni have experienced electricity outages for six hours on a rotational basis.

Prior to 2020, the capacity of the Outeniqua WWTW reached its maximum resulting in private sector construction activity being constrained. That 10 ML expansion project is now nearing completion, hopefully by mid-April.

The next area of attention has been the expansion of water treatment capacity. Due to the size of these projects, bold decisions are needed. We were therefore very fortunate that our BFI application proved to be successful which has enabled the construction of the 20 ML per day Water Treatment Works to commence along with critically important refurbishment of three of our largest sewer pump stations and additions to water infrastructure across.

It is important for Council to recognise these achievements and to express gratitude to the management team led by the municipal manager, Dr Gratz and the team of directors, managers, engineers all the way through to the construction workers who have worked tirelessly to undertake and complete the construction projects.

I was recently passed a comment from a citizen who expressed his gratitude for our investments in INFRASTRUCTURE. He referred to an article that compared South Africa's poor record in infrastructure spending with that of China and the resultant advances that China is seeing in terms of gross domestic product (GDP or growth). It is a well-known fact that infrastructure attracts investors with the resultant positive effect on employment and economic activity.

Infrastructure coupled with high standards of service delivery draws the attention of investors, the public and inspires HOPE. Hope is especially important as search for solutions to the Electricity crisis. I will refer to this later in my speech.

In this Budget we have accordingly had to scrutinize all of the expenditure items to affect all possible savings and to align the capital budget to achievable goals with the February 2022/23 adjustments budget forming the base for the 2023/24 MTREF.

The Capital Budget for 2023/24 has been set at R1022m as George tops the R1bn mark for the first time. This budget will be funded by R398m of Grants; R392m in the form of external loan funding and R230m from the Capital Replacement Reserve. This is effectively a 40:40:20 ratio.

The main focus of capital expenditure over the MTREF for 2023/24 to 2025/26 includes:

- ❖ R565m being allocated from the RBIG grant for the BFI projects;
- ❖ R288m for the installation of solar PV panels and battery energy storage systems (BESS);

- ❖ R45m for the upgrading of the York Hostel building to increase office space;
- ❖ R61m to procure new fleet vehicles;
- ❖ R243m for street and storm water projects.
- ❖ R30m on meters, burst control valves, pressure reducing valves, telemetry and smart water meters in 23/24.
- ❖ R22m on CCTV camera and fibre upgrades, including a new operations centre building in 23/24
- ❖ R16m on sport facilities in 23/24.

Cllr Wessels will expand further on how we are spending across communities to inspire HOPE for all.

Civil & Engineering Services will receive R636m and Electro-technical Services R261m in 2023/24.

It is worthwhile noting that projects amounting to at least R200m had to be shaved from the 2023/24 budget due to the lack of availability of funding and the ability to complete the budgeted projects.

We are determined to tackle the effects of loadshedding head-on so that through INFRASTRUCTURE we can provide HOPE and assist our businesses and communities by avoiding Stage 1 and 2 of loadshedding by the second half of 2024.

We are making considerable progress to improve energy efficiencies within the Municipality. Each and every household and business who will be adjusting their Amp Capacity usage down from 60 Amp to 40 Amp and to 20 Amp, etc is making a contribution to shifting the load. This means by not switching on too many of your appliances all at once you will be helping us to reduce the Notifiable Maximum Demand of electricity that Eskom has to have available for George. This reduces our offtake from Eskom and George's purchase cost.

In 2023/24, an amount of R135m will be spent on renewable energy including solar PV plants and battery storage in our quest to avoid Stage 2 of loadshedding in the second half of 2024. Included in this amount is R60m to be spent on our 9MW solar installation in 2023/24.

The Western Cape Government through Green Cape is assisting with a financial feasibility study for George. A technical feasibility is also to be undertaken. Our environmental approval submissions for various solar PV plants are being made this week.

Sod turning on some of our solar PV installations are due for mid-April. This includes our 1MW plant as the forerunner of the 9MW installation as well as other smaller installations of 2,7MW in total that we are installing at our various WWTW and WTW plants and other facilities.

In turning to the Operating Budget we have had to deal with a number of challenges:

1. The decline in electricity sales that has largely contributed to the budgeted deficit of R160m for the year ended June 2023;
2. NERSA's granting of a 18,49% tariff increase in bulk purchases of electricity from Eskom with as yet uncertainty about the price increase that may be passed to consumers;
3. Measures need to be undertaken to protect the Revenue base of the Municipality as the immediate future revenue from electricity kilowatt-hour sales are uncertain due to loadshedding; this requires that fixed charges for the distribution network become imperative to protect the operation and maintenance of the distribution network;
4. Property valuations undertaken for the George municipal area have resulted in a significant increase which implies a downward adjustment in the cents in the Rand tariff. At the same time greater reliance on Property Rates is necessary.

It is important to understand the inter-relationship of role of surpluses generated from Electricity, other services and Rates.

Collectively the surpluses of revenue less expenditure from Electricity, Water, Sewerage and Refuse is budgeted to supplement revenue generated from Property Rates to cover the expenditure from the range of services that do not generate revenue directly (the former contributing roughly 40% and Rates 60%). Electricity normally contributes over 20% of this total amount.

For 2022/23, these Surpluses plus Rates was projected at approximately R611m with Electricity contributing its R129m surplus.

This Revenue covers fixed administrative overheads, streets, stormwater, traffic, law enforcement, fire services, planning, economic development, tourism, street cleaning, parks and social support services to the community.

Council will immediately recognized that the deficit of R160m that I have mentioned is over 25% of the available Revenue for the range of services I have just mentioned. It is therefore a significant amount. This hole therefore needs to be plugged.

The budget for 2023/24 will need to address the future scenario of electricity no longer providing its previously secure revenue stream. In 2022, we already commenced with the introduction of fixed charges to ensure adequate maintenance and operation of the R2,5bn electricity network infrastructure.

Consumers therefore need to contribute to the cost of using the network, electricity costs to provide water and waste-water treatment, streetlights and traffic lights, etc. Naturally, a variable cost for each kilowatt-hour being used by a consumer is also being levied.

With loadshedding expected to continue, it is imperative that municipal revenues are restructured to ensure their sustainability. In future, the distribution network will transport energy to users coming from the municipality's own generation projects, independent producers, as well as excess electricity generated by domestic and business consumers who have installed their own renewable energy.

Future budgets will be structured to eliminate the current shortfall by curtailing expenditure growth to 3% where possible while also seeking a higher contribution from Property Rates to cover the expenditure funded by Total Rates.

We are fortunate that property valuations in George have risen in accord with property values elsewhere in the Western Cape. Recent statistics show that real residential property prices in Cape Town are indexed at 130 in comparison to indices of between 90 and 100 for the seven other metropolitan areas in South Africa.

The new municipal valuation roll being implemented is a reflection of the higher property values but will allow for a commensurate reduction of 28,8% in the rate in the Rand on Residential Properties.

The rebate on valuations will be increased from R150000 to R230000 on all residential properties which will be of particular benefit to lower valued properties.

The overall increase in Rates is being proposed at between 12,5% and 15%. This increase is unfortunately needed to balance the books due to the decline in electricity sales.

The budget proposals being tabled today have assumed an increase of 17% in electricity tariffs to achieve revenue of R1008m for 23/24 compared to our original budget for 22/23 of R962m, only a 4,7% increase year on year. In reality, we are only expecting electricity sales of R861m for this year.

Water tariffs are budgeted to increase by 11%; Sanitation by 8%, Refuse by 7% and Other by 6%.

Our total Revenue is projected at R3675m inclusive of the necessary adjustments for accounting treatment purposes.

Total Expenditure is projected at R3105m.

In closing it is noteworthy that on the present trajectory, the average weekly expenditure (capital and operating) being undertaken in George is R75m for the 2022/23 financial year.

I wish to extend thanks to the MM, CFO, the Finance team, MMC Finance along with the teams and MMCs from all the Directorates who have contributed to the extra-ordinary efforts of long hours, weekends, public holidays in preparing this draft budget and for the services and infrastructure being delivered.

Last night, I received a compliment from a local businessman who regularly travels around the country. He says the that services and the appearance that George provides is that of a European city.

I trust even though this is a challenging budget, it will provide HOPE for all in how we are tackling the Electricity crisis in aiming to take George off Stage 2 of loadshedding by the end of 2024. The work we continue to do on INFRASTRUCTURE will also make George attractive for investment to create employment. I am now accordingly tabling this draft budget for public comment along with all the applicable policies.

Thank you Speaker.