# MAYORAL SPEECH FOR FINAL BUDGET: 2021/22 (27 May 2021)

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| Speaker;Deputy Executive Mayor; |  |
| Chief Whip; |
| Members of the Mayoral Committee; |
| Aldermen, Councillors; |
| Acting Municipal Manager, Acting CFO, Directors, Officials; |
| Members of the public; |
| Representatives of the Media; and |
| All protocol observed. |

Good morning ladies and gentlemen,

Today we will consider and approve the Capital and Operating Budget for 2021/22–2023/24 in terms of Section 24 of the Municipal Finance Management Act, (Act 56 of 2003).

The preparation of the Operating and Capital Budget for the 2021/22 final year has involved months of planning and revision that already commenced in October 2020. This year’s budget stretching into the MTREF period to 2023/24 has been extremely complex based on the complexities and considerations:

* At the beginning of 2020 it was already evident that the economic outlook and prospects for GDP growth for the country was already poor. This has continued into 2021 as we struggle to recover from the Covid-19 pandemic;
* This pandemic since arriving on our shores in March 2020 has had a devastating effect on the economy and the citizens, impacting negatively on employment, leaving many people destitute or resulting in the depletion of incomes for many families;
* The pandemic has therefore impacted on municipalities including George. I immediately wish to than our customers, whether domestic or business who have been able to continue paying their municipal accounts every month thereby contributing to the generally sound financial position of the municipality.
* Included herein is also the ongoing impact of Eskom’s load shedding and the devastating effect that the Nersa approved 17,8% electricity tariff increase will have on local municipalities through the resultant 14,59% increase being passed on to consumers from 1 July 2021;
* Over the past decade and longer, the tariff increases granted to Eskom have been substantially above inflation and have had the effect of crowding out much needed increases for other municipal services. As a service, Electricity constitutes 54% of George’s total of Own Generated Revenues from Services and Rates. An increase of 14,59% as is required in 2021 therefore forces lower than required increases for other services to ensure that the municipal tariff increases remain within affordability limits for consumers. The resultant negative effect is that much needed cost-reflective tariff increases that are needed for other services can’t be undertaken.
* As a result of the 17,8% in tariffs our Bulk Purchases of Electricity will increase from R523m to R613m. Included in our purchases for 2021/22 there is R50m of electricity for own use in our pump stations, buildings, streetlights. This is 8,2% of what we purchase. This is a cost that we have to absorb in the tariffs that we charge our customers along with the costs of our distribution network, substations, powerlines, maintenance, staff, etc.
* The pressures on the economy of the Covid-19 pandemic have impacted on the ability of residents and businesses to maintain the good 96% collection rates achieved up to March 2020. The following statistics provide a picture of the effect on the Municipality’s outstanding Debtors that have increased from R254m at the end of March 2020 to R338m at the end of April 2021. This is an increase of R84,2m or 33% which is indicative of the severity. Debtors over 90 days have increased from R154m to R229m, or R75m. During the course of this period the collection rate dropped significantly but has slowly clawed back to 94%. For every 1% that the collection rate is below 96% there is R16m less that gets collected.
* Even though the collections have improved the collection of these debtors presents a major challenge as experience has shown that debtors older than 90 days are extremely difficult to collect.
* The collection rate only reflects the actual billings of services utilized by our customers. My estimate from the tracking that I personally do on Debtors is that we have possibly had reduced Billings of R75m during this period through reduced sales of electricity, water and other services.
* At present, Billings are approximately 3% below the trend evident before Covid-19 started in March 2020. A 94% collection rate then actually translates to 91%, thereby indicating the hard work ahead to make up 5% in collections. This equates to R80m.
* When billings do not take place or Debtors are not being collected it means that Cash is impacted. The overall negative effect on Cash is therefore likely to exceed R100m.
* The Covid-19 pandemic also impacted the Municipality in other ways: Unexpected Covid-19 related expenses amounted to R8,9m for the period up to June 2020 when we also spent R1,5m on the hire of chemical toilets within informal areas to improve hygiene levels and R1,6m on soup kitchens, a total of R12m.
* During the February 2021 Adjustments Budget expenditure was reduced by R81m with the reduced expenditure budgets forming the basis for this final budget. Since January 2021 there has been increased emphasis on addressing service delivery shortcomings given the reduced levels of available funding;
* The factors outlined here have contributed to funding constraints of available funding for the Capital Budget through internally generated cash and the ability to take up loans to meet the demand for upgrading and replacing of infrastructure.

Council’s long-term financial plan (LTFP) indicates that:

* The municipality needs to focus on its core functions to effect all possible savings and to align the capital budget to achievable goals;
* The reduced 2020/21 adjustments budget is the base for the 2021/22 MTREF;
* Becoming more efficient in maximizing revenue and smarter spending;
* Using credit control and debt collection processes to improve the debt collection ratio above the 95% ratio;
* Ensuring that an operating surplus is achieved, along with a healthy liquidity ratio and a low gearing ratio; and
* Actively driving economic growth to reduce unemployment and poverty thereby pursuing an increase in own generated Revenue.

# Capital Budget

The preparation of this budget has been extremely difficult given the combination of circumstances that George Municipality has encountered over the past decade.

In 2011, George absorbed the Uniondale and Haarlem areas from the District Municipality without receiving sufficient Grant funding.

The growth of George over this period has also placed pressure on the availability of capacity at the Waste-Water Treatment Works as well as on the Water Treatment Works infrastructure.

This pressure has emanated from two areas: private sector development of housing where on average we have seen the construction of 75 new houses per month for the last few years.

In addition, hundreds of subsidized houses are being constructed each year as the Dept of Human Settlements continues to deal with the housing backlog.

Approximately 1600 houses are in the process of being handed over to beneficiaries during the coming months or are being completed.

In the past couple of years it had become increasing apparent that the scheduling of expansion projects for Waste Water and Water had become complex added to the availability of the suitable combinations of Grant funding, Loan funding and internally generated funds.

The execution of these projects required the necessary engineering and project management skills and disciplines to achieve the annual budgeted targets. Targets were not met and became critical issues to be addressed by the acting Municipal Manager, Dr Michele Gratz when she joined as from January 2021. The necessary remedial steps were immediately taken to return these projects to the correct trajectory.

Dr Gratz has played a key role in negotiations with CoGTA to ensure that our MIG Grant funding was not withheld. At this stage, we are on track to spend 100% of MIG Grant during the current financial year.

In the final stages of preparation for the Draft Budget tabled at the end of March 2021 it became clear that the achievement of a fundable, credible capital budget would require further reflection prior to the presentation of this final Budget.

The municipal management team and I as Mayor and the MMC: Finance recognised that we cannot fund large projects for Waste-Water and Water, each totalling over R300m from the current mix of funding, being relatively low levels of Grants and from internally generated sources. This meant that loan funding would need to be accessed.

Over the 3 year MTREF period over R1bn in capital expenditure needs to be undertaken to meet the needs of our citizens and businesses. In present circumstances this would require substantial increases in tariffs to service loans and internally generated sources.

It has also our view that a secondary city of George’s size should be receiving considerably more Grants from various sources to undertake the investment in infrastructure required for the level of economic development expected.

Numerous discussions have accordingly been held over the past few months between the Municipality and National Treasury, Provincial Treasury, CoGTA, MIG, MISA and other agencies to explore ways in which applications can be made for additional funding, grants or loans on more favourable terms.

The advice received during these cordial discussions have resulted in the following progress being made since the beginning of April 2021:

1. Applications for R1bn worth of water projects is being submitted to NT by the end of May 2021in terms of a Budget Facility for Infrastructure application;
2. Applications for R3bn worth of various projects is being submitted to NT by end of June 2021;
3. George has been pre-selected by National Treasury to apply for a Neighbourhood Development Partnership Grant (“NDPG”). This recent approach must be seen as recognition of the change management and improvements being driven by the political and administrative leadership of the Municipality. Since 2006 the NDPG has been successfully funding neighbourhood development regeneration. The programme aims to unlock, attract and retain optimal investment in rural/intermediate towns by investing in human capital, economic and social infrastructure and contributing to: economic; job creation; poverty reduction; eradication of spatial inequality; and creation of liveable, sustainable, resilient, efficient and integrated towns and cities.This presentation will be done to NT on 3 June 2021. The focus areas will be Uniondale/Haarlem, Pacaltsdorp and Thembalethu.
4. We have also applied to be a pilot municipality for the Private Sector partnership programme. Through this programme, we will in collaboration with MISA be applying to use our MIG funding in advance and receive a smaller MIG allocation over the next number of years. Such a project has not been done before and we are exploring how to go about this. This is a pioneering project and our efforts could well assist the other secondary cities who are all experiencing similar growth challenges to those we are experiencing;
5. We are also part of the SIDAFF programme (Sustainable Infrastructure Development and Funding Facility through the French Development Agency) where six municipalities in the Western Cape have submitted projects for consideration by foreign investors.

It needs to be recognized that throughout South Africa, municipalities are experiencing aging infrastructure and that sufficient funding is not readily available.

In George, we also face this enormous challenge where the replacement or refurbishment costs are going to run into hundreds of millions of rand in the next decade.

An example here are our sewage pump stations. Our three biggest pump stations were built in the early 1970s and are therefore of the order of 45 years old. While they have been maintained over the years, a stage gets reached when major amounts of capital need to be spent on them. These three alone would require R170m.

The planning, prioritization, phasing and funding for such work is exceeding complex in an environment where we also need to expand capacity of existing infrastructure and appear to be experiencing a limit of possibly R300 m per annum in capital expenditure that we can prudently undertake given our tariffs, cash flows, size of economy and balance sheet.

This also explains why we are at present so serious about engaging with National and Provincial Treasury to identify additional financing sources for the future.

We will certainly need to be reviewing all our tariff structures before the next Budget to ascertain how sustainable cash flows can be generated and increased.

We will in the future need to focus on ensuring that we have surpluses, i.e. revenue exceeding expenditure to meet the commitments of refurbishments and expansion to capital assets, which are so essential to attract investment.

It is quite clear that investors need certainty about top-class service delivery, available and well-maintained infrastructure and good governance for them to invest in a municipality. George is at present highly rated and we need to ensure that we maintain this status. This is how we are going to foster the growth in employment so needed.

Work on the Capital Expenditure Framework model will also need to be continued to ensure that this will assist in the prioritization of capital expenditure.

I am of the view that our engagements to date have been positive and that with our continued energy over the next year in driving our applications, we will be successful in receiving additional Grants and support.

We are embarking on large capital projects over the next few years:

1. George has 113 sewerage pumps. The replacement is going to cost approximately R500m over the next 15 years. We plan on upgrading sewer pump stations to the value of R120m over the MTREF with a major concentration on at least 3 major ones.
2. The Waste Water Treatment Works has reached capacity. The project to expand the Outeniqua Works capacity by 10 megalitres is underway. This project will cost R170m in total with R72m being spent in 2021/22 on the Outeniqua Works.
3. It is also necessary to upgrade the Water Treatment Works by 20 megalitres to accommodate growth and development in the town. This will cost R330m which is unaffordable to the Municipality at this stage. The dewatering/sludge component of the water treatment works will commence in the coming year at a cost of approx. R58m.
4. The Thembalethu / Ballots Bay 66kV/11kV substation upgrade is also being undertaken with R45m being spent over the MTREF.
5. Other major featured expenditure will take place on upgrades of the Stormwater network to the value of R30m in 2021/22 in Thembalethu, Conville, Borcherds, Lawaaikamp and Parkdene.

The Total Budgeted Capital Expenditure for 2021/22 is R370,4 million to be followed by R361,4m and R306,9 m in 2022/23 and 2023/24.

Funding for these projects in 2021/22 will come from CRR (Capital Replacement Reserve) R73,2m; External Financing Fund (EFF) of R195,6m and Grants of R81,4m and the Separate Operating Account of R20,2m.

We should also note that the WC Dept of Human Settlements has made Grants of R97,1m available of which R38,4m will be managed by them and R58,7m will go to the beneficiaries.

**GIPTN and the Impact of COVID-19**

Since the declaration of COVID-19 pandemic the passenger demand for public transport suffered. GIPTN collected an average monthly fare revenue of R4m prior to lockdown. This figure decreased to R855 000 at the end of April 2020.

Phase 4 B rolled out in March 2020, just before the implementation of Covid-19 restrictions. The estimated additional monthly fare revenue of R1.2m has not materialised and revenue forecasts had to be adjusted downward.

Our GIPTN partner, the Provincial Department of Transport and Public Works increased its annual subsidy by R66m in 2019/20 and R30m in 2020/21 to account for the shortfall in fare revenue.

There is however an indication of a steady increase in the number of passengers returning to use the service as lockdown levels ease with monthly revenue increasing to R3.5m at the end of April 2021.

Expenditure has remained consistent with additional pressure to implement COVID-19 preventative measures.

The Public Transport Network Grant (PTNG) received from the National Department of Transport is a formulae-based grant with a portion of the funding allocated based purely on the Municipality’s performance. The indicative PTNG allocation for the 2021/22 financial period was R123m but the continued performance and delivery of the project resulted in the GIPTN scoring the highest percentage of all the receiving Cities for the incentive component of the grant. This is resulted in an additional R60m being allocated George from the PTNG bringing the final allocation to R183m.

The GIPTN team remains committed to ensuring the successful roll-out of the remaining Phases. The formal roll-out date for Phase 4 A is not yet confirmed although consultation is happening at various levels.

**Turning to the Operating Budget:**

The tariff increases for bulk electricity purchases of 17.8% that was announced by ESKOM and approved by NERSA is more than triple the inflation projection. The increases announced by ESKOM the past decade has eroded the ability of municipalities to charge cost reflective tariffs for their own basic services.

The size of this increase is of enormous concern.

 A tariff increase of 14.59% for electricity from 1 July 2021 is proposed by the NERSA guidelines.

The local authority tariff increase is effective from 1 July 2021 to 30 June 2022.

The cost of distributing electricity within Municipal boundaries is borne by Municipalities, as are the sub-stations, maintenance, staffing, etc.

Our internal consumption of Electricity amounts to

The surpluses made contribute to the costs of administration.

The following tariff increases are proposed:

* Electricity - 14.59%
* Rates - 6%
* Water - 6%
* Sanitation - 6%
* Refuse - 4.5%
* General Tariffs - 2.0%
* DMA tariffs - apply George Municipality tariff increases

The Total revenue Budget amounts to R2616,7m with Core services contributing R1619m (62%) and Other Own revenue R294m (11%) with Operational Grants amounting to R613m and Capital Grants to R89m.

Salaries are budgeted to increase at 4,1%.

Total Operating Expenditure of R2511m (an increase of 8,3% on 2020/21) has been budgeted for.

It is important to note that despite the tight Budget, we are continuing to assist our various communities where possible, with the following being examples of Expenditure that is being undertaken within the Operating Expenditure:

Additional 20 kWh electricity per month to approximately 15000 households: R4 212 000

Soup kitchens: R1 685 000

EPWP - Own Funding: R10 200 000

EPWP – R 3 068 000: Grant funding

Hire of Chemical Toilets – R 4 350 000

Ward Based Projects – R 1 350 000 (27 wards).

This is a total of R24,865m.

I have also noted other measures being undertaken in the IDP speech.

Cllr Wessels as MMC: Finance and Cllr Von Brandis will elaborate further on the budget.

I want to thank the Acting MM, Dr Gratz, for her tireless efforts in leading and spearheading the efforts that I have briefly described in ensuring that the Budget can be approved today; as well as the efforts of the acting CFO, Mr Leon Wallace and his team at Finance as well as all the Directors and Officials and the Budget Steering Committees who have made inputs and worked long hours to get this difficult Budget finalized.

The Recommendation provides fall the resolutions for approval of the Capital and Operating Budget as well as the policies, tariffs and services, rates, SDBIP, capital funding, documentation, etc.

Thank you

Water usage

11203972kl

2271443 kl

8932529kl pa x15 years =133 987 935; 3.73