

**BUDGET SPEECH: EXECUTIVE MAYOR - SPECIAL COUNCIL MEETING:
BUDGET 2018/2019 – 2020/2021:
CALEDON: 28 March 2018**

INTRODUCTORY REMARKS

Speaker, councillors, officials, media and members of the public.

With the exception of a short break between 2015 and 2016, I have served on the Theewaterskloof Municipal Council since 2006. During this time, I have experienced 10 of the 12 budgets.

This is my second budget as Executive Mayor and it is my privilege to present the draft budget, for 2018/2019 and the two successive years, to you.

UNIQUENESS OF THE BUDGET CHALLENGES

Year after year it is said that it becomes more and more difficult to balance the municipality's budget. I do not think there is anyone in the municipality who will disagree with me if I make the statement, that the composition of this year's budget, for various reasons, is probably the most difficult until now.

A Municipal budget is subject to the same realities as that of the budget for a household. It does not matter what we want to achieve, the net result is largely dependent on the funds that we are able to collect versus the funds we are required to spend.

The trend currently is that 70% of municipalities in South Africa no longer generate enough income, or remain solvent, and that they are no longer able to deliver sustainable and effective services.

Theewaterskloof municipality is one of the 30% still able to render and deliver meaningful service while in certain respect is still able to excel in itself performance. In this respect we have reason to be thankful.

The problems surrounding the composition of a sustainable and effective budget, which is the Foundation for good service delivery and successful third tier Government lies, is the fact that:

- All municipal income sources are under severe pressure.
- The cost of service delivery is exceptionally high.
- It is becoming increasingly difficult to recover debtors.
- Public expectations with regard to service delivery are out of touch with the municipality's financial capacity and ability to comply.

I think it is high time that I touch a matter, which by most, especially well funded municipalities and higher levels of Government, is ignored. I refer to the inherent inequality and disparity between municipalities in that there are indeed rich and very poor local authorities. The situation is more acute than most of us think and is inconsistent with the National Constitutional intent that everyone must enjoy equal opportunities and thereby equal access to municipal services as well.

Speaker, as an example of the financial disparity between municipalities, herein I refer to the calculation made where the Overberg B-municipalities operational budgets for 2017/2018 is allocated to the total

population. I know certain variables do not reflect in this calculation, but it will in anyway not have a notable effect on the end total.

If the Overstrand Municipal operational budget for 2017/2018 is allocated to the population of 89 726, each resident will theoretically receive municipal services and products to the value of R11 566.

Whilst in Cape Agulhas the amount will be R8 822.

In Swellendam the amount is R6 066.

The Theewaterskloof population is officially estimated at 117 657. If the operational budget is to be allocated to the number of people, each gets a service and product value of R4 240.

The truth is however that the Theewaterskloof actual population is probably in the region of 150 000 and therefore each resident's portion will only be R3 886.

HIGHLIGHTS

Although the composition of this year's budget, because of potential variables, such as the unrestrained establishment of illegal human settlements and the complex needs of these areas, remains a big challenge. But highlights:

- The municipality for the year 2016/2017 received a clean audit report from the Auditor General confirming good governance and control by the corporate and political authority, effective management of the authority and corruption free financial management.
- The budget contained some core priorities of the fourth generation IDP although the needs, as indicated in the IDP, are extensive the municipality is not in a position to fund all of these. It is felt that what has been included in the budget will have a positive effect on service delivery and community life as a whole.
- I want to add that, as a result of excellent communication on various levels and the unique nature of the IDP and budget's public participation processes, I am of the opinion that most people in Theewaterskloof are aware of, and understand the financial and capacity constraints of the local authority.
- This budget attempts to accommodate the interests of all residents to the best of our financial and capacity capabilities to address. But the primary emphasis is on easing the plight of the very poor and the provision of basic services to the indigent families.
- Speaker we can however not only look to the indigent population as we also have a responsibility to the 47% residents who pay taxes. With this budget, the municipality aims, to the best of his ability, to render services to tariff- and to taxpayers as well. Residents do not necessarily get what they pay for, this because a large part of the national Government's obligations to the poor is taken over by local ratepayers, but we have done our best to get as much as we are able, to give back to ratepayers.
- Despite the numerous constraints and challenges, we have in terms of an approved plan managed to provide budget for the upgrading and maintenance of infrastructure. Speaker, I am optimistic that we will make progress with marginal improvement of the sustainability of infrastructure and consequently service delivery.
- In the past, TWK services tariffs, especially for electricity and water, relieved the pressure on the tax burden of ratepayers. To some extent, the tariffs subsidised rates. This situation has reached

saturation point over time and has exposed the vulnerable financial position of the municipality. Residents have reduced their consumption of those commodities and as a result, thereof the municipality's income has dropped dramatically. Although taxes have on average only been raised by 10%, the budget has succeeded to improve the relationship between tariff and tax revenues. Despite this, cross-subsidisation, especially from water, remains and if it had to disappear totally, it will place further pressure on the taxpayer.

- This budget was compiled with considering priorities such as financial stability, effective management of the migration phenomenon, deteriorating infrastructure and the growing and unforeseen public expectation.
- For local economic development, the municipality has budgeted the sum of R600 000 for a policy in respect of bulk-development contributions. Moreover, the authority has adapted its rates policy for the exemption for new business development for the first 3 years of development. Thereafter tax will be phased is over a period of 3 years.

THREATS

- The shrinking of the municipalities Government funding is in stark contrast with the fast-growing indigent population. The reality is that national Government is reducing its financial commitments towards municipalities' while poverty escalates. In the 2018/2019 national budget, municipalities get R 5.8 Billion less than last year. Municipalities now pay the price for the billions which, in the previous president's term, had been plundered from the fiscus through corruption and State Capture.

It is an outlook that is not going to change in the near future because the countries tough economic challenges such as free after-school education and land expropriation without compensation are adding enormously to the burden. Local governments are increasingly forced to find alternative funding options on their own to survive, this implies additional on the already overtaxed ratepayer. Admittedly, this year the municipality had to increase taxes, but the percentage is lower than that of last year.

- While I have great understanding for the National Government's challenges, I believe that the municipal fiscal model for the funding of municipalities is obsolete. If it is not changed, the #FeesMustFall campaign for free education will in the near future have to make way for a campaign to be negotiate for basic municipal services. Instead of having an economy with uncertainties, such as property ownership and taxation, it is time that the new President and his administration accelerate economic growth by creating an environment that instils confidence to investors.
- Speaker, Theewaterskloof is poor and the tax base is small. In addition, the local economy is growing at a sluggish pace. For the municipality's tax base and tariff revenue to broaden, the municipality must accelerate local economic growth. Unfortunately, the budget does not finance the need sufficiently and we will have to find innovative solutions for economic growth.
- Given these circumstances, it still happens that people in "non-grant-funded areas" and taxpayers in general still subsidise those in "Grant-funded areas". This will have to stop, because the taxpayer will no longer accept this inequality for much longer. Currently the taxpayer gets very little for his input.
- Speaker, the budget leaves very little manoeuvring for unforeseen expenses. The municipality will have to protect itself against service delivery to informal residential areas on occupied State land. There is just no money in the budget for unplanned basic services to informal settlements. As an

alternative, the municipality must, as in 2017/2018, be prepared to negotiate with Province for the additional funds required for unexpected or unplanned expenses.

- Given the extent of damage caused by protest marches and vandalism the municipality will have to ensure planning is done to keep this to the absolute minimum.
- The drought affecting large areas of the Western Cape and the Theewaterskloof area has had a devastating and direct impact on the local authorities' income sources. Expenses, to negate the effect of the drought by maintaining sustainable supply has exacerbated the situation.

NOTES ON BACKGROUND OF THE BUDGET

The Medium Term Revenue and Expenditure Framework (MTREF) for 2018/19 to 20120/21 was compiled to comply with the following legislative requirements:

- the Constitution 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 (MFMA), Act 56 of 2003;
- The Municipal Budget *and* Reporting Regulations as promulgated on 17 April 2009;
- and the Division of Revenue Act, Act 1 of 2010.

The Revenue and Expenditure projections, the annual inflation-linked adjustment, applicable to the Medium Term Expenditure Revenue and Expenditure Framework, are all taken into account.

The primary challenges that are experienced with the composition of the Medium Term Revenue and Expenditure Framework for 2018/19 are summarised as follows:

- The reprioritising of capital projects and operational expenditure in terms of the financial affordability limits of the budget; and the taking into account of the municipality's cash position.
- Salary increases for staff that exceeds consumer inflation; and the requirement to fill unfunded, critical and essential vacant posts, in terms of the collective agreement in respect of salaries and wages.
- The budget makes no provision for the funding of approximately R4,3 Million for a probable new salary-and wage curve. The amended curves will be in force if the municipality is re-categorised into a new local authority rating. The budget also does not provide for the filling of any vacant posts.
- National and local economic challenges and an expected growth rate of 1.8%.
- The consumer price index (CPI) over the short term by 5.3%, 5.4% and 5.5% as projected.
- The fuel price is subject to several variables such as the volatility of the currency, international political events that affects the upward pressure on the oil price.
- National Government not meeting its obligations in respect of relief for the indigent and the need to supply free basic services.
- Unfunded mandates.
- The municipality is by law obliged to do municipal valuations of all properties within the municipal area; and the cost involved is R1,4miljoen in 2017/18 plus R1miljoen in 2018/19.
- A provision of R 2 Million as the municipal contribution to fire fighting services.
- Provision should be made for interest and redemption on loans to exploit new water sources while the cost of garbage dump at Karwyderskraal is to increase with 122%, or R1,4 million, to R4 million.

FEATURES OF THE BUDGET

The budgeted operational receipts for 2018/2019 is R 583,246 Million. In comparison with the 2017/2018-budget it is a growth of R 14, 6 Million or 3%.

The budgeted operational expenses for 2018/2019 is R 543,985 Million and R35, 4 Million, or 7%, more than in 2017/2018.

Given the State of the municipality's income sources the ratio between income and expenses will increase only if receipts from services and taxes are increased.

The municipality is, however, well aware that the burden on services and taxpayers should be limited.

The municipal income consists of:

- Property Tax is R 103.6 million (18% of budget) increase of 10%
- service fees is R225 million (39% of budget) increase of 13%
- Operational donations R142 million (24% of budget) increase of 4%
- Capital donations R 47.3 million (8% of budget) increase of 40%.
- Other own income R65 million (11% of budget) increase of 12%.

A SUMMARY OF THE MUNICIPAL EXPENDITURE ARE AS FOLLOWS:

- Salaries & Related expenses is 38% of expenses an increase of 10%.
- Remuneration of Board members is 2% of expenditure an increase of 5%.
- Depreciation is 4% of expenditure an increase of 24%.
- Finance charges is 4% of expenditure an increase of 11%.
- Bulk Purchases is 14% of expenses an increase of 11%.
- Other material is 11% of expenses an increase of 13%.
- Maintenance and repairs 19% of expenses an increase of 7%.
- Other expenses are 8% of expenditure an increase of 1%.

TARIFF INCREASES FOR 2018/2019 ARE AS FOLLOWS:

Tax: the tariff reduced by 21% but income growth by 10% due to the increased property valuations.

Electricity: 6.8% (subject to NERSA approval)

Water: (this is an increase of 15.6% for household use that 15kl per month and 20.5% for household use that 30kl per month.

Sanitation: 16.3%

Solid waste: 18.25%

The capital expenditure for 2018/2019 is a budgeted R 79.1 million compared with the R 130.2 Million of 2017/2018.

The capital expenditure for 2017/2018 is, however, through the course of the year an additional sum of R21 Million, which the authority was able get through negotiations from the Provincial Government. The R21 Million was for drought relief and housing. In 2018/2019 the municipality will seek to further negotiate additional grants which may augment and increase the budgeted figure of R 79.1 Million.

CONCLUSION

The planning, development and implementation phases of the IDP and budget of Theewaterskloof municipality, for the period 2018/2019 to 2020/2021, complies with all legal requirements and especially the relevant legislative stipulations as prescribed for the Local Government: Municipal Systems Act (32 of 2000).

In the exercise of its oversight role, the Board focused on the following:

- The adoption of a process plan that will dictate the planning, structure and approval of the draft IDP and budget.
- Compliance with the directives that facilitates and ensures public participation of communities and stakeholders to the IDP and Budget Process.
- The determination and assessment of priorities as it is debated at a workshop.
- The implementation of criteria to IDP priorities at the Budget.
- Integration of the IDP and budget.
- Approval of the draft IDP.
- Publishing of the draft IDP for public input.
- Feedback to communities of all Wards over the finalisation and outcome of the IDP process.

The process ensures that the following entities were involved in the drafting of the IDP and budget:

- Ward Committees.
- Village Forums.
- Political administration of the municipality.
- Corporate administration of the municipality.

In the composition of the draft IDP and budget, the Council ensures that the provisions of local authorities: Municipal systems Act (32 of 2000) have been complied with; and the directions that specifically deal with the community participation in the development of the IDP and budget. The public was involved in that they:

- Were part of decision-making processes.
- Had an overview about the processes.
- Were part of the development, implementation and review of the IDP.
- Has verified that the interests of people with specific needs, such as those who cannot read or write, were taken into account.

The Council ensured that communities' core needs are incorporated in the IDP. The draft budget is the result of excellent cooperation between the corporate and political administration of the municipality and the public.

It was not easy to set up the budget, and the process required exceptional expertise, hard work and dedication to complete. It required new and innovative thinking to finalise. I believe the IDP and budget that we have set reflect the interests of good government, the municipality, and our wider community.

Speaker, this is a draft budget and can be reviewed and amended. The budget will be advertising for public input and I trust that all taxpayers and beneficiaries will study it.

The municipality will welcome comments submitted to the Council and offer the assurance that all the suggestions and requests will be considered before the final budget is approved.

I thank the municipal Manager and his team for their excellent work to complete and balance the budget. Many thanks to my Executive Committee and the Board for their input and hard work.

I thank our Heavenly Father for his direction and because nothing without Him could have been reached. I praise him.

Speaker, I now submit the draft IDP and budget for publication and public input.

I thank you.

Councillor Christelle Vosloo
Executive Mayor