DRAKENSTEIN
MUNISIPALITEIT • MUNICIPALITY • UMASIPALA
Paarl ¦ Wellington ¦ Gouda ¦ Saron ¦ Simondium

Executive Mayor Budget Speech

2018/2019 Tabled Budget

28 March 2018

Speaker;

Deputy Executive Mayor;

Mayoral Committee members;

Ordinary members of Council;

City Manager;

Senior Executive Directors;

Ward Committee Members;

Members of the public;

Media present; and

All protocol observed.

Good afternoon ladies and gentlemen,

I am beginning my budget speech with the following bold statement.

The City of Drakenstein is one of the 7% well-functioning municipalities in South Africa whom Dr Zweli Mkhize, the Minister of Co-operative Governance and Traditional Affairs, in his press release on the 20th of March referred to.

Although Dr Mkhize did not name the 18 municipalities involved, I base this bold statement on the National Treasury's **State of Local Government Finances and Financial Management Report as at 30 June 2016** released on 28 March 2017 – exactly one year ago – where Drakenstein Municipality and Stellenbosch Municipality as secondary cities were found to be the best performing municipalities of the eight metros and 19 secondary cities in South Africa.

Speaker, we continued our responsible and good governance practices with a 4th consecutive clean audit opinion from the Auditor-General for the 2016/2017 financial year. Political leadership and the administration is doing an excellent job as stewards of the available resources through excellent service delivery to our community to enhance each person's quality of life within Drakenstein. However, there is still room for improvement.

Speaker, it is with great pleasure that I table the 2018/23 Medium Term Revenue and Expenditure Framework (MTREF), proposed tariffs and budget related policies to be considered by Council and to be communicated to the public for comment.

This budget is a product of the hard work of political leadership and the highly skilled and committed executive management team of Council. This budget is aligned to the Drakenstein

Municipality's Integrated Development Plan (IDP) with its vision and mission statements, corporate values, key performance areas, strategic objectives, outcomes and key focus areas.

CURRENT STATUS

Speaker, over the last two financial years we have invested huge amounts of money in revenue generating infrastructure that will trigger economic growth so as to ensure a financial sustainable future for generations to come through a legacy that we will leave behind. During the 2016/17 financial year we have spent R544 million on capital projects and we project spending R788 million by the end of this financial year. Most of the required infrastructure will then be in place at the end of this financial year to unlock new housing projects and other developments creating much needed work opportunities.

2018/23 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK

Speaker, this budget was compiled in line with guidelines set by political leadership and reflects our determination to reduce poverty, create jobs, expand our economy and build and maintain our infrastructure.

The budget has been prepared in accordance with the National Treasury's circular guidelines and the Municipal Budget and Reporting Regulations, taking cognisance of scarce available resources.

The reviewed IDP forms part of a comprehensive suite of plans used by the Municipality to best utilise its available resources for the benefit of the local community over the 2018/23 MTREF five year period. An important chapter in the IDP is Chapter 4 dealing with our Long-Term Financial Plan that speaks to our long-term financial sustainability challenges.

The IDP and Budget consultation process with the community will commence on Sunday 8 April 2018 and will end on Wednesday 25 April 2018. The closing date for written comments on the IDP, budget and budget related documentation is Friday 27 April 2018. We will consider all the comments received from the local community, stakeholders, the National and/or Provincial Treasury before I will table the final budget for approval by Council by 30 May 2018.

Total Expenditure

Speaker, our 2018/19 capital and operating budget expenditure amounts to R361 million and R2.391 billion respectively. Our total budgeted expenditure therefore amounts to R2.752 billion.

Capital Budget Expenditure

Speaker, the 2018/19 capital budget of R361 million will be spent on basic and road infrastructure services (72%), social and economic infrastructure (19%) and operational infrastructure (9%) compared with the 2017/18 adjustments capital budget of R788 million. The R788 million does not include the additional grant allocations which were allocated to Drakenstein since approving the 2017/18 adjustments budget on 28 February 2018. Additional grant allocation notifications were received from the National Disaster Drought Relief Fund (R26.8 million), the Provincial Government Drought Relief Fund (R14.7 million) and the Municipal Infrastructure Grant (R13 million). These allocations must still be approved by Council in April 2018 through a special capital adjustments budget.

Speaker, we have been very mindful of the needs of our communities and this budget acknowledges that there is still a huge need for upgrading in our previously disadvantaged and informal settlement areas. Therefore, R283 million or 78% of the amount of R361 million will be spent directly and indirectly in the previously disadvantaged areas in the 2018/19 financial year compared with the R616 million or 78% of the R788 million of the current financial year.

An amount of R155 million or 20% of the 2017/18 capital budget and an amount of R124 million or 35% of the 2018/19 capital budget will be spent directly in the previously disadvantaged areas. Some of these capital projects, that will cost R279 million, to name a few, are:

1. The development of sporting facilities at Die Kraal, Dal Josaphat, Mbekweni, Newton, Fairyland and Pelican Park;
2. The Saron and Simondium community halls;
3. VPUU Project including the informal trading kiosks and a new library at Groenheuwel (House of Learning);
4. Upgrading of our own rental stock;
5. Bulk infrastructure to the Vlakkeland Housing Project;
6. Upgrading of gravel roads and stormwater in Saron and Gouda;
7. Replacement of the Strawberry King water pipeline;
8. Basic infrastructure services to informal settlements;
9. Basic infrastructure services to the Siyahlala Housing Project;
10. Construction of Van der Stel Street;
11. Electrification of housing and informal settlements; and
12. Individual ward projects.

Speaker, over the same period an amount of R461 million (2017/18) and R158 million (2018/19) will be spent on bulk infrastructure capital projects that the previously disadvantaged areas and the future Vlakkeland and other housing projects will benefit indirectly from. The total amount of R691 million will be spent on the following bulk infrastructure capital projects:

1. Drilling boreholes to secure water for Drakenstein residents;
2. Welvanpas Water Treatment Works producing clean drinking water;
3. The 11 ML Newton Reservoir Project to secure sufficient water storage space;
4. Extension/upgrading of the Paarl and Wellington Waste Water Treatment Works to ensure that raw sewerage from Vlakkeland, Erf 16161 and all other new developments are treated to the required standards;
5. Replacing 66 KV cables to ensure electricity supply to the Dalweiding Substation; and
6. Upgrading of the Berg River Boulevard to ensure that economic activities throughout Drakenstein can be stimulated through excellent main road networks.

The MTREF proposes capital expenditure of R361 million for the 2018/19 financial year as well as R280 million, R327 million, R280 million and R289 million for the four outer financial years. I need to point out that our communities have enormous expectations as expressed in the IDP and we see that requests for such capital infrastructure investment for the next 5 years amounts to R6.7 billion that cannot be accommodated over the next five years. We envisage spending only R1.5 billion or 22.8% of our total capital investment needs over the five year MTREF period. Our community needs are simply just more than what we can afford and that is why we have to be conservative and prioritise our capital spending. A comprehensive list of all our capital programme needs and requests is attached as Annexure B to the Tabled 2018/19 MTREF Budget Report.

Speaker, the question could be asked why we are only budgeting for infrastructure investment of R361 million in the 2018/19 financial year compared with the R788 million in the current 2017/18 financial year. The answer is simple. Drakenstein has reached its borrowing limits that was necessitated to unlock future housing and other developments. Our gearing ratio will reach the agreed limit of 70% with Standard Bank through the signed loan agreement with them for the 2016/17 infrastructure investment programme. We will also reach our agreed limit of 15% of interest and redemption payments *versus* total operating expenditure through the signed loan agreement with the Development Bank of Southern Africa for the 2017/18 infrastructure investment programme.

Speaker, our Long-Term Financial Plan in the IDP clearly indicates that we want to reduce our gearing ratio with about 5% per year to 45% in 2022/23. This is therefore the main reason why we are slowing down in infrastructure investment over the next five years.

Operating Budget Expenditure

Speaker, the proposed operating expenditure budget for 2018/19 increases with 10.1% to R2.391 billion compared with the 2017/18 adjustments operating expenditure budget of R2.171 billion.

Bulk electricity purchases and employee related costs amounts to R689 million and R625 million or 29% and 26% respectively. The remaining 45% will be spent on other categories of operating expenditure.

Drakenstein has budgeted for repairs and maintenance costs an amount of R251 million or 10.5% of our total operating expenditure of R2.391 billion. Compare this with the R181 million or 8.3% of the 2017/18 financial year and one can see that Drakenstein is taking the maintenance of our infrastructure seriously and we are spending sufficient of our available resources to maintain our infrastructure.

Operating Budget Revenue

The proposed operating revenue budget for 2018/19 increases with 11.7% to R2.391 billion compared with the 2017/18 adjustments operating revenue budget of R2.154 billion. This increase is mainly due to the growth of our revenue base through development and tariff policy changes as well the increase of tariffs and property rates that I will discuss later in more detail.

Operating Budget Results

Speaker, the 2018/19 operating budget (capital grants excluded) realises an operating deficit of R74.6 million. After counting non-cash off-setting depreciation and other non-cash transactions back, the operating budget projects an operating budgeted cash surplus of R1.3 million compared with the R0.5 million cash surplus of the 2017/18 adjustments budget. It is clear that our operating budget is financed through realistically anticipated revenue streams, but executive management will have to ensure that spending and procurement takes place only where needed.

The 2018/23 MTREF projects an operating surplus of R44.5 million in the 2021/22 financial year meaning that we will have a balanced budget for the first time since the 2007/08 financial year. Clearly we have turned this gigantic ship around on its way to financial sustainability and prosperity. With that kind of operating surpluses we can start investing more in infrastructure.

Tariff Increases

Speaker, Drakenstein and so also the whole of the Western Cape are experiencing water supply problems due to the drought. According to the weather experts this situation will not change very soon and will the negative rain patterns continue until 2021. We hope this won't be true and that God will intervene with us asking this in believe in our prayers.

However, we cannot do nothing about this water crisis situation and therefore we adjusted our water tariffs for water restrictions to encourage water savings. Any water user wasting water will have to pay the punitive tariffs for water consumption above certain consumption levels in the different stages of water restrictions. These punitive measures kicks in at consumption above 80kl in stage 1; 50kl in stage 2; 30kl in stage 3, 15kl in stage 4, 10kl in stage 5, 6kl in stage 6 and 0kl in stage 7 when day zero might arrive. We believe with our borehole programme this will never happen. Important to note that only indigent households will still receive 6kl free water as is currently the case.

Speaker, important to note is the newly restructured refuse removal tariffs based on a study of services done by a consultant. The basic/availability charge will increase from R39.29 per month to R122.70 per month. This will be paid by all owners of undeveloped properties as well as every developed properties making use of a private contractor to collect and remove their refuse to our waste disposal site in Wellington. The tariff that a household will pay for a full refuse removal service once a week will increase from R214.63 per month with 9.7% to R235.45 per month. All refuse removal service points (inhabitable units like the number of flats on a erf) will be charged with the full refuse removal service tariff irrespective of the amount of bins being removed.

The increase of electricity tariffs are limited by NERSA to 6.84% for next year. However, bulk electricity purchases from Eskom increase with 7.32% and this leads to our profit margin being narrowed every year.

As set out in the budget assumptions in the 2018/19 MTREF Budget Report and in the Long-Term Financial Plan in Chapter 4 of the reviewed IDP, the 2018/19 revenue streams increase approximately with the following percentages:

1. Property rates revenue with 8.2% compared with the 9.49% of the current year;
2. NERSA has provisionally determined an increase of 6.84% for all electricity consumers compared with the 1.88% of the current financial year;
3. Water revenue with 7% – a downward trend when compared with the 8% of the current financial year. Punitive tariffs will apply above certain water usage thresholds for water users;

4. Sanitation revenue with 15% to close the gap in reducing the loss on this service – this forms a very small percentage of our revenue streams and will have little effect on our basket of tariffs and will have a small effect on monthly household accounts;
5. Refuse removal revenue with 9.7%;
6. Community halls revenue with 5%; and
7. Sundry revenue with 6 - 10%.

Financial Support to Indigent Households

Speaker, I need to emphasise and repeat what the Executive Mayor said last year and that is that Drakenstein Municipality do provide free basic services to poor households as a means of poverty alleviation. We mainly provide support to households who are unable to pay or struggle to pay for their basic services. This includes households with an income base below a determined threshold (two times the government social grant paid to a pensioner plus 25%), to the unemployed, child-headed households, retired persons and disabled persons. These consumers should apply and be registered as an indigent household on our indigent register in order to obtain this benefit or to qualify for rebates from their municipal basic services or property rates levied. An important change in our policy on indigent support is that government social grant pensioners will be registered for the next three years for indigent support before they will have to re-apply for the 2021/22 financial year.

Due to the drought and the need to save water we do not give six kiloliters of free water to all households anymore. Only indigent households through the indigent subsidy will receive their first 6kl of water free of charge. No indigent household should use more than 6 kiloliters of water per month.

Indigent households will in 2018/19 still receive 100 units of free electricity per month (compared with the national norm of 50 units of electricity), six kiloliters of free water per month (compared with the national norm of six kiloliters), free refuse removal services, free sanitation services, free housing rental services and free property rates. This indigent subsidy will be credited to the customer's account during the monthly billing run. The value of the above basket amounts to an indigent subsidy of R645.36 per month per household (VAT included) based on National Treasury's consumption patterns for defined indigent households. The indigent subsidy is funded through our equitable share allocation. It is important to note that it is expected from indigent households only to pay for electricity consumption above 100 units of electricity per month and for water consumption above 6 kiloliters of water per month.

For the 2018/19 financial year the qualifying criteria for indigent status is households (main bread winner/s) earning R4,250 or less per month.

Speaker, we also pay attention to the challenges facing our senior and physically challenged residents. As a result the pensioners and those persons with disabilities also qualifies for a 100% rebate on property rates and financial assistance of 100% of the indigent subsidy for services rendered if their earnings is also equal to or less than R4,250 per month (a significant threshold increase of R250 per month compared with the current financial year). Financial assistance or rebates of 80% of the indigent subsidy can be given to those retired and disabled households who earn less than R4,750 per month (an increase of R250); 50% to those who earn less than R5,500 per month (an increase of R250); and, 20% for those who earn less than R6,250 per month (an increase of R250).

Speaker, all households (indigent households included) will receive a tax rebate on the first R180,000 value of their property. All properties with a property value of R180,000 or less will therefore pay no property rates.

Conclusion

Speaker, building on our successes over the last five years and as was the case last year, this tabled budget is responsive to the economic growth, strategic objectives and socio-economic needs of the residents of Drakenstein. We have paid particular attention to the difficult economic climate and the drought situation.

Drakenstein's Vision 2032 and its strategic objectives are furthermore aligned to the national and the provincial priorities as articulated by the national outcomes and twelve provincial strategic objectives. The Municipality currently has a Spatial Development Framework in place that forms part of the Growth Management Strategy.

The budget assumptions are realistically based on available information and the projected cash flow budget is credible and sustainable over the MTREF.

Speaker, I place on record my sincere appreciation to members of the Mayoral Committee and the City Manager and his administration in facilitating and putting this budget together. Especially I want to thank the Deputy Executive Mayor (Cllr Gert Combrink), the Chief Financial Officer and his Budget and Treasury Office staff for their highly appreciated effort to compile this budget in the required format.

Through hard work, focus and simplicity we have already achieved many possible outcomes and we will continue through Vision 2032 to do so in our quest to become *"a city of excellence"*.

Speaker, with these remarks, I herewith present Drakenstein's Tabled 2018/19 Medium Term Revenue and Expenditure Framework Budget Report. I respectfully submit the 23

recommendations in the Budget Report through the Deputy Executive Mayor to Council for consideration and approval.

I thank you.

CLLR CONRAD POOLE
EXECUTIVE MAYOR