

Budget Speech: 30 May 2022: Ald Leon van Wyk

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

It is indeed a great privilege to present George Municipality's Multi-Year Budget for 2022/23 to 2024/25. The Capital and Operating Budget under consideration is for approval in terms of Section 24 of the Municipal Finance Management Act, (Act 56 of 2003).

On 28 March 2022 we had tabled the draft Budget for 2022/23 – 2024/25 in terms of Section 16(2) and 17(3) of the Municipal Finance Management Act (MFMA).

The preparation of this Budget has been intensely complex with the requirement to take into consideration the following developments that have occurred and/or are evolving:

- In November 2021 we were officially awarded a Budget Facility for Infrastructure grant to the value of R1197m with the provision that we would need to spend this amount over a 40 month period. This included the requirement to spend R81m within the financial year ending on 30 June 2022.
- This brought about the realisation that the usual three year budget cycle would need to be expanded to five years to provide a greater understanding of the timing of capital expenditure.
- The unreliability of electricity supply by Eskom also meant that we had to immediately factor in how to start mitigating the loadshedding risk on our George economy.
- On 22 November 2021, on the day of the inauguration of this Council, we experienced devastating floods in George that resulted in damage to municipal infrastructure amounting to approximately R250m for which we have lodged claims for disaster relief. We are only likely to obtain such relief in future years. In the meantime, budgets had to be re-allocated for immediate expenditure where possible over December through February; thereafter via the Adjustment Budget for March to June 2022 and also in terms of the budget now being considered.
- The effects of the floods, loadshedding and semi-migration of citizens into George have exacerbated pressures on infrastructure.

- The recently published Growth Potential Study which is based on 2018 statistics and analysis has revealed that George is one of the top three intermediate cities experiencing the highest growth rates. It is my contention that if these figures could be updated to the present time, the growth rate for George would most definitely exceed achievements up to 2018.
- Repairs to infrastructure since late November 2021 to date have highlighted the pressures to deal with both ageing infrastructure and water treatment capacity in particular. The influx of holiday visitors and new residents resulted in enormous pressure on the water demand to supply balance particularly over the December to March period which resulted in available water within the main treated reservoirs declining to 2 hours' supply on quite a few occasions. The 50% expansion of the water treatment works is at present under way although careful management of this critical balance will be required for many months. Any major breakage in a critical pipeline has an impact on reservoir capacity.
- The South African economy, political scenario and both leadership and management of municipalities in the country continues to experience severe stress at present. Poor service delivery along with safety concerns elsewhere is promoting the drive of in-migration of citizens into the Western Cape and George.
- George is experiencing an influx of citizens who are re-locating their families to live in George. One property developer has indicated that 150 erven in an upmarket have been sold within an 18 month period. Cement sales by volume in the Western Cape has increased by over 20% and likely to be close to 30% year on year by the end of May with the Garden Route reflecting similar growth patterns to that of Cape Town.
- The violent unrest in July 2021 in parts of the country, along with the recent double bouts of massive floods in KZN and the ongoing effects of the recovery and ongoing management of the Covid-19 pandemic also have to be considered.

Each of these factors has necessitated that the Budget Steering Committee to interrogate the state of infrastructure, capital expenditure priorities, revenue billing and collection and the question of funding both capital and operating expenditure.

The experiences of the past six months confirmed that our data interrogation, measurement and analysis requires upgrading ranging from bulk meters, valves, telemetry, smart meters to replacing old water meters.

We also need to bolster our safety through the introduction of additional CCTV cameras that can be monitored from a 24-hour control room. This will in turn require the appointment of additional law enforcement personnel and reaction units.

Vandalism, cable theft and illegal dumping have become scourges within our communities. Electronic surveillance devices will be implemented to assist in detecting and apprehending the perpetrators.

Loadshedding has meant that we have rapidly had to invest in purchasing standby generators for various sewer pump stations to mitigate the impact of load shedding and prevent sewerage spillages. We are also introducing uninterrupted power supply (UPS) units at traffic light intersections and investing in energy efficient streetlighting.

The Budget Steering Committee has deliberated extensively about the acquisition of renewable energy sources as rapidly as possible to mitigate the risks and damage to the economy being caused by loadshedding. It is the objective to avoid Stage 1 and 2 of loadshedding as quickly as possible.

A decision was made to propose to Council that 12,6 MW of solar PV plant generated power be acquired over a three year period to add to the 0,3 MW already operational. The expected cost will be R220m and will provide for roughly 14% of George's daily load factor of 85 MWp. The addition of battery storage is being actively considered to incorporate into this project as soon as this method of extending beyond daylight hours becomes financially viable.

Included in the proposals is a 1 MWp solar plant earmarked to be operational by August 2023 and a 8 MWp plant in 2024 once the necessary EIA is obtained.

During January 2022, a Request for Proposals from Independent Power Producers took place. In due course, Council will receive a report on these proposals. A proposal on a possible hydroelectric pump storage scheme between the old George Dam and the Garden Route Dam is included among these proposals.

Over the past few months, it has become increasingly evident that these risks need to be mitigated. The Municipality is also engaging with the Western Cape Government to discuss the work they are doing to secure electricity, possibly using liquified petroleum gas (LPG) and whether they can assist on possible funding proposals for our renewable envisaged projects. From work done to

date the indications are that renewable energy can be acquired at prices that are more attractive than Eskom's pricing.

The municipality currently uses of the order of 8 MW of energy for its own installations and streetlighting. As soon as we generate our own renewable energy, the savings from bulk purchases currently being acquired from Eskom will be diverted to cover the loan repayments on our own plants.

This Budget is also proposing a re-structuring of Electricity Tariffs to align with Nersa's requirements to comply with a Cost of Supply Study that takes cognisance of the fixed costs in our R2bn plus distribution network with a variable cost applicable for the energy charge utilised. Within the fixed charge component the energy capacity, or amperes used, is also being charged for. By way of example, all domestic users are currently allocated 60 ampere whereas the bulk of users only need 20 amperes. Domestic consumers will be rated at a capacity charge deemed appropriate for their level of usage – whereafter they may adjust to their level of choice. It is believed that this changeover will in due course reduce the maximum load factor that is levied by Eskom on George's purchases, thereby saving on bulk purchases and benefiting consumers.

Speaker, it is important that I use this opportunity to express my thanks to the team who worked on this Budget, ably led by the Municipal manager, Dr Gratz and consisting of the CFO, the Directors, the officials reporting to them and the outside advisers, Cllr Wessels and other councillors who have contributed to the debate and discussed particular issues.

Speaker, the deliberations we are undertaking are strategically focussed on re-positioning George as a leading intermediate city in the country as we recognise that local government is crumbling across the country as a result of ageing infrastructure, service delivery failures and the dearth of knowledgeable and experienced managers. Infrastructure leads to Investment. Last week, George was invited to present its pitch for investment or otherwise stated as the "state of infrastructure, service delivery and land use approval approvals" at the Western Cape Property Development Forum Conference for the scrutiny of the built environmental professionals and property development sector.

This conference confirmed the importance of our determination to focus on maintaining infrastructure and an enabling and facilitating environment to

secure the investment that would lead to the private sector driving employment.

Our Capital Budget over the next three years is just short of R2,5 billion, the largest in the history of George. If we take the four year period from June 2020 to June 2024 (two years away), our Total Expenditure Budget will effectively double, implying a growth of 19% per annum. This is in contrast to the period from 2015 to 2020 where we only grew by 8% per annum.

At last week's conference the Mayor of the City of Cape Town, Geordin Hill-Lewis echoed a similar trend of slow growth over the past decade and where they too need to rapidly accelerate their investment in infrastructure.

The growth will no doubt have to be managed very carefully in terms of Revenue streams, internally generated surplus cash balanced by Grants received and Loans raised to fund capital expenditure that will in turn be supported by cost reflective tariffs.

The Budget team has identified numerous areas where revenue enhancement projects will need to be undertaken. These include the increased use of GIS (geographic information systems), smart meters, ensuring water meters are read, leaking water pipes get fixed, levying of correct municipal accounts, etc. This project will be critical to supplementing our current Revenue.

The pedestrian growth in Revenue over 2015 to date is indicative that we possibly have not correctly secured all possible revenue and need to sharpen our revenue collection to account for inflation, population and business growth.

Currently the growth in infrastructure and refurbishment to be undertaken, we will need to be working towards generating R30-50 million per annum in excess of current revenue. This funding will be required to bolster internal cash generation and the repayment of loans for the next ten to 15 years.

Capital Budget

The budget committee has prioritised the upgrading of the core services infrastructure. Here are a few of the focus areas:

R428 million was appropriated over the MTREF for the extension of the Water Treatment Works. The upgrading of sewer pump stations has been prioritised and R269 million over the MTREF has been allocated. A further R60 million has been allocated to the extension of the Sewerage Treatment Works over the MTREF.

The Thembaletu / Ballots bay 66KV/11kv substation is a multi-year project. In 2021/2022 R13.7 million was provided for this project with a further R45 million budgeted over the MTREF. The project was delayed by the community and subsequently a community liaison officer was appointed to resolve the grievances raised by the community.

Projects to be funded from the Capital Replacement Reserve (CRR) were capped at R157 million and R303 million for projects linked to external funding (EFF). Of the CRR required, an amount of R63m will be contributed from cash reserves to supplement amounts expected to be internally generated from direct sources.

Full provision was made for grant funded projects as contained in the Division of Revenue Act. An amount of R323 million was budgeted for grants:

- R320.4 million from National Government;
- R1.6 million from Provincial Government; and
- R1 million will be received from the Garden Route District Municipality for capital expenditure in the 2022/23 financial year.

R6.1 million of the Housing Special Operating Account (SOA) is also earmarked to fund infrastructure projects linked to the provision of housing

Our Capital Budget for 2022/23 is R787,983m; increasing to R943,981m in 2023/24 and R747,286m in 2024/25. This is just short of R2500 million over the three year period.

Spending for 2022/23:

At Water Purification we will be spending R198m;

Water Networks: R58m (which includes R29m on smart meters, valves, etc);

Sewerage Networks and Pump stations: R82m;

Sewerage Treatment Works: R53m (includes R12,5m on a Donga resulting from flood damage);

Streets and Stormwater: R116m (includes R28m in Thembalethu; R10m in Delville Park; R18m on the Rooidraai slip failure; R17m on resealing and rebuilding streets);

At Electro-technical Services: R152m which includes R33m on the Thembalethu / Ballots Bay 66/11KV Substation (I wish to implore our Thembalethu cllrs to ensure that this amount gets spent to provide power to their residents); R18,6m on electrical reticulation for informal settlements (R5,6m); UISP (R4,1m); R8,7m for Metro Grounds

Over the next three years we will be spending R220m on Renewable Energy projects. The main project is a 9 MWp with battery storage with R170m allocated to date; with the expectation to have the first 1 MWp plant in place by August 2023 and the balance in the second half of 2024.

In addition to this, we are planning to install 2,6 MWp at various Municipal installations over the 3 years with 1,35 MW being implemented in the first year, being R27m out of R50m.

At Community Services, our Capital budget is R64m. These are some of the projects:

4 Refuse compactors: R7,6m;

Sportsgrounds (including Pacaltsdorp, Outeniqua, Thembalethu, Rosemore (Tartan track, Wards 24 and 25): R7,3m

Compost plant: R3,1m; this project is scheduled to receive Grant funding;

Fire Services (R5,75m);

CCTV camera project (R11,2m);

Upgrade of Botanical Garden Retaining dam wall: R1,25m

Upgrading of York Hostel building: R5m

In turning to the Operating Budget it is important to note that Revenue is budgeted to increase by 16% from R2802m in 2021/22 to R3248m in 2022/23.

It is important to note that in accounting terms these includes Capital transfers of R370m and Operational transfers of R553m (which includes both the Equitable Share Grant and GIPTN Grants).

The accounting treatment of Water Inventory has changed to include a gain on Disposal of R230m.

Our Electricity Revenue is budgeted at R962m whereas Revenue from Water, Sanitation, Refuse and Rates collectively amounts to R829m.

All other Own Revenue amounts to R222m which includes Fines of R84m and Interest earned of R66m.

In addition, Transport fees (Bus ticket sales) amounts to R83m.

Our Expenditure Budget is increasing by 9% from R2626m to R2868m and is to a lesser extent affected by accounting treatment requirements.

The largest Expenditure categories are:

Salaries: R727m;

Bulk Purchases of Electricity: R667m;

Contracted Services: R587m (this includes GIPTN expenses);

Depreciation, Bad Debts to cater for 4% Revenue not collected, Interest on Loans: R322m;

Other Expenses: R565m.

In order to balance the budget and to achieve what is termed a Credibly Funded Budget that is approved by National Treasury, the following increases need to be introduced:

Electricity: 7,47% as recommended by Nersa;

Property Rates: 8%;

Water: 10%;

Sanitation: 9%;

Refuse: 9%;

Other: 6% (and adjustments where necessary to achieve cost reflective tariffs).

These increases are above the inflation rates, unfortunately.

The only real leverage tools available to municipalities are on Service Charges and Rates as Electricity tariffs are imposed by Nersa through which the margin provided to local authorities is limited to coverage fixed charges, own usage of electricity with the remaining surplus to assist with general funding.

As mentioned, a 1% change to Service Charges and Rates only provides R8,29m.

The challenge faced by the Budget Steering Committee has been the need to increase expenditure in the following areas:

Safety for our citizens through an expansion of the CCTV camera network; control room; law enforcement;

Composting facility;

Acquisition of generators to assist during loadshedding; reducing sewer spillage at sewer pump stations;

UPS at traffic lights; energy saving streetlights;

Dealing with increasing problems of illegal land invasions and illegal dumping;

Increasing maintenance of infrastructure, i.e. streets, stormwater, water and sewer networks;

Improving workflow and turnaround times with the Town Planning and Building Control depts.

The financially related are contained in Annexures to the item.

The Indigent policy has been brought in line with National Treasury prescripts in terms of the definition of “household income” as well as the Auditor-General’s findings. These changes in the policy will be phased in and applied when the status of the indigents are assessed and their household income updated over the 12 months of the financial year 2022/23.

Cllr Wessels will be expanding on various aspects of the Operating Budget in his speech.

George Integrated Public Transport Network (GIPTN)

The roll-out for Phase 4A is currently projected for the 2022/23 financial period.

The GO GEORGE fare tariff will be increased by an average 5.9% for the various multi-journey product types. The proposed fare increase is in line with the increase for other municipal services. The tariffs need to be increased annually to align with the increased costs of providing the service and to ensure the financial sustainability of GIPTN.

Applications are submitted to National Treasury via the National Department of Transport for additional funding towards the costs of further roads and it is possible that the Municipality will be required to contribute a certain percentage if funding is made available by the Department of Transport.

In 2022/23, the National Government will contribute R166m to the Operational budget and R25m to Infrastructure, while the Provincial Government will contribute R155m to the Operational Budget.

George Municipality is also required to contribute 2% of its Rates Revenue to the project.

Speaker, thank you for this opportunity to present the Budget to Council. As mentioned Cllr Wessels will make additional contributions in proposing the acceptance of the Budget by Council.

Ald L van Wyk

Executive Mayor: George Municipality