MAYOR'S SPEECH
FOR MULTI-YEAR BUDGET FOR COUNCIL MEETING
ON 29 MAY 2023

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

Today it is my honour and privilege to table the annual Capital and Operating Budget for 2023/24 and the 2024/25 and 2025/26 outer years for your consideration and approval. You will recall that on 30 March 2023 we tabled the draft budget.

Over the past few months the Municipality has held the required engagements with both Provincial Treasury and National Treasury for them to provide their assessments that this budget is credible, funded and sustainable. George has received positive recognition for the excellent work that has been done in preparing and presenting the budget.

The budget for 2023/24 flows from the sound foundations of the past few years. It is noteworthy that the governance rating agency, Ratings Africa, published the results of their Municipal Financial Sustainability Index for 2022 in the past week. George is ranked at No 3 nationally, but significantly is the highest ranked of the 19 intermediate cities in South Africa.

I wish to congratulate and thank our management team for the diligent work that they done in achieving this accolade.

In turning to the Budget, we need to bear in mind the complexities we now endure in light of the following:

The prospects for growth in the South African economy have declined to a position of close to zero growth due to the failure of the National Government to provide policy direction and to ensure that quality services are delivered to citizens.

Furthermore, Eskom's ability to supply electricity consistently has resulted in levels of loadshedding in 2023 being worse than in 2022.

These factors have a severe impact on citizens and businesses as well as municipalities.

During the 2021/22 financial year, a strategic decision was already made that the Municipality should prepare mitigation factors for loadshedding. We immediately embarked on pro-active maintenance of key electrical infrastructure, procuring of generators and making provision for the preparation of projects and procurement of renewable energy during the 2022/23 year.

George is acknowledged to be one of the leaders among B Municipalities in developing strategies and ensuring implementation of self-generated renewable energy procurement. To this extent, the budget before you includes a capital budget of R277m for renewables over the MTREF. We are also far advanced in our planning and making applications for renewable projects to the value of over R1,6 billion in our quest to avoid Stage 2 of laodshedding by the end of 2024 and Stage 4 in the two years thereafter.

The objective of achieving consistent provision of electricity is of crucial importance to our economy. If we do not solve this crisis it will lead to severe hardship for businesses and employment.

I will expand further about the effect of electricity supply and pricing, but will first turn to our Capital Budget of R1023m. This is the largest approved annual capital budget. This emphasizes our objective of ensuring that we the required INFRASTRUCTURE that will encourage and enable investment.

CAPITAL BUDGET

Civil & Engineering Services will receive the largest portion of the budget at 62% of which I will mention some of the largest projects:

CIVIL & ENGINEERING SERVICES	636,472		
Streets & Stormwater		101,445	
Reseal of Streets			9,800
Ngcakani & Thembalethu Roads			18,420
Rooidraai Road Repairs to Slip Failure			12,500
Mechanical Broom			5,000
Water Networks & Purification		380,291	
Meters: Bulk; Smart; Burst Control Valves			26,450
Upgrading Conville; Parkdene Networks			18,166
GR Dam Pipework Rehabilitation			26,478
20ML Waterworks			148,976

Balancing Dam			15,000
Thembalethu Pumpstation & Reservoir			30,500
Pacaltsdorp Pumpstation & Reservoir			54,196
Kaaimans Water Pumpstation Rehabilitation			16,000
Sewerage Networks & Treatment Works		148,668	
Eden; Schaapkop; Meul Pumpstations			36,500
Upgrading Pumpstations			16,200
Thembalethu Bulk Sewer			10,236
Flood Damage Outeniqua WWTW Donga			6,500

The next biggest allocation of Capital is to Electro-technical Services with 25%:

ELECTROTECHNICAL SERVICES	260,706		
Glenwood, George, Herolds Bay Substations			51,500
Reticulation incl Informal			16,055
10MW Solar PV Plant			47,000
Small Solar PV Plants			20,900
Battery Energy Storage Systems			34,500
Feasibility Study			18,000
High Mast Lighting			5,000

The work being done by George to mitigate the risks of loadshedding through investments in renewables, provides HOPE for investment and employment in George. Our investments in INFRASTRUCTURE will assist in attracting Investment. We have recently seen that a multinational company has opened a contact centre operation offering employment to 600 of our young people.

Community Services will receive almost 8% and the remaining Directorates the balance, of which I am mentioning some of the larger projects:

COMMUNITY SERVICES	77,899		
Rosemore Tartan Track			13,739
Refuse Trucks			12,500
Fire Truck			4,200
CCTV Building, Fibre Links			22,410

FINANCIAL & CORPORATE SERVICES	20,075		
Replacement of AirCon System			2,500
PLANNING & DEVELOPMENT; HUMAN SETTLEMENTS	27,891		
Upgrading of York Hostel			15,000

With the total Capital Budget at R1023m, the funding thereof will come from Grants at R398m;
the External Financing Fund (i.e. Loans) with R374m;
R249m from the Capital Replacement Reserve (= own funding)
and the balance of just more than R2m from the Separate Operating Account.

Over the three year MTREF the total capital budget is R2361m.

Funding for the George Integrated Public Transport Network will comprise of a National Grant for Operations of R145m for 2023/24 and a Provincial Grant for Operations of R229m, a total of R374m.

OPERATING BUDGET

We will now turn to the Operating Budget for 2023/24 and remark on the challenges that we have encountered and the solutions thereto that are being proposed today.

During the February 2023 Adjustment Budget, Council was obliged to revise its budgeted revenue and expenditure to recognize the impact of an anticipated R101m reduction in electricity sales. The full effect of additional costs of using diesel to operate generators along with the added overtime and costs of addressing cable theft and vandalism during loadshedding resulted in a projected shortfall of R160m for the year to June 2023.

Given the circumstances since February, this shortfall could escalate to R250m for the full year. This shortfall equates to a cash cost.

With the imposition of loadshedding, the effect is that less kilowatt hours of electricity are being sold along with the negative effect arising from those consumers who are migrating to their own renewable sources.

The Municipality's R2,5 billion distribution grid and network however needs to be managed and maintained and is critical for the supply of electricity to consumers as additional power sources from own generation or independent power producers need to be accommodated. This network is a fixed cost that has to be carried by the consumers.

The effect of lower sales of energy, i.e. kilowatt hours, has resulted in the surplus achieved on the electricity account being substantially depleted. Under the previously normal circumstances, this surplus would have compromised 20% of the total funding contribution to the Property Rates account. For 2022/23, this contribution would have been approximately R125m, which has now largely disappeared.

The Property Rates account has provided the funding for:

- Streets and Stormwater;
- Community Safety (traffic, law enforcement, fire services);
- Cleaning of streets, environmental, etc;
- Corporate and Financial services;
- Planning, development, economic development, tourism;
- Social services, libraries, sport, housing administration, halls, etc.

As loadshedding has become the new normal, municipalities now need to transition to providing alternative sources of power for their citizens. As mentioned, George has already commenced with this transition to avoid Stage 4 of loadshedding over the next three years.

Without the electricity surpluses previously received, Council has needed to make a decision whether to reduce the present level of service delivery by cutting costs and only providing certain services during a normal working day through postponing after-hours water, sewerage and electricity repairs to the next day or increasing Property Rates to supplement the funding for the services that I have already mentioned.

It is the belief of Council that it is in the best interests of our citizens, their investments and the status of George as a well-run intermediate city to strive to maintain our levels of services.

NERSA granted Eskom an increase in their tariffs to municipalities for the bulk purchase of electricity of 18,49%. In turn, municipalities are permitted to increase their tariffs to their customers by 15,1%.

The Budget Steering Committee has requested that this increase be limited to 14,75% with the difference being absorbed internally.

George commenced last year with the NERSA approved project of introducing fixed charges for electricity to enable municipalities to protect their distribution grids.

In addition to the fixed charge, a capacity charge per Ampere is also being levied. The objective of the capacity charge is to moderate the normal maximum demand ("NMD") of the amount of electricity that Eskom has to supply to George. If we are able to manage the NMD below the current 85MVA, it will assist in negotiations to avoid the implementation of Stage 1 of loadshedding.

In the tariff structuring, Indigent households can choose to remain on 20 amps; or they can choose 30 amps and pay the capacity charge of R5,16 per amp but no fixed charge; or 40 amps or higher. They will not lose their indigent status on the higher capacity ratings.

Fixed charges, capacity charges and consumption charges will all increase by 14,75%.

Balancing Revenue and Expenditure

It is important to note that we have consciously only increased Revenue from Electricity by 6,38% from R861m expected for 22/23 to R916m for 23/24. This means we are expecting a reduction in KWH sales.

Even though the bulk purchase price has risen by 18,49% we are only increasing purchases by 12,4% from R628m to R707m for the same reason.

Our Total Expenditure for 22/23 is budgeted at R3006m and is only expected to increase to R3065m, an increase of 1,96%.

Our Employee related costs are budgeted to increase from R695m to R708m, an increase of 1,87% even though nationally negotiated salary increases of 5,4% have been granted from 1 July 2023. This disparity exists from all vacant posts that are not being filled to save costs.

If we deduct Bulk Purchases and Employee related costs from Total Expenditure, it is apparent that the remaining Expense items decrease from R1682m to R1650m, or by 2%.

The above reduction is indicative of the cost-cutting that has had to be undertaken to balance the budget to limit tariff increases. Any further reduction would adversely affect service delivery.

From my earlier explanation of the working of the Property Rates account, it should be evident that Property rates had to be increased above inflation rates to balance the books.

The new General Valuation Roll will also be implemented on 1 July 2023 for the next four years and is based on the current market value of properties.

The total value of properties in George has increased from R43,9 billion to R73,395 billion with residential properties increasing by 90,6% from R27,27 billion to R51,98 billion. This represents 70,7% of the total compared to 67,4% previously. In terms of legislation, the rate in the Rand is determined by residential properties.

The effect of this substantial increase in residential property values is not unique to George. In a survey conducted by StatsSA as at November 2022 across the Metros, it is evident that property values in Cape Town have grown since 2010 to reflect an index of roughly 130 compared to the other metros standing between 90 and 100, with Johannesburg reflecting the lowest. George has followed the trend of Cape Town in seeing increased values for properties.

The budgeted revenue from Rates has been determined at R442m for 23/24, an increase of 16,6% compared to the adjusted budget of R379m for 22/23. This is an increase of R63m.

The determination of the rate in the Rand has been set at R0.0058455 to R1, a decrease of 28,88% on the rate applied in 22/23. The initial rebate of R150000 on all properties has been increased to R230000. The effect hereof means that if the value of properties had increased by 50%, the increase in rates payable would only be from 5% to 6,5% for properties valued at R4m and below before the re-valuation.

The average tariff increase for Rates is likely to be in the range of 12,5% to 15% for higher value properties and less for properties valued below R1m.

Water tariffs will rise by 11%.

Sanitation tariffs will increase by 8%. It should be noted that the assessments by both of Provincial and National Treasury have been that the tariffs are not cost reflective.

Refuse tariffs will increase by 7%; and the general increase for Other services will be 6%.

The Municipality received comments from the public covering aspects of the increases being levied. These have all been dealt with in responses with the necessary explanations. In my speech today, I have covered the broader context of the difficult decisions that Council is making to balance the budget while maintaining the level of services to maintain George's status as a well-run city, even though we take cognizance of the impact on our citizens in these tough economic circumstances.

Cllr Wessels as MMC for Finance will cover additional aspects in his speech including comments on the policies being approved along with this Budget.

In closing, I would like to express my gratitude for the work done by the Municipal Manager, Dr Michele Gratz, the CFO, Mr Riaan du Plessis, the Finance team, Directors and their teams, MMCs in researching, preparing and presenting this budget for 2023/24 and the MTREF period. The dedication and quality of the work being done by our management team is being reflected in the assessments and accolades that we receive.

It is important to note that in the year ended 30 June 2020, George had total capital and operating expenditure of R2180m. The budget we are now approving is for Operating Expenditure of R3065m and Capital Expenditure of R1023m, i.e. a total of R4088m for 2023/24. This translates to growth of 17% per annum over 4 years, which can only be described as exceptional! Thank you so much.

Thank you, Speaker.

Ald Leon van Wyk
29 May 2023