

GEORGE MUNICIPALITY DRAFT BUDGET FOR 2024/25

MAYOR'S SPEECH TO COUNCIL ON 25 MARCH 2024

Good Morning

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

Section 16(2) and 17(3) of the Municipal Finance Management Act (MFMA) require of the Mayor of George Municipality to table a draft Capital and Operating Budget for 2024/25–2026/27 at a council meeting at least 90 days before the start of the budget year.

With George's population having reached just short of 295 000 according to the February 2022 Census along with the growth being experienced, we face further challenges with every budget.

The following example demonstrates how we are having to manage larger budget challenges:

In the eight financial years from 2014 to 2021, our actual capital expenditure amounted to R1840m. By the end of March 2024, we will in all probability have exceeded that total in less than three years, after taking into account the 2022, 2023 and current 2024 spending.

The emphasis over the past few years has been on growing and improving infrastructure that is the requisite for attracting investment and increased levels of employment that we desperately need to provide a better way of life for our citizens.

As a country we are hardly growing our economy at a rate of something below 1% per annum while experiencing levels of inflation of almost 5%. We are at present witnessing the widespread collapse of state capacity. Examples are ongoing loadshedding and water-shedding as many metropolitan areas are unable to provide water to citizens and their economies on a sustainable basis. Transnet Freight Rail and the Port operations are similarly under-performing. Roads are crumbling in many areas.

Within the Western Cape, we are working at full-speed to counter this collapse by driving high standards of service delivery and infrastructure.

This is the context of the preparation of our draft budget for the MTREF (Medium Term Revenue Expenditure Framework).

The annual budget may only be funded from realistically anticipated revenues to be collected after considering collection levels for the current year and actual revenue collected in previous financial years.

Provincial and National Treasury will only approve a Credible Funded Budget that makes budgetary provision for affordable service delivery to the community if the activities are consistent with the IDP, within the financial constraints of the municipality and achievable in terms of agreed service delivery and performance targets.

At all times there needs to be financial viability to ensure that the financial position is maintained within generally accepted prudential limits.

Furthermore, draft budgets tabled for consultation at least 90 days prior to the start of the budget year should already be credible and close to the final approved budget.

A strategy guided by council's long-term financial plan (LTFP) was followed with the compilation of the draft budget. The municipality needs to focus on its core functions.

During the February 2024 adjustments budget the Budget Committee and portfolio councillors in conjunction with the heads of departments, scrutinized the budget to affect all possible savings and to align the capital budget to achievable goals:

- The February 2023/24 adjustments budget was the base for the 2024/25 MTREF;
- The need to maximize revenue through efficiencies and the way we do business before we decide to increase our rates, service charges and other tariffs was again emphasized;
- A renewed focus on enforcing all the credit control actions to maximize the payment ratio and collections;
- Revenue "enhancement" assessment to ensure that all consumers are billed correctly and are contributing to the municipality's revenue as set out in our tariff policy;
- The need to ensure an optimised credit control and debt collection processes was also stressed to improve the debt collection ratio. A 95% ratio was assumed for this budget even though the year to date ratio is only at 93%, the equivalent of R40-45m below target;
- A contribution of R99.9 million was made to the provision for debtors' impairment in the operating budget. The writing off of irrecoverable debt will continue to be scrutinized through the business processes of the internal credit control unit;
- Although George Municipality received the Budget Facility for Infrastructure ("BFI") grant of R1,1 billion for the upgrade of bulk water

services and the upgrading and rehabilitation of other core waste water infrastructure, the need remains high as reflected in the Capital Budget;

- The risks associate with the ongoing problems with Eskom's operations and the resultant disruption in electricity affects our own infrastructure, households and business through loadshedding. These risks need to be mitigated. A task team is meeting weekly to deal with the technical, regulatory and financial complexities of the proposed 9MW solar PV-plant, another 30MW solar plant, the associated Battery Energy Storage systems required along with sub-stations and equipment to provide dispatchable power. The latter projects involve an investment upwards of R1,6 billion.

- Capacity at the Gwaiing Waste Water Treatment Works will need to be upgraded to cater for further development including that of the next industrial area. Considerable amounts will also need to be invested in streets and stormwater infrastructure.

National Treasury sent out MFMA Budget Circulars No. 126 and 128 in December 2023 and March 2024 to provide guidance to municipalities on their 2024/25 budget and the MTREF.

Capital Budget

The capital budget has been prioritised, commencing with the 2023/24 adjustments budget in February 2024, focussing on the upgrading of the core services infrastructure.

Below are a few of the main focus areas:

- ❖ R250 million is allocated from the RBIG grant to finalise the various BFI funded projects.

- ❖ R51.8 million is appropriated over the MTREF for the installation of solar panels (PV-panels) and battery energy storage systems (BESS) across the municipal infrastructure network; with a further R8.96 million to reduce reliance on back-up generators through alternative energy solutions. These initiatives seek local solutions to the national energy crisis, aiming

to enable economic stability and growth in George and reduce the levels of loadshedding experienced by all.

- ❖ R28 million is allocated to finalise upgrading the York Hostel building to increase the available office space for the Municipality and uplift the surrounding CBD over the MTREF period.
- ❖ R45.8 million will be used to procure new fleet vehicles to ensure that service delivery is maintained and expanded to meet the growing public demand in 2024/25 with R95.4 million over the MTREF.
- ❖ R69 million is allocated over the MTREF to ensure Water Security for George through the Rehabilitation of the Ultra Filtration (UF)
- ❖ R53.4 million allocated on the budget for the Upgrading of the Gwaiing Waste Water Treatment Works over the MTREF to unlock necessary Industrial erven for future development within George.
- ❖ An overall R701 million is allocated to street and storm water projects over the MTREF period.

In total, the Capital Budget has been projected at R1098m for 2024/25;

- ❖ R1094m for 2025/26;
- ❖ and R778m for 2026/27,
- ❖ amounting to R2966m over the MTREF.

It is anticipated that this budget will be funded from internal funding through:

- ❖ the CRR at R295m;
- ❖ external loans of R467m;
- ❖ and Grants of R336m.

In tabling this Budget, the budget committee is of the view that the needs for George exceed the current available levels of funding. This will require that internally a critical review is required with regard to revenue generation, while the access to larger infrastructure grants also need to be explored.

Turning to the Operating Budget:

It is necessary that cost reflective tariffs be determined to cater both for affordability levels given George's peculiar circumstances of the make-up of its

customer base while also ensuring the financial sustainability of the municipality.

- National Treasury has set projected increases for 2024/25 within the 4-6% target range.
- The tariff increase for bulk electricity purchases of 12,72% was announced by Eskom and approved by NERSA.

To have a funded budget the following average increases for municipal revenue are recommended:

- Property rates, Water, Sanitation, Refuse and General Other at 6%;
- Electricity at 12% which is subject to the determination by NERSA.

Total Operating Revenue has been set at R3942m.

The budgeted own generated revenue from the five main services and rates amounts to R2209m.

Total Operating Expenditure has been determined at R3473m.

- This budget includes a salary increase of 6,13% although this increase has not yet been set in terms of the Bargaining Council agreement;
- repairs and maintenance is being increased by 5-6%; and
- contracted services and general expenses are increased by 2%.

Indigent Support

The indigent qualification criteria is based on guidance issued by the National and Provincial Treasuries, The Department of Cooperative Governance and Traditional Affairs (COGTA) and the Auditor-General of South Africa.

Implementation and compliance to the indigent benefit is specifically reviewed annually by the Auditor-General as part of their external audit. The clean audits issued to George Municipality over the past three years indicate that the indigent policy is being correctly applied.

The general cost of living has increased dramatically in South Africa in recent years. This impacts on lower income households along with the simultaneous destructive impact of unemployment caused by the failing National economy, persistent high levels of loadshedding, high interest rates and fuel price levies.

Indigent support is not subsidized from services charges collected from the citizens of George, but from the equitable share allocation received annually through the Division of Revenue Act (DORA). The DORA of 22 February 2024 indicates that the equitable share allocation to municipalities country wide is being reduced.

- For George the 2024/25 allocation is R230,4m a reduction of R5,3m from R235,7m announced previously.
- For 2025/26, the allocation is now R248,6m instead of R260,3m, a reduction of R11,6m.

The entire equitable share allocation is applied for the benefit of indigent, poor and lower income households and will not be reduced in line with the reductions in allocated funding.

The proposed package of free basic services allocated to indigents will increase from:

- R1234 per month for 2023/24 to
- R1318 per month for 2024/25.

Increase in Property Rates Rebates for Low-income Owners and Pensioners

All owners of residential properties, used for residential purposes, are entitled to:

- a rebate of 40% on the property rates on such properties, if their total income as defined in the Municipality's Property Rates Policy is less than R156 000 per annum (30% increase in rebate); or
- a rebate of 20% on the property rates on such properties, if their total income as defined in the Municipality's Property Rates Policy is R156 000 or more per annum but less than R174 000 per annum (26% increase in rebate).
- A rebate of 30%, up from 15%, of property rates will be applicable to Pensioners earning up to R330 000, up from R276 000 per annum, on the first two-million-rand valuation of the property (up from R1 million). This will apply to persons over the age of 65 years for their single primary residence.

Electricity Tariffs

As an electricity distributor, George Municipality is obliged by NERSA to undertake a Cost Of Supply study every five years. This process provides for the introduction of a fixed charge component within the electricity tariff structure. The purpose of this fixed charge is to specifically allocate funding for the ongoing maintenance of the electricity distribution network. With an increasing number of electricity consumers migrating towards cheaper and renewable energy alternatives, which reduces revenue for the municipality, it also results in a shrinking of the customer base who have to bear the cost of network maintenance.

The first phase introduced fixed charges as well as a capacity charge. An attempt was made to protect indigent and other lower energy users through a differentiated capacity charge. The worsening scenarios of the poor economic circumstances and increased load-shedding has meant that the full implementation of the Cost to Supply study is being reviewed.

Small Scale Energy Generators, distributed generators and wheeling customers

George Municipality applied to the Ministry: Finance for exemption, amongst other, from provisions of MFMA Section 33 when it purchases electricity from small-scale embedded generators, distributed generators, and wheeling customers.

A public consultation process will be incorporated in George Municipality's IDP and budget process to alert the public of the proposed project.

The purchase of electricity from customers will be managed via an Electricity Surplus Agreement signed with these customers. These contracts/agreements will impose financial obligations on the municipality for a period longer than the three (3) financial years covered in the 2024/25 MTREF. These agreements will be subject to a technical approval.

Lastly, with respect to GIPTN (George Integrated Public Transport Network), the Capital and Operating Grants being received amount to a total of R442,7m for 2024/25.

At the end of last week we received notification that an additional amount of R505m will be transferred to George in terms of the DORA to be spent on GIPTN

projects. This funding has been diverted from metropolitan cities who have been unable to spend grants allocated to them.

In tabling this draft budget, I wish to express my gratitude to the Municipal Manager, the CFO, Directors, the Budget Office and all the other members of the Administration who have spent long hours, many of them at night and over weekends to prepare this budget.

Cllr Wessels has also made huge efforts in bringing this budget to this Council meeting. The MMCs have also played their roles.

Thank you Speaker.