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3 June 2014

## TO WHOM IT MAY CONCERN

### EXTRACT FROM THE UNCONFIRMED MINUTES OF THE SPECIAL COUNCIL MEETING OF BITOU LOCAL MUNICIPALITY HELD IN THE COUNCIL CHAMBER, MUNICIPAL OFFICES, PLETTENBERG BAY, ON WEDNESDAY, 28 MAY 2014

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Resolution C/2/174/05/14

**FINAL DRAFT OPERATING AND CAPITAL BUDGET: 2014/2015 AND MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF) AND APPROVAL OF THE 2014/2015 REVISED INTEGRATED DEVELOPMENT PLAN (IDP)**

The Executive Mayor tabled the Final Draft Budget for the 2014/2015 Financial Year and requested that his report, quoted hereunder, be taken as read:

#### *1.1 Mayor's Report*

**2014/2015 MUNICIPAL BUDGET SPEECH BY THE EXECUTIVE MAYOR OF BITOU LOCAL MUNICIPALITY, COUNCILLOR M BOOYSEN: SEWELL STREET, MUNICIPAL BUILDING, COUNCIL CHAMBERS - 28 MAY 2014**

*The Honourable Speaker of council, Cllr AR, Olivier*

*Honourable Members of the Mayoral Committee*

*Honourable Leaders of the Opposition Parties*

*Honourable Councillors*

*Members of Ward Committees present*

*Municipal Manager*

*Senior Management of the municipality*

*Members of the media present*

*Ladies and Gentlemen*

*Good morning*

*It is indeed a defining moment for us as council of this municipality that we have crafted a document that we will collectively own as it is a result of our own ideas and inputs of those communities we serve. We say this Honourable Speaker because the budget we are presenting here today will not be adopted as a stepchild but we have all contributed into shaping and allocation of funds to the critical issues facing Bitou*

*Honourable Speaker, I am humbled by the fact that despite all those uncertainties and hardships this municipality has had to overcome, this community still had confidence in me to lead the team and steer the ship to calmer waters. Simply put, I am saying "Ebenezer, usihole kwaze kwaba lapha!"*

*I believe, Honourable Speaker that this institution now has the capacity and expertise to achieve even greater things only if all our energies are channeled to the right direction and the mandate is clear to all involved.*

*Honorable Speaker and members of council, I need to point out that as we prepare and put this budget together, we were mindful of the fact that the municipality does not exist in isolation. We must all recognize that promoting economic development in the Bitou area will always be influenced by and necessitates an informed consideration of the global, national, provincial and regional economic environment.*

*What we table here before you, Honourable Speaker and members of this house, is indeed informed by all these trends mentioned above and the priorities our National and Provincial government has put before us but more importantly what our people out there have been crying for, which have been summed up into five (5) priorities of Government at both national and provincial level. Government has committed itself to make a difference in the lives of people by addressing five key priority areas. They are education, fighting crime and corruption, health, employment and rural development.*

*But realistically, we are influenced by the priorities raised by our own communities when we engaged them through the IDP consultative meetings and the reality that faces us daily is that of acute shortage of basic infrastructure needs and housing. My message to this honourable house is that this budget is about the people's needs and not our own dreams.*

*We are also reminded that this budget should not just be a wish list but is constitutional and regulatory mandate as per the Constitution of the Republic of South Africa and the National Development Plan (NDP).*

*Objects of local government (South African Constitution) - s 152*

*1. The objects of local government are:*

- a. to provide democratic and accountable government for local communities;*
- b. to ensure the provision of services to communities in a sustainable manner;*
- c. to promote social and economic development;*
- d. to promote a safe and healthy environment; and*
- e. To encourage the involvement of communities and community organizations in the matters of local government.*

2. A municipality must strive, within its financial and administrative capacity, to achieve the objects set out in subsection (1).

*Developmental duties of municipalities (South African Constitution) - s 153*

*A municipality must:*

1. *structure and manage its administration, and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community; and*

2. *Participate in national and provincial development programmes.*

### **PREPARATION FOR 2014/2015 – 2016/2017 ANNUAL BUDGET AND MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF)**

*Honourable Speaker, in preparing 2014/2015 – 2016/2017 annual budget and medium-term revenue and expenditure framework (MTREF) and having stabilized the financial situation in the very short space and trying to achieve financial stability over medium and long-term, we had two main objectives in our minds to be achieved over the medium-term namely;*

(a) *To ensure that we invest on new and renewal of infrastructure such water, roads and storm water systems, electricity and sanitation.*

(b) *Continue to stabilize the financial situation in the short-term and achieve financial sustainability over the medium and long-term; and*

(c) *To ensure that we create an enabling environment for investment and other activities that could lead to sustainable job creation, economic growth and development by diversifying the economy through the catalyst projects identified in the strategic session we had last year.*

### **THE MAIN FUNDAMENTAL BASES FOR THE COMPILATION OF THE 2014/2015 – 2016/2017 ANNUAL BUDGET AND MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK**

#### **1. THE MAIN NATIONAL PRIORITIES OVER THE MEDIUM-TERM - INFRASTRUCTURE DEVELOPMENT AND CREATING DECENT EMPLOYMENT OPPORTUNITIES**

*The national government's main priorities for the medium-term is services and social infrastructure development and job creation, and therefore the focus and priorities of all spheres of government should be geared towards the achievement of these priorities.*

*As we were preparing our next five year integrated development plan we needed to ensure that our plans and budgets are redirected towards the achievement of these priorities.*

*In sizing our 2014/15 budget and MTREF we need to continue to explore opportunities to mainstream labour intensive approaches to the delivering of services, and more particularly to improve our participation in the Extended Public Works Programme (EPWP).*

*The municipality must play its critical role in creating an enabling environment for investment, growth and development.*

## **2. TAKING THE 2011 LOCAL GOVERNMENT AND EXPENDITURE REVIEW BY THE NATIONAL TREASURY FORWARD**

*The Review highlights the following areas as requiring particular attention:*

*(a) Revenue management – To ensure the collection of revenues, municipalities need to ensure that billing systems are accurate, send out accounts to residents and follow up to collect revenues owed.*

*(b) Collecting outstanding debts – This requires political commitment, sufficient administrative capacity, and pricing policies that ensure that bills are accurate and affordable, especially for poor households.*

*(c) Pricing services correctly – The full cost of services should be reflected in the price charged to residents who can afford to pay. Many municipalities offer overly generous subsidies and rebates that result in services being run at a loss, resulting in funds being diverted away from other priorities.*

*(d) Under spending on repairs and maintenance – Often seen as a way to reduce spending in the short term, under spending on maintenance can shorten the life of assets, increase long-term maintenance and refurbishment costs, and cause a deterioration in the reliability of services.*

*(e) Spending on non-priorities – Many municipalities spend significant amounts on non-priority items including unnecessary travel, luxury furnishings, excessive catering and unwarranted public relations projects. Consultants are often used to perform routine tasks. In preparing our budget the matters highlighted above have been taken into account as these matters are critical for financial sustainability and efficient service delivery.*

## **3. HEADLINE INFLATION FORECASTS AND OUTLOOK FOR DOMESTIC ECONOMIC GROWTH**

*We have adopted a conservative approach when projecting our revenue and cashflow for the medium-term due to the unfavourable and unstable global and national economic situation. Unemployment remains high, resulting in municipal revenue and cashflows to become under pressure over the medium-term.*

### **a) Headline inflation forecast over the medium-term**

*Bitou Municipality have taken the following macro-economic forecasts into consideration when preparing the 2014/15 budget and MTREF –*

<i>Fiscal Year</i>	<i>2012 Actuals</i>	<i>2013 Estimates</i>	<i>2014 Forecast</i>	<i>2015 Forecast</i>	<i>2016 Forecast</i>
<i>Real GDP Growth</i>	2.5	1.8	2.7	3.2	3.5
<i>CPI Inflation</i>	5.6	5.7	6.2	5.9	5.5

*Source: Budget Review 2014*

*Note that the fiscal year referred to is the national fiscal year (April to March) which is more closely aligned to the municipal fiscal year (July to June) than the calendar year inflation.*

#### ***b) Economic outlook***

*The following economic indicators are important to note and have been taken into account in our own financial strategies, preparation of the MTREF for 2014/15 and the two outer years.*

- *The World Bank has revised South Africa's economic growth outlook in 2014 to 2.7% from an earlier forecast of 3.2%.*
- *Although South Africa's economy has expanded over the past years, the rate of growth has steadily declined, from 2.5% of GDP in 2012 to 1.8% in 2013; it is however projected to increase to 2.7% in 2014, and gradually increase to 3.5% by 2016. This trend reflects a confluence of unfavourable global and domestic circumstances which impact on all spheres of government.*
- *Inflation and a nominal spending ceiling will put real budgets under pressure over the medium term, requiring all spheres of government to work more efficiently.*
- *Inflation is projected to be 6.2% in 2014/15 and 5.9% and 5.5% in the 2015/16 and 2016/17 financial years.*
- *The economy of the Western Cape is expected to have grown marginally higher than the national average.*
- *Census 2011 has shown that the population of the Western Cape has grown with 29% from 2001; Bitou recorded the 4<sup>th</sup> highest growth in population in the country placing a huge strain on infrastructure and housing needs.*
- *Our revenues and cash flows are expected to remain under pressure in 2014/15 hence we adopted a conservative approach when projecting our expected revenues and cash receipts.*

#### ***c) Bitou financial overview***

*The municipality is still in a vulnerable financial position constantly having to manage ourselves out of what we find ourselves into. The following needs to be highlighted:*

- *The cash position has improved from a positive R28 Million as at 30 June 2012 to R 42 Million as at 30 June 2013, though increased to R 68 Million as at 30 April 2014 it thus remains positive.*
- *Trade Creditors have reduced from R 30 Million as at 30 June 2013 to R 24 Million at the end of April 2014*
- *Debtors collection is averaging at 96.5% for the year to date.*
- *The cash flow remains under pressure and it is anticipated that the status quo will remain until the financial recovery is complete.*

#### **4. FOCUS OF THE 2014/2015 BUDGET**

##### **a) Growth and the National Development Plan**

*Both national and provincial governments view infrastructure as an important means of promoting sustainable growth and reducing poverty, with the national government having allocated large portions of its budget for this purpose. Economic infrastructure which is a focus for Bitou municipality must include the following;*

- *Electricity transmission*
- *Waste water Pump stations and piped network*
- *Road building and maintenance*
- *Water supply*

*In prioritizing the economic infrastructure we will be improving the social infrastructure which includes education and health. It is evident that in the long run poor infrastructure in Bitou municipality will not support the thriving economy hence provision of economic infrastructure is the only necessary condition for economic growth in the Bitou municipal area.*

*Opening the path to stronger economic growth requires that identified barriers to growth be addressed. The NDP has been implemented to create a framework to accelerate economic growth, eliminate poverty and reduce inequality. The budget policy framework for the next three years reflects greater alignment with the plan, as spending programmes begin to address economic constraints and the need for greater state efficiency. The NDP identifies a number of microeconomic reforms needed to boost economic growth these include reducing the cost of living for poor households and the costs of doing business, support for small, medium and micro enterprises (SMMEs), entrepreneurs and business start-ups, a greener and more sustainable economy, support for local production as well as employment through government procurement and broadening and strengthening of industrial development.*

*We have therefore revised our spending plans and reprioritised funds to ensure key objectives are achieved and well-performing programmes are supported. Expenditure plans reflect both the medium-term investment plans and long-term goals identified in the NDP. In this MTREF we have ensured that we eradicate non-priority spending and reprioritise expenditure to focus on core infrastructure and service delivery.*

*National Treasury Budget Circulars 66 and 67 also emphasizes the constricting economic climate in which we need to operate and urges municipalities to ensure value for money spending, protection of the poor and encourages the municipalities to carefully evaluate all spending decisions.*

##### **b) Capital Budget**

*The capital budget flows from the IDP process and contains information obtained from relevant stakeholders through extensive public participation processes as well as ward committee processes where applicable.*

*The total funded capital projects for the 2014/2015 financial year amounts to R 45.7 Million with the main focus being the following:*

*Water Infrastructure  
Electricity*

*R 6.1 Million  
R 13.9 Million*

<i>Sanitation</i>	<i>R 4.2 Million</i>
<i>Refuse Removal</i>	<i>R 16.8 Million</i>
<i>Roads Infrastructure</i>	<i>R 0.2 Million</i>

*The capital budget is funded by means of grants from National government in the amount of R 24.2 Million, Provincial Grants in the amount of R 1 Million, Loan funding in the amount of R 10 Million and other own funding in the amount of R 10.4 Million.*

### ***c) Operating Budget***

*The operating budget for the 2014/2015 financial year amounts to R 439.4 Million which represents an increase of R 33.4 Million or 8.2% over the last adjusted budget for 2013/2014. The cost drivers of the increase in the budget can be summarized as follows:*

- 6.79% increase in the wage bill in accordance with the multi-year wage agreement*
- 8.06% increase in the purchase of electricity from Eskom.*
- Inflationary pressure and the general increase in the price of goods and services*
- Continued increase in fuel prices.*
- Operational requirements to ensure service delivery standards are complied with, this is specifically in regard to electricity, roads and water and waste water.*

*Housing allocation for the construction of houses has significantly decreased from R 76.1 Million in the 2013/2014 financial year to R 63.3 Million in the 2014/2015 financial year but will still allow the municipality to expedite the delivery of houses.*

*Revenue sources remains under strain and in an attempt to balance service delivery with affordability proposed tariff increases have been limited as follows:*

- Electricity 7.4%*
- Water 5%*
- Sewerage 5%*
- Assessment rates 6%*
- Refuse removal 5.5%*

### ***Indigent subsidies***

*Provision is made in the operating budget for the subsidizing of indigent households in the amount of R 245 per month; this includes a free 6Kl of water, 50 units of electricity, a 100% subsidy for refuse removal and sewerage charges. A 100% rebate on assessment rates will also be given for Indigent households. The subsidy allowed, exceeds the National norm and stretches the affordability threshold of the municipality. The total amount in respect of free services, inclusive of free services given in Eskom distribution areas, and assessment rates rebates exceed R 21 Million in the 2014/2015 financial year.*

### ***In conclusion***

*This budget tabled here today is a step closer in attaining the strategic goals of the NDP as well as that of Bitou municipality which includes amongst others, institutional development and transformation, service delivery to all our communities, financial viability and*

*sustainability, excellence in administration, transparency and public participation and I am convinced that it will contribute to our goal "To be the best together".*

*As I conclude, Honourable Speaker our appreciation goes to the citizenry of Bitou for the belief they have shown in the municipality and the ruling party and the other parties in Council that indeed it will deliver on the mandate and we dare not fail them.*

*Our appreciation also goes to the Financial Services Department team, and the entire Senior Management team of the municipality for the continued support they continue to give the political leadership. To this end Honourable Speaker and the esteemed members I hereby table this annual budget and medium-term revenue and expenditure framework for your consideration and approval.*

*I thank you*

**COUNCILLOR MEMORY BOOYSEN  
EXECUTIVE MAYOR"**

In addition, the Executive Mayor stated that he would supplement the Tourism Allocation with a contribution from the Grants-in-Aid. Furthermore, he will report to Council on all the Grants-In-Aid to be made for the financial year.

**Resolved**

1. That the Final Draft Budget for the 2014/2015 Financial Year as well as the 2015/2016 and 2016/2017 Medium Term Revenue and Expenditure Framework be approved.
2. That the tabled budget, inclusive of draft resolutions, Tariffs, Budget Related Policies, Draft Service Delivery and Budget Implementation Plans as well as the Integrated Development Plan be approved with the budget.
3. That the LGMTEC 3 comments and responses as contained in Annexure "D" of the Budget, be noted.
4. That the comments received from the public attached as Annexure "C" to the budget be noted and responses be provided.
5. That the Mayoral Report in the Annual Budget 2014/2015 be noted.

**Proposed: Councillor SE Gcabayi  
Seconded: Councillor WR Craig"**

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**R SMIT  
HEAD CORPORATE SERVICES**