

**DRAFT BUDGET 2018/19 ADDRESS DELIEVERED BY EXECUTIVE MAYOR,
COUNCILLOR MAETU KGAILE, 20 APRIL 2018**

Honourable Speaker - Cllr Washington Ntozini;

Chief Whip of Council - Cllr Vusi Chinga;

Members of the Mayoral Committee;

Members and Leaders of all Political Parties;

Honourable Councillors;

Municipal Manager - Mr Roger Nkhumise and all employees;

Leaders of Business and Captains of Industry;

Leaders of the Labour Movement

NGOs and Organs of Civil Society;

Members of the Media;

Most Importantly, People of the City on the Move;

The 2018/19 Draft Budget is my second presentation of the concept budget as Executive Mayor and it remis once again a privilege to present it to you.

I am concerned about the trend of shrinking government income against a fast-growing indigent population. The fact that national fiscus is reducing its financial obligations to municipalities while poverty escalates, is an impediment.

However, South Africa as whole is experiencing tough economic problems which increasingly force us to be dependent on our own financial sources. Also we need to be frugal with our own resources.

Political whirlwinds are also in turbulence within the North West province and as a municipality we have had own share of wildcat strikes and community protests

Municipalities that strive to purposefully and decisively manage their financial resources and sustainability will survive.

I am pleased to report the Matlosana Municipal Manager and our CFO started developing and implementing strategies for sustainability management and this practice will soon start bearing fruit for the city.

Although the compilation of this year's budget was difficult and complex, it offers hope for the future. Honourable Speaker as I present this draft budget before this house there are 5 points that it must and should assist Matlosana Municipality to attain:

1. Visionary, Responsible and Accountable leadership.
2. Improved audit outcomes
3. Improved performance management and compliance
4. Improved public participation
5. Improve on LED to realize tangible results

As the Executive Mayor, I have been upfront to say indeed we are facing and experiencing financial problems, which I will outline later on. Without doubt, this will affect on our capability to render services. We are working hard to cut off on luxuries and we are improving our collection rate.

We cannot be expected to deliver services adequately when those who can afford to pay are not paying. Ward Councillors and Ward Committees need to be proactive in ensuring rate and taxpayers in their wards pay for services they are getting from the municipality.

In return we commit to handle the monies entrusted to us in a proper manner.

We will ensure value for money, transparency and accountability. As much as financial constraints may have effect on our service delivery, we believe lack of or inadequate supervision of the workers on the ground adds to the problem. We are working to improve on that aspect.

For years CoM's electricity and water consumer subsidised the larger base of tax payers. Electricity and water have become more costly and the difference between municipal and ESKOM rates has increased. This exposed the Municipality financially.

We will be striving to attain the REDI status from the National Department of Energy in order that we should be able to distribute electricity in all of Matlosana so that with that revenue we should propel development and infrastructure building that all communities need, but income has to be generated for that accomplishment.

With the increase of service costs, consumers reduced their consumption and therefore our income decreased.

During our last strategic session a number of priorities were identified for the new council. This budget takes the priorities into account:

- o Financial stability.
- o Effective management of the migration phenomenon.
- o Deteriorating infrastructure.
- o Growing public expectations of the municipality.
- o Control of troubled communities.

POSITIVES

There are a number of positive aspects from the 2016/17 financial year:

1. Improved audit outcome
2. 100% spending on MIG allocation
3. Received an additional NDPG grant due to 100% spending

PROBLEMS

The worry remains a thin tariff base and limited funding to address infrastructural needs in so-called non-grants funded areas.

The national fiscal model remains a basic cause of distress. The majority of municipalities in South Africa are unable to become and remain financially self-sufficient.

Although we understand that the state of the South African economy is limiting the ability of national government to subsidise and support local government and to meet its obligations towards municipalities, we are still deeply concerned about the inability of national government to address problems impacting on our economic growth.

Growth will only be realised when corruption, crime, poor governance, financial mismanagement, etc. have successfully been addressed at provincial and national government levels. Only then will we see increased revenue streaming into the state coffers and only then will government be able to meet its obligations towards local government.

We have established a base of sustainability in the municipality, but there is a room for innovation, revenue enhancement, service delivery and the upgrade of infrastructure.

The lack of revenue sources is a major obstacle to Matlosana Municipality's growth and development goals. Affordability of the municipal account against the background of a very low per capita income is the main reason why we once again could not implement the proposed fiscal reform during this year, in order to make provision for a cash build-up through recovering depreciation from tariffs.

This is a critical element of our financing model for the infrastructure plan. Although we developed an mSCOA implementation and risk plan in terms of the mSCOA regulations, not much progress was made to be ready for the migration to mSCOA which becomes mandatory for all municipalities on 1 July 2017.

The system for application of the mSCOA was not up to standard and created a lot of problems for the rate and taxpayers of the Matlosana Municipality, MMC Farouk Tagaree will be monitoring the system and ensuring that staff is adequately trained to mitigate the risks as we go forward with implementing mSCOA

INFLUENCE ON THE BUDGET

The budget is based on a number of council resolutions of which I want to highlight the following:

- The electricity tariff increase is subject to approval by NERSA.
- The poor receive support through Indigent Subsidies which entail free basic services such as 6kl water, 50Kwh electricity as well as free refuse removal and sewerage services.
- Midvaal Water tariffs that also will be having a telling effect on municipal finances
- The first R50 000 on all residential properties are exempt from property rates for persons older than 60 years and earning less than R7 500 per month. The exemption is applicable to all households earning less than R7 500.

BUDGET BACKGROUND NOTES

The MTREF for 2018/19 to 2020/21 were compiled in accordance with the requirements of the relevant legislation, of which the following are the most important:

- The Constitution of the Republic of South Africa, Act 108 of 1996;
- The Municipal Structures Act, Act 117 of 1998;
- The Municipal Systems Act, Act 32 of 2000;
- The Municipal Finance Management Act, Act 56 of 2003;
- The Municipal Budget and Reporting Regulations promulgated on 17 April 2009; and
- The Division of Revenue Act

The Revenue and Expenditure Projections assumed inflation-linked annual adjustments over the MTREF. The main challenges experienced during the compilation of the 2018/19 MTREF can be summarised as follows:

- Increased costs associated with bulk water and electricity, placing
- Upward pressure on tariff increases to consumers. Continued high tariff increases may soon render municipal services financially unaffordable;
- Reprioritisation of capital projects and operating expenditure within the
- financial affordability limits of the budget, taking the cash position into account;
- Salary increases for municipal staff exceeding consumer inflation, and the requirement to fill unfunded vacant, critical and essential positions in accordance with the Salary and Wage Collective Agreement;
- National and local economic difficulties and a growth rate of 1.5%.
- The fuel price is subject to all the variables including the currency volatility and other risks facing the emerging markets.
- Above-inflation increases in bulk purchase tariffs, such as Midvaal
- Water 9% and ESKOM 6.84%.
- Limited income base and no growth in the revenue base.
- Relief for indigent households.
- Unfunded mandates.

The authority's strategic focus areas, which are reflected in the budget, are financial sustainability, good governance, institutional development, basic service delivery and local economic development and growth.

KEY POINTS OF THE BUDGET

Operating income decreases from R2 955,7 billion in 2017/2018 to R2 858,8 billion in 2018/2019.

Operating expenses decrease from R3 277 million in 2017/2018 to R3 083,3 billion in 2018/2019.

The capital budget decreases from R173,7 million in 2017/2018 to R168,6 million in 2018/2019.

There is an increase of R38,3 million of operating grants. The 2018/19 capital budget has decreased as compared with the current budget, this is due to the reduction of Neighbourhood Development Partnership Programme (NDPG) which is only allocated R22 million in 2018/19. The current budget of NDPG is adjusted to R48,5 million by National Treasury.

Tariff increases:

The tariff increases is as follows:

- Electricity Consumption 6.83%
- Electricity Basic 5.3%
- Water Consumption 8.00%
- Water Basic 5.3%
- Refuse 5.3%
- Sewer 5.3%

Due to the lessons learnt in the 2017/18 financial year budget, we are approaching this budget carefully. We have to be as realistic as we can be.

The Operational Budget 2018/2019 proposed budget comprises of an operational budget to the tune of R2 858, 781, 578.

The Municipality is expecting to generate the following operational revenue:

- | | |
|-----------------------|-----------------|
| ○ Property Rates | R413,6 million |
| ○ Sale of Electricity | R804,5 million |
| ○ Sale of Water | R591, 8 million |
| ○ Sewer | R119 million |
| ○ Refuse Removal | R179 million |

These are our primary sources of revenue and they are expected to contribute about R2 108, 3 billion to the projected revenue. This represents 74% of the total projected revenue.

Grants and subsidies will contribute R553,9 million to the operating revenue which represents 19.38 % of the total projected revenue. Fines will generate R8,6 million. About R132,8 million will be generated from interest on outstanding debtors, R6,8 million from facilities rentals, mainly municipal flats and houses. R40,1 million will be generated from the sundry revenue of the Municipality.

Drafting this budget was not easy and required exceptional expertise, hard work and dedication. It required open minds and clear thinking.

MMC for Finance and Treasury, Councillor Farouk Tagaree and the CFO Mr. Gabriel Ramorwesi will expand more details on the Financial Analysis of this budget which will include aspects such as Infrastructure Development; Water & Sanitation; Electrification; Human Settlements; Community Services; Welfare of our communities, Youth Development; Job Creation and Technology.

This is a draft budget and subject to review. It will soon be presented and discussed with key stakeholders and contributors to the revenue of this Municipality as well as the community in general.

However, I think we developed a document that serves the best interest of the municipality and our entire constituency.

Honourable Speaker; please allow me to thank the Municipal Manager; Mr. Roger Nkhumise, his Directors and personnel for their inputs. As public representatives we always put them under tremendous pressure, but as you all know this come with the territory. Please understand that it's nothing personal, and it's all about the struggle to improve the lives of our people.

Another word of appreciation to the members of my Executive Mayoral Committee and Council for their hard work.

In conclusion, I would like to emphasize the fact that this is a Draft Budget. We will be going out on a consultation process on it. We expect all individuals and all stakeholders within Matlosana to constructively criticize this draft budget and make recommendations.

We also welcome all sorts of inputs and submission that will positively influence the second draft and the final budget before it's approved by Council.

Honourable Speaker, I now table this budget to Council and for publication for public inputs.

I thank you

Cllr. Maetu Kgaile - Executive Mayor of Matlosana

**DRAFT BUDGET 2018/19 ADDRESS DELIEVERED BY EXECUTIVE MAYOR,
COUNCILLOR MAETU KGAILE, 20 APRIL 2018**

Honourable Speaker - Cllr Washington Ntozini;

Chief Whip of Council - Cllr Vusi Chinga;

Members of the Mayoral Committee;

Members and Leaders of all Political Parties;

Honourable Councillors;

Municipal Manager - Mr Roger Nkhumise and all employees;

Leaders of Business and Captains of Industry;

Leaders of the Labour Movement

NGOs and Organs of Civil Society;

Members of the Media;

Most Importantly, People of the City on the Move;

The 2018/19 Draft Budget is my second presentation of the concept budget as Executive Mayor and it remis once again a privilege to present it to you.

I am concerned about the trend of shrinking government income against a fast-growing indigent population. The fact that national fiscus is reducing its financial obligations to municipalities while poverty escalates, is an impediment.

However, South Africa as whole is experiencing tough economic problems which increasingly force us to be dependent on our own financial sources. Also we need to be frugal with our own resources.

Political whirlwinds are also in turbulence within the North West province and as a municipality we have had own share of wildcat strikes and community protests

Municipalities that strive to purposefully and decisively manage their financial resources and sustainability will survive.

I am pleased to report the Matlosana Municipal Manager and our CFO started developing and implementing strategies for sustainability management and this practice will soon start bearing fruit for the city.

Although the compilation of this year's budget was difficult and complex, it offers hope for the future. Honourable Speaker as I present this draft budget before this house there are 5 points that it must and should assist Matlosana Municipality to attain:

1. Visionary, Responsible and Accountable leadership.
2. Improved audit outcomes
3. Improved performance management and compliance
4. Improved public participation
5. Improve on LED to realize tangible results

As the Executive Mayor, I have been upfront to say indeed we are facing and experiencing financial problems, which I will outline later on. Without doubt, this will affect on our capability to render services. We are working hard to cut off on luxuries and we are improving our collection rate.

We cannot be expected to deliver services adequately when those who can afford to pay are not paying. Ward Councillors and Ward Committees need to be proactive in ensuring rate and taxpayers in their wards pay for services they are getting from the municipality.

In return we commit to handle the monies entrusted to us in a proper manner.

We will ensure value for money, transparency and accountability. As much as financial constraints may have effect on our service delivery, we believe lack of or inadequate supervision of the workers on the ground adds to the problem. We are working to improve on that aspect.

For years CoM's electricity and water consumer subsidised the larger base of tax payers. Electricity and water have become more costly and the difference between municipal and ESKOM rates has increased. This exposed the Municipality financially.

We will be striving to attain the REDI status from the National Department of Energy in order that we should be able to distribute electricity in all of Matlosana so that with that revenue we should propel development and infrastructure building that all communities need, but income has to be generated for that accomplishment.

With the increase of service costs, consumers reduced their consumption and therefore our income decreased.

During our last strategic session a number of priorities were identified for the new council. This budget takes the priorities into account:

- Financial stability.
- Effective management of the migration phenomenon.
- Deteriorating infrastructure.
- Growing public expectations of the municipality.
- Control of troubled communities.

POSITIVES

There are a number of positive aspects from the 2016/17 financial year:

1. Improved audit outcome
2. 100% spending on MIG allocation
3. Received an additional NDPG grant due to 100% spending

PROBLEMS

The worry remains a thin tariff base and limited funding to address infrastructural needs in so-called non-grants funded areas.

The national fiscal model remains a basic cause of distress. The majority of municipalities in South Africa are unable to become and remain financially self-sufficient.

Although we understand that the state of the South African economy is limiting the ability of national government to subsidise and support local government and to meet its obligations towards municipalities, we are still deeply concerned about the inability of national government to address problems impacting on our economic growth.

Growth will only be realised when corruption, crime, poor governance, financial mismanagement, etc. have successfully been addressed at provincial and national government levels. Only then will we see increased revenue streaming into the state coffers and only then will government be able to meet its obligations towards local government.

We have established a base of sustainability in the municipality, but there is a room for innovation, revenue enhancement, service delivery and the upgrade of infrastructure.

The lack of revenue sources is a major obstacle to Matlosana Municipality's growth and development goals. Affordability of the municipal account against the background of a very low per capita income is the main reason why we once again could not implement the proposed fiscal reform during this year, in order to make provision for a cash build-up through recovering depreciation from tariffs.

This is a critical element of our financing model for the infrastructure plan. Although we developed an mSCOA implementation and risk plan in terms of the mSCOA regulations, not much progress was made to be ready for the migration to mSCOA which becomes mandatory for all municipalities on 1 July 2017.

The system for application of the mSCOA was not up to standard and created a lot of problems for the rate and taxpayers of the Matlosana Municipality, MMC Farouk Tagaree will be monitoring the system and ensuring that staff is adequately trained to mitigate the risks as we go forward with implementing mSCOA

INFLUENCE ON THE BUDGET

The budget is based on a number of council resolutions of which I want to highlight the following:

- The electricity tariff increase is subject to approval by NERSA.
- The poor receive support through Indigent Subsidies which entail free basic services such as 6kl water, 50Kwh electricity as well as free refuse removal and sewerage services.
- Midvaal Water tariffs that also will be having a telling effect on municipal finances
- The first R50 000 on all residential properties are exempt from property rates for persons older than 60 years and earning less than R7 500 per month. The exemption is applicable to all households earning less than R7 500.

BUDGET BACKGROUND NOTES

The MTREF for 2018/19 to 2020/21 were compiled in accordance with the requirements of the relevant legislation, of which the following are the most important:

- The Constitution of the Republic of South Africa, Act 108 of 1996;
- The Municipal Structures Act, Act 117 of 1998;
- The Municipal Systems Act, Act 32 of 2000;
- The Municipal Finance Management Act, Act 56 of 2003;
- The Municipal Budget and Reporting Regulations promulgated on 17 April 2009; and
- The Division of Revenue Act

The Revenue and Expenditure Projections assumed inflation-linked annual adjustments over the MTREF. The main challenges experienced during the compilation of the 2018/19 MTREF can be summarised as follows:

- Increased costs associated with bulk water and electricity, placing
- Upward pressure on tariff increases to consumers. Continued high tariff increases may soon render municipal services financially unaffordable;
- Reprioritisation of capital projects and operating expenditure within the financial affordability limits of the budget, taking the cash position into account;
- Salary increases for municipal staff exceeding consumer inflation, and the requirement to fill unfunded vacant, critical and essential positions in accordance with the Salary and Wage Collective Agreement;
- National and local economic difficulties and a growth rate of 1.5%.
- The fuel price is subject to all the variables including the currency volatility and other risks facing the emerging markets.
- Above-inflation increases in bulk purchase tariffs, such as Midvaal
- Water 9% and ESKOM 6.84%.
- Limited income base and no growth in the revenue base.
- Relief for indigent households.
- Unfunded mandates.

The authority's strategic focus areas, which are reflected in the budget, are financial sustainability, good governance, institutional development, basic service delivery and local economic development and growth.

KEY POINTS OF THE BUDGET

Operating income decreases from R2 955,7 billion in 2017/2018 to R2 858,8 billion in 2018/2019.

Operating expenses decrease from R3 277 million in 2017/2018 to R3 083,3 billion in 2018/2019.

The capital budget decreases from R173,7 million in 2017/2018 to R168,6 million in 2018/2019.

There is an increase of R38,3 million of operating grants. The 2018/19 capital budget has decreased as compared with the current budget, this is due to the reduction of Neighbourhood Development Partnership Programme (NDPG) which is only allocated R22 million in 2018/19. The current budget of NDPG is adjusted to R48,5 million by National Treasury.

Tariff increases:

The tariff increases is as follows:

- Electricity Consumption 6.83%
- Electricity Basic 5.3%
- Water Consumption 8.00%
- Water Basic 5.3%
- Refuse 5.3%
- Sewer 5.3%

Due to the lessons learnt in the 2017/18 financial year budget, we are approaching this budget carefully. We have to be as realistic as we can be.

The Operational Budget 2018/2019 proposed budget comprises of an operational budget to the tune of R2 858, 781, 578.

The Municipality is expecting to generate the following operational revenue:

- | | |
|-----------------------|-----------------|
| ○ Property Rates | R413,6 million |
| ○ Sale of Electricity | R804,5 million |
| ○ Sale of Water | R591, 8 million |
| ○ Sewer | R119 million |
| ○ Refuse Removal | R179 million |

These are our primary sources of revenue and they are expected to contribute about R2 108, 3 billion to the projected revenue. This represents 74% of the total projected revenue.

Grants and subsidies will contribute R553,9 million to the operating revenue which represents 19.38 % of the total projected revenue. Fines will generate R8,6 million. About R132,8 million will be generated from interest on outstanding debtors, R6,8 million from facilities rentals, mainly municipal flats and houses. R40,1 million will be generated from the sundry revenue of the Municipality.

Drafting this budget was not easy and required exceptional expertise, hard work and dedication. It required open minds and clear thinking.

MMC for Finance and Treasury, Councillor Farouk Tagaree and the CFO Mr. Gabriel Ramorwesi will expand more details on the Financial Analysis of this budget which will include aspects such as Infrastructure Development; Water & Sanitation; Electrification; Human Settlements; Community Services; Welfare of our communities, Youth Development; Job Creation and Technology.

This is a draft budget and subject to review. It will soon be presented and discussed with key stakeholders and contributors to the revenue of this Municipality as well as the community in general.

However, I think we developed a document that serves the best interest of the municipality and our entire constituency.

Honourable Speaker; please allow me to thank the Municipal Manager; Mr. Roger Nkhumise, his Directors and personnel for their inputs. As public representatives we always put them under tremendous pressure, but as you all know this come with the territory. Please understand that it's nothing personal, and it's all about the struggle to improve the lives of our people.

Another word of appreciation to the members of my Executive Mayoral Committee and Council for their hard work.

In conclusion, I would like to emphasize the fact that this is a Draft Budget. We will be going out on a consultation process on it. We expect all individuals and all stakeholders within Matlosana to constructively criticize this draft budget and make recommendations.

We also welcome all sorts of inputs and submission that will positively influence the second draft and the final budget before it's approved by Council.

Honourable Speaker, I now table this budget to Council and for publication for public inputs.

I thank you

Cllr. Maetu Kgaile - Executive Mayor of Matlosana