

**DRAFT MTREF BUDGET SPEECH DELIVERED BY EXECUTIVE
MAYOR OF THE CITY OF MATLOSANA CLLR MAETU KGAILE
DURING A VIRTUAL COUNCIL MEETING HELD ON WEDNESDAY
31st MARCH 2021**

Honourable Speaker, Cllr Washington Ntozini

Acting Single Whip, Cllr Khaya Ndincede

Members of the Mayoral Committee

Whips of all Parties represented in this Council

Honourable Councillors

Municipal Manager, Mr Roger Nkhumise

Directors and Senior Officials

Ladies and Gentlemen

We meet today during a very historic month during which we celebrate Human Month and just a few days before the Easter Holidays.

We meet at a time when our country and the world are facing the devastating COVID-19 coronavirus, which has taken away lives and destroyed livelihoods. Last week marked exactly one year since the national government placed the country under lockdown to stem the tide of infections and prepare the healthcare system to can handle the burden of the pandemic.

The state of the economy in South Africa as a whole has recorded a decline in the economic output due to COVID-19 restrictions that has negatively affected the economy.

The state of the economy continues to have an adverse effect on the consumers of the City of Matlosana in the 2021/22 financial year. As a result, the municipal revenue and cash flow remain under pressure. Therefore, the application of sound financial management principles for the compilation of the City of Matlosana's financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

Today we are presenting to Council a draft Medium Term Revenue and Expenditure Framework Budget through virtual platform due to the

prevailing conditions of lockdown resulting from the current COVID-19 global emergency.

This draft budget is tabled in line with Section 16 (1)(2) of the Municipal Finance Management Act No. 56 of 2003 which requires the municipal council to consider the annual budget at least 90 days before the start of the budget year.

The Medium Term Revenue and Expenditure Framework is submitted in terms of the Municipal Budget Reporting Regulation (MBRR)

The City will continue with efforts to enhance revenue. However, more needs to be done to ensure the sustainability of the municipality as the Auditor General has expressed itself over the going concern matter of the municipality.

In South Africa, economic growth has continued to stagnate and weaknesses in the world economy are likely to amplify our own challenges. The outlook remains highly uncertain, and the economic effects of the pandemic are far-reaching. Rising unemployment and income losses has affected the debt collection of the City of Matlosana. The GDP is expected to recover in late 2023.

In addition to low growth, South Africa's biggest economic risk is Eskom. Ongoing problems with the utility's operations continue to disrupt the supply of electricity to households and businesses. Government has allocated significant resources to assist Eskom.

South Africa's public finances deteriorated over the past decade; a trend that accelerated in recent years as low growth led to large revenue shortfalls. For 10 years, the country has run large budget deficits. This has put the country deeply in debt, to the point where interest payments have begun.

National Treasury's MFMA circulars 107 and 108 were used to guide with the compilation of the 2020/21 – 2022/23 MTREF.

The main challenges experienced during the compilation of the 2021/22 – 2023/24 MTREF can be summarized as follows:

- The declining economic growth, which is impacted further by COVID-19.

- High unemployment rate and the impact on household ability to pay for municipal services.
- The 2021 MTEF includes large reduction in planned transfers to municipalities.
- The real economic growth is projected to be 3.3% in 2021. Although the growth rates are likely to improve as restrictions are removed, the output is expected to return to pre-pandemic levels in 2024. The recovery in South Africa will be slower than many of its developing-country peers.
- CPI inflation estimates over 2021/22 medium term are 3,9%; 4,2% and 4.4% respectively.
- The economic challenges will continue to exert pressure on municipal revenue generation and collection levels.
- Securing the health of the asset base (especially the revenue generating assets) by increasing spending on repairs and maintenance and renewal of assets;
- The increased cost of bulk water and electricity (due to tariff increases from Midvaal and Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable – as there will be a point where services will no longer be affordable;
- A growing debtor's book as well as the remaining outstanding creditors, especially for bulk services;
- Wage increases for municipal staff that continues to exceed consumer inflation, as well as the need to fill critical vacancies with limited resources;
- The declining liquidity ratio due to budgeted deficit of financial performance
- The impact of the current COVID 19 epidemic on the consumer base of the municipality and the sustainability of the municipality.

The following budget principles and guidelines directly informed the compilation of the 2021/22 MTREF:

- Price increases in the inputs of services that are beyond the control of the municipality are for instance the cost of bulk water and electricity. Furthermore, tariffs need to remain or move towards being cost reflective; and should take into account the need to address infrastructure backlogs.
- The cost containment measures that was implemented to eliminate wasteful expenditure, reprioritise spending and ensure savings on six focus areas namely;

Consultancy fees;

No credit cards;

Travel and related costs;

Advertising;

Catering and event;

As well as the costs for accommodation.

The Municipalities did take note of the cost containment measures as per Municipal Cost Containment Regulation – Circular 97. The municipality also developed a Cost Containment policy that was approved on 21 October 2019.

In view of the aforementioned, the following table is a consolidated overview of the proposed 2021/22 Medium-term Revenue and Expenditure Framework:

The two outer years, operational revenue will increase by 4.2% and 4.4% respectively. Revenue generated from property rates is R498 million in the 2021/22 financial year and increases to R542,6 million by 2023/24.

Service charges relating to electricity, water, sanitation and refuse removal constitutes the biggest component of the revenue basket of the Municipality totalling R1.8 billion for the 2020/21 financial year and increasing to R2 billion by 2023/24.

Total operating expenditure for the 2021/22 financial year has been appropriated at R 3.3 billion.

The bulk of the capital programs will be funded from Government grants and transfers. No provision is made for Council funded capital in the coming financial year. Council funded capital must be cash backed.

1.4 OPERATING REVENUE FRAMEWORK

For the City of Matlosana to continue improving the quality of services to its citizens, it needs to generate the required revenue. In these tough economic conditions, strong revenue management is fundamental to the financial sustainability of any municipality. The reality is that we are faced with development backlogs, unemployment, poverty and ageing infrastructure. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the City and continued economic development;
- Efficient revenue management which aims to ensure maximum annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa;
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;

- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act; 2004 (Act 6 of 2004) (MPRA) as amended;
- Increased ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services;
- Enforcement of the Credit Control and Debt Collection Policy.

To achieve the above the municipality, need to investigate the implementation of Smart metering technology that will assist with accurate billing, water and electricity theft and reduces the cost of meter readings and overtime to process it. The municipality is in the process of implementing Smart Metering.

Fellow Councillors, I have the honour of presenting this draft Medium Term Revenue and Expenditure Framework 2021 – 2024 to Council for consideration.

I thank you.