Knysna Municipality

2010/2011 Budget Address

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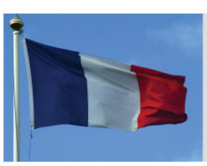
27 May 2010

the town that works for all



PROUD HOST TOWN OF
THE FRENCH AND DANISH SOCCER TEAMS

BUDGET SPEECH 2010 / 2011

THE EXECUTIVE MAYOR – CLLR ELEANORE BOUW-SPIES

27 MAY 2010

Speaker, Deputy Executive Mayor, members of the Mayoral Committee, Councillors, Political leaders, Municipal Manager, Directors and officials, distinguished guests and members of the media.

1. INTRODUCTION

The timing of the budget before us today can best be described as happening in the eye of the tornado. It is occurring after the storm of the recent water shortage crisis and the major remedial desalination and reverse osmosis plants we have installed to alleviate future shortages. It is occurring mid of an Eskom tariff crisis which has hammered our cash flows and it is occurring after the excitement engendered in the planning and preparations for the forthcoming World Cup.

Conversely this budget sits just before the next major infrastructure expansions required in Knysna and Sedgefield to maintain our much needed economic growth. It sits just before the critical Heidevallei development begins to accelerate. It sits as the catalyst for the Nekkies/Hornlee Gateway plans and it sits immediately before the impending celebrations and events that make up the World Cup and the longer term legacy that the event will provide.

This then is the calm within the storm and it is now that this municipality needs to pause, take a deep breath and consider where it wishes to position itself in the next fifteen to twenty years. In recent years Knysna 2020 has been our vision and the planning horizon we have worked towards. Knysna 2030 must now be considered and strategies examined and developed to begin the next planning cycle for the municipality.

We have begun the process of developing what is referred to as a second generation IDP. Through this process Knysna Municipality has endeavoured to improve the participation of the public in the IDP process. We can still refine the process. We must develop and refine our second generation IDP firstly in line with our 2020 vision but also looking forward to 2030. This new IDP is critical in that it must be realistic, practical and attainable. It cannot be a succession of buzz words that have no effect on the ground.

This year's budget is far more detailed and transparent than ever before, in line with national government views as expressed in various local government legislation that more information is better than less. It also for the first time fully links the Service Delivery and Budget Implementation Plan and the budget to the extent that the plan is being tabled with this budget rather than in six weeks time. I congratulate all involved for their hard work in putting all the pieces together.

The 2010/11 capital budget

The capital budget for next year amounts to R68 million of which only R8 million will be borrowed. The issue of roll-overs which I complained about last year has been picked up by National Treasury and they have issued a simple edict of use it or lose it. The municipal manager has been instructed to use it. Secondly, we have included an amount of R5 million to be funded from land sales. This Council needs to start using its land holdings far more creatively than at present. We need to take a strategic, almost commercial approach, to our land holdings and we must sweat what we can, make best use of what we can and dispose of what we can for best purpose.

The capital budget can be broken down as follows. Water R21,6 million, Electricity R5,5 million, Sewerage R11,5 million, Housing R13 million and R16,7 million other.

Also included in the budget for the first time is R12 million for the Knysna Development Agency (KDA). This is a company set up by the municipality with the specific goal of upgrading nodes within our disadvantaged areas. The concept is very exciting. But I have concerns. The Board members of the KDA have been appointed, but we do not yet have a CEO or other senior staff appointed and therefore budgets and projects and all the complications that entail with EIAs and permissions etc., are not yet up and running. The words use it or lose it need to be repeated, even more strongly.

Operating expenditure

Minister Gordhan in his recent budget speech commented on the fact that SA needs a growing economy "based on labour intensive industry".

Clearly there is a particular emphasis flowing from the national sphere to promote job creation, and National Treasury recently circulated a local authority budget circular which states:

Each municipality must explore how it can contribute to job creation when revising their IDPs and preparing their 2010/11 budgets. Not by employing more staff, but rather by ensuring labour intensive methods are used in service delivery, by service providers and LED projects. Municipalities should participate fully in the Extended Public Works Programme and implement intern programmes to provide young people with on- the-job training.

We will have to relook at our procurement policies and guidelines as the current system lends itself to capital intensive as opposed to labour intensive systems. We will therefore endeavour to push for more labour intensive use in our projects by revisiting our internal mechanisms but not at an unnecessary increase in costs.

It is well known that doing business in Knysna is not cheap. In my budget speech last year I said "it is of no benefit to our local economy to award contracts to businesses in Gauteng or Cape Town when locally owned businesses are employing and developing local people." It is sad therefore when we come across instances where local businesses wish to charge prices 10% to 20% higher than for the equivalent from Cape Town or closer. Our supply chain unit is now looking to publish benchmark prices and we wish to reduce three year commodity contracts to one year in future thereby allowing for greater competition. If local businesses are not prepared to come on board on these issues then unfortunately they will not get our business.

The whole issue of Supply Chain Management is coming under increased scrutiny because of various unsavoury incidents now emerging. National Treasury in the National Budget Review 2010 recently announced the formation of a supply chain compliance unit and it is expected that the Auditor-General will be concentrating on SCM in future years. Good supply chain practices are bureaucratic in nature and sometimes departments can be critical of this, but the simple fact remains that outside of an emergency, service delivery delays are usually caused by poor departmental planning and not poor procurement.

The biggest single operating expenditure is on staffing. This amounts to approximately R130 million or just below 31% of the operating budget. There have been significant staff cost increases in recent years, but there is a concern that there has not been an associated productivity increase to match especially when the municipal account, and specifically the Eskom component, has been escalating at its recent levels. The reality is that in 2002 Knysna municipality employed 562 staff, costing 29% of the operating budget. As at now the municipality employs 635 staff costing 31%.

What is clear is that our staff structures should be far more flexible to operate on a project basis rather than along the current regimented departmental lines. Outside of the obvious professional skills the emphasis should be on working for the municipality and community and not a single department - current job descriptions should be scrapped and staff moved to priority projects as and when required. Our municipal manager will be tasked to raise these matters within the various provincial management forums and all our councillors will be tasked to include them on SALGA agendas where relevant. What we have done in this budget is we have deliberately budgeted to freeze vacancies for a period of six months until 1 January 2011 unless the post can be filled internally. In addition a deliberate policy has been followed in this budget whereby the so-called corporate departments have had their operating budgets limited to only two percent increases (excluding salaries) as opposed to the delivery departments where the increases are in double digits.

One final decision that has been taken and one which will have long term benefits to Council is that we have introduced a Funding and Reserves Policy which will set the level and time period to fund repairs and maintenance meaningfully.

Operating revenue

Local government is in essence funded from three sources: assessment rates, revenues from trading services (the majority from electricity in Knysna's case) and transfers from national government. Approximately 65% of our revenue is from rates and electricity split equally and there is therefore a clear relationship which makes price changes very sensitive.

Over recent years Knysna has tried to break this relationship with some success until the Eskom debacle broke some 2 years ago with the large tariff increases that have subsequently followed. It has therefore been decided that to mitigate the impact of increases on the ratepayer, including sewer and refuse charges in the assessment rate will be postponed for at least a year.

Tariff implications of the annual budget

Electricity:

The revenue from both the non-domestic tariff and the domestic tariff will increase by an average 20%, lower than the actual bulk cost increase to Council which is 28.9%. This does not mean that all or even any of the tariffs will increase by 20%. Council has a myriad of electricity tariffs catering for amongst others bulk, normal credit and pre-paid consumers and consumers with 20, 30, 60 and beyond amperage. Whilst the prepaid tariff appears higher than the normal domestic credit meter tariff, it must be remembered that there is also a basic charge included. However, this year we are bringing a change to the basic charge for prepaid electricity.

With the system in place now, if energy is not purchased for a period the basic fee is not paid for that period. On a conventional meter the basic fee (service charge) applies monthly irrespective of consumption. In the case of holiday houses which can be closed for months no income is generated for the months as no purchase was made. The tariff will now change to make a daily service charge applicable and energy will be charged at a flat rate. The Pre Paid Vending system will calculate a service charge payable taking into consideration the date since the last purchase for energy, also in the case of holiday houses, where the last purchase will be used in calculating the service charge which in turn will be charged before any energy can be purchased. Many municipalities already use this system.

The impact of this change on normal prepaid users is minimal.

Water:

The water tariff increase will be 15% to all consumers.

Previously I stated that in the current financial year the water service has received a cash injection from various sources to the amount of R50 million. The continuing concerns about the water supply were one of the main reasons why our water awareness campaign was created. Since implementation water consumption has fallen on a year on year basis and continues to fall.

The receipt of the grants from national and provincial government, while welcomed and appreciated, obviously have a downside in terms of the additional associated ancillary costs relating to staffing, repairs and maintenance, depreciation, and future upgrade and replacement. It is impolite to be critical of the various additional moneys, but apart from the operating tariff impacts which are so often conveniently forgotten, Council still had to borrow some R10 million to co-fund the various new capital projects involved. This R10 million was obviously not originally budgeted for in the 2009/10 budget.

The option of introducing punitive tariffs will remain and the punitive tariff will be imposed at 25% above the consumption charge on all tariffs, business included.

Assessment Rates:

Municipal property rates are a Cent amount in the Rand levied on the market value of immovable property (that is, land and buildings). It is important to realise that this is a tax levied and as with all primary taxes, is NOT a part payment for services rendered.

The assessment rate will rise by 6.7%. The refuse and sewer tariffs increase by 7.5%. These are essentially in line with National Treasury inflation estimates after the municipal wage increase is taken into account. In recent years there has been a considerable increase in assessment rate income. This is mainly because of the continued verification and cleansing of the consumer database to ensure equality and stability in our tax base. A new general valuation roll is being planned for commencement from 1 July 2012 and so during the course of next year a tender for the new roll will be issued. A full public participation exercise will accompany the roll.

As I've said earlier, we are putting on hold the further movement of refuse and sewerage into the rates, we are also putting on hold the further reduction of the rural rebate at this time. We are tightening the definition of those properties eligible for the green rebate to only include properties outside of the 'urban edge' as declared in Council's

Spatial Development Framework. This means that certain properties currently within the urban edge will be losing their "green" rebate. The regulations governing the rebate are also being amended to ensure that those applying for the rebate have proper and auditable alien vegetation maintenance plans in place. To date it has been a rather loose and haphazard arrangement and it needs to be better grounded within Council's planning policies going forward.

In closing, I must thank my fellow Councillors and all the individuals and groupings that have taken the time to input into this budget - if only we could have this every year! My thanks to the Municipal Manager and his staff for their hard work and dedication and my thanks to the Finance staff who put the whole process together.

I herewith present the 2010/2011 budget for approval.