

CITY OF CHOICE



**PIETERMARITZBURG
M S U N D U Z I**

Budget Speech

His honorable Mayor of Msunduzi

Municipality

Councillor M.A. Tarr

30 June 2010

Distinguished MEC Mrs. I. Cronje, Guests, Councillors and dignitaries;

Every City has its own rich history and this history in the long run becomes its heritage.

When the history of this wonderful City of ours is told, it would have to make mention of the beauty of our mountains, gentle hills, streams and valleys as well as the rich diversity of our indigenous flora and fauna. This is all part of our heritage and we should value and protect it for future generations. The wonderful mosaic that exists in our nature is also reflected in the people that live in our city. This City is a rich tapestry of different languages, cultures, customs and values contributed by our Zulu, Indian, Afrikaans and English communities, as well as a growing influence of Xhosa, Sotho, German, Greek, and many other African cultures. Yet we are all human beings, proud South Africans and we need to create a city of which we are all proud and where we work together to create a better life for all who live here. I have received a letter from Clivia enthusiasts requesting the city to make the clivia flower the official flower of the city. I hope that the Exco will consider this request favorably.

Amongst the great leaders that have contributed to our history are great names such as Nelson Mandela, Alan Paton, Mahatma Gandhi, Moses Mabhida, and many other great leaders who have set the example of selfless, committed and visionary leadership as the roadmap for future management of our City. We must not betray their legacy.

We cannot as citizens of this City, gathered here today, allow such a great City, the Capital and second largest City in KwaZulu-Natal to be bankrupted by actions and behavior of people entrusted with power to manage and lead. Leadership must in future diligently carry its mandate for open, efficient and effective government in the interests of all our citizens. We have allowed leadership to forget the mandates and assignments that they were elected and employed for, to mismanage the affairs of our city, have corrupt dealings and bring us to the verge of bankruptcy. We can no longer allow material greed and selfishness to become a cancer in our midst, and we cannot allow ourselves to be remembered in this way, when the history of the City is written and told.

This country deserves municipalities that the nation can be proud of. We are responsible to the citizens to secure a peaceful, democratic and equitable civic society. To honour this role, we as councillors, officials and the community must ensure the financial sustainability of our municipalities. **What matters is what we really are, not what people think of us.**

We have to choose between the road to Armageddon or Damascus and as the Mayor of this City I have no option, but to choose Damascus. This road is not an easy one, it is uphill, it will need a lot of effort and it will need a lot of forbearance from us all.

The political leadership of the City and the Provincial Intervention Team represented by the Administrator, Mr. Johann Mettler, has reported on the City's financial crisis. Several presentations on the City's Financial recovery plan and Turnaround Strategy have been made available to Members of Parliament, the Provincial Legislature as well as the public and Councillors.

The Local Government Turnaround Strategy approved by Cabinet on 2nd December 2009, puts the centrality of development squarely on municipalities to restore the confidence of our people as the delivery agents of the developmental state and to rebuild and improve the basic functionality, responsiveness, accountability, and efficacy of our municipalities.

Having said that, the Council and Executive Committee of this municipality, management and staff including various interest groups and stakeholders have pledged support for the decision taken by the MEC for Cooperative Government and Traditional Affairs (COGTA), honorable Nomusa Dube, to intervene in the running of the City's administration in terms of section 139 (b) of the MFMA, 2003 and the role and tremendous work done thus far by the Provincial Intervention Team (PIT).

I will now deal with the various issues we have to approve going forward

Business Plan

The PIT has drafted a Business Plan on the Turnaround Strategy, which includes a Financial Recovery Plan. This plan has been work-shopped at all levels of government and deals with a variety of issues.

At the outset I must say that this plan maps out a difficult journey that we must take but there is no other easier way. It is the only route we, as council, can take to make our budget balance at the end of the day. It is going to be difficult and challenging for all of us especially in view of the fact that we will not be able to execute capital projects funded from our operations unless we can dramatically improve our collections.

This plan is far from finalised, as we still need to complete the implementation plan where the KPA's and KPI's of the various business units will have to be addressed.

The plan makes provision for the following:

Firstly it deals with the status quo of our municipality, spelling out in detail what is wrong and the steps that will have to be taken to correct the problems that have been identified. The process will take time and it is envisaged that the plan will be introduced over a three year period.

Strategies focus on four main areas namely; Financial, Infrastructure, Community Services and Good Governance. In order to implement them we will need to change our political and administrative structures. We need to function in a far more efficient and effective way. Implementation of these changes will be the start of our turnaround to create a financially stable Municipality. **The dark moment that a caterpillar calls the end of the world, is the sun-filled moment the butterfly calls the beginning** and this is actually how I see this plan and its implementation.

Today we will approve these structures for implementation as from the 1 July 2010. The plan further deals with a Financial Recovery Plan based on Revenue enhancement and Cost containment strategies, which I am not going to deal with since this has been discussed and work shopped in some detail.

The 2010/11 Operating and Capital Budget

The first draft budget was tabled by me some time ago and we as councillors discussed the budget amongst ourselves, with our constituencies, our stakeholders and business. The first draft, after making provision for non-payment, showed a deficit of R 670 million. In the history of our City, a Budget based on such a huge deficit has never before been tabled. Legally, budgets must be balanced and Exco with the assistance of the Administrator, had to find ways to balance this budget.

The Municipal Finance Management Act prohibits the adoption of an unbalanced Budget.

The National Treasury also indicated that the municipality must make the necessary adjustments to balance the budget as originally tabled.

Certain changes had to be made in accordance with requests made by stakeholders

A comparison between the unbalanced budget and the balanced budget will indicate the steps the municipality will need to take in the year ahead to balance the budget – failure will result in an unbalanced budget and the prospect of bankruptcy staring us in the face. The medicine is unpleasant, but unavoidable and we will all need to work together to ensure its success.

Don't let your past rent space in your head today.

Life is like a bicycle, to keep your balance, you must keep moving forward.

The draft budget originally presented by myself was as follows;

Operating Revenue	R
Sales	1 813 823 269
Other Miscellaneous	396 889 974
Total Revenue	2 210 713 243
Operating Expenses	
Bulk Purchases	975 254 045
Employee Related Costs	654 323 236
General Expenses	242 449 352
Repairs & Maintenance	71 307 183
Lease Charges	1 327 424
Interest Charges	69 096 888
Other Indirect Operating Expenses	115 834 378
Total Expenditure	2 129 592 506
Surplus	81 120 737
Less : Non-payment	750 243 115
Surplus/(Deficit)	-669 122 378

The following changes were made to the Draft Budget in order to produce a balanced budget

Overtime	30 000 000	15 000 000	15 000 000
Locomotion	6 119 802	2 119 802	4 000 000
Temporary Staff	15 738 912	2 738 912	13 000 000
Electricity –Bulk Purchases	726 600 000	660 600 000	66 000 000
Water –Bulk purchases	248 654 045	230 654 045	18 000 000
Provisions for Bad Debts	750 243 115	194 803 113	555 440 002
General Expenses	242 449 352	282 132 183	(39 682 831)
Repairs & Maintenance	71 307 183	74 307 183	(3 000 000)
Electricity Sales	957 000 000	963 000 000	6 000 000
Water Sales	211 253 351	232 000 000	20 746 649
Cost Recoveries from Illegal Connections	0	2 000 000	2 000 000
Interest	45 208 967	32 631 009	(12 577 958)
Employee related cost			24 309 414
Total Positive Change			669 235 276
Original Deficit			669 122 898
Surplus			112 898

With the above changes it was possible to produce a balanced budget that is presented below.

The budget we must approve today is as follows;

Operating Revenue	R
Sales	1 840 569 918
Capital Grants	136 513 266
Other Miscellaneous	411,326,016
Total Revenue	2,388,409,200
Operating Expenses	
Bulk Purchases	891 254 044
Employee Related Costs	598 013 822
General Expenses	282 132 183
Repairs & Maintenance	74 307 183
Lease Charges	1 327 424
Interest Charges	69 096 888
Capital Grants	136 513 266
Other Indirect Operating Expenses	115 834 378
Total Expenditure	2 168 479 188
Surplus	219 930 012
Less : Non-payment	219 817 113
Surplus/(Deficit)	112 899

To ensure that we adhere to this budget both the municipality and residents of the City must improve collection and payment levels to meet our revenue targets. It also means that the municipality will implement specific and critical projects to stabilize the institutional arrangements and financial viability of the municipality; such as water meter installation, electricity protective structures, cleansing of debtors book, consolidation of billing, credit control etc. It also entails the undertaking of feasibility studies on municipal entities and flagship projects through partnerships (PPP's) and through these flagship projects, we can mobilize external funding to contribute towards the economic growth of our City.

The reasons for the changes

The Municipality is planning to implement vigorous credit control measures; last week we adopted a credit control and debt collection policy and today we will adopt the tariffs for this specific intervention.

The Municipality is planning for Revenue enhancement and Cost containment projects which will influence cash collections and bulk purchases. We are planning to use MIG funds to accomplish this.

The above measures should result in a decrease in bulk purchases and an increase in revenue.

District Water meters will be installed to monitor water losses and illegal connections.

New water meters will be installed in some areas which will result in increased revenue flows.

Fortified protective structures will be installed to reduce thefts, illegal connections and will result in increased revenue inflow.

The above will also decrease Electricity Bulk purchases.

Salaries are reduced by 5%, it is expected that these savings will be realised after implementing the new proposed structure and normal attrition in the second quarter of the year.

It is expected that collection levels will improve and this will result in a lower bad debt provision amount.

A complete schedule with targeted inflows has been developed and will be monitored daily.

The above has an element of risk and assumed cash inflows might vary from the actual.

The Capital budget mainly provides for capital funded from the MIG and it is doubtful whether we will be able to fund any capital internally or externally through loans. We will however endeavor to obtain loan funding in order to specifically address the dilapidated vehicle fleet.

Tariffs

The tariffs for the 2010/11 budget year are part of the documentation that is tabled today;

The increases per service are as follows;

Electricity – 21% - Eskom's bulk tariff increase from 1 April 2010 is 25%. These are reflected in the schedules tabled today. A new structure for tariffs will be implemented and special customer tariffs will be phased out over a three year period.

Water – 8% - The increase from Umgeni Water has affected our increase and we have added two block tariffs for the higher consumers of water. In this case the tariff increases more than the 8%.

Sewer – 8% increase.

Refuse – 8% increase.

Rates – Average increase of 8% - The increase in the randage rate is 28%, since there was no increase in the randage for the 2009/10 financial year. This oversight has now created a bigger problem because the budgeted shortfall is close to R 500 million. In the next three years the increases will have to be in the same order to at least start to cover for the shortfall. With the increase of 28% in mind we also have to fully introduce the Municipal Property Rates Act, which we failed to do in the 2009/10 financial year. This effect is now fully visible in the rates for domestic customers. The lower value houses will pay less than the current year and the higher value houses will pay more than the average increase of 8%. The full implication is as follows;

COMPARATIVE RATES INCREASES						
DOMESTIC R 15,000 REBATE - R 135 000 VALUE DEDUCTION						
VALUE OF PROPERTY	RATE	AMOUNT	RATE	AMOUNT	VARIANCE	INCREASE
	2009/10		2010/11			
	0.01650		0.01780			
200 000	0.00760	1520	0.00960	624	-896	-58.95%
400 000	0.00760	3040	0.00960	2544	-496	-16.32%
500 000	0.00760	3800	0.00960	3504	-296	-7.79%
600 000	0.00760	4560	0.00960	4464	-96	-2.11%
650 000	0.00760	4940	0.00960	4944	4	0.08%
700 000	0.00760	5320	0.00960	5424	104	1.95%
900 000	0.00760	6840	0.00960	7344	504	7.37%
1 000 000	0.00760	7600	0.00960	8304	704	9.26%
1 500 000	0.00760	11400	0.00960	13104	1704	14.95%
2 000 000	0.00760	15200	0.00960	17904	2704	17.79%

Other tariffs – 10%

Policies

There are five policies which we will have to approve today namely;

The budget policy – which has been tabled and has provided for the basis of our budget

The tariff policy – which has provided for the way in which we will increase tariffs in future

The rates policy – which has provided the correct basis for the implementation of the Municipal Property Rates Act for future years.

The credit control and debt collection policy – which we have adopted last week already, but we must alter one area of the policy as was agreed and I would like to refer you to page 113 of the agenda section 16.3, last sentence – which should read. “Upon written application by a customer the maximum period may be extended to sixty months and a percentage lower than the above 10% may be permitted at the discretion of the Consolidated Billing Manager in line with guidelines which will be developed by the Administrator. Any future monthly accounts shall be paid in full on or before the final date.”

This policy will make it possible for us to survive financially and all the worries we have that it might not work should rather become beliefs in its success.

Worry doesn't empty tomorrow of sorrow, it empties today of strength.

The indigent policy – will make it easier on the councillors and administration because it is almost an automatic process. Indigents will in future have to apply for the lifeline tariff which

inherently is a tariff for small users; since the more units a customer uses, the more he pays. If an indigent opts to choose this tariff, as envisaged in the policy of the government, the first 50 kWh is free of charge. With this the first 6 kl of water will be free of charge if a customer uses 6 kl of water or less; if a customer uses more than 6 kl the full amount will be charged – This provision is in line with the Water Act. An indigent will further get a 50% rebate on the refuse and sewer charges. Where the municipality is not distributing electricity, water will be used as the trigger for rebates on sewer and refuse in the cases where 6 kl or less is being consumed.

Assist the poor in your communities and God will let you prosper in times to come.

Indigent Account					
Commodity	Usage	Tariff	Amount	Subsidy	Payment
Electricity	50	0.70855	35.43	35.43	0.00
Water	6	5.01833	30.11	30.11	0.00
Refuse		61.08	61.08	30.54	30.54
Sewerage		94.44	94.44	47.22	47.22
Rates			160.00	120.00	40.00
Total			381.06	263.30	117.76
Rates	200 000	0.0096	1,920.00	1,440.00	480.00

To end my submission Mr. Speaker, we all must understand that the local government turnaround strategy as approved by cabinet on 2nd December 2009 revolutionized the review of the Integrated Development Planning and through the development of the Msunduzi Turnaround Strategy; the alignment of the IDP and Budget was made possible especially with the deployment of the PIT and the proper analysis of our finances. We can proudly say, through the role of the PIT, participation of the management and contributions and support rendered by the politicians, together with our communities and various stakeholders, we can make the City again as the City of Choice to live in and invest our fortunes in local businesses.

More personally to all councillors and members of staff;

When you lose, don't lose the lesson.

Remember that not getting what you want is sometimes a wonderful stroke of luck.

Don't let a little dispute injure a great relationship.

When you realize you've made a mistake, take immediate steps to correct it.

Open your arms and heart for change, but don't let go of your values.

Judge your success by what you had to give up in order getting it.

Share your knowledge and be gentle with earth.

I believe that just because two people argue, it doesn't mean they don't love each other, and just because they don't argue they do.

With the above in mind and heart I believe that we are truly moving towards reclaiming the Msunduzi Municipality as the 'City of Choice'

I now table this Business plan for its approval by Council as recommended by Exco and the Administrator.

I also table the 2010/11 operational and capital budget for your approval as recommended by Exco and the Administrator.

I table the Tariffs for the 2010/11 financial year for approval as well as the policies supporting the budget as provided for in the agenda

I thank you!