LANGEBAAN

Ratepayers and Residents Association
Belastingbetalers- en Inwonersvereniging

22 April 2019

The Municipal Manager
Saldanha Bay Municipality
Private Bag X12
VREDENBURG

Dear Sir, Att. sybrand.roets@sbm.gov.za

COMMENTS ON THE DRAFT BUDGET FOR 2019/2020

As so many times before, this Association welcomes the opportunity to submit its comments on the 2019/20 draft budget. Firstly the Association wishes to compliment the Municipality on the compilation of the documentation. The document is very user friendly, easy legible and consists of a host of supporting documents. For the first time minutes of the Budget Steering Committee is included.

However, the following criticism is submitted and it is trusted the remarks made will be considered at the proposed workshop to be held before the budget is finalized.

Capital Budget

It is noted that this budget is the largest since 2009/2010 viz. R 323.7 m. The years after that it will be much smaller viz. R189m in 2020/21 and R178m in 2021/22. The question arises what the reason for this is. Why such a huge capital programme for the whole municipal area and why at this point in time? The Association is of the opinion that the economic situation country wide does not warrant capital expenditure of such an amount in this municipality at this point in time.

Associated with such a budget is the amount to be borrowed from external sources. The amount to be borrowed is R 54m representing 17% of own revenue which is also the largest amount since 2013/14. The reason for this loan amount can only be speculated about but it is clear that the status of the CRR is such that funding from that source is in its final stretches which in turn is a very negative situation.

It is also noted from the documentation that Langebaan (Wards 6 and 14) is awarded the biggest chunk namely R70.2m or 21.6% of the budget. The Council should regard the recent unrest due to "non delivery of services" as a warning that such an unrealistic division of funds will not be acceptable much longer. Perhaps the time has come to re-prioritize the services to be delivered – instead of white elephant sports stadiums and community centers, the Council should concentrate on infrastructure and housing.

It is also noted that it is anticipated that the Council will spend 90% of the Capital Budget. History has shown otherwise. In the last 10 years the average amount spent was 71%. The Auditor General has shown that in the 2017/18 financial year, the expenditure level was 75% of the budget. The expected expenditure in 2018/2019 is 85%. One will have to wait for the end of the financial year to establish whether this target was reached.

As regards the 2019/20 financial year, the question arises what different steps are being taken to ensure that this target will be achieved? In 2014/15 the figure was 96% and that shows that an achievement of 90%+ can be reached. That being said, why not setting the target between 95% to 100%? Or is it a situation that the Council is not confident enough to set such a target.

Why is such a target important? The rolling over of projects from one financial year to the other is negative in the sense that it has a detrimental effect on future capital programmes. Secondly, the applying of loans to finance portions of the Capital Budget and then not spending the money has a detrimental effect on the loan charges to be financed. This additional loan charges places an unwanted burden on the budget and on the taxpayer.

It appears from the budget that priorities are not always determined. The existing economic climate makes it imperative that priorities should be set and the objectives be achieved in order to obtain value for money and to eradicate the budget from nice to have's. This viewpoint will have a positive impact on the taxpayer and citizen.

Examples:

Vehicles. R12.2 m. One wonders whether there is a policy which serves as a guideline for the replacement of vehicles and new vehicles. Each year it is seen that new vehicles are acquired.

Furniture. R1.4 m.

Sports & Development. R9.0m Langebaan is awarded R5 764 132. This is done despite that the Ward Committee has indicated that the project should be scaled down because the need does not justify a second "regional sports complex" which may become a white elephant.

Resorts. R842 000. The budget for fridges and furniture for Oostewal is set at R30 000 and R80 000 respectively.

Parks. R3 785 000. Inter alia a creepy crawley for Tabakbaai at R 10 000

Municipal Buildings. R 13 118 455. Amongst others for the upgrading of the Mayor's office for R 500 000; a security kiosk for the Mayor's office at R 40 000; the fire station for R 1.0 m and to install wheelchair friendly accesses throughout the municipality for R 800 000. The latter matter is of importance to show that the Council is serious to improve the lives of its citizens.

Road construction programme. The programme of R 53 696 825 is a very ambitious programme. From this Langebaan will receive R11.7 m (Ward 6) and R2.4 m for Ward 14.

Reservoir Meeuklip. R 12 349 996. What is the capacity of this reservoir? Will the pressure problem in some areas of the town be addressed? How far has the tender process progressed?

Langebaan Rd Aquifer. R 20 154 000. More particulars please.

New refuse dump. R 18 622 309 and the rehabilitation of the old dumping site R 101 595.

Please confirm that this is associated with the existing dump site and transfer station to be completed.

Revenue.

Tariffs.

Despite the fact that the CPIX was determined at 5.2% the Council worked on a CPIX of 5.4%. Except for the tariffs in respect of refuse removal and sundry tariffs, all the tariffs are in excess of 5.2%.

Assessment rates. 6.2%

As far as assessment rates are concerned, the Association is disappointed that there is no additional relieve for older ratepayers. The income levels of the pensioners have been increased by 5.2% according to the report but the tax has been increased by 6.2%.

The suggestion was made to investigate an additional rebate for residents older than 70 years despite their income bracket on condition that the property is a residential property used for domestic purposes by the <u>applicant</u>. An alternative to this suggestion is to create a separate income level for owners above 70 years of age with different income levels. An undertaking was given that this suggestion is still under investigation.

Water usage 5.8%

Sewage 15%

Electricity 13.81%.

It is general knowledge that Eskom is bankrupt and the stated increase may not be the final figure. What is concerning is the fact that the inherent discriminatory tariff of a service or capacity charge between the conventional meter system (R285.00 pm for a 60 amp meter) and the pre-paid meter system (R 100.00 pm for a 60 amp meter). The Association maintains that this distinction is discriminatory and unfair if not unconstitutional and illegal.

The phasing out of the conventional meter system is supported by the Association. What assistance will be afforded to the home owner who wants to convert meter systems. The allocation of a rental free loan to ratepayers should be considered. The amount could be divided over 12 months and added to the utility account.

Fines. The collection of fines is one of two revenue sources that were cut on the budget from R 45.5 m in 2018/19 to R 33.6 m in 2019/20. This fact is directly linked to the efficiency of the law enforcement division. It is our opinion that the collection of fines is a direct indication of productivity.

Expenditure

Personnel expenditure.

The Association is aware that the Council is bound by the industrial agreement valid for 3 years. The total salary budget is 33% of the total budget. This constitutes a slow increase from the 31% in 2012/13 to an expected 34% in 2020/21.

One schedule in the budget indicates that the salary and allowances of the 27 councillors and the 6 top senior officials constitutes R22 925 358 pa and is 5.41% of the total salary budget.

Costing

It is noted that remarks are made in reports that it is intended to implement a more accurate costing system by employing a costing accountant. The importance of such a step cannot be over emphasized.

Yours faithfully.

Signed
F S PALM
CHAIRPERSON/SECRETARY

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29 April 2019

Saldanha Bay Municipality

Att: Municipal Manager, Mr. Heinrich Mettler

COMMENTS ON THE DRAFT BUDGET FOR 2019/2020 (continued)

The budget document is really overpowering and difficult to work with. We have done our best to analyse some of the major items reflected in the budget.
Below are the principles and usage we believe should apply to a budget; as well as summaries, remarks and questions that arise from analysis of the studied information.
Due to the overwhelming volume of data, we have focused on just a few aspects.

Thank you for the opportunity to provide an input.

Best regards

Johan Bleeker
Vice-Chairman

<u>Some principals regarding the purpose and use of a budget</u>

- A budget is/should be the financial reflection of a business plan/strategy.
- A budget should be used as a "manage by exception" tool. Deviations from budget should trigger corrective action.
- Too high budgeted expenditure or too low budgeted income ("Fat") provides scope for poor performance and deviations from the business plan/strategy not being identified and a resulting lack of corrective action.
- In a municipality/monopoly the budget is used to determine charges to the rate payers & service users. "Fat" in the expenditure budget results in calculated charges/rates being too high.

<u>Table A1 Financial performance summary</u>

- Reported surplus (Deficit) for the year
    - 2015/16 Actual R 112,7m
    - 2016/17 Actual R131,5m
    - 2017/18 Actual R151,4m
    - 2018/19 Pre-audit **R 31,7m**
    - 2019/20 Budget **R (25,7m)**
    - 2020/21 Budget **R 18,7m**
    - 2021/22 Budget **R (23,3m)**
- The reduction in the net surplus of about R 120m to R 175m per year from the 2018/19 year onwards indicate serious financial problems.
- This could indicate that expenditure and/or "sales" are poorly managed and is out of control.
- Another possibility is that the budget has significant "Fat" that results in the lower projected results.
- Of serious concern is that the expenditure including "Fat" is used to determine rates to be paid by the service users/rate payers.

- The theory of "Fat" in the budget is supported by the R 186 million adjustment to the final audited 2017/18 results compared to the pre-audit results.

Table A1 Financial Performance IS Summary

- Total revenue change to previous years:
  - 2018/19 Pre-audit + 1,0% + R 10,7m
  - 2019/20 Budget + 8,4% + R 89,9m
  - Two years combined + 9,5% + R100,6m

- Total expenditure change to previous year:
  - 2018/19 Pre-audit +16,3% + R156,3m
  - 2019/20 Budget + 9,2% + R102,8m
  - Two years combined +27,1% + R259,2m

- This indicates operating expenditure increasing about 160% more than income over the two years.
- At 9,5% expenditure should have increased by just R 90,9m.
- Expenditure increase is R168,3m more than what is reasonable when compared to income growth.
- This indicates a total lack of control and the municipality will soon face a serious financial crisis; or will have to increase charges to rate payers and services user's way above what is reasonable.

Table A1 vs A2 regarding transfers recognised

The following information has been taken from table A2.

A problem is that the actual and projected grants/subsidies seems to be included in the reported income. This has been deducted by comparisons between tables A1 and A2.

We have no option but to work with the information provided.

Income - Property rates

Analysis of the Property Rates Income budgeted for 2019/20 compared to pre-audit 2018/19 reflects the following:

- Budgeted increase in property rates income +6,4%

- Increase in property rates +6,2%
- Increase in the total value of properties +3,6%
- Total expected increase in the budgeted income +9,8% (6.2% + 3.6%)
- There is thus a shortfall in budgeted property rates of 3.4% (9.8% - 6.4%). Expressed in monetary term R 7.3 million.

Electricity rates

Analysis of the Electricity income and expenditure reflects the following:

- Electricity Surplus (Deficit) for the year
  - 2015/16 Actual R 30,7m
  - 2016/17 Actual R 34,8m
  - 2017/18 Actual R 40,1m
  - 2018/19 Pre-audit R 2,4m
  - 2019/20 Budget R 52,7m (14,2% of income)
  - 2020/21 Budget R 57,8m (14,2% of income)
  - 2021/22 Budget R 54,2m (12,4% of income)
- The budgeted surplus on electricity is excessive.

Electricity rates

Analysis of the Electricity income budgeted for 2019/20 compared to pre-audit 2018/19 reflects the following:

- Budgeted income increases by 19,2%; against a claimed rate increase of 13,8%
- Budgeted purchases increase by 3,1%. This indicates that the budget assumes reduced electricity consumption against an assumed cost increase of 13.8% per unit. The reduced consumption can be estimated as 13.8% less 3.1% = 10.7%.
- The real increase in overall electricity rates per unit used can now be calculated as 19.2% + 10.7% = 29.9%
- This calculated increase is supported by the increased surplus on electricity.

This calculated increase is unacceptable and needs to be explained.

Water rates

Analysis of the Water income and expenditure reflects the following:

- Water Surplus (Deficit) for the year
  - 2015/16 Actual R 49,1m
  - 2016/17 Actual R 75,2m

- 2017/18 Actual R 143,6m
- 2018/19 Full year fc R 49,3m
- 2019/20 Budget R 55,6m (28,0% of income)
- 2020/21 Budget R 65,0m (30,3% of income)
- 2021/22 Budget R 61,2m (27,8% of income)

The surplus on water is unacceptably high.

Waste management

Analysis of the Waste Management income and expenditure reflects the following:

- Waste Surplus (Deficit) for the year
  - 2015/16 Actual R 4,6m
  - 2016/17 Actual R 21,0m
  - 2017/18 Actual R 24,1m
  - 2018/19 Full year fc R 48,6m
  - 2019/20 Budget R 38,6m (32,8% of income)
  - 2020/21 Budget R 42,4m (34,8% of income)
  - 2021/22 Budget R 49,4m (37,1% of income)

The surplus on Waste Management is unreasonably high

Call investments

- Investment account balances are reflected as follows in table A6:
  - 2015/16 Audited R 433.4m
  - 2016/17 Audited R 505.6m
  - 2017/18 Audited R 565.1m
  - 2018/19 Original budget R 314.5m
  - 2018/19 Adjusted budget R 412.2m
  - 2018/19 Pre-audit outcome R 591.4m
  - 2019/20 Budget R 445.0m
  - 2020/21 Budget R 492.8m
  - 2021/22 Budget R 544.5m
- There is a major reduction of R 250.6m from the 2017/18 audited results to the 2018/19 budget, and again a major increase of R 276.9m from the 2018/19 budget to the pre-audit outcome.
- A large reduction is again reflected from 2018/19 to 2019/20.

These are major and serious variations that need to be explained.

- R 591.4m is 55.4% of the gross annual income of the municipality in 2018/19 which seems excessive.

What is the Call Investment policy?

The growth in the Investment funds indicate that the municipality is generating more income from rate payers and service users than required; stated differently, you are overcharging on property rates and services provided.

Capital Expenditure

Total capital expenditure is reflected as follows in table A1

		% Of Gross Income
• 2015/16 Audited	R 146.0m	17%
• 2016/17 Audited	R 243.4m	25%
• 2017/18 Audited	R 238.4m	23%
• 2018/19 Pre-audit outcome	R 309.7m	29%
• 2019/20 Budget	R 323.7m	28%
• 2020/21 Budget	R 189.3m	15%
• 2021/22 Budget	R 178.2m	13%

- Capital expenditure seems to be out of control in 2018/19 and 2019/20.
- It can be assumed that the large expenditure from 2017/18 to 2019/20 has a significant and unreasonable effect on rates charged to rate payers and service users.
- Constant capital expenditure as a percentage of gross income should be targeted.
- What is the capital expenditure policy, if any?

Capital Expenditure Table C

This schedule includes annual software licenses of R 3.3m per year.

- Annual software licences should be reported as operational expenditure, as should all expenditure on items that have a useful life of 12 months or less.

The property, plant and equipment accounting policy as per the 2017/18 financial report includes in the definition "and are expected to be used during more than one reporting period".

- If the annual software licences were included in capital in compliance with this accounting policy, the policy should be changed as it is simply wrong to include items of operational expenditure in capital.

- The pre-paid portion of operational expenditure should be reported as “pre-paid” at the end of a reporting period.

- Reflected as follows in capex budget: 760-Annual Software License Renewals-CRR Information Technology: IT SERVICES (760) CRR (Including Satellite Offices) 7 R3 310 363 R3 310 363 R3 310 363 R9 931 089

<u>Capital Expenditure Table C</u>

271-Replacement Sewer Pumps-CRR
353-Rehabilitation and Reseal of various roads-CRR
353-Resurface Stasie Str-CRR
353-Resurface Wichtman Str-CRR

- The above are some examples of costs incurred to maintain assets and bring it back to its original condition which are included in the capital budget. Are these not operational costs?
- Classification of expenditure as either capital or operational has (or should have) a significant effect on decision taking; so, it is really important.