



**STELLENBOSCH**

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# **STELLENBOSCH MUNICIPALITY (WC024)**

## **EXECUTIVE MAYOR Annual Adjustment Budget**

**24 February 2021**

Speaker;  
Deputy Mayor;  
Single Whip;  
Members of the Mayoral Committee;  
Members of Council;  
Municipal Manager and senior management;  
Members of the public;  
Members of the media present; and  
All protocol observed

### **Good Morning ladies and gentlemen.**

#### **Introduction**

Speaker, it is my obligation as the Executive Mayor of Stellenbosch Municipality to submit the adjustment budget for the current financial year of 2020/21 in accordance with section 28(4) of Municipal Finance Management Act. In terms of section 28(2) of the Municipal Finance Management Act, an adjustments budget:

- a) must adjust the revenue and expenditure estimates downwards if there is material under collection of revenue during the current year;
- b) may appropriate additional revenue that has become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;
- c) may authorize the utilization of projected savings in one vote towards spending in another vote; and
- d) may correct any errors in the annual budget.

In terms of section 23(1) of the Municipal Budget and Reporting Regulations, the above mentioned adjustments can only be done after the mid-year

budget and performance assessment has been tabled to Council, but not later than 28 February.

Speaker, this past year has proven to be most unusual. This was like Alice in Wonderland discovering a beast of a virus and miracles along this journey, stranger than one could ever have imagined possible a year ago. No one could have anticipated the devastating impact of the worldwide COVID pandemic on our communities, our economy and on our municipality. The hard lockdown and the continued limitations imposed by COVID throughout our entire financial year has delayed much of our planning and greatly affected our operational and capital expenditure and revenue.

Even though we tried to anticipate the impact of COVID-19 on our adjusted budget, it was impossible to determine the full extent of this international disaster on us.

Stats SA figures shows how our economy has been affected by the pandemic on a national level:

1. Income generated by the food and beverages industry **decreased** by **36,6%** in November 2020 compared with November 2019.
2. Total income for the tourist accommodation industry **decreased** by **65,5%** in November 2020 compared with November 2019.
3. Income from accommodation **decreased** by **66,8%** year-on-year in November 2020.
4. SA electricity generation **decreased** by **2,4%** year-on-year in November 2020. Whilst, generation only increased by 0,5% in November 2020 compared with October 2020.
5. Manufacturing production (including food and beverages), **decreased** by **3,5%** in November 2020 compared with November 2019.

6. The real value of recorded building plans **decreased** by **40,8%** year-on-year during January to October 2020. The real value of buildings completed **decreased** by **49,9%** over the same period.

These are just some of the national points which reflect directly on our own economy and how it has been affected. We have, however, not lost hope. And we shall never lose hope.

**Christopher Reeve said: “Once you choose hope, everything is possible.”** And that is what we choose to do every day. We hope, we dream and we believe we shall overcome this virus and rebuild what we lost as a result of this virus.

Years of prudent and responsible governance, has however helped us to weather this storm much better than many other Municipalities. Our focus for the rest of this financial year as well as the next, will be to finish projects that have already started which include critical projects. New multiyear projects will be rescheduled to the outer years will be reflected in the budget for the next financial year.

The main purpose of this adjustment budget is therefore to adjust the material under and over budgeted figures as well as to accommodate additional revenues received or cuts made in terms of government grants. Speaker, the Municipal Manager and the Chief Financial Officer, in accordance with their mandate streamlined the compilation of the adjustments budget in consultation I with the Executive Mayor and the Budget Steering Committee.

### **1. Capital Adjustment Budget**

During the mid-year budget and performance assessment process, it was identified that the approved capital budget had to be adjusted to make necessary amendments to various projects in order to accelerate progress on the priorities identified.

We remain committed to investing in our communities. The limitations of COVID-19 and the lockdown that followed however curbed our capital

spending to 30% of our capital spending for the first 6 months of the financial year, in comparison with 33% for the same period in December 2019.

Taking all proposed adjustments into consideration, will result in the current approved capital budget of R 483 710 958 decreasing by 6,04% with R 29 246 948. The proposed adjusted capital budget for 2020/2021 will be R 454 464 010.

Speaker, this capital budget of R 454 464 010 continues to represent our investment and dedication to our communities throughout the Municipality to improve service delivery and the creation of job opportunities through economic growth. The underperformance for the current financial year is sadly not within our control and we have been working relentlessly, making every effort to balance the needs of our residents with the funds available and the restrictions imposed by the Corona virus.

Stellenbosch municipality vested the majority of the 2020/2021 capital budget in infrastructure services (R317million or 70% of the R 454 million capital budget) This investment is needed to ensure effective service delivery for our people and to ensure that bulk services are available to support development, including the “ municipal” housing projects. Mostly it is important to create an environment attractive to investment and conducive to economic growth. It is vital that we make sure that we have the necessary infrastructure in place to create opportunities for economic growth and improvement of services for our citizens.

Highlights of adjustment budget include, amongst other:

- An additional **R4 100 000** has been allocated to the establishment of the Kayamandi informal trading site. The amount of R2 600 000 of the additional funding has been received as part of a RSEP grant and will see to the completion of this vital project, which will help create job opportunities for local residents.

- Funding for the planning of upgrading projects in Langrug (**R1 000 000**) and Enkanini (**R1 279 000**) has been reduced in accordance with the latest cuts made by the Human Settlements Development Grant. This has been one of the areas adversely affected due to COVID.
- **R948 737** has been rolled over for the expansion of the new landfill site. This is a multiyear project which will continue in the next financial year. This remains a critical project to ensure that we can successfully manage solid waste in our region and ensure a healthy and clean valley.
- **R3 000 000** has been rolled over the next financial year for the upgrading of the Steps/Orlean Lounge. This is a multiyear project and will continue in the next financial year. I know that the residents in this area are eagerly awaiting the completion of this work, and I want to give them the assurance that this remains a top priority for me.
- The upgrade of the Waste Water Treatment Works in Pniel and decommissioning of Franschoek is an ongoing major infrastructure project with long term benefits for the entire community. This is a multiyear project and will continue in the next financial year. The budget for this project has been adjusted with **R22 000 000** to ensure work continues on this vital infrastructure.
- The Upgrade of the Wemmershoek WWTW facility is also ongoing. This project is in the planning phase and **R12 000 000** has been rolled over to continue this project in the next financial year.
- Ensuring a stable and reliable water supply forms part of critical infrastructure. The Kayamandi Bulk Water supply pipe and reservoir project is in the planning phase and will continue into the next financial year. **R15 000 000** has been rolled over for this purpose.

- An additional **R2 300 000** has been given for the procurement and storage of data and infrastructure connected with our CCTV security infrastructure.
- **R1 100 000** has been rolled over for the structural improvements of the Van Der Stel Sport Grounds. This project stretches over several years and we are giving all due attention to the much needed improvement of the infrastructure at this facility.
- Upgrading of the Stellenbosch Fire Station has been increased with **R1 000 000** as additional funding was necessary for phase one of this project.
- The budget for the extension of cemetery infrastructure at Jamestown has been decreased with **R1 000 000**. This project is managed with the assistance of Development Services.

## **2. Operational Adjustment Budget**

With the process followed during the mid-year budget and performance assessment, taking into consideration projected spending or projected billed revenue, versus what was actually processed, it was identified that the operational budget should be adjusted accordingly.

The operational income budget of 2020/2021 decreases with 3,9% from **R2,007 billion** (R2 007 957 045) to the proposed budget of **R1,928 billion (R1 928 409 221)**.

The operational expenditure budget of 2020/2021 decreases with 4% from **R1,907 billion (R1 907 155 005)** to the proposed budget amount of **R1,827 billion (R1 827 604 182)**.

### **3. Operational Income Budget**

Material changes to the operating budget:

The COVID pandemic and lockdown has had a severe impact on our expected revenue stream. We anticipate an underperformance in various line items that will have to be adjusted downward:

- **Water Service Charges:** The municipality has billed R24 846 872 less water charges than initially anticipated. This decline in billings is a result of the decrease in consumption. The categories reflecting the largest underperformance pertains to industrial water (R9 738 131) and the sale of conventional water (R13 287 058). The billings reflect a decline of R12 900 664 in comparison with the same period last year. It is evident that this service charge has been adversely affected by the COVID-19 lockdown regulations and its concomitant impact on the economy. The municipality has re-assessed the water revenue budget and anticipates that a downward adjustment of R20 000 000 will be necessitated during the Mid-year adjustment budget process.
- **Electricity Service Charges:** The municipality has billed R65 388 139 less electricity charges than initially anticipated. The largest under performance relates to the prepaid electricity usage (R17 486 291), Industrial consumption (R14 732 201), low usage during peak times reflected for the time of use tariffs (R24 905 932) and the Commercial users (R6 047 403). The billings reflect a decline of R28 638 538 in comparison with the same period last year. It is evident that this service charge has been adversely affected by the COVID-19 lockdown regulations and its concomitant impact on the economy. The municipality has re-assessed the electricity revenue budget and



anticipates that a downward adjustment of R33 000 000 will be necessitated during the Mid-year adjustment budget process.

- Sanitation Charges: The municipality has billed R12 341 644 less sanitation charges than initially anticipated. The largest under performance has been noted for the industrial waste water at R11 161 565. When taking into account the average monthly utilisation of the service, the risk exist that the municipality will only realise 79 per cent or R93 638 277 of its adjusted budget amount. This service charge has been adversely affected by the COVID-19 lockdown regulations and its concomitant impact on the economy. The municipality has re-assessed the sanitation revenue budget and anticipates that a downward adjustment of R10 000 000 will be necessitated during the Mid-year adjustment budget process.
- Rental of facilities and equipment: An under performance was noted for rental on facilities and equipment to the amount of R3 511 884. The variance is mainly due to the housing rental units. The user department indicated that the occupants of the municipal rental units have been subject to affordability testing since October 2019 which resulted in a decline in rentals. The municipality has re-assessed the rental of facilities and equipment revenue budget and anticipates that a downward adjustment of R5 700 000 will be necessitated during the Mid-year adjustment budget process.
- Interest earned - external investments: An under performance was noted for interest earned – external investments to the amount of R8 091 119. The variance is mainly due to the Covid-19 pandemic which resulted in the prime interest rate being reduced. This reduction has resulted in a significant decrease in our call accounts and primary bank account interest rates. Furthermore, we have received lower rates on offer from investing institutions than the previous financial year. The

interest on the investment journal to the amount of R1 245 179 will be processed during January 2021, which will result in an improvement for the next reporting period. The municipality has re-assessed the interest earned –external investments revenue budget and anticipates that a downward adjustment of R15 000 000 will be necessitated during the Mid-year adjustment budget process.

- Fines, penalties and forfeits: An underperformance was noted to the amount of R31 449 103. The municipality anticipates that a downward adjustment of R10 000 000 will be necessitated during the Mid-year adjustment budget process.

There are however line items where we anticipate receiving additional revenue over and above what has been included in the annual budget. The following has been adjusted upwards:

- Property Rates: The municipality has billed R36 606 865 more property rates than initially anticipated. This is due to the change in the interim valuations done during the year which resulted in additional property rates revenue being billed as well as the improvement in the turnaround for building plan approvals. The functionality of this unit has improved which has resulted in more plans being processed and approved resulting in an increase in revenue. The budget will be increased with R7 000 000 during the Mid-year adjustment budget process.

#### **4. Operational Expenditure Budget**

Various line items were adjusted due to requests received from user departments and operational pressure to increase efficiencies.

There are line items where we noted an overspending when compared to the year-to date budget and we anticipate that additional funds will be required,

over and above those already included and approved in the annual budget. Additional funds were requested for the following expenditure line items:

- Finance Charges: The external loan will only be taken up towards the end of the financial year and it will result in a saving in finance charges.
- Outsourced Services: Security Services: A budget increase has been requested for the security services relating to land invasions and additional security services requests from user departments.
- Outsourced Services: Refuse Removal: A budget increase has been requested to continue service delivery, for the transport and disposal of waste and the landfill operation and management until 30 June 2021.
- Transfer Station Klapmuts: Outsourced Services: Refuse Removal: A budget increase has been requested for the transport and disposal of waste generated at the landfill site until 30 June 2021.

We have identified savings on the following expenditure categories:

- Employee related costs: An under performance of R14 652 008 is noted against the year to date budget projections. The under spending is due to vacancies which have not yet been filled. Various advertisements for vacancies have been issued during the last quarter. The expenditure budget for this line item will have to be adjusted downwards with R 48 835 278 during the Mid-year adjustments budget process.
- Materials and Bulk purchases: An underperformance of R47 893 348 is noted for materials and bulk purchases. A decline in consumption has been noted, as indicated under Service charges, which directly impacts the expenditure incurred on bulk purchases. This decline is largely due to the impact of COVID-19 on the local economy. Although it is envisaged that the demand for electricity will increase during the winter months, the budget will be preliminary decreased by R25 000 000 during the Mid-year adjustment budget process. A decline has also been noted for

water purchases as alluded to under Service charges. The decline in consumption has necessitated a preliminary decrease of R5 000 000 which will be implemented during the Mid-year adjustment budget process.

## **5. External Loan for 2020/2021**

After considering the municipality's cash position as at 31 December 2020 and also taking into account the improved capital spending it would be in council's best interest to take up the external loan of R120 000 000 for the 2020/2021 financial year. However, prudent management of how we apply our external loan means that it will only be taken up towards the end of the financial year and it will result in a saving in finance charges.

## **6. Financial implications**

Funds for various capital projects which have started, but will only be completed in the next financial year, will be rolled over to the next financial year.

Speaker, this is not the adjustment budget we wanted to present at this point of our current term in office. We were hoping to present an adjustment that will be completing all our envisioned projects, creating a springboard from which to launch our next chapter from. Unfortunately we have no control over the path COVID leads us on and we can only adapt and do the best we can.

I want to thank the CFO, the Municipal Manager and the entire administration for their hard work, steering us through this difficult time.

Speaker, this is fortunately not our final budget for the next financial year. That will only be tabled in May of this year, and implemented on 1 July. It is important to be conservative now, and adjust to the impact of COVID to ensure that we remain sustainable. We are in good financial standing and one of the most sustainable Municipalities in SA. I want to assure everybody that I as Mayor shall

do everything I can to keep it this way. Many municipalities in South Africa are not as fortunate.

We had to sacrifice some of our “luxury” projects to ensure that critical projects that benefit our residents, receive priority. We accept that and move forward.

Speaker, in the past year we have proven ourselves as one of the top municipalities in South Africa, because of our diligence, hard work and commitment to our residents. I am not prepared to give that up at any cost and will therefore continue our relentless mission to deliver services and opportunities to our most beautiful valley.

***Japanese writer, Haruki Marukani said: And once the storm is over, you won't remember how you made it through, how you managed to survive. You won't even be sure, whether the storm is really over. But one thing is certain. When you come out of the storm, you won't be the same person who walked in. That's what this storm's all about.*** This is truly the take away from the past year, we have learnt valuable lessons. We have lost a lot, but gained a lot of strength and wisdom. We will continue to apply our newly found, hard learned lessons with conviction.

The road ahead will be difficult. Discussions with the provincial leadership in recent weeks have indicated that the COVID pandemic will continue to affect our people and our budgets and we will realistically enter the next financial year with very tight belts, but I believe we are ready to face these challenges, because we have a committed and dedicated team. There is an African proverb that says:

***Smooth seas do not make skilful sailors.***

No one could have anticipated the challenges and repercussions of the past year. I am however deeply grateful for the team I have had at my side to ensure that we continue as a caring government during the most trying time in this new century.

I table this adjustment budget, with great responsibility. We shall continue to work hard to provide the best leadership and guidance during this difficult time and to create a business ready environment for when this crisis ends, filled with opportunity for all. Like Alice, I hope that we will all be able to say, sooner rather than later: "What a curious dream I had", once the horror of COVID has passed. Until then we will bravely continue this odd journey of nightmares and hope.

Speaker, in the item serving before Council the recommendations are set out as recommended in the Adjustments Budget Item. I herewith formally submit recommendations on page 8, (a) to (c), in the Special Council Agenda, for consideration and approval of the 2020/2021 Adjustment Budget.