BUDGET SPEECH DELIVERED BY THE EXECUTIVE MAYOR OF THE CACADU DISTRICT MUNICIPALITY, COUNCILLOR KHUNJUZWA KEKANA, ON THE PRESENTATION OF THE IDP AND BUDGET FOR THE FINANCIAL YEAR 2012/2013 AT A COUNCIL MEETING HELD ON 23 MAY 2012

Speaker of Council

Mayors of local municipalities

Members of the Mayoral Committee

Honourable Councillors

Leaders of all Political Parties

Management and staff members

Members of the Community

Distinguished Guests

The Media

Ladies and Gentlemen

Introduction

Mr Speaker, it is indeed a great privilege and honour to address the sitting of our Council at this important Council Meeting – the presentation of the Integrated Development Plan (IDP) and the Budget for the financial year 2012/2013. These strategic policy documents are now presented for consideration and approval. Mr Speaker, in this municipality we see the budget as an instrument through which we manage and use public funds to improve the quality of life of the people we serve.

2011/2012 Theme Job Creation

Honourable Speaker, in the words of our President Jacob Zuma, in the State of the Nation Address (9 February 2012), "the triple challenge of unemployment, poverty and inequality persists, despite progress made. Africans, women and the youth continue to suffer most from this challenge. As a national cabinet, we have taken the decision that we should do more to grow the country's economy in order to get rid of the problems of unemployment, poverty and inequality in this country".

It is therefore fitting that the theme for this year's budget is "Job Creation". It is through this budget that we seek to create jobs through infrastructure development and economic growth.

In drafting 2012/2013 IDP and Budget, Council has considered the municipality's contribution to job creation by:

1. Ensuring that service delivery and capital projects are labour intensive;
2. Ensuring that service providers use labour intensive approaches;
3. Supporting labour intensive LED projects;
4. Participating fully in the EPWP; and
5. Implementing intern programmes to provide young people with on-the-job training.

2012/2013 Integrated Development Plan

At a Strategic Planning intervention held on 8-10 September 2011 at the Tsitsikamma Resort and subsequent strategic planning sessions, the municipality's vision, mission and development objectives were reviewed to establish whether these were still relevant. The development objectives, strategies and projects now contained in the IDP and Budget are the result of many consultations that took place in the IDP / Budget Steering and Forum Meetings, where stakeholders had the opportunity to influence the various programmes of Council.

The development objectives which were eventually adopted and which impact on the nature and scope of strategies and projects adopted are: -

- Infrastructure Development;
- Economic Development;
- Community Services;
- Capacity Building and Support of the LM's; and
- Institutional Development.

Institutional Development is a new development objective and has been adopted in view of the importance of developing an effective administration equipped to deal with the many challenges facing this municipality.

The major risks that need to be managed during the next financial year include:

* Establishing revenue generating strategies which should provide additional project funding;
* ensuring financial sustainability in the long term; and
* ensuring effective public participation.

The financial position of the Cacadu District Municipality is still strong, although it has a weak revenue base. The Cacadu District Municipality achieved unqualified audit reports in five consecutive financial years reflecting the drive towards financial management excellence in the Cacadu District Municipality. The application of sound financial management principles for the compilation of the CDM'S financial plan is essential and critical to ensure that the District remains financially viable and that sustainable municipal services are provided economically and equitably. In the 2010/2011 financial year the Cacadu District Municipality achieved a spending of R220 million of the total capital and operating budget. The overall forecasted financial performance results for the 2011/2012 year reflect a forecasted total spending of R146 million.

This year we are tabling an operating budget amounting to R153,3 million which represents a decrease of 19,1 % over the 2011/2012 financial year's adjusted budget. The decrease is mainly due to the reducing conditional grant funds such as MIG grants for flood damaged areas in the district. The provincialisation of the Primary Health Care function and demarcation process which included the DMA's into local municipality areas also contributed to the reduction of the operating budget.

The Budget is more than a mere balancing of available revenue to meet expenditure needs. The budget is a policy instrument which seeks to transform our society with huge developmental needs.

The main challenges experienced during the compilation of the 2012/13 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- The need to reprioritize projects and expenditure within the existing resource envelope given the cash flow realities;
- Payroll increases for municipal staff and increased electricity costs that continue to exceed consumer inflation; and
- Affordability of projects.

Context

The percentage of people unemployed in the district in 2007 is 31.4% (Global Insight, 2008). There has been a gradual increase in the unemployment rate since 1996, which originally stood at 28.9%. The recent global recession and low growth rates predicted will undoubtedly impact negatively on unemployment figures and contribute to increased poverty levels in the district.

According to recent population estimates population figures in Cacadu District were estimated to be 412 956. According to information received from Global Insight, the average growth rate of the district is estimated at 1.1% which is higher than the provincial growth rate. The population in the Cacadu District Municipality is concentrated in Makana, Kouga and Ndlambe with more than 50% of residents in the District residing in these municipalities. The remaining municipalities all have less than 50 000 inhabitants per municipality.

I am convinced that this municipality has added substantial value in the District since its inception and that; we have succeeded in contributing to an improved quality of life in the district.

IDP and Budget

Mr Speaker, the IDP, is the District's 5 year plan that guides development and service delivery. The IDP is based on the needs of the community and the district stakeholders. The IDP should respond to the challenges of economic growth, infrastructure and poverty in the district. The IDP outlines the 5 year strategic objectives, key performance indicators and targets programmes and the delivery agenda for the year ahead. The IDP also provides an overview of intergovernmental alignment which summarises the Spatial Developmental Framework and outlines the Performance Management System.

In drafting their 2012/13 budgets and MTREFs, all municipalities have been urged to explore opportunities to mainstream labour intensive approaches to delivering services, and more particularly, to participate fully in the Extended Public Works Programme.

Key IDP Interventions

Mr Speaker, the Cacadu District Municipality has identified a number of key IDP interventions. These represent flagship programmes that will accelerate the achievement of the principles contained in our Growth and Development Strategy:

Improving Relationships with LM's

- Strengthening both political and administrative links;
- Assisting LM's with specialized support;
- Partnering with Sector Departments to deal with services deliver and institutional challenges;
- Providing technical assistance and assistance with feasibility studies;
- Leveraging funding for local service infrastructure of LM's;
- Implementing Capacity Building Programmes;
- Exploring and embarking on Shared Service arrangements; and
- Leveraging on District Strategic Initiatives.

Key Challenges and Risks that need to be addressed

- The need to have a shared vision of our role in making an impact in the District;
- Ongoing communication to LM's and stakeholders;
- Building our relationship with the LM's and the other spheres;
- Effective support to LM's to turn around the situation at LM's;
- Attracting conditional grant funding (tapping into Jobs Fund, Rural Development Funds, DBSA); and
- Implementing structures and systems to play an effective monitoring an evaluation role.

High level overview of the 2012/2013 Budget

This year we are tabling a budget amounting to R153,3 million. The decrease is mainly due to the conditional grant funds which targeted flood damaged areas in KouKamma Local Municipality which were spent in the previous financial year, the provincialisation of the Primary Health Care Services and transfer of DMA Areas to local municipalities.

The Cacadu District Municipality's projected overall spending envelope for the 2012/2013 Medium Term Budget (MTB) amounts to R169.4 million. Approximately R16.1 million will be invested in the relocation of CDM, capital infrastructure, vehicles, furniture and equipment.

The operating budget provides for many projects amounting to R83,3 million as more fully detailed in the budget document.

Economic Update

The global environment remains a challenge. The Eurozone is expected to experience a recession in 2012, but growth in the US and Japan is expected to be more favourable. The SA inflation outlook has deteriorated and is forecast to remain above target for all of 2012. Inflation is likely to return to target range in Q1 2013. Inflation is set to peak at 6.6% in Q2 2012. The higher inflation forecast is mainly due the weak rand. In addition, food prices remain elevated. The South African Reserve Bank has cut its GDP growth estimate to 2.8% from 3.2% for 2012. For 2013 it expects growth to be in the region of 3.8%, down from 4.2%.Business confidence remains weak. Job growth is uncertain and the possibility of wage hikes could pose some risk to inflation. Growth in consumer spending has started to moderate. Credit extension trends remain relatively subdued. Oil prices have been surprisingly stable, but could spike higher. Gill Marcus ended her speech by saying that "the Monetary and Policy Committee (MPC) remains of the view that inflation pressures are primarily of a cost-push nature, but is concerned that a persistent upward trend in inflation and prolonged breach of the inflation target could have an adverse effect on inflation expectations which could reinforce the upward inflation dynamics". The MPC is aware of the slowing domestic economy and feels that given the lack of demand pressures, monetary tightening at this stage would not be appropriate.

In December 2011, headline CPI inflation rose by a relatively modest 0.2%m/m, with the annual rate remaining unchanged at 6.1%y/y. For 2011 as a whole, SA CPI inflation averaged a respectable 5.0%y/y. Looking ahead, there are still some upside risks to SA inflation. These include a range of administered prices (electricity, water, fuel etc.) as well as the recent Rand weakness. The extent to which these price pressures will impact core/underlying inflation will be heavily influenced by the strength of the domestic economy; which is currently slowing, thereby creating less opportunity for companies to pass-on cost increases.

Offshore, resolving the Euro-area financial crisis remains extremely complex. After the European Union (EU) summit on 8 and 9 December 2011, EU leaders announced the establishment of a new "fiscal compact", which aims to better enforce fiscal discipline within the region. However, the details of the new treaty are still vague. This means that there is a significant risk that the financial markets will remain relatively volatile, especially if growth rates continue to soften. There is also a real concern that the higher cost of refinancing sovereign debt will derail the ability for key governments (especially Italy) to affect the necessary fiscal discipline. Under the leadership of Mario Monti, Italy has adopted a severe austerity package aimed at eliminating its budget deficit by 2012. Italy requested that Germany assist with lowering Italian bond yields. The motivation is that without some incentive, it will be difficult to sell austerity to the Italian people. The EU will break-up without support from the populace, and the populace needs to be given a reason to remain part of the Union. The Italian 10-year bond yield is currently a little below 7%. Unfortunately, Italy has a huge gross financing requirement of €440 billion for 2012, with about €130 billion in the first quarter. Should Italian bond yields push higher, the increased cost of borrowing could start to swamp the budget, and effectively undermine the government's ability to implement a managed and orderly path to fiscal discipline. The Greek private sector bail-out is still unresolved and Greece could still default.

Tariffs

The current tariffs were increased by 5.4%.

Medium Term Operating and Capital Budget for 2011/2012

Revenue

Mr Speaker, the total Operating Revenue Budget is estimated at R153,3 million. Revenue derived from Equitable Share of National Revenue and the Levy Replacement Grant for the 2012 / 2013 financial year amounts to R 13,4 million and R 54,2 million respectively which has increased by 3,0 % over last year. Investment interest and contribution from the accumulated surplus account amounts to R16,9 million and R35.8 million respectively. Conditional Grant funding, to finance project expenditure amounts to R16.6 million. It is evident from the details provided in the budget that the municipality is totally dependent on grant funding from the National Treasury and interest earnings to finance its operations.

It is evident that sustainable discretionary revenue amounts to 46.5% (R71.3 million) of total revenue excluding grants while non-sustainable discretionary revenue in the 2012/2013 budget amounts to 42.7%% (R65.4 million) of total revenue. The conditional grant funding, amounts to 10.8% (R16.6 million) of total revenue.

Discretionary Revenue

	R '000
Levy Replacement Grant	54,207
Equitable Share	13,464
Councillors Allowances	3,654
Interest	16,924
Contribution Accumulated Surplus	35,855
Rental Income	1,120
Other income	11,468
Sundry Creditors (Ex Levy income)	
Sub Total	136,692
CONDITIONAL GRANT FUNDING	
Grants - Provincial	7,643
Grants - National	8,965
Sub Total	16,608
Total	153,300

Expenditure Allocation according to Vote

Expenditure by Vote to be appropriated	Amount R'000	%
Executive and Council	32,701	21.3
Finance and Corporate Service	34,229	22.3
Planning and Development	22,609	14.7
Health	10,322	6.7
Community and Social Services	6,132	4.0
Housing	1,245	0.8
Public Safety	15,864	10.4
Sport and Recreation	300	0.1
Roads	9,337	6.1
Water	14,964	9.8
Electricity	900	0.6
Other	4,878	3.2
Total Expenditure by Vote	**153,300**	**100**

Project Expenditure

Project expenditure for the 2012/2013 budget amounts to R83,3 million and details are reflected on Annexure A of the Budget Document. The sources of funding are also indicated.

Conclusion

Mr Speaker, in conclusion I express my heartfelt gratitude to:

- the members of the Mayoral Committee for providing the necessary political oversight during the budget process;
- the municipal manager and departments; and
- the Chief Financial Officer and his budget team as well as officials who have played an important role in the compilation of the budget;

Honourable Speaker I now formally table the 2012/2013 medium term budget and annexures for Council's consideration in terms of Section 24 (1) of the Municipal Finance Management Act.