

## Budget Speech: 2007/2008

---

During the monthly Council Meeting held on 26 April 2007, the Chairperson of the Management Committee, Councillor PD Rooi delivered the following budget speech:

Honourable Chairperson, Councillors, Officials, members of the public and the media.

Madam Chair, a budget can be regarded as a function and a tool to acquire the most effective utilisation of available sources. A budget therefore ensures that Council operates within the limits of rendering optimum and affordable services and facilities to consumers and to the public in general.

The compilation of the budget is based on the "Strategic Action Plan" and will express Council's objectives and targeted results for the next financial year.

Madam Chair, Swakopmund still remains a very popular tourism developing town and it has always been very important and essential to Council to improve and maintain quality services in general, but this "policy" is now very severely affected or hampered by the following:

1) Establishment of Erongo RED

The establishment of Erongo RED not only has a negative effect on the revenue generated by Council, but the additional costs in respect of offices, staff and duplication of existing services also resulted in more expensive electricity costs to consumers, while the quality of customer service has not met the consumers' expectations yet.

When the distribution of electricity was done by Council, it was regarded together with water as a "Trading Service" and the surpluses generated from these services were used to assist with the financing of Non-Remunerative Services.

According to our records, the surpluses generated from the distribution of electricity during the past number of years were as follows:

2001/2002	:	N\$ 3 905 270
2002/2003	:	N\$ 6 830 450
2003/2004	:	N\$ 8 324 380
2004/2005	:	N\$ 10 137 560

These figures reflect a growth in town and sales of more than 21% per annum, a situation which is also confirmed by the number of erven sold and new buildings erected.

Since the establishment of Erongo RED, a monthly fee (LA Surcharge) is paid to Council which has resulted in the surplus decreasing to N\$ 7 278 030.00 for 2005/2006, while the budgeted surplus surcharge for 2007/2008 amounts to N\$ 5 363 340.00 only. No dividends have yet been received and it is not known when the first dividends to shareholders will be declared.

Although the LA Surcharges have been determined by the Electricity Control Board (ECB) it still has not been done in such a way to ensure that Council will not be worse off, as was

promised by the Minister of Mines and Energy when announcing the establishment of Erongo RED.

The construction of offices and other facilities by Erongo RED, additional to infrastructure and assets transferred to them from the different Local Authorities, requires huge amounts of money which automatically has a negative effect on the financial results of the relevant company and therefore “no funds” are available for payment of dividends to Council as per agreement.

The Erongo RED Company should be requested to immediately freeze all extension of capital outlays until such time that sufficient funds are generated to finance the payment of dividends to Council, as well as those capital outlays needed or required.

## 2) Subsidies

Since the establishment of the Road Fund Administration during 2001 the subsidies in respect of Streets and Traffic Services were financed by the Ministry of Finance and the Namibian Police respectively.

During the past number of years these subsidies have been decreased to such an extent that it not even covers the basic costs for the maintenance of streets and basic salaries for Traffic Officers, which means no subsidies are received on any Capital costs for streets and 20% additional costs for Traffic based on the total salary costs.

Due to the fact that it is Council's policy to improve and maintain services to Swakopmund, all the additional costs will have to be financed from Assessment Rates or Trading Services.

These negative results on Council's finances caused by Erongo RED and the Road Fund Administration should be discussed at the highest level possible in order to protect ratepayers and consumers against unaffordable increases on tariffs in general.

## **OPERATIONAL BUDGET**

Madam Chair, although it was mentioned that Swakopmund is still developing at a rapid pace, it was once again also proven that the additional revenue generated from the growth of the town is not sufficient to cover the increase of costs in general.

With the completion of the budget for 2006/2007 the question was raised whether the existing staff compliment is being utilised 100% and based on this uncertainty, Council requested that a Staff Efficiency Audit be executed by the newly-appointed Human Resources Manager.

Although there is a need for additional staff in some departments, it is trusted that the outcome of the relevant survey will reflect possible saving in positions which will be utilised for new positions where needed.

The Preliminary Budget reflected a deficit to the amount of N\$ 13 469 870.00 but with serious streamlining of expenses and tariff increases the deficit has now been reduced to N\$ 1 595 260.00.

## **TARIFF INCREASES**

As previously mentioned, the increases of tariffs in general has been unavoidable and if it is taken into consideration the amount at which revenue has been reduced due to the loss of income from electricity and less subsidies paid, then the increases can be regarded as “very gentle”.

The tariff increases as per the budget are as follows:

1) **Assessment Rates : 10%**

2) **Water : 10% - 12%**

The tariff increase, not yet officially announced by Namwater, is 12% and this increase has been passed on to the consumers with regard to water sales, while the basic charges have been increased by 10% only.

3) **Refuse Removal : 5 - 10%**

The removal of domestic refuse will be increased by 5% while all other tariffs have been increased by 10%. A new tariff has been created in respect of “Bulk Removals” while an additional tariff will be charged regarding the condemnation of food and food-related stuff.

4) **Sewerage : 7½%**

5) **General Increases**

Other services that have been increased but are not directly related to consumers as such, inter alia, include the following:

▪ Tourism	:	7½%
▪ Cemetery	:	10%
▪ Swimming Pool	:	10% - 15%
▪ Rental: Town Halls	:	15%
▪ Sport facilities	:	15%

Originally the tariff for assessment rates had been increased by 12½% and that of domestic refuse removal to 10%. These increases would have resulted in a deficit of N\$ 702 080.00 only, but in order to protect the ratepayers and consumers it was decided to rather accept a bigger deficit as reflected in the budget results.

The Operational Budget is divided into the following five sections:

#### **A) NON-REMUNERATIVE SERVICES**

Madam Chair, these are the non-income or very low income generating services mainly financed from revenue generated from assessment rates and supported by Trading Services.

The deficit for these services for 2007/2008 amounts to N\$ 11 566 540.00 which is 20% higher than the previous financial year. The reasons for this increase is mainly due to the fact that fewer of the costs in respect of Council, Finance and Corporate Services have been transferred to other departments, as well as the fact that no provision has been made for an increase in subsidies for Streets and Traffic, while the expenditure to render or maintain these services have increased.

#### **B) SELF-SUPPORTING SERVICES**

Although these services should be self-supporting some of them still reflect deficits, but in total the estimated surplus for 2007/2008 amounts to N\$ 3 221 920.00, an increase of N\$ 1 160 930.00 on that of the previous year. The reason for this is mainly due to fewer expenses transferred from Council, Finance and Corporate Services as explained under Non-Remunerative services, supported by the tariff increases between 7½% and 10% on these services.

Despite the decrease in transfer of costs from Council, Finance and Corporate Services, the deficits in respect of the following three services keep on increasing and consideration should be given to the outsourcing thereof:

<b>Service</b>	<b>Deficit 2006/2007</b>	<b>Deficit 2007/2008</b>	<b>Percentage</b>
Nursery	131 560	361 650	175%
Millwright Services	273 160	308 260	13%
Workshop	363 880	462 620	29%

#### **C) TRADING**

##### **1) ELECTRICITY**

The only revenue for electricity is the LA Surcharge contributed by Erongo Regional Electricity Distribution Company (E-RED) and this contribution has been decreased due to the fact that “Departmental Charges” must be phased out over a period of three years, while no additional revenue is contributed regarding any growth of the town.

The estimated surplus for 2007/2008 amounts to N\$ 5 363 340.00 in comparison with N\$ 7 278 030.00 for 2006/2007, a decrease of N\$ 2 025 740.00 (27.5%).

##### **2) WATER**

Council is still experiencing huge water losses which automatically puts a burden on the selling price of water and therefore on the consumers.

Efforts are still in place to identify illegal connections, as well as possible water losses due to water meters not registering correctly, or even not at all.

During the past number of months we have received very important and valued support from consumers reporting “illegal connections” identified in their areas and it is trusted that we will get more assistance from our consumers in future to assist us in combating this problem.

The surplus as per budget for 2007/2008 amounts to N\$ 3 468 320.00 in comparison with N\$ 2 192 670.00 for 2006/2007, an increase of N\$ 1 275 650.00. This increase is mainly due to fewer costs transferred from Council, Finance and Corporate Services, supported by tariff increases, an increase of consumers and reconnection fees where default payments have occurred.

#### **D) COMMUNITY SERVICES DEPARTMENT**

The deficit for this service amounts to N\$ 3 209 210.00 which is N\$ 539 640.00 higher than that for 2006/2007 (20%). The reason for this is mainly due to increases of maintenance in general and a decrease in revenue from rental of the Informal Settlement Area.

#### **E) TOURISM**

The return on this facility reflected an actual deficit to the amount of N\$ 1 389 610.00 for the financial year 2005/2006.

A consultant has been appointed by Council to determine whether this facility can be turned around so that it can once again become an asset to Council and the ratepayers.

The tariffs for these facilities have been increased between 7½% - 10% and the estimated surplus for 2007/2008 amounts to N\$ 1 126 910.00. It is trusted that the additional savings implemented together with the increase in tariffs will ensure that this “goal” will be met or achieved.

#### **CAPITAL BUDGET**

The total Capital Budget amounts to N\$ 61 739 040.00 of which N\$ 36 718 500.00 represents new projects, while the Continuation Projects for 2007/2008 amounts to N\$ 25 020 540.00.

The compilation of the Capital Budget is guided by the Long Term Plan and although it has been managed in the past to finance these projects mainly from internal funds, the availability of these funds could become more difficult in future.

Council has always been in the fortunate situation where erven sold in the “upgraded” areas have been sold at a profit which has not only been utilised to finance new Capital projects, but also to subsidise erven situated in “low cost” areas.

The situation will, however, develop where the demand for erven in the upper-class areas will be saturated, which will have a negative effect on the selling prices and automatically on the availability of funds for future development and subsidising of “low cost” erven.

In order to protect Council’s internal funds, preference should be given to the approval of income generating projects, while non-income generating projects will be postponed until such time that sufficient funds have been saved to finance such projects.

Capital projects approved for 2007/2008, inter alia, include the following:

**A) Fire Truck - N\$ 800 000.00**

Fire Truck for DRC area to replace the old Nissan LDV which is not fully equipped for the prevention and fighting of fires in this area.

**B) Refuse Compactor - N\$ 900 000.00**

An additional refuse compactor is needed not only to extend the refuse removal services in our rapid developing town, but also to uphold our status or reputation as the “cleanest town in Namibia” or even in Africa.

**C) Surfacing of Streets : N\$ 14 000 000.00**

With the compilation of the budget for 2006/2007 it was resolved that the tarring of streets as per phase 8, estimated at a cost of N\$ 21 000 000.00, will be spread over a period of two years (2006 – 2008). An amount of N\$ 10 400 000.00 was accommodated in 2006/2007 while an amount of N\$ 14 000 000.00 has been included in the budget for 2007/2008. The actual tenders received, however, amount to N\$ 24 400 000.00 in comparison with the estimate of N\$ 21 000 000.00.

**D) Sidewalks Swakopmund : N\$ 400 000.00**

Surfaced pavements are required for the safety of pedestrians and also to enhance the appearance of streets in Swakopmund. Priority will be given to areas where no pavements exist or where pavements are in a very poor condition.

**E) Entrance Road to Swakopmund Town Hall : N\$ 500 000.00**

The existing entrance to the Town Hall is via the parking area of the Cottage Hospital. Council is considering alienating this parking area to the relevant hospital and therefore the entrance should be shifted to Franciska van Neel Street.

**F) Municipal Office Complex : N\$ 10 000 000.00**

Council resolved that a New Office Complex will be constructed on Erf 2827 to accommodate all different departments under one roof, except for the Workshop, Labour Pool and Stores Section which will remain in the industrial area.

The relevant construction will be done in phases and provision has been made for the first phase which will accommodate the Health and Engineering Services.

**G) Parking Area at Mole : N\$ 450 000.00**

This amount will be Council's contribution to the creation of a proper parking area at the Mole head due to the development of the Strand Hotel which will be commenced with during 2007/2008.

**H) Construction of New Fire Station : N\$ 4 000 000.00**

This forms part of the New Office Complex at Erf 2827 and the construction of the fire station during 2007/2008 will result in an additional fire truck for the Mondesa area no longer being required. The new fire station will be very central and the existing fire trucks can serve both the Mondesa and Swakopmund town areas.

**I) Consultants for the New Sewerage Works : N\$ 600 000.00**

At a Long Term Planning workshop held on 8 February 2007 it was resolved that Council considers a new site for the Sewerage Works because of the growth rate of the town, the smell, as well as additional purified effluent needed for gardens and sport fields.

The existing site will remain as a collective pump station when the main facility is completed. These funds will be needed to finance the cost of consultants to start with the relevant investigation to determine the correct and suitable location for the new Sewerage Works.

**J) Replacement of Water Meters and Pipes : N\$ 1 000 000.00**

Many of the water supply lines, as well as water meters, have exceeded their life span and are not able to meet the development of town.

These lines and meters are to be systematically replaced in order to overcome shortcomings on the distribution system, as well as to limit water losses.

These replacements are financed from the Maintenance Fund and should not be regarded as a Capital Project but as a maintenance activity.

**GENERAL**

**STAFF COMPLEMENT**

Madam Chair, as previously mentioned, no provision has been made for the appointment of additional staff for 2007/2008. Once the outcome of the Staff Efficiency Audit is available, a decision will be taken regarding the requirements identified as per this audit.

Salary negotiations are still in process and provision has been made in this budget as per the mandate received from Council.

In the past, Council managed to maintain a ratio of not more than 32% between the total costs of salaries and the total expenses. With the establishment of Erongo RED this ratio increased from 31,45% (2005/2006) to 41,47% for 2006/2007, while that for 2007/2008 is 41,15%, a decrease of only .33%.

To decrease this ratio to an acceptable level of 36% will not be an easy task because it will mean a decrease of 20% (N\$ 9 770 000.00) on the existing costs for salaries and benefits, which is to a certain extent impossible. The crux of the matter is that the balance between salaries and related costs, and that of general expenses, has been disturbed by the establishment of Erongo RED and alternatives will have to be found to restore the balance.

## CONCLUSION

Budget figures for the previous four years are as follows:

### OPERATIONAL BUDGET

	2003/2004	2004/2005	2005/2006	2006/2007
<b>Income</b>	112 531 880	134 001 560	135 613 670	110 544 790
<b>Expenditure</b>	113 609 680	135 862 060	136 681 380	110 709 760
<b>Deficit</b>	1 077 800	1 860 500	1 067 710	164 970

	2003/2004	2004/2005	2005/2006	2006/2007
<b>Actual Income</b>	112 383 590	125 055 070	101 309 980	Not available
<b>Actual Expenditure</b>	108 414 720	119 765 870	96 156 780	Not available
<b>Actual Surplus</b>	3 968 870	5 289 200	5 153 200	Not available

### CAPITAL BUDGET

	2003/2004	2004/2005	2005/2006	2006/2007
<b>New Projects</b>	52 593 440	58 783 280	44 251 300	41 699 600

The results from previous budgets indicate that expected deficits are normally converted into surpluses. It also revealed that the reason for this conversion is mainly due to savings on the budgeted expenditure. I therefore invite all General Managers again to regard this budget, which reflects a deficit, as a challenge in that it requires all of us to turn this deficit into a surplus.

We have done it before and I am confident that we can do it again.

Madam Chair, I also wish to express my sincere gratitude and appreciation to my fellow Councillors, the Chief Executive Officer, General Managers and other personnel for their loyal assistance during the compilation period of the budget, as well as their commitment in trying to achieve a positive result for 2007/2008. I know I can trust in them and therefore share my appreciation now for achieving positive results.

In view of the aforementioned, it is:

**Recommended:**

- 1) That the proposed Operational Budget for 2007/2008, reflecting a deficit to the amount of N\$ 1 595 260.00, be approved.
- 2) That the following increases regarding services to consumers be approved:

Assessment Rates	:	10%
Water Supply	:	10% - 12%
Refuse Removal	:	5% - 10%
Sewerage Charges	:	7½%
- 3) That all other services, as per the Tariff Schedule, be approved.
- 4) That all provisions, as provided in the budget, be approved and transferred to the relevant funds.
- 5) That the proposed New Capital Projects to the amount of N\$ 36 718 500.00 and Continuation Projects to the amount of N\$ 25 020 540.00 be approved.
- 6) That Administration Costs to the amount of N\$ 40 000.00 on the Revolving Fund be approved.
- 7) That no additional Capital Projects be considered during the Budget Year 2007/2008 unless other projects to the same value are sacrificed.
- 8) That Council arranges for a delegation to visit the Minister of Regional and Local Government and Housing and Rural Development, or even His Excellency, the State President, in order to explain the negative effects of the establishment of Erongo RED on the finances of Council and automatically on the ratepayers and consumers in Swakopmund.

I thank you,

**COUNCILLOR P D ROOI**

---