



DOLPHIN COAST RESIDENTS & RATEPAYERS ASSOCIATION

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CC: Nhlanhla Mdakane
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Dear Madam Mayor

**RE: DOCRRA COMMENTS AND QUESTIONS on
KWADUKUZA DRAFT BUDGET FOR FINANCIAL YEAR ENDING JUNE 2023**

WE, DOCRRA, have reviewed and analyzed the draft budget for Financial Year ending June 2023. We have provided our comments and queries below. We look forward to you considering our comments and responding to our questions.

GENERAL

There is a substantial amount of useless information provided to councillors and the public, which could be better presented in a succinct way. There is a concern on whether this is done as a means to not provide useful information, or whether the MM and CFO are purposefully hiding information. Examples are as follows:

- The 2023 budget for each category of revenue and expenditure should be presented alongside the 2021 audited actuals and 2022 forecast/adjusted budget.
- There is no interest in the 2024 and/or 2025 operational estimates (which could be retained in an annexure).
- Contracted services detail was not provided. What is there to hide as this was a major category in the 2022 adjusted budget?
- Categorisation of certain revenues and expenses is presented differently in the budget to the AFS.
- When detail is presented, such as Other revenue, the future budget numbers only are presented, and not CY forecast/expected against the new year's budget making comparisons difficult/impossible.
- The budget is not available on the website as advertised.
- Is there a rebate on the bulk purchases of electricity from Eskom? If so, where is this reflected in the budget?

REVENUE

RATES

- Rates revenue of R596m for 2023, presents an increase of less than 1% against 2022 forecast of R593m.
- Council is proposing a 5% increase on the rates randage, and still retain the 25% rebate for residential.
- Rates collection budgeted at 90%, whereas the average collection for 2019, 2020 and 2021 was 95,6%.
- If the recent history of actual collections of 95,6% is used, rates income would amount to R634m, an excess of R37m.
- For each of the past 3 years rates income has exceeded the original and revised budget, indicating that income budgeted is too conservative.

Taking the above factors into account, Council could reduce the rates increase to 4% which will allow for some relief for consumers who will experience high electricity and refuse increases, each above current inflation. We further believe that keeping the randage rate the same (more competitive for new investors), and rather reducing the current 25% rebate to 22%, is a more sensible route to follow. If this rebate is not gradually reduced, it will have a negative impact when revaluations are done in another 4 years.

REFUSE

The increase for refuse at 6% should be limited to the increase to the outsourced service provider. If the contracted increase is higher than 6% then the proposed increase is accepted.

ELECTRICITY

It is pleasing to see the electricity margin (revenue less costs) of R120m returning to that of 2021 and 2020, while not increasing tariffs above those of NERSA. This implies some possible success with curtailing the escalating electricity losses.

- What is the budget for electricity losses in 2023?
- The budget commentary does not give clarity to the increase residents will be paying, as it only states the range of increases to be applied.
- We note that the bulk purchase of electricity is much the same as the actual for the previous year. Could this be in anticipation of curtailing electricity losses? Clearly, we anticipate an increase in electricity costs, and we would have thought, increased usage. Please explain.

OTHER REVENUE/GENERAL COMMENTS

- What is Development charges income of R17m which forms part of operational revenue?
- In the 2022 adjustment budget, the collection rate was increased to 98% which is more realistic of the actuals and recent history. Budgeting at only 90% is overly conservative.
- Total revenue in Table A2, and those that follow, are different to the total budget in the summary of R2,129bn. This causes a surplus of R175m.
- Table A10, and others further, are incomplete. Isn't this relevant and useful information?

EXPENDITURE

EMPLOYEE RELATED COSTS

- These increase to R544m, overall, 13% increase over the forecast for 2022 of R482m.
- ED's costs increase by 30% over 2022, and general employees by 12,5%.
- A budget salary increase of 4,9% was used in the budget.
- This cost has increased by 28% over the 2021 actual of R426m.
- Overtime cost for 2023 is budgeted at R55m, which is down from the 2022 adjusted budget of R62m. What will cause the reduction in OT cost for 2023? Actual OT costs for 2021 was R49,7m.
- No headcount details are provided in the budget.
- This cost is growing as a proportionate amount of total costs, when electricity, depreciation and impairment costs excluded from total costs.
- How many of the following qualified skills are in the fulltime employment of KDM:
 - Engineers
 - Chartered accountants
 - Lawyers?

OTHER EXPENDITURE/GENERAL COMMENTS

The following costs need explaining in this category:

- Commission R7,2m
- Contribution to provisions R1,4m
- Management fee R13,3m
- Advertising, publicity, and marketing, increased to R10,8m from 2022 forecast of R7,7m- 40%.
- Insurance underwriting increased to R7,9m from 2022 adjusted budget of R6m – 32%.
- Wet fuel budget of R12,8m looks low in relation to 2022 adjusted budget of R11,9m.
- A fair value adjustment cost has been budgeted at R12m which should not be budgeted for, or should be removed from operational costs budget.
- Similarly, losses on fixed assets of R7,2m should be removed from the operational costs budget.
- Table SA34 - percentage of maintenance expenditure of 5,7% looks inaccurate as amount does not change significantly from 2022, which is reflected as 3,4% of Operating expenditure.
- Overall maintenance budget should be approximately doubled to R160m.
- Table A3 – please explain substantial increase in Chief Operations Bus Unit cost of R82m, from R57m in 2022. Main cost increase is IDP- further detail required?
- Does KDM not have other contracts that impact the budget in later years, such as office rental, cell phones, office equipment? If so, these need to be listed on TableSA32.

CONTRACTED SERVICES

No detail on Contracted Services is given in the budget.

- Total budget of R286m for 2023.
- Adjusted budget R269m for 2022, and original budget of R224m for 2022.
- Against 2022 original budget, this has grown by R62m, or 28%.
- Actual audited cost in 2021 was R168m, so growth over 2 years, 2021 to 2023, is R118m or 70% more.
- Two large additions made in the 2022 adjusted budget were for refuse of R18m, and security of R13,8m – being a 68% increase from R20 to R34m.
- Specific detail is to be given on security costs as ratepayers cannot be held responsible for paying for security for ANC councillors and officials due to factional differences.

CAPITAL BUDGET

- The budgeted amount of R1m for 2023 for ward 22, Sheffield Beach Road, seems too little knowing the ongoing issues on this road.
- Would like to see the specifics of road rehabs for wards 6 and 30, R1,5m.
- Other than the above, no further budget in this category for wards 6, 22 and 30. Why not?
- Is the MIG capital spend determined by KDM or does National/Province dictate where this is to be spent?
- Fire fleet R15m re-budgeted for 3rd or 4th time. Is this spend necessary?
- Similarly new office building re-budgeted for 3rd/4th time- is it necessary? In addition to purchase R4m is budgeted for upgrade?
- Upgrade to beach facilities of R5,1m budget needs to be clearer, where, and how much?
- City Hall development budget of R5m, unnecessary for 2023.
- Budget for Scada system re-budgeted for 3rd/4th time?
- Budget for new Dukuza 80MVA re-budgeted for 3rd/4th time?
- Is construction of Museum, R1,8m necessary. Where expected?

Budget for 2023 should be reviewed in light of recent flood devastation. Can KDM confirm that all possible grant funding and funding assistance from Provincial and National Departments are applied for?

EXTERNAL LOANS

Please explain reason for increase in external loans from R188m to R251m in 2023?

We look forward to your response.

Kind regards



Deon Viljoen

DOCRRRA CHAIRMAN

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