

## WATER TARIFF

A recent survey undertaken on behalf of the Provincial Treasury has indicated that the domestic water tariffs of the Knysna Municipality are the highest of any B category municipality in the Western Cape. There are two reasons for this: Knysna was the first municipality to experience water shortages in the province and the first to put in the high technology systems of desalination and reverse osmosis which are the future. The future increases in our neighbours' water tariffs will soon begin to reflect ours. Secondly, because of Knysna's uphill topography, it requires over 100 pump stations to transfer water from the river water sources, through the purification process, to the end user.

The water tariff increases will be 6% across the board.

2% of the increased tariff will again be allocated to the Capital Replacement Reserve (CRR) for water. National Treasury has decreed that all CRRs must be cash-backed and the anticipated costs associated with the water service, most specifically the need to expand the treatment works in Knysna, means that monies must be set aside now to mitigate the future costs of the works.

## SEWERAGE TARIFF

All sewerage tariffs will increase by 8%. In this instance 4% of the increased revenue will be channeled to the CRR for the projected further upgrading/replacement of the wastewater treatment works next to the Knysna Estuary beginning in 2018.

## REFUSE TARIFF

The refuse tariff will be increased by 6% for both domestic and business consumers. It should be remembered that 50% of the refuse charge for domestic consumers is already contained in the assessment rate payable.

## MINOR TARIFFS

Minor tariffs will be increased by 7.5% on average unless otherwise indicated in the tariff book.

## AVAILABILITY CHARGES FOR VACANT LAND

No increases are proposed for the 2013-14 financial year but they will be increased by 4% in 2014/15 and 2015/16. The reason for not increasing them next year is that in previous years there have been significant increases in these charges which are in line with Council's policy in regard to densification and not wishing land banking and speculation.

## AUGMENTATIONS

The water and sewerage augmentation charges will be increased by 7.5% for next year and the innovations introduced in the 2012/13 budget remain in place to encourage development. The electricity augmentation is formula driven and subject to NERSA.

A review to augmentations is also being looked at in line with the ISDF and discussions are taking place internally to move towards a better 'built environment' and planning system to encourage densification.

Council has adopted, in principle, the Lower Central Enhancement Study, which advocates the intensification of land uses in the Lower Central Area of Knysna Town. This document is currently being used as a guideline policy document in the adjudication of development applications in that area. The full scale implementation of the policy is dependent on the detailed assessment of potential traffic and parking impacts.

Following assessments and the mitigation of any possible negative impacts, an 'overlay zone' may be introduced permitting increased bulk infrastructure on the affected properties. Associated with any increased property rights would be the requirement to pay an Augmentation Levy for those rights. This levy would normally be payable at the time of utilisation of the rights, however, in order to raise funds to address infrastructural and aesthetic issues in the Lower Central Area, property owners will be given incentives through a discount scheme if they pay in advance for the augmented property rights.

## ASSESSMENT RATES

Assessment rates will be increased by 2% for domestic and non-domestic properties.

A new rate in the rand will be introduced for minor accommodation establishments as defined in Council's rating policy. The minor accommodation rate will be managed in future years in conjunction with the phasing out of the domestic rebate mentioned below. The rate in the rand for these establishments, from 1 July 2013, will be set at 4% above the current rate in the rand for domestic properties.

## ASSESSMENT RATE REBATES

The rebate currently applied to domestic owners will be reduced from 20% to 15%. This is in line with National Government view that rebates should only apply in particular circumstances. It is the intention to completely phase out the domestic rebate over the next four budgets.

There will be an increase in the first value of property exempted from rates from R65 000 to R100 000.

The current Rural Rebate of 30% will be reduced to 25% next year and must also be phased out. Assessment rates are a tax on property value and are not related to services rendered or not rendered by a municipality. There is therefore no justification in maintaining a two tier rebate system indefinitely.

The Rural Rebate will be further reduced by a minimum of 5% per annum until fully phased-out.

The current pensioner rebates will remain the same. They were significantly increased in recent years and the top level is well above the norm.

The green rebate will remain the same for the forthcoming financial year but will be replaced from 1 July 2014 with a Biodiversity rebate. The object of the Biodiversity rebate is to achieve the long term conservation of substantial areas of intact natural eco-systems.

**THE APPROVED 2013/14 KNYSNA MUNICIPAL BUDGET IS AVAILABLE IN THE DOCUMENT LIBRARY OF THE INFORMATION CENTRE MENU ON THE MUNICIPAL WEBSITE [www.knysna.gov.za](http://www.knysna.gov.za)**

## KNYSNA MUNICIPAL COUNCIL APPROVES 2013/2014 BUDGET



The Knysna Municipality approved the 2013/2014 budget during the Council Meeting of 30 May 2013.

In her annual State of the Town Address, which preceded the tabling of the budget, Mayor Georlene Wolmarans said the budget continued to fight the difficult economic situation the town found itself in.

"Considering the unlikelihood of the economic position changing much in the next three to four budget cycles, at least, the budget follows a conservative approach to rates and tariffs but also slowly begins to plan in anticipation of improved economic conditions from 2017/18," said Wolmarans.

The new budget, also referred to as the Medium Term Expenditure Framework (MTREF), amounts to some R608-million of which R76-million is allocated for capital expenditure and R532-million for operating expenditure. This is an increase of 8.4% from the 2012/13 approved budget (R561-million) and 6.1% from the 2012/13 adjusted budget.

To address ongoing concerns regarding a lack of in-depth, long term planning for the Knysna area over the next 20 to 30 years, the municipality has decided to begin a new long term planning process, predominantly in-house, by means of a very exhaustive but inclusive Integrated Spatial Development Framework (ISDF).

The proposed ISDF will become the most critical long-term planning tool of the Knysna Municipality. This framework will probably for the very first time have technical, financial, environmental and ultimately economic planning talking to each other. The ISDF looks beyond the five-year frameworks of the Integrated Development Plan (IDP) and, while no specific capital projects have yet been identified for ISDF purposes, they will obviously also be part and parcel of the revised IDP.

Despite on-going economic concerns, the Knysna municipal area continues to grow and with it the demands of all its residents. In recent years the demands for services have continued to increase from those areas where services and service standards were historically poor in comparison to more advantaged and well established areas.

While more affluent residents must accept that areas that were neglected in the past will continue to take a large slice of the pie, those in poorer areas will have to recognise that reaching the advanced service levels of other areas will be a timely and costly exercise that cannot happen overnight and without substantial financial cost.

Knysna, from a financial perspective, is a municipality that remains heavily geared, that is, we have a high number of borrowings and are heavily dependent upon the domestic sector. About 80% of Council revenue, excluding governmental transfers, comes from the domestic residential sector.

There is little scope for cross-subsidisation from the business sector in relief of the domestic account and therefore increases in tariffs impact directly upon domestic consumers and hence almost immediately upon the municipality's cash flow. Increased taxation will invariably mean increased non-payment.

The continued poor economic conditions mean that Knysna needs to maintain its fiscal discipline. In December 2012, Council took the decision to write off what over R30-million in service arrears and to introduce a far more stringent approach of recovering service charges and arrears via the prepaid electricity system.

The write-off was affected in April 2013 and applied to business and domestic arrears. It excluded assessment rates, state debt and arrears on vacant land.

To ensure that arrears are minimised in future, prepaid electricity meters will be introduced to all properties in Knysna over the next three years, and future arrears loaded onto the prepaid electricity system – this way the system ensures that customers pay for all municipal services up-front rather than the current arrears method. This will go a long way in generating income from water, sewerage and refuse for which in the past there were no or limited credit control remedies.

In addition, in those areas where no charge has previously been rendered for municipal services other than electricity, a Municipal Service Accessibility Charge (MSAC) will be levied via the prepaid electricity system.

The charge for the first year will be R30 per month. To put this charge firmly into perspective a normal domestic consumer charge for the same services throughout the municipality is R250 PER MONTH and this excludes consumption. The monthly MSAC charge will be waived if the resident is formally registered on the Knysna Municipality Indigent Register.

The municipality's Equitable Share, which is the money national government annually contributes towards the budget, amounts to just under R36-million in the forthcoming financial year, an increase from the current year's R30,9 million. This will rise to R44,9 million and R56,3 million over the outer years of the MTRF period.

To ensure that the Equitable Share moneys are used as legislated, meaning for those areas of greatest need, it is proposed that from 1 July 2014 amendments will be made to the Funding and Reserves Policy and the Budget Policy to allocate 40% of the increased Equitable Share (assuming a normal inflation rate adjustment) directly to repairs and maintenance and 40% to the Capital Replacement Reserve (CRR) for future infrastructure. The balance will be for the revenue account.

Irrespective of the proposed Gazetted Equitable Share increases, there is still a funding gap which is now a legacy of previously lower equitable shares. To minimise the effect on individual accounts and ultimately to protect Council's revenue base as far as possible, this budget has been premised on a 93% payment level for rates and services. This has meant that most Directorates were allocated no growth, real or actual, in their discretionary expenditure categories.

The only Directorates that have been allowed growth are the Planning Directorate, a once-off increase to fund the ISDF, the Cleansing Department to ensure the municipality maintains itself as a tourist destination, the Roads Department to assist in the ongoing battle against potholes, and the Municipal Manager's section which pays toward organisational restructure.



## BUDGET SUMMARY

The anticipated final outcome of the current 2012/13 budget is that Council will end with a surplus after all transfers of R44.7-million. This is comfortably above the original budgeted figure of R35.1-million but most of this is from enhanced operational transfers (grants) of R13-million.

The Capital Expenditure emphasis remains on water and particularly sewerage infrastructure. However, some R8.8 million of the R23-million allocated for MIG projects in 2013/14 is being earmarked for 'softer' projects such as Multi-Purpose Centres and the Knysna Library.

Expenditure on 'heavy' infrastructure has previously been at the expense of our social and community backlogs. We would dearly like to change this approach as water and sewerage capital expenditures are inordinately expensive to fund and to maintain. However, the continued influx from other regions is rapidly proving to be beyond our affordability.

The municipality welcomes movement by the Western Cape Provincial Government to review its Housing funding strategy, which will now enable Knysna to use more of the Housing grant for infrastructure rather than top structure purposes. To date Knysna has picked up the cost of the infrastructure associated with housing and this has created serious financial and service capacity concerns. The change in provincial strategy, if planned and managed efficiently, will allow for infrastructure planning that can keep pace with the amount of houses being built.

## CASH FLOW

For a number of years ratios have shown that Knysna is one of the highest geared municipalities in South Africa. In the Western Cape we are still the highest geared per capita.

Essentially Knysna has a high debt to revenue ratio. This has been commented on by rating agencies, and occasionally by Provincial Government, but it has not been of concern because of our approach whereby the whole budget process is driven to ensure the cash flow is protected as far as possible. Nevertheless, Council has followed the policy in recent years of trying to limit its borrowings as far as possible, precisely because of concerns regarding the economy. To date, that policy has proven prudent and entirely correct, most especially in the recent and present economic downturn.

This higher debt to revenue ratio means that at budget time, Council has to make some very hard decisions.

As stated previously, the budget for the 2013/14 financial year is premised on a 93% payment level. The reasons for holding the basis at last year's level are, firstly, because payment levels during the 2012/13 financial year have swung between 90% and 96% with no discernible positive trend developing. Also, the Eskom increase is above inflation, but more importantly because of the incidence shift in property values and the associated concerns on payment levels. Budgeting at the levels of 95% or 96% payment level simply cannot be justified.

## CAPITAL BUDGET

The capital budget for 2013/14 will total R76-million of which R42.9-million is funded from national and provincial grants and R29.4-million from internally generated funds and borrowings, which includes R4-million of unspent borrowings. Council is continuing the process begun last year of rebuilding and upgrading municipal buildings and assets including sports fields, libraries and halls.

An amount of R4.9 million has been placed on the budget for the refurbishment of the Main Library. The other major capital projects for the next year are R15.5 million for electricity, R10.6 million for roads, storm water and pavements, R13.6 million for water projects and R14 million for housing. All these figures exclude VAT.

The recent success of the ward project system, in conjunction with Councillors and Ward Committees, has prompted Council to repeat the exercise. For 2013/14 the capital projects in wards will remain at R200 000 per ward and the programme has been fully integrated with the ward-based development programme and the IDP.

## TARIFF IMPLICATIONS OF THE ANNUAL BUDGET

### ELECTRICITY TARIFF

While the National Electricity Regulator (NERSA) has approved an increase in the bulk tariff from Eskom at 8%, Eskom's own guidelines recommend local government increases of 6%. The National Treasury advises that municipalities limit electricity increases to between 7.5% and 8%.

Knysna has budgeted for a 6% revenue increase but the individual tariff increases may differ from the average depending on the NERSA structures and the type of electricity use.

### MUNICIPAL SERVICES ACCESSIBILITY CHARGE (MSAC)

As already mentioned, the MSAC will be introduced as a monthly charge specifically on the government electrification scheme, meaning the 20-Amp prepaid system, and in those areas that have no or limited billing for any rates and services. The initial charge will be R30 per month from 1 January 2014.