KNYSNA MUNICIPALITY

LG MTEC INTEGRATED PLANNING AND BUDGETING ASSESSMENT: ANALYSIS OF MUNICIPAL IDP, SDF AND BUDGET

Western Cape Government

MAY 2018
# TABLE OF CONTENTS

LIST OF ACRONYMS........................................................................................................................................3

SECTION 1: INTRODUCTION ..........................................................................................................................5

SECTION 2: SOCIO-ECONOMIC OVERVIEW OF THE MUNICIPALITY .............................................................6

SECTION 3: INTEGRATED PLANNING ...........................................................................................................9

SECTION 4: ENVIRONMENTAL AND DEVELOPMENT PLANNING ANALYSIS ...............................................17

SECTION 5: ASSESSMENT OF THE BUDGET RESPONSIVENESS .....................................................................20

SECTION 6: CREDIBILITY AND SUSTAINABILITY ......................................................................................24

SECTION 7: KEY FINDINGS, RISKS AND RECOMMENDATIONS ................................................................45
### LIST OF ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AQMP</td>
<td>Air Quality Management Plan</td>
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<tr>
<td>BESP</td>
<td>Built Environment Support Programme</td>
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<tr>
<td>CBD</td>
<td>Central Business District</td>
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<tr>
<td>CBA</td>
<td>Critical Biodiversity Areas</td>
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<tr>
<td>CMP</td>
<td>Coastal Management Programme</td>
</tr>
<tr>
<td>CSIR</td>
<td>Council for Scientific and Industrial Research</td>
</tr>
<tr>
<td>DCAS</td>
<td>Department of Cultural Affairs and Sport</td>
</tr>
<tr>
<td>DEA&amp;DP</td>
<td>Department of Environmental Affairs and Development Planning</td>
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<tr>
<td>DHS/DOHS</td>
<td>Department of Human Settlements</td>
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<tr>
<td>DM</td>
<td>District Municipality</td>
</tr>
<tr>
<td>DLG</td>
<td>Department of Local Government</td>
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<tr>
<td>DWS</td>
<td>Department of Water and Sanitation</td>
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<tr>
<td>EPWP</td>
<td>Expanded Public Works Programme</td>
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<tr>
<td>FBE</td>
<td>Free Basic Electricity</td>
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<tr>
<td>HSP</td>
<td>Human Settlement Plan</td>
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<tr>
<td>IDP</td>
<td>Integrated Development Plan</td>
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<td>IGP</td>
<td>Infrastructure Growth Plan</td>
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<tr>
<td>IIAMP</td>
<td>Integrated Infrastructure Asset Management Plan</td>
</tr>
<tr>
<td>IIF</td>
<td>Infrastructure Investment Framework</td>
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<tr>
<td>ITP</td>
<td>Integrated Transport Plan</td>
</tr>
<tr>
<td>ISDF</td>
<td>Integrated Strategic Development Framework</td>
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<tr>
<td>IYM</td>
<td>In-year Monitoring</td>
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<td>IWMP</td>
<td>Integrated Waste Management Plan</td>
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<td>JOC</td>
<td>Joint Operations Centre</td>
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<td>kl</td>
<td>kilolitre</td>
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<tr>
<td>KPA</td>
<td>Key Performance Area</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>KPI</td>
<td>Key Performance Indicator</td>
</tr>
<tr>
<td>kWh</td>
<td>kilowatt hour (1000 watt hours)</td>
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<td>LED</td>
<td>Local Economic Development</td>
</tr>
<tr>
<td>LUPO</td>
<td>Land Use Planning Ordinance</td>
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<tr>
<td>MBRR</td>
<td>Municipal Budget and Reporting Regulations</td>
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<tr>
<td>MDG</td>
<td>Millennium Development Goal</td>
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<tr>
<td>MI</td>
<td>Municipal Infrastructure</td>
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<td>MIG</td>
<td>Municipal Infrastructure Grant</td>
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<tr>
<td>MIP</td>
<td>Municipal Infrastructure Plan</td>
</tr>
<tr>
<td>MMP</td>
<td>Maintenance Management Plan</td>
</tr>
<tr>
<td>MVA</td>
<td>Megavolt Amperes (1 Million volt amperes)</td>
</tr>
<tr>
<td>MWh</td>
<td>Megawatt hour (1 Million watt hours)</td>
</tr>
<tr>
<td>NRW</td>
<td>Non-revenue Water</td>
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<tr>
<td>NDHS</td>
<td>National Department of Human Settlements</td>
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<td>O&amp;M</td>
<td>Operations and Maintenance</td>
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<td>PMS</td>
<td>Performance Management Systems</td>
</tr>
<tr>
<td>RMP</td>
<td>Road Management Plan</td>
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<tr>
<td>SDBIP</td>
<td>Service Delivery and Budget Implementation Plan</td>
</tr>
<tr>
<td>SDF</td>
<td>Spatial Development Framework</td>
</tr>
<tr>
<td>SOP</td>
<td>Standard Operating Procedure</td>
</tr>
<tr>
<td>SWMP</td>
<td>Stormwater Management Plan</td>
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<tr>
<td>WC</td>
<td>Water Conservation</td>
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<tr>
<td>WDM</td>
<td>Water Demand Management</td>
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<tr>
<td>WSDP</td>
<td>Water Service Development Plan</td>
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<tr>
<td>WTW</td>
<td>Water Treatment Works</td>
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<tr>
<td>WWTW</td>
<td>Wastewater Treatment Works</td>
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SECTION 1: INTRODUCTION

The annual assessment of municipal budgets and Integrated Development Plans (IDPs) by provincial government is essential. The importance of this assessment is stipulated in Chapter 5 of the Local Government Municipal Systems Act 32 of 2000 (MSA), the MSA Regulations and the Local Government Municipal Finance Management Act 56 of 2003 (MFMA). Provincial assessments afford the provincial sphere of government an opportunity to exercise its monitoring and support role to municipalities as stipulated by the Constitution. In addition, the assessments provide an indication of the ability and readiness of municipalities to deliver on their legislative and Constitutional mandates.

This report encapsulates comments by the Western Cape Provincial Government on the draft 2018/19 MTREF Budget, 2018/19 reviewed Integrated Development Plan (IDP) and Spatial Development Framework (SDF).

The assessment covers the following key areas:

- Responsiveness of the draft budget, IDP and SDF;
- Credibility and sustainability of the draft Budget; and
- Summary of key findings, risks and recommendations.

The Municipal Budget and Reporting Regulations (MBRR) A-Schedules, budget documentation, IDP and SDF submitted by the Municipality are the primary sources for the analysis. The quality of this assessment report therefore depends on the credibility of the information contained in the documents submitted by the Municipality.

The Provincial Government plans to meet the executives of your Municipality on 8 May 2018 where the key findings and recommendations of this report will be presented and deliberated upon. The planned engagement will contextualise the Municipality’s challenges and responses as taken up in the draft budget, IDP, LED, SDF and various other strategies and plans.
SECTION 2: SOCIO-ECONOMIC OVERVIEW OF THE MUNICIPALITY

2.1 SOCIO-ECONOMIC OVERVIEW

A municipal budget is informed and influenced by a wide range of national, provincial and local socio-economic variables and assumptions that influence strategic allocations. These assumptions form the baseline from which a municipality makes projections and allocations across the three years of the MTREF.

Municipal sustainability requires successful socio-economic development and spatial transformation. The best way to grow and sustain a municipal revenue base, deliver basic services, and reduce the number of poor households, is by growing the economy in an inclusive way.

Table 1: Socio-Economic Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>NDP Goals</th>
<th>Western Cape Provincial Data</th>
<th>Municipal Status Quo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population Growth Rate</td>
<td>0.5%-1% per annum by 2030 (Nationally)</td>
<td>1.5% per annum (Census 2011, 2016 Community Survey)</td>
<td>1.9% per annum growth rate (2018/19 draft IDP Review) 73 835 (Population estimate 2018/19 draft IDP Review)</td>
</tr>
<tr>
<td>Poverty</td>
<td>For zero households to be below the R418 monthly income poverty line</td>
<td>516 321 (households below the poverty line) (DLG, 2017)</td>
<td>20.1% of households earn between R0 – R4 800 per year. (2018/19 draft IDP Review)</td>
</tr>
<tr>
<td>Per capita income</td>
<td>Per capita income of R110 000</td>
<td>R61 199 (Stats SA, own calculations 2017)</td>
<td>R44 256 (Stats SA, 2017)</td>
</tr>
<tr>
<td>Unemployment</td>
<td>14% by 2020</td>
<td>19.5% (2017) (Western Cape Government, Overview of Provincial Revenue and Expenditure, 2018)</td>
<td>27.7% (2018/19 draft IDP Review)</td>
</tr>
<tr>
<td>Education</td>
<td>A learner retention ratio of 90 percent</td>
<td>Learner retention ratio – 65.6% (SEP-LG 2017)</td>
<td>Learner retention ratio – 67.1% (SEP-LG 2017)</td>
</tr>
<tr>
<td>Indicator</td>
<td>NDP Goals</td>
<td>Western Cape Provincial Data</td>
<td>Municipal Status Quo</td>
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</tr>
<tr>
<td><strong>Access to Basic Services</strong></td>
<td>Access to Electricity at 95 per cent. Expansion of the renewable energy sources including a national target of 5 million solar water heaters by 2030.</td>
<td>Western Cape average access to electricity in 2016: 96.5% (Stats SA)</td>
<td>Above service level: 24 290 (households) Below service level: 5% (households) Access level: 95.0% (2018/19 draft IDP Review)</td>
</tr>
<tr>
<td></td>
<td>100 per cent access to clean potable water</td>
<td>Western Cape average access to water in 2016: 99.0% (Stats SA)</td>
<td>Above service level: 19 543 (households) Below service level: 3% (households) Access level: 97% (2018/19 draft IDP Review)</td>
</tr>
<tr>
<td></td>
<td>All South Africans will have affordable, reliable access to sufficient safe water and hygienic sanitation by 2030</td>
<td>Western Cape average access to sanitation in 2016: 94.6% (Stats SA)</td>
<td>Above service level: 23 941 (households) Below service level: 7% (households) Access level: 93% (2018/19 draft IDP Review)</td>
</tr>
<tr>
<td>Housing</td>
<td>Western Cape average access to housing in 2016: 82.4% (Stats SA)</td>
<td>Households: Formal: 20 796 Informal: 5 080 Access level: 80.0% (2018/19 draft IDP Review)</td>
<td></td>
</tr>
</tbody>
</table>

Comments:

- The renewed confidence in developed countries, coupled with optimistic commodity-driven prospects within emerging and developing markets, are driving global growth upwards in 2018 and 2019. Economic growth in South Africa however remains sluggish and appears unable to keep pace with the expansion of the global economy. In US dollar terms, the GDP per capita figure in South Africa has sharply fallen between 2011 and 2016 from US$8049 to US$5273. This is reflective of faltering economic growth, rand weakness and an increasing population.

- Increased economic hardship at national level is expected to impact on poorer households and their ability to afford quality services. The burden will in tum be passed to local municipalities who must strain their revenue streams to extend services to indigent households.
• Despite government making significant progress to extend access to basic services to all households, access to sanitation and refuse removal remains a major concern. Backlogs are particularly profound within rural and informal residential areas as opposed to more affluent suburbs within urban environments that enjoy access to services far above the minimum service level standard set by National Government.

• Although access to primary schooling has improved a great deal since 1994, the overall quality of the education has deteriorated, evident from a 2015 OECD report which ranked South Africa 75th out of 76 countries in a ranking table of education systems. A recent study that placed South Africa near the bottom of several categories measuring international schooling trends in mathematics and science. This does not bode well to improve access to higher education opportunities. The South African schooling system is also plagued by excessively high learner-teacher ratios and high school drop-out rates.

• The number of high school drop-outs is expected to increase the unemployment rate amidst a labour market that is demanding more semi- and skilled workers.
SECTION 3: INTEGRATED PLANNING

The IDP is the principal strategic planning instrument which guides and informs all planning and development, and all decisions with regard to planning, management and development, in the Municipality. Each municipal council must annually review and may amend the IDP of the Municipality.

The 2018/19 IDP review is the first review of the 2017 - 2022 IDP. An IDP provides the strategic direction for all the activities of the Municipality over the five years and is linked to the council’s term of office. The 2018/19 IDP review approach takes into consideration the assessment of its performance measurements and to the extent that changing circumstances so demand. Should the review process determine an amendment is required, municipalities are to follow the process as stipulated in the MSA Regulation 3.

3.1 INTRODUCTION

The Knysna Municipality (the Municipality) adopted in August 2016 and subsequently August 2017, a Process Plan and Time Schedule that guides the drafting and the review of the 2017 - 2022 IDP which details the mechanisms to be utilised for stakeholder engagement in the IDP process. The Process Plan further outlines the mechanisms established to ensure the community is adequately involved in the Municipality’s strategic planning process. The 2018/19 Draft Reviewed IDP serves as the first review of the 2017 - 2022 IDP in line with Section 34 of the MSA. The 2018/19 Draft Reviewed IDP provides the Municipality an opportunity to reflect on changing circumstances that may impact on the 5-year municipal strategic narrative and the review process enables the Municipality to gauge the level of implementation of the 2017 - 2022 IDP.

The 2018/19 Draft Reviewed IDP reflects ward plans which provide an indication of levels of development in each ward, strengths, weaknesses, opportunities and constraints, priorities and the ward level developmental needs. The Municipality has reflected capital projects infrastructure development specific to each ward plan with aim to ensure equitable utilisation of government’s scarce resources across the Municipality. The Municipality’s demographic profile reflects an average 1.9 percent population growth rate in the period between 2007 and 2016. The Municipality should continue to prioritise strategic planning for the efficient allocation of scarce resources and revenue optimisation to meet the increasing demands and maintenance of public service infrastructure driven by the growth of the population.

Although the Municipality has managed to ensure continued implementation of good governance processes, key governance risks still remain. The Municipality at the Technical Integrated Municipal Engagements (TIME) held in February 2018 identified
ten key strategic risks relating to governance including an outdated macro structure, Information and Communication Technology governance and financial sustainability and highlighted the support required from the Western Cape Government. The 2018/19 Draft Reviewed IDP does not reflect a Financial Plan inclusive of budget projections for the next 3 years and the key performance targets determined in terms of Section 41 of the MSA reflected for a 5-year period as required in terms of Section 26 of the MSA and its Regulations.

The Growth Potential of Town’s Study, reflected in the Provincial Strategic Plan and Provincial SDF, suggests that focusing development and investment in Knysna has significant benefits in supporting the economic growth strategies and socio-economic development initiatives. The Municipal Economic Review Outlook 2017 (MERO) reflects that the Municipality is relatively small in size compared to George, Mossel Bay and Oudtshoorn municipalities, but is experiencing above average population growth rates. The Municipality is characterised by natural forests which impedes the agricultural growth potential and economic activity is mainly centred in Knysna and Sedgefield. The Municipality is one of the main service hubs in terms of inputs, services and agri-processing and is considered a major tourism node. The Provincial SDF indicates the need for Knysna to ensure its planning frameworks promote effective and efficient land use management due to the need for protection of high value natural resource, landscapes and urban growth.

3.2 MUNICIPAL INFRASTRUCTURE

3.2.1 Municipal Infrastructure Planning

The 2018/19 Draft Reviewed IDP reflects that the Municipality is experiencing challenges with water sustainability that have resulted in the need for the Municipality to implement Level 3 water restrictions. A water sustainability assessment conducted by the Department of Local Government (DLG) for all Western Cape municipalities reflects that the Municipality has been adversely impacted by the current hydrological drought. The assessment indicates that the town has less than 90 days of water supply and therefore has been classified “High Risk” as per DLG’s risk rating matrix. The risk rating measures the impact of the current provincial hydrological drought on each municipality and the capacity of municipalities to meet their water service delivery needs.

In response to the critical situation in the Municipality, DLG is providing disaster relief through the provision of grant funding for the upgrade of Charlesford Pump Station and conveyance infrastructure (pipeline). DLG allocated the Municipality a Geo-hydrologist and funding for water augmentation projects.
Recommendations

- Given the backdrop of the Municipality’s water sustainability risk rating, the Municipality should reflect on the state of readiness for the “worst-case scenario” and the extent to which the priorities and financial planning will be impacted.

- The Municipality should make reference to the extent of the impact of the drought on new and planned development as well as the Municipality’s ability to ensure bulk infrastructure provision needs and commitments are met.

3.3 TRANSPORT AND ROADS

The 2018/19 Draft Reviewed IDP responds to the transportation challenge that the Municipality faces by committing to ensure the effective implementation of the Integrated Transport Plan. The 2018/19 Draft Reviewed IDP indicates the strategic location of the Municipality along the N2 corridor which connects the town to the major economies of Cape Town and Port Elizabeth. The Municipality acknowledges the significance of the scenic corridor that connects Main Road 355 and the settlements of Karatara and Rheenendal with Knysna and Sedgefield. In addition, the Prince Alfred Pass serves as a connector between Knysna and Uniondale, which is dependent on Knysna for higher order services.

3.4 HUMAN SETTLEMENTS

The 2018/19 Draft Reviewed IDP indicates the status, key challenges, needs, priorities and backlog of human settlements provision. The 2018/19 Draft Reviewed IDP reflects current projects that are in the planning and implementation phase as well as new projects that need to be included in the housing pipeline. The existing human settlements and settlement corridors, nodes and hierarchy of towns are spatially depicted in the 2018/19 Draft Reviewed IDP.

The 2018/19 Draft Reviewed IDP includes the housing pipeline which set out a clear indication of needs and challenges in line with the Department of Human Settlements Business Plan. The bulk infrastructure projects that are aligned to human settlement and housing projects across the Municipality have also been included in the 2018/19 Draft Reviewed IDP.

3.5 DISASTER MANAGEMENT

The 2018/19 Draft Reviewed IDP reflects that the Municipality has a functional Disaster Management Advisory Forum with membership also from external role-players and terms of reference for the coordination and implementation of disaster management in the Municipality. It is noted that the Municipality has highlighted the need to improve the capacity of the Disaster Management Unit. The Western Cape Disaster
Management Centre (WCDMC) recently completed a Disaster Risk Assessment for the Municipality which identifies all the hazards and the disaster risks prevalent in the area.

The June 2017 fires that occurred in Knysna Municipality caused devastating damage to dwellings and municipal infrastructure including farms and slopes. As a result, numerous assessments have been conducted by the WCDMC and National Disaster Management Centre with the view of securing much needed additional national government funding. The Municipality demonstrates disaster coordination through the establishment of the Garden Route Rebuild Initiative Committee which can aid as a benchmark for disaster coordination. The 2018/19 Draft Reviewed IDP is responsive to changing circumstances given the context of the recent fires through ensuring that disaster management forms part of the Municipality’s key strategic objectives.

**Recommendations**

- The Municipality is encouraged to appoint a dedicated disaster management official to ensure proper coordination, focused advocacy of disaster management.

- The Municipality should reflect in the next review of the 2017 - 2022 IDP the high-risk hazards identified in the 2017/18 Disaster Risk Assessment report.

### 3.6 AGRICULTURE

The MERO indicates the potential for agri-processing in Knysna, however, the 2018/19 Draft Reviewed IDP does not reflect this potential. Agri-processing is identified as one of three areas with great potential in which the Province can grow the economy. The 2018/19 Draft Reviewed IDP addresses drought and indicates that the Municipality is considering a Climate Change Mitigation and Implementation Plan which will ensure climate change will be mainstreamed into municipal planning and functioning. The 2018/19 Draft Reviewed IDP refers to the Agri-Worker Household Census, however, does not include relevant information on agri-workers.

**Recommendations**

- The Municipality should attempt to make a clearer link to the Provincial Project Khulisa, by including clear proposals on potential agri-processing interventions and highlighting agri-processing as a catalyst for economic growth.

- The Municipality is encouraged to incorporate information on the Farmworker Household Census Report conducted for the Eden region during the 2015/16 financial year in the subsequent reviews of the 2017 - 2022 IDP.

- The Municipality should encourage the implementation of development programmes through the Comprehensive Rural Development Programme in the rural nodes of Karatara, Rheenendal and surrounding farming areas.
3.7 SOCIAL SERVICES (HEALTH, EDUCATION, SAFETY AND SECURITY, CULTURAL AFFAIRS AND SPORT, SOCIAL DEVELOPMENT)

3.7.1 Health

The Municipality has partnered with the Department of Health (DOH) to encourage a healthy lifestyle for all citizens through a programme piloted in Sedgefield with the theme “Building Healthier Communities”. The 2018/19 Draft Reviewed IDP recognises the HIV/AIDS challenges prevalent in the municipal area and has committed to the development of a HIV/AIDS Strategy. The Municipal Ward Plans reflect the need for provision of healthcare facilities in the different municipal areas and social challenges related to health and welfare. However, the 2018/19 Draft Review IDP does not make reference to any interventions to respond to these community needs.

Recommendation

The Municipality should reflect funding initiatives by DOH that respond to health care challenges within the municipal jurisdiction.

3.7.2 Education

The Socio-Economic Profile: Local Government 2017 reflects a 3.8 per cent average annual growth rate increase in learner enrolment in the municipal area which indicates improved access to education in Knysna. However, the proportion of no-fee schools remained unchanged and the Municipality is characterised by a high learner dropout rate of 32.2 per cent in 2017 which is influenced by economic factors such as unemployment, poverty, indigent household and teenage pregnancies. In addition, the 2018/19 Draft Reviewed IDP indicates that the Municipality is characterised by a relatively young population. Therefore, initiatives to empower and develop skills would be vital in improving the economy of the Municipality and reducing unemployment figures.

3.7.3 Safety and Security

The Department of Community Safety acknowledges the programmes, projects and the use of crime statistics analysis data in determining crime prevention strategies in the area. The importance of communities and promotion of safety with the linkage to the National Development Plan, the PSP, specifically PSG 3 is noted. The Draft Reviewed 2018/19 IDP considers the basket of services amongst others, neighbourhood watches, Walking Buses, Community Policing Forums as well as Farm watches.
It is noted that intergovernmental relations, strategic and citizen partnerships are important for the safety of communities. The Draft Reviewed 2018/19 IDP makes reference to community services and involvement of stakeholders, especially how to assist Community Policing Forums and Neighbourhood Watches with resources. While the Safety Plans are noted, there is no mention of the Policing Needs and Priorities process.

**Recommendation**

The Municipality should reflect on issues of the Policing Needs and Priorities in the 2018/19 Final Adopted IDP.

### 3.7.4 Cultural Affairs and Sports

The 2018/19 Draft Reviewed IDP reflects that the Municipality promotes access to library facilities. The Municipality reflects that literature material in languages other than English and Afrikaans is required. In addition, financial resources remain a challenge as most of the funding comes from the Department of Cultural Affairs and Sport. The 2018/19 Draft Reviewed IDP notes that new libraries in Khayalethu and Smutsville will be completed within the next two years. The Municipality plans to promote the usage of libraries through the establishment of outreach programmes.

The 2018/19 Draft Reviewed IDP highlights as one of its strengths, the functional museum services and strategies to maintain cultural and architectural heritage. The establishment of a museum displaying the history of local residents has been identified by Ward 4. The 2018/19 Draft Reviewed IDP indicates that the Municipality is committed to growing its tourism industry by further promoting its heritage resources.

The 2018/19 Draft Reviewed IDP reflects that the Municipality recognises that participation in sport and recreational activities can be used as a vehicle to improve social cohesion and the quality of life of its citizens. The Municipality maintains, manages and upgrades sport and recreational facilities but its capacity is limited due to financial constraints. While new multi-purpose facilities are planned for Bongani, Homlee and White Location, the challenges in the Eden District include over utilisation of fields and a lack of capacity to oversee sports development programmes. The establishment of a District Sports Council has been prioritised for the 2018/19 financial year. The 2018/19 Draft Reviewed IDP does not include any strategies to develop arts and culture or collaboration with DCAS even though it indicates that much talent exists among the community.
3.7.5 **Social Development**

The 2018/19 Draft Reviewed IDP has a Comprehensive Social Development Plan in place with definite outcomes of how the Municipality will respond to their social challenges. Reference is made to the Memorandum of Understanding that currently exists between the Municipality and Department of Social Development and how this will assist the Municipality to achieve the desired outcomes in terms ensuring social development in the municipal area.

3.8 **INSTITUTIONAL DEVELOPMENT AND TRANSFORMATION**

The 2018/19 Draft Reviewed IDP reflects that the Municipality has an outdated macrostructure which compromises the Municipality’s ability to effectively deliver on its mandate and give effect to its strategic objectives. The macro-organogram is currently in the process of being reviewed. Although the Municipality has an improved vacancy rate, there is high staff turnover and the positions of the Director: Corporate Services and the Director: Community Services are vacant.

The Municipality has established a performance management system and the 2018/19 Draft Reviewed IDP reflects a Top Layer Service Delivery and Budget Implementation Plan that highlights key performance indicators but does not reflect service delivery targets for the 5-year period. However, during the TIME sessions held in February 2018, it was noted that non-financial performance on section 72 of the MFMA reporting process, the Municipality should consider reviewing the basic service delivery and related capital expenditure targets in order to address the drought currently being experienced in the Western Cape. In addition, the Municipality was only able to achieve 25 per cent of the service delivery targets set for the 2017/18 financial year as reported in the Mid-Year Performance Assessment.

**Recommendations**

- The Municipality should prioritise the filling of all critical positions, particularly the Director: Corporate Services and the Director: Community Services.

- The Municipality should consider the extent to which the changes to the macro-organogram may result to an amendment of the 2017 - 2022 IDP.

- The Municipality should reflect the key performance targets determined in terms of Section 41 of the MSA in the 2018/19 Final Adopted IDP.

- The Municipality should take cognisance of the recommendations from the TIME sessions held in February 2018.
3.9 PUBLIC PARTICIPATION

The 2018/19 Draft Reviewed ISP reflects that internal and external stakeholders were consulted in the review of the 2017 - 2022 IDP and the municipal challenges together with broader community needs were identified during the process. The Municipality consulted ward committees and the programmes and projects identified have informed the municipal prioritisation of projects for each ward as well as for municipal wide programmes. This has ensured the involvement of ward committees in the setting of development priorities for their respective wards and further enabled the Municipality to attempt to directly respond to the needs of the communities therefore giving effect to the notion of developmental local government which fosters inclusive participation.
SECTION 4: ENVIRONMENTAL AND DEVELOPMENT PLANNING ANALYSIS

4.1 STRATEGIC OVERVIEW AND IMPORTANT MATTERS

- In the assessment of the 2017 - 2022 IDP letter issued by the Provincial Minister of Local Government of the 11th of July 2017, a request was made for the Municipality to put its SDF out for a further round of public participation. A notice was published on Thursday 29th of March 2018 in the Knysna-Plett Herald that the Draft Integrated Development Plan (IDP) Review for 2018/2019 and the 2017 Knysna Municipal SDF is open for public comment, and that the closing date is 28 May 2018. Given this, the matter will only be considered closed once the Council approves the SDF after considering comments received.

- The IDP reflects the Municipality’s efforts in alien eradication, however, there is no tabled Alien Invasive Management Plan in terms of NEM: BA. It is recommended that municipality develops the Alien Invasive Management Plan and submits to the relevant authorities accordingly.

- Climate change impacts are being experienced now and additional future impacts are unavoidable. The current drought is but one example of a climate change manifestation. Climate change response is therefore required as everyday risk reduction management, and equally as environmental, economic and social responses. The ten-page Climate Change Advisory developed for Knysna Municipality in 2016, is still relevant and should be checked against by the Municipality for guidance on enhancing climate change responses from sectors within their IDP implementation.

- Knysna Municipality has not formulated and/or submitted a 3rd Generation IWMP. Furthermore, the Municipality does not have a designated waste management officer. It must be noted that PetroSA Facility will soon be closed to Municipal disposal and that the Integrated waste management infrastructure can accommodate the projected waste quantities over the next 5 years if new regional landfill site adjacent to PetroSA in Mossel Bay is established.

- In accordance with the National Environmental Management: Waste Act 59 of 2008: National Waste Information Regulations, all municipalities are required to submit actual quantities of waste for the different activities they are registered for on the Integrated Pollutant and Waste Information System (IPWIS) as of 2018. It is therefore imperative that municipalities allocate funding and make provision for the acquiring waste quantification equipment in their budgets for the financial year 2018/19.
• The Provincial Government has taken a position to institute a 50 per cent ban on organic waste to landfill by 2023 and a total ban by 2028. The diversion of organic waste can divert as much as 38 per cent of waste to landfill if effective strategies are implemented.

• A Draft Coastal Management Line has been delineated for the entire provincial coastline. However, the draft CML has not yet been established by the MEC in terms of the ICM Act due to the challenges associated with the implementation mechanism. The CML establishment process requires another round of municipal stakeholder engagement as per the ICM Act. This can however, only be done once the implementation mechanism has been finalised.

• The Knysna Municipality is fully compliant with the NEM: Air Quality Act.

4.2 CURRENT WORK UNDERTAKEN (E.G. SUPPORT/PROGRAMMES/PROJECTS)

• DEA&DP is currently implementing the Karatara Catchment project, a payment for ecosystem project. The Karatara catchments within the Knysna Municipality have been identified as water provisioning areas under severe stress of alien invasive plant species leading to a reduction in water supply in the growing tourism towns.

• The initial climate change municipal support programme run by DEA&DP has come to a conclusion with development of climate change response strategies for each of the five districts in the Western Cape. Ongoing municipal inputs will be driven through sector departments by mainstreaming of climate change responses within provincial government departments.

• The Department has produced guidelines on the management of abattoir and green waste respectively, and hosts workshops on organic waste. The aim of the workshops is to share information on best practice and to create opportunities for partnerships between municipalities and the private sector.

• The Department is continuing its ongoing support to municipalities through the implementation of the Provincial Coastal Management Plan and will provide technical support in implementing the Municipal CMPs where resources allow.

• The Provincial Coastal Access Strategy and Plan (PCASP) has now been completed and will continue to be implemented in the Municipality. The coastal access audit for Knysna was conducted as part of the Eden District CML delineation and coastal access audit in 2017. This work will be aligned to the PCASP in the upcoming Departmental financial year in collaboration with the Knysna Municipality.
• The DEA&DP, together with the Department of Local Government, have circulated a questionnaire to municipalities, that intends to gauge the appetite and readiness of municipalities to take up Responsible Management Authority (RMA) function for estuary management. Furthermore, once the responses to the questionnaires have been received, the Department will be meeting with the Local and District Municipalities to discuss the questionnaire and to reach consensus/an agreement on the RMA function. An inter-governmental agreement in terms of the Intergovernmental Relations Framework (IGRF) Act could be entered into with the relevant municipality to set out the roles and responsibilities for estuarine management.

• In terms of Pollution Management, the main interaction with the Knysna Municipality in terms of the work of Sub-directorate: Remediation and Emergency Incident Management pertains to referring of incident cases to the Municipality where it is the lead agent and provision of ongoing assistance with regard to the administrative aspects of cases.

• Both the Department and the Municipality are identified as relevant authorities in terms of section 30(2) of the National Environmental Management Act for the management of incidents. As a local authority, the Knysna Municipality is considered to be a first respondent for incidents which take place in its area of jurisdiction.
SECTION 5: ASSESSMENT OF THE BUDGET RESPONSIVENESS

5.1 ECONOMIC SUSTAINABILITY

5.1.1 Introduction

Although global risk factors remain elevated, the world economy continues to provide a supportive platform for South Africa to expand trade and investment. The world economic growth is at its highest since 2014 and continues to gather pace with Gross Domestic Product (GDP) growth increasing across all major economies.

Nationally, growth has remained muted at less than 2 per cent and unemployment remains high at 26.7 per cent. The prerequisites for increased revenue and expanded service delivery are more rapid growth, investment and job creation.\(^1\)

The GDP growth rate is forecast at 1.5 per cent in 2018, 1.8 per cent in 2019 and 2.1 per cent in 2020. As the outlook of the National economy improves, the adverse impact of the current drought, particularly on the agricultural sector, continues to weigh on the Western Cape’s economic performance and outlook. Growth in the Western Cape is expected to have remained largely flat in 2017, in contrast to a projected growth acceleration for the national economy.\(^2\)

The drought and the water crisis, disasters as well as other issues relating to climate change (particularly fire, water shortages and floods) continue to be major risks in the Western Cape. Severe consequences resulting from the water crisis includes: the inability to provide basic services to communities impacting on the sustainability of businesses and the economy; the deterioration of socio-economic conditions including increased poverty and inequality; the potential exodus of skilled labour; the potential disruption to education and health systems; increased food inflation with adverse knock-on effects; possible disease outbreaks coupled with the reduced ability for containment (affecting people, plants and animals); impact on the delivery of key infrastructure projects that are water dependent; greater reliance on the provision of government services and an impact on municipal sustainability.

Local government sustainability continues to be the overarching theme against which municipal budgets are assessed. Cognisance should be taken of recent political developments and the associated change in national priorities which will subsequently impact upon the short-term municipal planning and budgeting efforts as well as the medium-term growth and development outlook of local government.

\(^1\) National Treasury, MFMA Circular No. 91 (2018)  
\(^2\) Western Cape Government, Budget Overview (2018)
This section examines if the tabled 2018/19 MTREF Budget is responsive from an economic and socio-economic perspective and the Municipality’s ability to meet the legitimate expectations of the community for services from its limited resources in order to effect inclusive growth and contribute to the economic sustainability over the long term.

5.1.2 Overview of the Key Priorities in terms of IDP Strategic Objectives

The 2018/19 MTREF budget breakdown in terms of the strategic objectives is indicated in the table below. Knysna Municipality budgeted for a total operating expenditure of R888.921 million and a total capital budget of R148.176 million in the 2018/19 financial year.

Table 2: Strategic Objectives for the 2018/19 Medium Term Revenue & Expenditure Framework

<table>
<thead>
<tr>
<th>Strategic Objective</th>
<th>2018/19 Medium Term Revenue &amp; Expenditure Framework</th>
<th>2018/19 Medium Term Revenue &amp; Expenditure Framework</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>OPEX</td>
<td>CAPEX</td>
</tr>
<tr>
<td></td>
<td>Budget Year 2018/19</td>
<td>Budget Year 2019/20</td>
</tr>
<tr>
<td>To encourage the involvement of communities in the matters of local government, through the promotion of open channels of communication</td>
<td>685 656</td>
<td>680 737</td>
</tr>
<tr>
<td>To structure and manage the municipal administration to ensure efficient service delivery</td>
<td>17 554</td>
<td>17 041</td>
</tr>
<tr>
<td>To improve and maintain current basic service delivery through specific infrastructural development</td>
<td>68 563</td>
<td>44 411</td>
</tr>
<tr>
<td>To grow the revenue base of the municipality</td>
<td>44 383</td>
<td>48 712</td>
</tr>
<tr>
<td>To create an enabling environment for social development and economic growth</td>
<td>68 044</td>
<td>58 803</td>
</tr>
<tr>
<td>To promote a safe and healthy environment through the protection of our natural resources.</td>
<td>4 721</td>
<td>4 113</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>888 921</td>
<td>853 817</td>
</tr>
</tbody>
</table>

Source: Knysna Municipality, 2018/19 – 2020/21 Medium Term Revenue and Expenditure Forecasts: Budget Report

Comments:

The Municipality did not complete the Excel version of supporting Tables SA5 and SA6. The budget alignment to the IDP through supporting budget Schedules SA5 and SA6 were included in the budget report that was tabled in council. In terms of the budget report the municipalities’ first three strategic priorities as per SA5 are “To encourage the involvement of communities in the matters of local government, through the
promotion of open channels of communication” at 77.1 per cent of operational expenditure, “To improve and maintain current basic service delivery through specific infrastructural development projects” at 7.7 per cent and “To create an enabling environment for social development and economic growth” at 7.6 per cent. The Municipality will have to re-visit the operational budget priorities as per Schedule SA5.

The first three priorities in the capital budget are “To improve and maintain current basic service delivery through specific infrastructural development projects” at 99.1 per cent, followed by “To structure and manage the municipal administration to ensure efficient service delivery” at 0.84 per cent and “To encourage the involvement of communities in the matters of local government, through the promotion of open channels of communication” at 0.03 per cent. The capital budget is adequately aligned to the IDP and national priorities.

5.2 **BUDGET RESPONSIVENESS ASSESSMENT**

5.2.1 **Economic growth**

**Municipal economic growth and development initiatives**

- The Municipality states in its 2018/19 IDP Review that it intends to create an enabling environment for social development and economic growth and details a number of interventions such as reviewing its land-use practices, training and skills development of SMMEs, empowering local emerging contractors through catalytic infrastructure projects and fostering an entrepreneurial culture. An allocation of R68.044 million has been made in the operational budget towards the implementation of this strategic objective.

- The Municipality highlights the importance of water security and demand management to ensure the efficient and effective use of water by all and has put precautionary measures in place to react to the drought and its impact on the economy. Furthermore, the Municipality made allocations to water services supply infrastructure projects totalling R15.035 million for new infrastructure as well as the upgrade of existing infrastructure in order to give effect to this strategy.

5.2.2 **Employment**

- The Municipality’s 2016/17 Annual Report confirms that it is implementing public employment programmes through the Expanded Public Works Programme (EPWP) and has created the 2 306 job opportunities in an effort not only to bring relief to the unemployed, but also to stimulate the economy. The 2018/19 IDP Review have set a target of creating 1 600 job opportunities through the EPWP. According to
Budget Schedule SA18 and amount of R1.187 million is estimated in terms of the EPWP incentive grant for 2018/19.

- The Municipality has to ensure with the implementation of the capital budget that labour intensive methods are used in order to create job opportunities and address the high unemployment rate. The upgrade to the Charlesford P/Scheme bulk water project to which an amount of R11.115 million is allocated is an example of a large infrastructure project that could lead a number of job opportunities.

### 5.2.3 Quality of Life

- The Municipality largely addresses quality of life through the strategic objective: “To improve and maintain current basic service delivery through specific infrastructural development projects”. The alignment between this strategic objective and the operating budget as per Schedule SA5 should be re-visited. The trading services expenditure allocations amounts to R376.433 million (42.3 per cent of OPEX) and R39.800 million (66.1 per cent of CAPEX).

- The bulk of the trading services allocations in terms of OPEX (54.02 per cent) will be directed towards energy sources to fund the maintenance, growth and refurbishment of the electricity distribution network. Water management is the next highest priority at 20.9 per cent followed by waste water management (12.8 per cent) and lastly waste management (12.1 per cent). Trading services in terms of CAPEX prioritises water management (39.3 per cent) followed by energy sources (30.9 per cent), waste water management (28.04 per cent) and waste management (1.5 per cent).

The Municipality’s A10 projections in terms of the provision of basic services, corresponds with the total number of households stated in the 2018/19 IDP Review, with the exception of energy sources that is estimated at 24 585 households. The Municipality’s population are growing at 1.9 per cent per annum as well as its indigent population, however the number of households that would receive free basic services were not estimated in the Schedule A10 which was included in the budget report.
### SECTION 6: CREDIBILITY AND SUSTAINABILITY

#### 6.1 REVIEW OF THE NEW (2018/19) MTREF

**6.1.1 Past budget implementation outcomes**

**Table 3: Audited Annual Performance**

<table>
<thead>
<tr>
<th>Reporting Period</th>
<th>2015/16</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Adjusted Budget</td>
<td>Audited Outcome</td>
</tr>
<tr>
<td><strong>Financial Performance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property rates</td>
<td>174 430</td>
<td>173 148</td>
</tr>
<tr>
<td>Service charges</td>
<td>297 395</td>
<td>304 950</td>
</tr>
<tr>
<td>Investment revenue</td>
<td>5 200</td>
<td>9 599</td>
</tr>
<tr>
<td>Transfers recognised - operational</td>
<td>113 866</td>
<td>141 497</td>
</tr>
<tr>
<td>Other own revenue</td>
<td>101 753</td>
<td>119 805</td>
</tr>
<tr>
<td><strong>Total Revenue (excl. capital transfers and contributions)</strong></td>
<td>692 645</td>
<td>748 998</td>
</tr>
<tr>
<td><strong>Employee costs</strong></td>
<td>196 491</td>
<td>190 928</td>
</tr>
<tr>
<td><strong>Remuneration of councillors</strong></td>
<td>6 817</td>
<td>7 060</td>
</tr>
<tr>
<td><strong>Depreciation &amp; asset impairment</strong></td>
<td>25 918</td>
<td>28 577</td>
</tr>
<tr>
<td><strong>Finance charges</strong></td>
<td>13 650</td>
<td>21 361</td>
</tr>
<tr>
<td><strong>Materials and bulk purchases</strong></td>
<td>167 631</td>
<td>169 617</td>
</tr>
<tr>
<td><strong>Transfers and grants</strong></td>
<td>5 922</td>
<td>5 627</td>
</tr>
<tr>
<td><strong>Other expenditure</strong></td>
<td>265 238</td>
<td>287 196</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td>681 666</td>
<td>710 366</td>
</tr>
<tr>
<td><strong>Surplus/(Deficit)</strong></td>
<td>10 979</td>
<td>38 632</td>
</tr>
<tr>
<td><strong>Surplus/(Deficit) after capital transfers and contributions</strong></td>
<td>59 515</td>
<td>90 322</td>
</tr>
<tr>
<td><strong>Surplus/(Deficit) for the year</strong></td>
<td>59 515</td>
<td>90 322</td>
</tr>
<tr>
<td><strong>Capital expenditure</strong></td>
<td>107 810</td>
<td>89 812</td>
</tr>
<tr>
<td><strong>Transfers recognised - capital</strong></td>
<td>48 535</td>
<td>52 307</td>
</tr>
<tr>
<td><strong>Public contributions &amp; donations</strong></td>
<td>5 147</td>
<td>5 147</td>
</tr>
<tr>
<td><strong>Surplus/(Deficit) after capital transfers &amp; contributions</strong></td>
<td>59 515</td>
<td>90 322</td>
</tr>
<tr>
<td><strong>Surplus/(Deficit) for the year</strong></td>
<td>59 515</td>
<td>90 322</td>
</tr>
</tbody>
</table>

* The Municipality failed to present the audited information with their draft budget. In the absence of the audited figures, the LG Database was used to populate the table above.

Source: Knysna Municipality 2018/19: National Treasury LG database Budget Table A1
Overall performance Knysna Municipality has reported a few variances below the National Treasury norm for the implementation of the operating and capital budget. In this regard the 2016/17 budget performance was as follows:

- Operating revenue reported 0.1 per cent over-performance;
- Operating expenditure reported 0.8 per cent under-performance; and
- Capital budget reported 11.6 per cent under-performance.

In aggregate, the revenue total for 2016/17 reflects a par performance considering the 0.1 per cent positive variance which was mainly as a result of the over-performance in Property rates and Other revenue with receipts of R191.33 million and R1.00 million from an adjustment budget amounts.

The Municipality recorded a negative variance of -0.8 per cent in aggregate, for operating expenditure of which, material and bulk purchases (-R3.83 million) and Other expenditure (R6.03 million) were the main contributors to the underperformance.

The Municipality’s capital spending amounted to R96.40 million which is R12.69 million or 11.6 per cent less than the 2016/17 adjustment budget of R109.09 million. Variances experienced by capital projects funded from internally generated funds (-16.1%) materially under performed. The national norm for the implementation of the operating and capital budget is 95 - 100 per cent, as per National Treasury Circular No. 71.

**Risks and Recommendations:**

- The Municipality still recorded significant differences between the budget and the audited Annual Financial Statements for some of the operating line items which indicate that the Municipality is budgeting too conservatively and should consider revising its budget implementation policy as well as strictly adhering to it.
- The Municipality is advised to ensure that controls are in place to ensure that grant funding are spent as intended in order to mitigate the risk of having to return unspent grant funds to the National Revenue Fund and Provincial Revenue Fund during the roll-over process for both spheres of government.
- In view of the above findings it is recommended that the Municipality consider current and past spending trends in its budgeting methodology that will impact on future budgetary provisions.
EXPECTED OUTCOME FOR CURRENT FINANCIAL YEAR

Current Ratio:

The ratio is 1.97 times indicating that current assets exceed current liabilities and have the ability to pay its short-term debts. The norm is 1:5.1 to 2:1.1.

Liquidity Risks:

The Municipality’s liquidity risk remained stable for the period under review and indicating that the short term debt will be met for the financial year 2017/18.

6.1.2 Review of the Budget Assumptions

The budget assumptions are reviewed to determine if they are realistic and indicative of multi-year budgeting. The overview of budget assumptions is contained in pages 67 and 68 of the 2018/19 Draft Annual Budget and MTREF.

<table>
<thead>
<tr>
<th>No.</th>
<th>Description of the Budget Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Slow economic recovery; the anticipated growth for 2018 is 1.5% rising to 2.1% in 2021.</td>
</tr>
<tr>
<td>2.</td>
<td>The headline CPI forecasts from National Treasury of 5.3%, 5.4% and 5.5% were taken into consideration for the budget years 2018/19, 2019/20 and 2020/21 respectively.</td>
</tr>
<tr>
<td>3.</td>
<td>Councillor remuneration projected to decrease by 3.2% based on adjustment budget figures in 2016/17. Employee related costs projected to increase by 6.79% (SA22).</td>
</tr>
<tr>
<td>4.</td>
<td>2017/18 Adjustment Budget priorities and targets were adopted as the upper limits for the 2018/19 base line. Where appropriate a zero base approach were used.</td>
</tr>
<tr>
<td>5.</td>
<td>Knysna has experienced rapid population growth, particularly in the low income bracket.</td>
</tr>
<tr>
<td>6.</td>
<td>Service charges tariff increases are proposed (electricity 7.32%, water 7.77%, sanitation 15.6% and 174.54% and Refuse 6.0%).</td>
</tr>
<tr>
<td>7.</td>
<td>The municipality is a mSCOA pilot municipality and is experiencing challenges with complying with the mSCOA requirements.</td>
</tr>
<tr>
<td>8.</td>
<td>Cash flow and revenue collections are projected to remain consistent at average of 82% over the MTREF (SA10).</td>
</tr>
<tr>
<td>9.</td>
<td>Knysna Municipality received ten unqualified audits in a row with the municipality regressing from “clean” to “unqualified with findings” in the 2016/17 audit cycle.</td>
</tr>
<tr>
<td>10.</td>
<td>Currently the Municipality does not have a credit rating.</td>
</tr>
<tr>
<td>11.</td>
<td>For 2018/19 the projected operating revenue increases by 6.8 per cent, operating expenditure by 4.0 per cent and capital budget declines by 11.1 per cent.</td>
</tr>
<tr>
<td>12.</td>
<td>Households with a property value less R100 000 and less are classified as indigent household. The Municipality has provided for revenue forgone in the 2017/18 MTREF budget.</td>
</tr>
</tbody>
</table>

The above assumption takes into account the impact of VAT as per the guidelines issued by the South African Revenue Service and MFMA Circular No. 91.
The Municipality consulted its business and service delivery priorities and reprioritised crucial service delivery needs. The ageing infrastructure, population growth, limited own funding contributes to the main challenges the Municipality is experiencing.

The overall budget assumptions are credible, reasonable and aligned to National Treasury guidelines.

**BUDGET OVERVIEW**

Table 4: Budget Overview

<table>
<thead>
<tr>
<th>Description</th>
<th>2014/15</th>
<th>2015/16</th>
<th>2016/17</th>
<th>Current Year 2017/18</th>
<th>2018/19 Medium Term Revenue &amp; Expenditure Framework</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Audited Outcome</td>
<td>Audited Outcome</td>
<td>Audited Outcome</td>
<td>Original Budget</td>
<td>Adjusted Budget</td>
</tr>
<tr>
<td>Total Revenue (excluding capital transfers and contributions)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>813 157</td>
<td>829 143</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>811 980</td>
<td>854 406</td>
</tr>
<tr>
<td>Surplus/(Deficit)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1 177</td>
<td>(25 263)</td>
</tr>
<tr>
<td>Non-Cash Items</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>30 899</td>
<td>30 899</td>
</tr>
<tr>
<td>Depreciation &amp; asset impairment</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>30 899</td>
<td>30 899</td>
</tr>
<tr>
<td>Restated Result</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>32 075</td>
<td>5 636</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>137 512</td>
<td>166 599</td>
</tr>
<tr>
<td>Funding Sources</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>38 570</td>
<td>35 033</td>
</tr>
<tr>
<td>Transfers recognised - capital</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>58 101</td>
<td>78 136</td>
</tr>
<tr>
<td>Public contributions &amp; donations</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Borrowing</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>32 075</td>
<td>5 636</td>
</tr>
<tr>
<td>Internally generated funds</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>40 842</td>
<td>53 431</td>
</tr>
<tr>
<td>Cash/cash equivalents at the year end</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>107 284</td>
<td>66 601</td>
</tr>
</tbody>
</table>

Source: Knysna Municipality MTREF Budget 2018/19 - Schedules A1 & Feb 2018 IYM

Knysna Municipality has tabled an operating deficit budget for the 2018/19 financial year which is mainly caused by non-cash items like depreciation, asset and debt impairment.

An operating deficit does not automatically indicate a negative financial position, after discounting for non-cash items, it must be determined whether there are sufficient funds to cashback all commitments. Circular No. 55 states that if the Municipality’s budget shows a deficit it is indicative that there are financial imbalances that needed to be addressed.

Although the Municipality indicated that the projected cash flow obligations are supported by projected cash inflows as per Table A8, the resultant surplus for 2018/19 is questionable as the application of cash and investments are not adequately cash backed. Provisions in 2018/19 are projected to increase by 0.7 per cent from the
2017/18 adjusted budged and do not align to the past trends that reported 21 per cent increase as per the audited 2016 and 2017 Annual Financial Statements.

Furthermore, other working capital requirements (Table A8) is regarded to be greatly understated reflecting 0.9 per cent increase in outstanding debtors for 2018/19 whereas the Municipality reported 23.2 per cent year on year increase at February 2018 (Section 71 Report).

Based on the above understated commitments, the 2018/19 MTREF is regarded as an UNFUNDED budget.

The Municipality plans to take up total of R181.2 million of loans over the 2018/19 MTREF and the consequential capital repayments and interest costs places the financial model under severe pressure.

Financial sustainability is further impacted by the contraction of the capital programme projected to decline by 11.1 per cent in 2018 mainly due to funding challenges.

**Risks and recommendations:**

- The Municipality is reminded of NT Budget Circular No. 74, highlighting the importance of tabling funded budgets which is also regarded as one of the game changers in local government to ensure financial sustainability.

- As a result, the Municipality must table a plan in Council on how the 2018/19 MTREF will improve from an unfunded to a funded position.

- To ensure that sufficient surpluses are generated requires a committed approach followed by tough decisions to close the gap on operational deficits thereby increasing the realisable revenues and decreasing the spending programs.

- The capital expenditure budget is declining over the 2018/19 MTREF and may not contribute to the long term objectives, in this regard the Long Term Financial Plan should be reviewed to determine whether financial sustainability is achievable.

- Furthermore, the Municipality is advised to carefully assess infrastructure and capital projects to ensure the minimum will be effective in delivering on priorities and where possible to realise savings.

- The Municipality must consider the ability to repay the associated finance charges and ensure that borrowing funds are only used to finance infrastructure that is economically beneficial and generates revenue for the Municipality.
Table 5: Revenue and Expenditure link - Trading and Economic Services

<table>
<thead>
<tr>
<th>Standard Classification Description</th>
<th>Operating Revenue</th>
<th>Operating Expenditure</th>
<th>Net Result (surplus or deficit)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Budget Year 2018/19</td>
<td>Budget Year +1 2019/20</td>
<td>Budget Year +2 2020/21</td>
</tr>
<tr>
<td>Trading services</td>
<td>470 225</td>
<td>511 179</td>
<td>547 972</td>
</tr>
<tr>
<td>Energy sources</td>
<td>290 125</td>
<td>312 073</td>
<td>328 134</td>
</tr>
<tr>
<td>Water management</td>
<td>106 710</td>
<td>109 383</td>
<td>125 347</td>
</tr>
<tr>
<td>Waste water management</td>
<td>32 445</td>
<td>45 867</td>
<td>47 554</td>
</tr>
<tr>
<td>Waste management</td>
<td>40 945</td>
<td>43 856</td>
<td>46 936</td>
</tr>
</tbody>
</table>

Source: Knysna Municipality 2017/18 Budget Table A2 & A4

Electricity and Water management are the only services projected to yield surpluses across the 2018/19 MTREF.

Water waste management and Waste management is projected to result in trading deficits across the 2018/19 MTREF indicating that the sustainability of these economic services are at risk.

For Water waste management the deficit of R16.04 million in 2018/19 recovers partially and projecting a R5.03 million deficit in 2020/21 implying that the tariff structure is not fully cost reflective. The Municipality projected a 7.3 per cent increase in the tariff structure and although higher than CPI, it may not be adequate to ensure that the service is self-sufficient, addresses backlogs and further contributes to restore the ageing infrastructure.

More concerning is the downward deficit for Waste management. The Municipality indicated that it has no alternative but to transport waste to the intended new facility in Mossel Bay at exorbitant costs. However, the 6 per cent tariff increase is projected for 2018/19 which may be considered too conservative.

Risks and recommendations:

- The sustainability of trading services that projected deficits are at risk unless the Municipality realises a return over the medium term on the increased capital investments as a result of an expansion to the revenue base of the Municipality.

- Water service remains a risk and will continue to apply pressure on municipal revenue generation and collection levels as there is no certainty of how long the drought with prevail hence the Municipality must find a balance to maintain sustainability within affordable levels.
The Municipality is encouraged to budget for moderate surpluses for waste management to ensure that the required funding levels are maintained to guarantee that the provision for the rehabilitation of the landfill site is cash backed.

The Municipality should continue to explore ways of structuring the tariffs for Water waste management and waste management utility to encourage more efficient use of these services and to generate the resources required to fund the maintenance, renewal and expansion of the infrastructure required to provide the services.

The Municipality is commended on its intention to reduce the cost of the transportation of waste through the possibility of composting green waste.

### 6.1.3 Adequacy of Revenue Management Framework

**Main & Supporting Tables:** A2, A4, SA1, SA12(a) & (b), SA13(a) & (b) and SA25 - SA27

The total operating revenue budget is projected to increase by 6.8 per cent in 2018/19 from the 2017/18 adjusted budget and is expected to grow by 4.0 and 2.4 per cent for the two outer years. The operating revenue is mainly informed by services charges (41 per cent) and less reliance on operational grants (17 per cent) as indicated in the Figure 1 below.

**Figure 1: Main revenue sources**

![Pie chart showing main revenue sources for Knysna Municipality 2018/19](Source: Knysna Municipality MTREF Budget 2018/19 - Schedules A1)

Property rates revenue increased by 2.2 per cent in 2018/19 based on a 2.2 per cent increase in property rate tariff which is below inflation and below the directive of 3 - 6 per cent issued by National Treasury.
The General valuation roll which came into effect 1 July 2017 and the Supplementary valuation roll to be effected in April 2018 is expected to reduce the assessment rates revenue as a result of changes in a variety of categories such as fires, upheld appeals and a reduction in rateable improved business valuation.

The outstanding debt before impairment increased by 20.9 per cent from February 2016/17 to 2017/18 in relation to a 9 per cent tariff increase for the 2017/18 financial year; the Municipality is cautioned in the increase in debtors that is not linked to inflationary growth as it might indicate that the projected collection rate of 97.0 per cent may be overly optimistic.

The Municipality budgeted for a 7.3 per cent increase in the electricity tariff which is above the guideline issued by NERSA of 6.8 per cent (NT Budget Circular No. 91).

Electricity sales are the most significant component (29.4 per cent average over MTREF) of the operating revenue budget, suggesting a high level of reliance on this revenue source.

Electricity distribution losses of 8.9 per cent was noted for 2016/17 which is within the maximum range of 7 - 10 per cent and reflects a 5.3 per cent increase from the 2015/16 financial year. This deterioration is addressed by the Municipality’s capital investment in the electricity trading service.

The Municipality will embark on projects that will assist in ensuring that the cost of bulk electricity purchased is substantially reduce and will be aligned to smart cities principles.

Knysna has, as with the rest of the province, been impacted by the ongoing drought which has influenced all aspects of the water trade service. As National Treasury advised that all tariffs should be cost reflective, Knysna indicated that it has employed this methodology in its tariff setting for the 2018/19 draft budget.

Water sales are anticipated to increase by 7.7 per cent from 2017/18 which is informed by a tariff increase of 7.8 per cent.

Water distribution losses of 23.9 per cent in the 2016/17 AFS are within the norm (between 15 and 30 per cent as prescribed by MFMA Circular No. 7), regressing from 16.7 per cent in 2015/16. The Municipality indicated in the budget document that the 2018/19 budget will prioritised repairs and maintenance which is expected to increase by 14.6 per cent, however this was not translated in the budget Table A9.

Knysna Municipality has indicated that it will again be granting 6 kl free of charge to all indigents.
Knysna has applied 5.3 per cent tariff increase for refuse which is in line with National Treasury’s directive. The Municipality already imposed an 18 per cent increase on its consumers for this service in 2017/18 to make provision for the contribution of capital expense for the Eden Regional Landfill Facility.

The Municipality faces exorbitant costs in transporting its waste to the PetroSA waste management site situated in Mossel Bay and plans to promoting recycling as a buffer to help reduce the load and hence cost of transportation. However, concern is raised that this service is projected to operate at a loss over the 2018/19 MTREF.

The sewerage trade service has been operating at a loss and has been subsidised by property rates which is contrary to the directive issued by National Treasury that all trade service tariffs must be cost reflective. To this end, the Municipality will impose a 174.5 per cent increase in the tariff. The Municipality will continue to phase this directive in over 5 years in a smoothed approach factoring in the rising input costs of this trade service.

As a result of the implementation of iGRAP 1, fines account for an average of 12.7 per cent of the total revenue across the MTREF. This has resulted in a corresponding increase in debt impairment.

The supporting A-Schedule (SA18) does reconcile to the Provincial Gazette No. 7890 and the Division of the Revenue Bill 2018 in total. However, it was identified that in some cases, the Municipality does not make use of the grant names as provided for in the respective gazette and bill and in an isolated case, combined the Capacity Building Grant with the Human Settlements Development Grant. This should not be done as these grants have explicit conditions and will not promote data transparency and data integrity.

**Risks and recommendations**

- The revenue base is declining over the 2018/19 MTREF as the Municipality is struggling to grow its own revenue sources and thereby increases its reliance on grant funding which may not bode well with the municipal strategic objectives for the expansion of services given the decreasing national conditional grants.

- Property demand based revenues derived from property rates represent a critical source of income for municipalities to achieve their constitutional objectives, the Municipality should consider the adequacy of the proposed 2.2 per cent tariff increase in line with these objectives.
The Municipality must find a balance to structure tariffs to ensure sustainability and affordability also taking cognisance that costs towards water augmentation projects will eventually be recovered from consumers; thus if the Municipality generate strong surpluses for 2018/19, the costs burden to consumers in the future will be alleviated.

It is essential that the Municipality aligns its revenue management strategies with the principles of the National Game Changer, thereby improving its revenue management framework that targets improving internal controls, cash flow management, operational efficiencies and reduction of unnecessary and wasteful expenditure.

It is crucial that the collection process is highly efficient to reduce the outstanding debtors and improve the financial health position.

Provincial Treasury supports Municipality’s intention to promote recycling as a means to reduce the volume of waste transported, which theoretically should reduce the overall cost of transportation.

Knysna Municipality must budget adequately for the costs of the establishment of the Eden Regional Landfill Facility and ensure that the operations of waste management at least break-even as oppose to the trading deficits projected over the 2018/19 MTREF.

Provincial Treasury supports Municipality’s intention to promote recycling as a means to reduce the volume of waste transported, which theoretically should reduce the overall cost of transportation.

The Municipality is reminded to be cognisant of the National Treasury 2018/19 key focus areas in Circulars No. 89 and No. 91 respectively.

The Municipality should ensure that there is a clear link between the grants listed in the DORA and Provincial Gazette in order to mitigate any confusion that may arise to the reader and promote the integrity of the data.
6.1.4 Adequacy of Expenditure Management Framework

Figure 2: Operating Expenditure 2018/19

Source: A-Schedule, Knysna Municipality, Table A4

Main & Supporting Tables: A2, A4, SA1, SA18, SA21, SA23 - SA27

The total budgeted employee related costs of R243.04 million constitute 27.3 per cent of the total operating expenditure budget for the 2018/19 financial year and is within National Treasury’s norm of between 25 - 40 per cent per MFMA Circular No. 71.

The Municipality indicated that the Salary and Wage Collective Agreement for the period ending 31 June 2018 has come to an end and is under consultation. The Municipality also indicated that the organisational redesign process will be completed in the coming months. However, according to the figures presented in SA22, an increase of 1.2 per cent in employee costs is noted, while the headcount on SA24 was not completed by the Municipality. Provincial Treasury is cognisant that the Municipality is busy filling key vacancies.

Debt impairment is projected to increase by 8.5 per cent in 2018/19 from the 2017/18 adjusted budget in line with the headline CPI forecast and is considered reasonable when factoring in the implementation of iGRAP1 and past actual trends that have been realised.

Finance charges substantially increases by 42.4 per cent in 2018/19 MTREF as a result of the proposed loans the Municipality intend to take up. Although borrowings are considered an efficient and equitable mechanism to finance municipal capital investment needs, the affordability and impact on the deficit budget must be considered.
Contracted services are budgeted at 18.2 per cent of the total operating expenditure budget for 2018/19 which is substantially above the norm as prescribed by National Treasury in MFMA Circular No. 71 of 2 - 5 per cent highlighting the need for the Municipality to build capacity in order to reduce the expenditure of this category down to an acceptable level.

Transfers and grants made by the Municipality represents a 17.3 per cent decrease from 2017/18 which can be attributed to the Municipality forgoing the contribution towards community based initiatives for the 2018/19 MTREF. Furthermore, the Municipality did not budget for Cash transfers to Entities/Other external mechanisms for the outer two years of the MTREF which substantially reduces the total budget to R0.69 million for 2019/20 and 2020/21.

The Municipality is commended for the efforts of detailing the other expenditure by type category (SA1). It must be noted that general expenses are on average 0.1 per cent of the total operating expenditure over the MTREF. This is well within the required norm of less than 10 per cent of total operating expenditure as prescribed by NT.

Repairs and maintenance as a percentage of the asset value of property plant and equipment amounts to an average of 4.5 per cent over the MTREF which is below the 8 per cent as recommended by National Treasury.

**Risks and recommendations:**

- The substantial increase in the finance charges over the MTREF due to the proposed additional borrowings that the Municipality intends to take up is placing additional stress on the budget. The Municipality needs to balance this with the financial sustainability of the Municipality given the external pressures of the current state of the economy.

- The Municipality is advised to build and retain internal capacity to curb costs specifically relating to contracted services and is encouraged to further cut back on expenses to sustain the healthy financial position whilst at the same time providing acceptable levels of service delivery.

- The Municipality’s efforts to prioritise repairs and maintenance are noted and the Municipality should continue in this way to ensure adequate provision is made for the sustainability of its infrastructure assets. However, repairs and maintenance for Community assets drops significantly over the MTREF (refer to Table SA34c) which raises concern as the decrease on these assets has a direct impact on the resources used by the communities.
Repair and maintenance levels should be examined by trend, benchmarking and engineering recommendations with specific focus on significant water losses which may be attributable to the ageing infrastructure, low expenditure on capital asset renewal and insufficient repairs and maintenance of reticulation infrastructure.

The Municipality is advised to re-examine expenditure patterns to prioritise cost containments and apply stringent budget controls to mitigate the occurrence of irregular, unauthorised, fruitless and wasteful expenditure given the past trends in this regard.

The Draft Cost Containment Regulation No. 41445 dated 16 February 2018 indicates that municipalities must revise or develop and implement a cost containment policy which must be adopted by the municipal council, and be consistent with the Act and Regulations and be reviewed annually. The Municipality is advised to prioritise development of the policy as this Regulation will become effective on 1 July 2018.

6.1.5 Adequacy of Capital Budget

The capital budget prioritises economic infrastructure which contribute to the vision of the National Development Plan. The following figure indicates the municipal investments towards service delivery.

Figure 3: Capital expenditure allocated towards trading services

The Municipality’s largest capital investment relates to trading services and more specifically water infrastructure (R166.28 million over the MTREF) which is necessary in view of ongoing drought conditions and the increase in water distribution losses encountered by the Knysna Municipality.

The capital budget declines substantially projecting -11.1 per cent and -23.3 per cent reductions for 2018/19 and 2019/20 respectively and the Housing programme reflecting the biggest budget cut of -R26.1 million or -72.8 per cent in 2018/19.
The Municipality is highly reliant on borrowings as its main capital funding source (47.3 per cent) with grant funding and internally generated funds contributing 29.8 and 22.9 per cent respectively towards the capital funding mix.

It is noted that the Municipality intend to acquire external loans of R66 million in 2018/19 for various capital projects as listed in the draft capital budget.

The Municipality’s debt to revenue ratio calculated for the 2018/19 financial year amounts to 30.4 per cent which is below the accepted ceiling of 45 per cent as stipulated in MFMA Circular No. 71.

The projects in the Municipality’s draft capital budget are aligned to the strategic goals and objectives of the IDP.

The Municipality’s revised Cash, Liability, Borrowing and Investment policy with effect 1 July 2018 to strengthen processes to maintain a financial position.

**Risks and recommendations:**

- The gearing ratio indicates that the Municipality does have the capacity to take up additional borrowings however, the Municipality needs to take into account the operating deficit and the cash flow position which is impacted by non-reporting working capital items together with the unfunded budget.

- A robust capital improvement turnaround strategy should be considered with monitored key actions in order to respond adequately to the IDP objectives and improve sustainability of the Capital Replacement Reserve inclusive of a funding model which optimises the leveraging of grant funding, borrowings and contributing to the CRR. It should address initiatives on how the Municipality plans to supplement and reprioritise the capital program in light of the reductions of the MTBPS allocations to Local Government.

- The Municipality must also ensure that the capital budget reflect consistent effort to address the backlogs in basic services and the renewal of the infrastructure of existing network services, thus has to find a balance between investing in assets that can expand the revenue base versus social investment spending.

- Furthermore, the capital programme should be reviewed to be in line with the Municipality’s Long Term Financial Plan to ensure that financial sustainability and future growth is appropriately considered.

- In terms of the National Game Changer, Asset Management must be considered a key spending priority for municipalities as infrastructure is pivotal to sustainable and continuous service delivery and to generate associated revenue.
6.1.6 Core Systems for Municipal Infrastructure Delivery

A 2002 study by Government on the delivery of infrastructure identified a shortfall in effective and systematic delivery systems as well as a skills deficit as impediments to effective delivery, hence the establishment of the Infrastructure Delivery Improvement Programme (IDIP) in 2004. It was within this Programme that the concept of an Infrastructure Delivery Management System (IDMS) was established and informed by the answers to questions posed to projects, namely: Is it suitable, is it feasible, is it credible, does it deliver value for money and does it add to public value? In 2010 the IDIP Toolkit was released, providing a documented body of knowledge and set of processes, representing good practices in the delivery management of infrastructure.

A number of developments have taken place since the publication of the 2010 Toolkit, namely:

- A Medium Term Expenditure Framework (MTEF): Budgeting for infrastructure and capital planning guidelines (2010);
- A Model Supply Chain Management (SCM) Policy for Infrastructure Procurement and Delivery Management in terms of section 168 of the Municipal Finance Management Act of 2003 (Act 56 of 2003) (MFMA) during November 2015 in support of the MFMA SCM Regulation 3(2);
- MFMA Circular No. 80: Municipal Financial Systems and Processes requirements in support of the Municipal Standard Chart of Accounts (mSCOA) issued in terms of the Municipal Finance Management Act No. 56 of 2003;
- The publication of several South African national standards by the South African Bureau of Standards covering areas such as construction procurement, project management, maintenance and asset management; and
- The development of a Cities IDMS aimed at metropolitan councils. The IDMS is designed to be linked to multi-year budgeting with a strong focus on outcomes, value for money and the effective and efficient functioning of the entire value chain of infrastructure delivery.

Provincial Treasury would like to do assessments on the implementation of the Standard for Infrastructure Procurement and Delivery Management (SIPDM) on a few selected municipalities to get an understanding of the progress made in this regard, any challenges experienced, etc. The intention with these assessments is to provide feedback to National Treasury as well as to get an understanding of the kind of assistance that might be required by municipalities to comply with the SIPDM. It will be appreciated if municipalities could indicate their willingness to be assessed.
6.2 ESTABLISH THE LEVEL OF FUNDING THE BUDGET

The Municipality has budgeted for an operating deficit in 2018/19 mainly attributable to non-cash items however, the trajectory over the MTREF is budgeted to increase to surpluses in the outer years.

The positive and upward trend of the cash and cash equivalent position and cash commitments over the MTREF suggest that the financial sustainability of the Municipality has been considered and prioritised. However, the Municipality tabled an unfunded budget for the 2018/19 financial year which is in contravention of the MFMA prescripts that the state the budget must be funded. To this end, this will result in an automatic non-compliance.

Current assets exceed current liabilities by 1.12:1 times for 2018/19, which falls below the norm issued by National Treasury of 1.5 - 2:1 and increases to 1.4 - 1 in 2020/21. This indicates that the Municipality will be in a position to meet its short term obligations although not at a desirable level.

The level of investments in assets over the 2018/19 MTREF declines from 14 per cent to 12 per cent, and although within the norm of 10 - 20 per cent, the downward trend is indicative of lower spending in infrastructure and hold potential risks to service delivery and diverge from the Municipality’s capital spending priorities.

Furthermore, the community growth will be increasing over the MTREF period placing additional challenges on the municipal financial resources.

6.2.1 Table A6 – Financial Position

**Purpose**

To undertake an assessment of the overall credibility of the budget funding (Table A6) and to establish the working capital requirements.

The Municipality indicates working capital will fluctuate over the MTREF period.

**Current Ratio:**

The current ratios of 1.27:1 (2018/19), 1.60:1 (2019/20) and 1.79:1 (20120/21) indicating that the liquidity of the Municipality is increasing over the MTREF period. The ratio result is below in 2018/19 and for the rest of the MTREF period within the National Treasury (NT) acceptable norm of 1:5:1 to 2:1:1. The ratio results indicate the Municipality will have sufficient liquid assets to meet its short term obligations. The more capable the Municipality will be to pay its current or short-term obligations and provide for a risk cover to enable it to continue operations at desired levels.
**Debt (Total Borrowings) to Total Operating Revenue**

2018/19: 36%
2019/20: 31%
2020/21: 27%

The ratio result will improve from 36 per cent in the 2018/19 financial year to 27 per cent in the 2020/21 financial year and indicates that the Municipality still have the capacity to take increase funding from borrowings, however, this should be considered within the cash flow requirements of the Municipality. The ratio is within the National Treasury norm of 45 per cent. It is noted that the Municipality will be taken up an external borrowing over the MTREF period.

**Summary**

- The current ratio is above 1.5 - 2:1.
- Short term obligation will be met.
- The debt ratio is within the NT norm.
- Community growth will fluctuate over MTREF period.

**6.2.2 Table A7 - Cash Flow**

**Purpose**

- To undertake an assessment of the overall credibility of the budget funding (Table A7) and of the projected cash and cash equivalents over the MTREF.
- To assess funding of the budget in terms of sections 18 and 19 of the Municipal Finance Management Act.

It should be noted that the alignment of the budgeted amounts between the supporting schedules and A-Schedules indicates credibility and sustainable. The budgeted monthly cash flow 2018/19 reconciles when comparing A7 to SA30. SA30 indicates Total Cash Receipts will exceed Total Cash payments and a net increase in cash held.

The Municipality will generate sufficient revenue and cash from its operations.
Capital Cost (Interest Paid and Redemption)/Total Operating Expenditure

The Municipality is below and above the capital cost (interest paid and redemption total) 6 per cent to 8 per cent norm over the MTREF period. The norm will be above in the financial year 2019/20 and below the norm in the financial year 2020/21. This could indicate that the Municipality has the capacity to take on additional financing from borrowing to invest in infrastructure projects. The Municipality will be taken up external borrowings over the MTREF period.

Operating within the norm could indicate that the Municipality has the capacity to take on additional financing from borrowing to invest in infrastructure projects or it could relate to cash flow problems where it is unable to access borrowed funds or the funding decisions of the Municipality impacts of these levels.

Summary of cash flow planning findings:

The budgeted monthly cash flow 2018/19 reconciles when comparing A7 to SA30.

The Municipality indicates a positive cash position and the cash inflows are meeting obligations.

SA30 indicates Total Cash Receipts will exceed Total Cash Payments and a net increase in cash held.

The Municipality will be taken up external borrowings over the MTREF period.

6.2.3 Table A8 - Application of Cash & Investments

Purpose - To assess the Municipality’s application of available cash and investments (reference to Circular No. 42 & Table A8).

The positive closing cash/cash equivalents are correctly reflected in the Table A8. A continuous increase in closing cash/cash equivalent is due to increase in cash receipts leading to an increase in surplus. It is evident that the Municipality has sound financial ability however a decrease in working capital is a concern. It is noted that the creditors due will more than debtors indicating that the Municipality will be utilising the surplus to cover for the shortfall in outstanding debtors.

6.3 SUSTAINABILITY OVER 2018/19 MTREF

The Municipality’s cash flow statement and the cash backed reserves for the 2018/19 MTREF indicate that the budget is not funded owing to a deficit projected in 2018/19.
### Table 6: Funding Compliance

<table>
<thead>
<tr>
<th>Description</th>
<th>2014/15 Audited Outcome</th>
<th>2015/16 Audited Outcome</th>
<th>2016/17 Audited Outcome</th>
<th>Original Budget</th>
<th>Adjusted Budget</th>
<th>2018/19 Budget Year</th>
<th>2019/20 Budget Year +1</th>
<th>2020/21 Budget Year +2</th>
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<tbody>
<tr>
<td><strong>Funding measures</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash/cash equivalents at the year end - R'000</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>107 284</td>
<td>66 601</td>
<td>74 157</td>
<td>151 822</td>
<td>207 249</td>
</tr>
<tr>
<td>Cash + investments at the yr end less applications - R'000</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>56 760</td>
<td>26 897</td>
<td>25 013</td>
<td>92 518</td>
<td>136 897</td>
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<tr>
<td>Cash year end/monthly employee/supplier payments</td>
<td>–</td>
<td>–</td>
<td>–</td>
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<td>1.1</td>
<td>1.1</td>
<td>2.4</td>
<td>3.2</td>
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<tr>
<td>Surplus/(Deficit) excluding depreciation offsets: R'000</td>
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<td>–</td>
<td>–</td>
<td>59 277</td>
<td>54 835</td>
<td>55 817</td>
<td>103 113</td>
<td>76 749</td>
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<td>Service charge rev % change - macro CPIX target exclusive</td>
<td>N.A.</td>
<td>(6.0%)</td>
<td>(6.0%)</td>
<td>(6.0%)</td>
<td>(6.0%)</td>
<td>(0.4%)</td>
<td>(0.4%)</td>
<td>0.3%</td>
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<td>Cash receipts % of Ratepayer &amp; Other revenue</td>
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<td>0.0%</td>
<td>0.0%</td>
<td>95.1%</td>
<td>82.0%</td>
<td>82.0%</td>
<td>82.1%</td>
<td>82.2%</td>
</tr>
<tr>
<td>Debt impairment expense as a % of total billable revenue</td>
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<td>0.0%</td>
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<td>20.0%</td>
</tr>
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<td>Capital payments % of capital expenditure</td>
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<td>100.0%</td>
<td>98.4%</td>
<td>97.9%</td>
<td>97.4%</td>
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<td>Borrowing receipts % of capital expenditure (excl. transfers)</td>
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<td>0.0%</td>
<td>0.0%</td>
<td>48.6%</td>
<td>39.6%</td>
<td>39.6%</td>
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<tr>
<td>Grants % of Govt. legislated/gazetted allocations</td>
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<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
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<tr>
<td>Current consumer debtors % change - incr(dec)</td>
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<td>0.0%</td>
<td>0.0%</td>
<td>(10.7%)</td>
<td>0.9%</td>
<td>1.1%</td>
<td>1.3%</td>
</tr>
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<td>Long term receivables % change - incr(dec)</td>
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<td>0.0%</td>
<td>0.0%</td>
<td>(100.0%)</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>R&amp;M % of Property Plant &amp; Equipment</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>6.3%</td>
<td>5.9%</td>
<td>5.2%</td>
<td>5.6%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Asset renewal % of capital budget</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>38.9%</td>
<td>22.5%</td>
<td>25.7%</td>
<td>22.2%</td>
<td>25.9%</td>
</tr>
</tbody>
</table>

Source: Knysna Municipality, Table 2018/19 Budget Table SA10

Knysna Municipality is projecting to increase in its cash and cash equivalents balances over the 2018/19 MTREF and further indicates this may be sufficient to cash back the relevant reserves and accumulated funds. However, it is noted that liabilities (working capital and provisions, refer Table A8) may be understated.

The Municipality is also projecting for cash coverage ratios of 1.1 times and 2.4 times in 2018/19 and 2019/20 respectively, which are below the benchmark of at least 3 months indicating further signs of financial distress and increases the financial risks.

In addition, the Municipality is projecting for a decline in the revenue levels which raises further concern due to the low and downward trajectory of the service charges revenue. The ratio outcomes of -0.4, 0.3 and 0.4 over the MTREF is an indication that the revenue growth is below inflation and sluggish, which could be impacted by reduction in consumption patterns, the drought experienced and too conservative tariffs.

The cash receipts as a percentage of rate payers is projected at an average of 82.1 per cent over the 2018/19 MTREF indicates a low rate at which funds will be collected. This does not support the assumption of 95 per cent collection rate in the budget document. This measure and performance objective will have to be meticulously managed.
Consistent under provision for repairs and maintenance and under investment in asset renewal will compromise the reliability of delivering basic services and compromise the credibility or sustainability of the budget in the medium to long term.

The Municipality is encouraged to continue to explore resourceful ways of structuring tariffs to encourage more efficient use of the services and to generate sufficient funds to fund the maintenance, renewal and expansion of the infrastructure required to provide basic services.

**Forecasting and Multi-Year Budgeting**

The accuracy of the budget forecasting is questionable on account of the A-Schedule (Excel) and the budget documents not reconciling namely SA25, SA26, SA27 and SA30.

The figure below indicated the capital multi-year planning.

*Figure 4: Single year projects versus multi-year projects*

![Figure 4: Single year projects versus multi-year projects](image)

Source: Knysna Municipality 2017/18 Table SA28

The capital budget has placed emphasis on multi-year projects at 58.5 per cent and single-year projects at 41.5 per cent for 2018/19 per which supports the principle of forward planning for capital projects and programmes. This proportion then drops over the MTREF to 53.7 per cent in 2020/21 as the multi-year projects are completed and shift into operation.
Risks and recommendations

- The Municipality should ensure that the budget allocations are based on business plans as informed by the 4th Generation IDP and assess the relevance of the expenditure in relation to the strategic objectives of the service delivery imperatives.

- Schedules SA28 and SA29 needs to be informed by project implementation plans from the project managers in order to get an accurate and true reflection of the planned capital expenditure.

- SA25, SA26, SA27 and SA30 in the Municipality’s A-Schedules did not reconcile to the tabled document submitted to council for consideration. The Municipality is advised to work from a master file from where all figures in the relevant documents are populated from to ensure reconciliation between the respective budget documents, until such time that mSCOA is fully implemented on the Municipality’s financial system.

- The necessary corrections must be made to SA25, SA26, SA27 and SA30 to ensure accuracy and transparency in the build up to the adoption of the budget by 31 May 2018.
SECTION 7: KEY FINDINGS, RISKS AND RECOMMENDATIONS

This section outlines the main points and risks/recommendations based on the LG MTEC Assessment.

INTEGRATED PLANNING

- The 2018/19 Draft Reviewed IDP does not reflect a Financial Plan inclusive of budget projections for the next 3 years and the key performance targets determined in terms of Section 41 of the MSA reflected for a 5-year period as required in terms of Section 26 of the MSA and its Regulations.

- The 2018/19 Draft Reviewed IDP reflects that the Municipality is experiencing challenges with water sustainability that have resulted in the need for the Municipality to implement Level 3 water restrictions.

- A water sustainability assessment conducted by DLG for all Western Cape municipalities reflects that the Municipality has been adversely impacted by the current hydrological drought.

- The Western Cape Disaster Management Centre (WCDMC) recently completed a Disaster Risk Assessment for the Municipality which identifies all the hazards and the disaster risks prevalent in the area.

- The 2018/19 Draft Reviewed IDP is responsive to changing circumstances, given the context of the recent fires, through ensuring that disaster management forms part of the Municipality’s key strategic objectives.

- The MERO indicates the potential for agri-processing in Knysna, however, the 2018/19 Draft Reviewed IDP does not reflect this aspect. Agri-processing is identified as one of three areas with great potential in which the province can grow the economy.

- The 2018/19 Draft Reviewed IDP reflects that the Municipality has an outdated macro structure which compromises the Municipality’s ability to effectively deliver on its mandate and give effect to its strategic objectives.

- The Municipality should consider the extent to which the changes to the macro-organogram may result to an amendment of the 2017 - 2022 IDP.
ENVIRONMENTAL AND DEVELOPMENT PLANNING ANALYSIS

- It is recommended that the Municipality see through and conclude the full request made by the Minister on 11 July 2017, in which he requested the SDF be put out for a further period of public participation, comments to be considered and the SDF adopted by the Municipality. The matter will only be considered closed once the final step in the request is undertaken.

- It is recommended that the Municipality develops an Alien Invasive Management Plan and submits to the relevant authorities accordingly.

- The ten-page Climate Change Advisory developed for Knysna Municipality in 2016, is still relevant and should be checked against by the Municipality for guidance on enhancing climate change responses from sectors within their IDP implementation.

- Knysna Municipality has not formulated and/or submitted a 3rd generation IWMP and is encouraged to do so and submit to the Department for endorsement.

- Furthermore, the Municipality does not have a designated waste management officer and one must therefore be duly appointed.

BUDGET RESPONSIVENESS

- The Municipality did not complete the Excel version of supporting Tables SA5 and SA6. The budget alignment to the IDP through supporting budget Schedules SA5 and SA6 were included in the budget report that was tabled in council, however the budget is therefore not fully aligned with the IDP.

- The Municipality’s budget is responsive to promoting economic growth and employment opportunities and accommodates the National Development Plan targets, based on the initiatives reflected in the budget.

- The Municipality made provision for infrastructure development and has included a number of infrastructure projects that will either finance new or upgrade existing infrastructure in the areas of access to water, electricity, sanitation and waste management.

- The Municipality’s budget responds adequately to the need for basic services noted in the IDP Review. The projections in Table A10, however corresponds with projections in the 2018/19 IDP Review as well as the 2016/17 Annual Report.
CREDIBILITY AND SUSTAINABILITY OF THE BUDGET

- The Municipality is commended for the proficiency and explanatory 2018/19 MTREF Budget Document tabled within the legislative timeframes.

- As a result of understated cash commitments, the 2018/19 MTREF budget is regarded as an UNFUNDED budget and do not comply with the MFMA requirements that any commitments at year-end must be cash backed.

- Furthermore, the inability to augment the revenue base and implement tough collections strategies results in weak cash coverage and places the Municipality at risk of not meeting its monthly obligations which is an indication of financial distress.

- The high reliance on borrowings which grows substantially over the 2018/19 MTREF is considered a further financial risk resulting in additional cost burdens on the deficit budget and which negatively impact on the financial recovery and on future tariffs.

- The unsustainable cash position should be addressed as a matter of urgency and consideration given to implementation of various interventions such as:
  
  - The cash generated is to be prudently appropriated to restore the cash coverage, liquidity and improving the capital replacement reserve. The Municipality should project to increase realisable revenue by at least 2 percentage points above CPI through a combination of services tariff structure and increase in consumptions for services.
  
  - Strengthening of operational activities through stabilisation of the collection rate to at least 97 per cent and managing operating expenditure effectively by further reducing the expenditure allocations and rationalisation of spending priorities.
  
  - Continue implementing effective internal controls to ensure that financial sustainability is attained and maintained in light of the prevailing economic conditions and fiscal constraints the Municipality faces.
  
  - Invest more of own resources by building partnerships with the private sector for infrastructure delivery for the period ahead.
Improvement in the capital project planning and management should be considered in view of the Municipality’s long term strategic objectives. The declining capital programme is a concern as this have a direct impact on opportunities for the investment on new and existing infrastructure, and may hamper the delivery of basic services if not consistent with the growth in the population of the town.

- The Municipality should continue to monitor action plans to ensure that grants and subsidies are being spent efficiently.

- The continuous allocation of insufficient funds for assets repairs and maintenance can compromise the sustainability of the budget, in this regard repairs and asset maintenance should be examined by trend, benchmarking and engineering recommendations.

- It is imperative that the Municipality prepare the 2018/19 MTREF budget in the mSCOA financial system and that all A1-Schedules are produced directly from the financial system. Where necessary the prior year audit outcomes must be populated manually.

- The challenge is to do more with the available resources to address the rising demand for more and better services while also facing larger reductions in allocations from National Treasury. Thus the application of sound financial management principles for the compilation of the final budget and implementation plan is essential and critical to ensure that the Municipality remains financially viable and that sustainable municipal services are provided economically and equitably to all communities.