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Municipality Munisipaliteit uMasipala

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Adjustments Budget Report

(Section 28 of the MFMA)

February 2021



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1. INTRODUCTION

- 1.1 Section 72(1) of the Municipal Finance Management Act (MFMA) requires from the Municipal Manager, as Accounting Officer of the Municipality, to submit a mid-year budget assessment report to the Executive Mayor by 25 January of each year detailing the state of the Municipality's capital and operational budget, based on the Section 71 reports submitted; the Municipality's service delivery performance for the first half of the financial year taking into account the service delivery targets and performance indicators set in the Service Delivery and Budget Implementation Plan (SDBIP); and, also taking into account the previous year's Annual Report and progress made on resolving problems identified in the Annual Report.
- 1.2 The Mid-Year Budget Assessment report, tabled in Council on 28 January 2021, addressed only the financial related matters (budget versus actual for operating income, operating expenditure and capital expenditure) and progress made on the financial related concerns identified in the latest Annual Report. The Municipality's service delivery performance assessment on the service delivery performance indicators, as specified in the SDBIP, were addressed in a separate report.
- 1.3 Section 28 of the MFMA determines that:

*“(1) A municipality may revise an approved annual budget through an adjustments budget **[which is the case]**.*

(2) An adjustments budget –

- (a) Must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year **[which is the case]**;*
- (b) May appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for **[which is the case]**;*
- (c) May, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality **[which is not the case]**;*
- (d) May authorise the utilisation of projected savings in one vote towards spending under another vote **[which is the case]**;*
- (e) May authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council **[not applicable]**;*
- (f) May correct any errors in the annual budget **[which is the case]**; and*

- (g) *May provide for any other expenditure within a prescribed framework [not applicable].*
- (3) *An adjustments budget must be in a prescribed framework [which is the case].*
- (4) *Only the mayor may table an adjustments budget in the municipal council, but an adjustments budget in terms of subsection (2)(b) to (g) may only be tabled within any prescribed limitations as to timing and frequency [which is the case].*
- (5) *When an adjustments budget is tabled, it must be accompanied by –*
 - (a) *An explanation how the adjustments budget affects the annual budget [which is the case];*
 - (b) *A motivation of any material changes to the annual budget [which is the case];*
 - (c) *An explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years [which is the case]; and*
 - (d) *Any other supporting documentation that may be prescribed [which is the case].*
- (6) *Municipal tax and tariffs may not be increased during a financial year [which is not the case].”*

1.4 Section 54 of the MFMA requires of the Executive Mayor to consider the Section 71 and 72 reports and to take appropriate action, if needed, to ensure that the approved budget is implemented in accordance with the SDBIP.

1.5 The annual operating and capital budgets have been evaluated and adjusted based on the above-mentioned legislative requirements. This report is a summary of the main budget issues arising from the budget assessment process. It compares the process of the budget to the projections contained in the Service Delivery and Budget Implementation Plan (SDBIP). No taxes or tariffs will be adjusted.

1.6 Regulation 23(1) of the Municipal Budget and Reporting Regulations determines that:

“An adjustments budget referred to in section 28(2)(b), (d) and (f) of the Act may be tabled in the municipal council at any time after the mid-year budget and performance assessment has been tabled in the council, but not later than 28 February of the current year [which is the case].”

1.7 Section 32 of the MFMA relates to unauthorised, irregular or fruitless and wasteful expenditure and determines that:

- “(1) Without limiting liability in terms of the common law or other legislation –*
- (a) A political office-bearer of a municipality is liable for unauthorised expenditure if that office-bearer knowingly or after having been advised by the Accounting Officer of the municipality that the expenditure is likely to result in unauthorised expenditure, instructed an official of the municipality to incur expenditure;*
 - (b) The Accounting Officer is liable for unauthorised expenditure deliberately or negligently incurred by the Accounting Officer, subject to subsection (3);*
 - (c) Any political office-bearer or official of a municipality who deliberately or negligently committed, made or authorised an irregular expenditure, is liable for that expenditure; or*
 - (d) Any political office-bearer or official of a municipality who deliberately or negligently made or authorised a fruitless and wasteful expenditure is liable for that expenditure.*
- (2) A municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure –*
- (a) In the case of unauthorised expenditure, is –*
 - (i) Authorised in an adjustments budget; or*
 - (ii) Certified by the municipal council, after investigation by a council committee, as irrecoverable and written off by the council; and*
 - (b) In the case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written off by the council.*
- (3) If the Accounting Officer becomes aware that the council, the mayor or the executive committee of the municipality, as the case may be, has taken a decision which, if implemented, is likely to result in unauthorised, irregular or fruitless and wasteful expenditure, the Accounting Officer is not liable for any ensuing unauthorised, irregular or fruitless and wasteful expenditure provided that the Accounting Officer has informed the council, the mayor or the executive committee, in writing that the expenditure is likely to be unauthorised, irregular or fruitless and wasteful expenditure.*
- (4) The Accounting Officer must promptly inform the mayor, the MEC for local government in the province and the Auditor-General, in writing, of –*
- (a) Any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality;*

- (b) *Whether any person is responsible or under investigation for such unauthorised, irregular or fruitless and wasteful expenditure; and*
- (c) *The steps that have been taken –*
 - (i) *To recover or rectify such expenditure; and*
 - (ii) *To prevent a recurrence of such expenditure.”*

1.8 Section 78(1)(c) of the MFMA determines that:

“Each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that any unauthorised, irregular or fruitless and wasteful expenditure and any other losses are prevented.”

1.9 Section 81(1)(b) of the MFMA determines that:

“The Chief Financial Officer of a municipality must advise the Accounting Officer on the exercise of powers and duties assigned to the Accounting Officer in terms of this Act.”

1.10 As such, any expenditure incurred that does not relate to an approved budget and to the limits of the amounts appropriated for the different votes in an approved budget (Section 15 of the MFMA), will be qualified as unauthorised, irregular or fruitless and wasteful expenditure by the Auditor-General. Over-expenditure on line items, following the approval of the Adjustments Budget, cannot be allowed should Council expect to attain an unqualified audit opinion for the 2020/2021 financial year. The approval of any over-expenditure should therefore not be condoned. Virements in compliance with the approved Virement Policy and within the limits of the approved budget will be allowed.

1.11 The main adjustments budget monitoring issues are outlined in sections 2 and 3 of this report. Section 4 of the report deals with the MFMA Circular 71 financial ratios based on the unaudited 2019/2020 annual financial statements submitted to the Auditor-General for audit. Appropriate recommendations are contained in section 5, followed by the applicable appendices to the report.

2. HIGH LEVEL OPERATING ADJUSTMENTS BUDGET

2.1 OPERATING REVENUE PER CATEGORY

2.1.1 The high level adjustments budget summary of operating revenue per category is presented in Table 1 below.

Row Number	Description	Budget Year 2019/2020		Budget Year 2020/2021									
		Final Adjustments Budget	Unaudited Outcome	Original Budget	Roll-Over Adjustments Budget	Adjustments Budget (Including Virements)	Year-to-Date Actual Revenue 31/01/2021	Projected Revenue for the Year	Revised Adjustments Budget Revenue	Positive / (Negative) Variance (E to I)	Positive / (Negative) % Variance	Positive / (Negative) Variance (C to I)	Positive / (Negative) % Variance
Column Reference	A	B	C	D	E	F	G	H	I	J	K	L	M
1	Property Rates	229 279 200	211 839 034	236 157 576	236 157 576	236 157 576	227 713 053	230 163 416	229 519 410	-6 638 166	-2,8%	17 680 376	8,3%
2	Service Charges: Electricity Revenue	270 773 000	259 990 687	287 615 082	287 615 082	287 615 082	168 912 983	268 841 715	271 878 770	-15 736 312	-5,5%	11 888 083	4,6%
3	Service Charges: Water Revenue	89 158 723	64 144 094	75 538 140	75 538 140	75 538 140	45 679 271	66 931 032	66 763 850	-8 774 290	-11,6%	2 619 756	4,1%
4	Service Charges: Sanitation Revenue	35 884 150	26 770 818	36 960 674	36 960 674	36 960 674	27 826 281	27 987 186	28 478 980	-8 481 694	-22,9%	1 708 162	6,4%
5	Service Charges: Refuse Revenue	31 845 900	23 083 568	35 667 408	35 667 408	35 667 408	26 737 373	26 867 956	26 866 620	-8 800 788	-24,7%	3 783 052	16,4%
6	Rental of Facilities and Equipment	5 455 600	5 820 314	5 728 380	5 728 380	5 728 380	3 126 710	5 526 270	5 664 555	-63 825	-1,1%	-155 759	-2,7%
7	Interest Earned: External Investments	4 409 610	4 687 497	4 721 608	4 721 608	4 721 608	1 963 650	3 448 222	3 448 222	-1 273 386	-27,0%	-1 239 275	-26,4%
8	Interest Earned: Outstanding Debtors	14 558 900	9 658 131	16 356 525	16 356 525	15 913 740	8 448 377	13 523 939	15 057 084	-1 299 441	-7,9%	5 398 953	55,9%
9	Fines, Penalties and Forfeits	116 708 000	94 152 136	122 543 400	122 543 400	122 543 400	7 793 806	123 633 863	98 448 703	-24 094 697	-19,7%	4 296 567	4,6%
10	Licences and Permits	1 664 030	1 194 339	1 747 232	1 747 232	1 747 232	863 105	1 506 528	1 495 657	-251 575	-14,4%	301 318	25,2%
11	Agency Services	3 000 000	3 064 946	3 150 000	3 150 000	3 150 000	2 161 766	4 083 615	3 500 000	350 000	11,1%	435 054	14,2%
12	Transfers and Subsidies	174 033 216	167 011 676	161 320 350	180 200 448	180 200 448	129 727 058	180 200 448	192 037 652	11 837 204	6,6%	25 025 976	15,0%
13	Other Revenue	10 652 744	8 253 845	8 950 261	8 950 261	9 393 046	5 577 445	9 393 046	9 014 523	64 262	0,7%	760 678	9,2%
14	Gains on Disposal of PPE	1 978 395	313 527	7 757 096	7 757 096	7 757 096	175 000	7 757 096	269 565	-7 487 531	-96,5%	-43 962	-14,0%
15	Sub-Total	989 401 468	879 984 612	1 004 213 732	1 023 093 830	1 023 093 830	656 705 878	969 864 332	952 443 591	-70 650 239	-6,9%	72 458 979	8,2%
16	Transfers and Subsidies: Capital	66 436 594	61 885 132	45 709 715	49 231 984	49 231 984	39 192 658	49 231 984	48 151 886	-1 080 098	-2,2%	-13 733 246	-22,2%
17	Grand Total	1 055 838 062	941 869 744	1 049 923 447	1 072 325 814	1 072 325 814	695 898 536	1 019 096 316	1 000 595 477	-71 730 337	-6,7%	58 725 733	6,2%

2.1.2 In Row 17 of the table above, the roll-over adjustments budget for operating revenue (capital grants included) of R 1.072 billion now decreases by R 71.7 million or 6.7% to R 1.001 billion.

2.1.3 Notable variances in Table 1 above are as follows:

- Property Rates (Row 1): A negative variance of R 6.6 million or 2.8% due to an over-estimation of budgeted operating revenue. The revised revenue of R 229.5 million is 8.3% more than the unaudited actual revenue of R 211.8 million for the 2019/2020 financial year.
- Electricity Revenue (Row 2): A negative variance of R 15.7 million or 5.5% due to an over-estimation of budgeted operating revenue. The revised revenue of R 271.8

million is 4.6% more than the unaudited actual revenue of R 259.9 million for the 2019/2020 financial year.

- (c) Water Revenue (Row 3): A negative variance of R 8.7 million or 11.6% due to an over-estimation of budgeted operating revenue. The revised revenue of R 66.7 million is 4.1% more than the unaudited actual revenue of R 64.1 million for the 2019/2020 financial year.
- (d) Sanitation Revenue (Row 4): A negative variance of R 8.4 million or 22.9% due to and over-estimation of budgeted operating revenue. The revised revenue of R 28.4 million is 6.4% more than the unaudited actual revenue of R 26.7 million for the 2019/2020 financial year.
- (e) Refuse Revenue (Row 5): A negative variance of R 8.8 million or 24.7% due to and over-estimation of budgeted operating revenue. The revised revenue of R 26.8 million is 16.4% more than the unaudited actual revenue of R 23.0 million for the 2019/2020 financial year.
- (f) Interest Earned: External Investments (Row 7): A negative variance of R 1.2 million or 27.0% due to lower interest rates offered by the respective banks. The revised revenue of R 3.4 million is 26.4% less than the unaudited actual revenue of R 4.6 million for the 2019/2020 financial year.
- (g) Interest Earned: Outstanding Debtors (Row 8): A negative variance of R 1.2 million or 7.9% due to the lower prime interest rate plus 1% charged on arrear debtor accounts. The revised revenue of R 15.0 million is 55.9% more than the unaudited actual revenue of R 9.7 million for the 2019/2020 financial year.
- (h) Fines, Penalties and Forfeits (Row 9): A negative variance of R 24.0 million or 19.7% mainly due to and over-estimation of budgeted fines revenue. The re-calculation was done based on traffic fines issued in the first six months of the 2020/2021 financial year. The revised revenue of R 98.4 million is 4.6% more than the unaudited actual revenue of R 94.1 million for the 2019/2020 financial year.
- (i) Transfers and Subsidies (Row 12): A positive variance of R 11.8 million or 6.6% mainly as a result of additional grant allocations for both Human Settlements and Library Services. This additional revenue will require corresponding adjustments to both operating and capital budget expenditure and will therefore have no effect on the budgeted surplus for the financial year.

- (j) Gains on Disposal of PPE (Row 14): A negative variance of R 7.4 million or 96.5% due to and over-estimation of budgeted operating revenue as the municipality erroneously budgeted for Gains on Disposal of PPE. The revised revenue is 14.0% less than the unaudited actual revenue of R 313 thousand for the 2019/2020 financial year.

2.2 OPERATING EXPENDITURE PER CATEGORY

2.2.1 The high level adjustments budget summary of operating expenditure per category is presented in Table 2 below.

Row Number	Description	Budget Year 2019/2020		Budget Year 2020/2021								Positive / (Negative) Variance (C to I)	Positive / (Negative) % Variance
		Final Adjustments Budget	Unaudited Outcome	Original Budget	Roll-Over Adjustments Budget	Adjustments Budget (Including Virements)	Year-to-Date Actual Expenditure 31/01/2021	Projected Expenditure for the Year	Revised Adjustments Budget Expenditure	Positive / (Negative) Variance (E to I)	Positive / (Negative) % Variance		
Column Reference	A	B	C	D	E	F	G	H	I	J	K	L	M
1	Employee Related Costs	246 942 229	248 691 029	283 808 518	249 420 958	252 146 894	154 540 176	272 689 500	272 533 675	-23 112 717	-9,3%	-23 842 646	-9,6%
2	Remuneration of Councillors	10 244 703	8 108 340	10 023 084	9 661 189	9 661 189	5 073 197	9 266 737	9 964 738	-303 549	-3,1%	-1 856 398	-22,9%
3	Debt Impairment	134 807 454	74 942 152	183 498 900	183 498 900	183 498 900	107 041 025	183 498 900	136 677 640	46 821 260	25,5%	-61 735 488	-82,4%
4	Depreciation & Asset Impairment	33 423 800	34 100 461	30 591 378	30 591 378	30 591 378	17 845 079	34 100 461	41 397 686	-10 806 308	-35,3%	-7 297 225	-21,4%
5	Finance Charges	31 280 223	29 451 665	34 041 114	34 041 114	34 041 114	11 929 282	23 198 636	23 031 743	11 009 371	32,3%	6 419 922	21,8%
6	Bulk Purchases	193 294 700	188 257 343	206 632 034	206 632 034	206 632 034	106 246 228	198 935 996	196 600 000	10 032 034	4,9%	-8 342 657	-4,4%
7	Other Materials	37 992 583	40 617 434	46 405 474	46 415 474	36 515 614	18 316 613	36 515 614	36 149 899	10 265 575	22,1%	4 467 535	11,0%
8	Contracted Services	198 071 281	188 538 530	158 164 054	166 323 616	173 091 404	88 576 161	173 099 804	170 947 768	-4 624 152	-2,8%	17 590 762	9,3%
9	Transfers and Subsidies	6 597 025	2 411 972	8 409 148	8 880 603	8 880 603	2 699 550	8 880 603	6 920 540	1 960 063	22,1%	-4 508 568	-186,9%
10	Other Expenditure	67 988 441	94 354 051	74 452 663	75 889 736	75 056 012	24 807 346	75 047 612	57 087 526	18 802 210	24,8%	37 266 525	39,5%
11	Loss on Disposal of PPE	0	0	50 000	50 000	50 000	0	50 000	0	50 000	100,0%	0	#DIV/0!
12	Grand Total	960 642 439	909 472 977	1 036 076 367	1 011 405 002	1 010 165 142	537 074 657	1 015 283 863	951 311 215	60 093 787	5,9%	-41 838 238	-4,6%

2.2.2 In Row 12 above, the roll-over adjustments budget for operating expenditure of R 1.011 billion now decreases by R 60.0 million or 5.9% to R 951.3 million.

2.2.3 The substantial decrease in the revised adjustments budget for operating revenue (capital grants excluded) by R 70.6 million necessitated a decrease in the operating expenditure by R 60.6 million, in order to achieve a credible and a fully funded operating budget.

2.2.4 Notable variances in Table 2 above are as follows:

- (a) Employee Related Costs (Row 1): A negative variance of R 23.1 million or 9.3% due to an incorrect estimation of the budgeted operating expenditure, as well as the reallocation of interest costs for post-employment retirement benefits which was erroneously allocated to finance charges. The revised expenditure of R 272.5 million

is 9.6% more than the unaudited actual expenditure of R 248.6 million for the 2019/2020 financial year.

- (b) Debt Impairment (Row 3): A positive variance of R 46.8 million or 25.5% as a result of the re-calculation of the collections rates for both traffic fines (10%) and property rates and services charges (90%). The revised expenditure of R 136.6 million is 82.4% more than the unaudited actual expenditure of R 74.9 million for the 2019/2020 financial year.
- (c) Depreciation and Asset Impairment (Row 4): A negative variance of R 10.8 million or 35.3% due to an incorrect estimation of the budgeted operating expenditure, as well as an additional allocation for depreciation on capital projects to be commissioned within the current financial year. The revised expenditure of R 41.3 million is 21.4% more than the unaudited actual expenditure of R 34.1 million for the 2019/2020 financial year.
- (d) Finance Charges (Row 5): A positive variance of R 11.0 million or 32.3% due to a decrease in the prime lending rate, as well as the reallocation of interest costs for post-employment retirement benefits to Employee Related Costs. The revised expenditure of R 23.0 million is 21.8% less than the unaudited actual expenditure of R 29.5 million for the 2019/2020 financial year which incorrectly still includes the interest costs for post-employee retirement benefits.
- (e) Bulk Purchases (Row 6): A positive variance of R 10.0 million or 4.9% due to an incorrect estimation of the budgeted operating expenditure. The revised expenditure of R 196.6 million is 4.4% more than the unaudited actual expenditure of R 188.2 million for the 2019/2020 financial year.
- (f) Other Materials (Row 7): A positive variance of R 10.2 million or 22.1% due to an over estimation of the budgeted operating expenditure and cost cutting measures implemented. The revised expenditure of R 36.1 million is 11.1% less than the unaudited actual expenditure of R 40.6 million for the 2019/2020 financial year.
- (g) Contracted Services (Row 8): A negative variance of R 4.6 million or 2.7% due to an incorrect estimation of the budgeted operating expenditure. The revised budget includes additional allocations for security costs and housing projects expenditure. The revised expenditure of R 170.9 million is 9.3% less than the unaudited actual expenditure of R 188.5 million for the 2019/2020 financial year.
- (h) Transfers and Subsidies (Row 9): A positive variance of R 1.9 million or 22.1% mainly resulting from a decrease in the Grant-in-Aid allocations. The revised expenditure

of R 6.9 million is 186.9% more than the unaudited actual expenditure of R 2.4 million for the 2019/2020 financial year.

- (i) Other Expenditure (Row 10): A positive variance of R 18.8 million or 24.8% due to an incorrect estimation of the budgeted operating expenditure. The revised expenditure of R 57.1 million is 39.5% less than the unaudited actual expenditure of R 94.3 million for the 2019/2020 financial year.

2.3 OPERATING REVENUE AND EXPENDITURE SUMMARY

2.3.1 The high level adjustments budget summary of operating revenue and expenditure is presented in Table 3 below.

Row Number	Description	Budget Year 2019/2020		Budget Year 2020/21								Positive / (Negative) Variance (C to I)	Positive / (Negative) % Variance
		Final Adjustments Budget	Unaudited Outcome	Original Budget	Roll-Over Adjustments Budget	Adjustments Budget (Including Virements)	Year-to-Date Actual Revenue / Expenditure 31/01/2021	Projected Revenue / Expenditure for the Year	Revised Adjustments Budget Revenue / Expenditure	Positive / (Negative) Variance (E to I)	Positive / (Negative) % Variance		
Column Reference	A	B	C	D	E	F	G	H	I	J	K	L	M
1	Total Operating Revenue	989 401 468	879 984 612	1 004 213 732	1 023 093 830	1 023 093 830	656 705 877	969 864 332	952 443 591	-70 650 239	-6,9%	72 458 979	8,2%
2	Total Operating Expenditure	960 642 439	909 472 977	1 036 076 367	1 011 405 002	1 010 165 142	537 074 657	1 015 283 863	951 311 215	60 093 787	5,9%	-41 838 238	-4,6%
3	Operating Surplus / (Deficit)	28 759 029	-29 488 365	-31 862 635	11 688 828	12 928 688	119 631 220	-45 419 531	1 132 376	-10 556 452	-90%	30 620 741	-103,8%
4	Capital Grants	66 436 594	61 885 132	45 709 715	49 231 984	49 231 984	39 192 658	49 231 984	48 151 886	-1 080 098	-2,2%	-13 733 246	-22,2%
5	Surplus / (Deficit) for the Year	95 195 623	32 396 767	13 847 080	60 920 812	62 160 672	158 823 878	3 812 453	49 284 262	-11 636 550	-19,1%	16 887 495	52,1%

2.3.2 The operating budgeted revenue of R 1.004 billion (capital grants excluded) in Row 1 compared with operating budgeted expenditure of R 1.036 billion in Row 2 of the original approved budget resulted in a budgeted operating deficit of R 31.8 million in Row 3 compared with the unaudited R 29.4 million operating deficit of the 2019/2020 financial year. Council's approved an adjustments budget in August 2020 with an operating budgeted surplus of R 11.6 million. This now reduces to a budgeted operating surplus of R 1.1 million after revenue and expenditure budgeted allocations were amended. The Statement of Financial Performance's budget will now realise a budgeted surplus of R 49.2 million (Row 5) after capital conditional grants of R 48.1 million (Row 4) is taken into consideration.

2.3.3 As indicated in the Mid-Year Budget Assessment report that served before Council on 28 January 2021, the operating revenue and expenditure budget required adjustments due to various contributing factors. A detailed analysis of the current and prior year financial performance necessitated the re-calculation of credible operating revenue and expenditure budgeted amounts that represents a funded budget overall.

3. HIGH LEVEL CAPITAL ADJUSTMENTS BUDGET

3.1 CAPITAL BUDGET PER DIRECTORATE

3.1.1 The high level adjustments budget of capital expenditure per directorate is presented in Table 4 below.

Row Number	Directorate	2019/2020 Unaudited Outcome	Budget Year 2020/21							
			Original Budget	Roll-Over Adjustments Budget	Adjustments Budget (Including Virements)	Year-to-Date Actual and Committed Expenditure 31/01/2021	Projected Expenditure for the Year	Revised Adjustments Budget	Positive / (Negative) Variance (D to H)	Positive / (Negative) % Variance
Column Reference	A	B	C	D	E	F	G	H	I	J
1	Executive and Council	724 632	0	0	0	0	0	0	0	#DIV/0!
2	Corporate Services	643 801	0	0	0	0	0	28 000	-28 000	#DIV/0!
3	Financial Services	217 762	2 578 500	2 578 500	2 578 500	273 966	2 578 500	930 660	1 647 840	63,9%
4	Planning and Development	0	342 000	342 000	342 000	0	342 000	332 000	10 000	2,9%
5	Integrated Human Settlements	11 248 454	6 761 140	6 761 140	8 001 000	7 317 277	6 761 140	8 001 000	-1 239 860	-15,5%
6	Community Services	33 699 127	26 699 000	28 496 473	28 496 473	18 373 231	28 496 473	24 050 855	4 445 618	15,6%
7	Electrical Services	16 245 233	17 898 000	18 550 000	18 550 000	14 261 877	18 550 000	23 805 000	-5 255 000	-28,3%
8	Technical Services	85 887 130	103 659 240	109 732 036	109 732 036	70 520 225	109 732 036	104 102 600	5 629 436	5,1%
9	Grand Total	148 666 139	157 937 880	166 460 149	167 700 009	110 746 576	166 460 149	161 250 115	5 210 034	3,1%
10	% Year-to-Date Actual and Committed Capital Expenditure of Capital Budget =		70,1%	66,5%	66,0%			68,7%		

3.1.2 In Row 9 the roll-over adjustments budget for capital expenditure of R 166.4 million now decreases by R 5.2 million or 3.1% to R 161.2 million.

3.1.3 Year-to-Date actual and committed capital expenditure as at 31 January 2021 equates to R 110.7 million or 66.0% of the current adjustments capital budget of R 167.7 million and now increases to 68.7% of the revised adjustments capital budget of R 161.2 million.

3.1.4 Based on current spending patterns, as well as supply chain processes presently in progress, it is anticipated that the revised capital budget will be fully and timeously spent for the 2020/2021 financial year. Any unspent committed capital expenditure will be rolled over to the 2021/2020 financial year with the August 2021 roll-over capital budget.

3.1.5 The capital budget per Directorate, Department, Section and per capital project is detailed in Appendix A to this report.

3.2 CAPITAL BUDGET PER FUNDING SOURCE

3.2.1 The high level adjustments budget of capital expenditure per funding source is presented in Table 5 below.

Row Number	Funding Source	2019/2020 Unaudited Outcome	Budget Year 2020/21							
			Original Budget	Roll-Over Adjustments Budget	Adjustments Budget (including Virements)	Year-to-Date Actual and Committed Expenditure 31/01/2021	Projected Expenditure for the Year	Revised Adjustments Budget	Positive / (Negative) Variance (D to H)	Positive / (Negative) % Variance
Column Reference	A	B	C	D	E	F	G	H	I	J
1	National Government Grant	44 645 482	37 948 650	40 120 087	40 120 087	31 788 805	40 120 087	39 329 464	790 623	2,0%
2	Provincial Government Grant	13 764 802	6 401 000	7 751 832	8 991 692	7 919 805	7 751 832	8 822 422	-1 070 590	-11,9%
3	Public Contributions and Donations	20 850	0	0	0	0	0	0	0	#DIV/0!
4	Borrowings	49 359 247	71 809 365	71 809 365	71 809 365	67 414 238	71 809 365	106 103 119	-34 293 754	-47,8%
5	Capital Replacement Reserve (CRR)	40 875 758	41 778 865	46 778 865	46 778 865	3 623 729	46 778 865	6 995 110	39 783 755	85,0%
6	Grand Total	148 666 139	157 937 880	166 460 149	167 700 009	110 746 577	166 460 149	161 250 115	5 210 034	3,1%
7	% Year-to-Date Actual and Committed Capital Expenditure of Capital Budget =		70,1%	66,5%	66,0%			68,7%		

3.2.2 National Government grants (Row 1) decrease by R 790 thousand from R 40.1 million to R 39.3 million mainly due to MIG allocations to be used in the operating budget for the PMU Section.

3.2.3 Provincial Government grants (Row 2) increase by R 1.1 million from R 7.7 million to R 8.8 million due to Human Settlement grants allocations to be used for infrastructure services for housing projects.

3.2.4 External borrowings (Row4) increase by R 34.3 million from R 71.8 million to R 106.1 million. The R 34.3 million is the unspent portion of external loans taken up in 2019/2020 for capital projects not completed.

3.2.5 The Capital Replacement Reserve (Internally-generated funds) (Row 5) decrease by R 39.7 million from R 46.7 million in the roll-over adjustments budget to R 7.0 million in the revised adjustments budget. This is mainly due to the CRR not being backed by cash reserves.

3.3 CAPITAL BUDGET SUMMARY

3.3.1 Historically, the municipality did not achieve full spending of the capital budget allocation. It is therefore essential for each Directorate to closely monitor the progress of their respective capital projects and ensure that expenditure is in accordance with the capital budget.

4. FINANCIAL RATIOS

- 4.1 Section 216 (1)(c) of the Constitution and Section 2 of the Municipal Finance Management Act (MFMA) enable National Treasury to introduce uniform norms and standards to ensure sound and sustainable management of the fiscal and financial affairs of municipalities. MFMA Circular No 71: Uniform Financial Ratios and Norms, published on 17 January 2014, outlines the guidelines for the calculation of several financial ratios for municipalities. The Circular aims to provide consistency in interpretation and application of certain financial information by applying standardised financial ratios.
- 4.2 Appendix B presents a summary of the ratio's based on the unaudited financial statements for the 2019/2020 financial year, as determined by MFMA Circular 71.
- 4.3 In instances where Knysna Municipality has performed better than the National Treasury norm, the ratio's have been highlighted in "green" in Appendix B. Similarly, where performance was not within the range of the norm, the ratio's have been highlighted in "red".
- 4.4 It is important to note that these ratios should not be read in isolation of one another, as this could lead to distortions in interpretation. The interrelated ratios should therefore be analysed jointly in order to obtain a clearer overview of Knysna Municipality's financial performance.

5. RECOMMENDATIONS

It is recommended that:

- 5.1 The total operating revenue of R 1,072,325,814 (capital grants included) approved by Council in August 2020 be decreased by R 71,730,337 (6.7%) to R 1,000,595,477 for the 2020/2021 financial year as presented in Table 1 of the 2020/2021 Adjustments Budget Report.
- 5.2 The operating expenditure of R 1,011,405,002 approved by Council in August 2020 be decreased by R 60,093,787 (5.9%) to R 951,311,215 for the 2020/2021 financial year as presented in Table 2 of the 2020/2021 Adjustments Budget Report.
- 5.3 The capital budget expenditure of R 166,460,149 approved by Council in August 2020 be decreased by R 5,210,034 (3.1%) to R 161,250,155 for the 2020/2021 financial year as presented in Table 4 of the 2020/2021 Adjustments Budget Report.
- 5.4 The capital budget expenditure of R 161,250,115 be funded from the following revenue sources as presented in Table 5 of the 2020/2021 Adjustments Budget Report:
 - 5.4.1 Capital Replacement Reserve (R 6,995,110);
 - 5.4.2 Secured grants to be received from national government and provincial government (R 48,151,886); and
 - 5.4.3 External loans (R 106,103,119).
- 5.5 Council takes note that no taxes and tariffs are affected by the approval of this adjustments budget.
- 5.6 Schedules B1 to B10, attached as Appendix C to the 2020/2021 Adjustments Budget Report, be approved by Council.
- 5.7 The Service Delivery Budget Implementation Plan (SDBIP) be adjusted accordingly.
- 5.8 The over-riding of expenditure, which will constitute unauthorised expenditure, will not be authorised by the Municipal Manager or Chief Financial Officer. Should there be insufficient funds available on a vote number, savings from another vote number/s must be identified and the virement process should be followed in terms of Council's Virement Policy.
- 5.9 The MFMA Circular 71 financial ratios, based on the unaudited annual financial statements as at 30 June 2020, be noted.

5.10 The Adjustments Budget Report for 2020/2021 be submitted to the National Treasury and the Western Cape Provincial Treasury.

5.11 The Adjustments Budget Report for 2020/2021 be published on the municipal website and relevant print media.

6. APPENDICES

Appendix A: Capital Budget per Directorate, Department and Section per capital project;

Appendix B: Financial Ratios in terms of National Treasury MFMA Circular 71; and

Appendix C: Municipal Budget and Reporting Regulations B Schedules.

7. TABLES

Table 1: High Level Summary of Operating Revenue per Category;

Table 2: High Level Summary of Operating Expenditure per Category;

Table 3: High Level Summary of Operating Revenue and Expenditure;

Table 4: High Level Capital Budget per Directorate; and

Table 5: High Level Capital Budget per Funding Source.

Section 8 - Other Supporting Documents

A municipality must add to its adjustments budget documents any supporting documents not covered in this Schedule if such documents are necessary to fully explain the impact of the adjustments budget on service delivery and the state of financial affairs of the municipality including municipal entities.

Various supporting documents are attached to enable the reader a fuller understanding of the MTREF adjustments budget Supporting Budget Tables Supporting Tables SB1 to SB20

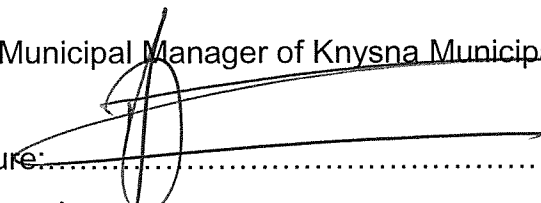
Section 9 - Municipal Manager Quality Certificate

An adjustments budget and supporting documentation must be covered by a quality certificate in the format prescribed by National Treasury.

I, Mr DAWID JACOBUS ADONIS.....the Acting Municipal Manager of Knysna Municipality, hereby certify that the adjustments budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and regulations made under the Act, and that the adjustments budget and supporting documentation are consistent with the Integrated Development Plan of the Municipality.

Print Name: DAWID J. ADONIS.....

Acting Municipal Manager of Knysna Municipality (WC 048)

Signature: .....

Date: 21/3/2021.....