



KNYSNA
Municipality Munisipaliteit uMasipala

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Special Adjustments Budget Report

(Section 28 of the MFMA)

April 2021



QUALITY CERTIFICATE

I, Mr Dawid Adonis, the Acting Municipal Manager of Knysna Municipality hereby certify that the 2020/2021 Special Adjustments Budget has been prepared in accordance with the Municipal Finance Management Act and Regulations made under that Act, and that the Special Adjustments Budget and supporting documentation are consistent with the Integrated Development Plan of the Municipality.



pa. **DAWID ADONIS**
ACTING MUNICIPAL MANAGER

26 April 2021



JACQUES CARSTENS
ACTING CHIEF FINANCIAL OFFICER

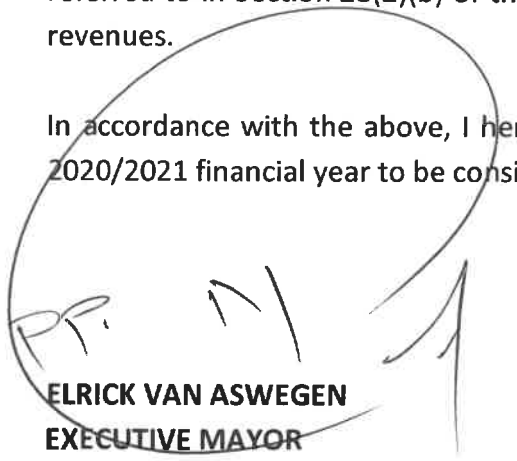
26 April 2021

To the Speaker

Section 28(2)(b) of the Municipal Finance Management Act (MFMA) determines that an adjustments budget 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.

Regulation 23(3) of the Municipal Budget and Reporting Regulations determines that if a national or provincial adjustments budget allocates or transfers additional revenues to a municipality, the mayor of the municipality must, at the next available council meeting but, within 60 days of the approval of the relevant national or provincial adjustments budget, table an adjustments budget referred to in Section 28(2)(b) of the Act in the municipal council to appropriate those additional revenues.

In accordance with the above, I herewith submit the Special Adjustments Budget Report for the 2020/2021 financial year to be considered by Council.



PP.
ELRICK VAN ASWEGEN
EXECUTIVE MAYOR

26 April 2021

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1. INTRODUCTION

1.1 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 not 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 not 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 not 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 form [Schedules B1 to B10, attached as Annexure C to the report].*
- (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].”*

1.2 Regulation 23(3) of the Municipal Budget and Reporting Regulations determines that:

“If a national or provincial adjustments budget allocates or transfers additional revenues to a municipality, the mayor of the municipality must, at the next available council meeting but, within 60 days of the approval of the relevant national or provincial adjustments budget, table an adjustments budget referred to in Section 28(2)(b) of the Act in the municipal council to appropriate those additional revenues [which is the case].”

1.3 The operating and capital budgets have been evaluated and adjusted based on the above-mentioned legislative requirements.

2. EXECUTIVE SUMMARY

National Treasury published Government Gazette 44349, dated 29 March 2021, wherein adjustments were made to conditional capital grant allocations to the Municipality. Correspondence has also been received from the Western Cape Provincial Departments in relation to both capital and operating grant allocations. Further to this, a grant in kind has been allocated to the Municipality by Nedbank Limited.

These adjustments necessitate a Special Adjustments Budget for the 2020/2021 financial year, to be tabled for Council approval.

3. HIGH LEVEL OPERATING ADJUSTMENTS BUDGET

3.1 OPERATING REVENUE PER CATEGORY

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

3.1.2 Total revenue (Row 17) increase with R 7.7 million from R 1.001 billion to R 1.008 billion. The additional revenue for operating and capital grants amounts to R 2,284,304 and R 5,448,696 respectively.

Row Number	Description	Budget Year 2020/2021				
		Original Budget	Roll-Over Adjustments Budget (Aug 2020)	Revised Adjustments Budget (Feb 2021)	Adjustments	2nd Revised Adjustments Budget
Column Reference	A	B	C	D	E	F
1	Property Rates	236,157,576	236,157,576	229,519,410	0	229,519,410
2	Service Charges: Electricity Revenue	287,615,082	287,615,082	271,878,770	0	271,878,770
3	Service Charges: Water Revenue	75,538,140	75,538,140	66,763,850	0	66,763,850
4	Service Charges: Sanitation Revenue	36,960,674	36,960,674	28,478,980	0	28,478,980
5	Service Charges: Refuse Revenue	35,667,408	35,667,408	26,866,620	0	26,866,620
6	Rental of Facilities and Equipment	5,728,380	5,728,380	5,664,555	0	5,664,555
7	Interest Earned: External Investments	4,721,608	4,721,608	3,448,222	0	3,448,222
8	Interest Earned: Outstanding Debtors	16,356,525	16,356,525	14,294,306	0	14,294,306
9	Fines, Penalties and Forfeits	122,543,400	122,543,400	98,448,703	0	98,448,703
10	Licences and Permits	1,747,232	1,747,232	1,495,657	0	1,495,657
11	Agency Services	3,150,000	3,150,000	3,500,000	0	3,500,000
12	Transfers and Subsidies	161,320,350	180,200,448	192,037,652	2,284,304	194,321,956
13	Other Revenue	8,950,261	8,950,261	9,777,301	0	9,777,301
14	Gains on Disposal of PPE	7,757,096	7,757,096	269,565	0	269,565
15	Sub-Total	1,004,213,732	1,023,093,830	952,443,591	2,284,304	954,727,895
16	Transfers and Subsidies: Capital	45,709,715	49,231,984	48,151,886	5,448,696	53,600,582
17	Grand Total	1,049,923,447	1,072,325,814	1,000,595,477	7,733,000	1,008,328,477

3.1.3 The budget adjustments contained in Table 1 above are as follows:

- (a) Transfers and Subsidies (Row 12): The overall positive adjustment of R 2,284,304 consists of the following:
 - (i) The VAT portion of the new Water Services Infrastructure Grant allocation by National Treasury increase operating revenue with R 761,087;

- (ii) The VAT portion of the reduced Municipal Infrastructure Grant allocation by National Treasury decrease operating revenue with R 39,783);
 - (iii) An additional grant allocation by the Western Cape Provincial Department for Library Services increase operating revenue with R 1,563,000;
 - (iv) A reduction in the allocation by the Western Cape Provincial Department for their contribution towards the investigation into allegations against the Municipal Manager and the previous Chief Financial Officer decrease operating revenue with R 200,000); and
 - (v) A new grant allocation from Nedbank Limited to support the Knysna Incubator Programme increase operating revenue with R 200,000.
- (b) Transfers and Subsidies: Capital (Row 16): The overall positive adjustment of R 5,448,696 consists of the following:
- (i) A new Water Services Infrastructure Grant allocation by National Treasury increase capital grant revenue with R 5,073,913;
 - (ii) A reduction in the Municipal Infrastructure Grant allocation by National Treasury decrease capital grant revenue with R 265,217;
 - (iii) An additional grant allocation by the Western Cape Provincial Department of Cultural Affairs for Library Services increase capital grant revenue with R 40,000; and
 - (iv) A new grant allocation by the Western Cape Provincial Department of Cultural Affairs for the Karatara Sporting Facility (Netball Courts) increase capital grant revenue with R 600,000.

3.2 OPERATING EXPENDITURE PER CATEGORY

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

3.2.2 The revised adjustments budget for operating expenditure (Row 12) of R 951.3 million remains unchanged as the adjustments within the operating expenditure categories result in a zero effect on the total operating expenditure.

Table 2: High Level Summary of Operating Expenditure per Category

Row Number	Description	Budget Year 2020/2021				
		Original Budget	Roll-Over Adjustments Budget (Aug 2020)	Revised Adjustments Budget (Feb 2021)	Adjustments	2nd Revised Adjustments Budget
Column Reference	A	B	C	D	E	F
1	Employee Related Costs	283,808,518	249,420,958	272,533,675	0	272,533,675
2	Remuneration of Councillors	10,023,084	9,661,189	9,964,738	0	9,964,738
3	Debt Impairment	183,498,900	183,498,900	136,677,640	0	136,677,640
4	Depreciation & Asset Impairment	30,591,378	30,591,378	41,397,686	0	41,397,686
5	Finance Charges	34,041,114	34,041,114	23,031,743	0	23,031,743
6	Bulk Purchases	206,632,034	206,632,034	196,600,000	0	196,600,000
7	Other Materials	46,405,474	46,415,474	45,050,440	0	45,050,440
8	Contracted Services	158,164,054	166,323,616	162,119,927	-200,000	161,919,927
9	Transfers and Subsidies	8,409,148	8,880,603	6,920,540	200,000	7,120,540
10	Other Expenditure	74,452,663	75,889,736	57,014,826	0	57,014,826
11	Loss on Disposal of PPE	50,000	50,000	0	0	0
12	Grand Total	1,036,076,367	1,011,405,002	951,311,215	0	951,311,215

3.2.3 Adjustments contained in Table 2 above are as follows:

- (a) Contracted Services (Row 8): The reduction in the allocation by the Western Cape Provincial Department for Local Government for their contribution towards the investigation into allegations against the Municipal Manager and the previous Chief Financial Officer necessitated a decrease of R 200,000 in contracted services expenditure.
- (b) Transfers and Subsidies (Row 9): The new grant allocation of R 200,000 from Nedbank Limited to support the Knysna Incubator Programme necessitated an increase in operating expenditure. It should be noted that no additional operating expenditure has been budgeted in relation to the operating grant allocation for Library Services, as this remains an under-funded mandate.

3.3 OPERATING REVENUE AND EXPENDITURE SUMMARY

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

Table 3: High Level Summary of Operating Revenue and Expenditure						
Row Number	Description	Budget Year 2020/21				
		Original Budget	Roll-Over Adjustments Budget (Aug 2020)	Revised Adjustments Budget (Feb 2021)	Adjustments	2nd Revised Adjustments Budget
Column Reference	A	B	C	D	E	F
1	Total Operating Revenue	1,004,213,732	1,023,093,830	952,443,591	2,284,304	954,727,895
2	Total Operating Expenditure	1,036,076,367	1,011,405,002	951,311,215	0	951,311,215
3	Operating Surplus / (Deficit)	-31,862,635	11,688,828	1,132,376	2,284,304	3,416,680
4	Capital Grants	45,709,715	49,231,984	48,151,886	5,448,696	53,600,582
5	Surplus / (Deficit) for the Year	13,847,080	60,920,812	49,284,262	7,733,000	57,017,262

3.3.2 The revised adjustments budget operating surplus (capital grants excluded) (Row 3) of R 1.1 million increases by R 2.2 million to R 3.4 million. This represents a fully funded revised adjustments budget.

3.3.3 The revised adjustments budget surplus for the year (capital grants included) (Row 5) of R 49.2 million increases by R 7.7 million to R 57.0 million.

4. HIGH LEVEL CAPITAL ADJUSTMENTS BUDGET

4.1 CAPITAL BUDGET PER DIRECTORATE

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

Row Number	Directorate	Budget Year 2020/21				
		Original Budget	Roll-Over Adjustments Budget (Aug 2020)	Revised Adjustments Budget (Feb 2021)	Adjustments	2nd Revised Adjustments Budget
Column Reference	A	B	C	D	E	F
1	Executive and Council	0	0	0	0	0
2	Corporate Services	0	0	28,000	0	28,000
3	Financial Services	2,578,500	2,578,500	930,660	0	930,660
4	Planning and Development	342,000	342,000	332,000	0	332,000
5	Integrated Human Settlements	6,761,140	6,761,140	8,001,000	0	8,001,000
6	Community Services	26,699,000	28,496,473	23,250,855	222,348	23,473,203
7	Electrical Services	17,898,000	18,550,000	23,805,000	0	23,805,000
8	Technical Services	103,659,240	109,732,036	104,902,600	5,226,348	110,128,948
9	Grand Total	157,937,880	166,460,149	161,250,115	5,448,696	166,698,811

4.1.2 The revised adjustments budget for capital expenditure (Row 9) of R 161.2 million increases by R 5.4 million to R 166.6 million.

4.1.3 Adjustments contained in Table 4 above are as follows:

- (a) Community Services (Row 6): The overall positive adjustment of R 222,348 consists of the following:
- (i) A decrease of R 417,652 in the Municipal Infrastructure Grant (MIG) expenditure resulting in the reallocation of capital expenditure budgets for existing MIG funded projects;
 - (ii) An additional grant allocation by the Western Cape Provincial Department of Cultural Affairs for Library Services infrastructure amounting R 40,000; and

(iii) A new grant allocation of R 600,000 by the Western Cape Provincial Department of Cultural Affairs for the Karatara Sporting Facility (Netball Courts).

(b) Technical Services (Row 8): The overall positive adjustment of R 5,226,348 consists of the following:

(i) A decrease of R 152,435 in the Municipal Infrastructure Grant (MIG) resulting in the reallocation of capital expenditure budgets for existing MIG funded projects; and

(ii) A new allocation of R 5,073,913 through the Water Services Infrastructure Grant allocation by National Treasury for investment in infrastructure.

4.1.4 Based on current spending patterns, as well as supply chain processes presently in progress, it is anticipated that the revised capital expenditure budget will be fully and timeously spent for the 2020/2021 financial year. Any unspent committed capital expenditure will be rolled over to the 2021/2022 financial year in the August 2021 roll-over capital budget.

4.1.5 The capital expenditure budget per Directorate, Department and Section is detailed in Appendix A attached to this report.

4.2 CAPITAL BUDGET PER FUNDING SOURCE

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

Row Number	Funding Source	Budget Year 2020/21				
		Original Budget	Roll-Over Adjustments Budget (Aug 2020)	Revised Adjustments Budget (Feb 2021)	Adjustments	2nd Revised Adjustments Budget
Column Reference	A	B	C	D	E	F
1	National Government Grant	37,948,650	40,120,087	39,329,464	4,808,696	44,138,160
2	Provincial Government Grant	6,401,000	7,751,832	8,822,422	640,000	9,462,422
3	Public Contributions and Donations	0	0	0	0	0
4	Borrowings	71,809,365	71,809,365	106,103,119	0	106,103,119
5	Capital Replacement Reserve (CRR)	41,778,865	46,778,865	6,995,110	0	6,995,110
6	Grand Total	157,937,880	166,460,149	161,250,115	5,448,696	166,698,811

- 4.2.2 National Government grants (Row 1) of R 39.3 million increases by R 4.8 million to R 44.1 million as a result of the new Water Services Infrastructure Grant allocation and the reduction in the Municipal Infrastructure Grant allocation.
- 4.2.3 Provincial Government grants (Row 2) of R 8.8 million increases by R 640 thousand to R 9.4 million due to the additional allocation for Library Services and the new grant allocation for the Karatara Sporting Facility (Netball Courts).
- 4.2.4 The remaining capital expenditure funding sources have not been affected by this revised adjustments budget.

4.3 CAPITAL BUDGET SUMMARY

- 4.3.1 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 to ensure that expenditure is in accordance with this revised capital expenditure budget.

5. RECOMMENDATIONS

It is recommended that –

- 5.1 The total revenue of R 1,000,595,477 (capital grants included) approved by Council in February 2021 be increased by R 7,733,000 to R 1,008,328,477 for the 2020/2021 financial year, as presented in Table 1 of the 2020/2021 Special Adjustments Budget Report.
- 5.2 The total operating expenditure of R 951,311,215 approved by Council in February 2021 remains unchanged for the 2020/2021 financial year, as presented in Table 2 of the 2020/2021 Special Adjustments Budget Report.
- 5.3 The total capital expenditure of R 161,250,115 approved by Council in February 2021 be increased by R 5,448,696 to R 166,698,811 for the 2020/2021 financial year, as presented in Table 4 of the 2020/2021 Special Adjustments Budget Report.
- 5.4 The capital budget expenditure of R 166,698,811 be funded from the following revenue sources, as presented in Table 5 of the 2020/2021 Special Adjustments Budget Report –
- 5.4.1 Capital Replacement Reserve (R 6,995,110);
- 5.4.2 Secured national government and provincial government grants (R 53,600,582); 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 Special Adjustments Budget.
- 5.6 The Service Delivery Budget Implementation Plan (SDBIP) be adjusted accordingly.
- 5.7 The Capital Budget by Directorate, Department, Section and Capital Project, attached as Appendix A, be approved by Council.
- 5.8 Communication received in relation to Grant allocations, attached as Appendix B, be noted by Council.
- 5.9 Revised Schedules B1 to B10, attached as Appendix C, be approved by Council.
- 5.10 The Special Adjustments Budget Report for 2020/2021 be submitted to the National Treasury and the Western Cape Provincial Treasury.
- 5.11 The Special Adjustments Budget Report for 2020/2021 be published on the municipal website and relevant print media.

6. APPENDICES

Appendix A: Capital Line Item Budget per Directorate, Department and Section;

Appendix B: Communication received in relation to Grants; and

Appendix C: Municipal Budget and Reporting Regulations: Revised B Schedules.

7. TABLES

Table 1: High Level Summary of Total 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.