

SC02/05/2021

ANNUAL 2021/2022 MTREF BUDGET

The Executive Mayor, Cllr E Van Aswegen presented the Budget Speech.

**ANNUAL STATE OF THE TOWN &
BUDGET ADDRESS 2021/2022**

**EXECUTIVE MAYOR, CLLR ELRICK VAN ASWEGEN
MONDAY • 31 MAY 2021**

A PRO-POOR BUDGET

*Madam Speaker;
Executive Deputy Mayor;
Mayoral Committee Members;
Councillors;
Acting Municipal Manager;
Directors;
Municipal Officials;
Honoured Guests;
Provincial Government Officials;
National Government Officials;
Members of the media, and
Greater Knysna residents*

Good Morning, Goeie More, Molweni.

Madam Speaker

Today we look back at the previous financial year, one that presented us with unparalleled difficulties of a kind never faced before. The global COVID-19 pandemic has left an indelible mark on our daily lives and our economies, yet Knysna Municipality was able to continue delivering its services to our communities. We were able to enhance and optimise our revenue streams and we have been assisting our local emerging entrepreneurs in an effort to stimulate our economy and to uplift and empower local business.

With the lessons we have learnt, we are now in the privileged position of being able to plan for the unexpected, and to ensure that our financial strategy for the 2021/2022 cycle is one that will work with our environment, stakeholders and the people of Knysna.

BACKGROUND

This has been an exceptionally demanding and difficult year. This municipality was already facing financial challenges heading into the 2020/2021 financial year before the global COVID-19 pandemic and the associated national lockdown placed international, domestic and local economies under unprecedented pressure. Many people not only lost their livelihoods, but also their lives. Knysna was no exception and our economy and people remain at risk.

We have, however, shown that we are stronger than our circumstances. Despite these fiscal difficulties, administrative challenges and political instability, we once again received an

unqualified report from the Auditor General. In their opinion, our financial statements are fairly and appropriately presented, without any identified exceptions, and in compliance with generally accepted accounting principles. Thank you to Acting Director of Finance Jacques Carstens and his team for their dedication and hard work in securing this outcome.

This municipality is fulfilling all its financial obligations as required by the Municipal Finance Management Act. It is not in arrears with any of its creditors including Eskom, SARS, pension- and medical aid funds or banking institutions with regards to interest and redemption instalments. And we pay all creditors within 30 days of receiving an invoice, supporting our local service providers.

We implemented a turnaround strategy to address our financial issues and to ensure that service delivery would not be affected. Internal steps taken to contain costs and curb spending included freezing all unfilled posts, curtailing travelling and subsistence costs, curtailing catering and implementing strict budget control measures.

We are implementing strict credit control procedures, curtailing all capital projects funded internally and collecting outstanding grants. Capital projects that are funded by the national or provincial governments will not be completed using internal funding. We will focus on strict consequence management with regards to the implementation of conditional grants to avoid internal funding being necessitated to complete projects.

OUR RESPONSE TO THE EFFECTS OF THE COVID-19 PANDEMIC

Much has already been said about the effects that the coronavirus has had on the world, especially on global and local economies. But nothing outweighs the health related issues, lives lost and the human cost suffered. Once again, the people of Knysna came together to assist those most in need, the most vulnerable members of our community, and our homeless.

We converted Loerie Park into a shelter for the homeless. Here residents found a warm meal, ablution facilities and a safe place to sleep. Residents were also assisted in obtaining identity documents and reintegrating with their families. More importantly, perhaps, they were afforded a sense of dignity. But this could only ever be a temporary solution.

Efforts to establish a permanent shelter for Knysna's homeless were subsequently fast-tracked. Council resolved to utilise a portion of erf 1343, Church Street, for the construction of a permanent shelter on 7 July 2020. A committee made up of representatives from the Greater Knysna Business Chamber, the Rotary Club of Knysna, SAPS Knysna, the Knysna Community Police Forum and the Department of Social Development was formed to facilitate this process.

We continue to support emerging members of our local economy with the SMME Incubation Program sponsored by Nedbank. The current phase is assisting 32 participants, an increase of 10 from the previous cycle. Nedbank's grant funding has also increased by R110 000 to R440 000. Twenty-six emerging local contractors took part in the Contractor Technical Training and 16 emerging tour guides were mentored and received business development support. A total of 61 entrepreneurs were trained during this financial year and 152 informal business owners received SMME COVID Toolkits provided by Provincial Government. The South African Local Government Association provided another 200 toolkits which will be distributed soon.

All the Expanded Public Works Program projects are active, with 74 work opportunities achieved out of a target of 70 in various municipal sections. Surpassing the set target of work opportunities is proof of the EPWP's success.

NOTABLE ACHIEVEMENTS

Despite various delays due to COVID-19 related complications, we have managed to achieve a number of Council's strategic objectives during the 2020/2021 financial cycle.

The Hornlee sewer line was upgraded at a cost of R5.9 million, reaching completion in mid-April. The objective was to upgrade a section of the existing gravity sewer main in order to increase capacity. Part of the works included a sump system with a bar screen to effectively remove large foreign objects from the sewer main. It also included rehabilitation works on the pedestrian walkways and bridge, and the construction of a new pedestrian bridge.

We installed 82 LED streetlights in the Brackenhill area, made 24 connections or infills at informal houses in Bongani Valley and completed 27 in Slangepark. The electrification of erf 2252 in Hornlee and phase 2 in Bloemfontein has also been completed. A new Shamrock Switching Station has been commissioned and the electrical Supervisory Control and Data Acquisition infrastructure has been upgraded and is fully operational.

The R46 million Charlesford water pipeline was completed and connected to the Eastford Line. Funded through the Municipal Infrastructure Grant, the completed program now allows us to pump 300l/s of raw water, a significant increase from the previous 136l/s. The works included an upgrade to the power supply from Eskom, the laying of a new pipeline from the Knysna River to the water treatment works, the rebuilding of the two water pump stations and a storage reservoir, and upgrading the mechanical and electrical infrastructure. R12,3 million spent on the Upgrade of Existing Water Reticulation CBD in Ward 10. R7,3 million spent on the Upgrade of Existing Water Reticulation Hornlee in Ward 6 & Ward 11.

We all know that housing remains sensitive and controversial issue. To date, 99 homes have been completed and allocated to beneficiaries in Hornlee, with another seven sets of house keys handed over to happy residents in April. Another 45 beneficiaries recently moved into their new homes in Bloemfontein, White Location. Once completed, the project, which began in 2019, will deliver 150 houses at a cost of R24 million.

The issue of housing in Hornlee was brought to Council and will be solved by fast-tracking our Hornlee Backyarders' Project. This project will create approximately 2 000 housing opportunities in Hornlee, which will be awarded according to the existing waiting list protocols once completed. Our other housing projects in Hornlee will continue as planned.

I can assure residents in other areas that housing projects are going ahead as planned throughout Greater Knysna. Neither efforts nor resources will be diverted from housing projects running in other areas, as this remains one of our top priorities throughout the municipal area.

Part Two the Draft Integrated Human Settlements (IHS) Policy was approved, completing the overall policy document which will guide the operational implementation of our housing programmes, based on a typology-driven model.

Our online building plan submission portal was launched last year to enhance and simplify the building plan application process. It also facilitates the efficiency and effectiveness of the evaluation of the building plans and enables a thorough and stringent pre-scrutiny process.

The Hornlee Taxi Rank will be leased to the Western Cape Department of Transport and Public Works for the establishment of a new clinic in Hornlee. The department will be

responsible for the costs involved, as well as any and all other incidental costs. I am personally thrilled by this partnership and what it means for the people of Hornlee.

The R45 million state of the art White Location Multipurpose Centre was completed. Various sporting codes and members of the community will enjoy the use of this world class facility. The project was funded via the National Treasury's Neighbourhood Development Partnership Grant programme, and employed a large number of local labour and subcontractors.

Upgrading Grey Street between Waterfront Drive and Main Road may have been causing some inconvenience to road users, but will result in a smooth, safe and visually pleasing driving experience in an area frequented by residents and guests. Nearing completion, the project includes the replacement of the old water pipeline, the total rebuilding of the road, intersections, sidewalks, parking bays and general beautification.

TOURISM

We are all aware of the contribution our tourism industry makes to our local economy. This industry in particular has been hit hard by the travel restrictions associated with the global pandemic, but it is starting to revive and needs more support than ever.

The Constitution of South Africa identifies local tourism as a municipal competency, but also as a concurrent responsibility between national and provincial government. Knysna Municipality's main function in terms of local tourism is to create policies that make it easy for tourism operators to do business in our town, and to maintain and build on our infrastructure to ensure that all services are delivered as expected, and that all visitors will have an enjoyable experience when interacting with that infrastructure.

The Local Government: Municipal Systems Act, No 32 of 2000 does allow for a municipality to explore the possibility of providing the service through an external mechanism. Knysna's tourism function has been outsourced to Wesgro, the official tourism, trade and investment promotion agency for Cape Town and the Western Cape, in terms of a Service Level Agreement that came into effect on 23 October 2018.

This SLA will not be renewed when it expires on 23 October 2021, and this Council has resolved to procure, through a competitive bidding process, suitable service providers to perform key tourism related functions on its behalf on a three-year contractual basis. The proper execution of these functions will be crucial to the recovery of this important industry and, by extension, our economy.

A PRO-POOR BUDGET AND THE IDP

It is not simply about saving money. Knysna Municipality has various streams of revenue that we have worked hard to optimise and enhance. While we are not in the business of making money, it is our responsibility to ensure that we are generating an appropriate income to allow us to continue delivering services and creating and maintaining our infrastructure. And we have managed to do so.

The annual 2021/2022 Medium Term Revenue and Expenditure Framework (MTREF) Budget addresses the operating budget and tariffs as well as the capital budget and funding sources, to ensure this municipality renders services to our residents in a financially sustainable manner.

While we are focussing on optimising our available revenue streams, I believe that it is necessary to change the status quo. I aim to manage a pro-poor fiscal strategy. The financial

challenges experienced by the majority of low-income households because of a variety of contributing economic factors, makes it imperative that we support a pro-poor 2021/2022 MTREF budget. This does not suggest that any growth should benefit the poor disproportionately. But the relationship between growth and distribution must be scrutinised to ensure that growth, and the associated gain, is distributed equally amongst all of greater Knysna's people and communities. We can achieve this by ensuring that municipal resources are applied effectively, efficiently and economically.

We are facing challenges and an uncertain and unpredictable future economic climate, which means that a cautionary and conservative budgetary approach must be followed. The operating budget surplus, excluding capital grants, represents a fully funded budget based on realistically anticipated revenues to be collected in order to fund operating budget expenditure. While this budget is fully funded, the absence of a cash-backed Capital Replacement Reserve (CRR) remains a key challenge. Higher operating surpluses are required to generate sufficient cash to build a cash-backed CRR.

The operating revenue budget, excluding capital grants, equates to R972.8 million and operating expenditure equates to R972.1 million for the 2021/2022 financial year. This leaves us with a mere surplus of R722 thousand.

The total capital expenditure budget amounts to R143.6 million for the 2021/2022 fiscal year. This expenditure is to be funded through government grants (R47.7 million), external loans (R86.9 million) and own internal reserves (R9 million). It costs money to run a local municipality.

Our main five revenue sources remain the rates and tariffs charged for basic services. In order to supplement these, the following revenue stream increases will come into effect from 1 July:

- property rates 6.10%;*
- water 5.10%;*
- sanitation 5.10%;*
- refuse 5.10%; and*
- electricity 14.59%.*

The refuse removal tariffs were restructured and households will pay R14.37 or 12.4% more for one wheelie bin removal per week per month. The new monthly charge will be R130.00 (VAT included) compared with the R115.63 (VAT included) of the current financial year.

The proposed increase in the electricity tariff of 14.59% is considerably less than the 17.8% increase allowed for Eskom by the National Energy Regulator of South Africa (NERSA) to bill municipalities for their bulk electricity purchases. This proves our commitment to our residents and taking their financial circumstances into account.

The eradication of imbalances in our society can only be realised through a credible integrated development planning process. Municipalities must use integrated development planning as an approach to future development and determine the best solutions to achieving sound long-term development goals. The IDP aligns the resources and capabilities of the municipality with the overall development aims, which guides our budget.

Both documents were compiled in accordance with relevant legislation and a public participation process. Thank you to those residents who submitted their input to the drafting of these vital documents.

Six strategic objectives have directly informed the compilation of this budget, namely:

- 1 to improve and maintain current basic service delivery through specific infrastructural development projects;
- 2 to create an enabling environment for social development and economic growth;
- 3 to promote a safe and healthy environment through the protection of our natural resources;
- 4 to grow the revenue base of the municipality;
- 5 to structure and manage the municipal administration to ensure efficient service delivery; and
- 6 to encourage the involvement of communities in the matters of local government through the promotion of open channels of communication.

The introduction of data profiling is vital to our debt collection approach. Our data cleansing drive allows us to distinguish between customer profiles and to focus on those customers who are currently able to honour their rates and tariffs commitments. It will also allow us to fulfil our duty of assisting the poorest of the poor and taxing them accordingly. This is in line with my vision of a pro-poor fiscal strategy. I urge indigent households to apply for applicable rebates.

To allow Knysna Municipality to begin recovering rates on services delivered to housing developments that have been erected on municipal land, these must be officially subdivided and transferred to their new owners. It is also my suggestion that the rates and tariffs on vacant stands be revised to encourage development and to balance the payments made on built-up stands with those that are still empty.

This goes hand-in-hand with an up to date and correct valuation roll, which is continuously amended and rectified.

Madam Speaker, I am confident that our pro-poor 2021/2022 MTERF Budget and reviewed IDP will guide this municipality in fulfilling its mandate of service delivery to the people of greater Knysna.

OTHER PLANS FOR THE FUTURE

There are many other initiatives in the pipeline that will be implemented during this new financial cycle aside from revitalising the tourism industry. Madam Speaker, allow me to mention a few without going into too much detail.

Funding of R1 million has been approved for supplying services to the Temporary Relocation Area in Hornlee. Other exciting news for the 2021/2022 cycle includes an electrification budget for informal areas in all wards at approximately R750 000 per ward.

The Ward Councillor Project initiative also returns and is sure to benefit all wards and we will see an increase in Grant in Aid donations. Internally we have increased the human resources capacity in our Finance Section to aid us in our revenue realisation and enhancement projects.

2021/2022 will see the replacement of old storm water trenches in our suburbs, the accelerated construction of wheelchair ramps where necessary and the accelerated construction of retaining walls where necessary to protect infrastructure. Maintaining our infrastructure is vital to allow us in fulfilling our various mandates as a local municipality.

IN CONCLUSION

Madam Speaker and esteemed colleagues. This summary of the state of our town and the adoption of our pro-poor MTERF budget and IDP has highlighted some of the challenges this Council and administration has overcome and are still to face. But it has also highlighted a

number of sterling achievements we have attained in the face of adversity, and it details sound strategies to reach even greater heights in service delivery.

These documents have been carefully crafted and considered. They have been scrutinised by our residents and, through their active public participation, the budget and IDP are true representatives of our community's needs and aspirations. These documents also detail how we will best fulfil those needs and facilitate the attainment of those aspirations. They are our commitment to our community. They are our commitment to creating an inclusive, innovative and inspired Knysna.

Madam Speaker, it is therefore my honour and privilege to present for adoption the Annual 2021/2022 Medium Term Revenue and Expenditure Framework (MTREF) Budget in the item with its 23 recommendations (recommendations A to W) as contained on pages 7 - 8 of this Agenda.

I thank you.

12 (twelve) Votes were recorded for the approval of the Tabled 2021/2022 MTREF Budget, while 8 (eight) Councillors abstained.

RESOLVED BY MAJORITY

- [a] That Council takes note of the Written Comments Received on the Tabled 2021/2022 MTREF Budget Report, attached as Annexure A to the item.
- [b] That Council approves the recommendations of the Executive Mayor on the written comments received (Rows 1 to 41 in Column E on pages 1 to 10 of Annexure A) as the resolutions of Council.
- [c] That Council takes note of the revenue increases for property rates, service charges and fees contained in the 2021/2022 Tariff Book, attached as Annexure B to the item.
- [d] That Council approves the Budget-Related Policies of Knysna Municipality for the 2021/2022 financial year, attached as Annexure C to the item, with effect from 1 July 2021 with the exception of the following two policies to be implemented as from 1 June 2021 –
 - (i) Writing-Off of Irrecoverable Debt Policy; and
 - (ii) Supply Chain Management Policy.
- [e] That Council approves the Annual 2021/2022 Medium Term Revenue and Expenditure Framework (MTREF) Budget Report, attached as Annexure D to the item.
- [f] That Council approves the revenue budget (capital grants included) of R 1,020,510,944 for the 2021/2022 financial year as set out in Table 2 of the MTREF Budget Report.
- [g] That Council approves the operating expenditure budget of R 972,104,675 for the 2021/2022 financial year as set out in Table 3 of the MTREF Budget Report.

- [h] That Council takes note of the operating budget surplus of R 48,406,269 for the 2021/2022 financial year as set out in Table 4 of the MTREF Budget Report.
- [i] That Council takes note that any actual cash surplus realised at year-end will be utilised to boost the Capital Replacement Reserve for future infrastructure investment.
- [j] That Council approves the capital expenditure budget of R 143,644,166 for the 2021/2022 financial year as set out in Table 5 of the MTREF Budget Report.
- [k] That Council approves the capital expenditure budget funding sources of R 143,644,166 for the 2021/2022 financial year as set out in Table 6 of the MTREF Budget Report.
- [l] That Council approves the following revenue stream increases for the main five revenue sources with effect from 1 July 2021 –
- (i) Property rates (6.10%);
 - (ii) Water (5.10%);
 - (iii) Sanitation (5.10%);
 - (iv) Refuse (5.10%); and
 - (v) Electricity (14.59%).
- [m] That Council notes the Ratings Afrika Financial Sustainability Report, attached as Appendix 4.
- [n] That Council approves the Procurement Plan for the 2021/2022 financial year, attached as Appendix 5.
- [o] That Council approves the Service Standards for the 2021/2022 financial year, attached as Appendix 6.
- [p] That Council approves the annual budget of Knysna Municipality for the 2021/2022 financial year, as well as the indicative budgets for the two outer financial years (2022/2023 to 2023/2024), as presented in the new *m*SCOA version 6.5.1 Schedules A1 to A10 and Supporting Schedules SA1 to SA38, attached as Appendix 7.
- [q] That Council takes note that as at 30 April 2021, Knysna Municipality accumulated R 99.7 million cash and investments at the following banking institutions –
- (i) Nedbank = R 68,195,595
 - (ii) ABSA = R 14,166,982
 - (iii) Standard Bank = R 6,234,071
 - (iv) Investec = R 11,115,107
 - (v) Total cash and investments = R 99,711,755
- [r] That Council takes note of the proposed total cost-to-municipality expenses for the salary, allowances and benefits of the Political Office Bearers, Municipal Manager, Chief Financial Officer, Senior Managers and other officials with a remuneration package greater than or equal

to that of a Senior Manager, as contained in the Annual 2021/2022 MTREF Budget Report.

- [s] That Council takes note that Knysna Municipality does not have any current service delivery agreements, including material amendments to existing service delivery agreements, with any service provider who renders any power or function on behalf of Knysna Municipality, as defined in Section 1 of the Municipal Systems Act.
- [t] That Council takes note that Knysna Municipality does not have any municipal entities.
- [u] That Council takes note that as a result of the COVID-19 pandemic and applicable restrictions, no public participation process was followed to present the Tabled 2021/2022 Budget at Ward level.
- [v] The Acting Municipal Manager submits the Annual 2021/2022 MTREF Budget Report to the National Treasury and the Western Cape Provincial Treasury, as required by the Municipal Finance Management Act, No 56 of 2003.
- [w] The Acting Municipal Manager publishes the Annual 2021/2022 MTREF Budget Report on the municipal website and relevant print media.

File Number : 9/1/2/10

Execution : Acting Chief Financial Officer