ANNEXURE A

KNYSNA
Municipality Munisipaliteit uMasipala

inclusive || innovative || inspired

Final 2023/2024 MTREF Budget Report

(Sections 16, 17 and 21 of the MFMA)

May 2023

ANNUAL STATE OF THE TOWN &
BUDGET ADDRESS 2023/2024

CLLR AUBREY TSENGWA
EXECUTIVE MAYOR

31 May 2023

Municipal Manager’s quality certificate

I ____ Municipal Manager of Knysna Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name: ________________________________

Municipal Manager of Knysna Municipality (WC048)

Signature: ____

Date: ____

TABLE OF CONTENTS

PAGE

1. EXECUTIVE SUMMARY

1.1 The Final 2023/2024 Medium Term Revenue and Expenditure Framework (MTREF) Budget Report addresses the operating budget and tariff proposals, as well as the capital budget and funding source proposals, to ensure that Knysna Municipality renders services to the local community in a financially sustainable manner.

1.2 The process of developing the Municipality's annual budget is mainly guided by the strategic thrusts and operational priorities of Knysna Municipality's Integrated Development Plan (IDP), as well as the MTREF that outlines the projected annual revenue and expenditure for the budget year under consideration and the two outer financial years.

1.3 The 2023/2024 MTREF Budget Report commences with a discussion on the legislative requirements to which the Municipality must comply with; the Budget Circulars containing directives published by the National and Provincial Treasury's; as well as the key budget projections for the next three financial years.

1.4 The 2023/2024 MTREF Budget report is based on these documents, as well as forecasted economic trends. A high level summary of the operating and capital budgets.

2. LEGISLATION

2.1 Sections 15 to 24 of the Local Government: Municipal Finance Management Act, No 56 of 2003 (MFMA), read in conjunction with Regulations 9 to 20 of the Municipal Budget and Reporting Regulations (MBRR) legislates the processes for the compilation and approval of the municipal budget. The MFMA determines that:

*"**15. Appropriation of funds for expenditure***

A municipality may, except where otherwise provided in this Act, incur expenditure only –

(a) In terms of an approved budget; and

(b) Within the limits of the amounts appropriated for the different votes in an approved budget.

16. Annual budgets

(1) The council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year.

(2) In order for a municipality to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days **[31 March annually]** *before the start of the budget year.*

(3) Subsection (1) does not preclude the appropriation of money for capital expenditure for a period not exceeding three financial years, provided a separate appropriation is made for each of those financial years.

17. Contents of annual budgets and supporting documents

(1) An annual budget of a municipality must be a schedule in the prescribed format –

(a) Setting out realistically anticipated revenue for the budget year from each revenue source;

(b) Appropriating expenditure for the budget year under the different votes of the municipality;

(c) Setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;

(d) Setting out –

(i) Estimated revenue and expenditure by vote for the current year; and

(ii) Actual revenue and expenditure by vote for the financial year preceding the current year; and

(e) A statement containing any other information required by section 215(3) of the Constitution or as may be prescribed.

(2) An annual budget must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed.

(3) When an annual budget is tabled in terms of section 16(2), it must be accompanied by the following documents –

(a) Draft resolutions –

(i) Approving the budget of the municipality;

(ii) Imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and

(iii) Approving any other matter that may be prescribed;

(b) Measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;

(c) A projection of cash flow for the budget year by revenue source, broken down per month;

(d) Any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act **[addressed in a separate item/report]***;*

(e) Any proposed amendments to the budget-related policies of the municipality;

(f) Particulars of the municipality's investments;

(g) Any prescribed budget information on municipal entities under the sole or shared control of the municipality **[not applicable to Knysna Municipality]***;*

(h) Particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate **[not applicable to Knysna Municipality]***;*

(i) Particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements **[not applicable to Knysna Municipality as no service providers render services (water, electricity, sanitation, refuse) on behalf of the Municipality]***;*

(j) Particulars of any proposed allocations or grants by the municipality to –

- *(i) Other municipalities* **[not applicable]***;*
- *(ii) Any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers* **[not applicable]***;*
- *(iii) Any other organs of state* **[not applicable]***;*
- *(iv) Any organisations or bodies referred to in section 67(1)* **[not applicable]***;*

(k) The proposed cost to the municipality for the budget year of the salary, allowances and benefits of –

- *(i) Each political office-bearer of the municipality;*
- *(ii) Councillors of the municipality; and*
- *(iii) The municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;*

(I) The proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of **[not applicable]** *–*

- *(i) Each member of the entity's board of directors; and*
- *(ii) The chief executive officer and each senior manager of the entity; and*

(m) Any other supporting documentation as may be prescribed.

22. Publication of annual budgets

Immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must –

(a) In accordance with Chapter 4 of the Municipal Systems Act –

- *(i) Make public the annual budget and the documents referred to in section 17(3); and*
- *(ii) Invite the local community to submit representations in connection with the budget; and*

(b) *Submit the annual budget* **[to be executed immediately following the tabling of the annual budget and within 10 working days following Council approval of the annual budget]**–
   (i) *In both printed and electronic formats to the National Treasury and the relevant provincial treasury; and*
   (ii) *In either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget.*

2.2 Regulations 9 to 20 of the MBRR in essence confirm the contents of Sections 15 to 24 of the MFMA in detail with regards to the Budget process.

2.3 The compilation of the annual budget, in terms of legislation, must also take into consideration the Budget Circulars released by both National and Provincial Treasury.

3. BUDGET CIRCULARS

3.1 National Treasury published two budget circulars for the 2023/2024 MTREF. MFMA Municipal Budget Circular No 122 published on 09 December 2022 as well as MFMA Municipal Budget Circular No 123 published on 03 March 2023 as **Annexure F**.

3.2 The National Treasury Circulars mainly address the South African economy and inflation targets; key focus areas for the 2023/2024 budget process; Local Government conditional grant allocations; Municipal Standard Chart of Accounts (*m*SCOA); maximising the revenue generation of the municipal revenue base; Eskom bulk tariff increases; funding choices and management issues in relation to employee-related costs and remuneration of councillors; conditional grant transfers to municipalities; municipal budget and reporting regulations; and, the budget process and submissions for the 2023/2024 MTREF.

3.3 MFMA Municipal Budget Circular No 123 indicates that municipalities should expect the National Energy Regulator of South Africa (NERSA) to increase bulk electricity purchases from Eskom by 18.7% and 12.7% in 2024/2025. For purposes of calculating the free basic energy subsidy in the local government equitable share formula, the National Treasury has added 2 per cent to these increases. This is in anticipation of higher increases than those published in January for municipalities, due to the difference in the financial years of Eskom customers and municipalities meaning that Eskom only has nine months to collect the allowable revenue from municipalities.

3.4 Provincial Treasury issued Municipal Budget Circular No 5/2021 released on 17 March 2023 and is contained in **Annexure F**.

3.5 The Provincial Treasury Circulars mainly provide an overview of the current fiscal and economic context and key highlights from the 2023 National Budget as well as the 2023 Provincial Budget, guidance to municipalities with the finalisation of the 2023/24

MTREF Budget and Brief municipalities on the 2023 Strategic Integrated Municipal Engagements (SIME) process and related matters.

3.6 SALGA Circular 17/2023 that relates to SALGA's objections against NERSA for the approved 18.65% increase on Municipal and Consumer tariffs. **Annexure F**.

3.7 Department of Cooperative Governance (COGTA) letter with reference number 14/5/3/2/9_9/15 on Curbing Excessive Property Rates increases on implementation of a new valuation roll. **Annexure F**.

3.8 All factors affecting the compilation of the budget were taken into consideration to ensure that the anticipated revenue streams and funding sources are affordable and sustainable for funding both the operating and capital budgets.

4. BUDGET PROJECTIONS

4.1 Table 1 below presents the actual amounts and percentage increases imposed for the previous two financial years, as well as the budget amounts and projected percentage increases for the next three financial years. The draft 2023/2024 MTREF Budget has been compiled based on the financial framework, financial strategies and financial policies of Council.

4.2 Key assumptions relating to the draft MTREF Budget in Table 1 includes the Government grant allocations from 2021/2022 to 2025/2026 financial years, as published in the Division of Revenue Bill (DoRB).

Row Number	Description	Outcome 2021/2022	Original Budget Budget 2022/2023	2023/2024	2024/2025	2025/2026
Column Reference	A	B	C	D	E	F
1	**GROWTH PARAMETERS**					
2	Growth (GDP)	2%	2%	0.9%	1.8%	2.0%
3	Headline Inflation Rate	4.9%	6.9%	5.3%	4.9%	4.7%
4	**REVENUE STREAMS**					
5	Property Rates - Residential	6.1%	4.8%	New GV and -10%	4.9%	4.7%
6	Property Rates - Other	6.1%	4.8%	New GV and -9%	4.9%	4.7%
7	Service Charges : Electricity	14.6%	7.5%	15.10%	4.9%	4.7%
8	Service Charges : Water	5.1%	4.8%	9.0%	4.9%	4.7%
9	Service Charges : Saniatation	5.1%	4.8%	5.3%	4.9%	4.7%
10	Service Charges : Refuse	5.1%	11.5%	6.0%	4.9%	4.7%
11	**COST OF REMUNERATION**					
12	Estimated Cost of Living Increases	6.1%	4.9%	5.3%	4.9%	4.7%
13	Estimated Notch Increases	2.4%	2.4%	2.4%	2.4%	2.4%
14	**BULK PURCHASES**					
15	Electricity	17.8%	8.61%	18.49%	12.7%	17.7%
16	**GRANTS : NATIONAL DEPARTMENTS**	**142,607,000**	**168,779,000**	**216,765,000**	**219,629,000**	**238,163,000**
17	Equitable share	98,572,000	111,170,000	122,358,000	134,028,000	144,402,000
18	Equitable share % Growth	-8.7%	12.8%	10.1%	9.5%	7.7%
19	Financial Management Grant	1,550,000	1,721,000	1,771,000	1,771,000	1,909,000
20	Expanded Publick Works Programme Grant (EPWP)	1,118,000	1,044,000	1,264,000	-	-
21	Municipal Infrastructure Grant (MIG)	26,260,000	39,114,000	29,218,000	30,393,000	31,617,000
22	Intergrated National Electrification Programme Grant (INEP)	-	10,730,000	43,754,000	5,000,000	15,000,000
23	Neighbourhood DevelopmenT Partnership(NDPG)	10,000,000	5,000,000	15,000,000	15,000,000	10,001,000
24	Water Services Infrastructure Grant(WSIG)	5,107,000	-	3,400,000	33,437,000	35,234,000
25	**GRANTS : PROVINCIAL DEPARTMENTS**	**8,996,657**	**21,986,659**	**45,348,000**	**48,580,000**	**34,098,000**
26	Financial Management Capacity	250,000	-	639,000	-	-
27	Human Settlement Development Grant	46,657	21,840,000	32,316,000	37,128,000	22,120,000
28	Informal Settlements Upgrading Partnership Grant	-	-	-	-	-
29	Maintanance and Construction of Transport Infrastructure Grant	110,000	80,000	120,000	130,000	150,000
30	Community Library Services Grant	8,493,000	10,659	10,842,000	11,265,000	11,771,000
31	Community Development Worker Operational Support Grant	57,000	56,000	57,000	57,000	57,000
32	Municipal Interventions Grant	40,000	-	-	-	-
33	Title Deeds Restoration Grant(TRP)	-	-	1,374,000	-	-
34	**TOTAL**	**151,603,657**	**190,765,659**	**262,113,000**	**268,209,000**	**272,261,000**

2023/2024 MTREF :Key Budget Projections

4.2.1 As per MFMA Municipal Budget Circular No 123, the actual headline inflation rate is presented:

Table 1: Macroeconomic performance and projections, 2021 - 2026

Fiscal year	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate		Forecast	
CPI Inflation	4.9%	6.9%	5.3%	4.9%	4.7%

As per NT guideline, the GDP is expected to grow by 0.9 per cent in real terms in 2023, compared with an estimate 1.4 per cent at the time of the medium-term budget policy statement (MTBPS), projected a slowly recovery of 1.8 per cent in 2025.

CPI is kept at 5.3 per cent while the Cost of living and all other Tariffs are higher that the estimated per centage increase. This will put further pressure on Municipality and its Consumers as cost of leaving is becoming more unaffordable.

4.2.2 Property Rates

With regards to Property Rates, New General Valuation was completed and the appeal period was extended to February 2023 for the Rate Payers to submit their objections. To date objections outcome was communicated to affected consumers and implemented with revenue projections for this budget.

The below table provides an average increase to the Value of properties to the Greater Knysna per category from the 2017 General Valuation verse 2023.

Council tabled Property Rates income at R343,446,646 after running a test of the Zero increase on the new GV as well as further R150,000 rebate on all residential properties only.

During IDP/Budget Public Participation, where a number of Rate Payers requested a further reduction on property Rates. Council considered various options that would relief most rate payers such as a further R150,000 rebate on all properties that are impacted more than 30% from their current rates bill.
This would have been difficult to monitor and implement as the SV 6 objection period is still open.

Council is going ahead with the implementation of the new GV with the reduced rate in a rand of 10% for residential and 9% for other property owners.

In this budget the objected values have been considered and that yielded a reduction of R13 million revenue from the tabled budget.

4.2.3 **Water**:

When considering all the secondary support service function not included in the total cost to produce water, this service is running at a loss.

With all the unforeseen events declared, such as increased costs incurred in the 2022-23 financial year, draught and further spike projected for the 2023-24 MTREF on costs to produce Water the service is running at a loss.

Water loses was reduced to 20% in the 2021-22 audited outcome and R2 million is put aside for a continuation of the conversion of the conventional meters to water prepaid in this Budget.

Council continues to provide 6 kl's of water to the indigent and this was extended to all pensioners, people leaving with disability as well as those that falls within the social income bracket.

Council for the past five years continued to provide an incentive of 3kl's to all other rate payers falling within the residential group however, this has become unaffordable and phased out approach was considered to ONLY provide 1kl of water in the new year.
Provincial Treasury has selected Knysna to be a pilot site in order to assist with our asset verification and set-up all SOP's, and other possible urgently processes in in place, at no cost. This will assist in ensuring that all KM assets are correctly registered, Standard Operating Procedures are in Place as we're embarking on the new Asset Module.

4.2.4 **Electricity**

Electricity tariffs are regulated by NERSA. In the tabled budget Council implemented 18.65% for both Eskom and Sales as there was no guideline nor benchmark tabled by

End March 2023. NERSA issued publication by 4 April which was after Council tabled the budget and Municipal sales were kept at 15.1% increase. This resulted in a reduction of R11 million from the tabled budget.

Council prepared and submitted Cost of Supply study to NERSA in 2018 where a flat rate tariff was proposed however no response was received in this regard.

Council will embark in another study since there are other considerable factors that needs to be considered such as Load Shedding as well as significant roll-out implementation of installing prepaid boxes to our Informal areas that will yield additional revenues, and the impact on Electricity Infrastructure.

Council considered new SSEG tariffs for off-the grid customers as well as penalty tariff for customers that are not notifying the Municipality as non-communication may course serve problems should they not be catered for by KM

4.2.4 **Refuse**

Proposed tariff of six per cent due to the implementation of the landfill site effective February 2024.

4.2.5 **Fines and Penalties**:

Since the implementation of the iGRAP1, traffic fines has been a very difficult area to provide most reasonable projections from one year to the other and the collection rate has been low at 10% per annum on all over R100million estimation.

Average income annually ranged from R15-R20 million per annum. New year tabled figure of R9 million collection was below, hence the increased collection rate per centage to 15 per cent.

A number of proposals such as borrowing George Municipality buses at the times that they are not operating, in order for 7 our traffic officers to collect moneys due to Knysna Municipality.

Re-installation of cameras from critical points that were vandalised and in order to continue reduce speeding at hazardous areas for the safety of our road users.

Council considered conversion of the flats next to the police dog unit to a Municipal court, and an item will be submitted to Council in this regard.

4.2.6 Building plan for non-building single residential building tariffs was reinstated onto the tariff book as well as Town Planning Unauthorised Land Use - up to and not more than 100% of the municipal valuation of the area that is used unlawfully as well as Unauthorised Building Work contravening the Zoning Scheme - up to and not more than

100% of the value of the building, construction and engineering work unlawfully carried out.

4.2.7 Developmental Charges

Council is in process of considering the Developmental Charges Policy, Infrastructure Services will provide report to Council in this regard.

4.2.8 The Salary and Wage Collective Agreement for the period 01 July 2021 to 30 June 2024 dated 15 September 2021 through the agreement that was approved by the Bargaining Committee of the Central Council in terms of Clause 17.3 of the Constitution should be used when budgeting for employee related costs for the 2023/24 MTREF.

In terms of the agreement, all employees covered by this agreement shall receive with effect from 01 July 2023 and 01 July 2024 an increase based on the projected average CPI percentages for 2023 (5.4 per cent according to the Reserve Bank's Monetary Committee Statement for January 2023) and 2024 (4.8 per cent according to the Reserve Bank's Monetary Committee Statement for January 2023).

The forecasts of the Reserve Bank, in terms of the January 2023 and January 2024, shall be used to determine the projected average CPI. National Government encouraged the Municipalities to perform an annual head count and payroll verification process by undertaking a once-a-year manual salary disbursement, to root out ghost employees.

During tabled budget Council budgeted for 103 additional vacant positions across departments however Council had to reduce and phase appointment of critical vacant posts to three years.

Corrections between budgeted T-Scales and Task implementation had to be effected in the final budget to ensure that posts were all fully catered for.

4.2.9 Council is sensitive to the affordability and sustainability of the tariffs to be imposed. The detailed Tariff Book is attached as **Annexure C**. The Municipality closely monitors the debtor collection rates, which equated to 90% in the 2021/2022 financial year audited outcome. The municipality is confident that the debtor collection rate will increase substantially following Council approval of new and amended budget-related policies. Bad debt provision of 10% of estimated billed revenue has been budgeted in the 2023/2024 MTREF compared with the 10% for the 2021/2022 final outcome.

5. HIGH LEVEL OPERATING BUDGET

The Municipality's operating budget, lists the planned operating expenditure and income, for the delivery of all core services to its community.

5.1 Operating Revenue per Category

5.1.1 The high level operating revenue budget per category for the 2023/2024 MTREF is presented in Table 2 below:

Table 2: High level Summary of Operating Revenue per Capegory

		2022-23 FINANCIAL PERFORMANCE			2023-24 MTREF				
Row Number	Description	2022-23 Original Budget	Adjustments	2022-23 Feb Adjusted Budget	2023-24 TABLED DRAFT	ADJUSTMENTS	2023-24 FINAL BUDGET	2024-25 FINAL BUDGET	2025-26 FINAL BUDGET
Column Reference	A	B	C	D	E	F	G	H	I
1	Property rates	261,551,911	- 3,032,330	258,519,581	343,446,646	- 39,192,951	304,253,695	319,162,123	334,162,742
2	Service charges - electricity revenue	354,321,348	- 20,022,390	334,298,958	396,110,836	- 11,332,735	384,778,101	442,494,816	463,292,072
3	Service charges - water revenue	74,586,025	2,980,929	77,566,954	84,547,978	- 159,224	84,388,754	91,023,805	100,289,271
4	Service charges - sanitation revenue	29,310,910	-	29,310,910	30,864,387	-	30,864,387	32,376,741	33,898,448
5	Service charges - refuse revenue	27,831,817	-	27,831,817	29,306,904	722,554	30,029,458	31,500,902	32,888,731
6	Rental of facilities and equipment	5,444,020	1,144,909	6,588,929	6,938,143	-	6,938,143	7,278,111	7,620,183
7	Interest earned - external investments	2,046,273	- 311,903	1,734,370	1,826,291	-	1,826,291	1,915,779	2,005,821
8	Interest earned - outstanding debtors	19,321,626	8,792,609	28,114,235	20,483,663	-	20,483,663	21,487,363	22,497,270
9	Fines, penalties and forfeits	119,059,010	-	119,059,010	99,090,019	-	99,090,019	107,945,430	113,822,260
10	Licences and permits	1,698,285	-	1,698,285	1,788,294	-	1,788,294	1,875,921	1,964,088
11	Agency services	3,829,743	-	3,829,743	4,032,719	-	4,032,719	4,230,322	4,429,147
12	Transfers and Subsidies	154,945,913	- 19,046,092	135,899,821	150,239,391	-	150,239,391	159,506,609	171,644,826
13	Other Revenue	7,862,155	46,693,357	54,555,512	47,943,018	- 2,561,611	45,381,407	49,392,286	34,960,708
14	Gains	250,000	1,854,759	2,104,759	500,000	-	500,000	500,000	500,000
15	**Total Revenue (Capital Grants Excluded)**	**1,062,059,036**	**19,053,848**	**1,081,112,884**	**1,217,118,289**	**-52,523,967**	**1,164,594,322**	**1,270,690,208**	**1,323,975,567**
16	Capital Grants	46,468,087	7,893,000	54,361,087	78,183,609	-	78,183,609	73,974,391	86,416,174
17	Public Contributions	-	-	-	-	-	-	-	-
18	**Total Revenue (Capital Grants Included)**	**1,108,527,123**	**26,946,848**	**1,135,473,971**	**1,295,301,898**	**-52,523,967**	**1,242,777,931**	**1,344,664,599**	**1,410,391,741**

5.1.2 The operating revenue budget (Column G15) equates to R 1,165 billion for the 2023/2024 financial year in comparison with the revised tabled budget of R 1,217 billion.

5.1.3 An overall increase was reduced from 12 per cent to 7.8 per cent on operating revenue from the tabled budget.

Operating revenue was adjusted downward by R52.5 million from the tabled budget mainly to compensate our rate payers with a reduced rate in a rand tariff on property rates as a result of the implementation of the new GV as well as reduction of projected electricity sales to 15.1%.

- Reduction of R39.2 million on Property Rates revenue, mainly as a result of the reduction on the rate in the rate of (2022-23) by 10% for residential and 9% for all other categories.

- Reduction of the Electricity Sales tabled at 18.5% while proposed benchmark was at 15.1%. These are purely subject to NERSA decision as year-on final results comes out after approval of Council budget however Council will implement NERSA tariffs for the 2023-24 financial year.

- With regards to the Electricity Service Charges Council has embarked on a project of electrifying informal areas of which this revenue is not included in this budget as well as the SSEG and tariffs introduced for all customers that requires off the Grip service.

- Other Revenue reduced by R2.6 million mainly Water Augmentation Fees and Insurance. These items year-on are kept at Zero based then adjusted upward with the adjustments budget.

5.2 Operating Expenditure per Category

5.2.1 The high level operating expenditure budget per category for the 2023/2024 MTREF is presented in Table 3 below:

Table 3: High level Summary of Operating Expenditure per Capegory

		2022-23 FINANCIAL PERFORMANCE			2023-24 MTREF				
Row Number	Description	2022-23 Original Budget	Adjustments	2022-23 Feb Adjusted Budget	2023-24 TABLED DRAFT	ADJUSTMENTS	2023-24 FINAL BUDGET	2024-25 FINAL BUDGET	2025-26 FINAL BUDGET
Column Reference	A	B	C	D	E	F	G	H	I
1	Employee Related Costs	299,851,209	- 10,135,401	289,715,808	328,947,027	- 23,388,835	305,558,192	326,253,356	335,651,299
2	Remuneration of councillors	9,749,165	-	9,749,165	10,081,756	-	10,081,756	10,575,759	11,072,818
3	Debt impairment	148,240,813	- 3,389,861	144,850,952	159,772,610	- 10,042,719	149,729,891	151,359,790	154,302,543
4	Depreciation & asset impairment	43,687,538	-	43,687,538	49,118,855	-	49,118,855	51,525,685	53,947,391
5	Finance charges	28,846,141	- 500,001	28,346,140	31,848,485	-	31,848,485	35,409,063	39,073,289
6	Bulk purchases	262,156,491	- 5,651,000	256,505,491	303,933,356	- 10,629,066	293,304,290	332,299,934	348,914,931
7	Other materials	38,783,549	8,057,986	46,841,535	53,714,110	339,205	54,053,315	56,465,694	59,366,916
8	Contracted services	166,577,351	23,334,786	189,912,137	198,737,804	- 14,381,699	184,356,105	194,865,727	190,836,336
9	Transfers and subsidies	1,916,506	228,618	2,145,124	1,787,448	- 330,000	1,457,448	1,315,598	1,332,854
10	Irrecoverable debts written off	-	-	-	-	1,783,929	1,783,929	1,871,341	1,959,295
11	Other Expenditure	61,466,236	5,616,095	67,082,331	77,744,734	- 3,238,642	74,506,092	78,154,112	81,730,565
12	Loss on Disposal of PPE	-	-	-	-	-	-	-	-
13	**Total Operating Expenditure**	**1,061,274,999**	**17,561,222**	**1,078,836,221**	**1,215,686,185**	**- 59,887,827**	**1,155,798,358**	**1,240,096,059**	**1,278,188,237**

5.2.2 The operating expenditure budget (Column G12) equates to R 1,156 billion for the 2023/2024 financial year in comparison with the tabled budget of R 1,215 million for the 2022/2023 financial year.

5.2.3 An overall reduction of R59,88 million on operating expenditure when comparing to the tabled budget as a results of the below items:

- Employee Costs reduced by R23,38 million since the draft budget in order to accommodate the significant reduction of revenue which resulted from downward adjustments of property rates tariffs and electricity tariffs. Some vacant posts are frozen however some were already on the recruitment and selection stage they will then be delayed by at least months in the new financial year.

- Debt impairment reduced by R10,04 million in response to downward adjustment of revenue projections.

- Bulk purchases also reduced by R10,62 million as the tabled budget was based on the February figure in order to ensure sufficiently catered for.

- Several cuts were effected across departments within contracted services to the total of R14,38 million in order to respond to the reduced revenue projection

5.2.3 An overall increase of 7.1 per cent on operating expenditure budget for the 2023/2024 financial year compared to the 2022/2023 adjusted budget.

5.3 Operating Revenue and Expenditure Summary

5.3.1 The high level draft operating budget summary for the 2023/2024 MTREF is presented in Table 4 below:

Table 4: High level Summary of Operating Budget									
		2022-23 FINANCIAL PERFORMANCE			2023-24 MTREF				
.	Description	2022-23 Original Budget	Adjustments	2022-23 Feb Adjusted Budget	2023-24 TABLED DRAFT	ADJUSTMENTS	2023-24 FINAL BUDGET	2024-25 FINAL BUDGET	2025-26 FINAL BUDGET
Column Reference	A	B	C	D	E	F	G	H	I
1	Operating Revenue	1 062 059 036	19 053 848	1 081 112 884	1 217 118 289	(52 523 967)	1 164 594 322	1 270 690 208	1 323 975 567
2	Operating Expenditure	1 061 274 999	17 561 222	1 078 836 221	1 215 686 185	(59 887 827)	1 155 798 358	1 240 096 059	1 278 188 237
3	**Surplus/Deficit**	**784 037**	**1 492 626**	**2 276 663**	**1 432 104**	**7 363 860**	**8 795 964**	**30 594 149**	**45 787 330**
4	Capital Revenue	46 468 087	7 893 000	54 361 087	78 183 609	-	78 183 609	73 974 391	86 416 174
5	Public Contributions	-	-	-	-	-	-	-	-
6		**47 252 124**	**9 385 626**	**56 637 750**	**79 615 713**	**7 363 860**	**86 979 573**	**104 568 540**	**132 203 504**

5.3.2 The operating budget surplus (Column G3) equates to R 8,7 million for the 2023/2024 financial year in comparison with the March tabled budget of R 1.4 million.

5.3.3 The operating budget surplus (Column G6) equates to R 86.9 million for the 2023/2024 financial year in comparison to the draft budget of R 79.6 million tabled in March 2023.

5.4 Summary Operating Budget for Main Services

Service departments operating budget financial performance provides an overview of the main services

5.4.1 The below table depicts Technical Services operating budget:

Table 5: High level Summary of Technical Services Financial Performance									
		2022-23 FINANCIAL PERFORMANCE			2023-24 MTREF				
Row Number	Description	2022-23 Original Budget	Adjustments	2022-23 Feb Adjusted Budget	2023-24 TABLED DRAFT	ADJUSTMENTS	2023-24 FINAL BUDGET	2024-25 FINAL BUDGET	2025-26 FINAL BUDGET
Column Reference	A	B	C	D	E	F	G	H	I
1	Service charges - water revenue	74,586,025	2,980,929	77,566,954	84,547,978	- 159,224	84,388,754	91,023,805	100,301,922
2	Service charges - sanitation revenue	29,310,910	-	29,310,910	30,864,387	-	30,864,387	32,376,741	33,898,448
3	Interest earned - outstanding debtors	7,146,494	4,264,499	11,410,993	7,551,712	-	7,551,712	7,921,746	8,294,068
4	Fines, penalties and forfeits	-	-	-	-	-	-	-	-
5	Transfers recognised - operational	60,169,091	-	60,169,091	60,549,291	-	60,549,291	64,645,749	65,849,306
6	Other revenue	133,855	4,558,760	4,692,615	5,036,024	- 2,280,939	2,755,085	2,890,084	3,025,918
7	Gains	-	-	-	-	-	-	-	-
8	Transfers and subsidies - capital	37,137,652	2,400,000	39,537,652	40,136,609	-	40,136,609	67,226,391	65,453,174
9	**Total Revenue (Capital Grants Excluded)**	**208,484,027**	**14,204,188**	**222,688,215**	**228,686,001**	**- 2,440,163**	**226,245,838**	**266,084,516**	**276,822,836**
10	Employee related costs	65,270,398	1,073,052	66,343,450	73,952,350	- 4,213,422	69,738,928	76,420,454	84,001,997
11	Debt impairment	9,948,111	-	9,948,111	10,946,476	547,324	11,493,800	11,894,036	12,302,682
12	Depreciation & asset impairment	25,382,245	- 2,427,214	22,955,031	30,695,477	-	30,695,477	32,199,558	33,712,936
13	Finance charges	21,084,015	- 630,323	20,453,692	23,537,736	-	23,537,736	26,691,086	29,945,568
14	Other materials	22,626,565	7,023,049	29,649,614	34,987,341	-	34,987,341	36,701,720	38,426,701
15	Contracted services	48,462,008	- 1,476,098	46,985,910	58,233,369	- 2,000,000	56,233,369	58,992,926	61,779,485
16	Other Expenditure	6,023,224	910,804	6,934,028	6,806,244	- 200,000	6,606,244	6,929,953	7,255,661
17	**Total Operating Expenditure**	**198,796,566**	**4,473,270**	**203,269,836**	**239,158,993**	**- 5,866,098**	**233,292,895**	**249,829,733**	**267,425,030**
18	**Surplus/Deficit**	**9,687,461**	**9,730,918**	**19,418,379**	**(10,472,992)**	3,425,935	**(7,047,057)**	**16,254,783**	**9,397,806**
	Revenue Growth =	12,856,489		14,204,188	**5,997,786**	- 2,440,163	**3,557,623**	39,838,678	10,738,320
	Expenditure Growth =	- 11,122,361		4,473,270	**35,889,157**	**- 5,866,098**	**30,023,059**	16,536,838	17,595,297

The above table depicts a summary overview of Infrastructure Services Directorate Excluding Electricity Department, financial performance.

An overall revenue decrease of R2,4 million with the Main Generating Services Water and Sewer included and R5,8 million being the overall expenditure decrease when comparing to March tabled budget.

Though Water was increased with nine per cent, the Directorate is projecting a deficit of R7,04 million after subsidising Roads and Storm Water hence tabled increase above CPI.

This is of concern as Support Service Costs are not included on the overview budget however, KM has agreed with Provincial Treasury to be part of the Pilot site for all Water Department Assets and SOP's as well as consideration of Other matters such as cost reflective tariffs on Water. This service will be provided to the Municipality at no costs to address these issues by Provincial Treasury.

5.4.2 The below table depicts Electricity Department:

Table 6: High level Summary of Electrical Services Financial Performance

		2022-23 FINANCIAL PERFORMANCE			2023-24 MTREF				
Row Number	**Description**	**2022-23 Original Budget**	**Adjustments**	**2022-23 Feb Adjusted Budget**	**2023-24 TABLED DRAFT**	**ADJUSTMENTS**	**2023-24 FINAL BUDGET**	**2024-25 FINAL BUDGET**	**2025-26 FINAL BUDGET**
Column Reference	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**I**
1	Service charges - electricity revenue	354,321,348	- 20,022,390	334,298,958	384,778,101	11,332,735	396,110,836	441,944,180	462,715,556
2	Interest earned - outstanding debtors	2,883,868	2,137,686	5,021,554	3,262,048	-	3,262,048	3,421,888	3,582,717
3	Fines, penalties and forfeits	-	-	-	-	-	-	-	-
4	Transfers recognised - operational	21,405,671	-	21,405,671	37,475,740	-	37,475,740	41,949,280	52,080,520
5	Other revenue	205,240	161,500	366,740	321,418	64,760	386,178	337,167	353,014
6	Gains	-	-	-	-	-	-	-	-
7	Transfers and subsidies - capital	9,330,435	-	9,330,435	38,047,000	-	38,047,000	4,348,000	13,043,000
8	**Total Revenue (Capital Grants Excluded)**	**388,146,562**	**- 17,723,204**	**370,423,358**	**463,884,307**	**11,397,495**	**475,281,802**	**492,000,515**	**531,774,807**
9	Employee related costs	16,347,762	- 199,120	16,148,642	18,778,174	- 2,071,032	16,707,142	18,638,574	19,514,589
10	Debt impairment	19,559,927	- 3,693,094	15,866,833	21,801,406	- 78,853	21,722,553	25,722,388	26,931,341
11	Depreciation & asset impairment	7,612,074	3,426,228	11,038,302	8,567,591	-	8,567,591	8,987,403	9,409,813
12	Finance charges	5,392,034	- 484,011	4,908,023	5,168,148	-	5,168,148	5,421,387	5,676,192
13	Bulk purchases	262,156,491	- 5,651,000	256,505,491	303,933,356	- 10,629,066	293,304,290	337,299,934	353,153,031
14	Other materials	3,344,006	1,518,768	4,862,774	6,784,445	-	6,784,445	7,116,883	7,451,378
15	Contracted services	22,166,141	658,000	22,824,141	33,817,380	- 1,500,000	32,317,380	33,900,931	35,494,275
16	Other Expenditure	6,282,065		8,552,131	11,615,499		10,115,499	10,611,159	11,109,885
17	**Total Operating Expenditure**	**336,578,435**	**- 4,424,229**	**332,154,206**	**398,850,500**	**- 14,278,951**	**384,571,549**	**437,087,500**	**457,630,619**
18	**Surplus/Deficit**	**51,568,127**	**(22,147,433)**	**38,269,152**	**65,033,807**	25,676,446	**90,710,253**	**54,913,015**	**74,144,188**
19	Revenue Growth =			- 17,723,204		-		35,563,514	(7,743,376)
20	Expenditure Growth =			- 4,424,229		-		13,536,299	8,647,234

The above table depicts the Electrical Departments financial performance for a four-year period.
The revenue clearly depicts an overall reduction mainly on transfers and subsidies – Grants over the years.

Minister of Energy will be in Knysna by 02 June 2023 for further discussions and developments with regards to Electricity in the Town and consider Solar power plant installation project.

Operating expenditure was reduced by R14.2 million in order to counter the downward adjustments in the tabled budget.

5.4.3 The below table depicts Solid Waste Department:

Table 7: High level Summary of Solid Waste Financial Performance									
		2022-23 FINANCIAL PERFORMANCE			2023-24 MTREF				
Row Number	Description	2022-23 Original Budget	Adjustments	2022-23 Feb Adjusted Budget	2023-24 TABLED DRAFT	ADJUSTMENTS	2023-24 FINAL BUDGET	2024-25 FINAL BUDGET	2025-26 FINAL BUDGET
Column Reference	A	B	C	D	E	F	G	H	I
1	Service charges - refuse revenue	27,831,817	-	27,831,817	29,306,904	722,554	30,029,458	31,500,902	32,981,444
2	Rental of facilities and equipment	-	-	-	-	-	-	-	-
3	Interest earned - outstanding debtors	3,170,396	988,398	4,158,794	3,315,940	-	3,315,940	3,478,421	3,641,907
4	Transfers recognised - operational	18,167,151	-	18,167,151	17,649,300	-	17,649,300	18,067,560	18,100,160
5	Other revenue	4,289	-	4,289	4,516	-	4,516	4,737	4,960
6	**Total Revenue (Capital Grants Excluded)**	**49,173,653**	**988,398**	**50,162,051**	**50,276,660**	**722,554**	**50,999,214**	**53,051,620**	**54,728,471**
7	Employee related costs	23,441,642	1,130,483	24,572,125	23,091,158	53,560	23,144,718	24,212,635	25,350,629
8	Debt impairment	2,783,182	-	2,783,182	2,930,690	146,535	3,077,225	3,073,273	3,074,931
9	Depreciation & asset impairment	3,162,552	- 878,931	2,283,621	2,566,003	-	2,566,003	2,691,739	2,818,251
10	Finance charges	469,762	37,325	507,087	533,963	-	533,963	560,128	586,454
11	Other materials	4,768,409	- 350,000	4,418,409	4,527,544	-	4,527,544	4,749,396	4,972,616
12	Contracted services	8,255,195	- 106,042	8,149,153	6,807,866	-	6,807,866	7,141,449	7,477,097
13	Other Expenditure	6,317,002	- 1,785,137	4,531,865	7,795,859	- 200,000	7,595,859	7,968,058	8,342,557
14	**Total Operating Expenditure**	**49,197,744**	**- 1,952,302**	**47,245,442**	**48,253,083**	**95**	**48,253,178**	**50,396,678**	**52,622,535**
15	Surplus/Deficit	- 24,091	2,940,700	2,916,609	2,023,577		2,746,036	2,654,942	2,105,936
16	Revenue Growth =			988,398	114,609		722,554	2,774,960	1,676,851
17	Expenditure Growth =			- 1,952,302	1,007,641		95	2,143,595	2,225,857

This service is projecting R2.7 million surplus by year-end, however the service support cost will provide different picture.
This clearly requires and calls for council to consider the enrolment of the cost reflective tariff exercise per service.

5.5 Other Disclosures

Section 17(3)(k) of the MFMA determines that as part of the budget documents, the proposed cost to the Municipality for the budget year of the salary, allowances and benefits of each political office bearer, Municipal Manager, Chief Financial Officer, Senior Manager and any other official with a remuneration package greater than or equal to that of a Senior Manager, must be disclosed:

5.5.1 High level summary detail of Employee Related Costs

Table 8: High level Summary of Employee Related Cost										
			2022-23 FINANCIAL PERFORMANCE			2023-24 MTREF				
Row Number	Description	2021-22 Audited Outcome	2022-23 Original Budget	Adjustments	2022-23 Feb Adjusted Budget	2023-24 TABLED DRAFT	ADJUSTMENTS	2023-24 FINAL BUDGET	2024-25 FINAL BUDGET	2025-26 FINAL BUDGET
Column Reference	A	B	B	C	D	E	F	G	H	I
1	Acting Allowance	1,789,615	-	1,753,467	1,753,467	1,869,178	-	1,869,178	1,960,767	2,052,924
2	Actuarials	10,134,022	14,545,249	- 4,791,193	9,754,056	14,036,900	-	14,036,900	14,036,900	14,036,900
3	Bonus	13,273,173	13,985,453	- 779,759	13,205,694	14,628,527	- 762,515	13,866,012	14,554,599	15,238,664
4	Danger Allowance	4,386,066	-	-	-	-	-			
5	Housing Allowance	719,643	767,572	- 63,102	704,470	750,008	4,756	754,764	791,749	828,964
6	Leave Pay	- 902,098	3,726,153	- 2,011,895	1,714,258	1,490,660	-	1,490,660	1,563,701	1,637,196
7	Night Shift Allowance	1,022,141	1,247,220	-	1,247,220	1,236,282	27,635	1,263,917	1,325,850	1,388,166
8	Overtime	18,740,841	7,590,000	8,595,184	16,185,184	16,986,754	- 3,812,689	13,174,065	17,818,490	18,655,959
9	Performance Bonus	- 559,261	395,645	- 67,767	327,878	197,790	1,322	199,112	208,868	218,684
10	Rental Allowance	1,902,691	2,206,532	- 493,348	1,713,184	2,415,432	- 264,601	2,150,831	2,258,434	2,364,581
11	Scarcity Allowance	1,536,374	1,629,710	71,722	1,701,432	1,847,626	- 118,116	1,729,510	1,814,257	1,899,527
12	Shift Allowance	3,268,330	3,740,098	- 15,725	3,724,373	3,998,631	76,225	4,074,856	4,274,524	4,475,427
13	Skills Dev Levy	82,406	85,853	-	85,853	98,551	10,678	109,229	114,581	119,966
14	SM Acting Allowance	-	-	-	-	-	-			
15	SM Car Allowance	389,376	645,728	- 109,156	536,572	408,000	22,032	430,032	451,104	472,307
16	SM Cellular and Telephone	13,300	15,200	- 10,200	5,000	5,265	-	5,265	5,523	5,783
17	SM Group Life Insurance	80,402	136,078	- 81,718	54,360	70,564	471	71,035	74,516	78,018
18	SM Housing Allowance	4,091	72,000	- 72,000	-	-	-			
19	SM Medical Aid	106,870	160,551	- 100,485	60,066	50,451	0	50,451	52,923	55,410
20	SM Pension	310,313	609,863	- 330,498	279,365	435,075	2,909	437,984	459,445	481,039
21	SM Salaries	2,691,879	4,577,137	741,864	5,319,001	7,164,047	47,885	7,211,932	7,565,317	7,920,887
22	SM Scarcity Allowance	-	381,654	- 381,654	-	220,518	-	220,518	231,323	242,195
23	SM UIF	8,284	9,918	1,056	10,974	12,750	3	12,753	13,380	14,010
24	Staff Car Allowance	7,720,820	7,582,511	163,672	7,746,183	7,775,248	- 175,149	7,600,099	7,972,503	8,347,212
25	Staff Cellular and Telephone	-	-	-	-	200,000	-	200,000	209,800	219,661
26	Staff Group life Insurance	4,368,242	5,041,588	- 341,030	4,700,558	5,213,923	- 272,432	4,941,491	5,186,891	5,430,675
27	Staff Medical Aid	12,630,972	15,285,118	- 1,976,815	13,308,303	17,870,668	- 2,617,143	15,253,525	16,015,810	16,768,554
28	Staff Pension	27,336,654	30,883,875	- 1,975,396	28,908,479	31,866,288	- 1,650,030	30,216,258	31,716,621	33,207,300
29	Staff Salaries	152,864,670	172,110,697	- 13,332,454	158,778,243	177,368,253	- 9,789,480	167,578,773	172,983,187	175,782,395
30	Staff UIF	1,959,083	1,921,845	- 49,849	1,871,996	3,345,582	- 113,829	3,231,753	3,304,480	3,514,554
31	Standby Allowance	5,818,411	2,062,000	2,269,598	4,331,598	5,270,393	-	5,270,393	5,528,642	5,788,486
32	Temp Salaries	7,274,676	8,271,233	2,145,898	10,417,131	10,945,817	- 4,009,567	6,936,250	12,531,163	13,120,130
33	Uniform/Special/Protective Clothing	528	528	-	528	528	-	528	554	580
34	Allowances - Service Related Benefits -	1,246,148	164,200	1,106,182	1,270,382	161,400	2,800	164,200	172,246	180,342
35	Allowance:Non-pensionable				-	1,005,918	-	1,005,918	1,055,208	1,104,803
36	**Total Employee Related Cost**	**280,218,660**	**299,851,209**	**- 10,135,401**	**289,715,808**	**328,947,027**	**- 23,388,835**	**305,558,192**	**326,253,356**	**335,651,299**

- The above table depicts Council total salary budget complement breakdown per item for at least four years as well as the R23.3 million reduction on Salaries per item.
- Overall increase on salaries equates to 5.5% from the February adjusted budget and the overall provided positions are put on four months freeze or Top Management Team prioritise which critical position will be filled.

5.5.2 High level summary detail of section 56 senior managers total package

Table 9: Section 56 Senior Managers					
Row Number	Senior Managers (Municipal Manager and Section 56 managers reporting directly to the Municipal Manager		2022-23 February Adjusted Budget	2022-23 Original Budget	2023-24 FINAL DRAFT
Column Reference			A	B	C
1	(a)	Municipal Manager	1,449,660	20,340	1,470,000
2	(b)	Director: Planning and Development	1,184,979	20,340	1,205,319
3	(c)	Chief Financial Officer	1,184,979	20,340	1,205,319
4	(d)	Director: Corporate Services	1,184,979	20,340	1,205,319
5	(e)	Director: Infrastructure Services	1,184,979	20,340	1,205,319
6	(f)	Director: Community Services	1,184,979	20,340	1,205,319
7	**TOTAL**		**7,374,555**	**122,040**	**7,496,595**

The above table provides overview of the Section 56 Senior Managers and R7.5 million is the increased figure with CPI for all staff.

Accounting Officer; Director Infrastructure and Community Services are currently filled the other Director positions are in Recruitment and Selection process with the hope to be filled by 1 July 2023.

5.5.3 KM Public Office Bearers salary package

Table 10: Public Office Bearers				
Row Number	Public Office Bearers	2022-23 February Adjusted Budget	2022-23 Original Budget	2023-24 FINAL DRAFT
Column Reference		A	B	C
1	(a) Executive Mayor	927,485	5.00%	973,859.25
2	(b) Deputy Mayor	750,149	5.00%	787,656.45
3	(c) Speaker	750,149	5.00%	787,656.45
4	(d) Mayoral Committee Member	705,815	5.00%	741,105.75
5	(e) Council Whip	411,799	5.00%	432,388.95
6	(f) Chairperson of MPAC	400,907	5.00%	420,952.35
7	(h) Ordinary Council Member	321,403	5.00%	337,473.15

Based on a municipal categorisation of 3, calculated in terms of the Government Gazette on the Remuneration of Public Office Bearers Act, dated 24 April 2020, the total proposed cost to the Municipality's salary packages budgeted for Public Office Bearers are as depicted in the above table.
The Councillors Remuneration has always been kept at 5 percent increase, which is in line with the upper limits.
Total Budget for all Councillors amount to R10 million including all Ordinary Council Members with the limit of 5 per cent below CPI increase.

The total proposed cost to the Municipality's salary packages budgeted for officials with a remuneration package greater than or equal to that of a S56 Senior Manager are as follows:

5.5.4 KM Senior Managers not appointed as Section 56

Table 11: Senior Managers not S56				
Row Number	Senior Managers not S56	2022-23 February Adjusted Budget	2022-23 Original Budget	2023-24 FINAL DRAFT
Column Reference		A	B	C
1	(a) Senior Manager: Electro-Technical	1,497,316.97	1.053	1,576,674.77
2	(b) Senior Manager: Project Management	1,449,298.91	1.053	1,526,111.75
3	(c) Manager: Land Use Management	1,432,404.45	1.053	1,508,321.89
4	(d) Senior Manager: Financial Management Services	1,434,298.33	1.053	1,510,316.15
5	(e) Manager: Intergrated Human Settlement	1,231,729.35	1.053	1,297,011.01
6	(f) Manager: Water and Waste water services	1,204,829.08	1.053	1,268,685.02
7	(g) Manager: Roads, Transport, Stormwater and Building Maintenance	1,199,613.57	1.053	1,263,193.09
8	**TOTAL**	**9,449,491**		**9,950,314**

The total budget amount to R9.9 million of the total Employee Cost

6. HIGH LEVEL CAPITAL BUDGET

6.1 Capital Budget per Directorate

6.1.1 The high level capital expenditure budget per directorate for the 2023/2024 MTREF is presented in Table 12 below:

Table 12: High level Summary of Capital Budget

		2022-23 FINANCIAL PERFORMANCE			2023-24 MTREF				
Row Number	Description	2022-23 Original Budget	Adjustments	2022-23 Feb Adjusted Budget	2023-24 TABLED DRAFT	ADJUSTMENTS	2023-24 FINAL BUDGET	2024-25 FINAL BUDGET	2025-26 FINAL BUDGET
Column Reference	A	B	C	D	E	F	G	H	I
1	Vote 1 - Executive and Council	350,000	- 338,045	11,955	200,000	- 200,000	-	-	-
2	Vote 2 - Corporate Services	2,839,700	238,896	3,078,596	4,855,000	- 4,655,000	200,000	1,775,000	-
3	Vote 3 - Financial Services	445,000	- 445,000	-	100,000	- 100,000	-	5,000	-
4	Vote 5 - Planning and development	524,550	- 307,919	216,631	655,000	- 650,000	5,000	500,000	1,000,000
5	Vote 6 - Community Services	18,370,217	- 661,823	17,708,394	4,610,000	90,000	4,700,000	5,050,000	-
6	Vote 7 - Electrical Services	16,810,435	3,204,189	20,014,624	47,847,000	- 100,000	47,747,000	11,197,826	15,543,478
7	Vote 8 - Technical Services	76,221,934	- 3,046,441	73,175,493	68,486,109	- 10,399,500	58,086,609	100,826,391	111,023,174
8	Vote 9 - Housing Services	2,012,445	4,993,000	7,005,445	-	-	-	2,400,000	7,920,000
9	**Grand Total**	**117,574,281**	**3,636,857**	**121,211,138**	**126,753,109**	**- 16,014,500**	**110,738,609**	**121,754,217**	**135,486,652**

6.1.2 The total capital expenditure budget (Column G9) equates to R 110.7 million for the 2023/2024 financial year in comparison with the March 2023 tabled budget of R 126.7 million.

Capital budget has decreased from the February 2023 adjusted budget from R121,2 million to R110.7 million which translates to 9 per cent reduction overall across departments without impact the critical main service of Local Government.
All items such as furniture and replacement of some vehicles were taken off in this budget and considered in the outer year.

6.2 Capital Budget per Funding Source

6.2.1 The high level capital expenditure budget per funding source for the 2021/2022 MTREF is presented in Table 13 below:

Table 13: High level Summary of Capital Budget per Funding Source

		2022-23 FINANCIAL PERFORMANCE			2023-24 MTREF				
Row Number	Description	2022-23 Original Budget	Adjustments	2022-23 Feb Adjusted Budget	2023-24 TABLED DRAFT	ADJUSTMENTS	2023-24 FINAL BUDGET	2024-25 FINAL BUDGET	2025-26 FINAL BUDGET
Column Reference	A	B	C	D	E	F	G	H	I
1	Loans	61,190,000	450,038	61,640,038	38,805,000	- 13,800,000	25,005,000	40,750,000	41,570,000
2	CRR	9,916,195	- 4,706,181	5,210,014	5,264,500	2,285,500	7,550,000	7,030,000	7,500,000
3	Grants	46,468,086	7,893,000	54,361,086	82,683,609	- 4,500,000	78,183,609	73,974,217	86,416,652
4	**Grand Total**	**117,574,281**	**3,636,857**	**121,211,138**	**126,753,109**	**-16,014,500**	**110,738,609**	**121,754,217**	**135,486,652**

6.2.2 Loans (Column G1) has significantly decreased from the proposed 2022-23 MTREF budget of R70 million (2023-24) to R38.8 million in the March 2023 tabled budget, and was further reduced to R25.0 million on the final budget.

Though we are within the Geared Ratio NT norms, the Annual Annuity Interest and redemption portion paid against total Loans is currently unaffordable hence the reduction on loans.

Service Department are in process of tapping into other available Grants for qualifying projects such as Roads and Infrastructure projects.

Furthermore, an Updated Municipal Borrowing Policy Framework was approved by Cabinet (Update to the Policy Framework for Municipal Borrowing and Financial Emergencies) on the 17th of August, 2022.

The purpose of the update was to re-examine the original Policy Framework, along with the legislation (i.e. Municipal Finance Management Act – MFMA) that was adopted to implement it, considering the experience with municipal borrowing that has accumulated since 2000. The following key reforms have been introduced through the Update to the Policy Framework for Municipal Borrowing:

The Policy Framework for Municipal Borrowing has been updated to introduce the necessary reforms that will expand the scope of responsible municipal borrowing and create an environment that attracts more players (e.g. insurers, pension funds, institutional investors and fund managers, and international Development Finance Institutions) in the municipal debt market space. The original core principles underlying municipal borrowing are maintained (i.e. creditworthy municipalities should borrow prudently to finance capital investment, and that there will be no bail-outs by the provincial or national government);

The updated policy framework clarifies the role of Development Finance Institutions (DFIs), as it was not clearly articulated in the original policy. DFIs are required to pursue clear and agreed developmental goals, as outlined in the policy. The objective of this approach is to ensure that a DFI lending does not crowd out the private sector. Public-sector lenders, both domestic and foreign, should be guided by a social and developmental investment approach in which demonstrable social outcomes are considered alongside potential financial returns;

The updated policy framework permits and clarifies innovative infrastructure financing mechanisms (such as pooled financing mechanisms, project finance, tax increment financing, revenue bonds, and pledging of conditional grants) that municipalities can use to leverage municipal borrowing. Municipalities are encouraged to explore these alternatives, and innovative infrastructure financing mechanisms permitted subject to the requirements contained in the Municipal Finance Management Act (MFMA); and

The participation of both private and public sector market participants in the development of a liquid secondary market for municipal debt securities is also encouraged. The policy proposes options that can be explored to support the development and growth of an efficient and liquid market for municipal debt obligations

6.2.3 Capital Replacement Reserve CRR (Column G2) of R 5.264 million increased by R54 thousand from the February 2023 adjusted amount of R5.210 million that translates to 4% of the total capital budget. CRR was further increased b R2.2 million to R7.5 million for the new year.

The minimal allocation is mainly due to the CRR not being cash backed. However, we will embark on a process of opening subaccounts with Standard Bank in order to ring-fence funding not only from the Vote level but Cash Flow level.

Council receives annual Augmentation Fees of plus R6 million and this will be allocated separately to fund CRR projects. So will the CRR will be built.

6.2.4 Government grants (Column G3) was increased to R82.6 million from R54.3 Million mainly and was adjusted downward to R78.1 million for the final budget.

The significant increases are mainly on INEP for the Electrification of the Informal Areas as well as Housing Informal Settlement Programme.
This is commendable and looking at increasing the capacity of Grants from all available sources other than Internal Funds.

6.2.5 The Municipality has adopted a highly conservative approach in the calculation of the capital expenditure budget allocation by ensuring that the gearing ratio of 36.3% will remain within the acceptable NT norm of 45%.

6.3 Capital Budget Summary

6.3.1 In consideration of the limited availability of financial resources, and to render acceptable levels of service delivery, the Municipality has attempted to include as many capital projects as possible in the tabled 2023/2024 capital budget.

Reduced Borrowings from the normal standard that Services are used to, with the internship of tapping into the available options within Borrowings as indicated by NT as well as new Grants.

7. OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH THE INTEGRATED DEVELOPMENT PLAN (IDP)

7.1 The Constitution mandates local government with the responsibility to exercise local developmental and co-operative governance functions. The eradication of imbalances in the South African society can only be realised through a credible integrated development planning process.

7.2 Municipalities in South Africa are required to utilise integrated development planning as an approach to plan future development in their respective municipal areas, and accordingly determine the best solutions to achieve sound long-term development goals. A municipal IDP provides a five-year strategic programme of action aimed at establishing short, medium and long term strategic and budget priorities to create a developmental platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and capabilities of the Municipality to the overall development aims, which guide the municipal budget. The IDP further enables municipalities to make the best use of scarce resources to accelerate service delivery goals. An IDP is therefore a key instrument utilised by municipalities to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area.

7.3 The Constitution requires local government to ensure that management, budgeting and planning functions comply with the objectives of the Constitution. This provides a clear indication of the intended purposes of municipal integrated development planning. Legislation further stipulates that a municipality must not only give effect to the IDP, but must also conduct the affairs in a manner that is consistent with the IDP.

7.4 beginning March 2023, a strategic plan was conducted between management and Political Office Bearers with the aim to get SWOT analysis with Key Performance Focus of each Directorate in order to formulate revised Municipal Strategic Objectives

This budget is based on the following six strategic however, the budget might be revised in February 2024 to address changes to the new strategic objectives where applicable.

(a) Strategic Objective 1: To improve and maintain current basic service delivery through specific infrastructural development projects;

(b) Strategic Objective 2: To create an enabling environment for social development and economic growth;

(c) Strategic Objective 3: To promote a safe and healthy environment through the protection of our natural resources;

(d) Strategic Objective 4: To grow the revenue base of the municipality;

(e) Strategic Objective 5: To structure and manage the municipal administration to ensure efficient service delivery; and

(f) Strategic Objective 6: To encourage the involvement of communities in the matters of local government, through the promotion of open channels of communication.

7.5 The IDP is currently under review process and will be aligned with the 2023/2024 MTREF. Through adjustments budget process where applicable. The respective SA4, SA5 and SA6 schedules are included in **Annexure B**, provide a reconciliation between the IDP strategic objectives and the operating revenue, operating expenditure and capital expenditure.

8. MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS

8.1 Performance Management is a system intended to manage and monitor progress against the identified strategic objectives and priorities of Council. In accordance with legislative requirements and good business practices, as informed by the National Framework for Managing Programme Performance Information, the Municipality has developed and implemented a performance management system, which is regularly amended as the integrated planning process progresses. The Municipality monitors, assesses and reviews organisational performance, which is linked directly to individual employee performance of the Senior Managers.

8.2 Knysna Municipality continuously ensures that a culture of performance management is institutionalised. Performance agreements are therefore concluded with senior management.
The Human Resources Department is in process of implement Performance Management and cascading to the Supervisor Level and this is an ongoing process.

9. OVERVIEW OF BUDGET FUNDING INCLUDING FUNDING COMPLIANCE

9.1 National Treasury requires that the Municipality assess the financial sustainability against fourteen different funding measures, which monitor various aspects of the financial health of the municipality. These measures are contained in SA10 of **Annexure C**.

The respective information is extracted directly from the annual budgeted statements of financial performance, financial position and cash flow. The funding compliance measurement table in essence measures the degree to which the proposed budget complies with the funding requirements of Section 18 of the MFMA.

10. EXPENDITURE ON GRANT ALLOCATIONS MADE TO THE MUNICIPALITY

Financing of the Grant Funded Projects

The below table depicts total grants gazetted for the Municipality for the 2023-24 MTREF

There is a decline in number of grants we used to receive as the Municipality when comparing with allocations of five years plus ago and a decrease in some other grants.

Table 14: High level Summary of Total Grants Gazetted						
Row Number	Description	Outcome 2021/2022	Original Budget Budget 2022/2023	2023/2024	2024/2025	2025/2026
Column Reference	A	B	C	D	E	F
1	**GRANTS : NATIONAL DEPARTMENTS**	**142,607,000**	**168,893,000**	**216,765,000**	**219,629,000**	**238,163,000**
2	Equitable share	98,572,000	111,170,000	122,358,000	134,028,000	144,402,000
3	Financial Management Grant	1,550,000	1,721,000	1,771,000	1,771,000	1,909,000
4	Expanded Publick Works Programme Grant (EPWP)	1,118,000	1,158,000	1,264,000	-	-
5	Municipal Infrastructure Grant (MIG)	26,260,000	39,114,000	29,218,000	30,393,000	31,617,000
6	Intergrated National Electrification Programme Grant (INEP)	-	10,730,000	43,754,000	5,000,000	15,000,000
7	Neighbourhood DevelopmenT Partnership(NDPG)	10,000,000	5,000,000	15,000,000	15,000,000	10,001,000
8	Water Services Infrastructure Grant(WSIG)	5,107,000	-	3,400,000	33,437,000	35,234,000
9	**GRANTS : PROVINCIAL DEPARTMENTS**	**8,996,657**	**57,528,000**	**45,348,000**	**48,580,000**	**34,098,000**
10	Financial Management Capacity	250,000	-	639,000	-	-
11	Human Settlement Development Grant	46,657	46,733,000	32,316,000	37,128,000	22,120,000
12	Informal Settlements Upgrading Partnership Grant	-	-	-	-	-
13	Maintanance and Construction of Transport Infrastructure Grant	110,000	80,000	120,000	130,000	150,000
14	Community Library Services Grant	8,493,000	10,659,000	10,842,000	11,265,000	11,771,000
15	Community Development Worker Operational Support Grant	57,000	56,000	57,000	57,000	57,000
16	Municipal Interventions Grant	40,000	-	-	-	-
17	Title Deeds Restoration Grant(TRP)	-	-	1,374,000	-	-
18	**TOTAL**	**151,603,657**	**226,421,000**	**262,113,000**	**268,209,000**	**272,261,000**

This is as a result of various factors such as low spending and non-approval of roll-overs as well as compressed grants of three to one.

The total grants increased to R262 million compared to the revised budget amount of R226 million mainly as a result of the New INEP grant gazetted for the Electrification of specific Informal Areas within the greater Knysna.

MIG has drastically decreased from R39 million to R29 million in the 2023-24 budget. As at end February 2023 only R6 million had been spent against the grant. Revised SDBIP was received together with the February 2023 adjustments budget where projects were significantly revised in order to accelerate the currently running projects.

11. ALLOCATION OF GRANTS MADE BY THE MUNICIPALITY

11.1 Schedule SA21, included in **Annexure C**, provides a breakdown of all grants paid by the municipality.

Grants paid by the Municipality has been revised downward as a result of the expired contract with some beneficiaries.

- Council annually through its Grant in Aid and Donations committee has made budget provision of R639,000 for Bursaries toward the Public when they submit required documentation, Funded through Capacity Building Grant.
- R350,000 Mayoral bursary fund to co-fund the grant through the mayor program.
- R350,000 grant in aid donations to all qualifying applicant.

12. MONTHLY TARGETS FOR REVENUE, EXPENDITURE AND CASH FLOW

12.1 The Municipality closely monitors the debtor collection rates, which equated to 90% in the 2021/2022 audited outcome. The Municipality is confident that the debtor collection rate will steadily increase to approximately 95% over the 2023/2024 MTREF, following Council approval of new and amended budget-related policies as well as the Recovery Plan **Annexure A**.
The supporting tables that indicates monthly budget was partly done for the fixed costs and all variables and Projects finally approved with the Final budget to be tabled at Council end May will be properly dome between Finance and Service Departments that will be aligned to the Procurement Plan.
SA25 to SA30 on **Annexure C** depicts summary monthly budget in different formats

13. CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

13.1 The Municipality's Supply Chain Management Policy stipulates specific processes to be complied with for contracts that will impose financial obligations beyond the three years in the annual budget for that financial year, and will require approval by Council.

13.2 The external loans procured for capital assets is the only tender awarded by the municipality in the 2022/2023 financial year which exceeds the three-year timeframe. All processes, as prescribed by the Supply Chain Management Policy and Section 46 of the MFMA (long-term debt), have been fully complied with for this tender.

14. LONG-TERM FINANCIAL SUSTAINABILITY

14.1 Financial sustainability over the long-term entails the management of high priority expenditure projects, both operating and capital, to ensure project sustainability; a reasonable degree of stability and predictability in the overall property rates and service charges imposed to ensure affordability and sustainability; and to promote a fair allocation in the distribution of resources and the attendant taxation between the current and future ratepayers to ensure intergenerational sustainability.

14.2 Investment in infrastructure, which stimulates economic development, required the creation of a fourth financial sustainability ratio to be used should the debt/revenue ratio (external borrowings as a percentage of total operating revenue less conditional grants) exceed 45%. This ratio will address the interest and redemption repayable on external borrowings as a percentage of total operating revenue less conditional grants. Interest and redemption should not exceed 6-8% of total operating expenditure.

14.3 The current long term financial plan was last reviewed three years ago and we are in consultation with DBSA office to acquire funding to assist us with the update of the existing plan taking into consideration the current status together with the Revenue Enhancement milestones and Recommendations.

15. MSCOA PROGRESS TO DATE

15.1 The Municipal Regulations on the Standard Chart of Accounts (*m*SCOA), promulgated on 22 April 2014, required all municipalities to be *m*SCOA compliant with effect from 1 July 2017. The relevant *m*SCOA segments, as prescribed by the regulations, were implemented on the financial reporting system by Knysna Municipality on 01 July 2017. National Treasury has since the inception of *m*SCOA released several *m*SCOA version updates consequently resulting in continuous account code re-mapping functions and amendments to the system-generated financial statement reporting tools.

15.2 As per MFMA Budget Circular 123, Version 6.7 of the mSCOA chart was uploaded onto the Financial system and the 2023-24 budget will be transacted on this new version released.

The 2022-23 February adjustments budget is the first budget that was run directly from the system with successful outcome. Though significant changes by NT from version 6.6.1 to 6.7 Knysna Municipality will be ready to run the budget directly from the system and no manual intervention on running of data strings to the NT portal.

16. SERVICE LEVEL STANDARDS

The Service Level Standards is a turnaround plan that provides timeframes in which the Service Delivery Departments should adhered to.

This plan is not necessarily approved with the budget but may be approved as and when required of which the final policy will be submitted together with the budget.

Currently there was no update on the milestone compared to 2022-23 submission. This is attached as **Annexure H**.

17. LEGISLATIVE COMPLIANCE STATUS

Compliance with the MFMA implementation requirements have been satisfactorily complied with through the following activities:

17.1 In-Year Reporting

Monthly, Quarterly and Bi-annual reporting to National Treasury and Provincial Treasury, in electronic format, is fully complied with. reports, submitted to the Executive Mayor, has progressively improved, and is published timeously on Knysna Municipality’s website.

17.2 Internship Programme

The Municipality has participated in the Municipal Financial Management Internship programme since 2014. The last intern's intake expired end February 2023 and the recruitment and selection process is underway. Since the introduction of the Internship programme the Municipality has appointed some of the interns permanently through the recruitment process.

17.3 Budget and Treasury Office

The Budget and Treasury Office has been established in accordance with the MFMA.

17.4 Audit Committee

The Municipality has a newly appointed Audit Committee, which is fully capacitated and functional.

17.5 Service Delivery and Budget Implementation Plan

The Service Delivery and Budget Implementation Plan (SDBIP) will be finalised following approval of the 2023/2024 budget by End May 2023.

17.6 Policies

Various budget-related policies were reviewed but will be workshop during the budget consultations with relevant stakeholders. All budget-related policies are contained in **Annexure G**.

17.7 Procurement Plan

Municipal Budget Circular No 94 highlights the slow spending of capital budgets by most municipalities, and the associated negative impact on service delivery. It therefore became necessary to compile a draft procurement plan to address a weak planning process. The procurement plan is included as **Annexure I**. The timeframes and other relevant information will be finalised when Final budget is approved by end May 2023.

18. RECOMMENDATIONS

18.1 It is recommended that:

[a] Council approves the Tabled 2023/2024 Medium Term Revenue and Expenditure Framework (MTREF) Report.

[b] Council approves the revenue budget of R1,164,594,322 for the 2023/2024 financial year as set out in **Table 2** of the MTREF Report

[c] Council approves the operating expenditure budget of R1,155,798,358 for the 2023/2024 financial year as set out in **Table 3** of the MTREF Report

[d] Council takes note of the operating budget surplus of R8,795,964 for the 2023/2024 financial year as set out in **Table 4** of the MTREF Report.

[e] Council approves the capital expenditure budget of R 110,738,609 for the 2023/2024 financial year as set out in **Table 12** of the MTREF Report.

[f] Council approves the capital expenditure budget funding sources of R 110,738,609 for the 2023/2024 financial year as set out in **Table 13** of the MTREF Report.

[g] Council approves the following revenue increases for the main five revenue sources with effect from 1 July 2023 –

Main Service	% Increase
Property Rates - Residential	New GV -10%
Property Rates - Other	New GV -9%
Service Charges : Electricity	15.10%
Service Charges : Water	9.0%
Service Charges : Saniatation	5.3%
Service Charges : Refuse	6.0%
Other	5.3%

[h] That Council approves note of the Recovery Plan **Annexure A**

[i] Council approves the annual budget of Knysna Municipality for the 2023/2024 financial year as well as the indicative budgets for the two outer financial years, as presented in the new *m*SCOA version 6.7 Schedules A1 to A10 and Supporting Schedules SA1 to SA38, attached as **Annexure B**.

[j] Council takes note of the revenue increases for property rates, service charges and fees contained in the Tariff Book, attached as **Annexure C**

[k] Council takes note of the Line Item Capital Budget per Directorate and funding source. **Annexure D.**

[l] Council takes note of the Line Item Operating Budget per Directorate. **Annexure E.**

[m] 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 **Tabled 8;9,10 and 11** of the 2023/2024 MTREF Budget Report.

[n] Council takes note of Technical, Electrical and Refuse Services operating performance budget provided in **Table 5,6 and 7** of the report.

[o] Council approves following reviewed budget-related policies of Knysna Municipality for the 2023/2024 financial year, attached as **Annexure G**:

Row Number	Policies
1	Writing-off of Irrecoverable Debt Policy
2	Property Rates Policy
3	Tariffs policy
4	Customer Care, Credit control and debt collection, Indigent and Tempering policy
5	Supply chain management policy
6	Cash management and investment policy
7	Funding and reserves policy
8	Liquidity Policy
9	Virement Policy
10	Contract Management Policy
11	Cost Containment Policy
12	Asset Management Policy
13	Disposal of Unserviceable, Obsolete or Redundant assets policy
14	Insurance Policy
15	UIFW Policy
16	Petty Cash Policy
17	Accounting Policy
18	Special Rating Area Policy
19	HR Related Policies

[p] Council approves the 2023/2024 MTREF Procurement Plan attached as **Annexure I**.

[q] Council to note the start of the Cost Reflective Tariff table populated as required by NT **Annexure J**.

19. ANNEXURES:

- Medium Term Revenue and Expenditure Framework (MTREF) 2023/2024–2025/2026 Budget Report
- Annexure A: Recovery Plan
- Annexure B: Main budget tables and Supporting tables
- Annexure C: Tariffs, charges and fees for 2023/2024 MTREF
- Annexure D: Capital Budget per department and per funding source
- Annexure E: Operating Budget per Directorate
- Annexure F: Budget Circulars
- Annexure G: Policies
- Annexure H: Service Level Standards
- Annexure I: Procurement Plan 2023/24 MTREF
- Annexure J: Cost Reflective Tariffs
- Annexure K: Budget Comments

20. TABLES

Table 1: Tabled 2023/2024 MTREF: Key Budget Projections;
Table 2: Tabled 2023/2024 MTREF: High Level Summary of Operating Revenue per Category;
Table 3: Tabled 2023/2024 MTREF: High Level summary of Operating Expenditure per Category;
Table 4: Tabled 2023/2024 MTREF: High Level Summary of Operating Revenue and Expenditure;
Table 5: High level Summary of Technical Services Financial Performance
Table 6: High level Summary of Electrical Services Operating Financial Performance
Table 7: High level Summary of Solid Waste Financial Performance
Table 8: High level breakdown of Employee Related Costs Section
Table 9: High level Summary of 56 Senior Managers
Table 10: High level Summary of Public Office Bearers
Table 11: High level Summary of Senior Managers not S56
Table12: Final 2023/2024 MTREF: Capital Budget per Directorate; and
Table 13: Final 2023/2024 MTREF: Capital Budget per Funding Source.
Table 14: High level Summary of Total Grants Gazetted.

File Number: 9/1/2/10
Execution: Municipal Manager
Director: Financial Services