Knysna Municipality

Medium Term
Revenue & Expenditure
Framework (MTREF)

Annual Budget
2010/2011 - 2012/2013

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Glossary

Adjustments Budget – Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

Allocations – Money received from Provincial or National Government or other municipalities.

AFS- Annual Financial Statements

Budget – The financial plan of the Municipality.

Budget Related Policy – Policy of a municipality affecting or affected by the budget, examples include tariff policy, rates policy and credit control and debt collection policy.

Capital Expenditure - Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's Statement of Financial Performance.

Cash Flow Statement – A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it is shown as expenditure in the month it is received, even though it may not be paid in the same period.

CFO - Chief Financial Officer

DORA – Division of Revenue Act. Annual legislation that shows the total allocations made by national to provincial and local government.

Equitable Share – A general grant paid to municipalities. It is predominantly targeted to help with free basic services.

Fruitless and wasteful expenditure – Expenditure that was made in vain and would have been avoided had reasonable care been exercised.

GFS – Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.

GRAP – Generally Recognised Accounting Practice. The new standard for municipal accounting and basis upon which AFS are prepared.

IDP – Integrated Development Plan. The main strategic planning document of the Municipality

KPI's – Key Performance Indicators. Measures of service output and/or outcome.

MFMA – The Municipal Finance Management Act – No. 53 of 2003. The principle piece of legislation relating to municipal financial management.

MTREF - Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous three years and current years' financial position.

NT – National Treasury

Net Assets - Net assets are the residual interest in the assets of the entity after deducting all its liabilities. This means the net assets of the municipality equates to the "net wealth" of the municipality, after all assets were sold/recovered and all liabilities paid. Transactions which do not meet the definition of Revenue or Expenses, such as increases in values of Property, Plant and Equipment where there is no inflow or outflow of resources are accounted for in Net Assets.

Operating Expenditure - Spending on the day to day expenses of the Municipality such as salaries and wages.

Rates - Local Government tax based on the assessed value of a property. To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

R&M - Repairs and maintenance on property, plant and equipment.

SCM - Supply Chain Management.

SDBIP - Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

Strategic Objectives - The main priorities of the Municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

Unauthorised expenditure - Generally, spending without, or in excess of, an approved budget.

Virement - A transfer of budget.

Virement Policy - The policy that sets out the rules for budget transfers. Virements are normally allowed within a vote. Transfers between votes must be agreed by Council through an Adjustments Budget.

Vote - One of the main segments into which a budget is divided. In Knysna Municipality this means at directorate level.

PART 1 – ANNUAL BUDGET

Section 1 – Mayor's Budget Speech

Speaker, Deputy Executive Mayor, members of the Mayoral Committee, Councillors, Political leaders, Municipal Manager, Directors and officials, distinguished guests and members of the media.

Introduction

The timing of the budget before us today can best be described as happening in the eye of the tornado. It is occurring after the storm of the recent water shortage crisis and the major remedial desalination and reverse osmosis plants we have installed to alleviate future shortages. It is occurring mid of an Eskom tariff crisis which has hammered our cash flows and it is occurring after the excitement engendered in the planning and preparations for the forthcoming World Cup.

Conversely this budget sits just before the next major infrastructure expansions required in Knysna and Sedgefield to maintain our much needed economic growth. It sits just before the critical Heidevallei development begins to accelerate. It sits as the catalyst for the Nekkies/Hornlee Gateway plans and it sits immediately before the impending celebrations and events that make up the World Cup and the longer term legacy that the event will provide.

This then is the calm within the storm and it is now that this municipality needs to pause, take a deep breath and consider where it wishes to position itself in the next fifteen to twenty years. In recent years Knysna 2020 has been our vision and the planning horizon we have worked towards. Knysna 2030 must now be considered and strategies examined and developed to begin the next planning cycle for the municipality.

We have begun the process of developing what is referred to as a second generation IDP. Through this process Knysna Municipality has endeavoured to improve the participation of the public in the IDP process. We can still refine the process. We must develop and refine our second generation IDP firstly in line with our 2020 vision but also looking forward to 2030. This new IDP is critical in that it must be realistic, practical and attainable. It cannot be a succession of buzz words that have no effect on the ground.

This year's budget is far more detailed and transparent than ever before, in line with national government views as expressed in various local government legislation that more information is better than less. It also for the first time fully links the Service Delivery and Budget Implementation Plan and the budget to the extent that the plan is being tabled with this budget rather than in six weeks time. I congratulate all involved for their hard work in putting all the pieces together.

The 2010/11 capital budget

The capital budget for next year amounts to R68 million of which only R8 million will be borrowed. The issue of roll-overs which I complained about last year has been picked up by National Treasury and they have issued a simple edict of use it or lose it. The municipal manager has been instructed to use it. Secondly, we have included an amount of R5 million to be funded from land sales. This Council needs to start using its land holdings far more creatively than at present. We need to take a strategic, almost commercial approach, to our land holdings and we must sweat what we can, make best use of what we can and dispose of what we can for best purpose.

The capital budget can be broken down as follows. Water R21,6 million, Electricity R5,5 million, Sewerage R11,5 million, Housing R13 million and R16,7 million other.

Also included in the budget for the first time is R12 million for the Knysna Development Agency (KDA). This is a company set up by the municipality with the specific goal of upgrading nodes within our disadvantaged areas. The concept is very exciting. But I have concerns. The Board members of the KDA have been appointed, but we do not yet have a CEO or other senior staff appointed and therefore budgets and projects and all the complications that entail with EIAs and permissions etc., are not yet up and running. The words use it or lose it need to be repeated, even more strongly.

Operating expenditure

Minister Gordhan in his recent budget speech commented on the fact that SA needs a growing economy “based on labour intensive industry”.

Clearly there is a particular emphasis flowing from the national sphere to promote job creation, and National Treasury recently circulated a local authority budget circular which states:

Each municipality must explore how it can contribute to job creation when revising their IDPs and preparing their 2010/11 budgets. Not by employing more staff, but rather by ensuring labour intensive methods are used in service delivery, by service providers and LED projects. Municipalities should participate fully in the Extended Public Works Programme and implement intern programmes to provide young people with on- the-job training.

We will have to relook at our procurement policies and guidelines as the current system lends itself to capital intensive as opposed to labour intensive systems. We will therefore endeavour to push for more labour intensive use in our projects by revisiting our internal mechanisms but not at an unnecessary increase in costs.

It is well known that doing business in Knysna is not cheap. In my budget speech last year I said “it is of no benefit to our local economy to award contracts to businesses in Gauteng or Cape Town when locally owned businesses are employing and developing local people.” It is sad therefore when we come across instances where local businesses wish to charge prices 10% to 20% higher than for the equivalent from Cape Town or closer. Our supply chain unit is now looking to publish benchmark prices and we wish to reduce three year commodity contracts to one year in future thereby allowing for greater competition. If local businesses are not prepared to come on board on these issues then unfortunately they will not get our business.

The whole issue of Supply Chain Management is coming under increased scrutiny because of various unsavoury incidents now emerging. National Treasury in the National Budget Review 2010 recently announced the formation of a supply chain compliance unit and it is expected that the Auditor-General will be concentrating on SCM in future years. Good supply chain practices are bureaucratic in nature and sometimes departments can be critical of this, but the simple fact remains that outside of an emergency, service delivery delays are usually caused by poor departmental planning and not poor procurement.

The biggest single operating expenditure is on staffing. This amounts to approximately R130 million or just below 31% of the operating budget. There have been significant staff cost increases in recent years, but there is a concern that there has not been an associated productivity increase to match especially when the municipal account, and specifically the Eskom component, has been escalating at its recent levels. The reality is that in 2002 Knysna municipality employed 562 staff, costing 29% of the operating budget. As at now the municipality employs 635 staff costing 31%.

What is clear is that our staff structures should be far more flexible to operate on a project basis rather than along the current regimented departmental lines. Outside of the obvious professional skills the emphasis should be on working for the municipality and community and not a single department - current job descriptions should be scrapped and staff moved to priority projects as and when required. Our municipal manager will be tasked to raise these matters within the various provincial management forums and all our councillors will be tasked to include them on SALGA agendas where relevant. What we have done in this budget is we have deliberately budgeted to freeze vacancies for a period of six months until 1 January 2011 unless the post can be filled internally. In addition a deliberate policy has been followed in this budget whereby the so-called corporate departments have had their operating budgets limited to only two percent increases (excluding salaries) as opposed to the delivery departments where the increases are in double digits.

One final decision that has been taken and one which will have long term benefits to Council is that we have introduced a Funding and Reserves Policy which will set the level and time period to fund repairs and maintenance meaningfully.

Operating revenue

Local government is in essence funded from three sources: assessment rates, revenues from trading services (the majority from electricity in Knysna's case) and transfers from national government. Approximately 65% of our revenue is from rates and electricity split equally and there is therefore a clear relationship which makes price changes very sensitive.

Over recent years Knysna has tried to break this relationship with some success until the Eskom debacle broke some 2 years ago with the large tariff increases that have subsequently followed. It has therefore been decided that to mitigate the impact of increases on the ratepayer, including sewer and refuse charges in the assessment rate will be postponed for at least a year.

Tariff implications of the annual budget

Electricity:

The revenue from both the non-domestic tariff and the domestic tariff will increase by an average 20%, lower than the actual bulk cost increase to Council which is 28.9%. This does not mean that all or even any of the tariffs will increase by 20%. Council has a myriad of electricity tariffs catering for amongst others bulk, normal credit and pre-paid consumers and consumers with 20, 30, 60 and beyond amperage. Whilst the prepaid tariff appears higher than the normal domestic credit meter tariff, it must be remembered that there is also a basic charge included. However, this year we are bringing a change to the basic charge for prepaid electricity.

With the system in place now, if energy is not purchased for a period the basic fee is not paid for that period. On a conventional meter the basic fee (service charge) applies monthly irrespective of consumption. In the case of holiday houses which can be closed for months no income is generated for the months as no purchase was made. The tariff will now change to make a daily service charge applicable and energy will be charged at a flat rate. The Pre Paid Vending system will calculate a service charge payable taking into consideration the date since the last purchase for energy, also in the case of holiday houses, where the last purchase will be used in calculating the service charge which in turn will be charged before any energy can be purchased. Many municipalities already use this system.

The impact of this change on normal prepaid users is minimal.

Water:

The water tariff increase will be 15% to all consumers.

Previously I stated that in the current financial year the water service has received a cash injection from various sources to the amount of R50 million. The continuing concerns about the water supply were one of the main reasons why our water awareness campaign was created. Since implementation water consumption has fallen on a year on year basis and continues to fall.

The receipt of the grants from national and provincial government, while welcomed and appreciated, obviously have a downside in terms of the additional associated ancillary costs relating to staffing, repairs and maintenance, depreciation, and future upgrade and replacement. It is churlish to be critical of the various additional moneys, but apart from the operating tariff impacts which are so often conveniently forgotten, Council still had to borrow some R10 million to co-fund the various new capital projects involved. This R10 million was obviously not originally budgeted for in the 2009/10 budget.

The option of introducing punitive tariffs will remain and the punitive tariff will be imposed at 25% above the consumption charge on all tariffs, business included.

Assessment Rates:

Municipal property rates are a Cent amount in the Rand levied on the market value of immovable property (that is, land and buildings). It is important to realise that this is a tax levied and as with all primary taxes, is NOT a part payment for services rendered.

The assessment rate will rise by 6.7%. The refuse and sewer tariffs increase by 7.5%. These are essentially in line with National Treasury inflation estimates after the municipal wage increase is taken into account. In recent years there has been a considerable increase in assessment rate income. This is mainly because of the continued verification and cleansing of the consumer database to ensure equality and stability in our tax base. A new general valuation roll is being planned for commencement from 1 July 2012 and so during the course of next year a tender for the new roll will be issued. A full public participation exercise will accompany the roll.

As I've said earlier, we are putting on hold the further movement of refuse and sewerage into the rates, we are also putting on hold the further reduction of the rural rebate at this time. We are tightening the definition of those properties eligible for the green rebate to only include properties outside of the 'urban edge' as declared in Council's Spatial Development Framework. This means that certain properties currently within the urban edge will be losing their "green" rebate. The regulations governing the rebate are also being amended to ensure that those applying for the rebate have proper and auditable alien vegetation maintenance plans in place. To date it has been a rather loose and haphazard arrangement and it needs to be better grounded within Council's planning policies going forward.

In closing, I must thank my fellow Councillors and all the individuals and groupings that have taken the time to input into this budget - if only we could have this every year! My thanks to the Municipal Manager and his staff for their hard work and dedication and my thanks to the Finance staff who put the whole process together.

I herewith present the 2010/2011 budget for approval.

Section 2 - Budget Related Resolutions

Knysna Municipality

MTREF 2010/2011

The resolutions approved by Council with the final adoption of the budget in May are:

RESOLVED:

[a]. That the annual budget of Knysna Municipality for the financial year 2010/2011; and indicative for the two projected years 2012/13 and 2012/13, as set-out in the schedules contained in Section 4, be approved:

1.1 Table A2: Budgeted Financial Performance (expenditure by standard classification)

1.2 Table A3: Budgeted Financial Performance (expenditure by municipal vote)

1.3 Table A4: Budgeted Financial Performance (revenue by source)

1.4 Table A5: Budgeted Capital Expenditure for both multi-year and single year by vote, standard classification and funding

[b]. Property rates reflected in Annexure 3 and any other municipal tax reflected in Annexure 1 are imposed for the budget year 2010/2011.

[c]. Tariffs and charges reflected in Annexure 3 are approved for the budget year 2010/2011.

[d]. Council notes the amended Integrated Development Plan adopted on 27 May 2010 reflected as summarised in Section 6.

[e]. The measurable performance objectives reflected in Section 7 are approved for the budget year 2010/2011.

[f]. The amended policies for credit control, debt collection and indigents as summarised in Section 8 (and detailed in Annexure 6) are approved for the budget year 2010/2011.

[g]. The other new and/or amended budget related policies summarised in Section 8 (and detailed in Annexure 6) are approved for the budget year 2010/2011.

[h]. The measurable performance objectives for each vote introduced in Section 15 and detailed in Annexure 8: 'Service Delivery and Budget Implementation Plan' are noted for the budget year 2010/2011.

Section 3 – Executive Summary

Introduction

This budget is the first one under the new National Treasury Budget Regulations which calls for more informed and inevitably transparent documentation which accompanies the budget. It also means that the comments will be more detailed and more wide-ranging than was previously the case. Time will tell if this leads to more intelligent participation and comment on the process and outcomes of the budget or if the exercise simply becomes a tick box on the worksheets of national and provincial officials.

Background

One of the more disconcerting parts of the job of being the CFO of a local authority within South Africa at the moment is the intense frustration one gets in saying or dealing with the same old macroeconomic issues year in and year out with little tangible improvement. Last year it was the Eskom increases, the transitional effects of the recently introduced Generally Recognised Accounting Practices (GRAP), the economy in general, salary increases above inflation and the failure of national government to understand that the financing of local government is archaic and totally unsuitable for the 21st century. Sadly, there is little that has changed in the last year and clearly there is little that is going to change in the forthcoming year.

The Eskom issue and the actual cash effects of the GRAP are now landing fair and square on the shoulders of local government. Last year Knysna absorbed some of the Eskom increase and passed a portion of the balance via the rates. But as can be seen from the attached schedules, the Eskom issue compounding in an economic downturn, has in part led to a direct doubling of our debt impairment costs, two years in a row. The effect in cash terms in the new budget is one of removing R11.1 million cash from the spending ability of Council. A simpler way of explaining it is that it equates to a rates increase of 10.1% before any other increases are required.

The GRAP impact is being shown most visibly on debt impairment, remuneration and specifically the post-retirement and medical provisions, a point I shall return to later.

On the micro level however, there have been a number of visible successes which lead to the view that Knysna's present financial direction is generally the correct one and one worth continuing to pursue. This will be returned to in some detail during the course of this document in its various component parts.

In the first half of 2011 there is probably going to be a municipal election. This simple fact immediately creates tensions and expectations within Councils and communities. The job of the CFO is to ignore these dynamics as it is ultimately the job of the CFO to ensure that taxation levels are minimized and expenditures approved by the Council attain value for money as far as is possible.

Past performance

Knysna Municipality has now attained three unqualified audit reports in the last four years and the qualified report received in 2006/07 was for technical reasons that had no effect on the financial stability or performance of Council. Whilst the unqualified reports are very positive achievements one has to be honest and say that it tells the reader little about whether we have improved service delivery or even delivered on our constitutional mandate. What they do say is that the Council is reasonably honest in its endeavours and operations to tax and spend on behalf of the local populace.

The 2008/09 Audit Report highlighted two important internal points, namely, that on-going monitoring is not effective enough and that policies and procedures are not adequately established and communicated. Both of these issues are symptomatic of an under-resourced and under-skilled Finance department and in Knysna's case this is totally true. At the last estimate the department required fourteen additional staff. Whilst it is understandable that a growing and dynamic entity such as the Knysna municipality has staff demands that cannot be met because of the financial impact it would have on ratepayers, what is not understandable is when competent and talented internal staff are not automatically promoted.

This is crippling the ability of the Finance Department to perform at a satisfactory level and it will inevitably lead to staff being head-hunted out of Council, qualified Audit reports going forward with the concomitant effect on credit ratings, public perception and support and eventually a reduction in conditional grants.

Budget Summary

Most of the basic information surrounding this year's budget is set out in 'Table A1: Budget Summary' shown in Section 4 of this document.

The anticipated final outcome of the current 2009/10 budget is that Council will end with a surplus after all transfers of some R71.3 million.

On the income side the figures are also slightly misleading for property rates. An initial inspection shows a forecast figure that is R22 million (24%) above the original estimate of R90 million but it must be remembered that the impact of the shift of moving sewer and refuse charges into rates was unclear at the time of compiling the 2009/10 budget. When one examines the revenues from those services one sees a drop of R12 million leaving a net gain to rates of R10 million which also includes two interim valuations undertaken during 2009/2010.

By the time someone finishes reading this MTREF they will be heartily sick of the word Eskom. Unfortunately it is close to becoming a swear word in local government parlance these days. Bulk purchases, the cost of purchasing electricity from Eskom, are anticipated to rise at 30%, 29.8% and 30.1% respectively in the forthcoming budget and two outer years. On the revenue side however, we are anticipating increased tariffs of only 20%, 18.03% and 19.16%, which effectively means we will be paying for the Eskom mess from rates and other tariffs, or from reduced service delivery, or in our case a combination of both.

The capital expenditure emphasis in recent years has somehow been tainted to ensure that our water and sewerage heavy infrastructure issues continue to be the focal point of the budget to the detriment of our social and community backlogs. In the last five years this Council has spent close to R100 million of capital expenditure on water and sewerage projects as opposed to half that amount on electricity but less than R10 million on social/community issues. We have to ask the question why? Is it poor planning, bad management, a lack of resources, both financial and technical, or a combination of all of these? Whatever it is the situation is simply not sustainable and now that the eyes of the country are on us after national and provincial spheres have recently approved grants of over R60 million on flood and drought relief measures alone, we have to get our act together.

Economically Knysna remains weak. We are abnormally dependent upon tourism. Domestic construction took a battering during the world economic downturn and has not yet recovered although there are some “green shoots” emerging. Our other economic drivers, namely government, in all its guises, and timber have stayed at best flat. A simple walk through town shows “for sale” boards on the domestic side and “space for lease” on the business side. A new mall is currently being developed at the western entrance to the CBD but one seriously wonders how much viability it is going to add to our current almost over-laden shopping experience or is it simply going to lead to more retail vacancies?

Knysna is a town that is predominantly domestic in its tax base. The Provincial Minister for Finance and Tourism recently expressed his concern that Knysna had not grown its non-domestic sector in the last 10 to 15 years. He is entirely correct but it has not been for want of trying. An example of this has been our wireless. Knysna remains the only municipality in the country where you can access the internet for free but it has unfortunately not led to an economic boom as was intended. Why? Because Knysna is 70 kilometres from nowhere and the majority of people that wish to relocate here are retirees or from the Eastern Cape. Neither of these groupings offers much in the way of disposable income for inward investment purposes nor will they encourage economic growth outside of tourism. The saddest part of the wireless project is that the District municipality, which is supposed to be the driver for shared services and linked/seamless services has, five years on, still not progressed on the ICT front to be meaningful in any way.

The closure of the “Choo-Tjoe” remains both an absolute tragedy and an absolute travesty for Knysna. As said this is a tourist town and the “Choo-Tjoe” is an iconic tourist attraction which directly and indirectly brought in millions to the local economy. Whilst one can appreciate the attitude of Transnet that “it is not in the business of running tourist trains”, neither is the Knysna municipality in the business of having to put up with derelict railway sidings, railway line eyesores and generally unkempt and badly maintained Transnet infrastructure. If Transnet is not prepared to run the “Choo-Tjoe” then they should hand over the various assets involved and let the municipality work out a way to turn them into economic and tourist returns. What is happening is a disgrace and is at the expense of this municipality. The MEC for Tourism continues to try and find a way forward but it is beginning to be obvious that the municipality needs to take a more radical stance perhaps even to the point of expropriating the relevant Transnet properties, to bring about a meaningful and beneficial way forward to secure this long-term tourist benefit for Knysna.

Financial position and MTREF strategy

The financial position of Knysna Municipality is set out in 'Table A6: Budgeted Financial Position'. Later in the document this is returned to in more detail but in essence what the table shows is one of minimising our borrowings and trying to keep our debtors from rising out of control, whilst at the same time striving to increase our service delivery to residents represented by the increased spend on Property, Plant and Equipment.

Capital Expenditure

Three years ago Knysna was, according to research data published nationally, the highest geared municipality in South Africa. Essentially we had one of the highest debt to revenue ratios of all municipalities. This in itself is not a concern provided payment and expenditure levels are managed correctly, as they were. In some countries the debt to revenue ratios are close to 70% but these are generally frowned upon in South Africa almost entirely because of the non-payment risk element that, sadly and very pertinently at the moment, still exists. It is therefore interesting to note that in their recent MFMA circular, National Treasury is allowing local government to pledge conditional transfers for long term debt under certain conditions, in other words it is encouraging debt.

Knysna is not planning to follow this route but then it is also not our intention to borrow large amounts in the new financial year or indeed over the forthcoming years. The nature of our economy, as discussed, is very fragile and not likely to improve markedly in the next twelve months. The position in regard to taking on new debt therefore remains in line with our MTREF over the last two years which was to reduce borrowing until 2012. Proposed borrowings amount to only R28 million over the next three years. This compares with R77 million in the previous three years. Tightly following this approach will allow us to stabilize our cash position in this downturn period. In addition, with the various capital grants in respect of the 2007/08 flood, the current and future Municipal Infrastructure Grants (MIG), the additional necessity to borrow more moneys to augment the water capital expenditure required now and the Emergency Drought Relief Grants of R22.2 million and R17.9 million, our capital programme is being comfortably funded externally without having to resort to pledge moneys or undertake major new borrowings. This position will begin to change again in 2012/13.

The capital budget for 2010/11 will therefore total R68 million, of which only R8 million is funded from new borrowings, however the following must be seriously noted. In my comments last year I made mention of the concerns that exist regarding roll-overs which may have been caused by poor planning or poor management, and also in our case by two floods and a drought. National Treasury have picked up on this and have included in their budget regulations a number of new rules. These ultimately mean that a local authority can no longer simply roll a project over and carry on with it again the next year. Now any moneys not spent and needing to be rolled over will first have to be paid back to the national fiscus and then “re-appropriated” in the new financial year. National Treasury has determined that after a municipality has applied to them for re-appropriation and after they approve the moneys “as being committed to identifiable projects” then the municipality must appropriate the moneys anew in an adjustments budget.

Two points emerge from this.

Firstly, the moneys cannot be utilised for “other” projects and secondly, line/delivery department planning is going to have to vastly improve. Concomitant to this is that administrative systems are also going to have to be streamlined to support the departments in their efforts and much more rigorous project and contract management introduced.

Cash Flow/Land Sales

It should be noted that the budgeted cash flow contains an amount of R5 million from the disposal of Property, Plant and Equipment, i.e. the sale of land. This arises from a Strategic Bosberaad held last year where the Executive Mayoral Committee agreed that land sales be considered as an alternative to borrowing more moneys. The municipality owns land which is both valuable and under-utilised. Obviously the land in question will not be required for meaningful Council purposes. It is also our intention to become far more creative with those land holdings which lend themselves to area improvement. An example of this would be the municipal complex in the Sedgefield CBD.

One internal issue that has been introduced in this financial year and that will be rigorously applied going forward is that Council no longer pre-funds or up-fronts grant funded capital or operating expenditure. The money must already be in our bank account before projects commence. Too often we have had delays in reimbursement from other spheres of government at the expense of our own projects and cash flow. So far the system is working well with provincial government and our Housing section is becoming expert in grant management. We are not sure how national government with its even slower bureaucracy is going to react. A second issue is in regard to the treatment of VAT. The municipality to-date has effectively been treating the VAT portion of capital grants as an addition to the capital project. Effectively this means that if we receive R100 as grant we have been spending R100 on the project when we should have cut the project to R86. The remaining R14 becomes an operating subsidy. Whilst there is nothing wrong in the approach Council has taken, in fact from a service delivery perspective it could be argued as being the only correct approach, in an economic downturn such as that being experienced now it can be problematic. Last year both National Treasury and the South African Revenue Services (SARS) took the view that the VAT portion should be regarded as own revenue and therefore we should change our approach. We have done so in this budget.

Knysna Development Agency

The final issue under capital expenditure is in regard to the gazetted amount of R12 million to be spent under the Neighbourhood Development Partnership Grant (NDPG). This is a project to be managed by the soon to be created municipal entity the Knysna Development Agency (KDA).

The board of the KDA is presently being appointed and this will be followed by the appointment of competent staff. A comprehensive selection process is being undertaken to get the best and most rigorous Board possible to ensure Councils best interests are protected. Progress will obviously be slow to begin with but it is envisaged that the KDA will spend R50 million on regenerating areas of the greatest need over the next three years, after which the raison d'etre of the KDA must be re-visited.

The mechanics of the KDA and its financial reporting and management and ultimately its financial relationship with Knysna Municipality are spelt out very clearly in Chapter 10 of the MFMA and no expenditures can take place until the staff is appointed. The recent creation by the City of Cape Town of its transport authority as a municipal entity is a good benchmark. That entity operates with no asset or staff transfers from the City thereby ensuring no complications to it or the City in its financial dealings. The Knysna entity will operate in exactly the same way.

Operating Expenditure

In the 2008 Local Government and Expenditure Review the following statement was made:

Many activities performed by municipalities lend themselves to providing opportunities for low and unskilled labour. Municipalities face critical choices in this regard, whether to adopt capital intensive approaches or labour intensive approaches. The mechanization of grass cutting, street sweeping, ditch digging, road maintenance and a host of other activities points in this direction. Of course there is a balance between job creation, efficiency and cost. This needs to be managed and in each instance the appropriate technology for the task needs to be decided upon, with a bias towards labour intensive approaches. The challenge is to mainstream the labour intensive approaches that are being used in the EPWP projects into the normal way municipalities go about their business of delivering services.

MFMA Circular No.51 states:

Each municipality must explore how it can contribute to job creation when revising their IDPs and preparing their 2011/12 budgets. However, municipalities should not just employ more people without reference to the level of staffing required to deliver effective services, and what is financially sustainable over the medium term. The municipality ought to focus on maximizing its contribution to job creation by:

- Ensuring that service delivery and capital project use labour intensive methods wherever appropriate;
- Ensuring that services providers use labour intensive approaches;
- Supporting labour intensive LED projects;
- Participating fully in the EPWP and;
- Implementing interns programmes to provide young people with on-the-job training.

Minister Gordhan in his recent budget speech commented on the fact that SA needs a growing economy "based on labour intensive industry".

Clearly there is a particular emphasis flowing from the national sphere to promote job creation albeit of a short-term nature to start with. The challenge in this is to relook at our procurement policies and guidelines as the current generic system lends itself to capital intensive as opposed to labour intensive projects in the first instance. This municipality will endeavour to push for more labour intensive projects by revisiting our internal mechanisms but not at an unnecessary increase in costs.

It is well known that doing business in Knysna is not cheap. In the Mayor's budget speech of last year it was stated "it is of no benefit to our local economy to award contracts to businesses in Gauteng or Cape Town when locally owned businesses are employing and developing local people. But we are not going to simply give hand-outs". It is sad therefore when we come across instances where local businesses wish to charge prices 10% to 20% higher than for the equivalent from Cape Town or closer. Next year benchmark prices will be published. If local businesses are not prepared to match these then unfortunately they will not get our business.

The whole issue of SCM is coming under increased scrutiny because of various unsavoury incidents now emerging. National Treasury in the National Budget Review 2010 recently announced the formation of a supply chain compliance unit and it is expected that the Auditor-General will be concentrating on SCM in the next audit. At tender level Knysna does not anticipate any issues however, at the levels between R30 000 and the tender threshold of R200 000 there are still weaknesses and scope for improvement. The SCM unit will be taking this forward, resources permitting, in the new financial year.

Operating Revenue

Local government is in essence funded from three sources. Assessment rates, revenues from trading services (the majority from electricity in Knysna's case) and transfers from national government. Approximately 65% of our revenue is from rates and electricity split equally and there is therefore a clear relationship which makes price changes very sensitive.

Over recent years Knysna has tried to break this relationship with some success until the Eskom debacle broke some 2 years ago with the large tariff increases that have subsequently followed. It has therefore been decided that the movement to further include sewer and refuse charges in the assessment rate will be postponed for at least a year until further clarity is obtained on the whole movement regarding electricity restructuring nationally.

It was recently announced by the Chairperson of NERSA that the annual increase in the bulk tariff allowed to Eskom would be 24,8% from 1 April 2010 and that the increase that local authorities could charge domestic consumers would be pegged at 15,3%. There are a number of issues here that need to be explained further, starting with the fact that NERSA has no authority to tell municipality's what they can charge. The second point is that the financial year of Eskom starts 3 months earlier than that of local government and that a 24,8% increase by NERSA actually equates to a 28,9% increase in the bulk tariff over the 9 month period in which local government can recover its costs. This is clearly confusing to most people and it is therefore slightly disingenuous of NERSA in the way in which they communicate the Eskom increases.

Effect of the annual budget

The annual budget for 2010/11 to 2012/13 is disclosed in detail in 'Section 4: Annual budget tables' and in 'Annexure 2: Supporting budget tables'. Each of the summarised sections below is discussed in more detail later in this document.

For easy reference, summary tables and graphs are included here.

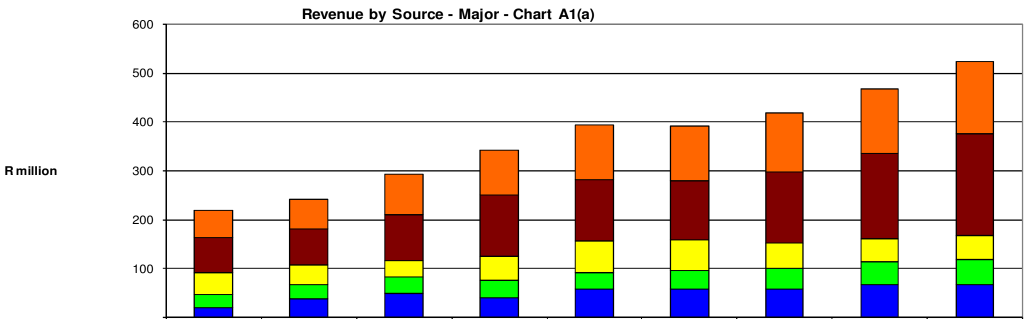
Financial performance

Revenue by source

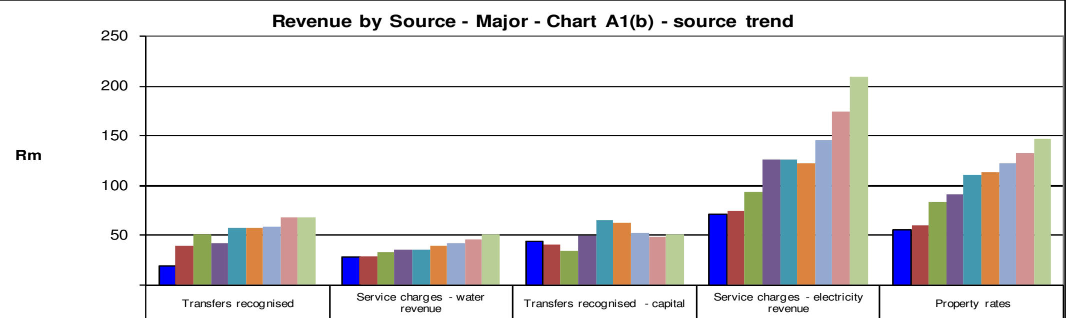
Revenue By Source

	Forecast 2009/2010 R'000	Budget 2010/2011 R'000	Indicative 2011/2012 R'000	Indicative 2012/2013 R'000
Property Rates	112,109	121,380	132,680	146,236
Transfers (Operating & Capital Grants)	120,015	110,815	115,348	117,087
Service Charges - Water	38,501	41,034	45,439	50,628
Service Charges - Electricity	121,523	145,185	173,375	208,402
Other Revenue	41,218	42,517	44,522	47,303
Total Operating Revenue	**433,365**	**460,931**	**511,363**	**569,656**

Trends for the major revenue sources over the MTREF period are shown in chart A1(a) and A1(b).



	06/07 AUD	07/08 AUD	08/09 AUD	CY 09/10 BUD	CY 09/10 ADJ	CY 09/10 FCST	Budget Year 10/11	Budget Year +1 11/12	Budget Year +2 12/13
Property rates	55	60	82	90	110	112	121	133	146
Service charges - electricity revenue	71	74	93	125	125	122	145	173	208
Transfers recognised - capital	44	41	34	50	65	62	52	48	50
Service charges - water revenue	28	28	32	35	35	39	41	45	51
Transfers recognised	20	39	50	41	57	57	58	67	67



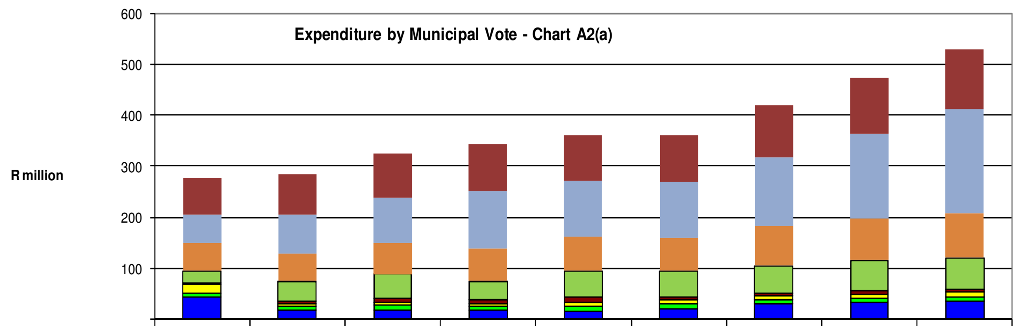
	Transfers recognised	Service charges - water revenue	Transfers recognised - capital	Service charges - electricity revenue	Property rates
06/07 AUD	20	28	44	71	55
07/08 AUD	39	28	41	74	60
08/09 AUD	50	32	34	93	82
CY 09/10 BUD	41	35	50	125	90
CY 09/10 ADJ	57	35	65	125	110
CY 09/10 FCST	57	39	62	122	112
Budget Year 10/11	58	41	52	145	121
Budget Year +1 11/12	67	45	48	173	133
Budget Year +2 12/13	67	51	50	208	146

Expenditure by municipal vote

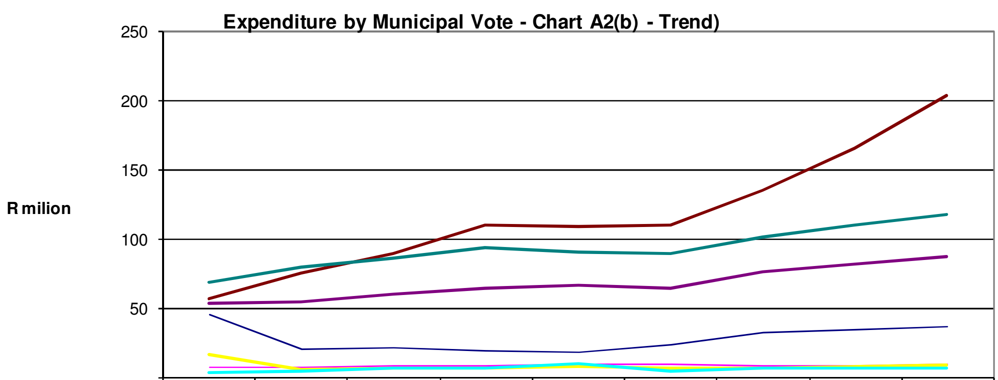
Expenditure By Municipal Vote

	Forecast 2009/2010 R'000	Budget 2010/2011 R'000	Indicative 2011/2012 R'000	Indicative 2012/2013 R'000
Vote1 - Executive & Council	23,608	31,937	34,437	36,483
Vote2 - Corporate Services	9,821	8,439	8,788	9,423
Vote3 - Financial Services	6,162	6,977	7,981	8,446
Vote4 - Strategic Services	5,011	6,394	6,655	7,189
Vote5 - Planning & Development	51,860	54,027	59,609	61,512
Vote6 - Community Services	64,793	76,366	81,812	87,547
Vote7 - Electrical Services	110,740	135,678	164,986	203,336
Vote8 - Technical Services	90,068	101,716	109,752	117,780
Total Operating Expenditure	**362,064**	**421,532**	**474,020**	**531,715**

Trends for the expenditure by municipal vote over the MTREF period are shown in chart A2(a) and A2(b).



	06/07 AUD	07/08 AUD	08/09 AUD	CY 09/10 BUD	CY 09/10 ADJ	CY 09/10 FCST	Budget Year 10/11	Budget Year +1 11/12	Budget Year +2 12/13
Technical Services	69	80	87	94	90	90	102	110	118
Electrical Services	57	75	90	111	109	111	136	165	203
Community Services	54	55	60	65	66	65	76	82	88
Planning & Development	23	39	48	37	53	52	54	60	62
Strategic Services	4	5	6	7	10	5	6	7	7
Financial Services	17	5	7	6	8	6	7	8	8
Corporate Services	8	7	8	8	9	10	8	9	9
Executive & Council	46	20	21	19	18	24	32	34	36



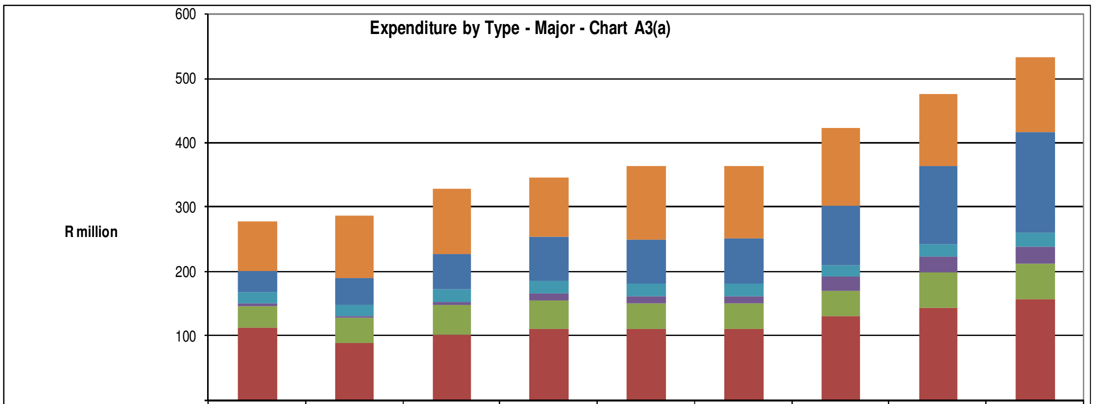
	06/07 AUD	07/08 AUD	08/09 AUD	CY 09/10 BUD	CY 09/10 ADJ	CY 09/10 FCST	Budget Year 10/11	Budget Year +1 11/12	Budget Year +2 12/13
Executive & Council	46	20	21	19	18	24	32	34	36
Corporate Services	8	7	8	8	9	10	8	9	9
Financial Services	17	5	7	6	8	6	7	8	8
Strategic Services	4	5	6	7	10	5	6	7	7
Community Services	54	55	60	65	66	65	76	82	88
Electrical Services	57	75	90	111	109	111	136	165	203
Technical Services	69	80	87	94	90	90	102	110	118

Expenditure by major type

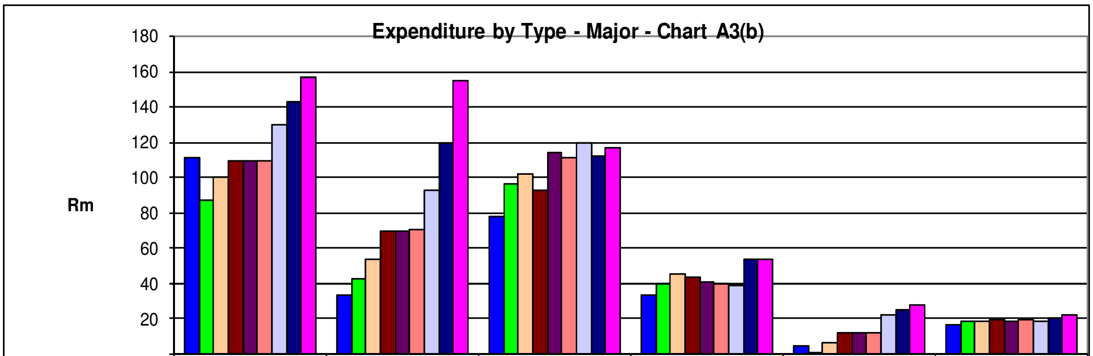
Expenditure by Type

	Forecast 2009/2010 R'000	Budget 2010/2011 R'000	Indicative 2011/2012 R'000	Indicative 2012/2013 R'000
Employee Related Costs	109,303	130,166	143,256	156,985
Bulk Purchases (ESKOM)	70,416	92,337	119,588	155,132
Depreciation & Finance Charges	39,989	53,840	54,895	55,423
Repairs & Maintenance	19,121	18,410	20,298	22,202
Debt Impairment	11,688	22,623	24,885	27,374
Other Expenditure	111,548	104,157	111,098	114,600
Total Operating Expenditure	**362,064**	**421,532**	**474,020**	**531,715**

Trends for the expenditure by major type over the MTREF period are shown in chart A3(a) and A3(b).



	06/07 AUD	07/08 AUD	08/09 AUD	CY 09/10 BUD	CY 09/10 ADJ	CY 09/10 FCST	Budget Year 10/11	Budget Year +1 11/12	Budget Year +2 12/13
Other expenditure	78	96	102	93	114	112	119	112	116
Bulk purchases	34	42	54	69	69	70	92	120	155
Repairs & maintenance	16	19	19	19	18	19	18	20	22
Debt impairment	5	1	6	12	12	12	23	25	27
Depreciation & finance charges	33	40	46	44	41	40	39	54	54
Employee related costs	112	88	101	109	109	109	130	143	157



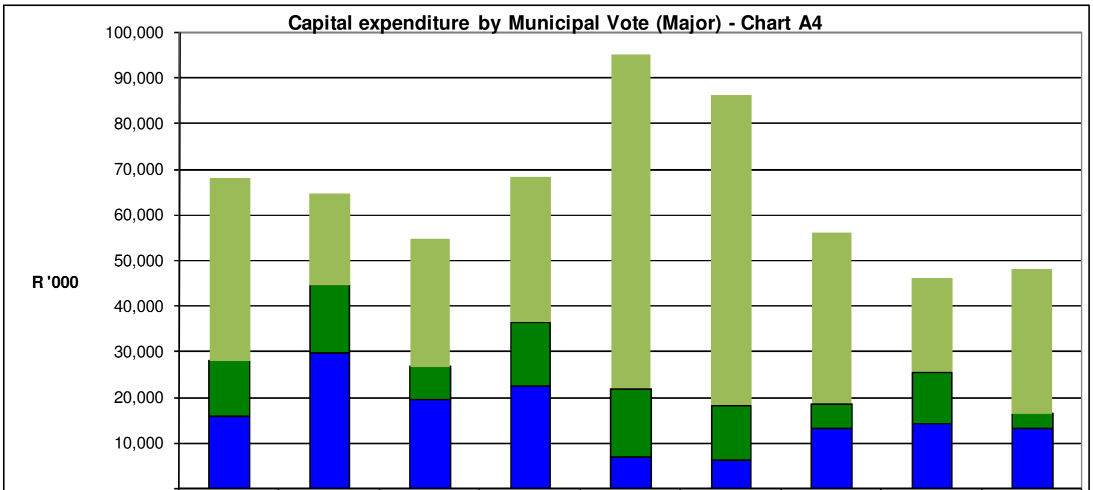
	Employee related costs	Bulk purchases	Other expenditure	Depreciation & finance charges	Debt impairment	Repairs & maintenance
06/07 AUD	112	34	78	33	5	16
07/08 AUD	88	42	96	40	1	19
08/09 AUD	101	54	102	46	6	19
CY 09/10 BUD	109	69	93	44	12	19
CY 09/10 ADJ	109	69	114	41	12	18
CY 09/10 FCST	109	70	112	40	12	19
Budget Year 10/11	130	92	119	39	23	18
Budget Year +1 11/12	143	120	112	54	25	20
Budget Year +2 12/13	157	155	116	54	27	22

Capital expenditure by municipal vote

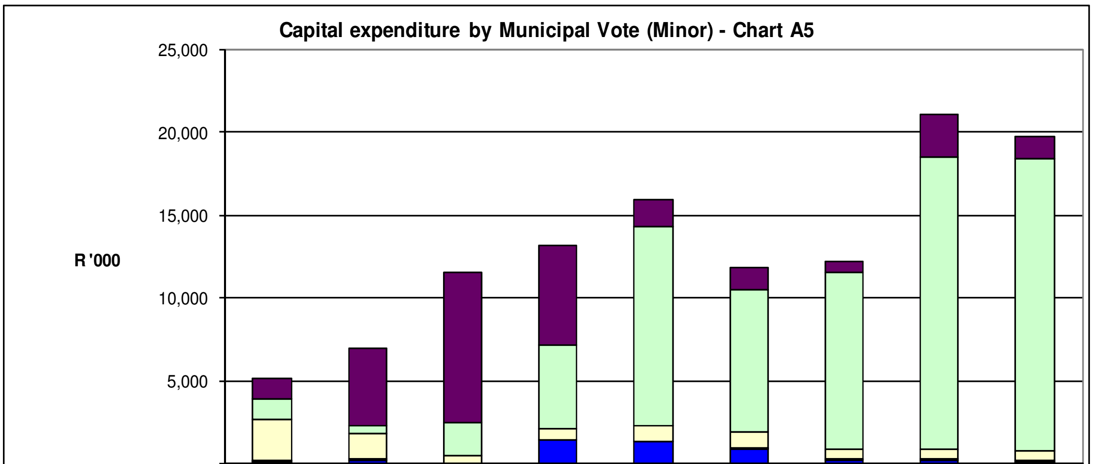
Capital Expenditure By Municipal Vote

	Forecast 2009/2010 R'000	Budget 2010/2011 R'000	Indicative 2011/2012 R'000	Indicative 2012/2013 R'000
Vote1 - Executive & Council	1,040	320	227	135
Vote2 - Corporate Services	4	60	64	67
Vote3 - Financial Services	907	559	594	629
Vote4 - Strategic Services	8,594	10,612	17,635	17,641
Vote5 - Planning & Development	6,212	12,995	13,913	12,976
Vote6 - Community Services	1,371	749	2,570	1,351
Vote7 - Electrical Services	11,996	5,450	11,564	3,399
Vote8 - Technical Services	67,943	37,543	20,448	31,709
Total Capital Expenditure	**98,066**	**68,288**	**67,015**	**67,908**

Trends for the capital expenditure by municipal vote (major and minor) over the MTREF period are shown in chart A4 and A5.



	06/07 AUD	07/08 AUD	08/09 AUD	CY 09/10 BUD	CY 09/10 ADJ	CY 09/10 FCST	Budget Year 10/11	Budget Year +1 11/12	Budget Year +2 12/13
Technical Services	39,914	20,140	27,884	31,998	73,156	67,943	37,543	20,448	31,709
Electrical Services	12,251	14,711	7,246	13,958	14,916	11,996	5,450	11,564	3,399
Planning & Development	15,631	29,791	19,397	22,308	6,816	6,212	12,995	13,913	12,976



	06/07 AUD	07/08 AUD	08/09 AUD	CY 09/10 BUD	CY 09/10 ADJ	CY 09/10 FCST	Budget Year 10/11	Budget Year +1 11/12	Budget Year +2 12/13
Community Services	1,260	4,674	9,051	6,051	1,588	1,371	749	2,570	1,351
Strategic Services	1,244	454	2,019	5,000	12,008	8,594	10,612	17,635	17,641
Financial Services	2,423	1,527	407	700	930	907	559	594	629
Corporate Services	36	130	35			4	60	64	67
Executive & Council	243	194	52	1,490	1,430	1,040	320	227	135

Tariff implications of the annual budget

Electricity Tariff

The revenue from both the non-domestic tariff and the domestic tariff will increase by an average 20%, which is clearly below the actual bulk cost increase to Council of 28.9%. This does not mean that all or even any of the tariffs will increase by 20%. Council has a myriad of electricity tariffs catering for amongst others bulk, normal credit and pre-paid consumers and consumers with 20, 30, 60 and beyond amperage. They all have their different characteristics and structures. Thus whilst the prepaid tariff appears higher than the normal domestic credit meter tariff, it must be remembered that there is also a basic charge included.

Water Tariff

The water tariff increase will be 15% to all consumers.

In the last financial year the water service has received a cash injection from various national and provincial sources to the amount of R50 million. The upshot of this is that Sedgefield, to all intents and purposes, no longer has any water issues/concerns as the recently commissioned desalination plant can cater for Sedgefield's water needs for the foreseeable future. In regard to Knysna the re-use plant currently being installed, together with the various boreholes now in operation will add some 4Ml daily to the system which allows for the continued short to medium term growth of Knysna. This of course is provided the major water courses continue to flow. Obviously if the rivers stop for any length of time a much greater problem ensues. The Akkerkloof, our main storage dam, is not a primary dam but a secondary one. It is pump-filled and not naturally flow filled. Knysna remains therefore, in terms of the Provincial Disaster Management Centre rankings, a red risk local authority with less than three months supply.

The continuing concerns about the water supply are precisely the reasons as to why our water awareness campaign was created. It has been highly successful in that it generated much comment and occasional criticism in the various local newspapers. Council is not going to apologise for it having that effect. The reality is that water consumption has fallen on a year on year basis and continues to fall. Interestingly by March 2010 we had taken only 236 telephone calls out of +/- 10 000 letters sent to consumers, of which 77 required a technical response regarding meters etc. Clearly the vast majority of people have taken heed of the water problems experienced by the town and the figures show they have reacted positively.

The receipt of the grants from national and provincial government, while welcomed and appreciated, obviously has a downside to it in terms of the additional associated ancillary costs relating to staffing, repairs and maintenance, depreciation, and future upgrade and replacement. It is churlish to be critical of the various additional moneys but apart from the operating tariff impacts which are so often conveniently forgotten, Council will in fact still have to borrow some R10 million to co-fund the various new capital projects involved. This R10 million was not originally budgeted for in the 2009/10 budget.

The option of introducing punitive tariffs will remain and the punitive tariff will be imposed at 25% above the consumption charge on all tariffs, business included. It is hoped that the measures currently being put in place will allow us to move away from the punitive tariffs as soon as possible and even before July 2010.

Assessment Rates

The assessment rate will rise by 6.7%. The refuse and sewer tariffs increase by 7.5%. These are essentially in line with National Treasury inflation estimates after the municipal wage increase is taken into account. In recent years there has been a considerable increase in assessment rate income. This is mainly because of the continued verification and cleansing of the consumer database to ensure equality and stability in our tax base. A new general valuation roll is being planned for commencement from 1 July 2012 and so during the course of next year a tender for the new roll will be issued. A full public participation exercise will accompany the roll.

As said earlier we are putting on hold the further movement of refuse and sewerage into the rates until there is more clarity on what is happening with electricity but also with what taxes etc., are granted to local government as part of the Municipal Fiscal Powers Act. We are also putting on hold the further reduction of the rural rebate at this time but we are tightening the definition of the green rebate to only include properties outside of the 'urban edge' as declared in Council's Spatial Development Framework. This means that certain properties currently within the urban edge will be losing their "green" rebate. The regulations governing the rebate are also being amended to ensure that those applying for the rebate have proper and auditable alien vegetation maintenance plans in place.

National, Provincial & District priorities

The National, Provincial and District Context

The Municipality's budget must be seen within the context of the policies and financial priorities of National, Provincial and district government. In essence, the spheres of Government are partners in meeting the service delivery challenges faced in Knysna. Knysna Municipality alone cannot meet these challenges and we require support from the other spheres of Government through the direct and indirect allocation of resources as well as the achievement of their own policies. South Africa has achieved considerable success in achieving macroeconomic stability; however, the economy is still plagued with high levels of unemployment and poverty.

The following table shows the allocations to Knysna Municipality as set out in the National Division of Revenue Act 1 of 2010 in the MTEF period;

Allocations 2010/11 - 2012/13			
	Medium Term Estimates		
R million	**2010/11**	**2011/12**	**2012/13**
Total Allocation	**72 121**	**70 627**	**74 844**
Equitable share	22 279	27 604	28 438
Infrastructure	48 092	40 933	44 306
Capacity building and restructuring	1 750	2 090	2 100

Provincial Government

	2010/11 Allocation (R'000)	2011/12 Allocation (R'000)	2012/13 Allocation (R'000)
Total Provincial Transfers to Knysna	38 634	44 661	42 183

In addition to the transfers, the Provincial Treasury also publishes the distribution of Provincial payments by the location of provincial payment agencies operating in the Province. It provides some indication of the benefit incidence of provincial expenditure by district and municipalities, and hence how much government investment is going into Knysna: 8.1% of the total Provincial revised estimate of R 33.2 billion is spent in the Eden District (9.4% in 2008/09), and of that 9.9% (R240 million) is spent in Knysna which is a decrease of 17.2% from 2009/10. Whilst it is not for Council to comment negatively on the budget of another sphere of government one has to be concerned as to why the Eden District is receiving a reduced allocation as measured against all other districts and the metropolitan authority.

National Treasury Budget Circular

Each year, National Treasury issues a circular to municipalities advising them of the budget parameters within which municipalities should work when preparing their budgets.

With specific regard to Knysna Municipality the Circular (which is attached as annexure) contains the following general comments.

The various Mayoral discretionary funds, Special Project votes and Special Event votes should be removed. The reasoning is that they are not transparent and may be abused. Council still has a Mayoral vote containing an amount of R100 000 and the Deputy Mayor a vote containing R50 000. Any disbursements will therefore presumably be monitored/audited by Provincial government.

Unallocated Ward allocations should be removed. These must all be transparent and allocated up-front.

The various beneficiaries of Grants-in-Aid will in future years be included and published in the budget at the beginning of the financial year. Time prevented us doing this from this from 1 July 2010.

No major municipal office building up-grades are allowed as these are not service delivery oriented. Council has put an amount of R200 000 on the budget for the up-grade of the Council Chamber. Presumably this expenditure will have to be motivated to National Treasury directly as per the Circular.

Mayors and Councils to remain focussed on delivering core municipal services and not to seek to buy political support through patronage.

There must be increased control exercised on nice-to-have items and non-essential activities such as foreign travel, councillor and staff perks, advertising and public relation activities.

There was also a previous edict about not buying World Cup tickets or related paraphernalia.

Budget-related policies

National Treasury has regulated that municipalities introduce a Funding and Reserves Policy for annual ratification in line with the various other statutory policies. Knysna has not seen it necessary to introduce such a policy in recent years because of the inconsistencies and general confusion surrounding the moves from fund accounting to GAMAP and now to GRAP. The introduction of the Policy at this point in time is now supported.

The salient points of the Funding and Reserves policy are that the budget must be cash-funded, tariff adjustments must be fair, employee related costs must be all inclusive and the conditions of all provisions must be cash met when needed. A number of indicators have been included in the policy to ensure the municipality has enough cash to continue operations; however it is not the intention of the policy to put or keep moneys in the bank at the expense of service delivery. The primary financial policy of Council is still that assets should be in the ground and not in the bank.

With regard to Reserves a number of cash funded reserves are now in place, these include the Capital Replacement Reserve (CRR) which is self-explanatory, the employee benefits reserve which will ensure sufficient cash is available to pay post-retirement employee benefits in the future and the valuation reserve which will prevent a once-off cash liability on the budget to offset the probable cost of the General Valuation which is required to take place every four or five years.

With regard to the other budget policies the following are noted.

Rates Policy — as mentioned changes have been made to the criteria for the “green rebate”.

Credit Control Policy — minor clarification in regard to electricity disconnections.

Indigent Policy — no change.

Virement policy — changes in line with National Treasury requirements.

Tariff Policy — no change.

Liability, Investment and Cash Management Policy — no change.

Supply Chain Management Policy — no change.

Provision of basic services

With regard to the provision of basic services, the table below shows what is still required to be undertaken. It should be remembered that the financing figures at this stage exclude all bulk upgrades that will be required to the water, sewer and electrification networks and exclude any new road, pavement or storm water costs. The probability is that the current infrastructure will have to be doubled in capacity based on population projections.

Area	Total nr of households	Timeframe to be addressed	Cost to address R'000
Housing	7981	15 years assuming funding is available	R80 million (at existing costs)
Water	591	5 years	R 10 M
Sanitation	3682	5 years	R 13 M
Refuse removal (at least once a week at site)	0	0	0
Electricity (in house)	230 Hlalani	mid 2010	R2 million
Streets and storm water	-	-	-

Source: 2008/2009 Annual Report of Knysna Municipality

Conclusion

The 2010/11 budget for Knysna Municipality is being compiled in the midst of an economic recession. It would be totally inappropriate for a municipality to ignore this recession and ignore the type of local economy within which it operates. The largest cost driver in the Knysna budget is remuneration and the municipality must take steps to mitigate the effects of nationally driven wage increases. We cannot control Eskom, we cannot control the drought but we can manage staff costs and rate increases. In this budget we have strived to do both.

Section 4 – Annual budget tables

The intention of this Section is two-fold.

Firstly, the following tables form the basis of the Council resolution approving the annual budget for 2010/2011:

- Table A2: Budgeted Financial Performance (expenditure by standard classification)
- Table A3: Budgeted Financial Performance (expenditure by municipal vote)
- Table A4: Budgeted Financial Performance (revenue by source)
- Table A5: Budgeted Capital Expenditure for both multi-year and single year appropriations by vote, standard classification and funding

Secondly, this section presents and explains the various tables that must be compiled as required by National Treasury. Some of the tables are variations on a theme which will allow NT to put out macro statistics. Whilst this is a good practice, it can also be a touch meaningless. It has therefore been decided to only comment on a table when there is something meaningful to say.

Table A1 - Budget Summary

WC048 Knysna - Table A1 Budget Summary

Description	2006/7	2007/8	2008/9	Current Year 2009/10			2010/11 Medium Term Revenue & Expenditure		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
Financial Performance									
Property rates	55,152	59,677	82,417	90,037	110,391	112,109	121,380	132,680	146,236
Service charges	125,588	128,293	156,097	193,230	180,553	183,035	210,003	244,061	286,070
Investment revenue	5,545	6,226	7,573	5,648	5,648	5,568	5,012	4,761	4,809
Transfers recognised - operational	19,927	38,681	49,871	41,071	57,387	57,474	58,320	67,371	66,865
Other own revenue	13,856	17,389	19,670	13,639	14,066	12,698	13,781	14,573	15,514
Total Revenue (excluding capital transfers and contributions)	220,068	250,267	315,629	343,625	368,045	370,885	408,496	463,446	519,494
Employee costs	111,792	87,534	100,602	109,285	109,041	109,303	130,166	143,256	156,985
Remuneration of councillors	3,921	3,633	4,009	4,537	4,330	4,582	5,132	5,851	6,314
Depreciation & asset impairment	20,931	24,277	28,822	22,765	22,765	22,765	31,344	32,226	34,097
Finance charges	12,268	15,542	17,065	20,889	17,984	17,224	22,496	22,669	21,326
Materials and bulk purchases	49,691	54,059	66,517	83,276	83,160	84,817	107,938	136,156	172,678
Transfers and grants	5,381	5,336	5,003	4,940	5,213	5,162	5,460	5,800	6,160
Other expenditure	73,439	95,531	105,097	100,381	120,563	118,211	118,997	128,062	134,156
Total Expenditure	277,424	285,912	327,115	346,074	363,056	362,064	421,532	474,020	531,715
Surplus/(Deficit)	(57,356)	(35,645)	(11,486)	(2,449)	4,989	8,820	(13,036)	(10,574)	(12,222)
Transfers recognised - capital	44,416	40,698	34,193	49,677	65,023	62,481	52,435	47,917	50,162
Contributions recognised - capital & contributed assets	6,914	6,014	2,289	1,000	148	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions	(6,026)	11,067	24,996	48,228	70,160	71,301	39,399	37,343	37,940
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) for the year	(6,026)	11,067	24,996	48,228	70,160	71,301	39,399	37,343	37,940
Capital expenditure & funds sources									
Capital expenditure	73,001	71,621	66,092	81,505	110,844	98,066	68,288	67,015	67,908
Transfers recognised - capital	44,416	40,698	34,193	49,677	65,023	62,481	52,435	47,917	50,162
Public contributions & donations	5,042	4,796	474	1,000	118	78	–	–	–
Borrowing	17,055	22,118	29,966	26,638	34,269	24,483	9,650	11,800	10,000
Internally generated funds	6,489	4,008	1,459	4,190	11,434	11,025	6,203	7,298	7,746
Total sources of capital funds	73,001	71,621	66,092	81,505	110,844	98,066	68,288	67,015	67,908
Financial position									
Total current assets	79,728	87,676	115,973	92,741	84,324	101,815	97,216	102,875	109,902
Total non current assets	342,771	393,216	432,418	492,486	521,825	509,047	547,446	583,961	619,729
Total current liabilities	70,200	89,384	94,854	79,549	68,539	69,942	61,110	63,076	68,419
Total non current liabilities	150,475	170,211	207,244	211,156	221,156	223,327	225,058	226,924	225,935
Community wealth/Equity	201,823	221,298	246,294	294,522	316,453	317,595	358,493	396,837	435,277
Cash flows									
Net cash from (used) operating	61,983	39,519	51,934	56,737	67,478	75,967	76,988	80,665	83,357
Net cash from (used) investing	(68,213)	(72,114)	(64,687)	(82,833)	(112,172)	(99,394)	(64,893)	(68,741)	(69,865)
Net cash from (used) financing	1,876	17,222	31,429	3,170	13,170	9,170	(6,934)	(5,480)	(6,376)
Cash/cash equivalents at the year end	42,116	26,743	45,419	22,492	13,894	31,161	36,322	42,767	49,882
Cash backing/surplus reconciliation									
Cash and investments available	51,394	37,227	57,238	35,673	27,075	44,342	51,124	59,389	68,549
Application of cash and investments	68,018	60,018	75,902	35,193	16,536	25,124	32,357	35,702	37,785
Balance - surplus (shortfall)	(16,624)	(22,791)	(18,664)	480	10,539	19,218	18,767	23,687	30,764
Asset management									
Asset register summary (WDV)	332,214	381,717	420,251	478,991	508,330	495,552	532,345	567,135	600,946
Depreciation & asset impairment	20,931	24,277	28,822	22,765	22,765	22,765	31,344	32,226	34,097
Renewal of Existing Assets	20,810	15,708	20,941	32,118	34,730	31,939	21,520	31,879	19,772
Repairs and Maintenance	16,467	18,544	18,914	19,030	18,466	19,121	18,410	20,298	22,202
Free services									
Cost of Free Basic Services provided	7,884	8,034	10,115	11,341	10,989	11,001	13,970	15,539	17,513
Revenue cost of free services provided	23,826	25,108	30,400	28,319	32,488	31,454	32,455	35,864	39,606
Households below minimum service level									
Water:	-	-	-	-	-	-	-	-	-
Sanitation/sewerage:	-	-	-	-	-	-	-	-	-
Energy:	-	-	-	-	-	-	-	-	-
Refuse:	-	-	-	-	-	-	-	-	-

The most important elements of this table relate to the increase in employee costs which are further broken down in Annexure 2, 'Supporting Table SA22: Summary councillor and staff benefits'.

The increase in depreciation and asset impairment is a direct reflection of the high capital expenditure in recent years.

The increase in materials and bulk charges is specifically for electricity. The issue here is not the cost but the concomitant lower increase in revenue because of the tariff absorption Council is undertaking.

Note should be taken of the surplus for the year after capital transfers and contributions of some R39.4 million. This is not to say that this is a "cash" surplus available for spending or investment neither is the R13 million deficit before capital transfers an indication of a cash shortage. Table A7: 'Budgeted Cash Flows' indicates the change in the cash position of the Council as impacted upon by the budget for the MTREF period.

Table A2 - Budgeted Financial Performance (by standard classification)

WC048 Knysna - Table A2 Budgeted Financial Performance (revenue and expenditure by standard classification)

Standard Classification Description	Ref	2006/7	2007/8	2008/9	Current Year 2009/10			2010/11 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
Revenue - Standard										
Governance and administration		66,797	73,985	101,486	108,676	130,750	128,773	148,309	170,100	184,209
Executive and council		1,606	2,301	5,317	3,471	4,416	4,418	4,060	6,341	6,546
Budget and treasury office		62,445	68,342	92,188	97,665	118,094	119,647	129,345	140,740	154,313
Corporate services		2,746	3,342	3,981	7,540	8,240	4,707	14,904	23,019	23,350
Community and public safety		24,193	53,636	46,630	41,290	40,721	40,187	43,551	52,173	47,758
Community and social services		415	643	953	3,150	1,300	1,613	1,566	4,488	2,714
Sport and recreation		1,181	903	708	888	888	146	159	170	181
Public safety		1,800	1,780	2,782	3,729	4,191	4,172	1,895	1,995	2,150
Housing		20,764	50,262	42,182	33,523	34,342	34,255	39,931	45,520	42,713
Health		33	48	3	–	–	–	–	–	–
Economic and environmental services		14,084	12,783	15,055	16,012	15,536	15,811	5,942	3,984	5,856
Planning and development		2,644	2,623	1,755	991	991	1,428	1,172	1,144	1,166
Road transport		11,440	10,160	13,300	15,021	14,545	14,383	4,770	2,840	4,690
Environmental protection		–	–	–	–	–	–	–	–	–
Trading services		166,324	156,575	188,940	228,324	246,209	248,595	263,129	285,106	331,833
Electricity		80,458	80,166	102,752	132,120	132,268	128,504	152,924	182,135	217,472
Water		48,151	39,864	47,992	54,729	86,033	90,305	69,349	58,535	66,370
Waste water management		22,766	20,058	19,121	20,432	12,358	12,813	22,392	24,128	26,333
Waste management		14,948	16,487	19,076	21,043	15,550	16,974	18,464	20,308	21,658
Other	4	–	–	–	–	–	–	–	–	–
Total Revenue - Standard	2	271,398	296,979	352,111	394,302	433,216	433,365	460,931	511,363	569,656
Expenditure - Standard										
Governance and administration		77,331	42,584	47,102	46,919	53,371	53,384	62,640	67,803	72,609
Executive and council		45,752	20,141	20,563	18,636	17,754	23,608	31,937	34,437	36,483
Budget and treasury office		16,803	6,261	7,407	6,255	7,708	6,382	6,979	7,984	8,449
Corporate services		14,777	16,182	19,132	22,027	27,908	23,394	23,725	25,382	27,677
Community and public safety		50,616	74,068	80,918	70,048	86,499	85,340	92,972	101,885	107,003
Community and social services		6,187	6,549	7,968	10,052	10,025	8,343	10,460	11,517	12,010
Sport and recreation		10,751	10,935	10,939	11,123	11,059	11,277	13,381	14,331	15,634
Public safety		12,764	18,997	16,930	16,830	17,802	18,449	20,710	22,761	25,082
Housing		18,602	34,724	42,029	28,596	44,166	43,942	44,674	49,218	49,887
Health		2,312	2,862	3,052	3,447	3,447	3,329	3,747	4,059	4,390
Economic and environmental services		26,544	31,906	35,362	36,433	35,749	34,716	34,807	36,993	39,653
Planning and development		4,305	4,221	5,081	6,002	5,509	5,357	6,078	6,665	7,417
Road transport		22,239	27,685	30,282	29,965	29,428	28,672	28,260	29,623	31,263
Environmental protection		–	–	–	466	812	688	469	705	972
Trading services		122,933	137,354	163,732	192,673	187,437	188,624	231,113	267,339	312,451
Electricity		55,623	69,523	88,384	108,339	106,648	107,812	132,192	160,621	197,828
Water		28,366	31,346	36,236	38,023	36,294	36,503	44,068	47,092	50,477
Waste water management		18,842	19,047	19,723	25,311	23,751	23,901	29,237	32,576	35,231
Waste management		20,102	17,438	19,390	21,000	20,744	20,408	25,616	27,050	28,915
Other	4	–	–	–	–	–	–	–	–	–
Total Expenditure - Standard	3	277,424	285,912	327,115	346,074	363,056	362,064	421,532	474,020	531,715
Surplus/(Deficit) for the year		(6,026)	11,067	24,996	48,228	70,160	71,301	39,399	37,343	37,940

References

1. Government Finance Statistics Functions and Sub-functions are standardised to assist the compilation of national and international accounts for comparison purposes

2. Total Revenue by standard classification must reconcile to Total Operating Revenue shown in Budgeted Financial Performance (revenue and expenditure)

3. Total Expenditure by Standard Classification must reconcile to Total Operating Expenditure shown in Budgeted Financial Performance (revenue and expenditure)

4. All amounts must be classified under a standard classification (modified GFS). The GFS function 'Other' is only for Abbatoirs, Air Transport, Markets and Tourism - and if used must be supported by footnotes. Nothing else may be placed under 'Other'. Assign associate share to relevant classification

Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

WC048 Knysna - Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)

Vote Description	Ref	2006/7	2007/8	2008/9	Current Year 2009/10			2010/11 Medium Term Revenue & Expenditure		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
Revenue by Vote	1									
Vote1 - Executive & Council		1,606	2,301	5,317	3,471	4,416	4,418	4,060	6,341	6,546
Vote2 - Corporate Services		1,991	1,866	2,896	1,430	2,029	2,180	1,899	2,013	2,129
Vote3 - Financial Services		62,574	68,407	92,224	97,672	118,101	119,652	129,351	140,746	154,319
Vote4 - Strategic Services		279	615	572	5,500	4,505	596	12,167	20,000	20,000
Vote5 - Planning & Development		23,407	52,885	43,937	34,514	35,352	35,683	41,103	46,664	43,879
Vote6 - Community Services		21,747	24,232	27,124	31,455	24,384	25,111	25,495	30,424	30,221
Vote7 - Electrical Services		80,490	80,283	102,955	133,426	134,424	130,660	152,924	182,135	217,472
Vote8 - Technical Services		79,302	66,390	77,087	86,834	110,005	115,065	93,932	83,040	95,090
Total Revenue by Vote	2	**271,398**	**296,979**	**352,111**	**394,302**	**433,216**	**433,365**	**460,931**	**511,363**	**569,656**
Expenditure by Vote to be appropriated	1									
Vote1 - Executive & Council		45,752	20,141	20,563	18,636	17,754	23,608	31,937	34,437	36,483
Vote2 - Corporate Services		7,685	7,101	8,273	7,803	9,316	9,821	8,439	8,788	9,423
Vote3 - Financial Services		16,962	5,245	6,839	6,262	7,536	6,162	6,977	7,981	8,446
Vote4 - Strategic Services		3,603	4,683	6,392	6,957	9,989	5,011	6,394	6,655	7,189
Vote5 - Planning & Development		22,907	38,946	48,311	36,688	52,606	51,860	54,027	59,609	61,512
Vote6 - Community Services		53,940	54,722	59,921	65,207	66,486	64,793	76,366	81,812	87,547
Vote7 - Electrical Services		57,416	75,474	90,204	110,735	109,003	110,740	135,678	164,986	203,336
Vote8 - Technical Services		69,160	79,600	86,612	93,786	90,366	90,068	101,716	109,752	117,780
Total Expenditure by Vote	2	**277,424**	**285,912**	**327,115**	**346,074**	**363,056**	**362,064**	**421,532**	**474,020**	**531,715**
Surplus/(Deficit) for the year	2	**(6,026)**	**11,067**	**24,996**	**48,228**	**70,160**	**71,301**	**39,399**	**37,343**	**37,940**

References

1. Insert 'Vote'; e.g. department, if different to standard classification structure

2. Must reconcile to Budgeted Financial Performance (revenue and expenditure)

3. Assign share in 'associate' to relevant Vote

Table A4 - Budgeted Financial Performance (revenue and expenditure)

WC048 Knysna - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2006/7	2007/8	2008/9	Current Year 2009/10			2010/11 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
Revenue By Source										
Property rates	2	54,151	58,235	80,793	87,845	108,199	110,280	119,421	130,579	143,989
Property rates - penalties & collection charges		1,001	1,442	1,625	2,192	2,192	1,829	1,959	2,101	2,247
Service charges - electricity revenue	2	71,302	73,520	93,370	125,135	125,135	121,523	145,185	173,375	208,402
Service charges - water revenue	2	27,916	28,390	31,915	34,940	34,940	38,501	41,034	45,439	50,628
Service charges - sanitation revenue	2	11,632	11,939	13,494	15,012	7,828	8,614	9,058	9,683	10,393
Service charges - refuse revenue	2	11,535	12,483	14,400	15,561	10,068	11,650	12,340	13,270	14,318
Service charges - other		3,203	1,961	2,919	2,582	2,582	2,748	2,386	2,294	2,329
Rental of facilities and equipment		2,400	2,763	3,344	2,580	2,580	2,679	2,923	3,198	3,495
Interest earned - external investments		5,545	6,226	7,573	5,648	5,648	5,568	5,012	4,761	4,809
Interest earned - outstanding debtors		2,894	3,404	4,173	4,840	4,840	3,771	3,843	4,224	4,676
Dividends received		–	–	–	–	–	–	–	–	–
Fines		1,274	1,575	2,513	1,912	1,912	1,930	1,989	2,086	2,238
Licences and permits		1,234	1,497	1,386	1,373	1,373	1,188	1,109	1,109	1,109
Agency services		1,675	1,717	1,692	1,695	1,695	1,730	1,731	1,731	1,731
Transfers recognised - operational		19,927	38,681	49,871	41,071	57,387	57,474	58,320	67,371	66,865
Other revenue	2	3,786	6,130	4,063	1,239	1,666	1,399	2,186	2,225	2,265
Gains on disposal of PPE		592	302	2,499	–	–	–	–	–	–
Total Revenue (excluding capital transfers and contributions)		**220,068**	**250,267**	**315,629**	**343,625**	**368,045**	**370,885**	**408,496**	**463,446**	**519,494**
Expenditure By Type										
Employee related costs	2	111,792	87,534	100,602	109,285	109,041	109,303	130,166	143,256	156,985
Remuneration of councillors		3,921	3,633	4,009	4,537	4,330	4,582	5,132	5,851	6,314
Debt impairment	3	4,539	1,245	6,205	11,688	11,688	11,688	22,623	24,885	27,374
Depreciation & asset impairment	2	20,931	24,277	28,822	22,765	22,765	22,765	31,344	32,226	34,097
Finance charges		12,268	15,542	17,065	20,889	17,984	17,224	22,496	22,669	21,326
Bulk purchases	2	33,510	42,461	53,767	69,194	69,194	70,416	92,337	119,588	155,132
Other materials	8	16,181	11,598	12,750	14,082	13,966	14,401	15,601	16,568	17,546
Contracted services		9,262	11,620	12,262	11,859	12,763	12,509	12,417	13,187	13,965
Transfers and grants		5,381	5,336	5,003	4,940	5,213	5,162	5,460	5,800	6,160
Other expenditure	4, 5	59,638	82,666	86,630	76,835	96,113	94,014	83,958	89,990	92,818
Loss on disposal of PPE		–	–	–	–	–	–	–	–	–
Total Expenditure		**277,424**	**285,912**	**327,115**	**346,074**	**363,056**	**362,064**	**421,532**	**474,020**	**531,715**
Surplus/(Deficit)		**(57,356)**	**(35,645)**	**(11,486)**	**(2,449)**	**4,989**	**8,820**	**(13,036)**	**(10,574)**	**(12,222)**
Transfers recognised - capital		44,416	40,698	34,193	49,677	65,023	62,481	52,435	47,917	50,162
Contributions recognised - capital	6	6,914	6,014	2,289	1,000	148	–	–	–	–
Contributed assets		–	–	–	–	–	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions		**(6,026)**	**11,067**	**24,996**	**48,228**	**70,160**	**71,301**	**39,399**	**37,343**	**37,940**
Taxation		–	–	–	–	–	–	–	–	–
Surplus/(Deficit) after taxation		**(6,026)**	**11,067**	**24,996**	**48,228**	**70,160**	**71,301**	**39,399**	**37,343**	**37,940**
Attributable to minorities		–	–							
Surplus/(Deficit) attributable to municipality		**(6,026)**	**11,067**	**24,996**	**48,228**	**70,160**	**71,301**	**39,399**	**37,343**	**37,940**
Share of surplus/ (deficit) of associate	7	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) for the year		**(6,026)**	**11,067**	**24,996**	**48,228**	**70,160**	**71,301**	**39,399**	**37,343**	**37,940**

References

1. Classifications are revenue sources and expenditure type

2. Detail to be provided in Table SA1

3. Previously described as 'bad or doubtful debts' - amounts shown should reflect the change in the provision for debt impairment

4. Expenditure type components previously shown under repairs and maintenance should be allocated back to the originating expenditure group/item; e.g. employee costs

5. Repairs & maintenance detailed in Table A9 and Table SA34c

6. Contributions are funds provided by external organisations to assist with infrastructure development; e.g. developer contributions (detail to be provided in Table SA1)

7. Equity method

8. All materials not part of 'bulk' e.g road making materials, pipe, cable etc.

Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding

WC048 Knysna - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

Vote Description	Ref	2006/7	2007/8	2008/9	Current Year 2009/10			2010/11 Medium Term Revenue & Expenditure		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
Capital expenditure - Vote										
Multi-year expenditure to be appropriated	2									
Vote1 - Executive & Council		–	–	–	–	–	–	–	–	–
Vote2 - Corporate Services		–	–	–	–	–	–	–	–	–
Vote3 - Financial Services		–	–	–	–	–	–	–	–	–
Vote4 - Strategic Services		–	–	–	–	–	–	10,526	17,544	17,544
Vote5 - Planning & Development		–	–	–	–	–	–	11,124	12,886	12,318
Vote6 - Community Services		–	–	–	–	–	–	–	–	–
Vote7 - Electrical Services		–	–	–	–	–	–	1,650	8,245	–
Vote8 - Technical Services		–	–	–	–	–	–	10,940	12,062	8,049
Capital multi-year expenditure sub-total	7	**–**	**–**	**–**	**–**	**–**	**–**	**34,240**	**50,737**	**37,911**
Single-year expenditure to be appropriated	2									
Vote1 - Executive & Council		243	194	52	1,490	1,430	1,040	320	227	135
Vote2 - Corporate Services		36	130	35	–	–	4	60	64	67
Vote3 - Financial Services		2,423	1,527	407	700	930	907	559	594	629
Vote4 - Strategic Services		1,244	454	2,019	5,000	12,008	8,594	86	91	97
Vote5 - Planning & Development		15,631	29,791	19,397	22,308	6,816	6,212	1,871	1,027	658
Vote6 - Community Services		1,260	4,674	9,051	6,051	1,588	1,371	749	2,570	1,351
Vote7 - Electrical Services		12,251	14,711	7,246	13,958	14,916	11,996	3,800	3,318	3,399
Vote8 - Technical Services		39,914	20,140	27,884	31,998	73,156	67,943	26,603	8,386	23,660
Capital single-year expenditure sub-total		**73,001**	**71,621**	**66,092**	**81,505**	**110,844**	**98,066**	**34,048**	**16,278**	**29,997**
Total Capital Expenditure - Vote		**73,001**	**71,621**	**66,092**	**81,505**	**110,844**	**98,066**	**68,288**	**67,015**	**67,908**
Capital Expenditure - Standard										
Governance and administration		**4,087**	**2,472**	**3,194**	**7,227**	**15,121**	**11,209**	**13,887**	**20,204**	**20,493**
Executive and council		243	194	52	1,490	1,430	1,040	320	227	135
Budget and treasury office		2,344	748	229	–	–	7	559	105	111
Corporate services		1,500	1,531	2,914	5,737	13,691	10,162	13,008	19,871	20,247
Community and public safety		**16,351**	**32,208**	**23,351**	**29,321**	**9,684**	**9,080**	**12,948**	**16,275**	**14,107**
Community and social services		50	105	1,100	3,167	501	501	–	2,412	1,184
Sport and recreation		313	526	390	70	70	70	–	–	–
Public safety		290	1,798	2,503	3,776	2,297	2,297	–	–	–
Housing		15,631	29,780	19,357	22,308	6,816	6,212	12,948	13,863	12,923
Health		67	–	–	–	–	–	–	–	–
Economic and environmental services		**11,818**	**4,109**	**7,451**	**11,688**	**8,540**	**8,440**	**2,366**	**–**	**1,623**
Planning and development		–	11	28	–	–	–	–	–	–
Road transport		11,818	4,097	7,423	11,688	8,540	8,440	2,366	–	1,623
Environmental protection		–	–	–	–	–	–	–	–	–
Trading services		**40,745**	**32,832**	**32,096**	**33,269**	**77,499**	**69,338**	**39,087**	**30,536**	**31,685**
Electricity		12,251	14,687	7,050	12,295	12,723	9,803	5,450	11,564	3,399
Water		21,160	9,893	13,183	19,519	63,599	58,575	21,582	6,592	12,691
Waste water management		6,972	6,665	7,220	791	441	441	11,455	12,381	15,595
Waste management		363	1,588	4,643	664	736	519	600	–	–
Other		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total Capital Expenditure - Standard	3	**73,001**	**71,621**	**66,092**	**81,505**	**110,844**	**98,066**	**68,288**	**67,015**	**67,908**
Funded by:										
National Government		25,955	8,030	11,872	24,677	55,773	56,749	41,311	35,031	37,844
Provincial Government		16,028	31,723	19,326	20,000	5,000	4,896	11,124	12,886	12,318
District Municipality		2,418	944	2,565	–	–	–	–	–	–
Other transfers and grants		15	–	429	5,000	4,250	836	–	–	–
Transfers recognised - capital	4	**44,416**	**40,698**	**34,193**	**49,677**	**65,023**	**62,481**	**52,435**	**47,917**	**50,162**
Public contributions & donations	5	5,042	4,796	474	1,000	118	78	–	–	–
Borrowing	6	17,055	22,118	29,966	26,638	34,269	24,483	9,650	11,800	10,000
Internally generated funds		6,489	4,008	1,459	4,190	11,434	11,025	6,203	7,298	7,746
Total Capital Funding	7	**73,001**	**71,621**	**66,092**	**81,505**	**110,844**	**98,066**	**68,288**	**67,015**	**67,908**

References

1. Municipalities may choose to appropriate for capital expenditure for three years or for one year (if one year appropriation projected expenditure required for yr2 and yr3).

2. Include capital component of PPP unitary payment. Note that capital transfers are only appropriated to municipalities for the budget year

3. Capital expenditure by standard classification must reconcile to the appropriations by vote

4. Must reconcile to supporting table SA20 and to Budgeted Financial Performance (revenue and expenditure)

5. Must reconcile to Budgeted Financial Performance (revenue and expenditure)

6. Include finance leases and PPP capital funding component of unitary payment - total borrowing/repayments to reconcile to changes in Table SA17

7. Total Capital Funding must balance with Total Capital Expenditure

8. Include any capitalised interest (MFMA section 46) as part of relevant capital budget

Table A6 - Budgeted Financial Position

WC048 Knysna - Table A6 Budgeted Financial Position

Description	Ref	2006/7	2007/8	2008/9	Current Year 2009/10			2010/11 Medium Term Revenue &		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
ASSETS										
Current assets										
Cash		3,572	1,324	183	183	183	183	192	201	210
Call investment deposits	1	38,991	41,109	60,707	35,459	26,862	44,129	36,131	42,566	49,672
Consumer debtors	1	27,930	32,000	47,760	51,395	51,575	51,799	54,545	53,524	53,183
Other debtors		6,849	11,021	4,883	2,947	2,947	2,947	3,453	3,545	3,645
Current portion of long-term receivables		212	212	121	–	–	–	–	–	–
Inventory	2	2,174	2,010	2,320	2,757	2,757	2,757	2,895	3,040	3,192
Total current assets		**79,728**	**87,676**	**115,973**	**92,741**	**84,324**	**101,815**	**97,216**	**102,875**	**109,902**
Non current assets										
Long-term receivables		1,279	1,011	329	295	295	295	279	185	97
Investments		9,278	10,484	11,819	13,181	13,181	13,181	14,802	16,622	18,667
Investment property		733	115	109	102	102	102	95	89	82
Property, plant and equipment	3	331,248	380,945	419,732	478,739	508,078	495,300	532,250	567,046	600,864
Intangible		233	657	411	151	151	151	–	–	–
Other non-current assets		–	5	19	19	19	19	19	19	19
Total non current assets		**342,771**	**393,216**	**432,418**	**492,486**	**521,825**	**509,047**	**547,446**	**583,961**	**619,729**
TOTAL ASSETS		**422,499**	**480,892**	**548,391**	**585,227**	**606,149**	**610,863**	**644,661**	**686,836**	**729,631**
LIABILITIES										
Current liabilities										
Bank overdraft	1	446	15,690	15,471	13,150	13,150	13,150	–	–	–
Borrowing	4	10,113	13,325	12,166	15,484	15,484	15,484	15,752	16,576	19,918
Consumer deposits		7,358	7,944	8,183	8,200	8,200	8,200	8,400	8,500	8,700
Trade and other payables	4	45,710	44,390	50,074	32,821	21,985	23,213	26,030	26,190	26,809
Provisions		6,574	8,034	8,960	9,895	9,721	9,895	10,928	11,810	12,992
Total current liabilities		**70,200**	**89,384**	**94,854**	**79,549**	**68,539**	**69,942**	**61,110**	**63,076**	**68,419**
Non current liabilities										
Borrowing		109,202	121,840	153,421	157,169	167,169	163,169	158,378	154,141	146,021
Provisions		41,273	48,371	53,822	53,987	53,987	60,157	66,680	72,783	79,914
Total non current liabilities		**150,475**	**170,211**	**207,244**	**211,156**	**221,156**	**223,327**	**225,058**	**226,924**	**225,935**
TOTAL LIABILITIES		**220,675**	**259,595**	**302,098**	**290,706**	**289,696**	**293,268**	**286,168**	**290,000**	**294,354**
NET ASSETS	5	**201,823**	**221,298**	**246,294**	**294,522**	**316,453**	**317,595**	**358,493**	**396,837**	**435,277**
COMMUNITY WEALTH/EQUITY										
Accumulated Surplus/(Deficit)		(1,046)	216,506	241,892	290,622	312,553	313,695	353,493	391,337	429,777
Reserves	4	202,870	4,792	4,402	3,900	3,900	3,900	5,000	5,500	5,500
TOTAL COMMUNITY WEALTH/EQUITY	5	**201,823**	**221,298**	**246,294**	**294,522**	**316,453**	**317,595**	**358,493**	**396,837**	**435,277**

References

1. Detail to be provided in Table SA3

2. Include completed low cost housing to be transferred to beneficiaries within 12 months

3. Include 'Construction-work-in-progress' (disclosed separately in annual financial statements)

4. Detail to be provided in Table SA3. Includes reserves to be funded by statute.

5. Net assets must balance with Total Community Wealth/Equity

The consumer debtors figure of R54.5 million is the net figure as it includes the bad debt or debt impairment provisions totalling R43.1 million (for more information see 'Supporting Table SA3: Supporting detail to 'Budgeted Financial Position'') which has doubled since last year. These provisions have perhaps been underfunded in recent years although not abnormally, but they now need to reflect the growing arrears over 90 days. It is also essential that Council begins to write-off arrears over 90 days and above, that more focus and obviously more resources be placed on minimising debt at an earlier stage. Council to-date has followed the iron fist in a velvet glove approach to credit control with good success. Unfortunately we can no longer maintain this lighter approach and a stricter enforcement regime must be introduced.

The call investment deposits show decline because the various unspent grants, mainly on the water projects, are forecast to be utilised.

The borrowing figure of R158.4 million is reducing because loan repayments are now exceeding new borrowings going forward. The various provisions (Post-retirement employee benefits and Eradication of alien vegetation) are on the increase specifically because of the GRAP requirements.

Table A7 - Budgeted Cash Flows

WC048 Knysna - Table A7 Budgeted Cash Flows

Description	Ref	2006/7	2007/8	2008/9	Current Year 2009/10			2010/11 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
CASH FLOW FROM OPERATING ACTIVITIES										
Receipts										
Ratepayers and other		222,104	208,374	244,336	287,771	294,843	297,304	325,812	370,556	424,686
Government - operating	1	19,927	38,681	49,871	41,071	57,387	57,474	58,320	67,371	66,865
Government - capital	1	44,416	40,698	34,193	49,677	65,023	62,481	52,435	47,917	50,162
Interest		9,441	6,226	7,573	5,648	5,648	5,568	5,012	4,761	4,809
Dividends		–	–	–	–	–	–	–	–	–
Payments										
Suppliers and employees		(221,890)	(238,937)	(266,988)	(306,542)	(337,439)	(328,891)	(342,096)	(387,271)	(441,840)
Finance charges		(12,015)	(15,524)	(17,051)	(20,889)	(17,984)	(17,968)	(22,496)	(22,669)	(21,326)
Transfers and Grants	1	–	–	–	–	–	–	–	–	–
NET CASH FROM/(USED) OPERATING ACTIVITIES		**61,983**	**39,519**	**51,934**	**56,737**	**67,478**	**75,967**	**76,988**	**80,665**	**83,357**
CASH FLOWS FROM INVESTING ACTIVITIES										
Receipts										
Proceeds on disposal of PPE		592	324	2,520	–	–	–	5,000	–	–
Decrease (Increase) in non-current debtors		–	–	–	–	–	–	–	–	–
Decrease (increase) other non-current receivables		461	541	220	33	33	33	16	94	88
Decrease (increase) in non-current investments		3,735	(1,206)	(1,335)	(1,361)	(1,361)	(1,361)	(1,621)	(1,821)	(2,045)
Payments										
Capital assets		(73,001)	(71,773)	(66,092)	(81,505)	(110,844)	(98,066)	(68,288)	(67,015)	(67,908)
NET CASH FROM/(USED) INVESTING ACTIVITIES		**(68,213)**	**(72,114)**	**(64,687)**	**(82,833)**	**(112,172)**	**(99,394)**	**(64,893)**	**(68,741)**	**(69,865)**
CASH FLOWS FROM FINANCING ACTIVITIES										
Receipts										
Short term loans		–	–	–	–	–	–	–	–	–
Borrowing long term/refinancing		22,439	27,417	44,579	14,960	24,960	20,960	8,000	10,000	10,000
Increase (decrease) in consumer deposits		582	587	239	17	17	17	200	100	200
Payments										
Repayment of borrowing		(21,144)	(10,782)	(13,389)	(11,807)	(11,807)	(11,807)	(15,134)	(15,580)	(16,576)
NET CASH FROM/(USED) FINANCING ACTIVITIES		**1,876**	**17,222**	**31,429**	**3,170**	**13,170**	**9,170**	**(6,934)**	**(5,480)**	**(6,376)**
NET INCREASE/ (DECREASE) IN CASH HELD		**(4,354)**	**(15,373)**	**18,676**	**(22,927)**	**(31,525)**	**(14,258)**	**5,161**	**6,444**	**7,116**
Cash/cash equivalents at the year begin:	2	**46,470**	**42,116**	**26,743**	**45,419**	**45,419**	**45,419**	**31,161**	**36,322**	**42,767**
Cash/cash equivalents at the year end:	2	**42,116**	**26,743**	**45,419**	**22,492**	**13,894**	**31,161**	**36,322**	**42,767**	**49,882**

References

1. Local/District municipalities to include transfers from/to District/Local Municipalities

2. Cash equivalents includes investments with maturities of 3 months or less

The figures going forward under 'Borrowing long term/refinancing' highlights the fact that we are planning to borrow less than we are repaying.

Note should be made of the 'Net Increase in Cash Held' of R5.1 million. The cash position has been commented on repeatedly in the Executive Summary introduction but it needs repeating that this figure includes land sales revenue of R5 million and further highlights the need to closely control future capital spends.

Table A8 - Cash backed reserves/accumulated surplus reconciliation

WC048 Knysna - Table A8 Cash backed reserves/accumulated surplus reconciliation

Description	Ref	2006/7	2007/8	2008/9	Current Year 2009/10			2010/11 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
Cash and investments available										
Cash/cash equivalents at the year end	1	42,116	26,743	45,419	22,492	13,894	31,161	36,322	42,767	49,882
Other current investments > 90 days		(0)	(0)	(0)	(0)	0	0	0	(0)	(0)
Non current assets - Investments	1	9,278	10,484	11,819	13,181	13,181	13,181	14,802	16,622	18,667
Cash and investments available:		**51,394**	**37,227**	**57,238**	**35,673**	**27,075**	**44,342**	**51,124**	**59,389**	**68,549**
Application of cash and investments										
Unspent conditional transfers		33,216	24,276	27,395	10,836	635	1,863	1,740	1,740	1,229
Unspent borrowing		5,091	6,512	19,421	7,743	10,112	15,898	14,248	12,448	12,448
Statutory requirements	2	(5,403)	(1,978)	642	–	–	–	–	–	–
Other working capital requirements	3	12,002	8,158	3,294	(18,734)	(29,568)	(28,294)	(26,873)	(26,328)	(25,582)
Other provisions		6,574	8,034	8,960	9,895	9,721	9,895	10,928	11,810	12,992
Long term investments committed	4	9,278	10,224	11,788	13,181	13,181	13,181	14,802	16,622	18,667
Reserves to be backed by cash/investments	5	7,260	4,792	4,402	12,273	12,456	12,581	17,512	19,409	18,032
Total Application of cash and investments:		**68,018**	**60,018**	**75,902**	**35,193**	**16,536**	**25,124**	**32,357**	**35,702**	**37,785**
Surplus(shortfall)		**(16,624)**	**(22,791)**	**(18,664)**	**480**	**10,539**	**19,218**	**18,767**	**23,687**	**30,764**

References

1. Must reconcile with Budgeted Cash Flows

2. For example: VAT, taxation

3. Council approval for policy required - include sufficient working capital (e.g. allowing for a % of current debtors > 90 days as uncollectable)

4. For example: sinking fund requirements for borrowing

5. Council approval required for each reserve created and basis of cash backing of reserves

This table is highlighted not necessarily for the information in the table itself but to introduce the accompanying new policy on Funding and Reserves. National Treasury has regulated that municipalities introduce a Funding and Reserves Policy for annual ratification in line with the various other statutory policies. Knysna has not had such a policy in recent years because of the inconsistencies and general confusion surrounding the moves from fund accounting to GAMAP and now to GRAP.

The policy is relatively straight forward and the salient points for noting are in the various formulae and indicators which are in line with 'Supporting Table SA8: Performance indicators' and benchmarks and 'Supporting Table SA10: Funding measurement'.

One issue of importance which is again related to the table is in regard to the previous, rather loose practice of not spending and rolling-over Unspent Conditional Transfers. This was also referred to earlier but again needs to be highlighted as a practice that must now stop as any unspent balances must be paid back to the fiscus or remotivated for national re-appropriation where contractual commitments already exist.

Table A9 - Asset Management

WC048 Knysna - Table A9 Asset Management

Description	Ref	2006/7	2007/8	2008/9	Current Year 2009/10			2010/11 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
CAPITAL EXPENDITURE										
Total New Assets	1	**52,191**	**55,913**	**45,151**	**49,387**	**76,114**	**66,127**	**46,768**	**35,136**	**48,136**
Infrastructure - Road transport		849	–	–	2,300	–	–	700	–	–
Infrastructure - Electricity		13,180	15,810	3,671	4,921	5,272	4,332	1,824	977	605
Infrastructure - Water		15,922	4,608	11,380	10,250	52,900	48,164	19,746	2,412	11,542
Infrastructure - Sanitation		482	4,024	2,165	330	330	330	–	382	2,893
Infrastructure - Other		2,082	1,303	3,615	3,907	4,002	3,785	2,266	–	1,623
Infrastructure		*32,515*	*25,745*	*20,831*	*21,708*	*62,504*	*56,611*	*24,536*	*3,771*	*16,663*
Community		15,526	28,415	20,533	27,117	13,010	8,906	21,650	30,868	31,046
Other assets	6	4,150	1,753	3,772	562	600	611	582	497	427
Intangibles		–	–	14	–	–	–	–	–	–
Total Renewal of Existing Assets	2	**20,810**	**15,708**	**20,941**	**32,118**	**34,730**	**31,939**	**21,520**	**31,879**	**19,772**
Infrastructure - Road transport		11,497	1,722	3,915	5,170	5,131	5,031	150	160	170
Infrastructure - Electricity		413	–	4,088	10,598	11,415	8,935	4,650	10,745	2,500
Infrastructure - Water		5,146	4,913	1,713	8,938	10,508	10,220	1,836	4,180	1,149
Infrastructure - Sanitation		2,494	1,516	3,714	–	–	–	11,305	11,839	12,532
Infrastructure - Other		76	6	281	664	–	–	–	–	–
Infrastructure		*19,626*	*8,157*	*13,711*	*25,370*	*27,054*	*24,186*	*17,941*	*26,924*	*16,351*
Community		533	589	2,810	2,570	4,781	5,367	–	1,974	–
Other assets	6	650	6,962	4,420	4,178	2,895	2,386	3,579	2,981	3,421
Total Capital Expenditure	4									
Infrastructure - Road transport		12,346	1,722	3,915	7,470	5,131	5,031	850	160	170
Infrastructure - Electricity		13,593	15,810	7,759	15,519	16,687	13,267	6,474	11,722	3,105
Infrastructure - Water		21,068	9,521	13,093	19,188	63,408	58,384	21,582	6,592	12,691
Infrastructure - Sanitation		2,976	5,540	5,879	330	330	330	11,305	12,221	15,425
Infrastructure - Other		2,158	1,310	3,896	4,571	4,002	3,785	2,266	–	1,623
Infrastructure		*52,141*	*33,903*	*34,542*	*47,078*	*89,558*	*80,797*	*42,477*	*30,695*	*33,014*
Community		16,059	29,004	23,344	29,687	17,791	14,273	21,650	32,842	31,046
Other assets		4,801	8,714	8,192	4,740	3,495	2,997	4,161	3,478	3,848
Intangibles		–	–	14	–	–	–	–	–	–
TOTAL CAPITAL EXPENDITURE - Asset class	2	**73,001**	**71,621**	**66,092**	**81,505**	**110,844**	**98,066**	**68,288**	**67,015**	**67,908**
ASSET REGISTER SUMMARY - PPE (WDV)	5									
Infrastructure - Road transport		24,482	22,546	23,459	28,929	26,590	25,496	21,846	17,006	11,676
Infrastructure - Electricity		57,108	69,205	72,408	84,927	86,095	82,460	83,934	90,656	88,261
Infrastructure - Water		68,680	73,555	79,720	95,331	139,551	134,551	148,316	149,323	156,430
Infrastructure - Sanitation		22,919	26,921	30,981	29,444	29,444	28,944	40,552	49,773	61,698
Infrastructure - Other		114,745	151,049	169,925	168,292	167,724	166,724	164,016	157,042	151,320
Infrastructure		*287,934*	*343,276*	*376,494*	*406,924*	*449,405*	*438,175*	*458,665*	*463,801*	*469,385*
Community		24,228	16,094	16,893	45,680	33,784	33,784	50,755	82,437	112,323
Heritage assets		259	501	594	593	593	593	593	593	593
Investment properties		733	115	109	102	102	102	95	89	82
Other assets		18,827	21,073	25,751	25,542	24,296	22,748	22,237	20,215	18,563
Intangibles		233	657	411	151	151	151	–	–	–
TOTAL ASSET REGISTER SUMMARY - PPE (WDV)	5	**332,214**	**381,717**	**420,251**	**478,991**	**508,330**	**495,552**	**532,345**	**567,135**	**600,946**
EXPENDITURE OTHER ITEMS										
Depreciation & asset impairment		20,931	24,277	28,822	22,765	22,765	22,765	31,344	32,226	34,097
Repairs and Maintenance by Asset Class	3	16,467	18,544	18,914	19,030	18,466	19,121	18,410	20,298	22,202
Infrastructure - Road transport		3,142	3,322	3,672	2,655	2,635	2,955	3,483	3,698	3,916
Infrastructure - Electricity		2,588	3,550	4,374	5,471	5,284	5,284	3,977	4,971	5,971
Infrastructure - Water		3,022	3,168	2,704	2,854	2,802	2,941	2,368	2,515	2,663
Infrastructure - Sanitation		2,976	3,441	2,720	2,595	2,451	2,592	2,099	2,229	2,361
Infrastructure - Other		227	383	456	327	208	208	337	358	379
Infrastructure		*11,955*	*13,863*	*13,926*	*13,902*	*13,380*	*13,980*	*12,264*	*13,771*	*15,290*
Community		1,011	1,083	1,058	831	749	803	957	1,016	1,076
Other assets	6, 7	3,500	3,598	3,930	4,298	4,337	4,338	5,190	5,511	5,837
TOTAL EXPENDITURE OTHER ITEMS		**37,398**	**42,821**	**47,736**	**41,795**	**41,231**	**41,886**	**49,754**	**52,524**	**56,299**
% of capital exp on renewal of assets		*39.9%*	*28.1%*	*46.4%*	*65.0%*	*45.6%*	*48.3%*	*46.0%*	*90.7%*	*41.1%*
Renewal of Existing Assets as % of deprecn"		*99.4%*	*64.7%*	*72.7%*	*141.1%*	*152.6%*	*140.3%*	*68.7%*	*98.9%*	*58.0%*
R&M as a % of PPE		*5.0%*	*4.9%*	*4.5%*	*4.0%*	*3.6%*	*3.9%*	*3.5%*	*3.6%*	*3.7%*
Renewal and R&M as a % of PPE		*11.0%*	*9.0%*	*9.0%*	*11.0%*	*10.0%*	*10.0%*	*8.0%*	*9.0%*	*7.0%*

References

1. Detail of new assets provided in Table SA34a

2. Detail of renewal of existing assets provided in Table SA34b

3. Detail of Repairs and Maintenance by Asset Class provided in Table SA34c

4. Must reconcile to total capital expenditure on Budgeted Capital Expenditure

5. Must reconcile to 'Budgeted Financial Position' (written down value)

6. Donated/contributed and assets funded by finance leases to be allocated to the respective category

7. Including repairs and maintenance to agricultural, biological and intangible assets

Table A10 - Basic service delivery measurement

WC048 Knysna - Table A10 Basic service delivery measurement

Description	Ref	2006/7	2007/8	2008/9	Current Year 2009/10			2010/11 Medium Term Revenue & Expenditure		
		Outcome								ar +2 3
Household service targets (000)	1									
Water:										
Piped water inside dwelling										
Piped water inside yard (but not in dwelling)										
Using public tap (at least min.service level)	2									
Other water supply (at least min.service level)	4									
Minimum Service Level and Above sub-total		–								–
Using public tap (< min.service level)	3									
Other water supply (< min.service level)	4									
No water supply										
Below Minimum Service Level sub-total		–								–
Total number of households	5	**–**								**–**
Sanitation/sewerage:										
Flush toilet (connected to sewerage)										
Flush toilet (with septic tank)										
Chemical toilet										
Pit toilet (ventilated)										
Other toilet provisions (> min.service level)										
Minimum Service Level and Above sub-total		–								–
Bucket toilet										
Other toilet provisions (< min.service level)										
No toilet provisions										
Below Minimum Service Level sub-total		–								–
Total number of households	5	**–**								**–**
Energy:										
Electricity (at least min.service level)										
Electricity - prepaid (min.service level)										
Minimum Service Level and Above sub-total		–								–
Electricity (< min.service level)										
Electricity - prepaid (< min. service level)										
Other energy sources										
Below Minimum Service Level sub-total		–								–
Total number of households	5	–								–
Refuse:										
Removed at least once a week										
Minimum Service Level and Above sub-total		–								–
Removed less frequently than once a week										
Using communal refuse dump										
Using own refuse dump										
Other rubbish disposal										
No rubbish disposal										
Below Minimum Service Level sub-total		–								–
Total number of households	5	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Households receiving Free Basic Service	7									
Water (6 kilolitres per household per month)		2.157	2.656	3.176	3.705	3.705	3.705	4.230	4.740	5.226
Sanitation (free minimum level service)		1.472	1.508	1.547	1.603	1.603	1.603	1.649	1.697	1.746
Electricity/other energy (50kwh per household per month)		5.811	5.957	6.373	6.800	6.900	6.983	7.227	7.470	7.721
Refuse (removed at least once a week)		1.472	1.508	1.547	1.603	1.603	1.603	1.649	1.697	1.746
Cost of Free Basic Services provided (R'000)	8									
Water (6 kilolitres per household per month)		3,476	4,346	5,344	5,720	5,458	5,491	6,786	7,561	8,362
Sanitation (free sanitation service)		605	475	599	695	673	672	837	936	1,016
Electricity/other energy (50kwh per household per month)		1,037	1,271	1,700	2,153	2,119	2,142	2,783	3,422	4,275
Refuse (removed once a week)		2,765	1,941	2,472	2,774	2,740	2,696	3,563	3,619	3,859
Total cost of FBS provided (minimum social package)		**7,884**	**8,034**	**10,115**	**11,341**	**10,989**	**11,001**	**13,970**	**15,539**	**17,513**
Highest level of free service provided										
Property rates (R'000 value threshold)		30	30	30	30	30	30	30	30	30
Water (kilolitres per household per month)		8	8	8	6	6	6	6	6	6
Sanitation (kilolitres per household per month)		–	–	–	–	–	–	–	–	–
Sanitation (Rand per household per month)		67	70	77	42	42	42	46	49	52
Electricity (kwh per household per month)		50	50	50	50	50	50	50	50	50
Refuse (average litres per week)		170	170	170	170	170	170	170	170	170
Revenue cost of free services provided (R'000)	9									
Property rates (R15 000 threshold rebate)		–	–	–	–	–	–	–	–	–
Property rates (other exemptions, reductions and rebates)		10,980	11,643	16,126	16,477	19,335	18,612	18,288	19,996	21,804
Water		3,514	4,000	4,312	3,030	4,365	4,322	5,069	5,687	6,381
Sanitation		1,276	1,250	1,225	1,370	1,346	762	838	916	999
Electricity/other energy		1,768	1,904	2,188	1,757	1,757	2,674	3,274	3,941	4,749
Refuse		1,299	1,280	1,327	1,485	1,485	896	986	1,076	1,174
Municipal Housing - rental rebates		–	–	–	–	–	–	–	–	–
Housing - top structure subsidies	6	4,989	5,032	5,223	4,200	4,200	4,189	4,000	4,248	4,499
Other		–	–	–	–	–	–	–	–	–
Total revenue cost of free services provided (total social package)		**23,826**	**25,108**	**30,400**	**28,319**	**32,488**	**31,454**	**32,455**	**35,864**	**39,606**

Information not available

References

1. Include services provided by another entity; e.g. Eskom

2. Stand distance <= 200m from dwelling

3. Stand distance > 200m from dwelling

4. Borehole, spring, rain-water tank etc.

5. Must agree to total number of households in municipal area

6. Include value of subsidy provided by municipality above provincial subsidy level

7. Show number of households receiving at least these levels of services completely free

8. Must reflect the cost to the municipality of providing the Free Basic Service

9. Reflect the cost to the municipality in terms of 'revenue foregone' of providing free services (note this will not equal 'Revenue Foregone' on SA1)

PART 2 – SUPPORTING DOCUMENTATION

Section 5 – Overview of annual budget process

Annual planning processes

Budget planning follows a number of processes to enable us to achieve the final position. The starting point is obviously the IDP and it should be remembered that this is the final year of the current IDP cycle. However an IDP cycle of five years is a long time and the economic events of the last twelve months coupled with the Eskom debacle has turned the financial elements of the IDP on its head and in essence made the whole process more of a scarce resource allocation exercise rather than a longer term planning one. Even the capital budget has become more allocation driven as the planning, for requesting municipal infrastructure grant allocations, has become more detached with Councillors sometimes being unaware of what projects the technocrats have actually applied for. The result is that when MIG moneys are approved the capital budget is effectively a fait accompli and, as said elsewhere, primarily focussed on large-scale technical delivery rather than on community-driven needs. This must change with the so-called second generation IDP process we will soon be starting.

The current IDP process plan for the 2010/11 budget is attached as Annexure 5 to this document.

The operating budget has been driven totally on the premise of consumer affordability. Throughout South Africa there are municipalities in financial meltdown because of bad budgeting and by extension bad financial management. A bad budget automatically leads to increased non-payment and pressured cash flows. Throw in an economic downturn compounded by Eskom and the effect of greater than CPI remuneration increases and the probability is the municipality will be in serious financial difficulty very quickly.

Knysna's operating budget for 2010/11, even more so than it was last year, is entirely driven to ensure the cash flow is protected as best possible. We can do nothing about Eskom apart from minimising our increases as far as possible. There is little we can do about the water situation except financially manage the policies of our engineers. What we can do is ensure that the assessment rate impact is minimised as far as possible and that means hard cuts and harsh financial decisions.

The operating budget was compiled on the back of a Strategic Bosberaad last year and after a further discussion and presentation to the Executive Mayoral Committee this year regarding the rate and tariff increases. After obtaining their mandate the cash available for disbursement via the budget was calculated and allocated. The allocation was undertaken on the basis of the number of staff of each department and their historical budgets over the last three and five years. Some twenty different models and variations were examined before the Municipal Manager decided on the final version. This was then sent out to the departments for comment and advance warning. Some departments have accepted their allocations, others have raised genuine concerns and issues but the fact remains that it was the Executive Mayoral Committee and the Municipal Manager who took the pertinent decisions and management will now have to implement as best they can.

There is a lot of nonsense spoken, usually by ratepayer organisation committees, that local government should introduce zero-based budgeting or activity based budgeting or some variation on a theme. The fact is that a simple cursory glance at our draft operating budget for 2010/11 shows that 75%, or R300 million, is already bespoke simply because we cannot fire staff, cut the bulk Eskom payment or not pay our interest and redemption. The balance is for repairs and maintenance expenditure and for stores and materials and other expenditure simply to make the place function. As was explained previously this balance has been deliberately targeted at the "delivery departments" as opposed to the "corporate" ones. One could therefore argue that we have prioritised it on an activity basis.

The bottom line of budgeting in a recession is that it cannot follow the normal integrated processes. The budget must be concentrated on delivering previously agreed priorities and projects and completing and implementing these timeously. There is therefore little that is new in the process.

Budget Process 2010/11

The budget process followed the requirements of the MFMA. The Budget timetable and major deadlines as approved by the Mayor in terms of section 21(1)(b) of the MFMA is included in the documents referred to in Section 20.

A schedule of key deadlines was prepared for tabling in Council by the Mayor prior to the end of August 2009.

The proposed budget was tabled in Council on 31 March 2010. A period of consultation then followed.

Public meetings were held in all 8 wards:

Councillor	Ward	Venue	Date	Time	Attendance
Nayler	1	Sedgefield Community Hall	20 April	16h30	33
		Sizamile Community Hall	20 April	19h00	64
Jule	2	Rheenendal Community Hall	21 April	19h00	24
		Protea Community Hall - Karatara	14 April	19h00	46
Matungana	3	Khayalethu Community Hall	13 April	18h00	58

Councillor	Ward	Venue	Date	Time	Attendance
Loliwe	4	Chris Nissen Primary School	28 April	18h00	± 100
Botha	5	Council Chambers	3 May	18h00	11
Kemoetie	6	Hornlee Civic Centre	19 April	19h00	21
Koti	7	Chris Hani Community Hall	5 April	18h00	131
Molosi	8	Thembelitsha Primary School	22 April	18h00	37

At the culmination of the consultation process the Mayor must consider any representations and decide if any amendments should be made to the budget. Eleven written submissions were received on the 2010/2011 budget. The Mayor's report in response to these submissions was tabled at Council on 27 May 2010 and is attached as Annexure 7. No material amendments were made to the budget as a result of the submissions received.

The final budget has to be approved by Council by the end of May 2010.

The Municipality's budget is prepared on a three year basis. This takes into account the National and Provincial three year allocations to the Municipality. The MFMA requires municipalities to prepare three year budgets to ensure more thorough financial planning and provide for seamless service delivery.

Operating expenditure in 2010/11 is budgeted at R421.5 million, a 16,4% increase on the full year forecast for 2009/10, and 16,1% increase on the adjusted budget for 2009/10.

The municipality sets out measurable performance objectives to link the financial inputs of the budget to service delivery on the ground. This is done in the form of quarterly service targets and monthly financial targets that are contained in the Service Delivery and Budget Implementation Plan (SDBIP). The plan must be agreed by the Mayor within 28 days of approval of the final budget and forms the basis for the Municipality's in year monitoring. The SDBIP is attached as Annexure 8.

Section 6 – Overview of alignment of the annual budget with the Integrated Development Plan

Introduction

Municipalities are required to develop five year Integrated Development Plans which must be reviewed annually. It is also required that such plans must find expression in the Budget. The IDP and the budget are inter-related documents. The IDP is the budget in words, just as the budget is the IDP in figures. In the past two years comprehensive efforts have been towards ensuring that the two documents are closely link.

Second Generation IDP

The Department of Provincial and Local Government has assisted municipalities in developing a second five year IDP referred to as second generation IDP. Through this process Knysna Municipality has endeavoured to improve the participation of the public in the IDP process. Knysna Municipality has considered the IDP in line with the following National Government and Provincial Government imperatives regarding the formulation of the IDP's:

- Clear analysis and strategy
- Basic Services and Infrastructure delivery
- Community involvement
- Institutional delivery capacity – resource framework

Knysna′s vision: The town that works for all

The Knysna Municipality has a vision which drives the Integrated Development Plan namely that of "The town that works for all".

The Municipality is faced with aggressive growth in the context of the Geographic Gross Product, Population Growth and general town construction mainly in the form of tourism facilities, golf courses and domestic construction.

The greatest challenge for Knysna Municipality has been to build its own absorptive capacity in order to ensure that such growth translates into economic development of the town. Critical issues for sustainability of the town's growth have been ensuring that the town has adequate infrastructure. Infrastructure investments requirements of this town far outstrip the available income. The challenge is for the Municipality to move faster in finding innovative funding options for financing capital needs.

All of these challenges are compounding on an already existing problem of disparity between the affluent communities of Knysna and the historically disadvantaged communities which are mainly coloured and black. The Municipality is yet to find effective instruments geared at ensuring that the development of the poorest areas is gaining momentum. Council has therefore introduced what it terms "The Neighbourhood Revitalisation Programme" which hopefully will prove to be the desired response to the plight of the poor.

Partnerships with other strategic role-players must be a logical step towards addressing the challenges with which the Municipality is faced. The consolidation of relationships with the private sector is extremely crucial. National and Provincial Governments should also prove to be valuable partners. Knysna's human capital wealth must also be harnessed.

Key challenges facing Knysna

Knysna Municipality is faced with a complex set of development challenges; their outlook is consistent with the broader challenges facing local government albeit with some peculiarities:

i. Sustainable Infrastructure Investment

The rapid growth of the town has put a lot of pressure on the town's infrastructure. Bulk infrastructure needs are growing at an unprecedented rate which the Municipality is struggling to match.

ii. Focused development of the previously disadvantaged

The poor communities of the Knysna areas are subjected to the worst living conditions and the Municipality is demonstrating a commitment towards poverty alleviation. Programmes with clear funding intentions are being designed for that purpose. The Neighbourhood Revitalisation Programme is the desired response to this problem.

iii. Integrated Human Settlement

The provision of housing settlements with a strong emphasis on sustainability is an important issue for Knysna Municipality. Within the context of a composite set of development needs of the previously disadvantaged, the Municipality will address the need for housing. Although some of the obstacles regarding successful housing provision are not necessarily within the control of the municipality i.e. access to land, the challenge still remains for Council to devise creative strategies to deal with this matter. In line with that the Council has engaged with the other spheres of government i.e. DWAF & Department of Public Works. The Integrated Human Settlement strategy will pave the way for future housing provision in the Knysna area.

iv. The challenge of promoting Local Economic Development

The need for the diversification of the local economy through facilitating the emergence of previously underperforming sectors is an important catalyst for economic development. Our Local Economic Development strategy must focus on mainstreaming the previously disadvantaged people. Crucial to this will be the need to work in partnership with relevant stakeholders in boosting employment and fostering SMMEs.

v. The challenge of ensuring municipal financial viability

A municipality lives and dies by its ability to balance needs with resources. Knysna Municipality cannot generate sufficient resources to properly satisfy all its needs. Therefore those needs will have to be managed and dealt with in a financially sustainable manner. Promises of quick and easy solutions are simply lies.

vi. The challenge of municipal transformation and institutional development

Staff development is crucial to meet the challenges of Knysna and the new ethos of local government. The Employment Equity imperatives have to be assessed continually to ensure that Knysna Municipality's transformation remains in line with the broader transformation agenda of South Africa. Included in this must be an accelerated emphasis on growing and developing our own timber. Knysna does not have the luxury of competing in terms of salary and therefore our ability to attract qualified and quality staff is severely limited. We must therefore develop from within.

vii. Public Participation

Public Participation is an important feature of any democratic environment. Although the legislative environment provides adequately for public participation, Knysna Municipality is challenged to ensure that it continues to build on its successes over the last few years.

The Strategic Objectives

Seven strategic objectives have been developed to realize the vision and meet the challenges highlighted above, these are;

5.1 A caring and contented town
5.2 A successful and respected town
5.3 An attractive and sustainable town
5.4 A reliably functioning town
5.5 A financially sound town
5.6 A dynamic and welcoming town
5.7 A town prepared for the future

The Knysna IDP has a direct expression from the above mentioned objectives; the IDP through its strategies seeks to reinforce the strategic objectives as articulated above.

Section 7 – Measurable performance objectives and indicators

Indicators and ratios

The key financial indicators and ratios mentioned below are disclosed in Annexure 2, 'Supporting Table SA8: Performance indicators and benchmarks':

- Borrowing management
- Safety of capital
- Liquidity
- Debtors' and creditors' management
- Mix of expenditure types
- Mix of revenue sources
- Unaccounted for losses in respect of services rendered

Funding measure ratios are disclosed in Annexure 2 'Supporting Table SA10: Funding measurement'.

It is not the intention to go through each of the various indicators etc., but merely to highlight the fact that National Treasury now has the ability to monitor a budget with a cursory glance. The indicator tables by themselves can be problematic, for example the R & M percentage is a figure beloved and bemoaned by engineers for being too low but they conveniently forget that they have the power to virement to R & M during the course of a financial year thereby increasing the spend. What the ratios/ indicators do is show trends either positive or negative, but they do not as yet allow for good comparisons of local authorities and care must be taken as to how they are used.

As said the indicators, taken in conjunction with specifically the tables mentioned in Section 4, afford National Treasury the ability to monitor and take a reasoned view on the financial position of a municipality and in so doing they can either support the Council's approval of the budget or ultimately the Minister of Finance can refer the budget back to Council to adjust before final approval.

Drinking water quality and waste water management

Due to concerns surrounding the quality of municipal drinking water and failures in the management of waste water, National Treasury in MFMA Circular 51, required that the following section form part of the 2010/11 budget document.

i. **Water Services Authority & Water Services Provider:**

Knysna Municipality

ii. Blue Drop Status

From the Blue Drop Report for 2010 of the South African Drinking Water Authority Management Performance undertaken by the Development of Water Affairs the following statement is made:

"Knysna Local Municipality once again impressed during the Blue Drop assessments; reasonably high scores were obtained which is indicative of commitment levels to drinking water quality management. A well deserved Blue Drop Certification was obtained for the water supply system of Karatara.

All the systems have in place what is required to manage according to the Blue Drop requirements, however acceptable instead of excellent microbiological water quality is generally distributed. Chemical quality also requires attention. Once this has been dealt with, more Blue Drop systems can be expected".

With eight discrete monitoring points Knysna's systems are very complex and the results were good with Karatara Water Treatment Works being awarded Blue Drop Status.

iii. Green Drop Status

From the Green Drop 2009 assessments of the Department of Water Affairs the following result was received.

"The Green Drop 2009 assessments revealed an acceptable level of management ability and delivery of a reasonable to good waste water services performance, as is evident by your Green Drop scores achieving an average of between 50 and 90%. This score places your Municipality within the 203 (45%) waste water services systems that achieved scores above 50%".

The 2010 assessments have yet to be undertaken.

iv. Water Safety Plan

The Water Safety Plan was implemented with the assessments from 2010 and the shortfalls are addressed in the operational requirements of the MTREF. Where capacity issues are of concern the challenges are the capacity funding of major projects. Knysna Waste Water Treatment Works is being addressed in the 3 year capital program and additional funding is being sought for other areas.

v. Challenges

The challenges, as mentioned, are for capital funding to provide the additional capacity of bulk water and sewer services to meet the growth of the various towns and current limited infrastructure. Grant funding is used and additional grant funding is being applied for, however an extended period is envisaged to fund all constraints to growth resulting from the water and waste water services. Human Resources also are a challenge and begin to be addressed in the operation budget with a new provision for additional staff.

Section 8 – Overview of budget related policies

The detailed policies themselves are not included in this section of the budget documentation.

See Annexure 6 to this document for the full policies.

Policies are also available at the Council offices in Clyde Street for viewing as well as on the Internet at www.knysna.gov.za. This section gives a **broad overview** of the budget policy framework and highlights the amended policies to be approved by Council resolution.

Name of Policy	Type	Date of Council adoption (if already done)	Purpose / Basic areas covered by Policy	Summary of changes	Responsible Manager
REVENUE RELATED					
Tariff	Unchanged	29 May 2009 (with previous budget)	Setting criteria for establishing service tariffs	n/a	Lorienne McCartney
Rates	Amended	29 May 2009 (with previous budget)	Setting criteria for establishing rates tariffs	Criteria for “green rebate” amended to exclude all properties within the urban edge as defined in Council’s Spatial development framework	Lorienne McCartney
Credit control	Amended	29 May 2009 (with previous budget)	Principles and guidelines to be followed with respect to arrear consumer debt control	Legal clarification amendment iro electricity disconnections	William Fillies
Revenue collection	No formal policy	n/a	n/a		William Fillies
Indigent support & social rebate	Unchanged	29 May 2009 (with previous budget)	Guidelines and procedures for the subsidization of rates and basic services to indigent households	n/a	William Fillies

Name of Policy	Type	Date of Council adoption (if already done)	Purpose / Basic areas covered by Policy	Summary of changes	Responsible Manager
BUDGET AND EXPENDITURE RELATED					
Liability, investment & cash management	Unchanged	29 May 2009 (with previous budget)	Guideline of procedures to be followed when investing or lending money	n/a	Lorienne McCartney
Virement	Amended	29 May 2009 (with previous budget)	Sets out guidelines and procedures to be followed when transferring budget savings between votes	Incorporation of National Treasury virement rules	Lorienne McCartney
Supply chain management	Unchanged	29 May 2008 (with previous budget)	Dictates procedures for the procurement of goods and services	n/a	Marie Brand
Funding and reserves policy	New	New	Sets standards and guidelines in ensuring financial viability	New policy	Lorienne McCartney

Section 9 – Overview of budget assumptions

Introduction

Knysna's financial SYSTEM operates on the big wheel, little wheel principle, the same as virtually every other local authority outside the metros. What this means is that the middle to upper income groupings are billed for the vast majority of Council services. In Knysna the established areas take up 94% of debits raised (R235 million in 2008/09) as against 6% (R14 million) in the previously disadvantaged areas. Whilst this has not previously been a major issue, the impact in an economic downturn on the middle income groups can be catastrophic. As stated earlier Knysna is a domestic based town with limited non-domestic resources. The non-domestic sector, of which 50% is accommodation related, contributes 25% of total rates and tariff revenue which is simply not enough to be sustainable with all the demands currently being placed on our expenditure.

Five years ago the then Mayor of Knysna stated that the inward migration from the Eastern Cape had to stop and that Knysna was closed. There were even appeals to the Provincial Government in this regard. Nothing has changed and the position could be said to be worsening with demands now coming for service delivery from areas such as Hlalani which five years ago did not even exist. In many respects the undoubted success of Knysna in basic service delivery is fast becoming our downfall. The Provincial government is very quick to dump excess housing grants on us as they know we will do our best to spend them and deliver. During the course of this current financial year we have taken the decision not to spend these grants in advance of their receipt. The next decision must be not to accept them at all as we sadly cannot afford the own portion of the infrastructure costs involved unless the grants also cover these own costs.

Budget Assumptions

Budgets are prepared in an environment of uncertainty. To prepare meaningful budgets, assumptions need to be made about internal and external factors that could influence the budget. This section provides a comprehensive summary of the assumptions used in preparing the budget.

The budget is premised on a 94% payment level. This is in line with all our trends in the last 18 months and reflects a similar outcome as at June 2009. It is considerably below the outcomes of 111% and 99% respectively in 2007 and 2008 but it is blindingly obvious that these were before the Eskom increase clearly indicating the extent of the Eskom effect on local government. This effect is sadly often ignored when other spheres of government blithely comment on the lack of service delivery at the local level.

External factors (population migration, employment, etc)

Over recent years Knysna has experienced rapid population growth. This must be seen against the backdrop of developable land, a sensitive environment and the lack of new jobs being created in the local economy. This presents a serious challenge to Council to improve the efficiency of its urban systems. The unique and sensitive environment of Greater Knysna is under pressure and

Council has to manage the growth demands of the economy very rigidly to ensure environmental sustainability.

There is a paucity of up to-date economic data available regarding the population and employment levels. An economic survey is planned for next year in conjunction with the district to harden what we do have. At best all we can surmise at present is that the population is growing faster than the previous indicators of 4% per annum with concomitant service delivery and unemployment demands.

Growth or decline in tax base of the municipality

The buoyancy of the tax base is the main determinant of the affordability of new infrastructure development. Long term financial modelling shows a financial shortfall of R 1.1 billion in the resources required for infrastructure development over the next 15 years. Council is eagerly awaiting the analysis of any new taxation opportunities which should flow from the recently enacted Municipal Fiscal Powers Act most especially in regard to the potential introduction of a social development type tax which would be levied up-front on the more expensive type of new development and which could be directly earmarked for township upliftment. The following assumptions about future growth in the tax base are included in the MTREF:

	2010/11	**2011/12**	**2012/13**
Growth in tax base- Rates	1.6%	2%	3%
User Charges (%)	0%	1.5%	2%

General inflation outlook and its impact on the municipal activities

The headline CPI forecasts for 2010/11, 2011/12 and 2012/13 are 5.7%, 6.2% and 5.9% respectively. The growth parameters apply to tariff increases for property rates, user and other charges raised by municipalities and municipal entities, to ensure that all spheres of government support the national macroeconomic policies. National Treasury have decreed that local increases must be in line with the CPI forecasts after taking into account the national salary award (7.7% for the forthcoming budget year) and that any increases above the forecast must be fully communicated to the community.

Rates, tariffs, charges and timing of revenue collection

The rates, tariffs and charges for the 2010/11 budget are included in Annexure 3.

The following table shows the assumed average percentage increases built into the MTREF for rates, tariffs and charges:

	2010/11	2011/12	2012/13
Rates	6.7%	7.2%	6.9%
Annual fixed charges – sewer & refuse	7.5%	7.2%	6.9%
Water – fixed & monthly consumption tariff	15%	10%	10%
Electricity – monthly consumption tariff * *Average proposed increase*	*20%	*18%	*18%

Collection rates for each revenue source and customer type

The Municipality has in place a fair but rigorous credit control policy and has a good record of debt recovery. Furthermore, its policy on indigent support and social rebates means that many households who would normally struggle to pay their accounts receive free or subsidised basic services thereby keeping them free of the burden of municipal debt.

Nevertheless, there will always be an element of the total amount billed that will remain uncollected. The Municipality is the same as any other business in this regard. Adequate provision has to be made in the budget for any bad debts based on assumptions on collection rates.

The following bad debt provisions and collection rates are assumed in the MTREF for rates and tariffs.

R '000	2010/11	2011/12	2012/13
Provision for bad and doubtful debts Table A4: Debt impairment	22,623	24,885	27,374
Assumed collection rate Supporting Table SA10: Cash receipts% of Ratepayer and other revenue	94.4%	95.5%	95.8%

Price movements on specific items

The following amounts are included in the MTREF for increases in the following items:

R '000	2010/11	2011/12	2012/13
Eskom Table A4: Bulk purchases	92,337	119,588	155,132

More detail relating to specific items can be found in Annexure 2, 'Supporting Table SA1: Supporting detail to 'Budgeted Financial Performance''.

Changing demand characteristics (demand for services)

Knysna has to respond to changing demand for services that can occur through a number of reasons such as population migration, changing demographic profile, technological changes, and major infrastructure development.

The introduction of wireless technology in Knysna has made the internet available to many more people making on-line interaction with the Municipality possible, including the payment of municipal accounts.

The rapid growth of the town in prior years has impacted on the demand for services and challenges the Municipality in how services are delivered.

Trends in demand for free or subsidised basic services

Knysna's criteria for supporting free or subsidised basic services are set out in the indigent support and social rebate policy. The Government allocates revenue via the Division of Revenue Act (DORA) in the form of the Equitable Share Grant with the primary aim of assisting municipalities with the costs of providing free or subsidised basic services. Any costs over and above the Equitable Share allocation are met by the Municipality.

The following table summarises information as contained in Annexure 1, 'Table A10: Basic service delivery measurement' and shows the assumed cost of the indigent support and social rebate policy over the MTREF and the amounts allocated to the Municipality through the DORA. The two outer years DORA allocations are indicative.

R'000	2010/11	2011/12	2012/13
Cost of free basic services provided	13,970	15,539	17,513
Revenue cost of free services and all other rebates provided	32,455	35,864	39,606
Equitable share	22,279	27,604	28,438
Utilised for free services	*17,070*	*21,273*	*21,902*
Institutional support	*4,320*	*5,386*	*5,544*
Contribution to Councillors allowances	*889*	*945*	*992*

Impact of national, provincial and local policies

Knysna sees itself as working in partnership with national, provincial and district municipality spheres of Government in meeting the priority service needs of its people.

Section 10 – Overview of budget funding

Funding the Budget

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17.

Achievement of this requirement in totality effectively means that a Council has 'balanced' its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows. Refer to Section 4, 'Table A8: Cash backed reserves/accumulated surplus reconciliation' and Annexure 2, 'Supporting Table SA10: Funding measurement'.

Fiscal Overview of Knysna Municipality

Over the past financial years via sound and strong financial management, Knysna Municipality has moved internally to a position of relative financial stability. There is also a high level of compliance with the Municipal Finance Management Act and other legislation directly affecting financial management.

For the third time in four years the municipality received an unqualified audit report from the Auditor-General and in the other year it was only very technical qualifications that caused the A-G issues. As stated last year the switch over to GRAP has had huge ramifications not least amongst the professional staffing at the local government level. Knysna municipality cannot afford the salaries that are a prerequisite to GRAP. There is already a dearth of qualified accountants in South Africa and the complexities that are GRAP in local government are such that outside of the metropolitan areas it is highly unlikely that qualified accountants are going to be available to work at the salaries on offer internally and Knysna has to take steps to manage this situation rather better than it currently is.

<u>Long term financial planning</u>

Knysna has a credit rating of Baa2 and a Baseline Credit Assessment of 12. The assessment stated… "the BCA of 12 reflects a narrow but growing local economic base that is largely dependent upon tourism. The moderate growth of Knysna over the last few years, coupled with the migration of people to the area, has increased the service delivery challenges for the municipality. Financial management and budget planning is sound, but it has to managed within narrow financial parameters given the challenges and limited financial resources. The planned increase in Knysna's debt burden to fund the budgeted capital expenditure is expected to remain high over the medium term and will increase the risk profile of the municipality".

What this says is limit your borrowings and try to find other sources to continue your capital growth.

Section 11 – Expenditure on allocations and grant programmes

Disclosure on expenditure on allocations and grant programmes is done by way of Annexure 2, "Supporting Table SA18: Transfers and grant receipts, Supporting Table SA19: Expenditure on transfers and grant programme and Supporting Table SA20: Reconciliation of transfers, grant receipts and unspent funds".

Expenditure for each grant for 2010/11 to 2012/13 is summarised in the table below. Note that the expenditures include the VAT portion that is recognised as expenditure on grant allocations per MFMA Circular 48 and where two amounts are shown the first is for operating expenditure and the second for capital expenditure.

National and Provincial Conditional Grant Allocations 2010/11 to 2012/13					
Name of Grant	**Allocating Authority / Department**	**Budget 2010/11 R'000**	**Indicative 2011/12 R'000**	**Indicative 2012/13 R'000**	**Purpose of the Grant**
Integrated housing and human settlement development grant	Province/ Local Government and Housing	26,919 11,124	31,185 12,886	29,811 12,318	To finance the funding requirements of national housing programmes (excluding recurrent costs recoverable from assets falling under the pre-1994 stock). To facilitate the establishment and maintenance of integrated and sustainable human settlements to ensure economically viable and socially equitable communities in areas with ecological integrity promoting convenient and safe access to economic opportunities, health, educational and social amenities.
Library Services	Province/ Cultural Affairs and Sport	511	538	0	To enable public libraries to render an improved service by addressing staffing shortages.
Community Development Worker	Province/ Local Government	50	52	54	To provide financial assistance to municipalities to cover the operating costs pertaining to

	and Housing				the functions of the CDW's
Name of Grant	**Allocating Authority / Department**	**Budget 2010/11 R'000**	**Indicative 2011/12 R'000**	**Indicative 2012/13 R'000**	**Purpose of the Grant**
Maintenance of Proclaimed Roads	Province/ Transport and Public Works	30			To provide routine maintenance and/or resealing on proclaimed roads (National Roads)
Expanded Public Works Program	National / Public Works	167			Incentives for municipalities to use utilised labour in EPWP programmes
Local Government Financial Management Grant (FMG)	National / National Treasury	1,000	1,250	1,250	To promote and support reforms in financial management by building the capacity in municipalities to implement the Municipal Finance Management Act.
Municipal Systems Improvement Programme Grant (MSIG)	National / Provincial and Local Government	750	840	800	To assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems.
Municipal Infrastructure Grant (MIG)	National / Provincial and Local Government (National Vote 29)	2,763 13,810	3,324 16,609	4,041 20,195	To supplement capital finance for basic municipal infrastructure for poor households, micro enterprises and social institutions. The operating portion is utilised for the Project Management Unit.
Integrated National Electrification Programme (INEP)	National / Minerals and Energy (National Vote 28)	178 1,274	123 877	15 105	To implement the Programme by providing capital subsidies to municipalities to address the electrification backlog of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to improve quality of supply.

Name of Grant	**Allocating Authority / Department**	**Budget 2010/11 R'000**	**Indicative 2011/12 R'000**	**Indicative 2012/13 R'000**	**Purpose of the Grant**
Neighbourhood Development Partnership Grant (NDPG)	National / National Treasury	1,474 10,526	2,456 17,544	2,456 17,544	To provide municipalities with technical assistance to develop appropriate project proposals for property developments in underserved neighbourhoods and new residential neighbourhoods and to provide for the construction or upgrading of community facilities for neighbourhood developments and/or renewal projects that attract private sector funding and input where appropriate
Municipal Drought Relief Grant (MDRG)	National / National Treasury via Provincial Department of Water Affairs	2,199 15,701			Additional funds for water relief projects in Knysna being Boreholes and Re-Use
Equitable Share	National / Provincial and Local Government	22,279	27,604	28,438	

Section 12 – Allocations and grants made by the Municipality

Allocations Made by the Municipality

Refer to Annexure 2, 'Supporting Table SA21: Transfers and grants made by the municipality'. The main allocation is to Knysna Tourism which is budgeted to receive R 4.240 million in 2010/11.

Any allocation made to an outside body must comply with the requirements of section 67 of the MFMA. This stipulates that before transferring funds to an outside organisation the Municipal Manager, as Accounting Officer, must be satisfied that the organisation or body has the capacity to comply with the agreement and has adequate financial management and other systems in place.

In MFMA Circular 51 page 18, National Treasury has distinguished between revenue foregone and grant expenditures as they relate to the type of rebates given.

Since prior year comparative figures have been prepared based upon the audited AFS, where all rebates are reflected as revenue foregone, for the purposes of this MTREF document the municipality has still reflected all rebates as such and not as grant expenditure.

The revenue foregone over the MTREF is included in 'Table A10: Basic service delivery measurement' and is summarised below:

Revenue cost of rebates given	**Budget 2010/11 R'000**	**Indicative 2011/12 R'000**	**Indicative 2012/13 R'000**
Property rates	18,288	19,996	21,804
Water	5,069	5,687	6,381
Sanitation	838	916	999
Electricity	3,274	3,941	4,749
Refuse	986	1,076	1,174

Section 13 – Councillor allowances and employee benefits

Refer to Annexure 2, 'Supporting Table SA22: Summary councillor and staff benefits' and 'Supporting Table SA23: Salaries, allowances & benefits (political office bearers/councillors/senior managers)' for further details.

The salary increase for 2010/11 was budgeted at 8.5% resulting in a total cost of R130.2 million. This increase is not the only cost driver that impacts on the salary budget. The following additional provisions have been included: R 1,9 million for TASK implementation; R 3,7 million for funding new posts and R 8,5 million for post-retirement benefits. The increase on the original budget thus amounts to just over 20%. The full impact of the GRAP transition is now being felt particularly on the provision for post-retirement benefits which shows an increase of R7 million on the original budget for 2009/2010.

It is interesting that the total increase for permanent staff amounts to 20.3% whilst the increase for the Section 56 and 57 staff is 2.3% although this is because the vacant post of Strategic Services has been budgeted at a lower total package.

The Councillors allowances increases by 12%. However, provision has been made for three additional part-time councillors for a 6-month period. This is intended to cover any changes that will result from the next local government elections and the amendment of the number of wards within Knysna Municipality.

The CFO has said on a number of occasions that if your staff bill is close to or more than your rates income then as a town you have a problem. Our predicted rates income next year is R121 million which clearly is of concern compared to the R130 million mentioned above for employee costs.

To mitigate this problem Council has deliberately budgeted to freeze vacancies for a period of six months until 1 January 2011 unless the post can be filled internally. In addition a deliberate policy has been followed in this budget whereby the so-called corporate departments have had their operating budgets limited to only two percent increases (excluding salaries) as opposed to the delivery departments where the increases are in double digits.

When compiling the draft budget the agreed national salary increase for 2010/11 was calculated at an estimated historical CPI of 7% (for the period 1 February 2009 to 31 January 2010) plus the additional 1.5% per the SALGA negotiations of 2009/2010 equalling the budgeted increase of 8.5% mentioned above. However, in the Annexure to MFMA Circular No. 51, received from National Treasury on 24 March 2010, the historical CPI over this period according to Statistics South Africa is only 6.2% which will result in a negotiated wage increase of 7.7%.

The Municipality has chosen to leave the estimated salary increase at 8,5% for final budget approval. A recalculation of the projected salary budget will take place once a SALGA circular has been issued that confirms the final salary increase and once the full impact of TASK implementation with effect from 1 July 2010 is known. Any projected salary savings will be prioritised for use against frozen posts that have been identified as critical to fill before

1 January 2011 and/or to accelerate current service delivery programmes. These changes to the salary budget will be tabled before Council for approval as part of the Adjustments Budget in February 2011.

In 2002 Knysna municipality employed 562 staff, costing 29% of the operating budget. As at now the municipality employs 635 staff costing 31%. What does this mean? Many people in the course of a year bemoan our staff as lazy or unproductive in comparison with their own staff or memories. In many instances they may be correct, but when one considers that the town has grown over the same period the argument changes. It is often very easy for larger businesses or corporates to hide inefficiency; it is very difficult to do so in a town such as Knysna. What should be looked at is the current staff structure. Municipalities all over the world are notoriously bad at being creative when it comes to human resource issues and management. Our staff structures should be far more flexible to operate on a project basis rather than along the current regimented departmental lines. Outside of the obvious professional skills the emphasis should be on working for the municipality and community and not a single department. Many of the current job descriptions should be scrapped and staff moved to priority projects as and when required.

Section 14 – Monthly targets for revenue, expenditure and cash flow

Disclosure on monthly targets for revenue, expenditure and cash flow is made in Annexure 2 in the following Supporting Tables:

Monthly operating budget revenue and expenditure projections

'Supporting Table SA25: Budgeted monthly revenue and expenditure' reflects consolidated projections of revenue by source and expenditure by type for the budget year broken down per month for the budget year, and shown in total for the following two years.

'Supporting Table SA26: Budgeted monthly revenue and expenditure (municipal vote)' and 'Supporting Table SA27: Budgeted monthly revenue and expenditure (standard classification)' reflects revenue and expenditure broken down per month for the budget year, and shown in total for the following two years.

Monthly capital budget revenue and expenditure projections

'Supporting Table SA28: Budgeted monthly capital expenditure (municipal vote)' and 'Supporting Table SA29 Budgeted monthly capital expenditure (standard classification)' show capital expenditure broken down per month for the budget year, and shown in total for the following two years.

Monthly cash flow projections

'Supporting Table SA30: Budgeted monthly cash flow' sets out receipts by source and payments by type for both operating and capital, broken down per month for the budget year, and shown in total for the following two years.

Budgeted household accounts

'Supporting Table SA14: Household bills' compiles the data for the monthly budgeted account for household income analysis, per small and large household.

Property Rates information

'Supporting Table SA11: Property rates summary' contains the Property Rates summary with all statistic data.

'Supporting Tables SA12 and SA13: Property rates by category (current) and (budget year)' reflect the current and budgeted year's expected data for Property rates by category.

Section 15 - Annual budgets and service delivery and budget implementation plans - internal departments

Adoption of the Service Delivery and Budget Implementation Plan

In terms of section 53(1)(c)(ii) of the MFMA the Service Delivery and Budget Implementation Plan must be approved by the Mayor within 28 days after the final approval of the budget.

Contents of the SDBIP

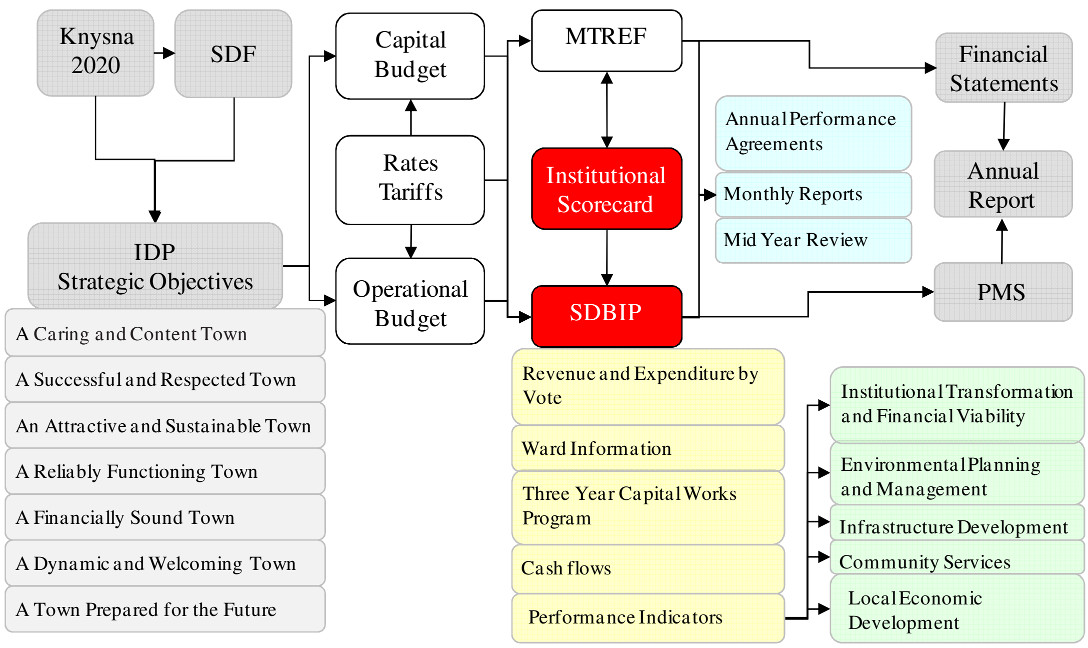
The SDBIP must contain monthly projections of income and expenditure and quarterly projections of measurable performance objectives.

Some annual targets are still to be confirmed. These will be included in the final budget documentation and SDBIP.

SDBIP requirements

The SDBIP is essentially a business plan and is an integral part of the financial planning process. Although its approval is required after the budget, its preparation occurs in tandem with the budget process. The SDBIP is the connection between the strategic plan, IDP, budget and management performance agreements, and includes detailed information on how the budget will be implemented, by means of forecast cash flows and service delivery targets and performance indicators. The schematic below sets out its importance in the municipal reporting cycle.

SDBIP Placement



National and Provincial Government refer to five national KPAs they regard as essential to Local Authorities meeting their responsibilities these are:

1. Institutional Transformation and Financial Viability
2. Environmental Planning and Management
3. Infrastructure Development
4. Community Services
5. Local Economic Development

In addition Local Government Turnaround Strategy (LGTAS) has identified six key thematic problem areas that need to be addressed in varying degrees by municipalities:

1. Service delivery
2. Spatial conditions
3. Governance
4. Financial Management
5. Local Economic Development
6. Labour Relations

Way forward

The existing and proposed performance indicators for 2010/2011 will be reviewed during the last quarter of the 2009/2010 SDBIP cycle and any amendments will be included in the SDBIP for the Mayor's approval.

Institutional Scorecard

The Institutional Scorecard is a synopsis of the planned SDBIP for the medium term 2010/2011 to 2012/2013. The scorecard has been aligned with National KPA and the Municipal KPA (IDP strategic objectives). This will form the basis of the Directors performance agreement scorecards as well as the basis for departmental performance indicators.

Annexure 8

Disclosure on performance indicators, monthly revenue and expenditure, cash flow and three year capital programme are set out in Annexure 8 containing the following Supporting Tables:

Table 1: Performance Indicators
Performance indicators include the linkages to the various strategies (MKPA, NKPA and LGTAS), classifications (Directorates, GFS), wards and risks. Service delivery projections are set per quarter for 2010/2011 and annually for the period 2011/2012 to 2014/2015.

Table 2: Monthly Revenue by Source and Expenditure by Type
Accrued monthly revenue summarised by source (Rates, Services, Interest, etc.) and expenditure by type (Employee Related Costs, Bulk Purchases, Other, etc)

Table 3: Revenue and Expenditure by Vote
Accrued based cash flow by directorate and department for the operational budget (revenue and expenditure) and capital budget (expenditure only).

Table 4: Three Year Capital Works Program
Detailed capital projects including linkages to the IDP, GFS Classifications and Funding Sources. Projected start and ending dates for projects as well as the projected monthly cash flows.

Section 16 – Annual budgets and service delivery agreements – municipal entities and other external mechanisms

Refer to Annexure 2, 'Supporting Table SA32: List of external mechanisms'. Council currently has only one service delivery agreement of this nature in place at the present. This agreement is with Knysna Tourism to provide the tourism function. Details of the allocation are included in Section 12.

The other external mechanism that hopefully will begin to function in 2010/11 is the Knysna Development Agency (KDA). There are a number of concerns regarding the start-up of the KDA including the fact that they have missed certain statutory budget deadlines set out in the MFMA due to the requisite staff not yet being appointed. Hopefully these will be addressed in the forthcoming year.

Section 17 – Contracts having future budgetary implications

'Supporting Table SA33: Contracts having future budgetary implications' in Annexure 2 discloses all contracts which will impose financial obligations on the municipality beyond the three years covered in the annual budget.

Since Knysna falls into the category of municipalities with approved total revenue greater than R250 million, all contracts with an annual cost greater than R1 million have been included in this table.

Section 18 – Capital expenditure details

Capital details are shown in Annexure 2:

- 'Supporting Table SA6: Reconciliation of IDP strategic objectives and budget (capital expenditure)'
- 'Supporting Table SA34a: Capital expenditure on new assets by asset class'
- 'Supporting Table SA34b: Capital expenditure on the renewal of existing assets by asset class'
- 'Supporting Table SA34c: Repairs and maintenance expenditure by asset class'
- 'Supporting Table SA36: Detailed capital budget'

It is noted that the proposed expenditure for 2010/11 is below that of recent years but in the current year the majority of the flood moneys and the drought alleviation projects are included making it a difficult year for comparison purposes. The proposed spend of R68 million is in line with the previous trend from 2006/07.

The majority of the capital budget remains for bulk infrastructure (54,7%), new housing (19%) and local business growth (15,4%). Almost all the local business growth will be in our previously disadvantaged areas. If one adds to this the targeted development of deprived areas the figure rises to R13.6 million or 20% of total spend.

Note regarding repairs and maintenance (R&M) as a percentage of Property, Plant & Equipment (PPE), as reflected in 'Table A9: Asset Management'. This percentage should not be viewed in isolation. As a result of implementing GRAP 17 on PPE correctly, some of what was previously spent as R&M is now reflected in the capital budget as renewal of assets (Supporting Table SA34b). For 2010/11, the renewal and R&M as a percentage of total PPE is 8%.

As part of the funding and reserves policy, R&M as a percentage of PPE will have to be increased to more acceptable levels of between 8% and 12% over a period of five years.

Projects delayed from previous years

A list of capital programmes or projects delayed from previous financial years is shown in Annexure 2, 'Supporting Table SA37: Projects delayed from previous financial year/s'.

Historical actual capital spend versus budget

The following table shows the trend of spending against budget for the capital programme since 2004/05:

R '000	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10 (Estimate)
Capital Budget (adjusted)	56,454	78,651	81,518	104,796	78,417	110,844
Actual Spending	45,074	65,529	73,001	71,746	66,092	98,066
%	80	83	90	68	84	88

Section 19 – Legislation compliance status

The disclosure on legislation compliance must provide a brief summary of the status of the implementation of legislation applicable to municipalities, including progress made or delays experienced in implementation.

Municipal Finance Management Act - No 56 of 2003

The MFMA became effective on 1st July 2004. The Act modernises budget and financial management practices within the overall objective of maximising the capacity of municipalities to deliver services.

The MFMA covers all aspects of municipal finance including budgeting, supply chain management and financial reporting.

The various sections of the Act are phased in according to the designated financial management capacity of municipalities. Knysna has been designated as a medium capacity municipality.

The MFMA is the foundation of the municipal financial management reforms which municipalities are implementing. Knysna was designated as a pilot municipality for the reforms and is engaged in a partnership arrangement with National Treasury.

The MFMA and the budget

The following explains the budgeting process in terms of the requirements in the MFMA. It is based on National Treasury's guide to the MFMA.

<u>The budget preparation process</u>

The Mayor must lead the budget preparation process through a co-ordinated cycle of events that commences at least ten months prior to the start of each financial year.

<u>Overview</u>

The MFMA requires a Council to adopt three-year capital and operating budgets that take into account, and are linked to, the municipality's current and future development priorities and other finance-related policies (such as those relating to free basic service provision).

These budgets must clearly set out revenue by source and expenditure by vote over three years and must be accompanied by performance objectives for revenue and expenditure, a cash flow statement and any particulars on borrowings, investments, municipal entities, service delivery agreements, grant allocations and details of employment costs.

The budget may be funded only from reasonable estimates of revenue and cash-backed surplus funds from the previous year and borrowings (the latter for capital items only).

<u>Budget preparation timetable</u>

The budget preparation timetable is prepared by senior management and tabled by the Mayor for Council adoption by 31 August (ten months before the commencement of the next budget year).

Budget preparation and review of IDP and policy

The Mayor must co-ordinate the budget preparation process and the review of Council's IDP and budget-related policy, with the assistance of the municipal manager.

The Mayor must ensure that the IDP review forms an integral part of the budget process and that any changes to strategic priorities as contained in the IDP document have realistic projections of revenue and expenditure. In developing the budget, the management must take into account national and provincial budgets, the national fiscal and macro-economic policy and other relevant agreements or Acts of Parliament. The Mayor must consult with the relevant district Council and all other local municipalities in that district as well as the relevant provincial treasury and the National Treasury when preparing the budget, and must provide the National Treasury and other government departments with certain information on request.

This process of development should ideally occur between August and November, so that draft consolidated three-year budget proposals, IDP amendments and policies can be made available during December and January. This allows time during January, February and March for preliminary consultation and discussion on the draft budget.

Tabling of the draft budget

The initial draft budget must be tabled by the Mayor before Council for review by 31 March.

Publication of the draft budget

Once tabled at Council, the Municipal Manager must make public the appropriate budget documentation and submit it to National Treasury and the relevant provincial treasury and any other government departments as required. At this time, the local community must be invited to submit representations on what is contained in the budget.

Opportunity to comment on draft budget

When the draft budget is tabled, Council must consider the views of the local community, the National Treasury and the relevant provincial treasury and other municipalities and government departments that may have made submissions on the budget.

Opportunity for revisions to draft budget

After considering all views and submissions, Council must provide an opportunity for the Mayor to respond to the submissions received and if necessary to revise the budget and table amendments for Council's consideration.

Following the tabling of the draft budget at the end of March, the months of April and May should be used to accommodate public and government comment and to make any revisions that may be necessary. This may take the form of public hearings, Council debates, formal or informal delegations to the National Treasury, provincial treasury and other municipalities, or any other consultative forums designed to address stakeholder priorities.

Adoption of the annual budget

The Council must consider the approval of the budget by 1 June and must formally adopt the budget by 30 June. This provides a 30-day window for Council to revise the budget several times before its final approval.

If a Council fails to approve its budget at its first meeting, it must reconsider it, or an amended draft, again within seven days and it must continue to do so until it is finally approved – before1 July.

Once approved, the Municipal Manager must place the budget on the municipality's website within five days.

BUDGET IMPLEMENTATION

Implementation management – the Service Delivery and Budget Implementation Plan (SDBIP)

The Municipal Manager must within fourteen days of the approval of the annual budget (by 14 July at the latest) submit to the Mayor for approval a draft SDBIP and draft annual performance agreements for all pertinent senior staff.

An SDBIP is a detailed plan for implementing the delivery of municipal services contemplated in the annual budget and should indicate monthly revenue and expenditure projections and quarterly service delivery targets and performance indicators.

The Mayor must approve the draft SDBIP within 28 days of the approval of the annual budget (by 28 July at the latest).

This plan must then be monitored by the Mayor and reported on to Council on a regular basis.

Managing the implementation process

The municipal manager is responsible for implementation of the budget and must take steps to ensure that all spending is in accordance with the budget and that revenue and expenditure are properly monitored.

Variation from budget estimates

Generally, Councils may incur expenditure only if it is in terms of the budget, within the limits of the amounts appropriated against each budget vote – and in the case of capital expenditure, only if Council has approved the project.

Expenditure incurred outside of these parameters may be considered to be unauthorised or, in some cases, irregular or fruitless and wasteful. Unauthorised expenditure must be reported and may result in criminal proceedings.

Revision of budget estimates – the adjustments budget

It may be necessary on occasion for a Council to consider a revision of its original budget, owing to material and significant changes in revenue collections, expenditure patterns, or forecasts thereof for the remainder of the financial year.

In such cases a municipality may adopt an adjustments budget, prepared by the municipal manager and submitted to the Mayor for consideration and tabling at Council for adoption.

The adjustments budget must contain certain prescribed information, it may not result in further increases in taxes and tariffs and it must contain appropriate justifications and supporting material when approved by Council.

Requirements of the MFMA relating to the contents of annual budgets and supporting documentation

Section 17 of the MFMA stipulates that an annual budget of a municipality must be a schedule in the prescribed format and sets out what must be included in that format. The various tables detailed in Section 4 and those additionally attached comply with the disclosure requirements.

Other Legislation

In addition to the MFMA, the following legislation also influences Municipality budgeting;

<u>The Division of Revenue Act 2010 and Provincial Budget Announcements</u>

Three year national allocations to local government are published per municipality each year in the Division of Revenue Act. The Act places duties on municipalities in addition to the requirements of the MFMA, specifically with regard to reporting obligations.

Allocations to the Municipality from Provincial Government are announced and published in the Provincial budget.

Section 18 of the MFMA states that annual budgets may only be funded from reasonably anticipated revenues to be collected. The provision in the budget for allocations from National and Provincial Government should reflect the allocations announced in the DORA or in the relevant Provincial Gazette.

<u>The Municipal Systems Act - No 32 of 2000 and Municipal Systems Amendment Act no 44 of 2003</u>

One of the key objectives of the Municipal Systems Act is to ensure financially and economically viable communities. The requirements of the Act link closely to those of the MFMA. In particular, the following requirements need to be taken into consideration in the budgeting process;

- Chapters 4 and 5 relating to community participation and the requirements for the Integrated Development Planning process.
- Chapter 6 relates to performance management which links with the requirements for the budget to contain measurable performance objectives and quarterly performance targets in the Service Delivery and Budget Implementation Plan.
- Chapter 8 relates to the requirement to produce a tariff policy.

Section 20 - Other supporting documents

Various supporting documents are attached to enable the reader a fuller understanding of the various processes involved. These are the following:

Annexure 1 – Main Budget Tables

Tables A1 to A10

Annexure 2 – Supporting Budget Tables

Supporting Tables SA1 to SA37

Annexure 3 – Tariffs, Charges and Fees for 2010/2011

The average increases for 2010/2011 are:

- Assessment rates 6.7%
- Refuse 7.5%
- Sanitation 7.5%
- Water 15%
- Electricity *20% on average (see full tariffs for details)

Annexure 4

Municipal Budget Circular for the 2010/11 MTREF - MFMA Circular 51

Annexure 5

Process Plan for the Review of Knysna Municipality's IDP & Budget 2010/11

Annexure 6 - Policies

- Property rates
- Credit control
- Indigent & rebate
- Tariff
- Virement
- Cash management
- Funding and reserves
- Supply chain management

Annexure 7

Mayor's report on submissions received on the 2010/2011 budget

Annexure 8

Service Delivery and Budget Implementation Plan

Section 21 – Municipal manager's quality certification

An annual budget and supporting documentation must be covered by a quality certificate in the format as per page 68 of the Government Gazette 32141 - 17 April 2009.

QUALITY CERTIFICATE

I, Johnny B. Douglas, 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 JOHNNY BROWN DOUGLAS

Municipal Manager of Knysna Municipality (WC048)

Signature

Date 27/05/10