Greater Knysna Business Chamber

Comments on the Knysna Municipality 2023/2024 Draft Tabled Budget

Executive Summary

Introduction

We object to the Draft tabled budget as the increases proposed are totally unrealistic. The ratepayers in Knysna have been battered recently by Covid, load shedding (with increased costs and less business) and then high inflation applying further pressures. This budget will exacerbate business closures and increase the already high unemployment in our town.

We appeal to the municipality to redraft the budget with increases of revenues and costs more in line with inflation.

Rates

The general valuation resulted in an overall increase in value of 39%. The adjusted rating factor applied to these new values should drive a rates increase closer to 5%.

The 33% increase proposed in the budget will drive existing and new business away from Knysna to the detriment of the community and is rejected.

Electricity

The imposed tariff increase of 18.7% will result in more and more consumers investing in off-grid solutions to the detriment of municipal finances.

Water

The 9% proposed tariff increase is poorly planned, accompanied by ongoing water restrictions. The municipality will be better served fixing the problems and supplying more water, with volume providing the increase in revenue.

Refuse

No plans indicated to move the waste transfer station. No indication given of the future increase in costs likely to arise from the new landfill site.

Financial

Excessive Bad debts are built into the budget almost as an acceptable norm.

Staff and other cost increases are not warranted.

No budget plans to build the unfunded Capital Replacement Reserve.

The draft Budget MUST be redrawn taking note of these comments and further suggestions that follow below.

Financial Overview of Operating Budget

Rates

Extracts from Table 13: General Valuation Roll Comparison Report

Description	Old GV R 000s	Number stands	New GV R 000s	Number stands	DIFF %
Business	3,817,092	1,355	5,022,897	1,205	32%
Business vacant	22,651	99	44,285	48	96%
Industrial	279,097	192	396,764	192	42%
Residential	22,472,641	16,599	31,435,929	16,857	40%
Residential Vacant	1,268,508	1,754	1,759,618	1,998	39%
Analysed	27,859,989	19,999	38,659,493	20,300	
Totals	29,752,601	23,070	41,276,045	23,699	39%
Analysed %	93.64		93.66		
Estimated Billing on new GV			380,209,930		
Net after Council Rebate R150000			343,446,646	Table 2	
Current Adjusted Budget			258,519,581	Table 2	
Increase			84,927,065		
Increase %			32.85		

The proposed Rates increase of 33% is not acceptable. This is to some degree recognized as the 2 years after the Budget reflect increases of less than 5%

One option is to adjust the existing rating factor down to arrive at a rates increase of 5%

A **second option** is to defer the implementation of the latest general valuation for a year and user this time to investigate the acknowledged inconsistencies between the old and the latest valuation.

The Knysna Municipality should benchmark the rate factor from neighbouring communities such as Plettenberg Bay, another tourist destination, to better understand realistic rates.

Realistic rates attract business and residential ratepayers.

The number of business properties on the valuation roll decreased from 1355 to 1205. The number of vacant business properties decreased from 99 to 48.

These are clear signals that Knysna is not a favoured destination for business which employs people and is a significant contributor to Knysna Municipal revenue.

The number of residential properties increased marginally from 16599 to 16857 over the 5 years since the last general valuation

The increase in vacant residential stands was better from 1754 to 1998. But the harsh reality that the rush to the coast has missed Knysna out, with the attendant spin off from construction and purchasing from increased ratepayers.

The Knysna Municipality must recognize that it needs REAL growth from its ratepayer base if it is to better provide for those more needy members of our community.

Knysna is a tourist destination. To this end there are many small formal and informal establishments offering accommodation to these tourists. Their individual cases are very different and the municipality needs to ensure that it does not charge excessive rates that destroy the business, and diminish the accommodation that can be provided to tourists.

Electricity

Data not in Budget pack but provided on request from KM				
	R000's	R000's		
	Adj Budget	Draft Bud	DIFF %	
Revenue				
Electricity	334298	396110	18,5	
Expenses				
Employee	16148	18778	16,3	
Debt Impair	15866	21801	37,4	
% of Revenue	4,7	5,5		
Bulk Purchase	256505	303933	18,5	
Contracts	22476	33817	50,5	
DIFF Internal	-26616	-26616		
Total Opex	340491	410465	20,6	
Surplus	56548	91432		

The Knysna Municipality has its hands tied on the electricity price increase of 18,7% imposed. The Budget is **at risk** as there is no certainty that Eskom will provide the same supply as it did in the prior year. This is a serious issue because of the dependence on the operating surplus from this source

Ratepayers that can afford to install off the grid solutions are doing so in ever increasing numbers. In fact some businesses must do this just to survive. There are no indications that the Knysna Municipality budget takes any account of this lower demand

In the tabled Budget report there is reference to this situation with the comment that a penalty will be introduced where customers do not notify the municipality that they have gone off the grid. This is not the correct attitude and in direct contrast to the National Government motivation of residents and business owners to invest in off-grid solutions. Knysna Municipality should be working URGENTLY with customers to encourage "feed in" to the grid. This should be at attractive rates and a win-win for both the supplier and the municipality. Yes there will be obstacles to overcome but this is a perfect case where the community can work together and increase the supply of electricity for those who cant afford alternate solutions.

Recent press reports indicate that George has begun the process to reduce dependence on Eskom by establishing a solar farm. Why is Knysna not investigating other energy options to introduce soonest?

The Audit report for the 2022 year indicated electricity losses of 9% versus a norm of 7-10%. There is no comment in the Budget on addressing these losses. At the new rate, 18,7% higher in financial terms, this equates to R35m based on 9% of the budgeted revenue. Putting this in financial terms highlights the waste and there need to be measurable plans put in place to reduce these absolute losses.

Employee costs increasing by 16,3% is not acceptable in the current economic climate.

Contracts are budgeted to increase by an unacceptable 50,5%.

Despite the investments in prepaid meters bad debts continue to increase and this is not a realistic Budget assumption.

There is a line described as DIFF Internal that reflects R26616K in both the Adjusted Budget & the Draft Budget. This makes no sense.

Water & Sanitation

Extracts from Table 5

Description	Adj Budget R 000s 2023	Draft Bud R 000s 2024	DIFF %
Revenue			
Water	77,566	84,547	9.00
Sanitation	29,310	30,864	5.30
Revenue	106,876	115,411	
Expenses			
Employee	66,343	73,952	11.47
Debt Impair	9,948	10,946	
% of Revenue	9.31	9.48	
Depreciation	22,955	30,695	33.72
Other materials	29,649	34,987	18.00
Contracts	46,985	58,233	23.94
Total Opex	203,269	239,993	18.07
Surplus/(Deficit)	19,418	- 10,472	

Ratepayers are delighted to note that the Knysna Municipality has embarked on a long-term solution to the water challenges by investigating a storage dam at Kruisvallei. However the Budget makes no comment on the current shortages and unacceptable losses in the system

The rate increase is not acceptable as it implies just a rate increase. What should take place is a combination of a rate increase of 5% together with a volume increase that together should be more than 9%

Back in 2018 the municipality invested over R70m in the **Charlesford** water pipeline. No information is provided in the budget but there must be limitations on pumping with the load shedding. What are the costs of temporary generators to pump more water that can then be sold to ratepayers?

Central government provided grants to assist local government to purchase and run generators to enable water to be pumped to reservoirs. What happened to the funding for this emergency opportunity?

The **Glebe Dam** is full but delivering no water to the distribution system. It is reported that vandals have broken the pumps, etc. Again what is the cost to replace, offset by the additional water that can then be pumped on a regular basis in to the system?

The Audit report for the 2022 year reported significant and ongoing water losses. For 2021 the loss was reported at 44%. This was changed to 27% in 2022 using a different calculation. This is a significant and ongoing loss with no comments on how it will be reduced. To put this into perspective, at 27% of the budget revenues will amount to R23m. As for electricity, there needs to be a measurable plan to reduce ongoing and costly losses.

It appears a realistic exercise to recover more water from existing systems at marginal cost to contribute additional revenues to the municipality.

Both Sedgefield and Knysna have desalination plants. Neither of these plants produce water on a consistent basis. The cost of electricity may make the running of these plants uneconomic. These assets need to be impaired rather than depreciated.

With the funds that have been invested on prepaid meters, it is worrying to see that debt impairment is still accounted for in the budget at 9.48% (R11m)

The costs of materials increasing by 18% and contract by 24% with flat water volumes are not acceptable. Comment is made on the high cost of chemicals. Fix the problem rather than resorting to expensive chemicals

It is not acceptable to budget for a loss of R10m in the provision of water. With increased volumes and improved cost controls we expect this segment to contribute a positive surplus

Refuse

Extracts from Table 6

Description	Adj Budget R 000s	Draft Bud R 000s	DIFF%
Revenue			
Refuse	27,831	29,306	5.30
Expenses			
Employee	24,572	23,091	
Debt Impair	2,783	2,930	
% of Revenue	10	10	
Depreciation	2,283	2,566	
Other Materials	4,418	4,527	
Contracts	8,149	6,807	
Total Opex	47,245	48,253	2.13
Surplus	2,916	2,023	

Budget comments noted that the new landfill site will significantly impact future costs. Ratepayers would like to understand what these costs are likely to be.

It is expensive to transport the waste & it is hoped that council is looking for more effective ways to handle both recyclables and waste

The waste transfer station near the railway line is a total disgrace in relation to its health and other impacts on a key part of the town's commercial activities. What are the plans to relocate to a more practical area and free this land for much needed commercial use?

Operating Expenditure

Extracts from Table 3

Description	Adj Budget R 000s	Draft Bud R 000s	DIFF %
Employees	289,715	328,947	13.54
Councillors	9,749	10,081	
Debt Impair	144,850	159,772	10.30
% of Revenue			
Depreciation	43,687	49,119	12.43
Bulk Purchases	256,505	303,933	18.49
Other Materials	46,841	53,714	14.67
Contracts	189,912	198,737	4.65
Other	67,082	77,744	15.89
Total Expenses	1,078,836	1,215,688	12.69

The increase of 12.69% in total expenses is not realistic.

Ratepayers have been battered by Covid, load shedding and inflation.

The municipality should recognize this reality and produce a budget with overall cost increase of no more than 6%

Fines

Table 2 reflects the Final Draft Revenue from Fines at R99 090 019. The detail of this is not provided, but the amount for traffic fines is needed.

In the detail of the costs under Note 6 it is noted that a provision has been made for bad debts for traffic fines of R89 181 017.

This means that just R10m flows to the municipality, less the costs of administering.

No detail is indicated of the costs of generating the debts but it seems like an exercise in futility.

The focus should move from Revenue to Road Safety and an appropriate budget prepared.

Cash Flow and Financial Ratios

Note 5.3.2 of the Tabled Budget refers to an operating budget surplus of just R1 432 000 after the excessively high costs included in the budget. The consequence of this is that cash flows from operations are reported at just R108 311 in Table 1A.

It is also reported in 6.2.3 that the Capital Replacement Reserve is largely not cash backed. The Audit Report for the year ended June 2022 indicated that the financial sustainability had sharply deteriorated. The same report indicated that Creditor payment period had deteriorated from 71 days to 91 days. The policy states that all creditors are paid within 30 days of receipt of invoice.

It would seem that creditor payments are already being stretched and the consequences of not improving cash flow are extremely serious.

Audit Reports

In 17.4 of the Tabled Budget Report it is stated that the Municipality has a newly appointed Audit Committee, which is fully capacitated and functional. Can it be confirmed that the Audit Committee have reviewed the Budget and any comments raised have been addressed to their satisfaction?

Both the Auditor General and the Internal Auditors refer in their reports to IRREGULAR expenditure. The formal Financial Statements reflect the amounts as R63 844 975 in 2022 following R67 700 043 the prior year. Getting a grip on this would dramatically improve the finances of Knysna Municipality

Summary

The Draft budget is built around the unacceptable assumption that Rates can be increased by 33%. This needs to be revisited as a matter of urgency.

With revenues under threat, clearly the costs built into the budget need to be reduced.

In addition, no account is taken of the significant risk to the Revenues and Surplus of the uncertainty of the supply of power from Eskom. It is essential for our municipality to now start building independence from Eskom.

Greater Knysna Business Chamber
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