Western Cape Government

FOR YOU

2023/24 WESTERN CAPE **LOCAL GOVERNMENT** BUDGET PERFORMANCE REVIEW

Pre-audit Outcomes

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Foreword

I am pleased to present the 2023/24 Municipal Budget Performance Review, providing a clear, consolidated overview of the financial health of municipalities in the Western Cape. This report serves a dual purpose: to enhance transparency and accountability in municipal finances, and to support informed decision-making and public engagement in local government.

Municipalities have faced challenges and opportunities in achieving financial sustainability, efficient service delivery, and responsive governance in recent years. This report analyses trends over the past three financial years, providing insights into the current performance landscape and its underlying drivers. By highlighting key revenue and expenditure patterns, alongside an evaluation of financial health indicators, we aim to shed light on areas of progress as well as issues needing focused intervention.

Through accessible financial insights, this report aims to deepen public understanding of how municipal financial performance impacts communities, building trust and encouraging participation. It also serves as a basis for Provincial Treasury's recommendations for the upcoming 2025/26 municipal planning and budgeting cycle, supporting strategic adjustments and fostering resilience across all municipalities.

I extend my gratitude to municipal leaders, financial officers, and stakeholders for their contributions. Together, we look forward to advancing financial management practices that enhance the quality of life for communities across the Western Cape.

Julinda Gantana
Head of Provincial Treasury

Message from the Minister

As we reflect on the financial health of municipalities in the Western Cape, the 2023/24 Municipal Budget Performance Review underscores the resilience of our local governments amidst multifaceted challenges. This, first-of-its-kind publication, celebrates milestones achieved and highlights areas for improvement. It compels us to look forward towards the priorities that will shape the upcoming financial year. It aims to promote and strengthen fairness, trust, value-for-money, and innovation.

The 2024/25 fiscal year presents an important opportunity to address persistent challenges and promote sustainable growth across municipalities in the Western Cape. At the heart of our efforts lies the imperative to strike a delicate balance between affordability and cost recovery, ensuring that essential services remain accessible to all our people without compromising financial stability. Municipalities must continue to refine their revenue management strategies, address inefficiencies such as water and electricity losses, and invest in innovative technologies like smart metering to enhance operational performance.

Moreover, infrastructure development remains a cornerstone of our vision. Strategic investments in wastewater management, road networks, and renewable energy solutions are critical to driving economic growth and improving service delivery. Equally important is our commitment to maintaining existing infrastructure, with increased focus on repairs and maintenance to safeguard long-term sustainability.

In the face of growing external risks both nationally and internationally, including climate change and economic pressures, municipalities are called upon to strengthen their resilience. This requires not only sound financial planning but also robust partnerships between local, provincial, and national spheres of government. Together, we can unlock opportunities such as alternative funding mechanisms and embrace blended finance models to sustain our growth ambitions.

As we embark on the new financial year, let us remain committed in our pursuit of fiscal responsibility, and sustainable development. The path ahead is one of shared responsibility, innovation, and dedication to improving the quality of life for all residents of the Western Cape.

Deidre Baartman
Minister of Finance

Purpose

This report offers a concise overview of the financial performance of all 30 municipalities within the Western Cape for the 2023/24 financial year from a consolidated perspective. The report focusses on annual performance trend of 2023/24 versus the prior two (2) financial years and considers possible changes in trends in the 2023/24 financial year.

The report, which also serves as a public information piece, aims to simplify municipal financial performance data to promote transparency, accountability, and engagement. By providing an accessible overview of revenues, expenditures, and financial health, the report helps residents understand how the financial performance of municipalities in the Western Cape affects them and fosters trust and informed participation in local governance.

Additionally, the report seeks to clarify developments and patterns in municipal financial performance through data sharing, analysis, and collaboration. It further aims to assess the reasons influencing these trends to support Provincial Treasury's recommendations during the upcoming Mid-year Adjustment Budget and possibly the 2024/25 budget.

Data Sources & Disclaimer

The primary data source for this document is the National Treasury's (NT) Local Government Database. The quality and accuracy of this report relies on the municipal Standard Chart of Accounts (mSCOA) data strings submitted by municipalities.

The report's credibility is compromised when municipalities fail to provide complete and accurate data strings as required. Some irregularities and anomalies in municipal submissions significantly affect the reliability of the pre-audited financial figures.

It's crucial to acknowledge these data discrepancies and work towards improving the accuracy and consistency of financial reporting for a more reliable and transparent financial performance analysis.

At the time of preparing the report, all municipalities submitted its pre-audited strings, however the capital performance of Oudtshoorn and Overstrand municipalities could not be populated due to an error in the mSCOA data strings. These municipalities are addressing the matter internally. Furthermore, the pre-audited data provides a good overview of some trends in municipalities, however the final audited reports will be available from the end of November 2024.

In an effort to assist municipalities to submit credible mSCOA data strings, Provincial Treasury (PT) instituted a mSCOA segments use analysis tool, which is shared with municipalities on a monthly basis. Provincial Treasury also has technical engagements with municipalities to discuss mSCOA findings. Municipalities are required to develop an action plan indicating specific timelines to resolve issues identified, enabling PT to keep track of the progress made by municipalities monthly.

Despite the challenges, Western Cape municipalities are committed to improving the quality of information with support from the National and Provincial Treasuries.

National Treasury further provided added capacity to PT in the form of an mSCOA advisor, and regular master classes are held to standardise the implementation of mSCOA. National Treasury also recently conducted system demonstrations that highlighted system integration gaps and underutilisation of ERP modules within core systems. These demonstrations further emphasised the need for continued enhancements in system capabilities. After these demonstrations, feedback sessions with system vendors were held to discuss the findings, with follow-up sessions planned to ensure the necessary improvements are made.

The data presented in this document provides a summary of the preliminary budget implementation performance (2023/24) against key indicators for all municipalities in the province. This data in this report was extracted as of 9 October 2024 and is based on the audited outcomes (pre-audit for 2023/24); and more detailed information is accessible through the National Treasury's GoMuni portal or at mfma.treasury.gov.za.

It is important to note municipalities report on accrual accounting reporting and not cash based accounting. Revenue and Expenditure are recorded when a transaction occurs and not when actual cash is received or when payment is made.

A list of municipal demarcation/reference codes is attached to this report as **Annexure 1.**

Key Observations

The 2023/24 aggregated pre-audited performance figures underscores the resilience of the Western Cape municipalities to fiscal, economic and socio-economic risks and influences with **above the norm performance (budget implementation exceeding 95%) against most revenue and expenditure targets. At an aggregate level 100.8% of the budgeted revenue were generated.**

In 2022/23, the combined impact of loadshedding and a struggling economy hindered many municipalities from generating revenue in line with their budgeted target norm of 95%. However, in the most recent financial year, **25 municipalities achieved 95% or more of their revenue targets**, resulting in a real revenue growth of 7.5% year-on-year. This is a marked improvement from the negative real growth of -1.3% in the prior year.

This growth can be attributed to most municipalities effectively implementing the full revenue value chain, however achieving a balance between affordability and cost reflectiveness and effectively implementing debt collection strategies in the current economic environment remains a concern.

Operating expenditure achieved a real growth rate of 5.8% and an operating budget implementation performance of 95.6%.

Despite NT's projection of a 5.3% increase in Consumer Prince Inflation (CPI) for the 2023/24 financial year, **service charge tariffs for municipalities averaged above 6%.**

Municipalities on aggregate do not recover the full cost of services from tariffs. Above inflation increases are needed to reduce the need to cross-subsidise from electricity and property rates to sustain services such as water, wastewater, and refuse removal. This trend is expected to continue over the 2024/25 Medium-Term Revenue and Expenditure Framework (MTREF) and beyond as municipalities strive towards full cost recovery.

Striking a balance between affordability and cost reflectiveness remains a challenge for municipalities. Although it is vital to recover the costs associated with providing services, municipalities must also consider the financial constraints of residents to preserve service delivery standards. This delicate balance is necessary to keep municipal services both accessible and sustainable while ensuring the financial stability of municipalities.

This is evident in the **growth in the outstanding debtors of 9.5% in 2023/24 (year-on-year comparison) with 14 of the 25 municipalities seeing a reduced collection rate when compared to the prior year.** Some municipalities however still reported higher cash surpluses at year-end, with short-term cash increasing by 2.8%, to R20.97 billion, when compared to the prior year.

Key Observations

Water and electricity losses remain a key concern. Municipalities should address inefficiencies by adequately investing in the maintenance, refurbishment and upgrading of existing infrastructure while making adequate provision for new assets (including smart meters via RT29).

Improved spending patterns against operating budgets are noted when compared to previous years, suggesting a concerted effort to respond to service delivery requirements. However, 47% of the municipalities spent less than the norm of 95%.

Employee related costs remains the largest cost driver followed by bulk purchases (electricity) and contractors. **Municipalities are largely managing employee-related costs within the norm of 25-40%** of their operating budgets, with an aggregate performance of 29.8%.

The rise in contracted services could reflect a strategic trade-off to address capacity gaps through external expertise often at a more cost-effective rate. This expense should however be closely monitored to prevent over reliance.

Bulk purchase costs grew slightly above tariff increases, indicating slow growth in electricity consumption by municipalities. This trend has been impacted by loadshedding and increased own electricity generation.

Over the past four financial years (July 2020 to June 2024), Western Cape municipalities have spent R37.33 billion on capital expenditure, reflecting an average annual growth rate of 23.6%. The majority of this expenditure was funded from own revenue, stemming from operational surpluses accumulated over recent years.

Actual capital expenditure for 2023/24 was at 80% of the planned (adjustment budget) amount and 88.1% of the original budget was spent. The underspending has a notable impact on economic growth and employment. Moreover, **spending on repairs and maintenance dropped by 5.8% to R3.42 billion in 2023/24**. While new capital expenditure often reduces the need for immediate repairs and maintenance, municipalities must remain cautious of the impact aging infrastructure can have on service delivery.

Wastewater management continues to be the highest capital budget priority for 2023/24. This trend will persist in the 2024/25 MTREF. Significant investments in road infrastructure are also planned.

Over the past four (4) years, internally generated funds have accounted for 48.9% of total capital expenditure, followed by capital transfers (31.2%) and borrowings (19.9%).

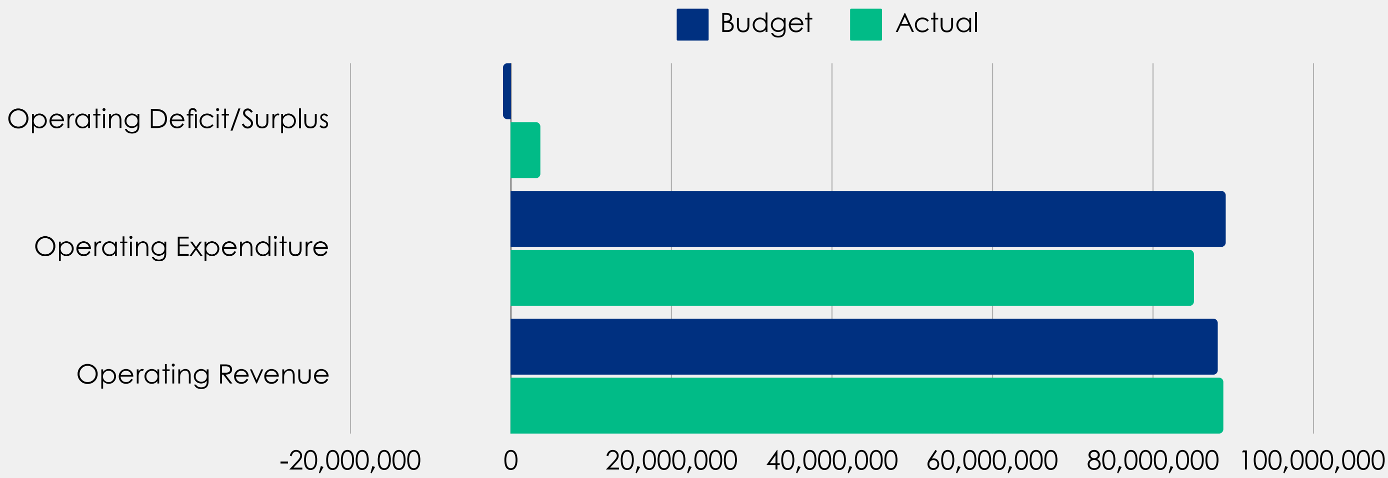
Municipalities have shown caution in taking on additional debt, preferring to rely on accumulated cash reserves due to high borrowing costs and the higher tariff increases needed to service the debt burden.

Budget
Performance Overview

Western Cape municipalities generated 100.8%, or R88.76 billion, in operating revenue against the R88.06 billion operating adjustment budget. This is a 12.8% (R10.07 billion) increase in the actual operating revenue compared to 2022/23.

Operating expenditure has followed a similar trend, increasing by 11.1% or R8.49 billion. The actual performance of R85.09 billion is however significantly lower than the planned R89.06 billion. This resulted in an operating budget surplus of R3.66 billion as at the end of June 2024, increasing from R2.09 billion in the prior year (2022/23).

However, the current 2024/25 budget year deviates from this trend, with projected increases in operating expenditure (11.1%) outpacing the projected revenue growth (5.9%). Collectively, municipalities are expecting to face an operating deficit of R569.11 million in the 2024/25 financial year. Notable strides are evident in the planned operating surplus for the 2026/27 financial year.



In 2023/24, nineteen (19) municipalities adopted operating deficit budgets. This number did not change during the adjustment budget, although some municipalities demonstrated improvement while others experienced regression.

Operating deficit budgets can erode municipal cash reserves, posing a risk to the medium- to long-term financial sustainability of municipalities.

Despite notable improvements in actual performance, it is concerning that fifteen (15) municipalities are planning for operating deficits in the 2024/25 budget cycle. This trend underscores the importance of strategic financial management to ensure sustainable municipal operations.

Four (4) municipalities with significant debt to Eskom - Matzikama, Cederberg, Kannaland, and Beaufort West—are participating in the Municipal Debt Relief Program, valued at R278 million. This program is designed to help these municipalities address their major creditor obligations without further depleting their cash reserves. Active participation in the debt relief program is supported by strict adherence to program criteria, which most municipalities are following.

Budget Funding Status

Historically, Western Cape municipalities have demonstrated strong performance, characterised by clean audit reports, funded budgets, and high-quality service delivery. However, the financial positions of many municipalities deteriorated during the COVID-19 period and was further exacerbated by load shedding and incorrect financial decisions often driven by political interference.

In 2023/24, twenty-five (25) municipalities adopted funded budgets, decreasing to twenty-three (23) in the adjustments budget. This number improved in 2024/25, with twenty-four (24) municipalities adopting funded budgets. This increase can in part be attributed to improved governance arrangements. A municipal budget must be funded in terms of Section 18 of the MFMA before a municipal Council can adopt it for implementation.

This indicates that the majority of **the Western Cape municipalities are managing their short-term financial affairs effectively**. However, potential challenges to long-term sustainability remain. Municipalities must continuously review and update their long-term financial sustainability plans to stay on track and secure their financial health.

25

Number of WC municipalities that adopted funded budgets in 2023/24

MFMA Section 18(2) states that revenue projections in the budget must be realistic, taking into account projected revenue for the current year based on collection levels; and actual revenue collected in previous financial years.

Municipal Budget and Reporting Regulations (MBRR) further states that the funding of an annual budget must be consistent with the trends, current and past, of actual funding collected or received.

An unfunded budget is not a credible budget – either the revenue projections are unrealistic, the operating expenditures are too high, or the capital budget is too ambitious. In most instances, there are problems in all three areas. This impact municipalities ability to effectively and efficiently perform in respect of its mandated functions.

If a municipality fails to adopt a funded budget, a credible Budget Funding Plan (BFP) must be developed. This plan must be tabled and adopted by Council and be submitted to National and Provincial Treasury with its tabled and adopted budget in terms of section 24 (3) of the MFMA.

Budget Funding Plans have been adopted by all municipalities in the WC with unfunded budgets. The main goal of the BFP is to identify priority areas and outline projects to ensure financial sustainability.

An historic overview of funded budget positions are attached to this report as **Annexure 2.**

Budget Funding Plans
Core components

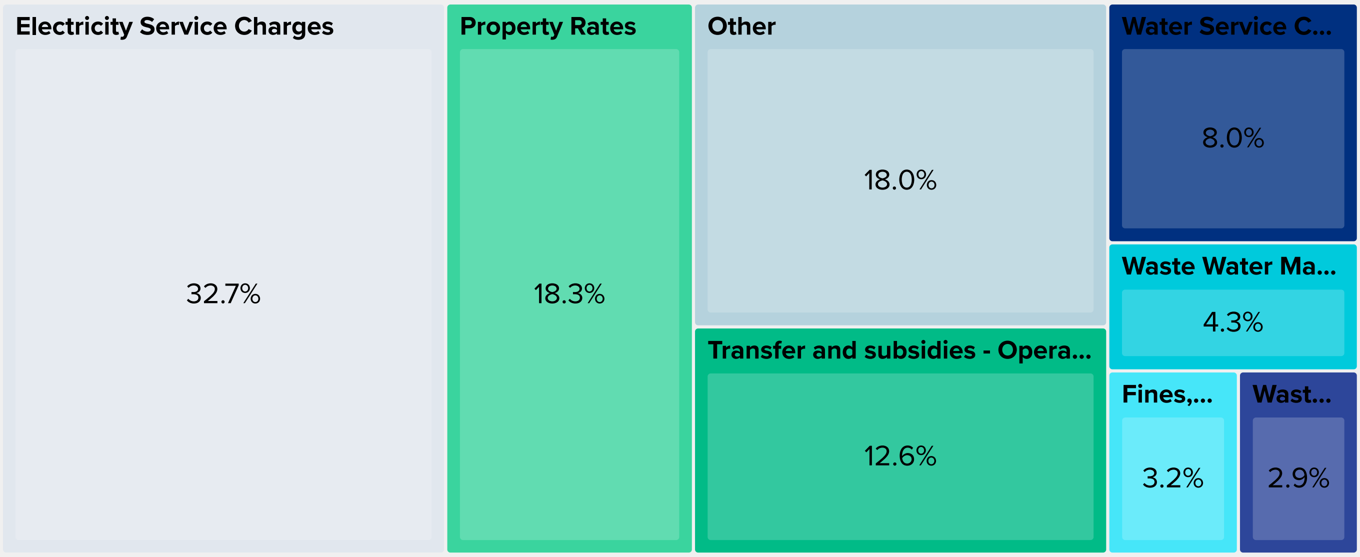
- **Positive cash flows with a focus on revenue from trading services**
- **Implementation of cost containment measures & associated reduction of expenditures**
- **Realistic debtors' collection rates with incremental improvements year-on-year**
- **Creditors payment rates that ensure that all fixed obligations, including obligations for bulk purchases, are met**
- **Ring fencing of conditional grant allocations, ensuring that such are backed by sufficient cash flow provision**

Operating Revenue

Total aggregated municipal revenue for the 2023/24 financial year amounted to R88.76 billion, representing 100.8% of the total adjusted budget of R88.06 billion.

This over-collection contributed to the positive shift observed in the reduction of municipalities with operating deficits, coming down from 11 in 2022/23 to 8 in 2023/24. Two (2) municipalities however increased the size of their overal deficit budgets while three have shifted from an operating surplus to an operating deficit.

While some municipalities have sufficient cash reserves to absorb these deficits, smaller municipalities with limited reserves may experience reductions in cash and cash equivalents. It's crucial for municipalities to avoid implementing short-term, politically motivated plans that could compromise long-term sustainability.



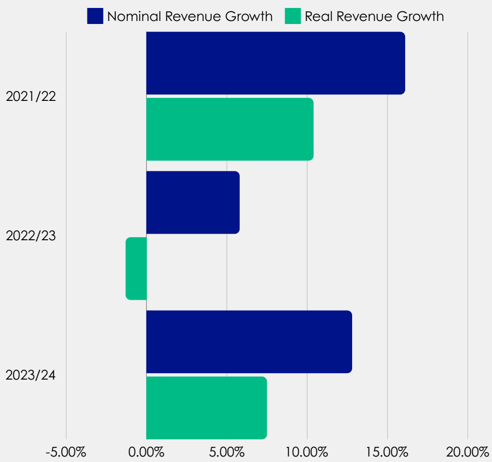
As indicated in above graph, the largest source of operating revenue for municipalities is service charges related to electricity, followed by property rates.

Twenty-five (25) municipalities generated more than 95% of their budgeted revenue, an improvement from the twenty (20) municipalities in the previous financial year.

Although this marks progress, underperformance in some municipalities may lead to lower-than-planned cash flows.

The annual average revenue increase over the past three years (2021/22 to 2023/24) was 11.5%, showing significant recovery from the 3.2% growth in 2020/21, which was heavily influenced by COVID-19 regulations.

The increased revenue growth as seen in the graph is largely driven by annual tariff increases, particularly for electricity, and municipalities' improved ability to enforce revenue management value chain from setting tariffs, delivering services, to billing and collecting revenue.



Property Rates

Property Rates contributed 18.3%, or R16.2 billion, to the 2023/24 total actual operating revenue which amounts to 100.9% of the aggregated property rates adjustment budget.

In 2023/24, the majority of municipalities (15 of the 25 municipalities that levy property rates) adopted property rates tariffs of 6% and below (in line with the CPI target range of 3 - 6%, a trend that has continued from prior years). This trend is expected to continue, with 16 municipalities adopting rates at 6% or below in 2024/25. This reflects an active commitment by municipalities to provide consumer relief through property rates.

One (1) municipality recoded a decrease in property rates revenue from 2022/23 to 2023/24, possibly as a result of billing challenges.

Local Government: Municipal Property Rates Act (No.6 of 2004) General Guidelines (March 2020)

"Municipal property rates are a cent amount in the Rand rate levied on the market value of property. The Constitution of the Republic of South Africa gives municipalities the power to value and rate property in their area of jurisdiction. All owners of rateable property are liable for the payment of rates.

Municipal Property rates are calculated by multiplying the market value of property by a cent amount in the Rand rate that a municipal council has determined. For example: If the market value of property is R 50 000, and the cent amount in the Rand rate is R0.015 (which is 1.5 Cent), the amount due for property rates is R50 000 x 0.015 = R750 for the whole year, which means that every month the property owner will pay R62.50 (this is calculated by dividing R750 by 12 as the year has 12 months) to the municipality."

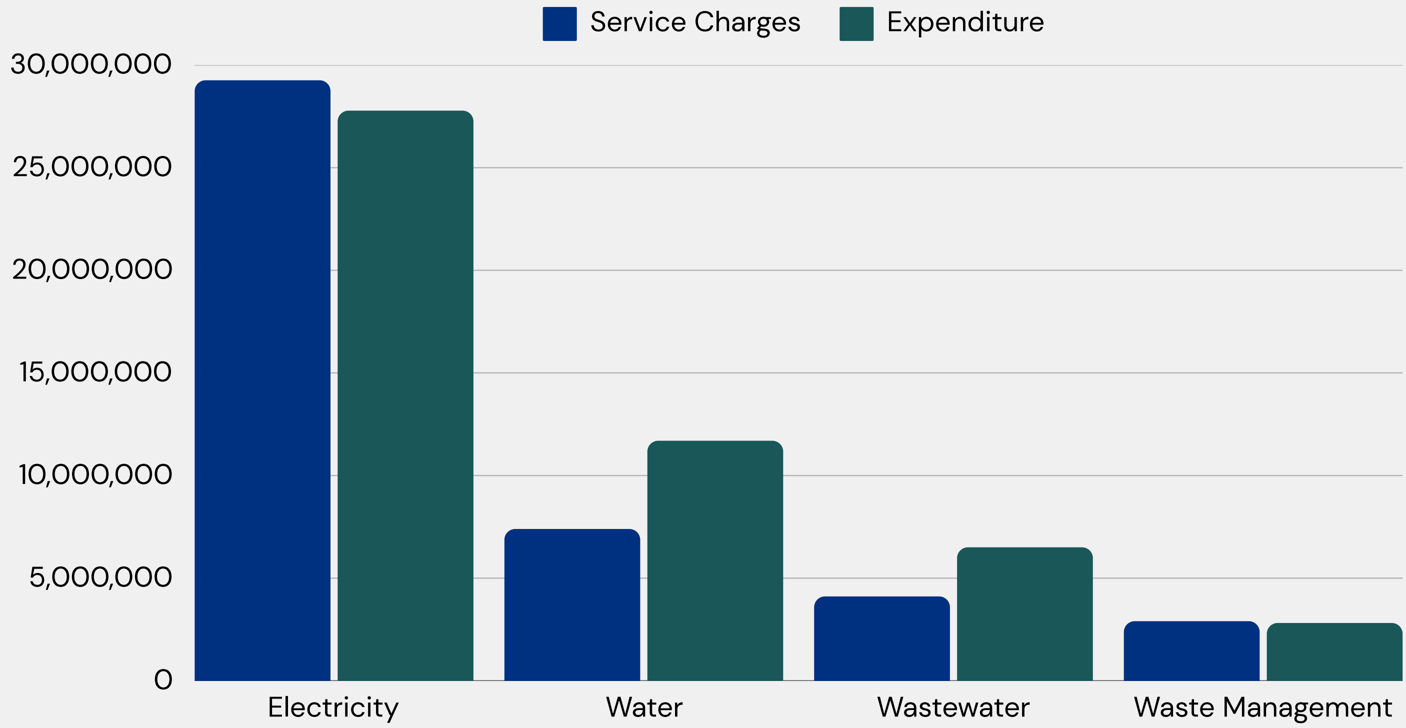
A total of nine (9) municipalities implemented new general valuation rolls in 2023/24 which for most of these municipalities lead to significantly higher valuations of properties given property market growth in the Western Cape post-COVID. However, the rate in the rand was significantly reduced for most municipalities (in line with the Local Government: Municipal Property Rates Act General Guidelines of March 2020) to alleviate consumer pressure. This resulted in property rates revenue only growing by 5.5%, real growth of 0.2% in 2023/24. In the prior year (2022/23 financial year) an 8.3% increase in property rates revenue was recorded indicating reduced growth in the most recent financial year (2023/24).

For the 2024/25 financial year 5 municipalities adopted new valuation rolls contributing to the increase in the projected revenue by 6.6% (higher than the prior year).

Municipalities must assess how they can better leverage municipal valuations as an increased source of revenue.

Service Charges **Sustainability**

The sustainability of municipal services refers to the ability of a municipality to generate enough revenue from services to ensure current costs are recovered, and to ensure that sufficient funding is available to ensure the provision of the service over the long term. Unlike businesses, municipalities don't typically aim for profit but rather focus on cost recovery to ensure sustainability, affordability, and quality of public services.



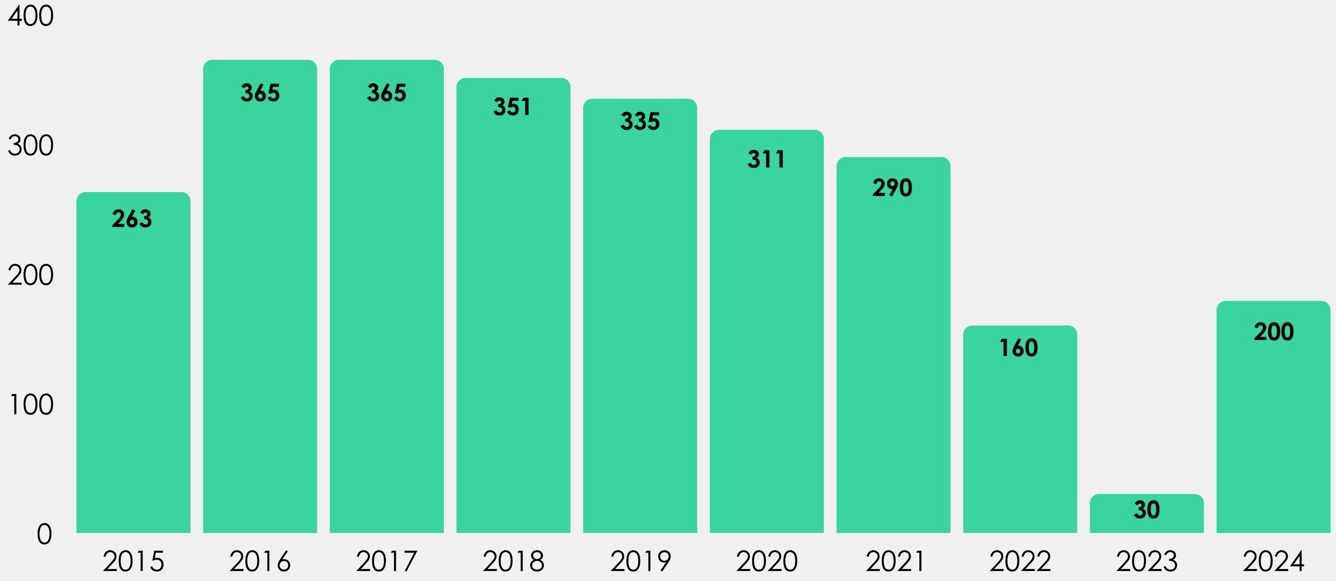
The operating revenue generated from service charges amongst Western Cape municipalities is not sufficient to fully fund the costs of services rendered in a sustainable manner.

Specifically, the water and sanitation functions continue to operate at a deficit under the Government Function and Sub-Functions (GFS) classification, indicating cross-subsidisation from electricity and property rates to sustain water and sanitation services. Municipalities have heavily invested in infrastructure and identified efficiency gains, aiming for a positive shift in the 2024/25 financial year. The sustainability of municipalities hinges on their ability to balance infrastructure investments, which have the potential to generate revenue and stimulate economic growth, with the need to maintain basic service delivery. This careful balance is essential to support both long-term development goals and immediate community needs.

Most municipalities use tariff tools to assist with tariff setting allowing effective costing methodologies. While the GFS provides an overview of direct revenue and expenditures, municipalities follow different methodologies based on sophisticated costing models. Furthermore, the National Treasury (NT) tariff tool is a powerful instrument to assist municipalities in verifying cost recovery per service.

Electricity

The uninterrupted period in 2024 marks the longest continuous run without scheduled loadshedding since 2020. Last year set a record for loadshedding, with power outages occurring on 335 days. As at 13 October 2024, there has been 200 consecutive loadshedding free days in South Africa.



Number of days without loadshedding in South Africa, 2015 - 2024

It is clear looking at aggregated municipal revenue performance that the increase in load-shedding-free days had positive impact on electricity revenue, enabling municipalities to strengthen their financial base and improve service delivery.

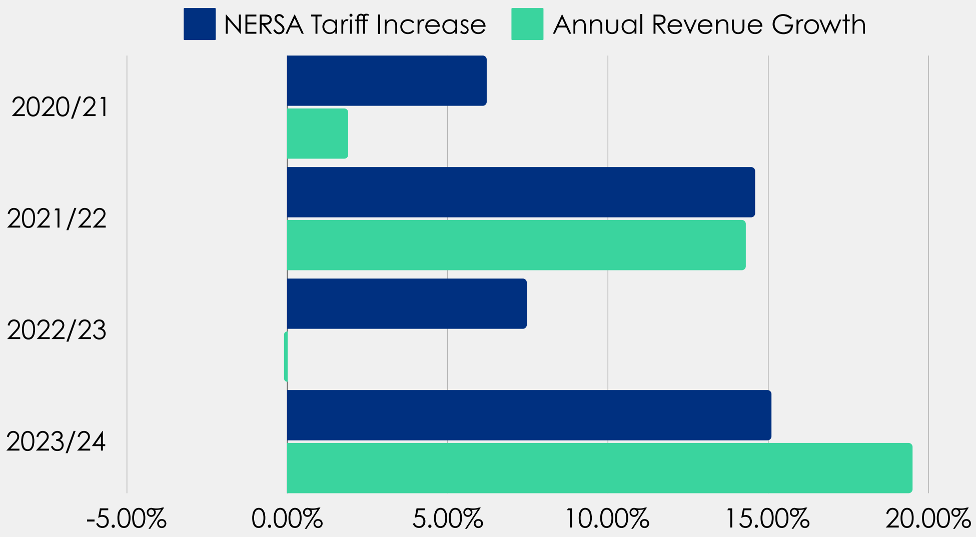
Electricity revenue in 2023/24 overperformed, with R29.02 billion generated against an adjustment budget of R28.81 billion (100.7%). This is a marked improvement from the previous year's 95% performance, which saw a R1.23 billion shortfall.

With reliable electricity, household consumption remains steady as residents can use more energy-reliant appliances without disruption, contributing to higher utility revenues. Reliable electricity also allows businesses to operate consistently, boosting local economic activity, which expands the municipal tax base through higher property values and increased business rates. More businesses operating at full capacity also results in higher utility consumption, generating stable and predictable electricity revenue for municipalities, which can be invested back into essential services and infrastructure. With reduced wear-and-tear on infrastructure due to consistent power, municipalities also save on maintenance costs, freeing up funds that can be reallocated to other community needs.

Additionally, a dependable power supply can reduce the need for emergency expenditures tied to power disruptions, allowing for better long-term financial planning. This stability not only makes municipalities more attractive to investors, but also helps them build stronger revenue streams, providing a sustainable foundation for future growth and service improvements.

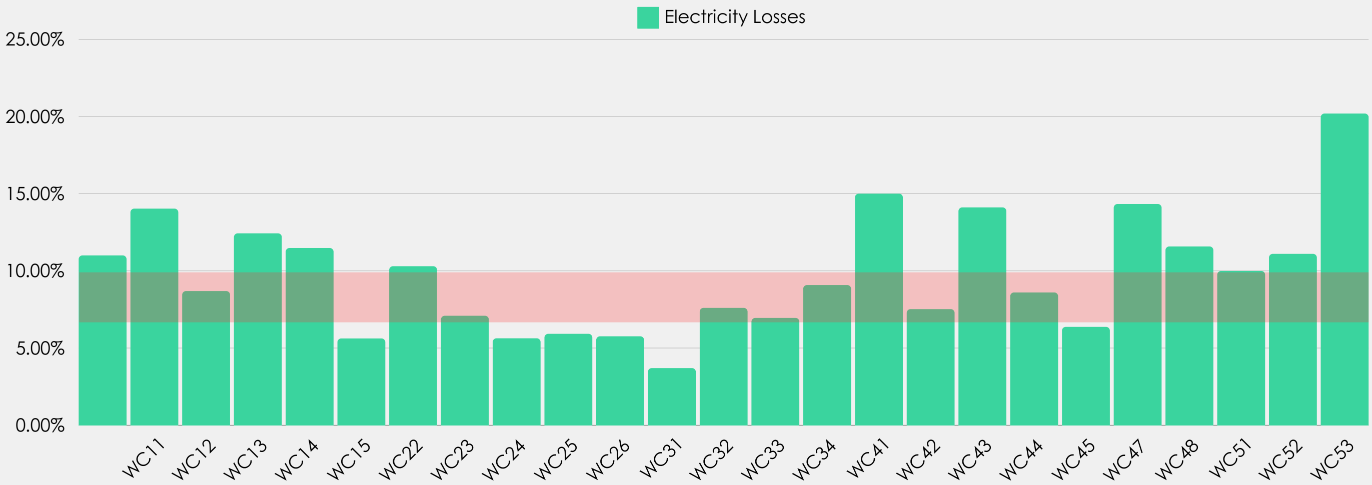
Electricity

A strong electricity revenue performance recovery was observed in 2021/22, following a modest 1.9% revenue increase in 2020/21. Growth however remained below the average tariff increases. In 2022/23, extended loadshedding had a substantial impact on electricity sales, resulting in a slight decline of -0.1%. In 2023/24, there were notable improvements, with actual revenue growth exceeding tariff increases, primary due to the reduced loadshedding days in the latter half of 2023/24.



The aggregated revenue generated from Service Charges: Electricity of 19.5%, exceeds the tariff increase for 2023/24. This shows recovery in this service compared to the prior years.

A total of 11 out of 25 municipalities recorded above the norm electricity losses (the norm allows for 7 to 10% of the electricity sales). These losses are incurred resulting from technical losses including, nature of electricity and the manner of its distribution (distribution systems- transformers, cables and overhead lines), age of networks, weather and load on systems, as well as non-technical losses including theft, tampered meters, faulty meters, unmetered electricity.

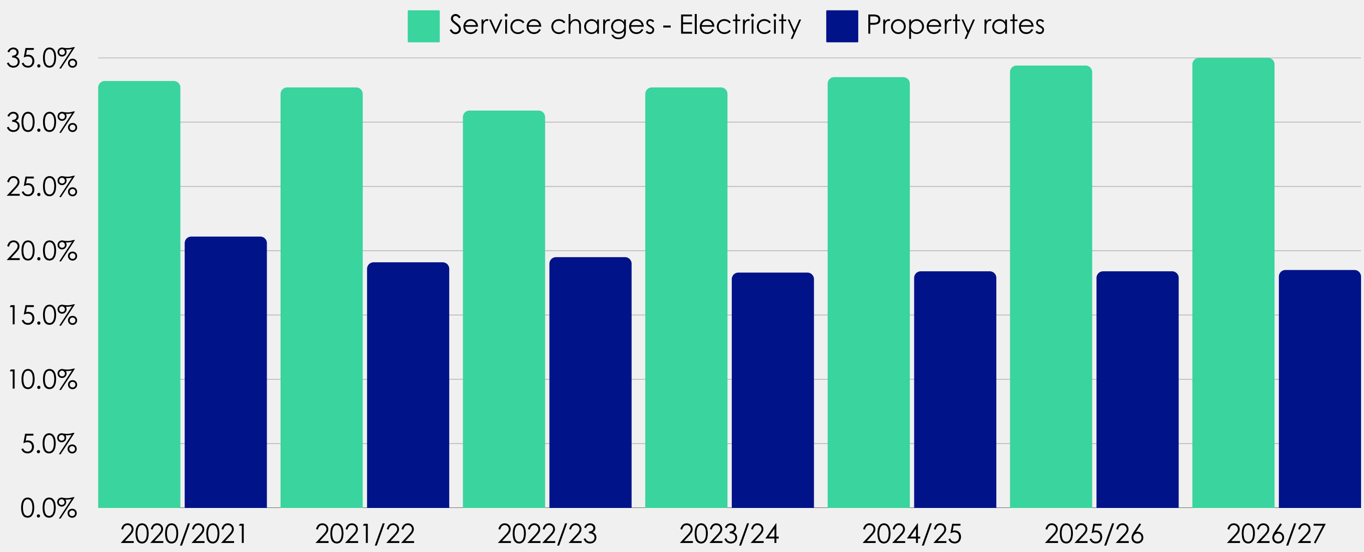


High electricity losses reduce revenue for municipalities and increase operational costs, impacting their ability to fund essential services and maintain infrastructure effectively.

Electricity

The electricity tariff increase of 15.1% (implemented by most municipalities aligned to NERSA) resulted in the electricity revenue contribution to total operating revenue to increase to 32.7% (up from 30.9% the prior year), while the property rates contribution dropped to 18.3% (from 19.5% the previous year).

Below graph illustrates how electricity revenue notably outweighs property rates as a contributing source of municipal revenue amongst WC municipalities mostly due to the net increase in electricity prices annually as a result of exorbitant bulk purchase costs from Eskom. To increase sustainability, municipalities should endeavor to protect property rates as a percentage of total revenue, reducing reliance on electricity revenue, which can fluctuate due to changes in energy consumption and load-shedding impacts. This can be achieved by regularly updating property valuations to reflect market rates and adjusting rate structures to ensure that property taxes align with the growth of the local economy.



The increasing contribution from electricity revenue over the MTREF presents a risk, particularly for the eight (8) municipalities that depend on electricity for between 35 to 57% of their total revenue. Future increases in bulk electricity purchases by NERSA could exacerbate this risk.

Despite the tariff increases, it remains concerning that 14 of 25 municipalities generated lower-than-expected (less than the tariff increase) revenue while four (4) municipalities generated less than the 95% norm. While electricity revenue underperformance can be linked to loadshedding (reduced consumption), household affordability should not be discarded as a contributing factor particularly in rural areas. Rising electricity costs put significant strain on households, particularly low-income ones, leading to decreased consumption as families prioritise other essential expenses.

The need for municipalities to modernise metering infrastructure could also be a factor as outdated or faulty meters contribute to inaccurate billing and uncollected revenue. Municipalities are encouraged to conduct thorough audits to identify these and other factors impacting revenue, to consider implementing flexible payment plans to ease the burden on low-income households, to ultimately stabilise financial performance.

Certain municipalities have recovered due to improved electricity supply stability from Eskom, with no loadshedding since January 2024, and modest economic growth in the Western Cape.

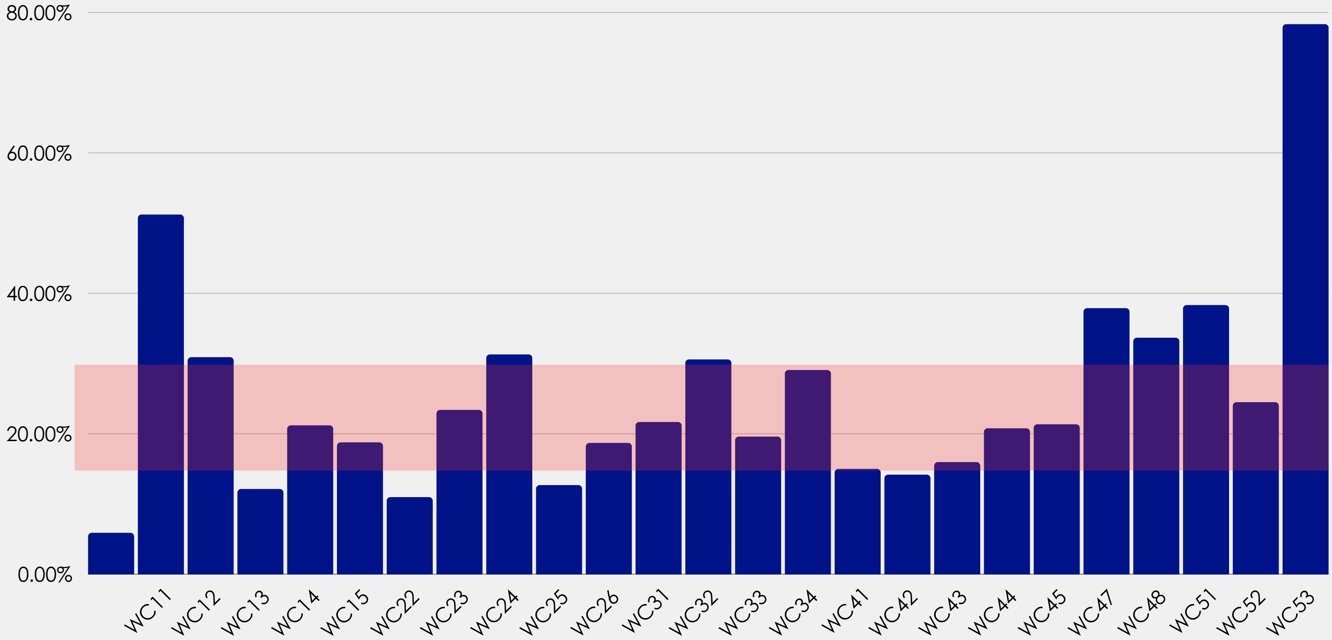
Water

The water function in municipalities face numerous sustainability challenges, including aging infrastructure, the rapid urbanisation, severe weather impacts, and climate variability (e.g., El Niño) are straining the existing systems.

Despite these obstacles, **municipalities reported substantial revenue increases in water services, reaching R7.14 billion in 2023/24, growth of 17.8% year-on-year**. This is a significant increase when compared to the 8.5% in the prior year. This trend is however not extended to 2024/25 with a projected increase of only 2.9%.

Many municipalities (17 of 25 local municipalities) implementted tariff hikes above the CPI target range of 3-6%. These increases may be warranted as municipalities endeavour to overcome above mentioned challenges in their efforts to ensure cost reflective service charges to maintain service delivery standards.

The challenges faced by the water function also contributed to water losses over the past financial year which remains problematic in many municipalities.



Eight (8) municipalities recorded water losses over the 30% norm while an additional seven (7) municipalities recorded losses between 20% and 30%. Aging infrastructure, pipe bursts, metering inefficiencies, leakages, flood events and excessive rain, damage to bulk water mains, tampered meters and illegal connections are some of the reasons cited by municipalities for the water losses.

Investment in infrastructure renewal and upgrades is critical to maintaining sustainable water supplies. Municipalities are urged to preserve water sources for future demand, but significant investment is required to achieve this.

Waste Water

For the 2023/24 financial year, R3.78 billion was generated amounting to 104.8% against the adjustment budget total of R3.60 billion.

Sanitation services have seen a steady 14.7% annual average increase from 2020/21 to 2023/24, mainly driven by higher-than-CPI (target range of 3-6%) tariff hikes in most Western Cape municipalities.

It is worth noting that seven (7) municipalities experienced a decline in revenue in 2023/24 when compared to the previous financial year (2022/23). Furthermore, three (3) municipalities underperformed by collecting revenue below 95%.

The 2024/25 projected revenue growth is projected to be 4.4%. The average annual growth projection in revenue over the 2024/25 MTREF period show a higher increase of approximately 8%.

This increase in revenue should be ringfenced to this service to maintain service standards and meet environmental health requirements. In addition, the waste-water management service remains a high net consumer of electricity.

Solid Waste

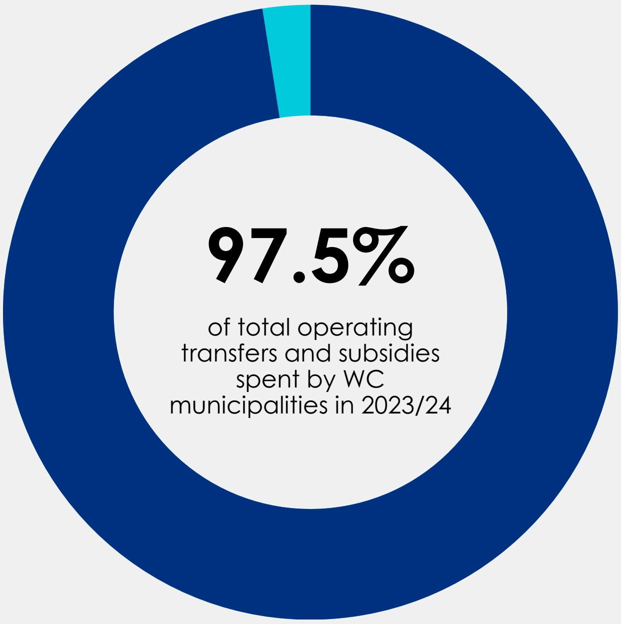
The revenue generated from refuse removal for 2023/24 amounted to R2.561 billion or 98.5% of the budgeted revenue of R2.59 billion.

Between 2020/21 and 2023/24, revenue from refuse removal services experienced an average annual growth of 6.4%. Despite this steady increase, three (3) municipalities under-recovered on their budgeted revenue for solid waste management. This shortfall could suggest potential issues in cost recovery, billing efficiency, or affordability challenges within these municipalities, impacting their ability to fully fund waste management services. In 2024/25, the projected increase in revenue is 10.5% while the increase over the MTREF is anticipated to average at 7.5%.

Some of the most prominent challenges municipalities are experiencing with the provision of this service include, inadequate asset management (including inadequate asset replacement and the rehabilitation of existing facilities), varying levels of compliance with waste management facility license conditions, the affordability and viability of transporting waste to regional sites, inadequate waste diversion from landfill sites, and demanding technological requirements from the National Environmental Management: Waste Act.

The labour intensive nature of the solid waste function means that municipalities have in the past struggled to fully recover its costs. A shift has however been noted in revenue exceeding expenditure since 2022/23 as municipalities are exploring integrated waste management options to manage the challenges listed above. New waste facilities are further noted and a shift towards regional waste facilities is underway in most districts.

Operating
Transfers & Subsidies



Continuous improvement is noted in ability of WC municipalities to spend operating transfers and subsidies

In 2023/24, municipalities utilised 97.5%, or R11.22 billion, of their total operating transfers and subsidies budget of R11.51 billion, which includes the Local Government Equitable Share (LGES). This marks an improvement from the 96.2% recorded in the previous financial year. Contributing to this progress were eighteen (18) municipalities that implemented over 95% of their adjusted budgets. However, there remains a risk associated with unspent grant funding, as not all unspent funds may be eligible for rollover, potentially impacting the municipalities' ability to retain these funds.

Annual average spending growth of 5.4% were achieved over the past audited financial years (from 2020/21). However, the **growth in budgeted operating grants is projected to decline to 4.8% over the Medium-Term Revenue and Expenditure Framework (MTREF)**, which may pose risks for municipalities that are heavily reliant on these grants.

National Treasury has embarked on a grant review process whereby changes to the vertical devision of revenue and risks of new and more redistributive formulas are being considered which could impact future allocations

Considerations Operation Revenue

Improve Revenue Generation and Collection

Effective management of operating revenue is essential for maintaining and enhancing municipal services, supporting sustainable growth, and ensuring financial stability. Under performances against revenue indicators in the 2023/24 financial year should be investigated.

Innovative collection systems and processes should be explored further to enhance cash flows.

Municipalities should investigate the reasons for water and electricity losses and consider the need for smart meters in unmetered areas/areas where meters are tampered with.

Consistently increasing revenue taking into consideration cost of service and population growth is essential to meet expanding service demands.

Consumer Affordability and Cost reflectiveness

Municipalities are advised to monitor consumption patterns and develop strategies to ensure a balance between cost recovery and affordability for consumers, as the high tariff hikes impact affordability.

Consideration should be given to differentiated tariff setting methodologies including step tariffs, time of use tariffs and fixed versus variable tariffs.

Reduce Reliance on Electricity Revenue

Municipalities should diversify their revenue streams and reduce reliance on electricity revenue, especially in light of potential future increases in bulk electricity prices, consumers moving off the grid and consumer consumption patterns. Structural shifts in revenue generation should be carefully considered.

Sustained Investment

The urgent need for larger, sustained investments in water and sanitation infrastructure, alongside improved asset management and financial strategies to balance revenue needs with public affordability should be considered.

Strengthen Infrastructure and Asset Management

Focus on improving asset management for water and sanitation infrastructure to prevent service disruptions and high losses. Investment in infrastructure rehabilitation and replacement is critical for long-term sustainability.

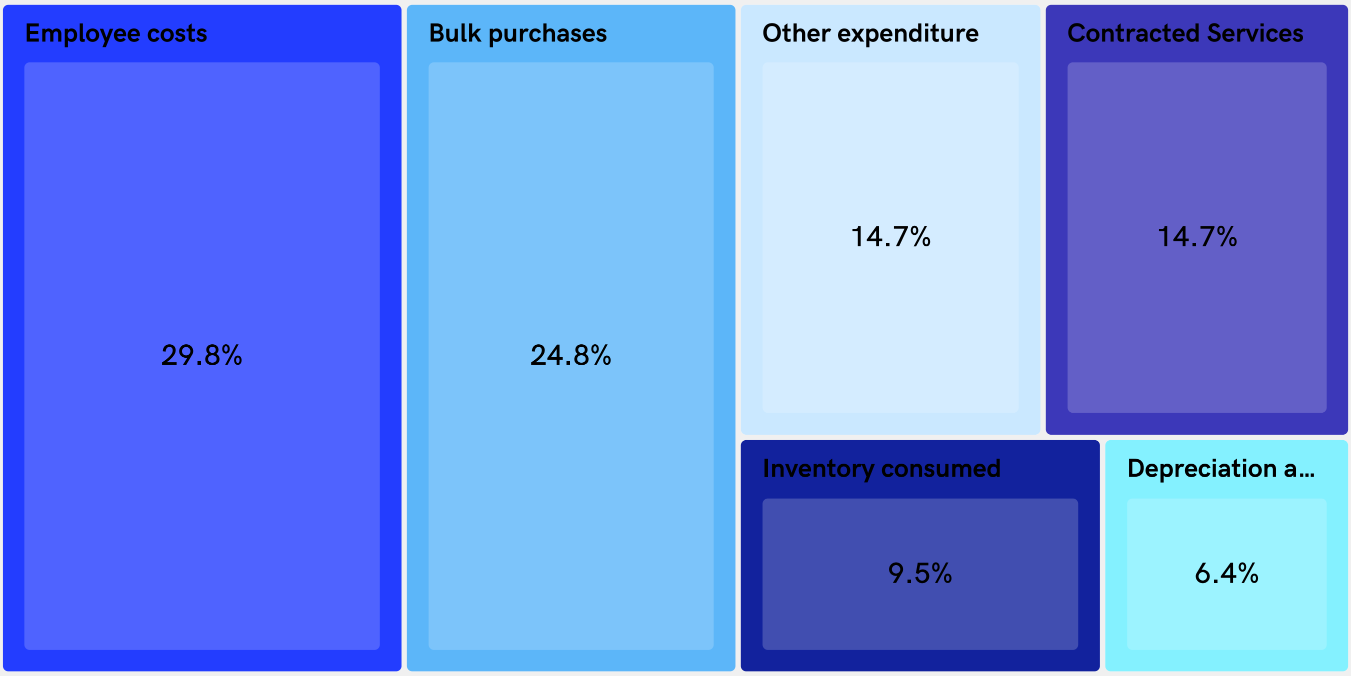
Mitigate External Risks

Preparation for external risks such as severe weather conditions, El Niño, and rising bulk electricity costs by developing contingency plans and focusing on long-term resilience strategies should be explored.

Operating Expenditure

Total operating expenditure for the 2023/24 financial year amounted to R85.10 billion, representing 96% of the adjusted budget of R89.06 billion which is slightly above the norm of 95%. A consistent effort by most municipalities are noted in implementing cost containment measures, while also prioritising efficiencies.

At an aggregate level, the annual average operating expenditure increase is 10.1% between 2020/21 and 2023/24. Year-on-year, operating expenditure increased by 11.1% in 2023/24 from the 4.6% increase in expenditure achieved in 2022/23.



Source: Pre-audit mSOA Data Strings, 2023/24, GoMuni

Fourteen (14) municipalities spent less than 95% of their total budgets, highlighting areas where budgeted funds were not fully utilised. This under-spending may indicate delays in project implementation, procurement, funding approvals, or capacity constraints that require further examination.

Conversely, three (3) municipalities exceeded their budgets, raising concerns about unauthorised expenditure.

The three (3) main cost drivers remain employee related cost (29.8%), contracted services (14.7%) and bulk purchases (24.8%).

In the prior financial year, Western Cape municipalities contribute less than 5% of the National UIFW amounts. It is imperative for municipalities to address the root causes contributing to Unauthorised Irregular, Fruitless and Wasteful Expenditure (UIFW).

"The closing balances of irregular and unauthorised expenditure decreased in 2022/23, from R1,22 billion to R1,14 billion and from R1,86 billion to R0,84 billion, respectively."

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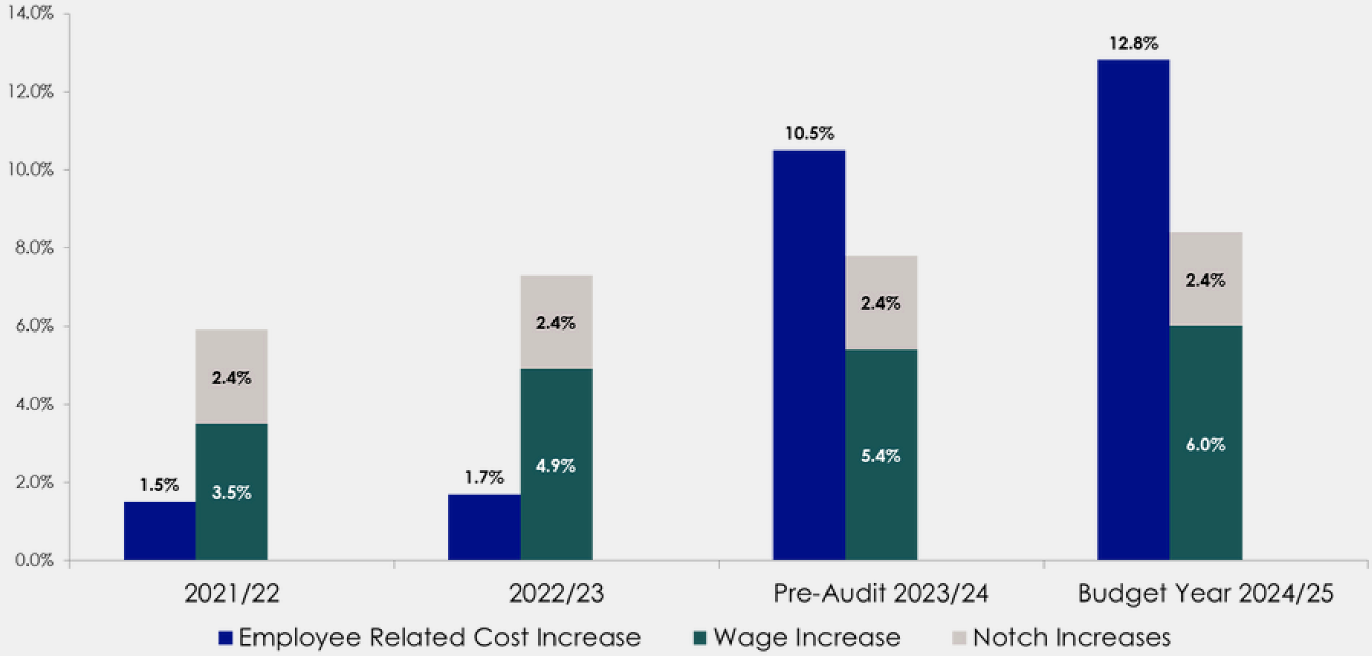
2023 Consolidated General Report on Local Government Audit Outcomes

Employee Related Costs

Municipalities collectively spent R25.35 billion on employee-related costs in 2023/24, achieving 94% of the budgeted expenditure. This level of spending represents an improvement from the 90.3% reported for the 2022/23 year.

Municipal salary increases exceeding inflation in recent years pose a growing risk to municipal sustainability



Many municipalities also implemented moratoriums on filling vacancies to manage the financial impact of the COVID-19 pandemic. This contributed to slow spending increases during the 2021/22 and 2022/23 financial years.

To address efficiency concerns, municipalities have resumed filling vacancies from the 2023/24 financial year onward, aiming to improve operational capacity and service delivery noting employee related cost increase year-on-year exceeding the official annual wage increase (excluding notch increases) for the first time in last 3 financial years. This trend is expected to continue in 2024/25.

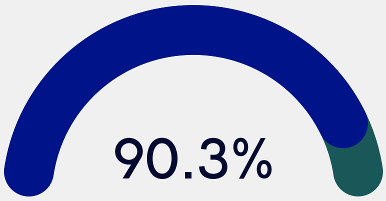
The 2024/25 employment budget has increased by 12.8% compared to actual spending in 2023/24, slightly higher than the 10.5% increase in 2022/23. A key risk is the SALGBC wage agreement which was finalised after the adoption of the 2024/25 budgets. Many municipalities projected a 4.5% increase rather than the full 6% eventually approved. This discrepancy should be addressed in the adjustment budget, as it may otherwise lead to budget deficits funded by reallocating from other committed expenditures.

Municipal wage increases are subject to agreements as negotiated and agreed to by the South African Local Government Bargaining Council (SALGBC) and negotiations are often outside the control of municipalities. Municipalities are urged to review staff numbers and optimise the organogram to maintain affordable wage increases.

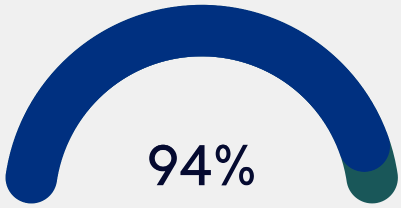
Employee Related Costs

Collectively, municipalities in the Western Cape spent 94% of the budgeted expenditure for employee related costs which signifies a notable improvement from the 90.3% achieved in 2022/23 year.

BUDGET PERFORMANCE 2022/23



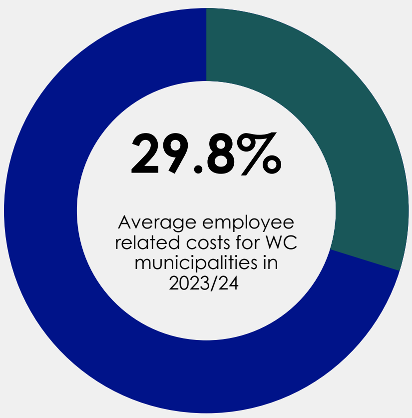
BUDGET PERFORMANCE 2023/24



Under-spending in some municipalities was mainly due to lengthy delays in filling staff vacancies, which hindered the effective allocation of resources and delayed the execution of budgeted expenses.

Seven (7) municipalities fell short of the target to spend at least 95% of their budgets, an improvement from the ten municipalities in 2022/23, suggesting increased budgeting accuracy. However, seven (7) other municipalities exceeded their employee-related budgets, up from four (4) in the previous period. While the specific reasons for these overages are unclear, inadequate budget planning may have contributed, impacting overall financial stability and service delivery.

Overtime expenditure incurred was R1.76 billion in 2023/24, contributing towards 6.9% of the total employee related budget. Municipalities managed to reduce the increase of overtime to 1.6% in 2023/24 from the 21.2% in 2022/23 which were largely contributed by load shedding and ensuring a sustainable service delivery. This area is projected to be continuously managed down over the 2024/25 MTREF averaging around 0.3% over the 2024/25 MTREF.



Western Cape municipalities fall well within the NT norm range of between 25 - 40%

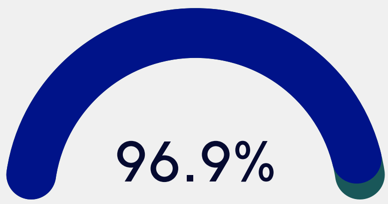
The provincial average for employee-related costs as a percentage of total operating expenditure was 29.8% in 2023/24, mostly unchanged from the prior year (29.9%). This is well within the norm range of 25 - 40%. Two (2) local municipalities however reported over 40% employee-related costs. This analysis excludes the five district municipalities where employee expenses typically constitute a larger share of total expenditure.

Contracted Services

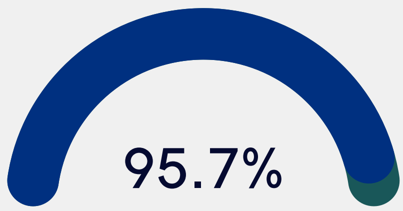
It is not uncommon for municipalities to outsource work to consultants, professional services or private contractors. However, if a municipality exceeds the norm of 2 - 5% of operating expenditure, it could indicate that too many functions are outsourced to private contractors, not efficiently utilised or that a municipality is struggling to build its own human capacity, increasing its reliance on private contractors. The ratio does however also depends on the service delivery model that the municipality has adopted. Municipalities often struggle to find or attract the skills that they need, with contractors filling a vital gap.

Municipal spending on contracted services reached R12.55 billion, representing 95.7% of the budgeted R13.11 billion—slightly down from the 96.9% budget spending in 2022/23.

BUDGET PERFORMANCE 2022/23

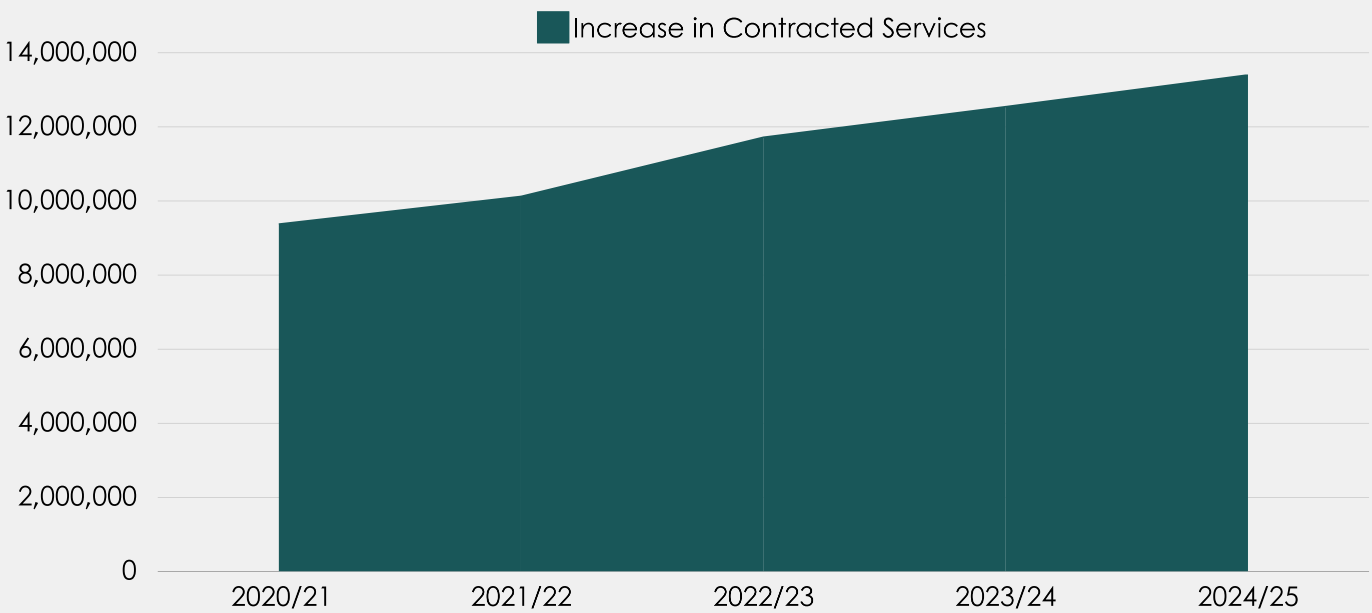


BUDGET PERFORMANCE 2023/24



The improved trend reflects effective budget usage but still highlights a strong reliance on contracted services. Overall spending on contracted services grew by R825.7 million (7%) when compared to the previous year. This growth is above the CPI target range of 3 - 6%. The increase can possibly be attributed to mSCOA reclassification changes to include contractors for housing development (funded by Provincial and National departments), repairs and maintenance as well as outsourcing and professional services.

Looking towards 2024/25, contracted service spending is projected to increase by 6.8%, reaching R13.41 billion.

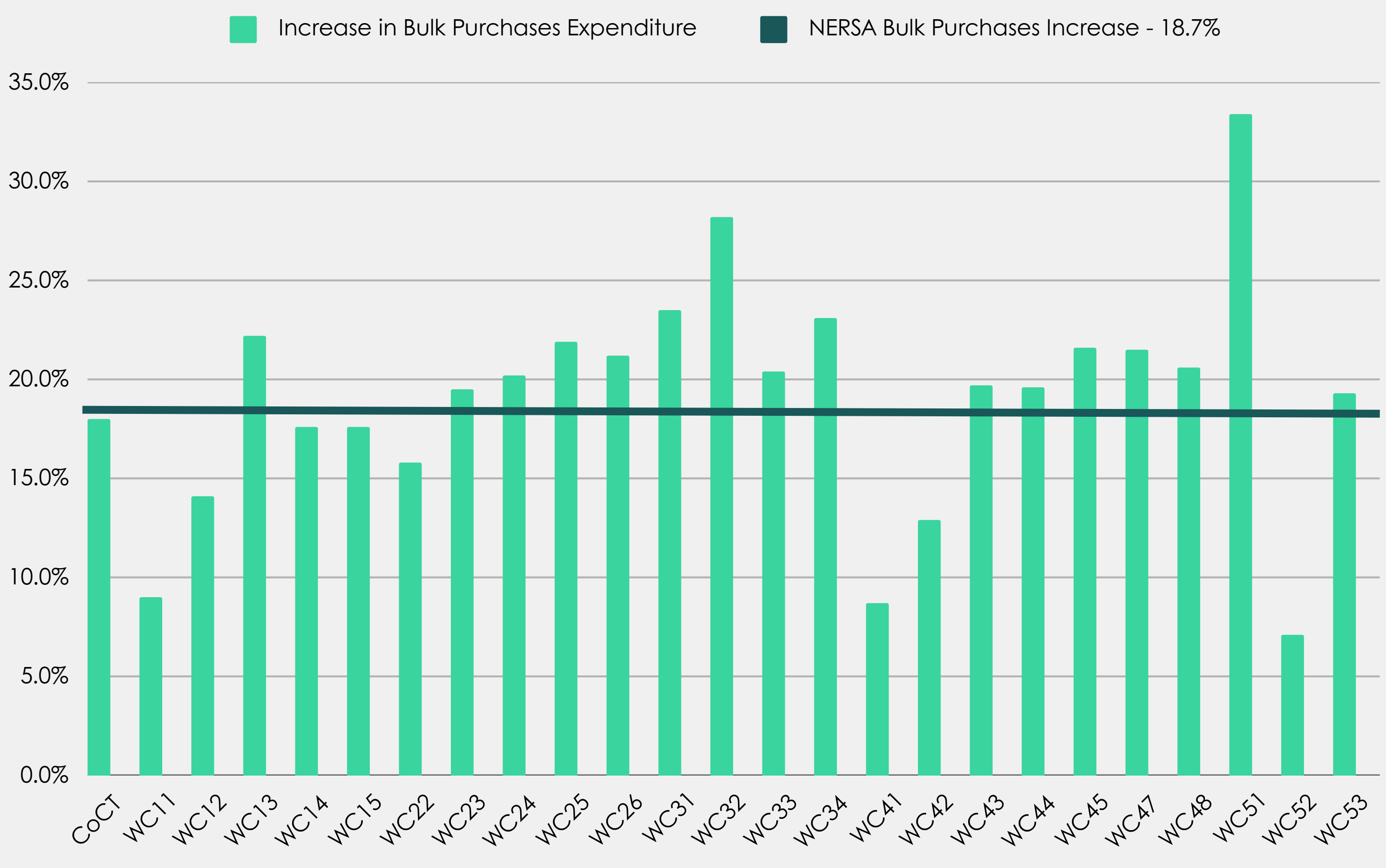


Bulk Purchases

Spending on inventory and bulk purchases constituted 34.4% of total expenditure in 2023/24, marking a 17.6% increase from 2022/23. Bulk electricity purchases formed a significant part, accounting for 24.8% of operating expenditure, up from 23.2% the previous year. This increase primarily results from the 18.49% bulk tariff increase approved by NERSA in 2023/24, compared to 9.6% in 2022/23.

Municipalities managed to utilise 99.3% of their budget for bulk purchases, an improvement from 94.7% the previous period, indicating accurate budgeting despite ongoing load shedding uncertainties. While some municipalities did exceed their adjusted budgets, overall budget utilisation suggests a more disciplined approach to managing bulk purchase expenses.

However, the steep rise in bulk electricity tariffs, combined with challenges from load-shedding, continues to place substantial pressure on municipal budgets as they work to balance escalating energy costs with fiscal responsibility.



The ongoing risk of rising tariffs and unpredictable power supply remains a key factor in municipal financial planning. To mitigate future volatility, municipalities may need to explore alternative energy sources, such as renewable energy partnerships, as well as robust contingency planning to protect against fluctuating electricity costs. Additionally, with Eskom currently examining revised tariff structures, municipalities should monitor these changes closely, proactively considering their long-term financial implications to ensure both sustainability and adaptability in their fiscal planning.

Considerations Operation Expenditure

Optimise appointment processes of key staff: Accelerating filling of key positions will enhance efficiencies.

Align budget to new wage agreements: Municipalities should adjust budgets to avoid overspending on employee-related expenses and ensure wage agreements are reflected accurately.

Monitor Contracted Services Reliance: Regularly evaluate the cost-effectiveness of contracted services and assess potential areas for internal capacity building to reduce dependency where possible and fasible.

Plan for revised electricity purchases: Municipalities should incorporate realistic electricity consumption forecasts noting the more stable energy supply as well as the revised tariff structures proposed by Eskom.

Avoid unauthorised expenditure: Municipalities should spend within the available budget and available cash flows.

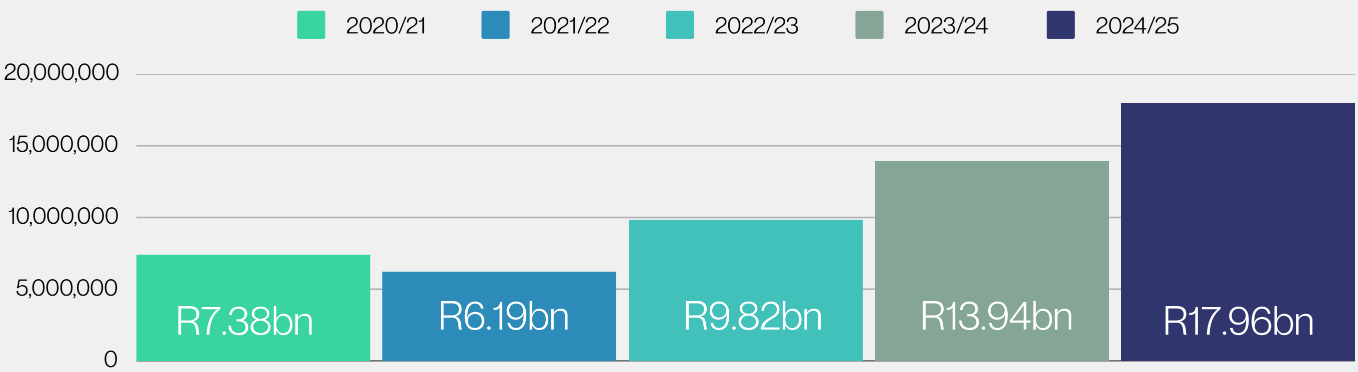
Curtailment of Expenditure: Municipalities should continue to implement cost containment policies and cut costs on non-essential expenditure items.

Strengthen Asset Management Practices: Effective asset management extends the lifespan of municipal infrastructure, reducing long-term costs and minimising emergency repairs. Regular assessments and planned maintenance help municipalities optimise the use of public assets.

Enhance Financial Monitoring and Reporting: Strengthening IYM processes helps municipalities detect budget variances early, enabling timely adjustments. This ensures spending remains aligned with available funds and improves accountability in resource use.

Capital Expenditure

Over the past four financial years, from July 2020 to June 2024, Western Cape municipalities spent a total of R37.33 billion on capital expenditure, reflecting an average annual growth of 23.6% over this period. Notwithstanding the increase in the 2024/25 capital budget of 28.9%, the growth rate over the 2024/25 Medium Term Revenue Expenditure Framework (MTREF) indicate a negative 2.4%. This can largely be attributed to the decline in capital transfers and subsidies and borrowings over the 2024/25 MTREF period possibly due to the consolidation of a new high level. **The capital infrastructure spending by Western Cape municipalities over the past four years reflects a clear commitment to infrastructure growth and maintenance.**



The City of Cape Town contributed 67.6% to total aggregated municipal capital investment in 2023/24.

The main priority areas for capital investment is wastewater management followed by finance and adminstration and roads infrastructure. This trend will continue over the 2024/25 MTREF. The balance to strategically invest in areas that drive economic growth and accommodate population increases while maintaining basic services delivery is key to ensure sustainability.

Capital Functions	2020/21	2021/22	2022/23	2023/24	2024/25
Governance and administration	1,327,479	1,260,936	1,762,392	2,256,796	1,417,342
Community and public safety	1,198,994	1,121,062	1,500,010	2,034,900	2,181,005
Economic and environmental services	154,153	150,932	326,136	434,548	593,261
Road transport	1,009,300	886,087	1,580,746	2,153,480	3,720,884
Trading Services	3,656,985	2,775,445	4,650,194	7,058,904	9,995,216
Energy sources	1,000,377	1,012,444	1,552,069	1,827,820	2,228,795
Water management	1,270,025	924,275	1,087,451	1,648,855	2,183,622
Waste water management	1,075,446	724,500	1,581,798	3,057,718	4,997,917
Waste management	311,137	114,227	428,876	524,511	584,882
Other	31,125	(406)	(2,146)	693	53,887
Total Capital Expenditure	**7,378,036**	**6,194,056**	**9,817,332**	**13,939,321**	**17,961,595**

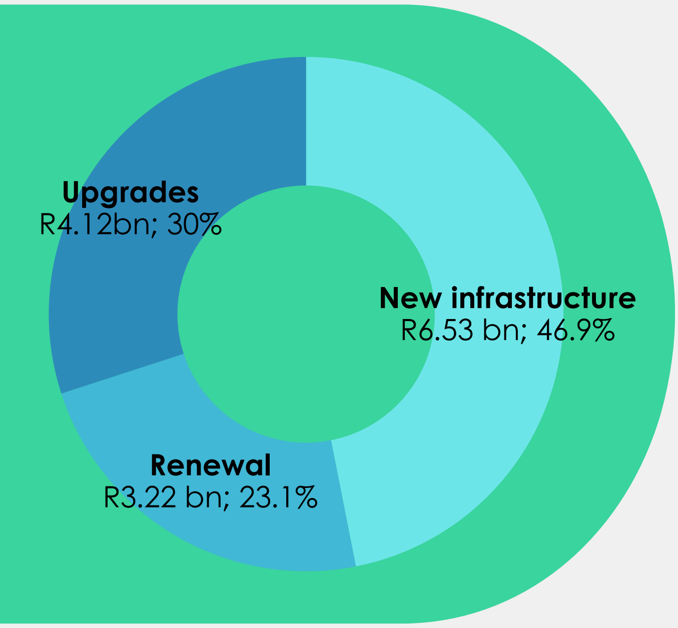
In a municipal context, infrastructure investment focuses on building or upgrading essential public systems like roads and water networks that support community needs and economic growth, while capital expenditure is broader, covering all long-term municipal assets, including vehicles, buildings, and technology systems. In aggregate, infrastructure investment amongst the WC municipalities totaled R9.74bn, or 69.9% of the total capital expenditure of R13.94 billion.

Capital Expenditure

In the 2023/24 financial year, municipalities collectively spent R13.94 billion of which R9.74 billion was spent on infrastructure.

The R9.74 billion excludes all other assets such as community assets, heritage assets and other assets contributing to the total capital expenditure. **The total capital investment of R13.94 billion is marking a substantial 42% increase over the previous year (R9.82 billion in 2022/23).**

These allocations indicate strategic prioritisation, with new infrastructure directed mainly at road networks for expansion, while sanitation is being upgraded to accommodate growing communities.



- **New infrastructure** contributions expand service coverage and is crucial for developing communities, fostering economic growth and enhancing quality of life.
- **Renewal of existing infrastructure** in turn extends the lifespan of critical assets and ensures that existing infrastructure remains safe, reliable, and functional.
- **Upgrades on existing infrastructure** addresses increasing demand, technological advancements, and changing standards. Upgrades can improve efficiency, reduce environmental impacts, and enable municipalities to provide higher-quality or more accessible services.

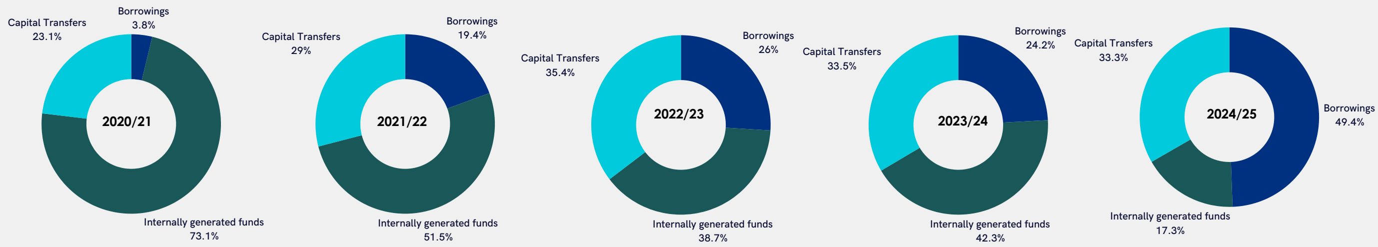
Despite an overall increase in spending, actual capital expenditure reached only 80% of the adjusted budget. Underspending by R3.49 billion highlights potential inefficiencies in budget implementation that could impede infrastructure goals.

Repairs and maintenance spending dropped by 5.8% to R3.49 billion, lowering the repairs-to-PPE ratio to 3.3%—the lowest in three years. Targeted intervention is needed in repairs and maintenance to ensure sustainable infrastructure and avoid costly emergency repairs.

Stormwater infrastructure saw a 115.1% increase in 2023/24 but remains low compared to other categories. Consistent investment in stormwater systems is essential for flood prevention, water management, and resilience against climate-related challenges.

Capital Funding Sources

In 2023/24, **Western Cape Municipalities fund their capital expenditure mainly by three (3) funding sources of which internally generated funds contributed 42%**, followed by capital transfers from National and Provincial Government with 33.5% and borrowings contributing 24.2%.



Internally generated funds have grown by 57.9%, rising from R3.61 billion in 2022/23 to R5.7 billion in 2023/24. Operational efficiencies introduced over the past few years have contributed to this increase in internally generated funds, reducing the dependency on borrowings.

While using internal funds reduces interest payments, this approach is most sustainable when allocated toward revenue-generating infrastructure that supports operational surpluses and maintains steady cash flow. Development charges have further contributed to available capital for infrastructure projects initiated by developers.

Over the audited financial years from 2020/21 to 2023/24, borrowings has grown at an average annual rate of 132.6%, from R258.24 million to R3.25 billion. This substantial increase is largely attributed to the City of Cape Town's borrowing strategy.

Twelve (12) municipalities collectively secured loans totaling R4.24 billion. However, the actual drawdown may differ if certain loans are not fully taken up. Despite these borrowings, the actual amount remains significantly lower than the original budget of R7.80 billion. It is evident that community affordability is a key factor in municipalities' decision to take up loans, as this source is only considered if other funding options are not available.

Borrowing is projected to rise to R8.88 billion in 2024/25, but is expected to decline to R6.2 billion by 2026/27, as per the 2024/25 Medium-Term Revenue Expenditure Framework (MTREF). These projections will rely heavily on consumer affordability and the comparative appeal of borrowing markets relative to other funding sources. With municipalities increasingly expected to finance more of their capital projects due to the national fiscal constraints, it's essential to consider the opportunity cost of not utilising available borrowings and actively seeking alternative financing opportunities such as blended finance.

Capital transfers recognised by municipalities increased substantially, from R1.58 billion in 2020/21 to R4.51 billion in 2023/24. This increase is primarily driven by Budget Facility for Infrastructure (BFI) funding, aimed at supporting significant capital projects in the Western Cape. However, only 75.6% of these capital transfers were utilised (in 2023/24), underscoring the need for municipalities to enhance project capacity and avoid risks associated with unspent funds. It's worth noting that some capital projects are multiyear initiatives, which may impact on annual expenditure patterns due to overlapping timelines. It should be noted that 95.4% of the original budget for capital transfers were spent.

Considerations Capital Expenditure

Enhance Budget Planning: Strengthening monitoring and accountability systems can help to identify underperformance early and allow for the timeous introduction of corrective actions.

Prioritise Preventative Maintenance: Increased allocation to regular repairs and maintenance will extend infrastructure lifespans and lower long-term costs.

Adopt Efficient Project Management Practices: Streamlining project planning and execution processes can improve spending efficiency and reduce underspending.

Targeted spending priorities: Municipalities should prioritise strategic investment areas that drive economic growth and accommodate population increases. This approach requires balancing investments with high potential for return on investment with those that address the essential needs of indigent communities. By focusing on projects that stimulate local economies while ensuring equitable access to basic services, municipalities can foster sustainable development that benefits all residents.

Continue to Optimise Borrowing Practices: Municipalities should evaluate opportunity costs of unused borrowing capacity and explore diverse funding sources, such as public-private partnerships or development finance, to balance debt with internal usage of funds.

Alternative Funding Sources: To improve sustainability, municipalities are advised to consider alternative funding sources through the blended financing opportunities to enhance shared risks. While blended financing has traditionally supported energy transitions, expanding its use to other trading services, particularly integrated waste management, can help share financial risks more effectively.

Prioritise Capacity Building: Municipalities must assess and strengthen project management, strategic procurement and implementation capacity to fully utilise capital transfers and avoid funding retention risks.

Strategic Use of Internal Funds: When internal funds are available, prioritising revenue-generating infrastructure projects will support ongoing financial stability and minimise reliance on external borrowings.

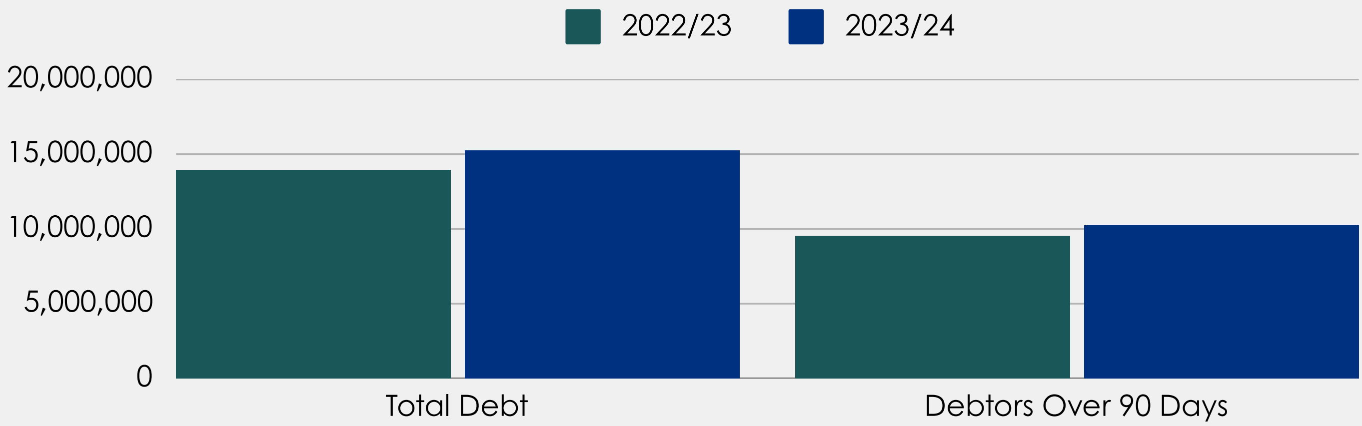
The pre-audited capital expenditure data for the Oudtshoorn and Overstrand municipalities contained errors. The following is the confirmed spending:

- Overstrand- R193 517 946
- Oudtshoorn- R61 233 000

Consumer Reality

In 2023/24, total outstanding debtors for municipalities amounted to R15.2 billion, reflecting a 9.5% increase from the previous year.

Although this rise is lower than the 17.1% growth in the prior year, economic factors such as high inflation, especially in food prices, rising fuel costs, and persistently high unemployment rates contributed to the increase in debt.



Households accounted for 70% of the total debt, with their debt growing by 9.2% from the previous year.

Debtors over 90 days represented the largest portion of this outstanding debt, amounting to R10.25 billion, or 67.3% of the total, and increasing by 8.2% compared to the prior year.

Debtors collection rates declined in 14 municipalities, with the majority of municipalities collecting less than 95% of property rates and service charges.

To sustain service delivery, most municipalities adopted service charge tariff increases of 6% and above, while keeping property rates tariffs largely below the 6% CPI threshold.

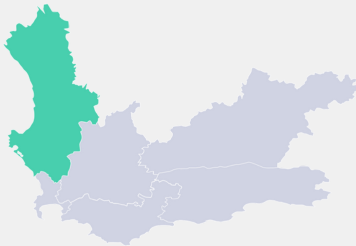
Municipalities across the board have implemented indigent policies to assist vulnerable households. National Treasury's guideline sets the indigent household threshold at twice the old age pension; however, many municipalities have set even higher thresholds or offer additional free basic services beyond the guideline's recommendations.

While this expanded support is beneficial for vulnerable communities, it raises concerns about sustainability. The ability to maintain these higher thresholds and additional services is at risk, especially with the growing demand for service delivery and an increasing number of households qualifying as indigent. Municipalities may need to assess the long-term viability of their indigent policies to balance immediate relief with sustainable service provision.

National Transfers need to keep pace with population growth and the constrained socio-economic conditions impacting on the number of indigents.

District Overview

Overview
West Coast



At an aggregated level, the West Coast District generated R4.70 billion in revenue, accounting for 5.3% of the total aggregated operating revenue. **Bergrivier, Saldanha Bay, and Swartland municipalities exceeded revenue expectations** (respectively 100.9%, 100.1% and 104.1%), while Matzikama achieved only 88.1% of its operating revenue target. The West Coast District Municipality itself saw a 3.9% decline in revenue, mainly due to a reduction in agency services.

Revenue from property rates showed strong increases across most municipalities, except Cederberg, whose revenue increase is below the tariff increase. Matzikama, despite a 2% tariff reduction (emanating from the implementation of a new Valuation Role in the prior year), still generated a 3.6% increase in property rates revenue.

While **all municipalities recorded electricity revenue increases closely aligned to tariff increases**, Matzikama and Bergrivier reported lower revenue increases (9% and 8.5%) despite a 15.1% tariff hike. High electricity losses in these municipalities could indicate under-recovery, with Bergrivier's bulk purchases increasing by 22.2%. Municipalities should investigate the contributing factors and assess how smart meters could improve revenue recovery.

Despite a 18.49% increase in Eskom’s bulk purchase tariff, Matzikama‘s expenditure towards bulk electricity purchases only increased by 9.0% (in line with the 9.0% revenue increase). This potentially reflects lower consumption, or that the Municipality was able to manage demand or optimised its electricity distribution to contain costs.

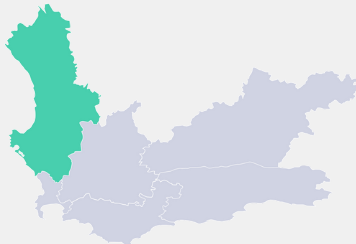
In contrast, Saldanha and Swartland recorded revenue increases slightly above their tariff hikes, suggesting a possible rise in consumption. This might be due to a more stable electricity supply, allowing for more consistent usage and slightly higher revenue collection. These municipalities may be benefiting from increased demand or improved reliability in their electricity service delivery offering.

Water tariff increases generally aligned with CPI, except Swartland and Bergrivier, who implementing slightly higher tariffs. Saldanha Bay saw 3.5% revenue growth against a 5.3% tariff increase, potentially indicating decreased consumption or potentially aggravated through water losses of 21.2%.

Water losses in Cederberg (30.9%) and Matzikama (51.2%) remain concerning, with both municipalities recording increased losses from the previous year.

Cederberg, Bergrivier, and Saldanha Bay reported reduced revenue for wastewater services compared to the previous year, warranting further investigation to prevent under-recovery.

Overview
West Coast



Revenue from waste management historically under-recovers costs, with Cederberg reporting reduced revenue and Saldanha Bay recording only a 0.1% increase. Bergrivier's 20% tariff hike only led to an 11.9% revenue increase, suggesting potential under-recovery.

The outstanding debt of West Coast municipalities rose sharply by 45.8% in 2023/24, largely driven by issues related to data credibility with Matzikama's reporting. This trend (increase in outstanding debt) was observed across all municipalities in the district. The rising debt suggests growing concerns over customer affordability.

West Coast municipalities collectively spent 91.8% of their operating budgets, a 6.3% increase from the previous year. Cederberg had a 19.7% increase due to a rise in contracted services and depreciation, while the West Coast District had a minimal 0.9% increase.

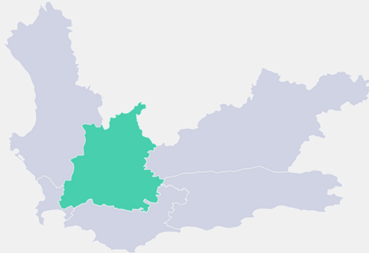
Employee-related expenses accounted for 34.6% of the aggregated budget, with Matzikama and the West Coast District exceeding the 40% norm. Matzikama's employee-related costs rose to 44.5%, although this figure may improve post-audit results.

The West Coast municipalities spent R823.61 million or 85.7% of their capital budgets, with priority given to finance and administration, roads, and electricity capital functions. In aggregated, the West Coast contributed 6.6% of the total capital expenditure in the Western Cape. The Saldanha Bay and the West Coast District Municipality reported lower spending percentages (71.8% and 35.2%, respectively). These performances may change with the finalisation of the audited financial statements.

Infrastructure investment totaled R571.07 million or 69.3% of the total capital expenditure of R823.62 million. A total of 71.6% of the total infrastructure investment (R571.07 million) is directed mainly towards new infrastructure with a focus on roads and electricity infrastructure.

Only 89.1% of the repairs and maintenance budget was spent, indicating potential under-investment in sustaining infrastructure.

Overview
Cape Winelands



The Cape Winelands District generated R9.25 billion in revenue, accounting for 10.4% of the total Provincial operating revenue. The Witzenberg, Drakenstein, and Stellenbosch municipalities exceeded revenue expectations (101.7%, 100.7%, and 102.3%, respectively).

The Cape Winelands District Municipality recorded a 11.7% increase in operating revenue between 2022/23 and 2023/24.

Revenue from property rates showed strong increases across most municipalities. Witzenberg implemented a new Valuation Roll and reduced its rate-in-the-rand by 43.1% (tariff reduction) but still managed to generate a 3.2% increase in property rates revenue.

While **all municipalities recorded electricity revenue increases closely aligned to tariff increases,** Drakenstein and Stellenbosch reported lower increases at 11.4% and 12.1% respectively despite a 15.1% tariff hike. This could indicate reduced consumption patterns and warrants further investigation by these municipalities.

Witzenberg and Langeberg recorded electricity revenue increases slightly above their tariff hikes, suggesting a possible rise in consumption. This might be due to a more stable electricity supply, allowing for more consistent usage and slightly higher revenue collection. These municipalities may be benefiting from increased demand or improved reliability in their electricity service delivery.

Most municipalities reported electricity losses within the norm; however, increases in the electricity losses are noted when compared to the prior year.

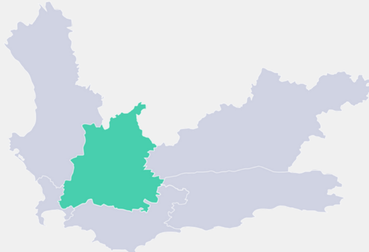
All water tariff increases among the municipalities of the Cape Winelands District exceeded CPI. Breede Valley saw 4.5% revenue growth against a 7.0% tariff increase, potentially indicating decreased consumption.

Water losses in Stellenbosch (31.3%) remain concerning; however, R73.96 million was invested in water capital infrastructure. Most municipalities in the district recorded increased losses from the 2022/23 financial year.

While all municipalities reported wastewater revenue increases closely aligned to tariff increases, Langeberg reported a lower increase of 5.9% despite a 6.8% tariff hike. Witzenberg reported a sizeable revenue increase of 54.0% despite a tariff hike of 6.0%.

Revenue from waste management historically struggles to fully recover costs, with Langeberg reporting reduced revenue by 4.6%. Stellenbosch recorded 7.2% revenue growth against a 9.0% tariff increase.

Overview
Cape Winelands



Operating expenditure amongst the municipalities of the Cape Winelands District amounted to R8.97 billion, accounting for 10.5% of the total Provincial operating expenditure. Witzenberg and the Cape Winelands District Municipality performed below the 95% budget target at 91.4% and 90.8%, respectively.

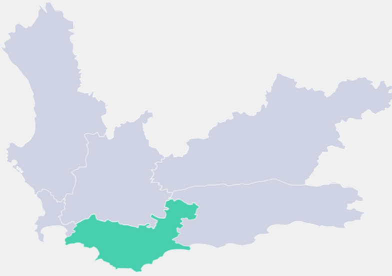
Cape Winelands municipalities spent 95.1% of their operating budgets, a 13.0% increase from the previous year. Witzenberg reported a 23.8% increase in operating expenditure, while Drakenstein Municipality's expenditure increased by 8.5%.

Employee-related expenses accounted for 28.8% of the budget, with Cape Winelands municipalities exceeding the 40% threshold. This is largely due to the different functions performed by the district municipalities.

The Cape Winelands municipalities spent R1.44 billion, or 89.3%, of their capital budgets, with priority given to wastewater management, energy, and roads functions. As a whole, the Cape Winelands District contributed 10.4% to total capital expenditure in the Western Cape. **Drakenstein spent 98.5% of it's capital budget while** Breede Valley and the Cape Winelands District Municipality reported lower spending percentages at 80.0% and 57%, respectively. These figures could however change with the finalisation of the Audited Financial Statements.

Infrastructure investment totaled R1.18 billion, or 81.5% of the total capital expenditure of R1.44 billion. A total of 49.3% of the total **infrastructure investment** is directed mainly towards new infrastructure, specifically for **electricity** infrastructure, while investment in upgrades and renewal is focused on **sanitation infrastructure and roads.**

Overview
Overberg



The Overberg District generated R3.65 billion in revenue, accounting for 4.1% of the total Provincial operating revenue. The Overstrand and Overberg District municipalities exceeded their operating revenue budgets, achieving 102.0% and 101.0%, respectively. The Overberg District Municipalities reported a 12.4% increase in revenue between 2022/23 and 2023/24, indicating positive real growth.

Revenue from property rates showed strong increases across most municipalities. **Theewaterskloof and Overstrand**, despite a respective 13.6% and 36.0% property rates reduction (due to **new Valuation Rolls adopted), still generated a 12.7% and 14.3% increase in property rates** revenue, respectively.

All Overberg District municipalities recorded revenue increases slightly above their electricity tariff hikes, suggesting a possible rise in consumption. This might be due to a more stable electricity supply, allowing for more consistent usage and slightly higher revenue collection. These municipalities may be benefiting from increased demand or improved reliability in their electricity service delivery.

Water losses in Overstrand (30.59%) remain concerning, with the Municipality recording increased losses from the 2022/23 financial year (24.47%).

Municipalities in the Overberg recorded revenue increases exceeding tariff increases on other services; however, Cape Agulhas should investigate possible under-recovery in wastewater and waste management.

The Overberg District expenditure was R3.78 billion for the year ending in the 2023/24 financial year, accounting for 4.4% of the total expenditure. Overberg District municipalities spent 94.8% of their operating budgets, a 11.8% increase from the previous year. Swellendam recorded a 32.4% increase, while Cape Agulhas recorded a minimal 2.9% increase.

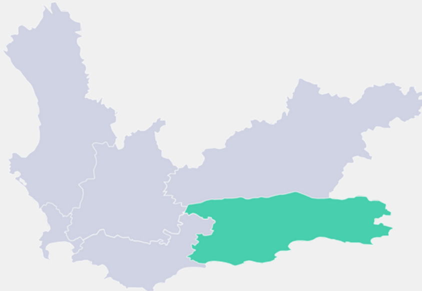
Employee-related expenses accounted for 32.8% of the budget, with Cape Agulhas and Overberg District exceeding the 40% threshold. Cape Agulhas' employee-related costs rose to 41.4%.

The Overberg municipalities spent R237.04 million or 41.2% of their capital budgets. This is an understated performance due to incorrect reporting through mSCOA, stating zero performance for Overstrand.

The district prioritises capital infrastructure investment in water management, housing, and roads functions. The Overberg contributes 1.7% of the total capital expenditure in the Western Cape. All municipalities reported capital expenditure below 90%; however, this performance may increase with the finalisation of the Audited Financial Statements (AFS).

Infrastructure investment totaled R202.93 million or 85.6% of the total capital expenditure of R237.04 million. A total of 38.9% of the total infrastructure investment is directed mainly towards new infrastructure prioritising mainly water supply infrastructure, while the upgrading and renewal of existing infrastructure focuses on roads and water supply infrastructure.

Overview
Garden Route



The Garden Route District generated R8.96 billion in revenue, accounting for 10.09% of the total Provincial operating revenue. **The municipalities of Kannaland, Hessequa, Mossel Bay, George, Bitou, and Knysna exceeded revenue expectations** (106.6%, 103.5%, 102.3%, 97.1%, 100.2%, and 96.7%, respectively), while Oudtshoorn and Garden Route District achieved only 92.3% and 92.8%, respectively, of their operating revenue targets.

Revenue from property rates showed strong increases across most municipalities. Knysna and George municipalities adopted new valuation rolls and reduced the rate in the rand tariff by 10% and 28.9%, respectively, while generating a 20.6% and 15.2% increase in property rates revenue. The spike in property valuations in the Garden Route area is contributing to this positive trend.

High electricity losses in the Bitou, Knysna, Kannaland, and Mossel Bay municipalities could contribute towards under-recovery. Oudtshoorn and Bitou municipalities reported that bulk purchases increased by 21.6% and 21.5%, respectively, while revenue only increased by 9% and 9.8%, respectively. A detailed investigation is warranted.

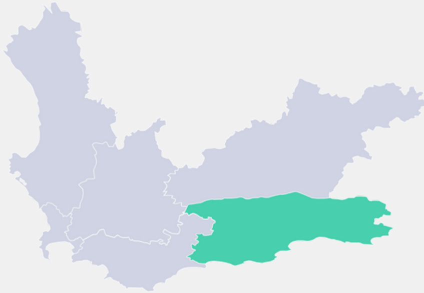
Kannaland Municipality's bulk purchases increased by 8.7%, substantially lower than the 18.49% increase in Eskom's bulk purchase tariffs. This trend does not correlate with the revenue trend, which indicates lower payments made to Eskom.

In contrast, George municipality recorded electricity revenue increases above their tariff hikes, suggesting a possible rise in consumption. This might be due to a more stable electricity supply, allowing for more consistent usage and slightly higher revenue collection. The municipality may be benefiting from increased demand or improved reliability in electricity service delivery.

Most municipalities exceeded the budgeted revenue from service charges for water. Bitou reported a 1.6% revenue growth against a 6.8% tariff increase, potentially indicating decreased consumption or possibly influenced by water losses. Water losses in Bitou (37.89%) and Knysna (33.68%) remain concerning, with both municipalities recording increased losses in 2023/24.

Hessequa and Bitou reported reduced revenue for wastewater services compared to the previous year, warranting further investigation to prevent under-recovery. Revenue from waste management has historically under-recovered costs, with Bitou reporting reduced revenue of 1.2% and Kannaland recording only a 1.1% increase.

Overview
Garden Route



Garden Route municipalities spent 95.2% of their operating budgets, a 12.9% increase from the previous year. George, Kannaland, and Mossel Bay recorded increases exceeding 15%, while the district municipality and Hessequa municipality managed expenditure to a low 7.8% and 8.5%, respectively.

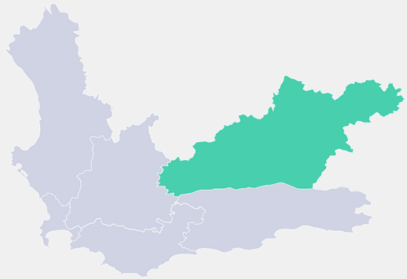
Employee-related expenses accounted for 30.1 percent of the budget. Kannaland's employee-related costs rose to 36.3%.

The Garden Route municipalities spent R1.94 billion, or 69.5% of their capital budgets in 2023/24, prioritising water management and wastewater management infrastructure. The Garden Route District contributed 13.89% of the total capital expenditure in the Western Cape.

Infrastructure investment totaled R1.58 billion, or 81.7% of the total capital expenditure of R1.94 billion.

Of the total infrastructure investment (R1.58 billion), 44.1% was directed mainly towards new infrastructure, prioritising water and electricity infrastructure, while the renewal and upgrading of existing infrastructure focused on roads and wastewater.

Overview
Central Karoo



The Central Karoo District generated R722.88 million in revenue, accounting for 0.81% of the total Provincial operating revenue. The Prince Albert and Central Karoo District municipalities exceeded the operating revenue budget (114.1% and 101.8% respectively), while Laingsburg achieved only 91.4%, and Beaufort West Municipality achieved 93.1% of their operating revenue budgets.

All municipalities in the Central Karoo District reported real growth compared to the previous year.

Revenue from property rates showed a 13.4% increase in Prince Albert, while Laingsburg reported reduced revenue compared to the previous year. Beaufort West Municipality achieved a 2.2% increase in revenue which is below the tariff increase of 6%).

Beaufort West and Prince Albert reported reduced revenue generated from electricity services despite a 15.1% in tariffs respectively. Both municipalities reported electricity losses exceeding the norm, and the upward trend in bulk purchases does not correlate with the decline in revenue.

Revenue generated from water services amounted to R21.47 million for the district as a whole, representing 90.8% of the budget for the district. Beaufort West only managed to generate 80% of the budgeted revenue.

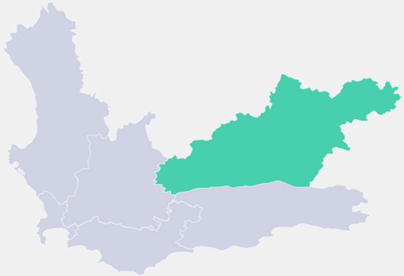
Water losses in Laingsburg (38.3%) and Beaufort West (78.3%) are closely monitored with both municipalities recording increased losses compared to the previous year. Funding has been made available to support these municipalities in addressing the losses.

Beaufort West reported reduced revenue for wastewater services compared to the previous year, warranting further investigation to prevent under-recovery.

Revenue from waste management has historically under-recovered costs. Beaufort West recordes only a 2.8% increase in revenue from waste management while Laingsburg's revenue improved significantly in the 2023/24 year.

Central Karoo municipalities spent 98.5% of their operating budgets, an 11.7% increase from the previous year. Laingsburg observed a 37.2% increase, while the Central Karoo District Municipality recorded a minimal 4.3% increase.

Overview
Central Karoo



Employee-related expenses accounted for 35.7% of the total Provincial operating expenditure budget. Central Karoo District municipalities' employee-related costs rose to 55.3% of the total operating expenditure, given the nature of the services delivered by the district.

The Central Karoo municipalities spent R80.68 million, or 75.4%, of their capital budgets, prioritiing wastewater management, water management, and finance and administration. The Central Karoo District contributed 0.58% of the total capital expenditure in the Western Cape.

Beaufort West Municipality spent 96.1% of its total capital budget, while the other municipalities spent significantly below the 95% norm.

Infrastructure investment totalled R54.63 million, or 67.7% of the total capital expenditure of R80.68 million.

The Central Karoo District municipalities invested 59.5% in new infrastructure, primarily targeted at sanitation infrastructure, while spending on the renewal of existing assets was mainly directed towards water supply and road infrastructure.

Annexure 1

Western Cape Municipalities

Municipal Demarcation Codes

Municipality	Reference Code
City of Cape Town	CPT
West Coast District	DC1
Cape Winelands District	DC2
Overberg District	DC3
Garden Route District	DC4
Central Karoo District	DC5
Matzikama	WC011
Cederberg	WC012
Bergrivier	WC013
Saldanha Bay	WC014
Swartland	WC015
Witzenberg	WC022
Drakenstein	WC023
Stellenbosch	WC024
Breede Valley	WC025
Langeberg	WC026
Theewaterskloof	WC031
Overstrand	WC032
Cape Agulhas	WC033
Swellendam	WC034
Kannaland	WC041
Hessequa	WC042
Mossel Bay	WC043
George	WC044
Oudtshoorn	WC045
Bitou	WC047
Knysna	WC048
Laingsburg	WC051
Prince Albert	WC052
Beaufort West	WC053

Annexure 2

Western Cape Municipalities

2023/24 Financial Performance Overview

Municipality	Operating Revenue	Operating Expenditure	Capital Expenditure
City of Cape Town	**101.6%**	**96.0%**	**82.8%**
Matzikama	**88.1%**	**74.1%**	**87.4%**
Cederberg	**96.6%**	**91.3%**	**111.1%**
Bergrivier	**100.9%**	**95.6%**	**92.2%**
Saldanha Bay	**100.1%**	**95.7%**	**71.8%**
Swartland	**104.1%**	**95.7%**	**126.3%**
West Coast District	**95.7%**	**92.0%**	**35.2%**
Witzenberg	**101.7%**	**92.1%**	**101.0%**
Drakenstein	**100.7%**	**91.4%**	**98.4%**
Stellenbosch	**102.3%**	**95.6%**	**85.9%**
Breede Valley	**99.1%**	**95.0%**	**80.0%**
Langeberg	**95.3%**	**96.3%**	**95.5%**
Cape Winelands District	**95.2%**	**97.4%**	**57.0%**
Theewaterskloof	**96.5%**	**90.8%**	**56.4%**
Overstrand	**102.0%**	**95.1%**	-
Cape Agulhas	**95.8%**	**99.7%**	**85.1%**
Swellendam	**95.3%**	**94.8%**	**70.8%**
Overberg District	**101.0%**	**92.5%**	**85.1%**
Kannaland	**106.6%**	**87.2%**	**207.1%**
Hessequa	**103.5%**	**95.6%**	**60.3%**
Mossel Bay	**102.3%**	**94.8%**	**126.8%**
George	**97.1%**	**104.8%**	**54.9%**
Oudtshoorn	**92.3%**	**92.7%**	**-**
Bitou	**100.2%**	**98.7%**	**81.0%**
Knysna	**96.7%**	**97.4%**	**69.5%**
Garden Route District	**92.8%**	**89.3%**	**91.3%**
Laingsburg	**91.4%**	**96.5%**	**73.8%**
Prince Albert	**114.1%**	**86.4%**	**70.2%**
Beaufort West	**93.1%**	**97.2%**	**96.1%**
Central Karoo District	**101.8%**	**95.2%**	**51.4%**

Annexure 3

Western Cape Municipalities

BUDGET FUNDING POSITION

Municipality	2020/21			2021/22			2022/23			2023/24			2024/25	
	Tabled budget	Adopted Budget	Adjustments Budget	Tabled budget	Adopted Budget	Adjustments Budget	Tabled budget	Adopted Budget	Adjustments Budget	Tabled budget	Adopted Budget	Adjustments Budget	Tabled budget	Adopted Budget
City of Cape Town	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Matzikama	Y	Y	N	N	N	N	N	N	N	N	N	N	N	N
Cederberg	N	N	N	N	N	N	N	N	N	N	N	N	Y	Y
Bergrivier	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Saldanha Bay	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Swartland	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
West Coast District	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Witzenberg	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	Y	Y	Y
Drakenstein	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Stellenbosch	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Breede Valley	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Langeberg	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cape Winelands District	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Theewaterskloof	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N
Overstrand	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cape Agulhas	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Swellendam	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Overberg District	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Kannaland	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Hessequa	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Mossel Bay	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
George	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Oudtshoorn	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Bitou	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y
Knysna	N	N	Y	Y	Y	Y	Y	Y	N	N	Y	N	N	N
Garden Route District	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Laingsburg	Y	Y	N	N	N	N	N	N	N	N	N	N	N	N
Prince Albert	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Beaufort West	Y	Y	N	N	N	N	N	N	N	N	N	N	N	N
Central Karoo District	Y	Y	Y	-	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

A municipal budget must be funded in terms of Section 18 of the MFMA before a municipal Council can adopt it for implementation. A funded budget is essentially a budget that is funded by a combination of cash derived either from realistically anticipated revenues to be collected in that year and cash backed surpluses of previous years.

If a municipal budget is unfunded, it is not a credible budget – either the revenue projections are unrealistic, the operating expenditures are too high, or the capital budget is too ambitious. In most instances, there are problems in all three areas. Correcting these problems involves going back to basics – and ensuring that the municipality only budgets to spend what it will realistically collect in revenue.

Municipal Interventions

The historic financial performance success of Western Cape (WC) municipalities can, in part, be attributed to well developed oversight structures and entrenched in-year monitoring processes. These mechanisms serve as early-warning systems, allowing for the timely identification of potential financial and operational challenges by the Provincial Government. By closely monitoring financial performance data PT can anticipate risks and detect areas of vulnerability before they escalate into financial and operational distress.

Provincial Treasury proactively supports and advises municipalities to prevent financial crisis and timeously intervenes where municipalities meet the criteria for serious financial problems as outlined in the MFMA.

Constitution allows for the following instances in which a Province can intervene in Local Government

- **S139(1):** Failure to fulfill executive obligation (DLG-led).
- **S139(4):** Failure to approve a budget or revenue raising measures (PT-led).
- **S139(5):** Crisis in financial affairs results in serious breach of obligations to deliver services or meet its financial commitments (PT-led).

3

Number of WC **municipalities currently experiencing crisis in financial affairs;** under Mandatory Intervention in terms of S139(5) of the Constitution which necessitates development of Financial Recovery Plan (FRP).

- **Beaufort West:** Under formal intervention since 2021, FRP commenced in March 2022.
- **Kannaland**: Under formal intervention since 2023, Municipality initially disputed but preparation of FRP began in December 2024.
- **Theewaterskloof:** Cabinet approved intervention in November 2024 with consultation on FRP beginning in February 2025.

KEY PHASES OF THE FINANCIAL RECOVERY PLAN (FRP)

Phase 1: Rescue Phase	Phase 2: Stabilisation Phase	Phase 3: Sustainability Phase
Focus on restoring health cash position. Indicators include funded budgets, monitoring of daily cash and cash balances, cost containment measures, debtor's collection rate.	Greater attention is placed on the underlying service delivery, governance and institutional matters perpetuating the financial crisis in the municipality.	Assurance that measures implemented in Phase 1 and 2 are sustainable, that municipalities are committed to ensuring the implementation of good practices.
12 months	12 - 24 months	Dependant on Phase 2

Section 154(1) of the Constitution mandates that national and provincial governments must support and strengthen the capacity of municipalities to manage their own affairs, exercise their powers, and perform their functions.

PT Support Initiatives

BUDGET, REVENUE & EXPENDITURE RISKS

- **Assess tabled budgets** and associated documents **to determine levels of conformance, responsiveness, credibility and sustainability.**
- Technical support to municipalities to **adopt funded budgets**, and where unfunded budgets are unavoidable, to develop and implement Budget Funding Plans (BFPs).
- Monitor and evaluate budget compliance implementation through monthly (S71), & quarterly (S52 & S72) and annual (annual report & SIME feedback) assessments.
- Advice and support to **improve accuracy of mSCOA financial reporting**.
- **Facilitate intergovernmental dispute resolutions** regarding debts owed to municipalities by other organs of state.
- Support municipalities to **develop long-term financial plans**.
- Financial support to strengthen internal capacity through **WC Financial Management Capability Grant and WC Municipal Financial Recovery Services Grant**. Focus areas include revenue enhancement, long-term financial planning, data cleansing, tariff modelling etc.
- Provide **socio-economic intelligence** via the Provincial and Municipal Economic Review and Outlook (PERO & MERO) publications and Socio-economic Profiles (SEP) to aid municipalities with strategic planning and budgeting.

FINANCIAL GOVERNANCE

- Ensure ongoing support, guidance and monitoring of the **functionality of oversight structures** (eg. Municipal Public Account Committees).
- **Councillor induction training** (in conjunction with SALGA & DLG) relating to public expenditure management.
- Facilitate **peer-2-peer training and learning opportunities** and advocate for sharing best-practices at intergovernmental platforms (CFO Forum, MAF etc.)
- Continuously provide support to municipalities during the **municipal external audit process**, which includes the PTHelpme facility, audit query tool, the Provincial Audit Steering Committee, the Accounting Working Committee and the monitoring of audit issues through our audit tracking team.
- Provide **support to municipal assurance services** regarding the effective implementation of combined assurance within municipalities.
- Support to utilise the **NT Financial Management Capability Maturity Model (FMCMM) Tool** which allows municipalities to assess the state of development of their internal controls, monitoring financial management capability, and to identify areas of financial weakness.

PT Support Initiatives

ASSET MANAGEMENT & SCM GOVERNANCE

- Continue **reducing red tape, streamlining SCM processes** whilst maintaining a level of compliance and improving access to procurement opportunities.

- Special support and **guidance on Preferential Procurement Regulations (2022)**; implementation of municipal procurement policies to ensure alignment to latest SCM policies, prescripts and SCM Reforms.

- **SCM Training and Support Programme** for municipalities and suppliers focused on addressing gaps and continuous SCM improvement.

- **Enhancement of Municipal Insight Performance Reporting** to improve transparency, accountability to assist municipalities with making sustainable procurement choices.

- Continue to **implement the municipal SCM Governance workstream and PT participation in NT workstreams** to address SCM interpretation and implementation challenges.

- **Strategic Procurement:** Strengthening demand forecasting and demand management requirements for municipalities and assist with procurement planning improvements.

- **Asset Management Governance and Capacity Building.**

PERFORMANCE REPORTING

- Advise and capacitate municipalities on the **reporting of Pre-determined Objectives (PDOs)** to ensure a stronger link between planning, budgeting and service delivery performance.

- Assistance with **financial and non-financial performance reporting templates** and frameworks (encourage municipalities to exchange knowledge and expertise, best practices etc.).

- Support and guidance to utilise the **Municipal eMonitoring System** which monitors the extent to which municipalities comply with MFMA prescripts.

MUNICIPAL FINANCE IMPROVEMENT PROGRAMME (MFIP)

The Municipal Finance Improvement Programme (MFIP) is a National Treasury initiative aimed to support the finance management reform agenda and to address the growing number of financial sustainability challenges being observed within local government.

This strategically-driven programme of technical support is aligned with the six Local Government financial management 'game changers' – funded budgets, revenue management, mSCOA, asset management, supply chain management, audit outcomes – and is designed to **strengthen the institutional and technical financial management capacity** of NT, the provincial treasuries and municipalities. This is mainly achieved through the placement of Technical Advisors (TAs) by NT within the MFMA support units of provincial treasuries, and the Budget and Treasury Office (BTO) of municipalities.

Sources & References

Graphs, Tables & Diagrams

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- Page 10: Operating Revenue Sources. *Pre-Audit mSOA Data Strings, 2023/24, GoMuni*
- Page 12: Service charges revenue vs expenditure. *Pre-Audit mSOA Data Strings, 2023/24, GoMuni*
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  - NERSA Tariff Increase vs Annual Revenue Growth. *Pre-Audit mSOA Data Strings, 2023/24, GoMuni, NERSA*
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- Page 18: Operating Transfers & Subsidies. *Pre-Audit mSOA Data Strings, 2023/24, GoMuni*
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Annexures

- 2023/24 Financial Performance Overview. *Pre-Audit mSOA Data Strings, 2023/24, GoMuni, Own calculations*
- Budget Funding Positions: *Provincial Treasury*

General Legislation

- Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
- Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)
- Municipal Budget and Reporting Regulations (2009)