



**CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD**

ANNEXURE 39

2025 BUDGET AND BENCHMARK ENGAGEMENT SUMMARY REPORT

2024/25 BUDGET (MAY 2024)



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National Treasury
REPUBLIC OF SOUTH AFRICA

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Ref No: CPT/5

Mr Lungelo Mbandazayo
The Municipal Manager
Cape Town Municipality
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CAPE TOWN
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Dear Mr Mbandazayo

OBSERVATIONS AND RECOMMENDATIONS EMANATING FROM THE BUDGET AND BENCHMARK ENGAGEMENT HELD ON THE 29 APRIL 2024

This letter serves as a high-level summary of key observations, recommendations and resolutions emerging from the engagement which was held on 29 April 2024.

The annual budget and benchmark engagement focused on the City's tabled budget for the 2024/25 Medium Term Revenue and Expenditure Framework (MTREF) and the strategic objectives as articulated in the longer-term strategic plans such as Municipal Spatial Development Framework (MSDF) and the Integrated Development Plan (IDP).

The objectives of the engagement were to:

- assess the alignment between planning, budgeting, and reporting;
- assess the level of integrated intergovernmental planning;
- assess whether the City's plans and budget are financially sustainable in the longer term and enable improved service delivery performance; and
- efforts to address the negative impact of load shedding and its impact on the economy.

The budget was assessed in terms of the following criteria:

- **credibility** - whether the budget assumptions are credible and whether the budget is funded in accordance with the provisions of section 18 of the Municipal Finance Management Act (MFMA);
- **relevancy** - whether the budget responds to the objectives articulated in the City's plans and the alignment between planning and budgeting; and
- **sustainability** - whether the City is financially sustainable.



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In addition, the overall assessment of the City's performance was undertaken in accordance with the four pillars namely, institutional arrangement, financial governance, financial health and service delivery.

The engagement was well-attended by key stakeholders - the City, National Treasury, Western Cape Provincial Treasury, Department of Water and Sanitation, Department of Human Settlement, SALGA, DBSA and COGTA. The City was well-prepared with rich content on the presentation and all areas of interest were covered.

A summation of the observations, recommendations and resolutions emanating from the discussions is presented below. To the extent possible, these recommendations must be incorporated in the budget before final adoption.

KEY OBSERVATIONS

Institutional arrangement: Sound

- The City prides itself in being sustainable and having a favourable Moody's rating.
- The City's leadership remains stable, with strong relations between the Mayoral Committee (MAYCO) and the Executive Management Team (EMT) and clearly defined roles and responsibilities.
- All governance structures are fully functional with clear role definitions and the administration is treated as professionals. The strong governance has enabled the City to minimise irregular expenditure and have effective contract and consequence management.
- The City indicated that their major challenge is construction mafias which threaten ongoing projects. It was highlighted that this is a national challenge and cannot be resolved by the City on its own. Therefore, it requires the National Government to intervene.
- Loadshedding remains a barrier, however, the City has made business continuity plans which aim at addressing the negative impacts including those of loadshedding which include investments in generators, inverters and solar panels.
- The process and timelines planned to align with the conditions set out for the Water Financing component in the Urban Settlements Development Grant (USDG) Framework were outlined, which include a water turnaround strategy approved by Council, a roadmap on institutional reforms and a Water and Sanitation services business and investment plan. The City indicated that it will meet the timeframe for submission by 30 September 2024.
- The City expressed its concern on the significant delays in the approval of the USDG and Informal Settlements Upgrading Grant (ISUPG) business plans which results in various performing projects being delayed, further impacting on spending and delivery by the end of the current financial year.
- In addition, the City indicated that transfers from the Department of Human Settlements (DHS) are gazetted and transferred late in the financial year (March which is the end of the national



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financial year). As a result, the City is expected to spend the funds by June which is the end of the municipal financial year. The DHS does not allow the City sufficient time to adequately plan for the late transfers. Therefore, DHS must ensure that it plans properly and informs the City of the funds that will be transferred.

mSCOA implementation:

- The City's *mSCOA* system demo was held in September 2023, whereby the City indicated its plans of upgrading to S4HANA by 2027.
- Noting challenges around the recording of VAT using *mSCOA*, a session will be arranged with National Treasury to address the challenges.
- The City has an *mSCOA* roadmap in place addressing the outstanding issues which include the budgeting and reporting on the cost of Free Basic Services and is targeted to be addressed in the 2025/26 budget. The issues relating to balance sheet budgeting and table A7 will be addressed with the implementation of the new core application system.
- Overall, the City is implementing the *mSCOA* segments correctly, the tabled budget (TABB) data string was submitted with validation errors which must be investigated and corrected in the adopted budget (ORGB) data string.

Financial governance: Sound

- The City has established a Budget Steering Committee and a Budget Strategy Committee which provides strategic guidance and ensures alignment between the budget and the City's strategies.
- The Strategic Management Framework (SMF) process was followed for planning which commenced with strategic review in July 2023 followed by the Operational and Capital Review.
- There was political oversight on the Integrated Development Planning (IDP) and budget process as the budget timetable was adopted by Council. In addition, there was a strategy brief by the Executive Mayor and City Manager to the Executive Directors and Mayoral Committee on the priorities.
- The City has institutionalised the key Built Environment Performance Plan (BEPP) reforms in their plan. There is evidence of a clear Theory of Change to address city transformation in line with national policy directives i.e. Spatial Planning Land Use Management Act (SPLUMA) and the Integrated Urban Development Framework (IUDF).
- There is improved compliance to MFMA Circular No. 88 and the indicators are included in the scorecard. The quality of data received from the City has generally been good. The City wrote a letter to National Treasury on the issues relating to MFMA Circular No.88 indicators as advised by the Auditor General of South Africa (AGSA) and is awaiting response.
- Line departments undertake self-assessments and the City ensures that there are assurance providers (internal and external).



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- The governance structures are in place and functional which minimises the opportunity for fraud and enables consequence management, as such, the City has built-in risk dictation systems.
- The City outlined challenges and opportunities of projects from National and Provincial government which include sector specific Intergovernmental Relations (IGR) forums, IDP consultation mechanisms for identifying projects addressing community needs and the challenges in obtaining planning information and project pipelines from other spheres.
- An Advocacy Programme was established by the City for proactive engagement on issues affecting residents out of the City's control. It also includes the devolution of certain rail functions and policing functions and the amendment of certain National Electricity Regulator of South Africa (NERSA) provisions.
- An energy study was undertaken and there are concerns which include the impact of the proposed Eskom tariff restructuring on the sustainability of municipalities; large capital and operational investments which will increase the asset base even with declining sales; wheeling; loadshedding rule and cross-subsidization being at risk.

Financial health: Sound

- The City indicated that the 2024/25 MTREF was informed by the Long Term Financial Plan (LTFP) theme of getting to a realistic, deliverable MTREF within a revenue envelope, which is credible and affordable to its ratepayers, consumptive users and stakeholders.
- The consideration of the affordability level is evident in the level of tariff increases for trading services and property rates; and the rebates provided by the City. The City maintained the tariff increases at low levels and has adequately provided reasons for the increases above inflation.
- The City also maintained the increases in operating expenditure at low levels and continues to implement cost containment measures given the revenue pressures. The issue that was raised previously which is still applicable in the 2024/25 MTREF is the level of contracted services in relation to operating expenditure. This is still high; however, it will require detailed cost benefit analysis given the type of services that are major contributors to contracted services.
- During the engagement, it was highlighted that some of these functions will be costly if performed internally. As an example, it was indicated that the contracted service for transportation includes MyCiti busses. It was also indicated that the contracted services for PSP have increased due to the increased infrastructure investment. Therefore, the cost will reduce as the infrastructure investment decreases.
- Over the years, the City was advised to budget for operating surpluses to ensure that it creates reserves to fund the capital budget from own funding. It is noted that the 2026/27 financial year will result in an operating surplus. This is as a result of the change in the depreciation strategy which is reducing annually.



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- A Capital Funding Strategy was introduced to ensure financial sustainability which includes borrowing, the prioritisation and reduction of the EFF (external funding) budget for alignment with the funding strategy, budgeting for a cash surplus and the management of financial ratios. The City's Borrowing Policy governs the City's raising of loans and strives to manage interest rate and credit risk exposure.
- The financial ratios are declining over the 2024/25 MTREF due to the decreasing cash and cash equivalents based on the budget document. However, they are still within the norm of MFMA Circular No.71 except for the current ratio and cost coverage ratio. During the engagement, the City indicated that there are investments that are accessible on demand and are current in nature which are included reported under non-current assets. Therefore, if they would include it under current assets, the current ratio is within the norm.
- The City has sufficient cash to pay creditors and has adequate cash backed reserves.
- There is continuity in the priorities included in the budget which reflects the application of multi-year budgeting. However, the change in the capital budget compared to the projections in the 2023/24 MTREF are above the 10 per cent norm by National Treasury. This is considered in relation to the complexity of implementation of projects given the local challenges i.e. construction mafias and appeals on tenders awarded.
- The City's 2024/25 MTREF budget was assessed as credible, funded and sustainable.

Service delivery: Sound

- The City allocated 52.6 per cent of the capital budget towards trading services, with 79.6 per cent thereof allocated to water and waste water management. This is due to the City prioritising upgrading of wastewater treatment works to increase capacity and bulk water augmentation which will unlock economic development.
- The budget allocation for asset renewal is adequate at 59 per cent of the capital budget in 2024/25 and reducing over the MTREF to 48.6 per cent by 2026/27 which is above the norm of 40 per cent. The City's provision for asset renewal in relation to depreciation is sufficient at 186.4 per cent in 2024/25 decreasing to 143 per cent in 2026/27 against the norm of 100 per cent.
- The provision of repairs and maintenance represents 8.1 per cent of Property, Plant and Equipment (PPE) in 2024/25 which is slightly above the norm but decreases to 7 per cent in the 2026/27 financial year, below the norm of 8 per cent. This ratio should be considered in line with the high allocations for the renewal and upgrading of existing assets. The investment in infrastructure results in a lower requirement for maintenance of assets.
- The City prides itself with investment in infrastructure in the efforts of service delivery and economic growth, resulting in employment opportunities.
- The City undertakes Project Readiness Assessment and risk assessment. The process differentiates between project and programme preparation. Projects are identified through the



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SMF process. There is clear demand plan that enables infrastructure delivery aligned to the infrastructure report.

- There are various challenges that the City faces while delivering services which includes, amongst others, staff safety, theft and vandalism, rising security costs to secure assets.
- The officials' safety risk is increasing, including the safety of service providers. The construction mafia continues to be a huge risk to infrastructure delivery and law enforcement is actively addressing this challenge.
- Repairs and maintenance performance against the budget for electricity is satisfactory with lower variances between budget and actual expenditure for the 2022/23 financial year. Challenges experienced include theft and vandalism, safety and security of technical teams, which negatively impacts on asset maintenance activities.
- The procurement strategy negatively impacted on the Urban Waste repairs and maintenance performance. Service delivery collapsed due to a change in the delivery model. However, the City reinstated the contracts of service providers to ensure service delivery and it is currently undertaking proper due diligence on those that are below standard.
- As the City ensures adequate maintenance of infrastructure to prevent asset-stripping, there are challenges which include delays in the finalisation of panel tenders with external parties entrusted with the upkeep of assets and measures put in place which has resulted in the prolonged turnaround time of repairs.
- The growth in the number of informal settlements, ongoing land invasions on projects areas and community resistance when enforcing council policy poses a challenge to the City's Human Settlements directorate. In addition, the continuous cuts by National government on the Human Settlements Development Grant (HSDG) is having a major effect on the roll out of new housing projects and delivery targets are adjusted as and when cuts are made by National Government.
- Safety and security is a major challenge to human settlements projects which cause delays on current projects and some tenders are terminated which necessitates re-advertising. The latter has a huge impact on budget spend and delivery of housing opportunities.

RECOMMENDATIONS/ RESOLUTIONS

It is recommended that National Treasury:

1. Establishes a task team consisting of National Treasury, Western Cape Provincial Treasury and the City to discuss the transfer of funds to municipalities without a gazette and consider this as part of the grants review process;
2. Arranges a technical session between the City and National Treasury to address the inclusion of VAT on the cashflow and reporting using *mSCOA*;



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3. Considers introducing flexibility in borrowing to ensure financial sustainability because it takes time to realise the return on infrastructure investments funded from borrowing;
4. Responds to the City's letter on MFMA Circular No. 88;
5. Shares the intergovernmental (provincial and national) projects in a spatialised format with the City;
6. Facilitates engagements on exploring a fixed charge benchmark for trading services; and
7. Includes sector focus in the budget assessments e.g. human settlements.

It is recommended that the City:

8. Continue to take the lead in driving inter-governmental coordination at the city level;
9. Uses spatialised economic data for planning and decision making; and
10. Uses and accesses the Infrastructure Reporting Model (IRM) to ensure that all the provincial projects are disclosed and could be spatially represented.

It is recommended that :

11. Sector departments should be more involved in the assessment of the IDP.
12. Eskom must review their tariff in relation to the changing environment as there are independent power producers e.g. what will be the impact of a fixed charge if introduced by Eskom.

The National Treasury appreciates the City's preparation efforts and willingness to engage in robust and informative discussions for the duration of the engagement.

Yours faithfully

KGOMOTSO BALOYI
DIRECTOR: LOCAL GOVERNMENT BUDGET ANALYSIS
DATE: 20/05/2024

CC: Chief Financial Officer
Mr Kevin Jacob