Western Cape Government

FOR YOU

Strategic Integrated Municipal Engagement 2024

West Coast District

Bergrivier Municipality

Revenue and Expenditure

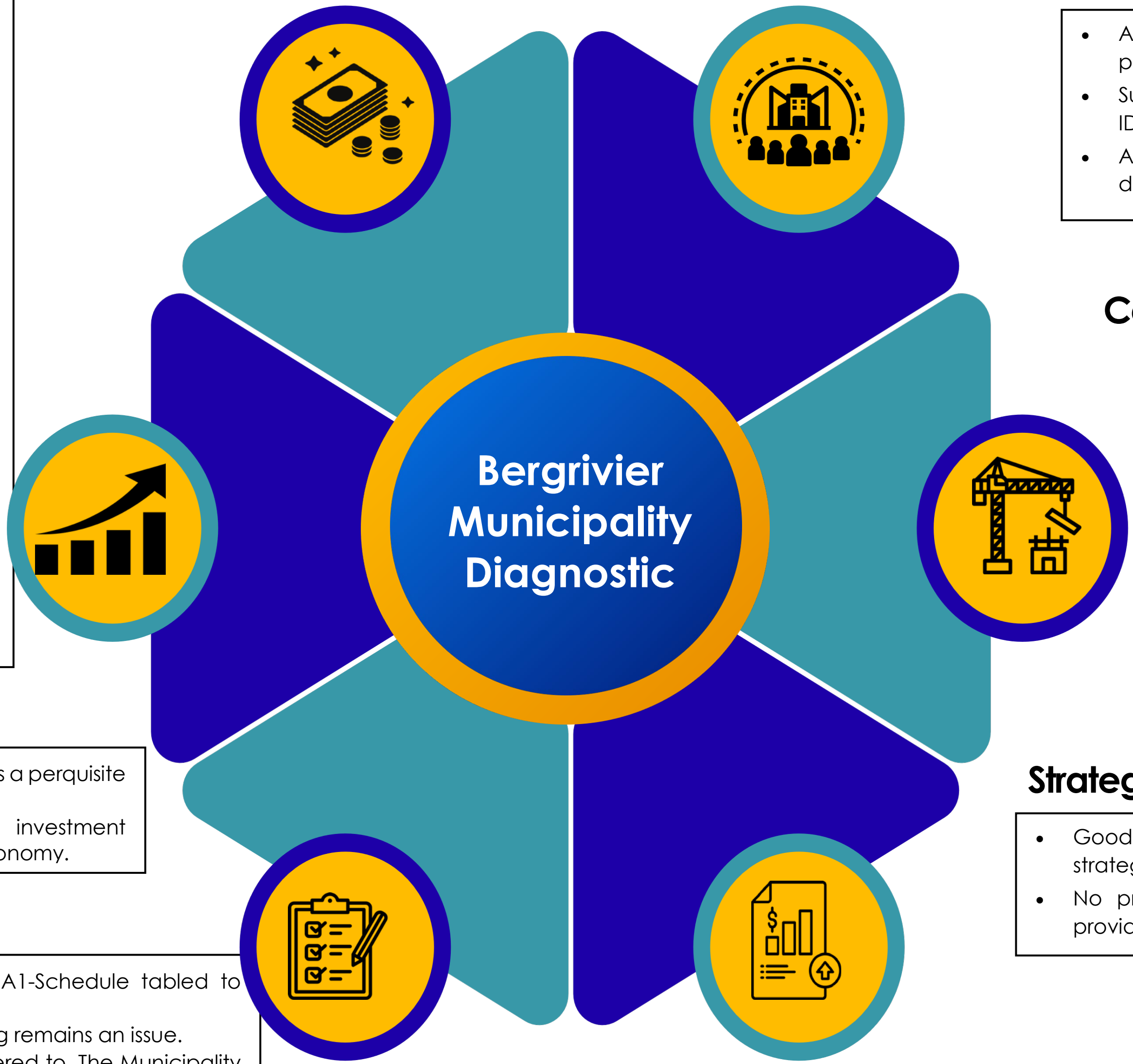
- 2024 MTREF tabled budget is **funded**.
- Operating Deficit Budget for 2024/25 – depreciation charges must be funded.
- Cost-reflective service charges and addressing the deficits in electricity services - carefully balance tariff increase with affordability and ensure that the deficit can be supported by other trading services or another cost.
- Issuing of RFPs to attract IPPs to invest in alternative sources of energy.
- Salary and Wage Collective Agreement - new agreement may influence employee related cost budget.
- Depreciation and asset impairment be reviewed based on the potential increase/decrease of assets and their useful lives and consider past trends - future rehabilitation costs, since four landfill sites anticipated to close in 2025.
- Continue with stricter credit control measures and debtor's data cleansing – debtors in excess of 90 days.
- Continue implementing stringent cost containment measures.

Economic Sustainability

- Adequate bulk and service infrastructure is a perquisite for attracting investment.
- Exploring partnerships and potential investment opportunities is vital to boost the local economy.

mSCOA Compliance

- Data credibility: Difference between A1-Schedule tabled to Council and mSCOA data string.
- Balance sheet and cash flow budgeting remains an issue.
- VAT accounting for services is not adhered to. The Municipality did not make provision for output VAT on the service charge. Movement accounting continues to be a challenge and it is not applied correctly.
- The municipality is encouraged to develop a roadmap on the steps that will be taken to correctly implement mSCOA.



Integrated Development and Spatial Planning

- Adopt the new MSDF when considering the proposed amended IDP in May 2024.
- Submit a memorandum when adopting the IDP in May 2024.
- Address issues raised by the sector departments in section 2.2.4 of the report.

Capital Budget & Infrastructure

- Aligning expenditure with long-term strategic objectives to support prioritise infrastructure upgrades.
- Upgrading of existing assets and infrastructure renewal should be give adequate priority in budget planning and decision-making processes.
- Prioritising repairs and maintenance funding, reducing reliance on short-term financial recovery measures.

Strategic Procurement

- Good evidence of SCM involvement in strategic planning cycle.
- No procurement plan or asset register provided for assessment.

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LIST OF ACRONYMS

AQMP	Air Quality Management Plan
BESP	Built Environment Support Programme
CAPEX	Capital Expenditure
CBD	Central Business District
CBA	Critical Biodiversity Areas
CMP	Coastal Management Programme
CPI	Consumer Price Index
CRR	Capital Replacement Reserve
CSIR	Council for Scientific and Industrial Research
DCAS	Department of Cultural Affairs and Sport
DEA&DP	Department of Environmental Affairs and Development Planning
DHS/DOHS	Department of Infrastructure
DM	District Municipality
DLG	Department of Local Government
DWA	Department of Water Affairs
EPWP	Expanded Public Works Programme
FBE	Free Basic Electricity
HSP	Human Settlements Plan
IDP	Integrated Development Plan
IGP	Infrastructure Growth Plan
IIAMP	Integrated Infrastructure Asset Management Plan
IIF	Infrastructure Investment Framework
ITP	Integrated Transport Plan
ISDF	Integrated Strategic Development Framework
IYM	In-year Monitoring
IWMP	Integrated Waste Management Plan
JOC	Joint Operations Centre
kl	kilolitre
KPA	Key Performance Area
KPI	Key Performance Indicator
kWh	kilowatt hour (1000 watt hours)
LED	Local Economic Development
LTFP	Long-Term Financial Plan
LUPA	Land Use Planning Act

MBRR	Municipal Budget and Reporting Regulations
MDG	Millennium Development Goal
MFMA	Municipal Finance Management Act
MER	Municipal Energy Resilience
MI	Municipal Infrastructure
MIG	Municipal Infrastructure Grant
MIP	Municipal Infrastructure Plan
MISA	Municipal Infrastructure Support Agent
MMP	Maintenance Management Plan
MSDF	Municipal Spatial Development Framework
MTREF	Medium Term Revenue and Expenditure Framework
MVA	Megavolt Amperes (1 Million volt amperes)
MWh	Megawatt hour (1 Million watt hours)
NRW	Non-revenue Water
NDHS	National Department of Human Settlements
NT	National Treasury
O&M	Operations and Maintenance
OPEX	Operating Expenditure
PPE	Personal protective equipment
PMS	Performance Management Systems
RAMSAR	A wetland site designated to be of international importance under the Ramsar Convention, also known as "The Convention on Wetlands"
RMP	Road Management Plan
SCM	Supply Chain Management
SDBIP	Service Delivery Budget Implementation Plan
SDF	Spatial Development Framework
SOP	Standard Operating Procedure
SWMP	Stormwater Management Plan
WDM	Water Demand Management
WSDP	Water Service Development Plan
WTW	Water Treatment Works
WWTW	Wastewater Treatment Works

SECTION 1: INTRODUCTION

The 2024 SIME assessment summarises comments by the Western Cape Government (WCG) on the draft 2024 MTREF Budget, 2024/25 Integrated Development Plan (IDP), Spatial Development Framework (SDF) and other relevant polices and documents.

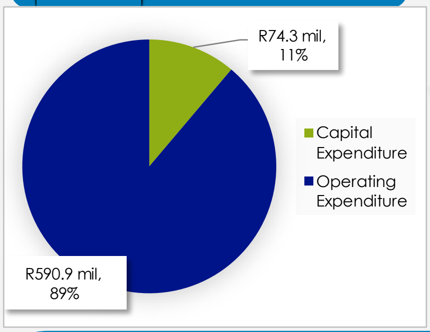
The assessment covers the following key areas; conformance with the Local Government: Municipal Finance Management Act 56 of 2003 (MFMA), Local Government: Municipal Systems Act 32 of 2000 (MSA) & Municipal Budget and Reporting Regulations (MBRR); an integrated, spatial and environmental Planning analysis of the IDP and SDF and the responsiveness, credibility and sustainability of the tabled budget.

The WCG intends meeting the executives of **Bergrivier Municipality** (the Municipality) in May 2024, where the key findings and recommendations of this report will be presented and deliberated upon. The planned engagement will contextualise the Municipality's challenges and responses as presented in the draft budget, IDP, LED, SDF and as well as other strategic matters for discussion between the two spheres of government. All the information related to the assessment and analysis of the draft annual budget, IDP and SDF are found in the report below.

The budget snapshot below provides a high-level overview of key socio-economic and financial indicators of the Municipality in relation to the regional economy.

BUDGET SNAPSHOT

2024/25 Municipal Expenditure



GDPR

GDPR Current Prices 2022e	GDPR Growth 2024f
R5.796 billion	1.9%

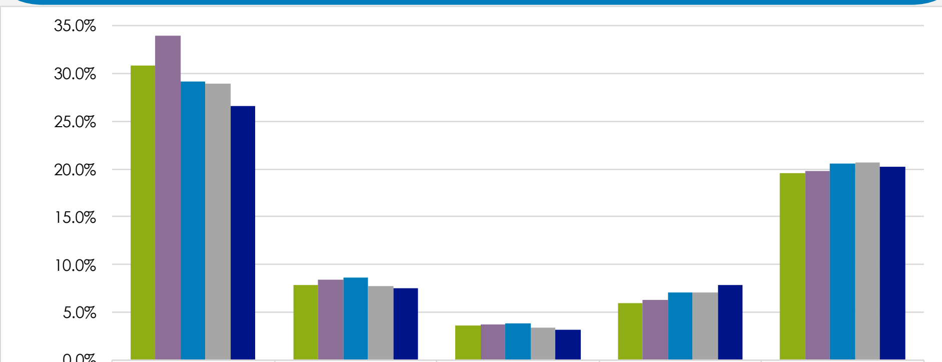
Inflation

2023/24	2024/25	2025/26	2026/27
6.0%	4.9%	4.6%	4.5%

2022

Total Population	No. of Households	% Indigent Households
70 276	20 412	9.8%

Service charges and Property Rates Revenue as a % of Total Revenue (2020/21 to 2024/25)



	Electricity	Water	Waste Water Management	Waste Management	Property rates
2020/21	30.9%	7.9%	3.6%	6.0%	19.6%
2021/22	34.0%	8.5%	3.7%	6.3%	19.8%
2022/23	29.2%	8.6%	3.8%	7.1%	20.6%
2023/24	29.0%	7.7%	3.4%	7.1%	20.7%
2024/25	26.6%	7.5%	3.2%	7.8%	20.2%

Sources: Municipal expenditure and revenue estimates- Draft 2024/25 A1 schedule; Population and Households - StatsSA Census 2022; GDPR - Quantec, 2022; Inflation- NT Budget Circular No.126; Indigent Households and GDPR Forecast- MERO 2023/24

SECTION 2: INTEGRATED DEVELOPMENT PLANNING

2.1 INTRODUCTION

An IDP is the principal strategic planning instrument which guides and informs all planning and development, and all decisions with regard to planning, management and development in a Municipality. An IDP provides the strategic direction for all the activities of a Municipality over five years linked to the council term of office.

Each municipal council must annually review and may amend the IDP of the Municipality. Should the review process determine that an amendment is required, a Municipality should follow the process as stipulated in Regulation 3 of the Local Government: Municipal Planning and Performance Management Regulations of 2001 (MSA Regulations).

The 2023/24 review of the IDP of the Municipality took into consideration any changed circumstances and an assessment of the performance measurements. Based on the 2nd review of the 2022 - 2027 IDP, the Municipality intends to adopt an amended IDP in May 2024.

2.2 INTEGRATED PLANNING ANALYSIS

2.2.1 IDP Overview

The vision and mission statements as well as the five strategic goals of the Municipality remained the same. Each strategic goal is linked to several strategic objectives. The main proposed amendment relates to the adoption of a new Municipal Spatial Development Framework (MSDF). The Municipality is remined to adopt the new MSDF when considering the proposed amended IDP in May 2024, as a core component of the IDP in line with section 26(e) of the MSA.

The situational analysis in the IDP relies on statistics sourced from the 2022 Stats SA Census, the 2023 Municipal Economic Review and Outlook and the 2023 Socio-Economic Profile for Local Government. This information was used to evaluate population growth, conduct an economic review, and assess service delivery levels. Beyond statistical analysis, the Municipality identified communities with limited access to services and outlined specific initiatives to address this.

2.2.2 IDP process including community consultation

In terms of sections 28 and 29 of the MSA, a Municipality must follow a prescribed process when reviewing and/or amending an IDP. The process to be followed must allow for the local community to be consulted on its development needs and priorities, for the community to participate in the drafting of the IDP and for organs of state and other role players to be identified and consulted on the drafting of the IDP. Furthermore, key activities and deadlines for the process must be set out in a Time Schedule in terms of section 21 of the MFMA.

Further, Regulation 3 of the MSA Regulations provides that a proposal to amend an IDP may only be introduced by a council member or committee of council; that it must be accompanied by a memorandum and that a district Municipality must consult with the local municipalities when intending to amend their IDP and that local municipalities must similarly consult the district Municipality if they intend to amend their IDP.

The Municipality adopted a Process Plan in May 2022. The Process Plan sets out the stakeholders involved in the IDP process, their respective roles and responsibilities, the need for inter-governmental alignment, and the key activities and deadlines for the five-year cycle of the IDP involving annual reviews. The Time Schedule tabled in August 2023 outlines the key deadlines for the review, drafting and approval of amendments to the IDP.

The proposed amendments to the IDP are outlined in a letter from the Municipality, to the MEC for Local Government, Environmental Affairs and Development Planning, rather than a memorandum submitted to Council. The Municipality should ensure that such a memorandum is provided when adopting the amended IDP in May 2024. The Council resolution provided reflects that the tabled IDP will be submitted to the West Coast District Municipality (WCDM) for their input.

The Municipality has implemented a strategic framework for public engagement, notably dividing its jurisdiction into 14 sectors to facilitate continuous communication with stakeholders. Through structured dialogues, both the Municipality and sector representatives collaborate to address issues comprehensively. Moreover, ward committees convene bi-annually to solicit community input on needs and offer feedback on draft plans,

In conjunction with these efforts, annual town-based public meetings are organised across the Municipality during September and October. These meetings serve as essential platforms for soliciting community input, providing progress updates, and aligning priorities with those identified by ward committees. Additionally, the IDP Representative Forum, convened by the Mayor and Municipal Manager bi-annually, brings together sector leaders to ensure compliance with the Municipality's planning and performance management regulations. This forum fosters high-level discussions and coordination among stakeholders, effectively informing strategic decisions regarding the IDP and budget allocations.

To ensure a comprehensive overview and record of community needs, the Municipality developed a user-friendly spreadsheet with dropdown menus for easy filtering. A link is provided in the tabled IDP to the spreadsheet. This will streamline the prioritisation process during the next IDP review process.

2.2.3 IDP compliance

The core components of an IDP are set out in section 26 of the MSA and Regulation 2 of the MSA Regulations. An assessment of the tabled IDP reflects compliance with the MSA and its Regulations, however the Municipality is reminded to adopt the new MSDF as a core component of the IDP, when considering the proposed amendments in May 2024.

2.2.4 IDP alignment

According to section 32 of the MSA the MEC may within 30 days of receiving a copy of an IDP, or within such reasonable period as may be approved, request a Municipality to adjust the plan or amendment in accordance with the MEC's proposal if it is in conflict with or is not aligned with or negates any of the development strategies of other affected municipalities or organs of state. Section 26 of the MSA further requires that IDPs must be aligned with and not negate the national and provincial development plans and planning requirements binding on the Municipality in terms of legislation.

The amended IDP reflects alignment between the Municipality's strategic goals with various international, national, provincial and district strategic imperatives and plans including the National Development Plan, the national Medium-Term Strategic Framework, the Provincial Strategic Plan (2019-2024), as well as the IDP of the WCDM. This alignment of strategic plans promotes greater coordination and collaboration between government departments and municipalities, resulting in improved outcomes and more efficient allocation of resources.

The status of all sector plans is reflected in a table contained in the tabled IDP. All the sector plans are up to date except for some of the infrastructure related master plans such as those for water, sanitation, storm water and electricity. These are in a process of being updated with assistance from Development Bank of Southern Africa (DBSA).

Economic Development

The tabled IDP aligns with the Western Cape Government's priorities for economic development, as detailed in the Growth for Jobs Strategy. The Municipality's economic priorities include ease of doing business, promoting tourism, job creation, and attracting investments. It is important for the Municipality to ensure that its policies and infrastructure are investor-ready to facilitate investment and business growth. This entails having clear land-use processes and policies on land disposal to attract investments.

Furthermore, the Municipality has established strong relationships with the private sector through the Bergrivier Economic Development Forum. The Municipality is encouraged to also reflect on support for small businesses, both formal and informal, as highlighted during public participation sessions.

The Municipality serves as a significant local market for small businesses, underscoring the importance of supporting and facilitating strategic sourcing. The Municipality is encouraged to utilise procurement to support its economic development plan and to promote local supplier and contractor development.

In 2023, the Department of Agriculture (DoA) released a report on the impact of loadshedding on the agricultural sector. It is recommended that the Municipality study the report and explore initiatives on how the community, including the agricultural sector, can become more energy resilient.

Municipal Infrastructure, Human Settlements and Transport

The tabled IDP indicates that the Municipality extended its Water Services Development Plan (WSDP) until 2023 in terms of the Water Services Act, 1997 (Act 108 of 1997). The Municipality is currently updating the WSDP through grant funding received from the DBSA. The Municipality is encouraged to reflect on the progress of this project in their IDP and to reflect the updated WSDP, once completed, in future amendments of the IDP.

The nature of infrastructure requires a long-term approach that takes cognisance of the planning, design, implementation, management, and maintenance of assets that have lifespans of 50 years or longer period. Therefore, the Department of Infrastructure (DoI) is currently developing a Western Cape Infrastructure Framework 2050 (WCIF). The WCIF aims to facilitate infrastructure-led growth and investment for the Western Cape. The Municipality is encouraged to align future amendments to the IDP with the priorities outlined in this Framework.

The tabled IDP reflects that the Municipality’s Integrated Transport Plan (ITP), is valid until 2025. The ITP aims to improve transportation by focusing on better mobility for residents within the main towns and between residential areas and the central business district. The tabled IDP also includes a list of projects under the transport plan, along with their budget allocations.

Health, Social Services and Amenities

The Municipality, through its initiative called “Empowering People through Innovation,” places a strong emphasis on youth development by building continuous partnerships to support young people. In addition, the tabled IDP identifies initiatives to address social issues such as setting up a night shelter and addressing the growing rate of domestic violence.

Safe and Cohesive Communities

In terms of safety and security, the tabled IDP includes an analysis of crime statistics from 2021 to 2023. This includes data on murder rates, sexual offenses, drug-related crimes, driving under the influence, and residential burglaries.

The tabled IDP reflects that the Municipality has a Disaster Management Plan (DMP) in place. This Plan includes the priority risks identified through a Disaster Risk Assessment carried out across the West Coast District. The DMP outlines a contingency plan to address the various risks identified during the assessment.

2.2.5 Outstanding areas for improvement

The Municipality adequately responded to the identified areas for further improvement outlined in previous assessment reports.

2.3 KEY FINDINGS AND RECOMMENDATIONS

2.3.1 Key findings

Based on the above assessment, below is a summary of key findings:

- The tabled IDP complies with the requirements of the MSA and Regulations in terms of core components, however the Municipality is encouraged to attend to the matter highlighted within section 2.2.3 above.
- A letter with the proposed amendments were forwarded to the MEC for Local Government, Environmental Affairs and Development Planning, rather than a memorandum submitted to Council.
- The Department of Economic Development and Tourism, the Department of Water and Sanitation, the DoI and the DoA raised various issues and recommendations in section 2.2.4 reflecting on alignment of the tabled IDP with the development strategies of organs of state.

2.3.2 Recommendations

It is recommended that the Municipality:

- Ensure that a memorandum is submitted when the IDP is adopted in May 2024 in compliance with Regulation 3(2) of the MSA Regulations.
- Adopt the new MSDF when considering the proposed amended IDP in May 2024, as a core component of the IDP, in line with section 26(e) of the MSA; and
- Address issues raised by sector departments in section 2.2.4 of this report dealing with alignment.

2.4 ENVIRONMENTAL AND PLANNING ANALYSIS

2.4.1 Strategic Spatial Planning Pressures and Risks

Specific spatial risks and pressures were identified during the 2022 SIME process, which remain relevant today. It was noted that as a result of in-migration, as well as an influx of seasonal workers, poverty and the number of indigent households is increasing, impacting on the Municipality's financial sustainability. Careful thought on how to more sustainably accommodate urban growth pressures due to migration and urbanisation is needed, especially in light of the diminishing availability of housing subsidies. Another risk identified is the development pressures experienced in Velddrif and the Berg River Estuary, which is a valuable biodiversity asset. This area has since been declared a RAMSAR site and the Municipality, through the MSDF, have been resolute in their conservation and protection of this area.

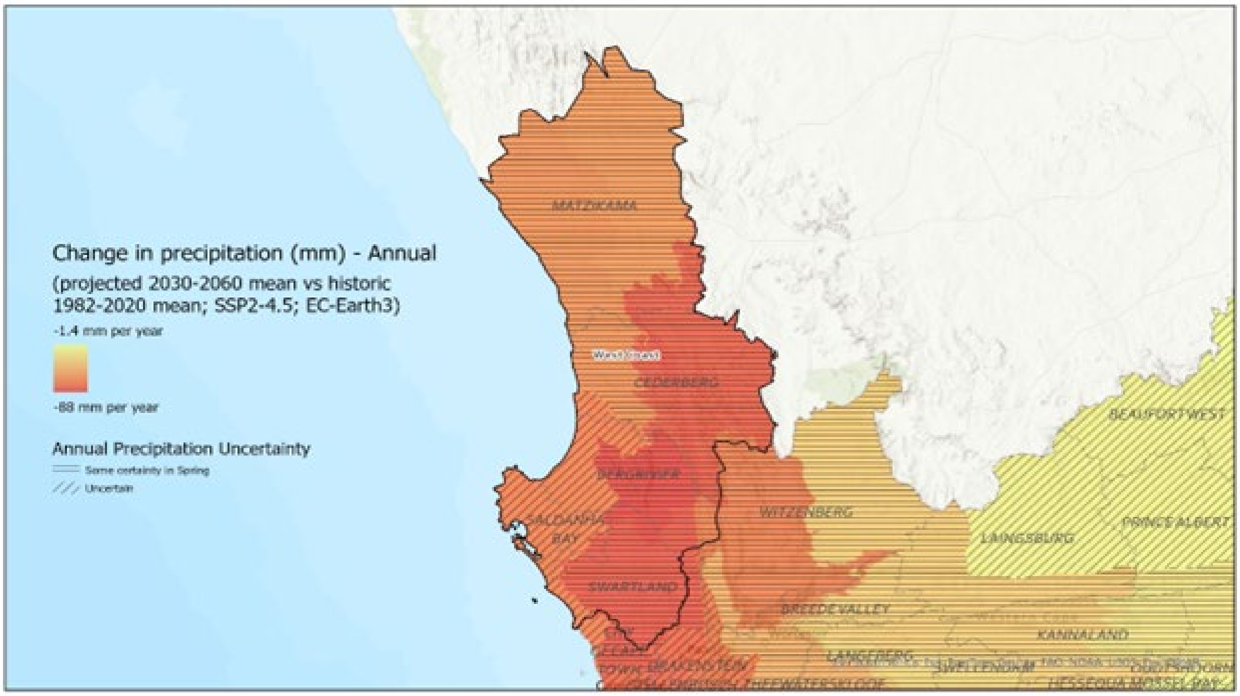
Annual review of performance in relation to SDF Implementation

With the recent adoption of the Bergrivier MSDF, it is important to note that there is now a need to review the actual implementation of the MSDF on an annual basis, which is a legislative requirement in terms of section 34(a)(i) of the MSA, in order to determine the extent to which the Municipality is working towards achieving the spatial objectives and principles set out in the MSDF and monitoring progress. This monitoring can be done through: assessing alignment between the budget and the SDF; spatialising the budget to determine the extent to which the budget is being targeted in priority areas; monitoring land use applications and approvals, assessing alignment between the SDF and the various sector plans – this is especially important for those sector plans which have been revised/ drafted since the approval of the latest SDF; and lastly by documenting completed and planned amendments to the Municipality's Land Use Scheme in response to the SDF. (More information on Annual Performance Reviews of the Implementation of SDF's, can be found in the Practice Note which accompanied Provincial Circular 0005/2023).

Climate Change

Projections indicate that by 2050, drought risk in the West Coast District will nearly triple (from just over 2 possible drought years per decade to 6 years). Temperatures will also continue to rise, resulting in 21 more hot days (temperatures above 30 degrees Celsius) per year by 2050 in the Bergrivier municipal area. Coastal erosion will also continue due to sea level rise. Rainfall will decrease, and combined with the higher temperatures, will increase concerns over water security and the risk of wildfires. Increased overall temperatures and lower river water flow will also aggravate issues with algal blooms and vegetative clogging of waterbodies.

Figure 1 Decrease in total annual precipitation by mid-century



Source: https://www.elsenburg.com/wp-content/uploads/2022/08/SmartAgri-Climate-Change.pdf

2.4.2 The Municipality's Response to Strategic Pressures and Risks

The Municipality adopted a new MSDF on 25 March 2024, which includes a Capital Expenditure Framework (CEF). The Municipality is reminded that the MSDF and the CEF should be used as a budget decision-making tool in the preparation of the 2024/25 capital budget, and this should be championed by the manager responsible for spatial planning in the Budget Steering Committee.

The Municipality is commended for taking the initiative towards further alignment between the various master plans, the MSDF and the IDP. The CEF has made significant progress in determining priority investment areas, where urban growth can be accommodated, quantifying infrastructure demand and identifying infrastructure investment requirements. The CEF also speaks to the Municipality's 10-year affordability envelope for capital infrastructure investment and maintenance. This information should be the foundation for the determination of the 10-year prioritised portfolio of capital investments, which should act as a key informant to the IDP and annual capital budget.

It is noted that the CEF speaks to the scoring of projects. While Figure 20 in the MSDF indicates a scored capital project list, it is unclear whether this is the designated 10-year prioritised portfolio of capital investments. The MSDF notes that "the proposed programme still has to be tailored within the defined expenditure envelope defined by the MTFP." The MSDF also notes that a spatially referenced capital project portfolio was compiled and funding strategies have yet to be identified.

In terms of the Implementation Plan, the MSDF provides an implementation timeline for proposals per settlement, however, it does not necessarily outline the specific arrangements for prioritising, mobilising, sequencing and implementing public and private infrastructural and land development investment in priority spatial structuring areas", as stipulated by SPLUMA. The Implementation chapter should also list all required Land Use Scheme Amendments referred to in the MSDF proposals section. In addition, the Implementation chapter should clearly set out what the monitoring indicators are, which the Municipality should use to monitor the implementation of the MSDF in the annual IDP Performance Review.

It is, however, acknowledged that there is a strong correlation between the development priorities highlighted in Chapter 8 of the IDP and the development proposals of the MSDF. Chapter 8 of the IDP speaks to the planned municipal programmes and projects (aligned to the strategic goals and objectives) over the MTREF period. The development priorities linked to Infrastructure projects are of specific relevance. Tables 82 (MIG Infrastructure), 84 (Water Capital Development Priorities), 85 (Sanitation Capital Development Priorities), 86 (Electricity Capital Development Priorities), 87 (Roads and Pavements Capital Development Priorities), 88 (Storm Water Capital Development Priorities), and 89 (Waste Management Capital Development Priorities), appear to be in alignment with the development priorities discussed in the MSDF. Tables 101 (Capital Programme per town) and 102 (Three-year capital expenditure programme with projects) outlines the capital expenditure programme, as contained in the budget.

It is acknowledged that the CEF and Implementation Plan have laid a good foundation as a budget decision-making tool, and it is anticipated that the CEF and Implementation Plan will mature over time, focussing on the compilation of a well-defined 10-year prioritised portfolio of capital investments and an Implementation Plan that clearly outlines the implementation arrangements in terms of mobilising and sequencing and funding of projects and programmes.

Climate Change Response Strategy

The Municipality is in the process of developing a stand-alone climate change response plan. Once approved, the plan needs to guide a relook at how climate change is integrated into the other strategic planning processes. It must also be interpreted for the various Departments/sectors as specific interventions that they are to be responsible for.

2.4.3 Key Findings and Recommendations

The Municipality is reminded that in terms of section 34(a)(1) and 41(1)(c) of the MSA, a performance review of the IDP and MSDF must be undertaken, at least annually, moving forward.

While it is acknowledged that the MSDF does contain a CEF, further refinement of the CEF is recommended that clearly sets out the prioritised portfolio of capital investments. In addition, the implementation plan should seek to provide clear direction in terms of the implementation of the MSDF. The Municipality is encouraged to build on the valuable work already done, working towards further maturation of the CEF and Implementation Plan.

SECTION 3: ECONOMIC AND FINANCIAL SUSTAINABILITY

3.1 INTRODUCTION

This section provides an assessment of key indicators related to the responsiveness, credibility and sustainability of the tabled budget.

Key to assessing the above criteria is the alignment of the Municipality's budget to its strategic objectives, where if there are gaps identified, recommendations will be provided considering the municipal areas current socio-economic challenges.

The revenue and expenditure analysis and risks section provide a gap analysis with regards to trading services, analysing the credibility, tariff structure and responsiveness of the Municipality's budget.

As capital infrastructure development is a key catalyst for economic growth and sustainability, the Municipality's capital funding mix, capital budget implementation and procurement planning assessment are critical to understand the municipal area's growth trajectory.

3.2 SUSTAINABLE ECONOMIC DEVELOPMENT

Table 1 Strategic Objectives for the 2024/25 Medium Term Revenue & Expenditure Framework

Strategic Objective	2024/25 Medium Term Revenue & Expenditure Framework OPEX				2024/25 Medium Term Revenue & Expenditure Framework CAPEX			
R thousand	Budget Year 2024/25	Budget Year 2025/26	Budget Year 2026/27	Average Annual Growth	Budget Year 2024/25	Budget Year 2025/26	Budget Year 2026/27	Average Annual Growth
SG1 Strengthen financial sustainability.	45 572	48 482	51 661	6.5%	1 850	2 000	2 000	4.0%
SG2 Ensure good governance.	60 837	65 277	69 400	6.8%	65	76	10	-60.8%
SG3 Sustainable service delivery.	342 867	377 649	415 290	10.1%	64 166	70 582	71 113	5.3%
SG4 Facilitate an enabling environment for a diversified economy and growth to alleviate	42 452	72 095	20 514	-30.5%	1 230	10	10	-91.0%
SG5 Empowering people through innovation.	99 155	104 896	110 889	5.8%	7 035	5 010	4 198	-22.8%
Total Expenditure	**590 882**	**668 400**	**667 754**	**6.3%**	**74 346**	**77 678**	**77 331**	**2.0%**

Source: Bergrivier Municipality, A-Schedules

- The strategic goals noted in budget tables SA5 and SA6 for the 2024/25 MTREF are aligned to the strategic goals in the IDP and reflects financial commitments for all five strategic goals.

- It is clear from the budgetary allocation to the strategic goals that the bulk of the 2024/25 MTREF allocation is focused towards Strategic Goal (SG) 3 'Sustainable service delivery'; this includes an operating budget allocation of R342.867 million (58.2 per cent). Similarly, the bulk of the capital expenditure budget, amounting to R64.166 million (86.3 per cent), is designated for this strategic objective in 2024/25 financial year.

- SG3 "Sustainable service delivery" include three strategic objectives, of which two centres around the development, provision and maintenance of infrastructure services, and third around the development needs of the communities. In terms of functional areas, it includes trading services (water, sanitation, solid waste and electricity) as well as the roads and storm water functions. It is evident that the Municipality's 2024 MTREF budget prioritised spending towards delivering on its basic delivery mandate.

- When compared to the adjustment budget, annual growth in operating expenditure increases by R22.550 million or 3.9 per cent in 2024/25 financial year. The expenditure in two outer years of MTREF increases by R7.751 million (13.1 per cent) and R646 000 or 0.9 per cent respectively.

- The strategic objective: sustain service delivery addresses water, sanitation and electrical services, also addresses roads and transport management as well as street lighting and solid waste management and collection. The Municipality's 2024/25 budget thus prioritising trading services and service delivery in its allocations.

- The remaining operating budget (R248.016 million) is distributed across the SO's with "Empowering people through innovation" allocated 16.7 per cent, "ensure good governance" allocated 10.2 per cent and "Strengthening financial sustainability" allocated 7.7 per cent.

- The bulk of the capital expenditure allocation, amounting to R64.166 million or 86.3 per cent, is designated to sustain service delivery, particularly in water, sanitation, and electrical services. Additionally, funds will be directed towards road and transport management, street lighting, and solid waste management and collection. These allocations have seen an average annual growth of 2.0 per cent over the MTREF period. Following this, 9.4 per cent of the allocation is earmarked for empowering people through innovation and enhancing financial sustainability, totalling R1.850 million or 2.4 per cent. A further effort to facilitate an enabling environment for economic diversification and growth to alleviate poverty is allocated R1.230 million or 1.6 per cent.

3.3 REVENUE AND EXPENDITURE ANALYSIS AND RISKS

3.3.1 Budget Overview

Table 2 Budget overview for the 2024/25 MTREF Budget

Bergrivier	MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK					
Description	2024/25	2024/25	2025/26	2025/26	2026/27	2026/27
R thousand	Budget Year +0	Treasury Calculation	Budget Year +1	Treasury Calculation	Budget Year +2	Treasury Calculation
Total Operating Revenue (excluding capital transfers and contributions)	**586 387**	**586 387**	**669 119**	**669 119**	**673 550**	**673 550**
Total Operating Expenditure	**590 882**	**589 321**	**668 400**	**666 713**	**667 754**	**666 116**
Surplus/(Deficit)	**(4 495)**	**(2 934)**	**720**	**2 407**	**5 796**	**7 434**
Non Cash Items						
Depreciation & asset impairment	**30 174**	30 174	**31 705**	31 705	**33 058**	33 058
A4: Total Operating Budget Restated Result	**25 679**	**27 240**	**32 425**	**34 112**	**38 854**	**40 492**
A5: Total Capital Expenditure	**74 346**	**74 346**	**77 678**	**77 678**	**77 331**	**77 331**
Funded by:						
Transfers recognised - capital	**23 723**	23 723	**28 176**	28 176	**34 844**	34 844
Borrowing	**23 495**	**23 495**	**26 200**	**26 200**	**23 900**	**23 900**
Internally generated funds	**27 128**	**27 128**	**23 302**	**23 302**	**18 587**	**18 587**
A7 - Cash/cash equivalents at the year end:	**167 797**	**190 565**	**180 168**	**222 787**	**204 840**	**261 209**
A8 - Surplus/(shortfall) after application of cash and investments	**126 080**	**169 170**	**132 365**	**199 607**	**150 884**	**242 211**

BUDGET FUNDING POSITION	**FUNDED**	**FUNDED**	**FUNDED**	**FUNDED**	**FUNDED**	**FUNDED**

Source: A1 schedules, NT funding tool, ORGB data strings.

- The A1-Schedule submitted to Council and mSCOA data string submitted to National Treasury indicate that the 2024/25 MTREF draft budget is **funded**, however the margin of the projected funded shows huge discrepancy. Discrepancies between the mSCOA data strings (A6 Budgeted Financial Position and A7 Budgeted Cash Flows) and the A1-Schedules presented to the Council on the 28th of March 2024. The budget document narrative indicates that one of the municipality game changers is to implement mSCOA correctly. These discrepancies have been shared with the Municipality with the

TABB segment tool analysis. The Municipality is encouraged to develop a roadmap on the steps that will be taken to correctly implement mSCOA.

- As per the NT Budget Funding Tool Assessment, Bergrivier Municipality 2024 MTREF is funded, without any threats to its going concern and sustainability over the 2024/25 MTREF. This is supported by table A8 which indicate cash backed reserves/accumulated surplus over the 2024/25 MTREF, which are consistent with the requirements of section 18 of the MFMA.

- The Municipality's tabled budget and Treasury recalculation result in an operating deficit for the 2024/25 budget year, and an operating surplus is projected for the two outer years. This is mainly due to the non-cash item, depreciation and amortisation. The Municipality is reminded of the guidance provided in MFMA Circular No.115 that depreciation charges should be funded from operational funds. When deprecation is funded, it will assist the Municipality to accumulate sufficient surpluses that must be transferred to cash backed reserves.

- Trend analysis of the collection rate for the past two audited years are 95 per cent and above, which is consistent with National Treasury’s norm. Debtors outstanding for more than 90 days remains a concern, as it amounts to R105.02 million or 73.2 per cent of the total outstanding debtors of R143.33 million as at the end of February 2024. Provincial Treasury takes note of the municipal financial sustainability strategy, with an aggressive revenue management framework to increase cash inflow. The continued implementation of the financial sustainability strategy is of importance, given that the economic challenges will place pressure on households’ ability to pay municipal accounts and Eskom power cuts negatively affect sustainability of small and large businesses.

- All municipal services, except electricity, are projected to operate at a surplus in 2024/25. All service charges tariff increases are projected above the targeted inflation of 3-6 per cent, except for refuse (20.0 per cent) and electricity (10.9 per cent). The budget document narrative does provide clarification for all the increases, 2024/25 budget, and that the Municipality is moving towards a cost reflective tariff increase for service charges that will be phased in over the MTREF.

- Capital expenditures over the 2024/25 MTREF is projected to be funded from grant transfers (31.9 per cent), borrowing (31.6 per cent) and internally generated funds (36.5 per cent) of the budget amount of R74.35 million. The Municipality plans to invest in infrastructure projects by taking on additional borrowing, as indicated on A5, to the amount of R73.59 million over the entire MTREF period from 2024/25 to 2026/27. The gearing or debt ratio will remain sound at 28 per cent over the MTREF. This suggests that the Municipality has the capacity to increase funding from borrowings but should be considered within the cash flow requirements of the Municipality.

- In order to sustain a positive financial position, with these evolving economic conditions, the Municipality should continue to implement strategies that focus on growth, revenue management and protection, prioritise core spending, and ensure that the Municipality's financial resources are allocated efficiently.

- The Municipality reported an increasing year-on-year positive cash and cash equivalents balance over the MTREF period of R167.79 million in 2024/25, R180.16 million in 2025/26, and R204.84 million in 2026/27, respectively.

- The analysis of table A6 (Budgeted Financial Position) projects that the Municipality will realise a positive working capital over the MTREF period, indicating that the Municipality will have sufficient funds to meet its short-term liabilities, and will be able to sustain its financial health position.

- The Municipality is demonstrating that it has adequate cash resources to meet its monthly fixed operating commitments from available cash and investments. The Municipality has considered the required applications to the reported cash and investments reflected in table A8. The Municipality is cautioned that any omission or non-commitments would provide a distorted view of the net surplus cash position achieved.
- The Municipality projected its liquidity ratio to increase from 1.99:1 (2024/25), to 2.06:1 (2025/26), and to 2.24:1 (2026/27) over the MTREF period. The ratio outcome suggests that the Municipality anticipates having adequate financial resources to settle its short-term debt when it is due for payment. The Municipality shows no sign of liquidity risk based on the favourable liquidity ratios reported throughout the MTREF period, which is above the NT acceptable norm of 1:1.
- The Municipality projects a cost coverage ratio of 4.15 months in 2024/25, 3.89 months in 2025/26 and 4.47 months in 2026/27 financial years, demonstrating that the Municipality has adequate cash resources to meet its monthly fixed operating commitments from available cash without collecting any additional revenue. The anticipated cash coverage ratio is above the NT acceptable norm of between 1-3 months.

3.3.2 Borrowing

- The Municipality intends to take up borrowings over the years of the MTREF period, as per table A5. The Municipality projected a revenue-to-debt ratio (Gearing) of 25.1 per cent in the current year (2023/24) which is within the NT recommended norm of 45 per cent, implying that the Municipality currently does have the capacity to increase funding from borrowings, gearing ratio trends upwards over the MTREF period, from 26.1 per cent in 2024/25, 26.8 per cent in 2025/26, to 30.2 per cent in 2026/27.
- Disclaimer: It should be noted the financial liabilities under current liabilities on the A6 were not added to the gearing ratio. This could distort the true reflection of the ratio.
- The Municipality projected a positive cash and cash equivalents which includes repayment obligations, as indicated on table A7 throughout the MTREF period. The Municipality reported repayment on borrowings to the amount of R13.46 million (2024/25), R14.92 million (2025/26) and R14.73 million (2026/27) respectively.
- The Municipality has tabled its Funding Policy which considers the financial position of the Municipality, the cost of borrowing, the per centage borrowing to own funding of Capex, and the capacity to repay debt.

  The net increase in cash held over the MTREF period suggest that the Municipality have to the ability to meet its debt repayment obligations given existing revenue collection levels in the outer MTREF years. However, it should be noted that the Municipality's tariff structure should be set to include the capital charges of any additional debt obligation so that sufficient funds can be generated to meet the repayment obligations.

3.4 TRADING SERVICES

- To ensure a funded budget, the Municipality had to apply efficiency savings, whilst minimising the tariff increases taking into consideration tariff affordability for residents. Bearing in mind the multiple service delivery challenges and related backlogs, exacerbated by the increase in operational costs – the Municipality emphasised the need to review the outdated and inadequate local government fiscal model.

- The Municipality highlighted that it implemented some tough decisions and choices regarding service delivery. In addition, the drive to continue to find alternative and innovative measures of ensuring service delivery was applied. From a service delivery perspective, this did not necessarily involve passing on the increased costs to the ratepayer and consumer.

- The principle adopted in compiling the 2024/25 budget placed emphasis on maximising efficiency (value for money) and reducing of costs (including the reduction in non-priority spending) as well as wastage, without jeopardising service levels or productivity. Furthermore, the principle of cost reflective tariffs was applied in conjunction with tariff affordability, bearing in mind also that tariffs needed to make provision for depreciation and the building up of reserves.

- Even though the Municipality acknowledges that tariffs as well as property rate increases should be affordable and should generally not exceed the growth parameters or upper limits of inflation as measured by the CPI – the 2024/25 financial year tariff increases are considered as above the CPI or average rate. The reason provided relate the prior multiyear lower that cost price increases. In general, the Municipality highlights that there is a need to increase tariffs sufficiently to ensure the recovery of cost of the services; as well as to ensure the long-term financial sustainability of the Municipality. Price increases relating to municipal input regarding services are external driving factors, such as the continued escalation in the electricity and fuel price as well as the above average increase in specialised goods and services needed in service delivery which are subject to exchange rate fluctuations[1]. Subsequently, the current reality in respect of inflationary increases and other economic factors as well as price increases (such as fuel price and associated taxation), make it extremely difficult for municipalities to manage tariff increases within the guideline limits/parameters.

- To embed the process of tariff setting, the Municipality has undertaken a cost reflective tariff study for water, sewerage and refuse service provisioning. Various anomalies were found that has directed the Municipality to perform an audit of all service points and units of service consumed or used by consumers.

- The Municipality also emphasises that the focus is on ensuring efficient revenue management, with the aim of maintaining a minimum rate of 95.77 per cent annual collection rate for property rates as well as other key service charges.

  - Provincial Treasury notes that a revenue enhancement program has been implemented and the physical inspection of the service points have started with more than 8000 being surveyed to date. This program is geared to ensure that all revenue is correctly billed in accordance with the category, user type and applicable tariffs and number of service units as determined by the Municipality.

  - This drive is underpinned by a concerted effort by the Municipality to curb electricity as well as water losses as this has a direct bearing on the revenue streams of the Municipality and ultimately the financial sustainability.

[1] The Municipality relates that the main cost drivers of the tariff increase are the increase in cost of employment through notch increases, provision for the filling of critical vacancies, and other cost drivers associated with the rendering of goods and services by the municipality such as high fuel price increases, increasing interest rates, increase in the cost of commodities, scarcity of certain products due to the war in the Ukraine, the volatility in the markets, contractual obligations and other pre-determined and regulated price adjustments and legislated tariffs, fees and charges.

- The Municipality acknowledges that the current rates base is inadequate to accommodate the cost of services, especially considering the ageing infrastructure and the cost necessary in upgrading and refurbishment of service delivery infrastructure vehicles and equipment. Multiple role-players would need to collectively contribute to ensure not only the financial sustainability of the Municipality, but also the economic progression of its citizenry.

    - The Municipality reiterates that the "basket of goods and services" necessary to provide municipal basic services do not necessarily correspond with the "basket of goods and services" influencing the CPI rate applicable to households in general. As a result, the arbitrary prescription for tariff increases is of little value to the municipal decision-making process. However, the Municipality recognises that excessive increases are also likely to be counterproductive, resulting in higher levels of nonpayment.

    - A specific area entails the Municipality exploring the benchmarking practice, to ensure that the tariffs which are applied are within the industry norm as operational requirements and service standards of comparable sizes and demographics of municipalities are similar. Basically, a deviation from this norm will give an indication of Municipality long-term sustainability in the application of its tariff strategy.

    - A specific objective of the revenue enhancement program is to improve accurate services and billing data as well as assist in the reduction of unaccounted consumption of water and electricity. Inaccessible meters are being replaced by smart meters that will enable reading to be taken without access to properties being necessary, whilst meters will also be moved to outside property fences to ensure accessibility by meter readers. The Municipality has budgeted an additional R1.170 million for either the replacement or installation of new and enhanced metering equipment for the 2024/2025 financial year.

    - The relevant bylaws (such as the water by-laws) are to be amended.

- In addition, over the 2024 MTREF the Municipality is geared towards ensuring greater participation and the forging of partnerships with the private sector, with specific reference to infrastructure development and maintenance[2]. Further focus will be placed on ensuring municipal energy resilience through the adoption of an Energy Plan, which will place the Municipality in a position to provide uninterrupted services, but more importantly will allow for the better protection of municipal revenue streams.

- Provincial Treasury highlights that National Treasury determined the poverty threshold as two times the government old age pension and the indigent subsidy received through the equitable share is intended to subsidise the households that meet the qualification criteria. It is noted that in the case of the Bergrivier Municipality, the Council has adopted a policy whereby the qualifying threshold was extended to provide subsidies to households earning twice the government old age pension – plus 40 per cent.

    - The issue of long-term sustainability requires focused deliberation. The poverty threshold has been capped at a combined household income of R5000 per month which essentially 40 per cent more than the threshold determined by the National Treasury.

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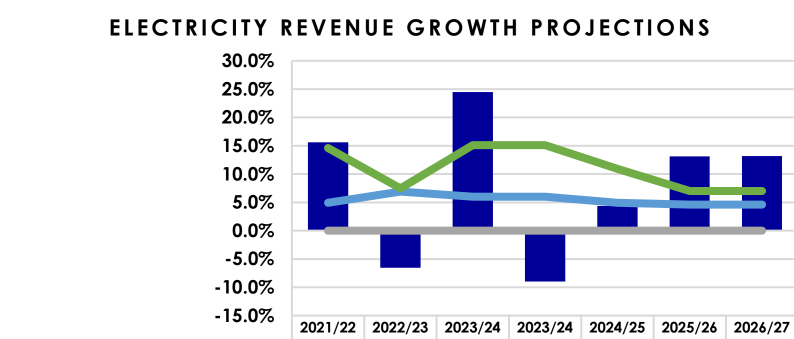
2 This complements the Local Economic Strategy approved in May 2015, which led to the establishment of the Bergrivier Economic Development Forum. In 2019, an Economic Development Portfolio was established as to mainstream the work of the Department of Strategic Services and an Economic Recovery Plan was developed in 2021. (To date the Local Economic Strategy and the Economic Recovery Plan were consolidated to ensure a single economic development strategy).

3.4.1 Energy Services

3.4.1.1 Energy Services Credibility and Sustainability

Diagram 1 Energy trading service trends



	2021/22 - Aud	2022/23 - Aud	2023/24 - Orgb	2023/24 - Adj	2024/25 - Orgb	2025/26 - Orgb	2026/27 - Orgb
Electricity Revenue Growth	15.6%	-6.6%	24.5%	-9.0%	4.3%	13.1%	13.2%
Consumer Consumption Growth	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Inflation	4.9%	6.9%	6.0%	6.0%	4.9%	4.6%	4.6%
Tariff Increases	14.6%	7.5%	15.1%	15.1%	10.9%	7.0%	7.0%

Cost Recovery	Direct and Indirect	2024/25 R'000	Surplus/Deficit
	Revenue	R157 953 000	-R26 731 522
	Expenditure	R184 684 522	

Source: NT tariff setting tool

2024/25 Tariffs	Cost of Supply Study	Tariff Increase (Mun)	Mun Average
Cost of Supply study (completed in the last 3 years)	Yes	10.9%	11.95%

Source: Municipal Tariff list

Basic Service Delivery	Number of Households	Operational Cost of Electricity Services (R'000)		
		2024/25	2025/26	2026/27
Indigent (A10,SA1)	11 212	R2 040	R2 361	R2 733
Indigent (LGES)	9 563	R15 611	R16 843	R18 190

Source: A2 & LGES tables

Source: NT GoMun 2024/25 Draft Budget

- Electricity service charges are the largest contributor to revenue, accounting for R155.91 million, or 26.6 per cent of the total operating budget of R586.39 million. Diagram 1 shows that electricity revenue growth will increase by 4.3 per cent in 2024/25 when compared to 2023/24 adjusted budget and this growth is projected to significantly increase by 13.1 per cent in 2025/26 and 13.2 per cent in 2026/27. According to budget document narrative, lower growth in electricity is expected due to consumption as municipal customers are becoming more energy wise and small-scale embedded generation becomes a reality, impacting negatively on revenue from electricity and will put pressure on the financial performance of the Municipality. With the 10.9 per cent tariff increase and the 4.3 per cent revenue growth, this implies that there is a 6.6 per cent change in consumption, the Municipality should review this before the final budget, in order to narrow the deficit.

- This indicates potential financial strain as revenue growth pauses behind expenditure growth, posing challenges for maintaining fiscal sustainability. To ensure that the envisioned revenue is realised within the duration of the MTREF period the Municipality would have to ensure that the deficit can be supported by the other trading services or another cost. The Municipality applied for 10.9 per cent tariff increase to the National Energy Regulator of South Africa (NERSA) for approval, which is slightly below NERSA's approved increase for the bulk costs Eskom will charge the Municipality at 12.72 per cent.

- It is advisable for the Municipality to explore strategies aimed at mitigating the adverse effects on revenue. This could involve enhancing energy efficiency programs, promoting renewable energy initiatives, and engaging with stakeholders to foster understanding and cooperation during these challenging times. Additionally, ensuring transparency in the tariff adjustment process and actively seeking feedback from residents can foster trust and cooperation within the community. Review existing by-laws to identify possible revenue opportunities associated with a) the uptake of PV Solar Systems by private households and commercial entities; b) wheeling and c) procurement from IPPs by private entities; and regulate the connection of embedded generation into the municipal distribution system.

- According to the diagram above, an operating deficit margin of R24.93 million is projected for 2024/25 and this is due to the fact that electricity revenue growth of 4.3 per cent for 2024/25 is below the electricity expenditure growth of 8.7 per cent for the same budget year. These deficits should be viewed in line with electricity losses of 10.72 per cent as reported in the 2022/23 AFS, representing a slight decrease from 12.58 per cent in the previous financial year. Electricity losses can be attributed to a combination of factors, i.e., transformer and losses associated with meter infrastructure. The Municipality indicated that a meter replacement program in respect of electricity meters is underway to curb unaccounted losses. These ratio's remains material, as it is above the NT norm of 7-10 per cent. The Municipality has budgeted an additional R1.170 million for either the replacement or installation of new and enhanced metering equipment for the 2024/25 financial year.

- According to the draft amended IDP for 2022-2027, the Municipality already developed SSEG and wheeling policies as adopted by council. The next step will require issuing of RFPs to attract IPPs to invest in alternative sources of energy. A range of sources are considered such as PV and LNG and others that may be deemed feasible. It is noted that the development priorities for 2024/25 will be the network studies and master planning to enable implementation of policies.

- The Municipality expects to collect 95.8 per cent of the billed electricity revenue. However, electricity debtors as at end of February 2024 accounts for R15.16 million or 10.6 per cent of total outstanding debtors of R143.33 million, of which 37.2 per cent is over 90 days. The Municipality should continue with strict implementation of credit control procedures, which will further enhance the Municipality's sustainability.

- According to the mSCOA data string the C4 does not reconcile with the C6 monthly billing. Prepaid electricity makes up R90.99 million or 58.36 per cent of the total electricity revenue. The Municipality did not make provision for output VAT on the service charge. Movement accounting continues to be a challenge, and it is not being applied correctly on the C6 and C7. The Municipality needs to correct this with the final budget.

- The A1 Schedule support schedule indicates that the cost of free basic electricity services is R2.04 million in 2024/25. The Municipality receives R15.61 million from the basic component of the LGES for the provision of free basic electricity services. Revenue cost on Free Basic Services (FBS) is expected to increase over the outer MTREF years, and the number of households receiving FBS is also estimated to increase from 2021/22 till 2026/27 in table A10. The constrained fiscal environment, including high levels of food price inflation and rising interest rates, continues to impact heavily on disposable household income. The larger impact on municipal budgets is likely to come from an increase in indigent household applications and municipalities should anticipate this and provide for the cost in their budget.

- The Municipality is reminded of the imminent risk posed by the STS TID prepaid meter reset process. All conventional prepaid meters (non-smart meters) are programmed with a unique code that needs to be reset before 24 November 2024. After this date, all meters that have not been reset will stop accepting new tokens leaving residents unable to recharge with prepaid electricity. Meters will function as normal once a reset code has been entered, but until such time, residential and commercial prepaid meters users will be completely cut-off. Municipalities will subsequently not be able to generate revenue from the sale of prepaid electricity to these customers. The Municipality is reminded that the reset process cannot be done remotely and that each meter must be reset individually.

- The latest data at PT's disposal indicates that as at the 4 April 2024, the Municipality has reset 100 per cent of an approximate 11 281 meters within its jurisdiction.

- The Municipality is further reminded that there are prepaid meters within the municipal boundary that fall within Eskom's responsibility. While Eskom is confident that all these meters will timeously be reset, the Municipality should plan for an eventuality where residents could potentially be left without electricity.

- A key focus area going forward relates to the strengthening of the municipal revenue base. To optimise revenue, further refinement of the wheeling framework is identified as work in progress, which will allow for the transmission of energy across the municipal networks. It is noted that the Department of Energy has awarded a private company a license as a provider of solar energy to be fed into the Eskom grid for the provision of solar energy in the vicinity of Aurora, which provides corporate social beneficiation to this community.
- The 10.9 per cent increase in the electricity tariff is geared toward maintaining the current measures which has been implemented to improve energy service provisioning. Aspects for mitigation include:
  - Maintaining the installation of diesel generators at key points and the installation of uninterruptible and battery backup systems.
  - Addressing the implications of load shedding, which necessitated that the Municipality improve the securing/protection of municipal infrastructure from vandalism. This was achieved through the installing of alarms, cameras and solar lighting at key points.
  - Dealing with the energy demand to charge the batteries after Eskom supply were restored, increased the peak demand on the electrical networks and exceeded the Notified Maximum Demand of various towns resulting in penalties levied by Eskom. Dealing with the customers investing in solar and other alternative energy systems to ensure energy availability during load shedding periods.
- The Municipality highlights the need to explore alternative energy supply for low-cost housing, in keeping with developing innovative methods to manage energy supply. Exploring the option of installing renewable energy sources (such as solar panel installation), especially within new developments. Coupled with energy control measures like the implementation of solar panels, the installation of LED lights and a ripple control system will also become a priority to curb and control usage, rather than expanding the Eskom capacity at a very high cost. The Municipality is also considering innovative methods to manage energy supply and/or alternative means of energy. The Municipality is committed to continuously reduce losses (on-going).

3.4.1.2 Responsiveness to Energy Demand and Provision

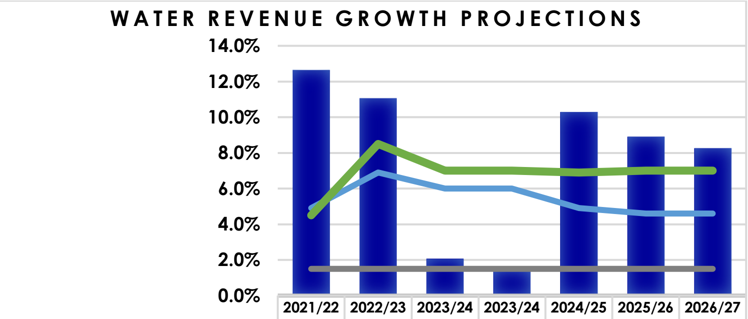
Municipal challenges	• Increasing cost of and unaffordability of basic services. • Ageing infrastructure. • Energy crises and the devastating impact on the economy. • The demand for services that continue to outstrip the available resources. • Budgetary constraints. • Vacancies and unfunded positions make it difficult to ensure maintenance and disruptions to the communities are limited.
Electricity Expenditure Analysis	• The current electricity crisis brings with it a complex range of impacts, both on the municipal operations as well as on society at large. • PTs 2023 Socio Economic Profile (recent Census 2022 figures) estimates that 98.6% of households have access to electricity services at a basic service level; the municipal figures in A10 indicate a significantly lower proportion (1.4%) of households who do not have access to a minimum standard of the service. This suggests that the Municipality is working to ensure that all households have access to this essential service. The municipal household figures in A10 for electricity services are more in line with the most recent Census information.

	• Bergrivier Municipality has increased its 2024/25 operating budget allocation to energy sources by (R14.289 million) 8.7%, which is above inflation targets for the MTREF period. The increase allocations clearly reflect a direct correlation with the issues highlighted in both the Annual Report and the Integrated Development Plan (IDP). With the Municipality's ongoing energy challenges in mind, the supplementary funding allocated towards energy provision distinctly illustrates the budget's adaptability to address the present electricity crises. • With ageing infrastructure cited as a challenge, the total capex budget of R24.080 million for energy sources or 32.3% of the trading services. • Significant municipal capital expenditure allocations for energy include R10.0 million for the upgrade of electricity infrastructure, and R6.446 million for machinery and equipment and R4.0 million for electrical infrastructure, • Other project in the outer years of the MTREF years include upgrading of electricity infrastructure (R2.870 million), as well as R1.600 million for machinery and equipment. • These types of allocations are critical to address the current energy infrastructure challenges faced in the municipal area.

3.4.2 Water Services

3.4.2.1 Water Services Credibility and Sustainability

Diagram 2 Water trading service trends



	2021/22 - Aud	2022/23 - Aud	2023/24 - Orgb	2023/24 - Adj	2024/25 - Orgb	2025/26 - Orgb	2026/27 - Orgb
Water Revenue Growth	12.6%	11.1%	2.1%	1.4%	10.3%	8.9%	8.3%
Consumer Consumption Growth	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Inflation	4.9%	6.9%	6.0%	6.0%	4.9%	4.6%	4.6%
Tariff Increases	4.5%	8.5%	7.0%	7.0%	6.9%	7.0%	7.0%

Cost Recovery	Direct and Indirect	2024/25	Surplus/Deficit
	Revenue	R47 018 000	R10 043 893
	Expenditure	R36 974 107	

Source: NT Tariff Tool/ A1 schedules

2024/25 Tariffs	Basic Charge	Tariff Increase (Mun)	Tariff Increase (WC Avg)
Business	Yes	6.9%	6.9%
Households	Yes	6.9%	7.5%

Source: Municipal Tariff list

Basic Service Delivery	Number of Households (LGES)	Operational Cost of Water Services (R'000)		
		2024/25	2025/26	2026/27
Indigent (A10,SA1	9 951	R2 914	R3 180	R3 472
Indigent (LGES)	9 563	R22 520	R24 297	R26 242

Source: Municipal Tariff list

Source: NT GoMun 2024/25 Draft Budget

- Diagram 2 illustrated that the water revenue growth increase to 10.3 per cent growth for 2024/25, then slowed to 8.3 per cent in 2026/27, which is constant with the consumer consumption projected growth of 1.5 per cent over the MTREF. The expenditure growth also increases to 12.3 per cent in 2024/25 but there will be a significant decline in expenditure growth in the two outer years of 3.7 per cent in 2026/27. In previous years, this service has not aligned its costs adequately and not been cost reflective, thus a cost reflective tariff was implemented in 2021/22, as it aims to cover all the costs associated with delivering a sustainable service to the consumers. This tariff was also influenced by the continuous loadshedding as this resulted in increased costs of fuel for the generators at the pump stations for the purification of water.

- According to the diagram above, water service is projected to have an operating surplus of R10.04 million for 2024/25, but this is projected to decrease in the outer MTREF years. Factors that are contributing to the increase in expenditure relate to capital projects for the replacement of critical portions of current water networks that have reached the end of their useful life and are burdening the Municipality with excessive maintenance and overtime costs due to continued breakages. The continued load shedding, with its linked costs, should also be a factor that the Municipality should be cautioned about, as this would affect its expenditure linked to the delivery of such services.

- Additionally, while the decrease in expenditure growth is a positive sign, it may also indicate reduced investment in infrastructure maintenance, upgrades, or expansion, which could impact service quality and reliability in the long term. Therefore, although the narrowing gap between revenue and expenditure growth rates is advantageous, continued monitoring and strategic financial management are necessary to address the underlying concerns and ensure the Municipality's financial sustainability and service delivery effectiveness.

- The Municipality is commended for putting measures in place to curb cost by continuing to implement a revenue enhancement plan – which will aid in ensuring accurate services and billing data and assist in the reduction of unaccounted consumption of water. Inaccessible meters are being replaced by smart meters that will enable reading to be taken without access to properties being necessary, meters will also be moved to outside property fences to ensure accessibility by meter readers, the water by-laws will be amended to include the requirement. According to Supporting Table SA36, R1.17 million has been budgeted for the replacement or installation of new and enhanced metering equipment for the 2024/25 financial year,

- In the 2022/23 Annual Financial Statements (AFS), the Municipality reported water losses amounting to 14.59 per cent, representing a slight decrease from the previous year's figure of 15.12 per cent. The losses are primarily the result of major pipe bursts, field leakages, and aging meter infrastructure. To address the water losses, a concerted effort is currently underway to replace meters, water mains, and metering systems.

- Overall, the Municipality deserves to be commended for its concerted efforts to address water losses, which is essential for ensuring the efficient and sustainable use of water resources. The Municipality's proactive measures to deploy flow water meters and smart prepaid meters, coupled with the adoption of a comprehensive smart meter policy, signify a positive step toward addressing water losses and promoting financial sustainability. These initiatives have the potential to yield long-term benefits for both the Municipality and the community by enhancing service delivery, reducing losses, and ensuring equitable access to essential utilities.

- According to the data string the C4 does not reconcile with the C6 monthly billing. The Municipality did not make provision for output VAT on the service charge. Movement accounting continues to be a challenge and it is not applied correctly on the C6 and C7. The Municipality needs to correct with the final budget.

- The projected water tariff increases with 6.9 per cent, which is above the CPI and inline the WC municipal tariff average of 6.9 per cent for water. Given the 6.9 per cent tariff increase plus 1.5 per cent consumption growth, this implies that there should be an 8.4 per cent revenue growth. The Municipality should provide reasons for the projected 10.3 per cent revenue growth in the budget.

    - An aspect going forward, which will have an impact of water tariffs going forward relates to the upgrades and refurbishment to the Piketberg Water Treatment Works as well as the construction of a new reservoir in Piketberg. This project is currently nearing completion with the anticipated handover within the 2024 financial year. The WTW in Porterville also requires further upgrade to accommodate the demand for low-cost housing. A specific challenge which the Municipality needs to address, relates to the need to explore additional sources for water supply (for example in Aurora and Redelinghuis).

    - A further challenge is the increasing expansion of backyard dwellers due to homeowners renting out structures on their properties. The Municipality is experiencing a challenge to ensure that these backyard dwellers have access to sufficient water and a survey is being undertaken to assess the extent of this challenge.

- The WSDP reached its five-year cycle and the Municipality states that an upgrade is eminent. However, the Municipality will apply for a one-year extension of the current plan, while the new plan is being updated through grant funding by DBSA.
  - The Water Conservation and Demand Management Plan will be updated, developed and approved in order to enhance the reduction of water backlogs, with minimal financial implications. The updated plan will also assist with the 2024 MTREF focus on reduction of water losses and the management of water resources.
  - Key aspects regarding long term sustainability include the improved maintenance of infrastructure, the replacement of failing water mains, the installation of smart metering devices and the putting in place of cost-reflective tariffs.

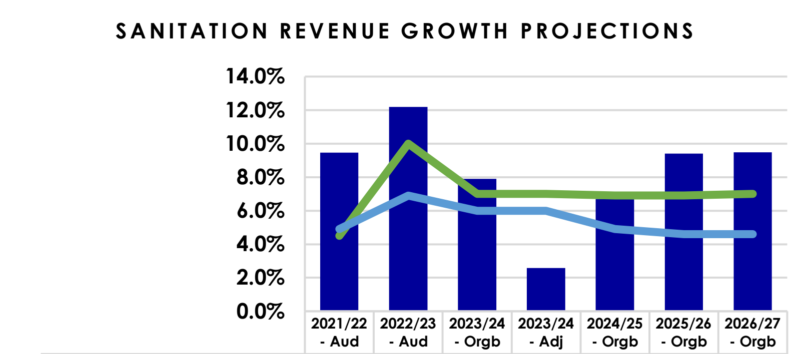
3.4.2.2 Responsiveness to Water Services Demand and Provision

Municipal challenges	• Increasing cost of and unaffordability of basic services. • The demand for services that continue to outstrip the available resources. • Reducing water losses. • Ageing infrastructure. • Budgetary constraints. • Vacancies and unfunded positions make it difficult to ensure maintenance and disruptions to the communities are limited.
Water Expenditure Analysis	• The existing water infrastructure in most of the municipal area is in very poor condition, and this has an impact on the level of service that is provided to the communities. • According to the 2023 Socio-Economic Profile, 88.7% of households within the Municipal area have access to water. The municipal household figures in A10 for water services are more in line with the most recent Census information. This demonstrates the Municipality's concerted effort to ensure water access for every household. • Bergrivier Municipality has increased its funding for water sources in the 2024/25 operating budget by R3.978 million, representing a 12.4% rise. This increase surpasses the inflation rate projected for the 2024/25 (MTREF). The allocations reflect a concerted effort to address the issues outlined in the Annual Report and Integrated Development Plan (IDP). • Due to ageing infrastructure identified as challenges, the total capital expenditure budget for water management stands at R7.857million or 10.5 of the trading services budget in 2024/25 financial year. The allocations increase by R 16.485 million or 20.9%. This is above inflation in the 2024/25 MTREF period. • Significant municipal capital expenditure allocations for water include R5.187 million for water treatment works. • Other project in the outer years of the MTREF years include R7.943 million for replacement of water pipes, R6.126 million for water supply infrastructure, R3.440 million for replacement of bulk water pipes R2.0 million for water renewable and R1.0 million for storm water infrastructure. • Investment in bulk infrastructure unlocks the development potential of the area by creating space for development.

3.4.3 Waste water Services

3.4.3.1 Waste Water Services Credibility and Sustainability

Diagram 3 Wastewater trading service trends



	2021/22 - Aud	2022/23 - Aud	2023/24 - Orgb	2023/24 - Adj	2024/25 - Orgb	2025/26 - Orgb	2026/27 - Orgb
Sanitation Revenue Growth	9.5%	12.2%	7.9%	2.6%	6.7%	9.4%	9.5%
Tariff Increases	4.5%	10.0%	7.0%	7.0%	6.9%	6.9%	7.0%
Inflation	4.9%	6.9%	6.0%	6.0%	4.9%	4.6%	4.6%

Cost Recovery	Direct and Indirect	2024/25	Surplus/ Deficit
	Revenue	R22 751 000	R1 686 125
	Expenditure	R21 064 875	

Source: NT tariff setting tool

2024/25 Tariffs	Basic Charge	Tariff Increase (Mun)	Tariff Increase (WC Avg)
Business	Yes (based on size of erf)	6.9%	6.7%
Households	Yes	6.9%	6.7%

Source: Municipal Tariff list

Basic Service Delivery	Number of Households	Operational Cost of Waste Water Services (R'000)		
		2024/25	2025/26	2026/27
Indigent (A10,SA1)	10 484	R4 192	R4 576	R4 995
Indigent (LGES)	9 563	R14 661	R15 818	R17 084

Source: A2 & LGES tables

Source: NT GoMun 2024/25 Draft Budget

- Diagram 3 illustrated that the wastewater revenue growth slowed to 6.7 per cent in 2024/25 and the growth over the two outer years of the MTREF, equates to 9.5 per cent in 2026/27. This growth is higher than the predicted CPI over the MTREF period. This projected increase is based on cost reflective study, relating to the input cost assumptions relating to the service and the extent to which customers make use of the service.

- Surplus operating margin of R1.69 million is expected in 2024/25. Tariff increases of 6.9 per cent in 2024/25 can be attributed to the ongoing plundering and vandalism of sewer infrastructure, the cost of protecting the assets, the cost of mitigating power outages with standby generators, the cost of monitoring the pump stations and associated purification infrastructure, and the continued rise in the cost of labour, chemicals, and electricity required to provide the service within the legislative requirements. It should be noted that electricity costs account for approximately 20 per cent of wastewater treatment input costs; and that electricity service needs to be cross subsidised in 20242/25, makes it unavoidable to raise sewer tariffs by more than the inflationary predictions.

- The table above indicates that the Municipality will receive R14.66 million from the basic component of the LGES for the provision of free basic wastewater services. According to the A1 Schedule support schedule SA1, the cost of free basic wastewater services is R4.19 million in 2024/25. According to draft budget document the increase is due to the increased number of households that are registering for indigent support. Revenue cost on Free Basic Services (FBS) is expected to increase over the outer MTREF years, and so will the number of households receiving FBS as it is estimated to increase from 10484 in 2024/25 to10 995 in 2026/27 according to table A10.

- As of February 2024, sanitation debtors amounted to R15.89 million, constituting 11.1 per cent of the total debtors, which stood at R143.33 million. This reflects an increase of 14 per cent compared to February 2023. The Municipality should continue the implementation of credit control processes, given that tariff increase will be slightly above inflation.

- A general tariff increases of 6.9 per cent for sanitation is proposed for the 2024/24 financial year. As outlined by the Municipality, the increase is based on the input cost assumptions relating to the service and the extent to which customers make use of the service. The Municipality states that the higher-than-average increase is necessary as the cost associated with the service have increased exponentially over the last number of financial years and tariff increases have not kept up with the actual cost of rendering the service.

- Pertinent issues which impact the tariff increase include the upgrading of the Piketberg and Velddrif Wastewater Treatment Works, to reduce the wastewater backlogs. However the maintenance is an important focus area, bearing in mind that the upgrading of the Piketberg WWTW will be funded through the Water Services Infrastructure Grant. This funding is a continuation of the funding provided for within the previous financial year.
  - The septic tank at the low-cost houses in areas such as Redelinghuis and Aurora need upgrading. Phase 1 has been completed after Council approval, but additional funding is required to complete the upgrading. Adequate bulk and service infrastructure is also a prerequisite to attracting development and investment in the Municipal Area.
- The tariff increase is also geared towards addressing the continuous plundering and vandalism of the sewer infrastructure, the cost of protecting the assets, the cost to mitigate electricity outages through standby generators, the cost of monitoring the pump stations and associated purification infrastructure as well as the continued rising in the cost of labour, chemicals, and electricity necessary to provide the service within the legislative requirements.
  - As outlined by the Municipality, electricity costs contribute approximately 20 per cent of wastewater treatment input costs, therefore the electricity price increase makes it unavoidable to increase the sewer tariffs by more than the inflationary predictions.

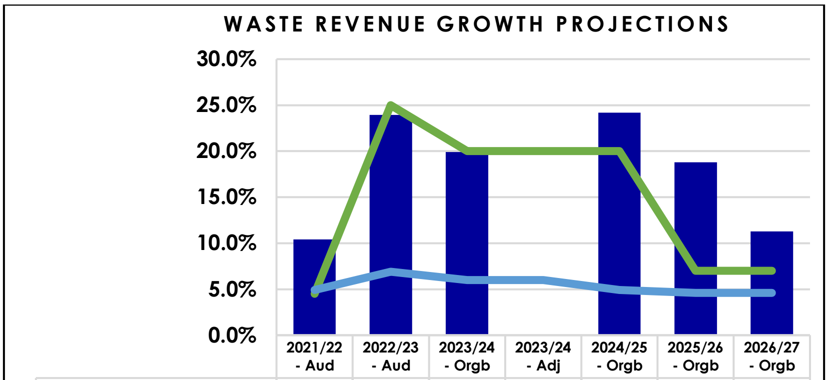
3.4.3.2 Responsiveness to Wastewater Services Demand and Provision

Municipal challenges	• Ageing infrastructure. • Budgetary constraints. • High cost of bulk services. • Velddrif current capacity exceeds it design and requires upgrading. • Vacancies and unfunded positions. • Theft and vandalism. • Increase of backyard dwellers have an impact on service delivery.
Wastewater Expenditure Analysis	• The current state of wastewater infrastructure across much of the municipal area is severely deteriorated, leading to a noticeable decline in the quality of services extended to the communities. • PTs 2023 Socio Economic Profile (recent Census 2022 figures) estimates that 97.3 % of households have access to sanitation services at a basic service level; the municipal figures in A10 are aligned at 2.7% of households who do not have access to a minimum standard of the service. This suggests that the Municipality is making efforts to ensure sanitation access for every household in the Municipal area. • In the 2024/25 operating budget, the Municipality has increased its funding for wastewater management by R1.403 million, indicating a 6.7% increase. This rise exceeds the projected inflation rate for the 2024/25 MTREF. These allocations directly address the challenges outlined in the Municipality's IDP and Annual Report. • As a response to the challenges posed by aging infrastructure, the total capital expenditure budget allocated for wastewater management amounts to R19.128 million, representing 25.7% of the trading services budget for the 2024/25 financial year. • Significant municipal capital expenditure allocations for wastewater include R8.696 million for wastewater treatment works, R6. 295 million for upgrade of WWTW in the 2024/25 financial year. • Other project in the outer years of the MTREF years include R17.391 million or sanitation infrastructure and R11.304 million for wastewater treatment plant and R3.0 million for the oxidation pond at Eendekuil.

3.4.4 Waste Removal Services

3.4.4.1 Waste Removal Services Credibility and Sustainability

Diagram 4 Waste removal service trends



	2021/22 - Aud	2022/23 - Aud	2023/24 - Orgb	2023/24 - Adj	2024/25 - Orgb	2025/26 - Orgb	2026/27 - Orgb
Refuse Revenue Growth	10.4%	23.9%	19.9%	0.0%	24.2%	18.8%	11.3%
Tariff Increases	4.5%	25.0%	20.0%	20.0%	20.0%	7.0%	7.0%
Inflation	4.9%	6.9%	6.0%	6.0%	4.9%	4.6%	4.6%

Cost Recovery	Direct and Indirect	2024/25	Surplus/Deficit
	Revenue	R55 076 000	R1 045 390
	Expenditure	R54 030 610	

Source: NT tariff setting tool

2024/25 Tariffs	Basic Charge	Tariff Increase (Mun)	Tariff Increase (WC Avg)
Business	Yes, based on number of removals and volumes	20.0%	8.8%
Households		20.0%	8.9%

Source: Municipal Tariff list

Basic Service Delivery	Number of Households	Operational Cost of Waste Services (R'000)		
		2024/25	2025/26	2026/27
Indigent (A10,SA1)	11 284	R9 114	R10 691	R11 678
Indigent (LGES)	9 563	R12 290	R13 260	R14 321

Source: A2 & LGES tables

Source: NT GoMun 2024/25 Draft Budget

- Diagram 4 illustrated that the waste removal revenue growth will increase by 24.2 per cent in 2024/25 and then the growth slows over the outer years to 11.3 per cent in 2026/27. It was further projected that the expenditure growth will decline by 14.5 per cent for the 2024/25 budget year, resulting in an operating surplus of R1.04 million. According to the 2022/23 AFS, four landfill sites are anticipated to close in 2025, and the Municipality estimated R122.32 million in future rehabilitation costs.

- As a result of a cost-reflective tariff study that was completed in 2020/21 and the findings of which were incorporated into the tariff structure and subsequent phase-in tariff reform. A phased-in approach was applied since the 2022/23 financial year (25 per cent increase), 2023/24 financial year (20 per cent increase) and the proposed increase of 20 per cent for the 2024/25 financial year. These aggregate increases outpace the inflation rate of 4.9 per cent and is much higher than the average tariff increases for waste services in the Western Cape.

  - The Municipality states that this increase is based on assumptions that the input costs for the service, the volume of waste generated and how much the consumers use the service. This tariff increases were instituted to ensure that the service becomes financially viable and remains financially sustainable over the long term.

  - Further reasons afforded by the Municipality include the increase in the cost of collection and recycling and the need to replace the fleet of compactor trucks. The Municipality highlights the costs associated with the clean-up of illegal dumping and general littering in all areas, the cost of clean-up of transfer stations as a result of refuse being dumped in contradiction with the rules and by-laws of the Municipality.

  - Furthermore, the increasing cost of security at transfer stations to protect municipal property plant, equipment staff and the public in general were highlighted.

- The Municipality should continue to focus on effectively communicating the reasons behind the tariff increase to the community, emphasising the long-term benefits it will bring to waste management and environmental sustainability. Additionally, the Municipality should explore opportunities to mitigate the financial burden on residents, such as implementing targeted assistance programs for low-income households and collaborating with businesses to optimise waste management practices.

- The debtors for waste services amount to R28.17 million or 19.7 per cent of total debtors amount of R143.33 million as at the end of February 2024, of which 75.5 per cent is older than 90 days. There has been an increase of 24 per cent when compared to February 2023. The Municipality should continue with the implementation of credit control processes, given that the tariff increase will be above inflation, which raises the question on the balance between consumer affordability and maintaining sound financial sustainability.
- Provincial Treasury notes that the Municipality transports refuse to transfer stations at Piketberg, Porterville and Aurora from where it is transported to the Highlands landfill near Malmesbury, in line with an agreement concluded with Swartland Municipality. An agreement was signed between Bergrivier Municipality and Saldanha Bay Municipality regarding the waste from the Velddrif Transfer Station, which is disposed of at the Vredenburg landfill site.
    - The municipal tariff increases, and related tariff structure also raises the over-arching issue of regional landfill management. An important intervention which contributes to the reduction of waste transportation costs, involves the separation of waste at source and recycling.

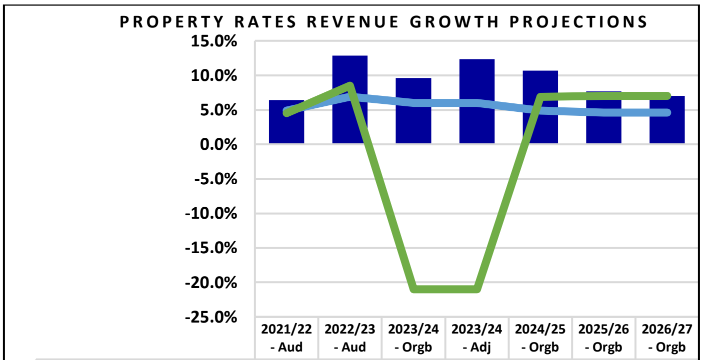
3.4.4.2 Responsiveness to Waste Removal Demand and Provision

Municipal challenges	• Implementation of waste programs. • Reduction of all types of refuse. • Rehabilitation of closed waste disposal and funding needs. • Composting of organic waste on a sustainable scale. • Processing of clean building rubble into feasible projects. • Ageing fleet.
Waste Expenditure Analysis	• The Socio-Economic Profile of 2023 by the Provincial suggests that 85.4% of households possess access to refuse removal services at a basic level. The Municipality's figures in table A10 indicate a higher proportion (17.2%) of households who do not have access to a minimum standard of the service. • The 2024/25 operating budget has declined by R9.184 million or 14.7% compared to the 2023/24 adjustment budget. • A sizable allocation towards the solid waste management function in the Municipality is essential to address the refuse removal backlogs i.e. As per the 2023 SEP- LG, 85.4% of residents in the municipal area have access to refuse removal services. • Waste management infrastructure receives the smallest share of the trading services infrastructure budget in 2024/25 financial year. The Municipality's allocation to waste infrastructure amounts to R1.665 million or 2.2% of the trading services budget for the 2024/25 financial year. • Significant municipal capital expenditure allocations for waste management include R1.0 million for waste infrastructure, and R500 000 for fencing at landfill sites in the 2024/25 financial year. • Other project in the outer years of the MTREF years include R3.0 million for solid waste infrastructure. • These allocations address the challenges encountered by the Municipality, considering the percentage of households that lack access to refuse removal services.

3.5 REVENUE

3.5.1 Property Rates

Diagram 5 Property rates



	2021/22 - Aud	2022/23 - Aud	2023/24 - Orgb	2023/24 - Adj	2024/25 - Orgb	2025/26 - Orgb	2026/27 - Orgb
Property Rates Revenue Growth	6.4%	12.9%	9.6%	12.3%	10.7%	7.7%	7.0%
Inflation	4.9%	6.9%	6.0%	6.0%	4.9%	4.6%	4.6%
Tariff increase	4.5%	8.5%	-21.0%	-21.0%	6.90%	7.0%	7.0%

2024/25 Tariffs	Rate in Rand (Mun)	Rate in Rand (WC Avg)	Tariff Increase (Mun)	Tariff Increase (WC Avg)
Business	R0.0011	R0.05022	6.9%	5.2%
Households	R0.0096	R0.03555	6.9%	4.9%

Source: Municipal Tariff list/ SA13a

Rebates	Number of Indigents HH	Rebates		
		2024/25 R'000	2025/26 R'000	2026/27 R'000
	9951	6 194	6 630	7 095
Last GV date	Interim Valuation: 01/07/2022			

Source: A1 schedules

Source: A1 Schedules

- Diagram 5 illustrated that the property rates revenue growth has fluctuated from 2021/22 till 2023/24 and a slower growth is projected over the entire 2024/25 MTREF years. The fluctuations in the previous years were due to the new general valuation roll that was implemented from 1 July 2023. As per the budget narrative, measures are being taken into account to maintain a balance in total client bills and alleviate previous increases, particularly given the implementation of new, higher market-related valuations in 2023.

- The total number of properties, as per supporting table SA12(a) and 12(b), decreases to 13 910 when compared to the 14 001 in 2023/24. The residential and business and commercial properties are projected to decrease with 1 per cent respectively, when comparing 2023/24 with 2024/25. The reconciliation of the billing system with the deeds office registry, should be a routine practice during the budget process so that supplementary adjustments to the valuation roll are kept up to date. MFMA Circular No.93 further requires the submission of the reconciliation between the general valuation roll and financial system which will provide the support on budget projections.

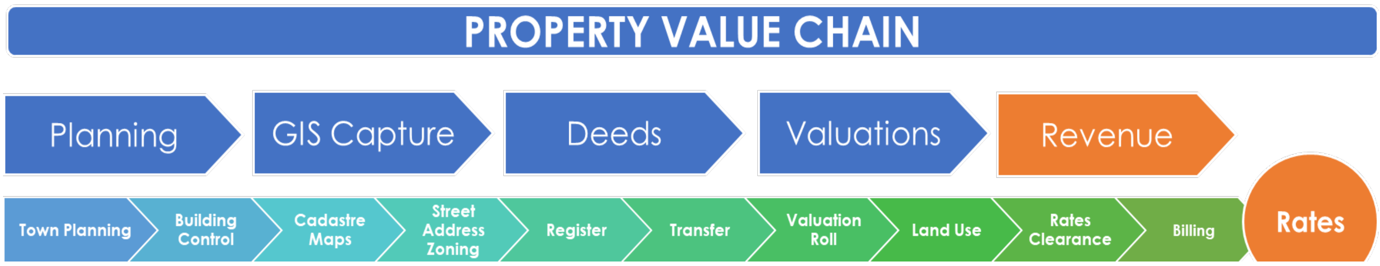
- Property rates is the second largest contributor to the source of general revenue, and according to the budget document narrative cash backing is implemented through the utilisation of a portion of the revenue generated from property rates to ensure that all capital reserves and provisions are cash backed as required in terms of section 8 of the MPRA. As of February 2024, property rates debtors amounted to R46.11 million, constituting 32.2 per cent of the total debtors of R143.33 million, with R34.45 million or 74.7 per cent is over 90 days. This reflects an increase of 8.1 per cent compared February 2023. Regardless of the underlying causes, addressing growing debt and arrear debt is essential given that the Municipality must convert its outstanding debtors to cash to have adequate financial resources to maintain financial sustainability.

- The Municipality should implement a data management strategy and develop internal capacity to perform these reconciliations and investigations to improve completeness of billing. Diagram 6 below highlights the key inputs into the Property Value Chain to realise maximum revenue from property rates.

3.5.2 The Property Value Chain

- The Municipality's main asset is its property. Its main source of income is derived from charging for property rates. It is essential that municipalities reconcile their most recent consolidated valuation roll data to that of the current billing system data to ensure that revenue anticipated from property rates is realistic. Municipalities should implement a data management strategy and develop internal capacity to perform these reconciliations and investigations to improve completeness of billing. Diagram 6 below highlights the key inputs into the Property Value Chain to realise maximum revenue from property rates.

Diagram 6 Property Value Chain



Source: City of Cape Town Municipality

3.5.3 The Structuring of Property Rates Tariffs

- Property rates tariff increases with 6,9 per cent in general for the 2024/25 financial year and for the outer two years. A new valuation roll had been implemented with effect from 1 July 2023 and the Municipality has projected that revenue from property rates will grow by 10 per cent. As outlined by the Municipality, the increase is higher than the upper boundary of inflationary targets for 2024/2025. However, this increase is unavoidable due to factors such as the increase in cost to render services such as the increase in the cost of labour, the fuel price increase, the increase in the price of goods and services necessary to render essential as well as community and general municipal services, including the increase maintenance and operational costs related to municipal facilities, equipment and infrastructure.

3.5.4 Land Value Capture and Alternative Financing

- Land Value Capture is an important and innovative alternative for generating local revenue to finance urban infrastructure, where cities or even municipalities can capture value which are generated by public policies and interventions through mechanisms such as land value taxation, betterment levies, land pooling and readjustment, sale of development rights, tax increment financing, revenue sharing, profit sharing, refinancing gain share, user fees, and impact fees (another phrase for Development Charges).

- According to the United Nations Human Settlements Programme, research report titled " Unlocking the Potential of Cities" land value capture is widely used to finance urban infrastructure and services in developed countries and middle and upper middle income developing countries.

3.5.4.1 Development Charges

- Development charges (DCs) are levied against the developers as a condition for approving a land development application, these charges are imposed to cover the costs incurred by the Municipality when installing new infrastructure or upgrading an existing infrastructure, could assist in easing some fiscal pressures on municipalities.

- Inconsistencies in the implementation of DCs in municipalities has prompted the introduction of a new chapter 3A in the Municipal Fiscal Powers and Functions Amendment (MFPFA) Bill that regulates the power of the municipalities to levy/apply DCs in a uniform manner. Once the Bill is enacted as law, National Treasury will clearly articulate the budgeting and accounting requirements upon the completion of the Parliamentary processes.

- In general, it is advisable for municipalities to familiarise themselves with the proposed Municipal Fiscal Powers and Functions Amendment Bill and the updated 2018 Guidelines for the implementation of development charges.

- Fiscal Policy Local Government within PT conducted a survey during December 2023 to gauge the capacity of Western Cape Municipalities to levy DCs. The questionnaire was sent to Local Government and Provincial Treasury acknowledges as well as values the Bergrivier Municipality's response.

- Bergrivier rated their capacity or knowledge on DCs overall as very good. The Municipality considers DCs as an important source of municipal infrastructure finance and considers the DCs as a revenue stream.

- Officials responsible for DCs are aware of the guidelines for the implementation of DCs as well as that they are somewhat familiar with the new MFPFA bill. Furthermore, it is noted that officials have attended training or a workshop on DCs.

- The Municipality highlights that there is acceptable capacity/ability inhouse to calculate DCs, however it is acknowledged that the calculating of DCs is reasonably challenging.

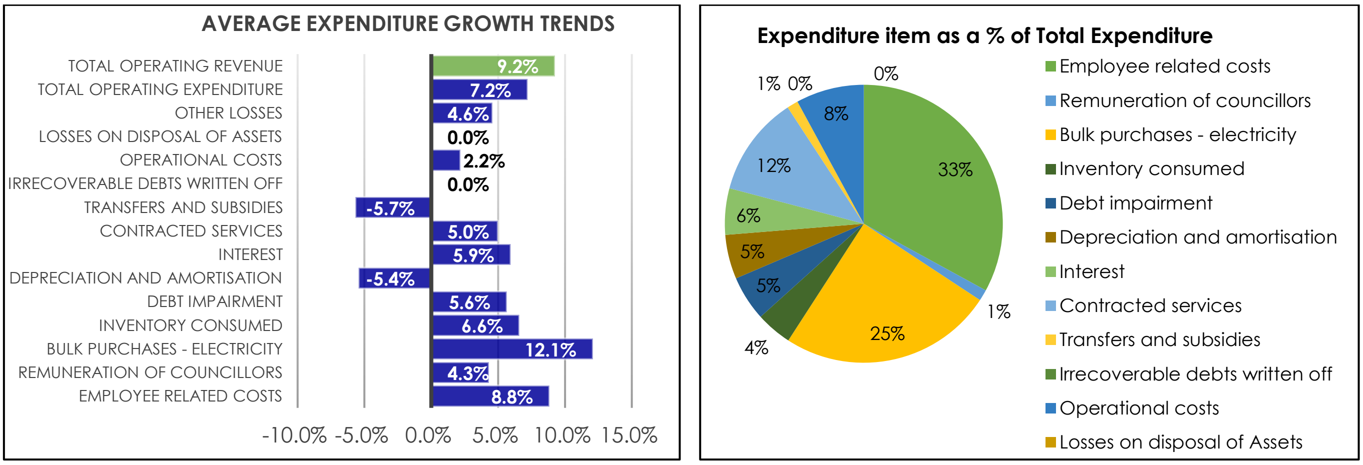
The Municipality responded that it has DCs bylaws, DCs policy in place; whilst a monitoring framework has been developed. This is acknowledged as an important step forward. As soon as the MFPFA Bill is enacted as law, compliance is identified as a key success factor, which requires the mainstreaming of the relevant bylaws, policies and monitoring framework.

3.5.5 Other Revenue Risks

- **Transfers recognised - Operational** contributes 19.5 per cent of 2024/25 operating budget of R586.39 million, which is the third largest contributor, indicating a limited dependence reliance on grant funding to sustain its operations. It was further found that this line item will increase by 30.8 per cent in 2025/26 and then a decline of 29.7 per cent is projected for 2026/27 budget year. The decrease is primarily attributed to the allocation of Human Settlements Development Grant that decrease from R60.79 million for 2025/26 to R9 million in 2026/27. Measures should be in place to fully spend grant allocations to avoid retention of grant funding.

3.6 OPERATING EXPENDITURE

Diagram 7 Operating expenditure trends



Source: NT GoMun 2024/25 Draft Budget

- Operating expenditure budget for 2024/25 amounts to R590.88 million and is projected to increase by 8 per cent when compared to 2023/24 adjusted budget of R547.12 million. Diagram 7 illustrates that in 2024/25, average operating revenue budget growth amounts to 9.2 per cent, which is above the average operating expenditure budget growth of 7.3 per cent. This results in generating a deficit operating budget over the 2024/25 MTREF.

- The projected increase in operating expenditure, coupled with the anticipated growth in revenue over the two outer years of the MTREF, suggests a potentially positive trajectory for the Municipality. The incremental growth in operating expenditure indicates a strategic approach to accommodate rising costs and expand operational capacity. Concurrently, the projected revenue growth outpacing operating expenditure growth reflects a promising financial outlook, indicating the Municipality's ability to generate sufficient income to cover its increasing expenses. However, careful monitoring and management of expenditure growth relative to revenue generation will be essential to ensure that the Municipality maintains a healthy financial position and effectively addresses evolving community needs and priorities.

- The primary cost drivers of the operating expenditure draft budget in the 2024/25 fiscal year include costs related to employment (32.8 per cent), bulk purchases (24.8 per cent), and contract services (11.6 per cent). These projections remain relatively consistent across the outer years of the 2024/25 MTREF, except for contract services which shows a significant decrease in the 2026/27.

- **Bulk electricity purchases** remain the second largest cost driver and make up 24.7 per cent of the total operating expenditure of R590.88 million. The budget has increased with 5.2 per cent from the 2023/24 adjusted budget and proposed an average increase of 12.2 per cent over the MTREF. Bulk purchases are directly informed by the purchase of electricity from Eskom and expenditures also account for distribution losses. Increases in electricity bulk purchases is beyond the Municipality's control, as NERSA has approved a 12.72 per cent tariff increase on electricity supplied by Eskom to municipalities. Budget allocations have a direct impact on revenue provisions, with expenditure covering electricity distribution losses totalling around 10.72 per cent as per 2023 AFS, this is slightly above the acceptable threshold of 10 per cent.

- Furthermore, the Municipality's recognition of the evolving nature of these expenditures and their potential impact on operational efficiency is essential for informed decision-making. The reliance on revenue from electricity sales to offset these costs highlights the interconnectedness of financial management framework within the Municipality. However, given that operating electricity service is projected not to cover cost for 20242/25, implementing risk management practices and fostering collaboration with stakeholders, including consumers and regulatory bodies, will be essential to navigate the complexities of bulk purchases and ensure the sustainable delivery of essential services to the community.

- **Contracted services** is budgeted at R68.40 million with an increase of 54.1 per cent from the adjusted budget of R44.39 million, mainly due to increase in engineering services from R965 000 in 2023/24 adjusted budget to R32.13 million in 2024/25. The majority of the budget is allocated to engineering (47 per cent), refuse removal (17 per cent) and maintenance of equipment (8.4 per cent). It will be essential for the Municipality to continue monitoring expenditure patterns and evaluating the effectiveness of contracted services arrangements. While cost savings is important, it's equally important to ensure that service quality and delivery standards are upheld. The Municipality may consider conducting periodic reviews of contracted services contracts, exploring opportunities for renegotiation or consolidation, and leveraging technology and innovation to enhance service delivery and optimise costs further. By adopting a proactive and strategic approach to managing contracted services, the Municipality can continue to achieve its service delivery objectives while maximising value for its constituents.

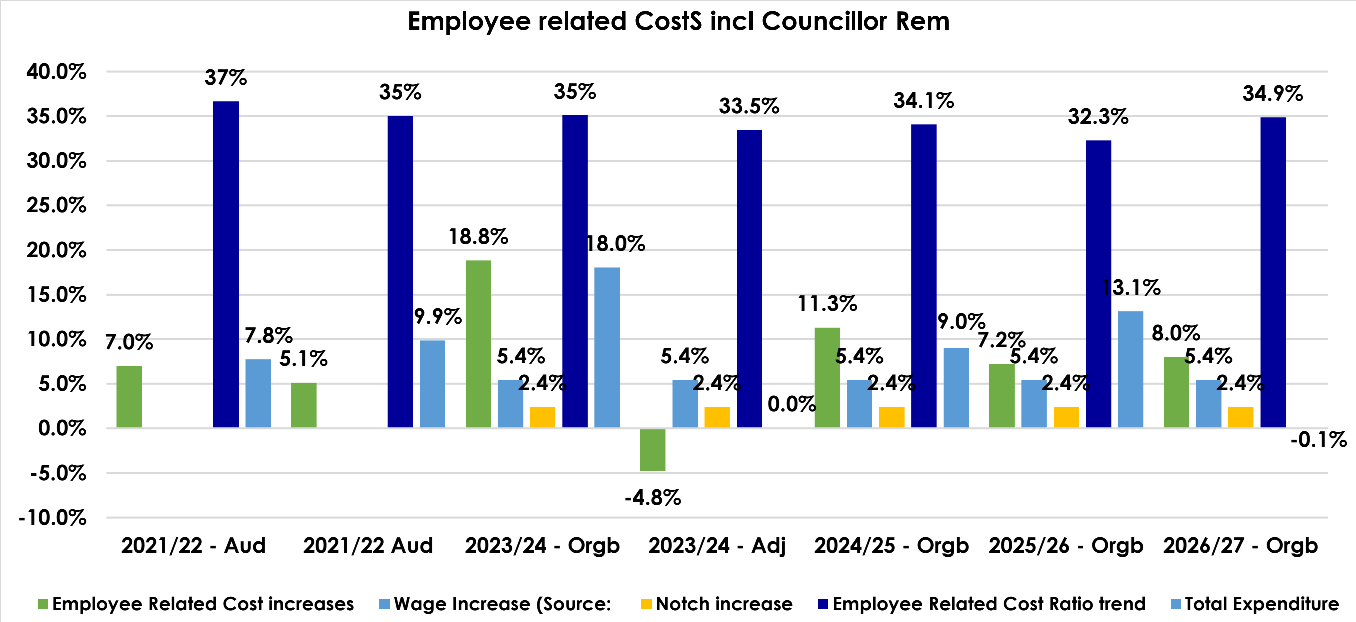
- The **provision for debt impairment** in diagram 7 was determined based on an annual collection rate of 95.77 per cent according to the draft budget document narrative. The calculation in the NT funding tool was based on the average audited collection rate of the previous financial years which equates to 96.6 per cent for service charges and 98.4 per cent for property rates. Looking at the total outstanding debt for the end of February 2024 amounts to R143.32 million and 73.2 per cent thereof is in excess of 90 days. Households is the largest contributor with 74 per cent. The high arrear debtors raise concerns in the Municipality's financial landscape. The yearly increase in the total debtors, up by 13 per cent, is concerning and requires attention and proactive measures to mitigate risks that could affect the Municipality's financial health.

- Municipal **Cost Containment Regulations**, 2019, requires municipalities to improve their efforts to limit non-priority spending and to implement stringent cost-containment measures. The Municipality is commended for developing and adopting a Cost Containment Policy in accordance with the principles contained in the Regulations and is encouraged to implementing cost containment measures by curtailing the non-core expenditure as continually emphasised by the National Treasury.

- **Depreciation and asset impairment** for the 2024/25 MTREF was budgeted at R30.17 million reflecting a decrease of 22.8 per cent from the 2023/24 adjusted budget, of which the main contributor being decrease for landfill sites from R15.01 million in 2023/24 to R2.96 million in 2024/25. This raise concerns, given that the Municipality estimated R122.32 million in future rehabilitation costs, since four landfill sites are anticipated to close in 2025, according the 2022/23 AFS. The depreciation should be reviewed based on the potential increase/decrease of assets and their useful lives and consider past trends. Further, the MFMA Circular No.115 guidance is that depreciation charges should be funded from operational funds. When deprecation is funded, it will assist the Municipality to accumulate sufficient surpluses that must be transferred to cash backed reserves.

3.6.1 Employee Related Cost

Diagram 8 Employee related cost including councilor remuneration



Source: NT GoMun 2024/25 Draft Budget

- Employee-related costs, including councillor remuneration, continue to be the largest cost driver at 34.1 per cent of the total operating expenditure budget of R589.32 million, with councillor remuneration accounting for R7.62 million, or 1.3 per cent. This also takes into account the upper limits and is within the acceptable NT norm of 25 - 40 per cent.

- The Salary and Wage Collective Agreement spanning from 1 July 2021 to 30 June 2024, has been concluded, and discussions for a new agreement are currently in progress. Considering the absence of specific guidance from the South African Local Government Bargaining Council (SALGBC), municipalities were advised, as per MFMA Circular No.128, to carefully consider their financial sustainability when contemplating salary increments. Notably, there was a 5.4 per cent increase in employee costs for the 2024/25 budget year and a notch increase of 2.4 per cent. This budget line item will increase by 11.3 per cent during 2024/25 when compared to 2023/24 and project an average growth of 8.8 per cent over the MTREF period.

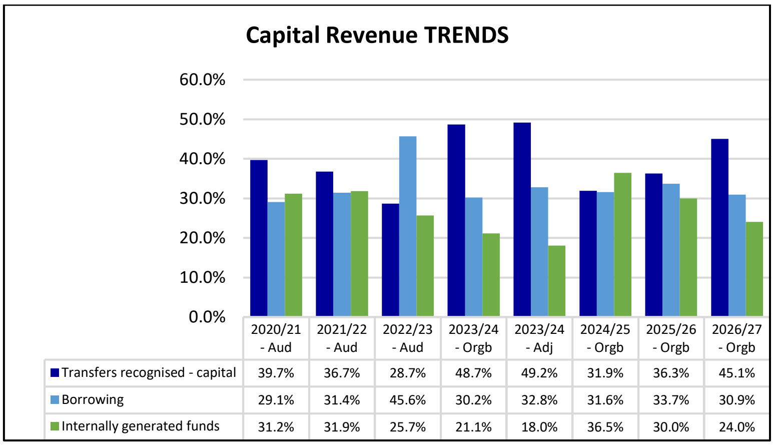
- As per supporting table SA24 the Municipality is planning on increasing the number of employees for the 2024/25 financial year, the total number of personnel positions is set to increase to 480 from 461 in 2023/24, and this increase is in relation to permanently employed staff. The budget document does indicate that the Municipality will prioritise the filling of critical vacant posts, especially linked to the delivery of basic services.

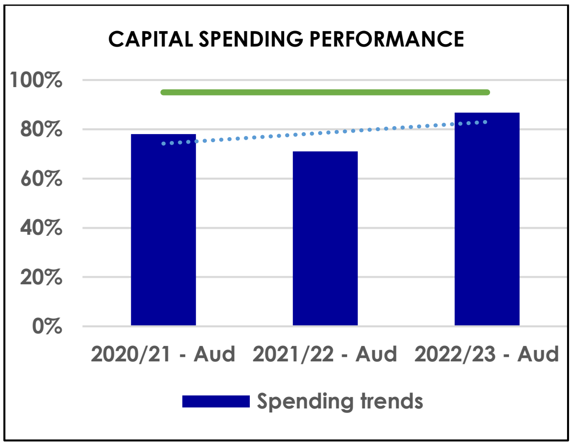
- The comparison between the per centage changes in employee-related costs (ERC) and wage increases over the years underscores increase in expenditure patterns for Bergrivier Municipality. Notably, from 2024/25 to 2026/27, ERC experienced a decrease from 11.3 per cent to 8 per cent respectively, while there was a marginal increase that remains at 5.4 per cent in wages over the MTREF. This may raise concerns about sustainability of this line item. These variances can have several impacts on the Municipality, including potential strains on financial resources, challenges in maintaining service delivery standards, and implications for long-term fiscal sustainability. Addressing these discrepancies effectively will be crucial for ensuring prudent financial management and efficient utilisation of resources within the Municipality.

- **Overtime** as a per centage of employee related costs amount to 3.2 per cent which is still within the overtime threshold of 5 per cent. The budget amounts to R6.21 million which shows a slight decrease from the adjusted budget for 2023/24. Provincial Treasury takes note that since loadshedding the Municipality has spent more on overtime as more human capital are required for working requirements. The Municipality is encouraged to continue managing overtime and standby hours in accordance with budgeted figures and ensure optimal financial management and operational efficiency given the continued challenges associated with loadshedding.

3.7 CAPITAL FUNDING MIX

Diagram 9 Capital funding mix





Source: NT GoMun 2024/25 Draft Budget

- The Municipality's past performance indicates an average capital expenditure of 78.6 per cent in previous financial years, with a further 48.9 per cent reported as at end February 2024. This suggests a difference between targets and actual outcomes. Moving forward the Municipality should assess the root causes of this shortfall and implement strategies to improve project implementation and expenditure management. By addressing these challenges, the Municipality can enhance its ability to deliver essential services and infrastructure to its residents effectively.

- Diagram 9 illustrates, there is a substantial dependency on **Transfers recognised – Capital** over the future years. As per the transfers recognised, the figure equates to 39.7 per cent in the 2020/21 financial year to 31.9 per cent within the 2024/25 financial year; with an increasing trend manifested over the 2024/25 MTREF.

- National government grant funding is the primary source of funding under transfers recognised-capital budget for the MTREF and has a steep increase from 30.5 per cent in 2024/25 to 45.1 per cent in 2025/26. This dependency suggests a reliance on external sources of funding, from National Governments to finance capital projects and investments. This highlights that the Municipality has minimal ability to sustain its capital expenditure and development initiatives without reliance on external funding sources. Striking a balance in grant reliance is essential for ensuring sustainable and inclusive development.

- Borrowing also has been a significant component of the Municipality's capital funding strategy, representing a substantial portion of its total capital funding over the observed period. While initially comprising 29.1 per cent of total capital funding in the 2020/21 audited year, borrowing experienced fluctuations, with per centages ranging from 31.6 per cent to 30.9 per cent respectively for 2024/25 and 2026/27 financial years. This trend suggests a variable approach to leveraging external financing to support capital projects and operational needs. While borrowing can provide immediate access to funds for critical initiatives, the fluctuating trend underscores potential challenges in managing debt levels and repayment obligations. Moreover, excessive reliance on borrowing may expose the

Municipality to financial risks such as increased debt service costs and vulnerability to interest rate fluctuations.

- Despite its risks, borrowing offers certain advantages, including flexibility in funding timing and the ability to undertake large-scale projects that might otherwise be unattainable through other funding sources. Additionally, borrowing can help smooth out budgetary constraints and support strategic investments in infrastructure and service delivery. However, it's essential for the Municipality to carefully manage its borrowing practices, considering factors such as debt affordability, repayment capacity, and alignment with long-term financial sustainability goals. Moving forward, the Municipality could explore strategies to diversify its funding sources, reduce reliance on borrowing, and prioritise initiatives that offer long-term returns on investment. This could include enhancing revenue generation through innovative financing mechanisms, optimising asset utilisation, and strengthening financial management practices to ensure prudent debt management and sustainable growth.

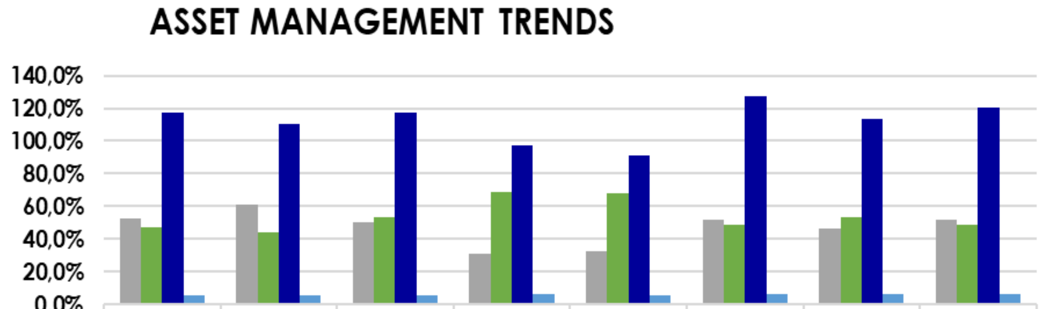
- **Internally Generated Funds** per centages are showing a decreasing trend from 36.5 per cent in 2024/25 to 24 per cent in 2026/27. While these improvements are encouraging, they underscore the importance of proactive measures to stabilise and potentially increase IGF levels to ensure financial sustainability throughout the MTREF period.

- Despite the fluctuations over the horizon, internally generated funds offer several advantages, including autonomy and control over financial resources, reduced reliance on external financing, and potential for cost recovery through service fees and charges. However, challenges such as economic downturns, revenue volatility, and limited capacity to expand revenue streams may constrain the Municipality's ability to rely solely on own funds for capital funding during the MTREF period. Therefore, as part of strategic financial planning, it's essential for the Municipality to continue developing and implementing a comprehensive revenue enhancement strategy that aligns with MTREF objectives. This strategy should involve exploring innovative revenue generation opportunities, optimising existing revenue streams, and strengthening financial management practices to ensure effective utilisation of internally generated funds for sustainable development and service delivery throughout the MTREF period.

- As per the supporting schedules SA29 to SA30 of the mSCOA data strings, it is evident that the Municipality haven't made provision for seasonal fluctuations. This shows that Municipality didn't consider the treasury payment schedule as their budget is mostly funded by transfers. The Municipality should compare the capital assets on supporting table SA30 with supporting table SA29, as there are inconsistencies between the spending in the two tables. The Municipality is reminded that the mSCOA data strings is the primary source of analysis and should align when the final budget is tabled for approval to council.

3.8 CAPITAL EXPENDITURE TRENDS

Diagram 10 Asset Management



	2020/21 - Aud	2020/21 - Aud	2021/22 - Aud	2023/24 - Orgb	2023/24 - Adj	2024/25 - Orgb	2025/26 - Orgb	2026/27 - Orgb
% renewal of total capex	52,2%	60,9%	50,0%	31,0%	32,2%	51,6%	46,4%	51,4%
% new of total capex	47,4%	44,2%	53,1%	69,0%	67,8%	48,4%	53,6%	48,6%
% renewal of total depreciation	117,0%	110,7%	117,4%	97,2%	91,0%	127,0%	113,7%	120,2%
R&M As % of PPE	5,1%	5,5%	5,3%	5,9%	5,5%	6,0%	5,9%	5,9%

Source: NT GoMun 2024/25 Draft Budget

- **Capital Expenditure on new assets** represents the expenditure allocated for acquiring new assets. The per centage of the total budget allocated to this category has varied over the years, with the highest allocation in the current financial year for the adjusted budget for 67.8 per cent. The budget allocated for new assets shows a decrease in the 2024/25 financial year from 67.8 per cent in 2023/24 to 48.4 per cent. However, over the remainder of the MTREF it shows a spike in 2025/26 of 53.6 per cent and then decreasing to 48.6 per cent in 2026/27.

- Therefore, it can maybe be concluded that the Municipality is either reaching a saturation point in terms of acquiring new assets or facing financial constraints that limit its ability to invest in new infrastructure. This could impact the Municipality's ability to meet the growing demands of its population or maintain the quality of its existing infrastructure over the long term. Therefore, it is essential for the Municipality to carefully assess its capital expenditure priorities and explore alternative funding sources or strategies to ensure sustainable infrastructure development in the future.

- The expenditure on **upgrading existing assets** demonstrates an upwards trend over the period from 2023/24 to 2024/25. In the 2024/25 financial, the Municipality allocated 35.3 per cent of its total capital expenditure to upgrading existing assets, amounting to R26.25 million. For the remainder of the MTREF the Municipality has decreased the expenditure to 27.5 per cent of its capital expenditure in 2026/27.

- A decrease in the budget allocated for the upgrading of existing assets in the Bergrivier Municipality could have profound implications. Firstly, it may lead to a backlog in necessary infrastructure maintenance, potentially resulting in deteriorating roads, buildings, and utility systems. This deterioration could escalate repair costs in the long term and pose safety risks to residents and users of municipal services. Secondly, inadequate funding might hinder the Municipality's ability to meet service delivery expectations, impacting the quality and reliability of essential services such as water supply, sanitation, and waste management. Ultimately, the decline in asset renewal investment could undermine the Municipality's ability to sustainably manage its infrastructure and fulfil its obligations to the community.

- MFMA Circular No.55 advises on the **renewal of existing assets** by emphasising the importance of maintaining and upgrading municipal infrastructure to ensure service delivery and sustainability. A significant discrepancy between the guideline of 40 per cent and the allocated 16.2 per cent for 2024/25 renewal of assets is noted. Under investment in asset renewal can lead to infrastructure degradation, increased maintenance costs, and service delivery disruptions.

- The Municipality should ensure that infrastructure renewal is given adequate priority in budget planning and decision-making processes. While short-term financial constraints may necessitate budget cuts, it's essential to balance immediate needs with long-term sustainability objectives. Investing in infrastructure renewal contributes to the resilience of the Municipality, reducing the risk of service disruptions and avoiding higher costs associated with emergency repairs.

- The allocation of 6 per cent of the budget to **repairs and maintenance** of Property, Plant, and Equipment (PPE) by Bergrivier Municipality poses a risk to the overall integrity and functionality of its infrastructure. This allocation falls below the NT norm of 8 per cent, indicating a potential shortfall in adequately addressing maintenance needs. Such under investment in repairs and maintenance can lead to a range of adverse consequences, including increased frequency of breakdowns, and ultimately, compromised service delivery to the community.

- The risk of allocating insufficient funds to repairs and maintenance is multifaceted. It can result in a decline in asset performance and reliability, leading to disruptions in essential services such as water supply, sanitation, and transportation. Moreover, neglected maintenance can accelerate asset degradation, potentially resulting in more extensive and costly repairs or even premature asset replacement, placing further strain on the Municipality's financial resources. Additionally, inadequate maintenance can also pose safety risks to residents and municipal employees, as poorly maintained infrastructure may become hazardous over time.

- When looking at the supporting tables SA34(a), SA34(b) and SA34(e) the total of these three tables should align with the total capital budget of R74.35 million. However, there is no alignment when a comparison is done with the Table A5. The Municipality should correct this when tabling the final budget for approval to council.

3.9 OTHER CAPITAL INFRASTRUCTURE RESPONSIVENESS

Municipal challenges	• Shortage of staff. • Cost of bulk services and backlog of engineering infrastructure. • The effects and cost of provision of low-cost houses on the Municipal budget and its long-term stainability. • Lack of suitable and available land for housing. • Illegal land invasion. • The high cost of private own land in certain towns. • Growing demands for housing by younger age groups. • To provide sustainable housing opportunities for backyard dwellers. • Implementation of storm water master plan for Pikertberg. • Lack of funding. • Storm water is a challenge in Piketberg and Porterville due to the geographical nature of the towns and the cost involved in ensuring sufficient storm water channels. • The maintenance and upgrading of the roads network are a challenge in the whole of the Bergrivier Municipal area. This necessarily include provincial roads and considerable attention is given to provincial roads in the Bergrivier municipal area. • The backlogs in road infrastructure exerts further pressure on municipal finances. • Lack of financial resources has hampered the provision and upgrade of infrastructure to cope with the current services backlog. • The high cost of infrastructure and construction discourages developers from spending in the municipal area. • Ageing road infrastructure and the challenge to secure enough funding for the maintenance of roads.

Capital Expenditure Analysis	• Linked to SG3 'Sustainable service delivery', the community and the Municipality has identified a number of road transport related needs (as noted above). • Bergrivier Municipality has increased its funding for road transport in the 2024/25 capital budget by R4.654 million, representing a 97.9% rise. This increase surpasses the inflation rate projected for the 2024/25 (MTREF). • The Municipality's allocation to road infrastructure amounts to R9.405 million for the 2024/25 financial year. Although these allocations increase in 2024/25 financial year, they are not enough to address the road infrastructure challenges facing the Municipal area. • Significant municipal capital expenditure allocations for road transport include R2.0 million for upgrade of stormwater, R1.5 million for the reseal of Voortrekker road, and R1.0 million for road infrastructure in the 2024/25 financial year. • Other project in the outer years of the MTREF years include R2.0 million for construction of streets, R1.5 million for the upgrade of stormwater and R1.5 million for road infrastructure. • The road allocations respond well to the notion that government should create an enabling environment conducive of growth and development. Regular road maintenance and upkeep also has positive economic and social spin-offs i.e. enhancing the longevity of current assets will ensure sustainable access to economic opportunities which will significantly improve the economic and social standing of businesses and private citisens. • Bergrivier Municipality has noted the needs and challenges it faces regarding housing. However, there are no capital budget allocations for the Municipality in 2024/25 financial year. A sizable allocation towards housing in the Municipality is essential to address housing backlogs as identified in the IDP and the Annual report.

3.10 SUPPLY CHAIN MANAGEMENT AND ASSET MANAGEMENT

Introduction

- Public sector organisations which involve their supply chain unit in planning and budgeting processes are more effective at meeting their objectives, as well as remaining compliant to their internally &/or externally imposed policy obligations.3, 4
- Municipalities in the Western Cape have been involving Supply Chain Management (SCM) as described above to varying levels, with either districts leading by example to facilitate the improvement or individual municipalities embracing the concept in their individual capacity.
- This section of the SIME assessment provides individualised feedback on the extent to which:
  a) Requested inputs from the PT Mun Circulars 5 & 6 of 2024 and checklist were provided;
  b) SCM's involvement in the planning & budgeting cycle is evident, either overtly or implicitly;
  c) SCM policies are sufficient & compliant to minimum requirements;
  d) The municipal procurement plan aligns to the tabled budget &/or IDP;
- The municipal asset register contains the minimum information with which to manage municipal assets and provide inputs to the planning and budgeting cycle.

[3] Mazibuko, G.; Fourie, D.J. Manifestation of unethical procurement practices in the South African public sector. Afr. J. Public Aff. 2017, 9.

[4] Fourie, D. Centralised, Decentralised and Collaborative Participatory Public Procurement: Quo Vadis. In Proceedings of the 9th Global Conference Forum for Economists International, Amsterdam, The Netherlands, 19 – 22 May 2017.

Table 3 Summary of inputs received from Bergrivier Municipality

Item	Provided (Y/N)	Council Adopted? (Y/N)	Last Review Date	Comments
Policies *(PT Mun Circular 5/2024, 13/03/2024)*				
SCM Policy	Y	Y	3/28/2024	PPRs 2022 and LGFIPDM MFMA Circ. 77 requirements included in the SCM Policy. The SCM Policy includes provisions that can be stated in the SOPs.
SCM Delegations		n/a	3/1/2024	Delegations were not provided per PT Mun Circular 5/2024. To be submitted to PT for annual review. Not necessary for Council to adopt.
SCM policy SOPs		n/a	3/1/2024	SOPs were not provided per PT Mun Circular 5/2024. To be submitted to PT for annual review. Not necessary for Council to adopt.
Preferential Procurement Policy*	Y	Y	3/28/2024	Bergrivier implemented a separate Policy that is effective 01 July 2024.
SCM Policy Framework for Infrastructure Delivery and Procurement Management (FIDPM)*	n/a		n/a	Policy aligned to MFMA Circ. 77 instead of Circ. 106 (i.e. simpified requirements)
SIME Checklist				
Procurement Plan	N	n/a	n/a	Procurement plan not provided
Asset Register	N	n/a		Bergrivier did not provide the Asset Register for evaluation. However, provided the Asset Management and Inventory Management Policy for the PT to review.
**if not included in the SCM policy*				

Table 4 Scale of SCM involvement in planning & budgeting cycle

Rating	Measure
1	No evidence of SCM involvement
2	No explicit evidence of SCM involvement, but implied in documents provided
3	Some evidence of SCM involvement, with gaps to be addressed
4	Evidence of SCM involvement, but gaps identified
5	Clear evidence of SCM involvement
	Municipal assessment & comments
4	**There is clear evidence that SCM is involved in the strategic planning phases of the Municipality. However, the following gaps were identified:**
	Major Projects have been identified in the IDP and within the 2024/25 Budget.
	Schedule 36 A and 38A of the Budget is detailed on what capital and operating projects are linked to the SDBIP and IDP. However, PT wasn't able determine the alignment to the Procurement Plan this was not provided by Bergrivier.
	The Budget Report for the 2024/25 has a clear indication that SCM is involved during the strategic planning phase.

Table 5 Scale of SCM policy sufficiency & compliance

Rating	Measure
1	No policies provided
2	Some policies provided, but not compliant or sufficient
3	Some policies provided, with omissions &/or areas of improvement identified
4	All policies provided, with areas of improvement identified
5	All policies provided, and are compliant & sufficient
	Municipal assessment & comments
3	**All required policies are aligned to SCM prescripts. However the following technical areas have been identified for improvement:**
	Amendment of definitions to align to new legislative definitions
	Removal of provisions aligning to the old MFMA SCM procurement thresholds (pre-Dec 2023), e.g. written or verbal quotations, value thresholds, etc.
	Amend policy to ensure that preferential procurement applies from R0.00.

Alignment of Procurement Plan to Budget & IDP

In the absence of a procurement plan, the PT was not able to assess the integration into the budget and IDIP strategic planning. However, the scope of 'influenceable spend' was calculated to be approximately R213.756 million (i.e. the total budget for capital projects and operational expenditure subject to procurement: inventory consumed, contracted services & operating costs).

Whilst this assessment did not include existing contracts, the gap between planned procurement and budgeted expenditure suggests that procurement planning is not aligned to other planning processes.

It is requested that the Municipality submit a copy of 2024/25 procurement plan for assessment to establish strategy alignment with the SCM processes.

Table 6 Scale of completeness of Asset Register

Rating	Measure
1	No asset register provided
2	Much information omitted from asset register
3	Some information necessary is included in asset register
4	Minimal omissions in asset register
5	All information necessary included in asset register
	Municipal assessment & comments
1	No Asset Register was provided to assess for the SIME engagement. However, it was noted that the Municipality has embarked on the following initiatives after PT established the Asset Management Maturity level of the Municipality in 2022. The following areas were identified by the Municipality to address, to give more accuracy to their Asset Register from a technical and financial perspective:
	Implementing Inventory Management Policy , together with centralised inventory system for the Municipality, to acccount accuracy of inventory available and sufficient internal controls.
	Establishing GIS co-ordinates for the Municipality's fixed Capital Assets and provide more accurate and complete technical information to the Asset Register.
	Updating of the Master plans to support the identification of maintenance support, which in latter provide the alingment of AM and Procurement Strategic Planning and establishing economy of scales and efficiencies within the Municipality.

As no asset register was provided for assessment, it is not possible to determine the extent to which the asset maintenance plan feeds into procurement planning. This status quo is confirmed as per the municipal submission checklist. The PT engage with Bergrivier to establish and implement a robust Asset Register framework. This framework will ensure accurate accounting, safeguard assets, enable optimised procurement, aid in budgeting and planning, enhance cost-effectiveness, and improve forecasting.

The preparatory phase of the Dark Data project was concluded in March 2024. Readiness for the digitisation of asset registers, maintenance schedules, condition assessments, etc. was assessed and the PT is developing a business case for the digitisation of municipal asset information, based on the available data at local level.

Conclusion

- The SIME 2023 processes assessed the extent to which procurement planning and strategic procurement were effective in municipalities. Bergrivier is commended on maintaining a well-integrated planning process, which involves SCM. However, due to the inability to assess Bergrivier's asset register or procurement plan, and the findings of the Asset Management project, it is unable to confirm whether further integration of the asset register and maintenance plans into the planning processes would be beneficial to the Municipality's service delivery objectives.
- There is clear evidence that focused strategic procurement and asset management interventions can benefit municipalities in the Western Cape in achieving administrative efficiency, value for money and achieving service delivery objectives timeously. The PT will engage with Bergrivier and WCDM on specific initiatives.

SECTION 4: REVIEW OF THE HISTORICAL FINANCIAL INFORMATION

4.1 THE FINANCIAL PERFORMANCE AS PER THE AUDITED ANNUAL FINANCIAL STATEMENTS

The assessment of the financial health and performance is an integrated process involving a review of a Municipality's audited annual financial statements, audit report and ratio analysis. The results of the ratio analysis are used to support financial decisions and to identify factors which may influence the financial stability of the Municipality.

Adverse ratio outcomes show potential areas requiring action to ensure sustainability. The assessment trend analysis is based on the audited financial statements for 2021, 2022, and 2023; however, the table provides a five-year time frame (2019 to 2023) to provide a more comprehensive perspective for evaluating the 2024/25 budget. The analysis is conducted as per National Treasury MFMA Circular No.71. Provincial Treasury has analysed these ratios, and the following items are highlighted.

4.2 SUMMARY AND FINDINGS FROM HISTORICAL TRENDS

NT WEB-BASED PORTAL STATUS

The Municipality has not submitted both the 2021/22(restated) and 2022/23 (audited) ratio on the NT Portal and PT is in the process of validating the ratios with the Municipality. This report is based on the PT calculations.

4.2.1 Asset Management

No.	Financial ratios & norms	2019 Audited	2020 Audited	2021 Audited	2022 Audited	2023 Audited	*CAGR	Projection	Overall Rating
1	Impairment of Property, Plant and Equipment, Investment Property and Intangible Assets (Carrying Value): **0%**	0.0%	0.0%	0.0%	0.0%	0.0%	N/A	N/A	▲
2	Repairs and Maintenance as a % of Property, Plant and Equipment, Investment Property (Carrying Value): **8%**	2.2%	1.9%	1.9%	2.2%	2.0%	-2.3%	1.9%	▲

Impairment of Property, Plant and Equipment, Investment Property, and Intangible Assets (Carrying Value): The ratio result reflects a consistent trend over the period under review that no impairment of its asset based occurred. The Municipality's ratio results are within the NT norm throughout the period under review. These results are indicative that assets used to deliver services to citisens have been utilised to its potential. These results suggest that the assets used to provide services to citisens have been effectively utilised, however the Municipality should be mindful of potential future risks especially with the current climate changes and unstable energy supply.

Repairs and Maintenance as a per cent of Property, Plant and Equipment, Investment Property (Carrying Value): The ratio results fluctuated year-on-year and remains below the acceptable NT norm. In the 2022/23 financial year repairs and maintenance decrease by 3.2 per cent (R0.35 million), whilst the carrying value of Property, Plant and Equipment, Investment Property (PPE) increased by 4.45 per cent (R13.68 million) from R307.59 million to R321.27 million. New assets acquired over the past two years represent 55.72 per cent (R77.50 million) respectively of the carrying value of PPE, and investment which may not require repairs and maintenance.

4.2.2 Working Capital

No.	Financial ratios & norms	2019 Audited	2020 Audited	2021 Audited	2022 Audited	2023 Audited	*CAGR	Projection	Overall Rating
3	Net debtors' days: **≤30 days**	138 days	132 days	82 days	94 days	92 days	-7.7%	85 days	▲
4	Creditors Payment Period (Trade Creditors): **30 days**	8 days	29 days	30 days	28 days	33 days	31.5%	44 days	▲

- **Net Debtor's Days**:

The ratio results reflect year-on-year fluctuations of debtor's collection after impairment over the period of review. The ratio is not within the acceptable NT norm. In the 2022/23 financial year, the consumer debtors increased by 9.48 per cent (R11.75 million) from R124.03 million to R135.79 million, whilst actual billed revenue increased by 4.45 per cent or R13.68 million from R307.59 million to R321.27 million. Furthermore, the bad debts provision increased by R9.34 million, from R45.11 million to R54.45 million. The result indicates that the Municipality is experiencing challenges in the collection of outstanding amounts due, and a significant amount of potential cash

is locked in consumer debtors. The Municipality should review its credit control policy to drive efficiency in its debtor's collection capabilities.

- **Creditors Payment Period (Trade Creditors):**

The ratio results fluctuated year-on-year over the period under review. The Municipality took 33 days to pay its creditors in 2022/23, which is a deterioration from the 28 days in the 2021/22 financial year. The ratio result is outside the acceptable NT norm for 2022/23 and is in contravention section 65(2)(e) of the MFMA, which states that creditors must be paid within 30 days.

The Municipality should investigate the underlying causes and implement enhanced controls to ensure compliance.

4.2.3 Going Concern

No.	Financial ratios & norms	2019 Audited	2020 Audited	2021 Audited	2022 Audited	2023 Audited	*CAGR	Projection	Overall Rating
5	Total Liabilities to Total Assets: **<50%**	34.2%	35.0%	37.3%	37.3%	39.9%	3.1%	41.1%	▲
6	Total Debt to Total Assets	10.5%	9.6%	9.8%	10.2%	12.8%	4.1%	13.4%	▲
7	Current Ratio: **1.5-2:1**	4.2:1	3.3:1	3.1:1	3.4:1	3.4:1	-4.0%	3.28	▲

Total liabilities to Total assets: The ratio result favourably increase year-on-year and are within the acceptable NT norm.

Total Debt to Total Assets: The ratio results indicate that the municipal asset base can cover the liabilities. The Municipality appears to be managing its liabilities well when compared to its asset base and there is acceptable liability management across the financial years assessed.

Current Asset to Current liabilities: These results indicate that the Municipality will be able to settle its short-term obligations as they become due by utilising Current Assets.

** CAGR = Compound annual growth rate is a business and investing specific term for the geometric progression ratio that provides a constant rate of return over the time period. CAGR = [(End Value/Beginning Value) ^1/number of years of growth] - 1*

	Favourable
	Unfavourable
	Needs Improvement

4.3 mSCOA IMPLEMENTATION

4.3.1 Credibility of mSCOA data strings

MFMA Circular No.128 states that the credibility and accuracy of the data strings must be verified by municipalities before submission as the data strings submitted are used as the single source for all analysis and publications in a municipal financial year. Municipalities have been given access to the GoMuni portal and should use the reports on GoMuni to verify the credibility of their submissions. It should be emphasised that errors in the data can only be corrected in the next open period. e.g., errors in the tabled budget (TABB) data string can only be corrected in the adopted budget data string (ORGB). Municipalities are not allowed to open closed periods to make corrections. From 2025/26, the National Treasury will open the access to all reports available on the LGDRS to the public. Municipalities should make a concerted effort to resolve their mSCOA data strings credibility issues as soon as possible to avoid facing the consequences of financial misconduct in terms of Section 171(1)(d) of the MFMA.

The National Treasury commenced with the work to regulate the minimum business processes and system specifications for mSCOA towards the end of 2025/26. Working groups will be established to ensure that relevant stakeholders are consulted during the review processes. Municipalities are urged to ensure that the officials that participate in the working groups have the technical knowledge and experience to participate meaningfully in these forums. Integrated Consultative Forums will also be held quarterly to keep all stakeholders informed and provide them with an opportunity to provide inputs on the business processes and system specification that will be regulated. A dedicated email address will be created for comment and inputs relating to the review processes underpinning these Regulations.

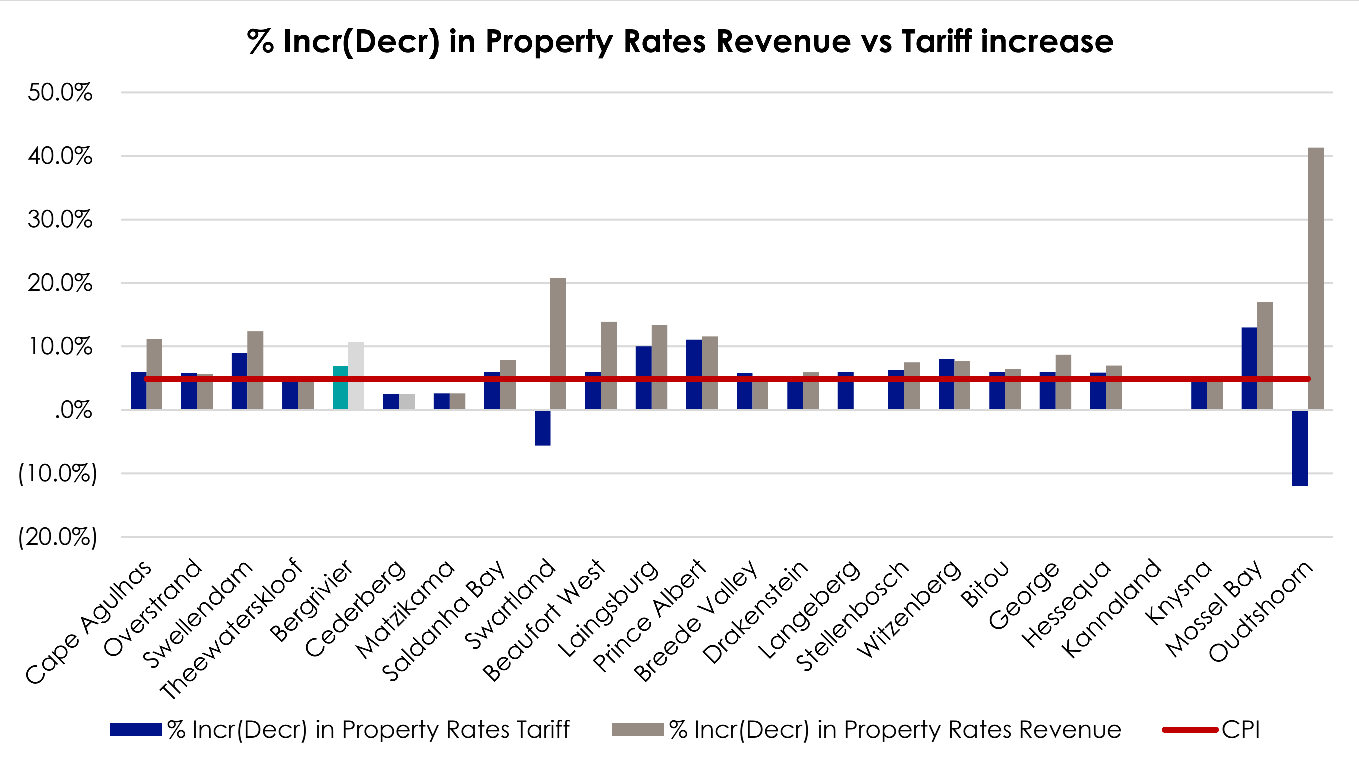
Table 7 mSCOA Segments Use Analysis

mSCOA Segment Analysis WC013 Bergrivier Municipality		
No	**Segment**	**TABB**
1	**Project Segment**	
1.1	Use of the Project Segment	Used correctly
2	**Fund Segment**	
2.1	Use of Fund Segment	Used correctly
3	**Function Segment**	
3.1	**Use of Function Segment**	Used correctly
4	**Costing Segment**	
4.1	**Use of Costing Segment**	Used Correctly
5	**Region Segment**	
5.1	**Use of Region Segment**	Used Correctly
6	**Item Segment :**	
6.1	There was a major improvement in the use of balance sheet budgeting and cash flow. Accounting movements are mostly populating in the contra accounts automatically, however there are still some that do not populate and do not correspond to the amounts presented on the Income Statement. The treatment of VAT still remains a issue.	
	More detail in terms of usage of the segments was done on the segments tools and shared with the Municipality	
8.	**Inventory Consumed**	Municipality is commended for the accouting of this tool however the inventory consumed is not balancing.
9	**Water Inventory**	Municipality is commended for the accouting of this tool however the inventory consumed is not balancing.
10	**Fines**	The fines issued are not reconciling with the receivables from non-exchange fines, the treatment of this tool still requires some attention.
11	**VAT**	No VAT was accounted for services. And Municipality must specify the VAT tool per service

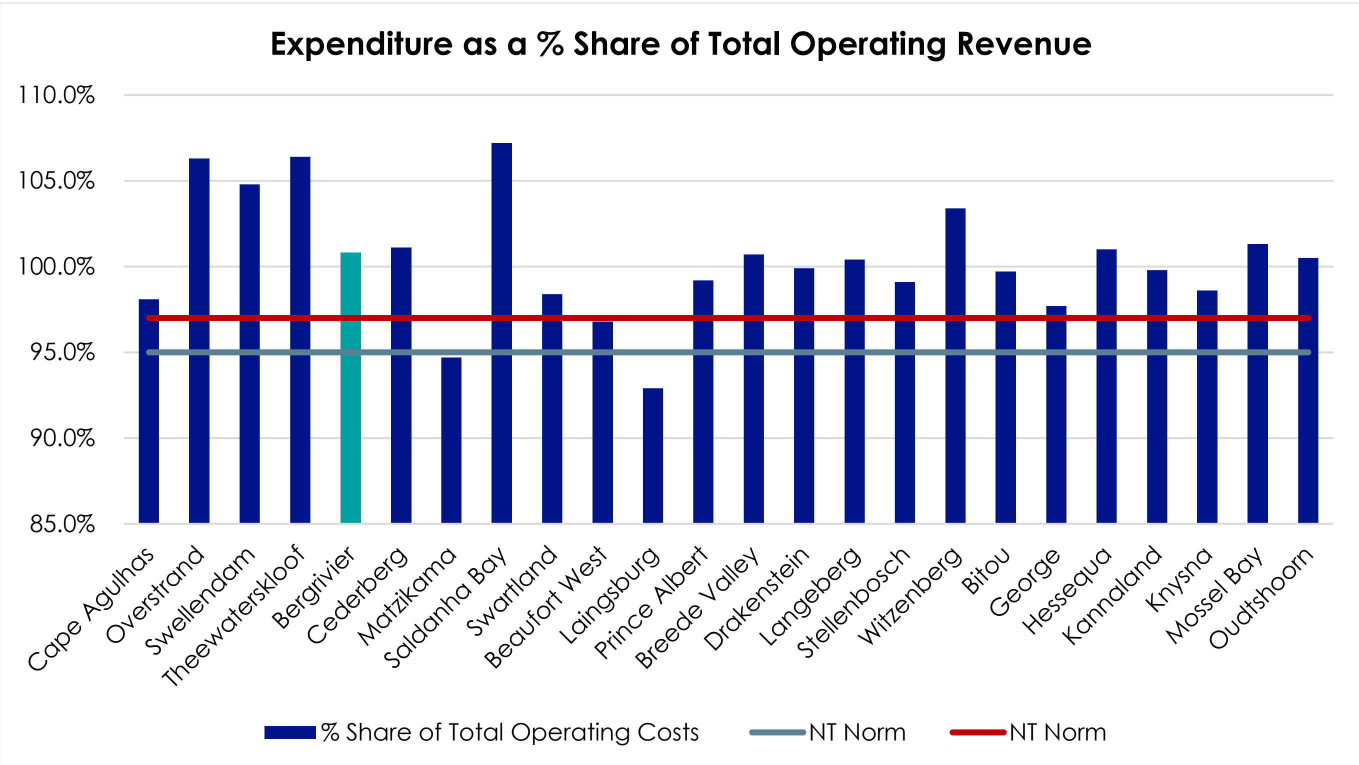
Provincial Treasury has provided the TABB segment tools analysis with the Municipality, with the goal of assisting municipalities in examining their data and determining if the information is appropriately retrieved across all segments before finalising the ORGB data strings. TABB shall be rectified in the ORGB before the adopted budget is locked on the financial system and the ORGB data string is created. Furthermore, it is recommended that the Municipality make themselves available for a session (through MS Teams) on the TABB segment analysis to provide further clarification on the segment analysis tools.

MUNICIPAL BENCHMARKING GRAPHS

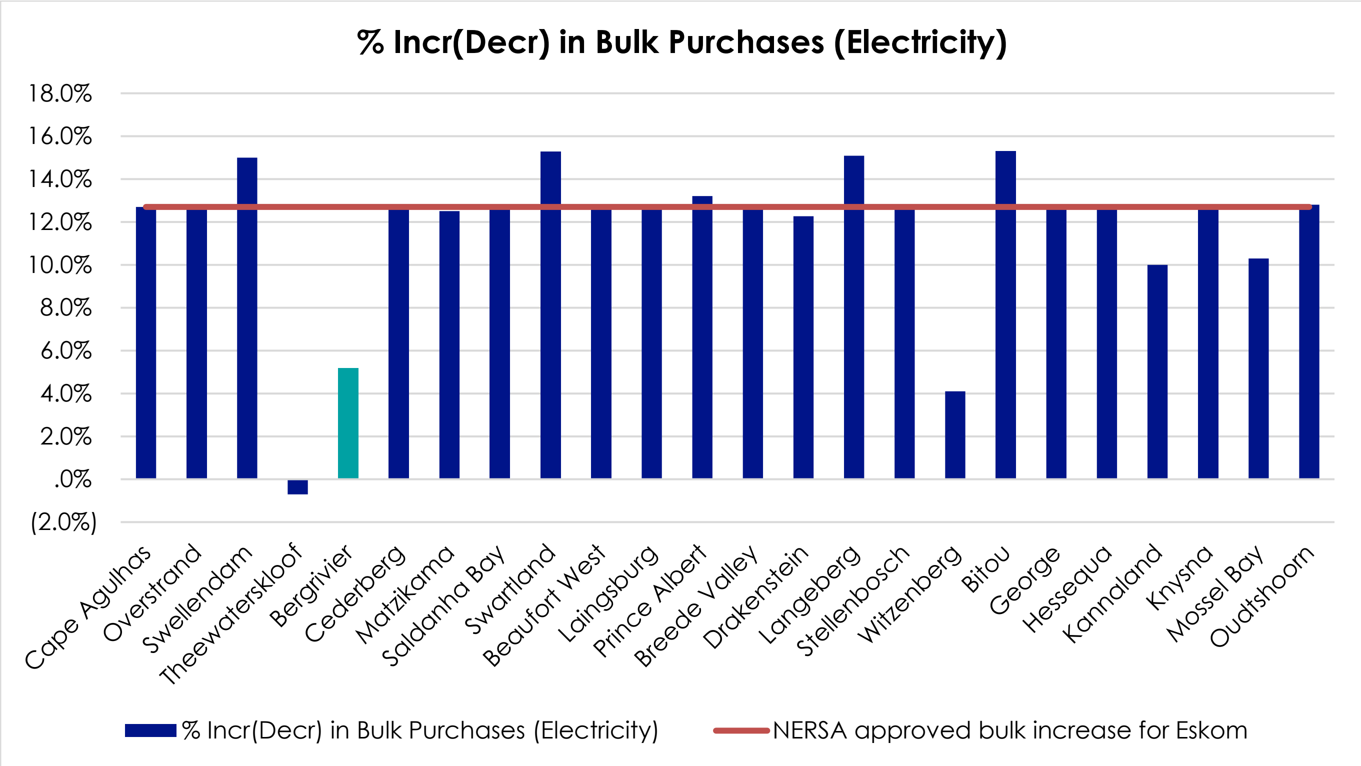
Graph 1 % Incr(Decr) in Property Rates Revenue vs Tariff Increase



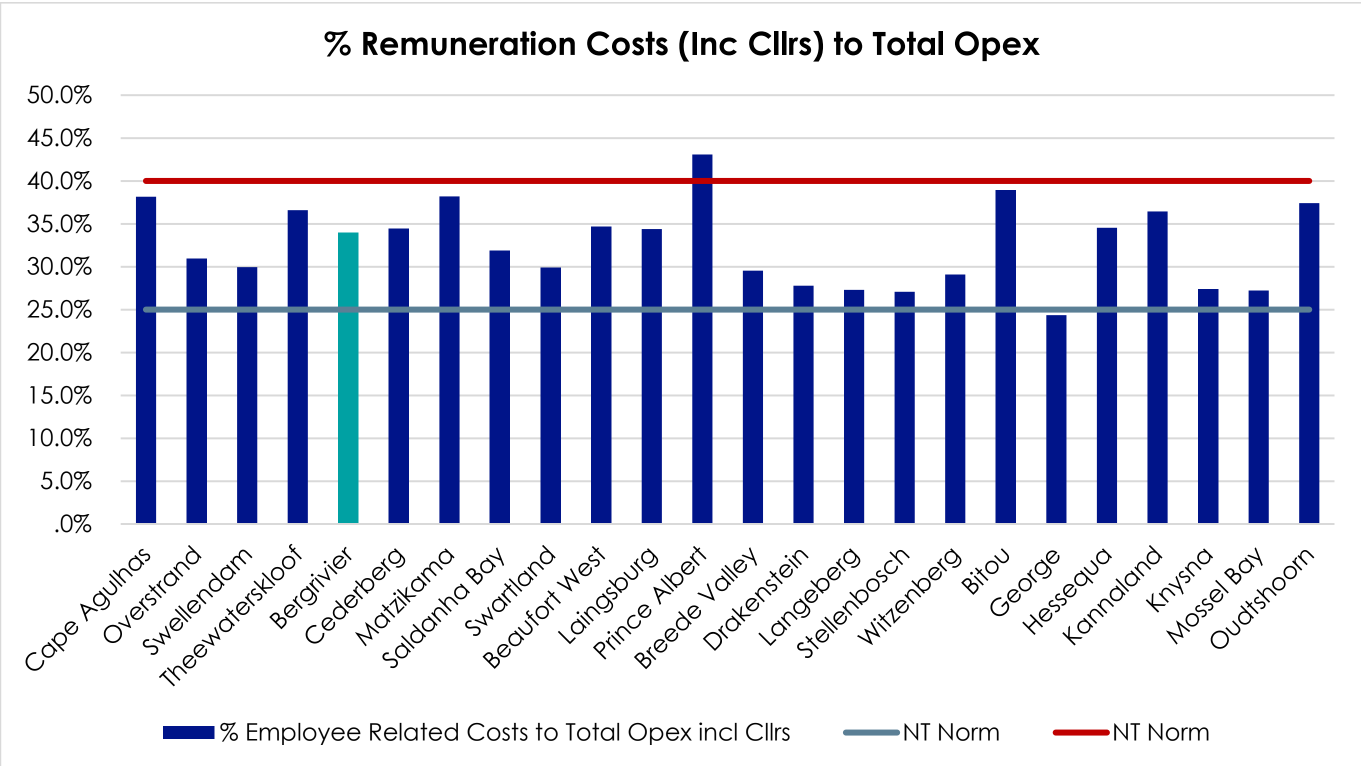
Graph 2 Percentage share of Total Operating Costs against Total Revenue



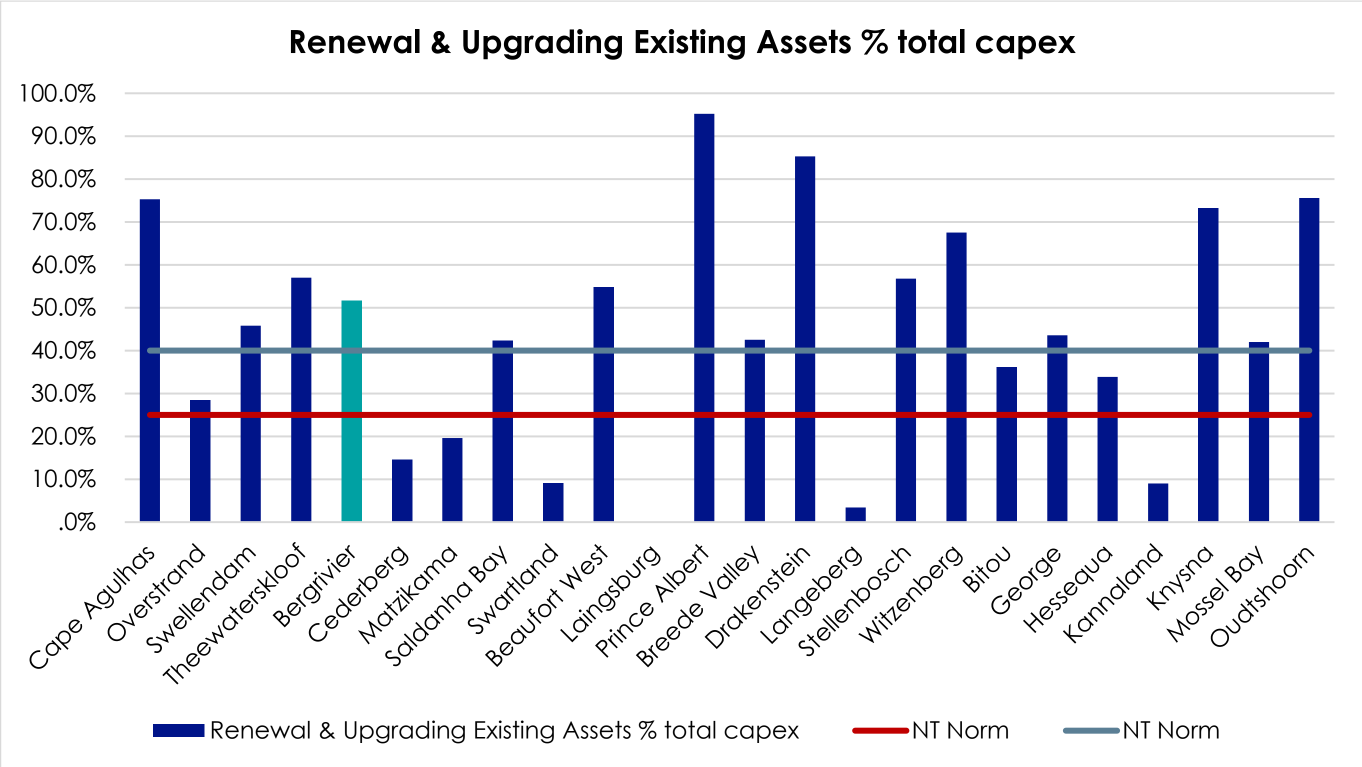
Graph 3 % Incr(Decr) in Bulk Purchases (Electricity)



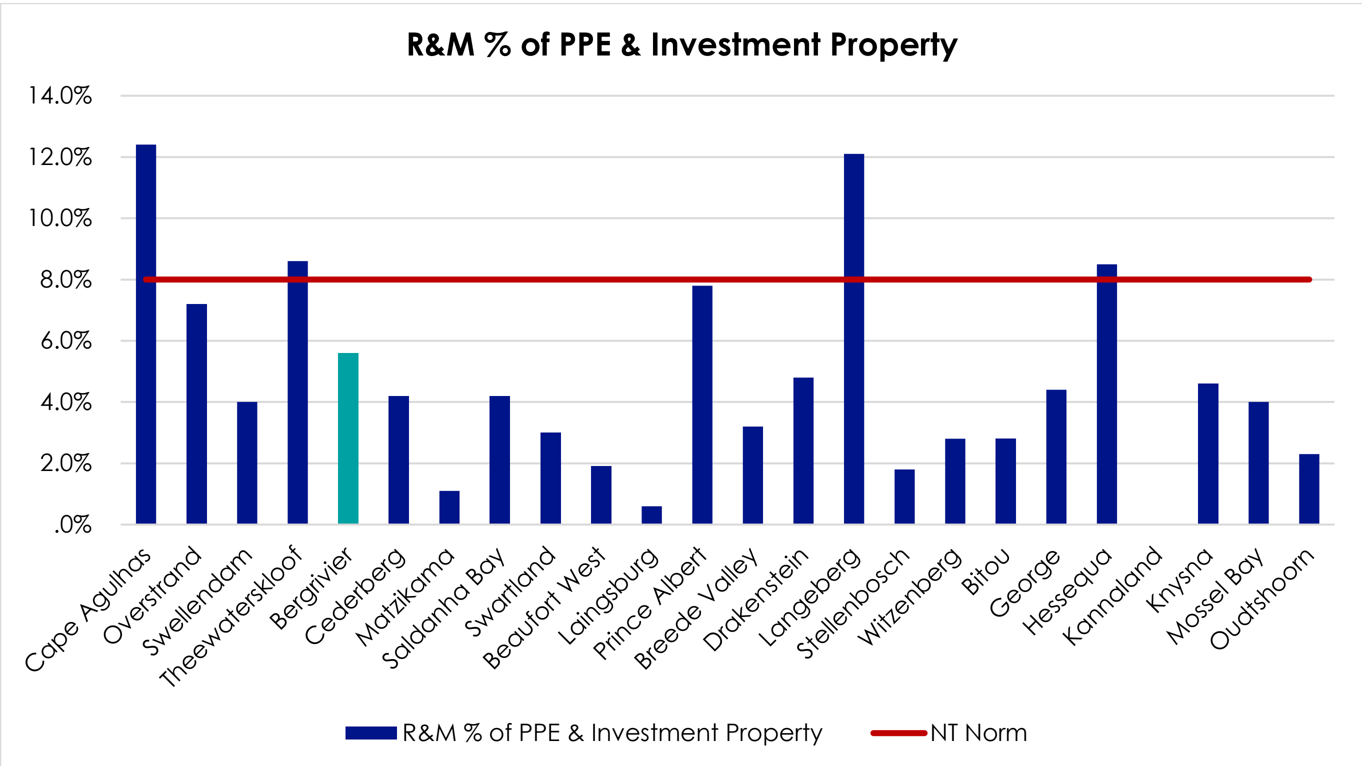
Graph 4 Percentage Employee Related Costs to Total Opex (Inc Cllrs)



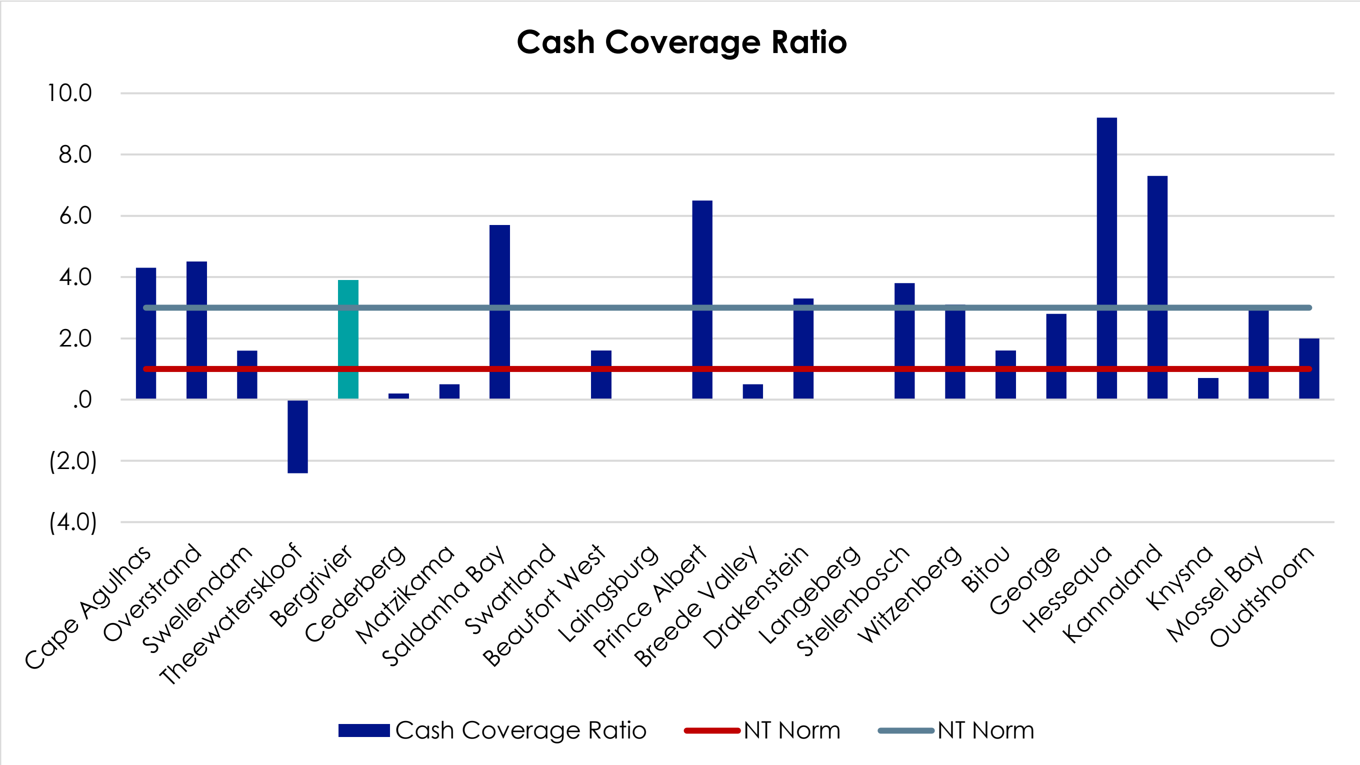
Graph 5 Renewal & Upgrading Existing Assets as a percentage of Total Capex



Graph 6 R&M as a percentage of PPE & Investment Property



Graph 7 Cash Coverage Ratio



Graph 8 Current Assets Ratio