CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD

ANNEXURE 40

2027 BUDGET AND BENCHMARK ENGAGEMENT SUMMARY REPORT

2026/27 BUDGET (JUNE 2026)

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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Note: The City is still awaiting NT's recommended approach, as agreed upon at the engagement, relating to the following matters:
o Audit challenges
o The public procurement bill
o Implications of shift between USDG and UDFG;
o Implications of reduced PTNG funding; and
o The cost implications of implementing C88 indicators

Mr. Lungelo Mbandazayo
The City Manager
Cape Town Metropolitan Municipality
Private Bag X9181
CAPE TOWN
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Dear Mr. Mbandazayo

OBSERVATIONS AND RECOMMENDATIONS EMANATING FROM THE BUDGET AND BENCHMARK ENGAGEMENT HELD ON 04 MAY 2026

This letter serves as a high-level summary of key observations, recommendations and resolutions emerging from the engagement, which was held on 04 May 2026.

The annual budget and benchmark engagement focused on the City's tabled budget for the 2026/27 Medium-Term Revenue and Expenditure Framework (MTREF) and the strategic objectives as expressed in the long-term strategic plans, such as the Municipal Spatial Development Framework (MSDF) and the Integrated Development Plan (IDP).

The objectives of the engagement were to assess the alignment between planning, budgeting, and reporting. Assess the level of integrated intergovernmental planning; and whether the City's plans and budget are financially sustainable in the longer-term and enable improved service delivery performance.

The budget was assessed in terms of the following criteria:

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

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

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The engagement was well represented by key stakeholder departments, including the City of Cape Town Metropolitan Municipality, National Treasury, Western Cape Provincial Treasury, Department of Planning, Monitoring and Evaluation (DPME), Development Bank of South Africa (DBSA), Department of Cooperative Governance (DCOG), Department of Water and Sanitation (DWS), Department of Public Works and Infrastructure (DPWI) and Department of Human Settlement National (DHS). The City was well-prepared with a detailed presentation in line with the guidelines that were provided.

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

KEY OBSERVATIONS AND RECOMMENDATIONS:

Institutional Arrangements: Sound

The assessment concluded that the City's institutional arrangements are sound.

The City reported that the relationship between the political leadership and administration is stable with all Mayoral Committee Members (Mayco) and Executive team positions filled.

The City intends to leverage a number of key strategic planning processes to foster alignment and collaboration with other spheres of government, the private sector and key stakeholders. The City's 2050 Long-term Plan (LTP) was approved by Council in December 2025.

The City is intending to forward correspondence to National Treasury (NT) requesting Recognision of Prior Learning (RPL) to accommodate pre-existing appointments as part of Executive Director qualifications. Minor job description updates are also being made to align the wording with the National Treasury expectations.

The City has raised a significant concern that the reduction of the Public Transport Network Grant allocations to all metros by 30 per cent, citing poor grant expenditure faces a very real risk that this programme could become a white elephant. The City also raised concerns regarding the removal of the Metro Trading Services Reform Programme from the Urban Settlements Development Grant because the City has had to stretch its own rates funding to sustain social programmes that now fall between the gaps created by these grant structures.

The Municipal Standard Chart of Account (*m*SCOA) Roadmap was submitted to Go Muni. The *m*SCOA Data string submissions are mostly credible, however there is a need to improve the statement of financial position and cash flow statement.

Financial Governance: Sound

The assessment concluded that the City's Financial Governance is sound.

The City has received an unqualified audit opinion with findings for the 2024/25 financial year. This is the City's 20th consecutive unqualified audit outcome since 2006.

The City's budget is based on its Integrated Development Plan (IDP); in 2022 an extensive local needs analysis was conducted which informed the IDP development; this is reviewed annually during the IDP

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Review and Amendment process. Local needs are an input to sector plans which then feed into the broader City strategy-led budgeting process. The City's IDP aligned with National and Provincial strategies and plans.

Multi-channel awareness campaigns were held including advertising in newspapers. Public participating meetings on the tabled budget were held in April 2026 in 46 sub-council / ward-based, in-person, virtual, and hybrid formats to maximise accessibility.

A steering committee has been established to coordinate a successful transition between the outgoing and incoming council. The committee will prepare for the orientation of the incoming council, as well as all administrative arrangements, such as the first sitting of the new council.

Financial Health: Sound

The assessment concluded that the City's financial health is sound.

The City budgeted for an operating deficit of R290 million in 2026/27, operating surpluses in 2027/28 of R558.2 million and R1.8 billion in 2028/29 respectively. Revenue growth is higher than expenditure over the MTREF. The proposed tariff increases are within inflation except for electricity; the higher tariff increase is driven by bulk purchases of electricity. The City' social package was reviewed providing a wider range of relief based on property value; and property value bands as it relates to fixed charges.

The average collection rate is above the prescribed National Treasury norm of 95 per cent. The City has implemented various strategies to improve the revenue collection rates further. The City has also implemented various cash flow management strategies.

Employee-related costs as a percentage of total operational expenditure are 29.9 per cent, within the norm of between 25 per cent and 40 per cent. Overtime is 5.1 per cent of total operating expenditure and slightly higher than the norm of 5 per cent. Contracted services are 15.4 per cent of total operational expenditure above the norm of 5 per cent.

The current ratio of 1.7 is between the norm of between 1.5 and 2.1 while the liquidity ratio of 0.7 is below the required ratio of 1. The cost coverage of 1.5 is within the norm of between 1 and 3 months and the City having adequate cash reserves. There are positive cash and cash equivalents for the 2026/27 financial year and over the Medium-Term Revenue and Expenditure Framework (MTREF to repay outstanding creditors.

The 2026/27 tabled budget of the City based on the above assumptions is assessed to be credible, funded and sustainable over the MTREF.

Service Delivery: Sound

The assessment concluded that the City's Service delivery is sound.

The City's capital budget decreases by 3.4 per cent to R13.1 billion and increases by an average of 1.1 per cent in the two outer years. The highest allocation is for trading services at 56.3 per cent, followed by community services at 10.7 per cent. About 35.2 per cent of the capital budget is funded from grants and 38.2 per cent from borrowing and 26.7 per cent from internally generated funds. The reduction in Public Transport Network Grant (PTNG) negatively affects the pipeline of transport projects. The movement of the allocation from the Urban Settlement Development Grant (USDG) to Metro Trading Services (MTS) is affecting social projects, especially the underprivileged communities. The level of capital investment of 14.8 per cent is within the acceptable norm of between 10 per cent and 20 per cent of total expenditure.

Provision for the repairs and maintenance of assets are at 9.2 per cent above the norm of 8 per cent of Property Plant and Equipment (PPE) and investment property. Renewal/Upgrading of existing assets is 54.8 per cent of total capital expenditure (NT's guideline is 60 per cent) will increase over the MTREF. Asset renewal to depreciation ratio is 168.7 per cent above the NT guideline of 100 per cent.

Water Tanker Services are not outsourced therefore the municipality provides the service through its fleet.

Provision has been made in the capital budget to increase service delivery. Sewer pipe replacement has quadrupled from 25km to 100km per year, and water pipes doubled from 25 – 50km, with R2 billion going to this over the MTREF. Over R5.4 billion for wastewater treatment works infrastructure over the MTREF, including R824 million in maintenance and R4.6 billion in upgrades, expansion and refurbishments.

Measures have been implemented to reduce water and electricity losses over the MTREF. The City is also making notable investment on water metering to address non-revenue water. Over R2.8 billion has been provided to build water security in the City, including new water projects and bulk water augmentation over the MTREF.

The City has made a significant allocation of R2.7 billion in road maintenance and pothole repairs, R1.04 billion in road, stormwater and related upgrades, and R653.6 million in congestion relief projects over the MTREF.

The City has made significant investment of just over R1 billion on street-lights over the MTREF, including R700 million for repairs and maintenance and R261 million for upgrades and LED refurbishment. The City has also created a pipeline of self-energy projects- self generation.

The city has made various forms of investments to improve the solid waste services across the city with a clear spatial prioritization of the projects such as regional landfill sites, transfer stations and material recovery. The City has made an investment of just over R1.2 billion over 3 years to purchase refuse removal vehicles and plants to ensure a reliable service.

The City is reactive in the provision of the environmental health services. This is mainly because they are not meeting the staff norms and standards on the environmental health services.

METRO TRADING SERVICE REFORM:

The Budget and Benchmarking engagement included a session at which the NT provided feedback against the Accountability Performance Minimum Commitments as per evidence submitted end March 2026; and on the draft A3: PIAP_v2 documents submitted late April 2026 ahead of Benchmarking by your municipality to meet MTSR requirements in respect of your trading services. The documents reviewed and discussed were based on what was available to the team at that stage.

This correspondence aims to provide feedback from the MTSR Benchmarking session, and to recommend further improvements before 30th June 2026.

This feedback is done in terms of the requirements for (a) M5 Business & Investment Plan; (b) M6 Budget Support, and finally (c) for the A3-PIAP_v2. Details have already been discussed with the relevant Metro officials since Minimum Commitments Evidence Review and Benchmarking, and it is expected that further progress may have already been made on these issues.

The first cohort requirements are that by 30 June 2026, metros should demonstrate that minimum commitments have been achieved and should submit a satisfactory A3-PIAP_v2 with firm performance targets.

Water and Sanitation:

M5 Business and investment plan

The National Treasury's assessment was that the Business and Investment Plan appeared to be relatively well developed, although there was insufficient detail on the capital programmes that expected to bring about performance improvements.

National Treasury recommended that the Financial and Business Model and Business and Investment plan be finalized with attention to identifying the funded spending interventions that will support the planned performance improvement targets.

M6 Budget support

National Treasury assessment concluded that the tabled budget provided no indication that the planned reform spending will be funded. This should be taken seriously as compliance with the M6 requirements may be at risk. National Treasury's recommendation is that the MTSR spending and funding plan (Part 5 of the A3-PIAP-v2) should be included in the main budget documents presented to Council for final adoption.

National Treasury further recommends that all MTSR spending be properly accounted for using updated *m*SCoA data strings, as these funds must be used for a ring-fenced programme.

A3: PIAP_v2 as a whole

National Treasury's overall assessment of the A3-PIAP v2 is summarized into three categories.

Firstly, the plan is expected to show realistic ambition. National Treasury's assessment is that the plan is comparatively unambitious is its planned improvement of key indicators.

Secondly, the financial indicators should show an improving trajectory. National Treasury's assessment was that the financial do show cautious improvement. This does not discount the fact that the City is already performing well in almost all the ratios.

Finally, appropriate funding of planned turnaround spending: National Treasury's assessment was that it is not clear that the planned business improvement spending will be funded (the basis of the M6 indicator). Taking into cognizance various capital programme that the City has already commissioned, there is a need to strengthen this through a clear narrative.

Electricity and Energy:

M5 Business and Investment plan

National Treasury's assessment was that although the Business and Investment Plan appeared relatively well developed, it was not possible to identify the specific spending interventions that will bring about the intended performance improvements.

National Treasury's recommendation is that the Financial and Business Model and Business and Investment plan be finalized with attention to identifying the funded spending interventions that will support the planned performance improvement targets.

M6 Budget support

National Treasury's assessment was that the tabled budget yet provided no indication that planned reform spending will be funded. This should be taken seriously as compliance with the M6 requirements may be at risk. National Treasury's recommendation is that the MTSR spending and funding plan (Part 5 of the A3-PIAP-v2) should be included in the main budget documents presented to Council for final adoption.

National Treasury's further recommend that all MTSR spending be properly accounted for using updated *m*SCOA data strings, as these funds must be used for a ring-fenced programme.

A3: PIAP_v2 as a whole

National Treasury's overall assessment of the A3-PIAP v2 is summarized into three categories.

Firstly, the plan is expected to show realistic ambition. National Treasury's assessment is that the plan generally reflects satisfactory ambition.

Secondly, the financial indicators should show improvement. National Treasury's assessment was that the financial indicators do show cautious improvement.

Finally, appropriate funding of planned turnaround spending: National Treasury's assessment thought there is no demonstration of doubling of capital, however it is clear that the planned business improvement spending will be funded (the basis of the M6 indicator). This was clearly demonstrated in the narrative report which clearly articulated how the City has invested over the years.

RECOMMENDATIONS:

It is recommended that:

- The USDG grant includes service sustainability as a priority in addition to spatial and other priorities.
- The City ensures that they fully align with the Metro Trading Services Reform institutional related aspects before the end of the financial year.
- The DFFE provides feedback on city application for waste fill site license feedback.
- The DPWI and City engage on the land to unlock precinct priorities to enable accommodation investments planned by national government.

  MTSR -Water and Sanitation:

  - <u>M5 Business & investment plan</u> **–** It is recommended that the Financial and Business Model and Business and Investment plan be finalized with attention to identifying the funded spending interventions that will support the planned performance improvement targets.
  - <u>M6 Budget support</u> – It is recommended that the MTSR spending and funding plan (Part 5 of the A3-PIAP-v2) should be included in the main budget documents presented to Council for final adoption. It is further recommended that all MTSR spending be properly accounted for using updated *m*SCoA data strings, as these funds must be used for a ring-fenced programme.

- A3: PIAP_v2 as a whole – It is recommended that the City provide clearly that the planned business improvement spending will be funded (the basis of the M6 indicator). Taking into cognizance various capital programme that the city has already commissioned, there is a need to strengthen this through a clear narrative.

MTSR -Electricity and Energy:

- M5 Business and Investment plan – It is recommended that the Financial and Business Model and Business and Investment plan be finalized with attention to identifying the funded spending interventions that will support the planned performance improvement targets.
- M6 Budget support – It is recommended that all MTSR spending be properly accounted for using updated *m*SCoA data strings, as these funds must be used for a ring-fenced programme.

Resolutions

It was further resolved that:

- The City must incorporate the comments made by the National Treasury on trading service reform documents before the adoption of the 2026/27 MTREF budget.

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

Yours faithfully

J.H. Hattingh

JAN HATTINGH
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1 June 2026

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