CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD

ANNEXURE 45

2026 BUDGET AND BENCHMARK ENGAGEMENT SUMMARY REPORT ISSUED BY NATIONAL TREASURY

2025/26 BUDGET (JUNE 2025)

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National Treasury
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Ref No: CPT/5

Mr Lungelo Mbandazayo
The Municipal Manager
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Dear Mr Mbandazayo

OBSERVATIONS AND RECOMMENDATIONS EMANATING FROM THE BUDGET AND BENCHMARK ENGAGEMENT HELD ON THE 25 APRIL 2025

This letter serves as a high-level summary of key observations, recommendations and resolutions emerging from the engagement which was held on 25 April 2025.

The annual budget and benchmark engagement focused on the City's tabled budget for the 2025/26 Medium-Term Revenue and Expenditure Framework (MTREF) and the strategic objectives as expressed in the longer-term strategic plans such as Municipal Spatial Development Framework (MSDF) and the Integrated Development Plan (IDP).

The objectives of the engagement were to:

- Assess the alignment between planning, budgeting, and reporting;
- Assess the level of integrated intergovernmental planning; and
- Assess 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 arrangement, financial governance, financial health and service delivery.

The engagement was well represented by key stakeholder departments including the City of Cape Town, National Treasury, Western Cape Provincial Treasury, Department of Planning, Monitoring and Evaluation (DPME), Development Bank of South Africa (DBSA) and Department of Cooperate Governance and Traditional Affairs (COGTA). The City was well-prepared with a detailed presentation in line with the guideline that was 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 in the budget before final adoption.

KEY OBSERVATIONS

Institutional arrangement: Sound

- The political oversight structures including the role of Council is functioning and created the conditions for the administration to execute their responsibility in a stable environment. The administration is in a good position to navigate the period ahead of the 2026 local government elections.
- The City indicated that the post of the Executive Director: Urban Waste Management is filled, and the new incumbent will commence duties on the 1 June 2025.
- The position of the Executive Director: Urban Mobility will become vacant at the end of September 2025. The position was advertised and closed on the 19 April 2025 as the City is being proactive with the recruitment process.
- The City declared an Intergovernmental Relations (IGR) dispute on 18 November 2024 regarding the District Development Model (DDM) One Plan and it is engaging with COGTA to address the dispute. It was highlighted that the technical working group is making progress and has found several areas of agreement.
- The City completed the first ever household survey to obtain socio-economic data to improve planning. There are plans to repeat the survey in 2027.
- The 2050 long-term plan will be released for public participation in July 2025. This long term plan ensures that there is continuity as the City moves between the legislatively mandated 5-year plans. Furthermore, it will foster greater intergovernmental planning and collaboration particularly on catalytic projects.
- The City has several Artificial Intelligence (AI) use cases in the organisation which are being used to drive business improvement across several departments. The policy environment for the uptake of artificial intelligence in the organisation including a new AI framework and operating procedure will be finalised by July 2025.

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National Treasury
REPUBLIC OF SOUTH AFRICA

mSCOA implementation:

- The City uploaded the *m*SCOA roadmap on GoMuni portal and includes clear actions and timeframes. The City and National Treasury will engage shortly to discuss the other actions that must be included in the mSCOA roadmap to be submitted with the adopted budget.
- The National Treasury indicated that the actions in the roadmap must include new reporting requirements on virements, the development of dashboards and regulations on minimum business process that will be promulgated by the end of 2026 or early in 2027, and timeframes for upgrading to S4HANA by 2027.
- Overall, the City is applying the *m*SCOA segments correctly, the project details tabled budget (PRTA) was submitted with validation errors which must be investigated and corrected in the project details original budget (PROR).

Financial governance: Sound

- The City reviews the IDP annually which is an informant to the annual strategy led budgeting process. The review includes a public needs assessment based on a review of public comments received on the latest City budget.
- The City takes the National and Provincial strategic plans into consideration when reviewing and drafting the IDP and the annual IDP review and amendments process.
- There was political oversight over the IDP and budget process as the budget timetable was adopted by Council and Strategic Management Framework (SMF) process was undertaken to determine the priorities and budget at the mid-year.
- The public participation process on the 2025/26 tabled budget is scheduled from 28 March 2025 to 02 May 2025. This is undertaken through Subcouncil based public meetings, portfolio committee meetings, website and PPU online platform, and dissemination of information to Community Based Organisations and Ward committee members.
- The City introduced a new City-Wide cleaning tariff and linked fixed charges for water and sanitation to property value bands. This has resulted in concerns being raised on the proposed tariff increases and the affordability thereof.
- The South Africa Property Owner Association (SAPOA) issued the City with a letter raising concerns on the 2025/26 Proposed budget. It indicated that the higher than CPI increase in property rates of 7.96 per cent is not sustainable.
- Furthermore, SAPOA highlighted that the introduction of the new tariff cannot be deemed to be a tariff but is in fact a tax and that a tax other than property rates can only be approved by the of Minister of Finance. The City indicated that it was reviewing the concerns raised by SAPOA.

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REPUBLIC OF SOUTH AFRICA

Financial health: Sound

- The City's financial health is sound given the prudent financial management practices that are implemented. It is noted that the City considered the affordability and service delivery needs when determining rates and tariff increases. The City has adequately provided reasons in the budget document for the tariff increases above inflation.
- The City has embarked on a comprehensive tariff reform strategy for the 2025/26 financial year to ensure financial sustainability and has ringfenced the trading services functions. This included changing the basis for calculating water fixed charge from meter size to property value bands for residential property. Furthermore, a new sanitation fixed charge based on property value bands coupled with lower consumption cost to reduce the impact on consumers was introduced.
- Currently, the electricity revenue contributes 10 per cent to subsidise rates funded services. Therefore, in the 2025/26 financial year, the electricity surcharge (percentage contribution to Rates) was removed and replaced with the introduction of a City wide area cleaning tariff.
- During the engagement, the City highlighted that the communities has raised concerns about the changes in tariffs especially the new City-Wide cleaning tariff and it has identified this as a risk for adoption of the budget.
- The operating expenditure increased by 9.1 per cent and the City continues to implement cost containment measures, eliminate wasteful expenditure and reprioritise spending. No increase was applied to operational costs, contracted services, and inventory consumed (excluding water inventory) for all directorates for the three years of the 2025/26 MTREF.
- The allocation for employee related costs is within the norm of between 25 and 40 per cent of total expenditure and is increasing over the 2025/26 MTREF. It is noted that the budget includes additional allocation for over 700 new law enforcement officers. This includes 500 new officers that will be deployed across every ward in in the City, as well as 220 officers to increase the size of the armed escort unit to protect our staff delivering services. This will reduce the cost of contacted services from private security companies.
- Overtime is reducing over the 2025/26 MTREF and will only be within the norm of 5 per cent of employee related costs in 2027/28. There is no provision for overtime parameter increase for any of the City's Directorates in the 2025/26 MTREF.
- Similar to the previous financial years, the level of contracted services in relation to operating expenditure is still above the norm of 5 per cent. The City is reducing the level of contracted services over the 2025/26 MTREF, with lower increases projected. This is to achieve value for money and effective, efficient, and economic use of resources.
- Over the years, the City was advised to budget for operating surpluses to ensure that it creates reserves to fund the capital budget from own funding. It is noted that the 2027/28 financial year will result in an operating surplus.
- The financial ratios are declining over the 2025/26 MTREF due to the decreasing cash and cash equivalents. However, they are still within the norm of MFMA Circular No.71 except for the

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National Treasury
REPUBLIC OF SOUTH AFRICA

current ratio and cost coverage ratio. The City highlighted that its strategy is to reduce the level of cash on hand and invest in infrastructure. However, this is regularly monitored to ensure that it does not compromise financial sustainability.

- There are cash flow management strategies in place which includes realistic cash flow forecasting, regular cash flow monitoring, management of cash reserves and monitoring of key liquidity ratios. This is yielding positive results given the City's good collection rate.
- The City has sufficient cash to pay creditors and has adequate cash backed reserves.
- There is continuity in the priorities included in the budget which reflects the application of multi-year budgeting. However, the change in the capital budget compared to the projections in the 2024/25 MTREF is slightly above the 10 per cent norm by National Treasury at 10.5 per cent. This is considered in relation to the complexity of implementation of projects given the local challenges i.e. construction mafias and appeals on tenders awarded.
- During the engagement the City highlighted the challenges to comply with the requirements of MFMA Circular No. 130 (Annexure C). This relates to the revenue management assessment tool and the cost reflective tariff tool template. The City highlighted that is has more sophisticated tariff calculation tools in place compared to the proposed tools by National Treasury. Furthermore, the City raised concerns on MFMA Circular No.131 and highlighted that it is a contravention to performance.
- The City's **2025/26 MTREF budget** was assessed as credible, **funded** and sustainable.

Service delivery: Sound

- The capital budget increased by 7.1 per cent in 2025/26 due to the City's investment in critical infrastructure and services aligned to the infrastructure report.
- The City allocated 48.2 per cent of the capital budget towards trading services, with 78.4 per cent thereof allocated to water and waste water management. This is due to the City prioritising upgrading of wastewater treatment works to increase capacity and bulk water augmentation which will unlock economic development.
- The budget allocation for asset renewal is adequate at 58.1 per cent of the capital budget in 2025/26 and increasing over the MTREF to 59.4 per cent by 2027/28 which is above the norm of 40 per cent. The City's provision for asset renewal in relation to depreciation is sufficient at 186.5 per cent in 2025/26 decreasing to 162.9 per cent in 2027/28 against the norm of 100 per cent.
- The provision of repairs and maintenance represents 9.2 per cent of Property, Plant and Equipment (PPE) in 2025/26 which is above the norm of 8 per cent but and increases to 8.3 per cent in the 2027/28 financial year. This ratio is considered in line with the high allocations for the renewal and upgrading of existing assets. The investment in infrastructure results in a lower

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National Treasury
REPUBLIC OF SOUTH AFRICA

requirement for maintenance of assets. However, it is noted that the audited outcome for the 2023/24 is below the norm at 2.3 per cent and it is not consistent with the budget allocations.

- The City indicated that overall, the projects funded by conditional grants in the 2024/25 financial year are progressing well. It was highlighted that the budget for projects funded by the Informal Settlements Upgrading Partnership Grant (IUPG) was reprioritised during the adjustments budget to ensure improved spending by the fourth quarter. It is anticipated that the Municipal Disaster Recovery Grant will not be fully spent by the end of June 2025 due to the delays in the approval of the budget.
- The City undertakes Project Readiness Assessment and risk assessment. The process differentiates between project and programme preparation. Projects are identified through the SMF process. There is clear demand plan that enables infrastructure delivery aligned to the infrastructure report. During the engagement, it was highlighted that 85 per cent of procurement for the 2025/26 MTREF was completed, 12 per cent at evaluation and will be concluded before June 2025, and 3 per cent at advertising.
- The different departments presented their respective procurement plans. It is noted that some of the tenders were cancelled because they were non-responsive. The City did not make any awards in terms of section 114. The City's tender procedure is that the Bid Adjudication Committee (BAC) refer back the tenders to the Bid Evaluation Committee (BEC) if it has concerns.
- The City has made provisions in the 2025/26 MTREF to address the service delivery backlogs aligned with the targets and available funding.
- The electricity losses were 11.46 per cent in 2022/23 and reduced to 11 per cent in 2023/24 and the City has forecasted 11 per cent for future years. The City highlighted that in a declining sales environment, the percentage losses will increase if the energy losses remain constant.
- The City has loss mitigation strategies in place and has allocated budget for revenue protection activities over the MTREF. During the engagement, the City highlighted that energy business is experiencing various challenges such as declining sales, security costs to secure assets, rising costs and Eskom non-recovery, staff safety etc.
- The average unaccounted water losses were 29.9 per cent in 2023/24, 28.1 per cent in 2024/25 (year-to-date) and is projected to be 31.5 per cent in 2025/26. The City has various water loss prevention mechanisms including the replacement of old meters/ valves, installing pressure management devices and a water pipe replacement programme.
- The City has 14 reticulation water tanker fleet which includes 6 new tankers that were acquired in 2024/25. Therefore, the water tanker service is undertaken internally, and it is not outsourced.
- The City indicated that the disproportionate growth of informal settlements makes it difficult to keep up with the cost of providing an effective waste management service in these areas.
- The City is pioneering a funding approach to recover the cost to ensure a ring-fenced solid waste trading service through the introduction of the new City-Wide cleaning tariff based on property

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National Treasury
REPUBLIC OF SOUTH AFRICA

value bands (currently funded from Property Rates, i.e. contribution from the sale of energy therefore not a new revenue source).

- The City also reiterated that the unlawful land occupation of project sites as well as the increase in informal settlements densities in the period between the start of the planning phase and the implementation stage poses future challenges regarding human settlements delivery. The other challenge is the increased loss of strategically located land parcels that have been earmarked for human settlements development because of unlawful occupation activities.
- The 2025/26 MTREF includes allocations to address Road Infrastructure Management (RIM) backlogs. The City highlighted that the investment in maintenance is expected to increase by 20 per cent from 2024/25 to 2030/31. This will eliminate the backlog in maintenance based on the 2019 Pavement Management System (PMS).
- During the engagement, the City indicated that it has submitted an appeal for a deviation from the requirements of the National Land Transport Act (NLTA) in relation to the model contract for the MyCiTi Phase 1 Stage 2 Vehicle Operating Company contracts to the Department of Transport and has not received a response.

RECOMMENDATIONS/ RESOLUTIONS

It is recommended that National Treasury:

1. arranges a meeting with the Department of Transport to discuss the MyCiti related challenges in relation to the Vehicle Operating Company contract;
2. arranges a meeting with the City to discuss other actions that must be included in the *m*SCOA road map to be submitted with the adopted budget;
3. provides feedback on the submission of the cost reflective tariff tool in relation to the requirement in MFMA Circular No. 129 and 130; and
4. arranges a technical engagement with the City to discuss the issues raised on the Metro Trading Service Reform on the A3 submission.

It is recommended that the City:

1. shares the MyCiti related documents that were sent to the Department of Transport with CSP;
2. reviews whether the split of overtime between non-structured, structured and shift-additional remuneration is correct and aligns to the strategy to reduce overtime;
3. engages with NT (Intergovernmental Policy Planning) on whether the City-Wide cleaning tariff is a tax or tariff as it will impact the implementation thereof;

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Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

4. submits a write-up to NT on their concerns raised on MFMA Circular No. 131; and

5. The City to discuss with NT on non-revenue water/ unaccountable water reporting inconsistencies.

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

Yours faithfully

KGOMOTSO BALOYI
DIRECTOR: LOCAL GOVERNMENT BUDGET ANALYSIS
DATE: 16/05/2025

CC: Chief Financial Officer
Mr Kevin Jacoby