CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD

ANNEXURE 44

2023 BUDGET BENCHMARK ENGAGEMENT SUMMARY REPORT

2023/24 BUDGET (MAY 2023)

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Ref No: CPT/5

Mr Lungelo Mbandazayo
The Municipal Manager
Cape Town 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 THE 05 MAY 2023

The annual budget and benchmark engagement focused on the City's tabled budget for the 2023/24 Medium Term Revenue and Expenditure Framework (MTREF) and the strategic objectives as articulated in the longer-term strategic plans such as Municipal Spatial Development Framework (MSDF) and the Integrated Development Plan (IDP).

The objectives of the engagement were to:

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

The budget was assessed in terms of the following criteria:

- **credibility** - whether the budget assumptions are credible and whether the budget is funded in accordance with the provisions of section 18 of the Municipal Finance Management Act (MFMA);

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- **relevance** - 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 namely, institutional arrangement, service delivery, financial governance and financial health.

The engagement was well-attended by the City, National Treasury, Western Cape Provincial Treasury, Department of Water and Sanitation and Western Cape Department of Local Government. The City was well-prepared for the engagement with rich content on the presentation that covered all areas requested.

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

KEY OBSERVATIONS

Institutional arrangement: Sound

- The City has effective governance structures in place which minimises the opportunity for fraud and enables consequence management. In addition, the City also depends on legislation, chapter 9 institutions, and other government spheres/ agencies e.g., NT for blacklisting of service providers. The city also relies on its ERP to prevent and detect fraud.
- All senior management positions are filled on the macro structure. The City is currently undertaking a project to conduct the targeted operating model reviews and process analysis and optimisation.
- The City has developed a methodology for leadership development which is encompassing to all the managerial levels - supervisor, senior and middle management.
- The leadership development provides a clear and structured leadership training with a strong emphasis on the organisational performance, creativity, and efficiency. Three Executive Directors are undergoing local government competencies training.

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- The City's loans are governed by the City's Borrowing Policy and strives to manage interest rate and credit risk exposure. At this stage, Moody's rating outlook is still positive.
- Intergovernmental collaboration is poor, there is a lack of response by national departments and State Owned Entities during the IDP process. Only the Western Cape Government and Eskom participated in the process.

mSCOA implementation:

- the City is implementing *m*SCOA as a business reform rather than a project. Nevertheless, challenges are still experienced in some areas (e.g., automation of A8, mapping of net increase/ decrease on A7, budgeting, transacting, and reporting on Free Basic Services etc.). Continuous engagements are taking place with the NT to resolve these issues. A detailed *m*SCOA presentation was done, however, it was resolved that a full live demonstration session at the City's offices will be arranged with NT in attendance.
- There is no need for an *m*SCOA steering committee as the organisation has matured and meetings take place as and when required.

Service delivery: Sound

- The City is commended for the emphasis on infrastructure asset management which is evident in the budget allocations for renewal of existing assets and repairs and maintenance.
- The capital budget increased due to the massive investment in critical infrastructure and services. The City has sufficient technical capacity in engineering and has invested in project management capacity needed to enable implementation of projects.
- The City published the Infrastructure Report which outlines its ambition to implement infrastructure delivery plans for the next 10 years. The infrastructure report has created an opportunity for public and private sector institutions and industrial bodies to engage the city in a constructive way especially on areas which there were some differences.
- The City is focussing on water business and has identified a long-term strategy for addressing all challenges that may arise should there be drought, distribution losses etc.
- The water directorate is structured as a utility service, there is significant budget allocation which is set to increase over the next 3 -10 years. The biggest strategic risks for water resilience are pollution and deterioration of assets and service quality.

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- There is a good and clear project pipeline for energy, and Water and Sanitation, with measures in place to address water losses. There is also a clear programme that focus on the reduction in sewer spillage.
- The electricity losses are increasing due to illegal connections in the informal settlements, however there are measures in place to ensure it does not expatiate.
- Service delivery is negatively impacted by unlawful land occupations, increase in vandalism and theft of electricity infrastructure, and construction site disruptions (construction mafia).
- The City has developed a strategy to deal with construction mafia affecting the delivery of infrastructure and the provision of basic services. However, this could be effective with better collaboration of other government agencies.
- The City undertakes Project Readiness Assessment (Stage Gate Approach) as well as risk assessment before implementing projects of which the governance model determines the size and the complexity of the project before implementation.
- NT notes the budget allocation for the City's SAP ERP application review to improve service delivery, and the tool that is being developed to address amendments to capital and contract management.
- The challenges impeding service delivery include but are not limited to vulnerability in SCM processes, loadshedding, construction mafias among other things. However, the City has initiated programmes and action plans to address them.
- The City raised concerns about the legislative constraints that negatively impact on infrastructure delivery such as Sections 33 and 116(2) of the MFMA. It was indicated that the Supply Chain Management regulatory framework must be simplified to enable service delivery and proper planning, budgeting, and value for money.

Financial governance: Sound

- The Integrated Development Plan (IDP) strategic objectives aligns to the National Development Plan (NDP), provincial strategic plan and the City Development Strategy. This alignment is evident on table SA4 - SA6 of the Municipal Budget Benchmarking Regulations (MBRR).

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- The budget is responsive to most pressing socio-economic challenges; upholds service standards, while not compromising on need to provide for long-term sustainability. The focus is on infrastructure development and economic recovery.
- There was political oversight on the IDP and budget process. The budget timetable was adopted by Council and Strategic Management Framework (SMF) process was undertaken to determine the priorities.
- It is noted that the Mayoral Priorities post the 2021 local government election informed the IDP and that the Mayoral Priority Programmes (MPPs) are seen as a natural progression to continue to push for implementation/ results. Furthermore, the Mayoral Priorities forms part of the IDP. All associated priorities are linked to the City's strategic objective and key performance areas.
- The Public participation process is currently underway. It is noted that the city places dedicated emphasis on addressing general unhappiness with electricity tariff increases.
- There was high citizen participation rate in the development of the IDP as opposed to lack of participation by other spheres of government in the city.

Financial health: Sound

- The City's financial ratios are good and indicates financial sustainability as positive cash flows are projected over the 2023/24 MTREF, however the liquidity ratio need to be monitored closely while noting the projected improvement over the MTREF. There is sufficient cash available to pay creditors and adequate cash backed reserves.
- The budget assumptions are credible and revenue estimates are realistic as increases are informed by tariffs and growth in consumption as well as bulk purchases. The impact of loadshedding on electricity sales was considered due to consumers using alternative energy sources. As a result, a shrinkage in electricity consumption is projected over the MTREF.
- The City continues to implement the cost containment measures and eliminate wasteful expenditure. It is noted that there are no expenditure items that realised savings because of additional expenses that are incurred due to loadshedding e.g., fuel for generators.
- The budget was assessed as funded, credible and sustainable over the 2023/24 MTREF.

GENERAL OBSERVATIONS

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- The City Manager expressed concerns regarding application of Cost Containment Regulations and the need to revisit/ review the 2019 Regulations.
- The City emphasised the need for legislative reforms to reduce the cost of compliance. It was indicated that certain matters can only be addressed though formal legislative processes but there is a need for NT/PT to champion the red tape reduction on key matters.
- The City expressed its general unhappiness with the timeframes on the publication of NERSA Tariff Guidelines and the methodology applied.
- It was highlighted that the major action to mitigate the impact of loadshedding is through revenue protection which would enable recovery of what has been lost by ensuring sustainable electricity supply.
- The City is not budgeting for operating surpluses but rather for a contribution to the Capital Replacement Reserve, the extent of which is still to be determined based on the chosen capital scenario to be implemented over the next 10 years.

RECOMMENDATIONS/ RESOLUTIONS

1. The City, Provincial Treasury and National Treasury to set up a separate session for the live demonstration of the *m*SCOA system at the City's premises to understand how the system operates in its entirety.
2. The National Treasury (Assets and Liability Unit/ City Support Team) to share the asset management letter from the City with the Western Cape Provincial Treasury (WCPT).
3. The National Treasury to share the approach followed by City of Ekurhuleni on the budgeting, transacting, and reporting of the Free Basic Services.
4. The City of Cape Town to send the National Treasury its working paper to solicit its views on the suggested Free Basic Services solution.
5. The Western Cape Department of Local Government will assist the City in addressing the non-engagement by sector departments in the planning process by ensuring that the intergovernmental forums forms part of the Strategic Planning Forum of the City.
6. The National Treasury must facilitate an engagement with the City to discuss the duplication of grants during consolidations.

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7. The city requests the National Treasury, Office of the Chief procurement Officer (OCPO) to simplify the SCM regulatory framework to enable service delivery and proper planning, budgeting, and value for money. The National Treasury should attend to section 33 and section 116 requirements and apply exception rules.

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

CC: Chief Financial Officer
Mr Kevin Jacob