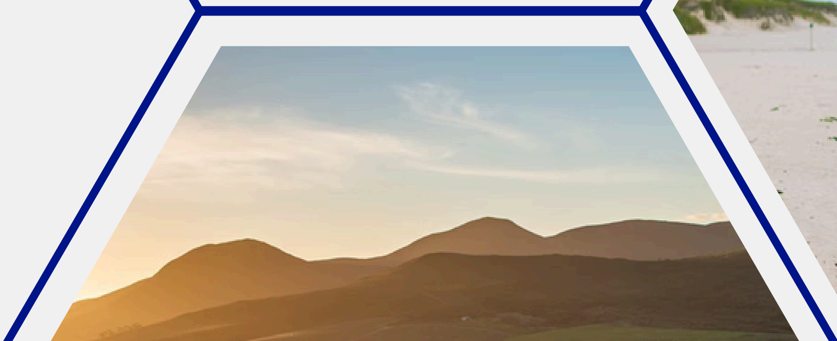
2025

LOCAL GOVERNMENT
BUDGET PERFORMANCE OVERVIEW

2024/25 Pre-audit Outcomes



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Message from the Minister

I am pleased to present the 2025 Local Government Budget Performance Overview.

This publication is vital for upholding transparency and accountability in local government finances. By providing a consolidated overview of the financial performance of municipalities across the western Cape, the Provincial Treasury aim to support informed decision-making in local government and foster greater public transparency and trust across in our province.

This year's edition continues to track and interpret municipal financial performance trends, identifying areas of progress and highlighting opportunities for sustained improvement in financial management and service delivery.

The 2024/25 financial year underscore the Western Cape municipalities' continued leadership in sound financial management, and as a province we continues to set the benchmark for good governance, with 20 of our municipalities achieving clean audits in the last financial year, and successes in terms of the high rate of funded budgets, operating surpluses, and debt reduction.

I extend my deep gratitude to all municipal executives, financial officers, and dedicated partners for their continuous commitment to sound financial management. Together, we remain focused on strengthening the financial integrity of local government to improve the quality of life for all residents throughout the Western Cape.

Deidre Baartman
Minister of Finance

Message from the Head of Treasury

I am pleased to present the 2025 Municipal Budget Performance Overview, which provides a clear, consolidated overview of the financial health and performance of municipalities in the Western Cape. This publication serves a dual purpose: to enhance transparency and accountability in municipal finances, and to support informed decision-making and public engagement in local government.

Following the positive reception of the 2023/24 edition as an accessible and insightful information piece, this report has now been formally classified as an official Provincial Treasury publication, reflected in our Annual Performance Plan (APP). This recognition underscores its growing value as a key knowledge product in the Province's commitment to evidence-based governance and fiscal transparency.

The 2024/25 edition builds on the foundations laid last year, analysing shifts in revenue, expenditure, and financial sustainability across municipalities. It considers the evolving fiscal environment, highlights key trends over the past three financial years, and provides insights into the underlying factors shaping municipal performance. By identifying areas of progress as well as those requiring focused support, the review informs both Provincial Treasury's advocacy role and municipal efforts to strengthen financial management and service delivery outcomes.

Through accessible financial insights, the report continues to deepen public understanding of how municipal financial performance impacts communities — fostering trust, accountability, and participation. It also provides an evidence base for Provincial Treasury's recommendations for the 2025/26 municipal planning and budgeting cycle, supporting strategic adjustments and promoting resilience across all municipalities.

I extend my gratitude to municipal leaders, financial officers, and all partners for their contributions. Together, we remain committed to advancing sound financial management and improving the quality of life for communities throughout the Western Cape.

Julinda Gantana
Head of Provincial Treasury

Purpose

This report provides a consolidated overview of the financial performance of all 30 municipalities in the Western Cape for the 2024/25 financial year. As the second iteration of this publication, it continues to track and interpret municipal financial performance trends over time, comparing outcomes for 2024/25 with those of the previous financial years to identify emerging patterns and shifts in performance.

Serving both as an analytical and public information resource, the report aims to make municipal financial data more accessible and meaningful. Simplifying complex financial information supports transparency, accountability, and public engagement in local governance. Through this, residents and stakeholders gain a clearer understanding of how municipal financial performance impacts service delivery and community well-being across the province.

In addition to tracking trends, the report deepens its focus on understanding the underlying factors influencing municipal performance. It highlights areas of progress, persistent challenges, and opportunities for improvement, thereby informing Provincial Treasury's oversight role and recommendations. The report also reflects on expected performance over the 2025 Medium-Term Revenue and Expenditure Framework (MTREF), providing a forward-looking perspective on fiscal sustainability and planning across municipalities.

Data Sources & **Disclaimers**

This report is based primarily on data from National Treasury's (NT) Local Government Database. The quality of the analysis depends on the accuracy of the municipal Standard Chart of Accounts (mSCOA) data strings submitted by municipalities.

The credibility of the report relies on these submissions being complete and correct. When data strings are missing or contain errors, it can lead to anomalies and irregularities that affect the reliability of the pre-audited financial results. It's therefore important to acknowledge these data limitations and continue improving the accuracy, consistency and transparency of municipal financial reporting.

At the time of preparing this report, all Western Cape municipalities had submitted their pre-audited mSCOA data strings. The following data and alignment errors were, however, noted:

- A difference in the overall value of capital expenditure in budget schedule A5 when comparing total expenditure by function vs total expenditure by funding source. These values also show minor misalignment with the aggregated capital expenditure totals in budget schedule A9 which provides a breakdown of capital expenditure per asset and infrastructure class. These differences can be attributed to errors observed in the submissions of Cederberg, Oudtshoorn , Overberg, Overstrand (2023/24), and Theewaterskloof (2022/23).
- Debtors' data for Cape Agulhas, Stellenbosch and Bitou were not uploaded to the GoMuni System.

To help municipalities improve the credibility of their submissions, the Provincial Treasury (PT) has introduced an mSCOA Segment Use Analysis Tool, which is shared monthly with all municipalities. PT also holds regular technical engagements with municipal finance teams to discuss findings and identify data issues. Each municipality is required to develop an action plan with clear timelines to address these issues, enabling PT to monitor progress on a monthly basis.

Despite ongoing challenges, Western Cape municipalities remain committed to improving the quality of financial information, supported by both the National and Provincial Treasuries. National Treasury has strengthened PT's capacity through the appointment of an mSCOA Advisor and the hosting of regular master classes to standardise implementation across municipalities. Recent system demonstrations by National Treasury highlighted integration gaps and underused ERP modules, which limit data quality and efficiency. These findings were shared with system vendors, and follow-up sessions are planned to ensure that the necessary improvements are implemented.

The data presented in this report provides an overview of preliminary budget implementation performance for 2024/25 across key indicators for all municipalities in the Western Cape. The dataset was extracted on 1 October 2025 and is based on audited outcomes from past years and pre-audited data for 2024/25). More detailed information is available through National Treasury's GoMuni portal or at mfma.treasury.gov.za.

Finally, its important to note that municipalities report on an accrual accounting basis, not on a cash basis. This means that revenue and expenditure are recorded when transactions occur, rather than when money is received or paid.

A full list of municipal demarcation and reference codes is provided in **Annexure 1.**

Municipal Budget **Performance Overview**

Operating Revenue

R 97.006 bn | 101.0%

Operating Expenditure

R 93.060 bn | 96.5%

Operating Surplus

R 3.946 bn

Capital Expenditure

R 15.055 bn | 84.6%

Cash Coverage

126% of operating expenditure

Debtors

R 14.42 bn | -5.3%

Creditors

R208.2 m (90 days+)

Western Cape municipalities collectively generated R97.0 billion in **operating revenue** during the 2024/25 financial year, achieving 101.0% of the adjusted operating revenue budget of R96.1 billion. This represents a 9.0% increase in actual revenue compared to the previous financial year.

Operating expenditure amounted to R93.1 billion, or 96.5% of the adjusted expenditure budget of R96.4 billion, reflecting an increase of R7.8 billion (9.2%) from 2023/24.

The combination of strong revenue performance and contained expenditure resulted in an overall **operating surplus** of R3.9 billion for 2024/25. However, looking ahead over the 2025 MTREF, the outlook becomes more constrained. Operating revenue is projected to grow by an average of 6.4%, while expenditure is expected to increase at a faster rate of 7.6%. These projections underscore the growing pressure on municipal finances, reinforcing the importance of managing costs, improving revenue collection, and ensuring that tariffs remain cost-reflective to sustain service delivery over the medium term.

Capital expenditure for the year reached R15.055 billion, or 84.6% of the adjusted budget of R17.802 billion, representing a 9.1% increase from the previous year. While the final expenditure ratio may improve once all reconciliations are finalised, the relatively low level of actual spending remains a concern, highlighting the need for stronger project planning and execution.

With R25.2 million in **cash and cash equivalents** against R19.9 million in current liabilities, municipalities can on aggregate cover their short-term obligations 1.26 times. In practical terms, this indicates that municipalities can fully meet their short-term obligations without having to borrow or wait for additional revenue.

Overall **debt owed to municipalities** declined slightly from R15.23 billion in 2023/24 to R14.42 billion in 2024/25, representing a 5.3% reduction. Households remain the dominant source of municipal debt, accounting for 67.9% of total arrears, underscoring the critical role of household payment behaviour in municipal revenue performance. Meanwhile, **creditors'** balances decreased significantly from the previous year, mainly as a result of the successful participation of WC municipalities in the Municipal Debt Relief initiative.

MFMA Audit Outcomes

The Western Cape continues to set the benchmark for good governance in local government, with 20 of its municipalities achieving clean audits in the latest audit cycle (2023/24). This represents nearly half of the 41 clean audits recorded nationally, an outcome that reflects the strong financial discipline, effective oversight, and commitment to transparency across municipalities in the Province.

2023/24 Audit Outcomes	Unqualified with no Findings	Unqualified with Findings	Qualified with Findings	Adverse with Findings	Disclaimed with Findings	Outstanding Audits	Total
National	41	99	90	6	11	10	**257**
	16%	39%	35%	2%	4%	4%	
Western Cape	20	6	2	1	1	0	**30**
	67%	20%	7%	3%	3%	0	

Municipalities with clean audits continue to demonstrate the benefits of stability and accountability, supported by experienced leadership and well-functioning internal controls.

Most municipalities continue to produce good-quality financial statements and comply with reporting requirements, though there is scope to strengthen performance reporting and legislative compliance. Addressing these developmental areas, particularly around procurement and consequence management, will further reinforce financial integrity and accountability.

While a few municipalities face fiscal pressures, the Provincial Treasury and Department of Local Government are intensifying support through targeted interventions and capacity-building. With continued collaboration and leadership stability, the Province is well positioned to sustain its strong governance record while supporting municipalities toward long-term improvement.

WC 2023/24 Audit Outcomes
Key Statistics

17 municipalities have sustained a clean audit status for four or more years.

29 municipalities submitted financial statements by the legislated date of which 26 were deemed to be of good-quality by the AGSA.

17 municipalities had no-material findings relating to legislation on procurement and contract management.

1% of 2023/24 municipal expenditure budget was irregularly spent, the lowest in the Country.

The 2023/24 audit outcomes provide a strong foundation for the new financial year, reflecting the Province's continued commitment to sound governance, financial discipline and accountability.

Building on this performance, the Western Cape entered the 2024/25 cycle with a solid platform to further strengthen municipal financial management, deepen compliance practices, and focus on developmental support where it is most needed to ultimately ensure that good governance translates into tangible improvements in service delivery and sustainable local development.

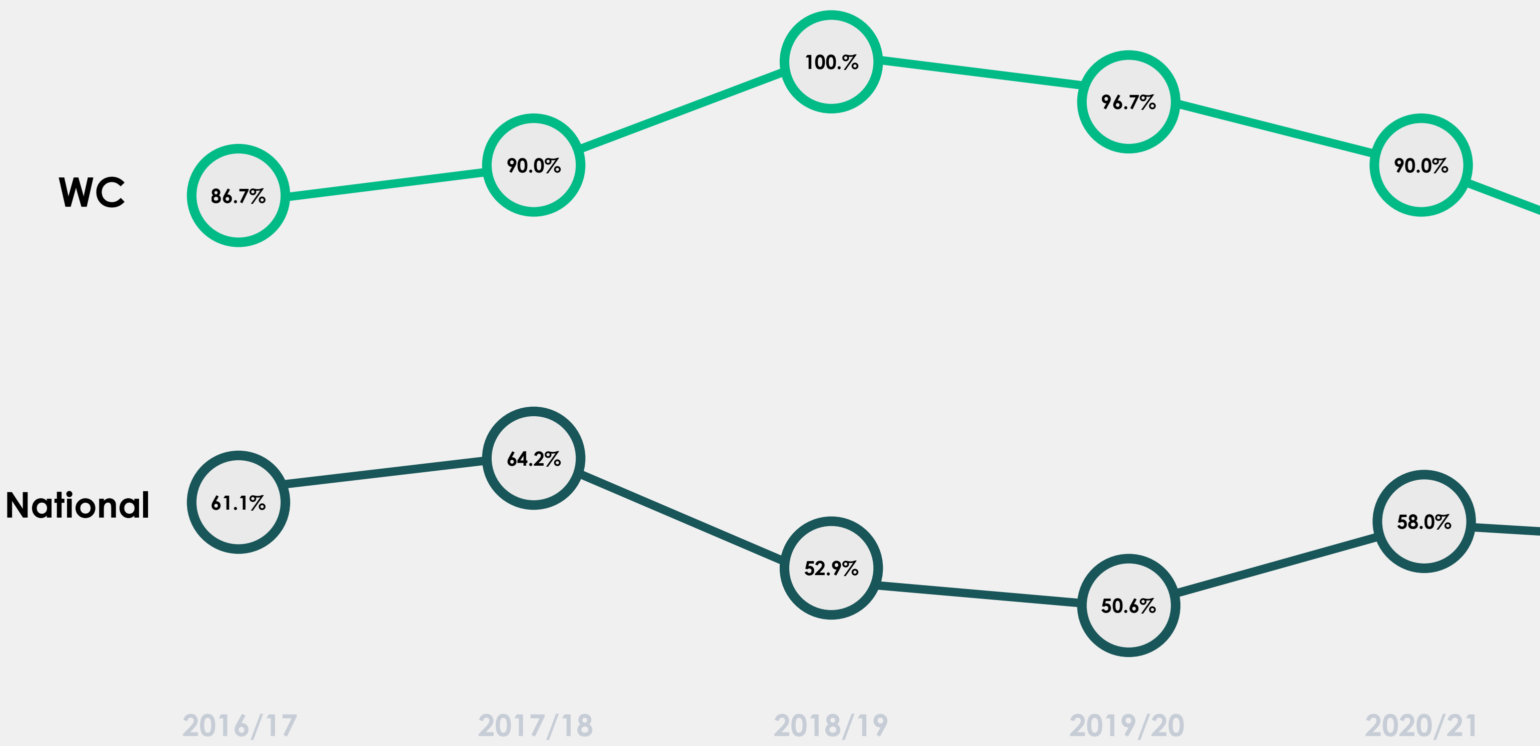
Budget Funding Status

WHAT IS A FUNDED BUDGET?

In municipal finance terms, a funded budget refers to a budget that is both credible and affordable, meaning the municipality's planned expenditure is supported by realistic and reliable sources of funding. Section 18 of the MFMA requires that municipalities only budget for expenditure they can afford; whether financed through realistically anticipated revenue, cash-backed reserves, or confirmed grants and transfers. In short, municipalities should not plan to spend money they do not have or cannot reasonably expect to collect. Section 18(2) further stresses that revenue projections must be realistic and informed by current and past collection trends to ensure credible, evidence-based budgeting.

Put simply, a funded budget reflects a municipality's financial credibility i.e. its ability to balance planned spending with dependable income streams, ensuring that service delivery commitments are sustainable and achievable.

PERCENTAGE OF TOTAL MUNICIPAL BUDGETS FUNDED
AN HISTORIC COMPARISON BETWEEN THE WESTERN CAPE & NATIONAL (ALL MUNICIPALITIES)

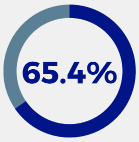


Over the past decade, the Western Cape has consistently recorded a higher share of funded municipal budgets compared to the national average. While national performance has fluctuated between 50% and 65%, the Western Cape has remained well above this range.

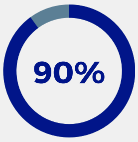
During the pandemic period, Western Cape municipalities saw reduced revenue collection, resulting in increased unfunded budgets, but still maintained far stronger budgeting discipline than the national trend.

Budget Funding Status

2025/26 FUNDED BUDGETS PER PROVINCE

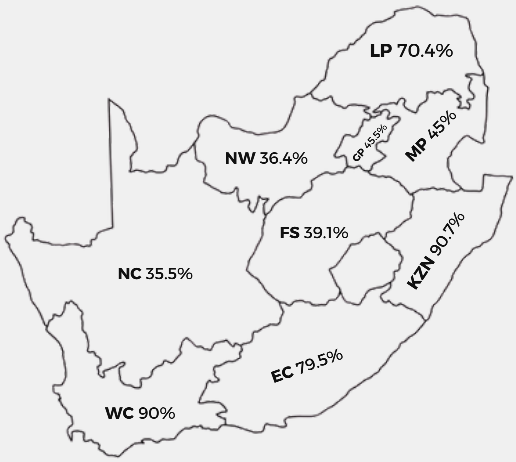


NATIONAL

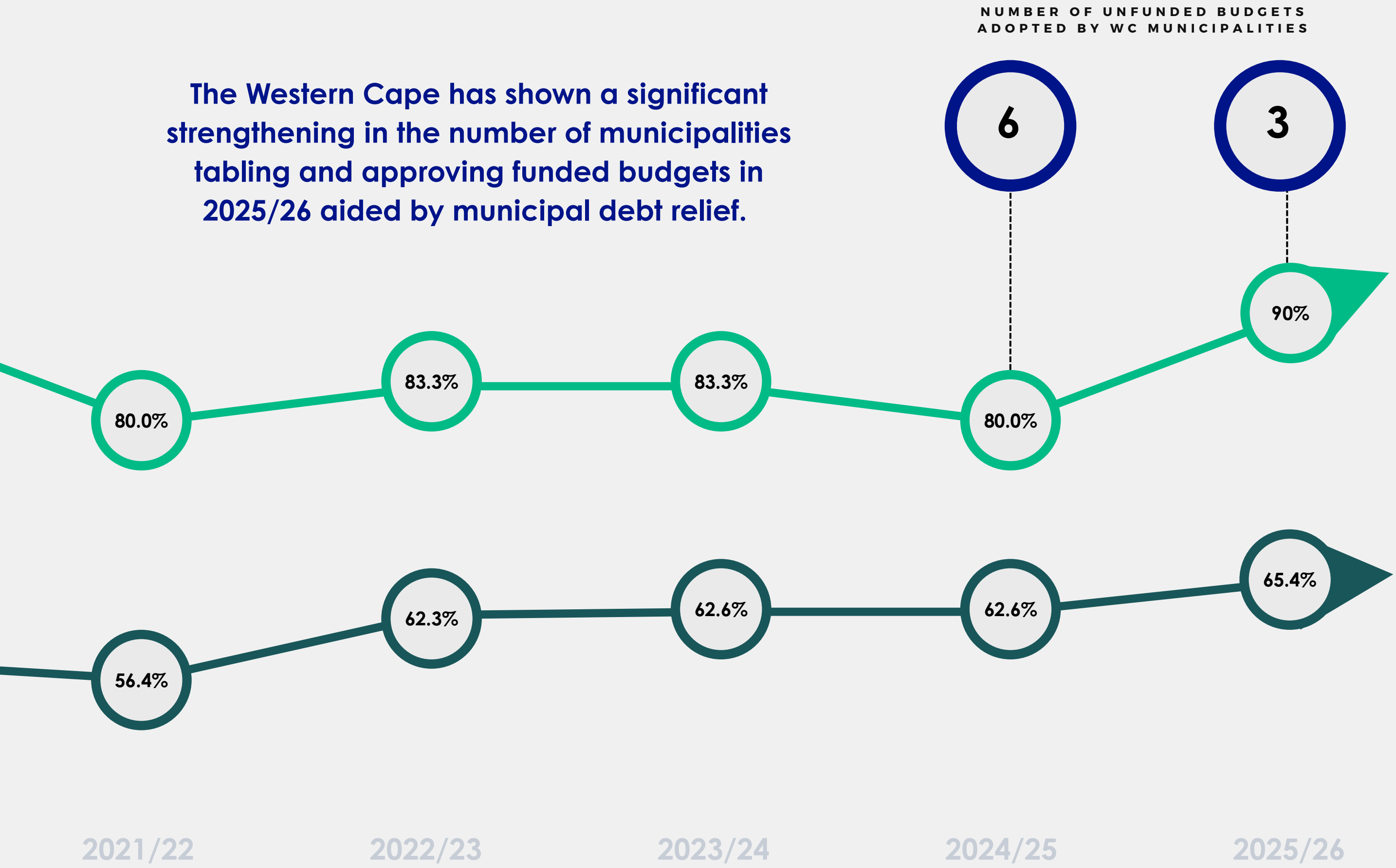


WESTERN CAPE

Of the 257 municipalities in South Africa, 168 (65.4%) adopted funded budgets for 2025/26. KwaZulu-Natal led with 49 funded municipalities (90.7%), followed by the Western Cape with 27 (90%).



The Western Cape has shown a significant strengthening in the number of municipalities tabling and approving funded budgets in 2025/26 aided by municipal debt relief.



In 2024/25, 23 municipalities initially tabled funded budgets, increasing to 24 at adoption. This momentum continued in 2025/26, with 26 municipalities tabling funded budgets and 27 ultimately adopting fully funded positions. This improvement reflects the impact of ongoing support, guidance, and proactive monitoring by Provincial Treasury, which has helped municipalities refine their budgeting processes and address funding gaps earlier in the cycle.

Importantly, the three municipalities that adopted unfunded budgets in 2025/26 - Kannaland, Beaufort West and Theewaterskloof - are all under Financial Recovery Plans (FRPs) which provides a structured pathway to restore financial sustainability.

Annexure 3 provides a detailed breakdown of budget funding positions per municipality.

Consumer Reality

The following overview provides a snapshot of the socio-economic realities shaping household behaviour across the Western Cape. Drawing on insights from the WCG's **2025 Provincial Economic Review and Outlook (PERO)**, the data highlights how rising living costs, slower income growth, and high debt levels are squeezing consumer budgets.

7.563 million: **Population size** of the Western Cape in 2024, growing by 19.6% since 2015.

52.7%

The **percentage of the population under the lower-bound poverty line** i.e. R 1 109 per month. Approximately 3.96 million people.

372 559

Number of **registered indigent households** (2024) in the Western Cape who fall below a certain income threshold (as determined by individual municipalities) and subsequently receive free or subsidised basic services

GINI
COEFFICIENT

A measure of income inequality ranging from 0 (perfect equality) to 1 (perfect inequality). **Improved from 0.61 in 2015 to 0.60 in 2019 and 0.59 in 2024**, suggesting a modest narrowing of income disparities.

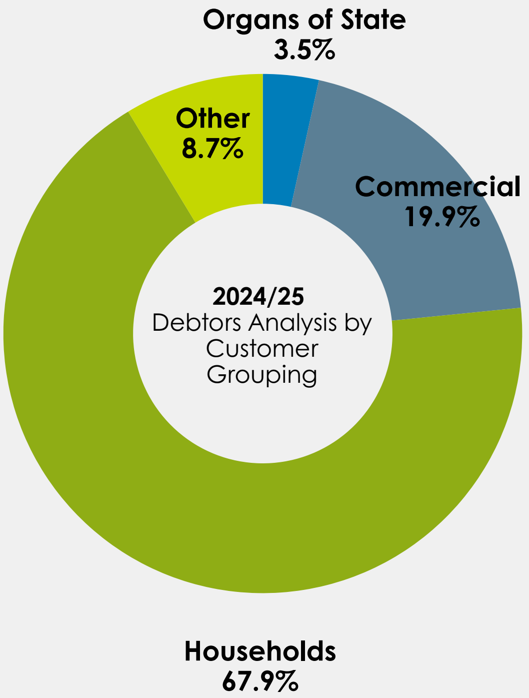
Average WC Consumer Price Inflation (CPI) June 2024 - June 2025

Households in the Western Cape face persistent economic challenges. With a population of 7.56 million, over half of the residents (52.7%) live below the lower-bound poverty line. While income inequality has shown slight improvement, many households remain financially vulnerable, relying on free or subsidised municipal services.

Rising population and prices, coupled with a consumer inflation rate of 4.6% in mid-2024, increase demand for basic services and squeeze disposable income, limiting households' ability to pay for essentials. These pressures directly impact municipal revenue collection and the financial sustainability of local governments.

Consumer Reality

Overall debt owed to municipalities declined slightly from R15.23 billion in 2023/2024 to R14.42 billion in 2024/25, a 5.3% reduction. Despite this overall improvement, payment trends varied across customer groups.



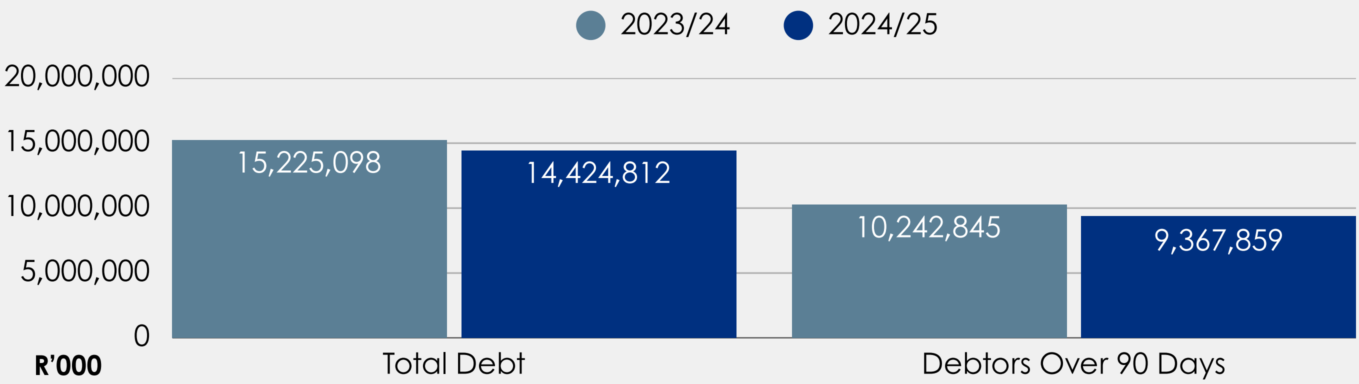
Households remain the dominant contributor to municipal debt, accounting for 67.9% of total arrears in 2024/25 (down from 69.7% in 2023/24). This modest reduction suggests some success in credit control and indigent management efforts, though the household sector continues to pose the greatest collection risk.

Debt owed by **organs of state** rose sharply, up 52.9% year-on-year, increasing its share of total debt from 2.2 to 3.5%, highlighting growing challenges with intergovernmental payments.

The **commercial sector** improved slightly, with debt declining by 4.6%, though its share of total arrears remained stable at around 20%.

The ***Other*** category stayed relatively constant, contributing 8.7% in 2024/25.

Debt older than 90 days (the most difficult to recover) decreased from R10.24 billion to R9.37 billion, indicating a gradual improvement in the management of long-outstanding accounts.



Despite ongoing socio-economic pressures, the decline in outstanding municipal debt suggests a measure of consumer resilience and an improving payment culture among Western Cape households. This positive trend likely reflects stronger municipal collection practices, increased payment discipline, and the continued value households place on maintaining access to basic services. However, with more than half of residents still living below the poverty line, this progress remains fragile. It is also important to note that challenging socio-economic conditions can contribute to an increase in the number of poor households qualifying for free basic services or indigent support. In such cases, a reduction in consumer debtors may not solely indicate improved payment performance but could also reflect a growing portion of households whose service charges are now subsidised by the municipality.

These dynamics set the context for examining municipal revenue performance and collection efforts in greater detail in the sections that follow.

OPERATING REVENUE

Strong Aggregate Performance and Revenue Growth

Municipalities generated R97.0 billion in operating revenue in 2024/25, achieving 101% of the adjusted budget and recording a 9% year-on-year increase. Growth was largely supported by above-inflation tariff increases, stable electricity supply, and solid performance in property rates. Service charge revenues, particularly from electricity and water, remained a key driver.

At the same time, collection performance remains uneven: 15 of the 25 municipalities responsible for collecting service charges and property rates recorded collection rates below the National Treasury norm of 95%. This indicates that while aggregate revenue targets were met, individual municipalities continue to face challenges in translating billed revenue into actual cash receipts, highlighting ongoing pressures on municipal financial management.

Shifts in Revenue Composition and the Role of Transfers

Service charges remain the backbone of municipal revenue, contributing nearly half of total income. Property rates and other own revenue streams also performed well, while operating grants increased only 2.7%, reducing their proportional contribution. This signals a gradual shift toward greater reliance on own-generated revenue, reinforcing the importance of resilient, well-managed local revenue systems.

Collection Efficiency Under Pressure

Despite the positive overall outcome, revenue collection performance has become more uneven. The number of municipalities collecting above 95% declined, influenced by affordability constraints, billing challenges, and enforcement gaps. Water and electricity losses continue to erode the potential revenue base, and slow progress in modernising metering and infrastructure further impacts efficiency.

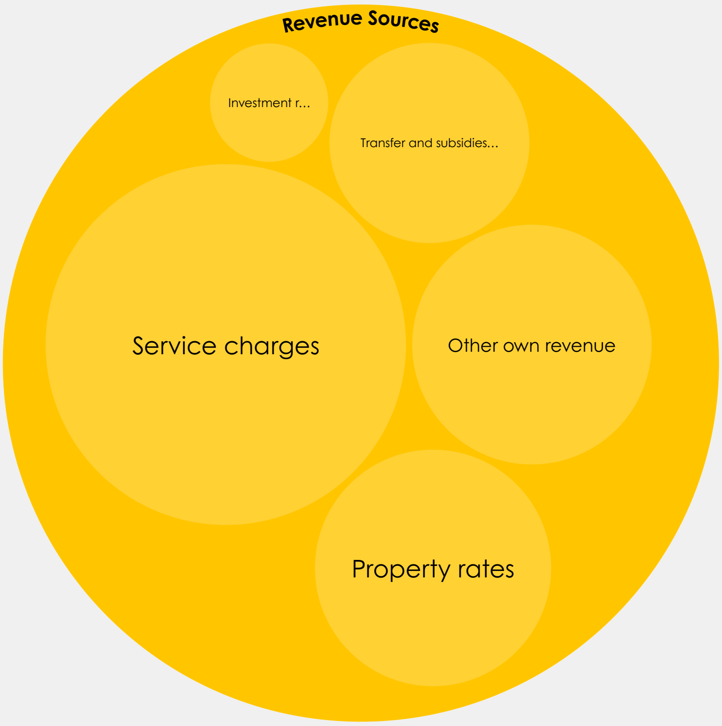
Building a More Resilient Revenue Base

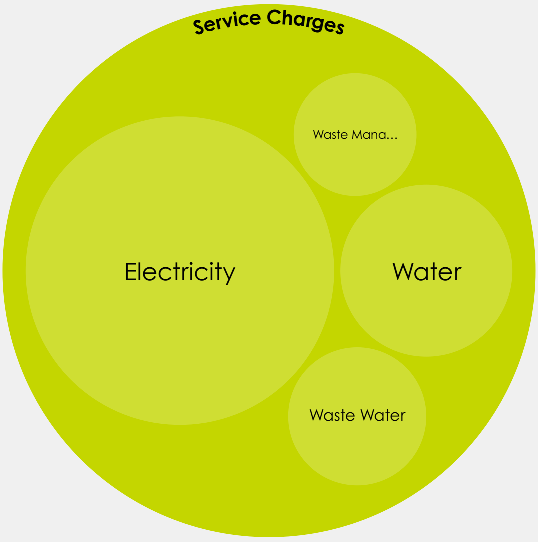
The sustainability of municipal revenue will depend on strengthening billing accuracy, reducing losses, adopting cost-reflective tariffs responsibly, and improving customer engagement. Diversifying revenue sources, modernising revenue systems, and protecting the existing base against affordability pressures will be critical priorities going forward.

R 97.006 bn | 101.0%

Operating Revenue

Total aggregated municipal revenue for the 2024/25 financial year amounted to R97.0 billion, representing 101.0% of the total adjusted budget of R96.1 billion.





Municipalities rely on a mixture of revenue sources to fund service delivery, maintain infrastructure, and support local economic development. In 2024/25, total revenue amounts to R97.0 billion, drawn from several key sources. The largest contributor is **service charges**, which generate R47.7 billion and account for 49.1% of total income. **Property rates** provide the next significant share at R17.4 billion or 18.0%, while **other own revenue** contributes R18.0 billion or 18.6%. **Operational transfers and subsidies** make up R11.4 billion or 11.8%, and investment revenue adds a modest R2.5 billion, equivalent to 2.6% of total revenue.

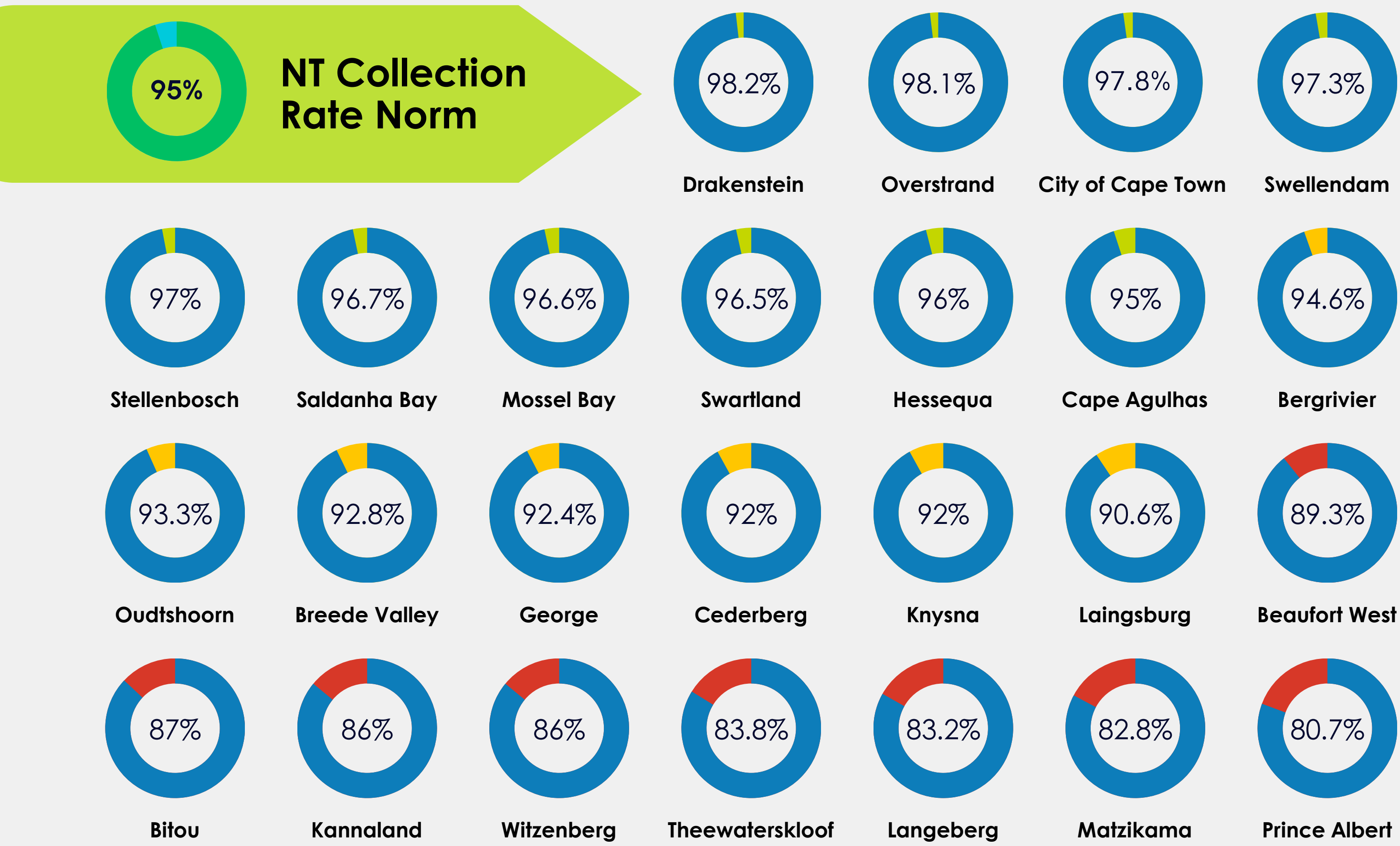
The left diagram shows that nearly 90% of all municipal revenue is generated from within, primarily through service charges and property rates. This reflects a relatively strong level of fiscal autonomy and highlights the importance of efficient revenue management. While national and provincial transfers remain an essential component of the local fiscal framework, particularly for municipalities with limited own-revenue potential, long-term sustainability ultimately depends on the ability to generate and collect income locally.

The diagram on the right unpacks service charges in more detail, which together make up almost half of all municipal revenue. Within this category, electricity sales dominate, contributing R33.2 billion, or 69.6%, of total service charges. Water services account for R7.6 billion (16.0%), followed by wastewater management at R4.1 billion (8.5%) and waste management at R2.8 billion (5.9%). This composition underscores the central role of utility services (particularly electricity and water) in municipal revenue generation.

In 2024/25, twenty-one (21) municipalities generated more than 95% of their budgeted revenue, reflecting strong revenue collection efficiency and sound financial performance. This is slightly fewer than the 25 municipalities that achieved this benchmark in the previous year, indicating a modest decline in overall revenue performance across the sector.

Collection Rates

The collection ratio indicates how much of the revenue billed by a municipality is actually collected within the financial year. In essence, it reflects the effectiveness of credit control and revenue management practices.



National Treasury's Circular 71 sets a benchmark of 95% as the desired norm for sustainable revenue performance. This means municipalities should ideally collect at least 95 cents for every rand billed. The collection rates presented in this report were sourced directly from municipalities and reflect actual collections on property rates and trading services (namely water, sanitation, electricity and refuse removal) for the 2024/25 financial year. The results represent the average collection performance across these core revenue functions.

In 2024/25, 15 of the 25 municipalities responsible for collecting service charges and property rates recorded collection rates below the National Treasury norm of 95%.

Collection outcomes vary across municipalities due to factors such as economic conditions, affordability, billing accuracy, and inherited debt. A ratio below 95% does not necessarily indicate poor management but may reflect structural or contextual challenges requiring coordinated responses, such as improving indigent support, billing systems, customer engagement, and tariff alignment. Conversely, a ratio above 100% often signals successful recovery of prior debt.

For a complete view of revenue health, the collection ratio should be interpreted alongside the age analysis of debtors, bad debt write-offs, and the net debtors' days ratio.

Cash Position

Cash is the lifeblood of any municipality. It pays for daily operations, from electricity purchases and staff salaries to maintaining roads and providing essential community services. Effective cash management ensures that municipalities always have enough liquidity to meet these obligations when they fall due, while still setting aside funds for long-term investment in infrastructure and service delivery.

Effective cash management is about balancing three priorities: <u>Liquidity</u>, by ensuring there is enough cash on hand to pay bills and respond to emergencies; <u>Efficiency</u>, by using available cash wisely to avoid idle funds that could be earning interest or supporting projects; and <u>Sustainability</u>, by planning ahead to ensure that future capital needs and obligations can be met without financial strain.

Having large cash balances may seem like a sign of strong finances, and in many cases, it is, but not all cash is freely available. A significant portion may be committed or ring-fenced for specific projects, grants, or future liabilities. That's why it's important to look beyond the totals and understand what the cash is intended for, how it's managed, and how it aligns with the municipality's broader financial strategy. Sound cash management supports financial resilience, service delivery continuity, and public confidence. It helps municipalities navigate timing gaps between revenue collection and expenditure, prepare for unexpected events, and fund future investments from their own resources rather than relying solely on external borrowing or transfers.

Amount of cash and cash equivalents held by WC municipalities in 2024/25, up R4.3 billion (20.6%) from 2023/24.

This increase reflects stronger liquidity, supported by improved revenue collection and prudent cash flow management.

A large share of this cash balance is committed rather than freely available. Municipalities have earmarked R6.6 billion from internally generated funds to co-fund the 2025/26 capital budget, demonstrating both financial discipline and a growing reliance on own-source funding for infrastructure investment. In addition, the aggregate Capital Replacement Reserve (CRR) of R6.39 billion underscores the importance of setting aside resources to maintain and expand municipal assets over time. At the same time, municipalities reported current liabilities exceeding R22 billion, a portion of which will become payable in the 2025/26 financial year. These commitments highlight that the reported cash balances, while encouraging, should be viewed in the context of existing and future obligations. Maintaining a healthy balance between liquidity, investment, and debt servicing will therefore remain central to sustaining municipal financial health.

Service Charges

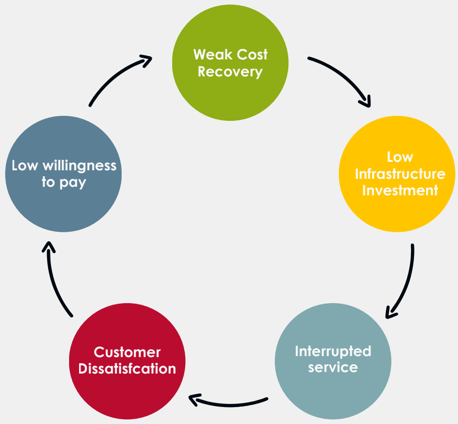
Given that service charges constitute the largest share of municipal operating revenue, their performance is a key determinant of a municipality's overall financial health. However, strong performance in this revenue category depends not only on effective billing and collection but also on whether tariffs are appropriately structured to recover the full cost of providing services. This is where the concept of cost-reflective tariffs becomes critical.

Ensuring that tariffs align with the actual cost of delivering a service helps safeguard both the financial sustainability of municipalities and the continued provision of quality basic services.

COST REFLECTIVE TARIFFS WHY DOES IT MATTER?

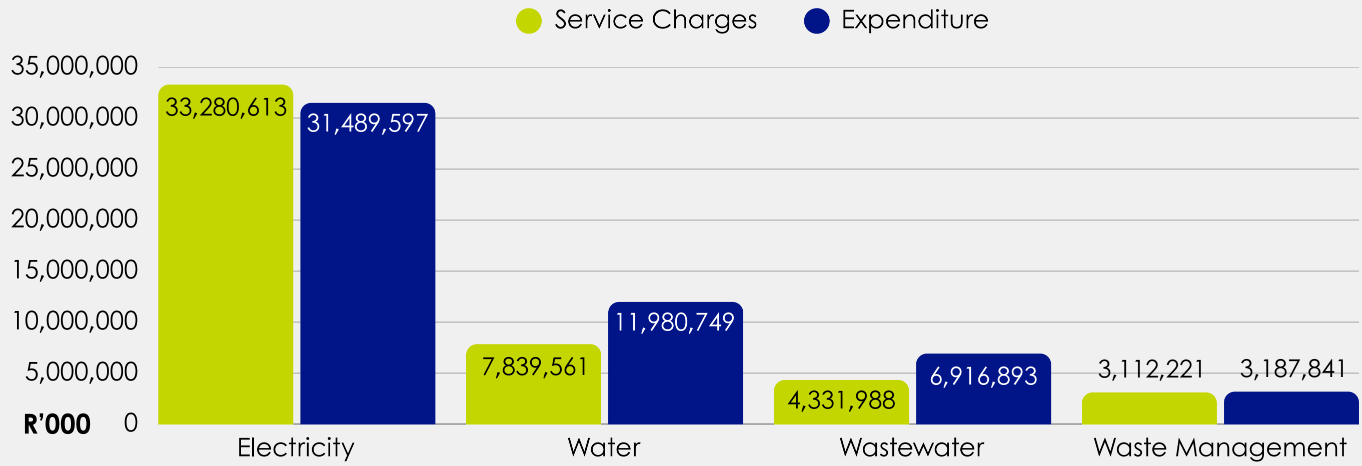
Cost-reflective tariffs are fundamental to the financial sustainability and service delivery capacity of municipalities.

Section 74 of the Municipal Systems Act (Act 32 of 2000) requires municipalities to set tariffs that reflect the actual cost of providing services, promote financial sustainability, and ensure that resources are used efficiently and responsibly. This means tariffs must be fair, transparent, and based on sound cost-recovery principles while also considering the ability of vulnerable households to pay.



Setting tariffs is a complex process that requires accurate data on service demand and costs. Accounting for both direct and indirect costs enable municipalities to calculate baseline tariffs that fully recover the cost of service delivery.

2024/25 OPERATING SURPLUS/DEFICIT PER TRADING SERVICE (DIRECT COSTS)

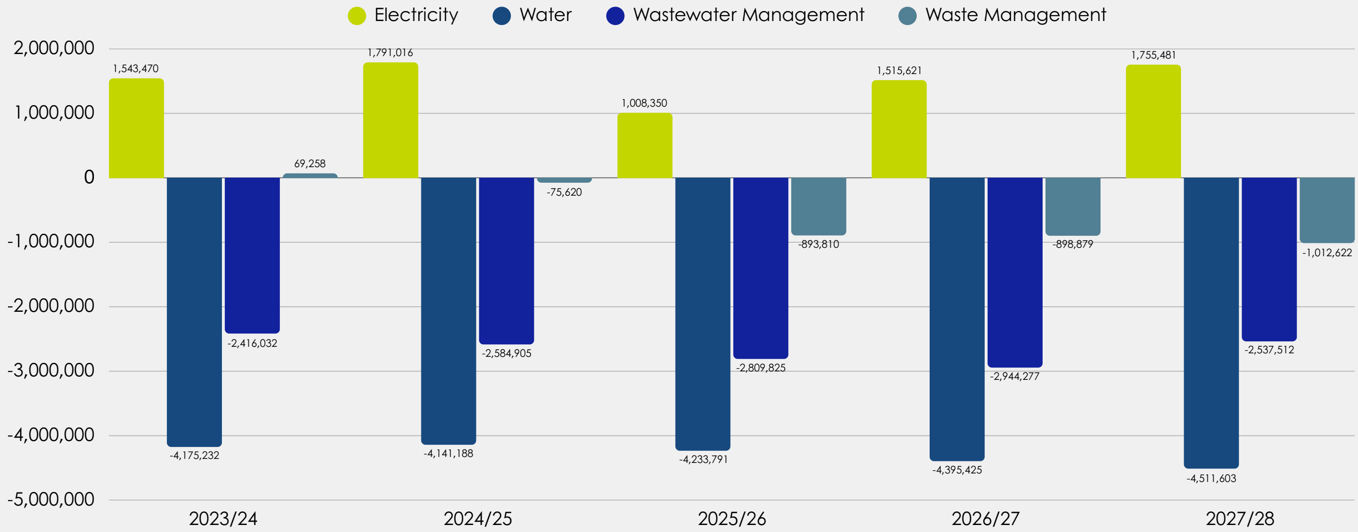


While most municipalities in the Western Cape use specialised tariff tools to support effective cost calculations and informed decision-making, an analysis of *direct* service charges revenue against *direct* expenditure on trading services reveals a shortfall across all but one of the four main functions (water, wastewater, and solid waste). This gap underscores significant sustainability challenges and highlights the urgent need for municipalities to ensure tariffs are fully cost-reflective while improving efficiency and revenue collection in these critical services.

Service Charges

To deepen the understanding of service charges sustainability, it is important to examine how current tariffs and service charges perform in practice. Below figures show the surpluses/deficits generated on municipal trading services by comparing direct gross service charge revenue (inclusive of the cost of free basic services) with expenditure classified under trading service functions. These figures capture only direct revenue and direct cost components, which, in principle, should be self-sustaining.

OPERATING SURPLUS/DEFICIT PER TRADING SERVICE (DIRECT COSTS) - MULTI-YEAR OVERVIEW



The results indicate that most trading services are not yet operating on a self-sustaining basis. This points to the need for a more nuanced, cost-reflective approach that considers indirect costs, operational efficiency, and affordability when setting and managing service charges.

In 2024/25, water services recorded the largest aggregate deficit at R4.14 billion, followed by wastewater (R2.58 billion) and waste management (R75.6 million). Electricity was the only trading service to generate a surplus (R1.79 billion), a 16% improvement on the 2023/24 audited outcome. Water deficits improved slightly (0.8%), while wastewater worsened (7%) and waste management shifted from a marginal surplus to a deficit (209% change). Looking ahead to the 2025/26 MTREF, electricity surpluses are expected to remain positive but fluctuate. Water and wastewater deficits are projected to deepen before stabilising, while waste management deficits are expected to exceed R1 billion, reflecting persistent cost pressures and difficulties in achieving full cost recovery.

These ongoing deficits reduce operating surpluses available for infrastructure reinvestment, weaken cash-backed reserves, and strain municipal capital budgets, ultimately limiting the capacity to maintain service reliability and invest in network upgrades or expansion.

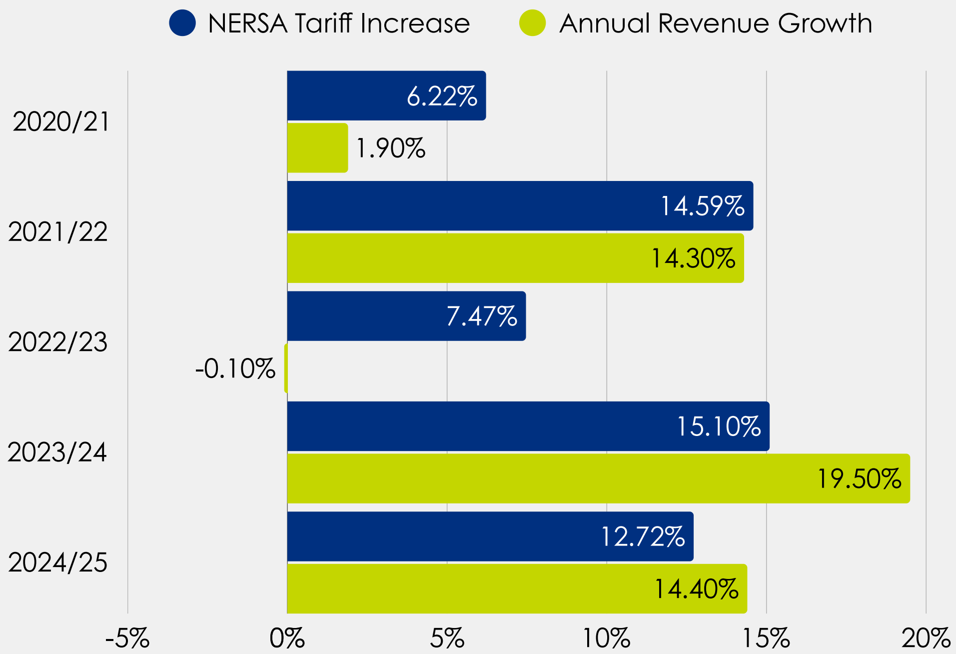
NT's metro trading services reform process seeks to address these structural weaknesses by improving cost recovery, reducing technical and non-technical losses, and promoting efficient asset management. Through cost-of-supply studies, tariff realignment, and performance-linked incentives, the reform aims to support municipalities in achieving financial sustainability while protecting affordability and service quality. For municipalities in the Western Cape, aligning MTREF planning and tariff strategies with these reforms provides an opportunity to strengthen operational efficiency and long-term fiscal resilience.

Electricity

Municipalities generated R33.16 billion in electricity revenue during the 2024/25 financial year, achieving 102.0% of the adjusted budget and continuing the steady upward trajectory observed in recent years. This marks an improvement from the previous year's 100.7% performance and reflects sustained growth of 10.9% between 2021/22 and 2024/25.

The over-collection indicates that electricity usage was higher than initially anticipated. When municipalities prepared their 2024/25 budgets, there was still considerable uncertainty about the severity of loadshedding. However, the eventual minimal interruption in supply contributed to higher consumption and, consequently, stronger revenue performance.

Despite this positive outcome, a key concern is the slowing momentum in revenue growth. Electricity revenue increased by 14.4% in 2024/25, down from 19.5% in 2023/24. This moderation is notable given that the Eskom bulk tariff rose by 12.72% in 2024/25.



The aggregated revenue generated from Service Charges: Electricity of 14.4% exceeds the tariff increase for 2024/25.

The slowdown likely reflects the normalisation of consumption following the rebound in 2023/24, when improved supply conditions led to a relative surge in usage. By 2024/25, consumption patterns had stabilised, while affordability pressures and the growing adoption of alternative energy sources, such as rooftop solar, potentially further dampened demand.

The 2024/25 year was also the first in which municipalities were required to submit cost of supply (CoS) studies to NERSA prior to tariff approval, a major step toward ensuring that electricity tariffs are more cost reflective. While the alignment between the 12.74% increase in input costs and the 14.4% rise in revenue suggests that most municipalities were able to recover costs, the moderation in revenue growth relevant to tariff increases signals emerging risks impacting profit margins.

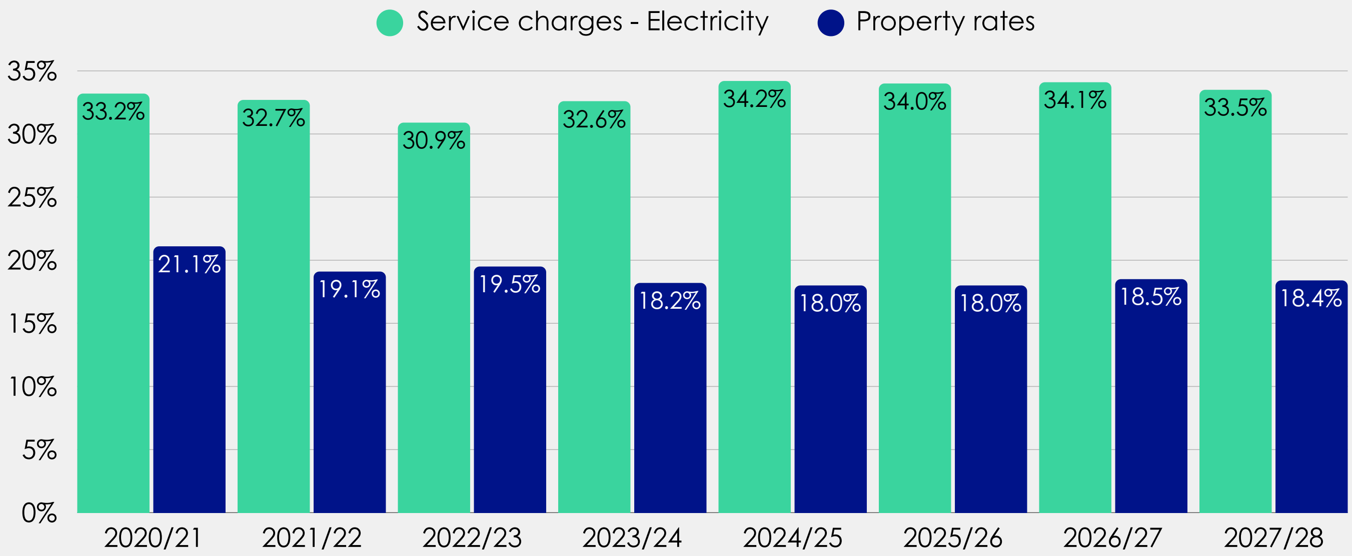
As households and businesses increasingly adjust their consumption behaviour and shift toward self-generation, municipalities face growing pressure to adapt their electricity business models. Sustaining financial viability will require continued focus on cost-reflective tariffs, improved efficiency in network management, and innovative approaches to protect revenue in an evolving energy landscape.

Property Rates

Property rates accounted for 17.9% (R17.4 billion) of the total actual operating revenue in 2024/25, achieving 100.5% of the adjusted budget. This indicates that municipalities largely met their revenue targets from this key own-revenue source. Property rates revenue grew by 7.6% in 2024/25, a stronger outcome than the previous financial year. This increase indicates improved billing and collection performance, but can also be attributed to the introduction of new valuation rolls.

5 **Number of WC municipalities that adopted new valuation rolls in 2024/25.**

In 2024/25, most municipalities (19 out of the 25 that levy property rates) adopted tariff increases of 6% and below, aligning with the Consumer Price Inflation (CPI) target range of 3-6%. This continued the trend of moderate property rate increases and reflects municipalities' commitment to manage/be cognisant of the financial burden on households and businesses.



Property rates, together with other own-revenue sources, are intended to fund general municipal services and reduce reliance on surpluses from trading services (especially electricity) to subsidise these functions. Rates-related functions include governance and administration, public safety, roads and street lighting, parks and cemeteries, environmental health, and town planning; services that benefit the community as a whole.

Unlike service charges for water, electricity, or sanitation, which are cost-reflective and intended to be largely self-funded, property rates provide a stable source of funding for services that cannot be fully recovered from direct fees. In this way, municipalities can maintain essential infrastructure and services without having to divert surpluses from trading services, supporting both financial sustainability and equitable service delivery. A more balanced revenue base will enhance municipal resilience against energy market fluctuations and support the consistent delivery of core services.

Other Revenue Services

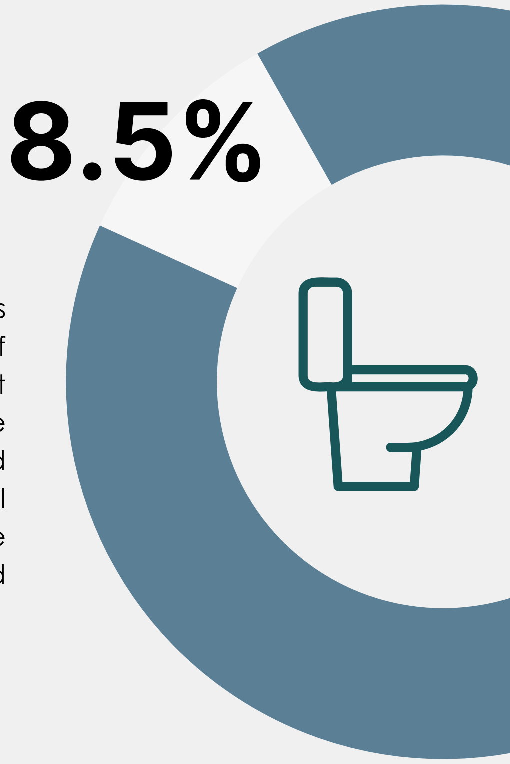
SERVICE CHARGES WATER, WASTEWATER, SOLID WASTE

Collectively, Trading Services' income contributed R 47.665 billion (49.1%) to overall operating revenue in 2024/25. Below illustrations depict the overall contribution of Water (16.0%), Wastewater (8.5%) and Solid Waste (5.9%) to the overall trading services revenue budget.

WATER R 7.618 billion | 101.8%

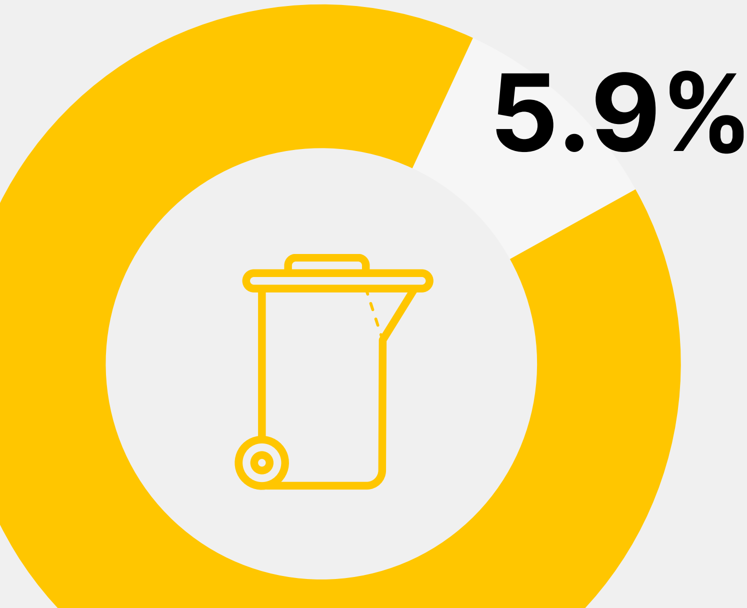
Municipalities recorded a notable increase in water service revenue, rising to R7.61 billion in 2024/25, representing growth of 6.7%. This was a slowdown compared to the stronger 17.8% increase achieved in 2023/24. The slower growth is linked to the fact that only 12 of the 25 municipalities implemented tariff hikes above the 3–6% CIP target, down from 17 the previous year. The average water services tariff hike for 2024/25 was 7.2%; the disconnect to the overall revenue increase points to potential billing, metering and collection inefficiencies.

Only three municipalities recorded revenue performance below the 95% benchmark.



WASTEWATER R 4.063 billion | 101.3%

Sanitation service charges grew by 7.6% in 2024/25, up from the previous annual average increase of 14.7%, reflecting a slowdown following a period of above-target tariff hikes that exceeded the 3–6% CIP benchmark in most Western Cape municipalities. Only two municipalities recorded a revenue decline in 2024/25, a notable improvement from the seven that experienced declines in 2023/24. With an average tariff increase of 6.46%, the overall revenue growth exceeding the tariff adjustment indicates strong revenue collection, evident from the fact that only three (3) municipalities managed revenue performance below 95% of their budgets.



SOLID WASTE R2.821 billion | 97.5%

Solid waste revenue showed strong performance, increasing by 10.3% in 2024/25, outpacing the 8.56% tariff increase. Despite this strong overall performance, five municipalities recorded revenue performance below the 95% benchmark.

Other Revenue Traffic Fines

Fines, penalties, and forfeits are non-exchange revenue earned through law enforcement rather than service delivery, including traffic fines, by-law contraventions, administrative penalties, and occasional forfeits. Traffic fines typically make up the bulk. Under accrual accounting (GRAP), revenue is recognised when the municipality has a legal right to collect (usually when the fine is issued), not when cash is received, often creating a gap between budgeted and actual collections.

R'000	2021/22 Audited	2022/23 Audited	2023/24 Audited	2024/25 Pre-Audit	2025/26 Budget	2026/27 Budget	2027/28 Budget
Fines, Penalties & Forfeits	2,667,457	2,970,638	2,835,251	3,054,740	3,216,486	3,262,758	3,328,069

Between 2021/22 and 2024/25, total revenue from fines, penalties and forfeits grew at an average annual rate of 4.7%, rising from R2.67 billion to R3.06 billion. Growth between 2023/24 and 2024/25 was 7.7%, while over the 2025 MTREF this revenue is projected to grow at 2.9% per year.

21.9%

Traffic fine collections in 2024/25

Municipalities recorded a total of R3.06 billion under *Fines, Penalties, and Forfeits* in 2024/25, of which traffic fine accruals accounted for R2.89 billion. Through a combination of external service providers, municipal courts, and internal collection efforts, municipalities collected R633.3 million, representing a traffic fine collection rate of 21.9%.

The implementation of AARTO adds complexity for municipalities. AARTO is a national system designed to standardise traffic enforcement, improve fairness, and encourage safer driving, with repeat offenders accumulating demerit points that may lead to licence suspension. The centralised design of AARTO is intended to improve collection efficiency and address persistent weaknesses in traffic fine administration, such as low recovery rates and fragmented enforcement.

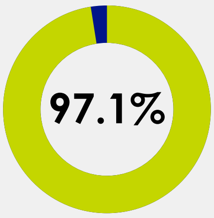
Municipalities will continue to issue fines but must remit a portion to the Road Traffic Infringement Agency (RTIA) and will no longer receive revenue from fines issued by provincial authorities. Revenue could also be affected if infringements are not processed within 32 days, with the timing and proportion of transfers yet to be confirmed. The combined effect of low historic collection rates and AARTO remittances could reduce municipal traffic fine income, placing pressure on operational sustainability.

Between 1 April 2024 and 31 March 2025, Provincial Law Enforcement issued R459.7 million in traffic fines within municipal areas. These fines are included in municipal books and form part of the R2.89 billion in traffic accruals noted earlier. Under AARTO, however, this revenue will be retained by the issuer, meaning municipalities will no longer receive it. Of the fines issued, municipalities collected R25.9 million, amounting to a 6% collection rate.

In November 2025, the Department of Transport announced the postponement of the implementation of AARTO to 1 July 2026, citing concerns about the state of readiness among municipalities.

Other Revenue Transfers

Municipalities have traditionally relied heavily on operating grants and transfers to fund core services, but recent trends suggest that growth in these inflows is moderating. Between 2021/22 and 2024/25, grant receipts grew at an average annual rate of 5.8%. However, in 2024/25, operating grant receipts increased by only 2.7%, and their contribution to overall operating revenue declined from 12.5% in 2023/24 to 11.8%, remaining at this level in 2025/26. For municipalities that have conventionally relied on these transfers, this moderation raises important questions about financial sustainability and the ability to maintain service delivery.



% operating transfers spent by WC municipalities in 2024/25

In 2024/25, municipalities spent 97.1% of their operating transfers and subsidies budgets, amounting to R11.40 billion of the R11.74 billion allocated. This is slightly below the 97.5% achieved in 2023/24 but remains above the 96.2% recorded in 2022/23.

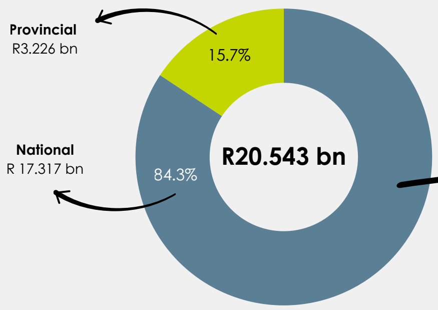
Despite the moderation in receipts, most municipalities managed these resources effectively - 15 municipalities achieved implementation rates above 95%, down from 18 in the previous year. Unspent grants remain a concern, as roll-overs are not guaranteed and could limit the ability to fully utilise available funding.

Looking ahead, budgeted operating grants are projected to grow only 1.9% over the MTREF. This slower growth, coupled with declining relative contribution to overall revenue, highlights the need for municipalities to plan carefully, prioritise spending, and explore alternative revenue sources. Strengthening financial management, improving efficiency, and ensuring unspent funds are properly rolled over or reallocated will be essential to sustaining service delivery, particularly for communities that are most dependent on municipal services.

Ultimately, while utilisation remains high, the moderation in grant inflows serves as a reminder that municipalities cannot rely on transfers alone. A more diversified and resilient revenue strategy, combined with careful resource management, will be critical to supporting communities and sustaining services in the context of slower grant growth.

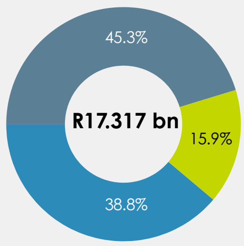
National & Provincial Transfers to Municipalities Explained

The Provincial allocation is entirely made up of conditional grants.



Total **transfers to Western Cape municipalities amounted to R20.54 billion in 2024/25**, split between contributions from National & Provincial Government.

The National allocation contains the following components:



Local Government Equitable Share: R 7.840 bn
An unconditional grant that helps municipalities fund basic services and support households that cannot afford to pay.

Fuel Levy: R 2.750 bn
A revenue-sharing grant that helps municipalities maintain and upgrade local roads and transport networks.

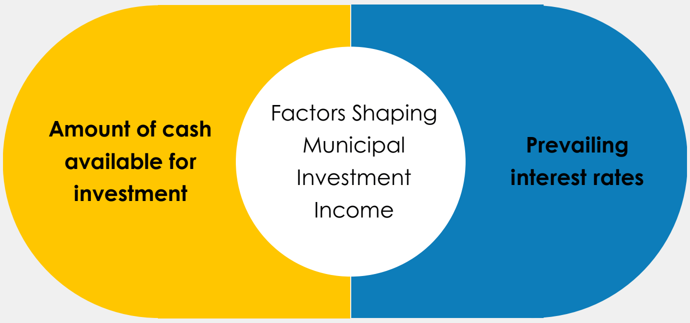
Conditional Grants: R 6.727 bn
Project-specific funding that must be used for approved programmes such as roads, housing, or infrastructure upgrades.

These transfers are critical for supporting both operating and capital expenditure, ensuring municipalities can deliver essential services while maintaining infrastructure investment.

Other Revenue Investments

Municipalities manage large amounts of public money collected from service charges, grants, and other sources.

To ensure these funds are handled responsibly, Section 13 of the Municipal Finance Management Act (MFMA) requires every municipality to adopt a cash management and investment policy. The aim of this policy is simple: to protect public money, make sure cash is available when needed, and earn reasonable returns without taking unnecessary risks.



INVESTMENT INSTRUMENTS PERMITTED BY THE MUNICIPAL INVESTMENT REGULATIONS

- Government securities: National government bonds or Treasury Bills.
- Listed corporate bonds: Investment-grade only, as rated by recognised agencies.
- Deposits with registered banks: Savings or fixed deposits.
- Public Investment Commissioners (PIC) deposits.
- Corporation for Public Deposits (CPD) deposits.
- Banker's acceptances: Short-term bank-issued instruments
- Negotiable certificates of deposit (NCDs)
- Repurchase agreements (repos): Earn interest while retaining liquidity
- Guaranteed endowment policies: For sinking funds to repay long-term loans
- Municipal bonds: Issued by other municipalities
- Other instruments approved by the Minister of Finance following consultation with relevant financial authorities

R'000	2021/22 Audited	2022/23 Audited	2023/24 Audited	2024/25 Pre-Audit	2025/26 Budget	2026/27 Budget	2027/28 Budget
Investment Income	1,326,164	2,085,719	2,472,421	2,515,201	1,579,401	1,487,194	1,655,044

Investment income earned by municipalities has fluctuated noticeably over the past few years, rising from about R1.3 billion in 2021/22 to R2.5 billion in 2023/24, before declining again to R1.6 billion projected for 2025/26.

When municipalities hold large cash balances (often because projects are delayed or grant funds are still unspent) they tend to earn more interest. As those funds are drawn down to pay for infrastructure, contractors, or other service delivery priorities, investment balances (and the income they generate) naturally decline.

The sharp rise in investment income between 2021/22 and 2023/24 reflected both higher cash holdings and a period of increasing interest rates, which boosted returns on call accounts and fixed deposits. As rates stabilised and municipalities began spending accumulated reserves, income tapered off. Viewed in context, the projected decline from 2024/25 onward is not necessarily a negative trend. Rather, it may indicate that municipalities are using their cash more effectively, implementing capital projects and reducing idle balances.

OPERATING EXPENDITURE

Stable Budget Execution and Controlled Spending

Municipalities spent R93.06 billion, or 96.5% of the adjusted operating budget, reflecting disciplined spending and stable financial management. Operating expenditure increased by 9.2%, primarily due to inflationary pressures, rising input costs, and expanding service demands.

Key Cost Drivers and Fiscal Pressures

The operating budget remains heavily influenced by employee-related costs (29.3%), bulk purchases (26.7%), and contracted services (14.2%). Bulk electricity costs increased significantly following the 12.72% Eskom tariff adjustment, while above-inflation wage increases and rising fuel and insurance costs continue to shape the municipal cost environment. Contracted services showed a slight decline but remain elevated, indicating persistent reliance on outsourcing.

Efficiency and Implementation Performance

Overall execution was sound, but 14 municipalities underspent their operating budgets, often due to procurement delays, supply chain bottlenecks, or internal capacity constraints. Positive signs include improved employee-cost ratios in 19 municipalities, reflecting progress with workforce planning, vacancy management, and cost containment.

Building Sustainable Operating Capacity

With rising municipal inflation outpacing CPI, municipalities will need to improve cost efficiency, enhance contract and project management, and prioritise essential services and maintenance. Aligning tariffs with input costs, optimising staffing, and managing outsourcing strategically will be key to sustaining service delivery within tight fiscal space.

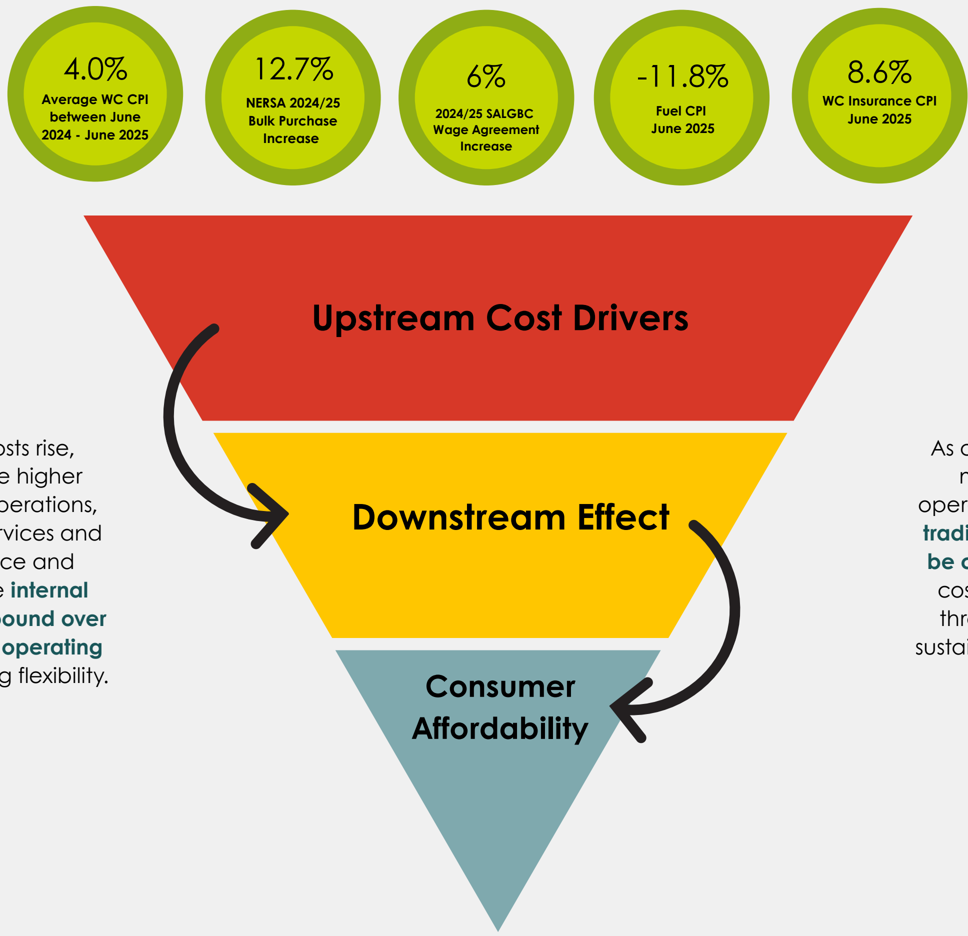
R 93.060 bn | 96.5%

Operating Expenditure

Total operating expenditure for the 2024/25 financial year amounted to R93.06 billion, representing 96.5% of the adjusted budget of R96.42 billion. This performance is slightly above the National Treasury benchmark of 95%, reflecting municipalities' continued efforts to implement cost-containment measures and prioritise spending efficiency to ensure alignment with available cash resources. A total of 14 municipalities spent less than 95% of their operating expenditure budgets (down from 15 in 2023/24), indicating that some budgeted funds were not fully utilised. This underperformance may reflect delays in project implementation, capacity constraints, or inefficiencies in budget execution, all of which warrant further review.

Between 2021/22 and 2024/25, operating expenditure grew at an average annual rate of 8.3%, underscoring the steady rise in municipal operational costs. Year-on-year, spending increased by 11.1% in 2023/24 and 9.2% in 2024/25, pointing to a sustained upward trajectory driven by inflationary pressures and expanding service delivery obligations.

Rising bulk electricity and water tariffs, fuel prices, and above-CPI wage agreements often drive up the core cost of delivering services. These **external increases are largely outside municipal control** but directly inflate the cost base for essential operations.



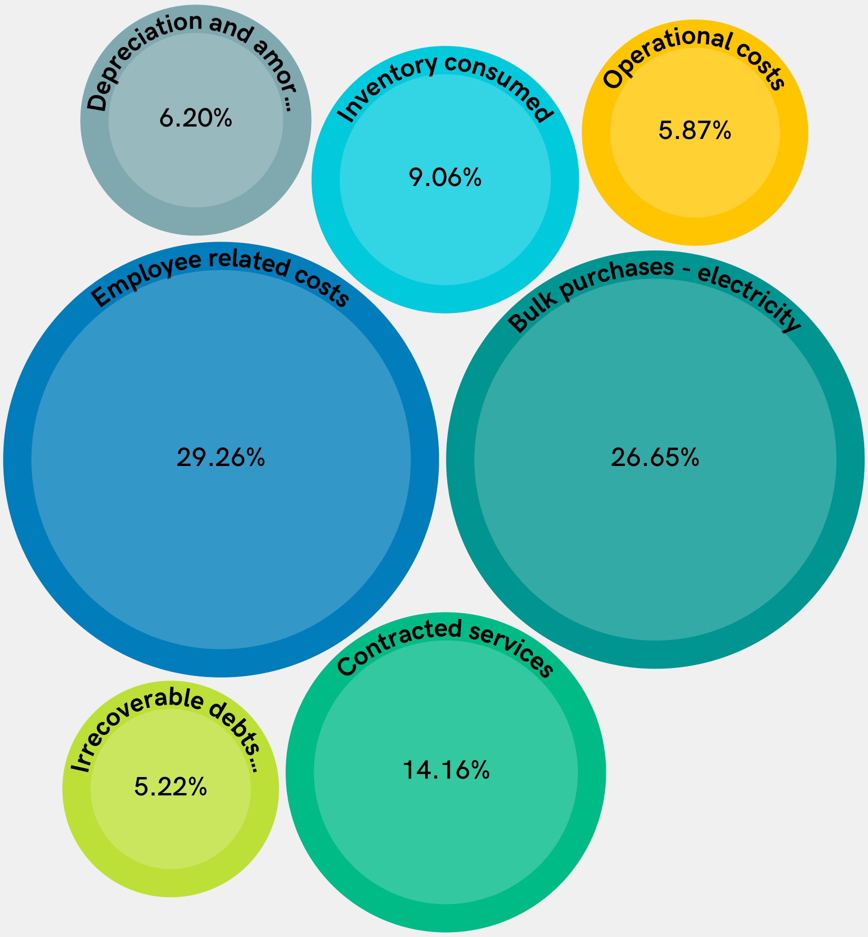
When external costs rise, municipalities face higher expenses in daily operations, from outsourced services and repairs to insurance and compliance. These **internal cost pressures compound over time, tightening the operating budget** and reducing flexibility.

As cost pressures accumulate, municipalities face rising operating expenditure. Because **trading services are required to be cost-reflective**, higher input costs are typically recovered through tariff adjustments to sustain service delivery and asset maintenance.

Consumer Affordability

When tariffs increase faster than household incomes, consumers struggle to pay for services. This erodes affordability, contributes to rising arrears, and weakens municipal cash flow, creating a feedback loop that ultimately constrains service delivery and investment capacity.

Operating Expenditure



The main cost drivers of municipal operations remain consistent when compared to 2023/24, with employee-related costs (29.3%), bulk purchases (26.7%), and contracted services (14.2%) accounting for the largest shares of total operating expenditure.

These categories continue to exert upward pressure on operating budgets, limiting flexibility in other spending areas.

Employee-related costs remain the largest expenditure item, accounting for 29.8% in 2023/24, slightly declining to 29.3% in 2024/25 and projected to stabilise at 29.5% in 2025/26, reflecting controlled wage growth and the filling of critical vacancies.

Bulk electricity purchases continue to increase as a share of total expenditure, rising from 24.7% to 26.6% and projected at 28.5%, driven by rising tariffs and higher consumption. **Inventory consumed** decreased marginally from 9.5% to 9.1% before a projected rise to 10.6%, while **contracted services** declined from 14.9% to 14.2% but are expected to climb to 16.7%, indicating renewed outsourcing and maintenance activity. **Depreciation and amortisation** remain relatively stable, fluctuating between 6.2 and 6.8%, and operational costs are set to rise moderately from 5.9% to 7.1%.

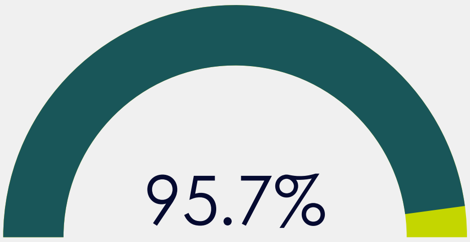
Irrecoverable debts written off increased to 5.2% in 2024/25 before declining sharply to 1.2% in 2025/26, reflecting improved credit control and collection efforts. This coincides with a 5.3% reduction in outstanding consumer debtors, suggesting that municipalities are tightening credit management and addressing historical arrears more decisively. However, part of the improvement may also reflect the clearing of long-outstanding, uncollectable accounts, which, while strengthening the balance sheet, does not necessarily signal stronger cash recoveries.

Employee Related Costs

In the 2024/25 financial year, municipalities collectively spent R27.228 billion on employee-related costs, achieving 95.7% of the budgeted expenditure. This represents an improvement from the 94.3% reported in 2023/24, indicating enhanced budget alignment and staff expenditure management.

IMPLEMENTATION OF EMPLOYEE-RELATED BUDGETS BY WC MUNICIPALITIES

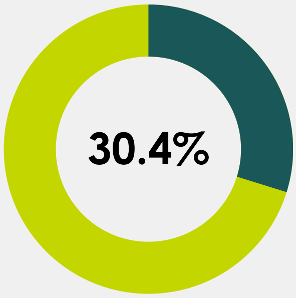
2023/24 Audited



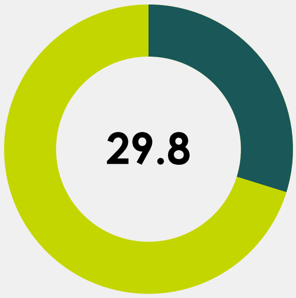
2024/25 Pre-audited

A total of thirteen (13) municipalities fell short of 95% of the spending target, compared to eight (8) in 2023/24. The increase in number of underperforming municipalities may be linked to prolonged recruitment process, skills shortages, or broader socio-economic factors such as high unemployment rate, affecting the ability to fill critical posts timeously.

EMPLOYEE-RELATED COSTS AS % OF OPERATING EXPENDITURE



2023/24 Audited



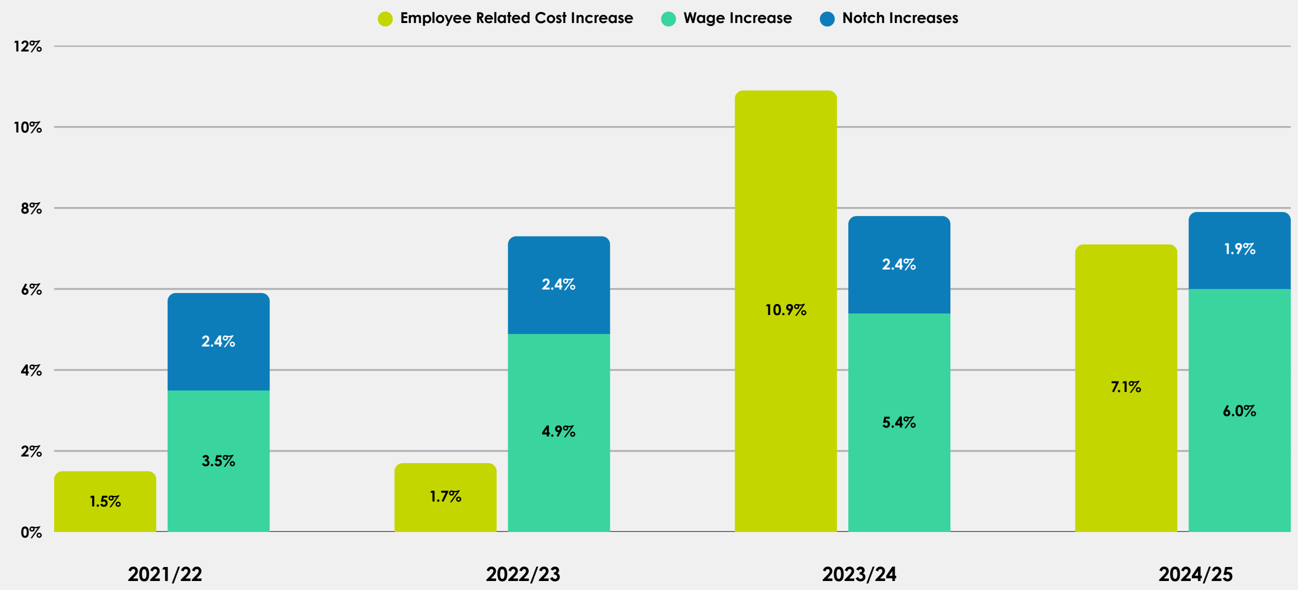
2024/25 Pre-audited

The provincial average for employee-related costs, as a percentage of operating expenditure, was 29.8% in 2024/25, slightly lower than the 30.4% in 2023/24. A positive development is that 21 municipalities recorded an improvement (decline) in their employee cost ratios compared to the previous year, reflecting progress in managing personnel budgets relative to total operating costs.

However, four local municipalities still reported employee-related costs exceeding 40%, indicating relatively high staffing intensity compared to the provincial norm. All five district municipalities also reported ratios above 40%, with the highest reaching 67.0%. This reflects the administrative and support-oriented nature of district functions, where personnel expenditure typically dominates the cost structure. However, the increasing share of spending on employee-related costs is concerning.

Employee Related Costs

Below chart illustrates the trend in employee-related cost increases across Western Cape municipalities, alongside the underlying wage and notch adjustments informing these movements. The **green** bars show the aggregate year-on-year growth in employee-related costs as reflected in municipal operating expenditure. This measure captures not only wage adjustments but also the effects of notch progressions, staff movements, and related benefits. The **turquoise** bars reflect the across-the-board wage increases negotiated through the South African Local Government Bargaining Council (SALGBC), while the **blue** bars indicate the average notch increases provided for in municipal budgets.



Budgeting for 2024/25 was particularly complex. The SALGBC wage agreement was only concluded in September 2024, after the start of the municipal financial year. The agreement covers a five-year period (2024/25–2028/29) and provides for a 4.5% wage increase effective 1 July 2024, and a further 1.5% increase effective 1 March 2025, bringing the total adjustment to 6.0% for the year.

In 2024/25, 23 municipalities budgeted for wage increased below the 6% SALGBC wage agreement.

This gap created pressures in the latter part of the year as the second increment took effect. The average notch progression was 1.9%, bringing the total anticipated personnel cost growth to about 7.9%, which is slightly above the 7.1% aggregate increase in employee-related costs recorded in municipal budgets for 2024/25.

2025/26 WAGE INCREASE

For 2025/26, the wage increase is linked to CPI (as determined by Stats SA) + 0.75%. The agreement states that for the purpose of the increase calculation, CPI cannot drop below 4%, but also not exceed 7%.

Assuming that the lowest entry point is 4%, the wage increase for 2025/26 will be 4.75%.

The collective bargaining agreement extends to 2028/29 and assumes CPI of at least 4% despite the recently adjusted CPI target of 3% (November 2025).

Employee Related Costs

OVERTIME

While there is no formal ratio or national standard, it is useful to express overtime as a **percentage of basic salaries and wages** to understand how much additional compensation is being paid over and above normal working hours. Overtime is not compared to overall employee-related costs, as those include benefits, allowances, and social contributions that do not directly relate to hours worked. Comparing overtime to basic salaries therefore provides a clearer measure of how much extra time is being compensated relative to standard pay.

Overtime expenditure across Western Cape municipalities has fluctuated over the past few years, reflecting both operational pressures and the effectiveness of personnel cost management. Between 2021/22 and 2022/23, overtime spending increased from R1.43 billion to R1.73 billion, with the ratio rising from 10.0% to 11.5% of basic salaries.

For 2024/25, overtime was budgeted at 8.3% (original budget), but subsequent adjustments show the ratio increasing to 9.5% (pre-audit). This is a common trend observed in municipal budgets, where overtime often rises during the adjustment budget process as operational realities unfold.

This pattern underscores the importance of actively managing and monitoring this item in-year to prevent large, unplanned increases later in the financial year.

Provisions for overtime, however, warrant further consideration in high-demand service departments such as water, electricity, law enforcement, and fire services, where continuous service delivery is essential and overtime is often unavoidable. The unpredictable nature of emergencies, service breakdowns, and unplanned events makes overtime expenditure inherently uncertain and difficult to forecast with precision.

Looking ahead, the MTREF projections (2025/26 to 2027/28) show a gradual reduction in the overtime ratio from 8.1% to 7.4%, suggesting an ongoing effort to contain personnel costs and improve operational efficiency. While the declining trend is positive, sustained attention is needed to manage overtime prudently, ensuring that planned contracts are successfully implemented.

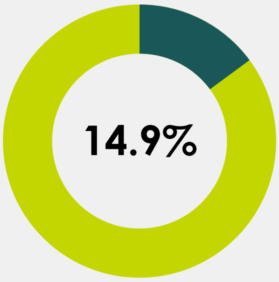
Overtime as % of basic salaries & wages

10.0	**2021/22** Audited
11.5%	**2022/23** Audited
10.8	**2023/24** Audited
9.5%	**2024/25** Pre-Audited
8.1%	**2025/26** Budget
7.8%	**2026/27** Budget
7.4%	**2027/28** Budget

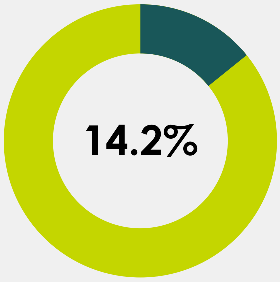
Contracted Services

The relationship between employee-related costs and contracted services provides a useful lens through which to assess how municipalities manage their operational capacity. Operating expenditure on contracted services amounted to R 13.181 billion in 2024/25.

CONTRACTED SERVICES AS % OF TOTAL OPERATING EXPENDITURE



2023/24 Audited



2024/25 Pre-audited

Contracted services declined from 14.9% in 2023/24 to 14.2% in 2024/25, but remains well above the accepted norm of 2–5% of operating expenditure, indicating a strong reliance on external providers. Only three 3 Municipalities managed to maintain their contracted services ratio within the 2-5% norm.

ACTUAL EXPENDITURE AGAINST CONTRACTED SERVICES BUDGETS

2023/24 Audited

2024/25 Pre-audited

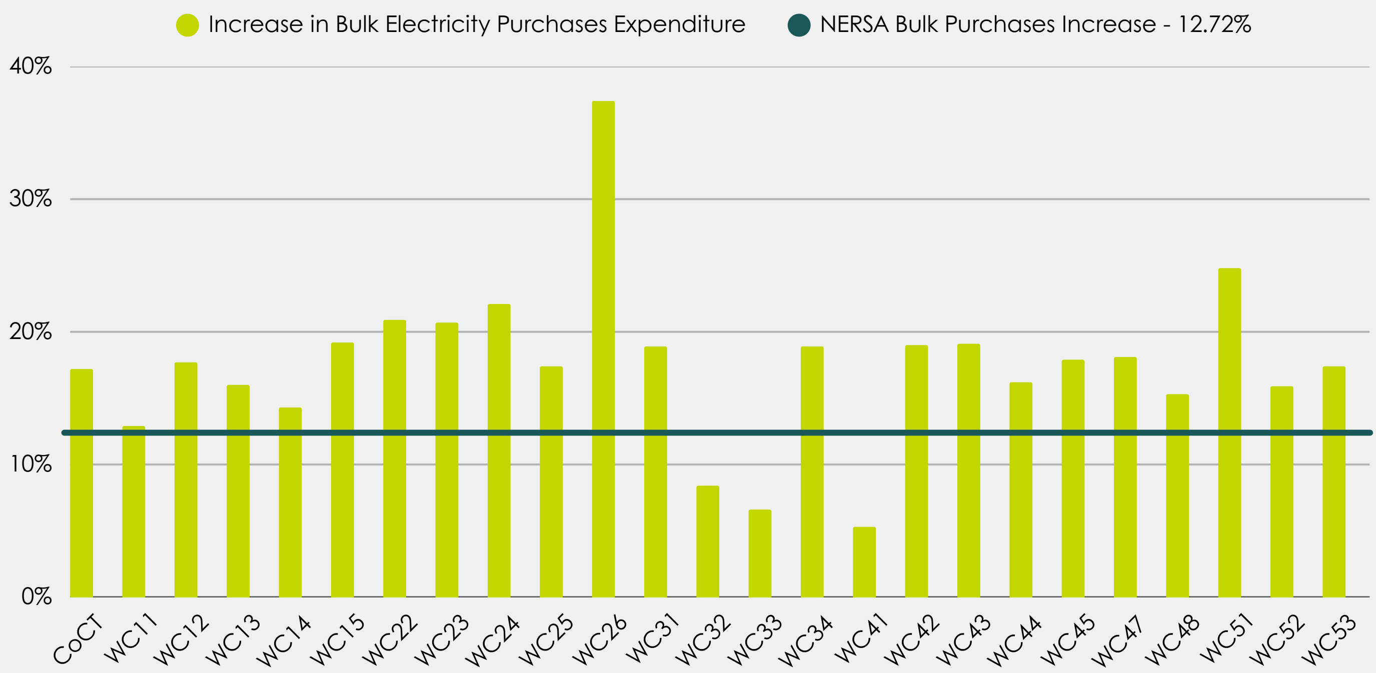
Implementation performance also declined. Municipalities spent 92.6% of their adjusted contracted services budgets in 2024/25, compared with 96.8% in 2023/24. This weaker performance reflects execution challenges, such as delays in procurement, weak contract management, and insufficient internal capacity to plan and oversee outsourced projects.

Municipalities continue to face challenges in balancing internal capacity with outsourced service delivery. While outsourcing offers flexibility and access to specialised expertise, excessive reliance can lead to higher operational costs, loss of institutional knowledge, and weaker accountability for results. Achieving a more sustainable balance depends on thoughtful workforce planning, ensuring that critical technical and operational functions are supported. Continued investment in staff development and knowledge sharing can also help strengthen institutional capacity over time.

Bulk Purchases

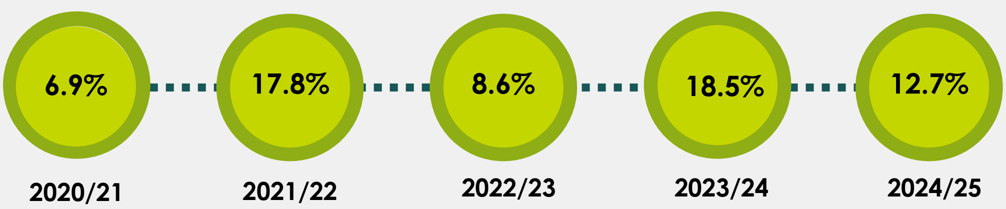
In aggregate terms, municipalities spent R24.8 billion on bulk electricity purchases in 2024/25, representing a 17.7% increase from the previous year, exceeding both the 12.72% NERSA tariff adjustment and the 14.4% growth in electricity revenue.

The misalignment between bulk purchases and revenue growth suggests that municipalities are not fully recovering rising bulk costs through consumer tariffs. Possible reasons include distribution losses, electricity theft, free basic electricity allocations, and lower consumption by paying customers.



Municipalities collectively achieved 102.1% budget utilisation for bulk purchases, an improvement from 99.0% in the previous year. The overspending reflects municipalities' commitment to sustaining essential service delivery amid fluctuating consumption patterns, reduced load-shedding, and higher supplier tariffs. It also suggests that consumer behaviour and energy demand have begun to stabilise following extended periods of load-shedding, resulting in more consistent consumption patterns and stronger billing performance.

NERSA Bulk Electricity price increases for municipalities



Although bulk purchases are largely pass-through costs recovered through service tariffs, persistent increases pose challenges for both tariff affordability and cash flow management. Higher purchase costs compress margins in electricity and water trading services, particularly where collection rates are weak or tariffs are not fully cost-reflective.

CAPITAL EXPENDITURE

Continued Growth in Infrastructure Investment & Marked Improvement in Capital Budget Performance

Municipalities spent R15.06 billion on capital projects in 2024/25. This represents 84.6% of the adjusted capital budget. This outcome reflects a clear improvement in capital budget performance compared to previous years. Over the past three years, capital spending has increased by 48.7%, signaling stronger project planning, improved procurement processes, and more effective execution across municipalities.

Infrastructure Delivery Gains Across Core Sectors

Investment continues to prioritise core service delivery functions — particularly wastewater treatment, water supply, electricity distribution, and roads. Municipalities are not only increasing expenditure but also improving the quality of spend. The asset mix shows a balanced approach: 42.9% on new assets, 33.2% on upgrades, and 23.9% on renewals, supporting both expansion and long-term asset sustainability.

More Even Distribution of Capital Delivery

While the City of Cape Town remains the largest investor, the broader improvement across multiple municipalities has contributed meaningfully to the overall performance. Several secondary and rural municipalities demonstrated improved readiness and execution, pointing to a strengthening delivery pipeline across the Province.

Sustaining the Positive Trajectory

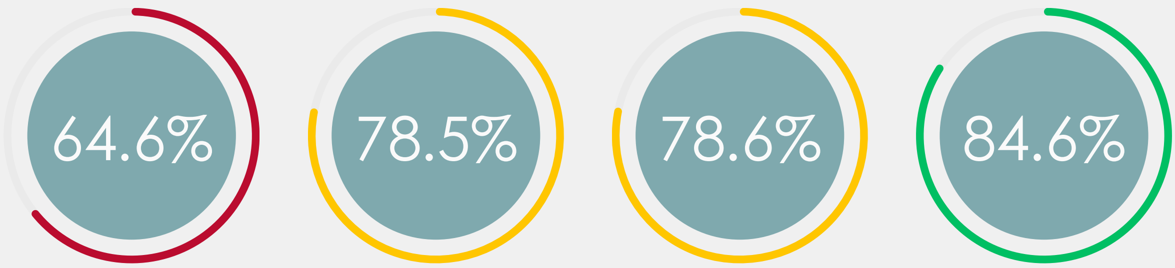
To maintain this upward momentum, municipalities will need to continue improving project preparation, addressing procurement delays, and strengthening technical capacity. Reducing reliance on grants and diversifying capital funding sources will also be essential to sustaining infrastructure investment over the medium term.

R 15.06 bn | 84.6%

Capital Performance

Aggregate capital expenditure across Western Cape municipalities has continued to show strong growth, reaching R15.06 billion in 2024/25, up 9.9% from R13.71 billion in 2023/24. Over the three years from 2021/22 to 2023/24, capital expenditure rose by 48.7%, reflecting sustained momentum in municipal infrastructure investment. While growth remains positive, the pace of increase is expected to moderate across the 2025 MTREF (4.1%), partly due to variations in borrowing uptake and project implementation cycles across municipalities, which continue to shape the timing and scale of investment.

AGGREGATED MUNICIPAL CAPITAL BUDGET IMPLEMENTATION STATUS



2021/22 Audited | **2022/23** Audited | **2023/24** Audited | **2024/25** Pre-Audit

This upward trend is underpinned by a steady improvement in capital performance, which increased from 64.6% in 2021/22 to 84.6% in 2023/24. The gains point to stronger project planning, more efficient procurement, and better management of multi-year infrastructure programmes. Enhanced grant administration, and closer monitoring by national and provincial spheres have also contributed to greater delivery efficiency and credibility of capital budgets.

The City of Cape Town contributed 61.9% to the total aggregated municipal capital investment in 2024/25 which is notably less than the 68.7% contribution in 2023/24 (audited outcomes). This shift highlights that infrastructure investment is becoming more broad-based across municipalities.

Capital Functions	2021/22 Audited	2022/23 Audited	2023/24 Audited	2024/25 Pre-Audit	2025/26 Budget	2026/27 Budget	2027/28 Budget
Governance and administration	1,260,936	1,776,057	2,168,612	2,138,817	1,703,121	1,932,964	1,852,305
Community and public safety	1,121,062	1,491,422	1,991,554	1,937,797	2,530,822	1,843,551	2,083,574
Economic & environmental services	1,037,019	1,866,351	2,563,441	3,468,951	4,510,658	4,501,057	2,972,741
Road transport	886,087	1,540,295	2,145,403	3,021,301	3,817,250	3,982,490	2,564,491
Trading Services	2,775,445	4,608,549	6,970,628	7,507,770	9,614,768	10,500,711	10,021,708
Energy sources	*1,012,444*	*1,534,579*	*1,811,205*	*1,804,500*	*2,231,624*	*2,377,892*	*2,268,025*
Water management	*924,275*	*1,076,549*	*1,621,820*	*1,699,102*	*2,498,903*	*2,930,010*	*2,906,505*
Waste water management	*724,500*	*1,573,513*	*3,031,802*	*3,475,056*	*4,507,069*	*4,814,531*	*4,324,998*
Waste management	*114,227*	*423,908*	*505,801*	*529,111*	*377,172*	*378,278*	*522,180*
Other	(406)	(2,146)	10,786	1,955	79,579	79,003	68,403
Total Capital Expenditure	**6,194,056**	**9,740,233**	**13,705,020**	**15,055,290**	**18,438,947**	**18,857,286**	**16,998,732**

Trading Services continue to dominate municipal capital investment in the Western Cape, rising from R2.78 billion in 2021/22 to R9.61 billion in 2025/26. This category, which includes energy, water, and wastewater infrastructure, represents the backbone of municipal service delivery and underpins both social and economic development. Within this function, wastewater management has emerged as a key investment area, increasing sharply from R724 million to R4.51 billion over the period.

Capital Funding Sources

Municipalities fund capital projects through a mix of grants and transfers, borrowing, and internally generated funds. The balance between these sources provides valuable insight into the sustainability and resilience of municipal infrastructure investment.

2024/25
Municipal Capital Budget Sources

44.9%

Borrowings

Borrowing rose sharply to R6.43 billion in 2024/25, a 96.9% increase from 2023/24, reflecting municipalities' growing reliance on debt to finance large-scale infrastructure projects and sustain capital investment momentum.

While borrowing enables accelerated investment and the timely delivery of priority projects, it also calls for prudent management to ensure that debt levels remain sustainable and that future repayments do not crowd out investment or service delivery.

35.5%

Transfers

Grants and transfers from national and provincial government reached R5.09 billion in 2024/25, up 14.1% from 2023/24, driven largely by national allocations for key infrastructure projects and supported by targeted provincial contributions.

These transfers remain essential for municipalities with constrained internal resources, enabling consistent investment in roads, water, sanitation, and other critical services.

19.6%

Internal Funds

IInternally generated funds declined sharply to R2.81 billion in 2024/25, down 49.6% from R5.56 billion in 2023/24. This decrease reflects tighter operating margins, increased operational expenditure pressures, and slower municipal revenue growth, which constrained the ability to self-fund infrastructure projects.

The rebound in internally generated funds will depend on improved revenue collection, cost management, and surplus generation in the coming years.

Overall, the 2024/25 funding mix demonstrates that municipalities are balancing internal resources, intergovernmental grants, and borrowing to deliver essential infrastructure. Projected 2025/26 allocations indicate further growth, though these funds are yet to be spent and will require careful oversight to ensure value-for-money and effective delivery.

Capital Funding Sources

Municipalities in the Western Cape face increasing pressure to expand and maintain infrastructure amid fiscal constraints and growing service demands.

While traditional public finance (through transfers, conditional grants, and own revenue) remains the backbone of municipal funding, alternative and blended financing mechanisms offer opportunities to unlock additional capital for strategic infrastructure investment.

Alternative and Blended Financing Options for Municipal Infrastructure Investment

Scan the QR code with your mobile device to access the Western Cape Government's Alternative & Blended Financing Framework

Public Finance

Continues to play a foundational role in funding municipal infrastructure, but as equitable share, grants, and own revenues come under pressure, municipalities need to diversify their financing models.

Private Finance (Debt)

Private finance plays a complementary role, offering access to long-term funding through loans, bonds, or other instruments from banks, DFIs, and institutional investors. Access depends on municipal creditworthiness, governance, and revenue stability, and can include tailored arrangements such as subordinated or bridging finance for specific projects.

Project Finance

Project finance models, often structured as Public-Private Partnerships (PPPs), enable municipalities to leverage private capital and expertise for major infrastructure projects. Using special purpose vehicles (SPVs), repayments are made from project-generated cash flows, easing pressure on municipal budgets while enhancing delivery efficiency and innovation.

Concessional Finance

Concessional finance provides another avenue, especially for projects with strong social or developmental benefits. Development finance institutions, multilateral agencies, and philanthropic investors offer low-interest loans, guarantees, or grants on favourable terms to enhance project viability and attract private co-financing.

Blended Finance

Blended finance serves as a catalytic tool to attract private and development capital alongside public funds. By combining concessional or grant funding with commercial finance, it lowers risk and enhances the viability of projects that deliver both social and economic returns. This approach enables municipalities to stretch limited public resources and crowd in investment for sustainable, climate-resilient, and inclusive infrastructure.

Budget Facility for Infrastructure (BFI)

The Budget Facility for Infrastructure (BFI) offers an avenue for financing large-scale, high-impact projects that meet National Treasury's investment readiness and sustainability criteria. It considers proposals from public institutions, including those involving private sector participation, for projects generally exceeding R1 billion (or smaller where co-financing is included). Eligible projects may include social infrastructure, blended finance initiatives, or PPP and SPV arrangements requiring fiscal support, credit enhancement, or viability gap funding.

Capital Expenditure

2024/25
Asset Class Distribution

Municipal capital expenditure is not just about building new infrastructure, but also about maintaining and improving what already exists. A healthy balance between new investments, upgrades, and renewals ensures that services can expand to new communities while existing infrastructure continues to function safely and efficiently.

New Assets	**R6.431 bn; 42.9%**
Upgrades	**R4.986 bn; 33.2%**
Renewals	**R3.582.1 bn; 23.9%**

New asset contributions expand service coverage and is crucial for developing communities, fostering economic growth and enhancing quality of life.

In 2024/25, municipalities directed R6.43 billion (42.9%) towards new assets, making this the largest component of capital expenditure. Although this represents a slightly lower share than in 2023/24 (46.9%), it underscores the ongoing commitment to expanding essential services such as water, sanitation, electricity, and roads to underserved areas. Investment in new assets is projected to rise to R8.29 billion (45.0%) in 2025/26.

Upgrades of existing assets address increasing demand, technological advancements, and changing standards. Upgrades can improve efficiency, reduce environmental impacts, and enable municipalities to provide higher-quality or more accessible services.

Upgrading existing infrastructure accounted for R4.99 billion (33.2%) in 2024/25, increasing from R4.15 billion (30.0%) in 2023/24. While the share of upgrading is projected to decline slightly to 31.6% (R5.83 billion) in 2025/26, it remains a key component of the broader strategy to balance infrastructure improvement with expansion.

Renewal of existing assets in turn extends the lifespan of critical assets and ensures that existing infrastructure remains safe, reliable, and functional.

The renewal of existing infrastructure received R3.58 billion (23.9%) in 2024/25, up slightly from R3.19 billion (23.1%) in 2023/24. This sustained allocation reflects the focus on maintaining and replacing aging assets, including water treatment facilities, road surfaces, and public buildings. Renewal investment is expected to remain consistent at 23.4% (R4.32 billion) in 2025/26.

Infrastructure Investment

In 2024/25, municipalities invested R11.0 billion in infrastructure, distributed across three main asset classes. New infrastructure assets accounted for R4.56 billion (41.4%), reflecting a continued emphasis on expanding service capacity and addressing infrastructure backlogs. Upgrades of existing infrastructure totaled R3.72 billion (33.8%), signaling efforts to improve the quality and efficiency of the service network. Meanwhile, renewal of existing infrastructure amounted to R2.73 billion (24.8%), highlighting the ongoing importance of asset lifecycle management and maintaining the longevity of the existing network, even though it remains the smallest share among the three categories.

DID YOU KNOW?

All infrastructure spending is capital expenditure, but not all capital expenditure is infrastructure.

Infrastructure expenditure is a subset of total capital expenditure; it focuses specifically on assets that form part of the municipality's core service delivery network.

R'000	Total	% share of Total	New Infrastructure Assets	Renewal of Existing Infrastructure Assets	Upgrades of Existing Infrastructure Assets
Roads Infrastructure	3,191,479	29.0%	1,917,992	615,653	657,834
Storm water Infrastructure	323,658	2.9%	23,651	7,576	292,431
Electrical Infrastructure	1,739,317	15.8%	857,622	549,588	332,107
Water Supply Infrastructure	1,792,352	16.3%	1,023,458	442,643	326,251
Sanitation Infrastructure	3,400,387	30.9%	379,471	1,060,692	1,960,224
Solid Waste Infrastructure	377,902	3.4%	330,482	7,920	39,501
Coastal Infrastructure	104,682	1.0%	-	2,072	102,610
Information and Communication	74,579	0.7%	26,486	39,086	9,008
TOTAL	**11,004,356**	**100%**	**4,559,162**	**2,725,230**	**3,719,965**

In 2024/25, across all Western Cape municipalities, infrastructure investment was concentrated on sanitation, roads, water, and electricity, reflecting a focus on expanding service capacity, improving network reliability, and supporting both public health and local economic activity. Sanitation received the largest share, aimed at expanding treatment capacity, meeting regulatory standards, and rehabilitating aging systems. When considering non-metro municipalities separately (excluding the City of Cape Town), the infrastructure spending profile shifts slightly, with roads (28%), sanitation (22.3%), water (21.8%), and electricity (18.2%) taking prominence.

Key Observations & Policy Implications

- Sanitation and roads collectively account for roughly 60% of the 2024/25 infrastructure programme, underlining that municipalities are prioritising wastewater and transport networks. This concentration points to a policy and operational focus on environmental compliance, public health, and connectivity.
- The relatively large share for new assets (41%) alongside substantial upgrade spending (34%) indicates municipalities are not only extending services but also improving the quality and capacity of existing infrastructure. This is a positive sign for both access expansion and for addressing service disruptions.
- Renewal spending (25% in 2024/25) remains smaller than new build and upgrades. While renewals increased year-on-year, the gap suggests continued pressure on lifecycle funding: sustaining assets over the long term still requires further emphasis to avoid future service deterioration.

Repairs & Maintenance

Repairs and maintenance are essential to keeping municipal infrastructure safe, reliable, and functional. Regular upkeep helps prevent costly breakdowns, extends the lifespan of assets, and ensures that services like water, electricity, roads, and public facilities continue to operate smoothly. Investing in maintenance today reduces future replacement costs and supports consistent, high-quality service delivery for communities.

Repairs and maintenance spending by WC municipalities amounted to R2.87 billion in 2024/25. While this reflects a decline from the previous year, R&M naturally fluctuates as municipalities respond to ageing assets, operational needs, and budget pressures.

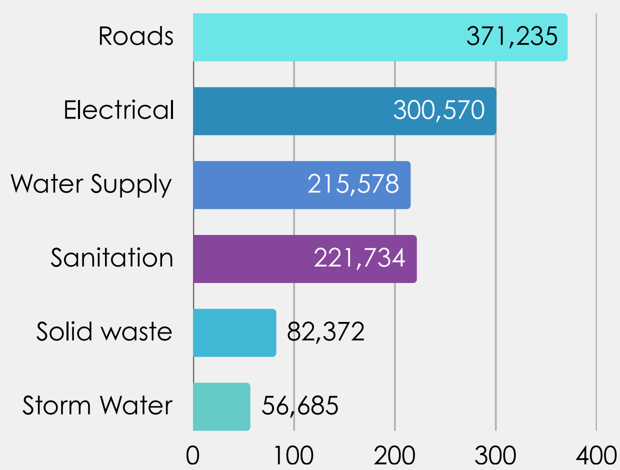
Spending is projected to rise strongly over the MTREF, reaching R10.27 billion by 2027/28.

INFRASTRUCTURE-SPECIFIC REPAIRS & MAINTENANCE

Infrastructure repairs and maintenance differ from general R&M because they focus specifically on the core systems that enable daily service delivery i.e. water, sanitation, electricity, and roads. These assets require more technical, scheduled, and often urgent maintenance to prevent service interruptions and ensure network reliability.

Infrastructure specific repairs and maintenance declined by 14.7% from R1.86 billion on 2023/24 to R1.59 billion in 2024/25. The decline in 2024/25 largely reflect short-term adjustments following previous years of higher expenditure rather than permanent disinvestment. Over the 2025 MTREF, infrastructure R&M is projected to rebound strongly, growing by an average of 54.8% to reach R5.88 billion by 2027/28, with roads, electrical, and sanitation networks driving much of this increase.

Investment in repairs & maintenance (infrastructure) by non-metro municipalities in 2024/25



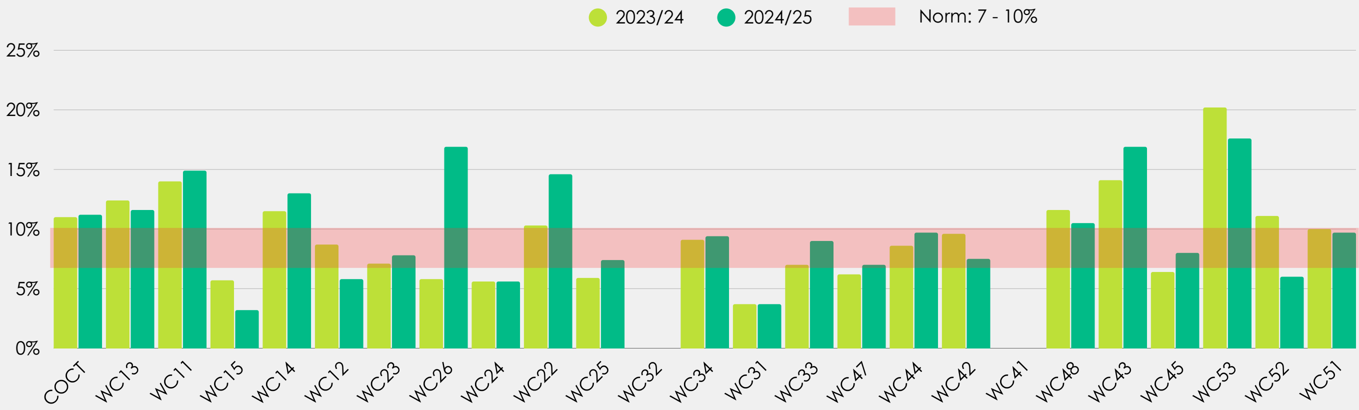
When the City of Cape Town is excluded, non-metro municipalities spent R1.25 billion on infrastructure-related repairs and maintenance in 2024/25, a slight decline of 3.1% from R1.29 billion in 2023/24.

This follows steady growth of 10.7% between 2021/22 and 2023/24, indicating that smaller municipalities are consolidating expenditure while maintaining a focus on long-term asset sustainability.

Electricity & Water Losses

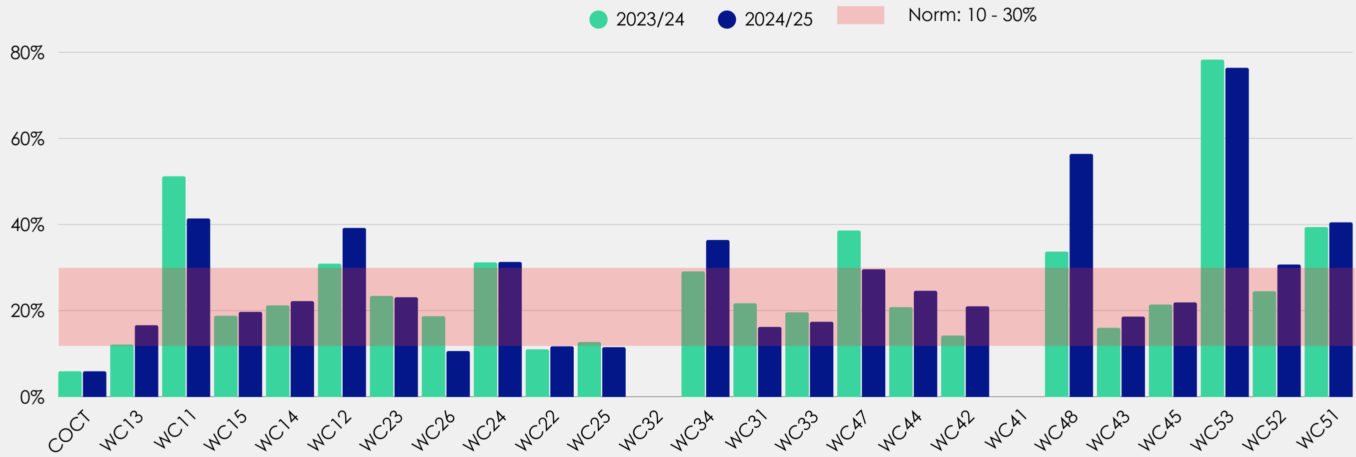
The renewed focus on infrastructure maintenance is particularly significant when viewed against the backdrop of water and electricity distribution losses, which remain a major source of inefficiency and foregone revenue.

ELECTRICITY DISTRIBUTION LOSSES IN 2024/25



In 2024/25, nine municipalities recorded **electricity losses** above the norm of 7–10%. However, 8 municipalities recorded a reduction in losses.

WATER DISTRIBUTION LOSSES IN 2024/25



In 2024/25, eight municipalities recorded **water losses** above the norm of 30% while 8 municipalities recorded a reduction in losses.

Municipalities continue to face challenges from both technical and non-technical losses. In water services, technical losses are largely driven by ageing infrastructure, resulting in leakages and bursts. For electricity, technical losses are mainly associated with billing and metering issues, meaning that repairs and maintenance alone may not fully address the problem. Non-technical losses such as theft, tampering, and billing inaccuracies, further exacerbate these challenges.

These losses have a direct impact on municipal revenue, reducing the financial returns on service delivery infrastructure. Sustained investment in network maintenance, targeted metering upgrades, and enhanced asset monitoring is therefore essential. Such measures not only improve reliability but also protect municipal revenue, particularly in trading services where distribution efficiency directly affects financial sustainability.

District Overview

WC WEST COAST

The West Coast District collectively generated R5.26 billion in revenue, representing 5.42% of total aggregated operating revenue. Cederberg, Saldanha Bay and Swartland municipalities exceeded their revenue targets, achieving 102.3, 100.6 and 104.0% respectively, while Matzikama fell short at 93.4% of its operating revenue goal. Bergivier achieved 99.6% revenue performance. Overall, the District's consolidated revenue grew by 10.9% from R4.74 billion in 2023/24, with a further 9.6% increase projected for the next financial year. Property rates revenue increased significantly across most municipalities, with the exception of Cederberg, where growth fell short of the tariff increase. Swartland stood out, achieving a 23.0% rise in property rates revenue despite implementing a 5.6% tariff reduction, suggesting improved billing or collection efficiency.

West Coast municipalities collectively spent 91.3% of their operating budgets, accounting for 5.24% of total aggregated operating expenditure. Most municipalities performed below the 95% norm, with Cederberg being the only one to exceed it, spending 96.5% of its adjusted budget. Total expenditure across the district increased by 7.9% compared to the previous year. Bergrivier Municipality recorded a substantial 27.1% rise, mainly due to higher contracted services, while the West Coast District Municipality reflected only a modest 1.8% increase. In contrast, Matzikama's expenditure declined by 10.0%, primarily due to reduced depreciation and the absence of prior-year costs related to debt impairment and asset disposal losses. Aggregated employee-related costs accounted for 34.4% of total operating expenditure, with both Matzikama (43.0%) and the West Coast District Municipality (47.2%) exceeding the 40% threshold.

The West Coast District reported an operating surplus of R385.88 million for the 2024/25 financial year. However, a deficit is projected across the MTREF period despite the recorded current surplus, signaling potential fiscal pressures that may require proactive management of expenditure growth and revenue sustainability.

From a capital expenditure perspective, municipalities in the District overspent their collective capital budgets, recording 108.8% expenditure against a combined allocation of R993.85 million. Matzikama and Swartland municipality reported overspent against the adjusted budget with 100.1% and 159.8%, respectively. Cederberg, Bergrivier, Saldanha Bay and West coast district municipality reported lower spending below the 95% norm for the 2025/24 financial year,

The region's capital funding mix is primarily composed of grant transfers (50.28%), followed by internally generated funds (42.43%) and borrowings (7.29%). The municipalities in the region invested R801.67 million, or 74.2% of total capital expenditure, in infrastructure. The investment was mainly directed towards roads (26.2%), electricity (24.8%), water supply infrastructure (19.5%) and sanitation (15.8%).

Bulk purchases performed at 99.7%, with overperformance recorded in Matzikama and Swartland Municipalities at 102.3% and 101.2% respectively. Most municipalities' increases in bulk purchases aligned with the NERSA benchmark of 12.72%, although Swartland recorded the highest increase of 19.2%. Contracted services were underspent at 80.9% of budget across the district, yet showed a strong year-on-year increase of 21.5%. This growth was primarily driven by Bergrivier Municipality, where contracted service expenditure surged by 222.3%, from R38.16 million to R122.98 million.

The Cape Winelands District generated R10.25 billion in operating revenue, contributing 10.57% to the aggregated total. Drakenstein, Stellenbosch, Langeberg and the District Municipality exceeded their revenue targets, achieving 102.5, 101.5, 110.4 and 100.6% respectively. The Cape Winelands District Municipality recorded an 11.1% increase in operating revenue between 2023/24 and 2024/25, slightly below the 11.7% growth recorded in the previous year.

The district recorded an operating surplus of R355.52 million for 2024/25, which is projected to be maintained across the MTREF period. This reflects sound financial management, effective expenditure control and sustained fiscal stability.

Revenue from property rates grew strongly across most municipalities, although Witzenberg recorded a modest increase of 5.9%, below its tariff adjustment of 8%. Electricity revenue largely tracked tariff increases, except in Witzenberg, where growth of 6.5% lagged behind the approved 10.8% tariff hike.

Total operating expenditure across the district amounted to R9.90 billion, representing 10.6% of aggregated operating expenditure. Municipalities collectively spent 96.8% of their operating budgets, reflecting an 11.5% year-on-year increase. Breede Valley and the Cape Winelands District Municipality both spent below the 95% benchmark at 91.7 and 90.8% respectively, while Langeberg significantly exceeded its adjusted budget with spending of 105.8%. Langeberg also experienced a substantial 32.4% increase in total expenditure, largely due to a 37.4% rise in bulk purchases. By contrast, Breede Valley recorded a modest 6.7% increase.

Employee-related costs accounted for 27.78% of total operating expenditure, while the Cape Winelands District Municipality recorded a notably higher ratio of 58.7% due to its service delivery functions at district level. Bulk purchases reflected an overall performance of 105.4%, with all municipalities recording levels above 100%, suggesting increased electricity consumption. The year-on-year increase of 22.9% was significantly higher than the NERSA-approved adjustment of 12.72%. Contracted services expenditure decreased by 6.2% compared to the previous year, indicating reduced reliance on external service providers. However, contracted services still accounted for 7.8% of total operating expenditure, which remains above the 2–5% norm.

The district recorded an operating surplus of R353.52 million for 2024/25, which is projected to be maintained across the MTREF period. This reflects sound financial management, effective expenditure control and sustained fiscal stability.

The Cape Winelands municipalities spent R1.66 billion or 96.8% of their capital budgets. Most municipalities (including Witzenberg, Drakenstein, and Langeberg) achieved spending levels above 95%. The region's capital funding mix was primarily composed of grant transfers (45.14%), followed by internally generated funds (40.15%) and borrowings (14.71%).

Infrastructure investment totaled R1.40 billion, representing 84.2% of total capital expenditure. The largest allocations were directed to Sanitation Infrastructure (36.4%), Roads (23.4%), Electrical Infrastructure (14.3%) and Water Supply (13.8%).

OB OVERBERG

The Overberg District generated R4.04 billion in operating revenue, representing 4.16% of the total aggregate. Overstrand Municipality slightly exceeded its revenue target, achieving 100.4%, while all municipalities in the district recorded revenue growth broadly in line with or slightly above their tariff increases.

Several municipalities also recorded revenue increases that outpaced their electricity tariff hikes, suggesting a modest rise in consumption. This may indicate improved reliability in electricity supply, supporting more consistent usage and enhanced revenue collection.

Total operating expenditure across the district amounted to R3.95 billion, or 92.5% of the adjusted budget, representing 4.2% of total aggregated operating expenditure. Overstrand and Cape Agulhas municipalities both spent below the 95% benchmark. Overall, district spending increased by 4.4% year-on-year. Swellendam reported a significant 33.3% increase in expenditure, largely due to a 97.2% rise in contracted services. By contrast, Overstrand's expenditure increased marginally by 4.1%, while Theewaterskloof recorded an 11.1% decline, driven by lower operational costs and reduced asset disposal losses.

Employee-related costs accounted for 33.7% of total operating expenditure, with the Overberg District Municipality (56.6%) exceeding the 40% threshold, largely due to the nature of district-level service responsibilities. Cape Agulhas recorded employee-related costs at 41.5%. Bulk purchases were implemented at 96.4% overall, with Swellendam recording the lowest performance at 94.1%. Overstrand and Cape Agulhas both recorded increases below the NERSA-approved tariff adjustment.

The district reported an operating surplus of R89.83 million for the 2024/25 financial year. However, projections indicate that this position may shift into deficit over the MTREF period, highlighting growing cost pressures and revenue limitations across several municipalities.

Overberg municipalities spent R219.36 million or 40.3% of their capital budgets. Cape Agulhas and the Overberg District Municipality achieved spending levels above 95%, while Theewaterskloof's continued underperformance remains a concern, particularly given its implementation of a Financial Recovery Plan (FRP).

Although the capital funding mix is somewhat distorted by incomplete borrowing data for Theewaterskloof and Overstrand, available figures indicate a heavy reliance on grant funding from national and provincial sources; a dependency that continues to pose risks to investment sustainability.

Infrastructure investment totaled R66.80 million, equivalent to 40.9% of total capital expenditure. The largest allocations were directed to Sanitation Infrastructure (31.6%), Road's infrastructure (29.1%), Electrical Infrastructure (18.1%), and Water Supply (14.6%).

GR GARDEN ROUTE

The Garden Route District generated R9.70 billion in operating revenue, accounting for 10.0% of the total provincial aggregate. Hessequa and Bitou municipalities exceeded their revenue targets, achieving 104.8 and 101.9% respectively, while George, Oudtshoorn and the Garden Route District Municipality achieved only 94.2, 92.4 and 91.3% of their respective targets. Kannaland also recorded a 3.2% decline in operating revenue between 2023/24 and 2024/25.

The Garden Route District recorded an operating surplus of R239.23 million for 2024/25, which is projected to be maintained across the MTREF period, indicating relatively strong financial sustainability compared to other districts.

Revenue from property rates showed strong growth across most municipalities. Oudtshoorn, notably, reduced its rate-in-the-rand tariff by 12% but still achieved a 25.5% increase in property rates revenue, suggesting improved collection efficiency and a growing rates base.

Municipalities in the district spent 94.8% of their operating budgets, reflecting a 9.5% year-on-year increase. However, Hessequa, Oudtshoorn, Bitou and Knysna all recorded spending below the 95% norm. Bulk purchases performed at 100.7% overall, with only Knysna recording an underspend. Several municipalities, including Kannaland, George, Oudtshoorn and Bitou, overspent on bulk purchases relative to their budget allocations, with increases exceeding the 12.72% adjustment approved by NERSA.

Employee-related costs accounted for 30.56% of total operating expenditure, with Kannaland and the Garden Route District Municipality both exceeding the 40% threshold. In Kannaland, employee-related spending rose sharply from 33.29 to 49.76% year-on-year; a steep increase that warrants further analysis to determine whether it reflects structural adjustments or unsustainable payroll growth.

The Garden Route District recorded an operating surplus of R353.52 million for 2024/25, which is projected to be maintained across the MTREF period, indicating relatively strong financial sustainability compared to other districts.

Garden Route municipalities spent R2.68 billion or 89.4% of their capital expenditure. Hessequa, Mossel Bay, and Oudtshoorn achieved spending levels above 95%, while lower performance was observed in Kannaland, George, Knysna and the Garden Route District Municipality. The district's capital funding mix remains relatively balanced, comprising 53.49% grant funding, 28.73% borrowings, and 17.78% Internally generated funds.

Infrastructure investment totaled R2.13 billion, representing 79.8% of total capital expenditure. The largest allocations were directed towards Roads Infrastructure (32.2%), Water Supply (27.7%), Electrical Infrastructure (18.4%) and Sanitation infrastructure (15.0%).

CK CENTRAL KAROO

The Central Karoo District generated R763.23 million in operating revenue, representing just 0.78% of the total aggregate. Laingsburg and Beaufort West underperformed against their operating revenue budgets, achieving 91.1, 91.3 and 93.2% respectively. Notably, Laingsburg recorded a year-on-year decline in operating revenue between 2023/24 and 2024/25. Revenue from property rates increased significantly in Prince Albert, rising by 17.1% compared to the previous year. Encouragingly, all municipalities in the district recorded overall revenue growth that exceeded the approved tariff increases for 2024/25, suggesting improving billing and collection performance.

Municipalities in the district spent 97.3% of their operating budgets, reflecting a 7.4% increase from the previous year. Beaufort West recorded the highest expenditure growth at 13.2%, while the Central Karoo District Municipality's spending increased only marginally by 0.3%. Laingsburg was the only municipality to spend below the 95% norm, with an expenditure rate of 92.8%.

Employee-related costs accounted for 36.31% of total operating expenditure, although this share was significantly higher for the Central Karoo District Municipality at 60.2% due to its labour-intensive service delivery model. Contracted services expenditure increased by 5.2% year-on-year, driven by sharp growth in Laingsburg (92.5%) and Prince Albert (25.8%).

The district reported a combined operating deficit of R46.15 million for the 2024/25 financial year, with the deficit projected to persist across the MTREF period. This reflects ongoing structural constraints such as limited own-revenue generation, escalating personnel costs, and reliance on external funding sources.

Central Karoo municipalities spent 90.8% of their capital budgets. Prince Albert is the only municipality that reported capital spending above 95% (100.3%), while Laingsburg, Beaufort West and Central Karoo District Municipality reported spending below the 95% norm. The District's capital funding mix remains heavily dependent on grant allocations, posing a significant risk to sustaining future infrastructure investment.

Infrastructure investment totaled R58.16 million, equivalent to 65.3% of total capital expenditure. The largest shares were directed towards Water Supply (37.4%), Sanitation (29.3%), Electrical Infrastructure (18.4%) and Roads infrastructure(9.4%).

Annexure 1

Western Cape Municipalities

Municipal Demarcation Codes

Municipality	Reference Code
City of Cape Town	CPT
West Coast District	DC1
Cape Winelands District	DC2
Overberg District	DC3
Garden Route District	DC4
Central Karoo District	DC5
Matzikama	WC011
Cederberg	WC012
Bergrivier	WC013
Saldanha Bay	WC014
Swartland	WC015
Witzenberg	WC022
Drakenstein	WC023
Stellenbosch	WC024
Breede Valley	WC025
Langeberg	WC026
Theewaterskloof	WC031
Overstrand	WC032
Cape Agulhas	WC033
Swellendam	WC034
Kannaland	WC041
Hessequa	WC042
Mossel Bay	WC043
George	WC044
Oudtshoorn	WC045
Bitou	WC047
Knysna	WC048
Laingsburg	WC051
Prince Albert	WC052
Beaufort West	WC053

Annexure 2

Western Cape Municipalities

2024/25 Financial Performance Overview

Municipality	Operating Revenue	Operating Expenditure	Capital Expenditure
City of Cape Town	**102.1%**	**97.4%**	**81.4%**
Matzikama	93.4%	78.3%	100.1%
Cederberg	102.3%	96.5%	52.1%
Bergrivier	99.6%	94.7%	89.9%
Saldanha Bay	100.6%	92.0%	85.9%
Swartland	104.0%	91.6%	159.8%*
West Coast District	**97.1%**	**92.7%**	**86.1%**
Witzenberg	92.8%	95.7%	97.6%
Drakenstein	102.5%	95.8%	98.5%
Stellenbosch	101.5%	99.1%	90.2%
Breede Valley	90.2%	91.7%	82.8%
Langeberg	110.4%	105.8%	143.3%*
Cape Winelands District	**100.6%**	**90.8%**	**77.1%**
Theewaterskloof	96.4%	95.6%	52.9%
Overstrand	100.4%	89.3%	0.0%
Cape Agulhas	95.0%	93.1%	95.5%
Swellendam	95.2%	97.2%	79.6%
Overberg District	**95.2%**	**95.4%**	**98.4%**
Kannaland	96.1%	95.3%	65.2%
Hessequa	104.8%	93.6%	98.1%
Mossel Bay	99.3%	96.3%	152.2%*
George	94.2%	96.1%	78.3%
Oudtshoorn	92.4%	92.9%	175.0%*
Bitou	101.9%	94.5%	90.4%
Knysna	97.3%	90.0%	55.9%
Garden Route District	**91.3%**	**97.8%**	**32.3%**
Laingsburg	91.1%	92.8%	84.1%
Prince Albert	98.5%	96.1%	100.3%*
Beaufort West	91.3%	98.0%	92.9%
Central Karoo District	**98.4%**	**100.2%**	**60.4%**

** Spending above 100% attributed to data string errors. Corrections will be made in final audited financial statements.*

<u>Annexure 3</u>

Western Cape Municipalities

BUDGET FUNDING POSITION

Municipality	2020/21			2021/22			2022/23			2023/24			2024/25			2025/26	
	Tabled budget	Adopted Budget	Adjustments Budget	Tabled budget	Adopted Budget	Adjustments Budget	Tabled budget	Adopted Budget	Adjustments Budget	Tabled budget	Adopted Budget	Adjustments Budget	Tabled budget	Adopted Budget	Adjustments Budget	Tabled budget	Adopted Budget
City of Cape Town	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Matzikama	Y	Y	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	Y
Cederberg	N	N	N	N	N	N	N	N	N	N	N	N	Y	Y	Y	Y	Y
Bergrivier	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Saldanha Bay	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Swartland	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
West Coast District	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Witzenberg	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Drakenstein	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Stellenbosch	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Breede Valley	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Langeberg	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cape Winelands District	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Theewaterskloof	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N	N	N	N
Overstrand	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cape Agulhas	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y
Swellendam	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y
Overberg District	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Kannaland	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Hessequa	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Mossel Bay	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
George	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Oudtshoorn	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Bitou	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	Y
Knysna	N	N	Y	Y	Y	Y	Y	Y	N	N	Y	N	N	N	Y	Y	Y
Garden Route District	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Laingsburg	Y	Y	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	Y
Prince Albert	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Beaufort West	Y	Y	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Central Karoo District	Y	Y	Y	-	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

A municipal budget must be funded in terms of Section 18 of the MFMA before a municipal council can adopt it for implementation. A funded budget is essentially a budget that is funded by a combination of cash derived either from realistically anticipated revenues to be collected in that year and cash backed surpluses of previous years.

If a municipal budget is unfunded, it is not a credible budget – either the revenue projections are unrealistic, the operating expenditures are too high, or the capital budget is too ambitious. In most instances, there are problems in all three areas. Correcting these problems involves going back to basics – and ensuring that the municipality only budgets to spend what it will realistically collect in revenue.

Municipal Interventions

The historic financial performance success of Western Cape (WC) municipalities can, in part, be attributed to well developed oversight structures and entrenched in-year monitoring processes. These mechanisms serve as early-warning systems, allowing for the timely identification of potential financial and operational challenges by the Provincial Government. By closely monitoring financial performance data PT can anticipate risks and detect areas of vulnerability before they escalate into financial and operational distress.

Provincial Treasury proactively supports and advises municipalities to prevent financial crisis and timeously intervenes where municipalities meet the criteria for serious financial problems as outlined in the MFMA.

Constitution allows for the following instances in which a Province can intervene in Local Government

- **S139(1):** Failure to fulfill executive obligation (DLG-led).
- **S139(4):** Failure to approve a budget or revenue raising measures (PT-led).
- **S139(5):** Crisis in financial affairs results in serious breach of obligations to deliver services or meet its financial commitments (PT-led).

3

Number of WC **municipalities currently experiencing crisis in financial affairs;** under Mandatory Intervention in terms of S139(5) of the Constitution which necessitates development of Financial Recovery Plan (FRP).

- **Beaufort West:** Under formal intervention since 2021, FRP commenced in March 2022.
- **Kannaland**: Under formal intervention since 2023. Municipality initially disputed process, but FRP approved in August 2025.
- **Theewaterskloof:** Cabinet approved intervention in November 2024, FRP approved in October 2025.

KEY PHASES OF THE FINANCIAL RECOVERY PLAN (FRP)

Phase 1: Rescue Phase	Phase 2: Stabilisation Phase	Phase 3: Sustainability Phase
Focus on restoring health cash position. Indicators include funded budgets, monitoring of daily cash and cash balances, cost containment measures, debtor's collection rate.	Greater attention is placed on the underlying service delivery, governance and institutional matters perpetuating the financial crisis in the municipality.	Assurance that measures implemented in Phase 1 and 2 are sustainable, that municipalities are committed to ensuring the implementation of good practices.
12 months	12 - 24 months	Dependant on Phase 2

Section 154(1) of the Constitution mandates that national and provincial governments must support and strengthen the capacity of municipalities to manage their own affairs, exercise their powers, and perform their functions.

PT Support Initiatives

BUDGET, REVENUE & EXPENDITURE RISKS

- **Assess tabled budgets** and associated documents **to determine levels of conformance, responsiveness, credibility and sustainability.**
- Technical support to municipalities to **adopt funded budgets**, and where unfunded budgets are unavoidable, to develop and implement Budget Funding Plans (BFPs).
- Monitor and evaluate budget compliance implementation through monthly (S71), & quarterly (S52 & S72) and annual (annual report & SIME feedback) assessments.
- Advice and support to **improve accuracy of mSCOA financial reporting**.
- **Facilitate intergovernmental dispute resolutions** regarding debts owed to municipalities by other organs of state.
- Support municipalities to **develop long-term financial plans**.
- Financial support to strengthen internal capacity through **WC Financial Management Capability Grant and WC Municipal Financial Recovery Services Grant**. Focus areas include revenue enhancement, long-term financial planning, data cleansing, tariff modelling etc.
- Provide **socio-economic intelligence** via the Provincial and Municipal Economic Review and Outlook (PERO & MERO) publications and Socio-economic Profiles (SEP) to aid municipalities with strategic planning and budgeting.

FINANCIAL GOVERNANCE

- Ensure ongoing support, guidance and monitoring of the **functionality of oversight structures** (eg. Municipal Public Account Committees).
- **Councillor induction training** (in conjunction with SALGA & DLG) relating to public expenditure management.
- Facilitate **peer-2-peer training and learning opportunities** and advocate for sharing best-practices at intergovernmental platforms (CFO Forum, MAF etc.)
- Continuously provide support to municipalities during the **municipal external audit process**, which includes the PTHelpme facility, audit query tool, the Provincial Audit Steering Committee, the Accounting Working Committee and the monitoring of audit issues through our audit tracking team.
- Provide **support to municipal assurance services** regarding the effective implementation of combined assurance within municipalities.
- Support to utilise the **NT Financial Management Capability Maturity Model (FMCMM) Tool** which allows municipalities to assess the state of development of their internal controls, monitoring financial management capability, and to identify areas of financial weakness.

PT Support Initiatives

ASSET MANAGEMENT & SCM GOVERNANCE

- Continue **reducing red tape, streamlining SCM processes** whilst maintaining a level of compliance and improving access to procurement opportunities.

- Special support and **guidance on Preferential Procurement Regulations (2022)**; implementation of municipal procurement policies to ensure alignment to latest SCM policies, prescripts and SCM Reforms.

- **SCM Training and Support Programme** for municipalities and suppliers focused on addressing gaps and continuous SCM improvement.

- **Enhancement of Municipal Insight Performance Reporting** to improve transparency, accountability to assist municipalities with making sustainable procurement choices.

- Continue to **implement the municipal SCM Governance workstream and PT participation in NT workstreams** to address SCM interpretation and implementation challenges.

- **Strategic Procurement:** Strengthening demand forecasting and demand management requirements for municipalities and assist with procurement planning improvements.

- **Asset Management Governance and Capacity Building.**

PERFORMANCE REPORTING

- Advise and capacitate municipalities on the **reporting of Pre-determined Objectives (PDOs)** to ensure a stronger link between planning, budgeting and service delivery performance.

- Assistance with **financial and non-financial performance reporting templates** and frameworks (encourage municipalities to exchange knowledge and expertise, best practices etc.).

- Support and guidance to utilise the **Municipal eMonitoring System** which monitors the extent to which municipalities comply with MFMA prescripts.

MUNICIPAL FINANCE IMPROVEMENT PROGRAMME (MFIP)

The Municipal Finance Improvement Programme (MFIP) is a National Treasury initiative aimed to support the finance management reform agenda and to address the growing number of financial sustainability challenges being observed within local government.

This strategically-driven programme of technical support is aligned with the six Local Government financial management 'game changers' – funded budgets, revenue management, mSCOA, asset management, supply chain management, audit outcomes – and is designed to **strengthen the institutional and technical financial management capacity** of NT, the provincial treasuries and municipalities. This is mainly achieved through the placement of Technical Advisors (TAs) by NT within the MFMA support units of provincial treasuries, and the Budget and Treasury Office (BTO) of municipalities.

Sources & References

Graphs, Tables & Diagrams

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- Page 2: MFMA Audit Outcomes. *Consolidated General Report on Local Government Audit Outcomes 2023/24. AGSA*
- Page 3: Budget Funding Status. *National Treasury*
- Page 5: Consumer Reality: *Provincial Economic Review & Outlook, Stats SA*
- Page 6: Consumer Reality: *Pre-Audit mSOA Data Strings, 2024/25, GoMuni*
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Annexures

- 2024/25 Financial Performance Overview. *Pre-Audit mSOA Data Strings, 2024/25, GoMuni, Own calculations*
- Budget Funding Positions: *National Treasury*

General Legislation

- Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
- Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)
- Municipal Budget and Reporting Regulations (2009)
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