Western Cape Government
FOR YOU

Strategic Integrated Municipal Engagement (SIME 2) 2025

Garden Route District

Bitou Municipality

Western Cape Government

BITOU MUNICIPALITY

INTEGRATED PLANNING AND BUDGETING ASSESSMENT: ANALYSIS OF MUNICIPAL IDP, SDF AND BUDGET

Western Cape Government

APRIL/MAY 2025

BITOU MUNICIPALITY DIAGNOSTIC AND SUMMARY OF KEY RECOMMENDATIONS

Integrated Development & Spatial Planning	• Establish an integrated economic recovery and tourism task team to fast-track stalled/delayed initiatives and unlock local tourism potential; • Implement a real-time infrastructure delivery tracker, focusing on budget utilisation and physical progress of milestones; • Undertake a comprehensive skills audit to identify gaps in technical, managerial, and financial capabilities, prioritise the filling of critical vacancies and strengthen human resource development plans; and • Address the issues raised by sector departments in 2.1.2 of this report, dealing with IDP alignment.
Economic Sustainability	• Bitou Municipality has laid important groundwork for economic sustainability through improved infrastructure investment and prudent financial management. However, gaps in operational capacity, project implementation, and long-term infrastructure planning threaten to undermine these gains. • To secure a sustainable economic future, Bitou must now focus on: • Accelerating infrastructure delivery, • Strengthening institutional capacity (especially technical departments), • Adopting integrated master plans, • And aligning capital and operational budgets with demographic and environmental realities.
Revenue and Expenditure	• The 2025/26 MTREF budget has been tabled as funded, with an increasing operating surplus projected over the MTREF period, signalling improving financial health. • There is an upward trend in indigent support allocations; however, indigent registers require validation and targeting mechanisms must be strengthened to ensure appropriate and efficient support delivery. • 2025/26 budget reflects affordability challenges — basic electricity charges remain high impacting household affordability while collection rates fall short of the 95 per cent NT benchmark placing revenue sustainability at risk. • Revenue from waste management remains stagnant, failing to cover operational costs, highlighting a need for tariff review and operational efficiency improvements. • Continued implementation of enhanced credit control and debt collection measures is necessary, particularly focusing on outstanding debt exceeding 90 days. • Align budgeted revenue for fines and penalties with historical actuals and only adjust upward where supported by credible enforcement improvements or automation. • The Municipality should maintain its commitment to stringent cost containment measures to support long-term financial stability.
Capital Budget & Infrastructure	• Future capital budgets should be more closely aligned with historical spending trends to enhance budget credibility and mitigate the risk of underperformance. • Historical underperformance in capital expenditure is acknowledged, with implementation rates falling below 90 per cent, largely due to procurement and planning delays. • Close monitoring of the municipality's dependence on borrowings is necessary, with appropriate measures to mitigate associated risks. • Planning and cash flow management for CRR-funded projects must be strengthened to ensure that expenditure is supported by actual cash availability, thereby avoiding overcommitment against projected revenue. • Repairs and maintenance funding should be prioritised to preserve asset integrity and reduce reliance on reactive or short-term financial recovery interventions.

mSCOA Compliance	• Data Credibility: Discrepancies have been identified between the A1 Schedule tabled in Council and the corresponding mSCOA data strings (A7 and A8), raising concerns regarding the accuracy and consistency of financial reporting. • Challenges persist in the preparation and accuracy of balance sheet and cash flow budgeting, requiring strengthened financial planning and integration. • Non-compliance with VAT accounting regulations has been noted and must be urgently addressed to ensure adherence to legislative requirements. • The Municipality is commended for the inclusion of a comprehensive roadmap outlining corrective actions and associated timelines. This proactive approach not only enhances governance practices but also provides a clear framework for addressing identified issues in a structured and timely manner.
Strategic Procurement	• Contract Register and Asset Register not submitted for analysis • High volumes of infrastructure-related procurement emanating from IDP projects necessitate good governance in infrastructure procurement • Unable to determine whether Contract Register influences Procurement Plan and/or Budget • Unable to determine whether Asset Register informs the IDP and/or Procurement Plan and/or Budget

TABLE OF CONTENTS

LIST OF ACRONYMS

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

LUPA	Land Use Planning Act
MBRR	Municipal Budget and Reporting Regulations
MDG	Millennium Development Goal
MER	Municipal Energy Resilience
MFMA	Municipal Finance Management Act
MI	Municipal Infrastructure
MIG	Municipal Infrastructure Grant
MIP	Municipal Infrastructure Plan
MISA	Municipal Infrastructure Support Agency
MMP	Maintenance Management Plan
MTREF	Medium Term Revenue and Expenditure Framework
MVA	Megavolt Amperes (1Million volt amperes)
MWh	Megawatt hour (1Million watt hours)
NDHS	National Department of Human Settlements
NRW	Non-revenue Water
NT	National Treasury
O&M	Operations and Maintenance
OPEX	Operating Expenditure
PMS	Performance Management Systems
RMP	Road Management Plan
SCM	Supply Chain Management
SDBIP	Service Delivery Budget Implementation Plan
SDF	Spatial Development Framework
SOP	Standard Operating Procedure
SWMP	Stormwater Management Plan
WDM	Water Demand Management
WSDP	Water Service Development Plan
WTW	Water Treatment Works
WWTW	Wastewater Treatment Works

SECTION 1: INTRODUCTION

The 2025 SIME assessment summarises comments by the Western Cape Government (WCG) on the draft 2025/26 MTREF Budget, 2025/26 Integrated Development Plan (IDP), Spatial Development Framework (SDF) and other relevant polices and documents.

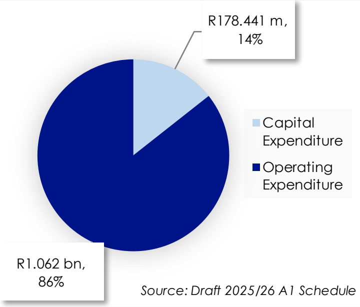
The assessment covers the following key areas; conformance with the MFMA, MSA & Municipal Budget and Reporting Regulations (MBRR); an integrated, spatial and environmental planning analysis of the IDP and SDF and the responsiveness, credibility and sustainability of the tabled budget.

The WCG intends meeting the executives of your Municipality in May 2025, where the key findings and recommendations of this report will be presented and deliberated upon. The planned engagement will contextualise the Municipality's challenges and responses as presented in the draft budget, IDP, LED, SDF and as well as other strategic matters for discussion between the two spheres of government. All the information related to the assessment and analysis of the draft annual budget, IDP and SDF are found in the report below.

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

BUDGET SNAPSHOT

2025/26 Municipal Expenditure



Source: Draft 2025/26 A1 Schedule

GDPR MERO 2024

GDPR 2021 Constant Prices	GDPR Growth		
2023	2024f	2025f	2026f
R3.4 billion	0.7%	0.8%	0.8%

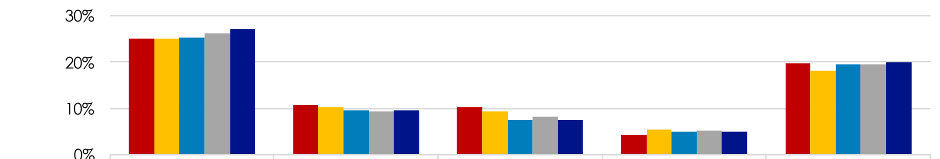
Inflation NT MFMA Budget Circular 130

2024e	2025f	2026f	2027f
4.4%	4.3%	4.6%	4.4%

Total Population	Population Growth %	No. of Households	No. of Indigent Households
Census 2022	Est average annual 2024-2029	Census 2022	AR 2022/23
*65 240	2.9*%	*21 848	4 132

* Stats SA Mid-year population estimates (MYPE) 2024 data was used in the 2024 MERO and SEP-LG. MYPE population data deviates from that in Census 2022.

Service charges and Property Rates Revenue as a % of Total Revenue (2021/22 to 2025/26)

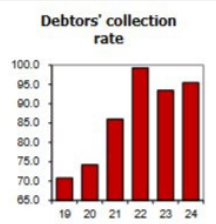


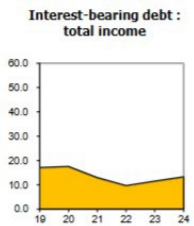
	Electricity	Water	Waste Water	Waste	Property rates
2021/22	25.1%	10.7%	10.3%	4.2%	19.7%
2022/23	25.0%	10.3%	9.3%	5.4%	18.0%
2023/24	25.4%	9.7%	7.4%	4.9%	19.6%
2024/25	26.3%	9.3%	8.1%	5.2%	19.6%
2025/26	27.1%	9.5%	7.6%	4.9%	19.9%

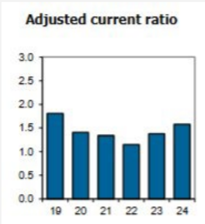
Source: Draft 2025/26 A1 Schedule

Ratings Afrika MFSI ®

Financial Sustainability Index Score			
	2022	2023	2024
Bitou	49	54	57
WC Average	53	53	55







Source: Ratings Afrika Financial Sustainability Analysis Service January 2025.
The graphs reflect the percentage or ratio (Y-axis) for the period 2019 to 2024 (X-axis)

SECTION 2: INTEGRATED PLANNING

2.1 INTEGRATED DEVELOPMENT PLANNING

The Municipal Systems Act 32 of 2000 (MSA) requires that every municipal council must review its IDP annually in accordance with an assessment of its performance measurements and to the extent that changing circumstances demand. Further provision is made for every municipal council to amend such IDP following a prescribed process outlined in Regulation 3 of the Local Government: Municipal Planning and Performance Management Regulations of 2001 (MSA Regulations). During the 2024/25 financial year, the Bitou Municipality (the Municipality) has conducted the annual review of its IDP, which is the third review of the 2022 - 2027 IDP and resolved to adopt an amended IDP in May 2025.

2.1.1 IDP Compliance

The core components of an IDP are outlined in Section 26 of the MSA and Regulation 2 of the MSA Regulations. Sections 28 and 29 of the MSA require municipalities to adhere to an established process when reviewing or amending their IDPs. The compliance of the amended IDP with legislative requirements and the process followed were assessed using a compliance checklist. The assessment was shared and discussed with the Municipality.

2.1.2 IDP Alignment

Section 32(2) of the MSA provides for the MEC for local government to decide whether to make proposals to a municipal council to adjust an IDP if such plan or amendment conflicts or is not aligned or negates any of the development strategies of other affected municipalities or organs of state. Section 26 of the MSA further requires that IDPs must be aligned with and not negate the national and provincial development plans and planning requirements binding on the municipality in terms of legislation.

The proposed amendments to the IDP highlight the importance of and demonstrate alignment between the Municipality's strategic objectives (SOs) to relevant global, national, provincial and district policy directives and strategies.

Economic Development

The Municipality has a Local Economic Development (LED) Strategy, which is currently being reviewed. The current LED Strategy identifies specific needs of the municipal area and outlines projects, and implementation plans that are designed to address these needs. However, the sustainability of the plans can be strengthened with realistic targets, indicators and implementation planning. Economic projects earmarked for implementation include necessary resource allocation and reflect alignment with the strategic priorities outlined in the amendments to the IDP.

The Municipality has demonstrated the use of intergovernmental relations as a mechanism for economic development by working with all spheres of government, agencies and local businesses. To create opportunities for extended partnerships and resource leveraging, it is recommended that the LED Strategy align with national and provincial economic policies that have an impact on municipal economic plans.

The amendments to the IDP reflect key projects such as the "Support to Small-scale Farming" as part of its LED initiatives. Notably, the amendments to the IDP under SO2 propose five specific interventions to stimulate and grow the agricultural sector. The Municipality is encouraged to attend to the previous recommendations made by the Department of Agriculture in relation to strengthening the aspects around rural safety and climate change in future reviews of the IDP.

Municipal Infrastructure, Human Settlements and Transport

The Municipality's SO2 supports economic empowerment through suitable housing opportunities and aligns with the Spatial Development Framework (SDF) objective 4, which focuses on sustainable human settlements. The SDF outlines actions such as identifying strategic land for development, enabling diverse housing typologies, and applying Smart Growth principles. Moreover, the IDP promotes clustering of services in Multi-Purpose Community Centres and appropriately locating regional social facilities, which supports integration of social infrastructure with settlement planning. The Municipality is encouraged to maintain and strengthen this alignment to enhance the liveability, inclusiveness, and sustainability of its communities.

The proposed amendments to the IDP reflect a commitment to asset management and infrastructure sustainability. It confirms the existence of an Asset Management Policy and recognises the importance of investing in neglected infrastructure, particularly in rural areas. Furthermore, the Long-Term Financial Plan includes an asset replacement cost model, which supports a life cycle planning approach.

The proposed amendments to the IDP identify infrastructure-related risks, including ageing infrastructure, water losses, and fleet shortages, and outline mitigation measures such as consequence management and improved planning alignment. The Municipality is encouraged to strengthen infrastructure condition assessments, adopt lifecycle costing in investment planning, and integrate risk mitigation more explicitly within its asset management framework. The Department of Infrastructure recommends that regular reporting on infrastructure performance and maintenance backlogs be included in future reviews of the IDP.

The Department of Mobility (WCMD) is in the process of developing the Western Cape 2023/24 – 2027/28 Provincial Land Transport Framework (PLTF) as the new five-year strategic transport planning document. The PLTF will guide all transport and land-use related provincial decision making with respect to transport infrastructure development, management and investment, public transport, non-motorised transport, freight transport, land transport safety, as well as guide district-wide and local integrated transport planning.

The WCMD notes that a service provider for the overhaul of the Garden Route District Integrated Transport Plan (DITP) 2024 - 2029 is intended to be approved by the District's executive council in due course. It is essential that the Municipality's Local Integrated Transport Plan (LITP) is aligned with the DITP once adopted by the District. Furthermore, future reviews of the IDP should consider integration of the LITP to align with the strategic vision and transport agenda as captured in the DITP.

Health, Social Services and Amenities

In accordance with the Prevention of and Treatment for Substance Abuse Act 70 of 2008, Chapter 10, a local municipality must establish a Local Drug Action Committee to give effect to the Mini Drug Master Plan (MDMP). The Mayor of a municipality must appoint members to this committee whose objective will be to successfully implement the MDMP to respond to the challenges related to substance abuse. Future reviews of the IDP should provide a clear indication of how the Municipality intends to respond to the broader social development challenges facing the municipal area. The Department of Social Development recommends that the adopted IDP include the social development challenges and the Municipality's strategies to address them.

Safe and Cohesive Communities

The proposed amendments to the IDP indicate that a Disaster Management Plan was adopted for the period June 2023 to July 2025 and will be reviewed again in July 2025. Critical aspects from a Disaster Management perspective to be included in the adopted 2025/26 IDP relate to:

- Whether the Municipality has the capacity to implement its Disaster Management Plan and its related functions;
- The status regarding a Disaster Risk Assessment, given the listed hazards;
- The status of Disaster Risk Reduction measures that are being implemented; and
- The status regarding the development of contingency plans.

The proposed amendments to the IDP cover issues of safety to a satisfactory level. The Municipality's recent introduction of an additional directorate that will focus on public safety reflects alignment with the portfolio for safety as one of the provincial objectives in the 2025 – 2030 Provincial Strategic Plan. The proposed amendments to the IDP identify the key safety focus areas, namely: Public Safety; Fighting crime through technology; Drones – "The Bitou Eye"; 360 Surveillance cameras of Main Street; CCTV cameras on all major entrances and exit roads in all wards and Surveillance Patrols. While the Department note these and the need for a satellite police station, the Municipality is encouraged to reflect the budget allocations of the Department in the adopted IDP namely; R572 000 – 2025/26, R580 000 – 2026/27, R588 000 – 2027/28.

2.1.3 IDP Implementation

Section 41 of the MSA provides for a municipality in accordance with its performance management system, to set performance measures with regard to its development priorities and objectives set out in the IDP. In addition, section 41 provides for the monitoring of the performance, measure and review performance at least once per year, implement steps to improve the performance, and set a regular reporting system. This section thus reflects on whether the Municipality might be at risk of not achieving its strategic objectives, noting that this is the third review cycle of the 2022 – 2027 IDP.

The Municipality's adopted 2022 – 2027 IDP had seven SOs, which were adjusted to five during the 2023/24 IDP review process. These five SOs were further refined during the subsequent review process in 2024 when the Municipality proposed amendments to adopt the 2024/25 IDP. The proposed amendments to the 2025/26 IDP reflect that the Municipality's SOs will remain unchanged, as set out in the figure below:

SO1: Provide excellent and sustainable services to all residents.

SO2: Facilitate growth and expand economic opportunities to empower communities.

SO3: Achieve long-term financial sustainability.

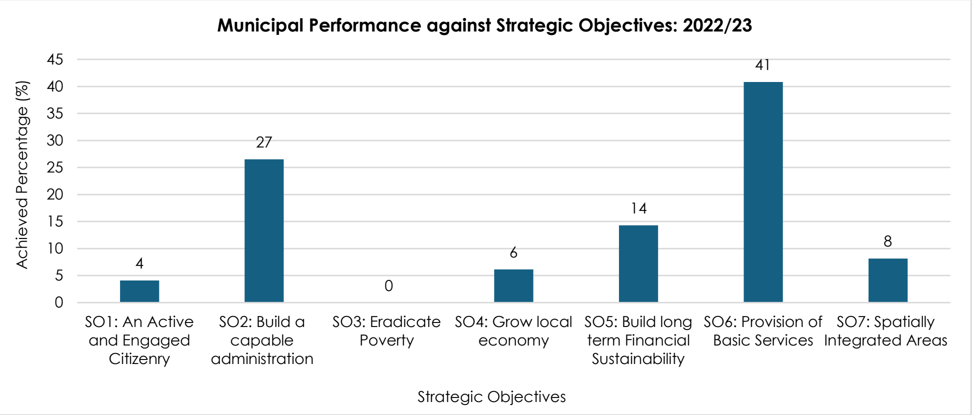
SO4: Build a capable, developmental, transformed, and productive workforce.

SO5: Adhere to and implement effective and efficient governance processes.

In conducting an assessment of IDP implementation over the current term of office, the following documents were consulted:

- 2022 - 2027 IDP and subsequent reviews and amendments;
- 2022/23, 2023/24, and 2024/25 Service Delivery and Budget Implementation Plans (SDBIPs);
- 2022/23 and 2023/24 Annual Reports; and
- 2024/25 Technical Integrated Municipal Engagement (TIME) Report.

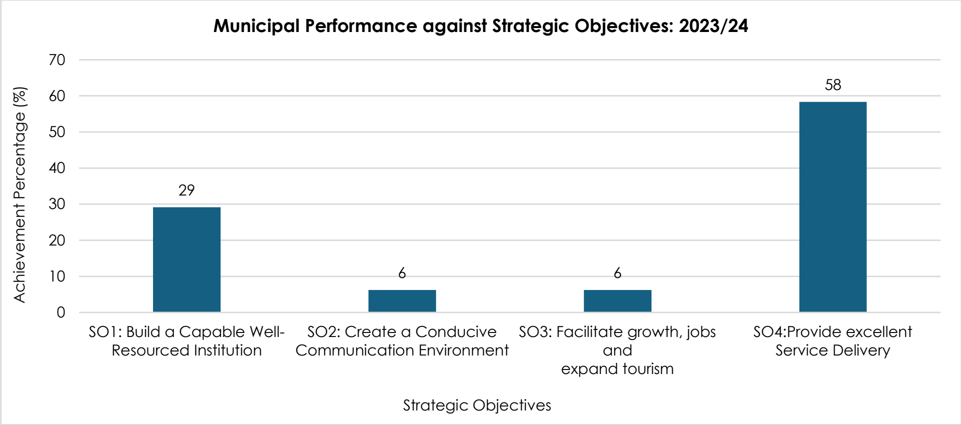
The Top Layer SDBIP in the 2022 – 2027 IDP included 36 key performance indicators (KPIs) which aligned with the initial seven SOs mentioned above. The council subsequently adopted a revised SDBIP in 2022/23 to measure 49 KPIs for the implementation of the seven SOs.



The figure presented above illustrates the overall performance trajectory in relation to the council's SOs for the 2022/23 financial year. The data indicates the following results:

- A generally slow performance trend in respect of SO1, SO4, and SO7 is noticeable.
- It is noteworthy that the KPIs associated with SO3 were not included for measurement in the 2022/23 Annual Report.
- Conversely, stronger performance levels were observed for SO2 and SO6, with achievement rates of 27 per cent and 41 per cent, respectively.

In May 2023, the 2022 – 2027 IDP was amended. As part of the review process, the original seven SOs were revised to five SOs, reflecting a refined focus and alignment with the Municipality's strategic priorities. Additionally, the revised Top Layer SDBIP incorporated a total of 51 KPIs, of which 46 were subjected to performance measurement and reporting in the 2023/24 Annual Report. The performance data associated with these 46 KPIs was subsequently assessed to determine the overall performance trajectory of progress achieved during the 2023/24 financial year.

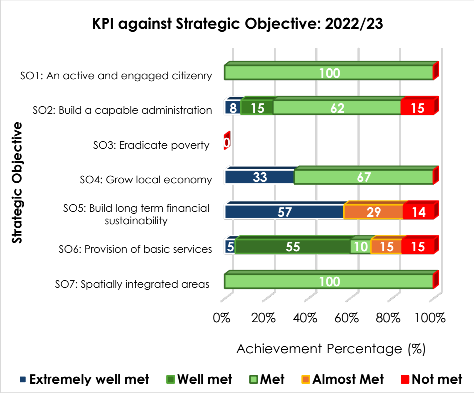


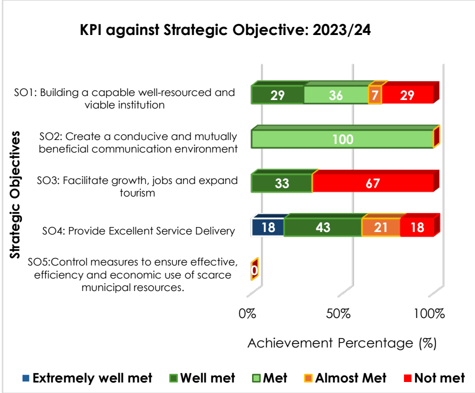
The above figure illustrates the Municipality's performance against four of the five council SOs during the 2023/24 financial year:

- SO4: (Provide Excellent Service Delivery) demonstrates the highest level of achievement at 58 per cent, indicating above average progress in improving the quality, efficiency, and accessibility of municipal services.
- SO1: (Build a Capable, Well-Resourced Institution) recorded a moderate performance level of 29 per cent, reflecting ongoing institutional strengthening efforts with much room for further enhancement.
- Both SO2 and SO3 aimed at creating a conducive communication environment and facilitating growth, jobs and expanding tourism, reflected low achievement levels of 6 per cent each, suggesting underperformance in focus areas related to communication, stakeholder engagement, economic growth and expansion of tourism.

The dataset reflects that while the Municipality has made improvements in enhancing service delivery, performance across the institutional and communication-focused objectives requires attention. This highlights the need for focused interventions to strengthen communication strategies and organisational capacity to ensure balanced progress across all strategic focus areas.

The amendment of the 2022 – 20227 IDP resulted in a shift in strategic priorities and thus the structure and naming of SOs between the 2022/23 and 2023/24 financial years. While some thematic continuity exists, direct year-on-year tracking is limited due to the slight changes to strategic priorities.





- The figures above illustrate the performance of the Municipality's KPIs respectively against the SOs over the periods 2022/23 and 2023/24. The Municipality assessed a total of 64 and 65 Key Performance Indicators (KPIs) respectively in the 2022/23 and 2023/24 Annual Reports. While consistent effort was made across both years, a number of KPIs remained unmet during the review period.
- In 2022/23, the Municipality demonstrated strong performance, particularly under SO1, SO4, and SO7, all of which achieved a 100 per cent KPI success rate. SO2 (Build a Capable Administration), SO5 (Financial Sustainability), and SO6 (Provision of Basic Services) also recorded above-average performance. The 2022/23 financial year reflects strong overall performance, with SO1, SO4 and SO7 achieving 100 per cent KPIs met,
- While SO2: (Build a Capable Administration), SO5: (Financial Sustainability) and SO6: (Provision of basic services) all performed well above average.
- The 2023/24 period reflects a more variable performance trajectory. Notably, SO2 (Creating a Conducive Communication Environment) recorded full achievement in all KPIs, showing a significant improvement from the 33 per cent performance the previous year. However, overall results suggest a need for continued focus on underperforming SOs to ensure consistent service delivery outcomes.
- The KPIs related to service delivery improved slightly year on year from 5 per cent to 18 per cent in the category of KPIs "Extremely well met"; however, overall achievement declined mostly due to increases in water losses and underspending on stormwater upgrades and human settlement-related projects.
- The strong performance of 100 per cent in SO4: (Grow local Economy) during 2022/23 compared to SO3: (Facilitating Growth, Jobs and expanding Tourism) indicates a significantly slower performance of 67 per cent of KPIs "Not met" in 2023/24. This shortfall in performance was a result of stagnation or regression in job creation and tourism growth.
- The Municipality delivered more consistent performance in 2022/23, particularly in financial management, economic growth, and spatial development. In contrast, performance in 2023/24 reveals emerging weaknesses in key strategic areas such as institutional capacity, financial efficiency, and economic growth under pressure. The comparative results for the two periods under review underscore the Municipality's regression from a clean audit finding in the 2022/23 financial year to an unqualified audit with findings in 2023/24.

- The 2024/25 Time Report indicates that overall, 54.8 per cent of the planned targets outlined in the SDBIP were successfully achieved across the five SOs. For example, strong performance was demonstrated in SO2: (Adhere to and implement effective and efficient governance processes), SO3: (Build a capable, developmental, transformed and productive workforce) and SO5 (Facilitate growth and expand economic opportunities to empower communities). Underperformance was reported in SO1 (Achieve long-term financial sustainability) and SO4 (Provide excellent and sustainable services to all residents).
- Reasons for underperformance cited include capacity constraints, procurement challenges, funding constraints and slow service provider performance. The corrective measures identified should be implemented without delay for improved service delivery performance. In conclusion, the performance assessments for the 2022/23 to 2024/25 period indicate both strengths and areas requiring immediate attention. While service delivery and communication efforts have shown improvement, institutional capacity, economic development, and financial sustainability remain critical areas of underperformance.

2.2 KEY FINDINGS AND RECOMMENDATIONS

2.2.1 Key Findings

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

- SO3: (Facilitate Growth, Jobs and Expand Tourism) recorded a steep decline in performance, with 67 per cent of KPIs not met in 2023/24, reflecting stagnation in key economic initiatives and a need for focused attention.
- Despite some improvements, SO4: (Provide Excellent and Sustainable Services) remains an underperforming area. Key challenges include underspending on stormwater upgrades and human settlement-related projects, as well as infrastructure backlogs.
- Performance under SO1: (Build a Capable, Well-Resourced Institution) has declined from full achievement in 2022/23 to a moderate performance of 29 per cent in 2023/24. Institutional capacity and procurement inefficiencies were cited as key impediments to performance across multiple SOs in the 2024/25 Time Report.

2.2.2 Recommendations

It is recommended that the Municipality:

- Establish an integrated economic recovery and tourism task team to fast-track stalled/delayed initiatives and unlock local tourism potential;
- Implement a real-time infrastructure delivery tracker, focusing on budget utilisation and physical progress milestones;
- Undertake a comprehensive skills audit to identify gaps in technical, managerial, and financial capabilities across departments. Prioritise the filling of critical vacancies and strengthen human resource development plans; and
- Address the issues raised by sector departments in 2.1.2 of this report, dealing with IDP alignment.

2.3 ENVIRONMENTAL AND PLANNING ANALYSIS

2.3.1 Spatial Planning

MSDF Performance Review

In terms of sections 34(a)(1) and 41(1)(c) of the MSA, a performance review of the IDP and Municipal Spatial Development Framework (MSDF) must be conducted at least annually. This process enables the municipality to assess progress in implementing the MSDF, which is a core component of the IDP.

From page 76 onwards, the draft IDP section titled *"Economic Development and Planning"* provides a useful and pragmatic reflection on the municipality's achievements, projects, and actions related to spatial planning and land use management. This assessment is a valuable input for advancing the MSDF.

It is noted, however, that the **incorrect version** of the Bitou MSDF proposals map (Figure 56) appears on page 162 of the IDP. The municipality is requested to replace this with the correct version provided by the Spatial Planner, as submitted in response to the MSA section 32(2) adjustment request from the Provincial Minister of Local Government, Environmental Affairs and Development Planning.

The MSDF includes a *List of Priority Projects* intended for implementation and which should be reflected in the relevant objectives, strategies, and projects of the IDP, and prioritised through the municipal budgeting process.

Furthermore, the MSDF highlights the importance of aligning sectoral plans—such as the Water Master Plan, Roads Master Plan, Integrated Transport Plan, and Electricity Master Plan—with its spatial directives and growth projections during reviews or updates. This supports the horizontal alignment of planning instruments.

Lastly, the MSDF recommends that the Finance Department conduct an annual assessment of capital expenditure to determine whether the majority of funds are being allocated within the MSDF's priority focus areas—namely, development corridors, activity nodes, and Strategic Development Areas. This serves as a mechanism to monitor and enhance alignment between spatial priorities and budgetary allocations.

2.3.2 The Municipality's Response to Strategic Pressures and Risks

Capital Expenditure Framework

The Bitou **Municipal Spatial Development Framework (MSDF, 2022)** presents a clear and well-articulated spatial vision for the municipality. It identifies **Strategic Development Areas (SDAs)** (refer to Table 33) and a **List of Priority Projects** (Table 35), elements of which are partially reflected in the draft Integrated Development Plan (IDP). Selected projects are also listed on page 169 of the draft IDP.

Although the MSDF includes a section titled *"Capital Investment Framework"*, it does not meet the methodological requirements for a fully developed Capital Expenditure Framework (CEF) that provides a 10-year prioritised portfolio of capital investments aligned with the Long-Term Financial Plan (LTFP) and engineering master plans. It is therefore strongly recommended that the municipality develop a CEF.

The draft IDP outlines a total capital budget of **R178 million for 2025/26, R174 million for 2026/27, and R154 million for 2027/28**. The 2025/26 capital programme focuses on infrastructure maintenance and key upgrades to support development and housing delivery. Major allocations include:

- R9.9 million for the High Street upgrade
- R13 million for road construction in Ebenezer (supporting housing development)

- R16 million for the Kurland Wastewater Treatment Works
- R17 million for the Kurland Water Treatment Works
- R12 million for Brakkloof Electrification Works
- R10 million for the Natures Valley Reservoir upgrade
- R9 million for sewer reticulation in Ebenezer

The Municipality is to be commended for its growth-oriented and infrastructure-focused capital programme, which clearly aims to address service delivery backlogs and support strategic development.

However, it remains unclear to what extent these capital investments are spatially aligned with the MSDF's priorities, as there is no CEF in place. A spatial analysis that overlays capital budget allocations with the MSDF's spatial proposals and priority areas (and CEF, once developed) would enhance transparency and support more effective stakeholder **engagement**, including with the public and intergovernmental partners.

A notable omission from the 2025/26 capital investment plan is infrastructure funding for **Ladywood**, a key integration zone identified in the MSDF. While the finalisation of the **Ladywood Local Spatial Development Framework (LSDF)** is acknowledged, it will be essential to proactively align capital planning with the emerging LSDF outcomes to ensure readiness for phased infrastructure delivery.

It is critically important that the municipality prioritizes the development of a CEF that can be used as key informants to the IDP and annual capital budget, for the following reasons:

- A Capital Expenditure Framework provides a strategic roadmap for allocating financial resources to priority infrastructure projects and investments based on the municipality's development objectives and spatial planning priorities. Without such a framework, resource allocation decisions may lack coherence and strategic direction, leading to ad-hoc investments that fail to address the municipality's most pressing infrastructure needs or support its long-term development goals.
- A prioritized portfolio of capital investments allows the municipality to focus resources on projects that deliver the greatest impact in terms of improving service delivery, promoting socio-economic development, and enhancing quality of life for residents.
- A Capital Expenditure Framework (CEF) enables the municipality to align their infrastructure investment decisions with available financial resources, budgetary constraints, and long-term funding commitments.
- Developing a CEF allows the municipality to integrate sustainability considerations, resilience planning, and climate change adaptation measures into infrastructure investment decisions.
- The CEF ultimately results in the development of a tool that can be used to ensure that the municipality develops and adopts a plan-led budget.

Inclusionary Housing Policy

- The draft IDP amendment does not explicitly reference the **Bitou Housing Market Study (HMS)**, nor does it reflect the valuable data generated through this study regarding housing supply and demand in Plettenberg Bay. It is therefore recommended that the Bitou Municipality:
  - **Incorporate the findings of the Bitou HMS** into the IDP and relevant sector plans, and

- **Consider developing an Inclusionary Housing Policy**, guided by the Western Cape Inclusionary Housing Policy Framework (WCIHPF) and informed by the Housing Market Studies undertaken for Bitou Municipality.

The development of an Inclusionary Housing Policy should follow a structured, evidence-based process that promotes affordability while mitigating unintended consequences, as set out in the WCIHPF. This process includes:

- Conducting a **Housing Market Study** to identify affordability gaps and appropriate target groups;
- Undertaking an **Economic and Financial Feasibility Study** to determine viable developer contribution thresholds, based on land use value; and
- Using the **MSDF** to spatially identify where inclusionary housing interventions should be applied. (This could be addressed through an MSDF amendment.)

Once this foundation is in place, the policy should:

- Clearly define the target beneficiaries;
- Outline delivery mechanisms (e.g. on-site, off-site, or in-lieu contributions);
- Ensure long-term affordability through effective monitoring and enforcement mechanisms.

Incremental Upgrading of Informal Settlements:

Section 21(k) of SPLUMA states that:

> *"A MSDF must: identify the designation of areas in the municipality where incremental upgrading approaches to development and regulation will be applicable"*

The Bitou MSDF complies with this requirement. It delineates areas for incremental upgrading under the section on *"Transitional Zones,"* specifically noting the intention to provide a dedicated Residential Use Zone for Category B informal settlements. These areas are intended for incremental upgrading in line with the Upgrading of Informal Settlements Programme (UISP), with the provision of interim basic services.

The MSDF implicitly supports the suitability of these zones for incremental upgrading by linking them to UISP and basic service provision, thereby providing a clear spatial directive for informal settlement interventions.

The IDP reflects ongoing implementation of basic services in informal settlements. Under the *"Basic Service Delivery"* section, it affirms the constitutional right to access adequate housing, including essential services such as potable water, sanitation, energy, and refuse removal. The IDP notes that in some instances, service access in informal areas surpasses access to formal housing, with high percentages of households receiving piped water, flush or chemical toilets, and electricity.

The IDP also references IRDP/UISP projects across various wards, including Kwanokuthula and Ebenezer, indicating active implementation of informal settlement upgrading.

Specific infrastructure interventions targeting informal settlements are highlighted. For example, in Ward 3 (Qolweni, Bossiesgif, Pinetrees), the IDP identifies significant underdevelopment and a high percentage of informal dwellings. It prioritises service delivery to the poorest areas, with targeted investment in water and wastewater infrastructure.

In terms of budgeting, the draft IDP allocates substantial funding to *"Human Settlements"* projects, many of which are expected to support basic service provision in informal areas. The IDP further confirms that a

significant portion of the capital budget is dedicated to community upliftment, with human settlements infrastructure receiving the largest share.

Waste Management

The operating waste management facilities of Bitou Municipality include the Bitou IWMF (72.59 per cent) and Ganse Vallei DOF (no data available). Bitou falls within a partially compliant status.

The Municipality undertook the rehabilitation of the Plettenberg Bay Robberg WDF and is currently using the Bitou IWMF and the Ganse Vallei DOF for all waste. The waste is then transported to the Petro SA Facility in Mossel Bay. The Municipality will use the regional facility upon its completion in 2025/ 2026.

Ecological Infrastructure

Ecological Infrastructure (EI) entails naturally functioning ecosystems that provide services to people and the economy and plays a vital role in municipal service delivery across the Western Cape. It supports reliable, good-quality raw water supply and contributes to disaster risk reduction, especially in terms of wildfires and flooding (inland and coastal).

To guide municipalities in investing in EI, the Western Cape Government developed the **Western Cape Ecological Infrastructure Investment Framework**. This framework highlights EI's potential to lower service delivery costs and enhance community well-being. Municipalities are encouraged to integrate EI into their service delivery planning, using one or more of the following approaches:

- **Collaboration & Participation**: Many municipalities support landscape initiatives aimed at reducing environmental risks (e.g., Boland Groot Winterhoek Collective, Outeniqua to Tsitsikamma Water Working Group) where important EI is identified and a "whole of society" approach to safeguarding or improving this EI is refined, often with real benefits to municipalities.
- **Identification & Planning**: Some municipalities have mapped key EI areas and developed investment plans, which can attract external funding and boost service delivery effectiveness.
- **Direct Investment**: Others are directly funding EI projects—for example, to secure water supply or reduce flood risks—often in partnership with the private sector for co-investment.

Guiding materials and examples are available from the Department of Environmental Affairs and Development Planning. Municipalities are urged to tailor EI investment to their local context as a complementary strategy to enhance service delivery and human wellbeing within their administrative domains.

2.3.3 Key Findings and Recommendations

In light of the above, the following key recommendations are proposed to guide Bitou Municipality in taking forward the implementation of its spatial vision and strategic priorities:

- **Establish Annual MSDF Performance Reviews**
  - Conduct annual reviews in line with Sections 34 and 41 of the MSA, evaluating progress against spatial development goals and infrastructure priorities.
  - Use findings to guide IDP updates and refine implementation strategies, with the next review due in 2026/27.
  - **Urgent Ask:** Ensure the correct MSDF Proposals Map (Figure 56) is included in the IDP to support accurate monitoring and public communication.

- **Develop a Robust Capital Expenditure Framework**
    - Upgrade the existing Capital Investment Framework to a 10-year Capital CEF aligned to MSDF priority areas (corridors, nodes, SDAs) and the Long-Term Financial Plan (LTFP).
    - Establish an internal Capital Planning Forum to coordinate cross-departmental alignment and integrate the CEF into budget steering committee processes.
    - Conduct a spatial analysis overlay to track and communicate budget alignment with MSDF spatial directives.
- **Develop an Inclusionary Housing Policy and ensure the MSDF is "Inclusionary Housing Policy ready"**
    - Undertaking foundational studies including:
        - A Housing Market Study (already completed)
        - An Economic/Financial Feasibility Assessment
        - Define policy parameters (target income groups, delivery mechanisms, developer contributions/incentives).
        - Integrate the policy into the MSDF, Planning By-law, and infrastructure and capital planning systems.
- **Integrate Local Spatial Development Frameworks (LSDFs) into Capital Planning**
    - Use the near-final Ladywood LSDF to
    - Identify infrastructure priorities.
    - Begin phased planning and budgeting in FY 2026/27.
    - Ringfence funding for catalytic infrastructure investments required to unlock development potential in Ladywood as a key integration zone.
- The Municipality must designate a WMO and forward the council resolution to the Department. A budget for waste management must be included in the SDBIP. The Municipality must put waste management systems in place to improve refuse collection to all unserviced areas including informal settlements. They must report on the implementation of the IWMP in their annual report and submit the report to DEA&DP for assessment.

SECTION 3: ECONOMIC and FINANCIAL SUSTAINABILITY

3.1 INTRODUCTION

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

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

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

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

3.2 SUSTAINABLE ECONOMIC DEVELOPMENT

Table 1 Strategic Objectives for the 2025/26 Medium Term Revenue & Expenditure Framework

Strategic Objective	2025/26 Medium Term Revenue & Expenditure Framework OPEX				2025/26 Medium Term Revenue & Expenditure Framework CAPEX			
R thousand	Budget Year 2025/26	Budget Year 2026/27	Budget Year 2027/28	Average Annual Growth	Budget Year 2025/26	Budget Year 2026/27	Budget Year 2027/28	Average Annual Growth
Provide excellent and sustainable services to all residents	748 622	781 640	815 719	4.4%	175 857	173 838	154 225	-6.4%
Facilitate growth and expend economic opportunities to empower communities	80 135	68 466	63 173	-11.2%	-	-	-	0.0%
Achieve long termfinancial sustainability	70 594	67 658	68 026	-1.8%	-	-	-	0.0%
Build a capable, developmental, transformed and productive workforce	108 895	119 484	124 325	6.9%	2 584	1 106	746	0.0%
Adhere to and implement effective and efficient governance processes	53 946	52 781	54 490	0.5%	-	-	-	0.0%
Total Expenditure	**1 062 192**	**1 090 028**	**1 125 734**	**2.9%**	**178 441**	**174 944**	**154 971**	**-6.8%**

Source: Bitou Municipality, A-Schedules

- The Municipality's decision to allocate over 70.4 per cent of its operational budget to the Strategic Objective, "*Provide excellent and sustainable services to all residents*" underscores a strong commitment to its core developmental priorities. This substantial investment reflects a focused effort to address fundamental service areas, including water supply, sanitation and sewerage systems, household electricity and lighting, road infrastructure, and solid waste management. By concentrating resources on these essential services, the Municipality not only aims to enhance the daily lives of residents but also to ensure the long-term sustainability and resilience of its service delivery systems.
- A further 10.3 per cent of the operating budget is allocated to the Strategic Objective: "*Build a capable, developmental, transformed and productive workforce*". This strategy aims to deliver on outputs such as per cent of people employed from employment target groups, per cent of the operational budget spent on training, etc. The strategic objective aims to ensure the organization has a skilled, diverse, and high-performing workforce. The associated outputs focus on both **transformational equity** (through inclusive hiring practices) and **capacity building** (through training

investment). Together, they support a long-term vision of sustainable service delivery through empowered human capital.

- The third major operating budget allocation, 7.5 per cent, is dedicated to "Facilitate growth and expend economic opportunities to empower communities" which focus on Reviewing of the LED strategy, creating 330 job opportunities, review of the housing pipeline, submission of the SDF to Council, submitting a Growth and Development Implementation Plan to Council. This objective prioritizes inclusive local economic development (LED) by promoting job creation, spatial planning, and community upliftment. The focus is on enabling an environment where economic growth translates into tangible benefits for historically marginalized or underdeveloped communities.
- The top priorities of the capital budget are: *Provide excellent and sustainable services to all residents* (98.5 per cent) and *Build a capable, developmental, transformed and productive workforce* (1.4 per cent) which focuses on basic services and a productive workforce. The capital budget allocations reflect a strategic approach to municipal development, balancing immediate infrastructure needs with long-term human capital investment. While most funds are directed towards enhancing essential services, the targeted investment in workforce development is crucial for sustaining economic growth and addressing unemployment.
- Both the operating and capital budgets are declining in real terms over the MTREF when adjusted for inflation, which may hold negative implications for the Municipality's purchasing power, maintenance of infrastructure and investments, etc.

3.3 REVENUE AND EXPENDITURE ANALYSIS AND RISKS

3.3.1 Budget Overview

Table 2 Budget overview for the 2025/26 MTREF Budget

Bitou	MEDIUM TERM REVENUE					
Description R thousand	2025/26 Budget Year +0	2025/26 Treasury Calculation	2026/27 Budget Year +1	2026/27 Treasury Calculation	2027/28 Budget Year +2	2027/28 Treasury Calculation
Total Operating Revenue (excluding capital transfers and contributions)	**1 067 974**	**1 067 974**	**1 099 214**	**1 099 214**	**1 146 596**	**1 146 596**
Total Operating Expenditure	**1 062 192**	**807 673**	**1 090 028**	**814 564**	**1 125 734**	**829 912**
Surplus/(Deficit)	**5 782**	**260 301**	**9 185**	**284 649**	**20 862**	**316 683**
Non Cash Items						
Depreciation & asset impairment	**42 228**	42 228	**43 706**	43 706	**45 932**	45 932
A4: Total Operating Budget Restated Result	**48 009**	**302 529**	**52 891**	**328 355**	**66 793**	**362 615**
A5: Total Capital Expenditure	**178 441**	**178 441**	**174 944**	**175 053**	**154 971**	**155 085**
Funded by:						
Transfers recognised - capital	**63 190**	63 190	**54 844**	54 953	**71 443**	71 557
Borrowing	**87 121**	**87 121**	**74 808**	**74 808**	**43 400**	**43 400**
Internally generated funds	**28 130**	**28 130**	**45 292**	**45 292**	**40 128**	**40 128**
A7 - Cash/cash equivalents at the year end:	**117 530**	**67 433**	**98 895**	**3 958**	**123 883**	**(43 539)**
A8 - Surplus / (shortfall) after application of cash and investments	**42 627**	**369 393**	**76 462**	**590 764**	**90 774**	**846 860**
BUDGET FUNDING POSITION	**FUNDED**	**FUNDED**	**FUNDED**	**FUNDED**	**FUNDED**	**FUNDED**

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

- The Bitou Municipality has tabled a **funded** budget for the 2025/26 MTREF period, in accordance with section 18 and 19 of the Municipal Finance Management Act (MFMA). This is substantiated by the positive surplus following the application of cash and investments, as reflected in Table A8. The funding position remains positive across all three years, confirming that the budget is fully funded throughout the MTREF period.
- The 2025/26 Medium Term Revenue and Expenditure Framework (MTREF) budget has been developed with careful consideration of the current year's budget performance, the prevailing economic environment, and historical trends in revenue generation and expenditure. These factors serve as a baseline to evaluate the impact on the outer years of the budget, focusing on the credibility, sustainability, and funding adequacy of the 2025/26 MTREF, while also identifying emerging risks to cash flow, liquidity, and service delivery execution capacity.
- The Operating revenue budget is projected to increase by 8.2 per cent from the adjusted budget of R986.88 million to R1.07 billion in the 2025/26 financial year. This significant growth is largely driven by above-inflation increases in key revenue sources, including electricity (11.6 per cent), water (10.3 per cent), property rates (10 per cent), and transfers and subsidies - operational (12.3 per cent). These increases reflect the Municipality's efforts to enhance its revenue base through tariff adjustments. However, the outer years of the MTREF reflect a declining growth trajectory, with revenue projected to increase by only 2.9 per cent in 2026/27 and 4.3 per cent in 2027/28. This slowdown raises concerns about the long-term sustainability of the revenue growth path.
- The Municipality has projected to increase its operating expenditure budget from R983.61 million in 2024/25 to R1.06 billion in 2025/26, R1.09 billion in 2026/27 and R1.13 billion in 2027/28. This represents a fluctuation in year-on-year expenditure growth of 8 per cent in 2025/26, 2.6 per cent in 2026/27 and 3.3 per cent in 2027/28 respectively. The trajectory of operating expenditure growth remains largely in line with the projected revenue path, suggesting a balanced budget structure. However, the Municipality's historical financial performance, as evidenced by the last three audited years, presents an inconsistent trend underscoring the importance of cautious fiscal planning. While the 2025/26 budget includes a projected operating surplus of R5.78 million, the ability to achieve this target will depend on disciplined execution, especially considering past performance variability.
- The capital budget indicates a strong reliance on debt financing in the short term. Borrowings peak at R87.12 million in 2025/26, gradually declining to R43.40 million by 2027/28. This pattern suggests a front-loaded capital investment strategy, aimed at addressing infrastructure backlogs or implementing catalytic economic development projects. In contrast, internally generated funds reflect a steady upward trend from R28.13 million in 2025/26 to R40.13 million in 2027/28. While the 2025/26 borrowing to internal funding ratio is high (roughly 3:1), the narrowing gap by the outer years of the MTREF indicates a shift toward a more self-funded approach. This gradual reduction in debt dependency is a positive signal of intent to build fiscal resilience and increase the Municipality's long-term financial sustainability.
- Revenue collection performance over recent years has shown both strengths and areas for improvement. Property rates collections have remained consistently strong at over 97 per cent, while collections on service charges improved significantly, from 78.3 per cent to 85 per cent between 2021/22 and 2023/24. Collections from fines and forfeits, although starting from a relatively low base, increased from 17.3 per cent to 26.1 per cent over the same period. Other operational revenue collections have remained stable, consistently above 85 per cent. Despite these positive trends, the year-to-date collection rate as at 31 March 2025 stands at 90 per cent, which is below the 95 per cent benchmark set by National Treasury. Furthermore, the cash flow projections included in the municipality's supporting schedules for the 2025/26–2027/28 period assume collection rates exceeding 100 per cent across key revenue streams. These assumptions are overly optimistic, as they do not reflect

historical performance or current collection trends, and they also deviate from the municipality's own stated goal in the budget document of achieving a 90 per cent collection rate. The Municipality is therefore encouraged to revise its revenue collection assumptions in the final budget to align more closely with actual performance. This adjustment will enhance the credibility and reliability of its cash flow forecasts, supporting more effective financial planning and decision-making.

- WCPT commend the Municipality for its continued commitment to the execution of the Voluntary Financial Recovery Plan, and the tangible progress made in implementing robust revenue collection strategies. These efforts reflect a responsible and proactive approach to financial governance. The inclusion of repayment incentives and customer care initiatives further demonstrates a people-centered approach, ensuring that financial sustainability is pursued without neglecting community inclusion. We encourage the Municipality to remain steadfast over the MTREF period, upholding its focus on operational efficiency, revenue enhancement, cost containment, and austerity measures. These strategies are essential to safeguarding the Municipality's financial health and ensuring the continued delivery of quality services to all residents. It is critical that momentum is maintained and that accountability and transparency remain at the forefront throughout this implementation period.

- Discrepancies have been observed between the data strings submitted and the corresponding budget schedules, particularly within the A7 and A8 supporting tables. These inconsistencies must be rectified prior to the final adoption of the budget to ensure complete alignment between the Municipality's financial system and its reporting outputs. Failure to address these variances may compromise the credibility of financial reporting and hinder the Municipality's ability to meet its statutory compliance requirements.

- Furthermore, the audited financial performance figures reflected in the A8 data strings for the past three financial years reveal an inconsistent trend, indicating periods where Bitou Municipality reported budget shortfalls or unfunded budgets. Notably, although a funded budget was adopted for the 2024/25 financial year, the data strings suggest that the budget was in fact unfunded. For the 2025/26 financial year, the Municipality has budgeted for an operating surplus of R5.78 million, with a gradual improvement projected over the remainder of the MTREF period. This positive trajectory is encouraging, but consistency between budget documentation and supporting data remains essential.

- The implementation of the Administrative Adjudication of Road Traffic Offences (AARTO) legislation continues to face delays. Despite a 2023 Constitutional Court ruling dismissing any further appeals against the legality of the legislation, there has been no recent update from the Department of Transport regarding the anticipated roll-out for the 2025/26 municipal financial year. While it is understandable that most tabled municipal budgets would not yet make specific allocations for AARTO-related requirements, the proclamation of the AARTO amendment Act remains imminent, and municipalities must plan accordingly. As such, the Municipality is advised to acknowledge AARTO as a strategic and operational risk in both the IDP and budget documentation. The Provincial Treasury will use the upcoming SIME process to engage the Municipality on its readiness to implement the legislation and to mitigate the associated risks relating to potential revenue losses and additional operational requirements.

- The Western Cape Public Library Services Bill is planned to be enacted in time for the library service function to be assigned to your municipality by agreement by 1 July 2025. Accepting the assignment of the function will allow the municipality to budget for payments from the province for library services as grant funds that are zero-rated for VAT. The Municipality should therefore clearly indicate its intention to agree to the assignment of the function in its adopted budget if it intends to budget for these payments as grant funds (and not budget to pay VAT on them).

- The Municipality projected a positive cash and cash equivalents throughout the MTREF financial years of R117.53 million, R98.90 million and R123.88 million for 2025/26, 2026/27 and 2027/28 respectively. The municipality is demonstrating that it has adequate cash resources to meet its monthly fixed operating commitments from cash. The closing cash and cash equivalents on the A7 reconcile with the A8.

- The analysis of Table A6 (Budgeted Financial Position) projects that the Municipality will realize a positive working capital over the MTREF period, indicating that the Municipality will have sufficient funds to meet its short-term liabilities, and will be able to sustain its financial position. The positive cash and cash equivalents on the Table A6 and positive closing cash and cash equivalents on the Table A7 is not reconciling. This may distort the true reflection of the working capital on the Table A6.

- The Municipality has taken into consideration the required applications to the reported cash and cash equivalents reflected in the Table A8. Please note that any omission or non-commitments would provide a distorted view of the net surplus or shortfall cash position of the municipality. The A8 reflects a surplus, and despite this, the municipality may be exposed to liquidity risks.

- The Municipality projects a cost coverage ratio of 2.19 times, (2025/26) 1.88 times (2026/27) and 2.17 times (2026/27) over the MTREF period, demonstrating that the Municipality has sufficient cash resources to meet its monthly fixed operating commitments from cash. The anticipated cash coverage ratio is within the NT norm of 1 - 3 months.

- The projected liquidity ratios are reported to be 0.26:1 (2025/26), 0.271:1 (2026/27), and 0.35;1 (2026/27) over the MTREF period. The Municipality is anticipating that it may not have adequate financial resources to settle its short-term debts when it is due and is exposed to liquidity risks. This indicates that the Municipality must convert its outstanding debtors to cash to have adequate financial resources based on the ratio. The cash and cash equivalents will have to be supplemented to settle its short-term obligations as they become due.

- Property rates of R193.05 million reported on the 2025/26 budgeted monthly cash flow statement (SA30) compared to R212.58 million in the Budgeted Financial Performance (A4), reflecting a 91 per cent collection rate and is realistic.

- Service charges of R484.81 million reported on the 2025/26 budgeted monthly cash flow statement (SA30) compared to R524.16 million in the Budgeted Financial Performance (A4), reflecting a 93 per cent collection rate and is realistic. While this may improve short-term cash flow, it is important to evaluate the sustainability of these collections to ensure it does not distort the Municipality's financial position.

- Disclaimer: The tabled Budget referring to the A7 projected a positive cash and cash equivalents throughout the MTREF financial years of R104.97 million, R51.15 million and R9.60 million for 2025/26, 2026/27 and 2027/28 respectively. It should be noted that the tabled budget, Datastrings and funding tool do not reconcile.

3.4 TRADING SERVICES

3.4.1 Outcomes of the Cost Reflective Tool

- As stipulated in the NT MFMA Circular No. 130 (19 March 2025) as part of the budget process, the municipality must annually undertake an assessment to determine if the intended / implemented tariffs are cost reflective, whether all critical cost components were considered in the tariff calculation(s), whether the Local Government Equitable Share component relating to basic services were allocated to the actual service(s) and to demonstrate that the Revenue Component of the budget is credible and funded; etc. To facilitate this exercise, the municipality must complete and submit this calculation(s)/ tariff assessment in the format of the National Treasury Tariff Tool as part of its tabled, adopted and adjustment MTREF submissions to the National Treasury GoMuni portal. The Cost Reflective Tariff Tool outcomes must also be reported to and approved by Council as part of the respective tabled and adopted MTREF submissions. If the Tariff Tool indicates significant tariff shortfalls, any major tariff increases should be phased-in over two to three years and can be approved for the outer years (2026/27, 2027/28 and 2028/29).

- Bitou Municipality has not complied in this regard. However, Provincial Treasury has taken the initiative to input the municipal budgetary information into the NT Cost Reflective Tariff Model and the aforementioned tariff cost reflective information download has been generated:

Table 3 Outcome of the Cost Reflective Tool

		Western Cape		Bitou			WC047	
Tariff Assessments for the MTREF Period								
Financial Year	Period	Item	Water	Waste Water	Electricity	Solid Waste	Total Surplus/Deficit	
2025/26 Tabled Budget	Year1	Revenue Required by NT Tariff Tool	61 594 430	53 073 853	354 475 633	56 687 251	525 831 168	Year 1
		Revenue Budgeted	101 466 087	80 728 986	289 114 181	52 852 109	524 161 363	
		Shortfall/Excess	39 871 657	27 655 133	- 65 361 452	- 3 835 142	- 1 669 805	
Assessment Outcome per Service			Cost Reflective	Cost Reflective	Not Cost Reflective	Not Cost Reflective	Not Cost Reflective	
2025/26 Indicative Tabled Budget 2026/27	Year2	Revenue Required by NT Tariff Tool	67 988 464	56 126 473	374 624 829	57 540 049	556 279 815	Year 2
		Revenue Budgeted	106 931 349	85 107 884	299 926 117	55 709 671	547 675 021	
		Surplus /Deficit	38 942 885	28 981 411	- 74 698 712	- 1 830 378	- 8 604 794	
Assessment Outcome per Service			Cost Reflective	Cost Reflective	Not Cost Reflective	Not Cost Reflective	Not Cost Reflective	
2025/26 Indicative Tabled Budget 2027/28	Year3	Revenue Required by NT Tariff Tool	71 403 819	46 392 952	409 900 993	59 070 216	586 767 980	Year 3
		Revenue Budgeted	112 673 689	89 651 170	313 714 674	58 716 845	574 756 378	
		Surplus /Deficit	41 269 870	43 258 218	- 96 186 319	- 353 371	- 12 011 602	
Assessment Outcome per Service			Cost Reflective	Cost Reflective	Not Cost Reflective	Not Cost Reflective	Not Cost Reflective	

Source: Provincial Treasury

- Based on an analysis of the NT Cost Reflective Tool outcomes and information drawdown, the following pertinent points are highlighted:

  - Water Services: This service is 'cost reflective' over the 2025 MTREF period, factoring in the surplus or excess figures equating to R39.9 million for the 2025/26 financial year as well as R38.9 million and R41.3 million for the outer years.

  - Waste Water/Sanitation Service: Reflects a 'cost reflective' status, factoring in the R27.7 million for the 2025/26 financial year as well as R29 million and R43 million surplus or excess for the outer years respectively.

  - Electricity Service: Reflects a 'not cost reflective' status considering the shortfall or deficit of R65 million for the 2025/26 financial year as well as R74.7 million and R96 million over the outer years. The pattern worth highlighting, is the increasing quantum of the deficit or shortfall value over the 2025 MTREF. In particular the exponential growth quantum of the deficit or shortfall as reflected for the 2026/27 to the 2027/28 financial years which essentially doubles in quantum (R21 million); when comparing the deficit or shortfall for the 2025/26 to the 2026/27 financial years (R9.3 million).

  - The updating of the Cost of Supply (COS) study in relation to electricity provisioning as well as associated final proposed tariffs which is still underway. The Municipality highlights that the tariffs contained in the COS tariff listing are yet to be finalised, at present serving as an indicative tariff increase bearing in mind the base year of the CoS Study being 2023/2024.

  - Solid Waste Service: Reflects a 'not cost reflective' status. Importantly despite the latter status, the deficit or shortfall manifest, a decreasing trend is manifested over the 2025 MTREF from the amount of R3.8 million for the 2025/26 financial year, R1.8 million for the 2026/27 financial year to R353 371 for the 2027/28 financial year.

  - The results reflect that on aggregate the Municipality's services are classified as 'not cost reflective' over the 2025 MTREF, despite the Water and Wastewater Services being classified as cost reflective. The results reflect an increasing deficit/ shortfall trend, ranging from R1.7 million deficit/ shortfall for the 2025/26 financial year, R8.6 million deficit or shortfall for 2026/27 to R12 million increase for the 2027/28 financial year.

- As per the findings identified within the Municipal Oversight Report on the Annual Report 2023/24, the following high-risk areas which threaten the medium to long term financial sustainability of the municipality, namely the increasing consumer debt balance, the major water losses, the electricity losses, the unspent capital grants and the excessive overtime payments.

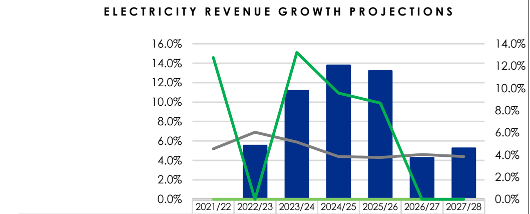
- Provincial Treasury reiterates the commitment by National Treasury to facilitate follow-up training during the financial year, supported by Provincial Treasury in conjunction with the MFIP advisors. It is recognised that the NT Cost Reflective Tariff Tool or Model could provide an additional platform to assess the budget assumptions and the application of balanced budgeting, including the optimal use of the mSCOA segments and alignment (especially the costing segment) as well as facilitating progress against the Financial Recovery Plan. The baseline information with particular reference to budget deficit, break-even and surplus, facilitates municipal decision-making and in particular the cross-subsidisation process.

- With specific reference to electricity service provisioning, it is important to note that the NT MFMA Circular No. 130 states that Municipalities are to demonstrate in their MTREF submissions that a percentage of the revenue from the Energy function, is ring-fenced. This financial practice is to ensure the funding of the municipal Electricity Revenue Protection Program operational needs and the successful implementation of the programme.

3.4.2 Energy Services

3.4.2.1 Energy Services Credibility and Sustainability

Figure 1 Energy trading service trends



	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Service Charges: Electricity Growth %		4.8%	9.8%	12.1%	11.6%	3.7%	4.6%
Inflation	5.2%	6.9%	5.9%	4.4%	4.3%	4.6%	4.4%
Service Charges: Electricity Consumption Growth	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Service Charges: Electricity Tariff Increase	14.6%	0.0%	15.1%	10.9%	9.9%	0.0%	0.0%

Cost Recovery	Direct and Indirect	2025/26	2026/27	2027/28
	Revenue Required	R55 943 210	R45 939 077	R52 796 771
	Revenue	R289 114 181	R299 926 117	R313 714 674
	Surplus/Deficit	R233 170 971	R253 987 040	R260 917 903

Source: A1 schedules

2025/26 Tariffs	Basic Charge	Basic Charge (WC Avg)	Tariff Increase (Mun)	Tariff Increase (WC Avg)
Business	R920.20	R781.95	9.90%	11.50%
Households	R479.80	R313.72	9.90%	11.50%

Source: Municipal Budget Assumptions

Basic Service Delivery	Number of Households (LGES)	Operational Cost of Electricity Services (R'000)		
		2025/26	2026/27	2027/28
Indigent (A10,SA1)	17 605 940	R7 603	R8 356	R9 183
Indigent (LGES)	17 565	R61 268	R65 067	R68 009

Source: A1 schedules

Source: NT GoMun 2025/26 Draft Budget

- Electricity continues to be a critical source of revenue for Bitou Municipality, accounting for approximately 27.1 per cent of the total operating revenue projected for the 2025/26 financial year. The Municipality anticipates electricity income of R289.11 million, representing an 11.6 per cent increase compared to the R259.14 million reflected in the 2024/25 adjusted budget. This anticipated growth is primarily attributed to the implementation of a 9.9 per cent tariff increase, which remains marginally below the 11.32 per cent increase in bulk supply costs from Eskom and is informed by the indicative based on the basis year of the cost of supply study being 2023/2024 and will be updated once the current cost of supply study has been finalised. While this approach reflects the Municipality's commitment to maintaining the sustainability of the electricity trading account, the financial benefit is somewhat constrained by the corresponding rise in bulk electricity purchase costs. As a result, the operating surplus within this service remains under pressure due to a limited cost recovery margin.

- The proposed domestic basic charge of R479.80 per month positions Bitou Municipality significantly above the Western Cape average of R313.72 for comparable municipalities. While the proposed tariff increase of 9.9 per cent remains below the provincial average of 11.5 per cent, the elevated basic charge raises concerns regarding affordability, particularly for lower-income households. Although the Municipality appears to be pursuing a cost-reflective pricing model, the potential socio-economic impact of such a substantial fixed charge on vulnerable consumers should not be overlooked. It is recommended that this aspect be closely monitored and re-evaluated in future tariff cycles to ensure a more equitable balance between financial sustainability and social affordability.

- Electricity distribution losses within Bitou Municipality have demonstrated a significant and commendable downward trajectory over the past three financial years. According to the audited Annual Financial Statements (AFS), losses have decreased from 15.3 per cent in 2021/22 to 9.3 per cent in 2022/23, and further to 6.2 per cent in 2023/24—placing the Municipality below the National Treasury's acceptable benchmark range of 7 per cent to 10 per cent. This substantial improvement can likely be attributed to the continued rollout of smart metering infrastructure and targeted efforts to mitigate illegal connections and technical inefficiencies.

- While this progress is praiseworthy, it is noteworthy that the Municipality has not yet made budgetary provision for the establishment or operationalisation of a dedicated Electricity Revenue Protection Unit, as recommended in MFMA Circular 130. The circular highlights the importance of prioritising funding

for revenue protection measures, particularly in light of increasing non-technical losses such as electricity theft and meter tampering, which continue to pose significant risks to municipal revenues and cash flow stability. Moreover, the absence of a clearly defined and adequately resourced Revenue Protection Programme aligned with the NRS055 standard may present challenges in maintaining the current momentum of loss reduction. To ensure the sustainability of these gains and to further reduce non-technical losses, it is recommended that the Municipality considers earmarking a portion of revenue generated from the electricity function in its 2025/26 MTREF. This funding should be directed towards establishing a fully functional Revenue Protection Unit, adequately staffed, resourced, and overseen by the Electricity Infrastructure Directorate.

- Although the electricity trading service reflects an apparent surplus—with total projected revenue of R289.11 million exceeding the required revenue of R55.94 million by R233.17 million—caution should be exercised in interpreting this figure. The reliability of the reported surplus may be affected by several variables, including actual consumption patterns, technical losses, and potential billing inaccuracies, all of which could lead to an overestimation of revenue. The budget document indicates that the Municipality currently assumes a revenue collection rate of 90 per cent of annual billing, with a corresponding assumption that cash flow will also reflect 90 pr cent of billing. However, a comparison of billing figures in Table A4 and revenue collection in Table A7 of the data strings reveals that the Municipality anticipates a 95 per cent collection rate. This discrepancy highlights the need for a more cautious and realistic estimation approach. Adopting a conservative collection forecast would enhance the credibility of the electricity trading service's financial projections and reduce the risk of overstating expected receipts.

- Lastly, the municipality's indigent policy reflects a commitment to supporting vulnerable households through the provision of Free Basic Electricity (FBE). The policy caters for 7 602 indigent households which is significantly below the 17,565 households supported through the Division of Revenue Act (DORA) grant. This significant mismatch may result in unfunded mandates and increased pressure on the electricity, particularly in the context of escalating input costs. To protect the municipality's financial position, it is essential that the indigent policy is regularly reviewed and aligned with actual grant allocations and the number of qualifying households.

- The affordability of extending free basic services to households in sub-economic areas remains a growing concern. In terms of the Municipality's indigent subsidy policy, registered indigent households and those with 30 Ampère lifeline electricity connections are eligible to receive 50 kWh of free electricity per month. However, the Municipality has continued—outside the scope of national guidelines—to provide this benefit to all customers residing in designated sub-economic areas, irrespective of their indigent status. This practice, which deviates from the National Treasury's guidance on the subsidisation of indigent households through the equitable share allocation, imposes a significant financial burden on the Municipality. While there has historically been limited willingness to revise this approach, it is imperative that the policy be re-evaluated in future budget cycles to safeguard the Municipality's long-term financial sustainability.

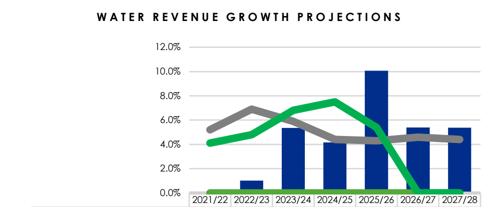
3.4.2.2 Responsiveness to Energy Demand and Provision

Municipal challenges	• Ageing infrastructure. • Augmentation of electricity supply. • Formalise housing requirements to reduce electricity theft. • Identify alternative energy sources (solar, streetlights, ESKOM, INEP funding). • Ensuring that the town has robust electricity infrastructure to support the growing needs of citizens.
Electricity Expenditure Analysis	• In terms of the amended 2025/26 IDP, the Municipality is experiencing three major issues related to electricity in Bitou which are, Streetlight Maintenance, Pre-Paid Metres and underserved ESKOM areas. The Municipality intends to address this through high mast lighting, the provision of pre-paid meters in Qolweni and Kurland and ensuring that all residents have access to electricity in Green Valley. • The Municipality's response is commendable for being targeted and practical, focusing on quick wins in visible and high-impact areas. However, it lacks a holistic, long-term energy strategy. A more comprehensive plan could integrate sustainable energy solutions, robust maintenance frameworks, and broader community outreach to ensure inclusive and resilient electricity services across Bitou. • The Municipality acknowledges in the amended 2025/26 IDP that older infrastructure may require more frequent maintenance and repairs leading to increased costs and potential disruptions and that upgrading infrastructure is essential to ensure reliability and efficiency. • Operational spending on energy reflects a notable year-on-year increase of 12.1% between the 2024/25 and 2025/26 financial years. This growth is expected to escalate with 7.2%, over the remaining years of the 2025/26 MTREF, which indicates that the Municipality considered the growing need for energy within Bitou. • Capital expenditure has experienced significant upsurge of 105.5% between 2024/25 and 2025/26 and it is expected to decline further with 35.2% over the MTREF. The decline in capital expenditure signals a need for reassessment to ensure sustained investment in critical infrastructure and to address future challenges effectively. • The largest capital projects in terms of value in SA36 are a new Brakkloof electrification project valued at R12.27 million, New Streetlights for multiple wards at R3 million, the electrification of Informal Settlements valued at R3.541 million and two electrification projects at Ebenezer at R4.720 million and R2.875 million. • The capital projects identified in SA36 collectively address several of the area's critical electricity challenges. Key initiatives such as the Brakkloof electrification project, the electrification of informal settlements, and the Ebenezer projects focus on modernizing ageing infrastructure and expanding the electricity supply to underserved communities. These efforts help reduce outages, improve reliability, and formally connect households, thereby minimizing electricity theft and promoting safer, regulated access to power. • Additionally, the R3 million investment in street lighting offers potential for integrating alternative energy solutions like solar power, which aligns with sustainability goals and enhances energy efficiency. Together, these projects support the development of a robust electricity network capable of meeting the growing demands of the community, ensuring that infrastructure keeps pace with housing development, economic activity, and population growth. • According to the SEP-LG 2024 findings, 98.7 percent of households within the Bitou Municipality possess basic access to electricity. This statistic signifies favourable outcomes, including elevated living standards, broadened economic prospects, and the fostering of sustainable development initiatives, however, also indicates that a small percentage of households (1.3%) lack basic access to energy. • The Municipality's household service targets for electricity, as reflected in Budget Schedule A10, indicates growth of 2% in household access between 2024/25 and 2025/26. Furthermore, the MTREF projects an increase of 1.5% in electricity access, indicating that the Municipality has taken into account both population and household growth.

3.4.3 Water Services

3.4.3.1 Water Services Credibility and Sustainability

Figure 2 Water trading service trends



	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Service Charges: Water Growth %		1.0%	5.4%	4.2%	10.1%	5.4%	5.4%
Inflation	5.2%	6.9%	5.9%	4.4%	4.3%	4.6%	4.4%
Service Charges: Water Consumption Growth	0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Service Charges: Water Tariff	0.041	4.8%	6.8%	7.5%	5.4%	0.0%	0.0%

Cost Recovery	Direct and Indirect	2025/26	2026/27	2027/28
	Revenue Required	R63 998 451	R56 529 484	R56 391 766
	Revenue	R101 466 087	R106 931 349	R112 673 689
	Surplus/Deficit	R37 467 636	R50 401 865	R56 281 923

Source: Cost Reflective Tool

2025/26 Tariffs	Basic Charge	Basic Charge (Avg)	Tariff Increase (Mun)	Tariff Increase (WC Avg)
Business	R634.30	R397.80	5.4%	6.4%
Households	R251.90	R147.33	5.4%	6.4%

Source: Municipal Budget Assumptions

Basic Service Delivery	Number of Households (LGES)	Operational Cost of Water Services (R'000)		
		2025/26	2026/27	2027/28
Indigent (A10,SA1)	17 605 940	R17 606	R18 557	R19 559
Indigent (LGES)	17 565	R87 291	R92 703	R96 896

Source: A1 schedules

Source: NT GoMun 2025/26 Draft Budget

- Bitou Municipality projects water revenue to increase from R92.03 million in the 2024/25 adjusted budget to R101.47 million in 2025/26, which represents a 10.1 per cent growth. While this year-on-year increase is commendable, the projected growth slows to 5.4 per cent for the outer years of the MTREF. This downward trajectory in revenue growth should be carefully monitored, as it may impact the sustainability of the service in the medium to long term. Notably, the projected revenue growth for 2025/26 outpaces the applied tariff increase of 5.4 per cent and suggests anticipated consumer growth or improved collection.

- The Municipality has implemented a 5.4 per cent water tariff increase for the 2025/26 financial year, which is below the Western Cape average of 6.4 per cent. While this may reflect an effort to manage affordability for consumers, the high basic charge levels raise concern. Bitou's average basic charge for residential households is R251.90, significantly higher than the provincial benchmark average of R147.33. Similarly, the basic charge for business consumers is R634.30, well above the provincial average of R397.80. These charges are notably above the norm and may present affordability challenges for both households and local businesses, particularly given the broader economic climate and municipal collection challenges.

- Furthermore, the municipality has introduced a more transparent approach in its tariff structure by splitting the total fixed charge into two components: a basic charge and a minimum consumption charge covering the first 25 kilolitres for non-indigent households. This adjustment aims to improve the clarity of the tariff structure and facilitate accurate accounting for revenue foregone in respect of indigent households. Nonetheless, this technical refinement does not reduce the overall cost to consumers and therefore does not materially alter the affordability risks identified.

- According to the Cost Reflective Tariff Tool, the total revenue required to sustainably operate the water service in 2025/26 is R63.99 million. The Municipality has budgeted revenue of R101.47 million, resulting in a projected surplus of R37.47 million. This surplus grows significantly over the MTREF, reaching R56.28 million by 2027/28. While this indicates strong cost recovery, the Municipality must be cautious to ensure that projected surpluses are not solely tariff-driven but supported by efficient service delivery, credible billing, and effective collection. Additionally, it is important to assess whether this surplus is reinvested into asset maintenance and infrastructure upgrades to ensure long-term sustainability.

- Bitou Municipality has reported persistently high-water losses, with the 2023/24 Annual Financial Statements reflecting losses of 37.9 per cent, well above the national norm of 15 to 30 per cent. Concerningly increasing from 35.9 per cent in the previous year, the losses remain a material concern. The high losses increase operating costs and erode the efficiency of the water revenue model. Encouragingly, the Municipality has allocated a substantial portion of its capital budget to refurbish the water reticulation system, which, if implemented effectively, should help reduce leakages and improve service reliability. Ongoing investment in pipe replacement, pressure management, and system audits is critical.

- Bitou has registered 17,606 indigent households receiving Free Basic Water (FBW) of 6 kilolitres per month, in line with national policy. However, this number slightly exceeds the number covered by the Equitable Share allocation (17,565 households). While the difference is minimal, it raises concerns around unfunded mandates. The Municipality is advised to continuously reconcile indigent registers with LGES allocations to avoid placing undue financial pressure on the water account. Additionally, proper monitoring of indigent consumption must be enforced to ensure consumption does not exceed allowable limits without payment.

- The water service revenue model appears optimistic. While the cost recovery position is favourable, its reliability is contingent on collection performance. If actual collection rates fall short of assumptions, projected surpluses may not materialise. As such, the Municipality is advised to ensure its cash flow projections are underpinned by realistic collection assumptions, ideally aligned to historical performance and collection trends per billing category.

3.4.3.2 Responsiveness to Water Services Demand and Provision

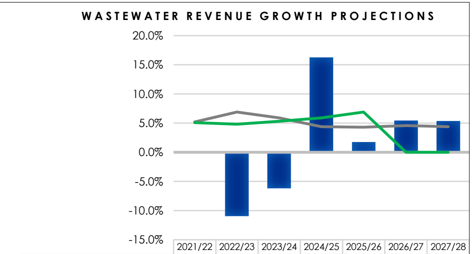
Municipal challenges	• Limit unaccounted water losses. • Ensuring a sustainable water supply. • Improving water infrastructure. • Providing all households with basic access to water.
Water Expenditure Analysis	• The Municipality intends to respond to the water challenges through the essential provision of bulk services, reviewing water tariffs, use boreholes, rainwater harvesting, treated wastewater to save water resources and reducing water leakages amongst others. These actions help conserve existing water resources, diversify supply sources, and improve efficiency. However, while effective in the short to medium term, they may not be fully sufficient to meet long-term water demand, especially under conditions of climate change, urban growth, and rising consumption. • Operational spending on water reflects a notable year-on-year increase of 4.2% between the 2024/25 and 2025/26 financial years. This growth is expected to escalate with 6.2%, over the remaining years of the 2025/26 MTREF, which indicates that the Municipality considered the growing need for water within Bitou. • Capital expenditure on water has experienced significant upsurge of 49.6% between 2024/25 and 2025/26 and it is expected to decline further with 16.2% over the MTREF. The decline in capital expenditure signals a need for reassessment to ensure sustained investment in critical infrastructure and to address future challenges effectively. • Operational spending on water services in Bitou shows a measured and responsive approach to rising demand, with a year-on-year increase of 4.2% between the 2024/25 and 2025/26 financial years, and a projected escalation of 6.2% over the remainder of the MTREF. This upward trend in operational expenditure suggests that the Municipality is committed to sustaining service delivery through enhanced operational capacity. • In contrast, capital expenditure on water infrastructure reflects a more variable trend. The significant increase of 49.6% between 2024/25 and 2025/26 indicates strong investment in infrastructure upgrades or expansions, however, it is followed by anticipated declines of 16.2% over the balance of the MTREF .

	• To ensure long-term sustainability and resilience, it is critical that capital investment aligns with strategic goals, including expanding storage capacity, upgrading aging infrastructure, and developing alternative water sources. At present, it remains unclear whether allocations have been made for large-scale infrastructure projects to support future demand. If not, the Municipality should consider revisiting its capital planning to incorporate provisions for long-term growth, especially in light of environmental pressures and urban expansion. • The Municipality identified several key initiatives under Schedule SA36: Water Services, including Waste Distribution valued at R2.675 million, Water Demand Management at R250 000, and the upgrading of the bulk water supply line at R1.3 million. These projects appear to respond to ongoing challenges associated with ageing infrastructure, which commonly leads to frequent pipe bursts, leaks, and increased maintenance costs. Such issues contribute significantly to unaccounted-for water losses and place strain on efforts to ensure a sustainable and reliable water supply. • However, while the listed projects indicate a commitment to infrastructure improvement, their scale and allocated budget raise questions about whether they are sufficient to fully address the systemic challenges posed by ageing infrastructure. A more integrated and adequately resourced approach may be necessary to achieve long-term sustainability, particularly in high-growth or high-loss areas. • The Municipality's household service targets for water, as reflected in Budget Schedule A10, indicates a slight decline in household access projections between 2024/25 and 2025/26. Furthermore, the MTREF projects an increase from 19 176 in 2025/26 to 52 350 in 2027/28in water access, indicating that the Municipality has taken into account both population and household growth.

3.4.4 Wastewater Services

3.4.4.1 Wastewater Services Credibility and Sustainability

Figure 3 Wastewater trading service trends



	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Service Charges: Wastewater Growth %		-10.9%	-6.1%	16.2%	1.7%	5.4%	5.3%
Inflation	5.2%	6.9%	5.9%	4.4%	4.3%	4.6%	4.4%
Service Charges: Wastewater Tariff	0.051	4.8%	5.3%	5.9%	6.9%	0.0%	0.0%

Cost Recovery	Direct and Indirect	2025/26	2026/27	2027/28
	Revenue Required	R5 476 131	R6 765 146	R15 893 001
	Revenue	R80 728 986	R85 107 884	R89 651 170
	Surplus/Deficit	R75 252 855	R78 342 738	R73 758 169

Source: A1 schedules

2025/26 Tariffs	Basic Charge	Tariff Increase (Mun)	Tariff Increase (WC Avg)
Business	Yes	6.9%	6.20%
Households		6.9%	6.20%

Source: Municipal Budget Assumptions

Basic Service Delivery	Number of Households (LGES)	Operational Cost of Wastewater Services (R'000)		
		2025/26	2026/27	2027/28
Indigent (A10,SA1)	17 605 940	R36 708	R38 691	R40 780
Indigent (LGES)	17 565	R54 618	R58 005	R60 628

Source: A1 schedules

Source: NT GoMun 2025/26 Draft Budget

- Bitou Municipality's wastewater revenue is projected to increase by 1.4 per cent in 2025/26, from R79.62 million to R80.73 million, with moderate annual growth of 5.4 and 5.3 per cent expected in the outer years. This modest growth in revenue mirrors the projected tariff increase of 5.4 per cent for both household and business users, which is below the Western Cape municipal average of 6.2 per cent. The below-average increase may support affordability but raises questions around the Municipality's ability to sustain and expand wastewater infrastructure and operations, especially in the context of rising input costs. Given the continued impact of inflationary pressure on chemicals, labour, and the cost of mitigating loadshedding through generators and staff, the Municipality may need to carefully review whether the current tariff path is adequate to ensure long-term cost recovery.

- Despite the relatively modest tariff adjustments, the wastewater service is projected to generate a substantial operating surplus of R75.25 million in 2025/26, increasing to R78.34 million and decreasing to R73.76 million in the two outer years. With required revenue for cost recovery estimated at just R5.48 million for 2025/26, the significant surplus suggests that the service is heavily over-recovering relative to its stated direct and indirect costs. While this may appear positive at first glance, such a large surplus warrants further scrutiny, particularly to determine whether all cost components such as long-term capital investment needs, repairs and maintenance, and bulk service pressures have been adequately accounted for. The Municipality is encouraged to revisit its costing methodology to ensure that tariff setting aligns more accurately with the full lifecycle costs of providing wastewater services.

- The Municipality's budget indicates that a basic charge for wastewater has been levied, with business accounts explicitly charged and household charges included in the tariff. However, affordability considerations remain pertinent, especially for indigent households. The Municipality expects to support 36,708 indigent households through its indigent policy, which exceeds the 17,565 households reflected in the Local Government Equitable Share (LGES). The operational cost for these services is estimated at R36.71 million in 2025/26, far surpassing the R28.19 million allocation from LGES for wastewater, implying a potential shortfall of R8.52 million. This raises a risk of an unfunded mandate if not appropriately mitigated. The Municipality should assess the alignment between service delivery commitments to indigents and available funding and evaluate cost-sharing or efficiency opportunities.

- The Municipality has maintained a collection rate assumption of 90 per cent for wastewater, which is consistent with recent performance, but still below the National Treasury benchmark of 95 per cent. While this target is cautiously realistic, the accuracy of underlying assumptions must be tested against actual historical performance and debt profiles. As at March 2025, wastewater debtors stood at R74.55 million, representing 19.6 per cent of total outstanding debt and reflecting a deterioration from the 18.7 per cent in the prior year. Most of this debt is in the "over 90 days" category, pointing to deep-rooted recovery challenges. The Municipality must intensify its revenue management strategies and explore service restriction mechanisms where feasible, in line with MFMA Circular No. 123, to ensure that service delivery is financially sustainable.

- Wastewater infrastructure remains vulnerable due to rising urbanisation, frequent loadshedding, and ageing assets. Although the revenue trajectory suggests a strong financial position, the draft capital budget allocations toward wastewater infrastructure over the MTREF period should be reviewed for adequacy. Underinvestment in this function today may result in increased repairs and maintenance costs tomorrow, especially given the energy-intensive nature of treatment processes. The Municipality is advised to prioritise energy-efficient technologies in wastewater operations, not only to mitigate the impact of bulk electricity costs, but also to build resilience in an unstable energy environment.

3.4.4.2 Responsiveness to Wastewater Services Demand and Provision

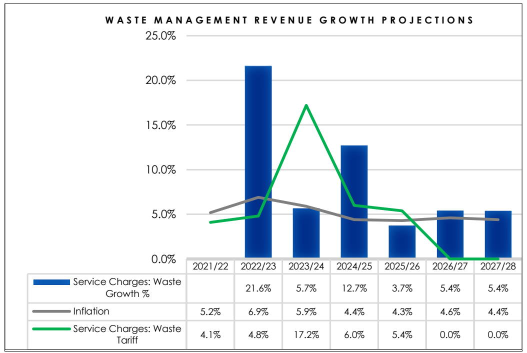
Municipal challenges	• Constant sewer problems because of the size of sewer pipes. • Bitou experiencing high population growth of 2.4% per annum with increasing demand. • Basic access to sanitation is at 97.2%. • Eradicate the use of buckets through the provision of acceptable sanitation systems to formal households. • Delay in filling long outstanding critical vacant funded positions within the water and sanitation reticulation sections. • Sewerage blockages ingress of foreign objects into manholes and pipelines.

Wastewater Expenditure Analysis	• The Municipality's strategic response to upgrade and maintain the sewer network—through initiatives such as the treatment of the Ebenezer Bulk Sewer, improvements to the Wittedrift and Kwanokuthula sewer outfalls, and the ongoing purification and management of the overall sewer system—reflects a critical investment in public health, environmental protection, and infrastructure sustainability. Moreover, this approach can lead to long-term cost savings by reducing emergency repairs and extending the lifespan of existing assets. However, successful implementation will depend on sustained funding, skilled personnel, and robust monitoring systems to ensure consistent performance and adaptability to emerging challenges, such as climate change and urban expansion. • Operational spending on wastewater shows a notable year-on-year increase of 12.3% between the 2024/25 and 2025/26 financial years. This sharp rise indicates that the Municipality has acknowledged the growing pressures on wastewater infrastructure, likely due to population growth, urban expansion, and increasing water consumption within Bitou. The elevated allocation may reflect immediate priorities such as maintenance backlogs, capacity upgrades, or compliance with environmental standards. • Capital expenditure on wastewater infrastructure reflects a gradually increasing trend, with a 2% rise projected between 2024/25 and 2025/26, followed by a further 3.7% increase over the remainder of the MTREF. This upward trend suggests a steady, though modest, commitment by the Municipality to strengthen and expand its wastewater infrastructure. • The incremental growth in capital spending likely points to a phased investment strategy, prioritising the most critical upgrades or expansions while aligning with budgetary constraints. It may also reflect long-term infrastructure planning aimed at gradually enhancing capacity, improving environmental compliance, and addressing the challenges posed by ageing systems and increased service demand. • The Municipality identified several key projects in Schedule SA36 to address its wastewater management challenges: The Kurland Wastewater treatment project valued at R16.080 million, Sludge handling at Ganse Vallei valued at R3.7 million and the Ebenezer Construction of Sewer Reticulation valued at R2.675 million. The Kurland Wastewater Treatment Project, as the most substantial investment, reflects a strategic effort to increase treatment capacity, enhance operational efficiency, and ensure environmental compliance in a growing area. This is particularly critical considering rising wastewater volumes driven by population growth and urban development. The scale of investment suggests that the Municipality recognises the need for a robust and modernised treatment facility capable of supporting both current and future demand. • According to Budget Schedule A10, the Municipality's household service targets for wastewater indicate an increase of 1% in household access between the 2024/25 and 2025/26 financial years. However, this is followed by a sharp projected increase from 16 024 in 2025/26 to 79 125 in 2027/28. This significant upward revision suggests that the Municipality is planning for substantial expansion in wastewater service coverage, likely in response to anticipated population and household growth.

3.4.5 Waste Removal Services

3.4.5.1 Waste Removal SERVICES Credibility and Sustainability

Figure 4 Waste removal service trends



Cost Recovery	Direct and Indirect	2025/26	2026/27	2027/28
	Revenue Required	R0	R0	R0
	Revenue	R52 852 109	R55 709 671	R58 716 845
	Surplus/Deficit	R52 852 109	R55 709 671	R58 716 845

Source: A1 schedules

2025/26 Tariffs	Basic Charge	Tariff Increase (Mun)	Tariff Increase (WC Avg)
Business	Yes	5.4%	8.7%
Households		5.4%	8.7%

Source: Municipal Budget Assumptions

Basic Service Delivery	Number of Households (LGES)	Operational Cost of Waste Services (R'000) 2025/26	2026/27	2027/28
Indigent (A10,SA1)	17 605 940	R 23 150	R 24 400	R 25 718
Indigent (LGES)	17 565	R 45 786	R 48 625	R 50 823

Source: A1 schedules

Source: NT GoMun 2025/26 Draft Budget

- Bitou Municipality's waste management revenue is projected to increase from R50.98 million in the 2024/25 adjusted budget to R52.85 million in 2025/26, R55.71 million in 2026/27, and R58.72 million in 2027/28. This reflects a year-on-year growth of only 3.7 per cent in 2025/26, significantly below the 13.4 per cent increase observed in 2024/25 and below the municipal tariff increase of 5.4 per cent**.** The declining revenue growth trajectory suggests that either consumption volumes are stagnant, or billing is not fully capturing the actual service delivery footprint, both of which require closer interrogation. As indicated in the Municipality's draft budget report, the service remains below cost-reflective levels, attributable to discrepancies and irregularities identified through the ongoing revenue enhancement programme.

- The tariff modelling tool currently reflects a projected surplus of R52.85 million for the waste management service in the 2025/26 financial year. This outcome implies that neither direct nor indirect costs have been incorporated into the cost recovery calculation, resulting in an overstated surplus. This stands in clear contradiction to the narrative presented in the draft budget report, which acknowledges that the service is not yet operating at cost-reflective levels and continues to incur a financial shortfall. This inconsistency between the tariff model and the budget narrative undermines the credibility of the Municipality's cost-reflectiveness assessments and should be resolved prior to the tabling of the final budget. It is strongly recommended that the Municipality ensures all applicable costs—such as operational expenses related to waste collection, transportation, disposal, security, and fleet maintenance, as well as indirect costs including administrative overheads and support services—are accurately attributed to the waste management service within the tariff tool. This will facilitate a more transparent, realistic representation of the actual cost of service provision.

- Furthermore, the 5.4 per cent tariff increase for both business and household refuse removal falls below the Western Cape average of 8.7 per cent, which may not be sufficient to fund growing waste service obligations. The Municipality has indicated future cost pressures relating to regional landfill site contributions and landfill rehabilitation obligations, yet these are not immediately reflected in the revenue requirement calculations. If future costs (such as those from the Garden Route District's regional landfill project) are not cash-backed or adequately phased into the tariff model, the current surpluses are misleading and could lead to medium-term sustainability risks. However, the Municipality's proposal to phase in cost-reflective tariffs for refuse removal from the 2026/2027 financial year, following the completion of a thorough review, is noted and welcomed. This phased approach reflects a considered and responsible strategy that balances financial sustainability with the need for affordability and stakeholder engagement. The commitment to conducting a comprehensive investigation prior to implementation is commendable and will contribute to improved transparency and confidence in the tariff-setting process and should be considered and reflected in the final budget projections.

- From a basic service delivery perspective, the municipality supports 23150 indigent households, which is above the LGES-supported number of 17 565 households. In 2025/26, the operational cost of delivering free basic refuse services is estimated at R23.15 million, compared to the LGES allocation of R23.63 million**,** suggesting near full coverage. However, this balance becomes tighter in the outer years, and the municipality is advised to assess affordability risks in line with MFMA Circular 129, which cautions against expanding unfunded mandates.

- Finally, waste management remains an area ripe for cost efficiencies and innovation. Challenges such as illegal dumping, increasing security costs, and an ageing fleet could be better managed through integrated waste management strategies**,** which emphasize recycling, waste minimization, and circular economy principles. Shared services and public-private partnerships (PPPs) should be explored to contain costs and enhance long-term sustainability.

3.4.5.2 RESPONSIVENESS TO WASTE REMOVAL DEMAND AND PROVISION

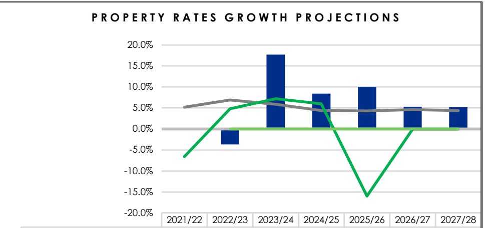
Municipal challenges	• Waste transportation from Plettenberg Bay to Mossel Bay at high cost. • No landfill site in Bitou. • Alternative waste management strategies. • Rise in illegal dumping.
Waste Expenditure Analysis	• The Municipality's key strategic focus areas for addressing waste management challenges are centred around two main pillars: Waste Minimisation and Infrastructure Improvement. • The Waste Minimisation strategy prioritises source-level intervention, including the investigation and implementation of waste collection at the source, the promotion of recycling—particularly the reuse of building materials—and the establishment of accessible waste drop-off facilities. These efforts aim to reduce the volume of waste entering the formal disposal system and encourage community participation in sustainable practices. • The Infrastructure Improvement focus targets operational efficiency through initiatives such as enhanced fleet management, the installation of perimeter fencing at waste facilities, and the introduction of curbside collection for green waste. These interventions are designed to strengthen service delivery, reduce illegal dumping, and improve overall cleanliness and environmental compliance across the Municipality. • Operational expenditure on waste management is projected to increase by 4.7% between the 2024/25 and 2025/26 financial years. This moderate year-on-year growth suggests that the Bitou Municipality is responding to mounting demands on its waste service – pressures likely driven by factors such as population growth, urban development, etc. Over the MTREF period, operational spending is expected to grow at an average annual rate of 2.5%. While this overall trend reflects a commitment to maintaining and expanding critical infrastructure, the pace of growth may warrant closer scrutiny to ensure it aligns with the scale of service delivery needs and environmental sustainability targets. • Capital expenditure on waste infrastructure shows a significant short-term increase, rising from R750 000 in 2024/25 to R7.1 million in 2025/26, mostly due to the new drop-off facilities at Kurland (R5.6 million) and the purchase of a new skip truck (R1.5 million). However, this surge is followed by a substantial decline of approximately 35% over the remaining years of the MTREF. If the 2025/26 allocation is a once-off intervention, the Municipality must ensure that subsequent funding levels remain adequate to support ongoing maintenance, future capacity needs, and resilience of the waste infrastructure system.

	• According to Budget Schedule A10, the Municipality's household service targets for waste indicates an increase of 0.9% in household access between the 2024/25 and 2025/26 financial years. This is followed by increases of 1.3 per over the remainder of the MTREF. This upward revision suggests that the Municipality is planning for expansion in waste service coverage, likely in response to anticipated population and household growth.

3.5 REVENUE

3.5.1 Property Rates

Figure 5 Property rates



	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Property Rates % Movement		-3.7%	17.7%	8.4%	10.0%	5.3%	5.2%
Inflation	5.2%	6.9%	5.9%	4.4%	4.3%	4.6%	4.4%
Property Rates Tariff Increase	-0.066	4.8%	7.2%	6.0%	-16.0%	0.0%	0.0%
% Growth in Market Value		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

2025/26 Tariffs	Rate in Rand (Mun)	Rate in Rand (WC Avg)	Tariff Increase (Mun)	Tariff Increase (WC Avg)
Business	R0.00890	R0.06995	-16.0%	R0
Households	R0.00534	R0.03640	-16.0%	R0
Source: Municipal Budget Assumptions				

Property Rates Rebates	Number of Indigent HH	Rebates		
		2025/26	2026/27	2027/28
Indigent (A10,SA1)	17 605 940	R7 391	R7 768	R8 172
Last GV date	2021-07-01			
Source: A1 schedules				

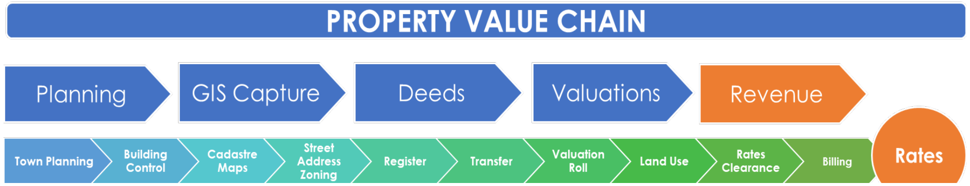
Source: A1 Schedules

- The Municipality projects a 10 per cent year-on-year growth in property rates revenue for 2025/26, increasing from R193.25 million in the 2024/25 adjusted budget to R212.58 million. This is despite a tariff decrease of 16 per cent, as indicated in the budget assumptions. This projected growth is therefore not supported by a corresponding increase in the rate-in-the-rand, nor by an above-average increase in the property count. The increase appears to rely heavily on the expansion of the property valuation base, particularly from supplementary valuation rolls and the implementation of the new General Valuation Roll effective 1 July 2025. However, this statutory process is essential for ensuring that property valuations used for levying rates are accurate, up to date, and reflective of current market conditions.
- The Municipality should consider conducting a social impact assessment on the new valuation roll to identify property owners who may experience disproportionate increases in rates, despite overall tariff reductions and explore targeted relief mechanisms for affected households outside the indigent category, if affordability concerns arise.
- To offset the potential impact of increased property valuations on ratepayers, the Municipality has committed to applying a revenue neutrality principle, whereby the cent-in-the-Rand rate will be reduced proportionately—by between 16.25 per cent and 16.41 per cent, depending on property category. This approach demonstrates a prudent and balanced response, aligning with MPRA requirements and National Treasury guidance as referenced in MFMA Circular No. 51. While the revenue neutrality principle is commendable, the Municipality should conduct scenario-based modelling to assess the combined impact of objections, appeals, exemptions, and potential legal disputes on projected revenue. This modelling should inform the level of the buffer included in the rates tariff to avoid underfunding.
- Furthermore, the rates in the rand for households and businesses have not been increased for the 2025/26 financial year. This is reflected in the tariff schedule: R0.00534 for residential and R0.00890 for businesses. This static tariff positioning contrasts with the Western Cape averages of R0.03640 for households and R0.06995 for businesses, underscoring a significant under-pricing of Bitou's rates in comparison to peer municipalities. The proposed -16 per cent variance indicates a missed opportunity for revenue enhancement through marginal upward adjustment, particularly in non-residential categories.
- The Municipality has also proposed an exemption of R350 000 on the value of properties in sub-economic areas, which is significantly above the statutory R15 000, and represents a targeted municipal policy choice aimed at supporting historically disadvantaged communities. While it is progressive, it carries a significant revenue implication, which must be regularly reviewed to assess long-term affordability and the municipality should consider adjusting the threshold in line with property market trends, inflation, and the outcomes of the new general valuation roll. Furthermore, it must ensure that the application of this exemption is consistently captured in the billing system and reconciled with the valuation roll. Any errors or inconsistencies could result in unintended revenue loss. As per MFMA Circular No. 93, the Municipality must also submit a valuation roll reconciliation, comparing the financial system to both the general and supplementary rolls, to substantiate the expected revenue increases.
- Given these concerns, Bitou Municipality is strongly encouraged to submit the required valuation roll reconciliation tools in line with Circular 93, provide a clear breakdown of the number and type of properties expected to drive the 10 per cent revenue growth, reassess the assumed growth in property rates revenue in light of the tariff reduction and static valuation roll assumptions, Consider marginal increases to under-priced categories (especially business) to support long-term sustainability.
- The introduction of the first Special Rating Area (SRA) in Bitou Municipality during the 2023/24 financial year targeting Natures Valley is a commendable step toward localised service delivery and community-driven development. The Municipality has rightly included the Natures Valley SRA budget as Annexure "L" to the draft budget, and it is aligned with the provisions of the SRA By-law. The continued application of the surcharge at R0.00092 in the Rand, the administrative and non-payment provision of approximately 5 per cent, and the commitment to channelling funds monthly to the NVSRA for approved programs demonstrate good governance and responsiveness to community initiatives. However, it is concerning that no corresponding entries for the SRA revenue are reflected in the data strings or the A-schedule of the draft budget. This omission undermines transparency and may result in underreporting of the municipality's revenue and spending commitments. It is recommended that the municipality ensures this line item is fully incorporated into the final budget schedules to enhance credibility, facilitate oversight, and ensure alignment between narrative commitments and financial disclosures.

3.5.2 The Property Value Chain

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

Figure 6 Property Value Chain



Source: City of Cape Town Municipality

3.5.3 Land Value Capture and Alternative Financing

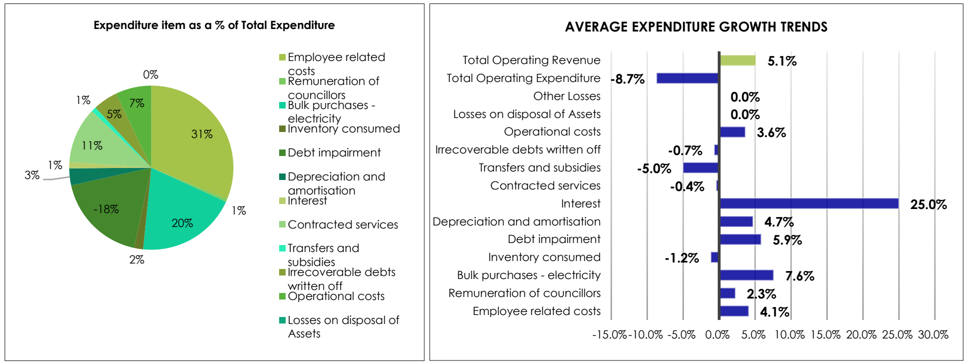
3.5.3.1 Development Charges

- On the 11th of June 2024, the President of the Republic of South Africa signed into law the Municipal Fiscal Powers and Functions Act (MFPFA) (Act No: 4 of 2024), with the insertion of Chapter 3A: Development Charges.
- Prior to the MFPFA, municipalities levied development charges in an inconsistent and sometimes biased manner. This lack of standardisation caused confusion for developers, leading to disputes and reducing investment attractiveness. The MFPFA will provide a clear, legal framework that standardised the levying and application of DCs, bringing greater transparency and predictability for both developers and municipalities.
- Therefore, municipalities that are already levying DCs in terms their pre-existing DC policy or DC by-law, as at the date of commencement of this Act, must ensure that it complies with this amended Act within 36 months after the date of commencement of the Act, While municipalities intending to levy DCs, their municipal councils must adopt a resolution for the municipality to levy the DCs, and thereafter develop their policy that is compliant with the Act.
- Annexure 2 in the guidelines for the implementation of municipal DC in South Africa, offers a DCs policy guidance and model policy that municipalities can adapt to their unique contexts, when updating or developing their DC policies and PT could assist by sharing examples of successful DC policies from other municipalities to serve as benchmarks.
- **Other Revenue Risks**
- The Municipality's projected revenue from fines, penalties, and forfeits stands at R55.02 million for the 2025/26 financial year, showing a moderate 5 per cent increase from the 2024/25 adjusted budget of R52.40 million. Over the two outer years, revenue is projected to grow by 5.4 per cent annually, reaching R61.12 million by 2027/28. However, it must be noted that this growth is somewhat tempered when compared to the volatility in historical billing and collections, highlighting the need for conservative assumptions.
- Despite these increases, the actual audited collection rate remains critically low. According to Circular 71 calculations, collection rates for fines improved from 17.3 per cent in 2021/22 to 26.1 per cent in 2023/24. While the upward trajectory is encouraging, the rate is still far below the 95 per cent norm and well below the rates achieved in other revenue streams such as property rates and service charges. The growing closing debtor balances rising from R86.57 million in 2021/22 to R112.62 million in 2023/24 also highlight a structural weakness in the collection of this revenue stream, raising questions about the realism of the budgeted figures.

- The Municipality acknowledged in the previous year's draft budget documentation that fines revenue, especially traffic fines, has historically been overstated and continues to be a challenge to collect. This is echoed in the February 2024 adjustment budget, where traffic fines were revised upwards due to better-than-expected performance in the first quarter. While this adjustment was based on short-term gains, long-term projections should be grounded in the low historic collection efficiency to ensure the budget remains credible and cash backed.
- It remains unclear if a contractor or service-level agreement is in place for the management and enforcement of traffic fines or if there is an operational municipal court to handle disputes and recover outstanding amounts. These gaps in institutional infrastructure could explain the persistently low collection rates. The Municipality is therefore advised to assess its enforcement capacity and explore partnerships with service providers, where appropriate, to boost collections. Moreover, a structured analysis of the current contract (if in place), including risks, performance clauses, and termination conditions, should be conducted to ensure alignment with the budgeted revenue assumptions.
- Given the variance between billed and collected amounts, the Municipality may wish to consider revising its revenue assumptions for fines, penalties, and forfeits to better reflect actual collection trends observed over the past three years. Aligning these projections with historic performance could help minimise the risk of revenue shortfalls and contribute to a more accurate cash flow forecast. Ensuring that budget assumptions are realistic and evidence-based, supports greater financial credibility and long-term sustainability.

3.6 OPERATING EXPENDITURE

Figure 7 Operating expenditure trends



Source: NT GoMun 2025/26 Draft Budget

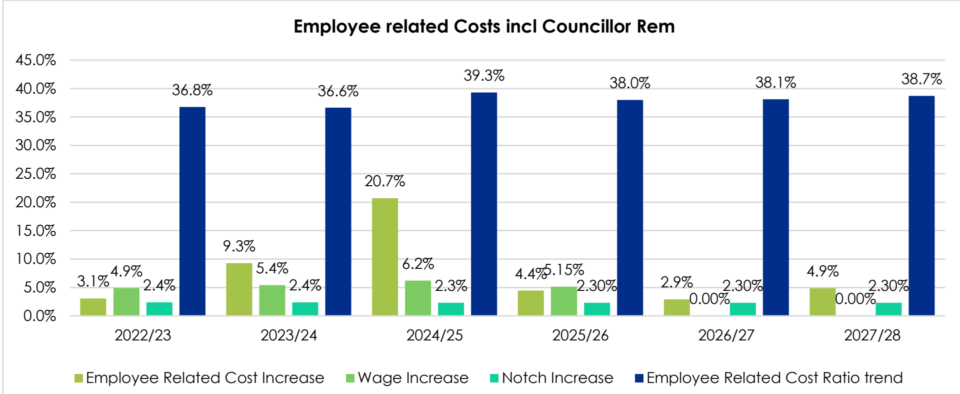
- The Municipality's total operating expenditure is projected to increase from R983.61 million in the 2024/25 adjusted budget to R1.06 billion in 2025/26, R1.09 billion in 2026/27 and R1.13 billion in 2027/28. This reflects year-on-year increases of 8.0 per cent, 2.6 per cent, and 3.3 per cent respectively, which is relatively moderate when compared to past growth rates. The three largest expenditure components in 2025/26 remain: employee-related costs (R395.99 million, or 37.3 per cent of operating expenditure), bulk electricity purchases (R250.43 million, or 23.6 per cent), and contracted services (R139.17 million, or 13.1 per cent).
- Employee-related costs is the largest cost driver, growing by 4.6 per cent from the 2024/25 adjusted budget, largely due to a 5.15 per cent general salary increase and additional notch increases

averaging 2.3 per cent. Councillor remuneration is projected at R7.69 million for 2025/26, with a conservative 4.2 per cent increase provisioned.

- Bulk purchases, particularly electricity, remain a significant cost pressure. In 2025/26, the Municipality anticipates spending R250.43 million on electricity bulk purchases, up from R224.96 million in 2024/25 and 11.3 per cent increase aligned with the Eskom tariff hike. This matches the projected 11.6 per cent growth in electricity revenue and reflects an attempt to maintain cost-reflective tariffs amid consumption volatility and load-shedding constraints. However, managing technical and non-technical losses will remain critical to limiting margin erosion.
- The allocation to contracted services has increased significantly by 20.7 per cent to R139.17 million in 2025/26, which translates to 13.1 per cent of the operating budget which is well above the National Treasury norm of 2 – 5 per cent. While this may be partly influenced by mSCOA classifications, the municipality's reliance on outsourced services (e.g., consultants, contractors) raises sustainability and capacity concerns. There is a need for stringent contract management and embedding skills transfer clauses in all professional service agreements to reduce long-term dependency.
- Depreciation and asset impairment is budgeted at R42.23 million in 2025/26, which represents 4 per cent of the total operating expenditure. Repairs and maintenance expenditure is projected at 2.8 per cent of PPE which is below the National Treasury norm of 8 per cent but showing a modest improvement over prior year. While this shows progress, the gap between depreciation and repairs continues to suggest underinvestment in asset upkeep and asset renewal, which can undermine infrastructure reliability over time.
- According to the A6 schedule (Budgeted Financial Position), Bitou Municipality's audited Annual Financial Statements (AFS) for the 2023/24 financial year reflect a net carrying amount of Property, Plant and Equipment (PPE) at R1.32 billion. This amount is projected to increase to R1.46 billion in 2025/26, indicating the municipality's intention to purchase additional capital assets over the MTREF. While this increase is expected with further investment in infrastructure and other fixed assets, the depreciation values disclosed in the A4 schedule (Budgeted Financial Performance) raise concerns. Specifically, the audited depreciation expense for 2023/24 is reported at R48.85 million, whereas a lower depreciation amount of R42.23 million is budgeted for 2025/26. This is counterintuitive, as one would expect a higher depreciation expense in 2025/26 in line with the projected asset growth, especially since the municipality has not budgeted for any asset disposals that would otherwise reduce the depreciable base.
- Further compounding the concern is the inconsistency between the asset-related disclosures in the A4, A6, and A9 schedules. Upon examining the A9 schedule (Asset Register Summary), the projected depreciation figures appear to be more in line with the expected increase in the asset base. The A9 figures support the assumption that depreciation should increase in future years due to additional capital purchases. The lack of alignment between these schedules, particularly A4 and A6 not reconciling with the more logical projections in A9, undermines the credibility and internal consistency of the budget. The Municipality is therefore advised to review and correct these discrepancies prior to the adoption of the final budget to ensure accurate reporting of its financial performance and asset position.

3.6.1 Employee Related Cost

Figure 8 Employee related cost including councillor remuneration



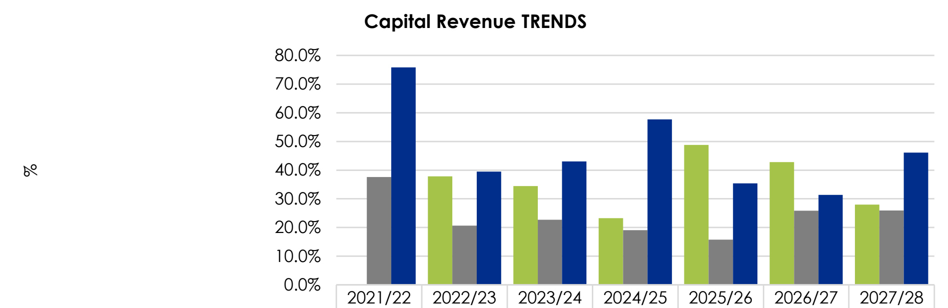
Source: NT GoMun 2025/26 Draft Budget

- Based on the analysis of the 2025/26 draft budget, Bitou Municipality's employee-related costs (ERC) remain the largest cost driver, projected at R395.99 million. This constitutes 37.3 per cent of total operating expenditure, which is within the upper limit of National Treasury's norm of 25 – 40 per cent. The year-on-year increase from the adjusted 2024/25 budget of R378.62 million represents a growth of 4.6 per cent. This growth is informed by an assumed general salary increase of 5.15 per cent, and notch increases of approximately 2.3 per cent for qualifying staff, as per SALGBC agreements. Despite being within acceptable norms, this rising wage bill must be closely monitored against overall revenue growth, which is projected at 8.2 per cent for 2025/26, to ensure long-term affordability
- A sustainability test of the wage bill shows that over the past three financial years, employee-related costs grew from R278.10 million in 2021/22 to R312.82 million in 2023/24, reflecting an average growth of about 11.1 per cent per annum. However, the sharper increase in 2024/25 (21 per cent) followed by 4.6 per cent in 2025/26 suggests a correction phase after a significant ramp-up in the previous year. Although the pace of growth appears to moderate over the MTREF with increases of 2.9 per cent and 4.9 per cent in 2026/27 and 2027/28 respectively continued alignment with revenue projections is critical to avoid budget pressures. Any faster rise in ERC relative to income will erode fiscal space and potentially crowd out service delivery budgets.
- There is limited detail on vacancy assumptions or personnel distribution by function, which impairs a more granular affordability review. It would therefore be prudent for the Municipality to provide greater transparency on vacancy fill-rates, staff composition by occupational level, and workforce planning strategies to ensure efficient allocation of human resources.
- Furthermore, an increase of 8.3 per cent in pension, UIF, and group life contributions as well as increases of 7.8 per cent in performance bonuses and 8.2 per cent in post-retirement benefit obligations were noted. These sub-components of ERC require additional monitoring and possibly capping where appropriate, particularly given constrained revenue growth and competing expenditure priorities. Notably, councillor remuneration is projected to increase by 4.7 per cent, from R7.69 million in 2025/26 to R8.43 million in 2027/28, based on a 4.2 per cent escalation provision consistent with historical trends and prudent budgeting practices

- The Municipality is encouraged to strengthen long-term workforce planning and cost containment initiatives. Strategies such as aligning the organisational structure with service delivery imperatives, limiting non-critical posts, and managing overtime through shift systems or reallocation of tasks should be prioritised. Additionally, the Municipality should benchmark the ratio of employee costs to net operational expenditure (excluding bulk purchases) to assess whether it remains within acceptable levels once bulk electricity and water purchases are removed. This ratio often presents a truer picture of the wage bill burden on discretionary spending.
- Employee cost ratios currently remain within normative thresholds, the trajectory of the wage bill, particularly its alignment with revenue growth and service demands, must be vigilantly managed. Without ongoing efficiency gains and tighter headcount planning, rising personnel costs may limit the Municipality's ability to deliver on capital and operational commitments in future years.

3.7 CAPITAL FUNDING MIX

Figure 9 Capital funding mix



	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Borrowing as % of total CAPEX	0.0%	37.8%	34.4%	23.2%	48.8%	42.8%	28.0%
Internally Generated Funds as % of total CAPEX	37.6%	20.6%	22.7%	19.1%	15.8%	25.9%	25.9%
Capital Grants as % of total CAPEX	75.8%	39.5%	43.1%	57.7%	35.4%	31.3%	46.1%

Source: NT GoMun 2025/26 Draft Budget

- As at 31 March 2025, the municipality reported capital expenditure of R78.26 million, which equates to only 51.8 per cent of the adjusted capital budget of R151.08 million. With just three months remaining in the financial year, this underperformance suggests persistent challenges in the timely implementation of capital projects. This trend of low capital budget absorption may result in the under-delivery of critical infrastructure and negatively impact service delivery outcomes. It also puts at risk the full utilisation of conditional grants, potentially leading to reallocations or future funding reductions by transferring authorities.
- This implementation risk is further compounded by the municipality's evolving capital funding mix. While total capital funding declines in the adjusted 2024/25 budget compared to the original budget (from R183.16 million to R151.08 million), the outer years of the MTREF show a renewed increase in capital budgets, with borrowing becoming a more prominent funding source. For 2025/26, borrowing increases sharply to R87.12 million, becoming the largest source of capital funding. Over the same period, transfers from national and provincial government decline significantly, before modestly recovering in 2027/28. Internally generated funds show relative stability, though their contribution increases in 2026/27 and 2027/28.

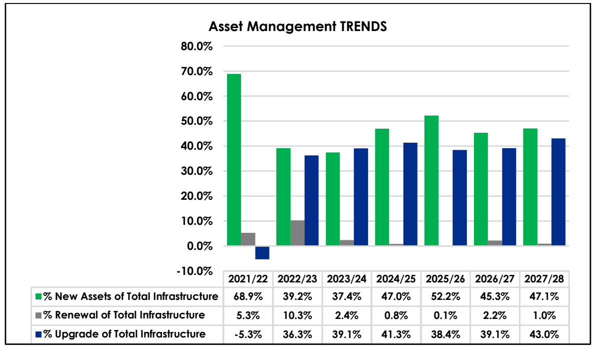
- The shift towards greater reliance on borrowing, coupled with historic underperformance in capital expenditure, presents potential risks to the municipality's financial and service delivery sustainability. Elevated debt levels may introduce future debt servicing obligations, placing pressure on the operating budget if revenue growth does not keep pace. Furthermore, failure to execute infrastructure projects on time undermines value for money, reduces economic stimulus potential, and can result in community dissatisfaction.
- To improve outcomes and mitigate these risks, the municipality is encouraged to table its final budget with a strong emphasis on project readiness, implementation capacity, and credible funding plans. Steps should include reviewing the capital implementation plan to ensure alignment with institutional capacity, strengthening contract management and supply chain timelines, and prioritising multi-year infrastructure planning. Additionally, borrowing should be supported by an updated debt affordability assessment and ring-fenced to revenue-generating or high-impact projects. Lastly, the municipality should enhance its reporting and monitoring frameworks to identify and resolve bottlenecks early in the implementation cycle.

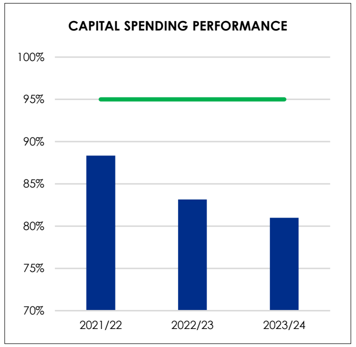
3.7.1 Borrowing

- The Municipality plans to fund capital expenditure from borrowings as indicated on the Table A5 to the amount of R87.12 million in 2025/26, R74.81 million 2026/27 and R43.40 million in 2027/28 MTREF years.
- The gearing/debt ratio is projected over the MTREF years from 12.2 per cent (2025/26), 14.5 per cent (2026/27) to 13.2 per cent (2027/28) over the MTREF period and reported that the municipality can take on additional funding from borrowings. However, this should be considered within the cash flow requirements of the Municipality. The ratio is within the National Treasury norm of 45 per cent.
- The Municipality projected a positive closing cash and cash equivalents which includes repayment obligations as indicated on the Table A7 throughout the MTREF. The repayment on borrowing amounts as indicated for the financial years are R20.34 million, R22.93 million and R25.67 million for 2025/26, 2026/27 and 2027/28 respectively. A net decrease in cash held is projected over the MTREF period. The closing cash and cash equivalents is projected to fluctuate over the MTREF budget.
- Although the Municipality will generate revenue and cash from its operations to service the projected additional debt, it should be noted the Municipality must have considered all the concerning factors that will have an impact on the Municipality's cash flow pressure. The municipality have sufficient cash to contribute toward the capital budget.
- It should be noted that the Municipality's tariff structure should be set to include the capital charges of the debt obligation so that sufficient funds can be generated to meet the repayment obligations.
- Disclaimer: it should be noted the bank overdraft and financial liabilities under current liabilities on A6 were not added to the gearing ratio. This could distort the true reflection of the ratio.

3.8 CAPITAL EXPENDITURE TRENDS

Figure 10 Asset Management





Source: NT GoMun 2025/26 Draft Budget

- The Municipality is commended for its proactive and structured implementation of the principles outlined in MFMA Circular 130, particularly as they relate to sustainable asset lifecycle management and capital planning. The allocation of 63.4 per cent of the capital budget to new asset construction and 36.6 per cent to the upgrading and renewal of existing assets reflects a well-balanced approach that prioritises both service expansion and infrastructure sustainability. This approach not only enhances the credibility and robustness of the capital programme but also contributes significantly to improved infrastructure management and long-term service delivery sustainability. The Municipality is encouraged to maintain and further strengthen this alignment in subsequent budget cycles.
- The Repairs and Maintenance (R&M) budget for Bitou Municipality however reflects a declining trend in 2024/25, with the adjusted budget decreasing from R47.75 million (original budget) to R42.23 million. As a percentage of Property, Plant, and Equipment (PPE), R&M spending drops from 3.1 per cent to 2.5 per cent, which is below the National Treasury's recommended norm of 8 per cent. Although this percentage slightly improves to 2.8 per cent in 2025/26 and reaches 3.2 per cent in 2026/27, it again declines to 2.7 per cent in 2027/28. This sustained underinvestment in asset maintenance poses a risk to the longevity and reliability of municipal infrastructure.
- The long-term impact of this trend could be significant. Inadequate maintenance of assets may lead to higher repair costs, reduced service delivery efficiency, and potential infrastructure failure especially in high-use areas such as water, sanitation, and electricity. Deferred maintenance also accelerates asset deterioration, increasing the future capital replacement burden. As the municipality tables its final budget, it is recommended that it reassess its R&M allocations with a view to progressively increasing the ratio towards the national norm. This could include ring-fencing funds for preventive maintenance, conducting asset condition assessments, and aligning R&M plans with the Infrastructure Asset Management Plan (IAMP) to support sustainability and service continuity.

3.6.2 OTHER CAPITAL INFRASTRUCTURE RESPONSIVENESS

Municipal challenges	• Some township designs lack proper stormwater drainage systems. • Access roads require attention. • Construction of speed humps.

Capital Expenditure Analysis	• According to the amended IDP, the Municipality's strategy regarding roads and stormwater infrastructure appears to be reactive and selectively responsive, with a focus on basic maintenance and urgent upgrades, but lacking a comprehensive, integrated approach. There is a need for a holistic roads and stormwater master plan, prioritising climate resilience, economic development nodes and public safety.
	• In the 2025/26 financial year, the Municipality has allocated R37.469 million to capital expenditure for road transport, accounting for 21 per cent of the total capital budget. This marks a 14 per cent decrease compared to the previous financial year, possibly reflecting either the completion of major projects or a reprioritisation of capital investment. However, projections over the MTREF indicate a 13 per cent increase in road transport capital spending, suggesting a continued, albeit measured commitment to enhancing mobility and connectivity within the Municipality.
	• Key projects listed in the SA36 schedule include:
	  • Upgrade of High Street – R5.2 million
	  • Upgrade of stormwater drains in Wittedrift – R4 million
	  • Upgrade of stormwater drains in Kranshoek – R2 million
	• These projects indicate targeted interventions to address critical infrastructure, particularly in areas vulnerable to flooding and poor road conditions. While they represent important steps toward resolving long-standing challenges, the extent to which they will meaningfully reduce infrastructure backlogs or improve access across all affected communities remains unclear.

3.6.3 Municipal Readiness: Infrastructure Implementation capacity

Municipal factors/scoring	• RATINGS AFRIKA SCORECARD
Capacity Analysis	**Key Findings from the RATINGS AFRIKA SCORECARD** • The RATINGS AFRIKA SCORECARD provides a comprehensive evaluation of municipal performance across various dimensions, including infrastructure management. Key findings relevant to Bitou Municipality include: • **Infrastructure Maintenance:** Bitou's performance on infrastructure development has been keeping fairly steady over the last couple of years with the score reaching 62 in 2024, still reflecting a strategy to improve service delivery to its residents. Capital expenditures over the last three years increased to a moderate level, totalling R267 million including the R104 million invested during 2024. These investments were funded through a mix of grants, borrowings and own funds. However, with a growing population estimated at over 93 000, infrastructure development might have to speed up. • **Financial Management:** Bitou's overall sustainability index score of 57 in 2024 reflects a fair level of sustainability and gradual improvement over the last four years. An adequate liquidity position and low debt burden underpin its financial sustainability for 2024 and reflect adequate financial practices over the last five years. The operating performance displays some unevenness and remains the weakest component in the financial sustainability profile of Bitou.

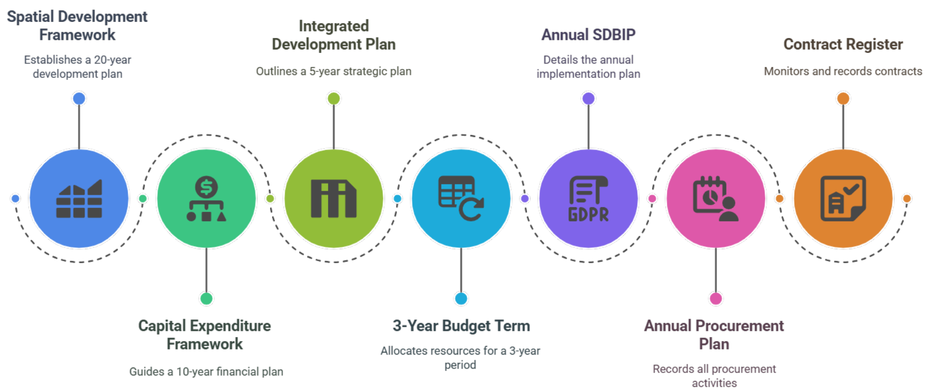
3.9 SUPPLY CHAIN MANAGEMENT AND ASSET MANAGEMENT

Introduction

This section includes a review of all SCM-related policies (including Asset Management) to assess the maturity of SCM governance in the municipality. Focus areas include:

- The compliance of SCM and AM-related policies to regulatory requirements, and highlighting areas which require amendment or review prior to council adoption in June.
- The completeness of procurement plans, considering both new and existing procurement contracts in place to give effect to procurement requirements in the financial year, i.e. the alignment of the procurement plan to the budget.
- The completeness, accuracy and reliability of Contract Registers and their interrelationship with procurement plans.
- Availability and completeness of asset registers and their ability to influence IDPs and the 3-year budget cycle for either asset maintenance or replacement/refurbishment.
- Commodity-specific opportunities for strategic procurement for improved efficiency, value-for-money and service delivery, whether at municipal, district, provincial or national level.

Municipal Planning and Procurement Process Flow



Bitou Municipality Assessment

Table 4 Summary of inputs received from Bitou Municipality

Item	Provided (Y/N)	Council Adopted? (Y/N)	Last Review Date	Comments
SCM Policy*	Y	Y	31/03/2025	Special Council Meeting on the 31 March 2025. Item C/2/270/03/25
SOPs	Y	n/a	n/a	SOP's provided, however further alignment to Circ. 87 necessary
SCM + AM Delegations	Y	Y	31/03/2025	Delegations areincluded in the SCM Policy. Delegations have been designed in accordance the Municipality's T Level positions.
Preferential Procurement Policy*	Y	Y	31/03/2025	Special Council Meeting on the 31 March 2025. Item C/2/270/03/25
FIDPM Policy*	Y	unknown	unknown	Not aligned to MFMA Circular 106
Procurement Plan	Y	Y	unknown	Demand Management Plan has been implemented over a period of three years.
Contract Register	N	n/a	n/a	Bid Register provided instead of Contract Register
Asset Mgmt Policy	Y	Y	31/03/2025	Special Council Meeting on the 31 March 2025. Item C/2/270/03/25
Asset Disposal Policy	Y	Y	31/03/2025	Asset Disposal included within Asset Management policy, clause 9,pg 37
Asset Register	N	n/a	n/a	No Asset Register submitted for review

**if not incl. in SCM Policy*

Table 5 SCM Policy sufficiency & compliance

Rating	Measure
1	No evidence of SCM involvement in IDP
2	No explicit evidence of SCM involvement in IDP, but implied in documents provided
3	Some evidence of SCM involvement in IDP, with gaps to be addressed
4	Evidence of SCM involvement in IDP, but gaps identified
5	Clear evidence of SCM involvement in IDP

	Municipal assessment & comments
3	The IDP for 2025–2026 provides insight into procurement-related matters and its alignment with the municipal budget, e.g. *"access to procurement opportunities to SMMEs and the development of a local supplier database to facilitate local procurement opportunities"*
	The Municipality has the opportunity to secure multi-year contracts to achieve value for money and potentially improve on supplier lead times
	Whilst the procurement plan largely adheres to the basic requirements of Circ. 62, it omits key fields, e.g. bid committee meeting dates
	The Procurement Plan does not address operational expenditure requirements
	The Municipality's Council Special Meeting Minutes note that the Municipality is establishing a Municipal Court. However, no provision is made for the procurement-related activities stemming from this decision.

Detailed analysis of SCM Governance instruments highlighted the following:

The overall structure and key provisions of the SCM Policy are consistent with the principles and requirements laid out in the National Treasury MFMA SCM Regulations (as amended).

The policy explicitly aims to comply with these regulations and has demonstrably incorporated the recent amendments to the procurement thresholds and related procedures.

1. **SCM Policy Assessment:**

a) Version Control

The Version Control table makes no reference to any amendments, reviews or council adoption since 29 May 2023. Par. 3(1)(a) requires that the policy is reviewed at least annually.

b) Other Applicable Legislation

The list of other applicable legislation still mistakenly refers to the repealed 2017 iteration of the Preferential Procurement Regulations. This should be amended to refer to the 2022 regulations.

c) Layout & legibility

The version of the document submitted for review has layout issues, presumably due to a file conversion issue, which renders the contents of paragraphs in illegible order. While this is a seemingly simple administrative error, the publication of an ill-constructed policy may lead to misinterpretation and incorrect application of the contents.

d) Demand Management

Par. 10(2) requires that the demand management system of the municipality encompasses 'all goods and services'. It is noted that the municipality's procurement plan submitted for review excludes operational expenditure, i.e. only incorporates capital projects. This omission is in breach of the municipality's own policy, and signifies poor practice in terms of resource allocation as outlined below.

e) Central Supplier Database

Par. 14 of the policy fails to refer to the NT's Central Supplier Database in any way, despite this being incorporated as a previous change in the version control section, in 2016.

f) Examples of goods and services for which quotations may be difficult to obtain

Par. 17 details certain goods & services for which the municipality is 'not being in a position to obtain formal written price quotations'. The municipality is discouraged from making such stipulations in the SCM policy, as certain examples are factually incorrect (highlighted below), and the inclusion of this list creates a perception of exemption from acquisition management principles.

The following examples in the policy are factually incorrect and can be procured by formal written price quotations:

- Media advertisements
- Appointment of legal counsel
- Training, incl. courses & seminars
- Corporate branding and artwork
- Medical specialists and consultations
- Travel services, incl. accommodation and short-term car hire or rental services

- Vehicle maintenance, incl.: Fuel and lubrication services, brake pads and brake shoes (linings)
- Maintenance/servicing of specific assets (presumably this refers to assets still under warranty, or where certain maintenance works must be performed by the original equipment manufacturer's locally appointed agent)
- Telecommunications and related services
- Monitoring of alarms
- Security services

It is noted that there are cases listed above where the requirement to obtain three quotations may not be feasible, but this does not preclude the municipality from recording these cases as deviations. Additionally, entering into long-term contracts for the supply of services such as travel management, media advertising, vehicle maintenance, telecommunications, security alarm monitoring and response, corporate branding, legal services, etc. would legitimise procurement through appropriate contractual arrangements.

2. **Preferential Procurement Policy:**

The Bitou PP policy doesn't include the definitions listed in the PPRs of 2022.

For income-generating tenders above R50 million, the Bitou PP policy states that the award will be to the highest bidder. s. 7(4) of the PPRs 2022 stipulates that, "Subject to section 2(1)(f) of the Act, the contract must be awarded to the tenderer scoring the highest points." This discrepancy must be corrected.

3. **Delegations:**

Even though the municipality has established delegations, sub-delegations do not provide limitations and expand further on processes from the MFMA Circular 73, as this is included in the Municipality's SCM Policy.

4. **SOPs:**

The SCM Policy has given effect to the amended procurement thresholds gazetted by the National Treasury in December 2023, but the SCM SOPs have not yet been amended accordingly, nor are the SOPs aligned to MFMA Circular 87.

Table 6 Infrastructure Procurement Policy sufficiency & compliance

Rating	Measure
1	FIDPM Policy not provided
2	FIDPM Policy provided, but not compliant or sufficient
3	FIDPM Policy provided, with omissions &/or areas of improvement identified
4	FIDPM Policy provided, with areas of improvement identified
5	FIDPM Policy provided, and is compliant & sufficient
	Municipal assessment & comments
2	FIDPM Policy provided, but not compliant or sufficient
	The Municipality's Infrastructure Delivery and Procurement Framework remains aligned to the repealed MFMA Circular 77.
	The Municipality's is urged to review and update the FIPDM policy to ensure alignment with the current MFMA Circular 106 and its LGFIDPM annexure.
	The PT will be focusing on infrastructure procurement, in alignment with the WCIF 2050, to support municipalities; further engagements will be conducted in this regard.

Table 7 Bitou Municipality Influenceable Expenditure

	25/26	24/25 adj
Inventory Consumed	22,814,000	20,641,000
Contracted Services	139,171,000	115,272,000
Operational Costs (excl Audit	82,963,000	85,150,000
Procurable Opex	**244,948,000**	**221,063,000**
Capital Projects	178,441,000	151,080,000
TOTAL	**423,389,000**	**372,143,000**
Rep & Maint (R-value in	40,784,000	42,231,000

Source: Municipal A-Schedules

Bitou's Municipality's influenceable spend amounts to approximately R423,3m for 2025/26, compared to approximately R372,1m for 2024/25, broken down as follows:

This amounts to a total increase of 14% for procurable expenditure, with Contracted Services seeing the largest increase of 21%, and Capital Projects seeing a 18% increase.

As operational expenditure makes up 58% of the municipality's procurable expenditure, it is crucial that the procurement plan does not only make provision for capital projects. Failure to do so may result in inadequate resource allocation within the procurement unit, and lead to project and service delivery delays.

Contract Register: Sufficiency and Alignment to Procurement Plan

The document submitted for review is not a Contract Register, but a list of: bids awarded, bids cancelled, bids withdrawn or bids with no offers received.

The PT recommends that the municipality reviews and implements the requirements of the NT Contract Management Framework and Guide (2010), and uses this tool as a monitoring instrument to ensure that all contracts are recorded and contract management evaluation processes stem from this foundational document. Critical fields to incorporate include:

- Contract ID
- Contract description
- Contract type
- Contract value
- Contract duration
- Perceived complexity (H/M/L)
- Perceived strategic importance (H/M/L)
- Overall level of management intervention required (H/M/L)
- Amendments, incl. variations and extensions
- Expenditure to date

Table 8 Sufficiency & compliance of Asset Management (incl. Disposal) Policy

Rating	Measure
1	No AMP provided
2	AMP provided, but not compliant or sufficient
3	AMP provided, with omissions &/or areas of improvement identified
4	AMP provided, with areas of improvement identified
5	AMP provided, compliant and sufficient (incl. best practice)
2	**Municipal assessment**

A detailed review of the asset management policy highlighted the following concerns:

- No provision is made for the annual review of the policy.
- The policy appears to be aligned to best practice for asset accounting (per GRAP), but best practice emanating from ISO 55001 is not incorporated into the AMP.
- Additionally, the policy omits key regulatory requirements from the Construction Regulations (2014), including inter alia the need for regular inspection of assets, record keeping regarding inspections and maintenance work, etc. This is despite the policy specifically referring to the OHSA in par. 12.2.
- The policy does not:
  - incorporate environmental sustainability or climate resilience considerations, which are increasingly critical in asset lifecycle planning;
  - include KPIs or performance metrics to track the effectiveness of asset management activities and processes;
  - contain any guidance regarding lifecycle costing or management;
  - demonstrate the linkage between asset maintenance, effective utilisation of assets and the role that the asset register plays to inform either/both the IDP and the procurement plan. E.g. replacement of aged infrastructure, maintenance of existing assets, parts & spares;
  - include a dedicated, structured approach to identifying, evaluating, and mitigating asset-related risks; or
  - provide for monitoring tool for ensuring enforcement of the policy, such as a consequence management section.

Table 9 Completeness of Asset Register

Rating	Measure
1	No Asset Register
2	Outdated GRAP-oriented asset register, not on ERP
3	Seperate GRAP-compliant register on ERP system, but outdated ISO55001-oriented registers outside ERP system
4	Seperate GRAP & ISO55001-compliant asset registers, regularly updated with only financial register housed on the ERP system
5	Integrated, GRAP & ISO55001-compliant asset register, regularly updated and housed on the ERP system
	Municipal assessment & comments
1	No Asset Register provided for assessment

PT is undertaking extensive analysis of all Western Cape municipalities' asset management governance and organisational arrangements, to ensure alignment to the mSCOA refresh process and support municipalities in achieving an appropriate baseline in asset management practice before determining which municipalities would be most suitable for potential digital solutions to asset management challenges. This approach aligns to the National Treasury's IDMS Module 3 for Infrastructure Asset Management and various best practice guidelines.

Conclusion

This assessment sought to determine the extent to which SCM and Asset Management-related policies are sufficient and compliant, and whether asset management, procurement planning and contract management effectively influence the IDP and budget cycle.

The PT was unable to determine whether the asset register (with particular attention to risk rating, condition assessments, etc.) influences the IDP and/or procurement plan, and/or budget.

Similarly, the Contract Register should inform the procurement plan, and the budget, to ensure that all renewable contracts are incorporated into the annual resource allocation for procurement activities and that uncertain price increases due to contract renewals are factored into the budgeting process. The PT was unable to determine whether this alignment is in place due to non-submission of key documents.

SECTION 4: REVIEW OF THE HISTORICAL FINANCIAL INFORMATION

4.1 THE FINANCIAL PERFORMANCE AS PER THE AUDITED ANNUAL FINANCIAL STATEMENTS

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

Adverse ratio outcomes show potential areas requiring action to ensure sustainability. The assessment trend analysis is based on the audited financial statements for 2022, 2023 and 2024; however, the table provides a five-year time frame (2020 to 2024) to provide a more comprehensive perspective for evaluating the 2025/26 budget.

The analysis is conducted as per National Treasury MFMA Circular No.71. Provincial Treasury has analysed these ratios, and the following items are highlighted.

4.2 SUMMARY AND FINDINGS FROM HISTORICAL TRENDS

NT WEB-BASED PORTAL STATUS

The Municipality has submitted both the 2022/23 (restated) and 2023/24 (audited) ratios on the NT web-enabled system, and PT is in the process of validating the ratios with the Municipality. This report is based on PT calculations.

4.2.1 Asset Management

No.	Financial ratios & norms	2020 Audited	2021 Audited	2022 Audited	2023 Audited	2024 Audited	*CAGR	Projection	Overall Rating
1	Impairment of Property, Plant and Equipment, Investment Property and Intangible Assets (Carrying Value): **0%**	0.0%	0.1%	0.0%	0.0%	0.9%	N/A	N/A	
2	Repairs and Maintenance as a % of Property, Plant and Equipment, Investment Property (Carrying Value): **8%**	4.0%	3.6%	4.4%	4.0%	3.7%	-1.6%	3.7%	

- **Impairment of Property, Plant and Equipment, Investment Property, and Intangible Assets (Carrying Value):** The Municipality's impairment ratio is not within the acceptable NT norm. This relatively low ratio suggests that the municipality's assets have largely retained their value, with only a small portion deemed impaired, however, improvement is needed. To prevent any backlog in service delivery, the Municipality should maintain this ratio at 0 percent, and this can be better sustained through the investment in repairs and maintenance of assets to keep assets at optimal working condition.
- **Repairs and Maintenance to PPE and Investment Property (Carrying Value):** The 3.7 per cent ratio is lower than the recommended NT norm of 8 per cent and may be attributable to the acquisition of new assets over the period under review which did not require repairs, however, it also indicates that

Bitou Municipality's current maintenance budget may be insufficient to fully address the maintenance needs of its assets. This shortfall could lead to increased operational challenges, such as frequent asset performance failures or service delivery disruptions. It's essential for the municipality to assess and potentially adjust its maintenance budget to ensure the longevity and reliability of its infrastructure assets. This will also maintain the impairment ratio above at an acceptable level.

- Overall, Bitou Municipality's Asset Management reflects a stable but cautious position. While current assets conditions **appear satisfactory, continued low maintenance spending may lead to asset deterioration, increased** long-term costs, and potential risks to service delivery.

4.2.2 WORKING CAPITAL

No.	Financial ratios & norms	2020 Audited	2021 Audited	202 Audited	2023 Audited	2024 Audited	*CAGR	Projection	Overall Rating
7	Net debtors' days: ≤30 days	40 days	31 days	33 days	39 days	39 days	-0.2%	39 days	
8	Creditors Payment Period (Trade Creditors): 30 days	60 days	41 days	43 days	60 days	75 days	5.9%	80 days	

- Net Debtor's Days: The Municipality takes 36 days on average to collect revenue from its debtors per the ratio calculations over the period reviewed. The ratio results are not within the NT norm of 30 days but are quite decent for a local municipality, and it suggests that their revenue collection is fairly efficient. It is however still advisable for the Municipality to review its debt collection processes and consider implementing measures to shorten the collection period as this may affect not only affect their operations due to cashflow constraints but may also lead to going concern issues in the future. Ratings Afrika in its 2025 report stated that "*Bitou should not relinquish its pressure on collections and should strive to keep the collection rate at a higher level, to counter the higher financial risk as a result of the lower operating performance during the budget period.*"

- **Creditors Payment Period (Trade Creditors):** The ratio results indicate that creditors are paid after 56 days on average over the period reviewed. This duration significantly exceeds the standard 30-day payment term recommended by the Municipal Finance Management Act (MFMA). The CAGR, based on period under review reflects a further deterioration to 80 days for the 2024/25 financial year. The Municipality should consider revisiting the implementation of its debt management policy to ensure compliance with S65(2)(e) of the MFMA. Implementing robust credit control and debt collection policies, as well as adhering to legislative requirements, are essential steps toward improving payment efficiency and uphold fiscal responsibility.

- Overall, the Municipality needs to continue accelerating the implementation of both its Debt and Credit Policies to ensure that the legislative requirements to pay creditors within 30 days are met and ensure that debtors are paying on time. Creditors that are not paid within the stipulated timeframe may lead to deterioration of credit record and will results to a negative audit outcome in the near future.

4.2.3 Going Concern

No.	Financial ratios & norms	2020 Audited	2021 Audited	2022 Audited	2023 Audited	2024 Audited	*CAGR	Projection	Overall Rating
12	Total Liabilities to Total Assets: <50%	25.5%	24.6%	22.0%	22.7%	24.2%	-1.2%	23.9%	
13	Total Debt to Total Assets	9.0%	8.0%	6.4%	6.9%	7.7%	-3.9%	7.4%	
14	Current Ratio: 1.5 - 2:1	1.4	1.0	1.1	1.3	1.6	2.0%	1.6	

- **Total liabilities to Total assets:** The ratio results indicate that the Municipality remained within the acceptable norm throughout the period reviewed. This is an indication that the net asset position of the Municipality is sound, indicating that the assets can cover liabilities. With the intent to grow its asset base, Bitou Municipality has earmarked to spend R450 million on various infrastructure projects for the next three years and the majority of the investments will be in roads, electricity, water and wastewater management services. Even though a large portion of this expenditure will be funded by grants and own cash resources, the Municipality will have to raise new loans over this budget period. This investment will increase the asset base but at the same time the borrowing burden will also increase due to loans that will be taken up. This ratio indicates that the Municipality will still be able to service its debt if the current financial position is maintained.

- **Total Debt to Total Assets:** The Municipality's debts are at a low level in comparison to its asset base. This suggests a relatively low level of indebtedness, implying that the Municipality has a solid asset base and is not overly reliant on debt financing. The Municipality has capacity to take on additional funding should the need arise as it demonstrates a robust financial position, however, all cashflow indicators need to be considered for affordability purposes.

- **Current Ratio:** The ratio result is within the acceptable NT norm of 1.5:1 to 2:1 in the 2023/24 financial year. This indicates that the Municipality has ability to meet its short-term obligations over the medium term. Rating Afrika has also attested to the sound financial position of Bitou by stating the following, "*Bitou's overall sustainability index reflects a fair level of sustainability and some gradual improvement over the last four years. An adequate liquidity position and low debt burden underpin its financial sustainability for 2024 and reflect adequate financial management practices over the last five years*".

- Overall, Bitou Municipality is operating as a going concern and does not have sustainability challenges; this is based on the selected financial analysis performed above in the form of historical ratios.

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

	Favourable
	Unfavourable
	Needs Improvement

4.3 mSCOA IMPLEMENTATION

4.3.1 Credibility of Mscoa Data Strings

- Circular No. 130 (20 March 2025) confirms that the credibility and accuracy of the Municipal Standard Chart of Accounts (mSCOA) data strings must be verified by municipalities prior to submission, as these submissions serve as the sole source of financial data used by National Treasury for analysis, reporting, and publication throughout the municipal financial year. To support this, municipalities are expected to utilise the reports available on the GoMuni portal to verify the completeness and credibility of their data submissions.
- The circular reiterates that errors in submitted data strings may only be corrected in the next open reporting period. For instance, any inaccuracies in the tabled budget (TABB) data string can only be corrected in the original adopted budget (ORGB) data string. Closed reporting periods may not be reopened to make retrospective corrections under any circumstances.

Table 10 mSCOA Segments Use Analysis

mSCOA Western Cape TABB Segment		
No	**Segment**	**Bitou TABB 2025**
1	**Project Segment**	
1.1	**Maintenance**	Correctly used the Project Operational Maintenance
1.1.1	**Corrective Maintenance**	
1.1.1.1	Planned	Budget Allocated - Adequately applied
1.1.1.2	Emergency	Budget Allocated - Adequately applied
1.1.2	**Preventative Maintenance**	
1.1.2.1	Condition Based	Budget Allocated - Adequately applied
1.1.2.2	Interval Based	Budget Allocated - Adequately applied
1.2	**Typical Work Streams**	Adequate use of available options. Typical Work Streams: Property Rates Rebate: Discretionary.
1.3	**Municipal Running Costs**	Adequate use of Municipal running cost project.
1.4	**Default**	Adequate use of the available options under the Project default. Project default must be used to classify revenue and the Municipality has used this option for their revenue.
2	**Fund Segment**	
2.1	Use of Fund Segment	Adequate use of the funding segment. The Municipality did not use the Municipality used property rates to fund employee related cost. The municipality incorrectly used the Fund: Non-funding Transactions and Fund: Operational: Revenue: General Revenue: Interest, Dividend and Rent on Land: Interest: Receivables: Property Rates and this should be corrected
3	**Function Segment**	
3.1	**Use of Function Segment**	The Municipality incorrectly used the Function: Finance and Administration: Core Function: Finance and Function: Road Transport: Non-core Function: Roads for water services
4	**Costing Segment**	
4.1	**Use of Costing Segment**	Adequate use of the costing segment.
5	**Region Segment**	
5.1	**Use of Region Segment**	The Municipality predominantly used Whole of the Municipality for revenue items.
6	**Item Segment :**	
6.1	**Property Rates**	The Municipality adequately used the available options and did split the revenue amongst the various accounts.
6.2	**Service Charges**	The Municipality adequately used the Item Monthly Billing in the C6 , however the amounts is not aligned to the billed revenue in C4.
6.3	**Fines**	Differences are noted in the fines issued in the C4 when compared to the C6. The Municipality split fines revenue between the different functions.
6.4	**Employee Related Costs**	
6.4.1	Senior Management	The Employee related cost expensed in the C4 does not align to the salary control clearing raised in the C6.
6.4.2	Municipal Staff	
6.5	**Councilors Remuneration**	Aligned with the supporting tables in under SA23
6.6	**Bulk Purchases**	Appropriately used.
6.8	**Debt Impairment**	
7.1	**Contracted Services**	
7.1.1	Outsourced	Adequate use of the available options
7.1.2	Consultants and Professional Services	Adequate use of the available options
7.1.3	Contractors	Adequate use of the available options
8.	**Other Materials**	
8.1.1	Inventory Consumed	Inventory consumed is not reconciling with the inventory account issues.
8.1.2	Water Inventory	No budget for water inventory

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

SECTION 5: CONCLUSION

The 2025 SIME 2 assessment highlights key issues for consideration and offers recommendations aimed at supporting more effective planning, budgeting and service delivery. It also underscores the importance of addressing identified risks, strengthening financial credibility and sustainability and promoting greater alignment and integration across key planning frameworks.

We look forward to engaging further during the upcoming meeting in May 2025, where these matters will be discussed in more detail. This engagement will provide an opportunity for open dialogue, shared understanding, and collaborative efforts to strengthen planning and service delivery within the Municipality.