



● ● A Moment in Time

An Unsolicited Contextual Analysis of the Overstrand Local Municipality's Financial Sustainability (October 2023)

Salient Findings and Recommendations

Analysis incorporates data from the Audited Draft Annual Report (2022 | 23) and Draft Budget Report 2024 | 25

Presenter:

Errol van Staden (Ratepayer Ward 3)

In collaboration with an independent multi-disciplinary project team

April 2024

Presentation Overview

- Why we launched the project
- Salient Findings
- Some Granular Detail
- Flickering Red Lights
- The Big Rocks
- Recommendations
- The OM's Response
- Draft Budget 24 | 25
- The Way Forward

Introductory Comments

- Project Purpose
- High-Level Overview
- Scratching the Surface | Unanswered Questions | Dig Deeper
- Private Sector Hat
- OM should operate along sound business principles
- Recognise Good Work by many Good People (within the OM)
- Improvement Opportunities | Collaboration
- Analyses and Assumptions based on Available Data (OM-website)
- Slide Deck Available Upon Request
- Questions Towards the End

A Phased Approach

Phase One (July – October 2023)

- Assemble a multi-disciplinary project team
- Perform a high-level analysis of the OM's financial performance
- Develop a contextual understanding of its financial sustainability
- Present findings and recommendations to the OM (November 2023)
- Share in the public domain (January 2024)

Phase Two (Q1 24)

- Perform a high-level analysis of the draft audited Annual Report (22 | 23) and the draft Budget (24 | 25)

Phase Three (Q3 24 onwards)

- Benchmark (OM-performance against its peers)
- Adopt an integrated approach to future budget and IDP-reviews (25 | 26 onwards)

Phase One - Project Purpose

- Develop a high-level understanding of the OM's financial health and the risks it faces against the backdrop of projected population growth and the associated pressure on finite resources and infrastructure
- Perform trend analyses to determine fund allocation patterns, the direction in which these trends are moving and the implications of same
- Gather business intelligence that will serve as an input to the design of a future-focused business strategy

The project was NOT a deep dive into the OM's finances. Rather, the analysis focused on the strategic context, developing revenue and expenditure trends and the likely impact of these trends on the OM's future financial sustainability.

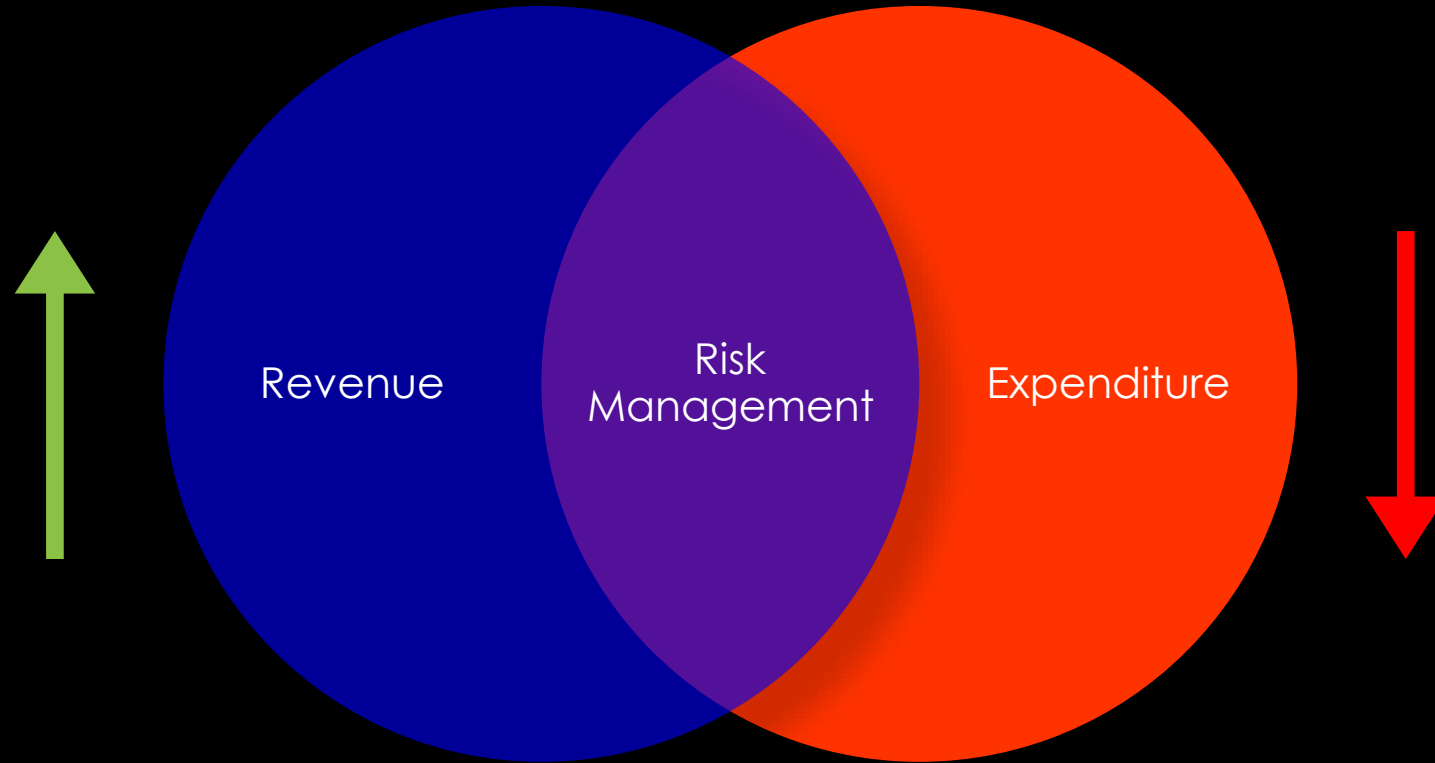
Financial Sustainability

Financial Sustainability Understood

The ability of a municipality to deliver services and develop the infrastructure required by its residents without sudden increases in rates and tariffs, or a reduction in the level of services.

It furthermore reflects the municipality's ability to absorb financial shocks without external financial assistance.

Achieving Financial Sustainability



Factors Impacting Financial Sustainability

In-migration

Local Economic Growth

Declining Profit Margins

Business Model

Revenue Growth

Cost Reduction

Workforce Capability

Allocation of Funds

Infrastructure Development

Political Stability

Management of Key Risks

Mindset and Calibre of Leaders

About the Overstrand Municipality

About the Overstrand Municipality

- Established December 2000
- Includes Rooi Els, Pringle Bay, Betty's Bay, Kleinmond, Greater Hermanus, Stanford and Greater Gansbaai
- Employs approximately 1 200 full-time employees
- 27 Councillors (DA: 17 | ANC: 4 | EFF: 1 | Land Party: 2 | FF Plus: 2 | ACDP: 1)
- 14 wards | 7 directorates
- Obtained 11 consecutive Clean Audits
- Winner of several awards
- Rated amongst the better performing local municipalities in South Africa
- Marked improvement in the Ratings Afrika Municipal Financial Sustainability Index score (MFSI) during 2016 – 2020 (subsequent decline)
- Conventional local government business model
- Sale of electricity and property rates are main sources of revenue
- Generally-speaking a financially stable and operationally well-run municipality

Multi-Year Generic Strategic Objectives

Provide democratic, accountable and ethical governance

Provide and maintain municipal services

Encourage structured community participation in the matters of the municipality

Create and maintain a safe and healthy environment

Promote tourism, economic and social development

‘We have an expensive Municipality’

Executive Mayor Dr Annelie Rabie

During her U3A-presentation on Tuesday, 30 January 2024 – Municipal Auditorium

Phase One Project Trigger – Population Growth

Population Estimates - Overstrand

Overstrand Municipality (31 May 2023, IDP 23 | 24, p.62)

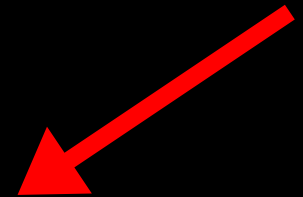
- Current estimated population : 114 680 (increase of 42.58% from 2011)
- Projected population (2026) : 124 826

Census 2022 (published 10 October 2023)

- Estimated Overstrand-population : 132 495 (increase of 64.73% from 2011)
- Number of Overstrand-households : 59 980 (increase of 114.34% from 2011)

Census 2022 estimate (Western Cape under-counted by 35.4% - Stats SA)

- Current estimated population : 179 398 (increase of 123.04% from 2011)
- Observation : Significant gap (56.43%) between OM - and Census 2022 estimates
- Implications : Vast



Salient Findings

Findings in a Nutshell (1 | 2)

Positive

- Current financial position is healthy
- Cash reserves of circa R646 535m
- Borrowings of R479 906m
- Net assets of R3 835 478 000
- Produced a net surplus of R111 298m during 2022 | 23
- Has a long-term financial plan (LTFP) – designed during 2013
- Certain key risks have been identified
- Strong revenue management
- Proven ability to generate cash from operations
- Low level of grant dependency
- Consecutive clean audits
- Comprehensive reporting

Findings in a Nutshell (2 | 2)

Not So Positive

- **No growth strategy** | Conflicting unemployment data
- Expenditure exceeds revenue (excluding capital transfers)
- Strategic objectives do not specifically address strategic risks (refer Big Rocks)
- Forward planning based on **stale population data?**
- **Decline in capital project spend** | Infrastructure renewal and development
- **Overtime spend is off-the-chart**
- **Bulging employment-related cost** | **Possible over-staffing** | **Inflated salaries and benefits**
- Above inflation tariff and salary increases
- Broken performance management system | **Performance bonuses paid during Covid**
- Almost zero spend on training and development | **No people strategy** | Succession planning?
- **Inconsistencies in financial reporting** | Auditor General identified 'material misstatements' in the OM's 2022 | 23 performance report (corrected and approved)
- Institution is drowning in (irrelevant?) data (the essence not being 'interrogated')
- **Top heavy expensive institution** (circa 75 Directors, Deputy Directors, Senior Managers and Managers)
- **Employees are allowed to perform private work** (declare | conflict of interest)

Outlook and Observations

Outlook

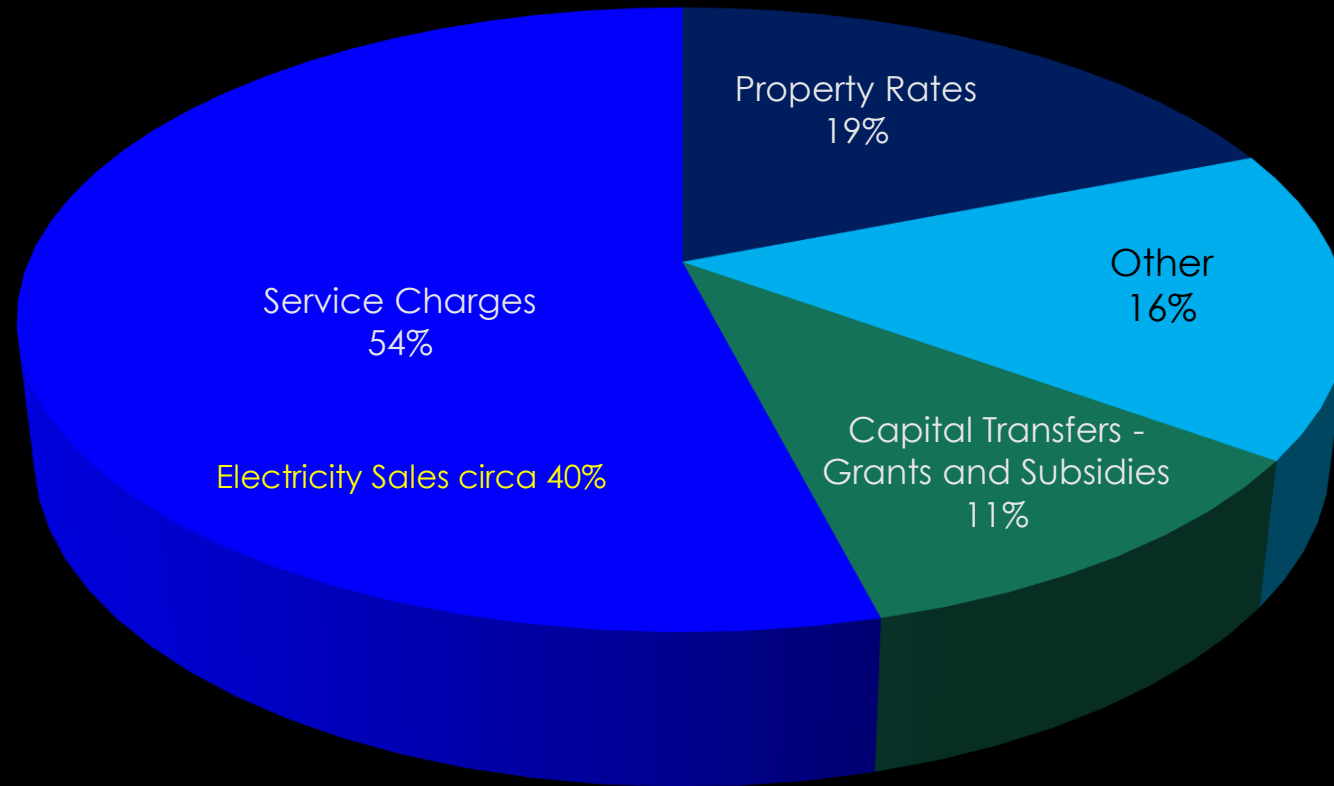
- In-migration to continue | accelerate
- Financial headwinds
- Profitability under pressure
- Need for a feasible capital funding strategy
- Likely decline in financial sustainability (if no interventions)
- Consequential decline in service delivery

Collateral Personal Observations

- Leadership
- Unhealthy organisational culture | Stakeholder relations
- Lip-service being paid to 'citizen-centricity' (being transparent, accessible and responsive)
- Perceived competency gaps (strategic thinking capability | financial acumen)?
- Missed opportunity - OM's failure to engage the expertise within civil society
- Operational focus

Some Granular Detail

Revenue by Source (2022 | 23)



Source: Draft Annual Report 2022 | 23, p. 473

Main Cost Drivers

Direct

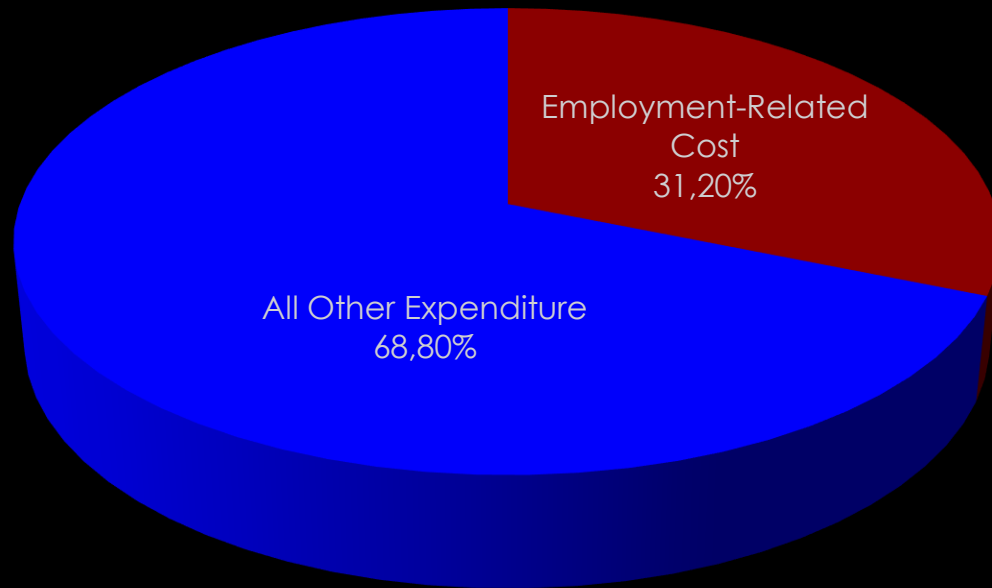
- Employee-related cost (salaries | benefits | contracted services)
- Bulk purchases (electricity | fuel | chemicals)

Indirect (Applicable to any organisation)

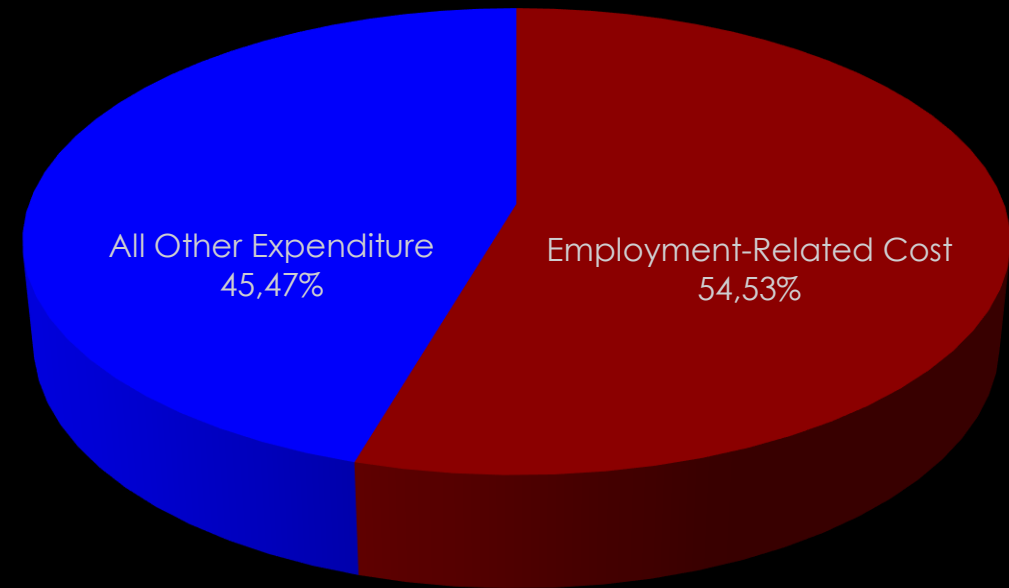
- Process inefficiencies (example: Supply chain management)
- Performance (weak leadership | organisational culture | morale | productivity)

Employment-Related Cost as a % of Revenue (2022 | 23)

Narrow Definition - OM



Expanded Definition

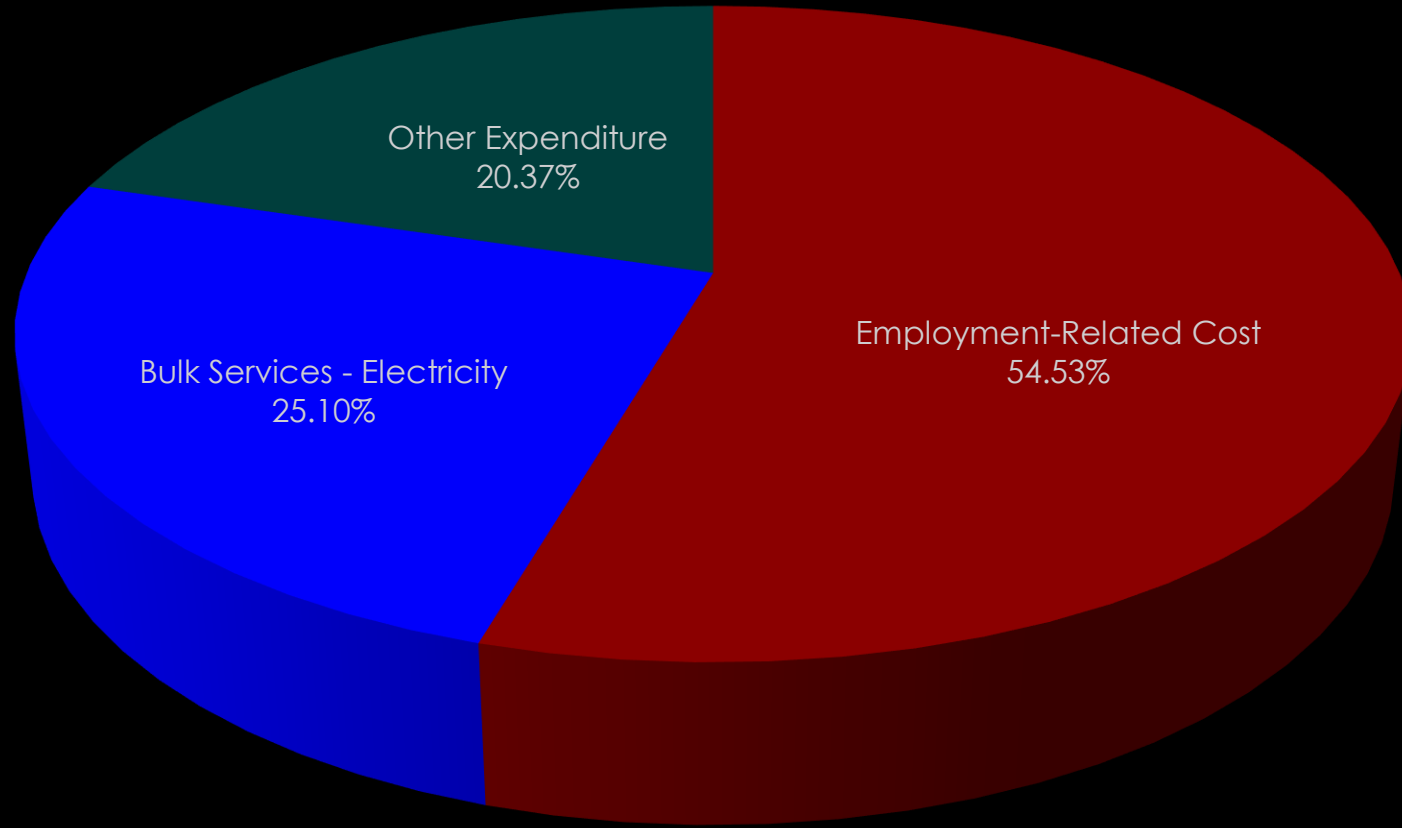


Basis of Calculation: $\text{Employment-Related Cost} / (\text{Total Revenue} - \text{Capital Revenue})$

Expanded definition includes Contracted Services

Norm: 25 – 40%

Main Expenditure Categories (2022 | 23) – Revenue Excluding Transfers

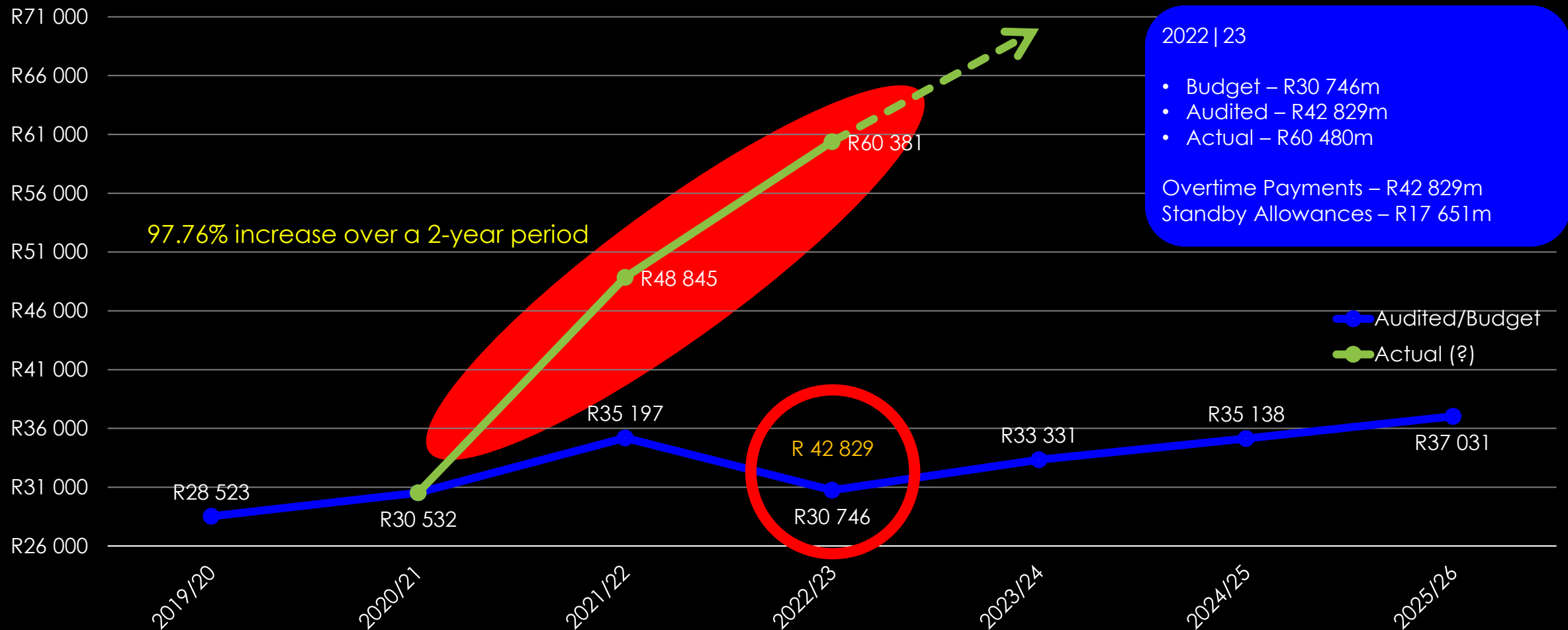


Annualised Councillor and Executive Remuneration

	23 24	24 25	% - Increase
Executive Mayor	R 1 011 505	R 1 058 554	4.7%
Deputy Mayor	R 818 552	R 855 260	4.48%
Speaker	R 827 945	R 867 304	4.75%
Mayoral Committee Members (5)	R 769 730	R 805 668 per member	4.7%
Councillors (19)	R 338 844	R 373 801 per councillor	10.32%
Municipal Manager	R 1 909 806	R 2 431 307	27.31%
Chief Financial Officer (CFO)	R 2 065 149	R 2 134 306	3.35%
Director Corporate Services	R 1 968 517	R 2 033 757	3.31%
Director Infrastructure and Planning	R 2 073 324	R 2 128 314	2.65%
Director Protection Services	R 1 891 577	R 1 954 621	3.33%
Director LED	R 1 923 598	R 1 988 191	3.36%
Director Community Services	R 1 976 744	R 1 421 129	-28.11%
Total Cost to Employer (TCTE)	R26 307 127	R28 003 298	6.45%

Remuneration
EXCEEDS upper limit
for Senior Managers
(set by CoGTA)

Overtime Spend (R'000)



Source: Table 45, Budget 23 | 24, p.91
CFO's Quarterly Budget Report, June 2023. p.25

Total Revenue versus Expenditure (R'000) – Excluding Capital Transfers



Source: Table 17, Budget 2023 | 24, p.41
Draft Annual Report 2022 | 23, p. 470

Capital Expenditure as a % of Total Expenditure (Norm: 10 – 20%)



Cost Driver Escalation (over a 4-year period)

Operating Expenditure	2019 / 20 R'000	2023 / 24 R'000	% Increase
Inventory Consumed	42 302	62 499	47.74%
Employment-Related Costs*	570 420	851 049	49.20%
Bulk Purchases	278 548	429 805	54.30%
Other Benefits & Allowances	19 975	31 926	59.83%
Repairs and Maintenance	189 815	315 056	65.98%
Contracted Services	178 363	300 624	68.55%
Operational Costs	93 037	164 252	76.55%

* Expanded Definition

Year-on-Year Spend Escalation - Examples

Spending Component	2021 22	2022 23	Year-on-Year Increase
External Legal Services	R2 863 249	R4 497 672	57.08%
Event Promoters	R453 967	R788 543	73.70%
Unauthorised Expenditure	R14 108 285	R26 061 573	84.73%
Bad Debt Write-Offs	R5 258 455	R10 206 091	94.09%
Deviations from SCM-processes	R12 558 107	R26 010 760	107.12%
Irregular Expenditure	R164 385	R2 272 945	1 283%

Total approved budget was not overspent

Source: Draft Annual Report, 2022 | 23

Draft Budget 24 | 25

OM's Budget Principles and Cost Drivers

Budget Principles

- Rates and tariff increases must be affordable
- Tariffs must be cost reflective

Cost Drivers

- Main cost drivers are:
 - Direct
 - Employment-related cost (salaries | benefits | contracted services)
 - Bulk purchases (electricity | fuel | chemicals)
 - Indirect
 - Process inefficiencies
 - Performance (weak leadership | organisational culture | morale | productivity)

Closing the Gap between Cost Drivers and Tariffs – Strategic Choices

- Reduce headcount (top-down) and cost of labour
- Achieve operational efficiency gains (Work smarter | Improve productivity | Eliminate red tape)
- Reduce cost of service delivery | Improve supply chain management
- Reduce service levels (as a last resort) – and risk the consequences

Outlook and Facts

Outlook

- Revenue growth shows a downward trend over the next three years (decreasing grant allocations | declining electricity sales | increase in outstanding debtors)
- Projected surplus | deficit position to be negative

Facts

- Audited financial data across various source documents littered with discrepancies (compromised data-integrity)
- Infrastructure capacity not able to serve growing needs (Executive Summary, Draft Budget Report 2024 | 25, p. 12)
- Further reduction in capital project spend (infrastructure maintenance and renewal)
- Bulging employment-related cost (more than 50% of revenue)
- Dramatic increase (693,8%) in use of Contract Employees (22 | 23 to 23 | 24) – note embargo on filling of vacancies
- Overtime spend is abnormally high
- Historic and proposed salary increases are consistently above the rate of inflation
- Sanitation and refuse removal services are currently running at a loss
- Declining profit margins (on services rendered)

Observations and Concerns

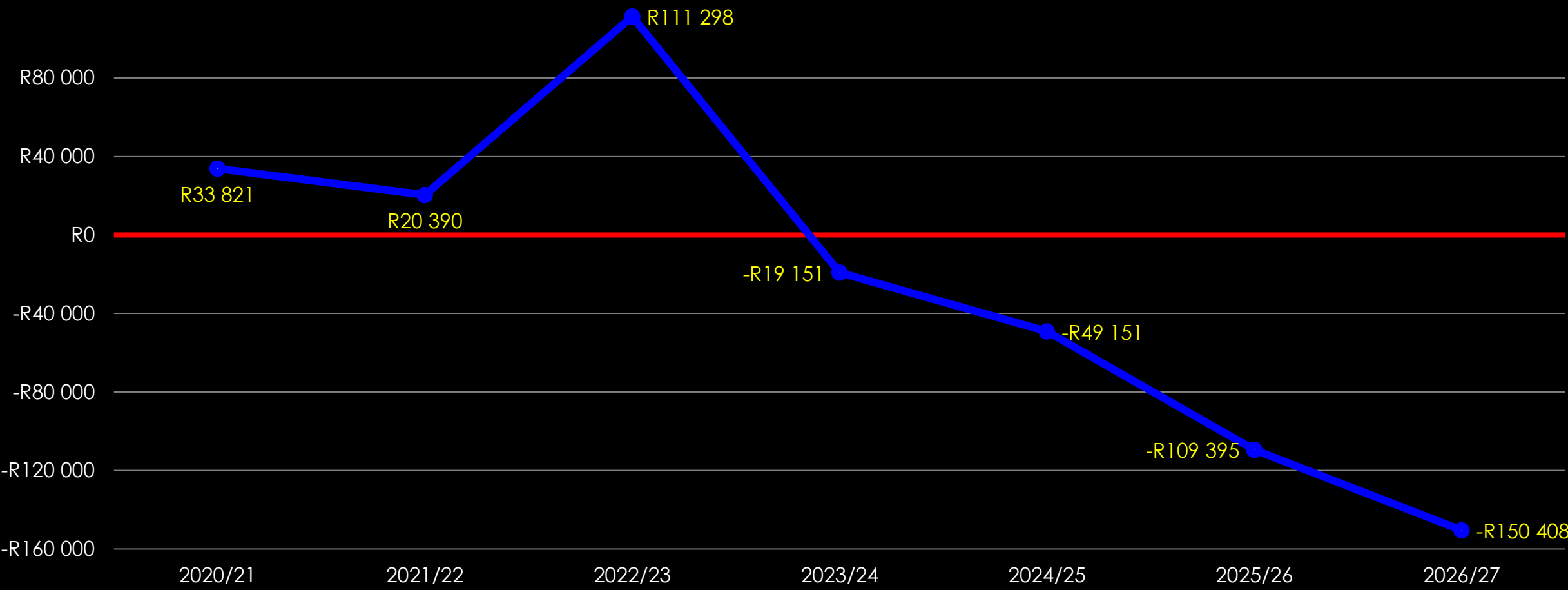
Observations

- Draft budget report is comprehensive and very detailed (879 pages)
- Financial challenges blamed on external factors (e.g. Global warming, War in Ukraine, Eskom, Covid) | Limited evidence of introspection (e.g. We are not managing our cost | What must we do to achieve greater efficiencies and savings?)
- Revised organisational structure was considered and approved by Council during Q1 24 | Cost implications?
- Statement: Councillors do not receive travel allowances. Is the statement true? Who owns CEM 1 (White Fortuner)?

Concerns

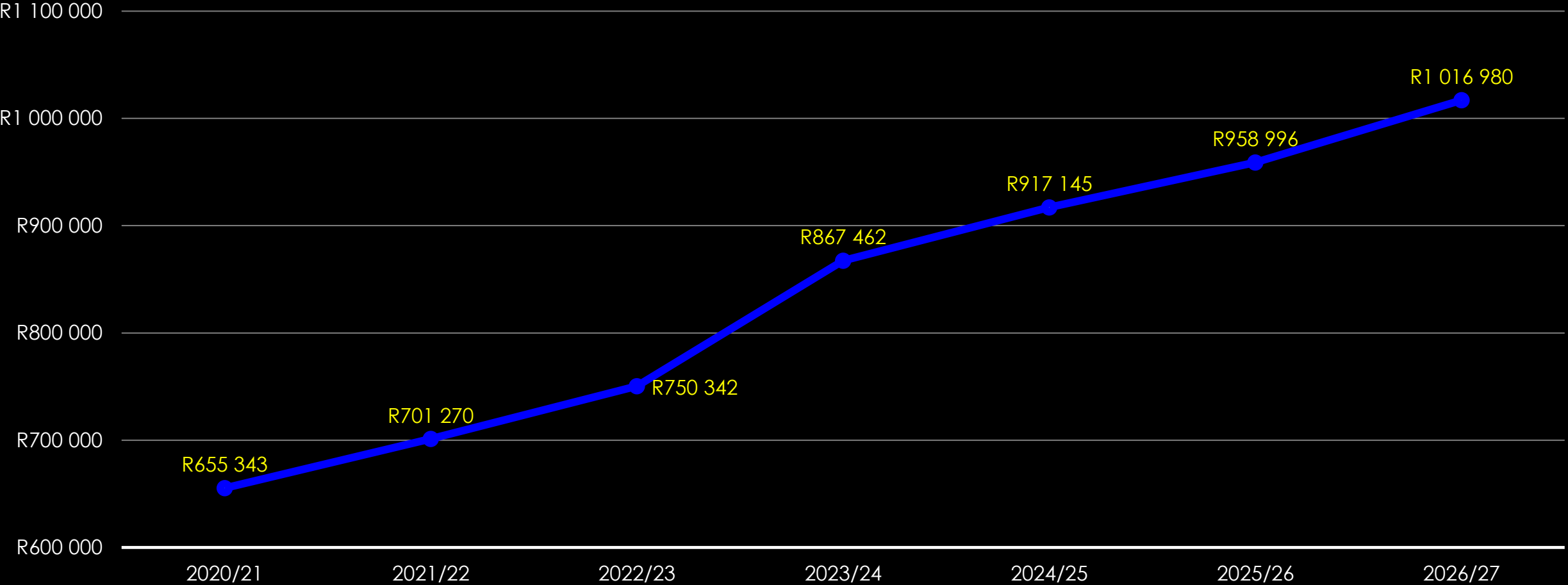
- Grave concern about the accuracy of financial data (refer variations in audited figures across source documents)
- Do ratepayers have the 'full picture' (disclosure | transparency)? Allegations of fraud?
- Do councillors have the required financial acumen to interpret financial data and make informed decisions?
- The OM's failure to engage experts within civil society

Operating Surplus | Deficit Position (Inclusive of Capital Transfers) R'000



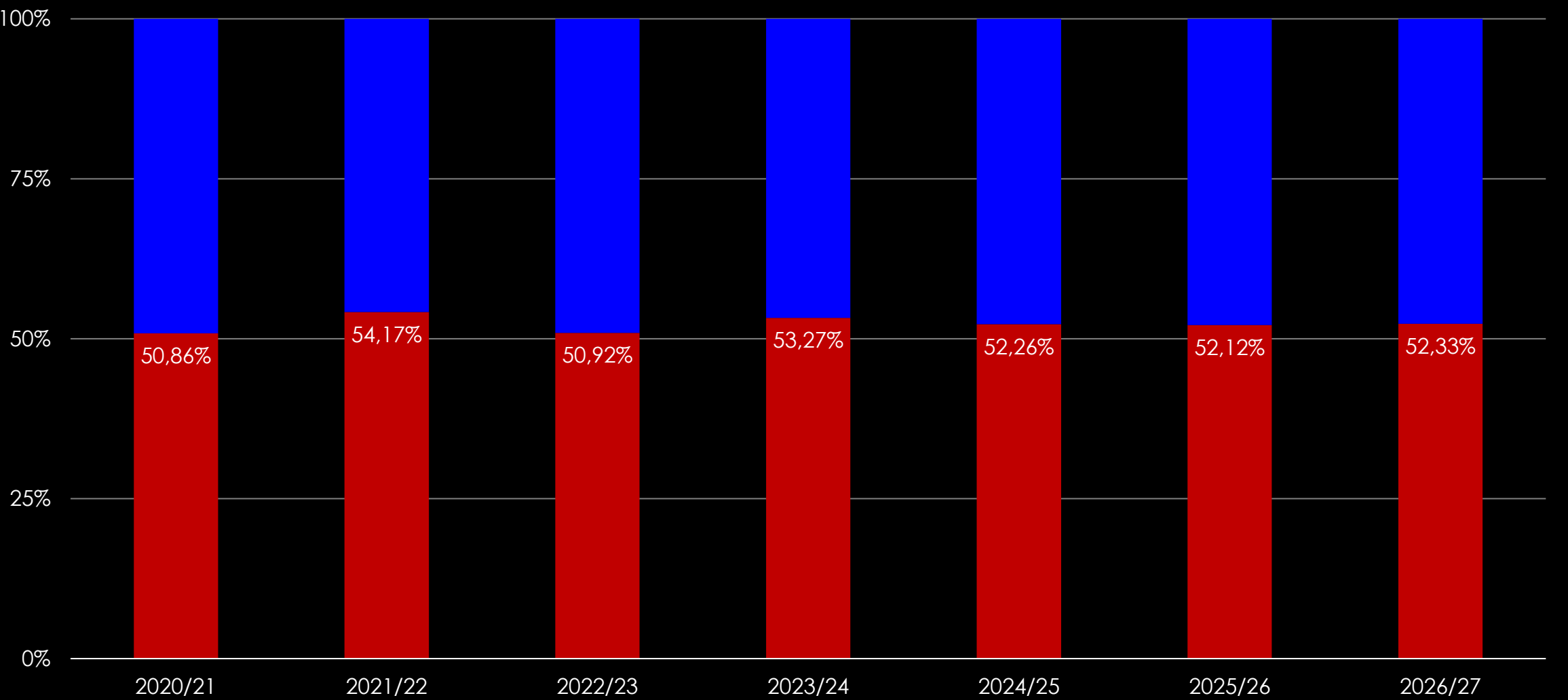
Source: Draft IDP (24 | 25), Table A4, p.248

Employee-Related Costs (R'000) – Expanded Definition



Source: Draft Budget 24 | 25, Table 12, p.29

Employee-Related Cost as a % of Revenue (excluding Capital Transfers)



Rates and Tariffs Comparison (Percentage Increase Year-on-Year)

Financial Year (1 July to 30 June)

	20 21	21 22	22 23	23 24	24 25
Rates					
• Property Rates	4.5%	4%	5.9%	18.26% ?	8%
Tariffs					
• Electricity	6.22%	14.59%	7.47%	15.1%	10.04% ?
• Water	4.5%	4.5%	4.9%	6.65%	6%
• Sewerage	4.5%	4.5%	4.3%	7.21%	8.9%
• Refuse	4.5%	4.5%	5.9%	6.8%	11%
Salary Increases					
	8.25%	6.4%	6.9%	7.4%	7.7%
Rate of Inflation (National Treasury)					
	4.8%	6.8%	5.8%	5.3%	4.5%

Source: Various Final Budget Reports and Draft BR 24 | 25
National Treasury website

Summary

Red Lights

Data-integrity

Paucity of analytics
(impacting quality of decisions)

Impact of reduced revenue from sale of
electricity and grant funding

Stale population growth and unemployment
data

Increase in indigent households

Declining investment in capital projects
Under-spending of full capital budget

Sluggish local economic growth
Rising unemployment | Poverty | Crime

Financial control

Long-term forward planning

Expenditure trends

Escalating employment-related cost

Insignificant cost containment efforts
(under-spending reported as cost savings)

Operational focus

Likely FS downward spiral if interventions are
not instituted NOW

Overstrand Municipality – The Big Rocks (February 2024)

Local
Economic
Development

Schulphoek

Energy Supply

Water Security

Sustainable
Development

Financial
Sustainability

Infrastructure
Investment
and Renewal

Environmental
Conservation

Organisational
Transformation

Over-Arching
Strategy

From Good to Great Critical Success Factors

Can the OM make the transition?

- Political stability
- Change leaders
- New business model | Partnerships
- Aggressive cost management
- Operational efficiency
- Innovation | Continuous improvement
- Red tape elimination | Process reengineering
- Robust forward planning (based on credible data)
- New revenue sources
- Effective financial control
- Infrastructure maintenance and development
- Culture change
- Robust performance management | Surgery
- Stakeholder relations
- Transparency

Preliminary Recommendations

- Launch a **Critical Review of Expenditure** (involve members from civil society)
- Impose **cost reduction** measures
- **Establish an Office for Strategy and Innovation** | Unlock New Innovation-Driven Opportunities
- **Transform the institution** (e.g. alternative business model, process re-engineering, innovative practices)

The OM's Response (Phase One)

The DA-caucus in the Overstrand Municipality REJECTED the findings and recommendations put forward by the project team.

This was confirmed verbally by the Executive Mayor during a conversation on 21 November 2023.

The Way Forward

Choice

- Sit back and do nothing | Face the consequences of inaction
- Become active citizens | Exercise oversight | Demand better performance | Provide support

New civil society organisation (CSO) likely to emerge

Focus Areas

- Municipal Oversight
- Strategic Support

Critical Success Factors

- Community involvement and support
- Community warriors

Questions Ratepayers Should Ask

- What is the OM's growth strategy?
- What are you going to do to bring operating expenditure under control? Especially employee-related cost.
- Given your already inflated salary and wage bill, how do you justify an increase of 27.31% in the remuneration of the Municipal Manager? And 10.3% for councillors?
- Overtime spend is off the chart. What actions will you be taking to drastically reduce this spend?
- Why is there a lowering investment in capital projects? What are the likely consequences of this unwise decision?
- What were the measurable outcomes of the Critical Review regarding Expenditure and Cost Containment you undertook (refer Executive Summary of Draft Budget Report, p.7)?
- Why are experts from civil society not included in the OM's Budget Steering Committee?
- What are you going to do to improve the integrity of the financial data you produce?
- We are concerned about the impact of indirect cost drivers (process inefficiencies and people), which can outweigh the impact of direct cost drivers. How are you going to address ratepayer concerns in this regard?
- The emerging picture suggests a need for improved financial control (also flagged by the Municipal Manager) and a review of strategic priorities (spending money where it matters). Your comments?
- Why do you award yourselves bonuses when the institution is clearly not performing at its best?

Annexures

Employee-Related Costs (R'000) – 2022 | 23 Audited

Employee-Related Costs	2023	2022
Acting Allowances	1 780 969	2 107 462
Basic Salaries	283 550 241	266 783 023
Bonus Payments	21 923 206	20 627 913
Car Allowances	14 306 690	13 561 709
Retirement Benefits	49 475 926	55 948 728
Housing Benefits and Allowances	1 773 886	1 706 672
Leave Pay and Provision Charges	2 875 021	(599 628)
Long-service Awards	3 283 068	3 717 420
Medical aid - OM Contributions	15 637 928	14 509 793

Employee-Related Costs	2023	2022
Cell Phone Allowances	2 155 463	2 185 158
Bargaining Council Levies	170 532	160 854
Group Life Insurance	5 006 078	4 712 470
Standby Allowances	17 650 186	13 685 045
Sundry Allowances	207 021	185 957
Overtime Payments	42 829 024	35 252 751
Scarcity Allowance	3 796 055	3 574 864
UIF	2 483 297	2 386 764
WCA	2 262 074	1 962 662

Total	2023 471 166 665	2022 442 469 617
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Summary of Financial Position (30 June 2023)

• Total Revenue	:	R1 682 299 000 (inclusive of Capital Transfers)
• Total Expenditure	:	R1 571 002 000
• Surplus for the Year	:	R111 298m
• Cash	:	R646 535m
• Investments	:	R68 211m
• Investment property	:	R141 336m
• Borrowings	:	R479 906m
• Net Assets	:	R3 835 478 000
• Current assets	:	R842 271m
• Current liabilities	:	R305 142m
• Current assets/current liabilities	:	2.76

Draft Budget – 2024 | 2025 (R'000)

	2021	2025	Period	CAGR	Comments
Employee Cost (narrow view)	436 029	587185	4	7,7%	Above inflation
Remuneration of Councillors	11 219	13 912	4	5,5%	Acceptable
Bulk Purchases - Electricity	298 272	484 477	4	12,9%	Outside of the OM's control
Service Charges - Electricity	442 792	636 747	4	9,5%	Shrinking margin (revenue item)
Inventory Consumed	45 042	61 092	4	7,9%	
Debt Impairment	9 494	53 394	4	54,0%	Why so high?
Depreciation	138 195	158 441	4	3,5%	
Interest Paid	48 805	49 814	4	0,5%	
Contracted Services	208 095	316 048	4	11,0%	High – area of concern
Transfers and Subsidies	8 651	17 755	4	19,7%	
Debt Write Offs	4 559	10 709	4	23,8%	High – requires further analysis
Operational Costs	112 270	191 421	4	14,3%	High – requires further analysis
Total Expenditure	1 321 810	1 944 247	4	10,1%	

CAGR = Compound Annual Growth Rate

Draft Budget – 2024 | 2025

Balance Sheet (R'000)

	2024	2025	Comments
Cash	692 294	685 063	Provides a safety net
Investments	77 846	84 471	
Investment Properties	146 836	150 336	
Current Assets Liabilities	2,40	1,96	Ratio in good territory, although weaker
Financial Liabilities (borrowings)	485 937	390 498	Adequately covered by cash resources and investments

Cash Flow (R'000)

	2024	2025	Comments
Cash from Operating Activities	248 628	141 987	Significant decline. Large increase in payments to suppliers and employees. Also, large decrease in Other Revenue
Capital Assets	211 644	152 033	Area of concern. How does one know what must be spent on a prudent basis?