



● ● Overstrand Local Municipality (OM)

Review of the Budget Steering Committee's Draft Budget for 2025|26

Executive Summary

The annual draft budget is always a bone of contention. This year is no exception.

However, what is clear is that there now is a need for change.

Like every other year, the OM produced a comprehensive user-unfriendly report (data dump) that causes confusion rather than bring clarity and understanding. There is a desperate need for simplified messaging and interpretation by the Finance Directorate.

Judging by preliminary ratepayer feedback, there is a general perception that the proposed rates and tariffs are too high. This perception is compounded by the extravagant remuneration of senior managers and the absence of measurable data that confirms that the OM is serious about cost reduction and innovation.

The question begs: Does the OM-Council set challenging objectives and targets for the Administration, or is it simply a rubber-stamping body?
Do the councillors have an understanding of what the data actually means?

The draft budget review process is seen by many as a tick-box exercise on the part of the OM.

It ticks the box on public participation (a legislative requirement), but there is no evidence that confirms that ratepayer recommendations actually impact the final budget. Instead, ratepayers receive standardised copy-and-pasted replies to their questions.

The draft budget becomes the de facto final budget.

OCAN understands the need for realistic annual rates and tariff increases that are fair, transparent and affordable. To this end, we have perused elements of the draft budget, made recommendations and listed some questions (in this report).

We are hoping that the OM will listen and respond to the concerns and ideas of ratepayers.
Under new leadership, the OM has the opportunity to collaborate with its constituency in an attempt to restore trust and confidence.



Purpose of this Document

To help ratepayers and residents to better understand the essence of the Draft Budget and to guide them in asking the right questions.

The review was not a detailed analysis of the entire report (608 pages).

This document should be read in conjunction with the recently released (31 March 2025) OCAN – review of the OM's performance based on the audited annual financial statements for 2023|24 (visit www.ocan.co.za and click on Documents).



Data Integrity

There are significant inconsistencies in the accuracy of audited data across OM-generated source documents (e.g. annual reports, IDP-reports, budget reports) and across financial years.

The OM-leadership (including the Municipal Manager and the CFO) and the Office of the Auditor General (Western Cape) are aware of this serious issue.

Data variations may result in distorted interpretations and conclusions.





Budget Steering Committee



About the Budget Steering Committee

Structure

- Provides technical assistance to the Mayor in discharging his | her responsibilities as set out by Section 53 of the MFMA (Municipal Finance Management Act)
- Consists of fulltime councillors, municipal manager and senior officials (CFO and other directors) of the Municipality
- Chaired by the Mayoral Committee Member (MCM) for Finance

Primary Purpose

To ensure that:

- The process followed to compile the budget complies with legislation and good budget practices
- There is proper alignment between the policy and service delivery priorities set out in the Municipality's IDP and the budget, considering the need to protect the Municipality's financial sustainability
- The Municipality's revenue and tariff setting strategies ensure that cash resources are available to deliver services
- The various spending priorities of the different Municipal departments are properly evaluated and prioritised in the allocation of resources.





Budget Principles and Cost Drivers



Budget Principles

Auditor General

- Rates and tariff increases must be affordable
- Tariffs must be cost reflective, fair and transparent

Budget

- Should address infrastructure maintenance and backlogs
- Must reflect cost saving measures
- Municipality must justify increases in excess of the projected inflation target



Cost Drivers

Direct

- Employment-related cost (salaries | benefits | contracted services | over-staffing | absenteeism)
- Bulk purchases (electricity | fuel | chemicals)
- Debt collection performance
- Operational inefficiencies
- Weak leadership
- Insufficient business and financial acumen (within the Budget Steering Committee)
- Lack of innovation | Doing more of the same | No zero-based budgeting
- Fraud and corruption

Indirect

- Organisational culture
- Insufficient focus on cost reduction
- Very low investment in staff training and development
- No consequence management



Affordable Rates and Tariff Increases – Influencing Factors

- The impact of population growth on infrastructure capacity to serve growing needs
- Ageing water, roads, sewage and electricity infrastructure
- Above-inflation wage and salary increases for Municipal staff
(negotiated nationally via a Bargaining Council)
- Energy supply | Load shedding
- The cost of bulk services
- Uncertainty regarding future grant and subsidy allocations by other spheres of government
- The absence of measurable cost reduction targets
- Ensuring financial sustainability





Historical Perspective



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

Financial Year: 1 July to 30 June	20 21	21 22	22 23	23 24	24 25	25 26
Rates						
• Property Rates	4.5%	4%	5.9%	18.26%	8%	*9.7%
Tariffs						
• Electricity	6.22%	14.59%	7.47%	15.1%	12.72%	**9.96%
• Water	4.5%	4.5%	4.9%	6.65%	6%	6.2%
• Sewerage Sanitation	4.5%	4.5%	4.3%	7.21%	8.9%	6%
• Refuse	4.5%	4.5%	5.9%	6.8%	11%	6%
Salary Increases	8.25%	6.4%	6.9%	7.4%	7.7%	7.57%
Rate of Inflation (National Treasury)	4.8%	6.8%	5.8%	5.3%	4.6%	4.4%

Notes

- *Represents a 9.7% increase in the Cents in the Rand formula (Municipal customers)
- ** Eskom direct customers will pay 12.76% more with effect 1 April 2025
- Bulk electricity purchases to increase by 11.32%

Source: Various Final Budget Reports and Draft BR 25|26
National Treasury website





Budgeted Financial Performance | Key Metrics Balance Sheet – 2025|26



Budgeted Financial Performance (R'000) – Some Elements

	Full Year Forecast (2024 2025)	Budget Year (2025 2026)	% Increase
Employment-Related Cost (expanded definition)	949 076	987 503	4.05%
Debt Write-Off	30 884	47 709	54.48%
Electricity Revenue	679 000	745 540	9.80%
Property Rates	367 000	383 977	4.63%
Total Revenue (excluding Capital Transfers)	1 946 903	2 015 522	3.52%
Total Expenditure	2 042 734	2 109 991	3.29%
Surplus (Deficit) – After Capital Transfers	(3 557)	7 080	299.04%
Total Net Assets	4 079 436	4 079 894	0.01%

Source: Schedule 2, Draft Budget Report, 2025|26



Key Metrics (R'000)

	2021	2026	Period	CAGR	Comments
Employee Cost (Narrow Definition)	436 029	619 194	5	7,3%	Well above average CPI of 4,2% for past 5 years
Remuneration of Councillors	11 219	14 012	5	4,5%	Acceptable
Bulk Purchases – Electricity	298 272	556 160	5	13,3%	Outside of OM's control
Service Charges – Electricity	442 792	745 540	5	11,0%	Well above average CPI of 4,2% for past 5 years
Inventory Consumed	45 042	76 168	5	11,1%	
Debt Impairment	9 494	70 770	5	49,4%	Why so high?
Depreciation	138 195	167 211	5	3,9%	
Interest Paid	48 805	51 227	5	1,0%	
Contracted Services	208 095	354 297	5	11,2%	Well above norm set by National Treasury Must reduce
Transfers and Subsidies	8 651	16 770	5	14,2%	
Debt Write Offs	4 559	47 709	5	59,9%	Sharp increase Area of concern Requires serious attention
Operational Costs	112 270	164 183	5	7,9%	Well above average CPI of 4,2% for past 5 years Must reduce
Total Expenditure	1 321 810	2 109 991	5	9,8%	High (given context of economic climate) OM not managing cost

CAGR = Compound Annual Growth Rate



Balance Sheet (R'000)

	2024	2025	2026	Comments
Cash	677	676	730	Provides a safety net
Investments	77	84	-	Liquidated For what purpose Detail required
Investment Properties	164	150	174	Any properties sold during 2025?
Current Assets Liabilities	2,94	2,07	2,90	Healthy ratio
Borrowings	472	487	421	Trend not a concern Reduction forecast for 2026
Aggregate Functional Capital Expenditure	194	225	246	Increases above CPI

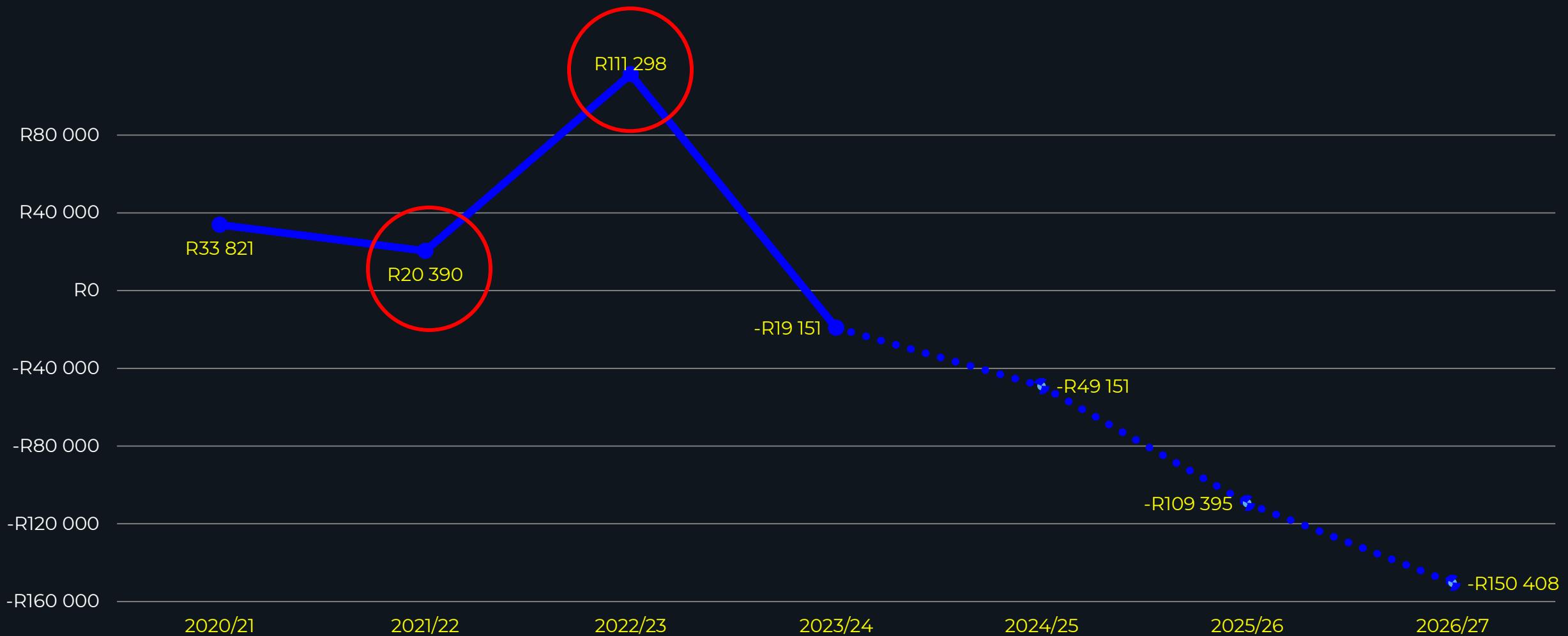




Conflicting Data (note source documents)



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



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



Operating Surplus | (Deficit) Position – Includes Capital Transfers



Notes

- Variations in audited figures (compare with previous slide)
- What explains the projected sharp decline from 2023|24 to 2024|25?

Source: Table 17, Draft Budget Report 2025|26



●● Some Granular Detail



Employment-Related Spend (R'000)



Notes

- Basis of Calculation: Employee Cost plus Councillor Cost plus Contracted Services
- Increase of 42.85% during the period 2021|22 to 2025|26 (five years)
- Projected spend represents 46.80% of Total Expenditure (above norm set by National Treasury)

Source: Draft Budget 2025|26 and Final Budget 2023|24



Contracted Services (R'000)



Notes

- Contracted services include outsourced services, consultants and professional services, contractors
- Increase of 49.36% from 2021|22 to 2025|26
- Spend significantly outside norm set by National Treasury

Source: Draft Budget 2025|26 and Final Budget 2023|24



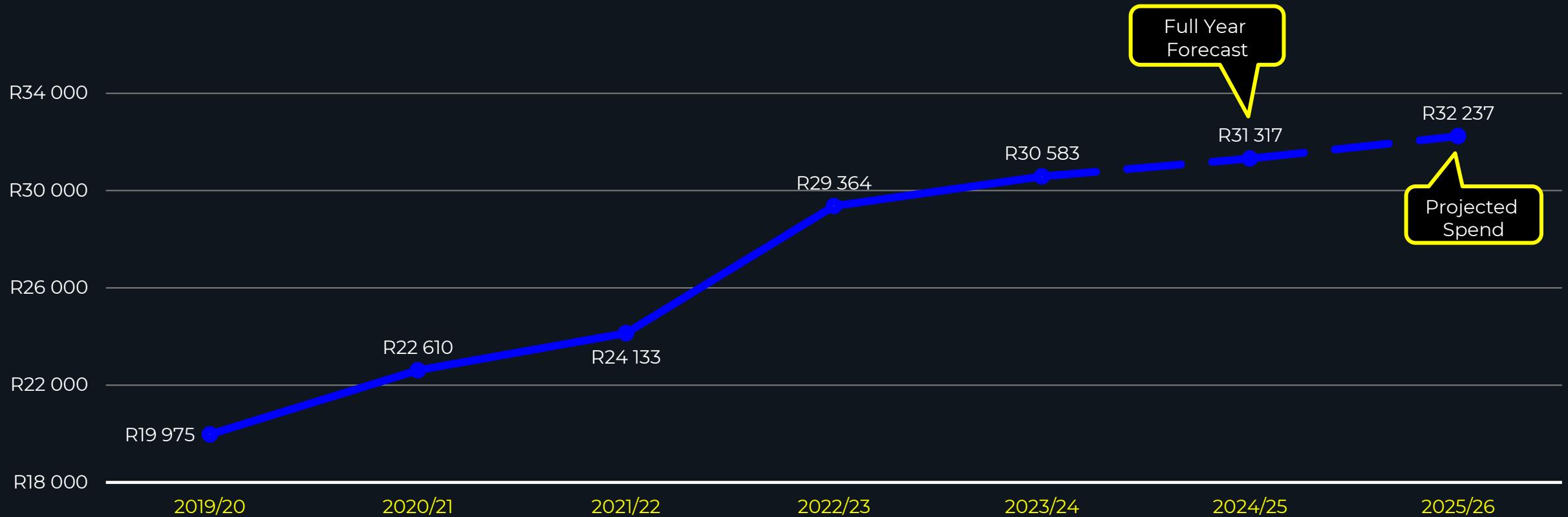
Allowances

Job-level dependent, municipal employees qualify for the following allowances:

- Acting allowance
- Car allowance
- Cell phone allowance
- Housing allowance
- Scarcity allowance
- Standby allowance
- Travel allowance
- Entertainment allowance
- Computer allowance
- Sundry allowance



Other Employee Benefits and Allowances (R'000)



Note

- No explanation provided as to what constitutes these Other Benefits and Allowances.

Source: Draft Budget 2025|26 and Final Budget 2023|24, Table 45 (p.86)



Budgeted Earnings – Senior Managers

Senior Manager	2025 26	Comments
Municipal Manager (MM)	R2 560 699	Includes performance bonus of R228 000
CFO (Chief Financial Officer)	R1 176 794	Vacant Role
Director Corporate Services	R2 167 545	Legacy employment contract
Director Infrastructure Services	R2 284 594	Legacy employment contract
Director Public Safety	R2 090 574	Legacy employment contract
Director Planning and Development	R1 176 792	Vacant Role
Director Community Services	R1 369 542	Vacant Role

Notes

- With effect 1 July 2025 the MM's earnings will exceed the Upper Limit for his post by R898 893 per annum (Grade 4 Municipality, COGTA-Notice 4897)
- How does the Overstrand Municipality justify the exorbitant earnings of its Municipal Manager (pitched at the level of a Grade 9 Municipality - just below Metro)?
- Unless legally challenged, legacy employment contracts remain in force until the incumbent resigns or reaches retirement age



Municipal Budget Circular Number 130

Paragraph 4.3.4 – Remuneration of Councillors

- Any overpayment to councillors contrary to the upper limits as published by the Minister of Cooperative Governance and Traditional Affairs will be irregular expenditure in terms of Section 167 of the MFMA and must be recovered from the councillor(s) concerned.

Question

- What happens in the case of the Municipal Manager who is grossly over-paid?

Paragraph 4.3.6 - Unauthorised, Irregular, Fruitless and Wasteful Expenditure Reduction and Implementation of Consequence Management

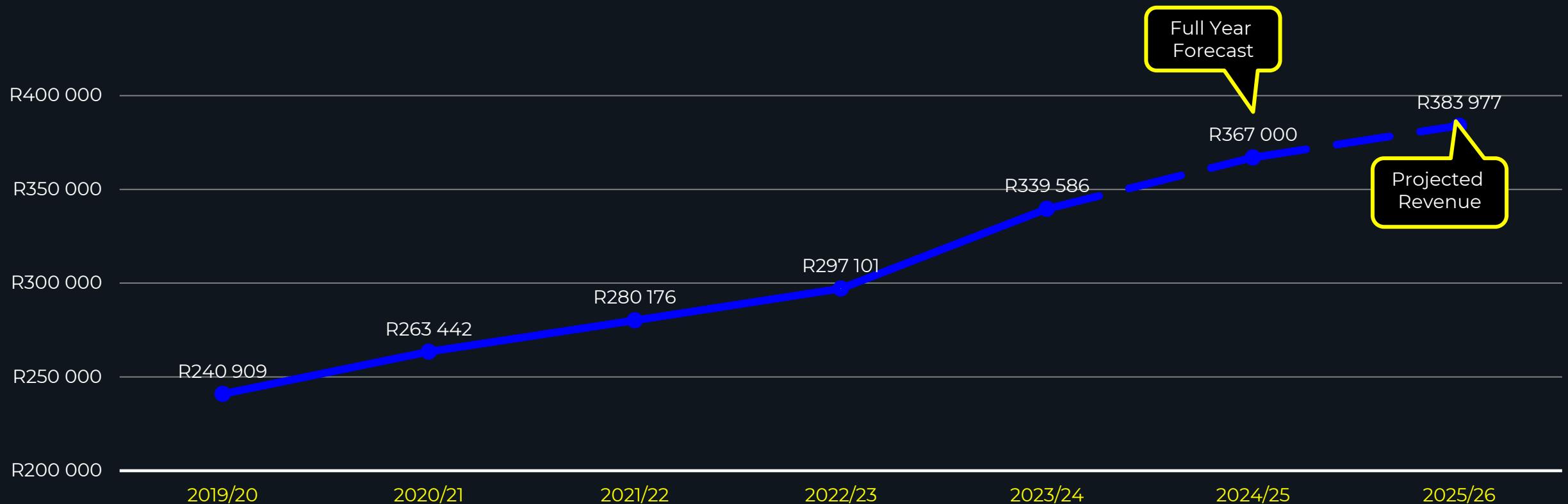
- Municipalities must strengthen measures to prevent unauthorised, irregular, fruitless, and wasteful expenditure (UIFWE) and ensure accountability for financial misconduct.
- Accounting officers (i.e. Municipal Managers) are legally required under Sections 62(1)(d) and (e) of the MFMA to prevent financial losses and initiate disciplinary or criminal proceedings against officials responsible for financial misconduct.

Question

- What about the **alleged fraud** (fuel, overtime, fleet management)?



Property Rates (R'000) - Revenue



Notes

- Next to electricity sales, property rates are the biggest contributor to OM-revenue
- Revenue increase of 37.05% from 2021|22 to 2025|26 (five years)

Source: Draft Budget 2025|26 and Final Budget 2023|24





Call to Action



Call to Action

Simplify the method of reporting - Produce a crisp report that contains the essence of the draft budget (executive summary format)

Revisit the OM's operating model to achieve greater efficiencies and cost savings | Council to move beyond rubber-stamping

Inject business and financial acumen into the Budget Steering Committee by including experts from civil society

Raise the level of investment in fleet renewal and repairs and maintenance (to kerb the noticeable decline in service delivery)

Increase capital budget spend (infrastructure renewal and development)

Set measurable cost reduction targets by Directorate (and report quarterly on the achievement of same) – to influence bonus payments

Introduce a performance management system for Senior Managers (MM and directors) that measures their individual and collective performance against key metrics (e.g. cost reduction, innovation, talent development, customer feedback)

Exit under-performing senior managers | Reduce employee headcount (full-time and part-time)

Reduce the MM's annual earnings to bring it in line with the grading of the Overstrand Municipality (Grade 4)

Freeze the total earnings of Directors (legacy employment contracts) | No annual Cost of Living increases

Revisit the proposed rates and tariff increases | Trim the fat

Engage civil society (numerous benefits for the OM)





Questions



Questions Ratepayers Should Ask (1|2)

Tariffs

How are the **fixed charges** per service determined?

Can you provide us with a Year-on-Year comparison of **fixed charges increases** for each service covering the period 2019|20 to 2025|26 (both financial years included)?

How did the OM determine 'tariff affordability'?

Cost of Supply

Did the OM perform CoS-studies in respect of each service?

When were these studies done, and by whom?

Did the results of these studies serve before Council?

Are the proposed tariff increases fully cost-reflective?



Questions Ratepayers Should Ask (2|2)

What will the OM be doing to

Bring operating expenditure under control?

Significantly reduce Contracted Services spend?

Explore alternative | new revenue streams?

Fill key roles?

Mitigate the impact of cost drivers (refer Slide 9)

Improve the integrity of the financial data it produces?



Review Panel

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