



●● Follow the Facts

Unsolicited Review of the Performance of the Overstrand Local Municipality

Financial Year 2023 | 2024

Published 31 March 2025

Document Purpose

This document provides an update of the October 2023 unsolicited review of the Overstrand Municipality's financial sustainability (view Documents at www.ocan.co.za).

The analysis draws on the Overstrand Municipality's 2023|2024 draft audited annual report that was released on 29 January 2025.

So as to track developing trends, audited data from the four preceding financial years were included in the analysis.



Disclaimer

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

These anomalies were first pointed out to the Executive Mayor (1 November 2023) and subsequently to the Office of the Auditor General (Western Cape).

Data variations may result in distorted interpretations and conclusions.



Executive Summary

The Overstrand remains an attractive investment and tourist destination.

To sustain this position, we need a well-led financially healthy and well-functioning municipality that has a future focus.

On the surface residents and investors see a municipality that is by and large operationally efficient. The recipient of several awards, the Overstrand Municipality (OM) has received clean audits for 12 consecutive years. Service delivery is generally good. Considering the Auditor General's latest Annual Financial Statements, we see an institution that is financially healthy.

However, upon closer scrutiny we notice a few disturbing trends. These include the OM's growing dependency on grants and subsidies, the decline in capital spend and infrastructure development and renewal, employment-related cost that remains stubbornly above the norm set by National Treasury, an over-reliance on electricity revenue and the perceived absence of a cost containment mindset.

In a WhatsApp-message distributed on 25 March 2025, the Municipal Manager refers to the OM's 'dilapidated fleet'. The situation is the result of several years of significant under-investment in fleet renewal. A dilapidated fleet directly impacts service delivery.

Particularly concerning is the OM's very limited investment in people development. The success of any business depends on skilled and motivated employees. This under-investment might explain why the OM is struggling to fill key roles from within, and why they are spending so much on contractor services – significantly more than the norm set by National Treasury.

If the aspiration is to move the institution from Good to Great, there is an immediate need to reverse the trajectory of some developing trends.



About OCAN

Modelled along the lines of OUTA (Organisation Undoing Tax Abuse), OCAN is an apolitical data-driven civil society community coalition that exercises oversight and coordinate effort to drive meaningful change, transparency and accountability within the Overstrand Municipality through a collective and legitimate voice.

Using data, OCAN paints pictures that tell stories.

These 'stories' enable residents to interpret information about the performance of the Overstrand Municipality.

OCAN's primary aim is to promote, advance, and protect the common interests of citizens and organised civil society structures within the Overstrand, with a special focus on sound financial management, good governance, local economic growth and sustainable development.

For more information on OCAN, please visit www.ocan.co.za



About the Overstrand Local Municipality (OM)

- Grade 4 local municipality
- Established December 2000
- Includes Rooi Els, Pringle Bay, Betty's Bay, Kleinmond, Greater Hermanus, Stanford and Greater Gansbaai
- Estimated population 132 495 (Census 2022 | Excludes 35.45% under-counting | Likely population estimate 179 398)
- 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 12 consecutive Clean Audits
- Winner of several awards (over time)
- Rated amongst the better performing local municipalities in South Africa
- 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
- Described by the former Executive Mayor as 'an expensive municipality'



OM's Constitutional Mandate

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



Overstrand Municipality – The Big Rocks

Local Economic
Development

Schulphoek

Energy Supply

Water Security

Sustainable
Development

Financial
Sustainability

Infrastructure
Development
and Renewal

Environmental
Conservation

People
Finding and
Retaining Talent

Revenue
Diversification



●● Performance at a Glance – 2023|24



Looking Back

Financial Year 2023|24

Some Highlights

- Started the FY (1 July 2023) with a positive cash balance of R646.5m
- Ended the FY (30 June 2024) with a closing cash balance of R676.6m
- Borrowings amount to R471.9m (30 June 2024)
- Spent 89.91% of a declining capital budget
- Declining spend on repairs and maintenance
- Nil unauthorized expenditure
- 72.77% year-on-year increase in Deviations from Supply Chain Management Regulations
- Dramatic year-on-year increase in irregular expenditure (618.26%)
- Collection rate was 96.13% (down from 98.96% during previous financial year)
- The OM met or exceeded 70.22% of its KPIs (key performance indicators)
- Performance bonuses paid, but actual total spend not disclosed
- Contracted services spend (16.73% of OPEX) exceeds norm range of 2% - 5%
- Healthy cash flow situation
- Investment portfolio valued at circa R487.3m
- Positive liquidity ratio (4.84) | Able to maintain essential services and ensure financial stability
- Total net assets of R3.9 billion

Source: CFO's Quarterly Budget Report, June 2024
Audited Annual Financial Statements 2023 | 24



●● Finance Overview – 2023|24



Main Cost Drivers

Direct

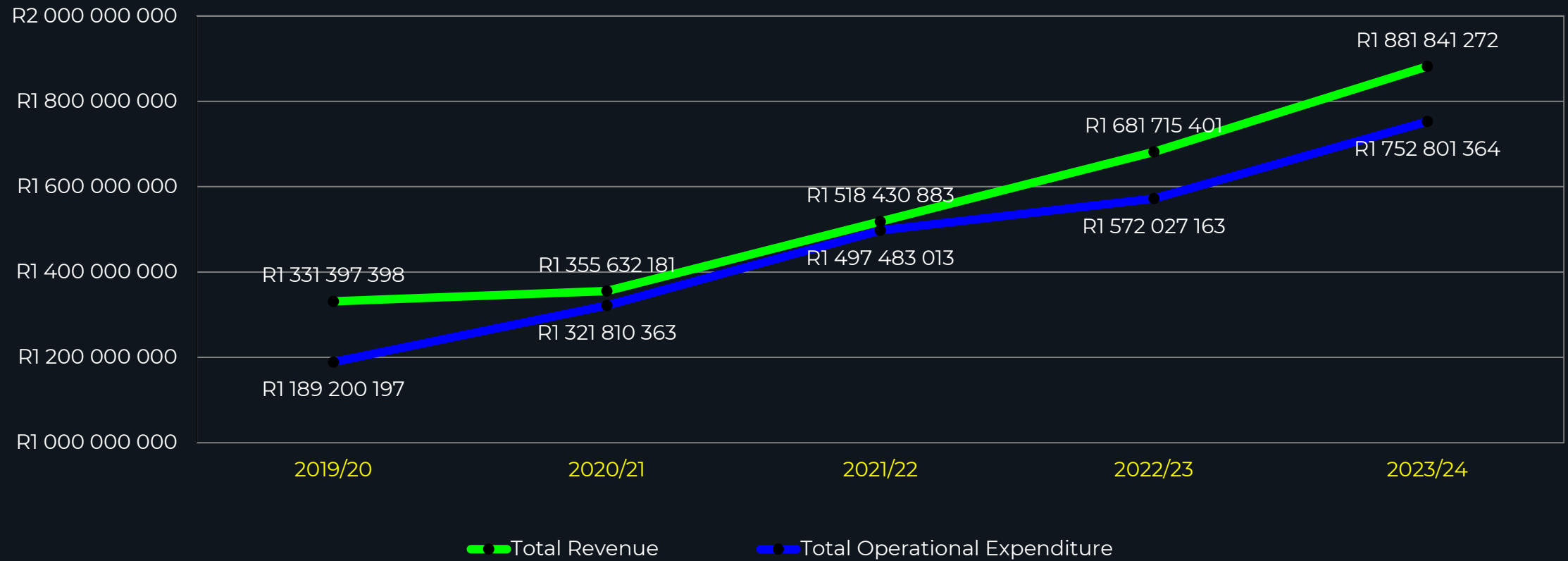
- Employee-related cost (salaries | benefits | post-retirement provisions | contracted services | over-staffing)
- Bulk purchases (electricity | fuel | chemicals)
- Ageing infrastructure and fleet | Repairs and maintenance
- Fraud and corruption | Fruitless and wasteful expenditure

Indirect (Applicable to any organisation)

- Process inefficiencies (example: Supply Chain Management)
- Performance (weak leadership | organisational culture | morale | productivity)
- Incompetence
- Lack of innovation



Total Revenue versus Expenditure



Notes

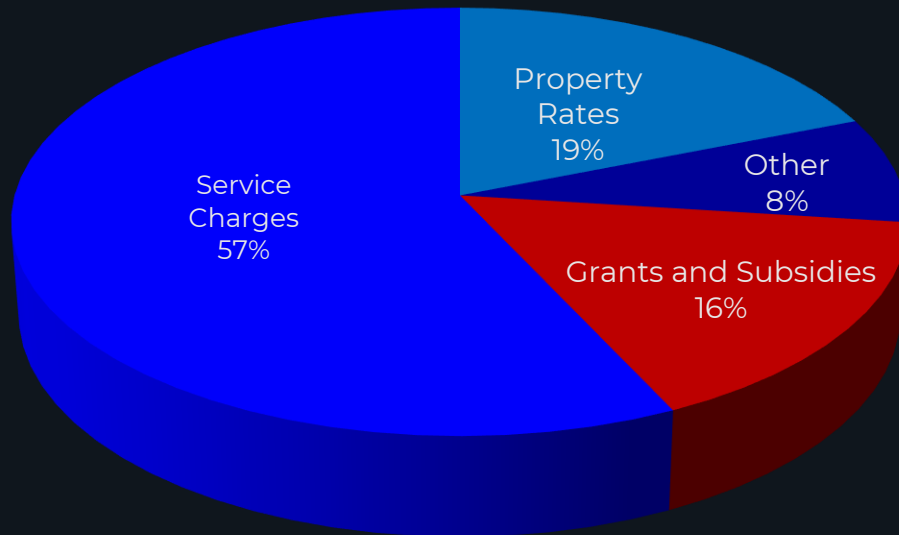
- Total Revenue **includes** Grants and Subsidies (Capital Transfers)
- Grant-dependency shows a **steady increase** from 10.06% during 2021|22 to 15.90% during 2023|24
- Any decrease in grants and subsidies poses a risk to the OM's financial position

Source: Audited Annual Financial Statements

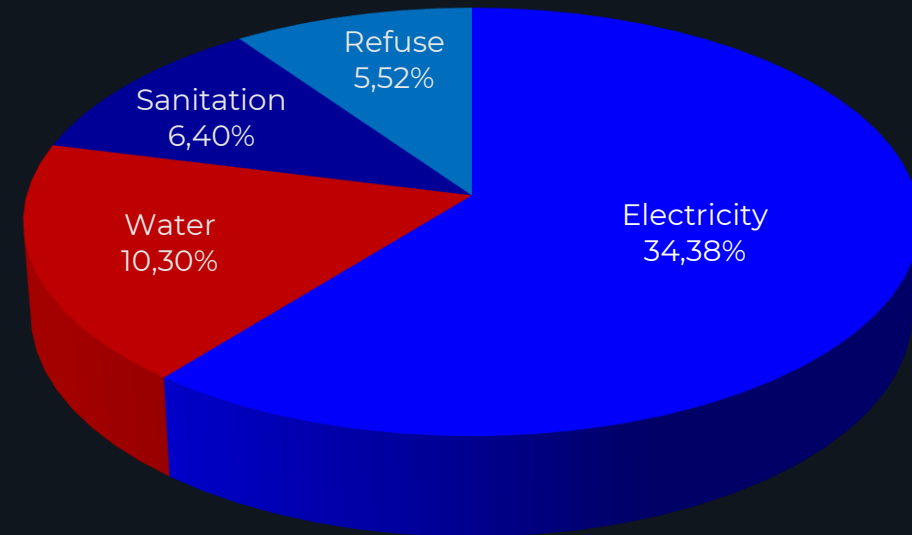


Revenue by Source (2023|24)

Revenue by Source



Revenue from Service Charges



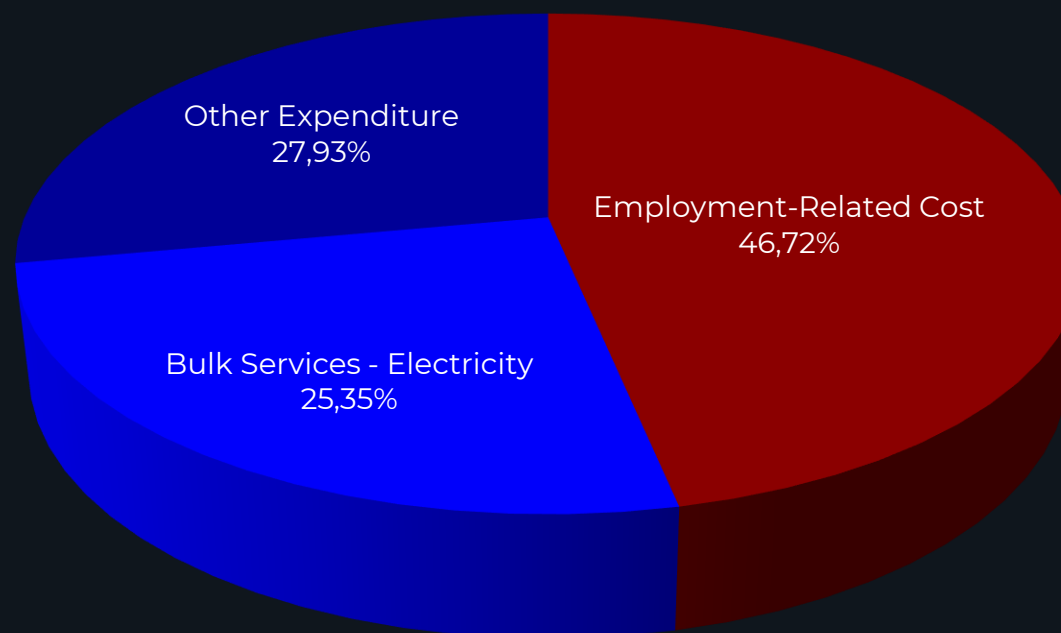
Notes

- 25 February 2025: Auditor General cautions municipalities to diversify their revenue streams to avoid over-reliance on electricity sales
- Electricity revenue of more than 35% of total revenue poses a risk

Source: Audited Annual Financial Statements



Main Expenditure Categories – Excluding Capital Expenditure



Notes

- Employment-related cost remains the single biggest expense
- Contracted services spend (16.73% of OPEX) exceeds National Treasury's norm range of 2% - 5%

Source: Audited Annual Financial Statements, 2023|24



Allowances

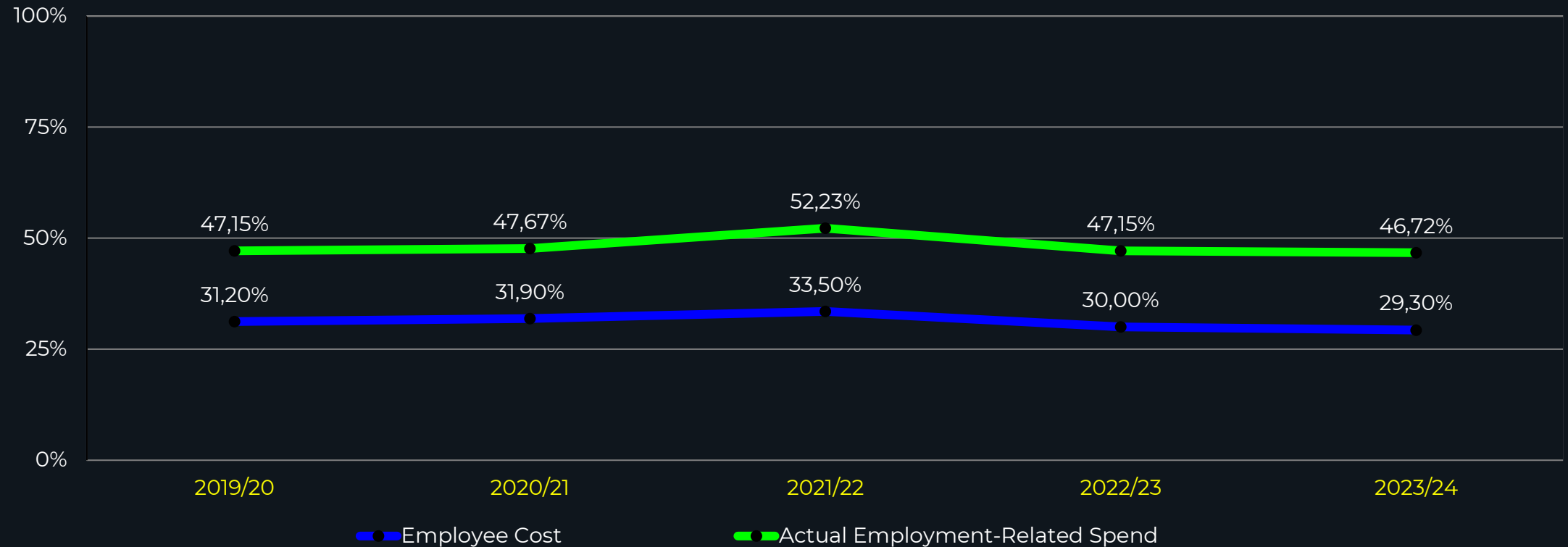
Job-level dependent, municipal employees qualify for the following allowances:

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



Employee Cost vs Actual Employment-Related Spend

(% of Total Operating Expenditure)



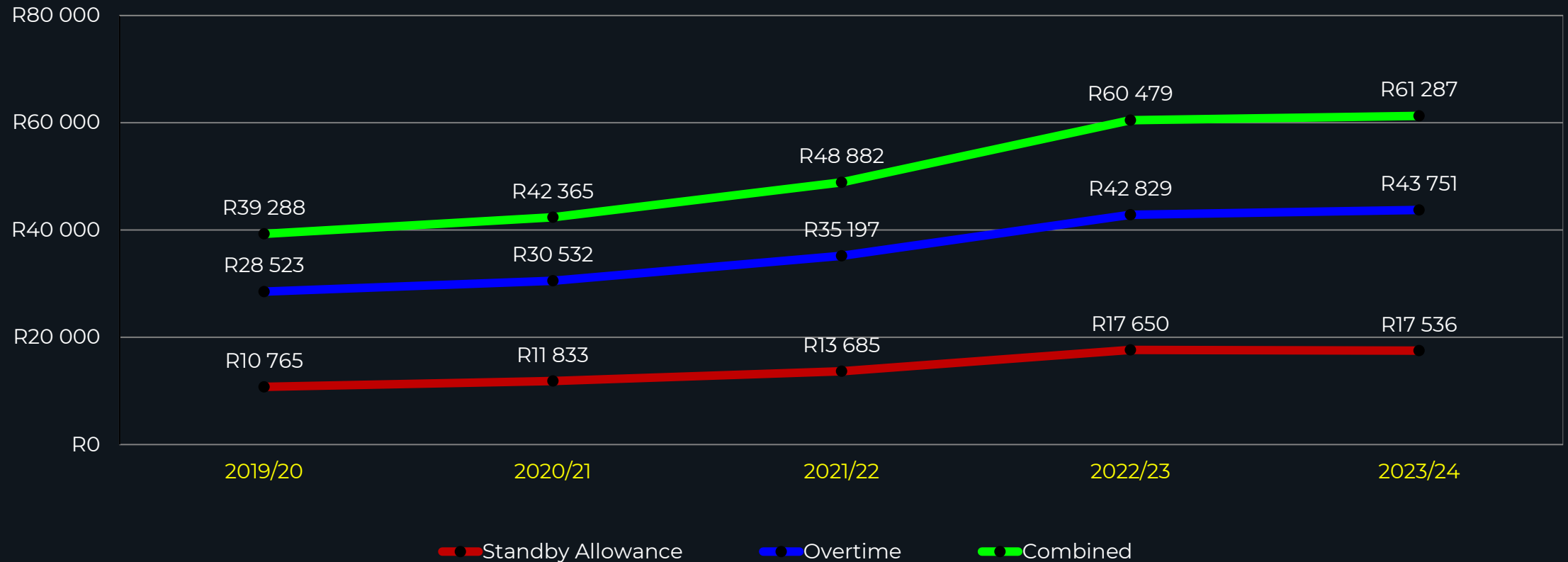
Note

- **Basis of Calculation:** Employee Cost Only (blue) versus Employee Cost plus Councillor Remuneration plus Contractor Spend (yellow)
- National Treasury norm range 25% - 45% (ideally in the 35% - 40% range)

Source: Audited Annual Financial Statements



Overtime and Standby Allowance Spend (R'000)



Note

- Total spend grew by 25.4% since 2021|22
- What actions were taken to control this spend?
- Possible abuse?



Annualised Councillor and Senior Manager Remuneration (ZAR)

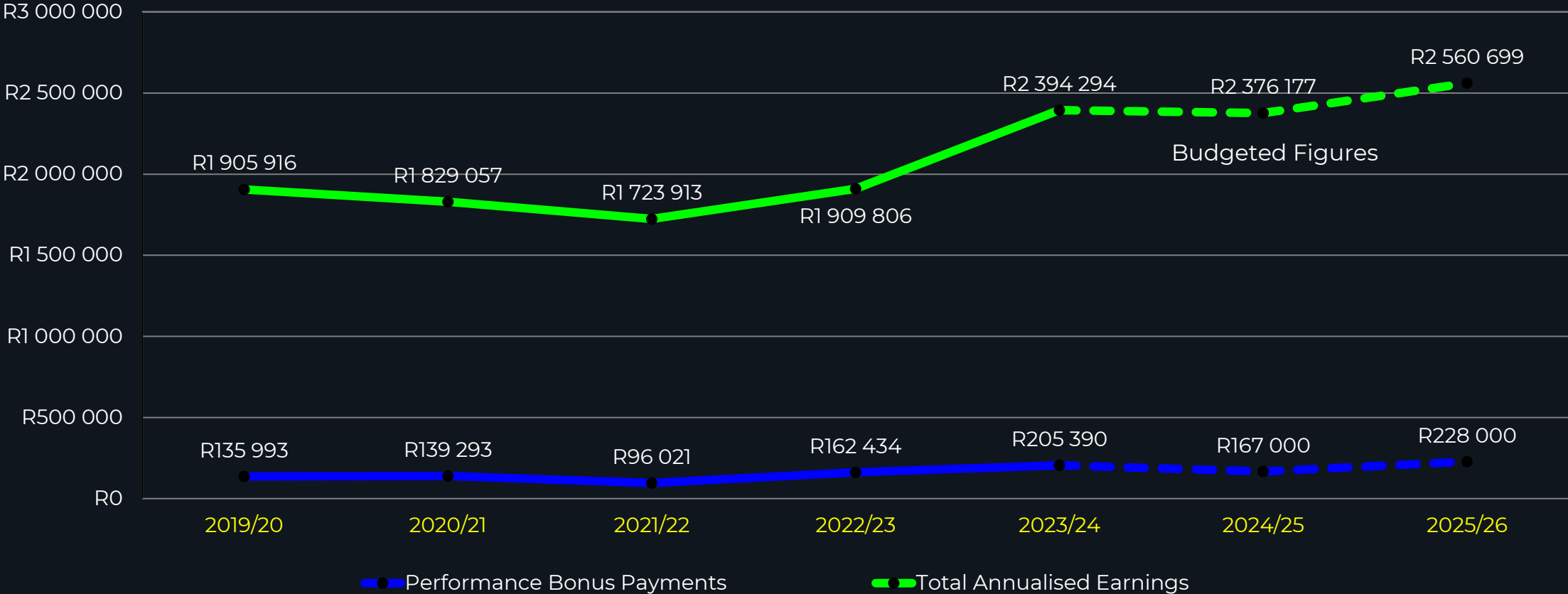
The Overstrand Municipality is a Grade 4 Local Municipality. Metros are graded at Grade 10.

Role	Earnings 2023 24	Grade 4 Upper Limit	Grade At Which Remunerated	Over-Payment
Executive Mayor	967 383	1 008 918	Within range	
Deputy Executive Mayor	783 308	807 140	Within range	
Mayoral Committee Member	734 746	757 035	Within range	
Speaker	783 308	807 140	Within range	
Councillor	343 283	319 289		23 994
Municipal Manager	2 376 177	1 661 806	Grade 7	714 371
Chief Financial Officer	2 061 016	1 358 462	Grade 8	702 554
Director Management Services	1 965 233	1 358 462	Grade 7	606 771
Director Community Services	451 752	1 358 462	Not Applicable	New to Role (resigned)
Director Infrastructure and Planning	2 074 228	1 358 462	Grade 8	715 766
Director Local Economic Development	1 940 331	1 358 462	Grade 7	581 869
Director Protection Services	1 898 566	1 358 462	Grade 7	540 104

Source: Government Notice 4897 (1 July 2023), Government Gazette 51419 (notice 5446) and Auditor General AFS (notes 30 and 31)



Municipal Manager Remuneration



Note

- Actual earnings for 2024|25 likely to be higher than budgeted figure
- Remuneration **exceeds the Upper Limit** for the role (set by COGTA) by a significant margin



Performance Achievement by Directorate

Directorate	2022 23	2023 24
Council and Municipal Manager	77.8%	75%
Management Services (note director earnings of circa R2 m)	25%	25%
Finance	71.43%	75%
Protection Services	66.67%	67%
Community Services	91.67%	83.3%
Infrastructure and Planning	66.7%	66.7%
Economic and Social Development and Tourism	83.33%	66.7%
Overall Performance	74.47%	70.22%

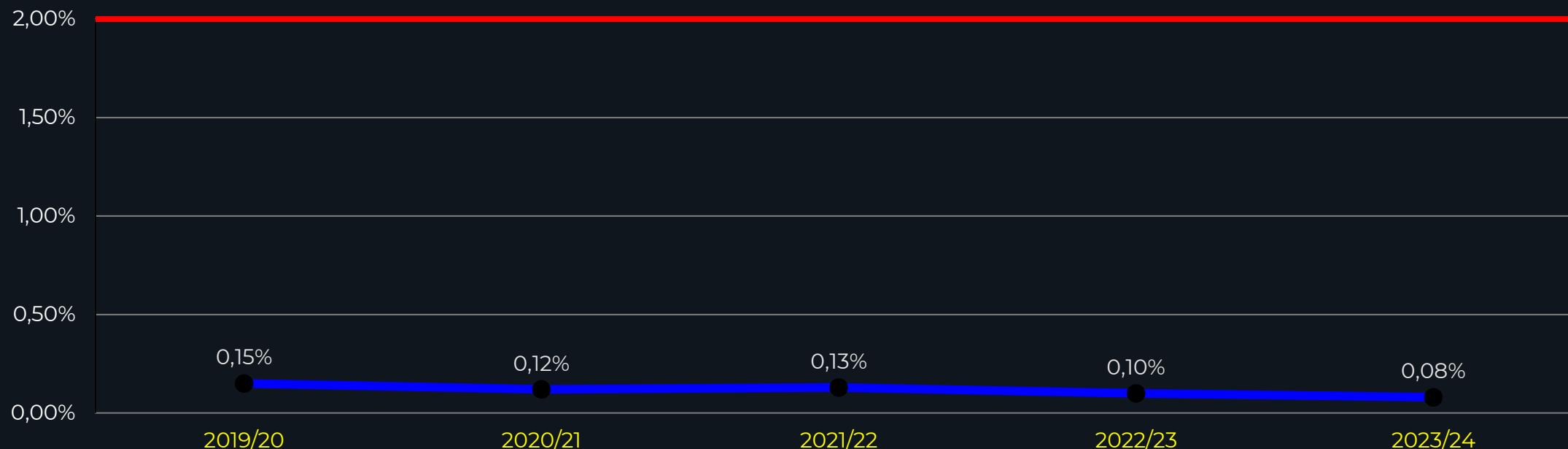
Notes

- Extent to which the directorate met or exceeded its objectives (as per its constitutional mandate)
- Regression in overall performance
- In the private sector the overall performance of the OM-leadership would be considered below par

Source: CFO Quarterly Budget Reports (June 23 and 24) and Annual Report 2023|24, p. 421



Employee Training and Development (% of Total Operating Expenditure)



Observations

- The OM's investment in the development of its employees is almost zero and well below the generally accepted norm of circa 2% of Total Operating Expenditure
- The little training that is provided is mainly functional and targeted at the needs of junior employees
- There is no evidence of any investment in leadership development (not 2023|24 FY or previous financial years)
- The longer term impact of an under-investment in talent development is serious

Source: Audited Annual Financial Statements



Consequences of an Under-investment in People Development

- 1 Unable to fill vacancies from within | Reliance on external hiring
- 2 Increased inefficiency | Doing more of the same | Mediocrity
- 3 Lowered productivity | Impaired service delivery
- 4 Organisational bloat | Headcount increase
- 5 Lack of innovation
- 6 Loss of top talent | Difficulty in attracting talent
- 7 Increased cost



Capital Expenditure



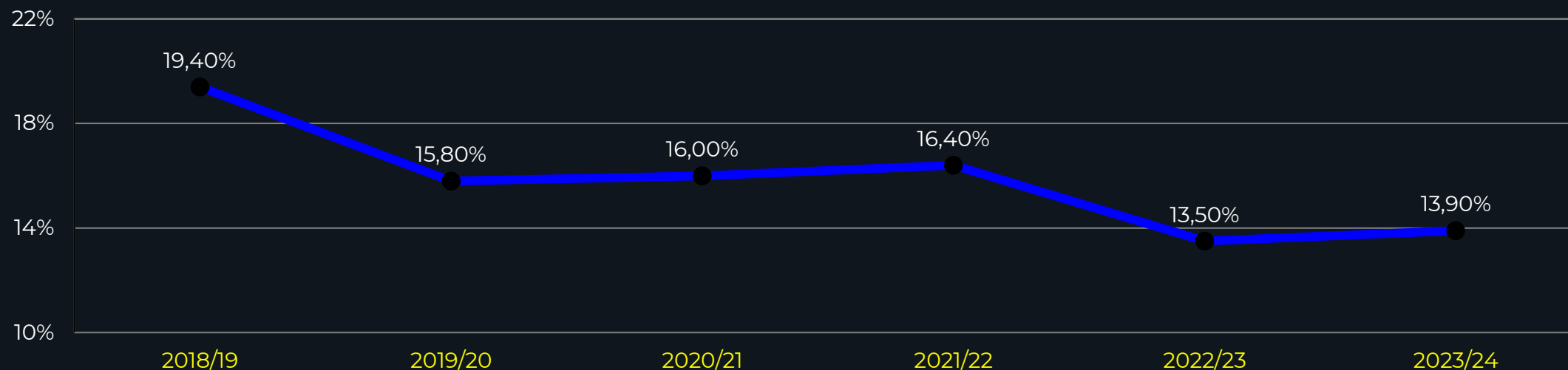
Notes

- Basis of Calculation: $\text{Total Capital Expenditure} / \text{Total Expenditure (Total Operating Expenditure + Capital Expenditure)} \times 100$
- **Treasury Norm:** 10% - 20% of Total Expenditure (and ideally as close to 20% as possible)
- **Alarming picture** | If downward trend continues, there will be medium to longer term consequences (e.g. infrastructure collapse)

Source: Audited Annual Statements



Repairs and Maintenance Spend (% of Total Operating Expenditure)



Statement (Annual Report 23|24, page 421)

- *The R&M-expenditure appears adequate to maintain existing infrastructure as service delivery is not negatively affected*
- Available data does not support this statement

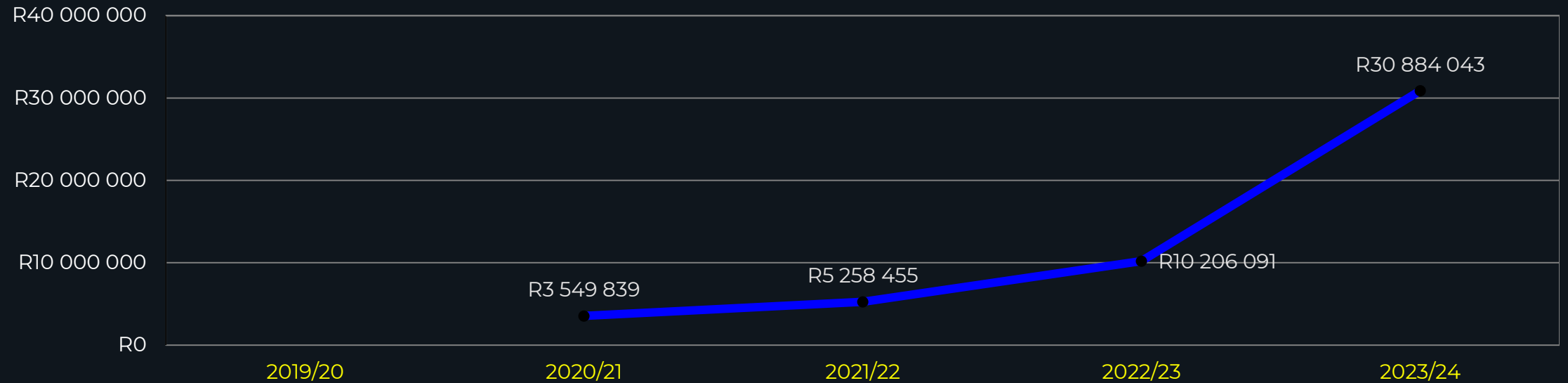
Conclusion

- Infrastructure is either in mint condition, or there is under-spending on repairs and maintenance
- An under-investment has serious longer term operational and financial implications

Source: Audited Annual Financial Statements



Bad Debt Write-Offs



Notes

- March 2025: Auditor General warns against Municipalities writing off irregular expenditure as bad debt
- Significant year-on-year increase (202.6%) from 2022|23 to 2023|24 – mainly consumer debtors
- No data available for 2019|20

Source: Audited Annual Financial Statements

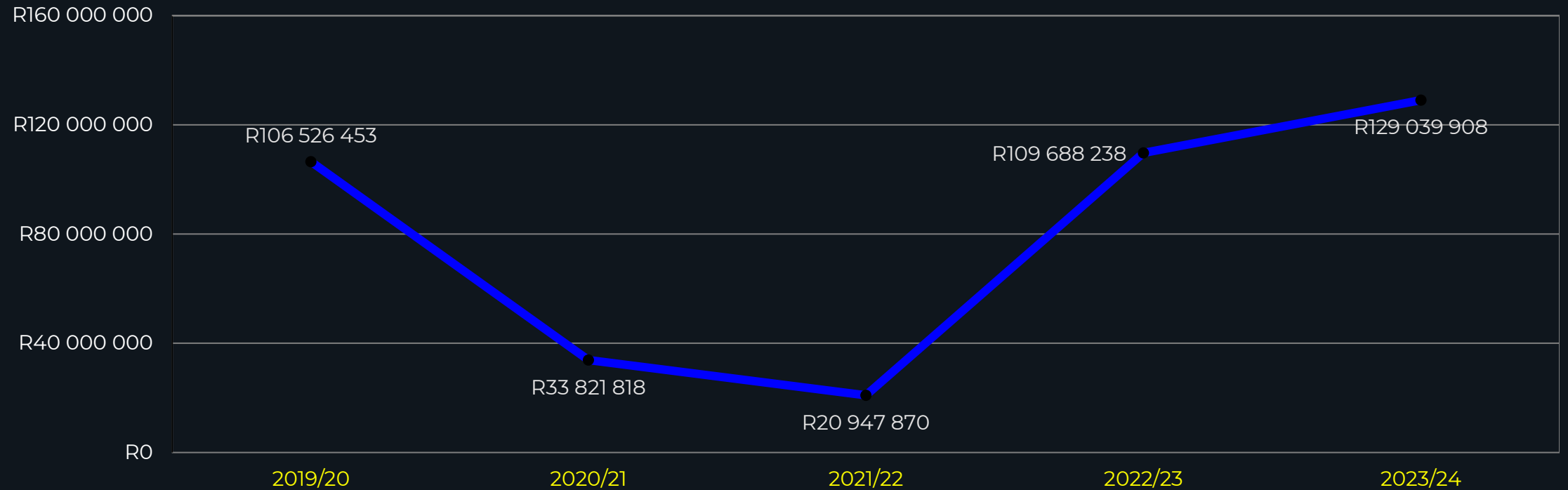


Revenue Losses

Water	Electricity
Potential loss of revenue measured by subtracting the number of kilolitres of water sold from the number of kilolitres purchased or purified	Potential loss of revenue measured through electricity units purchased and generated, but not sold
There has been an increase in unaccountable water losses during 2023 24	During 2023 24 electricity losses amounted to 7.6% (up from 6.43% during 2022 23). Considered by OM as an 'excellent achievement' (page 229, Annual Report 2023 24)
It now stands at 30.59% (up from 24.47% during 2022 23) and translates into a financial loss of R6 315 529	The loss translates into R24 800 795 (versus R16 846 054 during 2022 23)
Losses are ascribed to unmetered connections, deteriorating pipeline infrastructure and pipe bursts	Losses are ascribed to theft, vandalism, illegal connections , no or inaccurate metering, waste and an ageing distribution network
The norm set by National Treasury (January 2014) is between 15% and 30%.	The norm set by National Treasury (January 2014) is between 7% and 10%



Surplus | (Deficit) Position – Inclusive of Capital Transfers and Subsidies



Note

- A greater investment in authorised capital expenditure, together with a reduction in capital transfers, will impact the OM's surplus | deficit position

Source: Audited Annual Financial Statements



●● People - Related Matters



Observations

Succession Planning

- The inability of the OM to fill key roles from within indicates the consequence of an under-investment in people development and weak selection practice
- There is no evidence of an investment in leader development
- A weak talent pipeline poses significant risk to business continuity and service delivery

Sick Leave

- The number of days taken for the entire OM shows an increase of 9% during the past 3 financial years (2023|24 included).
- The Office of the Municipal Manager (135.7% increase) and Protection Services (59% increase) are the directorates that show the highest percentage increase in sick leave taken during 2023|24.
- Sick leave has financial and service delivery implications.
- A toxic workplace culture is one of the main drivers of sick leave abuse.

Vacancy Rate

- This rate hovers around 9.3% for the last three financial years.
- Indications are that the situation might have deteriorated since 30 June 2024.
- Several key roles (including three director roles) are now vacant.
- Vacancies in key roles will hamper the overall performance of the OM.



●● Business - Related Matters



Observations (1|2)

Cost Containment

- Every year cost containment is mentioned in the OM's annual report. And every year there is little or no evidence of cost containment measures that translate into measurable cost savings.
- Significant cost savings can be achieved through business process reengineering, which aims to eliminate process inefficiencies, bottle necks and red tape.

Innovation

- There is no evidence of innovative practices that were introduced during 2023|24. The same observation applies to previous financial years.

Strategic Risk Analysis

- The OM's own Strategic Risk Analysis confirms that the institution is NOT exposed to any high risks.
- Given the uncertain world we live in, it is quite unusual for a business not to be exposed to high risks of some sorts.
- Fraud and corruption not mentioned.

Debt Collection

- Although still above the norm of 95% set by National Treasury, there is a **sharp decline** from 100.15% during 2020|21 to 96.13% during 2023|24



Observations (2|2)

Fraud and Corruption

- The OM's Internal Audit Function performed an audit relating to the susceptibility of municipal staff and councillors to engage in fraud and corruption.
- The findings of this audit, which was completed on 24 June 2024, are not known.
- Meanwhile, OCAN launched an application for a Special Investigation by the Auditor General into alleged fraud committed by municipal officials during an extended period.

Public Private Partnerships (PPP)

- The OM did not enter into any PPPs during 2023|24.

Reliance on Grants and Subsidies

- Grant-dependency shows a **steady increase** from 10.06% during 2021|22 to 15.90% during 2023|24.
- Grants received during 2023|24 amount to R229.9 million (excluding the Municipal Infrastructure Grant – MIG).
- The MIG is aimed at improving infrastructure in poor communities.



● ● Missed Opportunities



Missed Opportunities

Listening to Citizens

- Successful businesses stay in touch with the expectations and experiences of their customers on an ongoing basis
- Successful businesses respond to feedback and take instant action to remedy performance failures
- The last **customer satisfaction survey** by the OM was done during the 2021|22 financial year
- The results of this survey are not known
- At this stage, the **OM has NO data** about the satisfaction | frustration levels of Overstrand citizens

Local Economic Development (LED)

- The OM has an elementary approach to LED, which is mainly focused on SMME-development
- There seems to be **no clearly articulated growth strategy** for the Overstrand
- There are no metrics or credible data that provides evidence of local economic growth (other than SMME-statistics)

Collaborating with Civil Society

- The OM continues to fail to tap into the vast reservoir of expertise that is available to them at no cost



● ● Recommendations



Recommendations

Citizens

- Ask questions and demand answers
- Make constructive contributions
- Become involved in civil society structures

Overstrand Municipality

- Involve experts from within civil society in the Budget Steering Committee
- Conduct a comprehensive customer satisfaction survey that tracks key performance indicators
- Develop a feasible capital funding strategy
- Reduce employment-related cost
- Impose aggressive cost management (across the business | spend money where it matters)
- Invest in infrastructure development and renewal
- Explore additional funding sources (too dependent on electricity sales)
- Review processes for increased operational efficiency (in collaboration with civil society)
- Invest in people development | Craft a people strategy | Identify and develop future leaders
- Run workshops on customer care and track behavioural impact (via pulse surveys)
- Consider hosting a citizen indaba to debate key issues, strategic risks and opportunities
- Establish Section 79 advisory committees (to work with Council) | Enter into Public Private Partnerships (PPP)



●● Enquiries

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A special word of THANKS to Leon Rauch and Allan Bishop for their technical input.

