Overstrand Municipality

Review of the Draft Budget (2026|2027)

April 2026

These questions should be read in conjunction with the Draft Budget Review document which OCAN submitted earlier

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1. **Electricity revenue** is projected to grow at 14.6% during 2026|27 despite only an 8.5% tariff increase. What explains the 6-percentage point gap?	The electricity revenue calculation was re-modelled after the final NERSA tariff approval and a portion of the subsided indigent households was corrected, thus reducing the overall growth in electricity revenue. Projected growth in the final adopted budget is 9%.
2. What might be the impact of **solar adoption** on future electricity volumes? Has the impact been modelled? Likely scenario?	Most of the solar uptake happened during the heavy load shedding periods. It is therefore very difficult to distinguish any decline in energy volumes between load shedding and solar uptake. We're now almost 1 year out of the previous load shedding period and the load shedding reduction in energy volumes has indicated a slight recovery. The solar adoption impact would likely be contributing to this, but there are also other factors such as energy efficiency and price of energy that has driven energy volumes down. It is thus difficult to quantify the solar adoption impact in isolation. Overstrand Municipality has completed a Grid Capacity Connection study which identified where and how much renewable energy our existing network infrastructure can accommodate. The capacity we can accommodate is unfortunately limited by various factors, including the aged Eskom bulk infrastructure in the different supply areas. As part of updating our Energy Master Plan, this will be revisited and updated. Overstrand has an ongoing Small Scale Embedded Generation (SSEG) program since 1 July 2016. Through the program, registered customers are afforded the opportunity to feed excess energy into the municipal grid and be compensated for each unit fed back as per our tariff policy. The biggest challenge is still unregistered SSEG systems within the network, especially systems feeding back into the grid illegally. These systems not only compromise our existing network, in many cases they interfere with metering equipment,

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	cause unnecessary callouts and endanger the lives of employees doing maintenance in the area. Without the current tariff restructuring (CoS), the installation of solar could contribute to a negative effect on the municipal electricity revenue. SSEG customers use little electricity units, but when the SSEG systems are not delivering power, on a cloudy day for instance, these customers still need the full capacity of the network. In some cases, even more than a normal customer, as they need to supply the load as well as charge their batteries (depending on how their inverters are programmed).
3. What is the **demand forecast for solar penetration?**	To date, 1188 systems have been registered in the Overstrand area (with a combined installed capacity of 16,5MW) of which 94 systems are registered to feed excess energy back into the municipal grid. It is estimated that these numbers could double within the next 5 years.
4. What would be the impact on the budget **if electricity revenue under-performs?**	Electricity surpluses are currently utilised to offset deficits incurred in rates-funded and other general municipal services. Any underperformance in electricity revenue collections will therefore have a direct impact on the projected surplus available to subsidise these services. The current electricity tariff structure is designed to recover fixed costs through basic charges and capacity charges. Revenue performance across all municipal services is closely monitored, and any significant under-collection will be addressed through the mid-year budget and performance assessment process and, where necessary, the adjustments budget. In terms of the Municipal Finance Management Act (MFMA), any revenue shortfall would necessitate a corresponding downward adjustment to both revenue and expenditure projections. However, the municipality has adopted a prudent and conservative approach in preparing its revenue forecasts, thereby mitigating the risk of material variances.
5. The **Rates Services** cost centre runs a projected deficit of R201.7 million during 2026|27 – up from just R3 million during 2024|25 actuals. What explains the significant R199 million deterioration in two years?	The increase in the projected deficit of the Rates Services cost centres is primarily driven by a combination of structural revenue pressures and cost escalation rather than a single isolated factor and the key contributors include:

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	• Slower growth in property rates revenue Revenue from property rates has not increased at the same pace as the expenditure requirements funded through the Rates Services cost centre. Growth in the rates base and tariff increases has been insufficient to fully offset rising service delivery costs. • Increased indigent support and relief measures Expanded rates rebates and exemptions provided through indigent support programmes have reduced the effective rates revenue available to fund services. While these measures are necessary to support vulnerable households, they place additional pressure on the financial sustainability of the rates services. • Operating expenditure growth exceeding revenue growth Expenditure associated with community services, public safety, governance, and other rates-funded functions has increased significantly due to inflationary pressures of cost inflation exceeding tariff adjustments. • More realistic medium-term budgeting assumptions The 2026/27 projections incorporate the full cost of service delivery and other baseline expenditure commitments, whereas the 2024/25 actual outcome benefited from tighter spending controls and certain once-off favourable adjustments. The medium-term projections therefore reflect a more sustainable long-term cost base.
6. How will the Rates Services **deficit gap** be closed?	The projected Rates Services deficit can only be addressed through a combination of revenue enhancement, expenditure containment, and funding model reforms with the following key considerations. • Structural reform of the revenue model to be prioritised to close the funding gap. • Annual property rates increases should be carefully aligned with the growth in rates-funded expenditure, while balancing affordability considerations for residents and businesses. • Continued expenditure reviews and further efficiency improvements will contribute to limiting growth in operating expenditure. • The municipality will continuously assess rates-funded programmes and activities to ensure that available resources are directed towards core service delivery priorities and statutory functions and the consideration of a reduction in unfunded mandates.

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	• By implementing a longer-term financial sustainability strategy plan aimed at gradually reducing the structural funding gap through a combination of revenue growth and expenditure management, as the magnitude of the projected deficit cannot be eliminated through a single intervention.
7. What is the **fixed cost portion** of each service (expressed in R-value) for 2026 | 27?	Fixed-cost portion per service relating to fixed components in each cost structure: • Depreciation & Amortisation • Employee Related Cost • Interest on borrowings • Overheads (Dept charges) • Based on standard municipal costing classification • Electricity excludes the fixed cost portion of bulk electricity purchases ELECTRICITY • Depreciation: 30 076 922 • Employee Costs: 40 369 766 • Interest: 13 455 000 • Overheads: 86 094 936 R169 996 624 WATER • Depreciation: 27 450 639 • Employee Costs: 13 777 909 • Interest: 16 215 000 • Overheads: 22 647 609 R80 091 157 SEWAGE • Depreciation: 23 904 664 • Employee Costs: 32 898 821 • Interest: 12 745 000

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	• Overheads: 16 554 570 R86 103 055 REFUSE • Depreciation: 4 164 402 • Employee Costs: 41 345 827 • Interest: 665 000 • Overheads: 14 252 579 R60 427 808
8. What is the **cumulative burden of fixed service charges** for the past 3 years (YoY percentage increase), the budget year and the two outer years?	2022/2023 202 019 307 2023/2024 223 065 648 10.42% 2024/2025 239 027 830 7.16% 2025/2026 247 461 911 3.53% 2026/2027 261 137 651 5.53% 2027/2028 276 805 910 6.00% 2028/2029 293 414 265 6.00%
9. **Employment-related cost is well above the norm** set by National Treasury. What explains the situation and what will the OM be doing to significantly reduce this cost?	We disagree with this statement. The employment costs amount to 30.69 % of the total operational budget, which is well within the National Treasury norm of 25-40%
10. Have formal externally validated **COS-studies** been done in respect of **all services**? If not, what methodology is being used to set tariffs?	A formal Cost of Supply study was conducted for Electricity services in 2021/22 with the 2020/21 data. A new CoS-study will be done in the 2026/27 financial year with the 2025/26 data. No external CoS studies have yet been undertaken for Water, Sewer, and Waste and this could be superseded by sector determinations in the future. The municipality is voluntarily considering undertaking similar external CoS studies for Water, Sewer, and Waste services in the future, after full implementation of the electricity tariff restructuring. Tariffs are set in terms of the National Treasury norms of realising a surplus on the four basic services.
11. What explains the **water expenditure surge (35%)** over the MTREF, whilst income only grows at 12%?	The implementation of seawater desalination in Hermanus in the outer year of the MTREF is likely to contribute to increased operational expenditure. Although this expenditure was

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	initially included in the draft budget for 2028/2029 financial year, the revenue impact was not yet concluded. It was again discussed and concluded at the final budget steering committee meeting held in May 2026 to exclude this expenditure pending a full revenue impact analysis to be conducted during the 2026/2027 financial year.
12. What is the corrective plan to address the projected **water service deficit** of 3.9% by 2028|29?	See above. After these adjustments were made, the water service will generate a surplus.
13. **Capital investment is declining** against a 1.8% annualised population growth. What are the reasons for and likely impact of this significant under-investment?	Although the capital budget indicates a slight decrease when comparing the 2025/2026 to the 2026/2027 budgets years, the average capital investment growth over the MTREF is 8.92%. Capital investment is foremost subject to capital raising measures and affordability. The municipality maintains a strong borrowing capacity with excellent credibility with financial institutions, which is why it utilises loans to fund over half (52.7%) of its capital pipeline External borrowing must ultimately be paid back through municipal revenue and leads to consumer constraints with affordability. While the MTREF projects a healthy 8.92% average investment increase, future expansions are strictly limited by what local households and businesses can actually pay.
14. **Housing grant funding will drop by 91%.** What explains this significant drop, and what might be the likely impact on the Overstrand?	The provision of housing is a Provincial function. Overstrand Municipality acts as an implementing agent on behalf of province and is dependent on the housing priorities determined by the Provincial Government throughout the Western Cape. While there is a reduction in funding for 2026/2027 financial year, the outer years of the MTREF indicates expected grants of R33.5m and R40m respectively.
15. **Expenditure growth exceeds revenue growth** in the two outer years. What will be the **OM's turnaround strategy?**	The basis of compiling the outer year budgets is to estimate conservative revenue projections while still projecting expenditure at envisaged levels. This highlights the possible future risks for a targeted approach to reduce future costs.
16. **Operating cashflow will decline by 60%** over a 5-year period (2024|25 to 2028|29). Has a stress test been	A formal sensitivity analysis to assess the impact of a 10–15% revenue shortfall has not been conducted as part of the current budgeting process. However, the Municipality

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conducted showing the impact of a 10 – 15% revenue shortfall? Findings?	acknowledges the value of such an assessment in evaluating financial resilience and identifying potential risks to liquidity, service delivery, and long-term financial sustainability. The incorporation of sensitivity analyses and scenario planning will be considered during the review of the Municipality's Long-Term Financial Plan, which is scheduled to be undertaken during the 2026/27 financial year. This process will include the evaluation of various revenue and expenditure scenarios to inform future financial planning and support proactive risk management. In the interim, a range of risk mitigation measures are continuously applied through in-year monitoring and the annual budget process. These include the adoption of conservative revenue assumptions, ongoing monitoring of revenue collection trends, monthly cash flow management, and the implementation of corrective measures where material variances are identified. Revenue performance is also formally assessed through the mid-year budget and performance assessment process to ensure that emerging risks are identified and addressed timeously.
17. Other than the savings from vacancies (employment cost), what actions will the OM take to **contain cost** across the institution? Quantified value?	Other than employment related cost, cost containment is managed in terms of the Cost Containment regulations and reported on a quarterly basis. There is no real quantifiable amount that can be attached to the reporting template, other than expenditure not exceeding the budget. In addition to the above, the Municipality is implementing a phased fleet replacement programme. The replacement of ageing vehicles is expected to reduce repairs and maintenance costs over time, as newer vehicles generally require less maintenance and experience fewer breakdowns. Savings realised from reduced repairs and maintenance expenditure will be redirected to fund fleet replacement requirements. This approach is expected to improve operational efficiency, enhance service reliability, and contribute to longer-term cost savings for the Municipality.
18. The SAMRAS financial system produces **inaccurate data**. Budgeted figures rest on a foundation that cannot be fully validated. What will the OM do to **improve data integrity**?	We disagree that the financial system produces inaccurate data for budgeting and transacting purposes. The core financial system is setup for budgeting and transacting in terms of GRAP and mSCOA. While we do experience challenges relating to mSCOA implementation in certain main ledger categories regarding assigning seven differentiated segments to accounts due to system limitations, it does not detract from accurately presenting primary transactions or extracting budget information.

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19. What is the OM doing to **diversify its revenue base** and reduce its level of **grant dependency**?	Functions are assigned to municipalities in terms of the constitution and the municipality cannot further diversify the revenue base beyond those functions. Overstrand cannot be regarded as grant dependent. The total operational transfers and grants amount to R215.5m of which an amount of R188.3m is the rightful share of the municipality's portion of revenue raised nationally, in terms of the Division of Revenue Act. Furthermore, housing and library grants are received in terms of services rendered by the municipality on behalf of the Provincial Government. The remaining portion of R12m only constitutes (5.6%) of operational revenue. Capital grants in terms of INEP, MIG and WSIG is received for the provision of infrastructure services for poorer households and therefore not transferring the cost recovery to other consumers.
20. What is the OM's **renewable energy** and **demand management strategy?**	Overstrand has implemented a SSEG program since 1 July 2016 affording customers the opportunity to feed excess energy into the municipal grid. We have also done extensive media campaigns to encourage residents to register all SSEG installations via our online portal. Registration is free of charge. Unlike most municipalities, there are no additional monthly costs added to accounts for customers who register their SSEG systems. Overstrand is also actively participating in Energy Efficiency and Demand Side Management (EEDSM) programs and initiatives. These programs are run by the Western Cape Government. The electricity industry is moving towards a wholesale energy market (SAWEM.) If this finds traction and legislation allows municipalities to procure energy on the wholesale market, it could increase the municipality's renewable energy footprint with the added benefit of more competitive energy pricing (in theory, at least.) We'll have to allow this concept to mature in South Africa; it has been functioning in other (first world) countries and lessons learned will be key to developing this for the South African market. A lot of progress in this regard has been made and it is estimated that Eskom would be the first to use this towards the end of 2026 or early 2027. With the implementation of the restructured Cost of Supply tariffs, Overstrand has changed some of its policies as well. Previously customers were limited to either a 30Amp or 60Amp connection size. Since the implementation of the new tariffs on 1 July 2024, customers who were previously on a 60Amp prepaid connection can now choose

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	between a 30Amp, 40Amp, 50Amp or 60Amp connection size. This aligns with the National drive for Municipalities and customers to lower demand. The actual capacity taken by consumers does not just impact the local networks, but all the networks, including the Eskom supply substation. The higher voltage networks are impacted by all consumers. The municipal electricity department periodically undertake network master plans to determine network upgrading required to cater for the changing load on the network. When some consumers use less power, especially during the peak times, various network upgrades can be delayed thus leading to significant cost savings. Eskom has various access charges as indicated. This is based on the municipal notified maximum demand. This needs to be monitored and managed constantly to cater for changes in load. The cost of increasing capacity at Eskom is astronomical and the timelines very long. The Municipality needs to ensure that their Notified Maximum Demand with Eskom is sufficient to accommodate demand at peak times during the year. This unfortunately also means that we need to pay for the capacity in months when demand is at a lower level. Your capacity charge refers to the size of your individual connection. This means that the municipality must ensure that at any given moment, your property can access the maximum demand as stated by your capacity charge (e.g 60Amp). When consumers reduce their demands, without reducing their capacity charge allocation, this means that the municipality is still obliged to provide the full capacity to that consumer and thus still needs to pay Eskom for the said capacity. The capacity charges thus does not just allow for the more accurate allocation of costs, but also affords consumers the opportunity to reduce their costs by shifting loads in a way to select a lower capacity

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