



Western Cape
Government
FOR YOU



Strategic Integrated Municipal Engagement 2023

Cape Winelands District Municipality

2023 SIME ASSESSMENT KEY RECOMMENDATIONS

INTEGRATED PLANNING

It is recommended that the Municipality:

- Reflect on the declaration of Stellenbosch, Paarl and Worcester as Priority Human Settlement and Housing Development Areas in the adopted IDP; and
- Consider reflection on cross municipal boundary impacts/mitigation measures on the Transhex and Vlakkeland human settlements projects.
- Identify more opportunities to boost the agricultural sector in the middle to high end agricultural zones, while maintaining the important minor roads which are used by the agricultural sector.

Waste Management Licensing

The District Municipality should note that the commencement date for the Regional WDF, as per the WML, is 2024. Should the Municipality foresee, that commencement may occur after this, a variation application must be made 6 months prior to the current commencement date to allow sufficient time to issue a new licence.

Waste Policy and Minimisation

It is recommended that the District Municipality assist by encouraging their municipalities to ensure that their local waste management by-laws are aligned and up to date.

Although the management of waste services and waste initiatives are not implemented by the Municipality, it can further provide support on waste minimisation and municipal initiatives towards improved waste management, especially for the diversion of organic, and construction and demolition waste.

Waste Management Planning

The Municipality needs to ensure that the endorsed IWMP is aligned with their IDP and there needs to be an update of how far the construction of the regional landfill is within the Municipality's Annual Report.

There should be updates on the implementation of the IWMP in the next Annual Report. The Department will provide municipalities with a reporting template to report on the implementation of their IWMP. The reporting template must be included in the Annual Report submitted to Provincial Treasury and the Provincial Department of Local Government.

ECONOMIC AND FINANCIAL SUSTAINABILITY

- The District Municipality should ensure that the below inflationary increases in certain mandated functions does not have a negative impact on service delivery and its operational ability.
- The District Municipality is commended for the innovative approaches to promoting tourism in the region. It is crucial for the District to develop effective strategies to maintain accurate, complete, and compliant databases as database compliance issues have been noted. It is also important to continuously develop revised timelines and evaluate project risks so that the District can continue to build on their innovative approaches and achieve greater success in promoting tourism in the region.
- The District Municipality should utilise a commodity-based strategy for standardisation of item expenditure, which will assist in determining the sourcing strategies and achieve economies of scale. This will further assist the Municipality to identify certain commodities for alternative procurement decisions such as District Transversal Contracts, framework agreements and bulk procurement.

- To ensure procurement planning is integrated, it is recommended that the SCM unit form part of the budget process, in order to provide inputs to the overall procurement plan.
- The Municipality's budget is credible, sustainable, and funded. The gaps and risks below were identified in the assessment and should be taken into consideration when the final budget is tabled in council for approval.
 - The Municipality is commended for building reserves and for continuously finding a balance between addressing the need within the available resources resulting in a funded budget over the MTREF amid the persistent fiscal constraints.
 - Significant differences are noted on tables A6 and A7 when comparing the data strings submission to the draft budget submitted by the Municipality, particularly the opening cash balances that are not accurately carried forward. This is a concern, as the credibility of the data strings submitted distorts the accuracy and overall quality of the reporting.
 - The expansion of the revenue of the Municipality is highly commendable, as it is noted that the Municipality is planning to collect from service charges refuse in the outer years of the MTREF. This should be a key financial lever in the Long-term Financial Plan of the Municipality.
 - The Municipality is cautioned against implementing services which add financial strain on the Municipality and that are not in line with its mandate. The expansion of services must be reviewed in line with the District's mandate, affordability and cost effectiveness.
 - The Municipality's income strategy is also influenced by the state of the economy. These economic difficulties will continue to put pressure on the Municipality's income; thus, it is advised to consider developing partnerships that will promote local economic development in the municipal region.
 - The Municipality is reliant on own funding to contribute to the capital budget and must consider the return on investment to ensure ongoing sustainability.
 - Provincial Treasury encourages the Municipality to continuously monitor implementation strategies with the management of the capital budget and apply project management principles to adhere to the procurement plan.
 - Address the findings related to the segment tool analysis shared with the Municipality to ensure that the final budget considers all the recommendations and correct segment use is achieved. The Municipality to also advised to consider the NT requirements stipulated in the MTREF Budget Circular 123 should it plan to acquire a new mSCOA compliant ERP financial system.

HISTORICAL TRENDS

- The Municipality reports a growing cash reserve of 4.1 per cent over the period reviewed, with projected cash coverage to reach approximately 9 times the upper ratio norm.
- The Municipality has maintained a high remuneration as a percentage of total operating expenditure, exceeding the norm by an average of approximately 17 per cent over the measured period.
- Contracted service cost as a percentage of operating expenditure decreases as an increase in remuneration as a percentage of total operating expenditure is evident over the period reviewed. It is encouraged that the consultancy reduction strategy ensure that efficiencies are adopted when consultant reduction is applied, and that this does not carry over a burden to current staff, to increase the staffing cost.
- The Municipality has managed its going concern well, with good practices in cash reserve management and commendable liability management.

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LIST OF ACRONYMS

AQMP	Air Quality Management Plan
BESP	Built Environment Support Programme
CAPEX	Capital Expenditure
CBD	Central Business District
CBA	Critical Biodiversity Areas
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
DHS/DOHS	Department of Infrastructure
DM	District Municipality
DLG	Department of Local Government
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
ITP	Integrated Transport Plan
ISDF	Integrated Strategic Development Framework
IYM	In-year Monitoring
IWMP	Integrated Waste Management Plan
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
MFMA	Municipal Finance Management Act
MER	Municipal Energy Resilience
MI	Municipal Infrastructure
MIG	Municipal Infrastructure Grant
MIP	Municipal Infrastructure Plan
MISA	Municipal Infrastructure Support Agent
MMP	Maintenance Management Plan
MTREF	Medium Term Revenue and Expenditure Framework
MVA	Megavolt Amperes (1 Million volt amperes)
MWh	Megawatt hour (1 Million watt hours)
NRW	Non-revenue Water
NDHS	National Department of Human Settlements
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

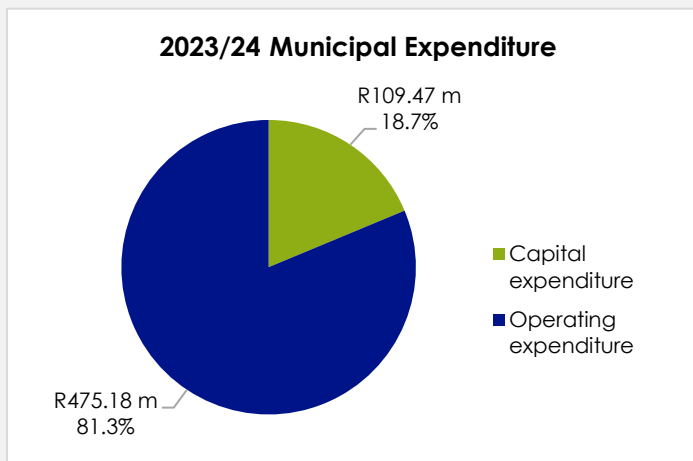
The 2023 SIME assessment encapsulates comments by the Western Cape Government (WCG) on the draft 2023/24 MTREF Budget, 2023/24 Integrated Development Plan (IDP), Spatial Development Framework (SDF) and other associated documents.

The assessment covers the following key areas; conformance with the Municipal Finance Management Act 56 of 2003 (MFMA), Municipal Systems Act 32 of 2000 (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 plans to meet the executives of your Municipality in May 2023, 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 **Cape Winelands District Municipality** in relation to the regional economy.

BUDGET SNAPSHOT



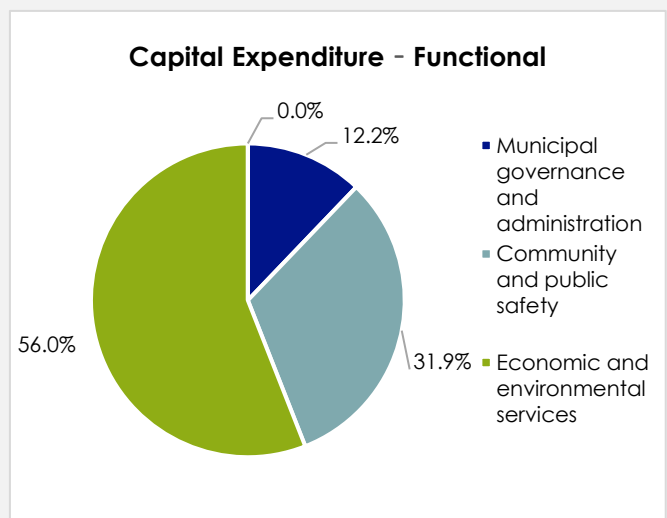
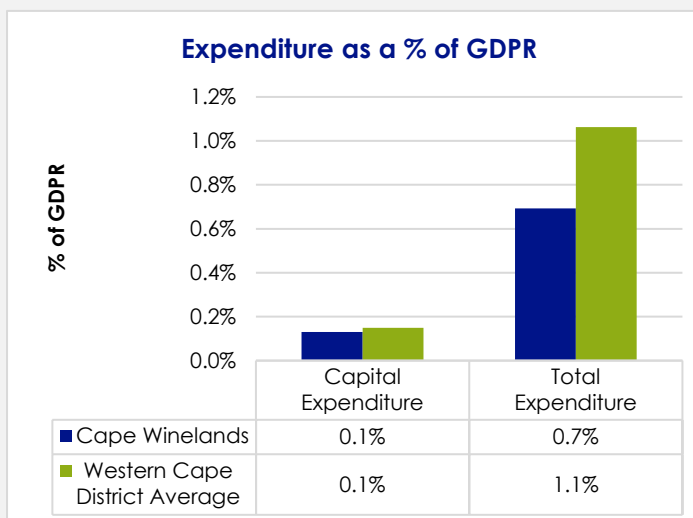
Indicator	2021e	2023f
GDPR Current Prices	R84.321 billion	
GDPR Growth		0.8%

Inflation	2022	2023	2024	2025
	6.9%	5.3%	4.9%	4.7%



Indicator	2023f
Population	984.921
Population Growth	1.6%

Disclaimer: Population forecast subject to change upon release of Census 2022.



Source: Municipal expenditure and revenue estimates - Draft 2023/24 A1 schedule; Population - Stats SA MYPE base year 2022 (Feb. 2023); GDPR - Quantec, 2022.

SECTION 2: INTEGRATED PLANNING

2.1 INTEGRATED DEVELOPMENT PLANNING

2.1.1 Introduction

An Integrated Development Plan (IDP) is the principal strategic planning instrument which guides and informs all planning and development, and all decisions with regard to planning, management and development in a municipality. An IDP provides the strategic direction for all the activities of a municipality over five years linked to the council term of office.

Each municipal council must annually review and may amend the IDP of the municipality. Should the review process determine that an amendment is required, a municipality should follow the process as stipulated in Regulation 3 of the Local Government: Municipal Planning and Performance Management Regulations of 2001.

The 2022/23 review of the IDP of the Cape Winelands District Municipality (the Municipality) took into consideration any changed circumstances and an assessment of the performance measurements. Council Resolution ref.5/1/1/10 of 23 March 2023 indicates that the Municipality followed a review process and therefore tabled a draft Reviewed 2023/24 IDP.

2.2 INTEGRATED PLANNING ANALYSIS

2.2.1 IDP Overview

An assessment of the tabled IDP indicates that the Municipality's vision, mission, strategic objectives and core values have not changed from the 2022 – 2027 IDP. The strategic direction and developmental challenges, demonstrate the unique and long-term nature of the developmental trajectory characterising the Municipality.

The situational analysis in the tabled IDP is informed by data sources such as the 2022 Socio-Economic Profile for Local Government and the 2022 Municipal Economic Review and Outlook. These data sources reflect the most recent demographic profile, socio-economic status, access to basic services, education, employment, health, environment and safety and security statistics and information characterizing the existing level of development of the municipal area.

Chapter 4 of the tabled IDP reflects the Municipality's intention to "build back better and stronger" through development of a Cape Winelands District Economic Recovery Plan (CWDERP). The implementation of the CWDERP sets out a preferred pathway for economic recovery in the Cape Winelands District (the District) as a response to the socio-economic effects of the COVID-19 pandemic. The CWDERP is aligned to SO 1: Creating an environment and forging partnerships that ensure social and economic development of all communities, including the empowerment of the poor in the District and paves the way for the Municipality's economic development trajectory.

The District has a combination of thriving sectors (agriculture, finance and business services, tourism/hospitality), high connectivity to global markets (through agricultural produce/tourism), high quality of life, ability to attract highly skilled labour, well developed road infrastructure, and good quality education and learning institutions.

The tabled IDP reflects the project priorities identified as focus areas during the 2023/24 and 2024/25 financial years i.e., Mayoral bursaries, Safety, Energy, Early Childhood Development Centres, Mental Health, Food gardens and Grass cutting. Furthermore, the tabled IDP reflects the Joint District and Metro Approach (JDMA) focus areas relating to: waste management, community safety, economic recovery and unemployment, financial sustainability, shared services, resource resilience, urbanisation, infrastructure

management and agriculture. These project priorities and JDMA focus areas align to the identified development needs, objectives and priorities of the District.

The tabled IDP reflects in tabular format the Municipality's three Strategic Objectives in contrast to the top ten strategic risks, which could possibly prevent/limit the Municipality from achieving its desired outcomes.

2.2.2 IDP process including community consultation

In terms of Sections 28 and 29 of the Municipal Systems Act 32 of 2000 (MSA), a municipality must follow a prescribed process when reviewing and/or amending an IDP. The process to be followed must allow for the local community to be consulted on its development needs and priorities, for the community to participate in the drafting of the IDP and for organs of state and other role players to be identified and consulted on the drafting of the IDP.

Furthermore, key activities and deadlines for the process must be set out in a Time Schedule tabled in terms of Section 21 of the Municipal Finance Management Act 56 of 2003 (MFMA).

The tabled IDP reflects an IDP/Budget Road Map for public participation 2022/23 which outlines the processes, mechanisms and procedures of consultation with all stakeholders in the development, drafting and adoption of the IDP and Budget. Proper notice was given to all stakeholders about these public engagements and communities were allowed to participate in a manner to influence the development trajectory of the district as a whole.

The Municipality participated in IDP area based, hybrid public participation meetings as well as online IDP stakeholder engagements between 7 - 28 September 2022. A similar engagement structure reflects a second round of planned public participation engagements on the tabled IDP and Budget, between 3 – 24 April 2023. The Municipality engaged in consultation meetings in all the major towns in its area, through a series of Mayoral Mondays during which community needs and responses thereto were discussed.

Considering the above, the tabled IDP reflects that the process as prescribed for in section 29 of the MSA and as set out in the Municipality's Time Schedule adopted in terms of section 21 of the MFMA, has been properly followed. In addition, the tabled IDP identifies the plans and planning requirements binding on the Municipality in terms of national and provincial legislation, as well as reflect alignment thereto.

2.2.3 IDP notable changes

The tabled IDP reflects planned infrastructure projects prioritised for the 2023/24 financial year which builds on plans and priorities identified in the 2022 - 2027 IDP. Among the planned projects is the construction of a regional landfill site for the eastern part of the District in Worcester. This is a notable development given the critical need for such a facility to effectively start dealing with waste management challenges in the District. Furthermore, the possibility of a regional landfill site for Stellenbosch and Drakenstein in collaboration with the City of Cape Town remains under investigation.

The tabled IDP reflects broadly on climate change and the development of a draft framework for a Climate Change Response Strategy aimed at responding to environmental challenges in a coordinated manner. Included in the tabled IDP as annexure A, is the 2019/20 Cape Winelands Regional Socio-Economic Development Strategy which aims to provide for and promote investment by focusing on business retention and expansion, investment opportunities, and creating competitiveness. To this end, trade investment projects such as the Namibia and Cape Winelands Tourism Expos provide new markets for local entrepreneurs to showcase local products and services and to explore new markets.

The tabled IDP identifies a list of proposed projects in relation to community development and planning for the 2023/24 financial year, cutting across all related divisions and service programmes linked to communities. Emphasis needs to be placed on the notable inclusion of the CWDERP, focusing on economic development through implementing three broad phases namely, re-opening, recovery and renewal spanning between 2021/22 – 2024/25 and beyond.

2.2.4 Outstanding areas for improvement

The Municipality adequately responded to the identified areas for further improvement outlined in the 2022/23 SIME assessment report. However, the following aspects need attention:

- The Municipality is requested to reflect on the declaration of Stellenbosch, Paarl and Worcester as Priority Human Settlement and Housing Development Areas as per national Gazette No. 43316;
- The Municipality should reflect on how the impact of the two catalytic human settlement Projects (Transhex and Vlakkeland), located in the municipal area could potentially have cross municipal boundary impacts as well as indicate how potential impacts could be leveraged and/or mitigated; and
- To avoid misalignment between the IDP and Budget, the Municipality should consider identification of a procurement planning process for improved planning alignment in service delivery and enablement of economic growth.

2.3 KEY FINDINGS AND RECOMMENDATIONS

2.3.1 Key findings

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

- The IDP contains no reflection of the declaration of Stellenbosch, Paarl and Worcester as Priority Human Settlement and Housing Development Areas as per the National Gazette; and
- There is also no identification of cross municipal boundary impacts/mitigation measures of the Transhex and Vlakkeland catalytic projects.

2.3.2 Recommendations

It is recommended that the Municipality:

- Reflect on the declaration of Stellenbosch, Paarl and Worcester as Priority Human Settlement and Housing Development Areas in the adopted IDP.
- Consider reflection on cross municipal boundary impacts/mitigation measures on the Transhex and Vlakkeland human settlements projects.
- Identify more opportunities to boost the agricultural sector in the middle to high end agricultural zones, while maintaining the important minor roads which are used by the agricultural sector.

2.4 ENVIRONMENTAL AND PLANNING ANALYSIS

2.4.1 Compliance, Performance, Implementation And Changing Circumstances

SPATIAL PLANNING

There is a clear link between the Cape Winelands District Spatial Development Framework (SDF) and the IDP, with the latter including extracts of the former. The SDF provides a strategic spatial vision for the IDP. Furthermore, there is a link between the SDF (including the CEF) and the Budget. The two projects included in the CEF are the alien clearing programme and the regional landfill site, both of which have been allocated funding for the 2023/24 financial year.

Housing Market Studies have been completed for both Drakenstein and Stellenbosch Municipalities. The findings from these studies highlight the housing market gap that currently exists. This information could be used to provide further insight into the "Situational Analysis" section of the District IDP. Another round of funding for housing market studies have been made available and will include Breede Valley Municipality.

BIODIVERSITY MANAGEMENT

Biodiversity Spatial Plan

The Municipality is advised to take note of the enabling of certain prescripts in the Western Cape Biodiversity Act, No. 6 of 2021, which includes legislative requirements pertinent to municipalities in terms of a Biodiversity Spatial Plan adopted by the provincial Minister. Sections 36, 37(1), 37(2)(c), 37(2)(f); and of particular importance, 37(3) of the Western Cape Biodiversity Act should be noted by all municipalities within the Western Cape.

In addition to the above, the current Biodiversity Spatial Plan is being revised and an updated version is likely to be adopted in terms of Section 36 of the Western Cape Biodiversity Act before the end of the 2023/24 financial year.

Alien invasive plant clearing

Municipalities are reminded that the Ecological Infrastructure Investment Framework was developed for the Western Cape and speaks directly to the clearing of alien invasive plants for water gains, fire and flood risk reduction, and improved food security. Recent inclusions of ecological infrastructure in policies that pertain to municipal infrastructure should be noted. In many areas of the Province, alien plants utilise considerably more water than their indigenous counterparts, and the eradication of these plants would more often than not result in downstream water gains. Additionally, alien plants are known to increase the risk and intensity of wildfires and flooding, which impact on municipal infrastructure and require disaster risk response. It is important to keep these relationships in mind when prioritising interventions that aim to augment a municipality's water supply.

Towards the end of managing, controlling and eradicating alien plants, it was noted that Cape Winelands District does not have an invasive species monitoring, control and eradication plan, but has an Alien Clearing Coordination Framework. It was also noted that approximately R2.457 million has been allocated to the eradication of alien plants, but hectare targets for initial clearing and follow-up could not be ascertained. Towards monitoring the performance of Cape Winelands District in terms of the aforementioned plan, the inclusion of a succinct overview of clearing and follow-up targets and budgets would be beneficial in next year's assessment.

In terms of spatial alignment, it was noted that the SDF is fully aligned with the Biodiversity Spatial Plan.

CLIMATE CHANGE

The Climate Change Directorate within the Department of Environmental Affairs and Development Planning (DEA&DP) led the revision of the Western Cape Climate Change Response Strategy. The 2022 Strategy lists four guiding objectives for a climate change response, namely: 1) Responding to the climate emergency; 2) Transitioning in an equitable and inclusive manner to net zero emissions by 2050; 3) Reducing climate risks and increasing resilience; and 4) Enabling a Just Transition through public sector, private sector and civil society collaboration. Each of the Guiding Objectives is supported by a preliminary list of key responses, which are detailed in an Implementation Plan. The Implementation Plan adds detail to the response actions outlined in the strategy and identifies the role players required to drive the actions. It also specifies timeframes for the actions and a framework within which the actions can be evaluated to measure progress and overall impact.

A new resource was released last year to assist municipalities with the most up to date climate science and projections. The document titled "SmartAgri: Updated Climate Change Trends and Projections for the Western Cape" (2022) was completed for the Western Cape Department of Agriculture by the Climate Systems Analysis Group at the University of Cape Town.

The Strategy and Implementation Plan is provisionally aligned to the prescriptions of the Climate Change Bill, 2022, currently being gazetted for public consultation through Parliament. The Bill places obligations on District and Metro municipalities for coordination of climate change responses.

The Municipality recognises the threat of climate change, as well as the opportunity to mainstream it into planning for residents, the environment and future development. The Municipality has thus prioritised the development of a Climate Change Vulnerability Assessment and Climate Change Response Plan. This includes a current draft framework for a response strategy that identifies the types of projects and programmes, gaps and planning required to respond to climate change. The framework for the strategy is noted as a "living document" that is reviewed annually to include budgetary changes, where departments are also requested to consider this framework with specific reference to the "key climate change focus areas".

Climate Change indicators, sub-projects and actions are also identified for sectors identified by the Municipality to be most at risk to climate change. This includes the agriculture, biodiversity and environment, human settlements, infrastructure and disaster management as well as the water sector. More refined detail is provided by listing specific interventions for each of the Municipality's Climate Change Focus Areas, where cost accounts are provided for project/activities. However, the cost accounts are not featured in the project budget of 2023/24 and 2025/26.

Overall, the inputs to the IDP can be enhanced by referencing timeframes or dates of publishing for the Climate Change Documents it references, as well as providing access to the documents to allow for further engagement on climate change mainstreaming within the Municipality. Stronger links could also be made between the disaster management plan and the climate change vulnerability assessment.

AIR QUALITY

- A budget allocation to implement/review and adopt the Air Quality Management Plan has been secured by the Municipality and should be used to:
 - develop (or update) the Air Quality By-law, inclusive of noise control;
 - conduct awareness raising and capacity building;
 - monitor ambient air quality (passive or continuous monitoring of air pollutants via either a fully-equipped ambient air quality monitoring station or low-cost air quality sensors); and
 - implement air quality management intervention strategies in its jurisdiction.

STRATEGIC RISK/ISSUE	PROPOSED ACTION
Following five years of implementation, the 2 nd generation AQMP (2018) is to be reviewed during 2023.	Consider supporting local municipalities in the district to also update their AQMP in line with the District's AQMP.
Air quality monitoring	Consider establishing an Air Quality Monitoring Network within the District. This will assist to monitor compliance with the National Ambient Air Quality Standards (NAAQS) within the District and allow for the District to have a database of air quality monitoring data.
Noise complaints handling in respect of the Western Cape Noise Control Regulations P.N. 200/2013, for S21 listed activities	Designate/appoint a Noise Control Officer, in terms of the Western Cape Noise Control Regulations.

WASTE MANAGEMENT

● Waste Management Licensing

The Municipality is currently in the process of finalising processes in terms of the Regional Waste Disposal Facility (WDF) which will be located adjacent to the current Worcester WDF. The Municipality does not currently manage the disposal of waste. As at April 2023, the District is still awaiting the Record of Decision (RoD) from the Department of Water and Sanitation (DWS) however the "bill of materials" for the construction is based on the technical design drawings submitted to the DWS.

The Municipality may have to request for the extension of the commencement date of construction due to possible procurement delays. The construction should occur as soon as the RoD is received. The commencement date on the Waste Management Licence is set for 2024.

● Waste Policy and Minimisation

The Municipality does not have a Waste Management by-law in terms of the National Environmental Management: Waste Act (NEM: WA), as it is not mandated to implement waste services at a local municipal level, and a by-law in this regard may therefore be optional.

The Municipality has submitted an Organic Waste Diversion Plan which is under review, dated April 2023. It further provided support to its municipalities by appointing a consultant to assist in drafting Organic Waste Diversion Plans for those that do not have one, namely Breede Valley, Drakenstein, Langeberg and Witzenberg. These drafts have recently been submitted to the DEA&DP and are under review. Stellenbosch Municipality was not included, as they completed a plan in 2021.

In terms of waste management awareness initiatives, the local municipalities are responsible for their own waste awareness campaigns, but the District Municipality assists where needed.

● Waste Information Management

The Municipality does not as yet manage any regional waste management facilities.

For the period of January to December 2022, the Municipality, as a whole, disposed of 177 778 tons, diverted 114 534 tons and had a diversion rate of 39 per cent.

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. If gaps are 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 analysing the credibility 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 understand the region's growth trajectory.

3.2 SUSTAINABLE ECONOMIC DEVELOPMENT

This section assesses whether the budget is aligned to the Integrated Development Plan (IDP) of the municipality, specifically to the municipality's strategic objectives. The extent to which national and provincial priorities and plans were considered is also analysed and well as progress towards reaching key national goals.

Table 1 Strategic Objectives for the 2023/24 Medium Term Revenue & Expenditure Framework

Strategic Goals	2023/24 Medium Term Revenue & Expenditure Framework OPEX				2023/24 Medium Term Revenue & Expenditure Framework CAPEX			
	Budget Year 2023/24	Budget Year 2024/25	Budget Year 2025/26	Average Annual Growth	Budget Year 2023/24	Budget Year 2024/25	Budget Year 2025/26	Average Annual Growth
S.O 1: Creating an environment and forging partnerships that ensure social and economic development of all communities, including the empowerment of the poor in the Cape Winelands District	165 904	169 653	178 237	3.7%	34 897	20 053	12 010	-41.3%
S.O 2: Promoting sustainable infrastructure services and a transport system which fosters social and economic opportunities	175 401	188 022	196 999	6.0%	69 867	68 965	13 437	-56.1%
S.O 3: Providing effective and efficient financial and strategic support services to the Cape Winelands District Municipality (Chief Financial	133 880	140 167	147 115	4.8%	4 705	724	2 000	-34.8%
Total Expenditure	475 185	497 842	522 351	4.8%	109 469	89 742	27 447	-49.9%

Source: Cape Winelands District Municipality, A-Schedules

- The District is known for its world-renowned wine industry and picturesque vineyards, which attract visitors from all over the world. The tourism sector plays an integral part in the District's economy and has great potential for growth. The District also has the highest employment rate of all the Districts in the Western Cape, and a very strong comparative advantage in agricultural jobs. Despite a lower unemployment rate when compared to other districts, poverty levels remain high. The socioeconomic reality of the District is complex and multifaceted. While there are pockets of wealth and prosperity, there are also many communities and individuals who face significant challenges and hardships.

- The strategic objectives noted in budget tables SA5 and SA6 for the 2023/24 MTREF take into account the socio-economic reality and priorities of the District in realising its vision of being “a unified Cape Winelands of excellence for sustainable development”. The strategic objectives (SO's) are aligned to the strategic goals in the IDP and is furthermore aligned to national and provincial priorities, allowing the three spheres of government to work together to improve the lives of residents within the region.
- It is clear from the budgetary allocations that the bulk of the spending for the 2023/24 financial year is focused toward SO2 'Promoting sustainable infrastructure services and a transport system which fosters social and economic opportunities.' This comprises of an operating budget allocation of R175.401 million (36.9 per cent) and a capital allocation of R69.867 million (63.8 per cent) in 2023/24. SO2's operating expenditure budget will mostly be used for complying with the administrative and financial conditions of the Western Cape Government roads agency function agreement (73.7 per cent), and for improving infrastructure services for rural dwellers (6.4 per cent).
- SO1 comprises the second largest share of the total operating budget (R165.903 million) and within SO1, a large portion of the funds will go towards effective planning and coordination of specialised fire-fighting services throughout the District (45.2 per cent), while the second largest portion will go towards providing a comprehensive and equitable Municipal Health Service including Air Quality Management across the district (26.7 per cent). These allocations are responsive to addressing the District's core mandated functions.
- It is noted that capital projects are spread out over the MTREF to avoid fluctuations in spending and to ensure that priority is given to projects with greater importance.

3.3 REVENUE AND EXPENDITURE ANALYSIS AND RISKS

3.3.1 Budget Overview

Table 2 Budget overview for the 2023/24 MTREF Budget

Cape Winelands DM				CURRENT YEAR			MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK					
Description	2019/20	2020/21	2021/22	2022/23	2022/23	2022/23	2023/24	2023/24	2024/25	2024/25	2025/26	2025/26
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Treasury Calculation	Budget Year +0	Treasury Calculation	Budget Year +1	Treasury Calculation	Budget Year +2	Treasury Calculation
Total Operating Revenue (excluding capital transfers and contributions)	414 996	401 259	411 604	424 952	462 186	462 186	475 184	475 184	497 842	497 842	522 350	522 350
Total Operating Expenditure	368 850	365 040	376 971	427 080	462 186	462 186	475 184	475 184	497 842	497 994	522 350	522 502
Surplus/(Deficit)	46 146	36 218	34 633	(2 128)	-	-	-	-	(0)	(152)	-	(152)
Non Cash Items												
Depreciation & asset impairment	8 477	9 238	9 801	9 561	9 561	9 561	9 561	9 561	9 557	9 557	9 557	9 557
A4: Total Operating Budget Restated Result	54 623	45 457	44 434	7 433	9 561	9 561	9 561	9 561	9 557	9 405	9 557	9 405
A5: Total Capital Expenditure	7 573	5 602	3 133	124 183	31 087	31 941	109 469	109 469	89 742	89 742	27 447	27 447
Funded by:												
Transfers recognised - capital	136	214	983	2 128	2 123	2 977	1 840	1 840	2 013	2 013	383	383
Borrowing	-	-	-	64 000	-	-	-	-	-	-	-	-
Internally generated funds	7 437	5 389	2 150	58 056	28 964	28 964	107 629	107 629	87 729	87 729	27 064	27 064
A7 - Cash/cash equivalents at the year end:	662 228	712 705	1 181 063	780 667	781 424	775 269	407 058	535 264	98 829	617 523	7 597	607 645
A8 - Surplus / (shortfall) after application of cash and investments	564 994	672 599	686 374	580 976	690 185	650 847	592 972	551 217	(83 452)	562 476	(21 440)	555 448
BUDGET FUNDING POSITION							FUNDED	FUNDED	FUNDED	FUNDED	FUNDED	FUNDED

Source: A1 schedules, NT funding tool, TABB data strings.

- The Municipality tabled a break-even budget over the entire 2023/24 MTREF budget which is commendable. The historical trends over the past three audited financial years indicates an acceptable level on the operating revenue budget implementation performance when comparing the tabled budget and the audited outcomes.

- According to the funding tool, the Municipality's budget is funded without any concerns to its sustainability and long-term viability over the 2023/24 MTREF. This is substantiated by table A8, which shows a growth in cash backed reserves/accumulated surplus balancing over the MTREF and is consistent with the requirements of section 18 of the MFMA. However according to the data strings, the Municipality's outer years reflect that the budget will be unfunded. This is due to opening balances that were not included under cash and cash equivalents. The Municipality should take this into consideration when finalising the budget.
- The Municipality projected for a positive cash and cash equivalents throughout the 2023/24 MTREF of R407.06 million (2023/24), R98.83 million (2024/25) and R7.59 million (2025/26), based on the data strings submission. However, based on the budget submitted by the Municipality, the Municipality reported different cash and cash equivalents' balances over the MTREF period to the amount of R557.06 million (2023/24), R505.89 million (2024/25) and R513.49 million (2025/26), respectively. The Municipality is demonstrating that it has adequate cash resources to meet its monthly fixed operating commitments from available cash and investments. The Municipality has considered the required applications to the reported cash and investments reflected on table A8. The Municipality is cautioned that any omission or non-commitments would provide a distorted view of the net surplus cash position achieved.
- The analysis of table A6 (Budgeted Financial Position) projected that the Municipality has reported a positive working capital, demonstrating that it has sufficient funds to meet its short-term liabilities over the MTREF period and has budgeted to achieve a positive working capital over the MTREF period.
- The projected liquidity ratio is reported to be 5.47:1 (2023/24), 3.26:1 (2024/25), and 0.26:1 (2025/26) over the MTREF period. The ratio depicts that the Municipality is anticipating having adequate financial resources to settle its short-term debts when it is due, except for the 2025/26 financial year which reported a liquidity ratio below the National Treasury (NT) acceptable norm of 1:1, indicating that the Municipality is exposed to a liquidity risk. The Municipality must convert its outstanding debtors to cash to have adequate financial resources.
- Significant differences are noted on tables A6 and A7 when comparing the data strings' submission with the budget submitted by the Municipality. This raises a major concern in respect of the credibility of the data strings submitted, which distorts the accuracy and quality of the reporting.
- The Municipality projects a cost coverage ratio of 12.17 months (2023/24), 2.89 months (2024/25) and 0.29 months (2025/26) over the MTREF period. The anticipated cash coverage ratio is above the NT acceptable norm of between 1 - 3 months, demonstrating that the Municipality has adequate cash resources to meet its monthly fixed operating commitments from available cash without collecting any additional revenue, except for the outer 2025/26 budget year.

3.4 DISTRICT FUNCTIONS ANALYSIS

3.4.1 Economic Expenditure Analysis

Table 3 presents a picture of the District's economic expenditure allocations as per the mandated functions of district municipalities. The significant allocations are analysed further below.

Table 3 Cape Winelands District Budget Allocations 2023/24

MANDATED FUNCTIONS AGAINST THE ANNUAL BUDGET			
Function(s) required by legislation	Operating Expenditure (Actual) R'000	Capital Expenditure (Actual) R'000	Total Operating Expenditure + Capital Expenditure R'000
Municipal roads which form an integral part of a road transport system for the area of the district municipality as a whole.	129 381	1 840	131 221
Regulation of passenger transport services.	7 481	-	7 481
Integrated Development Planning for the district municipality as a whole including a Framework for Integrated Development Plans of all municipalities in the area. (Corporate Wide Strategic Planning - IDPS, LEDS).	10 435	-	10 435
Central City Improvement District.	14 482	-	14 482
Promotion of local tourism.	9 739	-	9 739
Promotion of bulk infrastructure and services	-	50 000	50 000
Regional Planning and Development	4 024	9 427	13 451
Town Planning, Building Regulations and Enforcement, and City Engineer	8 173	-	8 173
Total	183 715	61 267	244 982

District challenges/Risks	<ul style="list-style-type: none"> ● Road services: Shortfall in allocated funding verses the funding necessary to attend to all identified technical maintenance, resealing, re-gravelling, rehabilitation and reconstruction needs. ● Complaints from rural communities regarding poor condition of provincial gravel road network. Majority of the 2 901 km provincial gravel road network in the CWDM area needs maintenance. ● Negative impact as a result of wet weather which impacts the riding quality of roads requiring reshaping to improve drainage, re-gravelling to improve riding quality – this cannot be achieved with current resources and significant backlogs. ● Waste management: The Stellenbosch area and to a lesser extent the Witzenberg and Langeberg areas are in critical need for landfill airspace. While some municipalities within the district use a clear bag system to enhance separation at source and improve cycling, waste avoidance is not significantly practiced in the district, except for some private enterprises. The management of waste disposal is generally poor. Scavenging takes place at a number of the waste disposal sites in the area, contributing to operational difficulties.
Economic Expenditure Analysis	<p><i>Road services and public transport</i></p> <ul style="list-style-type: none"> ● The CWD is an important tourist and economic hub in the Western Cape. Road's infrastructure is therefore crucial to unlocking the economic potential of the region. From 2020/21 to 2021/22 the kilometers of roads re-gravelled increased, the kilometers of roads bladed increased, and more than 3 600 kilometers of roads were maintained. Therefore, service delivery has improved with respect to roads.

- The repair and maintenance of road infrastructure in the District is critical to maintain and enhance connectivity within the area, which is especially important for the District's large agricultural sector to access markets and to the District's external road linkages. As road infrastructure is a key enabler of economic growth, expenditure on the upkeep and maintenance of road infrastructure enhances connectivity and has a positive impact on economic growth in the area. This road allocation for the 2023/24 financial year amounts to R129.381 million or 70.4% of the district's total operating budget. The corresponding capital allocation for the year is R1.840 million (3% of the total capital budget). In the 2023/24 financial year, the Municipality cut back on operating and capital expenditure related to the upgrading of rural roads. This is so that they may maintain accumulated reserves and ensure long term sustainability of the municipality. The District will however focus on building climate change resilient road infrastructure that serves as a link for rural areas and continue implementing road safety education.
- Despite funding challenges, the District has allocated R7.481 million of its operating budget towards the regulation of passenger transport services, and the implementation of road safety education projects will continue in 2023/24, with an allocation of R928 000. This includes the Transport Month event planned to take place in October 2023. The budget also makes provision for sidewalks and embayment's with an amount of R3.7 million.

Local Economic Development, City Improvement

- The District is currently in the recovery phase of its Economic Recovery Plan (ERP) which focuses on building confidence in the local economy and supporting businesses and communities. Support given through this phase can be seen in the budget allocations for the 2023/24 financial year and includes:
 - *The strengthening of strategic partnerships:* through a new Business network project which involves collaboration to identify new economic opportunities in the District (R500 000) as well as the BET cluster which will be the institutional structure for engagement.
 - *Business support and job creation programmes:* the District municipality will assist all local municipalities in implementing an innovative LED project within their locality which will enhance job creation throughout the District. Other LED projects the District plans to continue in the 2023/24 financial year includes the Entrepreneurial Seed Fund to invest in small businesses through the provision of seed funding (R500 000) and providing business training and mentorship to SMMEs receiving the Entrepreneurial Seed Funding (R532 000). Another notable LED project includes the Trade Investment Project and the exploration of collaborations with WESGRO for new markets for CWD products and services (R400 000) (evidence of strategic partnerships). The District also supports small and medium agro-enterprises where value addition for agricultural products will be considered to advance diversification of the rural economy (R500 000). Jobs will also be created through the Invasive Alien Management Programme (R2.367 million).
 - *Productive and healthy communities:* social development awareness programmes to address socio-economic issues affecting communities, families and vulnerable groups (R601 500), awareness campaigns and support to people with HIV/AIDS (R122 500), community support, programmes to strengthen partnerships with elderly service centres (R342 240), support of ECD centres (R198 000), skills development programmes for women and the youth to enhance employability and SMME development (R300 000), grant in aid for the disabled (R395 998), sport, recreation and cultural events (R3.298 million).

Tourism:

- For 2023/24, the District has allocated R9.739 million of its operational expenditure budget towards Tourism. The Cape Winelands presents tremendous opportunities for tourism growth and development. Key interventions in the 2023/24 year include the Local Tourism Association (LTA) project (R390 000) to ensure that LTAs add value to the tourism sector by including previously disadvantaged tourism products from the regions' rural and niche areas into the mainstream tourism sector, as well as township tourism to improve the socio-economic development of the region (R500 000). Tourism business training will also continue to ensure appropriate training for the region (R950 000). Other projects include tourism exhibitions (R900 000), tourism events (R477 000) and the tourism winter campaign which promotes the District as a premium tourism destination in collaboration with the local municipalities, LTAs, and tourism stakeholders (R528 000). Brochures/E-brochures will also be developed, in line with the new tourism strategy (R500 000) among many other interventions.

Bulk Infrastructure:

- The CWD has identified the critical need for landfill airspace and in response, R50 million (45.6%) of the total capital budget will be allocated towards the ongoing development of a regional landfill site. The site is anticipated to be in full operation in November 2024.
- The site was issued for the eastern side of the District and it is anticipated that the site will be operational by October/November 2024. The District will also investigate another regional site with all associated waste minimization processes for the western part of the District.
- The regional landfill site has the potential to generate great economic benefits for the District, including job creation (construction phase and ongoing operations) and economic multiplier effects on the local economy as businesses may emerge to provide goods and services to the landfill operators and workers – food services, maintenance, transportation. It will be important to consider the negative impacts of landfills on the environment and public health and implement effective waste management practices while regularly monitoring the landfill's operations.
- Waste Recovery of any significance is only done at the Materials Recovery Facilities (MRFs) at Paarl and Touws River. The District is in the process of assisting local municipalities with the compilation of Organic Waste Diversion Plans to establish procedures to minimize organic waste. In addition, the management of waste disposal is generally poor and waste avoidance is not significantly practiced across the region. The District could consider integrating informal waste pickers into the formal waste management sector and recognize waste pickers as a lever of waste recycling and waste management. In general, there are self-employed waste pickers that collect a large proportion of recyclables. The provision of support to organise and formalise waste pickers could provide both economic and environmental benefits. A programme can be initiated whereby waste pickers are registered and a database developed. The waste pickers can be trained on rules and regulations of waste management and environmental protection, and they could also receive business skills training to give them the opportunity to establish themselves. This combined with public awareness campaigns could greatly enhance the waste management function of the District.

3.4.2 Social Expenditure Analysis

Table 4 Cape Winelands District Budget Allocations 2023/24

Function(s) required by legislation	Operating expenditure (Actual) R'000	Capital expenditure (Actual) R'000	Total Operating expenditure + Capital expenditure R'000
Municipal Health services.	44 401	95	44 496
Fire-fighting services serving the area of the district municipality as a whole.	75 118	28 598	103 716
Establish a Municipal (District) Disaster Management Centre.	10 856	6 205	17 061
Governance and Administration	147 338	13 305	160 643
Other expenditure	13 756	-	13 756
Total	291 469	48 203	339 672

The table above presents a picture of the District's social expenditure allocations as per the mandated functions of district municipalities. The significant allocations are analysed further below.

District Challenges/Risks	<ul style="list-style-type: none"> ● Municipal Health Services: Burning of domestic waste on farms, inadequate service delivery or failures in service delivery by the B-municipalities monitored by the District. ● Fire-fighting services: simultaneous fires which result in resources of various agencies being stretched beyond limits and extreme weather conditions contribute to making suppression operations difficult. Fire Depots do not have adequate facilities to house staff and vehicles in a suitable manner. (Robertson and Nieuwedrift Fire Depots have the greatest need). ● Disaster Management: Staff capacity constraints, procurement challenges hampering operational activities.
Social Expenditure Analysis	<p><i>Municipal Health Services</i></p> <ul style="list-style-type: none"> ● Districts are mandated to provide municipal health services, which includes the water quality monitoring, food control, waste management, health surveillance of premises, surveillance and prevention of communicable diseases and environmental pollution control. ● The District has allocated R44.401 million towards its municipal health function (operating budget). The operating budget marginally declined by 1.2% from the 2022/23 adjustments budget. In terms of the capital budget, expenditure of R95 000 has been allocated for 2023/24. ● A key function of Municipal Health Services (MHS) is the Prevention of Communicable diseases such as Cholera, Diarrhea, Hepatitis A, and Typhoid which are all associated with poor sanitation. The Municipal Health Services: Water and Sanitation Project promotes and facilitates the provision of these services to farm workers and rural dwellers thus elevating the general health and wellbeing of these communities. This key intervention has an associated cost of R1 million. In addition, the District makes use of education and training initiatives to create environmental awareness amongst communities across the district with the aim of changing negative behavioural patterns, and includes educational material and health education in industries, schools and organisations (R518 537). ● The allocation for municipal health is part of an investment in future health provision. The importance of strengthening this function and providing it with adequate resources is crucial to attaining and maintaining service delivery in the District. While the 2023/24 allocations are certain to have a meaningful impact, there is no growth in spending for the health services function. The District should ensure that this does not have a negative impact on service delivery.

Fire Fighting and Protection

- Firefighting is a priority area for the District. Highlights noted in the 2021/22 Annual Report include that 22 officials were trained by the District Fire Services Academy, a total of 1 249 fires were attended to, housing kits were provided to families affected by fires, 8.5 hectares of strategic firebreaks were created throughout the district and fire equipment was provided to the Fire Services of all five local municipalities. Some rural farmers have been supplied with basic firefighting gear to assist in rural areas. Helicopters are on standby during high-risk seasons as are used in the case of severe fires. There is also significant collaboration for this function, as the District, Cape Nature and Winelands Fire Protection Association agreed to cooperate in the optimization of their resources to manage veld fires within the District. In addition, the District has mutual aid agreements with all of the local municipalities who assist at major fires and when there are a high number of fires and resources are stretched.
- For the 2023/24 financial year, the District has allocated a total of R75.118 million from its operating budget towards effective planning and coordination of specialized firefighting services. This represents a 2.5% increase from its 2022/23 adjusted budget allocation. Outer year changes indicate a 1.1% increase in operating expenditure in 2024/25, followed by an 8.2% increase in 2025/26. These allocations do well for ensuring the optimal functioning of the District's firefighting function.
- The 2023/24 capital budget of R28.598 million for firefighting services is geared primarily towards the replacement of a major 4 x 4 firefighting vehicle (a total of R14.532 million); it also includes R5.229 million for a light firefighting vehicle and R600 000 for fire pumps, R56 000 for specialized fire equipment, and other investments such as steel structure fire truck ports, upgrades at the Stellenbosch, Nieuwedrift, Worcester and Robertson fire depots.

Disaster Management

- The Cape Winelands District Disaster Management Centre (CWDMC) ensures coordination of risk reduction through an integrated institutional capacity for disaster risk management, disaster risk assessment, response and recovery. The CWDMC has a Disaster Management Advisory Forum which provides the opportunity to engage on disaster management related activities in the district and provide members with information on seasonal forecasts and reports on significant incidents or disasters. The District has also partnered with Santam as part of the Partnership for Risk and Resilience (P4RR), with the focus on reducing risk and building capacity in municipalities and local communities. During the 2021/22 financial year, the Disaster Management Division provided the local municipalities with an incident reporting, management and communication system to assist with the coordination of disaster management in the district. Early warnings were provided to all Disaster Management Advisory Forum members, municipalities and internal departments and included information such as weekly dam level reports, weather alerts, impact based severe weather warnings and health communications, etc.
- The District has allocated a total operating budget of R10.856 million towards disaster management for the 2023/24 financial year. This is a significant increase of 18.2% from the 2022/23 adjustment budget and will increase at 0.6% in 2024/25, before declining by 4.5% in 2025/26. Key interventions for 2023/24 include training for new Ward Councillors using the District's developed online course (R320 570), risk assessors training to capacitate municipal staff to replace the use of consultants (R50 000), the roll out of interactive plays at schools (R292 300), revision of the Ward Based Risk Assessment (R324 500), inventory emergency aid (R350 000) and the development of a mobile app linked to the FireWeb system for the collation of information to a ward level and to provide early warnings and identification of all risk assessments (geospatially captured information) with an allocation of R150 000.
- The capital budget allocation for 2023/24 totals R6.205 million and is mainly towards the upgrade of the satellite Disaster Management Centre (R2.5 million), upgrade of radio/communication room (R2.3 million) and the upgrade of the Disaster Management Centre (R500 000).

	<ul style="list-style-type: none"> • The District is commended for fostering collaboration, embracing sustainability and considering the long-term impacts of their policies and initiatives on the environment and future generations. This will help ensure that the District is resilient and able to adapt to changing circumstances. It is also noted that the District embraces innovation and explores new technologies and approaches to address the challenges they face. This will help the District stay ahead of the curve and find more effective solutions to complex problems.
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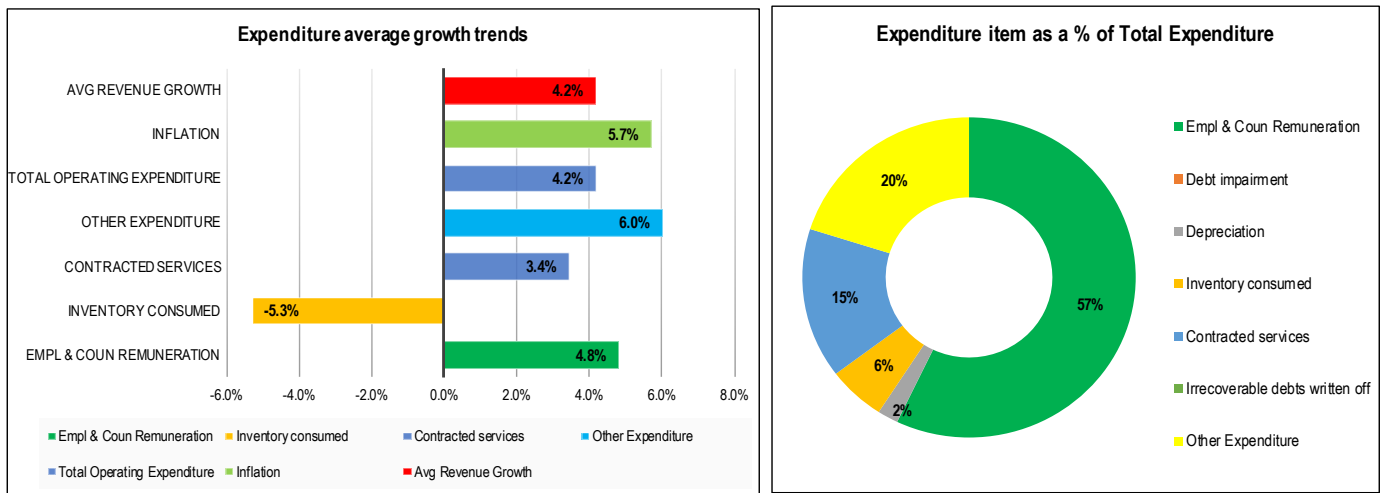
3.5 OTHER REVENUE AND EXPENDITURE RISKS

3.5.1 Revenue risks

- The Municipal revenue base consists of income in respect of Transfer and subsidies – Operational, Agency services and Interest earned from current and non-current assets. The total operating revenue budget is projected to increase 2.8 per cent in 2023/24 when compared to the 2022/23 adjusted budget and is expected to grow by an average of 4.8 per cent for the two outer years. It is noted that the projected growth in revenue is minimal for both the budget year and the two outer years respectively, which is an indication that there is a need for the Municipality to find other revenue sources to be able to maintain a balanced budget.
- Transfers recognised-operational is the largest operating revenue source amounting to R270.16 million or 56.9 per cent of the total operating revenue budget for the 2023/24 financial year. This item is projected to increase by 3.7 per cent when compared to the 2022/23 allocation and increases by 4.2 per cent on average over the MTREF period. This is an indication of the pressure on the Provincial and National fiscus and further contributes to the long-term financial sustainability challenges faced by the Municipality. The Municipality is encouraged to continue identifying alternative revenue sources to meet its growing expenditure.
- It is noted that long term receivables/provisions relating to the roads function employees are increasing over the MTREF period. Contractual agreements with the Department of Mobility must be in place to accurately inform the anticipated support and budget assumptions, prepare costing of what the impact of Province taking back the function would be and sketch the economic impacts.
- Operational revenue and interest from current and non-current assets are the only revenues that have increased above the inflation rate while agency services indicate a decline. It is also noted that the cash flow has been estimated to significantly decrease compared to the 2022/23 adjusted budget and this might soon lead to the Municipality having to tap into its investments. As such, the Municipality is advised to prioritise and closely monitor the budgeted line items.
- Discrepancies were identified when comparing the estimated national DoRA and provincial gazette allocations for some of the funds specified in table SA18. According to GRAP 23, the grant funds must be recognized as an asset, which means that it must be reconciled with the allocations that will be made available as per the DoRA and Gazette allocations under cash and cash equivalents. The Municipality incorrectly applied this principle to several grants that were recorded. It is recommended that the Municipality adheres to the GRAP 23 implications and mSCOA MFMA circular guidance on how to account for conditional grants.

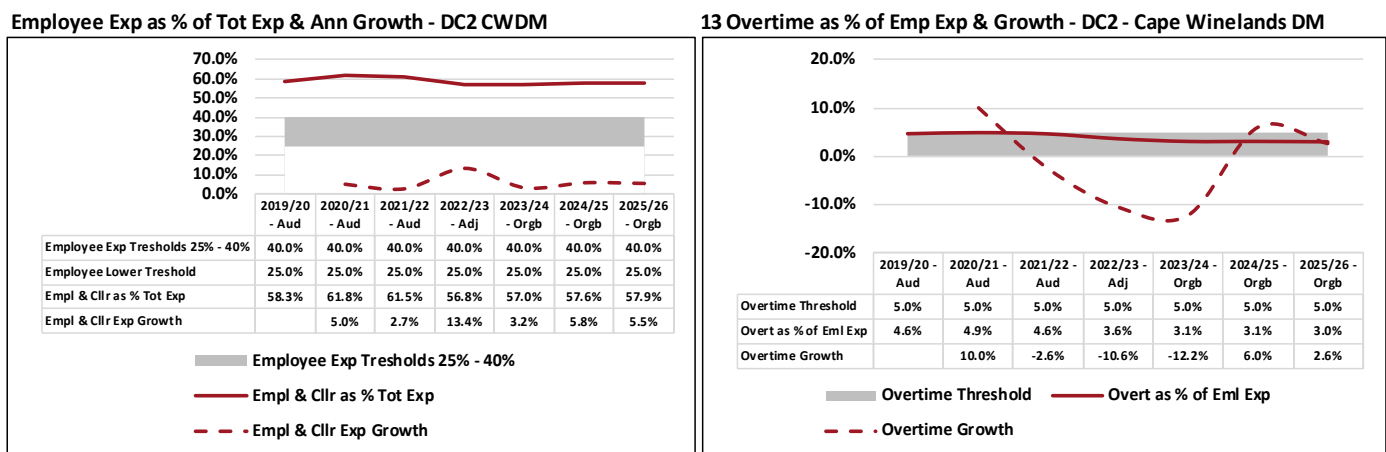
3.5.2 Operating Expenditure

Diagram 1 Operating expenditure trends



Operating expenditure is projected to increase by 2.8 per cent which is in line with the average revenue growth projections for the 2023/24 financial year. To effectively manage the overall effect of operating expenditure, the Municipality is advised to remain focused on its primary core functions and mission, as well as conduct a thorough evaluation of all expenditures.

Diagram 2 Employee costs and overtime



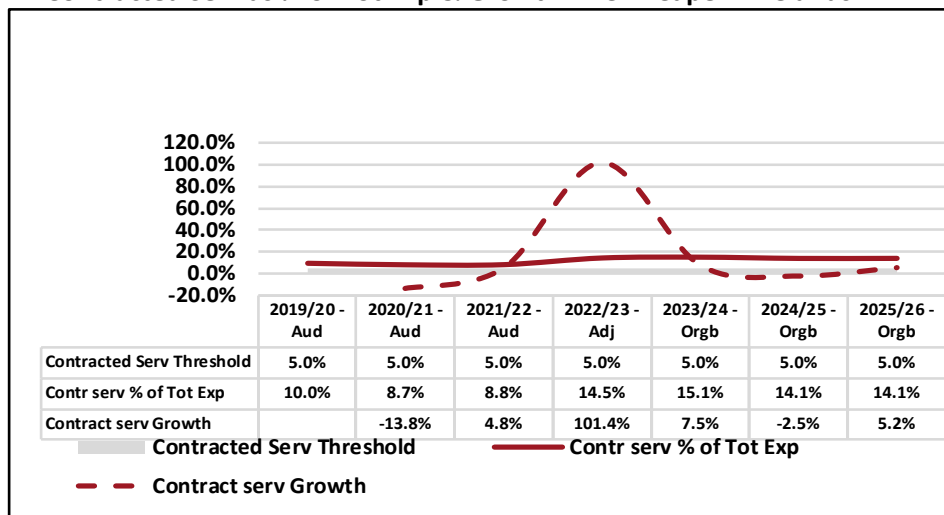
Source: Cape Winelands District Municipality 2021/22 MTREF Draft Budget A1-Schedule – Funding Tool

Employee related costs as a percentage of total operating expenditure is illustrated in the graph above, showing a fluctuation over the seven-year horizon and an incline of an average of 4.8 per cent over the 2023/24 MTREF. The Municipality has budgeted for an increase of 3.9 per cent in the budget document and Provincial Treasury (PT) takes note of the statement on the budget document that the Municipality has made efforts to decrease the salary bill by prioritising critical vacancies and only budgeting for the period the vacant post will be filled. Employee related cost currently comprises of 57 per cent of the total operating expenditure and increases in the two outer years of the MTREF.

In addition, overtime as a percentage of employee expenditure is illustrated in the graph above and shows a constant line over the seven-year horizon, which is still within the overtime threshold of 5 per cent. The overtime budget growth over the seven-year horizon fluctuates with a significant decrease of 12.2 per cent in 2023/24 and increases in the outer MTREF years. The Municipality is commended for constantly trying to manage employee-related expenditures by preventing unnecessary overtime and optimising the current personnel complement.

Diagram 3 Contracted services

14 Contracted Serv as % of Tot Exp & Growth - DC2 - Cape Winelands DM

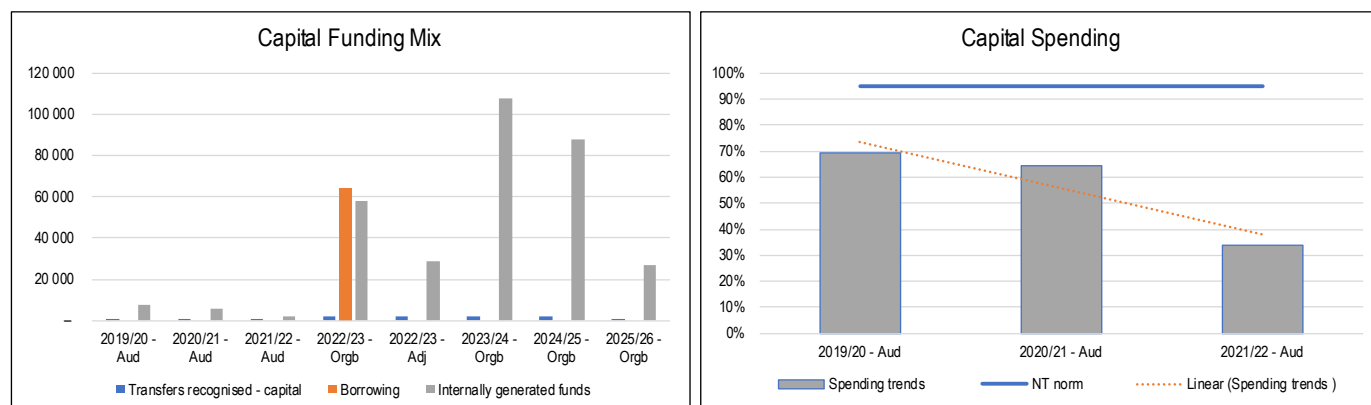


Source: Cape Winelands District Municipality 2023/24 MTREF Draft Budget A1-Schedule – Funding Tool

- Contract services contributes 15.1 per cent of total operating expenditure and is estimated to contribute a constant percentage of 14.1 per cent over the outer years of the MTREF. This is significantly above contracted service the NT norm of between 2–5 per cent. This indicates that the Municipality is becoming over-reliant on contracted services to perform its related functions. The draft 2023/24 budget document indicates that the increase was necessary to improve Councils security services as well as to fund the increased cost in ground crews and helicopter support during the fire season. Against the backdrop of employee related costs being the main cost driver, it is recommended, depending on the service delivery model, that the Municipality weighs the cost benefit when reviewing the employee strategy in the long-term financial plan to avoid ongoing reliance on consultants.
- As per the mSCOA data string analysis, it should be noted that short-term benefits, such as employee-related expenses, must be recognised as an accumulated expense in trade and other payables if they will be covered within 12 months of the fiscal periods. Currently, this concept is not being applied correctly since employee-related expenses are not being balanced against trade and other payables.
- In terms of the budget allocation towards other operational costs, the Municipality should review and assess the necessity of all expenditure to identify any areas where expenditure can be curbed. The Municipality should stringently implement cost containment measures over the 2023/24 MTREF and ensure the Municipality's spending is within the available revenue. The District is also encouraged to review the current cost containment policy to be in line with the adjustments that NT proposed in the latest circular.

3.5.3 Capital Funding Mix (LGPF)

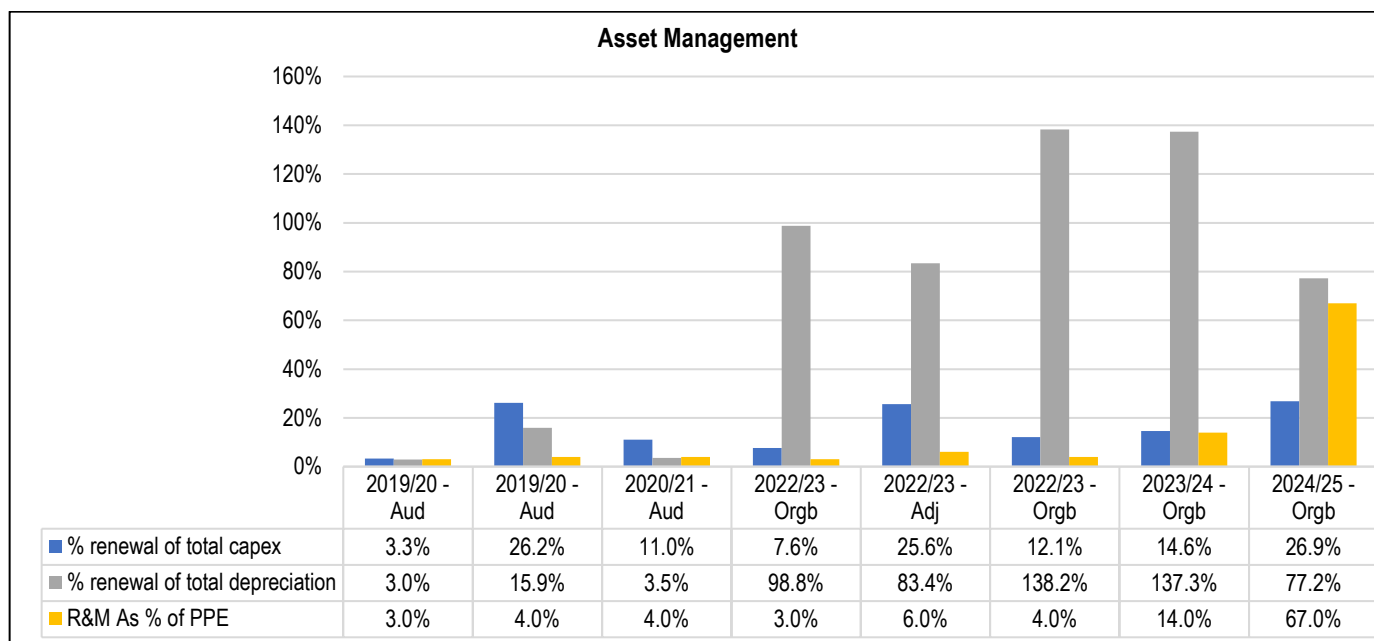
Diagram 4 Capital funding mix



- The 2023/24 intended capital expenditure budget of R109.47 million increased by 252.1 per cent when compared to the adjusted 2022/23 budget. Over the past 3 audited years, the Municipality's capital spending implementation has decline from 69 per cent in 2019/20 to 64 per cent in 2020/21 and 20 per cent in 2021/22. The trend indicates that the Municipality has regressed in terms of its capital budget implementation as the percentages are below the NT norm of 95 per cent. Current trends indicate under spending and a more concerted effort is required to accelerate capital spending.
- Over the 2023/24 MTREF the Municipality's capital budget is expected to be funded primarily through own revenues and capital grants. Estimated own funding over the 2023/24 MTREF makes out on average 98.2 per cent of the capital budget followed by capital grants of 1.8 per cent. Although there is a decline in capital grants to fund the capital budget over the 2023/24 MTREF, an increase in own funding is noted when compared to 2022/23 adjusted budget. However, the use of own funds to fund capital expenditure over the 2023/24 MTREF signals a downward trajectory from R107.63 million in 2023/24 to an estimated average decrease of 43.8 per cent over the outer years of the MTREF.
- Capital spending funded from internally generated funds amounts to R107.63 million. The Municipality will maintain a capital replacement reserve amount of R79.31 million as per A6-Financial Position. To preserve the Municipality's financial position and sustainability, the Municipality must maintain an adequate financial balance.
- Capital grants contribute 1.7 per cent of capital funding for the 2023/24 budgeted year, reflecting that the Municipality is not reliant on government grants for a major portion of funding for its capital expenditure. Government grant funding is fluctuating over the outer two years and the Municipality is reminded that projects funded by grants should be finalised within the required timeframes to avoid the risk of retention or reduced allocations in future years.
- The Municipality does not intend taking up any borrowings to fund its capital budget over the MTREF period. The gearing ratio is within the National Treasury acceptable norm of 45 per cent, indicating that the Municipality has the capacity to increase funding from borrowings. However, this should be considered within the cash flow requirements of the Municipality.

3.5.4 Capital Expenditure Trends

Diagram 5 Asset Management



- The Municipality's capital budget over the 2022/23 MTREF period amounts to R109.47 million with a significant focus on economic and environmental services (56 per cent) followed by community and public safety (26.1 per cent).
- Renewal and upgrading of existing assets as a percentage of capital expenditure amounts to 12.1 per cent in 2023/24 and is increased to 14.6 per cent and 26.9 per cent in the two outer MTREF years, which is not in line with the national guideline of 40 per cent. The repairs and maintenance allocation of 4 per cent is less than the 8 per cent of the property, plant, and equipment norm. However, PT takes note of the fact that the Municipality does not have any infrastructure assets and the assets relate to buildings, vehicles and specialised vehicles. As such the District is commended for its efforts in ensuring repairs and maintenance as well as proper renewal and upgrading of existing assets performed on its asset base.

3.5.5 Grants

- The Municipality plans to fund total capital expenditure from grants and internally generated revenue, as part of its capital funding mix, as indicated on table A5.
- The Municipality projects to fund the capital expenditure budget with grant funding to the amounts of R1.84 million (2023/24), R2.01 million (2024/25) and R383 000 (2025/26), respectively. The Municipality also plans to fund a large portion of its total capital expenditure with own internally generated funds over the MTREF to the amounts of R107.63 million (2023/24), R87.73 million (2024/25) and R27.06 million (2025/26).
- The A8 data strings indicate that the Municipality intends to cash back reserves to the amount of R79.31 million in the 2023/24 budget year. The Municipality's funding and reserves' policy provides for accumulated cash backed internal reserves which allows the Municipality to effectively utilise and maintain its Capital Replacement Reserve (CRR) for the funding of capital replacement and/or renewal for future financial years.

3.5.6 Utilising Strategic Procurement as a lever to enhance Local Economic Development

Demand Management and procurement planning has become a national concern, hence National Treasury issued MFMA Circular No. 94 requiring municipalities to submit the procurement plan together with the Budget and Service Delivery and Budget Implementation Plan (SDBIP) to address the weaknesses in the procurement planning processes, leading to slow spending of capital budgets and negatively impacting on service delivery.

Procurement planning in the local government sphere is a developing process but needs to be enhanced as the absence thereof has been blamed/ a reason given for poor service delivery and not meeting municipal service delivery goals.

Therefore, the alignment between the IDP, budgeting and procurement planning processes has become increasingly important to ensure optimal and effective utilisation of the Municipality's budgets and to utilise procurement as a strategic tool to drive local economic development (LED).

For this reason, the development of a proper procurement plan, in conjunction with the demand plan is so important to source items of a strategic nature and where possible source alternate suppliers and alternate commodities.

3.5.6.1 Procurement Plan

The assessment of the procurement plan can be utilised as a management tool to assist municipalities with the following:

- Determine procurement timeframes, allocate resources accordingly and identify any potential implementation risks;
- Monitor procurement processes to ensure everything is on track and concluded on time, which will lead to improved procurement efficiency; and
- Identify opportunities for strategic sourcing and bulk buying.
- The Municipality is applauded for the linkages between the IDP projects, budgeting and the compilation of the procurement plan and providing detailed project descriptions that is linked to accountable project leaders for each project.
- It was determined from the procurement plan submitted by the Municipality that there are items that have the potential of being seen as splitting of an order, as the method of procurement for those items are not clearly defined in the plan, posing a risk that needs to be mitigated by the Municipality. This relates to items such as the procurement of fleet vehicles and shredders.
- The Municipality should consider linking large capital projects to the Framework for Infrastructure Procurement and Delivery Management (FIPDM), such as Development of Landfill Site projects and the Roads projects as identified on the procurement plan. It should be noted that these capital projects are considered long-term contracts for which Section 33 of the MFMA needs to be adhered to.

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 2020, 2021, and 2022; however, the table provides a five-year time frame for analysis (2018 to 2022) to provide a more comprehensive perspective for evaluating the 2023/24 budget.

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

4.2 SUMMARY AND FINDINGS FROM HISTORICAL TRENDS

4.2.1 Asset Management

No.	Financial ratios & norms	2018 Audited	2019 Audited	2020 Audited	2021 Audited	2022 Audited	*CAGR	Projection	Overall Rating
1	Impairment of Property, Plant and Equipment, Investment Property and Intangible Assets (Carrying Value): 0%	0.00%	0.00%	0.00%	0.00%	0.00%	N/A	N/A	
2	Repairs and Maintenance as a % of Property, Plant and Equipment, Investment Property (Carrying Value): 8%	5.50%	4.10%	3.60%	3.95%	4.06%	-5.87%	3.83%	

- The ratio analysis above indicates that asset preservation is maintained at a level that does not accelerate asset deterioration beyond the expected level, despite year-on-year declines of spending on Repairs and Maintenance of assets.
- The continued year-on-year decrease in repairs & maintenance spending contributes to an increased risk of asset degradation and accelerated impairment if this is not informed by an updated asset preservation strategy that is conscious and informed by asset condition assessments on regular intervals. The ratios indicate that this trend is likely to continue, which further increases the risks associated with low asset preservation.

4.2.2 Cost Coverage

No.	Financial ratios & norms	2018 Audited	2019 Audited	2020 Audited	2021 Audited	2022 Audited	*CAGR	Projection	Overall Rating
3	Cash/Cost Coverage Ratio (Excluding Unspent Conditional Grants): 1 - 3 months	21 Months	23 Months	25 Months	26 Months	26 Months	4.13%	27 Months	

- The result of this ratio indicates a growing cash reserve of 4.1 per cent over the measured period, with projected cash coverage to reach approximately 9 times the upper ratio norm. As a potential grant dependent municipality, this ratio depicts a contrast to the status quo for conventional district municipalities which does not offer basic services, with a position of independence of grants for the short- and medium term.

4.2.3 Liability Management

No.	Financial ratios & norms	2018 Audited	2019 Audited	2020 Audited	2021 Audited	2022 Audited	*CAGR	Projection	Overall Rating
4	Debt (Total Borrowings)/ Revenue: 45%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-
5	Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure: 6% - 8%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-
6	Capital Cost (Interest Paid and Redemption) as a % of Total Operating Revenue: 6% - 8%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-

- The Municipality appears to maintain an aversity to debt financing, with ratios in liability management being well below the norm.
- Interpretation of the ratio's indicate that the Municipality has the ability to include debt funding in their funding mix, should this be required. Yet with district municipalities generally being grant dependent, their aversity to debt financing is well considered.

4.2.4 Expenditure Management

No.	Financial ratios & norms	2018 Audited	2019 Audited	2020 Audited	2021 Audited	2022 Audited	*CAGR	Projection	Overall Rating
9	Remuneration as a % of Total Operating Expenditure: 25% - 40%	54.50%	55.20%	60.60%	59.23%	59.77%	1.86%	60.88%	▲
10	Contracted Services as a % of Total Operating Expenditure: 2% - 5%	13.90%	12.60%	10.30%	8.95%	9.07%	-8.18%	8.33%	▲
11	Irregular, Fruitless and Wasteful and Unauthorised Expenditure/Total Operating Expenditure: 0%	0.00%	0.00%	0.00%	0.00%	0.00%	N/A	N/A	▲

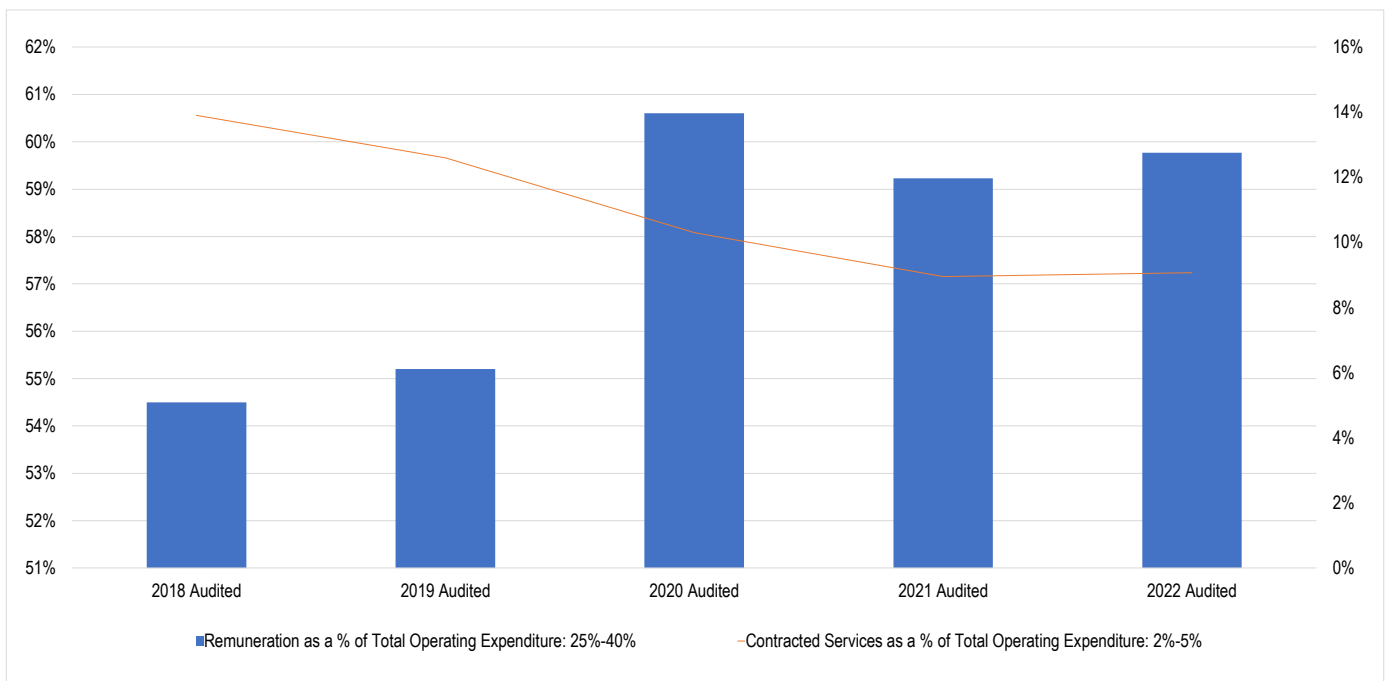
- The Municipality has done well in avoiding the incurrence of Irregular, Fruitless and Wasteful, and Unauthorised Expenditure; keeping the incurrence at the norm over the measured period. This indicates that internal control procedures are effective in avoiding incurrence.
- The Municipality has maintained a high remuneration as a percentage of total operating expenditure, exceeding the norm by an average of approximately 17 per cent over the measured period. This could be due to factors such as inefficiencies in human resource planning and/or work output and misdirection in relation to human resource composition and service mandate. The Municipality should therefore look

to increase efficiency in human resource deployment to maximise output efficiency or look at ways to either reduce total operating costs or share these with those that it relates to.

- Contracted services have been on a downwards trajectory over the measured period, yet despite commendable decline, remains 4 per cent above the norm in the 2022/23 financial year. This decline in consultants' costs, are projected to continue onto the next period.
- What is imperative is the relationship between remuneration and consultancy expenditures in relation to total operating expenditure. It is observed that as contracted service cost as a percentage of operating expenditure decreases, there is an increase in remuneration as a percentage of total operating expenditure. This is a result which should be avoided.

It is encouraged that the consultancy reduction strategy ensure that efficiencies are adopted when consultant reduction is applied, and that this does not carry over a burden to current staff, to increase the staffing cost.

Figure 1 Remuneration vs Contracted Services



Source: Cape Winelands District Municipality Annual Financial Statements




4.2.5 Working Capital

No.	Financial ratios & norms	2018 Audited	2019 Audited	2020 Audited	2021 Audited	2022 Audited	*CAGR	Projection	Overall Rating
7	Net debtors' days: ≤30 days	N/A							
8	Creditors Payment Period (Trade Creditors): 30 days	10 Days	9 Days	21 Days	20 Days	16 Days	9.30%	17 Days	▲

- Since the Municipality does not offer basic services, the calculation of net debtors' days is considered not applicable. The Municipality does however provide a Fire Service, which it discloses as a service charge, yet due to the unpredictable nature of the revenue that stream therefrom, it is not considered as part of this calculation.




Management of trade payables have been observed to be stable, yet below the norm, increasing in 2021, yet remaining below the norm for all years assessed. Although the Municipality has an overall good performance, there is room for improvement, increasing cash reserves even further. This is important, as the Municipality is a grant dependant municipality by nature, and although financial position far exceeds the average district municipality, the risks associated with being grant dependent can be further reduced by applying best practice of financial management to maximise economic asset growth potential through investment strategies and bringing the creditors payment period closer to the norm.

4.2.6 Going Concern

No.	Financial ratios & norms	2018 Audited	2019 Audited	2020 Audited	2021 Audited	2022 Audited	*CAGR	Projection	Overall Rating
12	Total Liabilities to Total Assets: <50%	24.20%	21.20%	20.30%	20.16%	19.80%	-3.93%	19.02%	
13	Total Debt to Total Assets	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	
14	Current Ratio: 1.5 - 2:1	15.4	17.9	15.2	16.4	17.7	2.78%	18.2	

- District municipalities have a going concern risk, as most of its revenues used to fund capital and operational expenditure programs are dependent on grant allocations from the fiscus. As such it is imperative that reserves are built to ensure higher cash coverage. This would enable operations to continue unaffected by cost containment measures from grantors.
- The Municipality has managed its going concern well, with good practices in cash reserve management (therefore high-cost coverage ratio), and commendable liability management. These result in quantum, has placed the Municipality in a capable position when considering going concern; therefore, the Municipality's ability to operate would not be severely affected by cash containment measures from its grantors.

* 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 MSCOA PRIORITIES

- Ensure governance of mSCOA implemented at municipalities, i.e., that roadmaps are in place and adequate; SteerComs are in place and functional; and champions appointed and active.
- Promote the use of the FAQ database for all queries and report updates via forums (i.e., MAF, AWC).
- Perform on-site inspection and assessment of municipalities' systems and implementation to determine compliance (circulars, legislation, regulation), vulnerability and progress in terms of mSCOA implementation.

4.3.2 Credibility of mSCOA data strings

MFMA Circular No.122 states that the credibility and accuracy of the data strings must be verified by municipalities before submission as the data strings submitted will be used as the single source for all analysis and publications in the 2023/24 municipal financial year. Municipalities have been given access to the

GoMuni portal in April 2022 and should use the reports on GoMuni to verify the credibility of their submissions. It should be emphasized that errors in the data can only be corrected in the next open period. e.g., errors in the tabled budget (TABB) data string can only be corrected in the adopted budget data string (ORGB). Municipalities are not allowed to open closed periods to make corrections.

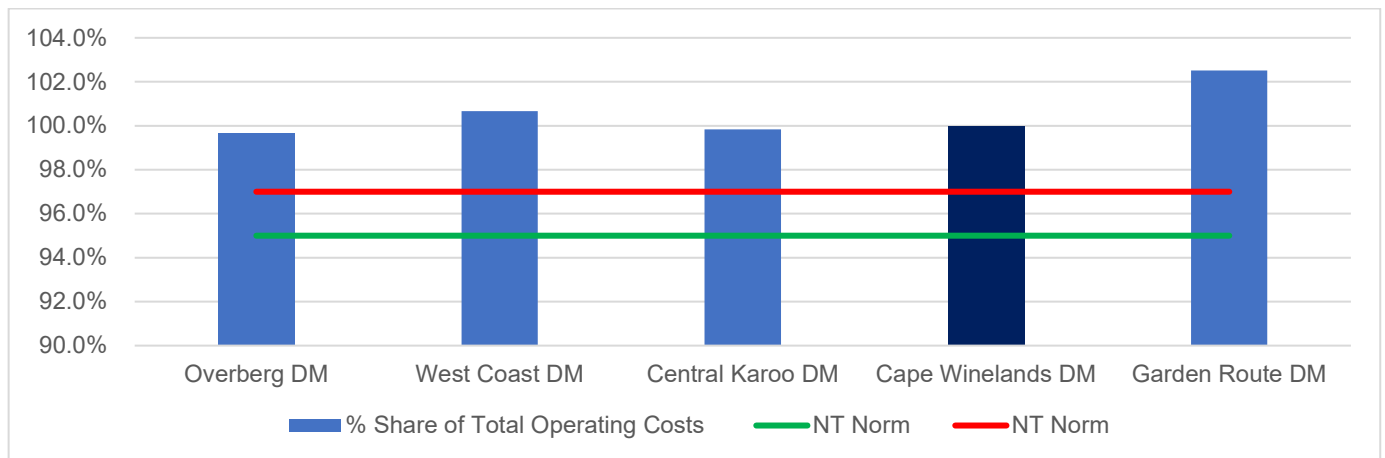
Table 3 mSCOA Segments Use Analysis

mSCOA - TABB Segment Analysis		
No	Segment	TABB
1	Project Segment	
1.1	Use of the Project Segment	Used Correctly
2	Fund Segment	
2.1	Use of Fund Segment	Used Correctly
3	Function Segment	
3.1	Use of Function Segment	Used Correctly
4	Costing Segment	
4.1	Use of Costing Segment	Used Correctly
5	Region Segment	
5.1	Use of Region Segment	Used Correctly
6	Item Segment :	
6.1	The Municipality is still struggling with budgeting balance sheet and cash flow concerns. Accounting movements are not populating in the contra accounts automatically, and those that do populate do not correspond to the amounts presented on the Income Statement.	

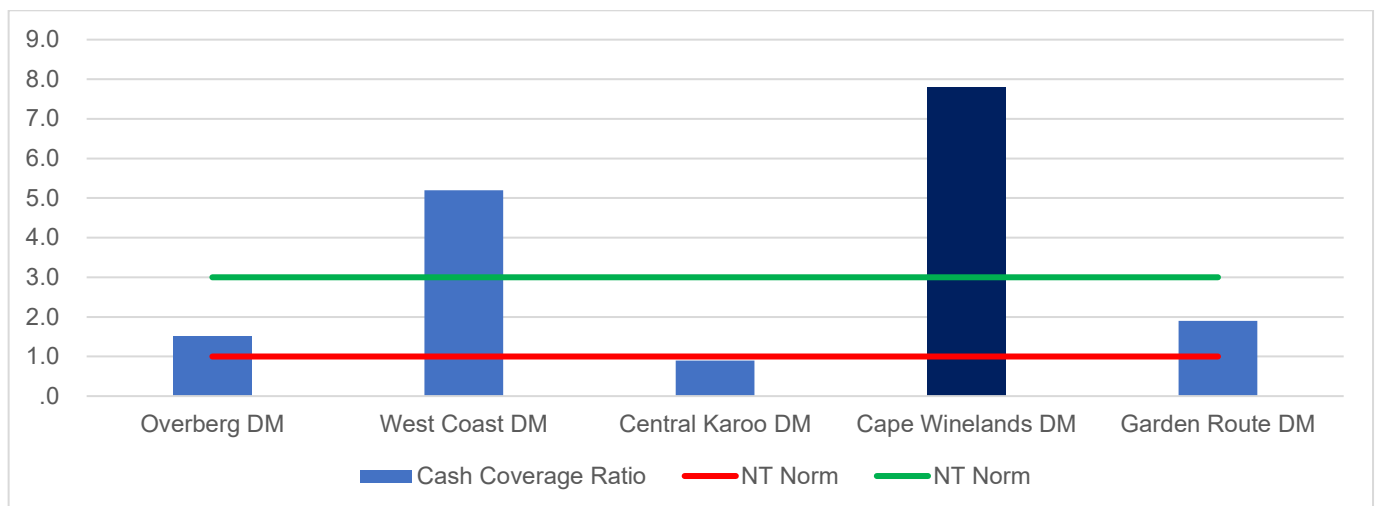
PT has provided the TABB segment tools analysis to the Municipality, with the goal of assisting the Municipality in examining its data and determining if the information is appropriately retrieved across all segments before finalising the ORGB data strings. TABB shall be rectified in the ORGB before 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.

MUNICIPAL BENCHMARKING GRAPHS

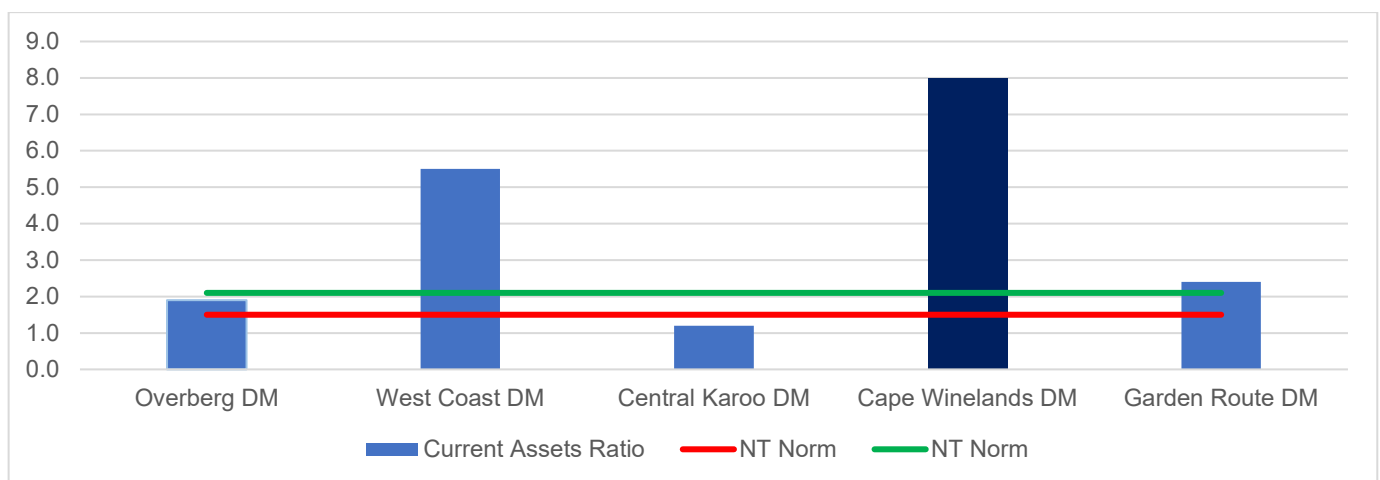
Graph 1 Percentage share of Total Operating Costs against total Revenue



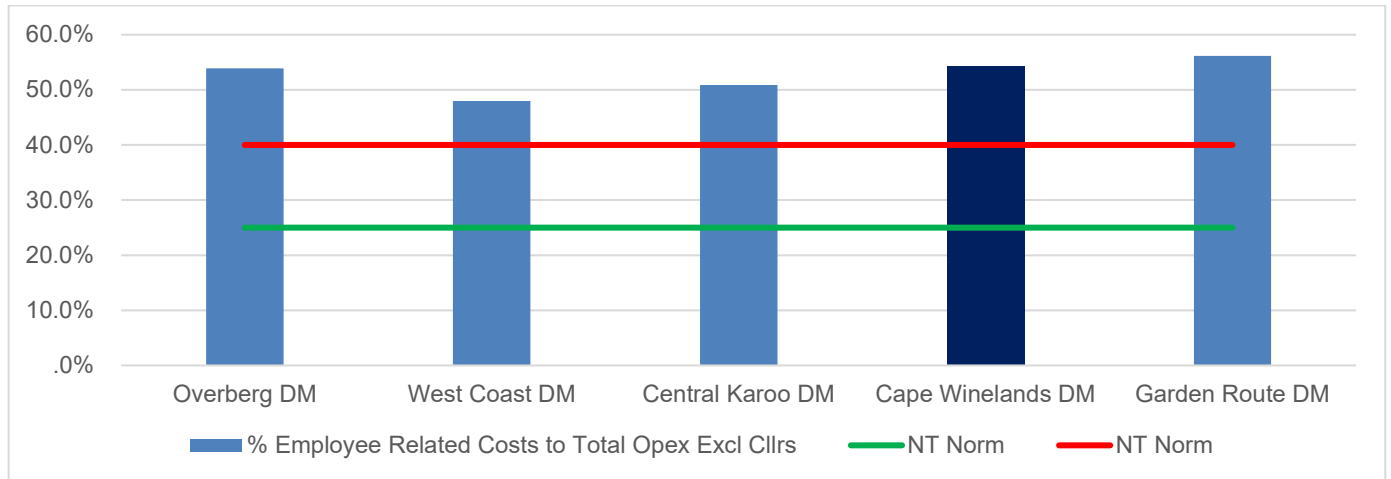
Graph 2 Cash coverage



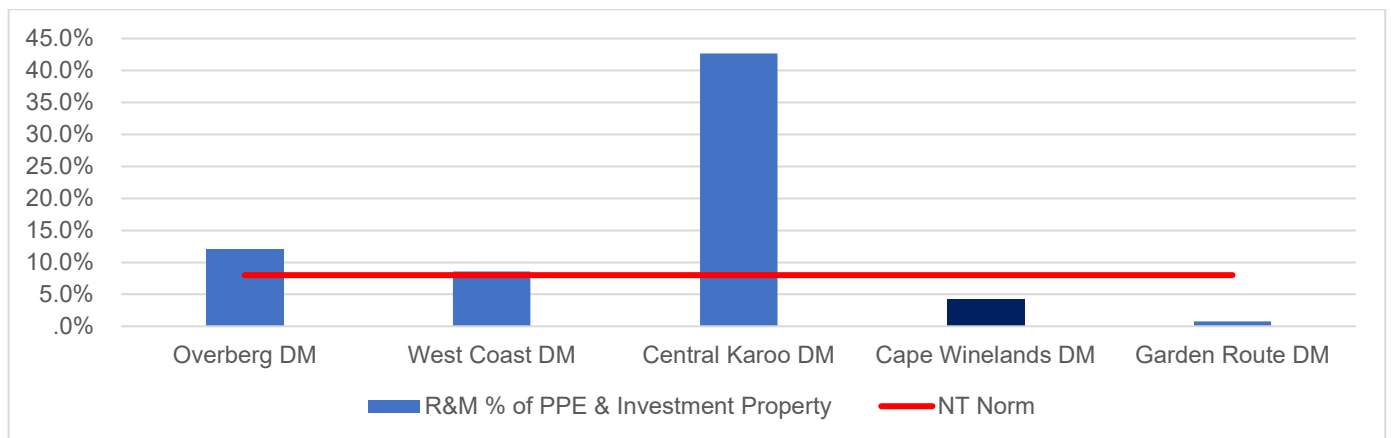
Graph 3 Current Asset Ratio



Graph 4 Percentage Employee Related Costs to Total Opex (Excluding Councillors)



Graph 5 R&M as a percentage of PPE & Investment Property



Graph 6 Renewal and upgrading existing assets as a percentage of total capex

