

Comprehensive Financial Analysis Report: Mossel Bay Municipality

Date: 24 April 2026

Prepared for: Mossel Bay Municipality – Budget 2026-27 Objections and questions

Subject: Analysis of Financial Exposure, Loan Obligations, Tariff Increases, and the Clean Audit Paradox (2019–2027)

1. Executive Summary

This report provides a critical analysis of the financial trajectory of the Mossel Bay Municipality, synthesising data from two source documents: the *Mossel Bay Municipality Budget Loans vs Actual Loans (2019–2027)* spreadsheet and the *Mossel Bay Critical Analysis Report – Clean Audit Paradox* (prepared 18 February 2026). The analysis focuses specifically on the municipality's growing financial exposure, escalating interest obligations, and the systematic increase in tariffs well above inflation and National Treasury guidelines.

The findings reveal a deeply concerning financial paradox: while the municipality has maintained a "decade of clean audits" and received a Prestigious Governance Award at the Local Government Indaba 2025, its financial exposure — defined as the gap between outstanding loan obligations and long-term investments — is projected to reach a negative R305 million by the 2026–27 financial year. Concurrently, tariff and property rates increases have cumulatively exceeded inflation by more than 100%, placing an unsustainable burden on ratepayers. This report provides the data and analysis necessary to support the concerns raised in the covering email regarding the municipality's financial viability in the 2026–27 financial year and the urgent need for structural cost-cutting measures.

2. Escalating Loan Obligations and Financial Exposure

2.1 Growth of the Loan Portfolio

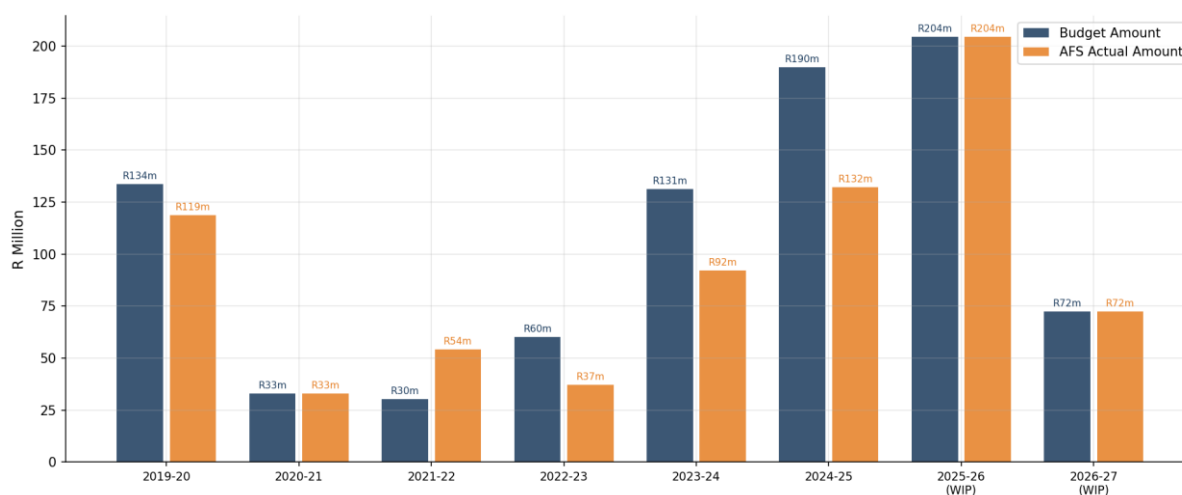
The municipality's borrowing has grown substantially over the period under review. From a starting loan balance of R30.8 million in 2018–19, the accumulated loan portfolio (borrowings only) is projected to reach R775.2 million by the end of the 2026–27 financial year. Against total budgeted new loans of R855.1 million, the actual loans taken up per the Annual Financial Statements (AFS) amounted to R775.2 million — indicating that the municipality has consistently drawn down significant volumes of external debt, though often at levels different from what was budgeted.

Financial Year	Budgeted New Loan	AFS Actual New Loan	Accumulated Loans (Borrowings)
Starting Balance (2018–19)	—	R30,830,781	R30,830,781

Financial Year	Budgeted New Loan	AFS Actual New Loan	Accumulated Loans (Borrowings)
2019–20	R133,700,000	R118,700,000	R149,530,781
2020–21	R33,030,000	R33,030,000	R182,560,781
2021–22	R30,300,000	R54,199,500	R236,760,281
2022–23	R60,100,000	R37,100,000	R273,860,281
2023–24	R131,298,000	R92,214,590	R366,074,871
2024–25	R189,860,000	R132,254,948	R498,329,819
2025–26 (WIP Budget)	R204,350,000	R204,350,000	R702,679,819
2026–27 (WIP Budget)	R72,485,000	R72,485,000	R775,164,819
Total	R855,123,000	R775,164,819	

A notable discrepancy between budgeted and actual loan amounts is evident in several years. In 2021–22, for instance, the actual loan drawn (R54.2 million) was nearly double the budgeted amount (R30.3 million), while in 2022–23 and 2023–24, actual drawdowns were significantly below budget. This pattern suggests that capital project timelines and financing arrangements have not consistently aligned with the budget, raising questions about the reliability of forward planning.

**Mossel Bay Municipality — New Loans: Budget vs Actual (AFS)
(2019/20 to 2026/27)**



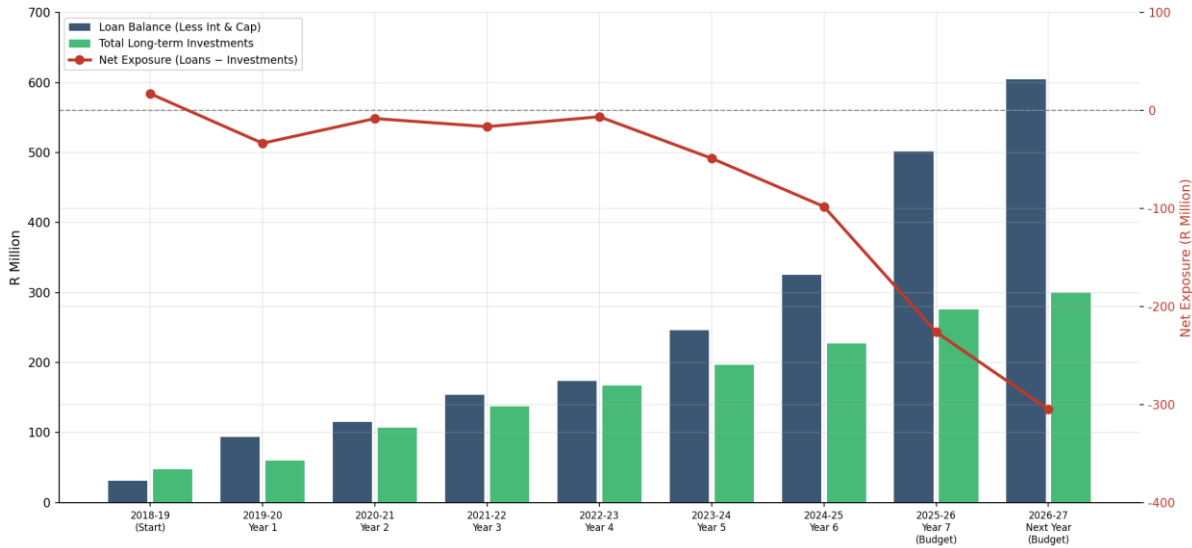
2.2 Loan Balance vs Investments: A Widening Deficit

The most critical indicator of financial vulnerability is the relationship between the outstanding loan balance (net of interest and capital already repaid) and the municipality's long-term investments. In 2018–19, the municipality held a positive net position, with investments exceeding the loan balance by R17.2 million. This position reversed almost immediately in 2019–20 and has deteriorated sharply ever since.

Financial Year	Loan Balance (Less Int & Cap)	Total Long-term Investments	Net Exposure
2018–19 (Start)	R30,830,781	R48,000,000	+R17,169,219
2019–20 (Year 1)	R93,368,282	R60,000,000	-R33,368,282
2020–21 (Year 2)	R115,337,216	R107,147,000	-R8,190,216
2021–22 (Year 3)	R153,613,273	R137,174,000	-R16,439,273
2022–23 (Year 4)	R173,506,365	R167,174,000	-R6,332,365
2023–24 (Year 5)	R245,944,919	R197,174,000	-R48,770,919
2024–25 (Year 6)	R325,161,862	R227,174,000	-R97,987,862
2025–26 (Year 7 — Budget)	R502,000,000	R275,944,919	-R226,055,081
2026–27 (Next Year — Budget)	R605,000,000	R300,000,000	-R305,000,000

By the 2026–27 financial year, the loan balance is projected to reach R605 million against investments of only R300 million, resulting in a negative net exposure of **R305 million**. This represents a structural financial vulnerability that cannot be resolved through tariff increases alone.

**Mossel Bay Municipality — Loan Balance vs Investments vs Net Exposure
(2018/19 to 2026/27)**



3. Interest and Capital Repayment Obligations

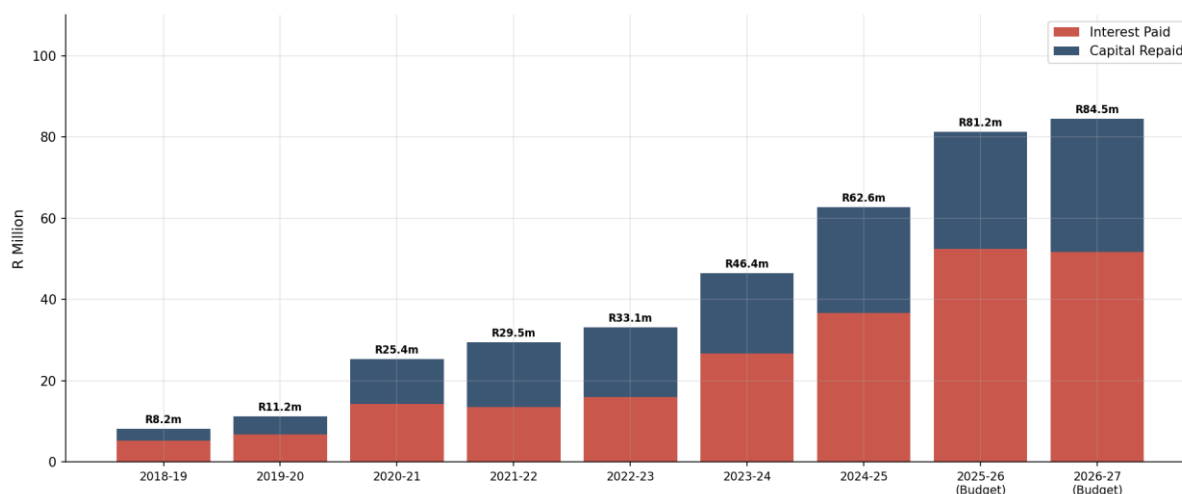
3.1 The Escalating Cost of Borrowing

The interest cost of the municipality's loan portfolio has grown dramatically over the period under review. From R5.3 million in 2018–19, interest payments have risen to a budgeted R52.5 million in 2025–26 — a nearly tenfold increase in seven years. Total interest paid or budgeted over the full period amounts to R217,962,287.

Financial Year	Interest Paid	Capital Repaid	Total Debt Service
2018–19	R5,324,474	R2,893,606	R8,218,080
2019–20	R6,725,678	R4,462,399	R11,188,077
2020–21	R14,291,741	R11,061,167	R25,352,908
2021–22	R13,592,954	R15,923,443	R29,516,397
2022–23	R15,935,947	R17,206,908	R33,142,855
2023–24	R26,641,709	R19,776,036	R46,417,745
2024–25	R36,604,258	R26,037,800	R62,642,058

Financial Year	Interest Paid	Capital Repaid	Total Debt Service
2025–26 (Budget)	R52,462,000	R28,737,000	R81,199,000
2026–27 (Budget)	R51,708,000	R32,737,000	R84,445,000
Total	R217,286,761	R158,835,359	

**Mossel Bay Municipality – Annual Debt Service Obligations
(Interest + Capital Repayments, 2018/19 to 2026/27)**



3.2 The Hidden 2026–27 Interest Obligation

A matter of particular concern, is that the interest payable for the 2026–27 financial year does not appear in the 2026–27 budget document. However, through cross-referencing with the 2025–26 budget (Page 46), this interest obligation has been identified and confirmed at **R51,708,000**. The capital repayment for the same year is budgeted at R32,737,000, bringing the total debt service obligation for 2026–27 to **R84,445,000**.

The omission of this interest figure from the 2026–27 budget is a significant concern. If the budget does not provision for this obligation, the municipality faces a material hidden liability that will need to be funded from operational revenue or further borrowing — either of which will exacerbate the already precarious financial position.

4. Tariff Increases: The Price Paid by Ratepayers

4.1 Annual Tariff Increases vs CPI and National Treasury Guidelines

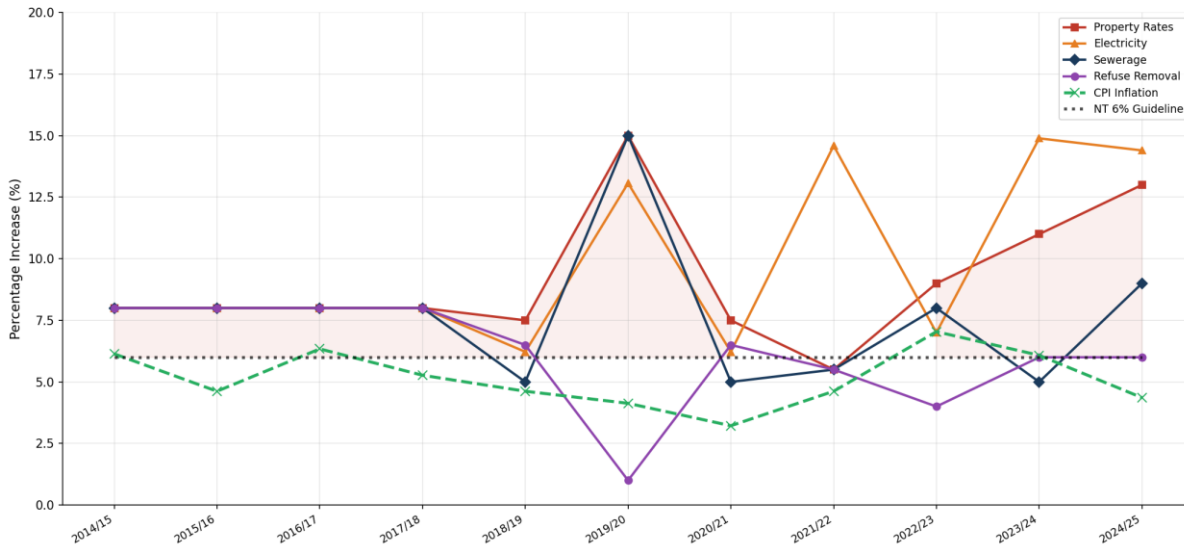
The National Treasury, under the Municipal Finance Management Act 56 of 2003 (MFMA), issues annual budget circulars that set a benchmark for affordable tariff increases. The 6% upper limit reflects the South African Reserve Bank's inflation target ceiling and is the standard against which municipal tariff increases are

measured. Mossel Bay Municipality has exceeded this guideline in 10 out of 11 years between 2014/15 and 2024/25.

Financial Year	Property Rates	Electricity	Sewerage	Refuse Removal	CPI Inflation	NT 6% Guideline
2014/15	8.0%	8.0%	8.0%	8.0%	6.14%	6.0%
2015/16	8.0%	8.0%	8.0%	8.0%	4.62%	6.0%
2016/17	8.0%	8.0%	8.0%	8.0%	6.34%	6.0%
2017/18	8.0%	8.0%	8.0%	8.0%	5.27%	6.0%
2018/19	7.5%	6.22%	5.0%	6.5%	4.62%	6.0%
2019/20	15.0%	13.07%	15.0%	1.0%	4.13%	6.0%
2020/21	7.5%	6.22%	5.0%	6.5%	3.22%	6.0%
2021/22	5.5%	14.59%	5.5%	5.5%	4.62%	6.0%
2022/23	9.0%	7.0%	8.0%	4.0%	7.04%	6.0%
2023/24	11.0%	14.89%	5.0%	6.0%	6.08%	6.0%
2024/25	13.0%	14.4%	9.0%	6.0%	4.36%	6.0%
Average	9.14%	9.85%	7.86%	6.5%	5.13%	6.0%

The 2019/20 financial year stands out as particularly egregious, with property rates and sewerage both increasing by 15% against a CPI of only 4.13%. The most recent year, 2024/25, saw property rates increase by 13% against CPI of only 4.36% — more than three times the rate of inflation.

Mossel Bay Municipality — Annual Tariff Increases vs CPI and NT 6% Guideline (2014/15 to 2024/25)



4.2 Cumulative Impact: 100% Above Inflation Over Ten Years

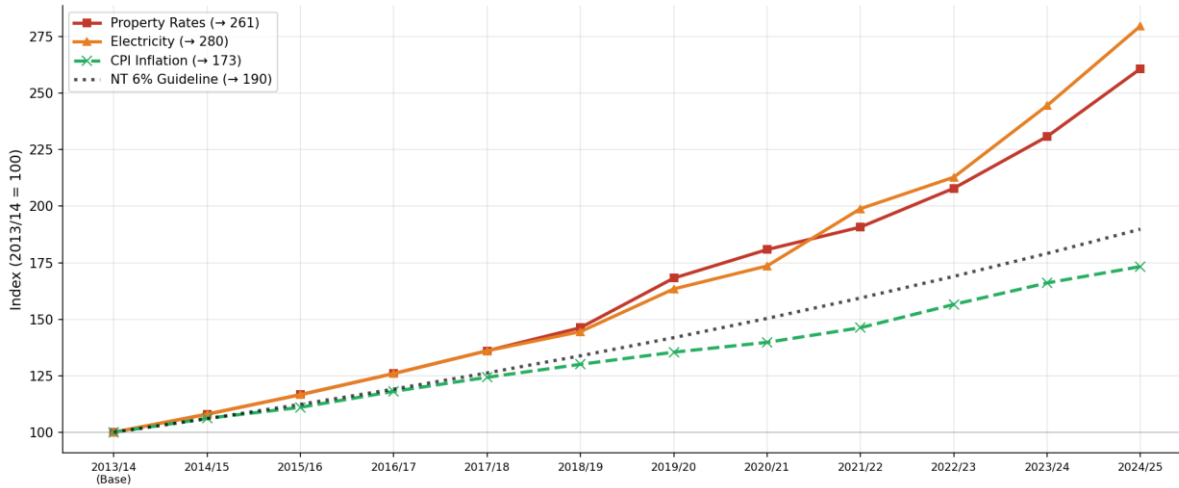
The compounding effect of these above-inflation increases over a decade is stark. The following table presents the cumulative growth in each tariff category compared to CPI and the NT 6% guideline.

Indicator	Cumulative Increase (2014/15–2024/25)
Property Rates	+160.8%
Electricity	+179.7%
Refuse Removal	+124.9%
Sewerage	+92.1%
CPI Inflation (actual)	+73.3%
NT 6% Guideline (compounded)	+89.8%

Property rates have increased by 160.8% cumulatively — more than double the cumulative CPI inflation of 73.3% and 79% above the NT 6% compounded benchmark of 89.8%. Electricity tariffs have increased by 179.7% cumulatively, representing more than 2.4 times the cumulative rate of inflation.

To illustrate the real-world impact: a household that paid R1,000 per month in property rates in 2013/14 would be paying approximately R2,608 per month in 2024/25 based on actual cumulative increases — compared to only R1,733 if increases had tracked CPI inflation, and R1,898 if increases had been capped at 6% annually.

**Mossel Bay Municipality — Cumulative Tariff Growth Index vs CPI
(Base Year 2013/14 = 100)**



4.3 The Municipality's Own Admission of Non-Compliance

The municipality's approved budget documents for 2023/24 and 2024/25 contain the following direct admission:

"The Municipality was not able to keep the tariff increases within the upper limit of 6 per cent provided by the National Treasury."

This statement, appearing verbatim in multiple budget years, confirms that the municipality was fully aware of the National Treasury guideline and consciously chose to exceed it. The cost pressures cited include Eskom bulk electricity purchase increases of 12.72% to 18.7% per year, employee-related costs comprising approximately 25% of the operational budget, debt impairment and depreciation charges, and the loss of electricity revenue due to load shedding.

4.4 Community Objections

The affordability crisis has generated formal objections from multiple civic bodies. The FF Plus Mossel Bay Office submitted the following to the 2025/26 budget process:

"The increase in property rates (13%), basically electricity and water (10%), Sewerage (9%) and Refuse Removal (7%) is extremely high (3 times current inflation) and makes Mossel Bay even more unaffordable for the middle class taxpayer... The total municipal bill will increase by R300 to R400 per month with the increases. The residents who bear the municipal coffers (more than 60% are pensioners) can no longer afford it and action must be taken now before we destroy Mossel Bay."

The Dana Bay Taxpayers Association similarly described the rate of borrowing and tariff increases as "unsustainable," causing "an unacceptable burden on the Taxpayers of Dana Bay."

5. The Clean Audit Paradox

5.1 What a Clean Audit Measures — and What It Does Not

The municipality received a Prestigious Governance Award at the Local Government Indaba 2025 for maintaining clean audits and fully funded budgets for over ten years. The Auditor-General of South Africa (AGSA) defines a clean audit as confirmation that financial statements are free from material misstatements and that there are no material findings on performance reporting or compliance with legislation relating to financial matters.

Critically, a clean audit does **not** assess whether tariff increases are affordable to communities, whether the municipality is fulfilling its constitutional mandate under Sections 152 and 153 of the Constitution (sustainable services, priority to basic needs), or whether the cumulative impact of tariff increases is pushing households into financial distress. As the Good Governance Africa research institute noted in September 2024: *"Clean audits are a necessary but insufficient condition for achieving governance performance... those finances also have to be geared towards achieving the entity's mandate."*

5.2 The Governance Assessment

The following table summarises the municipality's performance across both financial and substantive governance dimensions:

Governance Criterion	Assessment
Financial statement accuracy	Excellent — clean audit for 10+ consecutive years
Budget funding (no deficit)	Excellent — fully funded budgets maintained
Tariff affordability to communities	Poor — consistently exceeds NT 6% guideline in 10 of 11 years
Constitutional obligation (Sections 152/153)	Questionable — financial sustainability prioritised over community affordability
National Treasury guideline compliance	Non-compliant — openly admitted in budget documents
Community affordability impact	Concerning — formal objections from ratepayers, political parties, and civic associations
Transparency regarding tariff non-compliance	Partial — acknowledged in budget documents but not in award narrative

The paradox is therefore not a contradiction but a structural feature of the South African audit framework. The municipality can accurately record a 13% property rates increase, report against its own IDP targets (which do not include a target to keep increases below CPI), and demonstrate MFMA compliance — all while openly admitting it cannot comply with the National Treasury's affordability guideline.

6. Conclusion: The 2026–27 Survival Question

The central question — *how will the Mossel Bay Municipality survive the 2026–27 financial year if tariffs are only adjusted in line with Treasury and inflation?* — is answered by the data in this report.

The municipality's financial model has become structurally dependent on above-inflation tariff increases to service a rapidly growing debt portfolio. With a projected negative exposure of R305 million, a hidden interest obligation of R51,708,000 for 2026–27, and total debt service costs of R84.4 million for that year, the municipality faces a genuine fiscal crisis if revenue growth is constrained to inflation-linked tariff adjustments.

The following key questions must be addressed at the upcoming meeting:

- 1 **Interest obligation:** The R51,708,000 interest payable in 2026–27 does not appear in the 2026–27 budget. How will this obligation be funded, and what is the plan to ensure it is properly provisioned?
- 2 **Cost-cutting:** If tariffs are capped at inflation-linked levels for 2026–27, what specific and structural cost reductions are planned across the operational budget to close the resulting revenue gap?
- 3 **Loan strategy:** Given the projected R305 million negative exposure, what is the municipality's strategy for reducing its loan portfolio, and is further borrowing planned beyond the R72.5 million already budgeted for 2026–27?
- 4 **Constitutional obligations:** How does the municipality reconcile its continued above-inflation tariff increases with its constitutional obligations under Sections 152 and 153 to provide affordable, sustainable services that promote the social and economic development of the community?

References and Sources

[1] Mossel Bay Municipality. (2026, April 23). *Budget Loans vs Actual Loans: 2019 to 2027 — Two-Year Budgets* (LoansMM2019to20272Yearbudgets-2026-04-23).

[2] Mossel Bay Municipality. (2026, February 18). *A Critical Analysis of Rate Increases, Constitutional Obligations, and the Clean Audit Paradox* (MosselBayCriticalAnalysisReport-CleanAuditParadox).

[3] Constitution of the Republic of South Africa, 1996 — Sections 26, 27, 152, 153, 229.

[4] Municipal Finance Management Act 56 of 2003 (MFMA) — National Treasury MFMA Circular No. 126 (December 2023).

[5] Municipal Systems Act 32 of 2000 — Section 74 (Tariff Policy).

[6] Auditor-General South Africa (AGSA) — Audit Terminology (Official Definition).

[7] Good Governance Africa — *"Governance is not only about clean audits,"* Dr Ross Harvey, September 2024.

[8] Stats SA — Consumer Price Index Historical Data (2014–2024).