STELLENBOSCH

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FEASIBILITY STUDY FOR THE DELIVERY OF DESTINATION MARKETING IN STELLENBOSCH MUNICIPALITY

A product in compliance with the Municipal Systems Act Section 78

Abstract

This report summarises the investigation into the feasibility of current mechanisms of delivering the municipal function of destination marketing in the WC024

Section: Economic Development and Tourism

Department of Development Planning

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1. Executive Summary

This feasibility study was undertaken in accordance with Section 78 of the Municipal Systems Act to assess the most appropriate mechanism for the delivery of the destination marketing function by Stellenbosch Municipality. Destination marketing is a key contributor to the local economy and plays an important role in supporting tourism-related businesses, employment creation and broader local economic development. The study was initiated to determine whether the municipality should continue with the existing external delivery model or whether the function could feasibly be internalised within the municipal administration.

Currently, the municipality delivers the destination marketing function through an externalised model, providing grant funding to Local Tourism Organisations to implement marketing, visitor information services and related activities. This model has enabled the municipality to leverage established sector expertise, operational systems and stakeholder networks, while limiting internal staffing and administrative requirements. In line with legislative requirements, the feasibility assessment first considered the internal delivery option before comparing it with the external model.

The assessment integrated financial, institutional, operational and developmental considerations. Financial analysis indicated that internalisation would require a significant increase in direct municipal expenditure, with estimated annual costs of approximately R 4,5 million and a medium-term financial commitment of approximately R83,01 million. While internal delivery would improve transparency and governance, it would introduce increased fiscal pressure in the short to medium term. The external model remains more affordable in the short term, although a portion of grant funding effectively subsidises organisational overheads, limiting value-for-money clarity. Institutional and operational assessments confirmed that the municipality currently lacks sufficient internal capacity to deliver the function without transitional risk. Internalisation would require substantial recruitment, system development and administrative preparation, with potential impacts on efficiency and responsiveness during the establishment phase. The external delivery model benefits from institutional maturity, operational readiness and flexibility, enabling it to respond effectively to a dynamic tourism market with minimal implementation risk. From a developmental perspective, the internal model demonstrated stronger alignment with municipal policy objectives, including targeted employment creation, transformation and inclusive local economic development. The external model contributes to economic development with the impact occurring indirectly rather than through deliberate policy-led interventions.

When the outcomes of all assessment dimensions were consolidated, the external delivery model achieved the highest overall feasibility outcome, driven by its institutional readiness, operational feasibility and short-term financial affordability. While the internal model offers long-term strategic advantages, these are outweighed in the short to medium term by capacity constraints, operational risk and fiscal impact. The study therefore concludes that the external delivery model represents the most feasible option.

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2. Background

The provision of destination marketing and tourism services within the Stellenbosch Municipal area has historically been undertaken through external mechanisms rather than through a dedicated internal municipal structure. In line with prevailing practice among Western Cape municipalities, Stellenbosch Municipality previously rendered the tourism function through a call for proposals process, enabling external organisations to deliver destination marketing, visitor services and related tourism activities on behalf of the Municipality. Over several years, this approach facilitated the effective delivery of tourism services and contributed to the growth and visibility of the municipal area as a tourism destination, supported by strong industry participation and stakeholder networks.

This approach was implemented within the context of section 67 of the Municipal Finance Management Act, which had been widely interpreted as permitting the transfer of funds to non-governmental organisations for the delivery of tourism-related functions. However, in April 2025, the National Treasury issued MFMA Circular No. 131, which clarified that section 67 of the MFMA may not be used as a mechanism to outsource tourism services to external organisations. The circular further confirmed that such services constitute municipal services for purposes of the Municipal Systems Act and must therefore be procured through competitive supply chain management processes in compliance with section 217 of the Constitution. National Treasury indicated that the continued use of section 67 without adherence to prescribed procurement processes would result in such expenditure being classified as irregular.

In response to this clarification, Stellenbosch Municipality implemented the required supply chain management processes to procure tourism services through an open and competitive tender process. During the 2025/26 financial year, however, all bids received were deemed non-responsive, resulting in the temporary appointment of service providers through an approved deviation. This outcome highlighted both the complexity of procuring specialised tourism services through conventional procurement mechanisms and the need for a more structured assessment of the most appropriate long-term service delivery model.

Following this outcome, Council resolved on 30 July 2025 to initiate a formal Section 78(3) process in terms of the Municipal Systems Act to determine the most appropriate mechanism for the future provision of the tourism service. This decision recognised that destination marketing, while not a core municipal service, forms an integral component of the Municipality's Local Economic Development mandate and functions as a strategic enabler of job creation, economic growth, place branding and investment attraction. The resolution further required that any future decision regarding the delivery of the tourism function be informed by a comprehensive feasibility study, incorporating financial, operational, institutional and developmental considerations.

The Section 78 feasibility study was accordingly undertaken to assess the current external delivery model against potential internal delivery options. The study applied a mixed-method approach, drawing on financial analysis, operational performance

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review, institutional capacity assessment and an evaluation of development and employment impacts. Emphasis was placed on assessing the Municipality's current and future capacity to deliver specialised tourism and destination marketing services internally, as well as the cost, risk and implementation implications associated with alternative delivery mechanisms.

The background to the study is further informed by the absence of an internal municipal unit dedicated to destination marketing and tourism service delivery. At present, the Municipality does not employ specialised staff to perform these functions, and all destination marketing, visitor information services, event coordination and sector development activities are delivered externally through grant-funded arrangements. As such, the feasibility assessment was required not only to consider the appropriateness of outsourcing, but also to evaluate the scale of organisational restructuring, staffing, skills development and lead-in time that would be required should the function be internalised.

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3. Objectives

For purposes of a feasibility study in terms of Section 78 of the Municipal Systems Act, the municipality is required to undertake a structured and evidence-based assessment before deciding on an appropriate service delivery mechanism. The study must first evaluate the feasibility of providing the service through an internal mechanism by assessing the direct and indirect costs and benefits associated with such an option, including the anticipated impacts on the environment and on human health, well-being and safety. It must further assess the municipality's existing and potential future institutional capacity, including the availability of skills, expertise and resources required to deliver the service internally, as well as the extent to which administrative reorganisation and human resource development, as envisaged in the Act, could reasonably be utilised to support internal service delivery. The feasibility study must also consider the likely impacts of the internal option on local development, job creation and employment patterns, and consider the views of organised labour. In addition, the municipality may consider broader trends in the sustainable provision of municipal services.

Where, after this initial assessment, the municipality elects to explore external service delivery mechanisms, the feasibility study must include a comparative evaluation of the available external options. This process requires formal notification to the local community and a detailed assessment of each external option's direct and indirect costs and benefits, including environmental and health impacts. The study must evaluate the capacity and future potential of prospective service providers to deliver the service effectively, consider the views of the local community and organised labour, and assess the anticipated impacts on development and employment within the municipality. Following this assessment, the feasibility study must motivate a clear recommendation for either an internal or external mechanism, demonstrating how the preferred option achieves the best overall outcome in line with the municipality's obligation to ensure services are provided in a sustainable, equitable, efficient and effective manner. Throughout the process, the feasibility study must confirm compliance with all applicable legislation governing the appointment of external service providers, as well as any additional regulatory requirements.

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4. Methodology

This feasibility study utilised the methodological approaches of both Qualitative and Quantitative Analysis. This mixed-method approach is appropriate for this study as it allows for both objective and subjective evaluation. While there are clearly defined quantitative measures of analysing financial and performance data, there are aspects of this study which are immeasurable by definite terms. The qualitative approach provides subjective aspects to be considered too.

This approach is designed to comply with the prescripts of Section 78 of the Municipal Systems Act by providing a robust and evidence-based evaluation of the most appropriate delivery mechanism for the tourism function. The methodology integrates qualitative and quantitative research techniques to provide a blended and robust analysis of organisational, financial and performance data and stakeholder perspectives. This ensures that each potential delivery model is assessed comprehensively from a narrow perspective.

The quantitative data sources are to be analysed to determine any relationships or correlations between phenomena. Specifically, these will be used to analyse the relationship between the grant received (and other income) and the expenditure on marketing (and other expenditure). It will further be used for analysing the business operations of the LTOs to provide insights for consideration in the assessment of the internal delivery option.

A comprehensive financial analysis was undertaken using the audited financial statements of the LTOs over the period under review. These statements were scrutinised to assess budget allocations, revenue structures, expenditure patterns, grant utilisation efficiency, and the cost profile of conducting destination marketing through an external model. Financial performance was compared against municipal financial management standards, identified constraints, risks, and opportunities associated with the internal delivery mechanisms.

The qualitative data sources are to be analysed to complement the quantitative sources and in addition be used to probe for information that are not found in or able to be inferred from the available data sources. Therefore, discussions with the municipalities Human Resource and Finance Departments will be crucial to provide a more comprehensive perspective on operations.

Operational and performance analysis relied on detailed examination of LTO monthly reports, annual performance summaries, campaign data, event outcomes, and strategic plans. These documents were analysed to assess the effectiveness of marketing activities, return on investment of campaigns, visitor engagement metrics, operational strengths and weaknesses, institutional capacity, and alignment with municipal and provincial tourism strategies. Patterns and themes emerging from this analysis formed the baseline diagnostic against which alternative delivery models were evaluated.

To assess human resource capacity and institutional readiness for potential internalisation, discussions were held with the Municipal Human Resources Department. These engagements focused on existing skills availability, staffing

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structures, capability gaps, recruitment requirements, remuneration considerations, training needs, and change management implications. These internal discussions were essential for determining compliance with the internal capacity assessment requirements stipulated under Section 78(1)(a) &(b) of the MSA.

The study also applied a comparative model analysis approach, in which the operational, financial, institutional and performance characteristics of each delivery option were assessed against a set of evaluative criteria derived from legislation, municipal objectives, tourism sector standards, and stakeholder expectations. These criteria included cost-effectiveness, financial sustainability, governance and accountability, service quality, risk exposure, responsiveness, skills requirements, and ability to meet community and industry needs. This structured comparison enabled objective assessment of each model relative to the municipal tourism mandate.

This approach does have limitations in its use. The mixed method approach does make the study a more complex and time-consuming process. The processing and interpretation of data will require greater capacity to ensure a comprehensive assessment of all options. Particularly with the quantitative sources, there is the risk that inferences may not be in-depth enough, as it is based on narrow data.

The combination of documentary analysis, stakeholder consultations, financial assessment, performance evaluation and structured comparative modelling ensures that the study is evidence-based and is cognisant of institutional realities. This methodology provides the basis for determining the most appropriate, cost-effective, accountable and sustainable service delivery mechanism for tourism and destination marketing.

5. Situational Analysis

This chapter contains the analysis of the current model of delivery of the tourism function of destination marketing. The analysis will be done focussing on three main categories namely, operations, finance and performance. These categories allow for simplified analysis but ensure that vital information is considered.

The operational analysis will focus on investigating the current delivery model and the institutional arrangements which facilitate its functioning. The LTOs operations will be described in detail, providing an account of how they carry out the destination marketing function for which they receive the grant. The governance arrangements in terms of reporting will also be analysed.

The financial analysis will focus on investigating the financial profile of the organisation as a whole. This allows not only for a narrow analysis of how funds are used for destination marketing but also how the organisation functions as a business. Notably, an analysis of the relationship between grant funding and marketing costs will be done to investigate the effective utilisation of grant funding.

The performance analysis will focus on investigating the performance of the LTOs on their Key Performance Indicators (KPI). It will also analyse the available data on strategy and campaigns run by the LTOs. This will be to only analyse their performance but probe for inferences of the relative capacities required for such activities.

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5.1. Current Delivery Model

The current Delivery Model in its simplistic form is the provision of a grant to service providers (LTOs) who provide tourism functions and implement destination marketing services and campaigns on behalf of the municipality for the Stellenbosch and Franschhoek areas. This is a municipal function which is externalised as no internal capacity exists to perform the function. The appointed service provider/s will be responsible for the execution of integrated marketing initiatives, stakeholder engagement, visitor information services, tourism product development support and the coordination of tourism-related events in alignment with the Municipality's strategic goals.

The appointment of a service provider is done through a competitive bidding process whereby competent and compliant organisations are invited to bid on the provision of the requested services. The service providers bid to deliver services based on four core functional areas: (i) Destination Marketing, (ii) Visitor Information Centre, (iii) Reporting, Monitoring and Evaluation and (iv) Product development. Within these functional areas, there are deliverables attached (See Annexure – BSM 126_25) for which are quoted.

CATEGORY A PRICING SCHEDULE: STELLENBOSCH AREA

No	Description	Monthly rate (2025/26)	(Monthly rate x 12) 2025/26
1	Implementation of Destination Marketing services on behalf of the Municipality		R
2	Management of Visitor Information Services on behalf of the Municipality		R
3	Reporting, monitoring and evaluation of Tourism Key Performance areas on behalf of the Municipality		R
4	Implementation of a Tourism Skills Development Programme on behalf of the Municipality		R
Totals			R
Add VAT @ 15%			R
Total Price Offer			R

Figure 1: Extract from BSM 126/25

The bidder then provides a quote for the specified services and demonstrates their capacity and competence to perform the job. The bid includes a comprehensive portfolio of evidence and a rate to be charged for the planning and management of municipal events, allowing the service providers to do both marketing and events. The bid is evaluated by the municipality's SCM department, which appoints a successful service provider.

The successful service provider will then enter into a Memorandum of Understanding (MoU) with the municipality, confirming the bid value and the responsibilities of the parties. The service provider is then required to report monthly on the expenditure and progress of specified projects. Reporting is done to the Project Manager – Manager: Economic Development and Tourism who will be responsible for the management of the project on behalf of the Municipality.

Table 1: Pricing Schedule provided by successful bidder for Franschhoek for BSM126/25

Franschhoek Bidder Pricing Schedule	
Item	**Price**
1 Destination Marketing	R 1 748 000
2. Visitor Information Services	R 2 350 000
3. Reporting, Monitoring and Evaluation	R 50 000
4. Tourism Skills Development Programme	R 175 000
Total (excl. VAT)	**R 4 323 000**
Event Planning and Management	R 1 500 / hour (h)

Table 2:Pricing Schedule provided by successful bidder for Franschhoek for BSM126/25

Stellenbosch bidder Bid Pricing Schedule	
Item	**Price**
1 Destination Marketing	R 1 825 150
2. Visitor Information Services	R 2 970 892
3. Reporting, Monitoring and Evaluation	R 374 000
4. Tourism Skills Development Programme	R 80 000
Total (excl. VAT)	**R 5 223 042**
Event Planning and Management	R470/pp/h or R1 370 per team/h

5.2. Operational Analysis

This section will review the operations of the LTOs currently appointed by the municipality. This section will review the staffing, competencies of the organisation and key projects run by the organisation.

The tourism and destination marketing function is currently delivered through externally appointed organisations operating as membership-based entities with independent governance structures. These organisations are responsible for implementing destination marketing, visitor information services, event activation, stakeholder engagement and sector support within defined geographic areas on behalf of the municipality. Their operations are structured to balance strategic destination promotion with member-driven business support and visitor servicing functions.

Governance is provided by an independently appointed board, constituted through a democratic or representative process, which exercises oversight over organisational performance, financial management and the achievement of agreed key performance areas. Strategic direction and day-to-day management are led by a chief executive role responsible for high-level stakeholder engagement, long-term tourism positioning, programme oversight and representation in intergovernmental and industry forums. This role is supported by a small core management team responsible for financial administration, human resource management, compliance and organisational sustainability.

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Operational delivery is undertaken through a combination of permanent staff and contracted specialists. Core internal roles typically include marketing management, visitor centre and operations management, administrative support, member liaison and programme coordination. These roles focus on coordinating campaigns, managing visitor information services, maintaining stakeholder relationships, supporting events and ensuring consistent reporting and compliance with service level agreements. Visitor Information Centre operations form a significant component of the workload and require dedicated frontline staff to provide visitor assistance, manage enquiries, disseminate information, support safety initiatives and act as destination ambassadors.

Specialist capacity is largely accessed through contracted or project-based resources rather than permanent appointments. These contracted roles provide skills in areas such as digital and performance marketing, content creation, graphic design, social media management, web development, data analysis, financial reporting, sustainability advisory services and skills development facilitation. This approach allows the organisations to scale capacity in response to seasonal demand, major events and campaign cycles, and to remain responsive to rapidly changing market trends and technologies.

Operational activities are organised around a defined programme framework that typically includes destination marketing and brand positioning, visitor experience enhancement, trade engagement and event support, visitor services, sector capacity building, development-oriented initiatives, environmental and social responsibility programmes, and service standards management. These programmes are implemented through a mix of media campaigns, events, trade activations, visitor centre operations, training initiatives and stakeholder coordination, with performance monitored through agreed indicators related to reach, engagement, visitor satisfaction, compliance and reporting.

From a resourcing perspective, most of the fixed operational effort is concentrated on visitor services and membership or stakeholder support functions, reflecting the labour-intensive nature of visitor information centres and frontline engagement. Destination marketing activities account for a smaller but strategically significant proportion of baseline effort, supplemented by variable project work during peak campaign and event periods. Reporting, monitoring, evaluation and financial management functions are maintained regularly to meet contractual and governance requirements.

Overall, the current operational model is characterised by lean permanent staffing, extensive use of specialist contracted skills, strong reliance on established stakeholder networks and a high degree of operational flexibility. This structure enables responsive delivery of tourism services and marketing activities but also results in limited internalisation of skills and institutional knowledge within the municipality, with strategic and operational capacity remaining largely external to the municipal administration.

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5.3. Financial Analysis

In assessing the financial characteristics of the current externally delivered tourism and destination marketing function, the available financial information indicates that the operating model is sustained through a combination of public-sector funding and self-generated income streams, with a strong reliance on municipal grants. Across the reporting period, grant funding typically accounts for approximately one-third to one-half of total annual revenue, providing the primary source of stability for organisational operations. Without this funding, the scale and continuity of service delivery would be materially constrained.

Membership-related income forms the next most significant revenue stream and is derived from tourism-related businesses operating across accommodation, food and beverage, wine production, retail and experience-based sectors. In aggregate, membership fees contribute to the region of one quarter of total revenue, with year-on-year collections generally remaining within a moderate variance range. Periods of underperformance, estimated at less than one-fifth of projected collections in weaker years, coincide with broader economic disruption and reduced trading conditions within the tourism sector. Payment behaviour suggests a preference for instalment-based settlements over upfront payments, indicating ongoing cash-flow pressure among member businesses.

Event-related income contributes a relatively small but highly variable portion of total revenue, typically estimated at low single-digit percentages annually. While certain flagship events generate consistent net returns over time, the overall profitability of events fluctuates significantly due to external factors such as sponsorship availability, operating costs, weather conditions and visitor demand. As a result, event income functions primarily as a supplementary revenue stream and cannot be relied upon to support fixed operational costs.

Tourism-related levies and commissions linked to accommodation and visitor services provide an additional, performance-sensitive revenue source. Accommodation-based levies consistently outperform other sectors and are closely correlated with occupancy rates and visitor volumes. In stronger years, levy income approaches or slightly exceeds one tenth of total revenue, while in weaker periods it declines sharply, reinforcing the exposure of this income stream to seasonality and market volatility.

Other income sources, including sponsorships, commissions, merchandise sales, interest and once-off project funding, are irregular and unpredictable. In certain years, these sources contribute a disproportionately large share of revenue due to exceptional sponsorships or recoveries, but over the full reporting period, they average less than one-tenth of total income. These sources, therefore, play a limited role in sustaining baseline operations and are more appropriately applied to once-off initiatives or contingency funding.

On the expenditure side, staff-related costs represent the single largest cost driver, accounting for approximately forty to forty-five percent of total expenditure over the reporting period. These costs include salaries, statutory contributions and limited staff-related operating expenses. While total staff expenditure fluctuates year-on-year, the overall trend indicates that personnel costs remain the most significant fixed

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commitment within the operating model, even in periods where project activity contracts.

Administrative and business services costs constitute the second-largest expenditure category and account for approximately one quarter to one third of total expenditure. These costs encompass office accommodation, utilities, information technology, professional services, financial administration, compliance and insurance. Changes in accommodation arrangements and maintenance requirements result in periodic spikes in this category, although many of these costs would likely be lower or absorbed within a municipal environment due to economies of scale and centralised procurement.

Marketing-related expenditure accounts for roughly one quarter of total spending when averaged across the reporting period, although its composition has shifted significantly over time. Earlier expenditure patterns were dominated by conventional advertising, media placements and campaign execution. More recently, marketing expenditure has expanded to include a broader suite of place-based initiatives, visitor services and grant-funded projects, resulting in substantial increases in absolute spend but a decline in pure advertising as a proportion of total costs. Social media, content production and public relations consistently represent the largest marketing cost components, while traditional digital advertising accounts for a comparatively smaller share.

Developmental and social responsibility expenditure remains relatively modest, typically representing less than five per cent of total expenditure. These costs are directed toward skills development, community initiatives, transformation support and social impact programmes. Although financially limited, this category aligns closely with municipal development objectives and reflects the increasing expectation that destination marketing functions contribute to broader socio-economic outcomes.

Overall expenditure trends indicate gradual growth in operational scale, with more pronounced increases occurring during periods of expanded grant-funded projects and visitor service delivery. While staffing and administrative costs remain relatively stable in proportional terms, project and marketing-related expenditure exhibits greater volatility, reflecting the grant-dependent nature of service expansion. Taken together, the financial profile reflects an externally delivered model that is operationally sustainable primarily through continued public-sector funding, with limited capacity to independently finance core functions in the absence of municipal and intergovernmental support.

5.3.1. Synthesis

When the relationship between municipal grant funding and marketing-related expenditure is considered across the reporting period, the financial data indicates a consistent imbalance between funding allocations and direct marketing spend. In the case of the externally appointed organisations operating under the current model, grant funding generally exceeds identifiable marketing expenditure by a substantial margin. Based on the available information, the difference between annual grant allocations and marketing costs can be estimated to range between roughly one-third and one-half of the total marketing budget in most years. In practical terms, this

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implies that for every rand spent on marketing activity, a materially higher amount is transferred through grant funding.

In some instances, particularly in the mid-years of the reporting period, this divergence becomes more pronounced, with grant funding exceeding marketing expenditure by an estimated forty to fifty percent. In later years, where reporting formats change and marketing-related project costs are grouped differently, the relationship appears more variable, with project-related expenditure at times marginally exceeding grant values by an estimated fifteen to twenty percent. This variance reflects the inclusion of management fees, internal cost recovery and timing differences between grant disbursement and project execution, rather than a direct increase in marketing intensity.

The financial records do not allow for a precise isolation of grant-funded destination marketing expenditure from other organisational costs, as expenditure is frequently aggregated across campaigns, projects and operational activities. Marketing contracts often bundle municipal and non-municipal deliverables, and administrative systems do not consistently distinguish between grant-funded outputs and organisation-funded initiatives. This limits the municipality's ability to quantify the direct cost of destination marketing alone. Nevertheless, the available trends indicate that a significant portion of grant funding is absorbed by non-marketing expenditure categories that are nonetheless necessary to support service delivery.

This pattern suggests that municipal grants function not only as funding mechanisms for destination marketing outputs, but also as operational subsidies that contribute to organisational sustainability, staffing and administrative overheads. While such costs are legitimate and unavoidable, the magnitude of the observed variance raises questions regarding value for money, particularly where grant funding exceeds direct marketing expenditure by more than an estimated fifteen percent, which would ordinarily be considered a reasonable contingency threshold for performance-based funding.

Marketing expenditure trends further reinforce this conclusion. In one instance, marketing spend remains relatively stable as a proportion of total expenditure, averaging approximately one quarter over the reporting period. Spending is concentrated on social media, public relations, event-related promotion and physical collateral, and does not scale proportionally with increases in grant funding. This suggests that grant allocations serve primarily as a stabilising base rather than as a driver of expanded marketing output. Marketing activity in this context remains largely campaign-driven and discretionary, aligned with destination promotion rather than structured service delivery.

By contrast, in the second instance, marketing-related expenditure escalates sharply in the latter part of the reporting period. This increase is not attributable to intensified advertising or promotional activity, but rather to the inclusion of municipally funded projects, visitor information services and place-based initiatives within marketing expenditure categories. As a result, marketing spends transition from media-led promotion to a broader suite of grant-defined operational functions. While advertising costs remain relatively stable in absolute terms, their proportional share declines significantly as project and visitor service costs dominate expenditure. This reflects a

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structural shift in which marketing becomes a delivery vehicle for municipal services rather than a flexible promotional tool.

Notwithstanding the delivery of reported outputs, the scale of grant funding relative to marketing expenditure indicates the need for a more rigorous value-for-money assessment. Grant arrangements should be periodically reviewed to ensure that funding levels remain proportionate to defined outputs and outcomes, while remaining sensitive to the financial viability of the service providers. Excessive underspending on direct marketing relative to grant allocations risks diluting accountability and weakening the performance-based rationale of the funding model.

A further consideration arising from the financial analysis is the degree of grant dependency evident across the current delivery model. While one organisation demonstrates a comparatively diversified revenue base, with grant funding estimated to account for roughly one third of total revenue and the balance derived from membership fees, levies, sponsorships and ancillary income, the second organisation exhibits a far higher dependence on public-sector funding. In the latter case, municipal and intergovernmental grants together account for an estimated half or more of total revenue, with own-generated income streams remaining limited in scale and growth.

This dependency is material, as grant-funded projects not only support service delivery but also enable brand expansion, membership growth and the leveraging of additional revenue for organisation-led initiatives. While the relationship between the municipality and the service providers is mutually beneficial, the sustainability of the organisations remains closely tied to continued grant support. Greater diversification of revenue would reduce exposure to funding volatility and strengthen the resilience of the tourism sector more broadly.

The analysis of expenditure also provides insight into the underlying cost of doing business under the current model. Staffing costs represent the largest expenditure category, averaging in the region of one and a half to two million Rand per annum and accounting for approximately forty to forty-five percent of total expenditure. Administrative and business services costs together account for a further estimated one million Rand per annum. When aggregated, the annual cost of sustaining organisational operations, excluding direct marketing and project expenditure, can be reasonably estimated at between two and three million Rand per annum. Over a full reporting cycle, these costs accumulate to a substantial figure that is absorbed by the service providers rather than reflected directly in municipal budgets.

Table 3: Table of Estimated Cost of Doing Business for an LTO

Estimated Cost of Doing Business		
Expenditure	**Annual average cost**	**Cost for reporting period**
Administration	R500 000	R 3 500 000
Business Services	R500 000	R 3 000 000
Staff Costs	R1 800 000	R10 000 000
Total	**R2 800 000**	**R16 500 000**

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While these costs are not excessive in isolation, they represent a material component of the overall cost of service delivery and must be recognised when considering alternative delivery mechanisms. Staff-related costs, which are currently externalised, would need to be fully internalised under a municipal delivery model.

In synthesis, the financial and operational evidence indicates that the current externally delivered model is heterogeneous in nature, with differing organisational trajectories and degrees of grant dependency. One organisation reflects relative financial stability and revenue diversification but exhibits a persistent imbalance between grant funding and direct marketing expenditure. The other has evolved into a predominantly grant-funded service delivery agent, with escalating fixed costs and reduced flexibility. Across both cases, municipal grant funding frequently exceeds identifiable marketing expenditure, indicating that grants function as broad operational subsidies rather than strictly output-based funding instruments. While defensible from a service continuity perspective, this arrangement reduces transparency, complicates performance assessment and introduces structural inefficiencies that must be addressed in determining the most appropriate service delivery mechanism going forward.

5.4. Performance Analysis

This section will discuss the performance for LTOs. The financial data has been discussed in the above, therefore, this section will be a summary of the reporting on the Tourism Performance Indicators for which the LTOs provide monthly reports. The service providers are required in terms of their appointment, to provide services in terms of the four deliverables contained in the bid. Each deliverable has specific programmes/objectives of which outputs must be produced. These are contained in the scope of works in the bid document (see Annexure – BSM 126_25)

The performance of the grant beneficiary is determined by evaluating their monthly progress on projects aligned to their strategic objectives. Reports must include the amount of funding that has been spent per project. This allows the municipality to continually monitor the expenditure of their grant funding.

Table 4: Table of categories of scope of work for BSM 126_25

Deliverable	**Description**
Destination Marketing	**Marketing of the Stellenbosch Area to attract more tourists** Advise Stellenbosch Municipality on services related to the concept, design and execution of advertising campaigns and marketing programs targeting leisure and business travel consumers. Service provider/s are required to have extensive proven tourism experience in domestic and international markets.
Visitor Information Centre	**Management of Visitor Information Centre** Establish and manage accredited Visitor Information Centre (VIC) in Stellenbosch. VIC are to be of a high operational standard, well equipped with well trained staff necessary to provide up-to-date information of the full diversity of experiences and attractions of the Stellenbosch

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	Area. VIC must have high speed internet access for VIC operational and free visitor use.
Reporting, monitoring and evaluation	**Reporting** To provide the Stellenbosch Municipality with monthly, quarterly and annual reports for the duration of the tender.
Product Development	**Tourism Product Development**

In relation to destination marketing, the LTOs have demonstrated consistent capacity to market the Stellenbosch area to attract increased leisure and business tourism. The monthly reports reflect sustained implementation of destination marketing activities across digital, print, trade, and media platforms, supported by extensive local and international tourism experience. Marketing interventions have included destination branding campaigns, event-led promotions, media hosting and trade engagement with tour operators, travel agents, and destination management companies. These activities have reinforced the positioning of the destination and maintained market visibility in competitive tourism environments. Performance evidence confirms delivery of agreed marketing outputs. However, performance measurement remains primarily outputs-based, with limited systematic quantification of conversion outcomes such as bookings, visitor spend, or length of stay. This constrains the ability to conclusively assess the economic impact of destination marketing efforts and decide on Value for Money

Referring to the management of Visitor Information Centres, the LTOs have fulfilled their role in establishing, operating, and supporting accredited VICs that meet acceptable operational standards. Reporting indicates that VICs have been maintained as accessible, well-equipped visitor service points, providing up-to-date information on the diversity of tourism experiences and attractions within the Stellenbosch area. Staffing arrangements, visitor support functions, and referral services have contributed to the enhancement of visitor experience, and the facilitation of visitor flows to local tourism businesses. Infrastructure improvements, including upgrades and refurbishments where required, have been undertaken to sustain service continuity and operational effectiveness. High-speed internet access for operational purposes and visitor use has been incorporated as part of the service offering. While VIC performance is evidenced through operational continuity and service delivery, performance reporting focuses predominantly on activity indicators such as enquiries handled and operational status, rather than service effectiveness measures such as enquiry-to-booking conversion or visitor satisfaction metrics.

In respect of reporting, monitoring, and evaluation, the LTOs have demonstrated consistent compliance with reporting obligations to Stellenbosch Municipality. Monthly, quarterly, and annual reports have been submitted in line with contractual requirements for the duration of the tender periods reviewed. These reports provide structured accounts of activities undertaken, deliverables achieved, and progress against agreed scopes of work. Financial and narrative reporting has supported municipal oversight and accountability, and no material reporting non-compliance has been identified. However, the reporting framework places greater emphasis on descriptive activity reporting than on evaluative analysis. Monitoring and evaluation

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practices remain focused on outputs delivered rather than outcomes achieved, limiting the municipality's ability to assess value-for-money and longer-term impact arising from tourism interventions.

In relation to tourism product development, the LTOs have contributed to the identification, support, and promotion of tourism products and experiences within the Stellenbosch area. Product development activities have often been integrated into destination marketing campaigns and events, allowing new and existing tourism offerings to access established promotional platforms. The LTOs have supported product visibility, facilitated stakeholder collaboration, and assisted emerging and established tourism businesses to position their offerings within the destination portfolio. Development initiatives have included engagement with SMMEs, community-based tourism participants, and niche experience providers, contributing to a more diverse and inclusive tourism product mix. While these activities align with broader tourism development objectives, the documentation reflects limited formal measurement of product performance, market uptake, or longer-term sustainability outcomes. As a result, product development performance is demonstrated primarily through qualitative evidence of support and facilitation rather than quantified impact indicators.

The performance evidence indicates that the LTOs have consistently delivered against the four core deliverables of destination marketing, visitor information services, reporting, and product development. Their strengths lie in implementation capacity, sector relationships, and local tourism knowledge. The principal limitation across all deliverables is the predominance of output-based performance measurement, which restricts the ability to fully evaluate outcomes and economic impact. This limitation is structural in nature and should be considered in the context of delivery model evaluation rather than interpreted as underperformance by the service providers.

Additionally, monitoring is done monthly, but there is no annual performance review undertaken. This may be problematic as the month-to-month reporting may only provide sufficient perspective on the progress of projects, but not a review of overall performance.

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6. Alternative Model of Delivery

6.1. Internal Delivery

The internal delivery model for this function comprises staff employed by Stellenbosch Municipality delivering this function in its entirety. The function will be executed from within the Section: Economic Development and Tourism under the Department of Development Planning. This leans on the existing competencies and financial support currently existing in the department to deliver tourism-related services.

6.1.1. Operational organisation

A dedicated organisational unit (sub-section) will be established to house this function. This is to ensure that the scope of work is highly focused, mimicking the external delivery model as closely as possible but being resource conscious in terms of the municipal context.

Responsibility for this function will fall within the scope of the Senior Manager: Development Planning and political oversight will derive from the MMC for Planning and Economic Development. The sub-section will, however, be directly reporting to the Manager: Economic Development and Tourism.

The Head will oversee the organisational unit: Marketing and Tourism, whose primary role is to provide strategic oversight of the tourism and marketing function. This employee's key performance areas will be to provide strategic leadership, planning and oversight of the municipality's tourism development and destination marketing functions to promote sustainable local economic growth, strengthen the municipal tourism brand, and ensure alignment with the Integrated Development Plan (IDP), Local Economic Development (LED) objectives, and provincial and national tourism strategies.

The staff required in this section will need to be mid-level seniority with extensive experience in the marketing and tourism field, the Head: Tourism and Marketing and will be assisted by two Senior Marketing and Tourism Officers. These employees will be allocated a region to manage (i.e. Stellenbosch and Surroundings, and Franschhoek and Surroundings). They will implement campaigns, strategies and ensure the functioning of VICs, two Marketing and Tourism Officers will support this role. These employees will provide support to the Senior officers in terms of managing administrative tasks and will be responsible for the day-to-day management of the VICs, which will be staffed with temporary Expanded Public Works Programme (EPWP) assistants.

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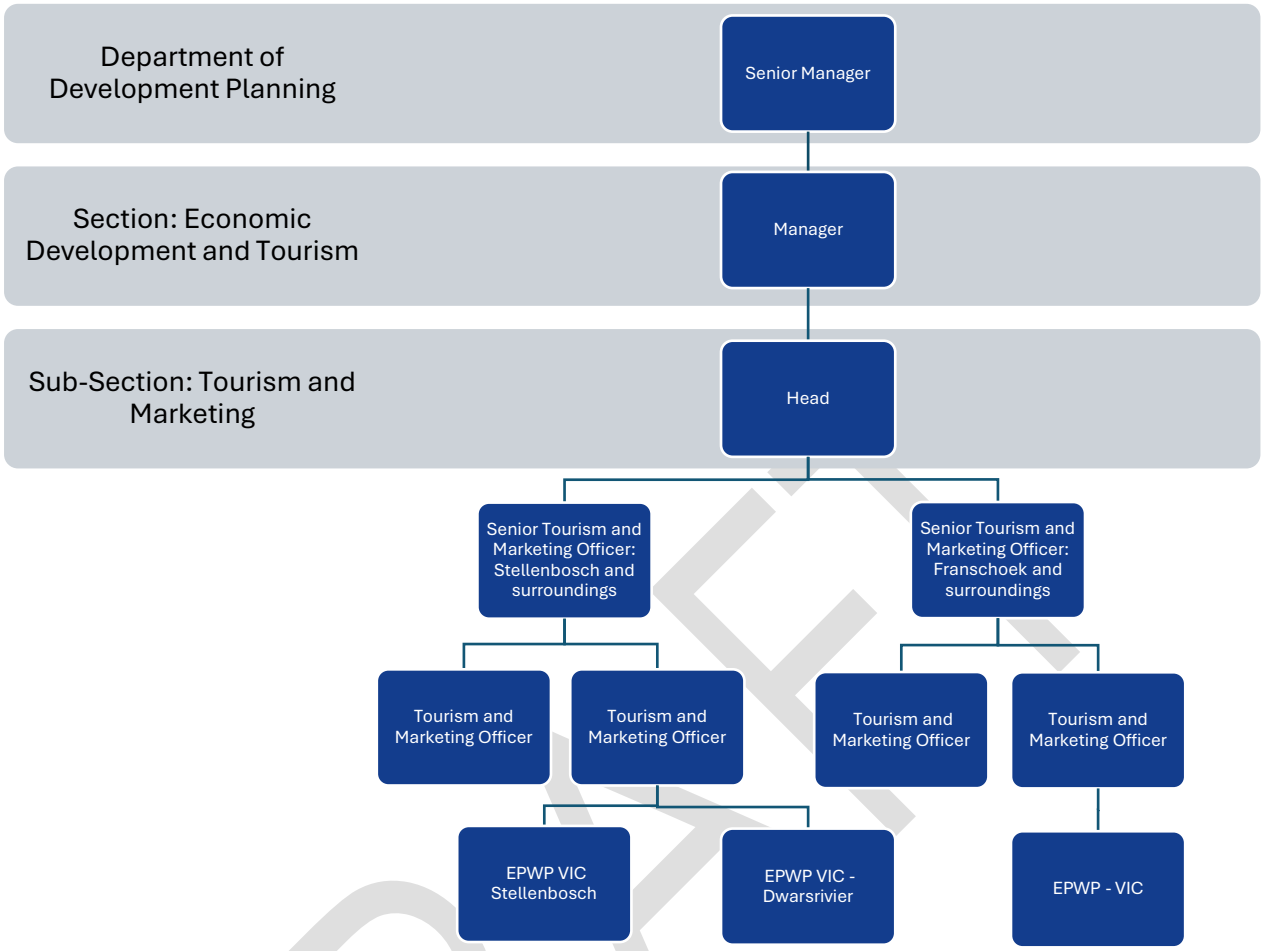

Figure 2: Proposed Organogram of the proposed new sub-section: Marketing and Tourism

6.1.2. Financial organisation

This unit will be funded from the annual municipal budget. The proposed budgetary allocations can be dominated by operational funding in a 90:10 ratio. Capital funding would primarily be required for the maintenance and upgrade of Visitor Information Centres and any other related assets under the unit's management. Salaries will likely be the costliest line item for this unit, followed by marketing, then projects and events.

Operational overhead costs will be a significant cost factor as the municipality must be able to provide suitable office accommodation for these staff members. Therefore, coordination with the Property Management Section is necessary to ensure a base of operations. While the Franschhoek VIC is located within a municipal building, the Stellenbosch VIC is not. In addition, it must be noted that the LTO's will not necessarily halt operations, thus meaning that the municipality may need to find alternative accommodation.

The costs of materials and equipment and Business Services will be variable and dependent on the rates provided i.t.o the appointment of a service provider. Although with certain Business services, such as Microsoft Office, a different Municipal Department will carry these costs. The budget will therefore primarily comprise of

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Salaries, Marketing Expenditure, Event costs, professional services and other operational expenditure.

The procurement of services will be subject to Stellenbosch Municipality SCM processes which may be in the form of short-term (up to one year) tenders which are project-based and long-term (up to three years) tenders will be executed to obtain the services of capacitated service providers to provide services to the municipality as and when needed. This model, therefore, opens the market for the provision of services to any capacitated bidder and does not seek to create an arrangement whereby LTOs will exclusively provide services to the municipality. This will be to ensure that greater cost efficiency can be achieved.

6.1.3. Performance

In terms of Performance, the cost in terms of services provided and operating overheads, will be relatively stable as prices are not able to shift beyond bid rates and overheads may be absorbed by other cost centres in the organisation.

This model will also ensure that destination marketing and projects will become more geared towards outcomes, rather than outputs. While outputs will be a measurable performance indicator, they do not always create the needed outcomes as currently the municipality does not have much control over the outcomes the LTO's work achieves as they are evaluated based on how many outputs they produce.

However, it should be noted that this model does have risks in implementation. Firstly, the transition period may be extensive as new staff will have limited support as the unit will be newly established and limited institutional knowledge can be transferred in this regard. The internal team will have better access to all municipal communication resources but may have to develop its own social media profiles and build an audience. Internal staff to be recruited will have demonstrable experience in marketing and tourism and should readily be able to perform the job successfully. The team will likely have to develop new networks of relationships with stakeholders as they engage. This may affect the ability to produce certain outcomes, as without certain relationships, some projects may be more costly or administratively taxing.

Engaging the business sector and Tourism stakeholders may be difficult as the public may be reluctant to partner with the local government. The internal team will, however, have greater competency to engage local communities (emerging farmers, wine makers, entrepreneurs) as their existing relationships in the locating department already.

While SCM processes can provide stability and secure long-term rates but may also risk higher than normal rates in terms of the bid received and cause administrative delays due to the bureaucratic nature of government procurement.

6.2. Costing of Internal Model

The costing of this model is an estimation of the staff, operational and project costs associated with the unit proposed.

In accordance with Section 78(1)(a)(i) of the Municipal Systems Act, this section presents a comprehensive costing of the internal delivery model for the tourism and

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destination marketing function. The costing reflects the direct and indirect financial implications of internalisation and is structured around three core components, namely operational costs, staff costs, and project (marketing) costs. The estimates presented are informed by the proposed organisational structure, benchmarking against existing Local Tourism Organisation (LTO) cost profiles, and the pricing schedules contained in the current tender documentation.

6.2.1. Operational costs

Operational costs relate to the overheads required to sustain the day-to-day functioning of the internal tourism and marketing unit. These include office accommodation, utilities, information technology, business services, administrative support and other non-project-related expenditure. While some of these costs may be absorbed within existing municipal cost centres, a significant portion represents new or incremental expenditure associated with establishing a dedicated unit.

Based on comparative analysis of LTO financial statements, operational overheads (administration and business services combined) average approximately R2,4 million per annum in the case of Visit Stellenbosch, excluding staff costs.

Under an internal model, certain costs, such as Microsoft Office and ICT infrastructure, would be absorbed within municipal systems, thereby reducing duplication. However, other costs, including office accommodation (particularly for the Stellenbosch VIC), consumables, equipment, subscriptions, website hosting and communications infrastructure, would remain direct costs to the unit should there not exist any such resources in the municipality. Below are important costs for consideration. ICT, office equipment, consumables, stationery and maintenance are costs that will likely dominate the operational costs directly attributable to the unit. However, no accurate estimate was used as these products are subject to various changes (specifications, bid rates, etc.) and the rate used by the LTOs was used as a guide. However, do use these values as underestimations as municipal rates as per service providers are often higher than conventional market-related rates.

Taking these factors into account, it is estimated that annual operational overhead costs for the internal model would be approximately R 1 828 171,4 depending on accommodation arrangements and the extent to which corporate services can absorb shared costs. The above table is merely an extract of the possible costs associated with establishing the unit. Costs such as electricity, security infrastructure and personnel, software subscriptions, training and travel have not been factored using current municipal rates. The cost in terms of additional capacity required in terms of expanding the scope of current tenders in place to accommodate the new unit has not been factored, therefore factors such as expanding the number of licenses for software or the provision of services to the additional offices have not been considered. In addition, once-off transition and establishment costs, including office setup, equipment procurement and initial training, are estimated at up to R400 000 during the first year of implementation and are subject to continued maintenance, which will be critical as this VIC's aesthetic appearance must be attractive to visitors.

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6.2.2. Staff Costs

Staff costs constitute the most significant recurrent expenditure under the internal delivery model. The proposed organisational structure includes the appointment of a Head: Tourism and Marketing, two Senior Marketing and Tourism Officers, two Marketing and Tourism Officers, and the utilisation of EPWP staff for Visitor Information Centre operations.

Salaries have been benchmarked against municipal TASK (Total Annual Salary Package) levels for comparable roles within local government. Based on current Stellenbosch Municipality norms, the estimated annual staff costs (inclusive of benefits but excluding overtime) are as follows:

Table 5: Table of the cost of employing proposed staff for the proposed unit. The Human Resources Department supplied these values.

Estimated Staff Costs			
Position	TASK Level	Total Cost to Employer	Total per Level
Head: Marketing and Tourism	15	R 1 232 771,25	R 1 232 771,25
Senior Officer: Marketing and Tourism (x2)	14	R 975 357.84	R 1 950 715,68
Junior Officer: Marketing and Tourism (x2)	10	R 589 113.49	R1 178 226,98
Visitor Information Centre: EPWP Temp Staff (x3)	Category of use: Admin	R 73 920	R 221 760
		Total Staff cost	**R 4 583 473,91**

This results in an estimated annual staff cost of approximately R4,5 million. These costs will escalate annually in line with municipal wage agreements. The EPWP temporary staff were included in the calculation, although this funding is provided through a grant and will not be municipal funds. While overtime requirements are expected to be limited, provision should be made for overtime during peak tourism periods and major events, estimated between 5–8% of the annual salary bill, i.e. R229 173,70 – R366 677,91 per annum and thus total costs may escalate up to R 4 950 151, 82.

6.2.3. Project Costs

Project costs relate specifically to destination marketing, campaigns, advertising, content creation, events and related promotional activities, and exclude staff and overhead expenditure, which are listed above. These costs are benchmarked against the current tender values and grant allocations for Stellenbosch and Franschhoek.

Based on the bid pricing schedules, the municipality currently allocates approximately R6,0 million per annum for Stellenbosch and R2,0 million per annum for Franschhoek for destination marketing, visitor information services, reporting, monitoring and evaluation, tourism skills development, totalling R8,0 million. Under the internal model, it is assumed that a similar level of funding would be retained for

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project delivery, with funds redirected toward competitively procured marketing services, advertising spend, the production of content, event management and campaigns. However it is important to note three important points, municipal rates for services may be higher than those the service providers were able to achieve particularly when there will be an unbundling of services, and market responsiveness to bids to be encountered and secondly, the municipality will have to add additional projects and campaigns to account for the projects the LTOs will no longer be able to operate or new projects identified (especially social upliftment projects). Lastly, it is important to note that the municipality has the right to adjust the scopes of work and projects it supports. All projects are not supported in full, with partial funding provided (approximately 66%), therefore the estimated values for the projects are inclusive of an additional 33%.

Table 6: Table of the estimated cost of marketing and tourism projects.

Project Costs for Internal Marketing and Tourism Unit	**Average Annual Cost**	**Medium term Cost**
Franschhoek	R 2 583 121,78	R 15 498 730,73
Stellenbosch (including Dwarsrivier)	R 7 841 960,36	R 32 559 801,82
WC024	R 10 425 082,14	R 54 708 576,44

These project costs would be managed through short-term and long-term, "term" tenders (up to three years), enabling the municipality to procure specialised services such as digital marketing, media buying, creative design and event management on an as-needed basis. While municipal procurement processes may limit flexibility, this approach allows for clearer attribution of expenditure to outcomes and reduces the risk of grant funding being absorbed by non-marketing overheads. In the medium term, it will cost the municipality R 54 708 576,44 to fund the current scope of works executed by the service providers at the rates which they are currently able to deliver at, in its entirety.

6.2.4. Summary of Internal Marketing and Tourism Unit Costs

In aggregate, the estimated annual cost of internalising the tourism and destination marketing function is contained in the table:

Table 7: Table of estimated costs associated with the internal unit.

Estimated Costs of Internal Marketing and Tourism Unit		
Category of cost	**Annual Average**	**Medium Term Cost**
Operational costs	R 1 828 171,4	R 10 175 387,57
Staff costs	R 4 583 473,91	R 22 917 369,55
Project costs	R 10 425 082,14	R 54 708 576,44
Total estimated cost	**R 16 836 727,45**	**R 87 801 333,56**

This represents both the short-term financial commitment and the medium-term commitment necessary to operate the unit. It will cost approximately R 16 836 727,45 to operate the unit annually, with a predicted R 87 801 333,56 over the medium-term

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budget. It should be noted that these values are not benchmarked against the applicable norms of cost escalations.

7. Feasibility Assessment

This section will encompass the comparative assessment of the two delivery models. They will be assessed according to the 5 (five) sub-assessments considering institutional capacity, operational capacity, capital and financial feasibility, risk and sustainability.

7.1 Financial Assessment

Section 78 (1)(a) (i) requires that a municipality must assess:

> *"the direct and indirect costs and benefits associated with the project if the service is provided by the municipality through an internal mechanism, including the expected effect on the environment and on human health, well-being and safety"*

Therefore, the municipality must assess the costs of this model both directly (financially) and indirectly (non-financial) to evaluate beyond the immediate financial implications, but the total costs of the models, considering the economic, institutional and social outcomes.

The cost of internalising this model is R 4 583 473,91only in terms of required personnel. In total, encompassing the operational overheads, staffing and projects, it will cost R 16 836 727,45**.** These costs will also escalate as employees receive increases as stipulated by their T-scale grading. The budget does not account for any re-organisation in future if the scope of work if the unit warrants establishing a new section, which means employing a new manager, admin and other staff.

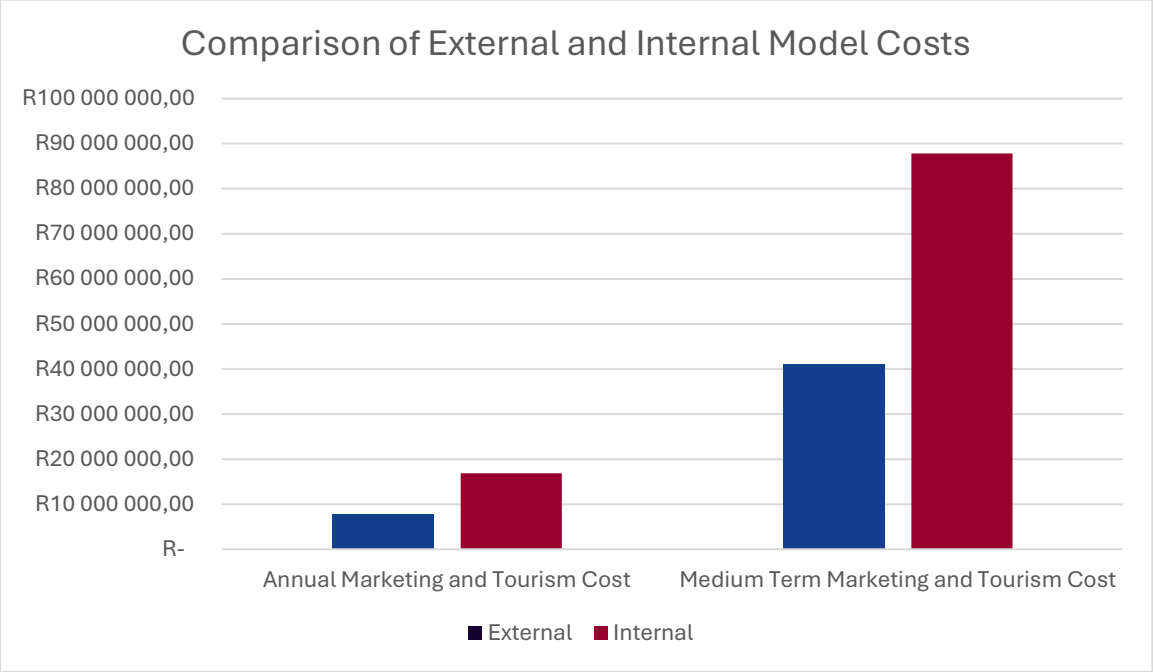

Figure 3: Bar graph comparing the cost of externalising or internalising the tourism function over the annual and medium-term time scales.

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The transition period will also incur additional costs such as equipment acquisition, office accommodation costs, training, etc. These additional costs may escalate up to R400 000. Although these costs can be managed and controlled through phased implementation, it will not negate the fact of high short-term costs to implement the unit's establishment. The comparative differences between the two models would equate to an annual difference of R 8 998 319,82 and a R 46 667 068,56 difference over the medium term. While the annual difference does not appear to be too exhaustive on municipal resources, the medium-term outlook does present itself as needing careful strategic consideration. The deployment of approximately R46 Million should be assessed in the broader context of the municipality's goals.

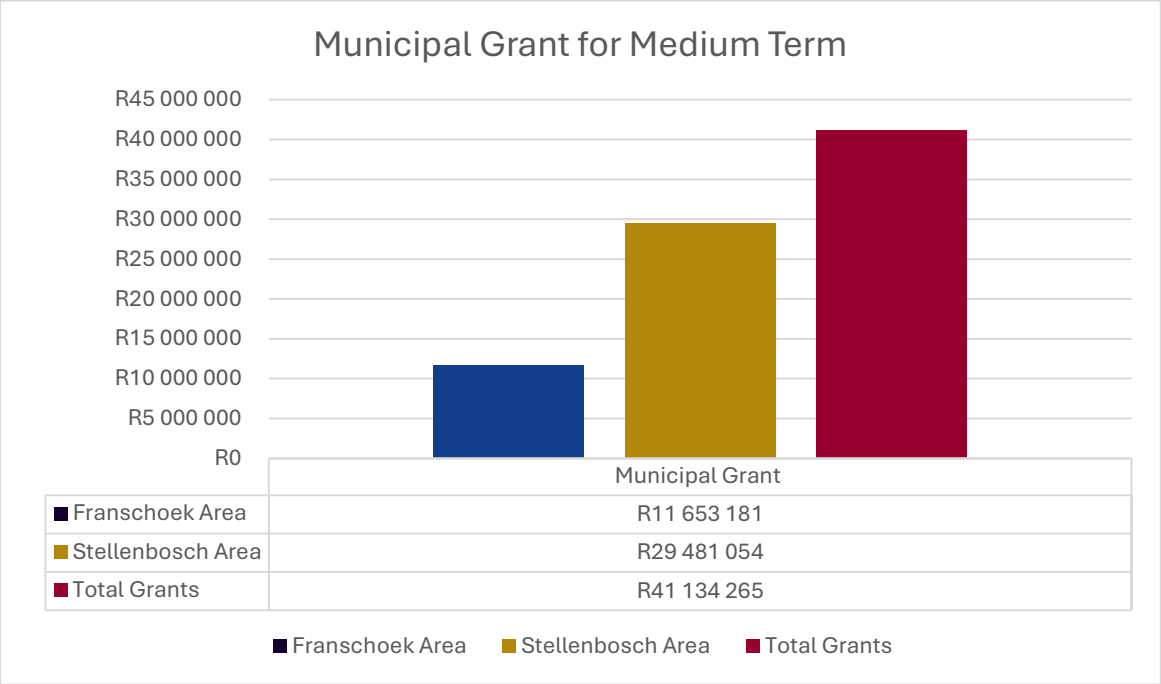

Figure 4: Bar chart of the grant values for the tourism function.

The external model has no additional financial implications, any improvements to the model will be operational (i.e. changes in scope of works, improved monitoring and evaluation) and implemented by current staff. The direct costs to the municipality for this model are in a favourable position. The municipality determines the scope of the required work and the LTOs have additional projects and revenue. The municipality is well within its right to in future reevaluate the grant value and scope of work. These can be adjusted to align closely with the municipality's fiscal position and strategic intent. It must also be noted that the municipality will not be getting any returns from their investments in monetary terms. While this is in line with the principles of public investment, which is to facilitate the development of the local economy and seek returns through other revenue streams.

It must be highlighted that the grant is provided subject to the council's approval and the municipality's fiscal health. In the event of shifting priorities, this function may be left severely weakened and without alternative funding. LTOs are in this regard, better equipped at present to manage such circumstances as they do have sponsorships and other funding mechanisms to utilise, such as their marketing levies, commissions, sale of merchandise and importantly, their membership fees. The municipality does

have the scope to explore the avenue of implementing levies, but this may be highly unfavourable both politically and to the market.

In terms of indirect costs, the internal model does present itself as a more stable and valuable option. The long-term institutional knowledge and ability to implement outcome-driven high-impact projects will be invaluable, this is dependent on the ability of the municipality to successfully implement the model. The implication of a removed grant must also be considered. The impact it will have on the ability of the LTOs to financially survive. Although they are independent organisations, a significant proportion of their revenue is generated from the grant. This allows them to not only execute the projects the municipality requires of them but also facilitates the network of relationships, gives local businesses more exposure and attracts more members to join the associations. While it is not the municipality's mandate to provide the grant, the tenured impact of the LTOs and the work they have executed both for the municipality and for the development of the tourism economy cannot be discarded.

The nature of this specific function causes it to present a low risk in terms of the environment, well-being and safety. However, as both models are sufficiently capitated to achieve a well-functioning tourism industry which creates jobs, attracts tourists and is sensitive to the natural resources of the region, can facilitate the development of a vibrant, active and sustainable city region.

The scoring matrix in the table below was derived from the requirements of section 78 (1)(a) (ii) and the dimensions discussed above. It weighs various dimensions of human resource capacity, and each dimension is scored out of five and weighted according to the relative importance to the category. A low score (closer to one) represents a bad performance, and a high score (closer to 5) represents a good performance.

Table 8: Section 78 financial assessment

Financial Dimension	Weight (%)	Internal Delivery Model Score (1-5)	Internal Weighted Score	External Delivery Model Score (1-5)	External Weighted Score
Direct Financial Cost to Municipality	20	2	0,4	4	0,8
Indirect / Hidden Costs	10	4	0,4	2	0,2
Affordability within Current Budget Framework	15	2	0,3	4	0,6
Cost Transparency & Budget Visibility	10	5	0,5	2	0,2
Value for Money	15	4	0,6	3	0,45

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Financial Risk Exposure	10	3	0,3	4	0,4
Long-Term Financial Sustainability	10	4	0,4	3	0,3
Flexibility of Financial Commitments	10	3	0,3	4	0,4
TOTAL	100		3,2		3,35

7.2. Institutional Assessment

Section 78 (1)(a) (ii) requires that a municipality:

> "*must first assess the municipality's capacity and potential future capacity to furnish the skills, expertise and resources necessary for the provision of the service through an internal mechanism*"

Therefore, the ability of the municipality to currently provide the service and to do so sustainably must be evaluated. This assessment must not only consider the human resources required but also the governance and organisational arrangements, operational processes, financial controls, performance management, stakeholder relationships and institutional knowledge. This section will evaluate the municipality's readiness to take responsibility for this function.

Firstly, the availability of Human Resources to deliver destination marketing, visitor information services, product development, event management and stakeholder engagement. This capacity must be assessed taking cognisance of oversight, the ability of senior management to provide strategic oversight, and the integration of tourism activities within broader municipal objectives.

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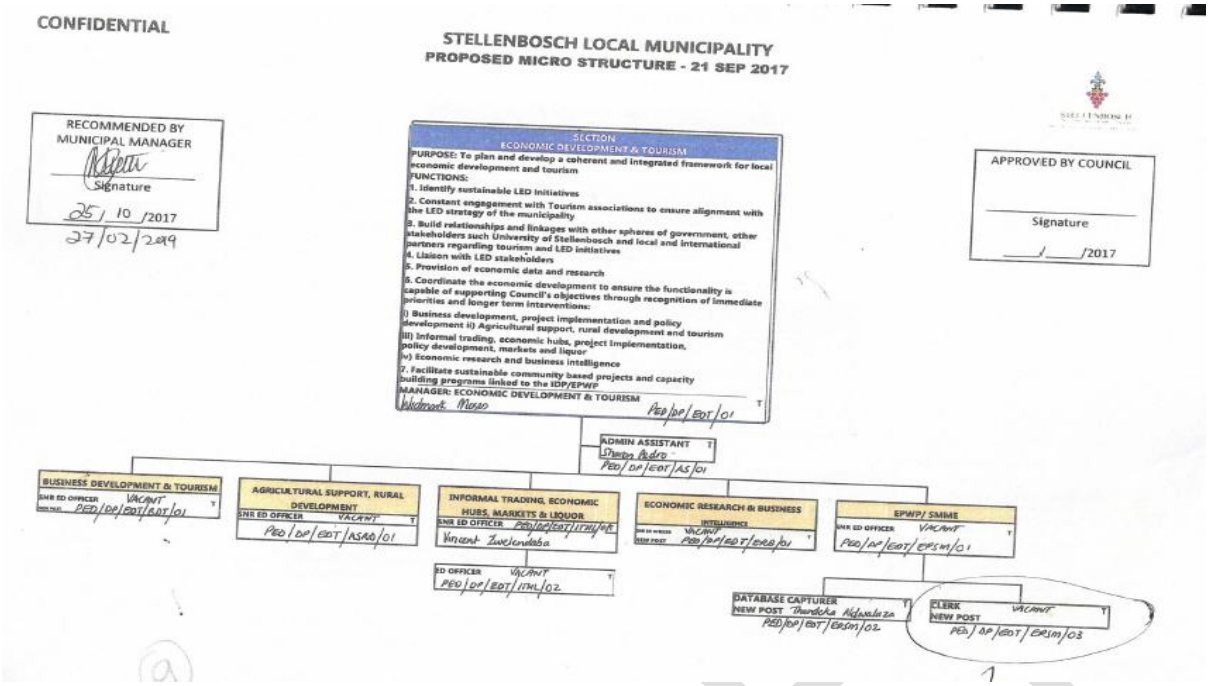

Figure 5: Latest approved organogram for the Economic Development and Tourism Section

Based on the proposed organogram sub-structure, there will be entirely new staff who will be recruited. Based on the current organogram for the Department Development Planning and Section: Economic Development and Tourism, there is only one position which may be considered for redeployment (Senior Economic Development Officer: Business Development and Tourism). There is, therefore, limited in-depth institutional knowledge and human capital to lean on.

The current externalised model requires limited capacity as the internal officer currently assists the Manager: Economic Development and Tourism in monitoring service providers and defining their scope of work (i.e. strategy/outcomes development). No additional human resource capacity is required internally. The pitfall of the current arrangement is that the narrow field of competent agencies to execute these services may be problematic if the organisation experiences capacity issues. In the event of such the municipality will experience sub-par work for the grant provided.

The internal model proposes an additional nine (9) employees to report to the section manager and senior manager. Additionally, no additional administrative support staff are proposed. This poses the risk of creating administrative loads that are counterproductive to the effective productivity of the Section. The internalisation of this function would similarly place more demand on the supply chain management system for procurement. The contract-heavy nature of the work this unit will undertake will likely place severe strains on the supply chain section. This is particularly concerning due to the time-sensitive nature of campaigns and events. While efficient operational planning may be done to plan for the execution of contracts, unforeseen bureaucratic delays are likely to take effect.

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The internal model does create the opportunity to unbundle the functions of Destination Marketing, Visitor information services and tourism development but integrate outcomes equitably. While all functions were provided by two service providers for the two areas (Stellenbosch and Franschhoek) contained within one payment package for each allocated year on year, the opportunity with the internal model is to deliver functions at different time scales and ensure consistent principles are applied, which may be advantageous. Service providers for services such as delivering marketing content or materials and events, may be done in terms of term tenders (three-year tenders) to provide services as and when needed.

The external model of delivery benefits significantly from the network of relationships the service providers (LTOs) hold with local members and industry stakeholders. These relationships are often long-standing and allow the LTOs to negotiate with more flexibility and execute with more expedience. The internal staff may or may not have these networks but may still be disadvantaged by the reluctance of businesses to be in partnership with the local authority.

The future potential capacity of the municipality to provide these services is a low-risk concern. The municipality is not a profit-driven entity and is in a stable financial position that makes the prediction of long-term commitment to fund these operations valid. While allocations for operations may vary, Tourism remains an important element of the local economy, and it will be beneficial for the municipality to invest in its development.

However, market responsiveness may be a risk if staff do not become upskilled or gain knowledge on market trends. As trends change over time, the organisation must be able to adapt with the necessary skills; this may be disadvantageous, as if turnover is low in the unit, the municipality may not deem it feasible to recruit additional staff. If turnover is high, the unit may find difficulty in adapting to the loss of institutional knowledge.

The scoring matrix in the table below is derived from the requirements of section 78 (1)(a) (ii) and the dimensions discussed above. It weighs various dimensions of human resource capacity, and each dimension is scored out of five and weighted according to the relative importance to the category. A low score (closer to one) represents a bad performance, and a high score (closer to 5) represents a good performance.

Table 9: Section 78 Institutional Assessment

Capacity Dimension	**Weight (%)**	**Internal Delivery Model Score (1-5)**	**Internal Weighted Score**	**External Delivery Model Score (1-5)**	**External Weighted Score**
Human Resources Availability & Skills Depth	20	1	0,2	5	1
Management Oversight &	10	3	0,3	3	0,3

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Strategic Integration					
Organisational & Governance Arrangements	10	4	0,4	3	0,3
Operational Systems & SCM Responsiveness	15	3	0,45	4	0,6
Financial Controls & Budget Stability	10	4	0,4	3	0,3
Performance & Outcome Management	10	5	0,5	2	0,2
Institutional Knowledge & Continuity	10	2	0,2	4	0,4
Stakeholder & Industry Networks	10	2	0,2	5	0,5
Future Capacity & Long-Term Sustainability	10	4	0,4	2	0,2
Market Responsiveness & Adaptability	5	2	0,1	4	0,2
TOTAL	**110**		**3,15**		**4**

7.3. Operational Assessment

Section 78 (1)(a) (iii) requires that a municipality:

> *"the extent to which the re-organisation of its administration and the development of the human resource capacity within that administration. as provided for in sections 51 and 68 respectively could be utilised to provide a service through an internal mechanism"*

Therefore, the municipality must evaluate whether this function can be absorbed internally without compromising the efficiency, responsiveness or compliance with statutory obligations of the municipality.

The internal has a limited impact on the degree of administrative reorganisation as the unit will induce itself on the sub-structure and may only cause the redeployment of one existing employee. The external model will have no impact on the administration as no additional staff are proposed to continue the current model. However, this model will induce a greater managerial span for the Manager: Economic Development and Tourism, who will be responsible for the additional staff members. The external model limits the span of oversight to be provided by the

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manager, who is the project manager, and may second senior officials to act on her behalf.

The internal model will require extensive human resource development to ensure that staff are well-equipped to execute the unit's function, utilising both internal development programs and external training. While such an investment will reap benefits for the municipality as staff will become suitably competent and perform their jobs satisfactorily, there is a risk that turnover may be high and the investment may be lost without having suitable returns. Although these risks may be mitigated through the recruitment of suitably competent staff who require limited additional upskilling. The external model requires minimal human resource development for the internal project managers, and the onus is on service providers to remain upskilled to qualify for their bids and perform their services.

Operational procedures such as SOPs, performance targets, reporting and other administrative mechanisms must be developed timeously to ensure the capable functioning of the unit. This, therefore, requires significant support from the Human Resources staff within the municipality. Based on the approved Recruitment and Selection Policy and internal estimates, at least six months are required to recruit the necessary staff. In addition, office accommodation would similarly require the same minimum time to be completed.

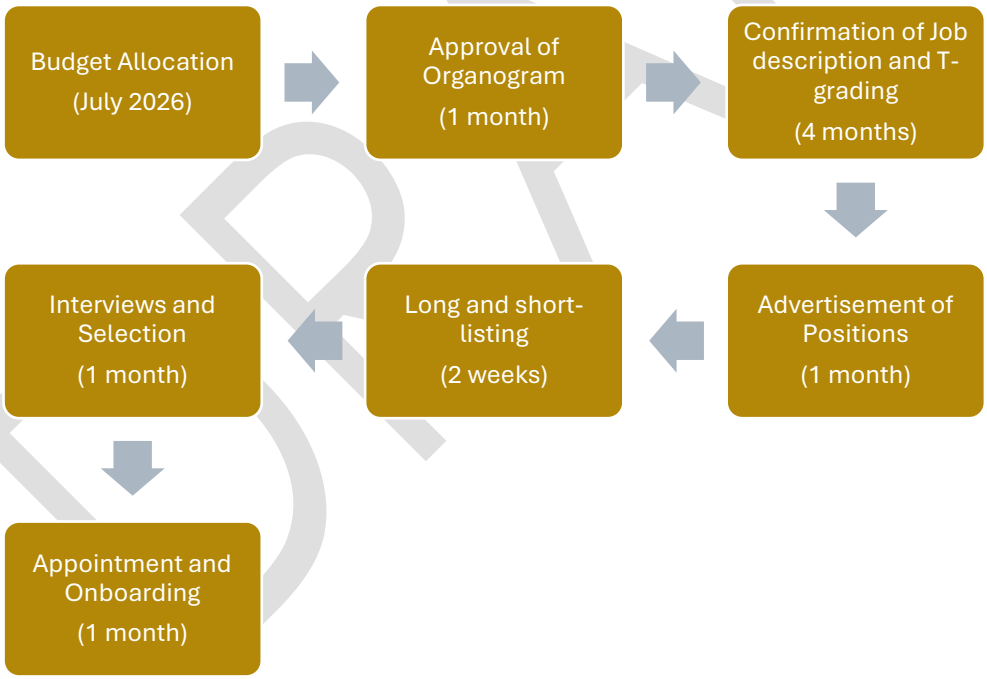

Figure 6: Estimated timeline for the establishment of the internal unit.

If these cannot be developed timeously, there will be delays in the effective implementation of the tourism function, which may harm tourism businesses and events. However, these can be mitigated through an effective implementation plan, whereby the internal team's implementation can be phased over one or two financial years to accommodate administrative preparations. The impact of the organisational and financial support on a ready unit must be considered.

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The tourism and marketing field is highly dynamic, with media of communication, technical competencies and markets constantly shifting. The rigidity of internal municipal structures does not lend itself to being effective in this regard. Whereby contracts, staff, and campaigns are subject to strict processes that do not easily allow for change. The internal model, therefore, will not be as responsive to disruptions or change as the external delivery model, where the service providers operate outside of SCM regulations and can respond to the dynamic market more responsively.

The scoring matrix in the table below is derived from the requirements of section 78 (1)(a) (iii) and the dimensions discussed above. It weighs various dimensions of human resource capacity, and each dimension is scored out of five. Dimensions are rated based on the extent of impact. If a dimension has low risk/impact, it will receive a higher score (closer to 5) and if it is a high risk/impact, it will receive a lower score (closer to 1). From the table, it is evident that the external model achieved the higher score and it is deemed more suitable in terms of the operational considerations for this study.

Table 10: Section 78 operational assessment

Operational Dimension	**Weight (%)**	**Internal Delivery Model Score (1-5)**	**Internal Weighted Score**	**External Delivery Model Score (1-5)**	**External Weighted Score**
Extent of administrative re-organisation	10	2	0,2	5	0,5
Limited impact on managerial span of control	10	2	0,2	5	0,5
Human Resource Development	15	3	0,45	4	0,6
Risk of skills loss and turnover	5	3	0,15	4	0,2
Operational Readiness	15	2	0,3	5	0,75
Dependence on additional (HR) Support	10	3	0,3	2	0,2
Transitional Risk	10	3	0,3	4	0,4
Market Responsiveness	15	2	0,3	5	0,75
Long-term sustainability	5	4	0,2	2	0,1
Compliance certainty	5	5	0,25	2	0,1
TOTAL	**100**		**2,65**		**4,1**

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7.4. Development Assessment

Section 78 (1)(a) (iv) requires that a municipality:

"the likely impact on development, job creation and employment patterns

in the municipality."

Therefore, the broad economic impact of the tourism and marketing function must be considered in terms of the implications the two options have on the development of the local economy, job creation and the influence on employment patterns.

Destination marketing and tourism services play a catalytic role in stimulating economic activity across accommodation, food and beverage, transport, retail, and recreation sectors. The assessment must therefore consider whether the proposed delivery mechanism enhances or constrains the municipality's ability to drive inclusive tourism growth, spatial economic diversification and increased visitor spend. The internal model places the unit within the section of economic development and tourism and can closely align projects and outcomes with the development imperatives of the municipality. Through procurement processes, local businesses may benefit as they can be prioritised. The external model does not make outcomes the aim of the contract, but rather the outputs. While development is in their best interest, it is not their imperative. Additionally, the development will not be targeted at developing and supporting local entrepreneurs.

Job creation would be the outcome of an effectively developed local economy which supports tourism-related businesses. Both models are positioned to stimulate job creation, albeit in different ways. The external model, through the effective marketing of the region and its attractions, can facilitate the growth of businesses and provide jobs through the events which are hosted. However, the jobs provided may not be provided to unemployed local persons, and it will be unlikely that extensive job readiness or tourism skills development programs will be implemented. The internal model creates new permanent posts within the municipality but also provides the possibility to utilise the EPWP grant to employ temporary staff from the municipal area who can be deployed in events, VICs and shortlists from the unemployment database should businesses seek local unemployed persons. Additionally, both are sufficiently geared to develop jobs indirectly through facilitating growth in the Marketing and tourism value chain in Stellenbosch.

While the internal model is largely focused on developing employment for unemployed local persons, the external model is more geared to attracting and supporting local entrepreneurs who wish to establish their businesses or ply their trades in the local economy. Therefore, the internal model may have a greater effect in alleviating the unemployment challenge many persons face, these are for temporary unskilled positions, although not discounting the value work experience provides these persons. The external model is better suited for business support, which also alleviates the unemployment issue, albeit in a less direct manner.

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The external model, particularly where strong stakeholder networks exist, may be better positioned to channel tourism activity toward established industry participants, potentially reinforcing existing spatial and sectoral patterns. The Internal model is better positioned for deliberate policy-led interventions aimed at transformation, SMME support, township and rural tourism development. In this regard, the two models have different approaches and affect different segments of the market. While the municipality can use the current models' procurement arrangement to promote support to the bottom end of the market, the municipality cannot be too prescriptive in the scope of works, as it may discourage subcontractors to engage in business if demands are unrealistic.

The scoring matrix in the table below is derived from the requirements of section 78 (1)(a) (iv) and the dimensions discussed above. From the table, it is evident that the internal model achieves a greater score. This means that the model is deemed more suitable in terms of the development considerations of this feasibility study.

Table 11: Section 78 Development assessment

Development Dimension	**Weight (%)**	**Internal Delivery Model Score (1-5)**	**Internal Weighted Score**	**External Delivery Model Score (1-5)**	**External Weighted Score**
Alignment with Municipal Development Imperatives	15	5	0,75	4	0,6
Ability to Drive Inclusive Tourism Growth	15	3	0,45	3	0,45
Support for Local Entrepreneurs & SMMEs	10	4	0,4	3	0,3
Targeted Local Economic Development Impact	10	4	0,4	2	0,2
Direct Job Creation Potential	10	3	0,3	4	0,4
Indirect & Induced Job Creation	10	2	0,2	2	0,2
Employment of Unemployed Local Person	10	4	0,4	2	0,2
Quality & Sustainability of Employment	5	3	0,15	3	0,15

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Transformation & Inclusive Participation	10	4	0,4	2	0,2
Spatial & Sectoral Equity Impact	5	4	0,2	3	0,15
TOTAL	**100**		**3,65**		**2,85**

7.5. Overall feasibility assessment

The section 78 assessment of the feasibility of delivering a municipal function considered not only direct financial implications, but also institutional readiness, administrative impact, development outcomes, sustainability and long-term value for money. Each assessment category was translated into a weighted scoring matrix to support objective comparison, while recognising that qualitative judgement remains essential in interpreting results.

The financial assessment is required by Section 78(1)(a)(i). From this perspective, the internal model represents a significantly higher direct cost to the municipality, with estimated annual costs of approximately R13,38 million compared to the current external model, which does not require additional staffing, operational expenditure or supporting organisational resources beyond existing grant allocations and monitoring. Over the medium term, this translates into a material fiscal commitment that must be weighed against competing municipal priorities.

The external delivery model scores more favourably in the short term due to its lower visible cost and budget flexibility. However, this advantage is partially offset by indirect and hidden costs associated with organisational overheads, limited transparency and ongoing dependency on external service providers. The financial scoring outcome, therefore, indicates a marginal short-term advantage for the external model, with the internal model demonstrating stronger long-term financial governance characteristics.

The financial assessment found that the external delivery model is the most feasible option.

The institutional assessment as required by Section 78(1)(a)(ii). This assessment extended beyond human resources alone and incorporated governance arrangements, operational systems, financial controls, performance management, stakeholder relationships and institutional continuity.

The analysis confirmed that the municipality currently has limited internal institutional capacity to deliver the function in its entirety. The proposed internal model would require the establishment of a new sub-structure within the Section: Economic Development and Tourism, with the recruitment of at least ten staff. While this would promote long-term institutional capacity and allow for outcome-driven performance management, it also introduces short- to medium-term risks associated with skills gaps, administrative burden and the absence of established tourism networks. These may have a detrimental impact on the unit's performance at the onset and have long-lasting impacts on the tourism economy.

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However, the external delivery model benefits from the existing institutional maturity of the Local Tourism Organisations (LTOs), including established governance systems, specialist skills, proven delivery capability and strong stakeholder relationships. These attributes significantly reduce implementation risk and ensure continuity of service delivery. However, this capacity exists outside of the municipal institution and therefore limits the municipality's ability to internalise knowledge and directly control outcomes.

The institutional assessment found that while the internal model offers stronger long-term institutional value, the external model is currently more feasible.

The operational assessment in line with Section 78(1)(a)(iii)

found that the internal model would require substantial operational preparation, including recruitment processes, development of standard operating procedures, performance frameworks, SCM planning and office accommodation arrangements. These requirements introduce transitional risk and could result in delays during the establishment phase. The rigidities inherent in municipal procurement and administrative systems may constrain responsiveness in a sector characterised by rapidly changing markets and time-sensitive campaigns.

The external model, conversely, has minimal impact on municipal administration and allows for high levels of operational flexibility. Service providers operate outside municipal SCM constraints and can adapt more rapidly to market trends, campaign opportunities and stakeholder demands. Operational oversight remains concentrated at the project management level within the municipality, reducing administrative complexity and risk.

As a result, the operational assessment found the external delivery model to be the more feasible option.

In accordance with Section 78(1)(a)(iv), the development assessment demonstrated that the internal delivery model has a stronger alignment with municipal development imperatives, particularly in its ability to deliberately target local economic development outcomes, transformation objectives, township and rural tourism development, and the employment of unemployed residents through funding mechanisms such as the EPWP. The internal model enables closer integration between tourism initiatives and broader LED strategies.

The external model, while effective in stimulating economic activity through destination marketing and events, is primarily output-driven rather than outcome-driven. Job creation under this model is largely indirect and market-led, with limited capacity for targeted employment or structured skills development interventions. Additionally, strong existing stakeholder networks may unintentionally reinforce existing spatial and sectoral patterns.

The development assessment finds the internal delivery model to be the feasible option.

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Table 12: Comparative assessment of different models of delivery

Comparative Feasibility Scores		
Assessment Category	Internal Delivery Model	External Delivery Model
Financial Feasibility	3,2	3,35
Institutional Feasibility	3,15	4,00
Operational Feasibility	2,65	4,10
Developmental Impact	3,65	2,85
Average Score	**3,16**	**3,58**

The comparative feasibility assessment indicates that the external delivery model achieves a consistently higher overall feasibility score of 3,58 compared to the internal models 3,16, driven primarily by its superior institutional readiness, operational maturity and short-term financial affordability. These strengths significantly reduce implementation risk and ensure continuity of service delivery within a dynamic and competitive tourism environment.

While the internal delivery model demonstrates clear advantages in relation to development outcomes, cost transparency and long-term institutional value, these benefits are outweighed in the short to medium term by capacity constraints, operational risk and fiscal impact. The assessment, therefore, concludes that, at present, the external delivery model represents the most feasible service delivery mechanism in terms of Section 78 of the Municipal Systems Act.

8. Recommendation

Having undertaken a comprehensive feasibility assessment in accordance with Section 78 of the Municipal Systems Act, and having evaluated the internal and external delivery models against institutional, operational, financial and developmental criteria, it is recommended that Council retain the external delivery model for the provision of the tourism and destination marketing function in the short to medium term, subject to specific strengthening measures and strategic conditions outlined below.

The feasibility assessment demonstrates that the internal delivery model offers meaningful long-term advantages in relation to development alignment, institutional ownership and cost transparency. The municipality currently does not possess sufficient institutional and operational readiness to assume full responsibility for the function without incurring material potential long-term risk. These risks include capacity gaps, transitional inefficiencies, operational delays, reduced market responsiveness and increased fiscal exposure during the establishment phase.

Conversely, the external delivery model consistently achieved higher overall feasibility scores, particularly in relation to institutional maturity, operational readiness and short-term financial affordability. The presence of established governance systems, specialist expertise, mature operational processes and strong stakeholder networks enables the municipality to maintain continuity of service delivery, responsiveness to dynamic tourism markets and reduced implementation risk. The external model,

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therefore, represents the most feasible mechanism presently, in terms of the prescripts of Section 78

However, the assessment also identifies inefficiencies within the current external delivery arrangement, particularly regarding cost transparency, value-for-money assurance, outcome-based performance management and long-term grant dependency. These weaknesses do not render the external model unviable, but do warrant corrective action to strengthen governance, accountability and developmental impact.

Accordingly, it is further recommended that Council adopt the following strategic implementation approach:

1. Formally endorse the external delivery model as the primary mechanism for destination marketing and visitor information services, to ensure continuity, operational efficiency and market responsiveness.
2. Strengthen the external delivery framework by revising service level agreements and contracts to:
    - Shift from predominantly output-based deliverables to clearly defined outcome-based performance indicators, aligned to the Integrated Development Plan and Local Economic Development objectives.
    - Improve financial transparency and reporting, particularly in relation to the proportion of grant funding allocated to marketing versus organisational overheads by limiting the allocation to a maximum of 30% of overall revenue.
    - Explore and implement clearer value-for-money measures and performance consequence management.
    - Institute annual reports for both service provider and internal monitoring.

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