



THEEWATERSKLOOF MUNICIPALITY

Long-Term Financial Plan – *Update 2024*



Prepared by
INCA Portfolio Managers
May 2024



REPORT OVERVIEW – INTRODUCTION AND BACKGROUND

The Theewaterskloof Municipality appointed INCA Portfolio Managers in 2019 to develop a Long-Term Financial Plan (LTFP). The deliverable of that assignment was a report entitled *Theewaterskloof: Long-Term Financial Plan: 2018/19 – 2027/28*; July 2019. This May 2024 update aims to update the LTFP based on the latest available information, and report on the findings.

The objective of a LTFP is to recommend strategies and policies that will maximise the probability of the municipality's financial sustainability into the future. This is achieved by forecasting future cash flows and affordable capital expenditure based on the municipality's historic performance and the environment in which it operates. A summary of the demographic-, economic- and household infrastructure perspective was updated with the latest available information as published by S&P Global Market Intelligence. The historic financial analysis was updated with the information captured in the municipality's audited financial statements of 30 June 2023. IPM's Long-Term Financial Model (LTFM - latest and updated version) was populated and run with this latest information, and the outcome thereof is reflected in this report. In particular, the model was calibrated against the municipality's audited financial statements as well as the Tabled Budget for the 3 years from 2024/2025 to 2026/2027. Our Update Reports normally do not include a renewed analysis of the Asset Register in estimating the capital demand (as was the case in the LTFP), municipal documents (viz. IDP, Master Plans, etc.) and conversations with management. Since the original LTFP was developed in 2019, key external events such as Covid-19 and the energy crisis have had a significant impact on municipalities' financial sustainability. The LTFM that underpins the LTFP was utilised to quantify the financial impact of these key external events. It was found that while Covid-19 had a severe impact on economic growth, the energy crisis had a more severe impact on financial sustainability. This was detailed in the 2023 LTFP Update that was developed utilising the Audited Financial Statements for FY2022/23 and the Adjustment Budget 2023/24. The impact of the energy crisis resulted in a decline in electricity revenue for the municipality. This played a role in the deterioration of financial performance noted in that year. As part of the 2023 Base Case the LTFM includes a load shedding impact scenario, which assumes an average of stage 4 load shedding for 2 years, which forecasts a decline of electricity consumption of 22.6% per annum. Additionally, the impact of consumers going off-grid, as well as a decline in water sales pursuant to load shedding, is now included in the 2023 Base Case. The load shedding scenario contributed to the poor forecast for financial performance indicated in the 2023 LTFP Update.

The municipality's financial situation has deteriorated in recent years, and this was reflected in the Adjustment Budget 2023/24 and highlighted in the 2023 LTFP Update. Our analysis of the Adjustment Budget 2023/24 and 2024/25 Tabled Budget reveals that, while the municipality has budgeted for an improvement of financial performance, this improvement over the longer term is forecast to prove insufficient for the financial position to stabilise. Another key factor in this is the extent of the acceleration of capital investment and borrowing over the MTREF period, which is forecast to be unaffordable. The MTREF Case in the report reflects the LTFM outcomes of the Tabled Budget over a 10-year planning period, prior to making any adjustments to any assumptions. The MTREF Case is forecast to result in a financially unsustainable outcome. The key issues driving the unsustainable outcome are then addressed in the Base Case, with scenarios presented to indicate the sensitivity in the model for certain key assumptions.



ABBREVIATIONS USED

AFS	Annual Financial Statements
CAPEX	Capital Expenditure
CRR	Capital Replacement Reserve
CPI	Consumer Price Index
FY	Financial Year
FYE	Financial Year Ended
GVA	Gross Value Added
IP	Investment Property
IPM	INCA Portfolio Managers
LM	Local Municipality
LTFM	Long-Term Financial Model
LTFP	Long-Term Financial Plan
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
MRRI	Municipal Revenue Risk Indicator
MTREF	Medium Term Revenue and Expenditure Framework
NERSA	National Energy Regulator of South Africa
NT	National Treasury
OPEX	Operational Expenditure
PPE	Property, Plant and Equipment
R '000	Rand x 1 000
SA	South Africa
S&P	S&P Global Market Intelligence ReX v2434



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EXECUTIVE SUMMARY

KEY FINDINGS AND CONCLUSIONS DRAWN FROM THE 2024 LTFP UPDATE

HIGHLIGHTS FROM THE FY2022/23 FINANCIAL RESULTS

- The municipality's net assets amounted to R1.2 billion as at FYE2022/23, while the accumulated surpluses decreased by 10.8% to R787.8 million.
- Theewaterskloof LM's liquidity position deteriorated from last year. The liquidity ratio as at FYE2022/2023 was 0.91:1 (1.75:1 at FYE2021/2022). The municipality still falls significantly short of the NT norm of 1.5:1 to 2:1. This shortcoming indicates that Theewaterskloof does not have sufficient cash resources to cover short term obligations should they fall due.
- Cash generated from operations (excluding capital grants) deteriorated to a deficit of R80.3 million for FY2022/23 from a prior year surplus of R27.8 million.
- Debtors' days increased to 46 days in FY2022/2023, which is above the NT norm of 30 days.
- Financial performance also deteriorated in FY2022/23. An operating deficit of R141.2 million (FYE2021/22: R11.6 million deficit) was achieved. This marks the second year where the municipality fails to generate operating surpluses over the review period.
- Electricity distribution losses decreased from 6.6% in FY2021/22 to 5.4% in FY2022/23 - remaining below the NT maximum norm of 7%-10%. Water distribution losses also decreased from 33.8% in FY2021/22 to 29.8% in the current year end, remaining above the NT norm of 15-20%.
- The municipality achieved a collection rate of 82.2% in 2023, which is well below the prescribed norm by NT of 95%.
- Creditors increased substantially to R117.1 million during the year (FYE2021/22: R72.8 million).
- Gearing and debt-service to total operating expenditure ratios were 31% and 3.9% respectively. The high gearing ratio indicates an increase in financial risk for the municipality and should be reduced in the long run.
- The municipality's unencumbered cash balance of R85.5 million did not meet the NT and statutory minimum liquidity requirements, resulting in a cash shortfall of R71.2 million as at FYE2022/23.
- The municipality managed to achieve an IPM Credit rating of 4.4, which is an Investment Grade rating



LONG-TERM FINANCIAL PLAN UPDATE

Theewaterskloof LM has budgeted for operating deficits (excluding capital transfers & contributions) throughout the MTREF period. This is in line with the recent historic performance and Adjustment Budget in which operating deficits were observed. The Tabled Operating Budget, while reflecting improved financial performance, will be insufficient to achieve long-term sustainability. This has been factored into the Base Case assumptions. An MTREF Case was run whereby limited adjustments were made to the Tabled Budget in order to note the LTFM forecasts of the Tabled Budget. This resulted in a financially unsustainable outcome. This is driven by an unaffordable level of capital investment and borrowing, along with other concerns with the Tabled Operating Budget. The adjustments made in arriving at the Base Case address the underlying issues causing the unsustainable outcome.

The key assumptions made in arriving at the Base Case are listed below:

1. The collection rate was assumed to improve (from 82% in FY2023) to 87% over the MTREF period.
2. The model incorporated the increases in revenue as announced in the Tabled Budget, while operating expenditure was cut by 3%.
3. The Tabled Capital Budget was adjusted as follows:
 - FY2025/26: R155.0 million (from R214.7 million)
 - FY2026/27: R170.0 million (from R270.9 million)
 - FY2026/27: R178.0 million (from R305.0 million)

Assumed growth in capital investment thereafter is 2% p.a.

4. The Tabled Budget borrowing programme was adjusted as follows:
 - FY2025/26: R42.2 million (from R93.1 million)
 - FY2025/26: R44.7 million (from R111.8 million)
 - FY2026/27: R25.1 million (from R131.1 million)

The annual borrowing under this scenario was adjusted to an average of 10-year amortising loans at a fixed interest rate equal to 6% over forecast CPI in any given year. Assumed annual growth in borrowing beyond the MTREF period is 6%.

5. Repairs and maintenance expenditure was increased to 3% of PPE & IP over the 10-year planning period.
6. Electricity distribution losses were maintained at 5.4% while water distribution losses were reduced to 23.0% from 29.8% over 5 years.
7. Tariff increases were included as put forward in the Tabled Budget Document.

The Base Case presents a sustainable outcome that is characterised by an affordable capital investment programme underpinned by a sustainable debt profile. Additionally, financial performance, while initially forecast to be poor, will improve beyond the MTREF period. These adjustments will result in a sustainable liquidity position and healthy bank balance at the end of the 10-year planning period. The Base Case assumptions double up as recommendations for the municipality to follow in order to promote long-term financial sustainability.



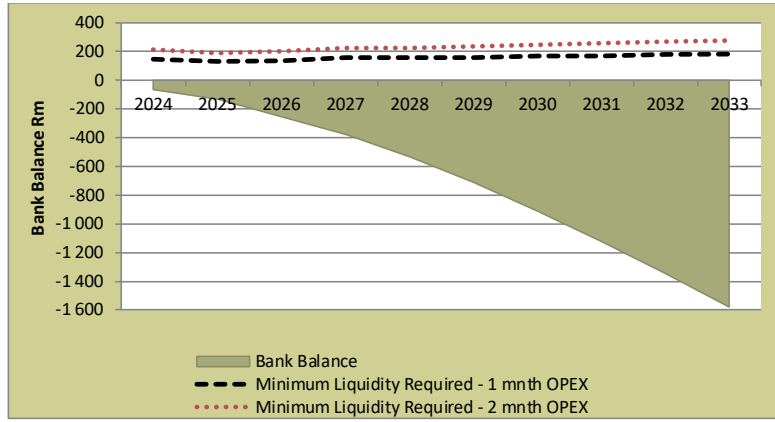
LONG-TERM FINANCIAL MODEL OUTCOMES

Based on these assumptions, key outcomes for the 10-year planning period are as follows:

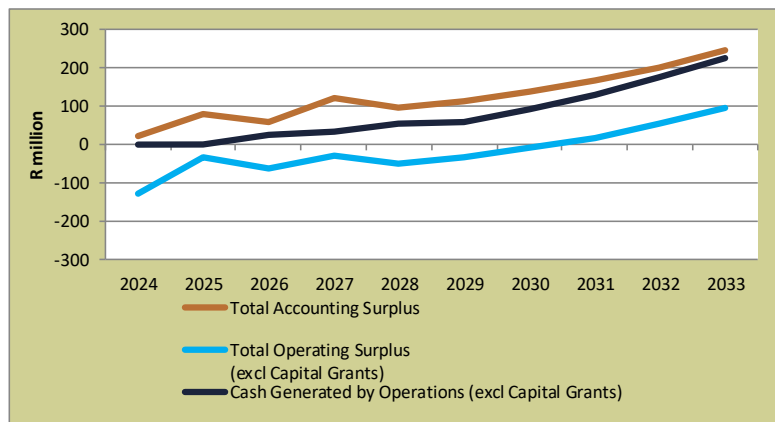
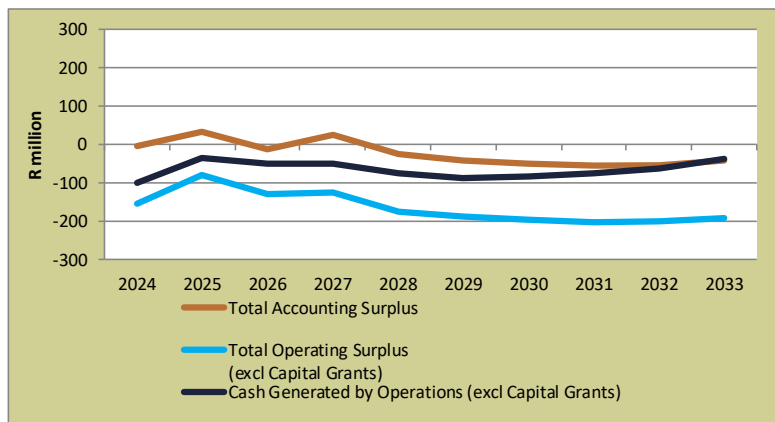
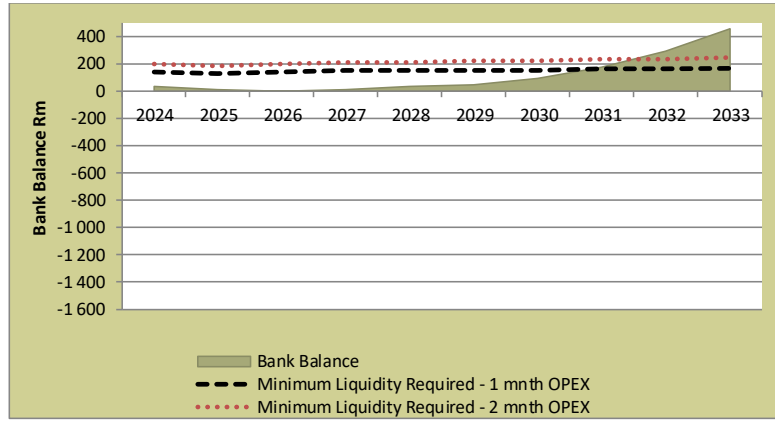
Outcome	MTREF Case	Base Case
Average annual % increase in Revenue	6,7%	7,0%
Average annual % increase in Expenditure	5,5%	3,6%
Accounting Surplus accumulated during Planning Period (Rm)	-R 227	R 1 236
Operating Surplus accumulated during Planning Period (Rm)	-R 1 648	-R 185
Cash generated by Operations during Planning Period (Rm)	-R 661	R 789
Average annual increase in Gross Consumer Debtors	10,8%	8,6%
Capital investment programme during Planning Period (Rm)	R 3 117	R 1 911
External Loan Financing during Planning Period (Rm)	R 1 294	R 351
Cash and Cash Equivalents at the end of the Planning Period (Rm)	-R 1 582	R 457
No of Months Cash Cover at the end of the Planning Period (Rm)	-16,7	5,8
Liquidity Ratio at the end of the Planning Period	0 : 1	1.5 : 1
Gearing at the end of the Planning Period	71,7%	20,9%
Debt Service to Total Expense Ratio at the end of the Planning Period	22,9%	5,3%



MTREF CASE SCENARIO

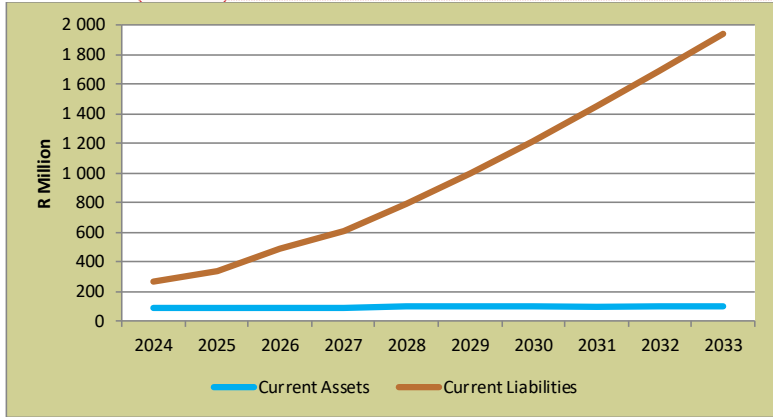


BASE CASE SCENARIO

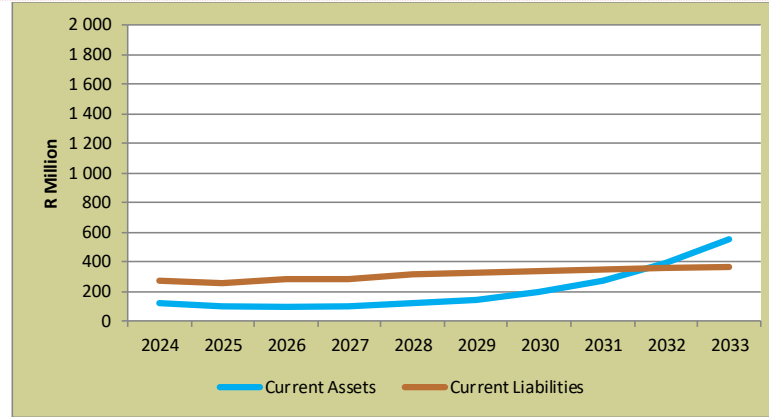




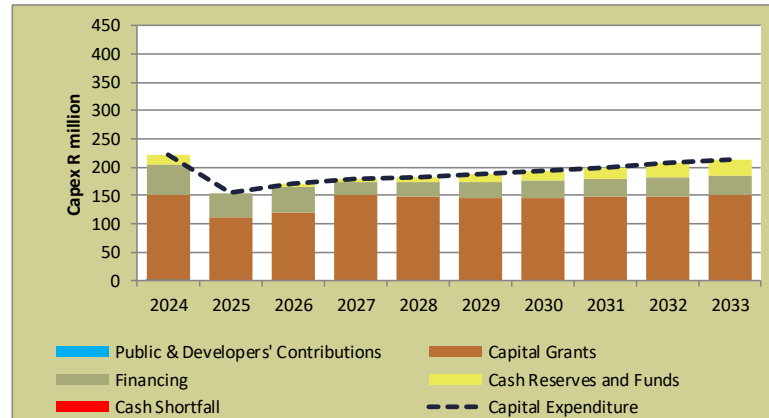
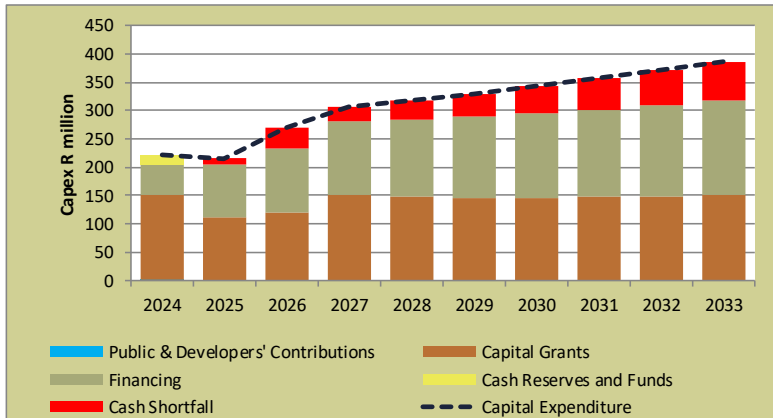
MTREF CASE SCENARIO



BASE CASE SCENARIO



Commented [GVDL1]: Dylan - just check the comparative positioning of the graphs.





RECOMMENDATIONS


Based on the results of the Long-Term Financial Model, *it is recommended that* Theewaterskloof:

1. Maintain an optimised funding mix that strikes a balance between the affordable utilisation of own cash and external borrowings to supplement capital grant funding. It is recommended that the Tabled Capital Budget is reduced considerably as per the Base Case assumptions to promote long-term sustainability.
2. Maintain a balanced approach for the long-term capital investment programme which prioritises investments that contribute to economic growth and revenue generation and prioritise timeous investment in bulk infrastructure. Expenditure incurred to repair and maintain the municipality's capital assets must be increased.
3. Formalise a capital investment prioritisation and tracking system to optimise management's capital investment decisions and mitigate the risk of underspending on capital projects.
4. The municipality must improve its ability to post surpluses and to generate cash from operations through ensuring that actual expenditure remains within the budgeted limits. Furthermore, the municipality must target cost-cuts from the Tabled Operating Budget. A reduction of at least 3% should be targeted..
5. Prevent a deterioration of the collection rate through the implementation of measures such as strict credit control, debt collection procedures etc. The Tabled Budget collection rate of 83% must be improved upon. A target of 87% by the end of the MTREF period is considered appropriate, together with the other assumptions in the Base Case such as the reduction in the capex and borrowing programme.
6. Institutionalise the utilisation of a robust tariff model to ensure that tariffs reflect the true cost of delivering the service, on an organisation-wide approach (also taking into account property rates and organisational overheads).
7. Update the long-term financial plan annually with the most recent information to remain a relevant and valuable strategic tool that serves as input to the annual budgeting process. Institutionalisation of the long-term financial model to support strategic financial decision-making in the municipality will provide immense benefits to the municipality.
8. Finally, Theewaterskloof's current financial situation is strained. Significant improvements are required for the municipality to return to a stable financial position. The first priority must be to stabilise the financial situation. This will provide a platform from which the municipality's focus can shift towards further growth and development. This will enable the municipality to invest in critical bulk infrastructure.



DEMOGRAPHIC, ECONOMIC AND HOUSEHOLD INFRASTRUCTURE

- Theewaterskloof LM's population grew to 125 256 in 2023 with an average growth rate of 1.2% over the review period.
- The economically active population (EAP) of 58 953 people represents 41.6% of the EAP in the district.
- Unemployment rate dropped to 11.2% in 2023, which is lower than both district and national rates with 14.1% and 32.6% respectively.
- In 2023 the municipality's GVA (at constant prices) was R9.5 billion. The economy contracted marginally by 2.9% from 2022.
- A Tress index of 37.3 indicates a reasonably diverse economy, with four subsectors contributing 68.1% of the GVA in 2023. These key subsectors are: Agriculture (22.7%), Trade (13.7%), Finance (14.2%) and Community services (17.5%).
- Agriculture remains the dominant economic sector, contributing 22.7% to the GVA in 2023, while Trade and Finance sectors remain as the top employers providing 11 670 jobs and 9 781 jobs respectively.
- The highest service delivery backlog relates to refuse removal. The backlog stood at 13.3% in 2023.



1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

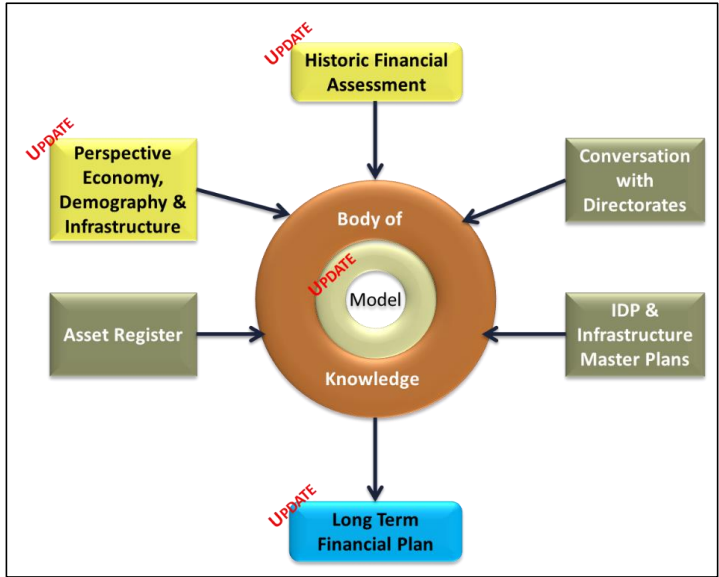
8 Ratio Analysis

9 Conclusions

PLANNING PROCESS

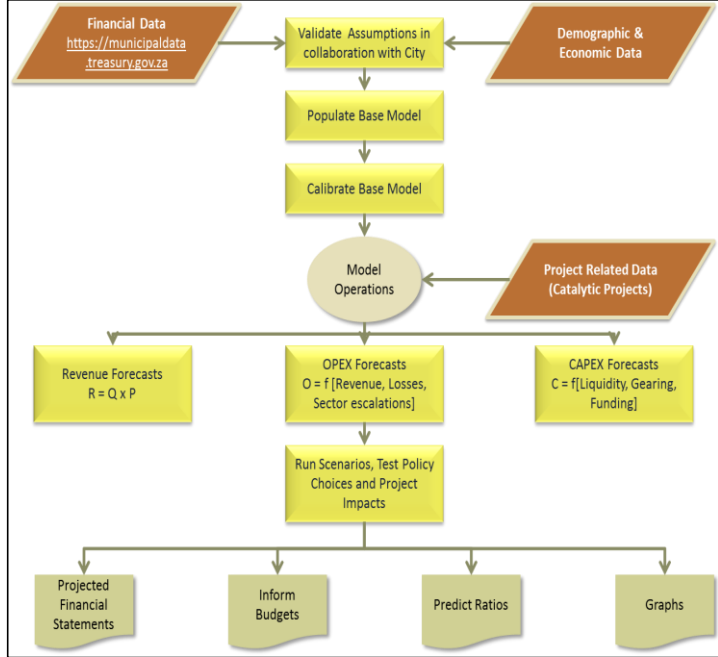
The diagram below illustrates the steps in the process that were followed in drafting the LTFP and the steps taken during this 2024 "LTFP Update":

FIGURE 1: PLANNING PROCESS




The long-term financial model was populated with the latest information of Theewaterskloof and used to make a base case financial forecast of the future financial performance, financial position, and cash flow of the municipality. The diagram below illustrates the outline of the model.

FIGURE 2: FINANCIAL MODEL FRAMEWORK



The model methodology remains the same and the capital budget as presented in the MTREF was utilised and forecasts of an affordable future capex were made.



- 1 Planning Process

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- 9 Conclusions

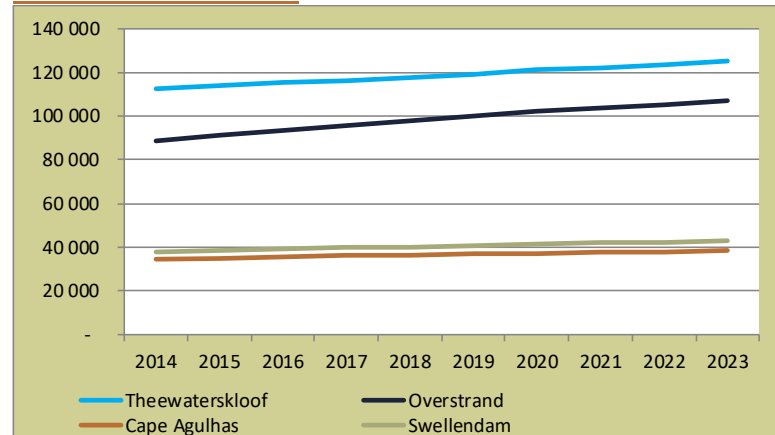


UPDATED PERSPECTIVES (DEMOGRAPHIC, ECONOMIC, HOUSEHOLD INFRASTRUCTURE)

DEMOGRAPHY

Theewaterskloof LM has a population of 125 256 in 2023, representing approximately 39.9% of the total population in the Overberg District. The municipality is the most populous municipality within the district. During 2023 the population grew by 1.2% which is marginally below the district average growth rate of 1.3%. Over the past 5 years the municipality's average growth rate of 1.2% was marginally exceeded by the district's average growth rate of 1.4%. Theoretically, the low population growth rate should assist the municipality in keeping pace with the added demand for service delivery.

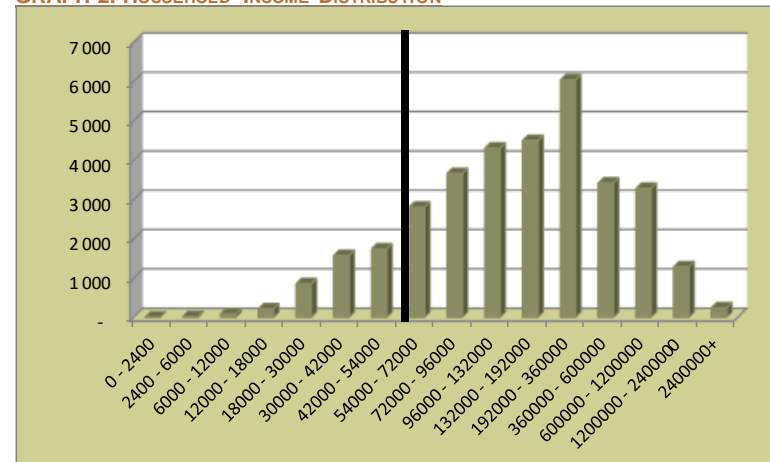
GRAPH 1: TOTAL POPULATION



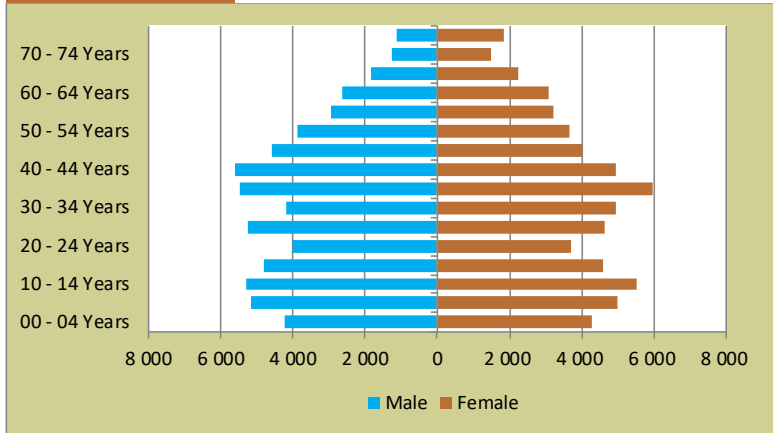
The average annual income per household increased by 5.4% to R87 868 p.a. during 2023. This is the highest increase in the district and exceeds both the provincial and national averages at 3.5% and 5.0% respectively. Despite the average annual income per capita growing at a rate exceeding both the provincial

and national rate, in rand terms the municipality is well below the provincial income amount of R109 843 p.a. and slightly above the national amount of R82 649 p.a. The household income distribution illustrated in **GRAPH 2** below, reflects that 15.4% of the households in Theewaterskloof earn less than R54 000 p.a. This is indicative of the number of indigent households within the municipality which qualify for and/or are largely dependent on the municipality for the provision of services. The municipality should theoretically be compensated for the provision of these services through Equitable Share. The highest concentration of households (17.8%) falls within the economic income bracket of R192 000- R360 000 p.a.

GRAPH 2: HOUSEHOLD INCOME DISTRIBUTION

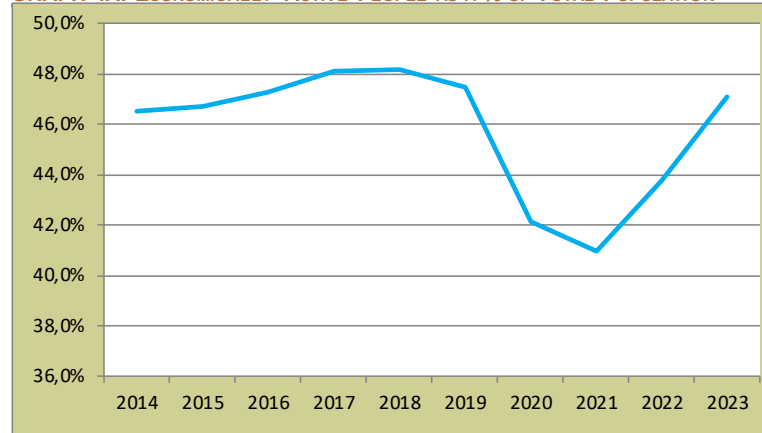


GRAPH 3: AGE PROFILE

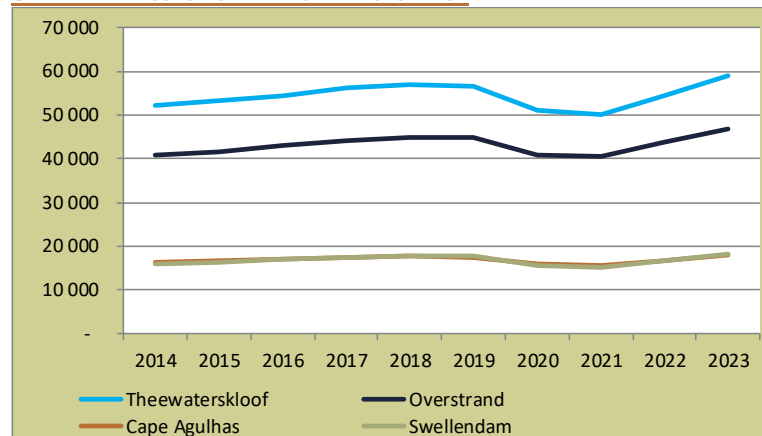


GRAPH 3 above depicts the demographic make-up of Theewaterskloof LM's population, specifically delineating both the gender and age distribution. Notably the gender distribution graph illustrates a fairly even distribution with the females making up 50.3% and males making up the remaining 49.7%. The graph further illustrates that Theewaterskloof LM has a relatively young population with a significant portion (45.1%) of the population falling below the age of 30. This signifies a vibrant and dynamic community, but it also suggests potential implications for various socio-economic factors such as education and employment.

GRAPH 4A: ECONOMICALLY ACTIVE PEOPLE AS A % OF TOTAL POPULATION



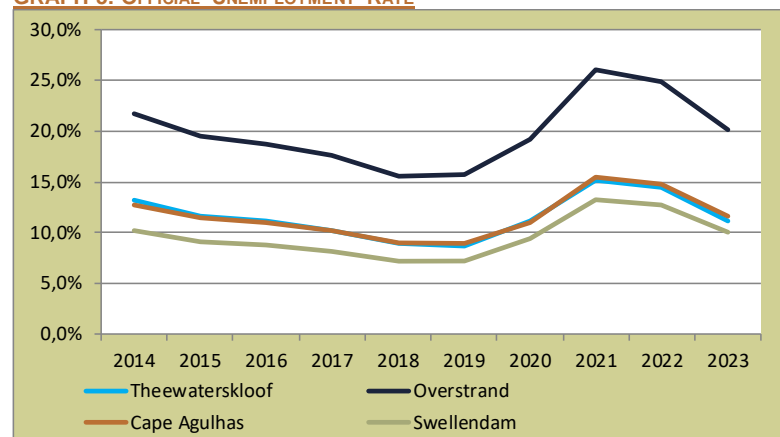
GRAPH 4B: ECONOMICALLY ACTIVE POPULATION





The economically active population which represents the people who are willing and able to work, has increased by 8.8% to 58 953 during 2023 from the 54 175 in the previous year. As a percentage of the population this constitutes 47.1% of the population. This is higher than the municipality's 10-year average of 45.8%. The increase in the EAP as a percentage of the population is indicative of Theewaterskloof's resilience post the decline in 2020-2021 following the COVID-19 pandemic.

GRAPH 5: OFFICIAL UNEMPLOYMENT RATE



The official unemployment rate within Theewaterskloof has declined to 11.2% in the current year (2023) from 14.4% in the previous year. This suggests a direct relationship between an improving EAP and the employment rate. The decline in the unemployment rate portrays a positive image for the municipality as this is lower than the district, provincial and the national unemployment rates at 14.1%, 22.4% and 32.6% respectively.

ECONOMY

Theewaterskloof's total economic output, as measured by gross value add (GVA) at constant prices, came to R9.5 billion in 2023. The main contributors to the GVA are the agriculture, community services and finance sectors. Agriculture continues to prevail as the key sector with the municipality contributing 22.7% or R2.1 billion to GVA, while community services and finance contributed 17.5% or R1.7 billion and 14.2% or R1.3 billion respectively. Overall, the municipality's GVA represents 41.2% of the Overberg District GVA. Overall, the municipality's economy contracted by 2.9% in 2023.

Economic diversification within the municipality is reasonably high, as evidenced by a Tress Index of 37.2. A Tress index of zero represents a totally diversified economy. A high degree of diversification shields the municipality from economic risk as the impact of adverse economic events is spread of a larger number of sectors.

GRAPH 6: ECONOMIC SECTORS

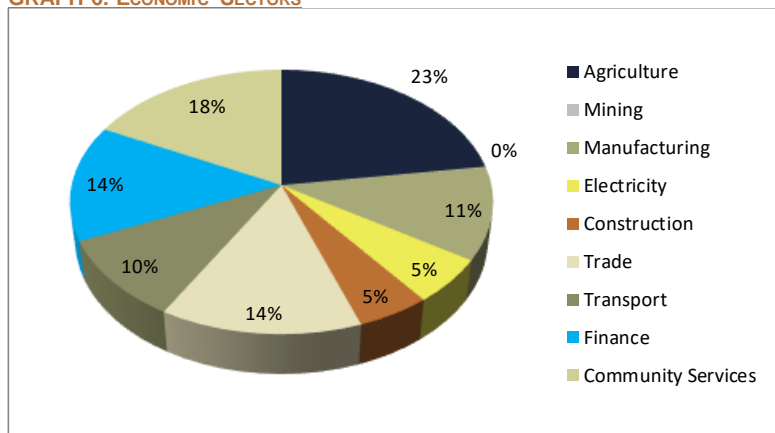


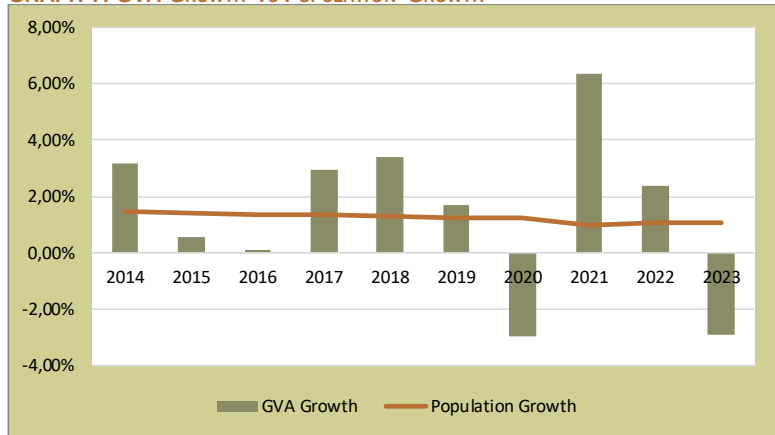
TABLE 1: PROPORTIONAL GROWTH OF ECONOMIC SECTORS

Subsector	2014	2023
Agriculture	22,4%	22,7%
Mining	0,1%	0,1%
Manufacturing	11,0%	11,3%
Electricity	6,7%	5,5%
Construction	7,2%	5,0%
Trade	14,2%	13,7%
Transport	8,6%	10,0%
Finance	13,3%	14,2%
Community Services	16,5%	17,5%

During the review period, the Transport sector experienced the most notable proportional expansion, boosting its contribution by 1.4% since 2014. The other two sectors which presented a relatively high contribution are the Community services and Finance sectors both growing by 1.0% and 0.9% respectively. Manufacturing and Agriculture both increased by 0.3%. Conversely, all the other sectors witnessed varying degrees of proportional declines since 2014, with the Construction sector facing the most significant contraction of -2.2%. This decline is still attributed to the pandemic as throughout the entire country this sector has been the most affected. It is noteworthy to mention that the on-going loadshedding within the country has affected electricity supply and thus the electricity sectors contribution has also declined by 1.2% since 2014.

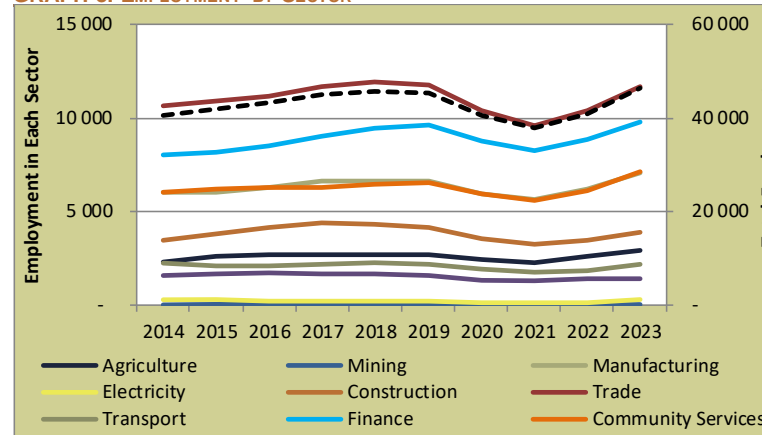


GRAPH 7: GVA GROWTH VS POPULATION GROWTH



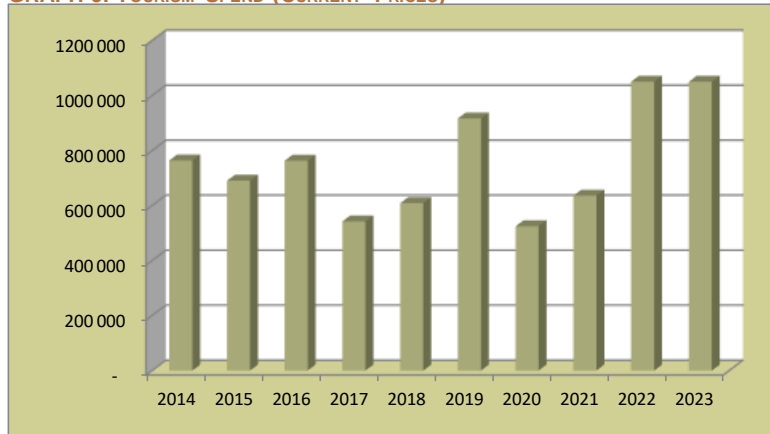
GRAPH 7 above shows that in 2023 there is a notable concern as the GVA growth within Theewaterskloof fell short of the population growth. The theoretical trend and expectation are that as the population grows, the GVA or GDP will fall or move in the same direction. However, this is not the case for the municipality. This signals a need for the municipality to invest in productive assets that aim to create an enabling environment for economic growth.

GRAPH 8: EMPLOYMENT BY SECTOR



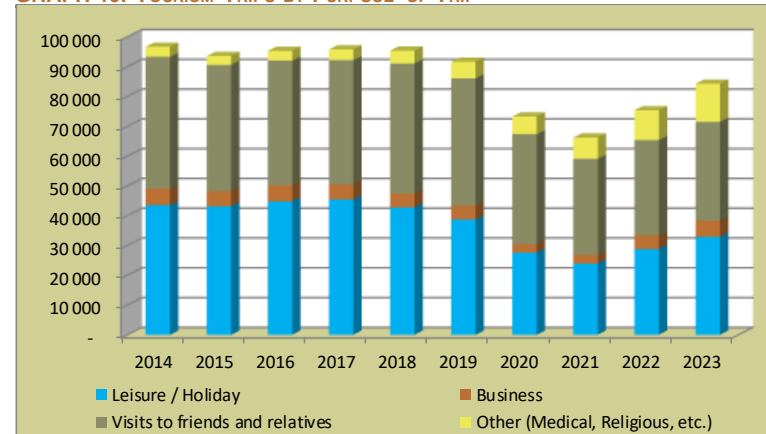
The decline in the unemployment rate of the municipality as stated above, has effectively caused a noticeable increase in employment opportunities within Theewaterskloof as evidenced by the figures in **GRAPH 8** above. Overall, there has been a commendable 13.3% increase in employment opportunities, with the total number rising to 46 364 in 2023 from 40 914 recorded in the prior year. Despite the population growing at rates higher than GVA, the upward trend in the employment opportunities per sector suggests improved financial stability and livelihoods for residents. The three key sectors of Theewaterskloof are: Trade, Finance and Community services. Trade is the leading employment provider, accounting for 25.7% (11 670) of all the jobs in the municipality, closely followed by Finance with 21.1% (9 781).

GRAPH 9: TOURISM SPEND (CURRENT PRICES)



According to the latest S&P Global update, tourism spend remained unchanged at R1.1 billion for the second consecutive year. Tourism in the municipality is not recognised as one of the economic sectors within the determination of GVA, but it is imperative to consider the impact of this sector on its own as tourism is a key sector overall within the province. The contribution of tourism spend to the municipality at R1.1 billion is close to the contributions made by the manufacturing sector to the municipality's' GVA. The municipality is encouraged to create an enabling environment for those in the tourism industry to thrive by ensuring that the provision of municipal services is consistent and potentially increasing the perception of Theewaterskloof as an attractive tourist destination.

GRAPH 10: TOURISM TRIPS BY PURPOSE OF TRIP

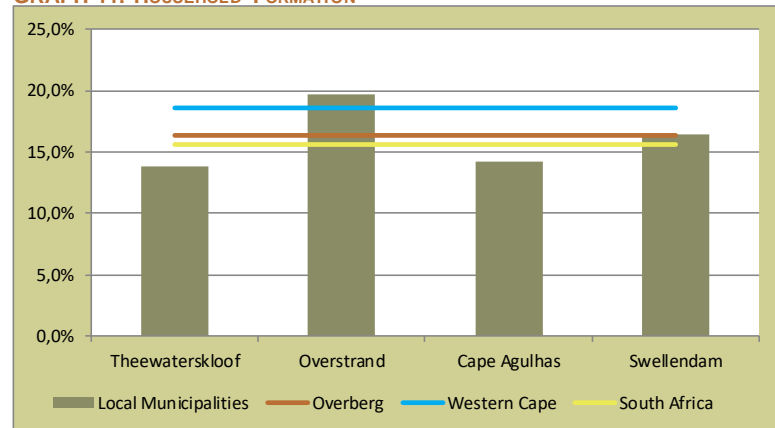


The total number of trips have increased by 11.9% in 2023 to a total number of 84 303 trips. While the number of trips has increased for a second consecutive year, since the Covid pandemic, the total trips fall just 13.5% short of the review period all time high of 96 708 trips in 2014. Majority of the trips are for visits to friends & family making up 39.4% of the total visits, followed by trips for purposes of leisure making up 39.0%.

HOUSEHOLD INFRASTRUCTURE

Household formation in Theewaterskloof since 2014 came in at 13.7%. This translates to an additional 4 181 households in absolute terms. This was the lowest amongst all the municipalities within the district. When comparing Theewaterskloof to provincial and national growth in household formation, the municipality falls short of both, with the provincial and national rates coming in at 18.6% and 15.6% respectively. This relatively low growth in households theoretically results in a lower degree of added demand for municipals services, compared to other areas with higher rates of household formation.

GRAPH 11: HOUSEHOLD FORMATION



The **Infrastructure Index**, as developed by *S&P Global Insight Global Insight in its Regional Explorer*, is used to compare the region's access to household infrastructure. The index ranges from 0 to 1, where 0 implies that every household in the region is below the minimum level of access to infrastructure, and 1 implying that every household in the region is at the minimum level of access to infrastructure.



Theewaterskloof LMs infrastructure index for 2022 was 0.88 which is a marginal improvement from the index of 0.86 in 2014. The municipality's average infrastructure index of 0.87 is lower than the district and provincial average of 0.89.

GRAPH 12: INFRASTRUCTURE INDEX

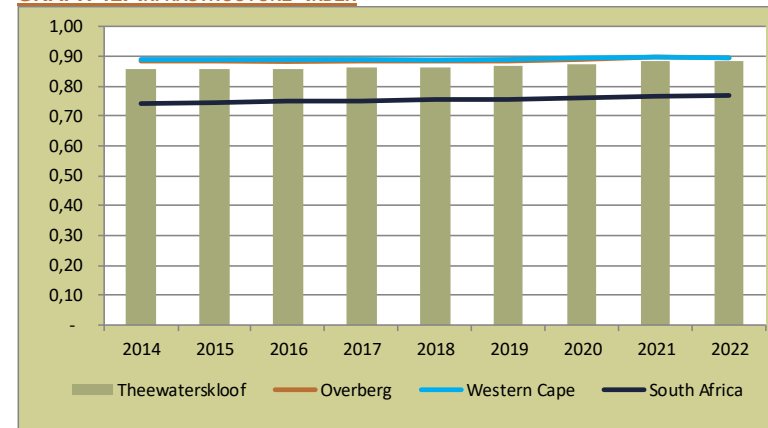


TABLE 2 below provides an analysis of backlogs relating to sanitation, water, electricity and refuse removal. An analysis of the backlogs paints a picture that the municipality is struggling in relation to providing the basic services compared to the other municipalities in the district. The highest backlog particularly relates to refuse removal with 13.3% whereas the district average was at 10.1%. The municipality must continue to invest in critical infrastructure to ensure that backlogs continue to reduce and that the municipality's inhabitants get access to the services they require.



TABLE 2: HOUSEHOLD INFRASTRUCTURE PROVISION

Infrastructure	Overberg		Theewaterskloof	
<i>Above RDP Level</i>				
Sanitation	91 220	97,9%	32 723	96,6%
Water	92 114	98,8%	33 369	98,5%
Electricity	90 371	97,0%	32 287	95,3%
Refuse Removal	83 819	89,9%	29 370	86,7%
<i>Below RDP or None</i>				
Sanitation	1 992	2,1%	1 155	3,4%
Water	1 098	1,2%	509	1,5%
Electricity	2 841	3,0%	1 591	4,7%
Refuse Removal	9 392	10,1%	4 508	13,3%
Total Number of Households	93 212	100,0%	33 877	100,0%



1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

8 Ratio Analysis

9 Conclusions

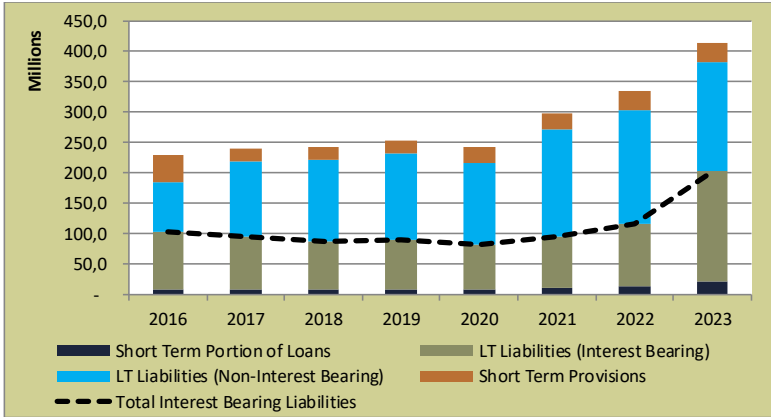


UPDATED HISTORIC FINANCIAL ASSESSMENT

FINANCIAL POSITION

As at FYE2022/23 Theewaterskloof LMs net fixed asset position improved by 9.9% to R1.2 billion (FYE2021/22: R1.1 billion). This improvement, however, is not the direct result of an improvement in the financial performance of the municipality as the accumulated surplus declined by 10.8% to R787.8 million (FYE2021/22: R883.4 million). This is the first time since 2019 that the municipality has experienced a decline in its accumulated surplus.

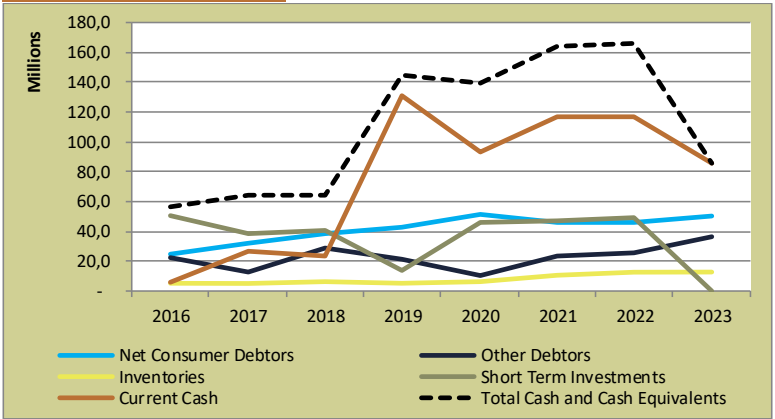
GRAPH 13: LONG-TERM LIABILITIES: INTEREST BEARING VS NON-INTEREST BEARING



Theewaterskloof LM's long-term liabilities increased by 23.7% to R413.1 million (FYE2021/22: R334.1 million). There is a fairly even split between the interest and non-interest-bearing portions of the long-term liabilities. The interest-bearing liabilities make up 49.1% of the amount while the non-interest-bearing make up the remaining 50.9%. The interest-bearing liabilities increased substantially by 73.8% to R202.7 million (FYE2021/22: R 116.6 million). This increase is the direct result of additional loans raised by the municipality. The non-interest-bearing liabilities decreased marginally by 3.2% to R210.5 million (FYE2021/22: R217.5 million). The

decline was predominantly driven by a decrease in non-current provisions, namely the provision for rehabilitation of landfill sites. It is worth noting that the Genadendal, Riviersonderend and Botrivier landfill sites are all due for decommission within the current MTREF period (2024/25-2026/27). Relating to the previous sentence it is noteworthy that the municipality needs to hold sufficient cash reserves in preparation for the payment of the rehabilitation for these sites.

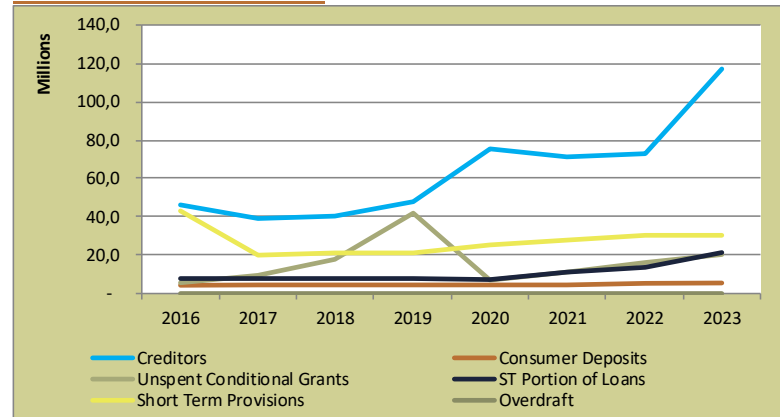
GRAPH 14: CURRENT ASSETS



Current assets decreased by 27.3% to R176.2 million in the FYE2022/23. The main driver of this decline was the decrease in the cash and cash equivalents of the municipality. These consist primarily of *current cash and short-term investments*. The current cash decreased by 26.5% to R85.9 million in the 2022/23 financial year, from R116.6 million in the previous year. The short-term investments were completely liquidated with a nil amount as at 2022/23 from the prior year amount of R49.1 million. In 2022/23 both net consumer debtors and other debtors increased by 9.5% to R50.0 million from R45.7 million and 43.8% to R36.4 million from R25.3 million in FY2021/22. The increase in these amounts indicate that the municipalities

liquid reserves are mainly in the helm of their debtors, and this may potentially create a risk for the municipality in the case of non-payment.

GRAPH 15: CURRENT LIABILITIES



The current liabilities increased substantially by 40.8% to R194.2 in FYE2022/23 (FYE:2021/22: R138.2 million), an overall increase of R56.4 million. The increase was the direct result of a substantial increase in the creditors balance of 60.8% to R117.1 million from R72.8 million. The current portion of the long-term loans has become due and payable, and this increased the amount due by 54.7% to R21.4 million from R13.8 million in the FYE2021/22. The increase in the loan's payable coupled with the rehabilitation costs of the landfill sites suggests that large cash outflows will be required from the municipality, and this will impact the already adverse liquidity position of the municipality.

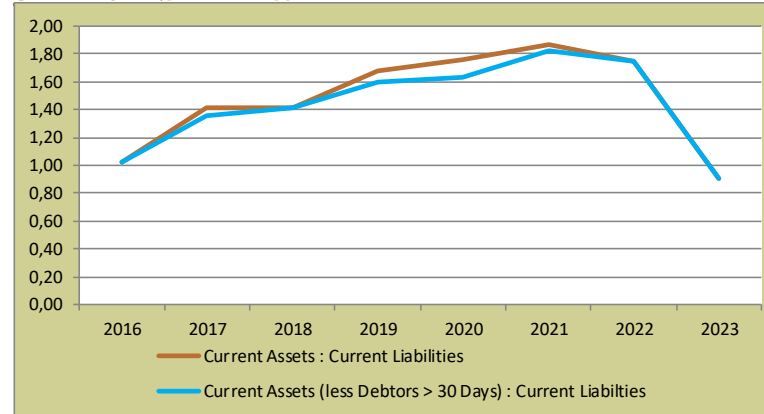
Theewaterskloof LMs liquidity position has deteriorated substantially as evidenced by **TABLE 3** below, where the liquidity ratio has moved from 1.75:1 to 0.91:1 as at FYE2022/23. This movement in the liquidity position is mainly the result of the substantial increase in the current liabilities (40.8%) and decrease in the current assets (27.3%). As at FYE2022/23 the municipality now has a liquidity shortfall from a surplus of R104.1 million in the previous financial year. In the current year (FY2022/23) the municipality finds itself in a position whereby its current assets, if

liquidated, will not be sufficient to meet its current obligations. Emphasis should be placed in improving the liquidity ratio to at least 1.5:1.

TABLE 3: LIQUIDITY RATIOS

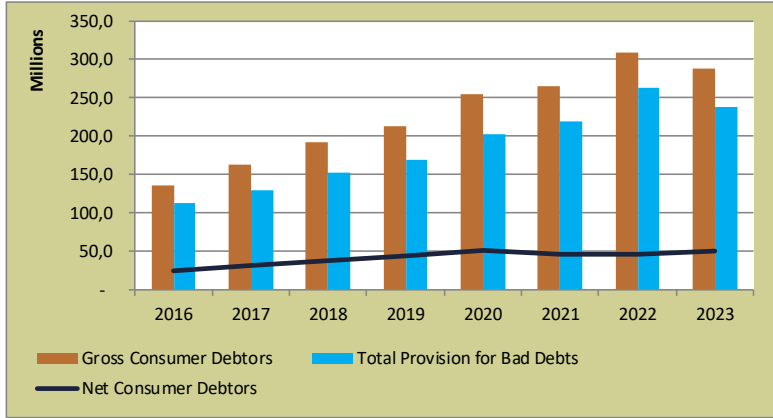
	2016	2017	2018	2019	2020	2021	2022	2023
Current Assets: Current Liabilities	1,02	1,41	1,41	1,68	1,76	1,87	1,75	0,91
Current Assets (less Debtors > 30 Days): Current Liabilities	1,02	1,36	1,41	1,60	1,63	1,82	1,75	0,91

GRAPH 16: LIQUIDITY RATIOS



GRAPH 17 below illustrates the comparison of the gross and net consumer debtors of the municipality. The gross consumer debtors declined by 6.7% to R288.8 million from the R309.5 million in FY2021/22. The provision for bad debts, in a similar vein to the gross debtors, declined. However, the margin was slightly higher with a decrease of 9.5% to R238.9 million from R263.9 million in FY2021/22. The net effect is that there was a marginal increase in net consumer debtors from R45.7 million to R50.5 million in the current year (2022/23).

GRAPH 17: GROSS CONSUMER DEBTORS VS NET CONSUMER DEBTORS

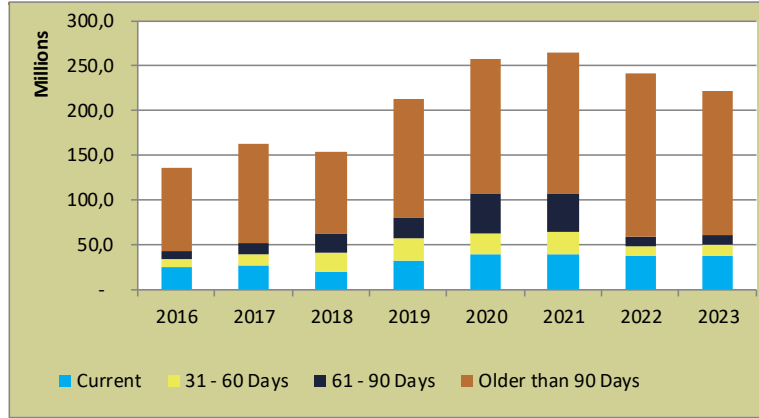


In the current year the municipality witnessed a deterioration in the collection rate, decreasing from 83.8% to 82.2%. This decline substantiates the increase in net debtors' amounts, as the municipality has more cash "locked" within its debtors as it has not yet been collected. The debtors' days also increased during FY2022/23 to 46 days from 43 days recorded in FY2021/22. This is above the NT norm of 30 days.

TABLE 4: DEBTORS RATIOS

	2017	2018	2019	2020	2021	2022	2023
Increase in Billed Income p.a. (R'm)	27,9	2,3	26,5	27,5	15,8	22,3	14,3
% Increase in Billed Income p.a.	10%	1%	9%	8%	4%	6%	4%
Gross Consumer Debtors Growth	19%	18%	11%	19%	4%	17%	-7%
Payment Ratio / Collection Rate	83%	80%	82%	86%	91%	84%	82%

GRAPH 18: CONSUMER DEBTORS AGE ANALYSIS



An analysis of the debtors ageing reveals that debtors older than 90 days formed the largest pool of debtors, accounting for 72.2% of total consumer debtors at the current year end. Debtors older than 90 days pose the most significant risk of non-payment. The vast number of debtors exceeding 90 days further suggests that the municipality may encounter further issues relating to the liquidity influenced by their cash conversion cycle as it takes the municipality longer than the NT norm of 30 days to convert their debtors to cash.

FINANCIAL PERFORMANCE

The municipality's profitability deteriorated drastically during FY2022/23. This is evidenced by the 262.9% decrease in the accounting surplus, from a surplus of R32.6 million in 2021/22 to a deficit of R85.8 million. **GRAPH 19** below also includes the total operating surplus, these exclude the capital grants received within the year. Upon exclusion of capital grants, the deficit amounts recorded for the year grows larger, which is not a positive indicator for the municipalities overall financial performance. Furthermore, of specific importance shown by the graph is the cash generated by operations and the operational surplus/deficit generated during the year.

GRAPH 19: ANALYSIS OF SURPLUS

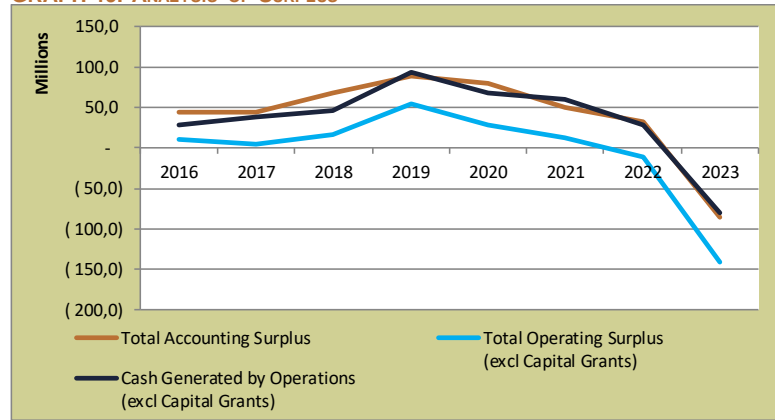
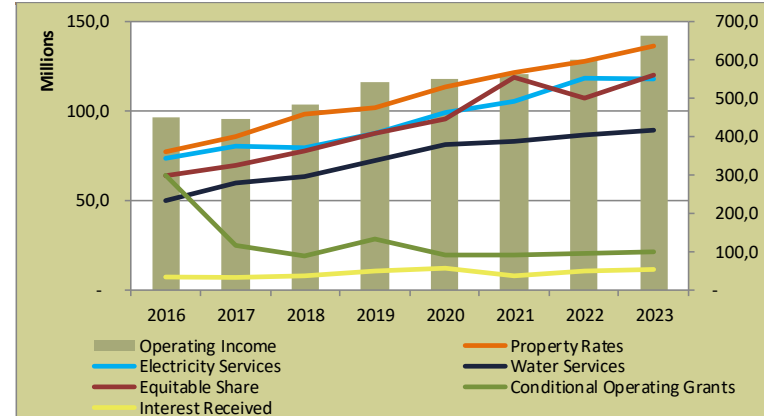


TABLE 5: TOTAL INCOME VS TOTAL EXPENDITURE

	2016	2017	2018	2019	2020	2021	2022	2023
Total Income	483,9	482,9	532,7	576,9	600,7	600,0	646,0	717,0
Total Operating Expenditure	439,5	439,3	465,3	501,5	520,4	550,5	613,3	802,8
Operating Income (excl Cond Grants)	386,4	419,1	463,5	513,8	529,6	542,8	580,9	639,7

TABLE 5 above shows that Theewaterskloof LMs income figure improved, showing an increase of 10.9%, or R71 million, to R717.0 million in the current financial year. On the other hand, the total operating expenditure increased significantly by 30.95% or R189.4 million to R802.8 million from the R616.3 million amount in FY2021/2022. The vast difference in the income and expenditure affected the municipality's profitability resulting in a large operating deficit.

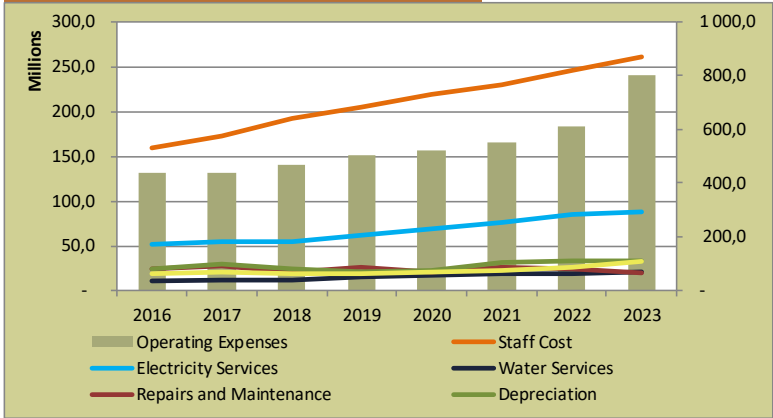
GRAPH 20: CONTRIBUTION PER INCOME SOURCE



Upon scrutiny of the revenue sources, equitable share showed the largest increase equivalent to 12.3% or R13.1 million to R120.1 million from R107.0 million in the previous financial year (FY2021/22). This is followed by interest received and property rates, each increasing by 8.2% or R0.9 million and 6.8% or R8.6 million respectively. Despite showing the third highest growth amongst the revenue sources, property rates remain the largest contributor to the municipality's overall income, with an average contribution of 20.0% over the review period. Electricity services and Equitable share round up the top 3 revenue sources contributing 17.8% and 18.1% respectively.



GRAPH 21: CONTRIBUTION PER EXPENDITURE ITEM



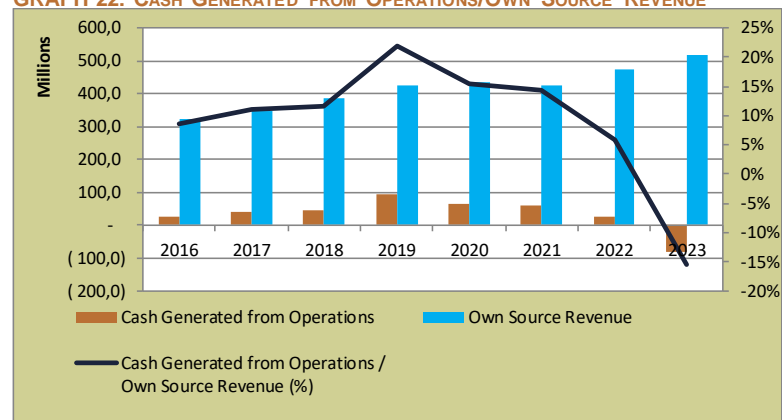
Total operating expenditure increased significantly by 30.9% or R189.4 million to R802.8 million. The catalysts for this increase were the staff costs, electricity services, water services and interest expense. Contrary to these increases, the repairs and maintenance as well as depreciation decreased from FY2021/22. The staff costs accounted for the largest portion of the expenses constituting 27.6%. For FY2022/23 the staff costs increased by 6.1% to R260.9 million.

It is noteworthy to mention that the repairs and maintenance expenditure, crucial for maintaining municipal assets, accounted for only 2% of Property, Plant, and Equipment (PPE) and Infrastructure Property (IP) by the end of the fiscal year, falling well short of the recommended 8% benchmark. With the municipality having increased their expenditure on capital assets, adequate resources need to be allocated to the maintenance thereof.

For the current financial year Theewaterskloof LM's water losses decreased from 33.8% in 2022 to 29.8%. Although the decrease in water losses is welcomed, this still exceeds the NT recommended norm range of 15%-20% and thus the municipality needs to continue in its efforts to reduce these losses. Electricity distribution losses declined to 5.4% from 6.6%. These are acceptable as they fall within the NT acceptable range of 7%-10%

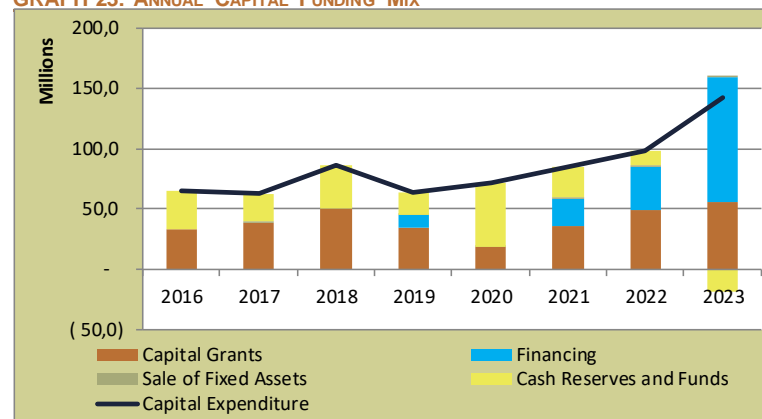
CASH FLOW

GRAPH 22: CASH GENERATED FROM OPERATIONS/OWN SOURCE REVENUE



For FY2022/23, the municipality did not generate sufficient cash from its operations. Cash payments in the current year exceeded the cash receipts, resulting in negative cash flows from its operations. The cash generated from operations deteriorated drastically by R108.1 million to a negative cash flow of R80.3 million from the FY2021/22 amount of R27.8 million. This is consistent with the decline in the collection rate.

GRAPH 23: ANNUAL CAPITAL FUNDING MIX



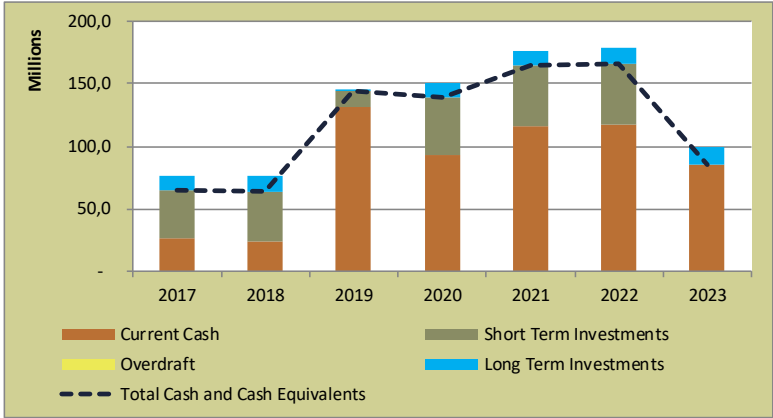
GRAPH 23 above shows the composition/funding mix of the municipality. The municipalities primary sources for capital consists of capital grants and financing. The graph illustrates that during the FY2022/2023 the majority of the municipality's capital expenditure was funded through external financing, covering 73% of the expenditure.

There was an increase in the capital expenditure of 44.4% or R43.8 million amounting R142.5 million in the 2022/23 financial year. This is the largest increase in the capital expenditure over the review period indicating that the municipality is accelerating its capital expenditure programme.

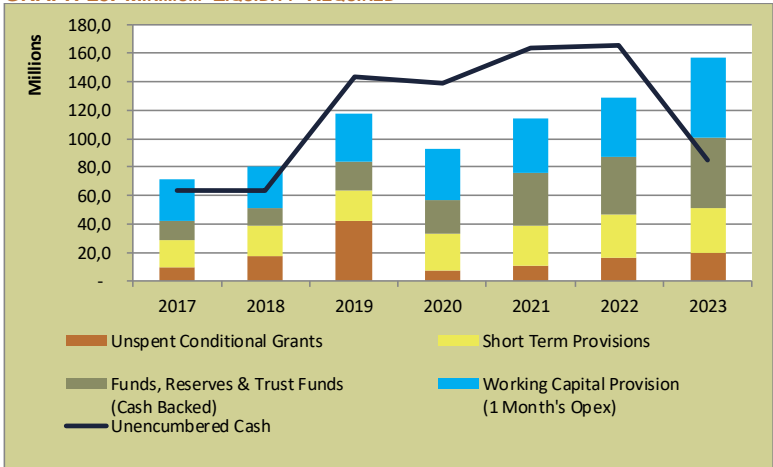
The external financing increased by 197.5% to R103.7 million. The increase in the external financing by the municipality impacted the gearing ratio. The municipality is relatively highly leveraged with the FY2022/23 gearing ratio at 31.1%, compared to the prior year ratio of 19.4%. This is still below the NT norm of 45%. However, it is noteworthy that the municipality reduces the rate of borrowing as a higher gearing poses financial risk. Furthermore, the municipality's liquidity has deteriorated to below the NT norm and below 1:1 suggesting that in future the municipality may struggle to meet its obligations such as loan payments.



GRAPH 24: CASH AND INVESTMENTS



GRAPH 25: MINIMUM LIQUIDITY REQUIRED



Every municipality is required to maintain sufficient cash reserves which are sufficient to cover the following statutory requirements.

- Unspent conditional grants (R20.2 million)
- Short-term provisions (R30.6 million)
- Cash back funds and reserves (R50.1 million)
- Cash cover for working capital provisions including 1 months operating expenditure (R55.9 million)

A minimum of R156.7 million was required for Theewaterskloof. As illustrated in **GRAPH 25** above, the municipality did not meet minimum liquidity requirements for half of the financial years over the review period (2016, 2017, 2018 and 2023). For the municipality, to meet the minimum liquidity level, the deterioration of the cash balance should be addressed, specifically by continuing to improve the ability to generate cash from its operations.

As at FYE2022/2023, the municipality's unencumbered cash balance did not meet the minimum required level of R156.7 million. This resulted in a shortfall which amounted to R71.2 million. This is detrimental to the municipality's financial sustainability. The cash coverage ratio (excl. working capital) deteriorated to 0.8 in FYE2022/2023. However, with the inclusion of working capital requirements, it further deteriorates to 0.5.



TABLE 6: MINIMUM LIQUIDITY REQUIREMENTS

	2016	2017	2018	2019	2020	2021	2022	2023
Unspent Conditional Grants	5,6	9,1	17,5	41,9	7,4	11,1	16,1	20,2
Short Term Provisions	43,1	20,0	20,8	21,5	25,6	27,5	30,5	30,6
Funds, Reserves & Trust Funds (Cash Backed)	8,6	13,4	12,4	20,8	24,3	37,2	40,3	50,1
Total	57,3	42,5	50,8	84,2	57,3	75,8	86,9	100,8
Unencumbered Cash	56,0	63,9	63,5	143,8	138,8	163,7	165,6	85,5
Cash Coverage Ratio (excl Working Capital)	1,0	1,5	1,3	1,7	2,4	2,2	1,9	0,8
Working Capital Provision (1 Month's Opex)	30,5	29,2	29,9	33,9	35,7	38,1	41,4	55,9
Cash Coverage Ratio (incl Working Capital)	0,6	0,9	0,8	1,2	1,5	1,4	1,3	0,5
Minimum Liquidity Required	87,8	71,7	80,7	118,1	93,0	113,8	128,3	156,7
Cash Surplus/(Shortfall)	(31,8)	(7,8)	(17,2)	25,7	45,7	49,8	37,2	(71,2)



IPM SHADOW CREDIT SCORE

Theewaterskloof was assessed for an IPM shadow credit score to provide information to management and to council as to the current risk rating that the municipality may receive from external lenders, which will determine the municipality's cost of funding. Any improvements to the shadow credit rating over time will result in more affordable lending rates.

Based on the FY2022/23 performance of Theewaterskloof, the IPM credit model reflects a score of **4.4** which is comparable to an **A+** on a national ratings scale. This credit score is relatively high compared to other municipalities and is considered to be of **Investment Grade** - which means that Theewaterskloof should be successful in accessing external borrowing at competitive rates.

The results obtained from the assessment, per module, are presented below:

TABLE 7: IPM CREDIT MODEL OUTCOMES

Modules	2023 (5)
Financial	1,3
Institutional	2,1
Socio-Economic	2,5
Infrastructure	3,1
Environmental	4,4

The municipality performed well in the infrastructure module of the credit model. Supply of household infrastructure services remains a key strength of the municipality, this is also linked to the municipality's ability to be cognisant of its environmental impact. The low degree of distribution losses contributed to the strong performance in this module.

The assessment indicates that the socio-economic module remains reasonably stable. This is driven by reasonable economic growth.

The financial module remains the main impediment to the municipality achieving a higher credit score. This is driven by the severe decline in financial performance and liquidity. This must be addressed as a matter of urgency.

The municipality has budgeted for a significant acceleration of external financing over the MTREF period. This will likely prove unaffordable given the municipality's current financial position. The strained liquidity position will likely increase the lending rates offered to the municipality.



1	Planning Process
2	Updated Perspectives (Demographic, Economic, Household Infrastructure)
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LONG-TERM FINANCIAL MODEL OUTCOMES

MTREF CASE SCENARIO

An MTREF Case was developed utilising the unadjusted figures from the Tabled Budget 2024/25-2026/27. The purpose of this scenario is to reflect the LTFM outcomes prior to making any adjustments to the current MTREF. Our analysis of the Tabled Budget revealed that the municipality has budgeted for a significant improvement in financial performance in comparison to the FY2022/23 audited results. This is driven by aggressive reductions in contracted services and other expenditure. These reductions notwithstanding, the municipality has budgeted for operating deficits throughout the MTREF period. The extent of these deficits is forecast to worsen over the MTREF period.

In arriving at the MTREF Case, the collection rate was assumed to be 83% throughout the forecast period, while no adjustments were made to the capital investment programme or funding mix. Assumed growth beyond the MTREF period for capital expenditure and borrowing is 4% p.a. Finally, distribution losses were maintained at their respective FY2022/23 levels.

The outcomes of this scenario as presented in [TABLE 8](#) reflect a wholly unsustainable outcome. Dire financial performance is forecast with operating deficits forecast throughout the planning period. The extent of these deficits is forecast to accelerate beyond the MTREF period. Moreover, cash is forecast to be utilised by operations throughout the planning period.

The municipality has tabled an aggressive capital budget characterised by a notable acceleration of capital investment. This is facilitated through an aggressive acceleration of external financing. This is forecast to prove unaffordable. The municipality's current lack of liquidity as well as the poor forecast financial performance are the drivers of this. The planning period end gearing and debt service to total expense ratios are forecast to reach an unsustainable 71.7% and 22.9% respectively.

The municipality's forecast lack of liquidity is laid bare in the planning period end liquidity ratio of 0:1, leaving the municipality unable to meet current obligations as

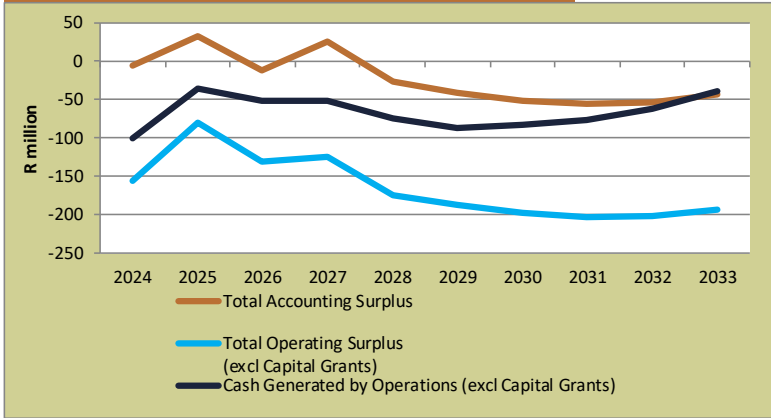
they fall due. The municipality is forecast to move into an overdraft position in FY2023/24, which is forecast to deteriorate further over the planning period.

The MTREF Case presents a wholly unsustainable outcome. The underlying issues driving the unsustainable outcome are addressed in the Base Case assumptions.

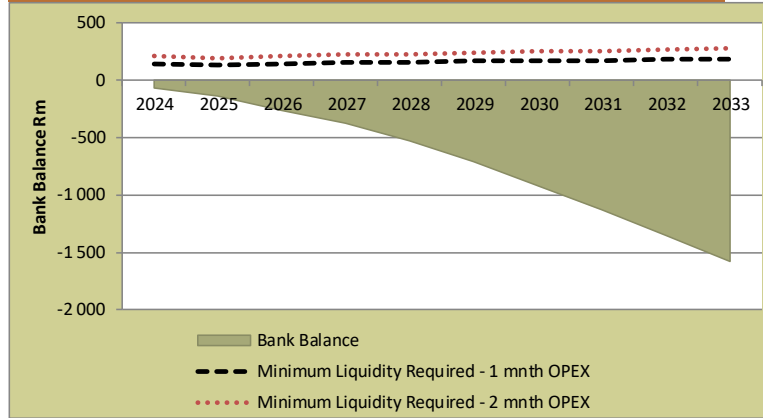
TABLE 8: MTREF CASE OUTCOMES

Outcome	MTREF Case
Average annual % increase in Revenue	6,7%
Average annual % increase in Expenditure	5,5%
Accounting Surplus accumulated during Planning Period (Rm)	-R 227
Operating Surplus accumulated during Planning Period (Rm)	-R 1 648
Cash generated by Operations during Planning Period (Rm)	-R 661
Average annual increase in Gross Consumer Debtors	10,8%
Capital investment programme during Planning Period (Rm)	R 3 117
External Loan Financing during Planning Period (Rm)	R 1 294
Cash and Cash Equivalents at the end of the Planning Period (Rm)	-R 1 582
No of Months Cash Cover at the end of the Planning Period (Rm)	-16,7
Liquidity Ratio at the end of the Planning Period	0 : 1
Gearing at the end of the Planning Period	71,7%
Debt Service to Total Expense Ratio at the end of the Planning Period	22,9%

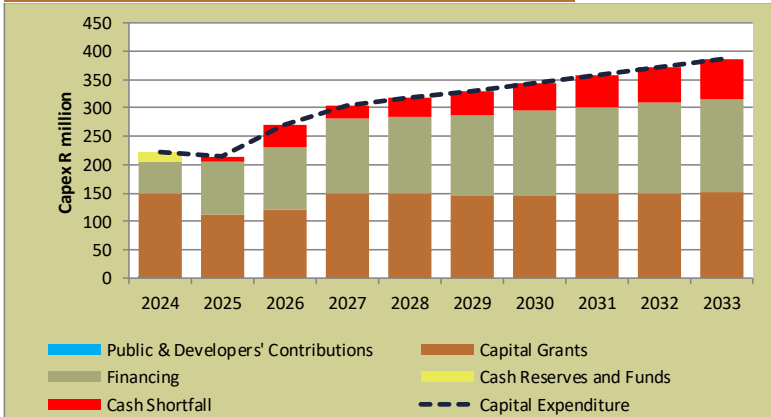
GRAPH 26: MTREF CASE SCENARIO: ANALYSIS OF SURPLUS



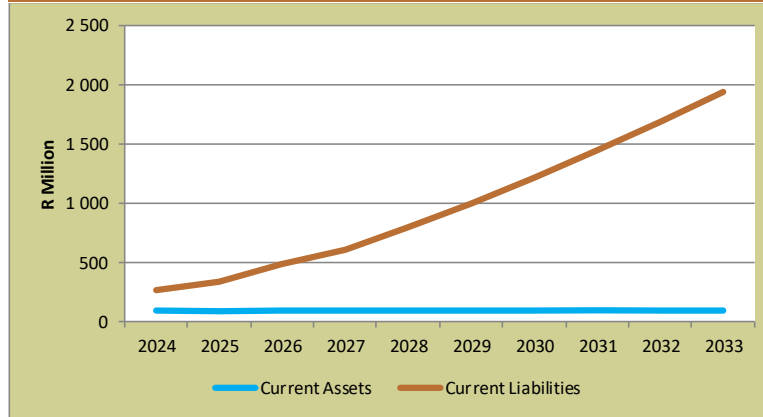
GRAPH 28: MTREF CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



GRAPH 27: MTREF CASE SCENARIO: CAPITAL FUNDING MIX



GRAPH 29: MTREF CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES



BASE CASE SCENARIO

To develop a realistic Base Case model, the figures from the Tabled Budget 2024/25 – 2026/27 were used. The historic analysis reveals that the municipality's financial performance has deteriorated significantly in recent years, with a considerable operating deficit of R141.2 million posted in FY2022/23. This resulted in a deterioration of the liquidity position. As alluded to above, the Tabled Budget, while an improvement on the historic performance, expects the trend of operating deficits to continue. This will be insufficient to achieve long-term sustainability and as such, adjustments have been made in arriving at a sustainable Base Case. The objective of the model is to utilise realistic assumptions to support future financial sustainability. The following are the key assumptions:

1. The collection rate was assumed to improve from 82% to 87% over the MTREF period.
2. The model incorporated the increases in revenue as announced in the Tabled Budget, while operating expenditure was cut by 3%.
3. The Tabled Capital Budget was adjusted as follows:
 - FY2025/26: R155.0 million (from R214.7 million)
 - FY2026/27: R170.0 million (from R270.9 million)
 - FY2026/27: R178.0 million (from R305.0 million)
 Assumed growth in capital investment thereafter is 2% p.a.
4. The Tabled Budget borrowing programme was adjusted as follows:
 - FY2025/26: R42.2 million (from R93.1 million)
 - FY2025/26: R44.7 million (from R111.8 million)
 - FY2026/27: R25.1 million (from R131.1 million)

The annual borrowing under this scenario was adjusted to an average of 10-year amortising loans at a fixed interest rate equal to 6% over forecast CPI in any given year. Assumed annual growth in borrowing beyond the MTREF period is 6%.

5. Repairs and maintenance expenditure was increased to 3% of PPE & IP over the planning period.
6. Electricity distribution losses were maintained at 5.4% while water distribution losses were reduced to 23.0% from 29.8% over 5 years.
7. Tariff increases were included as put forward in the Tabled Budget Document.

TABLE 9: BASE CASE OUTCOMES

Outcome	Base Case
Average annual % increase in Revenue	7,0%
Average annual % increase in Expenditure	3,6%
Accounting Surplus accumulated during Planning Period (Rm)	R 1 236
Operating Surplus accumulated during Planning Period (Rm)	-R 185
Cash generated by Operations during Planning Period (Rm)	R 789
Average annual increase in Gross Consumer Debtors	8,6%
Capital investment programme during Planning Period (Rm)	R 1 911
External Loan Financing during Planning Period (Rm)	R 351
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 457
No of Months Cash Cover at the end of the Planning Period (Rm)	5,8
Liquidity Ratio at the end of the Planning Period	1.5 : 1
Gearing at the end of the Planning Period	20,9%
Debt Service to Total Expense Ratio at the end of the Planning Period	5,3%

It is worth noting that the LTFM utilises the FY2022/23 performance as the baseline for future projections, with the Adjustment Budget and Tabled Budget influencing the years FY2023/24 and the period FY2024/25-FY2026/27 respectively. As such, the poor performance exhibited in FY2022/23 and the further decline included in the Adjustment Budget 2023/24 have a considerable impact on the LTFM outcomes. With this in mind, significant improvements are required in order for the municipality



to reach a position of financial sustainability. This is the reason for the inclusion of the 3% reduction of operating expenditure in the Base Case assumptions. This equates to approximately R24.9 million in FY2024/25. This reduction notwithstanding, operating deficits are forecast until FY2030/31. Some volatility can be expected over the MTREF period, whereafter year-on-year improvements are forecast from FY2028/29 onwards. Property rates are forecast to remain the predominant revenue item throughout the planning period. This is followed by electricity services revenue and equitable share. On the expenditure side, staff costs are forecast to remain the predominant expenditure item throughout the planning period.

Cash is forecast to be generated by operations throughout the planning period, except for FY2023/24. This is a reflection of the extensive deficit that is included in the Adjustment Budget. The municipality is forecast to generate a total of R789 million in cash from operations throughout the planning period. This is driven by the improved collection rate of 87%. It is essential that the municipality targets an improvement on the Tabled Budget collection rate of 83%.

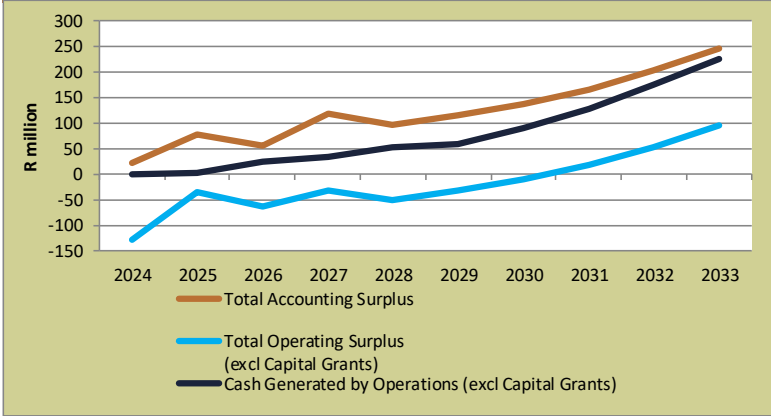
The aggressive capital budget and borrowing programme are forecast to prove unaffordable. As such, considerable reductions were deemed necessary to arrive at a capital budget that promotes long-term sustainability. The municipality is forecast to be unable to utilise any cash reserves to fund capital investment between FY2024/25 and FY2030/31. As such, the capital investment programme has been limited to capital grant funding which is supplemented by reduced borrowings during this period. Own cash is introduced from FY2030/31 onwards. This is done to allow the strained liquidity and cash position to recover. It is recommended that the utilisation of own cash is limited until such time that the liquidity position has stabilised. The Base Case capital investment programme will be discussed in more detail in Section 6 of this report.

The Base Case debt profile remains sustainable. This is evidenced by the debt indicators being forecast to remain within their respective limits of 30% and 7% for gearing and debt service to total expense respectively. As mentioned above, the MTREF Case debt indicators are forecast to reach extremely high levels that will not be sustainable. The borrowing programme will be discussed in more detail in Section 6 of this report.

The municipality's liquidity position has declined in recent years, with the liquidity ratio dropping below 1:1 in FY2022/23. As depicted in Graph 33 below, the liquidity position is forecast to come under severe pressure during the MTREF period. A turn around is forecast in FY2027/28, from which point year-on-year increases are forecast. The municipality is forecast to move into a positive liquidity position in FY2031/32 before ending the planning period with a stable liquidity ratio of 1.5:1. A similar trend is expected with the cash balance. The municipality is forecast to maintain a positive bank balance throughout the planning period. However, the minimum liquidity requirements are forecast to be met only in FY2030/31. This provides a considerable liquidity risk for the majority of the planning period. It is worth noting that the liquidity position is forecast to remain strained despite the improvements assumed in arriving at the Base Case. It is thus essential that the municipality endeavours to meet the Base Case assumptions, with further improvements targeted.

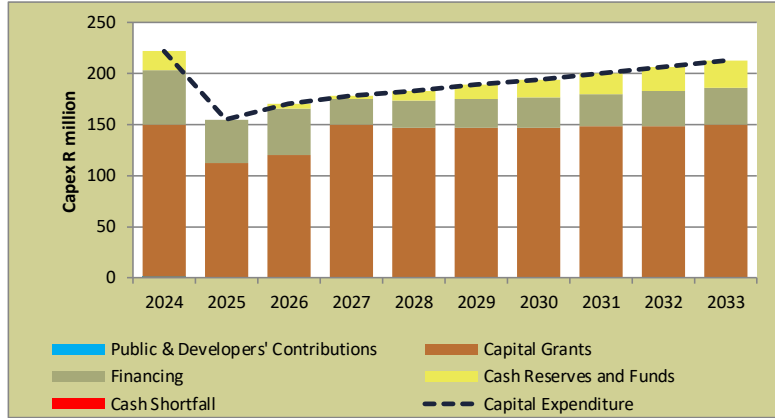
The Base Case assumptions are seen as realistic and achievable outcomes and / can be seen as recommendations for the municipality to follow to ensure long-term financial sustainability.

GRAPH 30: BASE CASE SCENARIO: ANALYSIS OF SURPLUS

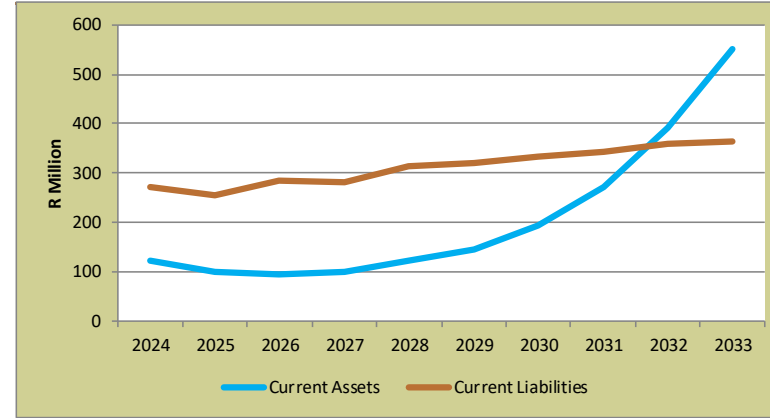




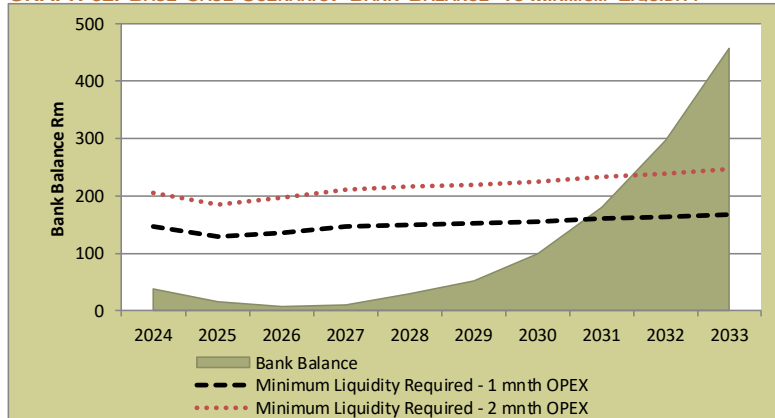
GRAPH 31: BASE CASE SCENARIO: CAPITAL FUNDING MIX



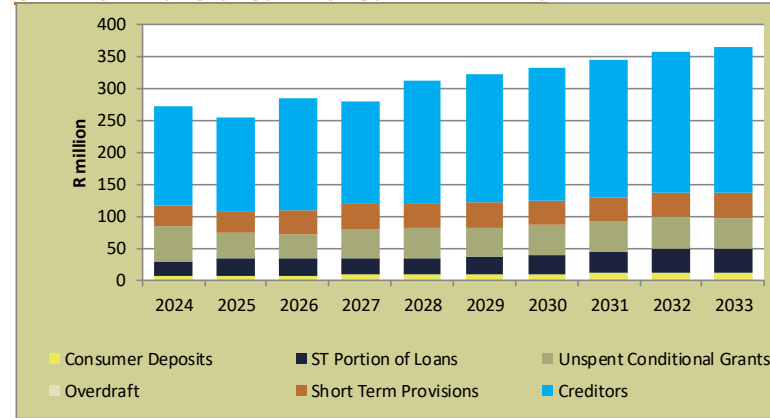
GRAPH 33: BASE CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES




GRAPH 32: BASE CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



GRAPH 34: BASE CASE SCENARIO: CURRENT LIABILITIES



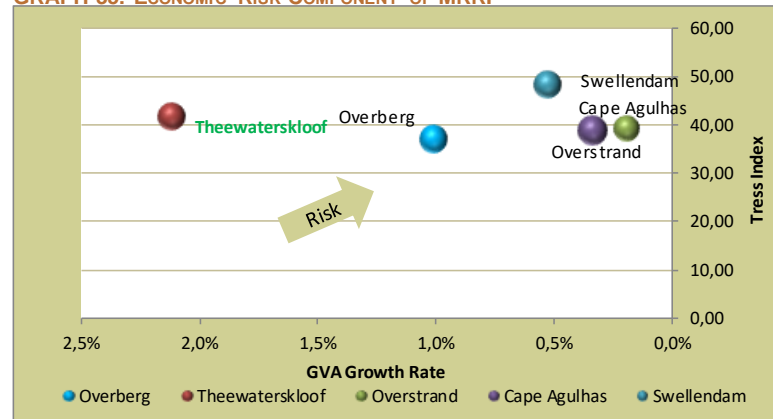


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FUTURE REVENUES

MUNICIPAL REVENUE RISK INDICATOR (MRRI) = “MEDIUM”

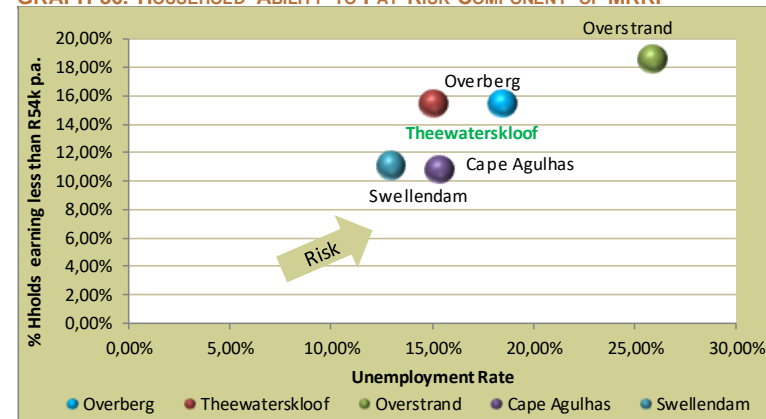
GRAPH 35: ECONOMIC RISK COMPONENT OF MRRI



The Municipal Revenue Risk Indicator (MRRI) measures the risk of the municipality's ability to generate its own revenues. This is a function of the economy (size of the economy as measured by GVA per capita, GVA growth rate and Tress Index); and the household ability to pay (measured by percentage of households with income below R54 000 p.a., unemployment rate and human development index).

Theewaterskloof has exhibited reasonable economic growth in recent years, as evidenced by the 5-year annual average GVA growth rate of 2.12%. This exceeds by the annual average population growth rate of 1.20% over the same period. GVA per capita of R69 343 p.a. in 2023, as well as the reasonably high degree of diversification of Theewaterskloof's economy, all contribute to the “Medium to Low” rating on the economic risk component of the MRRI. This is predominantly driven by reasonably strong economic growth.

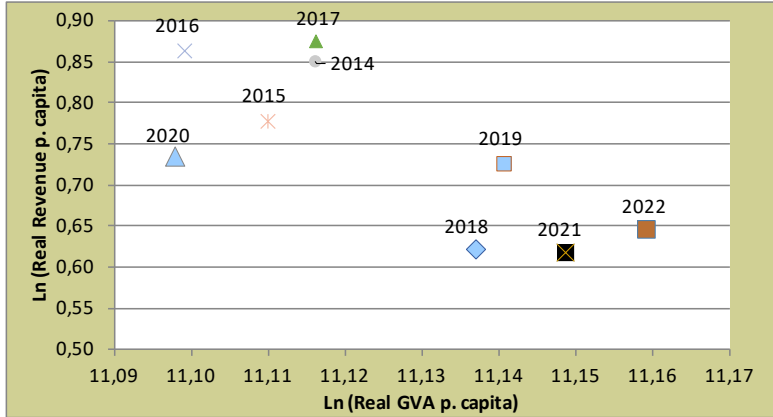
GRAPH 36: HOUSEHOLD ABILITY TO PAY RISK COMPONENT OF MRRI



The percentage of indigent households reliant on support of 15.39%, the official unemployment rate of 11.22% and the human development index of 0.67 resulted in a “Medium” rating on the household ability to pay risk component of MRRI. The driving force behind this rating is the high rate of unemployment.

Theewaterskloof is on the low end of risk in relation to some of the other municipalities in the district. As a result, Theewaterskloof has a “Medium” risk rating on the MRRI indicator scale - i.e., there is a medium to high risk that the municipality will not be able to generate the forecast cash revenue expected in future.

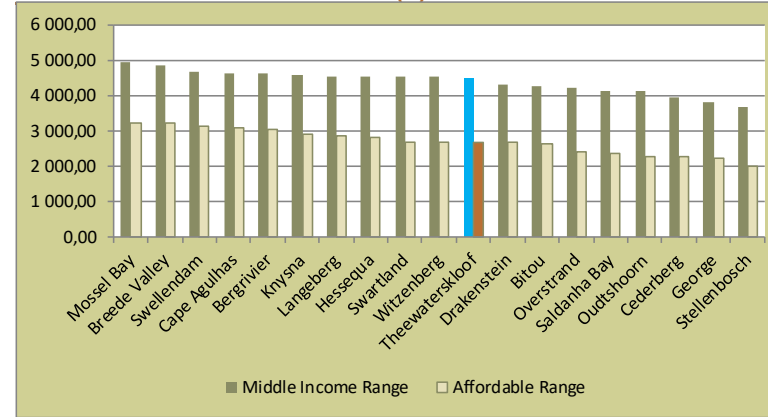
GRAPH 37: REAL REVENUE PER CAPITA VS REAL GVA PER CAPITA



Real municipal revenue per capita (excluding capital transfers) remained reasonably stable during 2014 and 2017, before a deterioration was noted in 2018. The increase in 2019 was maintained in 2020, before a reduction in 2021 was noted. A marginal increase was observed in 2022. GVA per capita on the other hand experienced a significant increase between 2016 and 2019, before the pandemic affected 2020 saw a considerable reduction. Increases in 2021 and 2022 reflect the strong recovery exhibited by Theewaterskloof's economy post-pandemic. Should challenging economic conditions result in a deterioration in economic growth within the region, pressure on households to service their municipal bills will increase. This may provide a risk to the municipality's ability to generate revenue from households.

It is the municipality's responsibility to ensure that it does its part in facilitating an economic growth environment. This will assist in alleviating pressure on households to service their municipal bill, thus providing additional security to the municipality's future revenue prospects. A prolonged period of sluggish economic growth will place further strain on the municipality's revenue base as households struggle to service their municipal bill.

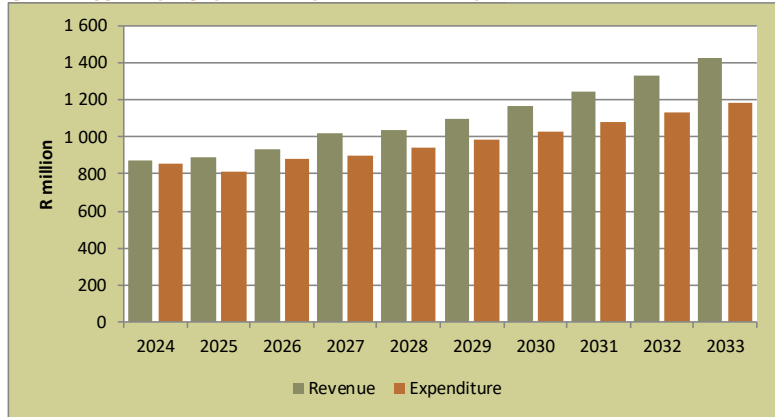
GRAPH 38: AVERAGE HOUSEHOLD BILL (R)



A comparison of the average household bill for the middle income and affordable income range of a selected number of municipalities in the Western Cape province (extracted from Budget Table: SA14) based on the 2024/25 tariffs, reveals that Theewaterskloof LM features near the middle of the range. Considering the level of service provided by Theewaterskloof LM and the size of the municipality, the current household bill is reasonable compared to other municipalities. The scope of the tariff increases is, however, limited by household's ability to pay for services.

MUNICIPAL REVENUES

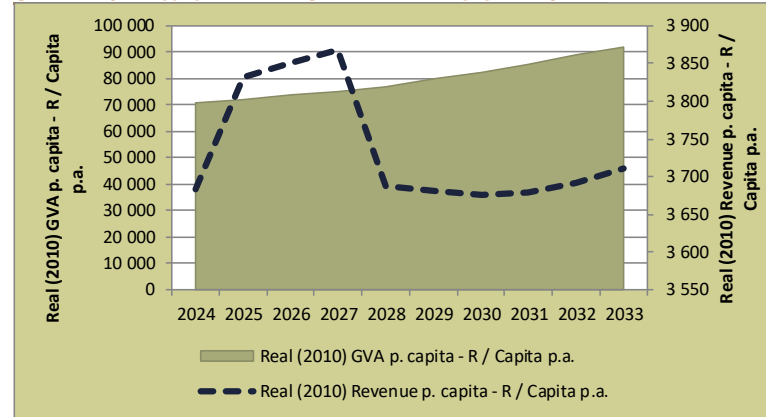
GRAPH 39: BASE CASE: REVENUE AND EXPENDITURE



The Base Case estimates that, over the planning period, future nominal revenue (including capital grants) will grow at an average rate of 7.0% p.a. This growth in revenue includes: (i) tariff increases, (ii) increased sales and (iii) additional revenue sources. Future nominal expenditure is estimated to grow at a comparatively lower rate of 3.6% over the same period. This is driven by the assumed reduction of 3% of operating expenditure in the Base case.

GRAPH 41 below indicates that the municipality is forecast to post operating deficits until FY2030/31. This is despite the modelling of a 3% reduction of operating expenditure. Property rates is forecast to remain the predominant revenue item, followed by electricity revenue and equitable share. On the expenditure side, the municipality's employee related expenditure profile is forecast to remain affordable.

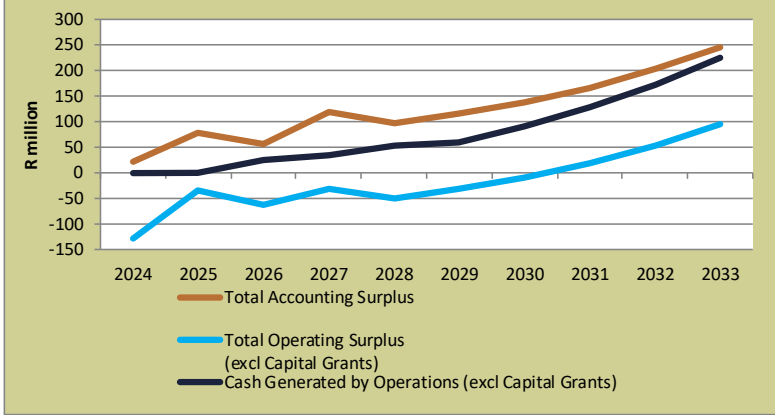
GRAPH 40: PROJECTED REAL GVA AND REVENUES PER CAPITA



Real GVA per capita is forecast to increase gradually over the planning period, from R70 984 p.a. in 2024 to R91 975 in 2033, for an increase of 29.6%. Real revenue per capita on the other hand, is forecast to increase at a significantly lower rate of just 0.8% from R3 748 p.a. in 2024 to R3 711 p.a. in 2033, with a significant decline forecast in 2028. Growth of the local economy is crucial to the municipality as it has a direct impact on the municipality's ability to generate revenue (MRRR). Growth of the local economy will result in an expansion of the municipality's revenue base, which will enable growth and an acceleration of the capital investment programme. This is particularly necessary to keep up with the growing population and associated increased demand for municipal services.



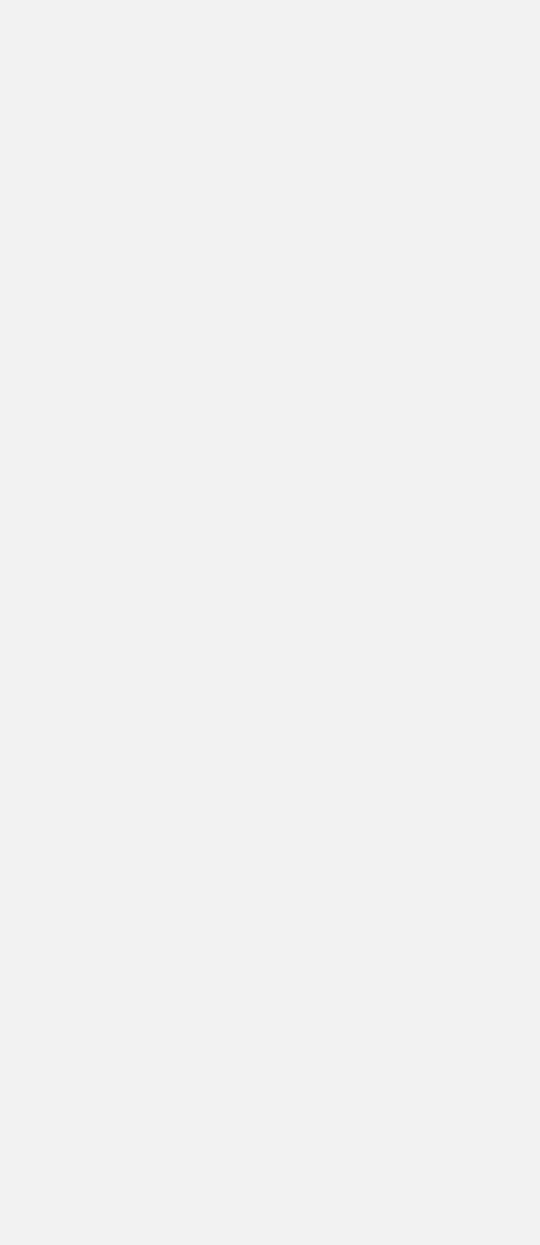
GRAPH 41: BASE CASE: ANALYSIS OF SURPLUS



The municipality is forecast to generate cash from operations throughout the forecast period, except for FY2023/24. Year-on-year increases are expected from FY2023/24 onwards. A total of R789 million in cash is forecast to be generated by operations over the planning period. This is underpinned by the maintenance of a healthy collection rate and contributes heavily to the health of the liquidity position. This is essential for long-term sustainability.



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AFFORDABLE FUTURE CAPITAL INVESTMENT

CAPEX AFFORDABILITY AND FUNDING

The total CAPEX Demand was determined during the preparation of the LTFFP in 2019 but has changed significantly since then. For purposes of this report, the adjusted estimated CAPEX Demand in the previous update was adjusted for inflation. It is essential to establish a more accurate and reasonable CAPEX demand estimate. However, for purposes of this report, affordability is the focus of concern.

TABLE 10: CAPEX DEMAND VS AFFORDABILITY

Total 10-year CAPEX Demand:	=	R 2 862 million
Total 10-year CAPEX Affordability:	=	R 1 911 million

MTREF CAPITAL FUNDING MIX

Theewaterskloof's Tabled Budget FY2024/25 to FY2026/27 expects a capital budget amounting to R804 million, funded as follows:

TABLE 11: MTREF CASE 3-YEAR MTREF FUNDING MIX R'M

R'm	Total	2024/25	2025/26	2026/27
Public & Developers Contributions	0	0	0	0
Capital Grants	383	113	120	150
Financing	336	93	112	131
Cash Reserves and Funds	85	9	39	37
Total	804	215	271	318

10-YEAR CAPITAL FUNDING MIX

The capital funding mix for the 10-year planning period is forecast to be as follows:

TABLE 12: BASE CASE 10-YEAR CAPITAL FUNDING MIX

Source	Rm	%
Public & Developers' Contributions	1	0%
Capital Grants	1 420	74%
Financing	351	18%
Cash Reserves and Funds	138	7%
Cash Shortfall	0	0%
Capital Expenditure	1 911	100%

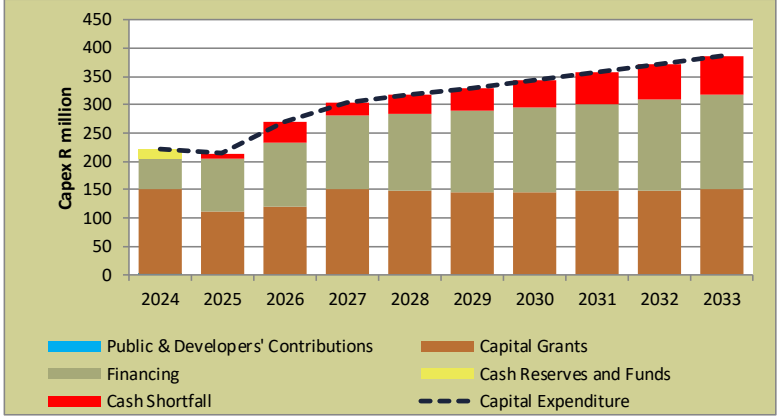
Theewaterskloof's historic capital funding mix was dominated by capital grants, which accounted for 41% of total funding over the review period. An acceleration of borrowing was observed in the latter part of the review period, with 3 of the 4 years in which borrowing was undertaken coming in the most recent 3 years of the review period. This accounted for approximately 25% of total funding. The remaining 28% was funded through own cash (27%) and the sale of fixed assets (1%). This is considered an optimal funding mix.

The Tabled Capital Budget reflects a continuation of the accelerated capital investment programme observed recently. However, the downturn in the municipality's financial performance and liquidity in recent years has necessitated a reduction in the extent of this acceleration. As depicted in Graph 42 below, the Tabled Capital Budget is forecast to prove unaffordable. As such, it was deemed necessary to reduce the Tabled Capital Budget rather extensively to promote long-term sustainability. It is recommended that the stabilisation of the liquidity position is prioritised over the short-term. Once this has been achieved, an acceleration of capital investment may be possible.

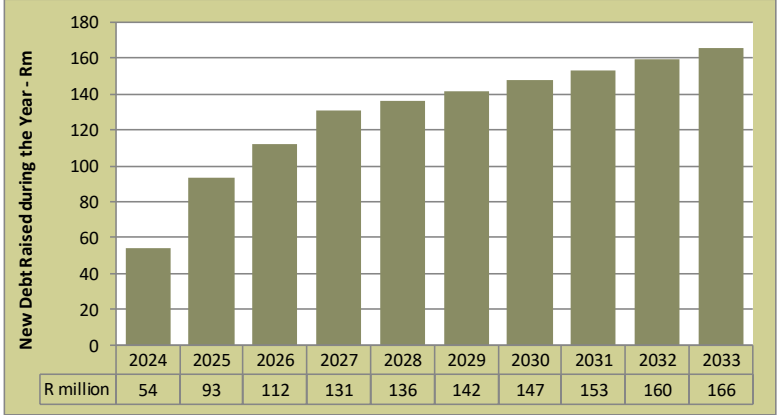


The MTREF Case's funding mix and annual borrowings are presented in the graphs below:

GRAPH 42: MTREF CASE DISTRIBUTION OF FUTURE FUNDING

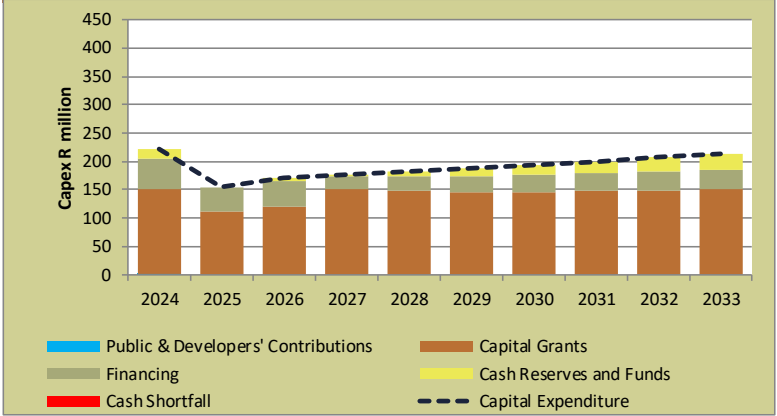


GRAPH 43: MTREF CASE ESTIMATE OF FUTURE EXTERNAL FINANCING



The Base Case's funding mix and annual borrowings are presented in the graphs below:

GRAPH 44: BASE CASE DISTRIBUTION OF FUTURE FUNDING



GRAPH 45: BASE CASE ESTIMATE OF FUTURE EXTERNAL FINANCING

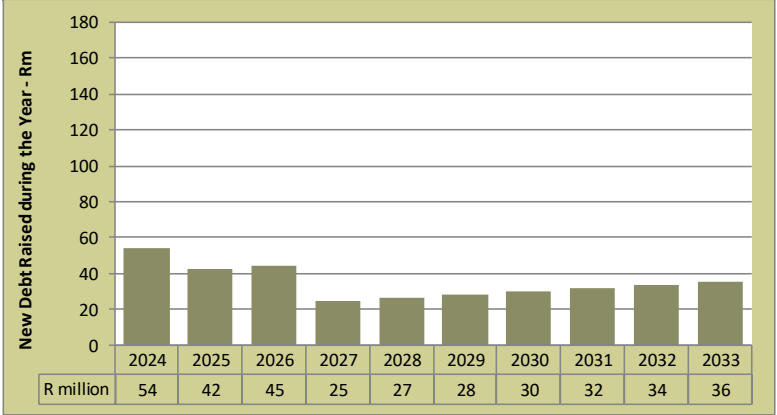




TABLE 13: MTREF CASE DISTRIBUTION OF FUTURE CAPITAL FUNDING (R'm)

R'm	Total	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public & Developers' Contributions	0	1	0	0	0	0	0	0	0	0	0
Capital Grants	1 420	149	113	120	150	147	147	147	148	149	150
Financing	1 294	54	93	112	131	136	142	147	153	160	166
Cash Reserves and Funds	18	18	0	0	0	0	0	0	0	0	0
Cash Shortfall	384	0	9	39	24	33	42	49	56	63	70
Capital Expenditure	1 478	222	215	271	305	317	330	343	357	371	386

TABLE 14: BASE CASE DISTRIBUTION OF FUTURE CAPITAL FUNDING (R'm)

R'm	Total	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public & Developers' Contributions	1	1	0	0	0	0	0	0	0	0	0
Capital Grants	1 420	149	113	120	150	147	147	147	148	149	150
Financing	351	54	42	45	25	27	28	30	32	34	36
Cash Reserves and Funds	138	18	0	5	3	9	14	18	21	24	27
Cash Shortfall	0	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	1 911	222	155	170	178	183	189	195	200	206	213

LIQUIDITY AND CAPITAL REPLACEMENT RESERVE

The minimum liquidity levels cater for unspent conditional grants, cash-backed reserves, short-term provisions and 1-month's working capital (operating expenditure). The accelerated capital investment programme included in the Tabled Budget is forecast to result in a depletion of the municipality's liquidity. This would result in the municipality maintaining an overdraft position throughout the planning period. In order to avoid this, necessary reductions in capital investment were made in arriving at the Base Case. This will enable the municipality to maintain a positive bank balance throughout the planning period. This notwithstanding, the municipality is forecast to meet the minimum liquidity requirements of 1-month's operating expenditure only in FY2030/31. It is only beyond this point that the municipality will be able to service a CRR to prepare for future capital investment. As mentioned above, it is recommended that the municipality prioritises the stabilisation of the

liquidity position before thought is given to materially accelerating capital investment. As this cannot be achieved in a sustainable manner if it comes at the expense of the liquidity position, as forecast. The Base Case capital investment programme, while reduced from the Tabled Budget, nonetheless reflects an acceleration of the historic capital investment programme.

GEARING

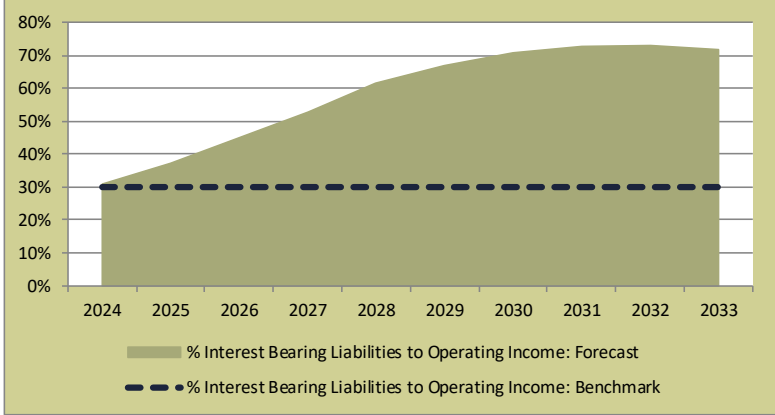
The MTREF Case borrowing programme includes a total of R1 294 million over the planning period. This is forecast to result the gearing ratio peaking at an enormous 72% at the end of the planning period. The debt service to total expense ratio is forecast to peak at 23% at end of the planning period. The forecast debt profile is wholly unsustainable. The municipality will thus be unable to afford the Tabled Budget borrowing programme. The debt indicators would likely remain affordable should no further borrowing be undertaken beyond the MTREF period. However, this would necessitate a significant reduction of capital investment with the forecast strained liquidity position.

In order to promote long-term sustainability, necessary downward adjustments were made in arriving at the Base Case. The borrowing programme was reduced significantly over the MTREF period and beyond. The Base Case reflects a borrowing programme of R351 million over the 10-year planning period. At these levels of borrowings, the gearing ratio is forecast to peak at 32% in FY2025/26 before reducing to a sustainable 21% by the end of the planning period. It is noted that the maximum recommended gearing ratio of 30% for TWK will be breached over the MTREF period, however, considering the forecast reduction and marginal nature of this breach, this is not overly concerning at this stage. From a debt service perspective, the debt service to total expense ratio is forecast to remain below the maximum recommended limit of 7% throughout the planning period. This highlights the affordability of the Base Case debt profile.

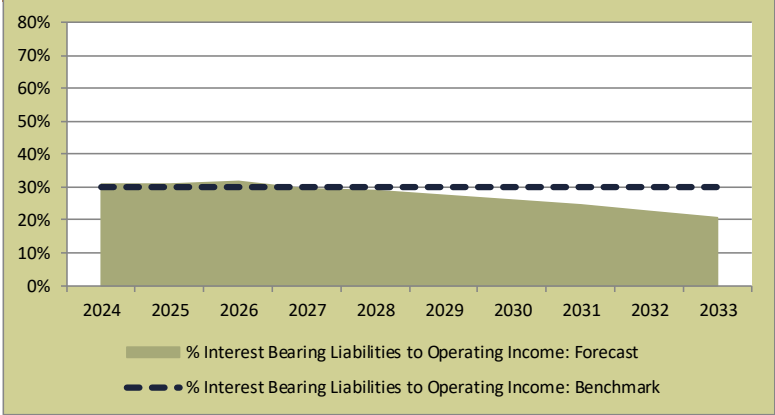
The graphs below illustrate the affordability of the Base Case debt profile in comparison to the MTREF Case. The Base Case leaves room for an acceleration of borrowing in future should the municipality wish to do so.



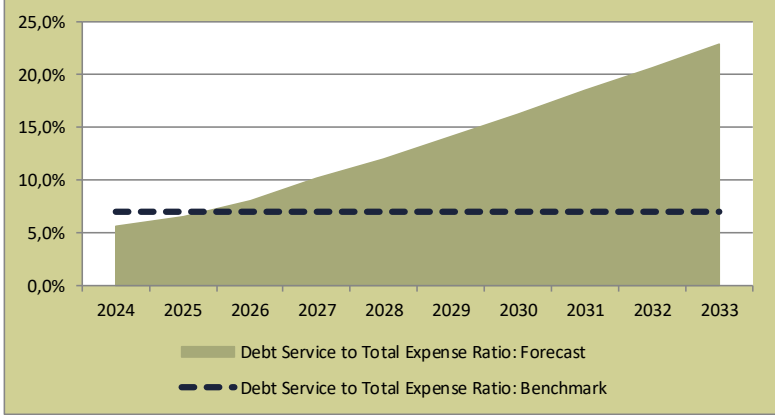
GRAPH 46: MTREF CASE GEARING (%)



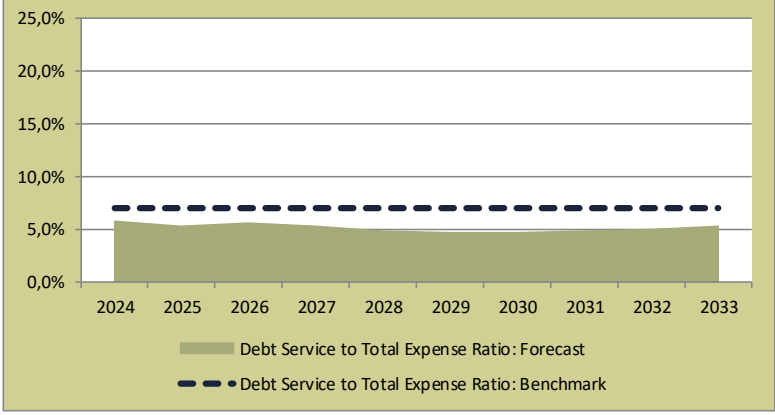
GRAPH 48: BASE CASE GEARING (%)



GRAPH 47: MTREF CASE DEBT SERVICE TO TOTAL EXPENDITURE (%)

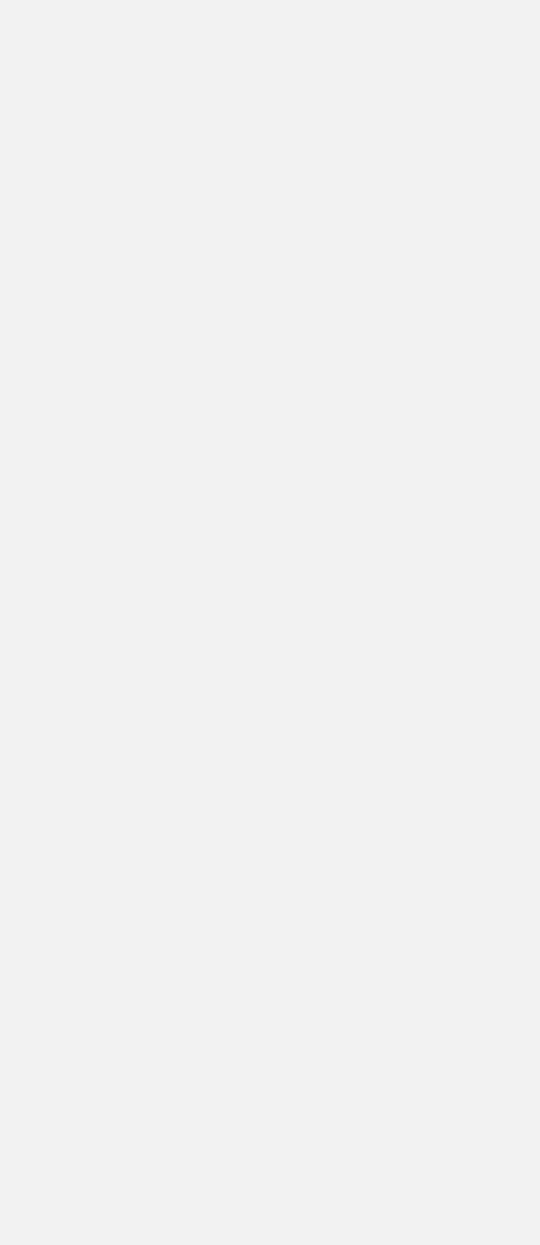


GRAPH 49: BASE CASE DEBT SERVICE TO TOTAL EXPENDITURE (%)





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SCENARIOS ANALYSIS

Considering our analysis of the Tabled Budget and the risks identified as part of this update, the following scenarios were run to indicate the potential outcomes. The main purpose of these scenarios is to assist the municipality in its strategic decision making and to serve as an input to the budget for FY2024/25.

1. To indicate the collection rate sensitivity on long-term financial sustainability:

1.1. A negative scenario indicating the impact of a maintaining the Tabled Budget collection rate of 83% throughout the planning period. All other input variables are assumed to be consistent with the Base Case.

2. To indicate the sensitivity of operating expenditure on long-term financial sustainability:

2.1. A scenario indicating the impact of the municipality failing to reduce operating expenditure by 3% as modelled in the Base Case. All other input variables are assumed to be consistent with the Base Case.

3. To indicate the impact of employing the Tabled Capital Budget on long-term financial sustainability:

3.1. A scenario indicating the impact of employing the unadjusted Tabled Capital Budget. All other input variables are assumed to be consistent with the Base Case.

SCENARIO 1: SENSITIVITY ANALYSIS ON THE COLLECTION RATE

The environment in which the municipality must operate is a challenging one. Geopolitical instability causing high global inflation, sustained high interest rates and the consequent cost-of-living crisis are just a few examples of the multitude of issues that create a difficult environment for the municipality to operate in. These challenges not only impact the municipality but additionally the households from which the municipality derives its revenue. Many households are under immense financial pressure, and this has resulted in a decline in payment levels in many municipalities across the country. As such, it is reasonable to say that a decline in the collection rate is feasible. The Base Case assumes the collection rate will improve to 87% by the end of the MTREF period. This scenario assesses the impact of the municipality failing to achieve any improvement on the Tabled Budget collection rate of 83%.

The outcomes as presented in [TABLE 15](#) reflect a considerable decline in financial performance and cash generation. Cash is forecast to be utilised by operations in FY2023/24 & FY2024/25. This will have a severe detrimental impact on the liquidity position. This is evidenced by the movement into an overdraft position between FY2024/25 & FY2029/30. This is further reflected in the significantly reduced liquidity ratio of 0.7:1 at the end of the planning period. This will cast doubt on the municipality's ability to meet current obligations as they fall due. This outcome is unsustainable.

The outcomes of this scenario are evidence of the critical nature of maintaining a high collection rate. The municipality must endeavour to meet the Base Case collection rate. Failure to do so will have a severe impact on the municipality's financial position.

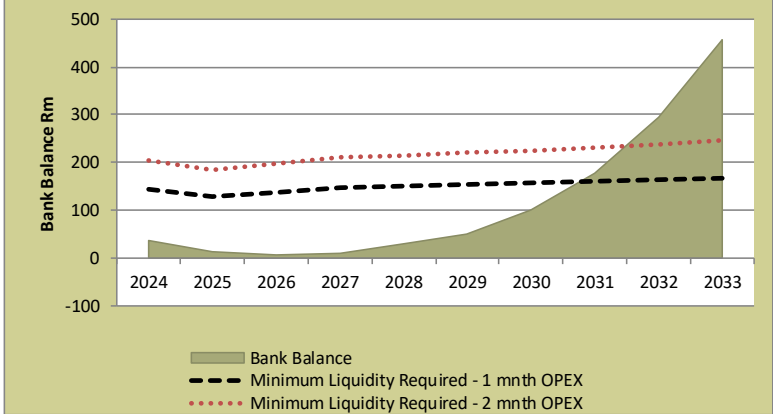
TABLE 15: SCENARIO 1: SENSITIVITY ANALYSIS ON THE COLLECTION RATE

Outcome	Base Case	Collection Rate 83%
Average annual % increase in Revenue	7,0%	6,9%
Average annual % increase in Expenditure	3,6%	3,8%
Accounting Surplus accumulated during Planning Period (Rm)	R 1 236	R 950
Operating Surplus accumulated during Planning Period (Rm)	-R 185	-R 471
Cash generated by Operations during Planning Period (Rm)	R 789	R 502
Average annual increase in Gross Consumer Debtors	8,6%	11,0%
Capital investment programme during Planning Period (Rm)	R 1 911	R 1 911
External Loan Financing during Planning Period (Rm)	R 351	R 351
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 457	R 171
No of Months Cash Cover at the end of the Planning Period (Rm)	5,8	2,2
Liquidity Ratio at the end of the Planning Period	1.5 : 1	0.7 : 1
Gearing at the end of the Planning Period	20,9%	21,2%
Debt Service to Total Expense Ratio at the end of the Planning Period	5,3%	5,2%

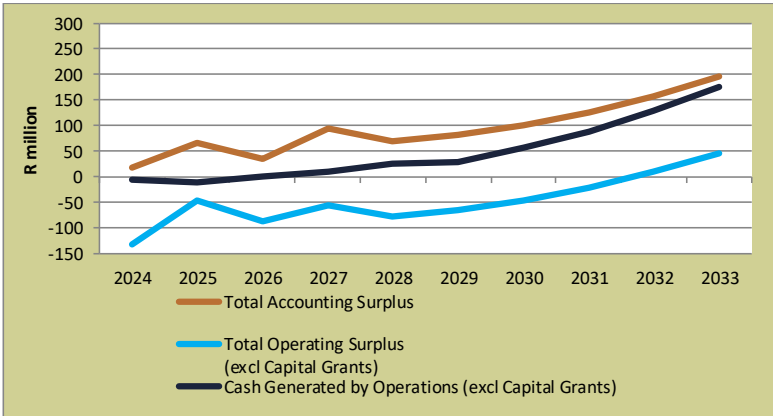
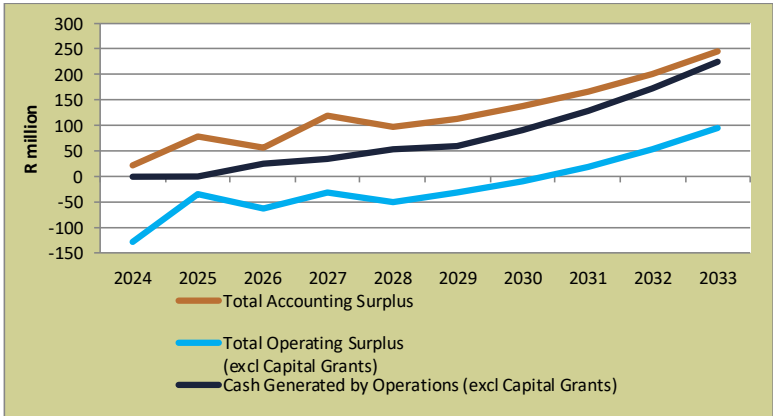
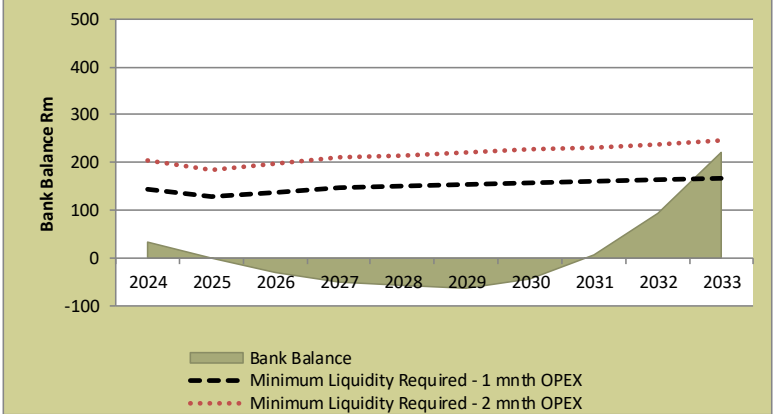


SCENARIO 1: SENSITIVITY ANALYSIS ON THE COLLECTION RATE

BASE CASE SCENARIO



REDUCE COLLECTION RATE BY 2%



SCENARIO 2: NO OPEX REDUCTION

As alluded to in Scenario 1, the many challenges facing the municipality have a direct impact on the municipality's ability to extract revenue from households. Household finances are under extreme pressure at the moment, and this causes a risk for the municipality's future revenue prospects. One of the prevalent issues causing pressure on household finances is the high inflationary environment and resultant high interest rates. The impact of this extends to municipalities as well. General price increases across the board place additional pressure on the municipality's operating budget. This scenario tests the impact of the municipality failing to achieve the 3% reduction in operating expenditure included in the Base Case.

The outcomes as presented in **TABLE 16** reflect a considerable decline in financial performance from the Base Case. Theewaterskloof is forecast to move into an operating surplus position in FY2030/31, a year later than the Base Case forecast. The liquidity position will be significantly impacted by the decline in financial performance, with the municipality forecast to move into an overdraft position in FY2024/25. This is forecast to be maintained until FY2030/31. This is forecast to result in an unsustainable outcome. Should this be coupled with a decline in the collection rate, the impact will worsen severely.

While the 3% reduction of operating expenditure is reasonably aggressive, it is considered necessary considering the poor forecast for financial performance. We recommend that the municipality reviews its operating budget and finds avenues through which this cut can be achieved. Doing so successfully will be critical for long-term sustainability to be realised.

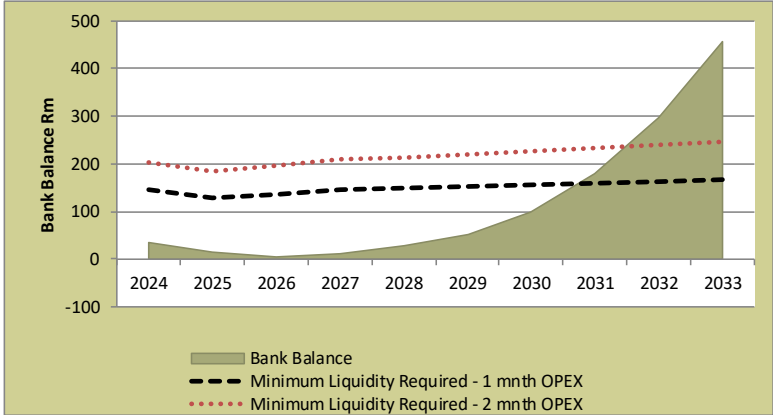
TABLE 16: SCENARIO 2: NO OPEX REDUCTION

Outcome	Base Case	No Opex Reduction
Average annual % increase in Revenue	7,0%	6,9%
Average annual % increase in Expenditure	3,6%	3,7%
Accounting Surplus accumulated during Planning Period (Rm)	R 1 236	R 955
Operating Surplus accumulated during Planning Period (Rm)	-R 185	-R 467
Cash generated by Operations during Planning Period (Rm)	R 789	R 518
Average annual increase in Gross Consumer Debtors	8,6%	8,6%
Capital investment programme during Planning Period (Rm)	R 1 911	R 1 911
External Loan Financing during Planning Period (Rm)	R 351	R 351
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 457	R 186
No of Months Cash Cover at the end of the Planning Period (Rm)	5,8	2,3
Liquidity Ratio at the end of the Planning Period	1.5 : 1	0.7 : 1
Gearing at the end of the Planning Period	20,9%	21,2%
Debt Service to Total Expense Ratio at the end of the Planning Period	5,3%	5,2%

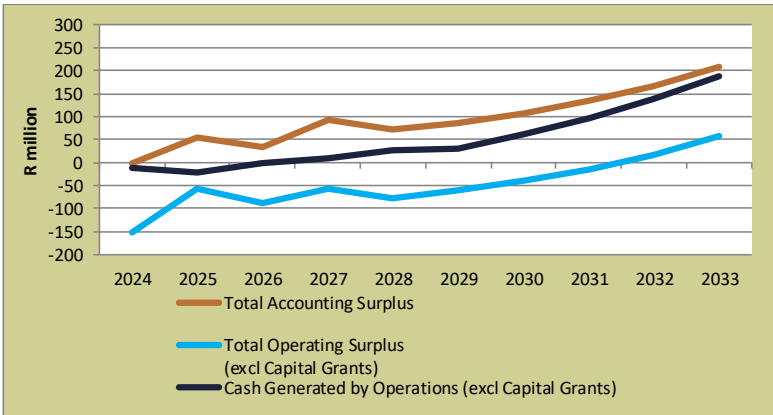
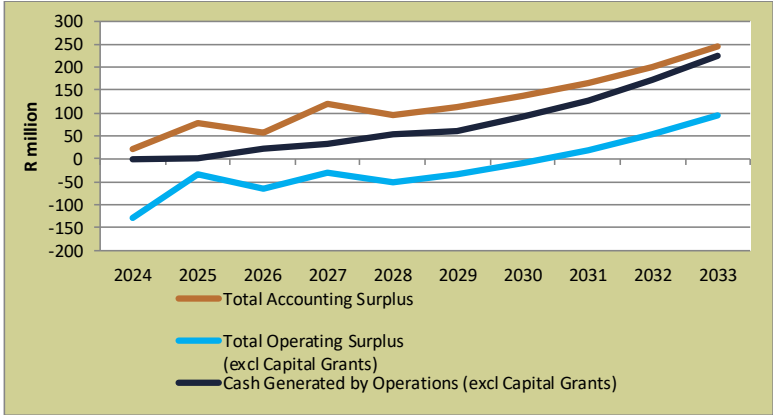
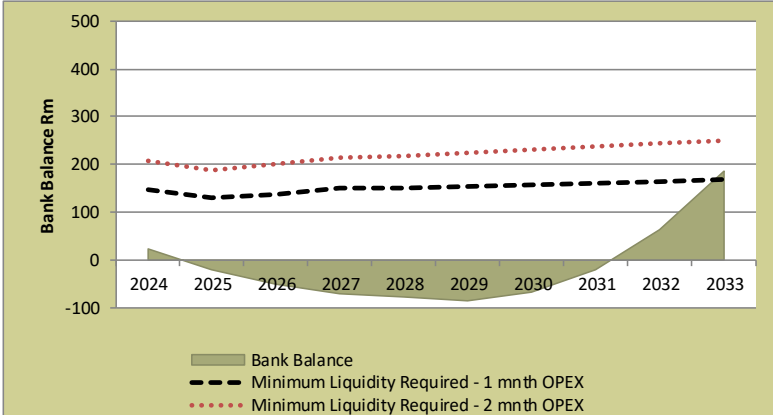


SCENARIO 2: NO OPEX REDUCTION

BASE CASE SCENARIO



NO OPEX REDUCTION



SCENARIO 3: TABLED CAPITAL BUDGET

The Tabled Budget presents a capital budget that reflects a considerable acceleration on the historic capital investment programme. As explained in Sections 4 & 6 of this report, this Tabled Capital Budget is forecast to prove unaffordable. As such, the Base Case presents a significant reduction of capital investment from the Tabled Budget. This scenario aims to further highlight the importance of a reduction in capital investment through highlighting the impact of the municipality employing the Tabled Capital Budget unadjusted.

The outcomes of this scenario as presented in Table 17 reflect a significant decline in financial performance and, consequently, cash generation. This is driven by the unsustainable levels of debt. This is forecast to translate into the movement into an overdraft position in FY2024/25, which is forecast to deteriorate further over the planning period. The liquidity ratio of 0.1:1 at the end of the planning period is wholly unsustainable. This will leave the municipality in a dire liquidity position. The debt profile, gearing ratio is forecast to reach an enormous 74.4% while the debt service levels will be wholly unsustainable at 20.6% by the end of the planning period.

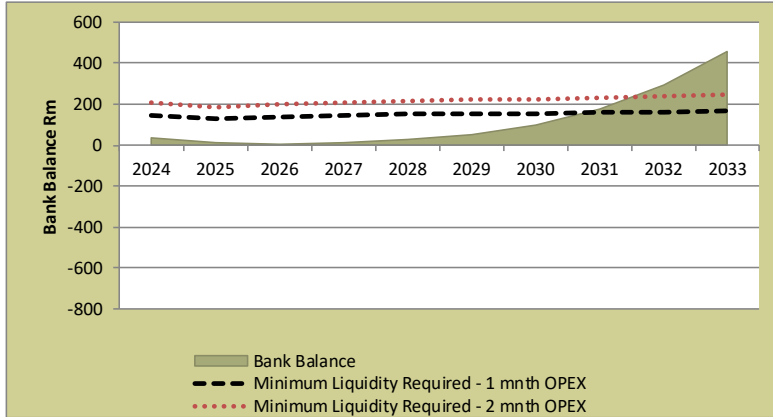
The scenario outcomes highlight the unaffordability of the Tabled Capital Budget. This renders the reduced capital budget presented in the Base Case a necessity. The municipality is urged to review the capital budget as barring a remarkable turnaround in financial performance in the next year or 2, implementing the Tabled Capital Budget will leave the municipality in a wholly unsustainable financial situation.

TABLE 17: SCENARIO 3: TABLED CAPITAL BUDGET

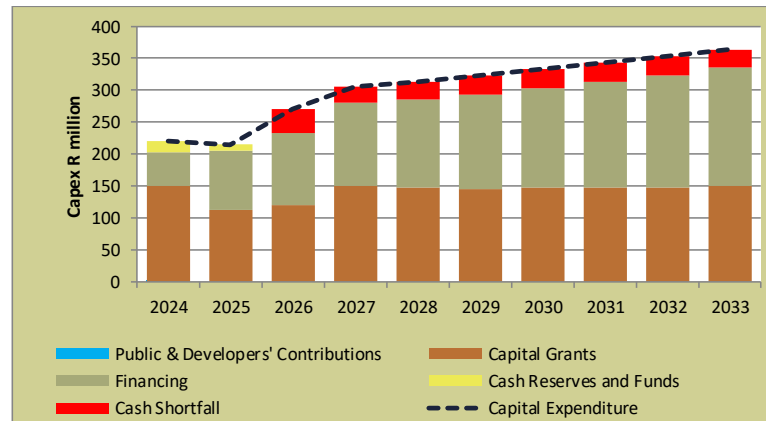
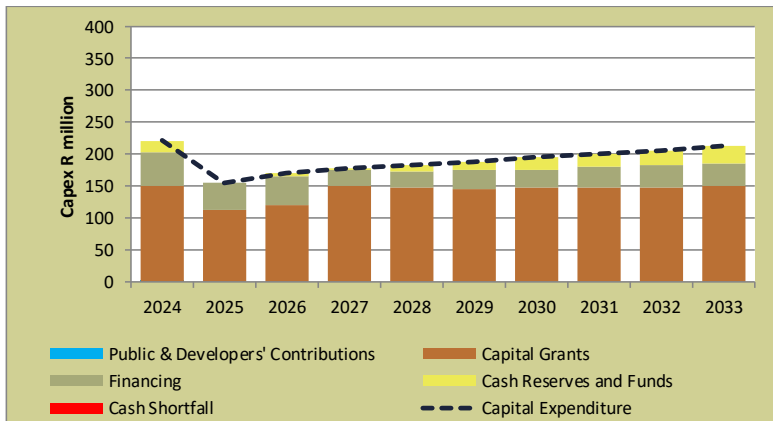
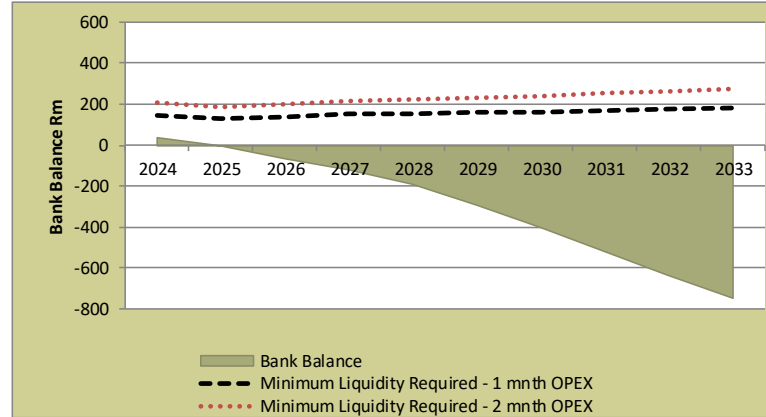
Outcome	Base Case	Tabled Capital Budget
Average annual % increase in Revenue	7,0%	6,9%
Average annual % increase in Expenditure	3,6%	5,2%
Accounting Surplus accumulated during Planning Period (Rm)	R 1 236	R 367
Operating Surplus accumulated during Planning Period (Rm)	-R 185	-R 1 054
Cash generated by Operations during Planning Period (Rm)	R 789	R 47
Average annual increase in Gross Consumer Debtors	8,6%	8,6%
Capital investment programme during Planning Period (Rm)	R 1 911	R 3 045
External Loan Financing during Planning Period (Rm)	R 351	R 1 359
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 457	-R 748
No of Months Cash Cover at the end of the Planning Period (Rm)	5,8	-8,0
Liquidity Ratio at the end of the Planning Period	1,5 : 1	0,1 : 1
Gearing at the end of the Planning Period	20,9%	74,4%
Debt Service to Total Expense Ratio at the end of the Planning Period	5,3%	20,6%

SCENARIO 3: TABLED CAPITAL BUDGET

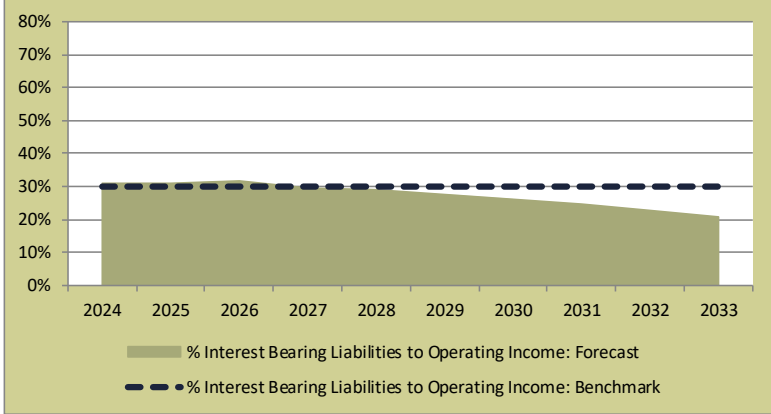
BASE CASE SCENARIO



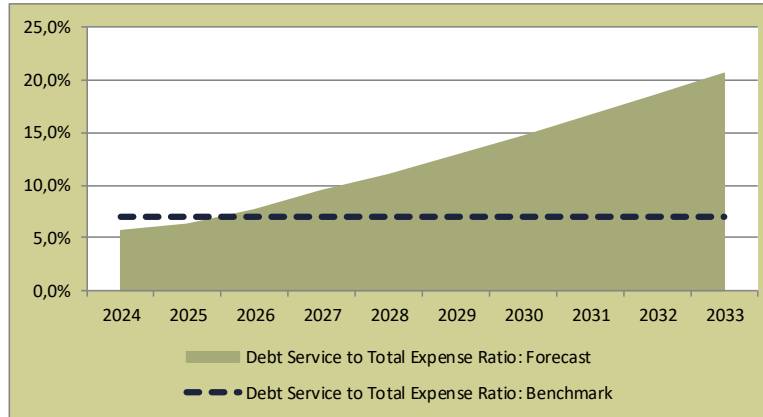
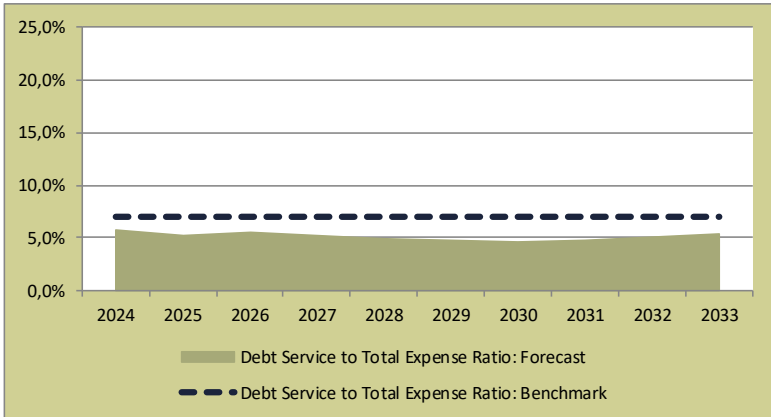
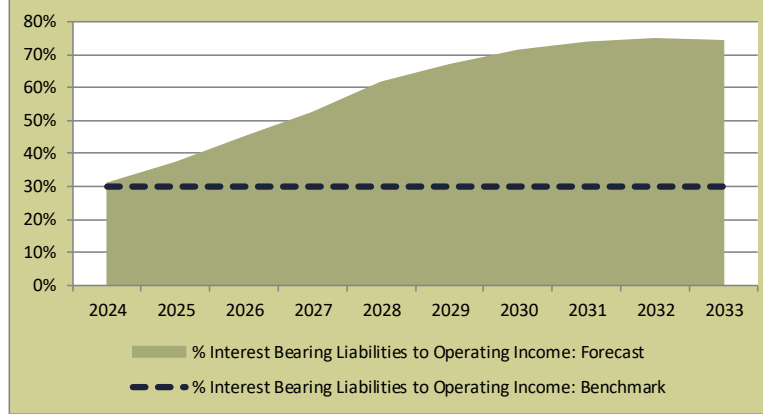
TABLED CAPITAL BUDGET SCENARIO




BASE CASE SCENARIO



TABLED CAPITAL BUDGET SCENARIO





- 1 Planning Process

- 2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

- 3 Updated Historic Financial Assessment

- 4 Long-Term Financial Model Outcomes

- 5 Future Revenues

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- 7 Scenario Analysis

- 8 Ratio Analysis**

- 9 Conclusions

FORECAST RATIOS


The Base Case forecast ratios are presented below. Although the model is not programmed to measure the ratios as required by National Treasury in all instances, it does provide comfort that the municipality is sustainable in future – on condition that it operates within the assumed benchmarks set in the financial plan.

	<u>N.T.</u> <u>NORM</u>	<u>2024</u>	<u>2026</u>	<u>2028</u>	<u>2030</u>	<u>2032</u>	<u>2033</u>	<u>COMMENTS</u>	
FINANCIAL POSITION									
ASSET MANAGEMENT									
R29	Capital Expenditure / Total Expenditure	10% - 20%	20,6%	16,2%	16,3%	15,9%	15,4%	15,2%	CAPEX as a % of Total Expenditure will remain within the recommended range throughout the planning period.
R27	Repairs and Maintenance as % of PPE and Investment Property	8%	1,7%	1,9%	2,2%	2,4%	2,7%	3,0%	Repairs and maintenance as a percentage of PPE and IP will reduce over the planning period, due to an increase in capital expenditure.
DEBTORS MANAGEMENT									
R4	Gross Consumer Debtors Growth		16,0%	8,2%	7,6%	7,2%	7,0%	7,0%	The Collection Rate is assumed to improve to 87% by the end of the MTREF period.
R5	Payment Ratio / Collection Rate	95%	83,8%	87,0%	87,0%	87,0%	87,0%	87,0%	
LIQUIDITY MANAGEMENT									
R49	Cash Coverage Ratio (excl Working Capital)		0.4 : 1	0.1 : 1	0.3 : 1	1.2 : 1	3.4 : 1	5.2 : 1	The bank balance will meet the minimum liquidity requirement only in FY2030/31. The liquidity position will rise to 1.5:1 by the end of the planning period.
R50	Cash Coverage Ratio (incl Working Capital)		0.2 : 1	0 : 1	0.2 : 1	0.6 : 1	1.8 : 1	2.7 : 1	
R51	Cash Surplus / Shortfall on Minimum Liquidity Requirements		-R 109,8 m	-R 131,6 m	-R 121,3 m	-R 57,8 m	R 132,1 m	R 288,8 m	
R1	Liquidity Ratio (Current Assets: Current Liabilities)	1:1.5 - 1:2.1	0.5 : 1	0.3 : 1	0.4 : 1	0.6 : 1	1.1 : 1	1.5 : 1	
LIABILITY MANAGEMENT									
R45	Debt Service as % of Total Operating Expenditure	6% - 8%	5,8%	5,5%	4,9%	4,7%	5,0%	5,3%	The external financing programme is forecast to remain within the recommended benchmarks, whilst taking advantage of scope to sufficiently leverage the debt profile.
R6	Total Debt (Borrowings) / Operating Revenue	45%	30,9%	31,7%	29,1%	26,1%	22,8%	20,9%	
R7	Repayment Capacity Ratio		1,69	2,11	1,45	1,24	0,91	0,76	
R46	Debt Service Cover Ratio (Cash Generated by Operations / Debt Service)		3 : 1	3 : 1	4.4 : 1	4.9 : 1	5.7 : 1	5.9 : 1	

	<u>N.T.</u> <u>NORM</u>	<u>2024</u>	<u>2026</u>	<u>2028</u>	<u>2030</u>	<u>2032</u>	<u>2033</u>	<u>COMMENTS</u>	
SUSTAINABILITY									
	Net Financial Liabilities Ratio	< 60%	75,4%	80,7%	79,1%	70,7%	52,9%	40,5%	Net Financial Liabilities are below the benchmark, but the Operating Surplus Ratio remains below the recommended lower benchmark for the majority of the planning period. Asset Sustainability is not calculated but entered as an assumption in the model. The municipality must ensure that a greater proportion of CAPEX is spent on asset replacement should it be required.
	Operating Surplus Ratio	0% - 10%	-17,7%	-7,8%	-5,6%	-1,0%	4,5%	7,4%	
	Asset Sustainability Ratio	> 90%	65,4%	19,2%	18,4%	18,1%	18,0%	18,0%	
FINANCIAL PERFORMANCE									
EFFICIENCY									
R42	Net Operating Surplus / Total Operating Revenue	>= 0%	-17,7%	-7,8%	-5,6%	-1,0%	4,5%	7,4%	The net operating surplus is below 0% for the MTREF period and improves to 7.4% by 2033, an indication that the municipality should endeavour to improve profitability by managing expenditure and improving surplus margins on electricity services and maintaining the high-water surplus margin.
R43	Electricity Surplus / Total Electricity Revenue		23,2%	23,1%	26,7%	26,7%	26,7%	26,7%	
R44	Water Surplus / Total Water Revenue		79,5%	79,6%	80,0%	80,0%	80,0%	80,0%	
REVENUE MANAGEMENT									
R8	Increase in Billed Income p.a. (R'm)		R 51,0 m	R 31,8 m	R 34,6 m	R 39,2 m	R 47,6 m	R 51,8 m	Billed Revenue and Operating Revenue Growth is, for the most part, marginally above forecast CPI over the planning period. Cash generated from operations is expected improve throughout the planning period.
R9	% Increase in Billed Income p.a.	CPI	12,4%	6,5%	6,2%	6,2%	6,7%	6,8%	
R12	Operating Revenue Growth %	CPI	8,1%	5,0%	2,7%	7,1%	7,8%	8,1%	
R47	Cash Generated by Operations / Own Revenue		27,0%	22,2%	28,6%	29,9%	35,0%	37,8%	
R48	Cash Generated by Operations / Total Operating Revenue		20,6%	17,6%	22,4%	23,3%	27,3%	29,4%	



	<u>N.T.</u> <u>NORM</u>	<u>2024</u>	<u>2026</u>	<u>2028</u>	<u>2030</u>	<u>2032</u>	<u>2033</u>	<u>COMMENTS</u>	
EXPENDITURE MANAGEMENT									
	Creditors Payment Period	30	131	206	220	248	280	299	Creditors' payment period is higher than the NT benchmark but remains at acceptable levels. Staff costs as a percentage of total expenditure is forecast to remain within the recommended benchmark throughout the planning period. Contracted services to total expenditure, however, is forecast to exceed the recommended benchmark.
R30	Contribution per Expenditure Item: Staff Cost (Salaries, Wages and Allowances)	25% - 40%	28,6%	30,8%	27,8%	28,3%	28,8%	29,1%	
	Contribution per expenditure item: Contracted Services	2% - 5%	9,2%	6,3%	3,7%	4,0%	4,3%	4,5%	
GRANT DEPENDENCY									
R10	Total Grants / Total Revenue		36,8%	30,7%	32,6%	31,7%	30,9%	30,4%	The municipality can generate funds from its own sources and is not overly reliant on grants. This is positive to note, as the tightening of the national fiscus will result in a declining reliance on transfers from other spheres of government.
R11	Own Source Revenue to Total Operating Revenue		76,3%	79,5%	78,5%	78,1%	77,8%	77,8%	
	Capital Grants to Total Capital Expenditure		67,4%	70,7%	80,4%	75,5%	72,2%	70,8%	



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CONCLUSION

OUTCOME OF THE INDEPENDENT FINANCIAL ASSESSMENT

Theewaterskloof's financial performance deteriorated significantly during the year, posting an accounting deficit of R85.8 million in the current year. The operating deficit (excluding capital grants) deteriorated to R141.2 million during FY2022/23. This deterioration was driven by a marginal decline in electricity revenue as well as severe increases in contracted services expenditure and other expenditure. The marginal decline in the collection rate to 82% as at FYE2022/23 as well as the poor financial performance is reflected in a severe deterioration in the municipality's ability to generate cash from operations, with cash utilised by operations (excluding capital grants) to the value of R80.3 million in the current year.

Staff costs as a percentage of total expenditure reduced to 28% from 35% in the prior year. Contracted services increased to R123.7 million in the current year from R44.7 million in the prior year. This brings the contribution to operating expenditure to 15%, far exceeding the recommended norm range of 2%-5%. This increase was mainly driven by an increase in expenditure on outsourced security services. Repairs and maintenance expenditure as a percentage of PPE & IP came in at 2%.

There has been a notable acceleration of the capital investment programme in recent years, with a capital expenditure totalling R142.5 million in FY2022/23. The funding mix has historically been reliant on capital grants, with borrowing undertaken in each of the last 3 years. Capital budget implementation was reasonably poor over the review period.

The debt profile has become increasingly leveraged due to the acceleration of the borrowing programme in recent years. While the debt service to total expense ratio of 4% as at FYE2022/23 remains affordable, the gearing ratio of 31% is approaching unsustainable levels. Borrowing can be undertaken over the MTREF period, but a disciplined approach must be taken. The debt service cover ratio deteriorated significantly to -2.53 due to the lack of cash generation in the current year. This must be improved.

The poor financial performance resulted in a deterioration of the liquidity position during the year, with the liquidity ratio reducing to 0.91:1 at the current year end.

This resulted in a cash shortfall of R71.2 million on the minimum liquidity requirement of R156.7 million in the current year. The municipality has posted cash shortfalls in 4 of the 8 years under review.

STRENGTHS

- Accelerated capital expenditure over last 3 years.
- Accelerated borrowing programme to fund capital expenditure over last 3 years.
- Affordable employee related expenditure.
- Fully provided for debtors older than 90 days.

WEAKNESSES

- Deterioration in financial performance leading to posting of an operating deficit of R141.2 million during FY2022/23.
- Cash utilisation by operations (R80.3 million in FY2022/23).
- High level of expenditure on contracted services.
- Reasonably low 8-year average capital budget implementation indicator of 73% over last 5 years. (NT benchmark of 95%).
- Low collection rate of 82% as at FYE2022/23.
- High reliance on grant revenue (28% in FY2022/23).

OUTCOME OF THE FUTURE FORECASTS

TWK presented an operating budget that reflects a significant improvement from FY2022/23 and the Adjustment Budget, in which severe deficits were observed. The LTFM indicates that the budgeted improvements will be insufficient for the financial situation to be stabilised. It is recommended that further improvements are targeted. The Tabled Capital Budget reflects an aggressive acceleration of capital investment and borrowing. The LTFM indicates that this will likely prove unaffordable. It is recommended that the Capital Budget is revised and reduced considerably. The priority for the municipality must be to stabilise the declining financial position. Once this has been achieved, the focus can shift towards an acceleration of capital investment.

The premise behind the Base Case is to utilise realistic, achievable assumptions that aim to guide the municipality towards long-term financial sustainability. The key assumptions are listed below:

1. The collection rate was assumed to improve to 87% over the MTREF period.
2. The model incorporated the increases in revenue as announced in the Tabled Budget, while operating expenditure was cut by 3%.
3. The Tabled Capital Budget was adjusted as follows:
 - FY2025/26: R155.0 million (from R214.7 million)
 - FY2026/27: R170.0 million (from R270.9 million)
 - FY2026/27: R178.0 million (from R305.0 million)Assumed growth in capital investment thereafter is 2% p.a.
4. The Tabled Budget borrowing programme was adjusted as follows:
 - FY2025/26: R42.2 million (from R93.1 million)
 - FY2025/26: R44.7 million (from R111.8 million)
 - FY2026/27: R25.1 million (from R131.1 million)

The annual borrowing under this scenario was adjusted to an average of 10-year amortising loans at a fixed interest rate equal to 6% over forecast CPI in any given year. Assumed annual growth in borrowing beyond the MTREF period is 6%.

5. Repairs and maintenance expenditure was increased to 3% of PPE & IP over the planning period.
6. Electricity distribution losses were maintained at 5.4% while water distribution losses were reduced to 23.0% from 29.8% over 5 years.

7. Tariff increases were included as put forward in the Tabled Budget Document.

The Base Case presents a sustainable outcome that reflects an affordable acceleration of capital investment, sustainable debt profile and healthy liquidity position. An additional 3 scenarios were run to assess the potential impact of changes to certain assumptions, whilst holding all other variables constant, unless otherwise stated. The outcomes of these scenarios are summarised below.

SENSITIVITY ANALYSIS ON THE COLLECTION RATE

The Base Case assumes the collection rate will improve from 83% to 87% over the MTREF period. This scenario assesses the impact of the municipality failing to achieve this improvement. As such, the Tabled Budget collection rate of 83% is assumed to be maintained throughout the planning period. The outcomes of this scenario were characterised by a severe decline in financial performance and cash generation. This translated into an unsustainable liquidity position. These outcomes highlight the importance of the municipality improving upon the Tabled Budget collection rate.

NO REDUCTION OF OPEX

The Base Case includes a 3% reduction of operating expenditure from the Tabled Budget. This was done to rectify the conservatism shown in the budgeting process. This scenario assesses the impact of the municipality failing to achieve the modelled reduction of opex. The scenario outcomes are characterised by a considerable reduction in financial performance and cash generation. This will translate into a significantly reduced and unsustainable liquidity position. The municipality is urged to find cost cuts wherever possible.

TABLED BUDGET CAPITAL INVESTMENT PROGRAMME

The Tabled Capital Budget reflects a significant acceleration of capital investment and borrowing. For purposes of ensuring sustainability, the Base Case presents a reduced capital budget. This scenario aims to assess the viability of the Tabled



Capital Budget being employed, with the assumed improvements in the collection rate and financial performance made in arriving at the Base Case included.

The outcomes of this scenario reflect a wholly unsustainable situation. The levels of capital investment and borrowing prove to be unaffordable and will result in a severe deterioration of the municipality's financial situation. This is further evidence that the municipality must revise its Tabled Capital Budget.

CONCLUSION

In conclusion, this report provides a roadmap for the municipality to foster and preserve an environment of financial sustainability and resilience. It is the municipality's responsibility to consider the guidelines and recommendations in this report with the aim of improving its financial position, unlocking accelerated capital investment whilst remaining financially sustainable and resilient in a harsh economic environment littered with challenges and the potential for financial shocks that could impact the municipality. The above will allow for further investment in projects that create an enabling environment for economic growth and development, which in turn will aim to reduce unemployment and cater for investment in infrastructure that will improve the lives of the municipality's inhabitants.

ANNEXURE 1: PROJECTED FINANCIAL STATEMENTS

Municipal Financial Model Statement of Financial Position

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	<i>R thousands</i>										
Non-current assets:	1 217 523	1 406 421	1 523 161	1 651 819	1 784 151	1 915 820	2 048 372	2 182 030	2 317 034	2 453 637	2 592 106
Property, plant and equipment	1 133 916	1 321 491	1 437 076	1 564 483	1 695 465	1 827 131	1 959 681	2 093 337	2 228 337	2 364 937	2 503 403
Intangible assets	273	213	152	88	20	22	24	27	30	33	37
Investment properties	68 565	68 565	68 565	68 565	68 565	68 565	68 565	68 565	68 565	68 565	68 565
Investments	13 829	15 212	16 429	17 743	19 162	19 162	19 162	19 162	19 162	19 162	19 162
Long-term receivables	940	-	-	-	-	-	-	-	-	-	-
Other non-current assets	-	940	940	940	940	940	940	940	940	940	940
Current assets:	176 249	123 829	100 488	94 655	98 424	122 893	144 350	192 818	272 896	390 469	551 429
Inventories	12 458	11 992	10 960	13 595	12 348	17 634	17 926	18 183	18 402	18 584	18 729
Trade and other receivables	77 875	75 605	75 605	75 605	75 605	75 605	75 605	75 605	75 605	75 605	75 605
Cash & Short term investments	85 916	36 233	13 924	5 456	10 471	29 655	50 819	99 031	178 889	296 280	457 095
TOTAL ASSETS	1 393 772	1 530 250	1 623 650	1 746 474	1 882 575	2 038 713	2 192 722	2 374 848	2 589 930	2 844 105	3 143 535
Municipal Funds:	837 889	859 531	937 189	993 384	1 112 444	1 209 667	1 324 069	1 460 741	1 626 530	1 828 417	2 073 877
Housing development fund & Other Cash Backed Reserves	-	-	-	-	-	-	-	-	-	-	-
Reserves (Not Cash Backed)	50 052	-	-	-	-	-	-	-	-	-	-
Accumulated surplus	787 836	859 531	937 189	993 384	1 112 444	1 209 667	1 324 069	1 460 741	1 626 530	1 828 417	2 073 877
Non-current liabilities:	361 204	399 474	431 419	468 799	490 206	516 111	547 319	581 861	618 977	657 386	705 518
Long-term liabilities (Interest Bearing)	181 287	199 999	214 389	232 559	232 838	234 333	236 708	237 777	236 595	231 756	231 657
Non-current provisions	179 917	199 475	217 030	236 240	257 368	281 778	310 611	344 084	382 382	425 630	473 861
Current liabilities:	194 679	271 245	255 042	284 292	279 925	312 935	321 334	332 246	344 423	358 303	364 140
Consumer deposits	5 486	6 341	7 082	7 870	8 704	9 323	9 958	10 627	11 327	12 060	12 853
Provisions	30 565	32 399	34 343	36 404	38 588	38 588	38 588	38 588	38 588	38 588	38 588
Trade and other payables	137 260	208 199	185 807	213 488	207 812	239 913	246 961	254 206	261 637	269 226	276 996
Bank overdraft	-	-	-	-	-	-	-	-	-	-	-
Current portion of interest bearing liabilities	21 368	24 306	27 810	26 530	24 821	25 111	25 827	28 825	32 870	38 429	35 703
TOTAL MUNICIPAL FUNDS AND LIABILITIES	1 393 772	1 530 250	1 623 650	1 746 475	1 882 576	2 038 713	2 192 722	2 374 849	2 589 930	2 844 106	3 143 535



Municipal Financial Model
Statement of Financial Performance

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>
	<i>R thousands</i>										
Revenue											
Property rates	136 354	153 425	161 158	170 900	181 026	192 916	206 623	222 176	239 574	258 795	279 797
Service Charges	273 786	307 850	329 708	351 672	376 335	398 905	420 025	443 472	469 270	497 439	527 977
Service charges - electricity	114 037	133 915	146 113	157 441	170 639	180 499	187 371	195 022	203 421	212 537	222 331
Service charges - water	79 377	88 903	93 864	99 118	104 900	111 503	118 937	127 190	136 294	146 280	157 172
Service charges - sanitation	40 514	42 621	44 976	47 674	50 523	53 584	56 999	60 780	64 938	69 483	74 421
Service charges - refuse	39 858	42 411	44 755	47 439	50 274	53 320	56 718	60 480	64 618	69 140	74 054
Service charges - other	-	(0)	0	0	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Rental of facilities and equipment	1 855	1 716	1 716	1 819	1 928	2 078	2 244	2 427	2 629	2 851	3 093
Interest earned - external investments	11 469	6 054	3 221	1 807	1 600	2 171	3 588	5 223	8 746	14 541	23 015
Interest earned - outstanding debtors	23 463	25 513	33 543	35 556	37 689	4 673	5 163	5 669	6 187	6 715	7 246
Dividends received	-	-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits	35 670	28 394	29 394	31 158	33 027	35 590	38 430	41 574	45 034	48 820	52 967
Licences and permits	4 362	23	25	26	28	30	34	38	43	48	54
Agency services	7 636	9 378	9 894	10 488	11 117	11 980	12 936	13 994	15 159	16 433	17 829
Transfers and subsidies (operating)	141 901	172 545	166 190	167 506	178 248	191 900	207 030	223 768	242 173	262 295	284 303
Other revenue	33 855	14 859	37 406	39 652	42 031	45 292	48 907	52 908	57 311	62 129	67 407
Gain on disposal of PPE	395	5 346	5 346	5 667	6 007	6 889	7 948	9 204	10 678	12 385	14 338
Revaluation of assets gain / (loss)	-	-	-	-	-	-	-	-	-	-	-
Total revenue before Capital Grants	670 745	725 104	777 602	816 250	869 037	892 424	952 926	1 020 453	1 096 804	1 182 451	1 278 025
Capital Grants	55 425	149 481	112 748	120 226	149 837	147 468	146 597	146 821	147 744	149 020	150 403
Public & developers contributions	-	720	-	-	-	-	-	-	-	-	-
Total Revenue after Capital Grants	726 170	875 305	890 349	936 476	1 018 874	1 039 892	1 099 523	1 167 273	1 244 548	1 331 471	1 428 428
Operating expenditure											
Employee related costs	248 235	293 057	290 457	307 884	326 357	296 479	311 619	327 901	345 379	364 091	384 055
Remuneration of councillors	12 686	13 988	14 356	15 218	16 131	16 945	17 849	18 843	19 924	21 093	22 346
Debt impairment	99 603	95 309	92 970	90 264	96 127	102 443	109 006	116 330	124 425	133 299	142 971
Depreciation and asset impairment	32 476	34 279	39 415	42 592	47 019	51 674	56 290	60 850	65 340	69 751	74 076
Finance charges	32 479	16 997	18 673	20 917	20 648	20 955	21 441	22 332	23 221	24 086	24 729
Bulk purchases	87 774	102 836	114 416	121 084	125 036	132 261	137 296	142 902	149 056	155 736	162 913
Inventory Consumed	52 382	56 404	67 092	70 530	74 539	147 195	147 086	146 367	145 027	143 036	140 371
Repairs and maintenance	-	-	-	-	-	-	-	-	-	-	-
Contracted services	123 739	98 591	61 431	65 717	70 260	41 823	45 331	49 183	53 384	57 937	62 878
Transfers and subsidies	8 427	10 932	5 781	828	878	937	1 002	1 074	1 153	1 238	1 331
Other expenditure	136 608	125 970	99 585	136 220	113 253	120 985	125 542	130 160	134 844	139 591	144 463
Loss on disposal of PPE	-	5 301	8 515	9 026	9 567	10 971	12 658	14 659	17 006	19 725	22 836
Total Expenditure	834 408	853 663	812 691	880 281	899 814	942 669	985 122	1 030 601	1 078 759	1 129 584	1 182 968
Surplus/ (Shortfall) for the year	(108 238)	21 642	77 658	56 195	119 060	97 223	114 402	136 673	165 789	201 886	245 460

Municipal Financial Model
Cash Flow Statement

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
<i>R thousands</i>											
Cash flows from Operating Activities											
Suplus/Deficit for the year including Capital Grants	(108 238)	21 642	77 658	56 195	119 060	97 223	114 402	136 673	165 789	201 886	245 460
Suplus/Deficit for the year excluding Capital Grants & Contributions	(128 559)	(35 089)	(35 089)	(64 032)	(30 777)	(50 245)	(32 196)	(10 148)	18 045	52 867	95 057
Capital Grants & Contributions	150 201	112 748	120 226	149 837	147 468	146 597	146 821	147 744	149 020	150 403	
Adjustments for non-cash items:											
Depreciation, amortisation and impairment loss	32 476	34 279	39 415	42 592	47 019	51 674	56 290	60 850	65 340	69 751	74 076
Revaluation on investment property (gain) / loss	-	-	-	-	-	-	-	-	-	-	-
Increase / (Release from) current provisions & non-interest bearing liabilities	-	1 834	1 944	2 061	2 184	-	-	-	-	-	-
Increase / (Release from) other non-current provisions & non-interest bearing liabilities	-	19 558	17 555	19 210	21 128	24 410	28 833	33 473	38 298	43 248	48 230
(Increase) / Release from non-current interest bearing assets	-	(1 383)	(1 217)	(1 314)	(1 419)	-	-	-	-	-	-
Capitalised interest	-	-	-	(0)	(0)	-	-	-	-	(0)	-
Operating surplus before working capital changes:	(75 762)	75 930	135 356	118 744	187 972	173 307	199 525	230 995	269 427	314 886	367 766
Change in WC Investment											
(Increase)/decrease in inventories	-	73 675	(21 359)	25 046	(4 430)	26 815	6 755	6 989	7 211	7 408	7 625
(Increase)/decrease accounts receivable	-	466	1 032	(2 635)	1 247	(5 286)	(293)	(256)	(220)	(181)	(145)
Increase/(decrease) in trade payables	-	2 270	0	(0)	0	(0)	(0)	0	0	(0)	(0)
Net cash flow from Operating activities	(75 762)	149 605	113 996	143 790	183 542	200 122	206 280	237 984	276 639	322 294	375 391
Cash flows from Investing Activities											
Capital expenditure	-	(221 794)	(154 939)	(169 936)	(177 932)	(183 342)	(188 842)	(194 508)	(200 344)	(206 354)	(212 545)
Decrease/(Increase) in non-current receivables	-	-	-	-	-	-	-	-	-	-	-
(Additions) / Disposals of investment property	-	0	-	-	-	-	-	-	-	-	-
Net cash flow from Investing activities	-	(221 794)	(154 939)	(169 936)	(177 932)	(183 342)	(188 842)	(194 508)	(200 344)	(206 354)	(212 545)
Cash flows from Financing Activities											
New loans raised	-	53 753	42 200	44 700	25 100	26 606	28 202	29 895	31 688	33 589	35 605
Loans repaid	-	(32 103)	(24 306)	(27 810)	(26 530)	(24 821)	(25 111)	(25 827)	(28 825)	(32 870)	(38 429)
(Decrease) / Increase in consumer deposits	-	855	741	788	835	619	636	668	700	733	793
Net cash flow from Financing activities	-	22 505	18 634	17 678	(595)	2 403	3 727	4 736	3 563	1 452	(2 031)
Change in Cash	(75 762)	(49 684)	(22 309)	(8 468)	5 015	19 183	21 164	48 212	79 858	117 391	160 815
Cash/(Overdraft), Beginning		85 916	36 233	13 924	5 456	10 471	29 655	50 819	99 031	178 889	296 280
Cash/(Overdraft), Ending	85 916	36 233	13 924	5 456	10 471	29 655	50 819	99 031	178 889	296 280	457 095

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