INCA
Portfolio Managers

THEEWATERSKLOOF MUNICIPALITY

LTFP Update 2025

Theewaterskloof
Municipality

Prepared by
INCA Portfolio Managers
March 2025

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 March 2025 update aims to update the LTFP based on the latest available information, and report on the findings.

The objective of a Long-Term Financial Plan 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.

The historic financial analysis was updated with the information captured in the municipality's audited financial statements of 30 June 2024. IPM's Long-Term Financial Model (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 Adjustment Budget for the 3 years from 2025/2026 to 2027/2028.

EXECUTIVE SUMMARY

Theewaterskloof LM's financial situation has deteriorated significantly in recent years. This has been characterised by a severe deterioration in financial performance, with operating deficits posted in each of the last 3 years (FY2023/24: R188.4 million). This has led to a notable reduction in the liquidity position, as evidenced by the liquidity ratio of 0.34:1 as at FYE2023/24. The extent of the deterioration over the last 3 years leaves Theewaterskloof in a precarious financial situation with severe interventions required in order for the financial position to turn around. TWK has presented a reasonably optimistic operating budget which reflects a significant improvement in financial performance. Given the current situation and recent historic trends, TWK's ability to achieve the budgeted financial performance is doubtful. Severe cost-containment measures are required in order for financial performance to stabilise.

An MTREF Case, which incorporates the unadjusted budget figures (operating & capital) whilst maintaining the FYE2023/24 performance for key metrics such as the collection rate, R&M expenditure etc. was developed. The outcome of this scenario was wholly unsustainable. A Base Case, which aims to utilise realistic assumptions to achieve a sustainable long-term outcome, was developed. The underlying assumptions in the Base Case aim to address the areas of concern noted in the MTREF Case. This has been achieved. The Base Case aims to stabilise the financial position through improving revenue collection, financial performance through implementing further cost-containment measures as well as by employing a capital funding mix that prioritises the stabilisation of the liquidity position. The stabilisation of the liquidity position must be the absolute priority for TWK.

The following key assumptions were made in arriving at the Base Case:

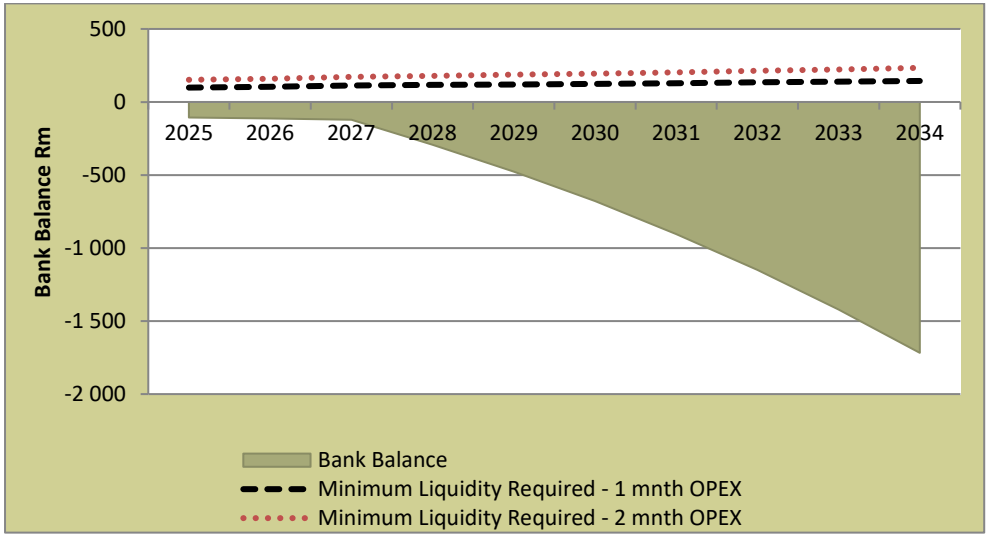
1. The collection rate is assumed to increase to 90% over 3 years (from 83%).
2. The Adjustment Budget operating expenditure was cut by 2.5%.
3. Tariff increases were maintained as put forward in the Budget Document.
4. Creditors days were reduced to 60 days over 10 years (from 175 days).
5. The Adjustment Capital Budget was limited to capital grants over the MTREF period, with R10 million in borrowings included in FY2025/26 specifically for the procurement of smart meters and the revitalisation of the municipal fleet. Assumed annual growth in capital investment beyond FY2027/28 is 6% p.a.
6. R20 million in borrowings were included in FY2027/28. The annual borrowing under this scenario was adjusted to an average of **13-year** amortising loans at a fixed interest rate equal to 8% over forecast CPI in any given year. Assumed annual growth in borrowing beyond the MTREF period is 6%.
7. Repairs and maintenance expenditure was increased to 4.0% of PPE & IP over 5 years (from 2.6%).
8. Electricity and water distribution losses were maintained at 3.70% & 21.68% respectively.

LONG-TERM FINANCIAL MODEL OUTCOMES

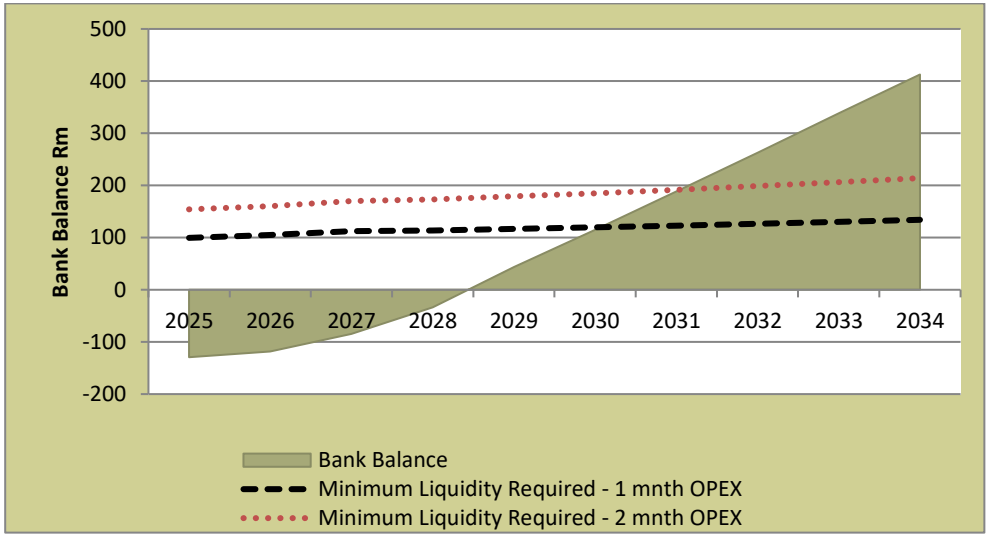
Based on these assumptions, key outcomes for the 10-year planning period are as follows:

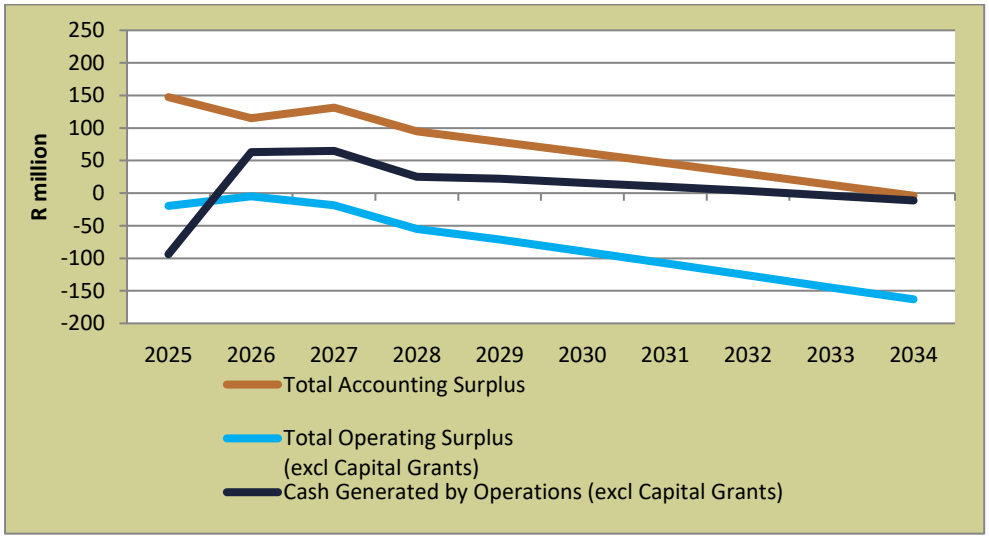
Outcome	MTREF Case	Base Case
Average annual % increase in Revenue	5,7%	5,7%
Average annual % increase in Expenditure	4,4%	2,6%
Accounting Surplus accumulated during Planning Period (Rm)	R 715	R 1 668
Operating Surplus accumulated during Planning Period (Rm)	**-R 800**	**R 153**
Cash generated by Operations during Planning Period (Rm)	**R 95**	**R 726**
Average annual increase in Gross Consumer Debtors	9,3%	5,2%
Capital investment programme during Planning Period (Rm)	**R 3 387**	**R 1 861**
External Loan Financing during Planning Period (Rm)	**R 401**	**R 178**
Cash and Cash Equivalents at the end of the Planning Period (Rm)	**-R 1 718**	**R 413**
No of Months Cash Cover at the end of the Planning Period (Rm)	**-19,1**	**5,2**
Liquidity Ratio at the end of the Planning Period	**0.1 : 1**	**3.3 : 1**
Gearing at the end of the Planning Period	**16,6%**	**14,4%**
Debt Service to Total Expense Ratio at the end of the Planning Period	**12,0%**	**3,7%**

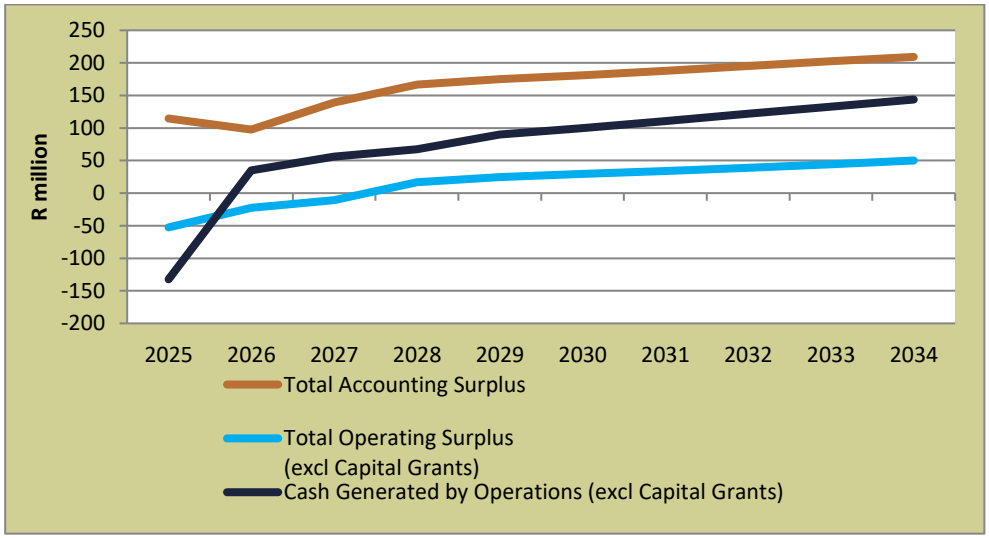
MTREF Case Scenario



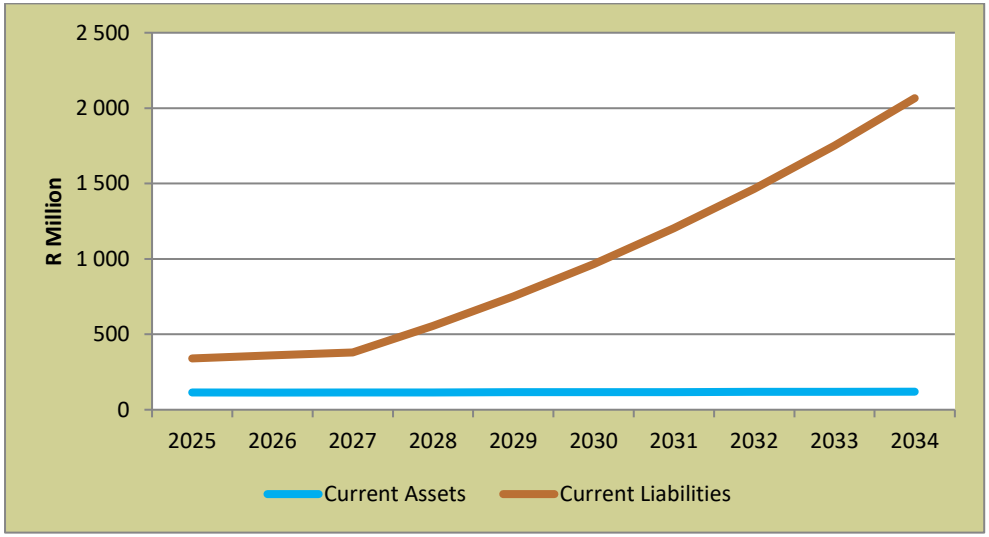
Base Case Scenario







MTREF CASE SCENARIO



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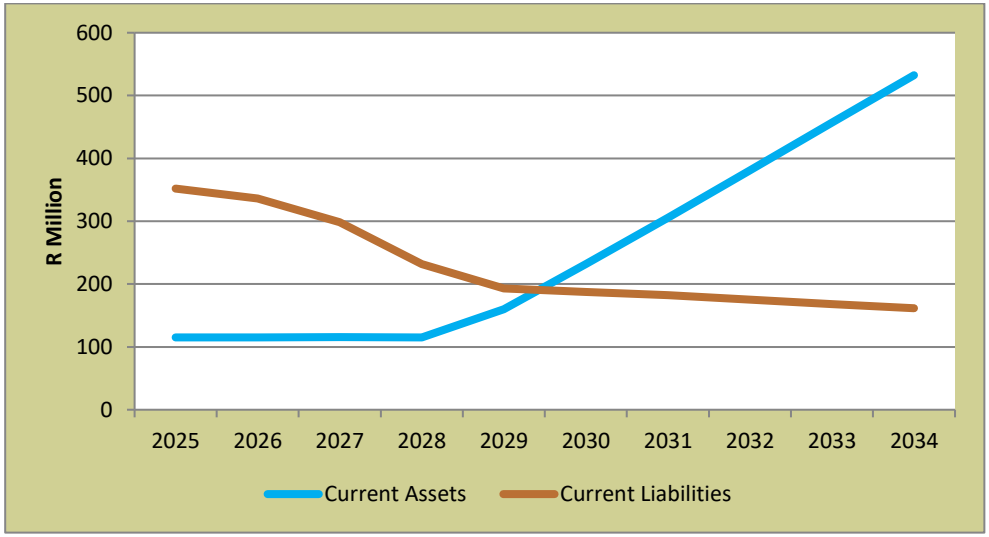
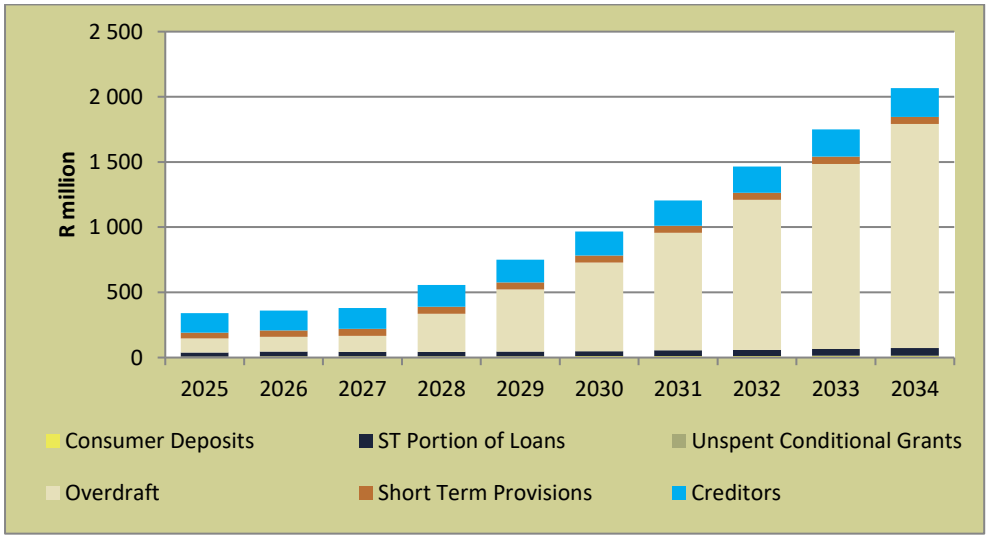
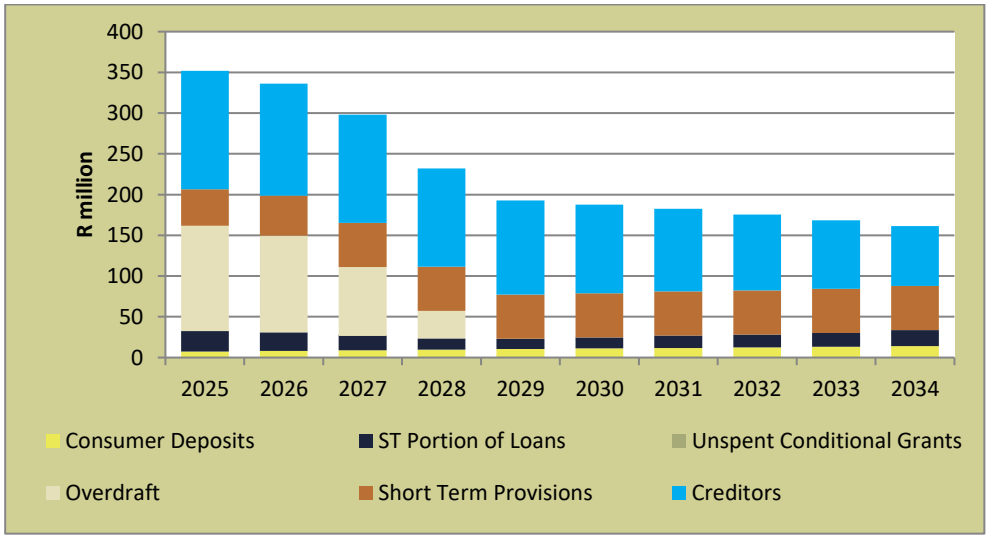






CAPEX AFFORDABILITY & FUNDING MIX

BASE CASE 10-YEAR CAPITAL FUNDING MIX

Source	Rm	%
Public & Developers' Contributions	102	5%
Capital Grants	1 414	76%
Financing	178	10%
Cash Reserves and Funds	170	9%
Cash Shortfall	0	0%
Capital Expenditure	**1 861**	**100%**

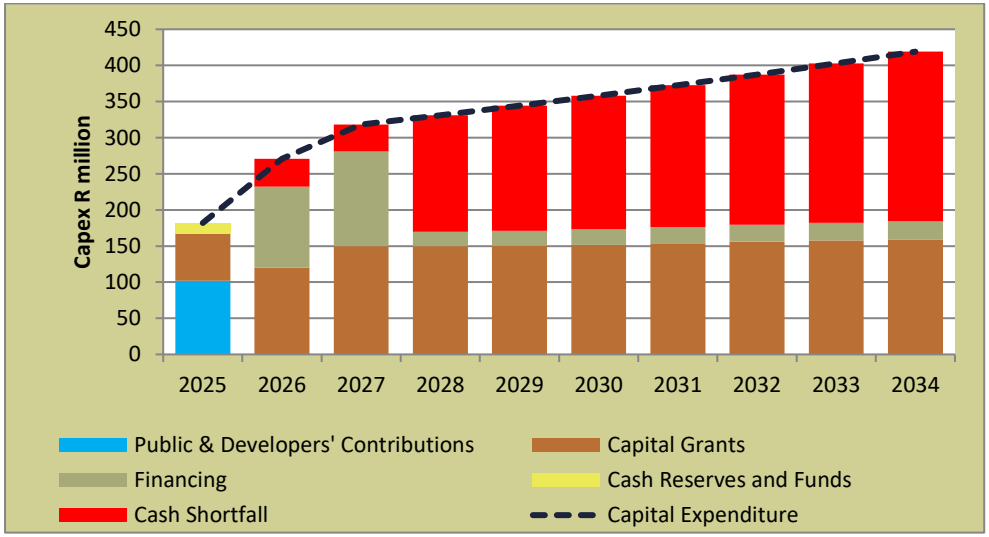
BASE CASE DISTRIBUTION OF FUTURE CAPITAL FUNDING (R'M)

R'm	Total	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public & Developers' Contributions	**102**	102	0	0	0	0	0	0	0	0	0
Capital Grants	**1 414**	65	120	150	150	150	152	154	156	158	159
Financing	**178**	0	10	0	20	21	22	24	25	27	28
Cash Reserves and Funds	**170**	0	0	0	0	0	17	25	33	42	53
Cash Shortfall	**0**	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	**1 861**	**166**	**130**	**150**	**170**	**171**	**191**	**202**	**214**	**227**	**241**

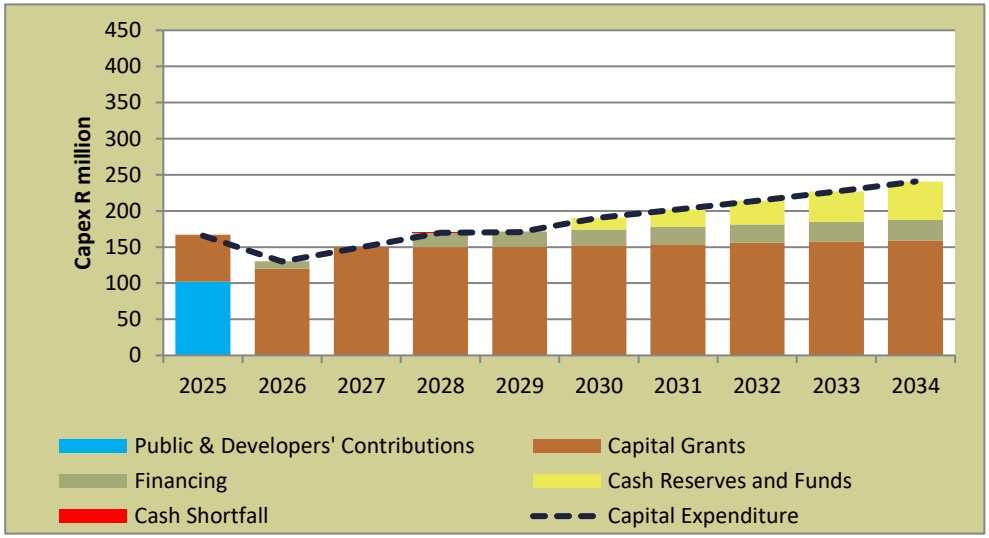
KEY TAKEAWAYS

- The affordable capital envelope for the 10-year planning period was calculated at **R1 861 million.**
- This is primarily funded through capital grants, with borrowings and own cash utilisation limited over the MTREF period.
- This is to allow the strained liquidity position to stabilise.
- Own cash is only introduced as a funding source from FY2028/29 in order to allow liquidity reserves to be built up.
- The stabilisation of the liquidity position must be the absolute priority for TWK, and this is reflected in the Base Case capital funding mix.

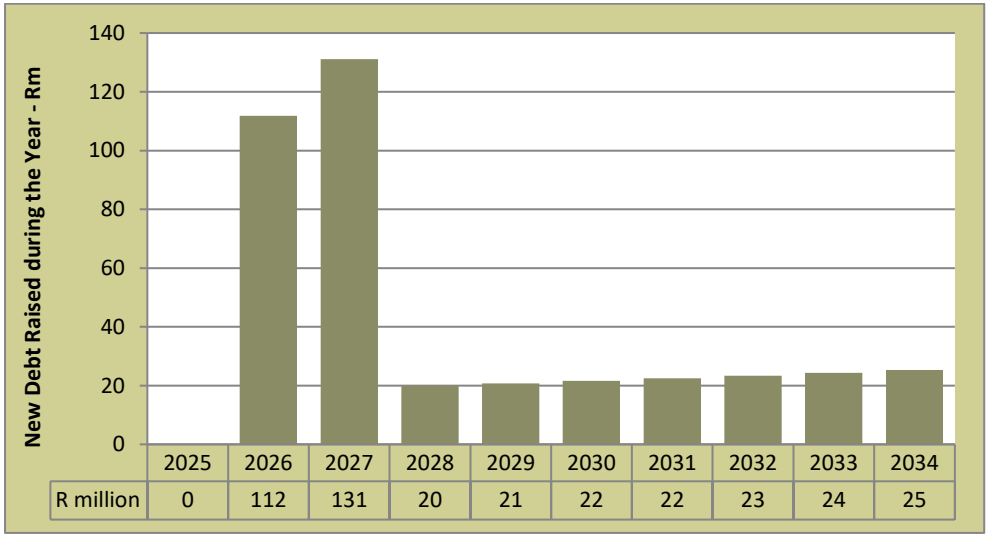
MTREF Case Capital Funding Mix



Base Case Capital Funding Mix

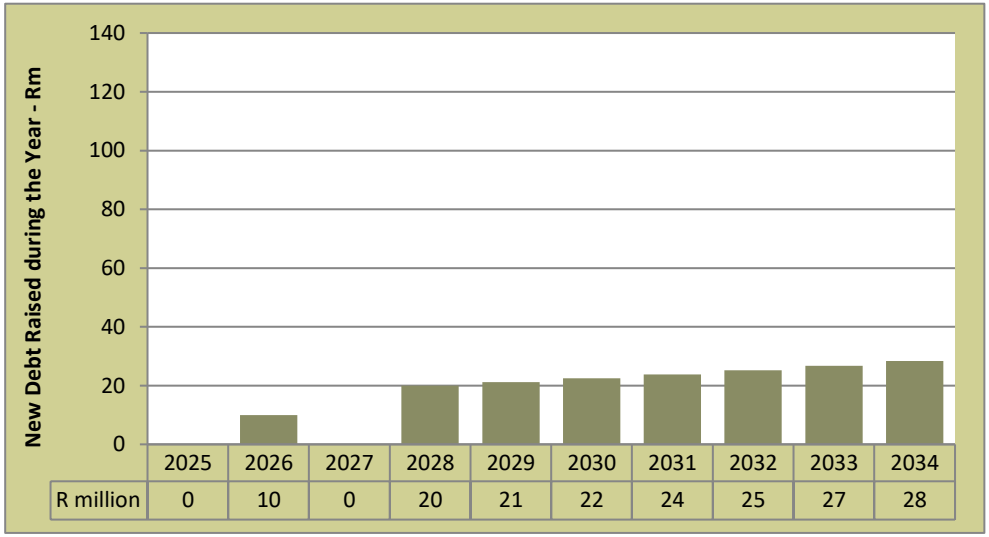


MTREF Case Estimate of Future External Financing



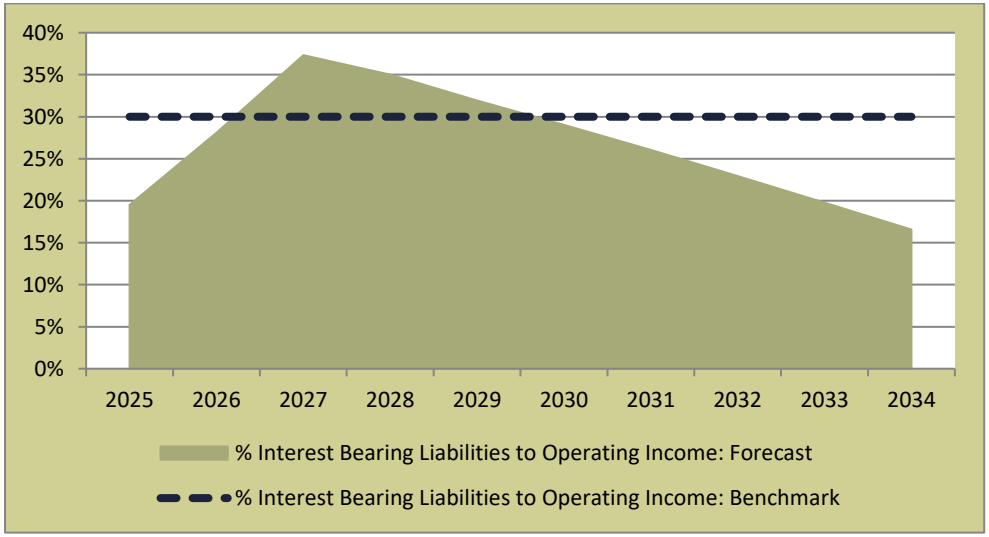
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
R million	0	112	131	20	21	22	22	23	24	25

Base Case Estimate of Future External Financing



	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
R million	0	10	0	20	21	22	24	25	27	28

MTREF Case Gearing Ratio



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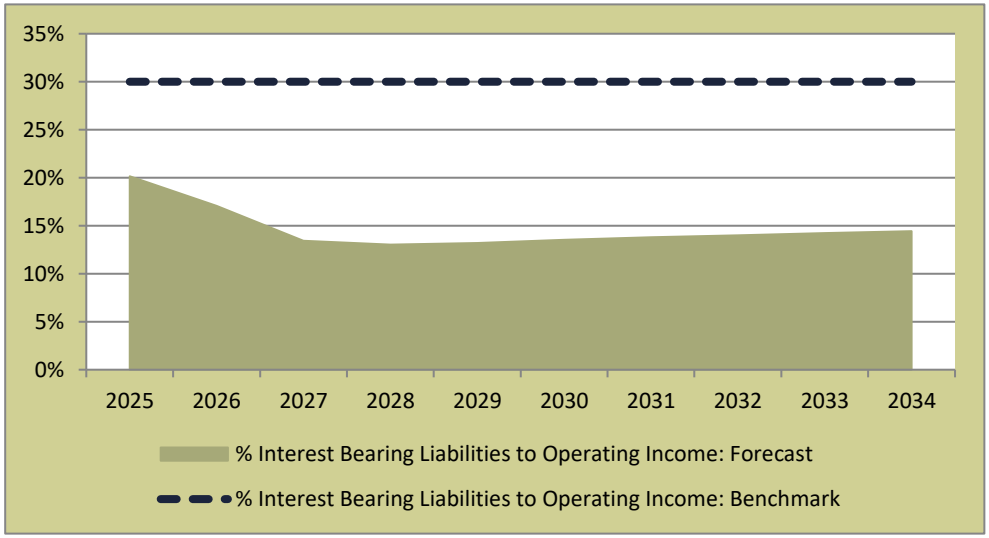
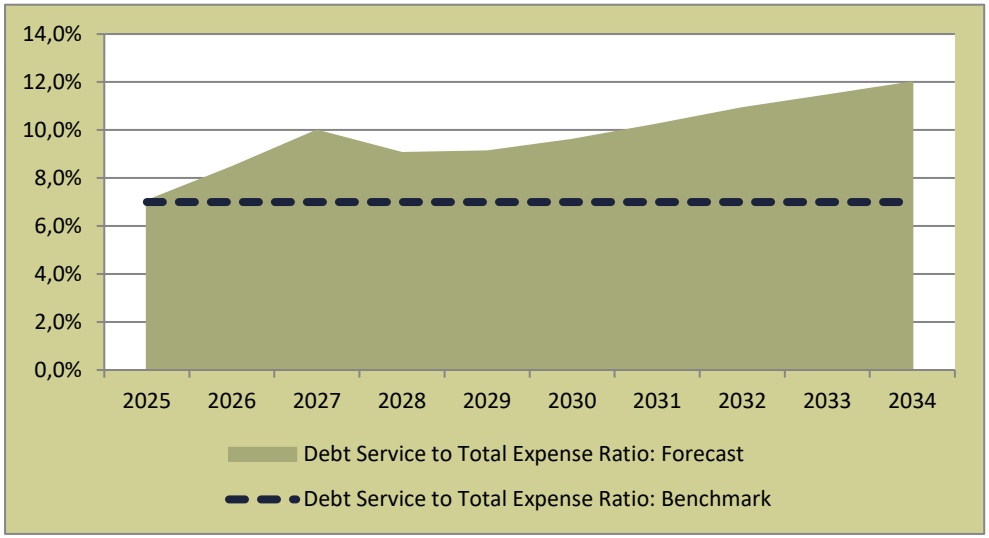


MTREF Case Debt Service to Total Expense Ratio



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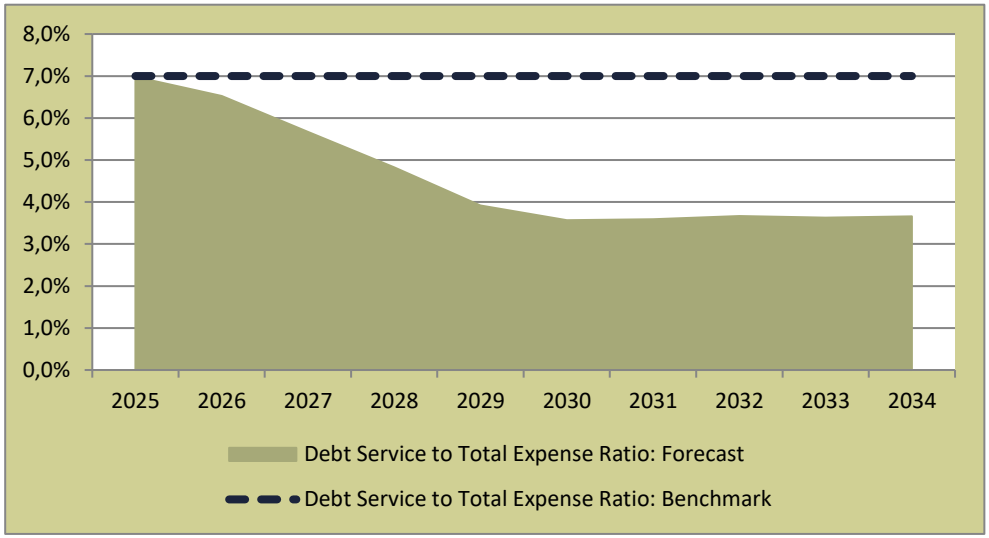

CONCLUSIONS & RECOMMENDATIONS

CONCLUSIONS:

- Theewaterskloof currently finds itself an unsustainable and deteriorating financial situation.
- The decline in financial performance and liquidity needs to be arrested urgently.
- Severe cost-containment measures are required with priority given to stabilising the liquidity position.

RECOMMENDATIONS:

- Improve the collection rate to 90% over 3 years, with further improvements targeted thereafter.
- Reduce budgeted operating expenditure by at least 2.5%.
- Ensure creditors are serviced in a timeously manner, once liquidity allows.
- Limit the MTREF period capital investment programme to capital grants and limited borrowings.
- Only introduce borrowings and own cash into the funding mix once liquidity has stabilised.
- The stabilisation of the liquidity position must be the absolute priority for the municipality.