



# THEEWATERSKLOOF MUNICIPALITY

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LTFP Update 2026



Theewaterskloof  
Municipality



Prepared by  
INCA Portfolio Managers  
March 2026



## 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 2026 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 2025. 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 position has deteriorated significantly in recent years. Based on historic financial data, the liquidity position of TWK began declining sharply from FYE2020/21, evidenced by the liquidity ratio decreasing from 1.82:1 to 0.32:1 in the most recent financial year (FYE2024/25). Similarly, cash generated from operations has reflected deficits in the three most recent financial years, with the last surplus recorded in FYE2021/22 at R32.98 million. In the following year, FYE2022/23, this shifted to a deficit of R89.5 million, with the most recent year, FYE2024/25, reflecting a deficit of R54.4 million. A similar trend is observed in both the accounting surplus and the total operating surplus, which began deteriorating significantly from FYE2021/22. However, a more encouraging trend has emerged in the most recent financial year. In FYE2024/25, the accounting surplus, albeit primarily attributed to significant rises in capital grants, improved from a deficit of R109.1 million (FYE2023/24) a surplus of R58.55 million. Likewise, the total operating surplus (excl. capital grants) improved from a deficit of R187.1 million to a smaller deficit of R44.87 million. Finally, the collection rate was calculated at 88% for FY2024/25.

With the previously mentioned in mind, it is our view that the LM's most recent budget has taken historic performance into consideration and is therefore not unrealistic. The MTREF Case maintain the status quo for metrics such as repairs and maintenance expenditure, distribution losses and creditors days. No adjustments were made to the operational or capital budgets. The base year collection rate was adjusted to 83% to match the budget. This has been maintained over the planning period in the MTREF Case. Based on the outcomes of the model forecast, the position remains financially unsustainable. This is evidenced by the accumulated operating deficit of R322 million over the planning period, which contributes to the unsustainable liquidity position (current ratio of 0.6:1 at FYE2034/35.) Other key issues identified include insufficient repairs and maintenance expenditure and notable growth in creditors.

The Base Case is informed by the MTREF Case outcomes and seeks to address key weaknesses identified in the MTREF Case through the Base Case assumptions. These assumptions aim to improve the financial situation whilst remaining realistic and achievable. The Base Case reflects a sustainable long-term outcome that prioritises the stabilisation of the liquidity position. While the short-term forecast financial performance remains worse than the MTREF Case, resulting in a lower opening bank balance (FYE2025/26), the long-term forecast remains healthy. The increase in repairs and maintenance expenditure contributes to the initially poor forecast financial performance relative to the MTREF Case. The improvement of the collection rate to 88% over 3 years, underpins improved financial performance over the longer-term through reducing debt impairment expenditure. This enables the municipality to improve its operational cash generation and thus begin to settle creditors timeously. This curtails the rapid growth observed in creditors in the MTREF Case and underpins the healthy forecast for liquidity.

The capital investment programme includes limited own cash utilisation over the short-term, in order to promote the stabilisation of the liquidity position. Once liquidity improves, the municipality can begin to accelerate its capital investment programme through own cash utilisation. This, along with increased operational repairs and maintenance expenditure, should underpin a proactive asset management strategy and provide returns in the form of reduced distribution losses and improved levels of service delivery.



## BASE CASE ASSUMPTIONS

The Base Case seeks to improve the previously mentioned outcomes through the incorporation of the following adjustments, with the results presented in the long-term financial model outcomes on the following page, followed by comparative graphs:

1. The collection rate is assumed to increase to 88% over 3 years (From 83%).
2. Creditors days were reduced to 100 days over 10 years (from 260 days).
3. Repairs and maintenance expenditure was increased to 3% of PPE & IP over 5 years (from 1.44%).
4. The MTREF capital investment programme was largely maintained with the only adjustment as follows:
  - MTREF Year 4 - FY2028/29: R158 million (Budget: R159.6 million)
5. Tariff increases were maintained as put forward in the Budget Document.
6. Electricity and water distribution losses were increased to 7% (from 3.69%) and 20% (from 16.24%) respectively.



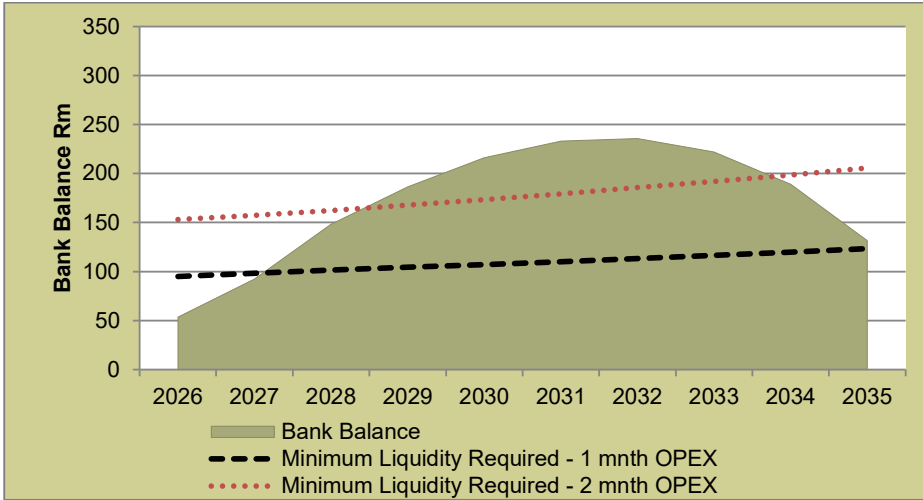
## LONG-TERM FINANCIAL MODEL OUTCOMES

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

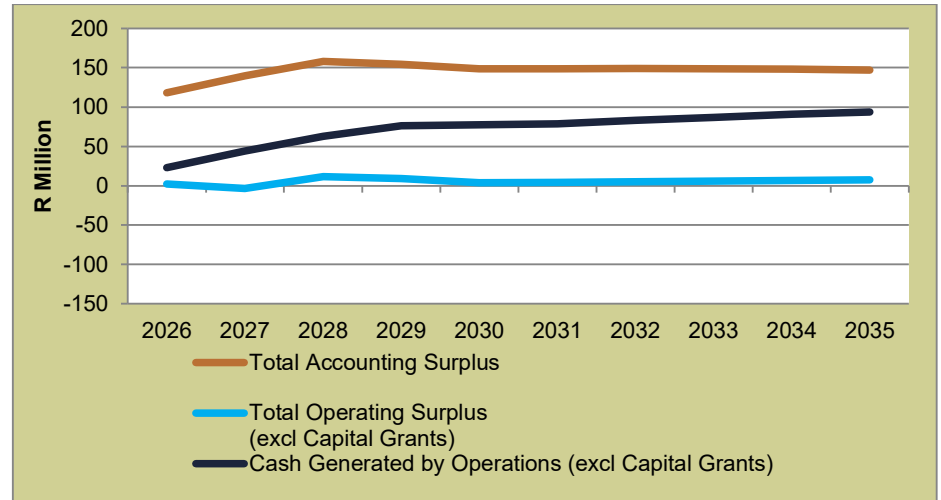
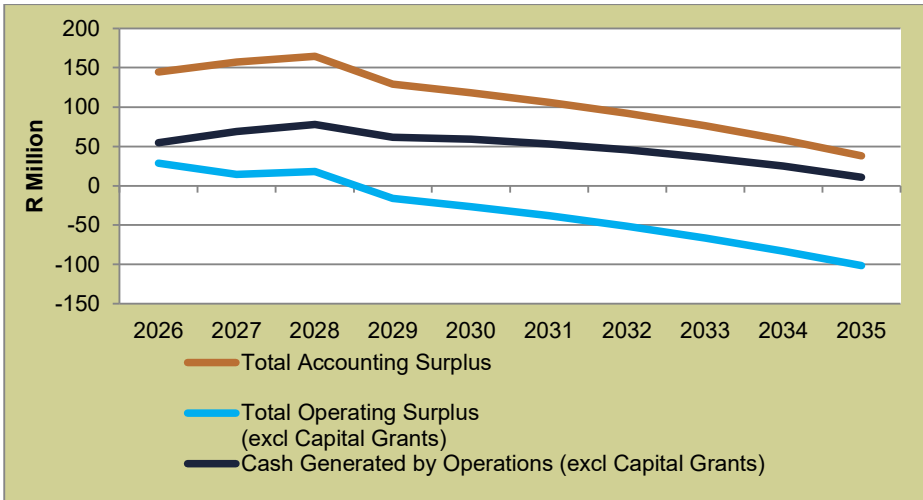
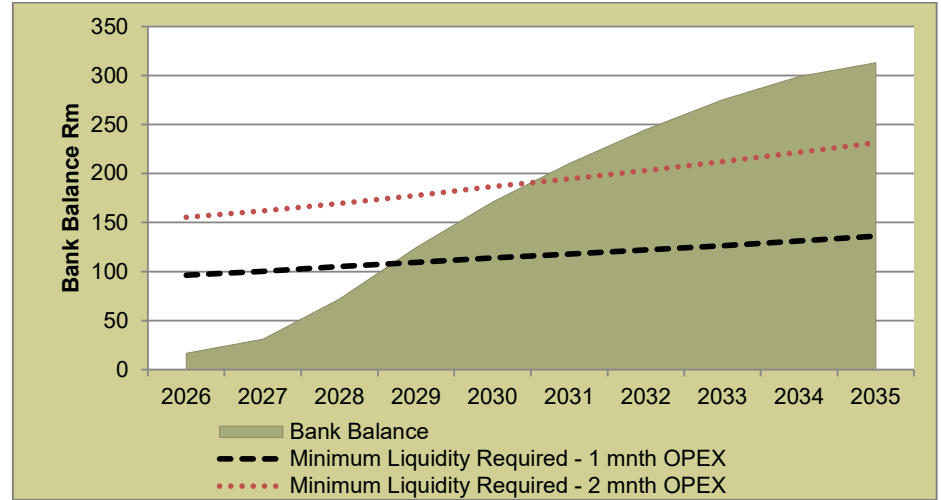
Outcome	MTREF Case	Base Case
Average annual % increase in Revenue	3,7%	6,0%
Average annual % increase in Expenditure	4,1%	5,6%
Accounting Surplus accumulated during Planning Period (Rm)	R 1 085	R 1 461
Operating Surplus accumulated during Planning Period (Rm)	-R 322	R 54
Cash generated by Operations during Planning Period (Rm)	R 494	R 718
Average annual increase in Gross Consumer Debtors	7,3%	9,5%
Capital investment programme during Planning Period (Rm)	R 1 664	R 1 706
External Loan Financing during Planning Period (Rm)	R 0,0	R 0,0
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 132	R 313
No of Months Cash Cover at the end of the Planning Period (Rm)	1,6	3,3
Liquidity Ratio at the end of the Planning Period	0,6 : 1	1,8 : 1
Gearing at the end of the Planning Period	2,5%	2,0%
Debt Service to Total Expense Ratio at the end of the Planning Period	2,2%	1,5%



**MTREF CASE SCENARIO**

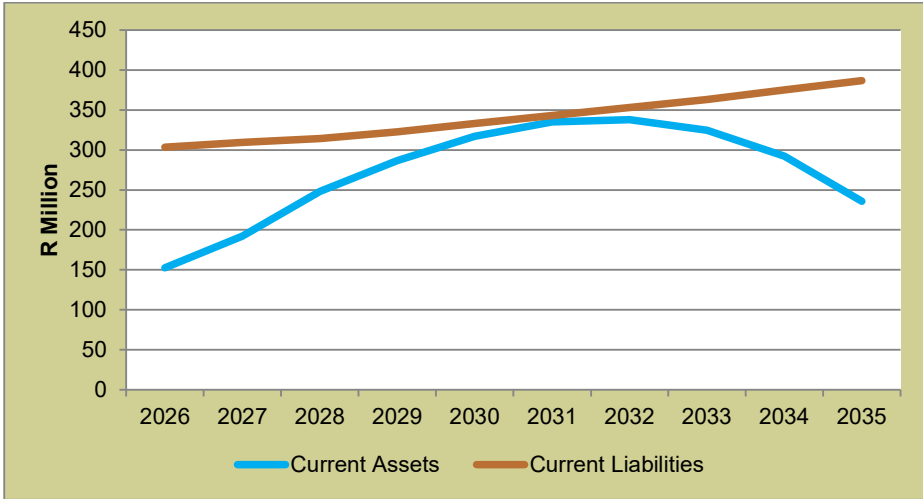


**BASE CASE SCENARIO**

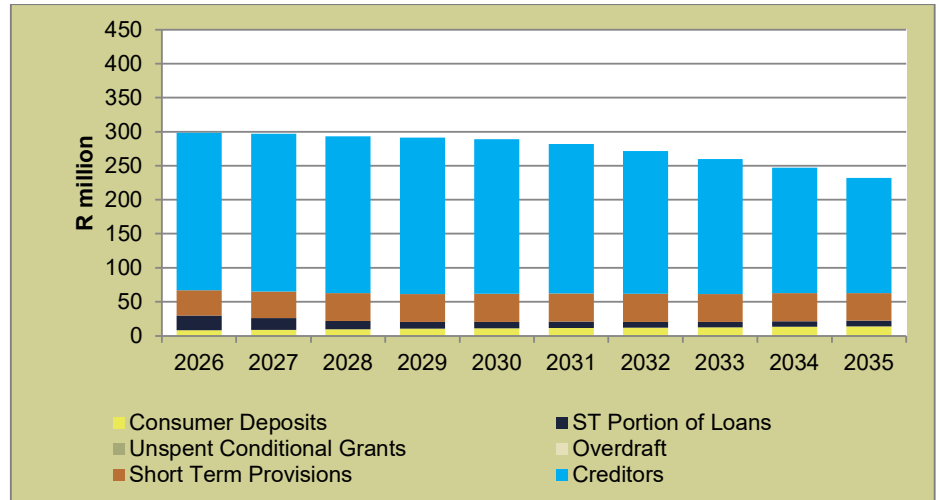
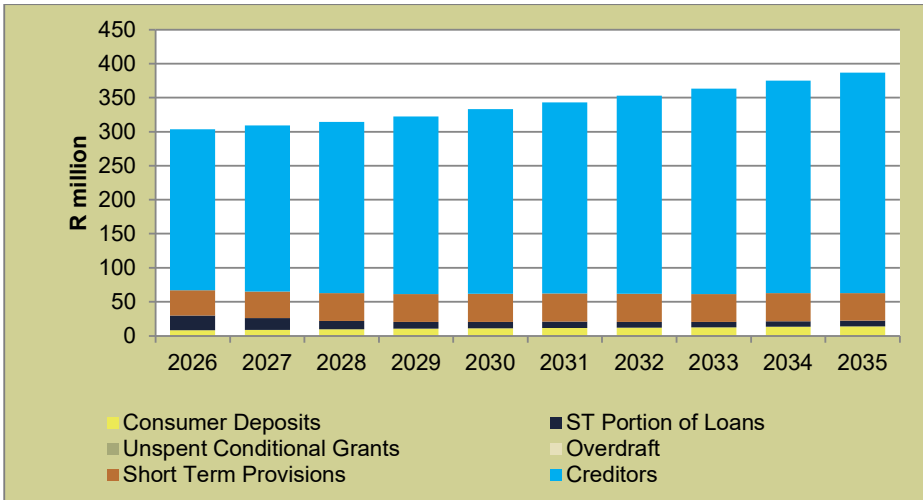
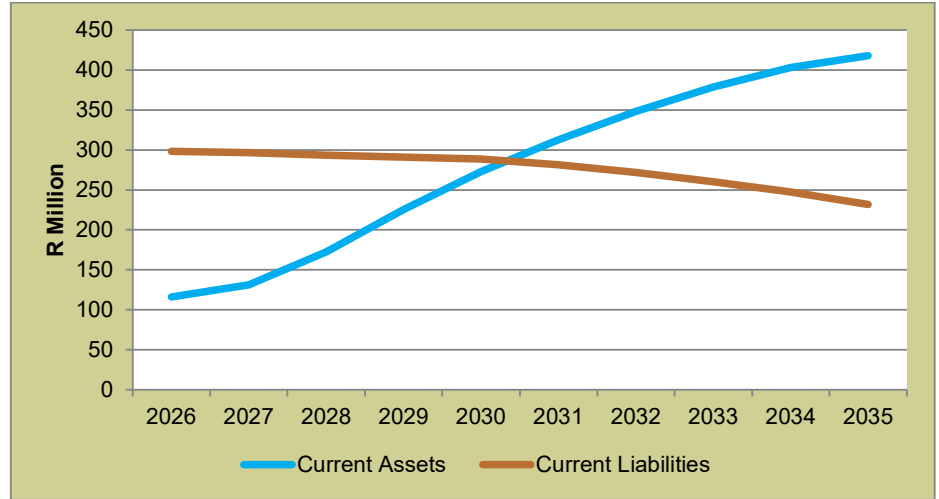




**MTREF CASE SCENARIO**



**BASE CASE SCENARIO**



## CAPEX AFFORDABILITY & FUNDING MIX

### BASE CASE 10-YEAR CAPITAL FUNDING MIX

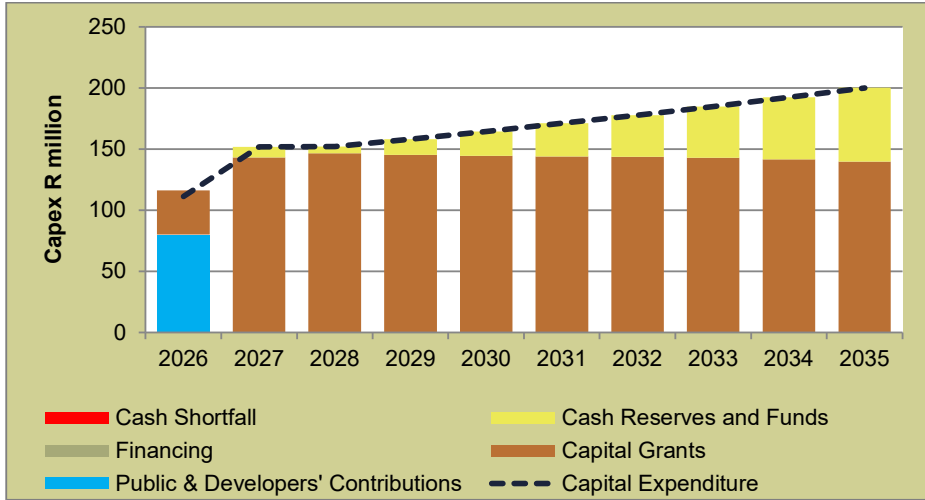
Source	Rm	%
Public & Developers' Contributions	80	5 %
Capital Grants	1 327	78 %
Financing	0	0 %
Cash Reserves and Funds	299	18 %
Cash Shortfall	0	0 %
<b>Capital Expenditure</b>	<b>1 706</b>	<b>100 %</b>

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

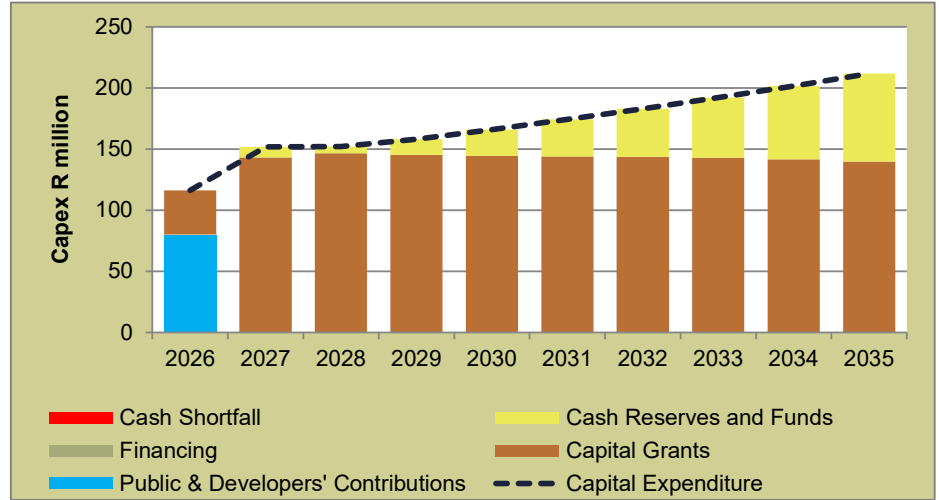
R'm	Total	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>	<u>2035</u>
Public & Developers' Contributions	80	80	0	0	0	0	0	0	0	0	0
Capital Grants	1 327	36	143	147	145	144	144	144	143	142	139
Financing	0	0	0	0	0	0	0	0	0	0	0
Cash Reserves and Funds	299	0	9	5	13	21	30	39	49	60	72
Cash Shortfall	0	0	0	0	0	0	0	0	0	0	0
<b>Capital Expenditure</b>	<b>1706</b>	<b>116</b>	<b>152</b>	<b>152</b>	<b>158</b>	<b>166</b>	<b>174</b>	<b>183</b>	<b>192</b>	<b>202</b>	<b>212</b>



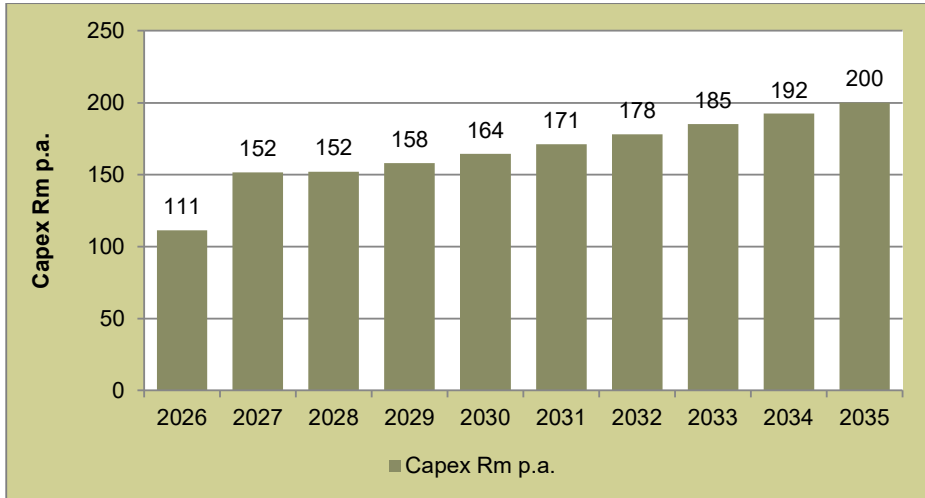
**MTREF CASE CAPITAL FUNDING MIX**



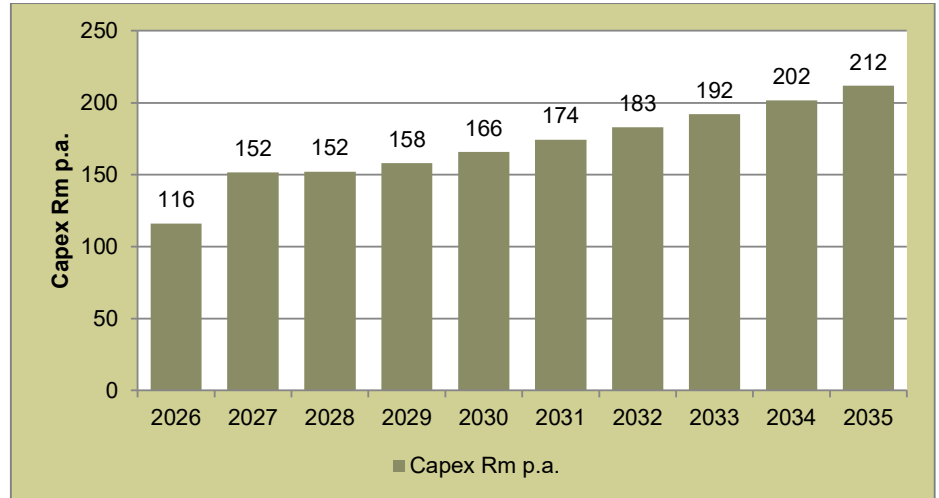
**BASE CASE CAPITAL FUNDING MIX**



**MTREF CASE ANNUAL CAPITAL EXPENDITURE**

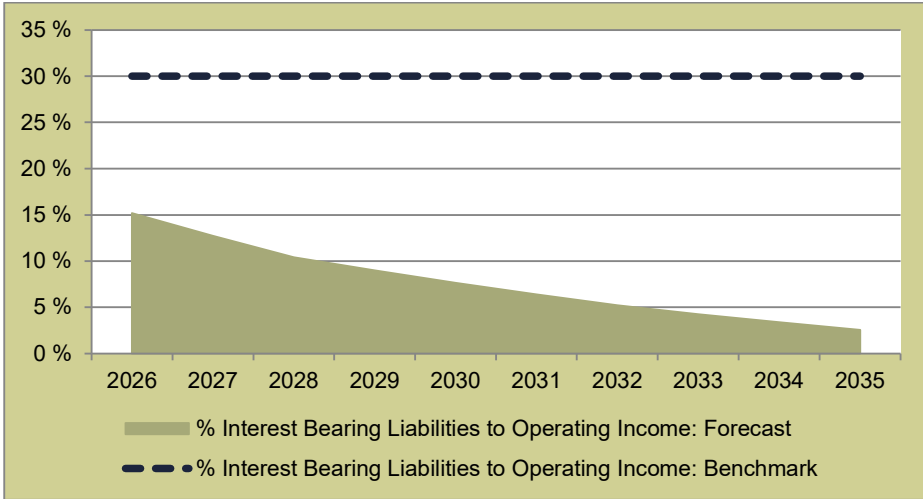


**BASE CASE ANNUAL CAPITAL EXPENDITURE**

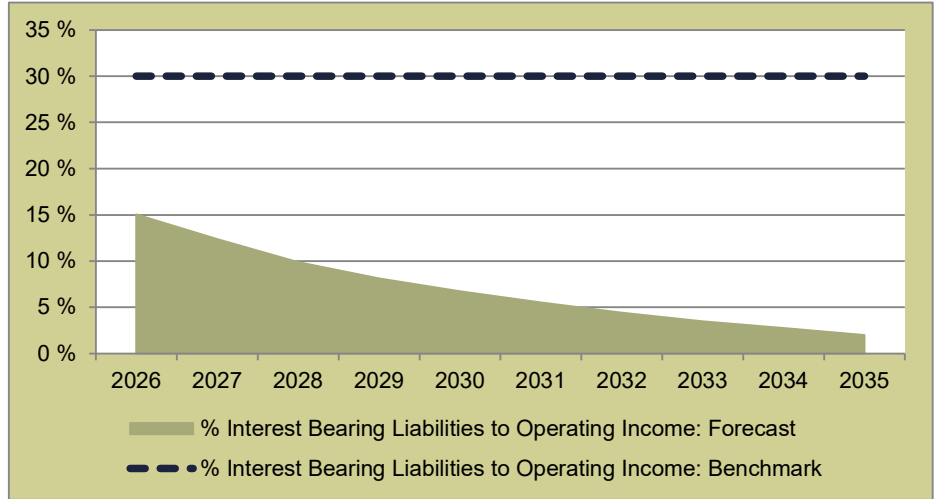




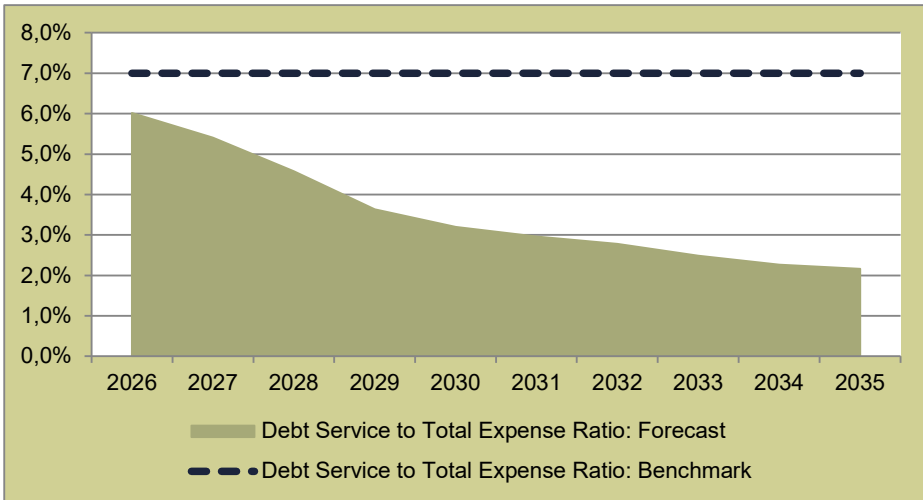
**MTREF CASE GEARING RATIO**



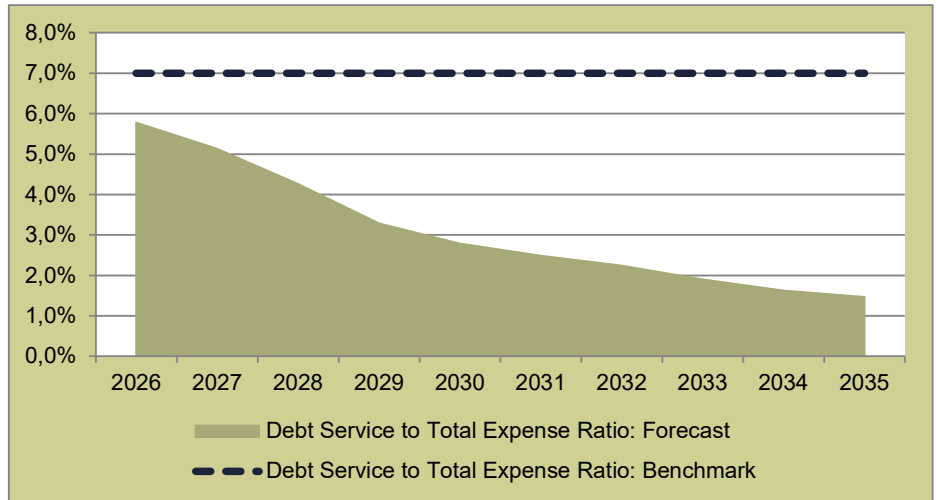
**BASE CASE GEARING RATIO**



**MTREF CASE DEBT SERVICE TO TOTAL EXPENSE RATIO**



**BASE CASE DEBT SERVICE TO TOTAL EXPENSE RATIO**





## KEY TAKEAWAYS

The Base Case allows for a situation where:

- The LM's cash reserves increase progressively to over R300 million by FYE2034/35, compared to declining cash reserves under the MTREF Case which fall below the minimum liquidity requirement.
- The liquidity ratio improves to exceed a one-to-one ratio of current assets to current liabilities, reaching an estimated 1.8 by FYE2034/35 compared to 0.6 under the MTREF Case.
- An upward trend is observed in the accounting surplus and cash generated from operations, together with operating surpluses (excluding capital grants) expected throughout the planning period (except for FY2026/27).
- The municipality's reputation is expected to improve alongside gradually declining liabilities as creditor repayment practices are strengthened.

## 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 88% over 3 years, with further improvements targeted thereafter.
- Ensure creditors are serviced in a timeously manner, once liquidity allows.
- Limit own cash utilisation to fund capital investment over the short-term to allow the liquidity position to stabilise.
- Adopt a more proactive approach to asset management strategy though increasing spending on repairs and maintenance of PPE to 3% of the PPE
- The stabilisation of the liquidity position must be the absolute priority for the municipality.