



THEEWATERSKLOOF MUNICIPALITY

LTFP Update 2026



Theewaterskloof
Municipality



Prepared by
INCA Portfolio Managers
April 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 April 2026 update aims to update the LTFP based on the latest available information, and report on the findings.

A Long-Term Financial Plan (LTFP) is a strategic financial management tool that provides a forward-looking assessment of a municipality's financial position, sustainability, and capacity to deliver services over an extended planning horizon that spans beyond the 3-year budget cycle. The LTFP, underpinned by IPM's Long-Term Financial Model (LTFM), aims to provide a framework for the municipality to remain financially sustainable over the long-term and thus in a position to execute on its core mandate of providing services to its communities.

The Long-Term Financial Plan plays a critical role in informing the budget process. It serves as the financial foundation upon which the MTREF is developed, ensuring that short and medium-term financial decisions are consistent with long-term sustainability. Key assumptions from the LTFP, including revenue growth rates, operating cost drivers, capital funding strategies, and debt affordability limits, guide budget preparation and scenario analysis. In this way, the LTFP enhances the credibility of the budget by grounding it in realistic projections and clearly defined financial constraints.

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 2025 along with the Tabled Budget for FY2026/27. The LTFM, as institutionalised in Theewaterskloof Municipality, was populated and run with this latest information, and the outcome thereof is reported herein.



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 0.33:1 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 FY2024/25, 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.

Analysis of the Tabled Budget for the period FY2026/27-FY2028/29 suggests that TWK has considered historic performance levels and has tabled a realistic and achievable budget. The MTREF Case aims to assess the long-term financial model outcomes prior to making any adjustments to the current MTREF. In doing so, the MTREF Case maintains the status quo for metrics such as repairs and maintenance expenditure, distribution losses and creditors days. No adjustments were made to the operating or capital budgets, while the base year collection rate was adjusted to 83% to match the budget. It has been maintained at this level throughout the planning period. The LTFM forecasts notable improvements in financial performance and cash generation, which is expected to result in a strengthened liquidity position. Cash and cash equivalents are expected to grow significantly, with the minimum liquidity requirement of 2-months operating expenditure forecast to be met from FY2028/29 onwards. This is, however, underpinned by noteworthy growth in creditors as well as insufficient repairs and maintenance expenditure. These remain the predominant concerns presented in the otherwise sustainable MTREF Case outcome.

The MTREF Case informs the Base Case through allowing key weaknesses to be identified and then addressed through the Base Case assumptions. These assumptions must remain realistic and achievable whilst aiming to address these weaknesses and ultimately improve the financial situation. These assumptions have been made with the long-term stabilisation of the liquidity position as the priority. The Base Case presents a sustainable long-term outcome, characterised by a healthy liquidity position and improved asset management through adequate repairs and maintenance expenditure. While liquidity pressures are expected to remain over the short-term, the long-term outcome remains healthy. Cash and cash equivalents are reduced from the MTREF Case, primarily due to accelerated payment of creditors and the significant increase in repairs and maintenance expenditure. Looking at creditors, a notable reduction is expected over the period FY2025/26-FY2030/31, during which the creditors balance is expected to reduce to R55.0 million from R237.7 million at FYE2025/26. Thereafter marginal growth is expected, with the planning period end creditors balance forecast at R66.1 million. This underpins the healthy long-term liquidity position.

The increase in repairs and maintenance expenditure in the Base Case is significant. The Base Case brings TWK's repairs and maintenance expenditure in line with NT's recommendation of 8% of PPE & IP over 8 years. This is expected to result in an additional R588.3 million in operational repairs and maintenance expenditure over the planning period, relative to the MTREF Case. R99.4 million in additional expenditure is expected over the MTREF period. The extent of this increase results in reduced financial performance relative to the MTREF Case, particularly beyond the MTREF period, however, the returns to be derived



from implementing a proactive asset management strategy are likely to be reflected in improved levels of service delivery and thus outweigh the reduced financial performance.

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.

The Base Case also responds to the key elements in Financial Recovery Plan which have a direct impact on long-term financial sustainability. It presents a sustainable long-term outcome that prioritises the stabilisation of the liquidity position and also addresses the key weaknesses identified in the MTREF Case, being forecast growth in creditors and insufficient repairs and maintenance expenditure. The long-term liquidity and cash position remains healthy and sets the municipality up to begin shifting focus from “weathering the storm” to implementing projects that aim to stimulate the local economy and ultimately expand the LM’s revenue base. This will set the municipality up to remain financially sustainable over the long-term.

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 5 years (from 83%).
2. An operating expenditure cut of 1.5% was assumed.
3. Salary increases beyond the MTREF are capped at 1.25% above CPI.
4. Creditors days were reduced to 45 days over 6 years (from 260 days).
5. Repairs and maintenance expenditure was increased to 8% of PPE & IP over 8 years (from 1.44%).
6. The MTREF capital investment programme was adjusted as follows:
 - MTREF Year 1 - FY2026/27: **R39.7 million** (Budget: R41.7 million)
 - MTREF Year 2 - FY2027/28: R41.4 million (Budget: R41.4 million)
 - MTREF Year 3 - FY2028/29: R42.7 million (Budget: R42.7 million)
 - Growth beyond the MTREF period is assumed at 10% p.a.
7. No borrowing to finance capital expenditure over the planning period was assumed.
8. Tariff increases were maintained as put forward in the Budget Document.
9. Electricity and water distribution losses were maintained at 3.7% & 16.2% respectively.



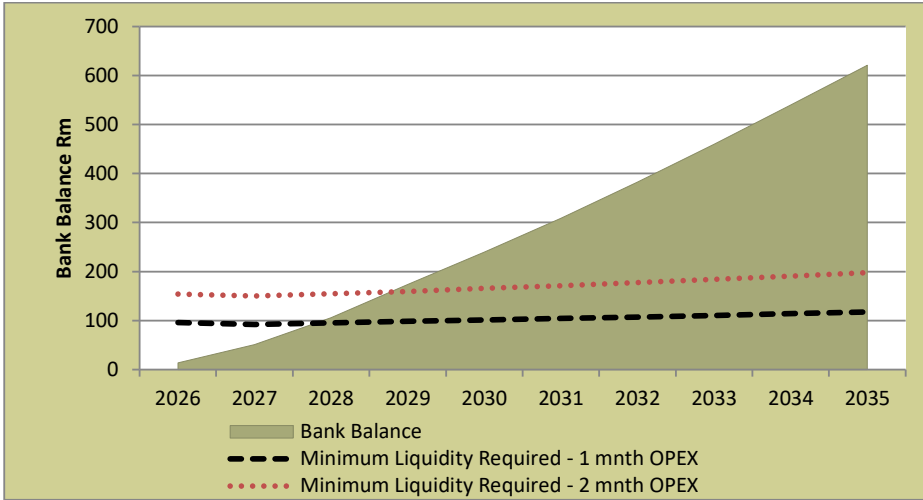
LONG-TERM FINANCIAL MODEL OUTCOMES

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

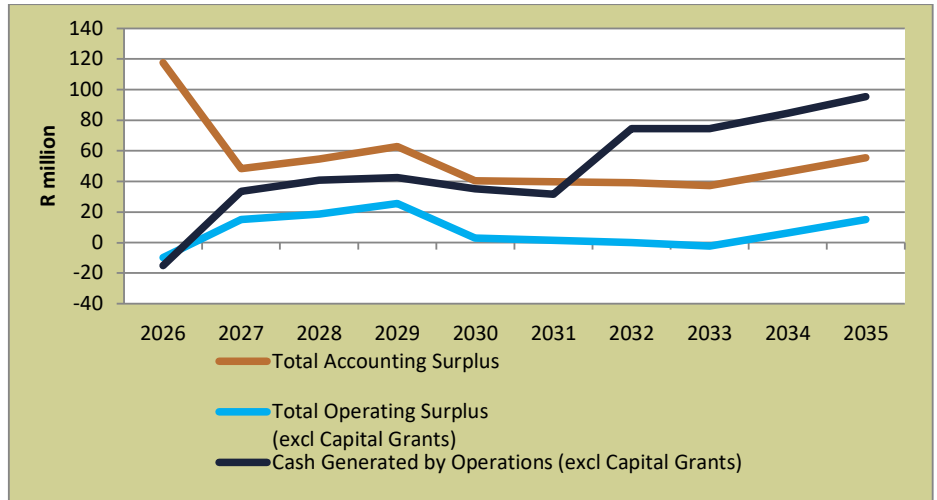
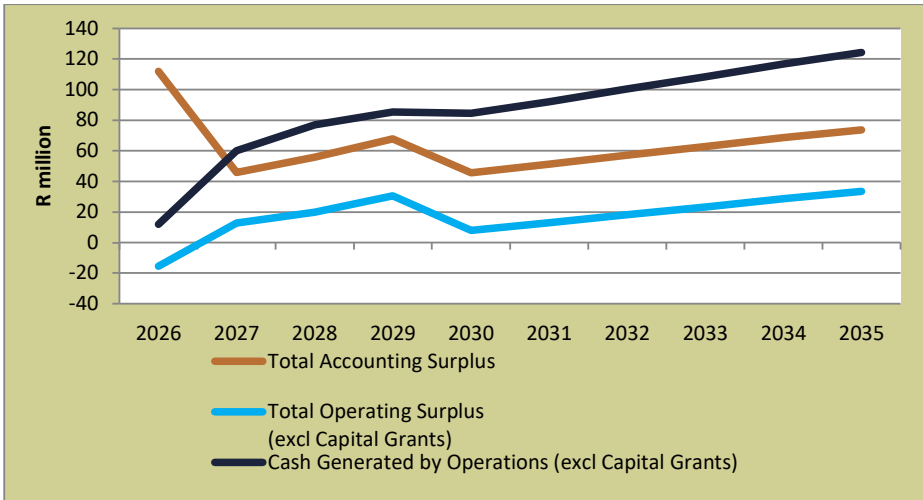
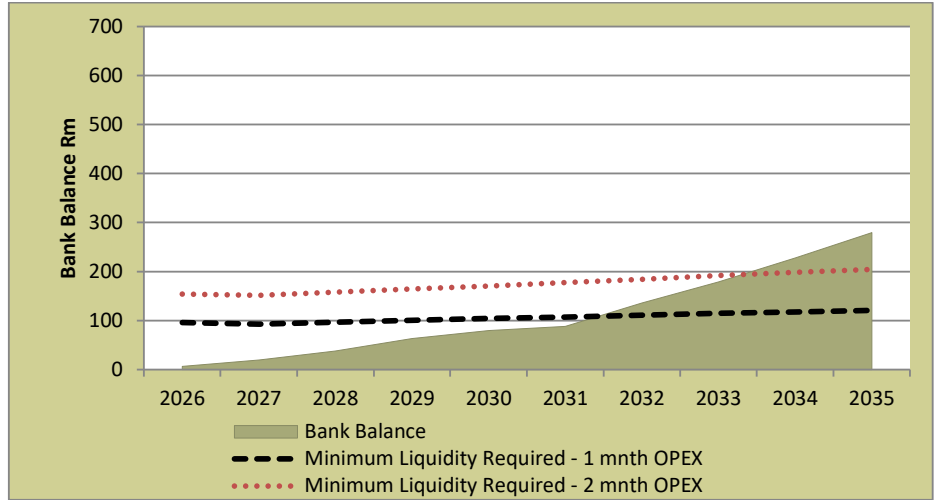
Outcome	MTREF Case	Base Case
Average annual % increase in Revenue	4,1%	4,0%
Average annual % increase in Expenditure	4,2%	4,2%
Accounting Surplus accumulated during Planning Period (Rm)	R 641	R 541
Operating Surplus accumulated during Planning Period (Rm)	R 172	R 73
Cash generated by Operations during Planning Period (Rm)	R 861	R 497
Average annual increase in Gross Consumer Debtors	11,6%	8,7%
Capital investment programme during Planning Period (Rm)	R 600	R 578
External Loan Financing during Planning Period (Rm)	R 0	R 0
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 621	R 280
No of Months Cash Cover at the end of the Planning Period (Rm)	7,7	3,3
Liquidity Ratio at the end of the Planning Period	1,9 : 1	3,1 : 1
Gearing at the end of the Planning Period	2,2%	2,3%
Debt Service to Total Expense Ratio at the end of the Planning Period	2,9%	1,4%



MTREF CASE SCENARIO

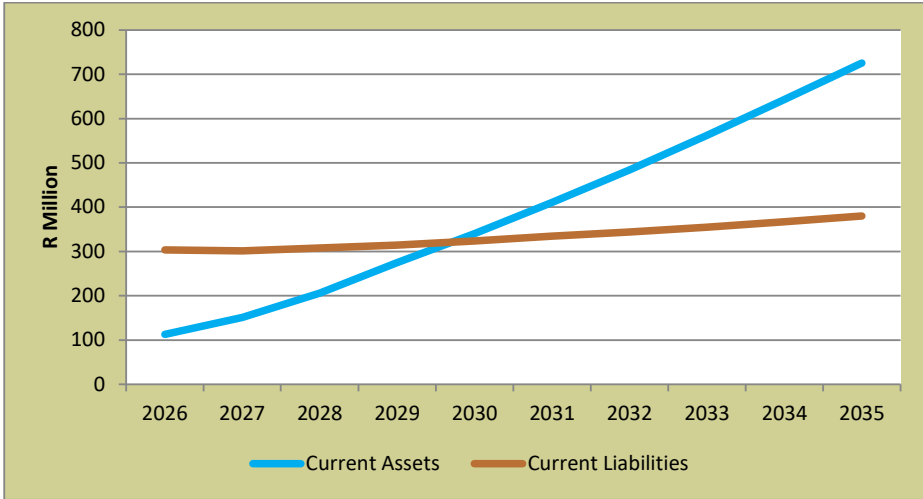


BASE CASE SCENARIO

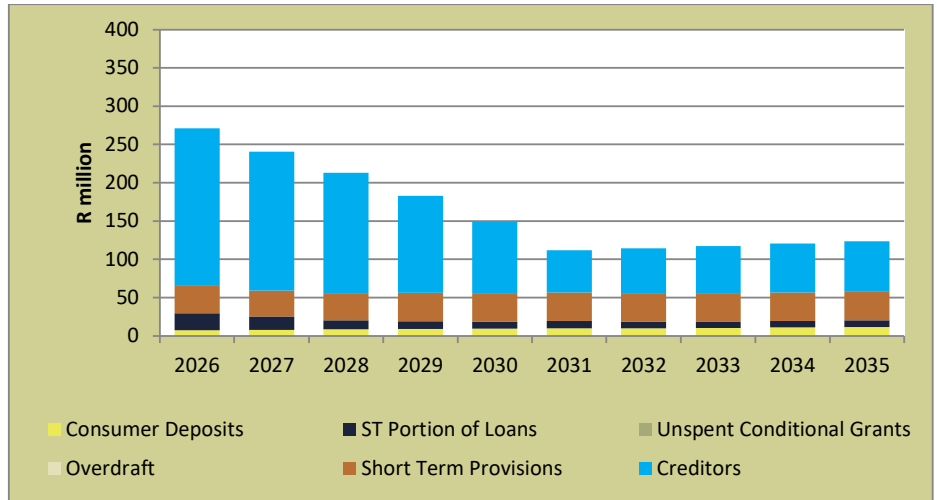
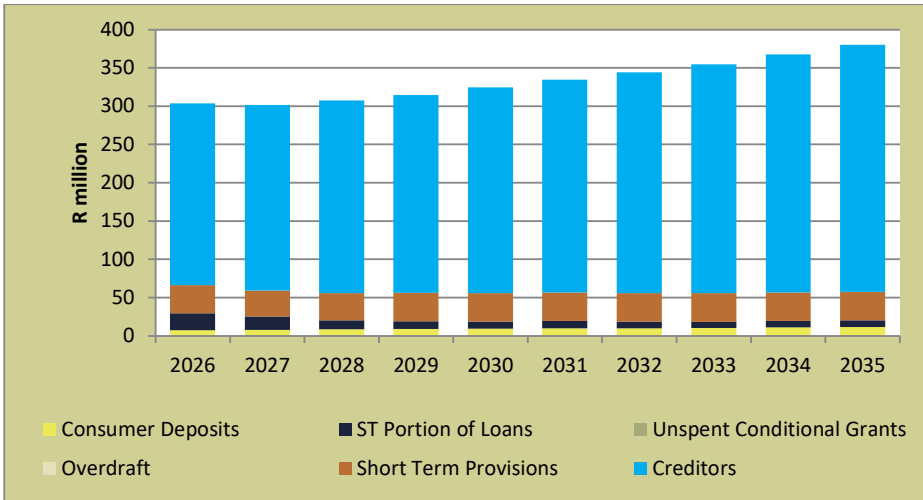
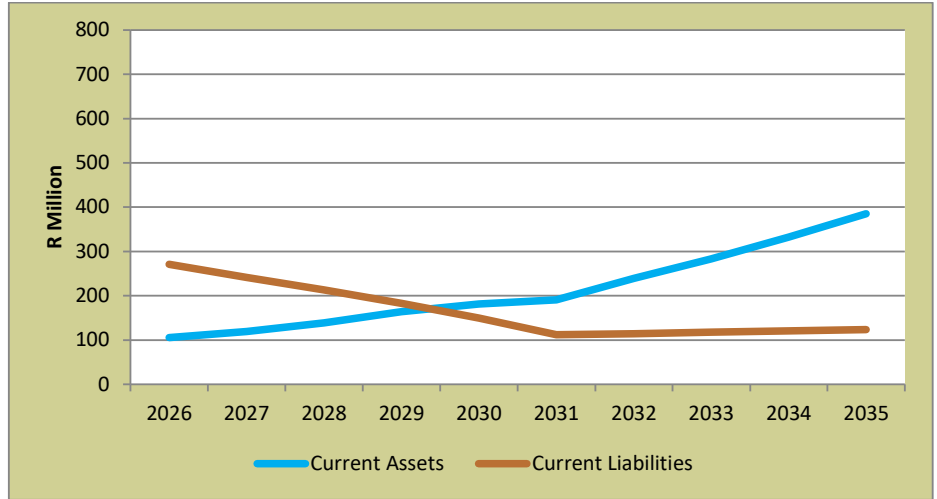




MTREF CASE SCENARIO

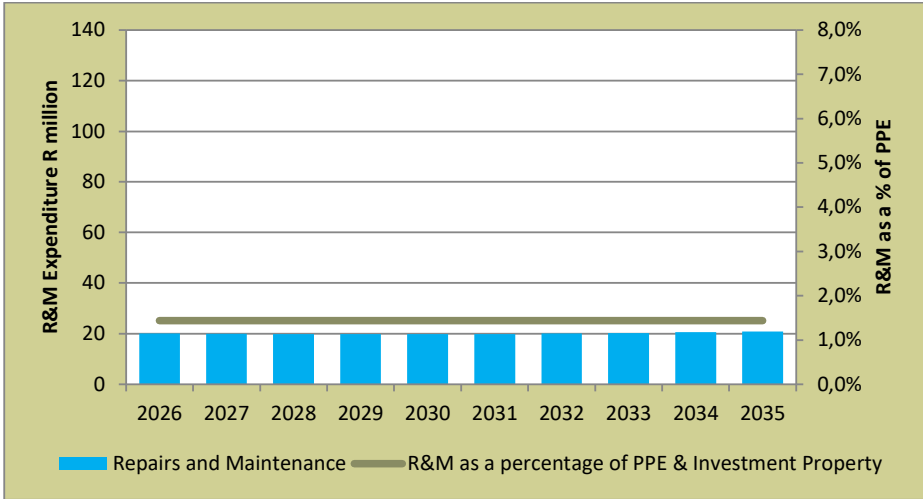


BASE CASE SCENARIO

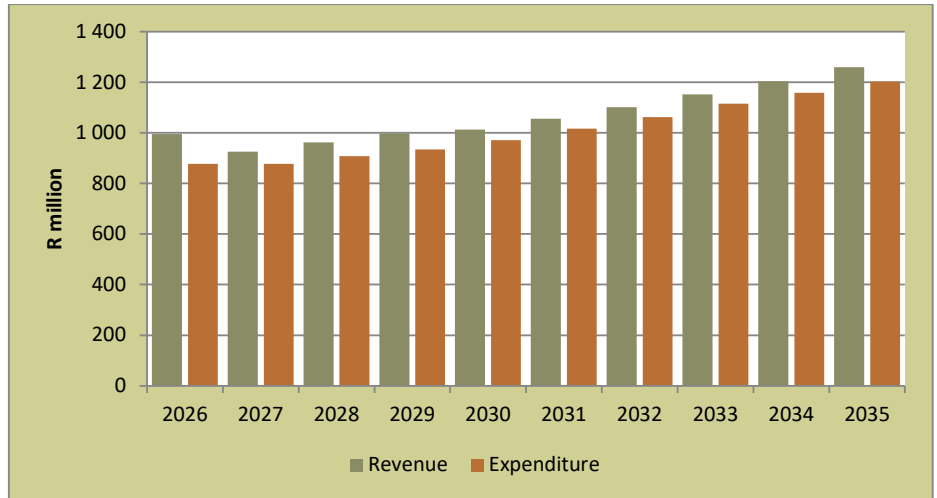
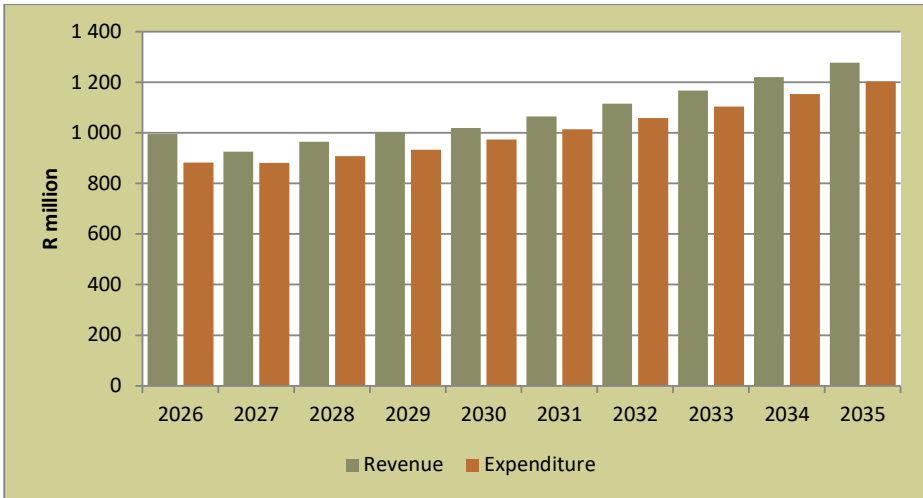
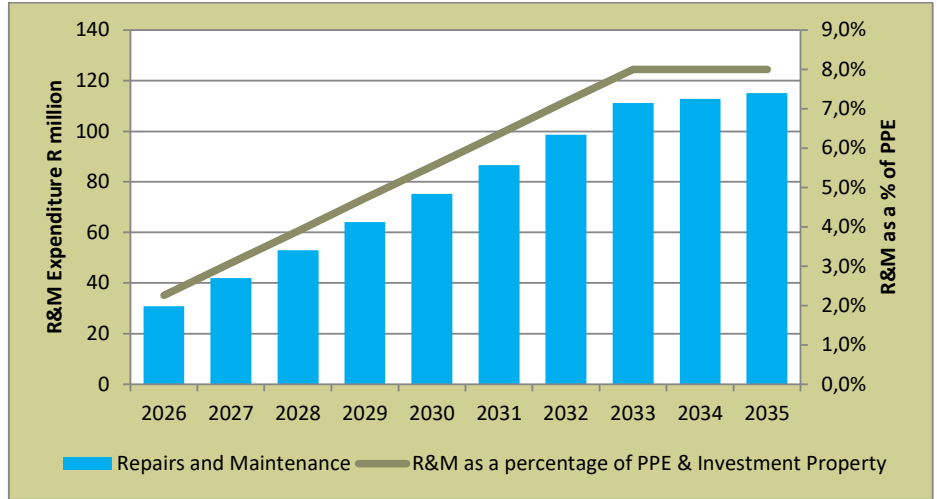




MTREF CASE SCENARIO



BASE CASE SCENARIO





CAPEX AFFORDABILITY & FUNDING MIX

BASE CASE 10-YEAR CAPITAL FUNDING MIX

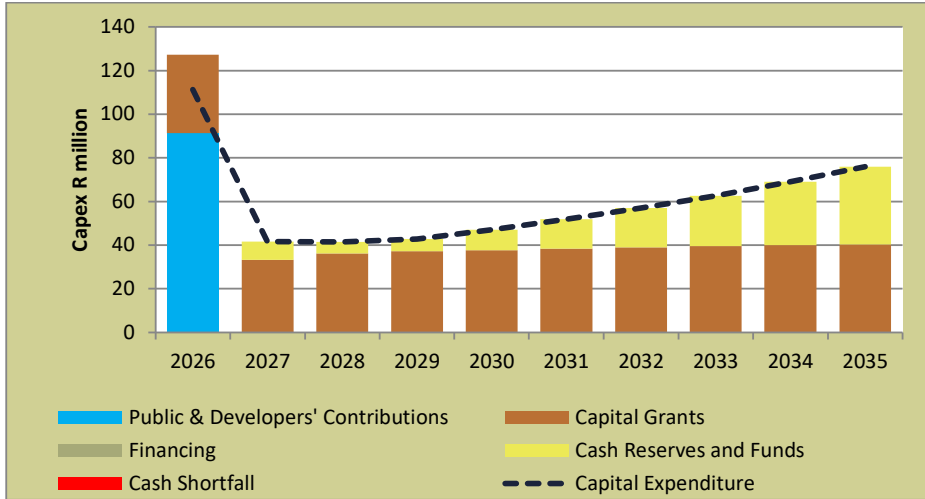
Source	Rm	%
Public & Developers' Contributions	91	16 %
Capital Grants	377	65 %
Financing	0	0 %
Cash Reserves and Funds	146	25 %
Cash Shortfall	0	0 %
Capital Expenditure	578	100 %

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

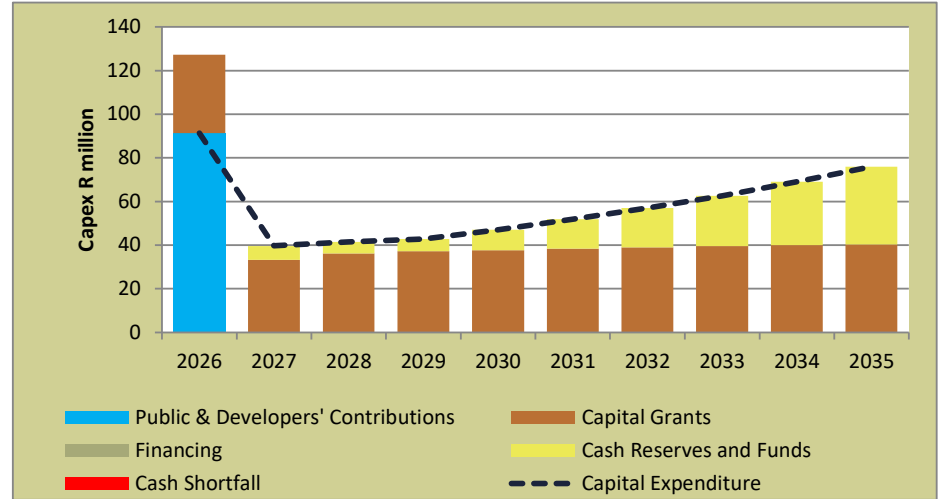
R'm	Total	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>	<u>2035</u>
Public & Developers' Contributions	91	91	0	0	0	0	0	0	0	0	0
Capital Grants	377	36	33	36	37	38	38	39	40	40	40
Financing	0	0	0	0	0	0	0	0	0	0	0
Cash Reserves and Funds	146	0	6	5	6	9	14	18	23	29	36
Cash Shortfall	0	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	578	91	40	41	43	47	52	57	63	69	76



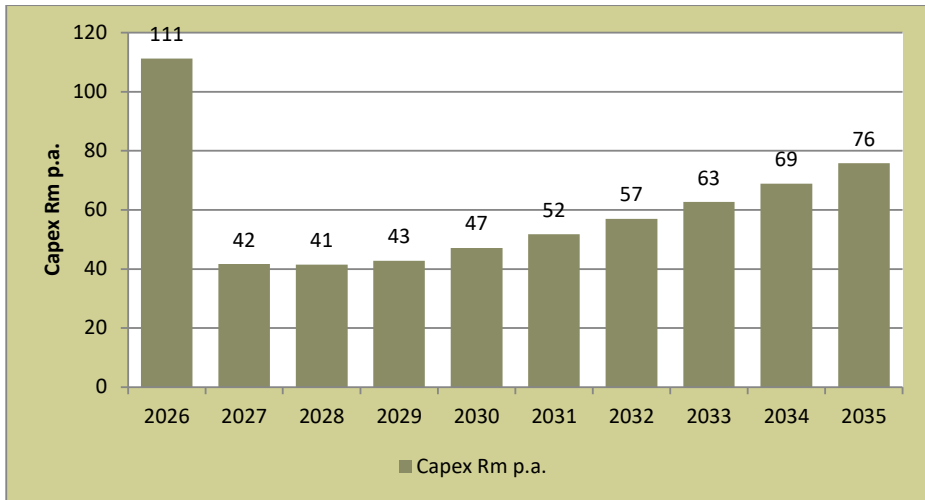
MTREF CASE CAPITAL FUNDING MIX



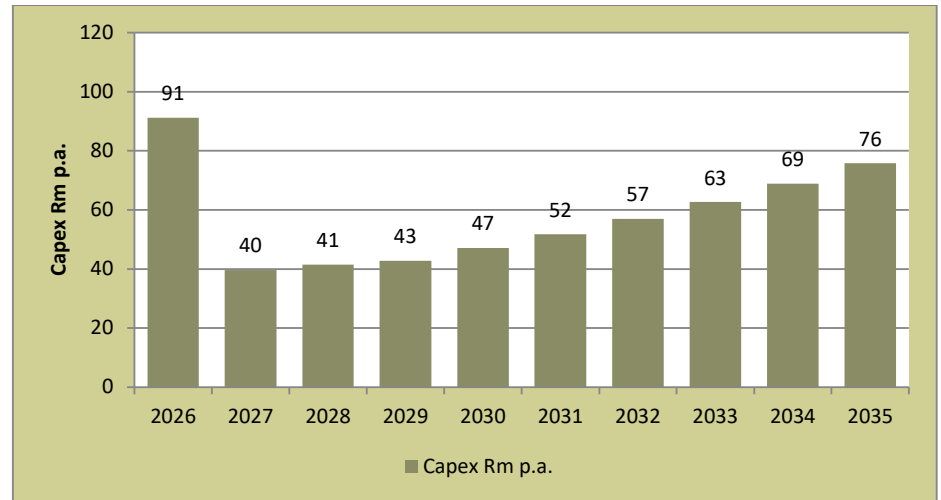
BASE CASE CAPITAL FUNDING MIX



MTREF CASE ANNUAL CAPITAL EXPENDITURE



BASE CASE ANNUAL CAPITAL EXPENDITURE





KEY TAKEAWAYS

The Base Case allows for a situation where:

- The LM's cash reserves increase progressively to over R280 million by FYE2034/35, whilst prioritising faster creditor payments and increased repairs and maintenance expenditure.
- The liquidity ratio improves to exceed a one-to-one ratio of current assets to current liabilities, reaching an estimated 3.1 by FYE2034/35 compared to 1.9 under the MTREF Case.
- An upward trend is observed in the accounting surplus and cash generated from operations (excluding capital grants), together with operating surpluses (also 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:

- Though improvements were noted during FY2024/25, TWK currently still finds itself in an unsustainable financial position.
- The improved financial performance observed during FY2024/25 must continue with the movement into an operating surplus position a key priority for the municipality.
- Collection rates must be maintained above 88% with further improvements targeted in future.

RECOMMENDATIONS:

- Improve the collection rate to 88% over 5 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 gradually increasing spending on repairs and maintenance of PPE to 8% of PPE.
- The stabilisation of the liquidity position must be the absolute priority for the municipality.