INCA
Portfolio Managers

# Oudtshoorn Municipality

## Long-Term Financial Plan – ***Update 2023***


Prepared by
INCA Portfolio Managers
February 2024

# REPORT OVERVIEW – INTRODUCTION AND BACKGROUND

The Oudtshoorn Municipality appointed INCA Portfolio Managers in 2016 to develop a Long-Term Financial Plan. The deliverable of that assignment was a report entitled *Oudtshoorn; Long-Term Financial Plan: 2016/17 – 2025/26*; July 2016. The estimates in that Plan will be referred to as the 2015 Estimate as they were based on the FY2014/15 Annual Financial Statements. This 2024 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.

A summary of the demographic-, economic- and household infrastructure perspective was updated with the latest available information as published by S&P Global. 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 (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 2023/2024 to 2025/2026.

For this update, a review of the Asset Register, or all the documents normally considered when the full LTFP is compiled, (viz. IDP, Master Plans, etc.) was not undertaken.  The conclusions reached in this report are complimentary to the recommendations made in the LTFP and previous update reports.

# 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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# Key Findings and Conclusions drawn from the 2023 LTFP Update

## Highlights from the FY2022/23 Financial Results

The historical analysis shows:

- Oudtshoorn's liquidity position improved during FY2022/23, with the liquidity ratio improving to 1.63:1 from 1.49:1 in the prior year. The municipality's unencumbered cash and cash equivalents of R129.8 million as at FYE2022/23, was sufficient to cover the minimum liquidity requirement of R111.4 million, resulting in a cash surplus of R17.7 million. Oudtshoorn has posted cash surpluses in each of the most recent 5 years.

- Financial performance improved during FY2022/23, with the operating deficit (excluding capital grants) reducing from R25.4 million in FY2021/22 to R7.7 million in the current year. Electricity services remained the predominant revenue item, accounting for 40% of revenue in FY2022/23. Staff costs remained the predominant expenditure item, accounting for 36% of operating expenditure.

- The collection rate declined to 94% at the current year end, down from 97% recorded at the prior year end. The municipality must prioritise the improvement of the collection rate to at least the review period average of 95%. This decline notwithstanding, cash generated by operations increased to R44.1 million, up from R37.3 million in the prior year.

- The electricity surplus margin improved to 27% from 25% in the prior year. Electricity distribution losses declined from 8.67% in the prior year to 5.50% in the current year. Water distribution losses increased marginally to 13.88% from 12.11% recorded in the prior year. Distribution losses for both electricity and water remain within their respective limits as per NT.

- Total grants received (R783.8 million) constituted 24% of total revenue (R780.0 million) in FY2022/23, up from 20% in the prior year.

- Gearing and debt-service to total operating expenditure ratios were 12.0% and 3.7% respectively, indicative of an affordable debt profile.

- Repairs and maintenance expenditure as a percentage of PPE & IP came in at 2.0% in FY2022/23, well below the NT norm.

- The total capital outlay over the review period amounted to R492.4 million. Actual capital expenditure of R104.7 million in FY2022/23 translated to 90% of the budgeted amount of R115.9 million. The 5-year average capital budget implementation indicator came in at a very low 67%.

- The municipality must be commended for receiving a clean audit for FY2022/23.

## Long-Term Financial Plan Update

To develop a realistic Base Case model, the figures from the Adjustment Budget 2023/24 – 2025/26 were used. The following are the key assumptions:

1. The collection rate was increased to 95% over a period of 3 years, where it is assumed to be maintained for the remainder of the planning period.
2. The model incorporated the increases in revenue and expenditure items as announced in the Adjustment Budget, with minor upward adjustments made in an attempt to reflect a more realistic outcome.
3. The MTREF capital investment programme was maintained in FY2023/24, thereafter the following amendments were made:
    - FY2024/25: R70.0 million
    - FY2025/26: R60.0 million
    - FY2026/27: R75.0 million

    Assumed growth beyond the MTREF period is 5.5% p.a.
4. The borrowing programme adjusted over the MTREF period. FY2023/24 was left unaltered, thereafter the borrowing programme was adjusted as follows:
    - FY2024/25: R24.5 million
    - FY2025/26: R15.0 million
    - FY2026/27: R25.0 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 10%.
5. A loadshedding scenario was incorporated into the Base Case. This scenario assumes an average of stage 2 loadshedding for 3 years. This is assumed to result in an annual reduction of electricity consumption of 11.9%. Additionally, a 5% reduction of electricity sales is included to model the impact of the loss of customers who have moved to alternative power sources. Finally, a 5% reduction of water sales pursuant to loadshedding, due to pumps not being able to fill reservoirs for example, is also included.
6. Repairs and maintenance expenditure was increased to 4.5% of PPE & IP over the planning period.
7. Distribution losses were maintained at 5.5% and 13.9% for water and electricity respectively.

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

| **Outcome** | **10-Year Outcome** |
|---|---|
| Average annual % increase in Revenue | 7,7% |
| Average annual % increase in Expenditure | 8,2% |
| Accounting Surplus accumulated during Planning Period (Rm) | R 94 |
| Operating Surplus accumulated during Planning Period (Rm) | -R 186 |
| Cash generated by Operations during Planning Period (Rm) | R 608 |
| Average annual increase in Gross Consumer Debtors | 14,0% |
| Capital investment programme during Planning Period (Rm) | R 816 |
| External Loan Financing during Planning Period (Rm) | R 294 |
| Cash and Cash Equivalents at the end of the Planning Period (Rm) | R 336 |
| No of Months Cash Cover at the end of the Planning Period (Rm) | 2,9 |
| Liquidity Ratio at the end of the Planning Period | 2.3 : 1 |
| Gearing at the end of the Planning Period | 13,1% |
| Debt Service to Total Expense Ratio at the end of the Planning Period | 3,5% |

## RECOMMENDATIONS:

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

1. Maintain the funding mix that aims to utilise the scope available to adequately leverage the debt profile, whilst limiting the utilisation of own cash to fund capital expenditure. Extended loan tenors must be considered.

2. Maintain a balanced approach for the long-term capital investment programme which prioritises investment in productive assets that aim to create an enabling environment for economic growth, whilst simultaneously prioritising timeous investment in bulk infrastructure.

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. This has been an issue for Oudtshoorn LM over the review period.

4. Maintain the ability to post surpluses and generate cash from operations by ensuring that actual expenditure does not exceed budgeted expenditure. The low levels of distribution losses must be maintained.

5. Prevent deterioration of the collection rate by prioritising the implementation of measures such as stricter credit control, that will not compromise the ability to post surpluses.

6. Institutionalise the utilisation of a sophisticated tariff model to ensure that tariffs reflect the true cost of delivering the service.

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.

8. Finally, Oudtshoorn has taken positive steps towards returning to an environment of financial stability. This is evident in the improvements realised in recent years. The municipality must continue to employ a disciplined approach to the financial and operational management of the municipality. This will enable the municipality to invest in needed bulk infrastructure that aims to not only promote future growth and development, but ultimately improve the lives of its inhabitants.

## DEMOGRAPHIC, ECONOMIC AND HOUSEHOLD INFRASTRUCTURE

- Oudtshoorn's economy has faced extreme challenges in recent years, notably the severe economic contraction of 4.76% in 2020, due to the fallout of Covid-19. The local economy has struggled to fully recover from this contraction. Sluggish annual growth of 0.58% p.a. over the last 5 years has been exceeded by the population growth rate of 1.04% p.a. over the same period. This effectively results in an impoverishment of the local population.

- Average household income increased by 5.7% from R 328 284 p.a. in 2021 to R347 008 p.a. in 2022. This is the third lowest in the district and lower than the district and province averages.

- While the decline in the unemployment rate to 25.4% is a positive step in the right direction, this remains the third highest rate of unemployment in the district. Additionally, this exceeds both the district (24.7%) and provincial (24.3%) unemployment rates. It must be noted that the current narrow definition of the unemployment rate excludes discouraged workers – thus it would be a reasonable assumption that the true rate of unemployment is far higher.

- Oudtshoorn's economic is reasonably diversified as evidenced by the Tress Index of 44.79 in 2022. This is predominantly driven by the following sectors: Agriculture, Trade and Community Services who cumulatively contributed 60.7% of Oudtshoorn's GVA in 2022.

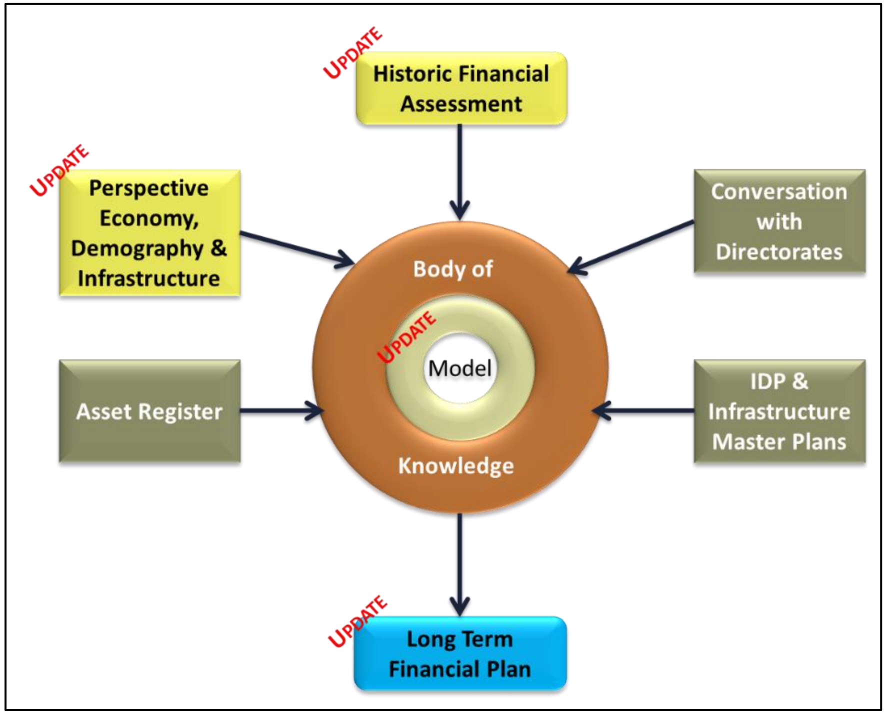
- Tourism spend increased from R1.06 billion in 2021 to R1.17 billion in 2022. This contributed approximately 15.4% to total GVA in 2022, thus highlighting the importance of tourism to the local economy.

- Household formation came in at 15.0% for the review period. This contributes to significantly increased pressure on the municipality to meet the additional demand for services. The maintenance of the infrastructure index at 0.90 is testament to the municipality's ability to keep pace with the rate of household formation.

## PLANNING PROCESS

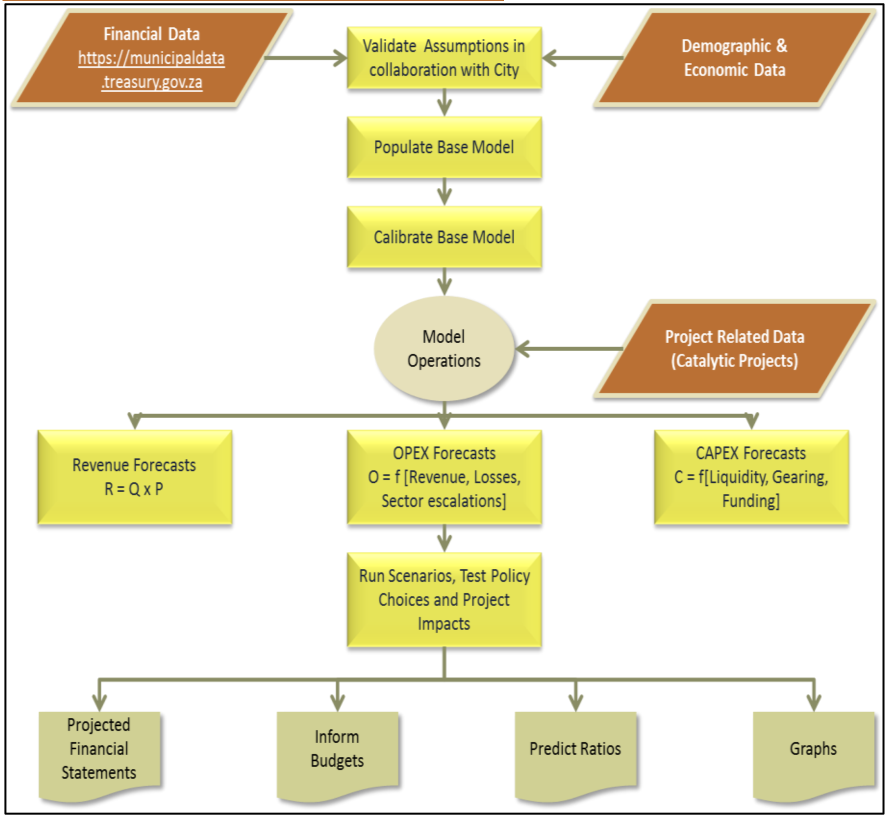
The diagram below illustrates the steps in the process that were followed in drafting the LTFP and the steps taken during this 2023 "LTFP Update":

**FIGURE 1: PLANNING PROCESS**




The long-term financial model was populated with the latest information of Oudtshoorn 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

**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

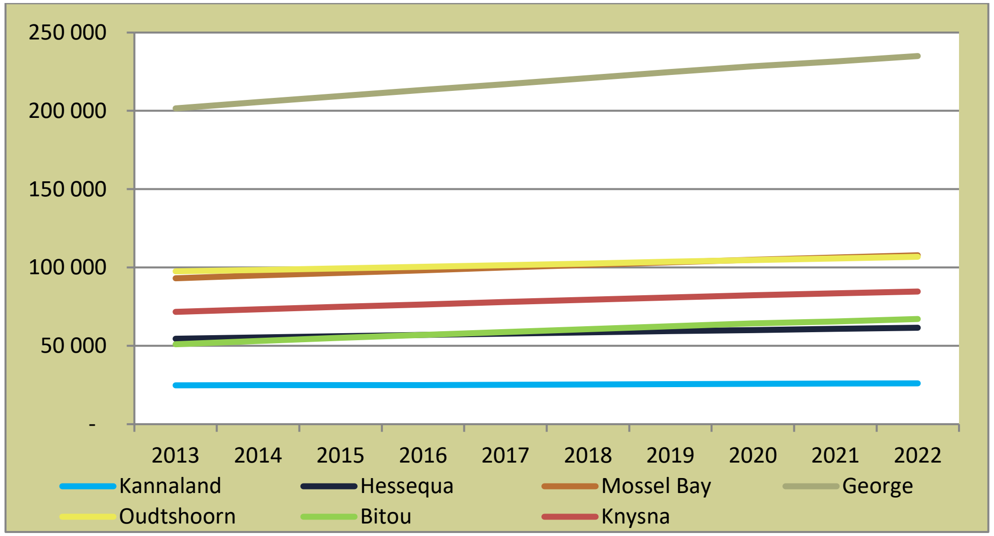
# UPDATED PERSPECTIVES (DEMOGRAPHIC, ECONOMIC, HOUSEHOLD INFRASTRUCTURE)

## DEMOGRAPHY

Oudtshoorn LM has a total population of 106 868 (2022), which represents 15.5% of people living in the Garden Route District. The municipality is the third least densely populated municipality in the district with 30.2 people per km$^2$, ranking higher than Kannaland (5.5 per km$^2$) and Hessequa (10.7 per km$^2$).

Similar to its population density, Oudtshoorn LM ranks low in terms of population growth in the district. The population growth has averaged 1.04% p.a over the last 5 years, which is the second lowest in the District. Furthermore, it is less than the average population growth rate of the District (1.54%) and the Western Cape Province (1.54%) indicating that the municipality has not been a destination of choice during the recent trend of semigration into the province.

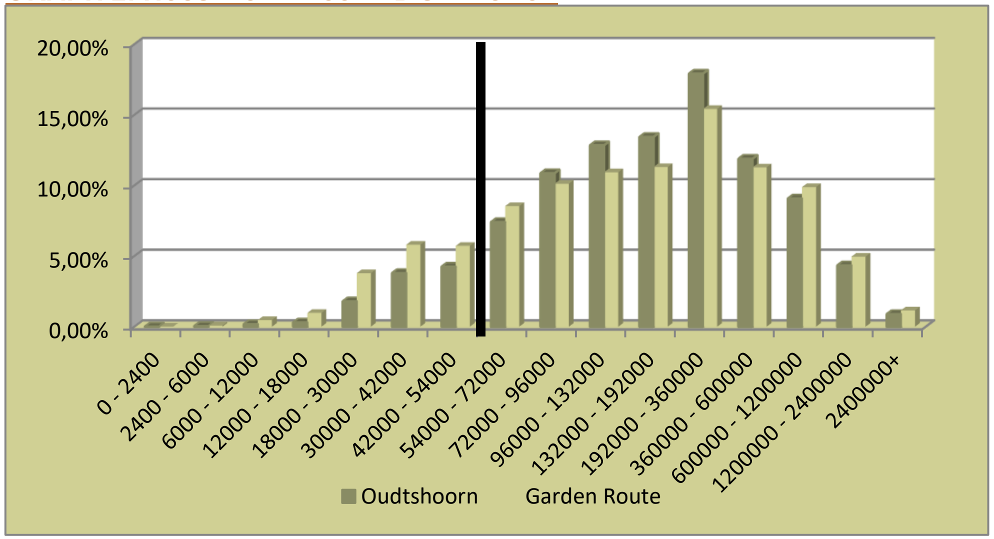
**GRAPH 1: TOTAL POPULATION**



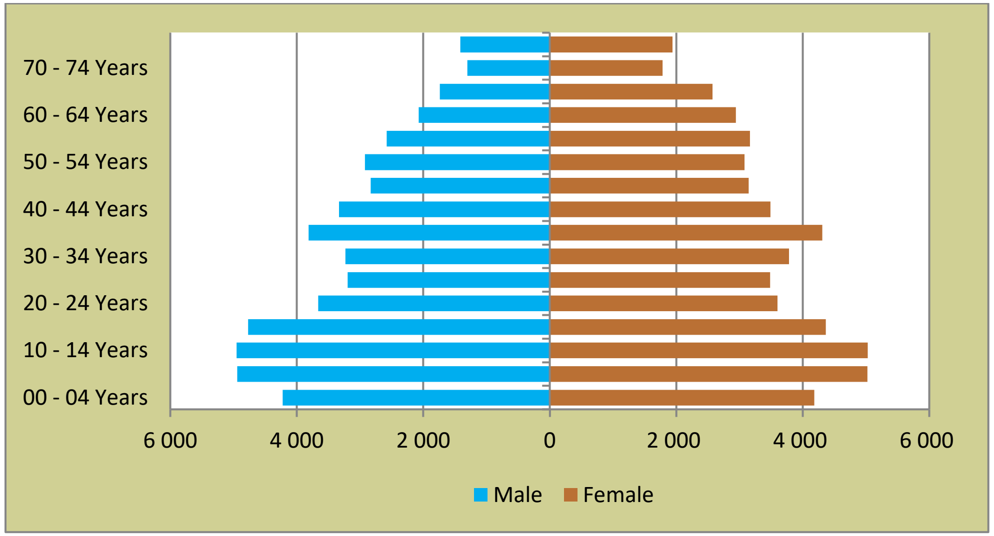

Households earning less than R54 000 p.a represents an approximation of the number of indigent households in the municipal area, which qualify for and/or are largely reliant on government grants as a source of income. The provision of RDP level of basic services to these households is theoretically covered by the equitable share and should compensate the municipality for providing free basic services.

The household income distribution – as per GRAPH 3 - indicates that 10.4% of households earn less than R54 000 p.a in Oudtshoorn. The household income distribution further reflects a society in which 44.8% of all households earn an income within the range R54 000 p.a. and R192 000 p.a (R16 000 p.m.), below the average middle income (between R180 000 – R500 000 per annum). Considering the impact of rising fuel costs, raised levels of inflation and interest rate hikes, the extent to which households can be levied in future needs to be closely monitored. Any further decline in household income due to the aforementioned circumstances, coupled with increases in the municipal bill, could pose a significant challenge to the municipality's future cash revenue collection.

**GRAPH 2: HOUSEHOLD INCOME DISTRIBUTION**



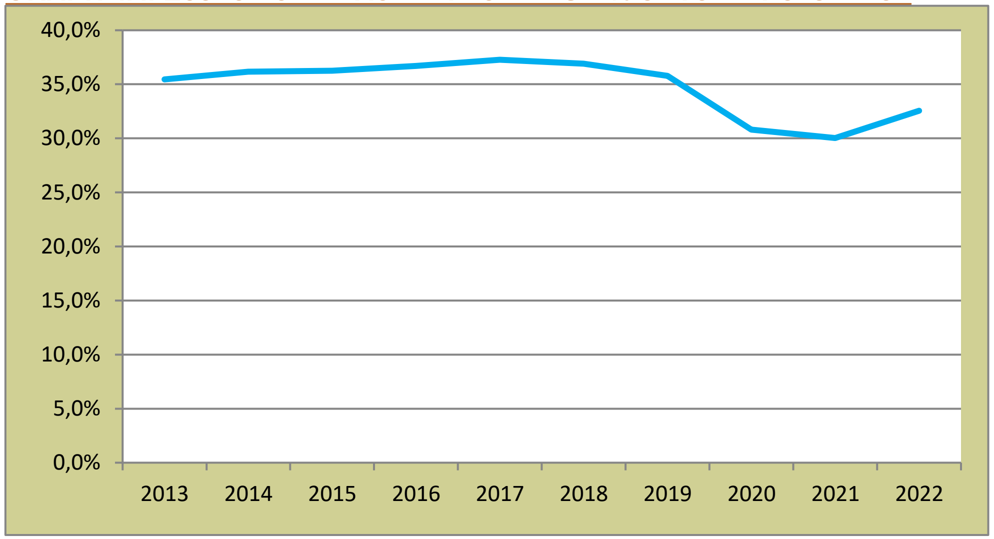
## GRAPH 3: AGE PROFILE



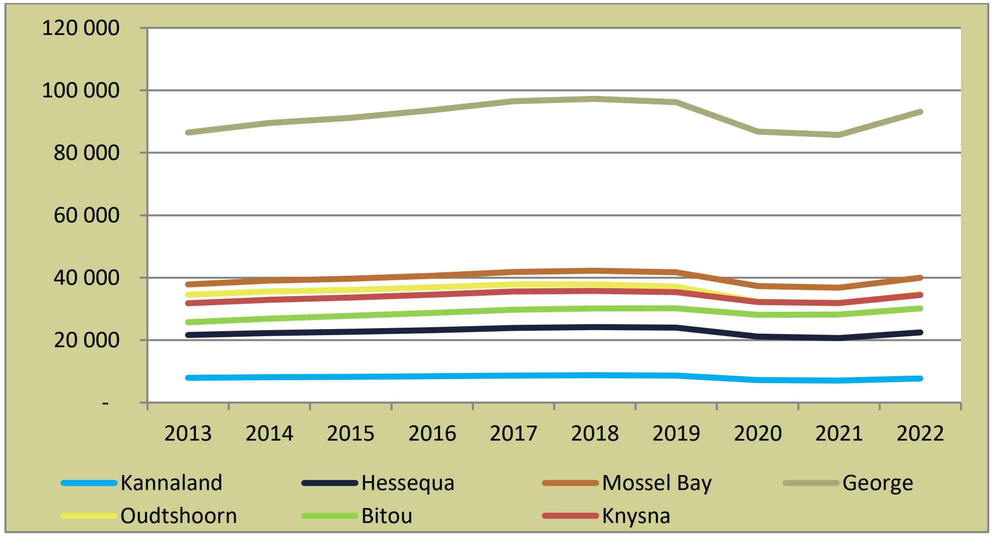

The population pyramid presented in GRAPH 2 presents the age-sex composition of a society. It allows one to examine the current resident profile making up a population and evaluate which areas to develop to meet the population's needs. Oudtshoorn LM's population pyramid can be categorized as a stationary population. The shape is typical in developed societies where low fertility and mortality rates can be observed. This shape represents a stable population that will not change significantly barring any sudden changes to fertility/mortality rates or a sudden influx of the working age population in search of work opportunities.

Oudtshoorn LM's population pyramid reveals that the largest age cohorts are between the ages of 10 and 14 years, closely followed by the 5 to 9 years age group. Proportionally, 42% of the population is younger than 24 years of age and 48% falls within the working age group. Kannaland LM is the only other municipality within the District with less than 50% of its population consisting of the working age group.

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



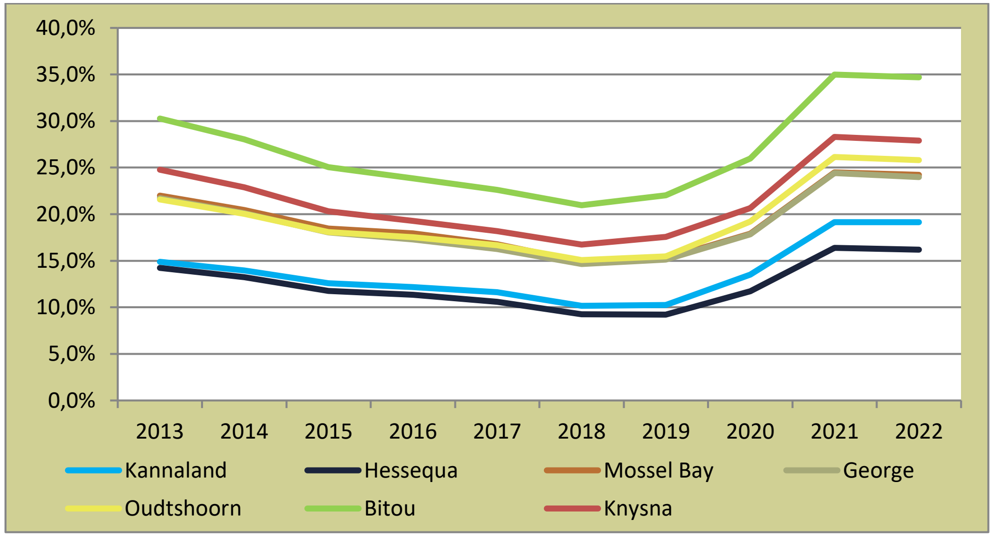

## GRAPH 4B: ECONOMICALLY ACTIVE POPULATION



The economically active population as a percentage of population increased from 2013 to 2018, albeit sluggishly. Thereafter the trend reversed for 4 consecutive years, with the most rapid decline occurring between 2019 and 2020 as a consequence of Covid-19 lockdown. However, the most recent figure from 2022 reflects a resurgence in the economically active population as a percentage of population recorded at 32.5% (2021: 30.0%). This reflects a growing number of individuals who are willing to contribute to the workforce or are already part of it.

To provide more context on the economically active population, it is defined as the number of people who are able, willing and who are actively looking for work and who are between the ages of 15 and 65. It thus includes both employed and unemployed individuals.

**GRAPH 5: OFFICIAL UNEMPLOYMENT RATE**




The unemployment rate marginally declined from 26.2% in 2021 to 25.4% in 2022. This is a welcome improvement after the steep increases evident in 2019 to 2021. On the downside, the municipality's unemployment rate ranks the third highest when compared to its municipal counterparts in the District. Oudtshoorn LM recorded marginally higher rates than the Garden Route District (24.7%) and Western Cape Province (24.3%).

It is important to note that the current official unemployment rate employs a definition which excludes discouraged workers and those who are not actively seeking work. Thus, should a broader, more realistic definition be utilised, it is reasonable to assume that this rate would increase considerably.

## ECONOMY

Oudtshoorn LM's Gross Value Add (GVA) for 2022 is estimated to be R7.6 billion in current prices (2022), or R5.2 billion in constant prices (2015). Community Services remained the most dominant economic sector, accounting for 26.8% of the municipality's economic output. Trade and Finance sectors followed with contributions of 16.7% and 15.0%, respectively. The Tress index[1] of 44.79 indicates a reasonably diverse economy. A higher degree of diversification safeguards the local economy against economic shocks and risks.

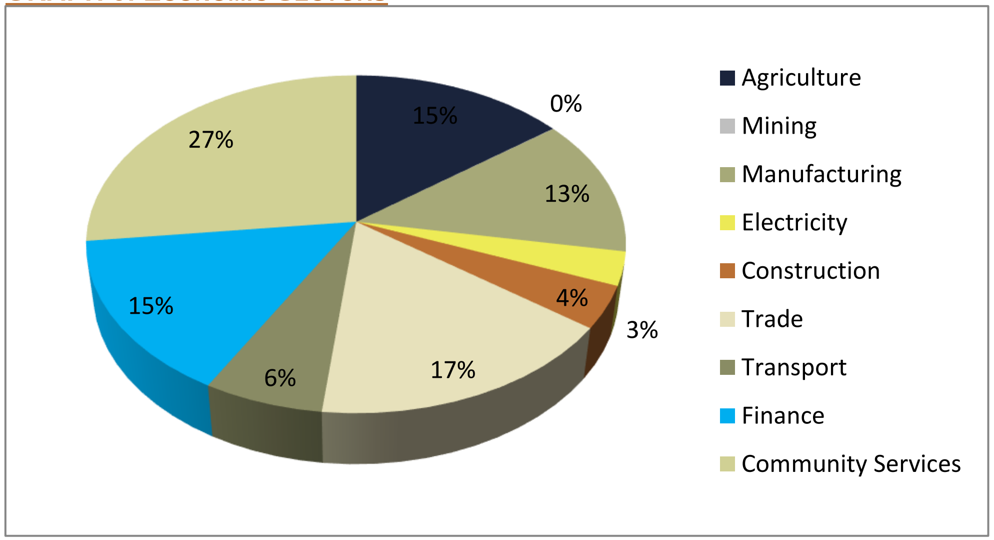
Oudtshoorn LM's economic growth rate has averaged 0.6% p.a over the last 5 years. This was adversely affected by the Covid-19 affected 2020 but this has recovered in the last 2 years with an average growth rate of 2.9% p.a. The GVA growth rate of 1.8% in 2022 exceeded the population growth of 1.01%. This alongside the marginal decline in the unemployment rate serves as a prelude to economic progression.

Over the last 10 years, Agriculture has increased its economic output by 3.6%. Alongside it, Transport, Finance and Community Services have increased their economic outputs over the last 10 years. The other sectors shrunk in terms of economic output.

**TABLE 1: PROPORTIONAL GROWTH OF ECONOMIC SECTORS**

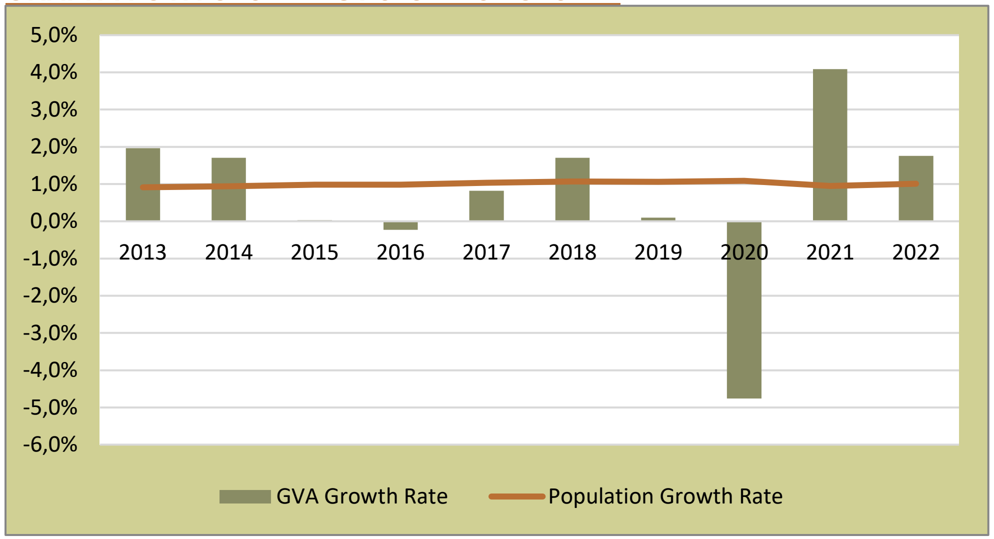
| Subsector | 2013 | 2022 |
|---|---|---|
| **Agriculture** | 11,0% | 14,6% |
| **Mining** | 0,1% | 0,0% |
| **Manufacturing** | 14,1% | 13,1% |
| **Electricity** | 3,5% | 3,2% |
| **Construction** | 6,2% | 4,1% |
| **Trade** | 18,4% | 16,7% |
| **Transport** | 5,8% | 6,4% |
| **Finance** | 14,4% | 15,0% |
| **Community Services** | 26,6% | 26,8% |

**GRAPH 6: ECONOMIC SECTORS**

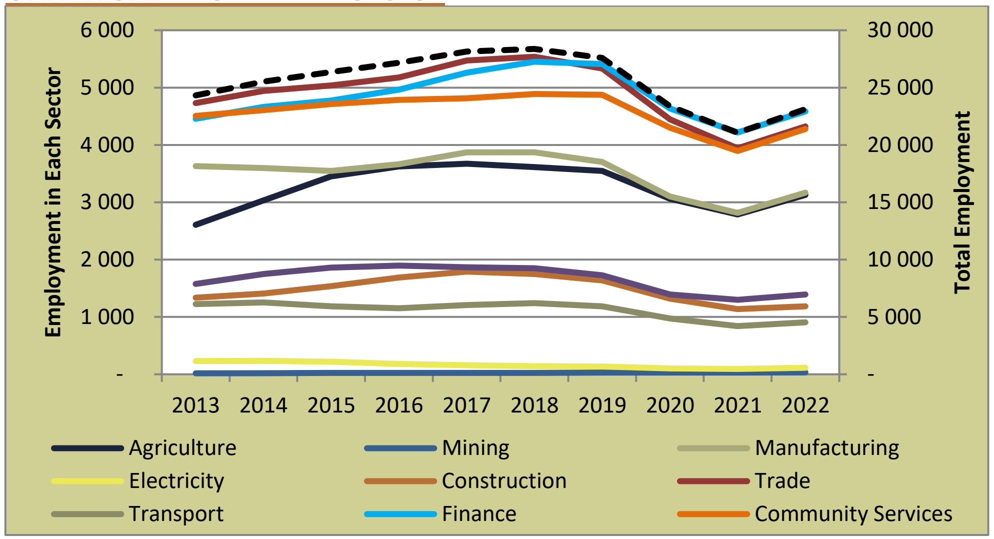



[1] The Tress Index provides insight into the level of concentration (or diversification) within an economic region. A Tress Index value of 0 means that all economic sectors in the region contribute equally to GVA, whereas a Tress index of 100 means that only one economic sector makes up GVA of the region.

## GRAPH 7: GVA GROWTH VS POPULATION GROWTH



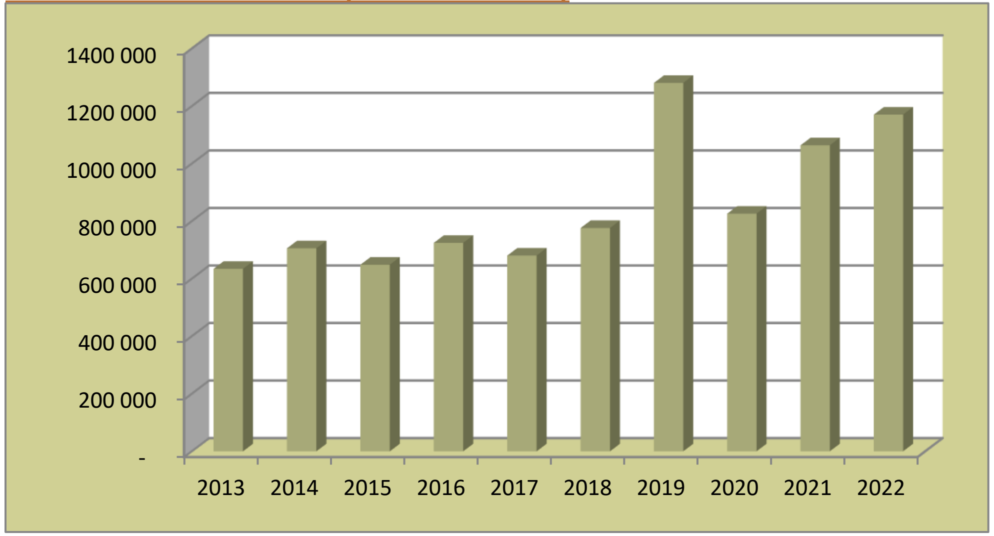

## GRAPH 8: EMPLOYMENT BY SECTOR



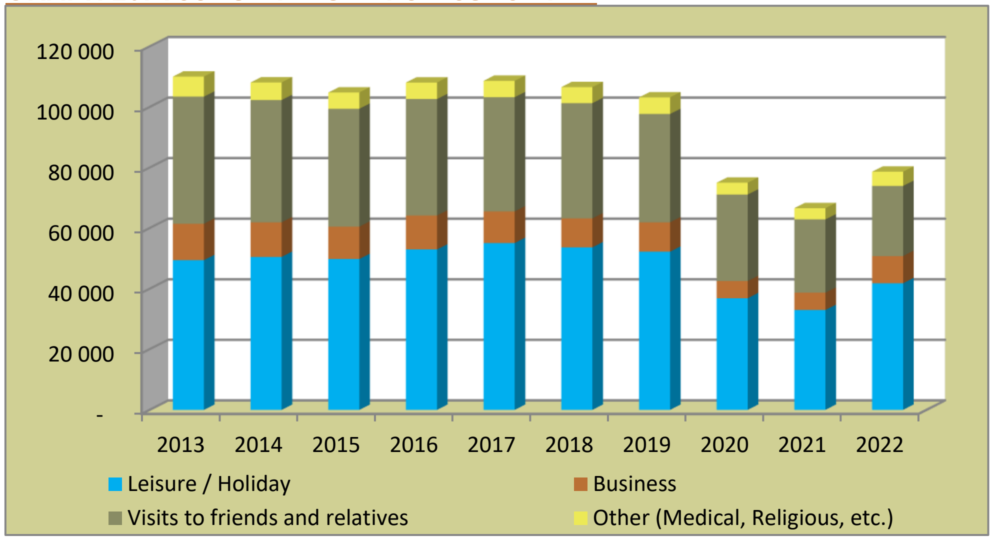

GRAPH 7 illustrates a comparison between economic and population growth over the review period. Over the past 10 years, the average population growth rate has exceeded the average economic growth rate over the same period. It is appreciated that Covid-19 had a significant negative impact on the economy, however, as illustrated in GRAPH 7, the trend of population growth exceeding economic growth has been prevalent prior to the pandemic. The municipality is encouraged to continue to invest in productive assets that aim to create an environment conducive to economic growth. Ensuring adequate levels of service delivery can assist in attracting investment into the municipality which in turn will promote growth of the local economy.

The Finance sector remained the largest employer providing 19.8% of total employment, closely followed by Trade (18.7%) and Community Services (18.5%). Formal employment opportunities increased by 2 057 (8.9%) from 2021 to 2022, with job creation evident across all sectors. Despite this marked increase in employment opportunities, 33.5% of the economically active population remain in search of employment.

GRAPH 9: TOURISM SPEND (CURRENT PRICES)




GRAPH 10: TOURISM TRIPS BY PURPOSE OF TRIP



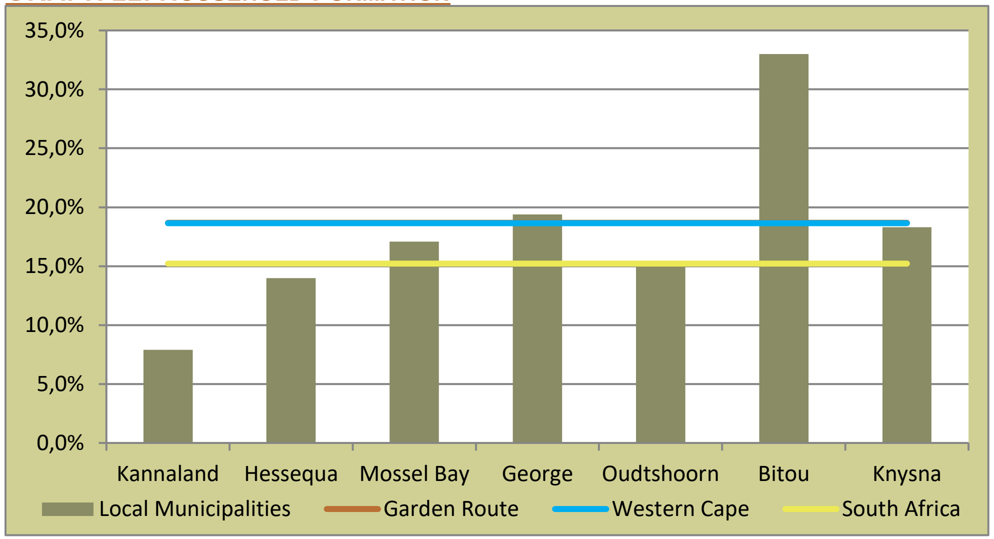

Tourism-spend increased to R1.2 billion in 2022 from R1.1 billion in 2021. The gross amount spent by tourists contributed a significant 15.4% to the municipality's GVA in 2022. With this in mind, it is the municipality's responsibility to ensure that an enabling environment for growth in the tourism sector is fostered through ensuring adequate, consistent service delivery, as well as providing a clean and safe environment. Additionally, assistance must be given to those working within the tourism sector where possible to ensure that Oudtshoorn remains a space where tourism continues to thrive.

An analysis of the tourism sector in a municipality would be incomplete without analysing the number of trips and purpose thereof. The total number of tourism trips have been increasing, with an 18.1% increase recorded in 2022. This rise is expected to continue as the number of tourism trips totalled 78 629 trips in 2022 which is substantially lower than the 5-year pre-Covid average of 106 621 trips p.a. Trips for leisure/holiday remained the predominant reason for tourism trips, comprising of 53.1% of the trips in 2022.

## Household Infrastructure

Household formation over the review period came in at 15.0%, for a total of 3 459 additional households in absolute terms. This is relatively low compared to the other municipalities in the Garden Route district, with only Hessequa and Kannaland lagging behind Oudtshoorn in this regard. The municipality maintained an ***Infrastructure Index*** of 0.90; this remained lower than the district index (0.91) but higher than the provincial index (0.89). The ability to maintain this index despite 779 additional households in the year is indicative of a municipality which is mindful of service delivery notwithstanding limited resources. The maintenance of this index score, or improvement thereof, in future will require ongoing infrastructure investment that keeps up with the rate of household formation.

GRAPH 11: HOUSEHOLD FORMATION




It is crucial that the municipality continues to employ a proactive approach to repairs and maintenance as well as ensures that sufficient capital is invested in improving and maintaining critical infrastructure in order to maintain the level of service delivery going forward.

GRAPH 12: INFRASTRUCTURE INDEX

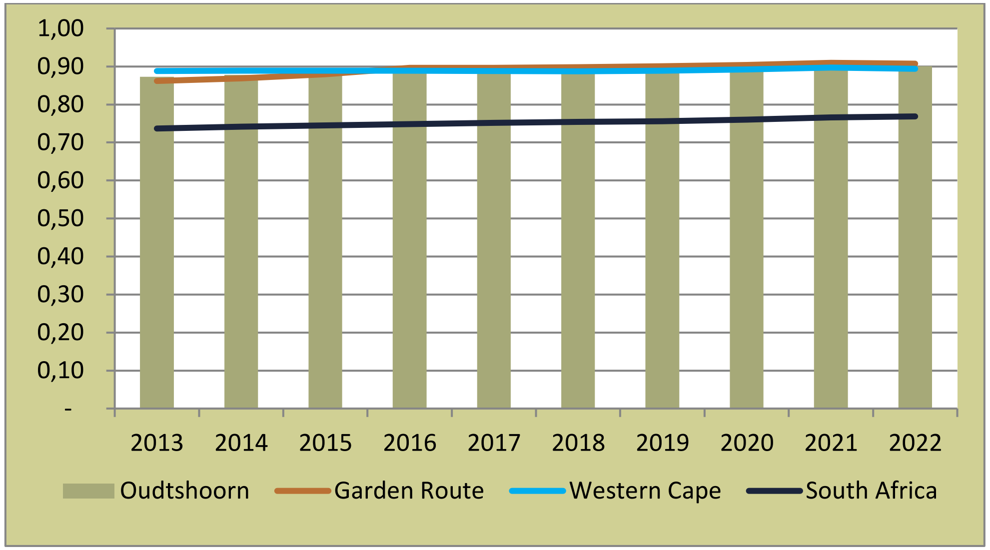



TABLE 2 below compares the level of backlogs, of ***sanitation, water, electricity, and refuse removal*** of Oudtshoorn with that of the Western Cape. Refuse removal continues to be the least performing service provision with a 17.3% backlog in 2022. This is due to a relatively high percentage of large rural agricultural areas within the municipality not receiving this service.

## TABLE 2: HOUSEHOLD INFRASTRUCTURE PROVISION

| Infrastructure | Garden Route | | Oudtshoorn | |
|---|---|---|---|---|
| ***Above RDP Level*** | | | | |
| **Sanitation** | 196 138 | 97,3% | 25 292 | 95,6% |
| **Water** | 198 849 | 98,7% | 26 100 | 98,6% |
| **Electricity** | 196 004 | 97,3% | 24 914 | 94,1% |
| **Refuse Removal** | 185 626 | 92,1% | 21 873 | 82,7% |
| ***Below RDP or None*** | | | | |
| **Sanitation** | 5 382 | 2,7% | 1 170 | 4,4% |
| **Water** | 2 671 | 1,3% | 363 | 1,4% |
| **Electricity** | 5 516 | 2,7% | 1 549 | 5,9% |
| **Refuse Removal** | 15 893 | 7,9% | 4 590 | 17,3% |
| **Total Number of Households** | **201 520** | **100,0%** | 26 462 | 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

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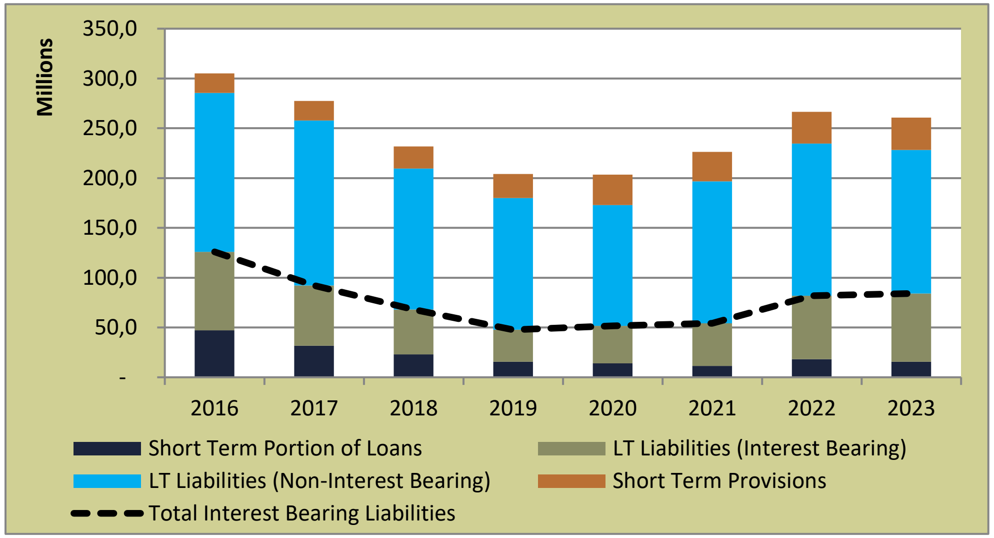
9 Conclusions

# UPDATED HISTORIC FINANCIAL ASSESSMENT

## FINANCIAL POSITION

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

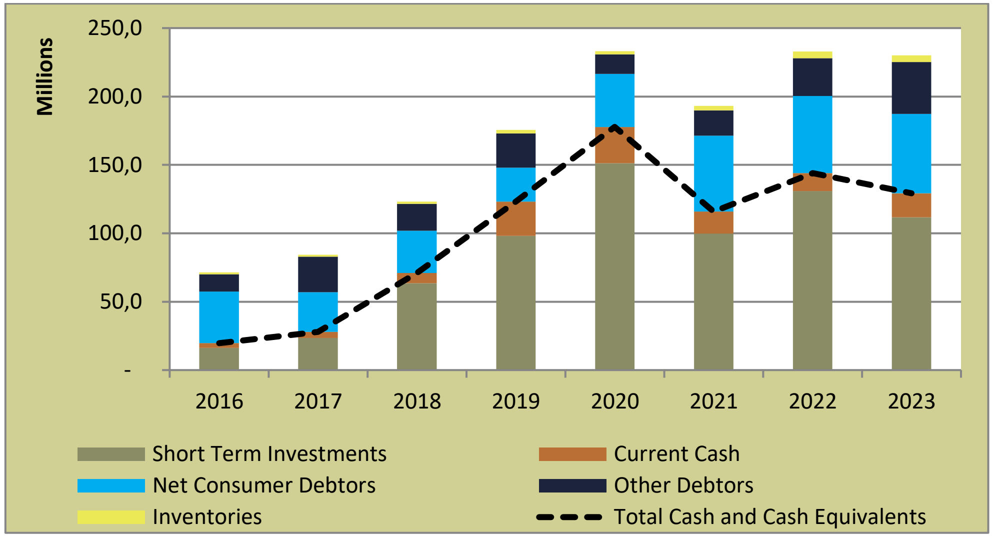



The financial position of Oudtshoorn LM continued to improve as at FYE2022/23, with total assets and accumulated surpluses increasing. Total assets increased by R56.3 million to R1.2 billion. Accumulated surpluses increased by R72.3 million in FY2022/23. Total assets and accumulated surpluses continued the directly proportional relationship indicating that assets employed by the municipality yielded returns.

Total liabilities decreased by 5.4% in FYE2022/23. Both current and non-current liabilities decreased in the period. Long-term liabilities decreased by R3.8 million, with the decline in non-current provision facilitating this movement. Interest-bearing liabilities have increased in recent years with Oudtshoorn LM accessing debt fund more consistently. Total interest-bearing liabilities have increased by R2.4 million to R84.3 million as FYE2022/23.

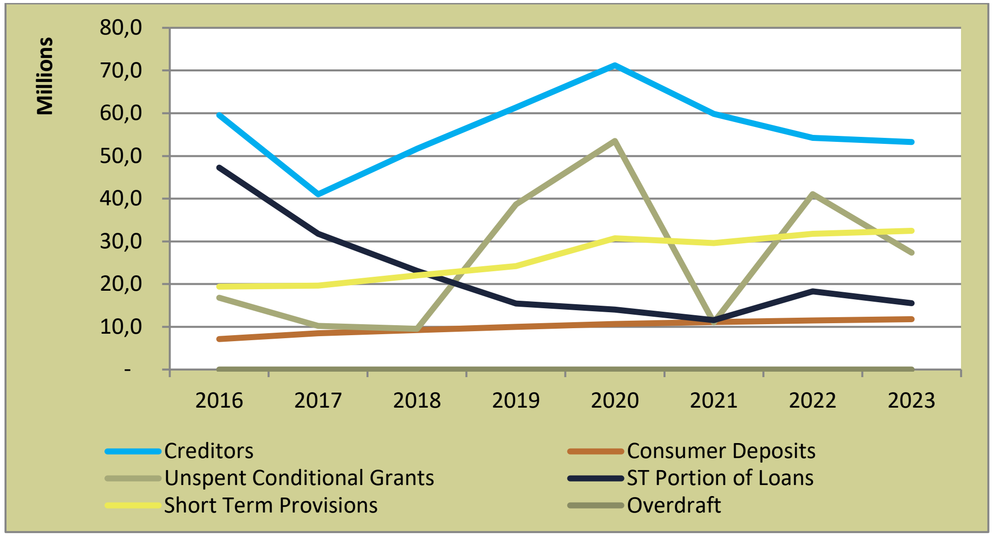
To assess whether this new debt has been incurred responsibly, the gearing and debt service ratios are assessed. The gearing ratio currently sits at 12.0%, remaining well below the NT maximum of 45%. Similarly, the debt service to total expense ratio fell below the NT recommended ratio of 6% to 8%, only amounting to 4.0%. These two metrics indicate that Oudtshoorn has borrowed responsibly and that there is additional scope to further increase borrowings granted they are undertaken in a responsible manner.

GRAPH 14: CURRENT ASSETS




Current assets marginally decreased by 1.8% from the previous financial year, from R232.9 million as at FYE2021/22 to R228.8 million as at FYE2022/23. The main driver of this decline is the significantly larger decrease (17.2%) in cash and cash equivalents over the period. Current liabilities increased by an amount of R16.3 million (10.4%) to a balance of R140.4 million as at FYE2022/23. This is attributable to the decline in unspent conditional grants, signalling that significant headways have been made in the implementation of capital projects. This is further corroborated by capital budget implementation improving to 90% in FY2022/23 from 60% in FY2021/22.

**GRAPH 15: CURRENT LIABILITIES**

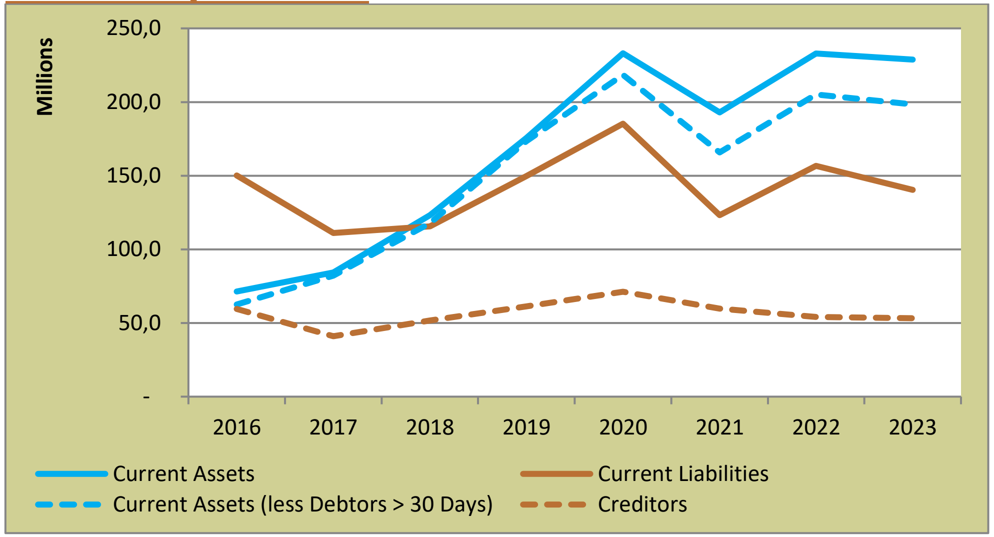



The combined effect of the movements in current assets and current liabilities manifests itself in the improved liquidity ratio. The decline in creditors reflects a positive trend, particularly in light of the improved liquidity ratio. Oudtshoorn LM's liquidity ratio improved to a healthy 1.63:1 as at FYE2022/23. This ratio is higher than the NT norm of at least 1.5:1, indicating the municipality's ability to pay its current/short term obligations. Should debtors older than 30 days be excluded from the calculation (i.e., least liquid debtors) the ratio reduces to 1.41:1.

**TABLE 3: LIQUIDITY RATIOS**

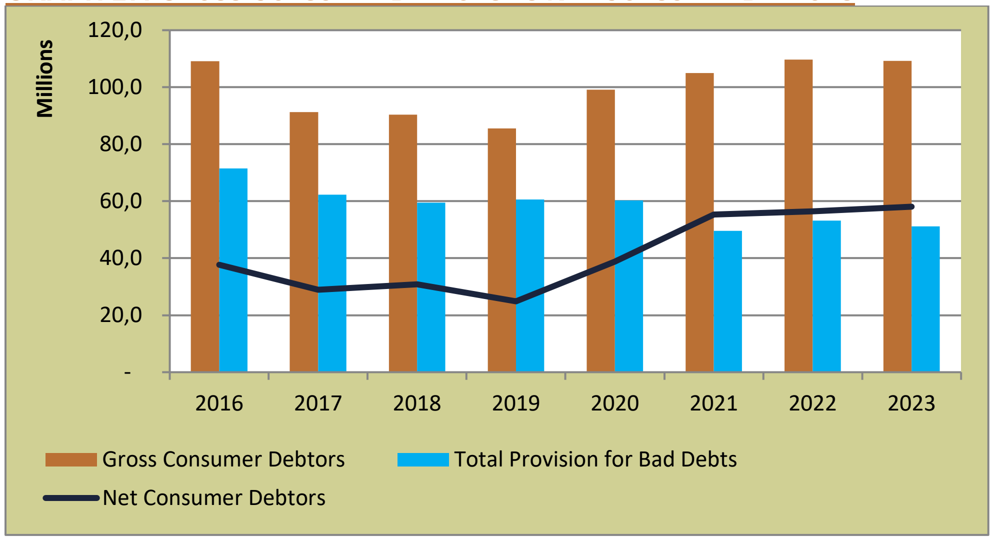
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|
| **Current Assets: Current Liabilities** | 0,48 | 0,76 | 1,07 | 1,17 | 1,26 | 1,57 | 1,49 | 1,63 |
| **Current Assets (less Debtors > 30 Days): Current Liabilities** | 0,42 | 0,74 | 1,02 | 1,16 | 1,18 | 1,34 | 1,31 | 1,41 |

**GRAPH 16: LIQUIDITY RATIOS**




Albeit a negligible decline (0.4%), gross consumer debtors declined for the second consecutive year to a balance of R109.3 million as at FYE2022/23. The balance mainly consists of rates and electricity debtors. Consistent with the issue raised in the previous LTFP update, the provision for bad debts of R41.6 million does not sufficiently cover debtors older than 90 days of R69.4 million. The provision provides coverage for only 73.2% of debtors who are largely considered a high risk of defaulting, falling substantially below the NT norm of 100%. The age analysis of consumer debtors reflects a large proportion of gross debtors are older than 90 days. Debtors older than 90 days at FYE2022/23 constitute 64.0% of the gross debtors balance.

## GRAPH 17: Gross Consumer Debtors vs Net Consumer Debtors




Electricity debtors remained the highest contributor to net debtors, comprising of 28.2% of the net debtors balance as at FYE2022/23. Water debtors followed closely with a 26.1% contribution.

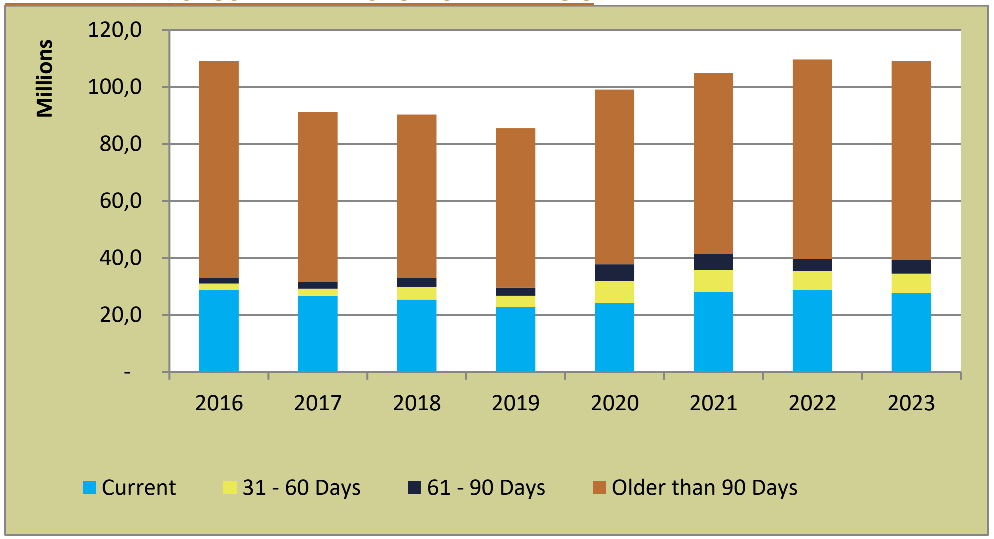
Billed revenue increased by 4% in FY2022/23. In context, this was lower than the municipality's 8-year average increase of 7% p.a. and below the average inflation rate of 7.1% during the financial year. This comparatively under-sized increase in billed revenue can be largely attributed to the decline in electricity revenue as a result of persistent load shedding during the period.

The collection rate declined from 98% in FY2022 to 94% for FY2022/23, marginally falling short of the NT norm. On a positive note, Oudtshoorn LM's average collection rate over the review period stands at 95% p.a. As a stand-alone assessment, this indicates sound revenue management but once it is analysed in conjunction with the increasing net debtor days currently sitting at 40 days and debtors older than 90 days comprising of 64% of the gross debtors balance, it indicates that the municipality must persist in the implementation of stricter credit control policies as recommended in previous updates.

## TABLE 4: Debtors Ratios

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|
| **Increase in Billed Income p.a. (R'm)** | 52,3 | 32,1 | 45,3 | (25,9) | 10,5 | 58,3 | 18,1 |
| **% Increase in Billed Income p.a.** | 15% | 8% | 11% | -6% | 2% | 13% | 4% |
| **Gross Consumer Debtors Growth** | -16% | -1% | -5% | 16% | 6% | 5% | 0% |
| **Net Debtors' Days** | 27 | 27 | 19 | 32 | 45 | 40 | 40 |
| **Payment Ratio/Collection Rate (%)** | 101% | 93% | 95% | 91% | 93% | 97% | 94% |

## GRAPH 18: Consumer Debtors Age Analysis



## Financial Performance

**GRAPH 19: Analysis of Surplus**

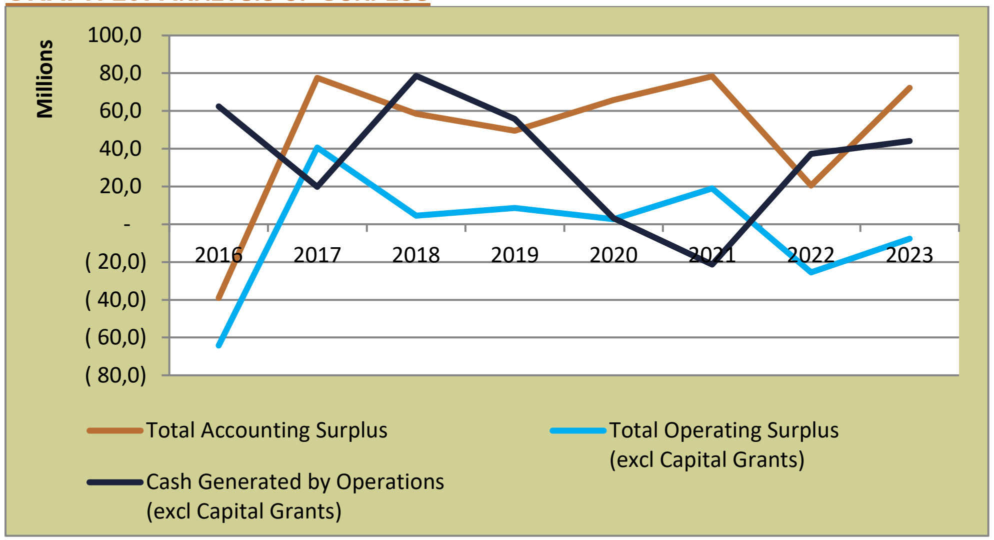


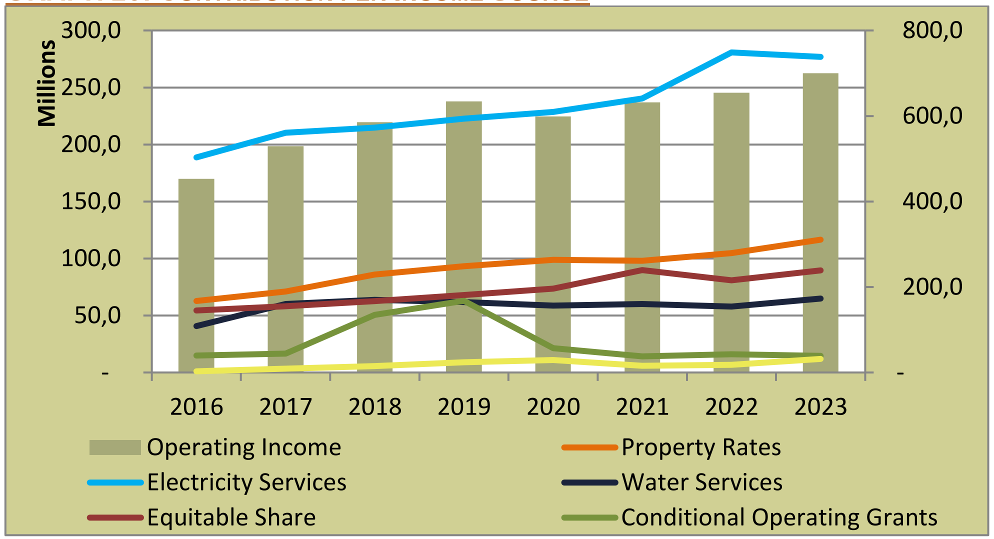

**TABLE 5: Total Income vs Total Expenditure**

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|
| **Total Income** | 478,3 | 565,8 | 639,2 | 674,8 | 662,3 | 691,3 | 700,2 | 780,0 |
| **Total Operating Expenditure** | 517,3 | 488,3 | 580,6 | 625,2 | 596,5 | 612,9 | 679,7 | 707,7 |
| **Operating Income (excl Cond Grants)** | 438,3 | 512,6 | 534,7 | 571,0 | 577,9 | 617,7 | 638,3 | 685,6 |

Total income increased by 11.4% in FY2022/23 and operating income increased by 7.4% over the same period. Both figures were higher than the operating expenditure increase of 4.1%, which resulted in an improved financial performance. The proportionately higher increase in income is due to all recorded revenue streams increasing in the financial year.

Oudtshoorn LM posted an accounting surplus of R72.3 million in FY2022/23. This was a 252.9% increase, or a R51.8 million increase in absolute terms, from FY2021/22. When capital grants are excluded, the municipality posted an operating deficit of R7.7 million. While this remains a deficit, it is a significant improvement from the operating deficit of R25.2 million posted in FY2022. The municipality also managed to improve its cash generated by operations for the second successive period by increasing to R44.1 million in FY2022/23 from R37.3 million in FY2022. Cash flow will be explored further in the following section.

**GRAPH 20: Contribution per Income Source**

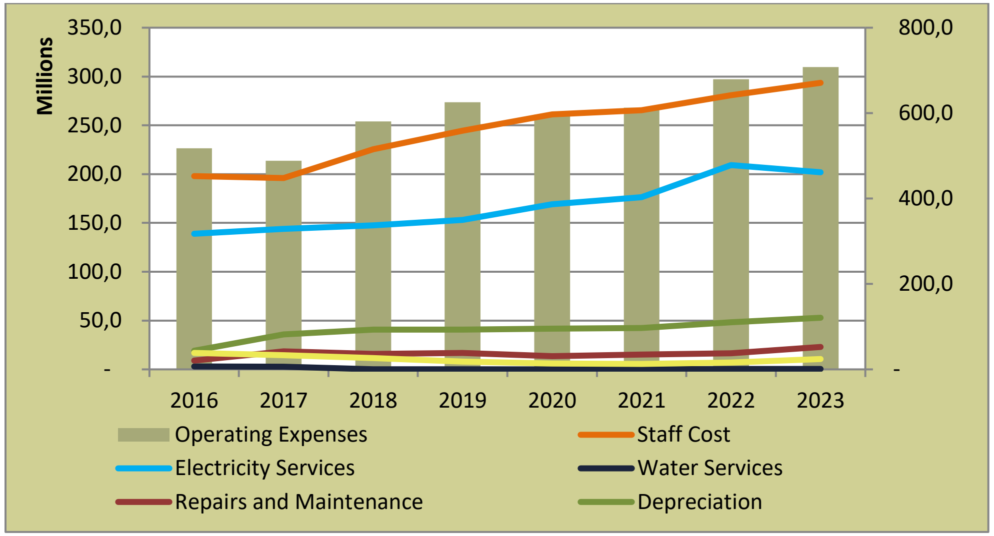



Electricity services revenue has remained the main contributor (40%) to total operating revenue despite a marginal decline of 1.4% in revenue generation from R280.7 million in FY2022 to R276.9 million in FY2022/23. This decline is a consequence of the consistent load shedding experienced during the period. The gross surplus margin (27%) has remained consistent with the review period average of 28%. Electricity distribution losses decreased to 5.5% in FY2022/23, remaining below the NT maximum level of 10%.

Property Rates and Equitable Share round off the top three main sources of income, contributing 17% and 13%, respectively, to total operating income. Water services revenue contributed 9% in FY2022/23. Water distribution losses marginally increased to 13.9% in FY2022/23 but still remained lower than the NT maximum of 30%.

Considering the energy crisis, the extent to which Oudtshoorn LM is reliant on electricity services as a revenue source provides a risk to the municipality. In order to mitigate this risk, it is recommended that the municipality maximises alternative revenue sources and employs stringent management over its operational expenditure. Furthermore, it is imperative that the municipality's tariffs reflect the true cost of supply. This will go a long way in mitigating the financial risks posed by the energy crisis.

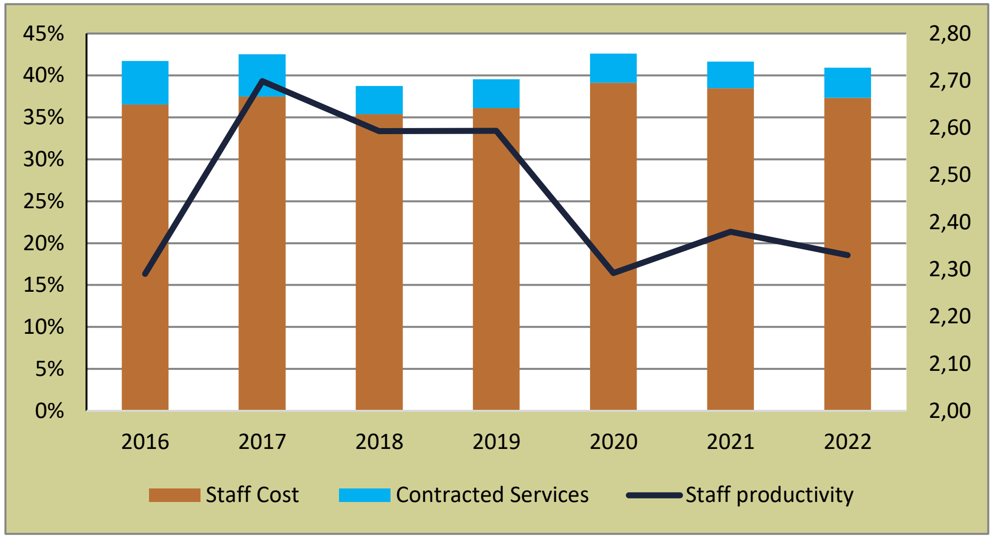
**GRAPH 21: CONTRIBUTION PER EXPENDITURE ITEM**




Operating expenditure is primarily driven by Electricity Bulk Purchases and Staff Costs, which together contributed to 61% of the total operating expenditure. Expenditure incurred to repair and maintain capital assets remained low at 2% of PPE and IP for FY2022/23. This low ratio has potential to result in increased breakdowns and asset obsolescence. It fell well below the NT recommendation of 8%, which significantly increases the risk of breakdowns and asset obsolescence.

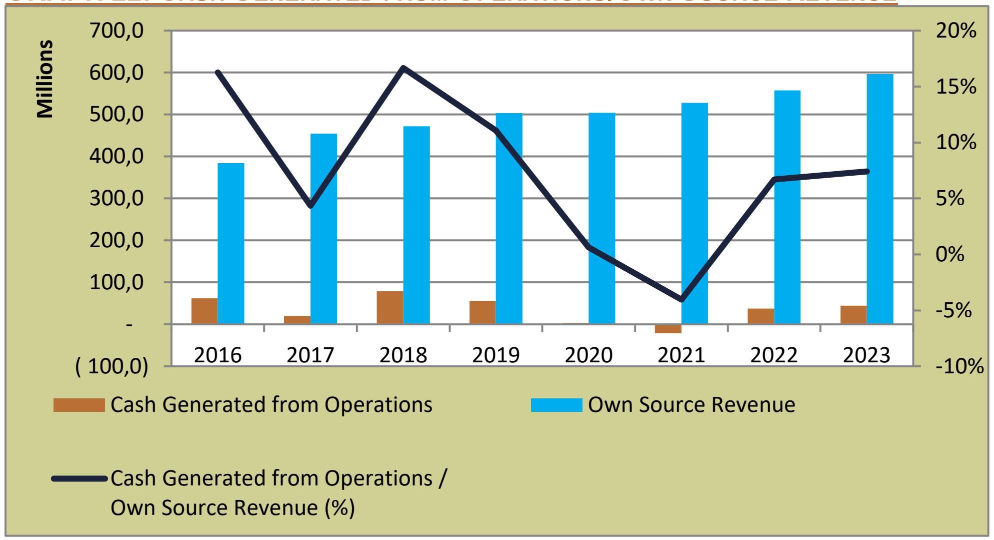
Staff Costs as a percentage of operating expenditure decreased to 36% but still remains in the upper limits of the NT recommendation and increases to 39% when contracted services are included. Staff productivity ratio (operating revenue/employee related costs) stood at 2.39 in FY2022/23, indicating that the human resources employed produced returns for the municipality. GRAPH 21 clearly indicates that staff productivity has declined since FY2016/17 and has not recovered to the levels achieved between FY2016/17 and FY2018/19.

**GRAPH 21: STAFF AND CONTRACTED SERVICES / OPERATING EXPENDITURE VS STAFF PRODUCTIVITY**

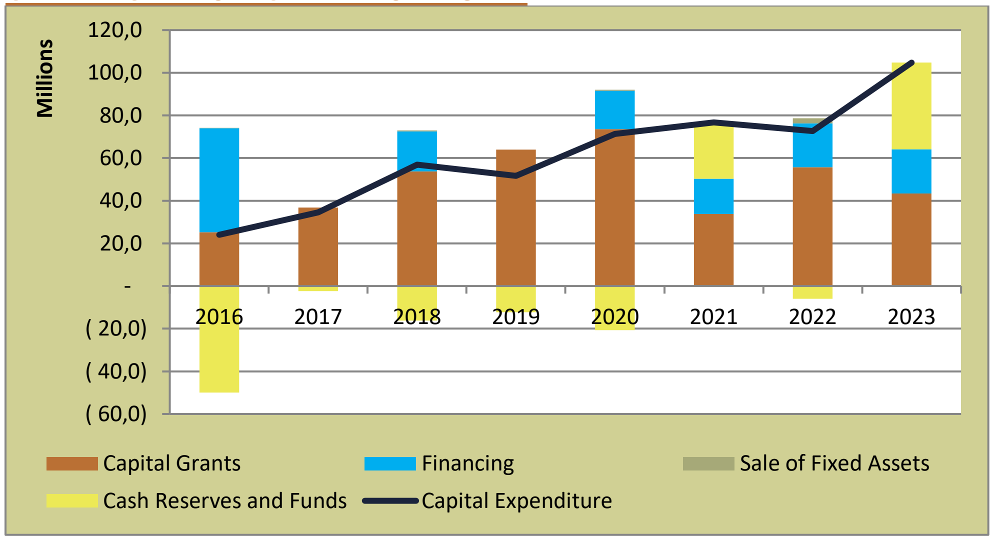


## Cash Flow

### GRAPH 22: Cash Generated from Operations/Own Source Revenue



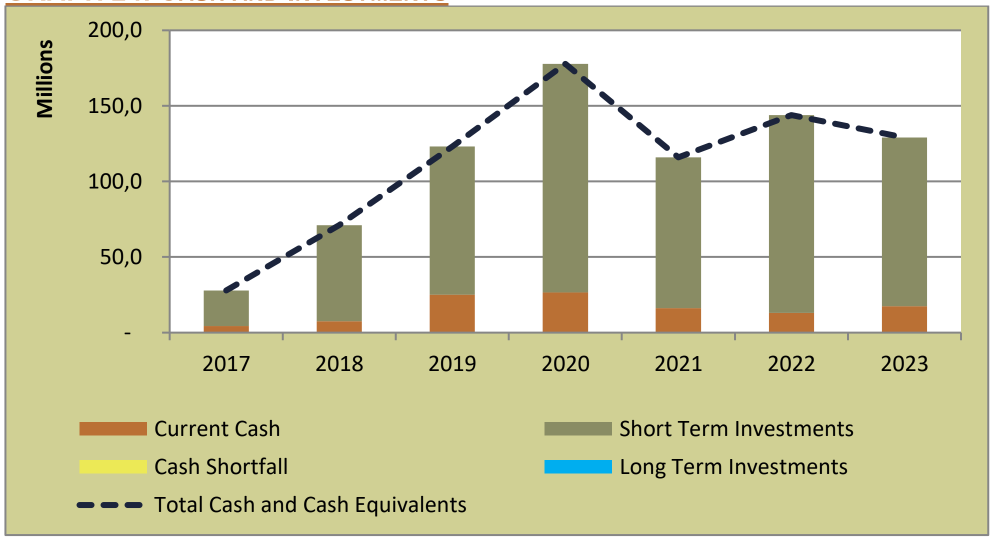

### GRAPH 23: Annual Capital Funding Mix



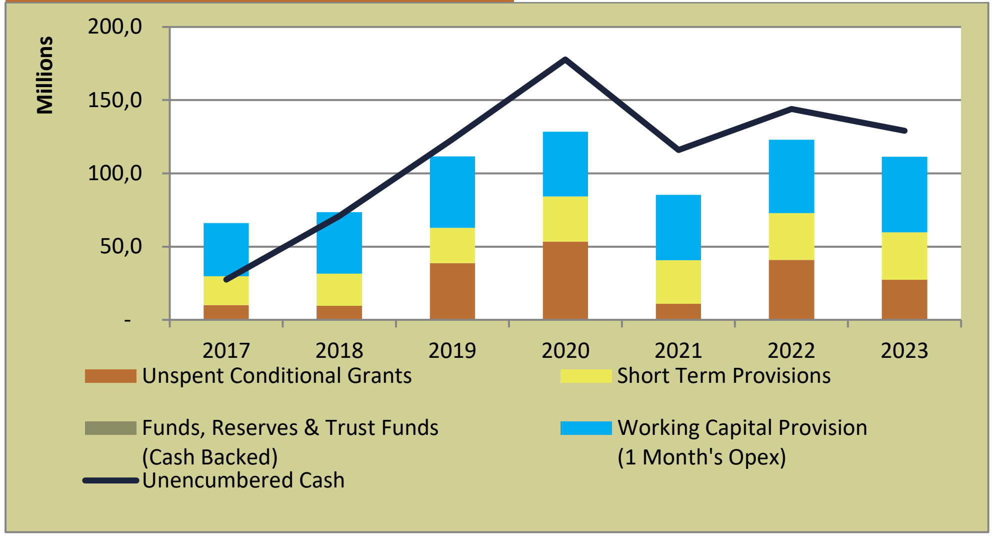

The municipality increased its cash generation from operating activities despite a decline in the collection rate. This cash generation increased from R37.3 million in FY2021/22 to R44.1 million in FY2022/23. More importantly, this cash has not been fictitiously created by non-payment of creditors as the creditor days have declined from 54 days in FY2022 to 48 days in FY2023. Cash generated from operations as a percentage of own source revenue amounted to 7% in FY2023.

Oudtshoorn LM invested a cumulative R492.4 million in the acquisition of capital assets, over the past 8 years. This amount was funded by capital grants (78%) and external borrowings (22%). Own cash reserves have not been preferred as a means to supplement capital grants for the better part of the review period but there was a significant increase in FY2022/23. Own cash reserves funded 38.8% of capital expenditure during the year. Although this capital funding mix was different from the municipality's status quo, it did not result in any adverse effects on the municipality's liquidity.

### GRAPH 24: Cash and Investments



## GRAPH 25: MINIMUM LIQUIDITY REQUIRED




Presented in TABLE 6 below, Oudtshoorn is required to maintain enough cash reserves to cover Unspent Conditional Grants (R27.3 million), Short-Term Provisions (R32.5 million) and Working Capital Provision (including 1 month's Opex) (R51.6 million). The municipality's unencumbered cash balance is more than sufficient to meet the required minimum liquidity levels of R111.4 million, even resulting in a cash surplus of R17.7 million as at FY2022/23. The municipality has posted cash surpluses in each of the last 5 years. The cash coverage ratio (including working capital) improved to 1.2:1 for FY2022/23.

## TABLE 6: MINIMUM LIQUIDITY REQUIREMENTS

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|
| Unspent Conditional Grants | 16,8 | 10,2 | 9,5 | 38,7 | 53,5 | 11,0 | 41,0 | 27,3 |
| Short Term Provisions | 19,4 | 19,6 | 22,1 | 24,2 | 30,8 | 29,6 | 31,8 | 32,5 |
| Funds, Reserves & Trust Funds (Cash Backed) | - | - | - | - | - | - | - | - |
| **Total** | **36,2** | **29,8** | **31,6** | **62,9** | **84,3** | **40,7** | **72,8** | **59,8** |
| Unencumbered Cash | 19,3 | 27,5 | 71,0 | 123,1 | 177,8 | 116,0 | 143,9 | 129,1 |
| **Cash Coverage Ratio (excl Working Capital)** | 0,5 | 0,9 | 2,2 | 2,0 | 2,1 | 2,9 | 2,0 | 2,2 |
| Working Capital Provision (1 Month's Opex) | 37,3 | 36,4 | 42,0 | 48,7 | 44,2 | 44,7 | 50,2 | 51,6 |
| **Cash Coverage Ratio (incl Working Capital)** | 0,3 | 0,4 | 1,0 | 1,1 | 1,4 | 1,4 | 1,2 | 1,2 |
| Minimum Liquidity Required | 73,5 | 66,2 | 73,6 | 111,6 | 128,5 | 85,4 | 123,1 | 111,4 |
| **Cash Surplus/(Shortfall)** | **(54,3)** | **(38,7)** | **(2,6)** | **11,5** | **49,3** | **30,6** | **20,9** | **17,7** |

## IPM Shadow Credit Score

Oudtshoorn 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 Oudtshoorn, the IPM credit model reflects a score of **6.0** which is comparable to an **BBB+** on a national ratings scale. This credit score is reasonable compared to other municipalities and is considered to be of **Investment Grade** - which means that Oudtshoorn 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** | **3,1** |
| **Institutional** | **3,0** |
| **Socio-Economic** | **2,2** |
| **Infrastructure** | **4,4** |
| **Environmental** | **2,7** |

The municipality performed reasonably well in the infrastructure module of the credit model. Supply of household infrastructure services remains a strong point of the municipality, this is also linked to the municipality's ability to be cognisant of its environmental impact..

The assessment indicates that the socio-economic module remains the main impediment to Oudtshoorn achieving higher credit scores. This is mainly linked to sluggish economic growth within the municipal area. The municipality must continue to invest in productive assets with the aim of stimulating the economy in order to improve this score over time.

The reasonable score achieved in the financial module is driven by the improved liquidity position, an ability to generate cash from operations as well as sound financial performance. Improvements to the collection rate will assist in improving this score further over time.

The score achieved under the institutional capacity module was driven by strong governance and prudent financial management. The municipality must maintain the clean audit report received from the Auditor General.

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# Long-Term Financial Model Outcomes

## Base Case Scenario

To develop a realistic Base Case model, the figures from the Adjustment Budget 2023/24 – 2025/26 were used. The historic analysis reveals that the municipality has consolidated its improved financial position in recent years. The objective of the model is to utilise realistic assumptions to support future financial sustainability. The following are the key assumptions:

8. The collection rate was increased to 95% over a period of 3 years, where it is assumed to be maintained for the remainder of the planning period.
9. The model incorporated the increases in revenue and expenditure items as announced in the Adjustment Budget, with minor upward adjustments made in an attempt to reflect a more realistic outcome.
10. The MTREF capital investment programme was maintained in FY2022/23/24, thereafter the following amendments were made:
    - FY2024/25: R70.0 million
    - FY2025/26: R60.0 million
    - FY2026/27: R75.0 million

    Assumed growth beyond the MTREF period is 5.5% p.a.
11. The borrowing programme was accelerated considerably over the MTREF period. FY2023/24 was left unaltered, thereafter the borrowing programme was adjusted as follows:
    - FY2024/25: R24.5 million
    - FY2025/26: R15.0 million
    - FY2026/27: R25.0 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 10%.
12. A loadshedding scenario was incorporated into the Base Case. This scenario assumes an average of stage 2 loadshedding for 3 years. This is assumed to result in an annual reduction of electricity consumption of 11.9%. Additionally, a 5% reduction of electricity sales is included to model the impact of the loss of customers who have moved to alternative power sources. Finally, a 5% reduction of water sales pursuant to loadshedding, due to pumps not being able to fill reservoirs for example, is also included.
13. Repairs and maintenance expenditure was increased to 4.5% of PPE & IP over the planning period.
14. Distribution losses were maintained at 5.5% and 13.9% for water and electricity respectively.

### Table 8: Base Case Outcomes

| Outcome | Base Case |
|---|---|
| Average annual % increase in Revenue | 7,7% |
| Average annual % increase in Expenditure | 8,2% |
| Accounting Surplus accumulated during Planning. Period (Rm) | R 94 |
| Operating Surplus accumulated during Planning. Period (Rm) | -R 186 |
| Cash generated by Operations during Planning. Period (Rm) | R 608 |
| Average annual increase in Gross Consumer Debtors | 14,0% |
| Capital investment programme during Planning. Period (Rm) | R 816 |
| External Loan Financing during Planning Period (Rm) | R 294 |
| Cash and Cash Equivalents at the end of the Planning Period (Rm) | R 336 |
| No of Months Cash Cover at the end of the Planning Period (Rm) | 2,9 |
| Liquidity Ratio at the end of the Planning Period | 2.3 : 1 |
| Gearing at the end of the Planning Period | 13,1% |
| Debt Service to Total Expense Ratio at the end of the Planning Period | 3,5% |

The LTFM forecasts financial performance to be reasonably poor over the first half of the planning period, with marginal growth forecast until FY2027/28. This is driven by a sense of conservatism exhibited by Oudtshoorn in compiling its operating budget. This is evidenced by the municipality budgeting for an overall increase of 11% in revenue (excluding capital grants), whilst budgeting for a comparatively higher increase of 27% in expenditure. This is contrary to the historic performance whereby operating income (excluding conditional grants) exhibited annual growth of 7.4% compared to annual growth of 4.1% in expenditure over the review period. Considerable increases in inventory consumed (285%), contracted services (48%) and other expenditure (51%) are the main drivers of the budgeted increase in expenditure. Furthermore, the load shedding scenario as well as the assumed increase in repairs and maintenance expenditure plays a role in these forecasts. The upward adjustments of financial performance notwithstanding, operating deficits (excluding capital grants) are forecast until FY2030/31.

The outlook for the municipality's ability to generate cash from its operations is positive, the poor forecast for financial performance notwithstanding. Oudtshoorn is forecast to generate cash from operations throughout the planning period, for a total of R608 million. A decline is forecast in FY2024/25, whereafter considerable growth is forecast for the remainder of the planning period. This is underpinned by the assumed improvement of the collection rate, as well as the forecast improvements to financial performance over the long-term. Additionally, the Base Case operates on the premise that the current creditors accounts will be services consistently. The ability to consistently generate cash from operations is a key indicator of financial sustainability.

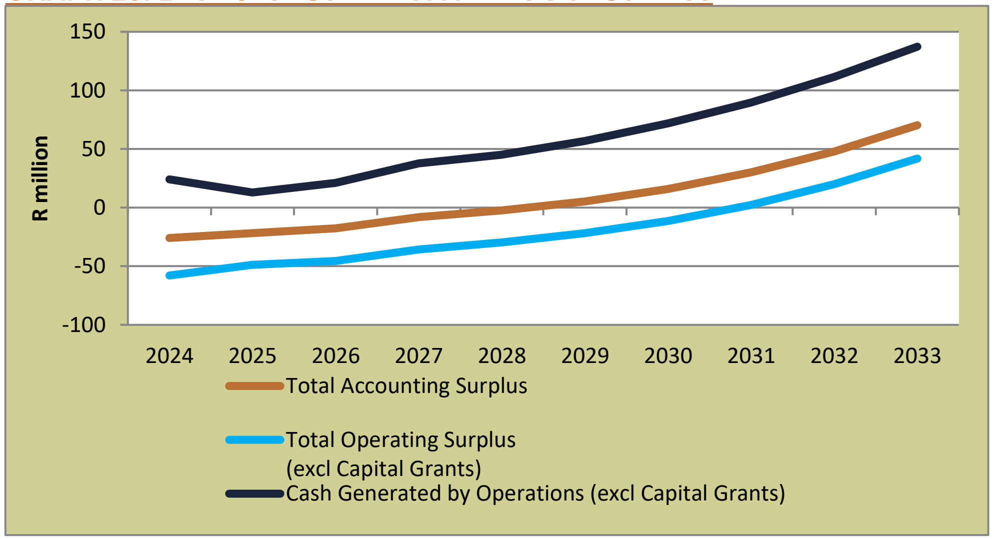
Despite the municipality accessing debt financing with reasonable regularity over the review period, significant scope exists to further accelerate the borrowing programme. The amendments made to the Adjustment Budget capital investment programme aim to take advantage of this scope to unlock an acceleration of capital investment. This is achieved through accelerating the external financing programme, whilst remaining cognisant of not overleveraging the debt profile. Additionally, this safeguards the liquidity position through limiting the utilisation of own cash to fund capital investment. As indicated in the Base Case outcomes, the acceleration of the capital investment programme is achieved in an affordable and sustainable manner.

At the assumed level of borrowings, the debt profile is forecast to remain affordable. This is evidenced by the debt indicators being forecast to remain within their respective limits throughout the planning period. IPM recommends a maximum gearing ratio of 30% and debt service to total expense ratio of 7% for Oudtshoorn LM. The accelerated borrowing programme as well as the limited utilisation of own cash to fund capital expenditure promotes a stable, healthy liquidity position. This assertion is underpinned by the healthy planning period end liquidity ratio of 2.3:1.

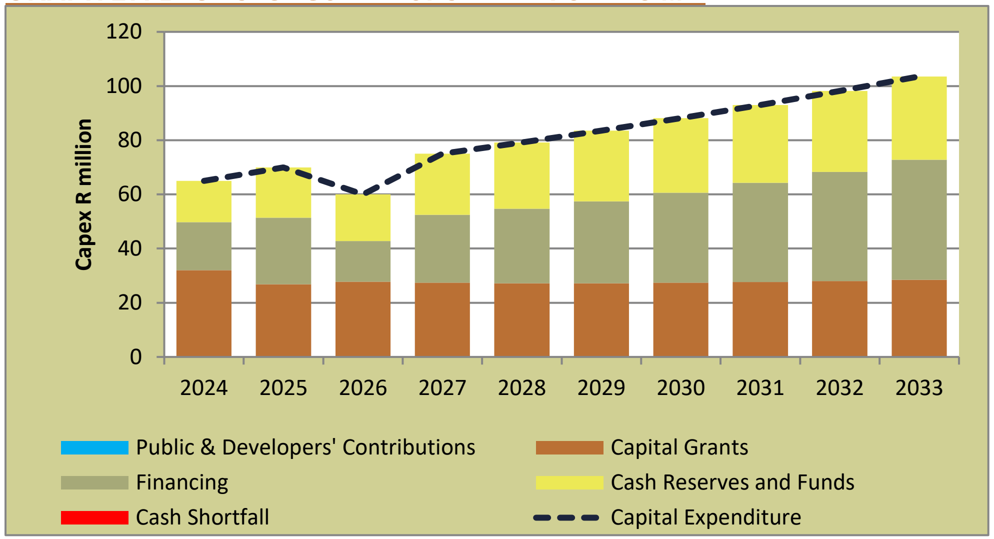
The bank balance is forecast to decline over the initial half of the planning period, before improving for the remainder thereof. The bank balance is forecast to meet the minimum liquidity requirement of 1-month's operating expenditure throughout the planning period, except for a marginal shortfall of R4 million in FY2026/27.

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. The Base Case enables an affordable acceleration of capital investment without threatening the stability of the liquidity position.

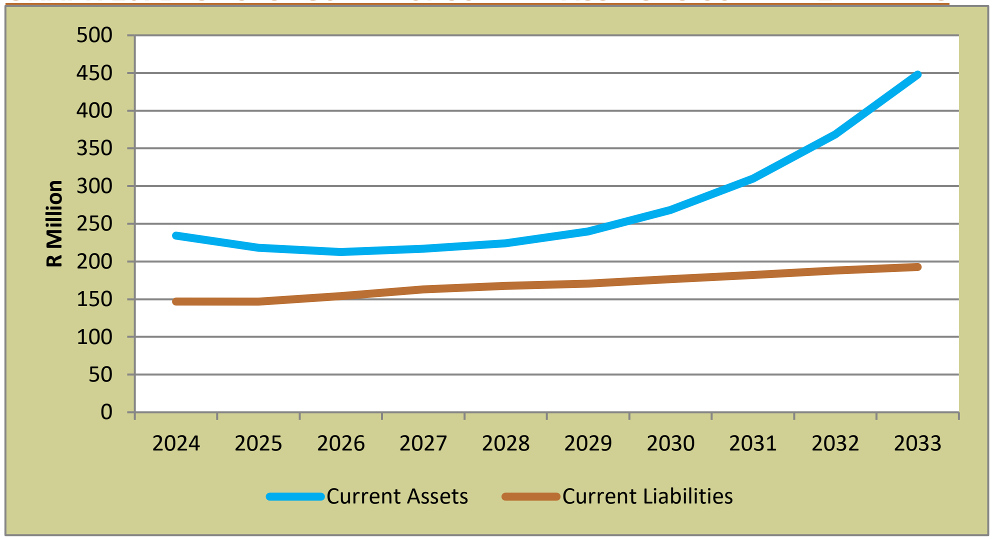
**GRAPH 26: BASE CASE SCENARIO: ANALYSIS OF SURPLUS**



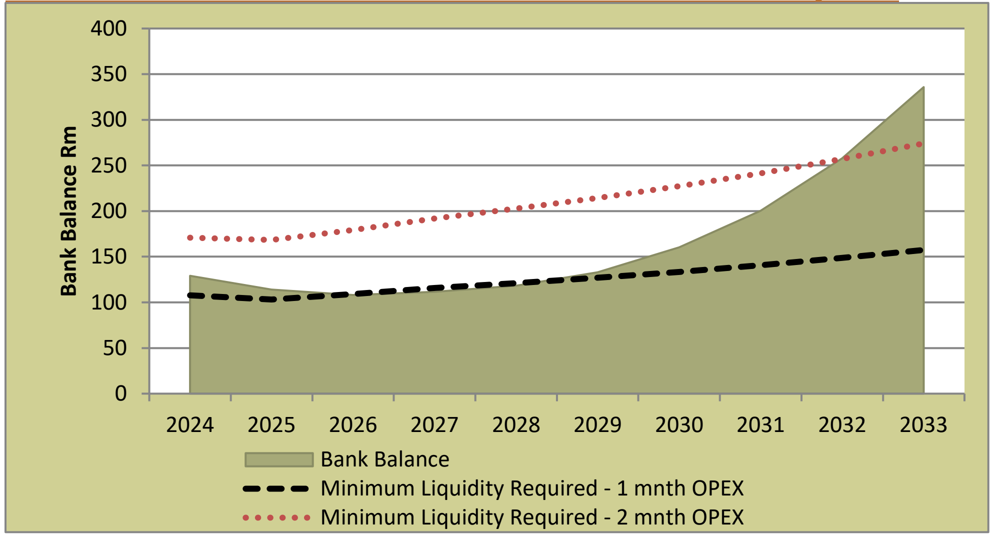
### GRAPH 27: BASE CASE SCENARIO: CAPITAL FUNDING MIX



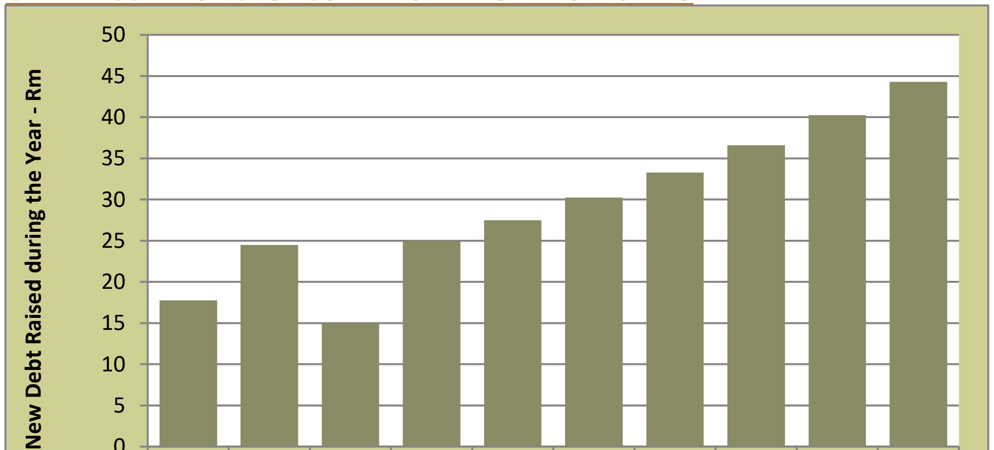

### GRAPH 29: BASE CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES




### GRAPH 28: BASE CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY

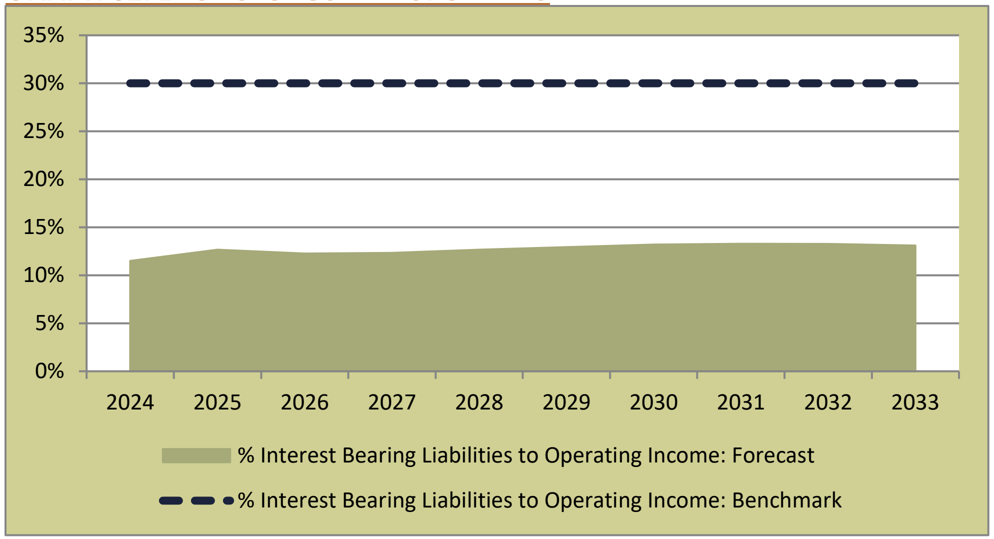



### GRAPH 30: BASE CASE SCENARIO: ANNUAL BORROWING

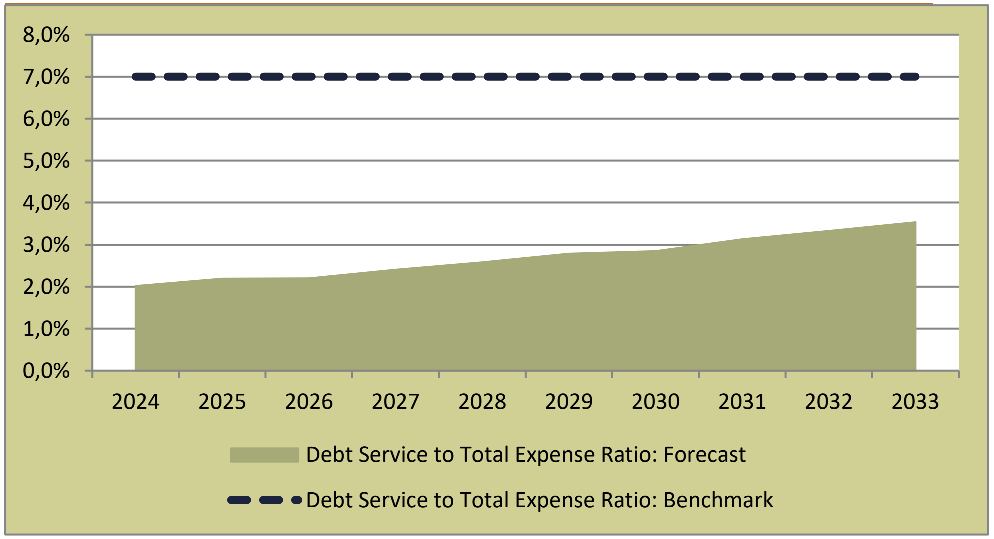



| | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
|---|---|---|---|---|---|---|---|---|---|---|
| R million | 18 | 25 | 15 | 25 | 28 | 30 | 33 | 37 | 40 | 44 |

### GRAPH 31: BASE CASE SCENARIO: GEARING




### GRAPH 32: BASE CASE SCENARIO: DEBT SERVICE TO TOTAL EXPENSE RATIO



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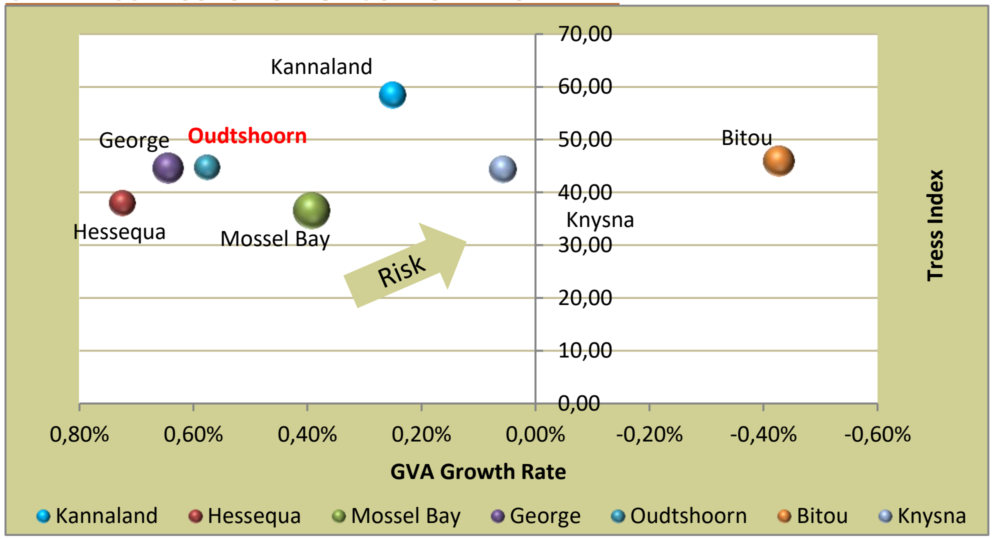
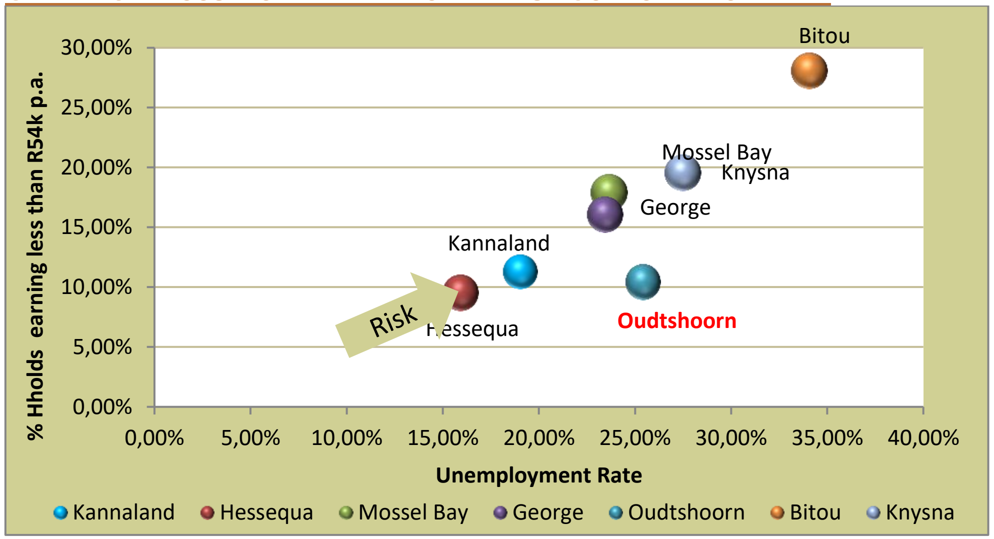
## Future Revenues

### Municipal Revenue Risk Indicator (MRRI) = "High"

GRAPH 33: ECONOMIC RISK COMPONENT OF MRRI




GRAPH 34: HOUSEHOLD ABILITY TO PAY RISK COMPONENT OF MRRI



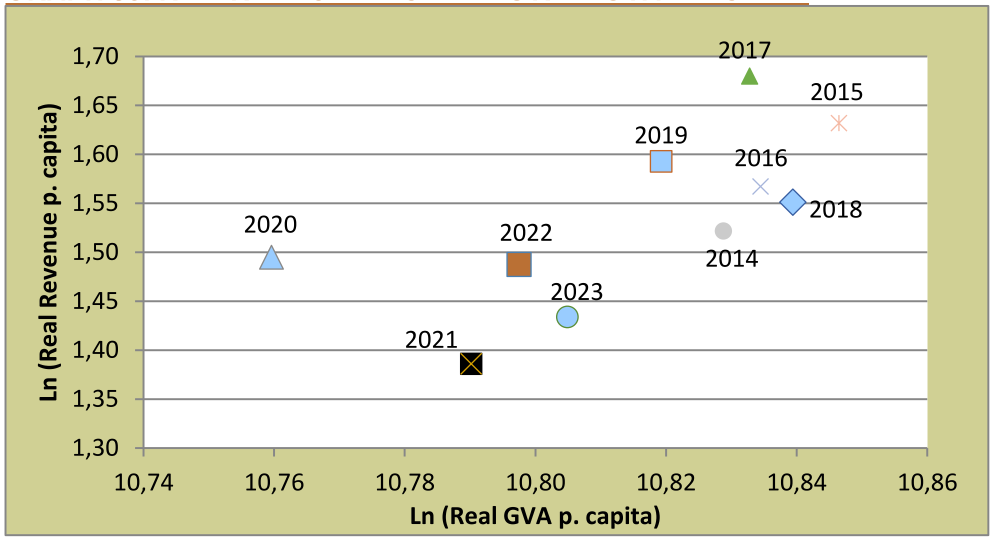

The Municipal Revenue Risk Indicator (MRRI) measures the risk of the municipality's ability to generate its own revenues. This is a function of the economy (size of the economy as measured by GVA per capita, GVA growth rate and Tress Index); and the household ability to pay (measured by percentage of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

Oudtshoorn has exhibited sluggish economic growth in recent years, as evidenced by the 5-year annual average GVA growth rate of 0.58%. This is exceeded by the annual average population growth rate of 1.04% over the same period. GVA per capita of R48 899 p.a. in 2022, as well as the reasonably high degree of diversification of Oudtshoorn's economy, all contribute to the "**High**" rating on the economic risk component of the MRRI. This is predominantly driven by a lack of economic growth.

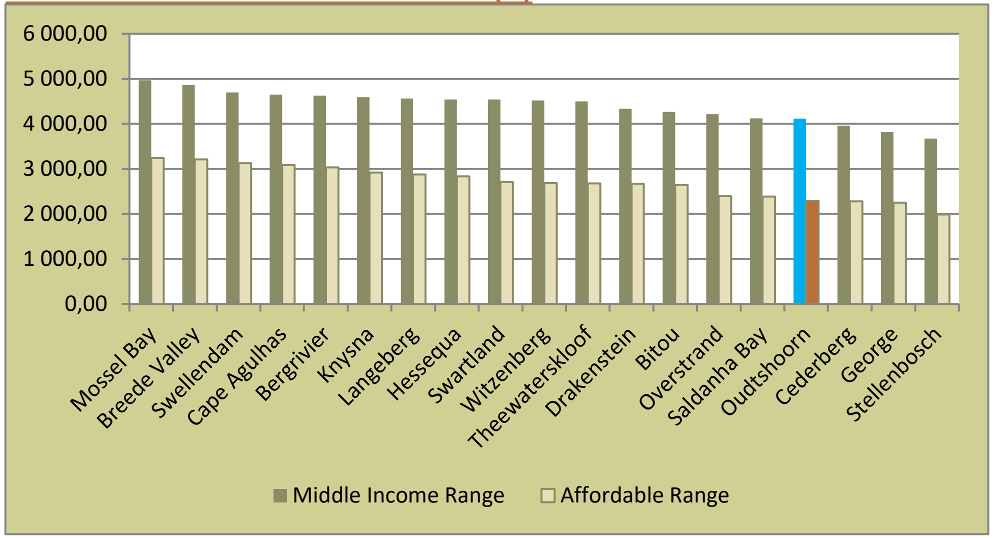
The percentage of indigent households reliant on support of 10.45%, the official unemployment rate of 25.41% and the human development index of 0.68 resulted in a **"Medium to High"** rating on the household ability to pay risk component of MRRI. The driving force behind this rating is the high rate of unemployment. Oudtshoorn is on the towards the lower end of risk in relation to the other municipalities in the district.

As a result, Oudtshoorn has a "**High**" risk rating on the MRRI indicator scale - i.e., there is a high risk that the municipality will not be able to generate the forecast cash revenue expected in future.

GRAPH 35: REAL REVENUE PER CAPITA VS REAL GVA PER CAPITA




GRAPH 36: AVERAGE HOUSEHOLD BILL (R)



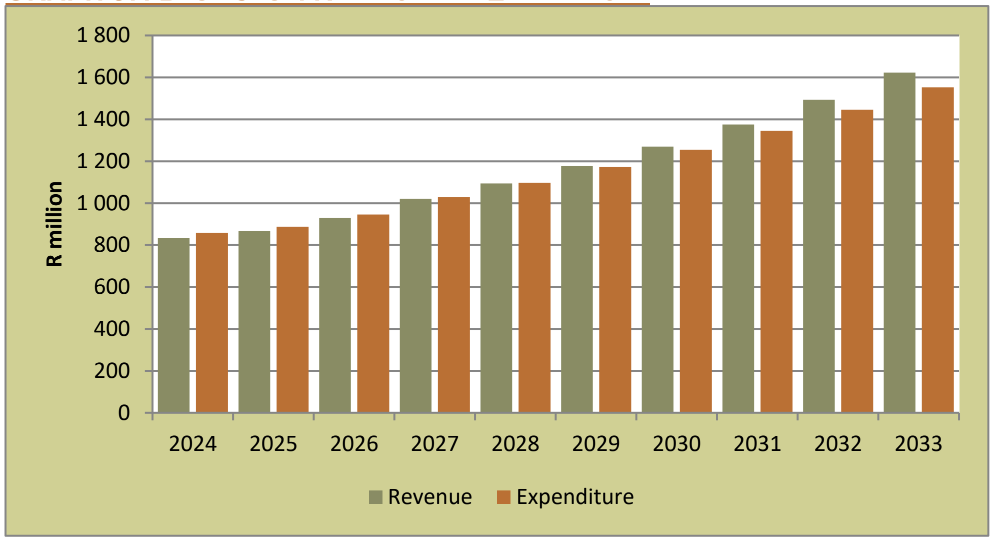

Real GVA per capita displayed various fluctuations throughout the review period. Between 2015 and 2020 a significant net decline was observed. The severe decline between 2019 and 2020 was due to Covid-19. Positive to note that that since 2020, a net economic recovery has been observed. Real revenue per capita on other hand showed a trend of decline until about 2021, presumably due to the impact of the pandemic. A notable recovery was observed in 2022, however, a further decline occurred in 2022.

Concerning to note is the lack of economic recovery post-pandemic. The reasonable rate of household formation creates complications for the municipality as many of the new inhabitants are of indigent status, placing further strain on municipal finances. The municipality is thus encouraged to create an enabling environment for economic growth. This municipality must enhance the perception of Oudtshoorn as an attractive environment for capital to be invested through ensuring a high level of service delivery is the norm.

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 2023/24 tariffs, reveals that Oudtshoorn LM features marginally below the middle of the range. Considering the level of service provided by Oudtshoorn 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 37: Base Case: Revenue and Expenditure**

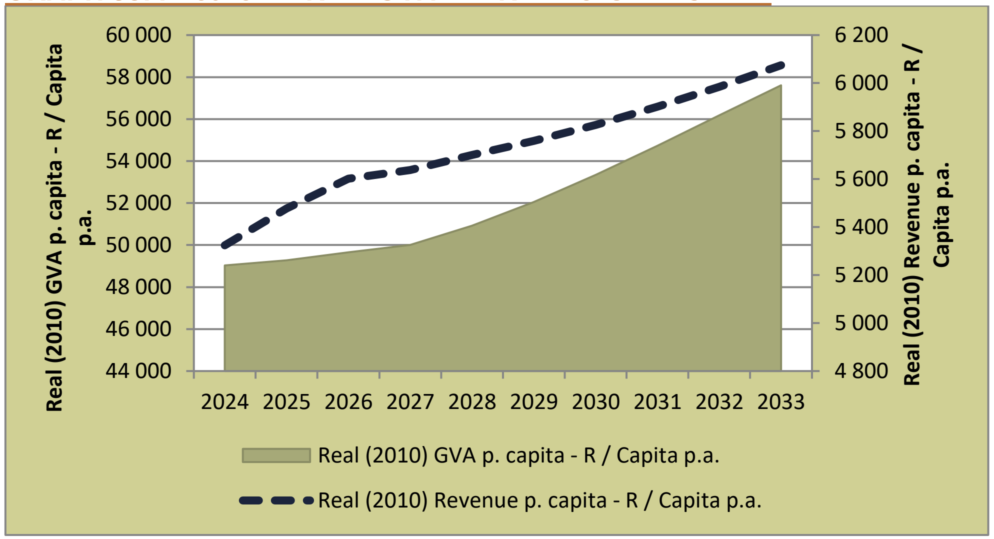



The Base Case estimates that, over the planning period, future nominal revenue (including capital grants) will grow at an average rate of 7.7% p.a. This growth in revenue includes: (i) tariff increases, (ii) increased sales and (iii) additional revenue sources. Future nominal expenditure is estimated to grow at a comparatively higher rate of 8.2% over the same period.

Graph 39 below indicates that financial performance is forecast to remain reasonably flat over the MTREF period. Thereafter, year-on-year improvements are forecast for the remainder of the planning period, with the municipality moving into an operating surplus position in FY2030/31. Electricity services are expected to remain the predominant revenue item, followed by property rates. While Oudtshoorn seemingly managed to mitigate the impact of the energy crisis during FY2022/23, the risk of revenue loss remains high as the energy crisis has shown no signs of dissipating in the short-term. It is thus recommended that the municipality diversifies its revenue sources, as well as maximises revenue extracted from other sources as a measure of risk mitigation.

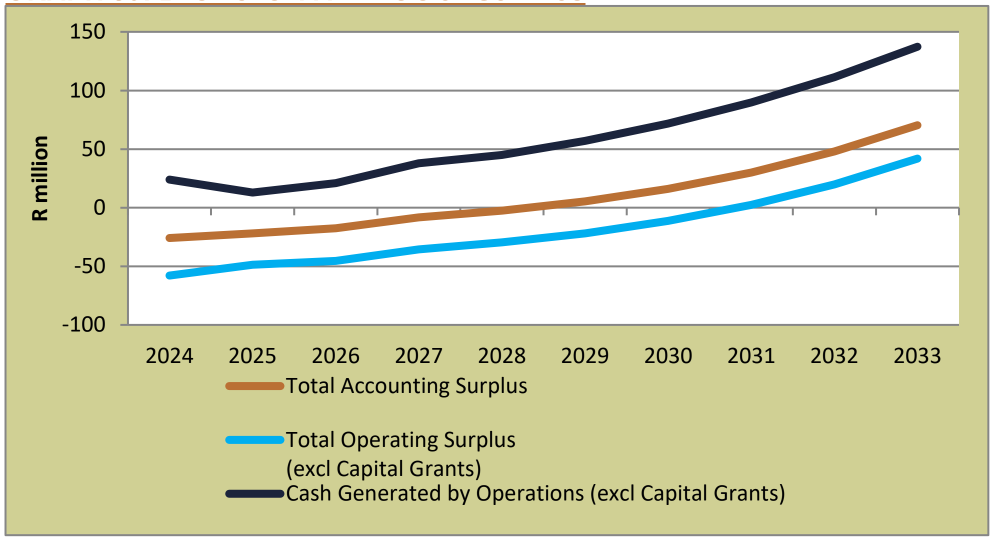
On the expenditure side, as mentioned in Section 4 of this report, the municipality has budgeted for substantial increases in expenditure items such as contracted services, other materials/inventory consumed and other expenditure. Analysis of the historic performance would suggest that the extent of the budgeted increases are excessive. These increases notwithstanding, staff costs are forecast to remain the predominant expenditure item, accounting for approximately 36.3% of operating expenditure on average over the forecast period. This exceeds the maximum limit of 32% as per the municipality's Financial Recovery Plan.

**Graph 38: Projected Real GVA and Revenues per Capita**




Real GVA per capita is forecast to increase by approximately 17.0% over the planning period, rising from R49 260 p.a. to R57 610 p.a. in 2033. Real revenue per capita shares the positive growth forecast with growth of 25.0% expected by 2033. Growth of the local economy is crucial to the municipality as it has a direct impact on the municipality's ability to generate revenue (MRRI). 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 39: BASE CASE: ANALYSIS OF SURPLUS




The municipality is forecast to generate cash from its operations throughout the forecast period, with year-on-year increases forecast from FY2024/25 onwards. The municipality is forecast to generate a significant R608 million in cash from operations over the planning period. This is underpinned by the assumed improvement of the collection rate to 95%, in line with the historic average. Should the municipality be able to achieve further improvements to, say, 97%, the ability to generate cash from operations will be enhanced further.

# Affordable Future Capital Investment

## CAPEX Affordability and Funding

The total CAPEX Demand was determined during the preparation of the LTFP in 2021 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 9: CAPEX Demand vs Affordability

| | | |
|---|---|---|
| Total 10-year CAPEX **Demand:** | = | R 7 525 million |
| Total 10-year CAPEX **Affordability:** | = | R 865 million |

## MTREF Capital Funding Mix

Oudtshoorn's Adjustment Budget expects a capital budget of R166 million:

TABLE 10: MTREF Case 3-Year MTREF Funding Mix R'm

| R'm | Total | 2023/24 | 2024/25 | 2025/26 |
|---|---|---|---|---|
| Public & Developers Contributions | **0** | 0 | 0 | 0 |
| Capital Grants | **87** | 32 | 27 | 28 |
| Financing | **47** | 18 | 15 | 14 |
| Cash Reserves and Funds | **31** | 15 | 9 | 8 |
| **Total** | **166** | **65** | **51** | **50** |

TABLE 11: Base Case 3-Year MTREF Funding Mix R'm

| R'm | Total | 2023/24 | 2024/25 | 2025/26 |
|---|---|---|---|---|
| Public & Developers Contributions | **0** | 0 | 0 | 0 |
| Capital Grants | **87** | 32 | 27 | 28 |
| Financing | **58** | 18 | 25 | 15 |
| Cash Reserves and Funds | **51** | 15 | 19 | 17 |
| **Total** | **195** | **65** | **70** | **60** |

## 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

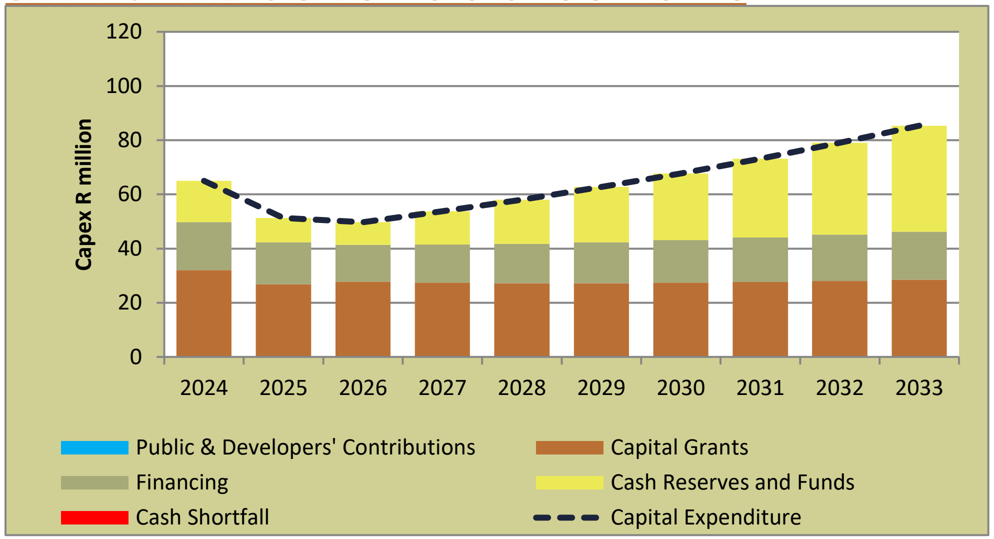
| Source | Rm | % |
|---|---|---|
| Public & Developers' Contributions | 0 | 0% |
| Capital Grants | 280 | 34% |
| Financing | 294 | 36% |
| Cash Reserves and Funds | 241 | 30% |
| Cash Shortfall | 0 | 0% |
| **Capital Expenditure** | **816** | **100%** |

Oudtshoorn's historic capital investment programme exhibited a notable acceleration over the review period. This acceleration was facilitated through the regular undertaking of borrowings. The utilisation of own cash to fund capital investment was limited over the review period. This is evidence of sound financial management. It is important to maintain a prudent approach in funding capital investment through own cash, as for long-term sustainability to be promoted, priority must be given to maintaining adequate levels of liquidity. It is thus recommended that the capital investment programme is predominantly funded through capital grants and through the undertaking of affordable external financing.

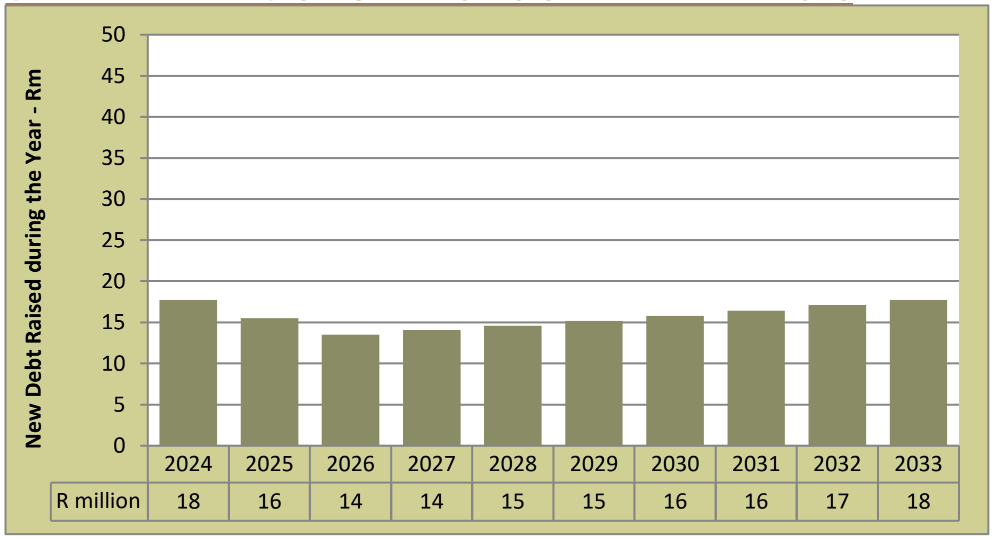
The MTREF Case extrapolates the Adjustment Budget capital investment programme whilst escalating capital investment at 5.5% p.a. beyond the MTREF period. The MTREF Case capital investment programme, as illustrated in Graph 40 below, while affordable, remains somewhat conservative. Significant scope exists to for Oudtshoorn to accelerate borrowing. The Base Case aims to utilise this scope to realise an affordable acceleration of capital investment. As illustrated in Graph 42, a notable acceleration of capital investment is achieved in affordable, sustainable manner. This is done whilst simultaneously limiting the extent to which own cash reserves are utilised to fund capital investment, thus safeguarding liquidity.

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

### GRAPH 40: MTREF CASE DISTRIBUTION OF FUTURE FUNDING



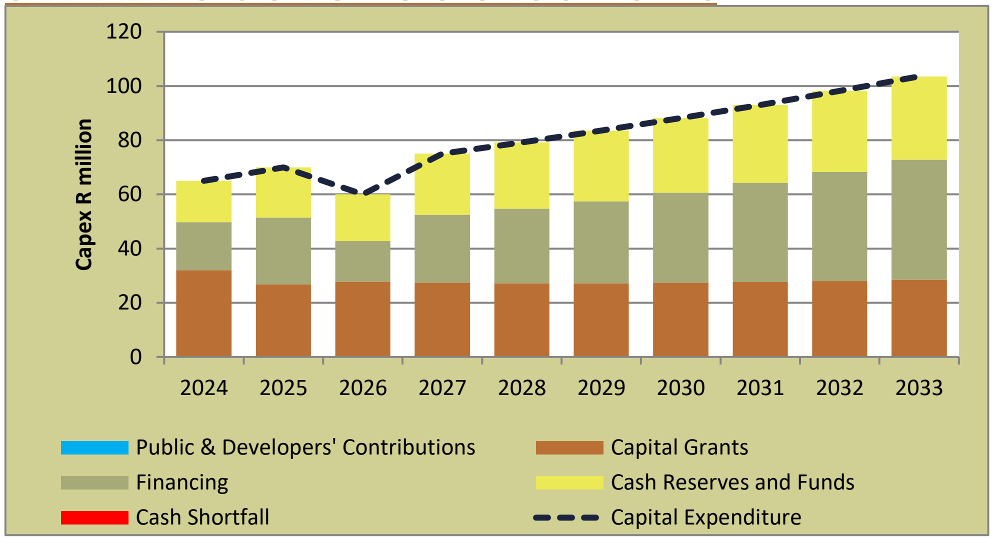

### GRAPH 41: MTREF CASE ESTIMATE OF FUTURE EXTERNAL FINANCING



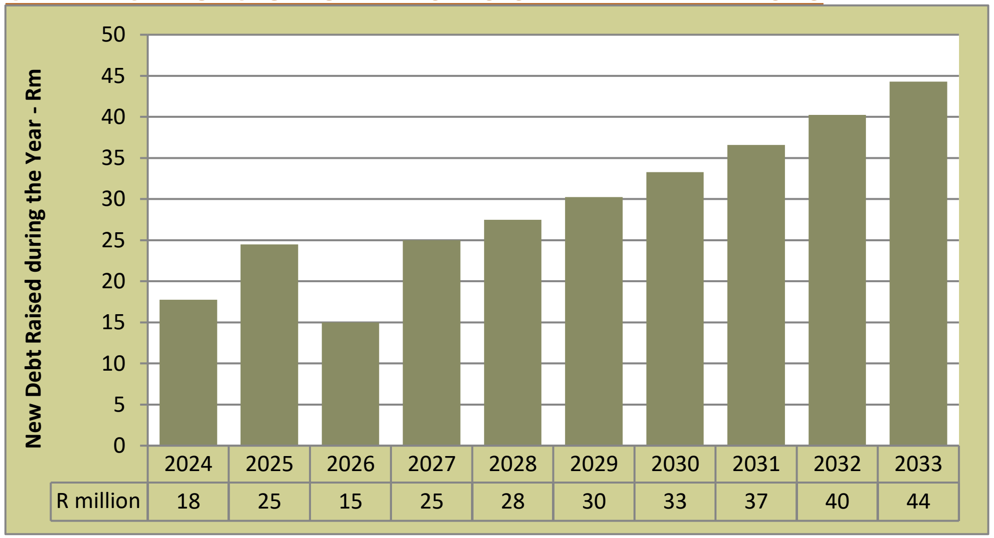

| | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
|---|---|---|---|---|---|---|---|---|---|---|
| R million | 18 | 16 | 14 | 14 | 15 | 15 | 16 | 16 | 17 | 18 |

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

### GRAPH 42: BASE CASE DISTRIBUTION OF FUTURE FUNDING




### GRAPH 43: BASE CASE ESTIMATE OF FUTURE EXTERNAL FINANCING




| | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
|---|---|---|---|---|---|---|---|---|---|---|
| R million | 18 | 25 | 15 | 25 | 28 | 30 | 33 | 37 | 40 | 44 |

TABLE 13 & TABLE 14 below compare the distribution of capital funding over the planning period for both the MTREF Case and Base Case.

**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 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital Grants | 280 | 32 | 27 | 28 | 27 | 27 | 27 | 27 | 28 | 28 | 28 |
| Financing | 158 | 18 | 16 | 14 | 14 | 15 | 15 | 16 | 16 | 17 | 18 |
| Cash Reserves and Funds | 208 | 15 | 9 | 8 | 12 | 16 | 20 | 25 | 29 | 34 | 39 |
| Cash Shortfall | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Capital Expenditure** | **686** | 65 | 51 | 50 | 54 | 58 | 63 | 68 | 73 | 79 | 85 |

**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 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital Grants | 280 | 32 | 27 | 28 | 27 | 27 | 27 | 27 | 28 | 28 | 28 |
| Financing | **200** | 18 | **25** | **15** | **25** | **28** | **30** | **33** | **37** | **40** | **44** |
| Cash Reserves and Funds | **385** | 15 | **19** | **17** | **23** | **25** | **26** | **28** | **29** | **30** | **31** |
| Cash Shortfall | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Capital Expenditure** | **865** | 65 | **70** | **60** | **75** | **79** | **84** | **88** | **93** | **98** | **104** |

## LIQUIDITY AND CAPITAL REPLACEMENT RESERVE

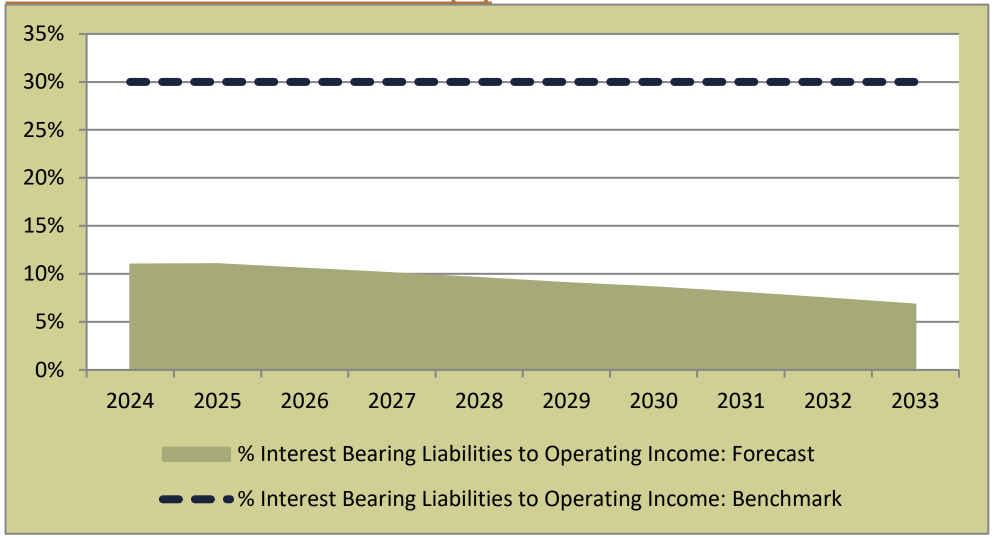
The minimum liquidity levels cater for unspent conditional grants, cash-backed reserves, short-term provisions and 1-month's working capital (operating expenditure). The bank balance is forecast to improve over the planning period, while meeting the minimum liquidity requirements throughout (except for FY2026/27). This is supported by the adjusted funding mix as well as the assumed improvement to the collection rate. It would be prudent to continue to build liquidity levels to allow for the Capital Replacement Reserve to be built up to fund future capital expenditure.

## GEARING

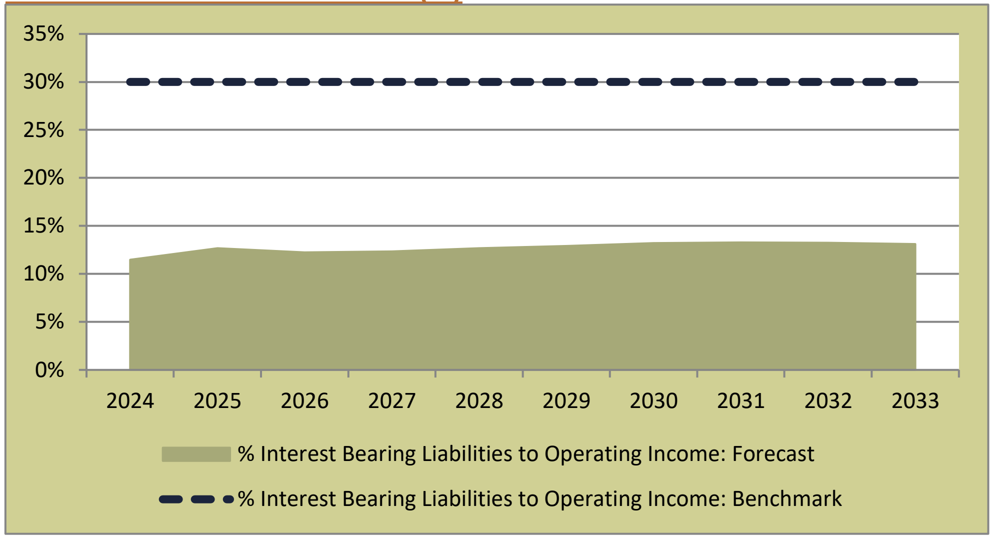
As mentioned, the MTREF Case extrapolates the Adjustment Budget capital investment programme and funding mix with certain growth assumptions included after the MTREF period. With regards to external financing, assumed annual growth beyond the MTREF period is 4%. Additionally, borrowing consists of 10-year amortising loans at a rate of 6% above forecast CPI in any given year. With this in mind, this section aims to assess the affordability of the modelled debt profile. The MTREF Case borrowing programme is consistent with the historic borrowing programme in which annual borrowings averaged R17.9 million per annum. This is forecast to result in a deleveraging of the debt profile over the planning period. This is evidenced by the gearing ratio forecast to reduce from its peak of 11.0% in FY2024/25 to 6.8% by the end of the planning period. From a debt service perspective, the debt service to total expense ratio is forecast to remain between the 1.9% and 2.0% band throughout the planning period. it is our view that the MTREF Case debt profile, while affordable, is underleveraged.

The Base Case aims to affordably accelerate capital investment through utilising the available scope to further leverage the debt profile. The adjustments made in arriving at the Base Case are highlighted in red in **TABLE 14**. A notable acceleration of capital investment is achieved through accelerating the extent of leverage undertaken by the municipality. Analysis of the debt indicators will reveal the affordability of the Base Case debt profile. The gearing ratio is forecast to peak at 13.3% in FY2030/31 before reducing to 13.1% by the end of the planning period. The debt service to total expense ratio is forecast to rise from 2.0% in FY2023/24 to 3.5% by the end of the planning period. With IPM's recommended maximum norms for Oudtshoorn of 30% for gearing 7% for the debt service to total expense ratio in consideration, the Base Case debt profile remains affordable. In fact, scope remains to undertake further borrowings should the municipality wish to do so. This scope will be extended further should an extended loan tenor be utilised. This will be explored in a scenario later in this report. We note the aggressive nature of the Base Case borrowing programme, however, as evidenced by the Base Case outcomes, the financial situation of the municipality is forecast to remain sustainable. Furthermore, the Base Case reflects an acceleration of 20.8% of capital investment as compared to the MTREF Case. This may prove to be a catalyst for economic growth, if invested wisely in productive assets, as well as for a material improvement in the level of service delivery provided by the municipality.

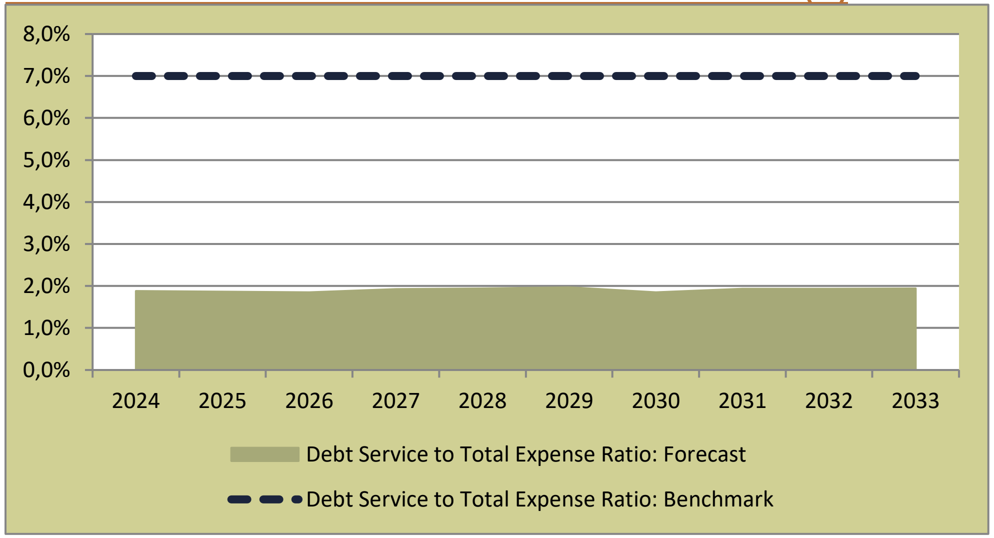
GRAPH 44: MTREF CASE GEARING (%)



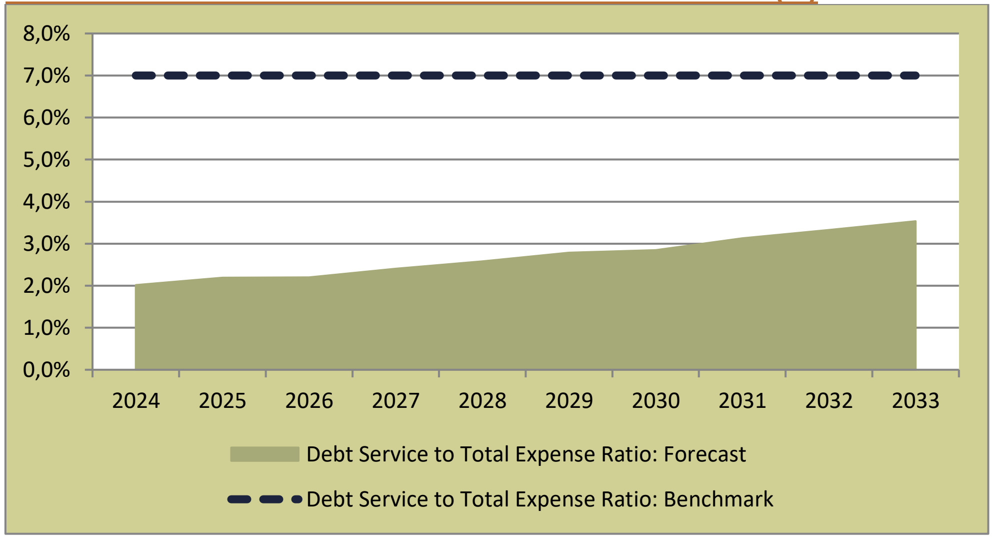

GRAPH 46: BASE CASE GEARING (%)




GRAPH 45: MTREF CASE DEBT SERVICE TO TOTAL EXPENDITURE (%)




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



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

# SCENARIOS ANALYSIS

Considering our analysis of the Adjustment 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 positive and negative scenario indicating the impact of movements in the collection rate of 2 percentage points from the Base Case. 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 positive and negative scenario indicating the impact of movements in operating expenditure of 2 percentage points from the Base Case. All other input variables are assumed to be consistent with the Base Case.

3. **To indicate the impact of an acceleration of capital investment on long-term financial sustainability:**

    3.1. A scenario indicating the impact of accelerating the capital investment programme. Additionally, the average loan tenor on new debt was extended to 13 years. Finally, borrowing was accelerated from the Base Case. All other input variables are assumed to be consistent with the Base Case.

## Scenario 1: Sensitivity Analysis on the Collection Rate

The current economic climate in which Oudtshoorn must operate is littered with challenges such as geopolitical instability, the energy crisis, logistical inefficiencies as well as a high inflationary environment. All of these challenges have a profound impact on municipalities and households alike. The municipality's ability to extract revenue from households is severely tested in these times, as households come under increasing pressure to service their municipal bills. A lack of economic growth within the municipality exacerbates these challenges. In light of the above, it is feasible that should these economic conditions persist, a decline in the collection rate may occur. On the other hand, should the municipality effectively implement measures such as strict credit control policies then an increase in the collection rate is not out of the realms of possibilities. As such, in order to gain a holistic sense of the sensitivity of Oudtshoorn's financial situation to movements in the collection rate, this scenario assesses the impact of both positive and negative movements of 2% in the collection rate from the Base Case level.

The impact of the negative scenario in which the collection rate is reduced by 2% is severe. The municipality is forecast to generate approximately R200 million (41.5%) less in cash from operations over the planning period as compared to the Base Case. The knock-on effect of this is significant and is best evidenced by the reduced planning period end bank balance forecast to be R135 million, down from R336 million as indicated in the Base Case. Moreover, the municipality is forecast to begin posting cash shortfalls on the minimum liquidity requirement of 1-month's operating expenditure from FY2024/25 onwards. Finally, the planning period end liquidity ratio of 1.3:1 is approaching unsustainable levels, with just over 1 month's cash is forecast to be on hand at the end of the planning period.

In stark contrast to the above, the positive scenario outcomes reflect a considerable improvement to the municipality's financial situation. A significant strengthening of the municipality's ability to generate cash from operations is forecast. This is forecast to translate into a marked improvement in the liquidity position as evidenced by the planning period end bank balance of R536 million (59.7% increase from Base Case) as well as in the liquidity ratio of 3.4:1 at the same point in time. This, along with just over of 4 and a half month's cash cover at the end of the planning period, is testament to the healthy financial situation in which Oudtshoorn may find itself.

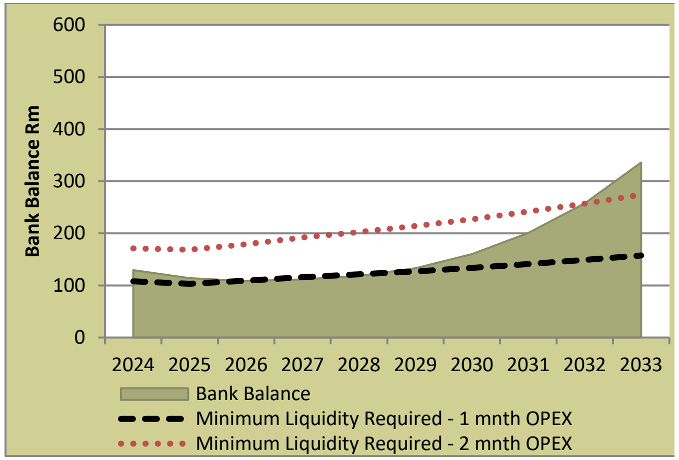
The outcomes of this scenario are evidence of the critical nature of maintaining a high collection rate. Oudtshoorn must endeavour to utilise the Base Case collection rate as a starting point, however, the benefits of improving the collection rate beyond that point are evident in the outcomes of the positive scenario. On the other hand, the pitfalls of failing to achieve the Base Case collection rate are equally evident.

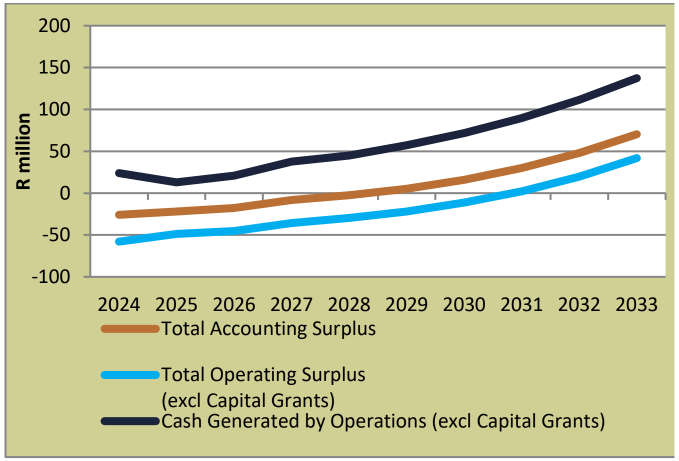
### Table 15: Scenario 1: Sensitivity Analysis on the Collection Rate

| Outcome | Base Case | Collection Rate -2% | Collection Rate +2% |
|---|---|---|---|
| Average annual % increase in Revenue | 7,7% | 7,6% | 7,8% |
| Average annual % increase in Expenditure | 8,2% | 8,3% | 8,0% |
| Accounting Surplus accumulated during Planning. Period (Rm) | R 94 | -R 107 | R 294 |
| Operating Surplus accumulated during Planning. Period (Rm) | **-R 186** | **-R 387** | **R 14** |
| Cash generated by Operations during Planning. Period (Rm) | **R 608** | **R 408** | **R 809** |
| Average annual increase in Gross Consumer Debtors | 14,0% | 17,3% | 9,5% |
| Capital investment programme during Planning. Period (Rm) | R 816 | R 816 | R 816 |
| External Loan Financing during Planning Period (Rm) | R 294 | R 294 | R 294 |
| Cash and Cash Equivalents at the end of the Planning Period (Rm) | **R 336** | **R 135** | **R 536** |
| No of Months Cash Cover at the end of the Planning Period (Rm) | **2,9** | **1,2** | **4,6** |
| Liquidity Ratio at the end of the Planning Period | **2.3 : 1** | **1.3 : 1** | **3.4 : 1** |
| Gearing at the end of the Planning Period | 13,1% | 13,2% | 13,0% |
| Debt Service to Total Expense Ratio at the end of the Planning Period | 3,5% | 3,5% | 3,6% |

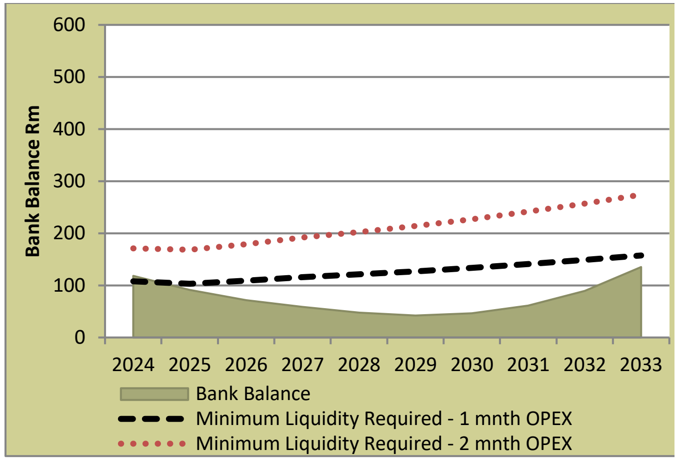
## Scenario 1: Sensitivity Analysis on the Collection Rate

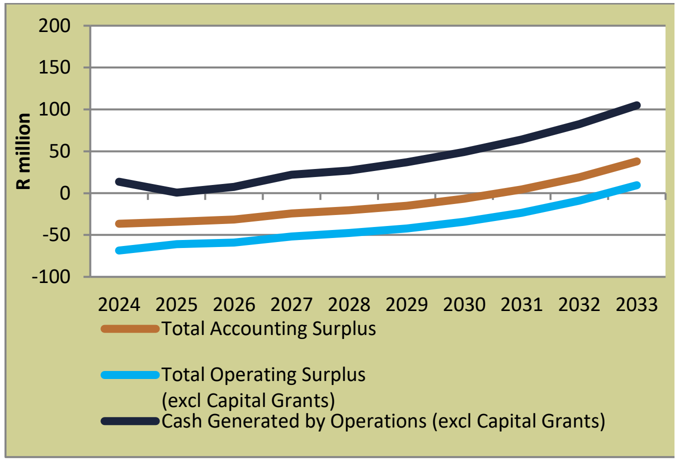
### Base Case Scenario



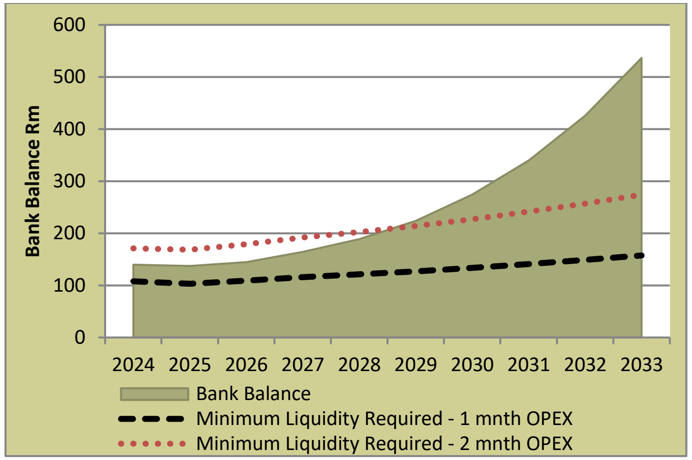



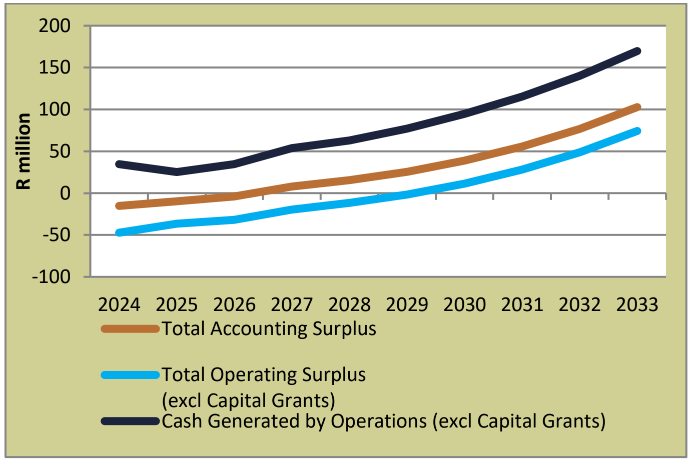

### Reduce Collection Rate by 2%




### Increase Collection Rate by 2%



## SCENARIO 2: SENSITIVITY ANALYSIS ON OPEX

The challenging economic environment that is characterised by the myriad of issues mentioned above not only threaten the municipality's revenue generation efforts, but also place significant pressure on the municipality's operating expenditure budget. Additional expenditure in the form of generators, diesel etc to combat the impact of load shedding places the municipality's operational management under increased pressure. These challenges can feasibly lead to an increase in operating expenditure, as has been the case in many municipalities. However, through prudent and disciplined financial management with the implementation of strict cost-cutting measures, a reduction of operating expenditure may be feasible. This is particularly prevalent considering our assessment of the budget revealing that certain expenditure items were potentially overstated. As such, this scenario assesses the impact of both positive and negative movements of 2% on operating expenditure from the Base Case level.

A marked improvement in financial performance and consequently cash generation is forecast, should the municipality manage to cut operating expenditure by 2%. This is evidenced in the reduced accumulated operating deficit, as well as in the movement into an operating surplus position in FY2029/30 as opposed to FY2031/32 in the Base Case. The improvement in financial performance is forecast to translate into an additional R220 million in cash on hand at the end of the planning period, while an additional month's cash cover is forecast. Further evidence of the improved financial position lies in the healthy planning period end liquidity ratio of 3.0:1.

The impact of an increase in operating expenditure of 2% is severe. The accumulated operating deficit is forecast to deteriorate by a considerable 65.1%. This is forecast to translate into a decline of R147 million in cash generated by operations over the planning period. The significantly reduced bank balance of R189 million is forecast to be insufficient to cover 1-month's operating expenditure between FY2024/25 & FY2032/33. Finally, a reduced liquidity ratio of 1.5:1 is forecast at the end of the planning period. Should this deterioration of financial performance be coupled with a decline in the collection rate, the municipality will be facing an unsustainable outcome.

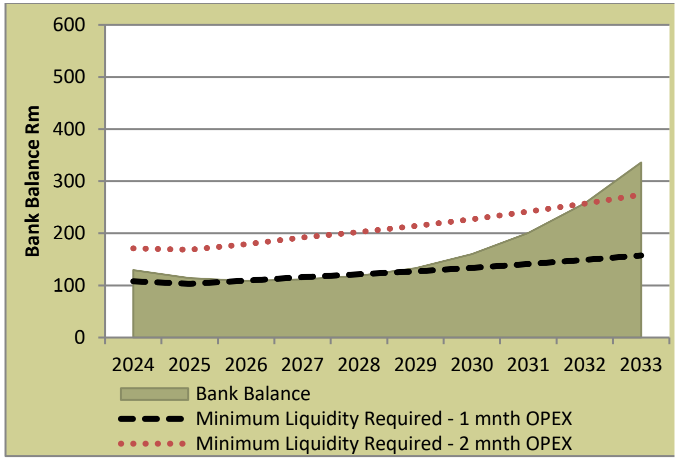
The outcomes of this scenario reflect the highly sensitive nature of the municipality's financial situation to movement in operating expenditure. Should the municipality manage to maintain prudent financial and operational management, the positive benefits if containing operating expenditure are significant.

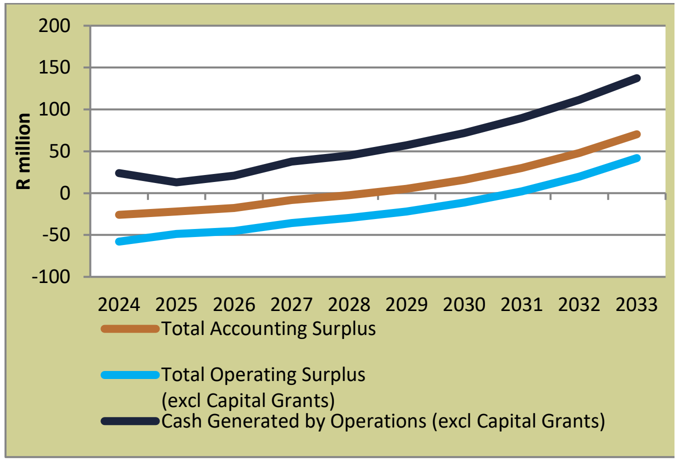
### TABLE 16: SCENARIO 2: SENSITIVITY ANALYSIS ON OPEX

| Outcome | Base Case | Opex -2% | Opex +2% |
|---|---|---|---|
| Average annual % increase in Revenue | 7,7% | 7,7% | 7,6% |
| Average annual % increase in Expenditure | 8,2% | 8,1% | 8,3% |
| Accounting Surplus accumulated during Planning. Period (Rm) | R 94 | R 215 | -R 55 |
| Operating Surplus accumulated during Planning. Period (Rm) | **-R 186** | **-R 65** | **-R 335** |
| Cash generated by Operations during Planning. Period (Rm) | **R 608** | **R 729** | **R 461** |
| Average annual increase in Gross Consumer Debtors | 14,0% | 14,0% | 14,0% |
| Capital investment programme during Planning. Period (Rm) | R 816 | R 816 | R 816 |
| External Loan Financing during Planning Period (Rm) | R 294 | R 294 | R 294 |
| Cash and Cash Equivalents at the end of the Planning Period (Rm) | **R 336** | **R 456** | **R 189** |
| No of Months Cash Cover at the end of the Planning Period (Rm) | **2,9** | **3,9** | **1,6** |
| Liquidity Ratio at the end of the Planning Period | **2.3 : 1** | **3 : 1** | **1.5 : 1** |
| Gearing at the end of the Planning Period | 13,1% | 13,1% | 13,2% |
| Debt Service to Total Expense Ratio at the end of the Planning Period | 3,5% | 3,6% | 3,5% |

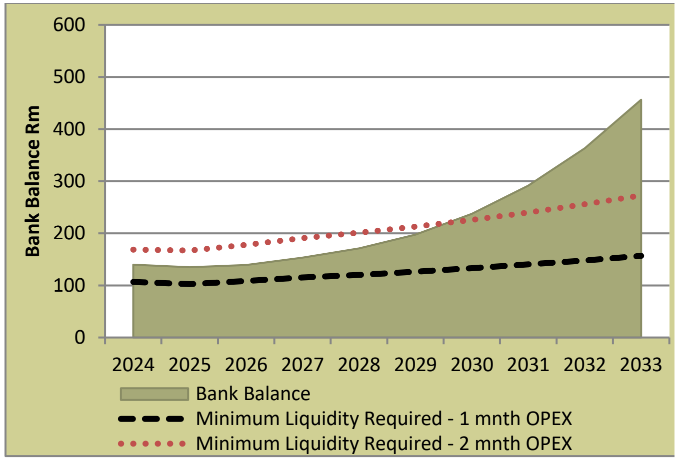
## Scenario 2: Sensitivity Analysis on Operating Expenditure

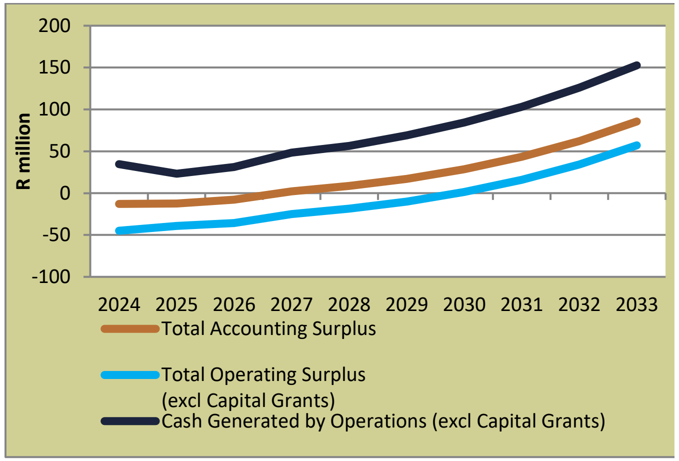
### Base Case Scenario



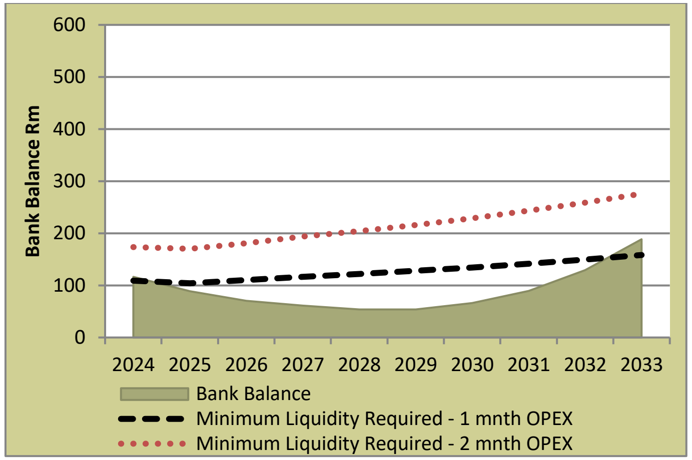



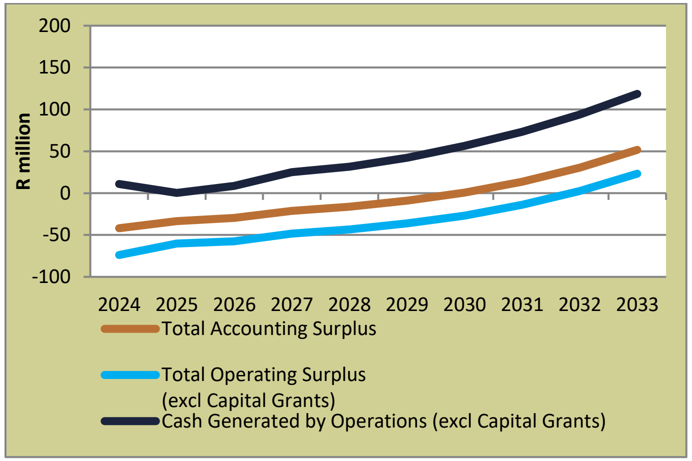

### Reduce Opex by 2%




### Increase Opex by 2%



## SCENARIO 3: ACCELERATED CAPEX

As explained in Section 6 of this report, the Base Case assumes a significant acceleration of capital investment that is underpinned by an accelerated borrowing programme. This scenario assesses the extent to which the capital investment programme can be accelerated, whilst ensuring that long-term sustainability is not threatened. In doing so, this scenario operates on the premise that liquidity levels must not reflect a material deterioration from the Base Case levels. In order to affordably accelerate capital investment, an additional R107 million in borrowings is assumed. Additionally, the average loan tenor on new debt is assumed to be 13 years, as opposed to the 10 years assumed in the Base Case.

With the above parameters in mind, an acceleration of capital investment of R119 million (14.6%) over the planning period is deemed affordable. While the bank balance is forecast to be reduced by 21.3%, the minimum liquidity requirement of 1-month's operating expenditure is forecast to be met throughout the planning period. Additionally, the planning period end liquidity ratio of 2.0:1, while reduced from the Base Case, remains sustainable. The additional debt service charges will result in a deterioration of financial performance and consequently cash generation. However, considering the sustainable liquidity position, it is our view that the potential benefits derived from additional capital investment will outweigh the deterioration of financial performance.

The extension of the average loan tenor on new debt has the impact of increasing leverage, whilst reducing annual debt service charges. This is reflected in the significantly increased gearing ratio of 20.3% as at FYE2032/33. Whereas the debt service to total expense ratio reflects a marginal increase from the Base Case, despite an additional R107 million in debt undertaken over the planning period. This can be of great assistance in adequately leveraging the debt profile without compromising long-term sustainability.

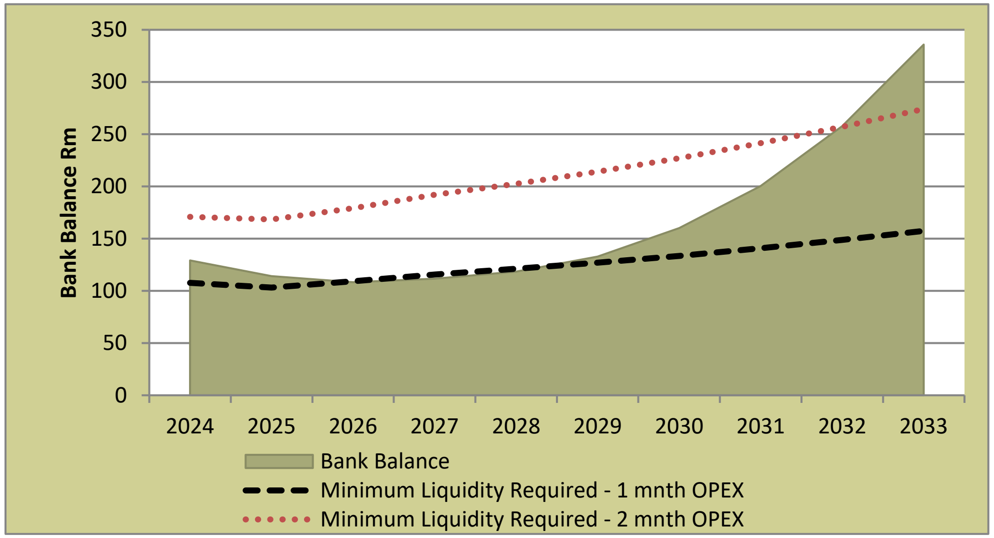
The outcomes of this scenario reflect the extent to which the municipality can accelerate capital investment, whilst remaining financially sustainable. The extension of the average loan tenor is a key component of enabling the debt profile to be sufficiently leveraged to achieve the assumed acceleration of capital investment. The additional capital outlay will be of immense benefit to the municipality in executing on its primary mandate of consistently delivering high quality services to its communities.

**TABLE 17: SCENARIO 3: ACCELERATED CAPEX**

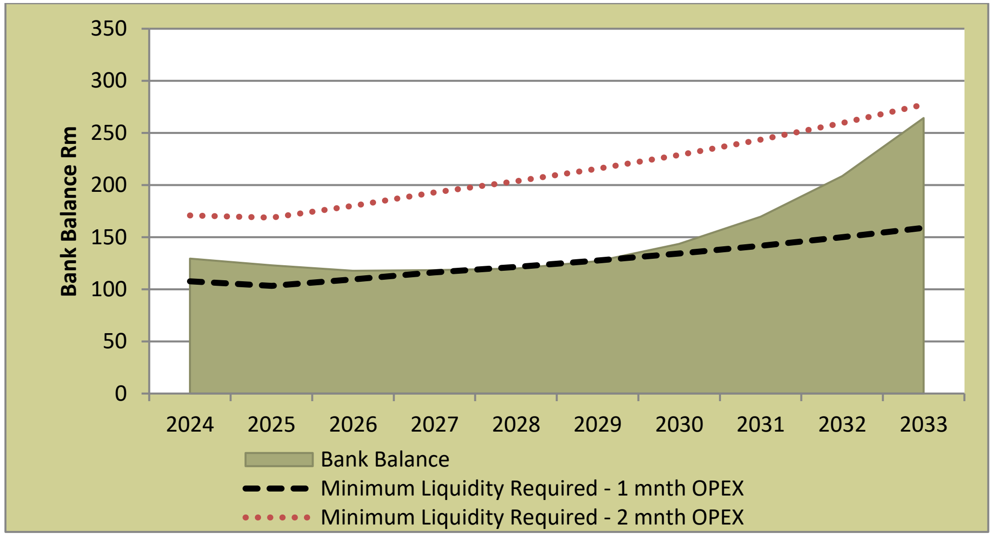
| Outcome | Base Case | Accelerated Capex |
|---|---|---|
| Average annual % increase in Revenue | 7,7% | 7,7% |
| Average annual % increase in Expenditure | 8,2% | 8,3% |
| Accounting Surplus accumulated during Planning. Period (Rm) | R 94 | R 7 |
| Operating Surplus accumulated during Planning. Period (Rm) | -R 186 | -R 273 |
| Cash generated by Operations during Planning. Period (Rm) | R 608 | R 539 |
| Average annual increase in Gross Consumer Debtors | 14,0% | 14,0% |
| Capital investment programme during Planning. Period (Rm) | R 816 | R 935 |
| External Loan Financing during Planning Period (Rm) | R 294 | R 401 |
| Cash and Cash Equivalents at the end of the Planning Period (Rm) | R 336 | R 264 |
| No of Months Cash Cover at the end of the Planning Period (Rm) | 2,9 | 2,2 |
| Liquidity Ratio at the end of the Planning Period | 2.3 : 1 | 2 : 1 |
| Gearing at the end of the Planning Period | 13,1% | 20,3% |
| Debt Service to Total Expense Ratio at the end of the Planning Period | 3,5% | 4,1% |

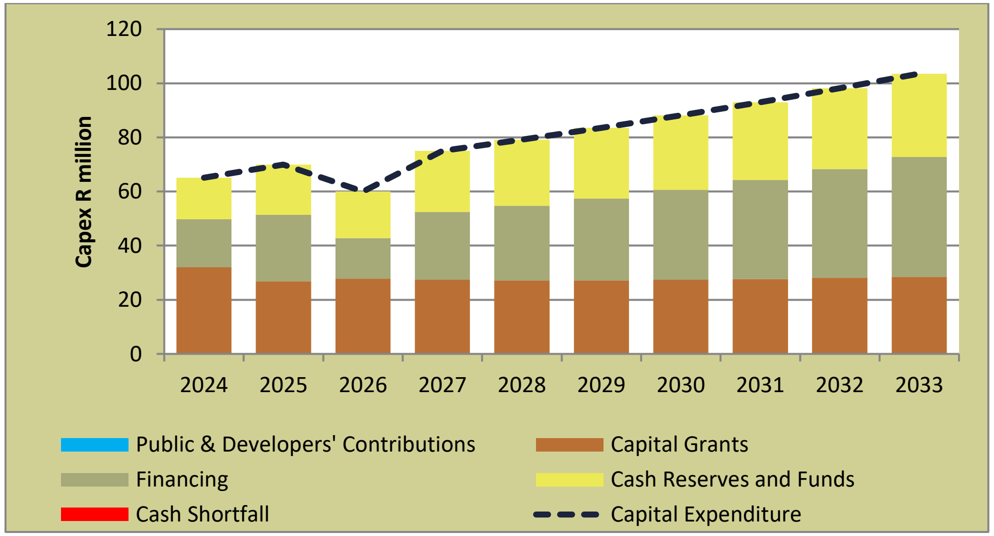
## SCENARIO 3: ACCELERATED CAPEX

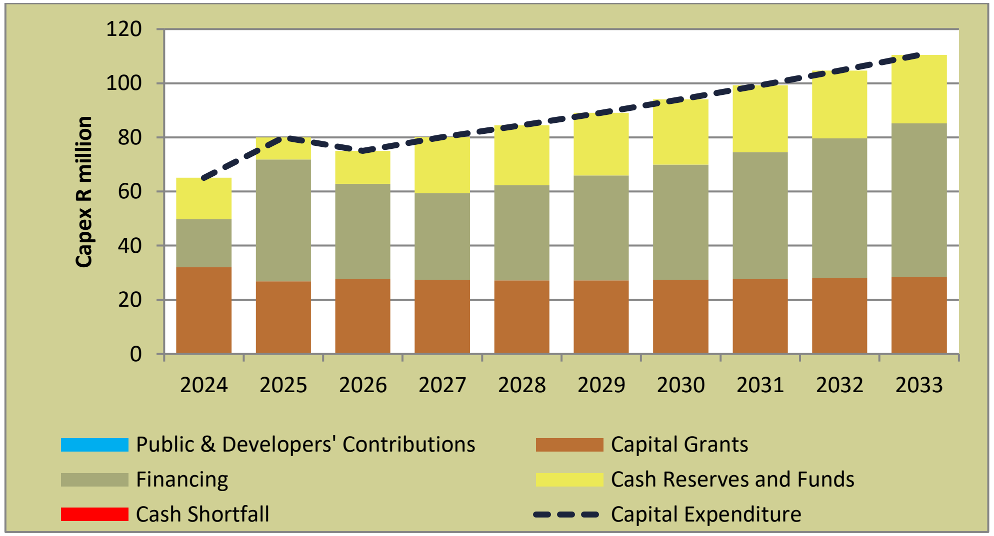
### BASE CASE SCENARIO



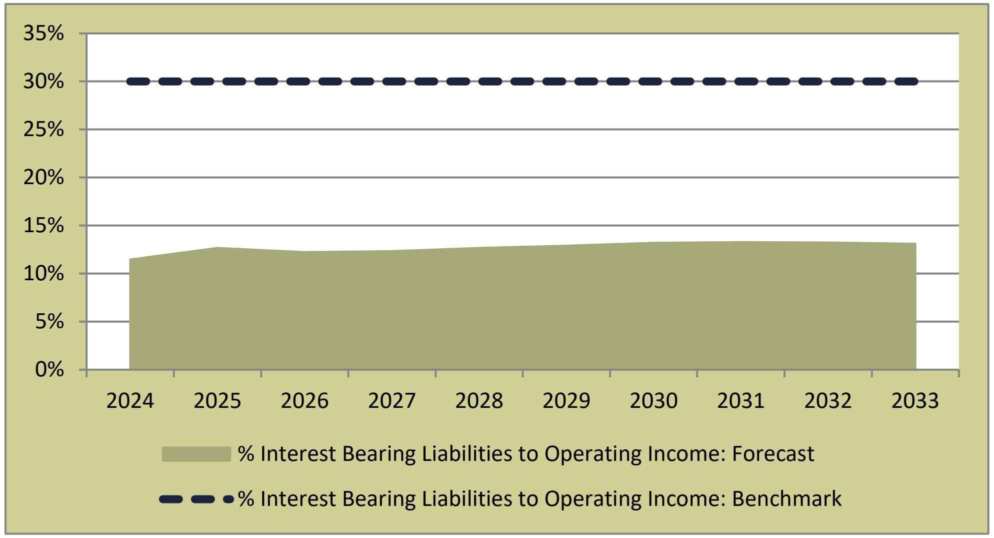

### ACCELERATED CAPEX SCENARIO



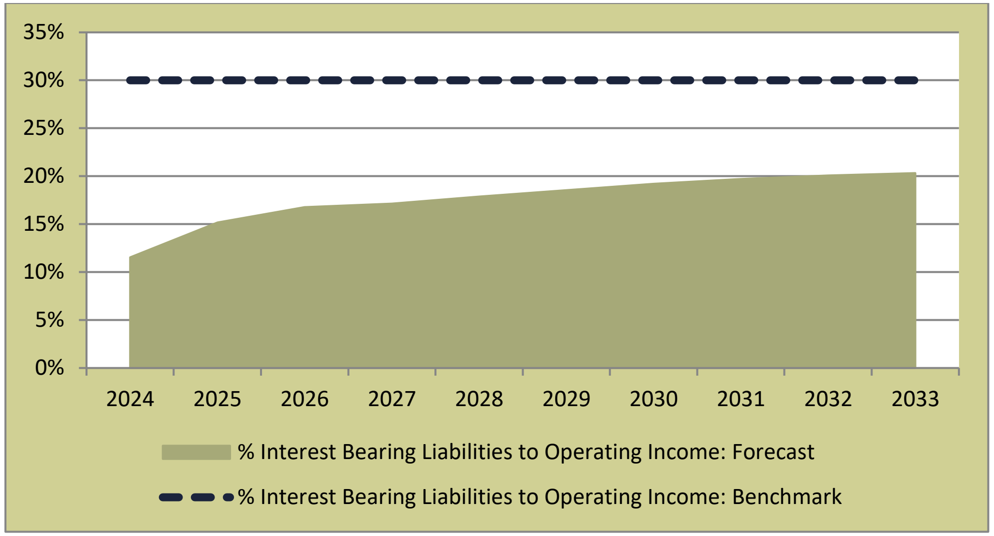



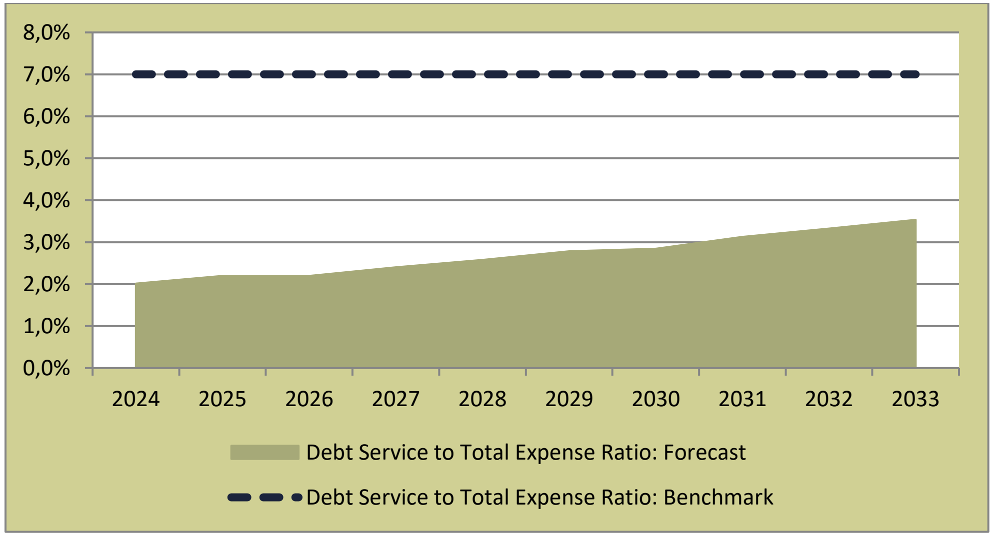



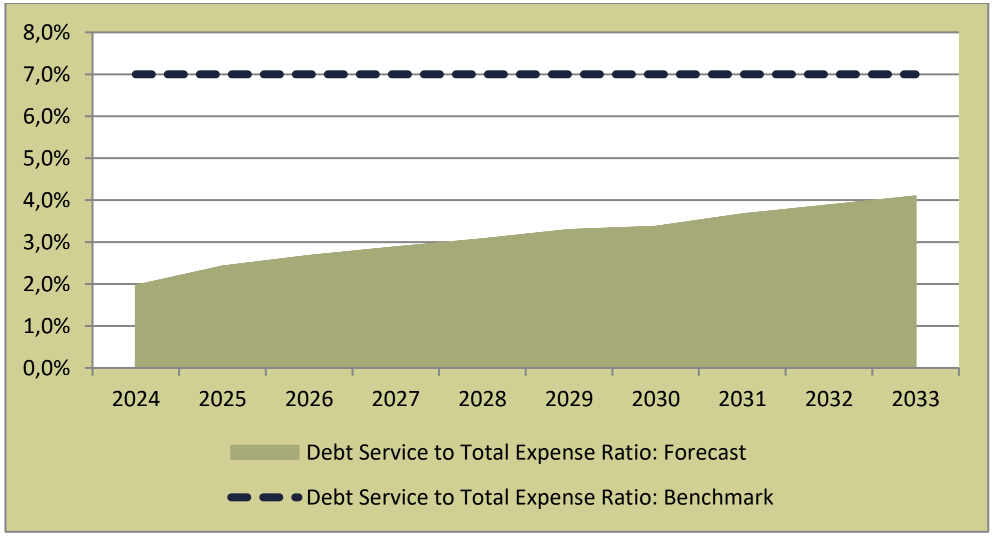
**BASE CASE SCENARIO**




**ACCELERATED CAPEX 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

6 Affordable Future Capital Investment

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.

| | | N.T. NORM | 2024 | 2026 | 2028 | 2030 | 2032 | 2033 | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|
| FINANCIAL POSITION | | | | | | | | | |
| ASSET MANAGEMENT | | | | | | | | | |
| R29 | Capital Expenditure / Total Expenditure | 10% - 20% | 7,0% | 6,0% | 6,7% | 6,6% | 6,4% | 6,3% | CAPEX as a % of Total Expenditure is forecast to remain below the recommended range over the planning period. |
| R27 | Repairs and Maintenance as % of PPE and Investment Property | 8% | 4,3% | 2,3% | 2,9% | 3,5% | 4,1% | 4,4% | Repairs and maintenance as a percentage of PPE and IP will increase to 4.5% over the planning period. |
| DEBTORS MANAGEMENT | | | | | | | | | |
| R4 | Gross Consumer Debtors Growth | | 23,4% | 14,9% | 13,2% | 11,6% | 10,6% | 10,3% | The Collection Rate is assumed to reach 95% within three years. |
| R5 | Payment Ratio / Collection Rate | 95% | 94,2% | 95,0% | 95,0% | 95,0% | 95,0% | 95,0% | |
| LIQUIDITY MANAGEMENT | | | | | | | | | |
| R49 | Cash Coverage Ratio (excl Working Capital) | | 2.9 : 1 | 2.8 : 1 | 3 : 1 | 4 : 1 | 6.4 : 1 | 8.2 : 1 | The bank balance will meet the minimum liquidity requirement throughout the planning period. The liquidity position will reach 1.5:1 by the end of the planning period. |
| R50 | Cash Coverage Ratio (incl Working Capital) | | 1.2 : 1 | 1 : 1 | 1 : 1 | 1.2 : 1 | 1.7 : 1 | 2.1 : 1 | |
| R51 | Cash Surplus / Shortfall on Minimum Liquidity Requirements | | R 21,1 m | -R 2,1 m | -R 3,8 m | R 25,5 m | R 107,5 m | R 176,8 m | |
| R1 | Liquidity Ratio (Current Assets: Current Liabilities) | 1:1.5 - 1:2.1 | 1.6 : 1 | 1.4 : 1 | 1.3 : 1 | 1.5 : 1 | 2 : 1 | 2.3 : 1 | |
| LIABILITY MANAGEMENT | | | | | | | | | |
| R45 | Debt Service as % of Total Operating Expenditure | 6% - 8% | 2,0% | 2,2% | 2,6% | 2,8% | 3,3% | 3,5% | The external financing programme is forecast to remain within the recommended benchmarks, with capacity to accelerate the borrowing programme. |
| R6 | Total Debt (Borrowings) / Operating Revenue | 45% | 11,5% | 12,3% | 12,7% | 13,2% | 13,2% | 13,1% | |
| R7 | Repayment Capacity Ratio | | 1,89 | 2,84 | 2,31 | 2,02 | 1,67 | 1,49 | |
| R46 | Debt Service Cover Ratio (Cash Generated by Operations / Debt Service) | | 3.2 : 1 | 2.3 : 1 | 2.6 : 1 | 2.8 : 1 | 2.9 : 1 | 3 : 1 | |

| | | N.T. NORM | 2024 | 2026 | 2028 | 2030 | 2032 | 2033 | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|
| SUSTAINABILITY | | | | | | | | | |
| | Net Financial Liabilities Ratio | < 60% | 19,9% | 24,2% | 25,1% | 23,8% | 19,1% | 15,5% | 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% | -7,2% | -5,0% | -2,8% | -0,9% | 1,4% | 2,6% | |
| | Asset Sustainability Ratio | > 90% | 21,9% | 42,8% | 45,5% | 47,9% | 50,6% | 52,0% | |
| FINANCIAL PERFORMANCE | | | | | | | | | |
| EFFICIENCY | | | | | | | | | |
| R42 | Net Operating Surplus / Total Operating Revenue | >= 0% | -7,2% | -5,0% | -2,8% | -0,9% | 1,4% | 2,6% | The net operating surplus is below 0% for the majority of the planning period and improves to 2.6% 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 | | 24,8% | 22,9% | 23,8% | 23,8% | 23,8% | 23,8% | |
| R44 | Water Surplus / Total Water Revenue | | 100,0% | 100,0% | 100,0% | 100,0% | 100,0% | 100,0% | |
| REVENUE MANAGEMENT | | | | | | | | | |
| R8 | Increase in Billed Income p.a. (R'm) | | R 12,0 m | R 49,1 m | R 52,1 m | R 63,5 m | R 78,4 m | R 86,3 m | Billed Revenue and Operating Revenue Growth is, for the most part, marginally above forecast CPI for the majority of the planning period. Cash generated from operations is expected improve throughout the planning period. |
| R9 | % Increase in Billed Income p.a. | CPI | 2,3% | 8,3% | 7,3% | 7,7% | 8,2% | 8,3% | |
| R12 | Operating Revenue Growth % | CPI | 15,4% | 7,3% | 7,5% | 8,1% | 8,7% | 8,9% | |
| R47 | Cash Generated by Operations / Own Revenue | | 8,5% | 6,3% | 7,8% | 9,2% | 11,0% | 12,0% | |
| R48 | Cash Generated by Operations / Total Operating Revenue | | 7,0% | 5,4% | 6,8% | 8,0% | 9,5% | 10,4% | |

| | | N.T. NORM | 2024 | 2026 | 2028 | 2030 | 2032 | 2033 | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|
| EXPENDITURE MANAGEMENT | | | | | | | | | |
| | Creditors Payment Period | 30 | 64 | 72 | 69 | 65 | 61 | 58 | Creditors' payment period is higher than the NT benchmark but remains at acceptable levels.<br><br>Staff costs as a percentage of total expenditure is forecast to remain within the recommended benchmark throughout the planning period, however, remains reasonably high. Contracted services to total expenditure is forecast to remain within the NT benchmark range of 2%-5%. |
| R30 | Contribution per Expenditure Item: Staff Cost (Salaries, Wages and Allowances) | 25% - 40% | 36,1% | 37,3% | 36,0% | 36,1% | 36,1% | 36,1% | |
| | Contribution per expenditure item: Contracted Services | 2% - 5% | 4,4% | 4,6% | 4,5% | 4,5% | 4,6% | 4,6% | |
| GRANT DEPENDENCY | | | | | | | | | |
| R10 | Total Grants / Total Revenue | | 20,4% | 16,2% | 15,6% | 15,5% | 15,3% | 15,2% | 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 | | 82,8% | 86,4% | 86,5% | 86,3% | 86,3% | 86,3% | |
| | Capital Grants to Total Capital Expenditure | | 49,2% | 46,4% | 34,3% | 31,0% | 28,6% | 27,5% | |

## Conclusion

## Outcome of the Independent Financial Assessment

Oudtshoorn's financial performance improved during FY2022/23, following a notable deterioration in the prior year. The improvement notwithstanding, the municipality posted an operating deficit of R7.7 million (FY2021/22: R25.4 million). The improved financial performance translated into an additional R6.8 million in cash generated by operations from the prior year, for a total of R44.1 million. This is despite a decline in the collection rate to 94% from 97% in the prior year. The impact of the energy crisis is reflected in the lack of growth in electricity services revenue (1% decline). The decline notwithstanding, electricity services remained the predominant revenue item with a contribution of 40% in FY2022/23.

Operating expenditure increased by 4.1% during FY2022/23 to a total of R707.7 million. Staff costs remained the predominant expenditure item, accounting for 36% of operating expenditure in the current year. This exceeds the target of 32% as per the Financial Recovery Plan. The municipality increased its expenditure to repair and maintain its asset base by 38% during the year, however, the level of expenditure remains low. This is evidenced by the repairs and maintenance expenditure to PPE & IP ratio of just 2%.

A notable acceleration of capital investment was observed in FY2022/23, with R104.7 million of the total capital outlay of R492.4 million over the review period expended in the current year. The municipality relied heavily on capital grants to fund capital expenditure, with regular borrowings supplementing the grant funding. The municipality struggled to implement its capital budget, as evidenced by the 5-year annual average capital budget implementation indicator of just 67%.

The municipality's debt profile remained affordable despite the additional debt undertaken during the current year. The gearing ratio stood at 12% while the debt service to total expense ratio came in at 3.7% at the current year end. This provides plentiful scope to further accelerate external financing in future.

A marginal decline was noted in current assets during the year, predominantly driven by a reduction in cash and cash equivalents of R14.8 million at the current year end.

Current liabilities reflected a comparatively higher decline, virtue of a reduction in unspent conditional grants to R27.3 million (FYE2021/22: R41.0 million) as well as sound working capital management. The combined impact of these movements resulted in a strengthening of the liquidity ratio to 1.63:1 from 1.49:1 in the prior year. Despite the decline in cash and cash equivalents, the municipality posted a cash surplus of R17.7 million above the minimum liquidity requirements, the fifth consecutive year in which Oudtshoorn has done so. This is evidence of the stability of the municipality's financial position.

### Strengths

- Improved liquidity ratio of 1.63:1 (FYE2022/23).
- Affordable debt profile.
- Ability to generate cash from operations.
- Strong working capital management.
- Minimum liquidity requirements met since FY2018/19.

### Weaknesses

- Reasonably high employee related expenditure (36% in FY2022/23).
- Operating deficit of R7.7 million posted in FY2022/23.
- Decline in collection rate to 94% (FYE2022/23).
- Low repairs and maintenance to PPE & IP ratio of 2% (FYE2022/23).

## Outcome of the Future Forecasts

The municipality appeared to be reasonably conservative in compiling the operating budget, with operating deficits expected throughout the MTREF period. This is reflected in the Base Case outcomes whereby operating deficits are forecast for the majority of the planning period. It is our view that certain expenditure items were overstated, resulting in understated financial performance. The municipality has budgeted to undertake external borrowings throughout the MTREF period, this is positive to note. The Base Case assumes an accelerated capital investment programme that is underpinned by assuming the extent to which external borrowings are undertaken will too be accelerated. The liquidity position is safeguarded through limiting the utilisation of own cash reserves to fund 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 increased to 95% over a period of 3 years, where it is assumed to be maintained for the remainder of the planning period.
2. The model incorporated the increases in revenue and expenditure items as announced in the Adjustment Budget, with minor upward adjustments made in an attempt to reflect a more realistic outcome.
3. The MTREF capital investment programme was maintained in FY2022/23/24, thereafter the following amendments were made:
   - FY2024/25: R90.0 million
   - FY2025/26: R100.0 million
   - FY2026/27: R75.0 million

   Assumed growth beyond the MTREF period is 5,5% p.a.
4. The borrowing programme was accelerated considerably over the MTREF period. FY2023/24 was left unaltered, thereafter the borrowing programme was adjusted as follows:
   - FY2024/25: R24.5 million
   - FY2025/26: R15.0 million
   - FY2026/27: R25.0 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. A loadshedding scenario was incorporated into the Base Case. This scenario assumes an average of stage 3 loadshedding for 3 years This is assumed to result in an annual reduction of electricity consumption of 11.9%. Additionally, a 5% reduction of electricity sales is included to model the impact of the loss of customers who have moved to alternative power sources. Finally, a 5% reduction of water sales pursuant to loadshedding, due to pumps not being able to fill reservoirs for example, is also included.
6. Repairs and maintenance expenditure was increased to 4.5% of PPE & IP over the planning period.
7. Distribution losses were maintained at 5.5% and 13.9% for water and electricity respectively.

The Base Case outcomes reflect a healthy, sustainable financial position that is underpinned by a healthy liquidity ratio as well as a bank balance that meets the minimum liquidity requirements throughout the planning period. This is achieved whilst simultaneously unlocking a material acceleration of capital investment. The additional debt underpinning this acceleration, is undertaken in an affordable manner. The assumptions made in arriving at the Base Case can be viewed as recommendations for the municipality to follow to promote long-term financial sustainability. 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

This scenario assesses the impact of positive and negative movements in the Base Case collection rate of 2%. This negative scenario is forecast to result in significantly reduced financial performance and cash generation. This is forecast to translate into a reduced liquidity position. A liquidity risk is present as the bank balance is forecast to fall short of the minimum liquidity requirement of 1-month's operating expenditure from FY2024/25 onwards. The positive scenario is forecast to result in a significant improvement to the municipality's financial position as evidenced by the planning period end liquidity ratio of 3.4:1.

The outcomes of this scenario highlight the critical nature of maintaining a high collection rate. It is crucial for the municipality to ensure that the collection rate is improved at least 95% by the end of the MTREF period, with further improvements targeted thereafter.

## Sensitivity Analysis on Opex

This scenario assesses the impact of positive and negative movements of 2% in operating expenditure form the Base Case level. The positive scenario whereby a reduction of 2% in operating expenditure is realised is forecast to result in a substantial improvement of financial performance. This is forecast to strengthen the liquidity position of the municipality. The negative scenario on the other hand, is forecast to result in a strained financial position, with the planning period end liquidity ratio of 1.5:1 reduced from the Base Case. The scenario outcomes reflect the sensitive nature of the municipality's financial position to movements in operating expenditure. This highlights the importance of maintaining a prudent, disciplined approach to the operational management of the municipality.

## Accelerated Capital Investment Programme

This scenario assesses the extent to which the capital investment programme can be accelerated whilst maintaining a sustainable financial position. As such, it operates on the parameters that no material reduction of liquidity compared to Base Case levels can occur. Additionally, the minimum liquidity requirement must be met at all times. To achieve this, an additional R107 million in borrowings are assumed to be undertaken, whilst the average loan tenor on new debt is extended to 13 years.

This unlocks an additional R119 million in capital investment over the planning period. The evidence of the sustainability of this acceleration lies in the planning period end liquidity ratio of 2:1. Additionally, the minimum liquidity requirements are forecast to be met throughout the planning period. Thus, both of the sustainability parameters have been met. Finally, the debt profile remains affordable as the debt indicators remain below their respective maximum limits throughout the planning period.

## 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 |
| *R thousands* | | | | | | | | | | | |
| **Non-current assets:** | 1 167 671 | 1 177 050 | 1 191 657 | 1 195 816 | 1 214 044 | 1 234 715 | 1 258 085 | 1 284 411 | 1 313 940 | 1 346 918 | 1 383 586 |
| Property, plant and equipment | 1 137 002 | 1 145 666 | 1 160 173 | 1 164 332 | 1 182 505 | 1 203 103 | 1 226 387 | 1 252 614 | 1 282 031 | 1 314 883 | 1 351 413 |
| Intangible assets | 285 | 841 | 841 | 841 | 896 | 969 | 1 054 | 1 153 | 1 266 | 1 392 | 1 530 |
| Investment properties | 16 610 | 16 769 | 16 869 | 16 869 | 16 869 | 16 869 | 16 869 | 16 869 | 16 869 | 16 869 | 16 869 |
| Investments | – | – | – | – | – | – | – | – | – | – | – |
| Long-term receivables | – | – | – | – | – | – | – | – | – | – | – |
| Other non-current assets | 13 774 | 13 774 | 13 774 | 13 774 | 13 774 | 13 774 | 13 774 | 13 774 | 13 774 | 13 774 | 13 774 |
| **Current assets:** | 228 811 | 234 301 | 217 950 | 212 529 | 216 737 | 224 280 | 239 899 | 268 305 | 309 676 | 368 313 | 447 918 |
| Inventories | 5 006 | 9 828 | 8 500 | 9 025 | 9 827 | 10 687 | 11 658 | 12 750 | 13 963 | 15 299 | 16 762 |
| Trade and other receivables | 94 674 | 95 293 | 95 293 | 95 293 | 95 293 | 95 293 | 95 293 | 95 293 | 95 293 | 95 293 | 95 293 |
| Cash & Short term investments | 129 131 | 129 180 | 114 157 | 108 210 | 111 617 | 118 299 | 132 947 | 160 262 | 200 420 | 257 721 | 335 862 |
| **TOTAL ASSETS** | **1 396 482** | **1 411 350** | **1 409 607** | **1 408 345** | **1 430 781** | **1 458 994** | **1 497 983** | **1 552 715** | **1 623 617** | **1 715 232** | **1 831 504** |
| **Municipal Funds:** | 1 043 433 | 1 017 544 | 995 685 | 978 038 | 969 798 | 967 330 | 972 663 | 988 652 | 1 018 653 | 1 066 610 | 1 136 936 |
| Housing development fund & Other Cash Backed Reserves | – | – | – | – | – | – | – | – | – | – | – |
| Reserves (Not Cash Backed) | – | – | – | – | – | – | – | – | – | – | – |
| Accumulated surplus | 1 043 433 | 1 017 544 | 995 685 | 978 038 | 969 798 | 967 330 | 972 663 | 988 652 | 1 018 653 | 1 066 610 | 1 136 936 |
| **Non-current liabilities:** | 212 610 | 246 980 | 267 178 | 276 065 | 298 143 | 324 100 | 354 814 | 387 473 | 422 817 | 460 479 | 501 875 |
| Long-term liabilities (Interest Bearing) | 68 694 | 81 794 | 95 432 | 97 467 | 107 786 | 118 294 | 130 773 | 142 370 | 153 808 | 164 756 | 176 722 |
| Non-current provisions | 143 916 | 165 186 | 171 747 | 178 598 | 190 356 | 205 806 | 224 041 | 245 104 | 269 008 | 295 724 | 325 153 |
| **Current liabilities:** | 140 438 | 146 825 | 146 743 | 154 241 | 162 840 | 167 564 | 170 506 | 176 589 | 182 147 | 188 142 | 192 692 |
| Consumer deposits | 11 782 | 13 167 | 14 201 | 15 290 | 16 438 | 17 232 | 18 021 | 18 841 | 19 690 | 20 567 | 21 510 |
| Provisions | 32 475 | 28 150 | 29 208 | 30 308 | 30 308 | 30 308 | 30 308 | 30 308 | 30 308 | 30 308 | 30 308 |
| Trade and other payables | 80 617 | 95 278 | 92 471 | 95 678 | 101 414 | 103 032 | 104 405 | 105 762 | 106 985 | 107 952 | 108 553 |
| Bank overdraft | – | – | – | – | – | – | – | – | – | – | – |
| Current portion of interest bearing liabilities | 15 564 | 10 230 | 10 862 | 12 965 | 14 681 | 16 992 | 17 771 | 21 678 | 25 164 | 29 315 | 32 322 |
| **TOTAL MUNICIPAL FUNDS AND LIABILTIES** | **1 396 481** | **1 411 350** | **1 409 606** | **1 408 344** | **1 430 781** | **1 458 993** | **1 497 983** | **1 552 714** | **1 623 616** | **1 715 231** | **1 831 503** |

**Municipal Financial Model**
**Statement of Financial Performance**

| 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 |
| *R thousands* | | | | | | | | | | | |
| **Revenue** | | | | | | | | | | | |
| Property rates | 116 473 | 127 782 | 140 523 | 154 612 | 170 063 | 187 518 | 207 557 | 230 443 | 256 433 | 285 786 | 318 768 |
| Service Charges | 403 216 | 404 592 | 446 855 | 481 715 | 544 973 | 579 352 | 615 637 | 655 922 | 700 334 | 748 994 | 801 990 |
| Service charges - electricity | 276 893 | 270 661 | 302 440 | 326 988 | 374 772 | 396 558 | 418 691 | 443 208 | 470 142 | 499 521 | 531 347 |
| Service charges - water | 64 819 | 68 036 | 73 802 | 79 072 | 89 160 | 95 920 | 103 549 | 112 062 | 121 518 | 131 971 | 143 474 |
| Service charges - sanitation | 35 771 | 38 325 | 41 069 | 44 001 | 47 134 | 50 526 | 54 320 | 58 539 | 63 205 | 68 340 | 73 962 |
| Service charges - refuse | 25 733 | 27 570 | 29 544 | 31 654 | 33 907 | 36 348 | 39 077 | 42 112 | 45 469 | 49 162 | 53 207 |
| Service charges - other | – | (0) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Rental of facilities and equipment | 3 193 | 2 534 | 2 649 | 2 808 | 3 045 | 3 277 | 3 533 | 3 815 | 4 125 | 4 463 | 4 832 |
| Interest earned - external investments | 11 878 | 6 457 | 6 459 | 4 920 | 5 096 | 5 637 | 6 311 | 7 398 | 9 200 | 11 756 | 15 311 |
| Interest earned - outstanding debtors | 8 848 | 9 246 | 9 893 | 10 586 | 3 757 | 4 326 | 4 911 | 5 522 | 6 156 | 6 810 | 7 479 |
| Dividends received | – | – | – | – | – | – | – | – | – | – | – |
| Fines, penalties and forfeits | 15 032 | 4 700 | 4 982 | 5 281 | 5 727 | 6 164 | 6 644 | 7 175 | 7 758 | 8 394 | 9 089 |
| Licences and permits | 381 | 445 | 446 | 446 | 481 | 525 | 577 | 637 | 706 | 783 | 869 |
| Agency services | 5 647 | 7 454 | 7 976 | 8 535 | 9 255 | 9 960 | 10 737 | 11 595 | 12 537 | 13 565 | 14 687 |
| Transfers and subsidies (operating) | 103 865 | 137 859 | 116 234 | 122 313 | 133 024 | 144 072 | 156 282 | 169 795 | 184 669 | 200 953 | 218 789 |
| Other revenue | 25 814 | 36 299 | 36 906 | 38 895 | 41 749 | 44 622 | 47 791 | 51 286 | 55 116 | 59 287 | 63 826 |
| Gain on disposal of PPE | – | 63 870 | 66 653 | 70 773 | 75 424 | 81 660 | 89 539 | 99 151 | 110 595 | 123 969 | 139 344 |
| Revaluation of assets gain / (loss) | – | – | – | – | – | – | – | – | – | – | – |
| Total revenue before Capital Grants | 694 347 | 801 238 | 839 577 | 900 883 | 992 596 | 1 067 114 | 1 149 519 | 1 242 738 | 1 347 629 | 1 464 760 | 1 594 986 |
| Capital Grants | 79 980 | 32 014 | 26 859 | 27 818 | 27 409 | 27 157 | 27 161 | 27 360 | 27 682 | 28 065 | 28 464 |
| Public & developers contributions | – | – | – | – | – | – | – | – | – | – | – |
| Total Revenue after Capital Grants | 774 327 | 833 252 | 866 436 | 928 701 | 1 020 005 | 1 094 271 | 1 176 681 | 1 270 098 | 1 375 311 | 1 492 825 | 1 623 450 |
| **Operating expenditure** | | | | | | | | | | | |
| Employee related costs | 282 136 | 321 446 | 340 577 | 360 853 | 383 261 | 408 367 | 436 279 | 467 100 | 500 921 | 537 817 | 577 835 |
| Remuneration of councillors | 11 375 | 12 485 | 13 234 | 14 028 | 14 688 | 15 430 | 16 253 | 17 158 | 18 143 | 19 207 | 20 348 |
| Debt impairment | 35 057 | 36 668 | 37 695 | 38 047 | 42 487 | 45 577 | 48 943 | 52 708 | 56 893 | 61 520 | 66 611 |
| Depreciation and asset impairment | 52 884 | 55 820 | 55 493 | 55 841 | 56 827 | 58 528 | 60 192 | 61 842 | 63 495 | 65 170 | 66 884 |
| Finance charges | 10 726 | 7 327 | 9 252 | 9 944 | 11 708 | 13 601 | 15 656 | 17 897 | 20 400 | 22 917 | 25 555 |
| Bulk purchases | 201 997 | 203 543 | 228 944 | 252 111 | 285 500 | 302 097 | 318 957 | 337 634 | 358 153 | 380 533 | 404 779 |
| Inventory Consumed | 27 275 | 104 930 | 82 702 | 87 753 | 95 828 | 105 160 | 115 893 | 128 101 | 141 806 | 157 005 | 173 720 |
| Repairs and maintenance | – | – | – | – | – | – | – | – | – | – | – |
| Contracted services | 27 682 | 41 083 | 43 501 | 46 111 | 49 753 | 53 170 | 56 901 | 60 985 | 65 427 | 70 232 | 75 434 |
| Transfers and subsidies | 3 003 | 2 959 | 3 055 | 3 208 | 3 436 | 3 663 | 3 912 | 4 184 | 4 482 | 4 804 | 5 153 |
| Other expenditure | 54 211 | 58 117 | 58 319 | 61 984 | 67 205 | 72 144 | 77 526 | 83 427 | 89 855 | 96 815 | 104 379 |
| Loss on disposal of PPE | 1 371 | 14 764 | 15 523 | 16 469 | 17 551 | 19 002 | 20 836 | 23 073 | 25 736 | 28 848 | 32 426 |
| Total Expenditure | 707 717 | 859 141 | 888 295 | 946 349 | 1 028 245 | 1 096 739 | 1 171 348 | 1 254 108 | 1 345 311 | 1 444 868 | 1 553 123 |
| Suplus/ (Shortfall) for the year | **66 611** | **(25 889)** | **(21 859)** | **(17 647)** | **(8 240)** | **(2 468)** | **5 333** | **15 989** | **30 000** | **47 957** | **70 326** |

**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 |
| *R thousands* | | | | | | | | | | | |
| **Cash flows from Operating Activities** | | | | | | | | | | | |
| **Suplus/Deficit for the year including Capital Grants** | 66 611 | (25 889) | (21 859) | (17 647) | (8 240) | (2 468) | 5 333 | 15 989 | 30 000 | 47 957 | 70 326 |
| Suplus/Deficit for the year excluding Capital Grants & Contributions | | (57 903) | (48 718) | (45 465) | (35 649) | (29 625) | (21 828) | (11 370) | 2 319 | 19 892 | 41 863 |
| Capital Grants & Contributions | | 32 014 | 26 859 | 27 818 | 27 409 | 27 157 | 27 161 | 27 360 | 27 682 | 28 065 | 28 464 |
| **Adjustments for non-cash items:** | | | | | | | | | | | |
| Depreciation, amortisation and impairment loss | 52 884 | 55 820 | 55 493 | 55 841 | 56 827 | 58 528 | 60 192 | 61 842 | 63 495 | 65 170 | 66 884 |
| Revaluation on investment property (gain) / loss | – | – | – | – | – | – | – | – | – | – | – |
| Increase / (Release from) current provisions & non-interest bearing liabilities | – | (4 325) | 1 058 | 1 100 | – | – | – | – | – | – | – |
| Increase / (Release from) other non-current provisions & non-interest bearing liabilities | – | 21 270 | 6 560 | 6 852 | 11 758 | 15 449 | 18 235 | 21 063 | 23 905 | 26 715 | 29 429 |
| (Increase) / Release from non-current interest bearing assets | – | – | – | – | – | – | – | – | – | – | – |
| Capitalised interest | – | – | – | (0) | (0) | (0) | (0) | (0) | 0 | (0) | – |
| **Operating surplus before working capital changes:** | 119 494 | 46 876 | 41 252 | 46 145 | 60 345 | 71 509 | 83 761 | 98 893 | 117 400 | 139 842 | 166 639 |
| **Change in W/C Investment** | – | 9 220 | (1 479) | 2 681 | 4 934 | 759 | 402 | 265 | 10 | (369) | (862) |
| (Increase)/decrease in inventories | – | (4 821) | 1 328 | (525) | (801) | (860) | (971) | (1 092) | (1 214) | (1 336) | (1 463) |
| (Increase)/decrease accounts receivable | – | (619) | (0) | 0 | 0 | 0 | (0) | (0) | (0) | 0 | 0 |
| Increase/(decrease) in trade payables | – | 14 661 | (2 806) | 3 207 | 5 736 | 1 619 | 1 373 | 1 356 | 1 223 | 967 | 601 |
| **Net cash flow from Operating activities** | 119 494 | 56 096 | 39 773 | 48 826 | 65 280 | 72 267 | 84 162 | 99 158 | 117 410 | 139 474 | 165 776 |
| **Cash flows from Investing Activities** | | | | | | | | | | | |
| Capital expenditure | – | (65 039) | (70 000) | (60 000) | (75 055) | (79 198) | (83 563) | (88 167) | (93 024) | (98 148) | (103 552) |
| Decrease/(Increase) in non-current receivables | – | 0 | – | 0 | – | – | – | – | – | – | – |
| (Additions) / Disposals of investment property | – | (159) | (100) | – | – | – | – | – | – | – | – |
| **Net cash flow from Investing activities** | – | (65 198) | (70 100) | (60 000) | (75 055) | (79 198) | (83 563) | (88 167) | (93 024) | (98 148) | (103 552) |
| **Cash flows from Financing Activities** | | | | | | | | | | | |
| New loans raised | – | 17 757 | 24 500 | 15 000 | 25 000 | 27 500 | 30 250 | 33 275 | 36 603 | 40 263 | 44 289 |
| Loans repaid | – | (9 991) | (10 230) | (10 862) | (12 965) | (14 681) | (16 992) | (17 771) | (21 678) | (25 164) | (29 315) |
| (Decrease) / Increase in consumer deposits | – | 1 385 | 1 034 | 1 089 | 1 147 | 794 | 790 | 820 | 849 | 877 | 943 |
| **Net cash flow from Financing activities** | – | 9 151 | 15 304 | 5 227 | 13 183 | 13 613 | 14 048 | 16 324 | 15 773 | 15 975 | 15 916 |
| Change in Cash | 119 494 | 49 | (15 023) | (5 947) | 3 407 | 6 683 | 14 648 | 27 314 | 40 158 | 57 301 | 78 141 |
| Cash/(Overdraft), Beginning | | 129 131 | 129 180 | 114 157 | 108 210 | 111 617 | 118 299 | 132 947 | 160 262 | 200 420 | 257 721 |
| **Cash/(Overdraft), Ending** | **129 131** | **129 180** | **114 157** | **108 210** | **111 617** | **118 299** | **132 947** | **160 262** | **200 420** | **257 721** | **335 862** |

**Prepared by INCA Portfolio Managers**

Tel: +27 [0]11 202 2210
Fax: +27 [0]11 202 2231

**Unit F14, Pinewood Square**
**Pinewood Office Park**
**33 Riley Road**
**Woodmead**